

Letter from Strategic Investment Solutions, Inc.

Letter from the Chief Investment Officer

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INVESTMENT SECTION

Invest

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MICHAEL R. BEASLEY
MANAGING DIRECTOR

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October 31, 2002

To the Members of the Board:

I am pleased to report the performance of the Systems' investments for Fiscal Year 2002, another year of very unsettled worldwide financial markets. While the PSRS/NTRS investments have been structured to control excessive risk, the Systems' assets were not immune to the decline in the stock markets of the world during this fiscal period. Not since the 1970s and the 1930s have investors experienced such a dramatic and sustained decline in stock prices. This downturn is similar to previous corrections following periods of very favorable stock market returns. We do not know how long the downturn will take to correct the excesses of the previous cycle. Bull markets generally push stock prices to levels of extreme optimism and overvaluation as we saw in the late 1990s. Bear markets reduce prices beyond everyone's expectations and tend to bottom out at the peak of investors' pessimism.

The Total Fund return for the fiscal year ended June 30, 2002 for PSRS was -2.8 percent, and 6.0 percent for the past five years. The NTRS returned -2.8 percent for the fiscal year, and 6.0 percent for the past five years. Both funds exceeded the policy index. While the absolute returns were disappointing, the Systems outperformed 75 percent of a large universe of state and municipal pension funds.

Asset class performance for the fiscal year was mixed. The US equity return for both PSRS and NTRS was -15.4 percent; fixed income assets for both funds returned 8.8 percent; and the international equity return for both funds was -8.1 percent. All performance results were calculated in compliance with the AIMR Performance Presentation Standards.

During the fiscal year, the Board considered the results of a complete analysis of the current and expected financial condition of the Systems' investment portfolios. Two new asset classes were adopted to provide additional diversification of the risk of the public equity markets and to enhance the long-term potential of the Systems' investment portfolio. As always, thank you for giving us the opportunity to participate in this partnership with you.

Sincerely,



Michael R. Beasley

Managing Director



November 1, 2002

To the Members of the Systems:

On behalf of the PSRS and NTRS internal investment staff, I am honored to present the following reports on the Systems' investments for the fiscal year ending June 30, 2002. The combined Retirement Systems ended the year as one of the 50 largest defined benefit plans in the United States with total assets of \$20.9 billion.

Investors have had to deal with extremely volatile markets this past year, driven by events as diverse as major corporate scandals, worldwide political unrest and the continuing threat of terrorism. The assets in your Retirement Systems were not immune to this volatility. Thus, I will take the opportunity in this letter to answer the four investment-related questions that we have received most often from our members during this extended bear market:

- *How much have the PSRS and NTRS assets declined?*
- *How does the investment performance of PSRS and NTRS compare to other public retirement systems?*
- *Where are the PSRS and NTRS assets invested and have the investments changed during the 30-month down market?*
- *Will the negative investment environment continue?*

Decline in Assets

The combined assets of PSRS and NTRS have declined \$800 million over the last fiscal year. The annual peak in the Retirement Systems' assets occurred at June 30, 2000 with total assets of \$22.2 billion. Thus, the combined assets have declined \$1.3 billion over the last two-year period. The total loss in the Systems' fund balance over the last two fiscal years includes both investment losses and negative cash flows due to benefit payments exceeding member and employer contributions.

Investment Performance Comparison

For the second year in a row, the U.S stock market experienced the worst single year performance since 1974, with returns in fiscal year 2002 of -18.0 percent. As described in the preceding paragraph, the Systems were not immune to the downturn in the markets. The total fund performance for the fiscal year ending June 30, 2002 was -2.8 percent for both PSRS and NTRS, while the total annualized fund performance for the five-year period was 6.0 percent.

Despite the lower than expected returns, members should take comfort in the fact that PSRS and NTRS have maintained one of the most conservative asset allocations of any public retirement system in the country over the last several years with almost half of the assets invested in bonds. This diversified investment portfolio has provided substantial downside protection against the falling equity markets. The one-year, three-year and five-year returns for PSRS and NTRS now rank in the top 25 percent of the Independent Consultants Cooperative Universe of public funds. Simply stated, the Systems investment returns over the last several years were better than 75 percent of the public retirement systems in the country.

The solid long-term results (relative to a peer group and to the stock market) are due, for the most part, to the ability of the Board of Trustees to operate with a long-term focus. The Board of Trustees ignored the temptation in the late 1990's to increase the Systems' allocation to stocks. Instead, the Board maintained a diversified and conservative asset allocation that has protected the financial security of the Retirement Systems.

Asset Allocation

The main determinant of a pension fund's long-term success is related to its asset allocation. The Board adopted a diversified allocation in 1995 of 47 percent fixed income (bonds), 38 percent domestic equities and 15 percent international equities (this asset allocation was reaffirmed by the Board in 1998). Our primary objective as investment staff is to continuously analyze the Systems' asset allocation to ensure that it is positioned appropriately for *future* market environments. To meet that challenge, the Board of Trustees, the internal investment staff and the Systems' asset consultant spent much of the last two years researching different asset classes and conducting an in-depth analysis to restructure the asset allocation. The objective of this process was to ensure the optimal allocation of funds among asset classes given the Systems' return requirements, risk tolerance and liability stream.

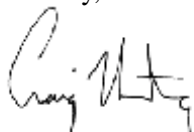
The Board adopted a new asset allocation in January that we believe will provide a higher expected return for the Systems while providing additional diversification from the traditional public markets. The new asset allocation includes 40 percent fixed income, 37 percent domestic equities, 15 percent international equities, 5 percent real return assets (such as inflation protected bonds and publicly traded real estate) and 3 percent in private equity.

Will this Market Continue?

If you go back and review the investment letter from the Annual Reports in the late 1990's, you will note a caution from the investment staff that the extraordinary returns in the domestic stock markets could not continue. For the three-year period ending June 30, 1999, the S&P 500 (common stocks) had compounded at approximately 29.0 percent annually. For the three-year period ending June 30, 2002, the S&P 500 had compounded at approximately -9.0 percent annually. Both of these returns are vastly different than the historical long-term (75 years) average for common stocks of just over 10.0 percent. We do not expect the extraordinary positive returns of the late 1990's or the extraordinary negative returns of the last three years to repeat. Instead, we anticipate a return to normalcy in the capital markets over the next several years.

The investment staff is committed to meeting the continuous challenges that lie ahead in the investment markets and we will work to ensure that the Systems' assets are positioned to provide long-term financial security to the members of the Retirement Systems.

