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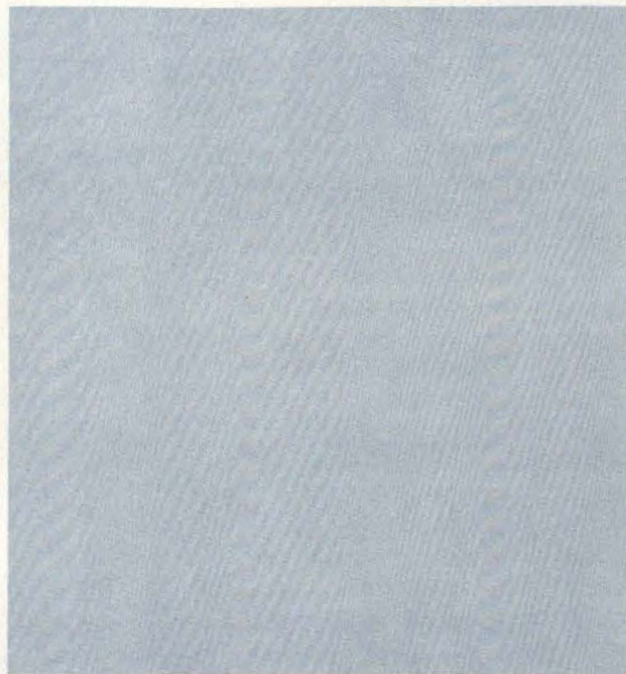
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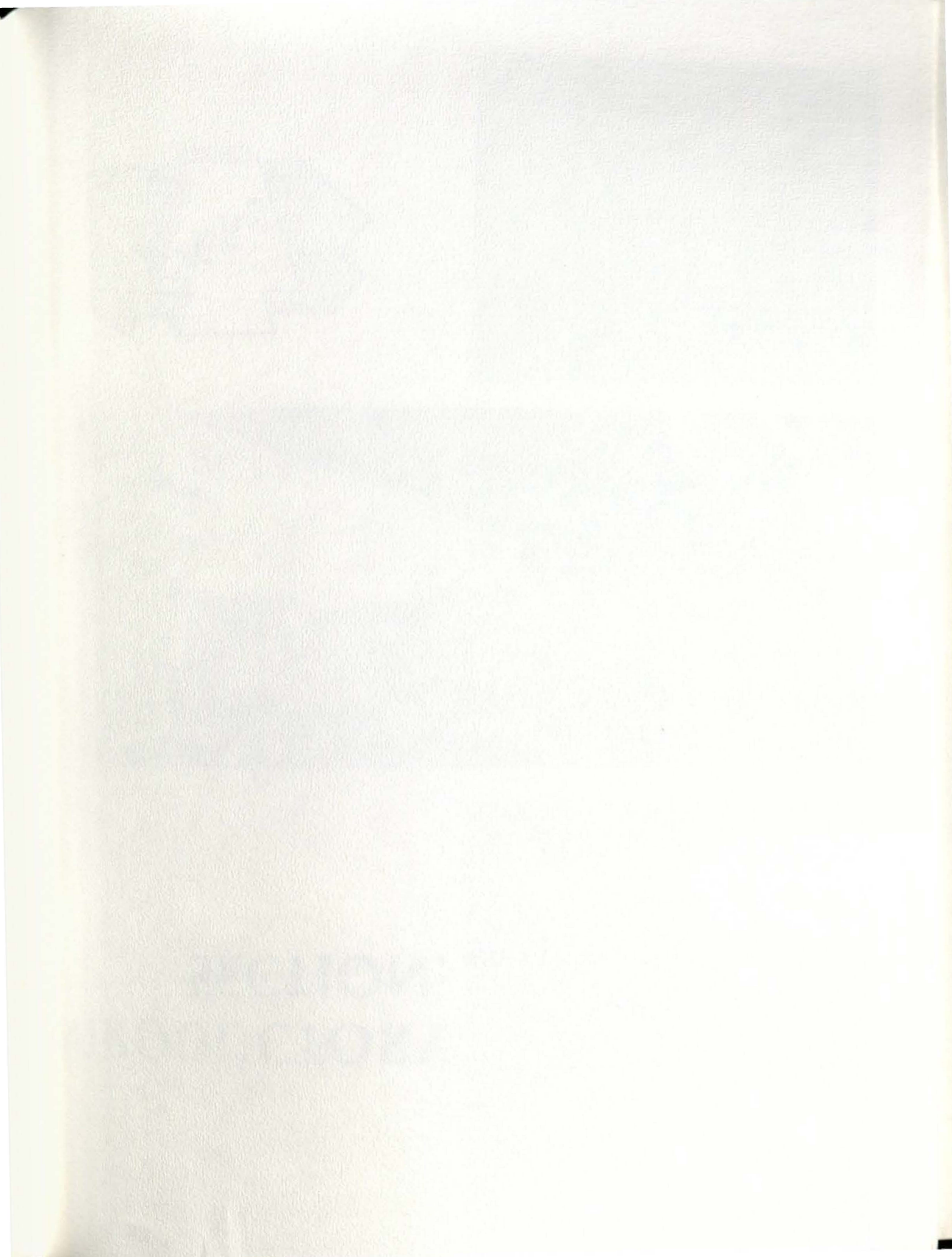
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INTRODUCTORY SECTION:

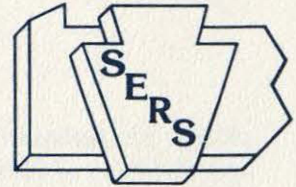






COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT SYSTEM

BOAS SCHOOL BUILDING
909 GREEN STREET
HARRISBURG, PENNSYLVANIA 17102-2999
TELEPHONE: 717-787-6293



To Governor Robert P. Casey and
Members of the Pennsylvania General Assembly

On behalf of the Board of Trustees of the Pennsylvania State Employees' Retirement System (SERS), I am pleased to submit the 1986 Annual Report covering the activities and operations of the Retirement System. This report includes the operational and investment highlights, financial information, actuarial data, the complete investment portfolio, and other information of interest.

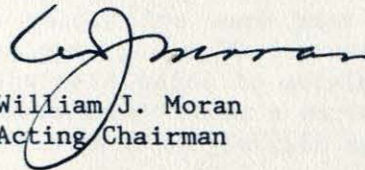
During 1986 the SERS's active membership changed from 113,940 to 111,855, a decrease of 2,085. The number of members and beneficiaries receiving monthly retirement benefits grew to 67,593 at the end of the year. A total of \$495.3 million was paid in benefits and refund payments in 1986.

Investments produced an income including realized gains and losses of \$715.8 million. The Fund had a total investment rate of return of 15.2% for 1986.

Employer contributions to the Retirement System were current as of December 31, 1986. An independent audit for the year 1985 was completed, the results of which are included. The financial records for the year 1986 are currently under examination.

If you require any further information, please contact Executive Director John R. Brosius at (717) 787-6780.

Respectfully submitted,



William J. Moran
Acting Chairman

The State Employees' Retirement System

The Pennsylvania State Employees' Retirement System (SERS), established in 1923, is one of the nation's oldest statewide retirement plans for public employees. With over 179,000 members and over \$6.9 billion in assets, SERS also ranks 20th among public plans in pension assets. A brief overview of the major elements of the plan follows.

The SERS is administered by an independent Board of Trustees. Investments of the Fund are governed by provisions of the Retirement Code, Fiscal Code, and the Board's Investment Policy. The assets and liabilities of the plan are subject to annual actuarial valuations, and the plan is funded in accordance with a recognized actuarial cost method specified in the Retirement Code. The financial records of the SERS are audited annually by an independent certified public accountant.

Membership in SERS is mandatory for most state employees. Elected officials and certain appointed officials may join at their option. For retirement purposes, employees of many independent agencies are defined as "state employees." All member employers are listed at the end of this report.

The SERS contribution rates are based on gross pay. The basic contribution rate is 5% of gross pay for those in continuous employment since July 21, 1983. For those members employed or re-employed on or after July 22, 1983 the contribution rate is 6.25% of gross pay. These contributions are deposited into an individually identified account and are credited with interest each quarter. A member's own contributions and credited interest vest immediately and are returned upon termination of service if the member is not eligible for other benefits. After each annual actuarial valuation of the liabilities and reserve requirements of the Fund, the employer's contribution rate is set. Currently employers contribute at a composite rate of 13.09% of employee payroll quarterly. This is a decrease from the previous rate of 18.03% for fiscal 1985-86.

The SERS provides annuity benefits at any age in the event of retirement, disability, and death after a member fulfills minimum service requirements of ten years for retirement and death benefits, and five years for disability benefits. For members who have attained Normal Retirement Age the minimum service requirement for retirement and death benefits is reduced to three years of service. The SERS is a defined benefit plan with benefits based on a member's age, length of service, and final average salary. The basic retirement benefit is two percent of member's final average salary for each year of service at Normal Retirement Age (age 60 for most employees; age 50 for certain high risk and elected positions). Retirement benefits paid prior to attainment of Normal Retirement Age are actuarially reduced. Members may elect a variety of optional payment plans, but the normal form of benefits is a single-life annuity which is received monthly for life.

Disability benefits provide two percent of final average salary for each year of service without reduction for age, with a minimum of one-third of salary or the basic benefit projected to Normal Retirement Age, if less. A special supplement may be provided in the case of a work-related disability.

Death benefits for members eligible to retire allow for the member's beneficiary to receive the total present value of the member's accrued retirement benefit.

A complete description of the provisions of the plan may be found in the Pennsylvania State Employees' Retirement System Member's Handbook. Copies are available upon request.

The State Employees' Retirement Board

The State Employees' Retirement Board (Board) is an eleven member independent Board of Trustees charged with the administration of the Retirement Code. Six of the eleven members are appointed by the Governor and confirmed by the State Senate to four year terms. Two members are appointed by the President Pro Tempore of the Senate and two by the Speaker of the House, and serve on the Board for the duration of the terms for which they were elected. The State Treasurer serves as a member of the Board, ex-officio. The Retirement Code provides that five members of the Board must be active members of the SERS, and that two of the five must have at least ten years of service. At least one member of the Board must be a retiree. No member may serve more than two consecutive full terms. The Chairman of the Board is appointed by the Governor from the members of the Board.

Board Members as of December 31, 1986:

Mr. William J. Moran, Acting Chairman
Hon. Anthony B. Andrezeski, State Senator
Hon. Robert A. Bittenbender, Secretary for Budget
Ms. Christine M. Crist, Director of Penna. Commission for Women
Hon. R. Budd Dwyer, State Treasurer
Hon. Stephen F. Freind, State Representative
Hon. Edward L. Howard, State Senator
Mr. Charles J. Lieberth, Retired Member and
Former Secretary for Department of Labor and Industry
Hon. Nicholas Maiale, State Representative
Mr. K. Paul Muench, House Appropriations Committee (R)
Hon. James I. Scheiner, Secretary for Department of Revenue

Members of the Board, employees of the SERS, and agents of the Board stand in a fiduciary relationship to the members of the System regarding the investments and disbursements of the Fund. Subject to restrictions on investments contained in the Retirement Code and the Fiscal Code, the Board has exclusive control and management of the Fund and full power to invest the assets of the Fund. The State Treasurer is the custodian of the Fund.

Board members may be contacted in writing at the following address:

**Pa. State Employees' Retirement Board
Boas School Building, 909 Green Street
Harrisburg, Pennsylvania 17102-2999**

SERS Administrative Staff

Executive Director: John R. Brosius
Assistant Executive Director: Dale H. Everhart
Director of Financial Management: Francis J. Donlevy
Chief Investment Officer: Kenneth G. Mertz, II
Internal Auditor: Leonard M. Knepp

Investment Managers:

Aetna Life Insurance Co., Reading, PA
Alliance Capital Management Corp., New York, NY
Barrow, Hanley, Mewhinney & Strauss, Inc., Dallas, TX
Butcher & Singer/Keystone Venture II, L.P., Philadelphia, PA
Corporate Property Investors, New York, NY
Delaware Investment Advisers, Philadelphia, PA
F.I.A. Associates, Inc., Sacramento, CA
Fidelity Bank, N.A. & Latimer & Buck Financial Services, Inc., Phila., PA
First Pennsylvania Bank N.A., Philadelphia, PA
Fostin Capital Associates, Pittsburgh, PA
Fred Alger Management, Inc., New York, NY
Geewax, Terker & Company, King of Prussia, PA
Genesis Seed Fund, Ltd., Philadelphia, PA
Glickenhau & Co., New York, NY
Heitman Advisory Corporation, Chicago, IL
JMB Institutional Realty Corp., Chicago, IL
John Hancock, Boston, MA
McGlenn Capital Management, Inc., Wyomissing, PA
Mellon Bank, N.A., Pittsburgh, PA
Miller, Anderson & Sherrerd, Bala Cynwyd, PA
NEPA Venture Fund, L.P., Easton, PA
Payden & Rygel, Los Angeles, CA
Pilgrim, Baxter, Hoyt & Greig, Wayne, PA
PNC Venture Group I, Pittsburgh, PA
Prudential Asset Management Co., Inc., Newark, NJ
Security Capital Real Estate Corp., New York, NY
TDH II Limited, Radnor, PA
Trinity Investment Management Corp., Bellefonte, PA
Wells Fargo Investment Advisors, San Francisco, CA
W. R. Huff Asset Management, New York, NY

Fund Custodian:

The State Treasurer

Agent Bank and Trust Accounting Services:

First Pennsylvania Bank, N.A., Philadelphia, PA

Consultants:

Wilshire Associates, Santa Monica, CA (Investments)
Ronald A. Karp Associates, Inc., Summit, NJ (Real Estate)
Hay/Huggins Company, Inc., Philadelphia, PA (Consulting Actuary)

Independent Auditor:

Ernst & Whinney, Harrisburg, PA (1985 through 1987)

1986 Operation Highlights

Early Retirement Incentive

Act 1984-95 created an early retirement incentive for certain members retiring between July 1, 1985 and June 30, 1986. Normally, members retiring under age 60 with less than 35 years of service receive a pension reduced due to early retirement. However, during the incentive period, for members retiring with between 30 and 35 years of service, reduction for early retirement was lessened, and in some cases eliminated.

During the one year period, 921 members of the Retirement System retired and received the benefits of the retirement incentive provisions.

The state legislature, in July of 1986, approved an identical incentive for the period beginning July 1, 1986 and ending June 30, 1987 (Act 1986-91).

Office Automation

With the acquisition of a mini-computer the SERS has been able to purchase a centralized word processing system providing for one common word processing system for the entire agency. The system has eliminated the need for individual training, reduced the cost of each required work station, provided for multi-user access, and increased the ability to provide written responses in a timely manner to many of the informational requests received by this system.

An automated records tracking system was developed. The accessing of this tracking system provides the current status of a file and its past activity. The electronic tracking of a file provides a quicker response time to inquiries and a closer control on application processing time resulting in an overall improvement in services to the membership.

The general accounting system for the SERS was enhanced with the addition of an automated Accounts Receivable System. In addition to a decrease in the overall transaction processing time, the system automatically generates employer contribution invoices for each agency and an aged analysis of the accounts receivable system on demand.

Approval of Retirement Counseling Field Office Program

In 1985, the Retirement System opened a pilot retirement counseling field office in Montoursville to test the concept of the Retirement System providing counseling services directly, rather than those services being provided by employing agencies. After one year of successful operation, the Retirement Board approved the field office concept and the staff has made plans to open a state-wide network of similar field offices. Services for active members include retirement estimates and counseling. Services for retired members and beneficiaries include retirement benefit counseling, payroll processing, and health program administration.

A total of six additional field offices will be opened during the next four years. The offices will be located in Seneca, Pittsburgh, Philadelphia, Harrisburg, State College, and the Scranton-Wilkes Barre area.

1986 Investment Highlights

The following are highlights of SERS investment activity in 1986.

- . The fund realized a 15.2% total investment rate of return for 1986. This rate of return significantly exceeded the 2.0% for the GNP Implicit Price Deflator and the actuarial investment return assumption of 5.5%.
- . The fund achieved in equity securities a 17.0% total return compared to the 18.6% total return of the S&P 500 Composite Index. The fund achieved in bond securities a 16.2% total return compared to the 15.6% total return of the Shearson Lehman Bond Index.
- . The fund's equity investments have grown to 43.5% of assets and short-term investments decreased to 5.2% of assets.
- . The addition of the investment managers listed below increased the diversification of the fund.

Funded four small capitalization equity managers. Small capitalization managers have been increased during 1986 to 23% of total equities.

Selected and funded a new manager to provide mortgage master-servicer services and mortgage investment advisory services.

Selected two separate account real estate managers. These managers will focus on real estate investments in Pennsylvania.

