

Letter from Strategic Investment Solutions, Inc.

Letter from the Chief Investment Officer

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INVESTMENT SECTION

STRATEGIC INVESTMENT SOLUTIONS, INC.

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MICHAEL R. BEASLEY
MANAGING DIRECTOR

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September 23, 2003

To the Members of the Board:

Fiscal Year 2003 was another year of very unsettled global financial markets. Slow economic growth, war anxieties, threats of terrorism, continued discoveries of corporate scandals, and volatile levels of consumer confidence defined the general market environment during the fiscal year.

The Total Fund returns for the fiscal year ended June 30, 2003 were 4.8% and 4.7% respectively for PSRS and NTRS. Both funds slightly trailed the policy index return of 5.3%. All performance results were calculated in compliance with the AIMR Performance Presentation Standards.

Asset class performance was mixed. Two of the four fiscal quarters were positive for U.S. equities. The broad U.S. market represented by the Russell 3000 Index was up 16.3% for the fourth quarter but just 1% for the fiscal year. Non-U.S. equities based upon the MSCI ACWI ex-U.S. Index were up 19.8% for the fourth quarter, but finished the fiscal year at -4.2%. The U.S. bond market benefited from lower inflation, its status as a safe haven from the equity market, and aggressive reductions of short-term rates by the Federal Reserve. The Lehman Aggregate Index was up 10.4% for the fiscal year.

The Board decisions made last fiscal year to enhance the return potential and diversification of the System's investment portfolios were implemented during this fiscal year. A 5% allocation to U.S. Government-issued Treasury Inflation Protected Securities returned 13.4% for the trailing 12 months. Contract negotiations with a private equity manager to invest a portion of the 3% target allocation in corporate buyouts, venture capital and private debt were completed.

Thank you for the opportunity to participate in this partnership with you.

Sincerely,



Michael R. Beasley

Managing Director



October 1, 2003

To the Members of the Systems:

On behalf of the PSRS and NTRS internal investment staff, I am pleased to present the following reports on the Systems’ investments for the fiscal year ending June 30, 2003. The combined Retirement Systems ended the year as one of the 50 largest defined benefit plans in the United States with total assets of \$21.6 billion.

PSRS and NTRS achieved a positive investment return in fiscal year 2003 following two consecutive years of negative returns. The Systems’ assets increased over \$730 million in fiscal year 2003 with an investment return of 4.8% and 4.7% respectively for PSRS and NTRS. However, as discussed in prior letters to the membership, the Systems’ basic investment objective is to achieve a total return that exceeds the actuarial assumption of 8% over long time periods. Thus, despite the positive return in 2003, PSRS and NTRS fell short of the 8% return target. Over longer time periods (10 years) the Systems’ annual investment return remains above the 8% objective.

Historical Investment Review

The long-term investment objective of the Board of Trustees has been to focus on the ability of the Systems to adequately fund a stream of liabilities (i.e., your pension benefits) with the highest probability and within acceptable risk parameters. Accordingly, the investment objective has not been to ‘beat’ the market or to have the top-ranked investment fund in the country (although both would be positive ancillary benefits to the primary investment objective). As a result, the asset allocation of PSRS and NTRS does not always mirror the asset allocation of other public funds or large institutional investors. For example, the Systems continue to have more assets invested in fixed income securities than almost 90% of large public funds. This conservative allocation came under pressure during the bull market of the 1990s, but provided welcomed downside protection in the bear market of the last three years. The point of emphasis however, is that the asset allocation is specific to PSRS and NTRS because it was developed to fund your benefits over a very long-term horizon.

The table below provides a year-by-year review of the investment performance of the Systems, including a comparison with the return of the median public fund and of the S&P 500 Index for the last seven fiscal years.

	2003	2002	2001	2000	1999	1998	1997
PSRS Return	4.8%	-2.8%	-1.9%	7.7%	10.4%	17.8%	19.6%
Rank ¹	25 th	15 th	13 th	81 st	75 th	53 rd	52 nd
Median Fund ²	4.0%	-5.8%	-6.1%	10.3%	11.7%	18.0%	19.8%
S&P 500 Index	0.2%	-18.0%	-14.8%	7.3%	22.7%	30.2%	34.7%

As the table illustrates, the Systems’ returns have been far better than the median public fund over the last three years (bear market) while the Systems’ returns lagged the median public fund in the late 1990s (bull market). Historically, the Systems’ returns have trailed the market (and other public funds) on the upside while providing downside protection in negative markets. Over the long-term, we believe this strategy provides our Systems with more consistent returns (less return volatility) while accepting far less risk.

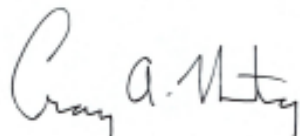
Focus on the Future

As stated above, the Systems maintain a long-term investment concentration. However, the immediate issue (next three to five years) facing all investors is that near-term expectations for both stocks and bonds are well below long-term expectations. Interest rates reached all-time lows in the summer of 2003, and thus we know with mathematical definiteness, that if rates rise in the future, the fixed income returns over the next three years will be lower than the returns experienced over the past three years. Forecasting equity returns is far less reliable. Nonetheless, based on current valuations and historical returns, consensus stock return expectations for the next three to five years are in the mid to high single digits. This is certainly not as bad as the last three years, but nowhere near the stock returns that investors experienced in the late 1990s.

This shift in the market environment has obviously evolved over the last several years. As such, the Board of Trustees, the internal investment staff and the Systems' asset consultant updated the PSRS and NTRS asset allocations to provide diversification into other asset classes. Specifically, allocations to real return assets (such as inflation protected bonds) and private equity have been initiated within the last 18 months. We would expect more changes in the asset allocation in the next 18 months as we adjust to the 'lower return' market environment.

Peter Bernstein stated in his *Economics and Portfolio Strategy*³ newsletter, "Ignorance of the future over which we have no control explains why risk management must be the dominant tool for success in investing...the long history of the markets demonstrates that the survivors are those who eschew maximization and manage their risks instead." This statement nicely ties together the *Historical Investment Review* and *Focus on the Future* in this annual report letter. The Systems remain long-term investors and the Board and investment staff are fiduciaries of your assets. Thus, as we strive to improve our investment process and investment results, you can be assured that we will remain loyal to the tenants of investing that have been the foundation of PSRS/NTRS for many years. Specifically, we will manage your assets with prudence, in a diversified portfolio and with a significant focus on maximizing *risk-adjusted* returns.

Until next year,



Craig A. Husting, CFA
Chief Investment Officer

¹ 1st = top performing fund and 100th = bottom performing fund.

² The TUCS median fund return reflects a universe of public pension plans with assets in excess of \$1 billion.

