INVESTMENT SECTION

STATE POLICE RETIREMENT SYSTEM

The General Assembly added a third benefit system, the State Police Retirement System, in 1949. Membership in the police system is restricted to uniformed employees of the Maryland State Police. The mission of the Maryland State Police is to fulfill its role as the state's lead coordinating law enforcement organization with commitment to pride, equality, respect and dignity. More than 1,500 officers throughout 23 counties strive to improve the quality of life for the citizens of Maryland by ensuring public safety.

INVESTMENT OBJECTIVES

The Board of Trustees (the "Board") is charged with the responsibility of managing the assets of the State Retirement and Pension System ("SRPS"). The Board is required to discharge its fiduciary duties solely in the interest of the participants, with the care, skill and diligence, which a prudent person would ordinarily exercise under similar circumstances. This standard of care not only permits but also encourages diversifying investments across various asset classes.

Investment objectives are implemented according to investment policies developed by the Board. The prudent person standard allows the Board to establish investment policies based on investment criteria that it defines, and it allows the Board to delegate investment authority to investment professionals. System assets are managed by internal portfolio managers and external investment management firms, who employ both active and passive strategies. Firms retained must have a demonstrated track record and a clearly defined and applied investment process.

Investment objectives are designed to support fulfillment of the Agency's mission – to optimize risk-adjusted returns in order to ensure timely payment of benefits to members and beneficiaries. The SRPS is a long-term investor, and consequently, long-term results are emphasized over short-term gains.

The Board has invested the SRPS' assets with a goal of achieving an annualized investment return which:

1. Meets or exceeds the System's static investment policy benchmark, which equals the weighted average of the benchmarks for each asset class and the target weightings for each asset class. The static policy benchmark enables comparison of the SRPS's actual performance to a passively managed proxy, and it measures the contribution of active investment management and policy implementation.
2. In real terms, exceeds the U.S. inflation rate by at least 3.0%. The inflation related objective compares the investment performance against the rate of inflation as measured by the Consumer Price Index (CPI) plus 3.0 percent. The inflation measure provides a link to SRPS' liabilities.
3. In nominal terms, equals or exceeds the actuarial investment return assumption of the SRPS adopted by the Board of Trustees. The actuarial rate of interest is reviewed and monitored as a measure of the long-term rate of growth of SRPS' assets. The actuarial rate of interest as of 6/30/02 was 8.0%. When adopting the actuarial rate of interest, the Board anticipates the investment portfolio may achieve higher returns in some years and lower returns in other years.

ASSET ALLOCATION

Asset allocation is a key determinant of a successful investment program, and it may be responsible for determining as much as 90% of a pension plan's total return in a given year. Asset allocation is the process, which results in the weightings assigned to each asset class. The Board takes both asset and liability side considerations into account when determining its asset allocation policy.

From an asset side perspective, the Board reviews and approves the CAPM assumptions (Capital Asset Pricing Model), including the risk and return projections for each asset class as well as the correlations among the asset classes. Diversification is achieved by combining asset classes that are not perfectly correlated with each other. This may result in offsetting a market decline in one asset class with appreciation in another asset class. The benefit of this diversification is a reduction in the volatility of the total portfolio's investment performance over time.

The Board weighs three liability-oriented objectives when making asset allocation determinations. The liability-oriented objectives are:

1. Achieve and maintain a fully funded pension plan.
2. Minimize contribution volatility year to year.
3. Achieve parity of assets and liabilities, and hopefully surplus assets.

These liability-related performance objectives recognize that liabilities must be paid in full and in a timely manner. The liabilities are the future claims of the SRPS' participants. The actuarial rate of interest is used to discount the future value of the SRPS' liabilities and to calculate the funded ratio.

Multiple scenarios for possible asset mixes are reviewed. This process results in targets, ranges and triggers, which are approved by the Board for each asset class. The targets are typically the midpoints of the ranges. Trigger points red flag reassessment for potential rebalancing of asset weightings when the actual weighting of the asset class exceeds the sum of the target plus or minus the trigger amount. As of June 30, 2002, the approved targets, ranges and triggers for each asset class were:

Asset Class	Target	Range	Trigger
Equity	**60%**	**50 - 70%**	**+/- 5%**
Domestic Stocks	43.5	35 - 55%	
Convertible Securities	1.0	0 - 2%	
International	15.0	10 - 20%	
Alternative Investments	0.5	0 - 1%	
Real Estate	**5%**	**2 - 7%**	**+/- 1%**
Fixed Income (bonds)	**35%**	**25 - 45%**	**+/- 5%**
Domestic Investment Grade	32.0	25 - 40%	
Domestic High-Yield	3.0	0 - 6%	
Total	**100.0%**		

Capital Market Overview

As of the end of the fiscal year, bonds and real estate out performed stocks in U.S. dollar terms. The capital markets continued to experience volatility throughout the year, and the U.S. dollar remained strong against major currencies.

Stocks suffered as the technology sector continued its decline from the prior year; and bonds rose as the FOMC (Federal Open Market Committee) continued cutting interest rates to a level of 1.75%, on concerns of a weakening economy. Inflation remained moderate, with the CPI (the Consumer Price Index, an inflation indicator) rising 2.6% for the 12-month period.

