



Frederick

and Jeff

Millard

Photo by TRS Communications

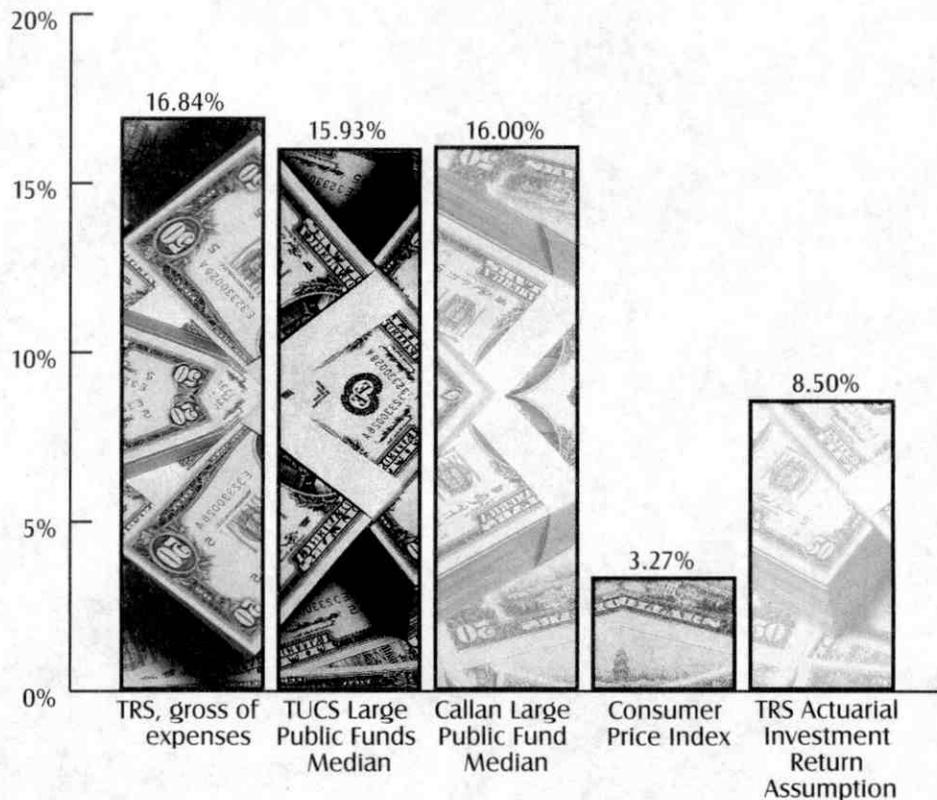
Frederick Millard and his son, Jeff, share more than the family name. Both have taught junior and senior high school, both have taught history, and both have worked as coaches. Frederick, who retired in 1983 with 36 years of service, taught in Bartonville and East Peoria. Jeff, who has 32 years of service, taught at Pleasant Plains and currently teaches physical education at Morton High School. Carrying the family career a little further, Jeff's wife and son are also teachers.

Investments

Introduction

The TRS investment portfolio earned its highest one-year return in six years as an improving economy fueled continued strength in the major stock indices. Overall, TRS reported an impressive 16.5 percent return for FY04, net of all investment fees and expenses. Through TRS's disciplined approach to asset allocation and investment manager selection, the fund proved successful in preserving capital during difficult economic times, while showing strong participation in the current market advance. Over the three-year period, TRS ranks in the top decile of large public funds in Callan Associates' universe and in the top 12 percent in the Wilshire Trust Universe Comparison Service (TUCS).

Return Comparison for the Year Ended June 30, 2004



Source: Callan Associates, Wilshire Associates, The Northern Trust Company

Total TRS investments, including accrued investment income, increased \$8.2 billion during the year ended June 30, 2004. In a sharp turnaround from recent difficult years, all asset classes posted strong positive gains. International equity had the highest one-year net return at 32.8 percent, followed by the domestic equity return of 21.6 percent. Real estate and private equity also produced double-digit gains, returning 13.2 percent and 10.3 percent, respectively. Finally, despite a challenging rising interest rate environment, fixed income managed a positive 0.7 percent return for the year.

In addition to market gains, TRS received \$4.3 billion from the sale of State of Illinois pension obligation bonds (POBs). TRS received the proceeds from the bond issue on July 2, 2003, which were immediately invested in four index funds designed to match the TRS public markets asset allocation. As the year progressed, TRS prudently transferred approximately 63 percent of the index fund assets to active management in order to match the overall allocation targets. The prompt and deliberate investment of these assets produced favorable results. In the first year,

the POB proceeds returned 15.4 percent, net of fees, representing an investment gain of over \$667 million.

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. The TRS Investment Policy guides TRS's investments. 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 of June 30, 2004, TRS's total investments, including accrued investment income, at market value totaled \$32,277,078,726.

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, 2003 through June 30, 2004. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2004. Additionally, The Northern Trust Company calculated, in accordance with the Association for Investment Management and Research 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, 2004

Total Fund Market Value	\$32.277 billion
One-Year Return (net of fees)	16.5%
Five-Year Return (net of fees)	4.6%
Ten-Year Return (net of fees)	9.6%
Percent Externally Managed	100.0%
Number of External Managers	84
Custodian	The Northern Trust Company
General Consultant	Callan Associates Inc.

TRS is ranked 33rd out of the top 200 U.S. pension funds/plan sponsors in the January 26, 2004, issue of *Pensions & Investments*. Rankings are based on the market value of total assets at September 30, 2003.

Fund Performance vs. Benchmarks and Market Values

As of June 30, 2004, TRS's total investments, including accrued investment income, at market value totaled \$32.277 billion, an increase of \$8.176 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 26 and 27.

TRS had a total fund annualized return of 16.8 percent, gross of fees, and 16.5 percent, net of fees, for the one-year period ending June 30, 2004. The Performance Summary table shows the performance of the total investment portfolio versus comparative benchmarks.

As illustrated in the Performance Summary table, TRS's total return for FY04 surpassed the policy index return of 16.0 percent for the year ended June 30, 2004. The policy index represents a weighted average of each asset class benchmark, based on the total fund's target asset allocation. By exceeding the policy index, TRS showed consistent outperformance across its asset classes. The total return also surpassed the 8.5 percent actuarial 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.

Performance Summary (Net of fees)

Asset Class/Index	Years ended June 30					Annualized at 6/30/04		
	2004	2003	2002	2001	2000	3 Years	5 Years	10 Years
TRS Total Fund	16.5%	4.9%	(3.2%)	(4.2%)	10.6%	5.8%	4.6%	9.6%
TRS Weighted Policy Index	16.0	3.9	(4.2)	(6.8)	9.7	4.9	3.4	9.2
CPI (Inflation)	3.3	2.1	1.1	3.2	3.7	2.2	2.7	2.5
TRS Equity - U.S.	21.6	0.5	(15.2)	(12.0)	6.5	1.2	(0.6)	10.6
Russell 3000 Index	20.5	0.8	(17.2)	(13.9)	9.6	0.2	(1.1)	11.7
TRS Fixed Income*	0.7	10.7	9.7	7.2	3.7	6.9	6.3	7.1
TRS Weighted Fixed Income Index	0.3	11.1	10.0	7.2	4.3	7.0	6.5	6.8
Lehman Brothers Aggregate Index	0.3	10.4	8.6	11.2	4.6	6.4	7.0	7.4
TRS Equity - International	32.8	(5.2)	(6.8)	(19.5)	19.9	5.5	2.5	6.1
Non-U.S. Equity Index	32.5	(4.2)	(8.2)	(23.8)	18.1	5.3	1.0	4.4
TRS Real Estate	13.2	8.8	2.4	9.8	8.8	8.0	8.5	10.7
Real Estate Property Index	10.8	7.7	5.6	11.2	11.6	8.0	9.4	10.4
TRS Private Equity	10.3	(11.4)	(12.7)	(5.4)	137.7	(5.2)	13.9	26.8
Russell 3000 Index + 3.0%**	24.1	3.8	(14.7)	(11.3)	12.6	3.2	1.9	15.0
TRS Short-Term Investments	1.1	1.5	2.7	6.2	5.9	1.7	3.4	—
ML 91-Day Mark to Markets Index	1.0	1.5	2.7	5.9	5.5	1.7	3.3	4.3
90-Day T-Bill Index	1.0	1.3	2.2	5.4	5.6	1.5	3.1	4.2

The following chart shows the yearly returns for the previous benchmarks.

