

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

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

With the subcommittee structure, the full committee would probably have to have more members, at least seven so that four could serve on each subcommittee, the president voting only in case of a tie on the subcommittees. If subcommittees are used, the skills of their members (and hence, those of the full committee) must be specified more exactly.

This is very critical, because the skills required for analyzing productive enterprise and those required for analyzing community development projects are quite different, even though both are income-producing.

For community development projects, the investment committee could be required to have a special screening committee to screen community-based projects according to community development criteria approved by the policy board. Should the policy board appoint this screening committee? If so, it should be added to its duties above (Sec. 44.55.040).

Part (b). If the committee remains at five members, a quorum of four is fairly stringent. Do we want this? If the committee is enlarged, what should a quorum be? What about a quorum for the suggested sub-committees?

Part (c). It appears that all investment committee members are full-time employees. First, is this necessary? Experience in other development banks shows that they may be paid on a per meeting basis. (The Connecticut Development Authority uses this technique.) If the committee is enlarged, as suggested above, should all members still be full-time employees? I doubt it.

Second, if they are full-time, why are their salaries set as state employees? They are bank employees, not employees of the state, and the policy board should be able to set their salaries (or per-meeting rates). Also, if used, would the state salaries stipulated here be high enough to attract the talent needed on the investment committee? I doubt it.

Sec. 44.55.060. DUTIES OF THE INVESTMENT COMMITTEE. The investment committee has sole responsibility to approve all investment proposals.

The duties of the investment committee must be articulated here. If not, at least we need to add that they must operate in accordance with the bank's annual and long-range plans approved by the policy board and the oversight committee. Also, their liability for their investment decisions should be stated (or waived) here. Must they be bonded? Many development banks bond their boards, either as individuals or as a group. Should the policy board also be bonded?

Sec. 44.55.070. BUDGET. The development bank is subject to the provisions of the Executive Budget Act (AS 37.07).

What does this section mean? Should not the Bank be funded by its own income? We could use this section to state that the bank is required to be self-financing and that the legislature may but is not required at any time to appropriate funds to the bank to meet the bank's obligations. This provides an escape

valve, but does not in any way obligate the legislature--a technique used in other states. Unfortunately, I am not clear about what the provisions of the executive budget act are, and therefore what its consequences are for the Alaska Development Bank, based on the experience of other state-funded development banks around the world.

Sec. 44.55.080. PERSONNEL OF BANK. The policy board and investment committee members and officers and staff of the development bank are in the except service under AS 39.25.

Fine as far as it goes, but where is information on the bank's staff? It should be included here and/or above, as suggested in Sec. 44.55.050 (a): the president is solely responsible to the policy board for the hiring, firing, and remuneration of all staff and counsel.

Sec. 44.55.090. PURPOSES AND POWERS OF THE BANK. (a) The purpose of the bank is to provide a means of conserving a portion of the state's revenues from mineral resources to the ultimate benefit of present and future generations of Alaskans. The revenues so conserved shall be invested in income-producing investments which will provide further benefits to present and future generations of Alaskans. Further benefits may be derived through use of the bank to

(1) assist the diversification of the economy of Alaska by making sound investments in Alaska's renewable and nonrenewable resources;

(2) seek to smooth the long-term cyclical pattern of growth of the Alaska economy;

(3) encourage and assist the participation of private capital, from both inside and outside Alaska, in private enterprises of benefit to Alaskans;

(4) promote the investment of public and private capital for community development purposes;

(5) supplement private investment when sufficient private capital is not available on reasonable terms and conditions and when other state or federal financial assistance is not available.

