Who does the MSEP 2000 affect?

All new employees who first become members on or after July 1, 2000;

Employees rehired after July 1, 2000, who are not vested in the MSEP;

MSEP active members and vested former members who elect to transfer to the MSEP 2000 prior to retirement; and

MSEP retirees who elect to transfer to the MSEP 2000 during the election window from July 1, 2000, through July 1, 2001.

MOSERS

Rick Dahl
Chief Investment Officer

Dear Members:

It is a privilege to present this year's investment section of the MOSERS' Comprehensive Annual Financial Report. The following are a few highlights of the year:

- As of June 30, 2000, the pension fund was one of the 200 largest defined benefit plans in the United States with total assets of just under $5.6 billion;
- The fund's total earnings for FY2000 of approximately $465 million represented a return of 8.2 percent net of expenses.
- Total earnings for the last five years were $2.75 billion. Over that time period the fund generated an annualized rate of return of 14.5 percent net of expenses. This return places MOSERS solidly in the top one-third of funds in our peer universe as measured by the Independent Consultants Cooperative;
- For the year, the fund spent approximately $8.4 million for management of the assets, which was approximately $5.2 million less than the median fund in our peer group; and
- MOSERS' internal investment department manages approximately $2.5 billion in assets or about 50 percent of the fund. We are managing these assets with a staff of nine employees and an operating budget just under $400,000 or 1.5 basis points on the assets managed internally.

Let me begin by telling you about a major change in the fund's asset allocation which occurred in the fourth quarter of the fiscal year – changes which occurred based on discussions and analysis that took place over the previous six months with the MOSERS' Board of Trustees. The board, working with the MOSERS' investment staff and the asset consultant (Summit Strategies, Inc.) conducted a thorough review of both the assets and liabilities of the system. The primary conclusion reached from this review was that the dominant investment objective of the system should be to construct a portfolio which could be expected to generate returns exceeding the 4 percent real rate objective by 1 percent per annum over a long period of time. In the board's view, taking on the additional risk associated with achieving the additional 1 percent is a worthwhile endeavor for at least the following two reasons: (i) returns in excess of the assumed rate may allow the state to enact benefit increases without significantly increasing contribution rates, and (ii) returns in excess of the assumed rate could be used to pay down the existing unfunded liability, ultimately reducing the state's contributions for retirement benefits, producing savings, which could be allocated to other benefits for state employees.

In order to pursue the objective of exceeding a 4 percent real return, the common stock allocation needed to be increased. Historically, equity securities have generated real returns of 3 to 4 percent in excess of fixed income investments. Even though there was general agreement that this spread might be less in the future, our belief was that the probability of generating a 5 percent real return with a 30 percent allocation to nominal bonds was very low. In raising the equity exposure, it was decided it would be extremely important for the balance of the portfolio to be structured with diversification (not return enhancement) as the primary focus. Non-equity assets were identified that are expected to generate stable returns with low volatility and/or whose price movements seemed to have very little or no relationship to those of equities.

Missouri State Employees' Retirement System
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MO Relay: (800) 735-2466 (Voice)   (800) 735-2966 (TDD)
www.mosers.org

Once the decision had been made to increase the equity exposure, the next two decisions were: (i) by how much, and (ii) whether the allocation should be to U.S. equities, international equities or some combination. The question, regarding how much, was easily answered once return expectations were agreed upon. After much debate and discussion, it was estimated that real returns on equities going forward should average 5 to 6 percent. The same analysis led us to an estimate that real returns on fixed income should average 3 to 4 percent in the future. For purposes of the analysis, we took the mid-point of both returns estimates and concluded that in order to generate a real return of 5 percent, unadjusted for diversification, the allocation would need to be 75 percent equities and 25 percent fixed income. Obviously, long-term differences from our modeling efforts will produce a different set of results. It's worth noting, however, anyone who has followed historical real returns of stocks and bonds will notice our projected real returns for equities are lower than the historical average while our expectations for fixed income are higher. If we are correct in our assumptions, the real return spread between equities and fixed income, commonly known as the "equity risk premium," will be lower in the future due to the run-up in equity prices that has occurred in the last several years.

To answer the question with regard to whether the allocation should be to U.S. equities, international equities, or some combination, we focused our attention on two things: comparative valuations and the percentage of world market capitalization now made up of non-U.S. equity assets. It was our conclusion that based on several measures of valuation, non-U.S. stocks were more fairly valued than U.S. stocks. While over the long-term we would not expect returns to be significantly different between U.S. and non-U.S. equities, over the next three to five years we placed a higher probability on international equities outperforming U.S. equities than vice versa. With respect to the percentage of world equity market capitalization outside the United States, the number today is roughly 50 percent. Therefore, if our equity allocation was to be more in-line with the world allocation to equities, we would need roughly a 50-50 split between U.S. and non-U.S., while our split prior to the new allocation was 75 percent U.S. and 25 percent non-U.S. Both of these things led us to increase international equity by more than U.S. equity. Ultimately, the decision was made to adopt a total fund equity allocation of 50 percent U.S. and 25 percent international.

With respect to the remaining 25 percent of the portfolio that was to be dedicated to assets that generated stable returns with low volatility and/or whose price movements historically have very little or no relationship to the price movements of equities, the following structure was implemented. The allocation to Treasury Inflation Protection Securities (known as TIPS or real return bonds) was increased from 2.5 percent to 10.0 percent of the total fund. Real return bonds seem to be a very good diversifier of the equity exposure, they are less volatile than traditional (referred to as nominal) bonds, and are an excellent match against the fund's retired life liabilities, because their returns are tied directly to the consumer price index. In addition, we were able to purchase these bonds at a real yield of about 4 percent, thus giving us a head start on the 3½ percent real return threshold for the fixed income component of the portfolio. One might ask the question, "If real return bonds have all of these positive characteristics, why not have a much more aggressive allocation to the asset class?" Answers to that question include the facts that real return bonds have a short history in the United States, there remain some liquidity concerns about these Treasury instruments, and there are some economic scenarios in which nominal bonds are clearly better performing securities. We have concluded that the positives of these bonds far outweigh the negatives; however, it seemed prudent to include nominal bonds in the "diversification mix" for reasons of superior liquidity, a long observation period of historical performance, and importantly, the possibility of continued disinflation, an economic environment in which nominal bonds will perform better than real return bonds.

After reducing nominal bonds by 10 percent to increase equities and by 7½ percent to increase real return bonds, the remaining 12½ percent (assuming the commodity allocation remained at 2½ percent) was then the focus of our attention. Our analysis on the nominal bond component of the portfolio suggested that each of the nominal bond sectors (governments, corporates, mortgages, and asset-backed securities) are very good diversifiers of equities. However, there was no evidence to support the diversification benefits of longer duration and lower credit quality instruments as part of this mix. In the case of longer durated securities, correlations to equities are similar to that of intermediates, but with higher volatility. Lower credit quality securities should offer higher expected returns, however, with the basic premise that low equity correlation is the primary factor for inclusion in the non-equity portfolio, these securities were rejected because they tend to act more like equities than do higher quality counterparts.

I hope this letter has given you a better understanding of the changes that have taken place in the investment portfolio this year. This move, while made based on very long liabilities and an eye toward success over many years, will, no doubt, be judged many times over in the next few years. This is one of the major flaws in our industry -- decisions are made based on a very long-term plan and, without fail, once implemented, they are judged quarter to quarter. There is no way around this problem except to attempt to manage expectations and keep all parties who are involved in the decision making process abreast of changes. As always, the decision was not made in a vacuum and we believe it was the right one, based on solid information and a sound understanding of the current set of liabilities. In the end, it's about paying the benefits that you, the members, have been promised, and I believe this new allocation will help us achieve that goal.

