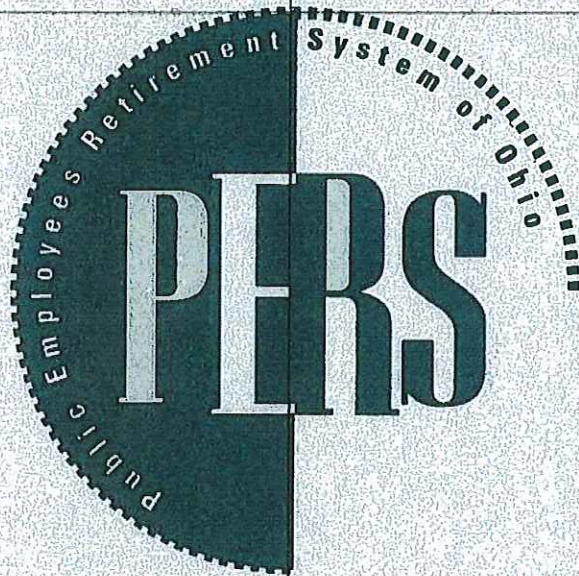


# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the Year Ended December 31, 1996**



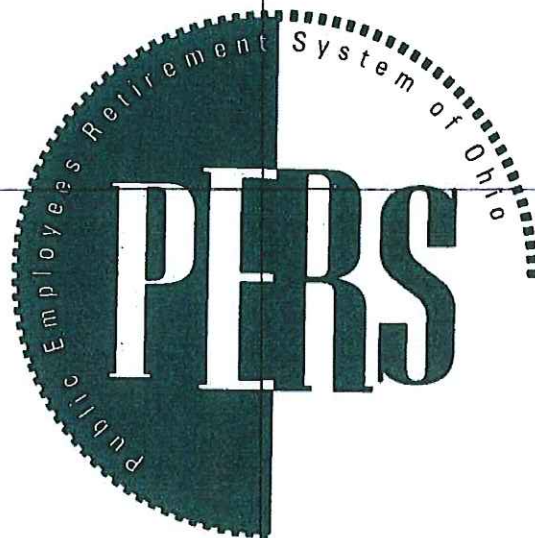
**Public Employees Retirement System of Ohio**



**Public Employees Retirement System of Ohio**

# **THE COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the Year Ended December 31, 1996**



**Richard E. Schumacher, Executive Director  
Mark Snodgrass, Assistant Director-Controller**

**277 East Town Street, Columbus, Ohio 43215-4642**

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## Plan Statement

# 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, 1995

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.



*Arthur R. Lynch*  
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 Principle

*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)

A handwritten signature in black ink, appearing to read 'Carlos Resendez'.

Carlos Resendez  
Chairman



# Letter of Transmittal

277 East Town Street



Columbus, Ohio 43215-4642

**Public Employees Retirement System of Ohio**  
(614) 466-2085

May 15, 1997

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, 1996. 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 retirees.

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 90. 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 90.

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. We trust that you and the members of the System will find this CAFR helpful in understanding your public employees retirement system.

## 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, a patient pre-certification program and, added during 1996, certain benefit recipients were afforded the opportunity to elect coverage under Medicare Risk HMOs effective January 1, 1997.

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 also are provided. The federal government pays the HMO a flat fee for each enrolled individual. The payment made to the HMO by the government is considered payment in full for agreed upon benefits. All HMOs participating in the federal program must meet strict requirements to become a Medicare-approved HMO. They must offer benefits that at least replace traditional Medicare benefits. 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.

Pre-retirement planning seminars which commenced in 1994 for individuals who were within two years of retirement were expanded during 1996 and offered to individuals within 10 years of retirement. These seminars have been well received by our membership and we believe them to be truly beneficial in assisting all who attend to better plan for their retirement. Topics covered at the seminars include instruction regarding: PERS benefits, Ohio Deferred Compensation benefits, Social Security laws, financial planning, estate planning and life style changes associated with retirement.

Postal reclassification has changed many of our internal mailing and address verification procedures. Though most of these changes will be unnoticed by our members, the changes will allow management to better assist our members and retirants in maintaining accurate address information which conforms with postal requirements. By virtue of these internal changes PERS has garnered many thousands of dollars in postal savings throughout 1996, a trend which we will continue into the future.

House Bill 365 was effective September 27, 1996. It involved two provisions affecting PERS benefit recipients. The first provision guarantees benefit recipients an annual cost of living increase which at a minimum will equal the annual increase in the consumer price index (CPI). Most benefit recipients will continue to receive the annual 3 percent maximum increase. The second provision provided an ad hoc increase to certain PERS recipients whose effective benefit dates were in 1977 or earlier. This increase allowed these recipients to recoup some of the purchasing power they lost during earlier high inflation periods.

Senate Bill 82 which includes provisions affecting the Retirement System, was signed by the Governor in December 1996. Investment authority and actuarial standards were the significant topics addressed in the legislation.

Prior to March 6, 1997, we utilized a legal list to determine allowable investments. Beginning March 6, 1997, the effective date of Senate Bill 82, the legal list was eliminated and percentage restrictions by type of investments were also removed. The prudent person standard now governs our investment decisions. This expands the Board's authority to invest the assets of the System and should allow for a reduction in overall risk.

SB 82 also set a 30-year guideline for funding future liabilities. The 30-year funding period is becoming a nationally accepted period for funding under the Governmental Accounting Standards Board because it is based on intergenerational equity. PERS already meets this 30-year requirement. The legislation also sets greater detail for actuarial methodology which is the basis for measuring the funding progress of the pension plan, and actuarial valuations which are used to establish contribution rates necessary to fund benefit payments. Again, PERS already meets the new standards.

#### **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 1996 totaled \$4,768,524,144.

	1996	1995	Increase (Decrease) Amount	Increase (Decrease) Amount
Member Contributions	\$ 737,292,990	\$ 698,987,279	\$ 38,305,711	5%
Employer Contributions	1,181,597,072	1,107,696,800	73,900,272	7%
Net Investment Income	2,849,634,082	6,134,722,598	(3,285,088,516)	(54%)
Other	867,738	263,915	603,823	229%
Total	\$4,769,391,882	\$7,941,670,592	(\$3,172,278,710)	(40%)

Member and Employer contributions increased by \$38,305,711 (5 percent) and \$73,900,272 (7 percent), respectively. The increase in contributions was attributable to higher salaries and additional members during the period. Contribution rates remain substantially the same. Net Investment Income decreased in 1996 due to a less favorable appreciation in the fair value of investment assets.

#### Deductions to Plan Net Assets

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



	1996	1995	Increase (Decrease) Amount	Increase (Decrease) Amount
Benefit Payments	\$ 1,566,534,763	\$1,455,869,026	\$110,665,737	8%
Refunds	110,043,743	108,029,484	2,014,259	2%
Administrative Expenses	20,160,874	18,232,175	1,928,699	11%
Total	\$1,696,739,380	\$1,582,130,685	\$114,608,695	7%

Expenses for fiscal year 1996 totaled \$1,696,739,380, an increase of 7 percent over fiscal year 1995 expenses. The majority of the increase is due to an increase in the number of benefit recipients and annual cost of living adjustments. The increase in administrative expenses is largely attributable to the increase in payroll costs. Administrative expenses are detailed in the Financial Section 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 retirees 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, 1996, funds established by the System totaled \$39,758.0 million. The latest actuarial valuation, dated December 31, 1995, reflects an unfunded actuarial accrued liability of \$4,276.7 million. This is the difference between actuarial value of assets and the actuarial calculated liability for the fund. These "unfunded actuarial accrued liabilities", which include both pension and health care components, are being amortized over future years. The State government liability is being funded over 19 years, the local government portion over 24 years, and the law enforcement portion over 16 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.

#### **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, established a standard for all fiduciaries, which includes anyone that 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 76 of this report.

For the year ended December 31, 1996, total return on investments was 7.9 percent. The annualized rate of return over the past three years was 9.0 percent and 8.5 percent over the past five years.

#### **Certificate of Achievement for Excellence in Financial Reporting**

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



Comprehensive Annual Financial Report for the fiscal year ended December 31, 1995. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to 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 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 adviser to the Board is Wilshire Associates Inc., Santa Monica, 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.

#### **Acknowledgements**

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 contributed by the members and their employers.

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



# 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

## VISERS:

uary –  
riel, Roeder, Smith & Company  
roit, Michigan

formance Analysis  
Corporation  
yne, Pennsylvania

et Allocation Advisor to the  
irement Board  
shire Associates, Incorporated  
ta Monica, California

## AUDITORS:

KPMG Peat Marwick LLP  
Columbus, Ohio  
(Under contract with the  
Ohio 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



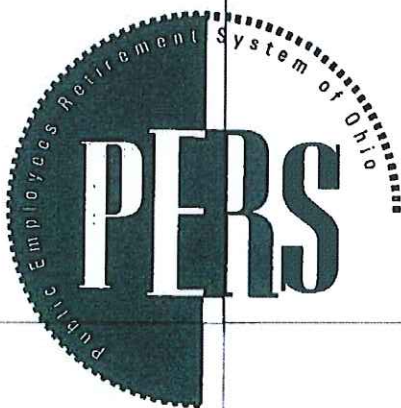
**Assistant Director  
Data Information Systems**  
Blake W. Sherry



# **Public Employees Retirement System of Ohio**

## **The Comprehensive Annual Financial Report**

**For the Year Ended December 31, 1996**



## **FINANCIAL SECTION**



# Independent Auditor's Report

**KPMG** 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, 1996 and 1995, 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, 1996 and 1995, 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*

March 28, 1997

Member Firm of  
KPMG International



# Combining Statements of Plan Net Assets

As of December 31, 1996 and 1995

	1996		
	Pensions	Postemployment Healthcare	Total
<b>Assets</b>			
Cash and Short-Term Investments (Note 3)	\$ 2,193,224,236	\$ 499,169,867	\$ 2,692,394
	2,193,224,236	499,169,867	2,692,394
<b>Receivables:</b>			
Employers'	106,508,359	24,240,915	130,749
Retirement Incentive Plan	15,497,581	3,527,193	19,024
Investment Sales Proceeds	8,661,751	1,971,383	10,633
Accrued Interest and Dividends	205,375,758	46,742,776	252,118
Total Receivables	336,043,449	76,482,267	412,525
<b>Investments, at fair value (Note 3):</b>			
Bonds	13,336,208,870	3,035,272,679	16,371,481
Mortgage & Mortgage Backed	4,504,957,100	1,025,311,866	5,530,268
Stocks	9,049,733,133	2,059,686,377	11,109,419
Real Estate	2,277,025,327	518,242,690	2,795,268
Venture Capital	21,869,675	4,977,458	26,847
International Securities	703,149,517	160,034,275	863,183
Collateral on Loaned Securities	8,847,131,141	2,013,574,900	10,860,706
Total Investments	38,740,074,763	8,817,100,245	47,557,175
<b>Fixed Assets:</b>			
Land	1,391,670	316,739	1,708
Building and Building Improvements	14,792,225	3,366,657	18,158
Furniture and Equipment	12,317,517	2,803,422	15,120
	28,501,412	6,486,818	34,988
Accumulated Depreciation	(9,462,026)	(2,153,523)	(11,615)
Total Fixed Assets	19,039,386	4,333,295	23,372
Prepaid Expenses and Other (Note 6)	2,636,615	600,084	3,236
<b>TOTAL ASSETS</b>	<b>41,291,018,449</b>	<b>9,397,685,758</b>	<b>50,688,704</b>
<b>Liabilities</b>			
Undistributed Deposits	5,166,916	1,175,971	6,342
Medical Benefits Payable		49,130,163	49,130
Investment Commitments Payable	7,404,989	1,685,348	9,090
Accrued Administrative Expenses (Notes 5 and 6)	4,378,512	996,534	5,375
Obligations Under Securities Lending	8,847,131,141	2,013,574,900	10,860,706
<b>TOTAL LIABILITIES</b>	<b>8,864,081,558</b>	<b>2,066,562,916</b>	<b>10,930,644</b>
Net assets held in trust for pension and postemployment healthcare benefits	\$32,426,936,891	\$7,331,122,842	\$39,758,059

(A Schedule of funding progress is presented on page 25.)

See Notes to Financial Statements



1995

Pension	Postemployment Healthcare	Total
<u>1,439,505,718</u>	<u>\$ 353,600,557</u>	<u>\$ 1,793,106,275</u>
1,439,505,718	353,600,557	1,793,106,275
100,247,579	24,624,841	124,872,420
6,947,112	1,706,491	8,653,603
44,036,531	10,817,145	54,853,676
<u>247,034,346</u>	<u>60,681,581</u>	<u>307,715,927</u>
<u>398,265,568</u>	<u>97,830,058</u>	<u>496,095,626</u>
5,427,544,564	3,789,626,044	19,217,170,608
3,093,319,956	759,843,916	3,853,163,872
6,971,423,190	1,712,462,199	8,683,885,389
1,968,465,826	483,534,455	2,452,000,281
22,031,891	5,411,920	27,443,811
182,100,889	44,731,309	226,832,198
<u>6,339,079,153</u>	<u>1,557,133,046</u>	<u>7,896,212,199</u>
<u>4,003,965,469</u>	<u>8,352,742,889</u>	<u>42,356,708,358</u>
1,371,511	336,898	1,708,409
14,184,637	3,484,318	17,668,955
<u>11,329,488</u>	<u>2,782,978</u>	<u>14,112,466</u>
26,885,636	6,604,194	33,489,830
<u>(8,381,346)</u>	<u>(2,058,796)</u>	<u>(10,440,142)</u>
<u>18,504,290</u>	<u>4,545,398</u>	<u>23,049,688</u>
<u>2,123,385</u>	<u>521,589</u>	<u>2,644,974</u>
<u>5,862,364,430</u>	<u>8,809,240,491</u>	<u>44,671,604,921</u>
5,082,369	1,248,435	6,330,804
	49,190,177	49,190,177
24,081,840	5,915,470	29,997,310
3,586,268	880,932	4,467,200
<u>6,339,079,153</u>	<u>1,557,133,046</u>	<u>7,896,212,199</u>
<u>6,371,829,630</u>	<u>1,614,368,060</u>	<u>7,986,197,690</u>
<u>9,490,534,800</u>	<u>\$7,194,872,431</u>	<u>\$36,685,407,231</u>



# Combining Statements of Changes in Plan Net Assets

For the Years Ended December 31, 1996 and 1995

	1996		
	Pensions	Postemployment Healthcare	Total
<b>Additions:</b>			
Contributions:			
Members'	\$ 737,292,990	\$	\$ 737,292
Employers'	777,781,045	403,816,027	1,181,597
Total Contributions	<u>1,515,074,035</u>	<u>403,816,027</u>	<u>1,918,890</u>
Investment Income:			
Net Appreciation (Depreciation) in			
Fair Value of Investments	1,237,322,052	(223,894,091)	1,013,427
Bond Interest	1,156,454,777	250,836,769	1,407,291
Dividends	156,244,942	33,889,761	190,134
Real Estate Operating Income, net	193,526,417	41,976,169	235,502
Securities Lending Income	4,992,347	1,082,848	6,075
	<u>2,748,540,535</u>	<u>103,891,456</u>	<u>2,852,431</u>
Less Investment Expenses	(2,279,177)	(518,732)	(2,797)
Net Investment Income	<u>2,746,261,358</u>	<u>103,372,724</u>	<u>2,849,634</u>
Other Income	867,738		867
TOTAL ADDITIONS	<u>4,262,203,131</u>	<u>507,188,751</u>	<u>4,769,391</u>
<b>Deductions:</b>			
Benefits	1,197,320,905	369,213,858	1,566,534
Refunds of Contributions	110,043,743		110,043
Administrative Expenses	<u>18,436,392</u>	<u>1,724,482</u>	<u>20,160</u>
TOTAL DEDUCTIONS	<u>1,325,801,040</u>	<u>370,938,340</u>	<u>1,696,739</u>
Net Increase	2,936,402,091	136,250,411	3,072,652
Net assets held in trust for pension and postemployment healthcare benefits:			
Balance, Beginning of Year	<u>29,490,534,800</u>	<u>7,194,872,431</u>	<u>36,685,407</u>
BALANCE, END OF YEAR	<u>\$32,426,936,891</u>	<u>\$7,331,122,842</u>	<u>\$39,758,059</u>

See Notes to Financial Statements

1995

Pensions	Postemployment Healthcare	Total
698,987,279	\$	\$ 698,987,279
<u>725,893,573</u>	<u>381,803,227</u>	<u>1,107,696,800</u>
<u>1,424,880,852</u>	<u>381,803,227</u>	<u>1,806,684,079</u>
3,699,810,339	603,341,894	4,303,152,233
1,229,231,121	212,206,050	1,441,437,171
168,873,899	29,152,640	198,026,539
158,256,149	27,318,784	185,574,933
<u>8,135,124</u>	<u>1,404,426</u>	<u>9,539,550</u>
5,264,306,632	873,423,794	6,137,730,426
<u>(2,414,684)</u>	<u>(593,144)</u>	<u>(3,007,828)</u>
5,261,891,948	872,830,650	6,134,722,598
<u>263,915</u>		<u>263,915</u>
<u>6,687,036,715</u>	<u>1,254,633,877</u>	<u>7,941,670,592</u>
1,102,183,479	353,685,547	1,455,869,026
108,029,484		108,029,484
<u>16,761,465</u>	<u>1,470,710</u>	<u>18,232,175</u>
<u>1,226,974,428</u>	<u>355,156,257</u>	<u>1,582,130,685</u>
5,460,062,287	899,477,620	6,359,539,907
<u>4,030,472,513</u>	<u>6,295,394,811</u>	<u>30,325,867,324</u>
<u>9,490,534,800</u>	<u>\$7,194,872,431</u>	<u>\$36,685,407,231</u>



# Notes to Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the Public Employees Retirement System of Ohio (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 substantially recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

Pursuant to the Governmental Accounting Standards Board (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 Postemployment 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** - Section 145.11 of the Ohio Revised Code authorizes PERS to invest in various instruments (meeting various rating criteria) which includes 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 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 cost, which

approximates fair value. Corporate bonds are valued at the median price quoted by three brokerage firms, while mortgages are valued directly by a single brokerage firm. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. 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 Section 145.11 of the Ohio Revised Code. The Retirement Board uses its own discretion to determine the type and amount of securities loaned 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 reverse repurchase agreements (reverse repos). Securities loaned and reverse 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 reverse repo is always identical to the maturity of the securities loan. Further, there is always a positive spread between the cost of funds raised from a securities loan and the income earned from the associated reverse 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, 1996, the fair values of loaned securities and associated collateral (reverse repurchase agreements) were, \$10,274,270,742 and \$10,860,706,041, respectively. As of December 31, 1995, the fair values of loaned securities and associated collateral (reverse repurchase agreements) were \$6,843,342,863 and \$7,896,212,199, respectively. Income from securities lending was \$6,075,195 and \$9,539,550 in 1996 and 1995, 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 derivatives:

- **Mortgaged-Backed Securities** - As of December 31, 1996 and 1995, the System held mortgaged-backed securities i.



he form of GNMA's and FNMA's. The fair value of mortgage-backed securities was \$5,530,268,966 and \$3,853,163,872 for 1996 and 1995, respectively. 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 mortgaged-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 prepay the existing loan and obtain new lower financing.

**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 unrealized 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 as is included on the appreciation/ depreciation in the statement of changes in plan net assets. As of December 31, 1996, the fair value of foreign currency contracts held by the System was \$341,137. No foreign currency contracts were held as of December 31, 1995.

**Stock Rights and Warrants** – The System held various stock rights and warrants related to its international investment fund. As of December 31, 1996, the fair value of stock rights and warrants held by the System was \$878,228. The stock right gives the holder a preemptive right to purchase additional shares from a pending new issue of stock in proportion to their present holdings. The stock right indicates the price at which stock can be acquired (the exercise prices), 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 a warrant is directly affected by the market value of the related stock. PERS held no stock rights or warrants as of December 31, 1995.

**e. International Investments** – Section 145.11 of the Ohio Revised Code authorized PERS to invest 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 foreign currency contracts (see Note 1d).

The allocation and fair value of international investments held at December 31, 1996 and 1995 are:

	<u>1996</u>	<u>1995</u>
	Fair Value	Fair Value
Cash	\$ 9,462,740	
Cash equivalents	17,441,563	
Netted Receivable/ Payable Interest	1,573,802	
International Stock	584,441,224	
Convertible Bonds	6,298,785	
International Currency Contracts	341,137	
Rights & Warrants	878,228	
Forest Products	<u>242,746,313</u>	<u>\$226,832,198</u>
Total International	<u>\$863,183,792</u>	<u>\$226,832,198</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:

	<u>Years</u>
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 compounded annually as required by Chapter 145 of the Ohio Revised Code. 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 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 and disability benefits are paid. This reserve was fully funded according to the latest actuarial study dated December 31, 1995, and accordingly, there are sufficient assets available to 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, 1995.
- 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, 1996 and 1995 are as follows:

	1996	1995
Employees' Savings Fund	\$ 5,680,623,240	\$ 5,299,436,091
Employers' Accumulation Fund	21,776,565,908	20,521,583,780
Annuity & Pension Reserve Fund	11,578,875,556	10,196,090,815
Survivors' Benefit Fund	695,560,126	644,949,165
Income Fund	25,848,886	23,557,522
Expense Fund	586,017	(210,142)
Total Fund Balance	<u>\$39,758,059,733</u>	<u>\$36,685,407,231</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 1996 or 1995. 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 1996 and 1995 were related to the employee healthcare coverage (see Note 8).

## 2. DESCRIPTION OF PERS

**a. Organization** – 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. The accompanying financial statements comply with the provisions of the 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 provide oversight authority 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 Board meets monthly and receives no compensation, but is reimbursed for necessary expenses.

Employer, employee and retirant data as of December 31, 1995 and 1994 (per latest available actuarial data) follows:

	1995	1994
<b>Employer Units</b>		
State group	288	2
Local government group	3,149	3,1
Law enforcement group	208	2
<b>Employee Members and Retirants</b>		
Retirants and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	146,336	140,7
<b>Active employees:</b>		
State group	114,596	115,7
Local government group	223,431	221,9
Law enforcement group	6,605	6,2



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.

**Benefits** – All benefits of the System and any benefit increases are established or amended by the legislature pursuant to Chapter 145 of the Ohio Revised Code. Chapter 145 of the Ohio Revised Code provides the 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 Chapter 145 of the Ohio Revised Code, 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** – 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 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. Chapter 145 of the Ohio Revised Code specifies the dependents and the conditions under which they qualify for survivor benefits.
- **Healthcare Benefits** – The Ohio Revised Code permits, but does not require, PERS to offer healthcare benefits. The System currently provides comprehensive healthcare benefits to retirants currently 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 has adopted several cost containment measures including managed care and requiring annual deductible payments on claims by retirants, their covered spouses and other dependents.
- **Other Benefits** – Annually, after retirement, retirement benefits are increased 3 percent if the cost of living, as measured by the Consumer Price Index, has increased by at least 3 percent on a cumulative basis. 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).
- **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 17 and 21 years for state, 21 and 28 years for local government and 12 and 13 years for law enforcement divisions for retirement allowances and survivor benefits for 1995, the date of the latest actuarial study, and 1994, respectively.

As of December 31, 1996 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 1996 and 1995; 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 1996 and 1995; 5.11 percent was the portion used to fund healthcare. The law enforcement employer rate was 16.70 percent of covered payroll in 1996 and 1995; 5.89 percent was the portion used to fund healthcare.

Unfunded actuarial accrued liabilities for healthcare are amortized over a period of 24 and 23 years for state, 34 and 31 years for local government, and 19 and 24 years for law enforcement divisions for 1995, the date of the latest actuarial study, and 1994, respectively.

Chapter 145 of the Ohio Revised Code assigns authority to the Retirement Board to amend the funding policy. As of December 31, 1996 the 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.

### 3. CASH AND INVESTMENTS

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 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 Ohio Revised Code (Category 3).

At December 31, 1995, the carrying amount of PERS' cash deposits was \$12,895,377 and the bank balance was \$18,879,514. 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 Ohio Revised Code (Category 3).

A summary of short-term securities and investments held at December 31, 1996 and 1995 is as follows:

	Dec. 31, 1996 Fair Value	Dec. 31, 1995 Fair Value
<b>Short-Term Securities</b>		
Commercial Paper	\$ 921,466,773	\$ 685,527,3
U.S. Treasury Obligations:		
Not on securities loan	1,399,102,590	1,094,683,5
On securities loan	<u>329,920,297</u>	
Total Short-Term Securities	<u>\$2,650,489,660</u>	<u>\$1,780,210,8</u>
<b>Other Investments</b>		
Corporate Bonds	\$ 2,914,288,885	\$ 1,910,622,7
Canadian Obligations	505,978,354	609,115,8
U.S. Government and Agencies:		
Not on securities loan	3,006,863,865	9,854,089,1
On securities loan	9,944,350,445	6,843,342,8
Mortgage and Mortgage backed	5,530,268,966	3,853,163,8
Stocks	11,109,419,510	8,683,885,3
Real Estate	2,795,268,017	2,452,000,2
Venture Capital	26,847,133	27,443,8
International Securities	863,183,792	226,832,1
Collateral on loaned securities	<u>10,860,706,041</u>	<u>7,896,212,1</u>
Total Other Investments	<u>\$47,557,175,008</u>	<u>\$42,356,708,3</u>

**a. Fair Value**—If available, quoted market prices have been used to value investments as of December 31, 1996 and 1995. 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 dependent appraisals.