(b) In carrying out the corporate purposes of the bank, the policy board has power to

(1) adopt, alter and use a corporate seal;

(2) prescribe, adopt, amend, and repeal bylaws;

(3) sue and be sued in the name of the bank;

(4) borrow funds, and in that connection furnish such collateral or other security as it determines, except that bank borrowing may not exceed one-half of its paid-in capital;

(5) guarantee obligations of another corporation or legal entity in order to facilitate their sale;

(6) enter into agreements necessary or convenient in the exercise of its powers and functions;

(7) acquire, hold, use, lease, sell or otherwise dispose of property of any kind, real, personal or mixed, or any interest in it;

(8) contract with state, federal and other agencies to develop needed information and analyses;

(9) do all acts and things necessary, convenient or desirable to carry out the powers granted or implied in this chapter.

(c) In carrying out the corporate purposes of the bank, the investment committee has the power to

(1) invest, in such form as it considers appropriate, including without limitation, by purchase of the capital stock of, or the lending of money to, projects, except that any investment in the capital stock of or other ownership interest in such project may not exceed 49 per cent of the capital stock of, or other ownership interest in, the project, and no loan or other investment in the project by the bank may exceed 90 per cent of the cost of the project unless, in the judgment of the committee, additional amounts must be loaned to protect the interests of the bank;

(2) deposit bank funds, or invest bank funds in such obligations as it may determine;

(3) buy and sell securities the bank has issued or guaranteed or in which it has invested;

(4) purchase currently sound evidence of indebtedness from the tourism fund, the agricultural revolving loan fund and the small business development loan fund if the loan was made after the effective date of this Act and if the loan meets the criteria of sec. 100 of this chapter;

(5) do all acts and things necessary, convenient or desirable to carry out the powers granted or implied in this chapter.

As mentioned above, this section should precede most of the above sections.

Part (a). Purposes seems fine.

Part (b).

(2) Add to end: "for the bank's operations" (not just the policy board's operations).

(4) This section sets a very conservative maximum debt to equity ratio of 0.5 to 1. We agree that the bank should have a conservative one, but we can draw on the experience of other development banks to set it. The Canada Development Corporation has a debt limit of 40 percent of its paid-in capital, but it makes very high-risk investments. (Remember, this debt can only be used for the bank's lending and guaranteeing activities, not for its equity investments. We have already made this requirement, above in 44.55.010 (c).)

The European Investment Bank offers more relevant experience. According to its corporate rules, it can make guarantees plus loans up to 250 percent of its paid-in capital. In practice, it maintains a ratio of equity to debt of around 1.3 to 1, because its accumulated reserves are so high. This conservative ratio helps it have privileged access to European debt markets. The Statsföretag Group in Sweden had a ratio of 1.6:1. We must very carefully set a maximum ratio allowed for the bank. (With so much

paid in capital, the bank may never borrow more than one-half of paid-in capital, but we should set a sensible limit for a sound financial structure.

We must also decide whether to set minimum reserve requirements for guarantees and loan defaults. Here we must also draw on the experience of similar development banks.

In this or an additional section we should unambiguously state that the state of Alaska is not responsible for the bank's liabilities. Experience with other American development banks shows how critical it is to put this in writing. "Moral" obligations are no longer very popular and certainly the state should leave no doubt in investors' minds.

(6) We could add here, "including agreements for project or program administration for the state of Alaska, according to conditions mutually agreeable to the bank and the state." We already discussed this possibility above, 44.55.040 (7).

Part (c). (1) We have several comments on this section:

a. The way it is now worded, the committee can make loans of any term, secured or unsecured. Is this what you intend? If not, the limit should be added or in sec. 44.55.100. In any event, this section should probably be amended so it reads, "in accordance with other requirements of this chapter", to acknowledge the entire section 44.55.100 and the necessity to comply with the approved plans.

b. Based on experience in many American development finance banks, this section should set a limit on the percentage of a loan the bank will agree to make and the percentage of the project costs the loan can cover. For example, some states make loans up to 90 percent of a mortgage, which can cover up to 90 percent of project costs. These percentages usually vary by loan use (e.g., land and plant versus equipment). The limits are set for three very important reasons: (1) they help the development bank leverage its funds; (2) they ensure that risk is shared with other lenders and with the borrower; and (3) they ensure that there is an extra check on the bank's loan decisions by at least one outside source.

