INVESTING FOR FLORIDA'S FUTURE

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STATE BOARD OF ADMINISTRATION

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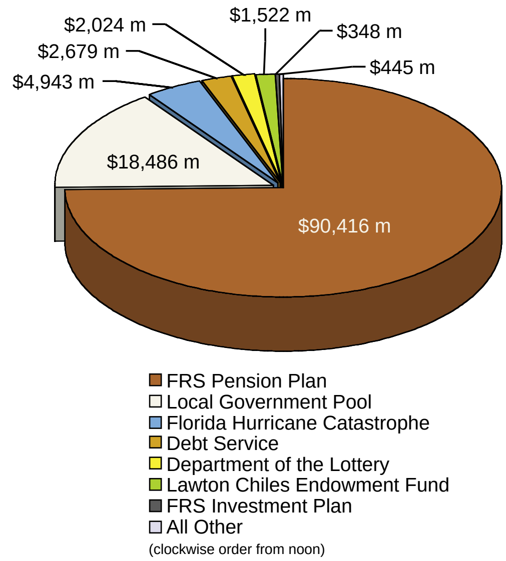
SBA FLORIDA

INTEGRITY

2002 – 2003 INVESTMENT REPORT

Contents

Chart 1
SBA Assets Under Management
June 30, 2003



Letter from the Trustees

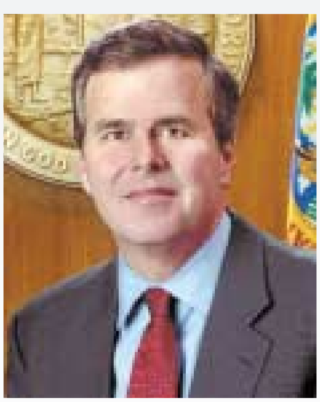
December 31, 2003

TO THE HONORABLE MEMBERS OF THE FLORIDA SENATE AND HOUSE OF REPRESENTATIVES:

It is our privilege to submit the annual Investment Report of the State Board of Administration of Florida (SBA) for the fiscal year ending June 30, 2003. In managing 25 funds with a total net asset value of more than $120 billion at the end of the fiscal year, the SBA provided investment and trust management services with the highest level of integrity, objectivity and professionalism. This public report provides an accurate and transparent disclosure of the SBA's investment performance.

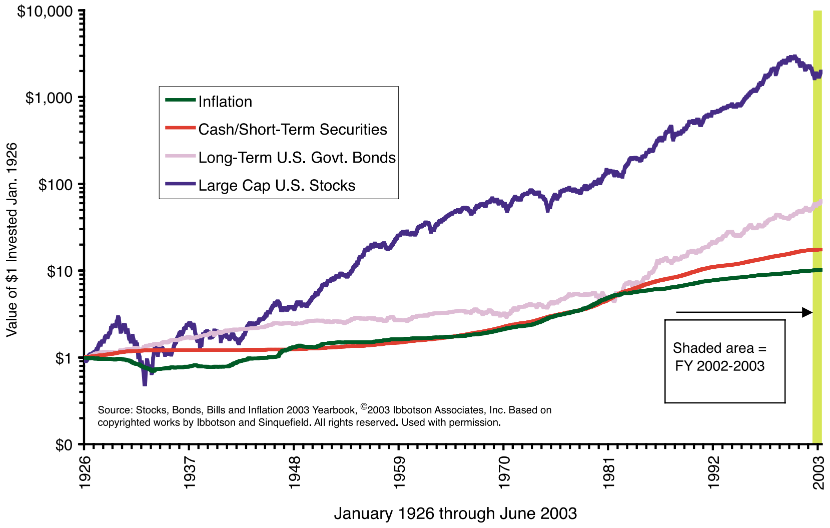
As Trustees, we have a fiduciary responsibility and commitment to provide superior investment and trust services through prudent financial management and administration of assets while adhering to the highest fiduciary and professional standards. As fiduciaries, we act solely in the interest of the participants and beneficiaries of the Florida Retirement System Pension Trust Fund. Throughout the year, we were guided by our shared commitment to protect Florida's investments - and their future value - for the benefit of public employees, retirees and the taxpayers. The SBA fulfilled that commitment by focusing on prudent risk management, ethical investing practices and investment strategies that focused on maximizing long-term returns, subject to risk considerations. To this end, political and social agendas are not a factor in the investment decision-making process.

As part of that commitment, the SBA's Investment Protection Principles subject broker-dealers and investment management firms retained by the SBA to high standards of ethics, disclosure, and accountability. The SBA also



Throughout the year, the SBA and the Trustees were guided by our shared commitment to protect Florida's investments…

Chart 2
Long-Term Performance of Major Asset Types



Mission Statement

The SBA is committed to providing superior investment and trust services through prudent financial management and administration of assets while adhering to high ethical, fiduciary and professional standards.

played a growing role in the areas of corporate governance and shareholder activism to support reforms and proposals that will help protect Florida's investments from potentially fraudulent and unethical business practices.

Internally, the SBA and the Trustees took a series of steps to enhance oversight, auditing and the management of SBA investments and operations. More specifically, Inspector General/Compliance Officer, Chief Investment Officer, Chief Operating Officer, and Chief of Internal Audit positions were created. In addition, an Audit Committee was created to assist the Trustees in fulfilling oversight responsibilities in the areas of financial reporting, internal controls and risk assessment, audit processes, and compliance. The Chief of Internal Audit reports directly to the Audit Committee that is appointed by the Trustees.

For the fiscal year, the SBA delivered solid investment performance with a 3.6% increase in the net asset value of investments under management, despite the slower-than-expected recovery of the U.S. economy. We are pleased to report that the Florida Retirement System Pension Plan maintained an actuarial surplus of $12.7 billion at the end of the fiscal year, despite payouts of more than $2.9 billion to retirees and net transfers to the FRS Investment Plan of $301 million.

In closing, we would like to point out that the structure of the State Board of Administration changed in a seamless transition in fiscal year 2002-03. As a result of voter-approved Cabinet changes, the Florida Legislature restructured the SBA Board of Trustees to include the following elected officials: the Governor, the state's Chief Financial Officer (which consolidated the Cabinet positions of comptroller and treasurer) and the state Attorney General, who fills the Trustee position formerly held by the comptroller.

As the Trustees of the SBA, we hope you will take the opportunity to review this public document and share with us any questions you may have. Thank you for taking an interest in the SBA and its commitment to the principles of trust, integrity, and performance.

Respectfully submitted,

Governor,
as Chairman

JEB BUSH

State Chief Financial Officer,
as Treasurer

TOM GALLAGHER

State Attorney General,
as Secretary

CHARLIE CRIST

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Executive Director's Report

Fiscal Year 2002-2003

"Delivering results you can trust, and doing it with the highest ethics and integrity…" These words best describe the State Board of Administration of Florida (SBA) and our overall performance in this fiscal year.

We achieved two major goals in meeting our fiduciary obligation to the participants and beneficiaries of the Florida Retirement System (FRS).

- We enhanced the SBA's ability to protect the future of the FRS investments through initiatives that improved investment oversight, internal controls, independent auditing and investment operations. Proactive corporate governance initiatives also made investment managers and broker-dealers more accountable and transparent when doing business with the SBA.

- During a time of change, an anemic economy and the end of a 30-month bear market, we delivered a solid investment performance that reflects a commitment to prudent risk management. A new total fund risk budget policy exemplifies a focus on maximizing long-term investment returns, subject to risk considerations.

For the fiscal year, the net asset value of total funds under SBA management increased 3.6% to $120.9 billion from $116.7 billion in the previous year. This was solid performance for a year in which the recovery of the U.S. economy was slower than many had expected. Sluggish economic growth, coupled with the war in Iraq and continued fallout from financial improprieties at some major corporations, made it another tough year for equity markets and investments. Our total fund performance ranks in the top quartile nationally over the past 10 years.

Overall, 25 funds were under SBA management, including:

- The Florida Retirement System Trust Fund, comprising 75% of all assets under SBA management, which holds FRS Pension Plan assets;
- The PEORP Trust Fund, which holds assets of the new FRS Investment Plan;
- The Florida Hurricane Catastrophe Trust Fund;
- The Lawton Chiles Endowment Fund;
- The Local Government Surplus Funds Trust Fund;
- Debt service accounts for state bonds; and
- Approximately 20 other smaller trust funds.

Later in this report, you will find detailed information and disclosures on the investment performance and objectives of each fund under SBA management. Here are some highlights of the two retirement funds that help Florida public employees secure their financial future.

FRS Pension Plan

The FRS Public Pension Plan, the fourth-largest public pension fund in the nation, had a net asset value of $90.4 billion, compared with $89.5 billion at the end of the prior year. The investment return for the FRS Pension Plan was 2.84%, a solid performance despite the anemic economic recovery from recession. The gain was a significant turnaround from the previous two consecutive down years (-8.07% fiscal year 2001-02, and -7.58% fiscal year 2000-01.) This year's positive performance reversed a two-year decline that had mirrored the downturn in stock markets.

"Delivering results you can trust, and doing it with the highest ethics and integrity…"

The total fund benchmark return was 3.5 percent. During the year, the FRS Pension Fund assets were invested primarily in domestic stocks (54%) and fixed income (25%) asset classes, with the remainder allocated to real estate, international equities, alternative investments and cash.

I am pleased to report that during the fiscal year, the FRS Pension Plan made total benefit payments of $2.97 billion to Florida's retired public employees, partially offset by employer pension plan contributions of $1.4 billion. Total assets in the FRS Pension Plan increased despite the cash outflow for pension payments due to the solid return on investments. The Pension Plan finished the fiscal year with an actuarial surplus of $12.7 billion.

Effectively managing the funded status of the Florida Retirement System is important to Florida's future, which is why managing risk is a vital part of the investment process at the SBA. In the case of the FRS Pension Plan, our No. 1 goal is to ensure that the state's retirement system has sufficient funds to cover the payment of benefits that retirees are entitled to receive.

FRS Investment Plan

The fiscal year ending June 30, 2003 was the first year for the FRS Investment Plan, also known as the defined contribution plan. This voluntary program, approved by the Florida Legislature in 2000 and modeled after 401(k) plans in the private sector, gives eligible employees the option of playing an active role by selecting from a wide offering of investments for their retirement planning purposes. By the end of the fiscal year, approximately four percent of all eligible public employees enrolled in the FRS Investment Plan by transferring funds from their FRS Pension Plan.

Chart 3
FRS Pension Plan Investment Returns
Compound Average Annual Return Over Period Indicated

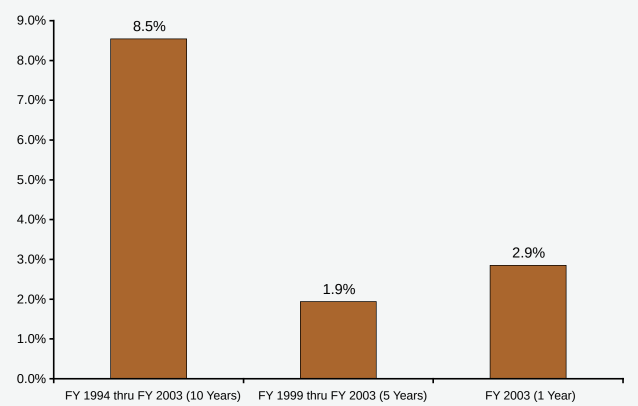
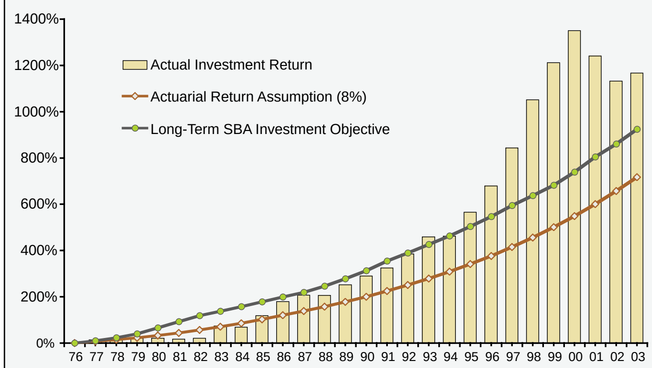


Chart 4
FRS Pension Plan Cumulative Net Returns*
Fiscal Years 1976–2003

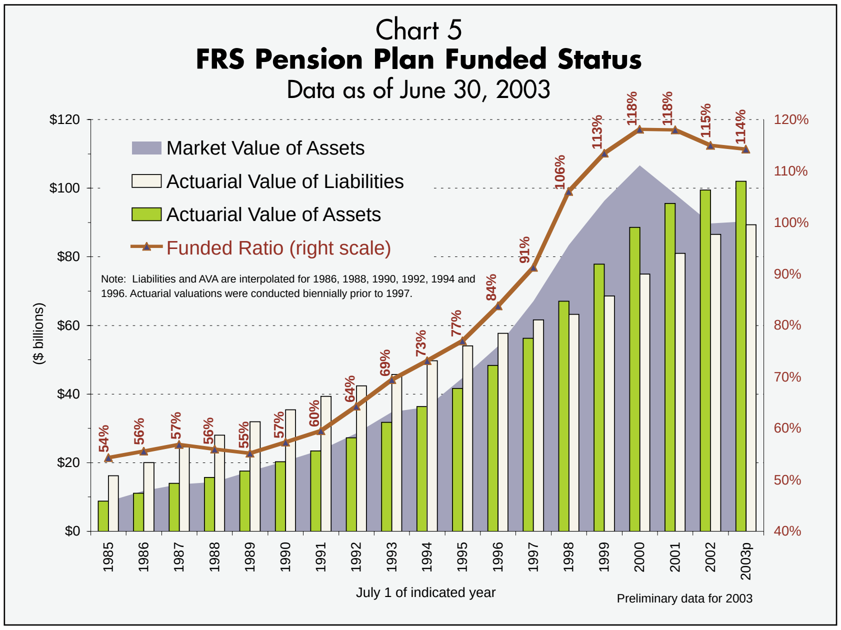


*Returns are net of investment manager fees for periods after December 1984.

By the end of its first fiscal year, the net asset value of the FRS Investment Plan was $333 million, compared with an initial deposit of $278 million in monies transferred by its members from the FRS Pension Plan. Transfers into the FRS Investment Plan began July 31, 2002. The balance of the change in plan assets resulted from payroll contributions and financial market gains. Monthly payroll contributions hit a peak of $8.1 million in the June 2003 payroll.

I want to emphasize two important facts about the FRS Pension Plan and the optional FRS Investment Plan, which are both funded by employer contributions. First and foremost, the FRS Investment Plan, a more flexible retirement planning option, did not replace the FRS Pension Plan, which continues to provide fixed benefits at retirement that are funded by employer contributions and are based on years of service, pay and age. Second, the SBA offers every eligible public employee objective financial guidance and retirement planning information through the MyFRS Financial Guidance Program, a model educational program that serves more than 625,000 employees. I encourage you to visit the program's Web site at www.MyFRS.com. FRS members may also get more information by calling toll-free 1-866-446-9377.

In managing both plans, the SBA is protecting the future of Florida's public employees and helping them make informed choices about their retirement planning options.



ethics officer and broadly overseeing matters related to policy compliance. The Inspector General will monitor compliance with the Investment Protection Principles (IPPs) the SBA adopted in fiscal year 2001-02 to aid in protecting Florida's investments from potential conflicts of interest and unethical actions by broker-dealers and money managers that provide services to the SBA. The IPPs were implemented and compliance procedures put in place this year.

Ethics, Integrity and Performance

Nothing is more important than performing our fiduciary duties with the highest ethics and integrity, and in compliance with federal and state laws. The SBA is doing more than reaffirming our commitment to this principle - we are taking action to ensure that our organization is transparent and trusted, and that our investments are managed cost-effectively. The following highlights organizational and management changes.

- An Office of Internal Audit was created to provide independent, objective assurance and consulting services designed to add value and improve the SBA's operations. This includes evaluating the accuracy of accounting and reporting of financial transactions. The Chief of Internal Audit reports directly to an Audit Committee appointed by the Trustees.

- An Inspector General/Compliance Officer position was created with responsibility for handling internal investigations, serving as the organization's ethics officer and broadly overseeing matters related to policy compliance.

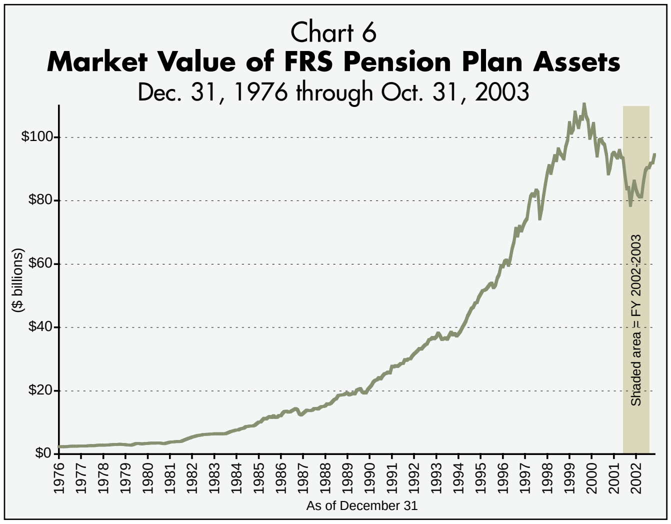
- A Chief Investment Officer position was created to enhance the supervision and oversight of all investment strategies and functions, including investment manager selection and monitoring. Manager Monitoring Guidelines were adopted in 2002. These guidelines formalize the quantitative and qualitative standards for investment managers. Failure to meet these standards results in greater scrutiny and may result in termination. Additional information regarding manager monitoring is contained on page 9.

- A Chief Operating Officer position was created to enhance the efficiency and management of our operations, including Human Resource Management, Accounting/Financial Operations, Strategic Planning, Policy, Budget and Administrative Services. Maintaining a cost-effective operation is an integral part of our overall fiduciary obligation.

These important changes demonstrate our commitment to delivering results you can trust, and doing it with the highest ethics and integrity solely in the interest of the participants and beneficiaries of the Florida Retirement System.

Nothing is more important than performing our fiduciary duties with the highest ethics and integrity, and in compliance with federal and state laws.

Our focus on performance and integrity was the driving force behind our corporate governance activities in fiscal year 2002–2003.



Corporate Governance

Our focus on performance and integrity was the driving force behind our corporate governance activities in fiscal year 2002-03. We supported the U.S. Securities and Exchange Commission's continuing implementation of the Sarbanes-Oxley Act of 2002 and many other related reforms. We developed a new set of guidelines to cover governance issues specifically related to mutual fund holdings within the FRS Investment Plan. One of our goals was to actively support reforms that would increase corporate accountability and deter fraud and unethical business practices. We also supported shareholder initiatives by executing votes on over 2,700 shareholder proxies that we believed were in the best interests of the beneficiaries of the funds under SBA management - the public employees, retirees and taxpayers of Florida. We studied each specific proxy proposal carefully before casting our vote as a shareholder.

As a charter member, the SBA continued to participate in the Council of Institutional Investors (CII), which coordinates corporate governance activities on behalf of more than 130 public, corporate and union pension plans, representing more than $3 trillion in pension assets. I currently serve on the CII Board of Directors and the New York Stock Exchange Pension Managers Advisory Committee. As well, we are working closely with a recently created joint committee between the National Association of Corporate Directors (NACD) and CII on corporate disclosure and director nomination reforms.

Securities Litigation

Viewing our interests in securities litigation matters as assets of the Florida Retirement System, the SBA adopted a Securities Litigation Policy that sets forth criteria that will be used in the evaluation of whether to file a securities-related legal claim that is the subject of a class action. The recent string of corporate scandals compels large institutional investors such as the SBA to lead class action suits against corporations involved in fraudulent activity, as well as against the accounting and investment banking firms that may have aided and abetted the companies in the fraud. Providing a leadership role in this type of litigation will not only guarantee the greatest monetary return to shareholders, but will also provide corporate governance reforms that will reduce or eliminate wrongdoing in the future. Our adoption of this policy will assist the SBA in maintaining a consistent and coherent position on when pursuit of a leadership role in these matters is warranted.

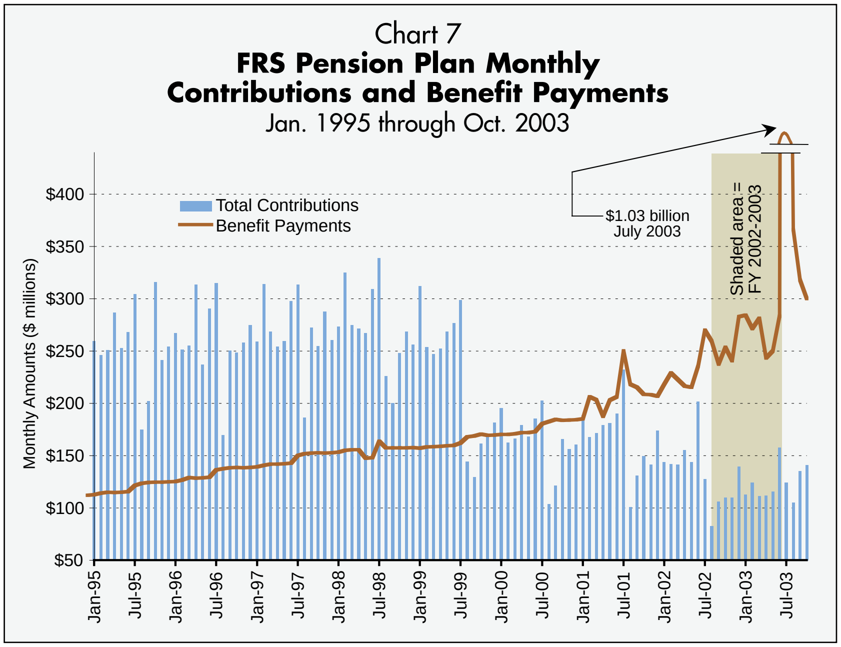


Chart 7
FRS Pension Plan Monthly Contributions and Benefit Payments
Jan. 1995 through Oct. 2003

Strategies to diversify the private market asset classes were developed and implemented which will reduce overall volatility and enhance investment returns.

Strategies to enhance our asset allocation rebalancing process were considered during the year, and shortly after the close of the reporting period, we began effectuating our disciplined asset allocation strategy through three indexed investment portfolios (domestic equities, international equities and fixed income) managed by an external provider. The revised procedures represent a more efficient way to execute the transactions, minimize transaction costs and misfit risk within the multi-manager asset class structures, and appropriately assign costs and incremental return specific to the asset allocation strategy.

Other Major Accomplishments

Following completion of an asset allocation/liability study, the Trustees approved a revised FRS Investment Policy. The pension fund's long-term investment objective and asset class targets were revised to better meet future FRS retirement liabilities. A global asset class was also added, bringing the total of asset classes to seven across the investment risk-reward spectrum.

The Lawton Chiles Endowment Fund Investment Policy was also revised and approved by the Trustees. The revised policy will better preserve capital while providing funds for future appropriations.

… the SBA delivered solid investment results for the fiscal year, guided by our commitment to ethics and integrity…

Finally, a Personal Investment Activity Policy was adopted to enhance the existing body of policies. This policy focuses primarily on the fiduciary duty of loyalty and provides more specific guidance to employees regarding personal investment transactions. The policy is designed to eliminate conflicts of interest by ensuring that employees do not personally benefit from transactions at the expense of the FRS Pension Fund. Compliance procedures and filing requirements were initiated shortly after the close of this reporting period.

Overall, the SBA continues to deliver solid long-term investment results, guided by our commitment to ethics, integrity and the highest investment fiduciary standards. I want to thank our dedicated employees for making the SBA one of the best investment boards in the country.

