



Comprehensive Annual

FINANCIAL REPORT

for the year ended June 30, 1998

Prepared by SERS Staff
Thomas R. Anderson
Executive Director
Joel E. Sofranko
Director of Finance

THE RETIREMENT BOARD



Seated: Jeannie Knox, Judy Kelley, Mary Kasunic.

Standing: Barbara Miller, James Winfree (Attorney General Representative),
Barbara Overholser and Earl Martin (Auditor Representative).

President: Judy Kelley, Akron, Ohio

Term Expires June 30, 2001.

Vice President: Jeannie Knox, Cincinnati, Ohio

Term Expires June 30, 1999.

Employee Member: Barbara Miller, Malvern, Ohio

Term Expires June 30, 2000.

Employee Member: Barbara Overholser, Columbus, Ohio

Term Expires June 30, 2001.

Retiree-Member: Mary Kasunic, Wickliffe, Ohio

Term Expires June 30, 2000.

ExOfficio Member: Betty Montgomery

Attorney General

ExOfficio Member: Jim Petro

Auditor of State

Thomas R. Anderson

Executive Director

Directors

Robert E. Hartsook

*Deputy Director /
Member Services*

Paul M. Kubinsky

Investments

Joel E. Sofranko

Finance

Teresa R. Woolley

*Management
Information Services*

ORGANIZATIONAL CHART

SCHOOL EMPLOYEES RETIREMENT BOARD

EXECUTIVE DIRECTOR
Thomas R. Anderson

**DEPUTY DIRECTOR/
DIRECTOR
MEMBER SERVICES**
Robert E. Hartsook

**DIRECTOR
INVESTMENTS**
Paul M. Kubinsky

**DIRECTOR
FINANCE**
Joel E. Sofranko

**DIRECTOR
MANAGEMENT
INFORMATION SERVICES**
Teresa R. Woolley

Professional Consultants

MEDICAL ADVISORS

Dr. Robert J. Atwell - Columbus, Ohio

Dr. Edwin H. Season - Columbus, Ohio

INDEPENDENT ACCOUNTANTS

Deloitte & Touche LLP - Columbus, Ohio

ACTUARIES

Gabriel, Roeder, Smith & Co. - Northport, New York

INVESTMENT CONSULTANT & MANAGERS

See page 37

TABLE OF CONTENTS

INTRODUCTORY SECTION:

Certificate of Achievement	5
Achievement Award	6
Letter of Transmittal	7
Legislative Summary	13

FINANCIAL SECTION:

Independent Auditors' Report	16
Combining Statement of Plan Net Assets	18
Combining Statement of Changes In Plan Net Assets	20
Notes to Financial Statements	22
Required Supplementary Information	28
Summary of Investment Expenses	29
Administrative Expenses	30

INVESTMENT SECTION:

Investment Distribution at Fair Value	32
Ten Year Investment Comparison at Fair Value	32
Investment Report	33
Schedule of Investment Results	35
Investment Summary	36
Largest Stock Holdings	36
Largest Fixed-Income Holdings	36
Investment Consultant & Money Managers	37
Summary Schedule of Brokers' Fees	38
Investment Portfolio	39
Investment Policy	68

ACTUARIAL SECTION:

Actuary's Letter	74
Statement of Actuary	76

STATISTICAL SECTION:

Tables:	
I Revenues by Source	82
II Expenses by Type	82
III Benefit Expenses by Type	82
IV Number of Benefit Recipients by Type	83
V Number of 1998 Benefit Recipients	83
VI Retirement Averages	83
VII Schedule of Average Benefit Payments	84
VIII Number of Participating Employers	84

PLAN SUMMARY:	85
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CERTIFICATE OF ACHIEVEMENT

Certificate of Achievement for Excellence in Financial Reporting

Presented to

School Employees Retirement System of Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1997

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



Douglas R. Ellaworth
President

Jeffrey L. Essler
Executive Director

ACHIEVEMENT AWARD



Public Pension Coordinating Council
Public Pension Principles
1998 Achievement Award

Presented to

School Employees Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of
Government Finance Officers Association (GFOA)
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink, appearing to read 'Scott Engmann', is written over a light gray background.

Scott Engmann
Chairman

School Employees Retirement System

45 NORTH FOURTH STREET • COLUMBUS, OHIO 43215-3634 • (614) 222-5853

THOMAS R. ANDERSON
Executive Director

ROBERT E. HARTSOOK
*Deputy Director and
Member Services*

JIMMIE L. KINNAN
General Counsel

PAUL M. KUBINSKY
Investments

JOEL E. SOFRANKO
Finance

TERESA R. WOOLLEY
MIS

December 15, 1998

Dear President and Members of the Retirement Board:

We are pleased to submit to you the Comprehensive Annual Financial Report of the School Employees Retirement System of Ohio (SERS) for the fiscal year ended June 30, 1998. The report provides information about the financial operations of the System, including management's stewardship of the funds entrusted to the System and compliance with all legal requirements placed on the System. The management of SERS has responsibility for the accuracy of the contents and the completeness and fairness of the presentation. Our internal accounting controls are designed to ensure the security of member and employer contributions, to assure responsible safeguarding of our assets and to provide a degree of reliability to all our financial records.

The report is divided into six sections:

- the Introductory Section which contains a Letter of Transmittal, along with the identification of the administrative organization, Certificate of Achievement for Excellence in Financial Reporting, Public Pension Principles Achievement Award and a summary of federal and state legislation affecting the System over the past year;
- the Financial Section which contains an independent auditors' report from our certified public accountants, Deloitte & Touche LLP, and the financial statements of the System;
- the Investment Section which includes the investment report and schedules of portfolio activity for the past year;
- the Actuarial Section which contains a letter expressing the opinion of our consulting actuaries, Gabriel, Roeder, Smith & Company and results of their annual actuarial valuation;
- the Statistical Section which includes significant data pertaining to the System; and

- the Plan Summary Section which provides a concise explanation of the various benefit plans which we provide to our members.

SERS is a cost-sharing multiple-employer public employee retirement system established by the Ohio General Assembly in 1937 to provide retirement benefits to employees of the Ohio public schools who are not required to possess a certificate in order to perform their duties. Benefits provided to participants in SERS include age and service retirement, disability benefits, survivor benefits, death benefits and post-retirement health care benefits. For a more complete description of employees eligible for membership in SERS, as well as benefits provided upon retirement, disability or death, please see the Plan Summary section on page 85.

Major Initiatives

State Representative Joy Padgett agreed to sponsor a bill in the Ohio House of Representatives on behalf of SERS and its members. Introduced in January, H.B. 673 increases the retirement benefit formula to 2.5% for each year of service over thirty years, increases the death benefit to \$1,000 from \$500 and increases the reimbursement for insurance coverage under Medicare Part B. The bill was passed by the Senate and the House this fall and signed by Governor Voinovich on December 8, 1998. Each provision has a different effective date; the earliest is January 1, 1992 for the additional monthly Medicare Part B reimbursement of seven dollars. That reimbursement will be issued in one check as soon as possible after the bill is signed. The increase in the benefit formula will be effective for those who retired on or after July 1, 1998 and the increase in the death benefit is effective with the Governor's signature.

Our investment in technology continues to grow. As we have learned, we cannot afford to do otherwise. Key elements of our technical infrastructure have been replaced, upgraded and enhanced during the past year. Development continues on the project to replace our current legacy system with a new benefit system. This new system will replace all programs with the exception of those for financial reporting and investments. It is scheduled for installation next summer.

The new system is, of course, year 2000 compliant but we have many other systems and equipment to be tested, including non-IT systems. We have formed a Y2K project team that has identified systems and equipment that may be impacted by the year 2000 "bug", ranked them according to their mission criticality and developed goals for testing, remediation and validation. However, no matter how confident we are in the compliance of our internal systems, we must also prepare for Y2K-related failures of external entities that could affect our operations. We are addressing these areas in our contingency planning. These plans are not static and will evolve as we monitor

the level of external entities' Year 2000 compliance from now until the end of 1999. Our primary objective is to maintain the confidence our members, retirees and employers have in their retirement system by insuring that the change in the calendar has a minimal impact on operations.

Investments

SERS invests accumulated funds to maximize both current income yield and long-term appreciation. The primary objective of our investment policy is to assure that the System meets its responsibilities for providing retirement and other benefits. The portfolio is diversified to maximize total return on assets while operating within prudent parameters of risk, to protect principal from severe depreciation during adverse market conditions and to achieve investment results competitive with those of the broad market. Details of portfolio composition, rates of return and information concerning our investment policy and operations are provided on pages 32 through 71 of this report.

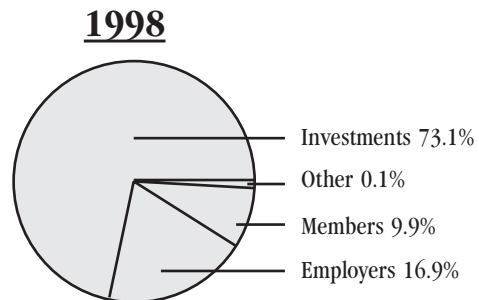
The fair value of the investments of the System was \$7,485 million at June 30, 1998, an increase of \$1,222 million from the previous year. Our portfolio returned 18.6% for the year ended June 30, 1998, slightly underperforming our policy benchmark of 19.3%.

Financial Highlights

The financing of retirement and health care benefits is derived from employee and employer contributions and through investment earnings. Contributions and investment income for fiscal year 1998 totaled \$1,572,303,769. This amount includes realized and unrealized investment gains and losses. The employee and employer contribution rates during fiscal 1998 remained unchanged from the prior year at 9% and 14%, respectively.

Additions to Plan Net Assets
(millions of dollars)

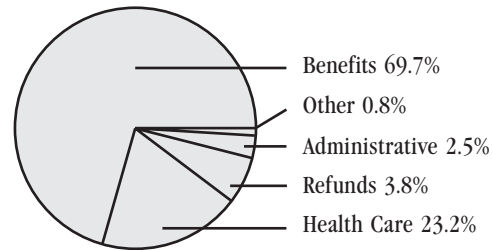
	1998	1997	Increase	
Member Contributions	\$ 155.1	\$ 146.2	\$ 8.9	6.1%
Employer Contributions	266.4	259.3	7.1	2.7
Investment Income (net)	1,148.7	981.9	166.8	17.0
Other	2.1	2.0	.1	5.0
Total	\$ 1,572.3	\$ 1,389.4	\$ 182.9	13.2%



Expenses are incurred primarily for the purpose for which SERS was created, the payment of benefits. Included in the total expenses for 1998 were benefit payments, refunds of contributions due to member terminations or deaths, transfers to other Ohio Systems to provide benefits for those members who had membership in more than one system, and administrative expenses. Expenses for fiscal year 1998 totaled \$482,140,664, an increase of 8.7% over fiscal 1997 expenses. Health care expense increased 14.8% versus last year's increase of 8.0%. The major component of this increase came from higher costs and usage of the mail order prescription drug plan.

Deductions from Plan Net Assets
(millions of dollars)

1998



	1998	1997	Increase (Decrease)	
Retirement Payments	\$ 335.8	\$ 312.9	\$ 22.9	7.3%
Health Care Payments	111.9	97.4	14.5	14.8
Refunds	18.5	19.6	<1.1>	<5.6>
Administrative Expenses	12.0	10.8	1.2	11.1
Other	3.9	2.9	1.0	34.5
Total	\$ 482.1	\$ 443.6	\$ 38.5	8.7%

Funding and Reserves

Funds are derived from the excess of revenues over expenses, and are accumulated by SERS in order to meet current and future benefit obligations to retirees and beneficiaries. The higher the level of funding, the larger the accumulation of assets and the greater the investment income potential. Net income for the fiscal year 1998 resulted in an increase in the fund balance of \$1,090 million.

The actuarial valuation for funding purposes, for the year ended June 30, 1998, reflects an unfunded accrued liability for pension benefits of \$624 million. This liability represents the difference between the computed actuarial accrued liability to be paid members and retirees and total valuation assets for basic benefits. As depicted in

the accompanying chart, we have reduced our funding period significantly and increased our ratio of assets to actuarial accrued liabilities. This is the result of the Board's focus on sound financing principles, prudent investments and firm control of costs.

The employer contribution rate of 14% is allocated by Board policy to cover the normal cost and amortization of the unfunded actuarial accrued liabilities for basic pension benefits; the remainder goes toward the funding of post-retirement health care benefits.

To provide additional funding for health care benefits, employers pay a surcharge for members whose salary is less than a minimum amount. In 1995, the Board adopted pay-as-you-go funding of health care benefits and designated a minimum reserve for health care expenses to be maintained at 125% of annual health care expenses. At June 30, 1998 the health care reserve stands at 143% of the \$111.9 million recorded in health care expenses for the fiscal year.

Additional information regarding funding, including fiscal year 1999 contribution rates and amortization period, is provided within the Actuarial Section (pages 73 to 80) of this report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SERS for its comprehensive annual financial report for the fiscal year ended June 30, 1997. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. SERS has received a Certificate of Achievement for the last thirteen consecutive years (fiscal years ended 1985-1997). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA.

SERS received the Public Pension Coordinating Council's Public Pension Principles 1998 Achievement Award. The Council is a confederation of four national organizations active in

Fiscal Year	Funding Period (in years)	Ratio of Assets to AAL
1993	40	73%
1994	40	73%
1995	35	74%
1996	34	78%
1997	30	85%
1998	24	91%

the fields of government finance and public pensions: the Government Finance Officers Association, the National Association of State Retirement Administrators, the National Conference of Public Employee Retirement Systems and the National Council on Teacher Retirement. This award, issued biennially, recognizes the achievement of excellence in the field of public pensions, specifically covering the areas of benefits, actuarial valuations, financial reporting, investing and disclosures to members.

Acknowledgements

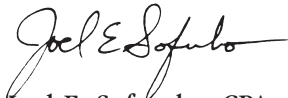
The preparation of this report is the combined effort of the System's staff under the direction of the Retirement Board. It will be mailed to all employer members of SERS and other interested parties. Summary financial information will be distributed to active and retired SERS membership.

The cooperation of SERS' employers contributes significantly to the success of SERS and is greatly appreciated. We would also like to express our gratitude to the Board, the staff, consultants and others who help ensure the successful operation of the School Employees Retirement System.

Respectfully submitted,



Thomas R. Anderson
Executive Director



Joel E. Sofranko, CPA
Director of Finance

State Legislation

During the past year, the Ohio General Assembly has considered various legislation which would impact SERS. The following significant legislation was passed:

H.B. 215 (Effective 6/30/97)

This legislation authorizes the establishment, and provides for the funding, of community schools under the supervision of the State Department of Education. Under the legislation, community schools are public schools and their non-certificated employees are required to contribute to SERS.

H.B. 648 (Effective 9/16/98)

This legislation, which was introduced to make changes in the disability statutes governing SERS and the other state retirement systems, was amended to include changes in survivor benefits, membership and transfer of service credit provisions. The legislation makes the following changes to SERS' disability process:

- Requires SERS to file annual disability experience reports by employer with the Governor, the General Assembly and the Ohio Retirement Study Council
- Requires SERS to adopt rules providing for granting disability retirements conditioned upon the disability retiree receiving recommended medical treatment
- Requires disability retirees to file medical and earnings information unless certified as medically unnecessary by the SERS medical advisor

The legislation also makes the following changes affecting other SERS operations:

- Eliminates the "remarriage penalty" which required the termination of spousal survivor benefits where the spouse remarried prior to age 55, and reinstates, prospectively, spousal survivor benefits that were previously terminated under the remarriage penalty
- Requires spousal consent for a member to elect a retire-

ment plan of payment that would result in a benefit of less than fifty percent to the surviving spouse

- Permits current University of Akron law enforcement officers to elect to transfer from SERS to the Public Employees Retirement System (PERS) law enforcement division, and provides that University of Akron law enforcement officers hired after the effective date of the bill are members of PERS
- Provides for the transfer of service credit between SERS and the Highway Patrol Retirement System and the Police and Firemen's Disability and Pension Fund

H.B. 673 (Effective 12/8/98)

This legislation makes improvements in SERS benefits. The SERS service retirement benefit formula will increase from 2.1% to 2.5% for service credit over 30 years, and the SERS death benefit will increase from \$500 to \$1,000. The Medicare B reimbursement will increase from \$24.80 per month to \$31.80 per month, and current retirees will receive a one-time lump sum payment equal to the difference in the Medicare B reimbursement that was received between January 1, 1992 and the effective date of the bill and the reimbursement that would have been received had the new \$31.80 reimbursement rate been in effect since January 1, 1992.

Federal Legislation

The impact of congressional and federal regulatory activities upon SERS has increased during recent years. SERS monitors activities on the federal level and, when necessary, contacts appropriate congressional representatives and regulatory agencies in an effort to educate them as to the impact of their activities on SERS and its members and beneficiaries. Significant activities on the federal level over the past year include the following:

Non-Discrimination

H.R. 2014 (Effective 8/8/97) This legislation exempts governmental plans from the non-discrimination require-

ments of the Internal Revenue Code (IRC). It also amends IRC section 415(c) to afford members of governmental plans relief from provisions limiting purchases of service credit.

Social Security Offset and Windfall

H.R. 2273. This legislation, introduced on July 25, 1997 by Congressman Jefferson, would change the formula for calculation of the Social Security Offset. The legislation provides that the reduction in Social Security benefits that is required in the case of spouses who are also receiving certain government pensions shall be equal to the amount by which the combined monthly benefit before reduction exceeds \$1,200. Where combined SERS and spousal Social Security benefits are \$1,200 or less, there would be no reduction in the retiree's Social Security benefit. S. 1365, a companion bill to H.R. 2273, was introduced on November 4, 1997 by Senator Mikulski.

H.R. 2549. This legislation, introduced on September 25, 1997 by Congressman Frank, would restrict the application of the Social Security Windfall Benefit Elimination provision. Where an individual's combined monthly benefit from Social Security and a governmental pension plan is \$2,000 or less, there would be no reduction.

H.R. 3077. This legislation, introduced on November 13, 1997 by Congressman Sandlin, would eliminate the Social Security Windfall Benefit Elimination provision.

Mandatory Social Security

S. 1792. This legislation, known as "The Social Security Solvency Act of 1998", was introduced by Senator Moynihan in March, 1998. The legislation would lower Social Security payroll taxes by two percent. In order to encourage personal savings for retirement, workers could elect either to use the two percent tax cut to participate

in voluntary individual accounts or increase their take-home pay by one percent. The legislation would require mandatory coverage of all newly hired state and local government employees beginning in the year 2001.

S. 2313. This legislation, introduced on July 15, 1998 by Senator Gregg, would make changes to the current Social Security program including providing for individual investment accounts to be funded by employer and employee payroll contributions. Like S. 1792, this legislation would require Social Security coverage of all newly hired state and local government employees after 1999.

The Retirement Security for the 21st Century Act

H.R. 3788. This legislation, known as "The Retirement Security for the 21st Century Act", was introduced by Congressmen Cardin and Portman on May 4, 1998. The bill includes the following provisions: increases the annual dollar limits on contributions to defined benefit plans and the amount of compensation that may be taken into account under qualified retirement plans; repeals the annual 25 percent of compensation limit on contributions to defined contribution plans and increases the dollar amount of elective deferrals to section 401(k) plans, section 403(b) plans and section 457 plans; allows workers changing jobs to roll eligible distributions between section 401 plans, section 403 arrangements, and section 457 nonqualified deferred compensation plans.

Public Employee Pension Liability Act

H.R. 510. This legislation, introduced on February 4, 1997 by Congressman Andrews, which is a new version of PEPPRA or PERISA, would establish a federal cause of action for failure of state/local employee pension plans to meet the terms of their plans. The bill would also create a Qualified Review Board to evaluate changes in employer contributions and other changes which affect pension plans.

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FINANCIAL SECTION

FINANCIAL SECTION

Independent Auditors' Report

**Deloitte &
Touche**



Deloitte & Touche LLP
155 East Broad Street
Columbus, Ohio 43215-3611

Telephone: (614) 221-1000
Facsimile: (614) 229-4647

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The School Employees Retirement System of Ohio
Columbus, Ohio

We have audited the accompanying combining statement of plan net assets of the School Employees Retirement System of Ohio (the System) as of June 30, 1998, and the related combining statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the System for the year ended June 30, 1997 were audited by other auditors whose report, dated December 12, 1997, expressed an unqualified opinion on those statements.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and *Government 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 audit provide a reasonable basis for our opinion.

Governmental Accounting Standards Board Technical Bulletin 98-1, Disclosures about year 2000 issues, requires disclosure of certain matters regarding the year 2000 issue. The System has included such disclosures in Note 6. Because of the unprecedented nature of the year 2000 issue, its effect and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the System's disclosures with respect to the year 2000 issue made in Note 6. Further, we do not provide assurance that the System is or will be year 2000 ready, that the System's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the System does business will be year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we observed the Year 2000 Project Plan, the accompanying combining statement of plan net assets presents fairly, in all material respects, the financial position of the System as of June 30, 1998, and the combining statement of changes in plan net assets for the years then ended in conformity with generally accepted accounting principles.

**Deloitte Touche
Tohmatsu**

Independent Auditors' Report

2

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the System taken as a whole. The accompanying financial information listed as supplemental schedules in the foregoing table of contents, which is also the responsibility of the management of the System, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the System. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements for the year ended June 30, 1998, and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 1998 financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 1998, on our consideration of the System's internal control structure and on its compliance with laws and regulations.

Deloitte & Touche LLP

December 8, 1998

FINANCIAL SECTION

*School Employees Retirement System
Combining Statements of Plan Net Assets
As of June 30, 1998 and 1997*

	As of June 30, 1998		
Assets:	Pensions	Postemployment Healthcare	Total
Cash (note 4)	\$ 2,111,698	\$ 29,415	\$ 2,141,113
Receivables:			
Contributions:			
Employers (note 3)	74,193,432	78,344,052	152,537,484
Employees (note 3)	11,930,404		11,930,404
State of Ohio subsidies	357,235		357,235
Accrued investment income	34,758,468	484,170	35,242,638
Investment sale proceeds	59,070,890	822,832	59,893,722
Total receivables	180,310,429	79,651,054	259,961,483
Investments, at fair value (note 2)	7,382,298,062	102,832,188	7,485,130,250
Property and equipment, at cost (note 6)	11,465,247	159,706	11,624,953
Less accumulated depreciation	6,287,992	87,589	6,375,581
	5,177,255	72,117	5,249,372
Other assets (note 7)	5,393,434	75,128	5,468,562
Total assets	7,575,290,878	182,659,902	7,757,950,780
Liabilities:			
Accounts payable and accrued expenses (note 9)	3,364,654	46,868	3,411,522
Investment commitments payable	271,928,990	3,787,852	275,716,842
Health care benefits incurred and unpaid		18,478,651	18,478,651
Other liabilities (note 7)	2,739,510	38,160	2,777,670
Total liabilities	278,033,154	22,351,531	300,384,685
Net assets held in trust for pension and postemployment healthcare benefits	\$ 7,297,257,724	\$ 160,308,371	\$ 7,457,566,095

(A Schedule of Funding Progress is presented on page 28).

See notes to financial statements.

FINANCIAL SECTION

As of June 30, 1997		
Pensions	Postemployment Healthcare	Total
\$ 8,864,378	\$ 136,519	\$ 9,000,897
73,952,643	68,379,232	142,331,875
11,079,415		11,079,415
415,110		415,110
23,041,507	354,857	23,396,364
54,377,329	837,453	55,214,782
<u>162,866,004</u>	<u>69,571,542</u>	<u>232,437,546</u>
<u>6,167,757,976</u>	<u>94,988,249</u>	<u>6,262,746,225</u>
11,218,613	172,775	11,391,388
5,330,791	82,098	5,412,889
<u>5,887,822</u>	<u>90,677</u>	<u>5,978,499</u>
<u>2,699,425</u>	<u>41,573</u>	<u>2,740,998</u>
<u>6,348,075,605</u>	<u>164,828,560</u>	<u>6,512,904,165</u>
3,052,489	47,011	3,099,500
121,624,943	1,873,117	123,498,060
	16,487,970	16,487,970
<u>2,379,006</u>	<u>36,639</u>	<u>2,415,645</u>
<u>127,056,438</u>	<u>18,444,737</u>	<u>145,501,175</u>
<u>\$ 6,221,019,167</u>	<u>\$ 146,383,823</u>	<u>\$ 6,367,402,990</u>

FINANCIAL SECTION

School Employees Retirement System

Combining Statements of Changes In Plan Net Assets For the years ended June 30, 1998 and 1997

For the year ended June 30, 1998

Additions:	Pensions	Postemployment Healthcare	Total
Contributions:			
Employers (note 3)	\$ 152,608,486	\$ 113,799,774	\$ 266,408,260
Employees (note 3)	155,059,879		155,059,879
State of Ohio subsidies	357,227		357,227
Transfers from other Ohio systems	1,761,004		1,761,004
Total contributions	<u>309,786,596</u>	<u>113,799,774</u>	<u>423,586,370</u>
Investment income:			
Net appreciation in fair value of investments	936,171,111	10,010,120	946,181,231
Interest and dividends	163,107,365	1,744,045	164,851,410
Real estate income, net	51,302,987	548,563	51,851,550
	<u>1,150,581,463</u>	<u>12,302,728</u>	<u>1,162,884,191</u>
Less investment expenses	14,016,914	149,878	14,166,792
Net investment income	<u>1,136,564,549</u>	<u>12,152,850</u>	<u>1,148,717,399</u>
Total additions	<u>1,446,351,145</u>	<u>125,952,624</u>	<u>1,572,303,769</u>
Deductions:			
Benefits:			
Retirement	278,195,664		278,195,664
Disability	40,874,401		40,874,401
Survivor	15,735,855		15,735,855
Health care		111,900,575	111,900,575
Death	999,172		999,172
Total benefits	<u>335,805,092</u>	<u>111,900,575</u>	<u>447,705,667</u>
Refund of employee contributions	18,467,794		18,467,794
Administrative expenses	11,924,239	127,501	12,051,740
Transfers to other Ohio systems	3,915,463		3,915,463
Total deductions	<u>370,112,588</u>	<u>112,028,076</u>	<u>482,140,664</u>
Net increase	1,076,238,557	13,924,548	1,090,163,105
Net assets held in trust for pension and postemployment healthcare benefits:			
Balance, beginning of year	6,221,019,167	146,383,823	6,367,402,990
Balance, end of year	<u>\$ 7,297,257,724</u>	<u>\$ 160,308,371</u>	<u>\$ 7,457,566,095</u>

See notes to financial statements.

