

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86 / 2

275 SCOMM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

ANALYSIS OF COMMON STOCK HOLDINGS

PETER G. ROBB

OCTOBER 7, 1977

DJIA	12-31-73	850.86	S&P 500	12-31-73	97.35
DJIA	12-31-74	616.24	S&P 500	12-31-74	68.56
DJIA	12-31-75	852.41	S&P 500	12-31-75	90.19
DJIA	12-31-76	1004.65	S&P 500	12-31-76	107.46
DJIA	8-05-77	888.69	S&P 500	8-05-77	98.76
DJIA	10-07-77	940.35	S&P 500	10-07-77	95.97

[illegible]

* Earnings fully diluted.

(A) All figures reflect 3-2 stock split effective May 2, 1977.

(B) April fiscal year; fiscal year ending during following calendar year; results shown for 3 months of fiscal 1978.

(C) September fiscal year; results shown for 9 months of fiscal 1977.

(D) Excludes unremitted earnings from Ocaso-Corning Fiberglass.

(E) November fiscal year; results shown for 9 months of fiscal

ROGER W. HENRY
OCTOBER 7, 1977

DJIA	12-31-73	850.86	S&P 500	12-31-73	97.35
DJIA	12-31-74	616.24	S&P 500	12-31-74	68.56
DJIA	12-31-75	852.41	S&P 500	12-31-75	90.19
DJIA	12-31-76	1004.65	S&P 500	12-31-76	107.46
DJIA	8-05-77	838.69	S&P 500	8-05-77	96.73
DJIA	10-07-77	840.35	S&P 500	10-07-77	95.97

SYMBOL	COMPANY NAME	MAJOR PRODUCT LINE	MOST RECENT YEAR-TO-DATE EARNINGS			EARNINGS PER SHARE 1976 ACTUAL	EARNINGS PER SHARE 1977 ESTIMATED	EARNINGS PER SHARE 1978 PROJECTED	PRICE/EARNINGS 1978	HISTORICAL PRICE/EARNINGS	INDICATED ANNUAL DIVIDEND	YIELD	MARKET PRICE 10-07-77	POSITIVES	NEGATIVES	OPINION AS OF 10-07-77	% PRICE CHANGE		SYMBOL	
			1977	1976	% CHANGE												SINCE LAST ADVISORY MEETING 8-05-77	SINCE 12-31-76		
CONSUMER-NONDURABLES																				
AVP	Avon Products, Inc.	Door-to-door selling of cosmetics	\$ 1.10	\$ 0.99	+ 11.1%	\$ 2.90	\$ 3.30	\$ 3.70	12.7x	29x	\$ 2.20	4.7%	\$ 47	New marketing stress, higher representative count	Maturing domestic market, difficult earnings comparisons	Favorable	- 2.1%	- 6.0%	AVP	
CLX	Clorox Company (The) (D)	Household products, food services	1.44	1.22	+ 18.0	1.22	1.44#	1.55	8.4	19	0.60	1.6	13	Profit margins stable, Country Kitchen now profitable	Poor food service operation results, poor acquisitions	Unfavorable	+ 8.3	+ 8.2	CLX	
CL	Colgate-Palmolive Company	Household, medical and sporting goods	0.93	0.89	+ 10.1	1.95	2.15	2.40	10.0	17	1.00	4.2	24	Finances excellent, good domestic acquisitions	European H-H product retailers cutting inventories	Neutral	- 7.7	-14.3	CL	
EK	Eastman Kodak Company	Number one in photographic equipment	1.42	1.60	- 11.3	4.03	4.15	4.80	12.5	27	2.10	3.5	60	Lower new product development costs, competitive copiers	Less visible technological superiority, law suits, high P/E	Favorable	+ 3.4	-30.2	EK	
MMM	Minnesota Mining and Manufacturing Company	Highly diversified company	1.69	1.43	+ 18.2	2.94	3.50	4.10	12.2	26	1.70	3.4	50	Very well managed, pretax margins up strongly	Slow demand recovery, slow growth in historic profit centers	Favorable	0.0	-12.3	MMM	
PG	Procter & Gamble Company (The) (D)	Soaps, toiletries, foods	5.59	4.86	+ 15.0	4.86	5.59#	6.25	13.3	24	2.60	3.1	83	Increasing domestic unit volume, good new products	High multiple, significant losses in coffee subsidiary	Neutral	+ 3.8	-11.7	PG	
PRX	Purex Corporation (B) (D)	Household cleaning products	1.95	1.90	+ 2.6	1.90	1.95#	2.15	7.9	15	1.08	6.4	17	High yield, consumer demand picking up	Modest sales improvement for year to date	Neutral	- 5.6	-10.5	PRX	
REV	Revlon, Incorporated	Cosmetics and toiletries	1.53	1.28	+ 19.5	2.68	3.10	3.70	11.9	17	1.00	2.3	44	World cosmetics leader, strong marketing programs	High P/E ratio, low yield, volume growth may slow	Favorable	+ 7.3	0.0	REV	
FOODS																				
CPC	CPC International, Inc.	World's largest corn refiner	2.48	2.25	+ 10.2	5.15	5.60	6.10	8.9	9	2.50	4.6	54	Well diversified in products and geographic markets	Slim corn processing margins, large international operations	Neutral	0.0	+12.5	CPC	
CFD	Consolidated Foods Corporation (A) (D)	Food, home products, apparel	2.93	2.56	+ 14.5	2.56	2.93#	3.20	7.5	12	1.40	5.8	24	New management team, building operating controls	Hard to predict due to new management and diverse businesses	Neutral	- 7.7	-11.1	CFD	
GF	General Foods Corporation (C) (F)	Coffee, food and grocery products	1.02	1.06	- 3.8	3.56	3.85	4.30	7.7	10	1.64	5.0	33	Major convenience food company, good dividend	World coffee shortage, sharp drop in coffee consumption	Neutral	- 8.3	+10.0	GF	
GIS	General Mills, Incorporated (E) (F)	Packaged consumer foods, apparel, games	0.79	0.65	+ 21.5	2.36	2.70	2.95	9.8	15	1.00	3.4	29	Leader in convenience foods, sound diversification	Fashion and direct marketing business less predictable	Favorable	- 3.3	-14.7	GIS	
KRA	Kraft, Inc.	Packaged food and dairy products	2.85	2.52	+ 13.1	4.86	5.65	6.15	7.8	10	2.32	4.8	48	Operations reorganized, margins improved	Slower demand growth for cheese, large Belgium plant losses	Neutral	- 5.9	+ 2.1	KRA	
NSI	Norton Simon, Incorporated* (A) (D)	Food, cosmetics, soft drinks, packaging	1.98	1.76	+ 12.5	1.81	1.98#	2.35	8.5	13	0.76(a)	3.8	20	Max Factor, Canada Dry, Somerset, Hunt all doing well	Brief history, concern about Avis acquisition	Favorable	0.0	0.0	NSI	
PSY	Pillsbury Company (The)* (A) (E) (F)	Consumer food products, restaurants	0.95	0.86	+ 10.5	3.58	4.05	4.60	8.9	10	1.28	3.1	41	New management team, improved margins, good new products	Volatility of grain and feed ingredient merchandising	Neutral	+13.9	0.0	PSY	
ENERGY-RELATED																				
WMB	Williams Companies (The)	Fertilizer, energy, steels	1.67	1.43	+ 16.8	2.44	2.75	3.10	6.5	8	1.00	5.0	20	Aggressive management/record, promising energy area	Volatile earnings, nitrogen fertilizer overcapacity	Neutral	-13.4	-20.0	WMB	
																Total Unweighted	- 17.3%	- 8.3%		
																DJIA	- 5.4%	-16.4%		
																S&P 500	- 2.8%	-10.7%		

* Earnings fully diluted.

(A) Results shown for continuing operations only.

(B) We own a convertible issue of this company.

(C) March fiscal year; results shown for 3 months of fiscal 1977.

(D) June fiscal year; results shown for full year, fiscal 1977.

(E) May fiscal year; results shown for 3 months of fiscal 1977.

(F) Fiscal year ending during following calendar year.

(a) Also stock.

Actual fiscal year earnings.

STATE OF MINNESOTA - STATE BOARD OF INVESTMENT

ANALYSIS OF COMMON STOCK HOLDINGS

MICHAEL L. HUDSON

OCTOBER 7, 1977

DJIA 12-31-73 850.86 S&P 500 12-31-73 97.35
 DJIA 12-31-74 818.24 S&P 500 12-31-74 98.56
 DJIA 12-31-75 855.41 S&P 500 12-31-75 99.19
 DJIA 12-31-76 1004.65 S&P 500 12-31-76 107.46
 DJIA 8-05-77 888.69 S&P 500 8-05-77 98.76
 DJIA 10-07-77 840.35 S&P 500 10-07-77 95.97

SYMBOL	COMPANY NAME	MAJOR PRODUCT LINE	MOST RECENT YEAR-TO-DATE EARNINGS			EARNINGS PER SHARE 1976 ACTUAL	EARNINGS PER SHARE 1977 ESTIMATED	EARNINGS PER SHARE 1978 PROJECTED	PRICE/EARNINGS 1978	HISTORICAL PRICE/EARNINGS	INDICATED ANNUAL DIVIDEND	YIELD	MARKET PRICE 10-07-77																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
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(A) January fiscal year; interim results for 6 months of fiscal 1977.
 (B) February fiscal year; interim results for 6 months of fiscal 1977.
 (C) March fiscal year; interim results for 3 months of fiscal 1977.
 (D) August fiscal year; interim results for 9 months of fiscal 1977.
 (E) August fiscal year through 1976, December thereafter; interim results for 6 months of fiscal 1977.
 (F) September fiscal year; interim results for 9 months of fiscal 1977.
 (G) We own a convertible issue of this company.

(H) Fiscal year ending during following calendar year.
 (I) Results shown for continuing operations only.
 (a) Includes \$0.15 extra.
 (b) Also stock.
 * Earnings fully diluted.

Note: Numbers for Coca-Cola, PepsiCo, and Sears reflect 1977 stock splits.

STATE OF MINNESOTA - STATE BOARD OF INVESTMENT

ANALYSIS OF COMMON STOCK HOLDINGS

C. ROBERT PARSONS

OCTOBER 7, 1977

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			1977	1976	% CHNGE												SINCE LAST ADVISORY MEETING 8-5-77	SINCE 12-31-76	
AUTOMOBILES & AUTOMOTIVE PARTS																			
F	Ford Motor Company*	Second largest producer of automobiles	\$ 7.91	\$ 6.03	+ 31.2%	\$ 7.74	\$ 12.75	\$ 10.00	4.6x	9x	\$ 3.20	7.0%	\$ 46	Strong fundamentals, continuing sales recovery from strike	High prices of new models, import competition, possible higher gasoline prices, higher labor and material costs	Neutral	+ 4.5%	- 6.5%	F
GM	General Motors Corporation	Largest producer of automobiles	6.96	5.94	+ 17.2	10.08	11.75	10.50	6.7	10	3.40(a)	4.9	70	Strongest financial position in group, gaining market share, high quality	High prices of new models, import competition, possible higher gasoline prices, higher labor and material costs	Neutral	+ 2.9	- 10.8	GM
GPC	Genuine Parts Company	Large wholesale distributor of auto-motive replacement parts	0.96	0.87	+ 10.3	2.16	2.50	2.80	11.8	24	0.90	2.7	33	Stable long-term growth, strong financial position, beneficiary of increased replacement parts spending	Relatively high price-earnings ratio, low yield	Favorable	- 2.9	- 12.0	GPC
GT	Goodyear Tire and Rubber Company (The)	World's largest rubber fabricator	1.79	1.03	+ 73.8	1.69	3.00	2.75	6.9	10	1.30	6.8	19	Capable management, high quality, international earnings now improving	High debt/equity ratio, rising wage and material costs, increased competition from Michelin, rising gas prices	Neutral	- 9.5	- 20.0	GT
ELECTRONICS																			
HWP	Hewlett-Packard Company (B)	World's largest maker of electronic measuring instruments	3.13	2.05	+ 52.7	3.23	4.40	5.25	14.5	35	0.40	0.5	76	Very well managed, strong research and development program, strong balance sheet, conservative accounting	Relatively high multiple, increased competition in the calculator and minicomputer areas	Favorable	- 3.8	- 12.9	HWP
TXN	Texas Instruments Incorporated	Leading producer of semiconductor products	2.41	1.91	+ 26.2	4.25	5.20	5.75	14.3	29	1.32	1.6	82	Well managed, sound financial position, strong research effort, conservative accounting	Relatively high multiple, low yield, highly competitive industry, cyclical markets	Favorable	- 8.9	- 20.1	TXN
OFFICE EQUIPMENT																			
BGH	Burroughs Corporation	Major manufacturer of computers, business machines and office supplies	1.93	1.66	+ 16.3	4.62	5.35	6.20	11.0	28	1.00	1.5	68	Improving financial position, strong product line, rising backlogs	Competition from IBM in business computers, low yield	Favorable	0.0	- 25.8	BGH
CDA	Control Data Corporation	World's largest producer of super computers, large factor in time sharing	1.50	1.23	+ 22.0	2.74	3.25	3.60	6.1	14	0.15	0.7	22	Peripherals and data services areas strong	Low quality, poor earnings visibility, casualty insurance area weak	Neutral	+ 4.8	- 14.6	CDA
DEC	Digital Equipment Corporation (A)	Largest producer of minicomputers	2.78	1.98	+ 40.4	1.98	2.78(actual)	3.75	12.3	35	-	-	46	Good management, leadership in minicomputer industry, broad product line, conservative accounting	Increased competition, relatively high multiple, no dividend	Favorable	- 4.2	- 14.6	DEC
HON	Honeywell, Inc.	Third largest factor in the computer industry, controls and instrumentation	2.57	1.34	+ 91.8	4.82	6.00	6.75	6.7	17	1.90	4.2	45	Strength in Series 60 sales and rentals, controls area strong	Poor earnings record, liberal accounting, competition from IBM	Favorable	- 11.8	- 7.2	HON
IBM	International Business Machines Corporation	Largest manufacturer of business machines in the world	8.26	7.57	+ 9.1	15.94	17.75	20.50	12.6	22	10.00	3.9	258	Management strength, high quality, huge cash flow, strong finances, conservative accounting, high backlogs	Legal problems (Justice Department suit)	Favorable	- 3.4	- 7.6	IBM
XRX	Xerox Corporation (D)	The leading maker and marketer of products for xerographic reproduction	2.57	2.32	+ 10.8	4.51	5.25	5.85	9.1	28	1.60	3.0	53	Strong rental base, strong marketing and service organization, conservative accounting, broad product line, cost reduction program	Increased competition from IBM, Eastman Kodak and the Japanese copier industry, SCM suit	Favorable	+ 1.9	- 9.4	XRX
AEROSPACE																			
BA	Boeing Company (The)	Leading producer of commercial and military aircraft and of missiles	1.99	1.01	+ 97.0	2.43	4.25	5.00	5.2	9	1.00(a)	3.8	26	Strong commercial aircraft orders, strong balance sheet, conservative accounting	Subject to political shifts and uncertainty, cyclical and sometimes volatile business	Favorable	- 11.9	+ 16.2	BA
UTX	United Technologies Corporation*	Aircraft engines, helicopters, wire products, elevators	2.09	1.86	+ 12.4	3.64	4.25	4.75	7.4	7	1.80	5.1	35	Diversification moves, military sales, improving, Essex and power groups strong, UTTAS award, LAMPS award	Dependence on the commercial aircraft industry, growing complexity of the company	Favorable	- 10.3	- 10.0	UTX
ELECTRICAL EQUIPMENT																			
EMR	Emerson Electric Company* (C)	Producer of electrical, electronic and related products	1.84	1.54	+ 19.5	2.05	2.45	2.75	12.4	23	1.00	2.9	34	Very good management, high margins, strong financial position conservative accounting, diversification	Relatively high multiple, cyclical markets	Favorable	0.0	- 1.4	EMR
GE	General Electric Company	The largest domestic manufacturer of electrical equipment	2.15	1.82	+ 18.1	4.12	4.80	5.30	9.6	17	2.20	4.3	51	Strong financial position, industry leader, quality management, conservative accounting	Cyclical markets, higher labor costs, losses in nuclear area	Favorable	- 7.3	- 8.3	GE
GLD	Gould Inc.*	Diversified producer of batteries, instruments and electronic systems	1.65	1.39	+ 18.7	2.96	3.50	4.00	7.8	9	1.36	4.4	31	Aggressive research and development program, industrial, electrical and battery areas strong	Cyclical markets, lightly followed, complex product mix	Favorable	0.0	+ 3.3	GLD
WX	Westinghouse Electric Corporation (D)	Second largest producer of electrical equipment	1.34	1.16	+ 15.5	2.54	2.90	3.25	5.5	14	0.972	5.4	18	Market leader in nuclear power, disposal of unprofitable units improving financial condition	Potential uranium liability, weakness in lamps, lighting fixtures and medium-sized motors	Neutral	- 14.3	+ 2.1	WX
MACHINERY																			
CAT	Caterpillar Tractor Company*	Largest manufacturer of earth-moving machinery and equipment	2.42	2.33	+ 3.9	4.31	5.00	6.00	9.0	13	1.50	2.8	54	Very well managed, well financed international corporation, conservative accounting, domestic demand strong	Higher wages and material costs, sluggish foreign markets	Favorable	+ 1.9	- 6.9	CAT
CKL	Clark Equipment Company	Largest producer of industrial lift trucks	2.32	1.92	+ 20.8	3.80	4.75	5.50	6.2	11	1.80	5.3	34	Improving management, sale of less profitable units, strong cyclical play in industrial lift truck market	Relatively low margins, competition from Caterpillar Tractor and John Deere	Favorable	- 2.9	- 19.8	CKL
CSP	Combustion Engineering, Inc.	Large domestic manufacturer of fossil-fueled steam generating equipment	1.82	1.53	+ 19.0	3.36	4.00	4.35	8.0	14	1.60	4.6	35	Strong growth in oil and gas production processing equipment, also strength in Lummus Division	Weak utility orders in both nuclear and fossil fuel areas	Favorable	- 11.0	+ 4.5	CSP
TU	Trans Union Corporation	Major tank and rail car lessor	2.13	1.90	+ 12.1	4.01	4.75	5.00	7.6	12	1.92	5.1	38	Capable management, high quality, stability of leasing operations, Ecodyne and Lash strong	Weak fastener division	Favorable	+ 2.7	+ 3.4	TU
AIRLINES																			
DAL	Delta Air Lines, Incorporated (A)	Large Southeast short haul carrier	4.65	3.53	+ 31.7	3.53	4.45(actual)	5.40	6.1	17	0.70	2.1	33	Best quality airline issue, conservative accounting, sound finances, modern fleet	Regulatory environment, increasing wage and fuel costs	Neutral	- 2.9	- 14.3	DAL
NWA	Northwest Airlines, Incorporated	Major domestic and international carrier	1.82	0.84	+116.7	2.39	3.71	4.00	5.5	10	0.50	2.3	22	High quality carrier, good management, modern fleet, low cost operator, sound finances	Regulatory environment, increasing wage and fuel costs	Neutral	- 12.0	- 26.1	NWA
UAL	UAL, Inc.*	Nation's largest domestic carrier	0.33	(1.05)	N.M.	0.75	3.75	4.00	5.0	15	0.60	3.0	20	Strong liquidity and cash flow, improving fundamentals	Increasing wage and fuel costs, regulatory environment	Neutral	+ 11.1	- 25.6	UAL
RAILROADS																			
BNI	Burlington Northern Incorporated*	Largest United States railroad system	4.24	2.51	+ 68.9	5.35	6.50	7.00	6.3	9	1.60	3.6	44	Coal traffic up, regulatory environment improving, proposed merger with St. Louis-San Francisco Railway	Highly leveraged, increased wage, material & fuel costs, large cash needs for upgrading	Favorable	- 10.2	0.0	BNI
SR	Southern Railway Company	Large Southeast railroad system	4.33	2.90	+ 49.3	5.85	7.75	8.25	6.4	10	2.60	4.9	53	One of the most profitable United States railroads, aggressive management, good cost control	Increased costs in wage, materials & fuel areas, truck competition	Favorable	- 5.4	- 14.5	SR
UNP	Union Pacific Corporation*	Large railroad holding company	2.12	1.66	+ 27.7	3.91	4.70	5.25	9.5	12	1.70	3.4	50	One of the most profitable companies in its industry, important oil interests, coal traffic up	Increased costs in wage, materials & fuel areas, relatively high multiple	Favorable	- 5.7	- 2.4	UNP

* Earnings fully diluted and before extraordinary items.

(A) Fiscal year ends in June.

(B) Fiscal year ends in October, so these are 9 month results for fiscal 1977.

(C) Fiscal year ends in September, so these are 9 month results for fiscal 1977.

(D) Earnings from continuing operations only.

N.M. Not meaningful.

(a) Also extra or extras.

DJIA 12-31-73 850.66 S&P 500 12-31-73 97.35
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Total Unweighted - 3.8% - 10.4%
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STATE OF MINNESOTA

STATE BOARD OF INVESTMENT

MEMBERS OF THE BOARD:

GOVERNOR RUDY PERPICH
STATE AUDITOR ROBERT W. MATTSON
STATE TREASURER JIM LORD
SECRETARY OF STATE JOAN ANDERSON GROWE
ATTORNEY GENERAL WARREN SPANNAUS

ROBERT E. BLIXT
EXECUTIVE SECRETARY

**REPORT TO PARTICIPANTS
IN THE
MINNESOTA VARIABLE ANNUITY FUND
JULY 1, 1977**

Office of the Executive Secretary
State Board of Investment
105 MEA Building, 55 Sherburne Avenue
Saint Paul, Minnesota 55155

To: Participants in the Minnesota Variable Annuity Fund
From: The Executive Secretary of the Minnesota State Board of Investment
Subject: Investment Provisions and Policies Applicable to the Minnesota Variable Annuity Fund

The 1969 Minnesota Legislature established the Minnesota Variable Annuity Fund to be used as a retirement and investment option for individuals in certain organizations. At the time the implementing legislation was passed, the Minnesota Teachers' Retirement Association provided this option to its participants.

The 1973 Legislature completely revised retirement laws and based future Teacher Retirement benefits on the average income received during the "five-high years" of service. These provisions provided teachers with additional protection through benefits increasing with an inflationary economy. Time has indicated that this legislation actually provided benefits to a somewhat higher degree than those warranted by the contributions. Therefore, whereas the Teachers' Retirement Fund may be detrimented by an actuarial deficit at the moment, though continuing to pay full benefits, the participants in the Variable Annuity Fund must base a portion of their retirement income upon the market value of the securities in the fund at the time of withdrawal.

Under the terms of Minnesota Statutes 1976, Section 11.26, The State Board of Investment manages a portfolio which may include up to 100% in corporate stocks. Although the intent of the teachers advocating this program, and of the 1969 Legislature, appeared to be that of maintaining a portfolio comprised entirely of equity securities, the Investment Department was somewhat reticent concerning such a high exposure to stocks, even though such investments were very popular at the time. Since the inception of this account, from 25 to 35 percent of the funds have been invested in fixed income securities, with quality ratings of "A" or better. At statement date on June 30, 1977, this portfolio included bonds with ratings of "A" through "Aaa" totaling over \$11.0 million in face value, and with an average yield to maturity, at purchase price, of 8.598%.

The cost of the common stock portfolio as of June 30, 1977, was \$33.08 million, with a market value of \$32.35 million. The annual net income to the account, based on securities presently held, amounts to \$2,105,576.69 or 4.78% of the cost of securities. Minnesota Statutes 1976, Section 11.26, Subdivision 2 states that the assets of the Minnesota Variable Annuity Fund shall be invested in accordance with the provisions of Section 11.18, Subdivision 3. This language is applicable to the growth share account of the Supplemental Retirement Fund and includes a provision that "100 percent of the assets in the account may be invested in corporate stocks; . . . and commercial paper may constitute 15 percent of the assets in the account, . . ." The accompanying reference to investments in the State Employees Retirement Fund (See Section 11.16) makes possible corporate bond investments to a maximum extent of 60% of the total assets in the account at any time. Although fixed-income investments did not offer the participants the growth potential deemed desirable by many during the 1969-72 period, this participation did add a substantial degree of stability during the years from 1973 through 1975.

In order to further minimize the extreme fluctuations inherent in many variable plans, the Minnesota Legislature provided that the value of participations in this fund be calculated on a moving-average basis which is thus described in Minnesota Statutes 1976, Section 11.26, Subdivision 4:

"Subd. 4 VALUATION OF FUND. (1) A bimonthly valuation of the investments in the Minnesota variable annuity fund shall be made by the state board of investment, using the closing market prices on the last business dates of August, October, December, February, April and June of each fiscal year. The ratio of the total market value of investments to the admitted value of investments at the end of the preceding fiscal year, plus the cost of investments acquired, less the net receipts from investments sold during the fiscal year, shall be determined for each valuation date. (2) The admitted value of the investments of the Minnesota variable annuity fund at the end of each fiscal year shall be the book value of all investments held at such date multiplied by the average of the ratios at the 12 bimonthly valuation dates for such fiscal year and the immediately preceding fiscal year determined in accordance with clause (1). For fiscal 1971, the admitted value shall be the book value of all investments held at the end of the fiscal year multiplied by the sum of the average of the six ratios determined for such fiscal year plus six assumed ratios of 100, the total of which is divided by 12. The book value of investments during any fiscal year shall be the admitted value at the end of the preceding fiscal year or the cost of such investments if acquired during the fiscal year. At the initial date of operation of the fund, the admitted value of the investments shall be the original cost of such investments."

The determination of the rate of return provided to the participants in the Variable Annuity Fund is detailed in Minnesota Statutes 1976, Section 11.26, Subdivisions 4 through 7. This language provides that all earnings, after adjustment for realized and unrealized gains or losses on securities, determine the rate of return. The per-

cent of increase or decrease, thus calculated, is used in adjusting the individual member's account balances at the end of each fiscal year.

The two-year period over which market valuations are averaged has caused much concern on the part of Variable Annuity participants. Although this statutory language accomplished its purpose by somewhat lowering the degree of annual change when compared with other Variable Annuity Plans, the 1973-1974 downturn in stock and bond prices caused misunderstandings by those unfamiliar with the market and the statutory provision.