Coleman Stipanovich
Executive Director

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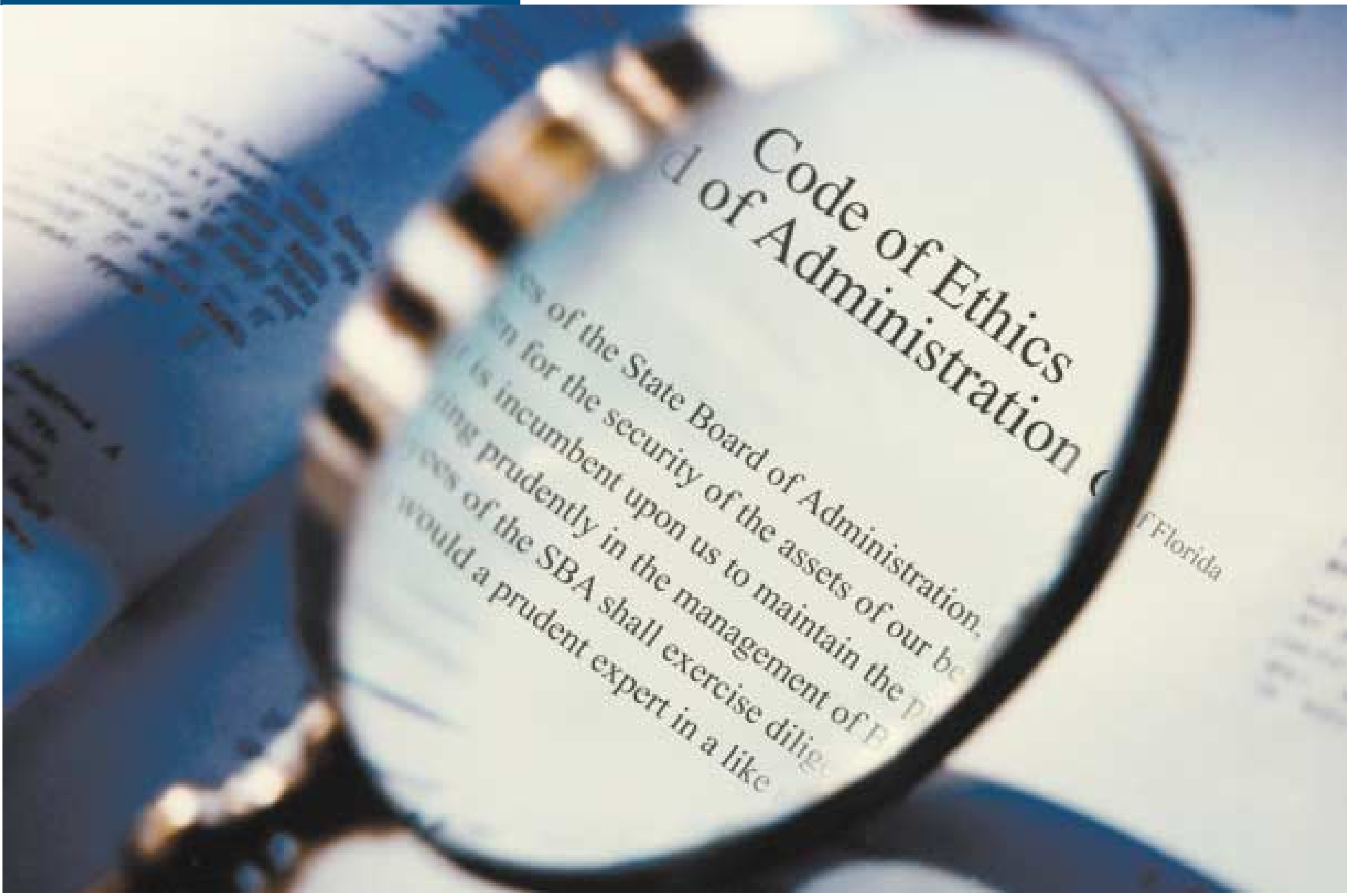
Ensuring Integrity, Managing Our Investments Professionally



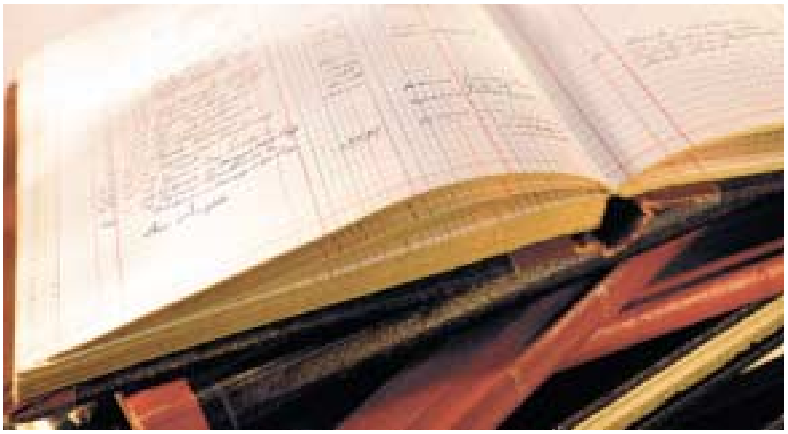
At the SBA, integrity is the foundation of our mission as Florida's long-term investment and money management organization and as the stewards of public pension funds and other trust funds. The SBA has enhanced its internal structure and adopted stringent policies and procedures that are designed to maintain high standards of ethics and compliance.

Here are some of the important safeguards and management changes we made to enhance our performance and deliver investment results that Florida's public employees, retirees and taxpayers can trust.

Office of Internal Audit

The SBA created the Office of Internal Audit in June 2002 and hired our first Chief of Internal Audit to provide independent, objective assurance and consulting services. The Office of Internal Audit helps the SBA by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Its objectives include evaluating the accuracy of accounting and reporting of financial transactions, level of compliance and alleged financial misconduct.

The SBA has enhanced its internal structure and adopted stringent policies and procedures that are designed to maintain high standards of ethics and compliance.



The Office of Internal Audit is also responsible for developing an annual audit plan and performing independent analyses. The Chief of Internal Audit reports functionally to the Audit Committee and administratively to the Executive Director. The Chief of Internal Audit is Flerida Rivera-Alsing, a Certified Public Accountant and a veteran of the banking and accounting industries who joined the SBA in January 2003.

Audit Committee

The Audit Committee was formed to assist the SBA Board of Trustees in fulfilling its oversight responsibilities in the areas of financial reporting, internal controls and risk assessment, audit processes, and compliance. The Trustees appoint the Audit Committee, whose primary duties and responsibilities are to:

- Serve as an independent and objective party to monitor SBA's processes for financial reporting, internal controls and risk assessment, and compliance; and

- Review and appraise the audit efforts of SBA's independent auditors and Office of Internal Audit.

The three members of the Audit Committee are James Thomas, Jr., David Harlan, Jr. and Melinda Miguel. All members of the committee are independent of the SBA. The first Audit Committee meeting was held on November 18, 2003. The Audit Committee plans to hold regular quarterly meetings.

Inspector General

In 2002, the SBA added the position of Inspector General, whose primary responsibilities include handling internal investigations, serving as the organization's ethics officer and broadly overseeing matters related to policy compliance. As the ethics officer, one of the Inspector General's responsibilities is to ensure that SBA employees comply with financial disclosure requirements and with our Personal Investment Activity Policy.

The Inspector General is also responsible for ensuring compliance with the Investment Protection Principles that the SBA adopted in fiscal year 2001-02 to protect Florida's investments from potential abuses, conflicts of interest and unethical actions by broker-dealers and money managers that provide services to the SBA. The SBA requires broker-dealers and money managers to certify their compliance with our Investment Protection Principles. The 2003 compliance certifications must be filed with the SBA by April 15, 2004.

The Inspector General also investigates allegations of fraud, waste, mismanagement, misconduct, malfeasance and other abuses.

Bruce Meeks is the Inspector General. Prior to joining the SBA in November 2002, Meeks, a lawyer, served as Executive Deputy Attorney General in the Office of the Attorney General of Florida. He is a member of the National Association of Inspectors General.

Chief Investment Officer

During the year, the SBA created the position of Chief Investment Officer to enhance the supervision and oversight of all investment strategies and functions.

This position supervises the Senior Investment Officers of each Asset Class and is also responsible for corporate governance activities of the SBA, investment-related client service functions and the development of legislative initiatives relating to investment authority. Particularly important duties of the Chief Investment Officer include overseeing the investment manager search process and ensuring that the search process and selection is objective and based on approved SBA criteria. The SBA implemented Manager Monitoring Guidelines in April 2002, which are incorporated into each manager's contract. These Guidelines formalize and enhance manager oversight procedures that were previously in place. Investment managers that fall short of the criteria are placed on a "Watchlist" and may be terminated if their performance fails to improve or organizational issues are not resolved.

To protect the value of Florida's investments, the SBA monitors and evaluates the performance of the investment managers that provide services to the SBA.

Barbara Jarriel is the Chief Investment Officer. Prior to assuming the position in August 2002, she held a number of other positions with the SBA, including Chief of Fixed Income for 10 years. Jarriel is a Chartered Financial Analyst and a Certified Public Accountant.

Investment Manager Monitoring

Manager monitoring has always been a critical ongoing activity within the asset classes at the SBA through the evaluation of monthly and quarterly reports, by regular annual manager reviews and through special reviews that are event driven. The formal Manager Monitoring Guidelines, which are now incorporated into each Investment Management Agreement, were adopted to further enhance our evaluation of managers (via peer group comparisons) and to establish official manager watchlists each quarter.

Manager performance is evaluated relative to the contractual benchmark as well as to an appropriate peer group utilizing return data and a variety of risk statistics. The primary performance criteria which results in a manager being watchlisted include:

1. Underperforming the contractual benchmark net of fees over trailing three- or five-year periods.
2. Performance at the 50th percentile or lower over either of the same time periods relative to the appropriate peer group.
3. The manager's risk-adjusted excess return ratio is at the 50th percentile or lower over either relevant time period.

Additionally, organizational factors which result in greater scrutiny and may result in a manager being watchlisted (irrespective of historical performance) include, but are not limited to:

1. A deviation from the manager's stated investment style and philosophy.
2. Turnover of key personnel.
3. Changes in ownership or significant revisions to the business plan.
4. Manager involvement in material litigation or fraud.
5. Significant changes in the number/types of client accounts and related servicing issues.

The manager monitoring process and watchlist procedures establish the framework for a formal review process which may lead to termination of the manager. Placing a manager on the watchlist represents an intermediate step towards resolving a problem, and as a general rule improvement or resolution is expected over a one-year period. However, significant deterioration of performance or additional extraordinary events may result in a recommendation to terminate earlier. We believe that the formal guidelines and watchlist process assists us in the exercise of our fiduciary duty to carefully monitor our contractual managers and serves as a communication tool for Trustees, managers and interested stakeholders.

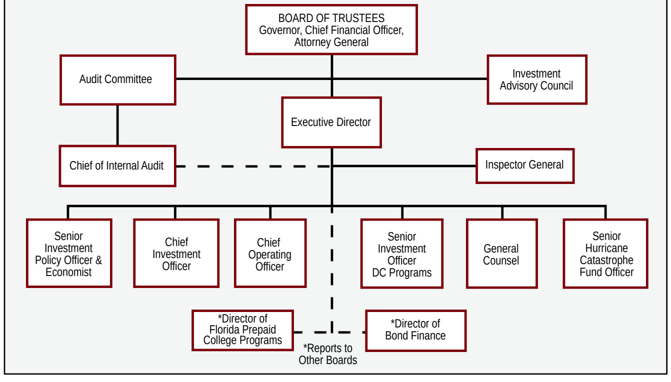
Investment Advisory Council

The Investment Advisory Council was created in 1983 to assist the SBA. The SBA Trustees appoint six council members, subject to confirmation by the Florida Senate.

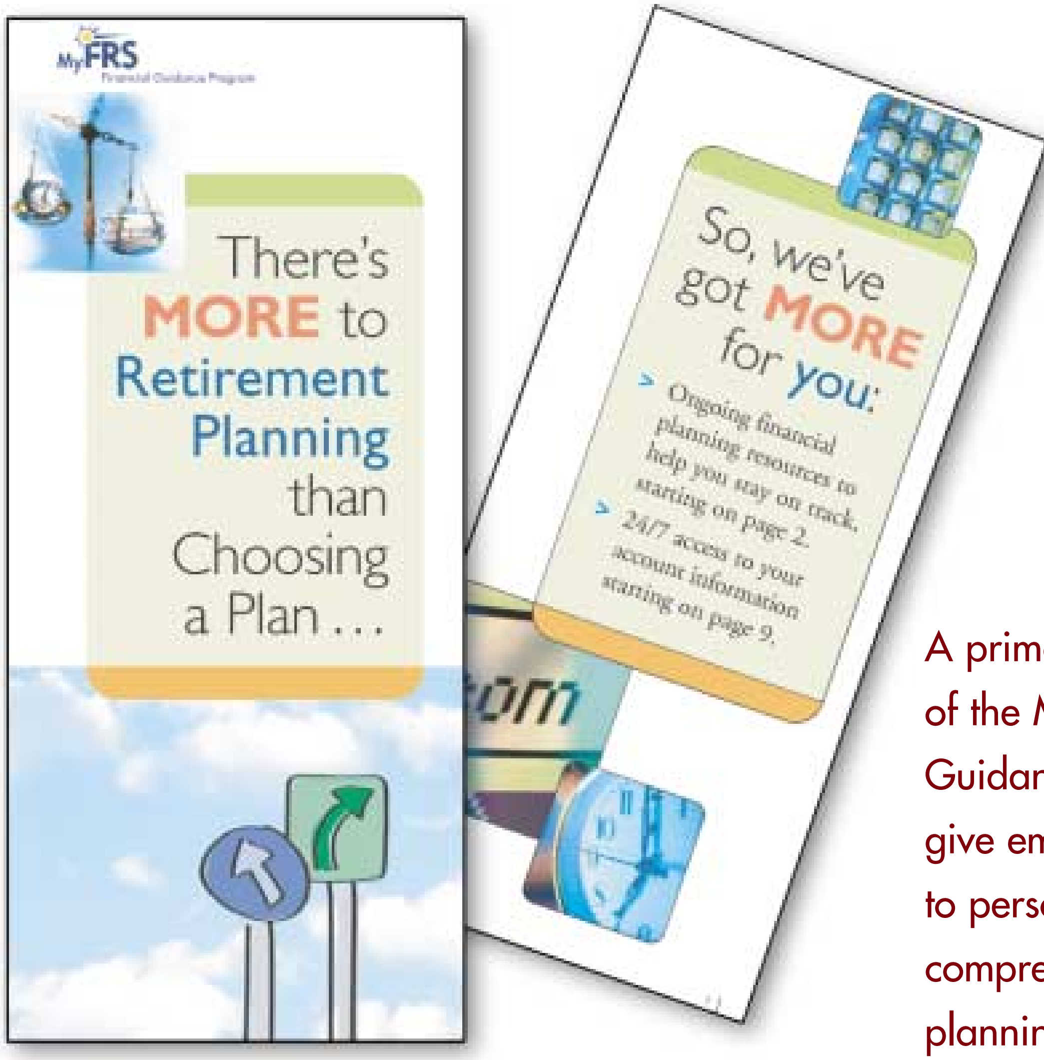
The Council's role is to review investments and make recommendations regarding investment policy, strategy and procedures. Its members serve four-year terms and are expected to possess knowledge, experience and familiarity with financial investments and portfolio management. The current members of the Investment Advisory Council are: Donald W. Burton, James Dahl, John Jaeb, Beth A. McCague, Dr. Donald Nast and Gary W. Wood. Dr. Nast is the chairman.

Regular meetings of the Investment Advisory Council are held quarterly in Tallahassee, Florida and are open to the public.

Chart 8
SBA Organizational Chart



An Expanded Mission for the SBA



A primary objective of the MyFRS Financial Guidance Program is to give employees access to personalized and comprehensive retirement planning services.

Managing investments is only part of the SBA's expanding mission. In 2002, we began offering retirement planning services and self-directed retirement plan options to help members of the Florida Retirement System prepare for the future.

The SBA launched the MyFRS Financial Guidance Program, a landmark program that gives <u>all</u> FRS members access to comprehensive retirement planning services. FRS members can find a wealth of information by visiting the program's Web site (www.MyFRS.com) or by calling a toll-free phone number (1-866-446-9377). Personalized online services, workshops led by experienced financial planners, and confidential one-on-one counseling by telephone are all provided at no charge.

The goal of the MyFRS Financial Guidance Program is to provide objective information that can help FRS members make informed retirement planning choices that meet their individual preferences and needs. For the first time, in fiscal year 2002-03, individual members could elect to remain in the FRS Pension Plan, which offers fixed benefits at retirement, or they could choose to transfer some or all of their FRS Pension Plan assets to the new FRS Investment Plan, a defined contribution plan that enables members to select from a wide range of investment options.

To ensure objectivity, the MyFRS Financial Guidance Program is delivered by experienced "best of class" financial education companies that don't sell investment products or insurance to FRS members.

The education companies are also subject to the highest standards of care in helping FRS members and protecting their confidential information. FRS members access and receive information through these four channels:

1. Print and Video: Employees have access to personalized statements, a 15-minute New Hire video and customized material on FRS plan choice, retirement planning and investing for retirement.

2. MyFRS.com: This award-winning web portal is the official FRS education Web site. It provides FRS plan choice information and personalized retirement planning applications, including Financial Engines' *Choice Service* and the *Personal Online Advisor Service*. Members can enroll and manage their FRS Pension Plan or FRS Investment Plan benefits within the portal's secure single-sign-on architecture.

3. Toll-free MyFRS Financial Guidance Line: Employees can confidentially discuss their FRS options and retirement planning issues with experienced and objective financial planners from Ernst & Young. Florida Division of Retirement counselors are also available. Planners have desktop access to the same personalized tools found on MyFRS.com to answer questions or run the tools for members.

4. Workshops: Ernst & Young conducts FRS Retirement Plan Choice workshops and retirement and financial planning workshops throughout Florida.

MyFRS FINANCIAL GUIDANCE PROGRAM RESOURCE USE
February 2002- June 2003

Personalized Statements and Home Kits	671,239
Workshop Attendance	60,731
Toll-Free Guidance Line	
Counseling Calls	131,375
MyFRS.com Visits	1,141,649
Financial Engines' Sessions	217,431

Note: MyFRS.com data begins June 2002.

SBA Conducts Largest U.S. Retirement Plan Choice Program

During a nine-month period ending in February 2003, more than 625,000 public employees in Florida were asked, for the first time, to make a choice about their retirement plan. After receiving extensive information through the SBA, each employee could choose to remain in the FRS Pension Plan, or enroll in either the FRS Investment Plan or the FRS Hybrid Plan, which permits employees to participate in both.

About 96% chose to remain in the FRS Pension Plan, with the remainder concentrated in the FRS Investment Plan. CitiStreet, the SBA's private sector partner, processes retirement plan enrollments in coordination with the Florida Division of Retirement. If employees did not file an active enrollment, under Florida law they were defaulted to the FRS Pension Plan. In total, CitiStreet processed nearly 200,000 active enrollments. About one-half of enrollments were on the phone or through MyFRS.com. Other active enrollments were filed on paper.

Looking forward, each year, more than 70,000 newly-hired employees will also have the opportunity to choose their retirement plan. All FRS members and new hires retain a "Second Election" that allows them one additional opportunity to switch retirement plans, should they desire to do so.

The SBA's Role as an Investment Fiduciary

A Strict Standard of Accountability

By law, the SBA is an investment fiduciary for the many investment mandates, or funds, assigned to us. In fulfilling our legal obligation to manage, invest and safeguard these funds, we maintain the highest standards of ethics, accountability and compliance. The SBA also sets investment objectives that aim to maximize returns while managing risk.

The SBA is obliged to do the following:

- We must make sound investment management decisions that are *solely* in the interest of pension plan participants and their beneficiaries.
- Our investment decisions must be made from the perspective of subject-matter experts acting under the highest standards of professionalism and care, not merely as well-intentioned persons acting in good faith.
- We are prohibited from pursuing social or political agendas in our investment decision-making.

The SBA invests assets and discharges its duties in accordance with Florida law and in compliance with fiduciary standards of care. Investment activities are governed by Florida law, an investment policy

We are prohibited from pursuing social or political agendas in our investment decision-making.

statement approved by the Trustees, and the Guidelines for each portfolio.

The Investment Advisory Council provides independent oversight of the Florida Retirement System Trust Fund, which is managed on a day-to-day basis by the SBA's Executive Director.

The Investment Advisory Council met regularly in fiscal year 2002-03 to review and study general portfolio objectives, policies, strategies and economic conditions. The Council met four additional times to consider special matters related to the FRS Investment Plan and changes to the FRS Pension Plan and Lawton Chiles Endowment Fund investment policy statements.

The SBA Trustees appoint the six-member Council for four-year terms pursuant to Section 215.444(2), Florida Statutes. During fiscal year 2002-03, the following current members served on the Council: Donald W. Burton, James Dahl, John Jaeb, Beth A. McCague, Dr. Donald Nast and Gary W. Wood. Former IAC members Gil Hernandez, Russell Bjorkman and Randi Grant also served during fiscal year 2002-03.

Another essential oversight mechanism is the Audit Committee, which assists the Board of Trustees in fulfilling its oversight responsibility in the areas of financial reporting, internal controls and risk assessment, audit processes and compliance. Current information on committee membership, scheduled meetings and meeting materials can be found at www.sbafla.com.

Investment Objectives

Investment objectives are established for each mandate entrusted to the Board, and typically seek to maximize long-term returns, subject to risk considerations. The objectives authorize utilization of a broad range of investment vehicles, including synthetic and derivative instruments.

For example, the investment goal for the Florida Retirement System Pension Plan assets is to achieve a long-term real annualized return of 4% over the rate of inflation. Because FRS Pension Plan liabilities are driven in significant part by inflation, a long-term *real* return target affords a more realistic assessment of how well our investment performance tracks overall growth in liabilities. This target is judged to be superior to a flat rate actuarial target.

Individual portfolios have disciplined investment strategies measured against specific performance benchmarks. Each portfolio is designed to contribute positively to total fund returns on a long-term basis.

Risk Management

Managing risk is a vital part of the investment process. While there are many dimensions and types of risks that must be considered, they all ultimately bear on the fundamental purpose for which the mandate was established. In the case of the FRS Pension Plan, the purpose is to ensure that the FRS has adequate funds to cover payment of retirement benefits over the life of the plan.

Managing risk is a vital part of the investment process.

From the perspective of risk, the SBA has specific reasons to prefer stocks as the principal return generator in its investment mandates with long-term return objectives, such as the FRS Pension Plan. To reduce long-term shortfall risk, the SBA typically invests in assets with higher expected returns, namely stocks. For mandates with shorter-term investment horizons, the SBA typically invests in other asset types to meet the specified objectives and reduce volatility.

SBA portfolios are diversified within asset classes by maturity, liquidity, industry, country, company, and size, among other considerations.

Asset Classes

The securities in an investment portfolio are grouped into asset classes. More than 90% of the cumulative long-term wealth of a diversified investment portfolio is determined by the mix of the classes of invested assets (i.e., by asset allocation), with the remainder coming from individual security selection within the asset classes.

Most assets under SBA management have a target asset allocation that is established in an investment policy statement approved by the Trustees. That allocation is designed, using return and volatility assumptions deemed most appropriate, to satisfy the investment objective with a minimal level of risk. If each asset class performs according to expectation, and each asset class share of the total fund adheres to the target asset allocation, then the investment goal will be realized.

Asset classes represent groups of individual securities that have common economic and legal characteristics. SBA investments within the FRS Pension Plan fall into the following six asset classes:[1]

1. Domestic Equities (U.S. stocks)
2. International Equities (non-U.S. stocks)
3. Fixed Income (Bonds)
4. Real Estate (including direct-owned properties and REITS)
5. Alternative Investments (leveraged buyouts and venture capital)
6. Cash and Cash Equivalents (short-term instruments)

International and domestic stocks have higher expected returns and larger price volatility than other traditional asset classes. Stocks are shares of ownership in businesses and, as such, they represent a claim on its profits. Stocks have historically yielded a higher return than other assets, but the uncertainty of return poses some risk.

Domestic Equities

History demonstrates that domestic stocks are an effective way of participating in economic growth over time. For more than two centuries, domestic stocks have provided a real return approximately 3% per year over the real growth rate of the U.S. economy and 6% over inflation.

Based on historic economic trends, the SBA continues to be confident about our strategy of achieving robust long-term expected returns by investing in equities. Stocks are sensitive to the same economic factors as pension plan liabilities, meaning they are likely to move in tandem over time.

[1] In June 2003, an initial allocation was made to a new Global Equities asset class that will be a blend of U.S. and international stocks.

…stocks have proven over the long run
to provide the richest asset growth.

Of course, the downside for stocks is their potential for short-term volatility. Over the past 30 years, the standard deviation of stock returns was about 20%. With an expected (long-term) annual real return of 6% per year, there is a 35% chance of stocks returning zero or less in any given year.

International Equities

International stocks share many of the institutional characteristics of domestic stocks. Recent academic studies examining long-term non-U.S. stock returns have found them to deliver a slightly lower return than domestic stocks, while exhibiting somewhat higher volatility.

The pattern of return for international equities is somewhat different from domestic stocks, however, adding a diversification effect to the total portfolio.

Fixed Income

Fixed income securities are contractual obligations that may be used to lock in a nominal return for an extended period, if held to maturity, but the real return is uncertain. Historically, real returns have been in the 2% to 4% range, but they tend to rise and fall with inflation.

Bonds are generally a poor choice for long-term, unknown obligations, but they have less short-term volatility than stocks, at roughly 8%. Generally, bonds have an expected annual real return of 3%, with a 35% probability of earning zero or less in any given year.

Real Estate

Historically, institutional real estate portfolio returns have been higher than bonds but lower than stocks. We expect higher returns to real estate than bonds because of the risk attributable to ownership. However, the stability of rental income dampens volatility of real estate returns and keeps it closer to bonds than stocks.

Real estate portfolio returns appear to be correlated with inflation and tend to do well in periods of high inflation. However, real estate is less attractive than either foreign or domestic equities for two reasons: The difficulty of creating a large exposure and the uncertainty over whether real estate returns will keep pace with economic expansion and liability growth.

Alternative Investments

The Alternative Investments asset class is composed principally of private equity investments through limited partnerships and captive (exclusive) relationships. Portfolio investments are predominantly equity investments in domestic companies.

Over the long term, the SBA expects its private equity investments to surpass a risk-adjusted hurdle rate of 450 basis points over the broad United States equity market return. This premium reflects some important additional risks that these investments pose compared to public market investments, including elevated use of leverage, substantial illiquidity and relatively limited opportunities to diversify.

Cash and Cash Equivalents

From the perspective of a long-term investor, the Cash asset class poses the highest level of risk. The long-term historical return on cash has been lower than the other asset classes and, in real terms, has approximated zero for long periods.

Summary

For the SBA's long-term investment mandates, we invest heavily in assets with the potential for robust long-term returns, namely stocks. While this emphasis on stocks may create short-term volatility when equity markets are weak, stocks have proven over the long run to provide the richest asset growth. (See Chart 2 at the front of this publication for a perspective on the relative long-term performance of various asset types.)

TRUST

INTEGRITY

PERFORMANCE

Investment Climate

Economic and Market Conditions in Fiscal Year 2002–2003

A slowly recovering economy in the United States, war with Iraq and continued fallout from financial improprieties at some major corporations made it a challenging year for equity markets and investments.

A slowly recovering economy in the United States, war with Iraq and continued fallout from financial improprieties at some major corporations made it a challenging year for equity markets and investments.

The U.S. economy turned the corner in December 2001, emerging from recession, but the ensuing recovery was sluggish and sporadic. Lingering concerns about corporate finance and accounting scandals suppressed the value of equities, and wary investors exacted a hefty premium from corporate borrowers. These tight capital market conditions kept business investment below normal levels, thwarting a full-fledged recovery.

In the fall of 2002, the West Coast dock strike hurt the recovery, and market jitters mounted as investors anticipated U.S. military action against Saddam Hussein. With tensions in the Middle East already heightened by suicide bombings, pre-war concerns about Iraq caused oil prices to climb and indexes of economic activity began to erode. In October 2002, the University of Michigan's Index of Consumer Sentiment fell sharply to its lowest level in 13 months, and the Institute for Supply Management's Index of Manufacturing Activity dropped below 50 for the first time in nine months, with weakness in the non-manufacturing index as well.

