

097
36.7/2
991

THE STATE TEACHERS RETIREMENT SYSTEM OF OHIO COMPREHENSIVE ANNUAL FINANCIAL REPORT

1991

Boston College ILL
O'Neill Library Interlibrary Loan Room 306
140 Commonwealth Avenue
Chestnut Hill, MA 02467

Wandrei, Kevin

TN: 1029338



Lending Library: CIN

Title: Comprehensive annual financial report
Author: State Teachers Retirement System of Ohio.

Due Date: 10/24/19

Pieces: 8

O'Neill Library

No Renewal

Questions: ill@bc.edu

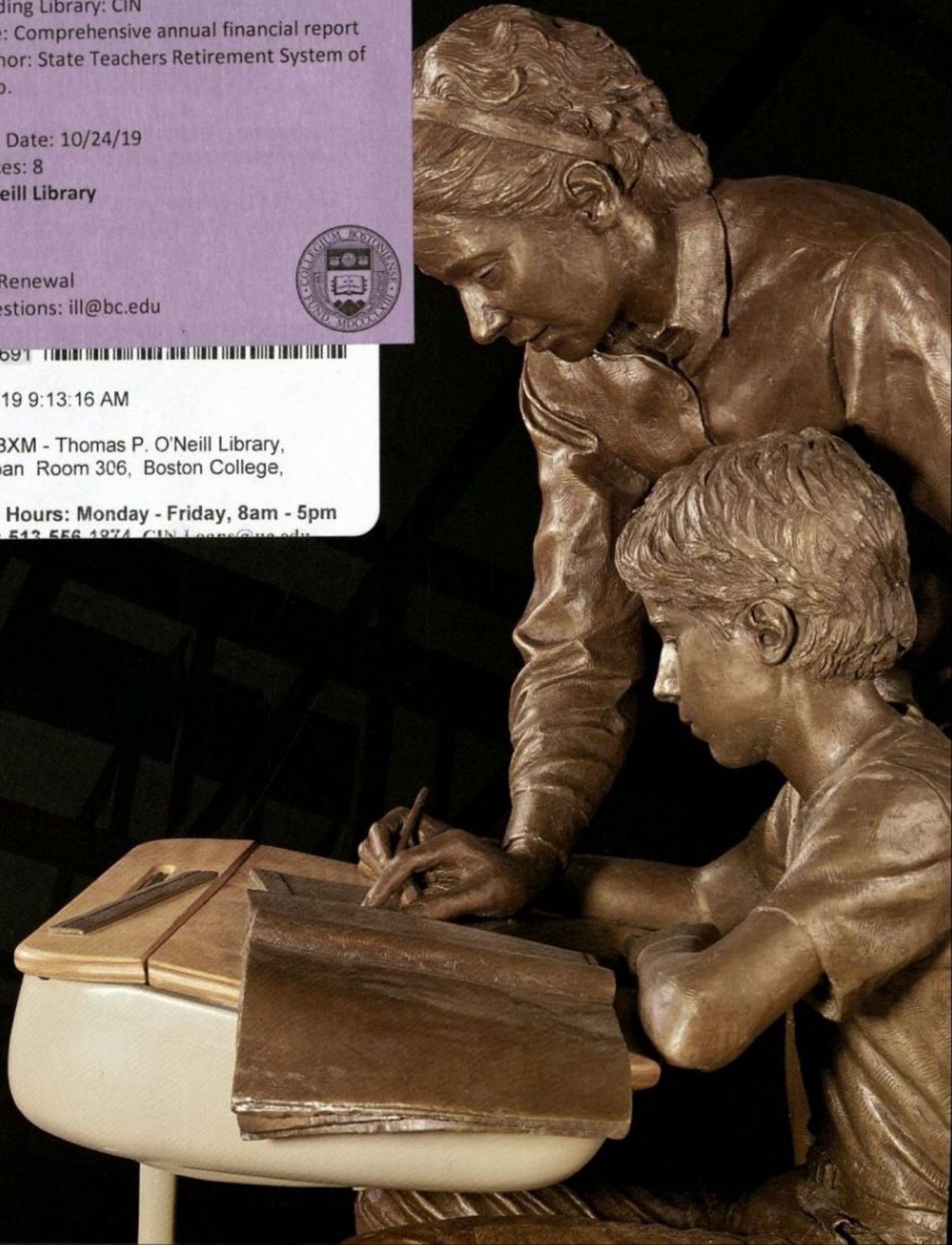


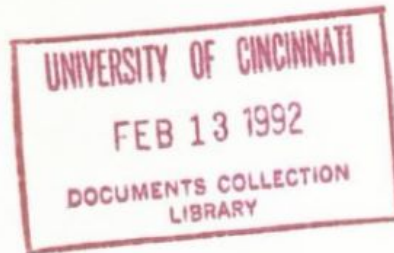
ILL# 197912691

DATE: 9/9/2019 9:13:16 AM

Loaned To: BXM - Thomas P. O'Neill Library,
Interlibrary Loan Room 306, Boston College,

ILL Office Hours: Monday - Friday, 8am - 5pm
Phone: 513-556-1874, CIN.Loans@bc.edu





The State Teachers Retirement System of Ohio
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 1991

**Prepared through the
joint efforts of the
STRS Staff**

**Copies of this report are available from:
State Teachers Retirement System of Ohio
275 East Broad Street
Columbus, Ohio 43215-3771
(614) 227-4090**

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The State Teachers
Retirement System of Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1990

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



Gary R. Horsthem

President

Jeffrey L. Essler

Executive Director

CONTENTS

| | |
|--|--------------|
| Section 1: Introduction— | 3-8 |
| The State Teachers Retirement Board | 4 |
| Administrative Staff | 5 |
| Professional Consultants | 5 |
| Organizational Structure | 5 |
| Letter of Transmittal | 6-8 |
| | |
| Section 2: Financial— | 9-22 |
| Independent Public Accountants' Report | 10 |
| General Purpose Financial Statements: | |
| Statements of Net Assets Available for Benefits as of June 30, 1991, 1990 | 11 |
| Statements of Changes in Net Assets Available for Benefits, Years Ended June 30, 1991, 1990 | 12 |
| Notes to Financial Statements | 13-18 |
| Supplementary Information of Analysis of Funding Progress, 1983-1991 | 19 |
| Supplementary Information of Revenues by Source and Expenses by Type, 1982-1991 | 20 |
| Supplementary Information of Employer Contributions, 1982-1991 | 21 |
| Supplementary Investment Rollforward, June 30, 1991 | 21 |
| Supplementary Information of Administrative Expenses, Years Ended June 30, 1991, 1990 | 22 |
| | |
| Section 3: Actuarial— | 23-30 |
| Actuary's Certification Letter | 24-25 |
| Statement of Actuarial Assumptions and Methods | 26 |
| Schedule of Active Member Valuation Data, 1982-1991 | 27 |
| Schedule of Retirees and Beneficiaries, 1982-1991 | 27 |
| Summary of Accrued and Unfunded Accrued Liabilities, 1982-1991 | 28 |
| Solvency Test, 1982-1991 | 28 |
| Summary of Benefit and Contribution Provisions | 29-30 |
| | |
| Section 4: Statistical— | 31-34 |
| Benefit Expenses by Type, 1982-1991 | 32 |
| Selected Funding Information, 1982-1991 | 32 |
| Number of Reporting Employers by Type, 1983-1991 | 33 |
| Number of Members: Active, Inactive, Retirees, and Beneficiaries, 1982-1991 | 33 |
| Assumed Rate of Interest and Realized Rate of Return on Assets, 1982-1991 | 34 |
| Number of Benefit Recipients by Type, 1982-1991 | 34 |
| Average Monthly Allowances by Type, 1982-1991 | 34 |
| | |
| Section 5: Investments— | 35-72 |
| Investment Review | 36-38 |
| Total Return (Annualized) | 39 |
| Summary of Investment Assets as of June 30, 1991, 1990, and 1989 | 40 |
| Investment Distribution by Market Value as of June 30, 1991 | 41 |
| Investment Objective and Policy | 42-51 |
| Schedule of Investments as of June 30, 1991 | 52-71 |
| Footnotes to Schedule of Investments | 72 |

The Board

Membership of the State Teachers Retirement Board is established by the Revised Code and includes five active teachers, one retired teacher, and three voting ex-officio members. Teacher members are elected for four-year terms by members of the Retirement System. The retired teacher member is elected for a four-year term by the retirees receiving benefits from STRS. Board members serve without compensation other than actual, necessary expenses.

State Teachers Retirement Board

Charles W. Jewell,
Chairman
Teacher Member

William C. McDonald,
Vice Chairman
Teacher Member

Jack H. Chapman
Teacher Member

William A. Dorsey
Teacher Member

Betty O. Peters
Retired Teacher Member

Hazel A. Sidaway
Teacher Member

Thomas E. Ferguson
Auditor of State

Lee I. Fisher
Attorney General of Ohio

Franklin B. Walter
State Superintendent of Public
Instruction



Charles W. Jewell,
Chairman
Elected active teacher member of the Board since 1984. From Youngstown City Schools in Mahoning County.



William C. McDonald,
Vice Chairman
Elected active teacher member of the Board since 1977. From Jackson City Schools in Jackson County.



Jack H. Chapman
Elected active teacher member of the Board since 1990. From Reynoldsburg City Schools in Franklin County.



William A. Dorsey
Elected active teacher member of the Board since 1990 (appointed in 1990, elected in 1991). From Painesville City Schools in Lake County.



Betty O. Peters
Elected retired teacher member of the Board since 1983 (appointed in 1983, elected in 1985). From Summit County.



Hazel A. Sidaway
Elected active teacher member of the Board since 1986. From Canton City Schools in Stark County.



Thomas E. Ferguson,
Auditor of State
Voting ex-officio member of the Board since elected to office in 1975.



Lee I. Fisher,
General of Ohio
Voting ex-officio member of the Board since elected to office in 1991.



Franklin B. Walter,
State Superintendent of Public Instruction
Voting ex-officio member of the Board since appointed to office in 1977.

INTRODUCTION



C. James Grothaus
Executive Director

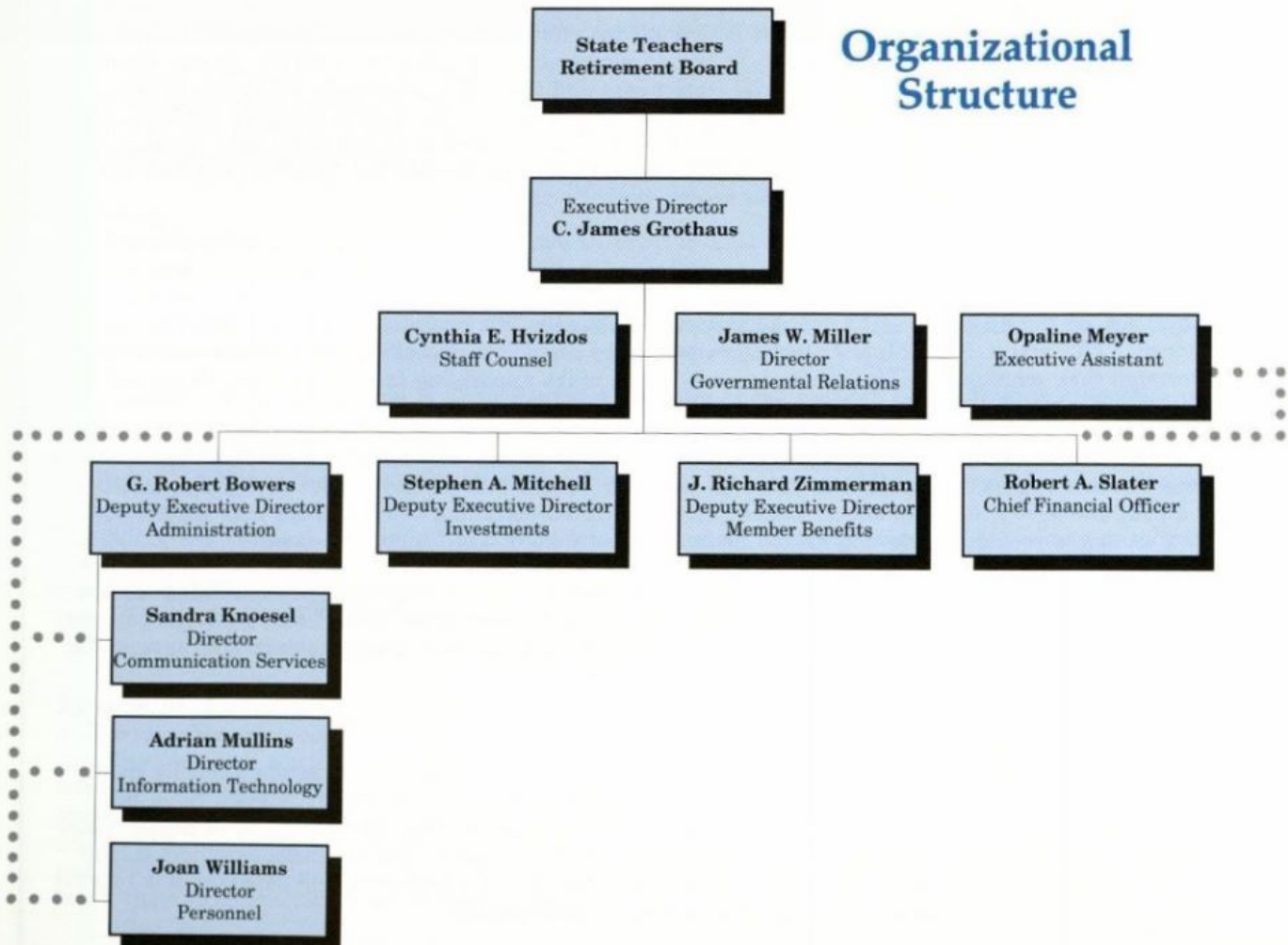
Senior Staff

- C. James Grothaus**, *Executive Director*
- G. Robert Bowers**, *Deputy Executive Director, Administration*
- Stephen A. Mitchell**, *Deputy Executive Director, Investments*
- J. Richard Zimmerman**, *Deputy Executive Director, Member Benefits*
- Robert A. Slater**, *Chief Financial Officer*
- Cynthia E. Hvizdos**, *Staff Counsel*
- Opaline Meyer**, *Executive Assistant*
- James W. Miller**, *Director, Governmental Relations*
- Sandra Knoesel**, *Director, Communication Services*
- Adrian Mullins**, *Director, Information Technology*
- Joan Williams**, *Director, Personnel*

Consultants

- Independent Public Accountants:**
Arthur Andersen & Co.
Columbus, Ohio
- Investment Advisors:**
Karsten Realty Advisors
Los Angeles, California
- Actuarial Consultant:**
Buck Consultants
Chicago, Illinois
- Wellington Management Company**
Boston, Massachusetts

Organizational Structure



INTRODUCTION

Letter of Transmittal

THE STATE TEACHERS RETIREMENT SYSTEM OF OHIO

275 EAST BROAD STREET, COLUMBUS, OH 43215-3771

TELEPHONE (614) 227-4090

C. JAMES GROTHAUS, Executive Director

DEPUTY EXECUTIVE DIRECTORS:

G. ROBERT BOWERS, Administration

STEPHEN A. MITCHELL, Investments

J. RICHARD ZIMMERMAN, Member Benefits

STAFF COUNSEL, CYNTHIA E. HVIZDOS

CHIEF FINANCIAL OFFICER, ROBERT A. SLATER

December 13, 1991

Members of the State Teachers Retirement Board:

We are pleased to present the *Comprehensive Annual Financial Report* of the State Teachers Retirement System of Ohio for the fiscal year ended June 30, 1991. This report is intended to provide readers with financial, investment, actuarial, and statistical information in a single publication.

The State Teachers Retirement System (STRS) was created by legislative act on May 8, 1919, as an alternative to separate, often-unstable local school district retirement plans. This cost-sharing, multiple-employer plan now provides service retirement, disability, and survivor benefits, and a health care plan to teachers and faculty members of public boards of education, state-supported colleges and universities, and teaching employees of the state of Ohio and its political subdivisions.

This *Comprehensive Annual Financial Report* is divided into five sections: (1) the introduction includes this letter of transmittal and information about the administrative organization of STRS; (2) the Financial Section contains the general purpose financial statements and footnotes along with the report of the independent auditors; (3) the Actuarial Section includes the results of the annual actuarial valuation and certification letter of Buck Consultants; (4) the Statistical Section consists of historical data showing the progress of the system; and (5) the Investment Section includes the Retirement Board's Objective and Policy Statement and a summary of portfolio assets.

Major Initiatives

STRS members have long been able to purchase additional STRS credit for teaching in private schools or public schools outside Ohio, other public service, or active military service as well as restoring withdrawn STRS credit. Since July 1, 1990, members may pay for purchasable service by payroll deduction through their employers. This service is intended to make purchasing credit more affordable and convenient than lump-sum payments.

Under Senate Bill 329, teachers and beneficiaries who retired before July 1, 1979 received an ad hoc cost-of-living increase retroactive to June 1, 1990. Intended to benefit retirees most affected by high inflation rates during the 1970's, the percentage benefit increase varied according to retirement date from 1.40% to 4.15%. Funding is provided by a \$55 million dedicated portfolio of fixed income securities.

STRS members called to active duty during Desert Shield/Desert Storm operations are entitled to retirement credit for time spent on active duty. Further, Senate Bill 3 authorized public employers to pay partial compensation to employees on active military duty and excludes such compensation from retirement contributions.

Economic Environment

During most of the 1990-91 fiscal year, the U.S. economy was in a period of contraction affecting nearly all sectors. Both interest rates and inflation experienced significant declines. Lower interest rates presented an opportunity to lessen holdings of treasury securities and increase the weighting of higher yielding, quality credit securities. STRS staff took advantage of the recession and resulting weakness in the stock market to increase the allocation of equity investments to 31% of assets in anticipation of a market recovery. Real estate investments remained flat in a depressed market.

INTRODUCTION

At the state level, funding for education continued to be tight. However, STRS funding remained stable, ending the fiscal year with a modest net actuarial gain.

Accounting Basis and Internal Control

The financial statements are prepared in accordance with generally accepted accounting principles and are the responsibility of STRS management. Equity investments are recorded at cost, and fixed income investments are reported at amortized cost. The carrying value of investments is adjusted for permanent market declines below cost. Revenues and expenses are recorded on an accrual basis; that is, revenues are recorded when earned and expenses are recorded when incurred.

STRS maintains a system of internal controls designed to assure responsible safeguarding of assets and reliable financial records. No material weaknesses in internal control were reported during the conduct of the audit.

The financial statements on pages 11-22 for the fiscal year ended June 30, 1991, have been audited by Arthur Andersen & Co., Columbus, Ohio. Their report is shown on page 10.

Financial Highlights

Total contributions for the fiscal year, including additional service credit purchased by members and employers, were \$1.313 billion. The increase of 7.7% over the prior year is the result of a 6% increase in covered payroll plus an increase in the member contribution rate from 8.77% of earned compensation to 9.25%.

Investment income totaled \$1.72 billion, representing a 9.2% return on assets at book value. The actuarially assumed return is 7.75%.

The ultimate purpose of any retirement system is to pay benefits. In total, benefit payments for the fiscal year exceeded \$1.13 billion, an increase of 12% over the previous year. As a group, service retirement, disability, and survivor benefits increased an expected and typical 10.5%. Of more concern is the increase in health care expenses of nearly 25%.

Funding

Contribution rates are actuarially determined to provide a level basis of funding using the entry age normal cost method, and an actuarial valuation is performed annually by Buck Consultants, Chicago, Illinois. The July 1, 1991 valuation shows that the amortization period for the unfunded accrued liability decreased from 34 to 33.5 years and the ratio of assets to total accrued liabilities improved from 70% to 71%. There were no changes in the principal assumptions shown on page 26.

The pension benefit obligation is a standardized measure of the present value of pension benefits prescribed by Governmental Accounting Standards Board Statement No. 5. The total pension benefit obligation, excluding health care, for STRS as of July 1, 1991 was \$25.8 billion.

Investments

Providing the financial foundation of STRS, total investment assets grew to \$19.683 billion as of June 30, 1991. All assets are internally managed and are strategically allocated among three primary portfolios: fixed income, common and preferred stocks, and equity real estate. The mix of investments is designed to provide high long-term yields while minimizing exposure to risk. The State Teachers Retirement Board Investment Objective and Policy Statement is included in the Investment Section starting on page 41.

Review of Operations and Activities

STRS devotes much time and attention to advising members and retirees about their current or future benefits including a comprehensive account statement provided to each member showing projected benefits as well as earnings and service history. During the 1991 fiscal year, Member Benefits staff met in the Columbus office with more than 4,914 members and benefit recipients and responded to more than 36,719 telephone calls and 6,702 letters. There were 90 meetings for active and retired teachers throughout the state with total attendance of more than 6,747 people. Individual conferences were conducted with more than 15,062 members at 52 field locations.

(continued)

INTRODUCTION

Letter of Transmittal (continued)

The State Teachers Retirement Board formally adopted the *STRS Philosophy* shown on the inside front cover. The mission and vision are the foundation for a strategic management plan currently being developed to set the direction for STRS into the next century.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to STRS for its comprehensive annual financial report for the fiscal year ended June 30, 1990. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

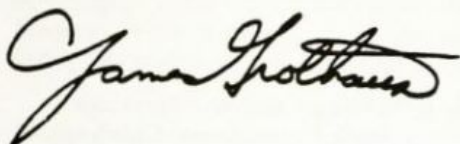
To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report (CAFR), the contents of which conform to program standards. A CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements and are submitting it to GFOA.

Acknowledgments

The preparation of this report is possible only through the combined effort of the STRS staff. It is intended to provide complete and reliable information as a basis for making management decisions, for determining compliance with legal provisions, and for determining responsible stewardship of the assets contributed by members and their employers.

Respectfully submitted,



C. James Grothaus
Executive Director



Robert A. Slater, CPA
Chief Financial Officer

RETIREMENT BOARD

CHARLES W. JEWELL, CHAIRMAN
PRINCETON JR. HIGH SCHOOL, YOUNGSTOWN

WILLIAM A. DORSEY
HOBART MIDDLE SCHOOL, PAINESVILLE

THOMAS E. FERGUSON
AUDITOR OF STATE

WILLIAM C. McDONALD, VICE CHAIRMAN
JACKSON CITY SCHOOLS, JACKSON

BETTY O. PETERS
RETIRED TEACHER MEMBER, NORTHFIELD

LEE I. FISHER
ATTORNEY GENERAL OF OHIO

JACK H. CHAPMAN, JR.
ASHTON MIDDLE SCHOOL, REYNOLDSBURG

HAZEL A. SIDAWAY
WORLEY ELEMENTARY SCHOOL, CANTON

FRANKLIN B. WALTER
SUPERINTENDENT OF PUBLIC INSTRUCTION

FINANCIAL



Independent Public Accountants' Report

Statements of Net Assets
Available for Benefits
as of June 30, 1991 and 1990

Statements of Changes in Net Assets
Available for Benefits
Years Ended June 30, 1991 and 1990

Notes to Financial Statements

Supplementary Information of Analysis
of Funding Progress
1983-1991

Supplementary Information of Revenues
by Source and Expenses by Type
1982-1991

Supplementary Information of
Employer Contributions
1982-1991

Supplementary Investment Rollforward
June 30, 1991

Supplementary Information of
Administrative Expenses
Years Ended June 30, 1991 and 1990

FINANCIAL

Independent Public Accountants' Report

ARTHUR ANDERSEN & CO.
COLUMBUS, OHIO

Report of Independent Public Accountants

To the State Teachers Retirement Board:

We have audited the accompanying statements of net assets available for benefits of The State Teachers Retirement System of Ohio (STRS) as of June 30, 1991 and 1990, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of STRS management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of STRS as of June 30, 1991 and 1990, and the changes in its net assets available for benefits for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information of analysis of funding progress, employer contributions, revenues by source and expenses by type, investment rollforward, and administrative expenses on pages 19 to 22 of notes to financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information, except for the portions marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in our audits 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.

Arthur Andersen + Co.

Columbus, Ohio,
October 25, 1991.

FINANCIAL

Statements of Net Assets Available for Benefits as of June 30

| | 1991 | 1990 |
|---|---------------------|---------------------|
| | (Thousands) | |
| ASSETS | | |
| INVESTMENTS: | | |
| Short-term | \$ 750,788 | \$ 1,311,880 |
| Fixed income | 10,715,679 | 9,695,151 |
| Common and preferred stock and venture capital | 6,098,068 | 4,621,476 |
| Real estate | 2,118,190 | 2,136,706 |
| Total investments | 19,682,725 | 17,765,213 |
| CASH | 11,875 | 24,617 |
| RECEIVABLES: | | |
| Accrued interest and dividends | 151,357 | 157,958 |
| Employer contributions | 131,898 | 127,797 |
| Retirement incentive plan | 51,804 | 61,139 |
| Employee contributions | 93,637 | 90,201 |
| State of Ohio appropriations | 4,480 | 4,886 |
| Securities sold | 55,853 | 172,653 |
| Total receivables | 489,029 | 614,634 |
| FIXED ASSETS, net of accumulated depreciation of \$6,645,000 and \$4,935,000 in 1991 and 1990, respectively | 51,821 | 50,778 |
| Total assets | 20,235,450 | 18,455,242 |
| LIABILITIES | | |
| SECURITIES PURCHASED | 94,834 | 173,031 |
| ACCRUED EXPENSES AND OTHER LIABILITIES | 45,767 | 39,758 |
| Total liabilities | 140,601 | 212,789 |
| NET ASSETS AVAILABLE FOR BENEFITS | \$20,094,849 | \$18,242,453 |

The accompanying Notes to Financial Statements are an integral part of these statements.

FINANCIAL

Statements of Changes in Net Assets Available for Benefits Years Ended June 30

| | 1991 | 1990 |
|--|---------------------|---------------------|
| | (Thousands) | |
| INVESTMENT INCOME: | | |
| Interest | \$ 1,063,086 | \$ 1,021,355 |
| Dividends | 208,415 | 204,516 |
| Rent | 69,430 | 80,364 |
| Net investment gains | 378,184 | 357,365 |
| Total investment income | 1,719,115 | 1,663,600 |
| CONTRIBUTIONS: | | |
| Employer | 793,132 | 754,726 |
| Employee | 511,269 | 455,264 |
| State of Ohio | 4,490 | 4,876 |
| Other | 3,841 | 3,934 |
| Total contributions | 1,312,732 | 1,218,800 |
| Total increases | 3,031,847 | 2,882,400 |
| BENEFIT PAYMENTS: | | |
| Service retirement | 822,842 | 744,625 |
| Disability retirement | 70,149 | 63,174 |
| Survivor benefits | 28,851 | 26,735 |
| Supplemental benefit | 38,110 | 36,885 |
| Health care | 170,583 | 136,563 |
| Other | 1,342 | 1,482 |
| Total benefit payments | 1,131,877 | 1,009,464 |
| REFUNDS TO MEMBERS WHO HAVE WITHDRAWN | 18,088 | 17,070 |
| ADMINISTRATIVE EXPENSES | 29,486 | 20,415 |
| Total decreases | 1,179,451 | 1,046,949 |
| NET INCREASE | 1,852,396 | 1,835,451 |
| NET ASSETS AVAILABLE, beginning of year | 18,242,453 | 16,407,002 |
| NET ASSETS AVAILABLE, end of year | \$20,094,849 | \$18,242,453 |

The accompanying Notes to Financial Statements are an integral part of these statements.

Notes to Financial Statements
June 30, 1991 and 1990

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of The State Teachers Retirement System of Ohio (STRS) presented herein have been prepared on the accrual basis of accounting following the accounting policies set forth below.

- a. Organization—STRS (the Plan) is a cost-sharing multiple-employer plan that was created by Chapter 3307 of the Ohio Revised Code (ORC) and is administered by a board comprised of five active members, one retired teacher and three voting ex-officio members.

STRS is a separate financial reporting entity in accordance with criteria established by Governmental Accounting Standards Board Statement No. 14. Specifically, the Plan is governed by a separately elected body, is legally separate, and is fiscally independent of other state and local governments.
- b. Investment Income Recognition—
 - Dividend income is recognized on the record date.
 - Interest income is recognized as earned.
 - Rental income is recognized as earned.
 - Gain or loss on security transactions is determined as of the trade date using the average cost of securities sold.
 - Gain or loss on exchange of fixed-income securities is recognized using the completed transaction method.
 - Gain or loss on real estate is recognized upon sale and for market declines judged to be other than temporary.
- c. Contributions—Employer and employee contributions are recorded in the period the related employee salaries are earned.
- d. Fixed Assets—Fixed assets are recorded at historical cost. Depreciation is provided on a straight-line basis over estimated useful lives of 10 years for equipment and 40 years for buildings and building improvements.
- e. Investment Accounting and Valuation—
 - Short-term investments and fixed-income investments are valued at amortized cost with any related discount or premium amortized using the effective yield method, subject to adjustment for market declines judged to be other than temporary. Short-term investments include cash equivalents, repurchase agreements and corporate and government notes that mature within four years.
 - Common and preferred stock and venture capital investments are valued at cost, subject to adjustment for market declines judged to be other than temporary.
 - Real estate investments are valued at historical cost, subject to adjustment for market declines judged to be other than temporary. No provision for depreciation has been made because real estate is treated as an investment asset.
 - Purchases and sales of investments are recorded as of their trade date.

- STRS has no individual investment which exceeds five percent of net assets available for benefits.

2. DESCRIPTION OF THE STRS PLAN

Plan Membership—STRS is a mandatory statewide retirement plan for certified teachers and other faculty members employed in the public schools of Ohio (the State) or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the State or any political subdivision thereof. At June 30, 1991, the number of participating employers was:

| | |
|---|-----|
| City school districts | 193 |
| Local school districts | 371 |
| County offices | 85 |
| Exempted village school districts | 49 |
| Joint vocational and technical schools | 49 |
| Universities and colleges | 37 |
| County Boards of Mental Retardation and Developmental Disabilities | 88 |
| State of Ohio | 1 |
| | 873 |

Plan Benefits—Plan Benefits are established under Chapter 3307 of the ORC. Any member may retire who has (i) five years of service credit and attained age sixty, (ii) twenty-five years of service credit and attained age fifty-five, or (iii) thirty years of service credit regardless of age.