Bond prices reached a 100-year low in late 1974, when long-term fixed income yields exceeded 10%. The Dow Jones Industrial Average declined to a low of 570.0 in December 1974, compared with a high of 1067.2 in January 1973. This decline of 46.6% meant that the Minnesota Variable Annuity Fund would show substantial detrimental results at fiscal year-end 1975 and 1976. The statistical resume of this account from the fiscal year 1971 through 1977, on pages 4 and 5, indicates the statutory "delayed reaction" inherent in the investment results. As is explained by these statistics, the reason for the percentage gain of over 15 percent in fiscal 1977 was that figures for this most recent fiscal year did not include the low stock prices used in calculations during the 1974-1976 period. Because the fiscal 1977 results are based on securities valuations during the period from July 1, 1975 through June 30, 1977, the Variable Annuity Fund shows comparatively good results for this most recent fiscal year.

The valuation problem culminating in the figures pertaining to June 30, 1975, was accelerated by a transfer of \$7,985,000 to the main Teachers' Retirement Association account in July and August 1974, immediately after Laws of Minnesota 1974, Chapter 289, Section 15, Subdivision 2, provided that participants who relied solely on the Variable Annuity Plan would transfer 50% of their assets back to the main account. This transfer amounted to 37% of the total assets of the Variable account as of June 30, 1974, a time when market prices of equities were extremely low. Most of the transfers were made by withholding "cash contributions" from the investment process. This meant that the Variable Annuity lost the opportunity to place approximately \$8 million into the market at the time of the most favorable prices in years. Although cash reserves and current contributions accounted for most of the transfer, common stocks with a cost of \$810,839 — but with a then current market value of only \$473,952 — were sold in order to meet the cash requirements for those individuals returning to a one-half participation in the basic Teachers' Retirement Fund. It was decided, at a later time, that three of these stocks should be repurchased in order to gain appropriate diversification in the account. Purchases of two of these equities were made at higher prices than received through the earlier sales.

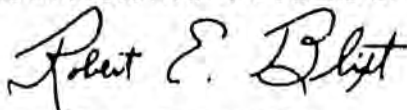
It is the opinion of the Investment Department that the results of the Variable Annuity are, indeed, difficult to judge considering the type of "growth stocks" used in all Variable Annuity Accounts, the substantial mandatory transfer of funds at what proved to be lowest market prices in many years, and the "two year" delay in valuations under statutory provisions.

The popularity of the "five-high years" program now applicable to members of the Teachers' Retirement Association and the added employer contributions which may be necessary to achieve actuarial soundness in the main account, has, perhaps, made the Variable Annuity Fund less attractive to participants. Nevertheless, those who have invested in "Variable" are receiving a 15.9463% statutory increase for the fiscal year ended June 30, 1977. This gain may be supplemented by another for fiscal 1978 in that six of the twelve ratios applicable to next year's calculations are already available, based on fiscal 1977 markets. A positive percentage change is indicated for fiscal 1978 unless there is a severe downward move in both stock and bond prices.

Participants may gain additional insight regarding this account through studying the material on pages 4 and 5, which indicates stock price levels and the averages of the twelve applicable ratios during each of the past fiscal years.

It is suggested that any questions applicable to the operation of the Minnesota Variable Annuity Fund be addressed to the Executive Director of the Minnesota Teachers' Retirement Fund, 302 Capital Square Building, 550 Cedar Street, Saint Paul, Minnesota 55101.

Respectfully submitted,
THE MINNESOTA STATE BOARD OF INVESTMENT



by: Robert E. Blixt, C.F.A.
Executive Secretary

THE MINNESOTA VARIABLE ANNUITY FUND

STATISTICAL DATA — 1971-1977

a	b	c	d
Fiscal Year Ended June 30	Dow Jones Industrial Average on Date "a"	Range of Dates for Twelve Ratios	Range of Twelve Ratios; Market Value to Statutory Admitted Value
1971	891.14	8/69 — 6/71*	109.9468 (4/71) — 100.0000*
1972	928.66	8/70 — 6/72	110.3371 (4/72) — 102.1728 (10/70)
1973	891.78	8/71 — 6/73	110.3371 (4/72) — 93.2476 (6/73)
1974	802.41	8/72 — 6/74	108.1476 (12/72) — 77.4123 (6/74)
1975	878.99	8/73 — 6/75	95.1907 (6/75) — 68.6244 (8/74)
1976	1002.78	8/74 — 6/76	115.9778 (6/76) — 68.6244 (8/74)
1977	916.30	8/75 — 6/77	122.8337 (12/76) — 104.7923 (8/75)

* Includes six ratios of 100 for first fiscal period.

NOTES:

The above figures indicate the advantages of Minnesota statutory provisions tending to minimize the effects of extreme highs and lows in stock and bond prices. The severe decline in stock prices culminating in December 1974 would have resulted in even greater "swings" in the "rate of return" applicable to each participant if the valuations had been computed on the basis of prices effective on one date. The increase in 1971 was moderated because of the statutory requirement that a ratio of "100" be used for the first year of the fund's operation. The "time lag" due to the statute is evident beginning on June 30, 1973. At that time, the stock market had shown a substantial decline from the end of the previous calendar year; yet an increase of 6.2393% was applicable because of the two-year average figures.

THE MINNESOTA VARIABLE ANNUITY FUND

STATISTICAL DATA -- -- 1971 -- 1977

(Continued)

e	f	g	h
Average of Twelve Ratios; (from "d")	Net Yield Received**	Market to Book Change at Date "g"***	Rate of Return (Statutory Percentage Change Applicable to Fiscal Year)
103.1857*	4.27%	+ 6.76%	5.4600%
106.8747	4.26	+ 1.11	9.1670
104.0953	3.67	- 4.11	6.2393
93.1574	3.97	- 19.73	- 4.1981
82.7368	4.16	- 7.58	- 17.9638
95.5004	4.38	- 0.57	- 0.0101
114.1611	4.75	- 1.28	15.9463

* Interest and dividends earned as a percentage of average assets during fiscal year (average of preceding June 30, December 31, and ending June 30 figures).

** Ratio of market value to book value without statutory admitted value adjustment.

The account showed a decline of only 4.1981% for fiscal 1974 even though the market had suffered a further downturn. There had been a substantial increase in stock prices by June 30, 1975; yet, the account showed a decline of 17.9638%, primarily because of the price calculations from late 1974 which were used in the averages. Although the stock market showed a further gain at fiscal year-end 1976, and bond prices had evidenced significant advances, the account showed a minor negative change for that year.

During fiscal 1977, the Dow Jones Industrial Averages fell from 1002.78 to 916.30, or 8.62%. Despite this decline, the Variable Annuity account showed a gain of 15.9463% for the participants. This increase was due to the fact that the low market valuations prevalent in late calendar 1974 and early 1975 were not used in fiscal 1977 calculations. The portfolio listing on pages 7 through 10, indicates a greater diversification of investments than was possible during the period in which the account was being established.

**STATE OF MINNESOTA
STATE BOARD OF INVESTMENT
COMMON STOCKS ELIGIBLE FOR PURCHASE IN STATE RETIREMENT FUNDS**

I. UTILITIES

ELECTRIC

- *Central & South West
- *Cincinnati Gas & Electric
- *Commonwealth Edison
- *Florida Power & Light
- *Houston Industries
- *Louisville Gas & Electric
- *Middle South Utilities
- *Minnesota Power & Light
- *Northern States Power
- *Pacific Gas & Electric
- *Public Service of Colorado
- *Public Service of Indiana
- *Southern California Edison
- *Southern Company
- *Texas Utilities
- *Tucson Gas & Electric
- *Virginia Electric & Power

GAS

- *Houston Natural Gas
- *Panhandle Eastern Pipe Line
- *Peoples Gas

COMMUNICATIONS

- *American Telephone & Telegraph
- *Communications Satellite
- *General Telephone & Electronics
- *United Telecommunications

II. FINANCIAL SERVICES

BANKS

- *BankAmerica
- *Bankers Trust
- *Chase Manhattan
- *Citicorp
- *Citizens & Southern National
- *Continental Illinois Corp.
- *First Bank System
- *First Int'l. Bancshares
- *First Union Corp.
- *Manufacturers Hanover Corp.
- *Morgan (J.P.) & Co.
- *National City (Cleveland)
- *Northwest Bancorporation
- *Security Pacific Corp.
- *Valley National Bank (Arizona)
- *Wells Fargo
- *Western Bancorporation

FINANCE

- *Beneficial Corp.
- *Household Finance Corp.
- *Investors Diversified Serv. "A"
- *MGIC Investment Corp.

INSURANCE

- *Aetna Life & Casualty
- *Chubb Corp.
- *Connecticut General Insurance
- *CNA Financial Corp.
- *INA Corp.
- *Jefferson-Pilot
- *NLT Corp.
- *Northwestern National Life
- *SAFECO Corp.
- *St. Paul Companies
- *Travelers Corp.
- *U.S. Fidelity and Guaranty

**III. CONSUMER-ORIENTED
AUTOMOBILES AND
AUTOMOTIVE PARTS**

- *Chrysler
- *Ford Motor
- *General Motors
- *Genuine Parts
- *Goodyear Tire & Rubber

CONSUMER-DURABLES

- *Carrier Corp.
- *Sunbeam
- *Whirlpool

CONSUMER-NONDURABLES

- *Avon Products
- *Clorox
- *Colgate-Palmolive
- *Eastman Kodak
- *Economics Laboratory
- *Gillette
- *Minnesota Mining & Manufacturing
- *Polarnid
- *Procter & Gamble
- *Revlon

CONSUMER-MISCELLANEOUS

- *ARA Services
- *CBS, Inc.
- *Disney (Walt) Productions
- *Holiday Inns
- *McDonald's Corp.
- *Tonka Corp.
- *Warner Communications, Inc.

DRUGS

- *American Home Products
- *Becton Dickinson
- *Johnson & Johnson
- *Medtronic
- *Merck
- *Pfizer, Inc.
- *Schering-Plough
- *Searle (G.D.)
- *Upjohn
- *Warner-Lambert

FOODS-BEVERAGE

- *CPC International
- *Campbell Soup
- *Coca-Cola
- *Consolidated Foods
- *General Foods
- *General Mills
- *Green Giant
- *Kraft, Inc.
- *Norton Simon
- *PepsiCo
- *Pillsbury

PRINTING-PUBLISHING

- *Donnelley (R.R.) & Sons
- *Dun & Bradstreet
- *Harcourt, Brace & Jovanovich
- *Prentice-Hall

RETAIL SALES

- *American Greetings Corp.
- *Dayton Hudson
- *Federated Department Stores
- *Great A. & P. Tea
- *K mart Corporation
- *Penney (J.C.)
- *Sears Roebuck & Co.
- *Southland Corp.
- *Super Valu Stores
- *Zale Corp.

IV. TECHNOLOGY

ELECTRONICS

- *Hewlett-Packard
- *Texas Instruments

OFFICE EQUIPMENT

- *Burroughs
- *Control Data
- *Digital Equipment
- *Honeywell
- *International Business Machines
- *Xerox

V. BASIC INDUSTRIES

AEROSPACE

- *Boeing
- *United Technologies Corp.

BUILDING-FOREST PRODUCTS

- *Georgia-Pacific
- *Masonite
- *Owens Corning Fiberglas
- *Weyerhaeuser

CHEMICALS

- *Air Products & Chemicals
- *American Cyanamid
- *Dow Chemical
- *du Pont (E.I.) de Nemours
- *Hercules
- *International Minerals & Chemicals
- *Monsanto
- *Union Carbide

ELECTRICAL EQUIPMENT

- *Emerson Electric Co.
- *General Electric
- *Gould, Inc.
- *Westinghouse Electric

MACHINERY

- *ACF Industries
- *Caterpillar Tractor
- *Clark Equipment
- *Combustion Engineering
- *General American Transportation
- *International Harvester
- *Toro Company
- *Trans Union

METALS

- *Aluminum Co. of America
- *Armco Steel
- *Hanna Mining
- *Inland Steel
- *Pittston
- *St. Joe Minerals Corp.

PAPER

- *International Paper
- *Scott Paper
- *Union Camp Corp.

TEXTILES

- *Burlington Industries

MISCELLANEOUS

- *Continental Can
- *Corning Glass Works
- *International Telephone & Telegraph

VI. ENERGY

OIL-DOMESTIC

- *Atlantic Richfield
- *Continental Oil
- *Louisiana Land & Exploration
- *Marathon Oil Co.
- *Phillips Petroleum
- *Standard Oil (Indiana)
- *Standard Oil (Ohio)

OIL-INTERNATIONAL

- *Exxon Corp.
- *Gulf Oil
- *Mobil Oil
- *Standard Oil (California)
- *Texaco

ENERGY-RELATED

- *Baker International
- *Dresser Industries
- *Halliburton
- *Williams Companies

VII. TRANSPORTATION

AIRLINES

- *American Airlines
- *Delta Air Lines
- *Northwest Airlines
- *UAL, Inc.

RAILROADS

- *Burlington Northern
- *Norfolk & Western
- *Southern Pacific
- *Southern Railway
- *Union Pacific Corp.

*These stocks were held in one or more of Minnesota's retirement funds on June 30, 1977; stocks owned and those on the approved list are subject to change at any time.

**State of Minnesota - State Board of Investment
Minnesota Variable Annuity Fund - June 30, 1977**

DEBT OBLIGATIONS			Quality Ratings	Face	Amortized	Price	Market	Coupon	Annual	Yield at
			Moody's Std. & Pears	Value	Cost	June 30, 1977	Value		Income*	Cost to Maturity**
Short-Term Debt Obligations:										
U.S. Government Treasury Bills due 10-6-77				\$ 590,000.00	\$ 575,608.09		\$ 581,889.14*			4.825%
* Includes interest from date of purchase to June 30, 1977										
Intermediate-Term Corporate Debt Obligations:										
First Bank System, Note, due 6-30-83	Aa	AAA		\$ 500,000.00	\$ 498,294.64	107	\$ 535,000.00	8.750	\$ 44,034.16	8.837%
General Electric Credit Corp., (Delaware & Hudson Ry. Co.), CSA, due 9-1-77/9-1-85		A		110,625.41	110,625.41	107 1/8	118,507.47	10.500	11,615.67	10.500
Minnesota Gas Co., Deb., due 11-15-81	A	A		500,000.00	500,000.00	105 7/8	529,375.00	9.250	46,250.00	9.250
Montana Power Co., First Mtge. Bond, due 12-1-81	Aa	AA		500,000.00	500,000.00	104 1/2	522,500.00	8.750	43,750.00	8.750
Phelps Dodge Corp., Note due 6-1-85	A	A		250,000.00	248,402.58	104 7/8	262,187.50	8.500	21,451.72	8.636
Total Intermediate-Term Corporate Debt Obligations				\$ 1,860,625.41	\$ 1,857,322.63		\$ 1,967,569.97		\$167,101.55	8.997%
Long-Term Corporate Debt Obligations:										
ACF Industries, Inc., ETC, due 3-31-82/91	A	A		\$ 500,000.00	\$ 500,000.00	103	\$ 515,000.00	9.000	\$ 45,000.00	9.000%
ACF Industries, Inc., ETC, due 2-1-78/92		A		400,000.00	400,000.00	98 7/8	395,500.00	8.000	32,000.00	8.000
Canadian Pacific, Ltd., ETC, due 1-15-92	Aa	AA		480,000.00	480,000.00	100 7/8	484,200.00	8.625	41,400.00	8.625
Crown Zellerbach Mtge. Bond, due 8-1-94	A	A		468,235.04	468,235.04	99 5/8	466,479.16	8.125	38,044.10	8.125
Firestone Tire & Rubber, S/F Deb., due 12-1-2001	Aa	AA		500,000.00	491,844.54	107 3/8	536,875.00	9.250	46,547.48	9.464
Ford Motor Credit Co., Deb., due 7-15-2000	Aa	A		500,000.00	498,830.56	109 7/8	549,375.00	9.700	48,553.04	9.733
Honeywell Finance, Inc., due 12-15-98	A	A		500,000.00	500,000.00	96 1/2	482,500.00	8.200	41,000.00	8.200
Kansas Power & Light Co., First Mtge. Bond, due 6-1-2007	Aa	AA		500,000.00	497,500.00	99 1/4	496,250.00	8.125	40,708.52	8.183
MacMillan Bloedel, Ltd., Deb., due 7-1-94	A	A		500,000.00	500,000.00	99	495,000.00	8.750	43,750.00	8.750
Northwest Bancorporation, S/F Deb., due 3-15-2003	Aa	AAA		500,000.00	500,000.00	94 3/8	471,875.00	7.750	38,750.00	7.750
Public Service Electric & Gas Co., Refunding Mtge. Bond, due 6-1-2007	Aa	AA		500,000.00	501,250.00	100 1/8	500,625.00	8.250	41,208.24	8.221
Southern Bell Telephone & Telegraph Co., Deb., due 3-15-2013	Aaa	AAA		500,000.00	468,237.87	95 7/8	479,375.00	7.625	39,015.52	8.332
Standard Oil Co. of Calif., (Union Bank), First Preferred Ship Mtge. Bond, due 9-7-97 through 11-6-97	Aaa	AAA		500,000.00	500,000.00	98 3/8	491,875.00	7.700	38,500.00	7.700
Total Long-Term Corporate Debt Obligations				\$ 6,348,235.04	\$ 6,305,898.01		\$ 6,364,929.16		\$534,476.00	8.476%
Canadian Governmental Obligations:										
British Columbia Hydro & Power Authority Bond, due 7-15-96	Aa	AA		\$ 500,000.00	\$ 500,000.00	105 7/8	\$ 529,375.00	9.625	\$ 48,125.00	9.625%
Export Development Corp., Note, due 7-15-81	Aaa	AAA		500,000.00	500,000.00	102 1/2	512,500.00	8.500	42,500.00	8.500
The Manitoba Hydro-Electric Board, Bond, due 10-15-97	Aa	AA		400,000.00	400,000.00	92 5/8	370,500.00	7.650	30,600.00	7.650
The New Brunswick Electric Power Commission, S/F Deb., due 4-1-98	A	A		400,000.00	400,000.00	90 5/8	362,500.00	7.875	31,500.00	7.875
Nova Scotia Power Comm., S/F Deb., due 7-15-98	A	A		500,000.00	498,862.44	94 1/2	472,500.00	8.125	40,679.24	8.154
Ontario Hydro, Note, due 3-15-96	Aaa	AA		500,000.00	500,000.00	105 7/8	529,375.00	9.500	47,500.00	9.500
Total Canadian Governmental Obligations				\$ 2,800,000.00	\$ 2,793,862.44		\$ 2,776,750.00		\$240,904.24	8.607%
Total Corporate and Canadian Governmental Debt Obligations				\$11,008,860.45	\$10,962,083.08		\$11,109,249.13		\$942,482.69	8.598%

* Annual income includes accumulation of discounts and Amortization of premiums.
** Average yield figures mean annual income as percentage of Amortized Cost.

Abbreviations: ETC - Equipment Trust Certificate
CSA - Conditional Sale Agreement

(Continued on page 8)

MINNESOTA VARIABLE ANNUITY FUND (Continued)

COMMON STOCKS	Number of Shares	Cost	Price June 30, 1977	Market Value	Indicated Dividend	Annual Income	Yield at Cost
I. UTILITIES							
ELECTRIC							
Commonwealth Edison Company	16,000	\$ 478,721.50	30 7/8	\$ 494,000.00	\$ 2.40	\$ 38,400.00	8.02%
Florida Power & Light Company	19,000	478,363.80	27 1/8	55,375.00	1.56	29,640.00	6.20
Texas Utilities Company	30,000	648,490.19	21 1/2	65,000.00	1.40	42,000.00	6.48
Total Electric		\$ 1,605,575.49		\$ 1,654,375.00		\$ 110,040.00	6.85%
NATURAL GAS							
Panhandle Eastern Pipe Line Company	12,000	\$ 408,871.12	48 7/8	\$ 586,500.00	\$ 2.50	\$ 30,000.00	7.34%
COMMUNICATIONS							
American Telephone & Telegraph Company	13,300	\$ 672,735.56	63 1/2	\$ 844,550.00	\$ 4.20	\$ 55,860.00	8.30%
General Telephone & Electronics Corporation	14,500	313,708.65	32 1/2	471,250.00	2.00	29,000.00	9.24
Total Communications		\$ 986,444.21		\$ 1,315,800.00		\$ 84,860.00	8.60%
Total Utilities		\$ 3,000,890.82		\$ 3,556,675.00		\$ 224,900.00	7.49%
II. FINANCIAL SERVICES							
BANKS							
Citicorp	9,000	\$ 310,675.83	27 3/8	\$ 246,375.00	\$ 1.06	\$ 9,540.00	3.07%
First Bank System, Incorporated	3,000	114,175.00	36 5/8	109,875.00	1.60	4,800.00	4.20
First International Bancshares, Inc.	6,600	275,734.28	40 7/8	269,775.00	1.20	7,920.00	2.87
Northwest Bancorporation	11,000	273,292.44	24 1/8	265,375.00	0.96	10,560.00	3.86
Total Banks		\$ 973,877.55		\$ 891,400.00		\$ 32,820.00	3.37%
FINANCE							
Household Finance Corporation	16,000	\$ 394,338.16	19 7/8	\$ 318,000.00	\$ 1.20	\$ 19,200.00	4.87%
INSURANCE							
INA Corporation	5,000	\$ 214,425.00	45 7/8	\$ 229,375.00	\$ 2.30	\$ 11,500.00	5.36%
Jefferson-Pilot Corporation	9,000	263,199.60	30 1/8	271,125.00	0.92	8,280.00	3.15
NLT Corporation	13,700	314,140.36	25 3/4	352,775.00	0.76	10,412.00	3.31
The St. Paul Companies, Inc.	4,000	123,428.00	36 3/8	145,500.00	0.80	3,200.00	2.59
Total Insurance		\$ 915,192.96		\$ 998,775.00		\$ 33,392.00	3.65%
Total Financial Services		\$ 2,283,408.67		\$ 2,208,175.00		\$ 85,412.00	3.74%
III. CONSUMER-ORIENTED							
AUTOMOBILES—AUTOMOTIVE PARTS							
Ford Motor Company	5,625	\$ 232,503.67	46 7/8	\$ 263,671.88	\$ 3.20	\$ 18,000.00	7.74%
General Motors Corporation	6,700	377,156.84	69 3/8	464,812.50	3.40	22,780.00	6.04
Genuine Parts Company	16,000	555,587.91	33 7/8	542,000.00	0.90	14,400.00	2.59
Total Automobiles—Automotive Parts		\$ 1,165,248.42		\$ 1,270,484.38		\$ 55,180.00	4.74%
CONSUMER—DURABLES							
Whirlpool Corporation	15,000	\$ 421,192.12	24 1/2	\$ 367,500.00	\$ 1.00	\$ 15,000.00	3.56%
CONSUMER—NONDURABLES							
Avon Products, Inc.	6,000	\$ 285,515.36	50 1/2	\$ 303,000.00	\$ 2.20	\$ 13,200.00	4.62%
Colgate-Palmolive Company	15,000	393,682.68	24 3/4	371,250.00	1.00	15,000.00	3.81
Eastman Kodak Company	8,000	704,599.75	59 1/2	476,000.00	2.10	16,800.00	2.38
Minnesota Mining and Manufacturing Co.	12,000	738,932.36	49 3/8	592,500.00	1.70	20,400.00	2.76
Revlon, Incorporated	16,000	616,729.54	41 1/4	660,000.00	1.00	16,000.00	2.59
Total Consumer—Nondurables		\$ 2,739,459.69		\$ 2,402,750.00		\$ 81,400.00	2.97%
CONSUMER—MISCELLANEOUS							
Disney (Walt) Productions	8,000	\$ 300,870.00	36 7/8	\$ 295,000.00	\$ 0.16	\$ 1,280.00	0.43%
McDonald's Corporation	15,000	750,384.54	46	690,000.00	0.20	3,000.00	0.40%
Total Consumer—Miscellaneous		\$ 1,051,254.54		\$ 985,000.00		\$ 4,280.00	0.41%