³ August 1, 2003

Investment Highlights

As of June 30, 2003

The Board of Trustees of the Public School and the Non-Teacher School Employee Retirement Systems of Missouri (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:

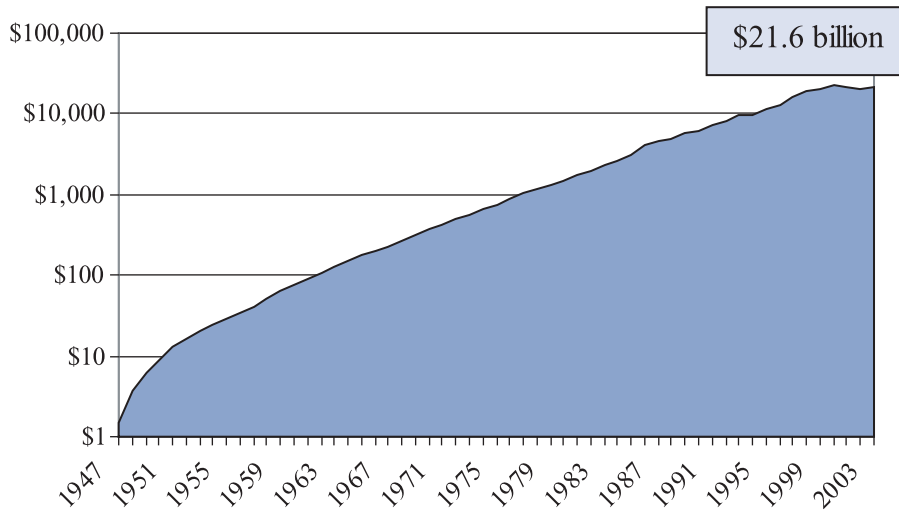
- (1) Act in the exclusive interest of the members of the Systems,
- (2) Maximize total return within prudent risk parameters
- (3) Preserve the long-term purchasing power of the fund.

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 grew to \$21.6 billion as of June 30, 2003 from \$20.9 billion at the beginning of the fiscal year, increasing by approximately \$0.7 billion. This growth resulted primarily from exceptional fixed income performance. The long-term growth in assets since the inception of PSRS in 1946 and NTRS in 1965 is shown in the graph below.

56 Years of Growth

(dollar amounts in millions)



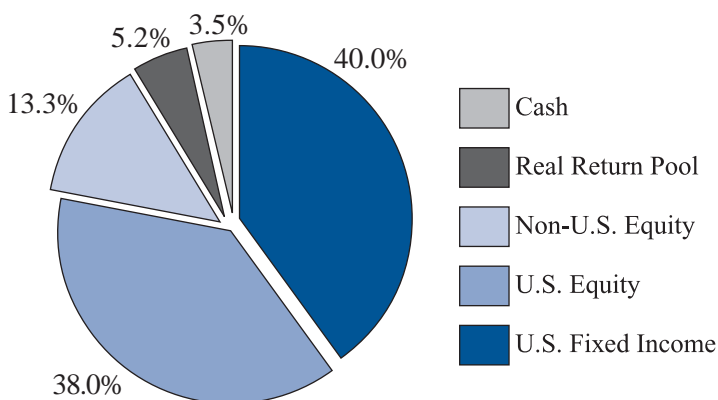
PSRS/NTRS Asset Allocation

As of June 30, 2003

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.

The Systems' investment portfolio includes strategic, long-term commitments in the following asset classes: U.S. Equities, Non-U.S. Equities, U.S. Fixed Income, Real Return Assets and Private Equity. The Board approved a 3% allocation to Private Equity in January 2002, but initial funding of the new asset class did not begin until July 2003. As the Private Equity allocation is funded, the new target allocation for U.S. Fixed Income will drop to 40% and the target allocation for U.S. equity will drop to 37%. The Systems' asset allocation is reviewed in conjunction with plan liabilities at least every three years.

Asset Allocation 6/30/03



Asset Type	PSRS Market Value	NTRS Market Value	Combined Funds	% of Total	Target Allocation
U.S. fixed income	\$ 7,964,134,249	\$ 664,406,146	\$ 8,628,540,395	40.0%	42.0 %
U.S. equity	7,583,267,738	621,915,238	8,205,182,976	38.0	38.0
Non-U.S. equity	2,659,261,467	218,208,072	2,877,469,539	13.3	15.0
Real return pool	1,039,944,601	90,076,250	1,130,020,851	5.2	5.0
Cash & equivalents*	671,547,786	72,894,824	744,442,610	3.5	0.0
Total investments**	\$ 19,918,155,841	\$ 1,667,500,530	\$ 21,585,656,371	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, 2003.

Total Fund Review

Periods Ended June 30, 2003

Total Fund Investment Returns*

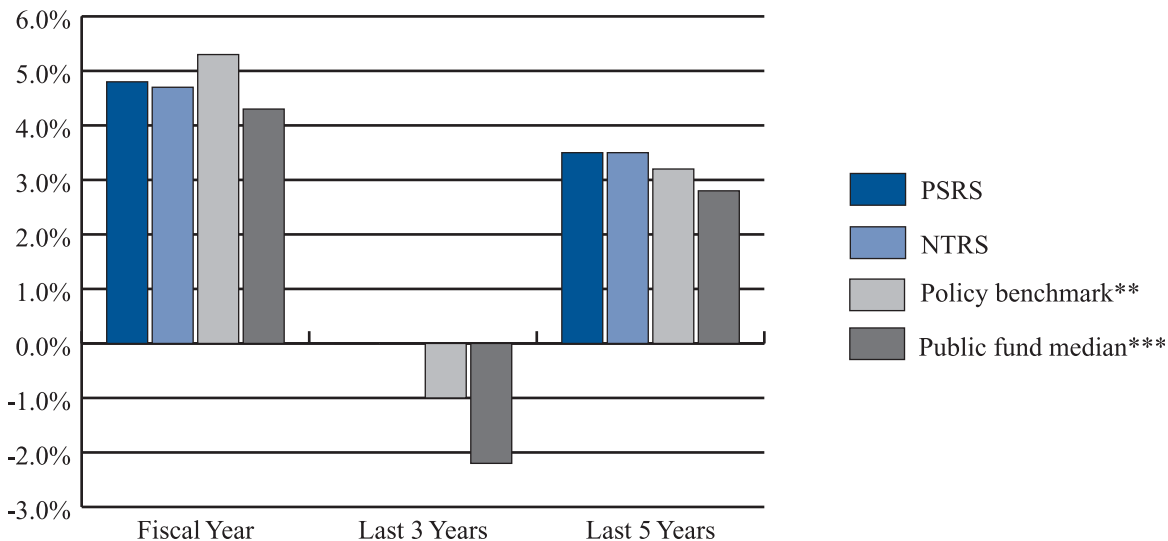
The Board has established a long-term goal to achieve a total investment return of at least 8.0% per year and a real rate of return of at least 4.5% per year. The real rate of return is the rate by which the long-term total return exceeds the inflation rate.

The one-year total returns of 4.8% for PSRS and 4.7% for NTRS were below the long-term investment objective of 8.0% due to a difficult equity market environment in fiscal

year 2003. 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% nominal return and the 4.5% real rate of return objectives. This is, again, due to the negative trend experienced by equity markets on a global basis since March 2000. However, as the chart below indicates, the Systems' one-, three- and five-year returns outperformed the median public retirement system.

Total Fund Investment Returns 6/30/03

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	4.8 %	0.0 %	3.5 %
NTRS	4.7	0.0	3.5
Policy benchmark **	5.3	-1.0	3.2
Public fund median ***	4.3	-2.2	2.8



*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.

*** 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, 2003

Market Value

As of June 30, 2003, the combined PSRS/NTRS fixed income assets managed by external investment advisors had a market value of approximately \$9.1 billion, representing 42.1% of total assets.