Some states have limits as low as 40 percent of loan amount on 90 percent loan coverages. We recommend setting a maximum of no higher than 90/90 for plant and 80/90 for equipment. We should consider going lower, though. Also, if working capital loans are also made, we must set limits for them.

I would counsel against making working capital loans, for three essential reasons: first, there is no major capital gap here; second, the commercial banks are quite capable of making these loans and there is no reason for the state to compete with them; and third, we need to develop all of our financing mechanisms in basic cooperation with the private market and a system on the longer-term equity and debt financings which they are not so able to make.

c. This is actually a corollary to the above point: similar limits must be set on loan guarantees made by the bank. Again, some of the best state guarantee programs have limits of 40 percent on the share of a mortgage they will guarantee.

(2) this section could be amended to stipulate that it refers to surplus bank funds; that these funds should be deposited or invested according to the prudent-person clause; and that they or a portion of them must remain liquid enough to be activated for use according to the purposes of the bank.

Sec. 44.55.100. INVESTMENTS. (a) In making investments, the investment committee and staff shall exercise the judgment and care under the circumstances then prevailing which a person of ordinary prudence, discretion, and intelligence exercises in the management of his own affairs taking into consideration the probable income from the investments as well as probable safety of principal.

(b) An amount equal to at least 150 per cent of all guarantees by the bank shall be invested in investment-grade securities.

(c) The investment committee may invest not more than 50 per cent of the resources of the bank to provide a reasonable proportion of longer-term investment capital for financing the establishment, improvement, and expansion of productive private enterprises which will benefit Alaskans, and for which sufficient capital is not available from other sources on reasonable terms. These investments may take the form of equity, debt, or debt guarantees.

(d) The committee may invest no more than 50 per cent of the resources of the bank in financing a reasonable proportion of the longer-term investment capital needs for community development projects of municipalities and public corporate entities and private dwellings in Alaska for which sufficient financing is not available from other sources on reasonable terms. These investments may take the form of debt or debt guarantees.

(e) The committee may not invest more than five per cent of the resources of the bank or \$1,500,000, whichever is less, in a single project unless the legislature has approved the investment by concurrent resolution.

(f) The committee may not undertake any financing for which, in its opinion, sufficient private capital could be obtained on reasonable terms.

(g) The committee may not assume responsibility for managing any enterprise or project in which it has invested and may not exercise voting rights for that purpose or for any other purposes which, in its opinion, properly is within the scope of managerial control.

(h) The committee shall only undertake its financing on terms and conditions which it considers appropriate, taking into account the terms and conditions normally obtained by private investors for similar financing, the requirements of the enterprise or projects, the risks being undertaken by the bank, and the participation of other investors.

(i) The committee may seek to revolve the bank's funds by selling its investments to other investors whenever it can appropriately do so on satisfactory terms.

(j) The committee shall seek to maintain a reasonable diversification in its investments.

(k) The committee shall only consider investment proposals after the applicant for an investment has submitted a detailed proposal to the committee's staff and the staff has prepared a written report recommending the investment after a study of its merits.

(l) The committee shall analyze the economic and other effects of an investment decision, including the effects on employment, income distribution, environment, health, social and other factors. The committee shall be sensitive to the views of affected local communities and shall include an analysis of those views in proposals for large investments.

(m) The committee may guarantee qualifying loans made by financial intermediaries in order to facilitate investment by the intermediaries in specific enterprises or projects whose individual financing requirements are not, in the opinion of the committee, large enough to warrant its direct supervision.

(n) The committee shall provide for operational and performance evaluations (post-audits) of its investments and investment programs and report the results to the policy board.

(o) Nothing in this section prevents the investment committee, in the event of actual or threatened default on any of its investments, actual or threatened insolvency of the enterprise in which the investment has been made, or other situations which, in the opinion of the investment committee, threaten to jeopardize the investment, from taking such action and exercising such rights as it may consider necessary for the protection of its interests.

