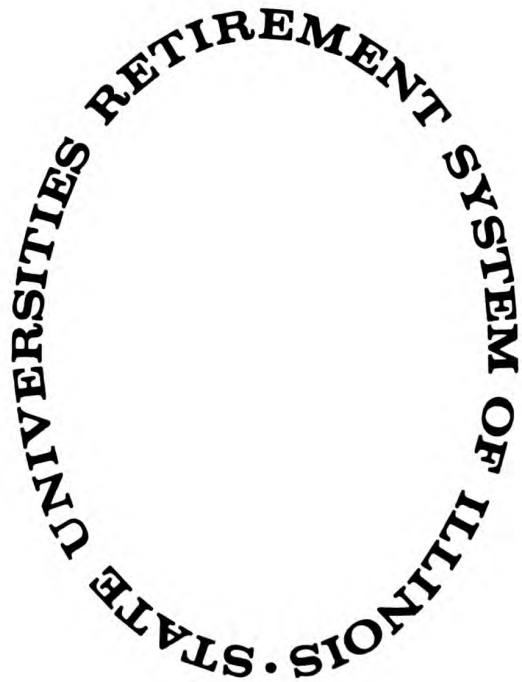


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COMPONENT UNIT FINANCIAL REPORT for the Fiscal Year Ended August 31, 1985

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COMPONENT UNIT FINANCIAL REPORT

for the Fiscal Year Ended August 31, 1985

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Prepared by: The Accounting Department

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INTRODUCTORY SECTION

Certificate of Conformance in Financial Reporting

Presented to

State Universities
Retirement System, Illinois

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 1984

A Certificate of Conformance in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to governmental units and public employee retirement systems whose comprehensive annual financial reports (CAFR's) are judged to substantially conform to program standards.



John T. Walsh
President

Jeffrey L. Escoe
Executive Director



50 GERTY DRIVE · P.O. BOX 2710 — STATION A · CHAMPAIGN, IL 61820 · Telephone: (217) 333-3860

December 28, 1985

Board of Trustees and Executive Director
State Universities Retirement System
50 Gerty Drive
Champaign, Illinois 61820

The Annual Report of the State Universities Retirement System for the fiscal year ending August 31, 1985, is submitted herewith. The report is in five sections: 1) the Introductory Section contains this transmittal letter and identification of the trustees, staff, and consultants; 2) the Financial Section contains the report of the independent public accountants as well as the financial statements and notes; 3) the Actuarial Section contains the report of the actuary as well as the statement of assumptions and certain tables; 4) the Statistical Section contains the statistical tables; and 5) the Investment Section contains the custodian bank's certification of the assets held in safekeeping along with a list of those assets, and reports and tables concerning asset allocation and investment performance.

ACCOUNTING SYSTEM AND INTERNAL CONTROL

The accrual basis of accounting is used to record the assets, liabilities, revenues, and expenses. Revenues for the System are taken into account when earned, without regard to date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

In developing and evaluating SURS' accounting system, consideration has been given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records.

SURS has instituted an internal audit program and employs the services of an independent accountant to function as internal auditor and determine that all controls implemented are being accomplished.

REVENUES

The reserves needed to finance the benefits provided by the State Universities Retirement System are accumulated through the collection of employer and employee contributions and through income on investments. These income sources for fiscal year 1985 totaled \$347.7 million, which is an increase of 52.6% over income for 1984. A large portion of this increase is due to the realization of a gain on the sale of investments during 1985, as opposed to the realized loss in 1984. Also partially responsible for this increase is the larger earnings base upon which contributions were calculated. Employee contributions accounted for 28.1% of the total income, compared to 37.5% for the preceding fiscal year. Employer contributions provided 24.0% of the total income, as opposed to 30.8% for FY 84. Investment income accounted for 47.9% of the total income, compared to 31.7% for FY 84. Employer contributions did not meet the State's share of the benefits paid during the year.

EXPENSES

The primary expense of a retirement system relates to the purpose for which it is created; namely, the payment of benefits. Consequently, recurring benefit payments prescribed by the plan, refunds of contributions to terminated employees, and the cost of administering the system comprise the total expenses. These expenses for fiscal year 1985

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were \$119.8 million, an increase of 11.8% over fiscal year 1984. Contribution refunds for the same period increased 13.1%. This increase is attributable to higher participant turnover due to the immediate participation requirements which became effective January 1, 1984. Nineteen-eighty-five was the first full fiscal year to experience immediate participation. Benefit payments for the year increased 11.6% due to growth in the number of annuitants and higher average benefit amounts. Administrative expenses in FY 85 increased 11.0%. This increase reflects the higher cost of providing services to a growing number of annuitants and participants. The cost of administrating the System amounted to approximately 1/2% of income generated. This means that out of every dollar that was received by the System, 99.5 cents were available for the payment of benefits. Income exceeded expenses by \$227.9 million.

INVESTMENTS

The investment portfolio must be regarded as a major contributor to the System. Income and net gain and loss resulting from the sale of long-term and short-term investments amounted to \$166.4 million, which represented 47.9% of total revenues, compared to \$72.1 million in 1984. This exceeded the 24.0% of total revenue received through employer contributions. Changes in the makeup of the total portfolio during the year are reflected in the "Schedule of Investment Portfolio at Book Value" in the Financial Section of this report.

FUNDING

The actuarial liability of the System at August 31, 1985, amounted to \$3.8 billion. The reserve balances for participant contributions and benefits from employee and employer contributions amounted to \$1.8 billion as of the same date. The amount by which the liability exceeds the reserves is called the "unfunded accrued liability." The unfunded accrued liability amounts to \$2.0 billion and reflects the continuing state policy of not appropriating sufficient funds to meet the normal costs of benefits being earned by current employees each year.

As in the past three years, the employer contributions for FY 85 from state funds were less than the state's share of the benefits paid to retired and disabled employees and their survivors.

Governor Thompson has appointed a task force to study funding of the state-supported retirement systems. The task force report will be completed in January 1986. The organizations that rate our state bonds, retirement system participants, and taxpayers will be looking for a realistic funding recommendation from the task force.

CURRENT AND FUTURE DEVELOPMENTS

Legislation

Legislation passed during 1985 provided an extension to one current provision of SURS and provided a sense of reasonableness to two of the benefits provided by SURS.

The early retirement option, which provides the opportunity for participants to retire between the ages of 55 and 60 without discount, was extended until September 1, 1992. It had been scheduled to expire June 30, 1987.

The reversionary annuity, which allows a retiree to provide a greater benefit to a qualifying survivor, was amended to allow a twofold choice. Under the new option, if the prospective survivor predeceases the retiree, the retiree's benefit reverts to what it would have been without the reversionary election. The original election remains

unchanged, and the reduced annuity will continue in its reduced amount even though the prospective survivor is no longer alive and a benefit will never be paid.

A participant will now be considered an employee for up to one year during the period an employee appeals the denial of a disability claim. The 120-day limit for pregnancy disability benefits has been removed.

Numerous other items were included in the SURS 1985 Legislative Program; however, none passed either the Senate or House.

Certificate of Conformance

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Conformance in Financial Reporting to the State Universities Retirement System for its comprehensive annual financial report for the fiscal year ended August 31, 1984.

In order to be awarded the Certificate of Conformance, 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.

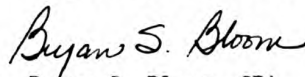
A Certificate of Conformance is valid for a period of one year only. We believe our current report continues to conform to Certificate of Conformance Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this report reflects the combined efforts of the SURS staff under the leadership of the Board of Trustees. It is intended to be used by the Trustees and staff in making management decisions, as a means of determining compliance with legal provisions, and for determining responsible stewardship for the assets contributed by the members and the State of Illinois. The report is being mailed to all employers covered by the State Universities Retirement System and is available to individual participants and other interested persons upon request.

On behalf of the Board of Trustees, I would like to express my gratitude to the staff, the consultants, and the many people who work so effectively to assure the successful operation of this System.

Respectively submitted,



Bryan S. Bloom, CPA
Chief Accountant

Board of Trustees

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Assistant Director

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Assistant Secretary

JEANNE VALCIK, CPA
Pension & Investment Analyst

STEVEN L. HAYWARD, CPA
Internal Auditor

BRYAN S. BLOOM, CPA
Chief Accountant

JAMES S. BEEDIE
Public Information Officer

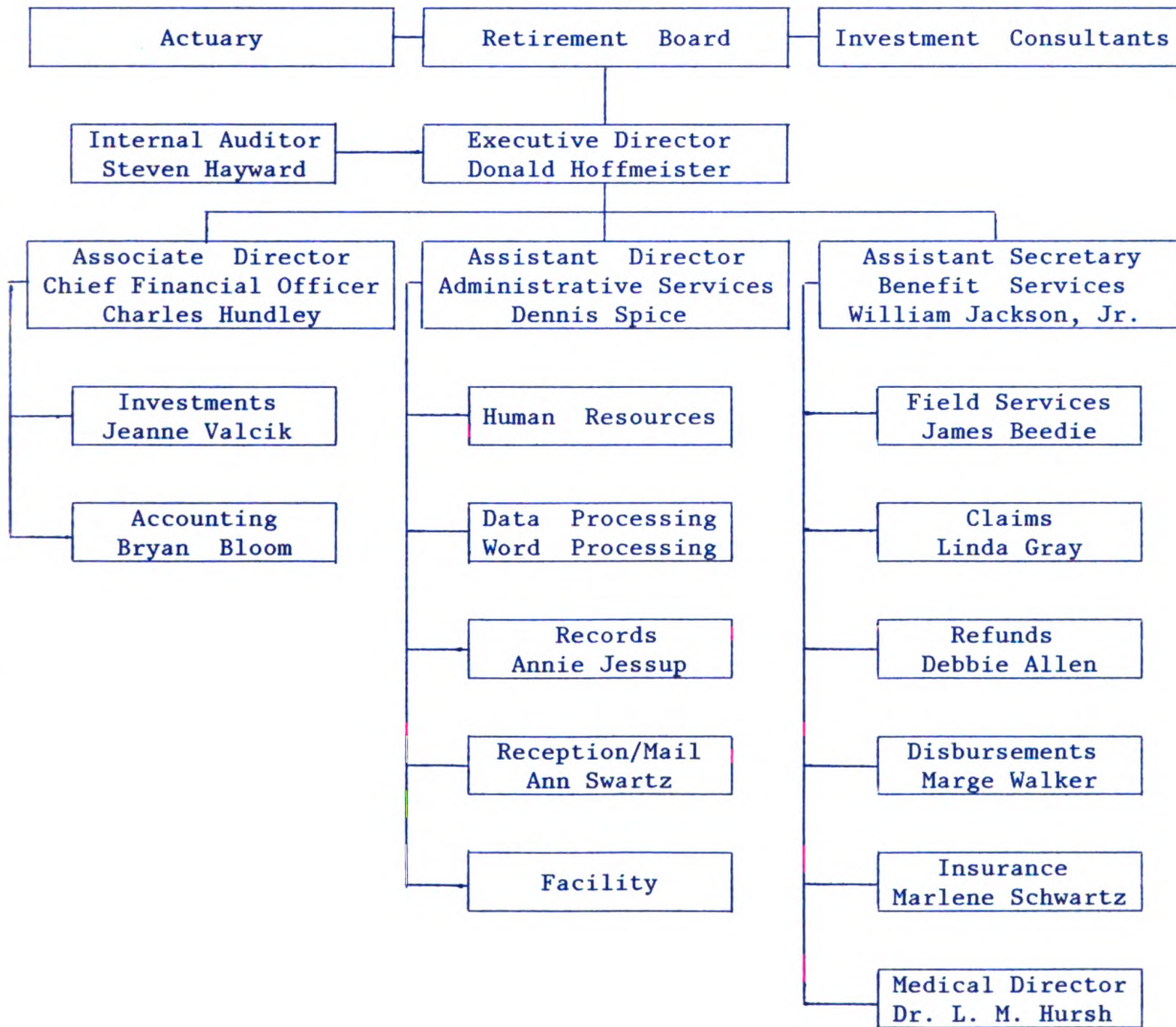
LINDA L. GRAY
Claims Manager

MARGE J. WALKER
Disbursing Officer

ANNIE L. JESSUP
Records Manager

ANN F. SWARTZ
Administrative Services Manager

Organizational Chart



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FINANCIAL SECTION

Independent Auditor's Report

**PANNELL
KERR
FORSTER**

Certified Public Accountants

150 N. Michigan Avenue
Chicago, IL 60601
Telephone (312) 781-0002
Telex 25-3559

Honorable Robert G. Cronson
Auditor General
Springfield, Illinois

We have examined the balance sheet of the State Universities Retirement System of Illinois at August 31, 1985, and the related statements of revenues, expenses and changes in fund balance and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of the State Universities Retirement System for the year ended August 31, 1984 were examined by other auditors whose report dated November 19, 1984, expressed an unqualified opinion on those statements.

In our opinion, the 1985 financial statements referred to above present fairly the financial position of the State Universities Retirement System of Illinois at August 31, 1985, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages 30 to 32 provides additional analysis which is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination 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.

Pannell Ken Forster

November 8, 1985

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Financial Statement 1985

BALANCE SHEET August 31, 1985 and 1984

ASSETS	Totals	
	1985	1984
Contributions Receivable		
Participants	\$ 5,169,740	\$ 4,334,303
Federal, trust funds and other	1,883,837	768,354
State of Illinois	8,236,033	75,633
	<u>15,289,610</u>	<u>5,178,290</u>
Prepaid Expenses	1,540	393,807
Accrued Investment Income Receivable	19,190,093	15,765,028
Investments (note III)	1,725,946,575	1,515,311,167
(Market value:		
\$1,877,068,489 @ 8/31/85		
\$1,554,073,252 @ 8/31/84)		
Property and Equipment (notes II D and IV)	636,011	690,508
TOTAL ASSETS	<u>\$1,761,063,829</u>	<u>\$1,537,338,800</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 1,047,359	\$ 4,833,560
Benefits payable	307,048	483,868
Refunds payable	1,613,819	955,270
Deferred income (note II C)	5,803,786	6,694,852
Total Liabilities	<u>8,772,012</u>	<u>12,967,550</u>
Fund Balance (Reserved) (note II E)		
Participant contributions	1,018,209,150	918,217,069
Benefits from employee and employer contributions	2,743,576,730	2,455,760,175
Land	70,000	70,000
Total Fund Balance	<u>3,761,855,880</u>	<u>3,374,047,244</u>
Less unfunded accrued liability	<u>(2,009,564,063)</u>	<u>(1,849,675,994)</u>
	1,752,291,817	1,524,371,250
TOTAL LIABILITIES AND FUND BALANCE	<u>\$1,761,063,829</u>	<u>\$1,537,338,800</u>

The notes to the financial statements are an integral part of the Component Unit Financial Statements.

Financial Statement 1985

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE For the Years Ended August 31, 1985 and 1984

REVENUE	Totals	
	1985	1984
Contributions		
Participants	\$ 97,776,613	\$ 85,489,034
Federal, trust funds and other	12,741,215	8,450,069
State of Illinois		
Employer units	65,389,835	56,464,580
Pension fund	4,964,700	4,882,734
Reciprocity	387,017	393,647
	<u>181,259,380</u>	<u>155,680,064</u>
Investment Income		
Interest	94,236,038	89,369,194
Dividends	33,686,827	23,329,307
Other	465,660	398,984
	<u>128,388,525</u>	<u>113,097,485</u>
Less investment expense	4,332,978	3,773,475
	<u>124,055,547</u>	<u>109,324,010</u>
Gain (loss) on Sale of Investments	42,367,372	(37,237,847)
Total Revenue	<u>347,682,299</u>	<u>227,766,227</u>
EXPENSE		
Benefits		
Age retirement	82,216,036	71,138,872
Disability retirement	289,966	219,784
Disability	6,859,462	7,050,685
Survivors	8,653,288	7,769,863
Death	3,363,201	4,675,492
Reversionary	224,051	220,778
Beneficiary	64,291	65,525
	<u>101,670,295</u>	<u>91,140,999</u>
Refunds	16,351,508	14,458,547
Administrative Expense	1,739,929	1,567,454
Total Expense	<u>119,761,732</u>	<u>107,167,000</u>
Excess of Revenue over Expenses	227,920,567	120,599,227
Fund Balance		
Beginning of year	<u>1,524,371,250</u>	<u>1,403,772,023</u>
End of year	<u>\$1,752,291,817</u>	<u>\$1,524,371,250</u>

The notes to the financial statements are an integral part of the Component Unit Financial Statements.

Financial Statement 1985

STATEMENT OF CHANGES IN FINANCIAL POSITION For the Years Ended August 31, 1985 and 1984

	Totals	
	1985	1984
Sources of Working Capital		
Operations:		
Excess of revenue over expenses	\$227,920,567	\$120,599,227
Add back item not requiring working capital		
Depreciation	119,013	114,255
Total Sources of Working Capital	<u>228,039,580</u>	<u>120,713,482</u>
Use of Working Capital		
Purchases of capital equipment	<u>64,516</u>	<u>39,603</u>
Net Increase (Decrease) in Working Capital	<u>\$227,975,064</u>	<u>\$120,673,879</u>
Elements of Net Increase (Decrease) in working capital		
Cash	\$ 0	\$ (372,798)
Contributions receivable	10,111,320	(1,560,166)
Prepaid expense	(392,267)	373,786
Accrued investment income receivable	3,425,065	(914,173)
Investments	210,635,408	127,423,458
Accounts payable	3,786,201	(3,951,250)
Benefits payable	176,820	(193,585)
Refunds payable	(658,549)	382,885
Deferred income	<u>891,066</u>	<u>(514,278)</u>
Net Increase in Working Capital	<u>\$227,975,064</u>	<u>\$120,673,879</u>

The notes to the financial statements are an integral part of the Component Unit Financial Statements.

