

INVESTMENTS



Confidence... thrives on honesty, on honor, on the sacredness of obligations, on faithful protection and on unselfish performance. Without them it cannot live.

Franklin D. Roosevelt

INTRODUCTION

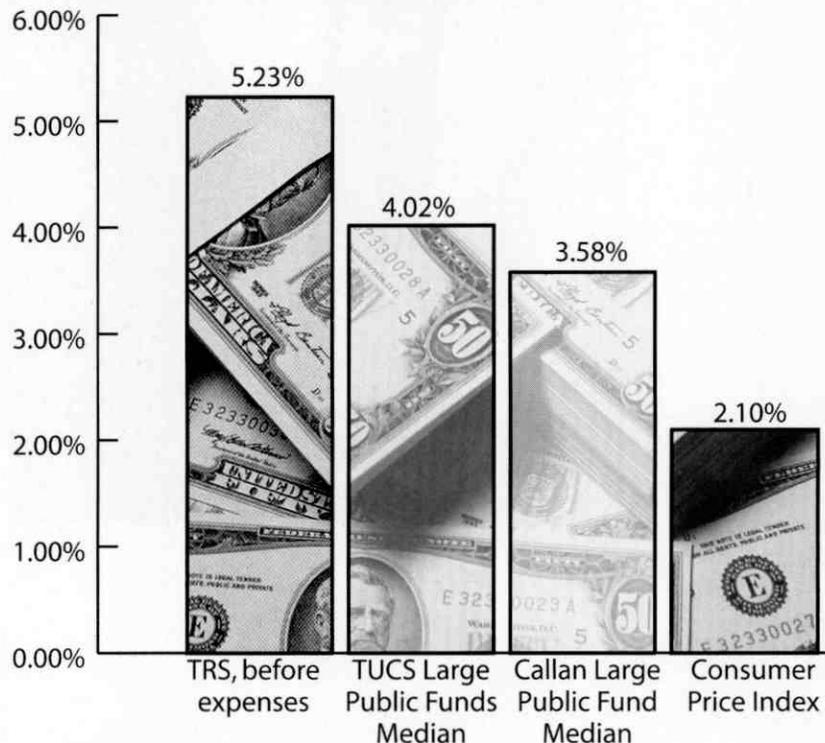
Following nine months of erratic performance by the major stock indices, the well-positioned TRS investment portfolio benefited from improved market conditions. By preserving capital during difficult times and fine-tuning our investment strategy, TRS reported an impressive 4.9 percent overall return for FY03, ranking in the top 16 percent of large public pension funds ranked by Callan Associates. The 4.9 percent figure is net of all investment fees and expenses. The 2003 performance placed TRS in the top quartile of the Wilshire Trust Universe Comparison Service (TUCS) for the one-, three-, five-, and 10-year periods.

Total returns in FY03 exceeded \$1.0 billion.

For the second consecutive year, annual TRS returns have outperformed approximately 84 percent of the large public funds.

Financial analysts most commonly use returns before expenses to assess overall performance. Using this approach, TRS at 5.2 percent substantially outperformed the median return of 3.9 percent.

Return Comparison year ended June 30, 2003



Source: Callan Associates, Wilshire Associates

The portfolio is fully diversified across different asset classes. 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.

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, 2003, TRS's total investments, including accrued investment income, at market value totaled \$24,101,254,403.

TRS's 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, 2002 through June 30, 2003. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2003. 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, 2003

Total Fund Market Value	\$24.101 billion
One-Year Return (net of fees)	4.9%
Five-Year Return (net of fees)	3.6%
10-Year Return (net of fees)	8.4%
Percent Externally Managed	100.0%
Number of External Managers	69
Custodian	The Northern Trust Company
General Consultant	Callan Associates Inc.

As of December 31, 2002, TRS is ranked 41st out of all 200 plan sponsor funds in the United States, including corporate, government, and endowment funds. Rankings are based on market value of total assets, as submitted to *Pensions & Investments*.

FUND PERFORMANCE VS. BENCHMARKS AND MARKET VALUES

As of June 30, 2003, TRS's total investments, including accrued investment income, at market value totaled \$24.101 billion, an increase of \$923 million from last year.

A summary of holdings and various assets is discussed throughout the Investments 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 5.2 percent, gross of fees, and 4.9 percent, net of fees, for the one-year period ending June 30, 2003. The following Performance Summary table 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 FY03 surpassed the policy index return for the year ended June 30, 2003. The total return for FY03, 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 5.0 percent. TRS did, however, outperform the real rate of return expectation for the longer term, 10-year period.

Performance Summary (Net of fees)

Asset Class/Index	2003	Years ended June 30				Annualized at 6/30/03		
		2002	2001	2000	1999	3 Years	5 Years	10 Years
TRS Total Fund	4.9%	(3.2%)	(4.2%)	10.6%	10.8%	(0.9%)	3.6%	8.4%
TRS Weighted Policy Index	3.9	(4.2)	(6.8)	9.7	11.5	(2.4)	2.6	8.1
CPI (Inflation)	2.1	1.1	3.2	3.7	2.0	2.1	2.4	2.4
TRS Equity - U.S.	0.5	(15.2)	(12.0)	6.5	17.1	(9.1)	(1.3)	8.7
Russell 3000 Index	0.8	(17.2)	(13.9)	9.6	20.1	(10.5)	(1.1)	9.7
TRS Fixed Income*	10.7	9.7	7.2	3.7	4.0	9.2	7.0	7.2
TRS Weighted Fixed Income Index	11.1	10.0	7.2	4.3	3.3	9.4	7.2	7.0
Lehman Bros. Aggregate Index	10.4	8.6	11.2	4.6	3.1	10.1	7.5	7.2
TRS Equity - International	(5.2)	(6.8)	(19.5)	19.9	8.4	(10.7)	(1.6)	4.1
Non-U.S. Equity Index	(4.2)	(8.2)	(23.8)	18.1	10.3	(12.5)	(2.8)	3.1
TRS Real Estate	8.8	2.4	9.8	8.8	13.5	6.9	8.6	10.5
Real Estate Property Index	7.7	5.6	11.2	11.6	12.8	8.2	9.8	9.6
TRS Private Equity	(11.4)	(12.7)	(5.4)	137.7	22.7	(9.9)	16.4	25.7
Russell 3000 Index + 3.0%	3.8	(14.7)	(11.3)	12.6	23.1	(7.7)	1.9	13.0
TRS Short-Term Investments	1.5	2.7	6.2	5.9	5.4	3.4	4.3	n/a
ML 91-Day Mark to Markets Index	1.5	2.7	5.9	5.5	4.9	3.3	4.1	n/a
90-Day T-Bill Index	1.3	2.2	5.4	5.6	4.7	2.9	3.8	n/a

* During FY03, the U.S. fixed income asset class was combined with the international fixed income asset class to create a total fixed income asset class. The benchmark assigned to total fixed income is the Lehman Brothers Aggregate Index. The TRS fixed income returns provided are the combined U.S. fixed income and international fixed income returns for prior periods and the current fixed income return. Shown below are the yearly returns for the previous benchmarks.