Fixed Income Statistics

The following table displays the statistical characteristics of the PSRS/NTRS bond portfolio as of June 30, 2003 with comparisons shown to the portfolio's policy benchmark (Lehman Aggregate Index). Additionally, the top 10 fixed income holdings as of June 30, 2003 are compared to the top 10 holdings of five years ago.

Characteristics	June 30, 2003 Combined Systems	June 30, 2003 Lehman Aggregate Index
Number of securities	9,338	7,472
Average coupon	5.9%	6.1%
Yield to maturity	3.4%	3.4%
Average maturity (years)	6.3	6.2
Duration (years)	4.3	4.2

Top 10 Largest Holdings* June 30, 2003	Combined Market Value	% of Total Bonds	Top 10 Largest Holdings* June 30, 1998	Combined Market Value	% of Total Bonds
GNMA I TBA JUN 30, 6.0%, SINGLE FAM \$	178,297,536	2.1%	USTB, 7.5%, 11/15/16	\$ 148,144,000	1.7%
FNMA TBA JUL 30, 5.5%, SINGLE FAM	177,171,364	2.1	USTN, 6.5%, 8/31/01	116,324,132	1.3
FNMA TBA, JUL 15, 5.0%, SINGLE FAM	171,230,138	2.0	USTB, 8.0%, 11/15/21	114,552,317	1.3
FNMA TBA, JUL 30, 6.0%, SINGLE FAM	143,286,719	1.6	USTB, 8.75%, 5/15/17	112,740,665	1.3
FNMA TBA, JUL 30, 6.5%, SINGLE FAM	133,636,422	1.5	USTN, 7.75%, 11/30/99	112,180,471	1.3
USTN, 4.75%, 11/15/08	110,099,617	1.3	FNMA, 5.625%, 3/15/01	97,118,259	1.1
USTN, 3.625%, 5/15/13	107,080,314	1.2	USTB, 6.25%, 8/15/23	95,820,490	1.1
USTB, 8.125%, 8/15/19	103,506,752	1.2	USTN, 6.875%, 3/31/00	89,037,860	1.0
FNMA DISC NOTE, 7/16/03	100,772,791	1.2	USTN, 5.75%, 4/30/03	84,826,560	1.0
USTB, 12.75%, 11/15/10	85,914,789	1.0	USTN, 6.25%, 1/31/02	81,081,785	0.9
Total	\$ 1,310,996,442	15.2%	Total	\$ 1,051,826,539	12.0%

Key to Holdings

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

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

*Includes only actively managed separate accounts.

A complete list of portfolio holdings is available upon request.

Fixed Income Review

As of June 30, 2003

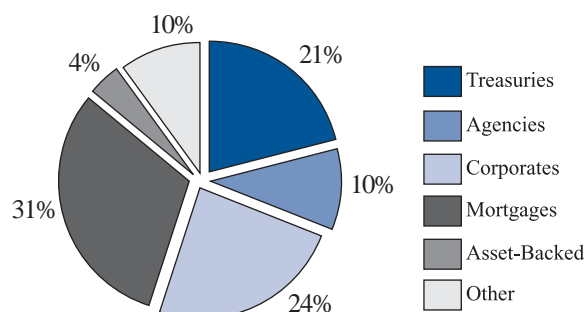
Fixed Income Structure

As of June 30, 2003, approximately 39.4% of the PSRS/NTRS fixed income portfolio was passively managed by State Street Global Advisors while the remaining 60.6% was actively managed by four separate external managers. The Board broadened the mandates of the active managers in July 2002 to provide the investment managers with more discretion in the management of the assets under an expected volatile fixed income environment. Additionally, the Board approved a small allocation to a dedicated high

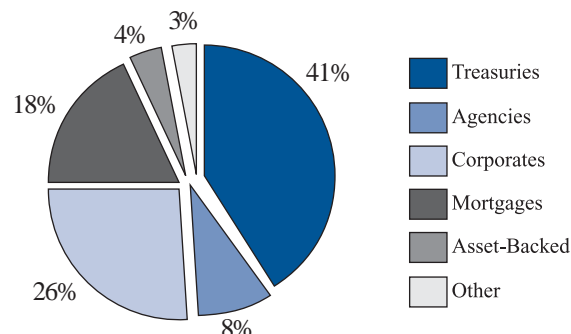
yield bond manager in June 2003. The initial funding of the manager began in July 2003.

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 6/30/03



Sector Allocation 6/30/98



Fixed Income Investment Advisors

The following firms were under contract with PSRS/NTRS during fiscal year 2003 for management of fixed income securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value*	% of Total Market Value
BlackRock Financial Management	Active Core	\$ 730,007,701	3.4%
BlackRock Financial Management	Active Mortgages	815,898,563	3.8
NISA Investment Advisors	Active Core	1,286,446,975	6.0
Payden & Rygel	Active Core Plus	1,382,271,219	6.4
State Street Global Advisors	Passive Core	3,578,401,728	16.5
Wellington Management Company	Active Core	1,292,229,347	6.0
Total		\$ 9,085,255,533	42.1%

*Includes manager cash.

Fixed Income Review

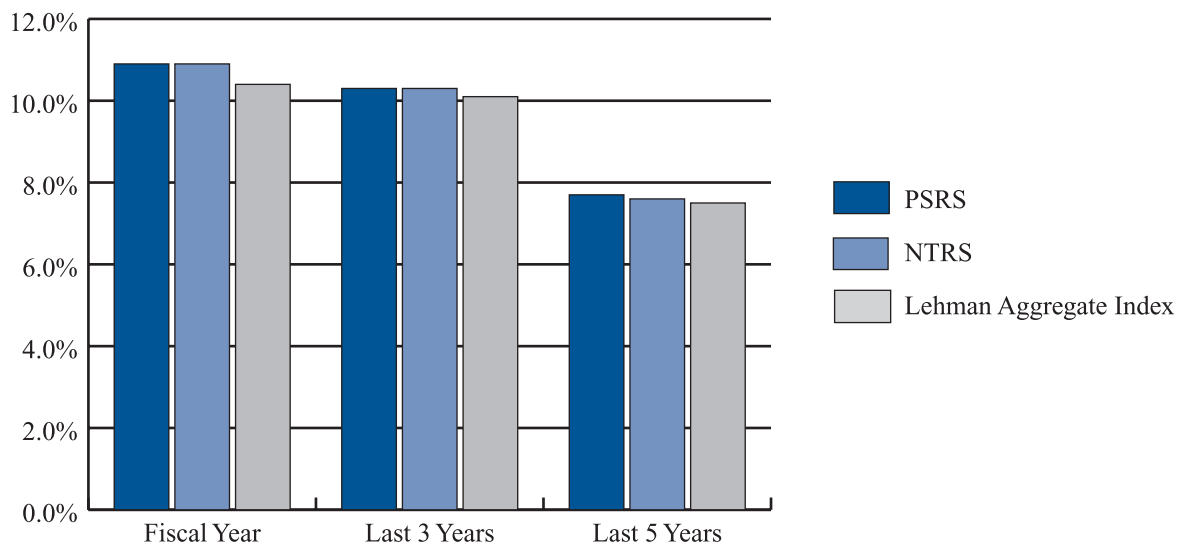
Periods ended June 30, 2003

Fixed Income Investment Returns

The year ending June 30, 2003 was an excellent year for fixed income assets as interest rates declined significantly. The total return on the PSRS and NTRS bond portfolios for the fiscal year was 10.9%, outperforming the Lehman Aggregate Index by 50 basis points. Over the five-year period ended June 30, 2003, the PSRS and NTRS bond portfolios achieved annual returns of 7.7% and 7.6% respectively. These returns exceeded the benchmark's return by 20 basis points for PSRS and 10 basis points for NTRS.