Sincerely,



Craig A. Husting, CFA
Chief Investment Officer

Investment Highlights

As of June 30, 2002

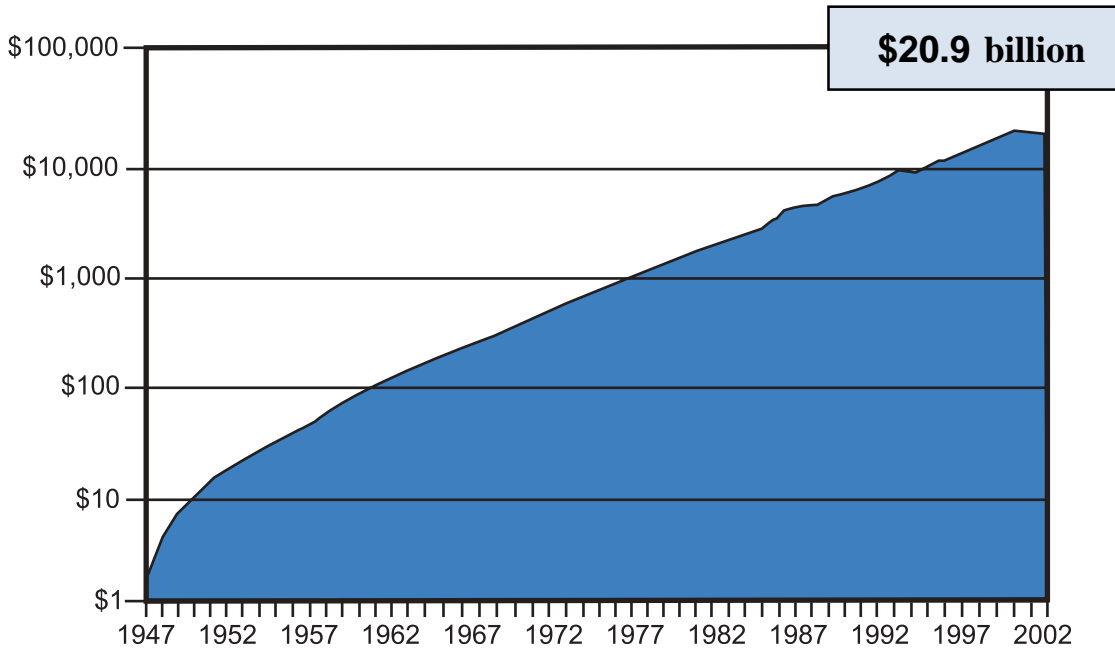
The Board of Trustees of the Public School & the Non-Teacher School Employee Retirement Systems (PSRS/NTRS) is charged with the responsibility for investing the assets of the Systems in a manner consistent with the fiduciary standards set forth in the ‘prudent person’ rule. To that end, the Board has adopted the following principles to guide all investment-related decisions:

- (1) Act in the exclusive interest of the members of the Systems,
- (2) Maximize total return within prudent risk parameters,
- (3) Preserve the long-term purchasing power of the fund.

The investment portfolios of PSRS/NTRS represent all contributions to the plans, from members and their employers, as well as all net earnings on these assets. These funds are held in support of both current and future liabilities. Total assets as of June 30, 2002 were \$20.9 billion in comparison to \$21.7 billion as of June 30, 2001, decreasing by approximately \$0.8 billion due to depreciating equity markets and benefit payments in excess of current contributions. The long-term growth in assets since the inception of PSRS in 1946 and NTRS in 1965 is shown in the graph below.

55 Years of Growth

(dollar amounts in millions)



PSRS/NTRS Asset Allocation

As of June 30, 2002

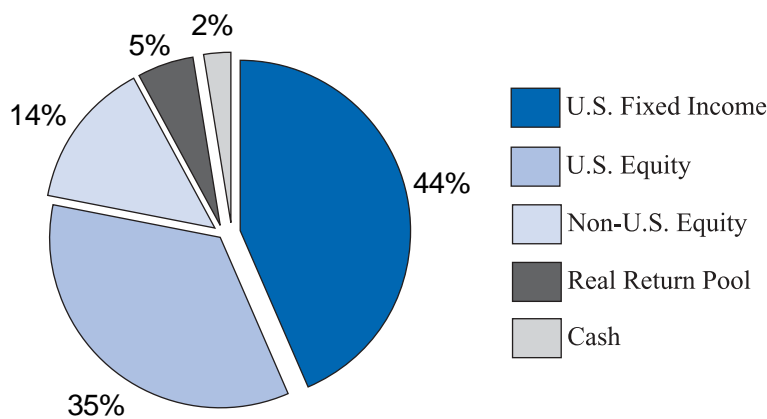
The time horizon of the Systems' investment portfolio reflects the long-term nature of the PSRS/NTRS pension obligations. Accordingly, diversification among investments displaying unique risk and return characteristics provides the framework for selecting an asset allocation that is expected, in the aggregate, to give the funds the highest long-term return within a prudent risk level.

In late 1995, the Board adopted the asset allocation targets of 47 percent U.S. Fixed Income, 38 percent U.S. Equity and 15 percent Non-U.S. Equity. This represented a significant increase in the percentage of assets invested

in domestic and international stocks when compared to previous allocations.

In January 2002, the Board approved two additional asset classes by allocating 3 percent to Private Markets (yet to be funded) and 5 percent to a Real Return Pool. When the Private Markets allocation is funded, new target allocations of 40 percent for U.S. Fixed Income and 37 percent for U.S. Equity will take effect. The Non-U.S. Equity target will remain at 15 percent. The pie chart below shows the actual allocation of assets as of June 30, 2002.

Asset Allocation 6/30/02



Asset Type	PSRS Market Value	NTRS Market Value	Combined Funds*	% of Total	Target Allocation
U.S. Fixed Income	\$ 8,382,619,665	\$ 680,574,958	\$ 9,063,194,623	43.5%	42.0%
U.S. Equity	6,675,015,425	539,288,531	7,214,303,956	34.6%	38.0%
Non-U.S. Equity	2,706,043,576	218,680,432	2,924,724,008	14.0%	15.0%
Real Return Pool	1,027,171,970	86,954,714	1,114,126,684	5.3%	5.0%
Cash & Equivalents*	485,447,874	49,138,949	534,586,823	2.6%	0.0%
Total Investments**	\$19,276,298,510	\$1,574,637,584	\$20,850,936,094	100.0%	100.0%

* All manager-held cash is reflected as Cash & Equivalents.

** Total Investments include accrued income and exclude securities lending collateral as of June 30, 2002.

Total Fund Review

Periods Ended June 30, 2002

Total Fund Investment Returns*

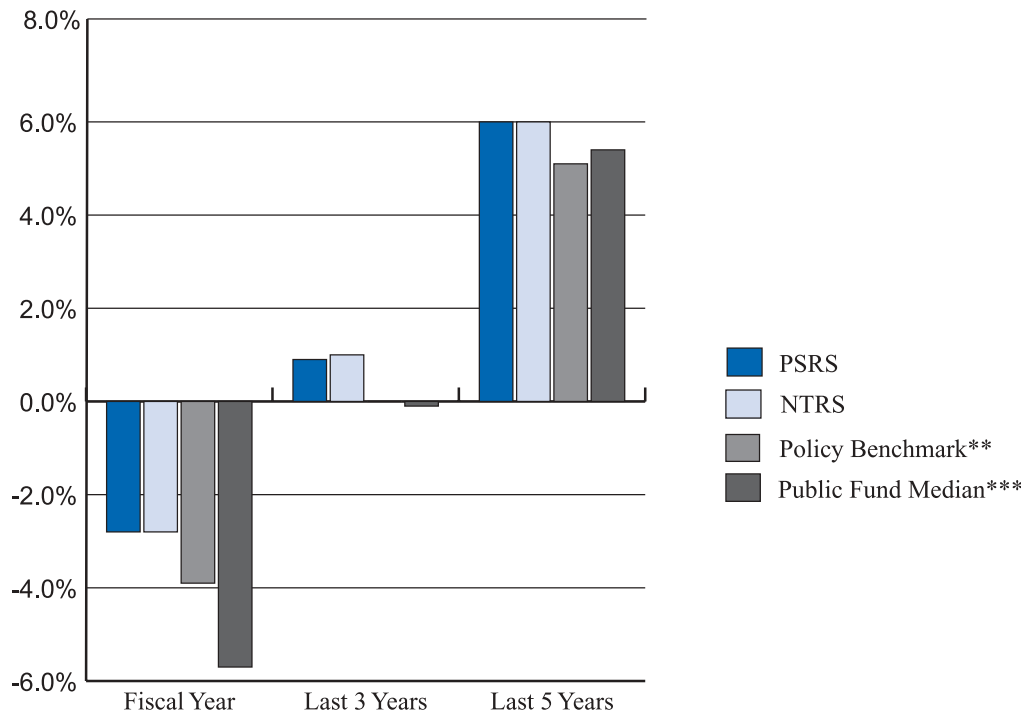
The Board has established a long-term goal to achieve a total investment return of at least 8.0 percent per year and a real rate of return of at least 4.5 percent per year. The real rate of return is the rate by which the long-term total return exceeds the inflation rate.

