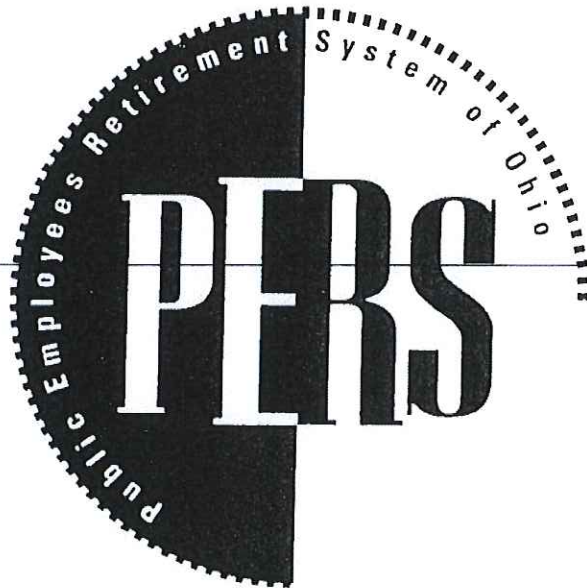


PUBLIC EMPLOYEES RETIREMENT SYSTEM
OF OHIO

THE COMPREHENSIVE
ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1997



RICHARD E. SCHUMACHER, EXECUTIVE DIRECTOR

MARK SNODGRASS, ASSISTANT DIRECTOR-CONTROLLER

277 EAST TOWN STREET, COLUMBUS, OHIO 43215-4642

TABLE OF CONTENTS

INTRODUCTORY SECTION

Certificate of Achievement Award in Financial Reporting	5
Public Pension Principles Achievement Award	6
The Retirement Board	7
Organizational Structure	8
Letter of Transmittal	9

FINANCIAL SECTION

Independent Auditor's Report	15
Financial Statements	
Combining Statements of Plan Net Assets	16
Combining Statements of Changes in Plan Net Assets	18
Notes to Financial Statements	20
Required Supplementary Schedules	
Schedule of Funding Progress	28
Schedule of Employer Contributions	28
Notes to Required Supplementary Schedules	29
Additional Information	
Administrative Expenses	31
Schedule of Investment Expenses	32
Schedule of Payments to Consultants	32

INVESTMENT SECTION

Investment Report	34
Schedule of Investment Results	44
Listings of Largest Assets Held	44
Detailed Listing of Investment Portfolio	45
Schedule of Fee and Commission Payments to Brokers	80
Investment Summary	81

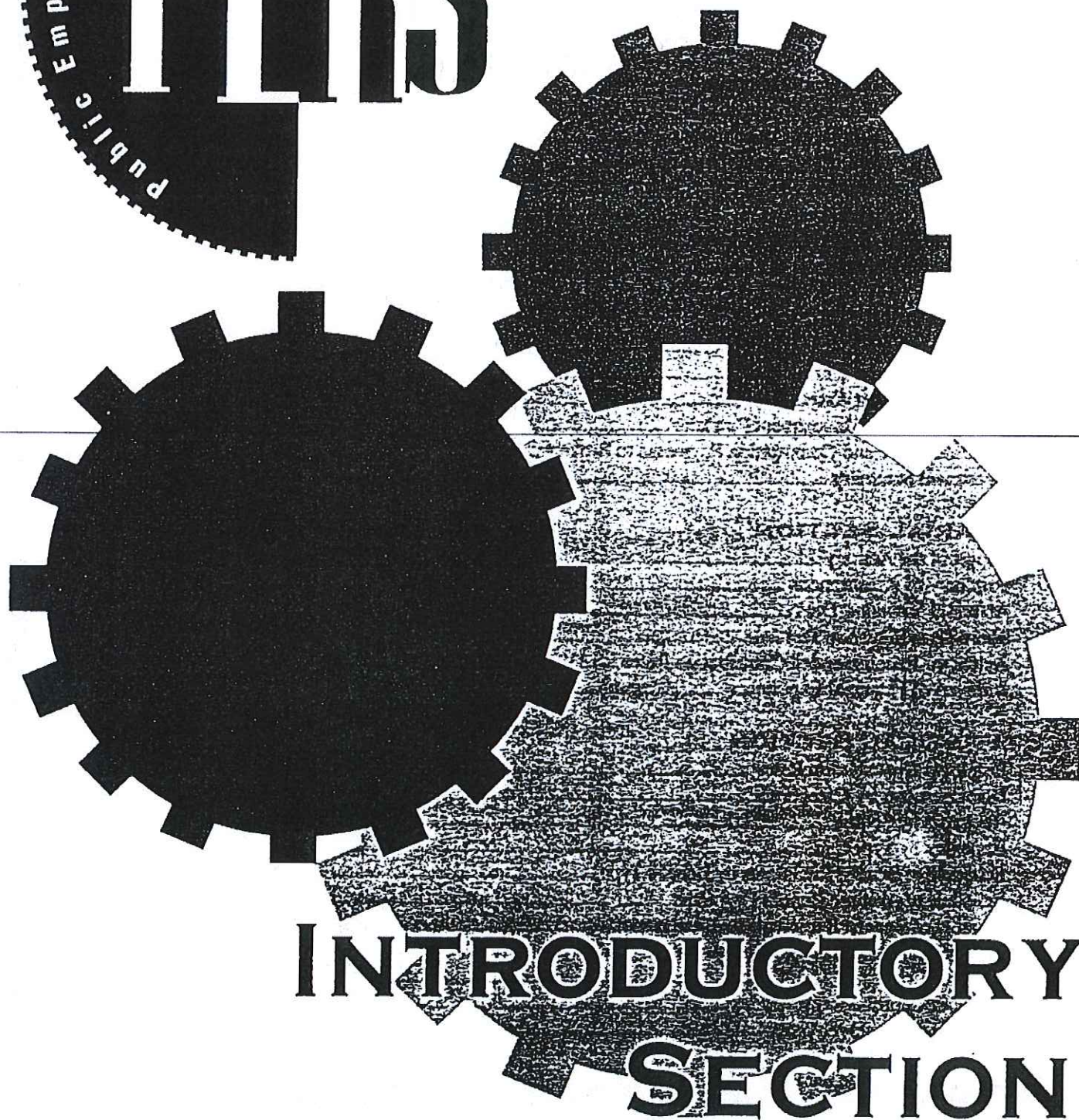
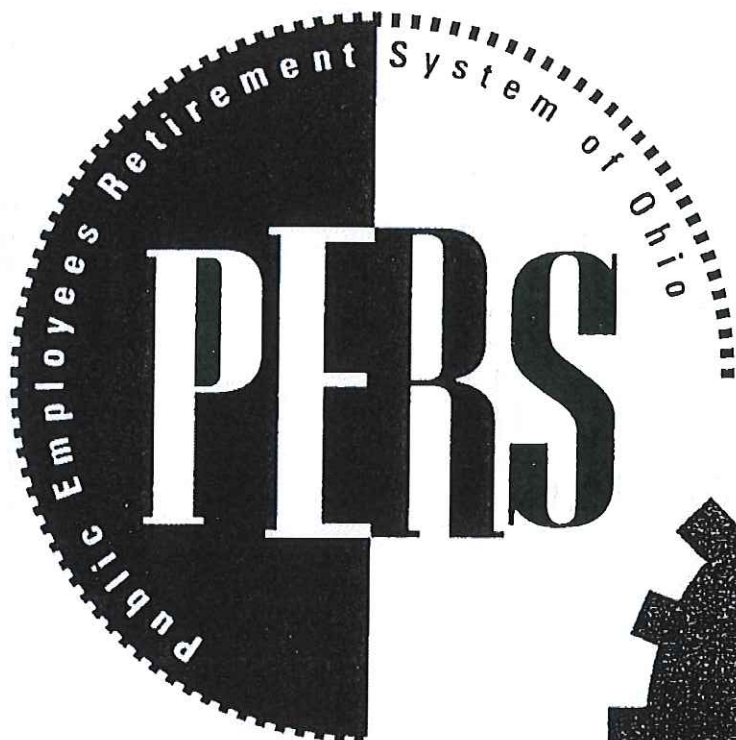
ACTUARIAL SECTION

Report of the Actuary	83
Summary of Assumptions	84
Actuarial Valuation Data	85
Short-Term Solvency Test	85
Actual vs. Recommended Contribution Rates	86
Analysis of Financial Experience	86

STATISTICAL SECTION

Employer Contribution Rates	89
Disbursements by Category	90
Revenues by Source	90
Expenses by Type	91
Schedule of Benefit Recipients by Benefit Type	92
Schedule of Average Benefit Payments	92
Number of Benefit Recipients by Category	93
Number of New Benefit Recipients and Refund Payments	93
Member Count	93
Member Contribution Rates	93
Number of Employer Units	93

PLAN STATEMENT	96
----------------------	----



INTRODUCTORY SECTION

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Public Employees
Retirement System of
Ohio

For its Comprehensive Annual
Financial Report

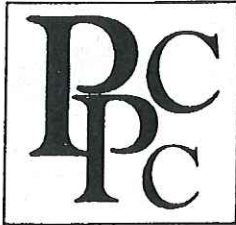
for the Fiscal Year Ended
December 31, 1996

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda K. Savitsky
President

Jeffrey L. Esser
Executive Director



Public Pension Coordinating Council

Public Pension Principles **1996 Achievement Award**

Presented to

Public Employees Retirement System of Ohio

In recognition of instituting professional standards for public employee retirement systems as established by the Public Pension Principles.

Presented by the Public Pension Coordinating Council, a confederation of

Government Finance Officers Association (GFOA)

National Association of State Retirement Administrators (NASRA)

National Conference on Public Employee Retirement Systems (NCPERS)

National Council on Teacher Retirement (NCTR)

Carlos Resendez
Chairman

THE RETIREMENT BOARD

ELECTED MEMBERS

Ronald C. Alexander
Representing State Employees



Donald R. Arnold
Representing College and
University Employees



Steven Hawk
Representing Miscellaneous
Employees

Barbara J. Thomas
Representing County Employees



Ken Thomas
Representing Municipal Employees



William G. Wilcox
Representing Retirants



STATUTORY MEMBERS

Sandra A. Drabik
Director of Administrative Services



Betty D. Montgomery
Attorney General



Jim Petro
Auditor of State



The Retirement Board is the governing body of PERS, with responsibility for administration and management. Six of the nine members are elected by the groups they represent: retirants; employees of the state; employees of counties; employees of municipalities; non-teaching employees of state colleges and universities; and miscellaneous employees. The Director of Administrative Services, Attorney General, and the Auditor of State are statutory members.

The Retirement Board appoints the Executive Director, an actuary, and other employees necessary for the transaction of business. The Board meets monthly and receives no compensation, but is reimbursed for necessary expenses. By law, the State Treasurer is custodian of the funds of PERS.

ORGANIZATIONAL STRUCTURE

ADVISORS:

Actuary —
Gabriel, Roeder, Smith & Company
Detroit, Michigan

Performance Evaluation —
Capital Resources
Wayne, Pennsylvania

Asset Allocation and
Investment Policy Advisors
to the Retirement Board —
Strategic Investment Solutions Inc.
San Francisco, California

Wilshire Associates, Incorporated
Santa Monica, California

AUDITORS:

KPMG Peat Marwick LLP
Columbus, Ohio
(Under contract with the Auditor of State)

RETIREMENT
BOARD



EXECUTIVE DIRECTOR
Richard E. Schumacher



ASSISTANT DIRECTOR
INVESTMENTS
Joel S. Buck



ASSISTANT DIRECTOR
BENEFITS ADMINISTRATION
Danny L. Drake



ASSISTANT DIRECTOR
LEGAL AND LEGISLATION
Toba Jeanne Feldman



ASSISTANT DIRECTOR
CONTROLLER
Mark Snodgrass



ASSISTANT DIRECTOR
DATA INFORMATION SYSTEMS
Blake W. Sherry

LETTER OF TRANSMITTAL

277 East Town Street



Columbus, Ohio 43215-4642

Public Employees Retirement System of Ohio

(614) 466-2085 • 1-800-222-PERS (7377)

www.opers.org

April 30, 1998

Dear Chairman and Members of the Board:

It is our privilege to submit to you the Comprehensive Annual Financial Report (CAFR) for the Public Employees Retirement System of Ohio for the fiscal year ended December 31, 1997. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the System. We believe this report reflects a careful stewardship of the System's assets and dedicated service to our members and our retirants.

The State Employees Retirement System was established January 1, 1935, to make available a secure means to provide retirement for employees of the State of Ohio. In 1938, the System expanded to include employees of counties, municipalities, health departments and park and conservancy districts. At that time the name was changed to the Public Employees Retirement System of Ohio (PERS). Membership was made optional for elected officials in 1941. Survivor benefits were made part of the PERS benefit structure in 1951. From 1935 to the present the System has experienced continuous growth and provided benefit enhancements.

Participating employers are divided, for actuarial purposes, into state, local government and law enforcement divisions. A complete description of membership in PERS is contained in the Plan Statement on page 96. PERS provides retirement, disability and survivor benefit protection for thousands of public employees throughout the state. Employees, along with their employers, pay into the System during their working years. PERS, in turn, pays benefits to these members throughout their retirement, and to qualified beneficiaries upon a member's or retirant's death. For additional information on benefits available, see the Plan Statement on page 96.

This CAFR is divided into six sections: (1) an Introductory Section, which contains the administrative organization, the Certificate of Achievement for Excellence in Financial Reporting, the Public Pension Coordinating Council Achievement Award and a letter of transmittal; (2) a Financial Section, which contains the report of the Independent Auditors, the financial statements of the System and certain required supplementary information; (3) an Investment Section, which contains a report on investment activity, investment policies, investment results, and various investment schedules; (4) an Actuarial Section, which contains an Actuary's Certification Letter and the results of the annual actuarial valuation; (5) a Statistical Section, which includes significant data pertaining to the System and (6) the System's plan statement.

MAJOR INITIATIVES

PERS exists for the purpose of providing retirement benefits to Ohio's public employees. This basic purpose continues to be our focus.

PERS-provided health care, though not a statutorily mandated benefit, is of importance to our benefit recipients. Accordingly, PERS is dedicated to providing quality health care to the extent our resources will permit. The

cooperation of all benefit recipients will be a key ingredient for continuing our high standard of health care coverage.

Over the years PERS has implemented a variety of cost containment measures in order to maximize our available health care resources. These measures include: a preferred pharmacy network, two preferred provider networks, individual case management, mail order prescriptions, patient pre-certification program and, during 1997, several Medicare Risk Health Maintenance Organizations (HMOs) were made available.

In an effort to secure the future of Medicare, the federal government has been encouraging development of Medicare-approved HMOs as an alternative to traditional medicare benefits in order to manage costs more effectively. The HMO becomes a replacement for Medicare. In response, the Retirement Board recommended a review of a Medicare Risk Program for our benefit recipients and their covered dependents who are eligible for Medicare A and B. The Medicare Risk Program is available through HMOs which will administer all benefits. The program is made up of network providers and is designed to provide quality care, customer service and comprehensive coverage with no deductibles and no balance billing; dental and vision benefits are also provided. The federal government pays the HMO a flat fee for each enrolled individual. The payment made to the HMO by the federal government is considered payment in full for agreed upon benefits. All HMOs participating in the federal program meet strict requirements to become a Medicare approved HMO. They must offer benefits that at least replace traditional Medicare benefits. Through negotiations with these HMOs, PERS benefit recipients who are not yet Medicare eligible may also utilize the Medicare HMOs. In the coming years PERS will continue to aggressively pursue other innovative ways to control health care costs while attempting to maintain quality health care service and benefits.

Members may now purchase additional service credit on a pre-tax basis if their employer establishes a payroll deduction pick-up plan. The tax-deferred amounts used to purchase the credit are treated as employer-paid contributions and taxes are deferred until retirement or refund.

Beginning in September 1997, PERS established toll-free telephone access for active members. Those outside the Columbus area may dial 1-800-222-PERS (7377) between 8 a.m. and 4:30 p.m. to speak to an interviewer. Columbus residents are encouraged to continue using the local number (614) 466-2085.

If you own a computer with an Internet connection, or have access to one at your local library, you can now find PERS on the World Wide Web at <http://www.opers.org>. The PERS website is a great resource for many types of PERS information.

INTERNAL CONTROLS

The management of PERS is responsible for and has implemented systems of internal accounting controls which are designed to provide responsible assurances for the safeguarding of assets and the reliability of financial records. We believe that the internal accounting controls currently in place are adequate to meet the purpose for which they were intended. We also believe the financial statements, supporting schedules and statistical tables to be fairly presented in all material respects.

ACCOUNTING SYSTEM AND REPORTS

The accrual basis of accounting is used in recording financial transactions. Expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Interest earned is accrued on a monthly basis. Accounts receivable at year end, in addition to accrued interest receivable, reflect accrued employer charges and investment proceeds due on sales that have not yet settled. Investments are recorded at fair value. Fixed assets are listed at cost less accumulated depreciation. Under our cash management program, receipts are immediately deposited and are recorded as undistributed deposits until such time as they are allocated to member contributions, employer receivables, employer contributions, and investment income.

ADDITIONS TO PLAN NET ASSETS

The collection of employer and employee contributions, as well as income from investments, provide the reserves needed to finance retirement benefits. Contributions and investment income for fiscal year 1997 totaled \$7,429,353,151.

	1997	1996	Increase (Decrease) Amount	Increase (Decrease) Percentage
Member Contributions	\$ 773,100,594	\$ 737,292,990	\$ 35,807,604	5%
Employer Contributions	1,233,637,457	1,181,597,072	52,040,385	4%
Net Investment Income	5,421,861,077	2,848,123,681	2,573,737,396	90%
Other	754,023	867,738	(113,715)	(13%)
Total	\$ 7,429,353,151	\$ 4,767,881,481	\$2,661,471,670	56%

Member and Employer contributions increased by \$35,807,604 (5 percent) and \$52,040,385 (4 percent), respectively. The increase in contributions was attributable to higher salaries. Contribution rates remained unchanged. Net investment income increased in 1997 due to favorable investment returns.

DEDUCTIONS TO PLAN NET ASSETS

The principal purpose for which the System was created was to provide retirement, and disability and survivor benefits, to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, refunds of contributions to terminated employees, and the cost of administering the System.

	1997	1996	Increase (Decrease) Amount	Increase (Decrease) Percentage
Benefit Payments	\$1,694,449,673	\$1,566,534,763	\$ 127,914,910	8%
Refunds	139,624,174	110,043,743	29,580,431	27%
Administrative Expenses	20,107,718	18,650,473	1,457,245	8%
Total	\$1,854,181,565	\$1,695,228,979	\$ 158,952,586	9%

Expenses for fiscal year 1997 totaled \$1,854,181,565, an increase of 9 percent over fiscal year 1996 expenses. The majority of the increase is due to an increase in the number of refunds requested by members. The increase in administrative expenses is largely attributable to increased payroll costs. Administrative expenses are detailed in the Financial Section on page 31 of the CAFR.

FUNDING AND RESERVES

Funds, derived from the excess of revenues over expenses, are accumulated by the Retirement System in order to meet current and future benefit obligations to retirants and beneficiaries. The higher the level of funding, the larger the accumulation of assets, hence, the greater the investment income potential. Continuous improvement in the funding of the System is sought through suitable reserves, higher investment earnings and effective cost containment programs. As of December 31, 1997, funds established by the System totaled \$45,333.2 million. The latest actuarial valuation, dated December 31, 1996, reflects an unfunded actuarial accrued liability of \$2,097.8 million. This is the difference between actuarial value of pension assets and the actuarial calculated liability for the fund. The "unfunded actuarial accrued liability," is being amortized over future years. The State government liability is being funded over eight years, the local government portion over 15 years, and the law enforcement portion over 30 years. By pursuing a conscientious management approach, PERS has been able to meet the goals of level funding, thereby holding member and employer contribution rates relatively constant as a percentage of covered payroll.

INVESTMENTS

The investments of the System are governed by section 145.11 of the Ohio Revised Code (ORC). This section of the ORC requires a prudent person standard be applied to all investment decisions. The prudent person standard, effective for PERS on March 6, 1997, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund. Under the prudent person standard, fiduciaries shall discharge their duties solely in the interest of the fund participants and beneficiaries and with the degree of diligence, care and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position. By permitting further diversification of investments within the fund, the prudent person standard may enable PERS to reduce overall risk and increase returns. A summary of the asset allocation can be found on page 45 of this report.

For the year ended December 31, 1997, total return on investments was 13.31 percent. The annualized rate of return over the past three years was 13.78 percent and 10.01 percent over the past five years.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Public Employees Retirement System of Ohio for its CAFR for the fiscal year ended December 31, 1996. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid only for one year. We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA.

PUBLIC PENSION PRINCIPLES ACHIEVEMENT AWARD

The Public Employees Retirement System of Ohio was awarded the Public Pension Coordinating Council's Public Pension Principles 1996 Achievement Award. This award recognizes the achievement of high professional standards in the areas of benefits, actuarial valuations, financial reporting, investments and disclosures to members.

PROFESSIONAL SERVICES

Professional services are provided to the Public Employees Retirement System of Ohio by consultants appointed by the Board to aid in efficient and effective management of the System. Actuarial services are provided by Gabriel, Roeder, Smith & Company, Detroit, Michigan. The investment advisor to the Board is Strategic Investment Solutions Inc., San Francisco, California. The financial records of the System were audited by KPMG Peat Marwick LLP, Certified Public Accountants, Columbus, Ohio, under contract with the Auditor of the State of Ohio.

ACKNOWLEDGMENTS

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Retirement Board. Our sincere appreciation is extended to all who assisted in and contributed towards the completion of this document.

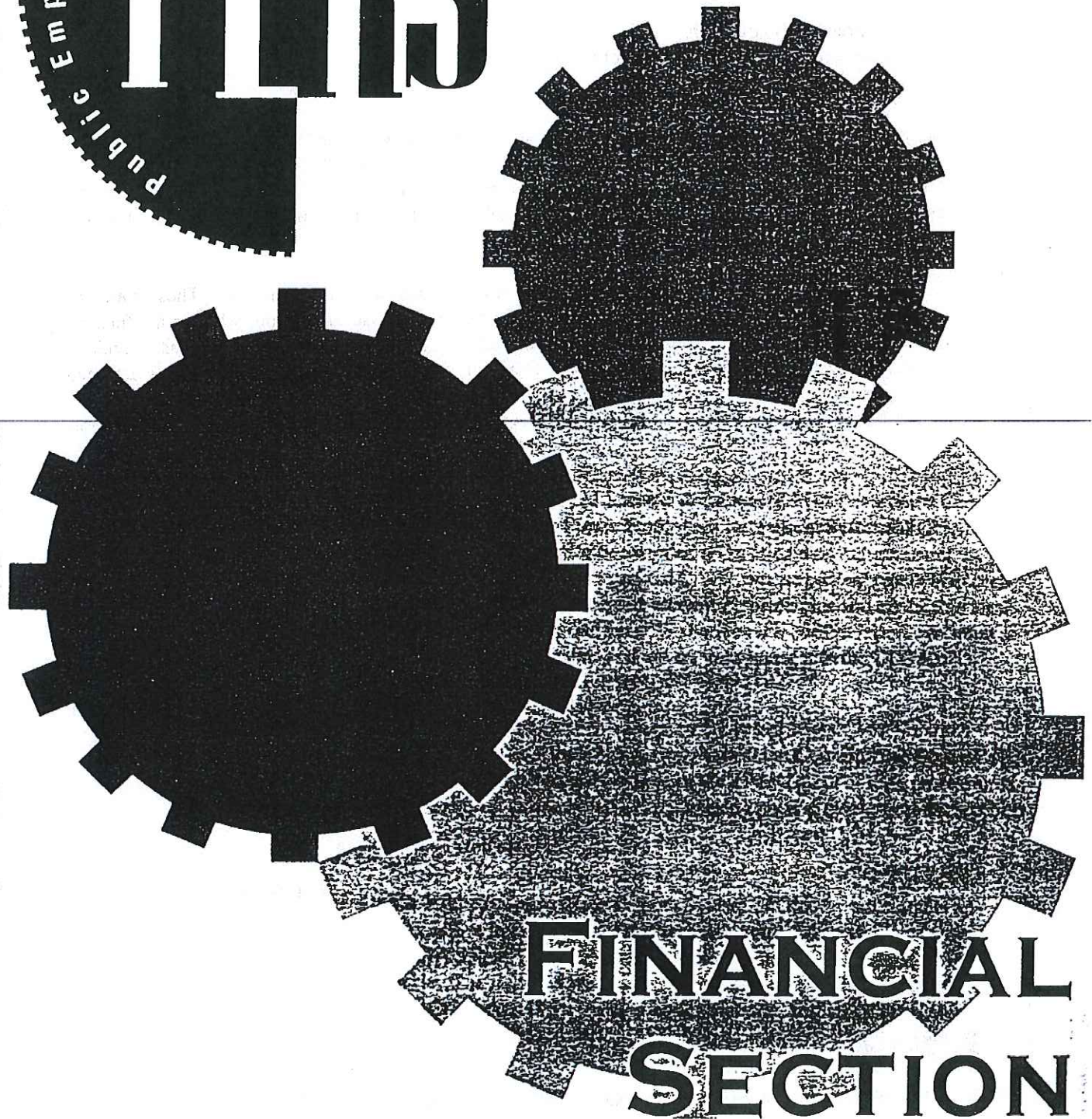
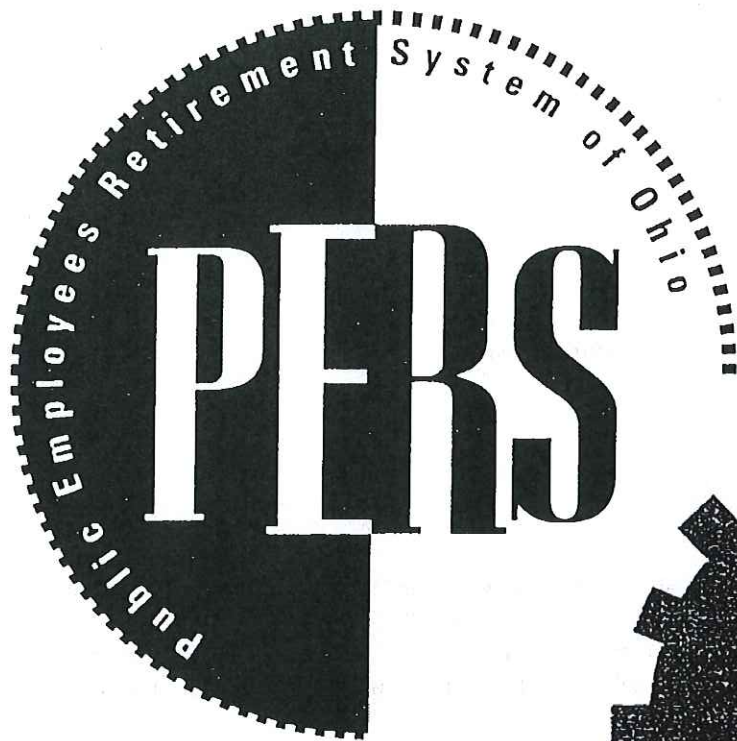
The purpose of this report is to provide complete and reliable information as a basis for making management decisions, as a means for determining compliance with the legal provisions, and as a means for determining responsible stewardship over the assets held in trust for the members of this System.

This report is being mailed to all employer units of the System, each state legislator, and other interested parties.

Respectfully submitted,


RICHARD E. SCHUMACHER, CPA
Executive Director


MARK SNODGRASS, CPA
Assistant Director - Controller



INDEPENDENT AUDITOR'S REPORT



Peat Marwick LLP

Two Nationwide Plaza
Columbus, OH 43215

Telephone 614 249 2300

Telefax 614 249 2348

Independent Auditors' Report

To the Retirement Board of the
Public Employees Retirement System of Ohio.

We have audited the accompanying combining statements of plan net assets of the Public Employees Retirement System of Ohio (PERS) as of December 31, 1997 and 1996, and the related combining statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of PERS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. ~~We believe that our audits provide a reasonable basis for our opinion.~~

In our opinion, the financial statements present fairly, in all material respects, the financial position of PERS as of December 31, 1997 and 1996, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Additional Information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The additional information is the responsibility of the System's management. The Additional Information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG Peat Marwick LLP

April 3, 1998



Member Firm of KPMG International

COMBINING STATEMENTS OF PLAN NET ASSETS

(AS OF DECEMBER 31, 1997 AND 1996)

	1997		
	PENSIONS	POST-EMPLOYMENT HEALTHCARE	TOTAL
Assets:			
Cash and Short-Term Investments (Note 3)	<u>\$ 2,221,958,465</u>	<u>\$ 487,746,980</u>	<u>\$ 2,709,705,445</u>
	2,221,958,465	487,746,980	2,709,705,445
Receivables:			
Employers'	97,435,089	21,388,190	118,823,279
Retirement Incentive Plan	17,446,902	3,829,808	21,276,710
Investment Sales Proceeds	210,395,971	46,184,481	256,580,452
Accrued Interest and Dividends	<u>232,419,030</u>	<u>51,018,811</u>	<u>283,437,841</u>
Total Receivables	<u>557,696,992</u>	<u>122,421,290</u>	<u>680,118,282</u>
Investments, at fair value (Note 3):			
Bonds	13,808,347,702	3,031,100,715	16,839,448,417
Mortgage & Mortgage Backed	5,083,549,554	1,115,901,122	6,199,450,676
Stocks	11,176,733,667	2,453,429,342	13,630,163,009
Real Estate	3,355,169,802	736,500,688	4,091,670,490
Venture Capital	29,546,820	6,485,887	36,032,707
International Securities	<u>944,855,019</u>	<u>207,407,199</u>	<u>1,152,262,218</u>
Collateral on Loaned Securities	<u>4,304,661,461</u>	<u>944,925,686</u>	<u>5,249,587,147</u>
Total Investments	<u>38,702,864,025</u>	<u>8,495,750,639</u>	<u>47,198,614,664</u>
Fixed Assets:			
Land	1,400,895	307,514	1,708,409
Building and Building Improvements	14,955,787	3,282,978	18,238,765
Furniture and Equipment	<u>13,456,293</u>	<u>2,953,821</u>	<u>16,410,114</u>
	29,812,975	6,544,313	36,357,288
Accumulated Depreciation	<u>(11,108,661)</u>	<u>(2,438,487)</u>	<u>(13,547,148)</u>
Total Fixed Assets	<u>18,704,314</u>	<u>4,105,826</u>	<u>22,810,140</u>
Prepaid Expenses and Other (Note 6)	<u>57,921,199</u>	<u>12,714,410</u>	<u>70,635,609</u>
TOTAL ASSETS	<u><u>41,559,144,995</u></u>	<u><u>9,122,739,145</u></u>	<u><u>50,681,884,140</u></u>
Liabilities			
Undistributed Deposits	3,141,211	689,534	3,830,745
Medical Benefits Payable		44,621,490	44,621,490
Investment Commitments Payable	36,271,830	7,962,109	44,233,939
Accrued Administrative Expense (Notes 5 and 6)	5,231,190	1,148,310	6,379,500
Obligations Under Securities Lending	<u>4,304,661,461</u>	<u>944,925,686</u>	<u>5,249,587,147</u>
TOTAL LIABILITIES	<u><u>4,349,305,692</u></u>	<u><u>999,347,129</u></u>	<u><u>5,348,652,821</u></u>
Net assets held in trust for pension and post-employment healthcare benefits	<u><u>\$37,209,839,303</u></u>	<u><u>\$8,123,392,016</u></u>	<u><u>\$45,333,231,319</u></u>

(A Schedule of funding progress is presented on page 28)

See Notes to Financial Statements

1996

POST-EMPLOYMENT

PENSIONS	HEALTHCARE	TOTAL
----------	------------	-------

\$ 2,193,224,236	\$ 499,169,867	\$ 2,692,394,103
2,193,224,236	499,169,867	2,692,394,103

106,508,359	24,240,915	130,749,274
15,497,581	3,527,193	19,024,774
8,661,751	1,971,383	10,633,134
205,375,758	46,742,776	252,118,534
336,043,449	76,482,267	412,525,716

13,336,208,870	3,035,272,679	16,371,481,549
4,504,957,100	1,025,311,866	5,530,268,966
9,049,733,133	2,059,686,377	11,109,419,510
2,277,025,327	518,242,690	2,795,268,017
21,869,675	4,977,458	26,847,133
703,149,517	160,034,275	863,183,792
8,847,131,141	2,013,574,900	10,860,706,041
38,740,074,763	8,817,100,245	47,557,175,008

1,391,670	316,739	1,708,409
14,792,225	3,366,657	18,158,882
12,317,517	2,803,422	15,120,939
28,501,412	6,486,818	34,988,230
(9,462,026)	(2,153,523)	(11,615,549)
19,039,386	4,333,295	23,372,681
2,636,615	600,084	3,236,699
41,291,018,449	9,397,685,758	50,688,704,207

5,166,916	1,175,971	6,342,887
	49,130,163	49,130,163
7,404,989	1,685,348	9,090,337
4,378,512	996,534	5,375,046
8,847,131,141	2,013,574,900	10,860,706,041
8,864,081,558	2,066,562,916	10,930,644,474
\$32,426,936,891	\$7,331,122,842	\$39,758,059,733

COMBINING STATEMENTS OF CHANGES IN PLAN NET ASSETS

(FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996)

	1997		
	PENSIONS	POST-EMPLOYMENT HEALTHCARE	TOTAL
Additions:			
Contributions:			
Members'	\$ 773,100,594	\$	\$ 773,100,594
Employers'	811,485,028	422,152,429	1,233,637,457
Total Contributions	<u>1,584,585,622</u>	<u>422,152,429</u>	<u>2,006,738,051</u>
Investment Income:			
Net Appreciate (Depreciation) in Fair Value of Investments	3,207,194,135	370,211,565	3,577,405,700
Bond Interest	1,060,356,154	285,716,854	1,346,073,008
Dividends	167,288,938	45,080,119	212,369,057
Real Estate Operating Income, net	223,337,067	60,159,183	283,496,250
Securities Lending Income, gross	6,373,032	1,727,809	8,100,841
	<u>4,664,549,326</u>	<u>762,895,530</u>	<u>5,427,444,856</u>
Less: Investment Management Expenses	(4,578,699)	(1,005,080)	(5,583,779)
Net Investment Income	<u>4,659,970,627</u>	<u>761,890,450</u>	<u>5,421,861,077</u>
Other Income	<u>754,023</u>		<u>754,023</u>
TOTAL ADDITIONS	<u>6,245,310,272</u>	<u>1,184,042,879</u>	<u>7,429,353,151</u>
Deductions:			
Benefits	1,304,604,400	389,845,273	1,694,449,673
Refunds of Contributions	139,624,174		139,624,174
Administrative Expenses	<u>18,179,286</u>	<u>1,928,432</u>	<u>20,107,718</u>
TOTAL DEDUCTIONS	<u>1,462,407,860</u>	<u>391,773,705</u>	<u>1,854,181,565</u>
Net Increase	4,782,902,412	792,269,174	5,575,171,586
Net assets held intrust for pension and post-employment healthcare benefits:			
Balance, Beginning of Year	<u>32,426,936,891</u>	<u>7,331,122,842</u>	<u>39,758,059,733</u>
BALANCE, END OF YEAR	<u>\$37,209,839,303</u>	<u>\$8,123,392,016</u>	<u>\$45,333,231,319</u>

See Notes to Financial Statements

1996

POST-EMPLOYMENT

PENSIONS

HEALTHCARE

TOTAL

\$ 737,292,990	\$	\$ 737,292,990
<u>777,781,045</u>	<u>403,816,027</u>	<u>1,181,597,072</u>
<u>1,515,074,035</u>	<u>403,816,027</u>	<u>1,918,890,062</u>

1,237,042,023	(223,614,062)	1,013,427,961
1,156,454,777	250,836,769	1,407,291,546
156,244,942	33,889,761	190,134,703
193,526,417	41,976,169	235,502,586
<u>4,992,347</u>	<u>1,082,848</u>	<u>6,075,195</u>
2,748,260,506	104,171,485	2,852,431,991
<u>(3,509,549)</u>	<u>(798,761)</u>	<u>(4,308,310)</u>
2,744,750,957	103,372,724	2,848,123,681

<u>867,738</u>		<u>867,738</u>
<u>4,260,692,730</u>	<u>507,188,751</u>	<u>4,767,881,481</u>

1,197,320,905	369,213,858	1,566,534,763
110,043,743		110,043,743
<u>16,925,991</u>	<u>1,724,482</u>	<u>18,650,473</u>
<u>1,324,290,639</u>	<u>370,938,340</u>	<u>1,695,228,979</u>

2,936,402,091	136,250,411	3,072,652,502
---------------	-------------	---------------

<u>29,490,534,800</u>	<u>7,194,872,431</u>	<u>36,685,407,231</u>
-----------------------	----------------------	-----------------------

<u>\$32,426,936,891</u>	<u>\$7,331,122,842</u>	<u>\$39,758,059,733</u>
-------------------------	------------------------	-------------------------

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF PERS

a. Organization — The Public Employees Retirement System of Ohio (PERS) is a cost-sharing multiple-employer public employee retirement system for all public employees in Ohio except those covered by one of the other state or local retirement systems in Ohio. PERS is administered in accordance with Chapter 145 of the Ohio Revised Code (ORC). The accompanying financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. This statement requires that financial statements of the reporting entity include all of the organizations, activities, functions and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the reporting entity's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. PERS does not have financial accountability over any entities.

