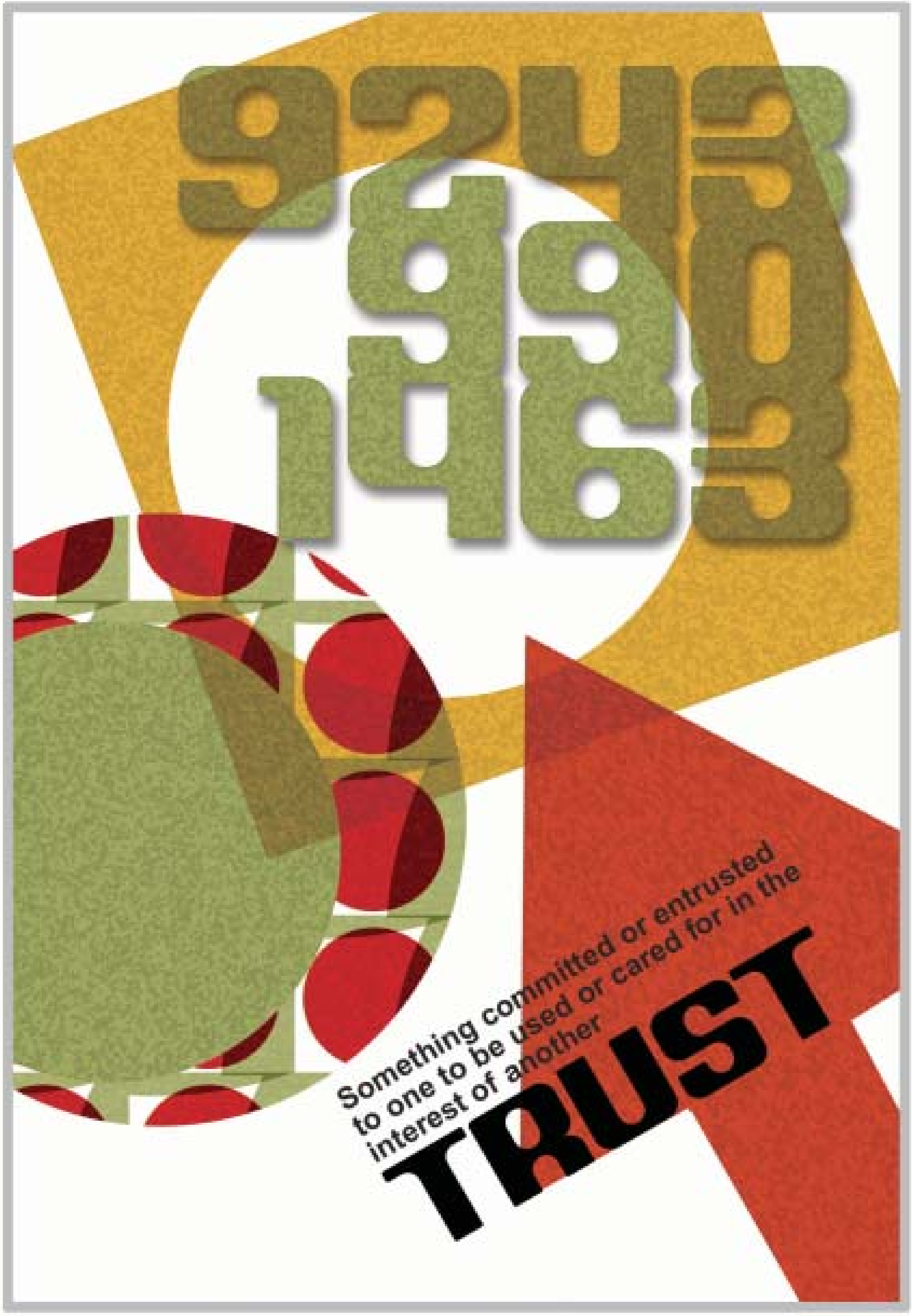

9243
Something committed or entrusted
to one to be used or cared for in the
interest of another
TRUST

Chief Investment Officer's Report

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 MOSERS investment facts:

- As of June 30, 2002, MOSERS was one of the 200 largest defined benefit plans in the United States with total assets of just over $5 billion.
- While the fund generated a return of -6.2% net of expenses for the year, on a relative basis the fund had a very good year, outperforming the policy benchmark by 2.6% and outperforming the S&P 500 by about 12%.
- During the year, the fund spent approximately $10.0 million for management of the assets, which was approximately $9.0 million less than the median fund in our peer group.
- MOSERS' internal investment department manages approximately $1.6 billion in assets or about 32% of the fund. All of these internally managed portfolios have met or exceeded expectations, with very low management costs.
- In the last two years MOSERS has been able to generate a return of 5.2% per annum in excess of the return of our policy benchmark. In real dollars these results have produced an extra $600 million for the fund that would not have been achieved had the assets been invested passively in index funds.

While most of the above mentioned facts are positive, on an absolute basis the fund has produced results of approximately -4.2% per annum for the last two years and it has not been pleasant for any of the fiduciaries who are responsible for investing your money. Unfortunately, even with an extremely well diversified portfolio, losses on equities have been unavoidable given this bear market which, to date, has sent the S&P 500 down 18% during FY02 and down just over 30% over the last two years. (Please refer to our consultant's letter, immediately following my letter, for further information on just how bad the last two years have been for U.S. stocks.)

Given the tenacity of this bear market and its toll on our portfolio, I have developed a few questions that I would want answered if I were on the outside looking in, together with answers to those questions.

Is the retirement benefit that I have been promised in jeopardy?

The quick answer is no. Let me explain why. MOSERS is structured as a "defined benefit" plan. Notice the words "defined benefit," which means that your benefit is defined by law and the state of Missouri is responsible for seeing that the benefit promised to you is honored. As part of this promise, the state of Missouri bears the investment risk associated with investment of the assets that have been placed in the "MOSERS Trust" for the benefit of all state employees. What this means is that if our performance over five-year rolling periods does not meet or exceed the 8.5% assumed rate of return, then it is likely that the state will need to contribute more money to MOSERS on behalf of all state employees, all else being equal. On the other hand, if our performance is well above the assumed rate, then the contribution rate will likely fall. The point is "in no way will your promised retirement benefit be impacted by what is happening in the markets." Notice the distinct difference between what I just described and an investment you make on your behalf in a "defined contribution" plan such as an Individual Retirement Account (IRA) or the Missouri Deferred Compensation Plan. In a defined contribution plan, the individual participant bears the investment risk. Losses from any cause will directly affect the amount of money you have in your account for retirement.

If my MOSERS benefit is not impacted by the ups and downs of the financial markets, then why should I care how the pension fund performs?

I believe you might care for a couple of reasons. The first focuses on cause and effect. If MOSERS is able to achieve returns in excess of those being assumed, then, over time, the contribution rate that the state is required to make to fund promised benefits will fall. As this rate falls, money will be freed up in the state's budget to pay for other employee benefits, other goods and services, or to be returned to the taxpayer. The decision regarding what happens to these excess funds rests ultimately with the lawmakers. On the flip side, if MOSERS is unable to achieve returns in excess of those being assumed, then, over time, the contribution rate will gradually increase. The bottom line is how the fund performs over long periods of time will have an impact on the state contribution rate to fund the plan that, in turn, will likely affect other budgetary items, some of which can directly impact employees.