The maximum annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest years' salaries. The annual allowance is determined by multiplying final average salary by 2.5% for each year of Ohio contributing service in excess of 30 years and by 2.1% for all other years of credited service up to a maximum allowance of 100% of final average salary. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts.

Under the "money purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from contributed employer funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

Since the plan is tax-qualified, benefits are subject to limits established by Section 415 of the Internal Revenue Code.

After retirement, benefits are increased annually by 3% of the original benefit at retirement if the cost of living as measured by the Consumer Price Index has increased at least 3% since the latest adjustment on a cumulative basis.

Notes to Financial Statements

June 30, 1991, and 1990 (continued)

Death, Survivors' and Disability Benefits—A member under the age of 60 with five or more years' credited service who becomes disabled (illness or injury preventing individual's ability to teach) is entitled to a disability allowance. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member. Additional death benefit coverage up to \$2,000 can be purchased. Various other benefits are available to members' beneficiaries.

Health Care Benefits After Retirement—The Plan provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. No premiums are currently paid by retirees or primary benefit recipients; however, monthly payments are required for covered spouses and other dependents. Pursuant to the ORC, the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by the Plan.

Under Ohio law, medical costs paid from the funds of the Plan are included in the employer contribution rate, currently 14% of compensation. The Board allocates employer contributions equal to 2% of covered payroll to a health care reserve fund within the Employers' Trust Fund from which payments for health care benefits are paid. The balance in the health care reserve fund is \$301,815,000 and \$340,312,000 at June 30, 1991 and June 30, 1990, respectively.

The net health care costs paid by the Plan were \$170,583,000 for the year ended June 30, 1991 and \$136,563,000 for the year ended June 30, 1990. Eligible benefit recipients totaled 70,583 and 68,739 at July 1, 1991 and July 1, 1990, respectively. As of July 1, 1991, \$138,000,000 of fiscal year 1991 investment income was transferred to the health care reserve fund to provide an additional reserve for future health care benefits.

Supplemental Benefits—In December of each year, if the Board determines that sufficient funds are available, a lump-sum supplemental benefit payment is made to eligible retirees. The payment is based on the retiree's years of service and date of retirement. The amount of the payment may vary and is not guaranteed from year to year. Approximately \$38,110,000 and \$36,885,000 were paid as supplemental benefits in December 1990 and 1989, respectively.

3. FUNDING METHOD AND CONTRIBUTION REQUIREMENTS

STRS funding policy provides for periodic employer and employee contributions at rates, expressed as percentages of covered payroll, that will accumulate assets sufficient to pay benefits when due. Employer and employee contribution rates are established by the Board and limited by Chapter 3307 of the ORC to 14% and 10%, respectively, of covered payroll. The rates are

established by the Board based on an actuarial evaluation of the liabilities of STRS by its actuary.

The actuarial evaluation used the projected benefit method with level percentage entry age normal cost and an open-end unfunded actuarial liability to calculate the projected benefit obligation and to determine the period over which the unfunded liability would be amortized (based on present fixed employer and employee contribution rates). The significant actuarial assumptions used to compute the projected benefit obligation are the same as those used to compute the standardized measure of the pension obligation discussed in Note 4.

Contributions consisted of the following components:

| | Year Ended 6-30-91 | Year Ended 6-30-89 |
|---|-----------------------|-----------------------|
| Employee normal cost | 9.25% | 8.77% |
| Employer | | |
| Normal cost | 5.78% | 6.26% |
| Amortization of unfunded actuarial liability | 6.22% | 5.74% |
| Health care benefits | 2.00% | 2.00% |
| Total employer | 14.00% | 14.00% |

Normal cost is the amount necessary to finance benefits earned by employees during the current service year.

The actuarial calculation resulted in an unfunded liability for funding purposes that would liquidate over a period of 33.5 years at July 1, 1991 and 34 years at July 1, 1990.

Contribution requirements based on covered payroll were \$738,179,000 and \$696,422,000 for employers and \$487,726,000 and \$436,259,000 for employees in 1991 and 1990, respectively. Actual contributions received were \$793,132,000 and \$754,726,000 for employers and \$511,269,000 and \$455,264,000 for employees in 1991 and 1990, respectively. The differences are primarily due to programs whereby employees and employers can purchase additional years of service credit.

4. FUNDING STATUS AND PROGRESS

The amounts shown below as pension benefit obligation (PBO) are standardized disclosure measures of the present value of pension benefits estimated to be payable in the future as a result of employee service to date. The PBO is adjusted for the effects of composite projected salary increases. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the funding status of the Plan on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems.

The PBO was determined as part of actuarial valuations at July 1, 1991 and 1990. Significant actuarial

FINANCIAL

assumptions included (a) a rate of return on the investment of present and future assets of 7.75% per year, compounded annually, (b) assumed projected annual salary increases ranging from 10.50% at age 20 to 4.50% at age 65, which reflect an allowance for inflation and merit or seniority increases, (c) post-retirement life expectancies based on the 1955 American Annuity Table with ages set back two years for men and seven years for women, (d) pre-retirement life expectancies, rates of withdrawal from service before retirement for reasons other than death, rates of disability and rates of retirement ages developed on the basis of actual plan experience, (e) assumed annual post-retirement benefit increases equal to 3% of the member's benefit at retirement, based on the assumption that the change in the Consumer Price Index will equal or exceed 3% each year in the future, and (f) an employee contribution rate of 8.77% at July 1, 1989 and 9.25% effective July 1, 1990, and an employer contribution rate of 14%.

At July 1, 1991 and 1990, the unfunded pension benefit obligation was \$6,157,720 and \$5,842,518, respectively, as follows (dollar amounts in thousands):

5. FUNDS

Various funds were established under the ORC to account for contributions, reserves, income and administrative expenses.

- The Teachers' Savings Fund (TSF) is used to accumulate employee contributions in trust.
- The Employers' Trust Fund (ETF) is used to accumulate employer contributions in trust. ETF includes assets allocated to the health care reserve fund from which payments for comprehensive health care benefits are made (see Note 2).
- The Annuity and Pension Reserve Fund (APRF) is the fund from which all annuities and pension payments to retired members are made for which reserves have been transferred from the TSF and ETF funds.
- The Survivors' Benefit Fund is the fund from which all survivor benefit payments are made for which reserves have been transferred from the Teachers' Savings Fund and the Employers' Trust Fund.
- The Guarantee Fund is used to accumulate income derived from gifts, bequests, and investments for the year.
- The Expense Fund is the fund from which all expenses for the administration and management of STRS are paid.

| | 1991 | | 1990 | |
|---|--------------------------|---------------------|--------------------------|---------------------|
| | <u>Number of Members</u> | <u>Amount</u> | <u>Number of Members</u> | <u>Amount</u> |
| Actuarial present value of projected benefits payable to current retirees and beneficiaries | 70,583 | \$10,440,584 | 68,739 | \$ 9,576,506 |
| Actuarial present value of projected benefits payable to terminated vested members | <u>16,447</u> | <u>1,040,347</u> | <u>16,193</u> | <u>946,343</u> |
| Total | <u>87,030</u> | <u>11,480,931</u> | <u>84,932</u> | <u>10,522,849</u> |
| Actuarial present value of credited projected benefits for plan members: | | | | |
| Member contributions | | 3,829,480 | | 3,509,869 |
| Employer financed vested | | 4,028,471 | | 3,668,864 |
| Employer financed nonvested | | <u>6,473,872</u> | | <u>6,043,077</u> |
| Total (122,500 and 120,600 vested members; 109,656 and 106,713 nonvested members at July 1, 1991 and 1990, respectively.) | <u>232,156</u> | <u>14,331,823</u> | <u>227,313</u> | <u>13,221,810</u> |
| Total members | <u>319,186</u> | | <u>312,245</u> | |
| Pension benefit obligation | | 25,812,754 | | 23,744,659 |
| Net assets available for benefits at cost (excluding health care reserve fund of \$439,815 at July 1, 1991 and \$340,312 at July 1, 1990) | | <u>19,655,034</u> | | <u>17,902,141</u> |
| Unfunded pension benefit obligation | | <u>\$ 6,157,720</u> | | <u>\$ 5,842,518</u> |

Notes to Financial Statements

June 30, 1991 and 1990 (continued)

After interest is allocated to the various funds, the Guarantee Fund and the Expense Fund are closed into the Employers' Trust Fund at year-end.

At June 30, 1991 and 1990, net assets available for benefits were included in the various funds as follows (in thousands):

| | 1991 | 1990 |
|----------------------------------|---------------------|---------------------|
| Teachers' Savings Fund | \$ 4,076,990 | \$ 3,729,945 |
| Employers' Trust Fund | 5,618,091 | 5,083,457 |
| Annuity and Pension Reserve Fund | 10,099,979 | 9,147,308 |
| Survivors' Benefit Fund | 299,789 | 281,743 |
| | <u>\$20,094,849</u> | <u>\$18,242,453</u> |

6. COMMITMENTS

STRS has made commitments to fund various real estate investments totaling approximately \$259,265,000 at June 30, 1991.

In October 1991, the Board passed a resolution that provides lump-sum supplemental benefit payments to be paid to eligible retirees in December 1991. Estimated payments totaled \$28,955,000.

7. INVESTMENT SUMMARY

The investment authority of the Board is governed by Section 3307.15 of the ORC which also requires the Board to publish its investment policies annually and make copies available to interested parties. This section requires that investments be made with care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. It further provides that the Board may invest in bonds, notes, certificates of indebtedness, mortgage notes, real estate, stocks and debentures with certain restrictions as to the nature and quality of this investment and composition of the investment portfolio. The Board has further restricted investments as to the nature and quality of the investment and composition of the investment portfolio.

A complete description of the investment powers of the Board may be found in Section 3307.15 of the ORC. The Board's "Investment Objective and Policy" may be found in the Investment Section of this report.

Statement No. 3 of the Governmental Accounting Standards Board requires governmental entities to categorize investments as an indication of the level of risk at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by STRS or its agent in the name of STRS. Category 2 includes uninsured and unregistered investments for which the securities are held by the custodian's trust department or agent in the name of STRS. Category 3 includes uninsured and unregistered investments for which the securities are held by the custodian or its agent but not in STRS' name.

All marketable securities at June 30, 1991 and June 30, 1990 meet the criteria of Category 1. Investments are held in the name of STRS or its nominee by the Treasurer of the State of Ohio as custodian.

All bank deposits are fully insured and collateralized with the collateral held at the Treasurer of the State of Ohio on behalf of STRS.

Investments held by STRS at June 30, 1991 and 1990 are summarized in the chart on page 17.

8. REAL ESTATE INVESTMENTS

General—The STRS properties are geographically distributed. The real estate investments include retail single-tenant stores and malls (29%), single and multi-tenant office space (40%), single and multi-tenant warehouses (14%), apartments (9%) and other (8%). Certain reclassifications among real estate categories were made in fiscal 1991 to conform with the manner in which the properties are currently being managed (see Note 7). No single project or groups of leases with a single credit represents more than 6% of total real estate investments.

In general, there has been a decline nationally in the value of real estate properties. Losses in market value judged to be other than temporary have been recognized in the financial statements. Management believes that other declines in appraised values are temporary in relation to the expected holding periods of the investments.

Participating Mortgages—Participating mortgages consist principally of mortgages on commercial office space and have the following general features:

- Fixed interest rates ranging from 8% to 13.5%, generally 1 to 2 percentage points below the prevailing market rate at the inception of the mortgage in exchange for participation in the net cash flow generated by a project ranging from 50% to 80%.
- Maturities ranging from fiscal year 1992 to 2021.
- Options to convert the mortgage to an equity position in the project, in lieu of payment, or to call the mortgage after a specified period of time.

Multi-Tenant and Sale-Leaseback—Multi-tenant properties and sale-leaseback arrangements consist of real estate leased subject to operating leases, which consist principally of commercial office space, retail store space and warehouse space. Following is a schedule of minimum future rentals on noncancellable operating leases as of June 30, 1991 (in thousands):

| Year ending June 30 | |
|------------------------------|------------------|
| 1992 | \$ 79,378 |
| 1993 | 77,557 |
| 1994 | 70,430 |
| 1995 | 65,688 |
| 1996 | 61,892 |
| Thereafter | <u>439,163</u> |
| Total minimum future rentals | <u>\$794,108</u> |

FINANCIAL

Investments held by STRS at June 30, 1991 and 1990 are summarized as follows (in thousands):

| Category | June 30, 1991 | | June 30, 1990 | |
|---|---------------------|---------------------|---------------------|---------------------|
| | Cost | Fair Market Value | Cost | Fair Market Value |
| Short-term | \$ 750,788 | \$ 755,382 | \$ 1,311,880 | \$ 1,315,050 |
| Fixed-income: | | | | |
| Guaranteed mortgages | 3,692,553 | 3,716,834 | 3,344,836 | 3,314,810 |
| U.S. Government and governmental agencies | 5,191,550 | 5,325,177 | 4,821,086 | 4,956,311 |
| Corporate bonds | 1,452,171 | 1,463,362 | 1,245,308 | 1,233,167 |
| Canadian bonds | 363,609 | 357,005 | 262,846 | 245,711 |
| Municipal bonds | 2,435 | 2,415 | 2,710 | 2,618 |
| Convertible bonds | 13,361 | 11,121 | 18,365 | 12,758 |
| Total fixed income | <u>10,715,679</u> | <u>10,875,914</u> | <u>9,695,151</u> | <u>9,765,375</u> |
| Common and preferred stock | <u>6,069,281</u> | <u>7,257,648</u> | <u>4,593,856</u> | <u>5,740,509</u> |
| Real estate (see Note 8): | | | | |
| Participating mortgages | 493,663 | 489,876 | 582,268 | 640,454 |
| Multi-tenant properties | 333,049 | 283,500 | 616,074 | 585,244 |
| Sale leasebacks | 461,927 | 421,336 | 486,726 | 475,648 |
| Other | 829,551 | 808,868 | 451,638 | 524,118 |
| Total real estate | <u>2,118,190</u> | <u>2,003,580</u> | <u>2,136,706</u> | <u>2,225,464</u> |
| Venture capital | <u>28,787</u> | <u>29,582</u> | <u>27,620</u> | <u>29,042</u> |
| Total investments | <u>\$19,682,725</u> | <u>\$20,922,106</u> | <u>\$17,765,213</u> | <u>\$19,075,440</u> |

Fair market valuation—Stocks traded on a national securities exchange are valued at the closing price on the last business day of the fiscal year; stocks traded over the counter are valued at the closing bid price, as reflected by NASDAQ, on the last business day of the fiscal year; U.S. Government and governmental agency securities, bonds, certain guaranteed mortgages, and short-term corporate and government notes are valued based on information from an independent service organization for institutional investors; guaranteed mortgages are valued based on their coupon rate relative to the coupon rate for similar mortgages on the last business day of the fiscal year; short-term cash equivalent investments are stated at amortized cost which approximates market value; real estate is valued based on appraisals performed by independent appraisers or, for properties not appraised, at the present value of the projected future net income stream, and venture capital is based on values established by valuation committees.

Other—Other real estate includes syndicated mortgages, consisting of land acquisition costs and mortgage receivables relating to the financing of buildings; separate accounts, comprised of group annuity contracts and group trusts; and joint ventures.

9. DEPOSITS

The Treasurer of State has entered into an agreement with a bank that provides STRS with various banking services, provided that STRS maintains sufficient compensating balances to cover the costs of the bank in supplying the specified services. For the year ended June 30, 1991, such compensating balances averaged approximately \$6,102,000. The lost earnings from not investing such balances in short-term investments equated to a cost to STRS of approximately \$438,000.

10. STATE APPROPRIATIONS

From time to time, the legislature of the State has increased benefit payments to retirees. In certain instances, concurrent with the passage of such legislation, a provision for payment of these benefits through future State appropriations has been made. The unrecorded present value of future State appropriations at June 30, 1991 and 1990 for these benefits was approximately \$29,825,000 and \$33,166,000, respectively.

STRS received approximately \$4,490,000 and \$4,876,000 from the State for these increased benefits paid during the years ended June 30, 1991 and 1990, respectively. Funding for these increased benefits is on a pay-as-you-go basis by the State.

Notes to Financial Statements

June 30, 1991 and 1990 (continued)

11. PENSION PLAN

Substantially all full-time STRS employees are eligible to participate in a contributory retirement plan administered by the Public Employees Retirement System of Ohio (PERS). PERS is a cost-sharing, multiple-employer public employee retirement system. The payroll for employees covered by PERS for the year ended June 30, 1991 was approximately \$8,319,000; STRS's total payroll was approximately \$8,790,000.

Eligible employees are entitled to a retirement benefit, payable monthly for life, equal to 2.1% of their final average salary for each year of credited service up to 30 years and 2.5% for each year of service over 30 years. Final average salary is the employee's average salary over the highest three years of earnings. Benefits fully vest on reaching five years of service. Vested employees may retire at any age with 30 years of credited service, at age 60 with a minimum of five years of credited service and age 55 with a minimum of 25 years of service. Employees retiring with less than 30 years of service and under age 65 receive reduced retirement benefits. Benefits are established by State statute. Employees covered by PERS are required by Ohio statute to contribute 8.5% of their salary to the plan. STRS is required by the same statute to contribute 13.95% of covered payroll; 8.53% is the portion that is used to fund pension obligations with the remainder used to fund the health care program for retirees. The total contribution requirement for the year ended June 30, 1991 was approximately \$1,868,000, which consisted of \$1,161,000 from STRS and \$707,000 from employees; these contributions represented 13.95% and 8.5% of covered payroll, respectively. There were no changes in actuarial assumptions, benefits provisions, or actuarial funding methods for the most recent actuarial study.

The pension benefit obligation and the net assets available for benefits for PERS as a whole, based on the most recent information and actuarial valuations available, is presented below (in thousands):

December 31, 1989

| | |
|-----------------------------------|--------------|
| Pension benefit obligation | \$16,699,000 |
| Net assets available for benefits | \$14,730,000 |

The pension benefit obligation is a standardized disclosure measure of the actuarial present value of credited projected benefits, adjusted for the effects of projected salary increases and any step rate benefits, estimated to be payable in the future as a result of the employee's service to date. This measure is intended to help users assess each public employee retirement system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and among employers. The total pension benefit obligation does not include projected health care benefits. STRS's con-

tributions represented less than one percent of the total contributions required of all participating entities in PERS.

Historical trend information showing the progress of PERS in accumulating sufficient assets to pay benefits when due is presented in the PERS *Comprehensive Annual Financial Report*.

12. TEN-YEAR HISTORICAL TREND INFORMATION

Ten-year historical trend information designed to provide information about STRS's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 19-21. The standardized measure of the pension benefit obligation is unavailable for fiscal years prior to 1983.

FINANCIAL

Supplementary Information of Analysis of Funding Progress 1983-1991

(In Thousands Except Percentages)

| Fiscal Year | Net Assets Available for Benefits* | Pension Benefit Obligation | Percentage Funded | Unfunded Pension Benefit Obligation | Annual Covered Payroll | Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll |
|------------------|------------------------------------|----------------------------|-------------------|-------------------------------------|------------------------|--|
| 1983 (unaudited) | \$ 7,260,743 | \$11,532,682 | 63% | \$4,271,939 | \$3,090,437 | 138% |
| 1984 (unaudited) | 8,207,347 | 13,020,055 | 63% | 4,812,708 | 3,327,764 | 145% |
| 1985 (unaudited) | 9,332,364 | 14,513,636 | 64% | 5,181,272 | 3,590,278 | 144% |
| 1986 (unaudited) | 10,678,570 | 15,980,947 | 67% | 5,302,377 | 3,839,151 | 138% |
| 1987 (unaudited) | 12,589,487 | 17,600,461 | 72% | 5,010,974 | 4,133,831 | 121% |
| 1988 (audited) | 14,258,680 | 19,324,598 | 74% | 5,065,918 | 4,380,287 | 116% |
| 1989 (audited)** | 16,057,321 | 21,978,477 | 73% | 5,921,156 | 4,657,975 | 127% |
| 1990 (audited) | 17,902,141 | 23,744,659 | 75% | 5,842,518 | 4,974,442 | 117% |
| 1991 (audited) | 19,655,034 | 25,812,754 | 76% | 6,157,720 | 5,272,709 | 117% |

*At cost (see Note 1). Excludes assets allocated to the health care reserve fund.

**In fiscal year 1989, plan benefit provisions were amended to increase the benefit formula. The amendment increased the pension benefit obligation in fiscal 1989 by \$608 million.

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of STRS' funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the retirement system. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of STRS' progress in accumulating assets to pay benefits when due. Generally, the smaller this percentage, the stronger the retirement system.

The amount of net assets available for benefits on an accrual basis and the GASB 5-defined pension benefit obligation are not available prior to 1983.

The actuarial assumptions used in the computation of the pension benefit obligation are revised periodically based on STRS' experience.

FINANCIAL

Supplementary Information of Revenues by Source and Expenses by Type

1982-1991

(In Thousands)

Revenues by Sources

| Fiscal Year | Employee Contributions | Employer Contributions | Investment Income | State Appropriations | Other | Total |
|--------------------|---------------------------|---------------------------|----------------------|-------------------------|---------|-------------|
| 1982 (unaudited)* | \$253,208 | \$390,632 | \$ 516,640 | \$4,323 | \$1,825 | \$1,166,628 |
| 1983 (unaudited) | 269,913 | 417,209 | 682,034 | 7,979 | 1,866 | 1,379,001 |
| 1984 (unaudited)** | 296,876 | 467,696 | 740,029 | 7,471 | 2,311 | 1,514,383 |
| 1985 (unaudited) | 325,351 | 540,824 | 890,331 | 7,048 | 3,036 | 1,766,590 |
| 1986 (unaudited) | 354,011 | 604,729 | 1,163,976 | 6,595 | 3,622 | 2,132,933 |
| 1987 (unaudited) | 384,490 | 614,989 | 1,798,705 | 6,142 | 3,117 | 2,807,443 |
| 1988 (audited) | 396,655 | 676,536 | 1,494,435 | 5,704 | 3,392 | 2,576,722 |
| 1989 (audited)*** | 423,639 | 703,773 | 1,617,196 | 5,287 | 3,468 | 2,753,363 |
| 1990 (audited) | 455,264 | 754,726 | 1,663,600 | 4,876 | 3,934 | 2,882,400 |
| 1991 (audited)**** | 511,269 | 793,132 | 1,719,115 | 4,490 | 3,841 | 3,031,847 |

Expenses by Type

| Fiscal Year | Benefits | Refunds | Administration | Total |
|-------------------|------------|----------|----------------|------------|
| 1982 (unaudited)* | \$ 423,056 | \$28,978 | \$ 5,298 | \$ 457,332 |
| 1983 (unaudited) | 472,150 | 26,604 | 6,333 | 505,087 |
| 1984 (unaudited) | 526,719 | 21,330 | 7,789 | 555,838 |
| 1985 (unaudited) | 595,247 | 20,848 | 8,090 | 624,185 |
| 1986 (unaudited) | 678,202 | 19,317 | 9,449 | 706,968 |
| 1987 (unaudited) | 763,052 | 17,232 | 11,245 | 791,529 |
| 1988 (audited) | 845,476 | 15,526 | 13,610 | 874,612 |
| 1989 (audited) | 925,557 | 17,695 | 16,291 | 959,543 |
| 1990 (audited) | 1,009,464 | 17,070 | 20,415 | 1,046,949 |
| 1991 (audited) | 1,131,877 | 18,088 | 29,486 | 1,179,451 |

*Fiscal year 1982 was prepared on a cash basis of accounting.

**Employee and employer contribution requirements were increased from 8.50%/13.50%, respectively, to 8.75%/14.00% effective January 1, 1984. The effect of this change was to increase fiscal 1984 employee and employer contributions \$6 million/\$12 million, respectively.

***Effective July 1, 1988, the employee contribution rate was increased from 8.75% to 8.77% of compensation. The effect was an increase in employee contributions of \$768,000 for fiscal year 1989.

****Effective July 1, 1990, the employee contribution was increased from 8.77% to 9.25% of compensation. The effect was an increase in employee contributions of \$25,309,000 for fiscal year 1991.

FINANCIAL

Supplementary Information of Employer Contributions 1982-1991

(In Thousands Except Percentages)

| Fiscal Year | Employer Contributions* | Annual Covered Payroll | Employer Contributions As Percentage of Annual Covered Payroll** |
|------------------|----------------------------|---------------------------|--|
| 1982 (unaudited) | \$390,632 | \$2,893,570 | 13.50% |
| 1983 (unaudited) | 417,209 | 3,090,437 | 13.50% |
| 1984 (unaudited) | 467,696 | 3,327,764 | 14.05% |
| 1985 (unaudited) | 540,824 | 3,590,278 | 15.06% |
| 1986 (unaudited) | 604,729 | 3,839,151 | 15.75% |
| 1987 (unaudited) | 614,989 | 4,133,831 | 14.88% |
| 1988 (audited) | 676,536 | 4,380,287 | 15.45% |
| 1989 (audited) | 703,773 | 4,657,975 | 15.11% |
| 1990 (audited) | 754,726 | 4,974,442 | 15.17% |
| 1991 (audited) | 793,132 | 5,272,709 | 15.04% |

*Employer contributions include payments under the voluntary retirement incentive plan. The retirement incentive plan was established in August, 1983.

**Statutory employer contribution requirements were increased from 13.50% to 14.00% effective January 1, 1984. As a result, employer contributions increased approximately \$12 million in fiscal 1984. Differences between statutory rates and computed rates are primarily related to the retirement incentive plan as discussed above.

Supplementary Investment Rollforward June 30, 1991

(In Thousands)

| Investment Category | Carrying Value, as of June 30, 1990 | Purchases and Accretions | Sales, Redemptions and Accruals | Carrying Value, as of June 30, 1991 | Market Value, as of June 30, 1991 |
|----------------------------|---|--------------------------------|---------------------------------------|---|---|
| Short-term | \$ 1,311,880 | \$ 6,934,138 | \$ 7,495,230 | \$ 750,788 | \$ 755,382 |
| Fixed-income: | | | | | |
| Guaranteed mortgages | 3,344,836 | 916,102 | 568,385 | 3,692,553 | 3,716,834 |
| U.S. Government agencies | 4,821,086 | 2,245,636 | 1,875,172 | 5,191,550 | 5,325,177 |
| Corporate bonds | 1,245,308 | 1,015,189 | 808,326 | 1,452,171 | 1,463,362 |
| Canadian bonds | 262,846 | 217,553 | 116,790 | 363,609 | 357,005 |
| Municipal bonds | 2,710 | — | 275 | 2,435 | 2,415 |
| Convertible bonds | 18,365 | — | 5,004 | 13,361 | 11,121 |
| Total fixed income | 9,695,151 | 4,394,480 | 3,373,952 | 10,715,679 | 10,875,914 |
| Common and preferred stock | 4,593,856 | 3,375,698 | 1,900,273 | 6,069,281 | 7,257,648 |
| Real estate: | | | | | |
| Participating mortgages | 582,268 | 15,886 | 104,491 | 493,663 | 489,876 |
| Multi-tenant properties | 616,074 | — | 283,025 | 333,049 | 283,500 |
| Sale leasebacks | 486,726 | 1,784 | 26,583 | 461,927 | 421,336 |
| Other | 451,638 | 386,136 | 8,223 | 829,551 | 808,868 |
| Total real estate | 2,136,706 | 403,806 | 422,322 | 2,118,190 | 2,003,580 |
| Venture capital | 27,620 | 3,250 | 2,083 | 28,787 | 29,582 |
| Total investments | \$17,765,213 | \$15,111,372 | \$13,193,860 | \$19,682,725 | \$20,922,106 |

FINANCIAL

Supplementary Information of Administrative Expenses

Years Ended June 30

| | 1991 | 1990 |
|---|-------------------------|-------------------------|
| PERSONNEL: | | |
| Salaries and wages | \$ 8,790,115 | \$ 7,631,838 |
| Retirement contributions | 1,160,515 | 957,343 |
| Benefits | 1,902,197 | 1,431,778 |
| | 11,852,827 | 10,020,959 |
| PROFESSIONAL AND TECHNICAL SERVICES: | | |
| Investment advisor | 539,733 | 600,219 |
| Investment research | 133,785 | 127,944 |
| Computer support services | 8,446,335 | 2,946,503 |
| Health care services | 329,623 | 326,873 |
| Actuary | 220,005 | 262,607 |
| Auditing | 72,599 | 42,415 |
| Legal | 91,766 | 99,542 |
| | 9,833,846 | 4,406,103 |
| COMMUNICATIONS: | | |
| Postage and courier services | 695,397 | 775,559 |
| Printing and supplies | 1,014,009 | 938,818 |
| Telephone | 305,211 | 172,941 |
| | 2,014,617 | 1,887,318 |
| OTHER EXPENSES: | | |
| Equipment repairs and maintenance | 1,150,231 | 1,044,778 |
| Building occupancy and maintenance | 556,124 | 650,295 |
| Transportation and travel | 812,939 | 649,785 |
| Equipment rental | 155,757 | 166,605 |
| Depreciation | 1,978,656 | 858,221 |
| Insurance | 246,359 | 270,579 |
| Memberships and subscriptions | 151,735 | 123,456 |
| Retirement study commission | 154,213 | 187,984 |
| Miscellaneous | 578,969 | 149,247 |
| | 5,784,983 | 4,100,950 |
| TOTAL ADMINISTRATIVE EXPENSES | \$29,486,273 | \$20,415,330 |

ACTUARIAL



Actuary's Certification Letter

Statement of Actuarial Assumptions and Methods

Schedule of Active Member Valuation Data 1982-1991

Schedule of Retirees and Beneficiaries 1982-1991

Summary of Accrued and Unfunded Accrued Liabilities 1982-1991

Solvency Test, 1982-1991

Summary of Benefit and Contribution Provisions

Actuary's Certification Letter

**BUCK
CONSULTANTS**

Xerox Centre
55 West Monroe Street Suite 1700
Chicago, Illinois 60603

October 23, 1991

The Retirement Board
The State Teachers
Retirement System of Ohio
275 East Broad Street
Columbus, Ohio 43215

Ladies and Gentlemen:

This report presents the results of the annual actuarial valuation of the assets and liabilities of The State Teachers Retirement System of Ohio as of July 1, 1991, prepared in accordance with Section 3307.20 of Chapter 3307 of the Ohio Revised Code.