Sincerely,

Rick Dahl

Rick Dahl
Chief Investment Officer

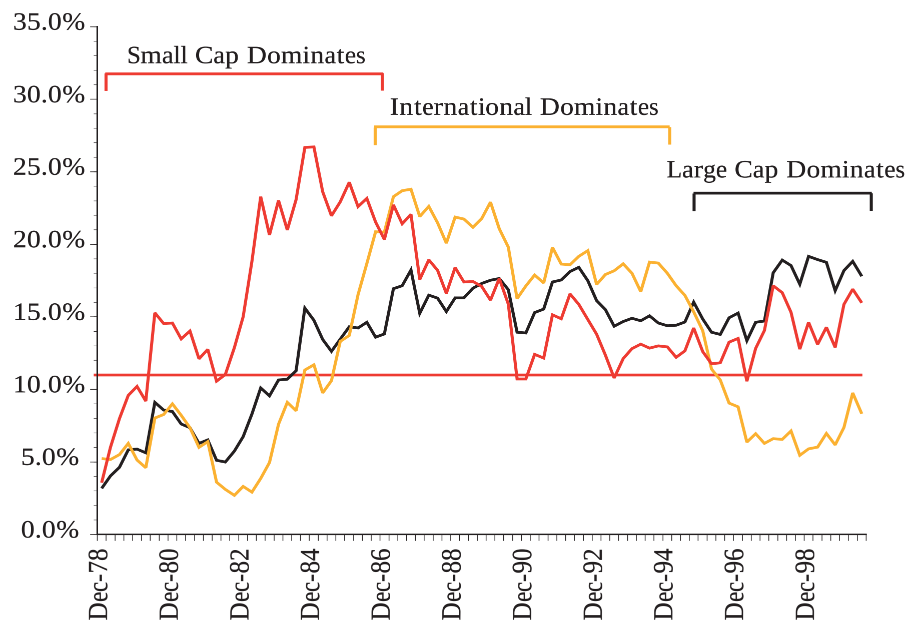
Summit Strategies Group
7700 Bonhomme Ave.
Suite 300
St. Louis, MO 63105
314-727-7211
314-727-6068 Fax

Dear Members:

I have read Rick Dahl's comments in this annual report regarding the investment portfolio, its results, and the issues that the board, staff, and Summit wrestled with during the fiscal year ended June 30, 2000. I think he provided an excellent summary and I do not wish to repeat his comments here. I will, however, add that the 8.2 percent fiscal year return and the five-year annualized return of 14.5 percent that Rick mentioned as the total fund return net of fees were prepared and presented in accordance with standards promulgated by the Association for Investment Management & Research for investment performance reporting.

What I would like to do in this brief letter is to provide some historical perspective regarding the equity markets, because that is what served as the basis for many of the efforts Rick described in his letter. It has been said that the four most expensive words in investing are, "it's different this time." Below is a chart illustrating the ten-year rolling returns of the three major equity markets: U.S. large cap stocks (household names like GE, Wal-Mart, and Microsoft), U.S. small cap stocks (all other U.S. companies except these huge entities), and international developed market stocks (the big companies of the non-U.S. developed countries of the world).

Rolling Ten-Year Annualized Returns



While this chart conveys many messages, I would like to focus on just two. First, long-term results tell us that stocks have returned annual results of approximately 10-13 percent (depending on the market). I picked 11 percent and drew a red line across this 30-year moving picture. Please notice how much time U.S. stocks have generated returns above the line over the past 25 years. Noteworthy is the fact that we have not even been close to the line for most of this time! This has truly been the greatest period of returns for investors ever. But, if long-term averages are to be believed, the party will not last forever (unless of course, “it’s different this time!”). Therefore, I believe the era of working harder for less return is near, if not upon us.

My second point from the chart is if you stopped at the end of the three decades of ten-year results highlighted here and made your investment decisions based on recent results, you would have hurt your potential performance significantly. In 1980, you would have looked back and seen recent results that suggested small cap stocks had done very well. A person who decided this was a sign for the future and put all of their money in small cap stocks in 1980 would have suffered through a decade of international stock dominance and would have caught the beginning of a 20-year period of small cap underperformance relative to large cap U.S. stocks. The same is true of 1990. A decade of dominance by international stocks (and Japan specifically; remember all the books on how the Japanese would take over the World?) would tell our investor it was too costly to stay in U.S. stocks and assets should be shifted to international…just in time to see the international markets hit the skids led by Japan’s market falling from 40,000 to 14,000.

So, what do we see in 2000? A look back at the last decade of the 20th century tells us the largest U.S. companies are the place to be. Led by the technology revolution spawning the Information Age, the United States, home to the great tech companies, will continue to dominate the world. Keep in mind these companies are collectively trading at earnings multiples never seen by U.S. stocks and only witnessed by Japanese equities at the peak of that market in late 1989. The current sentiment is this party should continue. In order for it to keep going at the pace we have all grown accustomed to, then it will have to be “different this time.” Is it? I wish I knew.

I do know that market timing (the ability to shift from one area of the market to another just as one is cooling and the other is taking off) is impossible. To date, no bells have gone off to tell us a market change is about to take place. There are people who get it right once, rarely twice. But the string of correct predictions necessary to make this a profitable practice has eluded investors thus far. So, what does a fund like MOSERS do? You diversify, gain exposure to all major markets, emphasize the minimization of costs associated with investing, and constantly question the current trend in investment sentiment, which is always dominated by the most recent results. As Rick’s letter indicates, we are all trying our best to do just that.

Sincerely,

Stephen P. Holmes

Stephen P. Holmes, CFA
President

Fiduciary Responsibility

The MOSERS' Board of Trustees bears the ultimate fiduciary responsibility for the investment of system assets. Members of the board must adhere to state law and prudent standards of diligence with respect to their duties as investment fiduciaries. Accordingly, they are required to discharge their duties in the interest of plan participants. They must also act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims.[1]

Overall Investment Objective

The board's overall objectives with respect to the investment of MOSERS' assets are:

- Protect the system against future contribution rate increases resulting from failure to achieve reasonable real rates of return (with some allowance for contingencies);
- Protect the portfolio against the negative impact of short-term volatility in various asset classes through diversification.
- Attempt to add incremental return relative to the market, through overweighting certain asset subclasses that have long-term track records of outperformance;
- Attempt to add incremental return relative to the market, through prudent use of active management strategies in areas where inefficiencies seemingly exist; and
- Minimize implementation costs without negatively impacting performance through efficient use of internal and external resources.

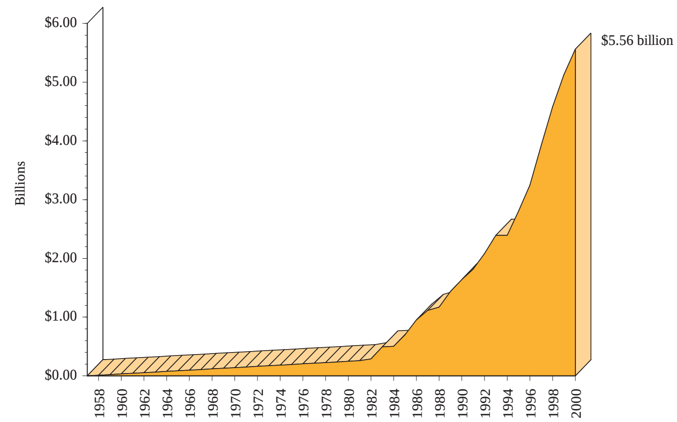
Real Rate of Return Investment Objective

The MOSERS' actuarial funding objective is to produce real returns that exceed the rate of inflation by 4.0 percent per year. The best known measure of inflation is the Consumer Price Index (CPI). From the lower right graph, one can see the MOSERS' investment returns have exceeded the CPI measure by a wide margin since the early 1980s.[2]

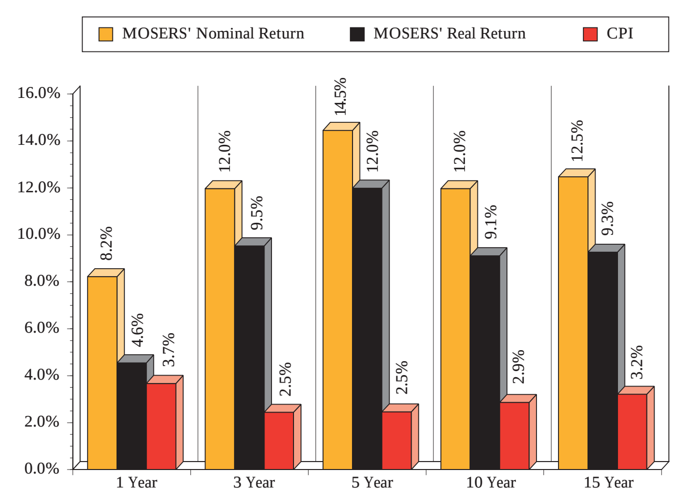
[1] 105.688, RSMo - Investment Fiduciaries, Duties.