FINANCIAL SECTION

For the year ended June 30, 1997

Pensions	Postemployment Healthcare	Total
\$ 161,950,878	\$ 97,292,477	\$ 259,243,355
146,156,369		146,156,369
415,110		415,110
1,611,439		1,611,439
<u>310,133,796</u>	<u>97,292,477</u>	<u>407,426,273</u>
806,471,517	8,998,655	815,470,172
136,713,821	1,525,461	138,239,282
38,254,550	426,846	38,681,396
<u>981,439,888</u>	<u>10,950,962</u>	<u>992,390,850</u>
10,344,286	115,422	10,459,708
<u>971,095,602</u>	<u>10,835,540</u>	<u>981,931,142</u>
<u>1,281,229,398</u>	<u>108,128,017</u>	<u>1,389,357,415</u>
260,069,372		260,069,372
37,135,003		37,135,003
14,918,620		14,918,620
	97,429,197	97,429,197
<u>785,805</u>		<u>785,805</u>
<u>312,908,800</u>	<u>97,429,197</u>	<u>410,337,997</u>
19,618,499		19,618,499
10,692,599	119,308	10,811,907
2,863,606		2,863,606
<u>346,083,504</u>	<u>97,548,505</u>	<u>443,632,009</u>
935,145,894	10,579,512	945,725,406
<u>5,285,873,273</u>	<u>135,804,311</u>	<u>5,421,677,584</u>
<u>\$ 6,221,019,167</u>	<u>\$ 146,383,823</u>	<u>\$ 6,367,402,990</u>

FINANCIAL SECTION

School Employees Retirement System

Notes To Financial Statements June 30, 1998

1. Description of the System

Organization - The School Employees Retirement System of Ohio (SERS) is a cost-sharing multiple-employer public employee retirement system established by the Ohio General Assembly in 1937 to provide retirement benefits to employees of Ohio public schools who are not required to possess a certificate in order to perform their duties.

The accompanying financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. This statement requires that financial statements of the reporting entity include all of the organizations, activities, functions and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the reporting entity's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. SERS does not have financial accountability over any entities. SERS is not considered part of the State of Ohio financial reporting entity. Responsibility for the organization and administration of SERS is vested in the Retirement Board. The Retirement Board is the governing body of SERS. It is comprised of four elected employee-members, one elected retiree-member and two statutory members.

Employer and employee membership data as of June 30 follows:

Employer Members	1998	1997
Local	371	371
City	193	193
County	65	67
Village	49	49
Vocational	52	52
Technical	10	10
College.....	2	2
Other	6	5
Total	<u>748</u>	<u>749</u>

Employee Members	1998	1997
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>62,612</u>	<u>61,447</u>

Current Employees	1998	1997
Vested	63,133	62,871
Non-vested	<u>43,745</u>	<u>40,868</u>
Total	<u>106,878</u>	<u>103,739</u>

Benefits - Members are eligible for retirement benefits based upon age and service credit as follows: age 60 and earning 5 years of service credit; between ages 55 and 60 and earning 25 years of service credit; or earning 30 years of service credit at any age. The benefit is equal to 2.1% of the member's final average salary, or a minimum of \$86, multiplied by the number of years of credited service. Members are eligible for disability benefits after completion of 5 years of service. Qualified dependents of a deceased member are eligible for monthly survivor benefits. Death benefits of \$500 are payable upon the death of a retiree to a designated beneficiary.

Members with credited service in the State Teachers Retirement System (STRS) or Public Employees Retirement System (PERS) are eligible to receive transferred credited service and funds from either or both of those systems. Any service which is not concurrent with service within SERS will be included in the determination of retirement benefits. Similarly, a member with credited service and funds in SERS may transfer such service to STRS or PERS upon retirement.

Retirees of any of the five state retirement systems must contribute to SERS if they are employed in a non-certificated position in the public schools. These contributions are credited to a separate money purchase annuity payable after age 65 in either monthly payments, if the monthly amount is \$25 or more, or in a lump sum.

Prior to July 1, 1986, all members receiving a benefit from SERS were eligible to receive health care benefits.

Notes To Financial Statements (Continued)

Members who retire effective July 1, 1986 or later must have at least ten or more years of service credit to qualify for the health care benefits. Effective August 1, 1989, 1) members retiring with more than 10 but less than 25 years of service credit were required to pay from 25% to 75% of the health insurance premium and 2) the SERS portion of spouse and dependent health insurance premiums was reduced from 50% to 30%.

2. Summary of Significant Accounting Policies

Basis of Accounting - SERS' financial statements are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Administration costs are financed by investment earnings.

Investments - Plan investments are reported at fair value. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller." Fixed income securities and common and preferred stocks are valued based on published market prices and quotations from national security exchanges and securities pricing services. International stocks are then adjusted to reflect the current exchange rate of the underlying country. Securities which are not traded on a national security exchange including real estate, venture capital and foreign exchange contracts, are valued by the respective fund manager or independent appraisers. Short term securities are valued at amortized cost, which approximates fair value.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense consists of those expenses directly related to SERS' investment operations,

as well as the administrative expenses of SERS' investment department.

Office Building, Equipment and Fixtures

(Non-Investment Assets) - Office building, equipment and fixtures are capitalized at cost when acquired. Improvements which increase the useful life of the property are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation has been provided using the straight-line method over the following useful lives:

Description	Estimated Lives (years)
Furniture and equipment	3-10
Building and improvements	40

Federal Income Tax Status - SERS is a qualified entity under Section 501(a) of the Internal Revenue Code and is therefore exempt from federal income taxes.

Health Care Benefits Incurred and Unpaid - Amounts accrued for health care benefits payable are based upon estimates furnished by the claims administrator. Such estimates have been developed from prior claims experience.

3. Contributions

The Ohio Revised Code requires contributions by active members and their employers. Contribution rates are established by the Retirement Board within the allowable rates established by the Ohio Revised Code. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. Active members and their employers are required to contribute 9% and 14%, respectively, of active member payroll.

The current employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. For fiscal year 1998, the allocation of the employer contribution rate to basic retirement benefits has been established as the rate necessary to cover

FINANCIAL SECTION

Notes To Financial Statements (Continued)

normal cost, plus an amortization of the unfunded actuarial accrued liabilities over a 24-year period. The employer contribution rate (14%) is allocated 9.02% to basic benefits and the remaining 4.98% is allocated to health care benefits.

During fiscal year 1995, the Retirement Board discontinued the advance-funding of health care benefits on an actuarially-determined basis, and adopted pay-as-you-go funding of health care. The minimum reserve for health care benefits equals 125 percent of annual health care expenses. Thus the target level for 1998 is \$139.9 million, but the actual balance is \$160.3 million.

Employer and employee contributions required and made represented 14% and 9%, respectively, of active member payroll and amounted to \$236.9 million and \$152.3 million, respectively, in 1998. For basic benefits, the employer contributions consisted of \$77.4 million for normal cost and \$76.9 million for amortization of the unfunded actuarial accrued liability. Employee contributions are applied to normal cost.

The health care surcharge on employers is collected for employees earning less than an actuarially-determined minimum pay, pro-rated according to service credit earned. For fiscal year 1998, the minimum has been established as \$12,400. The surcharge accrued for fiscal year 1998 included in contribution revenue from employers in the Combining Statement of Changes in Plan Net Assets is \$29.5 million.

4. Cash Deposits and Investments

Cash Deposits - By statute, the Treasurer of the State of Ohio (Treasurer) serves as custodian for all SERS deposits. Deposits are classified into three categories of credit risk to give an indication of the level of risk assumed by SERS. Category 1 includes deposits insured or collateralized with securities held by SERS or its agent in the name of SERS. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the name of

the Treasurer. Category 3 includes deposits which are uncollateralized.

As of June 30, 1998, the carrying amount of SERS' deposits was \$2,141,113 and the bank balance was \$3,034,873. Of the bank balance, \$100,000 was insured by the Federal Deposit Insurance Corporation. The remaining bank balance was covered by collateral held in the name of SERS' pledging financial institution, as required by state statute. The carrying amount of deposits is separately displayed on the balance sheet as "Cash".

Investments - The Retirement Board (the Board) has the responsibility to invest available funds of the System, in accordance with applicable state law and the guidelines set forth by the Board. SERS does not hold investments in any one organization representing five percent or more of plan net assets.

Effective March 6, 1997, S.B. 82 amended O.R.C 3309.15 and directs the Board to invest funds of the System following the "prudent person standard." This fiduciary standard dictates that the Board consider the probable safety of investments, avoid speculative investments, and invest as persons of prudence, discretion, and intelligence would manage their own affairs. The Board accomplishes this through a combination of internal and external investment professionals. Prior to S.B. 82, the Board was limited to a "legal list" of specific types of assets with minimal flexibility.

In accordance with Statement No. 3 of the Governmental Accounting Standards Board, SERS' investments are categorized to give an indication of the level of risk assumed by SERS at year-end. Category 1 includes investments that are insured or registered, with securities held by the Treasurer or custodial agent bank in SERS' name. Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in SERS' name. Category 3 includes uninsured and unregistered invest-

FINANCIAL SECTION

Notes To Financial Statements (Continued)

ments, with securities held by the counterparty, or by its trust department or agent, but not in SERS' name.

In accordance with a contractual relationship between the Treasurer and a custodial agent bank, all securities subject to categorization are Category 1 investments held in book entry form in a unique account so as to be identified at all times as the possession of SERS. Direct mortgage loans, commingled stock funds, real estate funds, and venture capital funds are investments which by their nature are not categorized for level of risk purposes.

Foreign Currency Contracts - Forward currency contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date, with delivery and settlement in the future. SERS enters into foreign currency contracts to hedge the foreign currency movements of assets held in

the underlying funds. The System hedges 50% of the value of its assets in these funds to minimize the volatility of the underlying currency movements. As of June 30, 1998, SERS had outstanding contracts in the amount of \$510,055,241 which had a maturity date of July 28, 1998 and net gains on rejoined contracts of \$40,888,121 for the fiscal year. The System is exposed to credit loss in the event of non-performance by the other party to the contracts, however, the System does not anticipate non-performance by the counterparty.

Derivatives - The Ohio Revised Code authorizes SERS to invest in various types of instruments. The System has investments in mortgage-backed, asset-backed, interest-only strips, principal-only strips and adjustable-rate securities. These securities serve to maximize yields and to offset volatility in the Fund due to interest rate fluctuations. The System is exposed to market risk in the event

The following investment summary identifies the level of risk assumed by SERS as of June 30, 1998:

Category 1	Fair Value
U.S. government and agency obligations	\$ 1,105,099,611
Corporate bonds & obligations	496,534,336
Canadian bonds	26,528,312
Common & preferred stock	1,452,240,310
Repurchase agreement	82,600,000
U.S. government & agency discount notes	143,598,792
Asset-backed obligations	143,775,554
Collateralized mortgage obligations	328,076,520
Total Category 1 Investments.....	<u>3,778,453,435</u>
Non-Categorized	
Real estate	680,311,133
Direct mortgages	25,751,425
Venture capital.....	32,624,458
Commingled stock funds.....	2,967,989,799
Total Non-categorized Investments.....	<u>3,706,676,815</u>
Total Investments.....	<u>\$ 7,485,130,250</u>

FINANCIAL SECTION

Notes To Financial Statements (Continued)

of changing interest rates, security prices, and principal values of these individual securities. The System is also exposed to credit risk in the event that sufficient collateral is not maintained by the issuers of the asset-backed securities in case of default, however, SERS is not aware of any such instance. The fair value of these securities totaled \$1,159.0 million at June 30, 1998, representing 15.5% of the fair value of all investments.

5. Year 2000 Disclosure (Unaudited)

The year 2000 issue is the result of shortcomings in the ability to process dates, especially years, in many electronic data processing systems and other equipment that may adversely affect SERS' operations as early as fiscal 1999.

SERS has completed an inventory of computer systems and other equipment necessary to conducting operations.

Benefit system - A project began five years ago to replace the 15-year old legacy benefit system. This project is being developed by an in-house team with the assistance of contract personnel. The new system is Y2K compliant and is scheduled for completion during the first quarter of fiscal year 2000. The legacy system is being reviewed for compliance and a decision will be made on remediating the system as part of our contingency planning.

Financial reporting system - This is a vendor-supplied system. We will convert to a Y2K compliant version during the third quarter of fiscal 1999.

Investment reporting system - This is also a vendor-supplied system. It has been certified as Y2K compliant, however we will put it through validation testing as it has been identified as a mission-critical system.

All other programs and equipment are scheduled for remediation and validation during fiscal year 1999. Contingency planning is also part of Y2K preparation and those plans will be reviewed at various stages during fiscal years 1999 and 2000.

As of June 30, 1998, SERS has not entered into any contractual agreements with respect to making computer sys-

tems year 2000 compliant.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the School Employees Retirement System is or will be Year 2000 ready, that SERS' remediation efforts will be successful in whole or in part, or that parties with whom SERS does business will be year 2000 ready.

6. Property and Equipment (Non-Investment Assets)

A summary of property and equipment at June 30 follows:

	1998	1997
Land	\$ 1,178,055	\$ 1,178,055
Building and improvements	4,268,349	4,268,349
Furniture and equipment	6,178,549	5,944,984
	<u>11,624,953</u>	<u>11,391,388</u>
Less accumulated depreciation	6,375,581	5,412,889
	<u>\$ 5,249,372</u>	<u>\$ 5,978,499</u>

7. Deferred Compensation

Employees of SERS may elect to participate in the Ohio Public Employees Deferred Compensation Program (Program), created in accordance with Internal Revenue Code Section 457. Under the Program, employees may elect to defer a portion of their pay until a later date, usually after retirement. The deferred pay and any income earned thereon is not subject to income taxes until actually received by the employee.

As of June 30, 1998, the market value of investments in the Program totaled \$2,777,670 and has been included in other assets. Under the terms of the Program agreement, these monies are subject to the claims of SERS' general creditors. Accordingly, this amount is reflected as an asset along with a corresponding liability to the employees participating in the Program. Participating employees are general creditors of SERS with no preferential claim to the

Notes To Financial Statements (Continued)

deferred funds. Investments in the Program are held by the Program's agent in SERS' name.

Pursuant to a federal law passed in 1996, the Program implemented a Trust Agreement, effective September 1, 1998, to hold all Program assets for the employer, for the exclusive benefit of participants and their beneficiaries.

8. Defined Benefit Pension Plan

SERS contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit plan. Under the authority granted by Section 145 of the Ohio Revised Code, PERS provides retirement, disability and survivor benefits for the public employees of Ohio. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing PERS, 277 East Town Street, Columbus, Ohio 43215.

Plan members are required to contribute 8.5% of earnable salary and employers are required to contribute at an actuarially determined rate. The current rate for miscellaneous employers is 13.55% of annual covered payroll. The contribution requirements for employees and employers are established and may be amended within statutory limits by the PERS Board. The payroll for employees covered by PERS for the year ended June 30, 1998 was \$4,572,760; SERS' total payroll was \$4,791,659. SERS' contributions to PERS for the years ending June 30, 1998, 1997 and 1996 were \$619,609, \$562,230 and \$ 556,142, respectively, equal to the required contributions for each year.

In addition to pension benefits, PERS provides postemployment health care benefits, in accordance with state statutes, to all employees who retire with 10 or more years of qualifying Ohio service credit and to disability recipients. At December 31, 1997, the plan had approximately 365,000 active participants.

A portion of each employer's contribution to PERS is set aside for the funding of postemployment health care.

During 1997, PERS' Retirement Board adopted a new calculation method for determining this allocation. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were used in determining the 5.11% portion for 1997. For the year ended June 30, 1998, approximately \$207,000 of employee payroll contributed by SERS to PERS was the portion used to fund healthcare. Net assets held in trust at December 31, 1997 for postemployment health care benefits were \$8.1 billion.

The actuarial present value of accrued postemployment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions used in the December 31, 1996 valuation (most recent available) were (a) investment rate of return of 7.75%, (b) investments valued at book value plus or minus realized or unrealized investment gains and losses amortized at 25% per annum over a four-year period. (c) no change in the number of active employees, (d) base pay rate increases of 4.75% and annual pay increases over and above the 4.75% base increase ranging from 0% to 5.1%.

9. Compensated Absences

As of June 30, 1998, \$427,558 was accrued for unused vacation and sick leave for SERS' employees. Employees who retire or resign are entitled to full compensation for all earned unused vacation. Unused sick leave pay is forfeited upon termination. However, employees who retire, become disabled or deceased after five years of service are entitled to receive payment for a percentage of unused sick leave.

10. Contingent Liabilities

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

FINANCIAL SECTION

Required Supplementary Information

Schedule of Funding Progress* (In Millions)

<u>Valuation Year</u>	<u>Actuarial Accrued Liabilities (AAL)</u>	<u>Valuation Assets</u>	<u>Unfunded Actuarial Accrued Liabilities (UAAL)</u>	<u>Ratio of Assets to AAL</u>	<u>Active Member Payroll</u>	<u>UAAL as a % of Active Member Payroll</u>
1993	\$5,052	\$3,673	\$1,379	73%	\$1,313	105%
1994	5,381	3,952	1,429	73	1,361	105
1995	5,839	4,310	1,529	74	1,430	107
1996	6,184	4,766	1,418	77	1,476	96
1996**	6,129	4,778	1,351	78	1,476	92
1997***	6,504	5,521	983	85	1,552	63
1998****	7,037	6,413	624	91	1,652	38

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

** Revised assumptions and asset valuation method.

*** Revised asset valuation method.

**** Legislated benefit increases.

Schedule of Employer Contributions*

<u>Year Ended June 30</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
1993	\$117,959,733	100%
1994	119,849,473	100
1995	128,603,843	100
1996	150,103,657	100
1997	144,487,949	100
1998	139,955,108	100

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

Schedule of Payments to Consultants

SERS paid the following consulting fees in fiscal 1998:

Actuarial	\$ 78,000
Audit	35,488
Legal Counsel.....	83,467
Medical Consultant.....	22,100
Total.....	<u>\$219,055</u>

Schedule of Brokers' Fees is presented on page 38.

FINANCIAL SECTION

Summary of Investment Expenses For the year ended June 30, 1998

Description of Expense	Assets Under Management	Fees
Domestic equity	\$ 3,320,959,415	\$ 4,027,309
Domestic fixed income	2,254,170,176	3,131,151
International equity	1,081,856,138	2,235,281
Real estate	752,214,815	3,133,506
Total investment management fees		12,527,247
Custodial fees		446,896
Investment consultant fees		409,500
Other investment expenses		17,502
Investment department administrative expenses (see note 2)		765,647
Total other investment expenses		1,639,545
Total investment expenses		\$ 14,166,792

Notes To Required Supplementary Schedules

1. Description of Schedule of Funding Progress

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

The Schedule of Funding Progress includes two ratios that provide information about whether the financial strength of the System is improving or deteriorating over time. An improvement is indicated when the funded ratio (assets expressed as a percentage of the actuarial accrued liability) is increasing and the ratio of the unfunded actuarial liability to payroll is decreasing.

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date: June 30, 1998

Actuarial cost method: Entry age normal

Amortization method: Closed basis as a level percent of active member payroll

Remaining amortization period: 21 Years

Asset valuation method: 4-Year smoothed market

Actuarial Assumptions:

Investment rate of return* - 8.25%

Projected salary increases* - 5.25% to 9.25%

Cost of living adjustments - 3% simple

*Includes inflation at 4.25%

FINANCIAL SECTION

*Administrative Expenses**

For the years ended June 30, 1998 and 1997

	1998	1997
Personnel Services:		
Salaries.....	\$ 4,791,659	\$ 4,523,970
Retirement contributions	619,609	562,230
Insurance	496,415	484,236
Total personnel services	<u>5,907,683</u>	<u>5,570,436</u>
Professional Services:		
Medical	365,561	422,898
Technical and actuarial.....	714,508	505,595
Auditing	35,488	68,558
Employee training	127,503	178,124
Total professional services	<u>1,243,060</u>	<u>1,175,175</u>
Communications:		
Postage	486,996	472,356
Telephone	63,047	53,237
Retirement counselling services	33,576	9,702
Printing and publications	210,868	251,489
Total communications	<u>794,487</u>	<u>786,784</u>
Other Services:		
Computer support services.....	2,703,272	2,152,499
Equipment repairs and maintenance.....	37,231	42,411
Building occupancy and maintenance.....	379,813	668,818
Supplies.....	117,415	101,769
Transportation and travel.....	173,804	176,863
Equipment rental.....	108,395	92,808
Surety bonds and insurance.....	89,701	86,982
Memberships and subscriptions.....	65,502	67,659
Retirement study commission	22,957	37,768
Miscellaneous.....	37,300	30,371
Total other services	<u>3,735,390</u>	<u>3,457,948</u>
Total administrative expenses before depreciation	<u>11,680,620</u>	<u>10,990,343</u>
Depreciation (Non-Investment):		
Furniture and equipment	1,024,595	649,215
Building	112,172	112,172
Total depreciation	<u>1,136,767</u>	<u>761,387</u>
Total administrative expenses.....	<u>\$ 12,817,387</u>	<u>\$ 11,751,730</u>

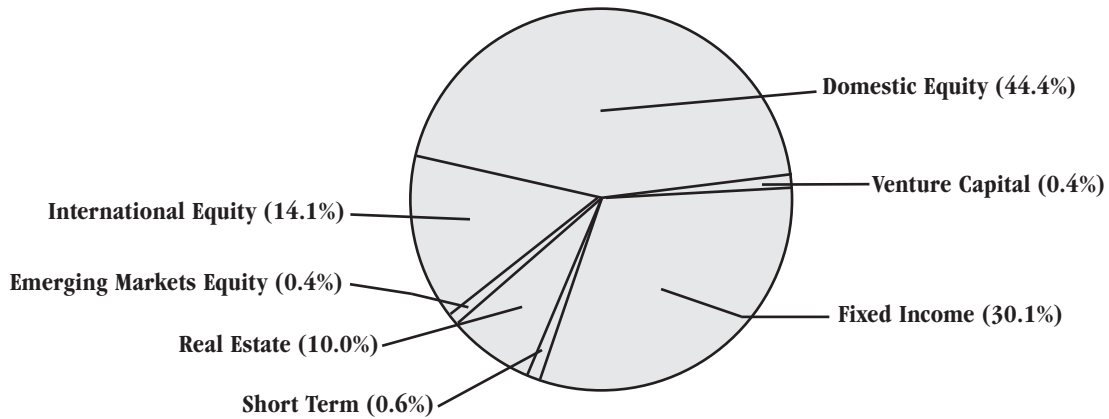
*Includes investment related administrative expenses.

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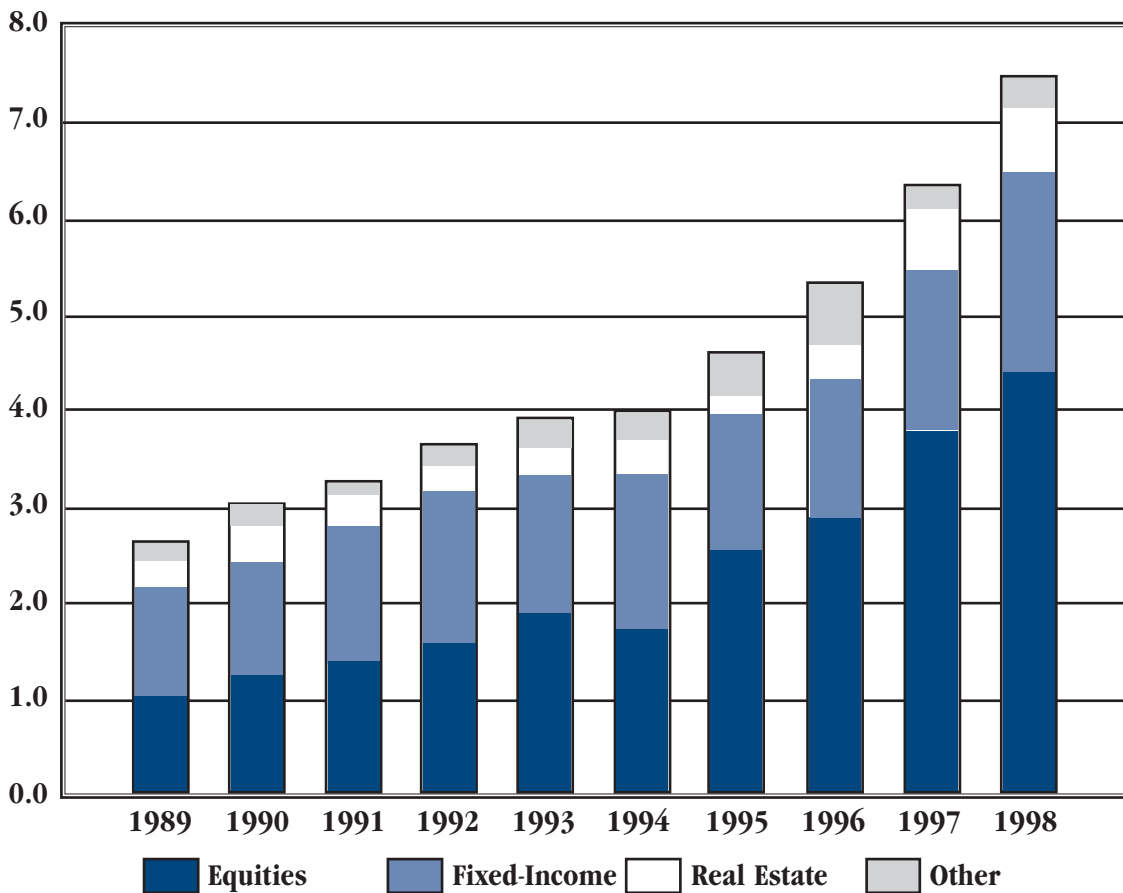
INVESTMENT SECTION

INVESTMENT SECTION

*Investment Distribution at Fair Value
as of June 30, 1998*



*Ten Year Investment Comparison
at Fair Value (in billions)*



Investment Report

Introduction

The Ohio Revised Code and Board-adopted policies govern the way monies are invested at SERS. The Ohio Revised Code requires that the SERS Board and its fiduciaries discharge their duties solely in the interests of the fund's participants and beneficiaries. The Board's Investment Policy specifically outlines diversification methods, return expectations, and risk levels that SERS fiduciaries should adhere to when managing the System's assets. Performance returns were prepared by Frank Russell Co., in accordance with the Association for Investment Management and Research (AIMR) standards.

Accomplishments

In addition to the on-going process of maximizing return with an acceptable level of risk, two major focuses were discussed in last year's report. The first was to commence a search in the equity area for active small capitalization managers. Small capitalization investing had been solely through passive indexes because of legal restrictions. The restrictions were lifted last year. The search was started before the end of the fiscal year and was finalized during the first quarter of fiscal year 1999.

The second focus was to examine the feasibility of expanding our venture capital mandate to include other alternative investments. This study will continue through fiscal year 1999.

During the year, new purchases brought SERS' investment in Real Estate to the long-term target of 10% of the fund's assets. This was accomplished by investing in individual properties, public real estate securities and commingled funds.

With the continued growth in all of the investment areas, the fund reached a record \$7.5 billion in assets as of June 30, 1998.