Selected a manager for intermediate term fixed income private placement issues of Pennsylvania corporations.

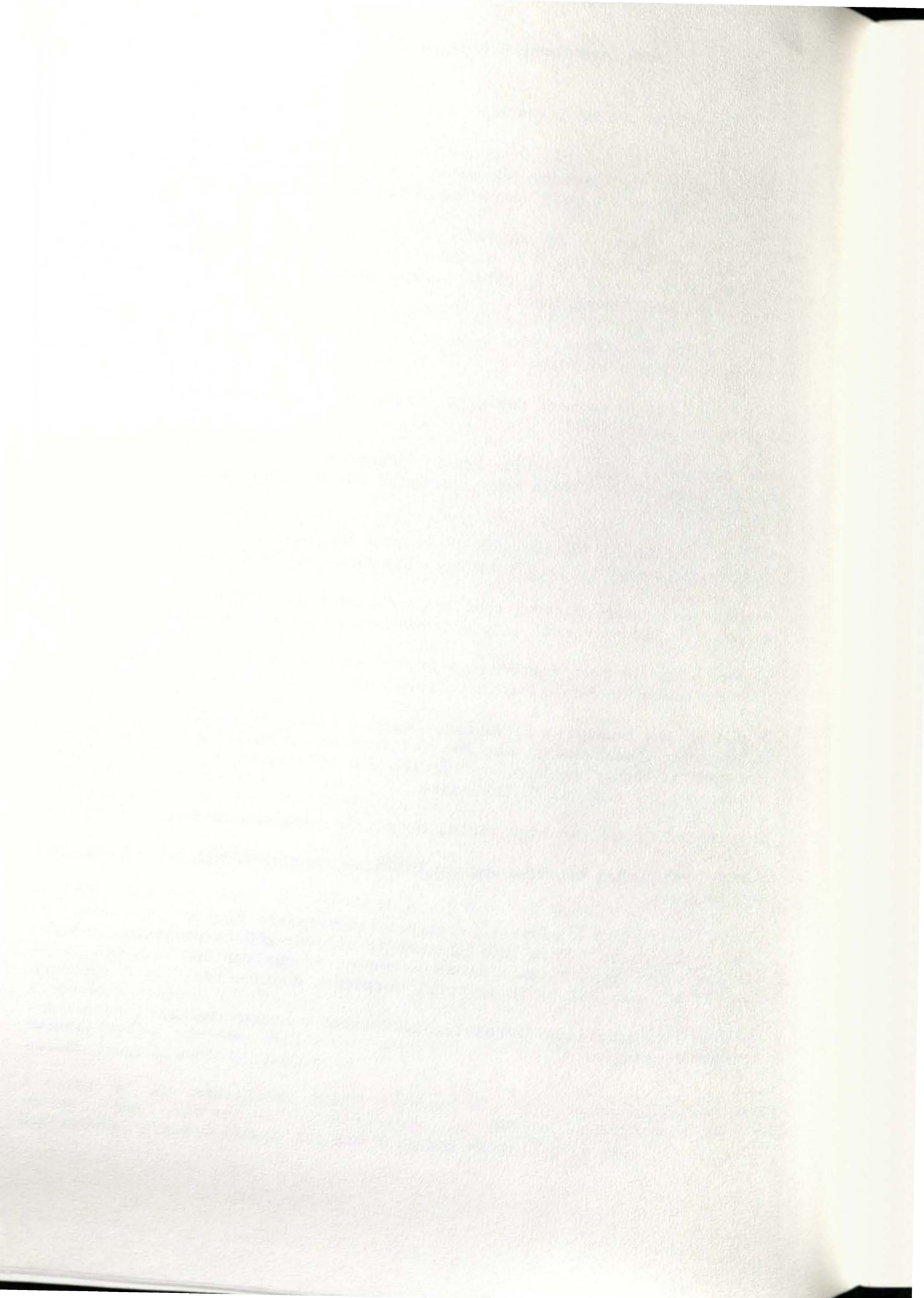
Established the Pennsylvania Venture Capital Fund. Selected a venture capital management team for the fund to concentrate investment in Pennsylvania opportunities and to attract national venture capital to the state.

Selected and funded two high yield, corporate bond managers.

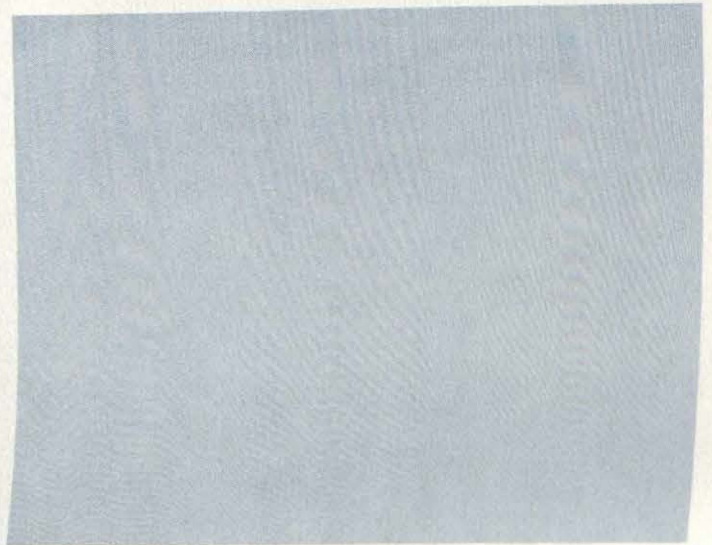
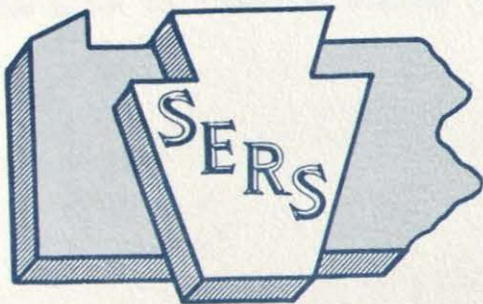
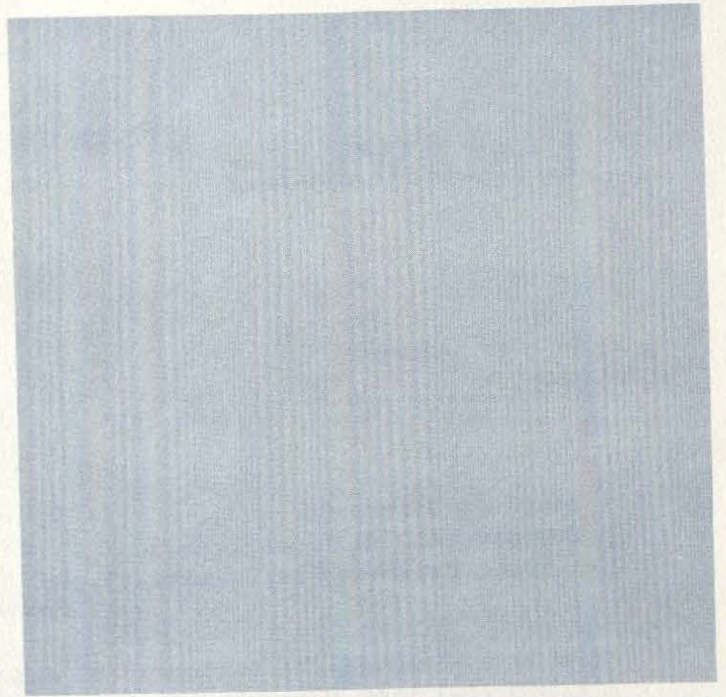
Selected and funded two real estate (apartment) closed end fund managers.

Selected and funded a passively managed Pennsylvania Equity Index Fund manager. This fund is made up of over 200 corporations that are either Pennsylvania based or employ Pennsylvanians equal to at least 25% of their total corporate employment.

Selected five additional Pennsylvania focused venture capital investment managers.



FINANCIAL SECTION:



Ernst & Whinney

300 Locust Court
212 Locust Street
Harrisburg, Pennsylvania 17101

717/232-7575

Board of Directors
Commonwealth of Pennsylvania
State Employees' Retirement System

We have examined the statement of net assets available for benefits of the Commonwealth of Pennsylvania State Employees' Retirement System as of December 31, 1985, and the related statement of changes in net assets available for benefits for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of the Commonwealth of Pennsylvania State Employees' Retirement System for the year ended December 31, 1984 were examined by other auditors whose report dated April 19, 1985 expressed an unqualified opinion on those statements.

In our opinion, the financial statements referred to above present fairly the financial position of the Commonwealth of Pennsylvania State Employees' Retirement System at December 31, 1985, and the changes in net assets available for benefits for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Harrisburg, Pennsylvania
April 25, 1986

Ernst & Whinney

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT SYSTEM

	December 31	
	1985	1984
	(000's omitted)	
ASSETS		
Investments at fair value--Notes A and D:		
United States government securities	\$ 1,707,373	\$ 931,841
Corporate bonds and notes	439,948	385,262
Common and preferred stocks including collective trust funds	2,287,496	1,504,461
Temporary investments	776,222	1,248,129
Mortgages	322,456	293,608
Real estate	417,524	382,117
Venture capital	14,139	-
Total Investments	<u>5,965,158</u>	<u>4,745,418</u>
Contributions receivable:		
Commonwealth	124,933	120,960
Employes	4,016	4,659
Accrued investment income receivable	62,615	54,798
Other receivables	4,735	3,203
Cash	12	17
Total Assets	<u>6,161,469</u>	<u>4,929,055</u>
LIABILITIES		
Accounts payable and accrued expenses	<u>(4,427)</u>	<u>(7,213)</u>
NET ASSETS AVAILABLE FOR BENEFITS--Note C	<u>\$ 6,157,042</u>	<u>\$ 4,921,842</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT SYSTEM

	Year Ended December 31	
	1985	1984
	(000's omitted)	
ADDITIONS:		
Contributions:		
Commonwealth	\$ 459,922	\$ 429,556
Employes	132,695	121,929
Other	513	10,280
Investment income, net of direct investment expenses of \$5,213 in 1985 and \$4,548 in 1984	<u>412,457</u>	<u>370,405</u>
	1,005,587	932,170
DEDUCTIONS:		
Benefits paid to participants	458,236	395,653
Administrative expenses	5,472	4,044
	<u>463,708</u>	<u>399,697</u>
	541,879	532,473
Net realized and unrealized appreciation (depreciation) in fair value of investments --Note D	<u>693,321</u>	<u>(7,040)</u>
NET ADDITIONS	1,235,200	525,433
Net assets available for benefits at beginning of year	<u>4,921,842</u>	<u>4,396,409</u>
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	<u>\$ 6,157,042</u>	<u>\$ 4,921,842</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT SYSTEM

December 31, 1985

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

Valuation of Investments: Marketable securities are stated at fair value. Temporary investments are valued at cost which closely approximates market value. Securities traded on a national securities exchange are valued at the last reported sales price on the last day of business of each plan year. Securities which were not traded on the last day of the plan year or which were not traded on a national securities exchange are valued by the plan advisor based on similar securities sales.

The fair value of the participation units owned by the System in the collective trust funds were based on quoted redemption value on the last business day of the plan year.

Mortgages are valued by the mortgage advisors using a discounted cash flow method. Real estate and venture capital are stated at appraised value.

Purchases and sales of investments are reflected on a settlement date basis. Realized gains or losses on sales of investments are determined on a specific identification or average cost basis, depending upon the type of investment, and included in the statements of changes in net assets available for benefits.

Actuarial Present Value of Accumulated Plan Benefits: Accumulated plan benefits (see Note C) are those estimated future periodic payments, including lump-sum distributions, that are attributable under the System's provisions to services rendered by the employees to the valuation date. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, and (b) present employees or their beneficiaries. Benefits payable under all circumstances--retirement, death, disability, and termination of employment--are included, to the extent they are deemed attributable to employee service rendered to the valuation date.

Reclassification: Certain 1984 amounts have been reclassified to reflect changes in the 1985 financial statement presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT SYSTEM

NOTE B--DESCRIPTION OF THE SYSTEM

The State Employees' Retirement System (System) is a contributory defined benefit plan that covers substantially all state employees and provides for retirement, death, and disability benefits. Employees contribute to the System at a rate of 5% of their gross pay except for employees hired on or after July 22, 1983 who contribute to the System at a rate of 6.25% of their gross pay. Accumulated employee contributions amounted to \$1,319,780,000 and \$1,255,332,000 as of December 31, 1985 and 1984, respectively. Interest is calculated quarterly and credited to the employee's account to yield 4% per annum, as mandated by statute.

The Commonwealth contribution is based upon an actuarially determined percentage of gross pay that is necessary to provide the System with assets sufficient to meet the benefits to be paid to System members. According to the retirement code, all obligations of the System will be assumed by the Commonwealth should the System terminate.

Information about the System agreement, including the vesting and benefit provisions, is contained in the pamphlet, Pennsylvania State Employees' Retirement System Handbook. Copies of this pamphlet are available from the Pennsylvania State Employees' Retirement System.

NOTE C--ACCUMULATED PLAN BENEFITS

The actuarial present value of accumulated plan benefits is that amount which results from applying actuarial assumptions to adjust the accumulated plan benefits earned by the participants to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment.

The accumulated plan benefit information as of the end of each plan year is as follows:

	December 31	
	1985	1984
	(000's omitted)	
Actuarial present value of accumulated plan benefits:		
Vested benefits:		
Participants currently receiving payments	\$2,577,430	\$2,221,000
Other participants	2,696,005	2,328,747
	<u>5,273,435</u>	<u>4,549,747</u>
Nonvested benefits	124,737	94,878
	<u>\$5,398,172</u>	<u>\$4,644,625</u>

NOTES TO FINANCIAL STATEMENTS--Continued

COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT SYSTEM

NOTE C--ACCUMULATED PLAN BENEFITS--Continued

The actuarial present value of accumulated plan benefits was \$4,386,714 as of December 31, 1983.

Effective July 1, 1984, the Plan was amended to provide an additional monthly supplemental annuity to all eligible benefit recipients. The amount of the additional monthly supplemental annuity is the total of the following:

- o One dollar for the number of full years of credited service.
- o Two dollars for the number of full years on retirement as of July 1, 1983.
- o Two percent of the monthly annuity being received on July 1, 1984, but not more than \$20.00.

The effect of the Plan amendment was to increase the actuarial present value of accumulated plan benefits by \$143,388,000. This amendment was accounted for during plan year 1984.

The assumptions discussed below relating to disability, retirement, and withdrawals were revised for the year ended December 31, 1985 based upon the experience of the System for the period 1981 through 1985. The 1984 accumulated plan benefit information was based upon experience from 1975 through 1980. Also, the assumed rate of return on investments was 8.5% in 1985 and 9.5% in 1984. The effect of these changes in actuarial assumptions resulted in an increase in the present value of accumulated plan benefits of approximately \$382,448,000.

