CITY OF MANCHESTER EMPLOYEES' CONTRIBUTORY RETIREMENT SYSTEM

2001 ANNUAL REPORT

To The Members & Beneficiaries of the Employees' Contributory Retirement System

As Chairman of the Board of Trustees, I am pleased to present the 2001 Annual Report for the City of Manchester Employees' Contributory Retirement System. This report includes the Financial and Actuarial Valuation summaries of the System's investment and membership activities for the plan year 2001. The report has also been expanded to include management's discussion and analysis of the events of the past year. The results provided demonstrate the Board of Trustees' continuous and successful implementation of its mission to ensure financial security for the members and beneficiaries of the Retirement System.

As a matter of policy, the Board of Trustees closely monitors the System's asset allocation and investment policies and directs Board activity at maintaining the best mix of investment vehicles to achieve maximum investment return with minimum risk exposure. In order to achieve these results, the System's investments include domestic and international equities, fixed income securities, real estate, and alternative investments. Investment professionals representing seventeen management firms are hired to actively manage the System's diversified investment portfolio. The soundness of the System's investment and management decisions is geared toward the future financial security of the plan participants.

The Board of Trustees holds asset managers to a strict performance standard. For each manager, performance comparisons are made against a relevant benchmark and peer universe as specified in the System's Investment Management Objectives. When results fall below both the benchmark and universe median in any one calendar year, the manager will be critically reviewed; longer term results of the strategy will be analyzed and given appropriate consideration in the manager review. A formal watch will be initiated if manager results fall below the performance criteria over any given period. A manager will be placed on probation if this performance is below both the benchmark and universe median, and, once the probationary period begins, the manager will be given four calendar quarters to improve relative performance. If relative performance deteriorates or does not improve, the manager will be subject to termination. The magnitude of performance shortfall, longer term results and current market conditions will be considered in assessing manager performance. The Board of Trustees also reserves the right to terminate any manager at its discretion.

The Annual Report and the Management Discussion and Analysis review the results of the System's asset management and administrative operations for Plan Year 2001. The System's investment returns were not positive this year, but public pension plans nationwide experienced the same, and in many cases, worse investment results. The City Retirement System's rates of return over the last two years compared very favorably relative to other public retirement plans.

On behalf of the Retirement System Board of Trustees and staff, I wish to thank the membership for its support and interest in the Board's activities. The Board is totally committed to improving membership service and communications. I also wish to thank my colleagues on the Board of Trustees and System staff for their continuing effort and dedication throughout the year.

Sincerely,

Paul W. Porter, Jr.
Chairman, Board of Trustees
City of Manchester Employees' Contributory Retirement System

MANAGEMENT DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Manchester Employees' Contributory Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended December 31, 2001. Please read it in conjunction with the transmittal letter from the Chairman of the Board of Trustees and the System's financial statements.

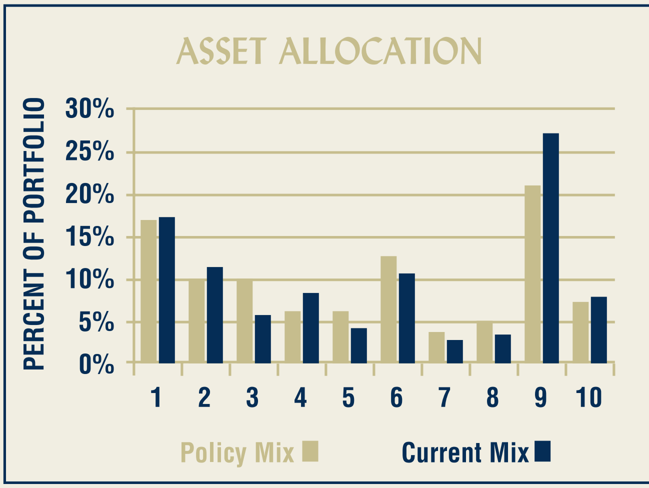
Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Changes in Net Assets (on page 6) provide information about the activities of the System and the net assets held in trust for pension benefits. The financial statements also contain actuarial information on the value of plan assets, accrued liability and the significant actuarial assumptions used in the actuarial valuations.

Financial Highlights

- The System's total net assets held in trust for pension benefits was $85.8 million at December 31, 2001.
- The System's net assets decreased by $7.2 million which is primarily due to a market decline in the fair value of plan investments.
- Employer and employee contributions to the plan were $2.6 million which represents a $650,000 increase over the preceding year.
- Benefits paid to plan participants were $4.2 million. At December 31, 2001, there were 484 retirees and beneficiaries currently receiving benefits.