During fiscal year 1990/91, cost-of-living increases to eligible retirees and beneficiaries were granted under Senate Bill 329, which was financed by the release of a reserve of \$53 million previously established for this purpose. There were no other significant modifications in the benefit or contribution provisions which needed to be reflected in the current valuation.

The valuation was based on the same actuarial assumptions and methods used in last year's valuation. The assumptions have been specified by the Retirement Board based on our recommendations. The membership data used in the valuation was reported to us by STRS. While we did not verify the data at its source, we did review it for reasonableness. We also understand that the outside auditor has made an examination of the System's membership data.

The valuation indicates that the unfunded accrued liability of the System is equal to \$8,015 million as of July 1, 1991. Based on the assumption that the STRS payroll will grow in the future at the rate of 5.875% per annum, the unfunded amount of \$8,015 million will be liquidated over a period of 33½ years commencing July 1, 1991.

The valuation also indicates that the assets of the System include reserves which have been established for the following purposes:

- (1) A reserve of \$141 million established as of July 1, 1991 which may be used for any of the following purposes: (i) to provide benefit improvements for members, (ii) to provide health care benefits by a transfer to the Health Care Premium Stabilization Fund, or (iii) to reduce the funding period of the deficiency.
- (2) A reserve of \$200 million established as of July 1, 1990 to cover additional liabilities which were expected to emerge over the near-term on account of adverse actuarial experience which may not be offset by additional investment earnings.

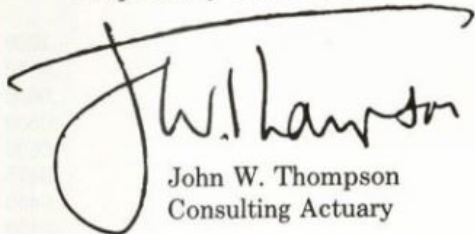
Actuary's Certification Letter

The Retirement Board
The State Teachers
Retirement System of Ohio
October 23, 1991
Page 2

If the reserve of \$141 million had not been established as of July 1, 1991, the unfunded accrued liability of the System would have been \$7,874 million as of July 1, 1991 and the liquidation period would have been 32¾ years.

It should be noted that the current funding period of 33½ years is ahead of the original 1983 Management Improvement Plan objective of attaining a funding period of 40 years as of January 1, 1986, which is equivalent to a period of 34½ years as of July 1, 1991.

Respectfully submitted,



John W. Thompson
Consulting Actuary

BUCK
CONSULTANTS

ACTUARIAL

Statement of Actuarial Assumptions and Methods

Interest Rate: 7¾% per annum, compounded annually. (Adopted 1985.)

Separations From Active Service: Representative values of the assumed rates of separation and annual rates of salary increase are as follows:

| Age | Withdrawal | Death | Disability | ANNUAL RATES OF (Adopted 1985) | | | Salary Increase |
|--------------|------------|-------|------------|-----------------------------------|---------------------------|------------------------------|-----------------|
| | | | | Superannuation | | | |
| | | | | 30 Years Service | 25-29 Years Service | Under 25 Years Service | |
| MEN | | | | | | | |
| 20 | .0855 | .0009 | — | — | — | — | .1050 |
| 30 | .0655 | .0010 | .0003 | — | — | — | .0850 |
| 40 | .0295 | .0016 | .0009 | — | — | — | .0650 |
| 50 | .0150 | .0035 | .0054 | .2250 | — | — | .0530 |
| 55 | .0153 | .0054 | .0077 | .2070 | .0495 | — | .0500 |
| 60 | .0163 | .0096 | — | .2475 | .0675 | .0765 | .0475 |
| 65 | .0163 | .0177 | — | .3825 | .3600 | .2565 | .0450 |
| 70 | — | .0309 | — | .3600 | .3600 | .3150 | .0450 |
| WOMEN | | | | | | | |
| 20 | .0566 | .0003 | — | — | — | — | .1050 |
| 30 | .0599 | .0004 | .0005 | — | — | — | .0850 |
| 40 | .0248 | .0007 | .0012 | — | — | — | .0650 |
| 50 | .0149 | .0016 | .0048 | .2250 | — | — | .0530 |
| 55 | .0126 | .0029 | .0070 | .2250 | .0900 | — | .0500 |
| 60 | .0117 | .0054 | — | .2610 | .1305 | .1440 | .0475 |
| 65 | .0123 | .0099 | — | .4050 | .3600 | .2970 | .0450 |
| 70 | — | .0174 | — | .3600 | .3150 | .2700 | .0450 |

Death After Retirement: According to the 1955 American Annuity Table with ages set back two years for men and seven years for women. Special mortality tables are used for the period after disability retirement. (Adopted 1981; reviewed 1990.)

Valuation Method: Projected benefit method with level percentage entry age normal cost and open-end unfunded accrued liability. Gains and losses are reflected in the accrued liability.

Asset Valuation Method: Cost value.

Payroll Growth: Assumed to grow at 5.875% per annum for purposes of determining the liquidation period of the unfunded accrued liability. (Adopted 1989.)

Pension Benefit Obligation: The measure of the actuarial present value (APV) as of the valuation date of credited projected benefits prorated on service, or pension benefit obligation (PBO) as referred to in Statement No. 5 of the Governmental Accounting Standards Board (GASB), includes an adjustment for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to July 1, 1991. Significant actuarial assumptions used to determine the pension benefit obligation as of July 1, 1991 include the following:

- (1) An assumed rate of return on the investment of present and future assets of 7¾% per annum, compounded annually.
- (2) Assumed projected annual salary increases ranging from 10.50% at age 20 to 4.50% at age 65, which reflect an allowance for inflation and merit or seniority increases.
- (3) Assumed annual post-retirement benefit increases equal to 3% of the member's benefit at retirement, based on the assumption that the change in Consumer Price Index will equal or exceed 3% each year in the future.

ACTUARIAL

Schedule of Active Member Valuation Data 1982-1991

Active Members

| Valuation Date | Number | Annual Payroll | Annual Average Pay | % Increase in Average Pay |
|----------------|---------|-----------------|--------------------|---------------------------|
| 1982 | 145,735 | \$2,884,405,114 | \$19,792 | 9% |
| 1983 | 145,603 | 3,033,025,509 | 20,831 | 5% |
| 1984 | 146,387 | 3,276,468,295 | 22,382 | 7% |
| 1985 | 147,790 | 3,531,209,445 | 23,893 | 7% |
| 1986 | 149,428 | 3,788,136,615 | 25,351 | 6% |
| 1987 | 150,607 | 4,074,129,054 | 27,051 | 7% |
| 1988 | 152,200 | 4,336,723,017 | 28,494 | 5% |
| 1989 | 153,830 | 4,624,118,605 | 30,060 | 5% |
| 1990 | 157,650 | 4,941,916,397 | 31,347 | 4% |
| 1991 | 160,012 | 5,237,832,049 | 32,734 | 4% |

Schedule of Retirees and Beneficiaries 1982-1991

| Valuation Date | Number | Annual Allowances | % Increase in Annual Allowances | Average Annual Allowances |
|----------------|--------|-------------------|---------------------------------|---------------------------|
| 1982 | 52,289 | \$368,196,833 | 10% | \$ 7,042 |
| 1983 | 54,040 | 403,866,601 | 10% | 7,473 |
| 1984 | 55,908 | 466,368,960 | 15% | 8,342 |
| 1985 | 58,348 | 524,518,901 | 12% | 8,989 |
| 1986 | 60,960 | 588,109,760 | 12% | 9,647 |
| 1987 | 62,819 | 640,566,254 | 9% | 10,197 |
| 1988 | 64,957 | 713,028,230 | 11% | 10,977 |
| 1989 | 66,453 | 773,339,143 | 8% | 11,637 |
| 1990 | 68,739 | 854,536,192 | 10% | 12,432 |
| 1991 | 70,583 | 938,137,399 | 10% | 13,291 |

ACTUARIAL

Summary of Accrued and Unfunded Accrued Liabilities 1982-1991

| Valuation Date | Aggregate Accrued Liabilities* | Valuation Assets | Assets as % of Accrued Liabilities | Unfunded Accrued Liabilities UAL* | Annual Active Member Payroll | UAL as % of Annual Active Member Payroll |
|----------------|--------------------------------|------------------|------------------------------------|-----------------------------------|------------------------------|--|
| 1982 | \$11,468,994,103 | \$ 6,344,384,910 | 55% | \$5,124,609,193 | \$2,884,405,114 | 178% |
| 1983 | 12,511,817,710 | 7,368,243,336 | 59% | 5,143,574,374 | 3,033,025,509 | 170% |
| 1984 | 14,099,005,247 | 8,326,787,730 | 59% | 5,772,217,517 | 3,276,468,295 | 176% |
| 1985 | 15,539,374,321 | 9,469,193,599 | 61% | 6,070,180,722 | 3,531,209,445 | 172% |
| 1986 | 17,309,200,649 | 10,895,158,195 | 63% | 6,414,042,454 | 3,788,136,615 | 169% |
| 1987 | 19,291,791,692 | 12,911,071,860 | 67% | 6,380,719,832 | 4,074,129,054 | 157% |
| 1988 | 21,372,968,376 | 14,613,182,194 | 68% | 6,759,786,182 | 4,336,723,017 | 156% |
| 1989 | 23,618,688,229 | 16,407,002,188 | 69% | 7,211,686,041 | 4,624,118,605 | 156% |
| 1990 | 25,883,338,779 | 18,242,453,340 | 70% | 7,640,885,439 | 4,941,916,397 | 155% |
| 1991 | 28,109,360,356 | 20,094,848,781 | 71% | 8,014,511,575 | 5,237,832,049 | 153% |

*Based on the actuarial method used for funding purposes, which is different from the standard measure of the pension benefit obligation prescribed by Governmental Accounting Standards Board Statement No. 5.

Solvency Test 1982-1991

| Valuation Date | Aggregate Accrued Liabilities for | | | Valuation Assets | Portion of Accrued Liabilities Covered by Assets | | |
|----------------|-----------------------------------|----------------------------|--|------------------|--|------|-----|
| | (1) | (2) | (3) | | (1) | (2) | (3) |
| | Active Member Contributions | Retirees and Beneficiaries | Active Members (Employer Financed Portion) | | | | |
| 1982 | \$1,809,180,897 | \$ 3,961,436,332 | \$ 5,698,376,874 | \$ 6,344,384,910 | 100% | 100% | 10% |
| 1983 | 1,978,778,553 | 4,386,537,409 | 6,146,501,748 | 7,368,243,336 | 100% | 100% | 16% |
| 1984 | 2,226,867,849 | 5,075,022,472 | 6,797,114,926 | 8,326,787,730 | 100% | 100% | 15% |
| 1985 | 2,421,531,824 | 5,831,342,665 | 7,286,499,832 | 9,469,193,599 | 100% | 100% | 17% |
| 1986 | 2,637,764,379 | 6,490,306,408 | 8,181,129,862 | 10,895,158,195 | 100% | 100% | 22% |
| 1987 | 2,900,597,610 | 7,079,879,662 | 9,311,314,420 | 12,911,071,860 | 100% | 100% | 31% |
| 1988 | 3,153,950,326 | 7,932,553,422 | 10,286,464,628 | 14,613,182,194 | 100% | 100% | 34% |
| 1989 | 3,446,311,610 | 8,618,907,338 | 11,553,469,281 | 16,407,002,188 | 100% | 100% | 38% |
| 1990 | 3,729,945,386 | 9,576,505,968 | 12,576,887,425 | 18,242,453,340 | 100% | 100% | 39% |
| 1991 | 4,076,989,530 | 10,440,583,940 | 13,591,786,886 | 20,094,848,781 | 100% | 100% | 41% |

Summary of Benefit and Contribution Provisions

Eligibility for membership

Immediate

Service Retirement

Eligibility

Age 60 with 5 years of service, or age 55 with 25 years of service, or 30 years of service regardless of age.

Benefits

Greater of (i) 2.1% of final average salary for the three highest paid years, multiplied by years of total Ohio service credit, except that for years of Ohio contributing service credit in excess of 30 a formula percentage of 2.5% will apply, or (ii) \$86 multiplied by years of service credit, and adjusted by the following percentage:

| Attained Age | or | Years of Ohio Service Credit | % of Base Amount |
|--------------|----|------------------------------|------------------|
| 58 | | 25 | 75% |
| 59 | | 26 | 80% |
| 60 | | 27 | 85% |
| 61 | | 28 | 88% |
| 62 | | 28 | 90% |
| 63 | | 28 | 91% |
| 63 | | 29 | 94% |
| 64 | | 29 | 95% |
| 65 | | 30 or more | 97% |
| | | | 100% |

Maximum benefit—100% of average annual salary for three highest paid years.

Minimum benefit—the sum of the annuity provided by the member's accumulated contributions, a pension equal to the annuity and an additional pension of \$40 multiplied by the number of years of prior and military service.

Optional Forms of Benefit

Option 1—100% joint and survivorship. Reduced retirement allowance payable to the member continuing for life to the member's sole beneficiary named at retirement after the member's death.

Option 2—A joint and survivorship annuity payable during the lifetime of the member, with the member's sole beneficiary named at retirement to receive some other portion of the member's annuity after the member's death.

Option 3—The member's reduced retirement allowance provided under Option 1 or Option 2 is to be paid for life to the member's sole beneficiary named at retirement after the member's death, except that in the event of the death of the sole beneficiary or termination of marriage between the retiree and the sole beneficiary, the retiree may elect to return to his single lifetime benefit equivalent which would be available for an actuarially computed charge as determined by the Board. In the case of termination of marriage the election may be made with the written consent of the beneficiary or by court order.

Option 4—A life annuity payable during the lifetime of the member, with a guarantee that upon the member's death before the expiration of a certain period, his benefit will continue for the remainder of such period to his beneficiary. Joint beneficiaries may receive the present value of any remaining payments in a lump sum settlement. If all beneficiaries die before the expiration of the certain period, the present value of all payments that remain to be paid are to be paid to the estate of the beneficiary last receiving.

Option 5—A plan of payment established by the Board combining any of the features of Option 1, 2, and 4.

Disability Retirement

Eligibility

Completion of 5 or more years of service, under age 60 and permanently incapacitated for the performance of duty.

Benefits

- (1) Annuity with a reserve equal to the member's accumulated contributions, plus
- (2) The difference between (1) and the greater of 2.1% of the average salary during the 3 highest paid years, except that for service in excess of 30 years the 2.5% formula will apply, or \$86 times total service plus years and months from date of disability to age 60. Maximum allowance is 75% of final average salary. Minimum allowance is 30% of final average salary.

Death after Retirement

Lump sum payment of \$1,000 upon death after service or disability retirement.

Summary of Benefit and Contribution Provisions (continued)

Survivor's Benefit

Eligibility

Upon death after at least 1½ years of credit for Ohio service with at least ¼ year of such service in the 2½ years preceding death or upon death of a disability retiree.

Benefits

If member is eligible for retirement, spouse or other sole dependent beneficiary may elect to receive Option 1 benefit in lieu of return of contributions.

If member is not eligible for retirement certain designated beneficiaries may elect to receive the following benefits in lieu of return of contributions.

| Number of Qualified Dependents | % of Average Annual Salary for 3 Highest Paid Years | Minimum Annual Benefit |
|---------------------------------------|--|-------------------------------|
| 1 | 25% | \$1,152 |
| 2 | 40% | 2,232 |
| 3 | 50% | 2,832 |
| 4 | 55% | 2,832 |
| 5 or more | 60% | 2,832 |

Qualified beneficiaries are spouse, dependent children and/or dependent parents over age 65.

Refund of Contributions

A member's contributions are refunded upon termination of employment where no other benefit is payable. Upon death after retirement or upon death of a survivor in receipt of benefits, the member's accumulated contributions at retirement less payments made are returned to the designated beneficiary.

Cost-of-living Benefits

The basic benefit is increased by 3% each year provided the change in Consumer Price Index equals or exceeds 3%.

Health Care

Retirees, their spouses and dependent children are covered by a comprehensive medical expense health care plan.

Contribution:

By Members

9.25% of salary effective July 1, 1990.

By Employers

14.00% of salaries of their employees who are members.

STATISTICAL



**Benefit Expenses by Type
1982-1991**

**Selected Funding Information
1982-1991**

**Number of Reporting Employers by Type
1983-1991**

**Number of Members: Active, Inactive,
Retirees, and Beneficiaries
1982-1991**

**Assumed Rate of Interest and
Realized Rate of Return on Assets
1982-1991**

**Number of Benefit Recipients by Type
1982-1991**

**Average Monthly Allowances by Type
1982-1991**

STATISTICAL

Benefit Expenses by Type 1982-1991

| Fiscal Year Ended | Contribution Rate | | Interest Assumption | Payroll Assumption | Unfunded Liability* | Funding Period |
|-------------------|-------------------|----------|---------------------|--------------------|---------------------|----------------|
| | Employee | Employer | | | | |
| 1982 | 8.5 % | 13.50% | 7.50% | 5.0 % | 5,124,609 | 59.0 Yrs. |
| 1983 | 8.5 % | 13.50% | 7.50% | 5.0 % | 5,143,574 | 44.0 Yrs. |
| 1984 | 8.75% | 14.00% | 7.50% | 5.25 % | 5,772,218 | 41.0 Yrs. |
| 1985 | 8.75% | 14.00% | 7.75% | 5.50 % | 6,070,181 | 40.5 Yrs. |
| 1986 | 8.75% | 14.00% | 7.75% | 5.50 % | 6,414,042 | 39.5 Yrs. |
| 1987 | 8.75% | 14.00% | 7.75% | 5.50 % | 6,380,720 | 35.0 Yrs. |
| 1988 | 8.75% | 14.00% | 7.75% | 5.50 % | 6,759,786 | 35.0 Yrs. |
| 1989 | 8.77% | 14.00% | 7.75% | 5.875% | 7,211,686 | 34.5 Yrs. |
| 1990 | 8.77% | 14.00% | 7.75% | 5.875% | 7,640,885 | 34.0 Yrs. |
| 1991 | 9.25% | 14.00% | 7.75% | 5.875% | 8,014,512 | 33.5 Yrs. |

*Payments for health care benefits included with service retirement, disability retirement, and survivor benefits prior to 1983.

Selected Funding Information 1982-1991

(Dollar Amounts in Thousands)

| Fiscal Year Ended | Contribution Rate | | Interest Assumption | Payroll Assumption | Unfunded Liability* | Funding Period |
|-------------------|-------------------|----------|---------------------|--------------------|---------------------|----------------|
| | Employee | Employer | | | | |
| 1982 | 8.5 % | 13.50% | 7.50% | 5.0 % | 5,124,609 | 59.0 Yrs. |
| 1983 | 8.5 % | 13.50% | 7.50% | 5.0 % | 5,143,574 | 44.0 Yrs. |
| 1984 | 8.75% | 14.00% | 7.50% | 5.25 % | 5,772,218 | 41.0 Yrs. |
| 1985 | 8.75% | 14.00% | 7.75% | 5.50 % | 6,070,181 | 40.5 Yrs. |
| 1986 | 8.75% | 14.00% | 7.75% | 5.50 % | 6,414,042 | 39.5 Yrs. |
| 1987 | 8.75% | 14.00% | 7.75% | 5.50 % | 6,380,720 | 35.0 Yrs. |
| 1988 | 8.75% | 14.00% | 7.75% | 5.50 % | 6,759,786 | 35.0 Yrs. |
| 1989 | 8.77% | 14.00% | 7.75% | 5.875% | 7,211,686 | 34.5 Yrs. |
| 1990 | 8.77% | 14.00% | 7.75% | 5.875% | 7,640,885 | 34.0 Yrs. |
| 1991 | 9.25% | 14.00% | 7.75% | 5.875% | 8,014,512 | 33.5 Yrs. |

*Excluding health care

STATISTICAL

Number of Reporting Employers by Type

1983-1991

| Fiscal Year Ended | City School Districts | Local School Districts | County Boards of Education | Exempted Village Districts | Vocational & Technical Schools | Colleges & Universities | County MR/DD Boards | State of Ohio | Total |
|--------------------------|------------------------------|-------------------------------|-----------------------------------|-----------------------------------|---|------------------------------------|----------------------------|----------------------|--------------|
| 1983 | 191 | 375 | 87 | 49 | 52 | 34 | * | 1 | 789 |
| 1984 | 191 | 375 | 87 | 49 | 52 | 34 | * | 1 | 789 |
| 1985 | 191 | 375 | 87 | 49 | 52 | 34 | * | 1 | 789 |
| 1986 | 191 | 375 | 87 | 49 | 52 | 34 | * | 1 | 789 |
| 1987 | 191 | 376 | 87 | 49 | 52 | 34 | * | 1 | 790 |
| 1988 | 191 | 375 | 86 | 49 | 50 | 36 | * | 1 | 788 |
| 1989 | 192 | 372 | 85 | 49 | 49 | 37 | * | 1 | 785 |
| 1990 | 192 | 372 | 85 | 49 | 49 | 37 | 88 | 1 | 873 |
| 1991 | 193 | 371 | 85 | 49 | 49 | 37 | 88 | 1 | 873 |

*County Boards of Mental Retardation and Developmental Disabilities added as reporting employers in FY 1990.

Note: Information not compiled prior to 1983 fiscal year.

Number of Members: Active, Inactive, Retirees and Beneficiaries

1982-1991

| Fiscal Year Ended | Number of Members | | |
|--------------------------|--------------------------|-----------------|-------------------------------------|
| | Active | Inactive | Retirees & Beneficiaries |
| 1982 | 145,735 | 73,368 | 52,289 |
| 1983 | 145,603 | 72,221 | 54,040 |
| 1984 | 146,387 | 73,606 | 55,908 |
| 1985 | 147,790 | 73,733 | 58,348 |
| 1986 | 149,428 | 75,496 | 60,960 |
| 1987 | 150,607 | 78,583 | 62,819 |
| 1988 | 152,200 | 81,107 | 64,957 |
| 1989 | 153,830 | 83,633 | 66,453 |
| 1990 | 157,650 | 85,856 | 68,739 |
| 1991 | 160,012 | 88,591 | 70,583 |

STATISTICAL

Assumed Rate of Interest and Realized Rate of Return on Assets 1982-1991

| Fiscal Year Ended | Realized Internal Yield on Assets | | | |
|-------------------------|-----------------------------------|---------------------------------|------------------|--------|
| | Interest Assumption | Interest, Rent, Dividends | Capital Gains | Total |
| 1982 | 7.50% | * | * | 8.92% |
| 1983 | 7.50% | 9.23% | 1.08% | 10.31% |
| 1984 | 7.50% | 9.06% | 0.73% | 9.79% |
| 1985 | 7.75% | 9.58% | 0.79% | 10.37% |
| 1986 | 7.75% | 8.85% | 3.15% | 12.00% |
| 1987 | 7.75% | 8.40% | 7.87% | 16.27% |
| 1988 | 7.75% | 7.50% | 3.93% | 11.43% |
| 1989 | 7.75% | 7.72% | 3.15% | 10.87% |
| 1990 | 7.75% | 7.74% | 2.20% | 9.94% |
| 1991 | 7.75% | 7.10% | 2.09% | 9.19% |

*Not available.

Number of Benefit Recipients by Type 1982-1991

| As of July 1 | Service Retirement | Disability Retirement | Beneficiary Receiving Optional Allowances | Survivor Benefits | Total |
|--------------|-----------------------|--------------------------|--|----------------------|--------|
| 1982 | 44,107 | 3,001 | 2,411 | 2,770 | 52,289 |
| 1983 | 45,498 | 3,198 | 2,528 | 2,816 | 54,040 |
| 1984 | 46,883 | 3,412 | 2,694 | 2,919 | 55,908 |
| 1985 | 48,929 | 3,607 | 2,861 | 2,951 | 58,348 |
| 1986 | 51,024 | 3,807 | 3,054 | 3,075 | 60,960 |
| 1987 | 52,430 | 3,964 | 3,303 | 3,122 | 62,819 |
| 1988 | 54,174 | 4,113 | 3,430 | 3,240 | 64,957 |
| 1989 | 55,234 | 4,296 | 3,569 | 3,354 | 66,453 |
| 1990 | 57,016 | 4,503 | 3,822 | 3,398 | 68,739 |
| 1991 | 58,436 | 4,643 | 4,001 | 3,503 | 70,583 |

Average Monthly Allowances by Type 1982-1991

| As of July 1 | Service Retirement | Disability Retirement | Beneficiary Optional Allowances | Survivor Benefits | Total |
|--------------|-----------------------|--------------------------|------------------------------------|----------------------|--------|
| 1982 | \$ 595 | \$ 718 | \$459 | \$424 | \$ 587 |
| 1983 | 632 | 769 | 474 | 443 | 623 |
| 1984 | 705 | 863 | 519 | 496 | 695 |
| 1985 | 763 | 913 | 545 | 512 | 749 |
| 1986 | 824 | 968 | 568 | 504 | 804 |
| 1987 | 871 | 1,027 | 599 | 526 | 850 |
| 1988 | 941 | 1,081 | 643 | 556 | 915 |
| 1989 | 1,000 | 1,144 | 661 | 581 | 970 |
| 1990 | 1,070 | 1,215 | 699 | 606 | 1,036 |
| 1991 | 1,147 | 1,288 | 740 | 637 | 1,108 |

INVESTMENTS



Investment Review

Total Return (Annualized)

Summary of Investment Assets as of June 30, 1991, 1990, and 1989

Investment Distribution By Market Value as of June 30, 1991

Investment Objective and Policy

Schedule of Investments as of June 30, 1991

Footnotes to Schedule of Investments

Investment Review

Economic Factors

Shortly after the start of our 1991 fiscal year, the U.S. economy went into recession, ending an expansion that had begun nearly eight years earlier. Statistical data available now suggests the period of contraction may have ended sometime in the second quarter of 1991. If so, this will have been one of the shorter recessions in the post-World War II era. The early stages of the recovery have been rather feeble, leading some observers to question its staying power.

Although this recession has shared many characteristics with past recessions, there are several aspects that make it unique. As is normally the case, the decline was led by retreats in housing and consumer spending on durable goods, and the recession became established when these declines were joined by declines in consumer non-durables, inventory investment, and capital spending. What was not normal was the absence of the forces which typically act to terminate expansions, such as a large inventory overhang or a very tight monetary policy. It has become evident that the massive debt burdens accumulated by both the public and private sectors over the past decade were a major negative force driving the economy toward recession. The required payments on that debt had grown so large relative to incomes that they had become a restraint on new purchases. By the second quarter of 1990, all sectors of the domestic economy were decelerating and some had already begun to decline. A broad-based contraction was in the process of emerging when the Iraqi invasion of Kuwait provided the shock that sent it over the edge.

One other unusual aspect of this recession is the unusually harsh impact it has had on the service sector, an area normally less harmed by the ups and downs of the business cycle than manufacturing or construction. Even before the economy began its decline, there were many signs that several service industries had over-expanded during the 1980s. There was just not enough sustainable business to profitably support all the workers and facilities that had been amassed by banks, savings and loans, Wall Street brokers, insurance, real estate, accounting, and the legal profession, and workers were being laid off. The onset of recession made this situation even worse. Now, although the aggregate economy may have begun to expand, the downsizing of these service industries is continuing and this is holding back the incipient recovery, keeping it from gaining strong forward momentum.

The trailing four-quarter growth of real Gross National Product fell from 1.0% in the second quar-

ter of 1990 to a decline of 0.9% in the second quarter of 1991. Although it appears the economy had begun to recover by the end of our fiscal year, the last quarter of that period still showed contraction in consumer spending on durable goods, capital spending on structures, inventory investment, and state and local government purchases. The unemployment rate rose from 5.3% to 6.9% in the past year, as growth in the labor force outstripped growth in employment by more than two million workers. Payroll employment fell by more than 1.6 million jobs during our fiscal year of 1991, with both goods-producing and service-producing groups declining. With the exceptions of business services and health services, all major categories of jobs showed declines, with the largest declines coming in manufacturing, construction, and retail trade. Although the twelve-month change in the Consumer Price Index of 4.7% at fiscal year end was the same as last year, this figure was distorted to the high side by the temporary energy price surge during the Persian Gulf crisis. During the final quarter of the fiscal year, the CPI was rising at only a 3.0% annual rate, compared with 4.1% for the same period a year ago.

Although there is a reasonable chance the economy could slip back into recession in the period ahead, it is more likely that the recovery will gradually gain forward momentum during our fiscal 1992. However, the presence of excessive debt burdens, budget problems at the federal, state and local levels, and the continued consolidation of service industries will be holding back the rate of growth. The good news is that inflation will moderate further, but the bad news is that jobs will not become plentiful any time soon.

Liquidity Reserves

The Liquidity Reserves portfolio exists to meet STRS liquidity needs for other investments and the payment of benefits, and as a stable store of value when there is uncertainty in other investment asset categories. During fiscal 1991, the availability of attractive levels in other asset categories, particularly in common stocks, encouraged a reduction in Liquidity Reserves from 7.4% to 3.8% of total investment assets.

Fixed Income Investments

In the market for fixed-income investments, short-term and long-term interest rates experienced very different actions in the past year. While short-term rates were dropping sharply, long-term rates were virtually unchanged, greatly opening the spread between short and long maturities. Having begun the year at a level of 7.99%, the yield on three-month Treasury Bills finished at 5.69%, a drop of 2.3

percentage points. Although there was some movement during the year, the yield on the longer maturity 30-year Treasury Bond began the fiscal year at 8.40% and ended it at 8.41%.