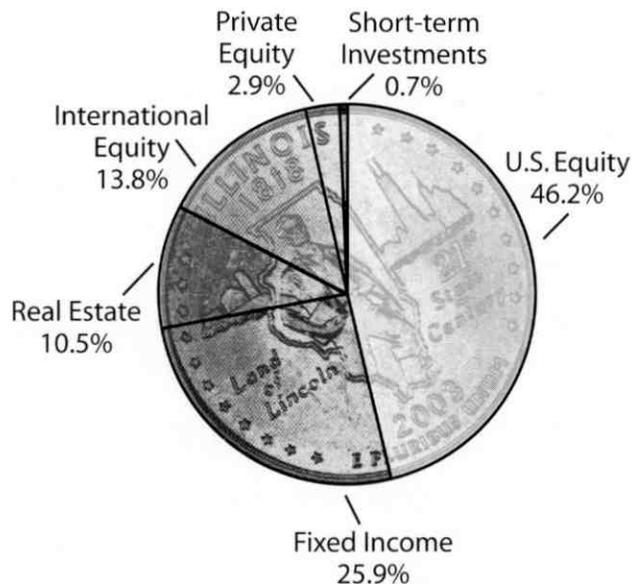
Asset Class/Index	2003	Years ended June 30			
		2002	2001	2000	1999
TRS Fixed Income - U.S.*	-	8.1	11.3	4.4	3.9
Salomon BIG Index	-	8.5	11.3	4.5	3.1
TRS Fixed Income - International*	-	15.9	(7.7)	(0.7)	4.3
Non-U.S. Bond Index	-	15.8	(7.5)	2.4	4.9

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.

Strategic Allocation



TRS's asset allocation, adopted in 2002, resulted in a shift in assets from fixed income and international equity to real estate, private equity, and domestic equity. TRS has 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 implemented in a very measured fashion. Interim targets, as reflected in the table on the following page, were established for FY03. As of June 30, 2003, all asset classes were at or very near these interim targets. The asset mix is periodically compared to the policy targets to determine when rebalancing of the fund or changes to the interim policy targets is necessary. TRS anticipates reaching the asset allocation targets to real estate in FY04 and to private equity in FY06.

The Strategic Investment Listing 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.

**Strategic Investment Listing
Allocation Targets vs. Total Assets**

	6/30/03	FY03			FY02	
	Total Fund \$ Million	Actual Percent	Interim Target	Policy Target	Actual Percent	Policy Target
U.S. Equities	\$10,635	46.2%	44%	41%	34.7%	41%
Fixed Income	5,971	25.9	26	23	35.0	23
International Equities	3,172	13.8	15	15	14.9	15
Real Estate	2,412	10.5	11	14	9.9	14
Private Equity	669	2.9	3	6	2.7	6
Short-Term Investments	168	0.7	1	1	2.8	1
Pending Settlements/Expenses*	1,074	NA	NA	NA	NA	NA
Total Fund	\$24,101	100.0%	100%	100%	100.0%	100%

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

Note: During FY03, the U.S. fixed income asset class was combined with the international fixed income asset class to create a total fixed income asset class.

PORTFOLIO SECURITIES SUMMARY

The Portfolio Securities Summary table contains a detailed list of security types. The amounts in this table differ from the allocation percentages shown in the *Strategic Investment Listing*. The strategic listing represents assets assigned to managers within each asset class, whereas the securities summary represents types of financial instruments. The differences are explained by the types of investments each manager is allowed to hold within their 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 principal differences between the strategic investment approach and the Portfolio Securities Summary area:

- The PIMCO StocksPlus assignment is treated as equity on the *Strategic Investment Listing*, but is categorized as bonds and corporate obligations in the securities summary. StocksPlus is an enhanced index product that uses both fixed income and futures to achieve an enhanced equity return.
- Short-term investments included within a manager's portfolio are categorized in the same way as the manager's primary assignment on the strategic investment listing. In the securities summary, these investments are categorized as short-term investments.

Portfolio Securities Summary

	2003		2002	
	Market Value	% of Total	Market Value	% of Total
Bonds, Corporate Notes, and U.S. Government Obligations				
U.S. Government	\$965,037,934	4.0%	\$1,138,944,044	4.9%
Federal Agency	3,206,666,169	13.3	3,046,696,328	13.1
Municipals (Taxable)	49,668,028	0.2	16,743,344	0.1
Total Government Obligations	4,221,372,131	17.5	4,202,383,716	18.1
Corporate Obligations	2,806,907,117	11.6	2,572,684,208	11.1
Foreign Debt Obligations	286,570,409	1.2	2,020,171,317	8.7
Total Bonds, Corporate Notes, and Government Obligations	7,314,849,657	30.3	8,795,239,241	37.9
Equities				
Common Stock - U.S.	9,247,447,414	38.4	6,732,052,482	29.1
Preferred Stock-U.S.	43,419,939	0.2	52,445,277	0.2
Common Stock - International	3,279,688,612	13.6	3,293,632,161	14.2
Preferred Stock-International	78,796,658	0.3	48,518,279	0.2
Total Equities	12,649,352,623	52.5	10,126,648,199	43.7
Short-Term Investments*	1,032,463,461	4.3	1,435,410,212	6.2
Foreign Currency	23,905,527	0.1	23,955,458	0.1
Private Equity	668,389,537	2.8	594,153,359	2.6
Real Estate Equity	2,412,293,598	10.0	2,202,925,998	9.5
TRS Total Portfolio	\$24,101,254,403	100.0%	\$23,178,332,467	100.0%

* Includes accrued income and dividends totaling \$165,638,540 and \$233,414,394 for FY03 and FY02, respectively. Also includes U.S. dollar cash held within individual portfolios.

Note: During FY03, the U.S. fixed income asset class was combined with the international fixed income asset class to create a total fixed income asset class. The benchmark assigned to the total fixed income is the Lehman Brothers Aggregate Index. Total bonds, corporate notes, and government obligations are categorized according to the Lehman Brothers Aggregate Index.

SECURITIES HOLDINGS (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.