Part (a). The prudent-person clause should not apply to the Alaska Development Bank's activities. It must invest in income-

producing projects, but it is supposed to maximize benefits to the Alaskan people, financial and nonfinancial.

A sharp distinction must be made between the extremely rigorous money management standards which must be applied to the trust function of the Permanent Fund and to the less rigorous but nevertheless income-producing standards that must be applied to the development function of the Alaska Development Bank. The standards of the Alaska Development Bank should be much closer to those of the World Bank, or the European Investment Bank, or the Inter-American Development Bank, or the Connecticut Development Authority and the Community Development Finance Corporation. Each of these institutions is required to make income-producing investments and to live within their own balance sheets, but they are not required to make the same return as the private market. It is not necessary for them to make that same internal rate of return, because their external return to the state of Alaska more than compensates for their lower internal rate of return.

Part (b). See our comments above, Section 44.55.090, Part (b) (4).

Part (c). Does this 50 percent mean half of all equity investments and half of all loans? What exactly does it apply to: debt plus equity together or separate? This section should make clear that these are direct investments, loans or guarantees for

projects in contrast to those of Part (d). Are developers eligible as project owners? Experience in other states strongly suggests that project owners must be project users. (This must be worded very carefully.) Joint ventures or participation loans with community development organizations also fall within Part (c).

Part (d). Again, what exactly does this 50 percent apply to? Also, the section should include equity as well as debt and debt guarantees.

This entire section must be given far more detail on the function described. The bank is to use 50 percent of its resources to invest in community development organizations (CBOs)--not directly in community development projects nor in private dwellings. CBOs must be defined here or in Sec. 44.55.170. Does it include municipalities, any regional development organizations? What community development bodies are eligible? How must eligible bodies be structured? What is their board structure? Who do they represent? What types of financial instruments must they use? What types of projects do they support? All these questions must be answered. Fortunately, several other states, especially Massachusetts with its CDFC, have already grappled with the questions and we can learn from them.

In my judgment, this was the least well developed section of HB 298 or 300. Those drafts were quite muddy in defining what

was a legitimate community development organization or a legitimate income-producing project. It might be useful to refer back to my comments on pages 54-59 of the July 11 report and be sure that we use the highest current state of the art of community development finance in articulating this section of the proposed House bill.

This section (or section m, below) should also allow the bank to also have a sort of "global loan" program, similar to that of the European Investment Bank. The Alaska Development Bank could lend to regional development corporations so they, in turn, could lend according to criteria set by the bank. This would be similar to Sec. 120(9) in Bill 298. For further background, see pages 92 to 116 of my second report to the committee, dated 9/14/77.

Part (e). We have already suggested that \$1.5 million may be too low a limit. See our comments, above, sec. 24.20.650.

Part (g). Why shouldn't it be able to exercise voting rights as any other equity investor in a project? It has already been limited to a minority ownership in any project. Also, the limit to "not assume responsibility for managing . . ." appears to conflict with Part (o), below. It should be able to do this temporarily, if its own investment is threatened. In fact, in order to be a prudent investor, it must.

Part (l). We should stipulate here that the analysis should

be in accordance with the reporting procedures set by the oversight committee. It must include social and economic analysis as well as financial. The standards for both need to be spelled out.

Part (m). See our comments in Part (d) above. Why shouldn't the bank also be allowed to make loans to such intermediaries? If so, how large can the loans be and must they be participation loans? What types of financial intermediaries are eligible? What criteria must they use in making the investments or loans? How small are these investments or loans (i.e., what is the meaning of "not . . . large enough")? Shall this be left up to the committee or be stated in the legislation?