The following chart displays the fiscal year performance for some of the Trust's key benchmarks:

Asset Class Benchmarks	FY 2002 Performance
Equity Markets	
U.S. Equities	
S&P 500	-18.00%
Russell 3000	-17.20%
Russell 2000	-8.60%
CSFB Convertible Securities	-12.40%
International Equities	
MSCI EAFE	-9.50%
Bond Markets	
U.S. Bond Markets	
SSBI Broad Investment Grade	8.50%
ML High Yield Master II	-4.40%
Real Estate	
Russell NCREIF (1 quarter lag)	6.50%
Wilshire Real Estate Securities	13.80%
Short-Term Markets	
Three-month Treasury Bill	2.63%

For the 2002 fiscal year, the best performing sector in the U.S. equity market was consumer staples, which returned 11%. The energy, technology and utility sectors were the worst performers, declining more than 30% each. Value stocks out performed growth stocks, and small cap stocks out performed large cap stocks. For international stocks, emerging markets and small cap stocks out performed large cap developed market equities. Developed markets turning in positive results included: Austria, up 24%; New Zealand, up 23%; Australia, up 6%; Belgium, up 5%; and Switzerland, 4%. When the international equity results were translated into U.S. dollar terms, the international results were worse than the U.S. equity market returns due to the strength of the U.S. dollar versus the Euro and the yen.

With regard to fixed income, the investment grade market appreciated 8.5% as the yield curve steepened by almost 190 basis points and the Fed Funds rate fell by 2.25%. Five and ten-year U.S. Treasury yields fell 95 and 63 basis points, respectively. The high yield bond market fared worse than the investment grade bond market, falling 4.4% over the fiscal year.

Investment Performance

Investment performance is calculated using time-weighted rates of return in compliance with AIMR standards. Total return includes interest and dividends as well as capital appreciation.

The investment program experienced a decline of –7.6% for the fiscal year. This decline was less than that of the broad equity markets, thanks to the benefits of a well-diversified portfolio. Rolling total returns for 3, 5, and 10-year period were –2.2%, 3.2% and 7.9%, respectively.

The market value of System assets declined from $29.5 billion on June 30, 2001 to $26.6 billion on June 30, 2002. The System's equity investments declined by –14.5%, with U.S. equities returning –16.2% and international equities returning –10.6%. The System's aggregated fixed income securities returned 6.4%, with the investment grade portfolios returning 8.5%, and high yield bonds declining by 9.2%. Real estate investments returned 10.3 % for the fiscal year, with REITs (Real Estate Investment Trusts) reported as of June 30, 2002 and the remaining properties reported as of March 31, 2002.

The System out performed its benchmarks for the U.S. Equity and Real Estate asset classes in Fiscal 2002. Performance of Investment Grade Bonds matched the benchmark; and performance of International Equity and High Yield Bonds fell below the benchmark.

The System did not meet its three overall investment objectives this fiscal year. As a result, the Board has implemented changes, which are described in the next section of this report.

SIGNIFICANT EVENTS

The Board has taken action to address the challenging markets that it faces today. This resulted in two key changes – engaging a general investment consultant and reducing the equity exposure of the portfolio.

The Board reviewed and revised its asset allocation policy. The new policy is reflected under the Asset Allocation section of this report. This resulted in a reduction of the System's total equity exposure, and an increase in the Fixed Income exposure. The new target for Equity is 60%, the new target for Fixed Income is 35%, and the target for Real Estate remains at 5%. Additionally, the International Equity component of the Equity allocation was reduced to 15% of total assets.

Modifications to the asset allocation policy also resulted in the implementation of practices requiring more frequent assessment of asset class weightings. The Board reviews its asset allocation on a monthly basis, mindful of the new triggers, which are described in the Asset Allocation section of this report. Furthermore, the written asset allocation policy document has been expanded to detail the process and assumptions that were used to determine the final outcome. This document was endorsed by the new consultant, EnnisKnupp.

The Board selected EnnisKnupp in June 2002 to be its general investment consultant. This firm is headquartered in Chicago and has expertise with large public pension plans. The System's lead consultant, Steve Cummings, is the President and CEO of EnnisKnupp. Joining Steve on the System's account is Suzanne Bernard, a seasoned principal with EnnisKnupp.

PROXY VOTING

With regard to proxy voting, Agency staff voted an estimated 1600 ballots for approximately 1300 U.S. companies. Votes for shares of commingled funds and international investments are typically delegated to the managers of those respective funds.

Respectfully submitted,

Carol Boykin, CFA
Chief Investment Officer and
Secretary to the Investment Committee

Investment Portfolios by Manager
as of June 30, 2002
(Expressed in Thousands)

	Fair Value	Investment Advisory Fee
Equity Managers		
State Street Global Advisors	$ 4,224,925	$500
Internally Managed	3,937,771	N/A
Bank of Ireland Asset Management Limited	1,908,929	4,191
Capital Guardian Trust Company	906,339	3,129
Dimensional Fund Advisors, Inc.	821,360	878
Templeton Investment Counsel, Inc.	816,546	2,484
Credit Suisse Asset Management, LLC	800,240	2,462
Deutsche Asset Management	780,618	3,651
Legg Mason Capital Management, Inc.	395,866	1,353
Trust Company of the West	312,340	1,862
Ariel Capital Management, Inc.	241,039	677
GEM Capital Management, Inc.	223,580	1,228
Advent Capital Management	223,131	1,122
Robert W. Torray & Co., Inc.	204,559	1,045
The Edgar Lomax Company	203,555	661
J. & W. Seligman & Co., Inc.	181,550	651
Relational Investors, LLC	179,225	2,678
Greenway Partners, L.P.	104,989	348
T. Rowe Price Associates, Inc.	99,347	588
Brown Capital Management, Inc.	98,166	1,105
Brown Investment Advisory & Trust Company	96,296	712
Progress Investment Management Company	81,725	582
The Kenwood Group, Inc.	56,886	26
Harbour Vest Partners, LLC	27,127	1,006
Adams Street Partners, LLC	17,824	850
Abbott Capital Management, LLC	13,559	330
Other *	875	1,221
	$16,958,357	$35,340