Although some feared a "double-dip" recession, the Federal Reserve characterized the economy's condition as a "soft spot" and responded in November 2002 by cutting the funds rate by 50 basis points, to 1.25%, in an effort to stimulate the economy. As war with Iraq neared, the Index of Consumer Sentiment fell below 80 for the first time since the early 1990s. In March 2003, the month the war started, the Index of Manufacturing Activity plunged to 46.2.

Despite setbacks in the second half of 2002 and early 2003, the U.S. economy didn't lapse back into recession, thanks primarily to three positive trends.

- U.S. consumers continued to spend enough to keep the economy from contracting.
- The residential real estate market boomed at a record pace for the second straight year and robust construction activity made a solid contribution to gross domestic product (GDP) growth.
- Consumers refinanced mortgage debt at more favorable interest rates, thereby freeing liquidity for other spending.

The positive trends weren't enough to propel a robust recovery. Real GDP growth slowed to an anemic 1.4% in the fourth quarter of 2002 and the first quarter of 2003, the economy's worst performance in back-to-back quarters since 2001. Still, measures of consumer confidence and indexes of business activity began to climb again in 2003 when it became clear that the major ground war in Iraq would end quickly with Saddam Hussein's defeat. Actions in Washington boosted investor optimism. The federal government unveiled a tax cut package that included an investor-friendly reduction in dividend taxes, and the Federal Reserve cut the funds rate to 1% in June 2003.

By mid-2003, the U.S. economy was improving, but job losses slowed the recovery. Structural global shifts in employment patterns counteracted the cyclical tendency for employment to rebound in a recovering economy. The U.S. economy shed jobs in five of the first six months of 2003, with a cumulative loss of more than 2 million jobs since the start of the 2001 recession. The job losses suppressed consumer confidence and spending, and businesses remained cautious about making investments. Some U.S. industries still faced overcapacity, exacerbated in some cases by competition from low-cost foreign producers. There was renewed concern about projected increases in the Federal budget deficit and their impact on interest rates.

Chart 9a
10 Year Returns to Public Market Asset Types

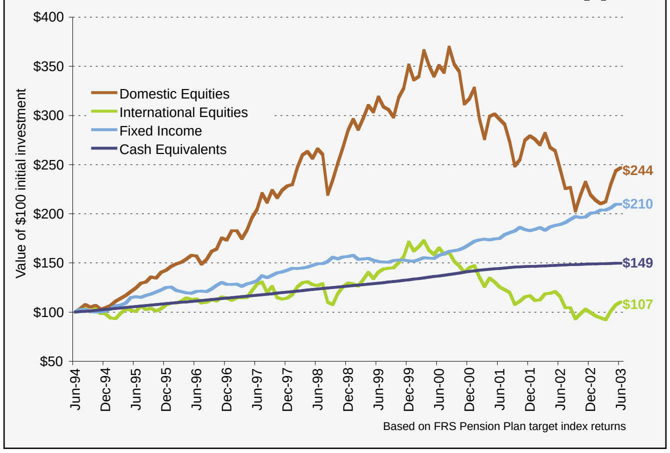


Chart 9b
5 Year Returns to Public Market Asset Types

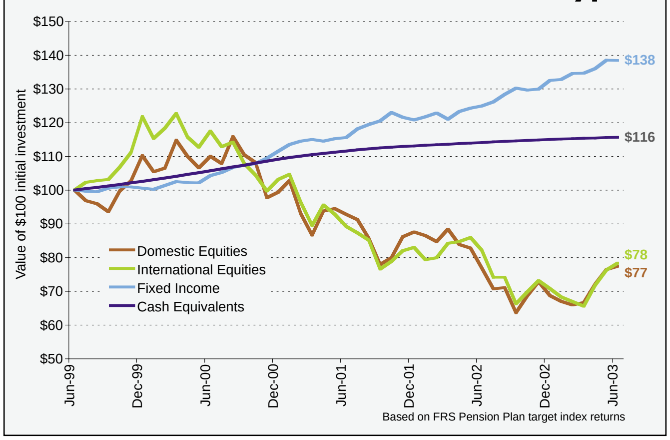
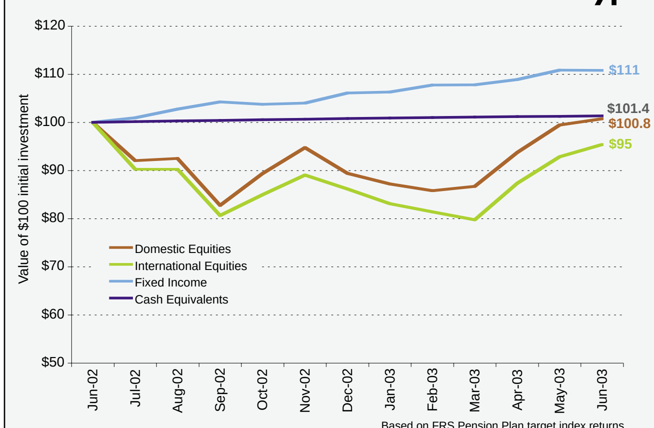


Chart 9c
12 Month Returns to Public Market Asset Types



Over the last 10 years, U.S. stocks have yielded a greater return than other alternatives, consistent with long-term expectations (chart 9a). However, over shorter periods both U.S. and international stocks have underperformed, reflecting a sharp three-year reversal in the market, which began in early 2000.

Reflecting the U.S. economy's path to recovery, domestic equity markets struggled for much of the fiscal year before rebounding in the spring of 2003...

The world economy experienced difficulties as well. Ongoing structural problems in Europe's major economies pushed Germany and France to the brink of recession, with declines in the real GDP of both countries in the second quarter of 2003. Japan benefited from a surge in exports, but its moribund financial system limited its potential to grow. With the U.S. economy expected to grow at a better pace in late 2003 and in 2004, the global economy is poised for improvement.

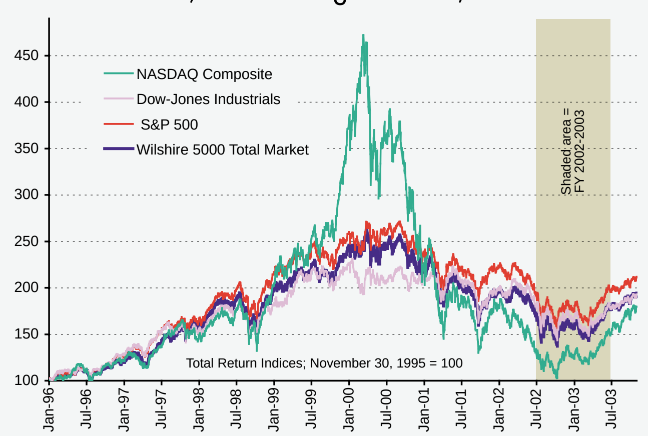
Domestic Equities Market Conditions

Reflecting the U.S. economy's path to recovery, domestic equity markets struggled for much of the fiscal year before rebounding in the spring of 2003, lifted by the military success of Operation Iraqi Freedom and the economy's improving vitality.

Widespread profit warnings and economic weakness pushed the Russell 3000 to a 17.2% decline in the third quarter of 2002. Small caps underperformed even more dramatically with the Russell 2000 off 21.4%.

By the fall of 2002, investing sentiment had become less risk averse. Technology stocks that had previously been punished for poor earnings and fundamentals benefited the most from this short-lived investor enthusiasm. In December 2002, there was a broad reassertion of positive fundamentals as a predictor of stock gains. Active Domestic Equity managers ended the first half of the fiscal year with returns 35 basis points above their collective benchmarks.

Chart 10
Major U.S. Equity Market Indices
Jan. 1, 1996 through Oct. 31, 2003



In the first three months of 2003, equity markets were dominated by geopolitical concerns and driven, in large part, by general market conditions rather than company specifics, with very little spread in performance across capitalization styles and economic sectors. The market appeared to anticipate an economic recovery in the second quarter, rewarding companies with operating leverage in anticipation of future gains. Securities with negative net profits, high price-to-cash flow ratios, a low return on capital, single-digit prices, no dividends and significant short interest were at the forefront of the market rally, led by a surge in small-cap stocks. In a market led by securities with questionable fundamentals, active managers trailed their aggregate benchmark by a modest 0.06% as the fiscal year closed.

International Equities Market Conditions

Investors in international markets were whipsawed in a year of extreme stock price movements, as sentiment swung from bearish to bullish. Concerns about the global economy, U.S. accounting scandals and escalating geopolitical tensions heightened investor uncertainty. The target index declined 4.6% in a volatile year that started with double-digit losses in the first quarter and ended with double-digit gains in the final quarter.

In the first quarter of the fiscal year, a barrage of bad news hurt the financial markets, including disappointing global economic activity, anemic corporate earnings, the accounting scandals, rising oil prices and Iraq. Markets across the developed and emerging spectrum posted negative results. Europe's economic woes included slack manufacturing, waning consumer demand and floods in the summer of 2002.

Technology and telecom stocks were sold off as high-profile companies reported disappointing earnings. Questions about the health of the global economy weighed heavily on export-dependent Japan but a laundry list of domestic issues – deflation, bank solvency, weak industrial production and flagging retail sales – also worried investors in Japan. Emerging markets in technology-heavy Asia and Latin America stumbled, hurt by global economic pessimism and political developments in Brazil, respectively.

Markets closed strongly ahead in the final three months of 2002 as improving economic numbers and stronger corporate results helped alleviate concerns about the global economy and corporate earnings. In the first three months of 2003, the markets retreated as war with Iraq loomed and the global economy faltered.

Stocks staged an impressive broad-based rally in the final quarter of the fiscal year following quick resolution of the major offensive in Iraq and hints of a global recovery. Dollar-based international investors benefited from the U.S. dollar's sustained weakness against the euro and pound while Japan intervened aggressively to weaken the yen to support exports. In June 2003, the European Central Bank surprised investors with a 50 basis point rate cut and markets were led higher by some previously pummeled stocks in the technology, financial, and consumer sectors. In Japan, an upward revision to first quarter GDP contributed to a strong rally and foreign investors piled into the market, shaking off earlier concerns about large bank losses and heavy selling by Japanese pension funds.

Stocks staged an impressive broad-based rally in the final quarter of the fiscal year following quick resolution of the major offensive in Iraq and hints of a global recovery.

Emerging markets enjoyed a strong recovery by mid-2003. The global rebound in technology stocks and the apparent containment of the SARS virus helped Asia. Latin America markets closed higher as investors reacted positively to political developments. In particular, President Lula impressed investors in Brazil, political turmoil in Argentina abated as a new president took office and the economic outlook for Mexico brightened.

Fixed Income Market Conditions

The first half of the fiscal year was characterized by extreme volatility, reflecting economic uncertainty, deteriorating fundamentals, geopolitical threats and issues such as corporate governance, pension funding and asbestos liability In the second half, investors were relieved that the Iraq offensive was short, but their pre-war concerns were supplanted by uncertainties about a swift post-war economic recovery. The second quarter of calendar 2003 marked a five-decade trough in nominal bellwether yield curves and historically low short-term rates.

The Federal Reserve eased monetary policy, lowering the Fed funds rate from 1.75% at the start of the fiscal year to 1.00% by June 2003. Short-term rates, as reflected by two-year Treasury note yields, fell steadily from July 2002, finishing the fiscal year at 1.30%. Longer-dated yields, as measured by 10-year Treasuries, ended the fiscal year at 3.52% after experiencing significant volatility. The yield spread between two-year and 10-year Treasuries ended at 2.22% due to falling short-term rates.

Enticed by more attractive yields, many investors turned to investment-grade corporate bonds. As a result, Treasuries underperformed high-grade credit by 3.65% on a total return basis for the fiscal year. By mid-2003, the bull market in U.S. Government bonds appeared to have run its course. Bearish indicators for interest-sensitive bonds included the Federal Reserve's lack of flexibility for lowering interest rates further, its perceived determination to prevent deflation and the prospect of larger budget deficits.

Like the high-grade corporate market, the high-yield sector (represented by the Merrill BB/B Index) fared well. High-yield bonds finished 2002 on an upswing, reflecting strong capital inflows and sparse new issue supply. The surge continued in the first half of 2003 as investors focused on fixed income and bonds as the best hope for positive returns.

For the fiscal year, the Lehman High Yield Index had the highest return of the fixed income asset class segments (22.76%), followed by high-grade credit (15.59%), Treasuries (11.94%) and mortgage-backed securities (5.71%). Mortgage securities underperformed the other segments as high levels of refinancing activity and falling interest rates reduced the sector's upward price movement.

Real Estate Market Conditions

Real estate fundamentals were weakened by the slow economic recovery and job losses that were a blow to the office market. Demand for office space isn't expected to pick up until hiring and capital spending improve. The industrial sector was adversely affected by decreased manufacturing activity and the resulting dip in inventories. We expect this sector to recover fairly quickly as the economic recovery accelerates. The apartment sector suffered due to record-low interest rates and new home construction. The retail sector had fairly positive fundamentals, fueled by strong consumer spending.

Despite the erosion in property level fundamentals, property values were buoyed by strong capital market conditions. Low interest rates allowed non-institutional investors to pay premium prices for the relatively few properties being sold. Additionally, some investors entered the real estate arena as an alternative to the stock and bond markets.

Alternative Investments Market Conditions

Increased activity in the private markets was the trend in the fiscal year, with a brief disruption caused by the Iraq war. Large leveraged buyout transactions were the most prevalent, while the middle market was less active than expected. Despite decreased activity, pricing in middle market transactions increased from the prior two years, but remained lower than that of large deals. Average leverage ratios rose from the prior twelve months and remained relatively stable. The high-yield markets were very active in the second quarter of 2003. Private equity played an increasing role in the European merger and acquisition market.

The venture capital markets seem to have stabilized after a three-year downturn. Venture capitalists still have a significant capital overhang from funds raised in 1999 and 2000 but have been extremely cautious when deploying capital. Additionally, IPO activity is still at very low levels providing minimal liquidity to venture backed companies. The distressed debt markets continued to be an active arena for private equity capital. Although pricing has firmed up significantly over the period, distressed debt investors are still active in the market.

Real estate fundamentals were weakened by the slow economic recovery and job losses that were a blow to the office market.

Florida Retirement System Pension Plan

750,000 current and former public service employees in Florida count on the SBA to manage and invest assets of the Florida Retirement System Pension Plan with their future in mind.

…the SBA strives to maximize long-term returns on investment for the Fund…

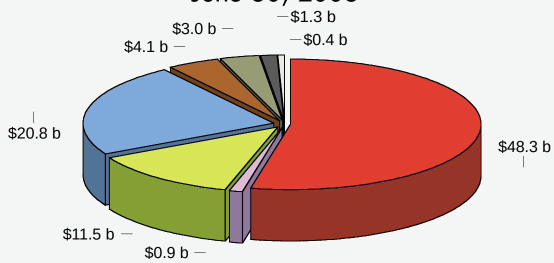
Florida's public employees and retirees are at the heart of the SBA's mission. With their future and their financial needs in mind, the SBA manages, invests and safeguards the assets of the Florida Retirement System (FRS) Trust Fund.

Guided by our commitment to ethics, accountability, risk management and performance, our goal is clear: The SBA strives to maximize long-term returns on investment for the Fund, subject to risk considerations, to protect the pension benefits to which public employees are entitled.

The FRS Trust Fund holds all assets of the defined benefit (DB) plan of the Florida Retirement System, known commonly as the FRS Pension Plan. The FRS Trust Fund is the largest single investment mandate assigned to the SBA, accounting for 75% of total SBA assets under management in the past fiscal year.

In fiscal year 2002-03, the net asset value of the FRS Pension Plan assets rose 1% to $90.4 billion from $89.5 billion at the end of the prior year, reversing a two-year decline that mirrored the downturn in stock markets.

Chart 11
FRS Pension Plan Assets by Type
June 30, 2003



During the year, total benefit payments of $3.0 billion from the Pension Plan were made to retirees and $301 million transferred to the FRS Investment Plan, partially offset by employer pension plan contributions of $1.4 billion, resulting in a net cash outflow of $1.9 billion.

The investment return for the FRS Pension Plan was 2.85%, a solid performance despite the sluggish economic recovery from recession. The positive return was a significant improvement from a negative return of 8.07% the prior year.

Overall, the net asset value of the FRS Pension Plan grew on the strength of a much-improved return on investment, despite the fact that benefit payments from the fund exceeded employer contributions.

Late in the fiscal year, a number of changes to the investment policy statement for the FRS Pension Plan became effective.[2] Highlights include:

- Adoption of a long-term investment return target of 4% above the contemporaneous rate of inflation;
- Creation of a new Global Equities Asset Class; and
- Revisions to the target allocations for most asset classes, including reductions in the target allocations for Domestic Equities and Fixed Income instruments, and increases in the allocations for International Equities, Real Estate and Alternative Investments. The allocation for Cash Equivalents remains 1%.

...the net asset value of the FRS Pension Plan grew on the strength of a much-improved return on investment, despite the fact that benefit payments from the fund exceeded employer contributions.

The new allocations will be phased in over a period beginning June 1, 2003 and ending April 1, 2004.

Consistent with policy adopted by the SBA Trustees, the Executive Director is allowed to vary the actual asset mix from the target asset allocation in order to pursue incremental investment returns. However, during the fiscal year, actual asset allocations were kept near the target asset allocations.

Chart 12
FRS Pension Plan Total Investment Returns
Compound Average Annual Return Over Period Indicated

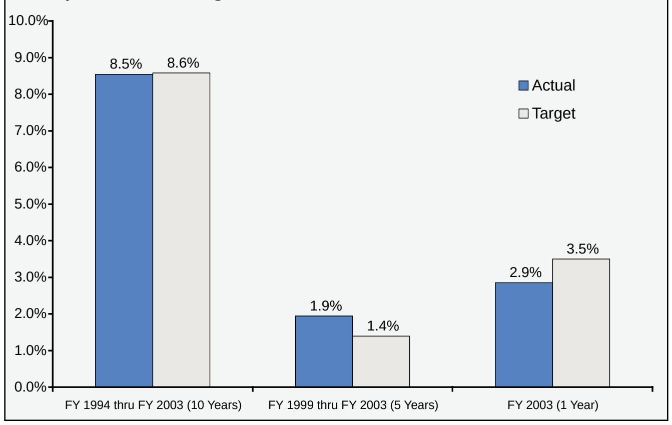
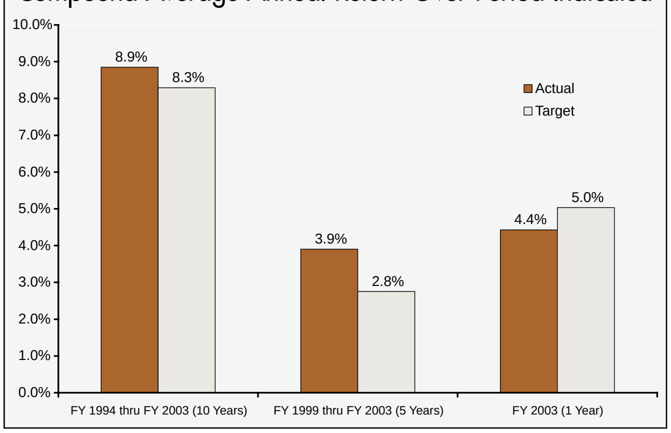


Chart 13
FRS Pension Plan Investment Returns for Actively Managed Portfolios
Compound Average Annual Return Over Period Indicated



[2] This document is legally titled the FRS "Total Fund Investment Plan."

Table 3 (page 24) summarizes the prior target asset allocations and the new allocations.

Table 4 presents actual asset allocations for each quarter of fiscal year 2002-03.

The performance of each asset class is measured relative to a broad market index as specified in the FRS Pension Plan investment policy statement.

The total fund investment performance is measured against two benchmarks:

- A weighted average of the broad market indices, according to specified policy shares, as shown in Table 3; and
- An absolute real return target of 4.0%. Assuming normal contributions are made, the FRS Pension Plan is expected to maintain its fully funded status, if the assets achieve annual growth of 4.0 percentage points higher than the inflation rate over the long term.

Chart 14
FRS Pension Plan Investment Returns for Passively Managed Portfolios
Compound Average Annual Return Over Period Indicated

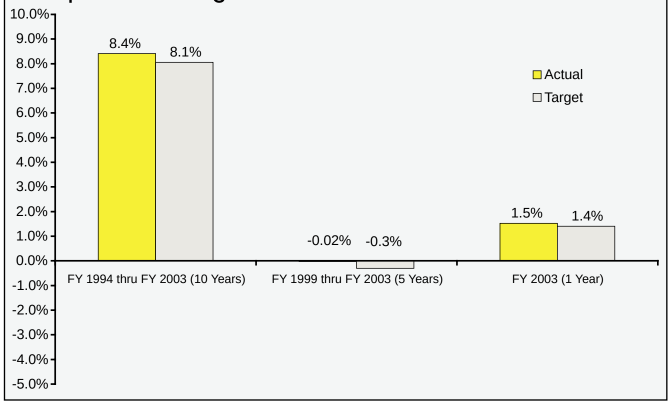


Table 1
FRS Pension Plan Assets
Market Value by Class
Fiscal Year 2002–2003

	Market Value 06/30/02	Net Contributions and Transfers	Investment Gain (Loss)	Market Value 06/30/03
Domestic Equities	$45,532,822,679	$1,948,215,115	$850,430,592	$48,331,468,386
Global Equities	0	887,571,624	17,384,899	904,956,523
International Equities	11,475,467,268	454,687,810	(429,540,389)	11,500,614,689
Fixed Income	23,562,044,801	(5,016,315,467)	2,277,477,043	20,823,206,377
Real Estate	3,807,609,329	94,992,401	233,624,283	4,136,226,013
Alternative Investments	2,979,843,430	200,000,000	(132,643,351)	3,047,200,079
Cash/Short-Term Securities	981,574,425	305,563,108	1,230,996	1,288,368,529
Policy Transition	0	366,542,169	17,797,087	384,339,256
Defined Contribution Transition Assets	1,189,655,062	(1,105,492,344)	(84,160,808)	1,910
Total FRS Pension Fund	$89,529,016,994	($1,864,235,584)	$2,751,600,352	$90,416,381,762

Table 2
FRS Pension Plan
Net Market Values by Fiscal Year End
($ billions)

Asset Class	6-30-99	6-30-00	6-30-01	6-30-02	6-30-03
Domestic Equities	$61.03	$59.14	$53.64	$45.53	$48.33
Global Equities	$0.00	$0.00	$0.00	$0.00	$0.90
International Equities	$7.82	$12.96	$11.24	$11.48	$11.50
Fixed Income	$22.88	$25.81	$24.83	$23.56	$20.82
Real Estate	$3.70	$4.20	$4.03	$3.81	$4.14
Alternative Investments[1]	$0.00	$3.62	$3.51	$2.98	$3.05
Cash/Short-Term	$0.97	$0.89	$0.96	$0.98	$1.29
Policy Transition	$0.00	$0.00	$0.00	$0.00	$0.38
Defined Contribution Transition[2]	$0.00	$0.00	$0.00	$1.19	$0.00
Total Fund Value	$96.39	$106.63	$98.21	$89.53	$90.42

Columns may not add to totals due to rounding.
For footnotes to tables see page 61.

Table 3
FRS Pension Plan Asset Allocation Policy

Asset Class	Targets Through May 31, 2003	Targets Effective June 1, 2003	Targets Effective April 1, 2004	Policy Range FY 2002-03*
Domestic Equities	54%	52.50%	48%	43.5-58.5%
Global Equities	0%	1%	4%	0-5.0%
International Equities	12%	12.50%	14%	9.1-16.5%
Fixed Income	25%	24.60%	21%	14.6-34.6%
Real Estate	4%	4.30%	7%	2.1-7.3%
Alternative Investments	4%	4.10%	5%	1.0-7.1%
Cash Equivalents	1%	1%	1%	0-10%

*Modified slightly effective June 1, 2003

Table 5 shows the absolute nominal target rate of return, which reflects the combination of the absolute real return target and actual inflation results. This table also displays aggregate investment returns for all active and passive portfolios versus relevant performance benchmarks. The selective use of active management strategies for the FRS Pension Plan is based on the goal of maximizing returns relative to the broad market standards, subject to risk considerations.

Based on our experience and data, the SBA's investment program for the FRS Pension Plan maintains a substantial reliance on passive index funds, with less emphasis on active management strategies, which have generally historically underperformed passive index funds. Although passive index funds have some operational risk, the SBA believes that they are the most effective and lowest cost method of attaining market returns over the long term.

The managed return for the total fund is effectively a weighted average of the managed return for all active portfolios and the managed return for all passive portfolios.[3]

Table 4
FRS Pension Plan Asset Allocation by Quarter

Asset Class	9-30-02	12-31-02	3-31-03	6-30-03
Domestic Equities	51.9%	54.2%	53.6%	53.5%
Global Equities	0.0%	0.0%	0.0%	1.0%
International Equities	11.2%	12.0%	11.4%	12.7%
Fixed Income	26.7%	24.9%	26.1%	23.0%
Real Estate	4.7%	4.2%	4.4%	4.6%
Alternative Investments	3.5%	3.4%	3.5%	3.4%
Cash/Short-Term	0.8%	1.3%	1.0%	1.4%
Policy Transition	0.0%	0.0%	0.0%	0.4%
Defined Contribution Transition	1.2%	0.0%	0.0%	0.0%
Total Fund	100.0%	100.0%	100.0%	100.0%

3 Note, however, that this aggregation approach cannot generally be applied to the active and passive performance benchmarks with the expectation that the relative target return would result. The reason is twofold: (1) The actual asset allocation across asset classes can differ from the target allocation used to calculate the relative target return; and (2) The actual intra-asset class allocation across subsectors of each asset class can differ from the subsectors' weights contained in each target index.