The second reason you might care is to gain additional knowledge regarding how to take advantage of some of the various investment strategies MOSERS utilizes in building a very well diversified portfolio. One way to stay abreast of what we are doing and thinking is to check out the Investment Section of the MOSERS web site at www.mosers.org. There you will find recent and longer-term performance information about our fund, the various managers we employ with links to their web sites, and last but not least, our investment newsletters called *Value Added*. These newsletters are developed to keep our board informed of new strategies we are evaluating as well as other timely topics.

How has the fund fared through this very difficult stretch for the equity markets?

We entered this bear market phase with roughly 75% of our portfolio in stocks. In hindsight, to state the obvious, we wish it had been lower. With that said, we have maintained a majority of the portfolio in stocks since the early 1990's and, without a doubt, the fund is much better off as the result of such significant commitments to the U.S. equity market, inclusive of the poor performance in the last two years. As I mentioned earlier, on a relative basis, our portfolio did extremely well in the last two years, outperforming our policy benchmark by over $600 million.

Our ten-year total return through June 30, 2002, was 9% per annum, inclusive of the last two years. This exceeds the 8.5% rate that is being assumed in determining the state's contribution rate required to fund your benefits. MOSERS is focused on long-term results because many of the retirement promises that have been made will not be paid for 30 years or more. Because of our long-term focus, we do not need the majority of this money available immediately and can therefore assume more risk in an effort to achieve higher returns. While equity and equity-like investments are clearly more risky than investments in bonds, over long periods of time we believe that the fund will be compensated for accepting the additional risk.

In light of what has happened to the stock market in the last few years, what structural changes would you expect to see made in order to improve the investment results of the MOSERS' portfolio going forward?

The decade of the 1990's was all about playing "offense." In investment terminology, playing offense is all about concentration, momentum, greed, global harmony, and companies beating analysts' expectations every quarter, whatever the cost. In this environment, buying and holding the riskiest assets (equities) was the answer. It is obvious that the decade of the 2000's has started in a much different fashion. So far, this decade has been one of playing "defense." Playing defense is all about diversification, valuation, cynicism, fear, war, and corporate fraud. In my letter last year, I talked of a huge pendulum and how its height at one extreme would likely dictate its height on the opposite side. The 1990's positive side swing was an extreme and to date it seems as though the negative side swing will be equally extreme.

For well over a year, we have been working with the MOSERS board to identify asset classes and strategies that will likely contribute to our efforts to diversify the portfolio, some of which will be more effective in a decade where "defense" rules the day. This effort, culminating in an asset liability study that was conducted in the fourth quarter of FY02 and presented to the board in late June 2002, resulted in the addition of several new asset classes to the MOSERS' portfolio, including timberland, real estate, distressed debt and private equity. While the specifics of how all of these pieces will fit together remains to be determined, I can, at this time, provide you with some of the philosophies behind these decisions that will guide our program into the future.

- Diversification is critical because the future is unknown.
    - Spend more time thinking about what can go wrong than what can go right.
    - Forecasting short-term market direction has a high likelihood of failure.
    - A big dose of humility is critical to long-term success.
    - Establish reasonable expectations; return expectations that are too high will promote equally high risk taking.
- Cycles are real and almost every type of investment goes through them.
    - High returns attract capital investments, which generate competition, which leads to lower future returns.
    - Low returns dissuade capital investment, which leads to divestiture, bankruptcies, and less competition, and inevitably better future returns.
    - Picking exact tops and bottoms in these cycles is very difficult, however, picking entry and exit points that are near these tops and bottoms is achievable more times than not.

- While valuation will not matter during some shorter periods of time, over longer periods of time it is one of the most important drivers of investment returns.
    - Try to avoid the big losers by requiring a large "margin of safety" in the analysis of valuation.
    - Don't get great companies confused with great investments.
    - Do homework and be prepared to live through periods where things move in directions other than as expected – because they certainly will.

- Be a contrarian and a skeptic.
    - Once you have asked every question imaginable -- ask five more.
    - There are no "Holy Grails" or "Silver Bullets" in investing.
    - Following the herd is easy, but it usually leads to the slaughterhouse.
    - What the wise person does in the beginning for all the right reasons, the fool does in the end for all the wrong ones.

Until next year,

Rick Dahl

Rick Dahl
Chief Investment Officer

Investment Consultant's Report

Summit Strategies Group

September 26, 2002

The Board of Trustees
Missouri State Employees' Retirement System
907 Wildwood Drive
Jefferson City, MO 65109

Dear Board Members:

The stock market, as represented by the S&P 500, has been down 10% or more in a calendar year, 12 times since World War II. Economic booms followed by busts followed by booms have been the pattern for as long as people have been recording these kinds of things. But the bear market of 2000-2002 is significant for at least a couple of reasons. First, as of the fiscal year ended June 30, 2002, it is both the longest and deepest bear market since the Great Depression of 1929-1932. The previous post-war bear market, that everyone in the investment business talked about, was 1973-1974, and, unfortunately, with the big market sell-off in June 2002 after the WorldCom fraud revelations, our current bear market has now exceeded 1973-74's decline.

I am struck as I write that last statement. We've now exceeded the decline of 1973-74! In 1973-74, we were extracting ourselves from a debt financed war that had proven to be very divisive for the country, the OPEC oil cartel was holding us hostage with high gasoline prices and long lines at service stations, inflation was heading toward double digits for the first time in 100 years, the Cold War was raging, and Nixon was being run out of office. I mean, there was some pretty ugly stuff going on. I can see why the market was off over 40%. And the market loss of 2000-2002 just exceeded that amount. The terrorist attack of last September and the fraud of Enron and WorldCom are major events, of course, but we have "stability" in Washington, we are the world's only superpower, and inflation is a non-event. Consumers are buying a little too much foreign-produced "stuff" and putting a little too much on their credit cards, but this is fixable, right? And yet we just exceeded the market decline of 1973-74.

When I talk to people who seem to have a pretty good handle on this kind of thing, they point to the fact that the market's decline is not based on a lot of things being wrong (although terrorist attacks and corporate misdeeds are certainly wrong and have definitely contributed to this decline) but rather that things were "too good" for "too long." In other words, the party went a little too long, the music was a little too loud, and the drinks flowed a little too easily. And now it's the next morning! This isn't a two aspirin and a cup of coffee deal. It is bigger than that.

With the benefit of hindsight, it's pretty obvious. We had companies going on buying sprees using their over-priced stock to pay too much for other companies. In the middle of all this were corporate boards and officers caught up in all of this and milking it all the way to the bank. We had Wall Street in greed heaven creating securities to fund all this activity and lying to the world about what great opportunities they had just created (for a handsome commission). Because the market kept going up, the idea that stocks were risky was forgotten and the belief that stocks could levitate above the gravity of economic reality forever became accepted fact. And the idea that a company had to actually make something and sell it for a profit was replaced by a good story about how the Internet was going to change the world. In the middle of this, pension benefits were increased and/or contributions to pension funds were cut because the stock market would pay for it all. And as long as all was well, then we consumers thought, "Why not buy that 7th VCR for the house?" Now that I think about it, it really was a great party and I really miss it.