Asset Allocation

As of June 30, 1998, the portfolio was diversified in the following asset classes:

- US Equity was 44.4% of the Fund compared to the policy target of 45%
- Non-US Equity, including Emerging Markets exposure of 0.4%, was 14.5% of the Fund, compared to the policy target of 15%
- US Fixed Income was 30.1% of the Fund compared to the policy target of 28%
- Real Estate was 10% of the Fund equal to the policy target of 10%
- Venture Capital was 0.4% of the Fund compared to the policy target of 1%, and
- Short term assets were 0.6% of the Fund compared to the policy target of 1%.

Based on the current holdings, the fund is at or very near the long-term policy allocations set by the Board for each asset class.

Equities

Both the US and Non-US equity markets continued on what appeared to be on an upward climb during the year. With the benefit of hindsight, the markets were "too good to be true" as evidenced by recent history.

Market volatility has increased as investors try to understand the events that have unfolded throughout the world during the past several months. We are confident that our long-term view of investing will continue to provide the Fund with excellent long-term returns.

SERS' US equity portfolio returned 28.1% for the fiscal year compared to the benchmark of the Russell 3000 return of 28.8%. For the past three years the return equaled 27.6% and for the past five years the return equaled 21.4%.

The Non-US equity portfolio returned 12.6% for the year compared to the benchmark Morgan Stanley Capital International, Europe, Australia, and Far East (MSCI-EAFE) Index of 11.5% (Both returns 50% US \$ Hedged). For the past three years the return equaled 17.2%. Performance for the past five years has not been established.

INVESTMENT SECTION

Investment Report (Continued)

Fixed Income

The fixed income investments are managed to provide diversification against equities. While all of our managers have a broad U.S. fixed income market mandate, individual management firms have been chosen based on their differing approaches to this mandate.

Consequently, within the portfolio there exists some style diversification, which would soften the impact of varying market trends.

Performance of the portfolio has been above the benchmark index, the Lehman Brothers Aggregate. In the fiscal year ending June 30, 1998, the portfolio returned 10.8% versus the index return of 10.5%. For three years the return equals 8.2%; for five years the return equals 6.6%. On June 30, 1998, the fixed income portfolio had an average maturity of 9.8 years and an effective duration of 4.7 years. The benchmark had an average maturity of 8.1 years and an effective duration of 4.6 years.

Compared to the index sector composition, the SERS fixed income portfolio was underweight in treasury and agency securities, and overweight in mortgage-backed, corporate and asset-backed securities. The portfolio had a yield to maturity of 6.6% and an average coupon of 7.3%. The average quality of the portfolio was AAA rated, matching the index rating.

Real Estate

SERS invests in real estate to provide stable long-term rates of return and to diversify its assets in order to reduce total fund volatility. As of June 30, 1998 SERS had over \$750 million invested in real estate through commingled funds and separate accounts. The real estate portfolio consists primarily of investments in office buildings, shopping centers and malls, apartment communities, and warehouse/industrial parks. During fiscal year 1998, SERS included shares of publicly traded real estate investment trusts, commonly

referred to as REITs, in its real estate portfolio for the first time.

For fiscal 1998, the NCREIF Property Index, a barometer of private US real estate returns, had a total return of 17.2% which is the highest one-year return for the index since 1980. A strong US economy and the aggressive acquisition of properties by REITs were the drivers of the NCREIF return. The REIT benchmark, the NAREIT Equity Index, produced a total return of 8.0%.

During fiscal 1998, the SERS real estate portfolio produced a total return of 12.2%. For three- and five-year periods, the real estate portfolio produced returns of 11.8% and 10.7% respectively, which exceeded the NCREIF Property Index for those periods.

Venture Capital

The SERS \$32.6 million venture capital portfolio produced a total return of 10.5% during fiscal 1998. Three- and five- year returns have been 21.8% and 34.8% respectively. Based in part on the performance achieved by the venture capital portfolio, we expect to examine the feasibility of widening our focus in the alternative investment area to include other forms of private equity investments.

Fund Strategy

In the coming fiscal year, continued critical evaluation of our external money managers assures that SERS has hired the best manager for each assignment undertaken. Additionally, the staff continually searches out and puts into place new ideas or practices that enhance the performance of the Fund with acceptable levels of risk. One of our specific goals for the next fiscal year will be examining the risks and rewards of investing in alternative investment asset classes. Developing a recommendation regarding whether or not to broaden our investment guidelines will be a focus of the staff in the coming fiscal year.

Prepared by: Investment Department staff of SERS

INVESTMENT SECTION

Schedule of Investment Results

For the years ended June 30

	<u>Annualized Rates of Return</u>							
	1998	1997	1996	1995	1994	3-Year	5-Year	10-Year
Domestic Equity								
SERS	28.1%	29.6%	25.0%	24.8%	1.3%	27.6%	21.4%	17.5%
Standard & Poor's 500 Index	30.3	34.8	26.1	26.1	1.4	30.3	23.1	18.6
Russell 3000 Index	28.8	30.6	26.0	24.9	1.0	28.5	21.7	17.9
International Equity								
SERS	12.6	17.1	22.2	-	-	17.2	-	-
MSCI-EAFE 50% U.S. \$ Hedged Index	11.5	17.7	22.2	-	-	17.1	12.2	7.4
Fixed-income								
SERS	10.8	8.5	5.2	11.3	(2.5)	8.2	6.6	9.1
Lehman Bros. Aggregate Index	10.5	8.2	5.0	12.5	(1.3)	7.9	6.9	9.1
Real estate								
SERS	12.2	12.2	10.8	10.6	7.2	11.8	10.7	5.0
NCREIF Index (one quarter in arrears)	16.0	10.1	8.2	7.9	4.5	11.3	8.5	5.0
Short-term								
SERS	5.6	5.5	5.8	5.5	3.5	5.6	5.2	6.0
Salomon Bros. 30 Day Treas. Bill Index	4.9	4.9	5.2	4.8	3.1	5.0	4.6	5.2
Venture capital								
SERS	10.5	(24.5)	116.6	64.3	49.9	21.8	34.8	16.8
Standard & Poor's 500 Index + 500 bp	35.3	39.8	31.1	31.1	6.4	35.3	28.1	23.6
Total portfolio								
SERS	18.6	19.0%	16.8%	16.6%	0.6%	18.2%	14.1%	12.4%
*Policy Benchmark	19.3	20.1%	16.4%	16.0%	1.0%	18.7%	14.4%	12.1%

Source: Frank Russell Company

All returns are reported gross of fees, using a time-weighted rate of return based on the market rate of return, in accordance with the Association for Investment Management and Research (AIMR) standards.

*Policy Benchmark consists of: 45% Russell 3000, 14.5% MSCI-EAFE (50% Hedged), 1% S&P 500+500 BP, 28% Lehman Brothers Aggregate, 10% NCREIF Property (1 qtr in arrears), 1% Salomon Bros. 30 day T-bill, and .5% MSCI Emerging Markets Free Index.

INVESTMENT SECTION

Investment Summary as of June 30, 1998

Portfolio Type	Fair Value	% Of Total Fair Value	Policy	Policy Range
Domestic Equity	\$3,320,959,415	44.4%	45.0%	42-48%
International Equity	1,052,990,050	14.1	14.5	10-16
Emerging Markets Equity	28,866,088	0.4	0.5	0-4
Fixed Income	2,254,170,176	30.1	28.0	25-31
Real Estate	752,214,815	10.0	10.0	5-15
Venture Capital	32,624,458	0.4	1.0	0-3
Short Term	43,305,248	0.6	1.0	0-3
Total	\$7,485,130,250	100.0%	100.0%	

Largest Stock Holdings (By Fair Value) as of June 30, 1998

Description	Shares	Fair Value
1) General Electric Co.	301,000	\$27,353,375
2) Microsoft Corp.	219,600	23,799,150
3) Coca-Cola Co.	259,900	22,221,450
4) Cisco Systems, Inc.	230,950	21,261,834
5) Merck & Co., Inc.	156,700	20,958,625
6) Bristol Myers Squibb Co.	179,000	20,573,813
7) Chase Manhattan Corp.	260,800	19,690,400
8) Intel Corp.	249,700	18,509,013
9) Morgan Stanley Dean Witter Discover	197,900	18,083,113
10) Procter & Gamble Co.	180,700	16,454,994

Largest Fixed-Income Holdings (By Fair Value) as of June 30, 1998

Description	Rating	Coupon	Date	Par Value	Fair Value
1) Treasury Note	AAA	5.750	04/30/03	\$64,180,000	\$64,811,531
2) Treasury Bond	AAA	6.750	08/15/26	53,315,000	61,037,145
3) Treasury Note	AAA	5.750	08/15/03	45,295,000	45,776,033
4) Treasury Note Inflation Adjusted	AAA	3.625	07/15/02	41,015,000	40,566,296
5) FNMA TBA	AAA	6.000	07/01/28	38,600,000	37,622,938
6) GNMA TBA	AAA	6.500	07/01/28	34,400,000	34,388,132
7) GNMA TBA	AAA	7.000	07/01/28	30,525,000	31,122,222
8) FNMA TBA	AAA	6.500	07/01/28	30,375,000	29,877,891
9) Treasury Note	AAA	5.500	02/29/00	30,205,000	30,195,636
10) Treasury Note	AAA	6.875	07/31/99	30,000,000	30,417,300

Investment Consultant & Money Managers

Investment Consultant

Frank Russell Company – Tacoma, Washington

Investment Managers – Domestic Equities

Brandywine Asset Management, Inc. – Wilmington, Delaware

Equinox Capital Management, Inc. – New York, New York

Gardner Lewis Asset Management – Chadds Ford, Pennsylvania

Geewax, Terker & Co. – Phoenixville, Pennsylvania

Lincoln Capital Management Company – Chicago, Illinois

MacKay Shields Financial Corporation – New York, New York

Oak Associates – Akron, Ohio

State Street Global Advisors – Boston, Massachusetts

Investment Managers – International Equities

Oeschle International Advisors – Boston, Massachusetts

Sanford C. Bernstein & Co., Inc. – New York, New York

State Street Global Advisors – Boston, Massachusetts

Investment Manager – Foreign Currency

State Street Global Advisors – Boston, Massachusetts

Investment Managers – Venture Capital

Alpha Capital Partners – Dayton, Ohio

Blue Chip Venture Company – Cincinnati, Ohio

Brantley Venture Partners – Cleveland, Ohio

CID Equity Partners – Indianapolis, Indiana

Morgenthaler Venture Partners – Cleveland, Ohio

Primus Venture Partners – Cleveland, Ohio

Investment Managers – Fixed Income

Dodge & Cox, Inc. – San Francisco, California

Johnson Investment Counsel, Inc. – Cincinnati, Ohio

J.P. Morgan Investment Management, Inc. – New York, New York

Sanford C. Bernstein & Co., Inc. – New York, New York

Western Asset Management Company – Pasadena, California

Investment Managers – Real Estate

Allegis Realty Investors, LLC – Hartford, Connecticut

CIGNA Investment Management – Hartford, Connecticut

CRA Real Estate Securities – Radnor, Pennsylvania

INVESCO Realty Advisors – Dallas, Texas

J.P. Morgan Investment Management, Inc. – New York, New York

Koll Bren Realty Advisors – Newport Beach, California

LaSalle Advisors Capital Management Inc. – Chicago, Illinois

L&B Real Estate Counsel – Dallas, Texas

Lend Lease Real Estate – New York, New York

Phoenix Realty Advisors, Inc. – Hartford, Connecticut

Sentinel Real Estate – New York, New York

Master Custodians

Huntington National Bank – Columbus, Ohio

Bank of New York – New York, New York

INVESTMENT SECTION

Summary Schedule of Brokers' Fees

For the year ended June 30, 1998

Brokerage fees on investment transactions for the fiscal year ended June 30, 1998 were \$2,762,503. A list of the brokers receiving these fees during the year follows.

Broker Name	Fees Paid	# Of Shares Traded	Avg. Cost Per Share
Merrill Lynch Pierce Fenner	\$ 398,744	11,323,618	\$ 0.035
Bear, Stearns & Co.....	227,613	4,203,811	0.054
Paine Webber Mitchell Hutchins	205,142	4,024,396	0.051
Goldman Sachs & Company.....	139,172	6,274,428	0.022
SBC Warburg, Inc.	114,072	3,976,463	0.029
Ernst & Company	107,680	2,501,579	0.043
Morgan Stanley & Co., Inc.....	101,744	4,605,221	0.022
Legg, Mason, Wood, Walker.....	91,882	1,382,250	0.067
Donaldson, Lufkin & Jenrette.....	87,137	1,644,338	0.053
Salomon Brothers, Inc.	84,681	6,724,606	0.013
Jefferies & Co.	77,816	2,597,629	0.030
Deutsche Bank.....	64,929	1,366,025	0.048
CS First Boston Corp.	59,717	751,639	0.079
Paribas Market	59,380	218,967	0.271
Instinet.....	55,559	1,461,416	0.038
Lehman Brothers, Inc.	54,910	950,480	0.058
Smith Barney Shearson.....	52,243	1,083,773	0.048
BT Alex Brown Inc.....	49,611	1,437,641	0.035
Prudential Securities Inc.....	48,789	865,877	0.056
James Capel Inc.	44,391	1,765,734	0.025
Sanford Bernstein & Co., Inc.	41,104	719,483	0.057
ABN AMRO Chicago Corporation.....	39,044	2,053,963	0.019
J.P. Morgan Securities Inc.....	38,443	515,205	0.075
Natwest Securities Corporation.....	38,355	588,875	0.065
Lewco Securities	36,869	901,835	0.041
Hoare Govett	32,601	3,550,933	0.009
County Securities	31,166	745,094	0.042
Fleming Securities	24,422	1,830,746	0.013
Deutsche Morgan Grenfell	23,926	405,475	0.059
ACF	23,755	216,711	0.110
Socgen.....	19,206	63,805	0.301
Wertheim & Co., Inc.	15,187	1,081,127	0.014
Chevreurx.....	13,542	55,834	0.243
Cowen & Company	13,535	249,900	0.054
Janney, Montgomery & Scott.....	12,670	212,810	0.060
CIBC Oppenheimer Corp.	10,884	214,506	0.051
Brokers' fees less than \$10,000 each.....	222,582	11,214,219	0.020
Grand Total.....	<u>\$ 2,762,503</u>	<u>83,780,412</u>	<u>\$ 0.033</u>

SERS participates in a commission recapture program directed by Frank Russell Co. During the fiscal year SERS received \$450,550 in rebates under this program.

INVESTMENT SECTION

Investment Portfolio

As of June 30, 1998

Combined Fixed-Income Portfolio

Description	Rating	Coupon Rate	Maturity Date	Par Value	Market Price	Fair Value
Asset-Backed Obligations						
American Equipment Business Lease	AAA	6.100	10/15/05	\$ 778,135	\$ 100.000	\$ 778,135
Asset Securitization Corp. 1995-MD4 A1	AAA	7.100	08/13/29	3,548,272	104.731	3,716,142
Asset Securitization Corp. 1996-D2 A1	AAA	6.920	02/14/29	3,255,136	103.828	3,379,743
Asset Securitization Corp. 1996-D3 A1A	AAA	7.010	10/13/26	447,270	101.863	455,602
Asset Securitization Corp. 1996-D3 A1C	AAA	7.400	10/13/26	210,000	108.111	227,033
Banc One Auto Trust 1996-AA	AAA	6.100	10/15/02	697,908	100.156	698,996
Boatmens Auto Trust 1995-A A3	AAA	6.100	05/15/00	1,072,040	100.093	1,073,037
Calif. Infrastructure PG & E 1997-1 A7	AAA	6.420	09/25/08	13,200,000	102.767	13,565,246
Caterpillar Financial Asset 1996-A A3	AAA	6.300	07/25/02	2,310,000	100.250	2,315,775
Chase Manhattan Auto Trust 1996-CA3	AAA	5.950	11/15/00	4,714,033	100.093	4,718,326
Chase Manhattan Commercial Mtg. 1996-2A2	AAA	6.900	09/16/06	1,420,000	103.605	1,471,191
Chase Manhattan Grantor Trust 1996-B A	AAA	6.610	09/15/02	648,136	100.750	652,997
Contimortgage Home Equity 1998-2 A2A	AAA	6.150	03/15/13	12,000,000	99.937	11,992,440
Contimortgage Home Equity Loan 1997-3A3	AAA	6.680	05/15/12	3,375,663	100.250	3,384,103
Copelco Capital Fund Corp. 1996-A A	AAA	6.340	07/20/04	1,660,181	101.368	1,682,892
Discover Card Trust 1991-D A	AAA	8.000	10/16/00	5,000,000	100.218	5,010,900
First USA Credit Card Mtr. Trust 1997-6A	AAA	6.420	03/17/05	5,500,000	101.875	5,603,125
FMAC Loan Receivables 1998-A A2	AAA	6.500	09/15/20	804,194	100.530	808,456
FMAC Loan Receivables 1998-A A3	AAA	6.690	09/15/20	480,000	101.156	485,549
Ford Credit Auto Loan Trust 1995-1 A	AAA	6.500	08/15/02	4,234,000	101.125	4,281,633
Green Tree Financial Corp. 1995-10 A2	AAA	5.800	02/15/27	804,640	100.000	804,640
Green Tree Financial Corp. 1995-8 A2	AAA	6.150	01/15/26	520,358	100.031	520,520
Green Tree Financial Corp. 1995-9 A2	AAA	6.000	01/15/27	624,817	100.031	625,010
Green Tree Financial Corp. 1998-4A7	AAA	6.870	04/01/30	1,500,000	100.125	1,501,875
Green Tree Lease Finance 1997 1 A3	AAA	6.170	09/20/05	2,425,000	100.109	2,427,643
Green Tree Rec. Equipment 1996-A A1	AAA	5.550	02/15/18	2,193,717	99.560	2,184,064
Green Tree Rec. Equipment 1997-CA1	AAA	6.490	10/15/27	1,342,840	101.202	1,358,982
Green Tree Rec. Equipment 1997-D A1	AAA	6.900	03/15/29	2,719,014	101.225	2,752,321
Green Tree Rec. Equipment 1998-A A1C	AAA	6.180	06/15/19	2,591,239	99.961	2,590,228
Harley-Davidson Eaglemark Tst. 1998-1 A1	AAA	5.810	05/15/02	1,605,193	99.201	1,592,367
Healthcare Receivables Securit. 1996-1 A	AAA	7.200	07/01/00	1,100,000	101.203	1,113,233
Healthcare Receivables Securit. 1998-1 A	AAA	6.220	06/01/02	1,150,000	100.031	1,150,357
Lehman FHA Title Loan Trust 1996-3A7	AAA	7.710	08/25/17	3,288,051	104.127	3,423,748
Master Financial Asset Sec. 1998-1 A4	AAA	6.500	03/20/16	2,300,000	100.906	2,320,838
Master Financial Asset Sec. 1998-2 A1	AAA	5.728	09/20/09	6,105,931	99.703	6,087,797
Money Store Auto Trust 1996-2	AAA	6.435	06/20/03	975,000	100.106	976,034
Money Store Equity Trust 1997-D	AAA	6.485	12/15/38	5,535,000	100.156	5,543,635
Money Store Home Equity 1996-DA3	AAA	6.295	11/15/11	1,598,025	99.937	1,597,018
New York City Tax Lien 1997-1 A	AAA	6.460	05/25/05	1,663,816	100.395	1,670,388
Newcourt Receivables Asset Trust 1996-2	AAA	6.870	09/20/04	302,842	101.604	307,699
Newcourt Receivables Asset Trust 1996-3	AAA	6.240	12/20/04	428,471	101.089	433,137
Nomura Asset Sec. Corp. 1995-MD3 A1A	AAA	8.170	03/04/20	1,610,671	103.843	1,672,569
Nomura Asset Sec. Corp. 1996-MD5 A1B	AAA	7.120	04/13/36	2,700,000	105.656	2,852,712
Nomura Asset Sec. Corp. 1998-D6 A1A	AAA	6.280	03/15/30	11,246,597	101.250	11,387,179
Nomura Asset Sec. Corp. 1998-D6 A2	AAA	6.769	03/15/30	2,195,000	103.730	2,276,874
Ocwen Mortgage Loan 1998-OFS2A5	AAA	5.716	01/25/21	5,377,450	99.977	5,376,213
PNC Student Loan 11997-2 CL A-4	AAA	6.446	01/25/02	5,000,000	101.329	5,066,450
Securitized Asset Sales 1993-7 TA4	AAA	6.250	12/25/23	1,584,876	99.673	1,579,694
Union Pacific Equipment 1994-A	A-	7.750	07/01/12	4,403,559	109.157	4,806,793
World OMNI Auto Lease 1996-A A1	AAA	6.300	06/25/02	1,471,009	100.218	1,474,215
Total Asset-Backed Obligations				\$ 141,718,084		\$ 143,775,554

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon Rate	Maturity Date	Par Value	Market Price	Fair Value
Collateralized Obligations						
Allied Capital Comm. Mtg. Trust 1998-1 A	AAA	6.310	01/25/28	\$ 719,639	\$ 99.451	\$ 715,688
Capital Asset Research Funding 1997-A 1	AAA	6.400	12/15/04	2,164,210	100.188	2,168,279
Certificates Funding Corp. 1997-1 A2	AAA	6.716	12/19/07	1,935,000	103.008	1,993,205
Chase Mtg. Finance Corp. 1994-G AP PO	AAA	0.000	04/25/25	1,500,295	60.767	911,685
Chase Mtg. Finance Corp. 1994-H AP PO	AAA	0.000	06/12/25	1,913,053	61.515	1,176,815
CMC Securities Corp. 1993-FA2	AAA	6.750	11/25/23	60,050	99.656	59,843
CS First Boston Mort. 1997-C1 A1B	AAA	7.150	06/20/29	3,000,000	105.063	3,151,875
CS First Boston Mort. 1997-C2 A1	AAA	6.400	02/17/04	2,056,344	101.281	2,082,686
CS First Boston Mort. 1997-C2 A2	AAA	6.520	01/17/35	1,415,000	102.343	1,448,153
Deutsche Mort & Asset Rec. 1998-C1 A1	AAA	6.220	06/15/31	8,847,032	100.758	8,914,074
Deutsche Mort & Asset Rec. 1998-C1 B	AAA	6.664	06/15/31	2,800,000	101.957	2,854,796
DLJ Mortgage Accept. Corp. 1995-CF2	AAA	6.850	12/17/27	1,980,000	103.191	2,043,182
DLJ Mortgage Accept. Corp. 1996-CF1 A2	AAA	7.667	03/13/28	1,275,000	104.906	1,337,552
Drexel X 3 PO	AAA	0.000	12/01/18	1,919,559	83.187	1,596,824
Fairfax Funding Trust 1998-1 A	AAA	6.483	04/02/13	1,855,000	101.734	1,887,166
Fannie Mae CMO 1993-23 PZ	AAA	7.500	03/25/23	2,324,722	108.687	2,526,670
Fannie Mae-Aces 1997 M2 Z	AAA	7.350	01/17/37	1,612,083	108.625	1,751,125
FDIC Remic Trust 1996-C1 1A	AAA	6.750	05/25/26	1,633,601	100.402	1,640,167
FELCO Funding II LLC 1998-1 A1	AAA	5.970	10/15/00	1,310,000	100.082	1,311,074
FELCO Funding II LLC 1998-1 A2	AAA	5.980	09/15/01	2,435,000	100.145	2,438,531
FHLB Indexed Amort. MI-05 1	AAA	6.270	04/08/05	500,000	99.938	499,688
FHLMC 12A	AAA	9.250	11/15/19	616,891	106.656	657,951
FHLMC 1A	AAA	10.150	04/15/06	525,912	100.044	526,144
FHLMC 1473-HA	AAA	7.000	01/15/08	11,000,000	102.750	11,302,500
FHLMC 1693-H	AAA	6.000	12/15/08	20,000,000	100.156	20,031,200
FHLMC CMO 1566 CL- C	AAA	5.600	09/15/00	193,142	99.531	192,235
FHLMC CMO L-5	AAA	7.900	05/01/01	1,722,245	102.843	1,771,208
FHLMC CMO M-6	AAA	8.800	12/01/15	3,592,135	101.000	3,628,057
FHLMC GMC D-1979	AAA	12.450	09/15/09	1,521,686	100.281	1,525,966
FHLMC SER 2054 L	AAA	6.500	05/15/28	3,640,000	97.531	3,550,128
FHLMC Strip 140 B IO	AAA	9.500	09/01/21	1,901,194	26.875	510,946
FHLMC Structured Note	AAA	6.830	03/20/04	250,000	100.625	251,563
FHLMC Structured Note T-4 A1	AAA	7.625	08/25/22	3,995,020	100.750	4,024,983
FNMA 1992-4 H	AAA	7.500	02/25/07	17,000,000	103.468	17,589,560
FNMA 1992-110 J	AAA	7.000	12/25/06	9,358,000	101.843	9,530,468
FNMA 1992-166J	AAA	7.000	05/25/07	11,000,000	102.593	11,285,230
FNMA 1993-103 Class PV	AAA	7.000	02/25/14	60,731	0.015	9
FNMA 1993-78 G	AAA	6.500	11/25/07	4,917,000	101.718	5,001,474
FNMA ACES 1998 M2 B	AAA	6.247	03/25/21	920,000	98.562	906,770
FNMA CMO 1993-215 H	AAA	9.000	08/25/17	1,214,590	104.218	1,265,822
FNMA CMO G94-6 Class PY	AAA	7.750	05/17/24	775,000	109.437	848,137
FNMA G-16 CL A PO	AAA	0.000	06/15/21	499,146	78.437	391,516
FNMA G-2 CL B PO	AAA	0.000	02/25/20	1,402,893	81.187	1,138,967
FNMA-ACES 1997-M5 CL C	AAA	6.740	08/25/07	1,720,000	104.406	1,795,783
FNR 1994-20 Z	AAA	6.500	02/25/09	1,334,899	99.593	1,329,466
GNMA CMO 1984-2 E	AAA	7.875	04/25/08	7,646,643	102.781	7,859,297
GS Mort. Securities Corp. 1998-GLII A1	AAA	6.312	04/13/31	2,754,597	100.750	2,775,256
GSBA (504) 1997-20E	AAA	7.300	05/01/17	5,826,578	105.918	6,171,395
Housing Securities Inc. 1994-3 A4	AAA	7.250	11/25/17	1,705,000	100.603	1,715,281
JP Morgan Comm. Mtg. Finance 1998-C6 B	AA	6.735	01/15/30	2,250,000	102.844	2,313,990
Lehman Large Loan 1997-LL 1 A3	AAA	6.900	03/12/07	7,200,000	104.324	7,511,328
Lehman Large Loan 1997-LL1 A1	AAA	6.790	01/23/37	1,809,403	102.640	1,857,171