ASB 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 its trust department or agent but not in PERS' name.

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.

## LEASES

PERS leases equipment with lease terms of one year or less. Total lease expense was \$353,139 and \$434,398 for the years ended December 31, 1996 and 1995, respectively.

## VACATION AND SICK LEAVE

As of December 31, 1996 and 1995, \$1,653,688 and \$476,551, 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.

## 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 in future years. Deferred compensation assets are not available to employees until termination, retirement, death or foreseeable emergency.

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 held in trust and are 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 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 \$3,073,709 and \$2,481,019, at market value, and the related liability to PERS employees are included in the accompanying financial statements as of December 31, 1996 and 1995, respectively.

## 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, 1996 and for each of the two preceding years is as follows:

Year Ended December 31	Annual Required Contribution	Percentage Contributed
1994	\$1,254,080	100%
1995	1,345,349	100
1996	1,443,673	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 1996 and 1995. PERS also maintained a lifetime maximum stop loss coverage per employee for medical benefits in the amount of \$1,000,000 for both 1996 and 1995.

The summary of changes in incurred but unreported claims for the years ended December 31, 1996 and 1995 follows:

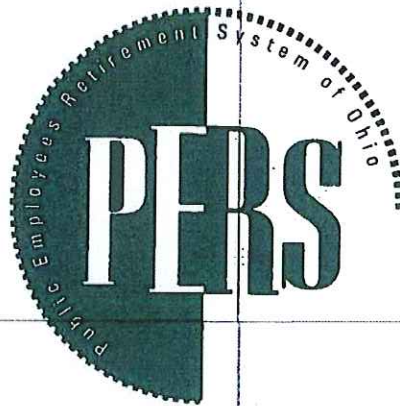
	General Health Insurance
Claims Liability as of December 31, 1994	\$ 105,943
Claims Incurred	1,565,708
Claims Paid	(1,520,406)
Claims Liability as of December 31, 1995	151,245
Claims Incurred	1,567,644
Claims Paid	(1,583,525)
Claims Liability as of December 31, 1996	<u>\$ 135,364</u>



# Public Employees Retirement System of Ohio

## The Comprehensive Annual Financial Report

For the Year Ended December 31, 1996



### REQUIRED SUPPLEMENTARY SECTION

# Required Supplementary Schedules

## Schedule of Funding Progress\* (\$ 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
1986	\$14,855	\$10,968	\$3,887	74%	\$4,543	86%
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	26,506	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

\* amounts reported in this schedule do not include assets or liabilities for postemployment healthcare benefits.

## Schedule of Employer Contributions\*

Year Ended December 31	Annual Required Contributions	Percentage Contributed
1987	\$549,492,910	100%
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

Board adopts all contribution rates as recommended by the Actuary.

\* amounts reported in this schedule do not include contributions for postemployment healthcare benefits.

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 and healthcare are amortized over a combined period of 19 and 21 years for state, 24 and 28 years for local government and 16 and 18 years for law enforcement divisions for 1995, the date of the latest actuarial study, and 1994, 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, 1995, the date of the latest actuarial study, and 1994 include:

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

- **Salary Scale** - As of December 31, 1995 and 1994 the active member payroll is assumed to increase 5.25 percent annually, 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, 1995 and 1994, 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 member 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** - For the purpose of estimating PER healthcare liabilities it is assumed that PERS healthcare benefits will continue to be paid. Assumed healthcare liabilities are based on PERS' experience adjusted for a 5 percent annual increase in costs at December 31, 1995 and 1994. All benefit recipients were assumed to be eligible Medicare on attainment of age 65 or immediately if receiving a disability benefit.

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 therefrom 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.

unfunded actuarial accrued liability (includes unfunded healthcare costs for members and retirants) based upon the most recent annual actuarial valuations is as follows:

### Unfunded Actuarial Accrued Liability

	December 31, 1995			December 31, 1994	
	State Group	Local Government Group	Law Enforcement Group	Total	Total
Present value of actuarial accrued liability for active and inactive accounts	\$10,911,401,344	\$15,898,991,582	\$866,526,351	\$27,676,919,277	\$25,607,488,090
Employers' Accumulation Fund*	7,110,968,876	10,210,839,764	634,156,797	17,955,965,437	15,789,909,816
Employees' Savings Fund	2,126,586,996	3,010,482,392	162,366,703	5,299,436,091	4,895,138,859
Market Value Adjustment	57,985,535	82,424,731	4,381,762	144,792,028	480,267,306
Unfunded actuarial accrued liability	<u>\$ 1,615,859,937</u>	<u>\$ 2,595,244,695</u>	<u>\$ 65,621,089</u>	<u>\$ 4,276,725,721</u>	<u>\$ 4,442,172,109</u>

Accounts 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, 1996 and 1995

	1996	1995
<b>Personal Services:</b>		
Salaries and Wages	\$10,534,262	\$ 9,713,077
Retirement Contributions	1,497,000	1,385,301
Insurance	1,813,377	1,813,256
Bureau of Employment Services		100
	<u>13,844,639</u>	<u>12,911,734</u>
<b>Supplies:</b>		
Office Supplies	294,282	243,868
Printing and Publications	329,805	190,658
Dues and Subscriptions	63,480	34,789
	<u>687,567</u>	<u>469,315</u>
<b>Other Services and Charges:</b>		
<b>Professional Services:</b>		
Auditing	61,230	66,070
Actuarial and Technical	460,848	538,896
Investment	340,799	701,361
Treasurer of State Charges	309,687	172,623
Medical	977,996	849,902
Pension Review	35,013	28,074
Employee Training	129,810	68,452
Data Processing Contract	38,653	41,443
Disaster Recovery	8,400	14,400
Retirement Awareness Seminar	183,978	95,875
<b>Communications:</b>		
Telephone	186,795	132,530
Contract Mailings & Shipping	14,611	19,201
Postage	1,628,494	1,464,015
Transportation and Travel	281,079	249,051
Utilities	288,618	284,205
<b>Rental and Maintenance:</b>		
Equipment & Facilities	1,081,731	943,005
Building	382,277	362,022
Microfilm	27,763	29,067
Retirement Study Council	271,622	180,082
Miscellaneous	49,586	27,185
	<u>6,758,990</u>	<u>6,267,459</u>
<b>Depreciation On:</b>		
Building	392,908	381,613
Equipment and Fixtures	1,274,679	1,209,882
	<u>1,667,587</u>	<u>1,591,495</u>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<u><u>\$22,958,783</u></u>	<u><u>\$21,240,003</u></u>

\*Includes investment related administrative expenses.

## Schedule of Investment Expenses

	1996	1995
Investment Services	\$ 144,752	\$ 164,810
Investment Staff Expense	153,611	138,006
Securities Lending Expense	196,047	536,552
Legal Services for International Investments	1,102	
Legal Services of Securities Lending	5,652	7,801
Allocation of Administrative Expense (See Note 1b)	<u>2,296,745</u>	<u>2,160,659</u>
<b>TOTAL INVESTMENT EXPENSES</b>	<b><u>\$2,797,909</u></b>	<b><u>\$3,007,828</u></b>

### Payments to Consultants

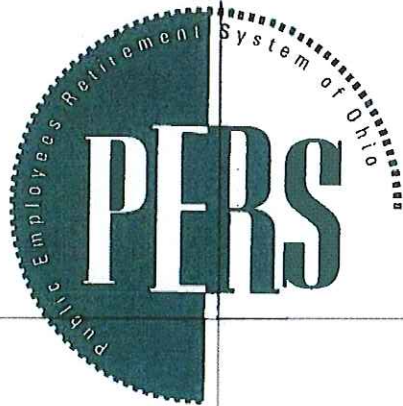
RS paid Wilshire Associates Incorporated \$46,249 in 1996.



# **Public Employees Retirement System of Ohio**

## **The Comprehensive Annual Financial Report**

**For the Year Ended December 31, 1996**



### **INVESTMENT SECTION**

# Investment Report

## 96 Economic Review

The economy grew at a moderate pace in 1996 driven by consumer spending in the first half of the year and business spending in the second half of the year. The Federal Reserve remained on hold throughout most of 1996. Its only move was an easing of monetary policy in January when the federal funds rate was lowered from 5.50 percent to 5.25 percent.

The Consumer Price Index (CPI) grew 3.3 percent in 1996, a moderate increase over 1995's increase of 2.6 percent, but the largest increase since 1990. The GDP deflator, which many believe is a more accurate inflation gauge, increased 1.6 percent. The producer price index was up 2.8 percent in 1996.

## 96 Market Review

### Equity

The stock market staged another remarkable performance in 1996. Following 1995's gain of 33.45 percent, the Dow Jones Industrial Average (DJIA) rose another 26 percent in 1996. This impressive run puts the Dow 68 percent above its level at the end of 1994, its eighth biggest 2-year move.

The volatile month of July saw corrections in the DJIA (-2.22 percent), the S&P 500 (-4.57 percent), the NASDAQ (-8.81 percent), the Dow Jones Utility Average (-6.88 percent) and S&P Midcap Index (-6.86 percent). At its worst point in the month, the Dow Jones Industrial Average was 10 percent below its highest close of 5778.00, the first 10 percent or greater correction in more than 6 years.

Record amounts of cash were pumped into the markets in 1996; during the first half alone, investors put \$138 billion into the equity mutual funds versus \$128.9 billion for all of 1995. Predictably, investors were most prone to buy stocks when the averages were rising; the summer correction caused investors to proceed with caution and mutual fund flows dried up to \$5 billion in July. The torrent of money resumed in the just-December period, when mutual funds received about \$15 billion per month from investors.

### Fixed Income

The U.S. treasury market experienced a difficult year in 1996, as early expectations of economic softening and lower interest rates soon gave way to spring and early summer concerns over rapid employment and wage growth, fears of job-based inflation, and the possibility of tighter monetary policy by the Federal Reserve. By late summer, however, it became apparent to market players that full-year economic and inflation growth would be about as anticipated at the beginning of the year, if not a tad on the softer side, allaying earlier fears. The Federal Reserve validated the non-inflation-slow growth theme that was gaining favor in late summer while passing on opportunities to raise interest rates. The

Fed's inaction gave the market the conviction it needed to stage a fourth-quarter rally. Even with this dramatic shift in sentiment, the late-year rally was unable to push yield levels to the lows that were witnessed in January and February.

### Real Estate

As expected, the real estate market continued to post improved returns in 1996. Virtually every sector showed higher prices. Increasing institutional appetite for real estate, combined with, for the most part, continued constraints on new building, resulted in higher pricing and stiff competition for deals. Investors which had not been active in the market since the late 1980s have rediscovered the asset class. Institutional advisors reported a healthy increase in allocations to real estate by their clients, with a growing willingness by these clients.

The sector attracting the most investor interest in the past year was suburban office. Although pricing has appreciated to the point where it is rare to find properties for sale below replacement cost, steady tenant demand for most suburban markets has left the possibility for rent increases in the foreseeable future. These improved fundamentals have led to new construction in selected markets. Following closely on the heels of suburban office in terms of popularity were industrial, hotel, and downtown office properties. Pricing in these asset types has appreciated sharply in the past 18 months due to intense interest from domestic and foreign institutional investors as well as REITs (Real Estate Investment Trusts). The apartment sector has continued to elicit strong investor interest, particularly at the higher end. Retail properties, on the other hand, have fallen into disfavor with most investors. Concerns about a shake-out among tenants, particularly big box users, combined with fears that the face of retail is changing, has led to relatively less interest in retail than other sectors.

Much of the capital that flowed to real estate in 1996 again took the form of mortgages. Institutional investors, have traditionally viewed mortgages as a user-friendly, low risk way to increase real estate exposure. While most pension funds have yet to participate heavily in this market, the attractiveness of this method has resulted in heavy competition for "institutional grade" loans among banks and insurance companies.

During 1996, REITs outperformed both the Dow Jones Industrial Average and the S&P 500. According to the National Association of Real Estate Investment Trusts (NAREIT) Index, the total return for REITs was 35.75 percent for the year ending December 31, 1996. The REIT industry consolidation also began in 1996. During the year Simon Property Group merged with DeBartolo Realty forming Simon DeBartolo Group, Inc., the largest publicly traded REIT, with a total market capitalization of over \$8 billion.

### International

In contrast to 1995, when Switzerland was the only devel-



oped market to outpace the U.S. equity market, 1996 saw significantly improved performance among many of the Morgan Stanley Capital International - Europe, Australia, Far East (MSCI-EAFE) Index markets. In fact, nine of the 20 EAFE markets posted stronger performances than the U.S. when measured in U.S. dollar terms. Despite this, the overall EAFE index once again failed to keep up with the U.S., due primarily to weak performance in Japan and Singapore. For 1996, the EAFE index rose 11.30 percent in local currency terms and 6.05 percent in U.S. dollar terms. It is interesting to note that when Japan is excluded from the EAFE index, performance dramatically improved to 21.96 percent (local) and 20.96 percent (U.S. dollar). Thus, poor overall equity performance in Japan (-4.92 percent) coupled with a weakened yen (-10.53 percent) served to seriously diminish what would have otherwise been an excellent year for the EAFE index.

On a geographic basis, Europe was the top performing region within the EAFE universe for the second year in a row. During 1996, the European markets rose 22.83 percent (local) and 21.09 percent (U.S. dollar). Gains in the European equity markets were driven to a large extent by a continuation of weak economic conditions that facilitated further reductions in official interest rates and bond yields to record nominal lows. In addition, 1996 saw growing enthusiasm regarding the prospects for implementing European economic and monetary union (EMU).

The Pacific region, however, was once again held back by poor performance in Japan and, to a lesser extent, Singapore. For the year, the Pacific region as a whole was down 0.22 percent in local terms and down 8.58 percent in U.S. dollar terms. It is important to note that the return for the Pacific region excluding Japan was 17.78 percent (local) and 20.54 percent (U.S. dollar) in 1996.

After significantly under-performing during the first three quarters of 1996, the Australian and New Zealand equity markets were able to stage late-year rallies that produced returns in the upper single-digits in local terms. However, the Australian dollar and the New Zealand dollar were among the best performing currencies in the world (6.9 percent and 8.1 percent respectively), thereby boosting equity returns to 16.5 percent and 17.2 percent respectively.

The emerging markets underperformed the developed markets for the third year in a row during 1996. Although the emerging markets as a whole produced returns that were significantly better than 1994 and 1995 results, they nevertheless were still below the developed non-U.S. markets.

### Money Market

Short-term money rates fluctuated in a range in 1996 with no clear trend. After falling to an intra-year low yield of 4.90 percent in February, with the Federal Reserve's reduction in the federal funds rate to 5.25 percent, the 90-day T-bill began a gradual rise in yield. The seven-month up trend in yield

was the result of economic statistics released between March and September that consistently pointed to a stronger economic environment and faster job growth. The August payroll employment report showed continued robust job gains in the domestic economy, and money market rates responded with the 90-day T-bill yield rising to an intra-year high of 5.32 percent. The 90-day T-bill ended the year at a discount yield level of 5.05 percent. The total return for the 90-day T-bill in 1996, as measured by Merrill Lynch, was 5 percent.

## 1996 Performance

### Total Portfolio

The PERS total portfolio returned 7.88 percent in 1996. The total portfolio's return was primarily driven by the return generated by our two largest asset classes, domestic equity and fixed income. Also, changes in our asset allocation during the year continued to benefit our performance.

We continued to increase our allocation to the equity market in 1996. At the beginning of 1996 we had \$8.47 billion (23.14 percent of total assets) invested in the domestic equity market. By the end of 1996 we had increased our equity exposure to \$10.73 billion (27.12 percent). This additional investment in the stock market, given the continued bull market of 1996, added to our total portfolio performance in 1996. The 19.73 percent return generated by the equity portfolio was the major contributor to total performance in 1996.

Fixed income is our largest asset class and accordingly can have the largest effect on total portfolio performance. Although our allocation to bonds dropped to 56 percent from 64 percent during the year, our allocation to bonds is still close to \$22 billion. Our relative exposure to bonds will continue to decrease as the allocation to both domestic and international equities rises. The bond market performed poorly in 1996 as interest rates rose and reduced the principal value of our holdings. For the year, the total rate of return was 2.99 percent.

Real estate had another good year in 1996 generating a return of 12.11 percent. The 12.11 percent return made real estate our second best performing asset class. Our exposure in real estate increased in 1996 by \$463 million. Real estate ended the year at 8.00 percent (\$3.167 billion) of our assets after starting the year at 7.39 percent (\$2.704 billion). Real estate continues to be a positive contributor to total performance.

International equity grew as an asset class in 1996. International equity ended 1996 at over 2 percent of our assets after beginning the year at 0.6 percent. In 1996, the performance of the international portfolio was 3.96 percent. International equity will continue to increase in size. Currently, given its small allocation, international equity has a very small contribution to overall performance.



Short-term investment holdings grew in 1996 as all of the net cash flow from the system was not allocated to long-term asset classes. The money invested in short-term assets returned 5.69 percent in 1996, contributing positively to overall performance.

#### **Equity**

The total return for the PERS equity portfolio in 1996 was 22.73 percent versus a total return of 22.83 percent for the Standard & Poor's 500 stock index. There was net new cash of \$714,852,808 invested in the equity portfolio. The PERS portfolio generated total dividend income of \$173,648,175.

1996 turned out to be an extremely difficult year for money managers to outperform the S&P 500. According to Lipper Analytical Services, a firm that tracks mutual fund performance, only 25 percent of diversified U.S. equity mutual funds beat the S&P 500 in 1996. General equity funds, made up of all 2,490 diversified domestic equity funds, rose 19.47 percent for the full year. Most actively managed stock funds had a mix of large and smaller stock issues. As a result, the performance of small cap stocks was a disappointment to most money managers and to PERS. As more money was moved into index funds, the strong performance of large-cap stocks was reinforced because the bulk of the new money must be automatically invested in the heaviest-weighted large-cap stocks in the index.

#### **Fixed Income**

The PERS fixed income portfolio earned a total return of 19 percent in 1996, while the total return on the benchmark Salomon Broad Investment Grade Index was 3.62 percent. Our performance fell short of the Index in 1996 for two primary reasons. First, while we anticipated that rates would rise in 1996, we failed to execute our strategy of shortening duration before the onset of higher rates. We made the tactical error of holding our duration in January and February in anticipation of one more final push lower in rates, a move that failed to materialize. The sharp and swift rise in yields in March and April essentially caught us holding more duration than we intended in the expected backup. Since rates quickly advanced to (and beyond) our full year threshold of 6.75 percent on the 30-year bond, we held and eventually extended duration given the attractive yields. Secondly, we were underweighted in the better performing sectors in 1996. The returns on mortgage and corporate debt exceeded treasuries in 1996. While we achieved our goal of raising our corporate exposure to 15 percent (by market value), we still were underweighted in this sector.

#### **Real Estate**

The real estate department had another successful year in 1996. For 1996, the real estate portfolio produced a return of 11 percent. The increased strength of the real estate market produced stronger cash flow for the vast majority of assets, while making it more difficult to find new deals at competitive pricing. Certain product types, specifically hotels

and apartments, became overheated and prompted us to sell selected assets. The primary focus of staff was to increase the fund's exposure to real estate by expanding our web of advisors as well as the allocations to strategic programs. In 1996, PERS allocated an additional \$800 million to six separate advisors. At year end 1996, real estate comprised 8.0 percent of the total fund.

Our direct retail investments were primarily through our outlet mall portfolio. The office/industrial investments were primarily in suburban office properties. We had hoped to identify additional retail and office opportunities in 1996, but unexpectedly stiff competition from other investors caused us to rethink our strategy.

In the mortgage area, increased competition resulted in lower yields and higher pricing for loans. Despite this, PERS remained relatively active and invested \$182 million in residential mortgages. During the latter half of 1996, we began working with an advisor to securitize some of our residential mortgages to capitalize on strong investor appetite for securitized assets. Performance for the year was just over 8 percent, compared to 5.37 percent for the Salomon Mortgage Index.

At the end of 1995, the REIT portfolio was dominated by retail and apartment REITs while void of healthcare, industrial/office hotel and mortgage-backed securities REITs. During 1996, the portfolio gained exposure to the Healthcare, Industrial/Office and Hotel sectors, respectively. Our investments in REITs grew to \$307 million in 1996. The total return on PERS' REIT portfolio for 1996 was 38.08 percent. We benefited from exposure in the self-storage, industrial/office and specialty sectors, all of which produced returns in excess of 40 percent.

#### **International**

During 1996, activity in the international area was centered around building the core portion of our international portfolio by increasing the fund's exposure to the developed non-U.S. markets (i.e. EAFE). This was facilitated by the allocation of \$600 million during the year to these markets. In July, we funded a \$300 million EAFE portfolio through J.P. Morgan Investment Management, and in November we funded another \$300 million EAFE portfolio through Capital Guardian Trust Company.

In terms of market value, the fund's international exposure grew from roughly \$227 million at year-end 1995 to approximately \$863 million by year-end 1996, representing an increase of about \$637 million.

The 1996 total return (price appreciation or depreciation plus dividend and/or interest income) for the entire international portfolio was 3.96 percent, whereas EAFE returned 6.05 percent.

The market value of the EAFE component of the international portfolio at year-end 1996 was approximately \$621 million, or 72 percent of the total portfolio. Since July 1996, the EAFE



sub-portfolio returned 5.67 percent year-to-date as compared to 1.47 percent for the EAFE index, outperforming by 420 basis points. Much of this can be attributed to stock selection as well as country/currency selection.

The market value of the Xylem international timber equity portfolio at year-end 1996 was approximately \$243 million, or 28 percent of the total international portfolio, up from \$227 million at the beginning of the year. Despite a weak first half (-4.97 percent through June 30), the final two quarters were exceptionally strong at 8.08 percent and 7.00 percent, respectively. The total return for 1996 was 9.89 percent.

### Short-Term Portfolio

The return on PERS short-term cash in 1996 was 5.69 percent, while the return on the benchmark 90-day Treasury Bill was 5.30 percent. The average cash balance held in short-term investments in 1996 was \$2.32 billion. PERS achieved this performance by adjusting the average maturity of investments (shortening the average maturity in the spring when rates were rising, and extending the average maturity in late summer when rates were near their peak), emphasizing investments in better yielding securities such as commercial paper and discount notes, and through relative value swaps when opportunities were present.

The fixed income securities lending program generated net income to PERS of \$6,075,195 in 1996.

## 1997 Outlook

### Economic

The U.S. economy begins 1997 with low unemployment, high consumer confidence and record high consumer debt burdens. The economy is well balanced with personal consumption growing in-line with both personal income and the overall economy. No bottlenecks are apparent in the manufacturing sector and inflation has not emerged as a real threat. Export growth will be important to watch in 1997. The foreign central banks, especially in Japan and Western Europe, continue to provide monetary stimulus as a means to invigorate economic growth. Japan's structural banking problems and Europe's Maastricht requirements for its unified currency may offset this stimulus and preclude a synchronized upturn in growth in 1997.

Our forecast is for economic growth, as measured by GDP, to average 2.5 percent to 3.0 percent over the course of the year. 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. Overall, we see little evidence that would support the scenario of a domestic contraction in the year ahead.

Domestic growth will be supported by a healthy, but not robust, consumer sector. Steady personal income growth, a high degree of confidence, and a soaring equity market all

indicate that the consumer has sufficient strength to underpin spending in the year ahead.

The inflation outlook remains healthy for 1997. In order for inflation to become imbedded in the economy, there must be sustained upward pressure on wages and sufficient demand to give business the flexibility to raise prices. Few companies have any pricing power due to the overall level of competition and a stubbornly price-conscious consumer. The Federal Reserve Bank has remained vigilant in keeping the economy from overheating over the past several years, and inflation will not be a threat.

Based on our fundamental economic outlook for moderate GDP growth and continued low inflation, we expect interest rates to remain in a fairly tight range for most of the year.

### Equity Market

U.S. economic growth should not be too hot to ignite inflation nor too cold to cause severe earnings disappointments. The consensus outlook for the stock market (S&P 500) generally believes 1997 will be a "corrective" year for stock prices with below-average returns (less than 10 percent) for the year as a whole. This is primarily due to two factors. First, the consensus looks for corporate profit growth to be up only 5 percent over 1996 levels. Second, historically after two consecutive annual gains of 20 percent or more in the stock market, the third year usually delivers flat to down returns.

There are no cyclical sectors within the S&P 500 that should deliver substantially lower earnings in 1997. This expectation combined with the rest of the sectors showing healthy earnings gains in 1997, should, in our opinion, result in S&P 500 operating earnings growing 8 percent to 10 percent. The wildcard is the price/earnings (p/e) ratio. In 1996, interest rates moved higher for most of the year, yet the p/e ratio expanded from 17.4x to 20.6x. Historically, interest rates and p/e ratio move inversely to one another. However, investors put near record levels of savings into stocks last year (directly and through mutual funds). These record inflows combined with a net reduction in the supply of stocks (due to corporation buybacks and stock retired through record merger & acquisition activity) probably accounted for the expansion in p/e multiples, in the face of higher interest rates. Given the overall macro forecast, the PERS estimate assumes a slight contraction in price/earnings multiple.