Sec. 44.55.110. INITIAL DETERMINATIONS. Before beginning its financing operations, the policy board shall render a detailed report to the legislature which shall

(1) define the renewable resource industry sectors which need financing for expansion of existing projects or the development of new projects;

(2) define the size and nature of projects which are feasible for bank financing;

(3) determine specific projects which are feasible for bank and private financing;

(4) determine the availability of private investment capital for the projects it determines are feasible;

(5) forecast the capital requirements of the bank for the first three years of its operations.

Good, but this report should be sent to the executive branch's economic development staff and the legislative oversight committee for review and comment before it is sent to the legislature. Must the legislature approve it?

Sec. 44.55.120. REPORTS AND PUBLICATIONS. The policy board shall publish an annual report to the governor, legislature and the public. Each report shall include financial statements audited by independent outside auditors, a statement of the amount of money received by the bank from each source during the period covered, a statement of bank investments, a description of bank investment activity during the period covered by the report, an analysis of economic and other effects of investment decisions including, but not limited to, the effects on employment, income distribution, environment, health, social and other factors, and any other information the policy board believes would be of interest to the governor, the legislature and the public. The bank may also publish such other reports as it considers desirable to carry out its purpose.

Add ". . . according to the standards set by the legislative oversight committee. . . ."

Sec. 44.55.130. CONFLICT OF INTEREST. (a) Members of the policy board and investment committee are subject to the provisions of AS 39.50.

(b) Members of the investment committee shall disclose their financial interest in an investment proposal and disqualify themselves from voting on any investment proposal in which they have a financial interest. The committee may not make an investment in any project or enterprise in which officers of the bank have a financial interest. Members of the policy board are prohibited from all attempts to influence the investment committee, its president or staff in the discharge of their ordinary operating duties. All officers of the bank in the discharge of their offices owe their duty entirely to the bank and no other authority.

We aren't sure what the provisions of AS39.50 are, but we assume they are standard conflict of interest restrictions.

Why is the policy board prohibited from influencing the investment committee? The policy board shouldn't be allowed to influence individual investment decisions, but the essence of their role is to "influence" and guide the actions of the bank's investment committee and staff. See comments in July 11, 1977 report.

Sec. 44.55.140. POLITICAL ACTIVITIES. The members of the policy board, members of the investment committee, and officers and staff of the bank may not engage in partisan political activities. The resources of the bank may not be used to finance any partisan political activities.

Sec. 44.55.150. PUBLIC ACCESS TO INFORMATION. Information in the possession of the bank is a public record, except that information which discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises.

Sec. 44.55.160. TAX EXEMPTION. The bank is exempt from all taxes and assessments in the state. All security instruments issued by the bank, their transfer and their income are exempt from all taxes and assessments in the state.

These three sections are fine; no comments on them, at least not yet.

Sec. 44.55.170. DEFINITIONS. In this chapter

(1) "bank" or "development bank" means the Alaska Development Bank;

(2) "board" or "policy board" means the Alaska Development Bank Policy Board created by sec. 20 of this chapter;

(3) "business enterprise" means a private corporation, firm, partnership or sole proprietorship;

(4) "committee" or "investment committee" means the Alaska Development Bank Investment Committee created by sec. 50 of this chapter;

(5) "renewable resource project" or "project" means property of a business enterprise used in connection with

- (A) making, processing, preparing or producing in any manner goods or products of agriculture, fisheries, or forestry; or
- (B) outdoor recreation.

More definitions are needed. "Productive, private enterprise" (44.55.100 (c)): does this include manufacturing, commercial, service? If so, how are each of these terms defined? How are community development organizations defined? (See questions, above, 44.55.100 (d).) How about "investment grade securities" (44.55.100 (b)? "Applicable agencies" for the oversight committee could be defined here, too.

We must comb through the bill to make sure all other ambiguous terms are clearly defined. Fortunately, we have many other pieces of state legislation to draw on for good suggestions for many of the definitions that we'll need.

Sec. 4. AS 39.25.110 is amended by adding new paragraphs to read:

- (21) members of the policy board and investment committee, and the president, officers, and staff of the Alaska Development Bank;
- (22) members of the board of trustees, the executive director, and staff of the Alaska Permanent Fund Board of Trustees.