Notes to the Financial Statements 1985

I. DESCRIPTION OF PLAN

The State Universities Retirement System of Illinois (SURS) is governed by Article 15, Chapter 108-1/2 of the "Illinois Pension Code" and benefits under the System are defined in the code. There are no statutory provisions for termination of the System.

The following is a summary of the provisions of the State Universities Retirement System in effect as of August 31, 1985, as defined in the "Illinois Pension Code." Participants should refer to the SURS brochures or the "Illinois Pension Code" for more complete information.

A. Membership

The System covers faculty and nonacademic permanent employees of Illinois State universities and colleges, community colleges, state scientific surveys, and other related agencies. Participation is required as a condition of employment, except for residents in medical training and postdoctoral research associates at state universities. They may participate at any time during their first three years, after which time participation is mandatory.

Employees are ineligible to participate if 1) employed after having attained age 68; 2) employed less than 50% of full-time; or 3) employed less than full-time and attending classes with an employer.

B. Member Contributions

Members contribute 8% of their gross earnings; 6-1/2% of the 8% contributions are designated for retirement annuities, 1/2% for automatic annual increases, and 1% for survivor benefits. Police officers and fire fighters contribute 9-1/2% of earnings. The additional 1-1/2% is a normal retirement contribution.

The member contributions are "picked-up" by the employer and treated as employer contributions for income tax purposes. Retirement contributions are based on the gross earnings before the employer pick-up and are included in earnings.

All contributions on pre-1981 earnings and service credit payments, plus future other public employment, prior service, refund payments, and leave payments will be considered as previously taxed. Previously taxed contributions will be recovered tax-free when distributed to the employee as a retirement annuity or refund.

C. Interest Credited on Member Contributions

The interest rate credited is fixed by the Board of Trustees and is currently 8%. For purposes of lump sum payments to former members, the interest rate is 4-1/2%.

Notes to the Financial Statements 1985

D. Retirement Benefits

1. Normal Retirement

Members are eligible for normal retirement at any age after 35 years of covered service, after eight years of covered service and age 60, or after five years of covered service and age 62. Police officers and fire fighters are eligible for normal retirement at age 55 with 20 years of service, or at age 50 with 25 years of service.

The annuity payable is based on the largest of three formulas:

- a. The following percentages of "average earnings," which is the average of the highest earnings for any four consecutive fiscal years:

	<u>General</u>	<u>Police and Fire Fighters</u>
i. For each of the first 10 years of service	1.67%	2.25%
ii. For each of the next 10 years of service	1.90	2.50
iii. For each of the next 10 years of service	2.10	2.75
iv. For each year of service over 30	2.30	--

- b. The actuarial equivalent of 2.4 times the accumulated member contributions for retirement annuities (6-1/2% of earnings). The actuarial equivalent assumes an annuity payable for life.

- c. For each year of service up to a maximum of 30 years, if employed half-time or more, the following monthly amounts based on average earnings:

<u>Average Annual Earnings</u>		
Under	\$3,500	\$ 8
3,500 -	4,500	9
4,500 -	5,500	10
5,500 -	6,500	11
Over	6,500	12

- d. The pre-1969 law provided a pension of 1.67% of average earnings during the high five consecutive fiscal years multiplied by the total years of service.

For first-time participants hired after September 14, 1977, the maximum annuity under (a) or (b) is 75% of average earnings. The maximum is 80% of average earnings for members who participated on or before September 14, 1977.

2. Early Retirement

Members are eligible for early retirement after eight years of service and age 55, but the annuity calculated under formula (a) or (c) above is reduced by 1/2% for each month such retirement precedes age 60.

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Notes to the Financial Statements 1985

3. Early Retirement Without Discount

A member may retire between the ages of 55 and 60 with at least eight, but not more than 35, years of service credit without the 1/2% reduction provided

- a. The member retires before September 1, 1992.
- b. The member retires within six months of the last day of employment.
- c. The member and the employer make one-time lump sum payments to the System based upon the member's highest full-time annual salary rate during the four-year average salary period or, if not full-time, the full-time equivalent. The member pays 7% of the base salary for each year or fraction of a year prior to age 60, or each year short of 35 years of service credit, whichever is lower. The employer payment is 20% of the base salary for each year or fraction of a year prior to age 60. These one-time payments do not increase the amount of service credit, but merely eliminate the 1/2% reduction for retiring before age 60 with less than 35 years of service.

The number of members using this provision may be limited, at the option of the employer, to no less than 15% of those eligible during any year. The right to participate is allocated among those applying on the basis of seniority in the service of the employer.

4. Automatic Increases

Retirement benefits are increased annually after retirement by 3% of the original retirement annuity. Note that the increase is not compounded and does not apply to survivors' or disability benefits. The first automatic annual increase in retirement annuity is paid on the January 1st nearest the annuitant's 61st birthday or the January 1st nearest the first anniversary of retirement, whichever is later.

5. Disability Retirement Allowance

If a member's disability benefits (see E1) are discontinued due to the 50% of total earnings limitation, the member is entitled to a disability retirement allowance of 35% of the basic compensation which was payable at the time the disability began, provided at least two licensed and practicing physicians appointed by the Board certify that the member has a medically determined physical or mental impairment which would prevent him/her from engaging in any substantial gainful activity, and which can be expected to result in death, or which has lasted or can be expected to last for a continuous period of not less than 12 months.

Notes to the Financial Statements 1985

The disability retirement allowance is payable for life unless the member is able to accept substantial gainful employment or elects to receive a retirement annuity.

6. Reversionary Annuity

A participant nearing retirement age may elect to receive a smaller retirement annuity in order to provide the spouse or other dependent with a monthly income in addition to that which would be payable under the survivors' insurance program. This provision of the law, called a reversionary annuity, gives the individual electing this benefit two options. Under the first option, the participant receives a reduced retirement annuity throughout his/her lifetime in exchange for the reversionary annuity to be paid to the dependent upon the participant's death. If the dependent predeceases the annuitant, the System continues to pay the reduced retirement annuity. Under the second option, the annuitant's retirement annuity reverts to the full unreduced amount upon the death of the prospective reversionary annuitant.

E. Disability Benefits

Members with two years of covered service who are unable to perform their duties because of illness, or members with any amount of covered service who are unable to perform their duties because of an accident, are eligible for disability benefits after 60 days of disability or the last day paid, whichever is later.

The amount of the disability benefit is as follows:

1. 50% of basic compensation at disability or 50% of average earnings for the 24 months preceding disability, whichever is greater, payable until the total benefits paid equal 50% of the total earnings in covered service, but in no event after September 1st following the employee's 70th birthday.
2. After cessation of the benefit in (1), a member with eight years of covered service will receive the normal retirement benefit commencing at or after age 55 (with no reduction for early retirement) if the member continues to be disabled.

The disability benefit ceases upon death or recovery.

F. Death Benefits

1. Before Retirement

Upon death of an active member with 1-1/2 years of covered service or of a former member with 10 years of covered service, the following amounts are paid to the member's survivors:

- a. A death benefit equal to the retirement contributions (7%) and interest, plus

Notes to the Financial Statements 1985

- b. A lump sum payment of \$1,000, plus
- c. A monthly survivors' annuity equal to the greater of 50% of the member's accrued normal retirement benefit or the following amounts if greater:
 - i) 30% of average earnings to a spouse, child, or parent, up to \$400 monthly
 - ii) 60% of average earnings to two dependents, up to \$600 monthly
 - iii) 80% of average earnings to three or more dependents, up to \$600 monthly

Survivors' benefits are payable until children attain age 18, to a spouse after age 50 and to a dependent parent after age 55. The spouse's benefit is payable at any age while children are under 18 and living with the spouse. If death occurs after termination of employment, the monthly survivors' annuity may not exceed 80% of the earned retirement annuity.

If there are no dependent survivors, the member did not have necessary service, or the dependent survivors so elect in lieu of any other benefits, the following amounts will be paid:

- a. a death benefit equal to all contributions and interest, and
- b. if death occurred in active service, a lump sum payment of \$2,500 or, if the beneficiary is a dependent, an amount equal to the member's average annual earnings up to \$5,000

2. After Retirement

A lump sum survivors' benefit of \$1,000 is payable to the member's spouse, children, or dependent parent. In addition, a survivors' annuity as outlined above is payable. If no survivor annuity is payable, a minimum death benefit of \$1,000 or an amount equal to the excess of the member's contributions and interest to retirement over the benefits paid is payable.

G. Termination of Service

A lump sum refund of all member contributions and interest (at 4-1/2%) will be made. If a member has five years of covered service and does not apply for a refund, a normal retirement benefit will be payable at age 62.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the State Universities Retirement System. The System has applied National Council of Governmental Accounting Statement #1 on a consistent basis. The accounts of the System are organized in one fund and it records the System's assets, liabilities, fund equity, revenues, and expenses.

Notes to the Financial Statements 1985

A. Basis of Accounting

The financial transactions of the State Universities Retirement System of Illinois are recorded on the accrual basis.

B. Investments

Investments are carried at acquisition cost. Gain or loss on the sale of investments is determined based on average cost for stocks and identified cost for debt securities. Dividend income is recognized based on dividends declared, and interest income is recognized on the accrual basis as earned.

C. Deferred Income

Deferred income consists of prepaid employer and employee contributions.

D. Property and Equipment

Property and equipment are carried at cost, except for the land, which is carried at the fair market value on the date it was received as a gift. Depreciation is computed by the straight-line method based upon estimated useful lives of 50 years for building and improvements and five to 10 years for furniture and equipment.

E. Fund Balance Accounts

The System maintains three reserve accounts which reflect the assignment of assets to participant and benefit accounts.

1. The Participant Contribution Reserve records the pension assets contributed by each participant.
2. The Benefits from Employee and Employer Contributions Reserve records the assets available for annuities in force and available for future retirement, death and disability benefits, and the undistributed investment income.
3. Land Reserve records the fair market value of the land occupied by the SURS office building on the date it was received as a gift.

III. INVESTMENTS

Investments at August 31, 1985 and 1984, are summarized below:

1985	Cost	Percent of Cost	Market	Percent of Market
Short-term investments	\$ 192,691,739	11.2	\$ 192,881,713	10.3
Bonds	676,790,420	39.2	704,599,472	37.5
Common and preferred stocks	446,879,940	25.9	521,570,647	27.8
Collective funds	340,584,476	19.7	387,511,046	20.6
Real estate	69,000,000	4.0	70,505,611	3.8
	<u>\$1,725,946,575</u>	<u>100.0</u>	<u>\$1,877,068,489</u>	<u>100.0</u>

Original from

Notes to the Financial Statements 1985

1984	Cost	Percent of Cost	Market	Percent of Market
Short-term investments	\$ 260,983,223	17.2	\$ 260,991,371	16.8
Bonds	551,656,465	36.4	542,797,475	34.9
Common and preferred stocks	467,860,563	30.9	499,622,689	32.2
Collective funds	217,085,566	14.3	232,936,367	15.0
Real estate	17,725,350	1.2	17,725,350	1.1
	<u>\$1,515,311,167</u>	<u>100.0</u>	<u>\$1,554,073,252</u>	<u>100.0</u>

IV. PROPERTY AND EQUIPMENT

Property and equipment and the related accumulated depreciation at August 31, 1985 and 1984, are summarized below:

	1985	1984
Land	\$ 70,000	\$ 70,000
Land improvements	12,799	12,799
Office building	559,621	559,621
Building improvements	52,765	52,765
Furniture and fixtures	639,838	579,246
	<u>1,335,023</u>	<u>1,274,431</u>
Less accumulated depreciation	699,012	583,923
Net property and equipment	\$ 636,011	\$ 690,508

The system leases part of the building to a tenant under an agreement which requires the lessor to furnish utilities, custodial service, repairs, and insurance. Rental income totaled \$48,119 and \$44,190 for the years ended August 31, 1985 and 1984, respectively, and is included in other investment income.

V. FUNDING POLICY

A. Statutory Requirement and Actual Appropriation

The law governing the System requires that the State shall make contributions to the System, which with employee contributions, investment income, and other income of the System

will be sufficient to meet the requirements of this Article in accordance with actuarial determinations. In no event shall the contributions of employers from State appropriations for any fiscal year be less than an amount which when added to contributions from other sources and investment income for that year is sufficient to meet (a) the total accruing normal costs plus interest at the prescribed rate on the unfunded accrued liabilities or (b) the accruing requirements necessary to retain qualified status under Section 401(a) of the United States Internal Revenue Code, or any similar provision as successor thereof.

The law defines normal cost as

the liability for pensions and other benefits which accrues to the system because of the credits earned for

Notes to the Financial Statements 1985

service rendered by the participants during the fiscal year and expenses of administering the system.

Section 401(a) of the Internal Revenue Code would require essentially the same contribution as required by (a) quoted above.

A comparison of the actuarially determined funded requirement for the year ended August 31, 1985, verses the actual funding from employers is presented below:

<u>Basis</u>	<u>Required FY 85 Funding</u>	<u>Receipts from Employers</u>
Employer Normal Cost and Interest	\$232,077,587	\$83,482,767

B. Actuarial Cost Method and Assumptions

Employer contribution rates are determined using the entry age normal method. This method produces an employer contribution rate consisting of 1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year) and 2) an amount for amortization of the unfunded actuarial accrued liability over a period of 40 years, which began September 1, 1980. Employers other than the State of Illinois pay employer contributions equal to (1) above.

The following significant assumptions were used in the actuarial valuation: 1) a rate of return on the investment of present and future assets of 8% per year compounded annually; 2) projected salary increases of 4.75% per year compounded annually, attributable to inflation; 3) additional projected salary increases of 3.25% per year, attributable to seniority and merit; 4) pre- and postmortality life expectancies of participants based on the 1986 Projected Experience Table; and 5) rates of withdrawal from active service before retirement for reasons other than death, rates of disability, and expected retirement ages developed on the basis of an investigation of actual plan experience.

C. Actuarial Valuation

The System must annually have an actuarial determination of its liabilities and reserves, and the amount and distribution of the required employer contributions.

The unfunded accrued liability represents the actuarial liability resulting from the difference between the total net assets of the System and the actuarial requirement to fund the System's benefits. Illinois statutes provide that any potential unfunded liability be an obligation of the State of Illinois.

The unfunded accrued liability increased from \$1,849,675,994 at August 31, 1984, to \$2,009,564,063 at August 31, 1985. The Wyatt Company was the System's consulting actuary for each year.

Notes to the Financial Statements 1985

No material changes were made in the actuarial assumptions used between August 31, 1984, and August 31, 1985. The primary reason for the increase in the unfunded accrued liability was underfunding by the State of Illinois.

D. Actuarial Statements

The results of the basic calculations prepared for the System by its actuary are presented in Section III of this report. The actuarial statements contained in Section III should be referred to in assessing the System's present and future ability to pay benefits when due.

VI. COMPENSATED ABSENCES

The System is obligated to pay employees at termination for unused vacation and sick time. The maximum time for which any individual may be paid is 448 hours of vacation and one-half of sick time earned since January 1, 1985. At August 31, 1985, the System had a liability of \$104,424 for compensated absences. At August 31, 1984, the liability was \$82,004. The increase in liability is reflected in the financial statements as an increase in salary expense.