Early in fiscal 1991, the credit markets experienced what was correctly perceived by STRS as a temporary rise in interest rates. With this opportunity, the principal objective in the fixed-income portfolio during the year was to increase the aggressiveness of the portfolio. An additional objective was to raise the rate of current interest income by making additions to home mortgage instruments. The net results of trading the past 12 months have been to increase the duration of the portfolio, and thus its aggressiveness, while maintaining its near-AAA quality and raising current income. Over the past fiscal year, the Shearson Government/Corporate Bond Index had a total return of 10.2%. This index closely resembles the universe of investment alternatives of the fixed-income portfolio. Board Policy directs that STRS performance publications follow the industry convention of reporting on a calendar year basis. This report appears on page 39. Using the book value of sales and maturities as a measure, turnover of the fixed-income portfolio rose to 37% from 28% in the prior year. This rate of turnover is still quite modest compared with other managed fixed-income portfolios and well within policy guidelines.

Stocks and Other Equities

For fiscal 1991, the Standard & Poor's 500 Index had a total return of 7.4%. The Dow Jones Industrial Average, which consists of companies that are more cyclical, returned only 4.5%. During the fiscal year, the stock market made a round trip from about 3000 on the Dow Jones at the beginning, down to 2350 in the middle, and back up above 3000 by the end of the period.

In retrospect, the 1990 market highs were built on an overly optimistic economic outlook that failed to see coming difficulties. The war in the Persian Gulf and the onset of recession combined to create an atmosphere of uncertainty and fear that was reflected in a market retreat. In that atmosphere, earnings estimates and price/earnings ratios were reduced. STRS took advantage of these shorter-term concerns to increase equity holdings during the market declines. Stocks began a new cyclical advance early in calendar 1991 when the war in the Persian Gulf was quickly won. The economy's difficulties have proved more enduring, and stocks were little changed from the Spring into the fiscal year-end.

A belief that the economy would eventually be shifting back into a growth phase encouraged changes in

the structure of the STRS equity portfolio. The exposure to companies that are more sensitive to the economic cycle was increased over the past year. STRS common stock holdings grouped by economic sector are shown in the Schedule of Investments, pages 62-69. Performance of the equity portfolio is shown on page 39. Using the book value of sales as a measure, turnover of the equity portfolio was 27%, versus 33% last year.

To lessen the risks inherent in relying on a single approach to stock portfolio management, STRS has divided its equity holdings into four groups that use complementary approaches to stock selection. These portfolios are:

Active Portfolio - Using traditional fundamental and technical analysis to make industry group rotation and stock selection decisions, this portfolio accounted for 36% of STRS equities, at cost, at fiscal year-end;

Valuation Portfolio - Making heavy use of computer-driven models to select stocks with low market valuations and strong balance sheets, this portfolio included another 40% of STRS equities;

Industry Index Portfolio - This portfolio concentrates on individual stock selection from the STRS Criteria and Approved List, while having its industry weighting indexed to the percentage weightings of 25 industry groupings of the Standard & Poor's 500. It accounted for about 16% of STRS equities; and

Smaller Company Portfolio - Pursuing opportunities in companies that are smaller than most of those in the major indexes, this portfolio was just under 8% of total equities.

Guaranteed Mortgages

During most of fiscal 1991, the yields on U.S. Government guaranteed mortgages and Mortgage-Backed Federal Agencies were competitive with other investment alternatives. As a result, additions to this area were in line with cash flow. This sector now totals \$3.69 billion, \$678 million of which is invested directly in Ohio, and constitutes 18.8%, at cost, of total investment assets.

Real Estate Investments

The unusually harsh treatment of service industries during the 1990-1991 recession put a spotlight on the already negative psychology in the non-residential real estate market. The excessive optimism and new

(continued)

Investment Review (continued)

investment activity in real estate of the 1980s has been turned completely upside down in the 1990s. The market has become virtually paralyzed and new construction activity has almost ceased in most of the country. Property values are falling, as the market is being defined by distress sales by owners who have no choice but to sell. However, the curtailment of new construction activity is just the medicine this sector needs. This will allow the growth of new tenants to catch up with the available space. Evidence that this catching up is beginning to help is emerging in some markets where rents are firming, as STRS-owned buildings have seen good leasing activity begin to develop in fiscal 1991. The situation is not homogenous: although many areas continue to face difficulties, there are signs that some markets are bottoming out and may soon begin to improve.

STRS continued its cautious approach to new real estate investment during fiscal 1991. The share of total investment assets allocated to this sector fell from 12% to 10.8%, as new fundings of \$82.3 million (mostly from previous commitments) were nearly offset by \$67 million of sales. The total investment in real estate is now \$2.1 billion. New investments in the past year were limited to a few special situations in timber, apartment, and industrial projects. STRS continues to have a larger share of its real estate investment in Ohio than in any other state.

Fund Performance Highlights

During the past five years, the returns to holders of financial assets have been greater than the average of all other five-year periods this century. STRS has been able to achieve total performance greater than traditional measures of the markets over that period as well, as detailed on the following page. The annualized rate of return of the total fund over the preceding five calendar years (by Board Policy, performance is calculated on a calendar year basis for adequate comparisons) was 11.1% in 1990. Total fund performance thus continues to exceed, by a significant margin, the 8-9% absolute long-term return goal established in the Investment Objective and Policy statement. Absolute long-term return goals for each asset category were surpassed by sizeable margins as well.

When compared with the respective yardsticks established by Board Policy for relative performance of each asset category, STRS portfolios continue to compare well. For the five years to 1990, Equities continued to beat our Criteria List Index (the universe of eligible stocks), while trailing the Standard & Poor's 500 Index. Fixed Income investments surpassed their yardsticks on a five-year basis

by a respectable margin. Real Estate continues to surpass the performance of accepted real estate performance indexes for the longer holding period. The five-year performance of total STRS investment assets surpassed by a significant margin the rate of inflation and our hybrid index, which combines the principal yardsticks for each asset category.

INVESTMENTS

Total Return (Annualized)

| | <u>1 Year 1990</u> | <u>3 Years '88-'90</u> | <u>5 Years '86-'90</u> | <u>Long Term Policy Objective (5-Year)</u> |
|-----------------------------------|------------------------|----------------------------|----------------------------|--|
| Equities | | | | |
| STRS Common Stocks | (5.95%) | 11.43% | 11.62% | 8 - 10% |
| Legal List Index * | (6.15%) | 10.36% | 10.19% | |
| Standard & Poor's 500 | (3.17%) | 14.14% | 13.14% | |
| Dow Jones Industrials | (0.59%) | 15.18% | 15.48% | |
| SEI Median Fund | (3.70%) | 13.58% | 12.25% | |
| Fixed Income | | | | |
| STRS Fixed Income Investments | 9.37% | 11.32% | 9.89% | 7 - 8% |
| Shearson Lehman Gov./Corp. Index | 8.28% | 9.99% | 9.49% | |
| Salomon Brothers Broad Mkt. Index | 9.09% | 10.24% | 9.68% | |
| Real Estate | | | | |
| STRS Real Estate | 3.31% | 6.18% | 8.35% | 8 - 10% |
| Russell-NCREIF | 1.25% | 4.76% | 5.20% | |
| Evaluation Associates, Inc. | 1.70% | 5.24% | 6.26% | |
| Total Fund | | | | |
| STRS | 4.43% | 10.97% | 11.07% | 8 - 9% |
| S&P/Shearson Lehman/FRC Index ** | 2.87% | 10.55% | 10.01% | |
| Inflation (GNP Deflator) | 4.10% | 3.87% | 3.46% | |

* Universe of stocks meeting legal and policy criteria.

** A hybrid of equity, fixed income, and real estate yardsticks.

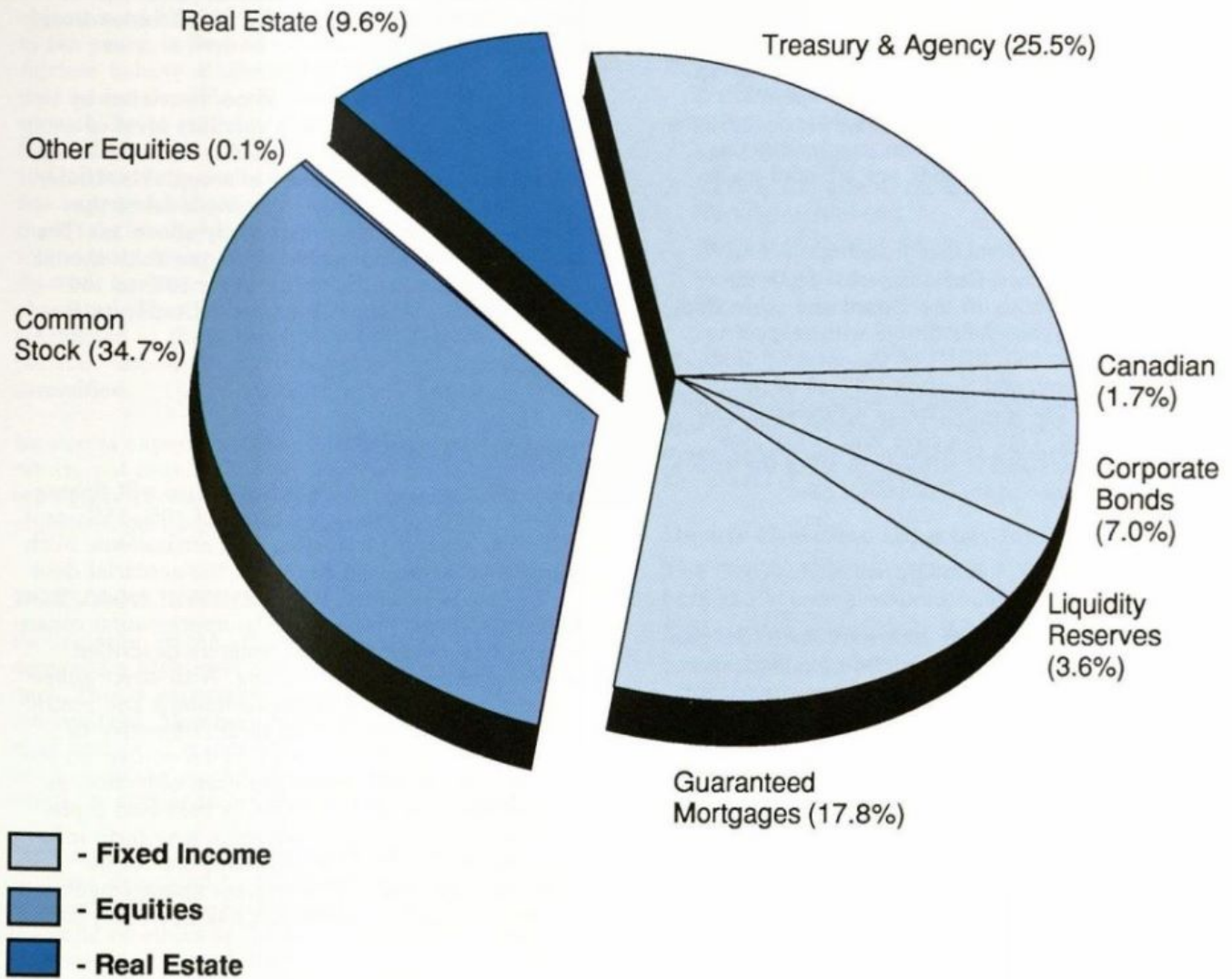
INVESTMENTS

Summary of Investment Assets

as of June 30
(Dollars in Thousands)

| | 1991 | | | 1990 | | | 1989 | | |
|-----------------------------------|---------------------|---------------------|---------------|---------------------|---------------------|---------------|---------------------|---------------------|---------------|
| | Book Value | Market Value | % | Book Value | Market Value | % | Book Value | Market Value | % |
| Short Term/ Liquidity Reserves | \$ 750,788 | \$ 755,382 | 3.6% | \$ 1,311,880 | \$ 1,315,050 | 6.9% | \$ 2,083,648 | \$ 2,094,723 | 12.0% |
| Fixed Income | | | | | | | | | |
| U.S. Government & Agency | \$ 5,191,550 | \$ 5,325,177 | 25.5% | \$ 4,821,086 | \$ 4,956,311 | 26.0% | \$ 3,920,419 | \$ 4,157,470 | 23.7% |
| Canadian Bonds | 363,609 | 357,005 | 1.7 | 262,846 | 245,711 | 1.3 | 242,818 | 230,412 | 1.3 |
| Municipal Bonds | 2,435 | 2,415 | 0.0 | 2,710 | 2,618 | 0.0 | 2,980 | 2,861 | 0.0 |
| Corporate Bonds & Notes | 1,452,171 | 1,463,362 | 6.9 | 1,245,308 | 1,233,167 | 6.4 | 943,078 | 938,999 | 5.4 |
| Convertible Bonds | 13,361 | 11,121 | 0.1 | 18,365 | 12,758 | 0.1 | 25,518 | 20,864 | 0.1 |
| Guaranteed Mortgages | 3,692,553 | 3,716,834 | 17.8 | 3,344,836 | 3,314,810 | 17.4 | 3,010,250 | 3,027,375 | 17.3 |
| Total Fixed Income | \$10,715,679 | \$10,875,914 | 52.0% | \$ 9,695,151 | \$ 9,765,375 | 51.2% | \$ 8,145,063 | \$ 8,377,981 | 47.8% |
| Equity | | | | | | | | | |
| Common & Convertible | \$ 6,069,281 | \$ 7,257,648 | 34.7% | \$ 4,593,856 | \$ 5,740,509 | 30.1% | \$ 3,904,147 | \$ 5,009,012 | 28.6% |
| Real Estate | 2,118,190 | 2,003,580 | 9.6 | 2,136,706 | 2,225,464 | 11.7 | 1,901,809 | 2,002,547 | 11.5 |
| Other Equity Investments | 28,787 | 29,582 | 0.1 | 27,620 | 29,042 | 0.1 | 18,071 | 23,048 | 0.1 |
| Total Equity | \$ 8,216,258 | \$ 9,290,810 | 44.4% | \$ 6,758,182 | \$ 7,995,015 | 41.9% | \$ 5,824,027 | \$ 7,034,607 | 40.2% |
| Total Investments | <u>\$19,682,725</u> | <u>\$20,922,106</u> | <u>100.0%</u> | <u>\$17,765,213</u> | <u>\$19,075,440</u> | <u>100.0%</u> | <u>\$16,052,738</u> | <u>\$17,507,311</u> | <u>100.0%</u> |

Investment Distribution by Market Value as of June 30, 1991



Investment Objective and Policy

This Investment Policy was adopted on December 14, 1990. It is published as provided for by Section 3307.15 of the Revised Code.

The State Teachers Retirement System of Ohio is governed by a Board of nine members with broad statutory powers. The investment function is vested in the Board as set forth in Section 3307.15 of the Revised Code. Section 3307.15 of the Revised Code requires the Board to "...adopt in regular meeting, policies, objectives or criteria for the operation of the investment program. Amendments and additions to the policy shall be adopted in regular meeting...." These policies and regulations are adopted under that authority.

In addition to the investment function, Section 3307.15 of the Revised Code also sets forth the fiduciary responsibility of the Board and other fiduciaries in discharging their duties with respect to the fund. Section 3307.01(U) of the Revised Code defines a fiduciary, and Section 3307.14 of the Revised Code lists specific items a fiduciary shall and shall not do. This objective and policy statement incorporates and is subject to all of the above-mentioned sections of the Revised Code.

LIQUIDITY NEEDS

The Board anticipates that contributions to the pension fund will exceed disbursements for the foreseeable future. Therefore, there is no special need for liquidity in the portfolio, other than that deemed necessary to accomplish investment objectives and strategies.

PRESERVATION OF CAPITAL

In many if not most instances, payments from the pension fund are the major sources of income to retirees and a principal protection against the contingencies of death and disability for active workers. Therefore, the basic policy of the Board is preservation of the capital investment and realization of sufficient return to secure and facilitate payment of the statutory benefit requirements of the System to its beneficiaries. In this connection, it is recognized that the fund will achieve some protection against erosion of principal value through inflation if the actuarially assumed interest rate is achieved.

The risk level of the pension fund should be considerably less than that of the stock market as a whole, but may be somewhat more than that of the bond market by itself. Using volatility as a proxy for risk, and assuming the volatility level of the stock

market (defined to be the Standard & Poor's 500 Average) is 1.0, the bond market approximately 0.6, and the short-term cash equivalents 0.0, a volatility level of about 0.8 is considered acceptable for the fund as a whole. This means that, in a downward stock market, the total pension fund should not fall by more than 80% of the decline in the stock market. This should protect the beneficiaries from any undue risk.

In terms of the stock sector alone, restricted by statute to 35% of the fund, a volatility level of between 1.0 and 1.15 (from equality with the stock market to a level 15% higher) is acceptable. Under normal circumstances, the volatility level of the stock sector should average slightly above 1.0. The publicly traded bond sector of the portfolio should have a volatility level approximately 80% to 140% of the Shearson Lehman Government/Corporate Bond Index.

TOTAL RETURN

Each 1% increase in investment return will finance benefit improvement in the range of 10%-15%, or will allow a similar reduction in contributions. Such gain may also be used to reduce the actuarial debt of the plan. Therefore, maximization of return, from both current income and capital appreciation consistent with the overall risk parameters described above, is an important objective. With strict adherence to statutory investment limitations and restrictions, the Board sets a total return objective of 8%-9% per annum. This is a long-term (five- to ten-year) objective, and this total return objective, as well as other return objectives, is based on a premium over inflation by assuming a long-term inflation rate of 4%-5%. The objectives should be pursued consistently with prudent management and at the minimal level of market risk necessary to accomplish them.

The fund does not have a capital return or income return objective separate from the total return objective. However, it is anticipated that for the total account there will be income yield over a long-term period that is greater than capital growth, because of the preponderance of fixed income assets.

For the publicly traded bond sector of the portfolio, a total return objective of 7%-8%, averaged over a period of five to ten years, is desired. Should conditions change in the bond market so as to make this objective unattainable without undue risk, it will be the responsibility of the Investment Advisor to recommend to the Board a revised figure. Undue risks are to be avoided, particularly those

of lower-than-average quality (an average rating of between A and Aa should be the minimum maintained in the publicly traded sector of the bond portfolio, considering U.S. Treasury and Agency obligations as Aaa).

For the equity sector of the portfolio, a total return objective of 8%–10%, averaged over a period of five to ten years, is desired. Should the Investment Advisor believe attainment of this objective at any time is not possible without undue risk, it is his responsibility to recommend to the Board a revised figure. In today's market, the Board believes an 8%–10% objective is realistic, within the volatility guideline expressed above. The Board recognizes that there is a level of risk associated with an 8%–10% total equity return objective, which should be achieved, however, with the minimum risk acceptance necessary. That is to say, total return should be maximized at the accepted level of risk. The equity portfolio should reduce non-market risk by being diversified.

Income is expected to be an important part of total return, not only for the portfolio as a whole but for the equity sector. Growth of income is an important objective, particularly in the equity sector.

PERSONAL INTEGRITY

Participation in the affairs of any public body demands a high level of personal integrity and conduct. This is especially true when funds of others are involved. Members of the Board and staff must discharge their responsibilities without prejudice or favor, avoiding at all times any conduct that could create or appear to create a conflict of interest.

Staff members shall carry out the duties and responsibilities delegated by the Board in the best interest of members of the System and in accordance with the code of ethics of the ICFA. No staff member shall engage in any activity in his official position or in a personal investment program that will in any way create a conflict of interest.

ORGANIZATION

Investment Committee

An Investment Committee is established and consists of all nine members of the Board. The Investment Committee is empowered to advise the Board in all investment matters.

Investment Advisors/Consultants

The Board shall employ competent, well-qualified organizations to assist in carrying out its fiduciary

responsibility. Duties of the Investment Advisor/Consultants shall include but not be limited to:

1. Preparation of long-term investment objectives, review of these objectives at least annually, and recommendation for changes in the objectives as required.
2. Monitoring performance of the investment program.
3. Availability to counsel with the in-house staff, Executive Director, or members of the Board.
4. Participation in bimonthly meetings of the Investment Committee.
5. Review and advise on detailed investment criteria for all investments.
6. Review of Annual Investment Plan.
7. Performance of such other duties as may be provided by contract.

Executive Director

The Executive Director shall have authority to amend this Investment Objective and Policy on an emergency basis to prudently preserve or enhance the assets of the System.

Deputy Executive Director, Investments

The Deputy Executive Director, Investments, shall have the following responsibilities:

1. Supervise activities of the in-house staff.
2. In cooperation with the Investment Advisor and the Executive Director, formulate an Annual Investment Plan.
3. Make recommendations to the Executive Director and Board concerning periodic modification of Annual Investment Plan.
4. Make recommendations as to additions to or deletions from the approved stock list.
5. Supervise execution of orders to buy and sell securities (including options) seeking always to maintain reasonable costs for such services.
6. Report in required detail to the Executive Director, and the Investment Committee and/or the Board on all activities of the investment staff.

CRITERIA FOR SECURITIES

Statutory Provisions

The investment standards set forth in Section 3307.15 of the Revised Code are incorporated by reference and made a part of this policy. The Board and other fiduciaries shall discharge their duties with respect to such funds solely in the interest of the participants and beneficiaries. It is the intent of the Board to give consideration to

Investment Objective and Policy (continued)

investments that enhance the general welfare of Ohio provided such investments offer quality return and safety comparable to other investments currently available to the Board. Also, the Board will give equal consideration to investments that involve minority-owned and minority-controlled firms and firms owned and controlled by women.

Bonds

It is the responsibility of the Investment Advisor to recommend specific criteria for bond investments and to review such criteria at least annually with the Investment Committee and/or the Board. The purpose of the criteria is to provide assets of reasonable quality and marketability. It is not a substitute for prudent portfolio management nor will it ensure superior performance. Bond purchases, including exchanges, shall meet the following criteria in addition to statutory requirements. All bond, note, debenture, or medium-term note purchases shall:

1. Be issues of at least \$50 million par value.
2. Be made with the intent of creating positions of at least \$1 million.
3. Not exceed 15% of any one issue except for U.S. Treasury, Federal Agencies, and other U.S. Government guaranteed securities.

It is the Board's policy to manage the bond portfolio in order to improve return, as long as overall quality and risk levels of the portfolio are kept within the limits expressed in the sections "Total Return" and "Preservation of Capital" above. Financial Futures may be used to manage volatility of the portfolio provided the amount hedged does not exceed \$250 million. Variations of Fixed Income exchanges and possible environments under which they can be considered are limitless. General criteria may be too restrictive to allow portfolio enrichment and not specific enough to avoid poor judgment. However, the following is required:

1. All bond exchanges are to be documented by the investment staff at the time of execution as to specific details of price and yield, and objectives of the individual exchange.
2. The Investment Advisor will review these periodically with the staff as to reasonableness and adequacy to the overall investment plan and current outlook.
3. The turnover ceiling shall be 150% of marketable bond assets. Turnover is defined as the total book value of sales and maturities as a percent of beginning book value.
4. A portfolio measurement will be made showing incremental advantage or disadvantage obtained through exchange activity.

Private placements shall be limited to 35% of assets invested in bonds and shall be purchased only when there is significant additional return (defined as approximately 75 basis points over the current yield rate of publicly traded bonds of similar quality) as an offset for non-marketability of privately placed bonds.

Cash Equivalents

It is the Board's policy to use cash equivalents to provide adequate protection against downward market movements and to assist in overall return objectives. Because of the size of both the bond and equity sectors of the portfolio, and because of the essentially long-term nature of the fund, the Board does not expect that major moves will be made into or out of cash reserves. Under normal circumstances, a reserve of 20% of the value of the total fund shall be considered the maximum limit. However, it will be the responsibility of the Investment Advisor, together with the Deputy Executive Director, Investments, to recommend any modification of this position.

Investments may be made in commercial paper, Treasury obligations, certificates of deposit, bankers' acceptances, or repurchase agreements, with the responsibility resting with the investment staff as to selection of the specific instrument at any given point in time. Any commercial paper purchased by the System shall have a maturity of not more than 270 days and shall be rated P-1 by Moody's Investors Service, Inc. and/or A-1 by Standard & Poor's Corporation. Certificates of deposit and bankers' acceptances shall be purchased on those banks affiliated with the largest 100 U.S. bank holding companies, in terms of assets with short-term debt ratings of P-1 and/or A-1, the 20 largest bank holding companies in Ohio, and the ten largest savings and loan holding companies in Ohio.

Positions should not exceed \$50 million in any one obligor of commercial paper, certificates of deposit, or bankers' acceptances. Repurchase agreements shall be collateralized by U.S. Treasury or Agency securities with a market value in excess of funds advanced.

Mortgages and Mortgage-Related Securities

1. Government Guaranteed Mortgages

The Board is aware of the desirability of contributing to the economic growth of the state of Ohio by encouraging home ownership and will promote this objective within the limits of fiduciary responsibility. It is the policy of the Board to make regular investments in Ohio single-family FHA/VA residential mortgages whenever the yield

on such instruments equals or exceeds the yield currently available on recently offered corporate bonds rated Aaa.

Guaranteed project mortgages on such facilities as apartments, nursing homes, and elderly housing shall be purchased without location restrictions. Construction loans guaranteed by the United States government shall be restricted to Ohio locations. Construction loans guaranteed by the United States government that convert to permanent loans can be purchased without location restrictions.

Mortgages shall be limited to 20% of total assets. Mortgage securities issued by the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA) shall be purchased and managed under the "Bonds" section of this Investment Objective and Policy. The primary emphasis of the mortgage and mortgage-related securities portfolio will continue to be government-guaranteed mortgages.

2. Mortgage-Backed Securities

- a. **Mortgage-backed bonds:** The Board may purchase bonds that are collateralized by Ohio single-family mortgages. The bond shall be rated Aa or better, and the mortgage pool shall be at least 150% of the amount outstanding of the bond.
- b. **Pass-through securities:** The Board may invest in pass-through securities that are backed by Ohio single-family mortgages or Ohio commercial mortgages, provided that: (a) the minimum pass-through certificate is \$5 million; (b) private mortgage insurance is provided on any conventional mortgage with a loan-to-value ratio greater than 80%; and (c) the selling institution is Ohio-based and has a net worth exceeding \$5 million.
- c. **Fixed-rate commercial mortgages:** The Board may invest in fixed-rate commercial mortgages in order to enhance the existing government-guaranteed mortgage portfolio or to facilitate sales of existing real estate investments. The loan-to-value ratio of such commercial mortgages shall not exceed 90% unless that portion of the loan greater than 90% is insured. No more than 10% of the total portfolio shall be invested in fixed-rate commercial mortgages.

Real Estate

1. Objective

It is the Board's policy to invest in real estate in order to diversify the investment portfolio and to provide one means of insulating assets of the System against the effects of inflation. Consequently, real estate investments will be acquired to provide a real return commensurate with investment risk, coupled with an annual increase in cash flow. Cash-on-cash yield at purchase shall be a key objective of the portfolio. The opportunity for increasing cash flows during ownership shall be present as evidenced by percentage leases, cost-of-living clauses, short-term leases with limited renewal provisions, or a combination of the above. Long-term appreciation shall also be a factor in determining real estate selection, but shall be secondary to cash-on-cash yield and arrangements for securing increased cash flows for the dominant portion of the portfolio.

2. Allocation

Real estate investments shall be limited to 20% of total assets.

3. Diversification

- a. **Property type:** High-quality properties that are relatively general purpose will provide both investment security and maximum equity growth potential. Four such categories of property are:

1. Office buildings;
2. Multi-tenant retail properties such as community shopping centers and regional malls;
3. Distribution centers, warehouses, and industrial parks;
4. Multi-family housing.

Single purpose facilities (i.e., oil refineries, steel plants, etc.) will not be considered for investment.

A special category permitting other property types, such as elderly living centers, hotels, and timberland, is allowed, provided it is always less than 2% of total assets (10% of the real estate portfolio). Given the appropriate financing structure, these property types will add further diversification to the portfolio. Since such properties will require specialized acquisition and management expertise, it is likely that outside assistance will be required.

- b. **Geographical:** As a matter of general procedure, no more than 25% of the real estate portfolio will be invested in any one geographic

Investment Objective and Policy (continued)

region, as defined by the NCREIF Real Estate Performance Report. These eight regions are Pacific, Mountain, Southwest, Southeast, West North Central, East North Central, Northeast, and Mideast. However, the East North Central region may have a 35% allocation due to preference for Ohio properties.

Emphasis shall be placed on properties in areas where economic and demographic growth is favorable. When properties located within Ohio offer quality, return and safety comparable to properties outside Ohio, the Ohio investment will be given preference. The investment staff shall pursue an active plan to achieve this objective.

- c. Financing structure: New real estate investments will include equity-type structures such as direct ownership, participating mortgages, joint ventures, co-ownership, and separate accounts. The staff will search for innovative ways to approach structuring new real estate investments to enhance STRS's total investment strength.
- d. Minimum-maximum size guidelines: The minimum size for real estate investments will be generally \$10 million for properties within Ohio and \$15 million for properties outside Ohio. The maximum investment amount for an individual property will be limited to approximately 1% of total assets.

4. Appraisals/Valuations

Valuation procedures shall be adopted to fulfill three purposes: (1) make STRS accounting for real estate compatible with generally accepted accounting procedures (GAAP); (2) measure real estate investment performance against relatively comparable benchmarks; and (3) assist the staff in evaluating the appropriate time to dispose of a property. Portfolio performance will be calculated on a quarterly basis, while individual properties will be valued annually.

The sale-leaseback portion of the portfolio will be valued internally based upon discounting the income stream at market rates. This in-house valuation will be conducted annually, unless a substantial credit or lease change has occurred in the interim. The methodology underlying the in-house valuation will be reviewed and approved by the real estate consultant.

The non-sale-leaseback portion of the portfolio will be valued through a combination of independent appraisals and in-house valuations. Each

multi-tenant property shall be independently appraised every third year, or more often should a major change occur in either occupancy of the building or operating budget. In the interim, an in-house valuation shall be conducted annually. The methodology used in this valuation shall be reviewed and approved by the real estate consultant.

