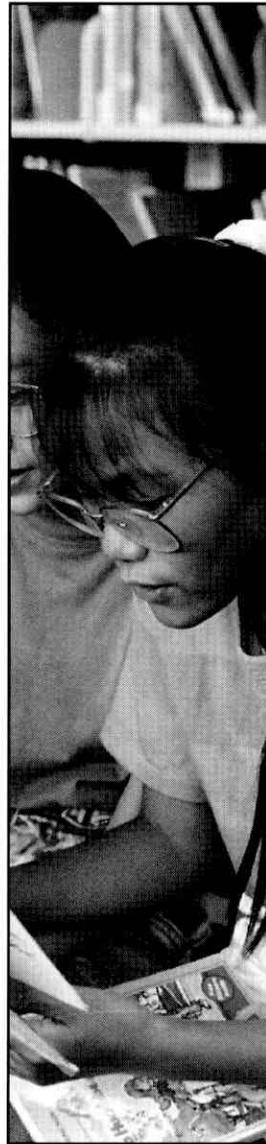


Investments



Introduction

World financial markets proved quite challenging over the course of fiscal 2001. Equity markets declined precipitously, both in the United States and abroad. The TRS investment portfolio declined by 4.2 percent, net of fees, the first decline experienced since 1984. Fortunately, the impact of the equity market declines on the TRS portfolio was muted by several factors, the most significant of which is diversification.

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

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

The TRS trust fund is invested by authority of the Illinois General Assembly under the "prudent person rule," requiring investments to be managed solely in the interest of fund participants and beneficiaries. As of June 30, 2001, TRS' total investments, including accrued investment income, at market value totaled \$24,213,323,553.

TRS investments are guided by the TRS Investment Policy. Investment principles include preserving the long-term principal of the trust fund, maximizing total return within 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, 2000, through June 30, 2001. A statement of detailed assets along with their fair market value was also provided as of June 30, 2001. 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 and composite for all respective indices used

throughout this section. TRS staff, in collaboration with staff from The Northern Trust Company, prepared the Investment Section. A complete listing of investment holdings is available on request.

Summary

Summary Data (June 30, 2001)

Total Fund Market Value	\$24.213 billion
One-Year Return (net of fees)	(4.2%)
Five-Year Return (net of fees)	10.1%
Ten-Year Return (net of fees)	10.6%
Percent Externally Managed	100.0%
Number of External Managers	51

Currently TRS is ranked 46th out of the largest 200 plan sponsor funds in the U.S., including corporate, government and endowment funds. Source: Pensions & Investments, January 22, 2001. (Based on market value of total assets.)

Fund Performance vs. Benchmarks and Market Values

As of June 30, 2001, TRS' total investments, including accrued investment income, at market value totaled \$24.213 billion, a decrease of \$843 million 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 18 and 19.

TRS had a total fund annualized return of (3.9) percent (gross of fees) and (4.2) percent (net of fees) for the one-year period ending June 30, 2001. The Performance Summary table on the next page shows the performance of the total investment portfolio, including accrued income and miscellaneous assets, versus comparative benchmarks.

As illustrated in the Performance Summary table, TRS' total return for FY01 surpassed the policy index return for the year ended June 30, 2001. The total return for FY01, however, did not meet 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 4.5 percent. Nevertheless, TRS outperformed these return assumptions for the longer term (5 and 10 year periods).

Performance Summary (net of fees)

Asset Class/Index	Years ended June 30					Annualized		
	1997	1998	1999	2000	2001	3 Years	5 Years	10 Years
TRS Total Fund	18.3%	16.6%	10.8%	10.6%	(4.2)%	5.5%	10.1%	10.6%
TRS Weighted Policy Index	18.9	14.4	11.5	9.7	(6.8)	4.5	9.2	10.7
CPI (Inflation)	2.3	1.7	2.0	3.7	3.2	3.0	2.6	2.7
TRS Equity - U.S.	27.9	26.6	17.1	6.5	(12.0)	3.1	12.2	13.4
Russell 3000 Index	30.6	28.8	20.1	9.6	(13.9)	4.2	13.8	15.0
TRS Fixed Income - U.S.	10.8	12.2	3.9	4.4	11.3	6.5	8.5	8.4
SSB BIG Index	8.2	10.6	3.1	4.5	11.3	6.2	7.5	7.9
TRS Fixed Income - International	4.9	2.4	4.3	(0.7)	(7.7)	(1.5)	0.5	6.2
SSBNUSWGB Index	2.2	0.9	4.9	2.4	(7.5)	(0.2)	0.5	6.6
TRS Equity - International	19.9	2.8	8.4	19.9	(19.5)	1.5	5.2	6.5
MSCI ACWI Ex.-U.S. Free Index	14.0	0.6	10.3	18.1	(23.8)	(0.5)	2.7	6.5
TRS Real Estate Property	12.7	14.7	13.5	8.8	9.8	10.7	11.8	8.5
NCREIF Property Index	10.8	17.5	12.8	11.6	11.2	11.9	12.7	7.2
TRS Private Equity	22.6	35.3	22.7	137.7	(5.4)	40.2	36.3	30.2
Russell 3000 Index + 3.0%	33.6	31.8	23.1	12.6	(11.3)	7.4	17.2	18.4

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

Asset Allocation vs. Targets

A pension fund's most important investment policy decision is the selection of an asset allocation. Similar to other large institutional funds, TRS maintains a well-diversified portfolio to manage risk effectively. The Allocation Targets vs. Total Assets table shows the asset allocation targets, as adopted by the Board of Trustees in July 1999, compared to the total assets assigned to each particular asset class.

The asset mix is periodically compared to the policy targets to determine when a rebalancing of the Fund is necessary. As of June 30, 2001, the allocations to U.S. equities, U.S. fixed income, international equities, and international fixed income were at or very near the targets. The private equity portfolio was underweight relative to its target and the real estate portfolio was overweight. TRS is continuing its efforts to implement the Board of Trustees' private markets asset allocation.