Supporting Schedule 1985

SUMMARY SCHEDULE OF COMPENSATION OF ADMINISTRATIVE OFFICIALS Year Ended August 31, 1985

<u>Official Position</u>	<u>Salary Paid</u>
Executive Director	\$60,833
Associate Director	52,708
Assistant Director	39,833

COMPARATIVE SCHEDULE OF ADMINISTRATIVE EXPENSES For The Years Ended August 31, 1985 and 1984

	<u>1985</u>	<u>1984</u>
Salaries	\$ 844,404	\$ 736,529
Group health insurance	35,665	32,591
Retirement contribution	83,029	80,145
Postage, freight and expenses	64,604	48,111
Equipment repair and rental	61,173	45,441
Actuarial services	26,465	30,226
Other professional fees	224,652	239,690
EDP equipment, rental, and supplies	59,246	67,756
Office furniture and equipment	0	957
Telephone	14,464	10,252
Travel	24,770	17,252
Printing and copying services	48,554	46,196
Dues and subscriptions	4,100	3,256
Office supplies and expenses	26,781	19,098
Conference expenses	5,050	3,705
Employee tuition and fees	0	6,100
Building operation expenses	97,959	65,894
Depreciation	<u>119,013</u>	<u>114,255</u>
	<u>\$1,739,929</u>	<u>\$1,567,454</u>

Supporting Schedule 1985

SUMMARY SCHEDULE OF FEES AND COMMISSIONS

	Year Ended August 31	
	1985	1984
<u>Master Trustee & Custodian</u>		
Harris Trust	\$ 85,328	\$ 367,430
The Northern Trust Company	218,985	-
	<u>\$ 304,313</u>	<u>\$ 367,430</u>
 <u>Investment Manager Firm</u>		
Alliance Capital	\$ 276,777	\$ 551,649
American National Bank	135,624	101,275
Batterymarch	371,026	306,795
Criterion	373,590	335,415
Dimensional	136,747	133,618
Fayez Sarofim	526,516	463,745
Guaranteed Investment Contracts	92,255	-
Lehman Management	508,879	408,019
Pacific Investment	620,064	478,904
Rosenberg Real Estate Equity Fund	895,882	526,667
	<u>\$3,937,360</u>	<u>\$3,306,087</u>
 <u>Investment Consultant & Measurement</u>		
Ennis, Knupp & Gold (directed brokerage)	\$ 70,338	\$ 58,000
SEI Financial Services Company (directed brokerage)	18,500	31,000
The Northern Trust Company	2,467	-
	<u>\$ 91,305</u>	<u>\$ 89,000</u>
 <u>Actuary</u>		
The Wyatt Company	\$ 26,465	\$ 30,226
 <u>Legal</u>		
Mayer, Brown & Platt	\$ 4,345	\$ 10,958
 <u>Investment Brokerage Firm</u>		
Bear Stearns & Company	\$ 142,845	\$ 205,281
Becker Securities	-	33,246
Cantor, Fitzgerald & Company, Inc.	34,052	-
First Boston	-	77,905
Goldman Sachs & Company	70,260	66,516
Jeffries & Company	42,372	60,279
Lewco Securities Corp.	46,106	-
Merrill, Lynch, Pierce, Fenner & Smith	87,944	123,228
Morgan Stanley & Company	30,160	41,023
Salomon Brothers	56,076	62,670
Shearson Lehman/American Express	37,683	57,854
Smith Barney Harris Upham & Company	32,819	57,769
All others	400,744	434,366
	<u>\$ 981,061</u>	<u>\$1,220,137</u>

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State Universities Retirement System of Illinois 31

Supporting Schedule 1985

INVESTMENT PORTFOLIO ACTIVITY AT BOOK VALUE Year Ended August 31, 1985

	<u>September 1, 1984</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>August 31, 1985</u>
Bonds	\$ 551,656,465	\$1,253,698,766	\$1,128,564,811	\$ 676,790,420
Equity securities	467,860,563	261,096,327	282,076,950	446,879,940
Collective funds	217,085,566	123,498,910	0	340,584,476
Real estate	17,725,350	51,274,650	0	69,000,000
Short-term cash equivalents	<u>260,983,223</u>	<u>810,937,004</u>	<u>879,228,488</u>	<u>192,691,739</u>
	<u>\$1,515,311,167</u>	<u>\$2,500,505,657</u>	<u>\$2,289,870,249</u>	<u>\$1,725,946,575</u>

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS Year Ended August 31, 1985

Receipts	
Member contributions	\$ 96,715,522
Employer contributions	72,989,069
Interest, dividends and miscellaneous investment income	124,958,863
Investments redeemed	<u>2,328,801,875</u>
	<u>\$2,623,465,329</u>
Disbursements	
Benefit payments	\$ 101,815,321
Administrative expenses	1,640,903
Investment expenses	3,745,972
Refunds	15,692,959
Equipment purchased	64,517
Investments purchased	<u>2,500,505,657</u>
	<u>\$2,623,465,329</u>

ACTUARIAL SECTION

Certification Letter

THE *Wyatt* COMPANY

ACTUARIES AND CONSULTANTS

EMPLOYEE BENEFITS
COMPENSATION PROGRAMS
EMPLOYEE COMMUNICATIONS
ADMINISTRATIVE SYSTEMS
RISK MANAGEMENT
INTERNATIONAL SERVICES

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233 SOUTH WACKER DRIVE
CHICAGO, ILLINOIS 60606

(312) 876-2000
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ACTUARIAL CERTIFICATION

We have completed an actuarial valuation of the assets and liabilities of the State Universities Retirement System of Illinois as of August 31, 1985.

For purposes of determining contribution rates, assets have been valued at amortized Cost Value as reported in the Balance Sheet in the report prepared for the Auditor General. The liabilities have been valued based on employee data supplied by the administrative staff of the System and based on actuarial assumptions selected by the Board of Trustees based on our recommendation. A summary of the major actuarial assumptions follows.

In our opinion, the following schedule of valuation results fairly presents the financial condition of the State Universities Retirement System of Illinois as of August 31, 1985 and the schedule of contribution rates complies with the applicable law in force as of the valuation date.

THE WYATT COMPANY

By *S. Lynn Hill*
S. Lynn Hill
Actuarial Assistant

By *Lloyd L. Nordstrom*
Lloyd L. Nordstrom
Fellow Of The Society Of Actuaries

By *Robert L. Barnes*
Robert L. Barnes
Fellow Of The Society Of Actuaries

Chicago, Illinois
January 8, 1986

Actuarial Report 1985

PENSION FINANCING

The State Universities Retirement System is financed by employee contributions, employer contributions (state appropriations and contributions from trust and federal funds), and investment earnings. Employee contributions are established by the "Illinois Pension Code" at 8% of pay. Investment earnings and state funding are primary determinants of the system's financial status.

Estimates of accrued benefit cost are obtained through annual actuarial valuations. To estimate the amount, actuaries use demographic data (such as employee age, salary, and service credits), economic assumptions (such as estimated salary increases and interest rates), and decrement assumptions (such as employee mortality and disability rates).

Accrued benefit cost is the present value of benefits earned by system members. It is the estimate of the value of pension benefits at the time the estimate is prepared. Although accrued during each member's employment, benefits are not paid until the member retires; thus the value changes as the member's salary and years of service change. Furthermore, membership continually changes as some members leave and are replaced by new members.

The amount of benefits payable in the future is estimated by the actuary for all participants at the valuation date. Important assumptions in this computation are the retirement age and earnings progression for active members and mortality for all participants. Once the amount of benefits is computed, the actuary estimates the money necessary to be invested at the valuation date to provide an amount adequate to fund benefit payments as they come due. Each year's adjusted benefit payments are discounted by an assumed interest rate to determine the present dollar value of benefits.

The final step in a valuation is to apply a cost method assigning portions of the total value of benefits to past, present, and future periods of employee service. This allocation is accomplished by development of normal cost and accrued benefit cost.

There are several accepted actuarial cost methods. The one used by the system is the entry age normal cost method. This method expresses the normal cost as a uniform percentage of each employee's earnings from entry into the plan until retirement. This is compatible with the idea that the cost of the pension plan should be accrued in an orderly manner over the employee's service. The past service liability is the actuarial value of all normal cost amounts accrued prior to the date of the valuation; it is determined at each valuation date.

The current normal cost is 16.8% of payroll. Eight percent of this normal cost is paid by the members' contributions. The remaining 8.8% is the employer's portion of the normal cost.

Actuarial funding of system benefits would require annual state appropriations funding the employer's normal cost (8.8% of payroll) plus interest on the system's unfunded accrued benefit cost. The employer's normal cost plus interest is called employer cost (see "Schedule of Payroll Percentages"). The state has not funded the system on this basis. Until 1982, the state funded the system by reimbursement of benefit payments. Since 1982, the state appropriation

Actuarial Report 1985

has been set to reimburse a portion of benefit payments averaging 60% of benefit payments. The current practices do not reflect an actuarially sound funding method (see "Schedule of Funding").

As the membership matures, as is happening with SURS, and more members retire, the benefit payments significantly escalate. When funding is based on benefit payments, the unfunded accrued benefit cost grows. If funding is based on actuarial recommendations, the unfunded accrued benefit cost stabilizes or decreases.

VALUATION RESULTS

1.	Actuarial Liability (Reserves)*	
a.	For members receiving annuities	
	i. Retirement annuities	\$ 858,266,013
	ii. Survivor annuities	71,537,818
	iii. Disability	54,852,466
	iv. Total	\$ 984,656,297
b.	For inactive members	178,830,003
c.	For active members	2,598,369,580
d.	Total	\$3,761,855,880
2.	Assets (Amortized Cost Value)	\$1,752,291,817
3.	Unfunded Actuarial Liability	\$2,009,564,063

CONTRIBUTION RATES for Fiscal Year 1986

	<u>% of Payroll*</u>	<u>Annual Contributions*</u>
1. State Normal Cost	8.778%	\$100,237,157
2. Normal Cost Plus 8% Interest on the Unfunded Actuarial Liability	22.365	255,392,390
3. Normal Cost Plus an Amount to Amortize the Unfunded Actuarial Liability over a 40-Year Period from September 1, 1980	23.351	266,647,475

*Based on covered pay of \$1,141,927,203.

Actuarial Report 1985

CHANGES IN THE UNFUNDED ACCRUED LIABILITY

1.	Unfunded Actuarial Liability at August 31, 1984	\$1,849,675,994
2.	Increase due to prior year's contribution being less than the amount necessary to fund the normal cost and interest on the unfunded liability	136,961,449
3.	Actuarial (Gains) Losses	
a.	(Gain) from investment return greater than 8%	(46,519,610)
b.	Loss from salary increases greater than 8%	59,952,243
c.	Loss from other sources	9,493,987
4.	Unfunded Actuarial Liability at August 31, 1985	\$2,009,564,063

ACTUARIAL COST METHOD

The entry age normal method is used for both the retirement and ancillary benefits. This method determines annual contributions which are expected to remain a constant percentage of each employee's compensation for each year of service. These contributions, when combined with the employee contributions, will be sufficient to fully provide for all employee benefits by the time they retire, based on the assumptions used. Any unfunded liability determined under this method, as well as any actuarial gains or losses, is amortized over a 40-year period commencing September 1, 1980.

EMPLOYEE DATA

Employee data is provided by the administrative staff of the State Universities Retirement System. Various tests are applied to check internal consistency as well as consistency from year-to-year. No calculations are made for employees not yet hired as of the valuation date.

Actuarial Report 1985

SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

Assumption

Mortality: 1986 Projected Experience Table, a table based on experience underlying the 1971 Group Annuity Mortality Table, without margins, with a projection for mortality improvements to 1986, with a one-year setback.

Interest: 8% per annum, compounded annually.

Termination: Illustrative rates of withdrawal from the plan are as follows:

<u>Age</u>	<u>Males</u>	<u>Females</u>
20	0.374	0.524
25	0.249	0.324
30	0.174	0.219
35	0.124	0.154
40	0.073	0.104
45	0.047	0.064
50	0.020	0.038
55	--	0.013

It is assumed that terminated employees will not be rehired.

Salary Increases: 8% per annum, compounded annually.

Retirement Rates: Retirement is assumed to occur at age 62.

Assets: Assets available for benefits are used at book value.

Expenses: As estimated and advised by SURS staff, based on current expenses with an allowance for expected increases.

Marital Status: 85% of employees are assumed to be married.

Spouse's Age: The female spouse is assumed to be three years younger than the male spouse.

In addition to the above, other assumptions used include disability incidence, recovery from disability, mortality of disabled lives, remarriage rates and ages, and numbers of children.

These assumptions were adopted September 1, 1980, and have been applied consistently since then.

Analysis of Funding 1985 10-Year Summary

TESTS OF FINANCIAL SOUNDNESS

The following four exhibits illustrate different measures of the financial soundness of the System.

The "Schedule of Funding" compares state appropriations to the actuarial funding requirements, statutory funding requirement, and system expense.

The "Funding Ratios" exhibit shows the percentage of the system's accrued benefit cost covered by net assets. This funding ratio is used to assess the system's ability to make future benefit payments. The exhibit illustrates the ratio of net assets to the system's accrued benefit cost over 10 years, with net assets valued both at cost and at market.

The "Percentage of Benefits Covered by Net Assets" exhibit compares the plan's net assets with the members' accumulated contributions, the amount necessary to cover the present value of benefits currently being paid, and the employer's portion of future benefits for active members.

The final test, "Payroll Percentages," compares member payroll to unfunded accrued benefit cost, normal cost, and normal cost plus interest. These percentages should decrease over the years if the System is growing stronger.

SCHEDULE OF FUNDING (in millions of dollars)

FY Ended August 31	Funding Requirements					Covered Percentages				
	Normal Cost Plus Interest	Post-Retirement Increases	Statutory Requirement Col. 1 & 2	With 40-Year Amortization	System Expense	State Cont.	Statutory Requirement	With 40-Year Amortization	System Expense	
	(1)	(2)	(3)[A]	(4)[A]	(5)[B]	(6)[C]	(7)[D]	(8)[E]	(9)[F]	
1976	\$ 83.7	\$ 0	\$ 83.7	\$ 53.3	\$ 33.4	\$35.5	42.4%	66.6%	106.4%	
1977	94.0	0	94.0	56.2	38.4	41.3	43.9	73.5	107.5	
1978	104.3	0	104.3	61.6	44.6	50.7	48.6	82.3	113.8	
1979	116.0	.7	116.7	63.4	50.4	61.6	52.8	97.2	122.2	
1980	125.3	1.3	126.6	63.4	56.2	72.7	57.4	114.7	129.3	
1981	132.3	1.6	133.9	62.5	63.4	74.4	55.6	119.1	117.4	
1982	174.5	1.9	176.4	106.0	73.0	55.0	31.2	51.9	75.4	
1983	194.3	2.3	196.6	70.9	80.2	52.3	26.6	73.7	65.2	
1984	205.9	2.7	208.6	136.5	92.7	70.2	33.6	51.4	75.7	
1985	228.9	3.2	232.1	65.7	103.4	83.5	36.0	127.2	80.7	

[A] The appropriation amount required by Sections 15-155, 15-156, and 15-182 of the "Illinois Pension Code."

[B] Benefit and administrative expense.

[C] Contributions from the State of Illinois employer units and pension fund, and employer contributions from trust and federal funds.

[D] State contributions divided by actuarial requirement (Col. 6 ÷ Col. 3).

[E] State contributions divided by minimum requirement (Col. 6 ÷ Col. 4).

[F] State contributions divided by System expense (Col. 6 ÷ Col. 5).

Analysis of Funding 1985

10-Year Summary

FUNDING RATIOS (in millions of dollars)

FY Ended August 31	Net	Net	Actuarial Funding	Funding Ratio	
	Assets at Cost	Assets at Market	Requirement	Cost	Market
1976	\$ 577.8	\$ 568.3	\$1,236.5	46.7%	46.0%
1977	657.5	632.4	1,388.0	47.4	45.6
1978	748.0	714.0	1,540.4	48.6	46.4
1979	857.0	813.2	1,706.7	50.2	47.6
1980	987.3	891.3	1,866.4	52.9	47.8
1981	1,124.4	932.5	2,513.6	44.7	37.1
1982	1,239.5	1,130.7	2,801.0	44.3	40.4
1983	1,403.4	1,444.6	3,043.4	46.1	47.5
1984	1,524.4	1,563.1	3,374.0	45.2	46.3
1985	1,752.3	1,903.4	3,761.9	46.6	50.6

PERCENTAGE OF BENEFITS COVERED BY NET ASSETS (in millions of dollars)

FY Ended August 31	Member Accumulated Contributions (1)[A]	Members		Net Assets	Percentage of Benefits Covered by Net Assets		
		Currently Receiving Benefits (2)[A]	Active And Inactive Members' Employer Portion (3)[A]		(1)	(2)	(3)
1976	\$ 362.1	\$313.2	\$ 561.2	\$ 577.8	100	68.9	0
1977	406.0	358.9	623.1	657.5	100	70.0	0
1978	455.7	407.7	677.0	748.0	100	71.7	0
1979	511.0	446.5	749.2	857.0	100	77.5	0
1980	577.3	488.7	800.4	987.3	100	83.9	0
1981	654.2	597.2	1,262.2[B]	1,124.4	100	78.7	0
1982	741.0	712.8	1,347.3	1,240.0	100	70.0	0
1983	828.4	780.7	1,434.4	1,403.4	100	73.7	0
1984	918.2	861.2	1,594.7	1,524.4	100	70.4	0
1985	1,018.2	984.7	1,759.0	1,752.3	100	74.6	0

[A] A test of financial soundness of a system is its ability to pay all promised benefits when due. Column 1 represents the value of members' accumulated contributions. Column 2 represents the amount necessary to pay participants currently receiving benefits. Column 3 represents the employers' portion of future benefits for active members. Section 15-156 of the "Illinois Pension Code" provides an order of priority: that is, members' contributions would be covered first, then current benefit recipients and the employer portion of active and inactive employees.

For a system receiving actuarially determined contribution amounts, the total of actuarial values in Columns 1 and 2 should generally be fully covered by assets, and the portion of the actuarial value of Column 3 covered by assets should increase over time.

[B] Actuarial assumptions were changed in fiscal year 1981. Interest rate assumption was changed from 5% to 8%. Salary increment assumption was changed from 4% to 8%.