Look at the data. The four years ending in 1999 were the highest returning years for the S&P 500 in history. While earnings were OK, the truth is that this extraordinary period of market returns was almost entirely based on people being willing to pay ever increasing prices for the same company. Like tulips in Holland in the 1600's, the Internet and, in fact, the entire large cap U.S. stock market, proved to be nothing more than the Greater Fool Theory, in which the value of a company was based solely on what someone would pay for it tomorrow. Of course, what is so obvious after the fact is never clear as it is happening or it would not have happened. And so it was. Yet the reason capitalism works is it is a self-correcting system and what we have been experiencing recently is the latest version of this self-correction.

Stock prices are down. Merger activity is down. Poorly managed or fraudulently managed companies are disappearing. Wall Street has been discredited and fined. The "freebies" of the rising stock market, whether they were stock options for management or benefit increases or contribution holidays, will now be viewed as the real expenses that they are. Companies will have to prove they are profitable, well run, and prudent to regain investors' confidence. And folks who thought they would throw some money in the stock market and retire early are looking at a normal career again. And so it goes. Even the best parties must end.

MOSERS has been affected by the market's correction. In dollars and cents, the fund declined in value by $380 million in the past fiscal year. It was a very volatile year as well. The fund lost over $500 million in the first quarter, recovered nearly all of this by the end of March and then lost nearly $300 million in the quarter ending June 30, 2002. This is a decline of 6.2% for the year. Obviously, years like this one and the last have brought down longer-term results. For three and five years the returns have been –0.2% and 5.2% annualized, respectively. Longer-term results, which include the poor recent years, are still strong and above the actuarial assumptions. All returns are calculated in accordance with the Association for Investment Management Research performance presentation standards. On a relative basis, the fund has held up well. In all periods, the total fund has outperformed its benchmarks, which means that the actual results have exceeded the returns of the markets. In a world where no one can control markets, the efforts of staff, the investment managers, and ourselves become focused on adding value above the benchmarks. In that regard, these efforts have been quite successful.

The negative total fund returns of the last three years obviously will impact funding levels and required contributions going forward, but as a member this is not your concern as your benefits are guaranteed. It does create an issue for the state, as it could require an increase in annual contributions. Our collective focus is to earn the highest return possible within an acceptable level of risk. In markets such as this, the return portion is a challenge and the risk element is ever-present. We all foresee a market place driven far more by reality than the "party" that was the 18-year bull market that ended in early 2000. This means working harder for what should be less reward. It also means that this kind of attention and focus are more important than they've been in a long, long time. So it goes.

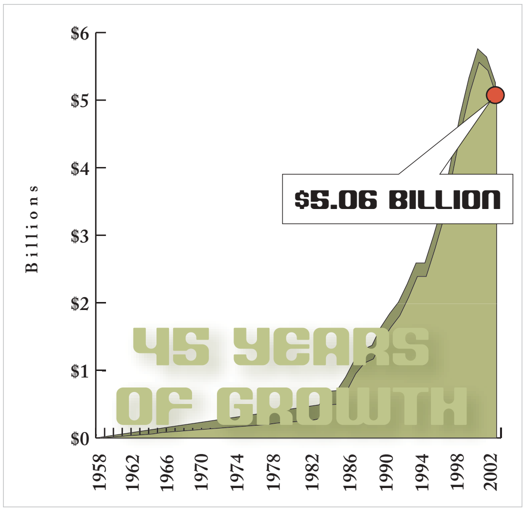
All of us at Summit appreciate the opportunity to be of continued service to the board and the system.

Sincerely,

Stephen P. Holmes, CFA
President

Total Fund Review

Value of the Fund



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]

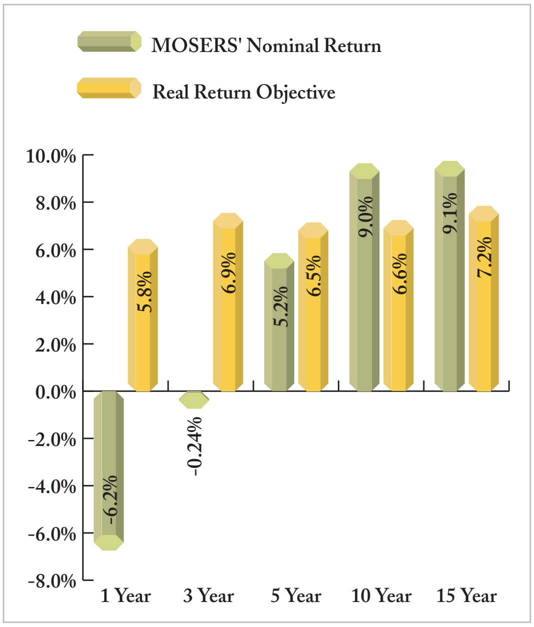
Overall Investment Objective

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% to 12% 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.

Return vs. Real Return Objective [4]



Real Return Objective (RRO)

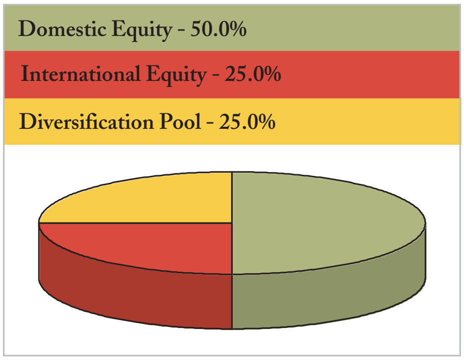
The MOSERS' actuarial funding objective is to produce nominal returns that exceed the rate of inflation by 5% per year. The best known measure of inflation is the Consumer Price Index (CPI). From the graph on the left, one can see the MOSERS' investment returns have exceeded the RRO over long time periods since the mid 1980s.[3]

1 Section 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 CPI, U.S. city Average for all Urban Consumers (CPI-U).
3 Performance returns were calculated using a time-weighted rate of return based on market values.
4 CPI Source: United States 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.

Market Value

As of June 30, 2002, the MOSERS' investment portfolio had a market value of $5.06 billion.

Policy Asset Allocation

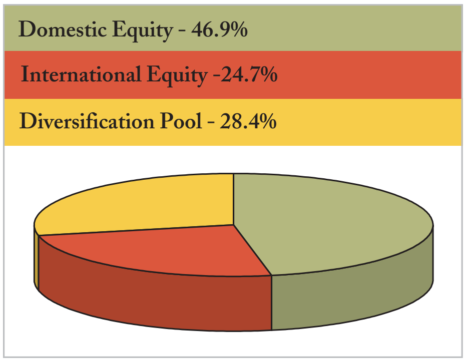


Summary of Policy Asset Allocation

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.