Investment Policy



		POLICY MIX	CURRENT MIX
1.	TAA	17.00%	17.50%
2.	Large Cap Value	10.00%	11.40%
3.	Large Cap Growth	10.00%	6.00%
4.	Mid Cap Value	6.30%	8.80%
5.	Mid Cap Growth	6.30%	4.10%
6.	Intern'l Equity	12.90%	10.80%
7.	Emerging Markets	3.90%	2.90%
8.	Alternative Equity	5.00%	3.40%
9.	Domestic Fixed	21.10%	27.00%
10.	Cash/Other	7.50%	8.10%

The Board's investment policy permits fund assets to be invested in U.S. and non-U.S. equities, U.S. and non-U.S. fixed income securities and equity real estate commingled funds. Asset allocations among various asset classes are shown in the box above.

The Board of Trustees' investment objectives and risk tolerance are to achieve a maximum total return with emphasis on preservation of capital in real terms. The investment mix is designed to participate in rising markets, with defensive action expected to an even greater degree in declining markets. Total return includes interest, dividends, and realized/unrealized gains or losses from investments.

Reporting on the System's Finances as a Whole

One of the most important questions asked about the System's finances is: Is the System as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Changes in Net Assets report information about the System as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by private-sector retirement plans. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

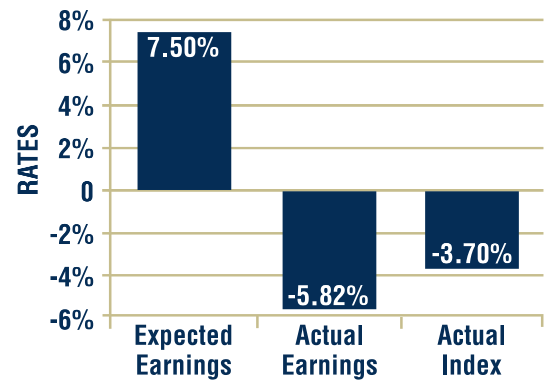
These two statements report the System's net assets and changes in them. You can think of the System's net assets-the difference between assets and liabilities-as one way to measure the System's financial health, or financial position. Over time, increases or decreases in the System's net assets are one indicator of whether its financial health is improving or deteriorating. You will also need to consider the actuarial liability or surplus as determined at the first day of each plan year.

— System's Activities —

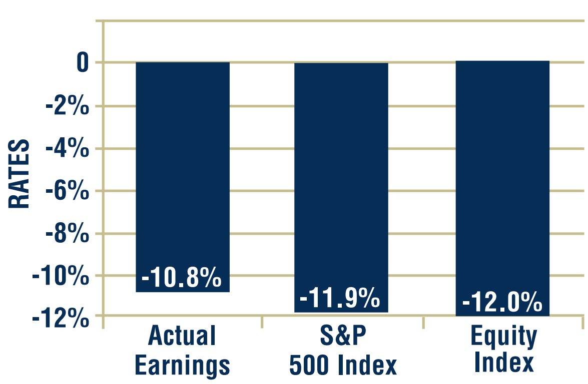
Operationally, Plan expenses for the period ended December 31, 2001 were $5,071,714. This total includes $597,966 in administrative expenses, $234,255 in refund of employee contributions and $4,239,493 in benefits paid to retired members and beneficiaries. A total of 1880 City employees were participants or beneficiaries at year-end.

The value of plan assets, after subtracting liabilities of the plan was $85,786,154 and $93,034,852 as of December 31, 2001 and December 31, 2000, respectively. For the year 2001, the plan experienced a decrease in its net assets in the amount of $7,248,698 and an investment rate of return of -5.82%. Total fund earnings did not meet expectations for the second straight year.