DRUGS								
Johnson & Johnson	4,000	\$ 357,449.33	70 5/8	\$ 282,500.00	\$ 1.50	\$ 6,000.00	1.68%	
Medtronic, Inc.	6,000	231,200.00	25 5/8	153,750.00	0.40	2,400.00	1.04	
Merck & Co., Inc.	5,000	353,760.96	55 3/4	278,750.00	1.50	7,500.00	2.12	
Pfizer Incorporated	11,000	376,149.58	26	286,000.00	0.96	10,560.00	2.81	
Schering-Plough Corporation	7,000	392,576.25	36 3/8	254,625.00	1.12	7,840.00	2.00	
Warner-Lambert Company	11,000	438,620.80	28 5/8	314,875.00	1.10	12,100.00	2.76	
Total Drugs		\$ 2,149,756.92		\$ 1,570,500.00		\$ 46,400.00	2.16%	
FOODS-BEVERAGES								
CPC International, Inc.	6,000	\$ 266,652.00	50 1/4	\$ 301,500.00	\$ 2.50	\$ 15,000.00	5.63	
Coca-Cola Company (The)	19,000	739,750.98	37 1/4	707,750.00	1.54	29,260.00	3.96	
General Foods Corporation	7,000	165,350.37	33 3/8	233,625.00	1.64	11,480.00	6.94	
Norton Simon, Incorporated	23,953	503,778.70	17 3/4	425,165.75	0.60	14,371.80	2.85	
Total Foods-Beverages		\$ 1,675,532.05		\$ 1,668,040.75		\$ 70,111.80	4.18%	
RETAIL SALES								
Federated Department Stores, Incorporated	8,000	\$ 39,210.00	37	\$ 296,000.00	\$ 1.46	\$ 11,680.00	3.44%	
K mart Corporation	13,000	470,641.32	28 1/2	370,500.00	0.56	7,280.00	1.55	
Sears, Roebuck and Company	6,000	490,799.03	58	348,000.00	2.10	12,600.00	2.57	
Southland Corporation (The)	14,710	362,778.37	23 5/8	347,523.75	0.60	8,826.00	2.43	
Total Retail Sales		\$ 1,663,428.72		\$ 1,362,023.75		\$ 40,386.00	2.43%	
Total Consumer-Oriented		\$10,855,872.46		\$ 9,626,298.88		\$ 312,757.80	2.88%	
IV. TECHNOLOGY								
ELECTRONICS								
Hewlett-Packard Company	8,000	\$ 713,326.64	79	\$ 632,000.00	\$ 0.40	\$ 3,200.00	0.45%	
OFFICE EQUIPMENT								
Burroughs Corporation	7,500	\$ 674,174.94	62 3/8	\$ 467,812.50	\$ 0.80	\$ 6,000.00	0.89%	
Digital Equipment Corporation	19,000	894,992.14	46 7/8	890,625.00	—	—	—	
International Business Machines Corporation	7,793	2,134,467.83	264	2,057,352.00	10.00	77,930.00	3.65	
Total Office Equipment		\$ 3,703,634.91		\$ 3,415,789.50		\$ 83,930.00	2.27%	
Total Technology		\$ 4,416,961.55		\$ 4,047,789.50		\$ 87,130.00	1.97%	
V. BASIC INDUSTRY								
AEROSPACE								
Boeing Company (The)	14,000	\$ 624,905.00	57 7/8	\$ 810,250.00	\$ 1.40	\$ 19,600.00	3.14%	
BUILDING & FOREST PRODUCTS								
Masonite Corporation	24,000	\$ 473,636.88	17	\$ 408,000.00	0.60	\$ 14,400.00	3.04%	
Weyerhaeuser Company	14,000	587,216.43	35 5/8	498,750.00	0.80	11,200.00	1.91	
Total Building & Forest Products		\$ 1,060,853.31		\$ 906,750.00		\$ 25,600.00	2.41%	
CHEMICALS								
Air Products and Chemicals, Incorporated	10,201	\$ 290,505.01	24 1/4	\$ 247,374.25	\$ 0.20	\$ 2,040.20	0.70%	
Dow Chemical Company (The)	12,000	495,572.18	34 1/8	409,500.00	1.20	14,400.00	2.91	
duPont (E.I.) de Nemours and Company	5,000	783,827.03	116	580,000.00	5.00	25,000.00	3.19	
Total Chemicals		\$ 1,569,904.22		\$ 1,236,874.25		\$ 41,440.20	2.64%	
ELECTRICAL EQUIPMENT								
Emerson Electric Company	9,000	\$ 299,829.93	34 3/8	\$ 309,375.00	\$ 1.00	\$ 9,000.00	3.00%	
General Electric Company	8,000	433,251.34	56 1/2	452,000.00	2.20	17,600.00	4.06	
Gould, Inc.	7,000	185,341.00	31	217,000.00	1.36	9,520.00	5.14	
Total Electrical Equipment		\$ 918,422.27		\$ 978,375.00		\$ 36,120.00	3.93%	
MACHINERY								
Caterpillar Tractor Co.	3,100	\$ 119,851.41	57 3/4	\$ 179,025.00	\$ 1.50	\$ 4,650.00	3.88%	
Combustion Engineering, Incorporated	7,000	379,737.62	62 1/8	434,875.00	2.20	15,400.00	4.06	
Trans Union Corporation	8,000	252,578.22	37 3/4	302,000.00	1.76	14,080.00	5.57	
Total Machinery		\$ 752,167.25		\$ 915,900.00		\$ 34,130.00	4.54%	

(Continued on page 10)

MINNESOTA VARIABLE ANNUITY FUND (Continued)

COMMON STOCKS	Number of Shares	Cost	Price June 30, 1977	Market Value	Indicated Dividend	Annual Income	Yield at Cost
METALS							
Aluminum Company of America	4,500	\$ 200,151.13	53	\$ 238,500.00	\$ 1.80	\$ 8,100.00	4.05%
Hanna Mining Company (The)	10,000	518,776.31	49	490,000.00	1.80	18,000.00	3.47
St. Joe Minerals Corporation	8,000	330,825.00	34 1/8	273,000.00	1.30	10,400.00	3.14
Total Metals		\$ 1,049,752.44		\$ 1,001,500.00		\$ 36,500.00	3.48%
PAPER							
International Paper Company	4,500	\$ 281,548.34	51 1/2	\$ 231,750.00	\$ 2.00	\$ 9,000.00	3.20%
Union Camp Corporation	5,000	298,042.08	54 1/4	271,250.00	1.80	9,000.00	3.02
Total Paper		\$ 579,590.42		\$ 503,000.00		\$ 18,000.00	3.11%
MISCELLANEOUS							
Corning Glass Works	2,200	\$ 101,100.51	67 3/8	\$ 148,225.00	\$ 1.52	\$ 3,344.00	3.31%
International Telephone & Telegraph Corp.	7,000	326,555.51	35 7/8	251,125.00	1.76	12,320.00	3.77
Total Miscellaneous		\$ 427,656.02		\$ 399,350.00		\$ 15,664.00	3.66%
Total Basic Industry		\$ 6,983,250.93		\$ 6,751,999.25		\$ 227,054.20	3.25%
VI. ENERGY							
OIL—DOMESTIC							
Atlantic Richfield Company	10,000	\$ 507,592.80	60 1/2	\$ 605,000.00	\$ 2.00	\$ 20,000.00	3.94%
Continental Oil Company (Del.)	11,000	378,586.86	33 7/8	372,625.00	1.40	15,400.00	4.07
Louisiana Land & Exploration Company (The)	16,000	429,290.00	27 1/2	440,000.00	1.20	19,200.00	4.47
Marathon Oil Company	8,000	447,832.78	52 5/8	421,000.00	2.20	17,600.00	3.93
Standard Oil Company (Indiana)	7,000	315,628.00	53 3/4	376,250.00	2.60	18,200.00	5.77
Total Oil—Domestic		\$ 2,078,930.44		\$ 2,214,875.00		\$ 90,400.00	4.35%
OIL—INTERNATIONAL							
Exxon Corporation	17,500	\$ 784,882.10	53 1/2	\$ 936,250.00	\$ 3.00	\$ 52,500.00	6.69%
Mobil Oil Corporation	7,000	391,530.18	68	476,000.00	3.80	26,600.00	6.79
Total Oil—International		\$ 1,176,412.28		\$ 1,412,250.00		\$ 79,100.00	6.72%
ENERGY—RELATED							
Baker International Corporation	11,000	\$ 578,708.57	52 7/8	\$ 581,625.00	\$ 0.64	\$ 7,040.00	1.31%
Halliburton Company	13,000	722,545.36	66 3/4	867,750.00	1.00	13,000.00	1.80
Williams Companies (The)	18,000	482,154.34	23 1/8	416,250.00	1.00	18,000.00	3.73
Total Energy-Related		\$ 1,743,408.27		\$ 1,865,625.00		\$ 38,040.00	2.18%
Total Energy		\$ 4,998,750.99		\$ 5,492,750.00		\$ 207,540.00	4.15%
VII. TRANSPORTATION							
AIRLINES							
Northwest Airlines, Incorporated	6,000	\$ 154,758.58	25 1/4	\$ 151,500.00	\$ 0.50	\$ 3,000.00	1.94%
RAILROADS							
Union Pacific Corporation	9,000	\$ 371,655.72	57 1/4	\$ 515,250.00	\$ 1.70	\$ 15,300.00	4.12%
Total Transportation		\$ 526,414.30		\$ 666,750.00		\$ 18,300.00	3.48%
Total Common Stocks		\$33,075,549.72		\$32,350,437.63		\$ 1,163,094.00	3.52%
Total Bonds		\$10,962,083.08		\$11,109,249.13		\$ 942,482.69	8.60%
Total Permanent Portfolio		\$44,037,632.80		\$43,459,686.76		\$ 2,105,576.69	4.78%
Total Portfolio Including Short-Term Obligation		\$44,613,240.89		\$44,041,575.90			
Plus Accumulated Loss on Securities Sold		\$ 639,913.34					
Plus Cash and Accrued Income		\$ 135,633.26		\$ 135,633.26			
Net Portfolio Cost and Market Valuations as Adjusted		\$45,388,787.49		\$44,177,209.16			

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Portfolio Coordinator

Carolyn Peabody, *B.B.A.*
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Judith A. Kaufman
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* * * * *

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Dedra L. Johnson

Kathy Leisz

Rita Rivard

Becky Thoma

* * * * *

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Internal Audit Program Coordinator

Thomas L. Delmont, *B.A.*
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Computer-Investment Assistant

Alice P. Chermak, *B.A.*
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PROSPECTUS
MINNESOTA SUPPLEMENTAL RETIREMENT FUND
MAY 1, 1977

Office of the Executive Secretary
State Board of Investment
105 MEA Building, 55 Sherburne Avenue
Saint Paul, Minnesota 55155

To: Participants in the Minnesota Supplemental Retirement Fund
From: The Executive Secretary of the Minnesota State Board of Investment
Subject: Investment Provisions and Policies Applicable to the Minnesota Supplemental Retirement Fund

The Minnesota Legislature has established the Minnesota Supplemental Retirement Fund -- comprised of three separate investment accounts -- for use in various retirement programs, supplemental benefit arrangements, and in deferred income plans. The original program provided certain additional benefits to employees of the State College Board and the Junior College Board. From 1969 through 1976, the possible participants were increased to include several employee groups. Among the programs thus implemented are those applying to the employees of Hennepin County, certain unclassified employees of the State, police and fire fighter organizations throughout Minnesota, and employees wishing to participate in a deferred income program.

The Minnesota Supplemental Retirement Fund consists of three accounts, the "Income Share Account", the "Growth Share Account" and the "Fixed-Return Account". The use of the "Growth Share Account" -- which may consist entirely of common stocks -- is limited to those individuals who may choose such an investment program under specific statutory provisions and may be chosen by police and firemen's relief associations as an investment medium for 20% of their total investment in the Supplemental Retirement Fund. The basic "Income Share Account" -- consisting of a balanced portfolio of stocks and bonds -- is applicable, on an individual basis, to those employees of colleges and certain other governmental units who do not specifically choose the "Growth Share Account" or the "Fixed-Return Account" and is the major investment medium for the police and fire fighter relief associations which select the State's investment program. The "Fixed-Return Account" will be used according to two separate procedures now being developed for different participants. The program took effect on July 1, 1974; it is used as an investment medium by various police and fire fighter groups, and, for such organizations, will provide a set income for specific contributions over a definite period of years. Individuals, on the other hand, may choose this account as a "savings" program through which their total balance will be invested at a comparatively high rate of return, as determined each year.

For college teachers, the plan is separate and apart from all other retirement funds to which the individual participant may belong. An additional 5% of the amount earned by each teacher from \$6,000 to \$15,000 per year is deducted from such employee's salary and is matched by a 5% contribution from the employer. In the case of Hennepin County employees, a contribution of 1% of salary is matched by an additional 1% from the employer. This money may be invested in any account. Certain unclassified State employees may choose to transfer their participation from the Minnesota State Retirement System to an unclassified employees retirement plan established by the 1971 Legislature. These employees may choose among various percentages of their contribution which may be placed in the three accounts. These three investment portfolios provide for the differing investment needs and requirements of the participants who, due to personal beliefs, preferences, and circumstances, may be concerned with protecting themselves from certain types of risks in arranging their retirement benefits.

In late 1972, the Internal Revenue Service approved a modification of the deferred income plan adopted by the Minnesota Legislature during the extra session in October 1971. Under the terms of Minnesota Statutes 1976, Section 352.96, any officer or employee of the State or any political subdivision thereof, may request that a portion of his compensation be invested in the shares of the Minnesota Supplemental Retirement Fund. In accordance with the provisions of the law and administrative rules, a minimum deduction of \$10.00 per pay period is permitted for each participating employee. The Minnesota State Retirement System withholds 2% of the funds at the time of initial investment to cover the cost of administration.

* * * * *

THE INCOME SHARE ACCOUNT

The investment provisions applicable to this account, in Minnesota Statutes 1976, Section 11.18, Subdivision 2 provide:

"Subd. 2. There shall be an income account which shall be invested in securities which are legal investments for the state employees retirement fund, except that commercial paper may constitute 15 percent of the assets in the account, with the face amount of notes of any one corporation limited to five percent of the assets in the account."

(Note: Up to 60% of the State Employees Retirement Fund may be invested in corporate bonds, and up to 50% in common stocks. Bonds of the U.S. Government and its agencies may be used without limitation.)

The Income Share Account was established for those who prefer an investment based on dollar values, but with some possible increment due to equity participation. Income accrues primarily as yield on the amount invested. The retirement benefits grow through the principle of compound interest and as added contributions, along with income, are placed in the individual participant's account. During the early 1960's, high-quality fixed-income securities would have provided a yield of approximately 4½ to 4¾%. During 1966 through early 1977, however, interest rates from 5% to over 10% have been obtainable on securities of the desired quality.

The Income Share Account is governed by the same restrictions applicable to other basic public retirement funds in Minnesota. The Board will concentrate the investments in this portfolio in high-quality bonds and those stocks showing a moderate income. Because the Income Share Account was established at a time when interest rates on long-term corporate debt securities were comparatively high, the initial investments purchased and committed from late 1967 through early 1977 provided an average yield approximating 6.91%. This current return, which is compounded, may be expected to vary along with changes in interest rates and dividends on stocks. Historical precedence indicates that it may not be possible to maintain such a high yield on newly invested moneys over an extended period of time.

The unit valuation of the Income Share Account depends on fluctuations in both the bond and stock markets as well as the steady flow of income to the fund. The original unit valuation was \$10.00 on October 1, 1967; this was split on a two-for-one basis as of June 30, 1973. After allowance for this split, the valuations have ranged from \$4.81 to \$8.84 since the fund's inception. Although both bond and stock prices declined during the first two and one-half years of the fund's existence, as interest rates reached the highest levels in a century and stock market averages touched an eight years' low, the income accruing to the fund resulted in a reasonable stability of over-all unit value. During the period from mid-1970 through early 1973, there was a marked increase in common stock prices and a slight decline in bond yields. From January 1973 through late 1974, lower stock prices, combined with significant increases in interest rates, resulted in lower market values. Higher stock and bond prices since early 1975 resulted in a valuation of the Income Share Account units at \$8.62, including reinvested income, on April 29, 1977.

THE GROWTH SHARE ACCOUNT

The investment provisions applicable to this account, in Minnesota Statutes 1976, Section 11.18, Subdivision 3 provide:

"Subd. 3. There shall be a growth share account which shall be invested in securities which are legal investments for the state employees retirement fund, except that: 100 percent of the assets in the account may be invested in corporate stocks; up to six percent of the assets in the account or \$15,000 in cost, whichever is greater, may be invested in the stock of any one corporation; and commercial paper may constitute 15 percent of the assets in the account, with the face amount of notes of any one corporation limited to five percent of the assets in the account or \$25,000, whichever is greater. Not to exceed ten percent of the assets in the account may be invested in corporate stocks which do not conform with the dividend and earnings standards provided for investments of the state employees retirement fund. In addition to the investment standards indicated for the state employees retirement fund, the state board of investment shall consider possible growth potential and probable earnings gains of the companies in making commitments for this account."

(Note: The dividends and earnings limitations applicable to equity investments in the State Employees Retirement Fund are stated as, "No investment shall be made in a common stock unless the latter shall have paid cash dividends for at least five years immediately prior to purchase nor unless the aggregate earnings of such corporation available for payment of dividends on the common stock during the last five years has been at least equal to the aggregate of such cash dividends." The applicable investment standards indicated for the State Employees Retirement Fund are stated as, "... any investments shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which men of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.")

The second account, the Growth Share Account, was established for those individuals who are concerned about the purchasing power risk and about the long-term declining value of the dollar. Although there is no

guaranteed way of hedging against continued erosion of dollar investments, it is possible that, over the long-term, direct ownership of American business may provide the participant with an investment more nearly comparable to future price levels and valuations. This account may consist entirely of common stocks, with up to 10% of the assets in stocks of companies which do not pay current dividends. In such instances, the individual corporations use earnings for reinvestment in plant and equipment so as to increase future income. It may be presumed that the investment philosophy followed in handling this account will be guided to a greater extent by possible future earnings potential and by indicated growth rates of the various companies and industries. In recent years, stocks offering substantial earnings growth potential, along with possible market appreciation, have often sold at a very low current yield. It must be emphasized that such stocks tend to fluctuate in a wider range than do securities valued primarily on the basis of interest or dividend payments. During the market decline in stock prices from January 1973 through late 1974, the yield on these stocks increased simply because the dividends remained stable or increased even though the market valuations were significantly lower. Over a period of time, the Growth Share Account is likely to provide a current yield of from 2.5% to 3.5% and may be expected to fluctuate in value to a somewhat greater extent than the popular stock averages. The initial investments purchased from late 1967 through early 1977 provided an average yield, based on existing dividend rates, of 3.14%.

The changes in unit valuations have been far greater in the Growth Share Account than in the Income Account. The original \$10.00 units, which were split on a two-for-one basis on June 30, 1973, have shown significant fluctuations from this adjusted \$5.00 original price. There was an initial decline to \$4.52 in February 1968, a subsequent increase to \$5.44 in November 1968 and a decline to \$4.89 in February 1969. After reaching \$5.18 in November 1969, the units declined to a market value of \$3.73 in June 1970. During the period of stock price increases from mid-summer 1970 through December 1972, the valuations increased to a high of \$7.92 in December 1972. There were significant variations in valuations during the turbulent market of 1973 and 1974. After reaching a low market valuation of \$3.21 on September 30, 1974, the units increased in worth throughout 1975 and 1976. After another minor market decline, the units had a value of \$5.12 on April 29, 1977.

It has been the policy of the State Board of Investment to avoid extreme "buy" or "sell" programs, which could result in a high cash position for a brief period of time. Such activity can be very successful if timed correctly, but may be disastrous if the market makes unanticipated moves. It is expected that the Board will maintain a reasonably fully-invested position at all times, although moderate reserves in the form of short-term debt investments will be held, particularly when stock prices appear inordinately high. Market valuations will continue to be subject to significant changes, even though long-term results, based on the historical precedence of the past decades, are expected to be satisfactory to the fund participants.

THE FIXED-RETURN ACCOUNT

The investment provisions applicable to this account, in Minnesota Statutes 1976, Section 11.18, Subdivision 3a provide:

"Subd. 3a. There shall be a fixed-return account which shall be invested in debt securities which are legal investments for the state employees retirement fund. At the beginning of each fiscal year, the state board of investment shall set an assumed interest rate for moneys invested in such account during that year, with the rate applicable to all sums invested during the 12 month period. At the end of the 12 months, the board may determine the period of time over which such an assumed rate is to apply to funds so invested, depending upon the average yield and maturity of the securities purchased. Any earnings accrued to the account above the rate earlier indicated may be distributed among participants at fiscal year-end, except that appropriate reserves may first be established from the income of the fund in order to assure such a future rate of return. The account shall be established on July 1, 1974, with the initial unit valuations set at \$5 per unit. The income from earnings on shares in this account shall be used to purchase additional units as such income is available."

(Note: Debt securities which are legal investments for the State Employees Retirement Fund are described in Minnesota Statutes 1976, Section 11.16, Subdivision 2 through 12. These provisions, in general, authorize the use of a wide range of bonds and other fixed-income securities of the United States and Canada, governmental subdivisions, agencies of the United States government and corporations. Section 11.16, Subdivision 12 states, "All such corporate bond investments shall be rated among the top third of the quality categories, not applicable to defaulted bonds, used by a nationally recognized rating agency for rating the quality of the same." Under existing rating standards, such a provision limits corporate bond investments to those carrying a rating, at time of purchase, of "A" or above by at least one investment service.)

This third account, the Fixed-Return Account, was established for those organizations and individuals who prefer to have income accrue to their investments each year, rather than to be dependent upon the long-term changes in unit valuations and indications of investment results. This account evidences a marked difference from the other two accounts of the Supplemental Retirement Fund because the units have a continuing uniform value — \$5 per unit — with annual income being used toward the purchase of additional units rather than being applied as an increment to the unit value.

From a theoretical standpoint, it may appear that such a unit would be impractical in that it could not show a loss or gain in securities values, which would be inherent in any portfolio of long-term debt instruments. Actually, this variance is evidenced through the changing interest rates which will be assumed by the Investment Board as applicable to contributions each year. Therefore, at times, these units may pay an annual rate of 8% or more to those contributing toward their purchase. During other years, the income may be 5% or less. Likewise, there will be changes in the period of time over which this assumed rate will be paid to the retirement account participants. As indicated by statute, "At the end of the 12 months, the board may determine the period of time over which such an assumed rate is to apply to funds so invested . . ."

This account was established and made available to Minnesota's police and fire fighter accounts on July 1, 1974. Individuals participating in Minnesota's Supplemental Retirement Fund were permitted to purchase shares on July 1, 1975. The program pertaining to individuals differs from that established for the retirement associations in that the current interest rate is applied to personal accounts for only one year. Therefore, the income received by individual participants tends to vary as do interest rates received on savings accounts in banks and other thrift institutions.

It must be emphasized that there is no "state guarantee" as to any intended interest rate which may be paid on moneys certified into this fund during any fiscal year. It appears, at the time of this writing in early May 1977, however, that an interest rate approximating 8% to 8½% may be appropriate to be paid as income on contributions made during the fiscal year from July 1, 1976 through June 30, 1977. A rate of 9.1% was paid on retirement fund contributions made during the 1975 fiscal year and 8.8% on such contributions during fiscal 1976. The rate will continue on such investments for an additional nine years after the fiscal year of contribution.

During fiscal 1976, an interest rate of 8.9% was paid to all individual participants in this Fixed-Return Account through the "unclassified service" or "deferred income" programs.

Because of somewhat lower interest rates in effect during the early months of calendar 1977, it is probable that a somewhat lesser rate of return — perhaps 7% — will be tentatively applicable to contributions made during the fiscal year from July 1, 1977 through June 30, 1978. The actual interest earned by the participants will depend upon the yield received on fixed-income securities purchased during fiscal 1978.

After the interest rate for fiscal 1977 contributions is determined in July 1977, the earnings will be credited toward the purchase of additional units in the Fixed-Return Account. These sums, as applicable in both pension funds and individual accounts, will be reinvested at the yield applicable to the 1978 fiscal year. Therefore, the earnings from each fiscal year will apply toward the purchase of additional units at the beginning of the next year and will earn whatever rate is appropriate at that time.

Although economic conditions and fluctuations in interest rates may necessitate the application of the assumed rate for a comparatively short period of time, it is hoped that — through the use of long-term bonds and other fixed-income securities — the period of time over which the assumed interest rate may apply could approximate eight to ten years.

* * * * *

During the hearings and discussions concerning the original formation and implementation of the Minnesota Supplemental Retirement Fund and in subsequent years during which the program has been in operation, numerous questions have been asked concerning the investment management of these funds and the methods of participation. The following paragraphs may answer these questions:

INVESTMENT MANAGEMENT — The Minnesota Constitution provides that the State Board of Investment — comprised of five elected officials, the Governor, the State Auditor, the State Treasurer, the Secretary of State and the Attorney General — shall be responsible for the investment of all State funds. In 1959, the Minnesota Legislature established an investment department to recommend policies to the State Board of Investment and to handle the actual transactions. In 1961, the Board appointed ten leading investment experts, who manage the portfolios of major financial institutions within the State, to guide the investment department in

selecting stocks for the various State funds. Its purpose has somewhat changed in that the committee is now more concerned with overall policy rather than individual securities selection. The members of the State Board of Investment, the Advisory Committee on State Trust Funds, and the departmental personnel are listed on page 17 of this booklet.

PARTICIPATION IN ACCOUNTS BY INDIVIDUALS AND ORGANIZATIONS — Various statutes passed in recent years have made these accounts available to an ever-increasing group of individuals and retirement funds. Participation is evidenced through the purchase of "shares" in the overall list of securities. The individual or group participant shares directly from the income of the investments through additions to market value — in the instance of the Income Share Account and the Growth Share Account — and through credit toward the purchase of additional units in the case of the Fixed-Return Account. Because it is necessary for certain retirement account managers to know what segment of the unit's market value represents accumulated income, participating retirement funds are informed of income received on a monthly basis.

Individual participants may select the accounts to be used once each year. Such a choice is in effect until a different written indication is made by the participant. If no choice is made, shares in the Income Share Account are purchased for the participant. Organizations investing money in these accounts may designate how each individual contribution is to be allocated for investment purposes.

ACCOUNTING PROCEDURES — Theoretically, the units change in value each month of the business day along with the market quotations of the various securities. The units of the Income Share Account and the Growth Share Account are valued only once each month, however, as of the close of the last business day of each month. The valuation of a unit in the Fixed-Return Account is set at \$5.00 per unit; these units have a continuing uniform value. Income is applied toward the purchase of additional units.

Although money is received only at the beginning of each month, the accounts are under constant investment supervision. Securities transactions are completed throughout the month — not necessarily at the time of receipt from various participants.

Minnesota Statutes 1976, Section 11.20 provides: "Once on or before July 1, 1968, and annually thereafter, the board shall prepare and issue . . . a prospectus for each of the accounts . . .". This prospectus lists the assets of the accounts along with the purchase price, the current market value, the current dividend or income rate, and the Standard & Poor's, Moody's or Fitch's rating of each debt issue. A copy of the prospectus is distributed to each participant in the fund.

TYPES OF SECURITIES USED IN ACCOUNTS — Because the individual equities purchased for the Growth Share Account tend to represent corporations which may have unusual growth potential, the account is expected to fluctuate in market value to a greater extent than the other two accounts. The Income Share Account provides a higher current income and a diversification of investments with approximately 50% in stocks and 50% in bonds. The Fixed-Return Account is given an arbitrary established set value of \$5.00 per unit. No "growth" is possible, but it is expected that current income will accrue at a faster rate than in either of the other two accounts.

It must be emphasized that the Growth Share Account, as named, refers to the long-term earnings potential of American business. The portfolio of the Growth Share Account, listed on pages 7, 8 and 9, indicates that the stocks owned are concentrated in those industries which appear to offer greater than usual long-term growth possibilities, or to evidence an extended period of earnings improvement. These stocks are often characterized by substantial fluctuations in market price, however, and are more likely to show short-term losses, as well as gains, than are most of the stocks purchased for the Income Share Account. The current yield will be comparatively low in that the stocks are likely to sell at a high relationship to earnings and dividends.