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon Rate	Maturity Date	Par Value	Market Price	Fair Value
Collateralized Obligations (Continued)						
Lehman Large Loan 1997-LL1 A2	AAA	6.840	09/12/06	\$ 285,000	\$ 103.280	\$ 294,348
Merrill Lynch Mtg. Inv. 1996 C2 A3	AAA	6.960	11/21/28	12,600,000	102.617	12,929,742
Merrill Lynch Mtg. Inv. 1997-C1 A3	AAA	7.120	06/18/29	5,000,000	105.266	5,263,300
Merrill Lynch Mtg. Inv. 1998 C1 A1	AAA	6.310	11/15/26	3,309,467	100.609	3,329,621
Morgan Stanley Cap. 1997-XL1 A1	AAA	6.590	10/03/30	6,639,463	102.719	6,819,977
Morgan Stanley Cap. 1997-A1B	AAA	6.440	01/15/28	1,525,000	100.858	1,538,085
Morgan Stanley Cap. 1997-A2	AAA	5.990	01/15/28	1,772,947	99.034	1,755,820
Morgan Stanley Cap. 1997-ALIC A1A	AAA	6.300	01/15/28	2,241,579	100.234	2,246,823
Morgan Stanley Cap. 1998-HF1 A1	AAA	6.340	01/15/07	6,520,009	101.281	6,603,550
Morgan Stanley Cap. 1998-WF1 A1	AAA	6.250	07/15/07	9,040,304	102.031	9,223,940
Mortgage Capital Fndg., Inc. 1998-MC1 A1	AAA	6.417	06/18/07	5,908,807	101.219	5,980,823
Pru-Bache CMO 14-H IO	AAA	1,204.650	03/20/21	24,622	2,901.310	714,360
Pru-Bache CMO 4-B PO	AAA	0.000	09/01/18	1,111,198	82.647	918,372
Res. Trust Co. 1992-16 B5 ARM	AA	7.078	06/25/24	8,000,398	101.000	8,080,402
Res. Trust Co. 1992-9 A5 ARM	AAA	7.019	04/25/22	1,764,612	99.707	1,759,441
Res. Trust Co. 1992-9 B3 ARM	AAA	6.771	09/25/30	3,045,764	95.487	2,908,309
Res. Trust Co. 1994-1 M3 ARM	AAA	8.042	09/25/29	3,718,161	102.173	3,798,956
RMF Comm. Mtg. Pass-Thru 1995-1 A2	AAA	7.100	11/28/27	975,000	100.910	983,873
SLMA 1996-3 B ARM	A+	6.137	10/25/11	5,500,000	100.090	5,504,950
SLMA 1997-1 B ARM	A+	6.037	10/26/11	12,000,000	100.000	12,000,000
SLMA 1997-3 A1 ARM	AAA	5.787	04/25/06	1,839,152	100.000	1,839,152
Small Business Admin. GSB A 1998-E	AAA	6.300	05/01/18	7,500,000	101.281	7,596,075
Small Business Admin. 1997-20K 1	AAA	6.600	11/01/17	3,932,908	102.469	4,030,013
Union Planters Mtg. Finance 1998-1 A3	AAA	6.600	01/25/28	11,500,000	100.530	11,560,950
Vendee Mortgage Trust 1994-1 2D	AAA	6.500	05/15/13	18,150,000	100.531	18,246,377
Vendee Mortgage Trust 1997-1 C2	AAA	7.500	09/15/17	2,000,000	101.937	2,038,740
Vendee Mortgage Trust 1998-2 1C	AAA	6.750	05/15/19	18,000,000	101.898	18,341,642
Total Collateralized Mortgage Obligations				<u>\$ 325,512,684</u>		<u>\$ 328,076,520</u>
Corporate Obligations						
American General Finance	A+	8.125	08/15/09	\$ 250,000	\$ 113.587	\$ 283,968
American General Instl. Cap A	A+	7.570	12/01/45	2,695,000	107.134	2,887,261
American General Instl. Cap B	A+	8.125	03/15/46	725,000	114.256	828,356
Ameritech Capital	A+	6.550	01/15/28	2,015,000	100.154	2,018,103
Amsouth Bank of Alabama	A-	6.450	02/01/18	6,000,000	99.775	5,986,500
Anheuser Busch Cos.	A+	6.500	01/01/28	1,845,000	100.418	1,852,712
Anheuser Busch Cos.	A+	8.750	12/01/99	10,000,000	103.715	10,371,500
AON Capital Trust A	A	8.205	01/01/27	1,565,000	115.826	1,812,677
Archer Daniels Midland Co.	AA-	6.750	12/15/27	1,800,000	103.473	1,862,514
Associates Corp.	AA-	7.600	12/17/02	7,000,000	106.505	7,455,350
Associates Corp.	AA-	7.250	09/01/99	3,750,000	101.460	3,804,750
Banc One Corp.	A+	9.875	03/01/09	250,000	125.937	314,843
Bank One Corp.	A+	7.250	08/01/02	6,390,000	103.738	6,628,858
BankAmerica Capital II	A-	8.000	12/15/26	4,500,000	108.681	4,890,645
BankAmerica Corp.	A	6.625	10/15/07	250,000	102.270	255,675
Bankers Trust NY Corp.	A-	7.150	08/14/12	250,000	102.675	256,688
Baxter International Inc.	A	6.625	02/15/28	3,540,000	99.439	3,520,141
Bear Stearns & Co.	A	7.625	09/15/99	1,842,000	101.826	1,875,635
BellSouth Capital Funding	AAA	6.040	11/15/26	5,600,000	103.699	5,807,144
Boeing Co.	A+	6.625	02/15/38	2,290,000	102.853	2,355,334

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon Rate	Maturity Date	Par Value	Market Price	Fair Value
Corporate Obligations (Continued)						
Bristol-Myer Squibb	AAA	6.875	08/01/97	\$ 6,130,000	\$ 107.004	\$ 6,559,345
Cargill Inc.	AA-	5.950	05/15/37	2,250,000	100.224	2,255,040
CB Commercial Credit	A+	6.450	07/01/02	250,000	100.849	252,123
Chesapeake & Potomac Telephone	AA-	8.300	08/01/31	3,375,000	126.383	4,265,426
Chrysler Corp.	A+	7.400	08/01/97	6,000,000	110.022	6,601,320
Cigna Corp.	A	7.875	05/15/27	755,000	112.207	847,163
Citicorp Capital Trust I	A-	7.933	02/15/27	4,500,000	108.787	4,895,415
Columbia/HCA Healthcare	BBB	7.690	06/15/25	5,000,000	96.619	4,830,950
Comerica Bank	A-	6.875	03/01/08	250,000	104.186	260,465
Conrail	BBB	9.750	06/15/20	8,000,000	134.168	10,733,440
Consolidated Natural Gas	AA-	6.800	12/15/27	3,000,000	102.395	3,071,850
Countrywide Capital	A-	8.000	12/15/26	700,000	105.560	738,920
Dayton Hudson Corp.	BBB+	8.875	04/01/22	3,000,000	126.022	3,780,660
Dayton Hudson Corp.	BBB+	9.700	06/15/21	6,250,000	134.547	8,409,188
Dover Corp.	A+	6.250	06/01/08	250,000	101.038	252,595
Duke Power Co.	AA-	6.375	03/01/08	250,000	99.256	248,140
First Union Corp.	A-	7.500	07/15/06	250,000	107.569	268,923
Firststar Bank Milwaukee	A	6.250	12/01/02	4,000,000	100.147	4,005,880
Ford Holdings	A	9.250	03/01/00	4,000,000	105.114	4,204,560
Ford Motor Co.	A	7.125	11/15/25	735,000	106.428	782,246
Ford Motor Co.	A	7.500	08/01/26	2,245,000	111.249	2,497,540
Ford Motor Co.	A	9.950	02/15/32	10,500,000	141.860	14,895,300
Ford Motor Credit Co.	A	8.375	01/15/00	3,575,000	103.489	3,699,732
Ford Motor Credit Co.	A	6.800	04/23/01	10,000,000	101.938	10,193,800
Ford Motor Credit Co.	A	6.900	06/05/00	5,000,000	101.695	5,084,750
Gap, Inc.	A	6.900	09/17/07	250,000	104.294	260,735
GE Global Ins. Hldg. Corp.	AA	7.000	02/15/26	6,300,000	106.867	6,732,621
General Electric Capital Corp.	AAA	8.500	07/24/08	2,250,000	118.441	2,664,923
General Electric Capital Corp.	AAA	8.875	05/15/09	9,500,000	122.719	11,658,305
General Motors Acceptance Corp.	A	0.000	06/15/15	10,300,000	32.562	3,353,886
General Motors Acceptance Corp.	A	6.875	07/15/01	11,000,000	102.095	11,230,450
General Motors Acceptance Corp.	A	7.125	05/01/03	4,000,000	104.261	4,170,440
General Motors Acceptance Corp.	A	8.625	06/15/99	3,535,000	102.477	3,622,562
General Motors Acceptance Corp.	A	8.875	06/01/10	11,500,000	120.146	13,816,790
General Telephone of California	AA-	6.750	03/15/04	250,000	102.554	256,385
Golden West Financial	A-	6.700	07/01/02	4,500,000	101.689	4,576,005
GTE Corp.	A	6.940	04/15/28	710,000	100.780	715,538
GTE Corp.	A	7.510	04/01/09	150,000	107.590	161,385
Honeywell Inc.	A	7.125	04/15/08	250,000	106.736	266,840
Household Finance	A	6.375	06/30/00	3,895,000	100.699	3,922,226
Household Finance	A	6.875	03/01/03	4,800,000	102.540	4,921,920
IBM Corp.	A+	6.500	01/15/28	3,850,000	100.024	3,850,924
Ingersoll-Rand	A-	6.015	02/15/28	1,695,000	100.190	1,698,221
Ingersoll-Rand	A-	6.130	11/18/27	1,930,000	104.200	2,011,060
Inter-American Dev. Bank	AAA	7.125	03/15/23	10,000,000	104.144	10,414,400
International Business Machines Corp.	A+	6.375	06/15/00	250,000	100.936	252,340
ITT Hartford	A	6.375	11/01/02	1,500,000	100.792	1,511,880
ITT Hartford	A	8.300	12/01/01	7,000,000	106.416	7,449,120
J.C. Penney & Co.	A	5.375	11/15/98	6,000,000	99.861	5,991,660
J.C. Penney & Co.	A	6.900	08/15/26	5,000,000	106.455	5,322,750
J.P. Morgan Cap. Trust	A+	7.540	01/15/27	5,000,000	103.809	5,190,450
J.P. Morgan Cap. Trust II	A+	7.950	02/01/27	700,000	108.094	756,658

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon Rate	Maturity Date	Par Value	Market Price	Fair Value
Corporate Obligations (Continued)						
Key Bank	A	5.750	04/25/00	\$ 2,000,000	\$ 99.507	\$ 1,990,140
Loews Corp.	AA-	7.625	06/01/23	6,000,000	101.663	6,099,780
May Department Stores	A	7.625	08/15/13	5,750,000	112.023	6,441,323
May Department Stores	A	7.875	08/15/36	2,500,000	111.249	2,781,225
May Department Stores	A	8.125	08/15/35	5,000,000	113.737	5,686,850
McKesson Corp.	A-	6.400	03/01/08	250,000	99.155	247,888
Merck & Co.	AAA	5.760	05/03/37	11,695,000	103.668	12,123,973
Motorola, Inc.	AA-	8.400	08/15/31	1,500,000	122.563	1,838,445
National Fuel Gas	A-	6.214	08/12/27	4,000,000	101.270	4,050,800
NBD Bancorp	A	7.125	05/15/07	250,000	106.052	265,130
Northrop-Grumman Corp.	BBB-	9.375	10/15/24	1,520,000	122.376	1,860,115
Norwest Corp.	AA-	6.200	12/01/05	5,000,000	100.615	5,030,750
Norwest Corp.	AA-	6.500	06/01/05	7,500,000	102.421	7,681,575
Pepsico Inc.	A	7.625	11/01/98	12,000,000	100.554	12,066,480
Philip Morris Global BD	A	7.000	07/15/05	1,350,000	102.305	1,381,118
PNC Funding Corp.	BBB+	6.875	07/15/07	250,000	104.285	260,713
Raytheon Co.	BBB	6.750	03/15/18	22,300,000	102.094	22,766,962
Safeco Corp.	A+	6.875	07/15/07	12,500,000	104.510	13,063,750
Scripps Howard Corp.	A	7.375	12/15/98	125,000	100.661	125,826
Sears Roebuck Acceptance	A-	6.540	02/20/03	2,391,000	101.657	2,430,619
Sears Roebuck Acceptance	A-	6.930	11/15/02	2,609,000	103.090	2,689,618
Sears Roebuck Acceptance	A-	7.110	06/19/01	5,000,000	102.961	5,148,050
Sherwin Williams Co.	A	5.500	10/15/27	3,580,000	100.365	3,593,067
Sherwin Williams Co.	A	6.850	02/01/07	250,000	105.596	263,990
Smith Barney Holdings	A	7.000	05/15/00	4,000,000	101.788	4,071,520
Southern Co. Capital Trust I	A-	8.190	02/01/37	6,800,000	108.166	7,355,288
Southern Natural Gas	A-	6.700	10/01/07	5,000,000	102.290	5,114,500
Southern New England Telecom.	A+	6.500	08/15/00	3,700,000	101.206	3,744,622
Southtrust Bank NA	A-	6.125	01/09/28	3,705,000	99.111	3,672,063
Square Butte Electric	AAA	6.790	01/01/24	1,915,000	101.544	1,944,568
Star Bank	A-	6.625	12/15/06	250,000	102.201	255,503
Swiss Bank Corp.	AA	7.750	09/01/26	9,250,000	114.289	10,571,733
Transamerica Capital	A-	7.625	11/15/37	660,000	105.875	698,775
Transamerica Capital II	A-	7.650	12/01/26	995,000	107.222	1,066,859
TRW Inc.	A	6.650	01/15/28	1,845,000	101.641	1,875,276
Union Electric Co.	AA-	6.875	08/01/04	8,000,000	104.152	8,332,160
Union Electric Co.	AA-	7.650	07/15/03	7,000,000	107.121	7,498,470
Union Pacific Railroad	A-	6.700	02/23/19	8,250,000	101.675	8,388,188
UNUM Corp.	A+	7.190	02/01/28	1,885,000	110.511	2,083,132
Walt Disney Co.	A	5.800	10/27/08	5,550,000	97.758	5,425,569
Walt Disney Co.	A	7.550	07/15/93	7,500,000	114.295	8,572,125
Washington Gas & Light Co.	AA-	6.810	03/13/28	2,000,000	103.370	2,067,400
Wisconsin Electric Power	AA+	7.250	08/01/04	1,000,000	106.242	1,062,420
WMX Technologies Inc.	BBB+	6.250	10/15/00	3,675,000	100.152	3,680,586
Xerox Corp.	A	5.545	07/22/37	2,990,000	99.789	2,983,691
Xerox Corp.	A	5.875	06/15/37	675,000	103.378	697,802
Total Corporate Obligations				<u>\$ 470,902,000</u>		<u>\$ 496,534,336</u>

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon Rate	Maturity Date	Par Value	Market Price	Fair Value
Foreign Obligations						
Hydro Quebec	A+	7.500	04/01/16	\$ 2,000,000	\$ 110.728	\$ 2,214,560
Hydro Quebec	A+	8.050	07/07/24	9,600,000	118.972	11,421,312
Hydro Quebec	A+	9.500	11/15/30	4,500,000	137.752	6,198,840
Province of Ontario	A+	7.500	07/15/23	6,000,000	111.560	6,693,600
Total Foreign Obligations				<u>\$ 22,100,000</u>		<u>\$ 26,528,312</u>
U.S. Government & Agency Obligations						
Federal Home Loan Bank	AAA	5.710	10/01/98	16,000,000	100.031	16,004,960
FHLMC	AAA	5.950	01/19/06	450,000	100.781	453,515
FHLMC	AAA	6.700	01/05/07	250,000	105.609	264,023
FNMA	AAA	5.650	05/26/99	17,625,000	99.984	17,622,180
FNMA	AAA	5.750	02/15/08	500,000	99.531	497,655
FNMA	AAA	7.550	04/22/02	250,000	106.344	265,859
FNMA	AAA	8.250	12/18/00	400,000	105.719	422,876
FNMA	AAA	8.450	07/12/99	300,000	102.719	308,157
REFCO Strip Principal	AAA	0.000	10/15/20	8,300,000	27.244	2,261,252
Treasury Bond	AAA	6.500	08/15/05	150,000	105.531	158,297
Treasury Bond	AAA	6.625	02/15/27	2,125,000	112.922	2,399,593
Treasury Bond	AAA	6.750	08/15/26	53,315,000	114.484	61,037,145
Treasury Bond	AAA	8.500	02/15/20	8,750,000	134.031	11,727,713
Treasury Note	AAA	5.500	02/29/00	30,205,000	99.969	30,195,636
Treasury Note	AAA	5.500	03/31/03	15,000,000	99.937	14,990,550
Treasury Note	AAA	5.500	02/15/08	10,330,000	99.937	10,323,492
Treasury Note	AAA	5.750	11/15/00	3,745,000	100.500	3,763,725
Treasury Note	AAA	5.750	04/30/03	64,180,000	100.984	64,811,531
Treasury Note	AAA	5.750	08/15/03	45,295,000	101.062	45,776,033
Treasury Note	AAA	5.875	11/15/99	3,160,000	100.453	3,174,315
Treasury Note	AAA	5.875	02/15/04	250,000	101.844	254,610
Treasury Note	AAA	6.250	02/28/02	8,733,000	102.297	8,933,597
Treasury Note	AAA	6.250	02/15/03	500,000	102.906	514,530
Treasury Note	AAA	6.375	08/15/27	18,230,000	109.812	20,018,728
Treasury Note	AAA	6.500	10/15/06	14,790,000	106.187	15,705,057
Treasury Note	AAA	6.625	06/30/01	2,630,000	102.922	2,706,849
Treasury Note	AAA	6.875	07/31/99	30,000,000	101.391	30,417,300
Treasury Note	AAA	6.875	03/31/00	2,000,000	102.219	2,044,380
Treasury Note	AAA	6.875	05/15/06	1,830,000	108.281	1,981,542
Treasury Note	AAA	7.750	02/15/01	250,000	105.359	263,398
Treasury Note	AAA	7.875	08/15/01	21,500,000	106.562	22,910,830
Treasury Note	AAA	8.500	02/15/00	250,000	104.547	261,368
Treasury Note	AAA	9.125	05/15/99	22,000,000	103.031	22,666,820
Treasury Note	AAA	9.250	08/15/98	5,100,000	100.453	5,123,103
Treasury Note Inflation Adjusted	AAA	3.375	01/15/07	27,406,600	96.844	26,541,648
Treasury Note Inflation Adjusted	AAA	3.625	07/15/02	41,015,000	98.906	40,566,296
Treasury Note Inflation Adjusted	AAA	3.625	01/15/08	27,980,000	98.844	27,656,551
Treasury Note Inflation Adjusted	AAA	3.625	04/15/28	7,005,000	98.781	6,919,609
Total U.S. Government & Agency Obligations				<u>\$ 511,799,600</u>		<u>\$ 521,944,723</u>
U.S. Government Mortgage-Backed						
FHLMC 170034	AAA	12.000	07/01/10	\$ 5,606	\$ 113.830	\$ 6,382
FHLMC 170068	AAA	12.500	10/01/12	3,247	115.900	3,762
FHLMC 170072	AAA	14.000	12/01/12	24,746	117.983	29,196

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon Rate	Maturity Date	Par Value	Market Price	Fair Value
U.S. Government & Mortgage-Backed (Continued)						
FHLMC 170073	AAA	12.500	01/01/13	\$ 644	\$ 116.448	\$ 750
FHLMC 170077	AAA	12.500	04/01/13	5,491	116.926	6,420
FHLMC 170091	AAA	12.500	01/01/14	1,818	116.448	2,117
FHLMC 181528	AAA	13.000	08/01/10	15,391	117.371	18,064
FHLMC 20235	AAA	6.500	04/01/11	194,844	101.138	197,062
FHLMC 220022	AAA	9.250	06/01/02	4,626,711	111.656	5,166,001
FHLMC 280327	AAA	9.000	09/01/16	139,309	106.490	148,350
FHLMC C00349	AAA	7.000	04/01/24	4,324,212	101.617	4,394,134
FHLMC C00653	AAA	6.500	07/01/28	3,663,000	99.955	3,661,333
FHLMC C11000	AAA	6.500	06/01/28	60,011	99.980	59,999
FHLMC D53306	AAA	7.000	05/01/24	4,175,243	101.617	4,242,756
FHLMC D64097	AAA	8.500	01/01/23	9,367,148	104.976	9,833,258
FHLMC D66768	AAA	7.000	09/01/24	6,216,251	101.648	6,318,695
FHLMC D70745	AAA	7.000	08/01/24	1,898,500	101.648	1,929,787
FHLMC D78534	AAA	8.000	02/01/27	4,273,215	103.444	4,420,385
FHLMC E00190	AAA	7.000	02/01/08	5,230,168	102.022	5,335,922
FHLMC E20037	AAA	7.000	07/01/08	10,915,811	102.242	11,160,544
FHLMC G10067	AAA	7.000	01/01/08	15,404,318	102.022	15,715,795
FHLMC G10482	AAA	7.000	03/01/11	190,364	102.338	194,815
FHLMC W20002	AAA	6.775	11/15/03	373,813	103.093	385,375
FHLMC PC 160080	AAA	10.500	05/01/09	22,397	109.003	24,413
FHLMC PC 218421	AAA	9.000	07/01/02	214,834	102.341	219,864
FHLMC PC 282425	AAA	9.000	12/01/16	210,848	106.505	224,564
FHLMC PC 290357	AAA	9.500	01/01/17	611,512	107.372	656,593
FHLMC TBA	AAA	6.500	07/14/28	3,760,000	99.955	3,758,289
FNMA 002160	AAA	8.000	05/01/09	2,080,319	103.746	2,158,248
FNMA 190506	AAA	6.500	12/01/08	13,465,493	100.818	13,575,641
FNMA 190534	AAA	6.000	12/01/08	139,519	99.464	138,771
FNMA 190544	AAA	9.000	09/01/22	1,537,161	106.600	1,638,612
FNMA 233671	AAA	8.172	09/01/23	997,615	104.531	1,042,817
FNMA 269803	AAA	6.000	06/01/09	21,318	99.418	21,195
FNMA 271156	AAA	6.000	02/01/09	15,055	99.418	14,967
FNMA 303785	AAA	6.000	03/01/11	21,790	99.012	21,576
FNMA 313076	AAA	6.000	08/01/11	9,419,292	99.012	9,326,229
FNMA 313543	AAA	6.980	06/01/07	1,823,600	101.370	1,848,584
FNMA 313672	AAA	7.032	06/01/07	3,576,673	101.430	3,627,819
FNMA 313709	AAA	6.907	06/01/07	4,050,608	101.310	4,103,670
FNMA 334097	AAA	6.000	03/01/09	10,588,659	98.477	10,427,394
FNMA 338345	AAA	6.000	04/01/11	410,033	99.012	405,982
FNMA 349473	AAA	7.500	09/01/26	3,970,514	102.609	4,074,105
FNMA 356085	AAA	8.000	09/01/26	6,510,931	103.530	6,740,767
FNMA 358465	AAA	7.500	09/01/26	3,173,188	102.609	3,255,976
FNMA 358468	AAA	8.000	09/01/26	4,652,491	103.530	4,816,724
FNMA 368818	AAA	8.000	01/01/27	1,680,749	103.514	1,739,811
FNMA 368820	AAA	7.500	01/01/27	8,296,674	102.609	8,513,135
FNMA 370850	AAA	6.500	03/01/27	4,027,287	99.608	4,011,500
FNMA 411334	AAA	7.000	10/01/09	11,499,244	101.820	11,708,530
FNMA 430417	AAA	6.000	06/01/13	3,877,844	99.955	3,876,080
FNMA 433232	AAA	7.000	06/01/28	5,005,927	101.524	5,082,217
FNMA 44027	AAA	7.000	12/01/07	7,361,212	102.435	7,540,457
FNMA 73565	AAA	7.310	07/01/03	364,868	101.632	370,822
FNMA 73576	AAA	7.285	07/01/03	364,838	101.632	370,792

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon Rate	Maturity Date	Par Value	Market Price	Fair Value
U.S. Government & Mortgage-Backed (Continued)						
FNMA 73706	AAA	7.280	10/01/06	\$ 345,079	\$ 101.426	\$ 349,999
FNMA 73733	AAA	7.060	11/01/03	438,653	101.232	444,057
FNMA 73789	AAA	6.850	12/01/03	374,716	100.491	376,556
FNMA 73795	AAA	6.770	12/01/03	374,696	100.491	376,536
FNMA 73980	AAA	7.040	03/01/07	341,101	101.426	345,965
FNMA TBA	AAA	6.000	07/01/13	28,345,000	97.631	27,673,672
FNMA TBA	AAA	6.000	07/01/28	38,600,000	97.468	37,622,938
FNMA TBA	AAA	6.500	07/01/13	9,060,000	99.954	9,055,878
FNMA TBA	AAA	6.500	07/01/28	30,375,000	98.363	29,877,891
FNMA TBA	AAA	7.000	07/01/13	27,718,000	101.875	28,237,713
FNMA TBA	AAA	7.500	07/01/28	2,200,000	102.688	2,259,125
GNMA I 032863	AAA	9.500	08/15/09	172,451	107.437	185,277
GNMA I 032864	AAA	9.500	09/15/09	167,229	107.821	180,308
GNMA I 032959	AAA	9.500	07/15/09	148,700	107.821	160,330
GNMA I 033699	AAA	9.500	08/15/09	295,117	107.821	318,197
GNMA I 034019	AAA	9.500	08/15/09	350,557	107.821	377,973
GNMA I 034705	AAA	9.500	10/15/09	962,609	107.821	1,037,895
GNMA I 036450	AAA	9.500	12/15/09	103,357	107.821	111,440
GNMA I 036624	AAA	9.500	10/15/09	350,786	107.437	376,874
GNMA I 038349	AAA	10.000	12/15/09	90,533	107.997	97,774
GNMA I 038528	AAA	11.000	03/15/10	153,906	111.013	170,856
GNMA I 040175	AAA	11.000	02/15/10	88,489	110.606	97,874
GNMA I 040176	AAA	11.000	03/15/10	49,490	111.013	54,940
GNMA I 040968	AAA	13.500	10/15/10	91,440	117.896	107,805
GNMA I 040971	AAA	11.500	02/15/11	99,672	112.425	112,056
GNMA I 040972	AAA	11.000	07/15/10	33,842	111.013	37,570
GNMA I 041478	AAA	12.500	07/15/10	70,148	114.986	80,660
GNMA I 042146	AAA	10.000	11/15/09	93,304	108.304	101,052
GNMA I 042574	AAA	11.000	08/15/10	80,309	110.606	88,827
GNMA I 043009	AAA	11.000	07/15/10	50,422	110.606	55,770
GNMA I 043813	AAA	11.000	07/15/10	38,385	110.139	42,277
GNMA I 044824	AAA	11.000	09/15/10	118,400	111.013	131,440
GNMA I 045462	AAA	11.500	10/15/10	127,252	111.625	142,045
GNMA I 055762	AAA	14.000	06/15/12	41,491	119.215	49,463
GNMA I 066664	AAA	11.500	04/15/13	11,637	107.399	12,499
GNMA I 066991	AAA	11.500	04/15/13	48,186	113.028	54,464
GNMA I 068255	AAA	11.500	06/15/13	29,580	113.028	33,433
GNMA I 090974	AAA	9.500	10/15/09	94,835	112.343	106,541
GNMA I 091592	AAA	9.000	05/15/09	172,159	110.687	190,558
GNMA I 091806	AAA	9.500	10/15/09	34,546	112.343	38,810
GNMA I 151254	AAA	9.000	01/15/17	3,564,517	107.403	3,828,398
GNMA I 172908	AAA	9.000	09/15/16	1,062,634	107.403	1,141,301
GNMA I 173302	AAA	9.000	07/15/16	65,517	107.367	70,343
GNMA I 178428	AAA	9.000	12/15/16	22,880	107.367	24,567
GNMA I 184078	AAA	7.500	08/15/23	93,261	102.948	96,010
GNMA I 272827	AAA	10.000	03/15/19	839,421	109.764	921,383
GNMA I 282726	AAA	9.000	02/15/20	1,883,263	107.715	2,028,557
GNMA I 333091	AAA	7.500	06/15/23	397,995	102.948	409,728
GNMA I 333099	AAA	7.500	07/15/23	337,143	102.948	347,082
GNMA I 334656	AAA	7.500	06/15/23	165,840	102.948	170,729
GNMA I 336137	AAA	7.500	03/15/23	175,021	103.110	180,464