TOTAL FUND EARNINGS 2001

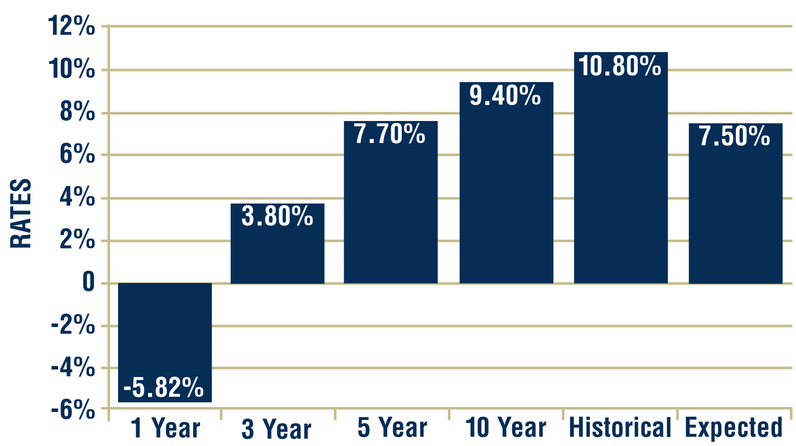


TOTAL EQUITY EARNINGS 2001



Total plan equities ended the year with a loss of 10.8%, but still outperformed the -11.9% rate of return of the S&P 500 Index and the Equity Index of -12.0%. The Board's asset diversification strategy was again protective of the System's assets.

PERIOD RATES OF RETURN



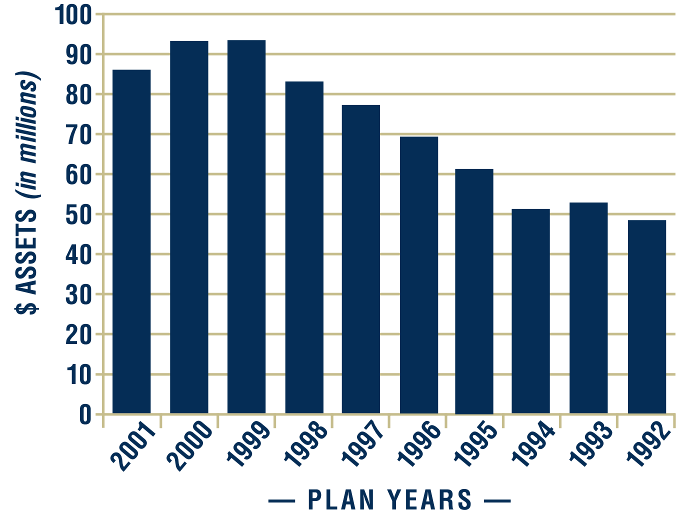
For the plan year ended December 31, 2001, the System's rate of return for the one and three year periods fell below its assumed earnings of 7.5% at -5.82% and 3.80% respectively. The five year, ten year and historical rates of return have exceeded the anticipated return of 7.5% at 7.70%, 9.40% and 10.80% respectively.

The year 2001 marked the second consecutive year U.S. equities declined in value. The last time the U.S. experienced back-to-back market declines was the recession of 1973-74. The System's total portfolio declined by 5.82% during 2001, ending the year with $85.7 million in total assets. Over the course of the year, there was $2.6 million in net withdrawals from the fund.

HISTORICAL ASSET VALUES FOR THE PAST TEN YEARS ARE SHOWN HERE.

2001	$85,786,154
2000	$93,034,852
1999	$93,075,859
1998	$83,222,903
1997	$77,944,473
1996	$69,295,742
1995	$61,183,155
1994	$51,251,920
1993	$53,156,530
1992	$48,968,980

TEN YEAR ASSET VALUES AS OF 12/31/01



Economic Environment

In the aftermath of the terrorist attacks on the United States, and the ensuing war on terrorism, the markets rebounded in the fourth quarter of 2001. Consumer sentiment bounced back due in part to incentive-driven auto sales. Favorable returns in worldwide equity markets during the three months ended December 31, 2001, however, did not offset what proved to be a dismal calendar year for investors. In November, the National Bureau of Economic Research declared that the U.S. economy was in a recession. The Committee uses economic data such as: employment, industrial production, manufacturing and trade sales, and personal income to determine when a recession occurs. The Federal Reserve decreased interest rates three times during the quarter, finishing the year with eleven rate cuts in all.

Administrative Budget

The Retirement System's operational budget is prepared annually for each plan year beginning January 1. The System's administrative budget is divided into, and accounts for, five categories of expenses: Administrative, Human resources, Professional Services, Capital Expenditures, and, Special Projects.

Administrative expenses for 2001 were $110,031.51, a 3.92% decrease from the previous year. Human Resource expenses increased in 2001 to $171,113.16 from $165,579.09 in plan year 2000. Professional Services expenses in 2001 were $230,230.35, a reduction of 1.94% from $234,785.48 in the previous year.

Capital Expenditures totaled $114,787.50 comprised of a single expense that represented 50% of the contracted cost to design a new computer administration system.

Special Projects expenses in 2001 were reduced from the previous year from $80,040.58 to $45,430.01 as two major projects came to a close. The restatement of the Plan Document and a Minute Master file system that indexed and classified all of the Retirement System's legal opinions and Board of Trustee meeting minutes were completed.