	Fair Value	Investment Advisory Fees
Fixed Income Managers		
Internally Managed	$5,691,237	$N/A
Pacific Investment Management Company	1,381,694	2,835
W.R. Huff Asset Management Co., LLC	500,509	2,613
Morgan Stanley Dean Witter Investment Management	165,421	662
Lazard Asset Management	98,086	460
Fountain Capital Management, LLC	96,944	446
Other *	0	1,141
	$7,933,891	$8,157
Real Estate Managers		
LaSalle Investment Management Securities, L.P.	$655,693	$1,343
LaSalle Investment Management, Inc.	325,120	2,697
Internally Managed	234,099	N/A
J.P. Morgan Investment Management, Inc.	196,600	1,554
TimesSquare Real Estate Investors	169,931	1,681
Lubert-Adler Management, Inc.	23,579	1,586
Sentinel Real Estate Corporation	15,357	507
	$1,620,379	$9,368

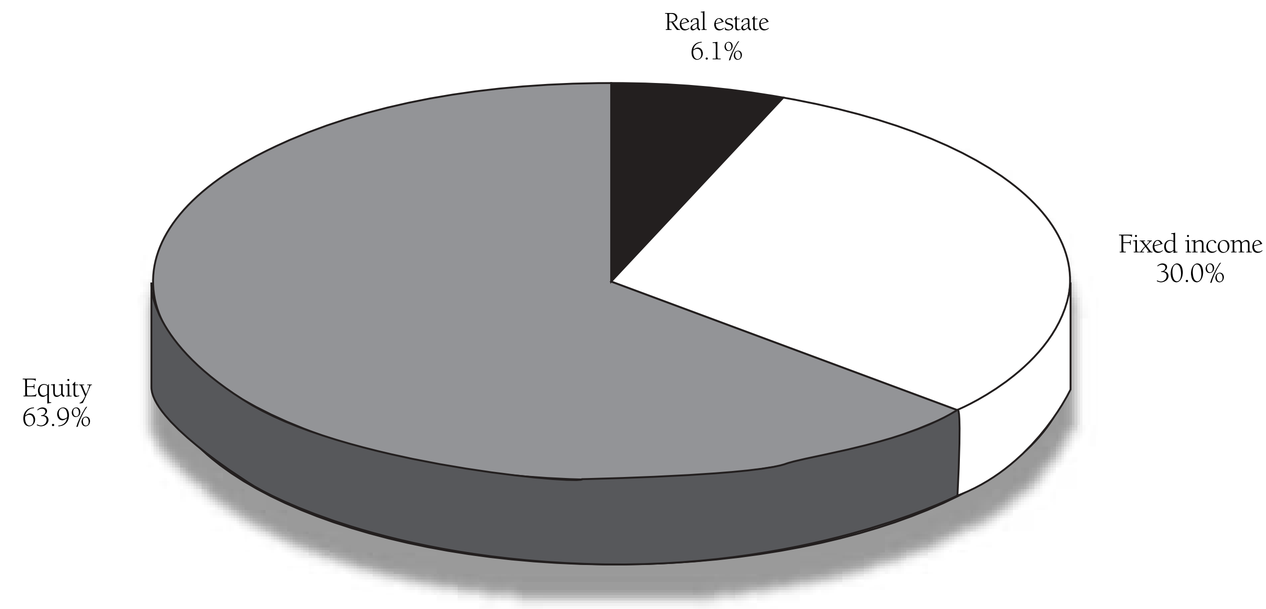
* Investment managers no longer under contract as of 6/30/02.

Investment Portfolio Summary
as of June 30, 2002
(Expressed in Thousands)