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon Rate	Maturity Date	Par Value	Market Price	Fair Value
U.S. Government & Mortgage-Backed (Continued)						
GNMA I 336173	AAA	7.500	04/15/23	\$ 320,180	\$ 103.110	\$ 330,137
GNMA I 337293	AAA	7.500	01/15/23	5,664,086	103.110	5,840,239
GNMA I 337451	AAA	7.500	05/15/23	289,248	103.110	298,244
GNMA I 338882	AAA	7.500	02/15/23	168,162	102.948	173,120
GNMA I 340217	AAA	7.500	07/15/23	131,947	102.948	135,837
GNMA I 340904	AAA	7.500	06/15/23	47,894	102.948	49,306
GNMA I 342022	AAA	7.500	05/15/23	291,282	103.110	300,340
GNMA I 342527	AAA	7.500	02/15/23	308,635	103.110	318,234
GNMA I 343095	AAA	7.500	03/15/23	355,205	102.948	365,677
GNMA I 345048	AAA	6.500	10/15/08	1,276,211	101.244	1,292,088
GNMA I 345306	AAA	6.500	05/15/08	1,648,874	101.244	1,669,386
GNMA I 345931	AAA	6.500	02/15/24	21,252,746	100.215	21,298,439
GNMA I 346632	AAA	6.500	06/15/08	1,276,702	101.244	1,292,584
GNMA I 346694	AAA	7.500	08/15/23	334,966	102.948	344,841
GNMA I 348036	AAA	7.500	04/15/23	297,844	103.110	307,107
GNMA I 348096	AAA	7.500	06/15/23	313,368	102.948	322,606
GNMA I 348544	AAA	7.500	04/15/23	293,471	102.948	302,123
GNMA I 349401	AAA	7.500	06/15/23	283,167	103.110	291,973
GNMA I 349972	AAA	7.500	02/15/23	289,083	103.110	298,074
GNMA I 351154	AAA	7.500	08/15/23	311,849	102.948	321,042
GNMA I 351424	AAA	6.500	02/15/24	509,532	100.215	510,627
GNMA I 352158	AAA	7.500	05/15/23	284,540	102.948	292,928
GNMA I 354641	AAA	6.500	08/15/08	3,133,493	101.244	3,172,473
GNMA I 354665	AAA	6.500	10/15/23	4,865,778	100.207	4,875,879
GNMA I 354667	AAA	7.500	10/15/23	293,865	102.948	302,527
GNMA I 354745	AAA	7.500	01/15/24	335,035	102.948	344,911
GNMA I 356154	AAA	7.500	11/15/23	231,836	102.948	238,671
GNMA I 356280	AAA	7.500	04/15/23	283,429	102.948	291,783
GNMA I 356986	AAA	7.500	07/15/23	341,138	103.110	351,748
GNMA I 357215	AAA	7.500	06/15/23	452,138	102.948	465,468
GNMA I 358207	AAA	7.500	08/15/23	301,176	103.110	310,543
GNMA I 358367	AAA	7.500	06/15/23	312,032	103.110	321,736
GNMA I 358604	AAA	7.500	08/15/23	334,440	102.948	344,299
GNMA I 361588	AAA	7.875	07/15/31	8,808,044	103.573	9,122,756
GNMA I 361655	AAA	7.500	08/15/23	280,154	102.917	288,326
GNMA I 363956	AAA	7.500	09/15/25	294,581	102.854	302,987
GNMA I 368581	AAA	6.500	03/15/24	573,419	100.215	574,652
GNMA I 368865	AAA	6.500	12/15/23	771,396	100.200	772,939
GNMA I 371284	AAA	6.500	05/15/24	2,433,863	100.215	2,439,097
GNMA I 372350	AAA	7.500	05/15/26	565,192	102.854	581,323
GNMA I 374888	AAA	6.500	01/15/24	341,126	100.200	341,807
GNMA I 378336	AAA	6.500	01/15/24	372,021	100.215	372,819
GNMA I 392426	AAA	8.000	07/15/24	2,112,271	103.983	2,196,403
GNMA I 399848	AAA	7.000	12/15/25	238,822	101.668	242,806
GNMA I 412507	AAA	7.500	10/15/25	65,669	102.854	67,543
GNMA I 420314	AAA	7.500	04/15/26	153,467	102.854	157,847
GNMA I 426503	AAA	7.000	10/15/27	214,206	101.636	217,710
GNMA I 426550	AAA	7.000	02/15/28	532,555	101.636	541,267
GNMA I 427294	AAA	7.000	01/15/28	248,666	101.636	252,734
GNMA I 427420	AAA	7.500	02/15/26	274,980	102.854	282,828
GNMA I 427605	AAA	7.000	09/15/27	243,100	101.636	247,077

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon Rate	Maturity Date	Par Value	Market Price	Fair Value
U.S. Government & Mortgage-Backed (Continued)						
GNMA I 427747	AAA	7.000	11/15/27	\$ 213,104	\$ 101.636	\$ 216,590
GNMA I 429421	AAA	7.000	04/15/26	89,935	101.668	91,436
GNMA I 429465	AAA	7.000	11/15/27	179,467	101.636	182,403
GNMA I 429956	AAA	7.000	08/15/27	630,873	101.636	641,194
GNMA I 430271	AAA	7.000	10/15/27	256,172	101.607	260,288
GNMA I 430607	AAA	7.500	03/15/28	119,053	102.823	122,413
GNMA I 430642	AAA	7.500	04/15/28	997,331	102.823	1,025,485
GNMA I 433728	AAA	7.500	04/15/28	997,711	102.823	1,025,877
GNMA I 433806	AAA	7.000	05/15/28	494,101	101.607	502,041
GNMA I 433831	AAA	7.000	05/15/28	524,055	101.607	532,476
GNMA I 435885	AAA	7.000	06/15/27	245,837	101.636	249,858
GNMA I 436217	AAA	7.000	02/15/28	433,711	101.636	440,807
GNMA I 438403	AAA	7.000	02/15/28	1,102,814	101.636	1,120,856
GNMA I 440520	AAA	7.500	01/15/27	494,783	102.823	508,750
GNMA I 441682	AAA	7.000	12/15/27	261,551	101.636	265,830
GNMA I 442354	AAA	7.500	04/15/28	1,954,304	102.823	2,009,475
GNMA I 444019	AAA	7.000	05/15/28	230,991	101.607	234,703
GNMA I 445289	AAA	7.000	01/15/28	77,709	101.636	78,980
GNMA I 445671	AAA	7.500	08/15/27	134,846	102.823	138,652
GNMA I 446114	AAA	7.000	02/15/28	158,022	101.636	160,606
GNMA I 447651	AAA	7.500	06/15/27	3,183,366	102.823	3,273,231
GNMA I 447991	AAA	7.500	06/15/28	497,491	103.094	512,883
GNMA I 449835	AAA	7.000	01/15/28	643,204	101.636	653,726
GNMA I 450349	AAA	7.000	06/15/28	184,787	101.636	187,811
GNMA I 451149	AAA	7.000	12/15/27	210,180	101.636	213,618
GNMA I 452646	AAA	7.000	11/15/27	291,557	101.636	296,326
GNMA I 454025	AAA	7.500	02/15/28	4,193,027	102.823	4,311,397
GNMA I 455093	AAA	7.000	02/15/28	1,097,597	101.636	1,115,554
GNMA I 455097	AAA	7.000	02/15/28	510,281	101.636	518,629
GNMA I 457341	AAA	7.000	12/15/27	231,629	101.636	235,419
GNMA I 457434	AAA	7.000	10/15/27	214,394	101.636	217,902
GNMA I 457682	AAA	7.000	02/15/28	194,497	101.607	197,623
GNMA I 458394	AAA	7.000	10/15/27	140,852	101.636	143,157
GNMA I 458520	AAA	7.000	10/15/27	328,863	101.636	334,244
GNMA I 458872	AAA	7.000	03/15/28	229,612	101.636	233,368
GNMA I 459171	AAA	7.000	02/15/28	238,883	101.636	242,791
GNMA I 459742	AAA	7.000	06/15/28	398,708	101.636	405,230
GNMA I 459930	AAA	7.000	02/15/28	223,584	101.636	227,242
GNMA I 460075	AAA	7.000	05/15/28	233,327	101.607	237,077
GNMA I 460193	AAA	7.000	02/15/28	1,102,228	101.636	1,120,260
GNMA I 460932	AAA	7.500	10/15/27	136,037	102.823	139,877
GNMA I 461052	AAA	7.000	12/15/27	524,449	101.636	533,029
GNMA I 461189	AAA	7.000	01/15/28	246,321	101.636	250,351
GNMA I 461450	AAA	7.000	04/15/28	136,733	101.636	138,970
GNMA I 462815	AAA	7.000	06/15/28	500,111	101.636	508,294
GNMA I 463597	AAA	7.000	02/15/28	660,568	101.636	671,375
GNMA I 463840	AAA	7.000	05/15/28	541,090	101.607	549,785
GNMA I 463947	AAA	7.000	06/15/28	692,425	101.636	703,754
GNMA I 465503	AAA	7.500	02/15/28	233,309	102.823	239,895
GNMA I 467033	AAA	7.000	06/15/28	226,144	101.636	229,844
GNMA I 467757	AAA	7.500	04/15/28	3,779,591	102.823	3,886,290

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon Rate	Maturity Date	Par Value	Market Price	Fair Value
U.S. Government & Mortgage-Backed (Continued)						
GNMA I 467758	AAA	7.500	04/15/28	\$ 1,098,133	\$ 102.823	\$ 1,129,133
GNMA I 467759	AAA	7.500	04/15/28	1,046,593	102.823	1,076,137
GNMA I 468677	AAA	7.000	01/15/28	634,204	101.636	644,580
GNMA I 468682	AAA	7.000	01/15/28	236,087	101.636	239,950
GNMA I 468692	AAA	7.000	02/15/28	196,865	101.636	200,085
GNMA I 468706	AAA	7.000	02/15/28	224,421	101.636	228,092
GNMA I 468724	AAA	7.000	02/15/28	213,808	101.636	217,306
GNMA I 468862	AAA	7.000	05/15/28	206,570	101.607	209,889
GNMA I 471810	AAA	7.000	03/15/28	184,381	101.636	187,398
GNMA I 472882	AAA	7.000	06/15/28	119,328	101.636	121,281
GNMA I 473325	AAA	7.000	06/15/28	560,557	101.636	569,728
GNMA I 473537	AAA	7.000	04/15/28	186,038	101.636	189,082
GNMA I 473961	AAA	7.000	05/15/28	645,964	101.636	656,532
GNMA I 474174	AAA	7.000	04/15/28	231,573	101.636	235,362
GNMA I 474237	AAA	7.500	05/15/28	4,248,560	102.823	4,368,497
GNMA I 474259	AAA	7.500	05/15/28	3,934,906	103.094	4,056,652
GNMA I 474278	AAA	7.500	05/15/28	1,814,104	103.094	1,870,232
GNMA I 475838	AAA	7.000	06/15/28	305,492	101.636	310,490
GNMA I 476290	AAA	7.000	05/15/28	227,033	101.636	230,747
GNMA I 476336	AAA	7.000	05/15/28	187,684	101.607	190,701
GNMA I 477640	AAA	7.000	06/15/28	4,962,796	101.636	5,043,987
GNMA I 478069	AAA	7.500	05/15/28	1,169,081	103.094	1,205,252
GNMA I 478113	AAA	7.000	06/15/28	40,360	101.828	41,098
GNMA I 780074	AAA	9.000	12/15/22	1,486,908	107.715	1,601,623
GNMA I 780119	AAA	9.000	12/15/19	1,286,669	107.653	1,385,138
GNMA I 780258	AAA	7.500	07/15/07	9,704,135	102.793	9,975,172
GNMA I 780277	AAA	9.000	10/15/21	1,996,800	107.715	2,150,854
GNMA I 780316	AAA	6.500	07/15/09	2,522,352	101.363	2,556,732
GNMA I 780400	AAA	7.000	12/15/25	221,633	101.668	225,330
GNMA I 780420	AAA	7.500	08/15/26	211,092	102.854	217,117
GNMA I 780772	AAA	8.000	12/15/17	6,072,630	104.658	6,355,493
GNMA II 000079	AAA	12.000	02/20/14	70,271	113.010	79,414
GNMA II 000088	AAA	12.500	12/20/14	34,874	115.750	40,366
GNMA II 000476	AAA	10.000	01/20/16	1,987	108.503	2,156
GNMA II 001254	AAA	9.500	09/20/19	344,434	107.194	369,214
GNMA II 001871	AAA	9.000	09/20/24	1,986,553	106.580	2,117,274
GNMA II 002247	AAA	7.000	07/20/26	12,382,216	101.355	12,549,995
GNMA II 028998	AAA	7.375	06/20/22	1,220,097	102.313	1,248,318
GNMA II 101379	AAA	12.000	08/20/13	49,592	113.218	56,148
GNMA II 102789	AAA	12.500	12/20/13	86,101	115.750	99,661
GNMA II 104329	AAA	12.500	11/20/13	27,548	115.750	31,886
GNMA II 104972	AAA	12.500	10/20/13	92,465	115.750	107,028
GNMA II 105679	AAA	12.500	12/20/13	32,061	114.599	36,741
GNMA II 105680	AAA	12.500	10/20/13	51,510	115.750	59,622
GNMA II 106186	AAA	12.500	12/20/13	83,620	115.750	96,790
GNMA II 106469	AAA	12.500	07/20/14	123,679	115.750	143,159
GNMA II 106835	AAA	12.500	11/20/13	111,865	115.750	129,482
GNMA II 123115	AAA	12.500	12/20/14	68,424	115.750	79,200
GNMA II 008837	AAA	7.125	09/20/21	891,029	102.453	912,885
GNMA TBA	AAA	6.500	07/01/28	34,400,000	99.965	34,388,132
GNMA TBA	AAA	7.000	07/01/28	30,525,000	101.956	31,122,222

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon Rate	Maturity Date	Par Value	Market Price	Fair Value
U.S. Government & Agency Obligations (Continued)						
GNMA TBA	AAA	7.500	07/01/28	\$ 11,700,000	\$ 102.906	\$ 12,040,031
GNMA TBA	AAA	8.500	07/01/28	1,970,000	105.531	2,078,965
Total U.S. Government Mortgage-Backed				<u>\$ 575,219,105</u>		<u>\$ 583,154,888</u>
Total Combined Fixed-Income Portfolio				<u>\$2,047,251,473</u>		<u>\$ 2,100,014,333</u>
Cash Equivalents						
Federal Farm Credit Bureau		5.550	07/01/98	\$ 26,565,000	\$ 100.000	\$ 26,565,000
Federal Home Loan Bank		5.360	07/01/98	93,622,000	100.000	93,622,000
Repo - J.P. Morgan		5.700	07/01/98	82,600,000	100.000	82,600,000
Treasury Bill		4.995	03/04/99	10,965,000	96.587	10,590,714
Treasury Bill		5.146	12/10/98	13,125,000	97.684	12,821,078
Total Cash Equivalents				<u>\$ 226,877,000</u>		<u>\$ 226,198,792</u>

Combined Stock Portfolio

Description	Unit Shares	Market Price	Fair Value
Common, Preferred & REIT Stocks - Domestic			
3 Com Corp.	120,200	\$ 30.688	\$ 3,688,638
A T & T Corp.	170,900	57.125	9,762,663
Abacus Direct Corp.	2,000	51.938	103,875
Abbott Labs	51,800	41.000	2,123,800
Abercrombie & Fitch Co. Cl A	33,600	44.000	1,478,400
Acxiom Corp.	8,800	24.938	219,450
Adaptec Inc.	67,300	14.313	963,231
Advent Software, Inc.	1,500	42.000	63,000
Advo Inc.	7,500	28.188	211,406
Aes Corp.	9,600	52.563	504,600
Aetna Inc.	90,800	76.125	6,912,150
Affiliated Computer	4,900	38.500	188,650
Aflac Inc.	8,000	30.313	242,500
Agco	45,000	20.563	925,313
Agouron Pharmaceuticals Inc.	1,200	30.313	36,375
Ahmanson H F & Co.	64,600	71.000	4,586,600
Ahmanson H F & Co.	27,600	58.438	1,612,875
Allstate Corp.	82,400	91.563	7,544,750
Alternative Living Services	1,700	27.000	45,900
Aluminum Co.	29,300	65.938	1,931,969
Alza Corp.	45,500	43.250	1,967,875
Amazon. Com., Inc.	1,000	99.750	99,750
Amb Property Corp.	4,100	24.500	100,450
Ambac Inc.	23,200	58.500	1,357,200
Amerada Hess Corp.	74,800	54.313	4,062,575
America Online Inc.	15,600	105.125	1,639,950
American General Corp.	16,600	71.188	1,181,713
American General Hospitality Corp.	22,200	21.250	471,750
American Home Prods Corp.	140,800	51.750	7,286,400
American Intl. Group Inc.	80,400	146.000	11,738,400
American Pwr. Conversion Corp.	14,600	30.000	438,000
American Real Estate Inv. Corp.	1,700	17.250	29,325

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Unit Shares	Market Price	Fair Value
Common, Preferred & REIT Stocks - Domestic (Continued)			
American Std Cos. Inc .	45,500	\$ 44.688	\$ 2,033,281
Americredit Corp.	3,000	35.688	107,063
Amerin Corp.	1,500	29.188	43,781
Amgen Inc.	37,700	65.375	2,464,638
Amoco Corp.	40,300	41.750	1,682,525
AMP Inc.	47,000	34.375	1,615,625
AMR Corp.	64,400	83.250	5,361,300
Anadarko Petroleum Corp.	2,800	67.188	188,125
Analog Devices Inc.	7,900	24.563	194,044
Anheuser Busch Cos. Inc.	90,500	47.188	4,270,469
Apache Corp.	71,400	31.500	2,249,100
Apartment Investment & Mgmt A	69,200	39.500	2,733,400
Applied Matls Inc.	70,000	29.500	2,065,000
Applied Power Inc.	3,200	34.375	110,000
Archstone Communities Trust	29,400	22.500	661,500
Armstrong World Inds. Inc.	7,000	67.375	471,625
Asa Holdings Inc.	1,700	49.625	84,363
Ascend Communications Inc.	79,200	49.563	3,925,350
Aspect Telecommunications	40,000	27.375	1,095,000
Aspen Technonology Inc.	1,750	50.500	88,375
Associates First Capital Corp.	47,050	76.938	3,619,909
Atlantic Richfield Co.	59,500	78.125	4,648,438
Atmel Corp.	37,000	13.625	504,125
Automatic Data Processing, Inc.	76,600	72.875	5,582,225
Autozone Inc.	3,100	31.938	99,006
Avalon Bay Communities	42,947	38.000	1,631,986
Avid Technology	2,100	33.500	70,350
Avon Products Inc.	25,400	77.438	1,966,913
Aztec Technology Partners	491	7.625	3,747
Banc One Corp.	52,150	55.813	2,910,622
Bankamerica Corp.	83,800	86.500	7,248,700
Bankers Trust N Y Corp.	45,900	116.063	5,327,269
Baxter Intl. Inc.	68,700	53.813	3,696,919
Bay Apartments Comm.	41,600	38.000	1,580,800
Bea Systems, Inc.	2,700	22.938	61,931
Bec Energy	42,500	41.500	1,763,750
Becton Dickinson & Co.	11,200	77.625	869,400
Bed Bath & Beyond Inc.	6,700	51.813	347,144
Bell Atlantic Corp.	234,200	45.625	10,685,375
Beneficial Corp.	15,600	153.188	2,389,725
Biogen N. V.	4,500	49.000	220,500
Biomet Inc.	6,200	33.063	204,988
Bmc Software Inc.	38,200	51.938	1,984,013
Bowater Inc.	44,200	47.250	2,088,450
Bradley Real Estate Inc.	37,200	21.125	785,850
Bre Properties - Cl-A Maryland	25,800	26.063	672,413
Bristol Myers Squibb Co.	179,000	114.938	20,573,813
Browning Ferris Inds. Inc.	65,500	34.750	2,276,125
Bush Inds. Inc.	3,700	21.750	80,475
Cablevision Systems Corp.	1,000	83.500	83,500
Callaway Golf Co.	24,600	19.688	484,313

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Unit Shares	Market Price	Fair Value
Common, Preferred & REIT Stocks - Domestic (Continued)			
Cambridge Technology Inc.	10,500	\$ 54.625	\$ 573,563
Camden Property Trust	64,219	29.750	1,910,518
Campbell Soup Co.	27,100	53.125	1,439,688
Capital One Finl. Corp.	8,800	124.188	1,092,850
Cardinal Health Inc.	38,100	93.750	3,571,875
Carlisle Cos. Inc.	3,900	43.063	167,944
Carr Rlty Corp.	34,300	28.375	973,263
Carramerica Realty Corp.	29,100	28.375	825,713
Catalina Marketing Corp.	2,100	51.938	109,069
Caterpillar Inc.	44,800	52.906	2,370,200
Cendant Corp.	140,061	20.500	2,871,251
Central & South West Corp.	77,800	26.875	2,090,875
Central Parking Corp.	1,300	46.500	60,450
Champion Enterprises Inc.	4,200	29.375	123,375
Chase Manhattan Corp.	260,800	75.500	19,690,400
Chelsea Gca Rlty. Inc.	18,500	40.000	740,000
Chrysler Corp.	21,000	56.375	1,183,875
Chubb Corp.	21,800	80.375	1,752,175
Ciena Corp.	24,000	69.625	1,671,000
Cigna Corp.	63,000	69.000	4,347,000
Cintas Corp.	7,800	51.000	397,800
Cisco Sys. Inc.	230,950	92.063	21,261,834
Citibank Spec. Sit. Fund	1	7,053.540	5,444
Citicorp	12,000	149.250	1,791,000
Clorox Co.	12,800	95.625	1,224,000
CMAC Investment Corp.	2,200	61.500	135,300
Coastal Corp.	91,000	69.813	6,352,938
Coca Cola Co.	259,900	85.500	22,221,450
Coca Cola Enterprises Inc.	22,800	39.125	892,050
Coherent Communs Sys Corp.	5,400	46.813	252,788
Colgate-Palmolive Co.	77,800	88.000	6,846,400
Colonial Pptys Trust	22,800	31.000	706,800
Coltec Inds Inc.	56,100	19.875	1,114,988
Columbia / HCA Healthcare	266,500	29.125	7,761,813
Columbia Energy Group	32,850	55.625	1,827,281
Comair Holdings Inc.	6,900	30.875	213,038
Comcast Corp.	31,100	40.594	1,262,466
Compaq Computer Corp.	291,600	28.375	8,274,150
Compusa Inc.	44,100	18.125	799,313
Computer Associates Intl.	10,500	55.563	583,406
Computer Sciences Corp.	5,800	64.000	371,200
Compuware Corp.	8,200	51.125	419,225
Comverse Technology Inc.	1,600	51.875	83,000
Conagra Inc.	136,000	31.688	4,309,500
Consolidated Edison Inc.	77,700	46.063	3,579,056
Continental Airlines Inc.	20,700	60.875	1,260,113
Costco Companies Inc.	13,300	63.063	838,731
Countrywide Cr Inds Inc.	29,400	50.750	1,492,050
Crane Co.	6,000	48.563	291,375
Crescent Real Estate Equities Co.	36,300	33.625	1,220,588
Crompton & Knowles Corp.	3,000	25.188	75,563

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Unit Shares	Market Price	Fair Value
Common, Preferred & REIT Stocks - Domestic (Continued)			
Crown Cork & Seal Inc.	32,700	\$ 47.500	\$ 1,553,250
CSX Corp.	38,400	45.500	1,747,200
CVS Corp.	96,400	38.938	3,753,575
Danaher Corp.	15,400	36.688	564,988
Data Gen. Corp.	46,000	14.938	687,125
Dayton Hudson Corp.	33,600	48.500	1,629,600
Del Labs Inc.	1,700	21.750	36,975
Dell Computer	79,700	92.813	7,397,156
Delta Air Lines Inc.	47,000	129.250	6,074,750
Deluxe Corp.	25,300	35.750	904,475
Developers Diversified	40,800	39.250	1,601,400
Devon Energy Corp.	2,100	34.938	73,369
Diebold Inc.	27,600	28.875	796,950
Disney Walt Holding Co.	104,300	105.063	10,958,019
Dollar Gen. Corp.	15,025	39.563	594,427
Dollar Tree Stores Inc.	8,700	40.625	353,438
Donaldson Inc.	2,500	23.625	59,063
Dover Corp.	7,400	34.250	253,450
Dow Chem. Co.	17,800	96.688	1,721,038
Dresser Inds. Inc.	3,800	44.063	167,438
Du Pont E. I. De Nemours & Co.	65,500	74.688	4,892,031
Duke Realty Investments Inc.	77,300	23.625	1,826,213
E M C Corp.	310	44.813	13,892
E* Trade Group, Inc.	2,700	22.938	61,931
Eastman Chem Co.	26,300	62.250	1,637,175
Eastman Kodak Co.	60,583	73.063	4,426,345
Echlin Inc.	23,000	49.063	1,128,438
Ecolab Inc.	22,000	31.000	682,000
Edison Intl.	82,600	29.563	2,441,863
EGSF Venture Cap Fund	2	568.940	1,085
Electronic Data Systems Corp.	145,145	39.938	5,796,728
Energy East Corp.	28,500	41.625	1,186,313
Ensco International Inc.	7,000	17.500	122,500
Envoy Corp.	1,800	47.375	85,275
Equifax Inc.	15,100	36.313	548,319
Equitable Cos.	24,000	74.938	1,798,500
Equitable Res. Inc.	46,100	30.500	1,406,050
Equity Office Property Trust	67,052	28.375	1,902,601
Equity Residential Property Trust	41,150	47.375	1,949,481
Executive Risk Inc.	900	73.750	66,375
Expeditors Intl. Wash Inc.	2,400	44.000	105,600
Express Scripts A	950	80.625	76,594
Exxon Corp.	103,000	71.375	7,351,625
Factset Research System	3,100	32.500	100,750
Family Dollar Stores Inc.	6,000	18.500	111,000
Federal Home Loan Mtg. Corp.	47,500	47.063	2,235,469
Federal Natl. Mtg. Assn.	134,800	60.750	8,189,100
Federated Dept Stores Inc.	116,183	53.813	6,252,098
Finova Group Inc.	12,600	56.625	713,475
First Chicago NBD Corp.	20,900	88.625	1,852,263
First Data Corp.	40,900	33.313	1,362,481