The Board of Trustees continues to monitor the Retirement System's budget appropriations and directs much effort at controlling all administrative expenses.

STATEMENTS BENEFITS

NET ASSETS AVAILABLE FOR BENEFITS

Year Ending December 31	2001	2000
ASSETS		
Cash	$ 292,923	$ 232,477
Investments	85,669,869	93,029,088
Receivable for investment sold	233,827	—
Accrued interest	174,487	241,494
Employee Contributions Receivable	46,224	12,679
Property, plant and equipment, net of accumulated depreciation	121,211	11,090
Other Assets	3,333	—
TOTAL ASSETS	$86,541,874	$93,526,828
LIABILITIES AND NET ASSETS		
Payable for investment purchases	$ 266,536	—
Accounts payable & accrued expenses	$ 112,031	$ 141,949
Pension benefits payable	377,153	350,027
TOTAL LIABILITIES	755,720	491,976
Net assets held in trust for pension benefits	$85,786,154	$93,034,852
TOTAL LIABILITIES & NET ASSETS	$86,541,874	$93,526,828

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year Ending December 31	2001	2000
ADDITIONS TO NET ASSETS ATTRIBUTED TO		
Investment income		
Interest	$ 871,471	$ 904,367
Dividends	1,334,213	1,823,841
Net realized and unrealized appreciation in fair value of investments	—	134,457
Less investment expense	(342,118)	(424,240)
Net investment income	1,863,566	2,438,425
Contributions		
Employer	1,135,820	716,240
Employee	1,473,606	1,242,679
Total contributions	2,609,426	1,958,919
TOTAL ADDITIONS	4,472,992	4,397,344
DEDUCTIONS		
Benefits paid directly to participants	4,239,493	3,920,871
Net realized & unrealized depreciation in fair value of investments	6,649,976	—
Refunds of employee contributions	234,255	155,951
Administrative expenses	597,966	588,663
TOTAL DEDUCTIONS	11,721,690	4,665,485
NET DECREASE IN NET ASSETS	(7,248,698)	(268,141)
NET ASSETS, BEGINNING OF YEAR	93,034,852	93,302,993
NET ASSETS, END OF YEAR	$85,786,154	$93,034,852

NOTE: Audited Financial Statements, certified by Berry, Dunn, McNeil & Parker, Certified Public Accountants, are available from the City of Manchester Employees' Contributory Retirement System upon request.

PENSION BENEFIT OBLIGATION

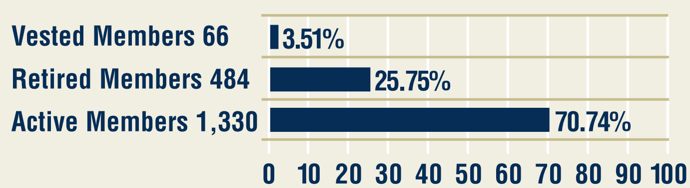
	2001	2000
Members currently receiving benefits	$38,339,560	$35,701,685
Terminated vested members	1,328,570	1,431,109
Active Members:		
Accumulated employee contributions, including allocated investment earnings	11,536,020	10,228,353
Employer-financed	34,708,527	30,377,919
Total active members	46,244,547	40,606,272
Total pension benefit obligation	85,912,677	77,739,066
Assets in excess of pension benefit obligation	$ (126,523)	$15,295,786

INVESTMENTS

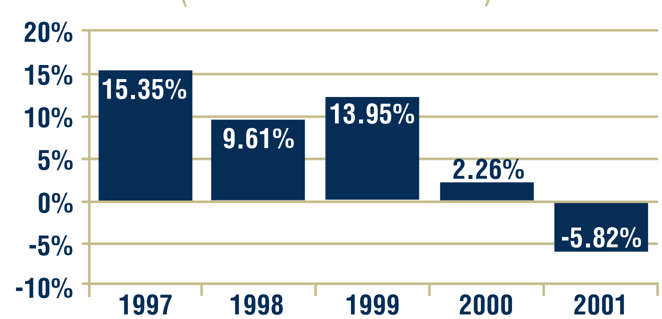
Investment managers have discretionary investment powers within guidelines developed by the Board of Trustees. The Retirement System's investments are held by a custodian bank. The following tables present the fair market values of the Retirement System's investments and the net unrealized appreciation in fair value at December 31, 2001 and 2000.