Within the large cap universe, sector leadership in 1997 will be a function of who can deliver actual earnings above current expectations and how much of this "surprise" is already in the stocks. Identifying the potential leaders was done by grouping the sectors into one of three categories and then doing additional screening to determine the relative attractiveness. The three categories were (1) decelerating 1997 earnings growth versus 1996, (2) acceleration in 1997 earnings growth but trading at premium valuations, and (3) earnings turnaround candidates in 1997.



Two principal sectors in category number one are Financials and Energy. Financials have been one of the best performing sectors over the last two years. Given the current economic outlook, Financials should be able to achieve returns that at least match their expected earnings growth rate of 11 percent to 13 percent. After an outstanding performance in 1996, Energy earnings are projected to grow only 9 percent in 1997.

Category number two involves Technology and Health Care. Technology has been the other performance leader over the last two years. Earnings are expected to grow between 25 percent and 30 percent in 1997. However, this sector is currently trading at expensive valuation levels both on an absolute and relative basis. With the possible exception of Telecommunications and the hospital group, we generally expect the rest of the Health Care sector to show positive earnings momentum.

The final category includes the Basic Materials and Consumer Cyclical sectors. Two sectors projected to have dramatic earnings turnarounds in 1997 after posting flat to down earnings in 1996. Current valuation levels suggest that investors should not believe consensus earnings estimates and selected industries within these two sectors should provide nice relative performance gains.

#### **Fixed Income Market**

Based on our view that GDP in 1997 will average between 2 percent and 3 percent in each quarter, and that inflation, measured by the CPI index, will remain at 3 percent or lower on an annualized basis, we anticipate that long-term Treasury yields will trade in a range of 6.00 percent at the low end to 7.25 percent at the high end. Short-term rates, as measured by the yield on the current two-year Treasury security, should range between 5.50 percent at the low end to 6.50 percent at the high end.

Given our outlook of declining volatility and a narrow range of yields on treasuries, mortgages should again be an ideal investment to hold in the year ahead. The caveat is that mortgage yields have already narrowed to Treasury yields to reflect the current benign volatility sentiment, limiting somewhat the upside expected from mortgages. Thus, while returns for mortgages will likely exceed treasuries in the year ahead, the large outperformance witnessed in 1996 is likely to be matched in 1997.

The corporate sector enters 1997 trading at historically low yield spreads to treasuries. With the economic expansion of the last few years, the health of corporate America has improved and the risk of corporate defaults has declined. The improvement in corporate balance sheets has encouraged investors to purchase corporate debt at ever tighter yield spreads to treasuries in order to gain incremental yield. While the corporate market is unlikely to trade materially tighter to treasuries in the year ahead, neither is a material widening envisioned.

#### **Real Estate Market**

During the coming year, we expect to continue to see strong capital flow to the real estate market. Real estate is no longer considered a contrarian play. Record numbers of pension funds, insurance companies, banks and mutual funds are attempting to gain exposure in the real estate market, either through owning assets directly or through ownership of securitized assets. The driving force behind this return of capital to the market is the relatively higher yield available in real estate assets, compared with stocks or bonds.

As investor interest in real estate increases, it becomes more difficult to identify potential deals at competitive prices. Prices have stabilized, often quite near replacement cost. When this happens, particularly in a low interest rate environment such as we are now experiencing, new development is destined to follow.

In 1997, we expect the market to move more towards equilibrium, with new construction justified by demand. In most markets, the office and apartment sectors are perceived to be in equilibrium, with supply and demand well balanced. The retail sector, generally perceived to be overbuilt, is beginning to show strong new construction for neighborhood and power centers.

The control issues of the early 1990s have been resolved in the minds of many investors, and mortgages and REITs are perceived to offer liquidity which offsets the need for controlling asset decisions. In the mortgage sector, continued securitization of whole loans is expected, with banks and insurance companies preferring to hold the securitized assets. The REIT sector will see a new wave of IPOs, primarily in the Office/Industrial sector. In addition, the current trend toward mergers and acquisitions is expected to continue in the REIT industry.

Performance in real estate is expected to remain strong in 1997. The NCREIF Index is expected to return between 8 percent and 11 percent. The consensus expectation for the NAREIT Index is somewhat higher, between 12 percent and 17 percent. With mortgages, lower yields and declining distressed asset sales will lead to lower expected performance. To achieve double digit yields on most portfolios, securitization is necessary. Mortgages should produce 7 percent to 9 percent returns.

#### **International Markets**

The outlook for the international markets this year is somewhat mixed as the global economy continues to expand, albeit unevenly. Similar to this time last year, the consensus view on the world's economic outlook is one of continued moderate growth and favorable inflation.

Viewed globally, real economic growth in 1997 is expected to accelerate slightly from last year's levels. Once again,



however, the aggregate growth rate masks significant differences in the geographic distribution of growth rates.

The Asian and Latin American regions are projected to experience the fastest growth rates in 1997, around 7-9 percent and 4-6 percent respectively. Europe, on the other hand, is expected to produce a more sedate 2-3 percent growth rate. In Europe, the measures being taken in order to reduce fiscal deficits in an attempt to clear the Maastricht hurdle and to reform unsustainable welfare state institutions are, at least temporarily, holding back growth. And finally, Japan appears set to grow at a lackluster pace centered around 1.5 percent.

Global inflationary trends moving into 1997 remain remarkably similar to those at the beginning of 1996. Inflation remains benign throughout most of the world's economies, especially in the more developed ones. (Global consumer price inflation edged down to roughly 3.5 percent during 1996 from 3.9 percent in 1995.) Moreover, global underlying inflationary pressures are expected to remain subdued during 1997 in most regions.

Given our expectations of an environment that is characterized by continued low inflation and interest rates, moderate economic growth, and a positive corporate earnings cycle in much of the developed markets (i.e. EAFE), there exists the potential for reasonable non-U.S. equity returns during 1997 (5-15 percent). However, there is the potential risk of a negative response to adverse equity movements in the U.S., especially when considering the emerging markets. In addition to developments in the U.S., much of what will determine 1997 non-U.S. equity performance will be driven by developments in Japan.

### **Money Markets**

Money market yields are directly influenced by investor expectations of Federal Reserve adjustments to the discount rate and fed funds rate. The last change in short-term lending rates by the Federal Reserve was on January 31, 1996, when the Fed reduced the fed funds rate from 5.50 percent to 5.25 percent. Since that time, there has been concern over expanding employment growth, higher wage inflation, and tight manufacturing capacity, increasing the likelihood that the next move by the Fed could be to raise short-term lending rates. This concern has put a yield floor on the 90-day T-bill of about 5.00 percent (on a discount yield basis).

## **PERS Portfolio Outlook For 1997**

### **Total Portfolio**

We expect that the total portfolio will have a return in 1997 that is similar to what we earned in 1996. Given our expected asset class returns and our anticipated asset allocation for 1997, we expect the PERS total portfolio to generate a total return in the mid to high single digits (5 - 9 percent). 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.

We expect to have around \$2.5 billion of net cash flow to invest in 1997. A 5 percent allocation in International Equity would require about \$1.2 billion in additional fundings. We expect to put another \$600 million in the Real Estate asset class in 1997. To stay on track to reach our domestic equity allocation goal of 29 percent, we will put a minimum of \$4 million into the market in 1997. Given that current fundamentals remain the same, a backup in long-term US Treasury interest rates above 7.25 percent would allow us to move money into the bond market on an interim basis.

1997 has the potential of being a very exciting and rewarding year for the PERS portfolio. Newly passed legislation will allow us to begin investing under the prudent person standard on March 6th.

### **Equity Portfolio**

Given our outlook for the various sectors for 1997, Financials (once again) and Health Care qualify as two sectors we should be overweighted in and adopt a "buy and hold" approach for 1997. We intend to increase our exposure in these two sectors to at least a market weight by the first quarter of the year. We are currently underweighted in what we consider to be the two prime rotation plays in 1997: Basic Materials and Consumer Cyclical. Increasing our exposure in both sectors (to overweighted positions) will be accomplished in the first half of the year. We will be reducing our weighting in the Energy group back towards a market position over the course of the year.

### **Fixed Income Portfolio**

Our sector strategy will emphasize curve positioning, current yield at the expense of positive convexity, and treasury alternatives (U.S. agency securities) that offer similar credit risk but better yield. Duration will likely not have a prominent place in treasury strategy in 1997. Finally, the debt of Government-Sponsored Enterprises (U.S. agencies) that is guaranteed by the full faith and credit of the U.S., will be sought for incremental yield over treasuries, without any change in credit risk.

We intend to raise our exposure to the mortgage sector to a market weight in the first half of the year. The caveat is that mortgage yields have already narrowed to treasury yields to reflect the current benign volatility sentiment, thus limiting somewhat the upside expected from mortgages.

The corporate sector enters 1997 trading at historically narrow yield spreads to treasuries. With the economic expansion of the last few years, the health of corporate America has improved and the risk of corporate defaults has declined. This improvement in corporate balance sheets has encour-



ged investors to purchase corporate debt at ever tighter yields leads to treasuries in order to gain incremental yield. We tend to raise our corporate sector allocation to a market eight in the year ahead.

#### **Real Estate Portfolio**

In 1997, the ongoing challenge of the Real Estate department is to continue to work toward the fund's targeted 10 percent exposure in real estate while actively managing the existing portfolio. We will do this by working with our advisors to fill the existing available allocations, increasing allocations to programs which are working, and increasing our direct investment in REITs. In addition, we will explore untapped areas for potential investment, either geographically through asset type. In times of high investor interest, it comes more difficult to follow the contrarian strategy that has traditionally worked for the real estate program.

Because we believe the REIT market will produce returns in a 12 percent to 17 percent range, we plan to increase our exposure to the REIT market. We will be increasing our exposure to the diversified, healthcare and industrial/office sectors while maintaining our relative weights in the self storage, residential and specialty sectors. We also anticipate additional investments through the private placement program.

#### **International Portfolio**

The principal focus in the international area during 1997 is to continue to increase the percentage of total fund assets allocated to international equities.

Given the multitude of different markets in which to invest that exist outside the U.S., the strategy that we intend to follow is to build the overall international portfolio by assembling multiple sub-portfolios that will be characterized by different investment styles and focuses. This will provide significant diversification and risk reduction benefits, and will allow the fund to easily shift emphasis among the various components in order to take advantage of any opportunities that may develop. Moreover, we will continue to structure the portfolio on primarily, if not exclusively, an actively managed basis. It is widely accepted that, on an international basis, active management produces greater opportunities for excess returns due to greater inefficiencies among many international markets in relation to the U.S. market.

#### **Short-Term Investments**

Because we are anticipating a narrow, range-bound T-bill market in 1997, much like what was experienced in 1996, our strategy will focus on incremental yield and will de-emphasize gaining incremental performance through price appreciation. We will favor higher yielding securities such as repurchase agreements, commercial paper, and U.S. agency discount notes, rather than lower-yielding but more price sensitive T-bills.



# Schedule of Investment Results

	1996	3-YEAR	5-YEAR
<b>Total Portfolio</b>	7.9	9.0	8.5
Customized Benchmark*	8.7	NA	NA
<b>Equity Portfolio</b>	19.9	13.2	11.5
Standard and Poor's 500 Index	23.0	19.7	15.2
<b>Fixed Income Portfolio</b>	3.0	7.2	7.8
Salomon B.I.G. Index	3.6	6.1	7.1
<b>Real Estate Portfolio</b>	12.1	12.7	9.5
N.C.R.E.I.F.	10.1	7.8	2.8
<b>International Portfolio</b>	3.9	NA	NA
M.S.C.I.-E.A.F.E.	6.0	8.3	8.1
<b>Short-Term Portfolio</b>	5.7	5.3	4.6
90 Day Treasury Bill	5.0	4.8	4.2

\*This benchmark is calculated using asset allocation targets defined in the Investment Policy (22% Domestic Equity, 2% International Equity, 10% Real Estate, 60% Fixed Income, 6% Short-term) and the respective benchmarks that were adopted in July 1995 and updated 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, 1996

	Shares	Stock	Fair Value
1)	8,233,900	Worldcom, Inc.	\$214,600,135
2)	2,100,000	General Electric Co.	207,706,712
3)	2,994,400	Coca-Cola Co.	157,580,300
4)	1,601,800	Exxon Corp.	156,976,400
5)	1,861,200	Microsoft	153,781,650
6)	2,311,950	Cardinal Health Inc.	134,671,087
7)	1,164,700	Phillip Morris Cos.	131,611,100
8)	2,758,800	IMC Global	107,938,050
9)	5,768,338	Office Depot	103,109,041
10)	768,600	Intel Corp.	100,638,946

### Largest Bond Holdings (By Fair Value)

December 31, 1996

	Par	Bonds	Fair Value
1)	\$1,257,739,000	U.S. Treasury Bonds 5.75% due 10-31-2000 Rating AAA	\$1,241,036,226
2)	1,185,680,000	U.S. Treasury Bonds 6.375% due 5-15-1999 Rating AAA	1,195,864,991
3)	828,700,000	U.S. Treasury Bonds 8.75% due 5-15-2017 Rating AAA	1,011,146,592
4)	1,447,534,000	U.S. Treasury Receipts .00% due 11-15-2009 Rating AAA	611,134,379
5)	481,815,000	U.S. Treasury Bonds 8.75% due 5-15-2020 Rating AAA	593,157,628
6)	545,600,000	U.S. Treasury Bonds 5.875% due 10-31-1998 Rating AAA	545,512,704
7)	421,160,000	U.S. Treasury Bonds 5.75% due 8-15-2003 Rating AAA	408,525,200
8)	314,900,000	U.S. Treasury Bonds 8.875% due 8-15-2017 Rating AAA	388,951,884
9)	368,505,000	U.S. Treasury Bonds 5.875% due 11-15-2005 Rating AAA	355,319,897
10)	347,700,000	U.S. Treasury Bonds 6.125% due 5-15-1998 Rating AAA	349,382,864



# Detailed Listing of Investment Portfolio

As of December 31, 1996

U.S. GOVERNMENT & AGENCIES BONDS					
Name	Coupon	Maturity	Par Value	Book Value	Fair Value
Government Trust Certificates Class 1-C	9.250%	11/15/2001	\$ 154,119,431	\$ 170,711,901	\$ 164,966,356
Government Trust Certificates Class 2-E	9.400%	05/15/2002	34,591,462	38,300,750	37,096,230
id - Israel Class 3-C	6.600%	02/15/2008	50,000,000	48,848,492	49,277,000
id - Israel Class A	7.125%	08/15/1999	90,000,000	89,773,393	91,616,400
.S. Treasury Receipts	0.000%	11/15/2009	1,447,534,000	611,992,760	611,134,379
.S. Treasury Receipts	0.000%	08/15/2015	700,000,000	168,074,257	199,199,000
.S. Treasury Receipts	0.000%	05/15/2017	451,315,000	103,275,200	112,909,986
.S. Treasury Receipts	0.000%	08/15/2017	600,000,000	111,576,262	147,408,000
.S. Treasury Receipts	0.000%	05/15/2018	1,150,000,000	206,603,957	267,950,000
.S. Treasury Receipts	0.000%	11/15/2018	400,000,000	72,077,180	90,076,000
.S. Treasury Receipts	0.000%	02/15/2019	479,862,000	77,475,043	105,991,918
United States Treasury	10.375%	11/15/2012	100,000,000	128,751,083	128,781,000
United States Treasury	9.875%	11/15/2015	3,500,000	4,813,174	4,675,230
United States Treasury	7.250%	05/15/2016	227,000,000	219,748,846	239,698,380
United States Treasury	7.500%	11/15/2016	250,000,000	249,464,929	270,625,000
United States Treasury	8.750%	05/15/2017	828,700,000	967,842,894	1,011,146,592
United States Treasury	8.875%	08/15/2017	314,900,000	368,951,131	388,951,884
United States Treasury	8.875%	02/15/2019	173,000,000	226,426,969	214,763,930
United States Treasury	8.750%	05/15/2020	481,815,000	541,647,243	593,157,628
United States Treasury	7.875%	02/15/2021	200,000,000	204,685,783	226,062,000
United States Treasury	8.125%	05/15/2021	300,000,000	318,271,847	348,093,000
United States Treasury	8.000%	11/15/2021	45,436,000	49,940,631	52,095,100
United States Treasury	7.250%	08/15/2022	196,920,000	201,722,838	208,303,945
United States Treasury	7.625%	11/15/2022	251,867,000	274,874,051	278,038,499
United States Treasury	6.500%	11/15/2026	344,240,000	346,598,847	337,840,578
United States Treasury	5.750%	08/15/2003	421,160,000	412,094,550	408,525,200
United States Treasury	5.875%	02/15/2004	226,593,000	220,456,183	220,608,678
United States Treasury	7.250%	05/15/2004	215,000,000	223,999,465	226,220,850
United States Treasury	7.250%	08/15/2004	215,000,000	224,205,068	226,287,500
United States Treasury	7.500%	02/15/2005	175,468,000	184,534,478	187,668,290
United States Treasury	6.125%	05/15/1998	347,700,000	347,852,556	349,382,868
United States Treasury	5.875%	08/15/1998	200,190,000	200,197,115	200,284,089
United States Treasury	8.875%	11/15/1997	217,450,000	221,256,245	223,292,881
United States Treasury	6.250%	08/31/2000	64,900,000	65,205,731	65,143,375
United States Treasury	5.750%	10/31/2000	1,257,739,000	1,262,140,136	1,241,036,226
United States Treasury	5.500%	11/15/1998	92,275,000	92,193,272	91,654,912
United States Treasury	5.875%	11/15/2005	368,505,000	357,502,388	355,319,891
United States Treasury	6.125%	03/31/1998	282,050,000	282,389,386	283,415,122
United States Treasury	6.375%	03/31/2001	9,600,000	9,523,029	9,664,512

e: Cents omitted. Columns will not add.



Name	Coupon	Maturity	Par Value	Book Value	Fair Value
United States Treasury	5.875%	04/30/1998	\$ 51,925,000	\$ 51,821,845	\$ 52,006,00
United States Treasury	6.250%	04/30/2001	167,900,000	166,989,530	168,267,70
United States Treasury	6.375%	05/15/1999	1,185,680,000	1,194,264,774	1,195,864,99
United States Treasury	6.875%	05/15/2006	131,585,000	137,022,048	135,594,39
United States Treasury	6.500%	10/15/2006	200,000,000	202,280,063	201,094,00
United States Treasury	5.875%	10/31/1998	545,600,000	547,567,595	545,512,70
United States Treasury	6.250%	10/31/2001	226,000,000	227,646,781	226,212,44
United States Treasury	5.625%	11/30/1998	159,020,000	158,690,395	158,299,63
<b>TOTAL</b>			<b>\$16,036,139,894</b>	<b>\$12,592,282,118</b>	<b>\$12,951,214,31</b>

#### MORTGAGE & MORTGAGE BACKED BONDS

Name	Coupon	Maturity	Par Value	Book Value	Fair Value
Federal Home Loan Mortgage	7.500%	05/01/2017	\$ 3,414	\$ 3,041	\$ 3,46
Federal National Mortgage Association	8.900%	06/12/2000	69,335,000	74,886,476	74,946,97
Federal National Mortgage Association	8.250%	12/18/2000	93,360,000	97,098,910	99,719,68
FNMA Pool 050437	8.000%	06/01/2006	3,831,550	3,825,563	3,944,69
FNMA Pool 070798	8.000%	06/01/2006	7,667,787	7,655,806	7,894,21
FNMA Pool 070951	8.000%	09/01/2006	5,163,202	5,157,555	5,318,46
FNMA Pool 070993	8.000%	12/01/2006	17,000,131	16,973,569	17,511,32
FNMA Pool 124727	8.000%	03/01/2008	4,307,572	4,302,861	4,439,47
FNMA Pool 124747	8.000%	01/01/2008	16,917,417	16,890,983	17,435,42
FNMA Pool 125104	8.000%	05/01/2007	6,881,290	6,883,440	7,088,21
FNMA Pool 125136	8.000%	07/01/2007	3,833,164	3,828,972	3,950,53
FNMA Pool 125322	8.000%	10/01/2009	17,608,706	17,614,209	18,147,88
FNMA Pool 125327	8.000%	10/01/2009	6,893,527	6,885,988	7,104,60
FNMA Pool 125328	8.000%	10/01/2009	1,839,610	1,837,598	1,895,93
FNMA Pool 125357	8.000%	10/01/2009	2,198,746	2,196,341	2,266,07
FNMA Pool 190529	8.000%	01/01/2009	2,533,698	2,530,926	2,609,88
FNMA Pool 190735	8.000%	09/01/2008	15,799,626	15,789,751	16,274,72
FNMA Pool 190767	8.000%	11/01/2007	20,172,260	20,159,652	20,778,84
FNMA Pool 190917	8.000%	07/01/2009	11,411,805	11,399,323	11,761,23
FNMA Pool 190995	8.000%	09/01/2009	59,203,397	59,138,643	61,016,20
FNMA Pool 221762	8.000%	12/01/2006	290,293	289,839	298,38
FNMA Pool 250100	8.000%	07/01/2009	7,960,211	7,955,236	8,203,95
FNMA Pool 250104	8.000%	08/01/2009	18,675,636	18,677,409	19,247,48
FNMA Pool 250118	8.000%	09/01/2009	17,560,722	17,559,857	18,098,43
FNMA Pool 250123	8.000%	06/01/2009	5,798,261	5,794,637	5,975,80
FNMA Pool 250148	8.000%	10/01/2009	42,759,468	42,761,723	44,068,76
FNMA Pool 296476	8.000%	10/01/2009	8,426,226	8,428,859	8,684,21

Note: Cents omitted. Columns will not add.



Name	Coupon	Maturity	Par Value	Book Value	Fair Value
NMA Pool 297536	8.000%	09/01/2009	\$ 9,418,013	\$ 9,403,297	\$ 9,701,21
NMA Pool 303041	8.000%	10/01/2009	70,311,546	70,267,601	72,464,48
NMA Pool 303042	8.000%	10/01/2009	71,487,017	71,442,338	73,675,95
NMA Pool 303048	8.000%	10/01/2009	70,271,397	70,161,598	72,423,10
NMA Pool 303049	8.000%	10/01/2009	28,807,510	28,762,499	29,689,59
NMA Pool 303052	8.000%	10/01/2009	92,331,009	92,230,022	95,158,18
NMA Pool 303053	8.000%	10/01/2009	85,169,469	85,076,315	87,777,35
NMA Pool 303054	8.000%	10/01/2009	101,199,231	101,200,957	104,297,95
NMA Pool 303065	8.000%	10/01/2009	19,291,342	19,270,243	19,882,04
NMA Pool 303080	8.000%	10/01/2009	17,797,017	17,777,551	18,341,96
NMA Pool 303095	8.000%	10/01/2009	16,821,942	16,795,658	17,337,03
NMA Pool 303103	8.000%	10/01/2009	16,783,140	16,764,783	17,287,80
NMA Pool 313243	8.500%	12/01/2026	100,000,000	103,937,500	103,562,00
NMA Pool 313244	8.500%	10/01/2026	100,000,000	103,937,500	103,562,00
NMA Pool 313245	8.500%	12/01/2026	100,000,000	103,937,500	103,562,00
NMA Pool 313246	8.500%	11/01/2026	100,000,000	103,648,437	103,562,00
NMA Pool 313247	8.500%	12/01/2026	100,000,000	103,648,437	103,562,00
NMA Pool 313248	8.500%	12/01/2026	100,000,000	103,648,437	103,562,00
NMA Pool 313249	8.500%	10/01/2026	100,000,000	103,656,250	103,562,00
NMA Pool 313250	8.500%	12/01/2026	90,600,000	94,167,375	93,827,172
NMA Pool 313251	8.500%	12/01/2026	100,000,000	103,656,250	103,562,00
NMA Pool 313253	8.500%	12/01/2026	100,000,000	103,656,250	103,562,00
NMA Pool 313281	8.500%	12/01/2026	100,000,000	103,718,750	103,562,00
NMA Pool 313282	8.500%	12/01/2026	100,000,000	103,718,750	103,562,00
NMA Pool 313283	8.500%	12/01/2026	100,000,000	103,718,750	103,562,00
NMA Pool 313284	8.500%	12/01/2026	100,000,000	103,718,750	103,562,00
NMA - Empire Funding Pool 203016	8.000%	05/15/2017	39,034	35,575	40,339
NMA - Chase Home Mortgage Pool 343163	7.500%	02/15/2023	13,622,045	13,683,796	13,685,796
NMA - Chemical Mortgage Co. Pool 344204	7.500%	01/15/2023	10,715,364	10,763,918	10,765,512
NMA - Source One Mortgage Pool 344929	7.500%	07/15/2023	10,789,107	10,853,168	10,839,600
NMA - Source One Mortgage Pool 344947	7.500%	06/15/2023	16,688,420	16,764,039	16,766,522
NMA - Source One Mortgage Pool 344969	7.500%	06/15/2023	10,626,853	10,675,006	10,676,587
NMA - Source One Mortgage Pool 344980	7.500%	08/15/2023	6,266,151	6,303,356	6,289,649
NMA - Source One Mortgage Pool 344991	7.500%	07/15/2023	10,048,600	10,094,133	10,086,283
NMA - Source One Mortgage Pool 345028	7.000%	09/15/2023	21,157,668	20,681,621	20,787,409
NMA - Source One Mortgage Pool 345029	7.000%	10/15/2023	21,360,794	20,880,176	20,986,980
NMA - Source One Mortgage Pool 345030	7.000%	10/15/2023	21,117,407	20,642,265	20,747,852
NMA - Source One Mortgage Pool 345059	7.000%	10/15/2023	16,219,355	15,854,420	15,935,516
NMA - Source One Mortgage Pool 345060	7.000%	11/15/2023	20,792,017	20,574,351	20,428,157
NMA - Source One Mortgage Pool 345061	7.000%	11/15/2023	20,268,381	20,056,197	19,913,684

ite: Cents omitted. Columns will not add.