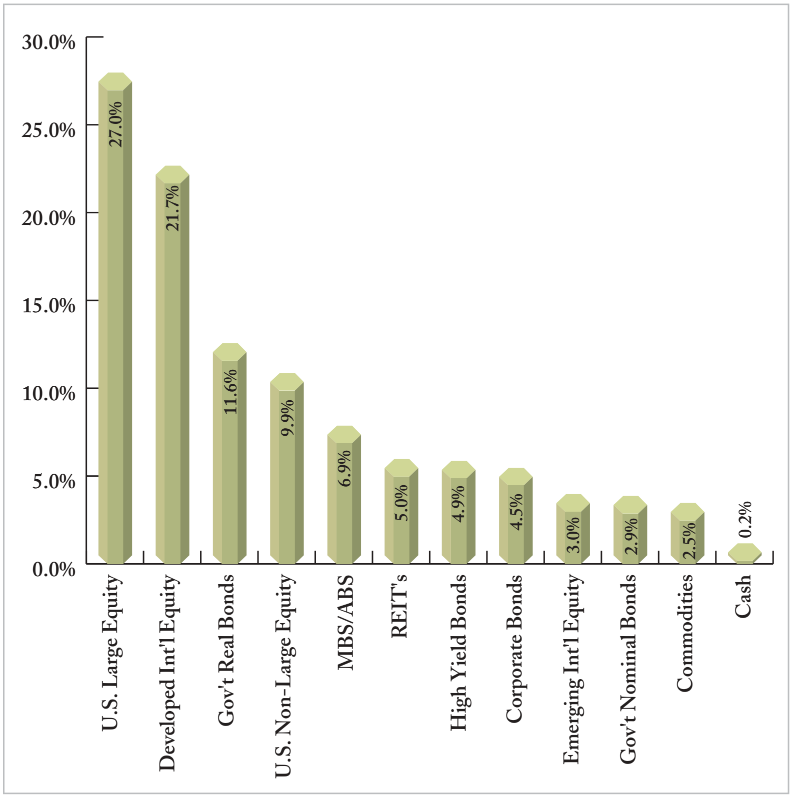
The resulting portfolio is intended to produce the required real rate of return necessary to fund the pension liabilities within prudent levels of risk. (Real return is the amount by which actual return exceeds the rate of inflation.) The pie chart above depicts the MOSERS' current policy asset allocation,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

Actual Asset Allocation



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 pie chart to the left depicts the MOSERS' actual asset mix as of June 30, 2002.

Actual Strategy Allocation



Strategy Asset Allocation

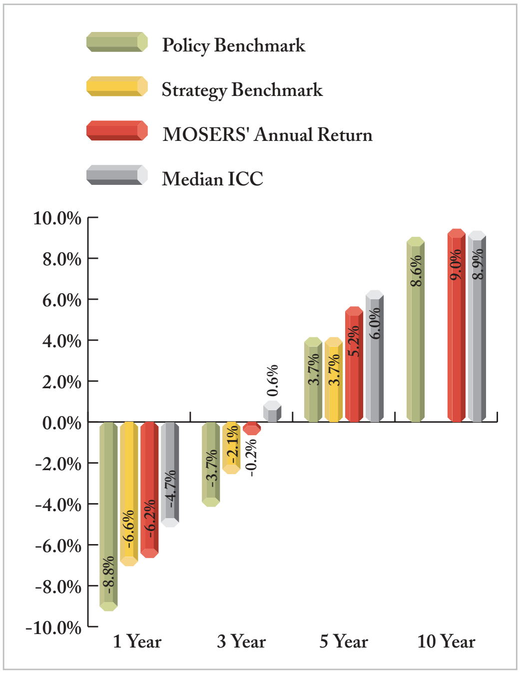
Strategic biases within asset classes are employed in an effort to further diversify the overall portfolio and enhance long-term returns within each asset class. A strategic decision should be thought of as any decision that might cause MOSERS' actual portfolio to differ from the policy mix benchmarks. The graph to the left depicts MOSERS' actual strategy mix as of June 30, 2002.

Total Fund Return 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.[5]

Total Fund Returns



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.

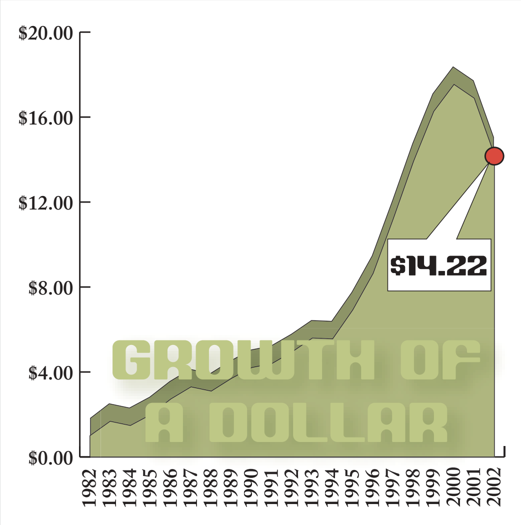
Similarly, by comparing the actual return to the strategy benchmark, the board will, over time, be able to judge the success or failure of the staff and consultant in implementing the board's strategy. Returns attributed to implementation may take on several forms including active manager selection, 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.

The graph to the left 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.

5 The UCC 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 for peer returns. The observed median return is gross of investment management fees and reflects 33 participating funds.

Domestic Equity Review

Domestic Equity



Market Value

As of June 30, 2002, the MOSERS' Domestic Equity Portfolio had a market value of $2.37 billion, representing 46.9% of MOSERS' total assets.

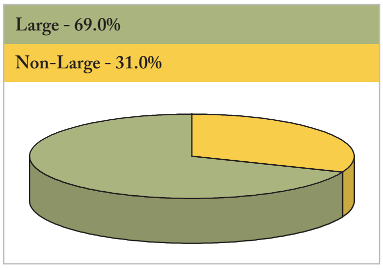
Summary of Domestic Equity Investments

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% 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 5% real return objective set by the board, because of their historic 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 $14.22 by June 30, 2002.

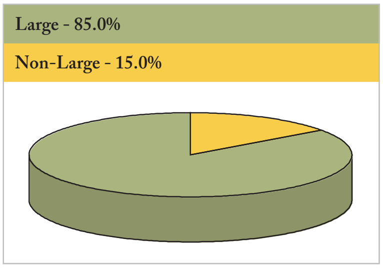
Domestic Equity Portfolio Structure

The Domestic Equity Portfolio consists of eleven separate portfolios: one passive, three enhanced and seven active. The passive and enhanced portfolios provide broad market diversification and make up 55.3% 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 active portfolios are managed in a concentrated manner containing only a manager's best investment ideas. The composite of the active managers represents 44.7% of the domestic allocation.

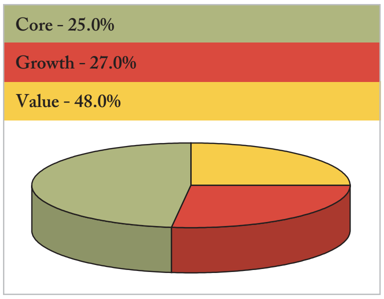
Domestic Equity Portfolio (by size)



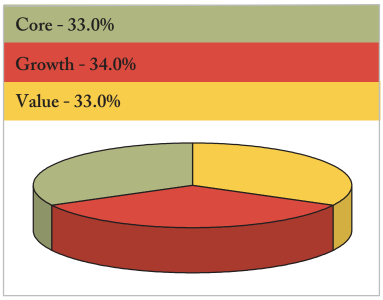
Policy Benchmark (by size)



Domestic Equity Portfolio (by style)



Policy Benchmark (by style)



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, which has been established 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, 2002, 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, 2002 MOSERS U.S. Stocks	June 30, 2002 Russell 3000	June 30,2001 MOSERS U.S. Stocks
Number of securities	1,238	3,000	1,198
Avg. market capitalization	$48.8 billion	$70.3 billion	$67.2 billion
Portfolio yield	2.12%	1.59%	1.50%
Portfolio P/E	19.8x	26.0x	19.7x
Portfolio beta vs. S&P 500	0.83	0.89	0.99
Price/book ratio	1.8x	3.0x	2.7x

The following table displays MOSERS' ten largest domestic equity holdings as of June 30, 2002, and the ten largest holdings one year prior.

