

PLAN UPDATE



UNDERSTANDING YOUR INVESTMENTS: ACTIVE VS. PASSIVE MANAGEMENT

Know your choices.

Be confident in your decisions.

As an Oregon Savings Growth Plan participant, you can choose from nine investment options. How do you select the ones that are right for you? One way is to understand “passive” and “active” investment approaches. We’ll define these two ways investment managers decide how to select companies in which to invest and explain how they apply to your OSGP investment choices.

Active investing: extensive research, informed opinions.

Active fund managers research companies and gather data about financial performance, business strategies, and other indicators. Then they try to invest in companies they believe will be the best performers in their asset class. Fund managers who use an active approach tend to buy and sell investments more frequently than funds that are passively managed. This contributes to higher costs but increases the opportunity for higher returns.

Passive investing: lower cost, less risk.

Fund managers who use a passive approach are usually identified with a specific index. An index measures the performance of a specific group of investments. An example is the Standard & Poor’s 500 (S&P 500), which measures the performance of the 500 largest U.S.-based companies. Passive fund managers do limited research on individual companies. They invest in

(continued on reverse side)

Where your investment options fit

Fund Name	Investments	Active/Passive %
Short-Term Fixed Income Option	<ul style="list-style-type: none"> • Average maturities generally 90 days or less • Short-term money market securities 	<ul style="list-style-type: none"> • 100% active
Stable Value Option	<ul style="list-style-type: none"> • Primarily fixed income investments and agreements 	<ul style="list-style-type: none"> • 100% active
Intermediate-Term Fixed Income Option	<ul style="list-style-type: none"> • Bonds with maturities ranging from 3-10 yrs • 33.3% BGI Debt Index Fund (passive) • 33.3% each of Fidelity Broad Market Duration Fund and Wellington Capital Core Bond Plus Fund (active) 	<ul style="list-style-type: none"> • 33.3% passive • 66.7% active
Large Company Value Stock Option	<ul style="list-style-type: none"> • 40% BGI Russell 1000 Value Index Fund (passive) • 20% each of Dodge & Cox Stock Fund, MFS Value Fund, Van Kampen Comstock Fund (active) 	<ul style="list-style-type: none"> • 40% passive • 60% active
Stock Index Option	<ul style="list-style-type: none"> • Common stocks included in the Russell 3000 Index, representing 98% of U.S. equity market 	<ul style="list-style-type: none"> • 100% passive
Large Company Growth Stock Option	<ul style="list-style-type: none"> • 40% BGI Russell 1000 Growth Index Fund (passive) • 20% American Funds Amcap Fund, 20% Fidelity Blue Chip Growth Fund, 20% Smith Barney Aggressive Growth Fund (active) 	<ul style="list-style-type: none"> • 40% passive • 60% active
International Stock Option	<ul style="list-style-type: none"> • 33.3% each of Artisan International Fund, GMO Foreign III Fund, Oakmark International Fund 	<ul style="list-style-type: none"> • 100% active
Small/Mid-Size Company Stock Option	<ul style="list-style-type: none"> • 25% BGI Russell 2000 Index Fund (passive) • 25% each of Fidelity Low-Priced Stock Fund, Columbia Acorn Fund, T. Rowe Price Midcap Growth Fund (active) 	<ul style="list-style-type: none"> • 25% passive • 75% active
Balanced Fund Option	<p>OSGP funds in the following percentages:</p> <ul style="list-style-type: none"> • 5% Short-Term Fixed Option • 35% Intermediate-Term Fixed Income Option • 10% Large Company Value Stock Option • 20% Stock Index Option • 10% Large Company Growth Stock Option • 10% International Stock Option • 10% Small/Mid-Size Company Stock Option 	<p>Approximately</p> <ul style="list-style-type: none"> • 43% passive • 57% active

As you can see, the OSGP investment options are structured so you can optimize the benefits of both passive and active investment approaches while minimizing the risks of each. You can select options that are 100 percent actively managed, options that are 100 percent passively managed, and options that blend the two approaches. With this structure you can build a diversified portfolio according to your comfort level, long-term goals, and overall strategy. To review the options you have selected, visit osgp.csplans.com or call the toll-free information line at 800-365-8494. You may change where your contributions are currently invested, where future contributions are invested, or both.

