

TRS PLAN 3 REPORT ^{May} 2001

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Customer Service Resumes at DRS Shortly After Major Earthquake

The State of Washington experienced an earthquake that registered 6.8 on the Richter Scale, on February 28. Even though DRS is located only 10 miles from the epicenter of the quake, thanks to the efforts of its staff, by noon the following day the agency was operating as usual and working to serve its customers at normal capacity.

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 TRS 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.

TRS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 03/31/2001

	AVERAGE ANNUAL RETURNS			
	1st Qtr 2001	1-Year	3-Year	5-Year
TOTAL ALLOCATION PORTFOLIO	-5.57%	-9.25%	5.75%	10.89%

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.

TRS PLAN 3 SELF-DIRECTED FUNDS

AS OF 03/31/2001

	1st Qtr 2001	1-Year	3-Year	5-Year
MONEY MARKET FUND	1.5%	6.4%	5.7%	5.6%
WASHINGTON STATE BOND FUND*	3.5%	N/A	N/A	N/A
U.S. LARGE STOCK INDEX FUND	-11.9%	-21.8%	2.8%	13.9%
U.S. STOCK MARKET INDEX FUND	-12.2%	-22.4%	2.7%	N/A
U.S. SMALL STOCK INDEX FUND	-6.7%	-15.6%	-1.6%	7.4%
INTERNATIONAL STOCK INDEX FUND	-14.2%	-26.9%	-1.0%	3.0%
SHORT-HORIZON FUND	-1.9%	N/A	N/A	N/A
MID-HORIZON FUND	-5.5%	N/A	N/A	N/A
LONG-HORIZON FUND	-9.6%	N/A	N/A	N/A

* The Bond Market Index Fund closed on 8/31/2000. Investments were transferred to the Washington State Bond Fund. Performance shown is from its 9/1/2000 inception date.

The TRS 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 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 March 31, 2001.

N/A - Not Applicable

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 in the box to the right 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 TRS 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.