. . . TO LIVE A LITTLE?

ARE YOU READY . . . ARE YOU READY . . . ARE YOU READY . . .

MOSERS

Rick Dahl
Chief Investment Officer

September 7, 2001

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, 2001, MOSERS was one of the 200 largest defined benefit plans in the United States with total assets of just over $5.4 billion.

- While the fund generated a loss for the year of nearly $120 million or -2.2% net of expenses, on a relative basis, the fund had its best year on record outperforming the policy benchmark by $465 million or 8.4%. In addition, the fund finished the year in the top 10% of funds in our peer universe as measured by the Independent Consultants Cooperative.

- For the year, the fund spent approximately $11.0 million for management of the assets, which was approximately $5.6 million less than the median fund in our peer group. Keeping costs low is important, as there is no historical evidence to suggest that paying more translates into better returns.

- MOSERS' internal investment department manages approximately $2.1 billion in assets or about 40% of the fund. All of these internally managed portfolios have met or exceeded expectations, with very low management cost.

It is also worth noting that total earnings for the last five years were $2.2 billion. Over that time period, the fund generated an annualized rate of return of 10.5% net of expenses compared to 9.3% for the policy benchmark. This return places MOSERS in the top one-third of funds in our peer universe.

Looking back over the last year there are several ways to describe the events that unfolded in the world of investing. One such description might be, "Easy.com, Easy.go." Another might be, "what the stock market giveth, the stock market may taketh away." Fiscal year 2001 was, no doubt, a year many would like to forget. A giant bear that had been hibernating since the early 1970's mauled stock markets around the globe. The MOSERS' portfolio was not immune to this downturn and experienced its first negative return for a fiscal year since the early 1990's. Our performance was actually quite remarkable given the fact that 75% of the portfolio was invested in common stocks. The primary driver of our excellent year relative to the markets was our portfolio's overweight to smaller stocks and value stocks, coupled with fantastic returns from our active manager group. I should point out that these pieces of the portfolio puzzle were the exact things in the previous three years that were a drag on the portfolio

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returns relative to a market capitalization weighted portfolio like the S&P 500. Fiscal year 2001 was without a doubt a year of change - change in the economy, change in market leadership, change in future expectations for stocks, and change in investors' willingness to speculate on future.com dreams.

How could things be so different than they were in early 2000? In attempting to explain this, I would like to use the following analogy. Think about a big pendulum swinging back and forth, the laws of physics pushing it from one side to the other and the height at which it swings to one side totally dependent upon the height it reached on the other side just before. Having that clearly in focus, now turn your attention to the economy, corporate profits, and the stock market. When the economy is expanding and corporate profits are growing, stock prices increase, and investors enjoy the "good side" of the swing. On the other hand, when the economy falters, corporate profits shrink, stock prices decline, and investors pay the price. We'll call this the "bad side" of the swing. What took place in fiscal year 200, and continues as I write this letter, is no more than the pendulum swinging to the bad side. The problem with this particular bad side swing is the good side swing that immediately preceded it had the force of a rocket propelled by a "super fuel" called productivity. The advances in productivity in the late 1990's gave the rocket newfound power, and with its newfound power it continued its good side advance well beyond where it would have stopped otherwise. The stocks that investors perceived would benefit most from this "super fuel" were the technology, media, and telecom stocks (then called TMT). Because of the "super fuel," many investors believed that the laws of physics had been repealed and pushed valuations, and therefore the pendulum, even further. "Houston, we have a problem!" Someone forgot to refill the rocket with "super fuel." "Over." Oops, we all know what happens when rockets run out of fuel. The rocket (pendulum) stops, reverses direction, and well, the rest needs no analogy. In hindsight, it's easy to observe that the last drop of "super fuel" was used up in early April 2000. For the last 18 months the economy, corporate profits, and the market have been experiencing the pendulum's bad side swing. Don't fool yourself. The force, with which the pendulum has and will continue to swing down and through vertical, will be directly related to the stratospheric heights it reached on the good side. This downturn has not and should not have been expected to be a mild downturn, and, in my view, things will continue to be difficult for stocks for some time to come. While it is really anyone's guess as to where the pendulum is today, I believe that it is somewhere past vertical, but not nearing reversal. Upon reaching the reversal stage, many investors will literally be throwing in the towel. Don't you be a towel thrower. When the reversal takes place, I believe the next good side swing will be much less exciting than the last, as the "super fuel" was really just a flash in the pan, and its impact on things to come for the foreseeable future will be marginal at best. Therefore, the force of the pendulum will slow, providing less violent upside and downside swings than we have experienced in the most recent cycle.

So what should an investor be doing in this environment? The irony is, at a big picture level, the story is no different than it was one, five, or ten years ago. The difference is, given the events of the last 18 months, the noise from the rocket has subsided, and the story might be a little easier to hear today.

- Diversify among asset classes that don't move in the same direction at the same time. MOSERS does this by investing in U.S. stocks (large, small, value, and growth), international stocks (large, small, value, and growth), traditional bonds (treasuries, corporates, mortgages, and asset backs), inflation indexed bonds, commodities, and real estate investment trusts (REITs).

- Remember, investing is a continuous process; it isn't supposed to be exciting. It's a responsibility. If you go to the stock market because you want excitement, then sooner or later you will lose. Stick to a common sense, systematic strategy that you understand and will not become concerned with should it move against you for a period of time. Because it will, I guarantee it.

- Implement a strategy to systematically rebalance your portfolio. By systematically selling investments back to their target allocations as they perform better than some of your other investments and using the proceeds to buy more of the underperformers you are “selling high and buying low.”

- Don’t get great companies confused with great investments; price matters. In March 2000, Cisco was a great company, but the market demanded a price for Cisco stock that made it an investment with a low likelihood of success for someone buying at that point. At that time, built into the price was an expectation that Cisco would grow earnings at 50% a year forever. Only a handful of companies have been able to maintain 20% growth rates for long periods of time, and no company has ever come close to growing earnings at 50% for long periods of time.

- Prevent yourself from falling victim to the herd mentality. It is very easy to follow the herd, but the problem is the herd is seldom right. Sticking to a disciplined approach that matches your long-term objectives will help keep your emotions on the sidelines where they belong. There will be many temptations along the way; just say no.

And last but not least;

- Always question new era "paradigm shifts" and the “super fuel” that propels them.

Until next year,

Rick Dahl

Rick Dahl
Chief Investment Officer

INVESTMENT CONSULTANT'S REPORT

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September 7, 2001

Dear Members:

In preparing to write this letter, I started by reading last year's letter. It's always helpful and often times entertaining to look back one year to recall the environment of the time. In the "long-term" business of investing pension funds, it's amazing to witness how quickly the mood and sentiment of the market changes. And almost always, the mood is a direct result of very recent market events. On June 30, 2000, the market, and especially the tech stocks of NASDAQ, had peaked three months earlier and were struggling, but had stabilized at lower levels. The big debate was whether the technology-equipped U.S. worker could continue to become even more productive. If yes, the 18-year Bull Market in equities could continue, the trade deficit, low inflation, and high employment would take care of themselves, and federal, state and local government surpluses would continue forever. If the answer was no…

As of June 30, 2001, the discussion of sustainable high productivity gains were gone. Now we find ourselves looking at an economy where very little good news is obvious, and the stock market, which has historically been a leading indicator, has spent the last year pointing towards this economic scenario. All major markets are down substantially. Conversely, fixed income securities, which thrive during periods of uncertainty and gloom, have done quite well.