[2] All investment returns are reported net of investment fees, and are believed to be in full compliance with AIMR and BAI standards.

43 Years of Growth

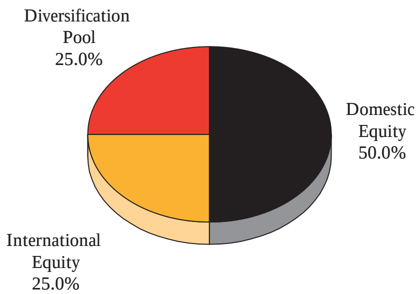


MOSERS' Return vs. CPI (Inflation)

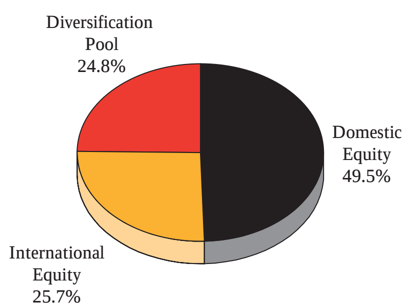


CPI Source: U.S. Department of Labor, Bureau of Labor Statistics (not seasonally adjusted). MOSERS' real return is the excess return over the CPI utilizing the formula: Real = (1 + Nominal)/(1 + CPI) - 1.

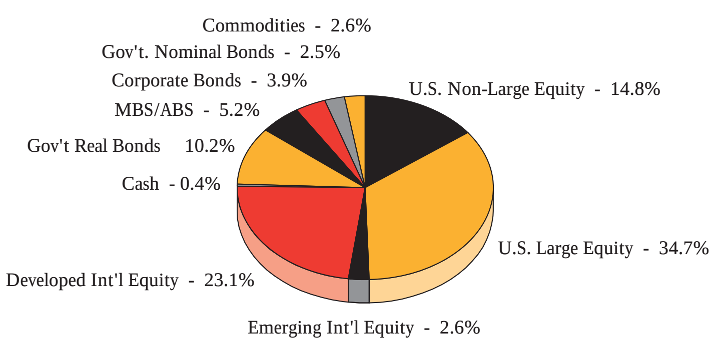
MOSERS' Policy Asset Mix



MOSERS' Actual Asset Mix



MOSERS' Actual Strategy Mix



Market Value

As of June 30, 2000, the MOSERS' investment portfolio had a market value of $5.56 billion.

Summary of Policy Asset Allocation

In March 2000, the MOSERS' board made a significant shift in the portfolio's policy asset allocation. The shift occurred by increasing the exposure to real return bonds 7.5 percent, increasing the exposure to international stocks 7.5 percent, increasing the exposure to domestic stocks by 2.5 percent, and decreasing the exposure to nominal bonds by 17.5 percent. In addition, the structure of the nominal bond portfolio was changed to one of shorter average maturity and higher credit quality.

MOSERS' assets are divided into three broad asset classes: domestic and international equities, and a diversification pool consisting of assets with low absolute volatility and/or whose price movements historically have had very little or no relationship to the price movements of equities. The assets that currently make up this pool are intermediate, high quality nominal bonds, real bonds, commodities, and cash.

The resulting portfolio is intended to produce the real rate of return necessary to fund the pension liabilities with prudent levels of risk. Real return is the amount by which actual return exceeds the rate of inflation. The chart at the top depicts the MOSERS' current policy asset allocation, adopted by the board in March 2000.

Due to the fact that different asset classes seldom move in lock step with each other, it is reasonable to expect that over time the actual allocation will differ from the policy mix. The chart in the middle depicts the MOSERS' actual asset mix as of June 30, 2000.

Strategy Asset Allocation

Strategic biases within asset classes are employed in an effort to enhance long-term returns within each asset class. A strategic decision should be thought of as any decision that might cause MOSERS' actual return to differ from the return of the policy mix. These strategic allocations may subject the fund to higher return volatility over shorter time frames; however, if successful, returns will be enhanced. The chart at the bottom depicts MOSERS' actual strategy mix as of June 30, 2000.

Total Fund Returns and Benchmark Comparisons

In addition to comparing the actual returns of the fund to the real rate of return objective, the board also compares fund returns to the following three benchmarks: the MOSERS' Policy Benchmark, the MOSERS' Strategy Benchmark, and, to a lesser extent, the median return generated by a peer group of public pension funds.

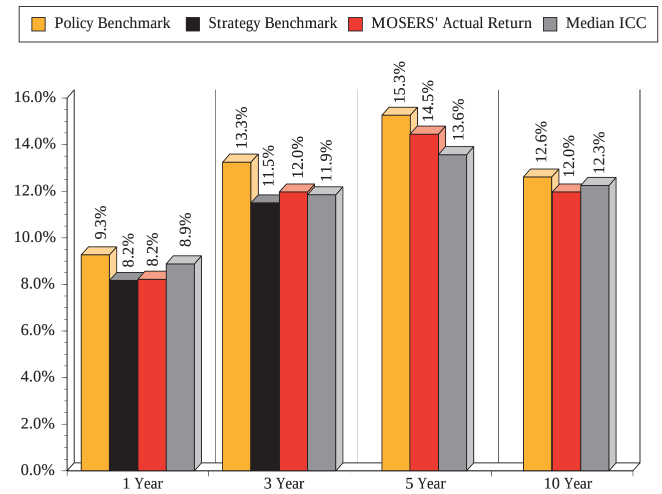
- The policy benchmark provides an indication of the returns that could be achieved (excluding transaction costs) by a portfolio invested passively in the broad market with percentage weights allocated to each asset class in MOSERS' policy asset allocation.
- The strategy benchmark reflects decisions made to strategically deviate from the broad asset classes. The strategy benchmark is more narrowly defined and focuses on any specific bets made relative to the policy benchmark. Examples of strategic decisions in the MOSERS' portfolio would be the overweight to small capitalization and value stocks in the domestic equity portfolio.
- The Independent Consultants Cooperative (ICC) median public fund return reflects a universe of public pension plans with assets in excess of $1 billion.[3]

By comparing the strategy benchmark with the policy benchmark, the board will, over time, be able to judge the success or failure of all decisions made to deviate from the policy allocation. Value is being created from the strategy decision if the strategy return exceeds the policy return.

Similarly, by comparing the actual return to the strategy benchmark, the board will, over time, be able to judge the success or failure of the staff and consultant in implementing the board's strategy. Returns attributed to implementation may take on several forms including active manager selection, the effects of the rebalancing policy, and the staff effect in general. Value is being added from implementation if the actual return exceeds the strategy return.

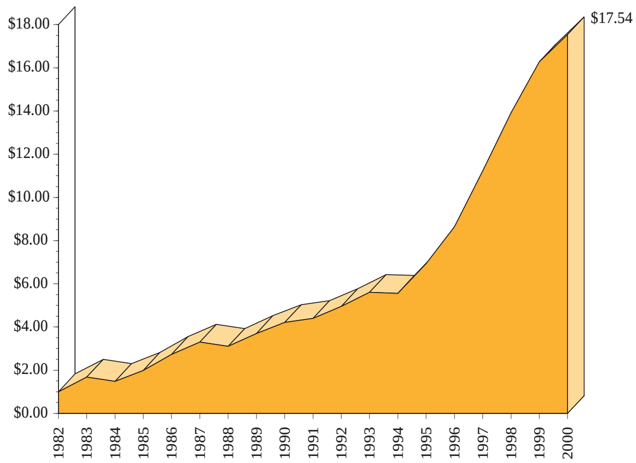
The upper right graph shows total fund return comparisons for 1-, 3-, 5-, and 10-year periods. Strategy benchmarks were not clearly defined prior to 1995, which was when MOSERS formally adopted strategic biases.