The one-year total returns of -2.8 percent for both PSRS and NTRS were below the long-term investment objective of 8.0 percent due to a very difficult market environment.

In addition, the annualized investment returns for the last three- and five-year periods for both PSRS and NTRS have been less than the 8.0 percent nominal return and the 4.5 percent real rate of return objectives. This is, again, due to the negative trend experienced by equity markets on a global basis since March 2000. The Consumer Price Index increased at an annualized 2.3 percent over the five-year period.

Total Fund Investment Returns 6/30/02

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	-2.8%	0.9%	6.0%
NTRS	-2.8%	1.0%	6.0%
Policy Benchmark **	-3.9%	0.0%	5.1%
Public Fund Median ***	-5.7%	-0.1%	5.4%



* Returns were prepared using a time-weighted return in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

** The Policy Benchmark is comprised of 42% Lehman Aggregate Index, 38% Russell 3000 Index, 15% MSCI All Country World – ex U.S. Free Index, and 5% Lehman U.S. TIPS Index as of June 30, 2002.

*** The Independent Consultants Cooperative (ICC) median fund return reflects a universe of public pension plans with assets in excess of \$1 billion.

Fixed Income Review

As of June 30, 2002

Market Value

As of June 30, 2002, the combined PSRS/NTRS fixed income assets managed by external investment advisors had a market value of approximately \$9.4 billion, representing 45.1 percent of total assets.

Fixed Income Statistics

The following tables display the statistical characteristics of the PSRS/NTRS bond portfolio as of June 30, 2002 with comparisons shown to the portfolio's policy benchmark (Lehman Aggregate Index). Additionally, the top ten fixed income holdings as of June 30, 2002 are compared to the top ten holdings of five years ago.

Characteristics	June 30, 2002 Combined Systems	June 30, 2002 Lehman Aggregate Index
Number of Securities	5,244	6,873
Average Coupon	6.2%	6.5%
Yield to Maturity	5.3%	5.3%
Average Maturity (Years)	7.0	7.3
Duration (Years)	4.2	4.4

Top Ten Largest Holdings* June 30, 2002	Combined Market Value	% of Total Bonds	Top Ten Largest Holdings* June 30, 1997	Combined Market Value	% of Total Bonds
USTB, 5.75%, 11/15/03	\$ 243,451,898	2.7%	USTB, 8.75%, 5/15/17	\$ 159,172,776	2.2%
GNMA TBA JUL 30, 6.5%, SINGLE FAM	161,670,000	1.8%	USTN, 7.875%, 11/15/04	138,787,692	2.0%
USTN, 2.75%, 9/30/03	133,765,340	1.5%	USTN, 17.625%, 1/31/99	125,973,753	1.8%
FNMA TBA, JUL 30, 7%, SINGLE FAM	123,036,987	1.3%	USTN, 6.25%, 6/30/98	113,604,291	1.6%
USTN, 4.875%, 2/15/12	105,512,193	1.1%	USTB, 8.125%, 8/15/19	99,025,408	1.4%
FNMA TBA JUL 30, 6.5%, SINGLE FAM	103,161,256	1.1%	USTB, 7.50%, 11/15/16	94,249,638	1.3%
USTB, 6.25%, 8/15/23	93,515,804	1.0%	USTN, 13.00%, 8/15/05	91,557,000	1.3%
FHLB DISC NOTE, 7/23/02	87,633,293	1.0%	USTN, 6.00%, 5/31/98	85,158,950	1.2%
USTB, 12.75%, 11/15/10	87,568,516	1.0%	USTN, 11.75%, 11/15/99	84,455,150	1.2%
USTN, 3.5%, 11/15/06	79,237,300	0.9%	USTN, 6.875%, 3/31/00	83,962,575	1.2%
TOTAL	\$ 1,218,552,587	13.4%	TOTAL	\$1,075,947,233	15.2%

Key to Holdings

USTN = U.S. Treasury Note
USTB = U.S. Treasury Bond

GNMA = Government National Mortgage Association
FNMA = Federal National Mortgage Association

FHLB = Federal Home Loan Bank

* Includes only actively managed separate accounts.

A complete list of portfolio holdings is available upon request.

Fixed Income Review

As of June 30, 2002

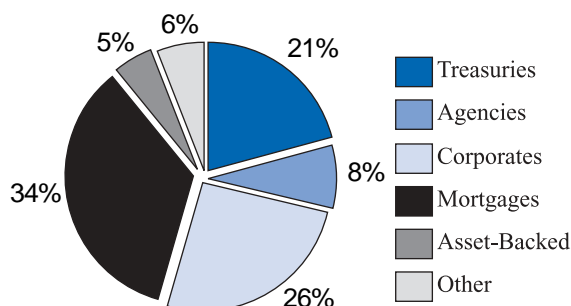
Fixed Income Structure

As of June 30, 2002, approximately 34 percent of the PSRS/NTRS fixed income portfolio was passively managed by State Street Global Advisors while the remaining 66 percent was actively managed by four separate external managers. The current fixed income portfolio structure includes dedicated allocations to mortgage-backed securities, government and corporate securities, and “core” and “core plus” mandates. A “core” assignment allows an external investment manager to invest in all major sectors of the U.S.

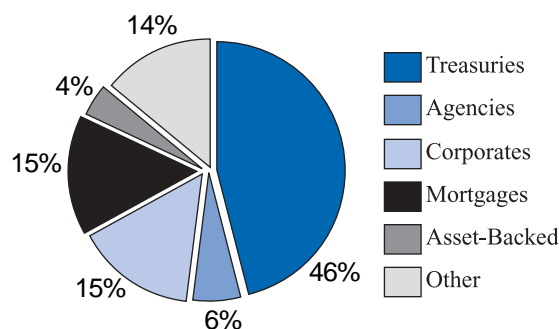
investment-grade fixed income market. A “core-plus” assignment allows an external investment manager to invest in “core” areas of the fixed income market and in non-core areas (such as below investment-grade bonds) within defined guidelines.

The pie charts below depict the fixed income composite by showing the current sector allocation of the portfolio compared with that of five years ago on a market value basis.

Sector Allocation 6/30/02



Sector Allocation 6/30/97



Fixed Income Investment Advisors

The following firms were under contract with PSRS/NTRS during Fiscal Year 2002 for management of fixed income securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value*	% of Total Market Value
BlackRock Financial Management	Active Mortgages	\$ 1,551,383,598	7.4%
NISA Investment Advisors	Active Core	1,531,636,503	7.4%
Payden & Rygel	Active Core Plus	1,531,178,413	7.4%
State Street Global Advisors	Passive	3,234,414,224	15.5%
Wellington Management Company	Active Core	1,547,997,358	7.4%
Total		\$ 9,396,610,096	45.1%

* Includes manager cash.