Analysis of Funding 1985

10-Year Summary

PAYROLL PERCENTAGES
(in millions of dollars)

FY Ended August 31	Member Payroll	Unfunded Accrued Benefit Cost		Employers' Cost				State Cont.		
		Amount	% of Payroll	Employers' Normal Cost	% of Payroll	Interest on Unfunded	Total [B]	% of Payroll	State % of Payroll	
1976	\$ 514.0	\$ 658.8	128.2	\$54.3	10.6	\$ 29.4	\$ 83.7	16.3	\$35.5	6.9
1977	542.8	730.6	134.6	61.1	11.3	32.9	94.0	17.3	41.3	7.6
1978	593.2	792.4	133.6	67.8	11.4	36.5	104.3	17.6	50.8	8.6
1979	644.2	849.7	131.9	77.1	12.0	39.6	116.7	18.1	61.6	9.6
1980	710.1	879.1	123.8	84.1	11.8	42.4	126.5	17.8	72.7	10.2
1981	784.7	1,389.1	177.0	89.9	11.5	44.0	133.9	17.1	74.4	9.5
1982	872.4	1,561.4	179.0	69.1	7.9[A]	107.3	176.4	20.2	55.0	6.3
1983	908.3	1,640.0	180.6	76.0	8.4	120.7	196.7	21.6	52.3	5.8
1984	1,016.2	1,849.7	182.0	82.0	8.1	126.6	208.6	20.5	70.2	6.9
1985	1,141.9	2,009.6	176.0	89.3	7.8	142.8	232.1	20.3	83.5	7.3

[A] Actuarial assumptions were changed in fiscal year 1981. Interest rate assumption was changed from 5% to 8%. Salary increment assumption was changed from 4% to 8%.

[B] Normal cost plus interest.

SCHEDULE OF INCREASES AND DECREASES OF BENEFIT RECIPIENTS

Fiscal Year Ending August 31	Beginning Balance	Additions	Subtractions	Ending Balance
1982	10,185	1,595	939	10,841
1983	10,841	1,537	765	11,613
1984	11,613	1,700	753	12,560
1985	12,560	1,583	740	13,403

STATISTICAL SECTION

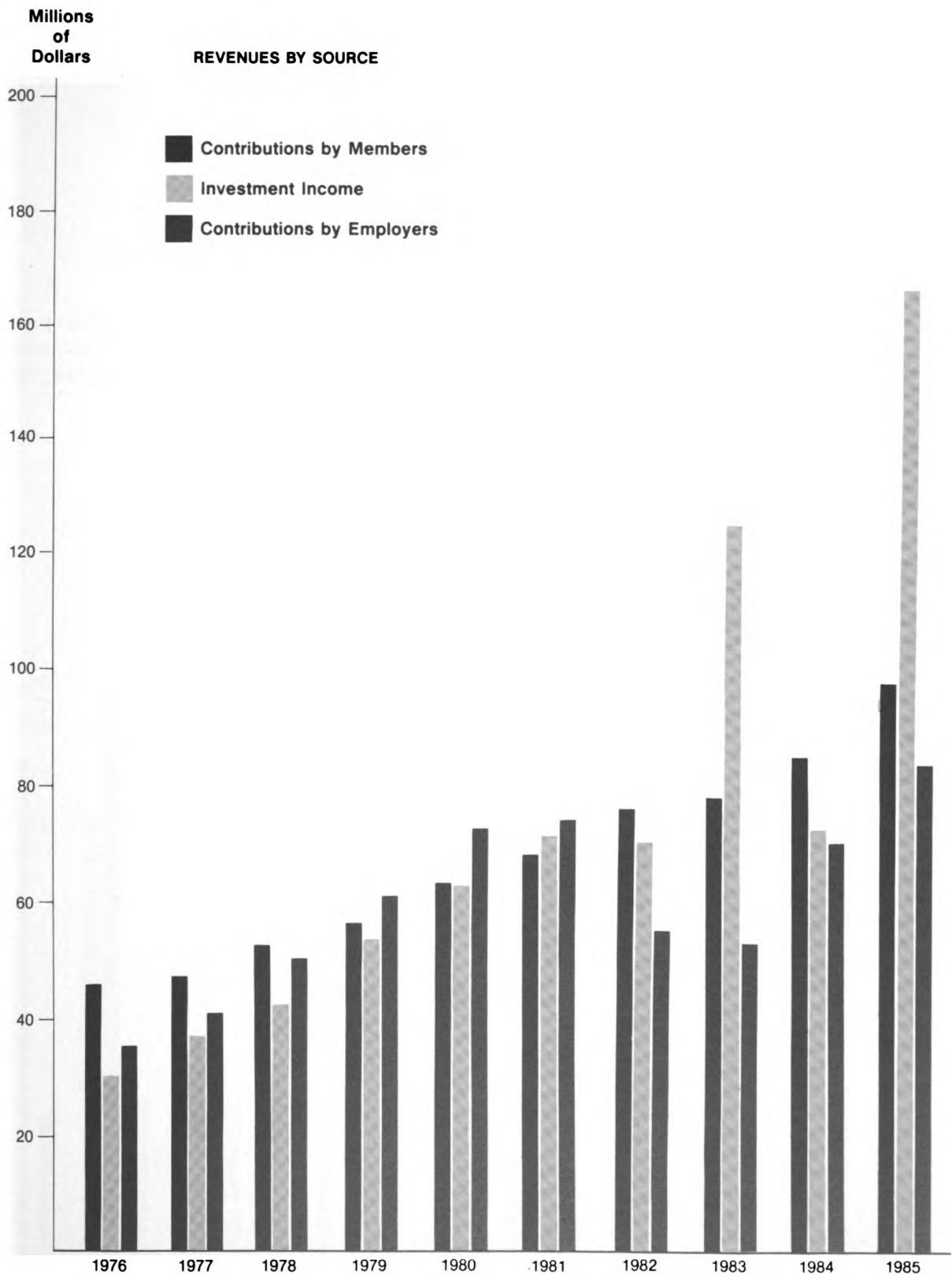
Revenue by Source

10-Year Summary

<u>Fiscal Year</u> <u>Ending August 31</u>	<u>Contributions</u> <u>by Members</u>	<u>Investment</u> <u>Income</u>	<u>Contributions</u> <u>by Employers</u>	<u>Total</u>
1976	\$46,007,876	\$30,476,497	\$35,501,427	\$111,985,800
1977	48,869,685	37,862,667	41,275,044	128,007,396
1978	52,631,639	42,730,461	50,741,364	146,103,464
1979	56,503,802	53,364,829	61,595,360	171,463,991
1980	63,997,390	63,195,733	72,700,571	199,893,694
1981	68,822,427	71,406,341	74,395,430	214,624,198
1982	76,715,608	70,381,319	55,044,799	202,141,726
1983	78,358,894	125,614,839	52,264,542	256,238,275
1984	85,489,034	72,086,163	70,191,030	227,766,227
1985	97,776,613	166,422,919	83,482,767	347,682,299

Revenue by Source

10-Year Summary



Benefit Recipients 10-Year Summary

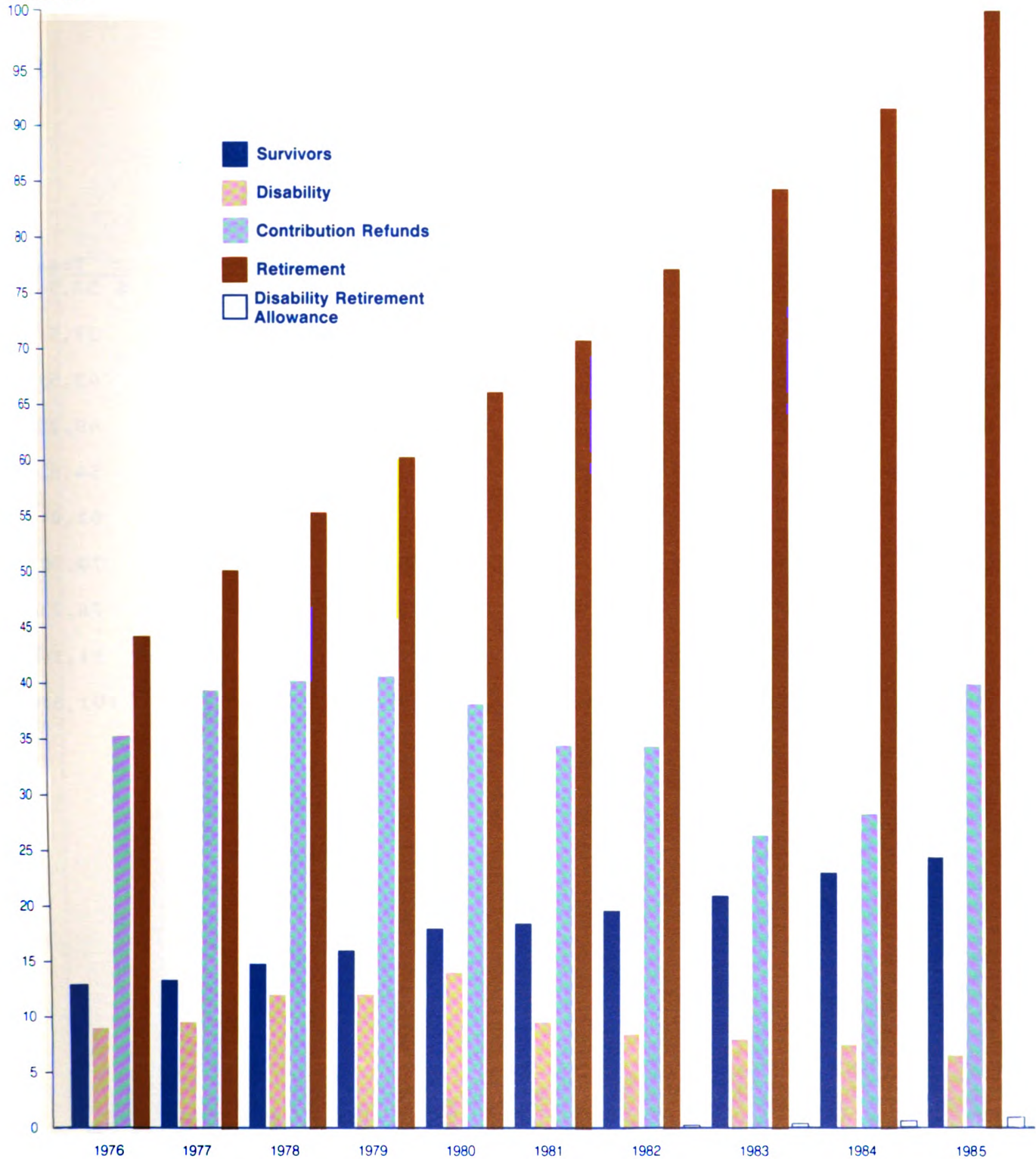
<u>Fiscal Year Ending August 31</u>	<u>Survivors</u>	<u>Disability</u>	<u>Contribution Refunds</u>	<u>Retirement</u>	<u>Disability Retirement Allowance</u>
1976	1,301	915	3,573	4,453	---
1977	1,370	972	3,892	5,075	---
1978	1,491	1,240	4,088	5,612	---
1979	1,726	1,222	4,160	6,119	---
1980	1,808	1,420	3,852	6,677	---
1981	1,847	988	3,476	7,127	---
1982	1,995	872	3,461	7,737	35
1983	2,117	814	2,657	8,432	50
1984	2,321	750	2,832	9,217	71
1985	2,440	695	3,943	9,982	91

Benefit Recipients 10-Year Summary

Recipients
in
Hundreds

BENEFIT RECIPIENTS BY TYPE

- Survivors
- Disability
- Contribution Refunds
- Retirement
- Disability Retirement Allowance



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State Universities Retirement System of Illinois 49

Benefit Expenses

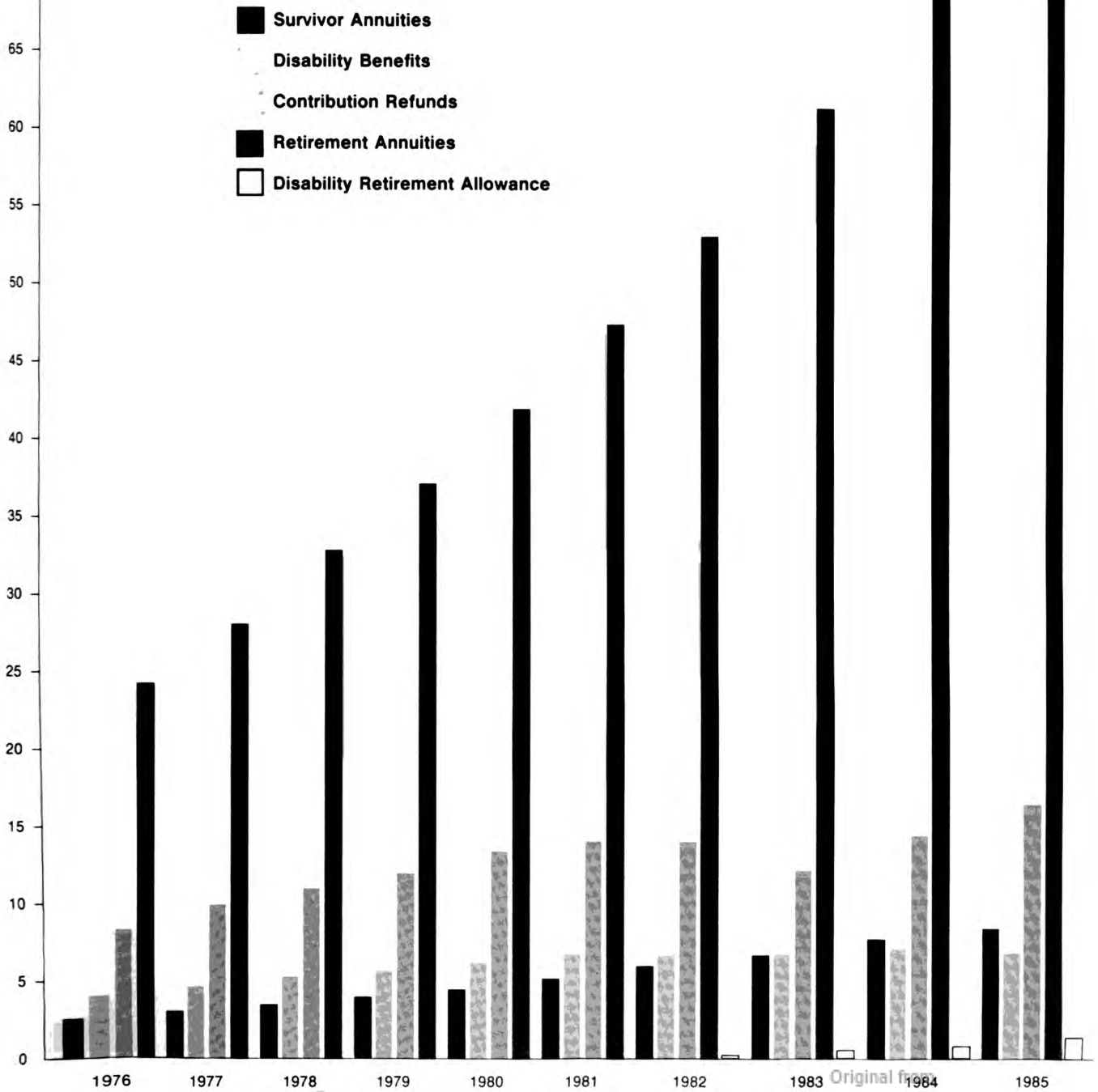
10-Year Summary

<u>Fiscal Year Ending August 31</u>	<u>Survivors' Annuities</u>	<u>Disability Benefits</u>	<u>Disability Retirement Allowance</u>	<u>Retirement Annuities</u>	<u>Lump Sum Death Benefits</u>	<u>Total</u>
1976	\$2,660,769	\$4,113,883	\$ -	\$24,287,646	\$1,483,132	\$ 32,545,430
1977	3,089,241	4,680,790	-	28,097,278	1,645,252	37,512,561
1978	3,476,991	5,324,788	-	32,982,948	1,772,479	43,557,206
1979	3,998,473	5,708,948	-	37,220,681	2,299,323	49,227,425
1980	4,451,890	6,165,988	-	42,047,692	1,960,455	54,626,025
1981	5,144,058	6,739,832	-	46,795,065	3,165,542	61,844,497
1982	6,034,706	6,668,410	65,465	53,391,815	3,847,120	70,007,516
1983	6,789,840	6,787,871	142,915	61,705,978	3,306,214	78,732,818
1984	7,769,863	7,050,685	219,784	71,425,175	4,675,492	91,140,999
1985	8,653,288	6,859,462	289,966	82,504,378	3,363,201	101,670,295

Benefit Expenses 10-Year Summary

Millions
of
Dollars

BENEFIT EXPENSES BY TYPE



Benefit Summary

SCHEDULE OF NEW BENEFIT PAYMENTS September 1, 1984, through August 31, 1985

Age	Retirement		Disability		Survivors	
	Number	Average Benefit	Number	Average Benefit	Number	Average Benefit
Under 10					3	333
11-15					17	245
16-20					1	338
21-25			1	487		
26-30			5	516		
31-35			9	612	2	203
36-40			5	577	2	263
41-45			14	701	4	300
46-50			14	791	12	419
51-55	85	793	20	791	19	379
56-60	251	1,011	31	941	28	452
61-65	424	871	30	924	30	529
66-70	285	954	5	709	39	438
71-75	11	500			26	385
Over 75	2	263			33	361
	<u>1,058</u>	<u>915</u>	<u>134</u>	<u>810</u>	<u>216</u>	<u>405</u>

SCHEDULE OF AVERAGE BENEFIT PAYMENTS For Retirees as of August 31, 1985

	Years of Credited Service					
	0-10	10-15	15-20	20-25	25-30	30+
Average gross annuity	\$ 219	\$ 335	\$ 544	\$ 751	\$ 1,031	\$ 1,523
Final average salary	\$13,481	\$15,550	\$18,364	\$19,360	\$21,127	\$23,674
Number of retirees	1,940	2,074	1,858	1,163	992	1,955

Benefit Summary

SCHEDULE OF BENEFIT RECIPIENTS BY TYPE OF BENEFIT August 31, 1985

Amount of Benefit	Total Recipients	Age Retirements				Long-Term Disability	Temporary Disability	Survivors
		General Formula	Money Purchase	Police or Fire	Other [A]			
\$0-200	2,831	1,218	290	0	599	5	1	718
201-400	3,762	1,773	372	0	246	65	49	1,257
401-600	1,886	1,105	191	2	24	15	259	290
601-800	1,255	872	90	1	10	5	179	98
801-1000	804	625	64	2	2	1	66	44
1001-1200	677	553	42	7	2	0	60	13
1201-1400	518	425	25	10	1	0	42	15
1401-1600	411	347	23	6	2	0	32	1
1601-1800	287	265	12	3	1	0	5	1
1801-2000	227	217	6	1	0	0	2	1
Over 2000	550	535	10	3	0	0	0	2
	<u>13,208</u>	<u>7,935</u>	<u>1,125</u>	<u>35</u>	<u>887</u>	<u>91</u>	<u>695</u>	<u>2,440</u>

[A] Minimum annuity and retirements of participants who terminated prior to 1969.