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Unit Shares	Market Price	Fair Value
Common, Preferred & REIT Stocks - Domestic (Continued)			
First Health Group	62,800	\$ 28.500	\$ 1,789,800
First Union Corp.	45,200	58.250	2,632,900
Fiserv Inc.	12,450	42.469	528,736
Fleet Finl Group Inc.	95,200	83.500	7,949,200
FMC Corp.	28,500	68.188	1,943,344
Ford Mtr Co .	190,800	59.000	11,257,200
Foster Wheeler Corp.	83,000	21.438	1,779,313
Foundation Health Systems Inc.	81,000	26.375	2,136,375
FPL Group Inc.	72,500	63.000	4,567,500
Franklin Res. Inc.	16,200	54.000	874,800
Freeport Mcmoran Copper & Gold	144,200	15.188	2,190,038
Fulton Financial Corp.	1,562	25.375	39,636
Gannett Inc.	22,200	71.063	1,577,588
Gateway 2000 Inc.	17,700	50.000	885,000
General Elec .Co.	301,000	90.875	27,353,375
General Growth	47,000	37.375	1,756,625
General Mtrs. Corp.	14,000	66.813	935,375
General Nutrition	7,800	31.125	242,775
Gentex Corp.	8,000	18.125	145,000
Georgia Gulf Corp.	52,000	22.813	1,186,250
Georgia-Pacific Timber Group	47,800	23.063	1,102,388
Gillette Co.	157,400	56.875	8,952,125
Global Marine Inc.	48,900	18.813	919,931
Goodyear Tire & Rubr Co.	24,500	64.438	1,578,719
Great Lakes Chem Corp.	19,900	39.438	784,806
Greenpoint Finl Corp.	4,800	37.625	180,600
GTE Corp.	131,171	55.625	7,296,387
Guidant Corp.	10,500	71.313	748,781
Harley Davidson Inc.	5,300	38.750	205,375
Harnischfeger Inc.	41,300	28.313	1,169,306
Harrah's Entertainment Inc.	78,000	23.250	1,813,500
Hartford Financial Svcs. Corp.	43,500	114.375	4,975,313
Hasbro Inc.	117,550	39.313	4,621,184
HBO & Co.	35,400	35.250	1,247,850
Health Care & Retirem. Cp.	4,100	39.438	161,694
Health Mgmt. Assoc. Inc.	18,700	33.438	625,281
Helemerich & Payne Inc.	29,200	22.438	655,175
Henry Jack & Assoc Inc.	3,200	34.375	110,000
Hewlett Packard Co.	65,800	59.875	3,939,775
Highwoods Properties Inc.	52,200	32.313	1,686,713
Hillenbrand Inds. Inc.	6,800	60.000	408,000
Home Depot Inc.	72,500	83.063	6,022,031
Hon Inds. Inc.	8,000	34.000	272,000
Honeywell Inc.	4,700	83.563	392,744
Household Intl. Inc.	85,800	49.750	4,268,550
Humana Inc.	11,600	31.188	361,775
Hyperion Software Corp.	3,900	28.500	111,150
I2 Technologies, Inc.	3,200	35.125	112,400
IBP Inc.	42,800	18.125	775,750
Illinois Tool Wks. Inc.	51,100	66.688	3,407,731
Illinova Corp.	87,000	30.000	2,610,000

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Unit Shares	Market Price	Fair Value
Common, Preferred & REIT Stocks - Domestic (Continued)			
IMC Global Inc.	89,400	\$ 30.125	\$ 2,693,175
Integrated Health Service	1,400	37.500	52,500
Intel Corp.	249,700	74.125	18,509,013
Interim Services Inc.	3,400	32.125	109,225
International Business Machs.	85,100	114.813	9,770,544
International Game Technology	10,600	24.250	257,050
International Paper Co.	69,900	43.000	3,005,700
Interpublic Group Cos. Inc.	11,000	60.688	667,563
Intl. Network Services	3,700	41.000	151,700
IXC Communications Inc.	1,400	48.500	67,900
Jacor Communications Inc.	3,600	59.000	212,400
Jda Software Group Inc.	3,300	43.750	144,375
Jdn Realty Corp.	25,500	31.750	809,625
Jefferies Group Inc.	4,200	41.000	172,200
Johnson & Johnson	68,500	74.000	5,069,000
Jones Apparel Group Inc.	5,600	36.563	204,750
K Mart Corp.	61,100	19.250	1,176,175
Kaydon Corp.	1,900	35.313	67,094
Keycorp	46,200	35.625	1,645,875
Kilroy Realty Corp.	58,800	25.000	1,470,000
Kimco Realty Corp.	23,200	41.000	951,200
Koger Equity Inc.	41,800	20.188	843,838
Kohls Corp.	20,800	51.875	1,079,000
Kroger Co.	13,400	42.875	574,525
Kronos Inc.	1,900	36.250	68,875
Lear Corp.	21,900	51.313	1,123,744
Learning Company Inc.	2,100	29.625	62,213
Leggett & Platt Inc.	7,800	25.000	195,000
Level One	3,100	23.500	72,850
Lexmark Int'l Group A	23,300	61.000	1,421,300
Lilly Ely & Co.	72,400	66.250	4,796,500
Lincare Hldgs Inc.	8,400	42.063	353,325
Linear Technology Corp.	29,000	60.313	1,749,063
Lowes Cos. Inc.	80,400	40.563	3,261,225
LTV Corp.	71,100	9.563	679,894
Lucent Technologies Inc.	125,000	83.188	10,398,438
Lycos Inc.	1,100	75.375	82,913
Mack-Cali Realty Corp.	15,800	34.375	543,125
Manitowc Inc.	900	40.313	36,281
Mark IV Inds. Inc.	59,350	21.625	1,283,444
Marketspan Corp.	31,856	29.938	953,689
Marriott International-CI A	28,600	32.375	925,925
Marsh & McLennan Co.	8,400	60.438	507,675
Masco Corp.	6,900	60.500	417,450
Mattel Inc.	59,900	42.313	2,534,519
Maxim Integrated Prods. Inc.	53,900	31.688	1,707,956
May Dept Stores Co.	47,900	65.500	3,137,450
MBIA, Inc.	7,800	74.875	584,025
MBNA Corp.	17,300	33.063	571,981
McDonalds Corp.	33,700	69.000	2,325,300
McGraw-Hill Companies Inc.	2,500	81.500	203,750

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Unit Shares	Market Price	Fair Value
Common, Preferred & REIT Stocks - Domestic (Continued)			
McLeodUSA Inc.	1,300	\$ 38.875	\$ 50,538
Mead Corp.	54,100	31.750	1,717,675
Mediaone Group Inc.	209,200	43.938	9,191,725
Medimmune Inc.	1,100	62.375	68,613
Medtronic Inc.	47,900	63.750	3,053,625
Mens Wearhouse Inc.	2,550	33.000	84,150
Merck & Co. Inc.	156,700	133.750	20,958,625
Mercury Gen. Corp.	900	64.438	57,994
Mercury Interactive Corp.	2,600	44.625	116,025
Metamor Worldwide Inc.	2,400	35.188	84,450
Meyer Fred Inc.	10,500	42.500	446,250
MGIC Invst. Corp.	6,200	57.063	353,788
Michaels Stores Inc.	1,300	35.281	45,866
Micros Sys. Inc.	3,800	33.094	125,756
Microsoft Corp.	219,600	108.375	23,799,150
Midwest Express Hldgs.	2,250	36.188	81,422
Miller Herman Inc.	9,800	24.313	238,263
Mobil Corp.	91,000	76.625	6,972,875
Molex Inc.	18,531	23.375	433,162
Monsanto Co.	163,300	55.875	9,124,388
Morgan Stanley Dean Witter Discover	197,900	91.375	18,083,113
Morton Intl. Inc. Ind.	3,000	25.000	75,000
Motorola Inc.	44,200	52.563	2,323,263
Nalco Chem. Co.	4,500	35.125	158,063
National-Oilwell Inc.	3,100	26.813	83,119
Nationsbank Corp.	146,661	76.688	11,247,065
Natl. Semiconductor Corp.	44,500	13.125	584,063
Nautica Enterprises Inc.	3,400	26.813	91,163
Navigant International Inc.	246	8.500	2,088
Network Associates Inc.	8,700	47.875	416,513
New York Times Co.	3,300	79.250	261,525
Newell Co.	12,200	49.813	607,713
Niagara Mohawk Power Corp.	109,300	14.938	1,632,669
Nielsen Media Research	11,000	63.000	693,000
Noble Affiliates Inc.	51,000	38.000	1,938,000
Northern Trust Corp.	4,000	76.250	305,000
Northwest Airlines	32,500	38.563	1,253,281
Norwest Corp.	88,900	37.500	3,333,750
Nucor Corp.	16,600	46.000	763,600
Occidental Pete. Corp.	109,000	27.000	2,943,000
Office Depot	11,600	31.563	366,125
Oklahoma Gas & Electric Energy Corp.	88,000	27.000	2,376,000
Omnicon Group	14,300	49.875	713,213
Omnipoint Corp.	2,500	22.938	57,344
On Assignment Inc.	1,400	34.938	48,913
Orthodontic Ctrs Amer Inc.	3,800	20.938	79,563
Oryx Energy Co.	73,000	22.125	1,615,125
Outback Steakhouse	3,600	39.000	140,400
Owens Ill Inc.	42,900	44.750	1,919,775
Pacific Gas & Elec. Co.	239,301	31.563	7,552,938
Pacific Gateway Exch.	800	40.063	32,050

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Unit Shares	Market Price	Fair Value
Common, Preferred & REIT Stocks - Domestic (Continued)			
Pacificorp	232,600	\$ 22.625	\$ 5,262,575
Paging Network Inc.	5,700	14.000	79,800
Paine Webber Group Inc.	2,500	42.875	107,188
Papa John's Intl.	1,900	39.438	74,931
Parker Drilling Co.	5,100	7.063	36,019
Patriot American Hospitality Inc.	57,051	23.938	1,365,658
Paychex Inc.	69,600	40.688	2,831,850
Peco Energy Co.	67,400	29.188	1,967,238
Penney J.C. Inc.	76,100	72.313	5,502,981
Peoplesoft Inc.	17,500	47.000	822,500
Pepsico Inc.	273,900	41.188	11,281,256
Personnel Group Amer. Inc.	4,700	20.000	94,000
Pfizer Inc.	136,700	108.688	14,857,581
Philip Morris Cos. Inc.	211,600	39.375	8,331,750
Pinnacle West Capital Corp.	34,900	45.000	1,570,500
Pitney Bowes Inc.	33,000	48.125	1,588,125
Pittway Corp.	1,900	73.875	140,363
PMI Group Inc.	18,700	73.469	1,373,866
PMI Services Inc.	300	25.438	7,631
PMC Bk Corp.	44,300	53.875	2,386,663
Post Properties	26,600	38.500	1,024,100
PPG Inds Inc.	13,000	69.563	904,313
Precision Castparts Corp.	5,400	53.375	288,225
Premier Parks Inc.	1,100	66.625	73,288
Premiere Technologies	3,400	8.297	28,209
Prentiss Properties Trust	81,600	24.313	1,983,900
Price T. Rowe & Assoc Inc.	7,400	37.563	277,963
Procter & Gamble Co.	180,700	91.063	16,454,994
Proffitts	5,300	40.375	213,988
Progressive Corp.	4,400	141.000	620,400
Provident Companies Inc.	48,000	34.500	1,656,000
PS Business Parks Inc.	18,700	23.500	439,450
Public Storage Inc.	51,000	28.000	1,428,000
Public Svc. Enterprise Group	32,400	34.438	1,115,775
Quintiles Transnat'l Co.	47,200	49.188	2,321,650
Raychem Corp.	28,500	29.563	842,531
Raymond James Financial Inc.	2,200	29.938	65,863
Regions Financial Corp.	13,400	41.063	550,238
Reliance Group Hldgs Inc.	60,400	17.500	1,057,000
Renal Care Group Inc.	3,600	44.063	158,625
Res-Care Inc.	3,450	18.438	63,609
Reynolds Metals Co.	72,900	55.875	4,073,288
RJR Nabisco Hldgs Corp.	72,900	23.750	1,731,375
Robert Half International Inc.	11,400	55.875	636,975
Romac Intl.	2,700	30.375	82,013
Rouse Co.	41,900	31.438	1,317,231
RPM Inc.	5,650	17.000	96,050
Rubbermaid Inc.	44,400	33.000	1,465,200
Ryder Sys. Inc.	79,900	31.563	2,521,844
S & P 400 Mid-Cap Dep. Recpt.	3,400	69.625	236,725
Sanmina Corp.	4,600	43.375	199,525

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Unit Shares	Market Price	Fair Value
Common, Preferred & REIT Stocks - Domestic (Continued)			
Santa Fe Energy	205,000	\$ 10.750	\$ 2,203,750
Sapient Corp.	6,200	52.750	327,050
Sara Lee Corp.	32,700	55.938	1,829,156
SBC Communications Inc.	142,700	40.000	5,708,000
Schering Plough Corp.	154,900	91.625	14,192,713
School Specialty Inc.	273	16.375	4,470
Seacor Smit Inc.	600	61.188	36,713
Seagate Technology	56,400	23.875	1,346,550
Seagull Energy Corp.	86,500	16.563	1,432,656
Sealed Air Corp.	48,100	36.750	1,767,675
Sears Roebuck & Co.	107,100	61.063	6,539,794
Shaw Inds. Inc.	67,000	17.625	1,180,875
Siebel	7,300	32.250	235,425
Simon Debarato Group Inc.	50,700	32.500	1,647,750
Smith Intl. Inc.	5,200	34.813	181,025
Smithfield Foods Inc.	2,000	30.500	61,000
Snyder Communications	1,000	44.000	44,000
Solutia Inc.	45,800	28.688	1,313,888
Sonic Corp.	1,400	22.375	31,325
Southwest Airs. Co.	26,800	29.563	792,275
Sovereign Bancorp Inc.	2,100	16.344	34,322
Spieker Properties Inc.	26,100	38.750	1,011,375
St John Knits, Inc.	1,300	38.625	50,213
Staffmark, Inc.	1,000	36.625	36,625
Standard & Poors Depository Receipts	17,690	113.313	2,004,498
Staples Inc.	46,150	28.938	1,335,466
Starbucks Corp.	4,700	53.438	251,156
Starwood Lodging Trust	47,000	48.313	2,270,688
Stein Mart Inc.	1,200	13.500	16,200
Stewart Enterprises Inc.	8,600	26.625	228,975
Stryker Corp.	8,600	38.375	330,025
Suiza Foods Corp.	1,000	59.688	59,688
Sundstrand Corp.	5,800	57.250	332,050
Sungard Data Sys Inc.	15,600	38.375	598,650
Sunterra Corp.	3,200	16.500	52,800
Swift Transportation Co.	6,250	19.813	123,828
Sybron Intl.	19,800	25.250	499,950
Sylvan Learning Systems Inc.	2,700	32.750	88,425
Symbol Technologies Inc.	6,600	37.750	249,150
Synopsys Inc.	25,000	45.750	1,143,750
Sysco Corp.	12,500	25.625	320,313
Tech Data Corp.	2,000	42.875	85,750
Teleflex Inc.	2,600	38.000	98,800
Tellabs Inc.	17,700	71.625	1,267,763
Temple-Inland Inc.	17,500	53.875	942,813
Texaco Inc.	109,000	59.687	6,505,891
Texas Utils Co.	116,500	41.625	4,849,313
Charles Schwab Corp.	5,900	32.625	192,488
Cheesecake Factory	1,900	22.625	42,988
CIT Group	37,200	37.500	1,395,000
Thermedics Inc.	4,100	12.375	50,738

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Unit Shares	Market Price	Fair Value
Common, Preferred & REIT Stocks - Domestic (Continued)			
Thermo Cardiosystems Inc.	3,300	\$ 22.750	\$ 75,075
Thermo Ecotek Corp.	4,000	15.625	62,500
Thermo Electron Corp.	10,300	34.188	352,131
Thermo Instr. Sys Inc.	13,700	26.250	359,625
Thermoquest Corp.	6,700	14.938	100,081
TIG Hldgs Inc.	72,500	23.000	1,667,500
Time-Warner, Inc.	43,700	85.438	3,733,619
TJX Cos. Inc.	35,400	24.125	854,025
TMP Worldwide Inc.	1,300	34.875	45,338
Tosco Corp.	35,700	29.500	1,053,150
Total Renal Care Hldgs Inc.	2,900	34.500	100,050
Tower Automotive Inc.	3,200	42.875	137,200
Toys R Us Inc.	134,500	23.438	3,152,344
Transamerica Corp.	34,400	115.125	3,960,300
Transatlantic Hldgs Inc.	1,200	77.313	92,775
Travelers Group Inc.	120,554	60.625	7,308,586
Tri Net Corp.	32,800	34.000	1,115,200
Triad Guaranty Inc.	900	34.000	30,600
Tribune Co.	84,700	68.813	5,828,419
Trinity Inds Inc.	3,000	41.500	124,500
U.S. Inds Inc.	8,200	24.750	202,950
U.S. Office Prods Co.	614	19.500	11,973
UAL Corp.	12,600	78.000	982,800
UCAR International Inc.	33,600	29.188	980,700
Union Pac. Corp.	8,100	44.000	356,400
Union Pacific Resources Grp Inc.	121,500	17.563	2,133,844
United Bankshares Inc.	1,400	34.125	47,775
United States Filter Corp.	17,500	27.980	489,650
United Stationers Inc.	1,300	64.750	84,175
Universal Corp.	2,100	37.375	78,488
Universal Foods Corp.	1,200	22.188	26,625
Unocal Corp.	44,700	35.750	1,598,025
Unum Corp.	11,700	55.500	649,350
Urban Shopping Centers	29,600	31.500	932,400
US West Inc.	79,305	46.813	3,712,460
USX-Marathon Group	50,600	34.313	1,736,213
Valero Refining & Marketing Co.	39,300	33.250	1,306,725
Valspar Corp.	4,800	39.750	190,800
Veritas Software Corp.	3,950	41.375	163,431
Viad Corp.	5,900	27.750	163,725
Vintage Pete Inc.	11,000	18.875	207,625
Visio Corp.	600	47.750	28,650
Visx Inc.	1,100	59.500	65,450
VLSI Technology Inc.	60,100	16.781	1,008,553
Vornado Realty Trust	43,200	39.688	1,714,500
W.R. Grace & Co.	75,500	17.063	1,288,219
Wachovia Corp.	8,000	84.500	676,000
Wal Mart Stores Inc.	230,100	60.750	13,978,575
Warner Lambert Co.	109,700	69.375	7,610,438
Waters Corp.	2,700	58.938	159,131
Wells Fargo & Co.	5,400	369.000	1,992,600

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Unit Shares	Market Price	Fair Value
Common, Preferred & REIT Stocks - Domestic (Continued)			
Whirlpool Corp.	79,400	\$ 68.750	\$ 5,458,750
Whittman-Hart Inc.	1,000	48.375	48,375
Williams Sonoma Inc.	1,400	31.813	44,538
Wilmington Trust Corp.	5,700	60.875	346,988
Woolworth Corp.	55,600	19.125	1,063,350
Workflow Management Inc.	328	8.063	2,641
Worldcom Inc.	172,150	48.438	8,338,516
Wrigley Wm Jr Co.	4,300	98.000	421,400
Xerox Corp.	70,700	101.625	7,184,888
Xylan Corp.	32,000	29.813	954,000
Yahoo	1,100	157.500	173,250
Young Broadcasting	800	65.000	52,000
Total Common, Preferred & REIT Stocks - Domestic	20,620,162		\$ 1,067,575,413
Common & Preferred Stocks - International			
<u>Australia</u>			
Amcor Ltd.	111,000	\$ 4.379	\$ 486,087
ANZ Banking	255,881	6.900	1,765,609
Boral Limited	91,375	1.877	171,491
Caltex Australia Ltd.	99,000	2.388	236,452
News Corp.	287,960	8.164	2,350,817
Pacific Magazines & Prin.	239,000	1.623	387,856
Star City Holdings Limited	543,560	0.582	316,480
Westfield Trust	737,526	1.920	1,416,153
Total Australia	2,365,302		\$ 7,130,945
<u>Austria</u>			
Bank Austria	14,000	\$ 81.393	\$ 1,139,495
Brau-Union	2,800	59.100	165,480
Osterr Brau-Beteil Stamm	2,800	59.100	165,480
Voest Alpine Stahl	26,550	40.109	1,064,899
Wienerberger Baustoff	4,300	242.074	1,040,916
Total Austria	50,450		\$ 3,576,270
<u>Belgium</u>			
Tractebel	25,238	\$ 146.551	\$ 3,698,642
Total Belgium	25,238		\$ 3,698,642
<u>Canada</u>			
Barrick Gold Corp.	27,900	\$ 19.250	\$ 537,075
BCE Inc.	46,300	42.479	1,966,780
Canadian Imperial Bank	43,663	22.100	964,938
Celestica Inc.	17,000	18.906	321,403
Dofasco Inc.	110,000	16.317	1,794,885
Imasco Ltd	31,584	18.497	584,219
Inco Ltd	68,400	13.625	931,950
National Bank Of Canada	80,000	19.587	1,566,990
Nova Scotia Power Inc.	110,000	13.217	1,453,894
Suncor Inc.	40,188	34.750	1,396,533
Torstar Corp.	38,000	32.021	1,216,802
Total Canada	613,035		\$ 12,735,469

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Unit Shares	Market Price	Fair Value
Common & Preferred Stocks - International (Continued)			
<u>Finland</u>			
Enso Oy R	158,000	\$ 10.810	\$ 1,708,041
Huhtamaki T	4,000	57.242	228,969
Kesko Ord	22,300	15.769	351,648
Pohjola B	15,000	49.768	746,519
Rauma Oyj	20,000	20.509	410,175
Sampo Insurance Co.	16,800	47.398	796,286
Tamro Oy Ab-Ord	64,000	6.472	414,186
Valmet Oy	14,000	17.246	241,438
Total Finland	<u>314,100</u>		<u>\$ 4,897,262</u>
<u>France</u>			
Accor	23,446	\$ 279.011	\$ 6,541,687
Alcatel Alsthom	6,600	202.992	1,339,747
Banque Nationale De Paris	29,118	81.461	2,371,970
Chargeurs Intl Sa Ff 100	7,200	82.368	593,046
Credit National/Natexis	3,646	62.662	228,466
Elf Aquitaine	9,000	140.165	1,261,485
Eridania Beghin-Say	3,000	220.142	660,425
Galleries Lafayette	400	994.347	397,739
Groupe Danone	17,733	274.888	4,874,594
Lafarge-Bearer	7,691	103.063	792,654
Lvmh (Moet-Hennessy Louis Vui)	14,615	199.529	2,916,116
Lyonaise Des Ex	29,096	164.076	4,773,941
Paribas (Ex-Banque Paribas)	21,656	106.690	2,310,485
Renault	136,523	56.709	7,742,096
Schneider Electric	45,348	79.498	3,605,087
Sefimeg	7,900	72.226	570,587
Simco	7,600	81.790	621,607
Societe Generale	1,237	207.279	256,404
Sylea	2,850	92.179	262,710
Television Francaise Ff10	16,600	154.511	2,564,888
Usinor Sacilor	71,500	15.402	1,101,219
Valeo	26,890	101.908	2,740,311
Vallourec	8,700	77.437	673,702
Vivendi (Ex-Gen Des Eaux)	18,726	212.886	3,986,501
Total France	<u>517,075</u>		<u>\$ 53,187,467</u>
<u>Germany</u>			
Basf	47,500	47.273	2,245,465
Bayer	16,000	51.475	823,600
Commerzbank	106,000	38.150	4,043,911
Continental	70,000	31.073	2,175,109
Daimler Benz	45,823	97.863	4,484,390
Deutsche Pfandbrief & Hypobk	19,000	79.618	1,512,734
Deutsche Telekom	61,000	26.926	1,642,500
Dresdner Bank	29,600	53.797	1,592,396
Dyckerhoff Vorzug	1,150	396.982	456,530
Gerresheimer Glas	46,000	14.984	689,245
Grohe (Friedrich) Vorzug	2,250	340.034	765,075
Herlitz	1,000	54.737	54,737