ame		Coupon	Maturity	Par Value	Book Value	Fair Value
NMA - Source One Mortgage	Pool 345140	7.000%	01/15/2024	\$ 20,924,498	\$ 20,453,697	\$ 20,558,319
NMA - Source One Mortgage	Pool 345160	7.000%	01/15/2024	17,488,246	17,236,852	17,182,202
NMA - Govt National Mortgage	Pool 345589	7.500%	03/15/2024	8,351,465	8,398,442	8,382,783
NMA - Source One Mortgage	Pool 345608	7.000%	03/15/2024	17,103,203	16,924,154	16,803,897
NMA - Banc Boston Mortgage	Pool 345835	7.500%	08/15/2023	6,779,747	6,817,883	6,811,476
NMA - Mountain States Mtg.	Pool 346187	7.500%	07/15/2023	15,559,691	15,630,196	15,618,040
NMA - Fleet Real Estate	Pool 346586	7.500%	06/15/2023	27,331,322	27,455,167	27,459,232
NMA - Fleet Real Estate	Pool 346652	7.500%	07/15/2023	21,656,792	21,754,924	21,758,145
NMA - Director's Mortgage Co.	Pool 347867	7.500%	01/15/2023	10,690,944	10,739,387	10,740,977
NMA - Chemical Mortgage Co.	Pool 348637	7.500%	05/15/2023	8,970,535	9,011,182	9,012,517
NMA - Chemical Mortgage Co.	Pool 348671	7.500%	05/15/2023	4,435,527	4,461,863	4,456,285
NMA - Fleet Mortgage Corp.	Pool 348816	7.000%	06/15/2023	17,930,995	17,673,237	17,634,057
NMA - Prudential Home Mtg. Co.	Pool 349306	8.000%	02/15/2023	1,605,655	1,661,853	1,646,776
NMA - Chemical Mortgage Co.	Pool 351110	7.500%	06/15/2023	32,403,680	32,550,509	32,525,193
NMA - G E Capital Mortgage	Pool 351417	7.000%	01/15/2024	17,172,290	16,925,438	16,871,775
NMA - G E Capital Mortgage	Pool 351425	7.000%	02/15/2024	87,032,486	85,781,394	85,509,417
NMA - Norwest Mortgage Inc.	Pool 352025	7.500%	11/15/2023	4,685,236	4,721,839	4,702,805
NMA - Norwest Mortgage Inc.	Pool 352078	7.000%	09/15/2023	19,310,989	19,033,393	18,973,046
NMA - Norwest Mortgage Inc.	Pool 352081	7.000%	09/15/2023	15,101,438	14,943,345	14,837,163
NMA - Norwest Mortgage Inc.	Pool 352082	7.500%	09/15/2023	10,248,615	10,295,054	10,287,047
NMA - Norwest Mortgage Inc.	Pool 352085	7.500%	09/15/2023	31,857,509	32,046,663	31,976,974
NMA - Norwest Mortgage Inc.	Pool 352096	7.500%	07/15/2023	18,868,551	18,980,583	18,939,308
NMA - Norwest Mortgage Inc.	Pool 352165	7.500%	06/15/2023	4,755,261	4,776,809	4,777,516
NMA - Norwest Mortgage Inc.	Pool 352167	7.500%	06/15/2023	3,407,169	3,422,608	3,423,115
NMA - Norwest Mortgage Inc.	Pool 352191	7.000%	05/15/2023	19,708,832	19,502,505	19,382,453
NMA - Norwest Mortgage Inc.	Pool 352192	7.500%	05/15/2023	4,715,916	4,743,917	4,737,987
NMA - Norwest Mortgage Inc.	Pool 352217	7.500%	04/15/2023	15,789,609	15,883,360	15,863,505
NMA - The Prudential Home Mtg.	Pool 354610	7.500%	07/15/2023	7,051,759	7,083,712	7,078,203
NMA - The Prudential Home Mtg.	Pool 354654	7.000%	09/15/2023	19,679,772	19,473,749	19,335,376
NMA - The Prudential Home Mtg.	Pool 354784	7.000%	03/15/2024	71,842,701	70,753,835	70,585,454
NMA - Govt National Mortgage	Pool 354785	7.500%	03/15/2024	79,527,286	79,974,627	79,825,513
NMA - Govt National Mortgage	Pool 354791	7.500%	04/15/2024	85,163,928	85,669,589	85,483,293
NMA - The Prudential Home Mtg.	Pool 354792	7.000%	04/15/2024	87,970,485	86,637,182	86,431,001
NMA - Inland Mortgage	Pool 356703	7.000%	09/15/2023	16,798,827	16,557,344	16,504,847
NMA - Inland Mortgage	Pool 356738	7.000%	09/15/2023	17,330,049	17,080,929	17,026,773
NMA - Inland Mortgage	Pool 356746	7.000%	09/15/2023	17,545,794	17,293,573	17,238,742
NMA - Principal Residential	Pool 357287	7.000%	07/15/2023	19,950,489	19,501,603	19,601,355
NMA - James B. Nutter & Co.	Pool 359481	7.500%	03/15/2024	31,651,382	31,839,312	31,799,510
NMA - Directors Mortgage Loan	Pool 359612	7.500%	07/15/2023	15,690,252	15,761,349	15,749,091
NMA - ICM Mortgage Corp.	Pool 360460	7.500%	12/15/2023	2,945,560	2,958,908	2,959,346

ote: Cents omitted. Columns will not add.



Name		Coupon	Maturity	Par Value	Book Value	Fair Value
NMA - Lomas Mortgage USA, Inc. Pool 362164		7.500%	12/15/2023	\$ 14,092,250	\$ 14,156,106	\$ 14,158,207
NMA - Chemical Mortgage Co. Pool 366721		7.000%	02/15/2024	37,661,180	37,090,378	37,002,110
NMA - Chemical Mortgage Co. Pool 366729		7.000%	03/15/2024	15,831,606	15,475,395	15,554,553
NMA - Govt National Mortgage Pool 366733		7.000%	03/15/2024	15,785,464	15,558,548	15,509,219
NMA - Govt National Mortgage Pool 366735		7.000%	03/15/2024	11,355,389	11,192,155	11,156,669
NMA - Govt National Mortgage Pool 366738		7.000%	03/15/2024	35,226,698	34,472,626	34,610,230
NMA - Chemical Mortgage Co. Pool 366741		7.500%	04/15/2024	3,579,480	3,607,445	3,592,903
NMA - Govt National Mortgage Pool 366753		7.000%	03/15/2024	18,090,873	17,901,484	17,774,283
NMA - Chemical Mortgage Co. Pool 366754		7.500%	03/15/2024	16,895,983	17,027,983	16,959,343
NMA - Chemical Mortgage Co. Pool 366755		7.000%	04/15/2024	17,910,519	17,527,122	17,597,085
NMA - Govt National Mortgage Pool 366757		7.500%	04/15/2024	4,245,228	4,278,393	4,261,147
NMA - Chemical Mortgage Co. Pool 366761		7.000%	04/15/2024	17,880,830	17,498,069	17,567,916
NMA - Govt National Mortgage Pool 366763		7.000%	04/15/2024	17,319,387	16,948,643	17,016,297
NMA - Countrywide Funding Pool 368140		7.500%	12/15/2023	3,639,269	3,655,759	3,652,916
NMA - Countrywide Funding Pool 368179		7.500%	12/15/2023	3,561,748	3,577,887	3,578,417
NMA - Countrywide Funding Pool 368564		7.500%	03/15/2024	5,793,973	5,839,238	5,815,700
NMA - Countrywide Funding Pool 368577		7.500%	01/15/2024	3,360,900	3,387,157	3,302,084
NMA - Countrywide Funding Pool 368583		7.500%	03/15/2024	7,060,992	7,116,156	7,087,471
NMA - Countrywide Funding Pool 368594		7.500%	03/15/2024	5,307,395	5,348,859	5,327,298
NMA - Countrywide Funding Pool 368603		7.500%	03/15/2024	4,192,307	4,225,059	4,208,028
NMA - Chemical Residential Pool 368850		8.000%	01/15/2026	4,324,527	4,475,885	4,415,039
NMA - Banc Boston Mortgage Pool 369459		8.000%	10/15/2024	7,224,577	7,477,437	7,382,578
NMA - Resource Banc Shares Pool 370031		7.500%	10/15/2023	4,062,318	4,086,438	4,081,330
NMA - Norwest Mortgage Inc. Pool 376434		7.000%	03/15/2024	87,421,915	86,096,927	85,892,032
NMA - Govt National Mortgage Pool 376438		7.500%	03/15/2024	48,724,865	48,998,942	48,952,897
NMA - Norwest Mortgage Inc. Pool 376467		7.000%	04/15/2024	57,668,165	56,794,132	56,658,972
NMA - Govt National Mortgage Pool 376468		7.000%	04/15/2024	13,361,472	13,221,594	13,127,646
NMA - Govt National Mortgage Pool 376469		7.000%	04/15/2024	12,889,566	12,754,628	12,663,998
NMA - Govt National Mortgage Pool 377686		8.000%	01/15/2026	30,537,306	31,606,112	31,176,452
NMA - Govt National Mortgage Pool 383689		7.000%	03/15/2024	8,926,471	8,798,153	8,770,258
NMA - Govt National Mortgage Pool 384076		7.500%	04/15/2024	48,603,636	48,983,352	48,785,900
NMA - Govt National Mortgage Pool 385241		7.000%	04/15/2024	17,357,176	16,966,640	17,053,425
NMA - Govt National Mortgage Pool 385602		7.000%	03/15/2024	9,029,723	8,899,921	8,871,703
NMA - G E Capital Mortgage Pool 385613		7.500%	04/15/2024	47,581,525	47,953,256	47,759,956
NMA - Govt National Mortgage Pool 385620		7.000%	04/15/2024	13,356,572	13,216,745	13,097,721
NMA - G E Capital Mortgage Pool 385850		8.000%	08/15/2024	4,790,112	4,961,508	4,894,872
NMA - Banc Boston Mortgage Pool 387162		8.000%	10/15/2025	4,902,808	5,092,025	5,005,423
NMA - Govt National Mortgage Pool 387202		7.000%	03/15/2024	11,533,002	11,367,215	11,331,174
NMA - Govt National Mortgage Pool 387216		7.000%	04/15/2024	13,727,110	13,418,250	13,486,886
NMA - Govt National Mortgage Pool 388250		7.500%	02/15/2024	9,741,471	9,796,267	9,778,002

e: Cents omitted. Columns will not add.



Name		Coupon	Maturity	Par Value	Book Value	Fair Value
GNMA - Govt National Mortgage	Pool 388254	7.000%	03/15/2024	\$ 9,588,833	\$ 9,450,993	\$ 9,421,028
GNMA - Govt National Mortgage	Pool 388999	7.500%	08/15/2022	4,860,953	4,889,815	4,892,209
GNMA - Govt National Mortgage	Pool 389468	7.000%	03/15/2024	10,797,162	10,641,952	10,608,211
GNMA - Govt National Mortgage	Pool 389483	7.500%	04/15/2024	5,352,658	5,384,439	5,377,708
GNMA - Mountain States Mtg.	Pool 390719	8.000%	03/15/2024	2,962,284	3,068,278	3,027,069
GNMA - Govt National Mortgage	Pool 390723	7.500%	03/15/2024	25,221,589	25,363,461	25,316,170
GNMA - Govt National Mortgage	Pool 390727	7.500%	03/15/2024	24,557,803	24,695,941	24,626,810
GNMA - Mountain States Mtg.	Pool 390728	7.500%	03/15/2024	18,331,838	18,440,683	18,400,583
GNMA - Mountain States Mtg.	Pool 390871	7.500%	04/15/2024	7,092,253	7,124,390	7,118,849
GNMA - Govt National Mortgage	Pool 392494	8.000%	08/15/2024	3,862,716	4,000,929	3,947,194
GNMA - Countrywide Funding	Pool 392517	8.000%	08/15/2024	4,023,362	4,167,323	4,111,351
GNMA - Corinthian Mortgage	Pool 399749	8.000%	07/15/2025	820,420	849,775	837,591
GNMA - PHH Mtg. Services Corp.	Pool 402828	8.000%	10/15/2024	5,086,375	5,264,398	5,197,614
GNMA - Prudential Home Mtg.	Pool 403993	8.000%	11/15/2024	4,143,431	4,303,342	4,234,041
GNMA - JI Kislak Mtg. Corp.	Pool 405154	8.000%	10/15/2025	952,428	985,763	972,361
GNMA - Prudential Home Mtg.	Pool 405490	8.000%	09/15/2025	68,460,272	70,909,866	69,893,141
GNMA - Prudential Home Mtg.	Pool 405528	8.000%	11/15/2025	63,819,509	66,103,050	65,155,251
GNMA - Prudential Home Mtg.	Pool 405538	8.000%	12/15/2025	74,339,802	77,161,195	75,895,731
GNMA - Govt National Mortgage	Pool 405559	8.000%	01/15/2026	83,224,946	86,267,173	84,966,841
GNMA - Commercial Federal Mtg.	Pool 406290	8.000%	06/15/2025	1,039,375	1,075,753	1,061,121
GNMA - Commercial Federal Mtg.	Pool 406292	8.000%	07/15/2025	936,858	969,648	956,461
GNMA - Inland Mtg. Corp.	Pool 408120	8.000%	10/15/2025	1,885,084	1,951,062	1,924,531
GNMA - Island Mortgage Corp.	Pool 408152	8.000%	11/15/2025	1,329,325	1,376,890	1,357,141
GNMA - Chemical Residential	Pool 408808	8.000%	10/15/2025	5,193,807	5,377,761	5,302,511
GNMA - Chemical Residential	Pool 408809	8.000%	10/15/2025	4,219,980	4,382,845	4,308,301
GNMA - Chemical Residential	Pool 408834	8.000%	11/15/2025	7,940,172	8,236,374	8,106,361
GNMA - Chemical Residential	Pool 408867	8.000%	12/15/2025	10,189,034	10,545,650	10,402,291
GNMA - Norwest Mortgage Inc.	Pool 410049	8.000%	07/15/2025	31,413,887	32,532,013	32,071,381
GNMA - Norwest Mortgage Inc.	Pool 410064	8.000%	07/15/2025	4,001,594	4,156,030	4,085,341
GNMA - Norwest Mortgage Inc.	Pool 410167	8.000%	10/15/2025	45,559,237	47,189,403	46,512,791
GNMA - Norwest Mortgage Inc.	Pool 410204	8.000%	11/15/2025	45,145,642	46,725,739	46,090,541
GNMA - Norwest Mortgage Inc.	Pool 410205	8.000%	11/15/2025	21,716,330	22,493,367	22,170,851
GNMA - Norwest Mortgage Inc.	Pool 410214	8.000%	12/12/2025	8,944,890	9,257,961	9,132,101
GNMA - Norwest Mortgage Inc.	Pool 410218	8.000%	11/15/2025	9,834,734	10,186,633	10,040,571
GNMA - Norwest Mortgage Inc.	Pool 410247	8.000%	12/15/2025	15,731,756	16,338,903	16,061,021
GNMA - James B. Nutter & Co.	Pool 410284	8.000%	09/15/2025	7,824,801	8,098,669	7,995,921
GNMA - James B. Nutter & Co.	Pool 410296	8.000%	11/15/2025	24,353,718	25,206,098	24,863,441
GNMA - Banc Boston Mortgage	Pool 410854	8.000%	12/15/2025	28,775,118	29,782,247	29,377,381
GNMA - Banc Boston Mortgage	Pool 410858	8.000%	12/15/2025	4,590,104	4,750,758	4,686,171
GNMA - Govt National Mortgage	Pool 410900	8.000%	01/15/2026	9,319,541	9,653,006	9,505,931
GNMA - North American Mtg.	Pool 411545	8.000%	12/15/2025	13,791,624	14,323,894	14,080,241

Note: Cents omitted. Columns will not add.



Name		Coupon	Maturity	Par Value	Book Value	Fair Value
NMA - Principal Residential	Pool 412506	8.000%	10/15/2025	\$ 3,810,553	\$ 3,957,617	\$ 3,890,30
NMA - Govt National Mortgage	Pool 412515	8.000%	11/15/2025	4,282,208	4,447,475	4,371,831
NMA - Fleet Real Estate	Pool 413127	8.000%	09/15/2025	3,804,478	3,951,307	3,884,106
NMA - Govt National Mortgage	Pool 413152	8.000%	10/15/2025	8,833,722	9,149,804	9,018,612
NMA - Govt National Mortgage	Pool 413564	8.000%	11/15/2025	4,215,364	4,378,051	4,303,592
NMA - Chase Manhattan Mtg.	Pool 413583	8.000%	12/15/2025	9,115,078	9,441,227	9,305,856
NMA - GMAC Mtg. Corp. of PA.	Pool 413896	8.000%	10/15/2025	965,649	999,447	988,574
NMA - Countrywide Funding	Pool 414539	8.000%	08/15/2025	4,194,729	4,356,620	4,282,525
NMA - Countrywide Funding	Pool 414645	8.000%	10/15/2025	25,438,882	26,349,117	25,971,318
NMA - Countrywide Funding	Pool 414723	8.000%	10/15/2025	7,583,428	7,854,772	7,742,149
NMA - Countrywide Funding	Pool 414809	8.000%	12/15/2025	52,581,206	54,462,627	53,681,731
NMA - Govt National Mortgage	Pool 415762	8.000%	11/15/2025	17,633,584	18,264,535	18,002,654
NMA - Fleet Mortgage Corp.	Pool 415819	8.000%	12/15/2025	3,775,509	3,907,651	3,854,530
NMA - Dale Mtg. Bankers Corp.	Pool 416095	8.000%	07/15/2025	1,020,629	1,056,351	1,042,950
NMA - Water's Mortgage Corp.	Pool 416684	8.000%	11/15/2025	4,531,410	4,706,294	4,626,253
NMA - Norwest Mortgage Inc.	Pool 417190	8.000%	01/15/2026	18,479,225	19,136,825	18,865,995
NMA - Govt National Mortgage	Pool 417220	8.000%	01/15/2026	17,787,966	18,474,471	18,160,269
NMA - Resource Bancshares Mtg.	Pool 419860	8.000%	11/15/2025	3,706,668	3,849,724	3,784,248
NMA - HVD Mortgage Corp.	Pool 420566	8.000%	11/15/2025	4,368,481	4,537,077	4,459,914
NMA - Govt National Mortgage	Pool 420661	8.000%	01/15/2026	2,919,492	3,021,674	2,980,597
NMA - Union Federal Savings	Pool 421144	8.000%	12/15/2025	1,788,300	1,850,891	1,825,730
NMA - First National Mtg.	Pool 421422	8.000%	12/15/2025	4,534,513	4,693,221	4,629,421
NMA - Resource Bancshares Mtg.	Pool 423418	8.000%	12/15/2025	952,369	985,702	972,302
NMA - GMAC Mtg. Corp. of PA.	Pool 423747	8.000%	11/15/2025	979,967	1,014,266	1,001,399
NMA - Gershman Investment	Pool 326436	7.500%	05/15/2023	18,307,557	18,390,513	18,393,236
NMA - Principal Residential	Pool 327008	7.000%	06/15/2023	16,139,597	15,907,590	15,857,154
NMA - Fleet Mortgage Corp.	Pool 328193	7.500%	08/15/2022	3,126,543	3,140,710	3,146,647
NMA - Banc Boston Mortgage	Pool 330911	7.500%	12/15/2022	6,066,134	6,102,152	6,094,524
NMA - Nationsbank Mortgage	Pool 331840	7.500%	01/15/2023	7,564,987	7,609,904	7,600,391
NMA - Chase Home Mortgage	Pool 336475	7.500%	06/15/2023	3,589,116	3,610,426	3,602,575
NMA - American Home Funding	Pool 338007	7.500%	06/15/2023	25,518,141	25,669,655	25,637,566
NMA - Fleet Real Estate	Pool 338366	7.000%	12/15/2022	19,967,545	19,680,667	19,636,882
NMA - Fleet Mortgage Corp.	Pool 340781	7.500%	05/15/2023	5,120,941	5,144,145	5,144,907
NMA - Norwest Mortgage Inc.	Pool 342477	7.000%	12/15/2022	18,993,397	18,720,367	18,678,867
NMA - Norwest Mortgage Inc.	Pool 342480	7.500%	12/15/2022	5,520,974	5,553,755	5,546,812
NMA - Norwest Mortgage Inc.	Pool 342552	7.500%	03/15/2023	26,486,126	26,643,387	26,610,081
NMA - Govt National Mortgage	Pool 780195	8.000%	07/15/2025	34,991,583	36,216,288	35,822,283
NMA - Govt National Mortgage	Pool 780249	8.000%	09/15/2025	1,113,977	1,152,966	1,137,293
NMA - Govt National Mortgage	Pool 780292	8.000%	12/15/2023	7,158,560	7,409,109	7,341,890
theast Mortgage FHA Project	Pool 1985-1	8.545%	08/01/2016	23,265	18,581	23,266
rs Mortgage Securities Corp.	Series 1985-A	11.875%	04/25/2015	42,029	41,504	42,029
<b>TOTAL</b>				<b>\$5,437,292,047</b>	<b>\$5,519,114,860</b>	<b>\$5,530,268,966</b>

es: Cents omitted. Columns will not add.



**CORPORATE**

Issuer	Coupon	Maturity	Par Value	Book Value	Fair Value
AT & T Corporation	7.750%	03/01/2007	\$ 31,250,000	\$ 33,309,312	\$ 33,133,750
American Home Products	7.900%	02/15/2005	60,540,000	63,370,401	64,507,791
Associates Corporation N.A.	6.375%	08/15/1998	25,000,000	25,064,166	25,102,250
Associates Corporation N.A.	6.750%	08/01/2001	63,200,000	62,484,845	63,431,944
Atlantic Richfield Company	10.875%	07/15/2005	47,115,000	60,060,997	58,851,817
Atlantic Richfield Company	9.875%	03/01/2016	27,050,000	35,046,989	33,863,354
AVCO Financial	6.350%	09/15/2000	15,000,000	14,999,422	14,883,450
British Petroleum America	9.375%	11/01/2000	22,650,000	24,553,788	24,926,091
Bank One Corporation	7.625%	10/15/2026	19,125,000	18,971,153	19,284,691
Bank One Credit Card Master Trust	6.300%	10/15/2002	50,000,000	49,980,806	49,890,500
BankAmerica Corporation	6.650%	05/01/2001	44,000,000	43,959,934	44,039,160
CIT Group Holdings	6.250%	09/30/1999	15,000,000	15,057,226	15,015,600
CIT Group Holdings	5.875%	12/09/1999	75,000,000	74,147,579	73,761,751
CIT Group Holdings	5.875%	12/09/1999	50,000,000	49,837,987	49,236,500
CIT Group Holdings	5.375%	01/25/1999	29,600,000	29,509,666	29,170,200
CIT Group Holdings	5.625%	02/02/2001	52,500,000	52,526,812	50,827,870
CPC International Inc.	6.150%	01/15/2006	40,000,000	39,896,172	37,951,600
Citicorp	5.625%	02/15/2001	40,000,000	39,557,499	38,626,000
Disney, Walt Company	6.750%	03/30/2006	150,000,000	149,798,980	148,540,500
First Union Corporation	6.875%	09/15/2005	25,000,000	25,191,291	24,633,000
Ford Credit Union Auto Loan Master Trust	5.500%	02/15/2003	101,000,000	100,442,162	97,496,310
Ford Motor Company	7.250%	10/01/2008	30,000,000	29,869,807	30,249,600
Ford Motor Credit Company	8.000%	06/15/2002	23,000,000	24,128,109	24,320,890
Ford Motor Credit Company	7.750%	10/01/1999	55,600,000	55,489,615	57,442,020
Ford Motor Credit Company	6.850%	08/15/2000	54,808,000	55,685,156	55,311,680
GTE North Incorporated	7.625%	05/15/2026	39,000,000	38,573,748	38,686,440
GTE North Incorporated	6.900%	11/01/2008	33,650,000	33,703,754	33,425,550
General Electric Company	7.875%	09/15/1998	35,500,000	36,657,366	36,530,560
General Motors Acceptance Corporation	6.650%	05/24/2000	54,750,000	54,629,981	55,030,860
General Motors Acceptance Corporation	5.625%	02/01/1999	42,450,000	41,708,496	41,909,610
General Motors Acceptance Corporation	6.750%	03/15/2003	55,200,000	54,706,176	54,726,380
Lockheed Martin Company	6.850%	05/15/2001	31,500,000	31,155,422	31,780,350
Lockheed Martin Company	7.250%	05/15/2006	64,865,000	64,807,742	65,991,700
Lockheed Martin Company	7.650%	05/01/2016	40,000,000	42,223,079	41,376,400
Lockheed Martin Corporation	7.450%	06/15/2004	52,900,000	54,496,490	54,755,200
MCI Communications Corporation	6.950%	08/15/2006	35,000,000	34,889,016	35,210,000
Martin Marietta Technologies	6.500%	04/15/2003	22,500,000	21,770,499	22,190,400
McDonnell Douglas	6.875%	11/01/2006	43,500,000	43,548,298	42,684,800
National City Corporation	6.625%	03/01/2004	25,500,000	25,440,831	24,987,400

Note: Cents omitted. Columns will not add.