Ten Largest Holdings June 30, 2002[6]	Market Value	% of Total MOSERS U.S. Stocks	Ten Largest Holdings June 30, 2001	Market Value	% of Total MOSERS U.S. Stocks
General Electric	$33,354,920	1.4%	Microsoft	$57,671,460	2.1%
Microsoft	31,170,029	1.3	General Electric	56,860,538	2.1
Pfizer	30,921,240	1.3	Pfizer	47,289,919	1.7
Citigroup	23,022,615	1.0	Citigroup	38,646,331	1.4
Exxon Mobil	19,728,760	0.8	Exxon Mobil	36,601,484	1.3
American Intl. Group	19,528,040	0.8	Intel	30,974,580	1.1
Cisco Systems	18,643,226	0.8	American Intl. Group	29,513,262	1.1
Wal-Mart Stores	16,580,014	0.7	Cisco Systems	29,112,502	1.1
Washington Mutual	14,853,834	0.6	IBM	27,596,860	1.0
AOL Time Warner	14,357,284	0.6	AOL Time Warner	26,699,810	1.0

6 A complete list of holdings is available upon request.

Domestic Equity Portfolio Investment Advisors

As of June 30, 2002, MOSERS had contracts with 9 external investment advisors targeted to manage 69.3% of the domestic equity portfolio; the remaining 30.7% of the domestic equity portfolio is managed internally by MOSERS' staff.

The table below displays the external firms that were under contract with MOSERS during FY02 for management of domestic equity securities. In addition, it shows all internally managed domestic equity portfolios, the managers' investment styles, FY02 ending portfolio market values, and the managerial fees paid for the fiscal year.

During FY02, MOSERS hired one new enhanced investment advisor and three new active advisors while terminating one active advisor.

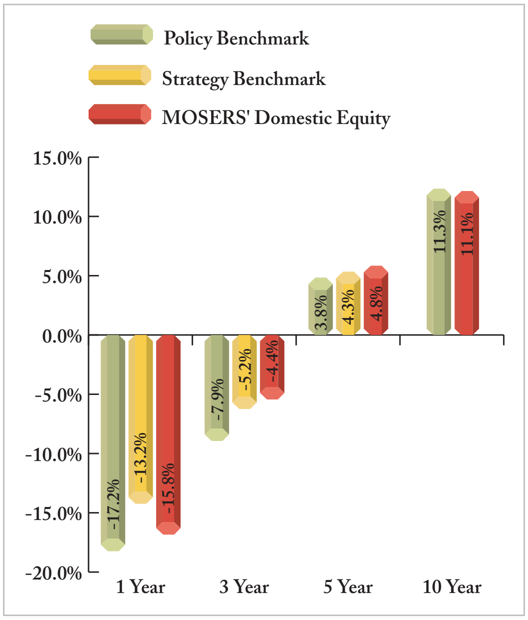
Investment Advisor	Investment Style	Portfolio Market Value as of June 30, 2002	FY02 Management Fee
Internal Staff	Passive		
	S&P 500 Index	$ 472,453,457	
	Active		
	REIT Portfolio	$ 254,099,153	$ 152,080
BlackRock	High Yield Bond	247,462,588	381,237
NISA	BBB Bond	49,621,605	
Dimensional Fund Advisors	Passive		
	Non-Large Value	500,461,109	584,233
OakBrook	Enhanced		
	S&P 500 Index	167,014,312	250,000
Oak Associates	Active		
	All-Cap Growth	125,538,683	1,296,897
Legg Mason Capital Management	Active		
	All-Cap	130,488,292	636,472
Zak Capital, Inc.	Active		
	All-Cap Growth	0	231,317
Capital Guardian Trust Company	Active		
	All-Cap Core	122,469,873	418,491
AmeriCap Advisers	Active		
	All-Cap Core	129,841,342	393,604
Advanced Investment Management	Enhanced		
	S&P 500 Index	168,817,748	187,500
Total		$ 2,368,268,162[7]	$ 4,531,831

7 Does not include NISA rebalancing.

Domestic Equity Investment Returns

MOSERS' Policy Benchmark, the Russell 3000 Index, lost 17.2% for the year. The strategy to intentionally diversify holdings, particularly with smaller capitalization and relatively less expensive stocks, added value in FY02. This can be observed by comparing the -17.2% return generated by the policy benchmark to the -13.2% return generated by the strategy benchmark. The MOSERS' actual return of -15.8% was below the strategy benchmark and reflects the negative results of the manager mix.

Domestic Equity Returns



The graph to the left shows 1-, 3-, and 5-year results as described above and also includes the actual return compared with the policy benchmark for the 10-year period. 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, 2002, 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	30,241,000	$ 755,292,427	$ 941,722	$0.031
Guzman & Company	14,019,969	419,967,281	153,101	0.011
Instinet Corporation	13,191,159	337,911,310	364,537	0.028
State Street	8,235,686	164,494,966	102,946	0.012
Jefferies & Company	4,428,569	138,069,508	152,170	0.034
Montgomery Secs	7,120,200	133,604,468	211,665	0.030
Investment Technology Group	4,219,399	55,060,248	80,867	0.019
Lehman Brothers	2,309,300	51,803,220	70,948	0.031
Salomon Smith Barney	2,663,700	48,664,767	90,898	0.034
Merrill Lynch	1,800,169	44,423,601	86,581	0.048
Cantor Fitzgerald	1,016,450	39,389,155	36,514	0.036
Bear Stearns	3,016,532	35,593,185	90,805	0.030
B Trade Services LLC	1,246,610	35,210,774	36,808	0.030
Lynch Jones & Ryan	1,805,100	33,236,542	39,210	0.022
Bridge Trading Company	1,011,241	29,858,172	57,706	0.057
Warburg Dillion Read	1,222,010	28,960,178	59,519	0.049
CS First Boston	840,800	21,314,785	42,920	0.051
Others (including 45 brokerage firms)	7,146,224	163,041,219	360,589	0.050
Totals	105,534,118	$2,535,895,806	$2,979,506	$0.028
Zero commission trades excluded from above	17,252,240	$ 366,467,373		

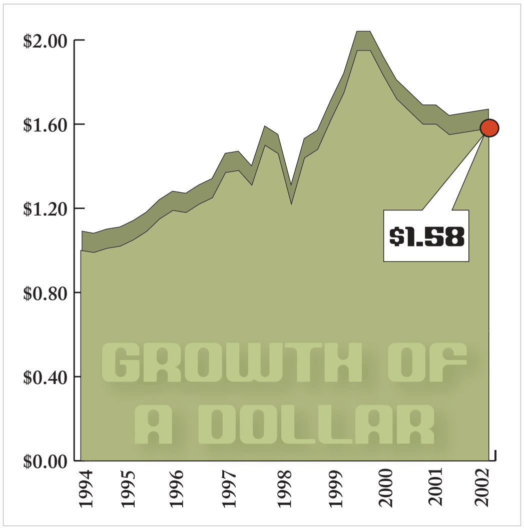
Soft Dollar Expenditures

In the fiscal year ended June 30, 2002, MOSERS' domestic equity managers declared $402,734 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 13.5% of MOSERS' agency commissions.