The present portfolios of the Income Share Account, listed on pages 10, 11, 12, and 13, and of the Fixed-Return Account, listed on pages 14 and 15, include bonds which are rated "A" or better by one of the leading services. Most of the stocks purchased for the Income Share Account will provide a moderate current income.

A summary of the market valuations experienced by the Income Share Account and the Growth Share Account since the inception of the program in 1967 is as follows:

SHARE VALUATIONS:

	Income Share Account		Growth Share Account	
	High	Low	High	Low
Oct. '67-Dec. '68	\$5.52 (Nov. '68)	\$4.98 (Oct. 67)	\$5.44 (Nov. '68)	\$4.52 (Feb. '68)
1969	5.40 (Jan.)	4.99 (Dec.)	5.32 (Oct.)	4.71 (Jul.)
1970	5.69 (Dec.)	4.81 (Jan.)	4.94 (Feb.)	3.73 (June)
1971	6.30 (Dec.)	5.86 (Jan.)	6.21 (Dec.)	5.09 (Jan.)
1972	7.11 (Dec.)	6.36 (Jan.)	7.92 (Dec.)	6.47 (Jan.)
1973	7.15 (Sept.)	6.69 (Nov.)	7.53 (Jan.)	5.29 (Dec.)
1974	6.80 (Feb.)	5.31 (Sept.)	5.35 (Jan.)	3.21 (Sept.)
1975	7.12 (Dec.)	6.26 (Jan.)	5.17 (June)	3.95 (Jan.)
1976	8.84 (Dec.)	7.58 (Jan.)	5.72 (Dec.)	5.28 (May)
Jan.-Apr. '77	8.62 (Apr.)	8.51 (Mar.)	5.35 (Jan.)	5.12 (Apr.)

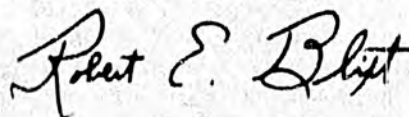
(The share valuations listed above have been adjusted for the two-for-one stock split on June 30, 1973. These valuations include accumulated income. Computations regarding that portion of each monthly figure which consists of principal or income in the two accounts are provided to all institutional and police and fire fund participants.)

EACH OF THE THREE ACCOUNTS HAS INDIVIDUAL ADVANTAGES, POTENTIAL PROBLEMS, AND RISKS. THE PERFORMANCE OF EACH OF THE FUNDS WILL DIFFER ACCORDING TO BUSINESS AND ECONOMIC CONDITIONS AS WELL AS CHANGES IN INTEREST RATES. IT IS NOT THE INTENT OF THE INVESTMENT DEPARTMENT TO ADVISE ANY PARTICIPANT REGARDING THE CHOICE TO BE MADE. THIS INFORMATION IS BEING PROVIDED SOLELY AS AN AID TO THE PARTICIPANT IN MAKING HIS DECISION REGARDING THE TYPES OF INVESTMENTS TO BE USED IN PLANNING FOR FUTURE RETIREMENT NEEDS.

* * * * *

It is suggested that any questions applicable to the operation of the Minnesota Supplemental Retirement Fund be addressed to the administrative organization handling the retirement program for each participant. The office of the Executive Secretary of the State Board of Investment welcomes inquiries regarding investment policies and procedures.

Respectfully submitted,
THE MINNESOTA STATE BOARD OF INVESTMENT



by: Robert E. Blixt, C.F.A.
Executive Secretary

STATE OF MINNESOTA – STATE BOARD OF INVESTMENT
GROWTH SHARE ACCOUNT – MINNESOTA SUPPLEMENTAL RETIREMENT FUND – APRIL 29, 1977

<u>DEBT OBLIGATIONS</u>		<u>Face Value</u>	<u>Amortized Cost</u>	<u>Price April 29, 1977</u>	<u>Market Value</u>	<u>Coupon</u>	<u>Annual Income</u>	<u>Yield at Cost to Maturity</u>
Short-Term Debt Obligation:								
U.S. Government Repurchase Agreement due, 5-5-77		\$427,000.00	\$427,000.00		427,053.97*			4.55%
*Includes Interest from date of purchase to April 29, 1977								
<u>COMMON STOCKS</u>		<u>Number of Shares</u>	<u>Cost</u>	<u>Price April 29, 1977</u>	<u>Market Value</u>	<u>Indicated Dividend</u>	<u>Annual Income</u>	<u>Yield at Cost</u>
I. UTILITIES								
American Telephone & Telegraph Company		4,800	\$ 289,812.80	63	\$ 302,400.00	\$ 4.20	\$ 20,160.00	6.96%
Florida Power & Light Company		17,000	463,552.47	24 7/8	422,875.00	1.56	26,520.00	5.72
Houston Natural Gas Corporation		7,000	228,835.13	28 3/4	201,250.00	0.70	4,900.00	2.14
Texas Utilities Company		17,000	333,994.77	19 1/4	327,250.00	1.40	23,800.00	7.13
United Telecommunications, Inc.		17,800	320,478.12	18 1/2	329,300.00	1.20	21,360.00	6.67
Total Utilities			\$ 1,636,673.29		\$ 1,583,075.00		\$ 96,740.00	5.91%
II. FINANCIAL SERVICES								
BANKS								
BankAmerica Corporation		5,000	\$ 99,843.75	24 1/2	\$ 122,500.00	\$ 0.80	\$ 4,000.00	4.01%
First Bank System, Incorporated		6,000	259,605.00	38 1/2	228,750.00	1.60	9,600.00	3.70
Valley National Bank of Arizona		6,500	176,315.00	16 3/16	105,222.00	0.85	5,525.00	3.13
Total Banks			\$ 535,763.75		\$ 456,472.00		\$ 19,125.00	3.57%
FINANCE								
Household Finance Corporation		10,000	\$ 237,858.27	20 1/8	\$ 201,250.00	\$ 1.20	\$ 12,000.00	5.05%
MGIC Investment Corporation		6,000	253,881.03	14 3/4	88,500.00	0.20	1,200.00	0.47
Total Finance			\$ 491,739.30		\$ 289,750.00		\$ 13,200.00	2.68%
INSURANCE								
INA Corporation		6,000	\$ 269,343.97	43 7/8	\$ 263,250.00	\$ 2.30	\$ 13,800.00	5.12%
NLT Corporation		10,400	250,560.43	22 1/8	230,100.00	0.76	7,904.00	3.16
SAFECO Corporation		3,400	158,760.00	41 1/2	141,100.00	1.25	4,250.00	2.68
Total Insurance			\$ 678,664.40		\$ 634,450.00		\$ 25,954.00	3.82%
Total Financial Services			\$ 1,703,167.45		\$ 1,380,672.00		\$ 58,279.00	3.42%
III. CONSUMER-ORIENTED								
AUTOMOTIVE PARTS								
Genuine Parts Company		19,000	\$ 670,236.32	30 1/2	\$ 579,500.00	\$ 0.90	\$ 17,100.00	2.55%
CONSUMER-DURABLES & NONDURABLES								
Avon Products, Inc.		5,000	\$ 273,724.14	45 1/2	\$ 227,500.00	\$ 2.00	\$ 10,000.00	3.65%
Clorox Company (The)		6,500	249,612.00	11 1/4	73,125.00	0.60	3,900.00	1.56
Colgate-Palmolive Company		6,000	160,256.94	24 1/2	147,000.00	0.88	5,280.00	3.29
Eastman Kodak Company		4,000	347,916.20	62 3/8	249,500.00	2.10	8,400.00	2.41
Minnesota Mining & Manufacturing Co.		5,000	268,867.97	48 1/2	242,500.00	1.70	8,500.00	3.16
Revlon Incorporated		8,000	259,730.43	37	296,000.00	0.90	7,200.00	2.77
Sunbeam Corporation		9,000	233,525.00	19 1/2	175,500.00	1.08	9,720.00	4.16
Total Consumer-Durables & Nondurables			\$ 1,793,632.68		\$ 1,411,125.00		\$ 53,000.00	2.95%
CONSUMER-MISCELLANEOUS								
ARA Services, Incorporated		1,800	\$ 135,064.56	38 7/8	\$ 69,975.00	\$ 1.32	\$ 2,376.00	1.76%
Disney (Walt) Productions		5,197	286,182.59	35	181,895.00	0.16	831.52	0.29
Holiday Inns, Incorporated		4,200	140,159.33	11 5/8	48,825.00	0.465	1,953.00	1.39
McDonald's Corporation		5,000	216,614.53	39 7/8	199,375.00	0.10	500.00	0.23
Total Consumer-Miscellaneous			\$ 778,021.01		\$ 500,070.00		\$ 5,660.52	0.73%

(Continued on page 8)

GROWTH SHARE ACCOUNT – MINNESOTA SUPPLEMENTAL RETIREMENT FUND (Continued)

DRUGS

American Home Products Corporation	7,000	\$ 259,076.98	27 3/8	\$ 191,625.00	\$ 1.10	\$ 7,700.00	2.97%
Johnson & Johnson	3,000	297,601.76	63 1/8	189,375.00	1.50	4,500.00	1.51
Medtronic, Inc.	7,000	166,796.32	26 1/8	182,875.00	—	—	—
Schering-Plough Corporation	4,000	234,262.34	33 1/8	132,500.00	1.00	4,000.00	1.71
Total Drugs		\$ 957,737.40		\$ 696,375.00		\$ 16,200.00	1.69%

FOODS—BEVERAGES

CPC International, Inc.	8,000	\$ 347,723.13	50	\$ 400,000.00	\$ 2.50	\$ 20,000.00	5.75%
PepsiCo, Inc.	5,500	374,041.53	69 7/8	384,312.50	2.40	13,200.00	3.53
Total Foods Beverages		\$ 721,764.66		\$ 784,312.50		\$ 33,200.00	4.60%

RETAIL SALES

American Greetings Corporation	13,000	\$ 211,070.00	9 11/16	\$ 125,944.00	\$ 0.34	\$ 4,420.00	2.09%
Kresge (S.S.) Company	5,000	189,580.00	28 7/8	144,375.00	0.56	2,800.00	1.48
Penney (J.C.) Company, Incorporated	6,000	304,302.11	37 1/4	223,500.00	1.48	8,880.00	2.92
Southland Corporation	6,150	149,679.50	22 1/8	136,068.75	0.50	3,075.00	2.05
Total Retail Sales		\$ 854,631.61		\$ 629,887.75		\$ 19,175.00	2.24%
Total Consumer-Oriented		\$ 5,776,023.68		\$ 4,601,270.25		\$ 144,335.52	2.50%

IV. TECHNOLOGY

Burroughs Corporation	2,000	\$ 133,187.47	57	\$ 114,000.00	\$ 0.80	\$ 1,600.00	1.20%
Digital Equipment Corporation	6,000	218,427.71	38 1/2	231,000.00	—	—	—
Hewlett-Packard Company	4,000	367,883.21	69 3/8	277,500.00	0.40	1,600.00	0.43
Honeywell, Inc.	3,000	307,265.16	50 1/4	150,750.00	1.60	4,800.00	1.56
International Business Machines Corp.	3,512	905,954.77	258 3/4	908,730.00	10.00	35,120.00	3.88
Xerox Corporation	3,200	343,924.39	45 1/2	145,600.00	1.20	3,840.00	1.12
Total Technology		\$ 2,276,642.71		\$ 1,827,580.00		\$ 46,960.00	2.06%

V. BASIC INDUSTRY

AEROSPACE

Boeing Co.	7,000	\$ 311,885.00	48 1/4	\$ 337,750.00	\$ 1.40	\$ 9,800.00	3.14%
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BUILDING & FOREST PRODUCTS

Georgia-Pacific Corporation	8,000	256,200.00	31 5/8	\$ 253,000.00	\$ 0.80	\$ 6,400.00	2.50%
Masonite Corporation	10,000	285,728.13	19 1/2	193,000.00	0.60	6,000.00	2.10
Total Building & Forest Products		\$ 541,928.13		\$ 448,000.00		\$ 12,400.00	2.29%

CHEMICALS

Air Products and Chemicals, Inc.	7,670	\$ 252,614.75	26	\$ 199,420.00	\$ 0.20	\$ 1,534.00	0.61%
Dow Chemical Company (The)	4,500	204,297.50	37 1/4	167,062.50	1.00	4,500.00	2.20
du Pont (E.I.) de Nemours & Co.	2,100	308,449.15	125 5/8	263,812.50	5.00	10,500.00	3.40
Total Chemicals		\$ 765,361.40		\$ 630,295.00		\$ 16,534.00	2.16%

ELECTRICAL EQUIPMENT

Emerson Electric Co.	11,000	\$ 386,912.84	32 7/8	\$ 361,625.00	\$ 1.00	\$ 11,000.00	2.84%
Gould, Inc.	6,500	171,758.80	32 3/8	210,437.50	1.12	7,280.00	4.24
Total Electrical Equipment		\$ 558,671.64		\$ 572,062.50		\$ 18,280.00	3.27%

MACHINERY

Clark Equipment Company	4,000	\$ 162,410.00	40 1/4	\$ 161,000.00	\$ 1.60	\$ 6,400.00	3.94%
Trans Union Corporation	3,000	95,252.00	35 1/4	105,750.00	1.76	5,280.00	5.54
Total Machinery		\$ 257,662.00		\$ 266,750.00		\$ 11,680.00	4.53%

METALS & MINING

Hanna Mining Company (The)	6,500	\$ 309,502.35	53 1/2	\$ 347,750.00	\$ 1.80	\$ 11,700.00	3.78%
St. Joe Minerals Corporation	6,500	261,170.00	42	273,000.00	1.30	8,450.00	3.24
Total Metals & Mining		<u>\$ 570,672.35</u>		<u>\$ 620,750.00</u>		<u>\$ 20,150.00</u>	<u>3.53%</u>

PAPER

International Paper Company	4,300	\$ 264,362.50	58	\$ 249,400.00	\$ 2.00	\$ 8,600.00	3.25%
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MISCELLANEOUS

International Telephone & Telegraph Corp.	5,500	\$ 264,786.26	33 5/8	\$ 184,937.50	\$ 1.76	\$ 9,680.00	3.66%
Total Basic Industry		<u>\$3,535,329.28</u>		<u>\$ 3,309,945.00</u>		<u>\$107,124.00</u>	<u>3.03%</u>

VI. ENERGY**OIL**

Atlantic Richfield Company	5,000	\$ 268,650.00	58 1/2	\$ 292,500.00	\$ 1.60	\$ 8,000.00	2.98%
Exxon Corporation	14,000	626,617.21	51 5/8	722,750.00	3.00	42,000.00	6.70
Louisiana Land and Exploration Co.	10,000	264,881.00	26 1/8	261,250.00	1.20	12,000.00	4.53
Marathon Oil Company	8,000	458,480.00	50 3/4	406,000.00	2.20	17,600.00	3.84
Total Oil		<u>\$ 1,618,628.21</u>		<u>\$ 1,682,500.00</u>		<u>\$ 79,600.00</u>	<u>4.92%</u>

ENERGY-RELATED

Baker International Corporation	8,000	\$ 387,086.43	47 3/4	\$ 382,000.00	\$ 0.46	\$ 3,680.00	0.95%
Halliburton Company	6,000	304,872.00	30 1/8	360,750.00	1.00	6,000.00	1.97
Williams Companies (The)	6,800	196,995.35	23 3/4	161,500.00	1.00	6,800.00	3.45
Total Energy-Related		<u>\$ 888,953.78</u>		<u>\$ 904,250.00</u>		<u>\$ 16,480.00</u>	<u>1.85%</u>
Total Energy		<u>\$ 2,507,581.99</u>		<u>\$ 2,586,750.00</u>		<u>\$ 96,080.00</u>	<u>3.83%</u>

VII. TRANSPORTATION**AIRLINES**

Northwest Airlines incorporated	6,000	\$ 149,591.38	26	\$ 156,000.00	\$ 0.50	\$ 3,000.00	2.01%
Total Common Stocks (Growth Share Account)		<u>\$17,588,009.78</u>		<u>\$15,445,292.25</u>		<u>\$552,518.52</u>	<u>3.14%</u>
Total Portfolio Including Short-Term Obligations		<u>\$18,015,009.78</u>		<u>\$15,872,346.22</u>			
Less Accumulated Profit on Securities Sold		332,954.46					
Plus Cash and Accrued Income		<u>11,279.50</u>		<u>11,279.50</u>			
Net Portfolio Cost and Market Valuation as Adjusted		<u>\$17,693,334.82</u>		<u>\$15,872,346.22</u>			
(Divided by Number of Outstanding Share-Units)				<u>3,104,320</u>			
Value per Share-Unit, April 29, 1977				\$5.12			

STATE OF MINNESOTA — STATE BOARD OF INVESTMENT
INCOME SHARE ACCOUNT — MINNESOTA SUPPLEMENTAL RETIREMENT FUND — APRIL 29, 1977

DEBT OBLIGATIONS	Quality Ratings		Face Value	Amortized Cost	Price April 29, 1977	Market Value	Coupon	Annual Income*	Yield at Cost to Maturity**
	Moody's	Std. & Pools							
Short-Term Debt Obligation:									
U.S. Government Treasury Bills, due 10-6-77			\$ 1,470,000.00	\$ 1,435,769.84		\$ 1,438,248.00 #			4.779%
# Includes interest from date of purchase to April 29, 1977									
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION GUARANTEED MORTGAGE — BACKED SECURITY									
Weaver Bros. Inc., Mtg.-Backed Cert., due 9-15-2006	Aaa	AAA	\$ 696,889.13	\$ 690,754.34	99 1/2	\$ 693,404.68	8.000%	\$ 55,751.13	8.071%
Intermediate-Term Corporate Debt Obligations:									
ACF Industries, Inc., ETC, due 4-1-78/85	A	AA	\$ 120,000.00	\$ 120,000.00	104 7/8	\$ 125,850.00	9.500%	\$ 11,400.00	9.500%
Burlington-Northern, CSA, due 10-1-77/78	A	A	183,333.33	183,333.33	106 7/8	195,937.50	9.625	17,645.83	9.625
Burlington-Northern, (First Western Bank & Trust Co.), CSA, due 5-1-77/78	A	A	193,355.99	193,355.99	103	199,156.67	8.600	16,628.62	8.600
Chesapeake & Ohio Ry. Co., (The First Pennsylvania Banking & Trust Co.), CSA, due 9-15-77/3-15-89	A	A	490,921.18	490,921.18	102 1/2	503,194.21	8.750	42,955.60	8.750
Dresser Industries, Note, Due 5-15-85	A	A	400,000.00	401,789.70	105	420,000.00	8.650	34,376.20	8.556
Fruit Growers Express, ETC, due 6-15-77/85	A	A	135,000.00	135,000.00	106	143,100.00	9.750	13,162.50	9.750
General Electric Credit Corp., (Delaware & Hudson Ry. Co.), CSA, due 9-1-77/85		A	154,875.51	154,875.51	108	167,265.55	10.500	16,261.93	10.500
Minnesota Gas Co., Deb., Due 11-15-81	A	A	800,000.00	797,072.38	105 1/4	842,000.00	9.250	74,650.64	9.366
Northwest Bancorporation, Note, due 9-15-86	Aa	AAA	800,000.00	799,058.80	101 1/2	812,000.00	7.875	63,100.30	7.897
Phelps Dodge Corp., Note, due 6-1-85	A	A	400,000.00	398,430.58	104 1/8	416,500.00	8.500	34,194.16	8.582
Rohm & Haas Co., Note, due 4-15-85	A	A	500,000.00	500,000.00	106	500,000.00	9.000	45,000.00	9.000
Total Intermediate-Term Corporate Debt Obligations			\$ 4,177,486.01	\$ 4,173,837.47		\$ 4,355,003.93		\$ 369,376.28	8.850%
Long-Term Corporate Debt Obligations:									
ACF Industries, Inc., ETC, due 2-1-78/92		A	\$ 500,000.00	\$ 500,000.00	98 5/8	\$ 493,125.00	8.000%	\$ 40,000.00	8.000%
Alum. Co. of Canada, Ltd., S/F Deb., due 3-1-95	A	A	800,000.00	787,790.63	102 1/4	818,000.00	9.500	76,684.60	9.734
Atlantic Richfield Co., (Channelview Leasing Co., Inc.), Secured Note, due 7-15-96	Aa	AA	800,000.00	800,000.00	104 1/2	836,000.00	9.250	74,000.00	9.250
Bell Telephone Co. of Canada, FMB, due 6-1-2004	Aa	AA	800,000.00	800,000.00	104 5/8	837,000.00	9.500	76,000.00	9.500
Canadian Pacific, Ltd., ETC, due 1-15-83/92	Aa	AA	500,000.00	500,000.00	99 1/2	497,500.00	8.625	43,125.00	8.625
Cities Service Gas Co., Deb., due 6-1-91	Aa	AA	400,000.00	400,000.00	98	392,000.00	8.250	33,000.00	8.250
Deere (John) Credit Co., Deb., due 4-30-98		AA	500,000.00	497,920.75	92 3/4	463,750.00	7.500	37,599.00	7.551
FMC Corp., S/F Deb., due 1-15-2000	A	A	800,000.00	792,648.72	108 3/8	867,000.00	9.500	76,324.36	9.629
Ford Motor Credit Co., Deb., due 4-1-99	Aa	A	800,000.00	784,673.08	102 3/8	819,000.00	8.700	70,299.36	8.959
Ford Motor Credit Co., Deb., due 7-15-2000	Aa	A	800,000.00	798,115.20	107 3/4	862,000.00	9.700	77,681.36	9.733
Ford Motor Co., Guaranteed Note, due 12-1-96	Aaa	AAA	700,000.00	700,000.00	102	714,000.00	8.625	60,375.00	8.625
Honeywell Finance, Inc., S/F Deb., due 12-15-95	A	A	800,000.00	787,872.80	95 1/2	764,000.00	8.200	66,161.84	8.398

Louisville & Nashville Railroad Co., CSA, due 10-20-82/91	A	A	487,694.83	487,694.83	102 1/4	498,667.96	9.000	43,892.53	9.000
Marathon Oil Co., S/F Deb., due 2-1-2000	A	AA	800,000.00	794,137.44	101 3/4	814,000.00	8.500	68,257.76	8.595
Moore Business Forms, Inc., Senior Note, due 10-1-96	Aa	AA	500,000.00	500,000.00	95 1/4	476,250.00	7.900	39,500.00	7.900
New York Telephone Co., RMB, Series U, due 7-15-2008	Aaa	AAA	800,000.00	746,983.00	98 1/2	788,000.00	8.000	65,701.00	8.796
Northwest Bancorporation, S/F Deb., due 3-15-2003	(Fitch-	AAA)	800,000.00	800,000.00	93 3/8	747,000.00	7.750	62,000.00	7.750
Plantation Pipeline Co., (Exxon Corp., Std. Oil of Calif., & Shell Oil Co., Guarantors), Note, due 10-1-2001	Aaa	AAA	400,000.00	400,000.00	97 7/8	391,500.00	7.875	31,500.00	7.875
Standard Oil of Calif., (Union Bank), First Preferred Ship Mtg. Bond., due 2-10-97 through 11-6-97	Aaa	AAA	800,000.00	800,000.00	97 1/2	780,000.00	7.700	61,600.00	7.700
Standard Oil Co., (Indiana), Note due 10-1-2000	Aaa	AAA	800,000.00	779,849.98	95 3/4	766,000.00	7.500	60,860.52	7.804
Stauffer Chemical Co., Note, due 3-15-97	A	A	500,000.00	500,000.00	92 5/8	463,125.00	7.500	37,500.00	7.500
Wells Fargo & Co., Note, due 11-1-98	(Fitch	AAA)	800,000.00	800,000.00	94	752,000.00	8.125	65,000.00	8.125
Total Long-Term Corporate Debt Obligations			\$14,887,694.83	\$14,757,686.49		\$14,839,917.96		\$1,267,062.33	8.586%
Canadian Governmental Obligations:									
British Columbia Hydro & Power Authority Bond, due 7-15-96	Aa	AA	\$ 800,000.00	\$ 800,000.00	104 3/4	\$ 838,000.00	9.625%	\$ 77,000.00	9.625%
The Manitoba Hydro-Electric Board, Bond, due 10-15-97	Aa	AA	500,000.00	500,000.00	91 1/4	456,250.00	7.650	38,250.00	7.650
The New Brunswick Electric Power Commission, S/F Deb., due 4-1-98	A	A	800,000.00	800,000.00	89 7/8	719,000.00	7.875	63,000.00	7.875
Nova Scotia Power Corp., S/F Deb., due 7-15-98	A	A	800,000.00	798,164.90	92 1/2	740,000.00	8.125	65,086.64	8.155
Ontario Hydro, Note, due 3-15-96	Aaa	AA	800,000.00	800,000.00	105 1/4	842,000.00	9.500	76,000.00	9.500
Ontario Province of, Deb., due 5-15-2001	Aaa	Aa	300,000.00	300,000.00	93 3/4	281,250.00	7.850	23,550.00	7.850
Ontario Province of, Deb., due 12-15-2002	Aaa	AA	500,000.00	500,000.00	88	440,000.00	7.300	36,500.00	7.300
Total Canadian Governmental Obligations			\$ 4,500,000.00	\$ 4,498,164.90		\$ 4,316,500.00		\$ 379,386.64	8.434%
Total Government National Mort- gage Association, Corporate and Canadian Governmental Debt Obligations			\$24,262,069.97	\$24,120,443.20		\$24,204,826.57		\$2,071,576.38	8.588%

*Annual income includes accumulation of discounts and amortization of premiums.

**Average yield figures mean annual income as percentage of amortized cost.

Abbreviation ETC — Equipment Trust Certificate; CSA — Conditional Sale Agreement; RMB — Refunding Mortgage Bond; FMB — First Mortgage Bond.