Criteria used for consideration of a non-scheduled outside appraisal shall be:

- a. Properties that experience tenant rollover greater than 33% within one year;
- b. Properties whose actual annual operating incomes vary negatively from the operating budget by 10% or more.

5. Performance

Real estate investment performance will be tracked similarly to stock and bond performance. A reporting format and appropriate benchmarks will show performance according to income and total return, including realized and unrealized increases in market value. Two real estate indices shall be used as benchmarks to evaluate performance: The Russell-NCREIF Property Index, and Evaluation Associates Fund Performance Index.

6. Use of Real Estate Consultant

The role of the real estate consultant may be expanded beyond current contract provisions to include such special services as:

- a. Consultation on specific asset management situations such as disposition of sale/leaseback properties, intensive asset management, and other special situations at the request of the Executive Director.
- b. Validation of valuations conducted by the in-house staff.

To avoid possible conflicts of interest, the real estate consultant will not be a source of any investment proposals unless specifically requested by the staff after review with the Investment Committee.

7. Property Inspections/Asset Management

Triple net sale-leaseback properties shall be inspected at least every two years, with the exception of problem properties which shall be inspected on an "as-needed" basis. Sale-leaseback properties that have landlord responsibilities shall be inspected annually. Multi-tenant properties mortgaged to STRS shall be inspected annually, while multi-tenant properties owned by

STRS shall be inspected at least twice each year. Inspections may be conducted by in-house staff or outside inspection consultants.

Generally, asset management is the responsibility of the staff; however, certain portions of the portfolio or a property may be assigned to qualified outside organizations.

8. Due Diligence

Real estate investments shall be subject to the following documentation:

- a. A building and systems evaluation by a qualified engineering firm in the case of existing properties;
- b. An appraisal by an independent appraisal firm;
- c. Review of plans and specifications by an architectural firm in the case of forward purchase commitments;
- d. A hazardous waste and/or hazardous materials evaluation by a qualified consultant in accordance with the Hazardous Materials Policy described in Section 9;
- e. Management by a firm with extensive experience and a proven capability in managing similar properties;
- f. A financial analysis which shall include, but not be limited to, rate of return, appreciation potential, resale potential, and percentage of the portfolio invested in the project; and
- g. Legal review and approval of appropriate documents.

9. Hazardous Materials Policy

Real estate investments will be subject to the requirements of a Hazardous Materials Policy as reviewed by the Board. The policy should ensure that STRS will be prudent and diligent in its investment in real estate property so as not to invest in property on which hazardous materials are present on or under, or so near the property in such form and quantities as to cause STRS concern about its potentially significant legal or economic liability.

10. Board Review

All new real estate investments will be reported to the Board monthly in the investment activity report. The Executive Director shall report any new real estate investments under consideration to the Investment Committee prior to making any legally binding commitment to any such investment, provided, however, that the following transactions shall not be subject to this requirement of prior report to the Investment Committee:

- a. Ancillary land purchases, sales or exchanges valued at less than 20% of the total property value;
- b. Release of mortgage security as long as the loan-to-value ratio remains below 80%;
- c. Early loan prepayments;
- d. Exercise of land purchase and conversion options;
- e. Exercise of property sale options granted by a lease;
- f. Annual capital expenditures that do not exceed 5% of a property's market value.
- g. Sales of sale-leaseback properties when the sale price exceeds the investment amount;
- h. Temporary mortgage restructurings, which limit the restructuring to no more than four years and revert back to original terms.

COMMON AND PREFERRED STOCKS AND CONVERTIBLES

The statutes limit the State Teachers Retirement System to a 35% of assets position in common and preferred stocks. It is the Board's policy to maintain an investment in common stocks in the range of 23% to 35% of assets. The amount invested at any time is determined by the long-term objectives established by the Board in conjunction with the Investment Advisor and by the Annual Investment Plan and its periodic modifications. The Executive Director shall have authority to modify the 23% limit to 20% on a temporary basis to preserve or enhance assets or to realize gains for the System.

The function of a pension plan is to provide for long-term investment positions, and therefore it is not the policy of the Board to be engaged in purchase and sale of common stocks on the basis of temporary market swings or other speculative factors. The risk of the equity portfolio has been defined above as a volatility level no greater than 15% more than that of the Standard & Poor's 500.

No more than 6% of assets of the System invested in the equity sector may be invested in equities of any one corporation. The Board shall not generally take a position constituting more than 5% of the outstanding equity of a corporation (except investments approved under the "Venture Capital" section).

No more than 4% of assets of the System may be invested in equities in the small company portfolio. The large company portfolios generally include companies that have over \$300 million in market capitalization and the small company portfolio generally includes companies that have less than \$1 billion in market capitalization.

Investment Objective and Policy (continued)

Investment criteria for all common and preferred stocks, and securities convertible into common stock, shall be developed by the Investment Criteria Group. This group shall include the Assistant Director, Investments; Manager, Research; Manager, Equities; Assistant Manager, Equities; and Assistant Manager, Research. The criteria shall be reviewed by the Investment Committee and adopted by the Board at least annually. The criteria will be applied to all companies. Only those companies that meet the criteria screening will be approved for inclusion on the STRS Approved List. The current criteria screens are stated as follows:

1. The company must be legal under the Revised Code which includes:
 - a. The company must be headquartered and incorporated in the United States; and
 - b. The company must, for a period of the most recent five fiscal years for which data is available, meet financial standards regarding its fixed charge coverage; and
 - c. The company must not have any dividends in arrears on preferred stock; and
 - d. The company must have paid a cash dividend in three of the last five years; or
 - e. The company is in the Standard & Poor's 500 Stock Index; or legal under Section 3307.15 (E)(1)(a) of the Revised Code (Ohio headquartered companies).
2. The second screen includes all U.S. headquartered companies in the Standard & Poor's 500 Stock Index, and all other companies that meet three of the five criteria listed below. In addition, stocks that are legal under Section 3307.15(E) (1)(a) of the Revised Code are eligible to be on the STRS Approved List.
 - a. No more than two dividend reductions in the past ten years.
 - b. A dividend yield greater than that of the market, as measured by the Standard & Poor's 500 Stock Index.
 - c. Sales growth that exceeded nominal GNP growth over the past five years.
 - d. Estimated earnings per share growth in excess of 10% for the next five-year period.
 - e. A market capitalization of at least \$20 million.

Before a company is placed on the Approved List a final screen shall consider:

1. Future predictability of the company and its environment including its:
 - a. Secular growth rate;
 - b. Self-financing ability;

- c. Accounting conservatism;
 - d. Trend of profit margins and return on equity.
2. Degree to which the company has control over its destiny with respect to:
 - a. Relative size and maturity;
 - b. Political or regulatory climate (inhibitor to accelerating growth?);
 - c. Labor intensity.
3. Dominant or unique position of the company within its industry.
4. Complexity and understandability of the corporate profile.
5. Quality of the company's management including integrity, innovative capacity, motivation, accessibility, and depth.
6. Extent to which the company can be efficiently researched and monitored.

The Approved List shall be reviewed by the Executive Director; Deputy Executive Director, Investments; and the Investment Advisor. The Approved List shall be presented to and reviewed at least annually by the Investment Committee and/or Board. No additions to the Approved List shall be made without prior review by the Investment Committee and/or Board. Only companies listed on the Approved List will be eligible for purchase during the time that Approved List is in effect.

STOCK OPTIONS

Call options may be written against securities in the portfolio under the following guidelines:

1. Options are written only if sale of the security is desirable or the security appears to be overvalued but sale is not mandated.
2. The maximum number of shares optionable for each portfolio position shall be that determined by the Options Clearing Corporation.
3. Only options listed on a registered exchange may be written.
4. Purchases of options are prohibited; however, option positions may be closed out.
5. The total value of the underlying securities cannot exceed 7% of the total amount invested in common stocks.

VENTURE CAPITAL

Direct venture capital investments are permitted under Section 3307.15(E) of the Revised Code provided the entity has one-half of its assets within

INVESTMENTS

Ohio, or one-half of its employees are employed in Ohio, or its principal office is located in Ohio. Investments in venture capital firms are also permitted provided the firms agree to use their best efforts to make investments in small businesses with principal offices in Ohio and with either more than one-half of their assets in Ohio or more than one-half of their employees employed in Ohio.

Total value of venture capital investments is legally limited to 5% of total assets. However, it is the Board's intent to make limited investments under this authority in the law provided the risk and return are comparable to similar-type venture capital investments. For direct venture capital investments, the general underwriting criteria to be followed for each investment is: (1) the company has already developed a product or service, but may need additional capital to continue to grow; (2) the company has a management team already in place; and (3) other sophisticated equity investors participate in the financing.

The Executive Director shall report any investment under consideration pursuant to this section to the Investment Committee prior to making any legally binding commitment to any such investment.

STAFF MEMBERSHIP ON CORPORATE BOARDS

For investments made under Section 3307.15(E) of the Revised Code, the investment staff is encouraged to seek board representation on each entity to further enhance the safety and direction of the State Teachers Retirement System investment.

The Deputy Executive Director, Investments, will inform the Board of an individual to serve on a company board and to face election by shareholders of that company. If the named individual is an STRS employee, that individual must sign a letter agreement with the State Teachers Retirement Board indicating that, should the staff member terminate employment at STRS, resignation from any and all company board seats would occur if the State Teachers Retirement Board so directs. The STRS employee can be reimbursed for actual expenses incurred in serving on a board of directors, but no director's fees will be accepted.

PROCEDURES

LONG-TERM OBJECTIVES

The Investment Advisor shall recommend long-term (five to ten-year) objectives for the total plan and for each segment of the portfolio. These long-term

objectives, many of which are incorporated into this policy, shall be reviewed by the Investment Committee and/or the Board at least annually. The objectives shall incorporate statements of investment criteria for both publicly traded bonds and stocks, as recommended by the Investment Advisor and approved by the Board.

ANNUAL INVESTMENT PLAN

In February of each year, or at such other time as the Board may designate, an Annual Investment Plan shall be developed by the Investment Committee.

This plan shall be based upon recommendations of the Investment Department and the Investment Consultant, with approval of the Executive Director. The Annual Investment Plan shall be based upon the following:

1. The long-term objectives set forth by the Board, on recommendation of the Investment Consultant.
2. Estimated monthly cash flow for the ensuing year.
3. General economic outlook for the short and long term.
4. Expected relative values of various investment instruments (i.e., stocks vs. bonds, etc.).
5. Short and long-term interest rates.
6. Expected levels of public and private financing.
7. Such other factors as seem indicated.

The Annual Investment Plan will serve as a guide for the investment staff in its day-to-day operation. Any substantial deviations from the Plan are to be fully justified in writing.

The Annual Investment Plan will be reviewed bi-monthly by the staff and any indicated modifications or changes recommended. The Plan as modified will become the operational plan for the investment staff until subsequent modification.

REPORTING

The Investment Committee shall be furnished monthly with the following reports:

1. Monthly Activity Report which shall include:
 - a. Common Stocks
 1. Summary of the equity markets
 2. Common stock performance comparisons
 3. Top 20 holdings
 4. Purchases and sales during the month
 5. Portfolio diversification—past, present, and planned
 6. Status of special projects

Investment Objective and Policy (continued)

- b. Fixed Income
 - 1. Summary of fixed income markets
 - 2. Summary of trading activity
 - 3. Exchange summary
 - c. Real Estate
 - d. Cash Flow
 - e. Actual and Implied Commissions
 - f. Performance
- 2. Portfolio Summary, classified by asset type
 - 3. Investment purchases and sales, year-to-date

PROXY VOTING

Common stock voting proxies may be executed by the Executive Director, the Deputy Executive Director, Administration, or the Deputy Executive Director, Investments. Issues that cannot be resolved shall be referred to a committee consisting of the Executive Director, Deputy Executive Director, Investments, and Chairman of the Board. Questions that cannot be decided by this committee will be referred to the Investment Committee prior to proxy execution.

For corporations operating in or doing business with the Republic of South Africa, it is the intent of the Board in exercising its proxy rights to encourage adoption of the Statement of Principles and other proposals that are effective ways of implementing racial equality in South Africa yet not hurt the black employees nor significantly hinder the financial returns of the American companies.

OHIO INVESTMENTS

It is the policy of the Board to give consideration to investments that enhance the general welfare of the state and its citizens provided the funds are invested solely in the interest of participants and beneficiaries. This goal will be pursued to the greatest extent possible within the limits of fiduciary responsibility and Section 3307.15 of the Revised Code. Preference will be given to Ohio investments offering competitive returns at risk levels comparable to similar investments currently available to the Board.

To meet this objective an Ohio Investment Plan, incorporating all provisions of the STRS Investment Objective and Policy Statement, shall be maintained and implemented by the investment staff. This plan shall set forth procedures to assure that a special effort will be made by the investment staff to examine and evaluate all legal investment opportunities in the state and, where policy objectives are met, to acquire such investments.

BROKER-DEALERS

Purchases and sales of publicly-traded securities shall be executed with broker-dealers from a list reviewed by the Investment Committee. The list shall be limited, to the extent practicable, to no more than 60 firms, and shall be based upon an evaluation by the investment staff as to financial soundness, underwriting capabilities, research services, execution capabilities and other factors required by the staff to fulfill its assigned investment responsibilities. Specific transactions will be directed to the broker on that list most capable of providing brokerage services necessary to obtain both the best available price and the most favorable execution. The Board shall give equal consideration to minority-owned and controlled firms and to firms owned and controlled by women. The Board shall be proactive in its intent to include firms that have an operating office located in Ohio, minority-owned and controlled firms, and firms owned and controlled by women.

Each firm listed shall file with the State Teachers Retirement Board on an annual basis such evidence of financial responsibility as required by the Board. This information shall include, but not be limited to, an audited financial statement.

When stocks are purchased during an underwriting, allocations may be made to dealers not on the approved list provided the managing underwriter is so listed. Bond purchases may be made either at underwriting or in the secondary market from any firm holding membership in the National Association of Securities Dealers.

When entering into real estate transactions, the Board shall give equal consideration to Ohio firms providing associated professional services, minority-owned and controlled firms, and firms owned and controlled by women.

MEASUREMENT

The primary goal of the fund shall be to achieve the absolute return targets described in the "Total Return" section of this policy. However, a secondary measurement objective of the Board is to relate the fund's performance to various indices. The relative measurement of the total fund shall be made against a hybrid index consisting of weightings from equity, fixed income, and real estate indices.

Relative measurement of both bond and stock performance shall be made on a quarterly and annual basis. Time periods of one year, two years, and three years will be used primarily to examine relative performance, with the three-year measurement regarded as the most significant.

The benchmark against which investment return of the publicly-traded bond sector will be measured is the Shearson Lehman Government/Corporate Bond Index, Salomon Broad Market Index, and the GNP Deflator. The Board's objective is an annual rate of return matching or exceeding the indices measured over a three-year period.

The equity portfolio shall be compared against the Standard & Poor's 500 Average, the Approved List, and the SEI Median Fund. The Board's objective is to match or exceed performance of the yardsticks, subject to the volatility level expressed in the "Total Return" section of this policy. The primary time period for such comparisons shall be three years, although one and two-year comparisons shall also be examined.

SECURITY VALUATION

Valuation of investments for purposes of complying with Section 3307.15 of the Revised Code shall be the total of:

1. Par value of all bonds, notes, certificates of indebtedness, and mortgages.
2. Cost of all preferred stocks, common stocks, and productive real estate.

Market valuation of investments shall be the total of:

1. The closing price on the principal registered stock exchange for all common and preferred stocks so listed.
2. The final bid as reflected by NASDAQ for common and preferred stocks not listed on a registered stock exchange.
3. The current value as determined by a qualified independent service for all bonds, notes, and certificates of indebtedness.
4. Par value for commercial paper, certificates of deposit, repurchase agreements and other short-term investments with a maturity of 270 or fewer days.
5. Real Estate valued through a combination of independent appraisals and in-house valuations. Methodology underlying internal valuations will be approved by the real estate consultant.
6. The most recent valuation for pooled venture capital and direct venture capital.
7. Guaranteed mortgages assigned an estimated value based upon the most recent posted rate for new Veteran's Administration or Federal Housing Administration guaranteed mortgages.

INVESTMENTS

Schedule of Investments as of June 30, 1991 Dedicated and Secular Portfolios

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|--|--------|----------|--------------|------------|--------------|
| U.S. Treasury Coupon Under Book Entry | 0.000 | 05-15-99 | \$ 2,131,250 | \$ 987,591 | \$ 1,098,254 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 05-15-00 | 8,922,500 | 3,690,102 | 4,201,873 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 08-15-00 | 7,929,220 | 3,204,592 | 3,654,815 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 11-15-00 | 5,000,000 | 1,967,520 | 2,259,350 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 02-15-01 | 3,120,000 | 1,152,430 | 1,377,667 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 05-15-01 | 14,540,000 | 5,380,868 | 6,283,897 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 11-15-01 | 16,520,000 | 5,790,054 | 6,840,271 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 02-15-02 | 16,524,140 | 5,737,331 | 6,661,211 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 05-15-02 | 33,919,287 | 11,536,410 | 13,376,749 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 08-15-02 | 947,875 | 311,740 | 365,226 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 11-15-02 | 17,111,537 | 5,494,741 | 6,454,130 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 05-15-03 | 12,315,500 | 3,764,604 | 4,425,821 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 11-15-03 | 7,669,000 | 2,185,716 | 2,640,974 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 05-15-04 | 10,544,000 | 2,881,434 | 3,462,966 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 11-15-04 | 9,110,625 | 2,338,680 | 2,866,931 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 05-15-05 | 13,216,375 | 3,237,245 | 3,973,107 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 11-15-05 | 17,572,106 | 4,088,041 | 5,057,428 |
| FNMA Strip Series 1 | 0.000 | 02-12-09 | 2,685,000 | 521,663 | 539,121 |
| FNMA Strip Series 1 | 0.000 | 08-12-09 | 2,000,000 | 370,920 | 383,720 |
| FNMA Strip Series 1 | 0.000 | 02-12-05 | 2,685,000 | 749,899 | 779,617 |
| FNMA Strip Series 1 | 0.000 | 08-12-05 | 2,685,000 | 715,587 | 745,598 |
| FNMA Sub. Capital Debenture Series 1 | 0.000 | 02-01-05 | 5,120,000 | 1,419,280 | 1,487,974 |
| FNMA Sub. Capital Debenture Series 1 | 0.000 | 08-01-05 | 8,481,000 | 2,242,534 | 2,355,259 |
| FNMA Sub. Capital Debenture Series 1 | 0.000 | 08-01-06 | 8,720,000 | 2,104,001 | 2,211,218 |
| FNMA Sub. Capital Debenture Series 1 | 0.000 | 02-01-07 | 7,100,000 | 1,634,266 | 1,712,733 |
| FNMA Senior Capital Debentures | 0.000 | 07-05-14 | 470,000,000 | 61,054,086 | 57,424,600 |
| FNMA Senior Capital Debentures | 0.000 | 02-12-10 | 5,107,000 | 933,509 | 936,164 |
| FNMA Senior Capital Debentures | 0.000 | 02-12-11 | 5,370,000 | 897,628 | 898,670 |
| FNMA Senior Capital Debentures | 0.000 | 08-12-11 | 5,370,000 | 859,270 | 858,663 |
| FNMA Senior Capital Debentures | 0.000 | 08-12-14 | 5,370,000 | 669,884 | 659,168 |
| FNMA Senior Capital Debentures | 0.000 | 02-12-16 | 2,570,000 | 288,796 | 277,277 |
| FNMA Senior Capital Debentures | 0.000 | 08-12-16 | 5,370,000 | 578,620 | 557,782 |
| FNMA Senior Capital Debentures | 0.000 | 02-12-17 | 5,370,000 | 557,603 | 535,819 |
| FNMA Senior Capital Debentures | 0.000 | 02-12-18 | 5,370,000 | 516,960 | 494,577 |
| FNMA Senior Capital Debentures | 0.000 | 02-15-05 | 32,500,000 | 9,173,108 | 10,115,625 |
| U.S. Treasury Interest Payments | 0.000 | 05-15-05 | 12,500,000 | 3,318,675 | 3,808,500 |
| U.S. Treasury Interest Payments | 0.000 | 11-15-05 | 116,000,000 | 31,221,212 | 33,856,920 |
| U.S. Treasury Interest Payments | 0.000 | 02-15-05 | 2,000,000 | 555,831 | 622,500 |
| U.S. Treasury Interest Payments | 0.000 | 05-15-04 | 40,000,000 | 12,463,643 | 13,312,400 |
| U.S. Treasury Interest Payments | 0.000 | 05-15-03 | 15,000,000 | 4,474,727 | 5,451,450 |
| U.S. Treasury Interest Payments | 0.000 | 05-15-05 | 13,000,000 | 3,105,477 | 3,960,840 |
| U.S. Treasury Interest Payments | 0.000 | 11-15-07 | 15,600,000 | 3,263,956 | 3,622,008 |
| Government Trust Certificate (ISRAEL) | 0.000 | 05-15-10 | 2,000,000 | 332,234 | 370,620 |
| Government Trust Certificate (ISRAEL) | 0.000 | 11-15-10 | 2,000,000 | 316,806 | 354,360 |
| Government Trust Certificate (ISRAEL) | 0.000 | 05-15-10 | 3,000,000 | 498,352 | 555,930 |
| Government Trust Certificate (ISRAEL) | 0.000 | 05-15-99 | 1,000,000 | 482,925 | 505,620 |
| Government Trust Certificate (ISRAEL) | 0.000 | 05-15-02 | 24,112,000 | 8,927,685 | 9,260,455 |
| Government Trust Certificate (ISRAEL) | 0.000 | 11-15-02 | 4,500,000 | 1,614,069 | 1,652,310 |
| Government Trust Certificate (ISRAEL) | 0.000 | 11-15-09 | 9,928,000 | 1,794,386 | 1,923,550 |
| Government Trust Certificate (ISRAEL) | 0.000 | 05-15-10 | 10,000,000 | 1,725,193 | 1,853,100 |
| Government Trust Certificate (ISRAEL) | 0.000 | 05-15-02 | 6,400,000 | 2,398,896 | 2,457,984 |
| Government Trust Certificate (ISRAEL) | 0.000 | 11-15-02 | 11,612,000 | 4,088,762 | 4,263,694 |
| Government Trust Certificate (ISRAEL) | 0.000 | 05-15-99 | 5,000,000 | 2,414,627 | 2,528,100 |
| Government Trust Certificate (ISRAEL) | 0.000 | 05-15-00 | 3,661,000 | 1,611,898 | 1,688,636 |
| Government Trust Certificate (ISRAEL) | 0.000 | 05-15-03 | 8,829,000 | 3,016,957 | 3,084,588 |
| Government Trust Certificate (ISRAEL) | 0.000 | 11-15-06 | 5,662,000 | 1,345,154 | 1,436,733 |
| Government Trust Certificate (ISRAEL) | 0.000 | 05-15-08 | 4,000,000 | 824,642 | 886,240 |
| Government Trust Certificate (ISRAEL) | 0.000 | 11-15-08 | 12,000,000 | 2,372,615 | 2,542,440 |
| Government Trust Certificate (ISRAEL) | 0.000 | 01-15-06 | 4,837,000 | 1,228,540 | 1,349,813 |
| Resolution Funding Corp. Coupon Strips | 0.000 | 01-15-07 | 6,005,000 | 1,370,847 | 1,531,275 |
| Resolution Funding Corp. Coupon Strips | 0.000 | 10-15-08 | 10,320,000 | 2,032,758 | 2,250,998 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-09 | 23,808,000 | 4,492,577 | 4,962,301 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-09 | 13,155,000 | 2,368,702 | 2,622,712 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-10 | 2,250,000 | 376,063 | 428,895 |

INVESTMENTS

Dedicated and Secular Portfolios (continued)

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|---------------------------------------|--------|----------|--------------|------------|--------------|
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-10 | \$ 2,414,000 | \$ 385,427 | \$ 440,555 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-11 | 33,449,000 | 5,255,697 | 5,832,502 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-11 | 14,367,000 | 2,149,725 | 2,397,421 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-13 | 2,250,000 | 284,404 | 329,063 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-07 | 13,356,000 | 2,908,793 | 3,259,665 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-08 | 13,100,000 | 2,734,002 | 3,053,872 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-09 | 18,437,000 | 3,559,169 | 3,929,293 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-09 | 16,005,000 | 2,927,941 | 3,261,019 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-10 | 5,000,000 | 840,869 | 932,800 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-11 | 11,005,000 | 1,685,663 | 1,877,673 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-12 | 2,140,000 | 291,625 | 334,375 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-13 | 11,005,000 | 1,446,279 | 1,647,228 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-13 | 8,561,000 | 1,075,581 | 1,225,250 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-14 | 11,005,000 | 1,269,569 | 1,444,406 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-15 | 11,005,000 | 1,216,899 | 1,385,860 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-15 | 2,515,000 | 265,150 | 303,359 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-01 | 4,725,000 | 1,960,256 | 2,040,586 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-01 | 4,725,000 | 1,872,297 | 1,951,992 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-02 | 4,725,000 | 1,786,269 | 1,858,957 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-02 | 4,725,000 | 1,707,551 | 1,777,781 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-07 | 5,325,000 | 1,212,187 | 1,327,895 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-07 | 5,000,000 | 1,080,205 | 1,193,750 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-10 | 21,110,000 | 3,655,794 | 4,023,988 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-11 | 32,177,000 | 4,972,925 | 5,369,376 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-12 | 2,674,000 | 383,635 | 427,840 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-12 | 23,431,000 | 3,223,943 | 3,580,491 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-14 | 2,500,000 | 300,167 | 335,150 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-14 | 2,500,000 | 287,166 | 321,875 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-15 | 2,500,000 | 275,379 | 308,575 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-15 | 2,500,000 | 263,514 | 296,075 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-16 | 32,500,000 | 3,330,037 | 3,706,950 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-16 | 6,439,000 | 672,950 | 704,233 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-17 | 4,776,000 | 473,715 | 501,480 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-17 | 10,614,000 | 990,085 | 1,064,690 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-18 | 6,634,000 | 614,704 | 638,523 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-18 | 5,569,000 | 468,392 | 516,859 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-19 | 7,464,000 | 607,959 | 669,372 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-99 | 21,500,000 | 11,032,928 | 11,381,455 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-00 | 17,095,000 | 8,085,730 | 8,248,338 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-00 | 1,950,000 | 882,778 | 899,438 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-02 | 4,940,000 | 1,912,037 | 1,991,413 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-02 | 4,065,000 | 1,504,102 | 1,563,724 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-03 | 4,315,000 | 1,524,636 | 1,583,044 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-03 | 4,215,000 | 1,423,671 | 1,476,557 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-06 | 10,000,000 | 2,447,437 | 2,665,600 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-08 | 11,455,000 | 2,440,626 | 2,670,390 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-08 | 8,053,000 | 1,639,044 | 1,794,289 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-09 | 12,493,000 | 2,570,239 | 2,662,508 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-09 | 8,970,000 | 1,801,013 | 1,827,638 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-10 | 26,695,000 | 4,837,979 | 5,205,525 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-10 | 11,005,000 | 1,845,714 | 2,053,093 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-11 | 50,942,000 | 8,820,592 | 9,089,581 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-11 | 31,805,000 | 5,376,561 | 5,426,569 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-12 | 37,238,000 | 5,640,788 | 6,085,806 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-12 | 18,944,000 | 2,802,624 | 2,960,000 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-13 | 36,733,000 | 5,084,204 | 5,498,195 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-13 | 18,863,000 | 2,613,624 | 2,699,673 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-14 | 30,153,000 | 3,842,818 | 4,127,041 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-14 | 37,352,000 | 4,542,658 | 4,902,450 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-15 | 8,661,000 | 1,020,388 | 1,090,680 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-15 | 17,500,000 | 1,932,987 | 2,110,850 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-16 | 27,200,000 | 2,871,206 | 3,162,000 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-16 | 15,000,000 | 1,507,071 | 1,678,050 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-17 | 3,825,000 | 351,481 | 393,248 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-18 | 41,695,000 | 4,435,577 | 4,091,113 |

INVESTMENTS

Dedicated and Secular Portfolios (continued)

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|---------------------------------------|--------|----------|------------------|----------------|----------------|
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-18 | \$ 48,645,000 | \$ 4,997,178 | \$ 4,590,629 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-19 | 5,175,000 | 486,701 | 472,219 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-19 | 5,175,000 | 467,510 | 456,021 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-20 | 31,470,000 | 2,848,674 | 2,684,706 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-20 | 43,470,000 | 3,841,682 | 3,613,226 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-21 | 61,837,000 | 5,186,652 | 4,985,299 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-21 | 69,245,000 | 5,566,205 | 5,430,885 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-22 | 32,931,000 | 2,521,324 | 2,500,451 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-23 | 5,175,000 | 365,681 | 367,063 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-23 | 5,175,000 | 351,717 | 354,125 |
| U.S. Treasury Coupon Receipts | 0.000 | 08-15-94 | 4,031,250 | 2,719,598 | 3,167,031 |
| U.S. Treasury Coupon Receipts | 0.000 | 02-15-98 | 5,375,000 | 2,370,032 | 3,132,604 |
| U.S. Treasury Coupon Receipts | 0.000 | 08-15-98 | 5,375,000 | 2,227,997 | 3,001,561 |
| U.S. Treasury Coupon Receipts | 0.000 | 08-15-94 | 9,000,000 | 6,033,142 | 7,070,580 |
| U.S. Treasury Coupon Receipts | 0.000 | 02-15-98 | 55,020,000 | 23,512,960 | 32,066,206 |
| U.S. Treasury Coupon Receipts | 0.000 | 08-15-98 | 9,120,000 | 3,775,280 | 5,092,882 |
| U.S. Treasury Coupon Receipts | 0.000 | 11-15-97 | 12,375,000 | 5,621,085 | 7,386,266 |
| U.S. Treasury Coupon Receipts | 0.000 | 05-15-98 | 12,375,000 | 5,307,679 | 7,061,423 |
| U.S. Treasury Coupon Receipts | 0.000 | 11-15-98 | 12,375,000 | 4,949,418 | 6,775,313 |
| U.S. Treasury Coupon Receipts | 0.000 | 08-15-94 | 1,946,875 | 1,288,642 | 1,529,504 |
| U.S. Treasury Coupon Receipts | 0.000 | 02-15-98 | 7,231,250 | 3,079,372 | 4,214,445 |
| U.S. Treasury Coupon Receipts | 0.000 | 05-15-92 | 2,517,500 | 2,242,807 | 2,364,084 |
| U.S. Treasury Coupon Receipts | 0.000 | 05-15-94 | 6,625,000 | 4,544,497 | 5,312,389 |
| U.S. Treasury Coupon Receipts | 0.000 | 11-15-94 | 6,558,750 | 4,200,287 | 5,056,337 |
| U.S. Treasury Bond Corpus | 0.000 | 05-15-92 | 13,000,000 | 11,638,665 | 12,207,779 |
| U.S. Treasury Principal Strips | 0.000 | 11-15-09 | 495,000,000 | 91,900,483 | 103,638,149 |
| U.S. Treasury Principal Strips | 0.000 | 11-15-09 | 60,000,000 | 11,139,453 | 12,562,199 |
| Total | | | \$ 3,084,258,040 | \$ 619,486,079 | \$ 681,821,650 |