Name	Coupon	Maturity	Par Value	Book Value	Fair Value
National City Corporation	7.200%	05/15/2005	\$ 30,000,000	\$ 31,091,829	\$ 30,141,600
Nationsbank Texas	6.350%	03/15/2001	20,500,000	20,492,049	20,260,350
Nationsbank Corporation	8.125%	06/15/2002	24,000,000	25,571,809	25,479,600
Nationsbank Corporation	6.875%	02/15/2005	10,000,000	9,659,072	9,897,100
Nationsbank Corporation	5.375%	04/15/2000	25,000,000	24,154,146	24,232,000
Nationsbank Corporation	7.000%	05/15/2003	70,000,000	69,744,492	70,956,200
Nationsbank Corporation	7.500%	09/15/2006	30,500,000	30,500,000	31,336,000
Nationsbank Corporation	7.800%	09/15/2016	70,000,000	72,196,980	72,183,300
Nationsbank Credit Card Master Trust	6.000%	12/15/2005	48,200,000	46,628,009	46,557,820
Norwest Bank Corporation	6.750%	05/12/2000	30,000,000	29,944,077	30,339,000
Norwest Corporation	6.000%	10/13/1998	75,000,000	74,887,684	74,931,000
Norwest Corporation	5.750%	02/01/2003	60,050,000	59,354,873	57,210,830
Pacific Bell	6.625%	10/15/2034	32,500,000	27,932,218	28,871,700
Philip Morris, Inc.	9.000%	01/01/2001	15,000,000	15,946,719	16,138,050
Philip Morris, Inc.	8.750%	06/01/2001	30,000,000	31,877,422	32,116,200
Phillips Petroleum	9.375%	02/15/2011	40,000,000	46,816,727	47,774,000
Phillips Petroleum	9.000%	06/01/2001	27,500,000	30,461,525	29,958,500
Phillips Petroleum	6.650%	03/01/2003	11,700,000	11,530,744	11,623,130
Premier Auto Trust	6.150%	03/06/2000	27,375,000	27,546,979	27,426,190
Premier Auto Trust	6.000%	05/06/2000	25,000,000	24,979,606	25,000,000
Procter Products	6.750%	11/01/2010	35,000,000	34,931,442	33,565,700
Southwestern Bell Telephone	6.250%	10/15/2002	40,000,000	39,970,083	39,407,600
Standard Credit Card Master Trust	5.950%	10/07/2004	100,000,000	97,298,640	96,125,000
Trust Banks, Inc.	7.375%	07/01/2006	30,000,000	29,754,189	30,828,300
Exaco Capital	8.625%	06/30/2010	31,646,000	35,748,244	35,665,042
Exaco Capital	8.500%	02/15/2003	19,894,000	22,152,720	21,642,085
Exaco Capital	8.250%	10/01/2006	17,075,000	19,325,998	18,722,396
S. West Communications	6.875%	09/15/2033	40,000,000	39,015,341	36,230,400
S. West Communications	7.125%	11/15/2043	25,000,000	25,209,655	23,204,000
S. West Communications	6.375%	10/15/2002	40,000,000	39,491,468	39,437,600
Wisconsin Electric Power	6.625%	11/15/2006	26,000,000	25,979,460	25,542,400
Worthington Industries	7.125%	05/15/2006	57,000,000	56,899,821	57,701,670
<b>TOTAL</b>			<b>\$2,886,693,000</b>	<b>\$2,928,344,826</b>	<b>\$2,914,288,885</b>

te: Cents omitted. Columns will not add.



**ANADIAN**

name	Coupon	Maturity	Par Value	Book Value	Fair Value
British Columbia	7.250%	09/01/2036	\$ 33,000,000	\$ 32,746,398	\$ 33,502,590
Hydro Quebec	8.500%	12/01/2029	46,000,000	49,241,137	50,822,180
Hydro Quebec	9.400%	02/01/2021	50,035,000	59,991,922	60,338,207
Hydro Quebec	8.050%	07/07/2024	50,000,000	51,220,694	54,976,000
Province of Alberta	9.250%	04/01/2000	45,000,000	48,219,769	48,847,050
Province of Ontario	7.750%	06/04/2002	40,000,000	42,186,022	42,240,800
Province of Ontario	7.000%	08/04/2005	32,000,000	31,990,099	32,424,640
Province of Ontario	6.000%	02/21/2006	96,000,000	95,557,689	91,320,000
Province of Quebec	8.625%	12/01/2026	25,000,000	27,009,483	27,931,750
Province of Quebec	7.500%	07/15/2023	49,400,000	47,376,440	49,155,470
Province of Quebec	8.625%	01/19/2005	13,120,000	14,908,605	14,419,667
<b>TOTAL</b>			<b>\$479,555,000</b>	<b>\$500,448,262</b>	<b>\$505,978,354</b>

**REAL ESTATE**

name	Book Value	Fair Value
FL-CIO Housing Investment Trust	\$ 71,189,594	\$ 76,486,642
Hristol Group	195,081,359	208,119,505
Marlco	442,526,584	444,087,595
Marathon	74,388,059	75,979,452
Five Arrows	28,484,148	28,023,816
Howe Enterprises	311,468,191	309,859,582
Motshchild Property Investors	5,861,202	5,824,652
Motshchild Realty	428,169,378	429,346,056
GM	386,002,935	382,452,902
MMAC	531,535,945	531,520,182
Trinet Trust	273,294,668	278,334,456
Trisis Trust	24,565,105	25,233,182
<b>TOTAL</b>	<b>\$2,772,567,171</b>	<b>\$2,795,268,012</b>

**INTERNATIONAL**

name	Book Value	Fair Value
Capital Guardian	\$300,738,794	\$304,067,67
PM/EAFE	309,514,435	316,369,79
Cylem Fund	238,361,383	242,746,31
<b>TOTAL</b>	<b>\$848,614,613</b>	<b>\$863,183,79</b>

Note: Cents omitted. Columns will not add.

**VENTURE CAPITAL**

name	Shares	Book Value	Fair Value
Blue Chip Capital Fund	11,472,209	\$11,472,209	\$11,472,209
Cardinal Development Fund, Inc.	205,303	205,303	205,303
Micro Industries Corporation	400,000	3,000,000	4,000,000
Northwest Ohio Venture Fund	3,747,466	3,747,466	3,747,466
Primus Capital Fund	50,439	50,439	50,439
Primus Capital Fund II	445,071	445,071	445,071
Primus Capital Fund III	6,926,645	6,926,645	6,926,645
<b>TOTAL</b>	<b>23,247,133</b>	<b>\$25,847,133</b>	<b>\$26,847,133</b>

**STOCK**

name	Shares	Cost	Fair Value
T & T Corporation	2,183,700	\$ 84,515,385	\$ 94,717,987
A.C. Nielsen Corp.	47,500	134,006	724,375
Abbott Laboratories	1,090,300	51,678,159	55,332,725
Acuson Corporation	23,800	295,726	580,125
ADC Telecommunications Inc.	106,800	2,106,196	3,324,150
Adobe Systems Inc.	961,300	40,386,763	35,928,587
Advanced Micro Devices	1,552,500	53,928,319	39,976,875
Advanced Technology Lab Inc.	11,500	233,730	356,500
AES Corporation	64,000	1,320,053	2,976,000
Aetna, Inc.	375,344	27,302,922	30,027,520
FLAC Incorporated	121,350	3,387,661	5,187,712
AGL Resources Inc.	46,700	871,614	986,537
Armstrong H.F. & Company	264,100	6,609,815	8,583,250
Amco	765,000	14,008,910	21,611,250
Air Products & Chemicals, Inc.	63,000	3,497,875	4,354,875
Airborne Freight Corporation	18,000	433,785	420,750
Airgas Incorporated	54,700	1,140,903	1,203,400
Airtouch Communications Inc.	274,000	8,347,374	6,918,500
Alaska Airgroup Inc.	11,600	200,717	243,600
Albany International Corp.	25,900	585,669	598,937
Albemarle Corporation	56,400	1,006,951	1,022,250
Alberto-Culver Company	14,700	526,715	705,600
Albertsons Inc.	746,200	25,358,516	26,583,375
Alcan Aluminum Ltd.	123,400	4,046,670	4,149,325
ALCO Standard Corporation	73,500	3,239,096	3,794,437
Alexander & Alexander	17,500	373,544	304,062

Note: Cents omitted. Columns will not add.



Name	Shares	Cost	Fair Value
Alexander & Baldwin Inc.	38,900	\$ 928,425	\$ 972,500
Aliant Communications, Inc.	31,200	557,332	530,400
Allegheny Power System Inc.	102,700	2,697,580	3,119,510
Allegheny Teledyne, Inc.	75,200	1,474,047	1,729,600
Allegiance Corporation	45,100	1,163,800	1,245,800
Allen Group	800,000	14,872,261	17,800,000
Allergan Inc.	34,900	1,164,969	1,243,310
Allied Signal Inc.	278,800	15,204,967	18,679,600
Allmerica Financial Corp.	540,000	13,258,395	18,090,000
Allstate Corporation	415,700	19,868,210	24,058,600
Alltel Corporation	250,000	7,719,373	7,843,700
Altera Corp.	37,100	2,103,057	2,696,700
Alumax	38,100	1,213,564	1,276,300
Aluminum Co. of America	105,200	5,859,342	6,706,500
ALZA Corporation	45,300	1,239,066	1,172,100
AMDAHL Corporation	55,800	554,295	676,570
Amerada Hess Corporation	57,800	3,026,048	3,345,170
America Online Inc.	68,300	2,768,130	2,270,970
American Brands Inc.	66,100	2,846,491	3,280,210
American Electric Power	72,800	2,611,542	2,993,900
American Express	264,100	11,172,385	14,921,600
American Financial Group Inc.	304,800	8,774,191	11,506,200
American General Corporation	1,215,500	42,354,115	49,683,560
American General Hospitality	400,000	7,100,000	9,500,000
American Greetings	40,500	1,167,447	1,149,180
American Home Products Corp.	583,800	27,015,198	34,225,270
American International Group	626,800	57,572,944	67,851,100
American Power Conversion Corp.	79,500	1,070,470	2,166,370
American Stores Company	56,600	1,757,433	2,313,520
American Water Works Co.	857,400	16,068,647	17,683,870
Ameritech Corporation	747,700	42,216,934	45,329,310
AMETEK Incorporated	28,200	506,497	627,450
AMGEN Inc.	145,700	7,866,520	7,922,430
AMLI Residential Properties	229,300	4,620,933	5,359,880
AMOCO Corporation	762,000	43,149,295	61,436,250
AMP Inc.	120,200	4,918,071	4,612,670
AMR Corporation	186,900	15,149,791	16,470,560
Amstar Corporation	1,250,300	58,476,843	80,956,920
Analog Devices, Inc.	97,500	2,329,144	3,302,810
Andrew Corporation	33,200	1,372,290	1,761,600

Note: Cents omitted. Columns will not add.

<b>Name</b>	<b>Shares</b>	<b>Cost</b>	<b>Fair Value</b>
Anheuser-Busch Cos., Inc.	271,700	\$ 8,833,074	\$ 10,868,00
AnnTaylor Stores Corp.	19,700	289,846	344,75
Aradigm Corporation	58,900	2,793,214	3,659,16
Apache Corporation	1,866,000	47,595,575	65,543,25
APL Limited	21,900	578,431	517,38
Apple Computer, Inc.	291,100	7,690,094	6,076,71
Applied Material	98,900	4,071,810	3,554,26
Apria Healthcare Group Inc.	39,000	1,078,353	731,25
Arch Chemicals Midland Company	251,175	4,472,081	5,525,85
Arden Realty	259,500	5,190,000	7,168,68
ARMCO, Incorporated	62,000	329,146	255,75
Armstrong World Industries	20,600	1,287,603	1,431,70
Arnold Industries, Inc.	22,700	421,179	360,36
Arrow Electronics Inc.	43,200	2,201,148	2,311,20
Arvin Industries Inc.	19,000	365,329	470,25
ASARCO Inc.	23,400	686,547	582,07
Ashland Inc.	25,000	926,657	1,096,87
Associated Estates Realty	350,000	6,805,810	8,312,50
AST Research, Inc.	38,100	430,063	159,56
Atlantic Energy Inc.	44,800	862,037	767,20
Atlantic Richfield Company	361,300	38,561,498	47,872,25
Atlantic Southeast Airlines	27,900	741,878	610,31
AT&T Corporation	82,500	2,545,134	2,732,81
Autodesk, Inc.	17,700	612,739	495,60
Automatic Data Processing Inc.	158,100	5,904,879	6,778,53
Autozone Incorporated	58,500	1,570,198	1,608,75
Avery Dennison Corporation	58,600	1,484,345	2,072,97
AVNET Inc.	36,900	1,814,666	2,149,42
Avon Products	72,200	3,045,591	4,124,42
AVX Corporation	1,500,000	39,542,627	32,250,00
Baker Hughes, Inc.	359,000	8,954,454	12,385,50
Ball Corporation	413,700	12,125,705	10,859,62
Baltimore Gas & Electric Co.	79,900	2,049,950	2,137,32
Bank One Corporation	608,700	22,682,180	26,174,10
Bankcorp Hawaii Inc.	35,400	1,198,091	1,486,80
Bank of Boston Corporation	216,700	10,601,780	13,922,97
Bank of New York Company Inc.	209,500	5,593,184	7,070,62
BankAmerica Corporation	482,800	35,140,946	48,159,30
Bankers Trust New York Corp.	41,500	2,893,848	3,579,37
Banta Corp.	25,950	693,924	593,60

Note: Cents omitted. Columns will not add.



Name	Shares	Cost	Fair Value
Card, C. R. Incorporated	169,800	\$ 5,964,310	\$ 4,754,40
Carnett Banks, Inc.	438,300	14,208,815	18,025,08
Carrick Gold Corporation	378,400	9,667,535	10,879,00
Cattle Mountain Gold Company	828,600	8,457,528	5,696,62
Causch & Lomb Incorporated	26,700	1,056,123	934,50
Caxter International Inc.	124,700	4,582,102	5,112,70
Cay Networks Inc.	73,000	2,582,863	1,533,00
Chase Stearns Companies Inc.	105,105	2,088,958	2,929,80
Cheekman Instruments Inc.	24,600	768,521	944,02
Chemton, Dickinson & Company	67,400	2,758,861	2,923,47
Cherry Bath & Beyond	56,000	1,251,090	1,358,00
Chell Atlantic Corporation	399,600	24,866,251	25,874,10
Chellsouth Corporation	925,200	36,734,945	37,470,60
Chelo, A.H. Corporation	33,000	1,106,276	1,150,87
Chemis Company	49,500	1,578,585	1,825,31
Chemefical Corporation	28,200	1,416,060	1,787,17
Cherg Electronics	500,000	12,035,553	14,687,50
Chergen Brunswick Corporation	34,000	755,059	977,50
Chemist Buy Co. Inc.	36,400	778,200	386,75
Chemthlehem Steel Corporation	53,700	814,985	476,58
Chemtzdearborn Inc.	23,600	978,107	1,380,60
Chemverly Enterprises	53,600	636,765	683,40
Chemrogen Incorporated	60,600	1,728,862	2,348,25
Chemtomet Incorporated	65,800	1,135,780	995,22
Chem J Services Company	23,800	600,908	1,213,80
Chemlack & Decker Corporation	34,000	1,155,946	1,024,25
Chemlack Hills Corporation	12,300	303,243	345,93
Chemlock, H & R Incorporated	56,000	1,925,924	1,624,00
Chem MC Software, Incorporated	86,400	1,766,576	3,574,80
Chem oatmens Bancshares Inc.	86,300	3,980,341	5,566,35
Chemob Evans Farms	36,200	666,251	488,70
Chemoeing Company	465,740	24,595,573	49,601,31
Chemoise Cascade Corporation	26,800	1,001,001	850,90
Chemoise Cascade Office Products	800,000	17,558,640	16,600,00
Chemoston Scientific Corporation	110,600	4,930,620	6,636,00
Chemowater Incorporated	33,100	1,445,238	1,245,38
Chemradley Real Estate Inc.	1,272,646	22,518,060	22,907,62
Chemriggs & Stratton Corporation	15,300	593,707	673,20
Chemrinker International, Inc.	1,065,300	18,063,740	17,044,80
Chemristol-Myers Squibb Company	808,000	68,930,501	88,072,00

Note: Cents omitted. Columns will not add.

Company Name	Shares	Cost	Fair Value
Arite Voice Systems	500,000	\$ 8,439,378	\$ 7,437,501
Brooklyn Union Gas Company	41,400	1,067,368	1,247,171
Brown-Forman	37,100	1,410,845	1,697,321
Browning-Ferris Industries Inc.	542,600	16,829,184	14,243,251
Brunswick Corporation	52,200	1,118,999	1,252,801
Bush Wellman Inc.	13,900	267,086	227,611
Buffets Incorporated	26,600	347,090	242,721
Burlington Industries Inc.	52,500	673,887	577,501
Burlington Northern Santa Fe	83,606	6,382,491	7,221,461
Burlington Resources, Inc.	1,017,200	41,860,685	51,241,451
Cabletron Systems	85,200	2,759,219	2,832,901
Cabot Corporation	64,800	1,644,435	1,628,101
Cadence Design Systems, Inc.	69,000	1,449,457	2,725,501
Calenergy Inc.	42,700	807,779	1,435,781
Calgon Carbon Corporation	34,500	403,771	422,621
Caliber Systems, Inc.	135,500	3,039,524	2,608,371
Callaway Golf Company	58,600	978,155	1,684,751
Calmat Company	719,800	16,691,089	13,496,251
Calpine Corporation	1,800,000	28,979,334	36,000,001
Campbell Soup Company	142,700	7,813,133	11,451,671
Canadian Occidental Petroleum	600,000	9,848,383	9,600,001
Capstar Hotel Company	600,000	9,957,464	11,775,001
Cardinal Health Incorporated	2,311,950	84,738,769	134,671,081
Carlisle Companies, Inc.	13,100	547,440	792,551
Carnival Corporation	810,000	23,415,682	26,730,001
Carolina Power & Light	83,800	2,828,953	3,058,701
Carpenter Technology	14,000	554,427	512,751
Carter-Wallace, Inc.	39,400	455,835	615,621
Case Corporation	28,200	1,443,638	1,536,901
Catalina Marketing	322,600	9,440,725	17,783,321
Caterpillar Incorporated	221,500	15,053,207	16,667,871
CBL & Associates Properties	150,000	2,771,800	3,881,251
Centex Corporation	16,700	489,293	628,331
Centocor Incorporated	49,800	732,237	1,780,351
Central & South West Corp.	114,900	2,963,852	2,944,311
Central Fidelity Banks Inc.	51,150	1,085,609	1,317,111
Central Louisiana Electric	19,100	487,291	527,631
Central Maine Power Co.	27,700	359,087	322,011
Century Telephone Enterprises	50,400	1,472,773	1,556,101
Meridian Corporation	38,100	1,704,016	1,543,051

Note: Cents omitted. Columns will not add.



Name	Shares	Cost	Fair Value
Arion Technologies	350,000	\$ 5,580,701	\$ 2,275,00
Champion International Corp.	73,900	3,363,368	3,196,17
Charming Shoppes	56,900	251,166	288,08
Chase Manhattan Corp.	268,496	17,018,542	23,996,83
Checkfree Corporation	300,000	5,372,125	5,137,50
Chesapeake Corporation	20,400	671,199	640,05
Chevron Corporation	958,300	32,364,279	62,289,50
Chiron Corporation	142,000	3,302,323	2,644,75
Chris-Craft Industries, Inc.	25,647	1,061,392	1,057,93
Chrysler Corporation	400,000	11,291,927	13,200,00
Hubb Corporation	488,700	24,908,566	26,267,62
Hurch & Dwight Inc.	16,700	346,225	382,01
Igna Corporation	55,700	6,255,998	7,610,01
Incinnati Milacron Inc.	128,800	3,171,277	2,817,50
Inergy Corporation	793,000	19,970,494	26,466,37
Intas Corporation	40,200	1,696,544	2,361,75
Circuit City Stores Inc.	38,000	1,182,488	1,144,75
Circus Circus Enterprises,	87,700	2,540,228	3,014,68
Cirrus Logic Inc.	53,000	2,248,220	821,50
Cisco Systems Incorporated	830,500	43,413,978	52,840,56
Citicorp	262,800	20,968,921	27,068,40
Citizens Utilities Company	1,016,000	11,885,656	11,049,00
City National Corp.	38,900	530,897	841,21
Claires Stores Inc.	40,500	366,150	531,56
Clayton Homes Inc.	101,125	1,610,340	1,365,18
Cleveland-Cliffs Inc.	10,200	424,416	462,82
Clorox Company	28,500	2,298,408	2,860,68
MS Energy Corp.	77,800	2,086,794	2,616,02
Coastal Corporation	41,000	1,479,347	2,003,87
Coca-Cola Company	2,994,400	111,108,344	157,580,30
Coca-Cola Enterprises	110,700	2,867,711	5,368,95
Cognizant Corporation	430,000	13,972,335	14,190,00
Colgate-Palmolive Company	81,100	6,226,608	7,481,47
Colonial Properties Trust	385,000	8,205,510	11,694,37
Columbia Gas System, Inc.	30,000	1,353,884	1,908,75
Columbia/HCA Healthcare	898,100	30,750,428	36,597,57
Comcast Corporation	1,635,600	26,594,711	29,134,94
Comdisco Incorporated	44,800	959,226	1,422,40
Comerica Incorporated	44,600	1,906,869	2,335,92
Commercial Net Lease Realty	1,643,000	21,430,565	26,082,62

Note: Cents omitted. Columns will not add.

ame	Shares	Cost	Fair Value
mpaq Computer Corporation	368,200	\$ 18,886,704	\$ 27,384,875
omputer Associates Int'l, Inc	204,950	8,654,102	10,196,262
omputer Sciences Corporation	37,700	2,619,725	3,096,112
ompuware Corporation	36,200	789,184	1,814,525
omsat Corporation	40,500	862,281	997,312
onagra Incorporated	546,500	25,619,363	27,188,375
oncord E F S, Inc.	1,400,000	39,653,409	39,550,000
onrail Incorporated	31,500	2,266,199	3,138,187
onsolidated Edison of NY	91,100	2,738,035	2,653,287
onsolidated Freightways Inc.	37,000	778,322	823,250
onsolidated Natural Gas Co.	52,600	2,347,910	2,906,150
onsolidated Papers Inc.	38,000	2,298,466	1,866,750
onsolidated Stores Corp.	55,750	1,710,968	1,797,937
oker Restaurant Corp.	600,000	8,390,057	6,975,000
oper Industries	325,600	11,955,624	13,715,900
oper Tire & Rubber	805,300	21,047,247	15,904,675
ors, Adolph	22,500	444,548	427,500
restates Financial Corp.	380,000	15,360,836	19,712,500
orning Incorporated	137,100	4,666,947	6,340,875
x Communicatins	300,000	5,926,068	6,937,500
'C International Inc.	344,600	23,245,648	26,706,500
'I Corporation	10,837	200,627	181,519
acker Barrel Old Country	826,400	19,953,249	20,969,900
ane Company	25,800	703,276	748,200
estar Financial Corp.	36,600	2,048,140	2,722,125
ompton & Knowles Corp.	41,000	559,840	789,250
oss, A.T. Company	14,100	220,120	163,91
own Cork & Seal Co. Inc.	50,000	2,354,969	2,718,750
X Corporation	116,700	5,190,428	4,930,575
JC International Inc.	348,850	7,793,189	8,459,612
immins Engine	21,700	888,211	998,200
/S Corporation	41,000	1,202,302	1,696,375
press Semiconductor Corp.	71,500	1,432,983	1,009,937
prus Amax Minerals Company	656,100	14,972,726	15,418,350
TEC Inds. Inc.	39,700	1,589,191	1,612,812
mes & Moore, Incorporated	675,000	12,518,412	9,871,875
ina Corporation	56,200	1,717,927	1,833,525
inaher Corporation	49,900	1,587,979	2,326,587
urden Restaurants Inc.	81,500	835,198	713,125
ita General Corp.	20,800	264,360	301,600

ote: Cents omitted. Columns will not add.



