

SERS PLAN 3 REPORT

July
2003

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Plan 3 Distribution Seminars

DRS offers Distribution seminars to help you understand the different options available for the defined contribution component of your Plan 3 account.

The Distribution seminar provides an overview of the options available at separation and addresses issues such as early retirement, delaying payments and other important factors.

In addition to distribution information, the seminar provides a refresher on important Plan 3 features such as retirement eligibility, and the defined benefit and defined contribution components.

Seminars are offered at no-charge, and are 90 minutes long.

Find a seminar in your area online by visiting <http://www.icmarc.org/plan3/sers/>, and selecting Seminars from the navigation bar. Then simply follow directions to register for a seminar. If you do not have access to the Internet, call 1-888-711-8773 for information and registration.

Distribution seminars are often scheduled based on employer requests, so if you don't see a seminar that meets your needs, ask your employer to schedule one.

Market Outlook

While news concerning the U.S. economy remained bleak, the U.S. stock market gained significant momentum during the three-month period ending May 31, 2003. Investor tensions worldwide eased with the relatively quick and efficient removal of the former Iraqi government. Stocks soared with the news of increased consumer confidence levels, strong manufacturing reports out of the Midwest, and the \$350 billion of tax cuts announced in May. Earnings reports released in April were generally positive, but investors remained somewhat cautious, as expectations have been dramatically reduced from a year

SERS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 3/31/2003

	AVERAGE ANNUAL RETURNS			
	1st Qtr 2003	1-Year	3-Year	5-Year
TOTAL ALLOCATION PORTFOLIO	-1.90%	-9.58%	-6.09%	1.54%

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 6/30/2003

	2nd Qtr 2003	1-Year	3-Year	5-Year
MONEY MARKET FUND	0.23%	1.48%	N/A	N/A
WASHINGTON STATE BOND FUND	3.89%	12.67%	N/A	N/A
U.S. LARGE STOCK INDEX FUND	15.28%	0.08%	N/A	N/A
U.S. STOCK MARKET INDEX FUND	16.08%	0.63%	N/A	N/A
U.S. SMALL STOCK INDEX FUND	22.96%	-2.00%	N/A	N/A
INTERNATIONAL STOCK INDEX FUND	18.03%	-10.24%	N/A	N/A
SHORT-HORIZON FUND	6.65%	5.79%	N/A	N/A
MID-HORIZON FUND	10.77%	5.23%	N/A	N/A
LONG-HORIZON FUND	14.12%	1.44%	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 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 June 30, 2003.

N/A - Not Applicable

ago. While a few companies showed growth in revenues, most continued to use cost-cutting measures to manage earnings. Relatively weak business fundamentals, reduced business spending, and continued high unemployment remain troubling, perhaps signaling that the economy has yet to fully turn the corner.

Bonds

Strong gains realized in the U.S. bond market over the past few quarters slowed somewhat during the last three months. The overabundance of capital that poured into bonds due to the struggling stock market lessened as stocks began appreciating. The Federal Reserve Board held interest rates steady amidst slight concerns of

deflation while remaining somewhat pessimistic of a turnaround in the near future. Long-term bonds continued to provide investors with significantly higher returns as short-term bond yields remained at near-record lows. Corporate and lower-quality bonds provided investors with unprecedented gains in March and April, but relative performance lowered during May.

Stocks

The U.S. stock market rallied in April and May. Optimists believed that a quick end to the conflict with Iraq would act as a catalyst for renewed investor confidence, and this proved to be true as the S&P 500 Index and Nasdaq Composite Index

finished May just shy of their one-year highs. The S&P 500 Index realized gains in six of the last seven weeks of the quarter, indicating the market might be gaining traction. Investor sentiment has improved in recent months as positive news has been embraced and negative news generally shrugged off. The stock market struggled through the month of March, seemingly affected daily by the general sentiment surrounding the progression of the war in Iraq. Reduced uncertainty about the war meant that April and May turned out to be two of the strongest and most consistent months in recent history, with all major indexes finishing with strong gains. Increased consumer sentiment and strong reports from the manufacturing sector helped drive the market rally in late May.

International stocks in general outperformed U.S. stocks, partly due to the weakening of the U.S. dollar. Reversing from the prior quarter, Europe realized the strongest performance for the three-month period, benefiting from the strengthening of the euro, which edged past its all-time high recorded in 1999. Asia Pacific was the weakest performing region, hurt by the SARS outbreak and reduced exports to the United States. Emerging market countries performed similarly to developed markets.

***By Arnerich Massena & Associates.
Due to printing requirements, this article
includes market activity as of May 2003.***