Fixed Income Investment Returns 6/30/03

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	10.9 %	10.3 %	7.7 %
NTRS	10.9	10.3	7.6
Lehman Aggregate Index	10.4	10.1	7.5



Domestic Equity Review

As of June 30, 2003

Market Value

As of June 30, 2003, the combined PSRS/NTRS domestic equity assets managed by external investment advisors had a market value of approximately \$8.3 billion, representing 38.3% of total assets.

Domestic Equity Statistics

The following table displays the statistical characteristics of the PSRS/NTRS domestic equity portfolio as of June 30, 2003 with comparisons shown to the portfolio's policy benchmark (Russell 3000 Index). Additionally, the top 10 U.S. stock holdings as of June 30, 2003 are compared to the top 10 holdings of five years ago.

Characteristics	June 30, 2003 Combined Systems	June 30, 2003 Russell 3000 Index
Number of securities	2,693	2,892
Dividend yield	1.4%	1.7%
Price-to-earnings ratio	23.4	23.9
Avg. market capitalization	\$67.0 bil.	\$71.7 bil.
Price-to-book ratio	4.0	4.0

Top 10 Largest Holdings* June 30, 2003	Combined Market Value	% of Total U.S. Equities	Top 10 Largest Holdings* June 30, 1998	Combined Market Value	% of Total U.S. Equities
Microsoft Corp	\$ 152,879,766	1.9%	Philip Morris Co	\$ 85,050,000	1.2%
Citigroup Inc	152,193,462	1.9	Xerox Corp	77,255,325	1.1
Pfizer Inc	112,057,932	1.3	Kimberly Clark Corp	50,678,113	0.7
General Electric Co	98,604,507	1.2	Sears Roebuck and Co	48,221,056	0.7
Wal-Mart Stores Inc	89,990,153	1.1	Burlington Northern Santa Fe	44,645,856	0.6
Amgen Inc	88,375,232	1.1	BankBoston Corp	38,937,500	0.6
Johnson & Johnson	84,914,148	1.0	Lockheed Martin Corp	38,349,195	0.6
Exxon Mobil Corp	83,965,696	1.0	Chase Manhattan Corp	33,718,300	0.5
Intel Corp	82,658,529	1.0	FirstEnergy Corp	33,507,168	0.5
Dell Computer Corp	78,123,471	1.0	Travelers Group Inc	31,349,188	0.5
Total	\$ 1,023,762,896	12.5%	Total	\$ 481,711,701	7.0%

*Includes only actively managed separate accounts.

A complete list of portfolio holdings is available upon request.

Domestic Equity Review

As of June 30, 2003

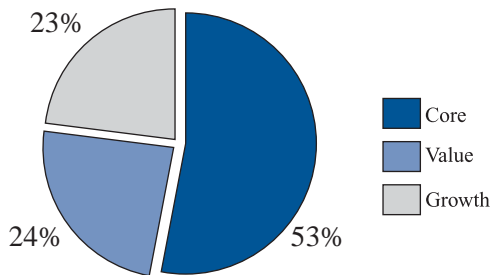
Domestic Equity Structure

As of June 30, 2003, 30.5% of the PSRS/NTRS domestic equity portfolio was passively managed. Another 18.8% 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 array of capitalization ranges and investment styles. The Board

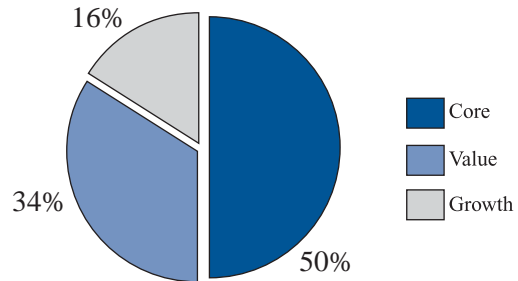
approved increased mandates in large-cap enhanced equity and small-cap growth in fiscal year 2003.

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.

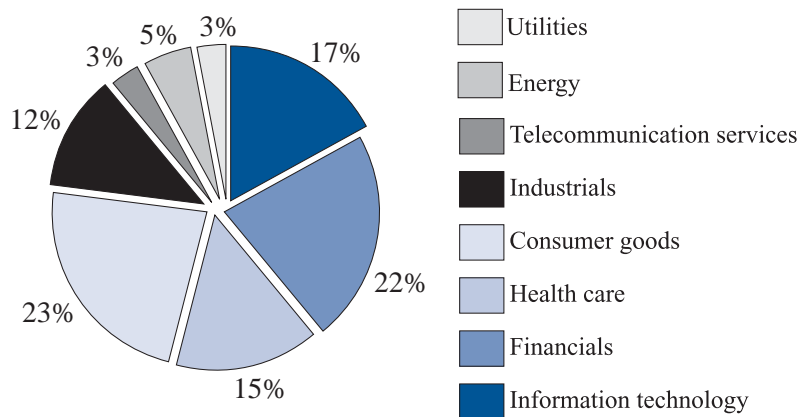
Asset Mix 6/30/03



Asset Mix 6/30/98



The following pie chart shows the allocation to sectors within the domestic equity market for the PSRS/NTRS portfolio as of June 30, 2003.



Domestic Equity Review

As of June 30, 2003

Domestic Equity Investment Advisors

The following firms were under contract with PSRS/NTRS as of June 30, 2003 for management of domestic equity securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2003	% of Total Market Value
Alliance Capital Management	Active Large Cap Growth	\$ 942,776,736	4.4%
Aronson Partners	Active Large Cap Value	671,548,952	3.1
Chartwell Investment Partners	Active Small Cap Growth	116,386,629	0.5
DSI International Management	Enhanced Large Cap Core	799,699,235	3.7
<i>E-MAP: Analytic Investors - Core</i>	Structured Large Cap Core	94,632,323	0.4
<i>E-MAP: Analytic Investors - Value</i>	Structured Large Cap Value	52,098,067	0.3
<i>E-MAP: Legg Mason Capital Management</i>	Active Large Cap Core	136,484,495	0.6
<i>E-MAP: New Amsterdam Partners</i>	Active Large Cap Core	80,015,063	0.4
<i>E-MAP: Next Century Growth Investors</i>	Active Small Cap Growth	71,475,686	0.3
<i>E-MAP: Systematic Financial Management</i>	Active Small Cap Value	59,472,073	0.3
<i>E-MAP: Westwood Management</i>	Active Large Cap Value	125,464,989	0.6
<i>E-MAP: Zevenbergen Capital</i>	Active All Cap Growth	111,709,905	0.5
<i>Equity Manager Alpha Pool Subtotal</i>		731,352,601	3.4
State Street Global Advisors - Enhanced Index	Enhanced Large Cap Core	757,112,819	3.5
State Street Global Advisors - Russell 2000 Index Fund	Passive Russell 2000 Index	399,280,390	1.8
State Street Global Advisors - S&P 500 Index Fund	Passive S&P 500 Index	2,124,788,191	9.9
TCW Asset Management Company	Active Large Cap Growth	661,295,417	3.1
Thomson, Horstmann & Bryant, Inc.	Active Small Cap Value	262,918,089	1.2
UBS Brinson	Active Large Cap Value	805,909,154	3.7
Total		\$ 8,273,068,213	38.3%

*Includes manager cash.