PERS is not part of the state of Ohio financial reporting entity. Responsibility for the organization is vested in the System's Retirement Board; there is no financial interdependency with the state of Ohio, nor does the state of Ohio have financial accountability for the System. The Retirement Board is the governing body of PERS, with responsibility for administration and management. Six of the nine members are elected by the groups they represent: retirants; employees of the state; employees of counties; employees of municipalities; non-teaching employees of state colleges and universities; and miscellaneous employees. The Auditor of State, Attorney General, and the Director of Administrative Services are statutory members.

The Retirement Board appoints the Executive Director, an actuary, and other employees and consultants necessary for the transaction of business. The Retirement Board meets monthly and receives no compensation, but is reimbursed for necessary expenses.

Employer, employee and retirant data as of December 31, 1996 and 1995 (our latest available actuarial data) follows:

	1996	1995
Employer Units		
State group	289	288
Local government group	3,177	3,149
Law enforcement group	213	208
Employee Members and Retirants		
Retirants and beneficiaries currently receiving benefits	121,219	118,280
Terminated employees not yet receiving them	31,374	28,056
Active Employees		
State group	115,712	114,596
Local government group	229,954	223,431
Law enforcement group	6,742	6,605

All public employees in Ohio, except for certain specific exclusions and exemptions, are required to become contributing members of PERS. For actuarial purposes, vested employees represent those employees who have earned sufficient service credit (5 years or 60 contributing months) to be entitled to a future benefit from PERS.

b. Benefits — All benefits of the System and any benefit increases are established or amended by the legislature pursuant to ORC Chapter 145. Chapter 145 provides the Retirement Board with the authority to provide healthcare benefits.

- **Age and Service Benefits** — Benefits are calculated on the basis of age, final average salary, and service credit. Members are eligible for retirement benefits at age 60 with 5 years or 60 contributing months of service credit, age 55 with 25 or more years of service credit, or at any age with 30 or more years of service credit. The annual benefit is based on 2.1 percent of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5 percent for years of service in excess of 30 years. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. Upon reaching minimum retirement age, benefits are vested at the time of eligibility for monthly benefits.
- **Law Enforcement Officers' Benefits** — Law enforcement officers, as defined in ORC Chapter 145, are eligible for special retirement options. These options are available to such members at age 52 or older with 25 or more years of credited service. The annual benefit is calculated by multiplying 2.5 percent of final average salary by the actual years of service for the first 20 years of service credit and 2.1 percent of final average salary for each year of service over 20 years. These options also permit

early retirement under qualifying circumstances as early as age 48.

- *Early Retirement Incentive Plan* — Employers under PERS may establish an early retirement incentive plan utilizing the purchase of service credit. To be eligible, employees must be able to retire under existing plan provisions after the purchase of the additional credit. Electing employers must contribute all such additional costs as are actuarially determined to fund the benefit. Such a plan, if adopted by an employer, must be offered to a minimum of 5 percent of covered employees and provide for the purchase not to exceed five years credit, limited to a maximum of 20 percent of total service credit.
- *Disability Benefits* — PERS administers two disability plans. Members on the rolls as of July 29, 1992 could elect, by April 7, 1993, coverage under either the original plan or the revised plan. All members who entered the System after July 29, 1992 are automatically covered under the revised plan.

A member who becomes disabled before age 60 and has completed 60 contributing months is eligible for a disability benefit under the original plan. The revised plan differs in that a member who becomes disabled at any age with 60 contributing months will be eligible for disability benefits until a determined age. After the disability benefit ends, the member has an opportunity to apply for a service retirement benefit, or a refund of contributions which are not reduced by the amount of disability benefits received.

Law enforcement officers are immediately eligible for disability benefits if disabled by an on-duty illness or injury.

- *Survivor Benefits* — Dependents of deceased members may qualify for survivor benefits if the deceased employee had at least 18 months of service credit with at least three months of credit within the two and one-half years immediately preceding death. ORC Chapter 145 specifies the dependents and the conditions under which they qualify for survivor benefits.
- *Healthcare Benefits* — The ORC permits, but does not require, PERS to offer healthcare benefits. The System currently provides comprehensive healthcare benefits to retirants with 10 or more years of qualifying service credit and offers coverage to their dependents on a premium deduction basis. Coverage includes hospitalization, medical expenses, prescription drugs, and reimbursement of monthly Medicare premiums. The System

determines the amount, if any, of the associated healthcare costs that will be absorbed by the System. The System attempts to control costs by utilizing managed care, HMOs, case management, disease management, and other programs.

- *Other Benefits* — Once a benefit recipient has received benefits for 12 months, an annual cost-of-living adjustment is provided to benefit recipients in each year the Consumer Price Index (CPI) shows an increase. The adjustment is the lesser of 3 percent or the actual CPI increase. A death benefit of \$500-\$2,500, determined by number of years of service credit of the retirant, is paid to the beneficiary of a deceased retirant or disability benefit recipient.
- *Money Purchase Annuity* — PERS age and service retirants who become re-employed in a PERS-covered position must contribute to the System. All re-employed PERS retirants must elect to either: 1) have their retirement allowance suspended for the re-employment period and contribute toward a formula benefit, or 2) continue to receive their retirement allowance and contribute toward a money purchase annuity (based on the calculation of employee contributions for the period of re-employment plus allowable interest, multiplied by two). Beginning December 6, 1996, an elected official who retires during a term of office and who is re-appointed to the position during the same term or is elected to the position for the next consecutive term can choose only the option to have their retirement allowance suspended and contribute to a formula benefit.
- *Refunds* — Upon their termination of employment, a member may withdraw accumulated contributions made to PERS. The law requires a three-month waiting period after service termination before the refund may be paid. The acceptance of a refund cancels the individual's rights and benefits in PERS. Employer contributions to PERS are not refundable.

c. *Contributions* — PERS' funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, which, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. This formula determines the amount of contributions necessary to fund: (1) the current service cost, which represents the estimated amount necessary to pay for benefits earned by the employees during the

current service year; and (2) the prior service cost for service earned prior to plan inception and subsequent benefit increases. These contributions represent the amount necessary to fund accrued liabilities over a period of 8 and 17 years for state, 15 and 21 years for local government and 30 and 12 years for law enforcement divisions for retirement allowances and survivor benefits for 1996, the date of the latest actuarial study, and 1995, respectively.

As of December 31, 1997 the rates based on covered payroll were:

	Employee Rate	Employer Rate
State group	8.5%	13.31%
Local government group	8.5%	13.55%
Law enforcement group	9.0%	16.70%

The rates above fall within the ranges set by the Ohio Revised Code.

A portion of each employer's contribution to PERS is set aside for the funding of post-retirement healthcare. The total employer contribution rate for state employers was 13.31 percent of covered payroll in 1997 and 1996; 4.29 percent was the portion used to fund the healthcare program for retirants. For local government employer units the rate was 13.55 percent of covered payroll in 1997 and 1996; 5.11 percent was the portion used to fund healthcare. The law enforcement employer rate was 16.70 percent of covered payroll in 1997 and 1996; 5.46 percent was the portion used to fund healthcare.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to healthcare expenses. The contributions allocated to retirant healthcare, along with investment income on allocated assets and periodic adjustments in healthcare provisions are expected to be sufficient to sustain the program indefinitely.

ORC Chapter 145 assigns authority to the Retirement Board to amend the funding policy. As of December 31, 1997 the Retirement Board adopted all contribution rates as recommended by the Actuary.

d. Litigation — PERS is a party in various litigation relating to plan benefits. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on PERS' financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by PERS:

a. Basis of Accounting — The financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

Pursuant to the GASB Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the System follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The accounting and reporting policies of PERS conform to generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement No. 26, *Financial Reporting for Post-employment Healthcare Plans Administered by Defined Benefit Pension Plans* require that plan assets be split between pension and healthcare. To meet this requirement, plan assets and liabilities not specifically identifiable to a plan were proportionately allocated to the pension and post-employment healthcare plans.

b. Investments — PERS is authorized by ORC Section 145.11 to invest under an investment policy established by the Retirement Board under a prudent person standard. The prudent person standard requires the Retirement Board "to discharge their duties with respect to the funds solely in the interest of the participants and beneficiaries and defraying reasonable expenses of administering the System; with care, skill, prudence, and diligence under the

circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims; and by diversifying the investments of the system so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so." The prudent person standard was effective in March 1997.

Prior to March 1997, Section 145.11 authorized PERS to invest in various instruments (meeting various rating criteria) which included obligations of the U.S. Treasury and U.S. agencies, state and local governments, various mortgage-backed securities, corporate bonds, common and preferred stock, commercial paper, real estate, alternative investments, and international securities.

Plan investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Short-term investments are reported at amortized cost which approximates fair value. All other investments, with the exception of real estate, are valued through Interactive Data, a third-party pricing service. The fair value of real estate investment is based on estimated current values and independent appraisals.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost plus sales of investments at fair value. Investment expense consists of those administrative expenses directly related to PERS' investment operations and a proportional amount of all other administrative expenses allocated based on a ratio of PERS' investment staff to a total PERS staff.

c. Securities Lending — PERS maintains a securities lending program pursuant to authority granted under ORC Section 145.11. The Retirement Board uses its own discretion to determine the type and amount of securities lent under the program. Under this program securities are loaned to brokers. In return, PERS receives cash collateral and agrees to return the collateral for the same securities in the future. Cash collateral from securities loaned is, simultaneous to the loan, reinvested in repurchase agreements (repos) and short-term securities with a final maturity of one year or less. Securities loaned and repos are collateralized at a minimum of 102 percent of the market value of loaned securities. Collateral is marked-to-market daily. If the market value of the collateral held falls below 102 percent of the market value of securities loaned, additional collateral is provided. The maturity of the repo is always identical to the maturity of the securities loaned.

Further, there is always a positive spread between the cost of funds raised from a securities loan and the income earned from the associated repo. At year end PERS had no credit risk exposure to borrowers because the fair value of collateral PERS held exceeded the fair value of securities loaned.

As of December 31, 1997, the fair values of loaned securities and associated collateral (repo agreements and short-term investments) were \$5,097,618,514 and \$5,249,587,148, respectively.

As of December 31, 1996, the fair value of loaned securities and associated collateral (repo agreements and short-term investments) were \$10,274,270,742 and \$10,860,706,041, respectively.

Net income from securities lending was \$8,100,841 and \$6,075,195 in 1997 and 1996, respectively.

d. Derivatives — Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate or index. PERS has classified the following as derivatives:

• **Mortgage and Asset-Backed Securities** — As of December 31, 1997, the System held the following mortgage and asset-backed securities which may be categorized as derivative securities:

- GNMA, FNMA, and FHLMC pass-throughs with amortization terms of 15 years, 30 years, and 30-year amortization/7-year balloons.
- Collateralized mortgage obligation securities (CMOs) backed by FNMA and FHLMC 15 and 30-year pass throughs.
- Commercial mortgage backed securities (CMBS) backed by commercial mortgages and leases on a variety of property types such as office, retail, hotel, self-storage, warehouse, and industrial.
- Asset-backed securities (ABS) backed by auto loans, credit card receivables, home equity loans, home improvement loans, and electric-utility receivables.

As of December 31, 1996, the System held the following mortgage and asset-backed securities which may be categorized as derivative securities:

- GNMA, FNMA, and FHLMC pass-throughs with amortization terms of 15 and 30 years.

- Asset-backed securities (ABS) backed by auto loans and credit card receivables.

The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the market value. Although the System will receive the full amount of principal, if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustments, is lost. Accordingly, the yields and maturities of mortgage-backed securities generally depend on when the underlying mortgage loan principal and interest are repaid. If market rates fall below a mortgage loan's contractual rate, it is generally to the borrower's advantage to repay the existing loan and obtain new lower financing. The fair value of mortgage and asset-backed securities was \$6,199,450,676 and \$5,530,268,966 as of December 31, 1997 and December 31, 1996, respectively.

- *Forward Currency Contracts* — The System enters into various forward currency contracts to manage exposure to changes in foreign currency exchange rates on its foreign portfolio holdings. The System may also enter into forward currency exchange contracts to provide a quantity of foreign currency needed at a future time at the current exchange rates, if rates are expected to change dramatically. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risk associated with such contracts includes movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward exchange rates, and the changes in value of open contracts are recognized as net appreciation/depreciation in the statement of changes in plan net assets. The realized gain or loss on forward currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included as net appreciation/depreciation in the statement of changes in plan net assets. As of December 31, 1997 and December 31, 1996, the fair values of forward currency contracts held by the System were \$5,291,689 and \$1,320,246, respectively.

- *Foreign Stock Index Futures Contracts* — The System enters into various foreign stock index futures contracts to manage exposure to changes in foreign equity markets and to take advantage of foreign equity index movements on an opportunistic basis. A foreign stock index future is a futures contract that uses a stock index as its base, and which is settled by cash or delivery of the underlying stocks in the index. Futures contracts differ from for-

ward contracts by their standardization, exchange trading, margin requirements, and daily settlement (marking to market). Risk associated with foreign stock index futures contracts includes adverse movements in the underlying stock index. As of December 31, 1997 and December 31, 1996, the fair value of foreign stock index futures contracts were \$143 and \$341,137, respectively.

- *Stock Rights and Warrants* — The System held various stock rights and warrants related to its international investment fund. A stock right gives the holder a pre-emptive right to purchase additional shares from a pending new issue of stock in proportion to their present holdings. A stock right indicates the price at which stock can be acquired (the exercise price), the number of shares that may be acquired for each right and the expiration date of the right. The value of the stock right is directly affected by the market value of the related stock. A warrant is a certificate attached to a stock that gives its holder the right to purchase stock at a specified price within a specified time period. The value of the warrant is directly affected by the market value of the related stock. As of December 31, 1997 and December 31, 1996, the fair values of stock rights and warrants held by the System were \$813,495 and \$878,228, respectively.

e. *International Investments* — The Retirement Board has authorized investment in various instruments including international securities. In November 1994, PERS executed an investment management agreement to take advantage of expected favorable long-term trends in the global forest products industry by making specialized investment in offshore forest products companies. In fiscal 1996, PERS began investing in international equity investments through the use of outside money managers. It is the intent of PERS and the money managers to be fully invested in non-cash equivalent international securities, however, cash and short-term fixed income investments are often held temporarily. PERS also invests in forward currency contracts (see Note 2d).

The allocation and fair value of international investments held at December 31, 1997 and 1996 are:

	1997	1996
Cash	\$ 11,263,473	\$ 9,462,740
Cash Equivalents	37,872,727	17,441,563
Netted Receivable/ (Payable) Interest	4,183,175	253,556
Netted Receivable/(Payable) Currency Contracts	5,291,689	1,320,246
International Stock	896,183,124	584,441,224
Convertible Bonds	8,702,842	6,298,785
Stock Index Futures Contracts	143	341,137
Rights & Warrants	813,495	878,228
Forest Products	<u>187,951,550</u>	<u>242,746,313</u>
Total International Investments	<u>\$1,152,262,218</u>	<u>\$863,183,792</u>

f. **Fixed Assets** — Fixed assets are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The range of estimated useful lives is as follows:

	Years
Buildings and building improvements	50
Furniture and equipment	3-10

g. **Undistributed Deposits** — Cash receipts are recorded as undistributed deposits until such time as they are allocated to employers' receivables, members' contributions, or investment income.

h. **Federal Income Tax Status** — PERS is a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

i. **Funds** — In accordance with state statute, various funds have been established to account for the reserves held for future and current benefit payments. Statutory funds are as follows:

- *The Employees' Savings Fund* represents members' contributions held in trust pending their refund or transfer to a benefit disbursement fund. Upon an employee's retirement, such employee account is credited with an amount of interest (statutory interest) on the employee's contributions based on a rate of 3 to 4 percent com-

pounded annually as required by ORC Chapter 145. Such statutory interest does not vest with the employee.

- *The Employers' Accumulation Fund* is used to accumulate employers' contributions to be used in providing the reserves required for transfer to the Annuity and Pension Reserve Fund as members retire or become eligible for disability and healthcare benefits and to the Survivors' Benefit Fund for benefits due dependents of deceased members.
- *The Annuity and Pension Reserve Fund* is the fund from which annuity, disability, and healthcare benefits are paid. This reserve was fully funded according to the latest actuarial study dated December 31, 1996, and accordingly, there are sufficient assets available in this fund to pay the vested benefits of all retirants and beneficiaries as of the valuation date.
- *The Survivors' Benefit Fund* is the fund from which benefits due dependents of deceased members of the System are paid. This fund also was fully funded as of December 31, 1996.
- *The Income Fund* is the fund which is credited with all investment earnings and miscellaneous income. The balance in this fund is transferred to other funds to aid in the funding of future benefit payments and administrative expenses.
- *The Expense Fund* provides for the payment of administrative expenses with the necessary monies allocated to it from the Income Fund.

Fund balances at December 31, 1997 and 1996 are as follows:

	1997	1996
Employees' Savings Fund	\$ 6,074,352,149	\$ 5,680,623,240
Employers' Accumulation Fund	25,919,151,838	21,776,565,908
Annuity & Pension Reserve Fund	12,582,711,466	11,578,875,556
Survivors' Benefit Fund	727,752,843	695,560,126
Income Fund	27,613,494	25,848,886
Expense Fund	<u>1,649,529</u>	<u>586,017</u>
Total Fund Balance	<u>\$45,333,231,319</u>	<u>\$39,758,059,733</u>

- **j. Risk Management** — PERS is exposed to various risks of loss related to theft of, damage to, and destruction of assets; injuries to employees; and court challenges to fiduciary decisions. To cover these risks PERS maintains commercial insurance and holds fidelity bonds on employees. There were no reductions in coverage in either 1997 or

1996. As required by state law, PERS is registered and insured through the state of Ohio Bureau of Workers' Compensation for injuries to employees. PERS is self-insured with relation to employee healthcare coverage. The only outstanding liabilities at the end of 1997 and 1996 were related to the employee healthcare coverage (see Note 8).

3. CASH AND INVESTMENTS

At December 31, 1997, the carrying amount of PERS' cash deposits was \$37,531,507 and the bank balance was \$40,751,464. Of the bank balance, \$100,000 was insured by the Federal Deposit Insurance Corporation (Category 1 as defined by the Government Accounting Standards Board). The remaining bank balance cash deposits were uninsured and uncollateralized and were held in the name of PERS' pledging financial institution, as required by the ORC (Category 3).

At December 31, 1996, the carrying amount of PERS' cash deposits was \$41,904,443 and the bank balance was \$45,472,782. Of the bank balance, \$100,000 was insured by the Federal Deposit Insurance Corporation (Category 1). The remaining bank balance cash deposits were uninsured and uncollateralized and were held in the name of PERS' pledging financial institution, as required by the ORC (Category 3).

A summary of short-term securities and investments held at December 31, 1997 and 1996 is as follows:

	1997 Fair Value	1996 Fair Value
Short-Term Securities		
Commercial Paper	\$ 859,399,976	\$ 921,466,773
U.S. Treasury Obligations:		
Not on securities loan	1,812,773,962	1,399,102,590
On securities loan		329,920,297
Total Short-term Securities	\$2,672,173,938	\$2,650,489,660
Other Investments		
Corporate Bonds	\$ 5,282,010,945	\$ 2,914,288,885
Canadian Obligations	537,714,424	505,978,354
U.S. Government and Agencies:		
Not on securities loan	6,514,939,495	3,006,863,865
On securities loan	4,504,783,553	9,944,350,445
Mortgage and Mortgage backed Stocks:		
Not on securities loan	13,037,328,048	11,109,419,510
On securities loan	592,834,961	
Real Estate	4,091,670,490	2,795,268,017
Venture Capital	36,032,707	26,847,133
International Securities	1,152,262,218	863,183,792
Collateral on loaned securities	5,249,587,147	10,860,706,041
Total Other Investments	\$47,198,614,664	\$47,557,175,008

a. **Fair Value** — If available, quoted market prices have been used to value investments as of December 31, 1997 and 1996. Securities not having a quoted market price have been valued based on yields currently available on comparable securities of issuers with similar credit ratings. The fair value of real estate is based upon estimated current values and independent appraisals.

GASB Statement No. 3, *Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*, requires governmental entities to categorize investments to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered for which the securities are held by PERS or by its agent in the name of PERS. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of PERS. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in PERS' name.

All investments of PERS meet the criteria of Category 1 except real estate, venture capital and securities on loan, which by their nature are not required to be so categorized. Investments are held in the name of PERS or its nominee by the Treasurer of the state of Ohio as custodian.

4. LEASES

PERS leases equipment with lease terms of one year or less. Total lease expense was \$389,860 and \$353,139 for the years ended December 31, 1997 and 1996, respectively.

5. VACATION AND SICK LEAVE

As of December 31, 1997 and 1996, \$1,759,119 and \$1,653,688, respectively, was accrued for unused vacation and sick leave for PERS' employees. Employees who resign or retire are entitled to full compensation for all earned unused vacation. Unused sick leave pay is lost upon termination. However, employees who retire are entitled to receive payment for a percentage of unused sick leave.

6. DEFERRED COMPENSATION PLAN

PERS does not sponsor a deferred compensation program. PERS employees are eligible to participate in the deferred compensation plan sponsored by the state of Ohio. The state sponsored plan was created in accordance with Internal Revenue Code Section 457. The plan, available to all PERS employees, permits them to defer a portion of

their salary until future years. Deferred compensation assets are not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of PERS (without being restricted to the provisions of benefits under the plan), subject only to the claims of PERS' general creditors. Participants' rights under the plan are equal to those of general creditors of PERS in an amount equal to the fair value of the deferred account for each participant.

PERS has no liability for losses under the plan and believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in future.

The deferred compensation assets of \$3,875,910 and \$3,073,709, at market value, and the related liability to PERS employees are included in the accompanying financial statements as of December 31, 1997 and 1996, respectively.

The summary of changes in incurred but unreported claims for the years ended December 31, 1997 and 1996 follows:

	General Health Insurance
Claims Liability as of December 31, 1995	\$ 151,245
Claims Incurred	1,567,644
Claims Paid	<u>(1,583,525)</u>
Claims Liability as of December 31, 1996	135,364
Claims Incurred	1,821,890
Claims Paid	<u>(1,827,080)</u>
Claims Liability as of December 31, 1997	<u>\$ 130,174</u>

7. PERS' SCHEDULE OF REQUIRED CONTRIBUTIONS

All employees of the System are eligible for membership in PERS. The System's annual required contributions for the year ended December 31, 1997 and for each of the two preceding years is as follows:

Year Ended December 31	Annual Required Contribution	Percentage Contributed
1995	\$1,345,349	100%
1996	1,443,673	100
1997	1,537,037	100

8. SELF-INSURED EMPLOYEE HEALTHCARE

PERS is self-insured under a professionally administered plan for general health and hospitalization employee benefits. PERS maintained specific stop loss coverage per employee for medical benefits in the amount of \$250,000 for both 1997 and 1996. PERS also maintained a lifetime maximum stop loss coverage per employee for medical benefits in the amount of \$1,000,000 for both 1997 and 1996.

REQUIRED SUPPLEMENTARY SCHEDULES

SCHEDULE OF FUNDING PROGRESS*

(S Amounts in Millions)

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as of % of Active Member Payroll
1987	\$16,231	\$11,975	\$4,256	74%	\$4,864	88%
1988	17,246	13,249	3,997	77	5,307	75
1989	18,310	14,629	3,681	80	5,597	66
1990	20,125	16,245	3,880	81	6,036	64
1991	22,027	18,108	3,919	82	6,651	59
1992	23,961	20,364	3,597	85	6,889	52
1993	26,056	23,063	3,443	87	7,236	48
1994	28,260	25,066	3,194	89	7,625	42
1995	30,556	27,651	2,905	90	7,973	36
1996	32,631	30,534	2,097	94	8,340	25

*The amounts reported in this schedule do not include assets or liabilities for post-employment healthcare benefits.

SCHEDULE OF EMPLOYER CONTRIBUTIONS*

Year Ended December 31	Annual Required Contributions	Percentage Contributed
1988	\$565,613,957	100%
1989	571,866,966	100
1990	558,119,779	100
1991	607,811,880	100
1992	646,170,989	100
1993	663,680,518	100
1994	693,802,578	100
1995	725,893,573	100
1996	777,781,045	100
1997	811,485,028	100

The Board adopts all contribution rates as recommended by the Actuary.

*The amounts reported in this schedule do not include contributions for post-employment healthcare benefits.

See Notes to Supplementary Schedules

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

1. DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS

Each time a new benefit is added which applies to service already rendered, an "unfunded actuarial accrued liability" is created. Laws governing PERS require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded actuarial accrued liabilities increasing in dollar amounts, all at a time when the actual value of these items, in real terms, may be decreasing. Looking at just the dollar amounts of unfunded actuarial accrued liabilities can be misleading. Unfunded actuarial accrued liabilities divided by active employee payroll provides an index which adjusts for the effects of inflation. The smaller the ratio of unfunded actuarial accrued liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

2. ACTUARIAL ASSUMPTIONS AND METHODS

Funding Method — An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. Unfunded actuarial accrued liabilities for pension benefits are amortized over a period of 8 and 17 years for state, 15 and 21 years for local government and 30 and 12 years for law enforcement divisions for 1996, the date of the latest actuarial study, and 1995, respectively, to produce payments which are level percents of payroll contributions based on an open amortization period.

Asset Valuation Method — For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized at a 25 percent per annum over a four-year period.

Significant actuarial assumptions employed by the actuary for funding purposes as of December 31, 1996, the date of the latest actuarial study, and 1995 include:

Investment Return — 7.75 percent, compounded annually, for all members, retirants, and beneficiaries.

Salary Scale — As of December 31, 1996 and 1995 the active member payroll is assumed to increase 4.75 percent annually and 5.25 percent annually, respectively, which is the portion of the individual pay increase assumption attributable to inflation. Also assumed are additional projected salary increases ranging from 0 percent to 5.1 percent per year at December 31, 1996 and 1995, depending on age, attributable to seniority and merit.

Benefit Payments — Benefit payments are assumed to increase 3 percent per year after retirement.

Multiple Decrement Tables:

Death — For determination of active and inactive members' mortality, the 1960 Basic Group Mortality Table was used. For retirants' mortality, the 1971 Group Annuity Mortality Male and Female Tables, projected to 1984 were used.

Disability — Based on PERS' experience.

Withdrawal — Based on PERS' experience.

Healthcare Benefits — Healthcare benefits are financed through employer contributions and investment earnings thereon. The contributions allocated to retirant healthcare, along with investment income on allocated assets and periodic adjustments in healthcare provisions are expected to be sufficient to sustain the program indefinitely.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to healthcare expenses. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2 percent of member covered payroll, are used to fund healthcare expenses. Under the prior method, accrued liabilities and normal costs rates were determined for retirant healthcare coverage.

PERS' actuarial valuation is calculated separately for retirants and beneficiaries and for active and inactive members.

The actuarial present value of benefits to be paid retirants and beneficiaries currently receiving benefits and

deferred survivor beneficiaries, whose benefits have been determined, is calculated using the assumptions noted above. The reserves in the Annuity and Pension Reserve Fund and the Survivors' Benefit Fund together with interest credited thereon from the Income Fund are compared to the actuarial accrued liability for the remaining lifetimes of the retirants and beneficiaries, and any deficiency is then funded by a transfer from the Employers' Accumulation Fund. Consequently, all such determined benefits are fully funded.

The actuarial accrued liability for active and inactive members is calculated using the entry age normal actuarial cost method. The assets of the Employees' Saving Fund, Employers' Accumulation Fund, and the market value adjustment are subtracted from this present value to arrive at the unfunded actuarial accrued liability.

The unfunded actuarial accrued liability based upon the two most recent annual actuarial valuations is as follows:

UNFUNDED ACTUARIAL ACCRUED LIABILITY

	December 31, 1996			December 31, 1995	
	State Group	Local Government Group	Law Enforcement Group	Total	Total
Present value of actuarial accrued liability for active and inactive accounts	\$ 8,104,322,986	\$ 11,285,580,139	\$ 710,560,208	\$ 20,100,463,333	\$ 19,079,230,841
Less:					
Employers' Accumulation Fund*	4,920,675,851	6,427,416,425	484,682,317	11,832,774,593	10,759,846,852
Employees' Savings Fund	2,265,054,552	3,240,227,337	175,341,351	5,680,623,240	5,299,436,091
Market Value Adjustment	<u>201,296,646</u>	<u>272,313,349</u>	<u>15,607,056</u>	<u>489,217,051</u>	<u>114,792,478</u>
Unfunded actuarial accrued liability	<u>\$ 717,295,937</u>	<u>\$ 1,345,623,028</u>	<u>\$ 34,929,484</u>	<u>\$ 2,097,848,449</u>	<u>\$ 2,905,155,420</u>

* Amounts shown reflect transfers out of the Employers' Accumulation Fund to fully fund the Annuity and Pension Reserve Fund and Survivors' Benefit Fund.

ADMINISTRATIVE EXPENSES*

FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996

	1997	1996
Personal Services:		
Salaries and Wages	\$ 11,490,077	\$ 10,534,262
Retirement Contributions	1,545,437	1,497,000
Insurance	2,117,526	1,813,377
Bureau of Employment Services	269	
	<u>15,153,309</u>	<u>13,844,639</u>
Supplies:		
Office Supplies	299,753	294,282
Printing and Publications	397,734	329,805
Dues and Subscriptions	101,159	63,480
	<u>798,646</u>	<u>687,567</u>
Other Services and Charges:		
Professional Services:		
Auditing	60,503	61,230
Actuarial and Technical	643,330	460,848
Investment	1,112,588	340,799
Treasurer of State Charges	503,123	309,687
Medical	1,045,756	977,996
Pension Review	26,821	35,013
Employee Training	126,949	129,810
Data Processing Contract	45,018	38,653
Disaster Recovery		8,400
Retirement Awareness Seminar	220,930	183,978
Communications:		
Telephone	215,363	186,795
Contract Mailings & Shipping	19,399	14,611
Postage	1,483,382	1,628,494
Transportation and Travel	341,565	281,079
Utilities	309,351	288,618
Rental and Maintenance:		
Equipment & Facilities	968,927	1,081,731
Building	358,744	382,277
Microfilm	34,671	27,763
Retirement Study Council	217,752	271,622
Miscellaneous	33,063	49,586
	<u>7,767,235</u>	<u>6,758,990</u>
Depreciation On:		
Building	402,834	392,908
Equipment and Fixtures	1,569,473	1,274,679
	<u>1,972,307</u>	<u>1,667,587</u>
TOTAL ADMINISTRATIVE EXPENSES	<u>\$ 25,691,497</u>	<u>\$ 22,958,783</u>

*Includes investment-related administrative expenses

SCHEDULE OF INVESTMENT EXPENSES

(FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996)

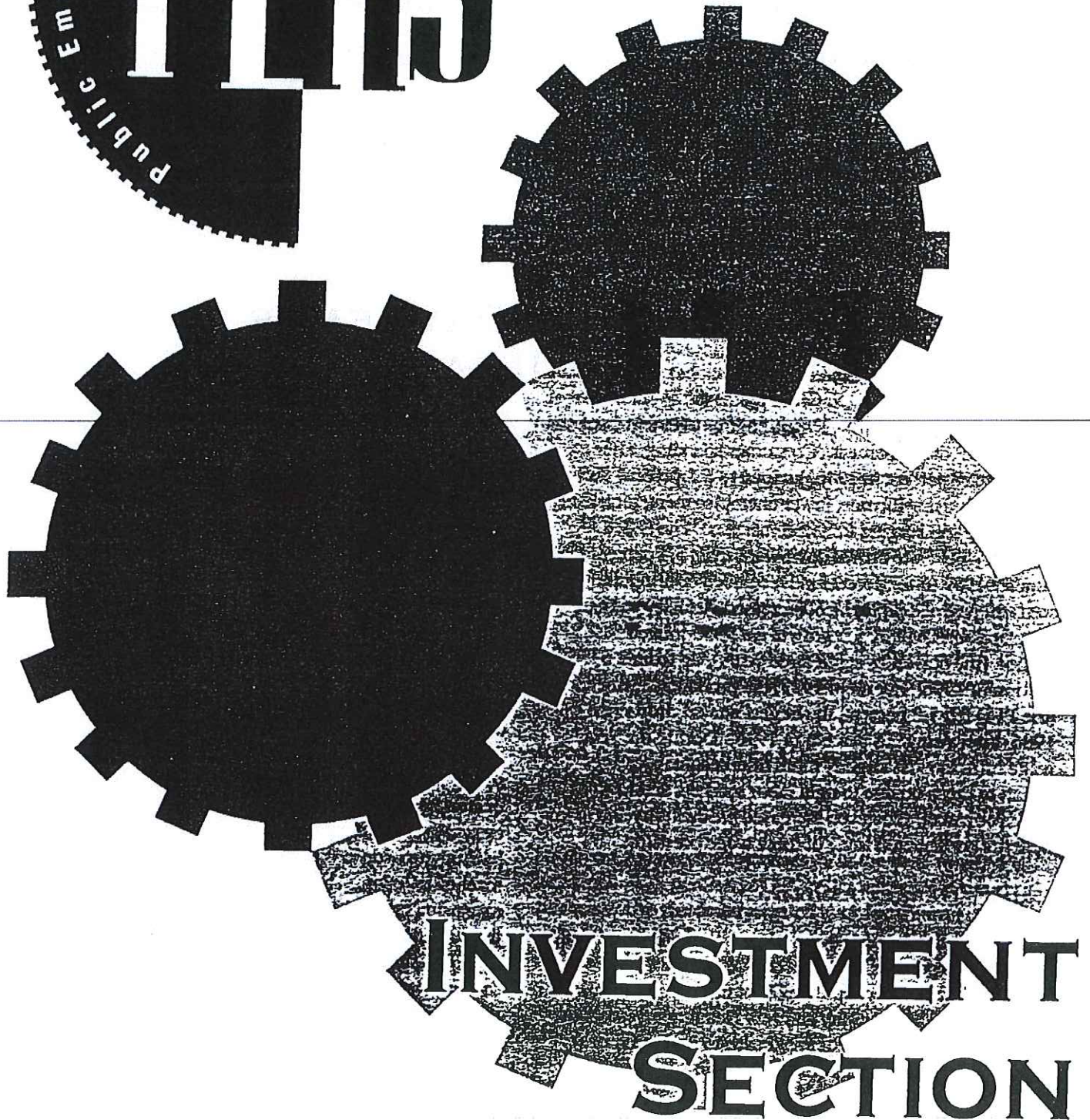
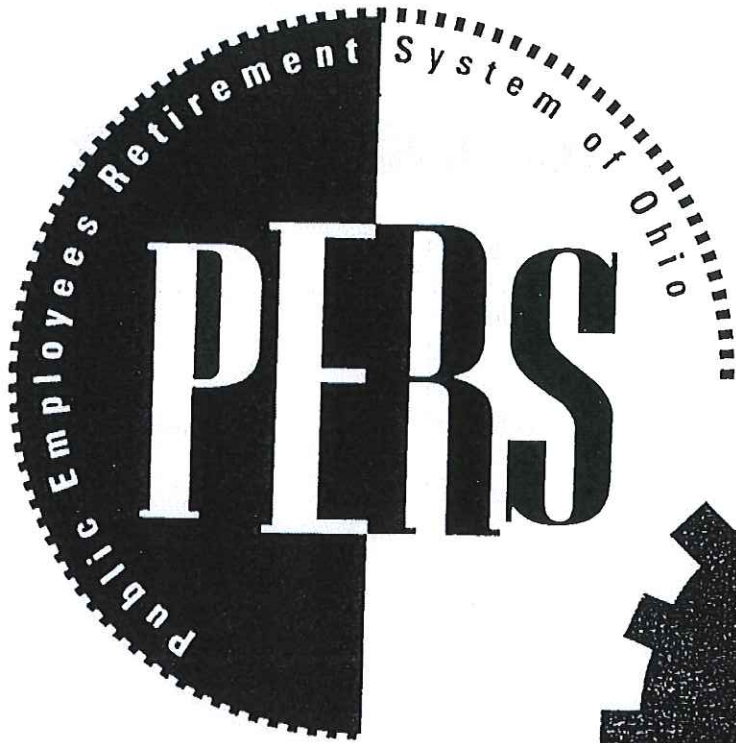
	1997	1996
Investment Services	\$ 207,623	\$ 144,752
Investment Staff Expense	2,100,685	1,843,702
Securities Lending Expense	904,965	196,047
Legal Services for International Investments	2,592	1,102
Legal Services of Securities Lending	4,646	5,652
Allocation of Administrative Expense (See Note 2b)	<u>2,363,268</u>	<u>2,117,055</u>
TOTAL INVESTMENT EXPENSES	<u>\$5,583,779</u>	<u>\$4,308,310</u>

SCHEDULE OF PAYMENTS TO CONSULTANTS

PERS paid the following investment consultants in 1997:

Capital Resources	\$34,355
Strategic Investment Solutions, Inc.	32,500
Wilshire Associates, Inc.	<u>33,333</u>
TOTAL	<u>\$100,188</u>

Schedule of Fees and Commission Payments to Brokers presented on page 80.



