

INVESTMENTS



They build too low
who build beneath
the skies.
- Edward Young

INTRODUCTION

World financial markets again experienced a tumultuous year in fiscal year 2002. U.S. and international fixed income markets provided a safe haven for investors while equity markets declined significantly. The TRS investment portfolio declined by 3.2 percent, net of fees. When compared to its peers, however, the TRS investment portfolio performed quite well, surpassing the returns of over 80 percent of public retirement funds with assets over \$1 billion. This strong relative performance is due, in large part, to TRS's solid, conservative investment approach and broad diversification.

The portfolio is fully diversified across different asset classes. The fixed income and real estate asset classes helped to offset the unfavorable performance in the equity markets. Within each asset class there are a number of investment managers to ensure the appropriate diversity across the various investment styles, allowing the portfolio to achieve broad exposure to the market while minimizing risk. This broad diversification serves as the best defense against the uncertainty of volatile world markets.

While the recent declines in world markets are disappointing, the long-term time horizon of the pension fund calls for a long-term investment focus. The 10-year return of the portfolio remains strong and compares favorably to both the actuarial return assumption and the real rate of return expectation.

The TRS trust fund is invested by authority of the Illinois General Assembly under the "prudent person rule," requiring investments to be managed solely in the interest of fund participants and beneficiaries. As of June 30, 2002, TRS's total investments, including accrued investment income, at market value totaled \$23,178,332,467.

TRS investments are guided by the TRS Investment Policy. Investment principles include preserving the long-term principal of the trust fund, maximizing total return with prudent risk parameters, and acting in the exclusive interest of TRS members.

As Master Trustee, the Northern Trust Company has provided to TRS, unless otherwise noted, detailed financial reports of all investments, receipts, disbursements, purchases and sales of securities, and other transactions pertinent to the Fund for the period July 1, 2001 through June 30, 2002. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2002. Additionally, The Northern Trust Company calculated, in accordance with the Association of Investment Management and Research (AIMR) Performance Presentation Standards, performance rates of return by portfolio, composite, and for all respective indices utilized throughout this section. TRS staff, in collaboration with the staff of The Northern Trust Company, prepared the Investment Section.

A complete listing of investment holdings is available on request.

SUMMARY DATA JUNE 30, 2002

Total Fund Market Value	\$23.178 billion
One-Year Return (net of fees)	(3.2%)
Five-Year Return (net of fees)	5.8%
10-Year Return (net of fees)	9.1%
Percent Externally Managed	100.0%
Number of External Managers	52

Currently, TRS is ranked 44th out of the largest 200 plan sponsor funds in the United States, including corporate, government, and endowment funds. Source: *Pensions & Investments*, January 21, 2002. (Based on market value of total assets.)

FUND PERFORMANCE VS. BENCHMARKS AND MARKET VALUES

As of June 30, 2002, TRS's total investments, including accrued investment income, at market value totaled \$23.178 billion, a decrease of \$1.035 billion from last year.

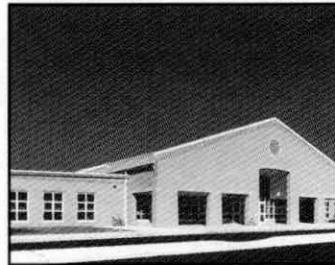
A summary of holdings and various assets is discussed throughout the Investment Section. The totals represent the actual assets (gross of any liabilities) amounts due to brokers, and expenses. The liability portions of the fund are included in the financial statements located on pages 22 and 23.

TRS had a total fund annualized return of (2.9) percent, gross of fees, and (3.2) percent, net of fees, for the one-year period ending June 30, 2002. The Performance Summary table on the following page shows the performance of the total investment portfolio, including accrued income and miscellaneous assets, versus comparative benchmarks.

As illustrated in the Performance Summary table, TRS's total return for FY02 surpassed the policy index return for the year ended June 30, 2002. The total return for FY02, however, did not meet the 8.5 percent actuarial investment return assumption or the real rate of return expectations, which are to exceed the rate of inflation, as measured by the Consumer Price Index, by 4.5 percent. Nevertheless, TRS outperformed these return assumptions for the longer term, 10-year period.



*Meadowbrook Elementary School
Bethalto*



*Millennium Elementary School
Tinley Park*

PERFORMANCE SUMMARY (NET OF FEES)

Asset Class/Index	Years ended June 30					Annualized		
	1998	1999	2000	2001	2002	3 Years	5 Years	10 Years
TRS Total Fund	16.6%	10.8%	10.6%	(4.2%)	(3.2%)	0.9%	5.8%	9.1%
TRS Weighted Policy Index	14.4	11.5	9.7	(6.8)	(4.2)	(0.6)	4.6	9.0
CPI (Inflation)	1.7	2.0	3.7	3.2	1.1	2.7	2.3	2.5
TRS Equity - U.S.	26.6	17.1	6.5	(12.0)	(15.2)	(7.4)	3.3	10.2
Russell 3000 Index	28.8	20.1	9.6	(13.9)	(17.2)	(7.9)	3.8	11.3
TRS Fixed Income - U.S.	12.2	3.9	4.4	11.3	8.1	7.9	8.0	7.6
Salomon BIG Index	10.6	3.1	4.5	11.3	8.5	8.1	7.6	7.4
TRS Fixed Income - International	2.4	4.3	(0.7)	(7.7)	15.9	2.0	2.6	5.9
Non-U.S. Bond Index	0.9	4.9	2.4	(7.5)	15.8	3.1	3.0	5.6
TRS Equity - International	2.8	8.4	19.9	(19.5)	(6.8)	(3.5)	0.0	6.0
Non-U.S. Equity Index	0.6	10.3	18.1	(23.8)	(8.2)	(6.2)	(1.7)	5.5
TRS Real Estate Property	14.7	13.5	8.8	9.8	2.4	7.0	9.8	9.5
Real Estate Property Index	17.5	12.8	11.6	11.2	5.6	9.6	11.7	8.5
TRS Private Equity	35.3	22.7	137.7	(5.4)	(12.7)	25.2	26.6	27.3
Russell 3000 Index + 3.0%	31.8	23.1	12.6	(11.3)	(14.7)	(5.1)	7.0	14.6
TRS Short-Term Investments	5.9	5.4	5.9	6.2	2.7	4.9	5.2	n/a
90-Day T-Bill Index	5.3	4.7	5.6	5.4	2.2	4.4	4.6	n/a

Rates of return are provided by The Northern Trust Company in accordance with AIMR Performance Presentation Standards.

ASSET ALLOCATION VS. TARGETS

A pension fund's most important investment policy decision is the selection of an asset allocation. Similar to other large institutional funds, TRS maintains a well-diversified portfolio to manage risk effectively. The Allocation Targets vs. Total Assets table shows the asset allocation targets, as adopted by the Board of Trustees in April 2002, compared to the total assets assigned to each particular asset class at June 30.