Securities Holdings (for years ending June 30)

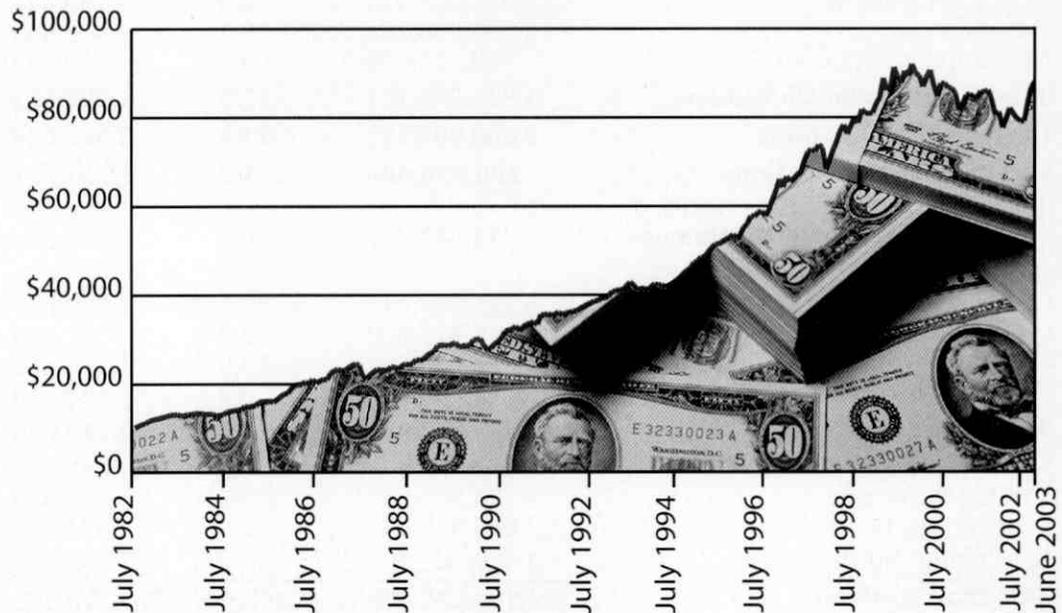
Asset Type	2003	2002	2001	2000	1999
Bonds, Corporate Notes, and Government Obligations	30.3%	37.9%	36.4%	35.4%	39.0%
Equities - International	13.9	14.4	19.2	19.9	11.6
Equities - U.S.	38.6	29.3	26.3	26.1	32.5
Private Equity	2.8	2.6	2.8	3.5	2.6
Real Estate Equity	10.0	9.5	10.0	9.7	10.7
Short-Term Investments	4.4	6.3	5.3	5.4	3.6
Totals	100.0%	100.0%	100.0%	100.0%	100.0%

Source: TRS

Note: During FY03, the U.S. fixed income asset class was combined with the international fixed income asset class to create a total fixed income asset class. TRS's allocation percentage of bonds for prior years is the combined total of U.S. bonds and international bonds.

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 21 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, 2003.

U.S. EQUITY

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, to share 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 0.5 percent, net of fees, compared to the Russell 3000 Index return of 0.8 percent. One, three-, five-, and 10-year comparisons to this benchmark are noted below:

	FY03	3-Year	5-Year	10-Year
TRS, net of fees	0.5%	(9.1%)	(1.3%)	8.7%
Russell 3000 Index	0.8	(10.5)	(1.1)	9.7

At June 30, 2003, 46.2 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 FY03.

The top 10 domestic equity holdings of active managers at June 30, 2003, are listed below and represent 5.6 percent of total U.S. equity holdings. Additional securities of the firms listed below are included in the commingled index funds managed by State Street Global Advisors.

Top 10 U.S. Equity Holdings

Firm	Market Value
Pfizer, Inc.	\$89,024,611
Citigroup, Inc.	65,012,686
General Electric Co.	60,526,272
Hewlett Packard, Co.	59,986,572
Microsoft Corp.	57,783,459
McDonalds Corp.	42,979,498
ChevronTexaco Corp.	42,963,549
Fannie Mae	42,090,653
AOL Time Warner, Inc.	30,507,445
Cisco Systems, Inc.	28,522,542
Total	<u><u>\$519,397,287</u></u>

Source: *The Northern Trust Company*

As of June 30, 2003, TRS employed 18 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	
State Street Global Advisors (11/98)	\$4,396,592,079
Large Cap Value	
Advisory Research, Inc. (9/02)	51,041,794
Bear Stearns Asset Management, Inc. (01/03)	473,062,253
Boston Partners Asset Management, LP (01/03)	455,728,103
Dodge & Cox (4/00)	935,799,070
EARNEST Partners (2/02)	107,040,223
Great Lakes Advisors, Inc. (9/02)	50,047,800
Enhanced Core	
Pacific Investment Management Company, LLC (8/91)	983,930,703
Large Cap Growth	
Geewax, Terker & Company (3/00)	437,471,109
Holland Capital Management (2/02)	104,517,650
MFS Institutional Advisors, Inc. (10/02)	504,826,621

Domestic Equity (continued)

Small Cap Growth

Neuberger Berman, LLC (3/00) 217,306,700

Small Cap Value

Ariel Capital Management, Inc.(8/01) 251,642,822

Small/Mid Cap Core Index

State Street Global Advisors (6/02) 280,096,513

Small/Mid Cap Growth

Delaware Investment Advisers (12/02) 354,543,395

J. & W. Seligman & Company, Inc. (1/03) 170,877,708

Mazama Capital Management, Inc. (01/03) 196,614,899

Small/Mid Cap Value

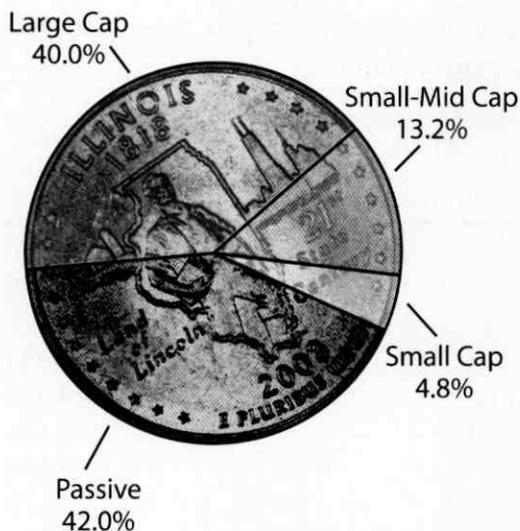
LSV Asset Management (12/02) 344,882,764

NorthPointe Capital (8/01) 318,509,107

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.