**CONTACT
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Online Internet Site
<http://osgp.csplans.com>

Information Line
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PERS/OSGP Internet Site
www.pers.state.or.us

stocks in their related index by matching the proportion of total value that each stock takes up within that index. Anytime you see the term “index fund,” it is an example of passive investing. Passively managed index funds usually perform close to their index.

	Key benefits	Potential risks
Active investing	Expertise of professional fund managers who select stocks or bonds for the fund; potential for higher returns*	Higher administrative fees; higher levels of risk and volatility
Passive investing	Low cost; low maintenance; broad diversification; reduced risk of performing below their index	Unlikely to beat their index

*Keep in mind: Few actively managed funds consistently beat the market. As reported in *Business Week Online*, through the end of 2001 there were 1,226 actively managed stock funds with a five-year record. Their average annualized performance trailed the S&P 500 Index (a measure of the U.S. stock market) by 1.9 percentage points per year.

FUND TRADING PRACTICES AND THE LONG-TERM OSGP INVESTOR

Recent news reports have focused on two serious mutual fund issues, late trading and market timing. Late trading means trading after hours to receive that day’s market price. This is illegal and fund companies cannot accept trades after 4 p.m. Eastern time. Market timing refers to frequent trading in a fund to try to earn short-term profits. This increased activity can raise the costs of a fund and, therefore, reduce returns for other shareholders. Also, market timing can interfere with proper fund management.

Congress and the Securities and Exchange Commission are working to enforce laws and regulations and to develop consistent methods to prevent both late trading and market timing. Many mutual fund companies have procedures in place, such as daily monitoring of trades and charging fees for short-term trading, designed to prevent frequent trading and protect long-term shareholders.

In addition, OSGP provides a high degree of ongoing investment oversight and monitoring. The Oregon Investment Council (OIC) carefully reviews allegations of wrongdoing by management companies to determine any potential impact upon plan participants. The OIC will continue its ongoing review of these issues and is prepared to act to protect plan participants. You have worked hard throughout your career, and protecting your assets for retirement is a top priority. As these investment industry issues continue to be highlighted, we will notify you of any change to the plan or its investments.

Editorial Contributions

Laurie Kessinger, CitiStreet
 Jon Springer, OSGP
 David Crosley, PERS
 Marsha Bacon, PERS

This newsletter is not intended to provide legal, tax, or investment advice. For such advice, participants should contact legal, tax, or investment advisers.

ADVISORY CORNER

The Deferred Compensation Advisory Committee provides participant representation, a forum for feedback, and advice to the PERS Board on plan issues. Its seven volunteer members, appointed by the Board, maintain a valuable link between plan administration, participants, and the Board through their review of the education and communications program during their three-year terms of service. The newest member of the Committee recently appointed by the Board represents retired plan participants. **Kathleen Beaufait** brings to the Committee her experience in working in the office of legislative counsel and is a current board member of Oregon PERS Retirees, Inc. Kathleen describes OSGP as “an extremely effective means of enhancing retirement benefits.”

Open Invitation

You are cordially invited to attend our open Deferred Compensation Advisory Committee meeting February 11, 2004, in Salem. The meeting will begin at 9:30 a.m.

IMPROVE YOUR INVESTOR IQ

OSGP provides free educational workshops and retirement seminars throughout the state and throughout the year. They are designed to help prospective and current plan participants understand and maximize this valuable employment benefit. Recent changes in the PERS pension plan highlight the need for adequate supplemental retirement savings in your OSGP account. There is no better time to consider attending one or more of these sessions.

Wealth Builder is most useful to employees not currently participating in the plan or new enrollees who have not attended a previous plan workshop. You will learn how you can benefit in the short and long-term from participating, how plan investments are organized, and how to take best advantage of your participation in the OSGP.

Planning and Investing introduces participants to long-term retirement planning concepts. You will be able to calculate a long-term savings goal, better understand the investments available to you, and create a personal investment strategy.

Retirement Seminar is open to current participants who are five years or less from retirement. This seminar reviews the catch-up provisions for participants over 50 years of age or within four years of retirement, payment choices after severance of employment, IRS requirements, retirement forms, and relevant time frames.

To find a workshop in your area and register, visit our Web site at www.pers.state.or.us. These workshops are also available upon request at individual work sites for ten or more attendees. Managers may request a workshop at your site by calling 503-378-3730 ext. 232.