Sec. 5. AS 39.50.200(9) is amended by adding new subparagraphs to read:

- (NN) Alaska Development Bank Policy Board and Alaska Development Bank Investment Committee;
- (OO) Alaska Permanent Fund Board of Trustees.

Sec. 6. This Act takes effect immediately in accordance with AS 01.10.070(c).

Fine; no comment on these three sections now.

We suggest that two additional sections be added to the draft.

Addition A: High Noon Provision

(This section would apply to entire Permanent Fund and renewable resources fund, so it could be added right before or after Sec. 37.13.030.)

After 9.5 years, the operations of the entire Permanent Fund should be subject to a fundamental review by a joint executive-legislative commission. Half the members could be appointed by the Governor, the other half by the speaker of the house and the senate president, jointly. Total membership could be about fifteen. The odd member could be the Governor or some outsider on whom the governor and the legislative leaders agree.

This commission would begin its review 9.5 years after the Permanent Fund is created. It would review the Fund's achievements, how effectively it was implementing its purposes, and whether those original purposes were well chosen to benefit Alaskans. After six months, the commission would report to the governor and the legislature whether the Fund should continue operations and, if so, with what modifications. The commission's report would also be available to the public.

The commission would have a small staff funded by an appropriation, approved by the legislature, from the Permanent Fund's retained earnings.

It is critical that this "high-noon provision" be incorporated into the enabling legislation, so there is some mandatory and fundamental review process of the institution once it is fully operational and has a track record. We have found that many similar institutions have drifted away from their original purposes or outlived their original usefulness. Without some automatic trigger for a fundamental review, they continue indefinitely. Their management has a stake in preserving them and inertia is on their side. Even such a commission review may not be able to swing an existing institution back on course, but at least it has a fair chance of doing so.

Addition B: Technical Assistance Subsidiary

This provision may not be needed at all; but if it is, it could be added as a section of chapter 55, perhaps after section 44.55.110.

This would be a subsidiary to the Alaskan Development Bank to provide technical assistance to community development organizations eligible for funding from the Bank. These organizations probably need technical assistance to be able to screen and choose viable investments in their communities and do feasibility studies on them. The assistance could be in the form of convertible grants; i.e., grants that would be paid back, if an organization's financial performance reached a certain level of success.

It is critical that this subsidiary (a) is arms-length from the Bank itself, so that it is not involved in choosing the organizations or projects the bank invests in; and (b) is funded separately from the investment part of the Bank, with an appropriation from the general fund or from the Bank's retained earnings (approved by the legislature). It could revolve its grant funds, if and when they were paid back, reducing its need for annual appropriations.

The subsidiary could be structured similar to an institution now being designed in Massachusetts to provide technical assistance to community development corporations. In addition to offering convertible grants to organizations, it could support a network between them so techniques, new skills, and experience could be exchanged. The network could also facilitate joint ventures between community development organizations.

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EXECUTIVE SECRETARY

**STATE OF MINNESOTA
STATE BOARD OF INVESTMENT**

Room 105, MEA Building
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Saint Paul 55155

October 7, 1977

Members of the Legislature of the State of Minnesota:

— THE REPORT IN BRIEF —

The Minnesota State Board of Investment manages many State funds for various constituents. The trust funds, retirement funds, highway funds, endowment funds and the Treasurer's general account all involve individual statutes and policies. The paragraphs following this introduction detail the Board activities and investment objectives. A complete listing of all securities transactions during fiscal 1977 is found starting on page 51. A resume is provided as to the reasons for placing business with various securities firms.

WHAT IS THE SIZE OF THE MINNESOTA STATE FUNDS?