Fixed Income Review

Periods ended June 30, 2002

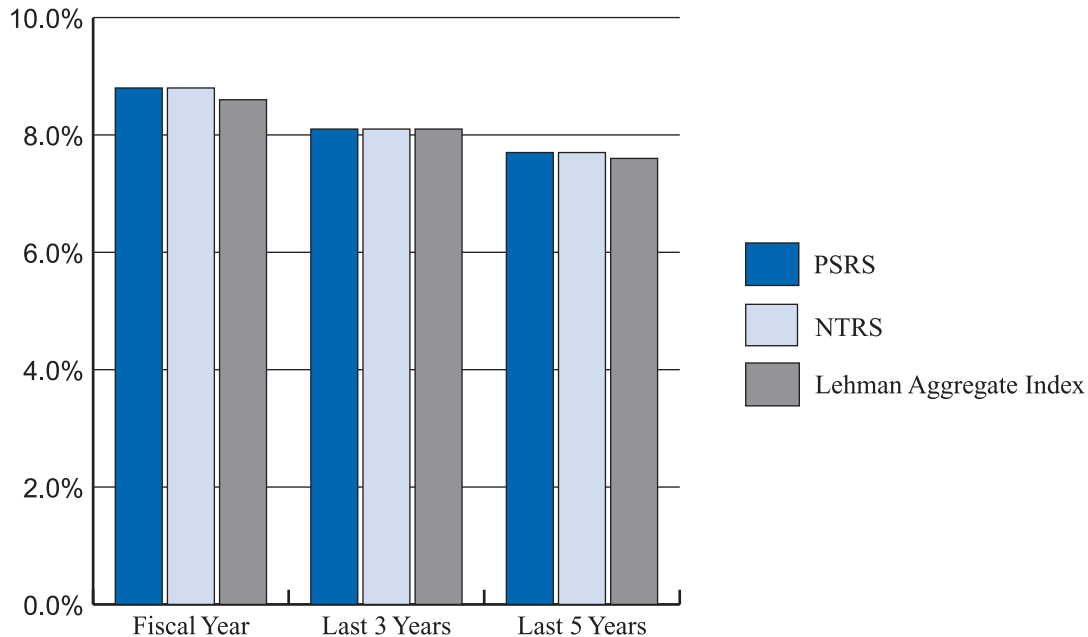
Fixed Income Investment Returns

The total return on the PSRS and NTRS bond portfolios for the fiscal year was 8.8 percent, outperforming the Lehman Aggregate Index by 20 basis points. Over the

five-year period ended June 30, 2002, the bond portfolios achieved an annual return of 7.7 percent, exceeding the benchmark's return by 10 basis points.

Fixed Income Investment Returns 6/30/02

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	8.8%	8.1%	7.7%
NTRS	8.8%	8.1%	7.7%
Lehman Aggregate Index	8.6%	8.1%	7.6%



Domestic Equity Review

As of June 30, 2002

Market Value

As of June 30, 2002, the combined PSRS/NTRS domestic equity assets managed by external investment advisors had a market value of approximately \$7.3 billion, representing 34.9 percent of total assets.

Domestic Equity Statistics

The following tables display the statistical characteristics of the PSRS/NTRS domestic equity portfolio as of June 30, 2002 with comparisons shown to the portfolio's policy benchmark (Russell 3000 Index). Additionally, the top ten U.S. stock holdings as of June 30, 2002 are compared to the top ten holdings of five years ago.

Characteristics	June 30, 2002 Combined Systems	June 30, 2002 Russell 3000 Index
Number of Securities	4,442	2,821
Dividend Yield	1.4%	1.6%
Price-to-Earnings Ratio	29.9	30.4
Avg. Market Capitalization	\$68 bil.	\$70 bil.
Price-to-Book Ratio	4.2	4.3

Top Ten Largest Holdings* June 30, 2002	Combined Market Value	% of Total U.S. Equities	Top Ten Largest Holdings* June 30, 1997	Combined Market Value	% of Total U.S. Equities
Microsoft Corp	\$ 129,116,506	1.8%	Philip Morris Co	\$ 72,623,100	1.2%
Pfizer Inc	95,522,000	1.3%	Xerox Corp	63,699,451	1.0%
Citigroup Inc	88,714,018	1.2%	Intel Corp	56,001,757	0.9%
General Electric Co	80,912,907	1.1%	Lockheed Martin Corp	54,428,618	0.9%
Wal-Mart Stores Inc	79,411,831	1.1%	Chase Manhattan Corp	46,153,219	0.8%
American Intl Group Inc	68,401,871	1.0%	Microsoft Corp	45,671,926	0.8%
Johnson & Johnson	61,657,236	0.9%	Burlington Northern Santa Fe	43,589,375	0.7%
Home Depot Inc	60,212,407	0.8%	Schering Plough Corp	43,346,026	0.7%
Wells Fargo & Co	59,876,766	0.8%	Enron Corp	39,604,451	0.7%
Kohls Corp	59,876,352	0.8%	Norwest Corp	39,341,250	0.7%
TOTAL	\$ 783,701,894	10.8%	TOTAL	\$ 504,459,173	8.4%

* Includes only actively managed separate accounts.

A complete list of portfolio holdings is available upon request.

Domestic Equity Review

As of June 30, 2002

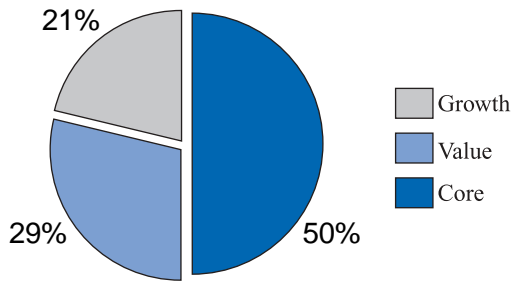
Domestic Equity Structure

As of June 30, 2002, 38.7 percent of the PSRS/NTRS domestic equity portfolio was passively managed. Another 19.0 percent was managed in an enhanced index style, in which the managers' guidelines permitted limited flexibility with the expectation of capturing additional return relative to the benchmark. The remainder of the portfolio was actively managed and diversified across a

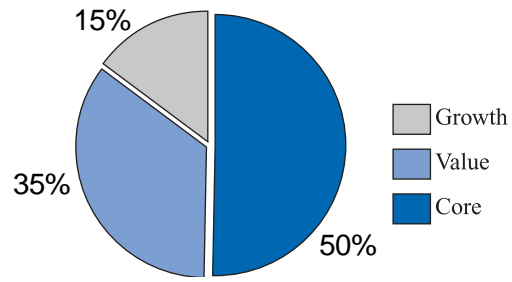
broad range of investment styles. The basic domestic equity portfolio structure was implemented in July 1996.

The pie charts below depict the domestic equity portfolio by presenting the current style structure of the portfolio for comparison with that of five years ago on a market value basis.