Total Fund Returns

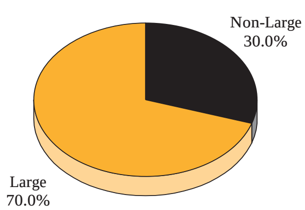


[3] The ICC is a cooperative of 13 independent investment consultants from across the United States and one major custodial bank that collectively provide performance data in order to create a universe of peer returns. The observed median return is gross of investment management fees and reflects 33 participating funds.

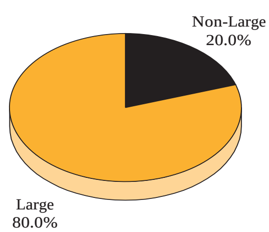
Growth of a Dollar in Domestic Equities



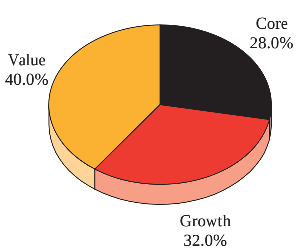
MOSERS' Domestic Equity Portfolio (by size)



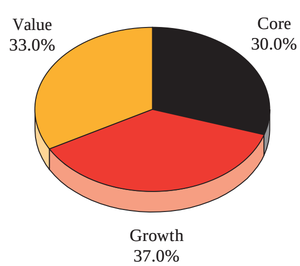
Policy Benchmark (by size)



MOSERS' Domestic Equity Portfolio (by style)



Policy Benchmark (by style)



Market Value

As of June 30, 2000, the MOSERS' Domestic Equity Portfolio had a market value of $2.76 billion, representing 49.5 percent of MOSERS' total assets.

Summary of Domestic Equity Investments

MOSERS maintains a significant allocation to publicly traded shares of corporations domiciled in the United States. Domestic equities are held in broadly diversified portfolios, and they represent 50.0 percent of the MOSERS' policy asset allocation. Equity investments are expected to contribute significantly to the fund's achievement of a long-term real rate of return in excess of the 4.0 percent objective set by the board, because of their historical return premiums over inflation. The graph to the left depicts the performance of the domestic equity portfolio since 1982 by showing how a $1.00 investment in the portfolio had grown to $17.54 by June 30, 2000.

Domestic Equity Portfolio Structure

The Domestic Equity Portfolio consists of six separate portfolios: one passive, one enhanced and four active. The passive and enhanced portfolios provide broad market diversification and make up 80 percent of the total domestic equity exposure. The passive and enhanced allocations provide low cost exposure to the equity market. The enhanced portfolio provides the slight overweight to small capitalization and value stocks relative to the broad U.S. equity market. The four active managers each manage a concentrated portfolio containing only their best investment ideas. The composite of the active managers represents 20 percent of the domestic allocation. The mission of the active managers is to provide performance that exceeds the policy benchmark.

The pie charts to the left compare the MOSERS' Domestic Equity Portfolio to the policy benchmark (the Russell 3000), first by market capitalization (size), then by style. As observed, there is a strategic bias toward non-large and value investment styles relative to the policy benchmark.

Domestic Equity Portfolio Statistics

The following table displays the statistical characteristics of the MOSERS' Domestic Equity Portfolio as of June 30, 2000, with comparisons shown to the portfolio's policy benchmark and to the same portfolio as of the end of the prior fiscal year.

Characteristics	June 30, 2000 MOSERS' U.S. Stocks	June 30, 2000 Russell 3000	June 30, 1999 MOSERS' U.S. Stocks
Number of securities	1,189	3,000	1,060
Average market capitalization	$102.6 billion	$120.8 billion	$72.5 billion
Portfolio yield	1.3%	1.1%	1.2%
Portfolio P/E	18.5x	30.4x	24.0x
Portfolio Beta vs. S&P 500	.97	.96	1.01
Price/book ratio	5.3x	7.0x	4.8x
Five year earnings growth	15.9%	17.0%	17.0%

The following table displays MOSERS' ten largest domestic equity holdings as of June 30, 2000, and the ten largest holdings one year prior.

Ten Largest Holdings June 30, 2000[4]	Market Value	Percentage of Total U.S. Stocks	Ten Largest Holdings June 30, 1999	Market Value	Percentage of Total U.S. Stocks
Intel Corporation	$ 74,768,745	2.7%	Microsoft	$ 66,966,023	2.7%
Cisco Systems	72,460,487	2.6	General Electric	48,758,370	1.9
General Electric	68,744,710	2.5	Cisco Systems	35,784,721	1.4
Pfizer	60,166,656	2.2	Intel Corp.	33,675,810	1.3
Microsoft	59,193,600	2.1	Pfizer	33,394,330	1.3
Exxon Mobil	40,539,049	1.5	Bank America	33,154,265	1.3
EMC Corporation	37,273,911	1.4	MCI Worldcom	32,056,130	1.3
Wal-Mart	37,131,245	1.3	IBM	31,423,260	1.3
Citigroup	32,439,624	1.2	Citigroup	30,387,745	1.2
Merck	32,038,445	1.2	Merck	30,084,648	1.2

[4] A complete list of holdings is available upon request.

Domestic Equity Portfolio Investment Advisors

As of June 30, 2000, MOSERS had contracts with five external investment advisors targeted to manage 40 percent of the domestic equity portfolio. Internal management of 60 percent of the domestic equity portfolio enables passive participation in a very significant segment of the U.S. stock market at a very low cost.

The following table displays the external firms that were under contract with MOSERS during FY2000 for management of domestic equity securities. In addition, it shows the internally managed domestic equity portfolio, the managers' investment styles, FY2000 ending portfolio market values, and the managerial fees paid for the fiscal year.

During FY2000, MOSERS released one investment advisor from their contract. One new active advisor was hired.

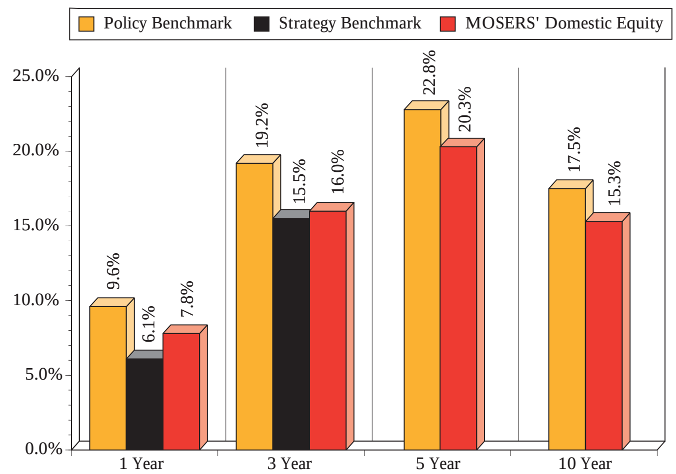
Investment Advisor	Investment Style	Portfolio Market Value as of June 30, 2000	FY2000 Management Fee
Internal Staff	Passive S&P 500 Index	$ 1,643,342,239	$ 125,400
Dimensional Fund Advisors	Passive Non-Large Value	544,332,699	517,466
Oak Associates	Active All-Cap Growth	157,716,815	2,545,863
Zak Capital, Incorporated	Active All-Cap Core	133,172,845	0
Capital Guardian Trust Company	Active All-Cap Core	139,248,424	394,929
AmeriCap Advisers	Active All-Cap Core	137,223,172	116,125
Southeastern Asset Management	Active All-Cap Value	0	183,709
Total		$ 2,755,036,194	$ 3,883,492

Domestic Equity Investment Returns

MOSERS' Policy Benchmark, the Russell 3000 Index, gained 9.6 percent for the year. The strategy to intentionally diversify holdings, particularly with smaller capitalization and relatively less expensive stocks, failed to add value in FY2000. This can be observed by comparing the 9.6 percent return generated by the policy benchmark to the 6.1 percent return generated by the strategy benchmark. The MOSERS' actual return of 7.8 percent was above the strategy benchmark as the active manager composite outperformed the strategy benchmark.

The graph to the right shows 1- and 3-year results as described above and also includes the actual return compared with the policy benchmark for 5- and 10-year periods. The strategy benchmark was not clearly defined before 1995, which was when MOSERS formally adopted strategic biases.

Domestic Equity Returns



Brokerage Commissions

In the fiscal year ended June 30, 2000, MOSERS generated the following commissions through the purchase and sale of domestic equity securities.