Type of Service Acquired	Commissions Used	Percentage of Total
Trading and analytic systems	$226,331	56.2%
Research services	97,891	24.3
Consulting/benchmarks	11,002	2.7
Portfolio management systems	19,948	5.0
Exchange fees, other services	7,606	1.9
Pricing services	18,574	4.6
Market research	9,834	2.4
Transaction cost analysis	9,377	2.3
Proxy Services	2,171	0.6
Total	$402,734	100.0%

International Equity Review

International Equities



Market Value

As of June 30, 2002, the MOSERS' International Portfolio had a market value of $1.25 billion, representing 24.7% of the total fund.

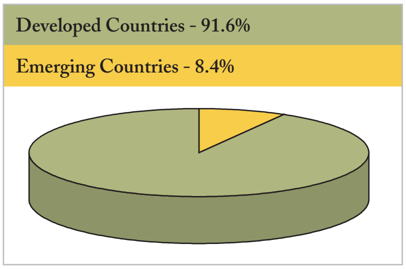
Summary of International Equity Investments

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 5% 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. 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 $1.58 by June 30, 2002.

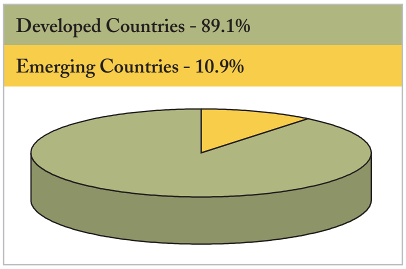
International Equity Portfolio Structure

As of June 30, 2002, 36% of the international portfolio was managed in an enhanced index fashion with the balance of 64% being managed actively. International 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 developed market manager with a value tilt to complement the EAFE Index Portfolio. In May of 2000, a second active developed markets manager was hired with a growth tilt. The MOSERS' policy allows the active managers to hedge currency up to 25%, while the enhanced portfolios are unhedged.

Policy Benchmark



Actual Portfolio



The pie charts to the left 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.

International Equity Portfolio Statistics

The following table displays the statistical characteristics of the MOSERS' International Stock Portfolio as of June 30, 2002, 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, 2002 MOSERS International Equity	June 30, 2002 MSCI EAFE & EMF	June 30, 2001 MOSERS International Equity
Number of securities	1,434	1,719	1,379
Avg. market capitalization	$22.0 billion	$35.2 billion	$5.2 billion
Portfolio yield	2.20%	2.30%	2.53%
Portfolio P/E	22.4x	28.8x	16.2x
Price/book ratio	1.8x	1.9x	1.4x

The following table displays MOSERS' ten largest holdings in International Equity as of June 30, 2002, as well as the ten largest holdings at the end of the prior fiscal year.

Ten Largest Holdings June 30, 2002[8]	Market Value	% of International Stocks	Ten Largest Holdings June 30, 2001	Market Value	% of International Stocks
Talisman Energy (Canada)	$21,459,103	1.7%	Diageo (UK)	$19,330,770	1.6%
Novartis (Switzerland)	15,300,505	1.2	Hong Kong Elec. (Hong Kong)	19,036,698	1.5
Hong Kong Elec. (Hong Kong)	14,746,998	1.2	Ahold (Netherlands)	18,041,542	1.4
Allied Domecq (UK)	13,756,036	1.1	Talisman Energy (Canada)	16,827,260	1.4
Boots Co. (UK)	13,595,821	1.1	Takefuji (Japan)	14,739,866	1.2
Nestle (Switzerland)	13,021,828	1.0	Elan Corp. (Ireland)	14,446,284	1.2
Diageo (UK)	12,395,038	1.0	Unilever (UK)	14,355,667	1.2
Aventis (France)	12,370,824	1.0	Boots Co. (UK)	14,229,097	1.1
Centrica (UK)	11,871,443	1.0	Pernod-Richard (France)	13,264,304	1.1
Renault (France)	11,452,224	0.9	Parmalt Finanz (Italy)	12,351,045	1.0

8 A complete list of holdings available upon request.

International Equity Portfolio Investment Advisors

As of June 30, 2002, 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 FY02 for management of international stocks. Also displayed are the managers' investment styles, FY02 ending portfolio market values and the managerial fees paid for the fiscal year.

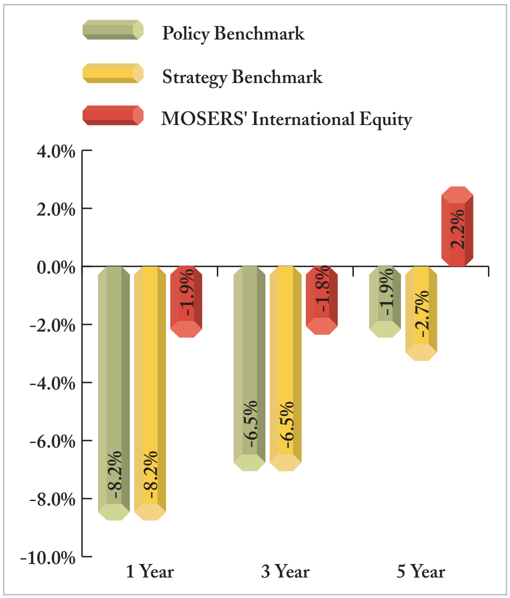
Investment Advisor	Investment Style	Portfolio Market Value as of June 30, 2002	FY02 Management Fee
Silchester International Investors	Active value Developed markets	$398,377,358	$1,654,117
Mastholm Asset Management	Active growth Developed markets	401,272,422	1,549,623
Merrill Lynch Quantitative Advisors	Enhanced Developed markets	294,028,371	431,830
Merrill Lynch Quantitative Advisors	Enhanced Emerging markets	153,223,545	160,650
Total		$1,246,901,696[9]	$3,796,220

9 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 8.2% for the year. As of June 30, 2002, 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 -1.9% added significant value relative to both benchmarks. A large part of the out-performance was due to the value manager's 14.8% return which exceeded the benchmark by over 20% for the year. The two enhanced portfolios also added to the positive performance relative to the benchmark.

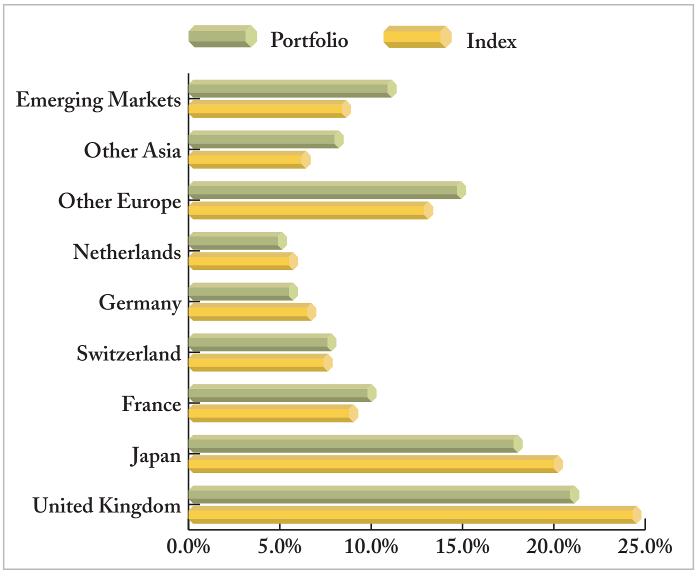
International Equity Returns



The graph to the left shows 1-, 3-, and 5-year results as described above. 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, 2002.