The newly adopted asset allocation resulted in a shift in assets from fixed income and international equity to real estate and domestic equity. TRS has already begun the process of reallocating assets to reach the new asset allocation targets. Due to the nature of the real estate and private equity asset classes, prudence requires that the increases in the allocations to these asset classes be



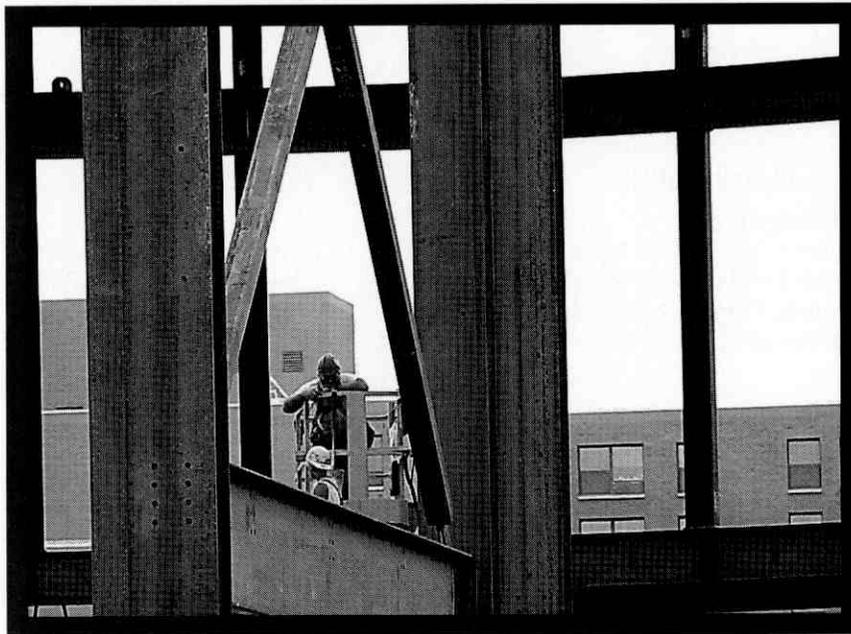
Glenwood High School
Chatham

implemented in a very measured fashion. TRS anticipates reaching the asset allocation targets to real estate in fiscal year 2004 and to private equity in fiscal year 2006.

ALLOCATION TARGETS VS. TOTAL ASSETS

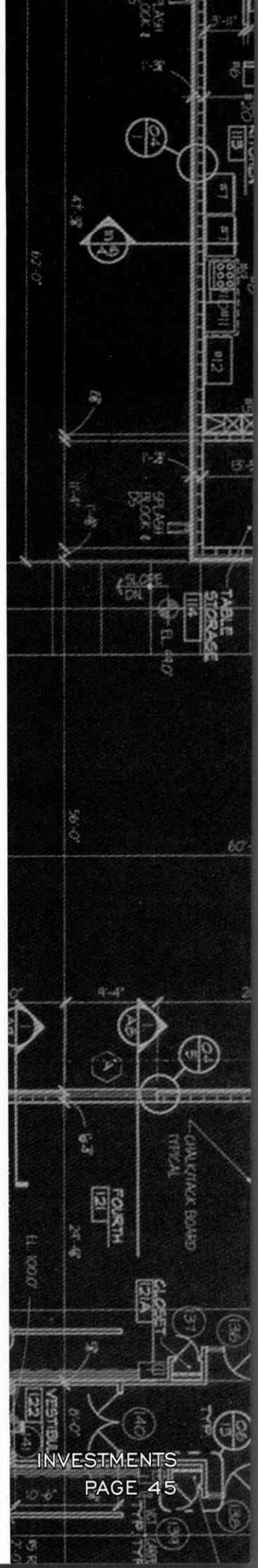
	6/30/02 Total Fund \$ Million	Percent of Portfolio	Policy Target	Band Width	Rebalance Percentage	
					Lower Trigger Point	Upper Trigger Point
U.S. Equities	\$7,704	34.7%	41%	+/-7.0%	34.0%	48.0%
Fixed Income	7,784	35.0	23	+/-2.0	21.0	25.0
Real Estate	2,203	9.9	14	+/-3.0	11.0	17.0
International Equities	3,318	14.9	15	+/-3.0	12.0	18.0
Private Equity	595	2.7	6	+/-2.0	4.0	8.0
Short-Term Investments	618	2.8	1	+/- 1.0	0.0	2.0
Pending Settlements/Expenses*	956	NA	NA			
Total Fund	\$23,178	100.0%	100.0%			

* The liability portions are placed within the Statement of Plan Net Assets.



The empires of the future are the empires of the mind.

- Winston Churchill



PORTFOLIO SUMMARY

The Investment Portfolio Summary table contains a detailed list of security types. The amounts in this table differ slightly from the allocation percentages referenced on the previous page. The Allocation Targets vs. Total Assets table represents assets assigned to managers within each asset class, whereas the following summary represents types of financial instruments. The differences are explained by the types of investments each manager is allowed to hold within its portfolio. For example, U.S. equity managers hold not only common stock within their portfolio but may hold small amounts of short-term investments as well. The same holds true for the other individual portfolios.

INVESTMENT PORTFOLIO SUMMARY

	2002		2001	
	Market Value	% of Total	Market Value	% of Total
Bonds, Corporate Notes, and U.S. Government Obligations				
U.S. Government	\$1,138,944,044	4.9%	\$895,660,735	3.7%
Federal Agency	3,046,696,328	13.1	2,989,301,898	12.3
Municipals (Taxable)	16,743,344	0.1	10,521,505	0.1
Total Government Obligations	4,202,383,716	18.1	3,895,484,138	16.1
Corporate Obligations				
Basic Industries	128,594,228	0.6	179,360,178	0.7
Capital Goods	42,355,656	0.2	33,172,878	0.1
Consumer Durables	59,845,742	0.2	48,239,405	0.2
Consumer Nondurables	228,763,077	1.0	210,629,216	0.9
Energy	162,989,075	0.7	108,782,936	0.4
Financial	1,622,050,647	7.0	1,549,287,077	6.4
Miscellaneous	42,571,114	0.2	629,832,801	2.6
Technology	131,391,192	0.6	149,331,981	0.6
Transportation	84,391,314	0.3	110,858,297	0.5
Utilities	69,732,163	0.3	105,564,129	0.5
Total Corporate Obligations	2,572,684,208	11.1	3,125,058,898	12.9
Foreign Obligations				
Foreign Government Obligations	1,687,939,402	7.3	1,494,960,315	6.2
Foreign Corporate Obligations	332,231,915	1.4	302,359,346	1.2
Total Bonds, Corporate Notes, and Government Obligations	8,795,239,241	37.9	8,817,862,697	36.4
Equities				
Common Stock - U.S.	6,732,052,482	29.1	6,301,664,623	26.1
Preferred Stock-U.S.	52,445,277	0.2	57,086,211	0.2
Common Stock - International	3,293,632,161	14.2	4,601,292,055	19.0
Preferred Stock-International	48,518,279	0.2	55,508,624	0.2
Total Equities	10,126,648,199	43.7	11,015,551,513	45.5
Short-Term Investments*	1,435,410,212	6.2	1,238,861,490	5.2
Foreign Currency	23,955,458	0.1	26,752,464	0.1
Private Equity	594,153,359	2.6	689,740,876	2.8
Real Estate Equity	2,202,925,998	9.5	2,424,554,513	10.0
TRS Total Portfolio	\$23,178,332,467	100.0%	\$24,213,323,553	100.0%

*Includes accrued income and dividends totaling \$233,414,394 and \$202,756,810 for FY02 and FY01, respectively. Also includes U.S. dollar cash held within individual portfolios.

ASSET ALLOCATION (HISTORICAL)

Historically, TRS has adopted various asset allocation strategies. The Asset Allocation table shows the actual asset allocation based on asset types for the last five-year period.