Allocation Targets vs. Total Assets

	6/30/01 Total Fund \$ Million	Percent of Portfolio	Policy Allocation Target	Band Width	Rebalance Percentage	
					Lower Trigger Point	Upper Trigger Point
U.S. Equities	\$7,317	31.6%	30.0%	+/-2.0%	28.0%	32.0%
U.S. Fixed Income	6,224	26.9	27.0	+/-4.0	23.0	31.0
Real Estate	2,427	10.5	8.0	+/-2.0	6.0	10.0
International Equities	4,602	19.9	20.0	+/-2.0	18.0	22.0
International Fixed Income	1,558	6.7	7.0	+/-2.0	5.0	9.0
Private Equity	691	3.0	7.0	+/-2.0	5.0	9.0
Short-Term Investments	312	1.4	1.0	+/-1.0	0.0	2.0
Pending Settlements/Expenses*	1,082	NA	NA			
Total Fund	\$24,213	100.0%	100.0%			

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

Investment Section**Portfolio Summary**

The Investment Portfolio Summary table contains a detailed list of security types. The amounts in this table differ slightly from the allocation percentages referenced on the previous page. The Allocation Targets vs. Total Assets table represents assets assigned to managers within each asset class whereas the following summary represents types of financial instruments. The differences

are explained by the types of investments each manager is allowed to hold within its portfolio. For example, U.S. equity managers hold not only common stock within their portfolio, but may hold small amounts of short-term investments as well. The same holds true for the other individual portfolios.

Investment Portfolio Summary (for years ended June 30)

	<u>2001</u>		<u>2000</u>	
	Market Value	% of Total	Market Value	% of Total
Bonds, Corporate Notes, and U.S. Government Obligations				
U.S. Government	\$895,660,735	3.7%	\$831,265,740	3.3%
Federal Agency	2,989,301,898	12.3	2,806,423,969	11.2
Municipals (Taxable)	<u>10,521,505</u>	<u>0.1</u>	<u>15,749,239</u>	<u>0.1</u>
Total Government Obligations	3,895,484,138	16.1	3,653,438,948	14.6
Corporate Obligations				
Basic Industries	179,360,178	0.7	141,510,937	0.6
Capital Goods	33,172,878	0.1	30,520,188	0.1
Consumer Durables	48,239,405	0.2	18,036,042	0.1
Consumer Nondurables	210,629,216	0.9	218,367,982	0.9
Energy	108,782,936	0.4	71,323,886	0.3
Financial	1,549,287,077	6.4	1,659,273,157	6.6
Miscellaneous	629,832,801	2.6	846,915,484	3.3
Technology	149,331,981	0.6	146,276,806	0.6
Transportation	110,858,297	0.5	114,439,255	0.5
Utilities	<u>105,564,129</u>	<u>0.5</u>	<u>83,822,124</u>	<u>0.3</u>
Total Corporate Obligations	3,125,058,898	12.9	3,330,485,861	13.3
Foreign Obligations				
Foreign Government Obligations	1,494,960,315	6.2	1,574,228,305	6.3
Foreign Corporate Obligations	<u>302,359,346</u>	<u>1.2</u>	<u>287,614,553</u>	<u>1.1</u>
Total Bonds, Corporate Notes, and Government Obligations	8,817,862,697	36.4	8,845,767,666	35.3
Equities				
Common Stock - U.S.	6,301,664,623	26.1	6,490,541,514	25.9
Preferred Stock-U.S.	57,086,211	0.2	57,996,400	0.2
Common Stock - International	4,601,292,055	19.0	4,954,547,913	19.8
Preferred Stock-International	<u>55,508,624</u>	<u>0.2</u>	<u>40,493,194</u>	<u>0.2</u>
Total Equities	11,015,551,513	45.5	11,543,579,021	46.1
Short-Term Investments*				
Foreign Currency	1,238,861,490	5.2	1,322,283,789	5.3
Private Equity	26,752,464	0.1	39,495,154	0.2
Real Estate Equity	689,740,876	2.8	877,028,687	3.4
	<u>2,424,554,513</u>	<u>10.0</u>	<u>2,428,110,937</u>	<u>9.7</u>
TRS Total Portfolio	\$24,213,323,553	100.0%	\$25,056,265,254	100.0%

* Includes accrued income and dividends totaling \$202,756,810 and \$232,706,956 for FY01 and FY00, respectively. Also includes U.S. dollar cash held within individual portfolios.

Asset Allocation (Historical)

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

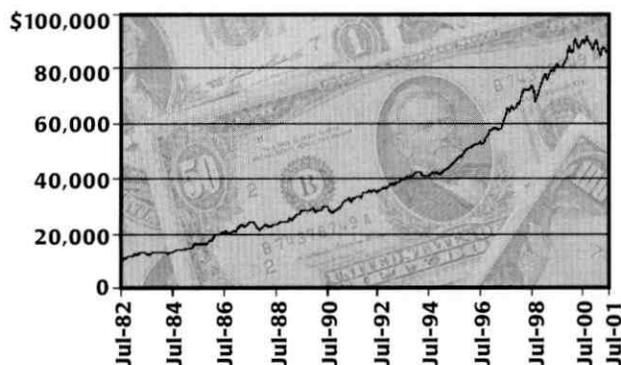
Asset Allocation (for years ending June 30)

Asset Type	2001	2000	1999	1998	1997
Bonds - U.S.	29.0%	28.0%	32.5%	32.3%	24.8%
Bonds - Intl.	7.4	7.4	6.5	6.7	7.3
Equities - Intl.	19.2	19.9	11.6	10.2	9.6
Equities - U.S.	26.3	26.1	32.5	30.5	30.8
Private Equity	2.8	3.5	2.6	2.2	2.0
Real Estate Equity	10.0	9.7	10.7	11.8	13.0
Short-Term Invstmnts.	5.3	5.4	3.6	6.3	12.5
Totals	100.0%	100.0%	100.0%	100.0%	100.0%

Source: TRS

Over the years, the TRS asset allocation has provided consistent overall returns, as represented by the following chart showing the growth of \$10,000 over the last 19 years.