In this environment, we must remind ourselves as investors of the few truths that are available to long-term investors:

- Trees don't grow to the sky, and bull markets don't last forever. Periods of plenty have always been followed by lean times. After the largest and longest period of economic plenty in history, it is normal and expected for things to get "lean" for a while. This is a natural part of the economic reality.

- Despite our collective best efforts to the contrary, we cannot control the markets. In addition, those who try to "time it" - get in for the upside and get out before the decline - eventually lose big. Therefore, as long-term investors we must focus on equaling or exceeding the markets in reasonable doses during both good times and bad.

- While all stock markets in total have been negative, there have been very different return patterns for certain types of stocks. After years of relative underperformance, value stocks have fared much better during this period than growth. Active managers have found it easier to beat the market in this environment after years of contrary evidence, and bonds had a great year. Therefore, now more than ever, it is essential for a long-term fund like MOSERS to be diversified.

Given the following conditions, MOSERS had a great year relative to its primary objective, which is to outperform the broad markets in which it invests. In fact, in this context, fiscal year 2001 has been the best year for relative results ever. These results along with several strong previous years have created a very impressive performance record for the fund. For the past year, the fund was off -2.2% versus its policy benchmark of -10.6%, a value-added of +8.4% versus the benchmark. An overweight to small cap value stocks domestically and strong relative international equity results added significantly, as did the domestic active equity manager pool. In addition, the diversification pool, which was specifically created to dampen the risk of a 75% equity position, returned double-digit positive results.

The fund has now achieved its goal of adding value over its policy benchmark for the 1,3,5,7, and 10-year periods. In fact, for the 5 years that we have been accounting for component performance, every segment of the portfolio (domestic equity, international equity, and the diversification pool) is ahead of its benchmark for each period. For the longer periods, the fund has substantially outperformed its actuarial target as well. All returns are calculated in accordance with the AIMR performance presentation standards.

We believe the relative performance of the portfolio has been a real bright spot in an otherwise gloomy market environment. The incremental return over policy last year resulted in asset preservation in excess of $400 million. This is far better than the long-term expectation. However, if the efforts of the board and it’s investment professionals can result in 1.0% value-added through both bull markets and bear markets, the fund and its participants will be very well served.

All of us at Summit appreciate the opportunity to be of continued service to the board and the system.

Sincerely,

Stephen P. Holmes

Stephen P. Holmes, CFA
President

Cooper Consultants

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November 16, 2000

Members, Board of Trustees
Missouri State Employees' Retirement System
Jefferson City, MO 65102

At your request, we conducted a review of your investment consulting firm, Summit Strategies, Inc. The primary objective of the review was to position us to assess and render opinions regarding (i) the independence of the advice you are receiving, (ii) the firm's capacity to provide you with a range of high quality investment consulting services, and (iii) the reasonableness of the fees you are paying in connection with those services.

The following summarizes our key findings in connection with that review.

- Summit Strategies received our highest rating for independence. This status is primarily attributable to the facts that Summit Strategies does not serve as an investment manager for clients, does not sell services to investment managers, and is not affiliated with any securities broker. Only 7 of the 110 institutional consulting firms we monitor, including Summit Strategies, have been assigned our highest rating for independence.

- Based on our knowledge of the investment consultant industry, we rate Summit Strategies as being a "high quality" consulting firm.

- One of the challenges facing firms, which are truly independent is the acquisition and maintenance of resources dedicated to research. We rate Summit Strategies as having "average" resources in this regard.

- Critical to client service will be the individual who has primary responsibility for the client relationship. In your case, that responsibility has been assigned to Mr. Steve Holmes. Based on his experience, background, and our personal observations, we find Mr. Holmes to be a "highly qualified" consultant. Furthermore, we rate Summit Strategies to be "above average" as communicators in both verbal and written communications.

- The manager oversight function performed by an investment consultant is one of the keys to the quality of services provided. On the basis of our review, we find that Summit Strategies is providing exceptional manager oversight, including their oversight of the internally managed investment portfolios.

- The United States Securities and Exchange Commission (SEC) Form ADV indicates that Summit Strategies, Inc. is properly registered as an investment advisor and has no incidence of regulatory violations or disciplinary violations.
- We find that Summit Strategies is providing all the consulting services to the Missouri State Employees' Retirement System required by the existing contract.
- In general, we believe that clients get what they pay for with respect to fees paid to investment consulting firms. When evaluating fees, it is important to be mindful of the fees actually paid directly to the consultant and the amount the consultant generates from the investment management community. Independent firms, such as Summit Strategies, rely exclusively on their plan sponsor clients for their revenue. Our knowledge of the industry suggests that, in order to remain viable, independent firms must receive higher fees than their less independent counterparts. However, having said that, we find that the fees you pay Summit Strategies are low for the services being provided to a system of your size and sophistication.

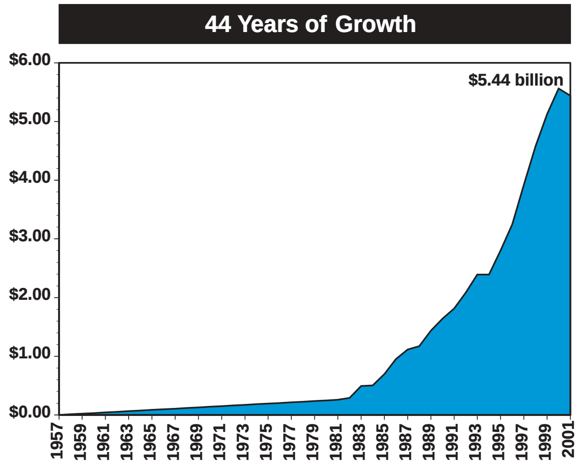
Overall, we find and certify that the investment advice your plan receives from Summit Strategies is derived from a process that is prudent and reasonable.

We appreciate the opportunity to conduct this review on your behalf. Also, we wish to fully acknowledge the cooperation of your staff and the staff at Summit Strategies, which greatly facilitated our work on this project.

Sincerely,

Jennifer A. Cooper, CFA, CEBS
Principal

TOTAL FUND REVIEW



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]

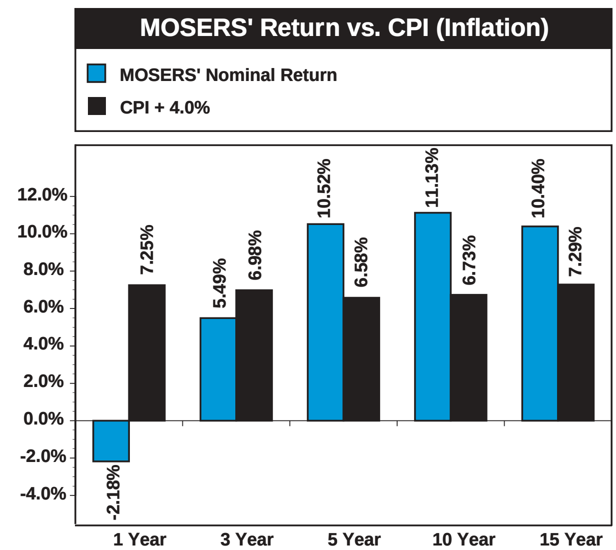
Overall Investment Objective

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

- Develop a Real Return Objective[2] (RRO) that will:
  - Keep contribution rates reasonably level over long periods of time.
  - Maintain contribution rates consistent with historical levels ranging from 10.0% to 12.0% of covered payroll.
  - Provide the state of Missouri with the option to reduce the unfunded liability ahead of schedule, ultimately reducing the state's contributions for retirement benefits and producing savings, which could be allocated to wages and other benefits for state employees.
- Establish an asset allocation policy that is expected to meet the RRO with the least amount of short-term volatility.
- Minimize costs associated with the efficient implementation of the asset allocation through the use of internal and external resources.