ASSET ALLOCATION (FOR YEARS ENDING JUNE 30)

Asset Type	2002	2001	2000	1999	1998
Bonds - U.S.	29.2%	29.0%	28.0%	32.5%	32.3%
Bonds - International	8.7	7.4	7.4	6.5	6.7
Equities - International	14.4	19.2	19.9	11.6	10.2
Equities - U.S.	29.3	26.3	26.1	32.5	30.5
Private Equity	2.6	2.8	3.5	2.6	2.2
Real Estate Equity	9.5	10.0	9.7	10.7	11.8
Short-Term Investments	6.3	5.3	5.4	3.6	6.3
Totals	100.0%	100.0%	100.0%	100.0%	100.0%

Source: TRS

Over the years, the TRS asset allocation has provided consistent overall returns, as represented by the following chart showing the growth of \$10,000 over the last 20 years.

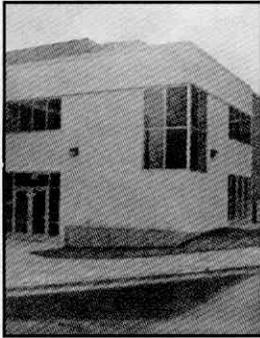
GROWTH OF \$10,000



Source: TRS

The following sections provide a brief, informative overview of the various asset classes utilized by TRS for the period ending June 30, 2002.

U.S. EQUITY



*Grayslake Community
High School
Grayslake*

U.S. equity, otherwise known as U.S. common stock, represents shares or units of ownership in a public corporation. Owners of these shares typically are entitled to vote via proxy on the selection of directors and other important matters pertaining to the company. Additionally, owners can receive dividends, in the form of cash or additional shares, sharing in the profits of a declaring company. U.S. common stocks are traded on numerous primary and secondary markets or exchanges and typically have potential for appreciation.

For the fiscal year, TRS's U.S. common stock portfolio returned (15.2) percent, net of fees, compared to the Russell 3000 Index return of (17.2) percent. One-, three-, five-, and 10-year comparisons to this benchmark are noted below:

	FY02	3-Year	5-Year	10-Year
TRS, net of fees	(15.2%)	(7.4%)	3.3%	10.2%
Russell 3000 Index	(17.2)	(7.9)	3.8	11.3

At June 30, 2002, 34.7 percent of TRS's investment portfolio was assigned to U.S. equity managers. TRS employed U.S. equity managers to use active, index or enhanced index management strategies during FY02.

The top 10 domestic equity holdings, excluding commingled funds, at June 30, 2002, are listed below and represent 5.0 percent of total U.S. equity holdings.

TOP 10 U.S. EQUITY HOLDINGS

Firm	Market Value
General Electric Co.	\$49,292,040
Microsoft Corp.	49,027,063
Pfizer, Inc.	35,934,500
Dow Chemical Co.	32,061,963
Bank One Corp.	30,906,905
Golden W. Financial Corp.	29,080,184
ChevronTexaco Corp.	28,847,726
Cisco Systems, Inc.	27,957,195
AT & T Corp.	27,562,130
Intel Corp.	27,496,350
Total	\$338,166,056

Source: The Northern Trust Company

As of June 30, 2002, TRS employed 11 domestic equity managers. The following chart lists the managers and assets under management.

U.S. EQUITY MANAGERS AND ASSETS UNDER MANAGEMENT
(INCLUDES INCEPTION DATE OF ACCOUNT)

Domestic Equity

Index Account

State Street Global Advisors (11/98) \$3,780,431,138

All Cap Growth Accounts

Geewax, Terker & Company (3/00) 346,527,025

Oak Associates, Ltd. (3/00) 111,631,314

Large Cap Value Accounts

Alliance Bernstein Institutional Investment Management (4/98) 780,025,130

Dodge & Cox (4/00) 803,204,358

EARNEST Partners (2/02) 87,414,277

Enhanced Core Account

Pacific Investment Management Co. (8/91) 803,033,112

Large Cap Growth Account

Holland Capital Management (2/02) 86,505,614

Small Cap Growth Account

Neuberger Berman, L.L.C. (3/00) 203,898,379

Small Cap Value Account

Ariel Capital (8/01) 225,724,525

NorthPointe Capital (8/01) 292,015,292

Small/Mid Cap Core Account

State Street Global Advisors (5/02) 189,432,290

STATISTICAL DATA

The following three tables convey various statistics, including attribution and sector analysis, of the U.S. equity portfolio.

U.S. EQUITY PROFILE AS OF JUNE 30, 2002

Category	TRS	Russell 3000 Index
Market Cap (billions)	\$66.2	\$70.3
P/E	23.3x	26.0x
Dividend Yield	1.8%	1.6%
Beta	0.9	0.9
5-Year EPS Growth	8.2%	9.8%
Price/Book Ratio	2.83x	2.97x

Source: Northern Trust Company and Mellon Russell

U.S. EQUITY – DIVERSIFICATION BY INDUSTRY SECTOR
FOR YEAR ENDING JUNE 30, 2002

Sector	Weighting TRS Domestic Equity	Weighting Russell 3000 Index
Autos/Transportation	3.6%	2.6%
Consumer Discretionary	14.5	14.0
Consumer Durables	6.9	7.7
Energy	1.4	1.6
Financial Services	20.9	23.1
Health Care	12.9	13.9
Integrated Oils	5.8	4.5
Materials/Processing	6.3	3.9
Miscellaneous/Other	3.8	4.3
Producer Durables	4.6	4.1
Technology	12.8	13.0
Utilities	6.5	7.3
Total	100.0%	100.0%

Source: The Northern Trust Company

TRS U.S. EQUITY VS. THE RUSSELL 3000 INDEX ECONOMIC SECTORS
ANNUAL RETURN AS OF JUNE 30, 2002

Sector	TRS U.S. Equity	Russell 3000 Index
Total	(15.2%)	(17.2%)
Autos/Transportation	(2.7)	(6.4)
Consumer Discretionary	(8.9)	(15.0)
Consumer Durables	10.2	10.3
Energy	(31.0)	(34.7)
Financial Services	(6.0)	(6.2)
Health Care	(12.5)	(16.8)
Integrated Oils	0.5	(1.3)
Materials/Processing	8.7	7.0
Miscellaneous/Other	(31.5)	(28.8)
Producer Durables	(4.9)	(6.6)
Technology	(38.7)	(39.8)
Utilities	(32.3)	(34.4)

Source: The Northern Trust Company



Antioch Community High School
Antioch

DISCUSSION OF U.S. EQUITY

The target for U.S. equities was increased from 30 percent to 41 percent with the adoption of the new asset allocation and U.S. equity manager structure in April 2002. The U.S. Equity Manager Structure table provides a further breakdown of the styles within the U.S. equity portfolio.

U.S. EQUITY MANAGER STRUCTURE

	Target
U.S. Equity Total	41.0%
Subclasses	
Large Cap Core	50.0
Large Cap Growth	10.0
Large Cap Value	20.0
Small/Mid Cap Core	2.0
Small/Mid Cap Growth	6.6
Small/Mid Cap Value	6.6
Small Cap Growth	2.4
Small Cap Value	2.4
Total	100.0%

As of June 30, 2002, the TRS U.S. equity portfolio was in the midst of restructuring in order to align with the newly adopted asset allocation and manager structure. Assets were reallocated from the international equity and U.S. fixed income asset classes in order to move the U.S. equity portfolio closer to its strategic target. In order to complete the U.S. equity manager structure, investment firm searches will be conducted for large cap growth, large cap value, small/mid cap growth, and small/mid cap value active management strategies.