Table 5
FRS Pension Plan
Total Fund Investment Performance
Annualized Returns for Selected Periods Ending June 30, 2003

	10 Years	5 Years	3 Years	1 Year
	%	%	%	%
FRSTF Public and Private Market Investments				
Managed Return[1]	8.54	1.94	-4.40	2.85
Absolute Nominal Target [2]	6.84	6.82	6.53	6.50
Relative Target[3]	8.58	1.39	-4.80	3.50
All Passive Portfolios[4]	8.41	-0.02	-7.99	1.52
Performance Benchmark[5]	8.06	-0.29	-8.12	1.40
All Active Portfolios[4]	8.85	3.90	-0.68	4.43
Performance Benchmark[5]	8.29	2.75	-1.24	5.03

Managed returns are net of external manager fees.

For footnotes to tables see page 61.

FRS Pension Plan Domestic Equities Investment Performance

The Domestic Equities asset class was valued at $48.3 billion as of June 30, 2003. This asset class accounted for 53.5% of the total FRS Pension Plan portfolio. The asset class was broadly diversified across 14 active strategies and five passive portfolios, with passive comprising 68.7% of the asset class. Overall, the portfolio combines a neutral mix of growth and value strategies.

The asset class had a modest but positive return of 0.54%, trailing the target return of 0.77% for the asset class target, the Russell 3000 Index. The performance was a turnaround from a negative return of 17.13% in the prior year.

For the year, growth outperformed value across the capitalization spectrum. Large-cap stocks outperformed small caps; mid caps outperformed both. The subdued one-year gains in broad market indices belied the volatility over the period.

Reflecting that volatility, Domestic Equities received rebalance allocations totaling $4.3 billion for the year, including a $3.6 billion infusion of new money over a seven-day period in July 2002.

Domestic Equities also supplied rebalance allocations totaling $255 million, handled inflows totaling $583 million from the Defined Contribution Transition Accounts and supplied funds of $1.45 billion for the Deferred Retirement Option Program (DROP) and $1.3 billion to start investing in the new Global Equities asset class. In reallocating assets, we were guided by the competing objectives of misfit risk[4] control and active management enhancement.

The success of active management is gauged by examining the risk-adjusted returns for each asset class. Although Domestic Equities' risk-adjusted returns for the fiscal year were negative, reflecting the difficulty of this period, its performance over three- and five-year periods was in excess of an internal management target.

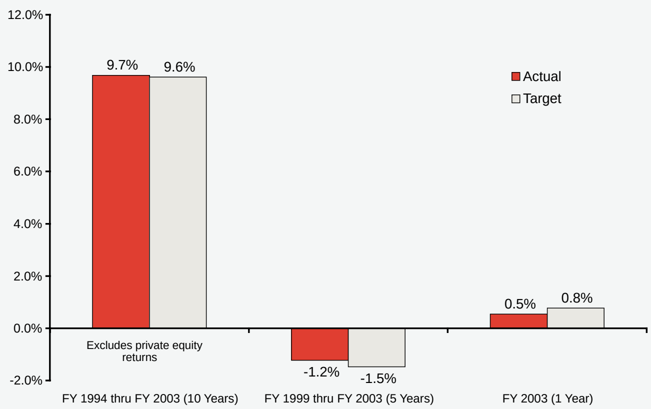
Changes were made as part of the SBA's focus on improving asset class performance. Active managers Smith Barney and Progress were terminated in the fall of 2002 for performance-related issues. The passively managed BGI S&P500 and Locap Index products were terminated in October 2002 to realize significant savings in management fees by switching to internal passive management.

Two new internal passive index funds were created in November 2002 - the Value Index fund and the Russell Top 200 Index fund - to provide further tools to control misfit. Two new active small cap managers were hired: Batterymarch and BGI Russell 2000 Alpha Tilt. Most style niches in the asset class now have

[4] Misfit risk is defined as the small differences between risk exposures of the aggregation of individual portfolio benchmarks relative to the asset class target. The Domestic Equities misfit risk level runs close to zero and reflects mostly random statistical noise.

…the modest return was an improvement from the prior year's negative absolute return on investment.

Chart 15
Domestic Equity Investment Returns for FRS Pension Plan
Compound Average Annual Return Over Period Indicated



both a passive and active portfolio option, which helps maintain well-balanced aggregate risk levels in case of active manager defunding or termination.

Domestic Equities investment management fees dropped from $44.5 million to $36.7 million, a decline of $7.8 million from the previous year. The decline reflected additional internal passive management of assets and the equity market downturn, which caused the asset class market value, on which fees are based, to decline. Also, integration of portfolio management optimization software and electronic trading systems greatly enhanced trading efficiency and reduced commission costs.

In summary, FRS Pension Plan Domestic Equities asset class investments underperformed their performance target, net of fees and transaction costs, due to an unusually high level of transactions and underperformance by some active managers. Still, the modest return was an improvement from the prior year's negative absolute return on investment.

Our work on asset class structural improvements progressed with the termination of two underperforming managers and the creation of two additional internal passive funds. Manager searches are underway to identify additional attractive active management strategies. In fiscal year 2003-04, staff plans to renegotiate management fees and pursue additional active return strategy enhancements.

FRS Pension Plan International Equities Investment Performance

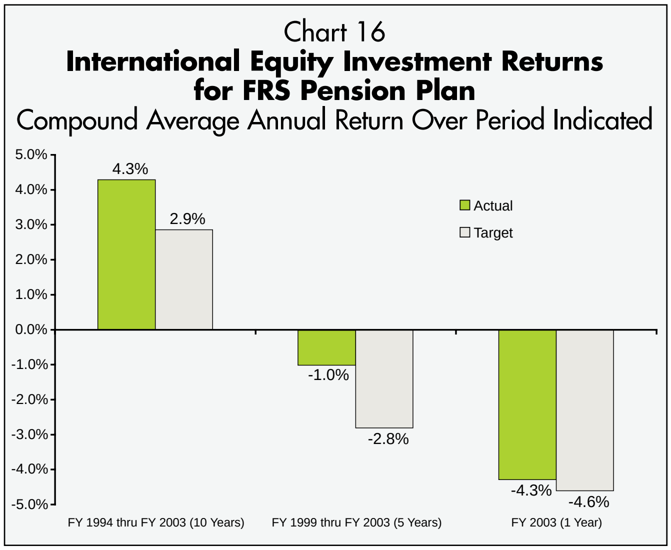
The international equities portfolio was valued at approximately $11.5 billion as of June 30, 2003. This asset class accounted for 12.7% of the total FRS Pension Plan portfolio.

Table 6
Domestic Equity Aggregate Investment Performance
FRS Pension Plan
Annualized Returns for Selected Periods Ending June 30, 2003

	10 Years	5 Years	3 Years	1 Year
	%	%	%	%
Domestic Equities				
Managed Return Excluding Alternative Investments[1]	9.68	-1.22	-10.60	0.54
Managed Return Including Alternative Investments[2]	9.62	-1.24	-10.60	0.54
Target[3]	9.61	-1.47	-11.04	0.77
All Passive Portfolios[1, 4]	9.80	-1.31	-10.95	0.75
Performance Benchmark[1, 5]	9.53	-1.62	-11.03	0.69
All Active Portfolios[1, 4]	9.79	-0.79	-9.76	0.30
Performance Benchmark[1, 5]	9.31	-1.74	-10.60	0.75

Managed returns are net of external manager fees.

For footnotes to tables see page 61.



For the year, the aggregate international equities portfolio had a negative return of 4.3%, but in a tough year for active management, outperformed the target return by 32 basis points.

The International Equities asset class was diversified across 15 portfolio strategies invested in more than 50 global markets. Consistent with the newly implemented risk budget objectives, the portfolio was more active than in prior years. At fiscal year-end, passive investments accounted for only 32% of the portfolio, with the remaining 68% invested in 12 distinct active strategies in both developed and emerging markets. Mirroring target exposures, more than 91% of the portfolio was allocated to developed market managers with the remaining 9% invested with emerging market managers.

At fiscal year-end, the portfolio was slightly underweight to the United Kingdom, Japan, and Continental Europe. Opportunistic investments by several developed market managers pushed the portfolio to a more than 2% active weight in emerging markets. Along with the portfolio's underexposure to the developed markets of the Pacific Rim, emerging markets represented the portfolio's most significant geographic bet. On a sector basis, avoidance of Japanese banks contributed to an underweight to financials while the portfolio's overweights to materials and industrials evidenced its value bias.

The BGI EAFE plus Canada Index Fund exceeded its benchmark return target by 31 basis points. Three factors boosted its performance: An effective securities lending program, the tax advantage of U.S. investors versus the net of tax return assumption of the benchmark, and the Fund's slight cash position in a generally declining market.

The SSgA Emerging Markets Index Fund lagged its benchmark by 33 basis points for the fiscal year. Indexing in emerging markets remained a difficult proposition with high transaction costs, technical impediments to full index replication and few securities lending opportunities.

Overall, the aggregate developed market active portfolio posted a loss of 5.4%, which compared favorably to the 5.6% loss of the benchmark. Two of the five incumbent developed market active managers – Morgan Stanley and Sprucegrove – outperformed the benchmark, as their fundamental value approaches

The International Equities asset class was diversified across 15 portfolio strategies invested in more than 50 global markets.

Table 7
International Equity Aggregate Investment Performance
FRS Pension Plan
Annualized Returns for Selected Periods Ending June 30, 2003

	Since 7-93[1]	5 Years	3 Years	1 Year
	%	%	%	%
International Equities				
Managed Return	4.29	-0.96	-10.40	-4.28
Target[2]	2.86	-2.80	-12.64	-4.60
All Passive Portfolios[3]	2.66	-2.95	-12.69	-4.82
Performance Benchmark[4]	2.47	-3.09	-12.83	-5.08
All Active Portfolios[3]	6.67	0.83	-8.32	-3.82
Performance Benchmark[4]	2.72	-2.47	-12.47	-4.26

Managed returns are net of external manager fees.

For footnotes to tables see page 61.

enhanced results during the turbulent sell-off early in the fiscal year. The performances of Capital Guardian, Putnam and Templeton lagged the benchmark.

The emerging market active portfolio lagged its benchmark by 32 basis points for the fiscal year, a disappointing performance. Two of the four active emerging market managers – Genesis and Capital International – performed well. Genesis provided consistently good results, while Capital International got a lift from strong returns in the last three months of 2002. J.P. Morgan and State Street Global Advisors trailed the benchmark.

Investment management fees increased 1 basis point from the end of fiscal year 2001-02. The higher fees resulted from the increased allocation to active management consistent with the risk budget initiative and greater exposure to higher cost emerging markets reflecting their greater weight in the target.

The allocation to International Equities also increased during the fiscal year to 12.5% effective June 1, 2003, and will increase to 14% on December 1, 2003.

Changes were made in an effort to enhance the future performance of the developed market active portfolio. In February 2003, we hired BGI to manage an enhanced index portfolio with a currency overlay strategy. In March 2003, Britannic and T. Rowe Price International were terminated because their "core" investment approaches had underperformed. To further diversify the portfolio and achieve more consistent exposure to growth areas of the markets, two growth-oriented managers – Artisan and Fidelity – were hired in March 2003.

FRS Pension Plan Global Equities Asset Class

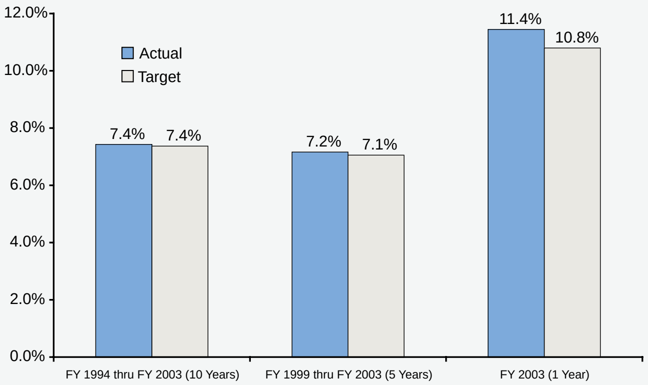
On June 1, 2003, a new Global Equities asset class was created. Six investment firms were hired to actively manage the allocation to Global Equities: Fisher, McLean Budden, Putnam, Templeton, UBS, and Walter Scott. The portfolio is divided between "core" and "core plus" managers. The target asset allocation for the Global Equities asset class is 4% of the total FRS Pension Plan by April 1, 2004. This new asset class will be funded in phases over the next year. Due to the fact that this asset class existed for just one month of the past fiscal year, no performance results are shown in this annual Investment Report. The results will be available for inspection on the SBA's Web site, www.sbafla.com and in next year's Investment Report.

FRS Pension Plan Fixed Income Investment Performance

The Fixed Income asset class had a return of 11.43% in the fiscal year, up from 8.15% in fiscal year 2001-02. The asset class is measured by the Fixed Income Management Aggregate target, which is a market-weighted blend of the Lehman Aggregate Bond Index and the Merrill Lynch B and BB Rated Index.

The Fixed Income asset class had a return of 11.43% in the fiscal year, up from 8.15% in fiscal year 2001-02.

Chart 17
Fixed Income Investment Returns for FRS Pension Plan
Compound Average Annual Return Over Period Indicated



Fiscal year 2002-03 was a very strong period for the fixed income market. All actively managed fixed income portfolios posted a return of 11.56% for the fiscal year, exceeding their performance benchmark by 81 basis points. Passively managed portfolios earned 11.07%, surpassing their benchmark return of 10.73%. The combination of all active and passive portfolio returns, plus the return difference due to sector allocation (misfit) against the Fixed Income Management Aggregate target resulted in a 64 basis point performance advantage for the year.

Excluding mortgage-backed securities (MBS) portfolios, the asset class had a total return of 13.97%, outperforming its target by 94 basis points. The annualized three-year return of 11.32% exceeded the benchmark return by 46 basis points.

The $6.2 billion MBS portfolio exceeded its target by 40 basis points, returning 6.10%. The annualized three-year return of 8.87% exceeded the benchmark return by 24 basis points.

The externally managed high-yield portfolios had a total return of 17.27%. However, they underperformed the target by 74 basis points. Two new managers lagged their target as they held cash while attempting to build their portfolios. During the fiscal year, one high-yield manager was terminated from the active portfolio due to organizational changes.

FRS Pension Plan Real Estate Investment Performance

The Real Estate asset class ended fiscal year 2002-03 with investments valued at $4.1 billion, an increase from $3.8 billion in the prior year. Real Estate accounted for 4.6% of the value of the total FRS pension fund assets, exceeding the 4% target but within the established range of 2% to 6%.

Effective June 1, 2003, the target allocation was raised to 4.3% and will increase to 7% on April 1, 2004, with an operating range of 3% to 10%. Real Estate's primary benchmark was recently changed from the Wilshire Real Estate Securities Index to a return of 4.5% over the rate of inflation.

The SBA continues to focus on directly owning assets and actively managing investment and portfolio risk. Approximately 81% of our real estate investments are directly owned. The remaining investments are in publicly traded real estate stocks (15%), cash (3%) and pooled real estate funds (1%).

To reduce potential risk, we are moving to further diversify our directly owned assets by investing in

Table 8
Fixed Income Aggregate Investment Performance
FRS Pension Plan
Annualized Returns for Selected Periods Ending June 30, 2003

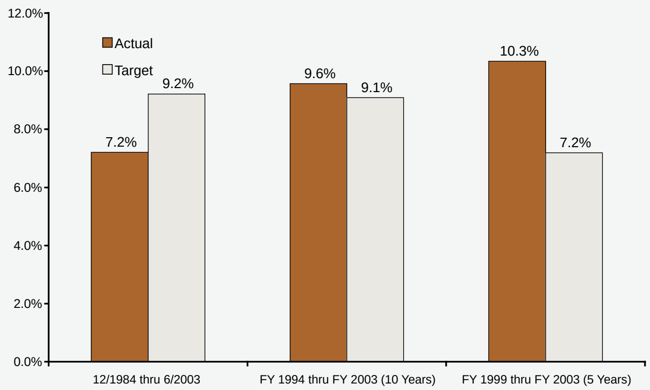
	10 Years %	5 Years %	3 Years %	1 Year %
Fixed Income				
Managed Return	7.43	7.16	10.14	11.43
Target[1]	7.37	7.05	9.90	10.80
All Passive Portfolios[2]	7.78	7.54	10.56	11.07
Performance Benchmark[3]	7.70	7.41	10.18	10.73
All Active Portfolios[2]	7.33	7.00	9.96	11.56
Performance Benchmark[3]	7.21	6.91	9.66	10.75

Managed returns are net of external manager fees.

For footnotes to tables see page 61.

The SBA regularly evaluates buying and selling opportunities, with a focus on maximizing return on investment and managing risk.

Chart 18
Real Estate Investment Returns for FRS Pension Plan
Compound Average Annual Return Over Period Indicated



various property types, lease durations and geographic/economic regions. Office properties accounted for 49% of the value of our direct investments, followed by apartments (20%), retail (13%), industrial warehouses and distribution facilities (11%), and agricultural direct investment (7%).

We directly own 27 agricultural properties and have a 50% interest in a pooled fund that owns 18 agricultural properties. Our agricultural properties in 10 states grow row crops and permanent plantings.

The SBA regularly evaluates buying and selling opportunities, with a focus on maximizing return on investment and managing risk. During the fiscal year, we completed five acquisitions, including three in Florida and two in California.

In Florida, we purchased a 276-unit apartment community in West Palm Beach for $13.9 million; a 328-unit apartment community in Ft. Myers for $19.4 million; and a 368-unit apartment community in Ft. Lauderdale for $90.6 million.

In California, we invested $80.8 million for a 448-unit apartment community in San Diego and $132.4 million for a 1.82 million square-foot industrial complex in Los Angeles.

We sold an office building in Boston, Massachusetts, for $107.7 million, for a net return on investment of 18.72%, and we received $41.1 million from the sale of an office building in Tampa, Florida, for a net return on investment of 9.3%.

Our staff will be working in fiscal year 2003-04 to reach the new asset allocation target of 7%, with a focus on general purpose, income-producing institutional grade properties. This strategy will be enhanced through further investments in publicly traded real estate stocks and pooled funds.

Table 9
Real Estate Aggregate Investment Performance
FRS Pension Plan
Annualized Returns for Selected Periods Ending June 30, 2003

	Since Inception[1] %	10 Years %	5 Years %
Real Estate			
Managed Return[2]	7.21	9.57	10.34
Primary Target: RESI-U[3]	9.21	9.09	7.19
Secondary Target: CPI+450[4]	7.26	6.91	6.98
Directly Owned Real Estate Managed Return[2]	8.61	11.10	9.90
Primary Target: RESI-U[3]	9.46	9.55	8.03
Secondary Target: CPI+450[4]	6.96	6.90	6.96

Managed returns are net of external manager fees.

For footnotes to tables see page 61.

Selectively, we may seek out experienced partners to join in strategic alliances in order to gain access to portfolios of assets not otherwise available to us.

FRS Pension Plan Alternative Investments Performance

On June 30, 2003, the Alternative Investments asset class had a market value of $3.0 billion, accounting for 3.4% of total FRS Pension Plan assets. In this actively managed portfolio, the SBA generally makes fixed commitments of capital to limited partnerships that are externally managed by general partners. Alternative Investments has commitments to 28 investment vehicles managed by 16 separate private equity firms. During the year, the asset class emerged from an extended moratorium on new relationships and remained well below its target weight of 4% of FRS assets.

Alternative Investments committed $500 million in fiscal year 2002-03 to new partnership investments. These commitments were consistent with the following portfolio goals:

- A long-term focus on investing with a relatively small number of successful general partnerships, with places guaranteed in follow-on funds, if desired, with those same partners;
- A captive and innovative co-investment effort, with Alternative Investments staff acting as a value-added partner, heavily involved in generating quality deal flow; and
- An exclusive, high-quality private equity partnership that forms a significant part of the overall portfolio.

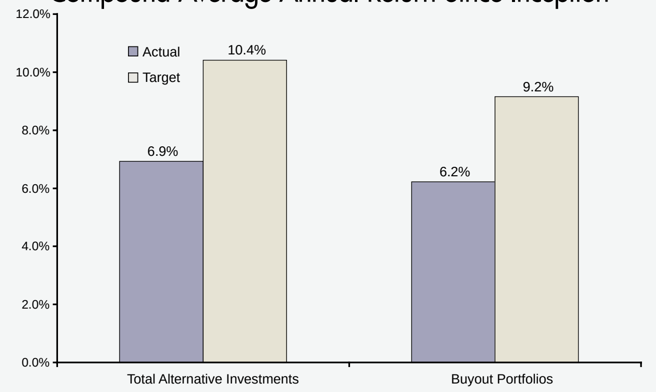
During the fiscal year, venture capital returns began to stabilize after several years of decline. Heading into the fiscal year 2003-04, there appeared to be renewed interest in early-stage investing, although the bulk of funding continued to flow to later-stage deals. The IPO market remained extremely slow, providing practically no liquidity to technology companies.

The broad improvements in private markets and in the public markets led to a noticeable increase in activity in the Alternative Investments Portfolio.

Liberty Partners was an active buyer and seller during the fiscal year. In July 2002, Liberty V sold its investment in Pharma Development to Elan Corp., generating net proceeds of $27.4 million. PlayPower, one of Liberty's early investments in Fund I, was sold in December 2002 and returned $48.6 million. Liberty completed some large purchases during the year, including an investment of $76.3 million in Technical Concepts and a $66.8 million investment in Source Technologies.

Carlyle Partners III led the purchase of QuestDex for $8 billion, the largest leveraged buyout of the year

Chart 19
Alternative Investment Returns for FRS Pension Plan
Compound Average Annual Return Since Inception



and the second largest in history. The SBA participated in the QuestDex transaction as an investor in Carlyle III and Co-Investment Partners, providing total funding of $27.8 million. Carlyle also sold its stake in Entertainment Publications Inc., another deal involving Co-Investment Partners. That transaction resulted in a $5.4 million distribution to the SBA from Carlyle II and a $19.5 million distribution from Co-Investment Partners.

Co-Investment Partners also made two other large investments in March 2003. The firm invested $49.5 million in TRW Automotive and $19.8 million in Ameripath. Co-Investment Partners' sale of shares of Peabody Energy generated proceeds of $25.9 million for the SBA.

During the fiscal year, venture capital returns began to stabilize after several years of decline.

Table 10 **Alternative Investments Aggregate Investment Performance** **FRS Pension Plan** Annualized Returns for Selected Periods Ending June 30, 2003	Since Inception[6]	10 Years	5 Years
	%	%	%
Alternative Investments[1]			
Managed Return[1, 2]	6.93	6.85	3.27
Target[3]	10.41	--[5]	--[5]
Buyout Investment Managed Return	6.22	6.23	3.34
Target[4]	9.16	--[5]	--[5]
Managed returns are net of external manager fees.			

For footnotes to tables see page 61.

Follow-on investments with existing managers include an additional $250 million tranche to Co-Investment Partners and separate $100 million commitments to Lexington Partners V and Green Equity Investors IV. The SBA added a new relationship this year with a commitment of $50 million to Wellspring Capital Partners III.

The asset class continues to lag its benchmark since inception (1988). Although intermediate-term measures of performance (3-year and 5-year) exceed the benchmark, the undiversified nature of the portfolio, both by vintage year and by sub-asset class, continues to be reflected in the long-term performance of the asset class. In fiscal year 2003-04, the SBA expects to add significant exposure to venture capital and distressed debt. Alternative Investments also plans to add a number of new middle market buyout managers to the portfolio.

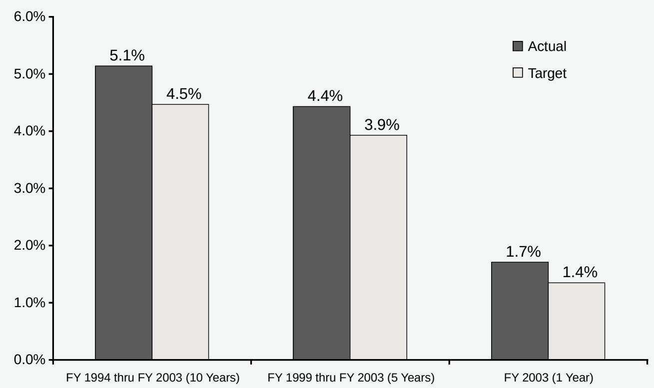
FRS Pension Plan Cash/Short-Term Investments Performance

The performance measurement of Cash pertains only to the Cash and Central Custody Account, which was valued at $1.3 billion on June 30, 2003.

Cash is also held in other asset class portfolios. This asset class is managed in a pooled fashion by internal Fixed Income staff and reported in the market value for those portfolios.

Our existing infrastructure enables the SBA to provide cash management services for FRS Pension Plan portfolios at a lower cost than those supplied by external service providers, without sacrificing return.

Chart 20
Cash/Short-Term Securities Returns for FRS Pension Plan
Compound Average Annual Return Since Inception



In fiscal year 2003-04, the SBA expects to add significant exposure to venture capital and distressed debt.

Table 11 **Cash/Short Term Securities Aggregate Investment Performance** **FRS Pension Plan** Annualized Returns for Selected Periods Ending June 30, 2003	10 Years	5 Years	3 Years	1 Year
	%	%	%	%
Cash/Short-Term				
Managed Return[1]	5.14	4.43	3.45	1.71
Target[2]	4.47	3.93	3.04	1.35

For footnotes to tables see page 61.

Table 12 **FRS Pension Plan External Investment Management Fees** Fiscal Year 2002–2003		
	Dollar Amount	Return Basis[1]
Domestic Equities	$ 36,724,833	0.23%
Global Equities	279,290	0.15%
International Equities	21,697,421	0.21%
Fixed Income	9,654,762	0.12%
Real Estate	12,867,232	0.39%
Alternative Investments	38,942,130	1.36%
Total	$ 120,165,668	0.29%

For footnotes to tables see page 61.

FRS Pension Plan Investment Management Fees

Investment management fees on externally managed FRS Pension Plan portfolios are deducted from the portfolios and are not included in budgetary allocations. Table 12 shows investment management fees by asset class for fiscal year 2002-03.