Total Expenses

10-Year Summary

<u>Fiscal Year</u> <u>Ending August 31</u>	<u>Benefits</u>	<u>Contribution</u> <u>Refunds</u>	<u>Administrative</u> <u>Expenses</u>	<u>Total</u>
1976	\$ 32,545,430	\$ 8,302,803	\$ 811,599	\$ 41,659,832
1977	37,512,561	9,897,031	899,948	48,309,540
1978	42,557,206	11,008,076	1,017,592	55,582,874
1979	49,227,425	12,021,454	1,177,459	62,426,338
1980	54,626,025	13,396,491	1,173,966	69,196,482
1981	61,844,497	14,099,953	945,591	76,890,041
1982	70,007,516	14,040,075	1,153,986	85,201,577
1983	78,732,818	12,185,593	1,457,354	92,375,765
1984	91,140,999	14,458,547	1,567,454	107,167,000
1985	101,670,295	16,351,508	1,739,929	119,761,732

Assets and Liabilities

10-Year Summary

ASSETS

<u>Fiscal Year</u> <u>Ending August 31</u>	<u>Cash</u>	<u>Receivables</u>	<u>Investments</u>	<u>Property and Equipment</u>	<u>Total</u>
1976	\$ 191,459	\$13,982,576	\$ 565,001,597	\$ 56,505	\$ 579,232,137
1977	286,695	12,673,603	648,599,405	55,269	661,614,972
1978	(139,985)	14,873,963	736,335,382	82,931	751,152,291
1979	(754,708)	16,523,670	846,618,134	94,547	862,481,643
1980	1,857,931	25,925,331	962,917,983	382,793	991,084,038
1981	9,720,413	25,220,315	1,094,802,660	443,704	1,130,187,092
1982	(2,212,784)	32,208,558	1,214,354,158	458,610	1,244,808,542
1983	372,798	23,437,678	1,388,652,871	558,686	1,413,022,033
1984	0	21,337,125	1,516,001,675	690,508	1,538,029,308
1985	0	34,481,243	1,725,946,575	636,011	1,761,063,829

LIABILITIES

<u>Fiscal Year</u> <u>Ending August 31</u>	<u>Accounts Payable</u>	<u>Deferred Income</u>	<u>Fund Balances</u>	<u>Total</u>
1976	\$1,013,385	\$ 404,708	\$ 577,757,539	\$ 579,175,632
1977	1,293,207	2,811,101	657,455,395	661,559,703
1978	1,307,701	1,785,675	747,975,984	751,069,360
1979	993,674	4,379,785	857,013,637	862,387,096
1980	1,219,101	2,177,412	987,304,732	990,701,245
1981	2,050,444	3,249,465	1,124,443,479	1,129,743,388
1982	2,973,502	1,844,840	1,239,531,590	1,244,349,932
1983	2,510,749	6,180,575	1,403,772,023	1,412,463,347
1984	6,272,698	6,694,852	1,524,371,250	1,537,338,800
1985	2,968,226	5,803,786	1,752,291,817	1,761,063,829

Active and Inactive Participants

10-Year Summary

<u>Fiscal Year Ending August 31</u>	<u>Total Actives</u>	<u>Average Age</u>	<u>Average Length of Service for Actives</u>	<u>Total Inactive</u>	<u>Combined Total of Active and Inactive Participants</u>
1976	35,544	43.3	8.0	5,565	41,109
1977	36,468	43.3	8.1	5,576	42,044
1978	38,222	43.1	8.3	4,845	43,067
1979	38,553	43.3	8.4	5,061	43,614
1980	39,551	43.1	8.7	5,049	44,600
1981	40,624	42.7	8.8	5,185	45,809
1982	41,319	43.5	9.0	4,775	46,094
1983	41,589	43.3	9.7	4,862	46,451
1984	44,527	43.1	8.9	4,939	49,466
1985	48,410	42.6	8.5	5,125	53,535

Participating Employers 1985

Belleville Area College	Northern Illinois University
Black Hawk College	Oakton Community College
Board of Governors	Parkland College
Board of Governors Cooperative Computer Center	Prairie State College
Board of Regents	Rend Lake College
Chicago State University	Richland College
City Colleges of Chicago	Rock Valley College
College of DuPage	Carl Sandburg College
College of Lake County	Sangamon State University
Danville Area Community College	Sauk Valley College
Division of Services for Crippled Children	Shawnee College
Eastern Illinois University	Southeastern Illinois College
Elgin Community College	Southern Illinois University - Carbondale
Governors State University	Southern Illinois University - Edwardsville
William Rainey Harper College	Southern Illinois University Foundation - Carbondale
Highland Community College	Southern Illinois University Foundation - Edwardsville
Illinois Board of Higher Education	Southern Illinois University - School of Medicine
Illinois Central College	Spoon River College
Illinois Community College Board	State Community College of East St. Louis
Illinois Community College Trustees Association	State Geological Survey
Illinois Eastern Community Colleges	State Natural History Survey
Illinois State University	State Universities Civil Service System
Illinois Valley Community College	State Universities Retirement System
Joliet Junior College	State Water Survey
Kankakee Community College	Thornton Community College
Kaskaskia College	Triton College
Kishwaukee College	University of Illinois - Alumni Association
Lake Land College	University of Illinois - Athletic Association
Lewis & Clark Community College	University of Illinois - Chicago
Lincoln Land Community College	University of Illinois - Foundation
John A. Logan College	University of Illinois - Urbana
Moraine Valley Community College	Waubonsee Community College
Morton College	Western Illinois University
McHenry College	John Wood Community College
Northeastern Illinois University	

INVESTMENT SECTION

Certification Letter



THE NORTHERN TRUST COMPANY

FIFTY SOUTH LA SALLE STREET

CHICAGO, ILLINOIS 60675

TELEPHONE (312) 630-6000

Master Trustee's Comments on the Services Provided

To the Board of Trustees and the Executive Director:

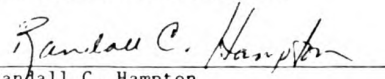
The Northern Trust Company as Master Trustee has provided detailed financial reports of all investments, receipts, disbursements, purchases and sales of securities and other transactions pertinent to the Fund for the period December 3, 1984 through August 31, 1985. Also, a statement of assets together with their fair market value was provided, showing the properties held as of August 31, 1985. The Northern Trust Company certifies that the statements contained therein are fairly presented and are true and accurate.

In addition to the Custody of the assets, The Northern Trust Company provided and will continue to provide the following services as Master Trustee:

1. Receive and hold all amounts paid to the Trust Fund by the Board of Trustees.
2. Accept and deliver securities in accordance with the instructions of appointed Investment Managers.
3. Collect dividends and registered interest payments.
4. Collect matured or called securities and coupons.
5. Securities Lending.
6. Begin, maintain or defer any litigation necessary in connection with the investment, reinvestment of the Trust Fund and the administration of the Master Trust.
7. Invest cash balances held from time to time in the individual investment management accounts in short term - cash equivalent securities.
8. Exercise rights of ownership in accordance with pre-described jurisdiction and direction of proxy voting, stock subscriptions and conversion rights.
9. Hold securities in the name of the Master Trust or nominee form.
10. Use the Federal Book Entry Account System for deposit of Treasury securities and clearing corporations as defined in Article 8 of the Illinois Uniform Commercial Code for the deposit of securities.
11. Employ agents with the consent of the Board of Trustees.
12. Provide disbursement and security fail float income.

THE NORTHERN TRUST COMPANY

By:


Randall C. Hampton
Vice President

Original from

Investment Summary 1985

INVESTMENT SECTION

Investment Authority

The State Universities Retirement System's investments are governed by Illinois Revised Statutes, Chapter 108-1/2 -- Pensions. The most important aspect of the statutes is the "prudent person" rule, which establishes a standard of care for all fiduciaries. (A fiduciary is any person who has authority or control with respect to the management or administration of plan assets.) The prudent person rule states that fiduciaries must discharge their duties with the care, skill, prudence, and diligence which a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time.

STATEMENT OF INVESTMENT POLICY

Investment Policy

The current investment policy, which the Trustees review annually at their Investment Policy Committee meeting, is illustrated in the following table.

	<u>Percent of Market Value</u>	
	<u>Minimum</u>	<u>Maximum</u>
Common stocks	15	50
Fixed-income securities	35	85
Real estate	0	15
<hr/>		
Active management	75	100
Passive management	0	25

Diversification

The State Universities Retirement System invests in different types of assets and uses multiple managers as a method to ensure overall fund diversification. As of August 31, 1985, the System had retained the services of eight investment managers:

- . two active equity managers
- . two passive equity managers
- . two fixed-income managers
- . one balanced fund manager (who manages a portfolio of equity and fixed-income)
- . one real estate manager

Each investment management firm is afforded full discretion to diversify its portfolio in a manner it deems appropriate. The Trustees have created guidelines to direct the investment managers in their execution of the overall investment policy. The guidelines are specific to the type of portfolio managed.

Investment Summary 1985

FY 85 ALLOCATIONS

The Board of Trustees made several important changes to the portfolio structure this year. First, the Board allocated an additional \$40 million each to existing SURS fixed-income managers, Lehman Management Company and Pacific Investment Management Company. The second change was to transfer the approximate \$117 million of equity assets under management by active investment manager, Alliance Capital Management Company, to passive management at the American National Bank, S&P 500 Index Fund. Assets managed passively increased by 43% during FY 85 and represented 20% of the total fund as compared to 14% the preceding year.

ASSET ALLOCATION (dollars in thousands)

As of August 31, 1985, the assets of the State Universities Retirement System were allocated as follows:

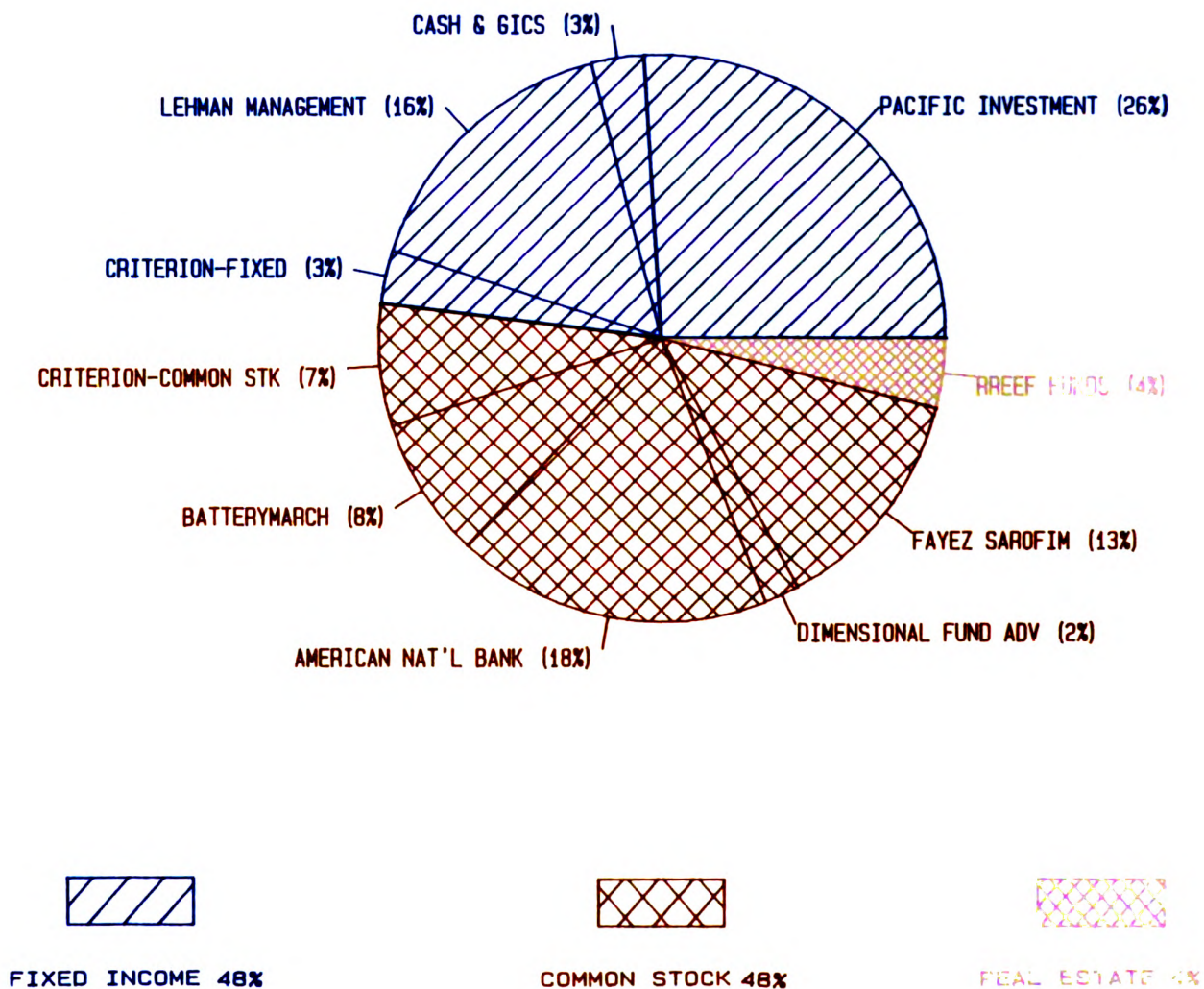
	<u>Common Stocks</u>	<u>Fixed-Income Securities</u>	<u>Real Estate</u>	<u>Total</u>	<u>Percent</u>
<u>Common Stock Managers</u>					
American Nat'l Bank (passive)	\$346,173	\$ -	\$ -	\$ 346,173	18%
Batterymarch Financial Management	153,430	3,180	-	156,610	8
Dimensional Fund Advisors (passive)	41,359	-	-	41,359	2
Fayez Sarofim & Co.	237,629	4,028	-	241,657	13
Subtotal	778,591	7,208	-0-	785,799	41
<u>Fixed-Income Managers</u>					
Lehman Management Co.	-	303,202	-	303,202	16
Pacific Investment Management Co.	-	482,749	-	482,749	26
The Northern Trust (short-term cash flow account)	-	38,269	-	38,269	2
Guaranteed income contracts issued by various ins. companies	-	18,397	-	18,397	1
Subtotal	-0-	842,617	-0-	842,617	45
<u>Balanced Fund Managers</u>					
Criterion Investment Management Company	125,703	71,635	-	197,338	10
<u>Real Estate Managers</u>					
Rosenberg Real Estate Equity Funds	-	-	70,505	70,505	4
TOTAL	<u>\$904,294</u>	<u>\$921,460</u>	<u>\$70,505</u>	<u>\$1,896,259*</u>	<u>100%</u>
PERCENT	48	48	4	100	

* Market value including accrued income.