The year ended June 30, 2002, was a difficult one for the U.S. equity markets. The one-year return as measured by the Russell 3000 Index was the worst performing year in the 23-year history of the index. Despite strong returns in the second quarter, negative returns in the first and fourth quarter proved difficult to overcome as investors were shaken by September 11th and a series of accounting scandals in the market.



*Highland Middle School
Highland*

INTERNATIONAL EQUITY

International equity, otherwise known as international common stock, represents shares or units of ownership in a public corporation outside the United States. Owners of these shares typically are entitled to vote via proxy on the selection of directors and other important matters pertaining to the company. In addition, owners can receive dividends, in the form of cash or additional shares, sharing in the profits of a declaring company.

International common stocks are traded on numerous primary and secondary markets or exchanges all over the world. Owning international common stocks involves additional protocol due to accounting for foreign currency fluctuations, foreign tax reclamations from dividend distribution, and the rules and regulations of the varying exchanges and regulatory authorities in numerous countries.

For the year ended June 30, 2002, the international equity asset class returned (6.8) percent compared to the MSCI All Country World Excluding U.S. Free Index (identified as Non-U.S. Equity Index below and in future references) return of (8.2) percent. One, three-, five-, and 10-year comparisons to this benchmark are in the following table:

	FY02	3-Year	5-Year	10-Year
TRS, net of fees	(6.8%)	(3.5%)	0.0%	6.0%
Non-U.S. Equity Index	(8.2)	(6.2)	(1.7)	5.5

At June 30, 2002, 14.9 percent of the TRS investment portfolio was assigned to international equity managers. The international equity managers employed by TRS during FY02 used fully active or index management strategies. Listed below are the top 10 international equity holdings, excluding commingled funds, as of June 30, 2002. These securities represent 11.9 percent of the total international equity holdings.

TOP 10 INTERNATIONAL EQUITY HOLDINGS

Firm	Market Value
Total Fina Elf	\$66,513,192
Canon, Inc.	42,673,311
BAE Systems	42,455,028
ING Groep	39,428,044
National Australia Bank	36,953,616
ENI	36,545,932
Michelin	34,904,837
Nestle	33,239,254
Cie de St-Gobain	33,032,315
GlaxoSmithKline	32,771,155
Total	\$398,516,684

Source: The Northern Trust Company

As of June 30, 2002, TRS employed six international equity managers. The chart below lists these managers and the assets under management.

INTERNATIONAL EQUITY MANAGERS AND ASSETS UNDER MANAGEMENT
(INCEPTION DATE OF ACCOUNT)

Index Account	
State Street Global Advisors (5/99)	\$157,786,528
Active/Core Accounts	
Brandes Investment Partners, L.P. (2/98)	639,924,271
Capital Guardian Trust Company (2/98)	581,721,804
Delaware International Advisers Ltd. (4/93)	699,419,696
INVESCO Global Asset Management, Inc. (6/00)	648,425,219
Martin Currie, Inc. (6/00)	583,438,923

PORTFOLIO CHARACTERISTICS

The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio.

INTERNATIONAL EQUITY FUNDAMENTAL CHARACTERISTICS

Characteristic	TRS	Non-U.S. Equity Index
Market Cap (billions)	\$28.1	\$37.9
P/E	17.7x	29.0x
Dividend Yield	2.7%	2.3%
EPS Growth	10.7%	13.4%
Price/Book Ratio	2.2x	1.9x

Source: *The Northern Trust Company*

INTERNATIONAL EQUITY – COUNTRIES OF EXPOSURE

Country	TRS	Non-U.S. Equity Index
United Kingdom	20.8%	23.5%
Japan	18.6	19.1
France	8.8	8.4
Switzerland	4.9	7.1
Germany	4.7	6.2
Netherlands	6.1	5.2
Canada	2.4	4.6
Australia	3.9	3.7
Italy	4.0	3.2
Spain	3.8	2.6
Other Countries	22.0	16.4
Total	100.0%	100.0%

Source: *TRS and The Northern Trust Company*



*Peoria Heights Grade School
Peoria Heights*

DISCUSSION OF INTERNATIONAL EQUITY

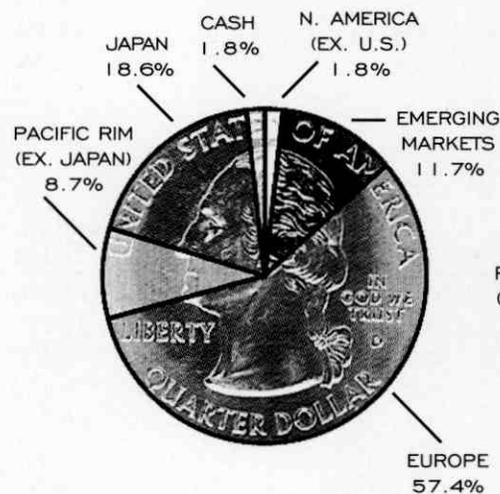
The target for international equities was reduced from 20 percent to 15 percent of total assets. Within the international equity asset class, the indexing component was reduced to 2 percent from its previous target of 14.3 percent. TRS will be working towards aligning the international equity asset class to its new target during FY03.

For FY02, the TRS international equity managers outperformed the Non-U.S. Equity Index by 1.4 percent for the year on a net of fees basis. The TRS portfolio benefited from an overweight allocation to the emerging markets, which returned 1.3 percent compared to the developed market return of (9.2) percent.

Following is the regional allocation comparison of the TRS portfolio and the Non-U.S. Equity Index.

REGIONAL ALLOCATION COMPARISON JUNE 30, 2002

TRS International Equity Exposure



Non-U.S. Equity Index



The portfolio, as illustrated in the charts above, continues to contain underweight allocations to Europe, Japan and North America (Canada), and overweight allocations to the Pacific Rim Ex-Japan, emerging markets and in short-term investments.

U.S. FIXED INCOME

U.S. fixed income is typically a long-term security that represents a contractual obligation of debt or a loan to a corporation, U.S. government, U.S. federal agency, or municipality. The security pays a fixed, or in some cases a variable, rate of return or interest until the bond matures, at which time the entire par amount is repaid to the bondholder. U.S. fixed income instruments are traded on numerous primary and secondary markets. There can be numerous provisions, and various types of bonds that can be issued.

For the year ended June 30, 2002, TRS U.S. fixed income managers earned an 8.1 percent (net of fees) rate of return, compared to its benchmark, the Salomon Smith Barney Broad Investment Grade (Salomon BIG) Index return of 8.5 percent.

One-, three-, five-, and 10-year comparisons to this benchmark are noted below:

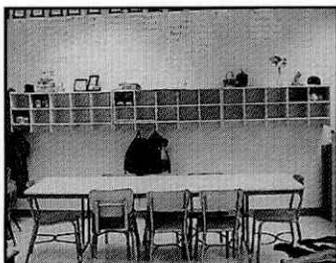
	FY02	3-Year	5-Year	10-Year
TRS, net of fees	8.1%	7.9%	8.0%	7.6%
Salomon BIG Index	8.5	8.1	7.6	7.4

The following table lists the top ten U.S. fixed income holdings as of June 30, 2002. These securities represent 12.5 percent of the total U.S. fixed income holdings.