COMMON STOCKS	Number of Shares	Cost	Price April 29, 1977	Market Value	Indicated Dividend	Annual Income	Yield at Cost
I. UTILITIES							
ELECTRIC							
Commonwealth Edison Company	17,000	\$ 502,498.76	28 5/8	\$ 486,625.00	\$ 2.40	\$ 40,800.00	8.12%
Minnesota Power & Light Company	17,200	360,710.00	21 7/8	376,250.00	1.76	30,272.00	8.39
Northern States Power Co. (Minn.)	18,000	478,197.49	27 3/8	492,750.00	1.94	34,920.00	7.30
Public Service Company of Indiana	8,000	223,167.50	27 1/8	217,000.00	1.92	15,360.00	6.88
Texas Utilities Company	23,800	573,456.61	19 1/4	458,150.00	1.40	33,320.00	5.81
Total Electric		\$ 2,138,030.36		\$ 2,030,775.00		\$ 154,672.00	7.23%
NATURAL GAS							
Houston Natural Gas Corporation	3,000	\$ 95,140.00	28 3/4	\$ 86,250.00	\$ 0.70	\$ 2,100.00	2.21%
Panhandle Eastern Pipe Line Company	14,000	465,649.24	45 1/2	637,000.00	2.50	35,000.00	7.52
Peoples Gas Company	7,500	355,045.50	46 7/8	351,562.50	3.40	25,500.00	7.18
Total Natural Gas		\$ 915,834.74		\$ 1,074,812.50		\$ 62,600.00	6.84%
COMMUNICATIONS							
American Telephone & Telegraph Company	19,000	\$ 967,382.14	63	\$ 1,197,000.00	\$ 4.20	\$ 79,800.00	8.25%
General Telephone & Electronics Corp.	22,000	599,981.77	30 1/8	662,750.00	2.00	44,000.00	7.33
Total Communications		\$ 1,567,363.91		\$ 1,859,750.00		\$ 123,800.00	7.90%
Total Utilities		\$ 4,621,229.01		\$ 4,965,337.50		\$ 341,072.00	7.38%

(Continued on page 12)

INCOME SHARE ACCOUNT - MINNESOTA SUPPLEMENTAL RETIREMENT FUND (Continued)

II. FINANCIAL SERVICES

BANKS

Continental Illinois Corporation	9,000	\$ 372,368.92	51 5/8	\$ 464,625.00	\$ 2.40	\$ 21,600.00	5.80%
Manufacturers Hanover Corporation	11,000	400,248.02	36 7/8	405,625.00	1.92	21,120.00	5.28
Northwest Bancorporation	10,000	411,152.81	50 3/4	507,500.00	1.92	19,200.00	4.67
Total Banks		<u>\$ 1,183,769.75</u>		<u>\$ 1,377,750.00</u>		<u>\$ 61,920.00</u>	<u>5.23%</u>

FINANCE

Household Finance Corporation	22,000	\$ 502,605.65	20 1/8	\$ 442,750.00	\$ 1.20	\$ 26,400.00	5.25%
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INSURANCE

INA Corporation	10,000	\$ 430,495.80	43 7/8	\$ 438,750.00	\$ 2.30	\$ 23,000.00	5.34%
NLT Corporation	11,000	142,570.64	22 1/8	243,375.00	0.76	8,360.00	5.86
United States Fidelity & Guaranty Co.	8,800	367,259.07	54 1/4	477,400.00	2.76	24,288.00	6.61
Total Insurance		<u>\$ 940,325.51</u>		<u>\$ 1,159,525.00</u>		<u>\$ 55,648.00</u>	<u>5.97%</u>
Total Financial Services		<u>\$ 2,626,700.91</u>		<u>\$ 2,980,025.00</u>		<u>\$ 143,968.00</u>	<u>5.48%</u>

III. CONSUMER ORIENTED

AUTOMOBILES-AUTOMOTIVE PARTS

Ford Motor Company	7,600	\$ 416,424.48	55 1/2	\$ 421,800.00	\$ 4.00	\$ 30,400.00	7.30%
General Motors Corporation	7,000	499,980.15	68 3/8	478,625.00	3.40	23,800.00	4.76
Goodyear Tire & Rubber Company (The)	11,500	330,325.93	19 1/2	224,250.00	1.10	12,650.00	3.83
Total Automobiles-Automotive Parts		<u>\$ 1,246,730.56</u>		<u>\$ 1,124,675.00</u>		<u>\$ 66,850.00</u>	<u>5.36%</u>

CONSUMER-PRODUCTS

Avon Products, Inc.	10,000	\$ 393,787.78	45 1/2	\$ 455,000.00	\$ 2.00	\$ 20,000.00	5.08%
Colgate-Palmolive Company	9,000	239,196.44	24 1/2	220,500.00	0.88	7,920.00	3.31
McDonalds Corporation	2,000	108,300.71	39 7/8	79,750.00	0.10	200.00	0.18
Minnesota Mining & Manufacturing Company	9,000	534,394.03	48 1/2	436,500.00	1.70	15,300.00	2.86
Sunbeam Corporation	14,000	288,321.50	19 1/2	273,000.00	1.08	15,120.00	5.24
Total Consumer-Products		<u>\$ 1,564,000.46</u>		<u>\$ 1,464,750.00</u>		<u>\$ 58,540.00</u>	<u>3.74%</u>

DRUGS

American Home Products Corporation	4,000	\$ 128,025.00	27 3/8	\$ 109,500.00	\$ 1.10	\$ 4,400.00	3.44%
Pfizer Incorporated	14,000	465,796.31	25 7/8	362,250.00	0.96	13,440.00	2.89
Warner-Lambert Company	14,000	570,773.22	26 1/4	367,500.00	1.00	14,000.00	2.45
Total Drugs		<u>\$ 1,164,594.53</u>		<u>\$ 839,250.00</u>		<u>\$ 31,840.00</u>	<u>2.73%</u>

FOODS-BEVERAGES

CPC International, Inc.	10,000	\$ 441,386.28	50	\$ 500,000.00	\$ 2.50	\$ 25,000.00	5.66%
Consolidated Foods Corporation	12,000	369,336.67	25 1/4	303,000.00	1.40	16,800.00	4.55
General Foods Corporation	15,000	377,826.75	31 5/8	474,375.00	1.64	24,600.00	6.51
PepsiCo, Inc.	6,600	351,321.32	69 7/8	461,175.00	2.40	15,840.00	4.51
Total Foods-Beverages		<u>\$ 1,539,871.02</u>		<u>\$ 1,738,550.00</u>		<u>\$ 82,240.00</u>	<u>5.34%</u>

RETAIL SALES

Federated Department Stores, Incorporated	11,000	\$ 476,652.50	39 1/4	\$ 431,750.00	\$ 1.46	\$ 16,060.00	3.37%
Sears Roebuck & Company	7,500	583,574.43	57 3/8	430,312.50	2.10	15,750.00	2.70
Total Retail Sales		<u>\$ 1,060,226.93</u>		<u>\$ 862,062.50</u>		<u>\$ 31,810.00</u>	<u>3.00%</u>
Total Consumer Oriented		<u>\$ 6,575,423.50</u>		<u>\$ 6,029,287.50</u>		<u>\$ 271,280.00</u>	<u>4.13%</u>

IV. TECHNOLOGY

OFFICE EQUIPMENT

International Business Machines Corp.	4,500	\$ 1,177,287.75	252 3/4	\$ 1,164,375.00	\$10.00	\$ 45,000.00	3.82%
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V. BASIC INDUSTRY

AEROSPACE

United Technologies Corporation	13,000	\$ 388,479.69	38 1/2	\$ 500,500.00	\$ 1.80	\$ 23,400.00	6.02%
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BUILDING & FOREST PRODUCTS

Georgia-Pacific Corporation	15,953	\$ 471,286.20	31 5/8	\$ 504,513.63	\$ 0.80	\$ 12,762.40	2.71%
Masonite Corporation	4,000	82,888.00	19 1/2	78,000.00	0.60	2,400.00	2.90
Total Building & Forest Products		<u>\$ 554,174.20</u>		<u>\$ 582,513.63</u>		<u>\$ 15,162.40</u>	<u>2.74%</u>

CHEMICALS								
du Pont (E.I.) de Nemours & Co.	3,300	\$ 433,595.11	125 5/8	\$ 414,562.50	\$ 5.00	\$ 16,500.00	3.81%	
Monsanto Company	3,000	170,620.07	78 3/8	235,125.00	3.10	9,300.00	5.45	
Union Carbide Corporation	9,500	447,140.76	54 3/4	520,125.00	2.80	26,600.00	5.95	
Total Chemicals		\$ 1,051,355.94		\$ 1,169,812.50		\$ 52,400.00	4.98%	
ELECTRICAL EQUIPMENT								
General Electric Company	5,000	\$ 245,626.79	53 7/8	\$ 269,375.00	\$ 1.80	\$ 9,000.00	3.66%	
Gould, Inc.	30,000	499,716.49	32 3/8	971,250.00	1.12	33,600.00	6.72	
Total Electrical Equipment		\$ 745,343.28		\$ 1,240,625.00		\$ 42,600.00	5.72%	
MACHINERY								
Clark Equipment Company	4,000	\$ 183,290.00	40 1/4	\$ 161,000.00	\$ 1.60	\$ 6,400.00	3.49%	
Combustion Engineering, Incorporated	8,000	525,708.70	56 7/8	455,000.00	2.20	17,600.00	3.35	
Trans Union Corporation	8,000	252,508.00	35 1/4	282,000.00	1.76	14,080.00	5.58	
Total Machinery		\$ 961,506.70		\$ 898,000.00		\$ 38,080.00	3.96%	
METALS								
St. Joe Minerals Corporation	11,000	\$ 450,413.64	42	\$ 462,000.00	\$ 1.30	\$ 14,300.00	3.17%	
PAPER								
International Paper Company	9,000	\$ 359,876.74	58	\$ 522,000.00	\$ 2.70	\$ 18,000.00	5.00%	
Union Camp Corporation	3,000	181,670.00	61 1/2	184,500.00	1.80	5,400.00	2.97	
Total Paper		\$ 541,546.74		\$ 706,500.00		\$ 23,400.00	4.32%	
MISCELLANEOUS								
International Telephone & Telegraph Corp.	12,000	\$ 467,493.71	33 5/8	\$ 403,500.00	\$ 1.76	\$ 21,120.00	4.52%	
Total Basic Industry		\$ 5,160,313.90		\$ 5,963,451.13		\$ 230,462.40	4.47%	
VI. ENERGY—								
OIL—DOMESTIC								
Continental Oil Company (Del.)	22,000	\$ 518,270.25	36 1/4	\$ 797,500.00	\$ 1.40	\$ 30,800.00	5.94%	
Marathon Oil Company	10,000	575,404.89	50 3/4	507,500.00	2.20	22,000.00	3.82	
Standard Oil Company (Indiana)	12,000	503,953.76	53 5/8	643,500.00	2.60	31,200.00	6.19	
Total Oil — Domestic		\$ 1,597,628.90		\$ 1,948,500.00		\$ 84,000.00	5.26%	
OIL—INTERNATIONAL								
Exxon Corporation	22,000	\$ 869,973.92	51 5/8	\$ 1,135,750.00	\$ 3.00	\$ 66,000.00	7.59%	
Mobil Oil Corporation	12,000	611,653.24	66 1/4	795,000.00	3.80	45,600.00	7.46	
Texaco Inc.	17,000	511,124.47	26 7/8	456,875.00	2.00	34,000.00	6.65	
Total Oil — International		\$ 1,992,751.63		\$ 2,387,625.00		\$ 145,600.00	7.31%	
ENERGY—RELATED								
Dresser Industries, Inc.	9,000	\$ 305,762.50	45 1/4	\$ 407,250.00	\$ 0.80	\$ 7,200.00	2.35%	
Williams Companies, Inc.	6,000	137,683.00	23 3/4	142,500.00	1.00	6,000.00	4.36	
Total Energy-Related		\$ 443,445.50		\$ 549,750.00		\$ 13,200.00	2.98%	
Total Energy		\$ 4,033,826.03		\$ 4,885,875.00		\$ 242,800.00	5.02%	
VII. TRANSPORTATION								
RAILROADS								
Southern Railway Company	5,500	\$ 299,984.89	57 7/8	\$ 318,312.50	\$ 2.32	\$ 12,760.00	4.25%	
Union Pacific Corporation	4,200	128,244.99	53 7/8	226,275.00	1.70	7,140.00	5.57	
Total Railroads		\$ 428,229.88		\$ 544,587.50		\$ 19,900.00	4.65%	
Total Common Stocks (Income Share Account)		\$24,623,010.98		\$26,532,938.63		\$1,294,482.40	5.26%	
Total Bonds		\$24,120,443.20		\$24,204,826.57		\$2,071,576.38	8.59%	
Total Permanent Portfolio (Income Share Acct)		\$48,743,454.18		\$50,737,765.20		\$3,366,058.78	6.91%	
Total Portfolio Including Short-Term Obligations		\$50,179,224.02		\$52,176,013.20				
Less Accumulated Profit on Securities Sold		249,179.81						
Plus Cash and Accrued Income		362,310.35		362,310.35				
Net Portfolio Cost and Market Valuations as Adjusted		\$50,292,354.56		\$52,538,323.55				
(Divided by Number of Outstanding Share-Units)				6,097,670				
Value per Share-Unit, April 29, 1977				\$8.62				

STATE OF MINNESOTA - STATE BOARD OF INVESTMENT
FIXED-RETURN ACCOUNT - MINNESOTA SUPPLEMENTAL RETIREMENT FUND - APRIL 29, 1977

DEBT OBLIGATIONS	Quality Ratings Moody's Std. & Poors		Face Value	Amortized Cost	Price April 29, 1977	Market Value	Coupon	Annual Income*	Yield at Cost to Maturity*
Short-Term Debt Obligation:									
U.S. Government Repurchase Agreement, due 5-2-77			\$ 445,000.00	\$ 445,000.00		\$ 445,056.24#			4.550%
# Includes interest from date of purchase to April 29, 1977									
United States Government Agency Obligation:									
Federal Home Loan Mortgage Corp., Guaranteed Mtge. Certif., due 3-15-2007	Aaa	AAA	\$ 200,000.00	\$ 199,008.31	101	\$ 202,000.00	8.050%	\$ 16,133.24	8.107%
Intermediate-Term Corporate Debt Obligations:									
Northwest Bancorp., Note, due 9-15-86	Aa	AAA	\$ 250,000.00	\$ 249,705.91	101 1/2	\$ 253,750.00	7.875%	\$ 19,719.06	7.873%
Walston Purina Co., Note, due 12-31-82		AA	250,000.00	250,000.00	105	262,500.00	8.000	20,000.00	8.000
Total Intermediate-Term Corporate Debt Obligations			\$ 500,000.00	\$ 499,705.91		\$ 516,250.00		\$ 39,719.06	7.948%
Long-Term Corporate Debt Obligations:									
ACF Industries, Inc., ETC, due 3-31-82/91	A	A	\$ 150,000.00	\$ 150,000.00	101 1/2	\$ 152,250.00	9.000%	\$ 13,500.00	9.000%
ACF Industries, Inc., ETC, due 2-1-78/92		A	100,000.00	100,000.00	98 5/8	98,625.00	8.000	8,000.00	8.000
AMAX, Inc., S/F Deb., due 3-1-2001	A	A	150,000.00	148,909.53	102 1/2	153,750.00	8.625	12,983.22	8.719
Ashland Oil, Inc., S/F Deb. due 9-1-2000	A	A	150,000.00	150,000.00	110 3/4	166,125.00	10.000	15,000.00	10.000
Atlantic Richfield Co., (Channelview Leasing Co., Inc.), Secured Note, due 7-15-96	Aa	AA	150,000.00	150,000.00	104 1/2	156,750.00	9.250	13,875.00	9.250
Canadian Pacific, Ltd., ETC, due 1-15-83/92	Aa	AA	250,000.00	250,000.00	99 1/2	248,750.00	8.625	21,562.50	8.625
du Pont (E.I.) de Nemours, S/F Deb., due 11-15-2004	Aaa	AAA	150,000.00	148,692.31	105 1/2	158,250.00	8.450	12,722.52	8.556
Exxon Pipeline Co., Guaranteed Deb., due 3-1-2001	Aaa	AAA	250,000.00	246,689.85	103	257,500.00	8.250	20,763.84	8.417
FMC Corp., S/F Deb., due 1-15-2000	A	A	150,000.00	148,621.68	108 3/8	162,562.50	9.500	14,310.84	9.629
Firestone Tire & Rubber, S/F Deb., due 12-1-2004	Aa	AA	150,000.00	149,483.68	106	159,000.00	9.250	13,893.72	9.294
Ford Motor Co., S/F Deb., due 7-15-94	Aaa	AAA	150,000.00	149,591.01	108	162,000.00	9.250	13,898.88	9.291
Ford Motor Credit Co., Deb., due 7-15-2000	Aa	A	150,000.00	149,646.59	107 3/4	161,625.00	9.700	14,565.24	9.733
Houston Lighting & Power Co., S/F Deb., due 10-1-2006	Aa	AA	250,000.00	248,753.53	99	247,500.00	8.375	20,979.86	8.434
Iowa-Illinois Gas & Electric Co., First Mtge. Bd., due 1-15-2007	Aa	AA	250,000.00	248,135.48	98 3/4	246,875.00	8.250	20,687.88	8.337
Louisville & Nashville Railroad Co., CSA, due 10-28-82/91		A	146,308.45	146,308.45	102 1/4	149,600.39	9.000	13,167.76	9.000
Louisville & Nashville Railroad Co., CSA, due 10-28-82/91	A	A	95,335.97	95,335.97	99 1/2	94,859.29	8.375	7,984.39	8.375
Minnesota Power & Light Co., First Mtge. Bd., due 8-1-2005	A	A	150,000.00	150,000.00	111	166,500.00	10.500	15,750.00	10.500
Minnesota Power & Light Co., First Mtge. Bd., due 9-1-2006	A	A	100,000.00	100,000.00	101 1/8	101,125.00	8.700	8,700.00	8.700
New York Telephone Co., Refunding Mtge. Bd., due 7-15-2008	Aaa	AAA	250,000.00	224,631.25	98 1/2	246,250.00	8.000	20,813.96	9.266
Olympic Pipeline Co., Note, due 9-1-2001	Aaa	AAA	250,000.00	250,000.00	107 1/8	267,812.50	8.850	22,125.00	8.850

Pacific Gas & Electric Co., First Refunding Mtge. Bd., due 12-1-2005									
Aa	AA	250,000.00	243,046.08	92 1/2	231,250.00	7.750	19,618.24	8.072	
Pacific Telephone & Telegraph Co., Deb., due 3-1-2007									
Aaa	APA	250,000.00	250,296.68	95 1/4	238,125.00	7.800	19,490.04	7.787	
Plantation Pipeline Co., (Exxon Corp., Std. Oil of Calif., & Shell Oil Co., Guarantors), Note, due 10-1-2001									
Aaa	AAA	250,000.00	242,712.11	97 7/8	244,587.50	7.875	19,985.94	8.234	
Public Service Co. of Indiana, Inc., First Mortgage Bond, due 1-1-2007									
Aa	AA	250,000.00	243,492.34	93 1/2	233,750.00	7.625	19,281.86	7.919	
Seaboard Coastline RR Co., CSA, due 4-1-82/92									
A	A	250,000.00	250,000.00	103 3/8	258,437.50	9.000	22,500.00	9.000	
Southern Bell Telephone & Telegraph Co., Deb., due 3-15-2013									
Aaa	AAA	250,000.00	225,746.80	94 1/8	235,312.50	7.625	19,739.30	8.744	
Standard Oil Co., (California) First Pref. Ship Mtge. Bd., due 7-2-99									
Aaa	AAA	150,000.00	150,000.00	101 7/8	152,812.50	8.500	12,750.00	8.500	
Standard Oil Co., (Indiana) S/F Deb., due 7-15-2004									
Aaa	AAA	150,000.00	152,095.82	107 5/8	161,437.50	9.200	13,722.84	9.022	
Stauffer Chemical Co., Deb., due 1-15-2001									
A	A	150,000.00	150,000.00	105 1/4	157,875.00	8.850	13,275.00	8.850	
Texas Power & Light Co., First Mtge. Bd., due 2-1-2007									
Aaa	AAA	250,000.00	249,690.11	100 3/4	251,875.00	8.250	20,635.44	8.264	
Union Oil Company of California, Deb., due 3-1-2006									
Aa	AA	250,000.00	250,218.85	104 1/4	260,625.00	8.625	21,554.94	8.614	
Total Long-Term Corporate Debt Obligations		\$5,891,644.42	\$5,812,098.12		\$5,983,897.18		\$507,838.21	8.738%	
Intermediate-Term Canadian Governmental Obligations:									
Export Development Corp., Note, due 7-15-81									
Aaa	AAA	\$ 150,000.00	\$ 150,000.00	103 1/4	\$ 154,875.00	8.500%	\$ 12,750.00	8.500%	
Manitoba Hydro-Electric Board, Bond, Series 3J, due 10-1-85									
Aa	AA	150,000.00	150,000.00	107 3/8	161,062.50	9.500	14,250.00	9.500	
Total Intermediate-Term Canadian Governmental Obligations		\$ 300,000.00	\$ 300,000.00		\$ 315,937.50		\$ 27,000.00	9.000%	
Long-Term Canadian Governmental Obligations:									
British Columbia Hydro & Power Authority, Bond, due 7-15-96									
Aa	AA	\$ 150,000.00	\$ 150,000.00	104 3/4	\$ 157,125.00	9.625%	\$ 14,437.50	9.625%	
Ontario Hydro, Note, due 3-15-96									
Aaa	AA	150,000.00	150,000.00	105 1/4	157,875.00	9.500	14,250.00	9.500	
Ontario, Province of, Deb., due 6-15-2005									
Aaa	AA	150,000.00	148,209.96	105	157,500.00	9.125	13,751.22	9.278	
Total Long-Term Canadian Governmental Obligations		\$ 450,000.00	\$ 448,209.96		\$ 472,500.00		\$ 42,438.72	9.468%	
Total United States Government Agency, Corporate and Canadian Government Debt Obligations		\$7,341,644.42	\$7,259,022.30		\$7,490,584.68		\$633,129.23	8.722%	
Total Portfolio Including Short-Term Debt Obligations			\$7,704,022.30		\$7,935,640.92				
Less Accumulated Deferred Yield Adjustments			15,553.06						
Plus Cash and Accrued Income			243,640.11		243,640.11				
Net Portfolio Cost and Market Valuation as Adjusted***			\$7,932,109.35		\$8,179,281.03				

*Annual income includes accumulation of discounts and amortization of premiums.

**Average yield figures mean annual income as a percentage of amortized cost.

***The unit value on April 29, 1977 and on all dates remains at \$5.00; in this particular account, changes in interest rates effect income received on contributions, not the theoretical unit value. Amounts contributed are invested in full, including any fractional portion of unit values.

Abbreviation: ETC — Equipment Trust Certificate; CSA — Conditional Sale Agreement

**STATE OF MINNESOTA
STATE BOARD OF INVESTMENT
COMMON STOCKS ELIGIBLE FOR PURCHASE IN STATE RETIREMENT FUNDS**

I. UTILITIES

ELECTRIC

- *Central & South West
- *Cincinnati Gas & Electric
- *Commonwealth Edison
- *Florida Power & Light
- *Houston Industries
- *Louisville Gas & Electric
- *Middle South Utilities
- *Minnesota Power & Light
- *Northern States Power
- *Pacific Gas & Electric
- *Public Service of Colorado
- *Public Service of Indiana
- *Southern California Edison
- *Southern Company
- *Texas Utilities
- *Tucson Gas & Electric
- *Virginia Electric & Power

GAS

- *Houston Natural Gas
- *Panhandle Eastern Pipe Line
- *Peoples Gas

COMMUNICATIONS

- *American Telephone & Telegraph
- *Communications Satellite
- *General Telephone & Electronics
- *United Telecommunications

II. FINANCIAL SERVICES

BANKS

- *BankAmerica
- *Bankers Trust
- *Chase Manhattan
- *Citicorp
- *Citizens & Southern National
- *Continental Illinois Corp.
- *First Bank System
- *First Int'l. Bancshares
- *First Union Corp.
- *Manufacturers Hanover Corp.
- *Morgan (J.P.) & Co.
- *National City (Cleveland)
- *Northwest Bancorporation
- *Security Pacific Corp.
- *Valley National Bank (Arizona)
- *Wells Fargo
- *Western Bancorporation

FINANCE

- *Beneficial Corp.
- *Household Finance Corp.
- *Investors Diversified Serv. "A"
- *MGIC Investment Corp.

INSURANCE

- *Aetna Life & Casualty
- *Chubb Corp.
- *Connecticut General Insurance
- *CNA Financial Corp.
- *INA Corp.
- *Jefferson-Pilot
- *NLT Corp.
- *Northwestern National Life
- *SAFECO Corp.
- *St. Paul Companies
- *Travelers Corp.
- *U.S. Fidelity and Guaranty

**III. CONSUMER-ORIENTED
AUTOMOBILES AND
AUTOMOTIVE PARTS**

- *Chrysler
- *Ford Motor
- *General Motors
- *Genuine Parts
- *Goodyear Tire & Rubber

CONSUMER-DURABLES

- *Carrier Corp.
- *Sunbeam
- *Whirlpool

CONSUMER-NONDURABLES

- *Avon Products
- *Clorox
- *Colgate-Palmolive
- *Eastman Kodak
- *Economics Laboratory
- *Gillette
- *Minnesota Mining & Manufacturing
- *Polaroid
- *Procter & Gamble
- *Revlon

CONSUMER-MISCELLANEOUS

- *ARA Services
- *CBS, Inc.
- *Disney (Walt) Productions
- *Holiday Inns
- *McDonald's Corp.
- *Tonka Corp.
- *Warner Communications, Inc.

DRUGS

- *American Home Products
- *Becton Dickinson
- *Johnson & Johnson
- *Medtronic
- *Merck
- *Pfizer, Inc.
- *Schering-Plough
- *Searle (G.D.)
- *Upjohn
- *Warner-Lambert

FOODS-BEVERAGE

- *CPC International
- *Campbell Soup
- *Coca-Cola
- *Consolidated Foods
- *General Foods
- *General Mills
- *Green Giant
- *Kraft, Inc.
- *Norton Simon
- *PepsiCo.
- *Pillsbury

PRINTING-PUBLISHING

- *Donnelley (R.R.) & Sons
- *Dun & Bradstreet
- *Harcourt, Brace & Jovanovich
- *Prentice-Hall

RETAIL SALES

- *American Greetings Corp.
- *Dayton Hudson
- *Federated Department Stores
- *Great A. & P. Tea
- *Kresge (S.S.) Company
- *Penney (J.C.)
- *Sears Roebuck & Co.
- *Southland Corp.
- *Super Valu Stores
- *Zale Corp.

