

TRS PLAN 3 REPORT August 2001

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Diversification is key to sound investment strategy

Studies show that the most important decision an investor can make is how he or she allocates assets among different asset classes, such as domestic stocks, international stocks, bonds and cash equivalents. This is important because different types of investments generally behave differently through economic cycles. In addition, certain asset classes tend to perform consistently better over long periods of time.

Diversification is the investment technique used to reduce volatility associated with investing by spreading risk among securities and asset classes. And, while diversification cannot eliminate risk, it can help reduce vulnerability to the extremes of market performance. Combining investments that react differently to market conditions, inflation and interest rate changes can help TRS Plan 3 members protect themselves against downside risks, and maximize their potential for return.

Study recognizes DRS for cost-effective administration

Results of an independently conducted public pension study indicate that Washington State's Department of Retirement Systems operated with administrative costs that were 48 percent lower than peer pension systems — given complexity, volume, service levels and cost environment.

The Cost Effectiveness Measurement, Inc. (CEM) study is the most extensive, independently conducted public pension administration benchmarking study available. Fiscal Year ending June 30, 2000 marked DRS' second year of participation.

The study focuses on the cost-effectiveness of system administration and the quality of client services. DRS

TRS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 06/30/2001

	AVERAGE ANNUAL RETURNS			
	2nd Qtr 2001	1-Year	3-Year	5-Year
TOTAL ALLOCATION PORTFOLIO	1.98%	-6.73%	5.78%	10.75%

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.

TRS PLAN 3 SELF-DIRECTED FUNDS

AS OF 06/30/2001

	2nd Qtr 2001	1-Year	3-Year	5-Year
MONEY MARKET FUND	1.1%	6.1%	5.6%	5.6%
WASHINGTON STATE BOND FUND*	0.6%	N/A	N/A	N/A
U.S. LARGE STOCK INDEX FUND	5.9%	-14.9%	3.7%	14.2%
U.S. STOCK MARKET INDEX FUND	6.9%	-13.8%	4.3%	N/A
U.S. SMALL STOCK INDEX FUND	14.4%	0.5%	4.8%	9.2%
INTERNATIONAL STOCK INDEX FUND	-0.6%	-24.3%	-1.6%	2.4%
SHORT-HORIZON FUND	2.0%	N/A	N/A	N/A
MID-HORIZON FUND	3.0%	N/A	N/A	N/A
LONG-HORIZON FUND	4.4%	N/A	N/A	N/A

* The Bond Market Index Fund closed on August 31, 2000. Investments were transferred to the Washington State Bond Fund. Performance shown is from its September 1, 2000 inception date.

The TRS Plan 3 Self-Directed Index and Money Market Funds' inception dates were in May 1997. Investment returns for periods prior to that date were constructed using the underlying Funds' gross return and deducting current fees and expenses associated with each fund as if the fund had been in existence for the five-year period. The Horizon Funds were created for Washington State TRS Plan 3 participants in September 2000. The U.S. Stock Market Index Fund commenced September 1996 and has no investment performance history prior to that date. Please refer to the *Plan 3 Investment Guide* or the Web site <http://www.icmarc.org/trs/investing> for additional fund information and estimated long-term performance.

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*.

Returns cover the period ending June 30, 2001.

N/A - Not Applicable

compared favorably with 35 other public pension administrators from the United States, Canada, the Netherlands and Australia.

As a special add-on evaluation, FY 2000 marked the first time that Web sites were evaluated in the study. Sites were judged on a variety of criteria, including first impression, visual appearance, site structure and navigation, content, clarity and interactivity. DRS ranked among the top seven Web sites (www.wa.gov/DRS/drs.htm) for overall impression, with positive comments about:

- member forms completed online;
- benefit calculators that are easy to use and provide survivor option explanations, and other plan features;
- a detailed site map that provides links throughout the Web site; and
- timely and thoughtful e-mail responses.

Participation in the study provides DRS an opportunity to view the effectiveness of its business operations. Director John Charles said, "Participation in this study is very valuable. Not only do we find out how

well we are doing in a variety of areas compared to others, but the study also pinpoints those areas where we can make improvements to better serve our customers.”

NOTICE OF PRIVACY POLICY

ICMA Retirement Corporation On behalf of the Washington State Department of Retirement Systems and Teachers' Retirement System TRS Plan 3

Our Privacy Policy. We at the ICMA Retirement Corporation (ICMA-RC) recognize the sensitive nature of your personal financial information, and take every precaution to protect your privacy. In order to provide services to you, the Department of Retirement Systems (DRS) collects certain nonpublic personal information about you from your employer. DRS then provides that information to ICMA-RC, to allow us to service your account. Our policy is to keep this information strictly safeguarded and confidential. We will use this information only as necessary to provide services to you or as otherwise required or permitted by law. Our contract with DRS also requires us to maintain the privacy of your personal information. You can be certain your financial information will only be used within our strict guidelines. Our privacy policy and practices apply equally to nonpublic personal information about former clients and individuals who have inquired about our services.

Information We Collect. “Nonpublic personal information” is personally identifiable financial information about you as an individual or your family. Nonpublic personal information we have about you includes information provided by DRS and information you provide to us in telephone calls, forms, and correspondence.

Information We Disclose. We use this information to process your requests and transactions, for example, to provide you with additional information about the investments available in your plan or to process a transaction. In order to service your account and carry out your instruc-

tions, we may also provide your personal information to firms that assist us in servicing your account. For example, we will provide your address to the vendor that mails your quarterly financial statements. We do not provide customer names and addresses to outside firms, organizations or individuals except as provided to conduct official business on your behalf, or as otherwise allowed by law. In addition to our own policies, our contract with DRS requires us to maintain all information regarding plan members confidential. We are prohibited from disclosing, using, selling or sharing your personal information except to conduct business on your behalf or as directed by DRS.

How We Safeguard Your Information.

We restrict access to nonpublic personal information about you to those persons with ICMA-RC who need the information to provide services to you or who are permitted by law to receive it. We maintain internal policies and procedures to safeguard your personal information.

If you have any questions regarding our Privacy Policy, please contact us at 1-888-711-8773.