Brokerage commissions are paid for executions of securities orders and on trades of exchange-listed equity investments. Brokerage commissions, net of commission recapture rebates, were as follows for fiscal year 2002-03 (by asset class and transition accounts):

Domestic Equities	$24.8 million
Global Equities	$136,877
International Equities	$8.5 million
Fixed Income	$ 20,180 [5]
Alternative Investments	$ 91,338
Real Estate	$284,612
Defined Contribution Transition	$250,879
Policy Transition	$911,232

Commissions recaptured are credited to the accounts that generated the dollars. Therefore, the amounts reported above are net of commission recapture rebates. The SBA has one outstanding third-party vendor relationship that provides commission dollars to fund performance evaluation and research. The SBA follows Employee Retirement Income Security Act (ERISA) standards that specifically address commission dollars and deem them to be considered as plan assets.

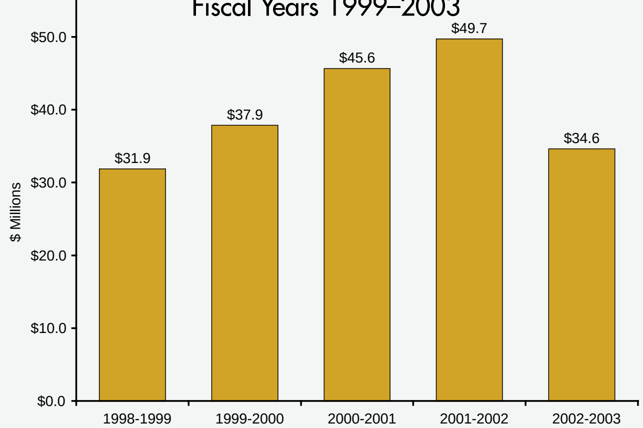
FRS Pension Plan Supplemental Income Program

Securities lending is an incremental income program implemented through multiple providers. During the periods securities are on loan, collateral equal to or greater than 100% of the market value plus accrued interest is received in the form of United States government and agency securities or cash. Cash is reinvested in securities authorized by the SBA.

During the fiscal year, the SBA utilized six securities lending agents for FRS assets. Income generated from these programs for the fiscal year was $34.6 million.

Net income from all FRS Pension Plan securities lending programs for the previous five years, including fiscal year 2002-03, is shown in Chart 21.

Chart 21
FRS Pension Plan Net Securities Lending Income
Fiscal Years 1999–2003



5 Fixed Income brokerage commissions resulted from the sale of equity securities received in high-yield accounts as distributions in corporate actions. On other Fixed Income transactions, broker-dealers and/or investment managers were restricted from acting as principals, thus incurring commission charges.

Florida Retirement System Investment Plan

The FRS Investment Plan, designed and administered by the SBA, offers its members the flexibility to choose from a wide range of investment options that meet their specific preferences and needs.

The FRS Investment Plan, an optional defined contribution plan, took effect in fiscal year 2002-03. For the first time, eligible public sector employees could choose to enroll in this plan as an alternative to the traditional FRS Pension Plan, which continues, as it has for decades, to offer formula-based retirement benefits. The Florida Legislature approved the creation of the FRS Investment Plan in 2000. The new plan is modeled after 401(k) plans in the private sector in order to help employers recruit and retain mobile employees.

The FRS Investment Plan enables members to play an active role in selecting from a wide offering of investment options. Employer contribution rates are set by law and go directly into members' accounts, with rates ranging from 9% to 20% of salary depending on membership class. Employees enrolled in the FRS Investment Plan don't make contributions, and only pay investment management fees. Vesting in the plan is one year. Distribution options include lump sums, periodic distributions and a variety of low-cost fixed, variable and deferred annuities.

In fiscal year 2002-03, the average age of enrollees in the FRS Investment Plan was 40, and the average length of FRS service was four years. Unlike the FRS Pension Plan, the benefits employees can receive under the FRS Investment Plan may vary, depending on the performance of the investment options selected.

In fiscal year 2002-03, approximately 4% of eligible public employees were enrolled in the FRS Investment Plan. Between July 31, 2002 and March 31, 2003, the FRS Investment Plan received a total of $278 million in funds in the form of benefit transfers from the FRS Pension Plan on behalf of the enrolled participants. By the end of the first fiscal year, the net asset value of the FRS Investment Plan was $333 million, in over 26,000 participant accounts. The balance of the change in plan assets resulted from payroll contributions, Second Elections and financial market gains. Monthly payroll contributions hit a peak of $8.1 million in the June 2003 payroll.

FRS Investment Plan Oversight and Management

Through an Investment Policy Statement, the Board of Trustees delegates responsibility for the day-to-day management of the FRS Investment Plan to the Executive Director, including recordkeeping, asset custody and investments.

The SBA selects and monitors available investment funds, subject to the ERISA fiduciary standards of care and the Investment Policy Statement.

The Investment Policy Statement identifies long-term objectives for the FRS Investment Plan. It stipulates that the plan should offer participants meaningful, independent control over the assets in their account, and the following:

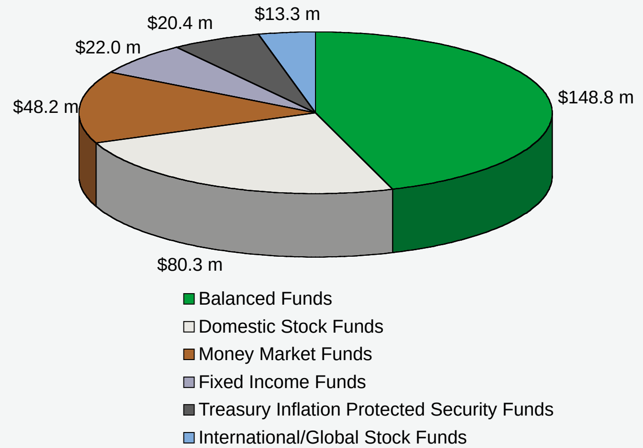
- A diversified mix of low-cost investment options that span the risk-return spectrum and give participants the opportunity to accumulate retirement benefits; and
- Investment options that avoid excessive risk, have a prudent degree of diversification relative to broad market indices and provide a long-term rate of return - net of all expenses and fees - that achieves or exceeds the returns on comparable market benchmark indices.

Similar to its role for the FRS Pension Plan, the SBA's Investment Advisory Council reviews the Investment Policy Statement and any proposed changes prior to its presentation to the Trustees.

FRS Investment Plan Asset Allocation

Participants had the opportunity to choose from over 40 investment funds. At fiscal year-end, nearly

Chart DC-1
FRS Investment Plan Asset Allocation by Product Type
June 30, 2003

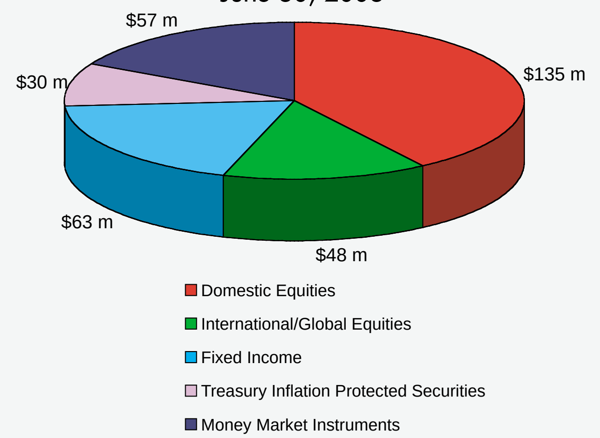


(clockwise order from noon)
Based on CitiStreet participant account data

one-half of the participants' assets were invested in one of three balanced funds. More than 70% of the participants allocated assets to one or more of the balanced funds. The balanced funds were developed to simplify the FRS retirement plan comparisons and provide participants with low-cost "one-stop shopping" alternatives that optimally balance risk, return and cost.

During the first year, overall asset allocations were somewhat skewed away from U.S. stocks, reflecting the three-year bear market in domestic equities. About 55% of assets were invested in U.S. or foreign stock funds (allocating the assets in the balanced funds to their component funds).

Chart DC-2
FRS Investment Plan Asset Allocation by Asset Type
June 30, 2003



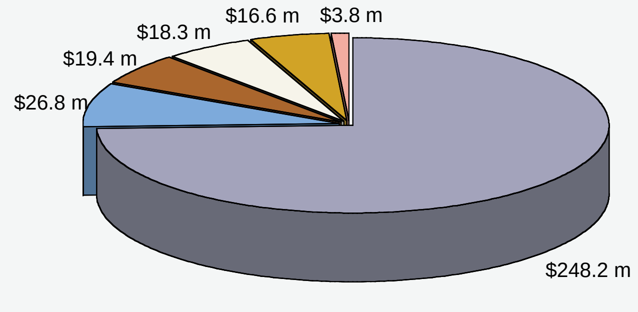
(clockwise order from noon)

Younger members tended to allocate more of their assets to equities, while those nearer retirement tended to have lower equity allocations.

About 9% of total plan assets were invested in U.S. Treasury Inflation Protected Securities, which were most heavily utilized by those nearest to retirement.

Members clearly favored low-cost funds, resulting in a weighted investment management fee of roughly 0.20% for the FRS Investment Plan. Chart DC-3 indicates the degree to which assets are relatively concentrated: As of June 30, 2003, more than 90% of assets were with institutional unbundled investment providers, Prudential and Fidelity. The latter two are bundled providers that deliver both institutional and mutual fund products to the program. Unbundled investment providers manage assets of the FRS Select funds.

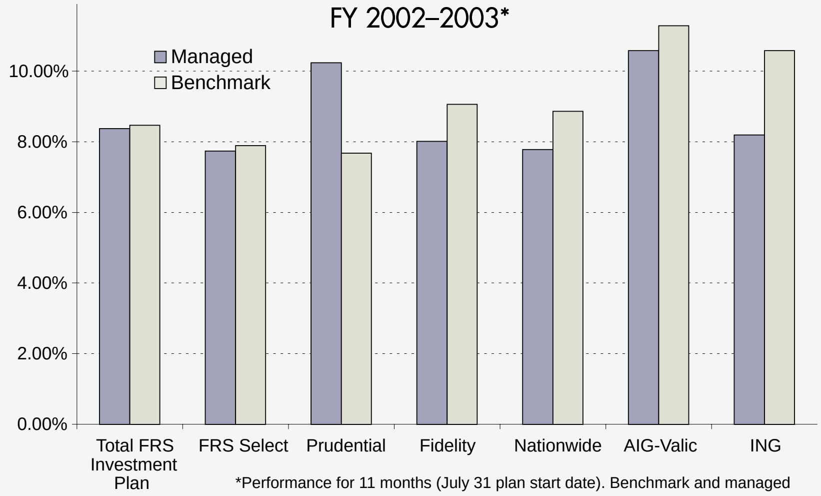
Chart DC-3
FRS Investment Plan Asset Allocation by Provider Group
June 30, 2003



(clockwise order from noon)
Based on CitiStreet participant account data

Younger members tended to allocate more of their assets to equities, while those nearer retirement tended to have lower equity allocations.

Chart DC-4
FRS Investment Plan
Product Provider Investment Performance
FY 2002–2003*



*Performance for 11 months (July 31 plan start date). Benchmark and managed returns represent weighted aggregation of individual products.

FRS Investment Plan Performance Summary

With the year-end rally in the stock market, aggregate plan performance since July 2002 increased to 8.37% on a non-annualized net of investment management fees basis. The plan lagged its benchmark performance by just 9 basis points. The plan's balanced funds, money market funds, fixed income funds and foreign funds beat their benchmarks. Conversely, U.S. stock funds and U.S. Treasury Inflation Protected Securities funds lagged their benchmarks. These aggregate results reflected the asset allocation and investment fund selections of individual participants. Note, also, that all performance data is for the 11-month life of the plan through June 30, 2003.

Net of investment management fees, unbundled providers (FRS Select funds) lagged their benchmarks, as a group, by 16 basis points, due to short-term underperformance by Wellington, Dresdner and Putnam and several index products tracking slightly below their benchmarks.

Table DC-1
FRS Investment Plan Aggregate Product Performance
Returns for Period Ending June 30, 2003

	Since Inception[1]
	%
Total Investment Plan	
Managed Return	8.37
Benchmark[2]	8.46
Total Domestic Equities Funds	
Managed Return	9.95
Benchmark[2]	10.54
Total International Equities Funds	
Managed Return	9.17
Benchmark[2]	6.88
Total Fixed Income Funds	
Managed Return	9.57
Benchmark[2]	9.21
Total Inflation-Indexed Bond Fund	
Managed Return	13.19
Benchmark[2]	13.51
Total Money Market Funds	
Managed Return	1.48
Benchmark[2]	1.43

Managed returns are net of external investment manager fees.

For footnotes to tables see page 61.

Table DC-2
FRS Investment Plan Product Provider Investment Performance
Returns for Period Ending June 30, 2003

	Since Inception[1]
	%
Total Investment Plan	
Managed Return	8.37
Benchmark[2]	8.46
Total Fidelity	
Managed Return	8.01
Benchmark[2]	9.06
Total ING	
Managed Return	8.19
Benchmark[2]	10.58
Total Nationwide	
Managed Return	7.78
Benchmark[2]	8.86
Total Prudential	
Managed Return	10.23
Benchmark[2]	7.67
Total AIG-Valic	
Managed Return	10.58
Benchmark[2]	11.28
Total FRS Select	
Managed Return	7.73
Benchmark[2]	7.89

Managed returns are net of external investment manager fees.

For footnotes to tables see page 61.

Among the bundled providers, Prudential outperformed its benchmark by 256 basis points, while AIG-Valic, Fidelity, Nationwide and ING lagged their benchmarks.

During the year, no new investment funds were added and the FRS Select High Yield Active Fund and ING Small Company Fund were removed from the authorized list.

The plan's balanced funds, money market funds, fixed income funds and foreign funds beat their benchmarks.

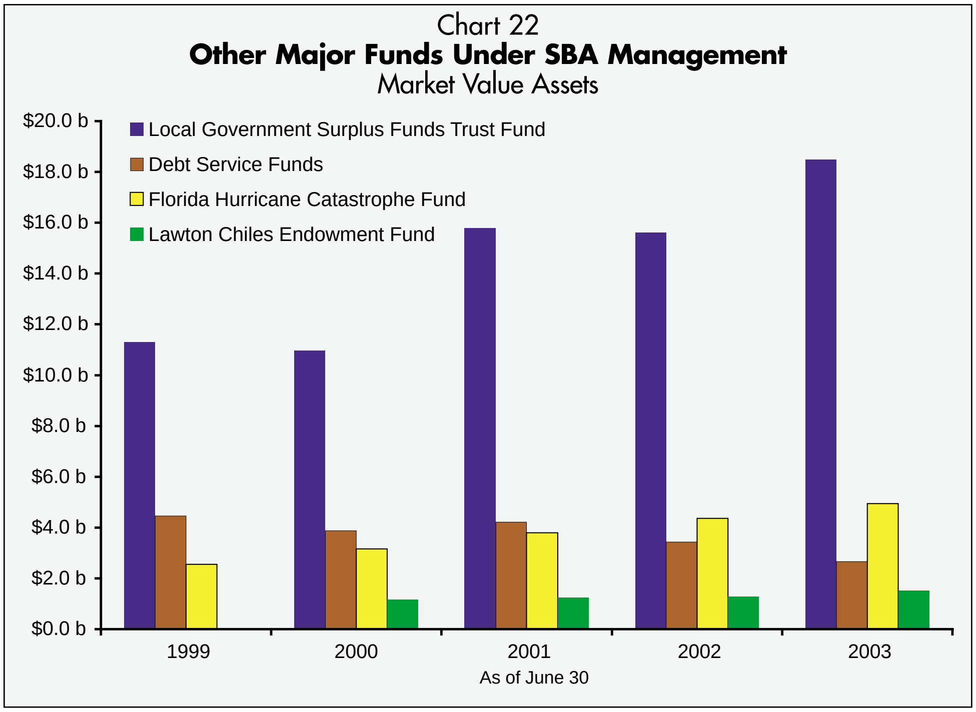
Additional Major SBA Investment Mandates

The SBA's focus on prudent risk management helps protect the assets of the Lawton Chiles Endowment Fund, which provides a perpetual source of funding for tobacco-related medical research and health programs in Florida.

The SBA's investment responsibility extends to a wide range of non-pension trust and endowment funds, including major portfolios for local government surplus funds, health maintenance and research, hurricane catastrophe relief and lottery payouts.

The portfolio structures vary in each fund, depending on the investment objectives and time horizon. Depending on the portfolio structure and size, these funds are managed either on an individual basis or are pooled and managed with other funds through our Commingled Asset Management Program.

The portfolio structures vary in each fund, depending on the investment objectives and time horizon.

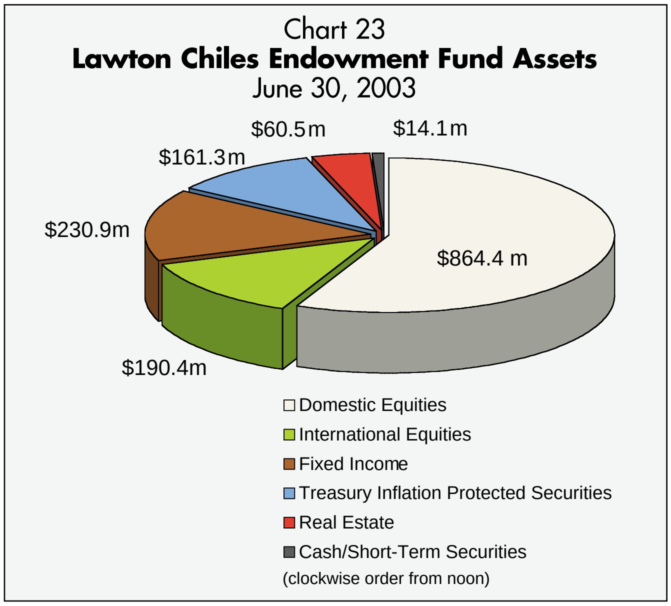


Lawton Chiles Endowment Fund

The Lawton Chiles Endowment Fund (LCEF) was created by the Florida Legislature in 1999. Its purpose is to invest a portion of Florida's tobacco settlement monies to provide a perpetual source of enhanced funding for health maintenance and research programs related to tobacco use.

The SBA has the statutory authority and responsibility for the investment of LCEF assets, subject to certain investment limitations and consistent with an investment policy statement approved by the Board.

In fiscal year 2002-03, the market value of the LCEF increased to $1.52 billion from $1.29 billion, due to an investment gain of $67 million and additional net contributions of $161.6 million.



In fiscal year 2002-03, the market value of the LCEF increased to $1.52 billion from $1.29 billion...

Table 13
Lawton Chiles Endowment Fund Assets Under Management
Market Value Changes by Fund

	Account Name	Market Value 6-30-02	Net Contributions and Transfers	Investment Gain (Loss)	Market Value 6-30-03
DOMESTIC EQUITIES MANAGERS - INTERNAL					
P	Chiles Domestic Equities Portfolio	$695,935,526	$143,263,164	$25,159,059	$864,357,749
FIXED INCOME MANAGERS - INTERNAL					
P	Chiles Government/Corporate Portfolio	137,953,679	(3,950,000)	17,608,872	151,612,551
FIXED INCOME MANAGERS - EXTERNAL					
P	Lincoln Capital Management	78,608,379	(4,470,512)	4,564,166	78,702,033
INTERNATIONAL EQUITIES MANAGERS - EXTERNAL					
P	Barclays Global Investors-MSCI ACWI	82,137,986	15,600,000	(2,409,998)	95,327,988
A	Capital Guardian	78,618,300	18,173,528	(1,683,837)	95,107,991
INFLATION-INDEXED BONDS - INTERNAL					
P	Inflation Linked Treasury	151,226,527	(11,348,627)	21,398,716	161,276,616
REAL ESTATE MANAGERS - EXTERNAL					
P	Chiles Endowment Real Estate	54,937,050	3,359,965	2,233,607	60,530,622
CASH/SHORT-TERM MANAGERS - INTERNAL					
A	CAMP Money Market Fund	13,247,283	739,586	126,207	14,113,076
BIOMEDICAL RESERVE - INTERNAL					
P	Biomedical Reserve Government/Corporate	345,408	232,896	52,325	630,629
TOTAL LAWTON CHILES ENDOWMENT		$1,293,010,138	$161,600,000	$67,049,117	$1,521,659,255

A - Active P - Passive

Investment Objectives

Florida law specifies that the LCEF shall be managed as an annuity, with an investment objective of long-term preservation of the real value of the principal. The law further requires a specified regular annual cash outflow for appropriation, as nonrecurring revenue.

In February 2003, the Trustees approved changes to the investment policy statement with the goal of improving the prospects for long-term solvency of the Fund and increasing future payouts, given the fact that additional contributions from tobacco settlement monies are not expected.

The changes, effective July 1, 2003, replaced the previous fixed annuity payout structure with a participating annuity structure. Under the new structure, 75% of the regular annual cash outflow will be based on the prior year inflation-adjusted payout; the remaining 25% will be based on a factor designed to increase the probability of preserving the inflation-adjusted value of contributed capital over a 30-year horizon.

Table 14
Lawton Chiles Endowment Fund Asset Allocation
Fiscal Year 2002–2003

Asset Class	Target Asset Allocation	Policy Range
Domestic Equities	56%	51-61%
Fixed Income	16%	11-24%
International Equities	12%	6-18%
Inflation-Indexed Bonds	11%	6-16%
Real Estate	4%	1-8%
Cash/Short-Term	1%	0-10%

Table 15
Lawton Chiles Endowment Fund Asset Allocation by Quarter

($ billions)

Asset Class	9-30-02	12-31-02	3-31-03	6-30-03
Domestic Equities	$623.71	$673.55	$764.05	$864.36
Fixed Income	203.50	206.97	232.06	230.31
International Equities	123.15	133.37	158.32	190.44
Inflation-Indexed Bonds	144.45	145.37	162.64	161.28
Real Estate	48.31	48.87	58.37	60.53
Cash/Short-Term	12.17	12.21	15.25	14.11
Biomedical Reserve	0.37	0.37	0.38	0.63
Total	$1,155.66	$1,220.71	$1,391.07	$1,521.66

Fund Performance

The current Total Fund Investment Plan identifies the target asset allocation for each asset class shown in Table 14. More than half of the assets of the LCEF were allocated in domestic equities, within the policy range.

Table 15 reflects the actual asset allocation (in dollars) of the Fund at the end of each quarter of fiscal year 2002-03. The allocation remained relatively close to the target allocations throughout the year.

The performance of the LCEF is measured against a relative target, and each asset class is measured relative to a broad market index. The Fund's relative target return is an average of those indices' returns, weighted according to the target allocations specified in Table 14.

With a total return of 3.58%, the LCEF outperformed its since-inception target, but lagged the target for the fiscal year, due primarily to asset allocation. Managed returns[6], net of external manager fees, and returns of the target indices are presented in Table 16.

As of June 30, 2003, the inflation-adjusted value of total contributions to the LCEF was $1.61 billion (in 1999 dollars) but the comparable net asset value was $1.38 billion, or 14.7% below total contributions.

Our long-term annual real target rate of return for the LCEF is 4.32%. Actual returns have been negative each fiscal year, except for 2000 and 2003, since the Fund was established, at the peak of the 1990s bull market.

Table 16
Lawton Chiles Endowment Fund
Aggregate Investment Performance
Annualized Returns for Selected Periods
Ending June 30, 2003

	Since Inception %	1 Year %
Total Endowment		
Managed Return	-1.11	3.58
Long-Term Absolute Target[1, 2]	6.96	6.52
Relative Target[3]	-1.27	3.73
Domestic Equities		
Managed Return	-6.48	0.75
Target[4]	-6.26	0.70
Fixed Income		
Managed Return	8.96	10.93
Target[5]	8.68	10.41
International Equities		
Managed Return	-11.38	-4.76
Target[6]	-11.95	-4.95
Inflation-Indexed Bonds		
Managed Return	13.09	15.39
Target[7]	12.60	15.39
Real Estate		
Managed Return	14.74	2.87
Target[8]	16.66	2.94
Cash/Short-Term		
Managed Return[9]	3.58	1.49
Target[10]	3.70	1.35

Managed returns are net of external investment manager fees.

For footnotes to tables see page 61.

With a total return of 3.58%, the LCEF outperformed its since-inception target, but lagged the target for the fiscal year…

Table 17
Lawton Chiles Endowment Fund External Investment Management Fees

Asset Class	FY 2002-03 Dollar Amount	Return Basis[1]
International Equities	355,721	0.23%
Fixed Income	40,188	0.05%
Real Estate	109,445	0.20%
Total	505,354	0.18%

For footnotes to tables see page 61.

6 Managed returns are the returns actually earned on the portfolio.

Local Government Surplus Funds Trust Fund

The goal of the Local Government Surplus Funds Trust Fund, also known as the Local Government Pool, is to help local governments maximize earnings on invested surplus funds which, in turn, lessens the need for imposing additional taxes.

On June 30, 2003, funds under management were valued at approximately $18.1 billion, up 21.5% from $14.9 billion a year earlier. During the year, 794 local government participants held 1,793 accounts.