INVESTMENT REPORT

1997 MARKET PERFORMANCE

ECONOMIC REVIEW

During 1997 the economy of the United States continued to enjoy an expansion. Throughout this seven-year expansion, the economic pattern in the United States has been somewhat uneven, with spurts of strong activity being followed by periods of moderating growth. All the while, the annual pace of economic growth has largely stayed within a 2.5 percent to 3.5 percent annual range.

First quarter GDP rose 4.9 percent, well above most economists' expectations. In fact, the quarterly growth rate was the highest for any quarter since 1987. Yet by the end of March, concerns that the economy was growing too fast led the Federal Reserve to raise interest rates (its first tightening of monetary policy in over two years). Throughout the second and third quarters, the "Goldilocks" economic environment continued – economic growth with very low inflation. The economy expanded at a 3.3 percent annual rate during the second quarter followed by 3.1 percent for the third quarter. With an annualized rate of 3.7 percent, fourth quarter GDP continues to be indicative of a strong domestic economy.

For the year 1997, U.S. Gross Domestic Production grew at a 3.7 percent rate. This is an improvement over 1996's GDP of 3.2 percent. Consumer spending, after rising by 2.7 percent in 1996, jumped to 3.8 percent for 1997 due to rising income, lower unemployment, increasing confidence and surging financial markets. The U.S. unemployment rate drifted downward from 5.4 percent in January 1997 to 4.7 percent in December. During the year nonfarm payroll employment increased virtually without interruption. Overall, job growth for 1997 totaled 3.2 million (the best showing in three years), up from 2.5 million in 1996. For all of 1997, the producers' price index (the PPI) fell 1.2 percent, the largest annual drop since 1986, after rising 2.8 percent in 1996. During the year, wage inflation was slightly more troublesome as wages began to creep up due to tight labor markets and low unemployment. However, increased productivity and lower benefits costs muted some of these wage pressures.

EQUITY MARKET REVIEW

For the third year in a row, the stock market returned in excess of 20 percent, an unprecedented performance. Though the S&P Midcap Index beat the larger capitalization S&P 500 in both May and July (leading investors to proclaim the resurgence of small cap stocks both times), 1997 remained the year of the big stocks.

The year began with strong earnings momentum and a strong economy. Investors, in a bullish mood, shunned defensive, lower beta sectors, in favor of the high growth, high momentum sectors. After Alan Greenspan raised the Fed funds rate ¼ percent, the 30-year Treasury bond surged past the psychologically important 7 percent threshold to end the month of March at 7.10 percent. Investors suddenly shifted gears and scurried to seek safety. The first quarter was the weakest of the year, despite January's strong start.

Inflation stayed stubbornly low and long term rates began to fall in the second quarter, triggering a rebound for the market and especially the technology sector. More sector rotation followed throughout the summer and fall as earnings disappointments in several industries forced investors to pare back their expectations. In the third quarter, performance was mixed, ranging from -1.2 percent for health care to +16.9 percent for technology.

The market closed the year with a period of volatility, trading in a broad range of 7500-8000. The Asian meltdown triggered a sudden drop in late October; the Dow fell 6.33 percent that month, paced by the 3.45 percent drop in the S&P 500 and the 4.45 percent drop in the Midcap. At its lowest point, on October 27, the Dow closed at 7161.15, a day that saw a drop of 554.26 points or 7.18 percent.

Then came the Asian meltdown. After the October correction, the market traded in a broad range for the rest of the year. The rotation into utilities and consumer staples was clearly in response to the uncertainty surrounding this situation.

FIXED INCOME MARKET REVIEW

The treasury market had an unusual year as rates climbed sharply in the first quarter on concerns of economic strength and the Federal Reserve's 25 basis point tightening of monetary policy, but then generally declined during the balance of the year in the face of surprisingly strong domestic growth. The rally following the first quarter had its genesis in the attractive real yields on treasury securities brought on by a combination of the backup in yields in the first quarter and the consistent low level of inflation. The rally gained strength as the economic expansion boosted tax receipts and dramatically lowered the deficit, thereby reducing the borrowing needs of the U.S. Treasury. Late in the third quarter and throughout the fourth quarter, the developing currency and economic crisis in Asia provided another leg to the bond rally as investors surmised that the financial problems in Asia precluded the Fed from tightening domestic monetary policy.

By year end, the yield on the benchmark thirty-year long bond had fallen to 5.93 percent, matching the closing level of 1995. The nine-month rally was led by longer maturities, causing an unusual bullish flattening of the yield curve. The performance of shorter maturities was impeded by the ongoing fear that the Fed may need to raise short-term lending rates to cool the domestic expansion. The spread between the yield on the two-year note and 30-year bond fell to an unusually narrow 29 basis points (bps) at year end.

The yield curve, measured as the difference of the yields of the 30-year bond and two-year note, had a normal shape for most of the year but flattened dramatically in the fourth quarter. Late in the year the curve began to flatten as the yield declines on long-dated securities outpaced the declines of shorter maturities. With the domestic economy running hot, investors remained concerned that the Federal Reserve might raise short-term interest rates to slow the expansion. The fear of such a move kept shorter-term securities from fully participating in the rally. Meanwhile, longer dated securities benefited from a number of significant developments that encouraged investors to move out the curve.

The best performing sector in the investment grade area in 1997 was the corporate sector, followed by the treasury sector, in turn followed by the mortgage sector. For the year, the corporate component of the Salomon Index returned 10.17 percent, while the treasury component of the index returned 9.65 percent, with the mortgage component returning 9.27 percent. The overall Salomon Broad Index returned 9.64 percent for the year

REAL ESTATE MARKET REVIEW

In 1997, institutional investors shifted their focus from long term real estate gains to short term, velocity driven returns. The abundance of capital from Wall Street and opportunity funds fueled equity investments. Investors purchased properties intending to sell them quickly into a rising tide market. Wall Street's ability to securitize mortgage loans and to sell them as mortgage backed securities drove the debt market in 1997. Investment banks originated and securitized loans to generate fees. Yield hungry investors eagerly purchased these debt securities and drove down the spreads between mortgage rates and the corresponding Treasury bonds. Investors purchased these mortgage backed securities based primarily on the opinions of credit rating agencies and not on the underwriting of the underlying real estate. Issuance volume for 1997 was reported at \$40 billion compared to \$30 billion for 1996. To meet this demand for product, mortgage underwriters

were more aggressive in the valuations and were lending more money on higher risk properties.

Every property type showed positive returns for the year, with the greatest strength in hotels, suburban office and industrial. Hotels continued to post record returns, as average daily rates and occupancies were at the highest levels in years. Both suburban office and central business district office fully recovered by the end of 1997. New development was present in many markets, and on the horizon in many others. Warehouse continued to post steady returns, as did apartments. The weakest returns were in the retail sector, which continued to suffer from overbuilding in certain submarkets or of certain property types.

According to the NAREIT Index, the total return for REIT stocks was 18.87 percent for the year ending December 31, 1997. While REITs underperformed the broader domestic stock market, they exceeded Wall Street analysts' 1997 total return expectations for the industry of between 12 percent and 17 percent.

The year was marked by a record number of equity offerings. Over the year there were 23 IPOs and 160 add on offerings totaling \$21.7 billion. The industrial/office sector dominated the REIT offerings during the year representing 34.7 percent of the total dollars raised and accounting for 10 of the 23 IPOs.

1997 INTERNATIONAL MARKETS REVIEW

In general, 1997 was not a good year for many international equity markets. Although there were isolated pockets of strong performance, the U.S. equity market was once again the place to be. Only three of the world's 22 developed equity markets posted stronger returns than the U.S. when measured in U.S. dollar terms (Switzerland 44.25 percent; Italy 35.48 percent; Denmark 34.52 percent).

For the third year in a row, the MSCI EAFE index failed to keep pace with the U.S. equity market. Just as in 1996, EAFE's under-performance was largely due to several factors: 1) weak Japanese performance; 2) strong U.S. dollar performance; and 3) the fallout effects from the Southeast Asian currency crises. For the year, the EAFE index rose 1.78 percent in U.S. dollar terms. Weak currencies relative to the dollar negated most local currency gains and compounded local currency losses. In 1997, EAFE excluding Japan was up 14.63 percent (U.S. dollar).

EAFE's relatively weak performance masks the divergence in performance of European and Asian equity markets. Europe was the strongest performer within the EAFE universe for the third year in a row. For 1997, the

MSCI Europe index gained 23.80 percent in dollar terms (37.97 percent local), while the MSCI Pacific index lost 25.49 percent in dollar terms (-15.91 percent local). The MSCI Pacific ex Japan index fared even worse, losing 31.00 percent in dollar terms (-19.52 percent local). European strength was due in large part to the growing expectation that Economic and Monetary Union (EMU) will go ahead as scheduled on January 1, 1999. The approach of EMU has led to a steady stream of cross-border mergers and acquisitions, as European companies augmented their continental operations in preparation for a single-currency trading bloc.

Hong Kong, Asia's second largest equity market, posted a loss of over 23 percent in U.S. dollar terms. Despite having weathered the handover to China on July 1 relatively easily, the country could not remain immune from the negative effects of the currency problems of its Asian neighbors.

Despite the problems in Asia, the Latin American region performed relatively well in 1997. Through the first half of the year, the MSCI Latin America Free index was up over 40 percent in dollar terms (43.28 percent local) as the region benefited from strong export growth, low inflation and massive foreign capital inflows.

Almost every foreign currency depreciated against the U.S. dollar during 1997. By year-end, the dollar was trading at 128.55 yen and 1.77 marks, compared with 115.85 and 1.54 marks at the beginning of the year. Fundamental support for the dollar was broad-based as it came from the strong U.S. economy, relatively high nominal and real interest rates (compared with other countries), expectations for even higher rates, low inflationary pressures, confidence in U.S. monetary authorities, and an insatiable foreign demand for U.S. assets.

MONEY MARKET REVIEW

Short-term money rates, as measured by the bond-equivalent yield of the three-month treasury bill (3MB), fluctuated in a relatively narrow range of 65 basis points during the year. The 3MB began the year at a bond-equivalent yield of 5.20 percent, and soon thereafter began to rise in anticipation of the Federal Reserve's 25 bps hike in the fed funds rate on March 25. Coincident with the Fed's action, the 3MB reached a high yield of 5.40 percent. From the lows reached in late September, 4.90 percent, the 3MB gradually rose in yield for the balance of the year, finally ending the year at a bond-equivalent yield level of 5.35 percent. The total return of the 3MB in 1997, as measured by Merrill Lynch, was 5.33 percent.

1997 PERS PERFORMANCE

EQUITY

The total return for the PERS equity portfolio in 1997 was +25.44 percent versus a total return of +33.36 percent for the Standard & Poor's 500 stock index. At the beginning of the year, the PERS portfolio had a market value of \$10,734,378,840. By year-end, the portfolio's market value totaled \$13,630,163,009. During the year, the purchases equaled \$4,155,248,756 while sales totaled \$3,848,575,745. The PERS portfolio generated total dividend income of \$212,369,057 versus \$190,134,703 in 1996.

The primary reason for the portfolio's underperformance in 1997 was the active portion of the portfolio management process. At year-end, the actively managed component represented 64 percent of the total PERS portfolio. First, the Large Cap Active portfolio trailed the S&P 500 by 500 basis points in 1997. The Small Cap portfolio lagged its internal benchmark by over 2100 basis points in 1997.

According to Lipper Analytical Services Inc., a firm that tracks mutual fund performance, only 10.3 percent of U.S. stock funds beat the S&P 500 in 1997, down from the 25 percent of U.S. equity mutual funds that beat the S&P 500 in 1996. The average diversified U.S. stock fund returned 24.36 percent in 1997.

The Large Cap Active portfolio had a total return of 28.34 percent versus a total return of 33.36 percent for the Standard & Poor's 500 stock index. At the beginning of the year, the Large Cap Active portfolio had a market value of \$4,201,458,400 representing approximately 39 percent of the total equity portfolio. By year-end, the portfolio's market value totaled \$5,655,679,214 or 41.5 percent of the total equity portfolio.

The PERS Small Cap Active Equity Portfolio compiled a total return of 11.07 percent in 1997 compared to the 32.24 percent total return of the S&P Midcap Stock Index. The average Midcap Fund returned 19.63 percent in 1997 according to Lipper Analytical Services. At the beginning of the year, the Small Cap Active Portfolio had a market value of \$2,881,923,644 representing approximately 27 percent of the total equity portfolio. By year-end, the portfolio's value totaled \$3,118,954,986 or 23 percent of the total equity portfolio.

The total return for the S&P 500 Passive Index Portfolio was 33.48 percent versus a total return of 33.36 percent for the S&P 500. At the beginning of the year, this

portfolio was 20.4 percent of the total equity portfolio. By year-end, the S&P 500 Passive Index represented 21.6 percent of the total equity portfolio.

The total return for the S&P Midcap Index Portfolio in the PERS portfolio was 32.50 percent versus a total return for the S&P Midcap 400 stock index, the benchmark, of 32.24 percent. At the beginning of the year, this portfolio represented 5.2 percent of the total equity portfolio. By year-end, the S&P Midcap Passive Index stood at 5.3 percent of the total equity portfolio.

The total return for the S&P Enhanced Index Portfolio was 32.62 percent versus a total return of 33.36 percent for the Standard & Poor's 500 stock index. At the beginning of the year, this portfolio represented 8.4 percent of the total equity portfolio. By year-end, the S&P Enhanced Index stood at 8.7 percent of the total equity portfolio.

FIXED INCOME

The PERS fixed income portfolio earned a total return of 9.09 percent in 1997, while the total return on the benchmark Salomon Broad Investment Grade Index was 9.64 percent. Our performance fell short of the Index in 1997 because we made a poor active management decision in the April/May time period. We began the year with a duration that was 130 percent longer than the index. As rates rose in the early part of the year, our portfolio underperformed due to its longer duration. On March 25, the Federal Reserve raised the federal funds rate by 25 bps. We gradually reduced duration during the market rally in April, May, and June. After the second quarter, our portfolio was essentially neutral to the index in duration. Our concerns about the strength of the domestic economy proved to be well-founded; however, the continued decline in inflation and the unfolding crisis in Asia kept the Fed on hold.

REAL ESTATE

Last year, PERS allocated an additional \$1.08 billion to six separate advisors, and invested \$1.357 billion in real estate. The market value for the portfolio at year-end was at \$4.092 billion.

In 1997, the Real Estate Portfolio returned 14.04 percent. This figure was comprised of cash flow of 8.77 percent with 5.27 percent of the return due to appreciation. In 1997, the NCREIF index returned at 13.45 percent. The total return on PERS REIT portfolio for 1997 was 18.89 percent. This compared to the NAREIT Index return of 18.87 percent.

The hotel portfolio performed best in 1997, with total returns of nearly 28 percent. The REIT portfolio, with returns of 18.89 percent, was next in overall performance. The mortgage portfolio returned over 12 percent, and apartments were in the 11 percent range.

The bulk of the new investments in 1997 were in REITs, hotels, and mortgages. The strategic programs we had in place with the advisor network ensured that we saw a diversified group of opportunities, both across property types and geographically.

In the mortgage area, we continued to see increased competition and lower rates, which drove many opportunities above our pricing threshold. We were able to take advantage of portfolio sales of selected residential and commercial portfolios.

The REIT portfolio, while still over weighted in the retail sector, was no longer dominated by the sector at the end of 1997. The portfolio was also over weighted in industrial/office, which is expected to be one of the best performing sectors in 1998.

INTERNATIONAL

During 1997, activity in the international portfolio was focused on several areas: 1) the continuation of building the core-EAFE portion of our international portfolio 2) the initial implementation of an "EAFE-plus" portfolio 3) the completion of the international forests products private equity portfolio and 4) the initial implementation of an emerging markets private equity portfolio.

In terms of market value, the PERS international portfolio's exposure grew from approximately \$863 million at year-end 1996 to roughly \$1.152 billion by the end of 1997, representing an increase of about \$289 million. The actual international allocation ended the year at 2.6 percent of total fund assets, up from 2.2 percent at the beginning of the year.

The 1997 total return (price appreciation or depreciation plus dividend and/or interest income) for the overall international portfolio was -3.94 percent, whereas the EAFE index (net dividends) return was 1.78 percent. The cause for this underperformance relative to the EAFE benchmark is due entirely to the negative effect the international forests products portfolio had on the overall international portfolio.

Looking at the total international portfolio's primary sub-portfolios, during 1997 it was comprised of two main areas: an EAFE-based portfolio and a private equity. The

total return for the PERS EAFE portfolio for 1997 was 3.71 percent as compared to 1.78 percent for the EAFE index.

Unfortunately, the private equity portfolio had a very difficult year in 1997. The market value of this portfolio declined to approximately \$188 million by year-end (representing 16 percent of the total international portfolio) from \$243 million at the end of 1996. Return for the year was -26.85 percent versus a customized benchmark return of -21.01 percent. The majority of the negative return for the year occurred in the final quarter of the year. This underperformance was due primarily to some of the portfolio companies having a high exposure to the Asian economies.

SHORT-TERM

PERS short-term investments earned a total return of 5.65 percent in 1997, while the benchmark 90-day Treasury Bill earned a total return of 5.33 percent. Our beginning-of-year outlook led us to favor investments in higher-yielding securities such as commercial paper and agency discount notes over lower yielding, but more rate sensitive, securities such as treasury bills. The consistently favorable yield spread of commercial paper and discount notes over treasury bills aided our relative performance.

The average maturity of investments at year-end was 51 days, with a bond equivalent yield of 5.81 percent.

SECURITIES LENDING

The equity securities lending program was initiated in September. This program generated net income to PERS of \$643,544.98 in the last four months of the year.

The fixed income securities lending program generated net income to PERS of \$6,301,921 in 1997. In June, 1997, the fixed income securities lending program was moved to a new lending agent.

TOTAL PORTFOLIO ATTRIBUTION

As we said in early 1997, *"In order for the total portfolio to have a double digit return in 1997, both the stock and bond markets must have strong years. This would require that the 'Goldilocks' scenario continue and that the bond market rally on lower inflation expectations."* This is essentially the scenario that unfolded in 1997. The PERS total portfolio had a total rate of return of 13.33 percent. The return earned on the domestic stock and bond portfolios again dominated the total portfolio's return. The reallocation of assets from fixed income to equities

(domestic, international and real estate) continued to benefit our performance. The total portfolio's market value grew from \$39,346,958,627 to \$44,621,201,455 in 1997.

Domestic equities were again our best performing asset class with a return of 25.41 percent. Domestic equities represented 30.38 percent of our total assets at year-end after beginning the year at 27.12 percent. The growth in our exposure to domestic equities has been one of the largest contributors to our performance in the past two years.

Real estate was our second best performing asset class in 1997. Our real estate portfolio had a total rate of return of 14.04 percent. Our exposure to real estate rose from \$3.17 billion to \$4.01 billion by year-end, an increase of over 26 percent. After starting the year at 8.0 percent, real estate made up 8.94 percent of our total portfolio by year-end.

Even though our allocation to fixed income dropped from 56 to 52 percent during the year, our market value exposure grew to \$23.04 billion from \$21.90 billion. The rally in the bond market in the last nine months of 1997 helped the fixed income portion contribute very positively to the performance of the total portfolio. With a total rate of return of 9.09 percent, fixed income was our third best performing asset class.

Our international equity portfolio returned -3.94 percent in 1997. Our exposure to international equities grew from \$863 million to \$1.16 billion during the year. Our year-end exposure of 2.57 percent is below our December 1997 target of 5 percent. However, given the international markets troubles in 1997, being under-weighted in this asset class was beneficial to the total portfolio's performance. All other asset classes, including short-term, had better returns than international equities, as measured by EAFE.

Nearly all of the cash flow generated by the system was invested in the longer-term asset classes leaving the size of the short-term portfolio virtually stable. The short-term portfolio had a return of 5.65.

1998 OUTLOOK

ECONOMIC

The U.S. economy begins the year under peculiar circumstances owing to the economic crisis unfolding in Asia. The domestic economy possesses solid fundamental strength, supported by vibrant personal consumption and business investment spending. The strength on the consumer side has been and will continue to be underpinned by high employment, stimulative interest rates and solid gains in personal wealth spurred by both income growth and investment appreciation. The strength in business investment spending will likely continue in 1998, highlighted by spending on computers and information technology. The key for the year ahead will be the impact of the Asian crisis on U.S. economic growth. The crisis in Asia is likely to stymie growth, not only in the countries directly involved, but also in Japan, the key consuming market in the Far East. The crisis will cause escalation in the U.S. trade deficit as imports flow from those countries whose currencies have collapsed. Further exacerbating the dilemma, U.S. exports will wane as economic growth in Southeast Asia decelerates over the next few years. The Asian crisis has come at an opportune time, slowing U.S. growth modestly at a time when labor pressure is at its high point for this economic cycle. The Asian crisis has effectively removed any Federal Reserve action from the picture over the next 6 to 9 months.

We forecast economic growth, as measured by GDP, to be between 2.5 percent to 3.0 percent in 1998. We base this outlook on our analysis of the various components of the domestic economy and on the outlook for the U.S.' major trading partners. The balance of trade poses a serious wildcard to the equation. We expect the trade deficit to balloon by \$70 billion in the year ahead owing to the Asian debacle.

The inflation outlook remains mostly positive over the foreseeable future. The influx of Asian imports will place downward pressure on domestic goods prices. The boom in business investment spending over the past six years has allowed capacity to grow at a faster rate than aggregate demand, alleviating any pressure from bottlenecks or shortages. The questionable areas in regard to inflation are labor costs and service prices. Service prices are expected to increase in 1998, especially in the health care sector. Further, if the Asian slowdown fails to provide a reprieve to U.S. manufacturing, and hence labor, wage inflation could be a critical issue in the year ahead. Overall, we expect the latter two issues to offset the gains witnessed on the goods

front, leaving inflation for the year near 2.0 percent to 2.25 percent.

Based on our fundamental economic outlook for moderate GDP growth (2.5 percent to 3.0 percent) and continued low inflation (CPI 2.0 percent to 2.25 percent), we expect interest rates to remain in a fairly tight range for most of the year.

The technicals of the fixed income market are very attractive as issuance of U.S. treasury bonds will continue to decline as the Federal budget position improves. Net treasury issuance (new issuance minus bond maturities) declined from \$189 billion in 1995 (fiscal year ending 9/30), to \$22 billion in 1997. Salomon Smith Barney estimates that net treasury issuance will be minus \$80 billion in fiscal year 1998.

Based on our inflation outlook (2.0 percent to 2.25 percent CPI in 1997), real interest rates (10-year treasury minus CPI) are currently 3.25 percent to 3.5 percent, at or below the long term historical average 3.5 percent. Based on our outlook for a relatively stable economy and inflation, we expect the long-bond to trade in a range of 5.5 percent to 6.5 percent in 1998.

EQUITY MARKET

Wall Street strategists are forecasting U.S. equity returns to be in the 4 percent to 15 percent range, with the consensus closer to the historical norm of 10 percent. In the past month, Wall Street strategists have lowered their 1998 profit growth expectations from low double-digits to something closer to 6 percent to 8 percent. The lowering of profit expectations was due to the Asian turmoil and economists cutting their 1998 U.S. GDP forecasts by anywhere from 0.5 percent to 1.0 percent. If profits for companies in the S&P 500 do rise in 1998, it would be the first time that profits have risen for seven consecutive years.

We expect the S&P 500 to deliver total returns in the 7 percent to 10 percent range, markedly less than last year's return (33.4 percent) and slightly lower than consensus. We look for operating earnings for the S&P 500 to grow at least 8 percent in 1998. At year-end 1997, the trailing P/E multiple on the S&P 500 was approximately 21.5 times. During prior periods of mild inflation, the P/E ratios have ranged primarily between 18 and 22 times. We are not factoring in any further P/E expansion for the full year.

Even though the turmoil in Asia just started making front-page headlines in October of last year, it can be argued that the U.S. stock markets have been "aware" of

this situation since last summer. It is, perhaps, no mere coincidence that the Dow Jones Industrial Average peaked in early August (at 8259.31) less than a month after the government of Thailand decided to devalue its currency, which subsequently started the Asian contagion.

Using the standard deviation of daily price changes as a measure of volatility, 1997 was the fourth most volatile year of the last half-century, trailing only 1987, 1982 and 1974. Those three years saw violent reversals of the market trend. High volatility often comes at market turning points.

The risk to the PERS equity market outlook is that the high end of the return forecast (for all of 1998) may occur in the first half of the year. With the decline in interest rates, an expansionary fiscal policy and accelerating money supply growth, the U.S. economy should have sufficient strength and momentum to offset the near-term headwinds created by the financial turmoil in Asia. As such, we should anticipate that the majority of surprises (regarding economic news, earnings, etc.) for the first part of 1998 are "positive."

FIXED INCOME MARKET

Our fixed income outlook is based on our economic and inflation forecast, our outlook for the supply and demand for fixed income securities, the level of interest rates, and the valuation of competing asset classes. Of these, our economic forecast is of primary importance. We anticipate that U.S. economic growth will average 2.5 percent to 3.0 percent in 1998, with a slight up-tick in CPI inflation from the 1.7 percent recorded in 1997 to an expected 2.25 percent in 1998. Given that we begin the year with the two-year note yielding 5.25 percent, and the thirty-year bond at 5.70 percent, we are concerned that the current level of interest rates and the flatness of the yield curve are somewhat incompatible with our outlook for continued strong economic activity and slightly rising inflation.

We anticipate that Treasury yields will generally trend higher throughout the year. The front-end of the yield curve should trade within a range of 5.00 percent to 5.50 percent over the next six months as the Federal Reserve retains a neutral stance in an effort to foster a turnaround in Asia. Likewise, long rates should trade in a relatively narrow band of 5.65 percent to 6.00 percent as long as there remains a legitimate risk of an Asia-induced world-wide downturn. Importantly, long rates remain underpinned by the favorable performance of U.S. inflation.

In the latter half of the year, rates should move into a new, higher trading range if we are correct in our assertion that worldwide growth is set to gather strength. For the

second half of 1998, we envision short rates to trade in a range of 5.50 percent to 6.25 percent as investors become concerned that the Fed may have in fact been too accommodative earlier in the year. Long rates in the second half of the year should range from 6.00 percent to 6.50 percent.

REAL ESTATE MARKET

The flow of capital back into the real estate marketplace has turned into a deluge. This capital influx is expected to remain strong in 1998. Expect to see continued higher prices and increased development activity. With the abundance of capital in both the debt and equity markets, the price of real estate is up while the cost of financing these investments is down. Commercial mortgage lenders are demanding less of the owners' equity. Loan to value ratios have increased from 70 percent to 85 percent, and the spread over corresponding treasuries is now around 100 basis points. REITs now trade on relative price earnings multiples that are unrelated to the values of the underlying real estate portfolios.

We expect that total returns will be in the low double digits in 1998. Expected current cash returns will be flat to down for most property types, while prices will rise. The time for opportunity investing is pretty well over, as it is increasingly difficult to buy properties below their replacement cost.

We expect the primary funding sources for real estate in 1998 will continue to be Wall Street firms, REITs, pension funds acting through advisors or opportunity funds, and to a lesser extent, insurance companies.

With acquisition prices exceeding replacement costs, REITs with development capabilities are expected to have better earnings growth due to the higher expected returns on new construction. Equity offerings are predicted to be plentiful and merger and acquisition activity should continue at its current manic pace.

INTERNATIONAL MARKETS

As is usually the case, the outlook for the international markets for the upcoming year varies significantly between regions. But in spite of that, a common theme among most regions is the current overshadowing effects produced by the events that continue to unfold in East Asia. The ultimate outcome of the crisis remains to be seen, but it has already produced major effects on the world's markets. Despite widespread fears of a global meltdown spurred by the Asian crisis, global economic growth most likely will not be completely derailed. Most indicators still point to a continued low inflationary/moderate growth environment on

...a worldwide basis, albeit at reduced levels from pre-crisis levels.

That is not to say that the Asian crisis will not have significant repercussions. The global economic environment was already showing signs of slowing and in light of the slowdown in Asia, it is likely to decelerate further. After a decade of exceptionally strong growth rates in Asia, economic activity in this region is already rapidly slowing and should remain weak throughout most, if not all, of 1998. Japan is perhaps the most exposed to the crisis, given its strong trade and financial relationships within the region. The impact of the crisis on Europe and the U.S. should be muted to some degree because their trade and financial relationships with Asia are not as strong as Japan's. Also, European and U.S. economic growth was fairly robust prior to the crisis, thereby enabling them to better withstand the recent shocks.

Moving further into the year, the run-up to European Economic and Monetary Union (EMU) should also take on more of the economic spotlight. In May of this year it will be determined which countries are allowed to enter EMU at the beginning of 1999.

The outlook for the emerging markets varies dramatically by region. The lack of investor confidence in Asian economies and political structures has led to most markets in the region being decimated. It is unlikely that Asian emerging markets will be attractive to many investors in the near term. On the other hand, most Latin American economies have fairly strong fundamentals and have the potential to be strong performers during 1998 once fears over currency contagion recede.

With domestic activity collapsing throughout the region in 1998, most Asian countries will likely try to increase exports to alleviate the loss of markets closer to home. As long as U.S. and European demand remains firm, Asian goods will remain particularly attractive and this policy should help turn their economies around.

Whether or not these challenges and risks have been completely discounted by the markets remains to be seen. The agreement of loan packages between Asian governments and the IMF is a crucial component to the restoration of investor confidence, although these agreements will be painful by provoking bankruptcies and corporate restructuring.

The outlook for Latin American emerging markets in 1998 is reasonably positive despite the problems in Asia. Although economic growth should slow somewhat in 1998

to around 5.0 percent, Latin America should remain one of the better growth areas of the world.

The cyclical bull market for the U.S. dollar versus the Japanese yen is expected to continue at least for the better part of 1998. One risk to dollar strength is that U.S. and European central banks join the, to date, unsuccessful Bank of Japan intervention to support the yen.

Similar to last year's conclusion, we expect a global investment and economic environment that is driven and characterized by a continuation of low interest rates, moderate rates of economic growth (albeit at lower levels due to the Asian crisis), and non-threatening rates of inflation. In fact, in some isolated parts of the world, deflation may actually be experienced. Our 1998 return expectations for the developed non-U.S. markets as a whole are centered around 10 percent.

MONEY MARKETS

As we enter the new year, short rates are stimulative to economic growth. Based on our economic assessment for the coming year, we find the front-end expensive. We believe that the market has already established the low yields for the year in the front end of the curve, and rates should generally rise from here. We do not expect the Fed to ease in 1998.

For the first half of the year, we anticipate that the 3-month T-bill will trade in a range of 5.00 percent to 5.35 percent. In the second half of the year, T-bill rates should begin to rise on concern over economic strength and the possibility that the Fed may need to tighten monetary policy. The three month bill should trade in a second-half range of 5.25 percent to 5.50. We expect that the 6-month bill will trade in a range of 5.40 percent to 5.70 percent, and the year-bill to trade as high as 5.80 percent.

1998 PERS STRATEGY

EQUITY

Two critical assumptions behind the PERS equity strategy are: (1) forecasters have been too pessimistic about the impact that the Asian turmoil will have on the U.S. economy (especially for the first part of the year), and (2) the high level of volatility will result in more sector and theme rotation in 1998.

The sectors that have potential to outperform the S&P 500 due to a positive revision in current expectations are

small cap stocks, technology, capital goods and basic materials. As the economy surprises the pessimists, investors' confidence, in general, will be restored. As a result they will intensify their search for bargains.

In the small cap area, relative valuations (to the S&P 500) such as price to cash flow and price to sales are at the low end of their respective historical ranges. Lack of liquidity in the small cap names has always been used as a drawback against this group. In the volatile equity environment that we are forecasting, the small cap stocks should outperform the S&P 500. At year-end 1997, the small cap/midcap exposure within the PERS equity portfolio stood at 28.2 percent.

Given the high level of volatility expected in the equity markets in 1998, we are not forecasting any of the eleven sectors in the S&P 500 to be "buy and hold" candidates.

The volatile environment of the stock market, historically high levels of valuation, all combined with the Asian overhang warrant a strategy that puts a premium on flexibility. Sector performance will vary significantly should the year unfold in a manner that is completely at odds with our critical assumptions. However, continuing to anticipate and analyze (overlaying valuations on expectations) should give the PERS equity portfolio the best opportunity to outperform the S&P 500 in 1998.

FIXED INCOME

Our fixed income strategy is based on our economic outlook, our year-ahead outlook for treasury rates, and the current and expected relative valuation of the fixed income sectors. Fixed income portfolio returns are directly influenced by the management of some key variables. Each is listed below:

Duration Strategy: Our strategy for duration management is driven primarily by the current level and outlook for interest rates. Because we believe that current interest rates are too low given the continued strong domestic growth, healthy world growth, and mildly rising inflation, we will maintain a relative duration of 90 - 100 percent of the duration of the index during the first half of the year. Our portfolio returns will benefit from this decision if rates rise during the first half of the year.

Yield Curve Strategy: As we begin 1998, the curve is unusually flat, and we have begun establishing a more curve neutral structure. As the year progresses, and we gain evidence that our economic call is unfolding, we would likely again favor a barbell structure as the curve flattens due to an anticipated front-end backup in yield.

Sector Allocation Strategy: Corporates and mortgages begin the year at favorable spread levels. We intend to raise our allocation to corporates to 150 percent of the sector's weighting in the index, and raise our allocation to mortgages to 110 percent of the index.

Security Selection Strategy: Given our outlook for stable corporate profitability, and the current relative attractiveness of corporate spreads, we intend to reduce the credit quality of our corporate holdings in order to earn a higher yield. We will mitigate the risk associated with holding lesser-quality corporates by intentionally shortening the average maturity of our corporate holdings. In mortgages, our security selection will focus on securities that offer generous nominal yield as compensation for incurring negative convexity.

REAL ESTATE

Institutional investors are paying more money for assets and accepting lower returns in order to "put the money out." We feel that this aggressive investment strategy will lead to a market top within the next 24 months. Our strategy is to sell those assets that we feel are fully valued and leverage those assets in the portfolio that we think are good long term holds. Our acquisition strategy for 1998 is to find assets which do well in down markets.

Apartments are still the core of our portfolio. The risk premium that we received in the early 1990's on turnaround projects has evaporated. We can no longer earn a sufficient return premium for risks associated with renovating and repositioning lower quality communities. We expect the total return on the apartment portfolio to be in the 11 percent to 13 percent range in 1998.

Retail properties are still out of favor with most institutional investors. Regional malls which were once the darlings of the typical pension fund portfolio, are now the scourge of most asset allocation models. We expect to earn stabilized total returns of 12 percent to 14 percent annually.

Our outlet mall portfolio is mature. We do not plan any major acquisitions in 1998. We will continue to entertain and analyze purchase offers on a portfolio or an individual basis. We expect the portfolio to return 10 percent to 12 percent in 1998.

Hotels have fully recovered and we do not expect to replicate the returns of our existing portfolios with the acquisition opportunities currently available. The unlevered initial yields on hotels with 70+ percent occupancy rates are now 7 percent to 8 percent. Optimistic pro forma

project total returns are in the 13 percent to 15 percent range.

Office and industrial properties provide diversity to our real estate portfolio. We feel that speculative suburban office and industrial projects will provide double digit returns for investors who build early in the development cycle. With acquisitions, we look for stabilized cash yields of 9 percent and total returns of 11 percent to 13 percent.

Mortgage rates have dropped 300 basis points to 7 percent since we began building our mortgage portfolio in 1992. Investors competing for commercial mortgage business have compressed spreads to 100 basis points over the Treasury curve. To earn an 8½ percent to 9½ percent coupon, investors must lend 85 percent to 90 percent of the purchase price and fund additional dollars for capital improvements.

On the REIT side, we expect a slight contraction in the earnings multiple for REIT stocks in 1998 due to the anticipated decrease in the sustainable growth rate of REIT stock's earnings per share.

INTERNATIONAL

The primary goal for the international area in 1998 is ~~basically unchanged from last year. we intend to continue~~ working on increasing the fund's international equity exposure.

With such a wide spectrum in which to make non-U.S. investments, we intend to continue following the strategy of building multiple portfolios that utilize different investment styles and that focus on different markets. This strategy will create significant diversification that will provide risk reduction benefits for the overall portfolio. Additionally, by constructing a portfolio out of multiple portfolios that are different by investment style and market focus, PERS will be able to make tactical shifts within the portfolio in order to take advantage of any opportunities that may develop in specific areas of the international markets.

During 1998, we will use several strategies to increase the PERS international allocation. First, additional allocations will be made to the existing core EAFE. Second, new core EAFE portfolios will be added. Third, additional allocations will be made to the existing non-core EAFE portfolios. Fourth, new non-core EAFE portfolios will be added. Fifth, we will initiate dedicated emerging markets portfolios. Finally, we will complete the fundings to our private equity commitments.

SHORT-TERM INVESTMENTS

We will target a duration for the short-term investment pool of 50-days or less. By maintaining a short weighted-average maturity, we will turn-over the investment pool more frequently, thus enabling us to invest maturing securities at expected higher yields as the year progresses. If, as expected, yields rise during the year, we will look to extend the duration of the portfolio to near the benchmark duration, especially if the money market curve should steepen.