Asset Class/Index	Years ended June 30				
	2004	2003	2002	2001	2000
TRS Fixed Income - US*	-	-	8.1%	11.3%	4.4%
Salomon BIG Index	-	-	8.5	11.3	4.5
TRS Fixed Income - International*	-	-	15.9	(7.7)	(0.7)
Non-U.S. Bond Index	-	-	15.8	(7.5)	2.4

* During FY03, U.S. fixed income was combined with international fixed income 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.

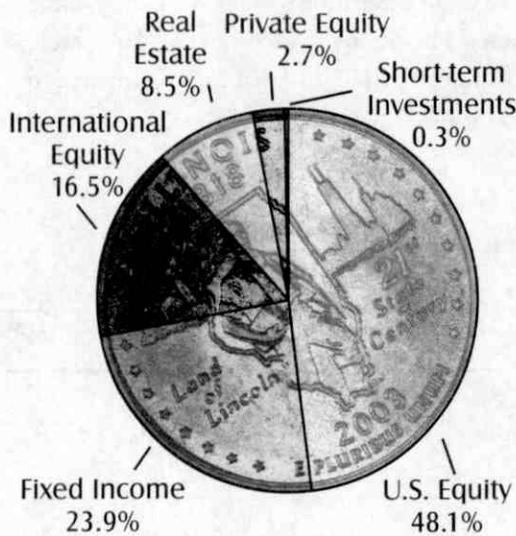
** Index compounded monthly.

Note: Rates of return 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 its asset allocation. Similar to other large institutional funds, TRS maintains a well-diversified portfolio to manage risk effectively.

FY04 Asset Allocation



Long-term Target Allocation

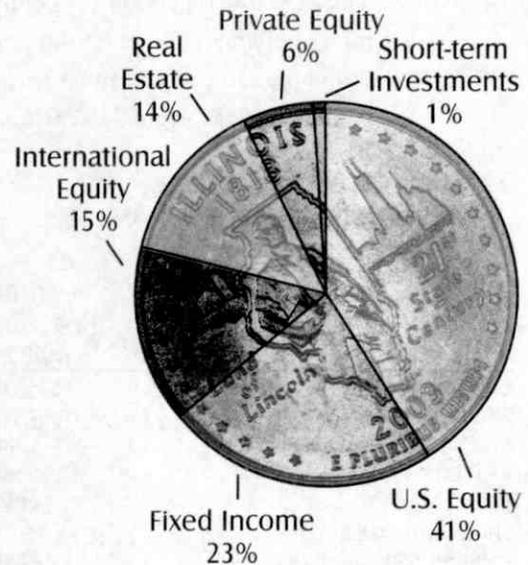


Photo courtesy of Abraham Lincoln Presidential Library



The task of the modern educator is not to cut down jungles, but to irrigate deserts.

— C. S. Lewis

Webster Annex — 1953

TRS's current asset allocation, adopted in 2002, resulted in a shift in assets from fixed income and international equity to real estate and private equity. Due to the nature of the real estate and private equity asset classes, prudence required that the increases in the allocations to these asset classes be implemented in a very measured fashion. Interim targets, as reflected in the following table, were established for FY04. As of June 30, 2004, all asset classes were at or very near these interim targets. TRS anticipates reaching the asset allocation targets in FY06.

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. 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, 2004.

Strategic Investment Listing Allocation Targets vs. Total Assets

	6/30/04	FY04			FY03	
	Total Fund \$ Million	Actual Percent	Interim Target	Policy Target	Actual Percent	Policy Target
U.S. Equities	\$15,118	48.1%	43%	41%	46.2%	41%
Fixed Income	7,513	23.9	25	23	25.9	23
International Equities	5,188	16.5	15	15	13.8	15
Real Estate	2,688	8.5	12	14	10.5	14
Private Equity	852	2.7	4	6	2.9	6
Short-Term Investments	79	0.3	1	1	0.7	1
Pending Settlements/Expenses*	839	NA	NA	NA	NA	NA
Total Fund	\$32,277	100.0%	100%	100%	100.0%	100%

*The liability portion is placed within the Statement of Plan Net Assets.

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 security 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

	2004		2003	
	Market Value	% of Total	Market Value	% of Total
Bonds, Corporate Notes, and Government Obligations				
U.S. Treasuries	\$1,762,923,105	5.5%	\$965,037,934	4.0%
U.S. Federal Agencies	1,858,404,839	5.7	1,319,700,175	5.5
U.S. Government Backed Mortgages	2,057,781,654	6.4	1,886,965,994	7.8
U.S. Municipals (Taxable)	20,810,508	0.1	49,668,028	0.2
Total Government Obligations	5,699,920,106	17.7	4,221,372,131	17.5
U.S. Corporate Obligations				
Asset Backed Securities	361,674,987	1.1	263,556,176	1.1
Commercial Mortgage Backed Securities	171,824,155	0.5	148,916,199	0.6
Collateralized Mortgage Obligations	308,550,040	1.0	123,275,913	0.5
Commingled/Closed End Funds	1,018,792,907	3.2	893,847,172	3.7
Credit Obligations				
Financial	431,107,376	1.3	679,128,160	2.8
Industrial	695,536,093	2.1	592,210,200	2.5
Utilities	60,100,518	0.2	105,973,297	0.4
Total U.S. Corporate Obligations	3,047,586,076	9.4	2,806,907,117	11.6
Foreign Debt Obligations	341,939,109	1.1	286,570,409	1.2
Total Bonds, Corporate Notes, and Government Obligations	9,089,445,291	28.2	7,314,849,657	30.3
Equities				
Common Stock - U.S.	13,185,157,414	40.8	9,247,447,414	38.4
Preferred Stock - U.S.	46,056,145	0.1	43,419,939	0.2
Common Stock - International	5,249,363,442	16.3	3,279,688,612	13.6
Preferred Stock - International	124,014,221	0.4	78,796,658	0.3
Total Equities	18,604,591,222	57.6	12,649,352,623	52.5
Short Term Investments	1,036,863,444	3.2	1,032,463,461	4.3
Foreign Currency	24,999,284	0.1	23,905,527	0.1
Private Equity	840,390,782	2.6	668,389,537	2.8
Real Estate Equity	2,680,788,703	8.3	2,412,293,598	10.0
TRS Total Portfolio	\$32,277,078,726	100.0%	\$24,101,254,403	100.0%

Reconciliation of TRS Portfolio to Total Investments

	2004	2003
TRS Total Portfolio	\$32,277,078,726	\$24,101,254,403
Less accrued income	(230,705,401)	(165,638,540)
Investments at fair value	\$32,046,373,325	\$23,935,615,863