Domestic Equity Review

Periods ended June 30, 2003

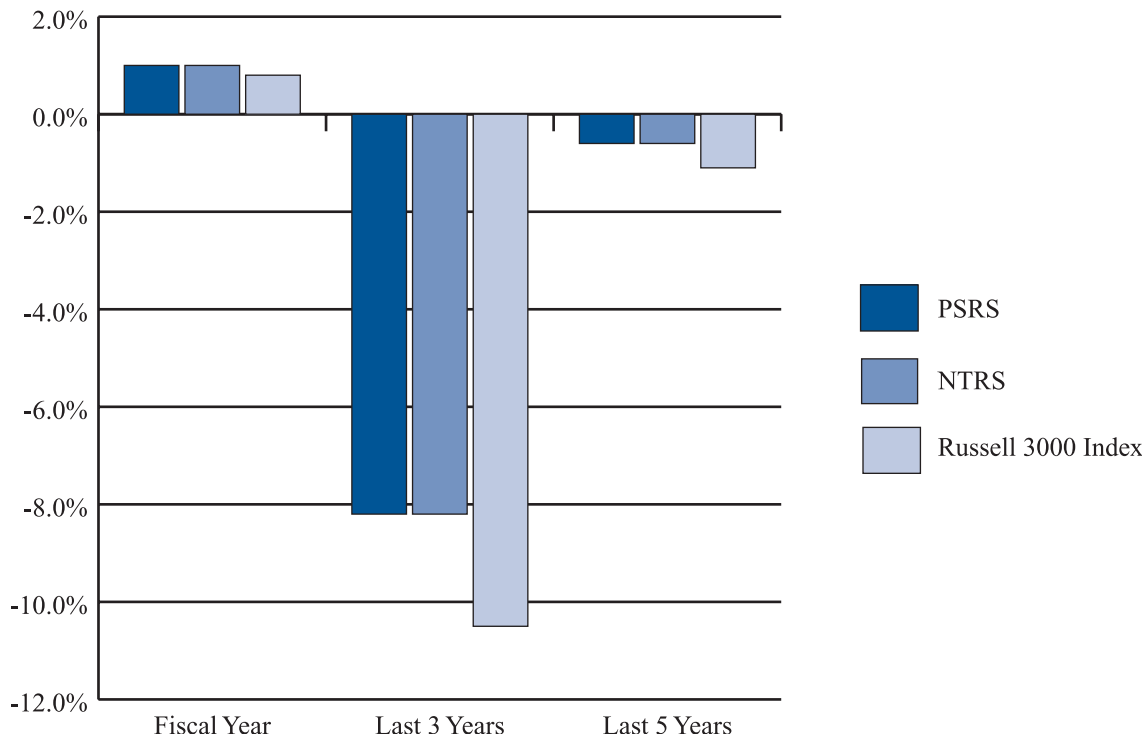
Domestic Equity Investment Returns

The U.S. equity markets finished the fiscal year in positive territory following two (double digit) negative return years. The total return on the PSRS and NTRS domestic equity portfolios was 1.0% compared to the benchmark return of 0.8% for the fiscal year ended June 30, 2003.

The Systems' annualized returns for the past 3- and 5-year time periods were negative but exceeded the benchmark return by 230 basis points and 50 basis points respectively. This outperformance can primarily be attributed to the value added by the Systems' active management strategies. Portfolios concentrated in large capitalization stocks tended to outperform portfolios holding smaller capitalization stocks in fiscal year 2003 while growth oriented portfolios outperformed value style funds during the year.

Domestic Equity Investment Returns 6/30/03

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	1.0%	-8.2%	-0.6%
NTRS	1.0	-8.2	-0.6
Russell 3000 Index	0.8	-10.5	-1.1



Non-U.S. Equity Review

As of June 30, 2003

Market Value

As of June 30, 2003, the combined PSRS/NTRS non-U.S. equity assets managed by external investment advisors had a market value of approximately \$3 billion, representing 13.7% of total assets.

Non-U.S. Equity Statistics

The following table displays the top 10 non-U.S. stock holdings as of June 30, 2003 as compared to the top 10 holdings of five years ago.

Top 10 Largest Holdings* June 30, 2003	Combined Market Value	% of Total Non-U.S. Equities	Top 10 Largest Holdings* June 30, 1998	Combined Market Value	% of Total Non-U.S. Equities
Canon Inc	\$ 72,870,123	2.5%	Mannesmann AG	\$ 57,796,806	2.1%
HSBC Holdings	65,462,641	2.3	ING Groep NV	52,553,583	2.0
Novartis AG	62,612,065	2.2	Novartis AG	48,063,449	1.8
Nestle SA	59,846,902	2.1	Vodafone Group	47,677,005	1.8
ENI	55,856,868	1.9	Glaxo Wellcome	47,400,332	1.8
Vodafone Group	53,374,789	1.9	Nestle SA	45,047,310	1.7
Total SA	50,774,994	1.8	Telecom Italia SPA	40,198,511	1.5
ING Groep NV	45,589,147	1.6	BAT Industries	37,815,894	1.4
Diageo	44,062,474	1.5	Diageo	36,867,104	1.3
Royal Bk Scot Group	41,551,993	1.4	Sony Corp	35,776,377	1.3
Total	\$ 552,001,996	19.2%	Total	\$ 449,196,371	16.7%

*Includes only actively managed separate accounts.

A complete list of portfolio holdings is available upon request.

Non-U.S. Equity Review

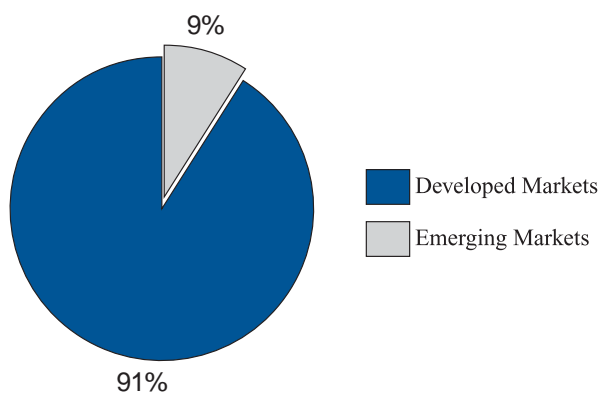
As of June 30, 2003

Non-U.S. Equity Structure

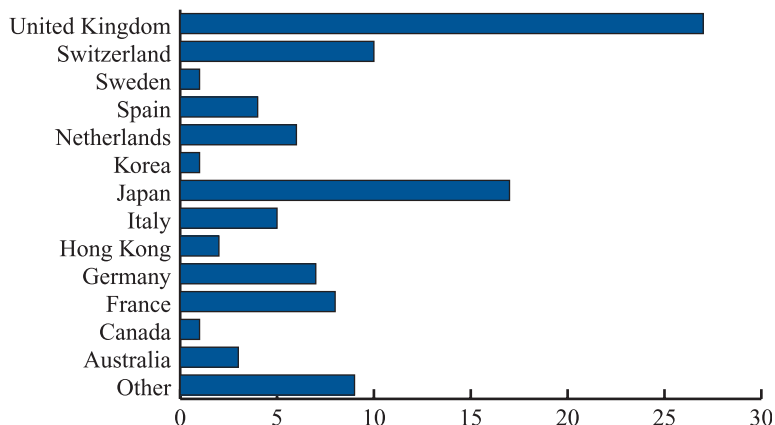
As of June 30, 2003, four separate external managers actively managed 100% of the PSRS/NTRS non-U.S. equity portfolios. The assets were diversified across capitalization ranges, styles and a number of developed and emerging market countries. The Systems employ a fully active management style in the non-U.S. equity portfolios because international markets are generally considered to be less efficient. Therefore, PSRS and NTRS expect the benefits of active management (over time) to be greater in the international markets than in the more efficient domestic markets.