**IV. TECHNOLOGY
ELECTRONICS**

- *Hewlett-Packard
- *Texas Instruments

OFFICE EQUIPMENT

- *Burroughs
- *Control Data
- *Digital Equipment
- *Honeywell
- *International Business Machines
- *Xerox

**V. BASIC INDUSTRIES
AEROSPACE**

- *Boeing
- *United Technologies Corp.

BUILDING-FOREST PRODUCTS

- *Georgia-Pacific
- *Masonite
- *Owens Corning Fiberglas
- *Weyerhaeuser

CHEMICALS

- *Air Products & Chemicals
- *American Cyanamid
- *Dow Chemical
- *du Pont (E.I.) de Nemours
- *Hercules
- *International Minerals & Chemicals
- *Monsanto
- *Union Carbide

ELECTRICAL EQUIPMENT

- *Emerson Electric Co.
- *General Electric
- *Gould, Inc.
- *Westinghouse Electric

MACHINERY

- *ACF Industries
- *Caterpillar Tractor
- *Clark Equipment
- *Combustion Engineering
- *General American Transportation
- *International Harvester
- *Toro Company
- *Trans Union

METALS

- *Aluminum Co. of America
- *Armco Steel
- *Hanna Mining
- *Inland Steel
- *Pittston
- *St. Joe Minerals Corp.

PAPER

- *International Paper
- *Scott Paper
- *Union Camp Corp.

TEXTILES

- *Burlington Industries

MISCELLANEOUS

- *Continental Can
- *Corning Glass Works
- *International Telephone & Telegraph

VI. ENERGY

OIL-DOMESTIC

- *Atlantic Richfield
- *Continental Oil
- *Louisiana Land & Exploration
- *Marathon Oil Co.
- *Phillips Petroleum
- *Standard Oil (Indiana)
- *Standard Oil (Ohio)

OIL-INTERNATIONAL

- *Exxon Corp.
- *Gulf Oil
- *Mobil Oil
- *Standard Oil (California)
- *Texaco

ENERGY-RELATED

- *Baker International
- *Dresser Industries
- *Halliburton
- *Williams Companies

VII. TRANSPORTATION

AIRLINES

- *American Airlines
- *Delta Air Lines
- *Northwest Airlines
- *UAL, Inc.

RAILROADS

- *Burlington Northern
- *Norfolk & Western
- *Southern Pacific
- *Southern Railway
- *Union Pacific Corp.

*These stocks were held in one or more of Minnesota's retirement funds on April 29, 1977; stocks owned and listed on the approved list are subject to change at any time.

MEMBERS OF THE STATE BOARD OF INVESTMENT

Hon. Rudy Perpich, Governor
Hon. Robert W. Mattson, State Auditor
Hon. Jim Lord, State Treasurer
Hon. Joan Anderson Growe, Secretary of State
Hon. Warren Spannaus, Attorney General

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A. Arthur Kaese, *B.A., C.F.A.*
Assistant Executive Secretary

Carolyn Peabody, *B.B.A.*
Administrative Assistant

Betty J. Eskuri
Portfolio Coordinator

Judith A. Kaufman
Secretarial Assistant

* * * * *

Portfolio Managers and Financial Analysts

Short-Term Investments

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Howard J. Bicker, *B.A.*

Stocks

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C. Robert Parsons, *B.S.*
Michael L. Hudson, *B.S., M.B.A., C.F.A.*
Peter G. Robb, *B.A.*
Roger W. Henry, *B.A.*

Debt Securities

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Peggy Johnson

Debra L. Johnson

Rita Rivard

Becky Thoma

* * * * *

Roger A. Derksen, *B.B.A., C.F.A.*

Investment Operations Director & Financial Analyst

Meg J. Arneberg, *B.A.*
Computer-Investment Assistant

John T. Kinne, *B.A.*
Transaction Supervisor

Harold Syverson, *B.A.*
Securities Trader

Accountants & Statistical Assistants

Audrey I. Moore

Alice P. Chermak, *B.A.*

Thomas L. Delmont, *B.A.*

ACADIAN FINANCIAL RESEARCH, INC.
303 Marsh Street
Belmont, Massachusetts 02178
November 13, 1977

Dr. Belden Daniels
4 Sentry Hill Place
Boston, Massachusetts

Dear Dr. Daniels:

As you requested, I have reviewed the Committee Draft of the proposed bill for the State of Alaska Legislature. Given my inherent time constraint, you should consider these comments as preliminary in nature and conceptual in focus. Furthermore, they address only investment related issues germane to the Permanent Fund.

Important general goals to seek in this legislation include the following:

1. An investment mandate which allows the fund's managers (internal and/or external) enough autonomy to seek appropriate investment objectives without unnecessary or counter-productive restrictions. This mandate should avoid "legal list" as well as many other more subtle forms of investment constraints.
2. Flexibility to hire the most competent outside professional capabilities available including money managers, consultants, and other necessary sources of specialized support services.
3. Autonomy to hire internal staff of high caliber without excessive constraints on selection procedures, compensation levels, tenure, etc.
4. Enough continuity and longevity among Trustees to ensure that the "learning curve" will be allowed to operate properly.

Specific points in the proposed legislation which, in my view, require careful review and possible revision include the following:

1. Section 24.20.660 STAFF. Should explicit recognition of the need for outside investment managers, consultants, etc. be included in this section or elsewhere?
2. Section 37.13.010 FINDINGS. Sections (2) and (4) are not well stated or particularly meaningful. Perhaps they should be combined into one succinct statement of the fund's goal or this goal should be delegated to the Board of Trustees.
3. Section 37.13.110 EMPLOYMENT OF PERSONNEL. What are the practical restrictions of operating with "exempt service under AS 39.25"? Does this place a severe limitation on the recruitment of qualified personnel? If so, can this restriction be eliminated?
4. Section 37.13.130 POWERS AND DUTIES. Part (a)
The board should be required to exercise the judgment and care of a "prudent expert" rather than "a person of ordinary prudence". Moreover, management of assets of this magnitude is quite different than the management of an individual's own affairs and this should be explicitly recognized.
5. Section 37.13.130 Part(e)
What is the operational interpretation of "income-producing investments"? This provision could exclude major classes of attractive investments.

Part (f)

As written, this section would be inimical to achieving appropriate investment objectives. It should have major alterations or be deleted entirely if politically feasible.

I hope your trip to Alaska goes well and I look forward to a call from you within the next week.

Very truly yours,

Gary L. Bergstrom

Gary L. Bergstrom
President

INVESTMENTS FOR STATE FUNDS

by

Robert E. Blixt, B.A., M.S., J.D.
 Attorney at Law and Chartered Financial Analyst
 Executive Secretary of the Minnesota State Board of Investment
 Room 105, MEA Building, 55 Sherburne Avenue
 St. Paul, Minnesota 55155

House Special Committee on the Alaska Permanent Fund
 Representative Clark Gruening, Chairman
 Anchorage, Alaska, November 18, 1977
 * * * * *

SUMMARY OF INVESTMENTS IN THE MINNESOTA FUNDS September 30, 1977

I. Permanent School Fund		\$ 263 million
U.S. Treasury and Government Guaranteed	52 per cent	
(includes \$71.2 million, or 27% of total fund, in GNMA mortgages)		
Corporate Bonds	28 per cent	
Common Stocks	20 per cent	
(Fund is derived mainly from royalties and occupation taxes paid by mining firms that developed Mesabi Iron Range. Investment earnings are used for current education costs.)		
II. Public Employees and Teacher Retirement Funds		\$2,077 million
U.S. Treasury and Agency Obligations, Municipals	7 per cent	
Canadian Bonds	6 per cent	
Short-term Corporate Debt	2 per cent	
Corporate Bonds	36 per cent	
Common Stocks	49 per cent	
(Contributions from state and local governments and 140,000 public employees increase principal of funds by \$23 million monthly. Investment earnings are used for payment of pensions.)		
III. Highway Funds		\$ 215 million
U.S. Treasury and Agency Obligations (under 10 yrs.)	67 per cent	
(includes \$3.4 million, or 1.6% of total funds, in GNMA mortgages)		
Short-term Corporate Notes	33 per cent	
(Size of funds vary greatly, depending on construction season and sale of highway bonds. Investment earnings are used for roads.)		
IV. Departmental, Endowment, and Welfare Funds		\$ 210 million
Primarily U.S. Treasuries; others if authorized		
V. Current Tax Receipts (Treasurer's Cash)		\$ 398 million
U.S. Treasury and Agency Obligations (under 3 yrs.)	70 per cent	
Short-term Corporate Debt (under 270 days)	up to 30 per cent	
(Fund is liquid, size varies greatly - \$50-\$667 million in recent years. Investment earnings are used for current state expenses.)		
Total Invested Funds -		\$3,163 million

Source: Minnesota State Board of Investment.

EXAMPLE OF CHANGING STATE INVESTMENT POLICIES

COMBINED MINNESOTA STATE RETIREMENT FUNDS

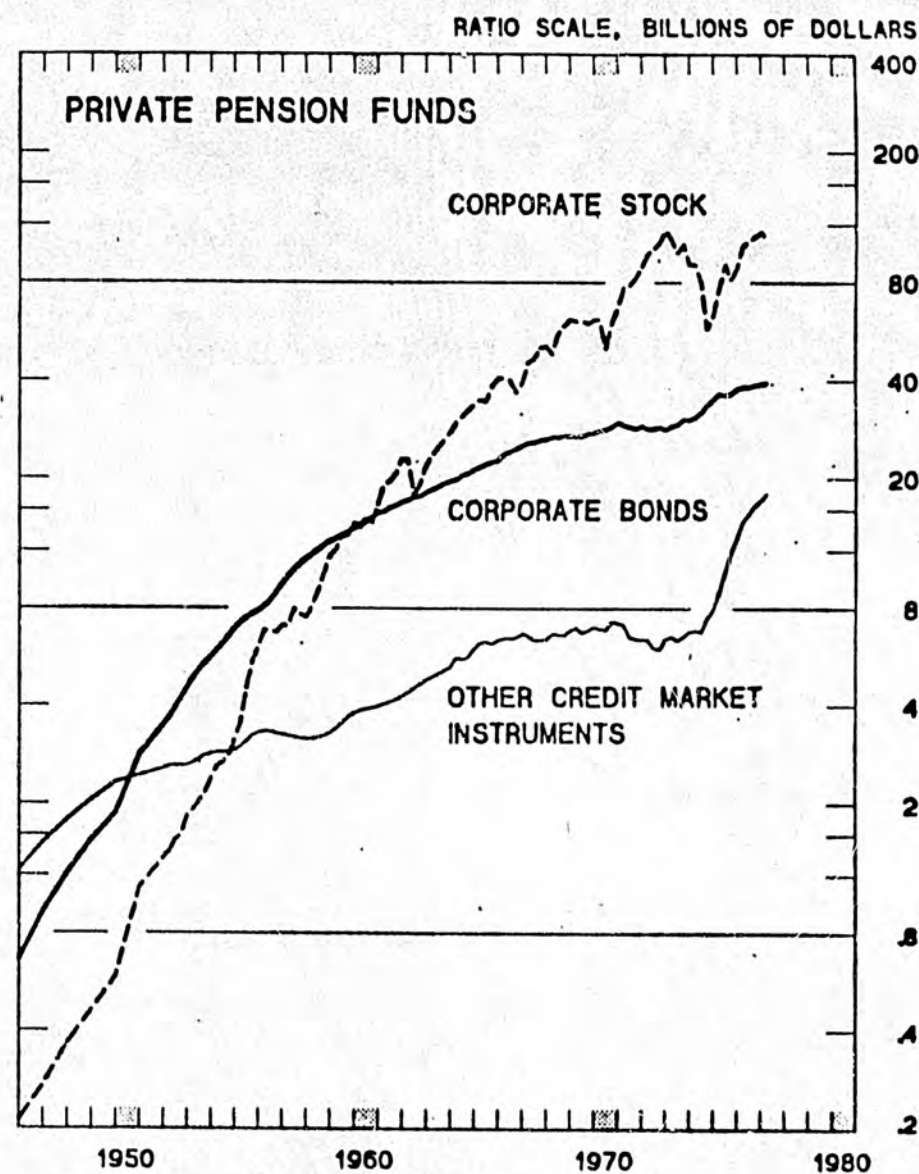
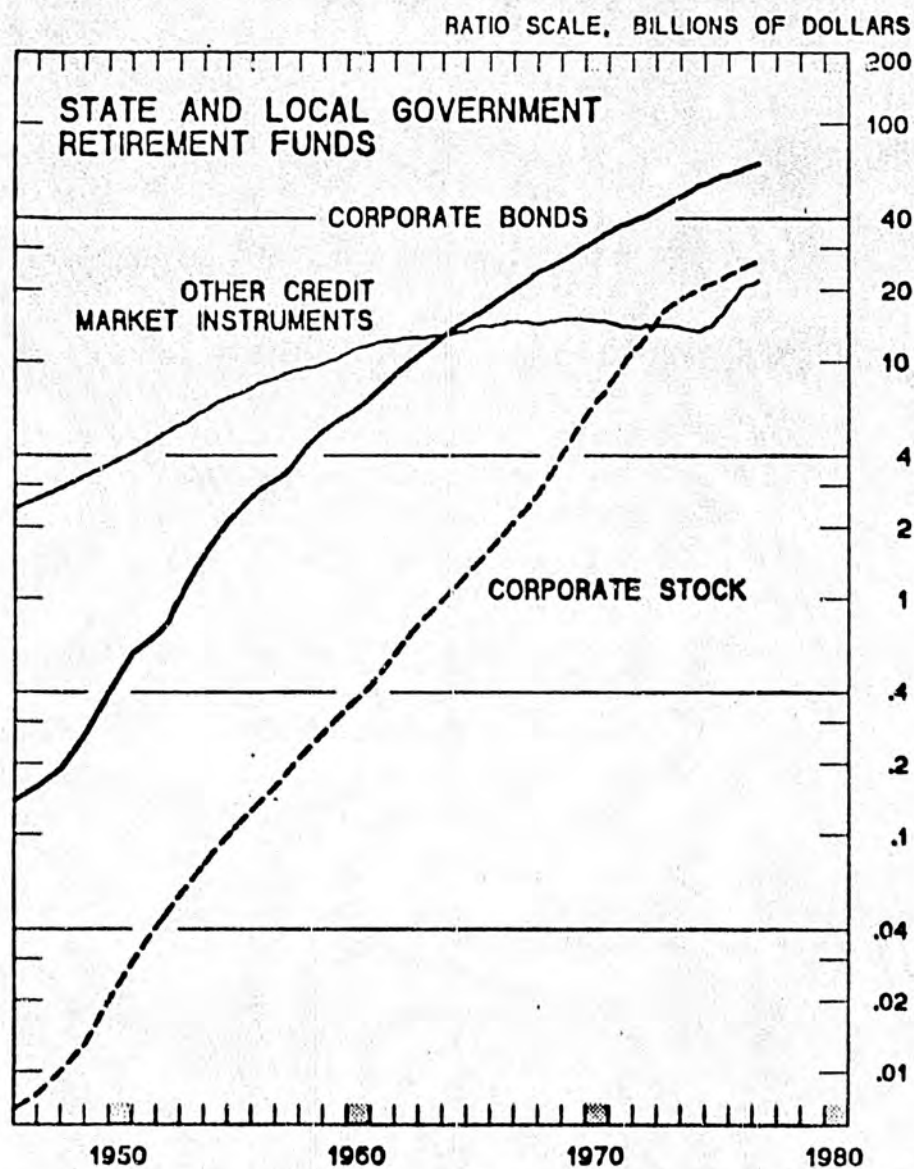
(Amounts and percentage figures based on cost)

	<u>June 30, 1959</u>	<u>Dec. 31, 1961</u>	<u>Dec. 31, 1965</u>	<u>Dec. 31, 1969</u>	<u>Dec. 31, 1973</u>	<u>Sept. 30, 1977</u>
Total Amount Invested (000)	\$139,625	\$188,596	\$322,441	\$645,837	\$1,195,631	\$2,076,741
<u>Investments</u>						
U.S. Gov't. & Guar.	28.0%	18.9%	7.1%	4.7%	4.9%	7.2%
State and Municipal	71.2	51.5	21.9	8.3	1.2	0.3
Short-term Corporate Debt	-	-	1.7	4.6	1.0	2.1
Canadian Obligations	-	-	-	2.8	5.4	5.5
Long-term Corporate Bonds	-	26.9	47.8	46.7	37.6	35.6
Convertible Obligations	-	-	-	0.4	1.6	0.2
Common Stock	-	2.7	21.5	32.5	48.3	49.1
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Source: Minnesota State Board of Investment.

PRINCIPAL EARNING ASSETS

AMOUNT OUTSTANDING; END OF YEAR, 1946-51; END OF QUARTER, 1952-



SOURCE: Board of Governors of the Federal Reserve System, Historical Chart Book, 1977, pages 90-91.

STATE OF MINNESOTA - STATE BOARD OF INVESTMENT
REVIEW OF RETIREMENT FUNDS AND PERMANENT SCHOOL FUND BY PURPOSES AND TYPES OF INVESTMENT

September 30, 1977

	Total Cost (000) (1)	ASSET DIVERSIFICATION (Based on Cost)						PURPOSE OF FUNDS
		U.S. Govt. Guar. (2)	Short- term Corp. (3)	Munic- ipals (4)	Canadian & Prov. Govt. (5)	Corp. Bonds (6)	Common Stock (7)	
BASIC RETIREMENT FUNDS:								
Teachers' Retirement Fund	\$ 462,763	3.92%	2.51%	0.53%	6.48%	38.38%	48.18%	Accumulations of employers' and employees' contributions for system members under the age of 65; provide many differing benefits based upon formula plans; some are coordinated with Social Security. Retirement ages vary from 50 to 70 years.
Public Employees Ret. Fund	422,964	5.18	1.42	0.37	6.76	37.66	48.61	
Public Employees Police & Fire Fund	66,960	5.59	-	-	5.90	39.71	48.80	
State Employees Ret. Fund	212,603	4.79	2.35	0.97	6.99	36.40	48.50	
Highway Patrol. Ret. Fund	21,672	5.06	1.96	0.91	5.62	37.95	48.50	
Judges Retirement Fund	2,027	41.07	-	-	-	43.19	15.74	
MINNESOTA ADJUSTABLE FIXED BENEFIT FUND	\$ 758,424	11.38%	2.51%	-	3.65%	34.21%	48.25%	Includes assets representing reserves for all retired former employee-members of basic retirement funds. Participants are guaranteed a fixed benefit at date of retirement, subject to upward adjustments as common stock performance, interest and dividend income above the 5% assumed rate warrant such increases.
MINNESOTA SUPPLEMENTAL RETIREMENT FUND								
- Income Share Account	\$ 53,544	5.90%	1.87%	-	8.40%	35.28%	48.55%	Three "mutual fund" type accounts used for various retirement basic plans, supplemental benefits, and deferred compensation purposes. These funds provide added benefits for teachers in state colleges, provide investment media for policemen and firemen in various local systems, provide supplementary benefits for Hennepin County employees, and provide entire retirement benefits for certain unclassified state employees with no tenure. Whereas most state funds provide vesting in ten years, unclassified employee plan provides total vesting of employer and employee contributions immediately, with provision for employee to withdraw contribution upon termination of service.
- Growth Share Account	18,698	2.31	-	-	-	-	97.69	
- Fixed Return Account*	9,666	13.24	-	-	7.74	79.02	-	
MINNESOTA VARIABLE ANNUITY	\$ 47,418	3.15%	1.05%	-	5.90%	17.20%	72.70%	Provides an option for teachers who wish to have a portion of retirement benefits based on investment performance. This fund may be 100% invested in equities, but current policy includes substantial fixed-income commitments.
PERMANENT SCHOOL FUND	\$ 262,555	51.75%	-	0.12%	-	28.35%	19.78%	Constitutional trust fund primarily from iron-ore tax receipts and royalties; also some timber payments. Equities are limited to 20% of fund, with remainder in fixed-income securities. Entire income is dedicated to support of public schools.
TOTALS	\$2,339,294	12.16%	1.86%	0.28%	4.89%	34.99%	45.82%	

*The fixed-return account, established by the 1974 Minnesota Legislature, has no fluctuation in unit valuation, but earns the beneficiary an intended "rate of return" plus any extra interest payment above that earlier assumed; reserves will be established so as to stabilize interest earnings.

Source: Minnesota State Board of Investment.

INVESTMENTS FOR STATE FUNDS

November 18, 1977

(BLIXT)

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STATE OF MINNESOTA
STATE BOARD OF INVESTMENT

COMPOSITION OF RETIREMENT FUNDS AND PERMANENT SCHOOL FUND BY TYPES OF INVESTMENT
October 31, 1977

	Cash and U.S. Government Short-Term	Corporate Short-Term	Municipals	U.S. Gov't. & Agency Guarantees (1)	Canadian Governmental Obligations (1)	Corporate Bonds (1)	Common Stocks (2)	Total
Basic Retirement Funds								
Teachers' Retirement Fund	\$ 3,515,071.46 0.75%	\$14,750,000.00 3.15%	\$2,439,000.00 0.52%	\$ 10,743,710.32 2.29%	\$ 29,972,368.80 6.40%	\$181,461,239.72 38.76%	\$ 225,280,728.38 48.13%	\$ 468,162,118.68 100.00%
Public Employees Ret. Fund	\$ 3,909,362.35 0.92%	\$ 6,000,000.00 1.41%	\$1,567,000.00 0.37%	\$ 15,438,518.87 3.64%	\$ 28,581,237.52 6.74%	\$163,134,791.63 38.45%	\$ 205,673,015.36 48.47%	\$ 424,303,925.73 100.00%
State Employees Ret. Fund	\$ (145,383.66) (0.07%)	\$ 9,612,000.00 4.45%	\$2,067,000.00 0.96%	\$ 5,287,682.67 2.45%	\$ 14,854,302.28 6.88%	\$ 79,842,096.08 39.96%	\$ 104,510,713.33 48.37%	\$ 216,028,410.70 100.00%
Public Employees Police & Fire Fund	\$ 683.03 0.01%	\$ 1,134,000.00 1.69%	-0-	\$ 2,042,358.71 3.04%	\$ 3,948,764.14 5.87%	\$ 27,426,612.60 40.80%	\$ 32,677,018.85 48.59%	\$ 67,229,437.33 100.00%
Hwy. Patrol. Ret. Fund	\$ 274,916.96 1.23%	\$ 725,000.00 3.25%	\$ 194,000.00 0.87%	\$ 508,335.87 2.28%	\$ 1,218,303.30 5.47%	\$ 8,624,984.80 38.71%	\$ 10,733,684.43 48.19%	\$ 22,279,225.36 100.00%
Judges Retirement Fund	\$ 288,958.47 14.05%	-0-	-0-	\$ 448,000.91 21.79%	-0-	\$ 1,000,028.93 48.64%	\$ 319,197.86 15.52%	\$ 2,056,186.17 100.00%

Minnesota Adjustable Fixed Benefit Fund	\$ 6,250,890.35 0.82%	\$22,199,000.00 2.92%	-0-	\$ 69,111,315.26 9.08%	\$ 27,706,958.92 3.64%	\$267,274,869.83 35.10%	\$ 368,960,441.70 48.44%	\$ 761,503,476.06 100.00%
Minnesota Suppl. Ret. Fund Income Share Account	\$ 521,135.03 0.96%	\$ 1,622,000.00 2.99%	-0-	\$ 1,656,930.74 3.06%	\$ 4,498,208.22 8.29%	\$ 19,718,064.23 36.36%	\$ 26,217,186.16 48.34%	\$ 54,233,524.38 100.00%
Growth Share Account	\$ 424.65 0.01%	\$ 670,000.00 3.54%	-0-	-0-	-0-	-0-	\$ 18,266,454.44 96.45%	\$ 18,936,879.09 100.00%
Fixed Return Account	\$ 532,177.99 5.21%	-0-	-0-	\$ 648,287.38 6.35%	\$ 598,241.82 5.86%	\$ 8,430,594.87 82.58%	-0-	\$ 10,209,302.06 100.00%
Minnesota Variable Annuity	\$ 876,639.90 1.82%	\$ 941,000.00 1.96%	-0-	-0-	\$ 2,798,880.52 5.82%	\$ 8,705,494.41 18.10%	\$ 34,771,665.51 72.30%	\$ 48,093,680.34 100.00%

Permanent School Fund	\$ 9,311,294.69 3.55%	-0-	\$ 307,000.00 0.12%	\$126,854,747.79 48.30%	-0-	\$ 74,444,790.57 28.35%	\$ 51,696,330.20 19.68%	\$ 262,614,163.25 100.00%
Totals	\$25,336,171.22 1.08%	\$57,653,000.00 2.45%	\$6,574,000.00 0.28%	\$232,739,888.52 9.88%	\$114,177,265.52 4.85%	\$840,063,567.67 35.66%	\$1,079,106,436.22 45.80%	\$2,355,650,329.15 100.00%

(1) All bonds are shown at amortized cost.

(2) All stocks are shown at net original cost.

(3) Includes \$5,202,075.00 of convertible debentures, 0.68% of the account.