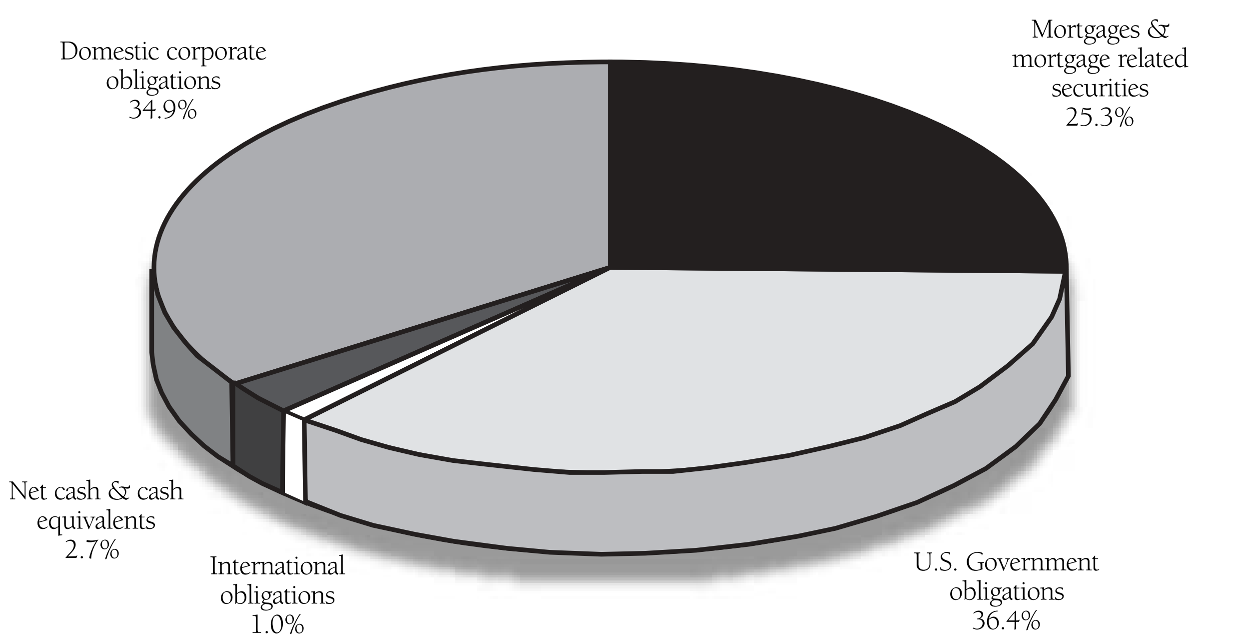
	2002		2001	
	Fair Value	% of Fair Value	Fair Value	% of Fair Value
Fixed Income				
Domestic corporate obligations	$ 2,743,183	10.4%	$ 3,036,115	10.3%
Mortgages & mortgage related securities	2,005,225	7.6	2,503,790	8.5
U.S. Government obligations	2,892,274	10.9	2,361,828	8.0
International obligations	77,116	0.3	185,519	0.7
Net cash & cash equivalents	216,093	0.8	30,044	0.1
*Total Fixed Income	7,933,891	30.0	8,117,296	27.6
Equity				
Domestic stocks	11,855,577	44.7	13,702,468	46.6
International stocks	4,715,043	17.8	5,632,416	19.1
Alternative investments	58,511	0.2	53,717	0.2
Net cash & cash equivalents	329,226	1.2	443,995	1.5
Total Equity	16,958,357	63.9	19,832,596	67.4
Real Estate				
Real Estate Investment Trusts	786,141	3.0	689,320	2.3
Pooled funds	381,888	1.4	413,624	1.3
Directly owned real estate	351,450	1.3	354,673	1.2
Alternative investments	23,579	0.1	6,563	0.1
Net cash & cash equivalents	77,321	0.3	10,253	0.1
Total Real Estate	1,620,379	6.1	1,474,433	5.0
Total Portfolio	$26,512,627	100.0%	$29,424,325	100.0%

*Security Lending collateral payable has been netted against the actual collateral. The amounts net to zero.

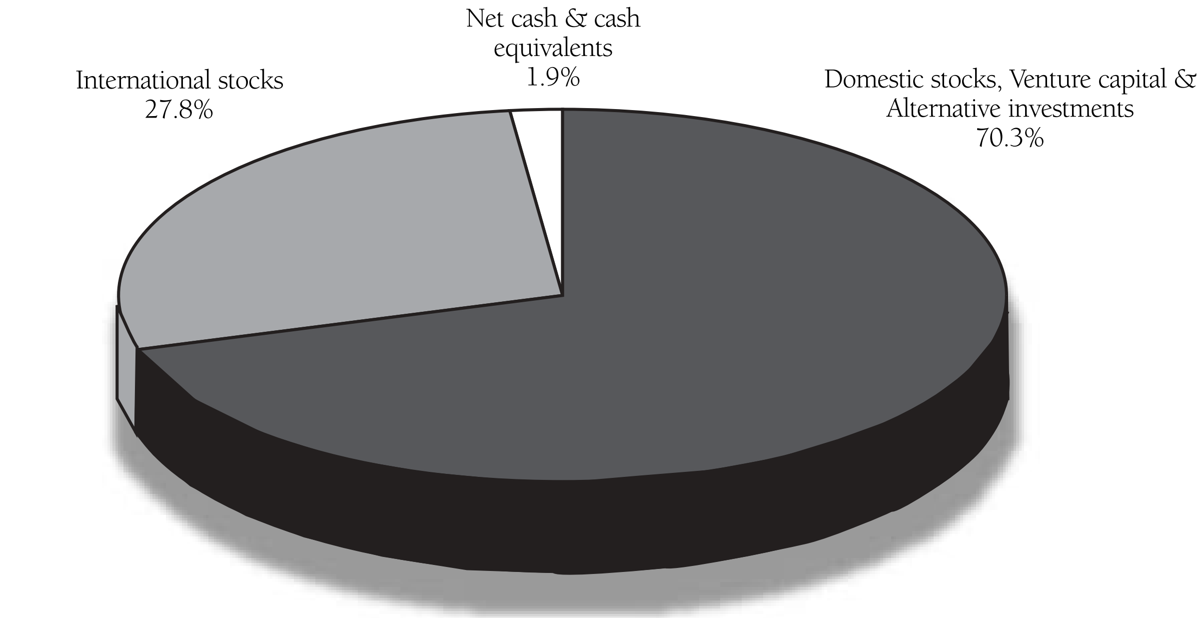
Investment Portfolio Allocation as of June 30, 2002