Capitalization



Market Style



As of June 30, 2003, the restructuring of the TRS U.S. equity portfolio had been completed to align with the asset allocation and manager structure adopted in April 2002. An interim target of 44 percent for U.S. equities was approved by the Board of Trustees in December 2002. The interim target will be decreased over time to 41 percent during FY06. Investment firm searches were conducted for large cap growth, large cap value, small/mid cap growth, and small/mid cap

value active management strategies. The searches were completed in December 2002 and the last of the new managers was funded in January 2003.

The one-year return as of June 30, 2003, as measured by the Russell 3000 Index, was 0.8 percent. Investors cautiously looked for signs of a U.S. economic recovery in the quarters ended March 2003 and June 2003. While favorable employment data had not materialized, productivity gains and lower interest rates encouraged by the Federal Reserve Bank provided good news to stock buyers. In addition, the federal tax cut fueled increased consumer spending. Another positive was the lower dividend tax rate, which gave public companies the incentive to raise dividends.

STATISTICAL DATA

The following three tables convey various statistics, including attribution and sector analysis, of the U.S. equity portfolio as compared to TRS's domestic equity benchmark, the Russell 3000 Index. The Russell 3000 Index is a broad market benchmark representing 98 percent of the investable U.S. equity market.

U.S. Equity Profile as of June 30, 2003

Characteristic	TRS	Russell 3000 Index
Market Cap (billions)	\$41.7	\$30.9
P/E	19.1x	21.2x
Dividend Yield	1.7%	1.7%
Beta	1.0	0.9
5-Year EPS Growth	10.8%	8.5%
Price/Book Ratio	2.6x	2.8x

Source: The Northern Trust Company

U.S. Equity – Diversification by Industry Sector for Year Ending June 30, 2003

Sector	Weighting TRS Domestic Equity	Weighting Russell 3000 Index	Overweight/ (Underweight)
Autos/Transportation	2.7%	2.3%	0.4%
Consumer Discretionary	17.1	14.3	2.8
Consumer Durables	5.5	7.1	(1.6)
Energy	2.1	1.8	0.3
Financial Services	21.9	22.7	(0.8)
Health Care	14.1	15.2	(1.1)
Integrated Oils	3.7	3.9	(0.2)
Materials/Processing	4.3	3.6	0.7
Miscellaneous/Other	3.9	4.0	(0.1)
Producer Durables	5.0	3.9	1.1
Technology	13.5	13.7	(0.2)
Utilities	6.2	7.5	(1.3)
Total	100.0%	100.0%	

Source: The Northern Trust Company

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, to share 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, 2003, the international equity asset class returned (5.2) percent, net of fees, 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 (4.2) percent. One, three-, five-, and 10-year comparisons to this benchmark are in the following table:

	FY03	3-Year	5-Year	10-Year
TRS, net of fees	(5.2%)	(10.7%)	(1.6%)	4.1%
Non-U.S. Equity Index	(4.2)	(12.5)	(2.8)	3.1

At June 30, 2003, 13.8 percent of the TRS investment portfolio was assigned to international equity managers. The international equity managers employed by TRS during FY03 used fully active or index management strategies. Listed below are the top 10 international equity holdings of active managers as of June 30, 2003. These securities represent 10.8 percent of the total international equity holdings. Additional securities of the firms listed below are included in the commingled index funds managed by State Street Global Advisors.

Top 10 International Equity Holdings

Firm	Country	Market Value (USD)
Nestle	Switzerland	\$48,919,670
Telefonica	Spain	41,981,223
GlaxoSmithKline	United Kingdom	40,181,426
ING Groep	Netherlands	40,009,877
Novartis AG	Switzerland	36,631,527
Total SA	France	34,707,061
Canon, Inc.	Japan	32,259,255
Vodafone Group	United Kingdom	31,335,867
Banca Intesa	Italy	29,031,536
Royal Dutch Petroleum	Netherlands	27,429,120
Total		\$362,486,562

Source: The Northern Trust Company

As of June 30, 2003, TRS employed nine 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	
State Street Global Advisors (5/99)	\$59,354,270
Active Core – Return Focused	
Artisan Partners (03/03)	242,055,819
Brandes Investment Partners, LLC (2/98)	488,127,066
Delaware International Advisers Ltd. (4/93)	482,336,886
Harris Associates LP (03/03)	248,222,518
Active Core – Benchmark Aware	
Capital Guardian Trust Company (2/98)	467,638,321
Fidelity Management Trust Company (06/03)	457,499,571
INVESCO Global Asset Management (N.A.), Inc. (6/00)	458,376,248
Emerging Markets	
Grantham, Mayo, Van Otterloo & Co., LLC (03/03)	267,191,785

DISCUSSION OF INTERNATIONAL EQUITY

The target for international equities was decreased from 20 percent to 15 percent with the adoption of the new asset allocation and international equity manager structure in April 2002. The International Equity Manager Structure table provides a further breakdown of the styles within the international equity portfolio.

International Equity Manager Structure

Target	
International Equity Total	15.0%
Subclasses	
Passive Non-U.S.	2.0
Active Core	90.0
Emerging Markets	8.0
Total	100.0%

As of June 30, 2003, the restructuring of the TRS international equity portfolio had been completed to align with the asset allocation and manager structure. Investment firm searches were conducted for active core and emerging market managers. The searches were completed in February 2003 and the managers were funded in March 2003.

The one-year return as of June 30, 2003, as measured by the MSCI All Country Ex.-U.S. Free Index was (4.2) percent. Global economic and political uncertainty led to weaknesses in the international equity markets in 2002 and 2003. However, the end of the war in Iraq, the dissipation of the SARS epidemic, and the general feeling of optimism in the U.S. sparked a substantial rally in the international equity markets for the quarter ended June 30, 2003. In that quarter alone, the

index produced a solid 19.8 percent return. With continued signs of strength in the global economy, the outlook for international equity markets remains positive.

PORTFOLIO CHARACTERISTICS

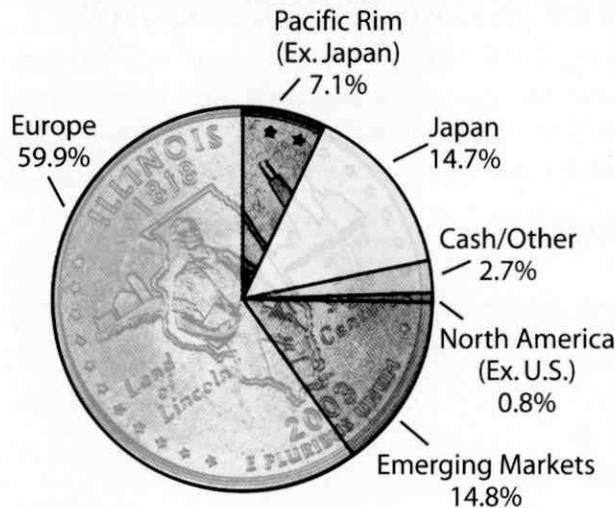
The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio.