TOP 10 U.S. FIXED INCOME HOLDINGS

Security/Position	Rate	Maturity	Market Value
Federal National Mortgage Association TBA	6.00%	7/1/2015	\$131,703,160
Federal National Mortgage Association TBA	6.50	7/2/2017	91,617,686
U.S. Treasury Bonds	8.50	2/15/2020	90,575,160
Government National Mortgage Association	6.50	7/15/2028	89,151,497
Federal National Mortgage Association TBA	7.00	7/2/2032	81,216,450
Federal National Mortgage Association Discount Notes	1.87	7/15/2002	80,496,613
U.S. Treasury Notes	4.88	2/15/2012	74,081,769
Federal Home Loan Mortgage Corp. TBA	7.00	7/2/2032	73,196,417
U.S. Treasury Notes	5.88	11/15/2004	68,088,543
U.S. Treasury Notes	6.75	5/15/2005	63,845,730
Total			\$843,973,025

Source: The Northern Trust Company



Lake Crest Elementary School
Oakland



Pleasant Plains Middle School
Pleasant Plains

As of June 30, 2002, TRS employed eight active core U.S. fixed income managers, identified in the U.S. Fixed Income Managers and Assets Under Management table.

**U.S. FIXED INCOME MANAGERS AND ASSETS UNDER MANAGEMENT
(INCLUDES INCEPTION DATE OF ACCOUNT)**

BlackRock Financial Management, Inc. (6/97)	\$1,642,578,774
Chicago Capital Management, Inc. (12/95)	650,635,561
EARNEST Partners Limited, LLC (2/02)	129,704,283
MDL Capital Management, Inc. (2/02)	129,398,335
Morgan Stanley Investment Management, Inc. (3/98)	657,093,467
Payden & Rygel Investment Counsel (6/97)	658,946,349
Pacific Investment Management Company (7/82)	1,426,851,381
Weiss, Peck & Greer Investments (12/91)	664,655,314

STATISTICAL DATA

The next three tables convey various statistics of the U.S. fixed income portfolio.

U.S. FIXED INCOME PROFILE AS OF JUNE 30, 2002

Characteristic	TRS	Salomon BIG Index
Average Maturity (years)	7.2	6.9
Effective Duration (years)	4.4	4.4
Average Coupon (%)	6.0	6.4
Average Quality Rating	Aa+	Aa+
Yield to Maturity (%)	5.1	5.2

Source: The Northern Trust Company, Salomon Smith Barney, and TRS.

U.S. FIXED INCOME SECTOR DIVERSIFICATION AT JUNE 30, 2002

Fixed Income Type	TRS	Salomon BIG Index
Treasury	20.1%	22.6%
Federal Agency	5.0	13.6
Corporates (Credit)	20.2	23.0
Mortgage Backed Securities	37.9	37.2
Asset Backed Securities	5.3	0.9
Other	11.5	2.7
Total	100.0%	100.0%

Source: Wilshire Compass, Salomon Smith Barney, and TRS.



*Rochester Middle School
Rochester*



*Central Elementary School
Lewistown*

DIVERSIFICATION BY QUALITY RATING FOR FIXED INCOME MANAGER PORTFOLIOS

Moody's Quality Rating	06/30/02	06/30/01
Aaa	71.6%	68.4%
Aa1 through Aa3	4.8	4.0
A1 through A3	10.3	14.2
Baa1 through Baa3	10.1	9.2
Ba1 through Ba3	2.2	2.2
Other*	1.0	2.0
Total	100.0%	100.0%

*Other includes under Ba and NR ratings.

Source: Wilshire Compass

DISCUSSION OF U.S. FIXED INCOME

At June 30, 2002, 26.9 percent of TRS's investment portfolio was assigned to U.S. fixed income managers. TRS employed U.S. fixed income managers to use fully active or index management strategies during FY02.

In conjunction with the new asset allocation adopted by the TRS Board of Trustees, the U.S. fixed income asset class was combined, in the latter part of FY02, with the international fixed income asset class to create a total fixed income asset class. TRS will be working diligently towards meeting the total fixed income target of 23.0 percent during FY03.

The majority of the U.S. fixed income market produced excellent returns during FY02. The continued downturn in the U.S. equity market continued to bolster the fixed income returns of the market and TRS. The returns of the TRS U.S. fixed income portfolio were slightly under the index, 8.1 percent versus 8.5 percent, for the one-year period ending June 30, 2002. However, over the long-term, fixed income returns still exceeded their respective indices. The slight underperformance for the year is in large part due to exposure to the credit and high yield sectors that are correlated to the equity market.

Following a strong performance by mortgages and treasuries during FY02, most TRS managers have begun shifting back to index weight or overweight in the credit market in anticipation of an economic recovery. In addition, the overall portfolio duration is equal to that of the index, compared to a slightly longer than index duration as of June 30, 2001. As interest rates fell throughout the year, TRS managers reduced their portfolio durations to reflect their changing views on the magnitude and direction of future interest rate moves.



Rochelle Middle School
Rochelle

INTERNATIONAL FIXED INCOME

International fixed income is typically a long-term security that represents a contractual obligation of debt or a loan to a foreign corporation, foreign government, foreign agency, or foreign municipality. The security pays a fixed, or in some cases a variable, rate of return or interest until the bond matures, at which time the entire par amount is repaid to the bondholder.

International fixed income instruments are traded on numerous primary and secondary markets throughout the world. There can be numerous provisions, and various types of bonds can be issued. Owning international fixed income securities requires consideration of such issues as foreign currency fluctuations and the rules and regulations of the various exchanges and regulatory authorities in other countries.

TRS's international fixed income managers returned 15.9 percent, net of fees, in FY02, outperforming the benchmark, the Salomon Smith Barney Non-U.S. World Government Bond Index (identified below and in future references as Non-U.S. Bond Index) which returned 15.8 percent. One-, three-, five-, and 10-year comparisons to this benchmark are as follows:

	FY02	3-Year	5-Year	10-Year
TRS, net of fees	15.9%	2.0%	2.6%	5.9%
Non-U.S. Bond Index	15.8	3.1	3.0	5.6

At June 30, 2002, TRS employed three international fixed income managers, identified below in the International Fixed Income Managers and Assets Under Management table.

INTERNATIONAL FIXED INCOME MANAGERS AND ASSETS UNDER MANAGEMENT (INCEPTION DATE OF ACCOUNT)

Active Core

Julius Baer Investment Management, Inc. (7/92)	\$597,220,287
Rogge Global Partners (6/00)	593,983,641
UBS Global Asset Management, Inc. (8/90)	614,060,151

STATISTICAL DATA

The International Fixed Income Profile and International Fixed Income – Countries of Exposure tables convey statistics of the international fixed income portfolio.

INTERNATIONAL FIXED INCOME PROFILE AS OF JUNE 30, 2002

Category	TRS	Non-U.S. Bond Index
Average Coupon	4.9%	4.3%
Effective Duration	4.8 years	5.5 years
Average Maturity	6.1 years	7.2 years

Source: The Northern Trust Company, Salomon Smith Barney, and TRS.