Name	Shares	Cost	Fair Value
Datascope Corp.	13,700	\$ 304,190	\$ 274,000
Dauphin Deposit Corporation	26,200	762,132	864,600
Dayton Hudson Corporation	118,600	3,352,503	4,655,000
Dean Foods Company	34,200	974,437	1,102,900
Dean Witter Discover & Co.	85,400	4,648,603	5,657,700
Deere & Company	100,200	3,663,136	4,058,100
Dell Computer Corporation	100,800	2,875,026	5,355,000
Delmarva Power & Light Company	51,800	1,132,561	1,055,400
Delta Air Lines Inc.	144,400	10,359,457	10,234,300
Deluxe Corporation	461,700	13,894,141	15,120,600
Dentsply International Inc.	723,000	26,231,373	34,342,500
Designer Holdings Ltd.	70,000	1,260,000	1,128,700
Dexter Corporation	20,900	514,222	666,100
Diagnostic Products Corp.	11,400	430,429	294,900
Dial Corporation	80,000	1,057,436	1,170,000
Diamond Shamrock Inc.	24,800	646,328	806,000
Diebold Incorporated	39,150	1,348,069	2,461,500
Digital Equipment Corporation	83,200	4,053,051	3,016,000
Dillard Department Stores	775,100	23,270,406	23,931,200
Disney, Walt Company	826,200	49,284,669	57,627,400
Dole Food Company Inc.	51,100	1,548,276	1,731,000
Dollar General Corp.	61,375	1,337,927	1,964,000
Dominick's Supermarkets, Inc.	1,080,000	20,579,112	23,490,000
Dominion Resources Inc.	69,100	2,652,036	2,660,300
Donaldson Company, Inc.	22,300	556,293	747,000
Donaldson Lufkin & Jenrette	920,000	26,218,908	33,120,000
Donnelley, R. R. & Sons Co.	59,500	2,199,548	1,866,800
Dover Corporation	62,800	2,759,408	3,171,400
Dow Chemical Company	484,200	25,842,885	37,949,100
Dow Jones & Company Inc.	37,600	1,388,374	1,273,700
Dresser Industries	1,704,800	37,302,941	52,848,800
Dreyer's Grand Ice Cream, Inc.	11,000	402,375	319,000
DSC Communications Corporation	3,045,200	82,647,404	54,432,900
DST Systems Inc.	1,000,000	33,864,823	31,375,000
DTE Energy Company	80,300	2,449,283	2,599,700
Duke Power Company	111,300	4,370,359	5,147,600
Dun & Bradstreet Corp.	439,400	9,877,035	10,435,700
Dupont (El) De Nemours	732,500	52,793,415	68,946,500
Duriron Company, Inc.	20,800	534,247	564,200
Duty Free International Inc.	23,300	292,370	337,800

Note: Cents omitted. Columns will not add.

ame	Shares	Cost	Fair Value
G & G Incorporated	397,900	\$ 8,690,862	\$ 8,007,737
istern Enterprises	10,000	338,718	353,750
istman Chemical Company	43,100	2,696,142	2,381,275
istman Kodak Company	433,900	33,012,934	34,820,475
iton Corporation	43,300	2,409,141	3,020,175
hlin Inc.	34,400	1,183,789	1,092,200
cho Bay Mines Ltd	64,300	727,765	425,987
olab Incorporated	34,600	1,034,846	1,301,825
ison International	293,600	5,123,987	5,835,300
wards, A.G. Inc.	53,300	1,310,836	1,792,212
Paso Natural Gas Company	70,984	2,769,123	3,584,692
ectronic Arts Inc.	44,700	1,519,732	1,338,228
ectronic Data Systems Corp.	353,000	15,616,048	15,267,250
VC Corporation Massachusetts	127,200	2,626,638	4,213,500
erson Electric Co.	457,700	41,418,810	44,339,687
igelhard Corporation	78,600	1,878,795	1,503,225
VI-S.P.A.	860,000	28,276,800	44,397,500
iron Corporation	377,600	15,036,584	16,284,000
iron Oil & Gas Company	1,922,700	43,749,466	48,548,175
isco International, Inc.	53,600	819,418	2,599,600
serch Corporation	42,600	797,120	979,800
tergy Corporation	88,500	2,494,238	2,444,812
quifax Inc.	133,800	2,628,481	4,097,625
hyl Corporation	101,100	1,175,706	960,450
abyte Corporation	18,600	276,279	248,775
xon Corporation	1,601,800	134,390,924	156,976,400
alcon Drilling Company	700,000	24,887,870	27,475,000
amily Dollar Stores Inc.	48,400	812,548	986,150
istenal Company	32,400	1,309,651	1,482,300
ederal Express Corporation	275,200	10,607,871	12,246,400
ederal Home Loan Mortgage	95,900	7,532,003	10,584,962
ederal National Mortgage	1,508,400	50,596,767	56,753,550
ederal Signal Corporation	38,600	889,528	998,775
ederal-Mogul Corporation	29,900	626,766	657,800
ederated Department Stores	112,200	3,459,325	3,828,825
erro Corporation	23,800	585,812	675,325
IP International Corporation	34,400	894,121	1,277,100
ifth Third Bancorp	56,500	2,852,357	3,548,934
ngerhut Companies Inc.	39,200	590,465	480,200
rst Bank System Incorporated	77,100	4,024,104	5,262,075

Note: Cents omitted. Columns will not add.



Name	Shares	Cost	Fair Value
First Brands Corp.	35,600	\$ 795,013	\$ 1,010,11
First Chicago NBD Corp.	122,929	4,829,948	6,607,41
First Data Corporation	246,200	8,458,135	8,986,31
First of America Bank Corp.	53,900	2,288,027	3,240,71
First Security Corp. Utah	64,050	1,429,541	2,161,61
First Tennessee National Corp.	57,400	1,578,019	2,152,51
First Union Corporation	158,645	8,823,019	11,739,71
First Virginia Banks Inc.	29,000	1,197,839	1,388,31
Firststar Corporation	61,400	2,731,116	3,223,51
Fiserv Inc.	38,300	1,077,236	1,407,51
Fleet Financial Group Inc.	556,866	27,505,425	27,773,61
Fleetwood Enterprises	19,000	493,842	522,51
Fleming Companies Incorporated	14,600	324,540	251,81
Flightsafety International	26,300	1,256,867	1,259,11
Florida Progress Corporation	82,100	2,641,322	2,647,71
Flowers Industries Inc.	49,200	727,578	1,057,81
Fluor Corporation	49,100	2,728,366	3,081,01
FMCC Corporation	20,500	1,481,112	1,437,51
Ford Motor Company	1,132,900	33,536,786	36,536,01
Forest Laboratories	38,600	1,656,415	1,264,11
Foster Wheeler Corporation	15,700	633,239	582,81
Foundation Health Corp.	48,700	1,886,039	1,546,21
FPPL Group Incorporated	672,600	22,698,046	30,939,61
Franklin Resources Inc.	69,100	3,533,118	4,724,71
Freeport-McMoran Copper & Gold	92,200	2,176,712	2,754,41
Frontier Corporation	63,800	1,735,307	1,443,41
Fruit of The Loom Inc.	43,000	1,176,122	1,628,61
Fuller, H.B. Company	12,000	407,344	564,01
Furniture Brands International	2,000,000	20,843,795	28,000,01
Galco Toys Incorporated	1,600,000	37,179,416	22,600,01
Gannett Company	77,100	4,525,827	5,772,81
Gap Incorporated	157,500	3,473,004	4,744,61
GATX Corporation	17,100	859,194	829,31
GenCorp, Inc.	28,500	327,829	516,51
General Dynamics Corporation	39,200	2,326,184	2,773,41
General Electric Company	2,100,700	160,263,793	207,706,71
General Instrument Corp.	72,500	1,836,838	1,576,81
General Mills Inc.	220,500	12,793,932	14,029,31
General Motors Corporation	1,054,600	57,147,771	58,793,91
General Motors Corporation	972,000	38,497,858	54,675,01

Note: Cents omitted. Columns will not add.

name	Shares	Cost	Fair Value
General Re Corporation	162,900	\$ 24,560,824	\$ 25,697,471
General Signal Corp.	27,600	1,058,780	1,179,900
Genentex Corporation	1,500,000	24,850,288	30,187,500
Genuine Parts Company	185,500	6,322,903	8,254,750
Genzyme Corporation	50,000	1,820,238	1,087,500
Georgia Gulf Corporation	32,200	1,106,838	865,371
Georgia-Pacific Corporation	50,100	4,016,094	3,607,200
Giant Food Incorporated	38,100	1,256,245	1,314,450
Gibson Greetings Inc.	13,700	210,714	268,860
Giddings & Lewis Inc.	20,500	305,486	263,930
Gillette Co.	436,800	22,568,942	33,961,200
Glafelter, P.H. Company	37,100	733,602	667,800
Glimcher Realty Trust	1,500,000	30,375,000	33,000,000
Global Marine Inc.	141,200	949,720	2,912,250
Golden Books	17,900	161,825	199,130
Golden West Financial Corp.	32,200	1,729,282	2,032,620
Goodrich, B.F.	28,600	1,010,004	1,158,300
Goodyear Tire & Rubber Company	84,900	3,724,484	4,361,730
Goulds Pumps Incorporated	18,100	318,652	415,170
GPU Inc.	819,600	20,697,315	27,559,050
Grace, W.R. & Company	48,800	2,021,422	2,525,400
Grainger, W.W. Incorporated	128,400	8,886,978	10,304,100
Granite Construction Inc.	15,150	274,434	287,850
Great Atlantic & Pacific Tea	14,800	400,435	471,750
Great Lakes Chemical Corp.	34,600	2,275,850	1,617,550
Great Western Financial	74,700	1,842,563	2,166,300
Green Tree Financial Corp.	72,850	2,234,288	2,813,830
ITE Corporation	1,430,700	47,820,701	64,918,010
ITECH Holdings Corporation	35,300	1,095,373	1,129,600
Iuidant Corp.	28,900	1,630,104	1,647,300
IADCO Corporation	300,000	9,378,631	14,700,000
Ialliburton Company	68,000	3,435,373	4,097,000
Iancock Fabrics Inc.	18,400	184,646	190,900
Ianna, M.A. Company	45,450	818,205	994,210
Iannafor Brothers Co.	36,100	937,567	1,227,400
Iarcourt General Incorporated	34,800	1,552,323	1,605,150
Iarland, John H. Company	22,600	628,802	745,800
Iarley-Davidson Inc.	2,125,100	56,229,248	99,879,700
Iarnischfeger Industries, Inc.	33,700	840,169	1,621,810
Iarrahs Entertainment, Inc.	54,400	1,282,454	1,081,200

Note: Cents omitted. Columns will not add.



Name	Shares	Cost	Fair Value
Larris Corporation	22,800	\$ 1,372,303	\$ 1,564,65
Larsco Corporation	21,600	1,213,423	1,479,60
Lartford Steam Boiler	17,400	802,557	806,92
Lasbro Incorporated	46,800	1,602,820	1,819,35
Lawaiian Electric Industries	25,000	936,948	903,12
Health Care & Retirement	39,450	842,782	1,129,25
Healthcare Compare Corp.	29,500	1,159,080	1,250,06
Healthsource Inc.	53,800	1,348,900	706,12
Healthsouth Corp.	122,147	3,087,233	4,717,92
Hecla Mining Company	1,550,000	16,630,142	8,718,75
Heilig-Meyers Co.	41,400	856,556	667,57
Heinz, H.J. Company	852,900	28,816,853	30,491,17
Helmerich & Payne	15,000	525,692	781,87
Hercules Incorporated	58,200	3,237,923	2,517,15
Hershey Foods Corporation	102,000	3,779,265	4,462,50
Hewlett Packard Company	1,329,000	62,946,475	66,782,25
IFS, Inc.	67,800	3,328,295	4,051,05
Hibernia Corporation	101,800	1,031,850	1,348,85
Highwoods Properties, Inc.	161,500	4,340,312	5,450,62
Hilton Hotels Corporation	135,000	2,804,278	3,543,75
Home Depot Incorporated	262,600	12,656,413	13,162,82
Homestake Mining Company	346,800	5,022,820	4,941,90
Hon Industries	25,900	722,987	854,70
Honeywell Incorporated	219,200	11,396,170	14,412,40
Horizon/CMS Healthcare Corp.	43,600	987,132	550,45
Formel Foods Corp.	63,700	1,774,618	1,711,93
Houghton Mifflin Company	12,300	552,479	696,48
Household International Inc.	51,700	3,289,035	4,769,32
Houston Industries Inc.	1,242,500	26,153,537	28,111,56
Hubbell Inc.	56,200	1,730,390	2,430,65
Humana Incorporated	63,000	1,641,178	1,197,00
Hunt, J.B. Transportation	33,000	528,489	462,00
HP Incorporated	80,800	2,066,210	1,959,40
Hawo Power Company	32,100	885,533	999,11
Illinois Central Corp.	53,400	1,403,879	1,708,80
Illinois Tool Works	72,800	4,534,553	5,814,90
Linova Corporation	64,600	1,768,501	1,776,50
Lincoln Corporation	33,200	803,542	933,75
AC Global, Inc.	2,758,800	74,623,726	107,938,05
Imperial Credit Industries	1,200,000	15,557,000	25,200,00

Note: Cents omitted. Columns will not add.

Company Name	Shares	Cost	Fair Value
Imperial Oil Ltd.	609,000	\$ 20,046,567	\$ 28,623,000
INCO Limited	94,600	3,029,874	3,015,370
Indiana Energy Inc.	19,300	407,302	470,430
Information Resources Inc.	23,300	295,364	326,200
Informix Corporation	114,800	3,409,437	2,339,050
Ingersoll-Rand Company	329,100	7,555,331	14,644,950
Integram Micro Inc.	1,400,000	30,542,490	32,200,000
Iland Steel Industries, Inc.	639,400	21,633,534	12,788,000
Integrated Device Technology	65,900	1,198,916	897,880
Integrated Health Services	500,000	16,004,696	12,187,500
Intel Corporation	768,600	61,407,080	100,638,940
Intelligent Electronics Inc.	29,500	279,668	236,000
Intergraph Corporation	26,100	357,660	267,520
International Business Machine	654,800	77,141,429	99,202,200
International Dairy Queen Inc.	19,500	429,354	390,000
International Flavors	61,000	2,942,956	2,745,000
International Game Technology	110,200	1,421,967	2,011,150
International Multifoods Corp.	15,400	336,969	279,120
International Paper Company	181,405	7,527,493	7,346,900
Interpublic Group of Companies	45,500	1,921,448	2,161,250
Interstate Hotels Co.	1,100,000	24,981,797	31,075,000
Intimate Brands	605,000	10,285,000	10,360,620
Valco Enterprises Inc.	48,450	1,174,802	1,320,260
ITT Corporation	63,300	3,187,641	2,745,630
ITT Hartford Group, Inc.	345,300	22,085,687	23,307,750
ITT Industries, Inc.	63,800	1,506,059	1,563,100
MAX Corporation	100,500	2,528,531	1,030,120
MP Realty Incorporated	244,200	4,519,406	6,318,670
Mohco Engineering Group Inc.	21,600	518,618	510,300
Morcom Communications Inc.	1,470,000	41,589,430	40,241,250
Morris River Corp. of Virginia	42,000	1,230,384	1,391,250
MUN Realty Corporation	600,000	12,921,345	16,575,000
Mofferson-Pilot Corporation	27,750	1,277,358	1,571,340
Monsanto & Johnson	1,212,200	51,901,867	60,306,950
Monsanto Control Inc.	24,100	1,634,991	1,997,280
Moschino Apparel Group Inc.	44,600	776,153	1,666,920
Motors Incorporated	22,628	499,720	478,010
Mart Corporation	188,900	2,178,671	1,959,830
Kansas City Power & Light Co.	1,002,800	21,493,840	28,579,800
Kansas City Southern	34,700	1,561,802	1,561,500

Note: Cents omitted. Columns will not add.



Name	Shares	Cost	Fair Value
Carrington Health, Inc.	600,000	\$ 7,800,000	\$ 7,500,00
Caufman & Broad Home	21,700	293,343	279,36
Caydon Corporation	14,100	408,521	664,46
Cellogg Company	97,500	6,927,338	6,398,43
Celly Services Incorporated	32,400	897,697	874,80
Cemet Corporation	1,000,000	22,947,426	23,250,00
Cennametal Incorporated	22,700	782,788	882,46
Cent Electronics	2,300,000	50,281,897	59,225,00
Cerr-McGee Corporation	30,000	1,839,191	2,160,00
Ceycorp	126,000	4,634,031	6,363,00
Ceystone International, Inc.	30,200	633,277	607,77
Kimberly-Clark Corp.	420,234	30,853,206	40,027,28
Cing World Productions Inc.	14,500	591,342	534,68
Cnight-Ridder Inc.	37,200	1,280,460	1,422,90
Cohls Corporation	1,662,800	44,250,203	65,264,90
Croger Company	354,800	13,748,389	16,498,20
. G & E Energy Corporation	56,400	1,154,774	1,381,80
laboratory Corp of America Holding	104,900	1,128,721	301,58
Caidlaw Incorporated	121,600	1,220,382	1,398,40
Cancaster Colony Corporation	25,200	901,602	1,159,20
Cance Incorporated	25,900	455,671	466,20
Cands End Incorporated	28,900	448,408	765,85
Cawson Products	10,000	263,527	218,75
Cawter International Inc.	38,400	427,380	484,80
CI International, Inc.	141,309	1,131,177	3,055,80
Cear Corporation	2,500,000	77,421,648	85,312,50
Cee Enterprises	40,600	824,795	943,95
Ceggett & Platt Inc.	71,700	1,725,697	2,482,61
Cilly, Eli & Company	779,100	45,680,159	56,874,30
Cimited Inc.	148,514	2,786,025	2,728,94
Cincoln Electric Company	1,000,000	30,000,000	30,250,00
Cincoln National Corporation	147,900	6,831,151	7,764,75
Cinear Technology Corporation	63,000	2,592,231	2,764,12
Cinens'n Things	838,200	13,177,203	16,449,67
Citton Industries Inc.	39,500	1,597,967	1,881,18
Ciz Claiborne Incorporated	28,400	812,829	1,096,95
Cockheed Martin Corporation	109,900	8,705,579	10,055,85
Coctite Corporation	30,200	1,423,427	1,838,42
Coeys Corporation	249,100	21,546,337	23,477,67
Comak Petroleum Inc.	1,350,000	11,962,500	23,118,75

Note: Cents omitted. Columns will not add.

ame	Shares	Cost	Fair Value
onestar Steakhouse	30,800	\$ 1,105,824	\$ 823,900
ongs Drug Stores Incorporated	13,600	585,966	668,100
ongview Fibre Company	44,200	741,622	812,175
ouisiana Land & Exploration	13,200	601,160	707,850
ouisiana-Pacific Corporation	50,000	1,209,291	1,056,250
owes Companies	93,800	3,176,537	3,341,625
il Logic Corporation	373,500	13,869,847	9,991,125
V Corporation	733,000	11,709,960	8,704,375
ibrizol Corporation	54,000	1,694,954	1,674,000
ibys Cafeterias Incorporated	3,700	80,344	73,537
icent Technologies, Inc.	987,613	41,046,679	45,677,101
ikens, Incorporated	12,600	388,954	253,575
ondell Petrochemical Company	1,068,300	25,443,686	23,636,137
acerich Company	875,000	17,206,364	22,859,375
acFrugals Bargains	21,800	331,187	569,525
agnetek Inc.	21,100	231,539	271,662
allinckrodt Inc.	34,800	1,378,998	1,535,550
anor Care Incorporated	35,000	788,297	945,000
anpower Incorporated	64,200	1,769,962	2,086,500
APCO Incorporated	51,000	1,346,576	1,734,000
ark IV Industries Inc.	53,760	1,054,580	1,216,320
arriott International Inc.	70,000	3,151,831	3,867,500
arsh & McLennan Companies	140,900	13,630,910	14,653,600
arshall & Ilsley Corp.	80,200	1,988,066	2,776,925
ASCO Corporation	88,600	2,552,159	3,189,600
attel Incorporated	151,775	3,823,017	4,211,756
axim Integrated Products	51,100	1,525,480	2,210,075
axxam Incorporated	7,400	362,696	352,425
ay Department Stores Co.	136,900	5,881,048	6,400,075
aytag Corporation	56,300	1,047,299	1,111,925
BIA, Incorporated	16,700	1,696,736	1,690,875
BNA Corporation	195,600	3,787,386	8,141,850
McCormick & Company	69,300	1,659,657	1,632,915
McCormick International, Inc.	1,135,700	27,350,140	19,164,937
McDonald's Corporation	895,300	41,798,521	40,624,237
McDonnell Douglas Corporation	83,600	3,696,792	5,486,250
McGraw-Hill Inc.	57,600	2,463,966	2,656,800
CI Communications Corporation	1,470,500	34,563,342	48,067,704
McKesson Corporation	37,800	1,803,039	2,112,075
CN Corporation	56,500	1,158,109	1,631,437

ote: Cents omitted. Columns will not add.



Name	Shares	Cost	Fair Value
Mead Corporation	25,000	\$ 1,399,662	\$ 1,453,11
Measurex Corporation	13,300	399,919	319,20
Medaphis Corp.	47,800	2,327,960	534,71
Media General, Inc.	22,600	752,348	683,61
MediTrust SBI	600,000	20,271,702	24,000,00
MedPartners, Inc.	1,500,000	42,832,261	31,125,00
Medtronic Incorporated	338,000	20,187,436	22,984,00
Mellon Bank Corporation	197,700	10,570,277	14,036,70
Mentor Graphics Corporation	46,400	873,764	452,40
Mercantile Bancorporation	54,400	2,410,775	2,794,80
Mercantile Bankshares Corp.	40,500	1,099,837	1,296,00
Mercantile Stores Co., Inc.	20,900	1,005,680	1,031,91
Merck & Company	1,053,000	66,536,794	83,845,11
Mercury Finance Company	5,000,000	73,006,967	61,250,00
Meredith Corporation	10,500	398,759	553,81
Merrill Lynch & Company	108,600	6,437,391	8,850,90
Meyer, Fred Incorporated	22,800	530,741	809,40
MGIC Investment Corporation	31,900	2,000,661	2,424,40
Michael Foods Inc.	16,500	211,461	210,31
Micro Warehouse Inc.	26,400	1,236,063	310,20
Micron Technology Inc.	111,500	5,600,746	3,247,41
Microsoft Corporation	1,861,200	100,665,544	153,781,61
Vid-America Apartment	300,000	7,448,481	8,662,50
VidAmerican Energy Holding Co.	86,000	1,337,218	1,365,21
Viller, Herman Inc.	21,200	604,538	1,200,41
Villiporte Corporation	23,600	903,930	976,41
Vinerals Technologies Inc.	18,100	654,323	742,10
Vinnesota Mining & Mfg. Co.	535,000	39,798,902	44,405,00
Vinnesota Power & Light Co.	26,700	749,461	734,21
Virage Resorts Inc.	155,600	2,585,322	3,364,81
Vobil Corporation	216,200	20,961,745	26,430,41
Vodine Manufacturing Company	25,300	759,285	676,71
Volex Incorporated	86,000	2,964,451	3,364,71
Vonsanto Company	319,900	7,703,936	12,436,11
Vontana Power Company	46,600	1,049,961	996,01
Voore Corporation, Ltd.	56,400	1,122,954	1,156,20
Vorgan Stanley Group Inc.	70,500	3,247,526	4,027,31
Vorgan, J.P. & Company	172,400	13,455,019	16,830,51
Vorton International Inc.	78,200	2,716,918	3,186,61
Votorola Inc.	1,272,300	85,228,760	77,928,31

Note: Cents omitted. Columns will not add.

name	Shares	Cost	Fair Value
SC Industrial Direct	900,000	\$ 24,369,210	\$ 33,300,000
Murphy Oil Corporation	38,300	1,660,480	2,130,437
Symlan Laboratories	102,500	2,194,470	1,704,062
Labors Industries	71,800	678,346	1,382,150
Acco Industries	175	9,858	9,362
Alco Chemical Company	37,900	1,277,316	1,369,137
National City Corporation	466,200	16,770,386	20,920,725
National Fuel Gas Company	31,900	958,018	1,315,875
National Presto Industries Inc.	6,300	272,875	235,462
National Semiconductor Corp.	79,700	1,497,793	1,952,650
National Service Industries	30,600	1,020,675	1,143,675
Nationsbank Corporation	161,000	11,513,561	15,737,750
Avistar International	38,400	457,502	350,400
CH Corporation	6,900	395,170	415,725
CS Healthcare, Inc.	500,000	12,062,250	14,562,500
Dellcor Incorporated	4,048,600	108,538,476	88,563,125
Evada Power Company	39,900	851,816	817,950
New England Electric System	55,400	2,064,364	1,932,075
New York State Electric & Gas	61,000	1,529,771	1,319,125
New York Times Company	59,800	1,744,931	2,272,400
Well Companies	86,800	2,297,143	2,734,200
Newmont Mining Corporation	103,100	3,680,625	4,613,725
Newport News Shipbuilding,	89,860	1,485,025	1,347,900
Nxtel Communications	164,000	2,745,485	2,142,332
Niagara Mohawk Power Corp.	56,000	847,849	553,000
Nicor Incorporated	26,900	769,372	961,675
Nike Incorporated	156,900	5,227,346	9,414,000
Line West Group Inc.	29,800	1,261,290	1,381,975
Nipco Industries	53,800	1,897,960	2,131,825
oble Affiliates, Incorporated	1,942,700	54,837,097	93,006,762
Oram Energy Corporation	2,062,900	40,084,761	31,974,950
Ordson Corporation	15,400	878,234	981,750
Ordstrom, Inc.	47,100	1,831,542	1,669,125
Orfolk Southern Corp.	80,300	6,424,990	7,066,400
Ortheast Utilities	107,900	2,579,679	1,416,187
Orthern States Power Company	294,400	12,631,768	13,505,600
Orthern Telecom Ltd.	144,700	6,777,977	8,953,312
Orthern Trust Corporation	95,400	2,246,694	3,458,250
Orthrop Grumman Corporation	32,300	2,154,234	2,672,825
Orwest Corporation	212,400	7,236,934	9,239,400

ote: Cents omitted. Columns will not add.