TOTAL PORTFOLIO OUTLOOK FOR 1998

Our expectations for the total portfolio are very similar to last year's. We think that the total portfolio will generate a total return of around 7.75 percent, with a probable range of 5.7 to 10 percent. These estimates are based upon our expected asset allocation and expected returns for each of the asset classes. The total portfolio return estimate may not be valid if the current asset allocation study results in a dramatic change to our current allocation. Given our current allocation, domestic stocks and bonds comprise over eighty percent of the total portfolio and are the primary determinants of total performance.

~~The existing short-term portfolio and cash flow will be~~ used to fund our increased allocations to international equities, real estate and other asset classes.

Prudent person legislation effective March 6, 1997 has allowed us to modify our investment policy. These changes will have positive effects on our long-term performance and also help reduce the overall risk of the portfolio.

SCHEDULE OF INVESTMENT RESULTS

	<u>1997</u>	<u>3-Year</u>	<u>5-Year</u>
Total Portfolio	13.31	13.78	10.01
Customized Benchmark*	15.78	NA	NA
Equity Portfolio	25.44	23.36	16.01
Standard and Poor's 500 Index	33.36	31.06	20.25
Fixed Income Portfolio	9.09	11.11	8.13
Salomon B.I.G. Index	9.64	10.43	7.53
Real Estate Portfolio	14.04	11.83	11.85
N.C.R.E.I.F.	13.45	10.60	7.42
International Portfolio	(3.94)	NA	NA
M.S.C.I.-E.A.F.E.	1.78	6.27	11.39
Short-Term Portfolio	5.65	5.86	5.00
90 Day Treasury Bill	5.33	5.55	4.80

* This benchmark is calculated using asset allocation targets defined in the Investment Policy (28% Domestic Equity, 5% International Equity, 10% Real Estate, 51% Fixed Income, 6% Short-term) and the respective benchmarks that were adopted in July 1995 and update in July 1996. Prior to July 1995, the assets were not managed on a relative return basis.

LIST OF LARGEST ASSETS HELD

LARGEST STOCK HOLDINGS (BY FAIR VALUE) December 31, 1997

Shares	Stock	Fair Value
1) 4,167,300	General Electric Co.	\$305,796,474
2) 8,348,300	Worldcom, Inc.	252,536,075
3) 3,336,500	AT&T Corp.	204,560,815
4) 1,910,600	Merck & Co.	202,523,600
5) 1,545,700	Microsoft Corp.	199,781,725
6) 2,986,700	Coca-Cola Co.	199,183,023
7) 2,808,700	Exxon Corp.	171,864,353
8) 2,284,900	Cardinal Health Inc.	170,695,360
9) 2,143,200	Intel Corp.	150,559,800
10) 1,835,800	Procter & Gamble	146,515,198

LARGEST BOND HOLDINGS (BY FAIR VALUE) December 31, 1997

Par	Bonds	Fair Value
1) \$1,500,000,000	U.S. Treasury Notes 3.625% due 7-31-2002 Rating AAA	\$1,492,950,000
2) 1,117,920,000	U.S. Treasury Bonds 5.875% due 10-31-1998 Rating AAA	1,119,596,880
3) 1,087,000,000	U.S. Treasury Bonds 5.875% due 1-31-1999 Rating AAA	1,089,282,700
4) 948,922,000	U.S. Treasury Bonds 5.875% due 2-28-1999 Rating AAA	951,294,305
5) 877,980,000	U.S. Treasury Bonds 5.625% due 11-30-1998 Rating AAA	877,980,000
6) 1,337,454,000	U.S. Treasury Strips .000% due 11-15-2014 Rating AAA	660,301,040
7) 673,023,000	U.S. Treasury Strips .000% due 8-15-2001 Rating AAA	548,513,745
8) 501,400,000	U.S. Treasury Notes 3.375% due 1-15-2007 Rating AAA	488,363,600
9) 473,762,000	U.S. Treasury Bonds 6.375% due 4-30-1999 Rating AAA	478,025,858
10) 227,000,000	U.S. Treasury Bonds 7.250% due 5-15-2016 Rating AAA	258,416,800

DETAILED LISTING OF INVESTMENT PORTFOLIO

As of December 31, 1997

U.S. GOVERNMENT & AGENCIES BONDS

Name	Coupon	Maturity	Par Value	Book Value	Fair Value
Aid - Israel Class 3-C	6.600%	02/15/2008	\$ 50,000,000	\$ 48,951,938	\$ 51,671,875
Aid - Israel Class A	7.125%	08/15/1999	90,000,000	89,859,821	91,828,125
Government Trust Certificates	9.250%	11/15/2001	123,613,116	134,192,360	132,034,260
Government Trust Certificates	9.400%	05/15/2002	28,516,425	31,005,122	30,463,562
Refco Strips	.000%	07/15/2021	13,082,000	2,431,657	3,074,270
U.S. Treasury Notes Inflation Index	3.375%	01/15/2007	501,400,000	499,189,069	488,363,600
U.S. Treasury Notes Inflation Index	3.625%	07/15/2002	1,500,000,000	1,505,418,409	1,492,950,000
U.S. Treasury Receipts	.000%	08/15/2015	700,000,000	181,454,668	245,000,000
U.S. Treasury Receipts	.000%	05/15/2017	451,315,000	111,028,035	141,035,938
U.S. Treasury Receipts	.000%	08/15/2017	600,000,000	121,057,656	184,500,000
U.S. Treasury Receipts	.000%	05/15/2018	472,800,000	88,769,117	138,861,360
U.S. Treasury Strips	.000%	11/15/2001	198,000,000	156,917,268	159,132,600
U.S. Treasury Strips	.000%	05/15/2007	81,000,000	45,037,341	46,874,700
U.S. Treasury Strips	.000%	11/15/2014	1,337,454,000	591,888,990	660,301,040
U.S. Treasury Strips	.000%	08/15/2001	673,023,000	534,354,434	548,513,745
United States Treasury Bonds	9.125%	05/15/2018	161,300,000	217,990,601	219,706,730
United States Treasury Bonds	9.000%	11/15/2018	83,040,000	111,912,173	112,228,560
United States Treasury Notes	5.875%	01/31/1999	1,087,000,000	1,083,487,624	1,089,282,700
United States Treasury Notes	5.875%	02/28/1999	948,922,000	946,522,692	951,294,305
United States Treasury Notes	6.250%	03/31/1999	108,000,000	107,818,962	108,766,800
United States Treasury Notes	6.375%	04/30/1999	473,762,000	474,671,587	478,025,858
United States Treasury Notes	6.000%	06/30/1999	154,150,000	154,359,864	154,920,750
United States Treasury Notes	5.875%	07/31/1999	172,600,000	172,599,520	173,083,280
United States Treasury Notes	6.000%	08/15/2000	51,425,000	51,552,049	51,790,118
United States Treasury Notes	5.625%	02/28/2001	69,700,000	69,364,498	69,567,570
United States Treasury Notes	6.250%	02/28/2002	11,844,000	11,772,780	11,772,780
United States Treasury Notes	5.875%	11/15/2005	27,910,000	27,165,259	28,057,923
United States Treasury	5.875%	10/31/1998	1,117,920,000	1,116,627,633	1,119,596,880
United States Treasury	5.500%	11/15/1998	92,275,000	92,236,884	92,127,360
United States Treasury	5.625%	11/30/1998	877,980,000	874,464,866	877,980,000
United States Treasury	6.250%	08/31/2000	8,590,000	8,619,427	8,702,529
United States Treasury	6.250%	04/30/2001	103,690,000	104,038,391	105,307,564
United States Treasury	6.250%	10/31/2001	21,550,000	21,888,865	21,927,125
United States Treasury	7.250%	05/15/2004	49,125,000	51,758,387	53,020,613
United States Treasury	7.250%	08/15/2004	93,030,000	96,490,814	100,556,127
United States Treasury	10.375%	11/15/2012	233,111,000	296,141,240	309,874,452
United States Treasury	9.875%	11/15/2015	1,110,000	1,504,411	1,578,531
United States Treasury	7.250%	05/15/2016	227,000,000	220,122,935	258,416,800
United States Treasury	8.875%	02/15/2019	155,095,000	205,638,730	207,532,620
TOTAL			\$13,150,332,541	\$10,660,336,077	\$11,019,723,048

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

MORTGAGE AND MORTGAGE-BACKED BONDS

Name	Coupon	Maturity	Par Value	Book Value	Fair Value
Chase Commercial Mtg. Securities Corp. 1997-2 C	6.600%	12/19/2007	\$ 19,000,000	\$ 18,705,185	\$ 18,705,185
Commerical Mtg. Accept. 1997MII A3	6.570%	12/01/2022	25,000,000	25,171,856	25,171,856
Conti Home Equity Loan 1997-4 A4	6.300%	07/15/2012	63,650,000	63,618,489	63,618,175
Federal Home Loan Mortgage Corp.	7.500%	05/01/2017	3,415	3,060	3,489
Federal Home Loan Mortgage Corp.	5.500%	05/15/2018	20,000,000	19,467,049	19,772,000
Federal Home Loan Mortgage Corp.	6.500%	08/15/2023	15,000,000	14,538,871	15,126,000
Federal National Mortgage Association	8.900%	06/12/2000	69,335,000	73,277,034	74,098,315
Federal National Mortgage Association	8.250%	12/18/2000	93,360,000	96,156,436	99,307,032
Federal National Mortgage Association	5.750%	10/25/2006	30,075,884	29,342,957	29,841,293
Federal National Mortgage Association	6.500%	05/25/2022	14,025,000	13,726,983	14,116,163
Federal National Mortgage Association	6.250%	03/25/2023	37,000,000	35,127,166	36,718,800
FHLMC Gold Pool E00475	7.500%	02/01/2012	5,532,644	5,635,834	5,682,025
FHLMC Gold Pool E00481	7.500%	04/01/2012	6,587,614	6,710,517	6,764,162
FHLMC Gold Pool E00487	7.500%	05/01/2012	5,538,183	5,648,734	5,686,606
FHLMC Gold Pool E00492	7.500%	06/01/2012	89,820,870	91,569,707	92,228,069
FHLMC Gold Pool E00494	7.500%	07/01/2012	68,834,963	70,151,479	70,679,740
FHLMC Gold Pool E00500	7.500%	08/01/2012	37,090,572	37,795,454	38,084,599
FHLMC Gold Pool E67485	7.500%	08/01/2012	5,085,763	5,180,702	5,222,062
FHLMC Gold Pool E67486	7.500%	08/01/2012	6,340,906	6,459,275	6,510,842
FHLMC Gold Pool G10581	7.500%	10/01/2011	21,628,680	22,059,970	22,212,654
FHLMC Gold Pool G10719	7.500%	08/01/2012	60,492,170	61,621,411	62,113,361
FHLMC Gold Pool G10730	7.500%	09/01/2012	237,173,123	242,008,030	243,576,797
FHLMC Gold Pool G10735	7.500%	09/01/2012	237,256,393	242,115,629	243,614,865
FHLMC Gold Pool G10747	7.500%	10/01/2012	145,635,465	149,252,783	149,567,623
FNMA Coffee Arms Pool 238575	6.199%	03/01/2033	202,640,506	201,342,018	202,356,810
FNMA Coffee Arms Pool 313371	6.217%	08/01/2029	379,770,624	377,261,615	379,238,945
FNMA Pool 050437	8.000%	06/01/2006	2,889,755	2,885,719	2,990,318
FNMA Pool 070798	8.000%	06/01/2006	6,149,112	6,140,524	6,363,101
FNMA Pool 070951	8.000%	09/01/2006	4,139,329	4,135,270	4,283,378
FNMA Pool 070993	8.000%	12/01/2006	13,786,378	13,767,008	14,266,144
FNMA Pool 124264	7.500%	03/01/1999	15,286,470	15,434,508	15,445,449
FNMA Pool 124643	7.500%	01/01/2000	14,560,245	14,733,673	14,711,671
FNMA Pool 124727	8.000%	03/01/2008	3,511,024	3,507,527	3,633,207
FNMA Pool 124747	8.000%	01/01/2008	13,600,291	13,580,971	14,073,581
FNMA Pool 125104	8.000%	05/01/2007	5,556,053	5,557,621	5,749,404
FNMA Pool 125136	8.000%	07/01/2007	3,166,080	3,162,947	3,276,259
FNMA Pool 125322	8.000%	10/01/2009	14,127,197	14,131,265	14,624,474
FNMA Pool 125327	8.000%	10/01/2009	5,668,544	5,662,830	5,868,077
FNMA Pool 125328	8.000%	10/01/2009	1,549,690	1,548,128	1,604,239
FNMA Pool 125357	8.000%	10/01/2009	1,896,688	1,894,776	1,963,451
FNMA Pool 190529	8.000%	09/01/2008	2,027,432	2,025,404	2,097,987
FNMA Pool 190735	8.000%	09/01/2008	12,757,589	12,750,298	13,201,553

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name		Coupon	Maturity	Par Value	Book Value	Fair Value
FNMA	Pool 190767	8.000%	11/01/2007	\$16,248,690	\$16,239,471	\$16,814,144
FNMA	Pool 190917	8.000%	07/01/2009	9,070,786	9,061,658	9,390,078
FNMA	Pool 190995	8.000%	09/01/2009	48,666,955	48,617,924	50,380,031
FNMA	Pool 221762	8.000%	12/01/2006	188,014	187,750	192,376
FNMA	Pool 250100	8.000%	07/01/2009	6,518,541	6,514,792	6,747,993
FNMA	Pool 250104	8.000%	08/01/2009	15,359,851	15,361,193	15,900,518
FNMA	Pool 250118	8.000%	09/01/2009	14,685,972	14,685,306	15,202,918
FNMA	Pool 250123	8.000%	06/01/2009	4,658,559	4,655,882	4,822,541
FNMA	Pool 250148	8.000%	10/01/2009	34,925,398	34,927,096	36,154,772
FNMA	Pool 250657	7.500%	08/01/2003	2,285,633	2,319,872	2,330,660
FNMA	Pool 250828	7.500%	01/01/2004	2,820,962	2,863,649	2,876,535
FNMA	Pool 285565	7.500%	09/01/2001	750,176	760,629	762,254
FNMA	Pool 296476	8.000%	10/01/2009	6,865,167	6,867,144	7,106,820
FNMA	Pool 297536	8.000%	10/01/2009	7,417,242	7,406,561	7,675,362
FNMA	Pool 303041	8.000%	10/01/2009	57,328,387	57,295,365	59,369,277
FNMA	Pool 303042	8.000%	10/01/2009	58,900,343	58,866,416	60,973,635
FNMA	Pool 303048	8.000%	10/01/2009	57,269,570	57,187,100	59,308,367
FNMA	Pool 303049	8.000%	10/01/2009	22,989,869	22,956,763	23,808,308
FNMA	Pool 303052	8.000%	10/01/2009	74,794,862	74,719,467	77,397,723
FNMA	Pool 303053	8.000%	10/01/2009	69,605,675	69,535,511	72,055,795
FNMA	Pool 303054	8.000%	10/01/2009	83,932,454	83,933,773	86,886,876
FNMA	Pool 303065	8.000%	10/01/2009	15,953,105	15,937,024	16,514,654
FNMA	Pool 303080	8.000%	10/01/2009	14,795,844	14,780,929	15,322,576
FNMA	Pool 303095	8.000%	10/01/2009	13,802,382	13,782,506	14,293,747
FNMA	Pool 303103	8.000%	10/01/2009	13,323,086	13,309,656	13,786,729
FNMA	Pool 313671	6.000%	07/01/2004	97,444,637	95,675,159	96,304,535
FNMA	Pool 313686	6.000%	04/01/2004	47,967,198	47,063,657	47,497,119
FNMA	Pool 313719	6.000%	09/01/2004	48,834,420	47,907,574	48,263,057
FNMA	Pool 347773	7.500%	06/01/2003	705,930	716,458	719,837
FNMA	Pool 366076	7.500%	01/01/2004	1,849,403	1,877,389	1,885,837
FNMA	Pool 368204	7.500%	12/01/2003	792,796	804,769	808,414
FNMA	Pool 368974	7.500%	01/01/2004	629,459	638,985	642,112
GNMA - Empire Funding	Pool 203016	8.000%	05/15/2017	39,033	35,745	41,118
GNMA - Gershman Investment	Pool 326436	7.500%	05/15/2023	16,495,393	16,567,305	16,953,965
GNMA - Principal Residential	Pool 327008	7.000%	06/15/2023	14,794,160	14,589,528	14,956,895
GNMA - Fleet Mortgage Corp.	Pool 328193	7.500%	08/15/2022	2,878,199	2,890,732	2,959,940
GNMA - Banc Boston Mortgage	Pool 330911	7.500%	12/15/2022	5,619,067	5,651,146	5,778,649
GNMA - Nationsbank Mortgage	Pool 331840	7.500%	01/15/2023	6,793,872	6,832,663	6,982,742
GNMA - Chase Home Mortgage	Pool 336475	7.500%	06/15/2023	3,050,092	3,067,518	3,134,884
GNMA - American Home Funding	Pool 338007	7.500%	06/15/2023	22,437,486	22,565,675	23,061,248
GNMA - Fleet Real Estate	Pool 338366	7.000%	12/15/2022	17,880,632	17,633,628	18,088,047
GNMA - Fleet Mortgage Corp.	Pool 340781	7.500%	05/15/2023	4,540,951	4,560,748	4,667,190
GNMA - Norwest Mortgage Inc.	Pool 342477	7.000%	12/15/2022	17,355,419	17,115,540	17,556,741
GNMA - Norwest Mortgage Inc.	Pool 342480	7.500%	12/15/2022	4,876,822	4,904,663	5,015,324

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name		Coupon	Maturity	Par Value	Book Value	Fair Value
GNMA - Norwest Mortgage Inc.	Pool 342552	7.500%	03/15/2023	\$23,794,762	\$23,930,655	\$24,456,256
GNMA - Chase Home Mortgage	Pool 343163	7.500%	02/15/2023	12,366,427	12,420,319	12,710,214
GNMA - Chemical Mortgage Co.	Pool 344204	7.500%	01/15/2023	9,621,816	9,663,742	9,889,303
GNMA - Source One Mortgage	Pool 344929	7.500%	07/15/2023	10,351,119	10,410,265	10,638,881
GNMA - Source One Mortgage	Pool 344947	7.500%	06/15/2023	14,999,439	15,064,838	15,416,424
GNMA - Source One Mortgage	Pool 344969	7.500%	06/15/2023	9,559,534	9,601,215	9,825,290
GNMA - Source One Mortgage	Pool 344980	7.500%	08/15/2023	5,381,767	5,412,522	5,531,380
GNMA - Source One Mortgage	Pool 344991	7.500%	07/15/2023	9,283,326	9,323,807	9,541,402
GNMA - Source One Mortgage	Pool 345028	7.000%	09/15/2023	19,330,766	18,912,100	19,543,405
GNMA - Source One Mortgage	Pool 345029	7.000%	10/15/2023	19,878,422	19,447,843	20,097,085
GNMA - Source One Mortgage	Pool 345030	7.000%	10/15/2023	19,777,606	19,349,210	19,995,159
GNMA - Source One Mortgage	Pool 345059	7.000%	10/15/2023	14,826,709	14,505,553	14,989,802
GNMA - Source One Mortgage	Pool 345060	7.000%	10/15/2023	18,701,816	18,513,335	18,907,536
GNMA - Source One Mortgage	Pool 345061	7.000%	11/15/2023	18,028,586	17,846,868	18,226,900
GNMA - Source One Mortgage	Pool 345140	7.000%	12/15/2023	18,844,975	18,436,683	19,052,269
GNMA - Source One Mortgage	Pool 345160	7.000%	01/15/2024	15,748,505	15,530,487	15,913,865
GNMA - Govt National Mortgage	Pool 345589	7.500%	03/15/2024	7,229,771	7,268,944	7,422,083
GNMA - Source One Mortgage	Pool 345608	7.000%	03/15/2024	15,660,901	15,502,974	15,825,341
GNMA - Source One Mortgage	Pool 345762	8.000%	07/15/2026	18,953,976	19,343,880	19,662,855
GNMA - Banc Boston Mortgage	Pool 345835	7.500%	08/15/2023	6,034,936	6,067,609	6,202,708
GNMA - Mountain States Mtg.	Pool 346187	7.500%	07/15/2023	12,912,793	12,969,101	13,271,769
GNMA - Fleet Real Estate	Pool 346586	7.500%	06/15/2023	24,263,388	24,369,178	24,937,910
GNMA - Fleet Real Estate	Pool 346652	7.500%	07/15/2023	20,244,961	20,333,242	20,807,771
GNMA - Directors Mortgage Loan	Pool 347867	7.500%	01/15/2023	9,704,342	9,746,627	9,974,123
GNMA - Chemical Mortgage Co.	Pool 348637	7.500%	05/15/2023	8,028,535	8,063,536	8,251,729
GNMA - Chemical Mortgage Co.	Pool 348671	7.500%	05/15/2023	3,780,992	3,802,591	3,886,103
GNMA - Fleet Mortgage Corp.	Pool 348816	7.000%	06/15/2023	15,949,005	15,728,399	16,124,444
GNMA - Prudential Home Mtg.	Pool 349306	8.000%	02/15/2023	1,426,911	1,474,943	1,486,556
GNMA - Chemical Mortgage Co.	Pool 351110	7.500%	06/15/2023	28,476,257	28,600,415	29,267,897
GNMA - GE Capital Mortgage	Pool 351417	7.000%	01/15/2024	15,366,325	15,153,598	15,527,671
GNMA - GE Capital Mortgage	Pool 351425	7.000%	02/15/2024	77,464,032	76,391,512	78,277,404
GNMA - Norwest Mortgage Inc.	Pool 352025	7.500%	11/15/2023	4,457,355	4,490,883	4,581,270
GNMA - Norwest Mortgage Inc.	Pool 352078	7.000%	09/15/2023	18,459,806	18,204,376	18,662,864
GNMA - Norwest Mortgage Inc.	Pool 352081	7.000%	09/15/2023	13,833,478	13,694,077	13,985,646
GNMA - Norwest Mortgage Inc.	Pool 352082	7.500%	09/15/2023	9,047,606	9,087,069	9,299,129
GNMA - Norwest Mortgage Inc.	Pool 352085	7.500%	09/15/2023	29,056,674	29,222,742	29,864,449
GNMA - Norwest Mortgage Inc.	Pool 352096	7.500%	07/15/2023	17,138,335	17,236,261	17,614,780
GNMA - Norwest Mortgage Inc.	Pool 352165	7.500%	06/15/2023	4,271,749	4,290,374	4,390,503
GNMA - Norwest Mortgage Inc.	Pool 352167	7.500%	06/15/2023	3,032,921	3,046,145	3,117,236
GNMA - Norwest Mortgage Inc.	Pool 352191	7.000%	05/15/2023	17,767,295	17,588,342	17,962,735
GNMA - Norwest Mortgage Inc.	Pool 352192	7.500%	05/15/2023	4,213,802	4,237,873	4,330,946
GNMA - Norwest Mortgage Inc.	Pool 352217	7.500%	04/15/2023	13,908,776	13,988,220	14,295,440
GNMA - Prudential Home Mtg.	Pool 354610	7.500%	07/15/2023	6,297,338	6,324,799	6,472,404
GNMA - Prudential Home Mtg.	Pool 354654	7.000%	09/15/2023	18,024,244	17,842,614	18,222,511

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name		Coupon	Maturity	Par Value	Book Value	Fair Value
GNMA - Prudential Home Mtg.	Pool 354784	7.000%	03/15/2024	\$64,798,651	\$63,852,624	\$65,479,037
GNMA - Govt National Mortgage	Pool 354785	7.500%	03/15/2024	70,177,530	70,557,778	72,044,253
GNMA - Govt National Mortgage	Pool 354791	7.500%	04/15/2024	76,707,000	77,145,769	78,747,406
GNMA - Prudential Home Mtg.	Pool 354792	7.000%	04/15/2024	80,573,299	79,396,831	81,419,319
GNMA - Inland Mortgage	Pool 356703	7.000%	09/15/2023	15,365,147	15,152,538	15,534,163
GNMA - Inland Mortgage	Pool 356738	7.000%	09/15/2023	15,565,167	15,349,790	15,736,384
GNMA - Inland Mortgage	Pool 356746	7.000%	09/15/2023	15,500,608	15,286,125	15,671,115
GNMA - Principal Residential	Pool 357287	7.000%	07/15/2023	18,007,044	17,617,144	18,205,122
GNMA - James B. Nutter & Co.	Pool 359481	7.500%	03/15/2024	28,216,269	28,377,649	28,966,822
GNMA - Directors Mortgage Loan	Pool 359612	7.500%	07/15/2023	14,158,128	14,219,866	14,551,724
GNMA - ICM Mortgage Corp.	Pool 360460	7.500%	12/15/2023	2,563,029	2,574,212	2,634,282
GNMA - Lomas Mtg. USA, Inc.	Pool 362164	7.500%	12/15/2023	12,773,899	12,829,635	13,129,013
GNMA - Chemical Mortgage Co.	Pool 366721	7.000%	02/15/2024	34,143,545	33,645,122	34,502,052
GNMA - Chemical Mortgage Co.	Pool 366729	7.000%	02/15/2024	14,072,798	13,767,826	14,220,563
GNMA - Govt National Mortgage	Pool 366733	7.000%	03/15/2024	14,368,059	14,169,105	14,518,923
GNMA - Govt National Mortgage	Pool 366735	7.000%	03/15/2024	9,890,876	9,753,917	9,994,730
GNMA - Govt National Mortgage	Pool 366738	7.000%	03/15/2024	31,486,925	30,837,668	31,817,538
GNMA - Chemical Mortgage Co.	Pool 366741	7.500%	03/15/2024	3,198,184	3,222,252	3,283,256
GNMA - Govt National Mortgage	Pool 366753	7.000%	03/15/2024	15,935,860	15,775,160	16,103,187
GNMA - Chemical Mortgage Co.	Pool 366754	7.500%	03/15/2024	15,276,073	15,391,033	15,682,416
GNMA - Chemical Mortgage Co.	Pool 366755	7.000%	04/15/2024	16,228,920	15,894,242	16,399,323
GNMA - Govt National Mortgage	Pool 366757	7.500%	04/15/2024	3,561,229	3,588,032	3,655,957
GNMA - Chemical Mortgage Co.	Pool 366761	7.000%	04/15/2024	16,089,959	15,758,146	16,258,903
GNMA - Govt National Mortgage	Pool 366763	7.000%	04/15/2024	15,645,214	15,322,573	15,809,488
GNMA - Countrywide Funding	Pool 368140	7.500%	12/15/2023	3,427,728	3,442,684	3,523,019
GNMA - Countrywide Funding	Pool 368179	7.500%	12/15/2023	3,433,687	3,448,669	3,529,143
GNMA - Countrywide Funding	Pool 368564	7.500%	03/15/2024	5,158,569	5,197,390	5,295,787
GNMA - Countrywide Funding	Pool 368577	7.500%	03/15/2024	2,898,106	2,919,916	2,975,196
GNMA - Countrywide Funding	Pool 368583	7.500%	03/15/2024	6,510,348	6,559,342	6,683,524
GNMA - Countrywide Funding	Pool 368594	7.500%	03/15/2024	4,965,645	5,003,014	5,097,731
GNMA - Countrywide Funding	Pool 368603	7.500%	03/15/2024	3,894,774	3,924,084	3,998,375
GNMA - Chemical Residential	Pool 368850	8.000%	01/15/2026	3,735,660	3,861,909	3,875,374
GNMA - Banc Boston Mortgage	Pool 369459	8.000%	10/15/2024	6,130,986	6,337,854	6,363,351
GNMA - Resource Bancshares Mtg.	Pool 370031	7.500%	10/15/2023	3,263,241	3,281,893	3,353,959
GNMA - Norwest Mortgage Inc.	Pool 376434	7.000%	03/15/2024	79,504,092	78,343,374	80,338,885
GNMA - Govt National Mortgage	Pool 376438	7.500%	03/15/2024	42,123,742	42,351,983	43,244,233
GNMA - Norwest Mortgage Inc.	Pool 376467	7.000%	04/15/2024	51,775,734	51,019,745	52,319,379
GNMA - Govt National Mortgage	Pool 376468	7.000%	04/15/2024	12,009,470	11,888,350	12,135,570
GNMA - Govt National Mortgage	Pool 376469	7.000%	04/15/2024	12,090,742	11,968,802	12,217,695
GNMA - Source One Mortgage	Pool 377449	8.000%	01/15/2027	4,515,209	4,608,143	4,684,077
GNMA - Govt National Mortgage	Pool 377686	8.000%	01/15/2026	26,062,063	26,942,846	27,036,784
GNMA - Govt National Mortgage	Pool 383689	7.000%	03/15/2024	8,410,316	8,293,859	8,498,625
GNMA - Govt National Mortgage	Pool 384076	7.500%	04/15/2024	42,876,239	43,198,942	44,016,747
GNMA - Govt National Mortgage	Pool 385241	7.000%	04/15/2024	15,371,946	15,038,744	15,533,352

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name		Coupon	Maturity	Par Value	Book Value	Fair Value
GNMA - Govt National Mortgage	Pool 385602	7.000%	03/15/2024	\$ 8,082,672	\$ 7,970,752	\$ 8,167,540
GNMA - GE Capital Mortgage	Pool 385613	7.500%	04/15/2024	42,364,567	42,683,419	43,491,464
GNMA - Govt National Mortgage	Pool 385620	7.000%	04/15/2024	12,132,783	12,010,420	12,260,178
GNMA - GE Capital Mortgage	Pool 385850	8.000%	08/15/2024	4,244,045	4,390,409	4,404,895
GNMA - Banc Boston Mortgage	Pool 387162	8.000%	10/15/2025	4,261,541	4,420,301	4,422,628
GNMA - Govt National Mortgage	Pool 387202	7.000%	03/15/2024	10,109,213	9,969,231	10,215,359
GNMA - Govt National Mortgage	Pool 387216	7.000%	04/15/2024	12,843,117	12,564,729	12,977,970
GNMA - Govt National Mortgage	Pool 388250	7.500%	02/15/2024	8,866,358	8,914,394	9,102,203
GNMA - Govt National Mortgage	Pool 388254	7.000%	03/15/2024	9,039,379	8,914,211	9,134,292
GNMA - Govt National Mortgage	Pool 388999	7.500%	08/15/2022	4,250,233	4,274,485	4,370,940
GNMA - Govt National Mortgage	Pool 389468	7.000%	03/15/2024	9,773,955	9,638,615	9,876,581
GNMA - Govt National Mortgage	Pool 389483	7.500%	04/15/2024	4,997,736	5,026,323	5,130,676
GNMA - Mountain States Mtg.	Pool 390719	8.000%	03/15/2024	2,582,219	2,671,219	2,680,085
GNMA - Govt National Mortgage	Pool 390723	7.500%	03/15/2024	21,993,415	22,112,584	22,578,440
GNMA - Govt National Mortgage	Pool 390727	7.500%	03/15/2024	21,651,910	21,769,228	22,227,851
GNMA - Mountain States Mtg.	Pool 390728	7.500%	03/15/2024	16,693,351	16,788,827	17,137,394
GNMA - Mountain States Mtg.	Pool 390871	7.500%	04/15/2024	6,262,672	6,290,010	6,429,259
GNMA - Govt National Mortgage	Pool 392494	8.000%	08/15/2024	3,001,991	3,105,520	3,115,767
GNMA - Countrywide Funding	Pool 392517	8.000%	08/15/2024	3,490,844	3,611,231	3,623,147
GNMA - Fleet Mortgage Corp.	Pool 398956	8.000%	11/15/2026	12,558,989	12,817,437	13,028,695
GNMA - Corinthian Mortgage	Pool 399749	8.000%	07/15/2025	735,988	761,400	763,808
GNMA - Govt National Mortgage	Pool 402661	8.000%	01/15/2026	2,731,444	2,823,754	2,833,600
GNMA - PHH Mtg. Services Corp.	Pool 402828	8.000%	10/15/2024	4,385,269	4,533,234	4,551,470
GNMA - Prudential Home Mtg.	Pool 403993	8.000%	11/15/2024	3,653,033	3,788,963	3,791,483
GNMA - J I Kislak Mtg. Corp.	Pool 405154	8.000%	10/15/2025	812,664	840,120	843,383
GNMA - Prudential Home Mtg.	Pool 405490	8.000%	09/15/2025	62,929,956	65,103,282	65,308,708
GNMA - Prudential Home Mtg.	Pool 405528	8.000%	11/15/2025	57,514,690	59,501,412	59,688,746
GNMA - Prudential Home Mtg.	Pool 405538	8.000%	12/15/2025	67,934,233	70,423,535	70,502,147
GNMA - Govt National Mortgage	Pool 405559	8.000%	01/15/2026	77,928,886	80,679,494	80,843,426
GNMA - Commercial Federal Mtg	Pool 406290	8.000%	06/15/2025	1,029,861	1,064,640	1,068,790
GNMA - Commercial Federal Mtg	Pool 406292	8.000%	07/15/2025	648,227	670,120	672,730
GNMA - Inland Mortgage	Pool 408120	8.000%	10/15/2025	1,594,279	1,648,142	1,654,543
GNMA - Island Mortgage Corp.	Pool 408152	8.000%	11/15/2025	1,159,957	1,200,025	1,203,803
GNMA - Chemical Residential	Pool 408808	8.000%	10/15/2025	4,452,245	4,604,461	4,620,540
GNMA - Chemical Residential	Pool 408809	8.000%	10/15/2025	3,623,460	3,758,448	3,760,426
GNMA - Chemical Residential	Pool 408834	8.000%	11/15/2025	6,631,302	6,870,115	6,881,965
GNMA - Chemical Residential	Pool 408867	8.000%	12/15/2025	9,146,539	9,455,619	9,492,278
GNMA - Norwest Mortgage Inc.	Pool 410049	8.000%	07/15/2025	28,151,754	29,118,680	29,215,890
GNMA - Norwest Mortgage Inc.	Pool 410064	8.000%	07/15/2025	3,515,927	3,646,868	3,648,829
GNMA - Norwest Mortgage Inc.	Pool 410167	8.000%	10/15/2025	42,119,790	43,574,574	43,711,918
GNMA - Norwest Mortgage Inc.	Pool 410204	8.000%	11/15/2025	39,724,588	41,066,827	41,226,177
GNMA - Norwest Mortgage Inc.	Pool 410205	8.000%	11/15/2025	19,072,105	19,730,910	19,793,031
GNMA - Norwest Mortgage Inc.	Pool 410214	8.000%	12/15/2025	8,018,120	8,289,069	8,321,205
GNMA - Norwest Mortgage Inc.	Pool 410218	8.000%	11/15/2025	8,471,686	8,764,322	8,791,916