The significant actuarial assumptions used in the valuations as of December 31, 1985 and 1984 are as follows:

Superannuation (normal retirement) and early retirement	The 1971 Group Mortality Table
Disability	Modifications of the 1965 Railroad Retirement Board Mortality among Totally Disabled Annuitants
Assumed rate of return on investments	8.5% in 1985 and 9.5% in 1984

NOTES TO FINANCIAL STATEMENTS--Continued

COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT SYSTEM

NOTE D--INVESTMENTS

The System's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in fair value by \$693,321,000 in 1985 and \$(7,040,000) in 1984 as follows:

	<u>1985</u>	<u>1984</u>
	(000's omitted)	
Fair value as determined by quoted market price or the system advisor:		
United States government securities	\$(13,210)	\$ (2,821)
Corporate bonds and notes	194,186	48,959
Common and preferred stocks including collective trust funds	<u>448,718</u>	<u>(75,106)</u>
	<u>629,694</u>	<u>(28,968)</u>
Fair value estimated by using discounted cash flow or appraised value:		
Mortgages	40,451	4,608
Real estate	23,203	17,320
Venture capital	<u>(27)</u>	<u>-</u>
	<u>\$693,321</u>	<u>\$ (7,040)</u>

The fair value of individual investments that represent 5% or more of the System's net assets are as follows:

	December 31	
	<u>1985</u>	<u>1984</u>
	(000's omitted)	
Wells Fargo Bank Equity Index Fund-- 26,091,255 units	\$939,052	\$ -

NOTE E--INCOME TAXES

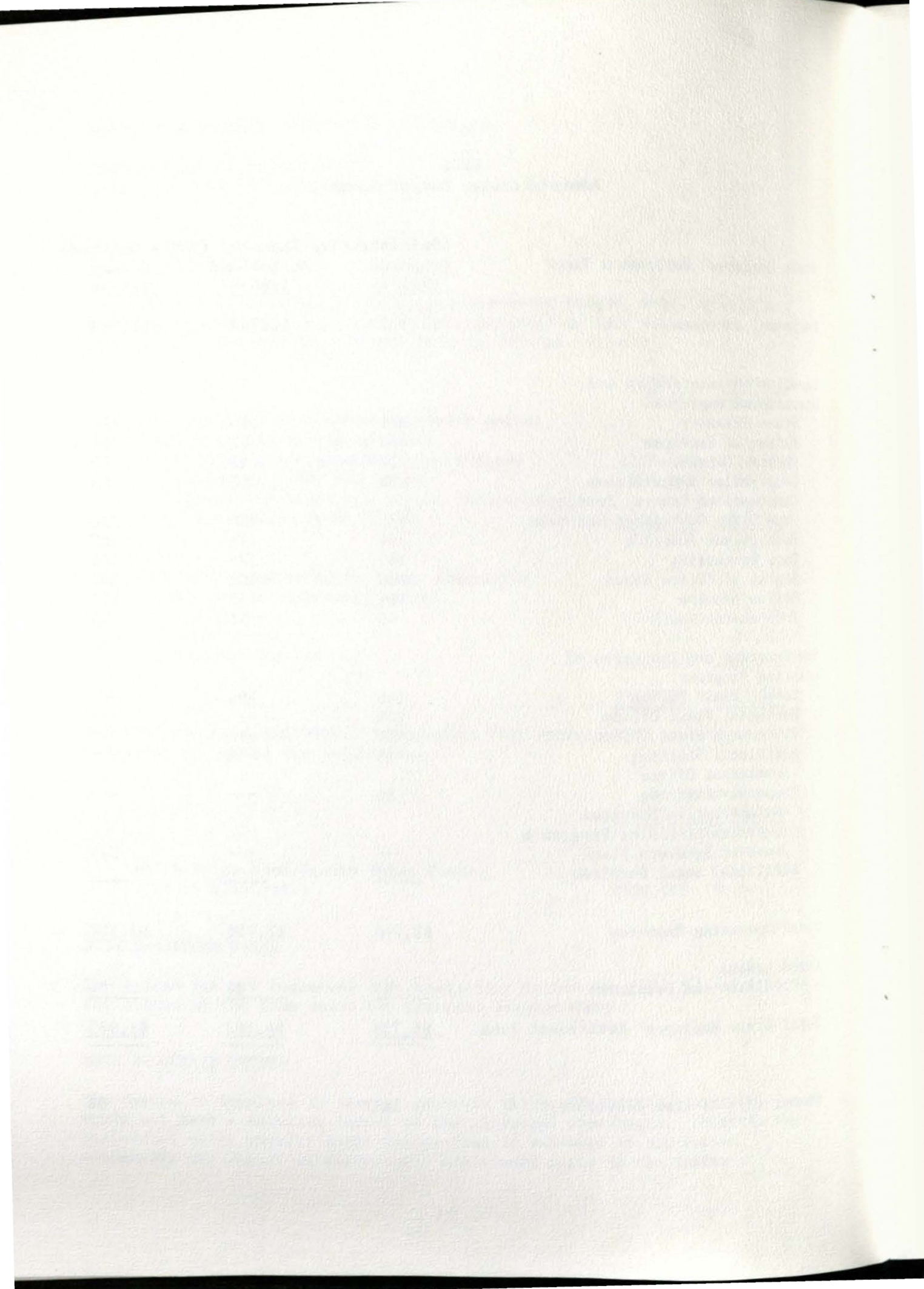
The System has not requested a determination letter from the IRS relating to the status of the Plan under the Internal Revenue Code.

NOTE F--CONTINGENCIES

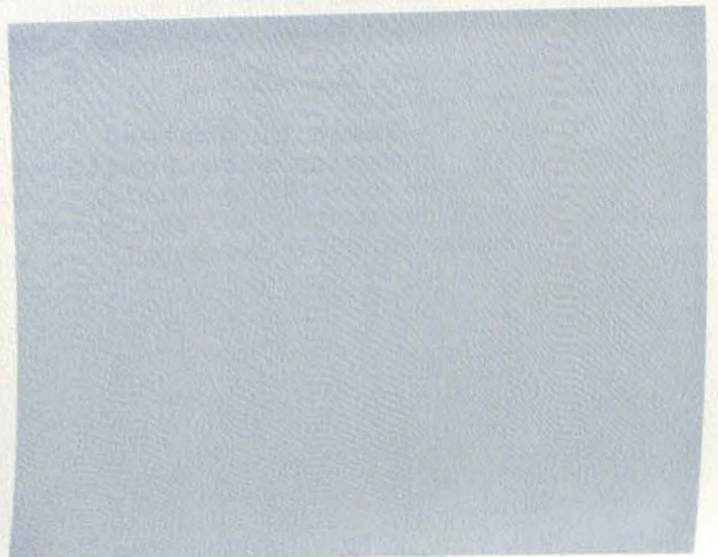
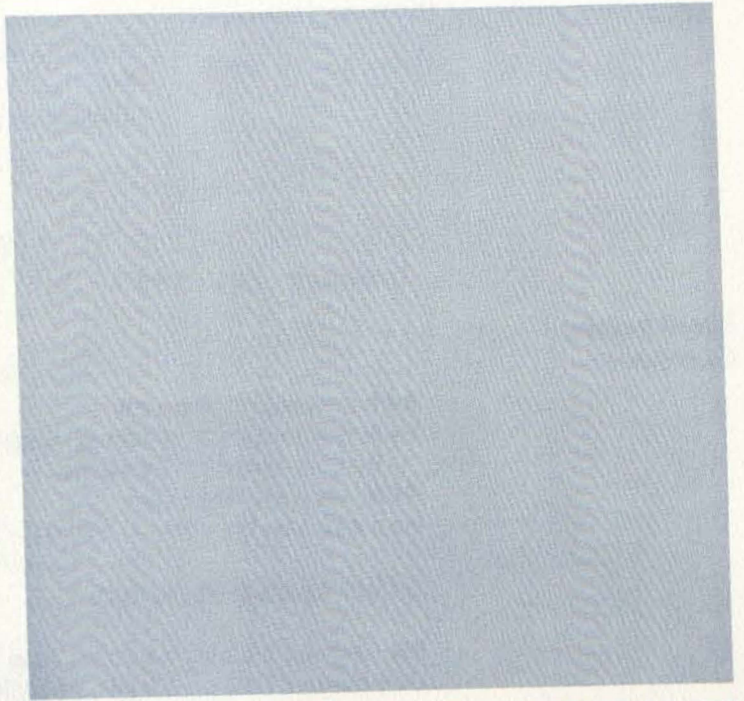
The System is involved in several lawsuits which, if settled adversely, would not have a material impact on the financial statements. However, the individual cases involve legal issues that if extended to the entire membership may result in significant additional costs to the System.

SERS
Administrative Budget Summary

State Employees' Retirement Fund	Administrative Expenses (000's Omitted)		
	Proposed <u>1987-88</u>	Authorized <u>1986-87</u>	Actual <u>1985-86</u>
Personnel Expense	\$2,905	\$2,742	\$2,783
Benefits Administration and Operational Expenses:			
State Treasury	371	360	277
Actuarial Services	93	92	91
Auditor General	26	25	22
Comptroller's Operations	58	57	55
Commonwealth Central Services and Other Contracted Services	333	320	230
Postage and Printing	284	275	260
Data Processing	285	276	275
Rental of Office Space	286	285	304
Office Expense	169	157	201
Independent Audit	45	45	45
New Programs and Expansion of Existing Programs:			
Seneca Field Office	246	164	---
Northeast Field Office	239	---	---
Pittsburgh Field Office	156	---	---
Additional Staffing	45	---	---
Investment Office			
Temporary Staffing	50	---	---
Administrative Services			
Conversion of Filing Program & Disaster Recovery Plan	---	---	348
Additional Legal Services	<u>60</u>	<u>---</u>	<u>---</u>
Total Operating Expenses	\$2,746	\$2,056	\$2,108
Fixed Assets			
Equipment and Furniture	<u>87</u>	<u>84</u>	<u>94</u>
Total State Employees' Retirement Fund	<u>\$5,738</u>	<u>\$4,882</u>	<u>\$4,985</u>
Number of Full-time Positions	121	105	98



ACTUARIAL SECTION:



Hay/Huggins Company, Inc.
Actuarial and Benefits Consultants
1110 Vermont Avenue, NW
Suite 710
Washington, D.C. 20005
(202) 833-9250

January 28, 1987

Hay/Huggins
Company

Retirement Board
Pennsylvania State Employees'
Retirement System
909 Green Street
Harrisburg, PA 17102-2999

Dear Board Members:

An actuarial valuation was last performed as of December 31, 1985 to determine actuarial liabilities under the State Employees' Retirement System. The valuation was carried out in accordance with sound actuarial principles in a manner which, in my opinion, reflects the applicable provisions of the State Employees' Retirement Code. The valuation also served as the basis for determining the contributions required to be made by the Commonwealth to fund the liabilities of the System.

Valuations are made annually based on data supplied by the staff of the Retirement Board. The experience under the Retirement System is reviewed every five years. The last such review was for the period 1981 to 1985. The results of the review are used to develop the assumptions underlying the actuarial valuations. Thus, required contributions are determined on a sound actuarial basis reflecting actual experience under the System.

Sincerely,



Edwin C. Hustead
Senior Vice President

**Actuarial Balance Sheet
As of December 31, 1985
(Amount in Thousands)**

ASSETS

Actuarial Value of Assets in the Fund*		\$ 5,319,011
Present Value of Future Projected Contributions:		
Member contributions(1)	\$1,185,279	
Employer normal contributions(2).	834,045	
Accrued liability contributions(3).	2,361,496	
Supplemental annuity contributions(4)	415,220	
Total Assets		<u>4,796,040</u> <u>\$10,115,051</u>

LIABILITIES

Present Value of benefits payable to annuitants and beneficiaries		\$ 3,168,485
Present Value of projected benefits payable to active and inactive members.		<u>6,946,566</u>
Total Liabilities		<u>\$10,115,051</u>

- (1) Present value of contributions that current active members will make.
- (2) Present value of the normal contributions employers will make on behalf of current active members.
- (3) Present value of the contributions necessary to pay off the accrued liabilities of the pension plan. The liability is comprised of two parts. A two billion dollar segment is being funded over 30 years from July 1, 1969; the remainder is being funded over 30 years from July 1, 1974.
- (4) Present value of the contributions necessary to fund the cost-of-living increases granted in 1969, 1974, 1979, and 1984. These liabilities are being funded over separate 20 year periods.

* The actuarial value of the fund assets is determined by using the Five-Year Moving Average Method which recognizes the difference between the expected actuarial value of assets and the market value of assets over a five-year period.

Comparative Statistics

MEMBERSHIP IN SERS

<u>As of December 31</u>	<u>Active Members</u>	<u>Rate of Increase (Decrease)</u>	<u>Retirees and Beneficiaries</u>	<u>Rate of Increase (Decrease)</u>	<u>Total</u>
1986	111,855	(1.8%)	67,593	5.6%	179,448
1985	113,940	(1.7%)	64,013	5.1%	177,953
1984	115,923	(1.3%)	60,863	4.1%	176,786
1983	117,488	(1.7%)	58,427	5.1%	175,915
1982	119,548	(0.1%)	55,591	5.8%	175,139
1981	119,724	(1.8%)	52,526	7.6%	172,250
1980	121,973	(2.2%)	48,783	5.7%	170,756
1979	124,812	(2.0%)	46,137	9.8%	170,949
1978	127,417	0.2%	41,997	11.0%	169,414
1977	127,183	(1.1%)	37,811	8.7%	164,994

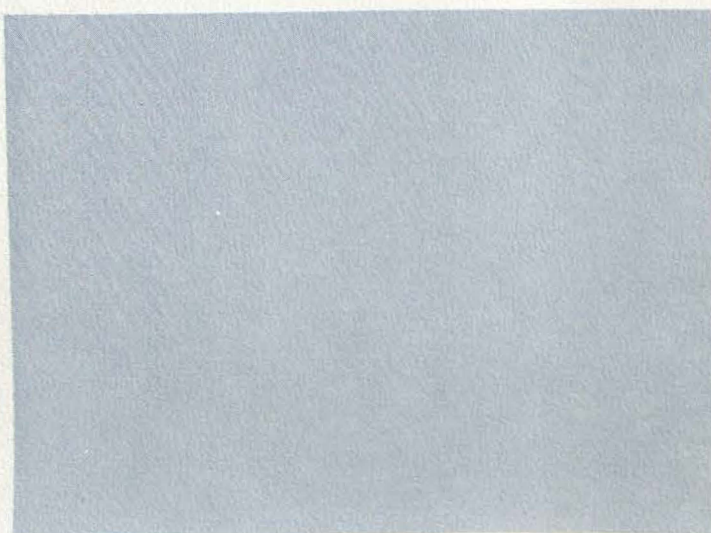
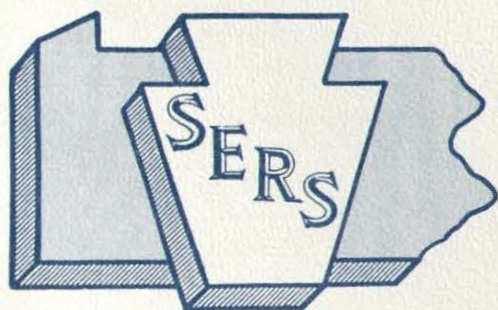
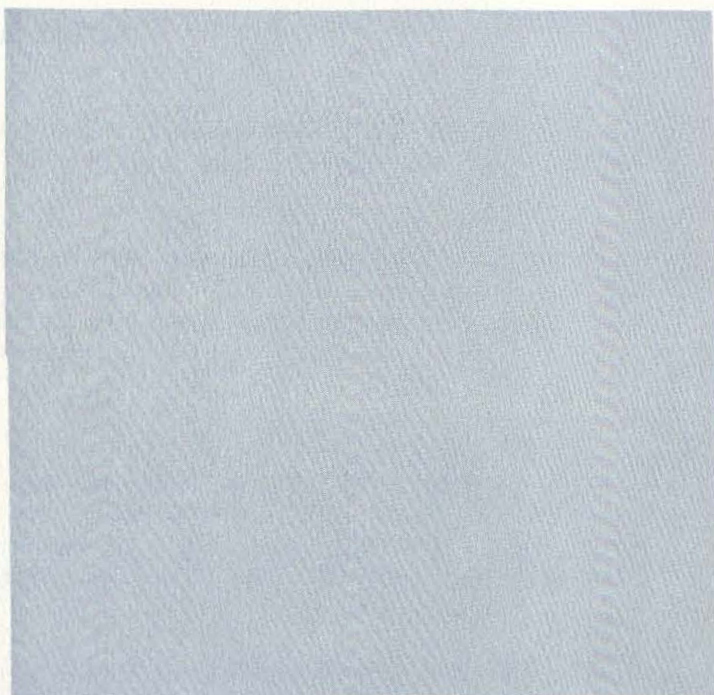
REVENUES BY SOURCE

<u>Year</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>	<u>Investment Income</u>	<u>Total</u>
1986	\$139,454,069	\$407,249,674	\$715,793,395	\$1,262,497,138
1985	132,694,832	460,435,171	741,199,130	1,334,329,133
1984	121,929,078	439,835,430	467,123,077	1,028,887,585
1983	135,841,252	393,335,770	335,334,365	864,511,387
1982	121,589,077	365,969,380	395,680,511	883,238,968
1981	116,283,066	325,687,928	146,072,546	588,043,540
1980	110,531,173	305,547,110	179,261,999	595,340,282
1979	105,480,295	268,143,029	194,942,943	568,566,267
1978	104,424,657	254,135,276	160,308,320	518,868,253
1977	98,594,323	197,634,617	135,585,856	431,814,796

EXPENSES BY TYPE

<u>Year</u>	<u>Benefits</u>	<u>Refunds</u>	<u>Administrative Expenses</u>	<u>Total</u>
1986	\$484,013,322	\$11,338,114	\$4,937,637	\$ 500,289,073
1985	447,556,015	10,679,793	5,472,321	463,708,129
1984	384,406,184	11,246,518	4,043,986	399,696,688
1983	360,434,420	8,527,691	2,856,261	371,818,372
1982	332,082,399	11,784,734	2,937,974	346,805,107
1981	313,568,576	13,862,526	3,000,756	330,431,858
1980	279,710,042	13,921,637	2,466,463	296,098,142
1979	230,503,120	28,473,497	2,322,957	261,299,574
1978	163,209,735	49,614,494	1,679,283	214,503,512
1977	145,307,121	40,088,542	1,619,555	187,015,218

INVESTMENT SECTION:



Investment Policy

The State Employees' Retirement Board adopted a formal Statement of Investment Policy in 1979 which has been revised to reflect and incorporate legislative changes governing investments.