Name	Shares	Cost	Fair Value
Novacare Inc.	55,900	\$ 382,548	\$ 614,90
Novell Incorporated	137,000	2,152,114	1,297,23
Nucor Corporation	40,800	2,105,007	2,080,80
Nynex Corporation	493,900	20,407,624	23,768,93
Occidental Petroleum Corp.	160,200	3,896,123	3,744,67
Oceaneering International Inc.	1,300,000	15,138,649	20,637,50
Octel Communications Corp.	40,400	690,159	707,00
OEI Incorporated	17,500	519,323	800,62
Office Depot	5,768,338	140,652,089	103,109,04
Officemax, Incorporated	3,000,000	39,791,304	32,250,00
Ogden Corporation	41,000	829,395	779,00
Ohio Edison Company	84,800	1,793,144	1,929,20
Oklahoma Gas & Electric	34,400	1,314,983	1,436,20
Old Republic International	334,500	6,925,234	8,947,87
Olin Corporation	41,600	1,215,510	1,565,20
Olsen Corporation	54,750	1,381,049	814,40
Omnicare Inc.	3,000,000	65,510,628	96,375,00
Omnicom Group	62,000	2,021,680	2,836,50
Oneok Incorporated	13,500	322,613	405,00
Oracle Corporation	366,350	11,931,096	15,295,11
Oregon Steel Mills Inc.	16,600	259,767	278,05
Oryx Energy Company	58,400	832,891	1,445,40
Outback Steakhouse Inc.	37,100	1,251,407	992,42
Overseas Shipholding Group	30,900	629,918	525,30
Owens Corning	29,200	1,186,289	1,244,65
P M I Group, Incorporated	29,700	1,494,791	1,644,63
P & L Resources, Inc.	88,900	2,176,977	2,044,70
Paccar Inc.	211,400	10,170,561	14,375,20
Pacific Enterprises	46,300	1,249,438	1,406,36
Pacific Gas & Electric Company	1,275,500	31,284,218	26,785,50
Pacific Telesis Group	903,000	31,282,620	33,185,25
Pacificare Health Systems Inc.	26,400	1,834,217	2,250,60
Pacificorp	161,800	3,223,382	3,316,90
Paine Webber Group	84,500	1,740,860	2,376,56
Pall Corporation	64,000	1,574,931	1,640,00
Panenergy Corporation	82,100	2,392,176	3,694,50
Paragon Group, Incorporated	960,000	19,741,328	17,040,00
Parametric Technology Corp.	105,200	3,230,632	5,404,65
Parker & Parsley Petroleum	29,900	584,807	1,098,82
Parker Drilling Company	47,600	259,115	458,15

Note: Cents omitted. Columns will not add.

Company Name	Shares	Cost	Fair Value
Archer-Hannifin Corp.	40,300	\$ 1,458,120	\$ 1,561,620
Baychem Incorporated	58,050	1,642,276	2,985,970
Bayless Shoesource	33,300	935,577	1,248,750
ECO Energy Company	1,058,600	27,084,488	26,729,650
Agasus Gold Incorporated	500,000	11,032,329	3,781,500
Penney, J.C. Company	1,035,600	53,137,413	50,485,500
Penzoil Company	525,700	25,466,832	29,702,050
Pentair Incorporated	31,600	775,225	1,019,100
Peoples Energy Corporation	18,600	564,244	630,070
EP Boys - Manny Moe & Jack	47,000	1,415,698	1,445,250
EPSICO, Inc.	1,583,800	42,255,329	46,326,150
Perkin-Elmer Corp.	23,100	973,022	1,360,010
Perrigo Company	65,000	835,208	593,120
Pfizer Inc.	960,500	59,196,879	79,721,500
Pharmacia & Upjohn	832,300	32,266,273	32,979,880
Chrysler Dodge Corporation	36,200	2,192,873	2,443,500
HH Corporation	29,200	655,912	1,255,600
Philip Morris Companies Inc.	1,164,700	99,321,849	131,611,100
Phillips-Petroleum Company	134,300	4,681,177	5,942,770
Pinnacle West Capital	74,600	1,987,390	2,368,550
Pioneer Hi-Bred International	44,900	2,605,773	3,143,000
Pitney Bowes Incorporated	79,800	3,692,338	4,369,050
Pittston Brinks Group	36,400	788,325	982,800
Pacer Dome Incorporated	131,400	3,112,409	2,857,950
NC Bank Corporation	743,400	21,324,947	27,970,420
Polaroid Corporation	17,700	777,878	769,950
Policy Management Systems	16,600	805,409	765,670
Portland General Corporation	43,400	1,124,230	1,822,800
Potash Corp. of Saskatchewan	1,100,000	71,194,366	93,500,000
Potlatch Corporation	15,600	650,142	670,800
Potomac Electric Power	101,100	2,390,013	2,603,320
PG Industries Incorporated	101,700	4,759,485	5,707,910
Rayair Inc.	85,400	2,717,839	3,939,070
Precision Castparts Corp.	17,400	623,657	863,470
Price/CostCo Incorporated	1,784,900	36,536,014	44,845,610
Price, T. Rowe	46,000	1,300,640	2,001,000
Prime Service, Inc.	525,000	12,705,832	14,437,500
Procter & Gamble Company	926,600	75,818,845	99,725,320
Progressive Corporation - Ohio	61,500	2,634,976	4,143,560
Probus Hotel Corporation	43,800	984,824	1,297,570

Note: Cents omitted. Columns will not add.



Name	Shares	Cost	Fair Value
Provident Companies Inc.	38,700	\$ 1,064,567	\$ 1,872,11
Providian Corporation	277,300	14,045,914	14,246,21
Public Service Enterprise	94,900	2,667,493	2,586,02
Public Service of Colorado	54,000	1,795,864	2,099,25
Public Service of New Mexico	35,700	584,320	700,61
Puget Sound Power & Light Co.	54,300	1,247,056	1,303,20
Pulte Corporation	12,300	352,562	378,22
Quaker Oats Company	180,300	6,482,649	6,873,93
Quaker State Corporation	28,000	390,588	392,00
Quantum Corporation	45,100	970,273	1,290,98
Questar Corporation	34,600	1,049,337	1,271,55
Ralston Purina Group	48,500	2,931,587	3,558,68
Ranger Oil Limited	84,100	491,563	830,48
Raychem Corporation	24,500	1,394,689	1,963,06
Rayonier Incorporated	25,300	928,357	970,88
Raytheon Company	129,100	5,853,606	6,212,93
Reebok International Ltd.	21,900	714,210	919,80
Regency Realty Corporation	440,000	7,148,440	11,550,00
Regions Financial Corporation	39,300	1,586,183	2,031,33
Reliastar Financial	215,000	9,338,445	12,416,25
Repsol S.A. Adr	320,500	11,928,060	12,219,06
Republic New York Corporation	21,500	1,321,943	1,754,93
Revco Drug Store Inc.	57,300	1,346,911	2,120,10
Reynolds & Reynolds Company	70,400	1,217,500	1,830,40
Reynolds Metals Company	24,800	1,328,179	1,398,10
Rhone-Poulenc Rorer, Inc.	411,100	19,999,595	32,117,18
Rite Aid Corporation	47,900	1,507,555	1,904,02
ROCKWELL International Corp.	120,000	5,953,565	7,305,00
Roehm & Haas Company	35,700	2,293,506	2,914,01
Rohr Incorporated	15,500	232,402	350,68
Rollins Incorporated	30,600	695,973	612,00
Rowan Companies, Inc.	33,000	354,841	746,62
Royal Caribbean Ltd.	74,900	2,123,061	1,750,78
Royal Dutch Petroleum Company	301,000	41,735,356	51,395,75
SPM Incorporated-Ohio	64,300	1,047,598	1,093,10
Rubbermaid Inc.	82,300	2,302,668	1,862,03
Ruddick Corporation	39,300	492,841	550,20
Russell Corporation	20,900	623,355	621,77
Sloan's Family Steak Houses Inc.	11,000	81,180	75,62
Snyder System Inc.	43,200	1,104,570	1,215,00

Note: Cents omitted. Columns will not add.

name	Shares	Cost	Fair Value
afeco Corporation	48,900	\$ 1,635,449	\$ 1,928,511
safety-Kleen Corporation	32,700	500,257	535,461
alomon Incorporated	47,900	1,898,342	2,257,281
anta Fe Energy Resources	52,500	521,139	728,431
anta Fe Pacific Gold Corp.	235,800	3,103,021	3,625,421
ara Lee Corporation	1,081,500	37,134,979	40,285,871
avannah Foods & Industries,	22,400	261,680	302,400
barro Incorporated	17,400	386,747	443,700
BC Communications Inc.	849,000	44,189,153	44,041,871
cana Corporation	88,200	2,167,644	2,359,350
cherer, R.P. - Delaware	1,019,900	45,236,122	51,249,971
chering-Plough Corporation	340,700	18,998,829	22,060,321
chlumberger, Ltd.	314,400	20,044,601	31,400,700
cholastic Corporation	13,400	886,116	901,150
chulman, A. Incorporated	32,100	738,705	786,450
chwab, Charles Corporation	149,100	3,304,015	4,771,200
cientific-Atlanta Inc.	49,400	889,434	741,000
agate Technology	117,200	3,174,949	4,629,400
agram Company Ltd.	1,130,400	39,371,704	43,803,000
agull Energy Corporation	1,470,800	35,365,587	32,357,600
aled Air Corporation	36,000	959,452	1,498,500
ars Roebuck & Co.	152,000	6,482,298	6,992,000
ansormatic Electronics Corp.	1,562,600	41,037,033	26,173,550
equa Corporation	8,400	228,626	329,700
equent Computer Systems Inc.	27,600	544,638	489,900
ervice Corp. International	2,129,500	42,054,750	59,626,000
ervice Merchandise Company	85,100	533,233	351,037
ared Medical Systems Corp.	13,500	644,603	664,871
aw Industries Inc	115,900	1,740,943	1,376,312
erwin-Williams Company	46,700	1,941,925	2,615,200
oney's Incorporated	9,500	92,968	66,500
gma-Aldrich	26,900	1,399,637	1,679,582
licon Graphics Incorporated	90,000	2,328,635	2,295,000
mon Debartolo Group, Inc.	1,500,000	34,956,532	46,500,000
nith International Inc.	33,400	574,896	1,498,821
nucker, J.M. Company	24,900	510,623	438,862
rap-On Incorporated	33,850	1,030,438	1,205,900
lectron Corporation	42,300	1,773,543	2,257,762
onat Inc.	48,300	1,705,930	2,487,450
onoco Products Company	77,700	2,045,140	2,010,487

ote: Cents omitted. Columns will not add.



Name	Shares	Cost	Fair Value
Botheby's Holdings Inc.	47,700	\$ 681,415	\$ 888,41
South West Property Trust, Inc	1,537,800	18,184,656	25,950,37
Southdown Incorporated	14,800	272,479	460,65
Southern Company	370,000	8,585,639	8,371,25
Southern New England Telecom.	55,600	2,000,365	2,161,45
Southtrust Corporation	74,800	1,885,143	2,608,65
Southwest Airlines	56,200	1,490,243	1,236,40
Southwestern Public Service	34,900	1,099,006	1,234,58
Ports Authority	2,250,000	36,664,400	48,937,50
Prings Industries	11,800	502,433	507,40
Print Corporation	167,700	5,233,923	6,687,03
St. Jude Medical Incorporated	44,250	1,791,474	1,875,09
St. Paul Companies	46,200	2,534,866	2,708,47
Standard Register Company	24,500	546,430	796,25
Stanhome Incorporated	16,000	494,079	424,00
Stanley Works	68,900	1,726,051	1,860,30
Staples, Inc.	134,100	2,382,174	2,422,24
State Street Boston Corp.	70,400	2,849,303	4,549,60
Sterling Commerce	2,594,982	67,965,680	91,473,11
Sterling Software Inc.	900,000	8,081,943	28,462,50
Stewart & Stevenson Services	28,200	805,427	821,37
Stone Container Corporation	38,400	710,797	571,20
Storage Technology Corp.	45,100	1,214,804	2,159,16
Storage Trust Realty	986,700	19,306,034	26,640,90
Stratus Computer Inc.	19,600	538,372	534,10
Stride Rite Corporation	914,000	7,525,633	9,140,00
Structural Dynamics Research	25,800	513,581	516,00
Tryker Corporation	82,800	1,963,007	2,473,65
Summit Bancorp	49,200	1,662,949	2,152,50
Sun Co., Inc. Preferred D	1,579,744	45,103,507	39,296,13
Sun Company Incorporated	60,000	1,613,938	1,462,50
Sun Microsystems, Incorporated	206,200	5,327,808	5,296,86
Sunamerica Inc.	92,800	2,171,066	4,141,20
Sunbeam Corp.	647,000	11,357,630	16,498,50
Sundstrand Corporation	52,400	1,742,827	2,227,00
Suntrust Banks, Inc.	86,600	3,199,832	4,265,05
Superior Industries Intl.	25,400	749,761	587,37
SuperValu Inc.	41,000	1,203,934	1,163,37
Symantec Corporation	44,200	1,179,909	640,90
Symbol Technologies	22,000	804,181	973,50

Note: Cents omitted. Columns will not add.

ame	Shares	Cost	Fair Value
sco Corporation	99,300	\$ 3,034,533	\$ 3,239,662
mbrands Inc.	31,300	1,483,007	1,279,387
ndem Computer, Inc.	59,900	664,812	823,625
ndy Corporation	169,400	7,398,386	7,453,600
CA Cable TV Inc.	21,000	619,597	632,625
co Energy Inc.	99,500	2,339,970	2,400,437
cumseh Products Co.	18,700	941,111	1,072,912
ktronix Incorporated	18,800	875,939	963,500
le-Communications	2,191,900	36,053,852	28,632,789
leflex Inc.	14,900	604,794	776,662
lephone & Data Systems, Inc.	49,500	1,990,772	1,794,375
llabs, Inc.	102,200	2,478,673	3,845,275
mple-Inland, Inc.	21,600	1,008,249	1,169,100
net Healthcare Corporation	115,200	2,173,829	2,520,000
nneco Incorporated	449,300	20,710,671	20,274,662
radyne Inc.	70,500	2,285,155	1,718,437
xaco Inc.	119,700	9,622,284	11,745,562
xas Instruments Inc.	311,100	19,009,085	19,832,625
xas Utilities Company	783,000	25,622,483	31,907,250
xtron Inc.	47,000	3,549,829	4,429,750
ermo Electron Corporation	58,300	1,777,377	2,404,875
iokol Corporation	15,600	536,000	698,100
omas & Betts Corporation	15,600	575,986	692,250
ewater, Inc.	45,500	1,175,191	2,058,875
fany & Company	26,800	602,897	981,550
ne Warner, Inc.	658,100	27,848,098	24,678,750
nes Mirror Company	57,100	1,854,450	2,840,725
nken Company	16,500	693,915	754,875
X Companies Inc.	40,800	1,084,030	1,932,900
rchmark Corporation	418,900	19,239,662	21,154,450
sco Corporation	31,600	1,083,250	2,500,350
ys R Us Incorporated	149,800	4,211,963	4,475,275
insAmerica Corporation	25,700	1,829,496	2,030,300
insatlantic Holdings Inc.	19,600	1,383,146	1,577,800
insocan Offshore, Inc.	43,400	2,453,402	2,717,925
ivelers Group Inc.	576,533	17,577,715	26,160,184
ivelers/Aetna Property	318,000	10,398,932	11,249,250
bune Company	38,600	2,512,008	3,044,575
nity Industries, Inc.	35,500	1,121,561	1,331,250
nova Corporation	13,800	424,905	501,975

ote: Cents omitted. Columns will not add.



Name	Shares	Cost	Fair Value
Triton Energy Ltd.	1,400,000	\$ 41,977,401	\$ 67,900,00
Trump Hotel & Casino Resorts	1,000,000	29,954,171	12,000,00
TRW Incorporated	70,800	2,927,324	3,504,60
Tupperware Corporation	34,800	1,618,690	1,866,11
Tyco International Inc.	82,000	3,024,387	4,335,71
Tyson Foods Inc.	123,600	3,162,029	4,233,30
U S F & G Corporation	45,800	659,924	956,00
U S West Communications Group	885,500	26,525,768	28,557,30
U S West Media Group	2,232,900	33,752,228	41,029,50
U.S. Bancorp	365,500	13,485,257	16,424,80
U.S. Robotics Corporation	69,200	3,318,262	4,982,40
U.S. Surgical Corp.	1,735,600	43,992,464	68,339,20
Ultramar Diamond Shamrock Corp	37,204	1,182,343	1,176,50
Unicom Corporation	117,300	3,333,848	3,181,70
Unilever N V	73,100	10,247,079	12,810,70
Union Camp Corporation	37,300	1,780,315	1,781,00
Union Carbide Corporation	72,000	2,601,011	2,943,00
Union Electric Company	55,700	1,968,231	2,144,40
Union Pacific Corporation	128,100	6,028,757	7,702,00
Union Pacific Resources Group	129,970	3,372,366	3,769,10
Union Texas Petroleum Holdings	1,080,000	21,446,790	24,165,00
UNISYS Corporation	79,100	584,535	533,90
United Auto Group	40,000	1,200,000	1,030,00
United HealthCARE Corporation	559,900	26,546,584	25,195,50
United Technologies Corp.	114,200	5,725,694	7,565,70
Universal Corporation/Virginia	29,900	678,872	960,50
Universal Foods Corp.	22,300	770,390	786,00
Univision Communications Inc.	721,100	26,108,906	26,680,70
Unocal Corporation	136,800	3,894,333	5,574,60
Unum Corporation	225,200	15,307,549	16,270,70
Urban Shopping Centers, Inc.	477,600	9,356,831	13,850,40
USA Waste Services	74,300	1,985,756	2,368,30
USAIR Group	24,800	341,055	579,70
JSLife Corporation	124,550	3,813,913	4,141,20
JST, Incorporated	73,000	2,292,085	2,363,30
JSX - US Steel Group	363,000	12,658,799	11,389,10
JSX-Marathon Group	177,900	3,709,380	4,247,30
Jtilicorp United Inc.	38,900	1,102,715	1,050,30
✓ F Corporation	41,800	2,374,966	2,821,50
Valero Energy Corp.	37,300	891,043	1,067,70

Note: Cents omitted. Columns will not add.

Company Name	Shares	Cost	Fair Value
Blue Health Inc.	45,600	\$ 1,340,236	\$ 889,200
Guard Cellular Systems Inc.	35,300	850,766	555,975
ro International	25,900	273,387	598,937
rian Associates, Inc.	26,500	1,342,973	1,348,187
ncor, Inc.	63,400	2,223,501	2,005,025
rifone Inc.	19,500	560,356	575,250
icom Incorporated	595,400	28,120,245	20,764,575
id Corporation	80,000	1,097,079	1,310,000
ing Office Products	72,400	2,014,175	1,932,211
ihay Intertechnology	2,677,395	87,460,934	62,249,433
ns Companies Inc.	37,100	919,315	2,221,362
lcan Materials Co.	30,000	1,648,561	1,826,250
aban Inc.	28,100	510,326	730,600
achovia Corporation	252,300	11,451,346	14,254,950
al-Mart Stores Incorporated	2,848,300	72,072,245	64,798,825
algreen Company	151,200	4,623,384	6,085,800
allace Computer Services Inc.	38,800	1,122,666	1,338,600
arnaco Group, Inc.	42,800	1,088,733	1,267,950
arner-Lambert Company	124,800	6,054,788	9,360,000
ashington Gas Light Co.	36,500	726,888	825,812
ashington Post	9,400	2,689,580	3,150,175
atson Pharmaceuticals, Inc.	30,800	1,303,141	1,384,090
atts Industries	25,300	578,182	604,037
ausau Paper Mills Co.	31,375	608,194	580,437
eaetherford Enterra	43,300	1,135,010	1,299,000
ellman Inc.	28,400	694,512	486,350
ells Fargo & Company	51,233	10,442,313	13,820,101
endy's International Inc.	68,800	1,383,123	1,410,400
estern Atlas Incorporated	28,700	1,558,233	2,034,112
estinghouse Electric Corp.	163,400	2,999,597	3,247,575
estvaco Corporation	54,450	1,595,060	1,565,437
eyerhaeuser Company	302,700	10,777,646	14,340,412
hirlpool Corporation	41,200	2,236,918	1,920,950
hitman Corporation	58,800	1,296,956	1,345,050
illamette Industries, Inc.	25,500	1,595,281	1,775,437
illiams Companies Inc.	92,550	2,768,070	3,470,625
ilmington Trust Corp.	30,100	910,697	1,188,950
inn-Dixie Stores Inc.	87,000	2,865,888	2,751,375
isconsin Energy Corporation	517,800	13,218,061	13,915,875
itco Corp.	48,100	1,501,159	1,467,050

ote: Cents omitted. Columns will not add.



Name	Shares	Cost	Fair Va
WMX Technologies Inc.	718,900	\$ 18,612,374	\$ 23,364,2
Woolworth Corporation	51,600	774,766	1,135,2
World Color Press	1,000,000	20,326,453	19,250,0
Worldcom Inc./Georgia	8,233,900	149,106,152	214,600,1
Worthington Industries, Inc.	279,700	5,716,404	5,069,5
WPL Holdings Inc.	26,300	780,925	739,6
Wrigley, Wm. Jr. Company	158,600	9,022,860	8,921,2
Xerox Corporation	180,500	8,091,574	9,498,8
Xilinx Inc.	60,600	2,351,891	2,230,8
York International	35,800	1,607,833	2,000,3
YPF Sociedad Anonima	831,200	20,179,121	20,987,8
Zoom Telephonics Inc.	350,000	6,173,150	3,543,7
3Com Corporation	95,200	4,864,345	6,985,3
360 Communications Corporation	97,900	2,046,287	2,276,1
<b>TOTAL</b>	<b>301,678,464</b>	<b>\$9,546,278,634</b>	<b>\$11,109,419,5</b>

*Note: Cents omitted. Columns will not add.*

# Schedule of Fee and Commission Payments to Brokers\*

Year Ended December 31, 1996

Individual or Firm Name	Fees and Commissions Paid	Individual or Firm Name	Fees and Commissions Paid
lams, Harkness & Hill, Inc.	\$ 8,000	JP Morgan Securities, Inc.	\$ 348,616
lvest Inc.	4,550	JSA Research	2,820
ex Brown	14,844	J.C. Bradford & Company	79,750
tranet Inc.	70,113	Keefe Bruyette & Woods, Inc.	20,064
G. Edwards & Sons Inc.	116,376	Legg Mason Wood Walker, Inc.	78,740
inker Trust	3,375	Lehman Brothers, Inc.	1,184,524
nyan Securities	132,982	Lynch, Jones & Ryan, Inc.	27,912
ar Stearns & Company	808,460	McDonald & Company Securities Inc.	130,190
rean Capital Inc.	16,212	Merrill Lynch, Pierce, Fenner and Smith Inc.	1,431,839
lden Asset Management	3,000	Midwest Clearing	6,000
ston Institutional Services Inc.	47,340	Monness, Crespi, Hardt	19,856
idge Trading Company	226,042	Montgomery Securities	1,027,044
ooks Securities	27,622	Morgan Stanley & Company, Inc.	1,189,085
own Brothers Harriman	10,440	Nat West Securities Corp.	316,033
Securities	37,600	Noah Financial	19,680
nton Fitzgerald and Co. Inc.	310,986	Nutmeg Securities, LTD	146,778
izenove & Company	2,632	The Ohio Company	32,800
icago Corp.	45,172	Paine Webber, Inc.	912,794
early, Gull, Reiland & McDevitt, Inc.	130,812	Piper Jaffray Inc.	16,950
nnings & Company	24,061	Prudential Securities Inc.	688,218
ivato Lipsitz	39,018	Pryor McClendon	25,600
owen & Company	190,010	Raymond James and Associates, Inc.	132,413
ain Bosworth	19,200	RBC Dominion Securities Corp.	29,700
ean Witter, Reynolds, Inc.	374,388	Robert W. Baird and Co.	30,632
utche Morgan Grenfell/C.J. Lawrence Inc.	219,936	Robertson, Stephenson & Company	91,289
onaldson, Lufken & Jenrette Securities Corp.	2,302,742	Roney & Company	2,050
lward D. Jones & Co.	7,875	Roulston & Company	4,656
uitable Securities	52,500	Salomon Brothers Inc.	1,042,065
eren Securities	70,713	Sanford C. Bernstein and Co. Inc.	422,621
ictset Data Systems Inc.	56,178	SBC Warburg	65,850
hnestock & Co., Inc.	2,633	Schroeder Wertheim and Co., Inc.	661,043
rst Boston	2,042,659	SEI Financial Services Co.	51,243
rst Call Corp.	104,616	Seibert Capital Markets	180
irman Selz	18,060	Smith Barney	1,315,877
oldman Sachs & Company	719,305	Standard & Poor's	33,900
reenstreet Advisors, Inc.	27,666	Stock Val Incorporated	71,172
ambrecht & Quist	16,425	T. Hoare & Company	6,600
ancock Financial Services	26,400	UBS Securities LLC	226,551
oward Weil, Labouisse, Friedrichs Inc.	29,700	UST Securities Corp.	41,520
ES	24,084	Wellington & Company	200,340
stinet Corp.	10,275	Wheat First Butcher Singer	2,900
I Group Inc.	125,694	William Blair and Company	451,018
nney, Montgomery, Scott, Inc.	25,600	William O'Neil & Company Inc.	52,680
fferies & Company, Inc.	362,380		
nes & Associates	73,290		
		TOTAL	<u>\$21,623,559</u>

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 1996, actual fees and commissions paid by PERS were \$11,782,570.