International Country Allocation



Brokerage Commissions

In FY02, MOSERS generated the following commissions through the purchase and sale of international equity securities.

Brokerage Firm	Shares Traded	Dollar Volume of Trades	Commission Dollar Amount	Commission Basis Points
Morgan Stanley	17,313,827	$ 185,027,392	$ 403,354	21.80
Merrill Lynch	22,974,954	184,637,813	408,057	22.10
CS First Boston	13,993,182	136,270,108	335,437	24.62
Deutsche Bank	9,165,420	127,482,540	302,708	23.75
Goldman Sachs	12,114,689	120,056,970	275,694	22.96
Warburg Dillion Read	9,607,259	103,064,487	252,141	24.46
BNP Securities	7,306,108	101,757,742	289,764	28.48
Credit Lyonnais	17,371,239	94,726,146	255,575	26.98
Nomura	5,865,994	93,810,898	186,316	19.86
Societe Generale	5,624,022	80,596,293	197,994	24.57
ABN Amro	5,703,459	52,575,759	100,956	19.20
Dresdner Kleinwort B	3,429,453	39,799,518	91,236	22.92
Instinet	5,422,681	33,151,853	36,528	11.02
Chevereux De Virieu	792,400	31,736,723	79,342	25.00
Enskilda Securities	2,023,200	26,055,708	65,139	25.00
Lehman Brothers	2,079,150	25,671,771	55,617	21.66
Nesbitt Burns	1,402,800	23,402,385	45,794	19.57
Oppenheim Sal Jr.	374,985	22,184,060	141,413	63.75
Kleinwort Benson	1,514,320	20,131,754	43,432	21.57
Jardine Fleming	11,951,314	18,352,820	50,016	27.25
Others (Including 39 brokerage firms)	120,067,175	225,457,736	571,801	25.36
Totals	276,097,631	$1,745,950,476	$4,188,314	23.99
Zero commission trades excluded from above	18,960,308	$ 40,260,679		

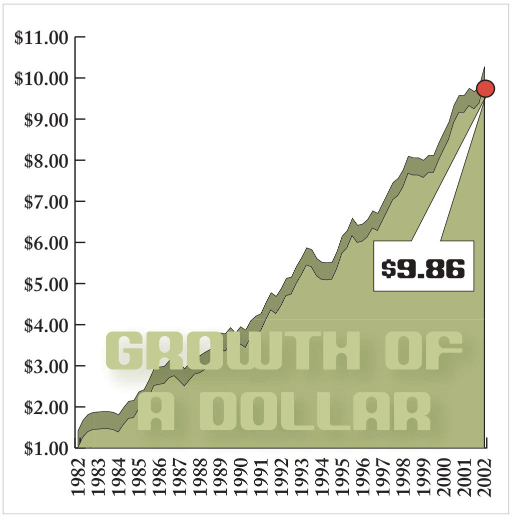
Soft Dollar Service Expenditures

For the fiscal year ended June 30, 2002, MOSERS' current international equity managers declared that $20,385 of the commissions generated were utilized to acquire a broad variety of services and research information. Soft dollars represented less than 1% of the total agency commissions.

Type of Service Acquired	Commissions Used	Percentage of Total
Trading and analytic systems	$20,385	100.0%
Total	$20,385	100.0%

Diversification Pool Review

Diversification Pool[10]



Market Value

As of June 30, 2002, the MOSERS' Diversification Pool had a market value of $1.4 billion, representing 28.5% of the total fund.

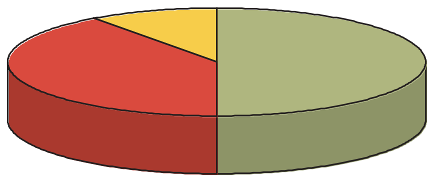
Summary of the Diversification Pool Investments

The Diversification Pool, with a target allocation of 25%, 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[11], and a commodities exposure. Targets for these classes are 50%, 40% and 10% respectively within the pool (see below). 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% 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 Targets

Nominal Bonds - 50.0%
TIPS - 40.0%
Commodities - 10.0%



10 The area 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 $9.86 by June 30, 2002.

11 "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

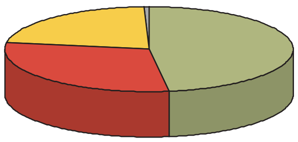
As of June 30, 2002, 56.1% of the diversification portfolio by market value was passively managed. Another 32.9% was managed in an enhanced index style, which allows for some limited trading flexibility with the expectation of capturing additional return relative to the benchmark. A 9.8% portion was managed in an active duration management style, and other assets comprised 1.2%.

A significant expansion of the Diversification Pool was implemented in the second quarter of FY00. 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% 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 2.5 years to approximately 3.9 years, where it stands as of June 30, 2002, 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 pie charts to the left show the composition or sector exposures of the security classes (nominal bonds, TIPS and commodities) within MOSERS' Diversification Pool as of June 30, 2002.

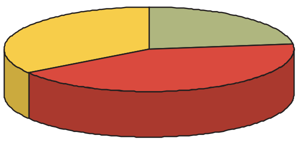
Nominal Bonds Portfolio

Mortgages & Asset-Backed - 47.7%
Corporates - 29.7%
Governments - 22.1%
Cash - 0.5%



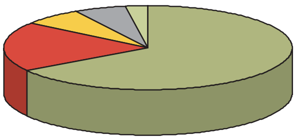
TIPS Portfolio

U.S. Treasury TIPS - 23.1% 3.625% due 2028
U.S. Treasure TIPS - 42.4% 3.875% due 2029
U.S. Treasury TIPS - 34.5% 3.375% due 2032



Commodities Portfolio

Energy - 65.8%
Agriculture - 19.3%
Livestock - 6.6%
Industrial Metals - 5.9%
Precious Metals - 2.4%



Diversification Pool Portfolio Statistics

The following table displays the statistical characteristics of the MOSERS' Diversification Pool Portfolio as of June 30, 2002, 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, 2002 MOSERS Diversification Pool	June 30, 2002 Policy Benchmark[12]	June 30,2001 MOSERS Diversification Pool
Total number of securities	250	1,542	164
Current yield	4.3%	4.6%	5.0%
Yield to maturity	4.1%	4.5%	6.0%
Average life/maturity	14.8 years	14.9 years	15.1 years
Adjusted duration	5.8	5.7	5.6
Quality	AAA+	AAA+	AAA+

The following table displays MOSERS' ten largest holdings in the Diversification Pool as of June 30, 2002, as well as the ten largest holdings at the end of the prior fiscal year.

