


TRS PLAN 3 REPORT

Visit Your Plan 3 on the Web at: www.icmarc.org/plan3/trs

Y DEPARTMENT OF RETIREMENT SYSTEMS QUARTERLY UPDATE • NOVEMBER 2006

Plan 3 Report Has a New Look

THE PLAN 3 REPORT HAS BEEN UPDATED with new graphics and layout. Recognizing that Plan 3 members receive a lot of information, the newsletter has been enhanced to make it easier to read articles about your Plan 3 account.


The Market Commentary, which gives you a pulse on the market environment, will always be located in the same section on page one. Important contact information will always be located in a highlighted box on page two. 

Keeping your Plan 3 Account Secure

The security and privacy of your Plan 3 account are our top priorities. The Department of Retirement Systems (DRS) and ICMA-RC, the third-party record keeper for your account, have several measures in place to (See *Secure*, p. 2)



MARKET COMMENTARY

Investors weighed competing issues during the three-month period ending August 31, 2006, from fears of rising inflation and high energy prices to solid corporate earnings and the prospects of the Federal Reserve ending its rate increases. Investors received some clarity on the latter issue as the Fed took a break from their quarter-point rate hikes that started in June 2004. (These increases took the overnight lending rate from a low of 1.00% to its current level of 5.25%.) The slowing housing market, unimpressive employment growth, and a weakening GDP seemed to provide the Fed with enough confidence that inflationary pressures were somewhat contained for now. 

Bonds

The fixed income market experienced its strongest three-month gain in quite some time. The Lehman Brothers Aggregate Bond Index rose 3.1% for the three-month period as yields were driven lower by the anticipated end of the

TRS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 9/30/2006

| | 3rd Qtr 2006 | AVERAGE ANNUAL RETURNS | | |
|-----------------------------------|--------------|------------------------|--------|--------|
| | | 1-Year | 3-Year | 5-Year |
| TOTAL ALLOCATION PORTFOLIO | 4.11% | 15.76% | 15.67% | 10.81% |

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 asset mixes during the time periods shown.

TRS PLAN 3 SELF-DIRECTED FUNDS

AS OF 9/30/2006

| | 3rd Qtr 2006 | 1-Year | 3-Year | 5-Year |
|--|--------------|--------|--------|--------|
| MONEY MARKET FUND | 1.28% | 4.64% | 2.72% | 2.34% |
| WASHINGTON STATE BOND FUND* | 3.42% | 3.50% | 2.92% | 4.65% |
| SOCIALLY RESPONSIBLE BALANCED FUND* | 3.05% | 5.74% | 6.89% | N/A |
| U.S. LARGE STOCK INDEX FUND | 5.66% | 10.73% | 12.19% | 6.85% |
| U.S. STOCK MARKET INDEX FUND | 4.60% | 10.15% | 12.85% | 7.93% |
| U.S. SMALL STOCK INDEX FUND | 0.32% | 9.56% | 15.31% | 13.56% |
| INTERNATIONAL STOCK INDEX FUND | 3.93% | 19.07% | 22.15% | 12.90% |
| SHORT-HORIZON FUND | 3.14% | 6.74% | 6.71% | 5.85% |
| MID-HORIZON FUND | 3.87% | 8.62% | 9.91% | 7.81% |
| LONG-HORIZON FUND | 4.19% | 11.03% | 13.16% | 9.03% |

* 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 Socially Responsible Balanced Fund inception date is April 1, 2004.

The Horizon Funds were created for Washington State TRS Plan 3 participants in September 2000. Please refer to the Plan 3 Investment Guide or the Web site 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 or the Web site at www.icmarc.org/trs/investing.

Returns cover the period ending September 30, 2006.

N/A - Not Applicable

See *Bonds*, p. 2

Bonds from p. 1

Fed's campaign to fight inflation. Over the past few years the bond market has struggled as rising interest rates negatively impacted the returns of bonds whose prices have an inverse relationship to interest rates. Higher-quality corporate bonds generally fared better than lower-quality bonds, which was expected in this rising interest rate environment.

Stocks

U.S. stocks had mixed results for the three-month period. Large company stocks and higher-quality names drove performance among the major market indexes, while the smaller company stocks did not perform as well during the summer months. The S&P 500 Index (a measure of the large company stock market) rose 3.2% while the Russell 2000 Index (measuring small company stocks) increased only 0.3% for the three-month period. Healthcare, primarily pharmaceutical stocks, significantly contributed to the outperformance for large company stocks. From a style perspective, value stocks continued to outperform growth stocks by about 4.0%.

After declines in April and May, international stock markets rebounded in July and August. The MSCI ACWI ex-U.S. increased 3.8% during the three-month period. Switzerland, Belgium, and the Netherlands posted healthy gains on the strength in Energy and Healthcare. Finland,

Sweden, and Germany struggled due to weak Technology and Industrial stock performance. Currency played a rather insignificant part in performance in international markets as the U.S. dollar held its ground versus foreign currencies. Investors regained confidence in emerging markets as the MSCI Emerging Markets Index gained 3.9%.

By Arnerich Massena & Associates

Due to printing requirements, this article includes market activity as of August 2006.

Secure from p. 1

ensure that your information is kept confidential. For example, Online Account Access, the tool which allows you to access your Plan 3 defined contribution account utilizes Internet data encryption technology, personalized passwords and other precautions to safeguard your data while you use our online services.

There are also ways that you can keep your information secure. If you are sending emails to Plan3@icmarc.org regarding your Plan 3 account, please do not include your Social Security number or other confidential data. Although DRS and ICMA-RC have implemented strong security

measures to ensure the protection of your account information on our systems, the Internet environment outside of DRS and ICMA-RC may not be secure.

If you have any questions, please call Investor Services at 1-888-711-8773.

TRS Plan 3 Contribution Rate Change Window

TRS Plan 3 members have the opportunity each January to select a different contribution rate. To change your rate, you must complete a TRS Plan 3 Contribution Rate Change

form and submit it to your employer during the period of January 1-31, 2007. Otherwise, your current contribution rate will remain in effect. For more information, or to obtain a copy of the form, visit the TRS Plan 3

Web site at www.icmarc.org/plan3/trs or call 1-888-711-8773 or TDD 1-800-669-7471. You may also contact your employer to obtain a copy of the form.

...have several measures in place to ensure that your information is kept confidential.

| CONTACT INFORMATION | |
|---------------------|--|
| DRS | 1-800-547-6657 |
| ICMA-RC | 1-888-711-8773 |
| Web | www.icmarc.org/plan3/trs |

The investments available in Plan 3 are not offered by or through the ICMA Retirement Corporation, the VantageTrust, or ICMA-RC Services, LLC. This publication is available in alternate formats. To request these, call 1-888-711-8773 or TDD 1-800-669-7471.