Non-U.S. stocks are also attractive for the diversification benefits they provide to a portfolio. PSRS and NTRS expect similar returns in both U.S. and non-U.S. stock markets over time. However, the combination of the stocks is expected to result in lower total portfolio volatility. 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 6/30/03



Country Allocation 6/30/03



Non-U.S. Equity Investment Advisors

The following firms were under contract with PSRS/NTRS as of June 30, 2003 for management of non-U.S. equity securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2003	% of Total Market Value
Bank of Ireland Asset Management	Active Core	\$ 802,189,560	3.7%
BPI Global Asset Management	Active Core	636,553,890	3.0
INVESCO Global Asset Management	Active Value	868,475,805	4.0
Oechsle International Advisors	Active Growth	657,532,234	3.0
Total		\$ 2,964,751,489	13.7%

*Includes manager cash.

Non-U.S. Equity Review

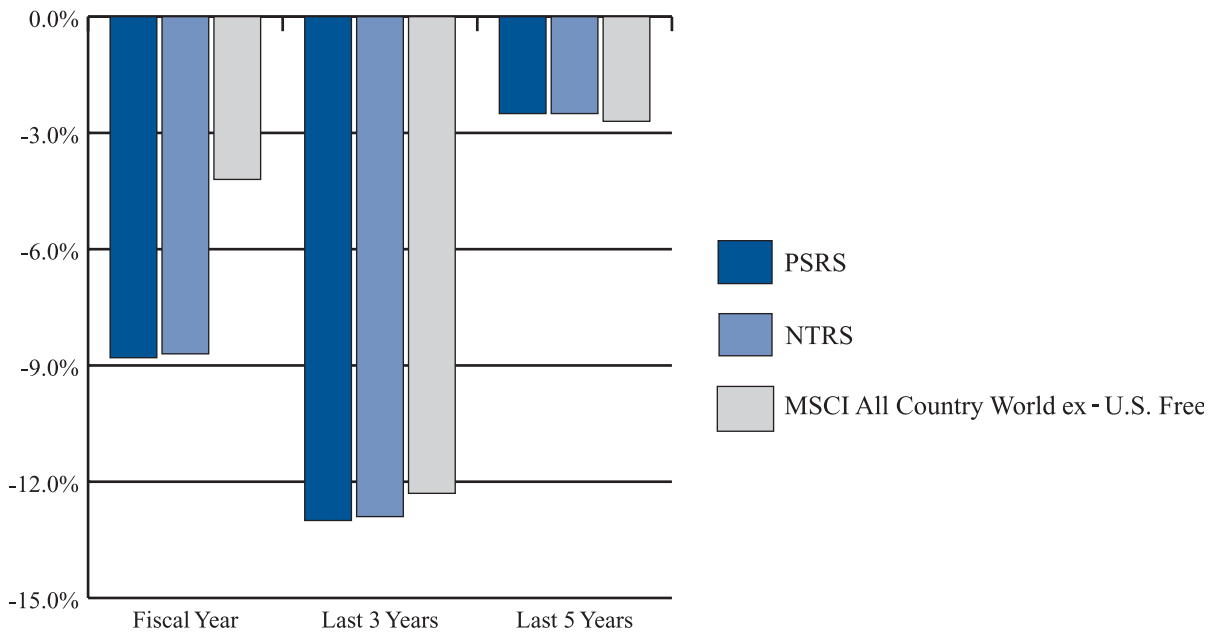
Periods ended June 30, 2003

Non-U.S. Equity Investment Returns

The PSRS and NTRS benchmark, the MSCI All Country World ex-U.S. Free Index, posted negative returns for the third consecutive fiscal year, making it the worst downturn in both magnitude and duration in the international markets over the last 60 years. The total returns on the PSRS and NTRS non-U.S. equity portfolios for the fiscal year ended June 30, 2003 were -8.8% and -8.7% respectively compared to the benchmark return of -4.2%. Both Systems have underperformed the benchmark for the fiscal and 3-year time periods.

Non-U.S. Equity Investment Returns 6/30/03

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	-8.8%	-13.0%	-2.5%
NTRS	-8.7	-12.9	-2.5
MSCI All Country World - ex U.S. Free	-4.2	-12.3	-2.7



Real Return Pool Review

As of June 30, 2003

Market Value

As of June 30, 2003, the combined PSRS/NTRS real return pool assets, managed by one external investment advisor, had a market value of approximately \$1.2 billion and represented 5.5% of total assets.

Real Return Pool Structure

In January 2002, the Board approved the real return pool as a new asset class. Its focus is to earn stable, but meaningful, real returns across varying economic and market cycles. This pool was approved with a target allocation of 5.0% and could include Treasury Inflation-Protected Securities (TIPS) and Real Estate Investment Trusts (REITs). In April 2003, Global Inflation-Indexed Securities and sectors of the Lehman Aggregate Index were approved as two new sub-asset classes for inclusion in the real return pool.

The following table displays the top 10 holdings in the real return pool as of June 30, 2003.

Top 10 Largest Holdings* June 30, 2003	Combined Market Value	% of Total Real Return Pool
USTN, Inflation Indexed, 3.875%, 1/15/09	\$ 223,162,418	19.7%
USTN, Inflation Indexed, 4.25%, 1/15/10	200,944,478	17.8
TENNESSEE VALLEY AUTHORITY, CPI indexed, 3.375%, 1/15/07	139,971,831	12.4
USTN, Inflation Indexed, 3.5%, 1/15/11	126,024,925	11.2
USTN, Inflation Indexed, 3.375%, 1/15/07	123,133,089	10.9
USTN, Inflation Indexed, 3.625%, 1/15/08	116,660,014	10.3
USTN, Inflation Indexed, 3.0%, 7/15/12	76,421,334	6.8
USTN, Inflation Indexed, 3.375%, 1/15/12	48,505,680	4.3
U.S. Treasury Note, 2.625%, 5/15/08	4,894,717	0.4
HOUSEHOLD FINANCE CORP, 8.875%, 2/15/06	4,867,170	0.4
Total	\$ 1,064,585,656	94.2%

Key to Holdings

USTN = U.S. Treasury Note

Real Return Pool Investment Advisor

The following firm was under contract with PSRS/NTRS as of June 30, 2003 for management of real return pool securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value** As of June 30, 2003	% of Total Market Value
NISA Investment Advisors	Active Real Return	\$ 1,195,824,293	5.5%
Total		\$ 1,195,824,293	5.5%

*Includes only actively managed separate accounts.