On June 30, 1977, Minnesota's total investment portfolio amounted to \$3,313,580,190.00. Of this amount, \$269,031,044.00 represented the permanent trust funds invested for the benefit of school students. Total retirement and welfare funds amounted to \$2,078,660,779.00. Many other individual accounts, including the Invested Treasurer's Cash Fund, three constitutionally dedicated highway funds, the proceeds from various bond sales, and numerous endowments and departmental accounts comprised the remaining \$965,888,367.00. It has been estimated that the State Board of Investment handles approximately 80 to 100 accounts, some amounting to hundreds of millions of dollars and others representing small bequests by individuals for educational or welfare institutions.

TO WHAT EXTENT ARE THE INVESTMENTS DIVERSIFIED?

Statutes require that the funds be invested appropriately for the needs of the individual accounts. For example, the Invested Treasurer's Cash Fund, the current tax receipts, is invested entirely in short-term money market instruments — obligations of the U.S. Treasury and agencies or short-term notes of corporations. Short-term interest rates have fluctuated widely, from over 12% in late 1974 to less than 5% during fiscal 1977.

The Permanent School Fund is held for perpetuity with the income allocated to educational needs. This fund may participate in equities to the extent of 20% of the book value; 40% may be invested in corporate bonds; and the balance is invested in U.S. Treasury and agency obligations.

The various retirement funds are invested in accordance with individual statutes. Equity participations generally vary from 40% to 50%. One account which meets specialized retirement needs is invested entirely in common stocks; others emphasize fixed-income securities; one is wholly invested in bonds. The investments authorized for these various funds, as well as the actual portfolios, are listed in the main body of this report, and illustrated by the following charts.