International Equity Fundamental Characteristics

Characteristic	TRS	Non-U.S. Equity Index
Market Cap (billions)	\$26.9	\$35.4
P/E	26.7x	22.6x
Dividend Yield	2.9%	2.8%
Price/Book Ratio	1.6x	1.5x

Source: The Northern Trust Company

Regional Allocation Comparison June 30, 2003 TRS International Equity Exposure



FIXED INCOME

Fixed income is typically a long-term security that represents a contractual obligation of debt or a loan with a corporation, government, agency, or municipality. The security pays a rate of return or interest until the bond matures, at which time the principal amount is repaid to the bondholder. Fixed income instruments are traded on numerous primary and secondary markets.

For the year-ended June 30, 2003, TRS fixed income managers earned 10.7 percent, net of fees, compared to the Lehman Brothers Aggregate Index return of 10.4 percent.

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

	FY03	3-Year	5-Year	10-Year
TRS, net of fees	10.7%	9.2%	7.0%	7.2%
Lehman Brothers Aggregate Index	10.4	10.1	7.5	7.2

During FY03, TRS conducted a study on the fixed income portfolio to determine the best way to allocate funds across managers in a manner that would enhance performance and maintain a reasonable level of risk while providing broad exposure to the fixed income market.

As of June 30, 2003, TRS employed nine fixed income managers, as identified in the Fixed Income Managers and Assets Under Management table.

**Fixed Income Managers and Assets Under Management
(Inception date of account)**

Core Plus

BlackRock Financial Management, Inc. (6/97)	\$1,198,650,261
Pacific Investment Management Company, LLC (7/82)	1,198,976,611
UBS Global Asset Management (Americas), Inc. (4/03)	586,705,128

Core

EARNEST Partners Limited, LLC (2/02)	144,095,922
MDL Capital Management, Inc. (2/02)	138,490,115
Morgan Stanley Investment Management, Inc. (3/98)	594,264,585
Payden & Rygel (6/97)	599,102,859
Weiss, Peck & Greer Investments/Robeco USA (12/91)	599,116,105

Index

State Street Global Advisors (4/03)	893,847,172
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The following table lists the top ten fixed income holdings as of June 30, 2003. These securities represent 16.3 percent of the assets assigned to fixed income managers. Additional securities are held in the commingled index fund managed by State Street Global Advisors.

Top 10 Fixed Income Top 10 Income Holdings

Security / Position	Rate	Maturity Date	Market Value
Federal National Mortgage Association	5.00%	07/15/2003	\$176,142,545
Federal National Mortgage Association	6.50	06/19/2005	122,394,064
Federal National Mortgage Association	6.00	07/15/2003	108,352,630
Federal National Mortgage Association	6.00	08/15/2003	99,629,760
U.S. Treasury Notes	3.63	05/15/2013	97,366,722
Federal Home Loan Mortgage Corp. Gold	6.50	07/15/2033	87,828,983
U.S. Treasury Notes	2.00	11/30/2004	86,583,368
Federal Home Loan Bank Discount Note	0.95	07/01/2003	71,500,000
Federal National Mortgage Association Discount Notes	N/A	07/14/2003	64,394,676
Federal Home Loan Mortgage Corp. Discount Note	N/A	07/03/2003	56,796,990
Total			<u>\$970,989,738</u>

Source: The Northern Trust Company

DISCUSSION OF FIXED INCOME

At June 30, 2003, 25.9 percent of TRS's investment portfolio was assigned to fixed income managers, nearly equating the interim fixed income target of 26.0 percent. TRS employed fixed income managers to use fully active or index management strategies during FY03.

In conjunction with the new asset allocation adopted by the TRS Board of Trustees in 2002, the U.S. fixed income asset class was combined with the international fixed income asset class to create a total fixed income asset class. The implementation of combining the asset classes occurred during FY03.

The majority of the fixed income markets produced excellent returns during FY03. The one-year net of fees return was 10.7 percent, as compared to the index return of 10.4 percent. Longer-term, the portfolio slightly underperformed the index for the three- and five-year periods. This is due in large part to exposure to international fixed income on a strategic basis, combined with the strong dollar which negatively impacted the overall portfolio in 2000 and 2001. TRS managers were overweight in the credit and high yield markets in the latter part of 2002, which rebounded nicely in 2003.



Following a strong year in the corporate/credit, mortgage, and sovereign sectors during FY03, TRS fixed income managers have increased exposures in the credit, municipality, and non-dollar sectors in anticipation of a further economic recovery. Anticipating rising interest rates, TRS managers have begun to change their durations and increase average coupons to reflect their changing views on the magnitude and direction of future inflation and interest rate moves.

STATISTICAL DATA

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

Fixed Income Profile

Characteristic	TRS	Lehman Brothers Aggregate Bond Index
Average Maturity	6.3 years	6.7 years
Effective Duration	3.9 years	4.0 years
Average Coupon	5.4%	5.8%
Average Quality Rating	AA1	AA1
Yield to Maturity	3.5%	3.6%

Source: The Northern Trust Company, Bloomberg, and TRS

Fixed Income Managers

Sector Weighting June 30, 2003	TRS	Lehman Brothers Aggregate Bond Index	Overweight/ (Underweight)
U.S. Treasury	24.1%	21.9%	2.2%
U.S. Federal Agency	6.5	12.2	(5.7)
U.S. Credit	22.9	27.4	(4.5)
Mortgage-Backed Securities	34.8	36.7	(1.9)
Asset Backed Securities	3.5	1.8	1.7
Other	8.2	0.0	8.2
Total	100.0%	100.0%	

Source: Lehman Brothers and TRS

Diversification by Quality Rating for Fixed Income Manager Portfolios

Moody's Quality Rating	06/30/03	06/30/02*
Agency	43.1%	34.6%
Treasury	14.2%	31.1%
Aaa	11.6%	12.0%
Aa1 through Aa3	14.4%	2.2%
A1 through A3	6.3%	9.0%
Baa1 through B3	7.9%	10.1%
Other**	2.5%	1.0%
Total	100.0%	100.0%

* FY02 has been restated to include foreign debt obligations.

** Other includes under B3 and NR ratings.

Source: The Northern Trust Company and TRS

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 and 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 one- and three-year periods ending June 30, 2003, private equity was outperformed by its benchmark, the Russell 3000 Index + 3.0 percent, by 15.2 percent and 2.2 percent, respectively. The asset class maintains strong long-term returns, outperforming the benchmark by 14.5 percent and 12.7 percent for the five- and 10-year periods, respectively. One-, three-, five-, and 10-year comparisons to this benchmark are noted in the following table.