	2001	2000
Equity funds	$70,965,824	$ 77,656,483
Fixed income	11,529,276	12,210,529
Emerging market funds	1,767,466	1,729,292
Charles B. Manning, Inc. (related party)	613,615	860,300
Cash and equivalents	793,688	572,484
Total	$85,669,869	$93,029,088
Net unrealized appreciation (depreciation)	$(6,663,742)	$ 6,362,562

PLAN PARTICIPATION AS OF 12/31/01



INVESTMENT RETURN
(on a market value basis)



SUMMARY

COMPARATIVE SUMMARY OF THE PRINCIPAL RESULTS OF THE VALUATION

	2001	2000
1. System Cost		
a. Employer normal cost	**$ 2,173,489**	$ 1,934,170
b. Employer normal cost as a percentage of annualized compensation (during prior year)	**5.62%**	5.47%
c. Customary employer contribution, if paid beginning of year	**1,794,576**	1,117,163
d. Customary employer contribution as a percentage of annualized compensation (during prior year)	**4.64%**	3.16%
2. System Liabilities		
a. Actuarial present value of benefits earned to date	**68,180,848**	62,261,822
b. Actuarial accrued liability	**96,270,479**	87,095,109
c. Unfunded actuarial accrued liability	**1,457,848**	(3,049,404)
3. System Assets		
a. Market value	**85,818,863**	93,034,852
b. Actuarial asset value	**94,812,631**	90,144,513
c. Estimated total rate of return on market value basis during preceding year	**(5.82%)**	2.26%
4. Benefit Security Ratio		
Market value of System assets as a percentage of liability for benefits earned to date for all System members (including retirees) = (3.a) \ (2.a)	**125.87%**	149.43%
5. Information on System Members		
a. Number of System Members		
(i) Active	**1,330**	1,265
(ii) Retired	**484**	468
(iii) Terminated with deferred vested benefits	**66**	69
(iv) Total	**1,880**	1,802
b. Data on active System Members		
(i) Total annualized compensation		
— during prior year	**38,692,738**	35,370,961
— estimated current year	**40,598,645**	37,116,682
(ii) Average reported compensation (prior years)	**29,092**	27,961
(iii) Average attained age	**45.1 yrs.**	44.8 yrs.
(iv) Average length of service to date	**9.0 yrs.**	9.8 yrs.
c. Data on Inactive Participants		
(i) Average annual benefit for retirees/beneficiaries	**9,080**	8,665
(ii) Average annual benefit for terminated vested	**3,844**	4,025
(iii) Average attained age for retirees/beneficiaries	**72.0 yrs.**	71.5 yrs.
(iv) Average attained age for terminated vested	**52.2 yrs.**	51.5 yrs.

The customary employer contribution increased from $1,117,163 for 2001 to $1,794,576 for 2002 (representing a 61% increase).

Factors impacting the contribution:

Actuarial Experience:

Overall system experience during year ending December 31, 2001 was less favorable than expected. *Specifically:*

1. The estimated total return on system assets during 2001 was *negative* 5.82% on a market value basis but *positive* 7.33% on an actuarial basis. Since the assumed rate was 7.5%, this resulted in a very small actuarial (asset) loss.
2. Reported compensation for system members who were active employees as of both January 1, 2001 and January 1, 2002 increased by the amounts shown in the box to the right:

Age	Actual	Assumption	% of Participants
Under 35	7.8%	5.5%	19%
35-49	8.3%	5.0%	53%
50 and Over	6.9%	4.5%	28%

Actual salary increases were significantly above expected increases, which resulted in an actuarial liability loss.

The result of these experience factors was a net actuarial loss of $2,810,601.

The System adopted a COLA to participants in payment status as of December 31, 2000. The effect of this COLA was to increase liabilities by $1,047,075. This increase is funded over ten years. For 2002, the impact on the customary contribution is a charge of approximately $142,000.

Board of Trustees

Current Board - left to right (seated): Kevin A. Clougherty and Paul W. Porter, Jr.; (standing) Michael D. Roche and Thomas M. Lewry; missing from photo: Kevin G. Barry, Arthur J. Beaudry, and Mayor Robert A. Baines

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Executive Director

Sandi Aboshar
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Suzanne M. Wilson
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Hartford, Connecticut

Lend Lease
Investment Management, Inc.
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Timberland Investment Management
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Boston Millenia Partners
Boston, Massachusetts

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Cadence Capital Management
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Hutchens Investment Management
New London, New Hampshire

State Street Global Advisors
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Turner Investment Partners
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