The purpose of the Statement is to formalize the Board's investment objectives, policies, and procedures, to establish guidelines for the investment of the assets of the Fund, and to define the duties and responsibilities of the various entities involved in the investment process.

The major elements of the Statement are:

- . As fiduciaries, the Board will exercise that degree of judgment, skill, and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence, who are familiar with such matters, exercise in the management of their own affairs in investment matters;
- . Where investment characteristics, including yield, risk, and liquidity, are equivalent, the Board's policy favors investments which have a positive impact on the economy of Pennsylvania;
- . The Fund's overall investment objective is to provide a Total Rate of Return, over full economic cycles, which exceeds the return of a fully diversified market portfolio within each asset class. The Board seeks to meet this objective within acceptable risk parameters through adherence to a policy of diversification of investments by type, industry, quality, and geographic location;
- . The Board contracts with highly qualified investment advisors and counselors to provide expert, professional judgment in all investment decisions;
- . Guidelines are established for each category of assets used by the Fund's investment advisors to provide a framework for monitoring quality, diversification, and liquidity;
- . An annual Investment Plan is prepared to control the allocation of funds during the year among investment advisors and categories of assets; and
- . All records of investment transactions are available for public inspection at the offices of the State Employees' Retirement System.

Investment Objectives

To assure an adequate accumulation of reserves in the Fund at the least cost to the citizens of the Commonwealth and to provide some protection against the erosion of principal by inflation, the minimum total return objectives of the Fund, including income and both realized and unrealized gains and losses over full economic cycles, are:

- A. Achieve and maintain State Employees' Retirement Fund in excess of Accrued Benefit Liability;
- B. Achieve a Real Total Rate of Return (as measured by the GNP Implicit Price Deflator). Achieve an Absolute Total Rate of Return not less than the actuarial investment return assumption (currently 5 1/2%);
- C. Achieve in Equity Securities (Common Stock, Convertible Preferred Stock, and Convertible Bonds) a total return that exceeds the total return of the Standard and Poor's 500 Stock Composite Index;
- D. Achieve in Fixed Income Securities, exclusive of residential and commercial mortgages, but including mortgage-backed securities, a total return that exceeds the total return of the Shearson/Lehman Bond Index;
- E. Achieve in residential mortgage investments a total return superior to the total return of the Salomon Brothers Mortgage Pass-Through Security Total Rate of Return Index. Commercial mortgage investment return should be competitive with the total return on similar institutional portfolios and on other fixed income investments;
- F. Achieve in Equity Real Estate Investments a total return that is competitive with market returns for similar types of real estate investments;
- G. Achieve in Short-Term Securities relative performance better than U.S. Treasury Bills (90 days); and
- H. Achieve returns greater than are available from publicly traded stocks and bonds through investment in qualified venture capital firms.

Total return includes income and both realized and unrealized gains and losses and is computed on market value.

The Board seeks to meet these objectives within acceptable risk parameters through adherence to a policy of diversification of investments by type, industry, investment manager style, and geographical location. In addition, investments are selected in accordance with quality guidelines.

Investment Performance

During 1986, the State Employees' Retirement Fund investments increased in value from \$5.9 billion to \$6.9 billion. The growth resulted from investment income, changes in asset market values, net realized and unrealized gains and losses, totalling \$946 million, and also from net contributions (employer and employee contributions minus benefit and administrative payments) of \$47 million. The Fund realized a 15.2% Total Rate of Return after fees in 1986 which exceeded the inflation rate and the actuarial investment return assumption.

Exhibit A compares the Rates of Return of Investment for the most recent five-year period. Exhibit B provides a Summary of Assets by Investment Manager at December 31, 1986, together with the diversification of the Fund's assets. Exhibit C is a three-year asset mix comparison.

State Employees' Retirement Fund Exhibit A
Rates of Return by Type of Investment as of December 31, 1986

<u>Type of Investment</u>	<u>1986</u>	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>
SERS - Equities	17.0	30.5	4.1	20.5	19.1
S&P 500 Index	18.6	32.0	6.1	22.6	21.5
SERS - Fixed Income	16.2	21.6	14.6	9.1	36.1
Shearson/Lehman Bond Index	15.6	21.3	15.0	8.0	31.1
SERS - Real Estate*	7.8	10.0	15.1	---	----
NCREIF/EAI (70/30)**	7.0	9.8	12.4	---	----
SERS - Short-Term Securities	6.5	9.4	10.2	8.9	12.0
U.S Treasury Bills	6.1	7.7	9.8	8.6	10.7
SERS - Total Fund***	15.2	23.1	9.4	13.0	27.8
Inflation - GNP Implicit Price Deflator	2.0	3.5	3.8	4.2	6.0
Inflation - Consumer Price Index	1.1	3.8	3.9	3.9	3.9
Actuarial Investment Return	5.5	5.5	5.5	5.5	5.5

* 1986 Real Estate returns for Corporate Property Investors and Security Capital which are included with the Total Fund rate of return are estimated.

** Index is compiled by the National Council of Real Estate Investment Fiduciaries and Evaluation Associates, Inc.

***1986 Venture Capital rate of return which is included in the Total Fund rate of return is estimated.

STATE EMPLOYEES' RETIREMENT FUND
Summary of Assets by Investment Manager
December 31, 1986
Dollar Values in Millions

Exhibit B

<u>% of Fund</u>	<u>Investment Managers</u>	<u>Total Assets Market Value</u>	<u>Equities</u>	<u>Bonds</u>	<u>Mortgages & Mtge-Backed Securities</u>	<u>Equity Real Estate</u>	<u>Venture Capital</u>	<u>Cash & Short-Term*</u>
2.9%	Fred Alger	\$ 204.0	\$ 183.9	\$ ---	\$ ---	\$ ---	\$ ---	\$ 20.1
4.3%	Alliance	296.9	275.2	---	---	---	---	21.7
4.7%	Barrow Hanley	325.3	321.0	---	---	---	---	4.3
0.3%	First Pennsylvania Bank	23.0	23.0	---	---	---	---	---
0.8%	Geewax, Terker & Co.	53.9	52.9	---	---	---	---	1.0
3.5%	Glickenhau and Co.	240.7	226.9	---	---	---	---	13.8
0.8%	McGlinn	57.9	50.3	---	---	---	---	7.6
1.4%	Mellon-PA Index Fund	96.1	94.7	---	---	---	---	1.4
2.5%	Mellon-Special Equity	170.1	158.1	---	---	---	---	12.0
1.4%	Pilgrim, Baxter, Hoyt and Greig	96.5	93.3	---	---	---	---	3.2
3.3%	Trinity	226.4	223.3	---	---	---	---	3.1
16.0%	Wells Fargo S&P Equity	1,112.7	1,112.7	---	---	---	---	---
3.0%	Wells Fargo Ext. Equity	209.6	209.6	---	---	---	---	---
0.8%	Delaware	52.0	---	45.1	---	---	---	6.9
0.8%	W. R. Huff	53.9	---	49.2	---	---	---	4.7
9.5%	Mellon - Bond Index Fund	657.6	---	640.8	---	---	---	16.8
13.3%	Miller, Anderson & Sherrerd	926.4	---	489.6	417.6	---	---	19.2
9.1%	Payden & Rygel	636.4	---	636.4	---	---	---	---
6.2%	SERS Treasury Bonds	433.1	---	433.1	---	---	---	---
7.7%	Fidelity	537.2	---	---	427.8	---	---	109.4
1.7%	Aetna	118.2	---	---	---	118.2	---	---
1.0%	Corporate Property Investors	69.4**	---	---	---	69.4	---	---
0.5%	F.I.A. Associates, Inc.	31.5	---	---	---	31.5	---	---
0.8%	John Hancock	56.3	---	---	---	56.3	---	---
0.5%	JMB Institutional Advisors III	36.0	---	---	---	36.0	---	---
0.7%	Prudential	45.3	---	---	---	45.3	---	---
0.4%	Security Capital	30.5**	---	---	---	30.5	---	---
0.2%	Butcher & Singer/Keystone Venture II, L.P.	10.9**	---	---	---	---	10.9	---
0.1%	Fostin Capital Associates	7.5**	---	---	---	---	7.5	---
---%	Genesis Seed Fund, Ltd.	2.0**	---	---	---	---	2.0	---
---%	NEPA Venture Fund, L.P.	1.0**	---	---	---	---	1.0	---
---%	PNC Venture Group I	3.3**	---	---	---	---	3.3	---
0.1%	TDH II Limited	7.2**	---	---	---	---	7.2	---
---%	Income from Securities Lending	2.2	---	---	---	---	---	2.2
1.7%	Treasury STIF Investment Manager	113.5	---	---	---	---	---	113.5
---%	Cash in Transit	3.3	---	---	---	---	---	3.3
100%	TOTAL	\$6,947.8	\$3,024.9	\$2,294.2	\$ 845.4	\$ 387.2	\$ 31.9	\$364.2
	PERCENT	100%	43.5%	33.0%	12.2%	5.6%	0.5%	5.2%

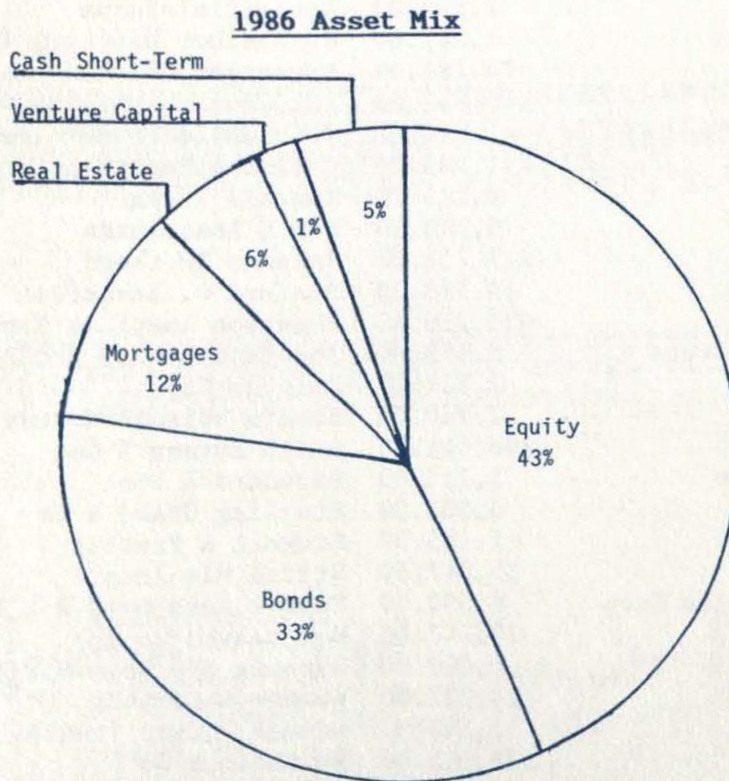
* Cash & Short-term managed by the State Treasurer.

** Market values for Corporate Property Investors, Security Capital and for the venture capital managers are estimates.

Exhibit C

Three-Year Asset Mix Comparison (\$ Millions)
Dollar Values in Millions

Year	Total Assets Market Value	Equity	Bonds	Mortgages & Mortgage-Backed Securities	Real Estate	Venture Capital	Cash Short-Term
1986	\$6,948 100%	\$3,025 43%	\$2,294 33%	\$846 12%	\$387 6%	\$32 1%	\$364 5%
1985	\$5,954 100%	\$2,287 38%	\$2,042 34%	\$627 11%	\$350 6%	\$14 0%	\$634 11%
1984	\$4,747 100%	\$1,504 32%	\$1,309 27%	\$506 11%	\$382 8%		\$1,046 22%



**BROKERAGE COMMISSION SUMMARY FOR ALL MANAGERS
FOR YEAR ENDED 12/31/86**

<u>BROKER</u>	<u>Commissions PAID 1986</u>	<u>BROKER</u>	<u>Commissions PAID 1986</u>
Adler Coleman	1,136.00	L F Rothschild Unterberg	15,407.00
Advest Co	14,700.00	Laidlaw Adams & Peck	2,100.00
Alpha Management Inc	9,424.00	Lawrence Cyrus J	75,981.00
Autranet Inc	15,707.00	Legg Mason & Co	10,712.00
B.H.C Securities	2,380.00	Lewco & Co	1,336.00
Bear Stearns & Co	140,810.00	Lovett Mitchell	1,200.00
Blackburn & Co	2,360.00	Lynch Jones & Ryan	60,170.00
Blair William	9,343.00	Mabon Nugent & Co	23,359.00
Boston Institutional Service	3,800.00	McDonald & Co	6,745.00
Brandt Robert & Co	2,190.00	Merrill Lynch Pierce	311,334.47
Brean Murray Foster	6,912.00	Mesirov & Co	3,368.00
Bridge Trading Co	32,067.00	Montgomery Securities	76,868.00
Brimberg & Co	2,400.00	Morgan Keegan	5,500.00
Brown Alex & Sons	12,950.00	Morgan Stanley & Co	134,261.25
Brown Brothers Harriman	3,616.00	Mosely Hallgarten	12,750.00
Buckingham Research	2,492.00	Neuberger & Berman	33,952.60
Burns Fry & Timmins	5,505.00	Neuburger Leob Securities	2,210.00
Butcher & Singer	7,564.00	Newhard Cook & Co	14,068.00
Cable Howse Ragen	3,417.00	N. Y. & Foreign Securities	2,691.00
Cantor Fitzgerald	53,076.50	Oppenheimer & Co	126,484.50
Capital Inst Service	2,788.00	Paine Webber Jackson	9,417.00
Chicago Corp	6,740.00	Paine Webber Mitchell	197,158.00
Conning & Co	2,254.00	Pennsylvania Group Inc	17,338.00
Cowen & Co	25,431.00	Pforzheimer Carl H	1,463.00
Dean Witter Reynolds	151,771.50	Prescott Ball Turben	12,968.00
Dillon Read & Co	9,872.00	Prudential-Bache	104,295.00
Dominion Securities	1,043.00	Reinheimer Nordberg Inc	1,560.00
Donaldson Lufkin	74,781.60	Robertson Coleman	1,702.00
Drexel Burnham	70,032.00	Robinson Humphrey	3,904.00
Eberstadt Fleming Inc.	42,870.00	Rothschild Securities	5,715.00
Ernst & Co	1,920.00	Roulston Research Corp	1,834.00
Factset Data	4,129.00	Russell Frank	17,311.00
Fahnestock & Co	5,500.00	S R G Associates	5,304.00
First Boston Corp	215,732.00	Salomon Brothers	136,221.50
First Manhattan Co	19,588.20	Sanford C. Bernstein	30,613.00
Fred Alger & Co.	935,256.43	Shearson American Express	2,610.00
Furman Selz Mager Dietz	16,458.00	Shearson Lehman Brothers	83,725.00
Gartner Securities	2,801.80	Shields Capital Corp	6,429.00
Gilger Gagon	2,960.00	Sloate Weisman Murray	11,824.00
Goldman Sachs & Co	196,041.55	Smith Barney & Co	160,265.40
Gordon Haskett & Co	5,724.00	Standard & Poor	11,988.00
Hambrecht & Quist	3,502.00	Sterling Grace & Co	15,001.00
Howard Weil Lab Fri	1,785.00	Stewart & Frankel	5,832.00
Hutton E.F. & Co	85,047.50	Stifel Nicolaus	17,262.00
Interstate Securities Corp	6,850.00	Tucker Anthony & R L Day	4,337.00
Jeffries & Co	70,247.00	W H Reaves Co Inc	1,600.00
Jesup & Lamont	1,000.00	Warburg S G Rowe & Pittman	10,230.00
Johnson Lane Space	24,227.00	Weeden & Company	11,924.00
Jones & Associates	5,797.00	Weeden Equity Trading	1,410.00
Josephthal & Co	26,615.00	Wertheim & Co	57,559.57
Keane Securities	6,064.00	Wilshire Associates	305,148.00
Keefe Bruyette & Woods	4,055.00	Wolcott Investors	2,947.00
Kidder Peabody & Co.	45,789.00	Other Brokers	31,338.50