Growth of \$10,000



Source: TRS

The next six sections provide a brief, but informative, overview of the various asset classes used by TRS for the period ending June 30, 2001.

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, sharing in the profits of a declaring company. U.S. common stocks are traded on numerous primary and secondary markets or exchanges and typically have potential for appreciation.

For the fiscal year, the U.S. equity portfolio returned (12.0) percent (net of fees) compared to the Russell 3000 Index return of (13.9) percent. One-, three-, five- and ten-year comparisons to this benchmark are noted below:

	FY01	3-Year	5-Year	10-Year
TRS	(12.0%)	3.1%	12.2%	13.4%
Russell 3000 Index	(13.9)	4.2	13.8	15.0

At June 30, 2001, 31.6 percent of the TRS investment portfolio was assigned to U.S. equity managers. TRS employed U.S. Equity managers to employ active, index or enhanced index management strategies during FY01.

The top 10 U.S. equity holdings, excluding commingled funds, at June 30, 2001, are listed below and represent 11.3 percent of total U.S. equity holdings.

Top 10 U.S. Equity Holdings

Firm	Market Value
General Electric Co.	\$179,275,395
Microsoft Corp.	119,469,610
Pfizer, Inc.	88,332,878
AOL Time Warner, Inc.	60,037,340
Johnson & Johnson	52,316,400
Citigroup, Inc.	47,391,298
Home Depot, Inc.	44,066,464
Cisco Systems, Inc.	43,801,940
International Business Machines Corp.	42,274,204
Exxon Mobil Corp.	40,477,379
Total	\$717,442,908

Source: The Northern Trust Company

Investment Section

As of June 30, 2001, TRS employed 12 U.S. domestic equity managers, who are identified in the U.S. Equity Managers and Assets Under Management table.

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

Index Account

State Street Bank & Trust Company (11/98) \$2,029,793,805

All Cap Growth Accounts

Geewax, Terker & Company (3/00) 439,034,901

Oak Associates, Ltd. (3/00) 204,150,953

Large Cap Value Accounts

GE Asset Management (4/00) 695,995,195

Dodge & Cox (4/00) 720,974,615

Bernstein Investment Research & Mgmt. (4/98) 716,089,463

Emerging Managers

Progress Investment Management (10/00) 121,938,204

Enhanced Core Account

Pacific Investment Management Co. (8/91) 718,214,826

Large Cap Growth Account

Lincoln Capital Management Co. (10/89) 870,258,320

Small/Mid Cap Growth Account

Morgan Stanley Investment Management (3/00) 219,669,718

Small Cap Growth Account

Neuberger Berman, L.L.C. (3/00) 123,179,756

Small Cap Value Account

Brinson Partners, Inc. (12/89) 228,184,822

Statistical Data

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

U.S. Equity – Diversification by Industry Sector (for year ending June 30, 2001)

Sector	Weighting TRS Domestic Equity	Weighting Russell 3000 Index
Autos/Transportation	3.3%	2.2%
Consumer Staples	5.0	5.9
Consumer Discretionary	13.3	13.4
Energy	7.1	6.1
Financial Services	17.9	20.4
Health Care	13.2	13.8
Materials/Processing	4.9	3.1
Miscellaneous/Other	6.4	5.2
Producer Durables	3.7	3.5
Technology	18.3	17.6
Utilities	6.9	8.8
Total	100.0%	100.0%

Source: The Northern Trust Company

U.S. Equity Profile (as of June 30, 2001)

Category	TRS	Russell 3000 Index
Market Cap (billions)	\$93.2	\$95.0
P/E	27.2x	26.5x
Dividend Yield	1.3%	1.3%
Beta	1.0	1.0
Diversification (R-Squared)	1.0	1.0
Five-Year EPS Growth	18.5%	15.8%
Price/Book Ratio	3.1x	3.6x

Source: Northern Trust Company, Frank Russell Company, and TRS.

TRS U.S. Equity vs. the Russell 3000 Index Economic Sectors (annual return as of June 30, 2001)

	Russell 3000 Index	TRS U.S. Equity
Total	(13.9%)	(12.0%)
Sector		
Autos/Transportation	20.1	28.0
Consumer Discretionary	(6.5)	(0.6)
Consumer Durables	12.2	10.5
Energy	10.6	7.2
Financial Services	24.0	31.1
Health Care	(5.4)	(1.3)
Materials/Processing	19.5	24.6
Miscellaneous/Other	2.0	3.8
Producer Durables	(13.6)	(18.3)
Technology	(51.9)	(53.2)
Utilities	(15.8)	(4.1)

Source: The Northern Trust Company

Discussion of U.S. Equity

The target for U.S. equities has remained at 30.0 percent; however, the breakdown of the styles has changed to reflect the incorporation of the emerging manager subclass. The U.S. Equity Styles table provides a further breakdown of the styles within the U.S. Equity portfolio.

U.S. Equity Styles

	Target
U.S. Equity Total	30.0%
Subclasses	
Index	28.0
Enhanced Core	9.8
All Cap Growth	8.9
Large Cap Value	29.4
Large Cap Growth	11.8
Small to Mid Cap Growth	3.0
Small Cap Growth	1.5
Small Cap Value	5.9
Emerging Managers	1.7
Total	100.0%

As of June 30, 2001, the TRS U.S. equity style percentages were near their respective targets and the characteristics of the U.S. equity portfolio closely resembled those of the Russell 3000 Index.

The year ended June 30, 2001, saw a strong value style bias in the U.S. equity market for the first three quarters. The last quarter of the year ended June 30, 2001, experienced a respite for investors owning expensive and popular issues of growth stocks. Despite the rebound in the fourth quarter, the past year has been very difficult for the overall market.