U.S. Government and Agency Notes and Bonds

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|--|--------|----------|---------------|--------------|--------------|
| FNMA Strip Principal Series 1 | 0.000 | 02-12-18 | \$ 26,000,000 | \$ 2,535,701 | \$ 2,394,600 |
| FNMA Sub. Capital Debentures | 0.000 | 02-01-19 | 75,000,000 | 6,693,409 | 6,435,750 |
| FNMA Sub. Capital Debentures | 0.000 | 08-01-14 | 11,250,000 | 1,422,872 | 1,378,575 |
| FNMA Sub. Capital Debentures | 0.000 | 08-01-15 | 11,250,000 | 1,313,015 | 1,261,688 |
| FNMA Sub. Capital Debentures | 0.000 | 02-01-16 | 11,250,000 | 1,261,673 | 1,211,400 |
| FNMA Sub. Capital Debentures | 0.000 | 02-01-18 | 11,250,000 | 1,080,419 | 1,033,875 |
| FNMA Sub. Capital Debentures | 0.000 | 08-01-18 | 11,250,000 | 1,039,217 | 996,750 |
| FNMA Senior Capital Debentures | 0.000 | 02-12-05 | 1,855,000 | 534,507 | 538,618 |
| FNMA Senior Capital Debentures | 0.000 | 02-12-08 | 2,109,000 | 462,720 | 463,875 |
| FNMA Senior Principal Capital Debentures | 0.000 | 02-12-18 | 120,000,000 | 11,709,202 | 11,052,000 |
| Government Trust Certificate (ISRAEL) | 0.000 | 05-15-94 | 3,368,000 | 2,662,712 | 2,704,908 |
| Government Trust Certificate (ISRAEL) | 0.000 | 11-15-94 | 10,042,000 | 7,492,924 | 7,735,453 |
| Government Trust Certificate (ISRAEL) | 0.000 | 05-15-95 | 30,500,000 | 21,676,420 | 22,331,490 |
| Government Trust Certificate (ISRAEL) | 0.000 | 11-15-95 | 9,900,000 | 6,755,237 | 6,936,138 |
| Government Trust Certificate (ISRAEL) | 0.000 | 11-15-97 | 9,200,000 | 5,207,292 | 5,359,000 |
| Government Trust Certificate (ISRAEL) | 0.000 | 05-15-97 | 14,500,000 | 8,471,676 | 8,822,235 |
| Government Trust Certificate (ISRAEL) | 0.000 | 05-15-94 | 6,000,000 | 4,681,491 | 4,818,720 |
| Government Trust Certificate (ISRAEL) | 0.000 | 11-15-94 | 4,000,000 | 2,989,172 | 3,081,240 |
| Government Trust Certificate (ISRAEL) | 0.000 | 05-15-95 | 8,000,000 | 5,719,463 | 5,857,440 |
| Government Trust Certificate (ISRAEL) | 0.000 | 05-15-96 | 2,600,000 | 1,744,118 | 1,738,750 |
| Government Trust Certificate (ISRAEL) | 0.000 | 11-15-96 | 4,100,000 | 2,633,188 | 2,625,271 |
| Resolution Funding Corp. | 8.125 | 10-15-19 | 9,100,000 | 8,548,639 | 8,522,696 |
| Resolution Funding Corp. | 8.625 | 01-15-30 | 46,000,000 | 46,117,269 | 45,252,500 |
| Resolution Funding Corp. | 8.875 | 04-15-30 | 10,000,000 | 9,945,791 | 9,000,000 |
| Resolution Funding Corp. | 8.875 | 07-15-20 | 28,000,000 | 29,071,316 | 29,137,360 |
| Resolution Funding Corp. | 9.375 | 10-15-20 | 10,000,000 | 10,827,914 | 10,700,000 |
| Resolution Funding Corp. | 8.625 | 01-15-21 | 69,000,000 | 69,444,809 | 68,482,500 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-96 | 4,400,000 | 2,876,479 | 2,993,364 |

INVESTMENTS

U.S. Government and Agency Notes and Bonds (continued)

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|---------------------------------------|--------|----------|--------------|--------------|--------------|
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-96 | \$ 3,000,000 | \$ 1,876,152 | \$ 1,953,750 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-97 | 27,000,000 | 16,128,692 | 16,748,370 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-97 | 7,000,000 | 4,001,277 | 4,156,250 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-98 | 9,100,000 | 5,020,996 | 5,158,517 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-99 | 8,875,000 | 4,562,979 | 4,587,221 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-99 | 6,375,000 | 3,135,667 | 3,149,633 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-14 | 5,325,000 | 616,716 | 685,594 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-15 | 5,325,000 | 570,077 | 630,640 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-17 | 55,325,000 | 5,887,355 | 5,809,125 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-17 | 22,555,000 | 2,323,168 | 2,262,492 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-18 | 26,075,000 | 2,694,429 | 2,509,719 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-18 | 57,963,000 | 5,262,529 | 5,379,546 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-19 | 106,622,000 | 9,483,486 | 9,561,861 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-19 | 80,050,000 | 7,109,477 | 6,929,128 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-96 | 5,000,000 | 3,207,850 | 3,323,400 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-00 | 3,000,000 | 1,394,823 | 1,447,500 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-00 | 4,080,000 | 1,813,796 | 1,881,900 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-01 | 4,140,000 | 1,756,576 | 1,828,058 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-01 | 4,140,000 | 1,679,407 | 1,746,542 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-14 | 4,437,000 | 548,445 | 607,292 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-15 | 10,307,000 | 1,204,787 | 1,297,961 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-15 | 5,037,000 | 550,523 | 607,563 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-16 | 4,140,000 | 466,618 | 463,142 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-17 | 73,456,000 | 7,683,803 | 7,873,014 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-17 | 71,895,000 | 7,287,420 | 7,391,525 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-18 | 170,512,000 | 17,679,211 | 16,730,637 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-18 | 26,711,000 | 2,528,914 | 2,520,717 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-19 | 137,869,000 | 13,024,655 | 12,580,546 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-19 | 106,377,000 | 9,871,838 | 9,373,941 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-20 | 83,143,000 | 7,325,019 | 7,092,929 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-20 | 52,750,000 | 3,967,263 | 4,384,580 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-21 | 49,507,000 | 4,093,186 | 3,991,254 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-21 | 25,507,000 | 1,934,508 | 2,000,514 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-22 | 84,409,000 | 6,135,889 | 6,198,153 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-23 | 49,523,000 | 3,365,580 | 3,512,666 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-23 | 35,047,000 | 2,314,874 | 2,398,266 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 01-15-24 | 13,346,000 | 912,621 | 879,902 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-20 | 43,519,000 | 3,619,519 | 3,671,698 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-20 | 61,665,000 | 4,791,729 | 5,048,514 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-21 | 2,226,000 | 164,522 | 172,515 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-22 | 31,632,000 | 2,394,751 | 2,362,278 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-22 | 10,272,000 | 759,053 | 741,433 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 04-15-23 | 13,875,000 | 922,780 | 966,810 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 10-15-23 | 6,532,000 | 423,570 | 438,820 |
| Resolution Funding Corp. Coupon Strip | 0.000 | 07-15-20 | 75,000,000 | 5,472,483 | 6,234,000 |
| Student Loan Marketing Assoc. Notes | 0.000 | 05-15-14 | 75,000,000 | 9,790,312 | 8,343,750 |
| Student Loan Marketing Assoc. Notes | 0.000 | 10-03-22 | 772,000,000 | 53,522,791 | 52,457,400 |
| U.S. Treasury Principal Strips | 0.000 | 11-15-09 | 138,450,000 | 27,995,792 | 28,009,820 |
| U.S. Treasury Principal Strips | 0.000 | 11-15-04 | 16,000,000 | 5,089,369 | 5,100,000 |
| U.S. Treasury Principal Strips | 0.000 | 05-15-17 | 854,334,000 | 95,916,641 | 96,958,366 |
| U.S. Treasury Principal Strips | 0.000 | 05-15-18 | 959,905,000 | 105,591,902 | 101,711,534 |
| U.S. Treasury | 11.250 | 05-15-95 | 6,900,000 | 7,488,196 | 7,702,125 |
| U.S. Treasury | 10.500 | 08-15-95 | 124,010,000 | 134,043,008 | 135,674,381 |
| U.S. Treasury | 7.375 | 05-15-96 | 76,565,000 | 71,333,142 | 74,866,023 |
| U.S. Treasury | 7.250 | 11-15-96 | 283,654,000 | 268,161,980 | 274,435,245 |
| U.S. Treasury | 8.875 | 07-15-95 | 16,000,000 | 16,385,021 | 16,614,880 |
| U.S. Treasury | 9.250 | 01-15-96 | 105,605,000 | 111,440,226 | 110,950,725 |
| U.S. Treasury | 8.000 | 01-15-97 | 73,850,000 | 74,294,850 | 73,780,581 |
| U.S. Treasury | 7.875 | 02-15-96 | 25,000,000 | 25,130,383 | 24,976,500 |
| U.S. Treasury | 10.375 | 11-15-09 | 85,130,000 | 96,389,659 | 97,207,393 |
| U.S. Treasury | 11.750 | 02-15-10 | 163,925,000 | 200,276,482 | 205,161,973 |
| U.S. Treasury | 12.750 | 11-15-10 | 133,080,000 | 172,520,695 | 178,368,455 |
| U.S. Treasury | 11.625 | 11-15-02 | 20,045,000 | 25,027,718 | 24,811,901 |
| U.S. Treasury | 10.750 | 05-15-03 | 40,555,000 | 46,610,090 | 47,639,147 |
| U.S. Treasury | 11.125 | 08-15-03 | 82,725,000 | 100,950,332 | 99,580,219 |

INVESTMENTS

U.S. Government and Agency Bonds (continued)

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|---------------------------------------|--------|----------|------------------|-----------------|-----------------|
| U.S. Treasury | 11.875 | 11-15-03 | \$ 138,285,000 | \$ 174,663,706 | \$ 174,670,549 |
| U.S. Treasury | 10.750 | 08-15-05 | 25,000,000 | 28,880,775 | 29,562,500 |
| U.S. Treasury | 7.250 | 05-15-16 | 225,280,000 | 179,117,640 | 195,712,000 |
| U.S. Treasury | 7.500 | 11-15-16 | 360,579,000 | 318,313,224 | 321,928,537 |
| U.S. Treasury | 8.750 | 05-15-17 | 156,185,000 | 154,388,209 | 159,552,349 |
| U.S. Treasury | 8.875 | 08-15-17 | 216,375,000 | 229,396,079 | 223,811,809 |
| U.S. Treasury | 8.875 | 02-15-19 | 25,000,000 | 24,305,564 | 25,937,500 |
| U.S. Treasury Certificates of Accrual | 0.000 | 05-15-09 | 14,100,000 | 3,267,184 | 3,110,742 |
| U.S. Treasury Receipts | 0.000 | 11-15-96 | 1,485,000 | 953,236 | 966,171 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 11-15-94 | 17,100,000 | 12,655,476 | 13,279,176 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 05-15-95 | 9,085,805 | 6,417,456 | 6,714,955 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 11-15-95 | 4,280,342 | 2,795,569 | 3,030,996 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 05-15-96 | 26,180,437 | 16,980,571 | 17,712,636 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 11-15-96 | 39,373,114 | 24,138,654 | 25,543,308 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 11-15-97 | 40,382,875 | 21,776,358 | 23,888,894 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 02-15-98 | 18,039,845 | 9,460,477 | 10,406,645 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 05-15-98 | 1,000,000 | 501,329 | 564,680 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 11-15-98 | 8,223,225 | 3,923,101 | 4,445,640 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 02-15-99 | 15,854,375 | 8,107,947 | 8,358,109 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 05-15-99 | 2,100,000 | 1,049,084 | 1,082,151 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 05-15-00 | 15,079,841 | 6,885,560 | 7,101,550 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 02-15-01 | 1,259,500 | 532,858 | 556,145 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 05-15-01 | 8,959,350 | 3,725,994 | 3,872,052 |
| U.S. Treasury Coupon Under Book Entry | 0.000 | 08-15-01 | 4,280,000 | 1,605,874 | 1,808,300 |
| U.S. Treasury Interest Payments | 0.000 | 02-15-95 | 76,950,000 | 56,611,917 | 58,289,625 |
| U.S. Treasury Interest Payments | 0.000 | 02-15-96 | 483,470,000 | 328,389,855 | 336,035,824 |
| U.S. Treasury Interest Payments | 0.000 | 08-15-96 | 112,540,000 | 74,841,399 | 74,733,312 |
| U.S. Treasury Interest Payments | 0.000 | 02-15-97 | 299,100,000 | 184,928,487 | 190,203,672 |
| U.S. Treasury Interest Payments | 0.000 | 08-15-97 | 26,500,000 | 16,217,560 | 16,082,055 |
| U.S. Treasury Interest Payments | 0.000 | 02-15-98 | 94,720,000 | 55,030,783 | 54,996,326 |
| U.S. Treasury Interest Payments | 0.000 | 02-15-02 | 135,000,000 | 55,979,932 | 54,969,300 |
| U.S. Treasury Interest Payments | 0.000 | 08-15-03 | 72,000,000 | 25,892,903 | 25,626,960 |
| U.S. Treasury Interest Payments | 0.000 | 02-15-04 | 45,000,000 | 15,228,360 | 15,285,600 |
| U.S. Treasury Interest Payments | 0.000 | 08-15-04 | 61,000,000 | 19,853,056 | 19,862,820 |
| U.S. Treasury Interest Payments | 0.000 | 08-15-08 | 10,000,000 | 2,370,457 | 2,293,700 |
| U.S. Treasury Interest Payments | 0.000 | 08-15-09 | 147,000,000 | 30,675,068 | 30,961,140 |
| U.S. Treasury Interest Payments | 0.000 | 02-15-13 | 48,000,000 | 7,836,769 | 7,500,000 |
| U.S. Treasury Interest Payments | 0.000 | 05-15-96 | 288,270,000 | 186,177,706 | 196,306,105 |
| U.S. Treasury Interest Payments | 0.000 | 05-15-97 | 161,000,000 | 93,959,301 | 99,919,820 |
| U.S. Treasury Interest Payments | 0.000 | 05-15-04 | 65,000,000 | 21,609,417 | 21,632,650 |
| U.S. Treasury Interest Payments | 0.000 | 11-15-04 | 30,000,000 | 9,520,581 | 9,562,500 |
| U.S. Treasury Interest Payments | 0.000 | 08-15-17 | 111,190,000 | 13,024,591 | 12,195,318 |
| U.S. Treasury Interest Payments | 0.000 | 11-15-17 | 118,907,000 | 14,711,910 | 12,782,502 |
| U.S. Treasury Interest Payments | 0.000 | 02-15-18 | 110,530,000 | 12,238,575 | 11,639,913 |
| U.S. Treasury Interest Payments | 0.000 | 02-15-94 | 5,862,000 | 4,733,871 | 4,768,326 |
| Sub Total | | | \$10,177,827,709 | \$4,574,520,670 | \$4,645,771,392 |
| Net Securities Traded Not Settled | | | (8,484,000) | (4,463,723) | (4,452,847) |
| Total | | | \$10,169,343,709 | \$4,570,056,947 | \$4,641,318,545 |

Government Debentures

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|-------------------------|--------|----------|--------------|---------------|-----------------|
| FHA Series MM Debenture | 7.125 | 05-01-09 | \$ 2,038,250 | \$ 2,007,560 | \$ 2,038,250 |

INVESTMENTS

Canadian Bonds

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|--|--------|----------|----------------|----------------|----------------|
| British Columbia Hydro & Power Authority | 15.000 | 04-15-11 | \$ 13,200,000 | \$ 18,481,478 | \$ 16,957,776 |
| Hydro Quebec | 11.250 | 10-15-09 | 29,800,000 | 32,259,277 | 32,910,226 |
| Hydro Quebec | 10.750 | 06-15-10 | 37,500,000 | 39,873,442 | 41,027,250 |
| Hydro Quebec | 13.250 | 10-15-10 | 24,640,000 | 31,207,542 | 29,336,877 |
| Hydro Quebec | 13.375 | 02-15-13 | 15,500,000 | 20,472,669 | 19,098,790 |
| Hydro Quebec | 13.250 | 12-15-13 | 12,200,000 | 16,672,426 | 15,150,814 |
| Hydro Quebec | 8.875 | 03-01-26 | 10,000,000 | 10,418,948 | 9,281,200 |
| Hydro Quebec | 8.250 | 04-15-26 | 3,750,000 | 3,368,761 | 3,255,450 |
| Hydro Quebec | 8.250 | 01-15-27 | 14,000,000 | 12,274,206 | 12,149,340 |
| Hydro Quebec | 10.700 | 10-15-07 | 4,800,000 | 5,075,354 | 5,200,464 |
| Hydro Quebec | 9.375 | 04-15-30 | 6,350,000 | 6,263,922 | 6,260,656 |
| Hydro Quebec | 9.400 | 02-01-21 | 13,850,000 | 13,741,079 | 13,767,731 |
| Manitoba (Province of) | 14.750 | 03-15-97 | 11,280,000 | 13,951,443 | 13,007,194 |
| Nova Scotia (Province of) | 11.500 | 05-15-13 | 22,450,000 | 25,249,996 | 25,698,066 |
| Ontario (Province of) | 15.750 | 03-15-12 | 27,530,000 | 38,136,951 | 37,225,515 |
| Ontario (Province of) | 12.500 | 04-04-94 | 5,550,000 | 6,241,781 | 6,151,787 |
| Quebec (Province of) | 13.000 | 10-01-13 | 9,000,000 | 11,157,011 | 10,943,370 |
| Quebec (Province of) | 12.750 | 09-15-94 | 4,500,000 | 5,111,671 | 5,049,810 |
| Quebec (Province of) | 13.250 | 09-15-14 | 6,295,000 | 7,855,868 | 7,809,702 |
| Quebec (Province of) | 11.000 | 06-15-15 | 30,000,000 | 32,636,690 | 33,646,800 |
| Quebec (Province of) | 8.625 | 12-01-26 | 14,350,000 | 13,158,217 | 13,076,437 |
| Total | | | \$ 316,545,000 | \$ 363,608,732 | \$ 357,005,255 |

Municipal Bonds

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|--------------------------------|--------|----------|--------------|--------------|--------------|
| Bowling Green State University | 3.000 | 11-01-94 | \$ 270,000 | \$ 270,000 | \$ 234,989 |
| Central State College | 5.000 | 12-01-91 | 45,000 | 45,000 | 44,828 |
| Miami University | 3.250 | 05-01-94 | 155,000 | 155,000 | 139,240 |
| University of Dayton | 10.000 | 10-01-00 | 1,965,000 | 1,965,000 | 1,996,302 |
| Total | | | \$ 2,435,000 | \$ 2,435,000 | \$ 2,415,359 |

Utility Bonds

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|--|--------|----------|----------------|----------------|----------------|
| Arkla, Inc. | 8.500 | 12-15-92 | \$ 3,000,000 | \$ 3,022,521 | \$ 3,056,250 |
| Arkla, Inc. | 8.600 | 05-20-93 | 10,000,000 | 10,119,937 | 10,218,700 |
| Camino Energy Company | 8.500 | 03-01-93 | 5,600,000 | 5,596,155 | 5,668,656 |
| Camino Energy Company | 8.550 | 09-01-93 | 5,600,000 | 5,600,000 | 5,685,904 |
| Camino Energy Company | 9.980 | 09-01-97 | 4,000,000 | 4,197,360 | 4,171,440 |
| Dominion Financing, Inc. | 8.840 | 10-16-92 | 5,000,000 | 5,000,000 | 5,078,500 |
| Dominion Financing, Inc. | 9.200 | 06-22-93 | 6,000,000 | 6,000,000 | 6,150,960 |
| Dominion Financing, Inc. | 8.620 | 12-28-93 | 1,500,000 | 1,500,000 | 1,519,695 |
| National Rural Utilities Co-op Financial Corp. | 9.070 | 01-13-97 | 10,000,000 | 10,000,000 | 10,115,700 |
| Potomac Capital Investment Corporation | 9.500 | 05-23-94 | 5,000,000 | 5,010,630 | 5,097,400 |
| Potomac Capital Investment Corporation | 9.480 | 06-04-96 | 10,000,000 | 10,254,643 | 10,036,800 |
| Potomac Capital Investment Corporation | 9.720 | 09-16-96 | 15,000,000 | 15,582,718 | 15,201,600 |
| Potomac Capital Investment Corporation | 9.900 | 05-13-96 | 5,000,000 | 5,000,000 | 5,098,100 |
| Potomac Capital Investment Corporation | 8.250 | 02-16-93 | 5,000,000 | 4,989,349 | 5,008,150 |
| PSEG Capital Corporation | 9.000 | 12-02-96 | 10,000,000 | 10,000,637 | 9,790,900 |
| PSEG Capital Corporation | 9.000 | 11-27-96 | 5,000,000 | 5,008,649 | 4,895,600 |
| Total | | | \$ 105,700,000 | \$ 106,882,599 | \$ 106,794,355 |

INVESTMENTS

Telephone Bonds

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|------------------------------------|--------|----------|---------------|---------------|---------------|
| Bell Atlantic TriCon Leasing, Inc. | 8.490 | 12-27-93 | \$ 8,000,000 | \$ 8,000,000 | \$ 8,117,600 |
| Bell Atlantic TriCon Leasing, Inc. | 8.760 | 12-26-94 | 3,500,000 | 3,500,000 | 3,557,785 |
| GTE Southwest, Inc. | 10.875 | 10-15-95 | 2,000,000 | 2,114,137 | 2,034,360 |
| U.S. West Financial | 10.150 | 04-01-96 | 12,000,000 | 12,219,581 | 12,705,000 |
| Total | | | \$ 25,500,000 | \$ 25,833,718 | \$ 26,414,745 |

Railroad Bonds

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|-------------------------------|--------|----------|--------------|--------------|--------------|
| Consolidated Rail Corporation | 8.650 | 11-09-94 | \$ 5,000,000 | \$ 5,000,000 | \$ 5,055,400 |

Finance Bonds

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|---|--------|----------|---------------|---------------|---------------|
| Aetna Life & Casualty Company | 8.000 | 01-15-17 | \$ 13,300,000 | \$ 12,407,301 | \$ 11,209,373 |
| American General Corporation | 7.950 | 07-15-93 | 2,500,000 | 2,463,238 | 2,503,075 |
| American General Corporation | 9.760 | 09-18-98 | 7,500,000 | 7,760,555 | 7,692,150 |
| American General Finance Corporation | 12.250 | 01-15-95 | 5,000,000 | 5,516,155 | 5,162,500 |
| Ameritrust Corporation | 8.625 | 06-30-96 | 5,000,000 | 4,980,651 | 4,796,850 |
| Asset Backed Securities Corporation | 8.300 | 04-15-92 | 7,422,737 | 7,422,737 | 7,449,385 |
| Asset Backed Securities Corporation | 9.250 | 04-15-95 | 1,197,920 | 1,197,920 | 1,214,020 |
| Associates Corporation of North America | 8.890 | 01-29-93 | 5,000,000 | 5,000,000 | 5,125,000 |
| Associates Corporation of North America | 12.500 | 09-15-94 | 7,800,000 | 8,480,125 | 8,672,586 |
| Associates Corporation of North America | 8.850 | 02-15-93 | 5,000,000 | 5,005,386 | 5,098,400 |
| Bank of New York, The | 9.125 | 09-01-92 | 3,000,000 | 3,000,000 | 3,000,000 |
| BankAmerica Corporation | 9.730 | 05-17-99 | 8,200,000 | 8,448,449 | 8,551,042 |
| BankAmerica Corporation | 9.750 | 07-01-00 | 10,000,000 | 9,429,079 | 10,140,600 |
| BankAmerica Corporation | 9.375 | 03-01-01 | 15,000,000 | 14,658,516 | 14,887,500 |
| BankAmerica Corporation | 10.120 | 12-12-00 | 10,000,000 | 10,443,202 | 10,334,300 |
| Bankers Trust N.Y. Corporation | 8.000 | 03-15-97 | 5,000,000 | 4,598,500 | 4,771,850 |
| CNA Financial Corporation | 8.625 | 03-01-96 | 18,800,000 | 18,553,267 | 18,976,156 |
| Capital Holding Corporation | 7.875 | 12-15-93 | 5,000,000 | 5,000,000 | 5,001,550 |
| Capital Holding Corporation | 8.900 | 10-21-99 | 2,200,000 | 2,185,521 | 2,148,432 |
| Capital Holding Corporation | 8.900 | 10-20-99 | 8,500,000 | 8,370,615 | 8,300,760 |
| Capital Holding Corporation | 8.860 | 11-11-96 | 10,000,000 | 10,000,000 | 9,931,200 |
| C & S Sovran Corporation | 8.650 | 07-15-94 | 20,400,000 | 20,400,000 | 20,339,412 |
| Citizens & Southern Corporation | 11.700 | 02-01-95 | 11,250,000 | 11,974,595 | 12,150,000 |
| Citizens & Southern Corporation | 8.000 | 12-01-93 | 5,000,000 | 4,829,018 | 4,942,150 |
| Combined International Corporation | 8.500 | 06-15-96 | 9,000,000 | 9,189,600 | 8,797,500 |
| Commercial Credit Corporation | 8.450 | 02-01-94 | 10,000,000 | 9,993,693 | 10,093,700 |
| Corestates Capital Corporation | 9.625 | 02-15-01 | 6,500,000 | 6,457,884 | 6,552,780 |
| Corestates Capital Corporation | 8.625 | 03-15-94 | 10,000,000 | 10,009,594 | 10,115,600 |
| Engineering Insurance Group | 9.375 | 03-15-94 | 10,000,000 | 10,061,498 | 10,337,100 |
| Firemans Fund Mortgage Corporation | 8.250 | 11-01-96 | 5,000,000 | 5,008,985 | 4,965,600 |
| First Chicago Corporation | 9.000 | 02-11-93 | 15,000,000 | 15,012,048 | 15,290,550 |
| First Chicago Corporation | 8.760 | 02-22-93 | 3,800,000 | 3,795,244 | 3,859,356 |
| First Chicago Corporation | 9.250 | 06-01-93 | 19,750,000 | 19,657,091 | 20,081,010 |
| First Chicago Corporation | 9.550 | 05-01-95 | 3,000,000 | 2,949,707 | 3,035,460 |
| First Financial Group | 9.250 | 06-01-96 | 884,000 | 884,000 | 618,800 |
| First Nationwide Bank, FSB | 8.450 | 03-15-93 | 17,500,000 | 17,186,019 | 17,110,800 |
| First Nationwide Bank, FSB | 8.500 | 03-15-93 | 3,000,000 | 2,970,200 | 2,935,590 |
| First Nationwide Bank, FSB | 9.500 | 06-01-92 | 6,100,000 | 6,131,791 | 6,172,407 |
| First Nationwide Bank, FSB | 9.080 | 06-25-93 | 3,500,000 | 3,469,167 | 3,582,005 |
| First Nationwide Bank, FSB | 9.080 | 06-25-93 | 2,000,000 | 1,982,381 | 2,046,860 |

INVESTMENTS

Finance Bonds (continued)