Investment Holdings

23

ISSUE	MATURITY	MARKET VALUE
BONDS		
AIR WISCINSIN	6/15/10	459375.00
ARA HLDG CO	9/ 1/95	4860000.00
ALLEGHNY LUDLUM	9/ 1/99	222000.00
ALLEGHNY LUDLUM	7/ 1/ 2	363750.00
ALLIED STORES	6/15/90	1503750.00
AMBASSADOR GENL PAR	9/15/96	500000.00
AMAX INC	12/ 1/94	1415625.00
AMERICAN FRUCTOSE C	6/15/ 0	260250.00
AMER TEL & TEL	5/15/ 5	500000.00
APPALAC POWER	7/ 1/ 3	925000.00
ARROW ELEC INC	3/15/ 4	1956500.00
ASSOCIATED DRY GOOD	3/ 1/ 8	1514520.00
ATLANTIC RICHFIELD	6/ 1/15	1672500.00
ATLANTIC RICHFIELD	7/15/ 5	7872500.00
ATLANTIC RICHFIELD	10/15/95	1676250.00
ATLANTIC RICHFIELD	3/ 1/11	505000.00
AVCO FINL SVCS INC	3/15/96	1530000.00
BCI HOLDINGS CORP	4/15/98	4493500.00
BCI HOLDINGS CORP	4/15/ 1	1062000.00
BALLY MFG CORP	1/ 2/ 1	2040000.00
BETH STEEL	3/ 1/ 5	697500.00
BETH STEEL	3/ 1/ 1	720000.00
BEVERLY ENTERPRISES	7/16/ 3	1803750.00
BLOUNT INC	8/ 1/96	1022275.00
BRIT COL HYDRO	4/15/11	4588000.00
BRIT COL HYDRO	7/15/11	6768125.00
BURLINGTON NORTH	8/15/92	1901250.00
CIT FIN	3/15/93	1648000.00
CIT FIN	12/ 1/91	1668750.00
CANADA-GOVT	2/ 1/ 3	10197094.00
CANNON GROUP INC	11/ 1/94	1010000.00
CANNON GROUP INC	4/15/ 1	1116000.00
CAROLINA P&L	1/ 1/ 1	446875.00
CAROLINA P&L	4/ 1/94	1700625.00
CAROLINA T&T	5/ 1/ 8	1543125.00
CAT TRACTOR	11/ 1/ 1	11524187.00
CAT TRACTOR	10/ 1/90	539375.00
CHES POT TEL VA	4/15/19	2277000.00
CHRYSLER CORP	11/15/15	3244375.00
CHRYSLER FIN	10/15/99	28171187.00
CINC GAS & EL	10/15/ 6	907500.00
CITICORP	10/15/90	1554375.00
CITIZEN & SOUTHN	2/ 1/95	1151250.00
COLECO INDS INC	4/ 1/ 1	815000.00
COLT INDS INC DEL	10/15/ 1	2011625.25
COLUMBUS&STHRN OH E	7/ 1/16	1011250.00
COMCAST CORP	8/ 1/ 6	1025000.00
CONN LT & PR	10/ 1/12	956800.00
CONSUMER POWER	1/15/10	1537500.00
CONTAINER CORP AMER	9/30/98	679250.00
CONTINENTAL CABLEVI	12/ 1/ 5	2734375.00
CONTROL DATA CORP D	6/15/91	1070000.00
CONTROL DATA CORP	6/15/11	610000.00
CONWOOD CAPITAL COR	1/15/98	1060000.00
COOPERVISION INC	7/15/98	870000.00
DART DRUG STORES INC	6/ 1/ 1	412500.50
DAYTON HUDSON	10/15/12	1666875.00
DELMARVA PWR & LT C	6/ 1/15	1319500.00
DRESSER IND	11/ 1/ 7	1831750.00
ENSERCH CORP	6/15/ 6	1470000.00

EQUITABLE GAS	4/ 1/ 8	1663125.00
F M C CORP	6/ 1/ 1	3193000.00
FALCON CABLE SYS CO	12/15/ 0	1075000.00
FEDERAL FARM CR BANK	7/22/91	4260000.00
FEDERAL FARM CR BANK	4/22/91	1864679.75
FEDERAL FARM CR BANK	10/20/93	2422500.00
FEDERAL FARM CR BANK	3/ 1/88	1678284.75
FEDERAL FARM CR BANK	1/20/93	4562479.00
FEDERAL FARM CR BANK	7/20/89	1731554.75
FEDERAL FARM CR BANK	9/ 1/94	3226549.50
FEDERAL HOME LN BKS	9/25/89	1190619.75
FEDERAL HOME LN BKS	3/25/93	4655200.00
FEDERAL HOME LN BKS	5/25/93	2903125.00
FEDERAL HOME LN BKS	10/25/88	538950.88
FEDERAL HOME LN BKS	6/25/90	5160000.00
FEDERAL HOME LN BKS	9/25/90	2211239.50
FEDERAL HOME LN MTG	8/ 1/ 7	9670.08
FEDERAL HOME LN MTG	4/ 1/ 8	3547421.00
FEDERAL HOME LN MTG	11/ 1/ 9	21186800.00
FHLMC POOL 180895	4/ 1/ 8	59295.00
FHLMC POOL 181560	8/ 1/ 7	10012.00
FHLMC POOL 181679	11/ 1/ 9	10466967.00
FHLMC POOL 181889	1/ 1/11	13357.52
FHLMC POOL 189622	9/ 1/ 9	4626584.00
FHLMC POOL 189664	8/ 1/ 9	6121199.00
FHLMC POOL 260537	11/ 1/ 8	7581084.00
FHLMC POOL 252225	11/ 1/ 8	3838099.50
FHLMC POOL 254450	7/ 1/ 8	8899167.00
FHLMC POOL 253719	6/ 1/ 9	217432.94
FHLMC POOL 256674	5/ 1/ 8	1350304.75
FHLMC POOL 270603	7/ 1/ 8	1815954.50
FHLMC POOL 272191	9/ 1/ 9	22366.38
FHLMC POOL 273883	2/ 1/ 7	11034800.00
FEDERAL NATL MTG ASS	6/10/88	2106800.50
FEDERAL NATL MTG ASS	1/11/88	519375.00
FEDERAL NATL MTG ASS	3/10/93	583750.00
FEDERAL NATL MTG ASS	12/10/13	3723900.00
FEDERAL NATL MTG ASS	3/10/89	3337890.50
FEDERAL NATL MTG ASS	9/12/88	8277750.00
FEDERAL NATL MTG ASS	11/10/87	520779.94
FEDERAL NATL MTG ASS	11/10/89	3384359.50
FEDERAL NATL MTG ASS	12/12/88	3252000.50
FEDERAL NATL MTG AS	2/12/96	3294359.50
FNMA POOL 793	12/ 1/ 8	3521486.50
FNMA POOL 280	1/ 1/12	38870346.00
FNMA POOL 505	9/ 1/ 8	6292366.00
FNMA POOL 1180	9/ 1/ 8	7815556.00
FNMA POOL 2578	9/ 1/ 7	6502895.00
FNMA POOL 2501	4/ 1/11	1385636.75
FNMA POOL 6350	10/ 1/ 9	7272170.00
FNMA POOL 7978	6/ 1/ 9	3642678.00
FNMA POOL 7775	2/ 1/ 9	5529421.00
FNMA POOL 10236	9/ 1/ 6	2796286.00
FNVA POOL 15347	3/ 1/ 5	3020295.00
FNMA POOL 15864	12/ 1/ 9	2279848.00
FNVA POOL 16282	6/ 1/ 8	3948846.00
FNMA POOL 26548	11/ 1/ 8	4376174.00
FNMA POOL 30419	3/ 1/ 8	15826980.00
FEDERAL PAPER BRD I	6/15/ 0	1075000.00
FERRO CORP	10/15/ 0	550625.00
FIRST FID BANCORP	4/ 1/98	1138500.00
FLEET FINANCIAL CORP	4/ 1/10	1124000.00
FLORIDA PWR<	9/ 1/ 1	1380000.00
FLORIDA PWR & LT	5/ 1/10	1646250.00
FORD MOTOR CRED	1/15/90	1601250.00
GENL ELEC CRED	6/ 1/ 6	1725000.00
GENERAL HOMES CORP	5/ 1/98	967500.00

Investment Holdings

GMAC	6/15/ 1	2010000.00	STERLING CHEMS INC	7/15/96	8300000.00
GMAC	10/15/89	1554375.00	STONE CONTAINERS	4/15/11	369000.00
GENERAL MTRS ACCEP	4/ 1/89	2925375.00	STUDENT LOAN MARKETI	9/ 1/89	4592479.00
GENERAL MTRS ACCEP	7/ 1/93	501250.00	SWEDEN KINGDOM	11/ 1/16	21122060.00
GEORGIA PWR	2/ 1/13	1680000.00	TENAX CO	11/16/91	1120000.00
GRAPHIC SCANNING	12/ 1/ 1	757500.00	TENNECO INC	5/ 1/ 5	1614375.00
HARTE HANKS COMMUN	11/15/ 0	828750.00	TENNECO INC	9/ 1/92	367125.00
HECHINGER CO	9/15/ 9	2112250.00	TENNECO INC	1/15/97	3378750.00
HOUSEHOLD FIN CORP	3/ 1/98	1494375.00	TEXAS EAST TRANS	10/15/ 9	2793125.00
ICN PHARMACEUTICALS	7/15/98	990000.00	TEXAS OIL & GAS	11/ 1/ 2	2060000.00
IMMUNEX CORP	8/ 1/11	282000.00	TEXAS UTILS ELEC CO	8/ 1/15	1717500.00
INDIANAPOLIS PWR &	10/ 1/16	2080620.00	TURNER BROADCAST SY	4/15/93	1487500.00
INGERSOLL NEWSPAPER	9/ 1/99	2015000.00	TWELVE FED LAND BKS	1/20/97	2910000.00
INGERSOLL NEWSPAPER	9/ 1/ 0	615000.00	UNC RES INC	3/30/06	1358500.00
INTELOGIC TRACE INC	7/15/98	1478437.50	UNION PAC CORP	9/ 1/10	1621875.00
INT TEL & TEL	6/ 1/ 0	973440.00	UNION PAC CORP	3/ 1/92	691875.00
INT TEL & TEL	7/ 1/ 1	4905000.00	UNITED STATES TREAS	6/30/90	66137500.00
INTERNORTH INC	2/15/92	1353156.25	UNITED STATES TREAS	8/15/89	175437500.00
LA PETIT ACADEMY	6/ 1/11	2080000.00	UNITED STATES TREAS	9/30/90	100062000.00
LIONEL CORP	8/ 1/96	1000000.00	UNITED STATES TREAS	5/15/ 9	7818090.00
LOCKHEED CORP	4/ 1/96	1520625.00	UNITED STATES TREAS	2/15/ 0	51125000.00
LONG ISLAND LTG CO	6/15/95	2130000.00	UNITED STATES TREAS	5/15/90	2097500.00
MACANDREW FRB	12/ 1/94	1990000.50	UNITED STATES TREAS	8/15/ 0	61080960.00
MACY R H & CO INC N	11/15/ 1	1075000.00	UNITED STATES TREAS	2/15/ 7	495309.94
MARATHON OIL	3/ 1/94	1507500.00	UNITED STATES TREAS	2/15/93	1037809.88
MICH BELL TEL	6/ 1/11	1370625.00	UNITED STATES TREAS	2/15/95	38249912.00
MOBIL CORP	6/15/ 4	580000.00	UNITED STATES TREAS	5/15/10	1802339.75
MONT WARD	11/ 1/ 0	1440000.00	UNITED STATES TREAS	5/15/95	7854000.00
MONT WARD CR	10/ 1/ 2	1992375.00	UNITED STATES TREAS	11/15/12	8706250.00
MONT WARD CR	3/15/ 3	910000.00	UNITED STATES TREAS	2/15/ 3	20462400.00
MULTIMEDIA INC NEW	8/30/ 5	5337562.00	UNITED STATES TREAS	5/15/ 3	82029801.00
NWA INC.	6/15/10	561688.00	UNITED STATES TREAS	8/15/ 3	11640870.00
NABISCO	11/ 1/ 3	452500.00	UNITED STATES TREAS	8/15/13	11937142.00
NATIONAL INTERGROUP	5/15/96	935000.00	UNITED STATES TREAS	11/15/ 3	23562980.00
NAVISTAR INTL CORP	12/31/95	2100000.00	UNITED STATES TREAS	8/15/14	6863455.00
NY TELEPHONE	6/15/16	1449375.00	UNITED STATES TREAS	8/15/ 5	7247891.00
NIAG MHWK PWR	3/ 1/13	551875.00	UNITED STATES TREAS	11/15/15	10460268.00
NOBLE AFFILIATE	1/ 1/90	1554375.00	UNITED STATES TREAS	2/15/ 6	3121875.00
NORTHN STS PR-MN	1/ 1/ 4	673750.00	UNITED STATES TREAS	2/15/16	6328097.00
NORTHWSTN BEL TL	8/15/16	1533750.00	UNITED STATES TREAS	5/15/16	3341414.50
OCCIDENTAL PETE COR	3/15/11	2032500.00	UNITED STATES TREAS	11/15/87	6080639.00
OKLA GAS & EL	1/ 1/ 4	573000.00	UNITED STATES TREAS	7/15/88	2781250.00
PNC FUNDING CORP	3/15/96	1784250.00	UNITED STATES TREAS	1/15/89	7501389.00
PACIFIC GAS & ELEC	7/ 1/96	1911875.00	UNITED STATES TREAS	2/15/92	702420.00
PAC TEL & TEL	4/ 1/ 5	1473750.00	UNITED STATES TREAS	7/15/89	4730000.00
PAC TEL & TEL	7/15/18	1558125.00	UNITED STATES TREAS	11/15/87	6080580.00
PAN AM WORLD AIR	5/ 1/ 3	962500.50	UNITED STATES TREAS	5/15/88	13589028.00
PAN AM WORLD AIR	4/15/ 4	420000.00	UNITED STATES TREAS	7/15/90	114558224.00
PENNSYLVANIA PWR &	1/ 1/16	1595625.00	UNITED STATES TREAS	8/15/93	135173093.00
PIONEER CORP TEX	10/ 1/90	2308250.00	UNITED STATES TREAS	9/30/87	8284959.00
PRICE COMMUNICATION	7/15/98	2985000.00	UNITED STATES TREAS	11/15/93	6826875.00
PEFCO	11/ 1/90	275427.50	UNITED STATES TREAS	2/15/89	4380000.00
PUB SVC COLO	10/ 1/ 8	1485000.00	UNITED STATES TREAS	1/15/91	4678759.00
PUBLIC SVC NH	1/15/ 0	1060000.00	UNITED STATES TREAS	5/15/89	4448759.00
SEARS ROEBUCK	4/ 1/ 6	1877500.00	UNITED STATES TREAS	4/15/91	8408750.00
SEARS ROEBUCK	9/ 1/92	1252500.00	UNITED STATES TREAS	6/30/88	8814958.00
SERVICE MERCHANDISE	12/15/96	940000.00	UNITED STATES TREAS	10/15/91	12128098.00
SHELL OIL	4/15/ 7	1406250.00	UNITED STATES TREAS	11/15/87	7280000.00
SHELL OIL	6/15/11	1160000.00	UNITED STATES TREAS	2/15/90	7833419.00
SO CENT BELL TEL	9/15/18	1595625.00	UNITED STATES TREAS	2/15/88	7304079.00
SO CENT BELL TEL	4/ 1/23	1723125.00	UNITED STATES TREAS	2/15/96	189623584.00
SOUTHERN NEW ENG TE	8/15/26	1424915.00	UNITED STATES TREAS	5/15/90	9097518.00
SOUTHWEST FOREST IN	9/15/ 1	1000000.00	UNITED STATES TREAS	3/31/89	7682500.00
SOUWSTN BELL TEL	5/ 1/12	880000.00	UNITED STATES TREAS	5/15/95	8706250.00
SOUWSTN BELL TEL	10/ 1/13	436250.00	UNITED STATES TREAS	6/15/90	7678090.00
SOUWSTN BELL TEL	3/15/19	2065000.00	UNITED STATES TREAS	6/30/89	7487780.00
SOUWSTN PUB SV	7/ 1/12	1756675.00	UNITED STATES TREAS	7/15/92	8529648.00