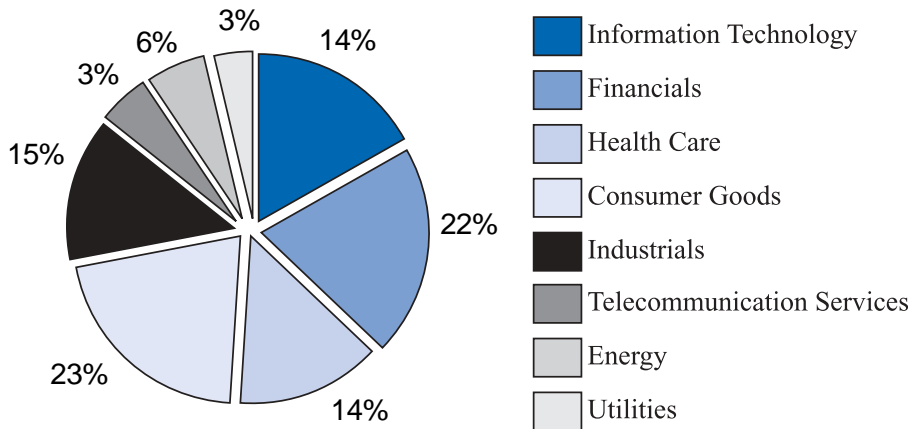
Asset Mix 6/30/02



Asset Mix 6/30/97



The following pie chart shows the allocation to sectors within the domestic equity market for the PSRS/NTRS portfolio as of June 30, 2002.



Domestic Equity Review

As of June 30, 2002

Domestic Equity Investment Advisors

The following firms were under contract with PSRS/NTRS during Fiscal Year 2002 for management of domestic equity securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2002	% of Total Market Value
Alliance Capital Management	Active Large Cap Growth	\$ 891,967,004	4.3%
Dimensional Fund Advisors	Enhanced Small Cap Value	462,573,143	2.2%
DSI International Management	Enhanced Core	920,477,218	4.4%
<i>E-MAP: Analytic Investors - Core</i>	<i>Structured Core</i>	<i>93,780,543</i>	<i>0.4%</i>
<i>E-MAP: Analytic Investors - Value</i>	<i>Structured Value</i>	<i>51,228,551</i>	<i>0.2%</i>
<i>E-MAP: Aronson + Partners</i>	<i>Active Large Cap Value</i>	<i>109,869,314</i>	<i>0.5%</i>
<i>E-MAP: Dresdner RCM Capital Management</i>	<i>Active Large Cap Growth</i>	<i>83,278,912</i>	<i>0.4%</i>
<i>E-MAP: New South Capital</i>	<i>Active Small Cap Value</i>	<i>52,626,320</i>	<i>0.3%</i>
<i>E-MAP: Next Century Growth Investors</i>	<i>Active Small Cap Growth</i>	<i>44,895,319</i>	<i>0.2%</i>
<i>E-MAP: Westwood Management</i>	<i>Active Large Cap Value</i>	<i>145,993,290</i>	<i>0.7%</i>
<i>E-MAP: Zevenbergen Capital</i>	<i>Active Large Cap Growth</i>	<i>52,696,637</i>	<i>0.3%</i>
Equity Manager Alpha Pool (E-MAP) Subtotal		634,368,886	3.0%
State Street Global Advisors (Passive)	S&P 500	2,162,655,410	10.4%
State Street Global Advisors (Passive)	Russell 1000 Value	657,974,977	3.2%
TCW Asset Management Company	Active All Cap Growth	473,914,269	2.3%
Thomson, Horstmann & Bryant, Inc.	Small Cap Value	377,772,456	1.8%
UBS Brinson	Large Cap Value	699,149,560	3.3%
Total		\$ 7,280,852,923	34.9%

* Includes manager cash.

Domestic Equity Review

Periods ended June 30, 2002

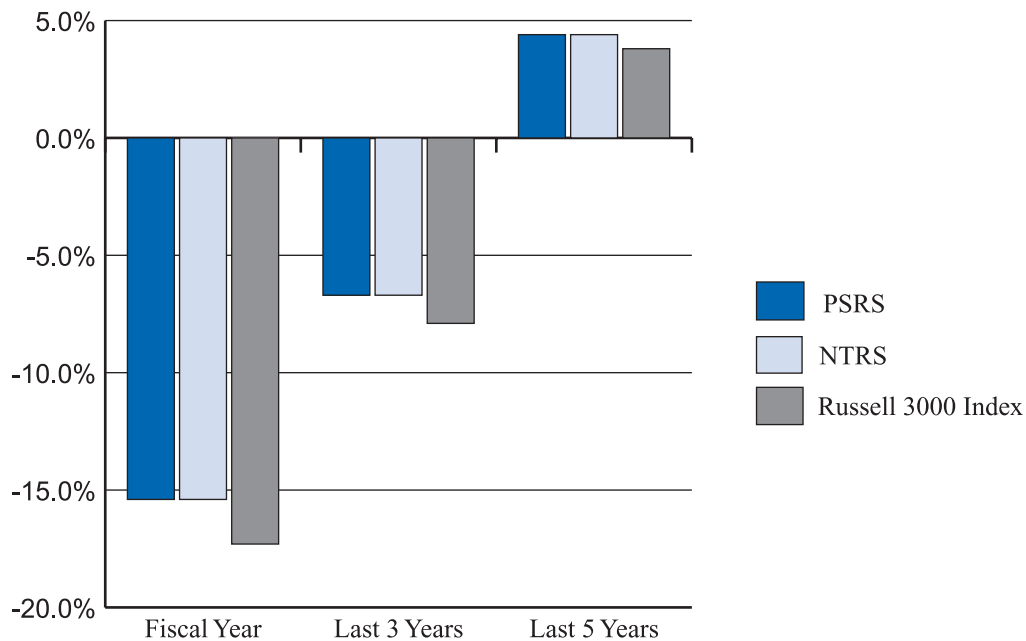
Domestic Equity Investment Returns

The total return on the PSRS and NTRS domestic equity portfolios was -15.4 percent compared to the benchmark return of -17.3 percent for the fiscal year ended June 30, 2002. This outperformance, on a relative basis, can primarily be attributed to the value added by the Systems' active management strategies.

While a negative absolute return is never easy to accept, the Board and Staff believe that diversification across all capitalization ranges and styles, as well as between active and passive managers, remains a primary fiduciary responsibility.

Domestic Equity Investment Returns 6/30/02

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	-15.4%	-6.7%	4.4%
NTRS	-15.4%	-6.7%	4.4%
Russell 3000 Index	-17.3%	-7.9%	3.8%



Non-U.S. Equity Review

As of June 30, 2002

Market Value

As of June 30, 2002, the combined PSRS/NTRS non-U.S. equity assets managed by external investment advisors had a market value of just over \$3 billion, representing 14.5 percent of the total funds.

Non-U.S. Equity Statistics

The following table displays the top ten non-U.S. stock holdings as of June 30, 2002 as compared to the top ten holdings of five years ago.

Top Ten Largest Holdings* June 30, 2002	Combined Market Value	% of Total Non-U.S. Equities	Top Ten Largest Holdings* June 30, 1997	Combined Market Value	% of Total Non-U.S. Equities
ENI	\$ 63,566,895	2.2%	Novartis AG	\$ 68,490,256	2.9%
Nestle SA	61,767,836	2.1%	STET	37,207,474	1.5%
Total Fina Elf	55,334,507	1.9%	ING Groep NV	34,547,027	1.4%
ING Groep NV	53,171,416	1.8%	Mannesmann AG	32,913,836	1.4%
Canon Inc.	52,459,923	1.8%	Glaxo Wellcome	29,365,617	1.2%
GlaxoSmithkline	51,524,787	1.8%	Vodafone Group	28,155,753	1.2%
Novartis AG	48,878,438	1.7%	Natl Austrl Bank	27,666,522	1.2%
Aventis SA	48,645,059	1.7%	Astra AB	25,870,343	1.1%
Diageo	45,620,498	1.5%	Hoechst AG	25,338,707	1.1%
HSBC Hldgs	44,088,484	1.5%	Telefonica de Esp	23,117,015	1.0%
TOTAL	\$ 525,057,843	18.0%	TOTAL	\$ 332,672,550	14.0%

* Includes only actively managed separate accounts.
A complete list of portfolio holdings is available upon request.