**Includes manager cash.

Real Return Pool Review

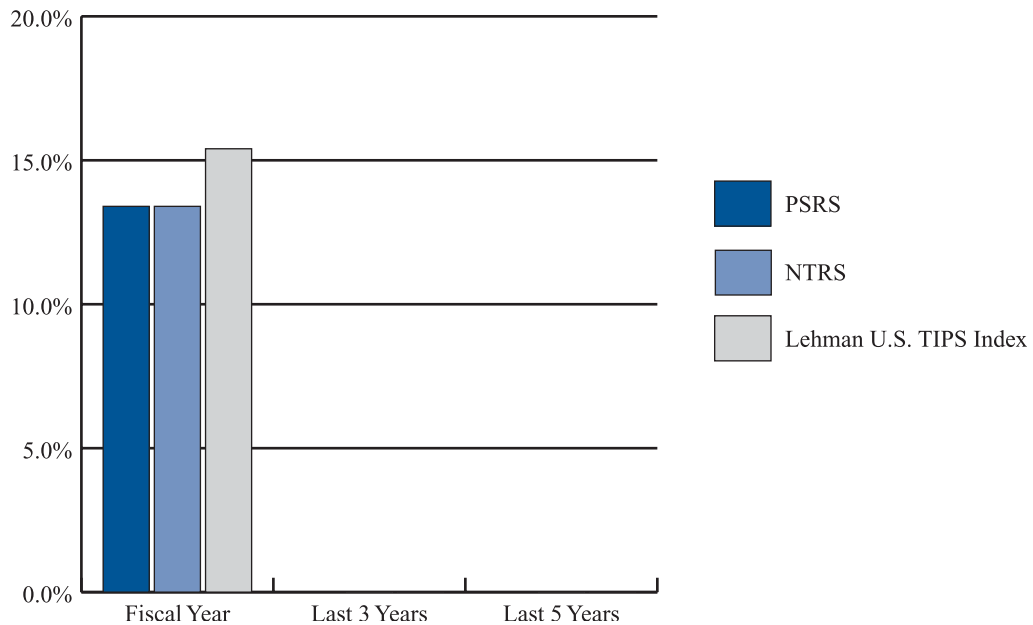
Periods Ended June 30, 2003

Real Return Pool Investment Returns

TIPS were one of the highest returning investment grade asset classes in fiscal year 2003 and provided the Systems with the highest absolute return in the portfolio. The total return on the PSRS and NTRS real return portfolios for the fiscal year ended June 30, 2003 was 13.4%. The Systems' active real return pool underperformed its benchmark (Lehman U.S. TIPS Index) by 2.0% for the period.

Real Return Pool Investment Returns 6/30/03

	<u>Fiscal Year</u>	<u>Last 3 Years</u>	<u>Last 5 Years</u>
PSRS	13.4%	NA	NA
NTRS	13.4	NA	NA
Lehman U.S. TIPS Index	15.4	NA	NA



PSRS Broker Commissions Report

For The Fiscal Year Ended June 30, 2003

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost Per Share
DEUTSCHE BANK SECURITIES, INC	44,218,152	\$ 1,074,580,854.99	\$ 978,810.67	\$ 0.02
MORGAN STANLEY CO INCORPORATED	42,430,051	563,901,928.54	883,485.03	0.02
LEHMAN BROTHERS INC	31,027,536	695,453,896.14	749,160.36	0.02
GOLDMAN SACH + CO	49,411,307	512,682,577.52	714,616.38	0.01
CREDIT SUISSE FIRST BOSTON CORP	29,645,500	252,108,557.17	618,168.50	0.02
MERRILL LYNCH PIERCE FENNER + SMITH	20,743,833	295,233,429.11	501,383.57	0.02
UBS WARBURG LLC	14,798,106	197,101,925.20	450,458.93	0.03
SALOMON SMITH BARNEY	11,663,266	188,107,856.44	356,863.94	0.03
INVESTMENT TECHNOLOGY GROUP INC	15,993,317	458,652,173.30	329,188.78	0.02
J P MORGAN SECURITIES INC	8,910,226	136,217,763.46	299,241.42	0.03
INSTINET	11,877,563	248,691,555.54	240,688.86	0.02
SBC WARBURG	10,923,704	98,245,032.36	224,220.12	0.02
BROCKHOUSE AND COOPER INC	29,723,356	206,846,496.23	203,052.94	0.01
WEEDEN + CO	5,182,177	117,894,019.92	194,950.03	0.04
JEFFERIES COMPANY INC	4,233,795	119,417,662.86	184,441.25	0.04
SANFORD C BERNSTEIN CO LLC	3,989,263	76,451,447.95	170,965.97	0.04
STATE STREET BROKERAGE SERVICES	9,942,870	249,969,121.17	167,638.96	0.02
DRESDNER KLEINWORT BENSON SECS	13,197,676	63,631,457.08	146,454.43	0.01
LA BRANCHE FINANCIAL SERVICES INC	4,293,088	72,701,039.39	143,432.22	0.03
BANC/AMERICA SECUR.LLC MNTGMRY DIV	2,313,300	53,709,037.76	115,805.00	0.05
BEAR STEARNS + CO INC	2,886,085	81,333,015.64	114,011.25	0.04
CANTOR FITZGERALD AND CO	4,122,938	59,934,008.12	107,037.19	0.03
ABN AMRO SECURITIES (USA) INC	7,162,657	56,043,509.39	98,793.21	0.01
FIRST UNION CAPITAL MARKETS	2,022,740	47,760,972.90	92,999.50	0.05
CAPITAL INSTITUTIONAL SERVICES	2,151,157	47,698,962.04	89,788.33	0.04
FACTSET DATA SYSTEMS INC	1,889,933	33,030,193.34	89,007.65	0.05
DRESDNER BANK AG NEW YORK	5,793,000	39,096,320.58	86,532.05	0.01
RBC DAIN RAUSCHER INC	2,150,406	38,139,659.60	82,954.93	0.04
BNY CLEARING SERVICES LLC	2,451,196	70,261,573.01	82,188.80	0.03
CREDIT SUISSE FIRST BOSTON EQUITIES	3,013,810	35,575,060.52	79,723.94	0.03
JB WERE CAPITAL MARKETS	4,484,744	24,875,199.56	78,286.14	0.02
US BANCORP PIPER JAFFRAY INC	1,671,502	33,286,157.26	77,196.00	0.05
KNIGHT SECURITIES	1,703,458	32,225,335.11	77,027.10	0.05
CROIX SECURITIES, BCC CLEARING	2,676,154	77,047,514.92	75,182.61	0.03
CITICROUP GLOBAL MARKETS INC	2,463,504	58,622,973.75	71,824.88	0.03
WARBURG DILLON READ	3,608,978	41,483,347.68	63,032.02	0.02
PRUDENTIAL SECURITIES INCORPORATED	1,270,860	30,351,143.45	61,517.35	0.05
BROADCORT CAPITAL (THRU ML)	1,184,600	36,767,582.04	59,230.00	0.05
SANDLER ONEILL + PART LP	1,244,225	29,631,536.42	58,369.25	0.05
NOMURA SECURITIES INTERNATIONAL INC	1,346,627	24,685,755.46	56,486.09	0.04
Other (<\$56,000)	112,354,379	1,303,427,703.87	2,470,118.19	0.02
Total	532,171,039	\$ 7,882,875,356.79	\$ 11,744,333.84	\$ 0.02