INTERNATIONAL FIXED INCOME - COUNTRIES OF EXPOSURE

Country	% Weight TRS	% Weight Non-U.S. Bond Index
Australia	2.3%	0.6%
Austria	0.0	1.8
Belgium	0.6	3.6
Canada	1.5	3.2
Denmark	3.6	1.4
Finland	1.1	0.8
France	9.5	10.6
Germany	21.0	10.9
Greece	0.2	1.8
Ireland	0.2	0.4
Italy	7.6	11.3
Japan	23.6	37.7
Netherlands	4.4	2.7
Portugal	0.0	0.8
Spain	3.7	4.5
Sweden	5.1	1.0
Switzerland	1.1	0.8
United Kingdom	10.0	6.1
Other*	4.5	0.0
Total	100.0%	100.0%

*Other consists of bonds held outside the Index.

Source: The Northern Trust Company, Salomon Smith Barney, and TRS.

DISCUSSION OF INTERNATIONAL FIXED INCOME

In conjunction with the new asset allocation adopted by the TRS Board of Trustees, international fixed income was eliminated as a separate asset class in the latter part of FY02. During FY03, it will be combined with U.S. fixed income to create a total fixed income asset class. TRS will be working diligently towards meeting the total fixed income target of 23.0 percent in FY03.

FY02 was a stellar year for international fixed income (unhedged), primarily over the last six months. Due in part to the depreciation of the U.S. dollar, TRS's international fixed income investments returned 15.9 percent for the year. TRS clearly reaped the benefits of diversification with its investment in the international fixed income asset class.



Lincoln Elementary School
Oglesby



Mt. Vernon City Schools
Primary Center
Mt. Vernon

PRIVATE EQUITY

The private equity market is an important source of funds for start-up companies, private middle-market firms, financially distressed companies and companies seeking buyout financing. Private equity investments are privately placed; they are exempt from registration with the Securities and Exchange Commission. Investors in private equities include pension funds, university and college endowments, insurance companies, banks, and high net-worth individuals.

Investments made in private equities can be in the form of debt or equity. Equity investments represent ownership interest in privately incorporated businesses. Debt investments represent investments in unsecured or secured debt securities of privately incorporated business.

For the year ended June 30, 2002, private equity outperformed its benchmark by 2.0 percentage points. The asset class maintains strong long-term returns, outperforming the benchmark by 30.3 percent and 19.6 percent for the three- and five-year periods, respectively. One, three-, five-, and 10-year comparisons to this benchmark are noted below:

	FY02	3-Year	5-Year	10-Year
TRS	(12.7%)	25.2%	26.6%	27.3%
Russell 3000 Index + 3.0%	(14.7)	(5.1)	7.0	14.6

The internal rate of return (IRR), widely used throughout the industry, is a more appropriate return measure for this asset class. At June 30, 2002, the IRR for the private equity asset class since inception of the portfolio, was 21.3 percent.

At June 30, 2002, 2.7 percent of the System's investment portfolio was assigned to the private equity asset class. As of June 30, 2002, TRS invested in numerous private equity partnerships/funds.



*Bradley East Elementary School
Bradley*

The following chart lists the partnerships and the current assets under management.

PRIVATE EQUITY PARTNERSHIPS AND ASSETS UNDER MANAGEMENT
(INCEPTION DATE OF ACCOUNT)

Buyout Accounts

Apollo Investment Fund V, L.P. (5/01)	\$26,174,104
DLJ Merchant Banking Partners, L.P. (9/92)	8,296,024
DLJ Merchant Banking Partners II, L.P. (3/97)	57,456,345
DLJ Merchant Banking Partners III, L.P. (9/00)	40,202,585
GTCR Fund VII/VIIA, L.P. (3/00)	31,198,375
KKR 1996 Fund, L.P. (5/97)	67,502,978
Mesirow Capital Partners VII, L.P. (6/97)	7,867,891
Trivest Fund II, Ltd. (6/96)	28,000,978
VS&A Communications Partners II, L.P. (9/95)	24,462,047
WPG Corporate Development Associates V, L.P. (11/97)	12,503,558

International Accounts

Periscope I Fund, L.P. (6/97)	971,968
TCW/Latin America Private Equity Partners, L.P. (5/97)	22,636,162
Warburg Pincus International Partners, L.P. (9/00)	20,683,104

Debt-Related Accounts

Banc Fund VI, L.P. (6/02)	500,000
William Blair Mezzanine Capital Fund II, L.L.C. (5/97)	31,392,938
William Blair Mezzanine Capital Fund III, L.L.C. (1/00)	31,346,880

Venture Capital Accounts

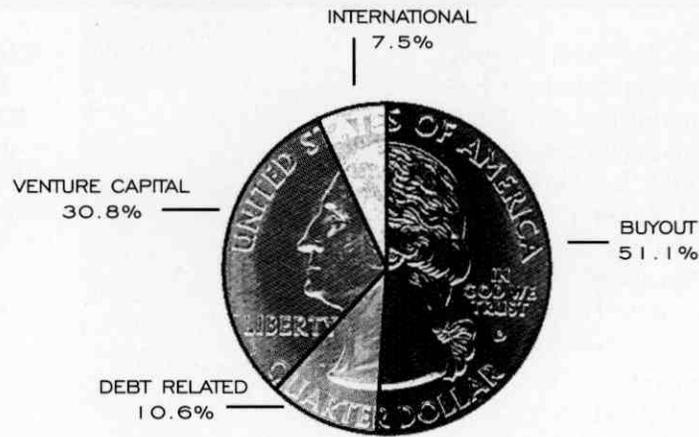
Apex Investment Fund III, L.P. (6/96)	14,959,821
Frontenac Venture V, L.P. (4/87)	73,982
Frontenac VI, L.P. (6/93)	577,067
Penman Private Equity & Mezzanine Fund, L.P. (10/94)	8,343,603
21st Century Communication T-E Partners, L.P. (2/95)	9,176,280
SCP Private Equity Partners, L.P. (5/97)	14,810,978
SCP Private Equity Partners II, L.P. (6/00)	35,816,426
VantagePoint Venture Partners IV, L.P. (6/00)	5,840,760
WPG Enterprise Fund, L.P. (11/89)	2,589,052
WPG Enterprise Fund II, L.P. (8/94)	23,774,863
WPG Enterprise Fund III, L.P. (3/97)	66,995,318



*O'Fallon Township High School
O'Fallon*

As of June 30, 2002, the breakdown of the private equity subclasses were as follows:

PRIVATE EQUITY BREAKDOWN



Source: TRS

DISCUSSION OF PRIVATE EQUITY

The TRS Board of Trustees adopted a target for private equities of 6.0 percent, down from the previous target of 7.0 percent. The chart below provides a further breakdown of the styles also adopted by the TRS Board.

PRIVATE EQUITY STYLES

	Target
Private Equity Total	6.0%
Subclasses	
Buyout	45.0
Debt-Related	10.0
International	10.0
Venture Capital	35.0
Total	100.0%

As of June 30, 2002, the TRS private equity asset class was underweight relative to its target. TRS will continue its efforts to implement the private equity structure and strive to reach the 6 percent target in fiscal year 2006.