Non-U.S. Equity Review

As of June 30, 2002

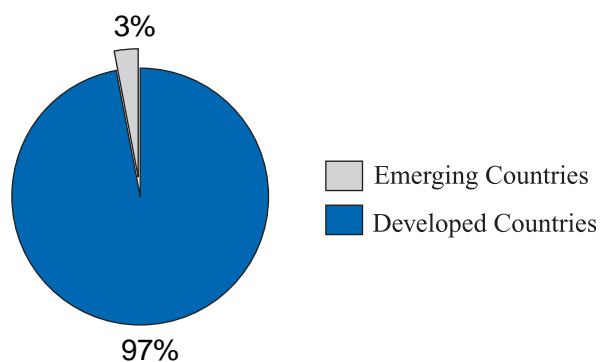
Non-U.S. Equity Structure

As of June 30, 2002, four separate external managers actively managed 100 percent of the PSRS/NTRS non-U.S. equity portfolios. The beginning non-U.S. stock portfolio structure was implemented in July 1996 with one-third passively managed (by one manager) and two-thirds actively managed (by two managers). In April 1999, the Board decreased the passive exposure from 33 percent to 25 percent and added a third active

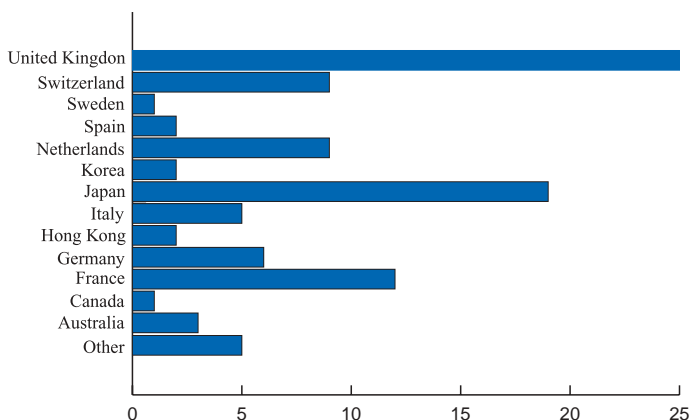
manager. The Board completed the move to 100 percent active management in January 2002 by adding a fourth active non-U.S. equity manager.

The pie chart below presents a breakdown of investments in developed and emerging markets in the non-U.S. equity portfolio and the bar graph depicts the specific country exposure.

Market Allocation 6/30/02



Country Allocation 6/30/02



Non-U.S. Equity Investment Advisors

The following firms were under contract with PSRS/NTRS during Fiscal Year 2002 for management of non-U.S. equity securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2002	% of Total Market Value
Bank of Ireland Asset Management	Active Core	\$ 821,294,095	4.0%
BPI Global Asset Management	Active Core	605,430,697	2.9%
INVESCO Global Asset Management	Active Value	859,757,151	4.1%
Oechsle International Advisors	Active Core	735,057,866	3.5%
Total		\$ 3,021,539,809	14.5%

* Includes manager cash.

Non-U.S. Equity Review

Periods ended June 30, 2002

Non-U.S. Equity Investment Returns

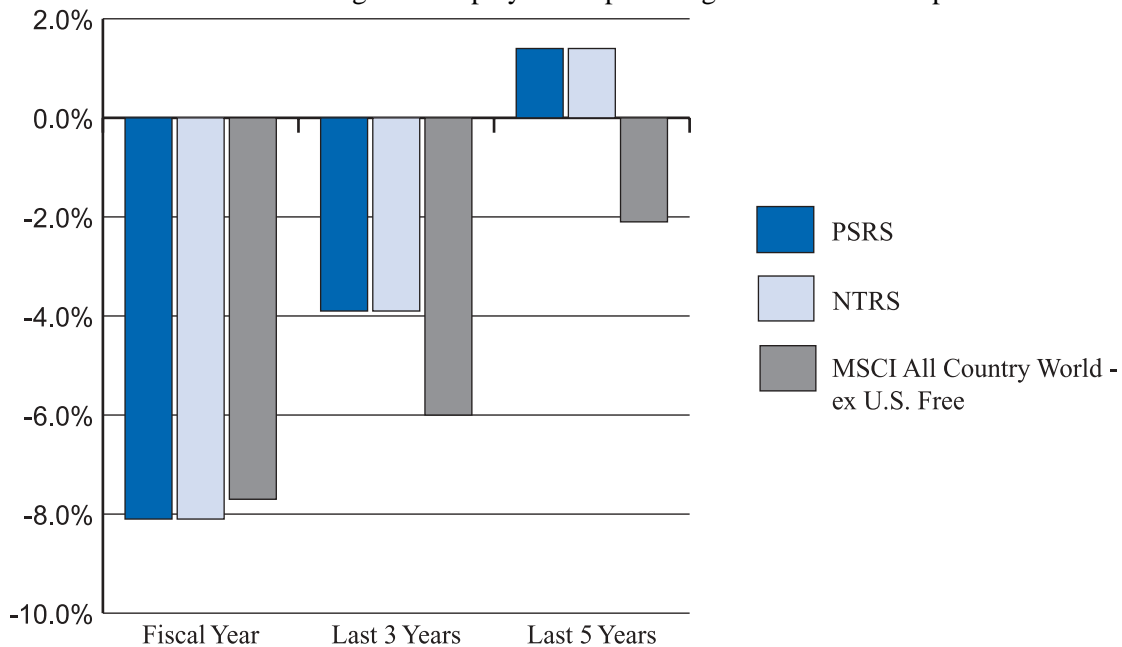
The total return on the PSRS and NTRS non-U.S. equity portfolios was -8.1 percent compared to the benchmark return of -7.7 percent for the fiscal year ended June 30, 2002. Both Systems suffered from the continuing decline in non-U.S. equity market levels over the past fiscal year.

The annual returns for both funds for the three- and five-year time periods illustrated below show significant outperformance relative to the policy benchmark (MSCI All Country World – ex U.S. Free Index).

Non-U.S. Equity Investment Returns 6/30/02

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	-8.1%	-3.9%	1.4%
NTRS	-8.1%	-3.9%	1.4%
MSCI All Country World - ex U.S. Free	-7.7%	-6.0%	-2.1%

The following table displays the top holdings in the real return pool as of June 30, 2002.



Real Return Pool Return

As of June 30, 2002

Market Value

As of June 30, 2002, the combined PSRS/NTRS real return pool assets managed by an external investment advisor had a market value of approximately \$1.1 billion, representing 5.3 percent of total assets.

Real Return Pool Structure

In January 2002, the Board approved a new asset class to be known as the real return pool. Its focus is to earn stable, but meaningful, real returns across future

economic and market cycles. This pool was approved with a target allocation of 5.0 percent and can include Treasury Inflation-Protected Securities (TIPS) and Real Estate Investment Trusts (REITs) due to their real return characteristics. As of June 30, 2002, 100 percent of the PSRS/NTRS real return pool portfolio was comprised of TIPS.

The following table displays the top holdings in the real return pool as of June 30, 2002.