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Investment Summary 1985

ASSET ALLOCATION as of AUGUST 31, 1985



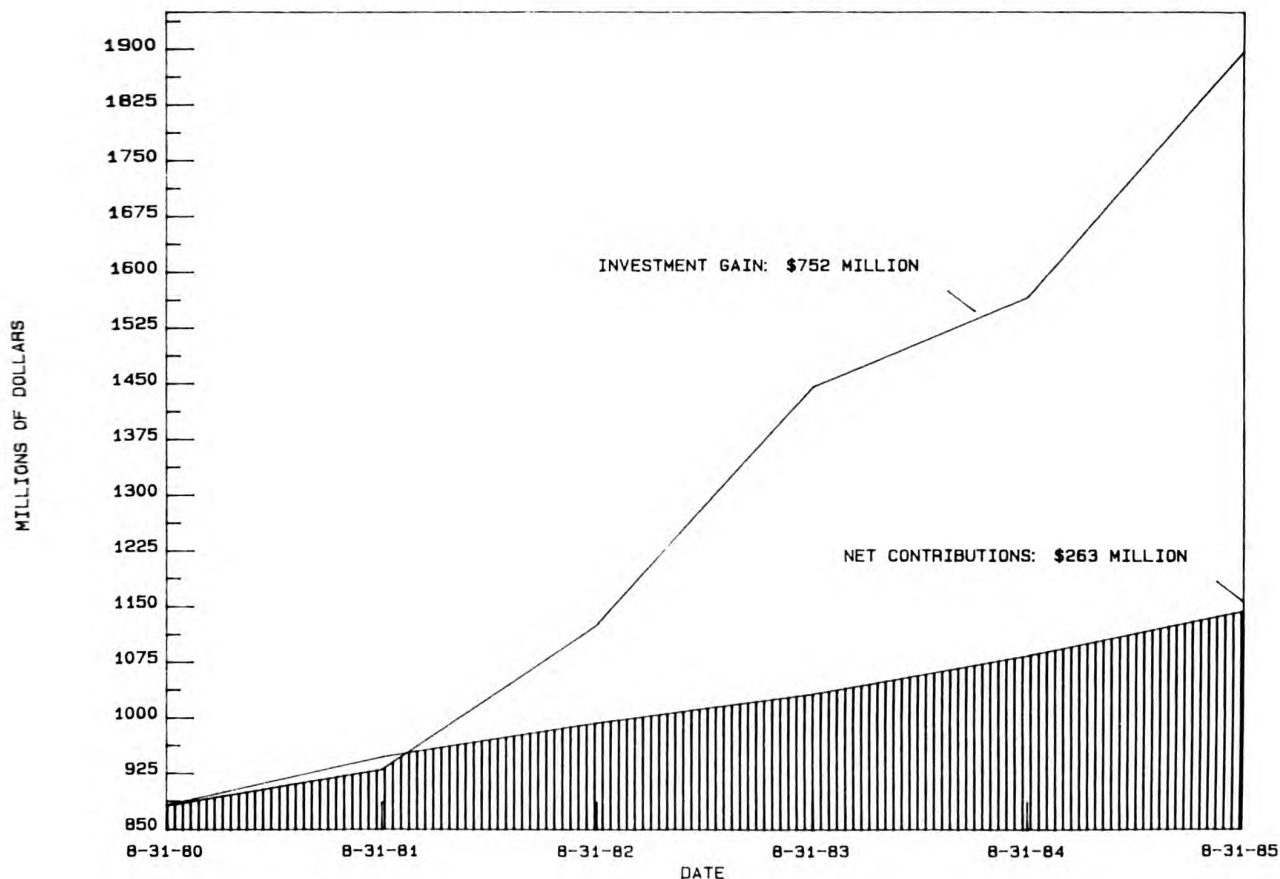
Investment Summary 1985

INVESTMENT RESULTS

Rate-of-Return Objectives

The system's investment objective is to exceed the return that could have been achieved under a passive implementation of the investment policy. The specific objective is to exceed the return associated with a rate-of-return benchmark comprising 50% of the S&P 500 Stock Index (a broadly based stock market index) and 50% of the Shearson Lehman Government/Corporate Bond Index (a broadly based bond market index).

GROWTH OF INVESTMENT PORTFOLIO 5-YEAR SUMMARY



Investment Summary 1985

FY 85 Market Environment

The year that ended August 31, 1985, was a good year for pension fund investors. Both the stock and bond markets provided returns that, by historical standards, were exceptionally good. Stocks, as measured by the S&P 500 Index, rose in value by 18.2%. The bond market performed well because interest rates declined during the year; when interest rates fall, bond prices rise. Bonds, as measured by the Shearson Lehman Government/Corporate Bond Index rose 23.3%.

Inflation slowed to an annual rate of only 3.4% as measured by the Consumer Price Index (CPI). Consequently, pension fund investors were able to earn handsome real (inflation-adjusted) rates of return.

During FY 85, the market value of the investment portfolio increased by \$331 million to \$1.896 billion. The return on investments for the year was 18.6%.

PERFORMANCE SUMMARY Annualized Percent for Periods Ending August 31

	1981	1982	1983	1984	1985	Annualized	
						3 Years	5 Years
Total Fund							
SURS	- 2.5	15.8	25.8	4.8	18.6	16.1	12.0
CPI	10.9	5.9	2.6	4.2	3.4	3.4	5.3
Common Stock Returns (less cash)							
SURS	1.2	1.4	36.1	-1.2	15.4	15.8	9.8
S&P 500 Stock Index	5.4	3.3	44.1	6.1	18.2	21.8	14.5
Bond Returns (less cash)							
SURS	-16.7	31.4	21.9	9.4	25.4	18.7	12.9
Shearson/Lehman G/C Bond Index	- 2.4	28.6	16.4	9.4	23.3	16.2	14.5
Real Estate Returns							
SURS	-	-	-	7.4*	7.0*	-	-
Asset Allocation (% at fiscal year end)							
Common Stock	43	46	48	47	48	48	47
Bonds	57	54	52	52	48	51	52
Real Estate	--	--	--	1	4	2	1

* Properties are appraised after being held one year. No properties were appraised in 1984. In 1985, one property was appraised, this property represented 5% of SURS real estate investment. The returns therefore are not representative of total return, but are the income component only.

Investment Portfolio 1985

EQUITIES

COMPANY	Shares	Book Value	Market Value
COMMON STOCKS			
Consumer Durables			
Automotive - Accessories			
Sheller-Globe Corp.....	39,900	\$ 1,018,248	\$ 1,017,450
Wynn S Intl Inc.....	15,600	275,262	294,450
Automotive - Cars			
Ford Mtr Co.....	186,500	8,440,933	8,206,000
Gen Mtr Corp.....	130,500	9,526,371	8,792,438
Furnishings Appliances			
Mohasco Corp.....	1,000	22,520	27,750
Rubber			
Firestone Tire & Rubber Co.....	47,500	973,130	902,500
Goodrich B F Co.....	7,700	282,167	250,250
Goodyear Tire & Rubber Co.....	176,836	5,273,281	4,929,303
Consumer Non-Durables & Services			
Chemicals - Photographic			
Eastman Kodak Co.....	67,500	3,447,032	2,944,687
Communications			
CBS Inc.....	32,813	2,036,029	3,732,479
Cap Cities Communications Inc.....	12,000	1,718,726	2,619,000
Northern Telecom Ltd.....	60,000	2,319,825	2,212,500
Time Inc.....	59,000	1,770,404	3,348,250
Cosmetics			
Chesebrough-Pond S Inc.....	54,700	1,860,894	1,852,962
Kay Mary Cosmetics Inc.....	26,900	299,800	332,888
Revlon Inc.....	45,000	1,296,600	2,008,125
Tambrands Inc.....	40,000	2,019,500	3,035,000
Drugs			
Amer Home Prod Corp.....	80,000	3,439,588	4,700,000
Bristol Myers Co.....	40,000	1,959,295	2,380,000
Lilly Eli & Co.....	50,000	3,804,295	4,331,250
Merck & Co Inc.....	45,000	3,499,059	5,135,625
Pfizer Inc.....	150,000	4,909,929	7,218,750
Robins A H Co Inc.....	6,500	135,817	55,250
Smithkline Beckman Corp.....	23,800	1,467,151	1,597,575
Sterling Drug Inc.....	59,000	1,476,185	1,836,375

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COMPANY	Shares	Book Value	Market Value
COMMON STOCKS			
Consumer Non-Durables & Services - continued			
Drugs - Proprietary			
Richardson Vicks Inc.....	44,000	\$ 1,228,676	\$ 1,611,500
Rite Aid Corp.....	80,800	2,349,641	1,989,700
Food - Chain Stores			
Albertson S Inc.....	73,800	2,209,176	2,066,400
Amer Stores Co.....	42,000	2,216,926	2,441,250
Super Valu Stores Inc.....	140,000	1,930,472	2,782,500
Food - Confectionery			
Nabisco Brands Inc/R J Reynolds.....	94,118	7,764,403	7,894,147
Food - General			
Anheuser-Busch Co.....	168,000	3,649,722	5,334,000
Coca Cola Co.....	100,000	5,501,265	7,162,500
Dart & Kraft Inc.....	135,000	3,597,752	4,843,125
Federal Co.....	1,000	32,770	42,125
Heinz H J Co.....	50,000	2,673,639	2,750,000
McDonalds Corp.....	52,500	2,763,712	3,392,813
Pepsico Inc.....	65,000	2,334,760	3,867,500
Health Care			
Amer Med Intl Inc.....	100,000	2,614,300	2,425,000
Baxter Travenol Lab Inc.....	94,000	1,788,489	1,386,500
Beverly Enterprises.....	45,000	1,452,974	1,620,000
Cmnty Psychiatric Ctr.....	78,700	1,989,605	2,203,600
Hosp Corp Amer.....	41,200	1,885,724	1,869,450
Johnson & Johnson.....	50,000	2,348,750	2,337,500
Natl Med Enterprises Inc.....	70,000	2,012,850	1,750,000
Merchandising - Consumer Specialty			
Brown Group Inc.....	21,400	561,964	690,150
Edison Bros Stores Inc.....	3,900	114,916	123,825
Lowe S Companies Inc.....	70,800	1,909,879	1,699,200
Procter & Gamble Co.....	90,000	4,789,957	5,175,000
Toys R Us Inc.....	75,000	2,331,132	2,615,625
Walgreen Co.....	70,000	1,149,392	1,793,750
Merchandising - General			
Allied Stores Corp.....	39,600	2,059,505	2,227,500
Associated Dry Goods Corp.....	15,800	922,466	1,027,000
Carson Pirie Scott & Co.....	4,200	83,780	89,250
Dayton-Hudson Corp.....	70,000	2,559,275	2,773,750

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EQUITIES

COMPANY	Shares	Book Value	Market Value
COMMON STOCKS			
Consumer Non-Durables & Services - continued			
Merchandising - General - continued			
Federated Dept Stores Inc.....	98,300	\$ 3,890,248	\$ 5,799,700
Handyman Corp.....	975	27,512	23,278
K Mart Corp.....	189,600	5,476,586	6,233,100
Macy R H & Co Inc.....	60,000	3,065,591	2,760,000
May Dept Stores Co.....	92,400	3,942,523	4,770,150
Penney J C Co Inc.....	60,000	3,085,640	2,917,500
Wal-Mart Stores Inc.....	45,000	1,979,969	2,328,750
Woolworth F W Co.....	12,600	470,315	618,975
Service Industries			
Dun & Bradstreet Corp.....	40,000	2,521,996	3,000,000
Fed Express Corp.....	40,000	1,913,360	1,935,000
Service Corp Intl.....	45,000	1,225,688	1,715,625
Textiles			
Stevens J P & Co.....	91,100	1,675,785	2,083,913
Travel Leisure			
Disney Walt Prod.....	40,000	3,225,781	3,575,000
Holiday Corp.....	50,000	2,363,987	2,500,000
Marriott Corp.....	25,500	1,864,904	2,409,750
Tobacco			
Philip Morris Co Inc.....	138,000	6,805,423	11,281,500
Technology			
Electronics - Instrumentation			
Advanced Micro Devices Inc.....	40,000	1,592,253	1,060,000
AMP Inc.....	100,000	3,432,520	3,162,500
Avnet Inc.....	48,400	2,005,060	1,603,250
Corning Glass Wks.....	27,000	1,008,895	1,272,375
E G & G Inc.....	30,000	897,330	1,095,000
Motorola Inc.....	60,000	2,200,225	2,182,500
Sanders Assoc Inc.....	20,200	905,963	752,450
Teledyne Inc.....	22,000	3,596,012	5,414,750
Office Equipment			
CTL Data Corp.....	19,900	685,735	472,625
Diebold Inc.....	41,700	1,548,772	1,412,587
Digital Equip Corp.....	25,000	2,654,329	2,615,625
Hewlett-Packard Co.....	90,000	3,683,563	3,195,000

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COMPANY	Shares	Book Value	Market Value
COMMON STOCKS			
Technology - continued			
Office Equipment - continued			
Honeywell Inc.....	27,300	\$ 1,575,434	\$ 1,682,363
Intl Business Mach Corp.....	150,000	12,328,060	18,993,750
NCR Corp.....	42,300	1,186,301	1,438,200
Sperry Corp.....	34,000	1,363,768	1,734,000
Miscellaneous Technology			
Automatic Data Proc Inc.....	50,000	1,944,303	2,587,500
Gen Mtr Corp.....	9,440	176,980	372,880
Energy			
Oil Services			
Baker Intl Corp.....	5,000	111,975	89,375
Coastal Corp.....	21,450	341,257	689,081
Cyprus Min Co.....	16,790	86,680	228,764
Diamond Shamrock Corp.....	208,600	3,963,524	3,546,200
Dresser Ind Inc.....	32,900	675,480	715,575
Gearhart Ind Inc.....	42,800	685,741	395,900
Halliburton Co.....	65,000	2,735,673	1,868,750
Helmerich & Payne Inc.....	24,800	490,296	477,400
Hughes Tool Co.....	129,200	2,106,753	1,776,500
McDermott Intl Inc.....	11,500	320,793	248,687
Schlumberger Ltd.....	61,735	3,507,913	2,261,044
Tidewater Inc.....	22,000	612,835	346,500
Zapata Corp.....	50,000	1,256,363	425,000
Petroleum - Domestic			
Allied Corp.....	95,400	3,280,782	3,959,100
Atlantic Richfield Co.....	132,500	4,158,373	8,049,375
Chevron Corp.....	194,000	8,364,131	7,299,250
Kerr-McGee Corp.....	80,700	3,172,556	2,421,000
Louisiana Land & Expl Co.....	11,600	351,070	372,650
Murphy Oil Corp.....	143,500	4,541,051	4,179,437
Occidental Petro Corp.....	69,100	2,013,920	2,202,563
Ocean Drilling & Expl Co.....	19,800	528,996	477,675
Pennzoil Co.....	179,400	5,989,266	8,813,025
Phillips Petro Co.....	28,683	340,059	354,952
Pogo Prod Co.....	13,700	330,345	193,513
Reading & Bates Corp.....	96,100	890,847	744,775
Std Oil Co OH.....	7,000	367,150	322,000
Unocal Corp.....	12,146	474,945	355,271
Petroleum - International			
Amoco Corp.....	157,900	4,167,024	10,263,500

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COMPANY	Shares	Book Value	Market Value
COMMON STOCKS			
Energy - continued			
Petroleum - International - continued			
Mobil Corp.....	257,600	\$ 3,602,531	\$ 7,534,800
Royal Dutch Petro Co.....	75,000	3,848,452	4,678,125
Texaco Inc.....	44,100	1,561,361	1,620,675
Basic Industries			
Aluminum			
Aluminum Co Amer.....	101,900	3,463,025	3,630,187
Reynolds Metals Co.....	20,800	669,404	751,400
Building - Cement			
Ideal Basic Ind Inc.....	7,600	138,852	79,800
Building - General			
Butler Mfg Co.....	1,800	49,950	48,600
Ceco Ind Inc.....	10,000	231,450	252,500
Dallas Corp.....	45,000	871,875	781,875
Georgia-Pacific Corp.....	31,500	799,430	724,500
Great Lakes Intl Inc.....	14,100	604,819	742,012
Jim Walter Corp.....	32,800	1,115,856	1,168,500
Justin Ind Inc.....	15,150	220,937	284,062
Louisiana-Pacific Corp.....	34,267	1,009,479	659,640
U S Home Corp.....	10,800	66,366	67,500
Chemicals - General			
Big 3 Ind Inc.....	100,000	2,496,572	2,475,000
Celanese Corp.....	12,000	854,240	1,426,500
DuPont E I DeNemours & Co.....	103,200	4,951,664	5,959,800
Koppers Co Inc.....	48,800	879,488	878,400
Morton Thiokol Inc.....	66,600	2,030,091	2,314,350
Natl Distillers & Chem Corp.....	24,400	667,438	805,200
Pall Corp.....	42,400	1,585,069	1,643,000
Reichhold Chem Inc.....	8,900	258,255	339,312
Univar Corp.....	39,100	846,432	747,788
Containers			
Chesapeake Corp.....	8,400	278,050	310,800
Crown Cork & Seal Co Inc.....	37,900	1,728,070	2,634,050
Motor Carriers			
Cons Freightways Inc.....	23,500	755,394	784,313
Ryder Sys Inc.....	78,824	2,068,460	2,236,631

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COMPANY	Shares	Book Value	Market Value
COMMON STOCKS			
Basic Industries - continued			
Non-Ferrous Metals			
Amax Inc.....	34,000	\$ 936,892	\$ 531,250
Battle Mountain Gold Co.....	179,400	1,364,444	2,332,200
Homestake Mng Co.....	19,900	697,495	522,375
Newmont Mng Corp.....	52,400	2,712,338	2,371,100
Stanadyne Inc.....	36,000	688,190	1,017,000
Paper			
Boise Cascade Corp.....	23,200	819,251	1,102,000
Champion Intl Corp.....	99,900	2,302,190	2,285,213
Crown Zellerbach Corp.....	21,100	623,908	828,175
Intl Paper Co.....	19,000	891,718	938,125
Rexham Corp.....	20,300	378,291	492,275
Temple Inland Inc.....	31,240	867,002	1,163,690
Willamette Ind Inc.....	22,800	932,662	1,014,600
Printing and Publishing			
Gannett Co Inc.....	36,200	1,397,189	2,090,550
McGraw-Hill Inc.....	91,200	2,611,164	4,024,200
Railroads			
Norfolk So Corp.....	11,500	795,168	787,750
Santa Fe So Pacific Corp.....	32,105	594,772	1,087,557
Union Pacific Corp.....	50,000	2,733,818	2,500,000
Steel			
Armco Inc.....	149,700	2,918,669	1,497,000
CCX Inc.....	1,700	10,226	8,713
Chromalloy Amer Corp.....	25,000	294,250	300,000
Copperweld Corp.....	8,600	155,797	79,550
Harsco Corp.....	58,000	1,629,215	1,689,250
Inland Steel Co.....	25,900	770,433	621,600
LTV Corp.....	48,600	493,047	394,875
U S. Steel Corp.....	26,500	646,618	795,000
Wheeling-Pittsburgh Steel Corp.....	13,400	389,256	108,875
Airlines (Transportation)			
AMR Corp.....	70,000	2,959,450	3,080,000
Delta Air Lines Inc.....	47,600	2,223,977	2,183,650
N W A Inc.....	80,000	3,245,282	4,760,000
PSA Inc.....	28,800	600,914	748,800