	FY03	3-Year	5-Year	10-Year
TRS, net of fees	(11.4)%	(9.9)%	16.4%	25.7%
Russell 3000 Index + 3.0%	3.8	(7.7)	1.9	13.0

At June 30, 2003, 2.9 percent of TRS's investment portfolio was assigned to the private equity asset class. As of June 30, 2003, TRS invested in numerous private equity partnerships/funds.

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

Private Equity Partnerships and Assets Under Management (Inception date of account)

Buyout

Castle Harlan Partners IV, LP (5/03)	\$5,196,737
DLJ Merchant Banking Partners, LP (9/92)	7,529,636
DLJ Merchant Banking Partners II, LP (3/97)	50,541,170
DLJ Merchant Banking Partners III, LP (9/00)	77,717,119
Evercore Capital Partners II, LP (4/03)	7,495,357
GTCR Fund VII/VIIA, LP (3/00)	39,670,295
KKR 1996 Fund, LP (5/97)	63,328,190
Mesirow Capital Partners VII, LP (6/97)	5,598,072
Thayer Equity Investors V, LP (5/03) *	
Trivest Fund II, Ltd. (6/96)	21,644,200
VS&A Communications Partners II, LP (9/95)	15,256,168
WPG Corporate Development Associates V, LP (11/97)	15,087,218

Special Situations

Apollo Investment Fund V, LP (5/01)	\$54,261,795
Banc Fund VI, LP (12/02)	15,649,663
Carlyle Riverstone Energy Partners II, LP (1/03)	22,240,074
TCW/Latin America Private Equity Partners, LP (5/97)	5,163,738
Warburg Pincus International Partners, LP (9/00)	24,157,591

Subordinated Debt

William Blair Mezzanine Capital Fund II, LLC (5/97)	\$30,271,828
William Blair Mezzanine Capital Fund III, LLC (1/00)	35,440,813

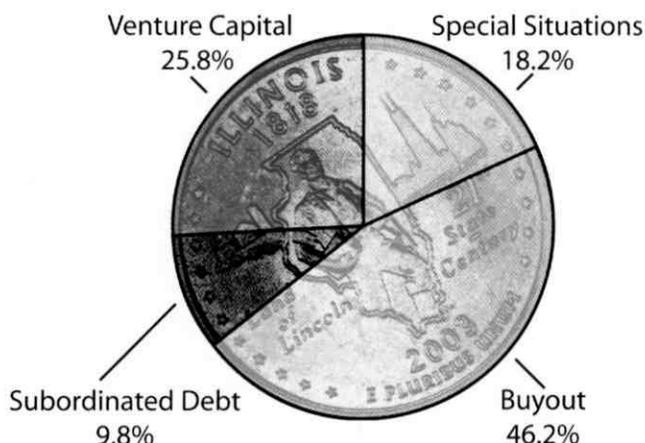
Venture Capital

Apex Investment Fund III, LP (6/96)	\$3,891,006
Carlyle Venture Partners II, LP (10/02)	28,928,448
Evergreen Partners IV, LP (12/02)	2,792,137
Frontenac VI, LP (6/93)	393,540
Penman Private Equity & Mezzanine Fund, LP (10/94)	7,137,181
Periscope Fund I (6/97)	626,497
21st Century Communication T-E Partners, LP (2/95)	7,731,820
SCP Private Equity Partners, LP (5/97)	13,442,268
SCP Private Equity Partners II, LP (6/00)	37,833,394
VantagePoint Venture Partners IV, LP (6/00)	7,608,868
WPG Enterprise Fund, LP (11/89)	1,257,984
WPG Enterprise Fund II, LP (8/94)	15,617,788
WPG Enterprise Fund III, LP (3/97)	45,527,077

* Thayer Equity Investors account was not funded at June 30, 2003.

As of June 30, 2003, the breakdown of the private equity subclasses were as follows:

Private Equity Breakdown



Source: TRS

DISCUSSION OF PRIVATE EQUITY

In April 2003, the TRS Board of Trustees adopted a target for private equities of 6.0 percent. The chart below provides a further breakdown of the targeted style allocation adopted by the TRS Board.

Private Equity Styles

Target	
Private Equity Total	6.0%
Subclasses	
Buyout	35.0
Subordinated Debt	10.0
Distressed Debt	5.0
Venture Capital	35.0
Special Situations	15.0
Total	100.0%

As of June 30, 2003, the TRS private equity asset class was underweight relative to its revised 6 percent target. Given the characteristics of private equity and the availability of appropriate partnerships, increases in allocation to the asset class must be accomplished over longer periods of time. TRS will continue its efforts to prudently implement the private equity structure and strive to reach the 6 percent target over a three- to four-year period.

While the one-year return for private equity as of June 30, 2003, was (6.9) percent, according to Thomson Venture Economics and the National Venture Capital Association, there were significant signs of strength in the second quarter of 2003. The buyouts and subordinated debt subclasses added positive returns for the TRS private equity portfolio over the period, and venture capital, while still negative

over the year, rebounded sharply in early 2003. Expectations of continued strong deal volume, tight credit markets and improving public markets lead to an optimistic view within these subclasses in both the short and long term.

REAL ESTATE

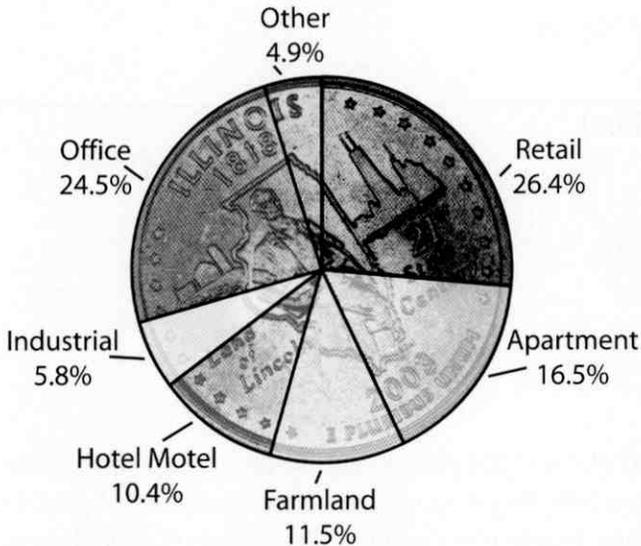
Real estate investments are direct investments or ownership in land and all physical property related to it, including but not limited to, residential, farmland, hotels/motels, industrial, office space, and retail. Additionally, there are limited partnerships that directly purchase real estate investments 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 an 8.8 percent rate of return during FY03 as compared to the National Council of Real Estate Investment Fiduciaries Index (identified below as Real Estate Property Index) return of 7.7 percent. One-, three-, five-, and 10-year comparisons to this benchmark are noted in the following table:

	FY03	3-Year	5-Year	10-Year
TRS, net of fees	8.8%	6.9%	8.6%	10.5%
Real Estate Property Index	7.7	8.2	9.8	9.6

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

Real Estate Holdings by Type June 30, 2003



As of June 30, 2003, 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

Capital Associates/Bear Stearns Realty Partners(3/90)	\$374,732
Capri/Capital Advisors, LLC (12/91)	817,396,723
Cozad/Westchester Asset Management, Inc. (5/91)	310,592,639
Commonwealth Realty Advisors, Inc. I (9/91)	473,687,324
Commonwealth Realty Advisors, Inc. II (11/92)	101,006,802
Commonwealth Realty Advisors, Inc. III (5/03)	20,862,520
Koll Bren Schreiber Realty Advisors I (6/93)	104,986,141
Koll Bren Schreiber Realty Advisors II (5/96)	18,474,631
LPC Realty Advisors I, Ltd. (7/92)	175,408,195
Stone-Levy, LLC (4/95)	250,210,010

Closed End Accounts

Capri/Capital Apartment Fund III (3/90)	\$42,101,007
Carlyle Europe Real Estate Partnership, LP	24,615,289
DLJ Real Estate Capital Partners, Inc. (3/96)	20,716,809
JBC Opportunity Fund II, LP	18,756,383
Heitman Capital Management* (7/85)	63,279
RREEF Capital II, LLC (11/96)	33,041,978

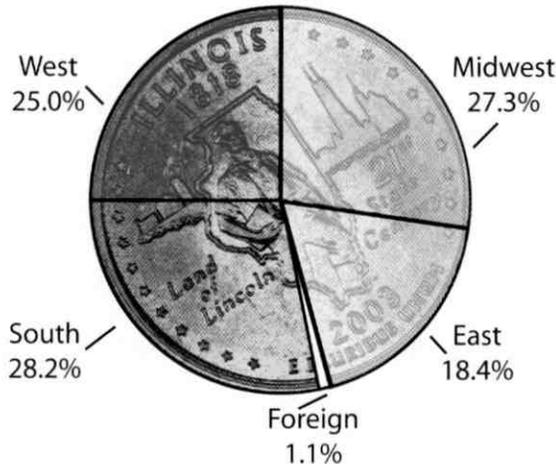
* Fund in liquidation mode

DISCUSSION OF REAL ESTATE

During FY03, the TRS Board of Trustees, with the assistance of Callan Associates, developed the implementation strategy for funding the real estate portfolio to its long-term target allocation of 14.0 percent.

The TRS real estate portfolio has the following geographical representation:

Geographic Diversification of Real Estate Holdings June 30, 2003



The fundamental objective of TRS's real estate portfolio is to increase the total portfolio's long-term rate of return and to reduce year-to-year total portfolio volatility. TRS's investments are diversified by property type and by location. Real estate investment focuses on existing high quality properties located in economically diverse metropolitan areas that demonstrate predictable income flows. Strategies also emphasize property selections in areas where a reasonable expectation of a broad pool of potential buyers exists when TRS decides to sell an individual asset.

BROKERAGE ACTIVITY

The following table shows the top 50 listed brokers utilized by TRS external equity managers for the years ended June 30, 2003, and 2002. TRS utilizes a commission recapture and soft dollar program. For the year-ended June 30, 2003, TRS recaptured over \$2.0 million in commissions that were reinvested back into the fund. In addition, TRS received \$685,390 in soft dollar credits that were used to pay for fund research and consulting expenses. These amounts reduced the overall listed commissions to \$17.635 million, or by 13.3 percent. During FY03, TRS spent \$890,931 of soft dollar commission credits and recaptured commissions. At June 30, 2003, TRS had a remaining soft dollar credit balance of \$490,512. The commission credits and expenditures are not reflected in the financial statements.

Top 50 Brokers Used by TRS Managers

<u>Broker</u>	<u>FY03 Commission</u>	<u>FY02 Commission</u>
Merrill Lynch & Co., Inc.;		
Merrill Lynch Pierce Fenner Smith;		
Merrill Professional Clearing Corp.;		
The Citation Group	\$2,125,870	\$1,445,924
Goldman Sachs & Co. (Worldwide)	1,527,749	1,349,225
Deutsche Bank Securities (Worldwide)	982,543	302,494
Morgan Stanley (Worldwide)	942,766	670,908
Citigroup Global Markets (Worldwide)	868,382	644,928
Bank of New York (Worldwide)	780,847	79,248
Lehman Brothers, Inc. (Worldwide)	750,500	383,113
Union Bank of Switzerland	710,691	574,980
Credit Suisse First Boston (Worldwide)	579,191	680,536
J.P. Morgan Securities, Inc. (Worldwide)	444,574	400,222
Frank Russell, Inc. (Worldwide)	379,612	187,710
Lynch, Jones & Ryan	371,042	522,645
Jefferies & Company	301,803	132,293
Banc of America/Montgomery Division	279,461	69,016
PXP Securities	252,694	0
Bear Stearns & Co. (Worldwide)	246,694	264,215
Legg Mason Wood Walker, Inc.	241,259	106,109
HSBC (Worldwide)	209,330	140,662
Investment Technology Group, Inc.	202,115	272,526

Broker	FY03 Commission	FY02 Commission
ING Barings (Worldwide)	193,899	56,841
CIBC World Markets	193,352	0
Sanford C. Bernstein & Co.	185,965	100,224
Prudential Securities, Inc. (Worldwide)	185,195	79,578
Charles Schwab	184,597	15,247
SG Cowen & Company	180,397	58,591
Robert W. Baird & Company, Inc.	174,180	31,996
Loop Capital Markets	167,313	109,684
Autranet, Inc.	153,878	36,988
Broadcort Capital Corp. (Worldwide)	149,387	17,560
SG Securities	148,175	46,462
B Trade Services	143,004	13,709
Dresdner Kleinwort Wasserstein Securities	137,786	13,229
BHC Securities	127,754	0
Morgan Greenfell & Co.	127,318	237,413
ABN AMRO (Worldwide)	126,552	126,204
William Blair & Co.	121,740	49,366
Bridge Trading Company	115,121	118,499
Liquidnet, Inc.	110,882	10,956
Janney Montgomery Scott	110,597	63,174
Instinet (Worldwide)	106,440	98,649
Cheuvreux de Virieu (Worldwide)	104,876	158,799
McDonald and Company	102,768	48,758
SBC Warburg & Co. (Worldwide)	102,257	88,929
Wachovia Securities	100,654	778
Miller Tabak Hirsch	100,463	45,643
Abel Noser Corporation	99,332	45,939
RBC Dain Rauscher	99,290	0
Exane, Inc. (Worldwide)	97,935	28,870
First Union Capital Markets Clearance	96,567	40,999
Thomas Weisel Partners	95,606	28,383
All Others (FY03, 230 Brokers)	4,000,568	3,660,923
Totals	<u>\$20,340,971</u>	<u>\$13,659,145</u>

Source: The Northern Trust Company and TRS

EXTERNAL MANAGER FEE PAYMENTS

For the year ended June 30, 2003, fee payments to external managers totaled \$72.271 million, an increase of 13.1 percent from the year ended June 30, 2002. The increase reflects additional allocations to the private equity and real estate asset classes. A summary is provided in the Schedule of Investment Manager Fees table.