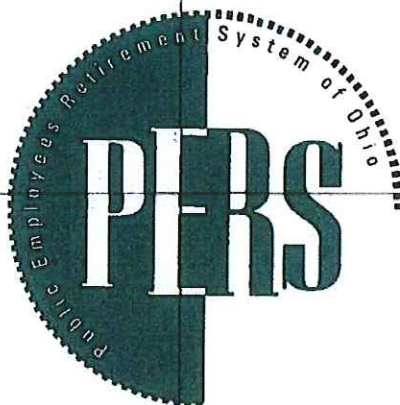
# Investment Summary

	1996		1995	
	Fair Value	Percentage of Total Fair Value	Fair Value	Percentage of Total Fair Value
Fixed Income:				
U.S. Government & Agencies	\$12,951,214,310	32.9%	\$16,697,432,044	46.1%
Corporate Bonds	2,914,288,885	7.4	1,910,622,707	5.3
Canadian Bonds	505,978,354	1.3	609,115,857	1.7
Mortgage & Mortgage Backed	<u>5,530,268,966</u>	<u>14.1</u>	<u>3,853,163,872</u>	<u>10.6</u>
Total Fixed Income	21,901,750,515	55.7	23,070,334,480	63.7
Common Stock	11,109,419,510	28.2	8,683,885,389	23.9
Real Estate	2,795,268,017	7.1	2,452,000,281	6.8
Venture Capital	26,847,133	0.1	27,443,811	0.1
International	863,183,792	2.2	226,832,198	0.6
Short-term Investments				
Commercial Paper	921,466,773	2.3	685,527,315	1.9
U.S. Treasury Obligations	<u>1,729,022,887</u>	<u>4.4</u>	<u>1,094,683,583</u>	<u>3.0</u>
TOTAL	<u>\$39,346,958,627</u>	<u>100.0%</u>	<u>\$36,240,707,057</u>	<u>100.0%</u>

# **Public Employees Retirement System of Ohio**

## **The Comprehensive Annual Financial Report**

**For the Year Ended December 31, 1996**



### **ACTUARIAL SECTION**



# Report of the Actuary



**GABRIEL, ROEDER, SMITH & COMPANY**

Consultants & Actuaries

1000 Town Center • Suite 1000 • Southfield, Michigan 48075 • 810-799-9000 • FAX 810-799-9020

April 1, 1997

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, 1995. 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 1986 to 1990. 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 mixed during 1995. Pension experience was favorable, leading to a decrease in the periods over which unfunded accrued liabilities are being funded. Post Retirement Health Care experience continued to moderate. 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* *Brian B. Murphy*  
Norman L. Jones, F.S.A. Brian B. Murphy, F.S.A.

NLJ/dmc

# Summary of Assumptions

opted by Retirement Board after consulting with Actuary.

**Valuation Method.** An entry age normal actuarial cost method 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.

**Assets Valuation Method.** For actuarial purposes, assets are valued utilizing a method which recognizes book value plus 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.

**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 5.25 percent annually, compounded annually, which is the base 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			Base (Economy)	Increase Next Year		
	State	Local	Law		State	Local	Law
20	3.2%	3.2%	3.2%	5.25%	8.45%	8.45%	8.45%
30	2.2	2.1	1.9	5.25	7.45	7.35	7.15
40	1.4	1.3	1.1	5.25	6.65	6.55	6.35
50	0.7	0.7	0.7	5.25	5.95	5.95	5.95

**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
50-54	17%	15%	20%	15%	20%
55-58	12	15	15	15	20
59	15	15	15	15	20
60	15	17	15	17	20
61	15	17	15	17	20
62	15	17	16	17	20
63	15	17	16	17	20
64	20	20	20	20	25
65	25	25	25	25	30
66	25	25	25	25	25
67	25	25	25	25	25
68	25	25	25	25	25
69	30	30	30	30	40
70	100	100	100	100	100

**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		State		Withdrawal		Local		Disability	
		Men	Women	Men	Women	Law Enforcement	Men	Women	Men	Women	
	0			30.00%	30.00%	16.00%	36.00%	34.50%			
	1			19.00	19.00	13.00	23.75	25.00			
	2			16.00	16.00	11.00	16.00	17.00			
	3			11.00	13.00	9.00	11.00	14.00			
	4			9.00	11.00	7.00	9.00	11.00			
30	5 & Over	.12%	.11%	7.20	8.90	4.80	7.20	10.00	.10%	.06%	
40		.25	.15	4.40	5.40	3.60	5.00	6.40	.35	.21	
50		.71	.43	2.50	3.40	2.40	3.20	4.20	.99	.69	
60		1.80	1.16	.60	.80	.60	.80	1.00	2.45	1.51	



## Actuarial Valuation Data

Valuation Year	Active Members			% Increase in Average Pay	Retired Lives		
	Number	Annual Payroll (\$ Millions)	Average Pay		Number	Annual Allowance (\$ Millions)	Average Allowance
1986	254,619	\$4,543	\$17,842	4.91%	97,906	\$519	\$5,29
1987	258,981	4,864	18,782	5.27	100,010	565	5,65
1988	264,868	5,307	20,036	6.68	103,150	630	6,10
1989	270,683	5,597	20,677	3.20	105,643	715	6,70
1990	277,963	6,036	21,715	5.02	107,177	762	7,10
1991	324,948	6,651	20,468	(5.74)	108,971	820	7,52
1992	333,848	6,889	20,635	0.82	111,779	896	8,07
1993	339,190	7,236	21,333	3.38	113,950	965	8,46
1994	343,477	7,625	22,119	4.06	116,001	1,024	8,82
1995	344,632	7,973	23,135	4.04	118,280	1,106	9,35

## 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)				
1986	\$2,358	\$ 5,540	\$10,660	\$13,403	100%	100%	52%
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

## 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

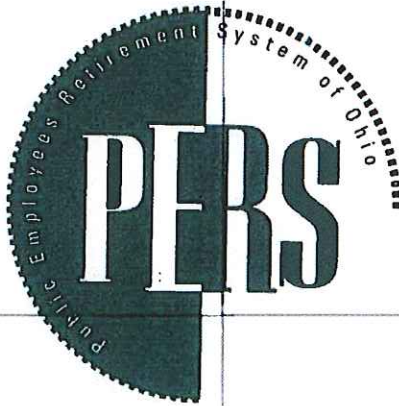
Type of Activity	Gain (or Loss) For Year \$ in Millions			
	1995	1994	1993	1992
<b>Age &amp; Service Retirements.</b> If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	\$ 28.7	\$ 20.0	\$ 15.8	\$ 20.6
<b>Disability Retirements.</b> If disability claims are less than assumed, there is a gain. If more claims, a loss.	64.3	34.4	26.0	15.2
<b>Death-In-Service Annuities.</b> If survivor claims are less than assumed, there is a gain. If more claims, a loss.	3.8	36.3	34.0	38.9
<b>Other Separations.</b> If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	(278.9)	(224.1)	(198.0)	(213.4)
<b>Pay Increases.</b> If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	341.8	358.5	405.5	312.0
<b>Investment Return.</b> If there is greater investment return than assumed, there is a gain. If less return, a loss.	394.6	(46.7)	985.3	823.2
<b>Health Insurance &amp; Medicare Premiums.</b> If there are smaller increases than assumed, there is a gain. If greater increases, a loss.	(58.3)	294.1	(93.5)	(124.2)
<b>Gain (or Loss) During Year From Financial Experience</b>	<b>\$496.0</b>	<b>\$472.5</b>	<b>\$1,175.1</b>	<b>\$872.3</b>



# **Public Employees Retirement System of Ohio**

## **The Comprehensive Annual Financial Report**

**For the Year Ended December 31, 1996**



### **STATISTICAL SECTION**

# Employer Contribution Rates

		Current			Unfunded Liability		
	Year	Normal	Health	Survivor Benefits	Past Service	Health	Total
State	1987	4.98%	2.19%	0.84%	4.22%	1.48%	13.71%
	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
Local	1987	5.11	2.69	0.90	3.75	1.50	13.95
	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
w Enforcement	1987	7.99	3.05	1.52	4.45	1.09	18.10
	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

\*Rate effective July 1, 1991.



## Disbursements by Category

				Benefits		
Year	Annuities	Disabilities	Other Systems	Survivors	CPI	Post Retiree Legislative Inc
1987	\$363,424,328	\$ 46,658,177	\$3,231,189	\$33,044,661	\$ 73,612,942	\$35,800,0
1988	416,758,803	51,625,775	3,223,604	34,735,329	80,357,076	33,742,3
1989	463,455,461	57,151,688	4,061,810	36,392,135	92,146,600	53,475,7
1990	493,081,656	63,546,647	3,229,381	37,764,185	106,013,735	50,389,5
1991	531,188,927	70,423,067	3,484,009	39,601,327	120,558,352	47,510,2
1992	577,820,133	78,697,614	4,550,956	41,737,122	135,927,483	44,686,3
1993	620,080,348	91,337,107	4,636,808	43,855,109	151,763,785	41,860,3
1994	655,822,239	105,602,623	5,222,468	46,229,029	167,031,125	39,123,3
1995	701,867,702	119,699,694	6,762,310	48,103,168	182,925,717	36,520,5
1996	757,995,460	138,848,062	4,734,682	50,844,206	199,783,533	39,127,6

## Revenues by Source

Year	Members' Contributions	Employers' Contributions	Employers' Contributions as a Percentage of covered Payroll	Investment Income (Net)	Other	Total
1987	\$420,977,772	\$ 741,840,413	13.92%	\$1,325,054,638	\$ 362,986	\$2,488,235,80
1988	446,091,129	769,144,695	13.93	1,441,226,325	10,160,620	2,666,622,76
1989	476,415,655	804,745,875	13.95	1,823,780,073	2,535,968	3,107,477,57
1990	517,629,799	858,207,902	13.96	1,876,319,720	159,017	3,252,316,43
1991	562,818,132	925,097,737	13.75	2,418,425,646	84,878	3,906,426,39
1992	589,700,557	971,602,348	13.51	2,648,454,471	(189,141)	4,209,568,23
1993	639,366,718	1,012,814,909	13.51	2,683,394,902 *	592,395	4,336,168,92
1994	679,907,661	1,065,570,715	13.51	(134,383,505)*	229,502	1,611,324,37
1995	698,987,279	1,107,696,800	13.53	6,134,722,598 *	263,915	7,941,670,59
1996	737,292,990	1,181,597,072	13.54	2,849,634,082 *	867,738	4,769,391,88

\*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 1996 through 1993 which can create significant fluctuations.

			Refunds		
Health Care	Death Benefits	Separation	Beneficiaries	Other	Total All Payments
166,021,858	\$1,644,845	\$ 78,282,220	\$3,302,041	\$ 218,183	\$ 805,240,469
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

## Expenses by Type

Year	Benefit Payments	Refunds	Administrative Expenses	Total
987	\$ 723,438,025	\$ 81,802,444	\$10,271,197	\$ 815,511,666
988	841,373,200	81,220,133	11,256,093	933,849,426
989	914,787,338	85,276,351	12,040,343	1,012,104,032
990	984,711,577	105,565,487	13,398,269	1,103,675,333
991	1,099,858,227	96,957,455	15,421,235	1,212,236,917
992	1,191,582,888	102,764,133	16,178,012	1,310,525,033
993	1,265,738,826	85,085,097	17,029,933	1,367,853,856
994	1,352,327,301	93,190,094	17,212,600	1,462,729,995
995	1,455,869,026	108,029,484	18,232,175	1,582,130,685
996	1,566,534,763	110,043,743	20,160,874	1,696,739,380



# Schedule of Retired Members by Type of Benefit

December 31, 1996

Amount of Monthly Benefit	Number of Retirants	Annuities	Disabilities	Survivor Benefits
\$ 1-249	19,650	16,931	425	2,294
250-499	25,989	19,913	1,276	4,800
500-999	34,857	27,074	4,472	3,311
1,000-1,499	19,867	15,418	3,714	735
1,500-1,999	10,427	8,265	1,924	238
2,000 & Over	9,004	8,026	840	138
<b>Totals</b>	<b>119,794</b>	<b>95,627</b>	<b>12,651</b>	<b>11,516</b>

## Schedule of Average Benefit Payments\*

	Years Credited Service					
	5-9	10-14	15-19	20-24	25-30	30+
<b>Period 1/1/91-12/31/91</b>						
Average Monthly Benefit*	\$306.82	\$455.95	\$711.87	\$965.10	\$1,313.49	\$2,083.7
Average Final Average Salary	\$17,132.50	\$19,566.31	\$23,246.89	\$24,870.67	\$28,405.07	\$32,855.8
Number of Active Recipients	413	1,037	880	781	753	1,32
<b>Period 1/1/92-12/31/92</b>						
Average Monthly Benefit*	\$353.68	\$451.14	\$681.99	\$986.08	\$1,263.36	\$2,028.9
Average Final Average Salary	\$17,996.88	\$19,577.31	\$23,139.85	\$26,072.33	\$27,906.28	\$33,536.2
Number of Active Recipients	498	1,211	1,007	952	868	1,54
<b>Period 1/1/93-12/31/93</b>						
Average Monthly Benefit*	\$375.30	\$487.31	\$706.91	\$1,001.22	\$1,317.68	\$2,010.8
Average Final Average Salary	\$18,625.64	\$21,432.31	\$24,232.78	\$27,428.44	\$30,284.06	\$34,484.2
Number of Active Recipients	464	1,016	912	866	834	1,34
<b>Period 1/1/94-12/31/94</b>						
Average Monthly Benefit*	\$320.33	\$459.70	\$685.96	\$975.28	\$1,248.22	\$1,894.7
Average Final Average Salary	\$18,005.00	\$21,039.80	\$24,608.27	\$27,122.56	\$29,382.14	\$33,873.1
Number of Active Recipients	498	1,217	959	820	882	1,31
<b>Period 1/1/95-12/31/95</b>						
Average Monthly Benefit*	\$416.00	\$514.10	\$754.25	\$1,005.20	\$1,340.05	\$2,061.6
Average Final Average Salary	\$21,496.33	\$23,978.85	\$26,644.44	\$28,633.87	\$31,856.96	\$36,858.7
Number of Active Recipients	509	1,204	973	935	988	1,77
<b>Period 1/1/96-12/31/96</b>						
Average Monthly Benefit*	\$342.80	\$455.11	\$757.00	\$1,036.82	\$1,350.56	\$2,073.6
Average Final Average Salary	\$19,534.19	\$22,127.35	\$27,332.50	\$29,753.90	\$32,533.78	\$37,819.6
Number of Active Recipients	417	1,048	907	917	952	1,77

\*"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
1987	79,648	7,272	10,828	97,748
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

### Number of New Benefit Recipients and Refund Payments

Year	Annuities	Disabilities	Survivors	Refund
1987	4,567	775	560	22,246
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

### Member Count

Year-end	Active Contributing	Inactive	Total
1987	262,208	60,291	322,499
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

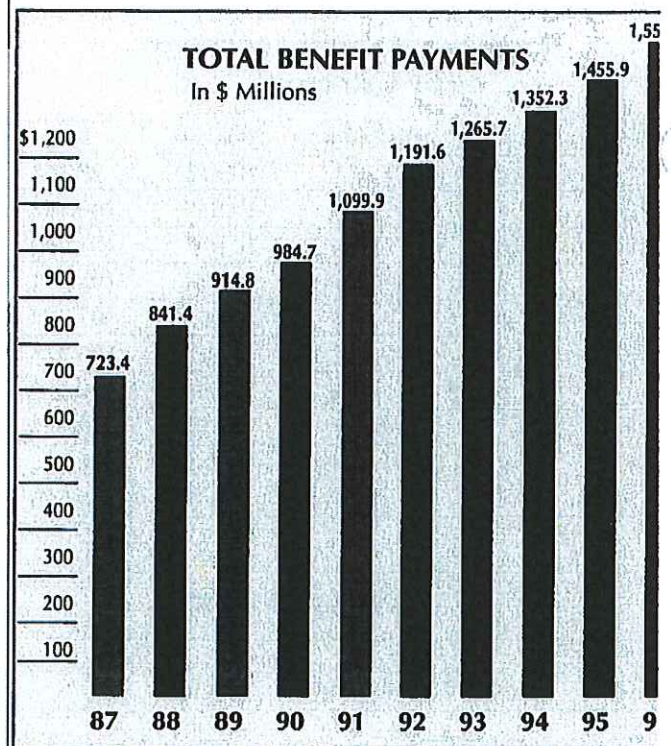
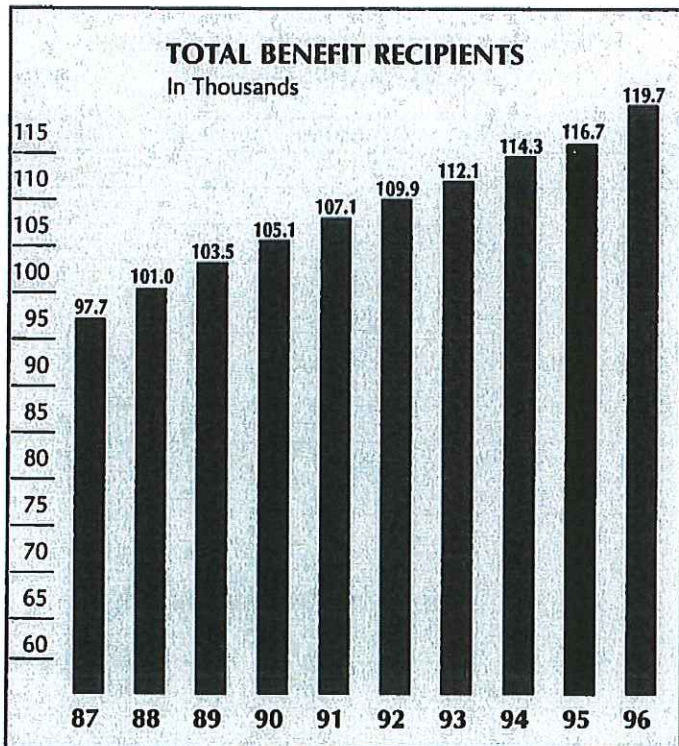
### Member Contribution Rates

Year	Regular Rate	Law Enforcement Rate
1987	8.5%	9.5%
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	9.0

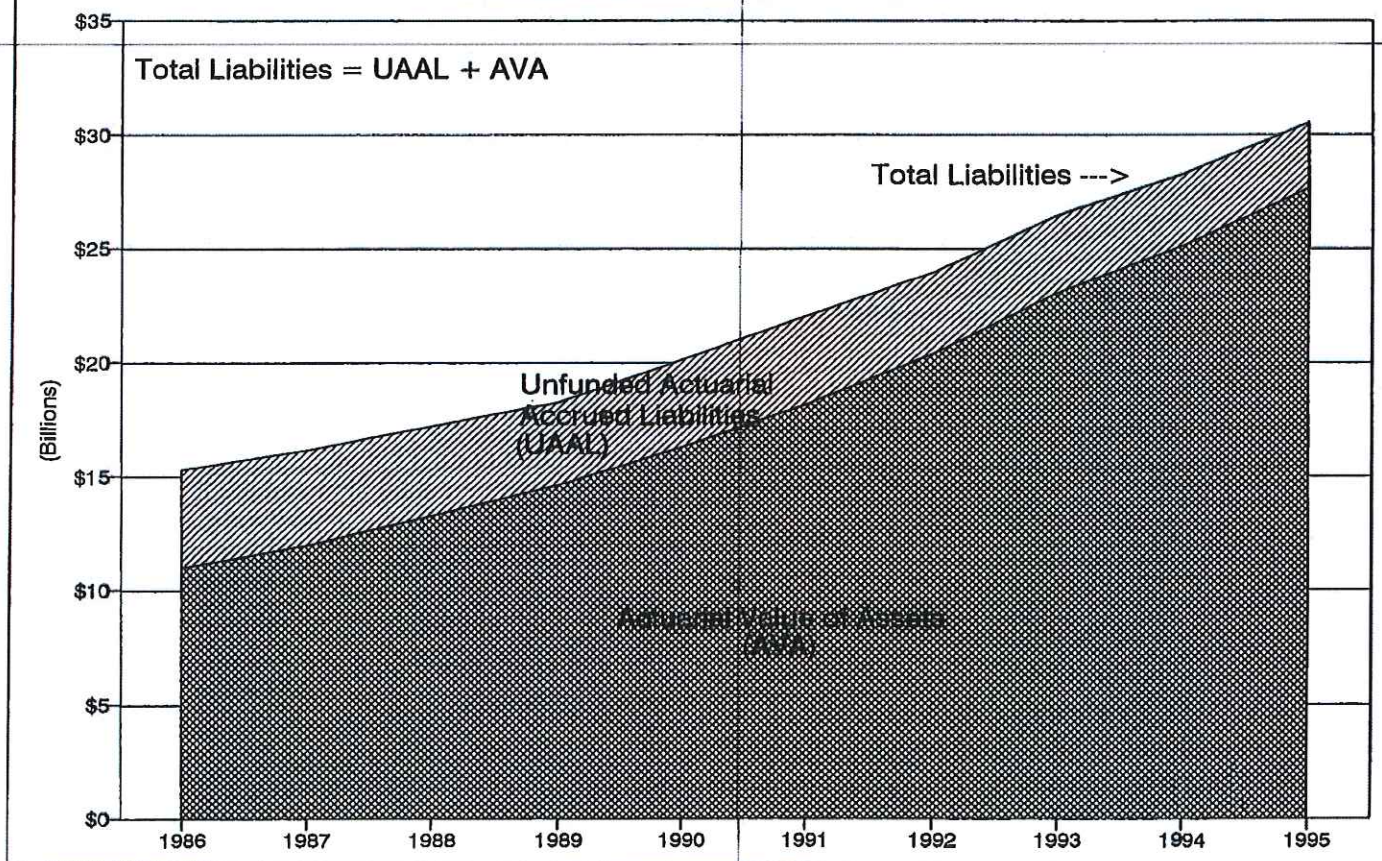
### Number of Employer Units

Year-end	State	County	Law Enforcement	Municipalities	Villages	Miscellaneous	Libraries	Township	Totals
1987	240	236	177	342	607	299	252	1,306	3,459
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	3,583
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





## Funding Progress (Pension Only)

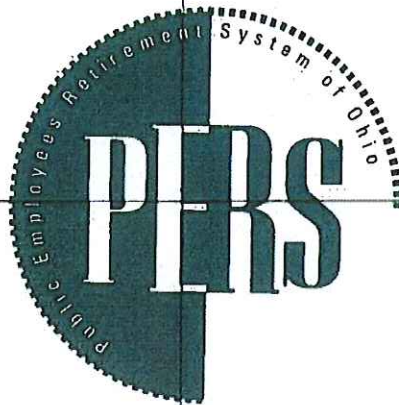




# **Public Employees Retirement System of Ohio**

## **The Comprehensive Annual Financial Report**

**For the Year Ended December 31, 1996**



### **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; and
- 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).

PERS provides special retirement coverage for certain law enforcement officers. If their primary duties are to preserve the peace, to protect life and property, and to enforce the laws of Ohio, 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; 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 Division (A)(3) of Section 1901.32 employed on or after Nov. 6, 1996; are included. 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 10 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:

service for the state of Ohio or an Ohio political subdivision of which contributions have been paid;  
certain military service which interrupted contributing public service;

any out-of-public service period of three years or less during which the member was receiving an award under Workers' Compensation;

previously unreported service in Ohio;

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;

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 his/her 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 reduc-



tions, 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. Incompetent, 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

- 1) *Health Care Coverage* - PERS-provided health care is not statutorily-required benefit. Currently, when applying for age and service retirement a member with 10 years of Ohio service credit may have PERS health care plan coverage available. These 10 years may not include out-of-state and/or military service purchased after Jan. 29, 198 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 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.

- 2) *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 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.
- 3) *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 his/her 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 at the member terminated public employment. If a member also a member of the State Teachers Retirement System or the School Employees Retirement System, an application for a 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 stored.

## 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:

receive compensation, have their retirement allowance suspended for the period of re-employment and make contributions toward a formula benefit, or

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.

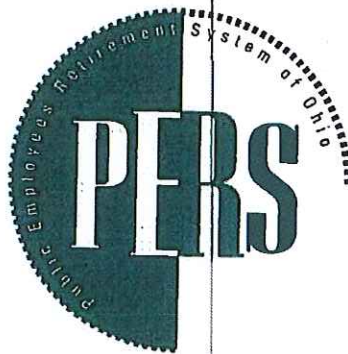
A person who is retired from PERS and returning to public employment as an elected official will be treated as a re-em-

ployed retirant and will be subject to the requirements mentioned above. Beginning Dec. 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. Also, beginning March 6, 1997, such elected officials cannot receive future cost-of-living adjustments during the new term.

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.





**PUBLIC EMPLOYEES RETIREMENT  
SYSTEM OF OHIO**

**277 East Town Street  
Columbus, Ohio 43215-4642**