Holdings* June 30, 2002	Combined Market Value	% of Total Real Return Pool
USTN, Inflation Indexed, 3.875%, 1/15/09	\$ 266,739,777	24.0%
USTB, Inflation Indexed, 3.625%, 4/15/28	178,434,406	16.0%
USTN, Inflation Indexed, 3.375%, 1/15/07	161,977,280	14.5%
USTN, Inflation Indexed, 3.625%, 1/15/08	152,904,089	13.7%
USTN, Inflation Indexed, 3.5%, 1/15/11	128,640,576	11.6%
USTB, Inflation Indexed, 3.875%, 4/15/29	123,389,904	11.1%
USTB, Inflation Indexed, 3.375%, 4/15/32	71,672,401	6.4%
USTN, Inflation Indexed, 4.25%, 1/15/10	13,196,612	1.2%
Total	\$ 1,096,955,045	98.5%

Key to Holdings

USTN = U.S. Treasury Note

USTB = U.S. Treasury Bond

Real Return Pool Investment Advisor

The following firm was under contract with PSRS/NTRS during fiscal year 2002 for management of real return pool securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value** As of June 30, 2002	% of Total Market Value
NISA Investment Advisors	Semi-Passive Core	\$ 1,114,126,684	5.3%
Total		\$ 1,114,126,684	5.3%

* Includes only actively managed separate accounts.

** Includes manager cash.

Real Return Pool Review

Periods Ended June 30, 2002

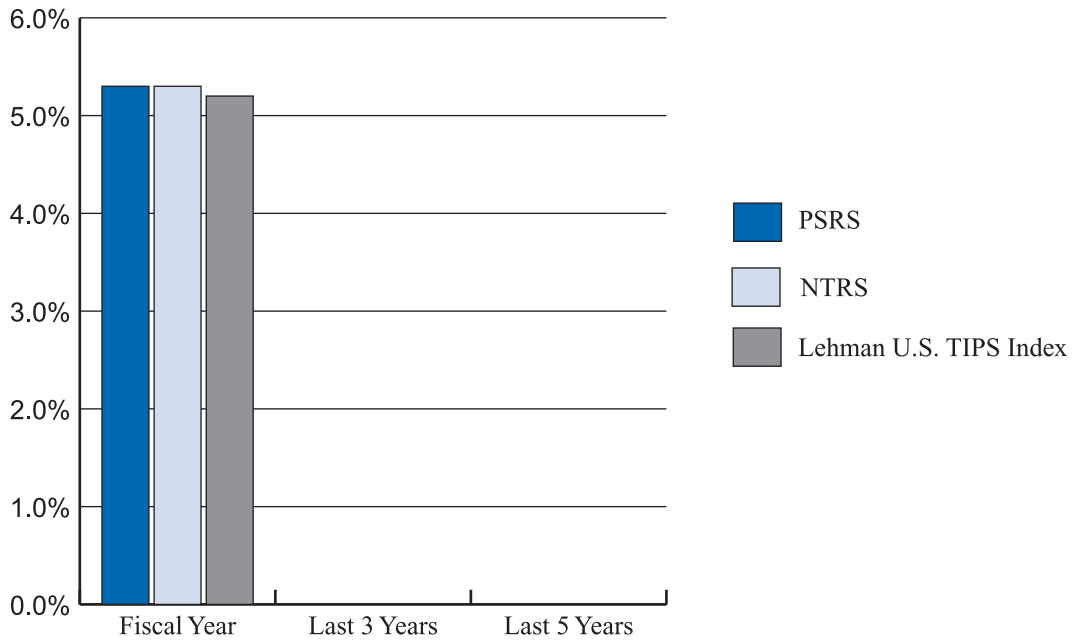
Real Return Pool Investment Returns

The total return on the PSRS and NTRS real return pool portfolios for the fiscal year was 5.3 percent, outperforming the Lehman U.S. TIPS Index by 10 basis

points. This performance is for the time period from inception (March 2002) through June 30, 2002.

Real Return Pool Investment Returns 6/30/02

	Fiscal Year*	Last 3 Years	Last 5 Years
PSRS	5.3%	NA	NA
NTRS	5.3%	NA	NA
Lehman U.S. TIPS Index	5.2%	NA	NA



*Returns are since inception (March 2002).

PSRS Broker Commissions Report

For The Fiscal Year Ended June 30, 2002

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost Per Share
GOLDMAN SACHS + CO	26,657,489	\$ 382,730,041.79	\$ 593,839.04	\$ 0.02
MORGAN STANLEY	26,194,575	535,324,218.50	588,050.16	0.02
LEHMAN BROTHERS INC	25,151,920	395,453,011.73	568,833.22	0.02
DEUTSCHE BANK SECURITIES	19,302,548	403,448,461.00	506,755.83	0.03
MERRILL LYNCH	30,138,986	346,693,075.65	490,998.83	0.02
CREDIT SUISSE FIRST BOSTON CORP	12,498,410	185,459,701.22	359,832.57	0.03
INVESTMENT TECHNOLOGY GROUP INC	15,261,216	522,892,734.69	338,425.34	0.02
UBS WARBURG LLC	11,875,779	224,152,145.83	305,405.92	0.03
SALOMON SMITH BARNEY	6,978,609	185,108,251.21	299,601.87	0.04
CREDIT LYONNAIS SECURITIES	17,352,677	304,997,612.32	209,354.28	0.01
INSTINET	8,918,303	227,724,485.49	196,277.57	0.02
BEAR STEARNS + CO INC	4,801,607	162,136,743.53	164,316.40	0.03
DRESDNER	12,189,250	87,341,504.48	161,175.92	0.01
SANFORD CBERNSTEIN & CO LLC	4,013,064	98,175,100.32	152,178.84	0.04
JEFFERIES & COMPANY INC	4,043,780	106,766,504.72	130,301.50	0.03
J P MORGAN SECURITIES INC	2,825,540	102,243,575.78	94,610.77	0.03
SBC WARBURG	6,221,154	35,403,861.29	85,595.61	0.01
ABN AMRO SECURITIES LLC	5,225,183	56,924,139.01	84,139.99	0.02
BNP PARIBUS SECURITIES CORP	2,262,277	85,818,218.02	67,377.46	0.03
CAPITAL INSTITUTIONAL SERVICES	1,216,300	33,977,537.80	60,184.00	0.05
STATE STREET BROKERAGE SERVICES	2,983,822	78,472,385.93	59,566.44	0.02
CITATION GROUP	1,208,580	45,320,485.83	59,282.20	0.05
SBC WARBURG	3,556,658	22,718,537.28	57,025.94	0.02
CS FIRST BOSTON CORPORATION	3,114,440	33,586,663.38	56,558.54	0.02
WEEDEN + CO.	1,211,627	52,888,434.11	54,604.35	0.05
WARBURG DILLON READ	3,050,350	25,836,842.05	54,585.01	0.02
COLLINS STEWART	3,387,822	28,475,652.83	53,700.11	0.02
CANTOR FITZGERALD + CO	4,512,091	35,202,801.05	53,157.63	0.01
PRUDENTIAL SECURITIES INCORPORATED	1,484,905	47,215,818.66	50,723.65	0.03
HSBC INVESTMENT BANK PLC	1,989,754	28,154,088.50	50,354.43	0.03
NOMURA SECURITIES INTERNATIONAL INC	2,041,388	30,951,291.50	46,710.78	0.02
BROCKHOUSE + COOPER	1,588,538	22,540,477.71	45,896.59	0.03
SALOMON BROTHERS INTERNATIONAL	3,457,715	30,733,958.83	42,611.86	0.01
BAIRD, ROBERT W., & COMPANY INC	1,048,900	23,106,082.23	42,110.40	0.04
DONALDSON, LUFKIN + JENRETTE SECS	755,654	25,756,566.41	37,782.70	0.05
JB WERE CAPITAL MARKETS	1,593,100	7,521,746.13	37,620.90	0.02
RBC DOMINION SECURITIES	2,001,872	35,885,540.13	36,194.78	0.02
BANC AMERICA SECURITY LLC MONT DIV	976,170	31,820,679.73	34,245.70	0.04
SG COWEN SECURITIES CORP	829,906	25,307,515.44	33,485.80	0.04
BRIDGE TRADING	670,100	16,470,103.78	33,152.00	0.05
Other (<\$33,000)	39,642,826	685,036,138.38	964,806.89	0.03
Total	324,234,885	\$ 5,815,772,734.27	\$ 7,361,431.82	\$ 0.02