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name		Coupon	Maturity	Par Value	Book Value	Fair Value
GNMA - Norwest Mortgage Inc.	Pool 410247	8.000%	12/15/2025	\$13,410,146	\$13,909,832	\$13,917,049
GNMA - James B. Nutter & Co.	Pool 410284	8.000%	09/15/2025	6,309,125	6,522,257	6,547,610
GNMA - James B. Nutter & Co.	Pool 410296	8.000%	11/15/2025	20,219,208	20,902,387	20,983,494
GNMA - Banc Boston Mortgage	Pool 410854	8.000%	12/15/2025	24,518,490	25,347,020	25,445,289
GNMA - Banc Boston Mortgage	Pool 410858	8.000%	12/15/2025	4,065,436	4,202,816	4,219,110
GNMA - Govt National Mortgage	Pool 410900	8.000%	01/15/2026	8,084,375	8,363,690	8,386,730
GNMA - North American Mortgage	Pool 411545	8.000%	12/15/2025	12,734,599	13,209,113	13,215,967
GNMA - Principal Residential	Pool 412506	8.000%	10/15/2025	3,344,351	3,468,942	3,470,768
GNMA - Govt National Mortgage	Pool 412515	8.000%	11/15/2025	4,026,412	4,176,428	4,178,610
GNMA - Fleet Real Estate	Pool 413127	8.000%	09/15/2025	3,400,280	3,526,941	3,528,810
GNMA - Govt National Mortgage	Pool 413152	8.000%	10/15/2025	8,066,880	8,345,504	8,371,809
GNMA - Govt National Mortgage	Pool 413564	8.000%	11/15/2025	3,652,422	3,788,504	3,790,484
GNMA - Chase Manhattan Mtg.	Pool 413583	8.000%	12/15/2025	8,347,170	8,635,534	8,662,693
GNMA - GMAC Mtg. Corp. of PA	Pool 413896	8.000%	10/15/2025	788,690	815,336	818,503
GNMA - Countrywide Funding	Pool 414539	8.000%	08/15/2025	3,704,655	3,842,640	3,844,691
GNMA - Countrywide Funding	Pool 414645	8.000%	10/15/2025	19,845,539	20,530,988	20,595,700
GNMA - Countrywide Funding	Pool 414723	8.000%	10/15/2025	6,498,555	6,723,010	6,744,201
GNMA - Countrywide Funding	Pool 414809	8.000%	12/15/2025	42,941,041	44,424,497	44,564,212
GNMA - Govt National Mortgage	Pool 415762	8.000%	11/15/2025	15,360,692	15,891,294	15,941,326
GNMA - Fleet Mortgage Corp.	Pool 415819	8.000%	12/15/2025	3,314,084	3,426,074	3,439,357
GNMA - Dale Mtg. Bankers Corp.	Pool 416095	8.000%	07/15/2025	952,767	984,946	988,781
GNMA - Govt National Mortgage	Pool 416239	7.000%	05/15/2026	14,246,379	14,215,430	14,363,200
GNMA - Waters Mortgage Corp.	Pool 416684	8.000%	11/15/2025	4,493,549	4,660,970	4,663,405
GNMA - Norwest Mortgage Inc.	Pool 417190	8.000%	01/15/2026	15,958,830	16,507,197	16,555,690
GNMA - Govt National Mortgage	Pool 417220	8.000%	01/15/2026	14,687,896	15,235,250	15,237,223
GNMA - Resource Bancshares Mtg.	Pool 419860	8.000%	11/15/2025	3,119,143	3,235,358	3,237,047
GNMA - HVD Mortgage Corp.	Pool 420566	8.000%	11/15/2025	3,844,285	3,987,515	3,989,598
GNMA - Union Federal Savings	Pool 421144	8.000%	12/15/2025	1,474,531	1,524,359	1,530,269
GNMA - First Nationwide Mtg.	Pool 421422	8.000%	01/15/2026	4,189,631	4,331,222	4,347,999
GNMA - Resource Bancshares Mtg.	Pool 423418	8.000%	12/15/2025	859,450	888,493	891,938
GNMA - GMAC Mtg. Corp. of PA	Pool 423747	8.000%	11/15/2025	913,535	944,402	948,067
GNMA - Norwest Mortgage Inc.	Pool 423836	8.000%	08/15/2026	20,363,784	20,782,729	21,125,390
GNMA - Countrywide Home Loans	Pool 431644	8.000%	11/15/2026	12,714,526	12,976,174	13,190,049
GNMA - Countrywide Home Loans	Pool 431657	8.000%	11/15/2026	26,040,604	26,576,487	27,014,522
GNMA - Chase Manhattan Mtg.	Pool 436565	8.000%	12/15/2026	14,521,722	14,820,587	15,064,834
GNMA - Countrywide Home Loans	Pool 440003	8.000%	01/15/2027	22,271,415	22,729,816	23,102,139
GNMA - Countrywide Home Loans	Pool 440018	8.000%	01/15/2027	15,727,154	16,050,858	16,313,777
GNMA - North American Mtg.	Pool 441027	8.000%	12/15/2026	12,316,610	12,570,093	12,777,251
GNMA - Norwest Mortgage Inc.	Pool 442138	8.000%	11/15/2026	23,579,831	24,065,074	24,461,717
GNMA - Govt National Mortgage	Pool 455319	7.000%	10/15/2027	14,758,131	14,726,060	14,877,672
GNMA - Govt National Mortgage	Pool 780195	8.000%	07/15/2025	30,623,991	31,658,297	31,781,578
GNMA - Govt National Mortgage	Pool 780249	8.000%	09/15/2025	970,920	1,003,719	1,007,621
GNMA - Govt National Mortgage	Pool 780292	8.000%	12/15/2023	6,230,751	6,440,742	6,491,196
GNMA - Govt National Mortgage	Pool 780499	7.000%	01/15/2027	10,645,188	10,622,059	10,731,414

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name		Coupon	Maturity	Par Value	Book Value	Fair Value
GNMA - Govt National Mortgage	Pool 780579	7.000%	06/15/2027	\$ 47,882,920	\$ 47,778,872	\$ 48,270,771
GNMA - Govt National Mortgage	Pool 780638	7.000%	09/15/2027	147,769,011	147,447,898	147,447,898
Green Tree Home Imprvmnt Loan Trust Series 1997D		6.390%	09/15/2028	60,000,000	59,990,497	60,210,000
Green Tree Home Imprvmnt Loan Trust Series 1997E		6.610%	02/15/2029	32,254,000	32,243,933	32,243,933
Merrill Lynch	Series 97-C2 A2	6.540%	12/10/2022	25,000,000	25,183,433	25,183,433
Northeast Mortgage FHA Project	Pool 1985-1	8.545%	08/01/2016	23,265	18,815	23,265
Sears Mortgage Securities Corp.	Series 1985-A	11.875%	04/25/2015	42,030	41,533	41,533
TOTAL				\$6,068,950,921	\$6,104,452,364	\$6,199,450,676

CORPORATE

Name	Coupon	Maturity	Par Value	Book Value	Fair Value
AMXCA 1997-1A	6.400%	04/15/2005	\$ 40,000,000	\$ 40,329,913	\$ 40,416,000
Associates Corporation N.A.	6.450%	10/15/2001	92,900,000	93,145,648	93,567,719
Associates Corporation N.A.	6.750%	08/01/2001	63,200,000	62,640,778	64,236,875
Associates Corporation N.A.	6.500%	07/15/2002	81,200,000	80,952,750	81,923,188
AVCO Financial Services Inc.	6.350%	09/15/2000	15,000,000	14,999,578	15,110,156
Bank One Credit Card	6.300%	10/15/2002	50,000,000	49,984,120	50,390,000
Boeing Co.	6.350%	06/15/2003	20,000,000	19,457,285	20,250,000
British Petroleum America	9.375%	11/01/2000	22,650,000	24,057,798	24,603,562
Burlington Northern Santa Fe Corp.	7.000%	12/15/2025	32,050,000	31,185,407	32,495,695
Cal. Infrastructure Series 1997-1 A5	6.280%	09/25/2005	17,000,000	16,996,212	16,996,212
Cal. Infrastructure Series 1997-1 A6	6.320%	09/25/2005	14,500,000	14,493,984	14,493,984
CE Electric Uk Funding	6.853%	12/15/2004	22,000,000	22,000,000	22,226,875
Chrysler Corp.	7.450%	02/01/2097	77,910,000	79,534,960	83,168,925
CIT Group Holdings	5.875%	12/15/1998	50,000,000	49,920,809	49,935,000
CIT Group Holdings	5.375%	01/25/1999	29,600,000	29,553,337	29,378,000
CIT Group Holdings	6.250%	09/30/1999	15,000,000	15,036,401	15,037,500
CIT Group Holdings	5.875%	12/09/1999	75,000,000	74,437,546	74,715,000
CIT Group Holdings	6.700%	06/02/2000	75,000,000	74,933,458	75,937,500
CIT Group Holdings	5.625%	02/02/2001	52,500,000	52,520,262	51,712,500
Citibank Credit Card Master Trust	5.950%	09/07/2003	100,000,000	97,702,572	98,440,000
CPC International Inc.	6.150%	01/15/2006	40,000,000	39,907,650	39,762,500
CSX Corporation	7.050%	05/01/2002	75,000,000	74,957,648	76,722,656
CSX Corporation	7.250%	05/01/2004	75,000,000	74,986,405	77,800,780
CSX Corporation	7.900%	05/01/2017	109,660,000	111,532,383	122,802,065
CSX Corporation	7.950%	05/01/2027	24,500,000	24,845,011	27,577,813
Enron Corp.	6.500%	08/01/2002	67,500,000	67,447,579	67,953,515
Enron Corp.	6.450%	11/15/2001	40,000,000	40,000,000	40,118,750

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Coupon	Maturity	Par Value	Book Value	Fair Value
First Bank System	6.400%	02/15/2003	\$ 50,000,000	\$ 50,155,218	\$ 50,405,000
First Plus Home Loan 97-2 Class A3	6.520%	04/10/2023	33,000,000	32,999,822	33,112,200
First Union Corp.	6.600%	06/15/2000	100,000,000	99,930,686	101,187,500
First Union Corp.	6.875%	09/15/2005	25,000,000	25,169,335	25,593,750
First USA 97-6A	6.420%	03/17/2005	20,000,000	20,148,747	20,228,000
Florida Power Corporation	6.690%	07/01/2004	30,000,000	30,100,254	30,100,254
Ford Credit Auto Loan	5.500%	02/15/2001	101,000,000	100,577,272	99,040,600
Ford Motor Credit Company	7.750%	10/01/1999	55,600,000	55,529,745	57,155,063
Ford Motor Credit Company	6.850%	08/15/2000	54,808,000	55,443,159	55,638,684
Ford Motor Credit Company	6.500%	02/28/2002	125,000,000	124,912,596	125,898,438
Frontier Corporation	7.250%	05/15/2004	45,000,000	44,986,011	46,947,656
General Motors Acceptance Corp.	6.750%	03/15/2003	55,200,000	54,785,755	56,485,125
General Motors Acceptance Corp.	6.650%	05/24/2000	54,750,000	54,665,310	55,297,500
General Motors Corp.	7.700%	04/15/2016	49,140,000	50,364,882	54,153,816
General Motors Corp.	8.800%	03/01/2021	64,055,000	74,712,321	79,408,183
GMAC	6.750%	02/07/2002	60,000,000	59,488,653	59,488,653
GTE Corporation	7.510%	04/01/2009	56,000,000	55,982,122	60,060,000
GTE North Incorporated	7.625%	05/15/2026	39,000,000	38,588,252	41,656,875
Lehman Brothers Inc.	6.500%	07/18/2000	100,000,000	99,927,874	100,250,000
Lehman Brothers Inc.	6.375%	10/23/2000	100,000,000	99,961,651	99,961,651
Lehman Brothers Inc.	6.625%	12/27/2002	40,000,000	39,987,708	39,987,708
Lehman Brothers Holdings Inc.	8.500%	05/01/2007	15,000,000	16,412,914	16,741,406
Lehman Brothers Holdings Inc.	7.200%	08/15/2009	31,725,000	32,443,606	32,458,641
Litton Industries	7.750%	03/15/2026	45,450,000	47,608,867	48,837,445
Lockheed Martin Company	6.850%	05/15/2001	31,500,000	31,234,226	32,002,031
Lockheed Martin Company	7.450%	06/15/2004	81,955,000	83,542,037	86,270,443
Lockheed Martin Company	7.250%	05/15/2006	64,865,000	64,813,850	68,017,034
Lockheed Martin Company	7.875%	03/15/2023	35,000,000	35,450,456	37,253,125
Lockheed Martin Corp.	7.750%	05/01/2026	10,000,000	10,743,421	11,012,500
Loral Corporation	8.375%	06/15/2024	25,170,000	28,301,591	29,897,240
Martin Marietta Corp.	6.500%	04/15/2003	44,000,000	43,291,570	44,453,750
Mercantile Bancorporation Inc.	7.050%	06/15/2004	40,425,000	41,510,280	41,700,914
Mercantile Bancorporation Inc.	7.300%	06/15/2007	15,000,000	15,597,567	15,747,656
National City Corporation	6.625%	03/01/2004	25,500,000	25,449,084	25,866,563
National City Corporation	7.200%	05/15/2005	30,000,000	30,961,467	31,485,938
Nationsbank Corporation	5.375%	04/15/2000	25,000,000	24,411,213	24,644,531
Nationsbank Corporation	7.000%	05/15/2003	70,000,000	69,784,588	72,220,313
Nationsbank Corporation	7.500%	09/15/2006	30,500,000	30,500,000	32,482,500
Nationsbank Corporation	7.800%	09/15/2016	70,000,000	72,085,575	77,306,250
Nationsbank Credit Card	6.000%	12/15/2003	48,200,000	46,853,906	47,698,720
Nationsbank Texas	6.350%	03/15/2001	20,500,000	20,493,940	20,627,100
New Jersey Econ. Dev. Authority	.000%	02/15/2015	50,000,000	14,053,794	16,200,000
New Jersey Econ. Dev. Authority	.000%	02/15/2016	50,000,000	13,015,330	15,115,000
New Jersey Econ. Dev. Authority	.000%	02/15/2018	25,000,000	5,566,414	6,780,000

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Coupon	Maturity	Par Value	Book Value	Fair Value
New Jersey Econ. Dev. Authority	.000%	02/15/2020	\$ 10,000,000	\$ 1,913,680	\$ 2,382,000
New Jersey Econ. Dev. Authority	.000%	02/15/2022	20,000,000	3,288,398	4,174,000
New Jersey Econ. Dev. Authority	.000%	02/15/2024	15,000,000	2,118,031	2,749,500
New Jersey Econ. Dev. Authority	7.425%	02/15/2029	57,000,000	57,706,899	63,213,000
Norfolk Southern Corp.	6.700%	05/01/2000	50,000,000	49,949,813	50,562,500
Norfolk Southern Corp.	6.950%	05/01/2002	41,000,000	40,926,497	42,012,187
Norfolk Southern Corp.	7.700%	05/15/2017	45,550,000	45,833,332	48,959,133
Norfolk Southern Corp.	7.800%	05/15/2027	25,260,000	25,964,133	28,496,438
Norfolk Southern Corp.	7.050%	05/01/2037	40,000,000	39,955,106	42,393,750
Norwest Bank Corporation	6.750%	05/12/2000	30,000,000	29,960,700	30,411,000
Norwest Corporation	5.750%	02/01/2003	60,050,000	59,469,008	58,770,935
Norwest Financial Inc.	7.200%	04/01/2004	50,000,000	49,804,408	52,265,625
Pacific Bell	6.625%	10/15/2034	52,500,000	45,774,211	51,121,875
Pacific Bell	7.375%	07/15/2043	20,000,000	19,367,511	21,156,250
Penney, J.C. Inc.	7.250%	04/01/2002	35,000,000	34,987,416	36,296,094
Penney, J.C. Inc.	7.950%	04/01/2017	17,150,000	18,323,816	19,141,008
Penney, J.C. Inc.	7.625%	03/01/2097	50,000,000	48,267,259	53,828,125
Philip Morris, Inc.	9.000%	01/01/2001	15,000,000	15,710,363	16,096,875
Philip Morris, Inc.	8.750%	06/01/2001	30,000,000	31,452,587	32,189,063
Phillips Petroleum	9.000%	06/01/2001	27,500,000	29,791,372	29,949,219
Phillips Petroleum	9.375%	02/15/2011	40,000,000	46,334,443	50,287,500
Raytheon Corporation	6.300%	08/15/2000	65,000,000	64,938,240	65,264,063
Salomon Brothers	6.650%	07/15/2001	150,000,000	149,924,026	150,562,500
Sears Roebuck Acceptance	6.950%	05/15/2002	45,000,000	44,924,441	46,167,187
Sonoco Products	6.750%	11/01/2010	35,000,000	34,936,395	36,110,156
Southern National Corp.	7.050%	05/23/2003	33,000,000	33,353,051	34,077,656
Southwestern Bell Telephone	6.250%	10/15/2002	40,000,000	39,975,249	40,237,500
Southwestern Bell Telephone	7.000%	11/15/2027	30,000,000	29,450,016	29,450,016
Sun Company	9.000%	11/01/2024	28,200,000	33,739,233	34,699,219
Suntrust Banks, Inc.	7.375%	07/01/2006	43,600,000	43,690,971	46,345,438
Tenneco Inc. New	7.625%	06/15/2017	15,000,000	15,457,170	16,125,000
Texaco Capital	8.250%	10/01/2006	17,075,000	19,095,272	19,316,094
U.S. West Capital Funding Inc.	6.850%	01/15/2002	89,500,000	89,076,113	90,982,344
U.S. West Capital Funding Inc.	7.300%	01/15/2007	105,000,000	104,856,370	108,904,687
U.S. West Communications	6.875%	09/15/2033	25,750,000	25,133,383	24,844,726
U.S. West Communications	7.250%	10/15/2035	24,600,000	24,033,837	25,195,781
U.S. West Communications	7.125%	11/15/2043	29,000,000	28,930,147	29,104,219
Union Pacific Corporation	6.700%	12/01/2006	29,240,000	29,124,002	29,381,631
Union Pacific Corporation	7.600%	05/01/2005	33,000,000	34,715,252	34,851,094
Union Pacific Corporation	6.400%	02/01/2006	25,000,000	24,500,742	24,574,219
Union Pacific Corporation	7.000%	02/01/2016	15,000,000	14,364,275	15,100,781
Western Resources	6.875%	08/01/2004	49,000,000	48,950,493	49,842,187
Worthington Industries	7.125%	05/15/2006	57,000,000	56,910,507	59,769,844
TOTAL			\$5,234,488,000	\$5,137,080,731	\$5,282,010,945

Note Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

CANADIAN

Name	Coupon	Maturity	Par Value	Book Value	Fair Value
British Columbia	7.250	09/01/2036	\$ 28,000,000	\$ 29,385,442	\$ 30,883,125
Hydro Quebec	9.400	02/01/2021	80,035,000	95,018,768	95,018,767
Hydro Quebec	8.050	07/07/2024	50,000,000	51,176,360	51,176,360
Hydro Quebec	8.500	12/01/2029	36,550,000	39,288,580	43,979,930
Province Of Alberta	9.250	04/01/2000	45,000,000	47,229,696	47,995,313
Province Of Ontario	7.375	01/27/2003	40,000,000	41,028,294	41,943,750
Province Of Ontario	7.000	08/04/2005	32,000,000	31,991,251	33,635,000
Province Of Ontario	6.000	02/21/2006	96,000,000	95,606,040	95,160,000
Province Of Quebec	6.500	01/17/2006	20,000,000	19,313,725	20,090,625
Province Of Quebec	7.500	07/15/2023	49,400,000	47,452,648	47,452,648
Province Of Quebec	8.625	12/01/2026	25,000,000	26,942,359	30,378,906
TOTAL			\$ 501,985,000	\$ 524,433,165	\$ 537,714,424

REAL ESTATE

Name	Book Value	Fair Value
AFL/CIO Housing Investment Trust	\$ 74,170,672	\$ 74,170,672
Amresco	26,412,978	26,412,978
Bristol Group	255,538,512	255,538,512
Clarco	355,918,069	355,918,069
Faison	99,057,584	99,057,584
Five Arrows	178,287,861	178,287,861
Legg Mason Real Estate Services	2,044,879	2,044,879
Lowe Enterprises	437,176,312	437,176,312
Rothschild Property Investors	5,841,030	5,841,030
Rothschild Realty	464,881,514	464,881,514
TGM	407,003,528	407,003,528
TMMAC	676,130,872	676,130,872
Trinet Trust	315,618,256	315,618,256
Trisis Trust	86,174,175	86,174,175
TOTAL	\$ 3,384,256,242	\$ 3,384,256,242

INTERNATIONAL

Name	Book Value	Fair Value
American International Group/Global	\$ 516,110	\$ 516,110
Bank Of Ireland/EAFE	147,025,540	147,025,540
Capital Guardian	496,020,019	496,020,019
J.P. Morgan/EAFE	320,748,999	320,748,999
Xylem Fund	187,951,550	187,951,550
TOTAL	\$ 1,152,262,218	\$ 1,152,262,218

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

VENTURE CAPITAL

Name	Par Value	Book Value	Fair Value
Blue Chip Capital Fund	\$15,190,329	\$15,190,329	\$15,190,329
Blue Chip Capital Fund II	5,723,782	5,723,782	5,723,782
Northwest Ohio Venture Fund	3,353,628	3,353,628	3,353,628
Primus Capital Fund I	193,019	193,019	193,019
Primus Capital Fund II	1,536,839	1,536,839	1,536,839
Primus Capital Fund III	8,630,851	8,630,851	8,630,851
Primus Capital IV	1,404,259	1,404,259	1,404,259
TOTAL	\$36,032,707	\$36,032,707	\$36,032,707

STOCK

EQUITY

Name	Shares	Cost	Fair Value
360 Communications Company	101,600	\$ 2,131,872	\$ 2,051,050
3Com Corporation	394,200	26,306,373	13,772,363
A.C. Nielsen Corporation	47,000	132,596	1,145,625
Abbott Laboratories	988,900	48,243,256	64,772,950
Acuson Corporation	23,100	287,028	382,594
ADC Telecommunications Inc.	107,200	2,121,208	4,475,600
Adobe Systems Incorporated	39,000	1,577,766	1,608,750
Advanced Lighting Technologies	400,000	9,918,562	7,600,000
Advanced Micro Devices	52,500	1,823,663	931,875
Aeroquip-Vickers, Inc.	145,300	6,121,363	7,128,781
AES Corporation	127,200	1,311,803	5,930,700
Aetna Incorporated	280,644	21,478,649	19,802,942
AFLAC Incorporated	114,400	3,193,642	5,848,700
Agco Corporation	50,800	1,618,376	1,485,900
AGL Resources Inc.	45,800	854,817	936,038
Ahmanson H.F. & Company	41,500	1,064,502	2,777,906
Air Products & Chemicals Inc.	63,200	3,514,644	5,198,200
Airborne Freight Corporation	17,400	419,326	1,080,975
Airgas Incorporated	56,200	1,174,298	786,800
Airtouch Communications Inc.	621,800	22,151,431	25,843,563
AK Steel Holding Corporation	43,400	929,151	767,638
Alaska Airgroup Inc.	11,900	207,389	461,125
Albany International Corp. Class A	25,100	567,579	577,300
Albemarle Corporation	45,400	810,560	1,083,925
Alberto-Culver Company Class B	21,600	386,975	692,550
Albertsons Incorporated	366,000	12,477,695	17,293,500
Alcan Aluminium Limited	123,400	4,046,670	3,408,925
Alexander & Baldwin Incorporated	37,400	892,625	1,021,488
Aliant Communications Inc.	30,200	539,469	947,525

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Allegheny Energy Inc.	100,200	\$ 2,631,914	\$ 3,256,500
Allegheny Teledyne Incorporated	94,100	1,970,114	2,434,838
Allegiance Corporation	44,900	1,158,640	1,591,144
Allen Telecom Incorporated	800,000	14,872,262	14,750,000
Allergan Incorporated	25,300	844,519	849,131
Alliant Techsystems	400,000	23,359,573	22,300,000
Allied Signal Incorporated	723,600	21,487,488	28,084,725
Allstate Corporation	611,800	35,990,087	55,367,900
Altel Corporation	378,600	12,456,566	15,546,263
Altera Corporation	72,000	2,040,703	2,385,000
Alumax Incorporated	45,000	1,461,820	1,541,250
Aluminum Company of America	105,200	5,859,343	7,403,450
ALZA Corporation	46,100	1,239,554	1,466,556
ANIBAC Inc.	70,400	2,317,656	3,238,400
Amerada Hess Corporation	219,500	12,861,672	12,045,063
America Online Incorporated	77,500	3,139,986	7,013,750
American Electric Power	72,800	2,611,543	3,758,300
American Express	746,700	40,707,504	66,642,975
American Financial Group Inc. Ohio	50,300	1,447,972	2,027,719
American General Corporation	640,577	22,672,403	34,631,194
American Greetings Class A	41,000	1,184,947	1,184,947
American Home Products Corp.	1,062,700	60,176,309	81,296,550
American International Group	1,030,800	66,757,915	112,099,500
American Power Conversion Corp.	77,900	1,048,926	1,840,388
American Stores Company	113,200	1,757,434	2,327,675
American Water Works Inc.	864,500	16,222,611	23,611,656
Ameritech Corporation	795,600	45,244,603	64,045,800
AMETEK Inc. New	26,900	402,124	726,300
AMGEN Incorporated	340,700	19,560,268	18,440,388
AMOCO Corporation	951,800	61,230,263	81,021,975
AMP Incorporated	325,200	13,680,105	13,658,400
AMR Corporation/DE	164,000	13,518,725	21,074,000
Anadarko Petroleum Corporation	239,600	11,206,152	14,540,725
Analog Devices Incorporated	130,300	2,337,628	3,607,681
Andrew Corporation	59,050	1,605,853	1,417,200
Anheuser-Busch Companies Inc.	192,500	6,351,975	8,470,000
AON Corporation	62,850	1,987,024	3,684,581
Apache Corporation	293,800	7,896,579	10,301,363
Apple Computer Incorporated	67,800	1,778,495	889,875
Applied Materials Incorporated	441,800	13,620,457	13,309,225
Apria Healthcare Group Inc.	42,200	1,142,948	567,063
Archer Daniels Midland Company	310,938	5,644,099	6,743,468
ARMCO Incorporated	67,500	349,936	333,281
Armstrong World Industries Inc.	15,900	1,013,975	1,188,525

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Arnold Industries Incorporated	22,000	\$ 408,192	\$ 379,500
Arrow Electronics Incorporated	83,000	2,114,529	2,692,313
Arvin Industries Incorporated	18,500	355,715	616,281
Asa Holdings Incorporated	24,800	659,450	705,250
ASARCO Incorporated	21,700	636,670	486,894
Ashland Incorporated	50,300	2,248,424	2,700,481
Associated Banc Corp.	40,600	1,995,169	2,238,075
AT&T Corporation	3,336,500	123,813,718	204,569,156
ATL Ultrasound Inc.	11,700	240,130	538,200
Atlantic Energy Inc.	43,400	835,099	919,538
Atlantic Richfield Company	125,000	6,670,616	10,015,625
ATMEL Corp.	81,000	2,498,860	1,503,563
Autodesk Inc.	17,700	612,739	654,900
Automatic Data Processing Inc.	384,800	16,932,082	23,617,100
Autozone Incorporated	437,000	11,385,571	12,673,000
Avery Dennison Corp.	40,800	1,033,469	1,825,800
AVNET Inc.	35,800	1,760,571	2,362,800
Avon Products	377,400	23,466,815	23,162,925
AVX Corporation	1,500,000	39,542,628	27,656,250
Baker-Hughes Inc.	566,900	22,283,821	24,731,013
Ball Corp.	403,600	11,829,671	14,277,350
Baltimore Gas & Electric Co.	197,100	5,555,165	6,726,038
Banc One Corporation	554,900	25,294,099	30,138,006
Bank of New York Company Inc.	854,900	34,197,573	49,423,906
Bankamerica Corporation	1,102,700	46,922,277	80,497,100
BankBoston Corp.	230,500	11,758,938	21,652,594
Bankers Trust Corp.	31,200	2,175,616	3,508,050
Banta Corporation	25,500	681,891	688,500
Bard, C.R. Incorporated	167,100	5,869,471	5,232,319
Barnes & Noble Inc.	54,600	1,303,182	1,822,275
Barnett Banks Incorporated	236,500	7,729,174	16,998,438
Barrick Gold Corporation	740,200	19,465,154	13,786,225
Battle Mountain Gold Company	829,900	8,374,266	4,771,925
Bausch & Lomb Incorporated	22,000	870,214	871,750
Baxter International Inc.	108,400	4,028,850	5,467,425
Bay Networks Incorporated	73,000	2,352,920	1,870,625
BB&T Corp.	53,400	3,411,833	3,420,938
Bear Stearns Companies Inc.	100,485	1,902,034	4,773,038
Beckman Instruments Incorporated	23,900	746,653	956,000
Becton, Dickinson & Company	404,500	19,157,609	20,225,000
Bed Bath & Beyond Incorporated	1,556,400	39,669,134	59,921,400
Bell Atlantic Corporation	937,487	57,538,032	85,311,317
Bellsouth Corporation	1,348,000	57,912,391	75,909,250
Belo, A.H. Corporation	32,200	1,079,457	1,807,225

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Bemis Company	29,200	\$ 935,066	\$ 1,286,625
Beneficial Corporation	20,900	1,049,491	1,737,313
Berg Electronics Corporation	1,000,000	12,035,554	22,937,500
Bergen Brunswick Corporation Class A	41,250	732,852	1,737,656
Best Buy Company Incorporated	35,600	761,097	1,312,750
Bethlehem Steel Corporation	43,000	652,596	373,563
BetzDearborn Incorporated	23,000	953,240	1,404,438
Beverly Enterprises Inc.	89,700	980,309	1,166,100
Biogen Incorporated	59,400	1,694,628	2,160,675
Biomet Incorporated	396,200	9,242,347	10,152,625
BJ Services Company	201,300	14,454,665	14,481,019
BJ'S Wholesale Club Inc.	27,000	380,655	847,125
Black & Decker Corporation	34,000	1,155,946	1,328,125
Black Hills Corporation	11,900	293,382	419,475
Block, H & R Incorporated	56,000	1,925,924	2,509,500
BMC Software Inc.	83,200	1,701,148	5,460,000
Bob Evans Farms	35,100	646,006	776,588
Boeing Company	1,512,936	58,034,120	74,039,306
Boise Cascade Corporation	170,300	6,189,932	5,151,575
Boise Cascade Office Products Corp.	800,000	17,558,641	11,950,000
Borg-Warner Automotive, Inc.	19,400	1,105,206	1,008,800
Boston Scientific Corporation	211,700	12,860,222	9,711,738
Bowater Incorporated	33,900	1,479,362	1,506,431
Briggs & Stratton	8,900	345,359	432,206
Brinker International Inc.	63,700	1,080,128	1,019,200
Bristol Myers Squibb	1,368,800	67,774,059	129,522,700
Brite Voice Systems Inc.	500,000	8,439,378	4,875,000
Brown-Forman - Class B	158,200	7,707,700	8,740,550
Browning-Ferris Industries	506,142	15,698,410	18,727,254
Brunswick Corp.	52,400	1,125,180	1,588,375
Brush Wellman Inc.	13,400	257,479	328,300
Buffets Inc.	37,200	430,236	348,750
Burlington Industries Inc.	51,600	662,335	712,725
Burlington Northern Santa Fe	268,506	23,300,691	24,954,276
Burlington Resources Inc.	360,530	14,853,070	16,156,251
Cabletron Systems Incorporated	59,000	1,910,727	885,000
Cabot Corporation	58,900	1,494,711	1,627,113
Cadence Design Systems, Inc.	136,000	1,428,451	3,332,000
Calenergy Co. Incorporated	1,252,500	47,216,340	36,009,375
Calgon Carbon Corporation	32,800	383,876	352,600
Caliber Systems Incorporated	139,900	3,226,888	6,811,381
Callaway Golf Company	59,900	1,021,208	1,710,894
Calmat Company	19,200	445,219	535,200
Calpine Corporation	1,800,000	28,979,334	26,775,000

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Campbell Soup Company	255,700	\$ 7,000,064	\$14,862,563
Capital One Financial Corp.	54,100	1,714,461	2,931,544
Capstar Hotel Company	807,000	15,080,714	27,690,188
Cardinal Health Incorporated	2,284,900	84,095,187	171,653,113
Carlisle Companies Incorporated	25,000	522,367	1,068,750
Carolina Power & Light Company	83,400	2,816,609	3,534,075
Carpenter Technology Corporation	13,700	542,547	658,456
Carter-Wallace Incorporated	38,200	441,952	649,400
Case Corporation	28,200	1,443,639	1,704,338
Catalina Marketing Corporation	500,000	15,418,757	23,125,000
Caterpillar Incorporated	511,800	19,105,776	24,822,300
CBS Corp.	898,600	24,073,725	26,452,538
Cendant Corporation	988,857	27,628,695	33,991,959
Centex Corporation	79,400	4,126,842	4,997,238
Centocor Incorporated	57,000	974,561	1,895,250
Central & South West Corporation	117,300	3,020,390	3,174,431
Central Fidelity Banks Inc.	48,800	1,035,733	1,035,733
Central Louisiana Electric Inc.	18,500	471,984	598,938
Central Maine Power Company	26,700	346,124	407,175
Century Telephone Enterprise Inc.	49,300	1,440,630	2,455,756
Ceridian Corporation	44,300	1,966,064	2,029,494
Champion International Corp.	278,200	12,794,931	12,605,938
Charming Shoppes Incorporated	40,300	177,891	188,906
Charter One Financial Inc.	39,270	2,393,095	2,478,919
Chase Manhattan Corporation	726,800	65,466,096	79,584,600
Chesapeake Corporation	19,300	635,007	663,438
Chevron Corporation	1,018,600	48,382,439	78,432,200
Chiron Corporation	140,500	3,267,440	2,388,500
Choicepoint Inc.	740,000	25,592,908	35,335,000
Chris-Craft Industries Inc.	25,853	1,038,755	1,352,435
Chrysler Corporation	1,484,200	49,930,689	52,225,288
Chubb Corporation	234,400	11,964,671	17,726,500
Church & Dwight Incorporated	16,100	333,787	451,806
Cigna Corp.	29,500	3,313,321	5,085,063
Cincinnati Financial Corp.	21,400	2,958,950	3,012,050
Cincinnati Milacron Incorporated	128,800	3,171,278	3,340,750
Cinergy Corporation	434,700	10,947,256	16,654,444
Cintas Corporation	78,200	1,650,121	3,049,800
Circuit City Stores Incorporated	38,000	1,182,489	1,351,375
Circus Circus Enterprises Inc.	85,800	2,485,195	1,758,900
Cirrus Logic Incorporated	53,500	2,256,252	568,438
Cisco Systems Incorporated	2,036,550	70,903,024	113,537,663
Citicorp	620,100	67,197,187	78,403,894
City National Corporation	36,200	494,049	1,337,138

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Claire's Stores Incorporated	39,400	\$ 356,205	\$ 765,838
Clayton Homes Incorporated	98,100	1,562,169	1,765,800
Clear Channel Communications	34,500	2,329,785	2,740,594
Cleveland-Cliffs Inc.	9,400	391,129	430,638
Clorox Co./DE	81,400	3,803,157	6,461,125
CMS Energy Corporation	76,300	2,046,560	3,361,969
CNF Transportation Inc.	36,300	763,598	1,406,625
Coastal Corporation	58,200	2,508,557	3,604,763
Coca-Cola Co.	2,986,700	112,000,109	199,175,556
Coca-Cola Enterprises	309,900	2,676,013	11,020,819
Cognizant Corp.	419,500	13,631,151	18,720,188
Colgate-Palmolive Co.	219,000	9,327,292	16,096,500
Columbia Energy Group	29,800	1,344,859	2,341,163
Columbia/Healthcare Corp.	720,500	25,793,135	21,344,813
Comcast Corp. Class A	395,200	6,425,917	12,473,500
Comdisco Inc.	62,250	888,569	2,081,484
Comerica Incorporated	66,100	3,378,263	5,965,525
Compaq Computer Corp.	409,697	8,560,065	23,147,881
CompUSA Inc.	74,600	2,285,117	2,312,600
Computer Associates International Inc.	212,175	5,972,787	11,245,275
Computer Sciences Corporation	41,000	3,007,528	3,423,500
Compuware Corp.	140,800	767,384	4,505,600
Comsat Corp. Series I	40,000	717,078	970,000
Conagra Inc.	617,600	14,502,331	20,458,000
Concentra Managed Care Inc.	31,200	998,400	1,053,000
Concord EFS Inc.	2,000,000	53,515,235	49,750,000
Conseco, Incorporated	388,800	17,770,909	17,666,100
Consolidated Edison of NY	91,100	2,738,035	3,735,100
Consolidated Natural Gas Co.	51,800	2,312,200	3,133,900
Consolidated Papers Inc.	36,800	2,225,884	1,964,200
Consolidated Stores Corp.	68,750	1,687,951	3,020,703
Cooker Restaurant/Ohio	600,000	8,390,057	5,737,500
Cooper Industries Incorporated	324,000	11,959,313	15,876,000
Cooper Tire & Rubber Company	32,400	846,803	789,750
Coors. Adolph Company Class B	14,700	290,438	488,775
Corestates Financial Corporation	80,600	3,258,114	6,488,300
Corning Incorporated	106,800	2,849,155	3,964,950
Corrections Corp. of America	61,700	2,681,463	2,286,756
Costco Companies Incorporated	230,400	4,797,112	4,797,112
Countrywide Credit Industries	138,900	4,628,769	5,955,338
Covance Incorporated	47,400	858,953	942,075
CPC International Incorporated	214,900	17,760,159	23,209,200
Cracker Barrel Old Country Store	50,000	1,207,239	1,668,750
Crane Company	43,500	1,210,966	1,886,813

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Crestar Financial Corporation	90,600	\$ 2,663,630	\$ 5,164,200
Crompton & Knowles Corporation	60,000	924,127	1,590,000
Crown Cork & Seal Company Inc.	50,000	2,354,969	2,506,250
CSX Corporation	119,500	5,653,158	6,453,000
Culligan Water Technologies Inc.	19,700	999,135	989,925
Cummins Engine Incorporated	155,100	7,761,786	9,160,594
CVS Incorporated	82,500	2,655,619	5,285,156
Cypress Semiconductor Corp.	66,400	1,330,771	556,100
Cyprus Amax Minerals Company	659,000	15,041,326	10,132,125
CYTEC Industries Incorporated	38,300	1,533,149	1,797,706
Dames & Moore Group	675,000	12,518,413	8,943,750
Dana Corporation	296,200	10,720,413	14,069,500
Danaher Corporation	48,200	1,533,880	3,042,625
Darden Restaurants Incorporated	61,200	627,168	765,000
Data General Corporation	21,900	300,831	381,881
Datascope Corporation	13,300	295,309	344,138
Dayton Hudson Corporation	275,000	13,589,027	18,562,500
Dean Foods Company	33,100	943,096	1,977,725
Deere & Company	141,800	5,401,184	8,259,850
Dell Computer Corporation	182,900	2,608,345	15,363,600
Delmarva Power & Light Company	49,900	1,091,020	1,150,819
Delta Air Lines Incorporated	114,700	8,293,391	13,649,300
Deluxe Corporation	462,900	13,939,015	15,970,050
Dentsply International Inc.	1,444,400	26,202,349	44,054,200
Dexter Corporation	19,600	482,238	846,475
Diagnostic Products Corporation	11,200	422,878	310,800
Dial Corporation	78,600	1,038,931	1,635,863
Diebold Incorporated	56,700	1,301,584	2,870,438
Digital Equipment Corporation	190,500	8,001,952	7,072,313
Dillard's Inc.	331,100	9,960,921	11,671,275
Dime Bancorp Inc. New	99,900	2,399,718	3,021,975
Disney, Walt Company	949,200	59,819,569	93,970,800
Dole Food Company Incorporated	49,500	1,499,798	2,264,625
Dollar General Corporation	94,218	1,314,494	3,415,403
Dominick's Supermarkets Inc.	1,080,000	20,579,113	39,420,000
Dominion Resources Incorporated	69,100	2,652,036	2,941,069
Donaldson Company Incorporated	20,700	516,380	932,794
Donaldson Lufkin & Jenrette	920,000	26,218,909	73,140,000
Donnelley, R.R. & Sons Company	59,500	2,199,548	2,216,375
Dover Corporation	88,400	1,942,131	3,193,450
Dow Chemical Company	568,600	33,464,850	57,712,900
Dow Jones & Company Incorporated	37,600	1,388,374	2,018,650
Dresser Industries Incorporated	315,400	8,452,389	13,227,088
Dreyers Grand Ice Cream Inc.	22,000	402,375	530,750