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EQUITIES

COMPANY	Shares	Book Value	Market Value
COMMON STOCKS			
Basic Industries - continued			
Miscellaneous Basic Industries			
Amer Ecology Corp.....	5,000	\$ 25,503	\$ 125,000
Fischbach Corp.....	13,600	506,872	482,800
Capital Goods Industries			
Aerospace			
Boeing Co.....	124,950	3,911,404	6,013,219
Lockheed Corp.....	110,000	4,906,309	5,857,500
Signal Co Inc.....	27,644	792,463	1,136,860
TRW Inc.....	25,000	1,075,425	1,937,500
Electronics - General			
Brush Wellman Inc.....	70,000	2,355,130	2,301,250
Emerson Elec Co.....	40,000	2,802,879	2,855,000
Gen Elec Co.....	148,000	3,768,996	9,028,000
Machinery - Agriculture			
Allis-Chalmers Corp.....	26,600	427,957	116,375
Deere & Co.....	131,000	3,524,571	3,700,750
Machinery - General			
Amer Hoist & Derrick Co.....	30,300	404,806	367,387
Caterpillar Tractor Co.....	89,300	3,897,798	3,214,800
Chgo Pneumatic Tool Co.....	17,000	301,590	469,625
Cooper Ind Inc.....	60,000	2,137,252	2,160,000
Cross & Trecker Corp.....	12,100	314,600	307,037
Eaton Corp.....	30,800	1,232,616	1,717,100
Foster Wheeler Corp.....	3,000	36,435	38,250
Keycon Ind Inc.....	13,200	66,462	171,600
Parker-Hannifin Corp.....	75,000	2,545,068	2,521,875
Financial Services			
Banks			
Allied Bancshares Inc.....	55,900	1,224,207	1,215,825
Interfirst Corp.....	34,000	343,720	391,000
Tex Comm Bancshares Inc.....	68,700	2,297,486	2,224,163
Financial			
Amer Express Co.....	237,694	7,035,108	9,804,877
ITT Corp.....	100,000	4,289,473	3,500,000
Imperial Corp Amer.....	70,900	745,868	629,237

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EQUITIES

COMPANY	Shares	Book Value	Market Value
COMMON STOCKS			
Financial Services - continued			
Financial - continued			
Paine Webber Group Inc.....	55,100	\$ 2,083,677	\$ 1,680,550
Phibro-Salomon Inc.....	75,000	2,446,953	2,971,875
Insurance - Life			
Aetna Life & Cas Co.....	70,000	2,765,994	3,106,250
Cigna Corp.....	66,403	2,805,796	3,693,667
Jefferson-Pilot Corp.....	45,000	1,837,691	2,086,875
Loews Corp.....	70,000	3,439,671	3,482,500
Utilities			
Utilities - Electric			
Carolina Pwr & Lt Co.....	65,600	1,394,924	1,771,200
Cent Hudson Gas & Elec Corp.....	11,500	192,855	329,187
Commonwealth Edison Co.....	46,500	1,395,930	1,435,687
Consumer Pwr Co.....	49,300	994,240	369,750
Houston Ind Inc.....	55,200	1,532,904	1,531,800
Kansas City Pwr & Lt Co.....	27,900	424,623	599,850
Middle South Utils Inc.....	165,800	2,236,441	1,595,825
N Y St Elec & Gas Corp.....	21,400	452,503	559,075
Niagara Mohawk Pwr Corp.....	69,600	904,704	1,383,300
Ohio Edn Co.....	77,700	1,089,354	1,252,913
Philadelphia Elec Co.....	54,700	855,781	820,500
Texas Utils Co.....	52,100	1,401,230	1,504,387
WICOR Inc.....	3,200	87,664	88,000
Utilities - Natural Gas			
Arkla Inc.....	50,000	871,132	912,500
Internorth Inc.....	56,200	2,055,574	2,444,700
Laclede Gas Co.....	8,400	172,018	190,050
Peoples Energy Corp.....	21,900	219,438	361,350
Sonat Inc.....	40,700	1,424,120	1,393,975
Texas Eastn Corp.....	74,300	1,899,190	2,554,063
Utilities - Telephone			
Amer Information Technologies Corp.....	10,404	664,516	948,065
Bell Atlantic Corp.....	11,126	727,328	1,013,857
Bell South.....	33,563	950,760	1,350,911
Nynex Corp.....	10,404	632,858	880,439
Pacific Telesis Group.....	30,374	2,091,672	2,293,237
Southern New Eng Tel Co.....	29,600	991,970	1,217,300
Southwestern Bell Corp.....	20,404	1,436,967	1,673,127
U S West.....	11,136	620,833	881,136

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COMPANY	Shares	Book Value	Market Value
COMMON STOCKS			
Miscellaneous			
Mutual Funds			
Amer Natl Bank Mkt Expansion Fund.....	2,824,600	\$ 59,654,471	\$ 69,454,372
Amer Natl Bank S&P 500 Index Fund.....	6,404,903	242,494,607	276,697,574
DFA Small Co Fund Inc.....	71,763	13,196,155	14,811,166
DFA Small Co Fund Inc.....	154,026	25,239,242	26,547,934
CONVERTIBLE PREFERRED STOCK			
Financial Services			
Insurance - Fire and Casualty			
Amer General Corp.....	25,000	1,644,748	1,575,000
Insurance - Life			
Amer Gen Corp.....	27,322	1,400,252	2,315,540
Cigna Corp.....	7,110	103,213	220,410
PREFERRED STOCK			
Energy			
Petroleum - Domestic			
Phillips Petro Co.....	1,563	37,260	38,098
Total Common & Preferred Stocks		<u>\$787,464,416</u>	<u>\$909,081,693</u>

FIXED INCOME SECURITIES

COMPANY	Moody's Rating	Interest Rate	Maturity Date	Par Value	Book Value	Market Value
GOVERNMENT OBLIGATIONS						
Government Agencies						
Fed Home Mort Corp.....	AAA	8.750%	04/01/08	\$ 1,202,922	\$ 960,834	\$ 1,063,083
Fed Home Mort Corp.....	AAA	9.400	09/15/08	2,667,600	1,893,996	2,330,816
Fed Home Mort Corp.....	AAA	9.500	10/01/08	3,686,957	3,004,870	3,373,565
Fed Home Mort Corp.....	AAA	11.500	06/01/15	14,002,500	14,008,750	14,029,105
Fed Home Mort Corp.....	AAA	12.000	06/01/10	2,681,521	2,678,169	2,725,095
Fed Home Mort Corp.....	AAA	12.000	06/01/11	2,669	2,666	2,713
Fed Home Mort Corp.....	AAA	12.000	06/01/13	2,561	2,557	2,602
Fed Home Mort Corp.....	AAA	12.000	08/01/13	8,888,648	8,877,537	9,033,089
Fed Home Mort Corp.....	AAA	12.000	09/01/13	11,789	11,774	11,980
Fed Home Mort Corp.....	AAA	12.000	01/01/15	10,375	10,362	10,544

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FIXED INCOME SECURITIES

COMPANY	Moody's Rating	Interest Rate	Maturity Date	Par Value	Book Value	Market Value
GOVERNMENT OBLIGATIONS						
Government Agencies - continued						
Fed Home Mort Corp.....	AAA	12.000%	02/01/15	\$ 1,005	\$ 1,004	\$ 1,021
Fed Home Mort Corp.....	AAA	12.000	05/15/15	12,272,711	11,954,387	13,009,074
Fed Home Mort Corp.....	AAA	13.000	09/13/13	45,717	45,831	48,003
Fed Home Mort Corp.....	AAA	13.000	11/01/13	895	897	940
Fed Home Mort Corp.....	AAA	16.250	11/01/11	2,251,817	2,347,519	2,482,628
Fed Hsg Admin.....	AAA	7.430	02/01/21	2,926,845	2,243,610	2,189,573
Fed Hsg Admin.....	AAA	7.430	08/01/25	1,436	1,103	1,103
Fed Hsg Admin.....	AAA	7.450	05/01/21	9,791,882	7,561,169	7,340,974
Fed Natl Mort Assn.....	AAA	7.750	10/01/08	425,103	325,204	346,374
Fed Natl Mort Assn.....	AAA	15.500	12/01/12	582,803	614,296	657,402
Fed Natl Mort Assn.....	AAA	15.750	12/01/11	3,888,492	4,087,777	4,428,993
Fed Natl Mort Assn.....	AAA	16.000	09/01/12	7,971,248	8,757,274	9,488,538
Gov Natl Mort Assn.....	AAA	5.500	08/15/98	646,232	458,420	510,523
Gov Natl Mort Assn.....	AAA	7.500	08/15/05	698,881	512,789	568,714
Gov Natl Mort Assn.....	AAA	8.000	01/15/08	6,518	4,637	5,428
Gov Natl Mort Assn.....	AAA	8.500	12/15/05	210,651	177,309	181,687
Gov Natl Mort Assn.....	AAA	8.500	05/15/06	43,100	35,908	37,174
Gov Natl Mort Assn.....	AAA	8.500	02/15/07	257,911	217,089	222,448
Gov Natl Mort Assn.....	AAA	8.500	07/15/08	1,394,593	1,161,871	1,202,836
Gov Natl Mort Assn.....	AAA	9.000	09/15/08	20,146	17,829	17,659
Gov Natl Mort Assn.....	AAA	9.000	10/15/08	53,133	47,022	46,574
Gov Natl Mort Assn.....	AAA	9.000	11/15/08	92,800	82,128	81,345
Gov Natl Mort Assn.....	AAA	9.000	12/15/08	39,067	34,575	34,245
Gov Natl Mort Assn.....	AAA	9.000	01/15/09	1,068,551	945,667	936,649
Gov Natl Mort Assn.....	AAA	9.000	02/15/09	952,081	842,592	834,556
Gov Natl Mort Assn.....	AAA	9.000	03/15/09	841,266	798,917	737,420
Gov Natl Mort Assn.....	AAA	9.000	04/15/09	3,754,017	3,322,305	3,290,621
Gov Natl Mort Assn.....	AAA	9.000	05/15/09	2,776,247	2,456,979	2,433,547
Gov Natl Mort Assn.....	AAA	9.000	06/15/09	38,461	34,038	33,713
Gov Natl Mort Assn.....	AAA	9.000	07/15/09	898,663	795,317	787,732
Gov Natl Mort Assn.....	AAA	9.000	08/15/10	918,580	812,943	805,190
Gov Natl Mort Assn.....	AAA	9.000	11/15/10	76,496	67,699	67,053
Gov Natl Mort Assn.....	AAA	9.000	12/15/10	964,703	853,763	845,620
Gov Natl Mort Assn.....	AAA	9.500	05/15/09	89,764	80,900	81,321
Gov Natl Mort Assn.....	AAA	9.500	06/15/09	846,633	765,829	766,999
Gov Natl Mort Assn.....	AAA	9.500	07/15/09	6,394,622	5,582,320	5,793,144
Gov Natl Mort Assn.....	AAA	9.500	08/15/09	5,588,878	4,856,121	5,157,011
Gov Natl Mort Assn.....	AAA	9.500	09/15/09	12,031,840	10,701,622	10,900,125
Gov Natl Mort Assn.....	AAA	9.500	10/15/09	15,955,128	14,050,987	14,454,389
Gov Natl Mort Assn.....	AAA	9.500	11/15/09	3,539,551	3,115,001	3,206,621
Gov Natl Mort Assn.....	AAA	9.500	01/15/10	90,129	81,229	81,651
Gov Natl Mort Assn.....	AAA	9.500	05/15/13	73,978	66,672	67,019
Gov Natl Mort Assn.....	AAA	10.000	09/01/12	5,500,000	5,122,270	5,122,260
Gov Natl Mort Assn.....	AAA	10.500	12/20/13	1,054,030	918,687	1,011,869
Gov Natl Mort Assn.....	AAA	11.000	08/20/13	2,496,292	2,261,250	2,451,035
Gov Natl Mort Assn.....	AAA	11.500	06/15/10	882,815	828,743	885,570
Gov Natl Mort Assn.....	AAA	11.500	10/15/10	900,921	852,216	903,731
Gov Natl Mort Assn.....	AAA	11.500	07/15/11	886,410	855,940	889,176
Gov Natl Mort Assn.....	AAA	11.500	12/15/12	890,565	845,758	893,343

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FIXED INCOME SECURITIES

COMPANY	Moody's Rating	Interest Rate	Maturity Date	Par Value	Book Value	Market Value
GOVERNMENT OBLIGATIONS						
Government Agencies - continued						
Gov Natl Mort Assn.....	AAA	11.500%	01/15/13	\$ 503	\$ 477	\$ 504
Gov Natl Mort Assn.....	AAA	11.500	04/15/13	481,923	452,406	483,427
Gov Natl Mort Assn.....	AAA	11.500	05/15/13	484,321	454,656	485,832
Gov Natl Mort Assn.....	AAA	11.500	06/15/13	3,387,127	3,253,543	3,397,696
Gov Natl Mort Assn.....	AAA	11.500	07/15/13	3,873,156	3,654,496	3,885,241
Gov Natl Mort Assn.....	AAA	11.500	08/15/13	1,932,432	1,836,173	1,938,461
Gov Natl Mort Assn.....	AAA	11.500	09/15/13	1,002,511	961,471	1,005,639
Gov Natl Mort Assn.....	AAA	11.500	10/15/13	999,473	958,557	1,002,591
Gov Natl Mort Assn.....	AAA	11.500	10/20/13	3,652,877	3,401,146	3,664,274
Gov Natl Mort Assn.....	AAA	11.500	12/15/13	248,407	235,909	249,182
Gov Natl Mort Assn.....	AAA	11.500	12/20/13	1,054,514	984,443	1,057,804
Gov Natl Mort Assn.....	AAA	11.500	01/15/14	12	12	12
Gov Natl Mort Assn.....	AAA	11.500	02/15/14	462,356	442,706	463,798
Gov Natl Mort Assn.....	AAA	11.500	04/20/14	470,318	437,086	471,785
Gov Natl Mort Assn.....	AAA	11.625	08/25/02	2,391,248	2,391,248	2,484,029
Gov Natl Mort Assn.....	AAA	11.900	01/25/14	5,000,000	4,717,000	5,232,813
Gov Natl Mort Assn.....	AAA	12.000	03/15/13	43,503	42,375	44,618
Gov Natl Mort Assn.....	AAA	12.000	01/15/14	3,318,388	3,279,860	3,403,405
Gov Natl Mort Assn.....	AAA	12.000	02/15/14	1,010,543	1,003,748	1,036,434
Gov Natl Mort Assn.....	AAA	12.000	03/15/14	4,276,102	4,212,823	4,385,656
Gov Natl Mort Assn.....	AAA	12.000	04/15/14	1,043,969	1,028,026	1,070,715
Gov Natl Mort Assn.....	AAA	12.000	05/15/14	1,000,476	974,526	1,026,108
Gov Natl Mort Assn.....	AAA	12.000	11/15/14	498,484	485,554	511,255
Gov Natl Mort Assn.....	AAA	12.000	01/15/15	1,000,424	980,416	1,026,055
Gov Natl Mort Assn.....	AAA	12.000	02/15/15	5,467,824	5,379,274	5,607,910
Gov Natl Mort Assn.....	AAA	12.000	03/15/15	6,505,517	6,375,406	6,672,188
Gov Natl Mort Assn.....	AAA	12.250	04/15/14	511,962	502,024	531,161
Gov Natl Mort Assn.....	AAA	12.250	02/15/15	511,984	503,060	531,183
Gov Natl Mort Assn.....	AAA	12.250	04/15/15	502,836	503,307	521,692
Gov Natl Mort Assn.....	AAA	12.250	05/15/15	688	688	714
Gov Natl Mort Assn.....	AAA	12.250	06/15/15	1,068	1,067	1,108
Gov Natl Mort Assn.....	AAA	12.500	05/15/10	952,704	993,492	990,812
Gov Natl Mort Assn.....	AAA	12.500	06/15/10	139,105	145,061	144,670
Gov Natl Mort Assn.....	AAA	12.500	07/15/10	164,904	171,964	171,500
Gov Natl Mort Assn.....	AAA	12.500	11/15/10	1,692,108	1,764,551	1,759,792
Gov Natl Mort Assn.....	AAA	12.500	12/15/10	1,226,684	1,279,201	1,275,751
Gov Natl Mort Assn.....	AAA	12.500	12/15/13	1,883,511	1,964,149	1,958,852
Gov Natl Mort Assn.....	AAA	12.500	05/15/14	917,082	956,345	953,765
Gov Natl Mort Assn.....	AAA	12.500	12/15/14	997,544	983,828	1,037,446
Gov Natl Mort Assn.....	AAA	12.500	01/15/15	997,751	984,032	1,037,661
Gov Natl Mort Assn.....	AAA	12.500	05/15/15	8,738,300	8,651,238	9,087,832
Gov Natl Mort Assn.....	AAA	14.000	05/15/12	540,439	503,960	591,273
Gov Natl Mort Assn.....	AAA	14.750	06/15/97	620,461	672,424	690,262
Gov Natl Mort Assn.....	AAA	14.750	07/15/97	242,307	262,601	269,567
Gov Natl Mort Assn.....	AAA	15.000	09/15/01	70,230	77,604	79,097
Gov Natl Mort Assn.....	AAA	15.000	05/15/11	612,686	677,018	690,038
Gov Natl Mort Assn.....	AAA	15.000	07/15/11	685,503	757,481	772,048
Gov Natl Mort Assn.....	AAA	15.000	08/15/11	595,105	661,429	670,237
Gov Natl Mort Assn.....	AAA	15.000	10/15/11	147,882	163,410	166,552
Gov Natl Mort Assn.....	AAA	15.000	03/15/12	333,965	372,371	376,129