Real Return Investment Objective

The MOSERS' actuarial funding objective is to produce real returns that exceed the rate of inflation by 4.0% per year. The best known measure of inflation is the CPI. In the graph below, one can compare the MOSERS' investment returns to the CPI + 4.0% measure over time periods up to 15 years.[3]



CPI Source: United States Department of Labor, Bureau of Labor Statistics, All Urban Consumers (not seasonally adjusted).

1 105.688, RSMo - Investment Fiduciaries, Duties.
2 The real return objective is the rate by which the total return exceeds the inflation rate as measured by the Consumer Price Index, U.S. City Average for All Urban Consumers (CPI-U).
3 All investment returns are reported net of investment fees and are believed to be in full compliance with AIMR standards.

Market Value

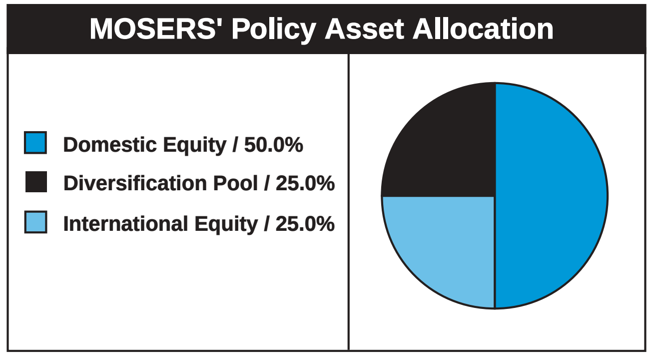
As of June 30, 2001, the MOSERS' investment portfolio had a market value of $5.4 billion

Summary of Policy Asset Allocation

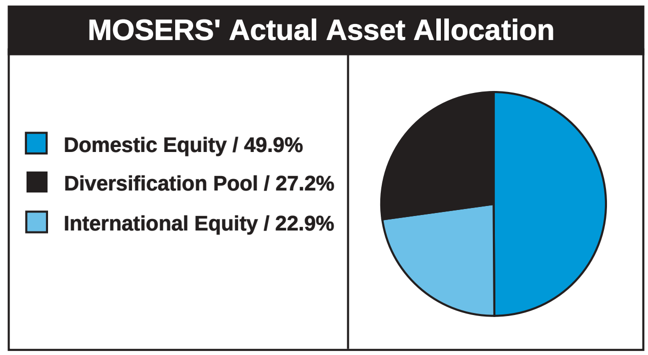
In fiscal year 2001, the MOSERS' board made a few small changes in the domestic equity portfolio. The active manager composite was increased from 10.0% to 15.0% and an allocation of 7.5% to enhanced S&P 500 was approved. The entire 12.5% needed to fund these changes came from the pure, passive S&P 500 Index Fund. The active manager composite was increased as evidence seems to suggest that active managers will have an easier time adding value to capitalization weighted benchmarks than in the recent past. The enhanced index allocation was funded as managers have shown the ability to add incremental return over the S&P 500 in a tightly risk controlled manner. It is expected that the enhanced index portfolios will add about 1.0% to the return of the S&P 500, while the active portfolios are expected to add 2.0%. As our expectations for future stock returns have decreased, the impact that small amounts of value added will have on overall portfolio returns becomes much more meaningful.

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 return bonds, commodities, and cash.

The resulting portfolio is intended to achieve the required real rate objective necessary to fund the pension liabilities within prudent levels of risk. (Real return is the amount by which actual return exceeds the rate of inflation.) The chart at the top of the next column depicts the MOSERS' policy asset allocation, adopted by the board in March 2000 and reconfirmed in March 2001.

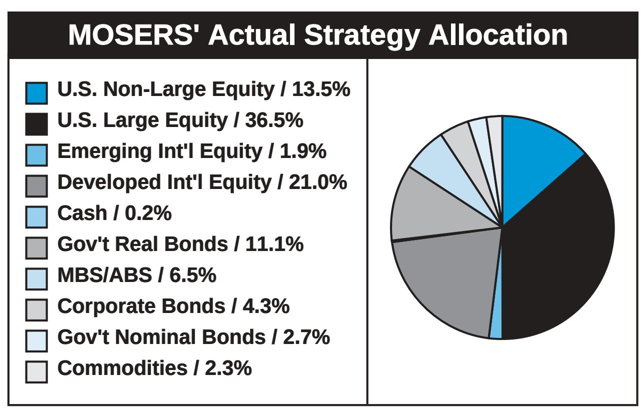


Due to the fact that different asset classes seldom move in lock step with each other, it is reasonable to expect that over time the actual allocation will differ from the policy mix. The chart below depicts the MOSERS' actual asset mix as of June 30, 2001.



Summary of Strategy Asset Allocation

Strategic biases within asset classes are employed in an effort to further diversify the overall portfolio and enhance long-term returns within each asset class. A strategic decision should be thought of as any decision that might cause MOSERS' actual portfolio to differ from the policy mix benchmarks. The following chart depicts MOSERS' actual strategy mix as of June 30, 2001.



Total Fund Returns and Benchmark Comparisons

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

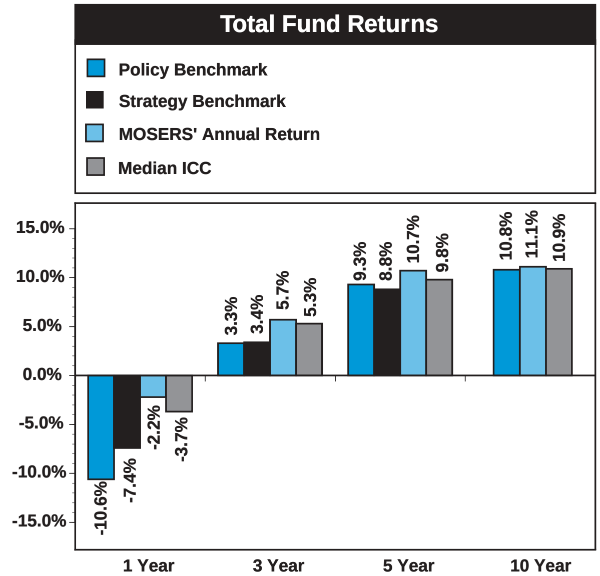
- The policy benchmark provides an indication of the returns that could be achieved (excluding transaction costs) by a portfolio invested passively in the broad market with percentage weights allocated to each asset class in MOSERS' policy asset allocation.
- The strategy benchmark reflects decisions made by the board 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.[4]

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.

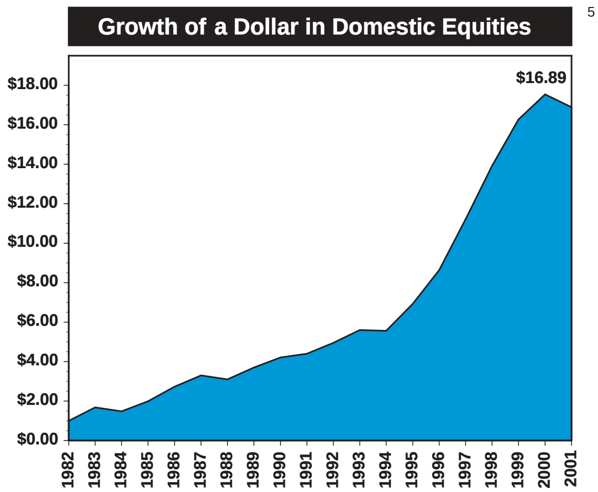
Similarly, by comparing the actual return to the strategy benchmark, the board will, over time, be able to judge the success or failure of the staff and consultant in implementing the board's strategy. Returns attributed to implementation may take on several forms including active manager selection,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

[4] The UCC is 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.