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

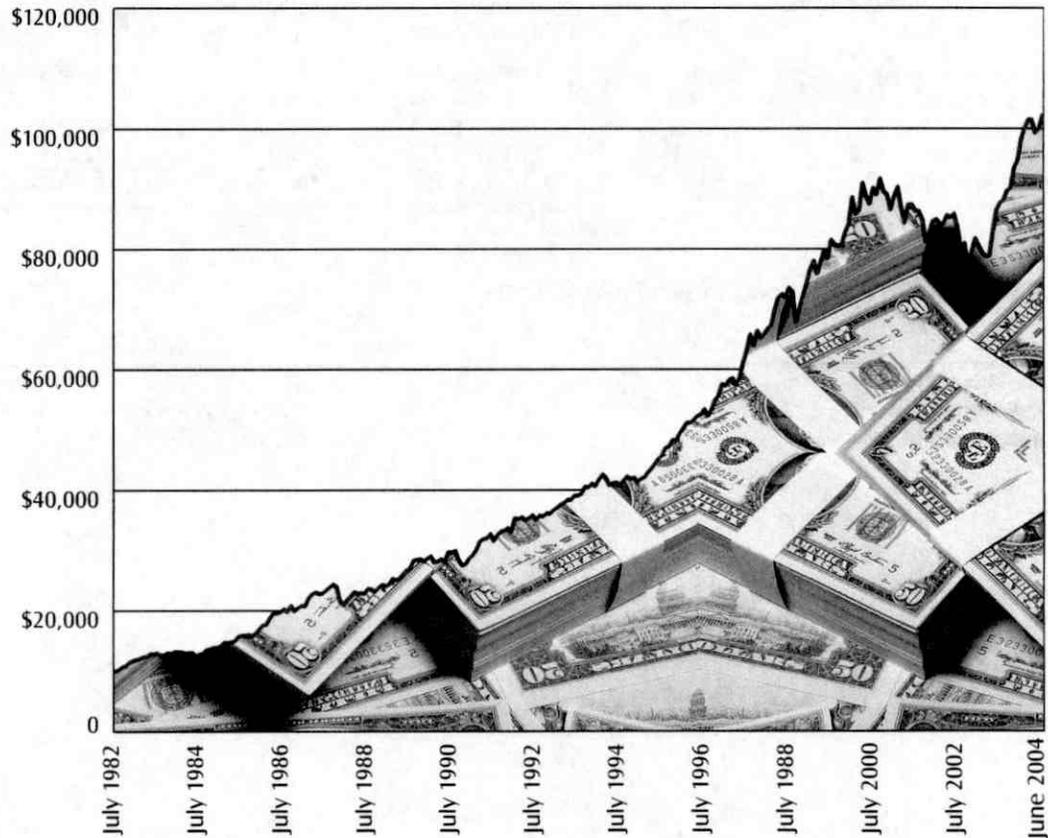
Asset Type	2004	2003	2002	2001	2000
Bonds, Corporate Notes, and Government Obligations	28.2%	30.3%	37.9%	36.4%	35.4%
Equities - International	16.7	13.9	14.4	19.2	19.9
Equities - U.S.	40.9	38.6	29.3	26.3	26.1
Private Equity	2.6	2.8	2.6	2.8	3.5
Real Estate Equity	8.3	10.0	9.5	10.0	9.7
Short-Term Investments	3.3	4.4	6.3	5.3	5.4
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 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, TRS's asset allocation has provided consistent overall returns, as represented by the following chart showing the growth of \$10,000 for the last 22 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, 2004.

U.S. Equity

U.S. equity, or common stock, represents shares or units of ownership in a public corporation. TRS invests in equities because the asset class offers the opportunity to participate in the overall success of the economy and specific corporations within it. Stockholders share in the growth of a company through an increase in stock price, as well as through the distribution of corporate profits in the form of dividends.

For the fiscal year, TRS's U.S. equity portfolio returned 21.6 percent on a net of fee basis compared to the Russell 3000 Index return of 20.5 percent. One-, three-, five- and 10-year comparisons to this benchmark are noted below:

	FY04	3-Year	5-Year	10-Year
TRS, net of fees	21.6%	1.2%	(0.6%)	10.6%
Russell 3000 Index	20.5	0.2	(1.1)	11.7

At June 30, 2004, 48.1 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 FY04.

The top 10 domestic equity holdings, excluding index funds, at June 30, 2004, are listed below and represent 5.4 percent of total U.S. equity holdings. A complete listing of investment holdings is available as a separate report. Additional securities of the firms listed below are included in the index funds managed by State Street Global Advisors and Northern Trust Global Investments.

Top 10 U.S. Equity Holdings

Firm	Market Value
Pfizer, Inc.	\$102,221,383
General Electric Co.	97,843,270
Microsoft Corp.	86,591,778
Citigroup, Inc.	79,791,582
American International Group, Inc.	66,646,800
Hewlett Packard, Co.	65,825,902
Time Warner, Inc.	55,873,530
ConocoPhillips	55,555,904
Xerox Corp.	54,045,850
Dell, Inc.	52,709,739
Total	\$717,105,738

Source: The Northern Trust Company

As of June 30, 2004, TRS employed 20 domestic equity managers. The following chart lists the managers and assets under management.

U.S. Equity Managers and Assets Under Management (inception date of account)

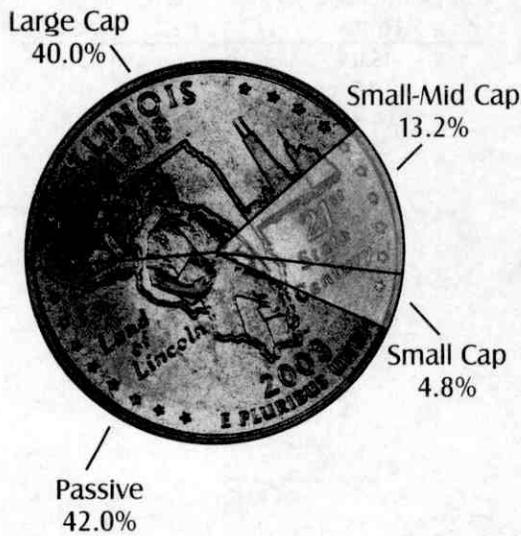
Index	
Northern Trust Global Investments-Large Cap Index (7/03)	\$1,013,602,463
Northern Trust Global Investments-Small/Mid Cap Index (7/03)	221,617,031
State Street Global Advisors-Large Cap Index (11/98)	4,765,297,962
State Street Global Advisors-Small/Mid Cap Index (6/02)	360,613,459
Enhanced Core	
Pacific Investment Management Company, LLC (8/91)	1,425,174,445
Large Cap Value	
Advisory Research, Inc. (9/02)	77,204,504
Bear Stearns Asset Management, Inc. (1/03)	690,618,197
Boston Partners Asset Management, L.P. (1/03)	671,698,731
Dodge & Cox (4/00)	1,456,141,030
EARNEST Partners (2/02)	153,194,477
Great Lakes Advisors, Inc. (9/02)	77,235,588
Large Cap Growth	
Geewax, Terker & Company (3/00)	457,750,927
Holland Capital Management (2/02)	300,900,310
Sands Capital Management (6/04)	354,803,976
Turner Investment Partners (6/04)	360,990,577
Small/Mid Cap Value	
LSV Asset Management (12/02)	550,181,537
NorthPointe Capital (8/01)	415,268,547
Small/Mid Cap Growth	
Delaware Investment Advisers (12/02)	526,967,610
J. & W. Seligman & Company, Inc. (1/03)	261,116,018
Mazama Capital Management, Inc. (1/03)	304,990,500
Small Cap Value	
Ariel Capital (8/01)	397,845,915
Small Cap Growth – Transition Account	
Frank Russell Company (11/03)*	274,413,261

**No fees were paid to the transition account manager.*

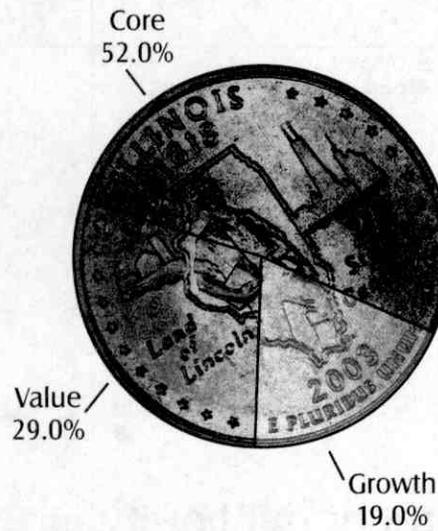
Discussion of U.S. Equity

The long-term target for TRS investments in U.S. equities is 41 percent. Investment managers are chosen to diversify the portfolio on both a capitalization and style basis. This diversification is important to controlling the risk of the portfolio, as well as balancing the portfolio against the broad benchmark and economy.