International Equity

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

International common stocks are traded on numerous primary and secondary markets or exchanges all over the world. Owning international common stocks also contains additional protocol by having to take into account 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, 2001, the international equity asset class returned (19.5) percent (net of fees) compared to the MSCI All Country World Excluding U.S. Free Index return of (23.8) percent. One-, three-, five- and ten-year comparisons to this benchmark are in the following table:

	FY01	3-Year	5-Year	10-Year
TRS	(19.5%)	1.5%	5.2%	6.5%
MSCI All Country World Ex. U.S. Free Index	(23.8)	(0.5)	2.7	6.5

Investment Section

At June 30, 2001, 19.9 percent of the TRS investment portfolio was assigned to international equity managers. TRS employed international equity managers to use fully active or index management strategies during FY01. Listed below are the top 10 international equity holdings, excluding commingled funds, as of June 30, 2001. These securities represent 11.2 percent of the total international equity portfolio.

Top 10 International Equity Holdings

Firm	Market Value
GlaxoSmithKline	\$77,908,390
Total Fina Elf	76,788,267
Vodafone Group	51,648,301
Hitachi	49,139,472
Shell Transportation & Trading	47,602,654
ENI	45,770,587
Canon, Inc.	43,639,682
National Australian Bank	43,632,253
Diageo	43,292,380
ING Groep	42,728,766
Total	\$522,150,752

Source: TRS and The Northern Trust Company

As of June 30, 2001, TRS employed seven international equity managers, who are identified in the International Equity Managers and Assets Under Management table.

International Equity Managers and Assets Under Management (includes inception date of account)

Index Account	
State Street Global Advisors (5/99)	\$636,234,546
Active/Core Accounts	
Brandes Investment Partners, L.P. (2/98)	666,795,304
Capital Guardian Trust Company (2/98)	647,171,773
Delaware International Advisers Ltd. (4/93)	691,470,654
Dresdner RCM Global Investors, L.L.C. (12/94)	637,188,032
INVESCO Global Asset Management, Inc. (6/00)	660,932,051
Martin Currie, Inc. (6/00)	654,138,949

Portfolio Characteristics

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

International Equity Fundamental Characteristics (as of June 30, 2001)

Characteristic	TRS	MSCIACWIEx. U.S. Free Index
Market Cap (billions)	\$35.7	\$38.6
P/E	20.3x	20.0x
Dividend Yield	2.1%	2.1%
EPS Growth	12.5%	14.7%
Return on Equity	14.0%	13.9%
Price/Book Ratio	2.8x	2.2x

Source: TRS and The Northern Trust Company

International Equity – Countries of Exposure (as of June 30, 2001)

Country	TRS	MSCIACWIEx. U.S. Free Index
United Kingdom	21.2%	18.6%
Japan	18.8	20.7
France	8.7	9.4
Germany	6.2	7.4
Netherlands	5.4	4.8
Switzerland	4.8	5.7
Italy	3.7	3.8
Australia	3.6	2.8
Spain	3.6	2.6
Hong Kong	2.3	1.8
Other (39) Countries	21.7	22.4
Total	100.0%	100.0%

Source: TRS

Discussion of International Equity

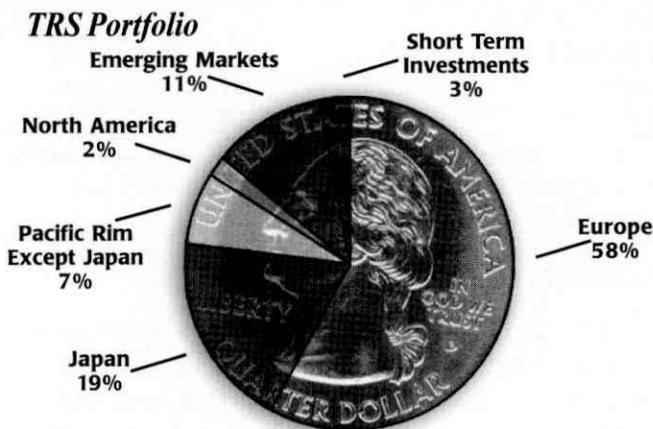
The target for international equities remained at 20.0 percent of total assets. The chart below provides a further breakdown of the styles adopted by the TRS Board of Trustees.

International Equity Styles

International Equity Total	Target 20.0%
Subclasses	
Index	14.3
Active Core	85.7
Total	100.0%

TRS international equity managers outperformed the MSCI ACWI Ex. U.S. Free Index by 4.3 percentage points for the year.

**Regional Allocation Comparison
 (June 30, 2001)**



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

U.S. Fixed Income

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

numerous provisions, and various types of bonds can be issued.

For the year ended June 30, 2001, TRS U.S. fixed income managers returned 11.3 percent (net of fees), matching the 11.3 percent return for its benchmark, the Salomon Smith Barney Broad Investment Grade (Salomon BIG) Index. One-, three-, five- and ten-year comparisons to this benchmark are noted below:

	FY01	3-Year	5-Year	10-Year
TRS	11.3%	6.5%	8.5%	8.4%
SSB BIG Index	11.3	6.2	7.5	7.9

The following table lists the top ten U.S. fixed income holdings, excluding index funds, as of June 30, 2001. These securities represent 15.7 percent of the total U.S. fixed income portfolio.

Top 10 U.S. Fixed Income Holdings

Security/Position	Rate	Maturity	Market Value
Government National Mortgage Association	6.50%	7/15/2028	\$232,429,100
U.S. Treasury Bonds	8.50	2/15/2020	153,775,464
Government National Mortgage Association TBA	7.00	NA	107,936,250
Federal National Mortgage Association	6.00	7/1/2029	105,192,984
U.S. Treasury Inflation Indexed Notes	4.00	7/15/2002	99,165,654
Federal National Mortgage Association TBA	7.00	NA	94,763,253
Federal National Mortgage Association TBA	6.00	NA	89,300,100
U.S. Treasury Inflation Indexed Notes	3.97	1/15/2008	87,782,137
Government National Mortgage Association TBA	8.00	NA	78,731,440
Federal Home Loan Mortgage Corporation	6.88	1/15/2005	51,597,361
Total			\$1,100,673,743

Source: The Northern Trust Company

Investment Section

As of June 30, 2001, TRS employed eight U.S. fixed income managers, who are identified in the U.S. Fixed Income Managers and Assets Under Management table.