Investment Holdings

UNITED STATES TREAS	8/15/88	5235949.00	LEVI STRAUSS ASSOC	11/15/ 0	1160000.00
UNITED STATES TREAS	8/15/95	6610284.00	MANUFACTURERS HANOVE	11/16/87	772600.00
UNITED STATES TREAS	11/15/90	7658419.00	MARK IV INDS	12/15/ 1	1000000.00
UNITED STATES TREAS	9/30/87	5100000.00	MCCAW CELLULAR	1/ 1/94	3531419.60
UNITED STATES TREAS	9/30/89	3311171.60	MCORP NOTE	5/ 1/93	1678119.76
UNITED STATES TREAS	10/15/92	5063894.00	MELLON FINL CO	3/ 7/95	6826000.00
UNITED STATES TREAS	11/15/88	12865000.00	MIDWEST FEDL SLA MIN	3/ 1/13	2701274.60
UNITED STATES TREAS	2/15/91	7348215.00	NEW CITY COMMUNICATI	6/30/96	6308619.00
UNITED STATES TREAS	12/31/89	6806670.00	NORTH JERSEY SLA	9/ 1/ 4	11687500.00
UNITED STATES TREAS	2/29/88	8152479.00	OCCIDENTAL PETE CORP	3/15/94	5040000.00
UNITED STATES TREAS	4/15/93	7094079.00	PHILLIPS PETE	3/15/95	704107.75
UNITED STATES TREAS	5/15/96	8349301.00	PMI MTG CORP	3/ 1/ 3	1360000.00
UNITED STATES TREAS	6/30/88	6461952.00	QUANEX CORP	2/ 1/99	13569520.00
UNITED STATES TREAS	8/15/89	4010000.00	SALOMON BROS MTG IV	8/ 1/15	13862640.00
UNITED STATES TREAS	8/15/08	5267150.00	SEARS MTG CORP	4/ 1/17	7057819.00
UNITED STATES TREAS	8/ 1/91	1646250.00	SEARS MTG SEC CORP	11/ 1/12	4724999.00
UPJOHN	1/15/ 6	1055000.00	STANDARD OIL CO	7/ 1/ 1	4371145.00
WALTER JIM CORP	9/15/91	1655625.00	STATE FED SLA	1/ 1/ 9	8099736.00
WELLS FARGO	5/ 1/ 6	1503750.00	STUDENT LOAN MKTNG A	3/12/91	1439729.75
WISC PWR & LT	12/15/16	2002579.75	SOUTHERN CALIF EDISO	12/ 1/17	12385972.00
AMOCO CO NOTE	10/11/ 2	5003025.00	TALMAN HOME FED SLA	11/ 1/ 2	1474559.75
BALTIMORE FED FIN	11/ 1/ 6	639953.00	TEXAS UTILS ELEC CO	12/ 1/16	3029039.60
BANCO MORTGAGE CO	8/ 1/11	648427.38	UNITED STATES TREAS	8/15/93	5295299.00
BANCO MORTGAGE	12/ 1/96	984719.75	UNITED STATES TREAS	5/15/99	4343049.00
BEST PRODUCTS	4/15/88	1767370.75	TRI CITY PPTY INVS	3/ 1/ 5	7180266.00
BOWERY SVGS BK	12/15/ 1	1010000.00	TRI CITY PPTY INVS	3/ 1/ 1	4421778.00
B T ACQ CORP	3/20/95	12987002.00	TRI CITY PPTY INVS	3/ 1/ 3	5419720.00
BUNDES REPUBLIC EURO	4/ 1/95	8162409.00	TRI CITY PPTY INVS	3/ 1/ 4	251083.38
CANADA GOV'T	12/15/95	6618570.00	TREASURY INVT GROWTH	11/15/87	486639.69
CANADA GOV'T	3/ 1/96	6276271.00	TREASURY INVT GROWTH	11/15/87	672679.88
CANADA GOV'T	10/ 1/98	25000000.00	TREASURY INVT GROWTH	11/15/87	142488.84
CITICORP EXTENDIBLE	6/ 1/12	19582492.00	TREASURY INVT GROWTH	11/15/87	6434051.00
CITY FED SLA	3/ 1/98	6587098.00	UNITED KINGDOM EXCHE	8/22/94	33700064.00
CENTRUST SAV/FKA	11/ 1/ 7	9008252.00	UNITED SAV TEXAS	3/ 1/ 6	199185952.00
CENTRUST SAV	7/ 1/ 6	5369265.00	US TREAS NOTE	11/15/89	427831823.00
CENTRUST SAV	11/ 1/96	3017579.50	MORTGAGES POOLED FUND		
CORESTATES CAP CORP	11/ 1/96	1506824.75			
CORNING GLASS WKS DE	4/20/95	5152337.00			
D M K BUNDES REP	1/11/96	495000.00			
EZ COMMUNICATIONS	10/ 6/89	1702500.00			
FED HOME LOAN MTG	3/30/90	1110000.00			
FED HOME LOAN MTG	10/ 1/ 8	11481240.00			
FED HOME LOAN MTG	9/ 1/12	17593536.00			
FED HOME LOAN MTG	11/15/91	1695000.00			
FIRST SEC CORP	10/ 1/16	2416223.50			
FLORIDA PWR & LT CO	10/15/89	2007039.75			
FORD MTR CR CO NT	8/ 1/ 8	20002152.00			
GEN SAVINGS	11/25/10	5839053.00			
GENERAL ELECTRIC MTG	6/17/91	12458504.00			
GMAC 1986-C ASSET BA	4/15/91	7585826.00			
GMAC 1986-B GRANTOR	4/15/88	1563749.75			
GMAC	7/26/ 7	7016260.00			
GOLDOME	1/ 1/ 6	4447122.00			
GOLDOME	7/ 1/96	1618271.75			
GULF & WESTN INDS IN	8/15/95	312000.00			
HERITAGE COMMUNICATI	2/ 1/ 3	6652374.00			
HOME FED SAV BK	8/ 1/ 6	2247274.50			
HOME SAV AMERICA	4/15/95	1424999.75			
HOUSTON NAT GAS CORP	8/15/96	978699.88			
HUNTINGTON BANCSHARE	11/15/ 8	18107058.00			
ICI NORTH AMER INC	8/15/11	13900000.00			
IMPERIAL SVGS & LOAN	2/15/ 1	7641748.00			
INTL BANL REC & DEV	9/30/98	1037499.75			
JSC MS HLDGS INC	6/ 1/87	113680.00			
KAISER ALUM & CHEM	11/15/95	12219870.00			
UNITED KINGDOM TREAS	3/ 1/15	1710000.00			
K MART CORP DEB	8/15/93	1298374.75			
LOCKHEED CORP NT					

3096478835.36

Investment Holdings

COMMON STOCKS

COMPANY NAME	SHARES	MARKET VALUE
AEL INDS INC	3,500	37,825
AMR CORP	140,000	7,507,500
ARX INC.	5,000	58,750
AZP GROUP INC	35,300	1,001,838
ACTION INDS INC	5,200	47,450
ADELPHIA COMMUNICATI	6,300	96,075
ADVEST GROUP INC	7,600	89,300
AETNA LIFE & CAS CO	13,000	732,875
AFFILIATED BANKSHS	75,000	843,750
AHMANSON H F & CO	171,000	3,697,875
AIR PRODS & CHEMS IN	118,300	4,155,288
ALCO HEALTH SVCS COR	11,100	198,413
ALCO STD CORP	17,100	716,063
ALEXANDER & ALEXANDE	55,000	1,457,500
ALEXANDER & BALDWIN	44,500	2,002,500
ALLEGHENY INTL INC	8,600	107,500
ALLEGHENY PWR SYS IN	57,700	2,553,225
ALLEN ORGAN CO	1,200	37,800
ALLIED PRODS CORP DE	1,000	33,125
ALLIED SEC INC	5,500	148,500
ALLIED SIGNAL INC	238,864	9,576,393
ALLTEL CORP	73,600	2,898,000
ALOETTE COSMETICS IN	2,800	26,600
ALUMINUM CO AMER	73,800	2,493,200
AMERADA HESS CORP	58,200	1,382,250
AMERICAN BRANDS INC	231,000	9,817,500
AMERICAN CAN CO	51,000	4,290,375
AMERICAN ELEC PWR IN	20,000	550,000
AMERICAN EXPRESS CO	278,225	15,754,491
AMERICAN FAMILY CORP	83,400	2,168,400
AMERICAN INFORM TECH	3,600	477,000
AMERICAN INTEGRITY	5,700	37,050
AMERICAN INTL GROUP	130,000	7,946,250
AMERICAN MED INTL IN	161,700	2,385,075
AMERICAN SVGS BK PFD	100,000	2,125,000
AMERICAN STD INC	2,000	85,750
AMERICAN STORES CO	98,300	5,345,063
AMERICAN TEL&TELEG	240,100	6,002,500
AMERICAN TELEVISN&CO	176,200	2,885,275
AMERICAN WTR WKS INC	67,100	2,709,163
AMETEK INC	18,500	483,313
AMOCO CORP	87,500	5,709,375
AMP INC.	226,300	8,175,088
AMPCO-PITTSBURG CORP	8,100	105,300
AMREP CORP	5,250	66,938
ANALOG DEVICES INC	64,600	1,009,375
ANALOGIC CORP	75,800	814,850
ANHEUSER BUSCH COS	159,200	4,159,100
ANTHEM ELECTRS INC	40,000	470,000
APOGEE ENTERPRISES	51,068	434,061
APPLE BK FOR SVGS N	13,000	334,750
APPLE COMPUTER INC	78,300	3,171,150
APOLLO COMPUTER INC	45,000	725,625
APPLIED BIOSYSTEMS	15,000	483,780
ARDEN GROUP INC	5,000	133,125
ARGONAUT GROUP INC	1,400	29,400
ARISTECH CHEM CP	250,400	4,569,800

ARKANSAS BEST CORP	2,000	53,500
ARMSTRONG WORLD	40,800	1,218,900
ARNOLD INDS INC	2,800	113,400
ARVIN INDS INC	22,800	638,400
ASHLAND OIL INC	8,500	476,000
ASHTON TATE	45,700	2,033,650
ASSOCIATED COMMUN CP	4,100	106,600
ATHLONE INDS INC	2,000	32,000
ATLANTIC FINL FED	3,200	32,000
ATLANTIC RESH CORP	53,400	1,508,550
ATLANTIC RICHFIELD	111,500	6,690,000
AUGAT INC	55,800	878,850
AUTOCLAVE ENGINEERS	5,000	28,750
AUTODESK INC	58,000	2,233,000
AUTOMATIC DATA PROCE	110,000	3,877,500
AVERY INTL INC	14,900	614,625
AVNET INC	165,500	4,261,625
AYDIN CORP	4,200	99,225
BT FINL CORP	2,200	35,750
BAKER MICHAEL CORP	1,800	29,250
BAKER INTL CORP	182,800	2,170,750
BALLY MFG CORP	178,100	3,517,475
BALTIMORE GAS&ELEC	15,000	508,125
BANCORP HAWAII INC	23,000	1,150,000
BANDAG INC	6,500	566,313
BANK BOSTON CORP	79,600	3,174,050
BANK NEW ENGLAND COR	50,700	1,508,325
BANK NEW YORK INC	16,950	658,931
BANKERS TRUST N Y CO	278,500	12,602,125
BARNES GROUP INC	1,000	30,500
BAXTER TRAVENOL LABS	80,100	1,541,925
BAY ST GAS CO	1,000	22,500
BAYBANKS INC	78,100	2,928,750
BECTON DICKINSON	162,100	8,105,000
BEEBA'S CREATIONS IN	35,000	516,250
BELL & HOWELL CO	14,000	518,000
BELL ATLANTIC CORP	74,600	5,035,500
BELL CDA ENTERPRISES	75,300	2,033,100
BELLSOUTH CORP	4,000	231,000
BENCH CRAFT INC	10,500	162,750
BENEFICIAL CORP	30,000	1,665,000
BEST BUY INC	14,500	344,375
BETHLEHEM STL CORP	44,100	275,625
BETZ LABS INC	13,500	543,375
BEVERLY ENTERPRISES	63,000	1,031,625
BIOGEN N V	255,000	1,816,875
BIOMET INC	30,000	570,000
BLOCK DRUG INC	100,000	2,725,000
BOEING CO	154,200	7,883,475
BOISE CASCADE CORP	10,000	597,500
BOISE CASCADE CO PFD	10,000	540,000
BOLAR PHARMACEUTICAL	61,100	1,321,288
BOLT BERANEK & NEWMA	36,200	1,425,375
BORG WARNER CORP	4,000	152,500
BORMANS INC	17,000	299,625
BOSTON EDISON CO	26,000	669,500
BOWATER INC	319,200	9,695,700
BRIGGS & STRATTON CO	4,000	141,000
BRISTOL MYERS CO	53,000	4,379,125
BRITISH PETROLEUM LT	179,900	7,825,650
BROCKWAY GLASS CO	24,300	534,600
BRYN MAWR BK CORP	700	58,800
BURLINGTON NORTHN IN	124,900	6,650,925
BUSINESSLAND INC	169,000	1,788,750
CFS FINL CORP	10,000	147,500
C COR ELECTRS INC	4,300	33,863
CENB CORP.	2,400	40,200

Investment Holdings

C D I CORP	3,400	92,225	COMCAST CABLEVISION	3,000	41,250
CIGNA CORP	103,600	5,898,000	COMCAST CORP	32,400	554,850
CNA FINL CORP	58,900	3,165,875	COMMERCIAL CR CO	118,900	2,398,450
CPC INTL INC	121,700	9,644,725	COMMODORE INTL LTD	26,500	235,188
CSX CORP	205,600	5,988,100	COMMONWEALTH BNCSSHS	1,400	48,550
C TEC CORP	4,800	91,200	COMMONWEALTH EDISON	118,500	4,014,188
CABOT CORP	3,000	90,000	COMPAQ COMPUTER CORP	13,700	520,600
CAESARS WORLD INC	66,100	1,255,900	COMPONENT TECHNOL CO	199,500	3,840,375
CALFED INC	100,000	3,350,000	COMPLYNE CORP	5,200	26,650
CALNY FOOD SVCS INC	40,000	290,000	COMPUTER ASSOC INTL	1,300	25,838
CAMCO INC	37,500	496,875	COMPUTER SCIENCES CO	220,000	6,050,000
CAREERCOM CORP	6,300	44,888	CONNELLY CONTAINERS	40,200	1,698,450
CAREMARK INC	111,900	2,531,738	CONSOLIDATED NAT GAS	2,500	30,313
CARLISLE CORP	7,800	233,025	CONSTON CORP	70,200	2,290,275
CAROLINA FREIGHT COR	48,500	1,697,500	CONTEL CORP	6,400	57,600
CAROLINA PWR & LT CO	108,700	4,198,538	CONTINENTAL CORP	274,000	7,774,750
CARPENTER TECHNOLOGY	22,600	700,600	COOPER INDS INC	313,100	14,011,225
CARSON PIRIE SCOTT	10,000	360,000	COOPER TIRE & RUBR	16,000	662,000
CARTER WALLACE INC	17,500	1,312,500	COPPERWELD CORP	32,200	845,250
CARTERET SVGS & LN	140,800	1,953,600	CORDIS CORP	7,300	53,838
CASTLE & COOKE INC	286,800	5,520,900	CORESTATES FINL CORP	45,000	736,875
CATERPILLAR TRACTOR	217,200	8,715,150	CORROON & BLACK CORP	139,300	4,979,975
CENTEL CORP	50,300	2,816,800	CRAFTMATIC CONTOUR I	48,500	1,570,188
CENTERIOR ENERGY COR	49,800	1,132,950	CRAY RESH INC	3,600	21,150
CENTOCOR INC	54,100	1,541,850	CROSSLAND SVG FSB BK	59,300	4,795,888
CENTRAL & SO WEST CO	124,000	4,247,000	CROSSLAND SVG FS PFD	50,000	793,750
CENTRAL BANCSSHS SOUT	20,000	365,000	CROWN CORK & SEAL IN	28,000	616,000
CENTRAL FID BKS INC	12,000	342,000	CYCLOPS CORP	8,600	886,875
CENTRAL HUDSON GAS&E	100,300	3,021,538	DNA PLT TECHNOLOGY	3,400	218,875
CENTRAL MAINE PWR CO	100,000	1,862,500	DAISY SYS CORP	34,000	382,500
CENTRAL PA FINL CORP	1,800	23,400	DATA GEN CORP	50,000	418,750
CENTRAL SPRINKLER CO	2,500	25,313	DATAPRODUCTS CORP	119,100	3,528,338
CERTAIN TEED CORP	46,800	1,462,500	DAUPHIN DEP CORP	275,000	3,162,500
CETUS CORP	5,000	93,125	DEBS SHOP INC	6,400	187,200
CHAMBERS DEV INC	7,500	126,563	DELTA AIR LINES DEL	23,900	693,100
CHAMPION INTL CORP	249,400	7,669,050	DETROIT EDISON CO	48,100	420,875
CHAMPION PARTS REBLD	3,600	27,450	DIAMOND BATHURST INC	20,000	962,500
CHARMING SHOPPES INC	56,400	1,120,950	DIGILOG INC	27,000	445,500
CHASE MANHATTAN CORP	292,200	10,409,625	DIGITAL EQUIP CORP	32,000	392,000
CHECKPOINT SYS INC	34,200	324,900	DILLARD DEPT STORES	4,300	30,638
CHEMICAL LEAMAN TANK	1,800	41,175	DISNEY WALT PRODTNS	138,500	14,507,875
CHEMICAL NEW YORK CO	236,900	10,009,025	DOMINION RES INC VA	66,000	1,782,000
CHEMICAL WASTE MGMT	39,500	908,500	DOMSTAR LIMITED	37,800	1,431,675
CHEVRON CORP	182,400	8,276,400	DONEGAL GROUP INC	65,000	2,803,125
CHIRON CORP	25,000	521,875	DORSEY CORP	115,300	5,102,025
CHROMALLOY AMERICAN CORP	18,900	369,687	DOW CHEM CO	8,500	216,750
CHRYSLER CORP	553,250	20,470,250	DPL INC.	4,000	25,500
CHUBB CORP	176,000	10,428,000	DRAVO CORP	35,300	767,775
CILCORP INC	4,200	162,225	DU PONT E I DE NEMOU	4,000	234,000
CINCINNATI BELL INC	64,200	2,832,200	DUQUESNE SYS INC	10,600	270,300
CINCINNATI GAS & ELE	137,600	3,663,600	DUQUESNE LT CO	11,900	218,663
CIPHER DATA PRODS IN	88,300	982,338	DYNAMICS CORP OF AME	16,890	1,418,760
CIRCLE K CORP	190,400	3,070,200	EAGLE PICHER INDS IN	3,900	123,825
CITADEL HLDG CP	5,000	266,875	EASTERN GAS&FUEL ASN	182,000	2,229,500
CIRCUS CIRCUS ENTERP	46,800	836,550	EASTERN UTILS ASSOC	3,500	86,625
CITICORP	296,500	15,714,500	EASTMAN KODAK CO	59,700	2,149,200
CITIZENS & SOUTHN GA	33,200	813,400	EDWARD A G INC	83,800	1,780,800
CITYFED FINANCIAL CO	283,000	3,325,250	EL PASO ELEC CO	2,600	100,100
CLABIR CORP	8,300	62,250	EMERSON ELEC CO	243,800	18,730,775
CLOTHETIME INC	35,000	595,000	EMERY AIR FGHT CORP	180,000	4,635,000
COASTAL CORP	88,700	3,104,500	EMHART CORP VA	4,900	91,875
COCA COLA CO	100,000	3,775,000	EMPIRE DIST ELEC CO	12,000	22,500
COCA COLA ENTERPRISE	60,000	855,000	EMULEX CORP	85,000	5,448,750
COLEMAN INC	32,000	984,000		10,000	113,750
COLGATE PALMOLIVE CO	73,700	3,012,488		20,000	645,000
COMBINED INTL CORP	167,900	8,329,225		500	16,125
COMBUSTION ENGR INC	39,500	1,214,625		2,000	16,500