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|---|--------|----------|---------------|--------------|---------------|
| First Union Corporation | 9.250 | 12-15-93 | \$ 10,000,000 | \$ 9,994,922 | \$ 10,221,800 |
| Fleet/Norstar Financial Group, Inc. | 8.625 | 07-15-92 | 5,000,000 | 4,997,148 | 4,975,000 |
| Fleet/Norstar Financial Group, Inc. | 9.950 | 05-15-93 | 15,000,000 | 15,002,560 | 15,379,650 |
| Fleet/Norstar Financial Group, Inc. | 9.500 | 06-08-92 | 8,000,000 | 8,016,587 | 8,123,680 |
| Ford Motor Credit Company | 9.450 | 05-20-94 | 9,200,000 | 9,483,374 | 9,450,056 |
| Ford Motor Credit Company | 9.300 | 03-22-93 | 13,500,000 | 13,588,976 | 13,858,560 |
| Ford Motor Credit Company | 9.700 | 06-09-95 | 1,500,000 | 1,513,902 | 1,545,495 |
| General Electric Credit Corporation | 8.650 | 05-01-18 | 17,200,000 | 17,211,410 | 17,372,000 |
| General Motors Acceptance Corporation | 8.625 | 12-07-94 | 10,000,000 | 9,774,262 | 10,050,000 |
| General Motors Acceptance Corporation | 8.900 | 07-20-93 | 4,000,000 | 3,987,947 | 4,091,240 |
| General Motors Acceptance Corporation | 9.050 | 12-15-94 | 4,000,000 | 4,083,264 | 4,070,000 |
| General Motors Acceptance Corporation | 8.550 | 03-15-94 | 10,000,000 | 10,110,046 | 10,100,000 |
| General Motors Acceptance Corporation | 8.300 | 04-05-94 | 5,000,000 | 5,022,112 | 5,015,600 |
| General Motors Acceptance Corporation | 9.900 | 04-15-94 | 2,550,000 | 2,660,823 | 2,648,558 |
| General Motors Acceptance Corporation | 9.850 | 05-02-94 | 3,000,000 | 3,036,508 | 3,114,060 |
| General Motors Acceptance Corporation | 8.950 | 06-15-94 | 2,000,000 | 1,981,211 | 2,032,820 |
| General Motors Acceptance Corporation | 8.750 | 10-15-93 | 8,000,000 | 8,001,655 | 8,101,760 |
| Great Western Bank, FSB | 9.500 | 07-01-97 | 3,500,000 | 3,500,000 | 3,387,335 |
| Great Western Bank, FSB | 9.800 | 12-01-93 | 12,475,000 | 12,854,072 | 12,923,227 |
| Great Western Bank, FSB | 9.800 | 02-15-94 | 25,215,000 | 24,750,451 | 26,113,158 |
| Great Western Bank, FSB | 7.950 | 02-03-94 | 2,300,000 | 2,172,646 | 2,265,109 |
| Great Western Bank, FSB | 9.500 | 08-22-94 | 2,500,000 | 2,419,125 | 2,556,900 |
| Great Western Bank, FSB | 9.500 | 06-03-94 | 3,000,000 | 2,997,032 | 3,067,380 |
| John Hancock Capital Corporation | 8.700 | 11-14-94 | 5,000,000 | 5,000,000 | 5,083,250 |
| John Hancock Capital Corporation | 9.200 | 06-15-95 | 10,000,000 | 9,991,171 | 10,274,100 |
| Household Finance Corporation | 9.250 | 10-01-93 | 8,950,000 | 8,895,214 | 9,145,737 |
| Household Finance Corporation | 9.160 | 06-08-93 | 13,000,000 | 12,964,851 | 13,345,280 |
| ITT Financial Corporation | 8.850 | 07-15-05 | 9,000,000 | 9,066,422 | 9,073,080 |
| ITT Financial Corporation | 8.800 | 03-01-94 | 6,025,000 | 6,114,417 | 6,064,524 |
| International Lease Finance Corporation | 9.500 | 11-17-92 | 4,000,000 | 3,966,132 | 4,100,000 |
| International Lease Finance Corporation | 9.550 | 01-05-93 | 5,000,000 | 4,962,208 | 5,134,700 |
| International Lease Finance Corporation | 9.200 | 09-08-93 | 7,000,000 | 6,985,704 | 7,188,020 |
| Keycorp | 11.250 | 06-01-95 | 5,000,000 | 5,138,760 | 5,143,750 |
| Keycorp | 8.700 | 01-26-93 | 10,000,000 | 10,000,000 | 10,196,800 |
| Keycorp | 8.300 | 02-22-93 | 15,000,000 | 15,000,000 | 15,187,500 |
| Keycorp | 8.550 | 05-30-95 | 14,000,000 | 14,000,000 | 13,973,680 |
| MCA Funding Corporation | 7.800 | 03-30-93 | 19,500,000 | 19,500,000 | 19,612,905 |
| MCA Funding Corporation | 8.100 | 03-29-94 | 11,000,000 | 11,000,000 | 11,048,510 |
| McDonnell Douglas Finance Corporation | 9.450 | 10-11-96 | 1,500,000 | 1,521,484 | 1,428,240 |
| McDonnell Douglas Finance Corporation | 8.650 | 11-01-93 | 5,000,000 | 4,995,611 | 4,861,200 |
| McDonnell Douglas Finance Corporation | 8.600 | 08-15-94 | 9,000,000 | 8,896,673 | 8,667,000 |
| McDonnell Douglas Finance Corporation | 9.100 | 10-22-93 | 10,000,000 | 10,065,654 | 9,855,700 |
| Meridian Bank, N.A. | 8.500 | 09-01-92 | 5,000,000 | 4,998,377 | 5,071,850 |
| MNC Financial, Inc. | 9.850 | 02-17-92 | 2,000,000 | 2,000,000 | 1,600,000 |
| Morgan (J.P.) & Company, Inc. | 8.875 | 08-01-94 | 10,000,000 | 9,943,865 | 10,271,800 |
| NCNB Corporation | 11.125 | 10-01-97 | 11,750,000 | 12,117,543 | 12,161,250 |
| NCNB Corporation | 10.500 | 03-15-99 | 15,000,000 | 15,664,827 | 15,857,700 |
| NWNL Companies, Inc. | 10.250 | 03-15-96 | 6,300,000 | 6,488,587 | 6,426,000 |
| Norwest Corporation | 9.250 | 05-01-97 | 7,000,000 | 6,662,182 | 7,043,750 |
| Norwest Corporation | 8.830 | 12-07-92 | 10,000,000 | 9,990,166 | 10,187,500 |
| Pittsburgh National Bank | 8.850 | 06-15-94 | 6,000,000 | 5,989,629 | 6,122,160 |
| Progressive Corporation | 10.000 | 12-15-00 | 6,500,000 | 6,746,368 | 6,762,015 |
| Safeco Corporation | 10.750 | 09-15-95 | 5,000,000 | 5,494,252 | 5,273,400 |
| Salomon, Inc. | 9.750 | 05-18-93 | 5,000,000 | 5,154,028 | 5,173,400 |
| Salomon, Inc. | 9.200 | 03-15-94 | 8,000,000 | 8,165,565 | 8,177,440 |
| Salomon, Inc. | 8.550 | 06-30-94 | 7,300,000 | 7,300,000 | 7,325,039 |
| Sanwa Business Credit Company | 8.160 | 05-20-94 | 9,000,000 | 8,956,011 | 9,021,510 |
| Sanwa Business Credit Company | 8.950 | 01-26-93 | 8,100,000 | 8,100,000 | 8,266,698 |
| Sanwa Business Credit Company | 9.240 | 06-08-94 | 10,000,000 | 9,986,607 | 10,302,400 |
| Sanwa Business Credit Company | 8.250 | 05-15-95 | 10,000,000 | 9,988,807 | 9,943,100 |
| Security Pacific Corporation | 8.610 | 02-22-93 | 1,250,000 | 1,248,290 | 1,263,275 |
| Security Pacific Corporation | 8.760 | 03-15-93 | 1,250,000 | 1,251,075 | 1,266,013 |
| Security Pacific Corporation | 8.620 | 04-19-93 | 2,700,000 | 2,696,915 | 2,727,000 |
| Security Pacific Corporation | 8.900 | 05-09-94 | 15,400,000 | 15,395,357 | 15,443,274 |
| Security Pacific Corporation | 10.050 | 05-01-95 | 6,000,000 | 6,086,567 | 6,108,240 |

INVESTMENTS

Finance Bonds (continued)

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|------------------------------------|--------|----------|----------------|----------------|-----------------|
| Sony Capital Corporation | 8.050 | 04-12-94 | \$ 10,000,000 | \$ 9,983,031 | \$ 10,020,100 |
| Sovran Financial Corporation | 8.900 | 07-01-91 | 6,000,000 | 6,000,000 | 6,000,000 |
| Toyota Motor Credit Corporation | 7.850 | 02-08-94 | 15,000,000 | 15,012,060 | 15,012,000 |
| Transamerica Finance Group, Inc. | 9.950 | 05-30-93 | 5,000,000 | 5,029,136 | 5,189,100 |
| Transamerica Finance Group, Inc. | 9.400 | 03-12-96 | 15,150,000 | 15,164,028 | 15,277,715 |
| USAA Capital Corporation | 8.700 | 10-30-96 | 1,000,000 | 1,010,367 | 1,004,840 |
| USAA Capital Corporation | 8.400 | 07-19-93 | 5,000,000 | 4,975,759 | 5,085,650 |
| USAA Capital Corporation | 8.400 | 08-15-94 | 5,000,000 | 5,033,703 | 5,065,900 |
| USAA Capital Corporation | 8.410 | 08-04-94 | 5,000,000 | 5,034,871 | 5,066,800 |
| USAA Capital Corporation | 8.100 | 11-09-92 | 6,000,000 | 6,025,421 | 6,053,940 |
| U.S. Bancorp | 8.250 | 04-01-96 | 9,500,000 | 8,883,577 | 9,292,140 |
| U.S. Bancorp | 8.875 | 07-15-94 | 3,000,000 | 2,914,941 | 3,038,430 |
| U.S. Bancorp | 8.580 | 03-08-93 | 10,000,000 | 10,000,000 | 10,184,300 |
| U.S. Bancorp | 9.020 | 03-20-95 | 19,300,000 | 19,300,000 | 19,342,073 |
| U.S. Bancorp | 8.050 | 05-31-94 | 5,000,000 | 4,988,754 | 4,976,550 |
| U.S. Leasing International, Inc. | 8.850 | 01-18-94 | 20,000,000 | 20,000,000 | 20,283,000 |
| Western Financial Auto Loans, Inc. | 9.150 | 06-01-92 | 3,874,675 | 3,874,674 | 3,879,517 |
| Western Financial Auto Loans, Inc. | 8.350 | 10-01-95 | 17,603,874 | 17,570,753 | 17,961,409 |
| Sub Total | | | \$ 991,998,206 | \$ 993,334,159 | \$1,002,369,051 |
| Net Securities Traded Not Settled | | | 5,200,000 | 5,156,400 | 5,022,532 |
| Total | | | \$ 997,198,206 | \$ 998,490,559 | \$1,007,391,583 |

Industrial Bonds

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|-------------------------------------|--------|----------|--------------|--------------|--------------|
| CBS, Inc. | 10.875 | 08-01-95 | \$ 7,000,000 | \$ 7,223,136 | \$ 7,175,000 |
| Capital Cities Communications, Inc. | 10.500 | 09-01-97 | 17,650,000 | 18,315,479 | 18,207,034 |
| Conagra, Inc. | 9.440 | 06-22-98 | 4,750,000 | 4,833,137 | 4,829,753 |
| Conagra, Inc. | 9.800 | 08-24-95 | 5,000,000 | 5,115,888 | 5,222,250 |
| Conagra, Inc. | 8.850 | 11-08-96 | 8,000,000 | 8,000,000 | 8,005,920 |
| Consolidated Freightways, Inc. | 8.790 | 11-15-94 | 10,000,000 | 10,000,000 | 9,535,700 |
| Dayton Hudson Corporation | 9.650 | 06-15-00 | 5,000,000 | 4,960,441 | 5,116,650 |
| Dayton Hudson Corporation | 8.940 | 06-30-94 | 10,000,000 | 10,001,018 | 10,217,400 |
| Dayton Hudson Corporation | 9.350 | 06-16-20 | 10,000,000 | 9,949,015 | 10,309,600 |
| Dayton Hudson Corporation | 9.520 | 06-10-15 | 5,000,000 | 4,947,446 | 5,163,550 |
| General Mills, Inc. | 8.850 | 12-23-97 | 10,000,000 | 9,976,218 | 10,012,500 |
| ITT Corporation | 8.850 | 06-20-94 | 5,000,000 | 5,003,948 | 5,090,600 |
| International Business Machines | 10.250 | 10-15-95 | 14,000,000 | 14,906,890 | 14,612,500 |
| International Paper Corporation | 10.875 | 08-15-95 | 6,170,000 | 6,370,492 | 6,409,088 |
| Johnson Controls, Inc. | 8.830 | 12-15-94 | 9,000,000 | 9,002,968 | 9,222,120 |
| K-Mart Corporation | 12.125 | 03-01-95 | 10,000,000 | 10,928,200 | 11,100,000 |
| K-Mart Corporation | 9.200 | 09-01-93 | 3,000,000 | 3,015,907 | 3,101,400 |
| Kaiser Foundation Hospital, Inc. | 8.690 | 11-17-94 | 5,000,000 | 4,996,497 | 5,065,600 |
| Kaiser Foundation Hospital, Inc. | 8.860 | 12-15-99 | 10,000,000 | 9,934,311 | 9,796,800 |
| Kaiser Foundation Hospital, Inc. | 9.300 | 04-15-98 | 9,000,000 | 8,865,897 | 9,084,330 |
| Kaiser Foundation Hospital, Inc. | 8.550 | 11-22-93 | 8,000,000 | 7,992,994 | 8,137,440 |
| Kroger Regional Headquarters | 9.625 | 05-01-16 | 6,039,687 | 6,192,105 | 5,012,940 |
| Marriott Corporation | 11.125 | 05-15-95 | 9,500,000 | 10,234,375 | 9,577,140 |
| May Department Store Company | 8.450 | 02-02-94 | 19,600,000 | 19,594,582 | 19,777,576 |
| NCR Corporation | 8.760 | 03-15-93 | 9,000,000 | 8,982,383 | 9,165,870 |
| Philip Morris Company, Inc. | 9.450 | 04-01-95 | 4,000,000 | 4,097,293 | 4,107,480 |
| Philip Morris Company, Inc. | 8.750 | 11-15-94 | 12,000,000 | 12,216,281 | 12,183,720 |
| Philip Morris Company, Inc. | 8.450 | 12-14-93 | 5,900,000 | 5,896,716 | 6,016,112 |
| Philip Morris Company, Inc. | 7.800 | 03-26-93 | 4,000,000 | 3,994,887 | 4,045,000 |
| Sears Roebuck & Company | 9.200 | 06-09-93 | 2,400,000 | 2,412,142 | 2,458,128 |
| Sears Roebuck & Company | 8.960 | 08-23-93 | 10,000,000 | 9,995,984 | 10,214,800 |
| Sears Roebuck & Company | 9.030 | 08-24-93 | 10,000,000 | 9,992,408 | 10,229,100 |
| Sears Roebuck & Company | 13.250 | 09-01-92 | 3,375,000 | 3,520,062 | 3,628,125 |
| Super Valu Stores, Inc. | 10.500 | 07-15-95 | 13,000,000 | 13,345,893 | 13,414,310 |

INVESTMENTS

Industrial Bonds (continued)

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|------------------------------|--------|----------|----------------|----------------|-----------------|
| Unilever Capital Corporation | 9.000 | 06-01-93 | \$ 20,000,000 | \$ 20,231,335 | \$ 20,649,000 |
| White Castle System | 8.000 | 09-01-97 | 441,883 | 441,882 | 401,812 |
| Total | | | \$ 300,826,570 | \$ 305,488,210 | \$ 306,296,348 |

Convertible Bonds

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|---|--------|----------|---------------|---------------|-----------------|
| International Business Machines Service Corporation International | 7.875 | 11-21-04 | \$ 5,250,000 | \$ 5,488,123 | \$ 5,230,313 |
| Wang Labs, Inc. | 6.500 | 04-15-11 | 2,000,000 | 2,518,056 | 1,980,000 |
| Wendy's International, Inc. | 9.000 | 05-15-09 | 3,000,000 | 3,010,876 | 1,590,000 |
| | 7.250 | 12-01-10 | 2,600,000 | 2,343,634 | 2,320,500 |
| Total | | | \$ 12,850,000 | \$ 13,360,689 | \$ 11,120,813 |

Supranational Bonds

| ISSUER | COUPON | MATURITY | PAR VALUE | BOOK VALUE | MARKET VALUE |
|---|--------|----------|------------------|-----------------|-----------------|
| Int'l Bank Reconstruction & Development | 7.950 | 05-15-16 | \$ 5,750,000 | \$ 4,697,650 | \$ 5,117,500 |
| Int'l Bank Reconstruction & Development | 8.500 | 01-30-17 | 3,000,000 | 2,599,073 | 2,830,290 |
| Int'l Bank Reconstruction & Development | 8.750 | 05-01-17 | 3,575,000 | 3,178,540 | 3,461,029 |
| Total | | | \$ 12,325,000 | \$ 10,475,263 | \$ 11,408,819 |
| Total Bonds | | | \$15,034,019,775 | \$7,023,125,356 | \$7,159,081,122 |

Short Term/Liquidity Reserves

| | PAR VALUE | BOOK VALUE | MARKET VALUE |
|------------------|----------------|----------------|-----------------|
| Commercial Paper | \$ 326,800,000 | \$ 325,072,897 | \$ 326,800,000 |
| Corporate Notes | 423,243,212 | 423,291,222 | 426,122,389 |
| Government Notes | 2,460,000 | 2,424,374 | 2,460,000 |
| Total | \$ 752,503,212 | \$ 750,788,493 | \$ 755,382,389 |

INVESTMENTS

Guaranteed Mortgages

| ISSUER | PAR VALUE | BOOK VALUE | MARKET VALUE |
|--|-----------------|-----------------|-----------------|
| FEDERAL AGENCIES | | | |
| Government National Mortgage Association | \$ 518,367,687 | \$ 493,349,630 | \$ 500,131,904 |
| Federal Home Loan Mortgage Corporation | 1,027,985,988 | 993,431,469 | 1,003,615,787 |
| Federal National Mortgage Association | 901,321,985 | 853,388,946 | 864,992,732 |
| Federal Housing Administration Insured Project Loans | 83,216,250 | 73,585,495 | 71,554,698 |
| Total | \$2,530,891,910 | \$2,413,755,540 | \$2,440,295,121 |
| SINGLE FAMILY DIRECT | | | |
| FHA 235 | \$ 6,219,809 | \$ 5,970,745 | \$ 6,941,230 |
| FHA 203 | 201,871,948 | 200,033,306 | 207,507,490 |
| VA 501 | 130,759,251 | 127,782,048 | 132,599,900 |
| FHA 245 | 28,993,298 | 28,138,540 | 30,269,586 |
| FHA 296 | 35,312,595 | 35,960,287 | 36,881,689 |
| FHA 234 | 3,677,328 | 3,629,872 | 3,759,369 |
| VA Vendee Loans | 6,294,345 | 5,891,292 | 6,345,644 |
| GNMA Certificates | 19,522,698 | 19,139,722 | 19,470,576 |
| Total | \$ 432,651,272 | \$ 426,545,812 | \$ 443,775,484 |
| MULTI-FAMILY DIRECT | | | |
| FHA 207 (Rental Apartment) | \$ 58,355,784 | \$ 57,363,233 | \$ 57,192,922 |
| FHA 221 (Rental Apartment) | 376,203,956 | 359,415,772 | 347,558,389 |
| FHA 231 (Senior Citizen) | 39,952,338 | 34,833,750 | 36,176,087 |
| FHA 232 (Nursing Home) | 117,697,666 | 114,104,324 | 115,646,333 |
| FHA 220 (Urban Renewal Apt) | 51,138,564 | 50,294,921 | 50,711,386 |
| FHA 236 (Subsidy Housing) | 111,879,182 | 110,164,555 | 98,045,488 |
| GNMA Project Certificates | 29,623,373 | 29,316,671 | 29,842,346 |
| Construction Loans | 85,734,949 | 84,903,451 | 85,734,949 |
| Total | \$ 870,585,812 | \$ 840,396,677 | \$ 820,907,900 |
| Total Mortgages | \$3,834,128,994 | \$3,680,698,029 | \$3,704,978,505 |
| Net Securities Traded Not Settled | 11,927,000 | 11,855,142 | 11,855,142 |
| Total | \$3,846,055,994 | \$3,692,553,171 | \$3,716,833,647 |

Common Stocks

| | SHARES | COST | MARKET VALUE |
|-------------------------------------|-----------|----------------|-----------------|
| METALS & MINING (1.46%)* | | | |
| Aluminum Company of America | 375,000 | \$ 24,744,855 | \$ 25,312,500 |
| Homestake Mining Company | 1,155,700 | 22,219,806 | 19,357,975 |
| Insteel Industries, Inc. | 97,010 | 622,252 | 691,197 |
| Nucor Corporation | 50,000 | 2,561,190 | 3,787,500 |
| Phelps Dodge Corporation | 373,900 | 22,833,759 | 24,210,025 |
| Reynolds Metals Company | 158,500 | 9,692,160 | 9,351,500 |
| Steel Technologies, Inc. | 268,611 | 3,097,915 | 2,887,568 |
| USX-U.S. Steel Group | 267,599 | 5,017,489 | 6,121,327 |
| Worthington Industries | 550,000 | 11,788,833 | 14,162,500 |
| | | \$ 102,578,259 | \$ 105,882,092 |
| BUILDING MATERIALS (0.41%)* | | | |
| Calmat Company | 908,300 | \$ 30,613,150 | \$ 22,139,812 |
| Florida Rock Industries, Inc. | 271,248 | 7,480,411 | 7,323,697 |
| | | \$ 38,093,561 | \$ 29,463,509 |

* All common stock percentages are based on settled market value.

INVESTMENTS

Common Stocks (continued)

| | SHARES | COST | MARKET VALUE |
|---|-----------|----------------|----------------|
| OIL/COAL (7.40%) | | | |
| Amerada Hess Corporation | 193,400 | \$ 10,157,148 | \$ 9,935,925 |
| Amoco Corporation | 1,127,700 | 40,124,795 | 57,089,813 |
| Atlantic Richfield Company | 674,500 | 53,051,276 | 77,398,875 |
| Chevron Corporation | 755,600 | 22,575,217 | 53,175,350 |
| Getty Petroleum Corporation | 94,900 | 1,425,523 | 1,969,175 |
| Louisiana Land & Exploration Company (The) | 330,000 | 15,170,083 | 11,756,250 |
| Mobil Corporation | 1,645,100 | 56,991,418 | 105,697,675 |
| Phillips Petroleum Company | 1,475,000 | 39,912,703 | 37,612,500 |
| Texaco, Inc. | 1,118,800 | 67,758,893 | 67,267,850 |
| USX-Marathon Oil Group | 2,337,997 | 50,137,435 | 52,604,932 |
| Unocal Corporation | 2,609,500 | 42,099,876 | 61,323,250 |
| | | \$ 399,404,367 | \$ 535,831,595 |
| OIL/GAS PIPELINES (0.94%) | | | |
| Coastal Corporation | 688,200 | \$ 24,106,774 | \$ 19,957,800 |
| Columbia Gas System, Inc. | 1,189,700 | 30,697,289 | 22,753,012 |
| Sonat, Inc. | 637,500 | 22,522,094 | 25,260,938 |
| | | \$ 77,326,157 | \$ 67,971,750 |
| PETROLEUM SERVICES (1.19%) | | | |
| Baker Hughes, Inc. | 2,024,700 | \$ 35,887,143 | \$ 47,580,450 |
| Halliburton Company | 1,061,100 | 25,347,920 | 38,730,150 |
| | | \$ 61,235,063 | \$ 86,310,600 |
| ENGINEERING & CONSTRUCTION (0.66%) | | | |
| Fluor Corporation | 450,000 | \$ 17,821,976 | \$ 21,150,000 |
| Foster Wheeler Corporation | 978,100 | 13,440,340 | 26,530,963 |
| | | \$ 31,262,316 | \$ 47,680,963 |
| INDUSTRIAL MACHINERY (0.13%) | | | |
| Amcast Industrial Corporation | 9,100 | \$ 109,747 | \$ 109,200 |
| Graco, Inc. | 124,500 | 3,126,119 | 3,096,938 |
| Nordson Corporation | 13,600 | 646,201 | 717,400 |
| Zero Corporation | 400,000 | 5,034,310 | 5,450,000 |
| | | \$ 8,916,377 | \$ 9,373,538 |
| AUTO PARTS/ORIGINAL EQUIPMENT MFG. (0.86%) | | | |
| Cascade Corporation | 229,100 | \$ 3,566,183 | \$ 4,123,800 |
| Caterpillar, Inc. | 400,000 | 26,886,779 | 19,750,000 |
| Ingersoll-Rand | 625,400 | 33,389,027 | 31,582,700 |
| Standard Products Company | 385,200 | 10,143,883 | 6,741,000 |
| | | \$ 73,985,872 | \$ 62,197,500 |
| BUILDING PRODUCTS (0.47%) | | | |
| International Aluminum Corporation | 48,800 | \$ 1,147,611 | \$ 1,329,800 |
| LSI Industries, Inc. | 163,000 | 1,476,126 | 835,376 |
| Masco Corporation | 1,113,500 | 24,323,773 | 25,610,500 |
| TJ International, Inc. | 235,500 | 5,297,376 | 6,299,625 |
| | | \$ 32,244,886 | \$ 34,075,301 |
| ELECTRICAL PRODUCTS (4.95%) | | | |
| Cooper Industries, Inc. | 2,401,800 | \$ 48,305,437 | \$ 128,796,525 |
| Emerson Electric Company | 1,521,800 | 59,851,685 | 70,953,926 |
| General Electric Company | 2,039,700 | 43,051,298 | 150,937,800 |
| Raychem Corporation | 291,600 | 7,835,908 | 7,581,600 |
| | | \$ 159,044,328 | \$ 358,269,851 |

INVESTMENTS

Common Stocks (continued)

| | SHARES | COST | MARKET VALUE |
|--|-----------|----------------|-----------------|
| OFFICE EQUIPMENT SUPPLIES (0.48%) | | | |
| Diebold, Inc. | 832,700 | \$ 31,834,107 | \$ 33,308,000 |
| Interface, Inc. | 60,000 | 642,752 | 817,500 |
| | | \$ 32,476,859 | \$ 34,125,500 |
| MULTI-SECTOR COMPANIES (2.17%) | | | |
| Allied-Signal | 1,361,600 | \$ 40,647,027 | \$ 44,932,800 |
| Ametek, Inc. | 1,009,000 | 12,560,521 | 12,612,500 |
| Honeywell, Inc. | 1,033,800 | 46,446,294 | 62,674,126 |
| Tyco Laboratories, Inc. | 705,800 | 30,701,047 | 33,878,400 |
| Valmont Industries, Inc. | 171,500 | 2,797,874 | 2,615,375 |
| | | \$133,152,763 | \$156,713,201 |
| ENVIRONMENTAL SERVICES (0.13%) | | | |
| Browning-Ferris Industries | 370,000 | \$ 15,184,843 | \$ 9,620,000 |
| CHEMICALS (4.55%) | | | |
| Air Products & Chemicals, Inc. | 751,000 | \$ 33,353,649 | \$ 50,598,625 |
| Betz Laboratories, Inc. | 336,500 | 13,566,125 | 18,255,126 |
| Dow Chemical Company | 800,000 | 51,240,518 | 42,500,000 |
| duPont (EI) deNemours & Company | 1,387,300 | 57,435,296 | 63,642,387 |
| Goodrich (B.F.) Company | 420,300 | 16,791,461 | 16,601,850 |
| Guardsman Products, Inc. | 118,900 | 1,571,910 | 1,248,450 |
| Lilly Industrial Coatings, Inc. | 376,693 | 5,329,413 | 5,179,528 |
| Loctite Corporation | 195,200 | 3,911,021 | 6,514,800 |
| Lubrizol Corporation | 145,300 | 5,260,341 | 6,701,962 |
| Monsanto Company | 200,000 | 12,000,500 | 13,200,000 |
| Nalco Chemical Company | 1,599,700 | 25,290,283 | 45,391,487 |
| PPG Industries, Inc. | 500,000 | 24,226,675 | 27,687,500 |
| RPM, Inc. of Ohio | 417,500 | 3,884,798 | 9,289,375 |
| Schulman (A.), Inc. | 411,000 | 6,152,877 | 14,179,500 |
| Valspar Corporation | 186,400 | 5,780,784 | 8,318,100 |
| | | \$ 265,795,651 | \$ 329,308,690 |
| PAPER/CONTAINERS (1.82%) | | | |
| Bemis Company, Inc. | 100,000 | \$ 3,499,261 | \$ 3,387,500 |
| Bowater, Inc. | 185,000 | 4,775,288 | 5,087,500 |
| Federal Paper Board Company, Inc. | 205,000 | 5,051,585 | 6,278,125 |
| Glatfelter (P.H.) Company | 116,500 | 5,082,520 | 6,553,126 |
| Heekin Can, Inc. | 155,000 | 5,004,400 | 5,076,250 |
| International Paper | 612,300 | 33,391,624 | 43,167,150 |
| Mosinee Paper Corporation | 239,000 | 5,414,077 | 7,020,625 |
| Sealed Air Corporation | 350,000 | 1,000 | 11,287,500 |
| Stone Container Corporation | 223,300 | 2,372,475 | 4,828,862 |
| Union Camp Corporation | 668,000 | 24,188,645 | 29,726,000 |
| Westvaco Corporation | 280,200 | 7,628,382 | 9,316,650 |
| | | \$ 96,409,257 | \$ 131,729,288 |
| INDUSTRIAL SPECIALTIES (0.61%) | | | |
| Albany International Corporation | 682,500 | \$ 9,560,125 | \$ 12,114,375 |
| Avery Dennison Corporation | 461,200 | 9,220,163 | 11,414,700 |
| Blessings Corporation | 253,800 | 3,712,783 | 4,314,600 |
| Corning, Inc. | 262,600 | 12,951,257 | 16,314,026 |
| | | \$ 35,444,328 | \$ 44,157,701 |
| DIVERSIFIED COMMERCIAL SERVICES (0.29%) | | | |
| G & K Services, Inc. | 269,000 | \$ 2,585,751 | \$ 3,833,250 |
| Kelly Services, Inc. | 353,625 | 10,466,622 | 13,879,782 |
| Paychex, Inc. | 142,000 | 2,782,188 | 3,337,000 |
| | | \$ 15,834,561 | \$ 21,050,032 |