Schedule of Investment Manager Fees

Investment Manager/Account	FY03	FY02
Advisory Research, Inc.	\$162,883	\$0
Alliance Bernstein Institutional Investment Mgmt.	530,590	1,239,024
Apex Investment Fund III, LP	578,804	17,867
Apollo Investment Fund V, LP	1,927,785	1,923,093
Ariel Capital Management, Inc.	921,691	714,798
Artisan Partners Limited Partnership	32,792	0
Banc Fund VI, LP	217,723	0
Bear Stearns Asset Management, Inc.	414,702	0
BlackRock Financial Management, Inc.	760,971	1,246,884
Boston Partners Asset Management, LP	390,977	0
Brandes Investment Partners, LLC	2,057,696	2,481,176
Capital Associates/Bear Stearns Realty Partners	14,460	63,473
Capri/Capital Advisors, LLC	3,633,837	3,750,089
Capri Capital Apartment Fund III	244,037	0
Capital Guardian Trust Company	1,896,845	2,380,256
Carlyle Europe Real Estate Partners, LP	962,147	0
Castle Harlan, Inc.	845,304	0
Chicago Capital Management, Inc.	288,312	639,877
Commonwealth Realty Advisors, Inc.	2,403,433	2,423,324
Cozad/Westchester Asset Management, Inc.	1,699,511	1,367,775
Delaware Investment Advisers	1,001,626	0
Delaware International Advisers, Ltd.	1,293,352	1,327,703
DLJ Merchant Banking Partners, LP	0	0
DLJ Merchant Banking Partners II, LP	492,482	520,279
DLJ Merchant Banking Partners III, LP	1,941,479	2,259,237
DLJ Real Estate Capital Partners, Inc.	346,664	351,702
Dodge & Cox	1,738,574	1,558,012
Dresdner RCM Global Investors, LLC	0	1,102,568
EARNEST Partners, LLC	381,143	105,458
Evercore Partners, Inc.	1,530,137	0
Evergreen IV, LP	781,250	0
Fidelity Management Trust Company	56,266	0
Frontenac VI, LP	60,000	120,000
GE Asset Management, Inc.	0	1,268,943
Geewax, Terker & Company	1,379,137	1,481,689
Grantham, Mayo, Van Otterloo & Co., LLC	515,131	0
Great Lakes Advisors, Inc.	122,677	0
GTCR Fund VII/VIIA, LP	0	0
Harris Associates, LP	380,818	0
Heitman Capital Management	0	51,433
Holland Capital Management, LP	264,638	75,136
INVESCO Global Asset Management (N.A.), Inc.	1,483,422	1,760,227
J. & W. Seligman & Co., Inc.	312,616	0
JBC Opportunity Fund II, LP	520,833	0
Julius Baer Investment Management, Inc.	392,099	849,422
Koll Bren Schreiber Realty Advisors	1,921,156	2,109,664

Investment Manager/Account	FY03	FY02
KKR 1996 Fund, LP	0	702,728
Lincoln Capital Management Co.	0	606,094
LPC Realty Advisors I, Ltd.	1,577,683	2,033,804
LSV Asset Management	878,561	0
Martin Currie, Inc.	1,391,017	1,781,804
Mazama Capital Management, Inc.	489,888	0
MDL Capital Management, Inc.	137,751	38,188
MFS Institutional Advisors, Inc.	559,500	0
Mesirow Capital Partners VII, LP	552,522	747,373
Morgan Stanley Investment Management, Inc.	563,003	2,074,528
Neuberger Berman, LLC	1,404,998	821,974
NorthPointe Capital	1,477,169	934,917
Oak Associates, Ltd.	172,010	520,884
Pacific Investment Management Company, LLC	5,046,923	3,479,419
Payden & Rygel	782,780	771,184
Penman Private Equity & Mezzanine Fund, LP	0	0
Periscope I Fund, LP	23,090	135,000
Progress Investment Management Company	0	723,866
Rogge Global Partners	112,832	843,439
RREEF Capital II, LLC	404,859	403,791
21st Century Communication T-E Partners, LP	92,522	69,785
SCP Private Equity Partners, LP	2,389,770	2,369,141
Smith Whiley & Company	187,500	0
State Street Global Advisors	445,039	744,635
Stone-Levy, LLC	1,108,742	1,151,303
TCW/Latin American Private Equity Partners, LP	519,258	918,050
Thayer Capital Partners	436,170	0
The Carlyle Group	8,262,363	0
The Carlyle Group/Riverstone	1,091,096	0
The Northern Trust Company (Custody)	550,000	675,000
Trivest Fund II, Ltd.	231,249	383,942
UBS Global Asset Management (Americas), Inc.	785,488	1,181,777
VantagePoint Venture Partners IV, LP	0	1,498,109
VS&A Communications Partners II, LP	64,455	117,592
Warburg Pincus International Partners, LP	0	0
WPG Corporate Development Associates V, LP	527,409	602,102
Weiss, Peck & Greer, LLC	895,234	1,045,033
WPG Enterprise Fund, LP	14,139	78,532
WPG Enterprise Fund II, LP	187,541	378,958
WPG Enterprise Fund III, LP	964,461	1,940,015
William Blair Mezzanine Capital Fund II, LLC	201,694	233,585
William Blair Mezzanine Capital Fund III, LLC	842,544	700,809
Total fees paid by TRS	<u>\$72,271,260</u>	<u>\$63,896,470</u>



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

<u>Income Source</u>	<u>Amount</u>
Northern Trust FY03 Securities Lending Income	\$5,680,075
Total Collateral Market Value - Northern Trust (6/30/03)	\$2,487,998,438
Total Market Value of Securities on Loan Northern Trust (6/30/03)	\$2,404,825,778
Total Collateralized Percentage	103.5%

Source: The Northern Trust Company and State Street Global Advisors