Note Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
DSC Communications Corporation	3,045,200	\$ 82,647,405	\$ 73,084,800
DST Systems Incorporated	1,000,000	33,864,823	42,687,500
DTE Energy Company	189,300	5,945,235	6,566,344
Du Pont, (E.I.) De Nemours & Co.	860,400	31,118,854	51,677,775
Duke Energy Corporation	590,545	27,510,373	32,701,429
Dun & Bradstreet Corporation	439,400	9,877,036	13,593,938
E G & G Incorporated	27,900	609,387	580,669
Eastern Enterprises	10,900	371,427	490,500
Eastman Chemical Company	42,800	2,677,376	2,549,275
Eastman Kodak Company	428,900	32,632,514	25,975,256
Eaton Corporation	36,900	2,053,056	3,293,325
Echlin Incorporated	23,900	822,459	864,881
Echo Bay Mines Limited	54,100	612,319	131,869
Ecolab Incorporated	25,000	747,722	1,385,938
Edison International	281,300	4,915,237	7,647,844
Edwards, A.G. Incorporated	77,400	1,269,027	3,076,650
El Paso Natural Gas Company	45,200	1,788,650	3,005,800
Electronic Arts Incorporated	44,200	1,502,733	1,671,313
EMC Corporation Massachusetts	268,600	2,900,739	7,369,713
Emerson Electric Company	924,500	41,880,908	52,176,469
Engelhard Corporation	482,400	10,636,753	8,381,700
ENI-S.P.A. Sponsored ADR	860,000	28,276,800	49,073,750
Enron Corporation	407,500	15,787,096	16,936,719
Enron Oil & Gas Company	488,000	11,104,041	10,339,500
EnSCO International Incorporated	676,800	20,956,060	22,672,800
Entergy Corporation	88,500	2,494,238	2,649,469
Equifax Incorporated	138,900	2,804,117	4,922,269
Ethyl Corporation	68,300	794,271	525,056
Exxon Corporation	2,808,700	118,011,097	171,857,331
Falcon Drilling Company Inc.	2,100,000	48,641,729	73,237,500
Family Dollar Stores Inc.	70,350	787,367	2,062,134
Fastenal Company	31,300	1,265,188	1,197,225
Federal Express Corporation	153,300	8,600,286	9,360,881
Federal Home Loan Mortgage Co.	1,189,200	40,603,620	49,872,075
Federal National Mortgage Association	1,707,400	59,524,726	97,428,513
Federal Signal Corporation	37,400	861,874	808,775
Federal-Mogul Corporation	29,000	607,901	1,174,500
Federated Department Stores	590,400	22,884,073	25,424,100
Ferro Corporation	32,100	526,739	780,431
Fifth Third Bancorp	73,300	2,481,138	5,992,275
Fingerhut Companies Incorporated	38,300	576,909	818,663
Finova Group Incorporated	44,400	1,809,300	2,206,125
First Brands Corporation	33,700	752,583	907,794
First Chicago NBD Corporation	169,129	7,282,651	14,122,272

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
First Data Corporation	595,000	\$22,207,899	\$17,403,750
First Of America Bank Corp.	74,550	2,109,740	5,749,669
First Security Corporation Utah	93,450	1,390,483	3,913,219
First Tennessee National Corp.	55,400	1,523,037	3,697,950
First Union Corporation	223,200	6,383,995	11,439,000
First Virginia Banks Inc.	40,350	1,111,099	2,085,591
Firststar Corporation	124,000	2,765,847	5,262,250
Firstenergy Corp.	84,300	1,785,379	2,444,700
FISERV Incorporated	37,300	1,049,110	1,832,363
Fleet Financial Group Inc.	563,566	27,911,808	42,337,896
Fleetwood Enterprises	13,900	361,285	589,881
Florida Progress Corporation	80,000	2,573,761	3,140,000
Flowers Industries Incorporated	72,600	715,748	1,492,838
Flowserve Corp.	19,300	495,720	539,194
Fluor Corporation	271,400	16,715,594	10,143,575
FMC Corporation	20,000	1,444,987	1,346,250
Ford Motor Company	1,479,900	45,178,725	71,867,644
Forest Laboratories Class A	34,600	1,484,766	1,706,213
Fort James Corporation	355,400	13,947,040	13,594,050
Fortune Brands Inc.	93,000	2,780,933	3,446,813
Foster Wheeler Corporation	141,400	5,647,508	3,826,638
Foundation Health System Inc.	62,920	1,874,420	1,399,970
FPL Group Incorporated	531,600	17,996,194	31,464,075
Franklin Resources Incorporated	100,700	3,432,562	8,754,606
Freeport McMoran Copper & Gold Class B	75,800	1,789,531	1,193,850
Frontier Corporation	478,200	10,911,166	11,476,800
Fruit Of The Loom Inc. Class A	61,700	1,647,749	1,581,063
Fuller, H. B. Company	11,600	393,766	574,200
Furniture Brands International Inc.	2,500,000	29,553,742	51,250,000
Galoob Toys Incorporated	1,680,000	38,582,945	17,115,000
Gannett Company	479,200	19,669,048	29,620,550
Gap Incorporated	653,700	15,377,636	23,165,494
GATX Corporation	16,700	839,096	1,211,794
Gencorp Incorporated	27,600	317,477	690,000
General Dynamics Corporation	24,500	1,453,865	2,125,375
General Electric Company	4,167,300	158,963,037	305,775,638
General Mills Incorporated	180,700	12,764,304	12,942,638
General Motors Corp. Class H New	459,000	9,998,749	16,954,313
General Motors Corporation	944,700	49,218,129	57,390,525
General Nutrition Cos. Inc.	64,400	1,982,277	2,189,600
General RE Corporation	32,100	4,839,794	6,805,200
General Signal Corporation	27,900	1,070,227	1,177,031
Gentex Corporation	1,500,000	24,850,289	40,312,500
Genuine Parts Company	278,250	6,322,904	9,443,109

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Genzyme Corporation	59,200	\$ 2,064,701	\$ 1,642,800
Georgia Gulf Corporation	28,500	979,655	872,813
Georgia Pacific Corporation	169,900	10,262,292	10,321,425
Georgia Pacific Timber Group	73,300	1,764,575	1,662,994
Grant Food Incorporated Class A	37,800	1,246,525	1,273,388
Gibson Greetings Incorporated	13,300	204,562	290,938
Gillette Company	499,000	27,508,847	50,118,313
Glatfelter, P.H. Company	35,100	694,055	653,738
Global Marine Inc.	139,300	936,941	3,421,556
Golden West Financial Corp.	28,000	1,611,222	2,738,750
Goodrich, B. F. Company	27,800	819,868	1,151,963
Goodyear Tire & Rubber Company	442,700	24,308,981	28,166,788
GPU Incorporated	326,400	8,279,952	13,749,600
Grace, W. R. & Company	28,300	1,172,259	2,276,381
Grainger, W. W. Incorporated	27,800	1,924,128	2,701,813
Granite Construction Inc.	14,900	269,906	342,700
Great Atlantic & Pacific Tea Co.	14,800	400,436	439,375
Great Lakes Chemical Corp.	189,000	10,321,483	8,434,125
Green Tree Financial Corp.	53,250	1,633,162	1,394,484
Grey Wolf Inc.	3,280,000	24,919,140	17,835,000
GTE Corporation	955,900	31,950,660	49,945,775
GTECH Holdings Corporation	35,500	1,102,704	1,133,781
Gundant Corporation	80,200	2,582,829	4,992,450
HADCO Corporation	350,000	12,662,716	15,837,500
Halliburton Company	97,200	2,455,282	5,042,250
Hanna, M.A. Company	42,700	768,699	1,078,175
Hannaford Brothers Company	34,800	903,805	1,511,625
Harcourt General Incorporated	28,300	1,262,378	1,549,425
Harland, John H. Company	27,000	700,354	567,000
Harley-Davidson Incorporated	2,324,600	30,753,967	63,345,350
Harnischfeger Industries Inc.	26,100	650,695	921,656
Harrahs Entertainment, Inc.	39,900	940,624	753,113
Harris Corporation	30,000	1,071,852	1,376,250
Harsco Corporation	40,800	1,146,011	1,759,500
Hartford Financial Services Group	45,500	2,910,219	4,257,094
Hasbro Incorporated	69,400	1,584,555	2,186,100
Hawaiian Electric Industries	25,100	940,527	1,025,963
HBO & Co.	106,900	4,882,040	5,131,200
Health Care & Retirement Corp./DE	37,100	792,579	1,493,275
Health Management Associates	501,850	11,381,394	12,671,713
Healthcare Compare Corporation	27,700	1,088,357	1,416,163
Healthsouth Corporation	654,500	14,260,431	18,162,375
Hecla Mining Company	1,550,000	16,630,143	7,653,125
Heilig-Meyers Company	43,800	888,815	525,600

Note Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Heinz, H. J. Company	427,200	\$20,280,295	\$21,707,100
Helmerich & Payne	9,600	336,443	651,600
Hercules Incorporated	41,600	2,314,392	2,082,600
Hershey Foods Corporation	297,200	15,410,706	18,407,825
Hewlett-Packard Company	1,304,400	69,720,203	81,361,950
Hibernia Corporation Class A	106,000	1,088,950	2,000,750
Hillenbrand Industries Inc.	57,500	2,681,915	2,943,281
Hilton Hotels Corporation	95,600	1,985,845	2,844,100
Home Depot Incorporated	1,173,300	48,415,343	69,078,038
Homestake Mining Company	56,900	824,102	504,988
Hon Industries	24,800	692,281	1,463,200
Honeywell Incorporated	170,600	8,930,126	11,686,100
Hormel Foods Corporation	62,800	1,749,545	2,056,700
Houghton Mifflin Company	24,200	543,496	928,675
Household International Inc.	75,200	6,080,520	9,597,400
Houston Industries Incorporated	441,134	9,932,356	11,800,335
HSB Group Inc.	16,600	765,658	916,113
Hubbell Incorporated Class B	54,400	1,674,969	2,682,600
Humana Incorporated	63,000	1,641,178	1,307,250
Hunt, J.B. Transport Services Inc.	31,300	501,265	586,875
Huntington Bancshares Inc.	61,800	2,067,618	2,224,800
IBP Incorporated	79,700	2,038,081	1,668,719
Idaho Power Company	31,000	855,188	1,166,375
Ikon Office Solutions	223,100	6,937,845	6,274,688
Illinois Central Corporation	50,600	1,330,268	1,723,563
Illinois Tool Works	134,200	4,179,513	8,068,775
Illinova Corporation	62,400	1,708,274	1,680,900
Imation Corporation	35,300	865,157	564,800
IMC Global Incorporated	2,784,200	75,678,284	91,182,550
Imperial Credit Industries, Inc.	1,200,000	15,557,000	24,600,000
INCO Limited	116,100	3,730,132	1,973,700
Indiana Energy Incorporated	18,500	390,420	609,344
Information Resources Inc.	22,900	290,294	306,288
Informix Corporation	123,700	3,618,347	587,575
Ingersoll-Rand Co.	486,300	7,442,839	19,695,150
Ingram Micro Inc. Class A	1,400,000	30,542,490	40,775,000
Inland Steel Industries Inc.	548,800	15,293,628	9,398,200
Integrated Device Tech Inc.	64,500	1,173,447	608,719
Integrated Health Services Inc.	500,000	16,004,696	15,593,750
Intel Corp.	2,143,200	108,905,735	150,559,800
International Business Machines Corp.	1,303,200	94,148,625	136,347,300
International Dairy Queen Class A	18,200	400,731	487,419
International Flavors & Fragrances	60,600	2,923,659	3,120,900
International Game Technology	103,400	1,334,223	2,610,850

Note Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
International Home Foods Inc.	800,000	\$ 17,967,563	\$ 22,400,000
International Multifoods Corp.	14,800	323,841	419,025
International Paper Company	117,400	4,871,573	5,062,875
Interpublic Group Of Companies	68,700	1,956,903	3,422,119
Interstate Bakeries Corp. DE	61,400	1,413,121	2,294,825
Interstate Hotels Company	1,100,000	24,981,798	38,620,313
Intimate Brands, Inc. Class A	605,000	10,285,000	14,557,813
Ipalco Enterprises Inc.	37,200	902,015	1,560,075
IRI International Corp.	600,000	11,250,977	8,400,000
ISPAT International NV	1,250,000	35,742,041	27,031,250
ITT Corporation	45,400	2,286,239	3,751,175
ITT Industries Incorporated	63,800	1,506,059	2,001,725
IVAX Corporation	100,100	2,518,468	675,675
Jacobs Engineering Group Inc.	21,100	506,614	535,413
Jacor Communications Inc.	1,470,000	41,589,430	78,093,750
Jefferson-Pilot Corporation	27,750	1,277,359	2,161,031
Johnson & Johnson	1,548,200	75,727,986	101,987,675
Johnson Controls Incorporated	45,000	1,526,444	2,148,750
Jones Apparel Group Incorporated	43,100	750,050	1,853,300
Jostens Incorporated	20,528	457,329	473,427
JP Foodservice Inc.	35,600	1,241,856	1,314,975
K Mart Corporation	188,900	2,178,671	2,172,350
Kansas City Power & Light Co.	1,001,000	21,455,260	29,592,063
Kansas City Southern Industries	91,200	1,368,265	2,895,600
Karrington Health Incorporated	600,000	7,800,000	6,825,000
Kaufman & Broad Home	20,400	275,770	457,725
Kaydon Corporation	27,000	391,138	880,875
Kellogg Company	744,400	26,052,856	36,940,850
Kelly Services Inc. Class A	31,400	869,991	942,000
Kemet Corporation	1,000,000	22,947,426	19,375,000
Kennametal Incorporated	22,000	758,650	1,145,375
Kent Electronics Corporation	2,300,000	50,281,898	57,787,500
Kerr-Mcgee Corporation	32,700	2,023,548	2,070,319
Keycorp	138,200	6,327,214	9,786,288
Keyspan Energy Corp.	41,000	1,057,055	1,509,313
Kimberly-Clark Corporation	640,168	29,898,850	31,568,285
King World Productions, Inc.	14,500	591,342	837,375
KLA-Tencor Corp.	96,600	6,008,037	3,731,175
Knight-Ridder Incorporated	51,400	1,932,311	2,672,800
Kohls Corporation	60,900	1,620,662	4,148,813
Kroger Company	709,600	13,748,389	26,077,800
L G & E Energy Corporation	54,700	1,119,967	1,357,244
Laidlaw Inc.	174,300	1,945,176	2,374,838
Lancaster Colony Corporation	24,300	869,402	1,369,913

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Lance Incorporated	24,700	\$ 434,559	\$ 649,919
Lands End Incorporated	27,100	420,480	950,194
Lawson Products	9,500	250,351	282,625
Lawter International Inc.	37,200	414,025	404,550
LCI International Incorporated	69,500	699,462	2,137,125
Lear Corp.	2,500,000	77,421,649	118,750,000
Lee Enterprises	38,800	788,228	1,147,025
Leggett & Platt Inc.	75,300	1,843,018	3,153,188
Lehman Brothers Holdings Inc.	161,300	8,287,289	8,226,300
Lexmark International Group Inc.	59,600	1,728,114	2,264,800
Lilly (Eli) & Co.	1,399,100	41,614,250	97,412,338
Limited Inc.	773,714	16,262,673	19,729,707
Lincoln Electric Co.	1,000,000	30,000,000	36,000,000
Lincoln National Corp.	140,500	6,489,363	10,976,563
Linear Technology Corp.	61,400	2,526,397	3,538,175
Linens-N-Things Inc.	839,000	14,755,941	36,601,375
Litton Industries Inc.	38,400	1,553,467	2,208,000
Liz Claiborne Incorporated	51,200	1,966,551	2,140,800
Lockheed Martin Corporation	248,800	22,185,961	24,506,800
Loews Corp.	234,100	20,248,886	24,843,863
Lomax Petroleum Incorporated	1,250,000	11,778,017	20,312,500
Lone Star Steakhouse Saloon	33,500	1,180,075	586,250
Longs Drug Stores Incorporated	32,600	720,666	1,047,275
Longview Fibre Company	42,600	714,776	646,988
Louisiana-Pacific Corporation	57,700	1,344,754	1,096,300
Lowe's Companies	322,400	12,940,454	15,374,450
LSI Logic Corporation	78,600	2,907,686	1,542,525
Lubrizol Corporation	49,100	1,541,153	1,810,563
Lucent Technologies Incorporated	1,155,504	56,770,720	92,295,882
Lyondell Petrochemical Company	65,900	1,569,539	1,746,350
MacFrugals Bargains	21,400	325,110	880,075
Magnetek Incorporated	21,100	231,540	411,450
Mallinckrodt Incorporated	28,800	1,141,240	1,094,400
Manor Care Incorporated	34,400	786,336	1,204,000
Manpower Incorporated Wisconsin	67,700	1,886,579	2,386,425
Mapco Incorporated	46,300	1,222,481	2,141,375
Mark IV Industries Incorporated	54,600	1,020,056	1,194,375
Marriott International, Inc.	108,200	5,862,223	7,492,850
Marsh & McLennan Companies	309,600	15,635,517	23,084,550
Marshall & Ilsley Corporation	75,000	1,859,164	4,659,375
Martin Marietta Materials Inc.	37,200	1,327,664	1,360,125
MASCO Corporation	308,000	12,747,245	15,669,500
Mattel Incorporated	160,275	4,048,598	5,970,244
Maxim Integrated Products	101,400	1,513,540	3,498,300

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Maxxam Incorporated	7,200	\$ 352,894	\$ 314,100
May Department Stores Company	606,200	32,329,007	31,939,163
Maytag Corporation	54,600	1,015,676	2,037,263
MBIA Incorporated	33,400	1,670,419	2,231,538
MBNA Corporation	651,300	14,717,906	17,788,631
McAfee Associates Inc.	54,800	2,697,733	2,897,550
McCormick & Company	65,500	1,568,652	1,834,000
McCormott International, Inc.	231,300	5,570,210	8,471,363
McDonalds Corporation	1,122,100	53,859,692	53,580,275
McGraw-Hill Incorporated	172,300	8,732,742	12,750,200
MCI Communications Corporation	902,500	28,766,163	38,638,281
McKesson Corporation	34,600	1,650,401	3,749,775
MCN Corporation	55,400	1,135,562	2,236,775
Mead Corporation	40,600	1,217,006	1,136,800
Medaphis Corporation	59,100	2,459,017	384,150
Media General Incorporated Class A	21,800	725,716	911,513
Medpartners Incorporated	939,000	26,812,995	21,010,125
Medtronic Incorporated	610,300	18,914,852	32,040,750
Mellon Bank Corporation	648,800	22,893,126	39,333,500
Mentor Graphics Corporation	53,200	942,975	515,375
Mercantile Bancorporation	74,400	2,198,060	4,575,600
Mercantile Bankshares Corp	58,650	1,061,818	2,294,681
Mercantile Stores Company, Inc.	14,300	688,097	870,513
Merck & Company	1,910,600	147,717,301	202,523,600
Meredith Corporation	21,000	398,760	749,438
Meritor Automotive Inc.	56,300	1,154,182	1,185,819
Merrill Lynch & Company	451,600	23,927,050	32,938,575
Meyer, Fred Inc. New	78,200	1,397,525	2,844,525
MGIC Investment Corporation	45,800	1,436,212	3,045,700
Micro Warehouse Incorporated	28,300	1,258,445	394,431
Micron Technology Incorporated	317,500	15,353,325	8,235,156
Microsoft Corporation	1,545,700	112,509,381	199,781,725
Midamerican Energy Holding Co.	83,000	1,290,571	1,826,000
Millennium Chemicals	245,000	5,523,109	5,757,500
Miller, Herman Inc.	39,200	558,913	2,138,850
Millipore Corporation	16,700	639,646	566,756
Minerals Technologies Inc.	18,600	674,788	845,138
Minnesota Mining & Mfg. Co.	535,000	39,798,902	43,903,438
Minnesota Power & Light Company	26,800	752,265	1,167,475
Mirage Resorts Incorporated	116,400	2,403,385	2,648,100
Mobil Corporation	305,800	14,824,472	22,074,938
Modine Manufacturing Company	24,600	738,278	839,475
Molex Incorporated	129,687	2,861,041	4,166,195
Monsanto Company	771,600	26,988,855	32,407,200

Note Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Montana Power Company	45,000	\$ 1,013,912	\$ 1,428,750
Moore Corporation Limited	49,658	988,718	751,077
Morgan S D Witter Discover & Co.	224,585	6,180,583	13,278,588
Morgan, J. P. & Company	72,400	5,650,484	8,172,150
Morton International Inc. New	294,800	8,798,504	10,133,750
Motorola Incorporated	1,181,000	82,745,553	67,538,438
MSC Industrial Direct Class A	1,000,000	28,152,760	42,000,000
Murphy Oil Corporation	37,000	1,416,983	2,004,938
Mylan Laboratories	514,500	10,624,162	10,772,344
Nabors Industries	491,500	15,921,316	15,543,688
Nacco Industries Class A	3,200	168,828	343,000
Nalco Chemical Company	211,000	8,344,905	8,347,688
National City Corporation	446,400	16,292,049	29,350,800
National Fuel Gas Company	31,100	933,993	1,514,181
National Semiconductor Corp.	282,900	8,532,136	7,337,719
National Service Industries, Inc	25,600	853,898	1,268,800
Nationsbank Corporation	1,006,600	53,935,753	61,213,863
Nationwide Financial Services	176,600	150,100	6,379,675
Navistar International	41,000	523,349	1,017,313
NCH Corporation	6,100	349,353	399,550
NCR Corporation	83,500	2,466,428	2,322,344
NCS Healthcare, Inc. Class A	500,000	12,062,251	13,187,500
Nevada Power Company	39,900	851,816	1,059,844
New Century Energies Inc.	85,415	2,837,129	4,094,582
New England Electric System	53,500	1,993,565	2,287,125
New Holland NV	380,000	10,260,053	10,046,250
New York State Electric & Gas	57,800	1,449,521	2,051,900
New York Times Company Class A	175,200	7,129,634	11,585,100
Newell Companies	349,400	12,408,224	14,849,500
Newmont Mining Corporation	248,730	10,080,174	7,306,444
Newport News Shipbuilding	28,200	466,033	717,338
Nextel Communications	186,200	3,082,659	4,841,200
Nextlevel Systems Inc.	53,300	919,483	952,738
Niagara Mohawk Power Corporation	56,000	847,850	588,000
Nicor Incorporated	28,700	835,577	1,210,781
Nike Incorporated Class B	163,100	5,579,130	6,371,094
Nine West Group Incorporated	29,400	1,244,360	762,563
NipSCO Industries Incorporated	49,900	1,760,376	2,466,931
Noble Affiliates Incorporated	686,800	19,413,851	24,209,700
Noble Drilling Corp.	607,900	16,792,584	18,616,938
Nordson Corporation	14,700	838,315	674,363
Nordstrom Incorporated	31,600	1,228,806	1,907,850
Norfolk Southern Corporation	205,600	5,804,795	6,270,800
Northeast Utilities	105,700	2,527,082	1,248,581

Note Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Northern States Power Company	193,700	\$ 8,322,761	\$11,283,025
Northern Telecom Limited	130,200	6,098,774	11,555,250
Northern Trust Corporation	92,200	2,171,334	6,430,950
Northrop Grumman Corporation	31,700	2,114,218	3,645,500
Norwest Corporation	1,622,900	38,270,074	62,887,375
Nova Corporation	500,000	8,487,184	12,500,000
Novacare Incorporated	49,900	341,487	654,938
Novell Incorporated	137,000	2,152,114	1,027,500
Nucor Corporation	34,000	1,838,985	1,642,625
Occidental Petroleum Corporation	125,400	3,027,836	3,675,788
Oceaneering International Corp.	1,300,000	15,138,650	25,675,000
OEA Incorporated	16,900	501,518	489,044
Office Depot Incorporated	3,129,500	76,308,065	74,912,406
Officemax Incorporated	2,998,400	39,770,082	42,727,200
Ogden Corporation	41,000	829,395	1,155,688
Oge Energy Corporation	33,300	1,272,930	1,821,094
Old Kent Financial Corp.	78,000	2,435,749	3,090,750
Old Republic International Corp.	72,300	2,550,744	2,688,656
Olin Corporation	41,200	1,137,815	1,931,250
Olsten Corporation	65,900	1,573,722	988,500
Omnicare Incorporated	3,063,600	67,525,146	94,971,600
Omnicom Group	31,100	1,051,052	1,317,863
Oneok Inc. New	13,900	335,701	561,213
Oracle Corporation	742,825	16,474,981	16,574,283
Oregon Steel Mills Incorporated	21,200	342,705	451,825
Oryx Energy Company	40,600	579,031	1,035,300
Outback Steakhouse Incorporated	39,600	1,312,983	1,138,500
Overseas Shipholding Group	29,900	609,533	652,194
Owens Corning	20,000	812,527	682,500
Owens Illinois	70,800	2,473,199	2,685,975
Oxford Health Plans Incorporated	62,800	3,760,150	977,325
Paccar Incorporated	42,600	1,024,754	2,236,500
Pacific Century Financial Corp.	66,800	1,130,403	1,653,300
Pacific Enterprises	46,300	1,249,439	1,742,038
Pacificare Health Systems - Class B	31,684	2,286,743	2,286,743
Pacificorp	163,800	3,268,092	4,473,788
Paine Webber Group	114,750	1,576,043	3,966,047
Pall Corporation	398,400	9,314,453	8,241,900
Parametric Technology Corp.	405,600	18,205,429	19,215,300
Parker Drilling Company	53,900	321,857	656,906
Parker-Hannifin Corporation	149,250	4,165,432	6,846,844
Paychex Incorporated	88,500	1,691,201	4,480,313
Payless Shoesource Incorporated	33,300	935,577	2,235,263
Paymentech Inc.	1,300,000	33,162,878	19,175,000

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
PECO Energy Company	306,500	\$ 7,778,468	\$ 7,432,625
Penney, J.C. Company	704,700	36,098,481	42,502,219
Pennzoil Company	188,100	9,126,552	12,567,431
Pentair Incorporated	31,000	760,506	1,114,063
Peoples Energy Corporation	19,400	594,706	763,875
PEP Boys-Manny Moe & Jack	52,100	1,621,467	1,243,888
Pepsico Incorporated	2,606,000	73,197,317	94,467,500
Perkin-Elmer Corporation	23,100	973,023	1,641,544
Perrigo Company	63,100	810,795	843,963
Pfizer Incorporated	1,667,500	51,871,585	124,332,969
PG&E Corporation	1,278,700	31,356,699	38,760,594
Pharmacia & Upjohn Incorporated	197,400	7,656,359	7,229,775
Phelps Dodge Corporation	35,000	2,120,182	2,178,750
Philip Morris Companies, Inc.	2,812,400	79,944,126	127,261,100
Phillips Petroleum Company	615,700	29,119,827	29,938,413
Pierce Leahy Corp.	260,000	5,716,400	5,330,000
Pinnacle West Capital	72,100	1,920,789	3,055,238
Pioneer Hi-Bred International	42,800	2,483,899	4,590,300
Pioneer Natural Resource	29,400	575,028	852,600
Pitney Bowes Incorporated	79,800	3,692,338	7,177,013
Pittston Company - Brinks Group	34,300	742,845	1,380,575
Placer Dome Incorporated	480,300	10,789,288	6,093,806
PMI Group Incorporated	28,900	1,454,528	2,089,831
PNC Bank Corporation	734,800	21,158,189	41,837,675
Polaroid Corporation	24,100	1,063,845	1,173,369
Policy Management Systems Corp.	15,000	727,780	1,043,438
Potash Corp. Of Saskatchewan Inc.	500,000	32,361,076	41,500,000
Potlatch Corporation	129,900	5,853,465	5,585,700
Potomac Electric Power	97,700	2,309,637	2,521,881
PP&L Resources Incorporated	90,700	2,203,403	2,171,131
PPG Industries Incorporated	72,300	3,383,587	4,130,138
Praxair Incorporated	339,300	17,044,652	15,268,500
Precision Castparts Corporation	19,700	745,350	1,188,156
Premark International Inc.	50,600	1,623,837	1,467,400
Price, T. Rowe Associates	47,200	1,352,991	2,967,700
Pride International Inc.	850,000	24,427,940	21,462,500
Procter & Gamble Company	1,835,800	75,106,970	146,519,788
Progressive Corporation - Ohio	40,000	2,483,000	4,795,000
Promus Hotel Corp. New	71,225	2,230,896	2,991,450
Provident Companies Incorporated	75,200	1,034,308	2,904,600
Providian Financial Corporation	282,300	10,446,224	12,756,431
Public Service Co. of New Mexico	34,400	563,043	814,850
Public Service Enterprise	94,900	2,667,493	3,019,006
Puget Sound Power & Light Co.	69,400	1,639,287	2,095,013

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Pulte Corporation	9,200	\$ 263,705	\$ 384,675
Quaker Oats Company	414,100	16,900,873	21,843,775
Quaker State Corporation	29,600	413,699	418,100
Quantum Corporation	95,400	1,050,223	1,913,963
Questar Corporation	33,700	1,022,043	1,503,863
Quorum Health Group Inc.	319,600	8,125,951	8,349,550
Ralston Purina Group	224,000	17,891,001	20,818,000
Ranger Oil Limited	81,300	475,198	558,938
Raychem Corporation	34,800	990,514	1,498,575
Rayonier Incorporated	24,200	887,994	1,030,013
Raytheon Company Class A	318,384	10,950,968	15,720,210
Raytheon Company Class B	129,800	5,913,527	6,554,900
Raytheon Company	14,400	720,181	720,181
Reebok International Limited	21,900	714,211	630,994
Regions Financial Corporation	103,200	2,252,143	4,353,750
Reliastar Financial Corporation	430,000	9,338,445	17,710,625
Repsol S.A. - ADR	1,184,400	48,191,701	50,411,025
Republic New York Corporation	122,300	11,358,006	13,965,131
Reynolds & Reynolds Company Class A	66,700	1,153,513	1,229,781
Reynolds Metals Company	28,500	1,591,278	1,710,000
Rite Aid Corporation	94,400	3,585,056	5,546,000
RJR Nabisco Holdings	495,000	18,295,375	18,562,500
Robert Half International, Inc.	73,350	2,137,077	2,934,000
Rockwell International Corp.	130,500	5,685,293	6,818,625
Rocky Shoes & Boots Inc.	250,000	4,718,382	3,812,500
Rohm & Haas Company	25,300	1,625,370	2,422,475
Rollins Incorporated	29,200	664,131	591,300
Rowan Companies Incorporated	268,300	9,227,371	8,183,150
Royal Dutch/Petco	836,400	29,056,463	45,322,425
RPM Incorporated-Ohio	79,875	1,041,082	1,218,094
Rubbermaid Incorporated	58,000	1,622,780	1,450,000
Ruddick Corporation	38,300	480,301	667,856
Russell Corporation	14,900	444,402	395,781
Ryder System Incorporated	31,500	805,416	1,031,625
Safeco Corporation	148,900	6,385,449	7,258,875
Safety-Kleen Corporation	31,200	484,574	856,050
Sara Lee Corporation	188,400	6,469,006	10,609,275
Sbarro Incorporated	16,800	373,412	442,050
SBC Communications Incorporated	1,279,743	67,018,277	93,741,175
Seana Corporation	87,000	2,138,153	2,604,563
Scherer, R. P. - Delaware	919,400	40,778,597	56,083,400
Schering-Plough Corporation	287,000	8,002,149	17,829,875
Schlumberger Limited	192,600	6,201,806	15,504,300
Scholastic Corporation	13,100	866,278	491,250

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Schulman, A. Incorporated	31,000	\$ 713,391	\$ 778,875
Schwab, Charles Corporation	101,550	1,500,214	4,258,753
Sci Sys Inc.	48,800	1,538,481	2,125,850
Scientific-Atlanta Incorporated	29,800	536,541	499,150
Seagate Technology	138,000	4,052,973	2,656,500
Seagram Company Limited	846,100	29,894,748	27,339,606
Seagull Energy Corporation	301,700	7,245,955	6,222,563
Sealed Air Corporation	35,000	932,801	2,161,250
Sears Roebuck & Company	793,600	43,690,935	35,910,400
Sensormatic Electronics Corp.	61,000	1,601,983	1,002,688
Sequa Corporation Class A	8,200	223,183	533,513
Sequent Computer Systems Inc.	28,000	552,376	560,000
Service Corp International	2,129,500	42,054,750	78,259,125
Service Merchandise Company	82,200	515,062	174,675
Servicemaster Co.	80,000	2,322,764	2,340,000
Servicemaster Ltd. Partnership	1,602,000	42,494,117	46,858,500
Shared Medical Systems Corp.	12,800	612,764	844,800
Shaw Industries Incorporated	110,700	1,662,834	1,286,888
Sherwin-Williams Co.	66,600	1,384,714	1,848,150
Sigma-Aldrich	301,700	10,039,125	11,992,575
Silicon Graphics Incorporated	94,700	2,460,376	1,165,994
Smith International, Inc.	183,000	11,081,174	11,231,625
Smucker, J. M. Company Class A	24,000	492,167	567,000
Snap-On Incorporated	33,850	1,030,439	1,476,706
Soletron Corporation	93,000	2,022,981	3,865,313
Solutia Inc.	95,800	1,909,110	2,556,663
Sonat Incorporated	46,900	1,656,483	2,145,675
Sonoco Products Company	73,500	1,934,592	2,549,531
Sotheby's Holdings, Inc. Class A	45,800	654,273	858,750
Southdown Incorporated	17,900	369,172	1,056,100
Southern Company	886,000	21,060,115	22,925,250
Southern New England Telecom.	54,100	1,946,399	2,721,906
Southtrust Corporation	79,200	2,047,671	5,024,250
Southwest Airlines	84,300	1,490,243	2,075,888
Sports Authority Incorporated	2,250,000	36,664,400	33,187,500
Springs Industries Class A	11,000	473,248	572,000
Sprint Corporation	235,600	8,665,726	13,812,050
St. Jude Medical Incorporated	35,700	1,441,848	1,088,850
St. Paul Companies	49,100	2,764,054	4,029,269
Standard Register Company	23,700	528,587	823,575
Stanhope Incorporated	14,800	457,024	380,175
Stanley Works	61,100	1,575,671	2,883,156
Staples Incorporated	132,500	2,353,752	3,676,875
Starbucks Corp.	63,300	1,895,348	2,429,138

Note Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
State Street Corporation	63,300	\$ 1,280,972	\$ 3,683,269
Sterling Commerce Incorporated	2,609,960	68,512,946	100,320,338
Stewart & Stevenson Services	27,300	779,722	696,150
Stewart Enterprises Inc.	34,400	1,433,149	1,603,900
Stone Container Corporation	145,200	2,004,455	1,579,050
Storage Technology Corp. Class A	50,400	1,493,415	3,121,650
Stratus Computer Incorporated	19,400	532,879	733,563
Structural Dynamics Research	27,400	554,119	616,500
Stryker Corporation	79,700	1,889,513	2,968,825
Summit Bancorp	136,050	3,738,128	7,193,644
Sun Co. Incorporated Preferred D	975,000	27,837,371	34,978,125
Sun Company Incorporated	28,700	772,001	1,207,194
Sun Microsystems Incorporated	491,800	15,723,811	19,610,525
Sunamerica Incorporated	76,350	1,265,385	3,263,963
Sundstrand Corporation	50,000	1,663,003	2,518,750
Sungard Data Systems, Inc.	69,200	1,631,148	2,136,550
Suntrust Banks Incorporated	86,600	3,199,833	6,181,075
Superior Industries International	23,400	690,725	627,413
Supervalu Incorporated	47,500	1,446,192	1,989,063
Sybron International Corp.	37,800	1,529,808	1,774,238
Symantec Corporation	45,200	1,197,284	991,575
Symbol Technologies	32,100	782,249	1,211,775
Synopsys Inc.	51,300	2,202,475	1,833,975
Synovus Financial Corp	66,900	2,030,522	2,190,975
Sysco Corporation	424,800	17,414,515	19,354,950
TCA Cable TV Incorporated	20,500	604,845	943,000
Tandy Corporation	323,500	7,123,840	12,474,969
TCF Financial Corp.	74,200	2,399,559	2,518,163
TCI Ventures Group	390,158	7,998,239	11,046,348
Teco Energy Incorporated	96,700	2,274,122	2,719,688
Tecumseh Products Company Class A	18,000	905,883	877,500
Tektronix Incorporated	28,200	875,939	1,119,188
Tele-Comm TCI Group Series A	869,281	14,337,449	24,285,538
Teleflex Incorporated	29,800	604,795	1,124,950
Telephone & Data Systems, Inc.	50,400	2,022,249	2,346,750
Tellabs Incorporated	99,500	2,560,578	5,261,063
Temple-Inland Incorporated	21,600	1,008,249	1,129,950
Tenet Healthcare Corporation	255,400	6,432,897	8,460,125
Tenneco Incorporated	499,900	22,960,753	19,746,050
Teradyne Incorporated	68,400	2,217,087	2,188,800
Texaco Incorporated	518,200	26,440,939	28,177,125
Texas Instruments Incorporated	442,200	13,509,832	19,899,000
Texas Utilities Company	442,785	14,493,224	18,375,578
Textron Incorporated	88,600	3,345,903	5,537,500