U.S. Fixed Income Managers and Assets Under Management (includes inception date of account)

Index	
State Street Bank & Trust Company (11/99)	\$609,295,149
Emerging Managers	
Progress Investment Management (10/00)	115,071,502
Active Core	
BlackRock Financial Management, Inc. (6/97)	1,522,472,896
Chicago Capital Management, Inc. (12/95)	609,864,639
Morgan Stanley Investment Management (3/98)	610,926,311
Payden & Rygel Investment Counsel (6/97)	605,924,952
Pacific Investment Management Co. (7/82)	1,521,929,308
Weiss, Peck & Greer, L.L.C. (12/91)	610,393,896

Statistical Data

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

U.S. Fixed Income Profile

Characteristic	06/30/01		06/30/00	
	TRS	SSB BIG	TRS	SSB BIG
Term to Maturity (years)	7.8	7.9	9.0	8.8
Effective Duration (years)	4.9	4.7	5.1	5.0
Average Coupon (%)	6.5	6.8	6.9	6.9
Average Quality Rating	Aa	Aaa	Aaa	Aaa
Yield to Maturity (%)	6.0	6.1	7.6	7.3

Source: TRS, Salomon Smith Barney, and Wilshire Compass

U.S. Fixed Income Managers (weighting June 30, 2001)

Fixed Income Type	TRS	Salomon BIG Index
Treasury	16.8%	25.8%
Federal Agency	5.4	12.1
Corporates (Credit)	26.4	25.2
Mortgage Backed Securities	42.4	36.1
Asset Backed Securities	3.9	0.8
Other	5.1	0.0
Total	100.0%	100.0%

Source: Wilshire Compass

Diversification by Quality Rating for Fixed Income Manager Portfolios

Moody's Quality Rating	06/30/01	06/30/00
Aaa	68.4%	66.7%
Aa1 through Aa3	4.0	3.5
A1 through A3	14.2	10.9
Baa1 through Baa3	9.2	7.0
Ba1 through Ba3	2.2	3.3
Other*	2.0%	8.6
Total	100.0%	100.0%

*Other includes under Ba and NR ratings and short-term.

Source: Wilshire Compass

Discussion of U.S. Fixed Income

At June 30, 2001, 26.9 percent of TRS' investment portfolio was assigned to U.S. fixed income managers, relative to the target allocation of 27.0 percent. TRS employed U.S. fixed income managers to use fully active or index management strategies during FY01. The U.S. Fixed Income Styles table provides a further breakdown of the styles adopted by the TRS Board.

U.S. Fixed Income Styles

U.S. Fixed Income Total	Target
	27.0%
Subclasses	
Index	9.8
Emerging Managers	1.9
Active Core	88.3
Total	100.0%

As of June 30, 2001, the TRS U.S. fixed income style percentages were near their respective targets.

Following a strong performance by corporate bonds during the last quarter of the fiscal year, most TRS U.S. fixed income managers have begun to shift back to overweight positions in mortgages. In addition, the duration of the overall portfolio has decreased relative to the Index, showing signs that the managers believe monetary policies have stabilized with intermediate treasuries and intermediate corporate notes beginning to become part of the portfolio mix.

International Fixed Income

International fixed income is typically a long-term security that represents a contractual obligation of debt or a loan to a foreign corporation, foreign government, foreign agency, or foreign municipality. The security pays a fixed, or in some cases, a variable rate of return or interest until the bond matures, at which time the entire par amount is repaid to the bondholder. International fixed income instruments are traded on numerous primary and secondary markets or exchanges throughout the world. There can be numerous provisions, and various types of bonds can be issued. Owning international fixed income also requires consideration of such issues as foreign currency fluctuations and the rules and regulations of the varying exchanges and regulatory authorities in numerous countries.

TRS' international fixed income managers returned (7.7) percent (net of fees) in FY01, underperforming the benchmark, the Salomon Smith Barney Non-U.S. World Government Bond Index (SSBNUSWGBI), which returned (7.5) percent. One-, three-, five-, and ten-year comparisons to this benchmark are as follows:

	FY01	3-Year	5-Year	10-Year
TRS	(7.7%)	(1.5%)	0.5%	6.2%
SSBNUSWGBI	(7.5)	(0.2)	0.5	6.6

At June 30, 2001, TRS employed three international fixed income managers, who are identified in the International Fixed Income Managers and Assets Under Management table.

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

Brinson Partners, Inc. (8/90)	\$521,770,629
Julius Baer Investment Management, Inc. (7/92)	520,647,344
Rogge Global Partners (6/00)	515,580,246

Statistical Data

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

International Fixed Income Profile

	6/30/01		6/30/00	
	TRS	SSBNUSWGBI	TRS	SSBNUSWGBI
Average Coupon	4.8%	4.6%	5.8%	5.0%
Effective Duration	6.1 years	5.4 years	5.4 years	5.5 years
Average Maturity	8.1 years	7.2 years	7.0 years	7.1 years

Source: TRS and Salomon Smith Barney

International Fixed Income - Countries of Exposure (as of June 30, 2001)

Country	% Weight	% Weight
	TRS	SSBNUSWGBI
Australia	5.2%	0.6%
Austria	1.8	1.6
Belgium	2.3	3.5
Canada	6.6	3.8
Denmark	3.8	1.5
Finland	0.1	0.7
France	7.5	10.5
Germany	9.8	11.1
Greece	0.3	1.3
Ireland	0.2	0.3
Italy	10.8	10.7
Japan	22.7	37.9
Netherlands	4.2	2.9
Portugal	0.0	0.7
Spain	4.8	4.5
Sweden	4.1	1.0
Switzerland	0.0	0.7
United Kingdom	5.9	6.7
Other*	9.9	0.0
Total	100.0%	100.0%

* Other includes U.S. cash, foreign cash, net foreign exchange positions, pending trade settlements and bonds held outside the Index.