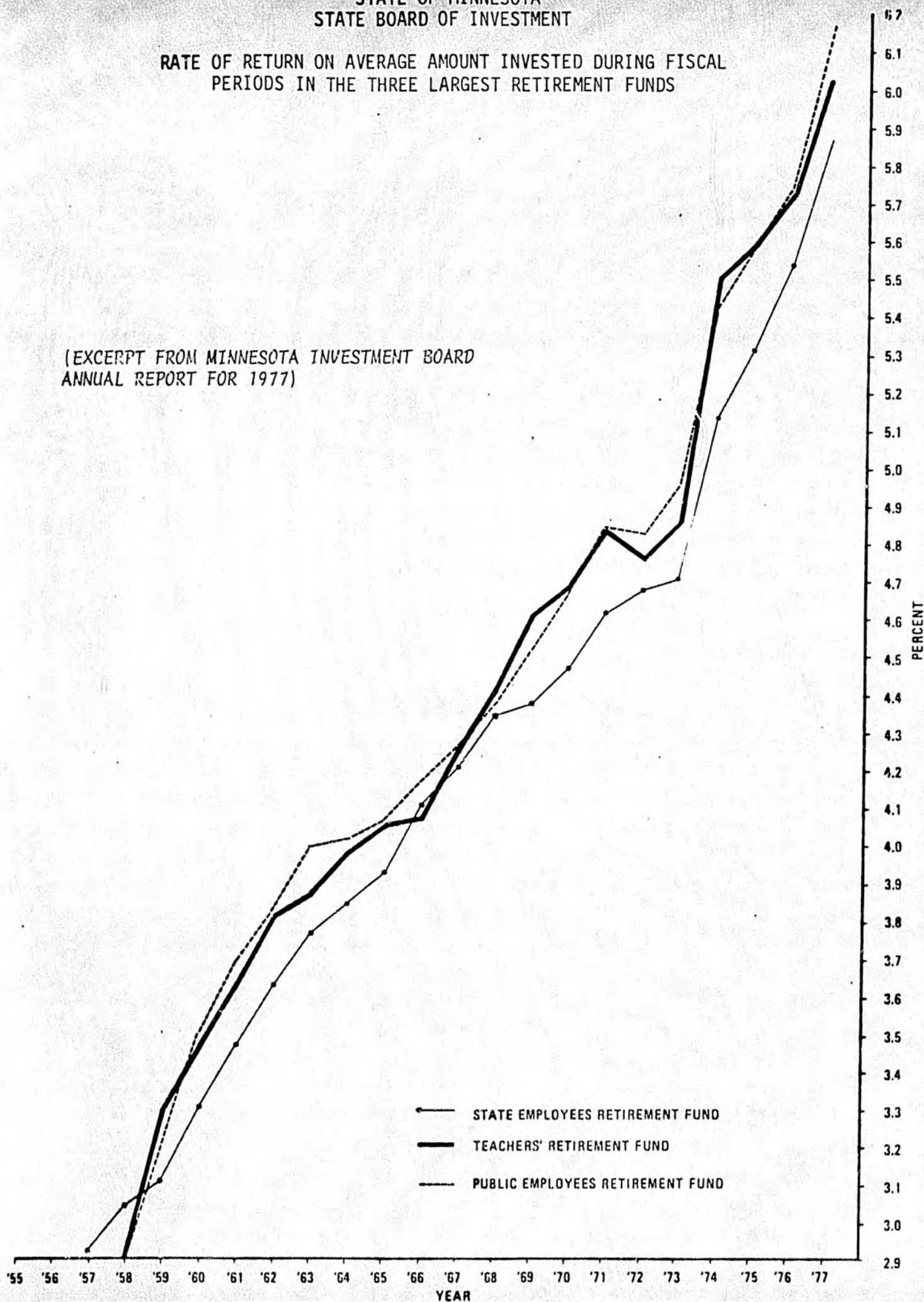
(EXCERPT FROM MINNESOTA INVESTMENT BOARD ANNUAL REPORT FOR 1977)

WHAT WAS THE ACTUAL RATE OF RETURN, OR YIELD, RECEIVED BY THE VARIOUS FUNDS DURING FISCAL 1977?

The rate of return is sometimes computed to include the gains and losses in securities prices. Wide variations in annual yield result from combining price fluctuations with dividend and interest income. It may be more appropriate to consider the actual income to the account during the year. Such computations may be made on the basis of the actual dollars received (as a numerator) divided by the amount of money and investments in the account, as averaged from three dates of the fiscal year — the preceding June 30, December 31, and the concluding June 30 (as a denominator). The approximate yields on the various accounts for fiscal 1977 were:

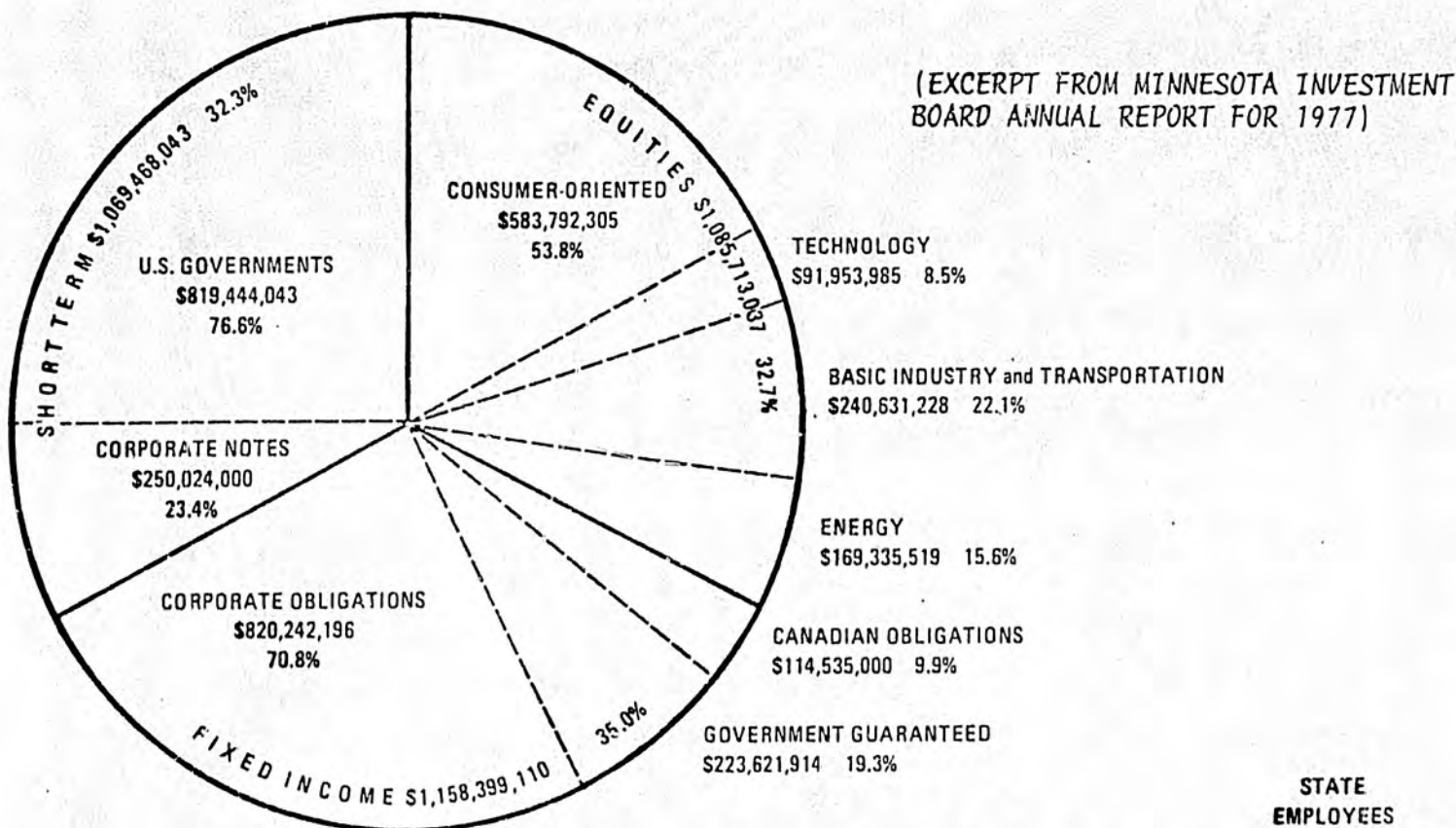
ACCOUNTS	YIELD
The Invested Treasurer's Cash Fund (all in short-term money market securities)	6.06%
The Permanent School Fund (after an allowance for a transfer to principal to compensate for losses due to securities sales over a period of years)	5.63%
The Highway Funds:	
Trunk Highway Fund	5.55%
County State Aid Highway Fund	5.74%
Municipal State Aid Street Fund	5.89%
The Minnesota Adjustable Fixed Benefit Fund	6.00%
The "Basic" Retirement Funds:	
Highway Patrolmen's Retirement Fund	6.26%
Judges Retirement Fund	8.23%
State Employees Retirement Fund	5.86%
Public Employees Retirement Fund (Includes Public Employees Police and Fire Fund)	6.14%
Teachers' Retirement Fund	6.02%
The Supplemental Retirement Fund:	
Fixed Return Account	8.29%
Growth Share Account	3.13%
Income Share Account	6.78%
The Minnesota Variable Annuity Fund	4.78%
(Because of valuations over a two-year period, this account showed a gain of 15.9463% for fiscal 1977, which became a "Rate of Return" for participants)	

The net income to the trust and retirement funds, in total and as a percentage of the amount invested, was higher than during any previous year. It must be emphasized that these yields are based on actual income and do not include theoretical gains or losses determined by market valuations of securities. Bonds currently offer the highest yields to the investor, approximately 8%, while the common stock portfolio yields only 4%; nevertheless, the stocks show a profit above cost despite recent market declines and a Dow Jones Industrial Average of 847.11 on September 30, 1977. The State's bond holdings still show a slight book loss due to purchases, in previous years, of bonds yielding 4% to 7%. The average of the 8% return received on bonds and the 4% on common stocks approximates the 6% earned on the funds listed. It is evident that a higher current yield could be received from a greater participation in fixed income securities, but any potential gain through dividend increases and higher equity prices would thereby be diminished. Dividend increases declared by corporate managements on common stocks during calendar 1977, through October 7, 1977, when this report was being written, had already totaled \$4,683,845.00 on the shares presently owned by the State accounts. This continuing increase of dividend income, compared with decreases in net yields to bondholders due to "calls" and refunding at lower interest rates, provides the major reason for equity investments.

STATE OF MINNESOTA
STATE BOARD OF INVESTMENTRATE OF RETURN ON AVERAGE AMOUNT INVESTED DURING FISCAL
PERIODS IN THE THREE LARGEST RETIREMENT FUNDS(EXCERPT FROM MINNESOTA INVESTMENT BOARD
ANNUAL REPORT FOR 1977)

**DISTRIBUTION OF \$3,313,580,190 OF INVESTMENTS MANAGED
BY THE STATE BOARD OF INVESTMENT
JUNE 30, 1977**

DISTRIBUTION BY ASSET TYPE

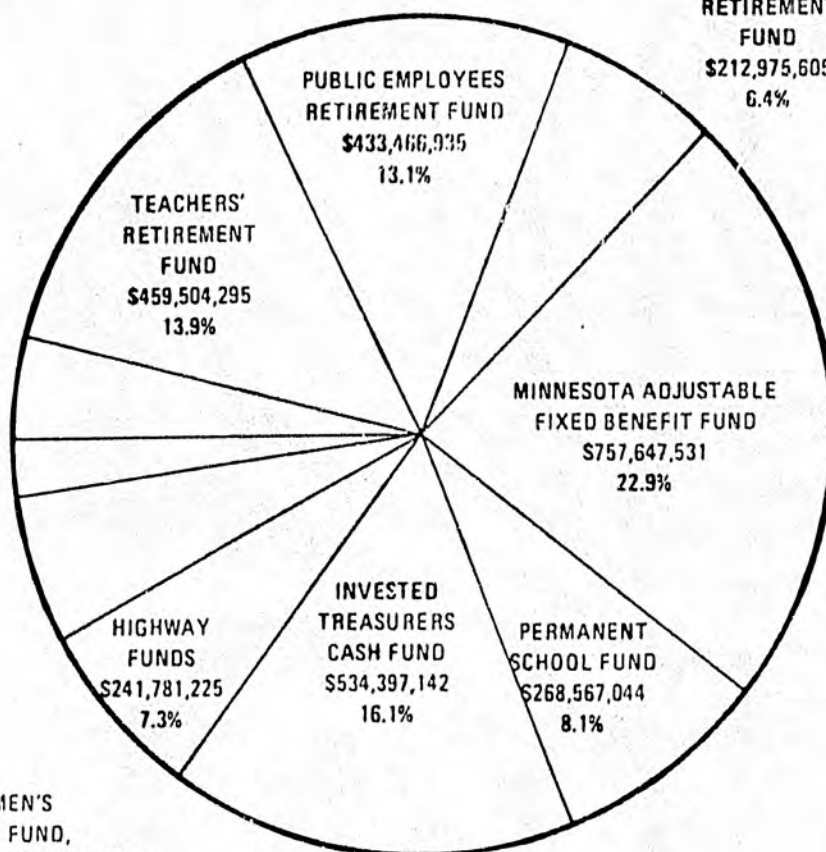


DISTRIBUTION BY FUND

OTHER RETIREMENT FUNDS*
\$133,172,535 4.0%

SUPPLEMENTAL RETIREMENT FUNDS
\$79,473,258 2.4%

MISCELLANEOUS DEPARTMENTAL FUNDS
\$192,594,620 5.8%



*OTHER RETIREMENT FUNDS INCLUDE: HIGHWAY PATROLMEN'S RETIREMENT FUND, PUBLIC EMPLOYEES POLICE AND FIRE FUND, JUDGES RETIREMENT FUND, AND MINNESOTA VARIABLE ANNUITY FUND.

EXAMPLE OF ANNUAL BUDGET FOR STATE INVESTMENT DEPARTMENT

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT
Fiscal Year 1978
(July 1, 1977 - June 30, 1978)

Personnel (29 employees)		
General Administration		
Executive Secretary	\$ 41,000	
Assistant Executive Secretary	35,612	
Portfolio Coordinator	22,258	
Administrative Assistant	12,840	
Secretary	<u>10,022</u>	
		\$121,732
Short-Term Money Management		
Department Head	34,163	
Financial Analyst (1)	<u>24,032</u>	
		58,195
Long-Term Fixed-Income Investments		
Department Head	28,136	
Financial Analysts (2)	43,454	
Accounting Coordinator	<u>22,556</u>	
		94,146
Equity Investments		
Department Head	31,984	
Financial Analysts (5)	113,133	
Trader	<u>15,656</u>	
		160,773
Investment Operations		
Director	36,543	
Transaction Supervisor	16,925	
Accountants (3)	40,397	
Secretarial Staff (5)	48,395	
Computer Operator	<u>13,052</u>	
		<u>155,312</u>
Total Base Salary Cost		<u>590,158</u>
Retirement and Social Security		56,965
Group Insurance		<u>20,325</u>
Total Personnel Cost		\$667,448

Investment Department Budget
Page 2

Expense and Contractual Services:

Office Rent (4,894 square feet)	\$ 29,120	
Xerox Lease	15,200	
Market Information Computer Terminals (4 systems, 7 terminals)	17,128	
Equipment and Office Repairs	2,210	
Printing and Reproduction Supplies	8,480	
Advisory Services (Duff-Anderson)	8,500	
Advisory Committee Expenses	3,000	
Computerized Accounting System	73,200	
Telephone	18,664	
Postage	2,140	
Travel (in state \$2,000; out of state \$9,800)	11,800	
Subscriptions	5,000	
Memberships	1,700	
Executive Secretary Expenses	<u>2,000</u>	\$198,142
Office Supplies		4,673
Equipment Purchases		<u>5,265</u>
Total Budget (fiscal year 1978)		<u>\$875,528*</u>

*In addition a substantial amount is paid for research services through the use of commission (or "soft") dollars.

WHAT ARE THE PRIMARY CONSIDERATIONS INVOLVING THE ROLE OF THE PERMANENT FUND
IN ALASKA'S FUTURE?

- I. Hold as much of the incoming oil wealth as possible in a permanent investment program for the benefit of future generations.

Advantages:

- A. Provides stable source of income for Alaska's future.
- B. Contributes towards minimizing future economic problems.
- C. Uses a depletable asset for the permanent benefit of all citizens.

Disadvantages:

- A. Minimizes amounts available for current purposes such as homes, business development, tourism, and the building of a governmental structure appropriate for a State achieving new economic heights in so short a time.

- II. Problems involved with using money for Alaskan development.

- A. Loans or guarantees often become outright subsidies.
- B. Investment risk often becomes confused with political practicalities.
- C. Pressing current needs become less mandatory when viewed from the future.

- III. Advantages of using tax-exempt bonding, underwritten by the full faith and credit of Alaska, for necessary State needs.

- A. The "tax-exempt" interest rate, under which the full faith and credit securities of the State of Alaska could be sold, would be far less than the earnings which could be received from an investment in "taxable" securities. Even U.S. Government obligations and those guaranteed by the government or its agencies (for example, Government National Mortgage Association mortgage-backed securities) would provide a higher yield to the Permanent Fund than the interest cost of bonded debt.
- B. Therefore, the Permanent Fund investments could be used, in a sense, as a guaranty behind the credit of the State. The Fund would contribute to the State's credit rating and the marketability of "full faith and credit" bonds.

- IV. Disadvantages of a long-term investment program:

- A. It is easier to appropriate funds from "oil receipts" than from the proceeds of bond issues.
- B. Many citizens do not understand the advantages of issuing debt securities while other funds are simply invested for perpetuity.

CONCLUSION

Leaders of all states with trust funds recognize the validity of holding funds for the future under proper investment management. Yet, many states have modified or stopped accumulating all funds during periods of low interest rates, such as we experienced in the 1940's and 1950's, or when demands to satisfy current needs have seemed paramount. It is logical to hold as much as possible for future generations but holding any amount is better than holding nothing. Legislators may take a course which is politically feasible in order to protect and save whatever possible for future generations of State citizens. To protect a part of the assets is better than to lose everything because of public demands for current expenditures.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

'70

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1977

MINNESOTA STATE BOARD OF INVESTMENT 1977 REPORT



INDUSTRIALS

S&P 500

40 BONDS

20 BONDS

NYSE COMPOSITE

TRANSPORTATION

UTILITIES

NYSE MARKET VOLUME
MILLIONS OF SHARES

'70

'71

'72

'73

'74

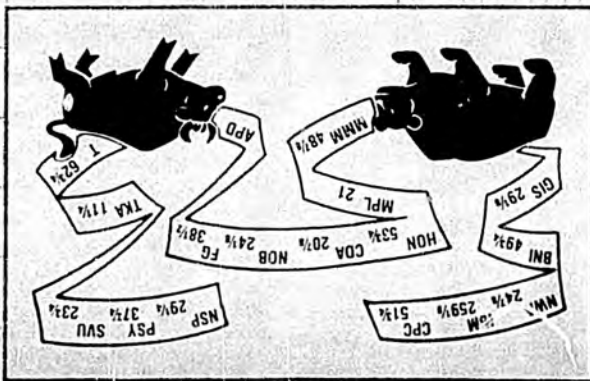
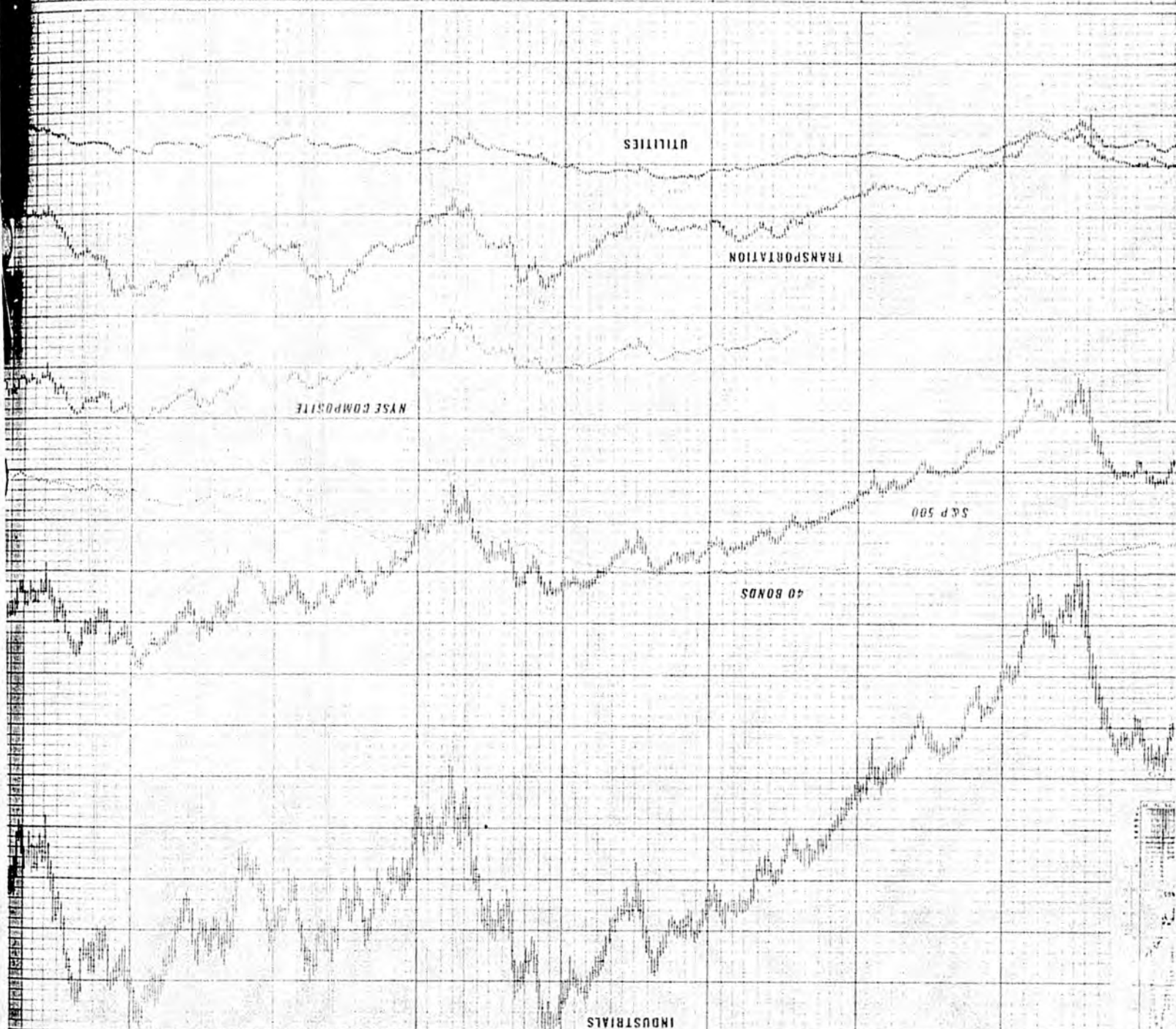
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1977

69. 88. 87. 66. 65. 64. 63. 62.

NYSE MARKET VOLUME
MILLIONS OF SHARES



69. 88. 87. 66. 65. 64. 63. 62.

HARVARD UNIVERSITY
DEPARTMENT OF CITY AND REGIONAL PLANNING
GUND HALL, ROOM 311
CAMBRIDGE, MASSACHUSETTS 02138
617/495-2571

To: Clark Gruening, Chairman, House Special Committee
on the Alaska Permanent Fund

From: Belden Daniels

Date: November 14, 1977

Re: Annotated Comments on 11/3/77 Work Draft Paper to
Create a Permanent Fund, Development Bank and
Renewable Resources Fund

Bill Berrier has done a superb job in revising this second work draft paper for the committee in a very short period of time. What I have sought to do in the few days which I have had since Bill air-mail special delivered this draft to me is to try to comment in detail from a substantive standpoint on each section. I have done this in order to raise, for the committee, what substantive experience drawn from development finance in the lower 48, Canada, Europe and throughout the world is at issue in trying to be sure that the bill submitted to the Legislature in January 1978 reflects the highest current states of the art of: (1) investment portfolio management; (2) development finance; and (3) the cutting edge of research and development renewable resource finance.

If, at the November 18 and 19 meetings of the House Permanent Fund Committee, special direction can be given from a legal standpoint to Bill Berrier and Doug Pope and

from a substantive standpoint to me, I feel strongly that the three of us working together can produce a draft by the December 8-9 meetings which will reflect that highest present level of technical competence on a worldwide basis.

Please excuse the rather rough and ready style of this memo, but, given the short time there was to react it seemed to me important to raise as many questions as possible, and to worry about editorial style later. With the intensive help from my research associate, Judith Payne, we have been able to respond to this draft in fair detail by Sunday, November 13 in order to bring copies with me to Alaska this week.

I am sure that upon more relaxed reflection about each of these items both on the airplane flying to Alaska and discussions with Bill and committee members before the Friday-Saturday, November 18-19 meetings, it will be possible to refine many of these comments in a much more careful and thorough manner. Annotated comments to the draft follow:

For An Act entitled: "An Act relating to nonrenewable resource revenues; and providing for an effective date."

Why doesn't the bill title include something like: "An Act relating to nonrenewable resource revenues and creating the Alaska Permanent Fund"? Why does it say "providing for an effective date"? Is this an Alaskan legislative procedure we don't understand?

ARTICLE IV. STATE INVESTMENT OVERSIGHT COMMITTEE.

Sec. 24.20.600. STATE INVESTMENT OVERSIGHT COMMITTEE ESTABLISHED
The State Investment Oversight Committee is established as a permanent interim committee of the legislature. The establishment of a committee recognizes the need of the legislature for technical review and oversight of the performance of all agencies of the state which perform lending, borrowing or investment functions.

The purposes of the oversight committee must be spelled out much more clearly in this or a separate section. They should be listed as are the purposes of the other sections of the Act and could simply be added after the last sentence in this section.

The purposes should include key points along this line: to ensure that the public purposes of these state agencies are met effectively and efficiently in such a way as to maximize the financial, economic, and social returns to the Alaskan people; to monitor the operating procedures of the agencies and hold the agencies fully accountable to the Alaskan people; to ensure that the agencies' actions are consistent with the economic development plans of the legislature and complementary to each other; and to seek to coordinate planning and review efforts of the legislature with those of the executive branch.

Our understanding is that this section gives the oversight committee the mandate to oversee not only the Permanent Fund, but all other state lending agencies as well. As the section is presently worded, this would begin immediately. A sentence should probably be added which would stipulate that the committee should

begin immediately to oversee the Permanent Fund and renewable resources fund, but that the other applicable agencies, such as the many Alaska loan funds or state pension and daily money management funds, will be added to the committee's mandate in the future, when the legislature (in joint session) approves their inclusion.

One more small point on this section: a "permanent, interim" committee sounds like a contradiction in terms. Shouldn't it simply be a "permanent" committee, or is this again an Alaskan legislative term?