Investment Holdings

ENDEVCO INC	2,200	11,825	GOTAAS LARSEN SHIPPI	221,500	5,814,375
ENRON CORP	88,800	3,507,600	GRACE W R & CO	85,000	4,111,875
ENTERRA CORP	8,400	46,200	GREAT NORTHN NEKOOSA	29,200	1,883,400
ENVIRONMENTAL TECTON	8,800	33,150	GREAT WESTN FINL COR	75,000	3,487,600
EQUIFAX INC	75,600	1,653,750	GREEN MOUNTAIN PWR	500	13,750
EQUIMARK CORP	25,900	113,313	GREEN TREE ACCEPTANC	7,400	177,800
EQUITABLE RES INC	11,400	624,150	GUARANTY BANCSHARES	7,100	58,575
ERBAMONT N V	117,600	2,601,900	GUARANTY NATL CORP	10,000	80,000
EXCHANGE INTL CORP	30,000	292,500	GULF & WESTN INDS IN	93,000	5,893,875
EXXON CORP	109,400	7,671,875	HALLIBURTON CO	292,300	7,124,813
F M C CORP	1,000	25,750	HAMPTON INDS INC	2,000	24,500
FPL GROUP INC	8,100	256,163	HANNA MINING CO	30,800	589,050
FARM FRESH INC	116,500	1,660,125	HARCOURT BRACE JOVAN	3,000	81,375
FEDERAL CO	35,700	1,436,925	HARLEY DAVIDSON INC	4,800	50,400
FEDERAL EXPRESS CORP	117,000	7,385,625	HARLEYSVILLE GROUP I	5,400	76,950
FEDERAL NATL MTG ASS	15,000	611,250	HARLEYSVILLE NATL PA	700	25,200
FEDERAL PAPER BRD IN	53,100	1,480,163	HARSCO CORP	25,300	648,313
FEDERATED DEPT STORE	55,000	4,578,750	HARTFORD NATL CORP	8,700	215,325
FERRO CORP	2,000	78,000	HARTFORD STEAM BOILE	45,200	2,130,050
FIDELCOR	10,200	364,650	HAWAIIAN ELEC INDUST	3,000	94,500
FIDELITY FED S&L ASS	2,000	23,250	HEALTHCARE SVCS AMER	6,800	43,350
FIDUCIARY GROWTH ASSOC	175,996	6,603,370	HECKINGER CO 'A'	12,750	210,375
FIGGIE INTL HLDGS IN	9,800	529,200	HEINZ H J CO	110,000	4,455,000
FIGGIE INTL HLDGS IN	8,800	370,800	HERCULES INC	90,400	4,576,500
FINANCIAL TR CORP	600	26,700	HERITAGE ENTERPRISES	3,000	22,125
FIREMANS FD CORP	138,000	4,847,250	HERLEY MICROWAVE	2,400	24,600
FIRESTONE TIRE&RUBBE	115,800	3,227,925	HERSHEY FOODS CORP	56,500	1,391,313
FIRST AMER CORP TENN	2,000	51,500	HILLENBRAND INDS INC	58,300	2,718,288
FIRST BK SYS INC	14,200	355,000	HOME UNITY S&L ASSN	3,500	27,563
FIRST BOSTON CORP	80,000	3,370,000	HON INDS INC	34,400	1,272,800
FIRST EASTERN CORP	1,800	91,800	HONEYWELL INC	58,300	3,446,988
FIRST INTST BANCORP	55,700	2,896,400	HORIZON BANCORP	4,000	206,000
FIRST PA CORP	19,700	177,300	HOSPITAL CORP AMER	166,100	5,045,288
FIRST TENN NATL CORP	7,000	215,250	HOUGHTON MIFFLIN CO	35,200	1,135,200
FIRST VALLEY CORP	2,700	71,550	HOUSEHOLD INTL CORP	71,000	3,390,250
FIRST VA BANKSHARES	15,000	425,625	HOUSTON INDS	101,700	3,534,075
FIRST WIS CORP	4,400	105,600	HUMANA INC	146,800	2,807,550
FISCHER & PORTER CO	3,300	47,850	HUNT MFG CO	6,000	132,000
FLEET FINL GROUP INC	1,000	46,500	HUSKY OIL LTD	119,600	971,750
FLORIDA PROGRESS COR	8,100	320,963	HUTTON E F GROUP INC	49,900	1,889,962
FORD MTR CO DEL	352,350	19,819,688	IC INDS INC	349,900	8,047,700
FOREST OIL CORP	5,700	50,588	ICN PHARMACEUTICALS	200,000	3,550,000
FORUM GROUP INC	150,000	1,256,250	IP TIMBERLAND LTD	1,000	26,750
FRANKFORD CORP PA	2,500	55,313	ITT CORP	336,500	17,960,688
FREMONT GEN CORP	142,000	2,289,750	ILLINOIS POWER CO	35,700	1,048,688
FULLER H B CO	64,100	1,610,513	ILLINOIS TOOL WKS IN	49,000	2,541,875
FULTON FINL CORP PA	4,100	91,225	INDEPENDENCE BANCORP	6,600	163,350
FUQUA INDS INC	36,000	819,000	INTEGRATED DEVICE TE	159,500	1,475,375
GTE CORP	268,200	15,656,175	INTEL CORP	106,500	2,236,500
GANNETT INC	70,000	5,048,750	INTERNATIONAL BUS MA	145,300	17,436,000
GAP INC.	54,400	1,944,800	INTERNATIONAL MIN&CH	50,300	1,332,950
GENENTECH INC	68,900	5,856,500	INTERNATIONAL MI PFD	15,000	701,250
GENERAL DYNAMICS COR	109,000	7,384,750	INTERNATIONAL MOBILE	8,600	116,100
GENERAL HOST CORP	61,750	818,188	INTERNATIONAL MULTIF	16,100	390,425
GENERAL MTRS CORP	190,900	12,599,400	INTERNATIONAL PAPER	14,500	1,089,313
GENERAL MTRS 'E'	89,000	2,213,875	INTERSTATE BAKRIES	4,050	96,694
GENERAL PUB UTILS CP	53,300	1,205,913	IOWA ILL GAS & ELEC	13,900	616,813
GENERAL REFRACTORIES	3,500	52,500	IRVING BK CORP	16,550	759,231
GENERAL SIGNAL CORP	29,500	1,305,375	JLG INDS INC	8,000	34,000
GENTEX CORP	7,500	25,313	JAGUAR P L C	50,000	393,750
GEORGIA PAC CORP	4,000	148,000	JAMES RIV CORP VA	10,000	338,750
GERIATRIC & MED CTRS	7,300	45,625	JAMESWAY CORP	5,800	131,225
GILBERT ASSOC INC	87,300	3,055,500	JEFFERSON BK PHIL PA	1,400	28,350
GLATFELTER P H CO	21,300	519,188	JETRONIC INDS INC	4,000	25,500
GLENFED INC	76,700	1,859,975	JEWELCOR INC	2,700	27,675
GOLDEN WEST FINL DEL	189,500	6,608,813	JOHNSON CTLS INC	91,300	5,226,925
GOODYEAR TIRE & RUBR	109,200	4,572,750	JOHNSTOWN SVGS BK FS	2,900	26,483

Investment Holdings

KARCHER CARL ENTERPR	25,000	421,875	MIDDLE SOUTH UTILS	167,600	2,088,500
KELLWOOD CO	16,500	389,813	MILLER HERMAN INC	83,000	1,660,000
KENNAMETAL INC	8,500	204,000	MILLIPORE CORP	169,000	5,342,400
KERR MCGEE CORP	192,600	5,416,875	MINE SAFETY APPLIANC	3,000	102,000
KEYSTONE FINANCIAL I	1,800	37,850	MINISCRIBE CORP	2,000	17,500
KEYSTONE HERITAGE IN	1,300	29,900	MINNESOTA MNG & MFG	65,000	7,580,625
KEYSTONE MED CORP	4,000	25,500	MINNESOTA PWR & LT	12,000	355,500
KIDDE WALTER & CO IN	10,000	312,500	MINNETONKA INC	84,500	1,573,813
KLEINERTS INC	3,500	38,500	MINSTAR INC	5,000	111,250
K MART	275,600	12,091,950	MOBIL CORP	321,000	12,880,125
KNIGHT RIDDER NEWSPP	92,000	4,312,500	MOHASCO CORP	48,300	1,237,688
KOPPERS INC	17,400	511,125	MONOCLONAL ANTIBODIE	10,000	58,750
KROGER CO	15,000	448,125	MONOLITHIC MEMORIES	35,000	428,750
KULICKE & SOFFA INDS	39,300	284,925	MONSANTO CO	166,000	12,699,000
KYSOR INDL CORP DEL	2,000	49,500	MOORE PRODS CO	1,800	55,800
LSI LOGIC CORP	45,000	483,750	MORGAN J P & CO INC	7,000	577,500
LA PETITE ACADEMY IN	33,333	533,328	MORLAN INTL INC	4,300	24,188
LACLEDE GAS CO	62	2,232	MORRISON KNUDSEN INC	100,000	4,225,000
LADD FURNITURE INC	140,400	2,193,750	MOTOROLA INC	127,700	4,549,313
LANCE INC	15,000	592,500	MYLAN LABS INC	30,800	342,650
LANDMARK SVGS ASSN	2,700	25,650	N C N B CORP	2,000	43,000
LEASEWAY TRANSP CORP	62,900	3,034,925	NCR CORP	182,300	8,043,988
LEGGETT & PLATT INC	22,600	581,950	NBD BANCORP INC	4,850	141,256
LIBERTY FINL GROUP I	800	28,600	NASHUA CORP	89,000	2,080,375
LILLY ELI & CO	75,800	5,628,150	NATIONAL DISTILL & CH	5,000	213,125
LINCOLN NATL CORP IN	3,000	139,125	NATIONAL HEALTH CORP	20,000	332,500
LIONEL CORP	28,600	163,875	NATIONAL ED CORP	95,250	1,690,688
LITTON INDS INC	35,800	2,649,200	NATIONAL INTERGROUP	2,400	33,800
LOCKHEED CORP	62,500	3,132,813	NATIONAL MED ENTERPR	125,700	2,828,250
LOEWS CORP	203,900	11,877,175	NATL PENN BANCSHARES	1,500	41,250
LOMAS & NETTLETON MT	20,000	605,000	NATIONAL PRESTO-INDS	125,000	4,390,625
LONGS DRUG STORES IN	40,900	1,206,550	NETWORK SYS CORP	45,000	624,375
LONGVIEW FIBRE CO	3,000	111,750	NEVADA SVGS & LN ASS	1,500	37,313
LOUISIANA PAC CORP	1,000	30,625	NEW BRUNSWICK SCIENT	17,000	199,750
LUKENS STL CO	4,200	61,950	NEW ENG BUSINESS SVC	72,000	1,584,000
LYPHOMED INC	107,500	1,975,313	NEW PROCESS CO	8,000	234,000
MCA	118,800	4,551,275	NEW YORK ST ELEC & G	14,400	451,800
M D C CORP COLO	65,500	867,875	NEWELL COS INC	25,100	677,700
MACK TRUCKS INC	205,700	2,236,988	NIAGARA MOHAWK PWR	40,700	681,725
MACMILLAN INC	43,700	1,879,100	NICHOLS S E INC	4,000	31,000
MANUFACTURERS HANOVE	86,400	3,898,800	NORFOLK SOUTHERN COR	4,800	388,700
MARINE CORP	35,300	1,359,050	NORSTAR BANCORP INC	15,000	397,500
MARINE MIDLAND BKS	92,500	4,185,625	NORTEK INC	40,934	532,142
MARSH & MCLENNAN COS	55,600	3,377,700	NORTHEAST UTILS	15,800	383,150
MARTIN MARIETTA CORP	79,800	3,082,275	NORTHWESTERN NATL LI	59,600	1,847,600
MARYLAND NATL CORP	53,500	2,140,000	NORTHWESTERN PUB SVC	1,000	33,500
MATRIX SCIENCE CORP	40,800	1,433,100	NORWEST CORP	2,000	72,750
MAXTOR CORP	47,000	816,625	NUCLEAR SUPPORT SVCS	1,800	31,950
MAY DEPT STORES CO	30,000	1,065,000	NYNEX CORP	9,000	577,125
MAXICARE HEALTH PLAN	66,600	1,040,625	OCcidental PETE CORP	205,000	5,637,500
MCCORMICK & CO INC	41,500	1,634,063	OCEAN DRILLING & EXP	78,000	965,250
MCDONNELL DOUGLAS CO	38,800	2,764,500	OHIO GAS CORP	28,200	2,192,550
MEAD CORP	141,800	7,745,825	OHIO EDISON CO	277,100	5,403,450
MEASUREX CORP	94,100	3,999,250	OLIN CORP	9,400	385,400
MEDTRONIC INC	42,000	3,228,750	OXFORD 1ST CORP	2,100	38,225
MELLON BK CORP	109,380	6,056,918	PNC FINANCIAL CORP	13,100	540,375
MELVILLE CORP	60,000	3,240,000	PPG INDS INC	50,200	3,658,325
MERCANTILE BANCORP	2,000	56,000	PACIFIC GAS & ELEC	34,400	834,200
MERCANTILE STORES IN	15,100	1,445,825	PACIFIC RES INC HAWA	5,000	73,750
MERCK & CO INC	62,000	7,680,250	PACIFIC TELESIS GR	268,800	14,207,100
MEREDITH CORP	38,000	1,179,000	PAINE WEBBER INC	113,250	3,567,375
MERIDIAN BANCORP INC	21,200	447,850	PAN AM CORP	375,000	1,593,750
MERITOR SVGS BK PA	29,700	259,875	PANDICK INC	114,000	2,864,250
MERRILL LYNCH & CO	68,000	2,482,000	PAR PHARMACUTICAL IN	27,500	419,375
MET PRO CORP	2,000	24,000	PARADYNE CORP	200,000	1,000,000
MICHIGAN NATL CORP	71,800	2,387,350	PAYLESS CASHWAYS INC	190,000	3,633,750
MICROPOLIS CORP	2,000	37,600	PENN TRAFFIC CO	7,200	146,700