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Unit Shares	Market Price	Fair Value
Common & Preferred Stocks - International (Continued)			
<u>Germany (Continued)</u>			
Herlitz Vorzug	1,000	\$ 53.521	\$ 53,521
Ikb Deutsch Industrie Bank	51,500	20.568	1,059,246
Man Stamm	600	388.136	232,881
Man Vorzug	1,800	270.368	486,663
Mannesmann	75,900	101.236	7,683,811
Metro	12,960	40.472	524,521
Metro	12,960	363.850	573
Schering	7,000	117.602	823,213
Siemens	40,400	60.708	2,452,620
Suedzucker Vorzug	250	606.531	151,633
Veba	45,000	68.007	3,060,302
Volkswagen	4,351	959.282	4,173,834
Wella Ords	600	989.691	593,815
Wella Vorzug	300	1,127.916	338,373
Total Germany	699,944		\$ 42,120,698
<u>Hong Kong</u>			
First Pacific Co.	1,400,000	\$ 0.420	\$ 587,405
Great Eagle Holdings	740,000	0.878	649,631
Hutchison Whampoa	272,000	5.280	1,436,211
Liu Chong Hing Investment	75,000	0.594	44,540
New World Developments	371,000	1.937	718,442
Orient Overseas Intl Ltd	1,100,000	0.368	404,728
Qpl Intl Holdings Limited	1,330,000	0.194	257,555
Vitasoy Intl Hldgs Ltd	600,000	0.329	197,523
Total Hong Kong	5,888,000		\$ 4,296,035
<u>Italy</u>			
Banca Di Roma	1,449,752	\$ 2.076	\$ 3,010,323
Banca Pop. Bergamco	46,000	20.540	944,836
Banca Popolare Di Milano	141,000	7.941	1,119,678
Banca Commerciale	285,000	5.966	1,700,183
Credito Italian	376,322	5.222	1,965,141
Magneti Marelli	619,500	2.189	1,355,887
Finmeccanica Spa	189,720	0.785	148,846
Eni	296,000	6.538	1,935,242
IFIL Spa-Rnc	110,000	2.669	293,536
IFIL Spa-Rnc Rights	110,000	0.113	12,408
Italmobiliare Spa	5,000	30.249	151,243
Pirelli	485,905	3.115	1,513,431
Mediaset	399,243	6.367	2,541,906
Telecom Italia Spa	333,046	4.829	1,608,321
Telecom Italia	931,280	7.343	6,838,670
Total Italy	5,777,768		\$ 25,139,651
<u>Japan</u>			
Aoki International Co.	121,000	\$ 6.586	\$ 796,927
Aoyama Trading Co.	103,000	24.617	2,535,567
Canon	115,000	22.674	2,607,476
Chiyoda Fire & Marine	218,000	3.693	804,981
Chugai Pharmaceutical	192,000	6.536	1,254,871
Daiichi Pharmaceutical	66,000	13.172	869,374

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Unit Shares	Market Price	Fair Value
Common & Preferred Stocks - International (Continued)			
<u>Japan (Continued)</u>			
Daito Trust Co.	29,000	\$ 7.558	\$ 219,179
Deodeo Corp.	37,000	5.809	214,925
Dai-Tokyo Fire & Marine	225,000	3.477	782,243
Daiwa Kosho Lease Co.	231,000	4.196	969,376
Ezaki Glico Co. Ltd	155,000	5.665	878,048
General Sekiyu	94,000	3.851	361,987
Heiwa Corp.	66,000	8.926	589,084
Higo Bank	134,000	4.499	602,833
Hitachi	240,000	6.514	1,563,406
Miyazaki Bank	131,000	3.815	499,757
Hokkaido Coca-Cola Bottling	23,000	10.797	248,331
Hokkaido Electric Power	50,000	13.979	698,926
Itochu Corp.	285,000	2.159	615,429
Ito-Yokado	54,000	47.003	2,538,159
Kagoshima Bank	136,000	4.247	577,568
Kita Kyushu Coca-Cola Bottling	15,730	22.674	356,657
Kissei Pharmaceutical	77,000	14.756	1,136,204
Koa Fire & Marine Insurance	128,000	3.844	491,998
Kurimoto	203,000	3.671	745,209
Kyushu Electric Power	28,000	15.584	436,343
Laox Corp.	27,000	6.154	166,166
Makita Corp.	208,000	11.510	2,393,997
Marubeni Corp.	435,000	1.994	867,323
Maruichi Steel Tube	86,000	13.784	1,185,439
Matsushita Elect. Ind'L	399,000	16.052	6,404,564
Mitsubishi Heavy Indus.	250,000	3.772	942,938
Mitsui Trust & Banking Co.	300,000	2.354	706,124
Mitsui Osk Lines Ltd.	110,000	1.699	186,860
Mitsui Fudosan	133,000	7.889	1,049,238
Sakura Bank Ltd.	1,010,000	2.591	2,617,193
Murata Manufacturing	45,000	32.391	1,457,595
Denso	135,000	16.555	2,234,979
NTT Corp.	369	8,277.700	3,054,471
Nisshin Steel Co. Ltd.	220,000	1.404	308,794
Nissho Iwai Corp.	280,000	1.720	481,690
Nomura Securities	137,000	11.625	1,592,593
Nippon Fire & Marine Insurance	235,000	4.081	959,098
Nippon Yusen Kabushiki Kaish	150,000	3.383	507,459
Hyakugo Bank	111,000	4.132	458,613
Hyakujushi Bank	103,000	4.312	444,095
Pioneer Electric Corp.	184,000	19.075	3,509,745
Rohm	11,000	102.572	1,128,287
Sanyo Coca-Cola	25,300	10.739	271,707
Seino Transportation Co.	90,000	5.542	498,821
Sekisui House	178,000	7.738	1,377,337
Sharp Corp.	55,000	8.091	444,980
Shikoku Coca-Cola	7,000	10.797	75,579
Shinetsu Chemical	31,000	17.275	535,531
Sony Corp.	33,600	86.016	2,890,141
Sumitomo Realty	128,000	4.405	563,863
Taiyo Yuden Co. Ltd.	51,000	10.624	541,837

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Unit Shares	Market Price	Fair Value
Common & Preferred Stocks - International (Continued)			
<u>Japan (Continued)</u>			
Toc Co. Ltd.	51,500	\$ 8.558	\$ 440,759
Toho Bank	200,000	4.009	801,857
Tohoku Electric Power	48,000	14.720	706,556
Toshiba Corp.	682,000	4.081	2,783,423
Wacoal Corp.	64,000	10.149	649,548
West Japan Railway Co.	383	3,620.594	1,386,688
World Co. Ltd.	20,000	23.681	473,628
Yamagata Bank	214,000	4.319	924,223
Yamanouchi Pharmaceuticals	50,000	20.802	1,040,111
Yamato Kogyo Co.	91,000	7.342	668,118
Yodogawa Steel Works	140,000	4.672	654,010
Total Japan	<u>9,885,882</u>		<u>\$ 73,780,836</u>
<u>Malaysia</u>			
Commerce Asset Hldgs.	440,000	\$ 0.376	\$ 165,317
Genting Malaysia	800	1.818	1,454
Golden Hope Plantations	137,000	0.921	126,193
Malaysian Airline System	107,000	0.332	35,533
Technology Resources Inds.	455,000	0.691	314,332
Berjaya Land	123,000	0.553	67,979
Total Malaysia	<u>1,262,800</u>		<u>\$ 710,808</u>
<u>Netherlands</u>			
DSM (Dutch State Mines)	2,400	\$ 102.416	\$ 245,799
EVC International	3,500	17.413	60,945
Philips Electronics	38,589	83.876	3,236,672
Wereldhaven	14,105	57.389	809,465
VER NED Vitgevers	133,070	36.248	4,823,514
ING Groep	18,500	65.335	1,208,690
Royal Dutch Petroleum Co.	50,391	55.328	2,788,053
Vedior	31,632	27.223	861,110
Heineken Hldg.	59,375	32.864	1,951,270
TNT Post Group	100,034	25.325	2,533,313
Koninklijke KPN	100,034	37.906	3,791,873
Vendex	32,056	37.278	1,194,984
Total Netherlands	<u>583,686</u>		<u>\$ 23,505,688</u>
<u>New Zealand</u>			
Telecom Corp. Of New Zeal-Ir	752,931	\$ 2.136	\$ 1,608,116
Telecom Corp. Of New Zealand	132,498	4.116	545,374
Total New Zealand	<u>885,429</u>		<u>\$ 2,153,490</u>
<u>Norway</u>			
Christiania Bank OG Kreditk	40,000	\$ 4.189	\$ 167,562
Norsk Hydro ASA	4,000	44.044	176,175
Total Norway	<u>44,000</u>		<u>\$ 343,737</u>
<u>Portugal</u>			
Portugal Telecom.	36,408	\$ 52.846	\$ 1,924,032
Total Portugal	<u>36,408</u>		<u>\$ 1,924,032</u>

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Unit Shares	Market Price	Fair Value
Common & Preferred Stocks - International (Continued)			
<u>Singapore</u>			
Creative Technology Ltd	12,000	\$ 20.500	\$ 246,000
DBS Land Ltd.	47,000	0.831	39,052
Dev Bank Of Singapore (F)	34,100	5.549	189,229
Keppel Fels. Limited	50,000	2.997	149,859
Jardine Strategic Hldgs Ltd	623,000	1.900	1,183,700
Overseas Union Bank	50,000	2.196	109,798
Singapore Land	70,000	2.101	147,069
Keppel Land Limited	160,000	0.920	147,188
Total Singapore	1,046,100		\$ 2,211,895
<u>Spain</u>			
Dragados Y Construcccion	29,300	\$ 31.994	\$ 937,411
Fuerzas Electricas	37,561	8.927	335,304
Repsol	7,500	55.060	412,952
Telefonica	109,699	46.198	5,067,923
Union Electrica Fenosa	181,000	12.869	2,329,307
Aceralia Corp. Siderurgica	15,000	14.759	221,381
Argentaria	139,600	22.415	3,129,140
Tabacalera	187,835	20.460	3,843,149
Banco Santander	81,322	25.575	2,079,835
Total Spain	788,817		\$ 18,356,402
<u>Sweden</u>			
Tornet Fastighet	123,000	\$ 16.038	\$ 1,972,723
Astra AB Free A	96,690	20.424	1,974,787
Electrolux AB-Ser A	76,500	20.048	1,533,672
Barry Callebaut	1,700	215.035	365,560
Total Sweden	297,890		\$ 5,846,742
<u>Switzerland</u>			
Bobst	775	\$ 1,834.704	\$ 1,421,896
Valora Holding	2,000	263.040	526,080
Nestle	3,068	2,134.570	6,548,860
Roche Holding Genuss	254	9,794.952	2,487,918
Ciba Spezialitaet Rights	3,370	128.068	431,588
UBS Ag-Registered	14,066	370.886	5,216,888
Total Switzerland	23,533		\$ 16,633,230
<u>United Kingdom</u>			
Anglian Water	221,000	\$ 14.034	\$ 3,101,447
Asda Group	865,551	3.435	2,973,568
Bat Industries	222,300	10.023	2,228,086
Boc Group	179,000	13.633	2,440,387
British Aerospace	457,788	7.671	3,511,884
British Petroleum	295,399	14.617	4,317,963
British Steel	327,000	2.206	721,209
CGU	292,810	18.728	5,483,825
Courtaulds Textile	227,000	4.836	1,097,847
Diageo	493,978	11.857	5,857,269
Guardian Royal Exchange	551,189	5.887	3,244,839
BTR	500,625	2.852	1,427,666
Glaxo Wellcome	78,300	30.019	2,350,456

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Unit Shares	Market Price	Fair Value
Common & Preferred Stocks - International (Continued)			
<u>United Kingdom (Continued)</u>			
Hanson	29,250	\$ 6.083	\$ 177,926
Hazlewood Foods	537,000	4.002	2,149,332
Hillsdown Holdings	298,434	2.702	806,271
Hyder	42,000	15.693	659,108
Imperial Tobacco Group	188,400	7.355	1,385,599
Imperial Chemical	184,092	16.110	2,965,719
Labroke Group	252,408	5.528	1,395,419
Lucasvarity	556,151	3.982	2,214,390
Powell Duffryn	126,000	9.172	1,155,716
Vodafone	343,949	12.691	4,365,125
Railtrack Group	193,752	24.565	4,759,561
Sainsbury J.	384,098	8.914	3,423,794
Shell Transport & Trading	510,000	7.046	3,593,477
Smith & Nephew	745,000	2.489	1,854,328
Somerfield	798,500	6.379	5,093,594
South West Water	126,000	16.610	2,092,897
Royal & Sun Alliance	272,288	10.340	2,815,387
Tarmac	1,534,774	1.793	2,751,509
Total United Kingdom	<u>11,834,036</u>		<u>\$ 82,415,598</u>
Total Common & Preferred Stocks - International	<u>42,939,493</u>		<u>\$ 384,664,897</u>
Stock Commingled Funds			
Bernstein Emerging Markets Value Trust	2,090,774	\$ 13.806	\$ 28,866,088
Chesapeake Fund Super-Institutional	6,599,065	18.270	120,564,923
MSCI-EAFE International Fund	16,490,863	39.857	657,276,331
Russell Special Small Co. Fund	36,002,231	16.062	578,267,834
S&P 500 Flagship Fund	8,446,393	187.419	1,583,014,623
Total Stock Commingled Funds	<u>69,629,326</u>		<u>\$ 2,967,989,799</u>
Total Combined Stock Portfolio	<u>133,188,981</u>		<u>\$ 4,420,230,107</u>

Description

Venture Capital

Description	Fair Value
Alpha Capital Fund II	\$ 1,041,015
Blue Chip Venture Company II	4,529,744
Brantley III	4,265,548
Cid Equity Capital V, L.P.	3,191,748
Morgenthaler Venture Partners II	915,035
Morgenthaler Venture Partners III	4,905,165
Morgenthaler Venture Partners IV	9,074,588
Primus Capital Fund I	182,134
Primus Capital Fund II	1,582,548
Primus Capital Fund IV	2,936,933
Total Venture Capital	<u>\$ 32,624,458</u>

INVESTMENT SECTION

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Fair Value
Real Estate	
Aetna Open-End RE Account	\$ 118,528,110
Cigna Open-End RE Account	105,325,315
Invesco Industrial RE Separate Account	40,655,818
JP Morgan Special Situation Prop. Fund	21,392,826
JP Morgan Strategic Property Fund	63,335,189
Koll/Bren Opportunity Fund IV L.P.	22,113,286
Koll/Bren Opportunity Fund V L.P.	15,238,423
L&B SERBO Fund	209,264,189
Monroeville Mall - Pittsburgh PA, 7.25% DUE 08/31/2022	25,751,425
Phoenix HomeLife/CASA Group	14,509,708
Sentinel Real Estate Fund	47,731,518
Yarmouth Capital Partners II	22,216,751
Total Real Estate	<u>\$ 706,062,558</u>
Total SERS Combined Portfolio	<u><u>\$ 7,485,130,250</u></u>

INVESTMENT SECTION

Investment Policy

A. Purpose.

The purpose of this Statement of Investment Policy is to define the Retirement Board's investment philosophy and objectives for the School Employees Retirement System of Ohio. This statement sets forth policies and describes the organization and division of responsibilities to prudently implement the Board's philosophy and objectives in accordance with Section 3309.15 of the Ohio Revised Code. It also establishes the framework and specific objectives to monitor investment performance and proxy voting, and to promote effective communication between the Board and the Investment Staff and Investment Managers.

The contents of this Statement of Investment Policy and the associated Guidelines and Objectives are subject to change at any time by the Board. The Statement will be reviewed and revised periodically to assure that it continues to reflect the attitudes, expectations and objectives of the Board.

B. Background.

The School Employees Retirement System of Ohio was established by the state legislature to provide retirement and disability benefits for all non-certificated persons employed by the state's school districts. This purpose is sustained by the member and employer contributions and returns realized from investment of those contributions.

The System is governed by a seven member board, including the Ohio Attorney General and State Auditor, with responsibility for the investment function as set forth in the Ohio Revised Code. In addition to the investment function, the Ohio Revised Code also sets forth the fiduciary responsibility of the Board and of other fiduciaries in discharging their duties with respect to the fund. This Statement of Investment Policy incorporates and is subject to all restrictions, guidelines and obligations set forth by the Ohio Revised Code.

C. Investment Philosophy.

1. Risk Posture.

The Board realizes that its primary objective is to

assure that the Plan meets its responsibilities for providing retirement and other benefits. Therefore, it shall always act to assure that the level of investment risk in the portfolio shall be prudent and shall not jeopardize that primary objective.

2. Return.

The Board believes, however, that over the long-term there exists a relationship between the level of investment risk taken and rate of investment return realized. The Board feels that assumption of a moderate level of risk associated with investments is reasonable and justified in order to enhance potential long-term investment results.

3. Diversification.

The Board seeks diversification by asset class and by investment approach and individual investments within asset classes to reduce overall portfolio risk.

4. Liquidity Requirements.

The System anticipates positive cash flow over the near-term and intermediate-term. Liquidity, for the purpose of immediate and intermediate-term benefit payments, is therefore not a major consideration in the investment of funds for the foreseeable future.

D. Investment Objectives.

In defining investment objectives the Board seeks to enhance the investment returns of the fund in order to permit higher benefits and to achieve lower costs. Therefore, it adopts the following general investment objectives:

1. Performance Objectives.

- a. Maximize Total Return on Assets: Recognizing that the System's obligations will increase as a result of inflation, to maximize the total return on assets available for the provision of benefits while operating in accordance with applicable regulatory restrictions and within prudent parameters of risk.

- b. Preservation of Principal: To protect the System from severe depreciation in asset value during adverse market conditions.

This objective shall be attained by broad diversification of assets and careful review of risks.

- c. Competitive Results: To achieve investment results competitive with those of the broad market and of similar funds. Long-term results shall be emphasized.

2. Risk.

- a. Stability: While the Board seeks higher long-term investment results, it also seeks to avoid major fluctuations in year-to-year results.
- b. Risk Level: The Board seeks to maintain a reasonable degree of total portfolio risk, defined as that which would be experienced by similar retirement systems.

3. Other Objectives.

- a. Ohio Investments: Where investment characteristics, including return, risk and liquidity, are equivalent, the Board will give careful consideration to investments which will have a positive impact on the economy of Ohio.

E. Implementation Approach.

In order to monitor and control the activities within the investment function, the Board has reserved certain responsibilities for itself. It has also delegated certain responsibilities to the Investment Staff, to organizations serving as Investment Managers and, from time to time, to other consultants or advisors. These are enumerated in Section F, Investment Organization and Responsibilities.

In fulfilling its fiduciary duties, the Retirement Board employs a competent and qualified Investment Staff for the management of the major portion of portfolio assets. In those areas where specialized expertise is required, the Retirement Board employs the services of outside Investment Managers. Criteria to be used in the selection of such Investment Managers are also

enumerated in Section F.

The Board has also established a reporting process for regular and timely review and evaluation of investment results. This is described in Section G, Review and Evaluation. Finally, the Board has adopted Investment Guidelines and Objectives for each asset class and each investment management accountability unit within those asset classes. These guidelines also specify long-term target ratios for asset allocation, as well as permissible ranges related to those target allocations. These guidelines and objectives are regularly evaluated and updated based on market conditions, investment results and the recommendations of the Investment Staff, Investment Managers and other consultants or advisors.

F. Investment Organization and Responsibilities.

1. Responsibilities of the Retirement Board.

The Retirement Board recognizes its responsibility to ensure that the assets of the Plan are managed effectively and prudently, in full compliance with all applicable laws, and for the exclusive benefit of participants and beneficiaries. The Board believes it can best manage those responsibilities by delegating certain specific duties to others, as described below. In addition, the Board may designate certain of its members to act as an Investment Committee or a Subcommittee from time to time, and may delegate certain decision-making or fact-finding responsibilities to that committee or subcommittee.

Specific responsibilities of the Retirement Board or its Investment Committee or Subcommittee are as follows:

- a. Ensure that all fiduciaries comply with the Ohio Revised Code and any other applicable regulations and legislation.
- b. Establish investment policies, guidelines and objectives for the assets of the Plan and communicate them to the Investment Staff and Investment Managers.

INVESTMENT SECTION

- c. Appoint and discharge those with responsibility for managing the Plan's assets, including Investment Managers, consultants and any others involved.
 - d. Establish a proxy policy; and review proxy governance issues and reports from the Investment Staff and Investment Managers at least annually.
 - e. Request, receive and review reports from the Investment Staff and Investment Managers.
2. Responsibilities of the Investment Staff.

The Investment Staff, headed by the Executive Director and the Director of Investments, shall accept the following responsibilities. The Executive Director shall:

- a. Obtain necessary reports on the investment results of the Plan's assets on a timely basis as specified in Section G, Review and Evaluation.
- b. Retain any consultants or advisors deemed necessary or desirable for assistance in the investment of Plan assets, and for meeting his responsibilities.
- c. Oversee the investment function.

The Director of Investments shall accept the following responsibilities:

- a. Administer the policies, guidelines and objectives adopted by the Retirement Board of the School Employees Retirement System of Ohio in compliance with the relevant sections of the Ohio Revised Code.
- b. Inform and communicate to other Plan fiduciaries, including all Investment Managers, the requirements of the Ohio Revised Code and the policies, guidelines and objectives adopted by the Retirement Board, including the proxy policy, and monitor their compliance.
- c. Prepare annually an Annual Plan for the invest-

ment of the Plan's assets with recognition of the target asset mix ratios and the permissible ranges for asset allocation established by the Board.

- d. Implement the Annual Plan, exercising the judgments allowed by the Board as to the asset allocation ranges for that year.
 - e. Report to the Board or its Investment Committee any intra-year changes in the Annual Plan, in the asset allocation among managers, or proposed changes in the policy, guidelines or objectives which the Investment Staff deems desirable or which are recommended by an Investment Manager or other consultants or advisors.
 - f. Oversee the activities of the Investment Staff.
3. Responsibilities of the Investment Managers.

Each Investment Manager, including Investment Staff with respect to internally managed assets, shall accept the following responsibilities for the specified investment management accountability unit which it manages.

- a. Manage the assets within its control in compliance with the relevant sections of the Ohio Revised Code and with the policies, guidelines and objectives adopted by the Retirement Board. Vote proxies in accordance with the Retirement Board's policy and guidelines; and periodically prepare a report reflecting proxy voting activity.
- b. Exercise investment discretion within the guidelines and objectives specified, including decisions to buy, hold or sell securities based on the manager's current investment strategy and outlook and compatible with such objectives.
- c. Inform the Retirement Board or the Investment Committee of any substantial changes in invest-

ment strategy, portfolio structure, value of assets, and of any organizational changes, including that of ownership, affiliation, organizational structure, financial condition, or changes in professional personnel staffing the investment management organization.

- d. Prepare reports for the Board or Investment Committee prior to any scheduled meetings, but at least on a quarterly basis.
 - e. Recommend to the Board or Investment Committee any changes in policy, guidelines or objectives which the Investment Manager believes to be desirable.
4. Criteria For Investment Managers.

In instances where the Retirement Board has determined it is desirable to employ the services of an outside Investment Manager, the following criteria shall be used in the selection of such firms:

- a. **Organizational Qualifications:** To be selected, the organization shall be qualified to serve as a fiduciary to the System, shall comply with all applicable nondiscrimination and affirmative action requirements, shall adequately address potential conflicts of interest and shall have a history of professionalism and ethical performance.
- b. **Investment Approach:** The approach utilized by the organization shall be compatible with the System's objectives and guidelines. It shall also be complementary to the System's other Investment Managers.
- c. **Personnel:** The organization shall have an experienced professional staff with adequate research and support personnel and a credible program or history demonstrating the ability to retain key personnel.
- d. **Performance:** The organization and/or its personnel shall have demonstrated the ability to achieve

above average performance in implementing the investment approach for which it is being considered. Satisfactory client references shall also be available.

G. Review and Evaluation.

The Board shall review and evaluate periodic reports on the investment results of the Plan's assets, as described below, obtained by the Executive Director. In addition, the Board shall review the periodic reports of each Investment Manager. In these reviews, it is intended that greater emphasis shall be given to long-term results than to short-term results. Following is the intended frequency for the review and evaluation, although these may be altered by the Board as deemed necessary:

1. Quarterly.

Summary Investment Reports - including highlights and commentary of investment performance, asset composition and holdings for each asset class and each investment management accountability unit. These reports shall identify any results which require the attention of the Board.

Investment Manager Reports - prepared by the manager of each investment management accountability unit, reporting on the results of the most recent period.

2. Annually.

Detailed annual investment reports - these reports will include the contents of the quarterly summary reports, as well as additional detail regarding the investment results for each investment management accountability unit.

Written and/or verbal reports presented by the manager of each investment management accountability unit. These shall be scheduled on a staggered basis throughout the year, as determined appropriate by the Board.

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ACTUARIAL SECTION

ACTUARIAL SECTION

Actuary's Letter



GABRIEL, ROEDER, SMITH & COMPANY

Consultants & Actuaries

24 Woodbine Avenue • Northport, New York 11768 • 516-757-0047 • 800-782-0144 • FAX 516-757-0086

November 30, 1998

The Board of Trustees
School Employees Retirement System
of Ohio
Columbus, Ohio

Dear Board Members:

The basic financial objective of the School Employees Retirement System of Ohio (SERS) is to establish and receive contributions which when expressed in terms of percents of active member payroll will remain approximately level from generation to generation of Ohio citizens, and which when combined with present assets and future investment return will be sufficient to meet the present and future financial obligations of SERS.

In order to measure progress toward this fundamental objective, SERS has annual actuarial valuations performed. The valuations (i) measure present financial position, and (ii) establish contribution rates that provide for the current cost and level percent of payroll amortization of unfunded actuarial accrued liability over a reasonable period. The latest completed actuarial valuation was based upon data and assumptions as of June 30, 1998. This valuation indicates that the contribution rate, established by the Board of Trustees, for benefits then in effect, meets the basic financial objective. This contribution rate is 7.70% of payroll for 106,878 school employees. The statutory employer contribution is 14% of pay. A SERS policy decision now provides the following allocations: to basic benefits and the Medicare Part-B supplement, the portion which will pay normal cost and 21 year amortization of unfunded actuarial accrued liabilities; and to health care benefits, the remainder of employer contributions.

The actuarial valuation of the basic benefits and Medicare Part-B supplement is based upon financial and participant data which is prepared by Retirement System staff, assumptions regarding future rates of investment return and inflation, and rates of retirement, turnover, death, and disability among SERS members and their beneficiaries. The data is reviewed by us for internal and year to year consistency as well as general reasonableness prior to its use in the actuarial valuations. It is also summarized and tabulated for the purpose of analyzing trends. The assumptions were adopted by the Board of Trustees and were based upon actual experience of SERS during the years 1990 to 1995. Assets are valued according to a method that fully recognizes expected investment return and averages unanticipated market return over a four-year period. The assumptions and methods utilized in this valuation, in our opinion, meet the parameters established by Governmental Accounting Standards Board Statement No. 25.

Page 2
November 30, 1998
The Board of Trustees

The financial condition of health care benefits is different and is being significantly affected by the provisions of Act 290 of 1988. Act 290 established a health care surcharge, a program to determine a minimum annual pay for use in calculating employer contribution dollars.

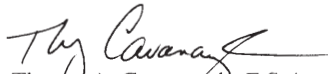
On the basis of the 1998 valuation of the health care benefits, excluding the Medicare Part-B supplement, the allocated contributions are sufficient to provide for a health care reserve equal to at least 125% of estimated annual claim costs, the funding target established by the Board in 1995.


The current benefit structure is outlined in the Plan Summary. There were changes made since the last valuation, as stipulated in House Bill 673. For current active members, the benefit accrual rate was increased to 2.5% for each year of service over 30 years. For current and future retirees, the post-retirement death benefit was increased to \$1,000. For current and future retirants and survivors who receive the Medicare Part-B reimbursement, the reimbursement amount was increased to \$31.80 per month. In addition, those receiving Medicare Part-B reimbursements on June 30, 1998 will receive a single, lump sum payment to cover the retroactive application of this bill. The payment will equal \$7.00 (the monthly difference) for each month of retirement from the date the member initially became eligible for the Medicare Part-B reimbursement (but not earlier than January 1, 1992).

