

# SERS PLAN 3 REPORT April 2001

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## Major Earthquake Does Not Halt Critical Transactions for SERS Plan 3 Members

The State of Washington experienced an earthquake that registered 6.8 on the Richter Scale, on February 28. This happened to be the final day of the SERS Plan 3 transfer window. Even though DRS is located only 10 miles from the quake's epicenter, transfer and gain-sharing payments were posted to eligible SERS Plan 3 members' accounts on March 1 as scheduled.

## SERS Transfer and Gain-Sharing Payments

The majority of transfer and gain sharing payments have already been deposited in eligible members' defined contribution accounts. In many cases, the payments are reflected on the enclosed statement.

The timing of member transfer and gain-sharing payment posting depends on when DRS receives transfer information from employers. DRS may receive this information in April and therefore, the payments will not be reflected on this quarter's statement. However, once the information is received and processed, these payments are posted immediately to eligible members' accounts.

If you want to check your situation, you can look at your account by:

- Visiting the ICMA-RC Web site (<http://www.icmarc.org/plan3>), and using your PIN number to review your personal account, or
- Calling ICMA-RC directly at (888) 711-8773.

To qualify for the transfer payment you must:

- Have transferred on or after September 1, 2000, and before March 1, 2001, and

## SERS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 12/31/2000

	AVERAGE ANNUAL RETURNS			
	4th Qtr 2000	1-Year	3-Year	5-Year
<b>TOTAL ALLOCATION PORTFOLIO</b>	-2.78%	0.42%	10.70%	12.89%

The Washington State Investment Board (WSIB) periodically reviews and adjusts the TAP Fund's asset allocation. Over the last five years, the TAP Fund has shifted to a more aggressive asset mix. These returns reflect the actual asset mixes during the time periods shown.

## SERS PLAN 3 SELF-DIRECTED FUNDS

AS OF 03/31/2001

	1st Qtr 2001	1-Year	3-Year	5-Year
<b>MONEY MARKET FUND</b>	1.5%	N/A	N/A	N/A
<b>WASHINGTON STATE BOND FUND</b>	3.4%	N/A	N/A	N/A
<b>U.S. LARGE STOCK INDEX FUND</b>	-11.9%	N/A	N/A	N/A
<b>U.S. STOCK MARKET INDEX FUND</b>	-12.1%	N/A	N/A	N/A
<b>U.S. SMALL STOCK INDEX FUND</b>	-6.7%	N/A	N/A	N/A
<b>INTERNATIONAL STOCK INDEX FUND</b>	-14.2%	N/A	N/A	N/A
<b>SHORT-HORIZON FUND</b>	-1.9%	N/A	N/A	N/A
<b>MID-HORIZON FUND</b>	-5.5%	N/A	N/A	N/A
<b>LONG-HORIZON FUND</b>	-9.7%	N/A	N/A	N/A

The SERS Plan 3 Self-Directed Funds were available for investment on September 1, 2000 and have no performance history prior to this date. Actual inception dates (start of fund activity) are: U.S. Stock Market Index, U.S. Large Stock Index, Mid-Horizon and Money Market Fund on October 6, 2000; International Stock Index, U.S. Small Stock Index, Washington State Bond, Short-Horizon and Long-Horizon on October 10, 2000.

All returns are net of fees. Self-Directed funds are valued daily; your account balance and rate of return will vary accordingly. Past performance is no guarantee of future results. For more information about the funds, please see the *Plan 3 Investment Guide* or the Web site at <http://www.icmarc.org/sers/investing>.

Returns cover the period ending March 31, 2001.

N/A - Not Applicable

- Earn service credit for the month of January 2001.

If transfer or gain-sharing payments do not appear in your account, and you believe that you qualify for the payments, contact DRS at (800) 547-6657. Olympia area members please call (360) 664-7000, or email DRS at [recep@drs.wa.gov](mailto:recep@drs.wa.gov).

## Plan 3 Members Can Participate in Two Different Investment Programs

Plan 3 members can participate in either the Total Allocation Portfolio (TAP), which is managed by the Washington State Investment Board (WSIB), or the Self-Directed Program

in which the member selects investments from a pre-established set of funds. The following two articles describe how each program works.