The portfolio objective is to provide a short-term, very liquid, high quality investment vehicle to participating local governments. Local governments

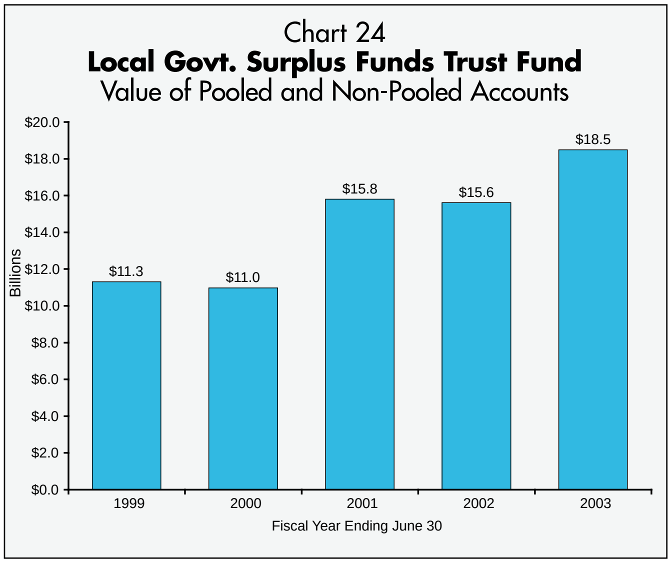
Almost 800 local governments in Florida benefit from the SBA's experience in managing and investing surplus funds on their behalf. (above: Osceola County courthouse, the oldest courthouse in continuous use in Florida)

The portfolio objective is to provide a short-term, very liquid, high quality investment vehicle to participating local governments.

typically invest in the pooled fund, but may establish separate special accounts, when specific needs exist, at the discretion of the Executive Director. The SBA operates the pool as a "2a-7 like" fund using the SEC investment requirements [Part 270 of the Investment Company Act of 1940 (17 CFR 270.2a-7, Money Market Funds)] as guidance, as well as all accounting and reporting requirements of Governmental Accounting Standards Board Statement No. 31, which governs investment pools for governmental entities. Participants' funds are made available on a daily basis.

For the fiscal year, a short average maturity range was maintained, consistent with projected cash needs of the accounts. The average maturity on June 30, 2003 was 67 days. Average maturity is adjusted during the year, depending on market conditions and cash flows. For fiscal year 2002-03, the rate of return averaged 1.65%. Investment policy enumerates authorized securities for both pooled and special accounts, which consist of United States government and agency securities and high quality money market instruments.

Since the local government investment pool typically owns a substantial amount of Treasury bills and notes, as well as agency discount notes, we utilized four securities lending programs to generate supplemental income. One was a principal lending program where the SBA loaned securities directly to the dealer; the other three were agent where the agent loaned to multiple borrowers. The income from securities lending is credited to the pool fund and contributes to the rate of return. During the year, the lending program generated income of $9.5 million.



The SBA invests funds on an individual basis for local governments with specific needs. There were only two individual participants as of June 30, 2003, with total assets under management of $395.3 million. Rates of return for separately managed local government accounts may vary from those earned on the Local Government Pool due to their special needs and differing investment strategies.

Debt Services Accounts

An important role of the SBA is to administer debt service funds for bonds issued by the Division of Bond Finance on behalf of any state agency. The SBA is also the agent responsible for investing all funds of the Division, including all reserve funds.

The governance of the Division of Bond Finance is independent of the SBA – the Division reports to the Cabinet, not to the SBA Trustees. Only the administration of the Division is housed at the SBA.

The SBA invests all debt service funds in a manner consistent with the provisions of the authorizing bond resolutions, official statements and the current strategy of the SBA. Under the investment policy,

An important role of the SBA is to administer debt service funds for bonds issued by the Division of Bond Finance on behalf of any state agency.

Table 18
Local Government Surplus Funds Trust Fund

	Market Value 06/30/03	% of Total
POOLED ACCOUNTS		
Cash	$4,769,697	0.0%
Commercial Paper	8,254,891,062	44.7%
Federal Agency Obligations	4,278,724,502	23.1%
Floating/Adjustable Rate Notes	2,781,891,015	15.1%
Repurchase Agreements	449,623,986	2.4%
Treasury Bills, Notes & Bonds	2,320,281,743	12.6%
Total Pooled Investments	$18,090,182,005	97.9%
NON-POOLED ACCOUNTS		
Cash	1,508	0.0%
Commercial Paper	248,289,195	1.3%
Federal Agency Obligations	19,973,000	0.1%
Repurchase Agreements	127,057,529	0.7%
Total Non-Pooled Investments	$395,321,232	2.1%
Grand Total Local Government Surplus Funds	$18,485,503,237	100.0%

Market value includes accrued interest. In addition, the Pooled Investment Account includes the Local Government Pool Securities Lending Account.

The Board currently administers 40 escrows that have defeased approximately $2.28 billion of outstanding bonds.

authorized securities are U.S. Treasury securities and repurchase agreements backed by U.S. Treasury securities.

From time to time, the SBA, acting as a trustee and escrow agent, may enter into Escrow Deposit Agreements with state agencies or the Division on behalf of a state agency. Under such agreements, previously issued debt may be refunded through the issuance of new debt. An irrevocable trust fund, or escrow fund, is created and established with the SBA and held in the custody of the SBA, separate and apart from all other funds.

Payments of refunded bonds are made in the following manner: State agencies make provisions for payment by depositing money and/or securities in escrow funds. The payments, coupled with investment earnings, must be enough to pay the bond principal, interest and redemption premiums, if any, when the refunded bonds mature or are called for redemption. In accordance with their Escrow Agreement, independent firms must provide verification of such sufficiency.

During the fiscal year, 18 existing bond issues were either partially or completely defeased through the issuance of new debt; nine of the 18 were defeased through current refundings and called for redemption.

As escrow agent, the SBA continues to administer bond issues that were not called for redemption in fiscal year 2002-03. In prior years, bonds have been defeased by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. The Board currently administers 40 escrows that have defeased approximately $2.28 billion of outstanding bonds.

Table 19 shows the total cash and market value of investments held by the SBA as trustee and escrow agent for all debt service funds as of June 30, 2003, compared with a year earlier.

Florida Hurricane Catastrophe Fund

The Florida Hurricane Catastrophe Fund provides reimbursements to insurers for a portion of catastrophic hurricane losses. This important fund was created in 1993 in response to Florida's property insurance crisis resulting from Hurricane Andrew.

In keeping with our commitment to enhancing and protecting Florida's future, the SBA recognizes the Fund as critical to promoting the confidence of residential property insurers in the Florida market.

The Florida Hurricane Catastrophe Fund is financed by three sources:

- Reimbursement premiums charged to participating insurers;
- Investment earnings; and
- Emergency assessments on property and casualty insurers.

The SBA's role as investment advisor is to help the Fund provide highly economical coverage for insurers that write residential property insurance in the state. We focus on generating investment earnings while maintaining liquidity.

On June 30, 2003, the market value of the Florida Hurricane Catastrophe Fund was $4.9 billion, up from $4.36 billion a year earlier. A securities-lending program is in place for Fund investments and utilized as market conditions warrant. For fiscal year 2002-03, net lending income totaled about $958,000.

Department of the Lottery Fund

Since 1989, the SBA has managed this fund and been responsible for investing money from the Florida Department of the Lottery into U.S. Treasury zero-coupon bonds (STRIPS). Each component of a STRIP matures on a specific date, allowing the SBA to closely match yearly maturity dates for payouts to Lottery winners. As of June 30, 2003, the market value of Lottery Fund investments totaled $2 billion.

In fiscal year 1998-99, the "Lotto" payout was changed from a 20-year term to a 30-year term when the Lottery began offering a cash option to winners. The SBA purchases up to 29 serial amounts depending upon the game, which, along with one cash payment, reflect the prize winnings available for disbursement to those winners electing annual payments.

The SBA also provides investment services for the following Department of Lottery games: "Win for Life," "Big Ten Instant Ticket," "Monthly Bonus," "TV Game Show," "Win a Million," "Yearly Dividend" and "$1,000,000 Cash Spectacular." A securities-lending program remains in place for the Lottery securities. For fiscal year 2002-03, net lending income totaled $5.19 million.

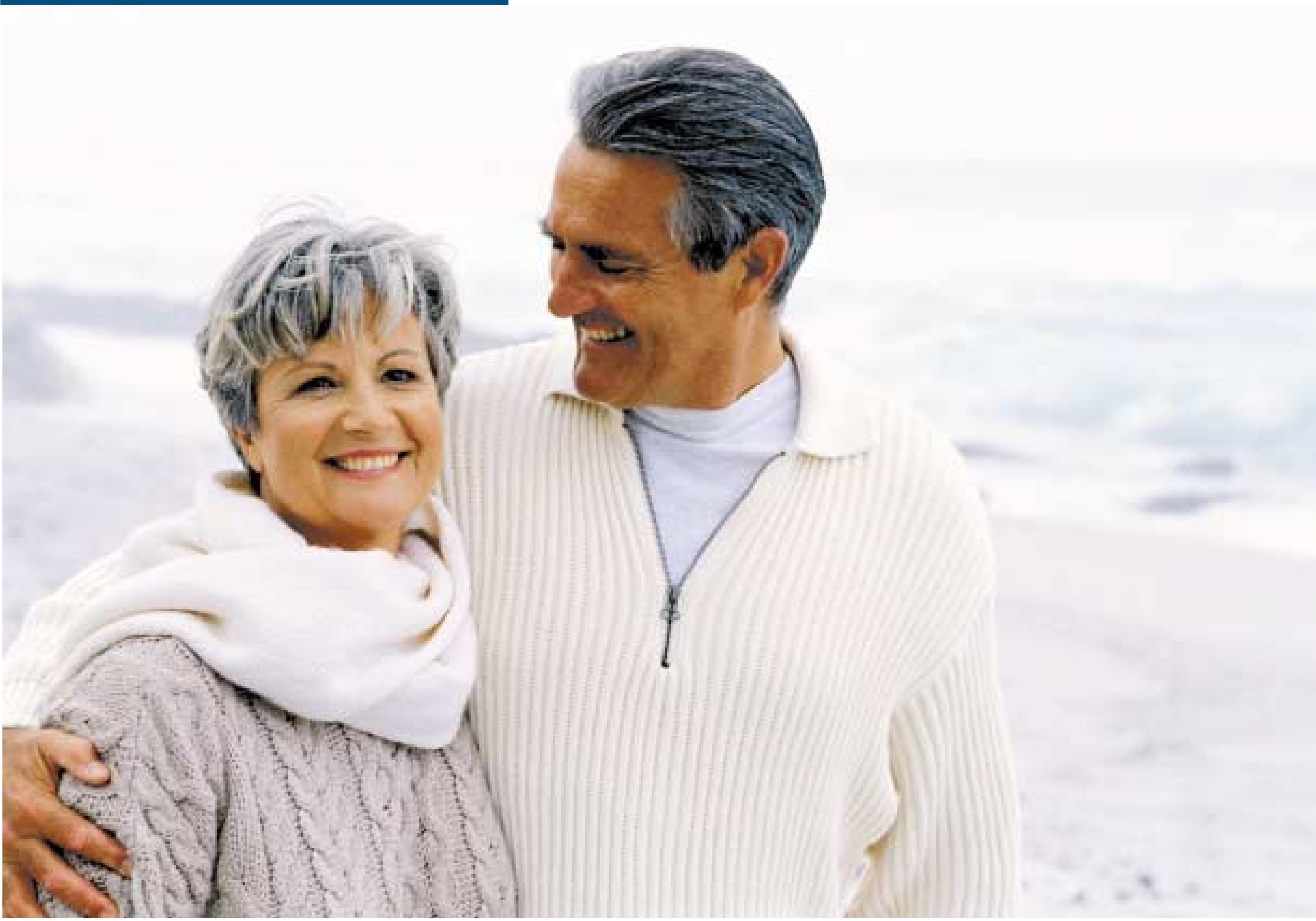
Table 19
SBA Debt Service Accounts
Cash and Investments at Fiscal Year End

	Market Value 6-30-02	Market Value 6-30-03
Cash	$6,026,519	$397,461
Repurchase Agreements backed by U.S. Government Securities	128,055,471	62,990,922
U.S. Treasury Bills, Notes & Bonds	668,855,812	588,434,795
Escrow, U.S. Government, State & Local Government Series	2,062,473,161	1,746,503,423
STRIPS	578,991,295	154,200,015
State Treasurer Investment Pool	0	126,095,014
Total Investments	$3,444,402,258	$2,678,621,630

Market value includes accrued interest.

The Florida Hurricane Catastrophe Fund provides reimbursements to insurers for a portion of catastrophic hurricane losses.

Other Investment Funds Under SBA Management



The SBA manages the assets of a fund that helps reduce the health insurance costs of more than 170,000 retired public employees in Florida.

Mandates Utilizing Multiple Asset Types

Division of Blind Services Trust Fund

The SBA has been investing monies for the Division of Blind Services of the Florida Department of Education under a trust agreement since November 1999. The SBA has invested the monies in various SBA investment vehicles. The trust agreement makes available to the client three SBA-managed commingled pools: the CAMPMM Fund, the CAMPFI, and the CAMPDE, with asset allocation of the fund at the discretion of the client. The market value of the Blind Services Trust Fund on June 30, 2003 was $2.49 million, compared with $3.57 million a year earlier. Funds of $1.2 million were returned to the Division during the fiscal year.

Institute of Food and Agricultural Sciences (IFAS) Supplemental Retirement Fund

The SBA invests assets of the Institute of Food and Agricultural Sciences Supplemental Retirement Fund. The Florida Legislature created the Fund in 1984 to supplement the retirement benefits of certain IFAS employees. The intent was to provide them with a retirement benefit equal to what they would have received under the Florida Retirement

System, plus Social Security (for which Federal employees are not eligible). The Department of Management Services administers the IFAS supplemental retirement benefits plan.

Satisfying liquidity needs is the primary investment objective of this portfolio. Authorized investments are restricted to U.S. government and agency securities and investment-grade corporate bonds as well as high-quality money market instruments. Currently approximately half of the fund is invested in a commingled money market fund (CAMPMM) and the remainder in U.S. agency securities. As of June 30, 2003, the market value of the fund was $14.4 million; a year earlier the value was also $14.4 million.

Retiree Health Insurance Subsidy Trust Fund

The Retiree Health Insurance Subsidy Trust Fund facilitates the Division of Retirement's administration of health insurance subsidy payments to retired members of state-administered retirement systems. The benefit is $5 per year of creditable service, with a maximum benefit of $150 per month and a minimum of $30. The program is funded by a mandatory employer payroll contribution of 1.11%.

The investment objective of the Fund is to provide the necessary liquidity to meet distribution requirements. The Division of Retirement provides information relative to projected cash flows that is used to develop appropriate investment strategies to maximize return.

The Fund is a participant in a commingled money market fund (CAMPMM) and also holds investments in longer-term U.S. Treasuries, agencies or corporate issues. Only 2% of portfolio holdings may have maturities between 3 and 5 years and no individual security can have a final maturity date longer than 5 years. Securities purchased are consistent with Florida Statutes 215.47 and have investment-grade credit ratings.

As of June 30, 2003, the market value of the fund was $107.8 million, compared with $79.4 million a year earlier.

SBA Administrative Trust Fund

The objective of the SBA Administrative Trust Fund is to provide the SBA with sufficient liquidity to accommodate timely payment of operating costs while generating a return on monies that are not

required to meet immediate operating needs. The SBA allocates and collects its total operating expenses from the various funds under management in accordance with state law and from various bond sinking funds in accordance with an approved allocation plan. Portfolio structure is dependent upon liquidity needs over time.

Approximately 11% of the Fund is invested in CAMPMM. Because of the foreseeable pattern of most SBA expenses over the fiscal year, the balance is invested in the higher-yielding Fixed Income Commingled Fund (CAMPFI).

Budgeted administrative expenses of the SBA for fiscal year 2002-03 totaled $28.97 million, while actual administrative expenses for the period totaled $24.6 million. On June 30, 2003, the market value of the Fund was $33.5 million, versus $35.7 million a year earlier.

The Retiree Health Insurance Subsidy Trust Fund facilitates... health insurance subsidy payments to retired members of state-administered retirement systems.

The Inland Protection Financing Corporation was created by Florida Statute for the purpose of financing the rehabilitation of petroleum contamination sites.

Inland Protection Financing Corporation

The Inland Protection Financing Corporation was created by Florida Statute for the purpose of financing the rehabilitation of petroleum contamination sites. The Corporation, which is administratively housed within and staffed by the SBA, can issue bonds to pay claimants and is authorized to use funds from the Inland Protection Trust Fund to pay debt service.

In 1998, the Corporation issued $253.3 million in bonds. Once all bonds are repaid, the Corporation's statutory responsibilities will cease and the SBA will have no further responsibility to the program. Under state law, the Corporation shall terminate on July 1, 2011.

The funds are held and invested pursuant to a trust agreement between the Inland Protection Financing Corporation and the SBA. The Bank of New York is the custodian of the assets. Liquidity and preservation of capital are important considerations of the Fund. The SBA manages the Fund internally with investments in short-term, high quality money market securities. As of June 30, 2003, the fund value was $11.5 million, which included $4,996 in operating monies that were invested in the CAMPMM Fund.

Investment Fraud Restoration Financing Corporation

Created by state law in 1998, this non-profit public benefits corporation finances the compensation of approximately 1,200 Florida citizens who suffered security losses as a result of actions by Guaranteed Investment Contract Government Securities, Inc. (GIC). The total amount of losses was nearly $25 million, with the Corporation expected to satisfy post-bankruptcy remaining claims of approximately $10.8 million. The GIC claims account was funded primarily by the proceeds from bonds issued by the Corporation in the amount of $8.93 million. The bonds are being repaid by monies from the Department of Banking and Finance that are derived from a portion of the application and renewal fees paid by "associate persons" for licensure under Chapter 517, Florida Statutes. These persons are employees and agents of licensed securities dealers who represent securities to the public. Virtually all eligible claims have now been paid. Monies remaining in the fund upon the resolution of claims, if any, will be transferred to the Department of Financial Services. The investment horizon of this fund is very short, since payment of bond proceeds to eligible claimants has been relatively rapid.

During the 2002-03 fiscal year, $24,416 in claims were paid from the GIC claims account. The market value of this fund on June 30, 2003 was $981,060 of which $307,695 represented operating monies invested in the CAMPMM Fund.

Florida Education Fund, Inc. – McKnight Doctoral Fellowship Program

The SBA manages endowment monies for the McKnight Doctoral Fellowship Program under a trust agreement with the Florida Education Fund, Inc., a not-for-profit statutory corporation. The program assists candidates with educational endeavors

and enhances opportunities for program graduates to be hired for faculty positions in Florida. The initial transfer of $9 million in securities is, at the present time, client-directed, meaning that the SBA is responsible for custody of the securities, but not for managing them. Income from these assets that is not withdrawn by the client is invested in the CAMPMM Fund, whose investments the SBA does manage. The trust agreement also makes available to the client three SBA-managed commingled pools: the CAMPMM Fund, the CAMPFI, and the CAMPDE. On June 30, 2003, the market value of the Fellowship Program fund totaled $7.14 million, compared with $9.7 million a year earlier.

Commingled Investment Vehicles

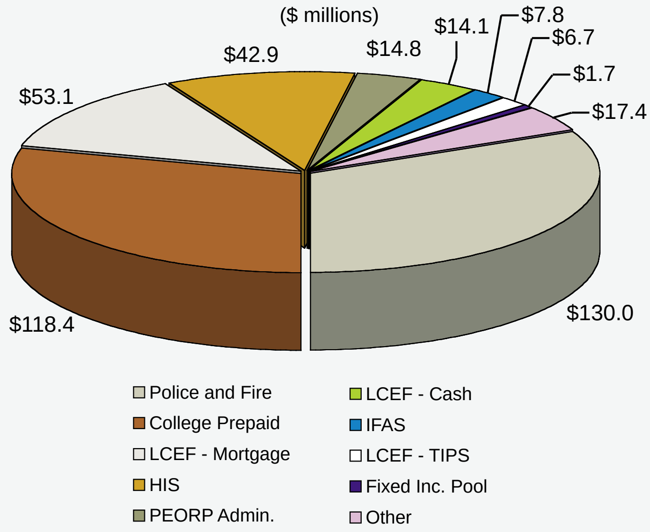
The number of non-pension trust and endowment investment mandates under SBA management continues to grow. Since these funds are typically small and have similar investment objectives, the most efficient way to manage these mandates is in a commingled – or combined – manner. Since 1999, three commingled pools have been created to meet this need.

Commingled Asset Management Program - Money Market (CAMPMM)

The CAMPMM Fund was created in July 1999 to provide a high quality, liquid vehicle for small accounts with short investment horizons, requiring liquidity with a focus on preservation of capital. The CAMPMM pool was structured as a "2a-7 like" fund, using SEC investment requirements as guidance [Part 270 of the Investment Company Act of 1940 (17 CFR 270.2a-7, Money Market Funds)]. Authorized investments may include United States governments and agencies, repurchase agreements, and high quality money market instruments. The market value of the CAMPMM Fund on June 30, 2003 was $407.1 million, an increase from $314.4 million a year earlier.

In addition to commingling the assets of trust and endowment mandates with short-term investment objectives, the CAMPMM pool also invests the cash allocation component or residual cash for longer term, multi-asset class portfolios. The Lawton Chiles Endowment Fund, the Florida Education Fund, Inc. - McKnight Doctoral Fellowship Program, and the Blind Services Endowment are three multi-asset class portfolios with a cash allocation component invested in the CAMPMM Fund.

Chart 25
CAMPMM Participants & Asset Values
as of June 30, 2003



The following eight mandates are invested solely in CAMPMM. Mandates invested in CAMPMM and other vehicles are described in separate narratives:

1) Arbitrage Compliance Trust Fund

The Division of Bond Finance's Arbitrage Trust Fund is utilized to account for the fees and expenditures of the Division of Bond Finance related to ensuring compliance with the provisions of federal arbitrage laws. Maintaining ready availability of these monies is the primary objective of the fund. The market value of the Trust Fund was $1.27 million on June 30, 2003, compared with $1.05 million a year earlier.

2) Division of Bond Finance Bond Fee Trust Fund

This fund is utilized to account for fees and expenditures of the Division of Bond Finance related to the issuance of bonds, administering the Private

The number of non-pension trust and endowment investment mandates under SBA management continues to grow.

Activity Bond Allocation Program and the Local Government Bond Disclosure Information Program. On June 30, 2003, the market value of the Fund was $1.88 million, versus $1.89 million a year earlier.

3) Florida Endowment for Vocational Rehabilitation Trust Fund

The Florida Endowment for Vocational Rehabilitation was enacted to enhance the opportunities for Florida's disabled citizens to become self-supporting, productive members of society. Funding for the Trust Fund is generated from certain authorized municipal surcharges, such as fines imposed against designated civil penalties. The target principal of the endowment was set at $1 million in fiscal year 2000-01 and increases by 5% per fiscal year thereafter. Any monies in the endowment in excess of its principal requirement are available to the Florida Endowment Foundation for Vocational Rehabilitation. Because of liquidity requirements, the fund is fully invested in CAMPMM. As of June 30, 2003, the market value of the Fund was $1.89 million, compared with $1.84 million a year earlier.

4) Florida Prepaid College Foundation

The SBA administers the short-term investments for the Florida Prepaid College Foundation, which was created by Florida Statute as the direct support organization of the Florida Prepaid College Board. Through the Foundation, businesses, community groups and individuals can make tax-deductible contributions to the Foundation that fund Prepaid Plan scholarships. In addition, the Foundation also administers the Florida Prepaid Tuition Scholarship Program. This program was designed to redirect the lives of children who are economically disadvantaged and at risk of dropping out of school, and provide them with the opportunity and motivation to attend college. Students must comply with eligibility requirements to receive Project STARS scholarships. Satisfying liquidity needs is the primary investment objective of this investment mandate. On June 30, 2003, the market value of the fund was $3.83 million, compared with $7.50 million a year earlier.

5) Florida Prepaid College Program

The SBA administers some of the Florida Prepaid College Program assets. The program, established by the Legislature in 1987, enables parents and others to lock in the future cost of college at current tuition rates. Subsequently, the Legislature established the College Savings Program, which allows parties to lock in future living expenses of students at Florida universities and colleges at current rates. The SBA administers monies sufficient to meet the immediate obligations of the prepaid and savings programs and to cover the administrative expenses of these programs. Three separate funds are utilized for these purposes, each dedicated to a particular aspect of the Prepaid Plan's fiscal operations. All have the primary objective of liquidity. As of June 30, 2003, the market value of these funds was $119 million, versus $123 million a year earlier.

6) The Public Employee Optional Retirement Program (PEORP) Administrative Fund

This fund was created within the Florida Retirement System by state law, effective July 1, 2002, and in compliance with Section 401(a) of the Internal Revenue Code, which requires that monies to implement the Fund be held in trust. It holds FRS employer contributions that support the administrative (i.e. non-investment management) costs of the FRS Investment Plan and the MyFRS Financial Guidance Program. On June 30, 2003, the market value of the Fund was $14.78 million.

7) Police and Firefighters' Premium Tax Trust Fund

Under state law, the SBA invests the monies deposited into the Police and Firefighters' Premium Tax Trust Fund. Funding is generated from quarterly payments of a tax that insurance companies pay on property insurance premiums. The Division of Retirement makes annual distributions from the Fund to eligible municipalities. The investment horizon for these funds is short term and a high degree of liquidity is essential. As of June 30, 2003, the market value of the Fund was $129.9 million, versus $117.8 million a year earlier.

8) Tobacco Settlement Clearing Trust Fund

The SBA manages the assets for the Tobacco Settlement Clearing Trust Fund, established within the Department of Banking and Finance (DBF), pursuant to state law. These funds are to be invested by the SBA, pending notification by the DBF that funds should be released to meet specified program needs approved through the legislative budget process. The DBF is then responsible for the subsequent distribution of monies to the respective agencies. The market value of the Fund as of June 30, 2003 was $0, compared with $12.8 million a year earlier.

Commingled Asset Management Program – Fixed Income (CAMPFI)

This commingled portfolio was established to provide exposure to the long-term fixed income market for non-qualified (i.e., non-pension) investment mandates entrusted to the SBA. Like CAMPMM, the money-market pool, each fund that participates in the pool holds units, similar to investing in a mutual fund. The objective of the portfolio is to match the total return achieved by the Lehman Brothers Aggregate Bond Index excluding the Mortgage-Backed Securities component.