Brokerage Firms	Shares Traded	Dollar Volume of Trades	Commission Dollar Amount	Commission Per Share
U.S. Clearing	12,500,332	$ 439,651,754	$ 449,151	$ 0.036
Guzman & Company	9,063,534	453,546,704	94,165	0.010
Instinet Corporation	6,834,929	167,254,819	171,274	0.025
Eberstadt (F.) & Company	2,237,053	52,101,058	130,520	0.058
Lynch Jones	2,131,449	50,171,433	53,177	0.025
Chapman & Company	1,269,000	48,599,080	38,070	0.030
Rochdale Securities	1,693,210	39,676,692	33,864	0.020
B-Trade Services LLC	1,038,105	34,367,860	31,064	0.030
Bear Stearns & Company	1,523,600	30,018,062	89,813	0.059
CIBC Oppenheimer Corporation	965,800	28,760,104	57,348	0.059
Morgan Stanley & Company	1,181,674	28,564,393	65,161	0.055
Jones & Associates	1,437,536	27,957,601	80,064	0.056
Merrill Lynch	1,105,600	27,035,557	66,865	0.060
Broadcourt Capital Company	592,300	26,760,989	25,670	0.043
Jefferies & Company	886,517	24,658,559	49,214	0.056
Smith Barney Incorporated	1,112,600	21,864,030	66,488	0.060
Others (including 65 brokerage firms)	16,456,952	356,541,506	951,147	0.058
Total	62,030,191	$ 1,857,530,191	$ 2,452,965	$ 0.040
Zero commission trades excluded above	9,282,042	$ 322,470,940		

Soft Dollar Service Expenditures

In the fiscal year ended June 30, 2000, MOSERS' U.S. equity managers declared that $302,340 of the commissions generated were utilized to acquire a variety of services and research information. These expenditures, referred to as soft dollars (expendable excess commissions) are permitted under current SEC investment advisor guidelines, and represented 12.3 percent of MOSERS' agency commissions in FY2000.

Type of Service Acquired	Commissions Used	Percentage of Total
Research services	$ 108,668	36%
Trading and analytic systems	74,920	25
Pricing services	32,199	11
Transaction cost analysis	24,719	8
Custom benchmarks	17,634	6
Market research	16,344	5
Portfolio management systems	20,595	7
Research	3,928	1
Exchange fees, other services	3,333	1
Total	$ 302,340	100%

Market Value

As of June 30, 2000, the MOSERS' International Portfolio had a market value of $1.43 billion, representing 25.7 percent of the total fund.

Summary of International Equity Investments

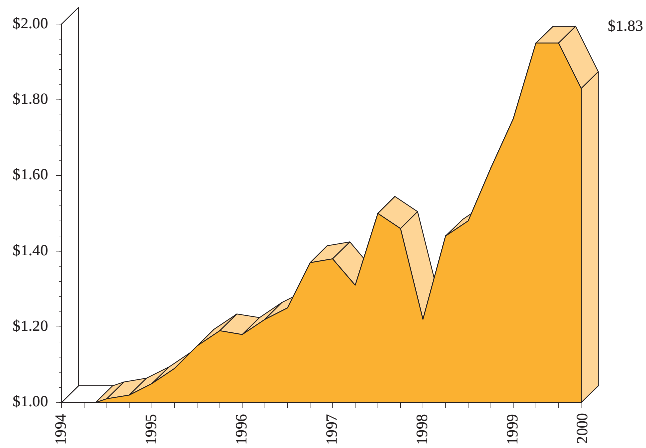
Non-U.S. stocks, with a target allocation of 25.0 percent, are employed by the fund primarily because their historical return premium versus inflation, if realized in the future, will help preserve and enhance the fund's ability to achieve a long-term real rate of return in excess of the 4 percent objective set by the board. Non-U.S. stocks are also attractive for the diversification benefits they provide to the portfolio. By incorporating non-U.S. stocks into the asset mix, MOSERS expects to achieve overall equity returns, which are comparable to that of a U.S. stock portfolio while reducing overall portfolio volatility. The graph to the right depicts the performance of the international equity portfolio since 1994, by showing how a $1.00 investment in the portfolio had grown to $1.83 by June 30, 2000.

International Equity Portfolio Structure

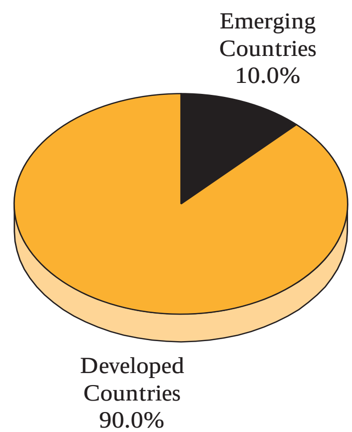
As of June 30, 2000, 39.9 percent of the international portfolio was managed in an enhanced index fashion with the balance of 60.1 percent being managed actively. Non-U.S. stock investments consist of a Morgan Stanley Capital International Europe, Australia, and Far East (MSCI EAFE) Enhanced Index Portfolio, a Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) Enhanced Index Portfolio and two active portfolios. In July 1995, the board hired an active, value-tilted, developed markets manager to complement the EAFE Index Portfolio. This past year, an active, growth-tilted, developed markets manager was hired. The MOSERS' policy allows the active managers to hedge currency up to 25 percent, while the enhanced portfolios are unhedged.

The pie charts to the right show the breakdown of investments in developed markets and emerging markets in the international portfolio compared to the policy benchmark, Morgan Stanley Capital International EAFE + EMF Index.

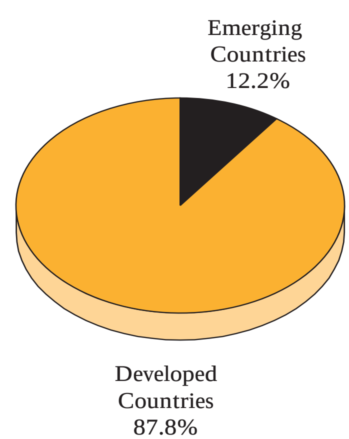
Growth of a Dollar in International Equities



MOSERS' International Equity Portfolio



Policy Benchmark



International Equity Portfolio Statistics

The following table displays the statistical characteristics of the MOSERS' International Stock Portfolio as of June 30, 2000, with comparisons shown to the portfolio's policy benchmark and to the same portfolio as of the end of the prior fiscal year.

Characteristics	June 30, 2000 MOSERS' International Equity	June 30, 2000 MSCI EAFE & EMF	June 30, 1999 MOSERS' International Equity
Number of securities	1,483	1,802	1,229
Avg. market capitalization	$6.3 billion	$9.4 billion	$6.8 billion
Portfolio yield	2.5%	1.6%	2.4%
Portfolio P/E	25.1x	29.8x	25.3x
Price/book ratio	2.7x	3.0x	2.3x

Ten Largest [5] Holdings June 30, 2000	Market Value	Percentage of International Stocks	Ten Largest Holdings June 30, 1999	Market Value	Percentage of International Stocks
Pernod-Ricard (France)	$ 14,718,169	1.0%	Nestle SA (Switzerland)	$ 11,277,001	1.2%
Aventis (France)	13,820,062	1.0	Smith Nephew (UK)	9,671,296	1.0
ING Groep (Netherlands)	13,732,336	1.0	Allied Domecq (UK)	9,497,384	1.0
Talisman Energy (Canada)	13,731,485	1.0	Den Danske Bank (Denmark)	9,039,629	1.0
Royal Bank of Scotland (UK)	13,527,824	0.9	Matsushita Elect (Japan)	9,023,138	1.0
Samsung Electric (Korea)	12,853,800	0.9	BP Amoco (UK)	8,331,700	0.9
Diageo (UK)	12,350,047	0.9	ING Groep (Netherlands)	7,839,390	0.8
Parmalat Finanz (Italy)	12,266,848	0.9	Paribas (France)	7,736,566	0.8
Swiss Reinsurance (Switzerland)	12,064,141	0.8	Tate & Lyle (UK)	7,719,420	0.8
RAS (Italy)	11,804,555	0.8	Unigate (UK)	7,581,342	0.8

[5] A complete list of holdings is available upon request.