NTRS Broker Commissions Report

For The Fiscal Year Ended June 30, 2002

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost Per Share
MORGAN STANLEY	2,123,498	\$ 42,457,650.36	\$ 46,497.94	\$ 0.02
GOLDMAN SACHS	2,085,663	29,210,002.62	45,303.48	0.02
MERRILL LYNCH	3,191,090	33,686,707.13	44,342.63	0.01
LEHMAN BROTHERS INC	1,565,240	28,594,882.99	43,624.08	0.03
DEUTSCHE BANK	1,549,352	30,993,600.04	39,491.71	0.03
CREDIT SUISSE FIRST BOSTON	1,284,362	17,860,586.80	34,698.06	0.03
SALOMON SMITH BARNEY INC	857,353	17,470,292.18	28,701.89	0.03
INVESTMENT TECHNOLOGY GROUP INC	1,202,389	41,199,968.24	26,992.81	0.02
UBS WARBURG	988,942	19,533,129.12	25,017.23	0.03
CREDIT LYONNAIS SECURITIES (USA) INC	1,699,735	25,904,580.81	17,477.64	0.01
INSTINET	694,233	17,561,856.38	15,349.16	0.02
SANFORD CBERNSTEIN CO LLC	318,594	7,691,426.32	12,088.41	0.04
DRESDNER	922,268	6,446,244.17	11,848.60	0.01
JEFFERIES & COMPANY INC	356,945	8,809,608.75	11,605.25	0.03
J P MORGAN SECURITIES INC	311,528	9,558,028.67	9,983.50	0.03
BHF SECURITIES CORPORATION	723,405	12,540,137.83	7,492.69	0.01
BEAR STEARNS + CO INC	192,334	6,214,143.04	7,369.63	0.04
SBC WARBURG SECURITIES	566,300	2,854,994.43	7,015.40	0.01
ABN AMRO SECURITIES LLC	404,332	4,509,081.77	6,635.40	0.02
NOMURA SECURITIES INTERNATIONAL INC	161,182	2,453,486.84	5,307.62	0.03
BNP PARIBUS SECURITIES CORP	180,512	6,548,812.37	5,131.47	0.03
CITATION GROUP	103,330	3,674,554.63	5,074.70	0.05
CAPITAL INSTITUTIONAL SERVICES	92,500	2,594,325.39	4,564.50	0.05
COLLINS STEWART	269,115	2,263,703.44	4,322.87	0.02
WEEDEN + CO.	90,970	4,020,923.72	4,143.50	0.05
CANTOR FITZGERALD + CO	351,350	2,727,672.20	4,139.64	0.01
HSBC INVESTMENT BANK PLC	151,328	2,276,059.35	4,064.91	0.03
PRUDENTIAL SECURITIES INCORPORATED	118,068	3,749,098.19	4,060.80	0.03
J B WERE AND SON	192,870	814,406.55	3,736.48	0.02
BAIRD, ROBERT W., & COMPANY INC	90,200	1,821,493.20	3,721.60	0.04
STATE STREET BROKERAGE SERVICES	180,428	4,453,719.81	3,600.56	0.02
RBC DAIN RAUSCHER INC	156,601	2,951,657.42	2,985.84	0.02
BROCKHOUSE + COOPER	109,968	1,515,985.78	2,871.71	0.03
DONALDSON, LUFKIN + JENRETTE SECS	55,413	1,955,535.20	2,770.65	0.05
SG COWEN SECURITIES CORP	64,001	1,911,317.96	2,615.11	0.04
BANC AMERICA SECURITY LLC MONT DIV	79,550	2,500,768.50	2,608.70	0.03
BRIDGE TRADING	50,825	1,237,382.86	2,513.25	0.05
DAIWA SECURITIES AMERICA INC	86,278	1,713,571.05	2,474.32	0.03
WILLIAM BLAIR & COMPANY, L.L.C	80,530	1,580,590.71	2,338.00	0.03
Other (<\$2,300)	2,845,428	46,013,625.60	66,376.82	0.03
Total	26,548,010	\$ 461,875,612.42	\$ 580,958.56	\$ 0.02

Investment Summary

As of June 30, 2002

Total Market Value	PSRS/NTRS	Percent of Total Market Value		
	Combined Funds - FY2002	FY2002	FY2001	FY2000
U.S Fixed Income	\$ 9,063,194,623	43.5%	45.9%	45.4%
U.S. Equity	7,214,303,956	34.6%	38.5%	37.7%
Non-U.S. Equity	2,924,724,008	14.0%	13.7%	16.0%
Real Return Pool	1,114,126,684	5.3%		
Cash and Short-Term Investments	534,586,823	2.6%	1.9%	0.9%
Total	\$ 20,850,936,094	100.0%	100.0%	100.0%
<i>Reconciliation with Statement of Plan Net Assets</i>				
<i>Accrued payable for investments purchased</i>	\$ 1,156,266,830			
<i>Accrued income payable</i>	351,009			
<i>Accrued receivable for investments sold</i>	(468,717,028)			
<i>Accrued income receivable</i>	(95,474,647)			
<i>Short-term investments designated for benefits</i>	(32,534,231)			
<i>Statement of Plan Net Assets</i>	<u>\$ 21,410,828,027</u>			

Investment Expenses

For the Year Ended June 30, 2002

	PSRS	NTRS	Total
Investment Managers			
Alliance Capital Management	\$ 1,953,000	\$ 147,000	\$ 2,100,000
Bank of Ireland Asset Management	2,148,207	161,693	2,309,900
BlackRock Financial Management	1,254,012	94,388	1,348,400
BPI	607,600	45,733	653,333
Brinson Partners	1,318,740	99,260	1,418,000
Dimensional Fund Advisors	821,190	61,810	883,000
DSI International Management	870,982	65,558	936,540
E-MAP	2,379,322	179,583	2,558,905
INVESCO Global Asset Management	1,791,459	134,841	1,926,300
NISA Investment Advisors	859,024	65,727	924,751
Oechsle International Advisors	2,239,347	168,553	2,407,900
Payden & Rygel	895,776	67,424	963,200
State Street Global Advisors	670,713	52,899	723,612
TCW Asset Management Company	1,881,733	141,636	2,023,369
Thomson, Horstmann & Bryant, Inc.	988,590	74,410	1,063,000
Wellington Management Company	696,663	52,437	749,100
Investment Management Expense	\$ 21,376,358	\$ 1,612,952	\$ 22,989,310
Investment Consultants			
Strategic Investment Solutions	310,000	23,333	333,333
Custodial Services			
State Street Bank & Trust	1,239,750	123,767	1,363,517
Staff Investment Expenses	341,173	215,739	556,912
Total Investment Expenses	<u>\$ 23,267,281</u>	<u>\$ 1,975,791</u>	<u>\$ 25,243,072</u>