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Thermo Electron Corporation	81,100	\$ 2,606,317	\$ 3,568,400
Thiokol Corporation	15,000	515,385	1,218,750
Thomas & Betts Corporation	96,400	5,143,652	4,554,900
Tidewater Incorporated	301,100	15,851,436	16,673,413
Tiffany & Company	28,400	661,808	1,024,175
Time Warner Incorporated	1,513,900	68,792,816	93,861,800
Times Mirror Company Series A	179,700	8,971,060	11,051,550
Timken Company	24,400	513,077	838,750
TJX Companies Incorporated	56,600	751,913	1,945,625
Torchmark Corporation	55,800	1,281,419	2,354,063
Tosco Corporation	588,000	18,216,681	22,233,750
Toys R US Incorporated	118,400	3,359,294	3,722,200
Transamerica Corporation	25,700	1,829,496	2,737,050
Transatlantic Holdings Inc.	28,500	1,340,805	2,037,750
Transocean Offshore Incorporated	84,800	2,396,872	4,086,300
Travelers Group Incorporated	1,510,906	42,836,814	81,400,061
Travelers Property Casualty Corp.	624,000	22,559,352	27,456,000
Tribune Company	47,400	1,542,347	2,950,650
Tricon Global Restaurants	260,600	6,014,729	7,573,688
Trinity Industries Incorporated	35,400	924,378	1,579,725
Triton Energy Limited	1,216,700	36,481,360	35,512,431
Trump Hotel & Casino Resorts Inc.	1,000,000	29,954,172	6,687,500
TRW Incorporated	70,800	2,927,324	3,778,950
Tupperware Corporation	24,200	1,125,641	674,575
Tyco International Limited New	236,000	5,707,477	10,634,750
Tyson Foods Incorporated Class A	179,250	3,057,140	3,674,625
U S F & G Corporation	45,800	659,925	1,010,463
U S Office Products Co.	112,200	2,334,949	2,201,925
U S Rentals Incorporated	655,000	13,048,630	15,392,500
U.S. Surgical Corporation	290,700	7,420,307	8,521,144
U.S. West Communications Group	535,000	16,026,297	24,141,875
U.S. West Media Group	1,323,200	20,995,782	38,207,400
Ucar International Inc.	37,700	1,767,225	1,505,644
Ultramar Diamond Shamrock Corp.	61,500	1,799,411	1,960,313
Unicom Corporation	276,000	7,960,094	8,487,000
Unifi Incorporated	53,200	1,630,846	2,164,575
Unilever NV -NY Shares	944,800	44,924,909	58,990,950
Union Camp Corporation	183,600	8,738,772	9,857,025
Union Carbide Corporation	70,900	2,561,274	3,044,269
Union Electric Company	57,200	2,031,889	2,473,900
Union Pacific Corporation	503,100	31,456,971	31,506,638
Union Pacific Resources Group	97,270	2,523,891	2,358,798
Union Planters Corporation	52,100	2,219,111	3,536,288
Union Texas Petroleum Holdings Inc.	530,000	10,524,814	11,030,625

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Unisource Worldwide Incorporated	53,700	\$ 971,943	\$ 765,225
UNISYS Corporation	67,300	497,336	933,788
United Auto Group Incorporated	40,000	1,200,000	732,500
United Healthcare Corporation	313,400	14,859,260	15,572,063
United States Filter Corp.	1,858,600	63,973,347	55,641,838
United Technologies Corporation	112,000	5,615,392	8,155,000
Universal Corporation/Virginia	28,900	656,168	1,188,513
Universal Foods Corporation	20,900	722,025	883,025
Univision Communications Inc.	800,000	28,887,652	55,850,000
Unocal Corporation	582,100	24,132,509	22,592,756
Unova Inc.	1,000,000	16,812,339	16,437,500
Unum Corporation	459,500	15,686,073	24,985,313
US Airways Group Incorporated	30,700	550,557	1,918,750
U.S. Bancorp Delaware	155,761	8,902,065	17,435,497
USA Waste Services Incorporated	148,500	4,726,447	5,828,625
UST Incorporated	73,000	2,292,085	2,696,438
USX - US Steel Group	52,300	1,823,844	1,634,375
USX - Marathon Group	111,600	2,326,964	3,766,500
Utilicorp United Incorporated	43,100	1,219,690	1,672,819
V F Corporation	49,400	1,403,389	2,297,100
Valero Energy Corporation	36,300	590,764	590,764
Valero Energy Corporation	175,000	5,488,754	5,501,563
Vanguard Cellular Systems Class A	34,100	821,845	434,775
Varco International	187,000	3,714,987	4,008,813
Varian Associates Incorporated	25,600	1,297,363	1,294,400
Vencor Incorporated	57,000	1,999,047	1,392,938
Viacom Incorporated Class B	587,900	27,766,027	24,361,106
Viad Corporation	78,500	1,076,509	1,516,031
Viking Office Products, Inc.	68,900	1,916,805	1,502,881
Vishay Intertechnology	1,553,025	48,315,982	36,593,152
Vulcan Materials Company	28,600	1,571,629	2,920,775
VWR Scientific Products Corp	557,100	14,713,332	15,738,075
Wachovia Corporation	47,656	2,163,002	3,866,093
Walgreen Company	222,200	3,397,209	6,971,525
Wallace Computer Services, Inc.	35,900	1,038,756	1,395,613
Wal-Mart Stores Incorporated	2,968,100	76,005,992	117,054,444
Warnaco Group Incorporated Class A	42,900	1,091,449	1,345,988
Warner-Lambert Company	402,800	42,241,885	50,022,725
Washington Gas Light Company	35,900	714,940	1,110,656
Washington Mutual, Inc.	323,350	15,260,055	20,633,772
Washington Post Class B	9,000	2,575,130	4,378,500
Waste Management Inc. New	249,000	6,446,628	6,847,500
Watson Pharmaceuticals, Inc.	60,600	1,281,986	1,965,713
Watts Industries Class A	22,400	511,909	634,200

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Wausau-Mosinee Paper Corp.	45,800	\$ 899,442	\$ 899,442
Weatherford Enterra Incorporated	43,000	1,127,146	1,881,250
Wellman Incorporated	25,700	628,485	501,150
Wells Fargo & Company	48,800	10,428,131	16,564,550
Wendy's International, Inc.	216,000	4,868,752	5,197,500
Western Atlas Incorporated	20,800	882,120	1,539,200
Westvaco Corporation	39,550	1,184,179	1,243,353
Weyerhaeuser Company	471,200	19,874,862	23,118,250
Whirlpool Corporation	40,800	2,215,201	2,244,000
Whitman Corporation	285,800	7,292,064	7,448,663
Willamette Industries, Inc.	43,000	1,345,041	1,384,063
Williams Companies Incorporated	174,500	2,609,553	4,973,250
Wilmington Trust Corporation	28,100	850,186	1,752,738
Winn-Dixie Stores Incorporated	58,900	1,940,240	2,573,194
Wisconsin Central Transportation Corp.	40,700	1,297,313	951,363
Wisconsin Energy Corporation	91,700	2,340,858	2,636,375
Witco Corporation	46,700	1,457,467	1,905,944
Woolworth Corporation	51,600	867,339	1,051,350
World Color Press Incorporated	1,000,000	20,326,453	26,562,500
Worldcom Incorporated/GA Class A	8,348,300	152,916,816	252,536,075
Worthington Industries, Inc.	286,100	5,846,004	4,720,650
WPL Holdings Incorporated	25,400	754,202	841,375
Wrigley, W. M. Jr. Company	157,400	8,954,592	12,523,138
Xerox Corporation	433,600	25,053,319	32,032,200
Xilinx Incorporated	60,100	2,332,486	2,107,256
York International	35,700	1,603,342	1,412,381
YPF Sociedad Anonmia - ADR	1,600,000	40,477,693	54,700,000
Sub-Total, Equity	311,690,661	\$10,159,017,055	\$13,630,163,009

REIT

Name	Shares	Cost	Fair Value
AMB Property Corp.	859,400	\$19,255,958	\$21,592,425
American General Hospitality	620,000	13,107,201	16,585,000
AMLI Residential Properties	229,300	4,620,934	5,101,925
Apartment Investment & Mgmt. Class A	1,286,500	28,355,888	47,278,875
Arden Realty Incorporated	1,130,000	28,471,279	34,747,500
Bradley Real Estate Incorporated	1,272,646	22,518,061	26,725,566
Camden Property Trust	614,400	19,741,328	19,046,400
CBL & Associates Properties Inc.	150,000	2,771,800	3,703,125
Colonial Properties Trust	385,000	8,205,510	11,598,125
Commercial Net Lease Realty Inc.	1,643,000	21,430,565	29,368,625
Glimcher Realty Trust	1,500,000	30,375,000	33,843,750
Great Lakes Reit Incorporated	750,000	11,770,674	14,578,125

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

Name	Shares	Cost	Fair Value
Healthcare Realty Trust	386,900	\$ 10,441,303	\$ 11,195,919
Highwoods Properties, Inc.	1,000,000	33,692,823	37,187,500
JDN Realty Corporation	600,000	12,921,346	19,425,000
JP Realty Incorporated	244,200	4,519,407	6,333,938
Kilroy Realty Corporation	500,000	12,299,461	14,375,000
Koger Equity Inc.	1,064,900	21,619,848	23,361,244
Liberty Property	2,000,000	50,113,968	57,125,000
Macerich Company	875,000	17,206,364	24,937,500
Mack-Cali Realty Corporation	950,000	37,830,507	38,950,000
Meditrust Companies	720,960	20,271,702	26,405,160
M G I Properties	270,000	5,947,453	6,480,000
Mid-America Apt. Communities Inc.	300,000	7,448,482	8,568,750
Parkway Properties Incorporated	220,000	5,976,198	7,548,750
Regency Realty Corporation	440,000	7,148,441	12,182,500
Simon Debartolo Group, Inc.	1,500,000	34,956,533	49,031,250
Spieker Properties Incorporated	800,000	27,872,729	34,300,000
Storage Trust Realty	986,700	19,306,035	25,962,544
United Dominion Realty Trust	1,665,898	18,184,656	23,218,453
Urban Shopping Centers, Inc.	477,600	9,356,832	16,656,300
Sub-Total, REIT	25,442,404	\$ 567,738,285	\$ 707,414,248
GRAND TOTAL, STOCK	337,133,065	\$10,726,755,340	\$14,337,577,257

Note: Dollar amounts are rounded to the nearest whole dollar. Columns will not add.

SCHEDULE OF FEE AND COMMISSION PAYMENTS TO BROKERS*

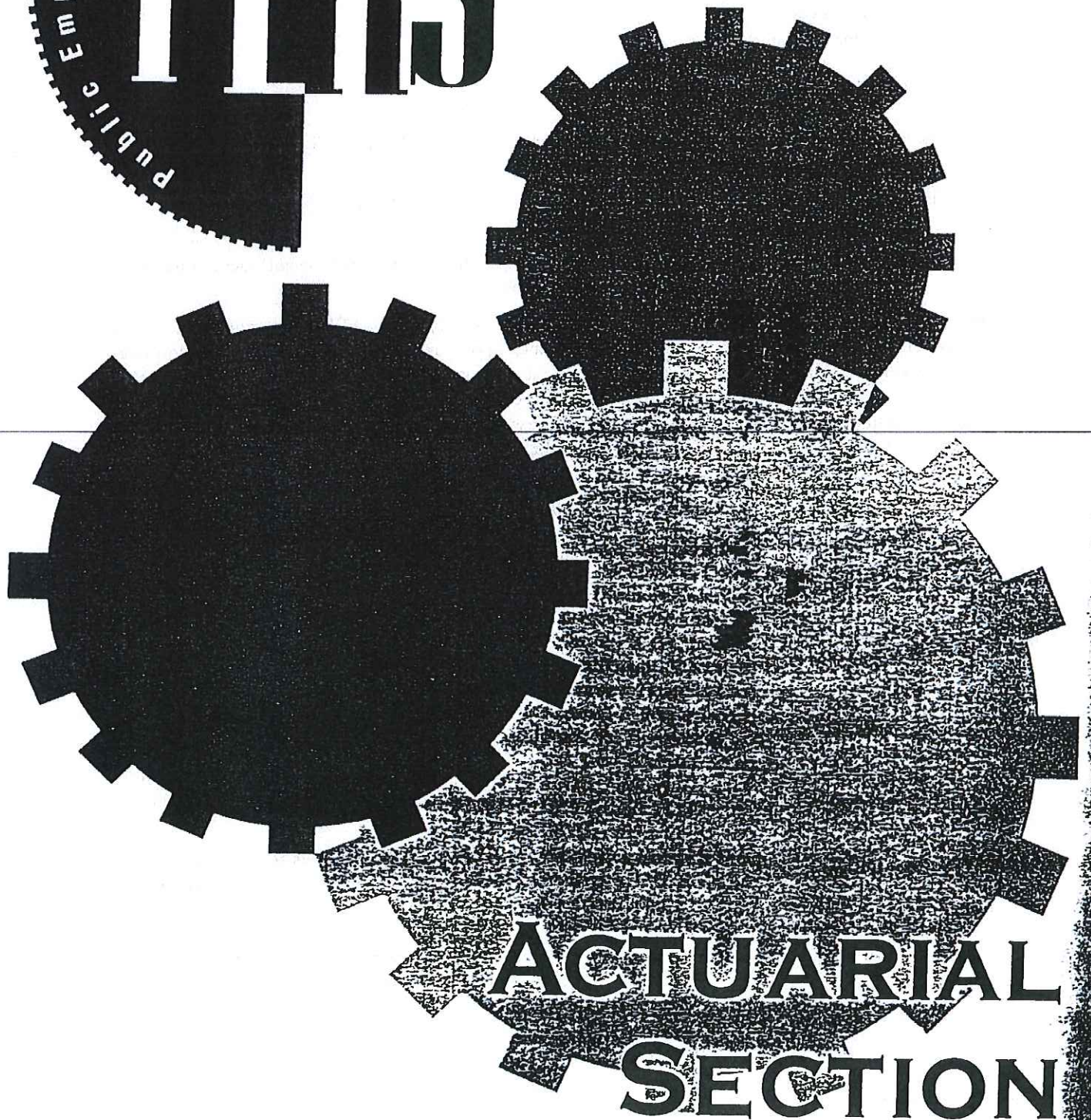
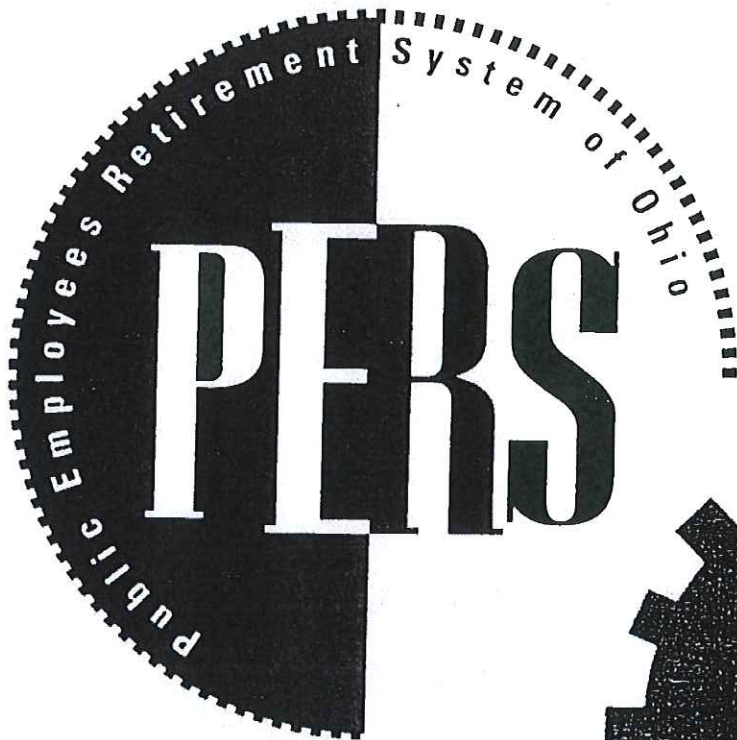
YEAR ENDED DECEMBER 31, 1997

Individual or Firm Name	Fees and Commissions Paid	Individual or Firm Name	Fees and Commissions Paid
ABN AMRO Inc.	\$ 122,538	Instinet	\$ 1,584
Autranet Inc.	69,300	Interstate Securities	23,280
Baird, Robert W. & Co. Inc.	56,320	ISI Group Inc.	93,120
Bank America Robertson Stephens	108,822	James, Raymond and Associates, Inc.	111,963
Banyan Securities	53,012	Janney Montgomery Scott	23,500
Bear, Stearns & Co. Inc.	406,451	Jefferies & Company, Inc.	158,559
Berean Capital	28,800	Jones & Associates	45,762
Bernstein, Sanford C. and Co. Inc.	282,086	JSA Research	6,000
Blair, William and Company	214,729	Keefe, Bruyette & Woods, Inc.	26,460
Boston Institutional Services Inc.	27,130	Legg Mason	88,072
Bradford, J.C. & Company	72,287	Lehman Brothers	1,906,732
Bridge Trading Company	201,772	McDonald & Company Securities Inc.	144,741
Brooks Securities	33,714	Merrill Lynch, Pierce, Fenner & Smith Inc.	1,234,396
Brown Brothers Harriman & Co.	66,114	Midwest Research	31,548
BT Alex Brown Inc.	452,449	Mitchell Securities	23,450
Buckingham Research	3,000	Monness, Crespi, Hardt & Co., Inc.	152,988
Cantor Fitzgerald & Co.	205,355	Montgomery Securities	313,733
The Chapman Company	6,660	Morgan, J.P. Securities, Inc.	652,282
CIBC Oppenheimer Corp.	21,600	Morgan Stanley & Company, Inc.	902,900
Cleary Gull Reiland & McDevitt Inc.	26,093	Nat West Securities Corp.	154,673
Compustat	6,000	Noah Financial	46,320
Conning & Company	47,291	Nutmeg Securities, LTD	56,487
Cooper, Wolpert & Margoshes	12,642	The Ohio Company	54,153
Covato/Lipsitz Inc.	36,048	O'Neil, William & Company Inc.	43,026
Cowen & Company	152,891	OTA Ltd., Partners	30,439
CS First Boston	1,150,179	Paine Webber, Inc.	527,581
Dain Bosworth	26,100	Piper Jaffray Inc.	60,654
Dean Witter	109,704	Prudential Securities Inc.	895,170
Deutsche, Morgan, Grenfell Inc.	322,856	Pryor, McClendon, Counts & Co.	31,194
Donaldson, Lufkin & Jenrette Securities Corp.	1,139,777	RBC Dominion Securities Corp.	19,332
Edwards, A.G. & Sons, Inc.	156,540	Salomon Brothers Inc.	359,605
Everen Securities	163,012	Schroeder & Co., Inc.	294,008
Factset Data Systems Inc.	115,773	Smith Barney	892,140
First Call Corp.	165,180	Soundview Financial Group	16,426
Fox-Pitt, Kelton	5,222	Standard & Poor's Securities	60,150
Furman Selz LLC	41,115	Stock Val Incorporated	64,638
Gerard Klauer Mattison & Co., Inc.	66,702	Sun Trust Equitable Securities	40,479
Goldman, Sachs & Company	691,104	Tucker Anthony	18,243
GS Securities, Inc.	54,791	UBS Securities LLC	205,213
Hambrecht & Quist LLC	16,443	UST Securities Corp.	42,978
Helston Securities	14,970	Washington Research Group	59,552
Howard, Weil, Labouisse, Friedrichs Inc.	42,688	Wellington, H.G. & Co. Inc.	63,695
I/B/E/S	19,101	Wosczyzna, John	10,500
TOTAL		\$ 17,002,087	

* The fees and commissions include both actual and imputed amounts. Also included, although not a direct expense to PERS, are fees paid to brokers by companies issuing new securities purchased by PERS. During 1997, actual fees and commissions paid by PERS were \$8,913,414.

INVESTMENT SUMMARY

	1997		1996	
	Fair Value	Percentage of Total Fair Value	Fair Value	Percentage of Total Fair Value
Fixed Income:				
U.S. Government & Agencies	\$11,019,723,048	24.7%	\$12,951,214,310	32.9%
Corporate Bonds	5,282,010,945	11.8	2,914,288,885	7.4
Canadian Bonds	537,714,424	1.2	505,978,354	1.3
Mortgage & Mortgage Backed	<u>6,199,450,676</u>	<u>13.9</u>	<u>5,530,268,966</u>	<u>14.1</u>
Total Fixed Income	23,038,899,093	51.6	21,901,750,515	55.7
Common Stock	13,630,163,009	30.5	11,109,419,510	28.2
Real Estate	4,091,670,490	9.2	2,795,268,017	7.1
Venture Capital	36,032,707	0.1	26,847,133	0.1
International	1,152,262,218	2.6	863,183,792	2.2
Short-term Investments				
Commercial Paper	859,399,976	1.9	921,466,773	2.3
U.S. Treasury Obligations	<u>1,812,773,962</u>	<u>4.1</u>	<u>1,729,022,887</u>	<u>4.4</u>
TOTAL	<u>\$44,621,201,455</u>	<u>100.0%</u>	<u>\$39,346,958,627</u>	<u>100.0%</u>



REPORT OF THE ACTUARY



GABRIEL, ROEDER, SMITH & COMPANY

Consultants & Actuaries

1000 Town Center • Suite 1000 • Southfield, Michigan 48075 • 248-799-9000 • 800-521-0498 • fax 248-799-9020

March 26, 1998

The Retirement Board
Public Employees Retirement System of Ohio
277 East Town Street
Columbus, Ohio 43215

Dear Board Members:

The basic financial objective of the Public Employees Retirement System (PERS) is to establish and receive contributions which

- (1) when expressed in terms of percents of active member payroll will remain approximately level from generation to generation, and which
- (2) when combined with present assets and future investment return will be sufficient to meet the present and future financial obligations of PERS.

In order to measure progress toward this fundamental objective, PERS has annual actuarial valuations. The valuations (i) measure present financial position, and (ii) establish contribution rates that provide for the current cost and level percent of payroll amortization of unfunded actuarial accrued liability over a reasonable period. The latest completed actuarial valuations were based upon data and assumptions as of December 31, 1996. These valuations indicate that the contribution rates, established by the Retirement Board, for benefits then in effect, meet the basic financial objective.

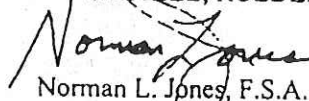
The actuarial valuations are based upon financial and participant data, which is prepared by retirement system staff, assumptions regarding future rates of investment return and inflation, and rates of retirement, turnover, death, and disability among PERS members and their beneficiaries. The data is reviewed by the actuary for internal and year to year consistency as well as general reasonableness prior to its use in the actuarial valuations. It is also summarized and tabulated for the purpose of analyzing trends. The assumptions were adopted by the Retirement Board and were based upon actual experience of the Public Employees Retirement System of Ohio during the years 1991 to 1995. The assumptions comply with Statement 25 of the Governmental Accounting Standards Board. Assets are valued on a market related basis that recognizes each year's difference between actual and assumed investment return over a closed four year period.

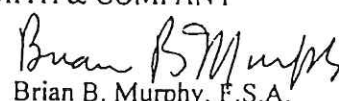
Combined experience was favorable during 1996. For both pensions and retiree health there was a decrease in the periods over which unfunded accrued liabilities are being funded. There is reason to believe that initiatives adopted by the Board will have a continued stabilizing influence on experience under the Post Retirement Health Care Program.

Based upon the valuation results it is our opinion that the Public Employees Retirement System of Ohio continues in sound condition in accordance with actuarial principles of level percent of payroll financing.

Respectfully submitted,

GABRIEL, ROEDER, SMITH & COMPANY


Norman L. Jones, F.S.A.


Brian B. Murphy, F.S.A.

NLJ/alv

SUMMARY OF ASSUMPTIONS

Adopted by Retirement Board after consulting with Actuary.

Funding Method. An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments which are level percents of payroll contributions. Adopted 1975.

Economic Assumptions. The following economic assumptions are used by the Actuary:

Investment Return. 7.75 percent, compounded annually, for all members and beneficiaries. Adopted 1989.

Active Employee Total Payroll. Increasing 4.75 percent annually, compounded annually, which is the inflation portion of the individual pay increase assumption. In effect, this assumes no change in the number of active employees.

Individual Employee Pay Increases. An employee's pay is assumed to increase each year, in accordance with a table consisting of a percent increase for each age. For sample ages, the following table describes annual increase percents. Adopted 1991.

Age	Merit & Seniority			Inflation	Increase Next Year		
	State	Local	Law		State	Local	Law
30	2.62%	2.40%	3.10%	4.75%	7.37%	7.15%	7.85%
40	1.66	1.70	1.70	4.75	6.41	6.45	6.45
50	0.88	1.00	1.14	4.75	5.63	5.75	5.89
60	0.54	0.54	0.70	4.75	5.29	5.29	5.45

Turnover. Probabilities of separation from employment before age and service retirement because of death, withdrawal or disability are:

% Separating Within Next Year										
Sample Ages	Years of Service	Death		Withdrawal		Law Enforcement	Local		Disability	
		Men	Women	State Men	State Women		Men	Women	Men	Women
	0			39.00%	35.00%	18.00%	36.00%	34.50%		
	1			17.00	17.00	10.00	17.00	18.00		
	2			13.00	14.00	8.00	13.00	14.00		
	3			9.00	10.00	7.00	10.00	11.00		
	4			6.50	8.00	6.00	8.00	9.00		
30	5 & over	.05%	.03%	5.16	6.66	3.52	5.40	7.28	.11%	.08%
40		.11	.06	3.36	4.00	2.32	3.52	4.40	.39	.26
50		.34	.13	2.28	2.90	1.62	2.82	3.36	.91	.65
60		.84	.32	.60	.70	.50	.60	.80	1.97	1.64

Assets Valuation Method. For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus a percentage of realized and unrealized investment gains and losses. Adopted 1988.

Valuation Data. The data about persons now covered and about present assets was furnished by the System's administrative staff. Data is examined for general reasonableness and year-to-year consistency, but is not audited by the Actuary.

Decrement Assumptions. The following tables of probabilities, adopted in 1981, for the indicated risk areas are used by the Actuary.

Mortality. The tables used in evaluating allowances to be paid were the 1971 Group Annuity Mortality Male and Female tables, projected in 1984.

Retirement. Probabilities of age and service retirement applicable to members eligible to retire (adopted 1991) are:

Retirement Age	% Retiring Next Year				
	State		Local		Law Enforcement
	Men	Women	Men	Women	
50-54	15%	20%	23%	20%	25%
55-58	15	20	20	20	20
59	18	21	20	20	20
60	20	22	25	25	15
61	21	25	25	28	15
62	22	30	27	30	15
63	25	30	28	30	15
64	25	30	30	30	15
65	25	25	25	25	30
66	25	20	25	25	30
67	25	20	20	20	25
68	25	20	20	20	25
69	25	20	20	20	30
70	100	100	100	100	100

ACTUARIAL VALUATION DATA

Valuation Year	Active Members				Retired Lives		
	Number	Annual Payroll (\$ Millions)	Average Pay	% Increase in Average Pay	Number	Annual Allowance (\$ Millions)	Average Allowance
1987	258,981	\$4,864	\$18,782	5.27%	100,010	\$565	\$5,652
1988	264,868	5,307	20,036	6.68	103,150	603	6,108
1989	270,683	5,597	20,677	3.20	105,643	715	6,768
1990	277,963	6,036	21,715	5.02	107,177	762	7,109
1991	324,948	6,651	20,468	(5.74)	108,971	820	7,525
1992	333,848	6,889	20,635	0.82	111,779	896	8,016
1993	339,190	7,236	21,333	3.38	113,950	965	8,469
1994	343,477	7,625	22,119	3.68	116,001	1,024	8,828
1995	344,632	7,973	23,135	4.59	118,280	1,106	9,351
1996	352,408	8,340	23,666	2.30	121,219	1,216	10,031

SHORT-TERM SOLVENCY TEST

The PERS financing objective is to pay for the benefits through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will *pay all promised benefits when due - the ultimate test of financial soundness.*

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (cash and investments) are compared with: 1) active member contributions on deposit; 2) the liabilities for future benefits to present retired lives; 3) the liabilities for service already rendered by active members.

In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (1) and the liabilities for future benefits to present retired lives (2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (3) will be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of (3) will increase over time. Column (3) being fully funded is very rare.

It is wise to pay attention to both fundamental and short-term solvency tests.

ACCRUED LIABILITIES (\$ AMOUNTS IN MILLIONS)

Valuation Year	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer-Financed Portion)	Valuation Assets	Portions of Accrued Liabilities Covered by Reported Assets		
					(1)	(2)	(3)
1987	\$2,615	\$ 6,111	\$ 11,556	\$ 14,899	100%	100%	53%
1988	2,843	6,884	12,651	16,515	100	100	54
1989	3,076	7,510	13,208	18,550	100	100	60
1990	3,386	7,981	14,826	20,655	100	100	63
1991	3,720	8,582	16,169	23,097	100	100	67
1992	4,062	9,403	17,536	25,969	100	100	71
1993	4,481	10,010	19,688	29,251	100	100	75
1994	4,895	10,605	20,710	31,771	100	100	79
1995	5,299	11,477	22,378	34,877	100	100	81
1996 *	5,681	12,531	14,419	30,534	100	100	85

* Does not include assets set aside to pay healthcare benefits.

ACTUAL VS. RECOMMENDED CONTRIBUTION RATES

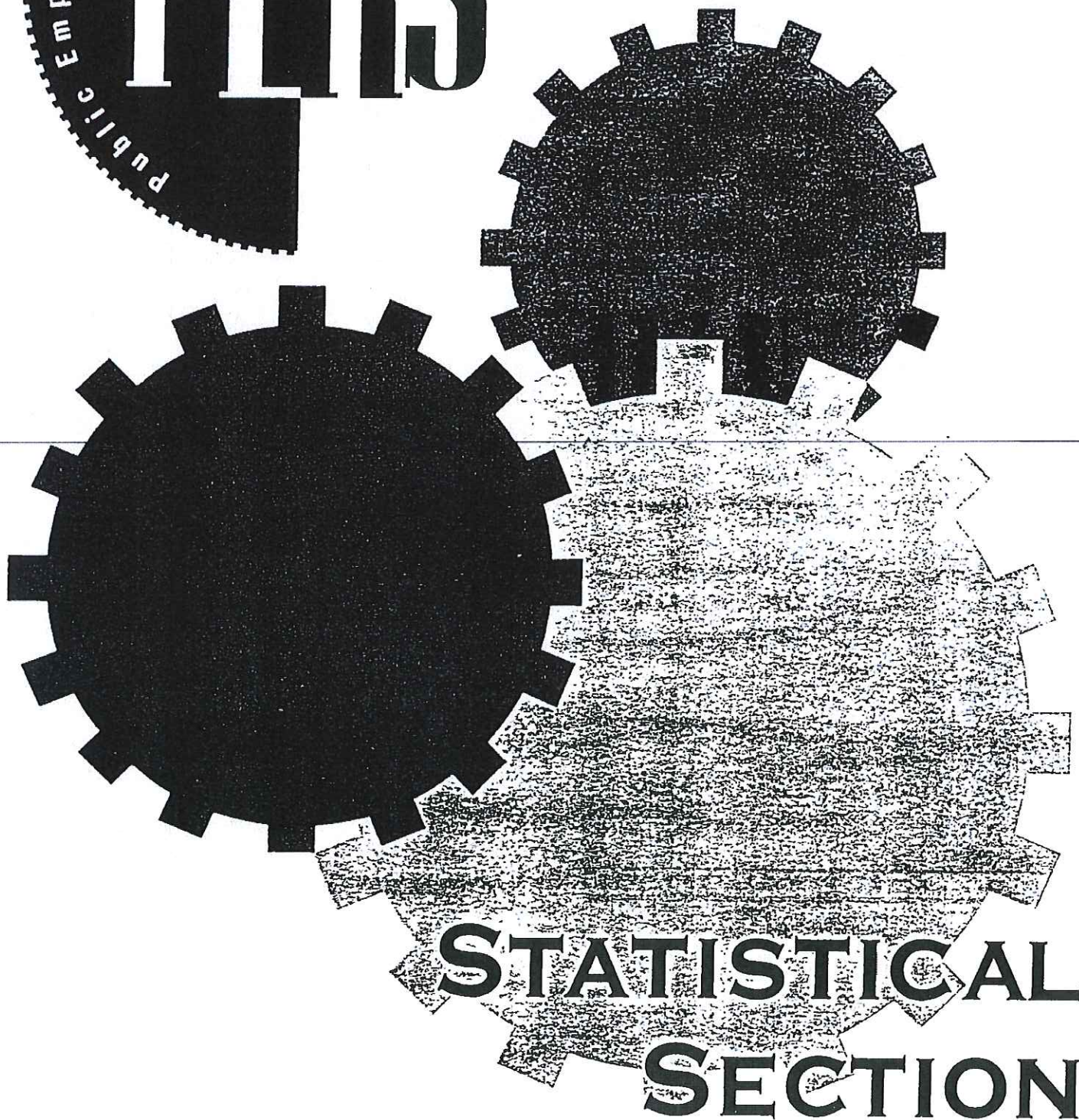
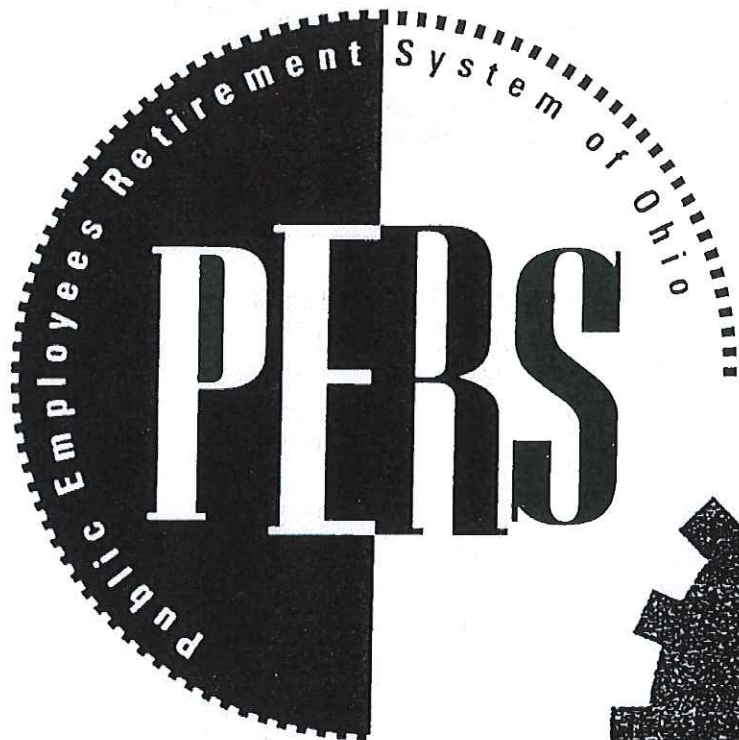
The Board adopted all contribution rates as recommended by the Actuary.