Sec. 24.20.610. MEMBERSHIP. The committee is composed of eight members: the president of the senate, the speaker of the house, the chairmen of the house and senate finance committees, the house and senate minority leaders, and one member appointed from each house by the respective presiding officer. The committee shall select its own chairman.

It appears that membership was set at an even number so that it could be equally divided between the house and senate. This may be necessary to maintain the proper balance of powers, but it allows tie votes to deadlock the committee. Is there an appropriate ninth member for the committee?

Also, would it be appropriate to enlarge the committee some, say to eleven or thirteen, so that its tremendous responsibility could be shared by more legislators? As it stands now the most important, and probably the busiest, legislators make up the

majority of this new committee. They should be members, but they could (and probably would be eager to) share the load with a few others.

Sec. 24.20.620. TERM OF MEMBERSHIP. (a) The committee shall be organized within 15 days after the organization of each legislature. Members serve for the duration of the legislature during which they are appointed. If a member is reelected or his term of office extends into the next succeeding legislature, he continues to serve until re-appointed or the appointment of his successor.

(b) When a member of the committee files a declaration of candidacy for an elective office other than that of member of either house of the legislature, and he has not resigned from membership on the committee, his committee membership terminates on the date of filing.

No comment; it sounds fine.

Sec. 24.20.630. VACANCIES. When a vacancy occurs in the statutory or appointive membership of the committee, the presiding officer of the house incurring the vacancy shall choose a successor. If the office of the president of the senate or speaker of the house of representatives becomes vacant and a vacancy from the affected house occurs among the membership of the committee, the remaining committee members from the house incurring the vacancy shall appoint a new member.

This section should make clear that it applies to vacancies occurring during a legislative session. Two more comments:

(1) This section appears to say that if, say, the senate finance committee chairman retires mid-session, the senate president can appoint any senator to take his place. Must not the new finance committee chairman fill the vacancy? It seems that this power should only apply to the appointive members of the oversight committee, not the statutory members.

(2) If the office of the Senate President or Speaker of the House is vacant, so will be the statutory position on the oversight committee. Hence, in the case described in this section, the committee would have two vacancies. Do we want to have the committee fill both vacancies? Or does the senate president's or house speaker's membership slot remain vacant until new legislators move up to fill these positions?

These points are not that critical, but we should think through all the possibilities and their implications before the bill goes any further.

Sec. 24.20.640. MEETINGS. The committee may meet during sessions of the legislature and during the interim between sessions at such times and places in the state as the chairman may determine. Members may receive, for the minimum time required to get to and from meetings and for the period while attending meetings, the same travel and per diem allowances provided by law for members of the legislature when attending sessions, except that members of the committee receive no per diem during legislative sessions other than the per diem allowance paid to other members of the legislature.

No comment; it sounds fine.

Sec. 24.20.650. POWERS. The committee has the power to
(1) organize, adopt rules for the conduct of its business, and prescribe procedures for the comprehensive fiscal analysis, budget review and post-audit functions over those agencies of the state which perform lending, borrowing or investment functions;
(2) hold public hearings, administer oaths, issue subpoenas, compel the attendance of witnesses and production of papers, books, accounts, documents and testimony, and have the deposition of witnesses taken in a manner prescribed by court rule or law for taking depositions in civil actions;

(3) require all state officials and agencies of state government to give full cooperation to the committee or its staff in assembling and furnishing requested information;

(4) hold public hearings relating to the confirmation of members of the permanent fund board of trustees, renewable resources development fund commission, and the development bank;

(5) prepare and distribute reports, memoranda, or other necessary materials;

(6) make recommendations concerning the structure and operating practices of all agencies of the state which perform lending, borrowing or investment functions;

(7) receive and review reports and post-audit analyses conducted by the Legislative Budget and Audit Committee relating to all agencies of the state which perform lending, borrowing or investment functions.

The powers in this section are presently too limited and not yet well enough articulated. The committee is to be a very strong one, so it needs more clout over the agencies it oversees.

Power (1) must be strengthened to include the power to approve and disapprove long-range (three- to five-year) investment plans of the applicable agencies, as well as their annual implementation plans. This power should be in this section; the description of the approval process, in turn, belongs in the duties section. To make clear our conception of the issue, however, we will describe both here.

Specific dates must be set for the review and approval process, so that the committee cannot stop investment agency operations just by stalling and, on the other hand, an investment agency cannot force the committee to review and approve a plan on short notice. Also, the process must give the executive branch a

chance for input. We need to think very seriously about the necessary timing, but it might look something like this:

Before May 1: Committee draws up guidelines for state priorities and investments to maximize the return to the Alaskan people. These guidelines would draw on state economic projections by sector and region. (a) They would state priorities in terms of economic sectors for investments, geographic areas for investments, and size of enterprises and projects to be assisted; (b) they would also include economic measures needed to stabilize the Alaskan economy and curb inflationary pressures; and (c) they would include social priorities for investments along specific dimensions: quality of jobs; environmental protection; affirmative action; and community relations. In each of these three areas, the committee would prioritize its guidelines and set them within a one-year framework and a three- to five-year one. Also it would define each priority in measurable terms.

May 1: Guidelines sent to Governor to be reviewed so they are consistent with the economic development plans of the executive branch. (It is extremely critical that the committee integrate its planning with that of overall economic development planning, so that the agencies reviewed will be as effective as possible. This was a key point in my report to the committee of July 11, 1977.)

By July 30: Guidelines modified by committee after Governor's comments. (The committee need not accept the Governor's recommendations.)

August 1: Guidelines sent to the investment agencies which the committee oversees.

August 1 - September 30: Investment agencies draw up three- to five-year plans and one-year plans, based on the guidelines, and their own statutory purposes, and submit the plans to the committee.

October 1 - December 31: Committee reviews and comments on the investment agencies' plans; agencies revise them and resubmit them; committee approves acceptable plans. Committee reviews and approves plans so they complement each other in meeting the committee's priorities and are consistent with each agency's own purposes.

January 1: Agencies begin implementing plans. An agency cannot begin operations until plan is approved by the committee. If no plan is approved by January 31, a joint legislative session must decide whether and under what conditions the agency may begin operations.

An alternative procedure would be to have the process start with the investment agencies presenting one-year and three- to five-year plans to the executive for presentation to the permanent committee by the end of the legislative session, i.e., by June 30. Then, the legislative committee would have a responsibility to respond to the executive drafts before the legislative session begins in the following January.

These timetables cover the planning function of the committee and agencies. They must be flexible enough to allow serious interchanges between the agencies and the committee. To allow even more flexibility, the committee should have the power to accept modifications of annual plans during the year, if circumstances change significantly. It should not have the power, though, to insist that plans be changed mid-year. Agencies must have free hand in implementing the plans once they are approved, without unexpected demands from the committee.

The annual review process is the central power of the committee, but even though it is important to have it thorough it must not be overly cumbersome to the investment agencies. The guidelines must leave much flexibility on specific investment choices for the agencies.

It is absolutely imperative that the oversight committee can only specify gross allocations to sectors of the economy and to

regions; individual investment decisions must be made by the individual investment agencies.

The committee also needs the power to require (not merely to request or receive) reports from all applicable agencies in the form and at the times stipulated by the committee. Establishing the proper form for the reports and when they are due is a duty of the committee (section 670).

We would suggest one more power for the committee which the present bill grants to the legislature: power to approve large investment projects, at least within a certain size range. The bill now sets \$1.5 million as the maximum investment size, which an agency (the Alaskan Development Bank) can make on its own (section 44.55.100(e)). It would be more efficient if the committee itself approved loans over this (or some other) size limit, measuring the potential investment against its own guidelines. The legislature could be required to approve all projects above a higher amount, after hearing the committee's recommendations. This would subject only the largest projects to a full legislative review and vote.

The limit (or limits) must be set to capture projects which will have major impacts on the Alaskan economy or large segments of it. Is \$1.5 million realistic? It seems quite low to us. We should set the limit(s) by consulting such sources as the Institute

for Social and Economic Research's "Man in the Arctic Project"; Arthur D. Little's sectoral analysis of Alaska; experienced Alaskan bankers; and various state commissioners.

Sec. 24.20.660. STAFF. The legislative audit division shall provide staff reasonably necessary for the conduct of the committee duties.

This committee is going to have such important and time-consuming tasks that it will need a strong and highly-qualified staff. Without this, either the review and approval process will become a mockery of the legal intent, or the agencies involved will be unnecessarily burdened in dealing with a poorly-run or unsophisticated process. Can the legislative audit division provide all the staff needed by the committee? Will the committee still be able to hire (through the audit division) the outside expert counsel it will need? It should be able and required to use, on a retainer basis, counsel like the Frank Russell Company (which is financial advisory to very large investment funds evaluating the performance of hired money managers), White Weld (which advises the Saudis on the use of their oil revenues), and experts in public investment analysis and long-range growth projections.

We suggest for the committee's consideration a small, separate, high-powered central staff for the committee with appropriate

technical support in critical areas such as (a) evaluating the performance of money managers for the trust function; (b) evaluating the overall long-term economic prospects of the economy and the need for intervention by the development function; and (c) the cost effectiveness of both the development function and the leading edge research and development function for renewable resources.

Perhaps the legislature should appropriate separate operating funds for the committee from either (1) the general fund, or (2) from the annual income of the various parts of the Permanent Fund itself. (The committee might simply submit a budget request to the legislature, whichever of these should be specified in the legislation.)

If the legislative audit committee remains the oversight committee's staff source, this section should at least stipulate that the oversight committee can request certain full-time and retained counsel be allocated for its use.

Sec. 24.20.670. DUTIES. The committee shall

(1) report to the legislature its recommendations relating to the confirmation of suggested appointees to the permanent fund board of trustees, renewable resources development fund commission, and the development bank;

(2) annually review the long-range operating plans of all agencies of the state which perform lending, borrowing or investment functions;

(3) review quarterly reports from the permanent fund board of trustees, renewable resources development fund commission, and development bank policy board;

(4) present a complete report of investment programs, plans, performance, and policies of the permanent fund board of trustees, renewable resources development fund commission, and development bank policy board to the legislature within 30 days after the convening of each regular session.

Powers are what the committee may do; duties are what it must do, using its powers.

As mentioned above (Sec. 24.20.650), the description of the review timetable belongs here; it is the most important duty of the committee and is a thorough elaboration of the present part (2) of this section.

Duty (3) seems fine, but why does it only apply to the divisions of the Permanent Fund? Couldn't it apply to all agencies under the committee's review? As suggested above (Sec. 24.20.600), the legislature must add any agencies beyond the Permanent Fund and renewable resources fund which it wants the committee to oversee. Once they are placed within the committee's mandate, all of these duties should apply to them as well as to the Permanent Fund and renewable resources fund.

Duty (4) could be revised to include the committee's guidelines and all agency plans approved by the committee. Again, it seems more appropriate that it apply to all agencies within the committee's mandate. The 30-day limit fits with the suggestion we made above, that any plans not yet approved should go to the full legislature for action on January 31. Hence, the committee

would send all unapproved plans to the legislature after 30 days of the session, as well as all approved plans. (Are we correct in assuming that the legislative session begins on January 1?)

Four additional duties should be added to this section:

"(5) set reporting requirements for the applicable agencies' ["applicable agencies" should be defined in Sec. 44.55.170] annual reports and any other reports the committee needs from the agencies"

The legal description of this duty should stipulate that the reporting requirements must (a) be set to measure compliance with the committee's guidelines and each agency's short- and long-range plans; and (b) include how well each agency has met the targets set in its plans. These targets must be along the three general dimensions suggested above (sec. 24.20.650): financial, general economic, and social. The financial reporting will include conventional performance measures used by private firms, e.g., return on investments, growth in operations. The economic and social reporting will include the measures suggested above (again, Sec. 24.20.650). The committee should also stipulate analytic procedures for agency programs and large individual projects. We can draw on the experience of international and European development banks (especially Sweden's Statsföretag) to design these.

"(6) do long-range economic projections for the state to be used to establish the committee's annual and long-range guidelines"

Such a task will require that the committee have on retainer econometric modeling consulting services such as those provided either by the Institute for Social and Economic Research's "Man in the Arctic Project" or the Commission of Commerce and Economic Development.

"(7) establish criteria consistent with its own guidelines for review of investment projects it must approve or reject, in accordance with sec. . . . , including public hearing(s) held in the area(s) where the project would have significant economic impact." [This applies to our suggestion that the committee, not the legislature, be required to approve projects over a certain size, or preferably, within a certain size range. The legislature would have to approve larger projects.]

For this third additional duty the committee will probably want to require that the agency involved provide it with certain information on the potential investment project. In this way, the committee can draw on the expert staffs of the operating agencies, rather than having to hire comparable professionals. This duty would fall within the committee's power to require agencies to report to it in a specified form.

Finally, one more duty should be added to the bill: (8)

each year, on January 1, the committee must recommend to the legislature what percentage of the year's nonrenewable resource revenues should be directed to the Permanent Fund, between 25 and 100 percent. The committee must base its recommendations on its own economic analyses, projections, and guidelines; including consideration of the inflationary effects of the revenues' uses. The statute must also include that, until the legislature votes on the annual percentage (this power we suggest be added to the bill's section 37.13.030), the preceding year's percentage applies to the current year's revenues.

Sec. 24.20.680. RECORDS. The committee shall keep a complete file of all reports presented to it and all reports presented by it to the legislature or any legislative committee.

No comments; it is fine as is.

CHAPTER 13. ALASKA PERMANENT FUND. [Chapter is not reproduced here; refer to pages 4 to 10 of WORK DRAFT PAPER.]

The trust function of the Alaska Permanent Fund now looms very large in importance in the overall scheme of things. So I have asked one of the leading consultants in advising foundations and corporate pension funds how to structure and plan their large investment resources to comment pro bono in some detail on this function.

Gary Bergstrom is principal consultant to the Ford Foundation at the present time, in assisting them to redesign, restructure, and rethink their investment policies with regard to their \$2 billion endowment. In many ways I think that the Ford Foundation's resources are comparable not only in quantity but also in quality to those of the Alaska Permanent Fund. His comments to me are appended in a separate memorandum.

I would like to make a few fundamental overall comments to the committee to suggest the care with which I think we need to approach this section:

First, it seems to me a reasonable proposition that the moment the oil is removed from the ground and converted into cash it begins to lose value.

Second, in general the history of state investment management and money management to date is one in which performance often has been substantially below that of the private money management of large pension funds or endowments. On the other hand, there are several key states that have established a very high state of the art in investment and money management, including Minnesota, Wisconsin and Oregon.

Third, the state of the art of endowment and investment management has been changing extremely rapidly in recent years.

Fourth, it seems to me to be absolutely critical that the

Alaska legislature bring to the creation of the trust function the very highest current state of the art of investment management in order to be true to the constitutional mandate of the Alaskan voters.

Fifth, it seems to me to be incumbent upon the committee to make the fullest use of the good state experience of Minnesota, Wisconsin and Oregon and that of private money managers such as Bob Greeley of White Weld, Terrence Magrath of the Fidelity Organization, and Gary Bergstrom in order to be sure that this section is as carefully crafted as the creation of the oversight committee, the development function, and the leading edge research and development function.

Finally, perhaps it might be helpful if the phrase "the Alaska Permanent Fund" were used to deal with both the trust function and the development function. In turn it might be useful to refer to "the Alaska Investment Fund" for that 5/6 of the Permanent Fund's resources which go into the trust function; and conversely, to refer to the Alaska Development Bank for that 1/6 of the resources of the Permanent Fund which go into the development function.

CHAPTER 55. ALASKA DEVELOPMENT BANK.

This entire chapter needs to be ordered more logically, as the other chapters are. The sections should be in an order

similar to the following: creation; funding; purpose; policy board creation, etc.; investment committee creation, etc.; then powers of each; duties of each; types of eligible investments and criteria for selecting them (probably one section for direct investments and one section for investments in community development organizations); boiler plate (conflict of interest, definitions, etc.).

Sec. 44.55.010. CREATION OF BANK; FUNDING. (a) There is created the Alaska Development Bank. The bank is a public corporation and government instrument in the Department of Revenue but has legal existence independent of and separate from the state. The exercise by the bank of the powers conferred by this chapter is considered an essential governmental function of the state.

(b) One-sixth of the receipts of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses allocated to the permanent fund shall be paid directly into the bank until a total of \$100,000,000 has been paid in.

Part (a). The wording referring to the Bank's relation to the Department of Revenue should be identical to that describing the Investment Fund's relation with the Department (sec. 37.13.040). One of the phrases should be changed. Which wording is better: "within but not of the Department . . . " (37.13.040); or "in the Department . . . but has legal existence independent of and separate from the state" (44.55.010)? The phrase chosen should also be used in the renewable resources fund chapter. Also, should the sentence with the phrase ". . . considered an essential government

function . . ." be added to Sec. 37.13.040 and the renewable resources fund chapter?

Part (b). This part is fine as far as it goes, but it needs more detail. What is the minimum amount of paid-in capital the bank must have before it begins operations? We suggest \$50 million. We also need to have projections showing when the bank's portion of the oil revenues will reach \$50 million and \$100 million. These are needed before the December 9, 1977 committee meeting.

Two additional parts could be added: Part (c). The law could stipulate that income derived from the bank's use of the paid-in capital will be retained by it, until tapped by the legislature (as we suggested in sec. 37.13.010, part (3)). That is, the bank is not required to pay dividends to the state. (This is the way the European Investment Bank and Germany's KW [Kreditanstalt für Wiederaufbau] operate. The Statsföretag in Sweden does pay dividends to the national government, when its performance warrants such payments. It did have an initial grace period, though, when no dividend payments were required regardless of the institution's performance.)

Part (c). Differential requirements must be established statutorily for the bank's equity and debt activities. These could be set in this section or below in section 44.55.090. For

equity, the bank should not be allowed to leverage its resources at all, so no reserve requirements are needed at all. The leveraging of funds used for loans or loan guarantees and the required reserves are discussed in Sec. 44.55.090 (b) (4), because that current section already refers to leveraging limit. The reserve requirements for guarantees are now set in Sec. 44.55.100 (b).

The key point here is that differential reserve requirements and differential leveraging requirements need to be stipulated for different uses of funds such as equity investment or debt lending or guarantees; or for different qualitative uses of funds such as productive enterprise or community development.

Sec. 44.55.020. ALASKA DEVELOPMENT BANK POLICY BOARD. (a) There is established the Alaska Development Bank Policy Board, consisting of the commissioner of revenue, the commissioner of commerce and economic development, the commissioner of community and regional affairs, or their designees, and six members to be appointed by the governor and confirmed by a majority of the members of the legislature in joint session. Two members shall have broad experience in investment finance, one member shall represent organized labor, and three members shall represent local communities.

(b) The six appointed members shall serve for six-year terms, and they may be reappointed. Terms shall be staggered. Initial terms shall be two members serving for two years, two members serving for four years, and two members serving for six years. Members continue to serve until their successors are appointed and confirmed.

(c) The chairman of the governing body of the renewable resources development fund serves as chairman of the policy board but is not a voting member.

(d) A majority of the policy board members constitutes a quorum for the transaction of business by the board. Decisions of the board shall be taken by a majority vote, including not less than a majority of the appointed members. The board shall hold at least one public meeting each year.

(e) Members of the policy board receive \$_____ per meeting day if they attend the meeting and are entitled to per diem and travel allowances as are provided by law for members of state boards and commissions.

Part (a). The balance on the board seems fine, but perhaps we could stipulate more exactly the qualifications of the appointive members. One finance expert could have "broad experience in equity investments"; the other, "in medium- or long-term industrial lending." Also, the community-level representatives could be more precisely defined to make sure they cover a range of interests. At least one could represent a municipality. Another might be from a native regional corporation. The third could be someone involved in and with extensive experience in community development. Or is there some other type of local group that should be specifically mentioned--a large community versus a small community, perhaps? One in a less-developed area?

Part (c). The chairman should not be the chairman of the renewable resources fund. Perhaps the chairman could be appointed by the Governor from the six "public" board members (excluding the labor representative and the two finance experts). The chairman should probably serve "as chairman at the pleasure of the Governor."

Part (d). All of the board's meetings can and should be public, except those which deal with specifically defined confidential

matters. These exceptions should include discussions of the qualifications of present or potential members of the bank's investment committee.

Part (e). What is the payment to be? Are the public members (including the state officials) to receive it? (If it is \$250 per meeting, each meeting could cost the bank \$2250 plus per diem and travel expenses.)

How often must the board meet? Perhaps it should be required to meet at least once per quarter. This could be added to this section or to 44.55.040 (Duties of the Policy Board).

Sec. 44.55.030. REMOVAL AND VACANCIES ON BOARD. (a) The governor may remove a policy board member from office by and with the consent of a majority of the members of the legislature in joint session. The joint session shall be held within 10 days from the date of removal if the removal occurs while the legislature is in session or within 30 days of convening of the legislature if the member was suspended. If the legislature is not in session, the governor may suspend a member of the policy board for cause. Upon suspension, a board member may not participate in policy board business and may not be counted for purposes of establishing a quorum. A suspended member shall continue to receive his salary as a board member until the legislature in joint session consents to his removal. If the legislature refuses to consent to his removal, the member shall be reinstated to his position.

(b) A vacancy arising on the policy board shall be filled by appointment by the governor and confirmation by a majority of the members of the legislature in joint session, and an appointee to fill a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. If a vacancy arises on the board while the legislature is not in session, the governor may appoint an interim board member who shall exercise all powers and receive the salary of a permanent board member until such time as the legislature in joint session fails to confirm the interim member's appointment.

(c) A vacancy on the policy board does not impair the authority of a quorum of the board to exercise all the powers and perform all the duties of the board.

Part (a). Shouldn't the phrase "for cause" be added after "from office" in the first sentence?

Sec. 44.55.040. DUTIES OF THE POLICY BOARD. The policy board shall

(1) select and appoint the president and other members of the Alaska Development Bank Investment Committee established in sec. 50 of this chapter;

(2) annually review and approve long-range operating plans, the budget for the forthcoming year, and the financial plan for the following years;

(3) have responsibility on behalf of the bank for relations with the general public, legislature, executive branch, local communities, and interest groups concerning all things excepting only those matters that are the responsibility of the investment committee;

(4) review quarterly reports from the investment committee concerning investment decisions and investment supervision, but the board may not impose an investment decision upon, or override an investment decision of, the investment committee;

(5) review, consider and approve policies;

(6) establish an audit committee, consisting of the commissioner of revenue and other members of the policy board to be designated by the commissioner, which shall select independent outside auditors, and receive all audit reports.

Part (2). Change to "annually review and approve annual and long-range (three- to five-year) investment plans for bank." These are the plans that are submitted to the oversight committee. After the above phrase, we could add something like "these plans must comply with requirements set by the legislative oversight committee (correct name and legal citation) and take into account that committee's guidelines."

Part (3). We could add the phrase "including negotiating with the legislative oversight committee for approval of the bank's annual and long-range plans."

Part (4). This section should also include annual reports, according to standards set by the legislative oversight committee.

Part (5). Articulate types of policies: according to dimensions used in the bank's annual and long-range investment plans, and any other dimensions the policy board chooses, so long as the policies do not stipulate particular investment projects the investment committee must finance.

A Part (7) might be added: negotiate with the executive or legislative branch and accept or reject proposals for the bank to administer certain programs or investment projects for the state.¹ The funding for these programs and projects would come from appropriations or other funds from the state, not from the bank's own funds; and the program or project would be administered according to guidelines set by the executive and/or the legislative branch and accepted by the policy board. The board would be required to consult with the investment committee before making such an agreement.

This agreement could involve such things as interest subsidy programs for certain types of investments, special infrastructure investment projects, or concessional loan programs. It would be very similar to the arrangements that Germany's Kreditanstalt für Wiederaufbau (KW) has with its national government. It has several

¹Bill 298 had a similar clause: it allowed the legislature to appropriate funds for subsidizing investments "which are of such high priority that special terms and conditions are appropriate."

advantages: (1) the government can take advantage of the bank's expert staff; (2) the bank can supplement its own programs with those subsidized by the state, offering more to its clients and closely integrating its programs with those of the state; (3) state subsidies are explicit and can be targeted to certain types of investments; and (4) the subsidies are covered by outside sources, not the bank's. The Alaska Development Bank, like Germany's KW, might choose to use some of its own surplus funds to provide its own subsidies for certain types of projects, though. This is the bank's choice, though; the state cannot force it to do so. (This choice by the bank could, however, be subject to the approval of the legislature.)

Sec. 44.55.050. ALASKA DEVELOPMENT BANK INVESTMENT COMMITTEE.

(a) There is established the Alaska Development Bank Investment Committee, consisting of the president and four members appointed by the policy board. No member of the policy board may be a member of the investment committee. Members of the investment committee shall be persons of recognized competence and wide experience in investments, finance, and other business management-related fields. Members may be reappointed and continue to serve until their successors are appointed. The president and members shall serve for four year terms. Terms shall be staggered. Initial terms shall be one member serving for one year, one member serving for two years, one member serving for three years, and one member and the president serving for four years.

(b) Four members of the investment committee constitute a quorum. Decisions of the committee shall be taken by majority vote.

(c) Members of the investment committee are in the exempt service under AS 39.25 and receive an annual salary equal to that of a commissioner of an executive department.

Part (a). The president may be a member of the investment committee, but the way it is structured now he must be a financial expert with no skills or understanding of public investment in general, or community development. At least one member of the committee should have such skills and perhaps the president should be required to be so, specifically. Also, the president should serve "at the pleasure of the policy board." Where are procedures to cover removal or vacancies on the investment committee? Also, where are the president's powers and duties articulated? Sec. 90 of Bill 298 did this. We needn't include as much detail in this bill, but we should at least include that the president is responsible to the policy board for the management and staff of the bank. We could use wording from 298: "sole responsibility of organization, appointment, dismissal and remuneration of all other staff."

Based on experience in Connecticut and elsewhere, this committee should have different divisions for the different types of transactions it must review: at least one for equity and one for debt. These could be subcommittees and act in behalf of the full committee, subject to the committee's overview. (The entire committee could choose to vote on any particular investment.) The president could serve on both subcommittees. This structure is similar to that used in some European development banks.