Tri-Valley Middle School
Downs

REAL ESTATE

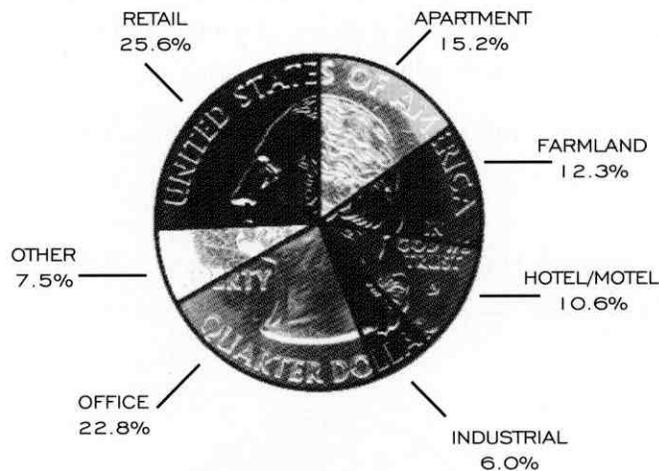
Real estate investments are direct investments or ownership in land and all physical property related to it, including but not limited to, residential, farmland, hotels/motels, industrial, office space, and retail. Additionally, there are limited partnerships that directly purchase real estate investments and pass on rental and other income directly to the partners. Real estate offers an effective tool in terms of portfolio diversification and a hedge against possible inflation.

TRS real estate investments earned a 2.4 percent rate of return during FY02 as compared to the National Council of Real Estate Investment Fiduciaries Index (identified below as Real Estate Property Index) return of 5.6 percent. One-, three-, five-, and 10-year comparisons to this benchmark are noted in the following table:

	FY02	3-Year	5-Year	10-Year
TRS, net of fees	2.4%	7.0%	9.8%	9.5%
Real Estate Property Index	5.6	9.6	11.7	8.5

The following pie chart shows the real estate holdings by type.

REAL ESTATE HOLDINGS BY TYPE JUNE 30, 2002



*Sandwich Middle School
Sandwich*

As of June 30, 2002, TRS employed a number of real estate managers. The chart below lists the managers and current assets under management.

**REAL ESTATE MANAGERS AND ASSETS UNDER MANAGEMENT
(INCEPTION DATE OF ACCOUNT)**

Separate Accounts

Capri/Capital Advisors, LLC (12/91)	\$802,363,978
Commonwealth Realty Advisors, Inc. I (9/91)	274,981,843
Commonwealth Realty Advisors, Inc. II (11/92)	246,868,276
Cozad/Westchester Asset Management, Inc. (5/91)	305,425,941
Koll Bren Schreiber Realty Advisors I (6/93)	84,434,984
Koll Bren Schreiber Realty Advisors II (5/96)	38,161,516
LPC Realty Advisors I, Ltd. (7/92)	140,865,621
Stone-Levy, LLC (4/95)	241,538,043

Closed End Accounts

Capital Associates/Bear Stearns Realty Partners* (3/90)	9,183,325
DLJ Real Estate Capital Partners, Inc.* (3/96)	24,841,409
Heitman Capital Management * (7/85)	567,280
RREEF Capital II, L.L.C.* (11/96)	33,894,948

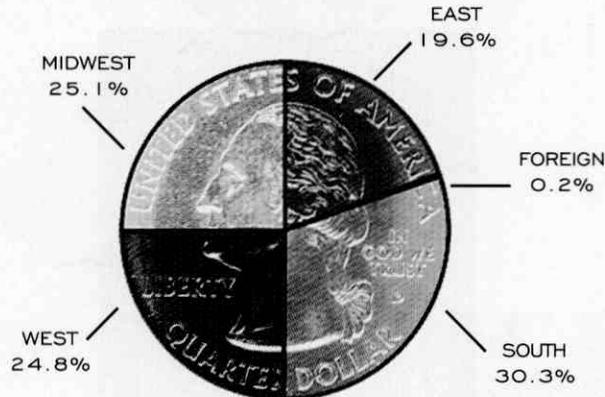
**Fund in liquidation mode*

DISCUSSION OF REAL ESTATE

The TRS Board of Trustees established a target for real estate of 14.0 percent. Callan Associates will be assisting with the implementation strategy to move the portfolio to the new target allocation.

The TRS real estate portfolio has the following geographical representation:

**GEOGRAPHIC DIVERSIFICATION OF REAL ESTATE HOLDINGS
JUNE 30, 2002**



BROKERAGE ACTIVITY

The following table shows the top 50 listed brokers utilized by TRS external managers for the years ended June 30, 2002, and 2001. TRS utilizes a commission recapture and soft dollar program. For the year-ended June 30, 2002, TRS recaptured over \$1.4 million in commissions that were reinvested back into the fund. In addition, TRS received \$594,660 in soft dollar credits that were used to pay for fund research and consulting expenses. These amounts reduced the overall listed commissions to \$11.602 million, or by 15.1 percent. During FY02, TRS spent \$596,203 of soft dollar commission credits. At June 30, 2002, TRS had a remaining soft dollar credit balance of \$687,524. The commission credits and expenditures are not reflected in the financial statements.

TOP 50 BROKERS USED BY TRS MANAGERS

Broker	FY02 Commission	FY01 Commission
Goldman Sachs & Company (Worldwide)	\$1,349,225	\$1,069,980
Merrill Lynch & Co., Inc. (Worldwide)	796,231	983,476
Credit Suisse First Boston (Worldwide)	680,536	674,633
Morgan Stanley (Worldwide)	670,908	849,380
Salomon Smith Barney, Inc. (Worldwide)	644,928	817,123
State Street Brokerage Services	632,222	10,393
UBS AG/UBS Warburg	574,980	390,371
Instinet/Lynch Jones & Ryan division	522,645	212,755
Credit Lyonnais (Worldwide)	457,128	102,391
J.P. Morgan Securities, Inc. (Worldwide)	400,222	477,128
Lehman Bros, Inc. (Worldwide)	383,113	515,416
Citation Group, The	337,167	260,317
Deutsche Bank Securities (Worldwide)	302,494	232,144
Merrill Lynch Pierce Fenner & Smith	302,373	265,198
Investment Technology Group, Inc.	272,526	112,512
Bear Stearns & Co. (Worldwide)	264,215	299,321
Morgan Greenfell & Co.	237,413	74,337
Frank Russell, Inc. (Worldwide)	187,710	147,406
Cheuvreux De Virieu (Worldwide)	158,799	176,480
BHF Securities Corp.	151,066	293
HSBC (Worldwide)	140,662	224,035
Jefferies & Company	132,293	178,402
ABN AMRO (Worldwide)	126,204	334,502
Nomura Securities, Inc. (Worldwide)	121,088	110,063
Bridge Trading Company	118,499	99,121
Kleinwort Benson (Worldwide)	118,206	153,443
Loop Capital Markets	109,684	258
Legg Mason Wood Walker, Inc.	106,109	108,386
Guzman & Company	102,998	403,717
Bernstein, Sanford C. & Co.	100,224	162,047
Instinet (Worldwide)	98,649	382,338
Cazenove & Co.	98,482	78,486
Banque Nationale de Paris	98,419	7,021

Continued from page 65

Broker	FY02 Commission	FY01 Commission
SBC Warburg & Co. (Worldwide)	88,929	185,951
Gardner Rich & Co.	81,661	0
Prudential Securities, Inc. (Worldwide)	79,578	85,470
Bank of New York/ESI (Worldwide)	79,248	177,314
Banc of America / Montgomery Division	69,016	87,821
JB Were & Sons (Worldwide)	64,978	31,987
Janney Montgomery Scott	63,174	31,981
Carnegie, Inc. (Worldwide)	58,676	54,172
SG Cowen & Company	58,591	59,297
Weeden & Co.	58,218	62,108
ING Barings (Worldwide)	56,841	101,462
RBC Dominion Securities	53,817	24,692
Citibank, Inc. (Worldwide)	51,669	43,222
Blair, William & Co.	49,366	39,532
McDonald and Company	48,758	7,597
SG Securities	46,462	3,828
Abel Noser Corporation	45,939	50,236
All Others (FY02, 174 Brokers)	1,806,806	2,730,894
Totals	\$13,659,145	\$13,690,437



Kenneth L. Hermanson
Elementary School
Romeoville

Source: The Northern Trust Company and TRS

EXTERNAL MANAGER FEE PAYMENTS

For the year ended June 30, 2002, fee payments to external managers totaled \$65.274 million, a decrease of 2.7 percent from the year ended June 30, 2001. A summary is provided in the Schedule of Investment Manager Fees table.