International Equity Portfolio Investment Advisors

As of June 30, 2000, MOSERS had contracts with three external investment advisors for the management of four non-U.S. stock portfolios. Two firms are managing active portfolios in the developed markets which are expected to add incremental return over an established benchmark through stock selection, country selection, and small amounts of currency hedging. The third manager has two enhanced index portfolios which are expected to add a small amount of return while matching country weights with the index. One enhanced portfolio is for the developed markets and the other is for the emerging markets.

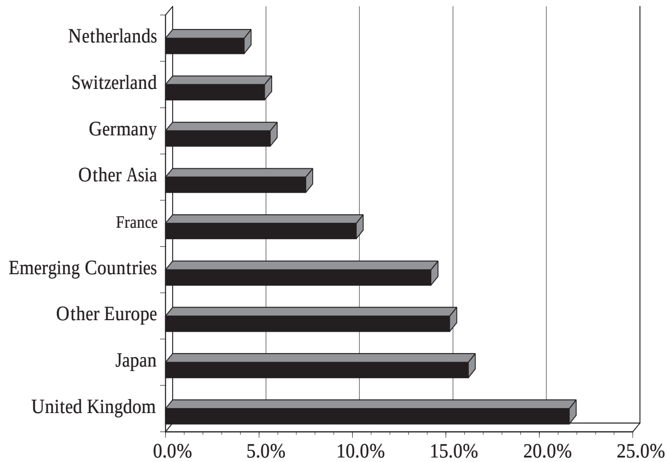
The following table displays the external firms that were under contract with MOSERS during FY2000 for management of international stocks. Also displayed are the managers' investment styles, FY2000 ending portfolio market values, and the managerial fees paid for the fiscal year.

During FY2000, MOSERS released one passive investment advisor and one active investment advisor from their contracts. One enhanced manager and one active manager were hired.

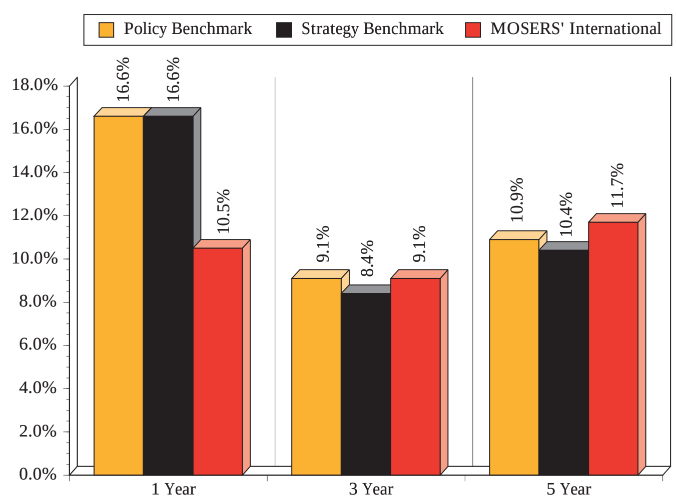
Investment Advisor	Investment Style	Portfolio Market Value as of June 30, 2000	FY2000 Management Fee
Silchester International Investors	Active value Developed markets	$ 430,491,332	$ 1,641,371
Merrill Lynch Quantitative Advisors	Enhanced Developed markets	425,676,224	332,195
Merrill Lynch Quantitative Advisors	Enhanced Emerging markets	142,909,567	30,000
Mastholm Asset Management	Active growth Developed markets	427,704,333	164,383
Deutsche Bank	Passive MSCI EAFE Index	0	99,554
Morgan Grenfell Investment Services	Active core Emerging markets	0	725,058
Total		$ 1,426,296,596[6]	$ 2,992,561

[6] This total includes the impact of the rebalancing account on the total international portfolio and therefore the managers portfolio market values will not sum.

MOSERS' International Country Allocation



International Equity Returns



The chart to the left displays the MOSERS' country exposure relative to the policy benchmark on June 30, 2000.

International Equity Investment Returns

The MOSERS' Policy Benchmark, the MSCI EAFE + EMF Index gained 16.6 percent for the year. During the past year the strategy of over-weighting the emerging markets was eliminated. Going forward, any decision to deviate from the benchmark weight in emerging markets will be made on an opportunistic basis by the active managers. MOSERS' actual return of 10.5 percent did not add value relative to the strategic benchmark. This shortfall was caused by the failure of the active, developed country value manager to generate returns in excess of the benchmark. The developed markets were dominated by growth companies in the first half of FY2000. With the addition of the growth style manager in May, it is expected that style influences should be dampened in the future.

The lower left graph shows 1- and 3-year results as described above and also includes the actual return compared with the policy benchmark for five years. MOSERS' first allocation to international stocks did not occur until July 1994; therefore, 10-year returns are not applicable.

Brokerage Commissions

In FY2000, MOSERS generated the following commissions through the purchase and sale of international equity securities.

Brokerage Firms	Shares Traded	Dollar Volume of Trades	Commission Dollar Amount	Commission Basis Points
Credit Suisse First Boston	6,109,831	$ 59,472,286	$ 129,287	21.74
Goldman Sachs	20,608,955	45,884,134	121,397	26.46
Societe Generale	1,549,200	32,814,783	96,187	29.31
Morgan Stanley	208,959,600	32,752,709	80,394	24.55
Merrill Lynch	9,061,300	30,992,088	63,688	20.55
Paribas Limited	897,500	28,659,887	74,922	26.14
Kleinwort Benson	3,577,267	25,892,318	51,135	19.75
ABN AMRO	21,417,245	25,538,238	57,328	22.45
Robert Fleming	6,628,400	25,526,689	82,831	32.45
Natwest Securities	168,000	16,384,088	47,110	28.75
Credit Lyonnais	7,725,100	14,467,290	49,801	34.42
SBC Warburg	5,157,620	13,959,524	35,270	25.27
Union Bank of Switzerland	5,423,467	11,809,479	24,388	20.65
Smith New Court Securities	2,636,000	11,655,539	21,465	18.42
Nesbitt Burns	385,400	10,424,411	15,421	14.79
Bankgesellachaft A.G.	326,713	9,727,522	29,700	30.53
Donaldson Lufkin	81,628,200	8,686,456	22,098	25.44
Daiwa	755,300	8,026,674	16,045	19.99
Others (including 38 brokerage firms)	144,647,260	81,007,457	259,705	32.06
Total	527,662,358	$ 493,681,572	$ 1,278,172	25.89
Zero commission trades excluded above	22,864,128	$ 11,023,217		

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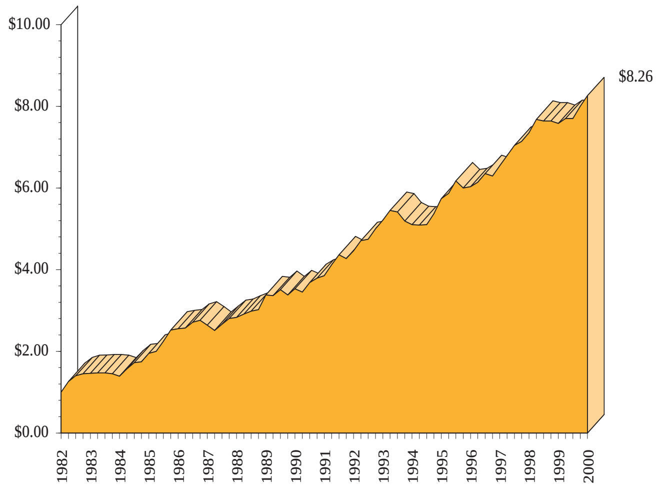
Soft Dollar Service Expenditures

For FY 2000, MOSERS' current international equity managers declared that $24,986 of the commissions generated were utilized to acquire a broad variety of services and research information. Soft dollars represented less than 2 percent of the total agency commissions.