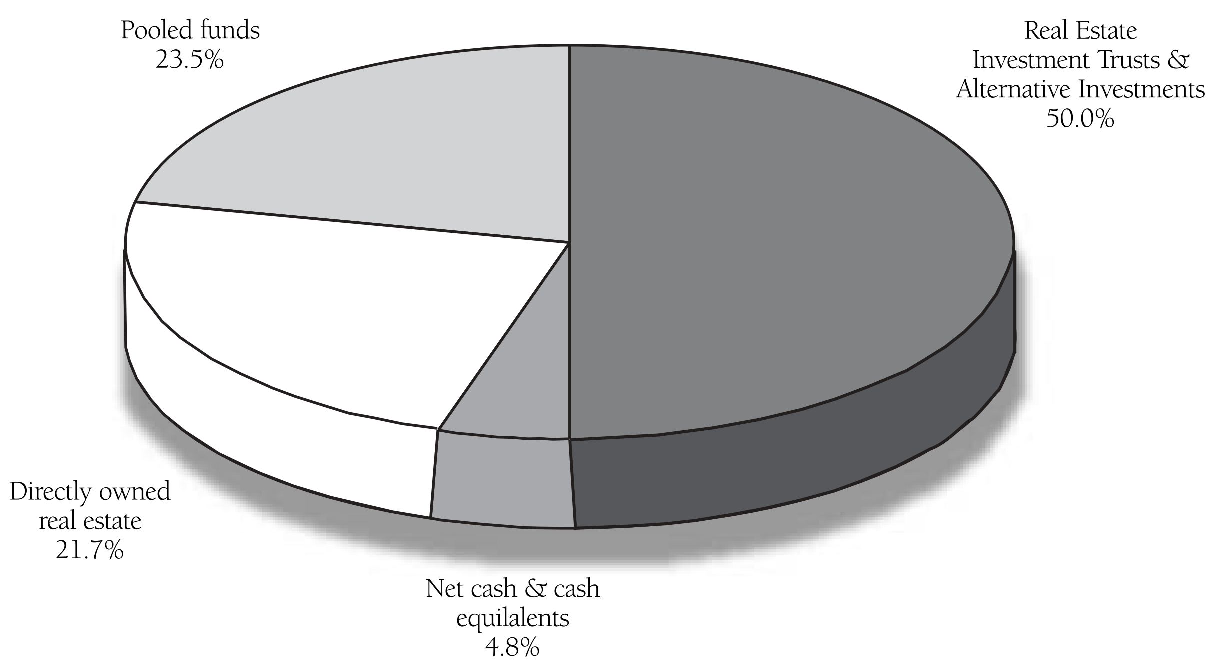
Fixed Income Distribution by Type as of June 30, 2002