Capitalization



Market Style



The TRS U.S. equity portfolio continues to outperform the Russell 3000 Index over the one-, three- and five-year periods. TRS's investment managers took a defensive stance during the economic recession and did an excellent job of preserving capital in a difficult market environment. This conservative approach placed TRS above the median in its peer universe.

As the markets began to strengthen, TRS's performance was tempered by its managers' studied avoidance of weaker, highly leveraged companies. These companies often display deceptive short-term gains during the early stages of an economic recovery, yet the unpredictable nature of these gains makes it difficult to execute successfully an investment strategy focused on these securities. By continuing to concentrate on higher quality companies with sustainable business models, TRS believes its investment managers are very well positioned as the economic recovery matures.

Statistical Data

The following two 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 investible U.S. equity market.

TRS Domestic Equity as of June 30, 2004

Characteristic	TRS Domestic Equity	Russell 3000 Index
Weighted Average Market Cap (billions)	\$64.0	\$74.3
Price/Earnings Ratio	19.8x	21.3x
Dividend Yield	1.5%	1.6%
5-Year EPS Growth	9.2%	8.6%
Price/Book Ratio	2.7x	2.9x

Source: The Northern Trust Company

U.S. Equity – Diversification by Industry Sector for Year Ending June 30, 2004

Sector	Weighting TRS Domestic Equity	Weighting Russell 3000 Index
Consumer Discretionary	15.0%	12.3%
Consumer Durables	7.5	9.1
Energy	6.4	6.0
Financial Services	20.1	21.2
Health Care	13.5	13.9
Industrials	11.5	10.9
Materials	3.6	3.2
Technology	17.2	17.1
Telecommunication Services	2.7	3.1
Utilities	2.5	3.2
Total	100.0%	100.0%

Source: The Northern Trust Company

International Equity

International equity, or common stock, represents shares or units of ownership in public corporations domiciled outside the United States. International investing provides important diversification benefits to the TRS portfolio. While the international economy has increasingly become more global in nature, not all economies move in tandem. TRS's international equity managers are able to participate in the strength of individual markets, thus enhancing the TRS total portfolio. Additionally, corporations worldwide have expanded their global reach. The international equity portfolio is able to seek out superior companies operating multinationally, or companies that are particularly strong in their own markets or industries.

For the year ended June 30, 2004, the international equity asset class returned 32.8 percent on a net of fee basis compared to the Morgan Stanley Capital International (MSCI) All Country World Excluding U.S. Free Index (identified as Non-U.S. Equity Index below and in future references) return of 32.5 percent. One-, three-, five- and 10-year comparisons to this benchmark are in the following table:

	FY04	3-Year	5-Year	10-Year
TRS, net of fees	32.8%	5.5%	2.5%	6.1%
Non-U.S. Equity Index	32.5	5.3	1.0	4.4

Photo courtesy of Sangamon Valley Collection at Lincoln Library



Children are the world's most valuable resource and its best hope for the future.

— John F. Kennedy

Loami classroom photo — 1959

At June 30, 2004, 16.5 percent of the TRS investment portfolio was assigned to international equity managers. Listed below are the top 10 international equity holdings of active managers as of June 30, 2004. As is evident in the holdings list, these investments are diversified geographically and include companies that are dominant within their industry and familiar to the U.S. economy. Examples of this type of global companies include Nestle, GlaxoSmithKline, BP (Amoco) and Toyota. These securities represent 10.9 percent of the total international equity holdings. A complete listing of investment holdings is available as a separate report. Additional securities of firms listed below are included in the index funds managed by State Street Global Advisors and Northern Trust Global Investments.

Top 10 International Equity Holdings

Firm	Country	Market Value (USD)
Nestle	Switzerland	\$84,365,402
GlaxoSmithKline	United Kingdom	77,998,542
Telefonica	Spain	60,397,982
ING Groep	Netherlands	55,321,276
Novartis AG	Switzerland	54,816,964
Total SA	France	54,168,733
Takeda Pharmaceutical	Japan	53,977,767
BP	United Kingdom	52,688,752
Banca Intesa	Italy	45,796,717
Toyota Motor Corp.	Japan	44,692,169
Total		\$584,224,304

Source: *The Northern Trust Company*

Photo courtesy of Abraham Lincoln Presidential Library

The main part of intellectual education is not the acquisition of facts but learning how to make facts live.
 — Oliver Wendell Holmes Jr.

Cumberland Elementary School — 1970s



As of June 30, 2004, TRS employed 10 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	
Northern Trust Global Investments (7/03)	\$131,801,429
State Street Global Advisors (5/99)	78,710,286
Active Core	
Artisan Partners (3/03)	388,594,398
Brandes Investment Partners, L.P. (2/98)	842,364,416
Capital Guardian Trust Company (2/98)	603,236,694
Delaware International Advisers Ltd. (4/93)	785,987,660
Fidelity Management Trust Company (6/03)	752,961,871
Harris Associates L.P. (3/03)	405,481,982
INVESCO Global Asset Management (N.A.), Inc. (6/00)	749,103,179
Emerging Markets	
Grantham, Mayo, Van Otterloo & Co., LLC (3/03)	449,819,371

Discussion of International Equity

The target for international equities is 15 percent. 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%
Sub-classes:	
Passive Non-U.S.	2.0
Active Core	90.0
Emerging Markets	8.0
Total	100.0%

International equity markets posted strong returns for the year ended June 30, 2004. The one-year return for the index was 32.5 percent. The Pacific region was the strongest region as it advanced by 41.1 percent led by Japan's 46.2 percent return. The emerging markets, which represent the developing economies in the international markets, were up 33.1 percent followed by Europe's return of 28.9 percent.

Photo courtesy of Rockford Public Library

The secret in education lies in respecting the student.
— Ralph Waldo Emerson

Rockford West High School cafeteria — 1955



The TRS international equity portfolio outperformed its international index by 0.3 percent, returning 32.8 percent, net of fees, compared to the international benchmark return of 32.5 percent. The TRS international equity portfolio benefited by its overweight position in emerging market equities and a propensity for TRS international equity managers to hold smaller capitalization stocks than that of the international index. Both of these segments of the international markets posted very strong returns for the year.

Portfolio Characteristics

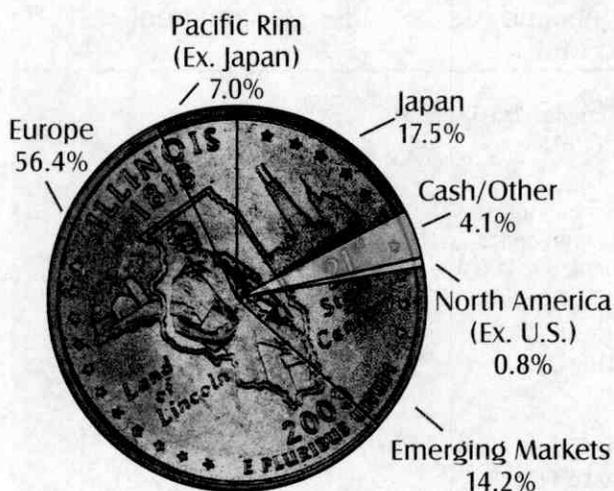
The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio.

International Equity Fundamental Characteristics

Characteristic	TRS International Equity	Non-U.S. Equity Index
Market Cap (billions)	\$34.5	\$39.6
Price/Earnings Ratio	15.3x	18.5x
Dividend Yield	2.7%	2.4%
Price/Book Ratio	2.0x	2.0x

Source: The Northern Trust Company and Wilshire Associates

Regional Allocation Comparison June 30, 2004 TRS International Equity Exposure



Fixed Income

Fixed income is a financial obligation of an entity including, but not limited to, corporations, governments, agencies, or municipalities. These entities promise to pay a specified sum of money at a future date and represent a contractual obligation of a debt or a loan. The asset class is important to a well-diversified portfolio because it reduces volatility and creates income streams essential to the growth of the overall portfolio.