The graph below 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.



DOMESTIC EQUITY REVIEW



[5]The graph above depicts the performance of the domestic equity portfolio since 1982 by showing how a $1.00 investment in the portfolio had grown to $16.89 by June 30, 2001.

Market Value

As of June 30, 2001, the MOSERS' Domestic Equity Portfolio had a market value of $2.7 billion, representing 49.9% of MOSERS' total assets.

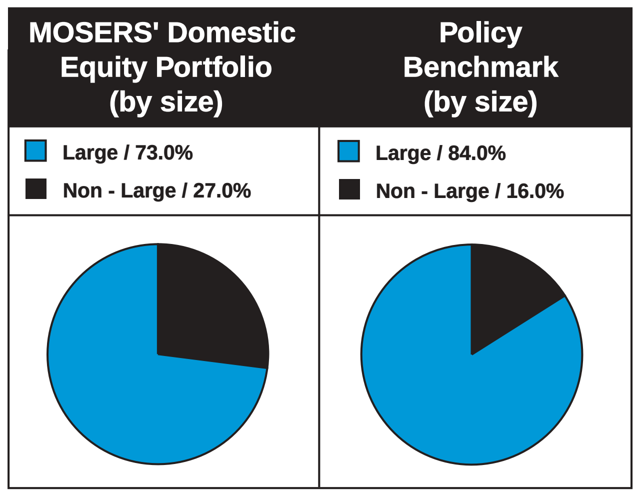
Summary of Domestic Equity Investments

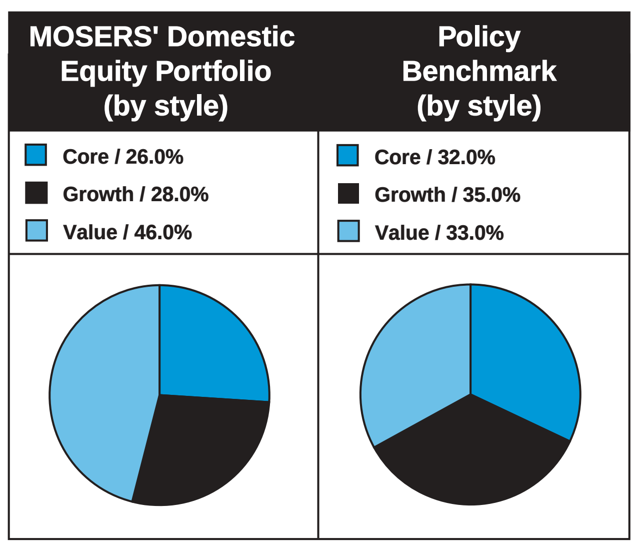
MOSERS maintains a significant allocation to publicly held shares of corporations domiciled in the United States. Domestic equities are held in broadly diversified portfolios, and they represent 50.0% of the MOSERS' policy asset allocation. Equity investments are expected to contribute significantly to the fund's achievement of a long-term real rate of return in excess of the 4.0% real return objective set by the board because of their historic return premiums over inflation.

Domestic Equity Portfolio Structure

The Domestic Equity Portfolio consists of eight separate portfolios: one passive, two enhanced, and five active. The passive and enhanced portfolios provide broad market diversification and make up 70.0% of the total domestic equity. The passive and enhanced allocations provide low cost exposure to the equity market. One of the enhanced portfolios provides the total portfolio with its strategic overweight to small capitalization and value stocks relative to the broad U.S. equity market. The five active portfolios are managed in a concentrated manner containing only a manager's best investment ideas. The composite of the active managers represents 30% of the domestic allocation.

The pie charts below 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, which have been established relative to the policy benchmark, the Russell 3000.





Domestic Equity Portfolio Statistics

The following table displays the statistical characteristics of the MOSERS' Domestic Equity Portfolio as of June 30, 2001, 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, 2001 MOSERS' U.S. Stocks	June 30, 2001 Russell 3000	June 30, 2000 MOSERS' U.S. Stocks
Number of securities	1,198	2,985	1,189
Average market capitalization	$67.2 billion	$94.9 billion	$102.6 billion
Portfolio yield	1.50%	1.30%	1.30%
Portfolio P/E	19.7x	21.2x	18.5x
Portfolio beta vs. S&P 500	0.99	1.0	0.97
Price/book ratio	2.7x	3.3x	5.3x
Five year earnings growth	19.70%	19.40%	15.90%

The following table displays MOSERS' ten largest domestic equity holdings as of June 30, 2001, and the ten largest holdings one year prior.

Ten Largest Holdings June 30, 2001[6]	Market Value	Percentage of Total U.S Stocks	Ten Largest Holdings June 30, 2000	Market Value	Percentage of Total U.S Stocks
Microsoft Corp.	$57,671,460	2.1%	Intel Corp.	$74,768,745	2.7%
General Electric	56,860,538	2.1	Cisco Systems	72,460,487	2.6
Pfizer	47,289,919	1.7	General Electric	68,744,710	2.5
Citigroup	38,646,331	1.4	Pfizer	60,166,656	2.2
Exxon Mobil	36,601,484	1.3	Microsoft Corp.	59,193,600	2.1
Intel Corp.	30,974,580	1.1	Exxon Mobil	40,539,049	1.5
American Intl. Group	29,513,262	1.1	EMC Corp.	37,273,911	1.4
Cisco Systems	29,112,502	1.1	Wal-Mart	37,131,245	1.3
IBM Corp.	27,596,860	1.0	Citigroup	32,439,624	1.2
AOL Time Warner	26,699,810	1.0	Merck	32,038,445	1.2

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

INVESTMENT SECTION

Domestic Equity Portfolio Investment Advisors

As of June 30, 2001, MOSERS had contracts with six external investment advisors targeted to manage 51.5% of the domestic equity portfolio, the remaining 48.5% of the domestic equity portfolio is managed internally by MOSERS' staff.

The following table displays the external firms that were under contract with MOSERS during FY01 for management of domestic equity securities. In addition, it shows all internally managed domestic equity portfolios, the managers' investment styles, FY01 ending portfolio market values, and the managerial fees paid for the fiscal year.

During FY01, MOSERS hired one new enhanced investment advisor and established one new internal portfolio.

Investment Advisor	Investment Style	Portfolio Market Value as of June 30, 2001	FY2001 Management Fee
Internal Staff	Passive S&P 500 Index Active REIT Portfolio	$ 1,113,967,072 157,825,506	$ 164,705
Dimensional Fund Advisors	Passive Non-Large Value	624,416,252	565,524
OakBrook Investments	Enhanced S&P 500 Index	195,766,738	28,159
Oak Associates	Active All-Cap Growth	148,329,848	(1,303,530)[7]
Zak Capital, Incorporated	Active All-Cap Growth	174,298,652	1,785,870
Capital Guardian Trust Company	Active All-Cap Core	156,933,121	410,309
AmeriCap Advisers	Active All-Cap Core	141,068,132	439,038
Total		$ 2,712,605,321[8]	$ 2,090,075

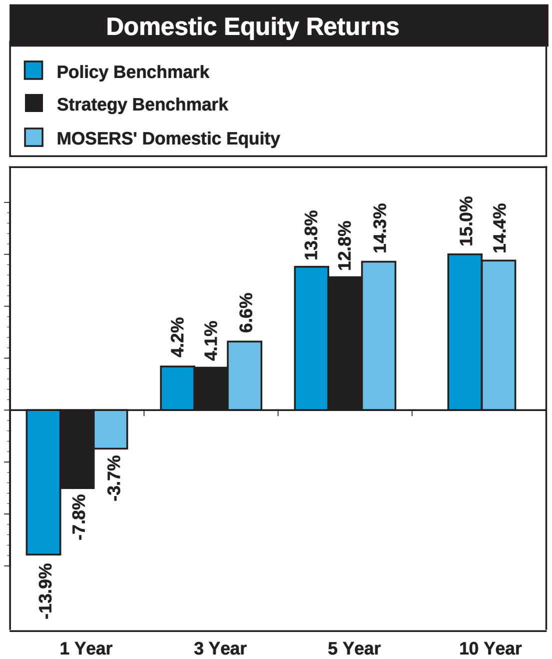
7 Return of performance fees paid.