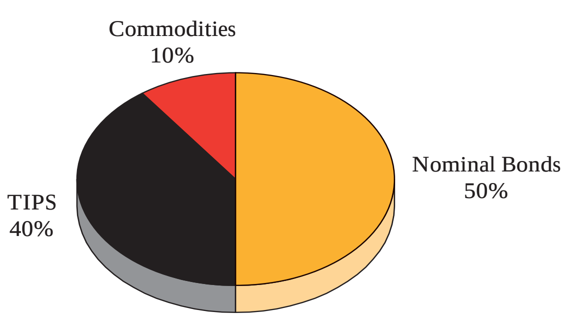
Type of Service Acquired	Commissions Used	Percent of Total
Trading and analytic systems	$ 8,746	35.0%
Research services	1,117	4.5
Market research	15,123	60.5
Total	$ 24,986	100%

Growth of a Dollar in Diversification Pool[7]



[7]The graph above depicts the performance of the diversification pool since 1982 (all fixed income prior to the 4th quarter of 1998, followed by a blend of fixed income, TIPS, and commodities to the present) by showing how a $1.00 investment in the portfolio had grown to $8.26 by June 30, 2000.

Diversification Pool Portfolio



Market Value

As of June 30, 2000, the MOSERS' diversification pool had a market value of $1.37 billion, representing 24.8 percent of the total fund.

Summary of Diversification Pool Investments

The diversification pool, with a target allocation of 25.0 percent, serves to offset or dampen the equity risk component within the fund. The pool is primarily comprised of nominal bonds or traditional fixed income instruments, real return bonds or TIPS[8] and a commodities exposure. Targets for these classes are 50 percent, 40 percent, and 10 percent respectively within the pool. All three of these security classes have exhibited consistently low, and at times, even negative correlations to equities over long periods of time, a factor which provides excellent diversification properties to the fund's 75 percent allocation to equities. There is a small amount of residual cash.

The nominal bond portion of the pool has been structured with an intermediate maturity profile and a significant bias towards high credit quality and good liquidity. The nominal bonds provide sufficient and predictable cash flow, and are structured in such a way as to perform well in periods of a stable, low inflationary environment and in a disinflationary or deflationary trend. TIPS will perform well in periods of rising inflation when nominal bonds will not be performing as well. Finally, commodities exposure protects the fund in those situations when inflation is unanticipated and is rising rapidly. Commodities exposure is somewhat unique in that it tends to be a very good diversifier to both stocks and nominal bonds. That is, in periods of inflation surprises, both stocks and nominal bonds are likely to do poorly and commodities will act as a buffer to their fall. Conversely, commodities are likely to lag in periods of disinflation when stocks and nominal bonds tend to perform well. In short, the primary function of the diversification pool is to diversify away a portion of the equity risk in the overall fund, yet there are also diversification elements within the pool itself that should provide adequate performance in most investment scenarios.

[8] "TIPS" is an acronym for Treasury Inflation Protected Securities. These securities are a "full faith and credit" guarantee of the U. S. Government. They pay lower rates of interest, but the bondholder is protected against inflation for the life of the bond by means of a mechanism that adjusts the maturing principal amount of the bond higher, according to changes in the consumer price index.

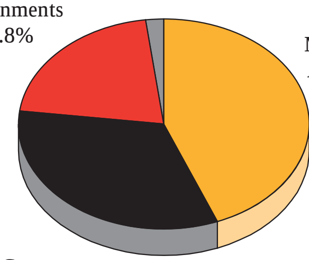
Diversification Pool Portfolio Structure

As of June 30, 2000, 56 percent of the diversification portfolio was passively managed. Another 34 percent was managed in an enhanced index style, which allows for some limited trading flexibility with the expectation of capturing additional return relative to the benchmark. The remaining 10 percent was managed in an active duration management style.

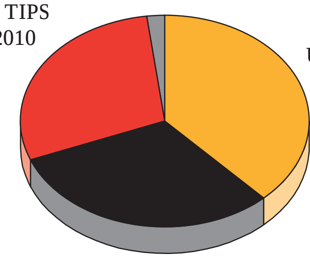
A significant expansion of the Diversification Pool was implemented in the 4th quarter of FY2000. Because of the diversification properties of both fixed income and commodities, a plan was put into place to essentially merge the two asset classes into one pool. The major changes to the pool, all effected late in the fiscal year, were to significantly expand the TIPS allocation and to substantially reduce the maturity profile of the nominal bond component while simultaneously increasing the portfolio's credit quality. Nominal bonds were also significantly reduced as a percentage of the overall fund. Given the acceptance of more equity risk in the fund, it was deemed appropriate and prudent to reduce risk in the nominal bond component of the Diversification Pool. With each separately managed portfolio being confined to one specific fixed income sector, MOSERS is able to capitalize on each manager's area of expertise. Duration of the nominal bond portfolio can fluctuate from about 3.0 years to approximately 4.5 years, as of June 30, 2000, depending upon the portfolio profile of the active duration manager. The commodity allocation continues to be managed in the same weighting and management style as in the prior fiscal year.

The pie charts to the right show the broad composition of the MOSERS' Diversification Pool as of June 30, 2000, as a percentage of the Total Fund, and within those broad categories of assets, the pie charts show the specific sector exposures within nominal bonds, TIPS, and commodities.

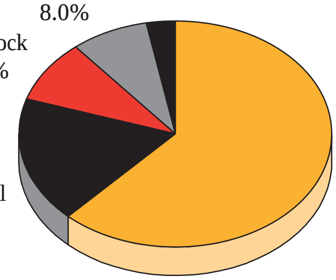
Nominal Bonds Portfolio



TIPS Portfolio



Commodities Portfolio



Diversification Pool Portfolio Statistics

The following table displays the statistical characteristics of the MOSERS' Diversification Pool Portfolio as of June 30, 2000, with comparisons shown to the portfolio's policy benchmark and to the portfolio as of the end of the prior fiscal year:

Characteristics	June 30, 2000 MOSERS' Diversification Pool	June 30, 2000 Policy Benchmark[9]	June 30, 1999 MOSERS' Fixed Income
Total number of securities	201	1,375	229
Current yield	5.5%	5.5%	6.5%
Yield to maturity	5.8%	5.8%	6.8%
Average life/maturity	12.8 years	12.7 years	10.5 years
Adjusted duration	5.0	5.1	6.1
Quality	AAA+	AAA+	AAA

Ten Largest Holdings June 30, 2000[10]	Market Value	Percentage of Diversification Pool
U.S. TIPS 3.625% 4/15/28	$ 213,688,024	15.8%
U.S. TIPS 3.875% 4/15/29	171,811,487	12.7
U.S. TIPS 4.25% 1/15/10	163,085,241	12.0
USTN 5.875% 11/30/01	71,127,150	5.2
GNMA 6.50% 2023-2029	33,313,566	2.5
USTB 6.125% 8/15/29	29,046,361	2.1
USTB 6.375% 8/15/27	18,929,000	1.4
FNMA 6% 2013-2014	18,803,011	1.4
GNMA 7% 2023-2029	18,436,001	1.4
FHLMC 7% 7/15/05	16,976,200	1.3

Ten Largest Holdings June 30, 1999	Market Value	Percentage of Fixed Income
FHLMC 6.5% 2027-2029	$ 78,114,236	5.5%
USTB 6% 2/15/26	48,857,226	3.5
FNMA 6% 2028-2029	33,840,798	2.4
FNMA 6% 2013-2014	33,775,284	2.4
FNMA 6.50% 2024-2028	29,272,546	2.1
FNMA 7.50% 2024-2029	28,528,182	2.0
FHLMC 6.0% 2012-2014	27,466,925	1.9
GNMA 6.50% 2023-2029	22,992,236	1.6
UST STRIPS 0% 11/15/21	20,270,747	1.4
FNMA 5.50% 2013-2014	20,126,465	1.4

Key to holdings:
USTB=U.S. Treasury Bond
US TIPS=U.S. Treasury Inflation Protected Securities
UST STRIPS=0% Coupon U.S. Treasury Obligation
GNMA=Government National Mortgage Association
FHLMC=Federal Home Loan Mortgage Corporation
FNMA= Federal National Mortgage Association

[9] The policy benchmark, as of the end of the fiscal year, is a composite of 40 percent of the TIPS portfolio return, 16 percent Lehman Mortgage Index, 8 percent Lehman Asset-backed Index, 16 percent Lehman Credit Index (AAA/AA segment only), 10 percent Lehman Intermediate Treasury, 10 percent Goldman Sachs Commodity Index less 50 basis points. In order to derive benchmark characteristics, the Commodity Index is excluded because of its smaller contribution to the benchmark and its lack of comparability in terms of the portfolio characteristics being reported.