For the year ended June 30, 2004, TRS fixed income managers earned a 0.7 percent return compared to the 0.3 percent return of the benchmark, the Lehman Brothers Aggregate Index. One-, three-, five- and 10-year comparisons to this benchmark are noted below:

	FY04	3-Year	5-Year	10-Year
TRS, net of fees	0.7%	6.9%	6.3%	7.1%
Lehman Brothers Aggregate Index	0.3	6.4	7.0	7.4

FY04 was the first full year of the TRS revised allocation for fixed income. The principal change involved elimination of separate managers for international fixed income. Historically, TRS domestic fixed income managers provided greater returns without the risk of foreign currency exposure. Over the five- and 10-year periods, the domestic managers have performed much more in line with the TRS domestic benchmark.

	FY04	3-Year	5-Year	10-Year
TRS Domestic Fixed Income, net of fees	0.7%	6.4%	7.0%	7.5%
Lehman Brothers Aggregate Index	0.3	6.4	7.0	7.4

As of June 30, 2004, TRS employed 11 fixed income managers overseeing assets of nearly \$7.5 billion, as identified in the Fixed Income Managers and Assets Under Management table. This table categorizes manager assignments as Index, Core Plus, and Core. Core Plus managers are managers with particular skills in high yield investment and non-dollar denominated investments. Following strictly defined parameters, these managers are able to offer enhanced yields while maintaining a conservative risk profile.

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

Index	
Northern Trust Global Investments (7/03)	\$184,044,102
State Street Global Advisors (4/03)	820,045,038
Core Plus	
BlackRock Financial Management, Inc. (6/97)	1,495,060,262
Pacific Investment Management Company, LLC (7/82)	1,506,531,181
UBS Global Asset Management, Inc. (4/03)	734,009,566
Core Accounts	
Dodge & Cox Fixed (11/03)	728,416,191
EARNEST Partners Limited, LLC (2/02)	179,651,514
LM Capital Group (3/04)	178,620,125
Payden & Rygel (6/97)	743,668,401
Taplin, Canida & Habacht (3/04)	180,455,982
Weiss, Peck & Greer/Robeco USA (12/91)	744,226,912

William Freeman

32 years of service
Junior and Senior High School
Reed Custer District 255 in Braidwood

Carol Freeman

30 years of service
Kindergarten through High School
Southern Will Co. Special Ed. Cooperative in Joliet

Michael Bruce Photography



The following table lists the top 10 fixed income securities held by TRS's core and core plus managers as of June 30, 2004. These securities represent 11.3 percent of the total fixed income assets. A complete listing of investment holdings is available as a separate report. Additionally, 12.5 percent of the fixed income portfolio is held in index funds managed by State Street Global Advisors and Northern Trust Global Investments.

Top 10 Fixed Income Holdings

Security/Position	Rate	Maturity Date	Market Value
U.S. Treasury Notes	2.50%	05/31/2006	\$206,414,318
Federal National Mortgage Association TBA	5.50	07/15/2034	149,140,550
Federal National Mortgage Association TBA	5.50	07/15/2019	139,187,812
U.S. Treasury Notes	2.00	05/15/2006	112,156,614
Federal National Mortgage Association TBA	5.00	07/15/2034	82,942,359
U.S. Treasury Bonds	6.75	08/15/2006	76,621,197
U.S. Treasury Notes	1.88	12/31/2005	69,417,600
Federal Home Loan Mortgage Corp.	1.50	08/15/2005	69,345,990
Federal National Mortgage Association TBA	5.00	07/15/2019	65,501,383
U.S. Treasury Notes	4.25	11/15/2013	58,399,200
Total			\$1,029,127,023

Source: *The Northern Trust Company*

Discussion of Fixed Income

At June 30, 2004, 23.9 percent of TRS's investment portfolio was assigned to fixed income managers, just slightly under the interim fixed income target of 25.0 percent. FY04 was a difficult year for fixed income managers. Two months, July 2003 and April 2004, represented two of the worst performing months in the history of the domestic bond market, returning a negative 3.4 percent and a negative 2.6 percent, respectively. Overall, TRS fared well, bettering the benchmark by 40 basis points.

During the majority of FY04, TRS fixed income managers initiated a defensive posture relative to the bond market with a below index weight in relative effective duration and extended maturities. Attribution for FY04 shows that value added for the year came from high yield, exposure to non-dollar positions, and Treasury Inflation Protection Securities (TIPS). TRS maintains a relatively conservative approach to fixed income with 96.7 percent of the portfolio's holdings in investment grade securities. Following a tough year in the fixed income markets, it is expected that interest rates will continue to increase following tightening by the Federal Reserve. Short-term rates have already increased with opportunities continuing in the mortgage and credit sectors. Inflation, the enemy of the bond market, will continue to be monitored and TRS managers will continue to be defensive.

Upon retirement, the Freemans plan to take a 21-day cruise to the South Pacific, and then spend time with their children and, they hope, grandchildren. William, who has been a high school principal for 21 years, has enjoyed teaching philosophy, and also teaching at the college level. He'll miss working with his students, staff, and community when he retires. He hopes to continue teaching at the college level upon retirement. Carol, who is a speech and language pathologist, will also miss working with the students. She says, "The kids are the reason I go to work — they are a real hoot!"

Statistical Data

Fixed Income Profile as of June 30, 2004

Characteristic	TRS Fixed	Lehman	TRS Fixed	Lehman
	Income	Brothers	Income	Brothers
	Portfolio	Aggregate	Portfolio	Aggregate
	6/30/04	Bond Index	6/30/03	Bond Index
	6/30/04	6/30/04	6/30/03	6/30/03
Average Maturity	6.7 years	7.4 years	6.3 years	6.7 years
Effective Duration	4.1 years	4.6 years	3.9 years	4.0 years
Average Coupon	5.2%	5.3%	5.4%	5.8%
Average Quality Rating (Moody's)	AA1	AA1	AA1	AA1
Current Yield	4.7%	5.1%	5.1%	5.3%

Source: Lehman Brothers and TRS

Fixed Income Managers

Sector Weighting as of June 30, 2004 – futures exposures included

Sector Weighting	TRS Fixed	Lehman	TRS Fixed	Lehman
	Income	Brothers	Income	Brothers
	Portfolio	Aggregate	Portfolio	Aggregate
	6/30/04	Bond Index	6/30/03*	Bond Index
	6/30/04	6/30/04	6/30/03*	6/30/03*
U.S. Treasury	25.1%	23.8%	24.1%	21.9%
U.S. Federal Agency	8.0	11.3	6.5	12.2
U.S. Credit	17.5	24.6	22.9	27.4
Mortgage-Backed Securities	36.5	35.8	34.8	34.2
Asset Backed Securities	3.6	1.6	3.5	1.8
Commercial Mortgage-Backed	2.3	2.9	1.8	2.5
Other**	7.0	0.0	6.4	0.0

*FY03 percentages were reclassified due to reporting of commercial mortgage-backed sector.

**Other includes non-dollar, cash and cash equivalents, municipals, and miscellaneous.

Source: Lehman Brothers, TRS, and The Northern Trust Company

Photo courtesy of Abraham Lincoln Presidential Library



An investment in knowledge
pays the best interest.
— Benjamin Franklin

East St. Louis school
ground breaking — 1967

Diversification by Quality Rating for Fixed Income Manager Portfolios

Moody's Quality Rating	06/30/04	06/30/03*
Agency*	20.4%	17.7%
Treasury	19.4	14.2
Aaa*	32.9	37.0
Aa1 through Aa3	13.5	14.4
A1 through A3	5.3	6.3
Baa1 through B3	7.9	7.9
Other**	0.6	2.5
Total	100.0%	100.0%

* Certain government-backed mortgages have been moved from agency into Aaa classification for FY03.

** Other includes under B3 and NR ratings.

Source: The Northern Trust Company and TRS

Private Equity

Private equity includes investments that are placed and traded outside of the stock exchanges and other public markets. Over the long term, they are an attractive investment of pension funds, endowments, insurance companies and other sophisticated investors. The investment class benefits the economy by providing needed capital to start up companies and for continued growth in companies, privately held firms, and firms that are restructuring to better compete.