8 This total excludes the impact of the rebalancing account on the total domestic equity portfolio.

Domestic Equity Investment Returns

MOSERS' Policy Benchmark, the Russell 3000 Index, lost 13.9% for the year. The strategy to intentionally diversify holdings, particularly with smaller capitalization and relatively less expensive stocks, added value in FY01. This can be observed by comparing the -13.9% return generated by the policy benchmark to the -7.8% return generated by the strategy benchmark. The MOSERS' actual return of -3.7% was above the strategy benchmark and reflects the positive results of the manager mix relative to the strategic 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.



Brokerage Commissions

In the fiscal year ended June 30, 2001, 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 Value Per Share
U S Clearing	17,203,139	$ 653,860,833	$ 514,177	$ 0.030
Instinet Corp.	6,967,189	177,721,355	182,157	0.026
Salomon Smith Barney	3,181,500	65,660,898	123,268	0.039
Cantor Fitzgerald	1,675,660	55,378,698	67,071	0.040
Jones & Associates	1,376,242	27,235,245	63,863	0.046
B-Trade Services	2,078,364	65,980,715	58,807	0.028
Guzman & Company	5,227,125	228,627,697	53,011	0.010
Broadcourt Capital	965,257	34,711,831	48,263	0.050
Goldman Sachs	785,200	19,732,979	42,049	0.054
Lehman Brothers	910,100	18,234,328	39,785	0.044
Morgan Stanley	683,100	20,720,766	38,196	0.056
First Boston Corp.	652,100	12,718,189	37,722	0.058
Merrill Lynch	643,600	18,987,755	35,964	0.056
Bridge Trading	600,800	18,186,196	32,951	0.055
Jefferies & Company	2,433,749	69,941,616	29,666	0.012
BancAmerica Roberts	526,218	4,728,293	29,153	0.055
Thomas Weisel	481,300	9,818,268	25,725	0.053
FC Financial Service	410,000	13,645,562	20,500	0.050
Others (Including 49 brokerage firms)	6,949,504	167,523,474	330,729	0.048
Totals	53,750,147	1,683,414,698	$ 1,773,058	$ 0.033
Zero commission trades excluded from above	17,096,862	$ 507,842,227		

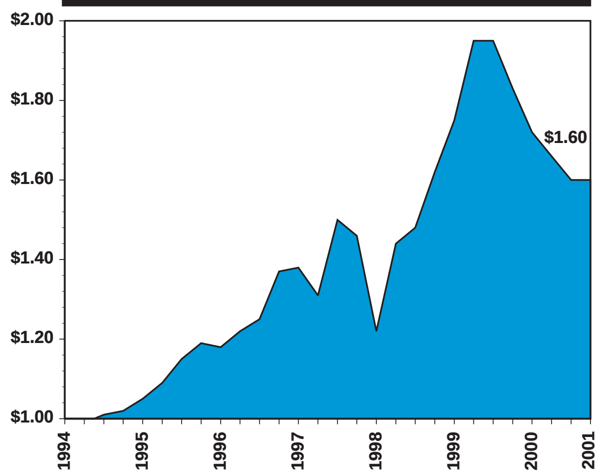
Soft Dollar Service Expenditures

In the fiscal year ended June 30, 2001, MOSERS' domestic equity managers declared that $369,079 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 represent 20.8% of MOSERS' agency commissions.

Type of Service Acquired	Commissions Used	Percentage of Total
Trading and analytic systems	$ 289,739	78.5%
Research services	40,850	11.1
Consulting/benchmarks	10,785	2.9
Portfolio management systems	9,429	2.5
Exchange fees, other services	8,423	2.2
Pricing services	4,601	1.4
Market research	2,733	0.7
Transaction cost analysis	2,519	0.7
Total	$ 369,079	100.0%

INTERNATIONAL EQUITY REVIEW

Growth of a Dollar in International Equities [9]



[9] The graph above depicts the performance of the international equity portfolio since 1994, by showing how a $1.00 investment in the portfolio had grown to $1.60 by June 30, 2001.

Market Value

As of June 30, 2001, the MOSERS' International Portfolio had a market value of $1.2 billion, representing 22.9% of the total fund.

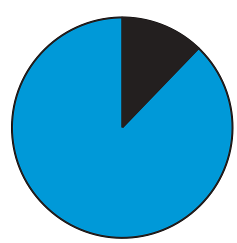
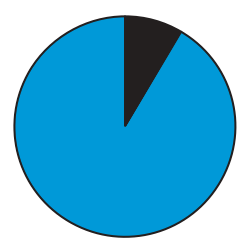
Summary of International Equity Investments

International stocks, with a target allocation of 25.0%, are employed by the fund primarily because their historical return premiums 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 4.0% real return objective set by the board. International stocks are also attractive for the diversification benefits they provide to the portfolio. By incorporating these stocks into the asset mix, MOSERS expects to achieve overall equity returns, which are comparable to that of a domestic stock portfolio, while reducing overall portfolio volatility.

International Equity Portfolio Structure

As of June 30, 2001, 34.3% of the international portfolio was managed in an enhanced index fashion with the balance of 65.7% being managed actively. Non-United States 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 market manager to complement the EAFE Index Portfolio, and in May of 2000 an active, growth-tilted developed markets manager was hired. The MOSERS' policy allows the active managers to hedge currency up to 25%, while the enhanced portfolios are unhedged.

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

MOSERS' International Equity Portfolio	Policy Benchmark
Developed Countries / 91.5% Emerging Countries / 8.5%	Developed Countries / 87.8% Emerging Countries / 12.2%
	

International Equity Portfolio Statistics

The following table displays the statistical characteristics of the MOSERS' International Stock Portfolio as of June 30, 2001, 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, 2001 MOSERS' International Equity	June 30, 2001 MSCI EAFE & EMF	June 30, 2000 MOSERS' International Equity
Number of securities	1,379	1,671	1,483
Average market capitalization	$5.2 billion	$5.1 billion	$14.9 billion
Portfolio yield	2.5%	2.2%	2.5%
Portfolio P/E	16.2x	19.9x	25.1x
Price/book ratio	1.4x	2.2x	2.7x

The following table displays MOSERS' ten largest holdings in International Equity as of June 30, 2001, as well as the ten largest holdings at the end of the prior fiscal year.