Equity Distribution by Strategy as of June 30, 2002

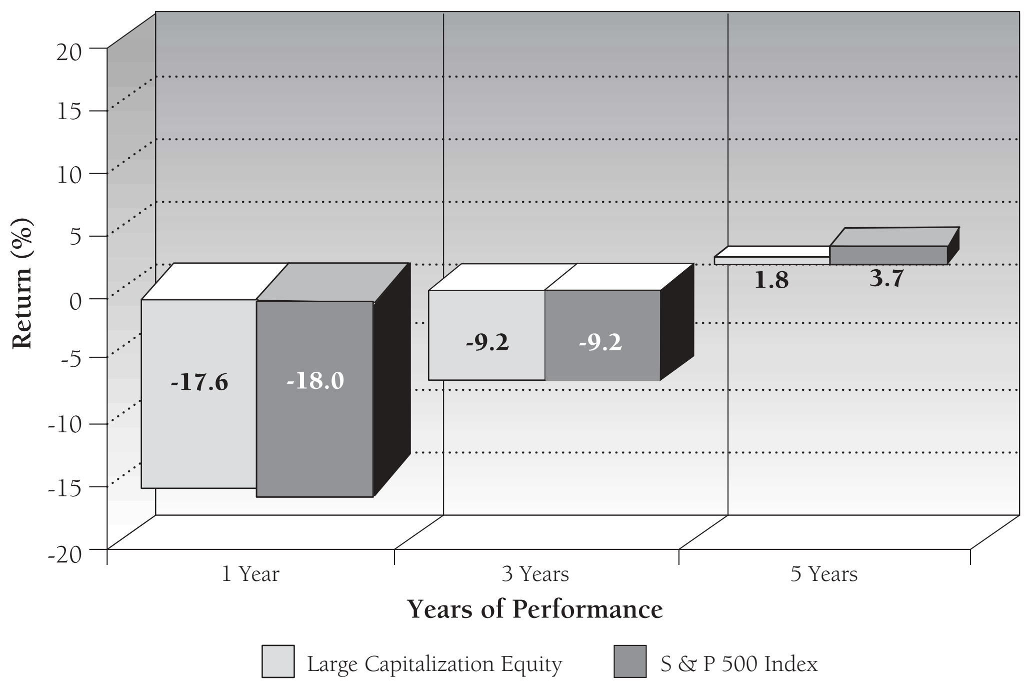


Real Estate Distribution by Strategy as of June 30, 2002

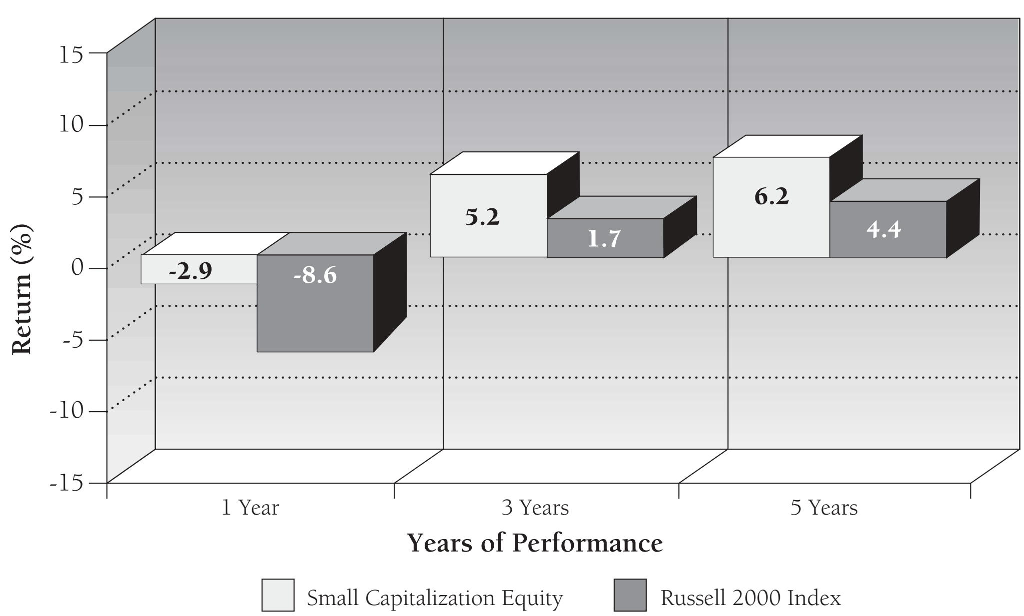


COMPARATIVE INVESTMENT RETURNS ENDING JUNE 30, 2002

Large Capitalization Equity