We provided the information used in the schedules of Actuarial Accrued Liabilities, Analysis of Financial Experience, and the Short-Term Solvency Test for basic benefits that are found in the Actuarial Section, and the Analysis of Funding Progress in the Financial Section.

Based upon the results of the valuation of the basic benefits and Medicare Part-B supplement, it is our opinion that the School Employees Retirement System of Ohio continues in sound condition in accordance with actuarial principles of level percent of payroll financing.

Respectfully submitted,


Thomas J. Cavanaugh, F.S.A.
Senior Consultant & Actuary


Michael L. Falco, A.S.A.
Actuary

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ACTUARIAL SECTION

Statement of Actuary

Valuation as of June 30, 1998

Actuarial Cost Method and Assumptions

Basic Retirement Benefits

Employer contribution rates for basic benefits are determined using the entry age normal actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability. The maximum statutory rate is 14%.

The present employer contribution rate of 14% is allocated between basic benefits and health care on the basis of SERS' policy decision. For the year ended June 30, 1998, the policy required the determination of a rate for basic benefits which will amortize the unfunded actuarial accrued liabilities over a 24-year period, with the remainder of the employer contribution rate allocated to providing health care benefits. The rate determined for the funding of basic retirement benefits for the year ended June 30, 1998 is 9.02%.

Health Care Benefits

Initially, beginning in 1974, the contribution rate for health care benefits was established at 0.75%, included in a total employer contribution rate of 12.5%. Health care contribution rates have been increased at various times since 1974, and the total employer contribution rate has been increased to the statutory 14% maximum. The portion of the employer contribution rate allocated to health care for the year ended June 30, 1998 is 4.98%. Effective with the 1995 fiscal year the Retirement Board replaced the level cost financing of health care with pay-as-you-go financing. To provide program security and stability, the asset target level for the health care fund is 125 per cent of annual health care. For 1998, this resulted in a health care reserve of \$160.3 million versus a targeted level of \$139.9 million.

In 1988, House Bill 290 provided for an employer contribution surcharge as an additional source of funding for health care. The surcharge is equal to 14% of the differ-

ence between the minimum pay and the member's pay, pro-rated for partial service credit. For the fiscal year 1998, the minimum pay has been established as \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Actuarial Assumptions

The assumptions used for the actuarial valuation were adopted by the Retirement Board after consulting with the actuary. The actuarial assumptions used in making the valuation were revised as set forth in the Gabriel, Roeder, Smith & Company Investigation Report dated April 11, 1996 for the period from July 1, 1990 through June 30, 1995, and were adopted as of the June 30, 1996 valuation. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. When these differences between assumed and actual experience have been observed to be sizable and persistent, a change is made to the actuarial assumptions.

The valuation assets as of June 30, 1998 were determined on a market-related basis. The asset valuation method recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in over a closed four-year period. To this was added the present value of expected future payments for House Bills 284 and 204, or \$1,289,860.

The following significant assumptions were used in the actuarial valuation as of June 30, 1998:

- (1) a rate of return on the investments of 8.25% compounded annually (net after expenses). The real rate of return is the portion of total investment return which is more than the inflation rate. Considering inflation recognition of 4.25 percent, the 8.25 percent investment return rate translates to an assumed real rate of return of 4 percent;

ACTUARIAL SECTION

Statement Of Actuary (Continued)

- (2) projected salary increases of 4.25%, compounded annually, attributable to inflation;
- (3) additional projected salary increases ranging from 1% to 5% per year, attributable to seniority and merit. Pay increase assumptions for individual active members are shown for sample ages in the following table.

Sample Ages	Increase Next Year		
	Merit & Seniority	Base (Economy)	Total
20	5.0%	4.25%	9.25%
30	4.3	4.25	8.55
40	3.8	4.25	8.05
50	2.4	4.25	6.65
60	1.0	4.25	5.25

- (4) eligibility for age and service retirement was assumed to be: age 50 with 30 or more years of service; age 55 with 25 or more years of service, or age 60 with 5 or more years of service. Probabilities of retirement with age and service allowance are shown in the following table for sample ages.

Probabilities of Age & Service Retirement

*Percent of Eligible Active Members
Retiring within Next Year*

Sample Ages	Men	Women
50	30%	24%
55	20	18
60	15	30
65	35	30
70	25	38
75	100	100

- (5) mortality of participants based on the 1971 Group Annuity Mortality Table projected to 1984 set back one year for women and men;
- (6) rates of separation from active service before retirement are developed on the basis of actual plan experience. Probabilities of separation for sample ages are shown in the following table.

Probabilities of Separation from Active Employment before Age & Service Retirement

*Percent of Active Members
Separating within Next Year*

Sample Ages	Men		
	Death	Disability	Other
20	0.02%	0.00%	6.09%
30	0.04	0.10	4.60
40	0.08	0.36	3.42
50	0.24	0.80	3.06
60	0.60	2.75	2.20

Women

Sample Ages	Death	Disability	Other
20	0.01%	0.00%	8.04%
30	0.02	0.03	6.31
40	0.04	0.14	3.95
50	0.08	0.48	2.67
60	0.21	3.25	2.66

- (7) benefits will increase 3% per year after retirement.

ACTUARIAL SECTION

Statement of Actuary (Continued)

Actuarial Accrued Liabilities

Accrued liabilities are the present value of plan promises to pay benefits in the future, based upon service already rendered. A liability has been established (accrued) because the service has been performed, but the resulting monthly cash benefit may not be payable until years

in the future. Accrued liabilities are the result of complex mathematical calculations performed by a group of specialists, the plan's actuaries. The results of the computed actuarial accrued liabilities, using the entry age normal actuarial cost method, are disclosed in the following schedule.

Actuarial Accrued Liabilities June 30, 1998

Present Value of	Basic Benefits
Future monthly benefits and death benefits to present retirees and survivors	\$ 3,268,710,700
Monthly benefits and refunds to present inactive members	164,254,694
Service allowances to present active members	3,122,464,603
Disability allowances to present active members	357,530,758
Death-after-retirement benefit (\$1,000) on behalf of present active members	3,648,348
Survivor benefits on behalf of present active members who die before retiring	47,363,172
Medicare Part B supplement	46,777,657
Refunds of member contributions of present active members	26,698,900
Benefits for present active members	3,604,483,438
Benefits for present covered persons	<u>\$ 7,037,448,832</u>

Membership Data

Information regarding active, inactive, and retired members is obtained from computer tapes provided by the

retirement system. Membership data contained on the computer tapes is examined and tested for reasonable-

Active Member Valuation Data, 1993 to 1998

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll (millions)	Average Annual Salary
1993	99,135	\$1,312.7	\$13,242
1994	99,918	1,360.9	13,620
1995	100,784	1,429.6	14,184
1996	101,777	1,475.9	14,501
1997	103,739	1,551.6	14,957
1998	106,878	1,651.9	15,456

Retirants and Beneficiaries Added To and Removed From Rolls, 1993 to 1998

Fiscal Year Ended June 30	Additions During Year	Deletions During Year	Number at End of Year
1993	3,303	2,493	50,405
1994	4,055	2,981	51,479
1995	3,532	2,598	52,413
1996	4,032	2,967	53,478
1997	3,993	2,917	54,554
1998	4,174	3,165	55,563

ACTUARIAL SECTION

Statement of Actuary (Continued)

Analysis of Financial Experience

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

Type of Activity	Gain (or Loss) For Year \$ In Millions			
	1997*	1996	1995	1994
Age & Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	\$(8.1)	\$(9.7)	\$(13.6)	\$(18.5)
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(2.4)	(8.9)	(5.1)	(5.4)
Death-In-Service Benefits If claims costs are less than assumed, there is a gain. If more claims, a loss.	0.6	0.2	0.2	(0.4)
Pay Increases If there are smaller pay increases than ass- umed, there is a gain. If greater increases, a loss.	76.1	76.6	(3.4)	45.2
Investment Return If there is greater investment return than ass- umed, there is a gain. If less return, a loss.	256.1	126.4	59.2	(6.0)
Retired Health Care** If costs increase less than assumed, there is a gain. If greater increase, a loss.	--	--	--	40.7
Withdrawal If more liabilities are released by other separ- ations from active membership than assumed, there is a gain. If smaller releases, a loss.	3.1	4.3	6.0	3.0
Retired Lives If more deaths than assumed, there is a gain. If fewer deaths than assumed, there is a loss.	(1.4)	4.2	4.1	4.3
Other Gains and losses resulting from employment fluctuations, timing of financial transactions, and miscellaneous unidentified sources, as well as differences covered by changes in membership records.	(34.2)	(33.5)	(41.9)	(23.1)
Total Gain (Loss) During Year	<u>\$289.8</u>	<u>\$159.6</u>	<u>\$5.5</u>	<u>\$39.8</u>

* The results for 1998 are not available at this time.

** SERS adopted pay-as-you-go financing of healthcare beginning in fiscal year 1995.

ACTUARIAL SECTION

Statement of Actuary (Continued)

Short-Term Solvency Test

The SERS financing objective is to pay for the benefits through contributions that remain approximately level from year to year as a percent of member payroll.

If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due - the ultimate test of financial soundness. Testing for level contribution rates is the long-term test.

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (cash and investments) are compared with:

1) Active member contributions on deposit;

2) The liabilities for future benefits to present retired lives;

3) The liabilities for service already rendered by active members.

In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. The larger the funded portion of liability 3, the stronger the condition of the system. Liability 3 being fully funded is rare.

Basic Benefits (\$ In Millions)

June 30	(1) Member Contributions	(2) Retired Lives	(3) Present Members (Employer Portion)	(4) Valuation Assets	Portion of Accrued Liabilities Covered by Assets		
					(1)	(2)	(3)
1993	\$ 889	\$2,261	\$1,902	\$3,673	100%	100%	27%
1994	962	2,426	1,994	3,952	100	100	28
1995	1,034	2,700	2,105	4,310	100	100	27
1996	1,105	2,886	2,193	4,766	100	100	35
1996*	1,105	2,790	2,234	4,778	100	100	39
1997	1,177	2,996	2,332	5,402	100	100	53
1997**	1,177	2,996	2,332	5,521	100	100	58
1998	1,255	3,208	2,474	6,413	100	100	79
1998***	1,255	3,269	2,513	6,413	100	100	75

* Revised assumptions and asset valuation method

** Revised asset valuation method

*** Legislated benefit increases

Health Care Benefits (\$ In Millions)

June 30	(1) Member Contributions	(2) Retired Lives	(3) Present Members (Employer Portion)	(4) Valuation Assets	Portion of Accrued Liabilities Covered by Assets		
					(1)	(2)	(3)
1992	-	\$833	\$685	\$153	-	18%	0%
1993	-	852	949	141	-	17	0
1994	-	853	981	141	-	17	0

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STATISTICAL SECTION

STATISTICAL SECTION

Revenues By Source

Table I

Fiscal Year	Member Contributions	Employer Contribution			Other Revenues	Total
		Employer Contributions	Rate as a Percent of Covered Payroll	Investment Income		
1993	\$123,270,559	\$210,429,351	14.0%	\$243,539,163	\$2,363,874	\$ 579,602,947
1994	128,246,355	216,383,274	14.0	300,408,705	2,045,066	647,083,400
1995	133,907,577	227,703,212	14.0	785,991,298	2,662,891	1,150,264,978
1996	138,251,468	238,552,082	14.0	581,602,730	2,201,287	960,607,567
1997	146,156,369	259,243,355	14.0	981,931,142*	2,026,549	1,389,357,415
1998	155,059,879	266,408,260	14.0	1,148,717,399*	2,118,231	1,572,303,769

*GASB 25 was adopted in 1997. As a result, investment income includes net appreciation (depreciation) in fair value of investments for 1997 and 1998 which can create significant fluctuations. Also included are investment-related administrative expenses.

Expenses By Type

Table II

Fiscal Year	Benefits	Administrative Expenses	Transfers to other Ohio Retirement Systems	Refunds	Total
1994	339,173,588	10,037,313	2,665,192	13,908,639	365,784,732
1995	361,050,279	9,869,845	2,857,771	17,730,959	391,508,854
1996	381,521,103	9,948,711	3,441,857	18,218,091	413,129,762
1997	410,337,997	10,811,907*	2,863,606	19,618,499	443,632,009
1998	447,705,667	12,051,740*	3,915,463	18,467,794	482,140,664

*Does not include investment administrative expenses, which are included in investment income in Table I above.

Benefit Expenses By Type

Table III

Years Ending June 30	Service	Disability	Survivor	Health Care	Death Benefits and Refunds	Total
1994	212,437,443	27,367,790	13,067,061	85,496,108	14,713,825	353,082,227
1995	226,834,067	31,129,681	13,854,968	88,340,780	18,621,742	378,781,238
1996	241,967,864	34,235,981	14,268,272	90,212,211	19,054,866	399,739,194
1997	260,069,372	37,135,003	14,918,620	97,429,197	20,404,304	429,956,496
1998	278,195,664	40,874,401	15,735,855	111,900,575	19,466,966	466,173,461

STATISTICAL SECTION

Number of Benefit Recipients By Type

Table IV

<u>Years Ending June 30</u>	<u>Service</u>	<u>Disability</u>	<u>Survivor</u>	<u>Total</u>
1993	43,166	3,960	3,279	50,405
1994	44,024	4,081	3,374	51,479
1995	44,732	4,285	3,396	52,413
1996	45,555	4,497	3,426	53,478
1997	46,431	4,641	3,482	54,554
1998	47,238	4,792	3,533	55,563

Number of 1998 Benefit Recipients

Table V

<u>Amount of Monthly Benefit</u>	<u>Service</u>	<u>Disability</u>	<u>Survivor</u>	<u>Total</u>
\$ 1 – 250	24,226	1,353	2,191	27,770
251 – 500	10,929	1,286	862	13,077
501 – 750	5,484	857	284	6,625
751 – 1,000	2,817	539	108	3,464
1,001 – 1,500	2,503	529	61	3,093
1,501 – 2,000	776	174	22	972
over 2,000	503	54	5	562
	47,238	4,792	3,533	55,563

Retirement Averages

Table VI

Service Retirement				
<u>Year Ending June 30</u>	<u>Service Credit</u>	<u>Monthly Amount</u>	<u>Age</u>	<u>Salary</u>
1993	20.211	\$549.01	63.45	\$15,984
1994	20.551	589.07	63.34	16,704
1995	20.201	587.84	63.50	16,935
1996	20.460	603.12	63.37	17,243
1997	21.149	678.65	63.66	18,682
1998	21.473	671.89	63.61	18,496

Disability Retirement				
<u>Year Ending June 30</u>	<u>Service Credit</u>	<u>Monthly Amount</u>	<u>Age</u>	<u>Salary</u>
1993	15.123	\$709.53	56.42	\$16,652
1994	15.148	738.03	58.20	17,370
1995	15.208	790.66	57.04	18,282
1996	14.694	794.67	55.76	18,172
1997	15.540	848.33	56.31	19,531
1998	15.709	906.25	56.33	20,568

STATISTICAL SECTION

Schedule of Average Benefit Payments

Table VII

Retirement Effective Dates July 1, 1992 to June 30, 1998	Years Credited Service					
	5-9	10-14	15-19	20-24	25-29	30+
Period 7/1/92 to 6/30/93						
Average Monthly Benefit	\$123	\$ 254	\$ 378	\$ 533	\$ 673	\$1,309
Average Final Average Salary*	855	1,113	1,174	1,318	1,431	2,054
Number of Retirees	178	333	340	344	412	243
Period 7/1/93 to 6/30/94						
Average Monthly Benefit	\$121	\$ 264	\$ 397	\$ 563	\$ 691	\$1,416
Average Final Average Salary*	809	1,169	1,217	1,371	1,460	2,204
Number of Retirees	194	365	325	366	564	271
Period 7/1/94 to 6/30/95						
Average Monthly Benefit	\$125	\$ 274	\$ 414	\$ 567	\$ 716	\$1,406
Average Final Average Salary*	814	1,208	1,306	1,390	1,486	2,221
Number of Retirees	217	353	331	385	557	251
Period 7/1/95 to 6/30/96						
Average Monthly Benefit	\$151	\$ 260	\$ 415	\$ 573	\$ 726	\$1,398
Average Final Average Salary*	902	1,168	1,301	1,420	1,503	2,237
Number of Retirees	228	388	355	423	609	302
Period 7/1/96 to 6/30/97						
Average Monthly Benefit	\$143	\$ 294	\$ 468	\$ 622	\$ 775	\$1,488
Average Final Average Salary*	777	1,324	1,455	1,538	1,594	2,313
Number of Retirees	201	356	336	376	640	340
Period 7/1/97 to 6/30/98						
Average Monthly Benefit	\$146	\$ 281	\$ 458	\$ 615	\$ 742	\$1,411
Average Final Average Salary*	922	1,257	1,448	1,521	1,534	2,219
Number of Retirees	184	373	346	371	696	391

* Final average salary is presented on a monthly basis for ease of comparison.

Number of Participating Employers

Table VIII

<u>Year</u>	<u>Total</u>	<u>Counties</u>	<u>Locals</u>	<u>Cities</u>	<u>Villages</u>	<u>Colleges</u>	<u>Technical</u>	<u>Vocational</u>	<u>Other</u>
1993	764	84	371	192	49	2	10	52	4
1994	765	83	372	192	49	2	10	52	5
1995	766	83	371	193	49	2	10	52	6
1996	757	76	371	193	49	2	10	52	4
1997	749	67	371	193	49	2	10	52	5
1998	748	65	371	193	49	2	10	52	6

PLAN SUMMARY

Purpose

The School Employees Retirement System of Ohio was established in 1937 by the state legislature to provide retirement and disability benefits for all non-certificated persons employed by the state's 748 school districts. This purpose is sustained by the member and employer contributions and the income realized from investment of those contributions.

Administration

The functioning of SERS is supervised by a seven member Board which works in conjunction with the System's Executive Director. Four of the seven Board members are elected by the general membership (those who contribute to SERS) and one is elected by retirees. The Ohio Attorney General and State Auditor, by virtue of their elected office, serve as the remaining two Board members in an ex officio capacity.

The Executive Director is appointed by the Board. This person oversees the administrative operation of the System, and is aided by four directors. Their areas of responsibility are finance, investments, member services, and management information services.

Employer Participation

The school employers served by SERS include public schools within the state's cities, villages and counties, as well as local districts, vocational and technical schools, and The University of Akron.

Employers contribute to SERS at the rate of 14.0% of payroll. Some employers pay the System directly on a monthly, quarterly, or annual basis, while others make payments through participation in the Ohio Department of Education's School Foundation Fund.

In addition to forwarding appropriate contribution amounts to SERS, it is the responsibility of the employers to supply SERS with new membership records, members' contribution information, and any data needed at the time of a member's application for benefits or refund of deposits on termination of employment.

Employee Participation

Membership in SERS is divided into several groups based on the activity of a member's SERS account. Member groups are:

- A. Active Members - These are persons currently employed by a school employer. Membership is required for most employees working in a position that does not require certification by the Ohio Department of Education. These persons include clerical workers, maintenance personnel, bus drivers, food service workers, playground supervisors, data processing personnel, etc. Two exceptions to the membership requirements are: (1) persons with student status within a school district may choose to become members of SERS; and (2) temporary employees for emergency purposes. Active members have an amount equal to 9.0% of their earnings deducted from their gross salaries for each payroll period. These amounts are then forwarded to SERS by the payroll officer and applied to the member's account at SERS.
- B. Inactive Members - These are persons who have contributions on deposit with SERS, but are not currently employed by a school district in the state of Ohio.
- C. Retired/Disabled Members - These are persons who have either (1) met the age and service requirements for retirement from service; or (2) become eligible to receive benefits as a result of an injury or illness that prevents the member from performing regularly assigned duties.
- D. Member's Survivors - When a member dies before retirement, the qualified beneficiaries become eligible for monthly benefits from SERS.

Refund of Contributions

A member is entitled to a full refund of contributions with SERS upon termination of school employment. Only the money the member has contributed is refundable.

In accordance with the Ohio Revised Code, there is a 90-day waiting period after the member's last day of service

PLAN SUMMARY

before the refund can be paid. A refund cancels any claim to benefits offered by SERS.

The refunded amount, plus interest, may be redeposited if, at some later date, the member returns to school service or to any other public service with the state of Ohio. This purchase may be made after the member has been credited with 1.5 years of contributing service.

Service Retirement

Members may retire from school employment if they have attained one of three combinations of age or service:

1. Five years of service and age 60; or
2. Twenty-five years of service and age 55; or
3. Thirty years of service at any age.

A member's age is defined to be the actual age a person has reached on the day of retirement. Any change of the date of birth on our records must be substantiated by submitting proof of date of birth to the System.

Service Credit

Service credit is the actual number of years or fraction thereof a person worked within a school district or districts in Ohio schools, plus any other free or purchased service the System recognizes.

Free service is service for which no contributions are required. This includes military service performed while on leave from the school district; service with a school system before establishment of SERS in 1937; or service granted for a period (three years or less) spent off the district's payroll while drawing state worker's compensation for a school job-related accident.

Purchased service is service for which payment plus interest is required. The interest rate is 7.5%. Service must be purchased before the date of retirement if it is to be considered in calculating the member's benefits. Payment may be made in a lump sum or in multiples of one month or more so long as the complete amount due is tendered before retirement. The types of service that can be purchased are:

Military - A member may purchase up to five years of credit in SERS for active service in the armed forces of the U.S. There is no restriction placed on time elapsed between school employment and the time spent in the military. A member may purchase additional service credit if the military service includes prisoner of war time. Purchased credit may not be greater than the member's actual Ohio school employment credit.

Federal, Other State, or School Service - The member may purchase credit for service rendered in a school or government position outside the State of Ohio. The service cannot be greater than the member's SERS service nor can it exceed five years.

Refunded Service - Service lost due to the payment of a refund may be restored after the member has returned to work and accrued 1.5 years of service covered by SERS, STRS, PERS, PFDPF, or SHPRS. An interest charge is payable in addition to the restored funds.

Compulsory Service - This is service for which the member should have made contributions while working, but did not, for whatever reason. The full amount, plus interest, must be paid before retirement benefits are granted.

Optional Service - This is service during a period when the member was given a choice of contributing or refraining from doing so. The member must pay back contributions and may be responsible for the employer's share.

Leave of Absence - A member returning to work after a period of authorized leave may purchase service credit for the period involved. An employer contribution is required for this service to be granted, but the employer is under no obligation to make payment.

A member who has contributions not only at SERS, but also at State Teachers (STRS) or Public Employees (PERS) Retirement Systems is eligible to receive transferred credit from either or both of those systems. Any service which is not concurrent with (served at the same time as)

PLAN SUMMARY

SERS service will be included in determination of retirement benefits.

Early Retirement Credit

Employers may purchase up to five years of service credit for their eligible employees under an early retirement incentive plan authorized by 1983 legislation.

Adoption of a plan is optional and only employers may purchase up to five years of such credit.

Benefit Calculation

The final average salary is the average of the member's highest three years of earnings while in the school service.

The benefit amount is calculated in this way:

The final average salary amount is multiplied by 2.1% to determine the value of a year of service credit. This value cannot be less than \$86. If it is, \$86 is used. The value is then multiplied by the number of years of service credit. This calculation yields the annual retirement benefit amount for a person who has service at retirement time.

For "early retirement" (the member is under age 65 or has less than 30 years of service) there is a corresponding percentage of decrease in the required benefit amount to allow for an extended period of retirement. Reduction factors are required by Ohio state law.

Retirement Options

Should the retiring member wish to provide a benefit amount for a beneficiary upon the retiree's death, this may be done by the selection of one of the optional retirement plans provided for this purpose. Optional plans may be altered by the retired member should the beneficiary die before the retiree or in the event of a divorce, with consent of the ex-spouse or a court order.

Disability Retirement

A member prevented from performing regular duties on the job after incurring an injury or illness may apply for

monthly disability benefits. To qualify, the member must have at least 5 years of service credit. In addition to the age and service requirements, the member must:

- Have developed the disabling illness or injury after last becoming a member of SERS;
- Have been recommended for approval by a SERS-sponsored medical review board;
- Have applied for benefits within 2 years of the last day of service with the school district;
- Not have withdrawn contributions or retired on service retirement.

There are two disability plans with differing benefits. All new members are under the new plan. Benefits range from 30% of final average salary to 75%. Benefits are lifetime under the old plan, subject to re-examination; and may be converted to service retirement under the new plan.

Death Benefits

The designated beneficiary of any SERS retirees will receive a \$500 lump sum payment upon the retiree's death. If there is no beneficiary, payment is made to the person responsible for the burial expenses or to the retiree's estate.

Survivor Benefits

Qualified dependents of a deceased member may apply for monthly survivor benefits. Such benefits are payable if the member had at least 18 months of Ohio service credit, three of which were served in the 2.5 years prior to the member's death, or if the member was receiving a disability benefit.

If the member was eligible for service retirement but had not yet applied for benefits, the surviving spouse or other single dependent beneficiary of any age can draw a monthly lifetime benefit known as the joint survivor option. Duration of survivor benefits depends primarily on the age and marital status of the dependent(s).

PLAN SUMMARY

Health Care and Other Benefits

Eligible benefit recipients receive medical insurance from SERS. Coverage for a spouse and/or dependent children can be provided by means of a monthly deduction from the benefit. Coverage is offered by the selection of the Aetna insurance company or HMO's available in certain zip codes.

If the benefit recipient participates in Medicare B, SERS reimburses the recipient \$24.80 per month.

A prescription drug program is available to benefit recipients of SERS and their dependents who are covered under one of the health plans. Participants may either choose to obtain prescription drugs from a participating local pharmacy and pay 20% of the cost or they may elect to receive the drugs by mail from a licensed mail order pharmacy for a minimal fee per medication.

Members retiring after June 1, 1986 must have 10 or more years of service credit to qualify for the health care benefits.

Members retiring on and after August 1, 1989 with less than 25 years of qualified service credit pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. Members who joined SERS on and after July 1, 1993 pay the full premium until eligible for Medicare.

Cost of Living Increases

After 12 months on the benefit rolls, and each year thereafter, SERS retirees are entitled to an automatic cost of living increase of up to 3%, based on the Consumer Price Index. In addition, the legislature has granted several permanent ad hoc increases to SERS retirees, the last such increase being in 1988.

Re-Employed Retirees' Annuity

Ohio public system retirees who work in a SERS covered position are entitled to an annuity at age 65. The annuity is based on a money purchase formula and may be paid in monthly payments if the monthly amount is \$25 or more. If the monthly amount is less than \$25, the annuity will be paid in a lump sum.

Comprehensive Annual

FINANCIAL REPORT

for the year ended June 30, 1998

6th Proof

12/14/98

Gwen Ross

Alan Tharp

Auditor

Carla Marshall