Ten Largest Holdings June 30, 2001[10]	Market Value	Percentage of International Stocks	Ten Largest Holdings June 30, 2000	Market Value	Percentage of International Stocks
Diageo (UK)	$19,330,770	1.6%	Pernod-Ricard (France)	$14,718,169	1.0%
Hong Kong Electric (Hong Kong)	19,036,698	1.5	Aventis (France)	13,820,062	1.0
Ahold (Netherlands)	18,041,542	1.4	ING Groep (Netherlands)	13,732,336	1.0
Talisman Energy (Canada)	16,827,260	1.4	Talisman Energy (Canada)	13,731,485	1.0
Takefuji (Japan)	14,739,866	1.2	Royal Bank of Scotland (UK)	13,527,824	0.9
Elan Corp. (Ireland)	14,446,284	1.2	Samsung Electric (Korea)	12,853,800	0.9
Unilever (UK)	14,355,667	1.2	Diageo (UK)	12,350,047	0.9
Boots Co. (UK)	14,229,097	1.1	Parmalt Finanz (Italy)	12,266,848	0.9
Pernod-Richard (France)	13,264,304	1.1	Swiss Reinsurance (Switzerland)	12,064,141	0.8
Parmalt Finanz (Italy)	12,351,045	1.0	RAS (Italy)	11,804,555	0.8

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

International Equity Portfolio Investment Advisors

As of June 30, 2001, MOSERS had contracts with three external investment advisors for the management of four international stock portfolios. Two firms are managing active portfolios in the developed markets that 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 that 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 FY2001 for management of international stocks. Also displayed are the managers' investment styles, FY2001 ending portfolio market values, and the managerial fees paid for the fiscal year.

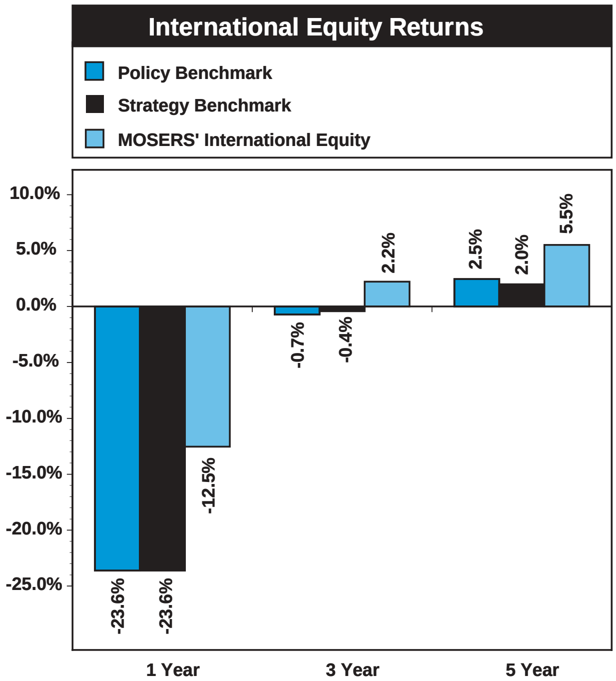
Investment Advisor	Investment Style	Portfolio Market Value as of June 30, 2001	FY2001 Management Fee
Silchester International Investors	Active value developed markets	$ 430,767,290	$ 1,778,651
Mastholm Asset Management	Active growth developed markets	387,394,582	1,496,380
Merrill Lynch Quantitative Advisors	Enhanced developed markets	321,460,716	688,689
Merrill Lynch Quantitative Advisors	Enhanced emerging markets	105,968,337	193,955
Total		$ 1,245,590,925[11]	$ 4,157,675

[11] This total excludes the impact of the rebalancing account on the total international portfolio.

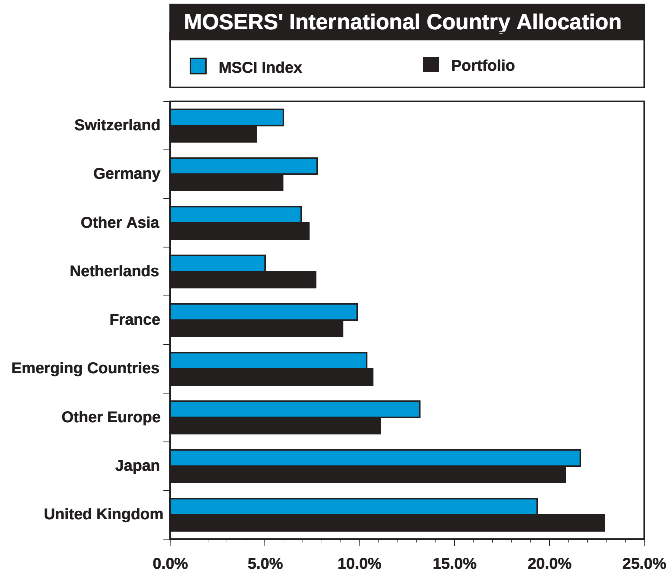
International Equity Investment Returns

The MOSERS' Policy Benchmark, the MSCI EAFE + EMF Index lost 23.6% for the year. As of June 30, 2001, there were no strategic bets in place in the international portfolio. Therefore, the strategy benchmark and the policy benchmark are the same. MOSERS' actual return of -12.5% added significant value relative to both benchmarks. This excess return was caused by the ability of the active, developed country managers to generate returns well in excess of the benchmark. The value manager's 10.4% return exceeded the benchmark by over 30% for the year.

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



The chart below displays the MOSERS' country exposure relative to the policy benchmark on June 30, 2001.



Brokerage Commissions

In FY2001, 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
Goldman Sachs	12,518,215	$ 126,950,224	$ 269,753	21.25
Merrill Lynch	14,117,878	124,249,976	305,279	24.57
CS First Boston	11,436,800	81,527,795	195,652	24.00
Paribas	3,506,100	70,164,674	192,242	27.40
Morgan Stanley	5,721,133	70,115,295	142,487	20.32
Deutsche Bank	6,272,558	64,855,278	159,534	24.60
Nomura Securities	3,307,648	61,462,850	122,902	20.00
Credit Lyonnais	11,094,300	48,570,414	154,112	31.73
Warburg Dillion Read	2,282,312	44,411,630	88,875	20.01
Societe Generale	1,276,145	43,376,970	108,663	25.05
ABN Amro	5,734,097	39,557,041	121,519	30.72
Nesbitt Burns	1,545,000	31,140,543	56,780	18.23
SG Securities	1,799,400	25,358,088	59,055	23.29
Kleinwort Benson	2,708,000	20,956,664	51,147	24.41
Dresdner Kleinwort	1,997,800	17,434,619	38,934	22.33
USB Securities	1,531,461	16,266,303	37,480	23.04
JB Were & Sons	1,397,000	12,325,835	61,391	49.81
Donaldson Lufkin Jennrette	1,796,600	12,311,883	28,361	23.04
BNP Securities	675,000	10,353,338	30,213	29.18
Chevereux De Virieu	140,400	10,138,357	27,403	27.03
Others (Including 35 brokerage firms)	11,202,236	109,959,409	268,439	24.41
Totals	102,060,083	$ 1,041,487,185	$ 2,520,221	24.20
Zero commission trades excluded from above	12,584,392	$ 36,505,797		

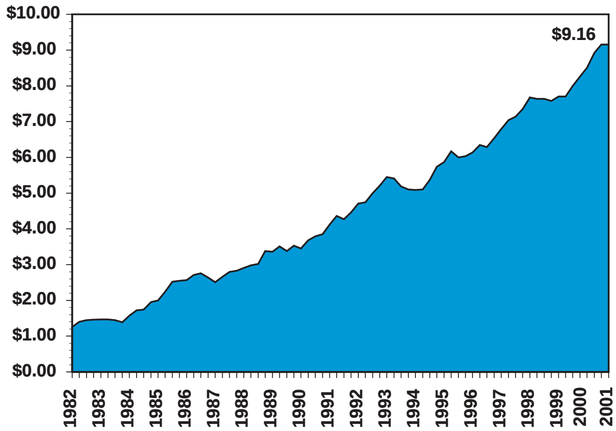
Soft Dollar Service Expenditures

For the fiscal year ended June 30, 2001, MOSERS' current international equity managers declared that $11,994 of the commissions generated were utilized to acquire a broad variety of services and research information. Soft dollars represented less than 2% of the total agency commissions.