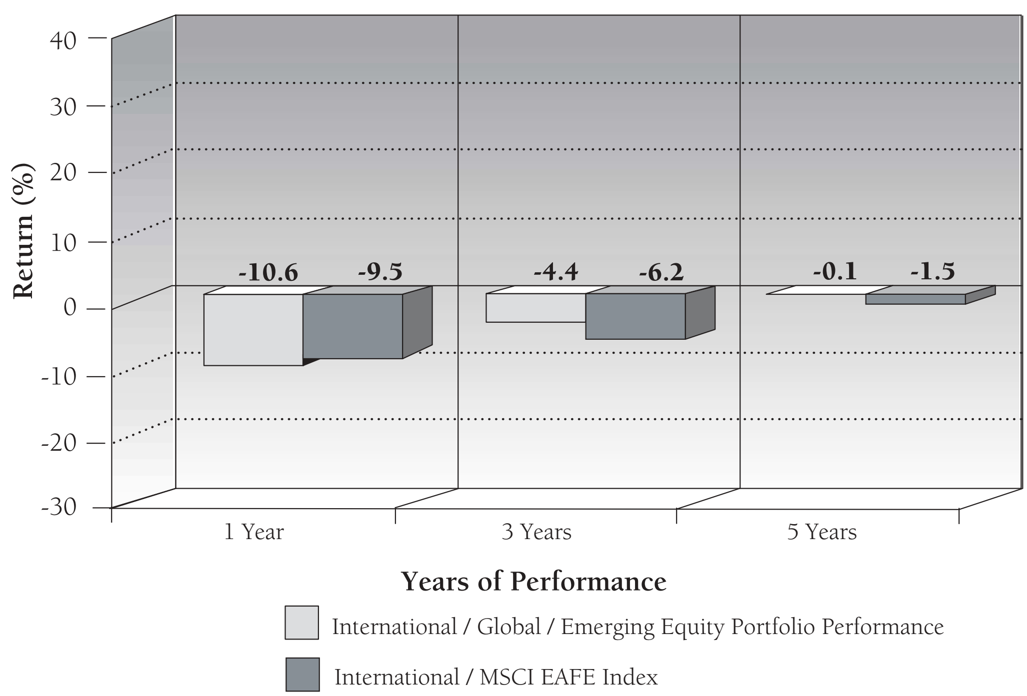


Small Capitalization Equity

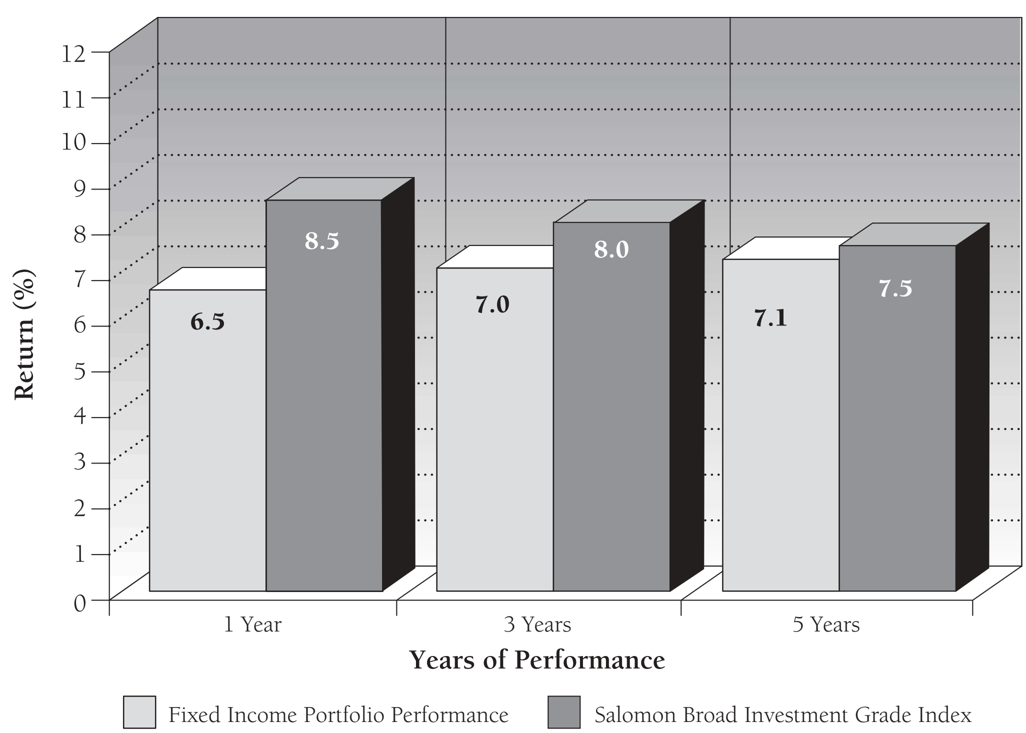


Comparative Investment Returns Ending June 30, 2002

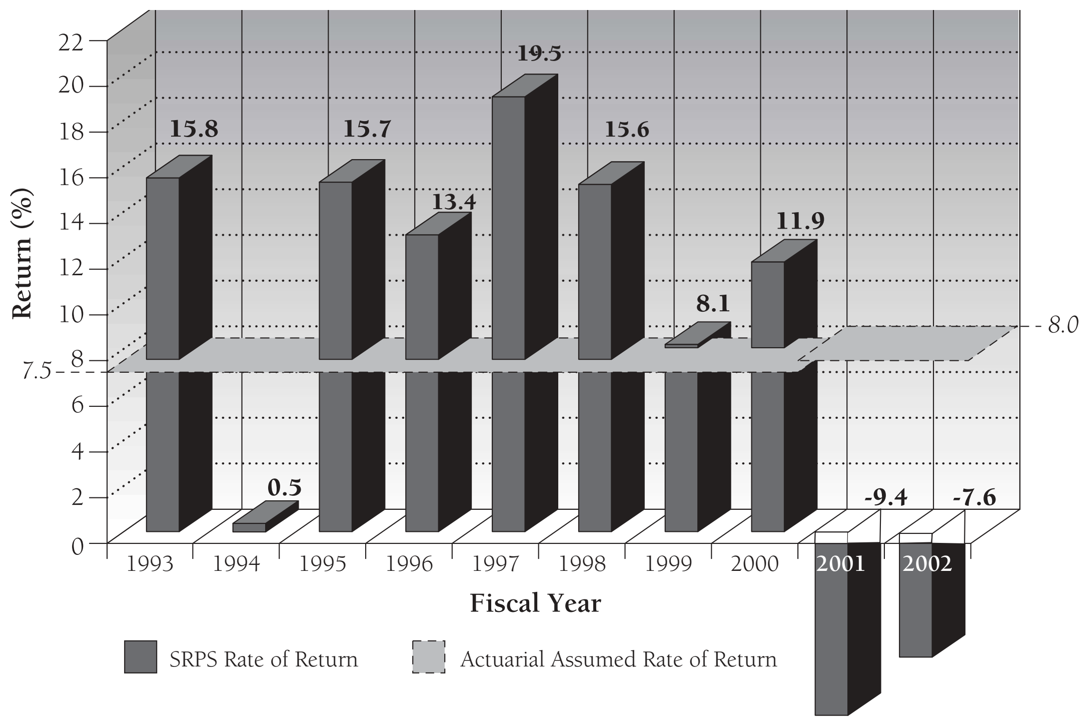
International / Global / Emerging Equity