[10] A complete list of holdings is available upon request.

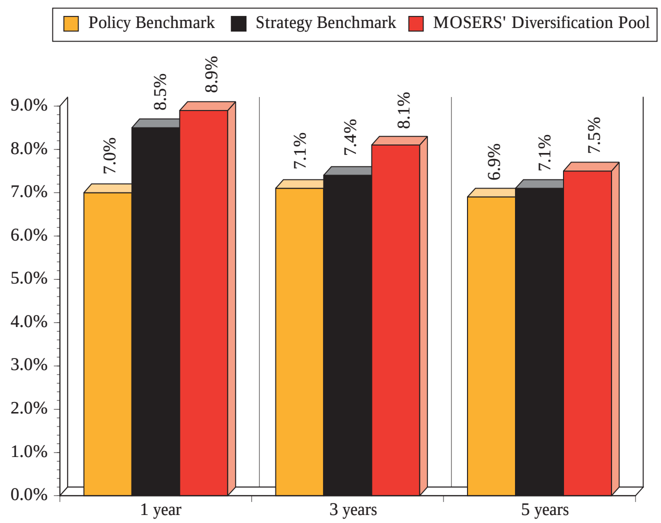
Diversification Pool Portfolio Investment Advisors

As of June 30, 2000, MOSERS had contracts with three external investment advisors designated to manage 44 percent of the diversification pool. Internal management of 56 percent of the diversification pool enables passive participation in a very significant segment of the diversification pool assets at a very low cost.

The following table displays the external firms that were under contract with MOSERS during FY2000 for management of diversification assets. In addition, it shows all internally managed diversification pool assets, the managers' investment styles, ending portfolio market values for FY2000, and the managerial fees paid for the fiscal year.

Investment Advisor	Investment Style	Portfolio Market Value as of June 30, 2000	FY2000 Management Fee
BlackRock Financial Management Inc.	Enhanced index, Mortgage and asset-backed securities	$ 291,402,102	$ 458,836
Hoisington Investment Management Co.	Active duration Treasury securities	137,459,091	200,000
NISA Investment Advisors, L.L.C.	Enhanced index Commodities index overlay Cash investment portfolio	143,031,068	254,908
Internal Staff (All Passive Management)	Government TIPS	568,185,801	
	Lehman High Quality Corporate Index	216,980,401	
	Cash reserve	14,117,414	
	Total internal	799,283,616	180,369
Total		$ 1,371,175,877	$ 1,094,113

Diversification Pool Returns



Diversification Pool Investment Returns

The MOSERS' Diversification Pool returned 8.9 percent for the year, exceeding both the Policy Benchmark return and the Strategy Benchmark[11] return, which were 7.0 percent and 8.5 percent respectively. Although the portfolio's commodities weighting is considerably less than the weights of the other asset classes, its return for the fiscal year, at 59.3 percent, dwarfed all other component returns in the Diversification Pool. Nominal bonds and TIPS were a drag on performance in the fiscal year; however, the three-year and five-year returns have been significantly above benchmark returns, due in large part to the active duration manager of nominal bonds, whose choice of long portfolio duration over the period has proved to be a successful strategy. The graph to the left shows these results.

[11] Due to the unique objective of the Diversification Pool (low correlations to equities), the Strategy Benchmark is the same as the Policy Benchmark; that is, there is no one particular market index that can be the standard of comparison for the Diversification Pool. The most appropriate comparison for the Diversification Pool is a blend of several different market indices, weighted according to their weights in the portfolio. Policy and Strategy returns are different because these benchmarks were not identical in the past, as they are now at the end of the fiscal year.

Brokerage Activity

In FY2000, MOSERS generated the following fixed income brokerage activity, ranked by percentage of total, through the purchase and sale of diversification pool assets:

Broker/Dealer Firms	Par Amount Traded	Market Value Traded	Percent of Total Trading Volume by Market Value
Goldman Sachs	$ 1,346,489,045	$ 1,328,281,425	18.2%
Lehman Brothers	1,081,482,437	1,059,223,650	14.5
Merrill Lynch	697,865,256	674,674,557	9.3
Nomura Securities	524,148,365	512,741,838	7.0
Morgan Stanley Dean Witter	456,585,924	438,719,445	6.0
Salomon Smith Barney	447,561,609	432,414,295	5.9
Credit Suisse First Boston	321,601,904	318,011,538	4.4
Paine Webber	325,795,334	305,369,460	4.2
Bank of America Securities	285,129,453	273,246,727	3.8
Donaldson Lufkin Jenrette	245,469,518	234,446,838	3.2
Prudential Securities	213,251,000	203,277,545	2.8
Greenwich Capital Markets	176,532,946	173,182,366	2.4
Chase Securities	178,135,000	173,177,867	2.4
Bear Stearns	144,282,969	137,652,669	1.9
J. P. Morgan	123,251,352	122,493,013	1.7
ABN Amro Inc.	108,500,000	105,411,090	1.4
R.W. Pressprich	109,160,000	103,862,377	1.4
First Union Securities	95,700,000	93,209,777	1.3
UBS Warburg	85,625,000	83,099,069	1.1
Others (includes 24 firms, each contributing less than 1%)	519,855,249	508,350,922	7.1
Total	$ 7,486,422,361	$ 7,280,846,468	100.0%

Schedule of Investment Manager Portfolios by Asset Class

Year Ending June 30, 2000

	Market Value June 30, 1999	Net Flows In/Out of Sector	Income Earned	Change in Market Value	Market Value June 30, 2000	Percent of Total Fund
U.S. stock manager portfolios						
Passive/enhanced U.S. stock manager portfolios	$ 2,084,294,316	$ 27,674,760	$ 28,192,663	$ 47,513,199	$ 2,187,674,938	39.34%
Active U.S. stock manager portfolios	436,292,090	$8,923,628	3,852,885	118,292,653	567,361,256	10.20
Total U.S. stock manager portfolios	2,520,586,406	36,598,388	32,045,548	165,805,852	2,755,036,194	49.54
Non-U.S. stock manager portfolios						
Passive/enhanced non-U.S. stock manager portfolios	378,182,782	(59,618,836)	$8,417,665	241,119,320	568,100,931	10.22
Active non-U.S. stock manager portfolios	559,175,487	411,584,314	14,488,385	(127,052,521)	858,195,665	15.43
Total non-U.S. stock manager portfolios	937,358,269	351,965,478	22,906,050	114,066,799	1,426,296,596	25.65
Diversification pool						
Nominal bond manager portfolios						
Government bond portfolio	353,409,586	(229,998,303)	16,419,363	(2,371,555)	137,459,091	2.47
Corporate bond portfolio	560,917,676	(340,896,525)	36,883,476	(39,924,226)	216,980,401	3.90
Mortgage & asset-backed securities portfolio	499,732,530	(228,877,922)	31,148,746	(10,601,249)	291,402,105	5.24
Total nominal bond manager portfolios	1,414,059,792	(799,772,750)	84,451,585	(52,897,030)	645,841,597	11.61
Real bond portfolio	116,202,093	498,829,221	9,695,129	(56,540,642)	568,185,801	10.22
Commodities portfolio	123,436,729	(43,929,635)	63,644,948	(120,974)	143,031,068	2.57
Total diversification pool manager portfolios	1,653,698,614	(344,873,164)	157,791,662	(109,558,646)	1,357,058,466	24.40
Other portfolios						
"Other" investments portfolio	7,630,965	(889,066)	713,425	375,844	7,831,168	0.15
Cash reserve portfolio	5,736,450	5,953,623	2,427,337	1	14,117,411	0.26
Total other portfolios	13,367,415	5,064,557	3,140,762	375,845	21,948,579	0.41
Total all portfolios	$ 5,125,010,704	$ 48,755,259	$ 215,884,022	$ 170,689,850	$ 5,560,339,835	100.00%

Reconciliation to Statement of Plan Net Assets

Total portfolio value	$5,560,339,835
Short-term investment funds	(84,169,996)
Uninvested cash	(510,563)
Accrued income	(24,672,306)
Accounts receivable - securities sold	(190,285,313)
Accounts payable - securities purchased	213,054,331
Investments per Statement of Plan Net Assets	$5,473,755,988