## The WSIB Investment Program

The Washington State Investment Board's (WSIB) Total Allocation Portfolio (TAP) is an investment option for members of SERS Plan 3 in which participants' defined contribution funds are commingled in a large pool of assets with Washington state's defined benefit retirement plans such as PERS Plan 1, TRS Plan 1, and PERS Plan 2. Because of this, the investment strategy for TAP is identical to that of the more than \$44 billion invested for the state's

defined benefit plans — to create an optimal portfolio mix designed to generate maximum return in the long-term at a prudent level of risk.

The TAP portfolio is spread across five basic asset types. To control risk, WSIB has established tight policy ranges around each asset type. By diversifying the fund's assets in several investment areas, WSIB reduces the overall investment risk and volatility of the fund. Shown below are the five broad asset classes with their December 31, 2000 percentage of the total fund, the long-term policy target for each class and the proportion of the fund in short-term cash.

<u>Asset Class</u>	<u>12/31/00 Allocation</u>	<u>Long-Term Target</u>
U.S. Equity (U.S. stocks)	36.1%	36%
Non-U.S. Equity (international stocks)	15.1%	15%
Fixed Income	27.4%	25%
Private Equity	13.6%	15%
Real Estate	7.6%	9%
Liquidity (cash)	0.2%	0%

The U.S. Equity program is 100 percent passively managed against a broad U.S. market index. About 76 percent of the U.S. equity investments are large-capitalization stocks, with the remainder in mid- and small-capitalization stocks. The Non-U.S. Equity program invests actively and passively with 93 percent in developed and seven percent in emerging international markets. WSIB's fixed income allocation is broadly diversified across seven individual bond and mortgage-backed investment types, and seeks a fixed income rate of return over the Lehman Brothers Aggregate Bond Index. TAP's private equity and real estate investments are long-term, illiquid investments that seek top performing private investment partnerships to generate a higher return than other asset classes, and provide additional diversification.

The illiquid assets provide increased diversification and value for the portfolio, but the values of these assets can only be provided on a lagged basis. Since illiquid assets are appraised quarterly — with a delay of over three months before actual values become known — the valuation of TAP is declared monthly by WSIB.

## Self-Directed Investment Program

The Self-Directed Investment Program provides an investment option in which SERS Plan 3 members can design their own investment portfolio from a menu of funds, or to choose one of three balanced funds composed of various mixes of funds.

Funds within the Self-Directed Investment Program are valued daily. Daily valuation enables you to change your investments more frequently and receive statements and payments more quickly than the monthly-valued WSIB Investment Program.

There are three general categories of funds available in the Self-Directed Investment Program: Fixed-income funds, equity index funds and Horizon Funds composed of various mixes of funds.

### Fixed Income Funds

There are two fixed-income funds available in the Self-Directed Investment Program. The *Money Market Fund* seeks to maximize current income while preserving capital and liquidity by investing in a diversified portfolio of short-term securities. The fund has a maximum average maturity of 120 days. The *Washington State Bond Fund* seeks to provide attractive returns while controlling risk by investing in high quality corporate bonds.

### Equity Index Funds

Equity index funds seek to replicate certain segments of the market for corporate securities. The indexes available in the Self-Directed Investment Program are constructed based on the market value of the segment of the market being replicated. In any particular index, the larger the capitalization (defined as the price for each share times the number of shares outstanding) of a corporation, the heavier its weight in the index.

The *U.S. Large Stock Index Fund* is a broad-based index comprised of 500 common stocks representing 90 industries and over 70 percent of the capitalization of the U.S. equity market.

The other indexes available in the Self-Directed Investment Program track larger overall market (*U.S. Stock Market Index*

*Fund*), small capitalization stocks (*U.S. Small Stock Index Fund*) or international stocks (*International Stock Index Fund*).

### Horizon Funds

The objective of the Horizon Funds is to provide three unique portfolios with different risk profiles for members who want a multi-class portfolio but do not want to manage it themselves.

There are three Horizon Funds: *Short-Horizon*, *Mid-Horizon* and *Long-Horizon*. These portfolios use a broad market domestic stock index, an international stock index, an actively managed corporate bond portfolio and a short-term investment fund to build a diversified portfolio.

The *Short-Horizon Fund* is primarily invested in fixed income securities with a focus on income growth over capital appreciation. The *Mid-Horizon Fund* is split almost equally between stocks and fixed income securities with a main focus on capital appreciation and a lesser emphasis on income growth. The *Long-Horizon Fund* is primarily invested in stocks with a focus on long-term capital appreciation and very little income growth.