The asset class is commonly referred to as private equity, even though it includes privately placed debt instruments. Often, the debt includes a control position that is similar to equity because it allows the debt holder to influence the operations and management of the company. TRS is widely diversified, investing in all stages of equity and debt-related private equity.

TRS measures private equity performance using the Russell 3000 stock index plus 300 basis points (3 percentage points). As such, the benchmark does not specifically compare performance to the private equity industry, but rather to the TRS long-term expectation that private equity produce returns superior to the public markets. For the one- and three-year periods ending June 30, 2004, private equity was outperformed by this benchmark by 13.8 percent and 8.4 percent, respectively. This is not entirely unexpected as improved performance in the private markets generally lag upturns in the public equity market and, specifically, the stock markets. Long-term results are more indicative of a full market cycle and a better measurement of the success of the asset class and its value to an investment portfolio. The asset class maintains strong long-term results, outperforming the benchmark by 12.0 percent and 11.8 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:

	FY04	3-Year	5-Year	10-Year
TRS, net of fees	10.3%	(5.2%)	13.9%	26.8%
Russell 3000 Index + 3.0%	24.1	3.2	1.9	15.0

At June 30, 2004, 2.7 percent of the TRS investment portfolio was assigned to the private equity asset class. TRS is currently invested in 49 private equity 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, L.P. (5/03)	\$4,049,123
DLJ Merchant Banking Partners, L.P. (9/92)	9,895,831
DLJ Merchant Banking Partners II, L.P. (3/97)	44,055,750
DLJ Merchant Banking Partners III, L.P. (9/00)	80,772,579
Evercore Capital Partners II, L.P. (4/03)	12,063,086
Glencoe Capital Partners III, L.P. (1/04)	5,332,629
Glencoe Capital Institutional Partners III, L.P. (6/04)	5,215,460
GTCR Fund VII/VIIA, L.P. (3/00)	49,872,334
GTCR Fund VIII, L.P. (7/03)	6,303,130
Hispania Private Equity, L.P. (5/04)	270,069
KKR 1996 Fund, L.P. (5/97)	41,383,885
Mesirow Capital Partners VII, L.P. (6/97)	5,204,730
Reliant Equity Partners, L.P. (6/04)	1,415,055
Thayer Equity Investors V, L.P. (5/03)	9,316,290
TPG Partners IV, L.P. (12/03)	5,156,300
Trivest Fund II, Ltd. (6/96)	23,250,347
VS&A Communications Partners II, L.P. (9/95)	9,231,314
WPG Corporate Development Associates V, L.P. (11/97)	14,369,972

Distressed Debt

Carlyle Strategic Partners, L.P. (2/04)*	0
MatlinPatterson Global Opportunities Fund II, L.P. (1/04)	14,852,000
OCM Opportunities Fund V, L.P. (6/04)	7,411,582

Special Situations

Apollo Investment Fund V, L.P. (5/01)	60,453,886
Banc Fund VI, L.P. (12/02)	38,514,544
Carlyle/Riverstone Global Energy and Power Fund II, L.P. (1/03)	50,362,828
HealthPoint Partners, L.P. (6/04)	10,500,000
TCW/Latin America Private Equity Partners, L.P. (5/97)	3,593,789
Warburg Pincus International Partners, L.P. (9/00)	45,200,820

Subordinated Debt

Merit Mezzanine Fund IV, L.P. (2/04)*	0
Prism Mezzanine Fund, L.P. (5/04)*	0
SW Pelham Fund II, L.P. (9/03)	8,712,650
William Blair Mezzanine Capital Fund II, L.P. (5/97)	25,438,875
William Blair Mezzanine Capital Fund III, L.P. (1/00)	32,495,532

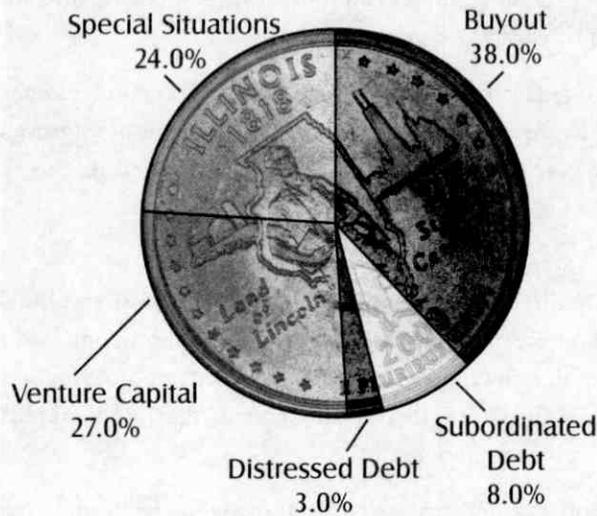
Venture Capital

Apex Investment Fund III, L.P. (6/96)	3,012,020
Apex Investment Fund V, L.P. (8/03)	9,187,618
Carlyle Venture Partners II, L.P. (10/02)	65,461,283
Edgewater Private Equity Fund IV, L.P. (11/03)	3,792,918
Evergreen Partners IV, L.P. (12/02)	4,945,107
Frontenac VI, L.P. (6/93)	1,033,779
Hopewell Ventures, L.P. (6/04)	424,040
Illinois Emerging Technologies Fund, L.P. (6/04)	366,147
Penman Private Equity and Mezzanine Fund, L.P. (10/94)	3,333,682
Periscope Fund I, L.P. (6/97)	595,216
21st Century Communication T-E Partners, L.P. (2/95)	5,701,461
SCP Private Equity Partners, L.P. (5/97)	12,290,000
SCP Private Equity Partners II, L.P. (6/00)	39,880,000
VantagePoint Venture Partners IV, L.P. (6/00)	25,578,783
WPG Enterprise Fund, L.P. (11/89)	348,818
WPG Enterprise Fund II, L.P. (8/94)	14,649,196
WPG Enterprise Fund III, L.P. (3/97)	36,710,264

* Partnership was not funded at June 30, 2004; date reflects the TRS Board of Trustees approval.

As of June 30, 2004, the breakdown of the private equity subclasses was as follows:

Private Equity as of June 30, 2004



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%

Photo courtesy of Abraham Lincoln Presidential Library



What sculpture is to a block of marble, education is to the soul.

— Joseph Addison

Bunsen School, Belleville — 1976

As of June 30, 2004, the TRS private equity asset class was underweight relative to its 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 to prudently implement the private equity structure and strive to reach the 6 percent target over a three- to four-year period.

The 10.3 percent return was led by the buyouts and subordinated debt subclasses. Venture capital, which has been depressed by the economic downturn, showed signs of improvement during the second half of the fiscal year and should continue to strengthen as the economy grows.

Real Estate

Real estate investments are direct investments or ownership in land and buildings including apartments, offices, warehouses, shopping centers, hotels, and farmland. TRS also holds partnership interests in entities that purchase and manage property and pass rent and sale income back to TRS. Investment in real estate is intended to increase the TRS total portfolio long-term rate of return and reduce year-to-year volatility.

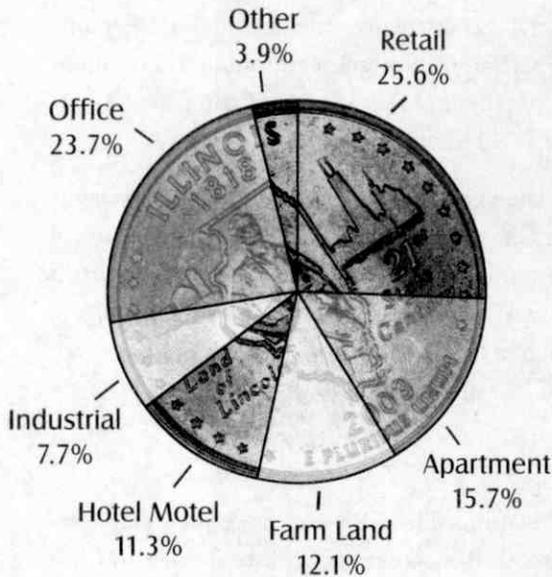
The real estate asset class offers competitive returns, provides diversification benefits to portfolios of stocks and bonds, and also serves as a hedge against inflation. Additionally, real estate offers a strong income component to pay program benefits to plan participants and survivors.