Type of Service Acquired	Commissions Used	Percentage of Total
Consulting and benchmarks	$ 592	4.9%
Trading and analytic systems	11,402	95.1
Total	$ 11,994	100.0%

DIVERSIFICATION POOL REVIEW

Growth of a Dollar in Diversification Pool [12]



[12] 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 $9.16 by June 30, 2001.

Market Value

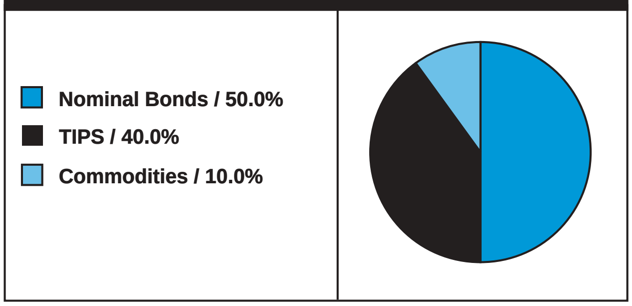
As of June 30, 2001, the MOSERS' Diversification Pool had a market value of $1.5 billion, representing 27.2% of the total fund.

Summary of the Diversification Pool Investments

The Diversification Pool, with a target allocation of 25.0%, 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,[13] and a commodities exposure. Targets for these classes are 50.0%, 40.0% and 10.0% 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 75.0% allocation to equities. Residual cash amounts are not significant and have no target allocation.

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 steady performance in most investment scenarios.

Diversification Pool Portfolio



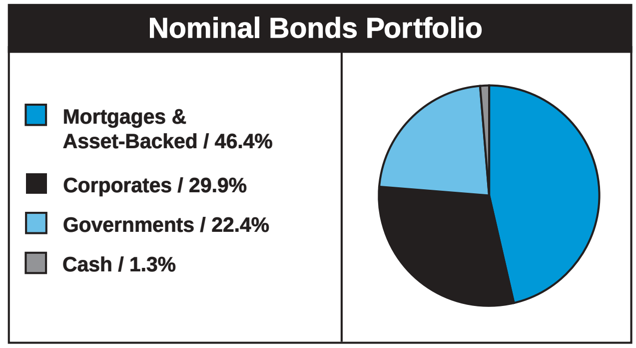
[13] "TIPS" is an acronym for Treasury Inflation Protected Securities. These securities are a "full faith and credit" guarantee of the U. S. Government. They pay lower rates of interest, but the bondholder is protected against inflation for the life of the bond by means of a mechanism that adjusts the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

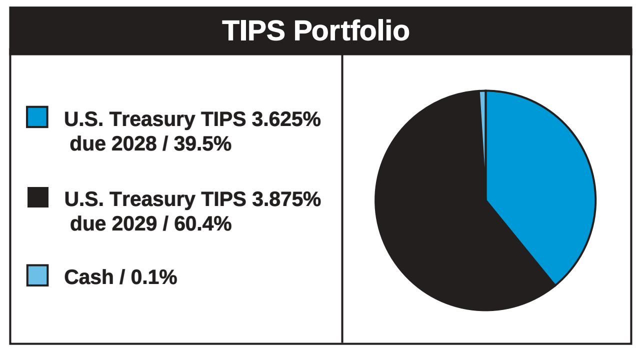
Diversification Pool Portfolio Structure

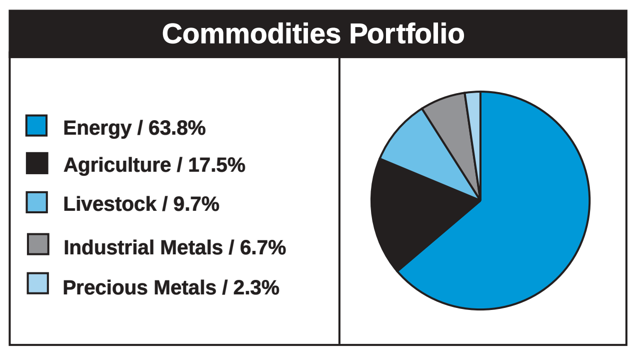
As of June 30, 2001, 56.5% of the diversification portfolio by market value was passively managed. Another 32.3% was managed in an enhanced index style, which allows for some limited trading flexibility with the expectation of capturing additional return relative to the benchmark. A 10.0% portion was managed in an active duration management style, and other assets comprised 1.2%.

A significant expansion of the Diversification Pool was implemented just prior to the beginning of the fiscal year. 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 included an increase in the TIPS allocation from 2.5% to 10.0% and a substantial reduction in 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 approximately 2.8 years to approximately 4.2 years, where it stands as of June 30, 2001, depending upon the portfolio profile of the active duration manager. The commodity allocation continues to be managed with the same target weighting and management style as in the prior fiscal year.

The following pie charts show the broad composition of the MOSERS' Diversification Pool as of June 30, 2001, 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.







Diversification Pool Portfolio Statistics

The following table displays the statistical characteristics of the MOSERS' Diversification Pool Portfolio as of June 30, 2001, 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, 2001 MOSERS' Diversification Pool	June 30, 2001 Policy Benchmark[14]	June 30, 2000 MOSERS' Diversification Pool
Total number of securities	164	1,582	201
Current yield	5.0%	5.1%	5.5%
Yield to maturity	6.0%	6.2%	5.8%
Average life/maturity	15.1 years	14.9 years	12.8 years
Adjusted duration	5.6	5.7	5.0
Quality	AAA+	AAA+	AAA+

The following table displays MOSERS' ten largest holdings in the Diversification Pool as of June 30, 2001, as well as the ten largest holdings at the end of the prior fiscal year.

Ten Largest Holdings June 30, 2001[15]	Market Value	Percentage of Diversification Pool	Ten Largest Holdings June 30, 2000	Market Value	Percentage of Diversification Pool
U.S. TIPS 3.875% 4/15/29	$ 362,977,886	24.6%	U.S. TIPS 3.625% 4/15/28	$ 213,688,024	15.8%
U.S. TIPS 3.625% 4/15/28	236,945,345	16.0	U.S. TIPS 3.875% 4/15/29	171,811,487	12.7
USTN 5.875% 11/30/01	72,714,593	4.9	U.S. TIPS 4.25% 1/15/10	163,085,241	12.0
USTB 5.375% 2/15/31	26,291,064	1.8	USTN 5.875% 11/30/01	71,127,150	5.2
USTB 6.375% 8/15/27	19,563,983	1.3	GNMA 6.50% 2023-2029	33,313,566	2.5
USTB 6.00% 2/15/26	15,690,375	1.1	USTB 6.125% 8/15/29	29,046,361	2.1
IBRD 4.75% 4/30/04	14,884,375	1.0	USTB 6.375% 8/15/27	18,929,000	1.4
MERRILL LYNCH 6.15% 1/26/06	12,024,533	.8	FNMA 6% 2013-2014	18,803,011	1.4
ASSOCIATES CORP. 5.80% 4/20/04	11,093,075	.8	GNMA 7% 2023-2029	18,436,001	1.4
USTB 6.125% 8/15/29	10,520,679	.7	FHLMC 7% 7/15/05	16,976,200	1.3

Key to holdings:
GNMA = Government National Mortgage Association
FHLMC = Federal Home Loan Mortgage Corporation
FNMA = Federal National Mortgage Association
IBRD = International Bank for Reconstruction and Development
USTB = U.S. Treasury Bond
USTN = U.S. Treasury Note
US TIPS = U.S. Treasury Inflation Protected Securities

[14] The policy benchmark, as of the end of the fiscal year, is a composite of 40.0% of the TIPS portfolio return, 16.0% Lehman Mortgage Index, 8.0% Lehman Asset-backed Index, 16.0% Lehman Credit Index (AAA/AA segment only),10.0% Lehman Intermediate Treasury, 10.0% 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.