Source: TRS and Salomon Smith Barney

Discussion of International Fixed Income

The target allocation for international fixed income remained unchanged at 7.0 percent for FY01, with all of the asset class being actively managed. At June 30, 2001, the TRS International Fixed Income portfolio was near its respective target, comprising 6.7 percent of the total fund.

Private Equity

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

Investments made in the private equity asset class 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 businesses.

FY01 was a struggle for private equity. For the year ended June 30, 2001, private equity outperformed its benchmark, the Russell 3000 + 3.0 percent, by 5.9 percentage points. The asset class maintains strong long-term returns, outperforming the benchmark by 32.8 percent and 19.1 percent for the three- and five-year periods, respectively. One-, three-, five- and ten-year comparisons to this benchmark are noted below:

TRS	FY01 (5.4%)	3-Year 40.2%	5-Year 36.3%	10-Year 30.2%
Russell 3000 Index + 3.0%	(11.3)	7.4	17.2	18.4

The internal rate of return (IRR), widely used throughout the industry, is a more appropriate return measure for this asset class. The IRR for the private equity asset class since inception of the portfolio for the period ending June 30, 2001, was 22.0 percent.

At June 30, 2001, 3.0 percent of the investment portfolio was assigned to the private equity asset class. As of June 30, 2001, TRS invested in numerous private equity partnerships/funds. The following chart lists the partnerships and the current assets under management.

Private Equity Managers and Assets Under Management (includes inception date of account)

Buyout Accounts

Apollo Advisors, L.P. (5/01)	\$8,029,393
DLJ Merchant Banking Partners I, L.P. (9/92)	6,773,468
DLJ Merchant Banking Partners II, L.P. (3/97)	57,113,653
DLJ Merchant Banking Partners III, L.P. (9/00)	44,223,074
GTCR Golder Rauner, L.L.C. (3/00)	36,805,110
Kohlberg Kravis Roberts & Co. (5/97)	73,856,629
Mesirow Financial Services, L.P. (6/97)	19,980,778
Trivest Equities, Inc. (6/96)	30,667,091
Veronis Suhler Media Merchant Bank (9/95)	26,308,640
Weiss, Peck & Greer Corp. Dev. (11/97)	19,467,999

International Accounts

Periscope I Fund Managers, L.L.C. (6/97)	2,423,156
TCW/Latin America Private Equity Ptnrs. (5/97)	34,861,512
Warburg Pincus Intl. Partners, L.P. (9/00)	12,389,925

Debt-Related Accounts

Wm. Blair Mezzanine Cptl. Ptnrs. II, L.L.C. (5/97)	36,369,895
Wm. Blair Mezzanine Cptl. Ptnrs. III, L.L.C. (1/00)	23,561,005

Venture Capital Accounts

Apex Venture Partners (6/96)	19,120,643
Frontenac Company V (4/87)	170,422
Frontenac Company VI (6/93)	2,111,315
Penman Asset Management, L.P. (10/94)	7,901,953
21st Century Communications T-E Ptnrs., L.P. (2/95)	4,648,093
SCP Private Equity Partners, L.P. (5/97)	21,290,161
SCP Private Equity Partners II, L.P. (6/00)	35,419,763
VantagePoint Venture Partners (6/00)	4,862,195
Weiss, Peck & Greer Venture Ptnrs., L.P. (11/89)	11,327,256
Weiss, Peck & Greer Venture Ptnrs. II, L.P. (8/94)	25,409,848
Weiss, Peck & Greer Venture Ptnrs. III, L.P. (3/97)	124,648,392

As of June 30, 2001, the breakdown of the private equity subclasses was as follows:

Private Equity Breakdown (as of June 30, 2001)



Source: TRS

Discussion of Private Equity

The target allocation for private equity remained unchanged at 7.0 percent for FY01. The Private Equity Styles table provides a breakdown of the styles also adopted by the Board.

Private Equity Styles

	Target
Private Equity Total	7.0%
Subclass	
Buyout	45.0
Debt-Related	10.0
International	10.0
Venture Capital	35.0
Total	100.0%

As of June 30, 2001, the TRS private equity portfolio was underweight relative to its target. TRS will continue its efforts to implement the Board of Trustees' private markets asset allocation decision.

Real Estate

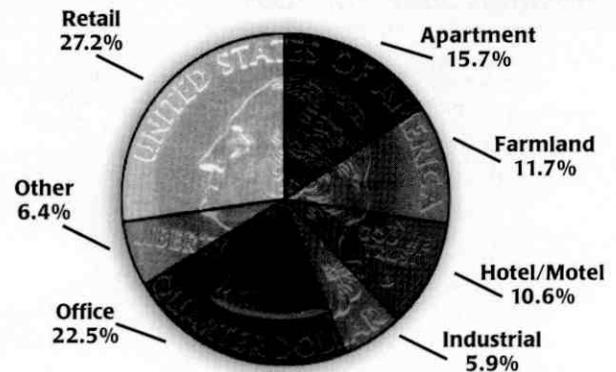
Real estate investments are direct investments or ownership in land and all physical property related to it, including, but not limited to, residential, farmland, hotels/motels, industrial, office space and retail. Additionally, there are limited partnerships that directly purchase properties and structures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

TRS real estate investments earned a 9.8 percent (net of fees) rate of return during FY01 as compared to the NCREIF Property Index return of 11.2 percent. One-, three-, five-, and ten-year comparisons to this benchmark are as follows:

	FY01	3-Year	5-Year	10-Year
TRS (net of fees)	9.8%	10.7%	11.8%	8.5%
NCREIF Property Index	11.2	11.9	12.7	7.2

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

Real Estate Holdings by Type June 30, 2001



As of June 30, 2001, TRS employed numerous real estate managers, who are identified in the Real Estate Managers and Assets Under Management table.