Investment Holdings

PENN VA CORP	4,300	199,950	SCANA CORP	1,000	36,625
PENNBANCORP	7,400	277,500	SCHERING PLOUGH CORP	124,000	9,796,000
PENNEY J C INC	82,300	5,946,176	SCHLUMBERGER LTD	125,000	3,968,750
PENNSYLVANIA ENTERPR	4,800	176,400	SCOTT PAPER CO	82,000	5,145,500
PENNSYLVANIA PWR & L	88,100	3,215,650	SEAGATE TECHNOLOGY	186,000	3,557,250
PENNWALT CORP	8,600	427,850	SEAGRAM LTD	48,500	2,946,375
PEOPLES ENERGY CORP	7,500	155,625	SEARS ROEBUCK & CO	141,300	5,616,675
PEP BOYS MANNY MOE&J	13,300	556,938	SECURITY PAC CORP	248,000	8,587,000
PFIZER INC	65,800	4,013,800	SEI CORP	5,000	92,500
PHELPS DODGE CORP	31,200	647,400	SHARED MED SYS CORP	112,300	4,548,150
PHIL ELEC CO	156,300	3,536,288	SHAW INDS INC	68,800	1,410,400
PHILADELPHIA SUBN CO	5,800	100,775	SHAWMUT CORP	5,000	226,875
PHILIP MORRIS COS IN	517,700	37,209,688	SIERRA PAC RES	3,000	75,375
PHILLIPS INDS INC	102,400	1,497,600	SIGNET BKG CORP	5,300	169,600
PHILLIPS PETE CO	469,300	5,514,275	SILICONIX INC	137,500	1,409,375
PIC N SAVE CORP	68,000	1,436,500	SIM KAR LTG.FIXTURE	1,000	27,125
PIEDMONT AVIATION IN	56,600	2,575,300	SINGER CO	43,400	1,622,075
PIEDMONT NAT GAS INC	300	6,788	SMITHKLINE CORP	230,900	21,964,363
PITTSSTON CO	300,000	3,525,000	SOCIETY CORP	7,000	395,500
POLAROID CORP	100,000	6,650,000	SONAT INC	113,500	2,951,000
POTLATCH CORP	19,300	1,109,750	SOUTH JERSEY INDS IN	260	9,555
POTOMAC ELEC PWR CO	2,000	97,250	SOUTHEAST BKG CORP	25,500	959,438
PREMARK INTL INC	136,300	2,665,263	SOUTHERN CALIF EDISO	125,000	4,234,375
PRIME COMPUTER INC	423,100	6,928,263	SOUTHERN CO	313,500	7,955,063
PRIME MTR INNS INC	20,000	745,000	SOUTHERN IND GAS & E	11,100	432,900
PRIMARK CORP	8,200	202,950	SOUTHLAND CORP	67,400	3,167,800
PROGRESSIVE CORP OHI	62,200	1,928,200	SOUTHMARK CORP	132,595	1,110,483
PROVIDENCE ENERGY CO	900	27,338	SOUTHWEST FOREST IND	42,500	759,688
PUBLIC SVC CO N MEX	5,000	165,000	SOUTHWEST NATL CORP	1,200	27,000
PUBLIC SVC ENTERPRIS	8,200	330,050	SOUTHWESTERN BELL CO	145,500	16,332,375
PUGET BANCORP	141,800	2,977,800	SOUTHWESTERN ENERGY	41,700	734,963
PUGET SOUND PWR & LT	50,000	1,043,750	SPARTON CORP	2,000	35,750
PULLMAN-PEABODY CO	26,100	195,750	SPECTRUM CTL INC	4,500	44,438
Q MED	15,000	266,250	STANADYNE INC	40,400	1,434,200
QUAKER CHEM CORP	5,900	98,825	STANDARD MICROSYSTEM	201,000	2,110,500
QUAKER ST OIL REFNG	88,100	2,202,500	STANDARD OIL CO OHIO	263,600	13,015,250
QUANTUM CORP	1,000	20,750	STANDARD PAC CORP	57,000	1,553,250
RJR NABISCO INC	281,700	13,673,725	STANDARD PRODS CO	33,000	1,221,000
RANSBURG CORP	250,000	2,781,250	STERLING BANCORP	1,000	14,000
RAYTECH CORP	21,900	153,300	STEVENS J P & CO INC	2,000	75,750
RAYTHEON CO	64,000	4,304,000	STONE & WEBSTER INC	1,000	49,125
READING CO	2,900	68,150	STRAWBRIDGE & CLOTHI	5,700	230,850
REEBOK INTL LTD	14,500	338,938	STV ENGINEERS	2,000	27,000
REGAL BELOIT CORP	1,000	17,500	STRIDE RITE CORP	3,500	99,750
REVLON GROUP INC	9,000	102,375	SUN INC.	141,400	7,670,950
REYNOLDS & REYNOLDS	25,800	851,400	SUN MICROSYSTEMS INC	148,100	3,554,400
RHODES INC	20,000	377,500	SUPER RITE FOODS INC	4,300	53,213
RITE AID CORP	12,100	356,950	SUPERMARKETS GEN COR	10,000	232,500
ROBERTSON H H CO	4,800	69,400	SUSQUEHANNA CORP	8,100	29,363
ROCHESTER GAS &ELEC	174,400	3,924,000	SYNTEX CORP	3,000	172,875
ROCKWELL INTL CORP	177,200	8,040,450	SYSTEM INTEGRATORS	30,000	266,250
ROHM & HAAS CO	286,400	9,988,200	SYSTEMS & COMPTR TEC	11,700	48,263
ROHR INDS INC	18,800	539,400	TNP ENTERPRISES INC	3,500	77,438
ROPER CORP	6,000	110,250	TSD FINL CORP	7,200	88,200
RORER GROUP INC	18,500	691,438	TANDEM COMPUTERS INC	50,000	1,712,500
ROSES STORES INC	59,400	950,400	TASTY BAKING CO	3,300	77,138
ROYAL DUTCH PETE CO	4,400	420,200	TECHNITROL INC	1,700	26,775
RUSSELL CORP	173,800	2,972,900	TELEDYNE INC	1,400	422,100
RYDER SYS INC	330,000	11,013,750	TELEFLEX INC	9,000	211,500
SPS TECHNOLOGIES INC	4,100	154,775	TELEX CORP	51,400	3,443,800
SAFECO CORP	1,000	53,500	TELXON CORP	49,000	1,004,500
SAFEGUARD SCIENTIFIC	4,800	66,000	TEMPLE INLAND INC	149,800	8,576,050
ST JOSEPH LT & PWR	500	18,500	TERADYNE INC	35,900	587,863
ST JUDE MED INC	47,000	705,000	TEXACO INC	194,400	6,974,100
SALICK HEALTH CARE I	25,000	290,625	TEXAS EASTN CORP	92,900	2,519,913
SALOMON INC	89,300	3,426,888	TEXAS INSTRS INC	46,500	5,492,813
SANTA FE SOUTHN PAC	87,400	2,589,225	TEXAS UTILS CO	219,400	6,911,100

Investment Holdings

TEXTRON INC	14,600	913,600
THERMAL INDS INC	6,100	25,600
3COM CORP	60,000	806,250
TIMEPLEX INC	125,000	2,921,875
TOLL BROTHERS INC	8,600	145,563
TORCHMARK CORP	1,000	26,000
TORD CO.	53,400	1,161,450
TOTAL PETE NORTH AME	139,300	2,716,350
TOYS R US	20,000	575,000
TRANSAMERICA CORP	100,000	3,262,500
TRANSCAPITAL FINL CO	400	4,950
TRANSDUCER SYS INC	1,000	5,750
TRAVELERS CORP	255,000	11,379,375
TRIANGLE INDS INC	100,700	2,542,675
TRIBUNE CO NEW	25,000	1,425,000
TUSCON EXEC & POWER	500	29,125
TWO O TWO DATA SYS	9,000	28,125
TYCO LABS INC	112,600	4,588,450
UAL INC.	95,000	4,963,750
UGI CORP.	7,800	199,875
USG CORP.	21,000	792,750
USX CORP	399,800	8,595,700
UNUM CORP	267,200	7,181,000
USF&G CORP	20,000	795,000
USLICO CORP	66,800	1,594,850
UNION CORP	8,100	69,863
UNION ELEC CO	12,800	368,000
UNION NATL CORP PA	8,400	269,850
UNION PAC CORP	63,200	3,934,200
UNISYS CORP	120,300	9,624,000
UTD CABLE TELEVISION	212,600	5,474,450
UNITED ILLUM CO	57,900	1,693,575
UNITED JERSEY BKS	77,400	1,838,250
UNITED MERCHANTS & MF	20,000	272,500
U S AIR GROUP INC	42,800	1,551,500
U S HEALTH CARE SYS	40,000	465,000
UNITED STATES SHOE	280,600	5,822,450
UNITED STATES SURGIC	30,000	663,750
UNITED STATES TOB CO	1,000	44,375
UNITED TECHNOLOGIES	148,200	6,817,200
UNITED TELECOMMUNICA	450,500	11,487,750
UNIVERSAL FOODS CORP	27,000	634,500
UNIVERSAL LEAF TOB	20,000	537,500
UNIVERSAL HEALTH SVC	15,100	105,700
UNOCAL CORP	219,200	5,836,200
USBANCORP INC	1,900	34,200
USLIFE CORP	20,400	887,400
VF CORP.	72,700	2,244,613
VALLEY NATL CORP ARI	6,000	231,750
VIKING FGHT SYS INC	15,000	303,750
VISHAY INTERTECHNOLO	5,500	108,625
VULCAN MATLS CO	4,900	610,050
WAL MART STORES INC	105,000	4,882,500
WALTER JIM CORP	10,750	507,938
WANG LABS INC 'B'	378,300	4,397,738
WARNER COMMUNICATION	190,600	4,288,500
WASHINGTON GAS LT CO	5,700	146,775
WASHINGTON POST CO	10,200	1,591,200
WASTE MGMT INC	248,900	13,845,063
WATKINS JOHNSON CO	72,900	2,387,475
WEBB DEL E CORP	1,000	22,250
WEIS MKTS INC	26,000	962,000
WELDED TUBE CO AMER	2,400	27,000
WELLS FARGO & CO	60,100	6,100,150
WEST INC.	6,900	194,925
WESTERN DIGITAL CORP	2,000	37,000
WESTINGHOUSE ELEC CO	78,000	4,346,500

WESTMORELAND COAL CO	7,000	143,500
WESTON ROY F INC	2,400	55,200
WESTVACO CORP	1,000	40,750
WAREHOUSE ENTMT INC	1,000	40,750
WHIRLPOOL CORP	30,000	422,750
WICKES COS INC NEW	4,000	271,000
WILLAMETTE INDS INC	10,000	36,000
WILLIAMS COS	20,066	817,050
WISCONSIN ENERGY COR	99,400	2,311,050
WITCO CHEM CORP	24,300	1,278,788
WOODSTREAM CORP	268,350	10,365,610
WOOLWORTH F W CO	1,200	28,650
WORTHINGTON INDS INC	239,000	9,231,375
WORLDS OF WONDER INC	32,700	539,550
XEROX CORP	56,500	1,122,938
YORK FINL CORP	50,800	3,048,000
YORK INTL CORP	1,800	27,400
ZURN INDS INC	6,600	107,250
WELLS FARGO EXTENDED FUND	5,100	196,350
WELLS FARGO S&P COMMINGL		209,571,288
		1,112,725,601

		3,013,999,005

Investment Holdings

SHORT TERM INVESTMENTS

Cash	4,462
Cash in transit	3,310,961
S E R S FUND	403,944,798
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	407,260,211

Issue	Real Estate	Market Value
Aetna - CERESA I		\$47,113,762
Aetna - RESA		24,176,644
Aetna - PMSA		31,758,862
Corporate Property Investors		69,458,655
FIA Associates		31,500,900
John Hancock ERA		41,273,732
Prudential - PRACE I		16,480,604
Prudential - MORISA		17,365,815
Prudential - PRACE II		11,478,834
Security Capital Real Estate Fund		30,514,635
JMB Group Trust III		35,969,763
Aetna Apartment Fund		15,128,594
Hancock Apartment Fund		15,000,000
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		387,220,800

Convertible Bonds

Air Wis Svcs Inc	06/15/2010	\$ 459,375
Beverly Enterprises	07/16/2003	1,803,750
Control Data Corp	06/15/2011	610,000
Fleet Finl Group	04/01/2010	1,124,000
Hechinger Co	09/15/2009	2,112,250
Immunex Corp	08/01/2011	282,000
La Petite Academy	06/01/2011	2,080,000
NWA Inc	06/15/2010	561,687
Stone Container Corp	04/15/2011	369,000
Texas Eastern Corp	10/15/2009	1,107,500
UNC Res Inc	03/30/2006	369,750
		<hr/>
		\$10,879,312

Venture Capital

Butcher & Singer/Keystone Venture Capital	\$10,939,522
P N C Venture Capital	3,264,306
Fostin Capital Associates	7,523,495
T D H II	7,206,285
N E P A Management Corporation	998,470
GENESIS SEED FUND	2,000,000
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	31,932,078

SUMMARY OF INVESTMENTS BY ASSET GROUP

BONDS	3,096,478,835
COMMON STOCK	3,013,999,005
CONVERTIBLE BONDS	10,879,312
SHORT TERM INVESTMENTS	407,260,211
REAL ESTATE	387,220,800
VENTURE CAPITAL	31,932,078
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	86,947,770,241

Member Employers

Administrative Office of the Pennsylvania Courts

Aging

Agriculture

Allegheny County, Community College of

Appalachian Regional Commission

Auditor General

Banking

Beaver County Community College

Berks County Intermediate Unit #14

Bloomsburg University - Kehr Union

Bloomsburg University - Community Activities

Bloomsburg University Store

Bucks County Community College

Bucks County Department of Health

*Bucks County Intermediate Unit #22

California University - Student Association, Inc.

Central Susquehanna Intermediate Unit #16

*Chester County Health Department

Civil Service Commission

Clarion University - Students Association

Commerce

Community Affairs

Corrections

Delaware River Joint Toll Bridge Commission (free)

Delaware River Joint Toll Bridge Commission (toll)

Delaware River Port Authority

Delaware Valley Regional Planning Commission

East Stroudsburg University Student Activity Association, Inc.

Edinboro University Services, Inc.

Edinboro University Student Government Association

Education

Environmental Resources

*Erie County Department of Health

Executive Offices

Fish Commission

Game Commission

General Services

Governor's Office

Harrisburg Area Community College

Health

Higher Education Assistance Agency

Historical & Museum Commission

House Appropriations Committee (D)

House Appropriations Committee (R)

*No new entrants in these agencies after 11/27/82, per Act 1982-204.

Member Employers

House of Representatives
House Special Leadership (D)
House Special Leadership (R)

Independent Regulatory Review Commission
Indiana University - Student Cooperative Association, Inc.
Insurance Department

Joint Legislative Conservation Committee
Joint State Government Commission

Kutztown University Student Government Association

Labor & Industry
Lancaster-Lebanon Intermediate Unit #13
Legislative Budget & Finance Committee
Legislative Data Processing Center
Legislative Reference Bureau
Lehigh County Community College
Lieutenant Governor's Office
Liquor Control Board
Local Government Commission
Lock Haven University - Student Cooperative Council
Luzerne County Community College
Luzerne Intermediate Unit #18

Mansfield University Community Services, Inc.
Military Affairs
Milk Marketing Board
Millersville University Student Services, Inc.
Montgomery County Community College
Municipal Employes' Retirement System

National Guard Technicians
Northampton County Area Community College

Office of Research and Liaison
Office of Attorney General

Pennsylvania Crime Commission
Pennsylvania Emergency Management Agency
Pennsylvania Housing Finance Agency
Pennsylvania Public Television Network Commission
Pennsylvania Securities Commission
Pennsylvania State University
Philadelphia, Community College of
Pittsburgh, University of
Port Authority Transit Corporation
Probation & Parole Board
Public School Building Authority
Public School Employes' Retirement System
Public Utility Commission
Public Welfare

Member Employers

Reading Area Community College
Revenue
Riverview Intermediate Unit

Senate
Shippensburg University Student Association/University Store
Slippery Rock University Student Government Association, Inc.
State
State Employes' Retirement System
State Ethics Commission
State Police
State System of Higher Education
State Tax Equalization Board
Susquehanna River Basin Commission

Transportation
Treasury
Turnpike Commission

West Chester University Student Services, Inc.
Westmoreland County Community College
Williamsport Area Community College