ANALYSIS OF FINANCIAL EXPERIENCE

Gains & Losses in Accrued Liabilities
Resulting From Differences Between Assumed Experience & Actual Experience

Type of Activity	Gain (or Loss) for Year \$ in Millions			
	1996	1995	1994	1993
Age & Service Retirements. If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	\$ 19.9	\$ 28.7	\$ 20.0	\$ 15.8
Disability Benefits. If disability claims are less than assumed, there is a gain. If more claims, a loss.	57.4	64.3	34.4	26.0
Death-in-Service Annuities. If survivor claims are less than assumed, there is a gain. If more claims, a loss.	3.6	3.8	36.3	34.0
Other Separations. If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	(145.8)	(278.9)	(224.1)	(198.0)
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	274.0	341.8	358.5	405.5
Investment Return. If there is greater investment return than assumed, there is a gain. If less return, a loss.	573.5	394.6	46.7	985.3
Health Insurance & Medicare Premiums. If there are smaller increases than assumed, there is a gain. If greater increases, a loss.	560.1	(58.3)	(294.1)	(93.5)
Gain (or Loss) During Year from Financial Experience	<u>\$ 1,342.7</u>	<u>\$ 496.0</u>	<u>\$ 472.5</u>	<u>\$ 1,175.1</u>

THIS PAGE INTENTIONALLY LEFT BLANK



**STATISTICAL
SECTION**

EMPLOYER CONTRIBUTION RATES

	Year	Current			Unfunded Liability		Total
		Normal	Health	Survivor Benefits	Past Service	Health	
State	1988	5.43 %	2.78 %	1.06 %	3.36 %	1.08 %	13.71 %
	1989	5.63	2.91	1.07	3.21	0.89	13.71
	1990	5.15	3.16	1.01	3.07	1.32	13.71
	1991*	5.48	3.34	1.01	2.40	1.08	13.31
	1992	5.49	3.34	1.02	2.51	0.95	13.31
	1993	5.49	3.24	1.08	2.45	1.05	13.31
	1994	5.34	3.37	1.07	2.61	0.92	13.31
	1995	5.31	3.39	1.09	2.62	0.90	13.31
	1996	5.57	3.54	1.09	2.36	0.75	13.31
	1997	5.62	3.31	0.59	2.81	0.98	13.31
Local	1988	5.00 %	3.18 %	1.05 %	3.49 %	1.23 %	13.95 %
	1989	5.08	3.49	1.06	3.26	1.06	13.95
	1990	4.65	3.92	0.99	2.89	1.50	13.95
	1991*	4.99	4.13	0.99	2.31	1.13	13.55
	1992	5.02	4.17	1.00	2.42	0.94	13.55
	1993	4.95	4.20	1.00	2.49	0.91	13.55
	1994	4.81	4.29	0.99	2.64	0.82	13.55
	1995	4.85	4.26	1.00	2.59	0.85	13.55
	1996	5.16	4.44	1.00	2.28	0.67	13.55
	1997	5.57	4.29	0.59	2.28	0.82	13.55
Law Enforcement	1988	8.58 %	3.45 %	1.55 %	3.52 %	1.00 %	18.10 %
	1989	8.64	3.90	1.55	2.89	1.12	18.10
	1990	7.73	4.33	1.45	3.34	1.25	18.10
	1991	8.23	4.37	1.45	1.13	0.82	16.00
	1992	8.08	4.46	1.44	1.29	0.73	16.00
	1993	7.87	5.06	1.45	1.49	0.13	16.00
	1994	8.21	4.93	1.44	1.16	0.96	16.70
	1995	7.97	4.82	1.56	1.28	1.07	16.70
	1996	8.15	4.95	1.56	1.10	0.94	16.70
	1997	9.61	4.70	0.89	0.74	0.76	16.70

* Rate effective July 1, 1991

DISBURSEMENTS BY CATEGORY

Year	Benefits					
	Annuities	Disabilities	Other Systems	Survivors	CPI	Post Retirement Legislative Increase
1988	\$ 416,758,803	\$ 51,625,775	\$ 3,223,604	\$ 34,735,329	\$ 80,357,076	\$ 33,742,346
1989	463,455,461	57,151,688	4,061,810	36,392,135	92,146,600	53,475,739
1990	493,081,656	63,546,647	3,229,381	37,764,185	106,013,735	50,389,589
1991	531,188,927	70,423,067	3,484,009	39,601,327	120,558,352	47,510,253
1992	577,820,133	78,697,614	4,550,956	41,737,122	135,927,428	44,686,312
1993	620,080,348	91,337,107	4,636,808	43,855,109	151,763,785	41,860,355
1994	655,822,239	105,602,623	5,222,468	46,229,029	167,031,125	39,123,353
1995	701,867,702	119,699,694	6,762,310	48,103,168	182,925,717	36,520,590
1996	757,995,460	138,848,062	4,734,682	50,844,206	199,783,533	39,127,634
1997	822,581,843	155,239,567	6,037,460	53,220,591	219,887,499	41,172,682

REVENUES BY SOURCE

Year	Members' Contributions	Employers' Contributions	Employers' Contributions as a Percentage of Covered Payroll	Investment Income (Net)	Other	Total
1988	\$ 446,091,129	\$ 769,144,695	13.93%	\$1,441,226,325	\$10,160,620	\$2,666,622,769
1989	476,415,655	804,745,875	13.95	1,823,780,073	2,535,968	3,107,477,571
1990	517,629,799	858,207,902	13.96	1,876,319,720	159,017	3,252,316,438
1991	562,818,132	925,097,737	13.75	2,418,425,646	84,878	3,906,426,393
1992	589,700,557	971,602,348	13.51	2,648,454,471	(189,141)	4,209,568,235
1993	639,366,718	1,012,814,909	13.51	2,683,394,902 *	592,395	4,336,168,924
1994	679,907,661	1,065,570,715	13.51	(134,383,505) *	229,502	1,611,324,373
1995	698,987,279	1,107,696,800	13.53	6,134,722,598 *	263,915	7,941,670,592
1996	737,292,990	1,181,597,072	13.54	2,848,123,681 *	867,738	4,767,881,481
1997	773,100,594	1,233,637,457	13.54	5,421,861,077 *	754,023	7,429,353,151

* GASB 25 was adopted in 1994 and applied retroactively to January 1, 1993. As a result, net investment income includes net appreciation (depreciation) in fair value of investments for 1993 through 1997 which can create significant fluctuations.

Refunds

Health Care	Death Benefits	Separation	Beneficiaries	Other	Total All Payments
\$219,010,835	\$1,919,432	\$ 76,778,952	\$4,099,350	\$ 341,831	\$ 922,593,333
203,624,998	4,478,907	80,927,621	3,751,617	597,113	1,000,063,689
225,610,040	5,076,344	78,847,373	4,080,822	22,637,292	1,090,277,064
281,799,972	5,292,320	74,682,948	4,434,088	17,840,419	1,196,815,682
302,486,109	5,677,159	81,001,038	4,130,148	17,632,947	1,294,347,021
307,001,902	5,203,412	76,066,042	5,123,185	3,895,870	1,350,823,923
327,578,426	5,718,038	86,026,417	5,403,248	1,760,429	1,445,517,395
353,685,547	6,304,298	100,842,250	5,100,749	2,089,485	1,563,901,510
369,213,858	5,987,329	102,212,756	5,598,156	2,232,831	1,676,578,507
389,845,273	6,464,758	131,184,720	5,827,194	2,612,260	1,834,073,847

EXPENSES BY TYPE

Year	Benefit Payments	Refunds	Administrative Expenses	Total
1988	\$ 841,373,200	\$ 81,220,133	\$11,256,093	\$ 933,849,426
1989	914,787,338	85,276,351	12,040,343	1,012,104,032
1990	984,711,577	105,565,487	13,398,269	1,103,675,333
1991	1,099,858,227	96,957,455	15,421,235	1,212,236,917
1992	1,191,582,888	102,764,133	16,178,012	1,310,525,033
1993	1,265,738,826	85,085,097	17,029,933	1,367,853,856
1994	1,352,327,301	93,190,094	17,212,600	1,462,729,995
1995	1,455,869,026	108,029,484	18,232,175	1,582,130,685
1996	1,566,534,763	110,043,743	18,650,473	1,695,228,979
1997	1,694,449,673	139,624,174	20,107,718	1,854,181,565

SCHEDULE OF BENEFIT RECIPIENTS BY BENEFIT TYPE

December 31, 1997

Amount of Monthly Benefit	Number of Recipients	Annuities	Disabilities	Survivors
\$1-249	19,098	16,426	421	2,251
250-499	25,284	19,441	1,211	4,632
500-999	35,226	27,356	4,357	3,513
1,000-1,499	20,801	16,037	3,971	793
1,500-1,999	11,668	9,126	2,272	270
2,000 & over	<u>10,711</u>	<u>9,447</u>	<u>1,103</u>	<u>161</u>
Totals	122,788	97,833	13,335	11,620

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

	Years Credited Service					
	5-9	10-14	15-19	20-24	25-30	30+
Period 1/1/92-12/31/92						
Average Monthly Benefit*	\$346.73	\$457.57	\$699.45	\$1,015.78	\$1,300.72	\$2,090.76
Average Final Average Salary	\$17,907.47	\$19,598.38	\$23,184.29	\$26,173.70	\$27,946.70	\$33,621.74
Number of Active Recipients	487	1,182	992	926	859	1,531
Period 1/1/93-12/31/93						
Average Monthly Benefit*	\$364.59	\$488.43	\$772.92	\$1,023.43	\$1,359.45	\$2,071.37
Average Final Average Salary	\$18,475.59	\$21,328.32	\$24,293.43	\$27,360.11	\$30,336.43	\$34,573.85
Number of Active Recipients	445	989	882	856	823	1,322
Period 1/1/94-12/31/94						
Average Monthly Benefit*	\$321.28	\$465.25	\$706.38	\$1,002.15	\$1,288.96	\$1,957.34
Average Final Average Salary	\$17,905.28	\$20,872.21	\$24,637.32	\$27,143.98	\$29,495.94	\$33,939.05
Number of Active Recipients	484	1,204	940	809	873	1,310
Period 1/1/95-12/31/95						
Average Monthly Benefit*	\$404.37	\$522.77	\$770.62	\$1,037.93	\$1,377.20	\$2,123.09
Average Final Average Salary	\$21,183.55	\$23,836.18	\$26,666.73	\$28,682.67	\$31,791.37	\$36,898.86
Number of Active Recipients	514	1,205	974	937	987	1,766
Period 1/1/96-12/31/96						
Average Monthly Benefit*	\$360.21	\$475.34	\$773.26	\$1,069.25	\$1,377.57	\$2,120.71
Average Final Average Salary	\$19,288.77	\$22,122.38	\$27,064.44	\$29,710.89	\$32,122.95	\$37,495.18
Number of Active Recipients	553	1,202	1,014	1,041	1,058	1,996
Period 1/1/97-12/31/97						
Average Monthly Benefit*	\$381.23	\$513.32	\$799.57	\$1,089.63	\$1,400.02	\$2,233.63
Average Final Average Salary	\$21,967.23	\$25,137.98	\$28,673.56	\$31,289.66	\$33,908.45	\$40,650.23
Number of Active Recipients	415	1,091	908	846	908	2,037

* "Average Monthly Benefit" includes post retirement and yearly 3% cost-of-living increases.

NUMBER OF BENEFIT RECIPIENTS BY CATEGORY

Year-end	Annuities	Disabilities	Survivors	Total
1988	82,462	7,560	10,940	100,962
1989	84,676	7,916	10,957	103,549
1990	85,916	8,294	10,981	105,191
1991	87,364	8,670	11,068	107,102
1992	89,736	9,079	11,158	109,973
1993	91,048	9,879	11,256	112,183
1994	92,224	10,758	11,360	114,342
1995	93,718	11,561	11,426	116,705
1996	95,739	12,547	11,510	119,796
1997	97,833	13,335	11,620	122,788

NUMBER OF NEW BENEFIT RECIPIENTS AND REFUND PAYMENTS

Year	Annuities	Disabilities	Survivors	Refund
1988	5,731	703	513	23,547
1989	5,026	728	500	23,008
1990	4,140	745	451	24,878
1991	4,406	802	534	27,165
1992	5,330	793	505	38,894
1993	4,463	1,195	537	37,336
1994	4,428	1,327	563	39,457
1995	4,908	1,353	535	39,536
1996	5,394	1,536	567	38,195
1997	5,371	1,470	616	40,806

MEMBER COUNT

Year-end	Active Contributing	Inactive	Total
1988	268,460	63,642	332,102
1989	266,866	80,630	347,496
1990	278,969	73,882	352,851
1991	328,981	71,216	400,197
1992	349,674	73,660	423,334
1993	347,937	96,268	444,205
1994	358,149	110,745	468,894
1995	365,383	127,491	492,874
1996	369,467	148,274	517,741
1997	365,384	175,020	540,404

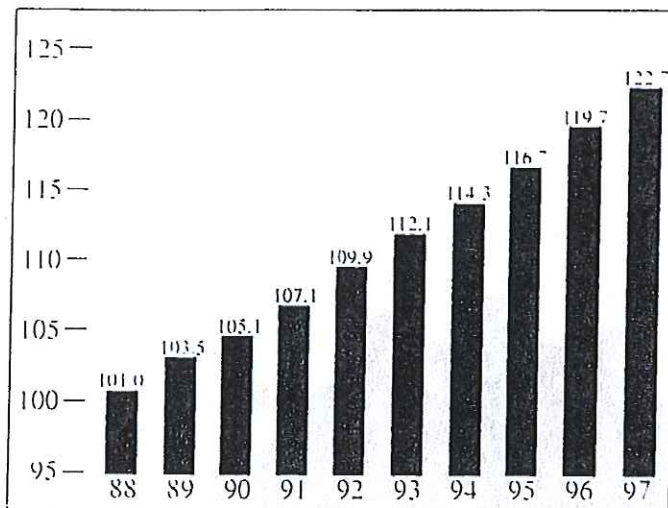
MEMBER CONTRIBUTION RATES

Year	Regular	Law Enforcement
1988	8.5%	9.5%
1989	8.5	9.5
1990	8.5	9.5
1991	8.5	9.0
1992	8.5	9.0
1993	8.5	9.0
1994	8.5	9.0
1995	8.5	9.0
1996	8.5	9.5
1997	8.5	9.0

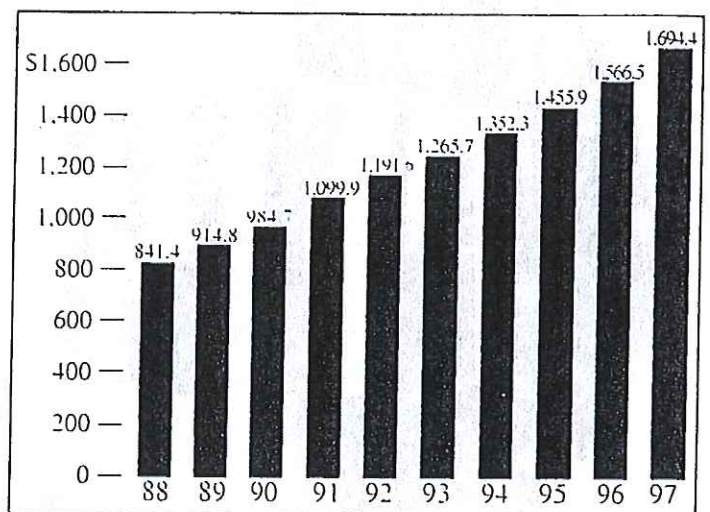
NUMBER OF EMPLOYER UNITS

Calendar Year	State	County	Law Enforcement	Municipalities	Villages	Miscellaneous	Libraries	Township	Totals
1988	240	239	186	341	601	298	251	1,309	3,465
1989	260	241	197	341	605	309	254	1,310	3,517
1990	263	239	206	341	613	327	255	1,310	3,554
1991	263	237	212	339	611	327	256	1,311	3,556
1992	265	234	211	336	613	320	256	1,310	3,545
1993	280	238	214	338	620	324	257	1,312	3,538
1994	287	238	207	340	634	340	257	1,311	3,614
1995	288	238	208	340	651	354	256	1,310	3,645
1996	289	238	213	339	658	374	256	1,312	3,679
1997	292	236	226	338	666	379	256	1,312	3,705

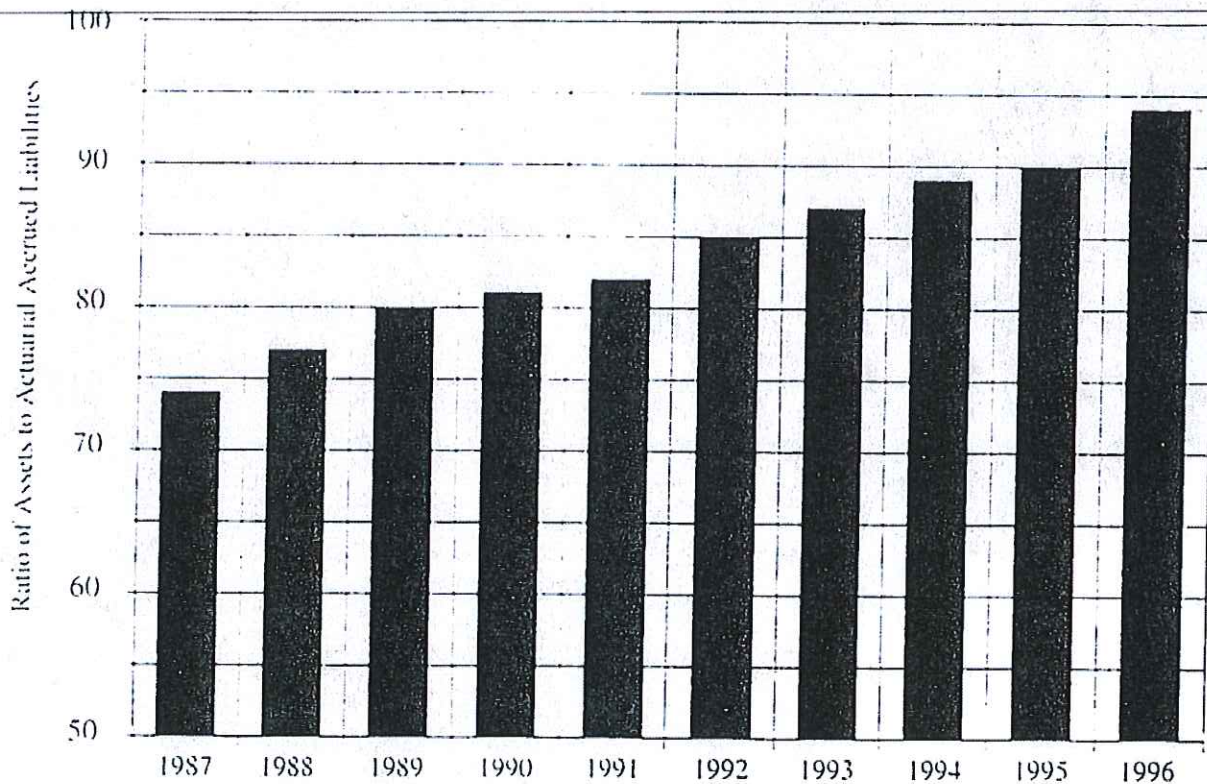
TOTAL BENEFIT RECIPIENTS
(in thousands)

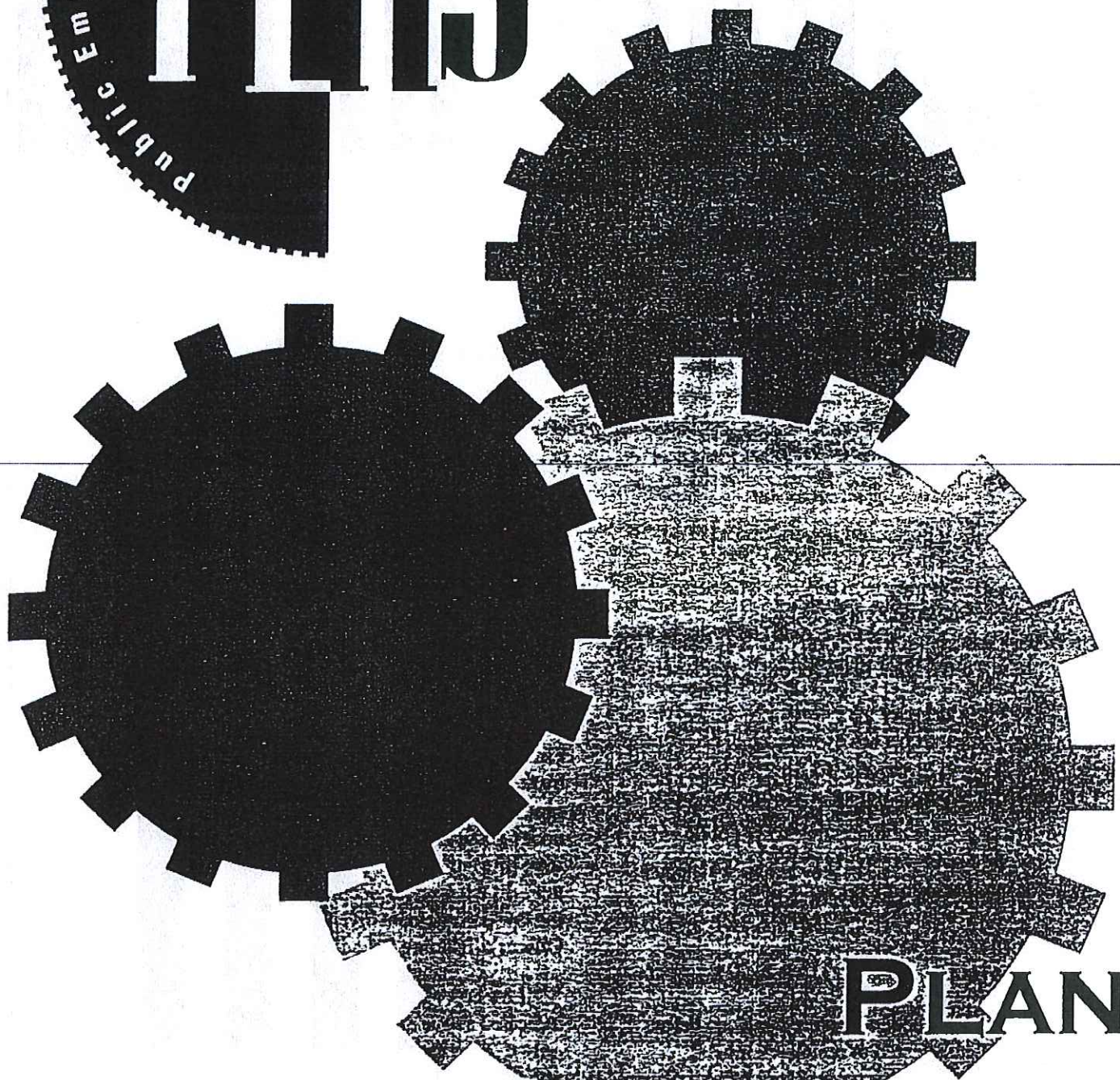


TOTAL BENEFIT PAYMENTS
(\$ in Millions)



FUNDING PROGRESS
(Pension Only)





PLAN STATEMENT

PLAN STATEMENT

The Public Employees Retirement System of Ohio (PERS) was created by the Ohio General Assembly to provide retirement, disability, and survivor benefit programs for the public employees of Ohio. This summary outlines the Ohio law which regulates PERS; however, it cannot and does not change any of the provisions of the Ohio Revised Code.

MEMBER ELIGIBILITY

All public employees, except those covered by another state retirement system in Ohio or by the Cincinnati Retirement System, are required to become contributing members of PERS when they begin public employment unless they may be exempted or excluded.

The law provides for optional membership for elected public officials. Students, not already members, working for the public school, college, or university they are attending may be exempt from contributing to PERS by filing a request for exemption within the first month of employment.

The following individuals are excluded from membership:

- 1) inmates of state correctional institutions;
- 2) patients in hospitals operated by the Departments of Mental Health or Mental Retardation;
- 3) patients in the Ohio Veterans' Home and residents of county homes;
- 4) elected officials of public employers who have no employees subject to PERS coverage;
- 5) employees of temporary help services who perform services for public employers;
- 6) individuals serving on a temporary basis in case of fire, storm, snow, earthquake, flood, or other similar emergency;
- 7) persons employed under the federal Job Training Partnership Act;
- 8) members of the Motor Vehicle Salvage Dealers Board or the Motor Vehicle's Board;
- 9) employees of private contractors except public employees transferred with previously publicly-operated functions and performing the same duties as before;
- 10) individuals performing services under a contract as an independent contractor;
- 11) election workers who earn less than \$500 per calendar year;
- 12) firefighters except those who were members before Aug. 3, 1992 and elected to remain members;
- 13) board members of city or general health district boards of health whose compensation is established in Section 3709.02 or 3709.05;

14) full-time faculty and administrative state employees in the unclassified civil service of state colleges/universities who choose to participate in an alternate retirement plan (ARP); and

15) board members of a sanitary district established under Chapter 6115.

PERS provides special retirement coverage for certain law enforcement officers. These include sheriffs and deputy sheriffs employed after Jan. 1, 1975; full-time township constables or police officers employed after Jan. 1, 1981; criminal bailiffs or court constables employed on or after April 16, 1993 who were deputized by a county sheriff and employed under Section 2301.12; or full-time state university law enforcement officers under Section 3345.04 and full-time bailiffs or deputy bailiffs appointed by the Hamilton County Municipal Court Clerk of Courts under Section 1901.32(A)(3) employed on or after Nov. 6, 1996; whose primary duties are to preserve the peace, to protect life and property, and to enforce the laws of Ohio. Full-time county narcotics agents employed after Sept. 26, 1984 also are included.

The following groups are eligible for the law enforcement provisions if the individuals were employed on or after Dec. 15, 1988: 1) full-time undercover drug agents as defined in Section 109.79; 2) full-time liquor control investigators with the Ohio Department of Liquor Control engaged in the enforcement of Chapters 4301 and 4303; 3) full-time park officers under Section 1541.10, forest officers under Section 1503.29, wildlife officers under Section 1531.13, or state watercraft officers under Section 1547.521 with the Ohio Department of Natural Resources; 4) full-time park district police officers under Section 511.232 or 1545.13; 5) full-time conservancy district officers under Section 6101.75; 6) full-time municipal corporation police officers not covered by the Police and Firemen's Disability and Pension Fund; 7) police employed by the Ohio Veterans' Home under Section 6907.02; 8) special police employed by a state mental health institution under Section 5119.14; 9) special police employed by a state institution for the mentally retarded and developmentally disabled under Section 5123.13. In order to enroll in the law enforcement division a member must have a Peace Officer's Training School Certificate.

Law enforcement officers employed before the dates indicated above are under this special retirement option only if they elected this coverage as provided by the enabling legislation; otherwise, they remain under the regular PERS schedule of benefits.

CONTRIBUTIONS

Employers are required to make contributions to the System on the basis of a percentage of reportable payroll and at a rate based upon the recommendation of PERS' actuary. Penalties and interest are added for late payments. The state contribution rate is 13.31 percent. Local employers contribute 13.55 percent and employers in the law enforcement division contribute 16.70 percent.

The current contribution rate for members is 8.5 percent of earnable salary. Members in the law enforcement division pay 9.0 percent of earnable salary. Individual accounts for each member of PERS are maintained and funds contributed by the member are fully refundable at service termination or death. In the first quarter of the year, members are sent a statement of their individual account as of the previous Dec. 31. A report disclosing the financial status of the System and describing major developments during the years at PERS is sent along with the statement of account.

BENEFITS FOR CONTRIBUTING MEMBERS

AGE AND SERVICE RETIREMENT

Members are eligible to retire at age 60 with at least five years of total service credit. They may retire with a commuted benefit as early as age 55 with 25 years of service. With 30 years of credit, there is no age requirement nor benefit reduction because of age.

Service credit allowed under Chapter 145 of the Ohio Revised Code includes:

- 1) service for the state of Ohio or an Ohio political subdivision of which contributions have been paid;
- 2) certain military service which interrupted contributing public service;
- 3) any out-of-public service period of three years or less during which the member was receiving an award under Workers' Compensation;
- 4) previously unreported service in Ohio;
- 5) service purchased by the member for:
 - a) other military service that is not being used for other retirement programs, except Social Security;
 - b) prisoner-of-war service;

- c) an authorized leave of absence, which did not exceed one year;
 - d) comparable public service that is not being used for other retirement programs, except Social Security, performed outside Ohio or with the federal government or for which contributions were made to an Ohio municipal retirement system;
 - e) service restored by redeposit which had been cancelled by an earlier refund of PERS contributions;
 - f) service in an Ohio police or fire department and covered by the Police and Firemen's Disability and Pension Fund or service in the State Highway Patrol and covered by the Highway Patrol Retirement System that is not being used for other retirement benefits;
 - g) service which was previously covered by a valid exemption under PERS;
 - h) 35 percent additional credit on completed terms of full-time contributing elective service or board, commission, or other public body service by members who are appointed by the governor with the advice and consent of the Senate;
- 6) service purchase by an employer under a retirement incentive plan.

When a member files an application for age and service retirement, a choice of several plans of payment is available. The choices include benefits payable throughout the member's lifetime (Plan B-single life annuity) or in a lesser amount during the individual's life but continuing after their death to a spouse (Plan A) or to another designated beneficiary (Plans C, or D-joint and survivor annuity). A benefit payable under Plan A, C, or D is the actuarial equivalent of Plan B, but the payment to the member is reduced because it is based on the combined life expectancies of the member and the beneficiary. A fifth payment plan (Plan E-guaranteed period) is also the actuarial equivalent of Plan B, but the payment is reduced to guarantee the period.

Benefit payments vary in amount depending on length of public service, final average salary (FAS), age, and plan of payment selection. Final average salary is determined by taking the average of the three highest years of earnable salary. In no case can the age and service formula benefit exceed 100 percent of FAS or the limits under Internal Revenue Code Section 415.

DISABILITY BENEFITS

PERS members are eligible for one of two disability programs, the original plan or the revised plan. Employees who had contributions on deposit with PERS on July 29, 1992 had a one-time opportunity to select coverage under one of these programs. Those employees hired after July 29, 1992 are covered only under the revised plan. There are a number of features common to both plans.

A member who has at least five years of contributing service credit and becomes disabled for the performance of duty may apply to the Retirement Board for monthly disability benefits. Those members in the law enforcement division do not need five years of service credit to apply for disability if the disabling condition was the result of an on-duty illness or injury, or an injury which occurred during or resulted from the performance of duty.

A member must go off the payroll because of a presumably permanent disabling condition, either mental or physical, which prevents performance of their job. No more than two years must have passed since the member's job termination unless at the end of the two-year period, the member was disabled and unable to file an application. The member must not be receiving an age and service retirement benefit. If the Retirement Board approves the disability application, the benefit is effective the first day of the month following the member's service termination, provided the member is otherwise eligible. A disability benefit recipient may be required to have a medical examination at least once a year.

A disability benefit terminates under either plan if the member is no longer disabled, returns to public service, chooses to begin receiving an age and service benefit, dies, or requests termination of the benefit.

The amount of disability allowance under the original plan is based on the FAS and years of service with PERS, plus the length of time between the effective date of disability and age 60. The disability benefit cannot exceed 75 percent, nor be less than 30 percent of the member's final average salary. The benefit is fully taxable until normal retirement age and then a specified dollar amount each month representing the return of taxed contributions is tax-free.

The benefit under the revised plan is based on the FAS and years of service with PERS with no early retirement reductions, but cannot be less than 45 percent or exceed 60 percent of FAS. The benefit is fully taxable as long as it is received.

When the disability benefit under the revised plan ends, the member may have the opportunity to apply for a service retirement benefit or apply for a refund of the account, which is not reduced by the amount of disability benefits paid. The benefit amount would be the greater of: a) 2.1 percent of FAS multiplied by the years of service (contributing and disability) not to exceed 45 percent of FAS, or b) the regular or law enforcement benefit calculation using only the member's years of contributing service.

SURVIVOR BENEFITS

A refund of a member's accumulated contributions is available to a qualified beneficiary who is designated by the member or by law.

A member's beneficiary is determined by statutory automatic succession unless a specific designation is made in writing on a form provided by PERS. Listed below is the order of automatic succession under Ohio law:

- 1) Spouse.
- 2) If there is no spouse, the youngest dependent child under age 18 (or under age 22 if a qualified student). If monthly survivor benefits are selected by a legal guardian for this child, payments will be determined on the basis of all the children under 18 (or 22 if qualified students) and divided equally among them. Incomplete, dependent children, regardless of age, are included.
- 3) If monthly survivor benefits are not payable or there are no dependent children, all living children will share equally in a refund of the account.
- 4) If there is no spouse or child(ren), a dependent parent if that parent selects a monthly survivor benefit.
- 5) If none of the above, parents share equally in a refund of the account.
- 6) If none of the foregoing, a refund of the account will be paid to the estate.

Qualified dependent(s) may be eligible to receive monthly survivor benefits if the deceased member: 1) had at least 18 full months of Ohio service credit with three of those months within the two and one-half years immediately before death, or 2) was eligible for age and service retirement but did not retire and continued to work, or 3) was receiving a disability benefit at the time of death.

The dependents qualify for monthly benefits as follows:

- 1) A surviving spouse age 62 or older (age 50 if the deceased member had 10 or more years of service credit).
- 2) A spouse with dependent child(ren) under age 18 or 22 if qualified student(s).
- 3) Dependent child(ren) under age 18 or 22 if qualified student(s).
- 4) Dependent parent(s) age 65 or older.
- 5) An incompetent spouse, incompetent child(ren), or incompetent parent(s), at any age.

If a surviving spouse remarries before reaching age 55, rights to benefits, other than the joint survivorship allowance, cease. The benefit will be resumed if the remarriage ends in divorce, dissolution, annulment, or death within two years after the survivor benefit ceased.

Benefits for dependent children terminate upon marriage, adoption, or during active military service. Also, survivor benefits will be stopped after a dependent child reaches age 18 unless proof is submitted that the child is attending an institution of learning or training and pursuing a program of study equivalent to at least two-thirds of the full-time curriculum requirements of the institution. Payments to dependent parents stop in the event of remarriage.

ADDITIONAL BENEFITS

Health Care Coverage – PERS-provided health care is not a statutorily-required benefit. Currently, when applying for age and service retirement a member with 10 years of Ohio service credit shall have PERS health care plan coverage available. These 10 years may not include out-of-state and/or military service purchased after Jan. 29, 1981, service credit granted under a retirement incentive plan, or credit purchased after May 4, 1992 for exempt service. Health care coverage for disability recipients and primary survivor recipients is available. Dependents of eligible recipients may be covered through premium deductions. Qualified benefit recipients also may be eligible for alternative health care plans (HMOs) which may require a premium deduction.

Members with less than 10 years of service credit at age and service retirement may obtain access to independent health care coverage offered by our health care administrators. This coverage is neither offered by PERS

nor is it the responsibility of the Retirement System. PERS does not pay premiums, claims, or withhold any premiums for this coverage.

Medicare Part B Reimbursement – Recipients who are eligible for health care must enroll in Medicare B (medical) when they become eligible for Medicare B even if they are covered by health care through their current employer. Proof of enrollment must be submitted and PERS will then reimburse a recipient for the basic premium cost of the Medicare B premium as long as the recipient is enrolled in Medicare B. The amount is added to the monthly benefit.

Cost-of-Living Adjustment – Once a benefit recipient has received benefits for 12 months, an annual cost-of-living adjustment is provided to benefit recipients in each year the Consumer Price Index (CPI) shows an increase. The adjustment is the lesser of 3 percent or the actual CPI increase.

REFUNDS

Full recovery of all contributions to PERS is guaranteed. Upon leaving all public employment in Ohio, a member may apply for and receive their accumulated savings. Employer contributions are not refundable.

Before a refund may be issued, the law requires three months must elapse from the date certified by the employer that the member terminated public employment. If a member is also a member of the State Teachers Retirement System or the School Employees Retirement System, an application for refund from the other system(s) must have been filed in order to receive the money from PERS.

If a refund is taken and the individual later returns to covered employment for at least 18 months, the amount refunded, plus interest, may be redeposited and service credit restored.

COVERAGE AND BENEFITS FOR RE-EMPLOYED RETIRANTS

After a member retires, re-employment in a job that is covered by PERS, including service in an elected position, may affect continuing receipt of an age and service retirement benefit.

Retirants begin contributing from the first day of re-employment at a rate of 8.5 percent of earnable salary. State employers contribute 13.31 percent for these re-employed retirants and local employers contribute 13.55 percent.

A retirant should not be re-employed for at least six months after retirement from a PERS-covered employer. A retirant who returns to work and has not been retired for the required six months must contribute, but the current retirement allowance for each month in which re-employment occurs during those six months will be forfeited.

All re-employed retirants must elect to either:

- 1) receive compensation, have their retirement allowance suspended for the period of re-employment and make contributions toward a formula benefit, or
- 2) receive compensation, continue to receive their retirement allowance and make contributions toward a money purchase annuity, which is based on the calculation of the sum of employee contributions for the period of re-employment, plus allowable interest, multiplied by two.

If the PERS retirant elects to receive both the retirement allowance and salary for the re-employment period, the employer must provide the re-employed retirant's primary health care coverage if it is available to employees in comparable positions. The employer health care coverage cannot be waived by the re-employed retirant. Suspension or forfeiture of the retirement allowance interrupts the retirant's health care coverage. An elected official who retires during a term of office and who is re-appointed to the position during the same term or is elected to the position for the next consecutive term can choose only the option to have their retirement allowance suspended and contribute to a formula benefit.

A person who is retired from PERS and returns to PERS-covered employment as an elected official is treated as a re-employed retirant. A person who is retired from another Ohio state retirement system and becomes a PERS member as an elected official also is treated as a re-employed retirant. However, if a PERS member is covered for

non-elected official service, and, also is an elected official contributing to Social Security for the elected position, their elected service has no effect on their PERS retirement, and they are not PERS re-employed retirants for subsequent elected services.

A PERS retirant cannot continue to receive benefits and work as an independent contractor under a contract for any period of time for the employer from which they retired.

A disability or age and service benefit recipient from another Ohio system coming into PERS-covered employment should be retired for at least two months and must begin contributions to PERS from the first day of employment. These recipients will earn only a money purchase annuity based on the calculation of the sum of employee contributions received for the period of re-employment, plus allowable interest, multiplied by two.