Participants in the Fixed Income Pool are the SBA Administrative Expense Fund ($29.9 million), the Division of Blind Services Trust Fund ($1.2 million), the Lawton Chiles Endowment Fund ($151.6 million), and the Lawton Chiles Endowment Biomedical Reserve Fund ($.63 million). Amounts in parentheses represent June 30, 2003 positions.

Commingled Asset Management Program – Domestic Equities (CAMPDE)

The objective of the Domestic Equity Pool is to provide investment returns and risk exposures matching that of the Tobacco Free Russell 3000 index (the benchmark) for the benefit of certain non-pension SBA investment mandates. It is currently managed as a passive portfolio with no intentional active risk relative to the benchmark. Like CAMPMM, the money-market pool, each fund that participates in this pool holds units of CAMPDE, similar to investing in a mutual fund.

The Lawton Chiles Endowment Fund ($864 million) and the Division of Blind Services ($1.2 million) are the participants in the Domestic Equity Pool. (June 30, 2003 net asset values)

Other Mandates Utilizing Single Asset Types

Gas Tax Trust Fund

The Gas Tax Trust Fund is used to account for the receipt and disbursement of monies received from County Gas Tax collections and remitted to the Department of Revenue and to the Department of Highway Safety and Motor Vehicles. These collections are then transferred to the SBA to fulfill existing debt service requirements. The SBA subsequently returns to the respective counties any excess not required for debt service. Thus, the Gas Tax Trust Fund is a conduit for the distribution of debt service payments.

When funds are held in anticipation of debt repayment, they are invested in short-term repurchase agreements. The market value of the Gas Tax Trust Fund on June 30, 2003 was $0.

Bond Proceeds Trust Fund

The Bond Proceeds Trust Fund is a fiduciary fund established to hold good faith deposits from brokers and underwriters of Florida government bonds received by the Division of Bond Finance. The trust fund holds these monies until the bonds are issued and at that time transfers the proceeds to the indebted unit of government.

Because the monies reside with the SBA only briefly, the objective of the fund is safety and liquidity. The fund is invested in repurchase agreements backed by U.S. Treasury securities. On June 30, 2003, the market value of the fund was $9.4 million.

Under state law, the SBA invests the monies deposited into the Police and Firefighters' Premium Tax Trust Fund.

Appendix
Supplemental Tables

Table 20
Total SBA Assets Under Management – Market Value by Program
As of June 30 Fiscal Year End

Fund Name	1999	2000	2001	2002	2003
Florida Retirement System	$96,393,916,000	$106,630,007,835	$98,206,820,075	$89,529,016,994	$90,416,381,762
Lawton Chiles Endowment Fund	0	1,181,023,545	1,256,760,220	1,293,010,138	1,521,659,255
Local Government Pool	11,214,028,422	10,849,186,521	15,446,050,263	14,925,388,335	18,090,182,005
Local Government Non-Pool	94,023,607	132,661,275	357,103,462	687,731,746	395,321,232
Debt Service	4,476,313,442	3,884,643,594	4,224,394,821	3,444,402,258	2,678,621,630
Department of the Lottery	2,156,603,913	2,054,143,520	2,032,150,012	1,992,100,103	2,024,204,715
Retiree Health Insurance Subsidy	71,103,637	62,760,211	56,004,038	79,428,768	107,827,214
Gas Tax	0	0	0	0	0
Revenue Bond Fee	3,198,312	2,765,522	2,176,272	1,886,201	1,876,969
Bond Proceeds	0	0	0	0	9,416,413
Florida Hurricane Catastrophe	2,549,857,078	3,155,688,060	3,798,479,154	4,363,178,080	4,943,165,688
Inland Protection Financing Corp.	24,833,952	15,293,272	12,326,770	11,411,943	11,471,325
Invst. Fraud Restoration Fin. Corp.	10,964,847	895,189	789,130	689,606	981,060
McKnight Education Fund	0	6,227,982	9,473,673	9,698,003	7,143,606
Blind Services	0	3,915,915	3,780,710	3,571,030	2,497,492
SBA Administrative	28,786,725	33,280,853	34,502,258	35,671,937	33,524,288
FRS Investment Plan Administrative (PEORP)	0	0	14,647,836	9,525,633	14,779,324
FRS Investment Plan (PEORP)	0	0	0	0	333,200,316
Inst. of Food & Agricultural Sciences	12,503,941	13,380,858	14,169,227	14,374,467	14,399,720
Fla. Endowment for Voc. Rehab.	6,339,158	6,833,786	1,799,785	1,843,936	1,897,777
Arbitrage Compliance	752,693	811,693	848,434	1,046,564	1,268,645
Police and Firefighters	46,186,260	118,962,662	110,304,525	117,798,088	129,984,637
Florida Prepaid College Program [1]	86,771,488	13,471,604	3,752,723	122,713,126	119,006,169
Florida Prepaid College Foundation	5,303,979	9,006,154	11,171,095	7,504,607	3,825,018
Tobacco Settlement Clearing	946,022,241	271,225	0	12,802,543	0
Florida Endowment Foundation	0	528,321	560,200	0	0
Market Value Totals	$118,127,509,695	$128,175,759,597	$125,598,064,683	$116,664,794,106	$120,862,636,260

Market value includes cash, investments, accrued income, and pending investment trades for all funds.

For footnotes to tables see page 61.

Table 21
Total SBA Assets Under Management
Market Value Changes by Fund

Fund Name	Market Value 6-30-02	Net Contributions and Transfers	Investment Gain(Loss)	Market Value 6-30-03
Florida Retirement System	$89,529,016,994	$(1,864,235,584)	$2,751,600,352	$90,416,381,762
Lawton Chiles Endowment Fund	1,293,010,138	161,600,000	67,049,117	1,521,659,255
Local Government Pool	14,925,388,335	2,875,184,401	289,609,269	18,090,182,005
Local Government Non-Pool	687,731,746	(302,329,303)	9,918,789	395,321,232
Debt Service	3,444,402,258	(926,549,392)	160,768,764	2,678,621,630
Department of the Lottery	1,992,100,103	(209,902,675)	242,007,287	2,024,204,715
Retiree Health Insurance Subsidy	79,428,768	26,532,353	1,866,093	107,827,214
Gas Tax	0	(71,218)	71,218	0
Revenue Bond Fee	1,886,201	(40,349)	31,117	1,876,969
Bond Proceeds	0	9,352,757	63,656	9,416,413
Florida Hurricane Catastrophe	4,363,178,080	475,082,375	104,905,233	4,943,165,688
Inland Protection Financing Corporation	11,411,943	(101,500)	160,882	11,471,325
Investment Fraud Restoration Fin. Corp.	689,606	281,795	9,659	981,060
McKnight Education Fund	9,698,003	(3,000,000)	445,603	7,143,606
Blind Services	3,571,030	(1,200,000)	126,462	2,497,492
SBA Administrative	35,671,937	(5,636,839)	3,489,190	33,524,288
FRS Investment Plan Administrative (PEORP)	9,525,633	5,085,392	168,299	14,779,324
FRS Investment Plan (PEORP)	0	306,750,882	26,449,434	333,200,316
Institute of Food & Agricultural Sciences	14,374,467	(264,500)	289,753	14,399,720
Fla. Endowment for Vocational Rehabilitation	1,843,936	32,266	21,575	1,897,777
Arbitrage Compliance	1,046,564	204,641	17,440	1,268,645
Police and Firefighters	117,798,088	11,147,173	1,039,376	129,984,637
Florida Prepaid College Program [1]	122,713,126	3,654,881	(7,361,838)	119,006,169
Florida Prepaid College Foundation	7,504,607	(3,750,000)	70,411	3,825,018
Tobacco Settlement Clearing	12,802,543	(12,897,588)	95,045	0
Total SBA Assets Under Management	$116,664,794,106	$544,929,968	$3,652,912,186	$120,862,636,260

Market value includes cash, investments, accrued income, and pending investment trades for all funds.

For footnotes to tables see page 61.

Table 22

FRS Pension Plan Market Values by Quarter

($ billions)

Asset Class	9-30-02	12-31-02	3-31-03	6-30-03
Domestic Equities	$41.26	$45.25	$43.58	$48.33
Global Equities	0.00	0.00	0.00	0.90
International Equities	8.91	10.03	9.24	11.50
Fixed Income	21.23	20.78	21.18	20.82
Real Estate	3.69	3.54	3.56	4.14
Alternative Investments	2.77	2.83	2.86	3.05
Cash/Short-Term	0.63	1.08	0.81	1.29
Policy Transition	0.00	0.00	0.00	0.38
Defined Contribution Transition[1]	0.99	0.00	0.00	0.00
Total Fund Value	$79.49	$83.50	$81.23	$90.42

Columns may not add to totals due to rounding.

For footnotes to tables see page 61.

Table 23

FRS Pension Plan Public Market Investment Performance

Annualized Returns for Selected Periods Ending June 30, 2003

	10 Years %	5 Years %	3 Years %	1 Year %
FRSTF Public Market Investments				
Managed Return[1]	8.45	1.45	-4.86	2.95
Domestic Equities Excluding Alternative Investments				
Managed Return[2]	9.68	-1.22	-10.60	0.54
Target[3]	9.61	-1.47	-11.04	0.77
International Equities				
Managed Return[4]	4.29	-0.96	-10.40	-4.28
Target[5]	2.86	-2.80	-12.64	-4.60
Fixed Income				
Managed Return	7.43	7.16	10.14	11.43
Target[6]	7.37	7.05	9.90	10.80
Cash/Short-Term Securities				
Managed Return	5.14	4.43	3.45	1.71
Target[7]	4.47	3.93	3.04	1.35

Managed returns are net of external manager fees.

For footnotes to tables see page 61.

Tables 24 through 35 and GE-1 provide relevant information for Florida Retirement System Trust Fund (FRSTF) portfolios, by asset class, during fiscal year 2002-03. Real Estate performance is presented by manager account and market values are grouped by property type for direct-owned properties. The intent of the latter presentation is to provide the reader with further insight into the diversified nature of direct-owned properties and partnership interests in individual properties. Tabled information includes:

- Characteristics of the portfolios as to internal or external management;
- Characteristics as to active or passive management;
- Market values at the beginning and end of the fiscal year;
- Net contributions for the fiscal year;
- Investment returns for the portfolios measured in dollars;
- Rate of return for fiscal year 2002-03; and
- Attainment of benchmark returns for active and passive portfolios over the fiscal year, prior three fiscal years and prior five fiscal years, after deduction of external manager fees.

Table 24
FRS Pension Plan Domestic Equity Assets Market Value
Fiscal Year 2002–03

Account Name	Market Value 6-30-02	Net Contributions and Transfers	Investment Gain (Loss)	Market Value 6-30-03
- Active Core Portfolio	$2,492,886,808	$(770,590,529)	$(17,244,778)	$1,705,051,501
- Alliance Capital Management[3]	306,731	(306,731)	0	0
- American Express Asset Mgt. Group, Inc.	1,221,366,755	(149,820,974)	(16,255,848)	1,055,289,933
- Aronson & Partners	1,712,217,769	300,000,000	71,769,736	2,083,987,505
- Barclays Global Investors Index[3]	7,244,288,643	(6,552,690,598)	(691,598,045)	0
- Barclays Global Investors Low Cap[3]	862,255,227	(699,192,002)	(163,063,225)	0
- Barclays Global Inv. Russell 2000 Alpha[2]	0	488,379,050	119,718,759	608,097,809
- Batterymarch Financial Management[2]	0	150,000,000	29,025,655	179,025,655
- Brown Capital Management	153,008,369	0	(7,384,024)	145,624,345
- COMBAL	2,578	0	52	2,630
- David L. Babson	525,338,967	0	(27,106,551)	498,232,416
- Domestic Equities Asset Allocation	9	146,232,837	15,844,404	162,077,250
- Domestic Equities Restructuring Account	23,179	(44,587,091)	127,635,678	83,071,766
- Dresdner RCM Global Investors, LLC	973,038,657	201,495,205	22,608,414	1,197,142,276
- Enhanced Investment Technologies, Inc.	1,700,598,518	750,000,000	78,494,061	2,529,092,579
- Goldman, Sachs & Company	2,429,449,610	0	36,719,812	2,466,169,422
- Growth Index Portfolio	1,899,217,766	1,748,280,967	230,971,169	3,878,469,902
- PIVOT Portfolio	18,467,432,652	1,897,243,183	472,724,637	20,837,400,472
- Private Capital Management	1,296,632,075	(59,581,954)	96,635,606	1,333,685,727
- Prudential Asset Management Company	1,392,103,333	(300,000,000)	(96,302,054)	995,801,279
- Russell 200 Index[2]	0	3,912,746,046	429,664,107	4,342,410,153
- Sands Capital Management	346,371,821	0	16,517,886	362,889,707
- Smith Barney Capital Management[3]	1,231,000,528	(1,042,581,566)	(188,418,962)	0
- Special Situations	426,787,112	41,862,400	(9,191,925)	459,457,587
- Value Index[2]	0	2,124,958,273	336,881,594	2,461,839,867
- Wellington Management Company	932,329,609	0	14,318,996	946,648,605
- Wilshire Large Growth Fund[3]	563,387	(557,910)	(5,477)	0
Progress Trust II:[1]				
- Fuller & Thayer[3]	61,579,572	(53,000,581)	(8,578,991)	0
- Genesis Capital Management[3]	85,438,633	(71,266,447)	(14,172,186)	0
- Globalt, Inc.[3]	1,022,958	(984,290)	(38,668)	0
- Wall Street Associates[3]	77,561,413	(67,822,173)	(9,739,240)	0
Total Domestic Equities	$45,532,822,679	$1,948,215,115	$850,430,592	$48,331,468,386

For footnotes to tables see page 61.

Table 25
FRS Pension Plan Domestic Equity Accounts
Fiscal Year 2002–03 Investment Performance

	Account Name	Rate of Return	Meets or Exceeds Benchmark Over:[1] 1 Year	3 Years	5 Years
DOMESTIC EQUITIES MANAGERS - EXTERNAL					
A	Alliance Capital Management	--[3]	--[3]	--[3]	--[3]
A	American Express Asset Mgt. Group, Inc.	-0.2%	N	Y	Y
A	Aronson & Partners	0.5%	Y	Y	Y
P	Barclays Global Investors Index	--[3]	--[3]	--[3]	--[3]
P	Barclays Global Investors Low Cap	--[3]	--[3]	--[3]	--[3]
A	Batterymarch Financial Management	--[3]	--[3]	--[3]	--[3]
A	BGI Russell 2000 Alpha	--[3]	--[3]	--[3]	--[3]
A	Brown Capital Management	-4.8%	N	N	--[2]
A	David L. Babson	-5.2%	N	N	Y
A	Dresdner RCM Global Investors, LLC	1.5%	N	--[2]	--[2]
A	Enhanced Investment Technologies, Inc.	0.6%	Y	Y	Y
A	Goldman, Sachs & Company	1.5%	N	Y	Y
A	Private Capital Management	7.8%	Y	Y	Y
A	Prudential Asset Management Company, Inc.	-3.8%	N	Y	Y
P	Russell 1000 Value Index	--[3]	--[3]	--[3]	--[3]
P	Russell 200 Index	--[3]	--[3]	--[3]	--[3]
A	Sands Capital Management	4.8%	Y	--[2]	--[2]
A	Smith Barney Capital Management	--[3]	--[3]	--[3]	--[3]
A	Wellington Management Company	1.5%	Y	--[2]	--[2]
P	Wilshire Large Growth Fund	--[3]	--[3]	--[3]	--[3]
A	Progress Trust II:[4]	--[3]	--[3]	--[3]	--[3]
A	Fuller & Thaler	--[3]	--[3]	--[3]	--[3]
A	Genesis Capital Management	--[3]	--[3]	--[3]	--[3]
A	Globalt, Inc.	--[3]	--[3]	--[3]	--[3]
A	Wall Street Associates	--[3]	--[3]	--[3]	--[3]
DOMESTIC EQUITIES MANAGERS - INTERNAL					
P	Active Core Portfolio	0.5%	Y	Y	Y
NA	COMBAL	--[5]	--[5]	--[5]	--[5]
NA	Domestic Equities Asset Allocation	--[5]	--[5]	--[5]	--[5]
NA	Domestic Equities Restructuring Account	--[5]	--[5]	--[5]	--[5]
P	Growth Index Portfolio	3.0%	Y	--[2]	--[2]
P	PIVOT Portfolio	0.8%	Y	Y	Y
A	Special Situations	-2.5%	N	Y	Y

Managed returns are net of external manager fees.

A - Active P - Passive NA - Not Applicable

For footnotes to tables see page 61.

Table GE-1
FRS Pension Plan Global Equity Assets Market Value
Fiscal Year 2002–03

Account Name	Market Value 06/30/02	Net Contributions and Transfers	Investment Gain (Loss)	Market Value 06/30/03
-Fisher Investments, Inc.[1]	$0	$89,530,284	$1,106,728	$90,637,012
-FTI Institutional[1]	0	133,866,352	3,332,642	137,198,994
-McLean Budden[1]	0	180,413,752	4,751,350	185,165,102
-Putnam Advisory Co., LLC.[1]	0	195,910,785	2,724,263	198,635,048
-UBS Global Asset Management[1]	0	200,469,476	3,856,541	204,326,017
-Walter Scott & Partners, Ltd.[1]	0	87,380,975	1,613,375	88,994,350
Total Global Equities	$0	$887,571,624	$17,384,899	$904,956,523

For footnotes to tables see page 61.

Table 26
FRS Pension Plan International Equities Assets Market Value
Fiscal Year 2002–03

Account Name	Market Value 06/30/02	Net Contributions and Transfers	Investment Gain (Loss)	Market Value 06/30/03
Developed Markets:				
-Artisan Partners[1]	$0	$459,696,152	$66,429,004	$526,125,156
- Barclays Global Investors EAFE	4,866,209,210	(1,110,423,530)	(406,918,893)	3,348,866,787
- Barclays Global Investors Canada EAFE[1]	0	1,073,923,530	170,171,322	1,244,094,852
- Blairlogie Capital Management[2]	286,880,860	(218,971,289)	(67,759,717)	149,854
- Capital Guardian Trust Company	954,408,511	19,000,000	(57,823,530)	915,584,981
- Fidelity Investments[1]	0	437,778,215	47,524,878	485,303,093
- International Equity Market Exposure	196,399,703	(84,256,648)	(16,277,827)	95,865,228
- Morgan Stanley Asset Management	1,180,476,849	(89,000,000)	(37,261,385)	1,054,215,464
- Putnam Investments	934,441,019	62,000,000	(66,072,649)	930,368,370
- Sprucegrove Investment Management	866,005,173	52,800,000	(7,359,127)	911,446,046
- Templeton Investment Counsel	847,707,129	156,521,108	(48,359,495)	955,868,742
- T. Rowe Price International, Inc.[2]	447,964,445	(342,433,469)	(105,096,301)	434,675
Emerging Markets:				
- Capital Int l Emg. Mkts. Growth Fund	135,013,593	0	9,645,750	144,659,343
- Genesis Emerging Markets	173,954,878	22,700,000	20,180,202	216,835,080
- JP Morgan Fleming Asset Management	203,424,568	0	9,949,711	213,374,279
- SSgA Daily Active Emerging Markets	161,755,549	51,000,000	12,947,965	225,703,514
- SSgA Emerging Markets	215,892,411	0	13,706,907	229,599,318
Other International Equities:				
- International Equities Cash	4,933,370	(35,646,260)	32,832,797	2,119,907
Total International Equities	$11,475,467,268	$454,687,809	($429,540,388)	$11,500,614,689

For footnotes to tables see page 61.

Table 27
FRS Pension Plan International Equity Accounts
Fiscal Year 2002–03 Investment Performance

	Account Name	Rate of Return	Meets or Exceeds Benchmark Over:[1] 1 Year	3 Years	5 Years
INTERNATIONAL EQUITIES MANAGERS - INTERNAL					
NA	International Equities Asset Allocation	--[4]	--[4]	--[4]	--[4]
A	International Equities Cash	--[4]	--[4]	--[4]	--[4]
Developed Markets:					
P	International Equities Market Exposure	-6.8%	N	--[2]	--[2]
INTERNATIONAL EQUITIES MANAGERS - EXTERNAL					
Developed Markets:					
A	Artisan Partners	--[3]	--[3]	--[3]	--[3]
P	Barclays Global Investors EAFE	-5.3%	Y	Y	Y
P	Barclays Global Investors Canada EAFE (Alpha Tilts)	--[3]	--[3]	--[3]	--[3]
A	Blairlogie Capital Management	--[3]	--[3]	--[3]	--[3]
A	Capital Guardian Trust Company	-6.7%	N	N	Y
A	Fidelity Investments	--[3]	--[3]	--[3]	--[3]
A	Morgan Stanley Asset Management	-3.0%	Y	Y	Y
A	Putnam Investments	-8.5%	N	Y	Y
A	Sprucegrove Investment Management	-1.8%	Y	Y	Y
A	Templeton Investment Counsel, LLC	-9.2%	N	Y	Y
A	T. Rowe Price International, Inc.	--[3]	--[3]	--[3]	--[3]
Emerging Markets:					
A	Capital Int'l Emerging Markets Growth Fund	7.2%	Y	N	N
A	Genesis Emerging Markets	11.1%	Y	Y	N
A	JP Morgan Fleming Asset Management	4.9%	N	Y	N
A	SSgA Daily Active Emerging Markets	3.2%	N	Y	Y
P	SSgA Emerging Markets	6.4%	N	N	N

Managed returns are net of external manager fees.
A - Active   P - Passive   NA - Not Applicable

For footnotes to tables see page 61.

Table 28
FRS Pension Plan Fixed Income Assets Market Value
Fiscal Year 2002–03

Account Name	Market Value 06/30/02	Net Contributions and Transfers	Investment Gain (Loss)	Market Value 06/30/03
Aggregate:				
- BlackRock	$1,928,103,986	($445,500,000)	$182,023,601	$1,664,627,587
Government/Corporate:				
- Active Core Portfolio	8,620,134,632	(1,892,813,525)	1,030,479,568	7,757,800,675
- Florida Govt./Corp. Index Fund	4,265,990,580	(854,979,968)	489,958,542	3,900,969,154
- Taplin, Canida & Habacht	270,823,021	(71,000,000)	31,857,371	231,680,392
High Yield:				
- High Yield Asset Allocation	0	(1,695,784)	6,681,025	4,985,241
- MacKay Shields, LLC	121,782,817	161,958,578	63,101,593	346,842,988
- Offitbank[3]	335,150,301	(321,262,794)	(13,887,507)	0
- Pacific Investment Management	383,272,837	(200,000,000)	30,376,307	213,649,144
- Shenkman Capital Management LLC[2]	0	235,000,000	15,319,929	250,319,929
- W.R. Huff	292,435,944	(45,000,000)	54,337,498	301,773,442
Mortgage:				
- Fixed Income Mortgages-Active	600,050,450	62,200,000	44,563,545	706,813,995
- Fixed Income Mortgages-Passive	760,509,468	(29,500,000)	46,731,645	777,741,113
Mortgage Group Trust:[1]				
- Glenmede Asset Management	637,747,518	(216,000,000)	27,653,504	449,401,022
- Lincoln Capital Management	609,625,112	(175,000,000)	29,953,124	464,578,236
- Smith Breeden Associates	395,491,607	(66,000,000)	24,123,378	353,614,985
- Trust Company of the West	2,238,320,391	(411,000,000)	122,382,017	1,949,702,408
- Utendahl Capital Management	1,050,125,749	(354,950,064)	39,146,100	734,321,785
- Wellington Management Company	1,052,480,388	(390,771,910)	52,675,803	714,384,281
Total Fixed Income	$23,562,044,801	($5,016,315,467)	$2,277,477,043	$20,823,206,377

For footnotes to tables see page 61.

Table 29
FRS Pension Plan Fixed Income Accounts
Fiscal Year 2002–03 Investment Performance

Account Name	Rate of Return	Meets or Exceeds Benchmark Over:[1] 1 Year	3 Years	5 Years
FIXED INCOME MANAGERS - INTERNAL				
Government/Credit:				
A Active Core Portfolio	14.3%	Y	Y	--[2]
P Florida Govt./Corp. Index Fund	13.3%	Y	Y	Y
High Yield:				
NA High Yield Asset Allocation	--[4]	--[4]	--[4]	--[4]
Mortgage:				
A Fixed Inc. Mortgages-Active Synthetic	6.3%	Y	N	--[2]
P Fixed Inc. Mortgages-Passive Synthetic	6.1%	Y	Y	--[2]
FIXED INCOME MANAGERS - EXTERNAL				
Aggregate:				
A BlackRock	11.2%	Y	--[2]	--[2]
Government/Credit:				
A Taplin, Canida & Habacht	15.7%	Y	N	--[2]
High Yield:				
A MacKay Shields	16.2%	N	--[2]	--[2]
A Offitbank	--[3]	--[3]	--[3]	--[3]
A Pacific Investment Management	21.2%	Y	Y	Y
A Shenkman Capital Management LLC	--[3]	--[3]	--[3]	--[3]
A W.R. Huff	20.3%	Y	--[2]	--[2]
Mortgage Group Trust:				
P Glenmede Asset Management	5.7%	Y	Y	Y
P Lincoln Capital Management	6.5%	Y	Y	Y
A Smith Breeden Associates	7.4%	Y	Y	Y
A Trust Company of the West	6.2%	Y	Y	Y
A Utendahl Capital Management	4.4%	N	Y	Y
A Wellington Management Company	6.1%	Y	Y	Y

Managed returns are net of external manager fees.
A - Active P - Passive NA - Not Applicable

For footnotes to tables see page 61.