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

Separate Accounts

Capri/Capital Realty Advisors (12/91)	\$848,055,664
Commonwealth Realty Advisors, Inc. I (9/91)	265,551,419
Commonwealth Realty Advisors, Inc. II (11/92)	348,326,791
Cozad/Westchester Asset Mgmt., Inc. (5/91)	300,667,344
Koll Bren Schreiber Realty Advisors I (6/93)	90,424,438
Koll Bren Schreiber Realty Advisors II (5/96)	40,053,110
LPC Realty Advisors I, Ltd. (7/92)	157,754,695
Stone-Levy, LLC (4/95)	254,247,289

Closed End Accounts

Capital/Bear Stearns Realty Partners - * (3/90)	53,194,162
DLJ Real Estate Capital Partners, Inc. (3/96)	29,671,767
Heitman Capital Management - * (7/85)	4,983,118
RREEF Capital II, L.L.C. (11/96)	33,926,081

* Fund in liquidation mode

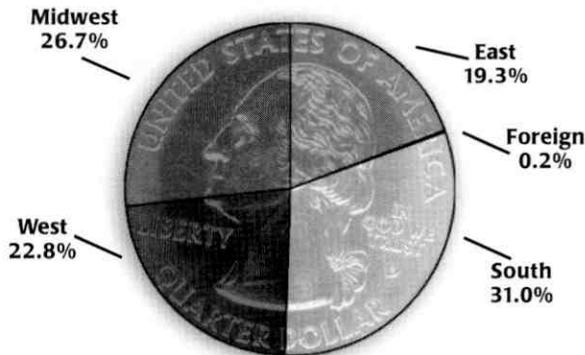
Discussion of Real Estate

The Board of Trustees established a target allocation for real estate of 8.0 percent. As of June 30, 2001, the TRS real estate portfolio was overweight relative to its target. TRS is continuing its efforts to reduce the real estate portfolio to its targeted 8.0 percent allocation.

Investment Section

The TRS real estate portfolio has the following geographical representation:

Geographic Diversification of Real Estate Holdings June 30, 2001



Brokerage Activity

The following table shows the top 50 listed brokers used by TRS external managers for the years ended June 30, 2001, and 2000. TRS utilizes a commission recapture and soft dollar program. For the year ended June 30, 2001, TRS recaptured over \$1.9 million in commissions that were reinvested back into the fund. In addition, TRS received \$528,516 in soft dollar credits that were used to pay for fund research and consulting expenses. These amounts reduced the overall listed commissions to \$11.2 million. During FY01, TRS spent \$569,417 of soft dollar commission credits and recaptured commissions. At June 30, 2001, TRS had a remaining soft dollar credit balance of \$531,876.

Top 50 Brokers Used by TRS Managers (for the years ended June 30)

Broker	FY01 Commission	FY00 Commission
Goldman Sachs & Company (Worldwide)	\$1,069,980	\$733,017
Merrill Lynch & Co., Inc. (Worldwide)	983,476	805,902
Morgan Stanley/Dean Witter (Worldwide)	849,380	540,933
Salomon Smith Barney, Inc. (Worldwide)	817,123	453,005
CSFB (Worldwide)	674,633	517,190
BNYESI	577,209	334,500
Lehman Bros., Inc. (Worldwide)	515,416	302,139
J.P. Morgan Securities, Inc. (Worldwide)	477,128	253,605
Guzman & Company	403,717	27,206
UBS Warburg (Worldwide)	390,371	51,996
Instinet (Worldwide)	382,338	181,477
ABN AMRO (Worldwide)	334,502	269,014

Bear Stearns & Co. (Worldwide)	299,321	421,057
Deutsche Bank / DB Clearing (Worldwide)	285,688	1,761,114
Merrill Lynch Pierce Fenner & Smith	265,198	413,465
Citation Group, The (Merrill Lynch)	260,317	125,271
HSBC (Worldwide)	224,035	62,716
Lynch, Jones & Ryan	212,755	208,289
SBC Warburg & Co. (Worldwide)	185,951	118,116
Jefferies & Company	178,402	77,876
Cheuvreux de Virieu (Worldwide)	176,480	102,812
Bernstein, Sanford C. & Co.	162,047	74,750
Bank Julius Baer (Worldwide)	158,829	77,930
Kleinwort Benson (Worldwide)	153,443	60,609
Frank Russell, Inc. (Worldwide)	147,406	126,697
Investment Technology Group, Inc.	112,512	224,010
Intermobiliare	111,761	40,104
Nomura Securities, Inc.	110,063	95,738
Legg Mason Wood Walker, Inc.	108,386	33,767
Credit Lyonnais (Worldwide)	102,391	33,969
ING Barings (Worldwide)	101,462	39,991
Bridge Trading Company	99,121	19,976
Pictet and Co., Ltd.	93,859	67,755
Montgomery Securities	87,821	79,765
Prudential Securities, Inc. (Worldwide)	85,470	66,935
Fox Pitt & Kelton (Worldwide)	83,622	46,329
Cazenove & Co. (Worldwide)	78,486	3,991
Daiwa Securities (Worldwide)	75,679	65,346
DMG C.J. Lawrence, Inc. (Worldwide)	71,539	48,705
D. L. J. Securities Corp. (Worldwide)	69,016	216,298
Deutsche Morgan Grenfell (Worldwide)	64,211	38,905
Weeden & Co.	62,108	60,069
Neuberger Berman	60,893	29,995
SG Cowen & Co.	59,297	0
Carnegie, Inc. (Worldwide)	54,172	39,571
Robert Fleming & Co., Ltd. (Worldwide)	52,344	61,326
Frankel, Stuart & Co., Inc.	52,125	15,355
First Union Capital Markets Clearance	51,038	5,906
Abel / Noser Corporation	50,236	75,315
Ord Minnet	49,069	38,134
All Others (FY01, 176 Brokers)	1,558,611	3,170,449
Totals	\$13,690,437	\$12,718,390

Source: The Northern Trust Company and TRS

External Manager Fee Payments

For the year ended June 30, 2001, fee payments to external managers totaled \$69.667 million, an increase of 12.2 percent from the year ended June 30, 2000. A summary is provided in the Schedule of Investment Manager Fees table.