NTRS Broker Commissions Report

For The Fiscal Year Ended June 30, 2003

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost Per Share
DEUTSCHE BANK SECURITIES, INC	3,592,022	\$ 86,229,503.55	\$ 79,609.97	\$ 0.02
MORGAN STANLEY CO INCORPORATED	3,691,480	52,364,081.61	77,059.56	0.02
GOLDMAN SACHS + CO	4,828,942	49,206,589.39	69,620.41	0.01
LEHMAN BROTHERS INC	2,921,805	68,911,817.40	57,960.43	0.02
CREDIT SUISSE FIRST BOSTON CORP	2,274,136	22,915,553.91	57,894.88	0.03
UBS WARBURG LLC	1,063,336	17,584,583.02	38,241.20	0.04
INVESTMENT TECHNOLOGY GROUP INC	1,667,933	55,742,144.65	34,128.13	0.02
MERRILL LYNCH PIERCE FENNER + SMITH	870,229	17,568,664.51	31,270.60	0.04
STATE STREET BROKERAGE SERVICES	1,636,447	56,290,230.05	26,199.04	0.02
SALOMON SMITH BARNEY INC	744,418	12,125,831.41	24,314.20	0.03
J P MORGAN SECURITIES INC	656,630	10,053,737.08	22,092.61	0.03
INSTINET	1,019,676	27,480,922.56	20,513.20	0.02
WEEDEN + CO	441,339	10,000,949.17	16,378.05	0.04
JEFFERIES & COMPANY INC	345,081	8,730,652.91	15,381.95	0.04
BROOKHOUSE AND COOPER	2,343,519	15,992,790.65	12,961.15	0.01
SBC WARBURG	592,780	5,429,050.55	12,380.42	0.02
SANFORD C BERNSTEIN CO LLC	288,797	5,342,218.34	12,181.65	0.04
DRESDNER KLEINWORT BENSON SECS	643,720	4,115,463.73	10,359.99	0.02
LA BRANCHE FINANCIAL #2	300,342	4,770,195.93	9,997.16	0.03
BANC/AMERICA SECUR.LLC MNTGMRY DIV	198,016	4,376,810.30	9,660.80	0.05
FIRST UNION CAPITAL MARKETS	196,430	4,252,923.62	8,986.00	0.05
CANTOR FITZGERALD AND CO	335,204	5,007,212.39	8,871.35	0.03
BEAR STEARNS + CO INC	221,439	6,098,872.95	8,786.81	0.04
ABN AMRO SECURITIES (USA) INC	567,454	4,436,189.76	7,820.07	0.01
CAPITAL INSTITUTIONAL SERVICES	178,721	3,997,452.15	7,440.69	0.04
CREDIT SUISSE FIRST BOSTON EQUITIES	255,949	3,055,933.04	7,014.64	0.03
CROIX SECURITIES, BCC CLEARING	248,862	7,161,215.82	7,004.56	0.03
MORGAN KEEGAN & CO INC	150,865	2,937,643.18	6,933.25	0.05
RBC DAIN RAUSCHER INC	177,154	3,108,428.58	6,601.47	0.04
KNIGHT SECURITIES	196,621	3,462,591.54	6,570.85	0.03
FACTSET DATA SYSTEMS	137,800	2,309,679.93	6,406.00	0.05
BEAR STEARNS SECURITIES CORP	146,999	3,648,612.54	5,887.58	0.04
MERRILL LYNCH INTERNATIONAL	523,461	3,730,238.73	5,866.01	0.01
CITIGROUP GLOBAL MARKETS INC	174,924	5,315,478.42	5,743.38	0.03
U S BANCORP PIPER JAFFRAY INC	119,475	2,483,524.39	5,539.95	0.05
BAIRD, ROBERT W., & COMPANY INC	105,005	2,169,548.75	5,059.15	0.05
PRUDENTIAL SECURITIES INC	103,980	2,473,776.25	5,037.95	0.05
NEEDHAM + COMPANY	125,495	1,270,925.82	4,905.75	0.04
FRIEDMAN BILLINGS + RAMSEY	123,554	2,169,661.79	4,347.70	0.04
Other (<\$4,300)	10,976,905	110,830,879.05	209,844.64	0.02
Total	45,186,945	\$ 715,152,579.42	\$ 972,873.20	\$ 0.02

Investment Summary

As of June 30, 2003

	PSRS/NTRS Combined Funds - FY2003	Percent of Total Market Value		
		FY2003	FY2002	FY2001
Total Market Value				
U.S. Fixed Income	\$ 8,628,540,395	40.0%	43.5%	45.9%
U.S. Equity	8,205,182,976	38.0	34.6	38.5
Non-U.S. Equity	2,877,469,539	13.3	14.0	13.7
Real Return Pool	1,130,020,851	5.2	5.3	
Cash and Short-Term Investments	744,442,610	3.5	2.6	1.9
Total	\$ 21,585,656,371	100.0 %	100.0%	100.0%

Reconciliation with Statement of Plan Net Assets

<i>Accrued payable for investments purchased</i>	\$ 2,309,029,566
<i>Accrued income payable</i>	1,601,216
<i>Accrued receivable for investments sold</i>	(1,155,538,911)
<i>Accrued income receivable</i>	(79,250,403)
<i>Short-term investments designated for benefits</i>	(61,522,139)
Statement of Plan Net Assets	\$ 22,599,975,700

Investment Expenses

For the Year Ended June 30, 2003

	PSRS	NTRS	Total
Investment Managers			
Alliance Capital Management	\$ 1,767,000	\$ 133,000	\$ 1,900,000
Aronson & Partners	939,806	68,944	1,008,750
Bank of Ireland Asset Management	1,927,322	147,678	2,075,000
BlackRock Financial Management	1,110,048	83,552	1,193,600
BPI Global Asset Management LLC	1,822,800	137,200	1,960,000
Brinson Partners	1,331,927	100,253	1,432,180
Chartwell Investment Partners	302,250	22,750	325,000
Dimensional Fund Advisors	644,551	48,589	693,140
DSI International Management	879,706	66,214	945,920
E-MAP	2,678,708	206,386	2,885,094
INVESCO Global Asset Management	2,041,342	158,658	2,200,000
NISA Investment Advisors	1,323,470	106,183	1,429,653
Oechsle International Advisors	2,046,000	154,000	2,200,000
Pathway	249,663	18,792	268,455
Payden & Rygel	790,500	59,500	850,000
State Street Global Advisors	547,630	44,783	592,413
TCW Asset Management Company	1,847,426	154,844	2,002,270
Thomson, Horstmann & Bryant, Inc.	960,461	74,019	1,034,480
Wellington Management Company	837,000	63,000	900,000
Investment Management Expense	24,047,610	1,848,345	25,895,955
Investment Consultants			
Strategic Investment Solutions	339,073	25,478	364,551
Custodial Services			
State Street Bank & Trust	1,557,314	121,441	1,678,755
Staff Investment Expenses	345,198	230,349	575,547
Total Investment Expenses	\$ 26,289,195	\$ 2,225,613	\$ 28,514,808