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

Diversification Pool Portfolio Investment Advisors

As of June 30, 2001, MOSERS had contracts with three external investment advisors designated to manage 44.0% of the Diversification Pool. Internal management of 56.0% of the diversification pool, which includes cash reserves and miscellaneous, 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 FY2001 for management of diversification assets. In addition, it shows all internally managed Diversification Pool assets, the managers' investment styles, ending portfolio market values for FY2001, and the managerial fees paid for the fiscal year.

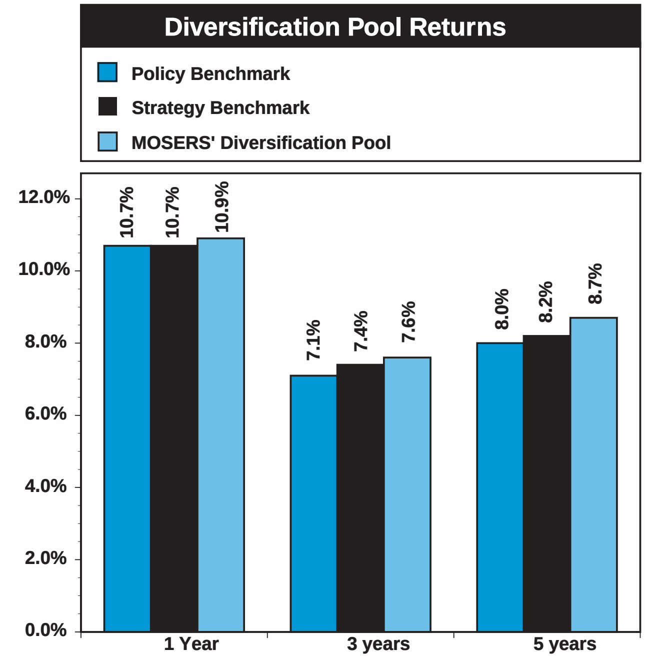
Investment Advisor	Investment Style	Portfolio Market Value as of June 30, 2001	FY2001 Management Fee
BlackRock Financial Management Inc.	Enhanced index Mortgage and asset-backed securities	$ 352,903,095	$ 336,000
Hoisington Investment Management Co.	Active duration Treasury securities	148,815,025	200,000
NISA Investment Advisors, L.L.C.	Enhanced index Commodities index overlay Cash investment portfolio	125,420,917	210,000
Internal staff (All passive management)	Government TIPS Lehman High Quality Corporate Index Cash reserves Illiquid assets	604,739,380 231,825,161 9,706,709 7,547,655	180,705
Total		$ 1,480,957,942[16]	$ 926,705

[16] This total excludes the impact of the rebalancing account on the Diversification Pool Portfolio.

Diversification Pool Investment Returns

The MOSERS' Diversification Pool returned 10.9% for the year, exceeding both the Policy Benchmark return and the Strategy Benchmark return[17], both of which were 10.7% for the fiscal year. TIPS and corporates were the noteworthy performers for the fiscal year. Performance in those security classes was offset, to some degree, by sub-par performance for the active duration manager and the commodities portfolio. The 3-year and 5-year returns remain above benchmark returns, with the 5-year Diversification Pool return exceeding the policy and the strategy benchmarks by 70 and 50 basis points respectively. This is, in large part, due to the active duration manager's selection of a long portfolio in a period in which interest rates have declined very substantially.

The graph to the right shows these results.



[17] 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 FY2001, 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
Lehman Brothers	$ 358,531,144	$ 368,921,259	13.3%
Morgan Stanley	355,834,840	354,714,829	12.8
Barclays Capital	313,355,899	326,570,380	11.7
Credit Suisse First Boston	180,134,453	186,908,335	6.7
Merrill Lynch	139,992,036	149,016,629	5.4
Goldman Sachs	140,702,885	144,088,386	5.2
Salomon Smith Barney	130,472,335	131,596,770	4.7
Deutsche Bank	116,923,480	122,652,112	4.4
ABN Amro	112,690,000	112,461,627	4.0
Bear Stearns	107,243,982	107,523,878	3.9
J. P. Morgan	101,444,805	103,570,185	3.7
Chase Securities	81,750,000	81,985,499	3.0
HSBC Securities	80,290,000	81,562,634	2.9
Greenwich Capital Markets	51,551,247	49,953,287	1.8
Donaldson Lufkin Jenrette	39,634,360	42,762,935	1.5
R.W. Baird	39,000,000	39,567,520	1.4
Commerzbank	34,950,000	34,977,545	1.3
Gruntal & Co.	34,000,000	34,565,270	1.2
Fidelity Capital Markets	31,000,000	31,491,225	1.1
BancOne Capital Markets	29,600,000	29,599,238	1.1
BNP Paribas	27,000,000	27,424,880	1.0
First Union Securities	26,700,000	26,968,748	1.0
Others (includes 15, each contributing less than 1.0%)	191,235,105	192,236,717	6.9
Totals	$ 2,724,036,571	$ 2,781,119,888	100.0%

SCHEDULE OF INVESTMENT MANAGER PORFOLIOS
(by Asset Class)

As of June 30, 2001

	Market Value June 30, 2001	Percent of Total Fund
U.S. stock manager portfolios		
Passive/enhanced U.S. stock manager portfolios	$ 1,934,288,963	35.55%
Active U.S. stock manager portfolios	778,511,164	14.31
Total U.S. stock manager portfolios	2,712,800,127	49.86
Non-U.S. stock manager portfolios		
Passive/enhanced non-U.S. stock manager portfolios	427,920,960	7.87
Active non-U.S. stock manager portfolios	819,103,455	15.05
Total non-U.S. stock manager portfolios	1,247,024,415	22.92
Diversification pool		
Nominal bond manager portfolios		
Government bond portfolios	148,824,245	2.74
Corporate bond portfolio	231,839,525	4.26
Mortgage & asset-backed securities portfolio	352,924,960	6.49
Total nominal bond manager portfolios	733,588,730	13.48
Real bond portfolio	604,776,849	11.12
Commodities portfolio	125,428,688	2.30
Total diversification pool manager portfolios	1,463,794,267	26.90
Other portfolios		
"Other" investments portfolio	7,456,967	0.14
Cash reserve portfolio	9,706,709	0.18
Total other portfolios	17,163,676	0.32
Total all portfolios	$ 5,440,782,485	100.00%

Reconciliation to Statements of Plan Net Assets	
Total portfolio value	$5,440,782,485
STIF	(86,865,798)
Uninvested cash	(218,902)
Accrued income	(8,441,824)
Accounts receivable securities sold	(68,240,996)
Manager fees payable	(1,991,230)
Accounts payable securities purchased	95,205,011
Investments per *Statement of Plan Net Assets*	$5,370,228,746