INVESTMENTS

Common Stocks (continued)

| | SHARES | COST | MARKET VALUE |
|--|-----------|-----------------------|-----------------------|
| FINANCIAL SERVICES (0.62%) | | | |
| American Express Company | 178,100 | \$ 4,145,633 | \$ 4,007,250 |
| Bowne & Company, Inc. | 12,300 | 137,549 | 138,376 |
| Dow Jones & Company, Inc. | 108,300 | 2,906,555 | 2,924,100 |
| Dun & Bradstreet Corporation | 803,900 | 37,710,173 | 38,084,762 |
| | | <u>\$ 44,899,910</u> | <u>\$ 45,154,488</u> |
| WHOLESALE DISTRIBUTORS (0.73%) | | | |
| Durr-Fillauer Medical, Inc. | 300,000 | \$ 4,996,552 | \$ 9,600,000 |
| Grainger (W.W.), Inc. | 193,800 | 5,957,798 | 9,084,375 |
| Handleman Company | 465,250 | 5,456,148 | 6,222,719 |
| Lawson Products, Inc. | 332,500 | 8,076,125 | 9,725,625 |
| Rykoff-Sexton, Inc. | 535,050 | 11,042,885 | 10,767,881 |
| Waxman Industries, Inc. | 440,000 | 3,811,841 | 1,705,000 |
| Willcox and Gibbs, Inc. | 546,166 | 7,237,033 | 5,666,472 |
| | | <u>\$ 46,578,382</u> | <u>\$ 52,772,072</u> |
| TRANSPORTATION (3.51%) | | | |
| AMR Corporation | 674,700 | \$ 35,792,714 | \$ 40,988,025 |
| Airborne Freight Corporation | 211,900 | 3,835,080 | 5,085,600 |
| Carolina Freight Corporation | 176,500 | 4,853,184 | 2,890,188 |
| Consolidated Freightways, Inc. | 1,465,600 | 35,774,592 | 23,449,600 |
| Norfolk Southern Corporation | 725,900 | 18,397,334 | 33,119,187 |
| Preston Corporation | 270,000 | 3,224,375 | 2,058,750 |
| Roadway Services, Inc. | 1,093,000 | 41,313,738 | 56,289,500 |
| Southwest Airlines | 949,400 | 14,869,147 | 24,684,400 |
| UAL Corporation | 194,000 | 27,292,395 | 26,917,500 |
| USAir Group, Inc. | 2,193,800 | 62,644,961 | 32,907,000 |
| Yellow Freight System, Inc. of Delaware | 190,000 | 5,433,427 | 5,747,500 |
| | | <u>\$ 253,430,947</u> | <u>\$ 254,137,250</u> |
| SEMICONDUCTORS/COMPONENTS (2.57%) | | | |
| AMP, Inc. | 686,800 | \$ 34,521,711 | \$ 34,168,300 |
| Avnet, Inc. | 1,379,400 | 39,764,888 | 38,278,350 |
| Intel Corporation | 750,000 | 36,684,506 | 34,875,000 |
| Motorola, Inc. | 1,186,500 | 61,885,192 | 78,902,250 |
| | | <u>\$ 172,856,297</u> | <u>\$ 186,223,900</u> |
| ELECTRONICS (2.19%) | | | |
| Daniel Industries, Inc. | 225,720 | \$ 1,618,339 | \$ 3,865,455 |
| E-Systems, Inc. | 807,400 | 24,015,606 | 32,598,776 |
| Harris Corporation | 1,712,600 | 55,548,877 | 44,313,525 |
| Hipotronics, Inc. | 64,000 | 1,486,848 | 1,464,000 |
| Measurex Corporation | 200,000 | 4,386,877 | 4,150,000 |
| Perkin Elmer Corporation | 930,000 | 23,746,565 | 26,505,000 |
| Scientific Atlanta, Inc. | 1,114,600 | 23,711,604 | 15,325,750 |
| Tektronix, Inc. | 1,171,200 | 32,171,179 | 30,597,600 |
| | | <u>\$ 166,685,895</u> | <u>\$ 158,820,106</u> |
| AEROSPACE (2.45%) | | | |
| Boeing Company | 500,450 | \$ 23,029,179 | \$ 22,895,587 |
| Martin Marietta Corporation | 466,500 | 20,821,286 | 26,065,688 |
| McDonnell Douglas Corporation | 1,459,000 | 64,473,083 | 73,497,125 |
| Raytheon Company | 239,200 | 11,973,335 | 19,136,000 |
| Rockwell International Corporation | 1,074,600 | 29,192,944 | 29,954,475 |
| Sundstrand Corporation | 183,800 | 5,494,204 | 5,973,500 |
| | | <u>\$ 154,984,031</u> | <u>\$ 177,522,375</u> |

INVESTMENTS

Common Stocks (continued)

| | SHARES | COST | MARKET VALUE |
|--|-----------|----------------|-----------------|
| COMPUTERS (6.49%) | | | |
| Amdahl Corporation | 1,701,200 | \$ 25,875,142 | \$ 24,880,050 |
| Apple Computer, Inc. | 1,196,000 | 56,960,463 | 49,634,000 |
| Digital Equipment Corporation | 1,462,100 | 81,537,821 | 86,994,950 |
| Gerber Scientific, Inc. | 1,099,700 | 13,638,802 | 13,196,400 |
| Hewlett-Packard Company | 1,135,600 | 40,349,456 | 57,631,700 |
| International Business Machines | 1,729,400 | 177,023,678 | 167,967,976 |
| NCR Corporation | 420,100 | 25,713,039 | 44,950,700 |
| National Computer Systems | 400,000 | 6,054,610 | 5,150,000 |
| Telxon Corporation | 165,000 | 3,075,600 | 2,825,625 |
| Unisys Corporation | 2,122,300 | 16,978,400 | 7,958,625 |
| Wang Labs CI-B | 2,380,000 | 23,800,000 | 8,925,000 |
| | | \$ 471,007,011 | \$ 470,115,026 |
| TECHNOLOGY SERVICES (0.77%) | | | |
| General Motors CI-E | 404,500 | \$ 17,011,160 | \$ 18,910,375 |
| Lotus Development Corporation | 842,500 | 21,398,766 | 28,223,750 |
| MacNeal-Schwendler Corporation | 465,000 | 5,677,609 | 7,265,626 |
| National Data Corporation | 80,000 | 1,912,488 | 1,080,000 |
| | | \$ 46,000,023 | \$ 55,479,751 |
| AUTO/PARTS (1.66%) | | | |
| Bandag, Inc. | 180,200 | \$ 14,843,905 | \$ 18,560,600 |
| Clarcor, Inc. | 298,700 | 6,770,265 | 8,512,950 |
| Cooper Tire & Rubber Company | 109,900 | 2,649,962 | 3,214,576 |
| General Motors Corporation | 1,300,000 | 47,017,923 | 52,975,000 |
| Goodyear Tire & Rubber Company | 574,121 | 27,762,403 | 19,089,523 |
| Lancaster Colony Corporation | 499,400 | 9,207,451 | 10,362,550 |
| WD 40 Company | 227,600 | 5,617,825 | 7,397,000 |
| | | \$ 113,869,734 | \$ 120,112,199 |
| HOUSING RELATED (0.20%) | | | |
| Kaufman & Broad Home | 93,000 | \$ 687,477 | \$ 1,255,500 |
| La-Z-Boy Chair Company | 24,200 | 496,752 | 595,926 |
| Ladd Furniture, Inc. | 580,500 | 5,421,808 | 6,675,750 |
| Lennar Corporation | 244,500 | 4,895,903 | 5,806,875 |
| | | \$ 11,501,940 | \$ 14,334,051 |
| MISCELLANEOUS CONSUMER PRODUCTS (1.57%) | | | |
| American Greeting Corporation | 1,742,500 | \$ 55,911,930 | \$ 55,977,812 |
| BIC Corporation | 210,600 | 5,702,959 | 5,343,976 |
| Black & Decker Manufacturing Company | 928,400 | 20,124,780 | 14,390,200 |
| A.T. Cross Company | 311,200 | 6,459,585 | 7,780,000 |
| Gibson Greetings, Inc. | 459,500 | 10,642,050 | 11,028,000 |
| Hasbro Bradley | 557,100 | 8,473,749 | 15,459,525 |
| Jostens, Inc. | 115,700 | 3,714,093 | 3,572,237 |
| | | \$ 111,029,146 | \$ 113,551,750 |
| FOOD (2.02%) | | | |
| CPC International, Inc. | 371,900 | \$ 25,411,773 | \$ 31,750,962 |
| Campbell Soup Company | 36,400 | 2,643,693 | 2,689,050 |
| ConAgra, Inc. | 582,700 | 22,668,491 | 24,327,725 |
| Curtice-Burns, Inc. | 426,000 | 7,683,135 | 5,484,750 |
| Dean Foods Company | 887,100 | 31,202,240 | 40,252,163 |
| Gerber Products Company | 49,600 | 3,078,378 | 2,963,600 |
| Quaker Oats Company | 50,000 | 2,977,188 | 3,100,000 |
| Sara Lee Corporation | 491,500 | 16,245,418 | 19,844,312 |
| Savannah Foods & Industries | 147,000 | 3,329,892 | 3,197,250 |
| Smucker (J.M.) Company | 129,000 | 3,037,961 | 6,256,500 |
| Tootsie Roll Industries | 126,072 | 4,223,528 | 6,366,636 |
| | | \$ 122,501,697 | \$ 146,232,948 |

INVESTMENTS

Common Stocks (continued)

| | SHARES | COST | MARKET VALUE |
|--|-----------|-----------------------|-----------------------|
| BEVERAGE (1.70%) | | | |
| Coca Cola Company | 651,000 | \$ 30,485,624 | \$ 35,479,500 |
| PepsiCo, Inc. | 3,012,068 | 74,132,935 | 87,349,972 |
| | | <u>\$ 104,618,559</u> | <u>\$ 122,829,472</u> |
| TOBACCO (2.13%) | | | |
| American Brands, Inc. | 600,000 | \$ 26,500,468 | \$ 23,550,000 |
| Philip Morris Companies, Inc. | 2,061,500 | 96,355,879 | 130,905,250 |
| | | <u>\$ 122,856,347</u> | <u>\$ 154,455,250</u> |
| PERSONAL CARE (0.57%) | | | |
| Avon Products, Inc. | 350,000 | \$ 15,577,269 | \$ 14,875,000 |
| Gillette Company (The) | 776,000 | 24,380,399 | 26,578,000 |
| | | <u>\$ 39,957,668</u> | <u>\$ 41,453,000</u> |
| APPAREL & TEXTILES (0.70%) | | | |
| Liz Claiborne, Inc. | 795,000 | \$ 24,789,330 | \$ 37,265,625 |
| Russell Corporation | 452,700 | 8,143,592 | 10,808,212 |
| Tultex Corporation | 378,200 | 3,634,248 | 2,836,500 |
| | | <u>\$ 36,567,170</u> | <u>\$ 50,910,337</u> |
| PUBLISHING & MEDIA (0.42%) | | | |
| Belo (A.H.) Corporation | 234,900 | \$ 6,839,803 | \$ 7,164,450 |
| Gannett Company, Inc. | 300,000 | 11,809,846 | 12,562,500 |
| Lee Enterprises, Inc. | 423,400 | 11,345,967 | 10,479,150 |
| TCA Cable TV, Inc. | 10,000 | 180,000 | 160,000 |
| | | <u>\$ 30,175,616</u> | <u>\$ 30,366,100</u> |
| MISCELLANEOUS CONSUMER SERVICES (2.21%) | | | |
| H & R Block, Inc. | 1,337,000 | \$ 25,665,240 | \$ 73,535,000 |
| Bob Evans Farms, Inc. | 25,000 | 309,375 | 456,250 |
| McDonalds Corporation | 725,000 | 25,591,328 | 23,834,375 |
| Pancho's Mexican Buffet, Inc. | 41,900 | 309,925 | 314,250 |
| Shoneys, Inc. | 1,025,000 | 10,024,870 | 15,887,500 |
| Sizzler International | 998,900 | 13,941,157 | 16,856,437 |
| Wendy's International, Inc. | 3,016,976 | 20,775,402 | 29,415,516 |
| | | <u>\$ 96,617,297</u> | <u>\$ 160,299,328</u> |
| DRUGS (6.49%) | | | |
| A.L. Laboratories, Inc. | 367,200 | \$ 5,613,867 | \$ 5,508,000 |
| Bristol-Myers Squibb Company | 1,827,400 | 63,041,716 | 142,080,350 |
| Carter-Wallace, Inc. | 570,400 | 29,181,228 | 37,147,300 |
| Johnson & Johnson | 333,500 | 23,091,030 | 27,847,250 |
| Eli Lilly & Company | 332,100 | 21,573,631 | 23,869,687 |
| Marion Merrell Dow, Inc. | 264,700 | 9,833,545 | 9,198,325 |
| Pfizer, Inc. | 894,900 | 24,754,737 | 49,666,950 |
| Schering-Plough Corporation | 2,310,500 | 86,589,415 | 114,947,375 |
| SmithKline Beecham PLC | 611,800 | 15,264,914 | 32,195,975 |
| Warner-Lambert Company | 372,400 | 25,409,069 | 26,999,000 |
| | | <u>\$ 304,353,152</u> | <u>\$ 469,460,212</u> |
| HOSPITAL SUPPLY (2.62%) | | | |
| Abbott Laboratories | 1,514,200 | \$ 19,354,622 | \$ 78,359,850 |
| Bard (C.R.), Inc. | 30,000 | 767,335 | 843,750 |
| Bausch & Lomb, Inc. | 281,100 | 23,871,016 | 22,733,962 |
| Baxter International, Inc. | 2,587,395 | 51,892,614 | 83,443,488 |
| Hillenbrand Industries, Inc. | 100,700 | 3,432,114 | 4,506,325 |
| | | <u>\$ 99,317,701</u> | <u>\$ 189,887,375</u> |

INVESTMENTS

Common Stocks (continued)

| | SHARES | COST | MARKET VALUE |
|-------------------------------------|-----------|----------------|----------------|
| HOSPITAL MANAGEMENT (1.40%) | | | |
| Humana, Inc. | 303,700 | \$ 7,568,405 | \$ 14,539,637 |
| National Medical Enterprises, Inc. | 1,996,500 | 44,757,434 | 87,097,312 |
| | | \$ 52,325,839 | \$ 101,636,949 |
| RETAIL (6.56%) | | | |
| Albertson's, Inc. | 499,100 | \$ 19,918,054 | \$ 20,463,100 |
| Blair Corporation | 215,900 | 7,351,028 | 9,175,750 |
| Circuit City Stores, Inc. | 525,500 | 8,016,505 | 8,933,500 |
| Consolidated Stores Corporation | 555,800 | 3,771,847 | 4,029,550 |
| Dayton-Hudson Corporation | 1,405,900 | 49,060,053 | 100,521,850 |
| Fabri-Centers of America, Inc. | 100,000 | 2,989,000 | 2,812,500 |
| Hannaford Brothers Company | 161,800 | 3,698,857 | 7,058,525 |
| Home Depot, Inc. | 582,450 | 19,923,871 | 26,283,056 |
| Jacobson Stores, Inc. | 285,000 | 6,556,940 | 4,631,250 |
| Kroger Company | 510,000 | 7,484,950 | 10,901,250 |
| Lands' End, Inc. | 104,900 | 1,920,976 | 2,202,900 |
| Limited, Inc. | 2,003,800 | 35,049,534 | 56,607,350 |
| Lowe's Companies | 1,000,000 | 27,505,441 | 31,375,000 |
| New England Business Service, Inc. | 534,000 | 10,393,440 | 9,478,500 |
| Nordstrom, Inc. | 820,000 | 28,453,750 | 32,390,000 |
| Penny (J.C.), Inc. | 830,000 | 52,421,852 | 43,990,000 |
| Ruddick Corporation | 343,800 | 8,130,807 | 9,196,650 |
| Seaway Food Town, Inc. | 97,600 | 1,757,776 | 1,342,000 |
| Stanhope, Inc. | 60,700 | 2,024,417 | 2,033,450 |
| Toys R Us, Inc. | 365,000 | 10,346,070 | 10,265,625 |
| U.S. Shoe Corporation | 1,100,000 | 20,677,837 | 14,025,000 |
| Wal Mart Stores, Inc. | 979,000 | 32,161,227 | 41,852,250 |
| Walgreen Company | 500,000 | 16,531,533 | 16,625,000 |
| Wolohan Lumber Company | 456,900 | 7,690,178 | 8,909,550 |
| | | \$ 383,835,943 | \$ 475,103,606 |
| BANKS (8.00%) | | | |
| Banc One Corporation | 587,500 | \$ 8,563,412 | \$ 22,471,875 |
| BankAmerica Corporation | 1,470,700 | 44,084,624 | 53,312,875 |
| Bankers Trust N.Y. Company | 477,400 | 17,247,925 | 23,094,225 |
| Boatmen's Bancshares, Inc. | 377,000 | 12,650,130 | 15,174,250 |
| Chase Manhattan Corporation | 2,004,500 | 55,083,792 | 32,573,125 |
| Chemical Banking Corporation | 700,000 | 14,541,125 | 14,962,500 |
| Citicorp | 1,374,800 | 26,319,860 | 19,934,600 |
| Comerica, Inc. | 770,700 | 21,933,590 | 29,768,287 |
| Continental Bank Corporation | 2,574,500 | 28,563,215 | 28,963,125 |
| Fifth Third Bancorp | 85,000 | 2,818,130 | 4,271,250 |
| First Alabama Bancshares | 235,000 | 5,170,000 | 5,698,750 |
| First Bank System, Inc. | 271,500 | 4,611,152 | 4,988,812 |
| First Chicago Corporation | 525,500 | 10,101,863 | 10,969,812 |
| First Interstate Bancorp | 710,400 | 34,325,105 | 22,288,800 |
| First Union Corporation | 2,505,000 | 39,807,248 | 55,736,250 |
| Fleet/Norstar Financial Group, Inc. | 767,300 | 12,232,521 | 16,976,512 |
| Keycorp | 354,600 | 9,974,622 | 12,012,075 |
| Mellon National Corporation | 1,806,900 | 42,716,852 | 53,981,137 |
| Mercantile Bankshares | 530,000 | 11,272,949 | 13,117,500 |
| Midlantic Corporation, Inc. | 140,000 | 5,927,490 | 700,000 |
| Morgan (J.P.) & Company, Inc. | 385,000 | 15,616,029 | 20,068,125 |
| NCNB Corporation | 1,417,400 | 48,094,921 | 50,672,050 |
| NBD Bancorp, Inc. | 327,600 | 10,763,901 | 11,343,150 |
| National City Corporation | 1,461,000 | 42,768,876 | 50,404,500 |
| Old Kent Financial Corporation | 200,000 | 4,759,777 | 5,250,000 |
| | | \$ 529,949,109 | \$ 578,733,585 |

INVESTMENTS

Common Stocks (continued)

| | SHARES | COST | MARKET VALUE |
|---|-----------|------------------------|------------------------|
| SAVINGS & LOANS (0.59%) | | | |
| Golden West Financial Corporation | 258,100 | \$ 4,775,862 | \$ 9,130,287 |
| Great Western Financial Corporation | 1,873,100 | 29,107,130 | 33,247,525 |
| | | <u>\$ 33,882,992</u> | <u>\$ 42,377,812</u> |
| MISCELLANEOUS FINANCIALS (0.48%) | | | |
| Action Auto Rental, Inc. | 75,000 | \$ 8,292 | \$ 93,750 |
| Federal National Mortgage Association | 700,000 | 30,312,545 | 34,650,000 |
| | | <u>\$ 30,320,837</u> | <u>\$ 34,743,750</u> |
| INSURANCE (4.99%) | | | |
| American General Corporation | 1,114,300 | \$ 39,960,588 | \$ 42,204,112 |
| American International Group, Inc. | 1,488,200 | 92,229,732 | 125,380,850 |
| Cigna Corporation | 978,500 | 55,404,327 | 45,622,562 |
| Capital Holding Corporation | 803,200 | 24,575,193 | 39,356,800 |
| Chubb Corporation (The) | 400,000 | 27,035,757 | 27,900,000 |
| Cincinnati Financial Corporation | 64,000 | 3,685,000 | 7,264,000 |
| Gallagher (Arthur J.) and Company | 434,300 | 9,118,861 | 10,043,187 |
| Marsh & McLennan Companies, Inc. | 446,200 | 29,835,404 | 34,915,150 |
| Travelers Corporation | 1,056,000 | 43,328,916 | 22,968,000 |
| Willis Corroon plc ads | 210,124 | 4,240,639 | 5,253,100 |
| | | <u>\$ 329,414,417</u> | <u>\$ 360,907,761</u> |
| ELECTRIC UTILITIES (4.82%) | | | |
| Central & South West Corporation | 433,000 | \$ 18,937,850 | \$ 19,485,000 |
| Commonwealth Edison | 2,804,300 | 103,247,006 | 101,305,337 |
| Consolidated Edison Company of New York, Inc. | 1,365,500 | 29,057,125 | 33,625,437 |
| DPL, Inc. | 200,000 | 3,534,243 | 4,100,000 |
| Detroit Edison Company (The) | 635,600 | 18,204,186 | 18,114,600 |
| Duke Power Company | 386,800 | 10,692,372 | 10,685,350 |
| Northeast Utilities | 660,300 | 13,820,911 | 13,618,687 |
| PacifiCorp | 2,626,000 | 45,838,488 | 55,146,000 |
| Portland General Corporation | 1,716,700 | 41,324,964 | 30,042,250 |
| Public Service Enterprise Group, Inc. | 1,000,000 | 27,393,657 | 25,875,000 |
| SCEcorp | 288,900 | 10,016,187 | 11,230,987 |
| Texas Utilities Company | 730,400 | 26,619,574 | 25,381,400 |
| | | <u>\$ 348,686,563</u> | <u>\$ 48,610,048</u> |
| TELEPHONE UTILITIES (2.94%) | | | |
| Cellular Communications, Inc. | 45,000 | \$ 825,116 | \$ 1,395,000 |
| Century Telephone Enterprises, Inc. | 120,400 | 3,133,550 | 3,100,300 |
| Communications Satellite Corporation | 800,000 | 29,086,187 | 22,900,000 |
| GTE Corporation | 3,668,800 | 79,451,199 | 108,688,200 |
| MCI Communications Corporation | 1,580,000 | 43,476,580 | 44,437,500 |
| Southern New England Telecommunications Corporation | 1,000,000 | 38,789,509 | 32,250,000 |
| | | <u>\$ 194,762,141</u> | <u>\$ 212,771,000</u> |
| WATER SUPPLY (0.08%) | | | |
| American Water Works Company, Inc. | 272,900 | \$ 4,405,085 | \$ 5,526,225 |
| Sub Total | | <u>\$6,035,780,897</u> | <u>\$7,238,288,837</u> |
| Net Securities Traded Not Settled | | 33,499,715 | 19,359,339 |
| Total Common Stocks | | <u>\$6,069,280,612</u> | <u>\$7,257,648,176</u> |

INVESTMENTS

Other Equity Investments

| | BOOK VALUE | MARKET VALUE |
|--------------------------------------|-----------------------|-------------------------|
| Advanced Assembly Automation | \$ 973,400 | \$ 316,501 |
| Altus Corporation | 350 | 34,614 |
| Brantley Venture Partners II | 500,000 | 467,951 |
| C-Bio Management Company, Inc. | 935,000 | 935,000 |
| Cardinal Development Capital Fund I | 3,000,000 | 2,334,516 |
| Datamedia Corporation | 50 | 224,489 |
| Devonshire Capital Liquidation Trust | 90 | 114,320 |
| Explosive Fabricators, Inc. | 8,718 | 317,304 |
| Franchise Developers, Inc. | 1,418,000 | 972,471 |
| Palmer Organization | 700 | 1,336,266 |
| Primus Capital Fund | 2,200,514 | 2,706,475 |
| Primus Capital Fund II | 10,000,000 | 9,934,821 |
| Sagamore Financial Corporation | 9,750,000 | 9,750,000 |
| Theta-J Corporation | 350 | 136,786 |
| Total Other Equity Investments | \$ 28,787,172 | \$ 29,581,514 |

Real Estate

| | BOOK VALUE | MARKET VALUE | PERCENT |
|--|-----------------------|-------------------------|----------------|
| Participating Mortgages | \$ 493,663,397 | \$ 489,875,604 | 24.4% |
| Multi-Tenant Properties | \$ 333,048,710 | \$ 283,500,000 | 14.1% |
| Joint Ventures | \$ 339,538,860 | \$ 291,790,003 | 14.6% |
| Sale Leaseback | | | |
| Retail Equities | \$ 454,356,928 | \$ 412,235,944 | 20.6% |
| Office/Industrial | 7,570,517 | 9,100,000 | 0.5 |
| Total Sale Leaseback | \$ 461,927,445 | \$ 421,335,944 | 21.1% |
| Other (Funds/Separate Accounts)/Syndications | \$ 489,996,022 | \$ 517,062,274 | 25.8% |
| Sub Total | \$2,118,174,434 | \$2,003,563,825 | 100.0% |
| Deferred Expenses | 16,000 | 16,000 | |
| Total Real Estate | \$2,118,190,434 | \$2,003,579,825 | |

INVESTMENTS

Distribution of Properties by Geography and Use

Market Value as of June 30, 1991

(Dollars in Thousands)

| | WEST | | MIDWEST | | SOUTH | | EAST | | TOTAL | |
|----------------------------|-----------|-------|-----------|-------|-----------|-------|-----------|-------|-------------|--------|
| Retail | | | | | | | | | | |
| Single-Tenant Stores | \$ 90,552 | 4.5% | \$ 98,247 | 4.9% | \$203,678 | 10.2% | \$ 69,211 | 3.5% | \$ 461,688 | 23.1% |
| Community Shopping Centers | 16,679 | 0.9 | 51,692 | 2.6 | 0 | 0.0 | 0 | 0.0 | 68,372 | 3.5 |
| Strip Shopping Centers | 14,000 | 0.7 | 1,279 | 0.1 | 0 | 0.0 | 0 | 0.0 | 15,279 | 0.8 |
| Regional Malls | 16 | 0.0 | 0 | 0.0 | 0 | 0.0 | 52,412 | 2.6 | 52,428 | 2.6 |
| Total Retail | \$121,248 | 6.1% | \$151,218 | 7.6% | \$203,678 | 10.2% | \$121,623 | 6.1% | \$ 597,767 | 30.0% |
| Office | | | | | | | | | | |
| Single-Tenant | \$ 3,900 | 0.2% | \$ 14,200 | 0.7% | \$ 6,297 | 0.3% | \$ 0 | 0.0% | \$ 24,397 | 1.2% |
| Multi-Tenant | 49,037 | 2.4 | 222,759 | 11.1 | 80,779 | 4.0 | 345,516 | 17.2 | 698,091 | 34.7 |
| Total Office | \$ 52,937 | 2.6% | \$236,959 | 11.8% | \$ 87,075 | 4.3% | \$345,516 | 17.2% | \$ 722,488 | 35.9% |
| Warehouse | | | | | | | | | | |
| Single-Tenant | \$ 4,748 | 0.3% | \$ 0 | 0.0% | \$ 0 | 0.0% | \$ 28 | 0.0% | \$ 4,777 | 0.3% |
| Multi-Tenant | 16,629 | 0.8 | 87,438 | 4.4 | 30,217 | 1.5 | 145,927 | 7.3 | 280,211 | 14.0 |
| Total Warehouse | \$ 21,377 | 1.1% | \$ 87,438 | 4.4% | \$ 30,217 | 1.5% | \$145,956 | 7.3% | \$ 284,988 | 14.3% |
| Hotel | \$ 0 | 0.0% | \$ 0 | 0.0% | \$ 12,000 | 0.6% | \$ 0 | 0.0% | \$ 12,000 | 0.6% |
| Apartments | \$ 5,986 | 0.3% | \$129,200 | 6.4% | \$ 39,979 | 2.0% | \$ 21,090 | 1.1% | \$ 196,255 | 9.8% |
| Mixed Use | \$ 46,727 | 2.3% | \$ 6,000 | 0.3% | \$ 25,286 | 1.3% | \$ 0 | 0.0% | \$ 78,013 | 3.9% |
| Timberland | \$ 66,419 | 3.3% | \$ 0 | 0.0% | \$ 40,160 | 2.0% | \$ 5,475 | 0.2% | \$ 112,053 | 5.5% |
| Deferred Expenses | | | | | | | | | \$ 16 | 0.0% |
| Total Portfolio | \$314,694 | 15.7% | \$610,815 | 30.5% | \$438,395 | 21.9% | \$639,660 | 31.9% | \$2,003,580 | 100.0% |

Footnotes to Schedule of Investments

1. Explanation of Market Values

- A. Short Term/Liquidity Reserves: Cash Equivalents—due to the very short maturities, par value was used for market value. Corporate and Government Notes—market values were provided by independent sources believed to be reliable.
- B. Bonds, Notes, and Guaranteed Mortgages: Market values were provided by independent sources believed to be reliable. Some holdings are private placements where no market exists or are public issues that trade infrequently. The market values were based on actual transactions or upon the yields existing at year-end for comparable securities. Mortgage values were based upon market yields available at the time of evaluation.
- C. Common & Convertible Preferred Stocks: Market values were based on the closing prices on the New York Stock Exchange or American Stock Exchange. Securities not listed on those exchanges were priced based upon the "Bid Price" provided by the National Association of Securities Dealers' NASDAQ System.
- D. Valuations of Real Estate are determined as follows: Sale-Leasebacks were valued based upon discounting the property's income stream at current market rates; Multi-Tenant properties were valued by an alternating schedule of independent MAI appraisals and STRS staff valuations based upon discounted cash flow analysis; Commingled funds and separate accounts are valued annually by independent appraisals. All valuation procedures have been approved by the Board's real estate consultant.
- E. Other Equity Investments: All investments in this category are venture capital investments. Where no market exists for these securities, values were established by valuation committees.

- 2. The value of investments used by the Treasurer of State, the custodian of STRS's investments, is par value for bonds, notes, commercial paper and certificates of deposit; the unpaid principal balance for mortgages; and the book value for common stocks, preferred stocks, and venture capital investments. The value was \$22,414,300,999.62 at June 30, 1990, and \$27,824,201,498.60 at June 30, 1991.
- 3. The Investments listed were purchased and settled by June 30, 1991. Where applicable, purchases and sales executed prior to June 30 but not yet settled are incorporated in an adjustment that gives the total investments on a trade date basis.

The data included in this Investment Section has been entirely compiled by STRS staff members and has not been audited by an independent party. This report is intended to provide information regarding STRS investments as of June 30, 1991. Financial market changes beyond that date may significantly affect the reported amounts.