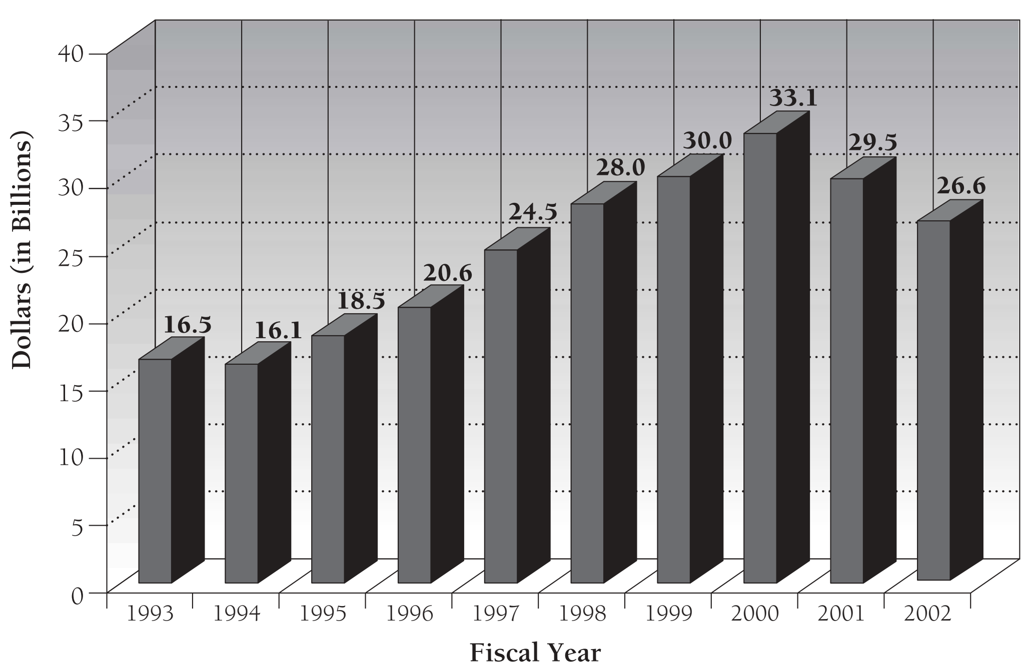
Fixed Income



Ten-Year History of Time-Weighted Annual Returns



Ten-Year Growth of Investment Portfolio



Largest 25 Holdings
as of June 30, 2002

EQUITY INCOME SECURITIES:	No. of Shares	Fair Value
Microsoft Corporation	4,479,698	$ 245,039,481
General Electric Company	8,399,685	244,010,849
Wal-Mart Stores, Inc.	3,677,920	202,322,379
Pfizer, Inc.	5,372,745	188,046,075
Johnson & Johnson	2,676,307	139,863,804
Exxon Corporation	3,296,200	134,880,504
International Business Machines Corporation	1,662,814	119,722,608
Coca-Cola Company	2,085,926	116,811,856
Merck & Co., Inc.	2,204,488	111,635,272
Citigroup, Inc.	2,772,150	107,420,813
Intel Corporation	5,692,587	104,003,564
Procter & Gamble Company	1,157,032	103,322,958
Nestle SA	427,081	99,584,256
Total Fina Elf	611,538	99,292,710
ING Groep NV	3,727,585	95,717,865
Philip Morris Companies, Inc.	2,070,300	90,430,704
Swiss Reinsurance Company	918,732	89,826,152
ENI	5,547,861	88,215,225
American International Group, Inc.	1,273,997	86,924,815
Cisco Systems, Inc.	5,971,878	83,307,698
Federal National Mortgage Association	1,088,298	80,261,978
Lloyds TSB Group PLC	7,813,521	77,773,261
Novartis AG	1,696,910	74,631,027
E on AG	1,270,363	73,710,237
Home Depot, Inc.	1,935,389	71,086,838
TOTAL		$ 2,927,842,929

FIXED INCOME SECURITIES:	Par	Fair Value
Federal Home Loan Bank, 5.80% due Sept. 2, 2008	$ 239,350,000	$ 253,038,427
Federal National Mortgage Assn. Princ. Strip, 0.00% due Feb. 15, 2008	265,500,000	201,782,655
Federal National Mortgage Assn. TBA, 6.00% due Dec. 31, 2099	163,000,000	166,209,470
Federal National Mortgage Assn. Remic, 6.50% due Dec. 25, 2022	139,116,044	146,636,657
United States Treasury Bonds, 6.25% due May 15, 2030	114,535,000	124,056,295
Grand Metro Investment Corp., 0.00% due Jan. 6, 2004	129,725,000	122,811,955
GNMA I TBA, 6.50% due Dec. 15, 2099	118,500,000	120,870,000
Citibank Credit Card Master Trust, 6.3231% due Aug. 15, 2006	101,500,000	94,399,892
United States Treasury Notes, 5.625% due Feb. 15, 2006	81,500,000	86,822,765
Federal Home Loan Mortgage Corp., 5.125% due Oct. 15, 2008	79,500,000	80,965,980
Federal National Mortgage Assn. TBA, 5.50% due Dec. 31, 2099	81,000,000	80,822,610
United States Treasury Bonds, 0.00% due Aug. 15, 2028	80,000,000	77,900,000
Federal Home Loan Mortgage Corp., 8.0714% due Nov. 15, 2021	71,565,000	76,865,104
United States Treasury Notes, 4.625% due May 15, 2006	65,680,000	67,650,400
Federal National Mortgage Assn., 7.25% due May 15, 2030	56,000,000	63,770,000
Deutsche Ausgleichbk, 5.125% due Sept. 22, 2003	60,000,000	61,395,000
United States Treasury Notes, 3.00% due Nov. 30, 2003	55,260,000	55,691,581
FNMA Pool 254093, 7.00% due Dec. 01, 2031	51,608,373	53,446,664
United States Treasury Notes, 3.625% due Jan. 15, 2008	46,178,295	48,343,133
Federal Home Loan Mortgage Corp., 6.000% due May 15, 2017	46,200,000	48,018,894
United States Treasury Notes, 4.75% due Nov. 15, 2008	46,000,000	46,848,240
Government Backed Trust, 0.00% due May 15, 2007	55,000,000	43,956,550
Svenska Handlsbn, 1.80% due Aug. 16, 2002	42,300,000	42,202,710
Federal National Mortgage Assn., 5.25% due Jun. 15, 2006	40,000,000	41,625,200
Government Trust Cert., 0.00% due May 15, 2006	47,320,000	40,131,619
TOTAL		$ 2,246,261,801

A complete list of portfolio holdings is available for review upon request.

Domestic and International Equity Commissions to Brokers for the Fiscal Year Ended June 30, 2002

(Expressed in Thousands)

Brokers *	Total Shares	Total Commission
Goldman Sachs & Co.	47,929	$ 943
Merrill Lynch & Co., Inc.	44,909	939
Morgan Stanley	35,614	720
Deutsche Bank	86,936	682
UBS AG	92,277	649
Salomon Smith Barney, Inc.	48,362	624
Jefferies & Co.	10,163	536
Bear Stearns & Co.	19,318	475
Credit Suisse First Boston	25,500	439
Lehman Brothers, Inc.	21,426	432
J.P. Morgan Securities, Inc.	10,002	340
ABN Amro	13,882	320
Weiss Peck and Greer	5,807	251
Ferris Baker Watts, Inc.	4,819	206
Legg Mason, Inc.	4,004	189
Dresdner Bank	11,997	166
Morgan Guaranty Trust Co.	5,957	165
Prudential Securities, Inc.	2,761	149
HSBC Securities	14,274	146
Investment Technology Group, Inc.	5,901	127
Warburg Dillon Read	21,138	118
State Street Brokerage	7,131	114
The Chapman Company	2,314	103
Commerzbank	6,928	95
Credit Lyonnais	11,123	95
The Williams Capital Group, L.P.	1,916	93
Nomura Holdings, Inc.	3,644	91
CIBC World Markets Corp.	2,060	90
First Union Corp.	1,984	90
Croix Securities	2,563	86
Banc of America	2,760	76
Other broker fees	77,223	2,149
Total broker commissions	652,622	$ 11,698

* *Proceeds from the sale and disbursements for the purchase of securities are reported net of brokers' commissions. As such, brokers' commissions are not included as investment expenses on the Statements of Changes in Plan Net Assets. Other broker fees include 182 other brokers each receiving less than $75,000 in total commissions.*

For the fiscal year ended June 30, 2002, total domestic equity commissions averaged 4.16 cents per share, and total international equity commissions averaged 14.33 basis points per share.