SCHEDULE OF INVESTMENT MANAGER FEES

Investment Manager/Account	FY02	FY01
Alliance Bernstein Institutional Investment Mgmt.	\$1,239,024	1,257,806
Apex Investment Fund III, L.P.	17,867	418,790
Apollo Investment Fund V, L.P.	1,923,093	562,500
Ariel Capital Management, Inc.	714,798	0
Bear Stearns/Capital Associates Realty Advisors	63,473	629,802
BlackRock Financial Management, Inc.	1,246,884	830,732
Brandes Investment Partners, L.P.	2,481,176	2,686,768
Capital Guardian Trust Company	2,380,256	2,600,985
Capri/Capital Advisors, LLC	3,750,089	3,527,219
Chicago Capital Management, Inc.	639,877	654,318
Commonwealth Realty Advisors, Inc.	2,423,324	2,417,482
Cozad/Westchester Asset Management, Inc.	1,367,775	1,225,331
Daystar Partners	0	112,076
Delaware International Advisers, Ltd.	1,327,703	1,255,398
DLJ Merchant Banking Partners II, L.P.	520,279	833,203
DLJ Merchant Banking Partners III, L.P.	2,259,237	1,228,702
DLJ Real Estate Capital Partners, L.P.	351,347	575,995
Dodge & Cox	1,558,012	1,584,858
Dresdner RCM Global Investors, L.L.C.	1,102,568	1,963,152

Continued from page 66

Investment Manager/Account	FY02	FY01
EARNEST Partners, LLC	105,458	0
Frontenac VI, L.P.	120,000	180,000
GE Asset Management, Inc.	1,268,943	1,532,984
Geewax, Terker & Company	1,481,689	1,464,707
Heitman Capital Management	51,433	67,006
Holland Capital Management	75,136	0
INVESCO Global Asset Management (N.A.), Inc.	1,760,227	1,866,679
Julius Baer Investment Management, Inc.	849,422	858,336
K/B Realty Advisors	2,539,818	2,181,771
KKR 1996 Fund, L.P.	702,728	641,058
Lazard Asset Management	0	597,855
Lincoln Capital Management Co.	606,094	1,988,783
LPC Realty Advisors I, Ltd.	3,069,667	2,472,050
Martin Currie Inc.	1,781,804	1,876,248
MDL Capital Management, Inc.	38,188	0
Mesirow Capital Partners VII, L.P.	747,373	747,500
Morgan Stanley Investment Management, Inc.	2,074,528	1,561,133
Neuberger Berman, L.L.C.	821,974	691,186
NorthPointe Capital	934,917	0
Oak Associates, Ltd.	520,884	222,361
Pacific Investment Management Company	3,479,419	2,996,701
Payden & Rygel Investment Counsel	771,184	776,243
Penman Private Equity & Mezzanine Fund, L.P.	0	90,227
Periscope I Fund, L.P.	135,000	135,000
Progress Investment Management Company	723,866	871,079
Rogge Global Partners	843,439	854,211
RREEF Real Estate Venture Capital Fund, L.P.	403,791	429,177
21st Century Communication T-E Partners, L.P.	69,785	79,108
SCP Private Equity Partners, L.P.	2,369,141	2,343,715
State Street Global Advisors	736,616	737,907
Stone-Levy, LLC	1,151,303	1,151,611
TCW/Latin American Private Equity Partners, L.P.	837,868	823,080
The Northern Trust Company (Custody)	675,000	675,000
Trivest Fund II, Ltd.	383,942	443,275
UBS Global Asset Management, Inc.	1,181,777	1,570,711
VantagePoint Venture Partners IV, L.P.	1,498,368	1,795,956
VS&A Communications Partners II, L.P.	117,592	111,850
WPG Corporate Development Associates V, L.P.	602,102	596,928
Weiss, Peck & Greer Investments	1,045,033	461,765
WPG Enterprise Fund, L.P.	78,532	182,245
WPG Enterprise Fund II, L.P.	378,958	1,563,169
WPG Enterprise Fund III, L.P.	1,940,015	4,176,435
William Blair Mezzanine Capital Fund II, L.L.C.	233,585	272,565
William Blair Mezzanine Capital Fund III, L.L.C.	700,809	656,424
Total fees paid by TRS	\$65,274,190	\$67,109,156

Note: This schedule was prepared using the cash basis of accounting and differs from the total shown within the Financial Section of this report.

Source: TRS

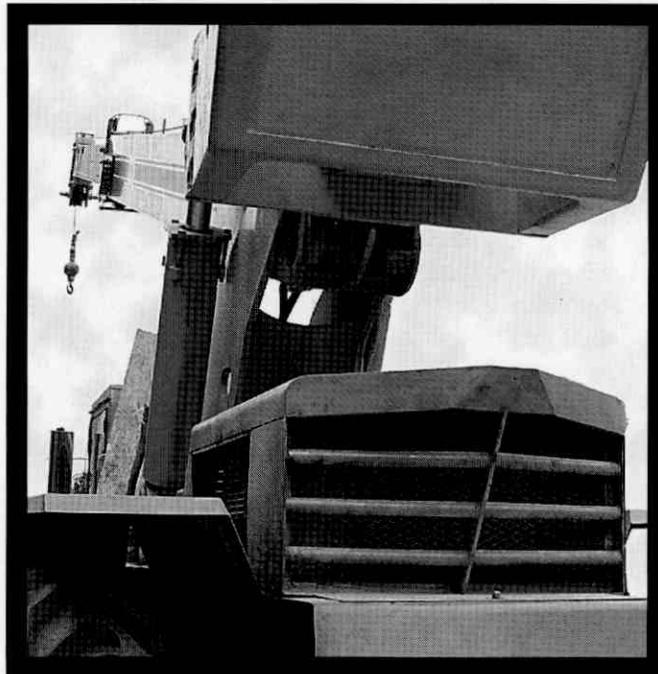
SECURITIES LENDING

TRS participates in securities lending activity with its custodian, The Northern Trust Company, acting as the securities lending agent. Additionally, TRS participates in securities lending with State Street Global Advisors where income earned from securities lending activities is reinvested back into each respective commingled fund. The Securities Lending Summary table outlines the net income from securities lending activity, the securities on loan, and the amount of collateral for these securities.

SECURITIES LENDING SUMMARY

Income Source	Amount
Income Earned FY02 Northern Trust	\$11,261,670
Income Earned FY02 SSGA	1,772,535
Total Net Securites Lending Income	13,034,205
Total Collateral Market Value - Northern Trust (6/30/02)	2,419,253,253
Total Market Value of Securities on Loan - Northern Trust (6/30/02)	2,326,208,668
Total Collateralized Percentage	104%

Source: The Northern Trust Company and State Street Global Advisors.



*We aim above the mark to hit the mark.
- Ralph Waldo Emerson*