As of June 30, 2004, TRS had \$2.7 billion in real estate assets, or 8.5 percent of the total fund portfolio. For the year, TRS's real estate investments returned 13.2 percent, and TRS real estate outperformed the Real Estate Property Index for the second consecutive year. Real Estate performance and benchmark comparison are noted in the following table:

	FY04	3-Year	5-Year	10-Year
TRS, net of fees	13.2%	8.0%	8.5%	10.7%
Real Estate Property Index	10.8	8.0	9.4	10.4

To enhance returns and reduce risk, TRS acquires high quality properties diversified by type and in locations throughout the United States. TRS's real estate holdings by type and geography are shown in the following pie charts.

**Real Estate Holdings by Type
June 30, 2004**



**Geographic Diversification
of Real Estate Holdings
as of June 30, 2004**



Note: The geographic diversification chart does not include farm land.

Professional real estate advisors manage real estate owned by TRS. As of June 30, 2004, TRS had the following managers and assets under management.

**Real Estate Managers and Assets Under Management
(inception date of account)**

Separate Accounts

Capital Associates/Bear Stearns Realty Partners (3/90)*	\$386,681
Capri/Capital Advisors, LLC (12/91)	820,315,190
Cozad/Westchester Asset Management, Inc. (5/91)	318,595,260
Commonwealth Realty Advisors, Inc. I (9/91)	511,873,462
Commonwealth Realty Advisors, Inc. II (11/92)	131,208,673
Commonwealth Realty Advisors, Inc. III (5/03)	29,240,182
Koll Bren Schreiber Realty Advisors I (6/93)	169,597,901
Koll Bren Schreiber Realty Advisors II (5/96)	18,930,381
LPC Realty Advisors I, Ltd. (7/92)	183,657,396
Stone-Levy, LLC (4/95)	296,640,735

Closed End Accounts

Capri/Capital Apartment Fund III (3/90)	\$72,320,881
Carlyle Europe Real Estate Partnership, L.P. (6/03)	28,011,676
DLJ Real Estate Capital Partners, Inc. (3/96)	20,597,055
JBC Opportunity Fund II, L.P.	50,931,733
Heitman Capital Management (7/85)*	45,868
Thayer Hotel IV**	0
RREEF Capital II, L.L.C. (11/96)	29,376,033
Walton Street Capital (7/03)	6,228,804

* In liquidation mode.

** Manager not funded at 6/30/04.

Discussion of Real Estate

TRS leads many of its peers in the size of the real estate portfolio at \$2.7 billion, representing 8.5 percent of total investments.

In FY04, the Board of Trustees authorized additional real estate investments totaling \$650 million through its existing separate account manager relationships and committed \$125 million to new commingled fund managers. Real estate investments are targeted to comprise 14 percent of TRS's total investments, or approximately \$4.4 billion.

As other institutional investors flock to the real estate asset class, competition for quality assets has increased prices of new acquisitions and at the same time has served to enhance the value of TRS's existing real estate assets. This value appreciation contributed to the 13.2 percent return for the most recent fiscal year. Progress over the last 12 months toward the new long-term goal of 14 percent of total investments was restrained in part by the current sellers' market. However, TRS real estate managers remain active and confident on this course.

Brokerage Activity

The following table shows the top 50 listed brokers utilized by TRS external equity managers for the years ended June 30, 2004 and 2003. TRS utilizes a commission recapture and soft dollar program. For the year-ended June 30, 2004, TRS recaptured over \$2.1 million in commissions that were reinvested back into the fund. In addition, TRS earned \$956,410 in soft dollars that were used to pay for fund research and consulting expenses. These amounts reduced the overall listed commissions to \$17.415 million, or by 15.2 percent. During FY04, TRS spent \$709,387 of soft dollar commission balances. At June 30, 2004, TRS had a remaining soft dollar balance of \$90,046. The Board approved the elimination of the TRS soft dollar program effective July 1, 2004, leaving the commission recapture, on-balance sheet program which TRS will continue to use to pay certain plan expenses.

Top 50 Brokers Used by TRS Managers

Broker	FY04 Commission	FY03 Commission
Merrill Lynch & Co. Inc. and all Subsidiaries (Worldwide)	\$2,196,082	\$2,125,870
Goldman Sachs & Co. (Worldwide)	1,338,512	1,527,749
UBS Investment Bank AG and all Subsidiaries (Worldwide)	1,154,271	710,691
Citigroup and all Subsidiaries (Worldwide)	1,025,287	868,382
Morgan Stanley & Co., Inc. (Worldwide)	944,773	942,766
Investment Technology Group, Inc. (Worldwide)	881,918	202,115
Lehman Brothers, Inc. (Worldwide)	731,998	750,500
Deutsche Bank and all Subsidiaries (Worldwide)	638,644	982,543
J.P. Morgan Securities, Inc. (Worldwide)	563,678	444,574
Credit Suisse First Boston and all Subsidiaries (Worldwide)	550,781	579,191

continued

Photo courtesy of Abraham Lincoln Presidential Library

Better than a thousand days of diligent study is one day with a great teacher.
— Japanese Proverb

Lincoln High School faculty, East St. Louis — 1956



Broker	FY04	FY03
Instinet / Lynch, Jones & Ryan (Worldwide)	476,365	477,482
Bear Stearns (Worldwide)	375,982	246,694
Gardner Rich & Co.	334,968	74,155
Loop Capital Markets	322,117	167,313
BNY Brokerage, Inc. (Worldwide)	305,377	780,847
Autranet, Inc.	297,987	153,878
ABN Amro and all Worldwide Subsidiaries	280,125	126,552
Banc of America Securities	243,649	279,461
Frank Russell, Inc.	217,556	379,612
Legg Mason Wood Walker, Inc.	212,342	241,259
Dresdner Kleinwort Wasserstein	210,173	137,786
Liquidnet, Inc.	204,598	110,882
CIBC World Markets	200,352	193,352
Wachovia Capital Markets	180,137	100,654
State Street Brokerage Services	175,719	57,182
Bernstein, Sanford C. & Co. (Worldwide)	163,453	185,965
Jefferies & Company	154,692	301,803
Thomas Weisel Partners	153,971	95,606
Charles Schwab	146,804	184,597
Bridge Trading Company	139,267	115,121
SG Cowen & Company (Worldwide)	134,455	180,397
Cabrera Capital Markets, Inc.	124,497	1,040
RBC Capital Markets, Inc.	123,945	99,290
Robert W. Baird & Company, Inc.	123,639	174,180
First Southwest Co.	118,245	—
McDonald and Company	117,384	102,768
Prudential Equity Group	117,066	185,195
Factset Data Systems	113,901	33,559
HSBC	113,504	209,330
Westminster Research Associates	112,753	8,945
Miller Tabak Hirsch	104,276	100,463
PXP Securities Corp.	103,582	252,694
Weeden & Co.	100,885	74,893
Abel Noser Corporation	99,611	99,332
B Trade Services	94,303	143,004
Buckingham Research Group	87,490	60,067
Needham & Company	84,730	68,679
Cantor Fitzgerald (Worldwide)	79,894	90,686
U.S. Bancorp Piper Jaffray, Inc.	78,713	91,394
Friedman Billings and Ramsey	75,687	35,642
All Others (FY04, 254 Brokers)	3,614,622	4,784,831
Totals	\$20,544,760	\$20,340,971

Source: The Northern Trust Company and TRS

Springfield science teachers — 1930s

Photo courtesy of Sangamon Valley Collection at Lincoln Library



External Manager Fee Payments

For the year ended June 30, 2004, fee payments to external managers totaled \$94.549 million, an increase of 31.1 percent from the year ended June 30, 2003. A summary is provided in the Schedule of Investment Manager Fees table.