Table 30
FRS Pension Plan Real Estate Assets Market Value[1]
Fiscal Year 2002–03

Account Name	Market Value 06/30/02	Net Contributions and Transfers	Investment Gain (Loss)	Market Value 06/30/03
- Commingled Funds	$7,735,965	$37,217,137	$52,282	$45,005,384
- Directly Owned Investments	3,277,745,366	(142,387,706)	197,304,345	3,332,662,005
- Non-Capitalized Expenses	0	23,388	(23,388)	0
- Pending Acquisitions	37,694	366,171	62,306	466,171
- Real Estate Cash	127,235,258	24,752,321	816,096	152,803,675
- Real Estate Investment Trusts (REITS)[2]	0	200,000,000	407,305	200,407,305
- Real Estate Short-term Interest	0	(1,739)	1,739	0
- Real Estate Stock	394,855,046	(24,977,171)	35,003,598	404,881,473
Total Real Estate	$3,807,609,329	$94,992,401	$233,624,283	$4,136,226,013

For footnotes to tables see page 61.

Table 31
FRS Pension Plan Real Estate Accounts
Fiscal Year 2002–03 Investment Performance

	Account Name	Rate of Return	Meets or Exceeds Benchmark Over:[1] 1 Year	3 Years	5 Years
DIRECTLY OWNED INVESTMENTS [6]					
COMMINGLED FUNDS					
A	UBS Brinson - PMSA	--[3]	--[3]	--[3]	--[3]
A	FNBC Fund F	--[3]	--[3]	--[3]	--[3]
A	Lend Lease Prime Property Fund	--[3]	--[3]	--[3]	--[3]
A	Prudential PRISA	--[3]	--[3]	--[3]	--[3]
A	UBS RESA	--[3]	--[3]	--[3]	--[3]
A	RREEF America II	--[3]	--[3]	--[3]	--[3]
OTHER					
NA	Non-Capitalized Expenses[4]	--[2]	--[2]	--[2]	--[2]
NA	Pending Acquisitions	--[2]	--[2]	--[2]	--[2]
A	Real Estate Cash	2.0%	Y	Y	Y
A	Real Estate Investment Trusts (REITS)	--[3]	--[3]	--[3]	--[3]
NA	Real Estate Short-term Interest[5]	--[2]	--[2]	--[2]	--[2]
A	Real Estate Stock	9.2%	Y	Y	Y

Managed returns are net of external manager fees.
A - Active NA - Not Applicable

For footnotes to tables see page 61.

Table 32
FRS Pension Plan Alternative Investments Assets Market Value[2]
Fiscal Year 2002–03

Account Name	Market Value 06/30/02	Net Contributions and Transfers	Investment Gain (Loss)	Market Value 06/30/03
- Apollo Advisors V, L.P.	$25,911,173	$18,995,977	$9,354,509	$54,261,659
- Apollo Investment Fund IV, L.P.	266,639,672	(4,138,202)	(26,443,123)	236,058,347
- Carlyle Investment Management	223,732,402	(61,272,968)	35,137,017	197,596,451
- Carlyle Partners III	51,052,244	61,231,679	8,962,571	121,246,494
- Centre Capital Investments	127,451,456	(18,185,597)	(19,187,558)	90,078,301
- Chartwell Capital Investors	32,821,000	3,947,368	1,458,801	38,227,169
- Cypress Equity Fund	11,929,684	300,000	23,627	12,253,311
- Green Equity Investors III	53,250,554	6,618,410	1,035,305	60,904,269
- Hicks, Muse, Tate & Furst	116,936,535	0	16,702,231	133,638,766
- Hicks, Muse, Tate & Furst Fund IV	160,750,617	1,021,657	2,013,662	163,785,936
- Hicks, Muse, Tate & Furst Fund V	6,838,740	2,358,481	3,907,812	13,105,033
- Lexington Coinvestment Partners	396,294,438	(59,501,647)	(19,642,472)	317,150,319
- Lexington Coinvestment Partners II[1]	0	90,993,347	(1,230,332)	89,763,015
- Lexington Partners, IV, L.P.	91,348,917	(1,485,660)	(2,131,038)	87,732,219
- Lexington Capital V[1]	0	15,281,673	2,328,436	17,610,109
- Liberty Partners I	101,869,805	(60,807,498)	8,992,988	50,055,295
- Liberty Partners II	177,921,088	3,557,945	(21,516,116)	159,962,917
- Liberty Partners III	545,347,564	1,585,762	(49,907,295)	497,026,031
- Liberty Partners IV	7,175,949	110,726	(151,418)	7,135,257
- Liberty Partners V	241,785,569	27,033,690	(48,469,284)	220,349,975
- Liberty Partners VI	42,341,469	143,818,998	(1,190,578)	184,969,889
- Private Equity Cash	22,589,603	7,002,724	737,526	30,329,853
- Ripplewood Partners, L.P.	65,955,398	(9,461,127)	7,259,860	63,754,131
- Ripplewood Partners II, L.P.	5,066,872	9,691,016	(4,300,621)	10,457,267
- THL Equity Fund IV, L.P.	75,174,528	1,326,913	(11,227,935)	65,273,506
- THL Equity Fund V, L.P.	5,798,520	5,905,699	1,608,865	13,313,084
- TSG Capital Fund III, L.P.	70,702,830	1,320,774	(18,829,723)	53,193,881
- Wellspring Capital Partners III[1]	0	9,906,987	(1,320,134)	8,586,853
- Willis, Stein & Partners, L.P.	16,328,035	171,429	(1,914,676)	14,584,788
- Willis, Stein & Partners III, L.P.	36,828,768	2,671,444	(4,704,258)	34,795,954
Total Alternative Investments	$2,979,843,430	$200,000,000	($132,643,351)	$3,047,200,079

For footnotes to tables see page 61.

Table 33
FRS Pension Plan Alternative Investments Accounts
Fiscal Year 2002–03 Investment Performance

Account Name	Since Inception IRR[1]	Meets or Exceeds Benchmark Since Inception [2, 3]
ALTERNATIVE INVESTMENT MANAGERS - EXTERNAL		
Apollo Advisors V, L.P.	21.9%	--[4]
Apollo Investment Fund IV, L.P.	4.0%	Y
Carlyle Investment Management	21.0%	Y
Carlyle Partners III	1.1%	--[4]
Centre Capital Investments	-4.9%	N
Chartwell Capital Investors	-6.2%	N
Cypress Equity Fund	23.5%	Y
Green Equity Investment, L.P.	15.7%	Y
Hicks, Muse, Tate & Furst	2.3%	N
Hicks, Muse, Tate & Furst Equity Fund IV	-10.3%	N
Hicks, Muse, Tate & Furst Equity Fund V	-3.3%	--[4]
Lexington Coinvestment Partners, L.P.	2.4%	Y
Lexington Coinvestment Partners II, LP	--[5]	--[5,4]
Lexington Partners IV, L.P.	12.4%	--[4]
Lexington Partners V	--[5]	--[5,4]
Liberty Partners I	20.1%	N
Liberty Partners II	9.2%	N
Liberty Partners III	16.8%	Y
Liberty Partners IV	-19.2%	N
Liberty Partners V	-3.2%	N
Liberty Partners VI	3.1%	--[4]
Ripplewood Partners, L.P.	11.8%	Y
Ripplewood Partners II, L.P.	-34.0%	--[4]
THL Equity Fund IV, L.P.	-6.1%	N
THL Equity Fund V, L.P.	1.4%	--[4]
TSG Capital Fund III, L.P.	-12.4%	N
Wellspring Capital Partners III, L.P.	-14.9%	--[5,4]
Willis, Stein & Partners, L.P.	-21.6%	N
Willis, Stein & Partners III, L.P.	-18.8%	--[4]
ALTERNATIVE INVESTMENT MANAGERS - INTERNAL		
Private Equity Cash	4.1%	N

Managed returns are net of external manager fees.
All listed accounts are actively managed.

For footnotes to tables see page 61.

Table 34
FRS Pension Plan Miscellaneous Assets Market Value
Fiscal Year 2002–03

Account Name	Market Value 06/30/02	Net Contributions and Transfers	Investment Gain (Loss)	Market Value 06/30/03
Total Central Cash/Short-Term	$981,574,425	$305,563,108	$1,230,996	$1,288,368,529
Policy Transition				
- Domestic Equities Policy Transition[1]	$0	($18,200,753)	$20,315,594	$2,114,841
- Fixed Income Policy Transition[1]	0	384,742,922	(2,518,507)	382,224,415
Total Policy Transition	$0	$366,542,169	$17,797,087	$384,339,256
Defined Contribution Transition:				
- Domestic Equities Transition [2]	$457,689,304	($387,844,597)	($69,844,707)	$0
- International Equities Transition	145,842,295	(117,473,142)	(28,367,243)	1,910
- Fixed Income Transition[2]	347,559,362	(360,341,934)	12,782,572	0
- Cash Transition[2]	238,564,101	(239,832,671)	1,268,570	0
Total Defined Contribution Transition	$1,189,655,062	($1,105,492,344)	($84,160,808)	$1,910

For footnotes to tables see page 61.

Table 35
FRS Pension Plan Miscellaneous Accounts
Fiscal Year 2002–03 Investment Performance

Account Name	Rate of Return	Meets or Exceeds Benchmark Over:[1] 1 Year	3 Years	5 Years
CASH MANAGERS - INTERNAL				
Cash & Central Custody [2]	1.7%	Y	Y	Y
DEFINED CONTRIBUTION TRANSITION ACCOUNTS - INTERNAL				
Domestic Equities Transition	--[3]	--[3]	--[3]	--[3]
International Equities Transition	--[3]	--[3]	--[3]	--[3]
Fixed Income Transition	--[3]	--[3]	--[3]	--[3]
Cash Transition	--[3]	--[3]	--[3]	--[3]

All listed accounts are actively managed.

For footnotes to tables see page 61.

Table 36
FRS Investment Plan Assets Under Management
Market Value Changes by Asset Class ($ millions)

	Market Value[2] 6-30-02	ABO Transfers	Net Contrib. & Other Transfers	Distributions	Investment Gain (Loss)	Market Value[2] 6-30-03
Domestic Equity Funds[1]	$0.00	$106.67	$13.29	-$1.02	$15.54	$134.98
Fixed Income Funds[1]	0.00	58.26	3.54	-1.35	3.31	63.50
International Equity Funds[1]	0.00	40.74	2.05	-0.21	5.02	47.73
Inflation-Indexed Security Fund[1]	0.00	26.71	3.36	-2.11	1.72	29.68
Money Market Funds[1]	0.00	77.83	4.90	-25.99	0.00	57.12
Total Defined Contribution Program	$0.00	$310.21	$27.14	-$30.68	$25.59	$333.01

For footnotes to tables see page 61.

Notes for Tables

Notes for Table 2

1 The portfolios currently included in the Alternative Investments asset class were part of the Domestic Equities asset class prior to November 1, 1999.

2 The Defined Contribution Transition asset class was created in the fourth quarter of fiscal year 2001-02 to assist in the transfer of assets from the defined benefit pension plan to the defined contribution pension plan, which began July 2002.

Notes for Table 5

1 Managed return is inclusive of dedicated bonds and all public and private market asset class returns.

2 The Absolute Nominal Target Rate of Return is a combination of Absolute Real Return Target of 4.3% and actual consumer price inflation. The resulting return represents the level required to maintain full funding in the long run. Source of consumer price inflation data is the U.S. Department of Labor, Bureau of Labor Statistics. Annualized consumer price inflation for the 1-year period was 2.1%, for the 3-year period was 2.1%, for the 5-year period was 2.4%, and for the 10-year period was 2.4%.

3 The Relative Target is the composite of returns on the respective asset class targets, weighted by the target allocations.

4 Returns represent a weighted average of individual portfolios' net managed returns.

5 Returns represent a weighted average of individual portfolios' performance benchmark returns.

Notes for Table 6

1 These returns exclude Alternative Investments for all time periods.

2 The Domestic Equities asset class contained Alternative Investments prior to November 1, 1999.

3 The Domestic Equities Target was the S&P 500 prior to Oct. '94; from Oct. '94 - May '97, it was the Wilshire 2500; from June '97 - June '01, it was the Wilshire 2500 excluding tobacco stocks; it was the Wilshire 2500 from July '01 - June '02; and from July '02 to present, it is the Russell 3000.

4 Returns represent a weighted average of individual portfolios' net managed returns. The FRS portfolio-level performance supplement identifies which portfolios are active and passive in each asset class.

5 Returns represent a weighted average of individual portfolios' performance benchmark returns. The FRS portfolio-level performance supplement identifies which portfolios are active and passive in each asset class.

Notes for Table 7

1 International Equities began as an official asset class in July 1993.

2 The International Equities Target was EAFE prior to Apr. '95; from Apr. '95 - Oct. '99, it was a mix of 85 percent EAFE and 15 percent IFCI (50 percent weighted in Malaysia); from Nov. '99 - Dec. '00, it was the MSCI ACWI Free ex-USA custom "mixed dividend"; from Jan. '01 - July '01, it was the MSCI ACWI Free ex-USA - Daily Net Index; and from Aug. '01 to present, it is the MSCI Provisional ACWI Free ex-USA - Daily Net Index.

3 Returns represent a weighted average of individual portfolios' net managed returns. The FRS portfolio-level performance supplement identifies which portfolios are active and passive in each asset class.

4 Returns represent a weighted average of individual portfolios' performance benchmark returns. The FRS portfolio-level performance supplement identifies which portfolios are active and passive in each asset class.

Notes for Table 8

1 The Fixed Income Target was the Florida Extended Duration Index (FEDEX) prior to August '97; from Aug. '97 - June '99, it was the Florida High Yield Extended Duration Index (HYFEX), which equals 95% FEDEX and 5% Merrill Lynch B- and BB-Rated Bond Index. From July '99 to present, it is the Fixed Income Management Aggregate (FIMA), a market-weighted representation of the broad investment-grade market and the upper tiers of the high-yield market. The two main components are: Lehman Brothers Aggregate Bond Index and the Merrill Lynch B- and BB-Rated Bond Index.

2 Returns represent a weighted average of individual portfolios' net managed returns. The FRS portfolio-level performance supplement identifies which portfolios are active and passive in each asset class.

3 Returns represent a weighted average of individual portfolios' performance benchmark returns. The FRS portfolio-level performance supplement identifies which portfolios are active and passive in each asset class.

Notes for Table 9

1 The inception dates for Real Estate and Directly Owned are 12/84 and 11/86, respectively.

2 The performance methodology used for the managed return is the internal rate of return (IRR). An IRR is a measure of performance that recognizes the timing and magnitude of portfolio cash flows and capital gains/losses. Performance is measured over since inception, ten- and five-year periods to reflect the long-term nature of the investments.

[3] The Primary Target for all periods is the Unlevered Wilshire Real Estate Securities Index (RESI-U). It tracks the returns of publicly-traded real estate equity shares, after adjusting to remove the leverage used by these firms to buy properties.

[4] The Secondary Target for all periods is the annual rate of consumer price inflation grossed up by 4.5%. The latter represents one measure of real returns expected from SBA real estate investments. Source of consumer price inflation data is the U.S. Department of Labor, Bureau of Labor Statistics. Annualized consumer price inflation for the 5-year period was 2.4%, for the 10-year period was 2.4%, and since inception periods for both total Real Estate and for Directly Owned Real Estate was 3.0% and 3.1%, respectively.

Notes for Table 10

[1] Alternative Investments was not reported as a separate asset class until November 1, 1999. Prior to that time, private equity portfolios were included in the Domestic Equities asset class.

[2] The performance methodology used for the Alternative Investments asset class managed return is the internal rate of return (IRR). An IRR is a measure of performance that recognizes the timing and magnitude of portfolio cash flows and capital gains/losses. Performance is measured since inception because of the long-term nature of the investments.

[3] The Target for the Alternative Investments asset class is the Domestic Equities Target index return grossed up by a fixed premium return of 600 basis points per annum, adjusted for the average maturity of the asset class portfolios. Calculation of the return is done with an IRR methodology, paralleling the calculation in footnote 2.

[4] The benchmark return utilizes the same methodology as the asset class target, but reflects only cash flows associated with buyout portfolios.

[5] Target calculations over periods shorter than "Since Inception" are not meaningful under the approved benchmarking methodology due to the need to adjust for portfolio maturity.

[6] Although the inception date for the Alternative Investments asset class is 11/99, since-inception returns date from 1/89 when the first investments of this type were made.

Notes for Table 11

[1] Managed returns reflect the impact of various fees paid out of the Cash/Short-Term asset class on behalf of the Florida Retirement System Trust Fund.

[2] The Cash Target is the Merrill Lynch 3-month U.S. Treasury Bill, Auction Average.

Notes for Table 12

[1] Return Basis expresses external management fees as a percent of the average of the quarter-end market value of assets externally managed in each asset class. This measure is comparable to an annual expense ratio.

Notes for Table DC-1

[1] Inception date is August 1, 2002.

[2] Returns represent a weighted average of individual portfolios' performance benchmark returns.

Notes for Table DC-2

[1] Inception date is August 1, 2002.

[2] Returns represent a weighted average of individual portfolios' performance benchmark returns.

Notes for Table 16

[1] The Endowment's fiscal year 2002-03 Long-Term Absolute Target is based on a 4.32% annual real return adjusted for 2.1% consumer price inflation over the measurement period. Source of consumer price inflation data is the U.S. Department of Labor, Bureau of Labor Statistics.

[2] The Endowment's since inception Long-Term Absolute Target is based on a 4.32% annual real return adjusted for 2.5% consumer price inflation over the measurement period. Source of consumer price inflation data is the U.S. Department of Labor, Bureau of Labor Statistics.

[3] The Endowment's Relative Target is the composite of returns on the respective asset class targets, weighted by the target allocations.

[4] The Domestic Equities Target is the Russell 3000 Index, excluding the equities of tobacco-related companies.

[5] The Fixed Income Target is the Lehman Brothers U.S. Aggregate Bond Index.

[6] The International Equities Target is the Morgan Stanley Capital International All Country World Free Index, excluding the U.S., in dollar terms, and excluding the equities of tobacco-related companies.

[7] The Inflation-Indexed Bonds Target is the Lehman Brothers U.S. Treasury Inflation Note Index.

[8] The Real Estate Target is the Wilshire Real Estate Securities Index.

[9] Managed returns reflect the impact of various fees paid out of the Cash/Short-Term asset class on behalf of the Lawton Chiles Endowment Fund. The fiscal year 2002-03 and since inception gross managed return for cash was 1.6 and 4.0%, respectively.

[10] The Cash/Short-Term Target is the Merrill Lynch three-month U.S. Treasury Bill, Auction Average.

Notes for Table 17

[1] Return Basis expresses external management fees as a percent of the average of the beginning and ending market value of assets externally managed in each asset class. This measure is comparable to an annual expense ratio.

Notes for Table 20

[1] The State Board of Administration of Florida took over the management of certain equity investments administered by the Florida Prepaid College Program on March 28, 2002. This account was previously invested by Alliance Capital Management. The equity investments were subsequently transferred to an external equity manager selected by the Florida Prepaid College Board on September 26, 2002.

Notes for Table 21

[1] The State Board of Administration of Florida took over the management of certain equity investments administered by the Florida Prepaid College Program on March 28, 2002. This account was previously invested by Alliance Capital Management. The equity investments were subsequently transferred to an external equity manager selected by the Florida Prepaid College Board on September 26, 2002.

Notes for Table 22

[1] The Defined Contribution Transition asset class was created in the fourth quarter of fiscal year 2001-02 to assist in the transfer of assets from the defined benefit pension plan to the defined contribution pension plan, which began July 2002.

Notes for Table 23

[1] Managed return is inclusive of dedicated bonds and all public market asset class returns.

[2] These returns exclude Alternative Investments for all time periods.

[3] The Domestic Equities Target was the S&P 500 prior to Oct. '94; from Oct. '94 - May '97, it was the Wilshire 2500; from June '97 - June '01, it was the Wilshire 2500 excluding tobacco stocks; it was the Wilshire 2500 from July '01 - June '02; and from July ’02 to present, it is the Russell 3000.

[4] International Equities began as an official asset class in July 1993. There were international equity investments prior to that date and they are included in the Total Fund Return and Public Market Investments Managed Return.

[5] The International Equities Target was EAFE prior to Apr. '95; from Apr. '95 - Oct. '99, it was a mix of 85 percent EAFE and 15 percent IFCI (50 percent weighted in Malaysia); from Nov. '99 - Dec. '00, it was the MSCI ACWI Free ex-USA custom "mixed dividend"; from Jan. '01 - July '01, it was the MSCI ACWI Free ex-USA - Daily Net Index; and from Aug. '01 to present, it is the MSCI Provisional ACWI Free ex-USA - Daily Net Index.

[6] The Fixed Income Target was the Florida Extended Duration Index (FEDEX) prior to August '97; from Aug. '97 - Jun. '99, it was the Florida High Yield Extended Index (HYFEX), which equals 95 percent FEDEX and 5 percent Merrill Lynch B- and BB-Rated Bond Index. From Jul. '99 - present, it is the Fixed Income Management Aggregate (FIMA), a market-weighted representation of the broad investment-grade market and the upper tiers of the high-yield market. The two main components are: the Lehman Brothers Aggregate Bond Index and the Merrill Lynch B- and BB-Rated Bond Index.

[7] The Cash Target is the Merrill Lynch 3-month U.S. Treasury Bill, Auction Average.

Notes for Table 24

[1] For presentation purposes, the managers that make up the Progress Trust are reported individually.

[2] Account opened during the fiscal year.

[3] Account closed during the fiscal year.

Notes for Table 25

[1] A portfolio is said to have met its benchmark over the measurement period if the managed return is within +/-10 basis points of the benchmark return.

[2] Performance data were not available for the entire measurement period.

[3] These accounts were opened or closed during the fiscal year or the investment manager was hired or terminated during the fiscal year. In either case, meaningful performance data are not available for the entire period.

[4] Progress Trust II is an aggregate of individual portfolios. Performance relative to a benchmark is not measured on the individual accounts included in Progress Trust II.

[5] These accounts are either administrative or transitional and individual performance is not considered meaningful. They are included in the appropriate aggregate combination performance.

Notes for Table GE-1

[1] These accounts were opened during the fiscal year.

Notes for Table 26

[1] Account opened during the fiscal year.

[2] Account closed during the fiscal year.

Notes for Table 27

[1] A portfolio is said to have met its benchmark over the measurement period if the managed return is within +/-10 basis points of the benchmark return.

[2] Performance data were not available for the entire measurement period.

[3] These accounts were opened or closed during the fiscal year or the investment manager was hired or terminated during the fiscal year. In either case, meaningful performance data are not available for the entire period.

[4] These accounts are either administrative or transitional and individual performance is not considered meaningful. They are included in the appropriate aggregate combination performance.

Notes for Table 28

[1] For presentation purposes, the managers that make up the Mortgage Group Trust are reported individually.

[2] Account opened during the fiscal year.

[3] Account closed during the fiscal year.

Notes for Table 29

[1] A portfolio is said to have met its benchmark over the measurement period if the managed return is within +/-10 basis points of the benchmark.

[2] Performance data were not available for the entire measurement period.

[3] These accounts were opened or closed during the fiscal year or the investment manager was hired or terminated during the fiscal year. In either case, meaningful performance data are not available for the entire period.

[4] This is a transitional account and individual performance is not considered meaningful. It is included in the appropriate aggregate combination performance.

Notes for Table 30

[1] Real estate market values are an estimate of value which may or may not represent the value which would be reflected by an actual arms-length sales transaction.

[2] Accounts opened during the fiscal year.

Notes for Table 31

[1] A portfolio is said to have met its benchmark over the measurement period if the managed return is within +/- 10 basis points of the benchmark return.

[2] Separate performance over these time periods is not indicated since the groups do not constitute a portfolio. They are included in the appropriate aggregate combination performance.

[3] These accounts were opened or closed during the fiscal year or the investment manager was hired or terminated during the fiscal year. In either case, meaningful performance data are not available for the entire period.

[4] Non-Capitalized Expenses are the costs incurred during the due diligence phase of the acquisition process.

[5] Real Estate Short-term Interest includes miscellaneous interest earned in the property account, but not assigned to a specific property.

[6] Performance of directly owned investments can be found in Table 9. Directly owned investments includes sub-accounts for agriculture, apartments, industrial properties, office and real estate. Separate performance over these time periods is not indicated since the sub-accounts represent groups that do not constitute portfolios.

Notes for Table 32

[1] Account opened during the fiscal year.

[2] Alternative Investment market values are an estimate of value which may or may not represent the value which would be reflected by an actual arms-length sales transaction. The market values are self-reported by the external managers of these accounts and incorporate their estimate of the value of illiquid publicly-traded securities and private market holdings.

Notes for Table 33

[1] Internal rate of return is a measure of performance that recognizes the timing and amount of funds into and distributions from portfolio investments. Inception varies by portfolio.

[2] A portfolio is said to have met its benchmark over the measurement period if the managed return is within +/- 10 basis points of the benchmark return.

[3] Each portfolio has a custom benchmark reflecting a phased-in, risk-adjusted annual hurdle of 600 basis points over the domestic equity target return.

[4] Private equity portfolio performance relative to its benchmark is calculated since inception and is not presented for periods of less than three years.

[5] These accounts were opened or closed during the fiscal year or the investment manager was hired or terminated during the fiscal year. In either case, meaningful performance data are not available for the entire period.

Notes for Table 34

[1]Account opened during the fiscal year.

[2]Account closed during the fiscal year.

Notes for Table 35

[1] A portfolio is said to have met its benchmark over the measurement period if the managed return is within +/-10 basis points of the benchmark.

[2] Managed returns reflect the impact of various fees paid out of the Cash/Short-Term asset class on behalf of the Florida Retirement System Trust Fund.

[3] These accounts were opened or closed during the fiscal year or the investment manager was hired or terminated during the fiscal year. In either case, meaningful performance data are not available for the entire period.

Notes for Table 36

[1] Accounts opened during the fiscal year.

[2] Beginning and ending market values do not reflect net asset values.

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About the SBA

Founded in 1943, the SBA is a leader in investment management of public pension funds, including the Florida Retirement System Trust Fund, which ranks as the fifth-largest pension fund in the United States and ninth-largest in the world. The SBA has a strong history of delivering positive long-term returns on investment, with a focus on prudent and ethical investment and risk management. The SBA is governed by the Board of Trustees, which has fiduciary responsibility for the management and oversight of the SBA.

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