Ten Largest Holdings June 30, 2002[13]	Market Value	% of Total MOSERS Div. Pool	Ten Largest Holdings June 30, 2001	Market Value	% of Total MOSERS Div. Pool
U.S. TIPS 3.875% 4/15/29	$246,212,811	17.2%	U.S. TIPS 3.875% 4/15/29	$362,977,886	24.6%
U.S. TIPS 3.375% 4/15/32	200,481,492	14.0	U.S. TIPS 3.625% 4/15/28	236,945,345	16.0
U.S. TIPS 3.625% 4/15/28	134,044,871	9.3	USTN 5.875% 11/30/01	72,714,593	4.9
USTN 3.875% 6/30/03	71,077,343	5.0	USTB 5.375% 2/15/31	26,291,064	1.8
USTB 5.375% 2/15/31	30,899,286	2.2	USTB 6.375% 8/15/27	19,563,983	1.3
USTB 6.375% 8/15/27	20,071,824	1.4	USTB 6.00% 2/15/26	15,690,375	1.1
IBRD 4.75% 4/30/04	15,477,857	1.1	IBRD 4.75% 4/30/04	14,884,375	1.0
USTB 6.125% 8/15/29	10,772,785	.8	MERRILL LYNCH 6.15% 1/26/06	12,024,533	.8
FNMA 7% 5/1/32, pool #0635239	10,370,105	.7	ASSOCIATES CORP. 5.80% 4/20/04	11,093,075	.8
GNMA 5.50% 3/15/14, pool #0780988	8,432,654	.6	USTB 6.125% 8/15/29	10,520,679	.7

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

12 The policy benchmark, as of the end of the fiscal year, is a composite of 40% of the TIPS portfolio return, 16% Lehman Mortgage Index, 8% Lehman Asset-backed Index, 16% Lehman Credit Index (AAA/AA segment only), 10% Lehman Intermediate Treasury, 10% 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.

13 A complete list of holdings is available upon request.

Diversification Pool Portfolio Investment Advisors

As of June 30, 2002, MOSERS had contracts with three external investment advisors designated to manage 44% of the Diversification Pool. Internal management of 56% 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 FY02 for management of diversification assets. In addition, it shows all internally managed Diversification Pool assets, the managers' investment styles, ending portfolio market values for FY02 and the managerial fees paid for the fiscal year.

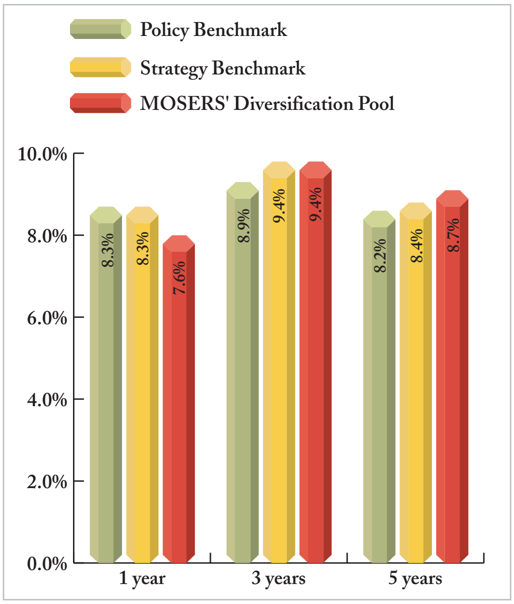
Investment Advisor	Investment Style	Portfolio Market Value as of June 30, 2002	FY02 Management Fee
BlackRock Financial Management, Inc.	Enhanced index		
	Mortgage and asset-backed securities	$ 348,389,512	$ 347,116
Hoisington Investment Management Co.	Active duration		
	Treasury securities	140,990,086	200,000
NISA Investment Advisors, LLC	Enhanced index		
	Commodities index overlay		
	Cash investment portfolio	127,323,068	216,947
Internal Staff (All passive management)	Government TIPS	584,825,671	
	Lehman High Quality Corporate Index	225,711,384	152,539
	Cash reserves	7,776,386	
	Illiquid assets	6,607,687	
Total		$ 1,441,623,794[14]	$ 916,602

14 This total excludes the impact of the rebalancing account on the Diversification Pool Portfolio.

Diversification Pool Investment Returns

The MOSERS' Diversification Pool returned 7.6% for the year, falling short of both the Policy Benchmark return and the Strategy Benchmark return, both of which were 8.3% for the fiscal year. The active duration manager's yield curve positioning as well as an overweight to medium quality corporates within the internally managed corporate portfolio were the primary reasons for underperformance. Performance in those security classes was offset, to some degree, by superior performance in the commodities portfolio and a small amount of value added in the enhanced index mortgage and asset-backed portfolio. From a longer term perspective, 3-year returns were equal to or exceeded the benchmarks while 5-year returns remain above benchmark returns, with the 5-year Diversification Pool return exceeding the policy and the strategy benchmarks by 50 and 30 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.

Diversification Pool Returns



The graph to the left shows these results.

Brokerage Activity

In FY02, 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
Morgan Stanley	$546,770,987	$553,791,818	21.6%
Barclays Capital	406,877,580	450,562,912	17.6
Lehman Brothers	258,779,200	270,400,087	10.5
Salomon Smith Barney	163,792,651	172,902,957	6.7
J. P. Morgan	147,851,674	142,853,584	5.6
Credit Suisse First Boston	137,400,051	138,211,670	5.4
Merrill Lynch	142,105,192	137,575,011	5.4
Goldman Sachs	125,132,800	113,061,122	4.4
HSBC Securities	104,875,000	109,114,476	4.3
Bear Stearns	85,764,661	88,617,529	3.5
Banc of America Securities	65,081,104	65,357,848	2.5
BNP Paribas	54,600,000	55,062,355	2.1
Deutsche Morgan Grenfell	53,505,000	53,478,975	2.1
Spear Leeds & Kellog	29,892,000	31,283,067	1.2
Greenwich Capital Markets	26,385,000	29,413,569	1.1
BancOne Capital Markets	28,904,508	28,930,190	1.1
Fidelity Capital Markets	26,000,000	26,285,040	1.0
Others (includes 11, each contributing less than 1%)	111,637,950	97,063,817	3.9
Totals	$2,515,355,358	$2,563,966,027	100.0%

Schedule of Investment Manager Portfolios
(by Asset Class)
As of June 30, 2002

	Market Value June 30, 2002	Percent of Total Fund
U.S. stock manager portfolios		
Passive/enhanced U.S. stock manager portfolios	$ 1,308,762,579	25.87%
Active U.S. stock manager portfolios	1,059,534,449	20.95
Total U.S. stock manager portfolios	2,368,297,028	46.82
Non-U.S. stock manager portfolios		
Passive/enhanced non-U.S. stock manager portfolios	447,961,613	8.86
Active non-U.S. stock manager portfolios	800,918,661	15.83
Total non-U.S. stock manager portfolios	1,248,880,274	24.69
Diversification Pool		
Nominal bond manager portfolios		
Government bond portfolios	140,991,821	2.79
Corporate bond portfolio	225,714,161	4.46
Mortgage & asset-backed securities portfolio	348,393,799	6.89
Total nominal bond manager portfolios	715,099,781	14.14
Real bond portfolio	584,832,867	11.56
Commodities portfolio	127,324,635	2.51
Total diversification pool manager portfolios	1,427,257,283	28.21
Other portfolios		
Other investments portfolio	6,607,687	0.13
Cash reserve portfolio	7,776,386	0.15
Total other portfolios	14,384,073	0.28
Total all portfolios	$ 5,058,818,658	100.00%

Reconciliation to Statements of Plan Net Assets	
Total portfolio value	$ 5,058,818,658
STIF	(383,864,684)
Uninvested cash	5,880
Accrued income	(26,996,270)
Accounts receivable securities sold	(65,020,543)
Manager fees payable	(2,498,125)
Accounts payable securities purchased	301,053,151
Investments per *Statements of Plan Net Assets*	$ 4,881,498,067