Schedule of Investment Manager Fees

Investment Manager/Account	FY01	FY00
Angelo, Gordon & Co.	\$0	\$265,580
Apex Venture Partners	418,790	675,000
Apollo Advisors, L.P.	562,500	0
Atlantic Asset Management Partners, L.L.C.	0	77,026
Bear Stearns/Capital Associates Realty Advisors	629,802	870,940
Bernstein Investment Research & Mgt.	1,257,806	1,013,908
BlackRock Financial Management, Inc.	830,732	866,867
Brandes Investment Partners, L.P.	2,686,768	1,775,415
Brinson Partners, Inc.	1,570,470	2,296,178
Capri/Capital Advisors	3,527,219	3,339,068
Capital Guardian Trust Co.	2,600,985	2,201,132
Chicago Capital Management, Inc.	654,318	683,806
Chicago Equity Partners	0	277,979
Clay Finlay, Inc.	0	506,309
Commonwealth Realty Advisors, Inc.	2,417,138	2,366,437
Conseco Capital Management	0	122,300
Cozad/Westchester	1,225,331	1,157,391
Daystar Partners	112,076	484,499
Delaware International Advisors, Ltd.	1,256,740	1,164,028
DLJ Merchant Banking Partners, L.P.	0	0
DLJ Merchant Banking Partners II, L.P.	833,203	1,089,908
DLJ Merchant Banking Partners III, L.P.	1,228,702	0
DLJ Real Estate Capital Partners, L.P.	575,995	750,000
Dodge & Cox	1,584,858	217,710
Dresdner RCM Global Investors, L.L.C.	1,963,152	1,842,826
Fiduciary Management Associates	0	41,188
Forstmann-Leff International, Inc.	0	75,081
Frontenac Company VI	180,000	300,000
GE Asset Management, Inc.	1,532,984	226,997
Geewax, Terker & Company	1,464,707	415,641
GTCR Golder Rauner, L.L.C.	0	0
Heitman Capital Management	67,006	88,362
Hotchkis & Wiley	0	212,137
Hughes Capital Management, Inc.	0	39,562
Insight Capital Research & Management, Inc.	0	116,523
Institutional Capital Corp.	0	321,639
INVESCO Global Asset Mgt. (N.A.), Inc.	1,866,679	69,857
Julius Baer Investment Management, Inc.	858,336	688,562
KBS Realty Advisors	2,657,289	2,941,921
Kohlberg Kravis Roberts & Co.	641,058	602,645
Lazard Asset Management	597,855	766,186
Lincoln Capital Management Co.	1,988,783	2,694,932
LPC Realty Advisors I, Ltd.	4,526,991	5,396,549
Martin Currie, Inc.	1,876,248	112,919
Mentor Investment Advisors, Inc.	0	24,534
Mesirow Private Equity Investments, Inc.	747,500	750,000
Morgan Stanley Investment Mgt., Inc.	1,561,133	799,214
Neuberger Berman, L.L.C.	691,186	147,909

Oak Associates, Ltd.	222,361	180,690
Pacific Investment Management Co.	2,996,701	3,349,571
Paradigm Asset Management Co., L.L.C.	0	122,619
Payden & Rygel Investment Counsel	776,243	752,128
Penman Asset Management, L.P.	90,227	244,730
Periscope I Fund Managers, L.L.C.	135,000	128,250
Progress Investment Management Company	871,079	0
Pyrford International, PLC	0	296,065
Rogge Global Partners	854,211	24,277
RREEF Real Estate Venture Capital Fund, L.P.	429,177	366,548
21st Century Communications	79,108	141,713
SCP Private Equity Partners, L.P.	2,354,805	676,827
Scudder Kemper Investments, Inc.	0	372,127
State Street Global Advisors	737,907	1,565,274
Stone-Levy, L.L.C.	1,146,971	1,055,650
Strong Capital Management, Inc.	0	121,717
TCW/Latin America Partners, L.L.C.	823,080	574,429
Taplin, Canida & Habacht	0	57,611
The Edgar Lomax Company	0	37,559
The Northern Trust Company	0	118,259
The Northern Trust Company (Custody)	675,000	675,000
Trivest, Inc.	443,275	320,444
Valenzuela Capital Partners, L.L.C.	0	81,561
VantagePoint Venture Partners	1,795,956	0
Veronis Suhler & Associates	111,850	134,407
W.R. Huff Asset Management Co., L.L.C.	0	241,134
Warburg Pincus	0	0
Wayne Hummer Management Co.	0	10,605
Weiss, Peck & Greer Corp. Devlpmt. Assoc.	596,928	600,000
Weiss, Peck & Greer Investments	461,765	396,915
Weiss, Peck & Greer Venture Prtnrs., L.P.	182,245	214,383
Weiss, Peck & Greer Venture Prtnrs. II, L.P.	1,556,307	2,344,888
Weiss, Peck & Greer Venture Prtnrs. III, L.P.	4,176,435	5,144,323
Western Asset Management Co.	0	229,826
Wm. Blair Mezzanine Captl. Prtnrs. II, L.L.C.	272,565	332,152
Wm. Blair Mezzanine Captl. Prtnrs. III, L.L.C.	683,052	290,624
Total fees paid by TRS	\$69,666,589	\$62,078,971

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 our custodian, The Northern Trust Company, acting as the securities lending agent. Additionally, TRS participates in securities lending with State Street Bank & Trust Company 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 (as of June 30, 2001)

Income Source	Amount
Income Earned FY01 Northern Trust	\$12,657,651
Income Earned FY01 State Street	<u>\$1,627,183</u>
Total Net Securities Lending Income	\$14,284,834
Total Collateral Market Value Northern Trust	\$2,880,112,714
Total Market Value of Securities on Loan Northern Trust	\$2,735,931,230
Total Collateralized Percentage	105%

Source: The Northern Trust Company and State Street Bank and Trust Company