Schedule of Investment Manager Fees

Investment Manager/Account	FY04	FY03
Advisory Research, Inc.	\$275,752	\$162,883
Alliance Bernstein Institutional Investment Mgmt.	0	530,590
Apex Investment Partners	2,191,158	578,804
Apollo Investment Fund V, LP	2,138,394	1,927,785
Ariel Capital Management, Inc.	1,296,293	921,691
Artisan Partners Limited Partnership	172,260	32,792
Banc Fund VI, LP	541,855	217,723
Bear Stearns Asset Management, Inc.	1,376,357	414,702
BlackRock Financial Management, Inc.	3,052,635	760,971
Boston Partners Asset Management, LP	1,133,545	390,977
Brandes Investment Partners, LLC	2,801,579	2,057,696
Capital Associates/Bear Stearns Realty Partners	0	14,460
Capri/Capital Advisors, LLC	3,659,356	3,633,837
Capri Capital Apartment Fund III	924,314	244,037
Capital Guardian Trust Company	2,025,589	1,896,845
Carlyle Europe Real Estate Partners, LP	764,408	962,147
Castle Harlan, Inc.	685,862	845,304
Chicago Capital Management, Inc.	0	288,312
Commonwealth Realty Advisors, Inc.	2,752,141	2,403,090
Cozad/Westchester Asset Management, Inc.	1,983,903	1,699,511
Delaware Investment Advisers	2,732,487	1,001,626
Delaware International Advisers, Ltd.	1,412,010	1,293,352
DLJ Merchant Banking Partners, LP	0	0
DLJ Merchant Banking Partners II, LP	432,641	492,482
DLJ Merchant Banking Partners III, LP	1,990,356	1,941,479
DLJ Real Estate Capital Partners, Inc.	253,989	346,664
Dodge & Cox	3,323,862	1,738,574
EARNEST Partners, LLC	865,477	381,143
Evercore Partners, Inc.	428,146	1,530,137
Evergreen IV, L.P.	538,964	854,190
Fidelity Management Trust Company	2,014,290	56,266
Frontenac VI, LP	0	60,000
Geewax, Terker & Company	2,050,143	1,379,137
Glencoe Capital Partners III, LP	688,985	0
Grantham, Mayo, Van Otterloo & Co., LLC	3,107,961	515,131
Great Lakes Advisors, Inc.	115,520	122,677
GTCR Fund VII/VIIA, LP	0	0
Harris Associates LP	1,856,576	380,818
HealthPoint, LLC	462,634	0
Heitman Capital Management	0	0
Hispania Capital Partners	356,363	0
Holland Capital Management, LP	437,718	264,638
Hopewell Ventures, LP	0	0
Illinois VENTURES GP, LLC	0	0
INVESCO Global Asset Management (N.A.), Inc.	1,828,392	1,483,422
J & W Seligman & Co., Inc.	1,011,844	312,616
JBC Opportunity Fund II, LP	1,250,000	520,833
Julius Baer Investment Management, Inc.	0	392,099
Koll Bren Schreiber Realty Advisors	2,917,687	1,413,702

continued

Investment Manager/Account	FY04	FY03
KKR 1996 Fund, LP	0	0
LM Capital Group, LLC	88,479	0
LPC Realty Advisors I, Ltd.	4,275,262	1,866,313
LSV Asset Management	2,411,359	878,561
Martin Currie, Inc.	0	1,391,017
MatlinPatterson Global Advisors, LLC	762,564	0
Mazama Capital Management, Inc.	1,693,755	489,888
MDL Capital Management, Inc.	46,071	137,751
Mesirow Capital Partners VII, LP	315,500	559,500
MFS Institutional Advisors, Inc.	996,792	552,522
Morgan Stanley Investment Management, Inc.	1,033,848	563,003
Neuberger Berman, LLC	572,963	1,404,998
Northern Trust Global Investments	198,691	0
NorthPointe Capital	1,899,758	1,477,169
Oak Associates, Ltd.	0	172,010
Oaktree Capital Management, LLC	24,897	0
Pacific Investment Management Company, LLC	4,098,648	5,046,923
Payden & Rygel	800,116	782,780
Penman Private Equity & Mezzanine Fund, LP	0	0
Periscope I Fund, LP	10,158	23,090
Reliant Equity Investors, LLC	568,130	0
Rogge Global Partners	0	112,832
RREEF Capital II, LLC	399,926	404,859
21st Century Communication T-E Partners, LP	46,720	92,522
Sands Capital Management, Inc.	25,909	0
SCP Private Equity Partners, LP	2,381,189	2,389,770
Smith Whiley & Company	349,084	187,500
State Street Global Advisors	553,745	445,039
Stone-Levy, LLC	1,359,690	1,108,742
Taplin, Canida & Habacht	88,646	0
TCW/Latin American Private Equity Partners, LP	74,721	519,258
Texas Pacific Group	382,364	0
Thayer Capital Partners	872,340	436,170
Thayer Lodging Group, Inc.	0	0
The Carlyle Group	3,750,000	8,262,363
The Carlyle Group/Riverstone	1,511,328	1,091,096
The Edgewater Funds	0	0
The Northern Trust Company (Custody)	502,605	550,000
Trivest Fund II, Ltd.	167,155	231,249
Turner Investment Partners, Inc.	31,153	0
UBS Global Asset Management (Americas), Inc.	986,199	785,488
VantagePoint Venture Partners IV, LP	0	0
VS&A Communications Partners II, LP	61,365	64,455
Walton Street Capital, LLC	138,898	0
Warburg Pincus International Partners, LP	0	0
WPG Corporate Development Associates V, LP	294,030	527,409
Weiss, Peck & Greer/Robeco USA	1,241,403	895,234
WPG Enterprise Fund, LP	4,719	14,139
WPG Enterprise Fund II, LP	163,211	187,541
WPG Enterprise Fund III, LP	617,751	964,461
William Blair Mezzanine Capital Fund II, LLC	180,817	201,694
William Blair Mezzanine Capital Fund III, LLC	715,680	842,544
Total fees paid by TRS	\$94,549,085	\$72,125,033

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

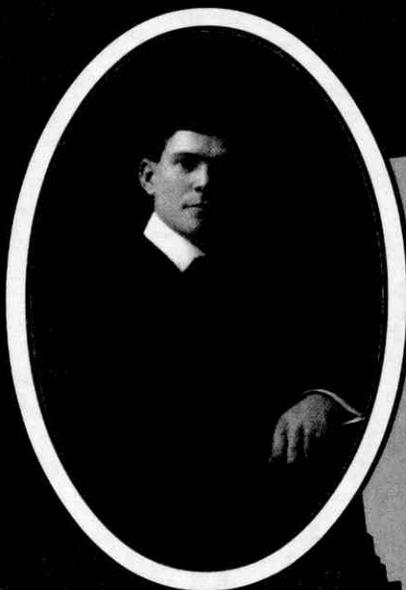
TRS participates in securities lending activity with its custodian, The Northern Trust Company, acting as the securities lending agent. The Securities Lending Summary table outlines the net income from securities lending activity, the securities on loan, and the amount of collateral for these securities.

Securities Lending Summary

Income Source	Amount
Northern Trust FY04 Net Securities Income	\$9,397,641
Total Northern Trust (6/30/04) Collateral Market Value	\$4,024,263,673
Total Market Value of Securities on Loan Northern Trust (6/30/04)	\$3,921,190,369
Total Collateralized Percentage	103%

Source: The Northern Trust Company

TRS also participates in securities lending within its passive index fund investments managed by State Street Global Advisors and Northern Trust Global Investments. The income earned from securities lending activities within these index funds is reinvested back into the respective index fund.



Man's mind, once stretched by a new idea, never regains its original dimensions.
— Oliver Wendall Holmes