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Investment Portfolio 1985

FIXED INCOME SECURITIES

COMPANY	Moody's Rating	Interest Rate	Maturity Date	Par Value	Book Value	Market Value
GOVERNMENT OBLIGATIONS						
Government Agencies - continued						
Gov Natl Mort Assn.....	AAA	15.000%	06/15/12	\$ 555,330	\$ 613,639	\$ 625,440
Gov Natl Mort Assn.....	AAA	15.000	07/15/12	879,762	971,868	990,832
Gov Natl Mort Assn.....	AAA	15.000	08/15/12	452,912	499,617	510,092
Gov Natl Mort Assn.....	AAA	15.000	09/15/12	1,023,775	1,090,578	1,153,027
Gov Natl Mort Assn.....	AAA	15.000	10/15/12	843,704	928,074	950,221
Gov Natl Mort Assn.....	AAA	15.000	11/15/12	728,433	804,918	820,397
Gov Natl Mort Assn.....	AAA	16.000	10/15/11	407,722	458,942	466,715
Gov Natl Mort Assn.....	AAA	16.000	12/15/11	1,023,768	1,150,423	1,171,897
Gov Natl Mort Assn.....	AAA	16.000	03/15/12	280,132	313,646	320,665
Total Government Agencies				225,179,905	212,404,275	220,849,073
U. S. Government						
Cert Accrl Treas Sec...	AAA	13.750	04/15/87	3,000,000	2,394,000	2,647,500
U.S. T-Note Strpd Int..	AAA	0.000	05/15/92	10,000,000	3,752,900	4,301,200
U.S. T-Note Strpd Int..	AAA	0.000	02/15/95	7,000,000	2,745,260	3,290,000
U.S. Treasury Notes....	AAA	9.750	04/30/87	20,500,000	20,476,855	20,813,855
U.S. Treasury Notes....	AAA	9.875	12/31/86	13,500,000	13,573,828	13,732,065
U.S. Treasury Notes....	AAA	10.500	01/15/90	9,000,000	8,868,750	9,213,750
U.S. Treasury Notes....	AAA	10.625	08/31/85	7,000,000	6,954,063	6,997,830
U.S. Treasury Notes....	AAA	10.625	08/15/15	3,900,000	3,887,754	3,952,416
U.S. Treasury Notes....	AAA	10.750	03/31/87	2,000,000	1,996,560	2,059,380
U.S. Treasury Notes.....	AAA	11.375	09/30/88	26,500,000	27,529,609	27,916,160
U.S. Treasury Notes....	AAA	11.625	01/15/92	10,250,000	10,237,188	10,906,615
U.S. Treasury Notes....	AAA	11.750	11/15/14	1,510,000	1,665,036	1,637,399
U.S. Treasury Notes....	AAA	12.000	05/15/05	4,515,000	4,852,031	4,972,144
U.S. Treasury Notes....	AAA	12.000	08/15/13	2,700,000	2,820,075	2,986,875
U.S. Treasury Notes....	AAA	12.375	08/15/87	14,100,000	14,631,046	14,928,375
U.S. Treasury Notes....	AAA	12.500	05/15/87	7,500,000	7,797,656	7,931,250
U.S. Treasury Notes....	AAA	12.500	08/15/14	3,525,000	3,887,723	4,039,438
U.S. Treasury Notes....	AAA	12.625	05/31/86	25,000	24,883	25,805
U.S. Treasury Notes....	AAA	12.625	07/31/86	9,250,000	9,412,183	9,614,172
U.S. Treasury Notes....	AAA	12.750	11/15/10	9,755,000	10,643,623	11,282,243
U.S. Treasury Notes....	AAA	13.625	06/30/88	10,000,000	11,046,875	11,028,100
U.S. Treasury Notes....	AAA	13.750	07/15/91	12,750,000	13,997,656	14,674,485
U.S. Treasury Notes....	AAA	13.875	08/15/89	19,100,000	20,665,303	21,583,000
U.S. Treasury Notes....	AAA	14.500	07/15/89	8,000,000	8,975,000	9,172,480
Total U.S. Government				215,380,000	212,835,857	219,706,537
Total All Government Obligations				\$440,559,905	\$425,240,132	\$440,555,610
CONVERTIBLE CORPORATE BONDS						
Financial Services						
Insurance - Life						
Amer Gen Corp.....	A	11.000	11/04/08	956,000	1,031,285	1,634,760
Total Convertible Corporate Bonds				956,000	1,031,285	1,634,760

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Investment Portfolio 1985

FIXED INCOME SECURITIES

COMPANY	Moody's Rating	Interest Rate	Maturity Date	Par Value	Book Value	Market Value
CORPORATE OBLIGATIONS						
Consumer Non-Durables & Services						
Communications						
CBS Inc.....	A	10.875%	08/01/95	\$ 1,230,570	\$ 694,147	\$ 1,231,678
Tobacco						
Philip Morris Inc.....	A	6.000	07/15/01	3,475,000	1,995,659	2,147,654
Philip Morris Inc.....	A	8.875	06/01/04	1,500,000	1,233,015	1,249,125
Total Consumer Non-Durables & Services				<u>6,205,570</u>	<u>3,922,821</u>	<u>4,628,457</u>
Technology						
Office Equipment						
Honeywell Inc.....	A	14.125	02/01/11	4,000,000	4,440,000	4,496,160
Total Technology				<u>4,000,000</u>	<u>4,440,000</u>	<u>4,496,160</u>
Energy						
Petroleum - Domestic						
Phillips Petro Co.....	BBB	12.250	10/15/12	20,000,000	17,856,200	19,844,400
Phillips Petro Co.....	BBB	14.750	03/15/00	3,000,000	3,296,250	3,258,420
Petroleum - International						
Std Oil Co of Ohio....	AA	8.375	03/15/07	3,700,000	2,304,193	2,880,302
Occidental Petro Corp.	BBB	9.650	10/15/94	20,500,000	15,865,000	17,886,250
Unocal Corp.....	NR	12.125	05/15/91	251,328	134,493	258,868
Unocal Corp.....	NR	13.500	05/15/97	157,080	85,492	164,738
Unocal Corp.....	NR	14.000	05/15/90	157,080	87,130	167,879
Total Energy				<u>47,765,488</u>	<u>39,628,758</u>	<u>44,460,857</u>
Basic Industries						
Steel						
Bethlehem Steel Corp..	BB	5.400	01/15/92	485,000	489,183	328,651
Total Basic Industries				<u>485,000</u>	<u>489,183</u>	<u>328,651</u>
Financial Services						
Banks						
1st Interstate Bancorp.	NR	10.250	02/15/87	6,000,000	5,979,480	6,063,960
Sec Pac Corp.....	AA	12.500	10/01/96	5,400,000	5,556,060	5,658,876
Citicorp.....	AA	13.635	08/01/96	3,385,000	3,381,615	3,508,214

Investment Portfolio 1985

FIXED INCOME SECURITIES

COMPANY	Moody's Rating	Interest Rate	Maturity Date	Par Value	Book Value	Market Value
CORPORATE OBLIGATIONS						
Financial Services						
Gen Mtr Accep Corp.....	AA	8.150%	08/15/86	\$ 750,000	\$ 571,200	\$ 747,293
Ford Mtr Cr Co.....	NR	9.000	07/09/86	3,000,000	3,002,100	2,970,000
Ford Mtr Cr Co.....	NR	9.000	01/14/87	6,000,000	6,000,000	5,940,000
Natl Rural Utils Coop..	AA	9.750	04/01/09	3,000,000	2,585,010	2,608,380
Home Svg & Ln Assn.....	AA	10.000	07/01/09	879,441	811,284	838,767
Ford Mtr Cr Co.....	NR	10.438	01/22/86	10,000,000	10,039,000	10,258,900
Texaco Cap Inc.....	A	10.750	01/15/00	6,500,000	6,419,530	6,607,640
Gen Mtr Accep Corp.....	AA	10.850	04/01/87	3,000,000	3,035,580	3,069,330
Hsehd Fin Corp.....	NR	11.250	04/01/95	6,000,000	6,000,000	6,146,880
Bank Amer Natl & Svg A.	AA	11.875	07/01/10	782,715	612,230	746,874
Ben Corp.....	NR	15.875	02/09/87	1,000,000	1,000,000	883,860
Gen Mtr Accep Corp.....	NR	16.000	03/05/87	3,000,000	3,000,000	3,277,500
Gen Mtr Accep Corp.....	NR	16.250	11/03/86	2,000,000	2,070,000	2,160,000
Ben Corp.....	NR	16.250	12/10/86	4,500,000	4,500,000	4,803,750
Insurance - Life						
Geico Corp.....	NR	13.750	06/15/99	4,000,000	4,145,000	4,466,400
Total Financial Services				<u>69,197,156</u>	<u>68,708,089</u>	<u>70,756,624</u>
Utilities						
Utilities - Electric						
Pub Service Co Ind Inc.	B	4.750	08/01/90	3,000,000	1,691,250	2,165,280
Me Yankee Atomic Pwr Co	A	9.100	05/01/02	1,000,000	851,900	892,500
Carolina Pwr & Lt Co...	A	11.125	04/01/95	6,700,000	6,677,153	6,842,174
Det Edison.....	NR	14.200	10/01/86	15,000,000	15,051,000	15,675,000
Phil Elec Co.....	BB	14.750	04/15/05	3,250,000	3,313,375	3,568,695
Oh Edison Co.....	BBB	15.500	04/15/10	4,300,000	4,866,125	4,826,578
Hartford Elec & Lt Co..	BBB	15.625	05/01/92	989,000	1,103,971	1,070,988
Cent Pwr & Lt Co.....	A	15.875	04/01/12	10,000,000	11,575,000	11,838,900
Duquesne Lt Co.....	BBB	16.000	06/01/11	1,500,000	1,621,875	1,737,465
Ga Pwr Co.....	BBB	16.250	07/01/12	2,836,000	3,067,134	3,099,663
Dayton Pwr & Lt Co.....	BBB	16.750	03/01/12	2,123,000	2,444,104	2,449,263
Dayton Pwr & Lt Co.....	BBB	17.000	09/01/91	1,107,000	1,218,392	1,209,032
Phil Elec Co.....	BBB	17.625	07/01/11	2,411,000	2,793,746	2,829,911
Conn Lt & Pwr Co.....	BBB	17.750	10/01/91	996,000	974,835	1,107,482
Phil Elec Co.....	BBB	18.750	09/15/09	2,194,000	2,632,800	2,698,072
Utilities - Natural Gas						
Nthn Ill Gas Co.....	AA	8.750	07/01/01	1,000,000	879,350	842,770
Ark La Gas Co.....	AA	9.100	10/01/98	3,500,000	3,108,875	3,068,345
United Gas Pipeln Co...	BBB	15.500	06/01/91	6,300,000	6,827,750	6,943,167
Total Utilities				<u>68,206,000</u>	<u>70,698,635</u>	<u>72,865,285</u>

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COMPANY	Moody's Rating	Interest Rate	Maturity Date	Par Value	Book Value	Market Value
CORPORATE OBLIGATIONS						
Miscellaneous						
Miscellaneous						
Integrated Res Inc.....	BBB	13.125%	07/15/95	\$ 2,500,000	\$ 2,482,700	\$ 2,482,700
Acf Ind Inc.....	BBB	15.250	12/15/96	10,000,000	9,864,800	10,300,000
Total Miscellaneous				12,500,000	12,347,500	12,782,700
Total All Corporate Bonds & Obligations				\$208,359,214	\$200,234,986	\$210,318,734
MISCELLANEOUS BONDS						
Miscellaneous						
Morgan Gty TRCO Flt R	NR	0.000	03/31/86	10,000,000	9,970,000	10,000,000
Indl Bk Japan Flt Rate	NR	11.310	10/12/87	5,000,000	4,997,000	5,018,750
Sweden KGDM Flt Rate..	NR	8.330	05/15/91	4,000,000	4,006,800	4,008,800
Gulf Can Ltd.....	AA	15.500	07/01/11	5,200,000	5,730,400	6,363,500
Total Miscellaneous Bonds				24,200,000	24,704,200	25,391,050
Notes, Mortgages & Contracts						
Conn Mutual GIC.....	NR	13.000	08/15/92	2,011,257	2,011,257	2,011,257
Manuf Hsg Part Cert....	NR	13.250	01/01/99	5,881,478	5,843,329	6,333,764
Manuf Hst Part Cert....	NR	13.250	01/15/99	3,455,575	3,432,849	3,721,309
New York Life GIC.....	NR	14.570	07/31/88	3,000,000	3,000,000	3,000,000
Pacific Mutual GIC....	NR	12.780	08/15/86	4,000,000	4,000,000	4,000,000
Penn Mutual GIC.....	NR	14.430	08/31/86	5,057,965	5,057,965	5,057,965
Union Central GIC.....	NR	13.400	08/15/87	2,010,341	2,010,341	2,010,341
Total Notes, Mortgages & Contracts				25,416,616	25,355,741	26,134,636
Short-Term Investments						
Abbott Lab Co Coml P..	NR	8.000	09/06/85	1,000,000	998,000	998,889
Ben Corp Coml Paper...	NR	7.850	09/12/85	23,000,000	22,924,771	22,944,832
Electricite De France.	NR	7.650	09/03/85	23,000,000	22,936,463	22,990,225
Hsehd Fin Corp Int B N	NR	7.550	09/18/85	2,259,000	2,259,000	2,262,790
Merrill Lynch Coml P..	NR	7.720	09/19/85	23,000,000	22,852,033	22,911,220
Northern Trust Inv Fd.	NR	*	*	94,857,319	94,857,319	94,857,319
Shearson Lehman C P...	NR	7.850	09/05/85	23,000,000	22,959,878	22,979,939
U.S. Treasury Bills...	AAA	6.690	09/12/85	60,000	59,052	59,846
U.S. Treasury Bills...	AAA	6.810	09/26/85	55,000	54,064	54,726
U.S. Treasury Bills...	AAA	6.959	09/05/85	620,000	609,201	619,262
U.S. Treasury Bills...	AAA	7.000	11/21/85	340,000	334,248	334,434
U.S. Treasury Bills...	AAA	7.028	09/19/85	1,260,000	1,238,667	1,254,872
U.S. Treasury Bills...	AAA	7.040	11/29/85	140,000	137,481	137,473
U.S. Treasury Bills...	AAA	7.100	09/01/85	140,000	137,538	139,950
U.S. Treasury Bills...	AAA	7.150	10/24/85	75,000	73,719	74,197
U.S. Treasury Bills...	AAA	7.160	11/07/85	155,000	152,225	152,890
U.S. Treasury Bills...	AAA	7.180	10/17/85	70,000	68,789	69,347
U.S. Treasury Bills...	AAA	7.200	10/31/85	40,000	39,304	39,515
Total Short-Term Reserves				193,071,319	192,691,752	192,881,726

Investment Portfolio 1985

FIXED INCOME SECURITIES

COMPANY	Moody's Rating	Interest Rate	Maturity Date	Par Value	Book Value	Market Value
CORPORATE OBLIGATIONS						
Futures, Liabilities & Options**						
T-Bond Futures Call Opt	NR	0.000%	09/19/85	\$ 150	\$ 229,913	\$ 567,188
Wendys Call Option.....	NR	0.000	12/21/85	40	(5,850)	(2,519)
Total Futures, Liabilities & Options				190	224,063	564,669
Total All Corporate Obligations				452,003,339	444,242,027	456,925,575
Total Bonds & Corporate Notes				<u>\$892,563,244</u>	<u>\$869,482,159</u>	<u>\$897,481,185</u>

REAL ESTATE

FUND	Units	Book Value	Market Value
RREEF MidAmerica East-IV.....	100	\$ 20,000,000	\$ 20,223,400
RREEF USA Fund-III.....	41	41,000,000	42,199,291
RREEF West-VI.....	40	8,000,000	8,082,920
Total Real Estate		<u>\$ 69,000,000</u>	<u>\$ 70,505,611</u>

*The Northern Trust Investment Reserve Fund provides a vehicle for investments of liquid reserves on a daily basis. The fund, available to employee benefit plans only, had an annualized yield at August 31, 1985, of 7.76%.

**The system held an open position of approximately \$106 million in financial futures contracts on U.S. Treasury and Muni Bonds. One mechanism the futures market uses to assure performance under futures contracts is to require holders of futures positions to deposit cash and/or T-Bills with their respective broker. U.S. Treasury Bills, included in short-term investments, are used to meet this requirement.