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

CHART I

. DISTRIBUTION BY ASSET TYPE

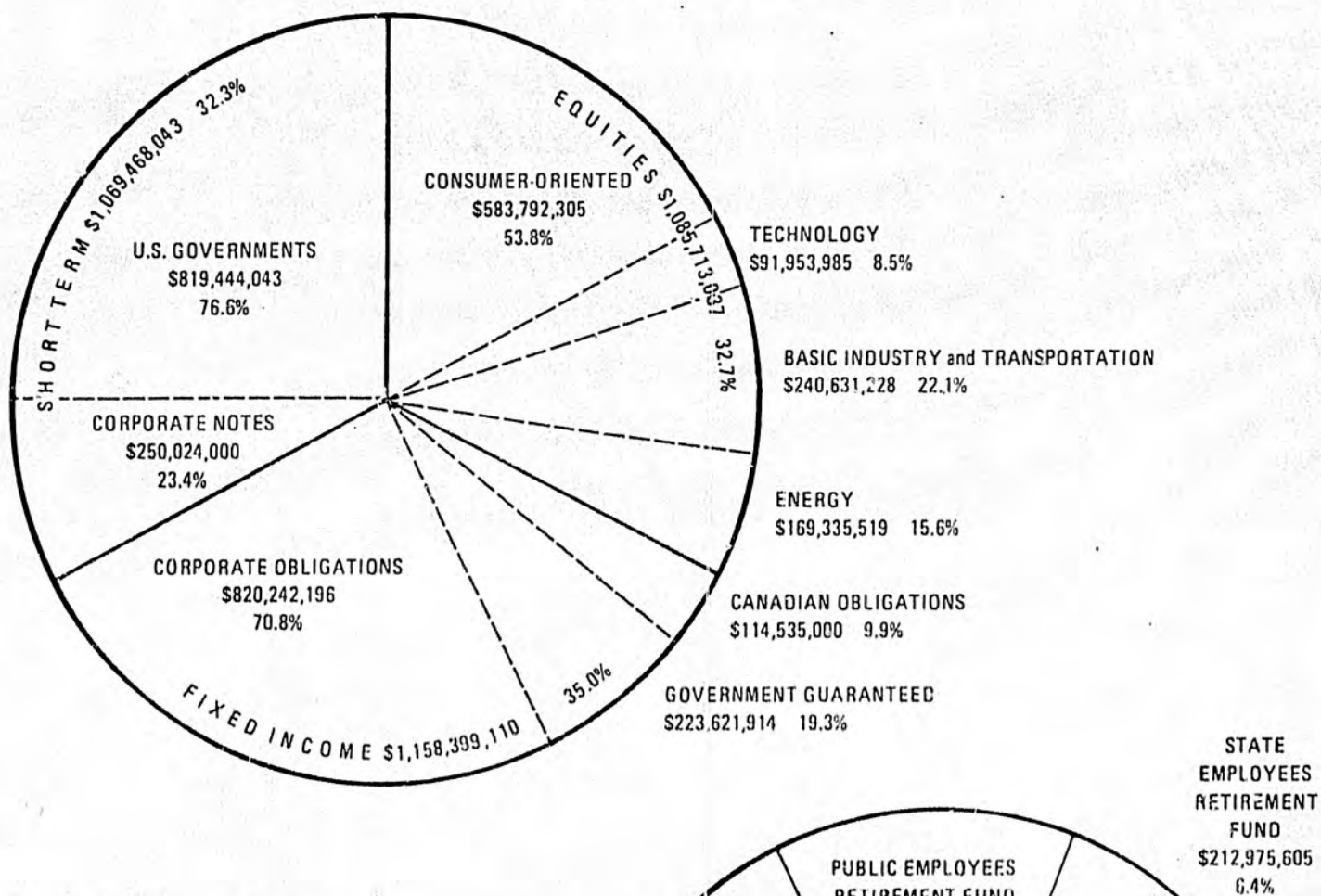


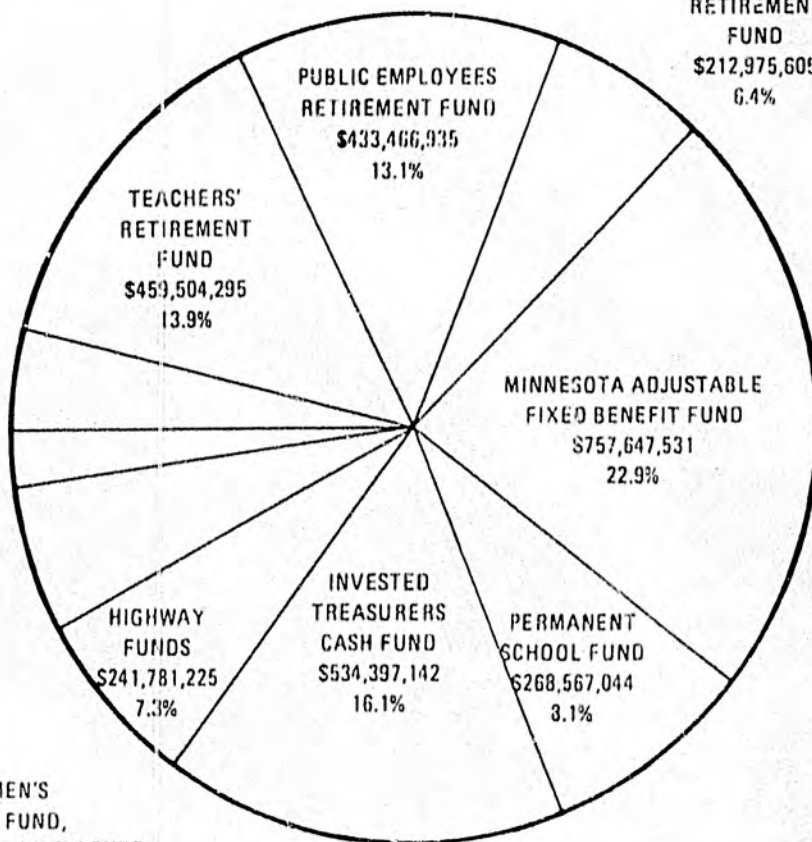
CHART II

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.

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:

<u>ACCOUNT</u>	<u>YIELD</u>
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 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%
Teacher's 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.)	

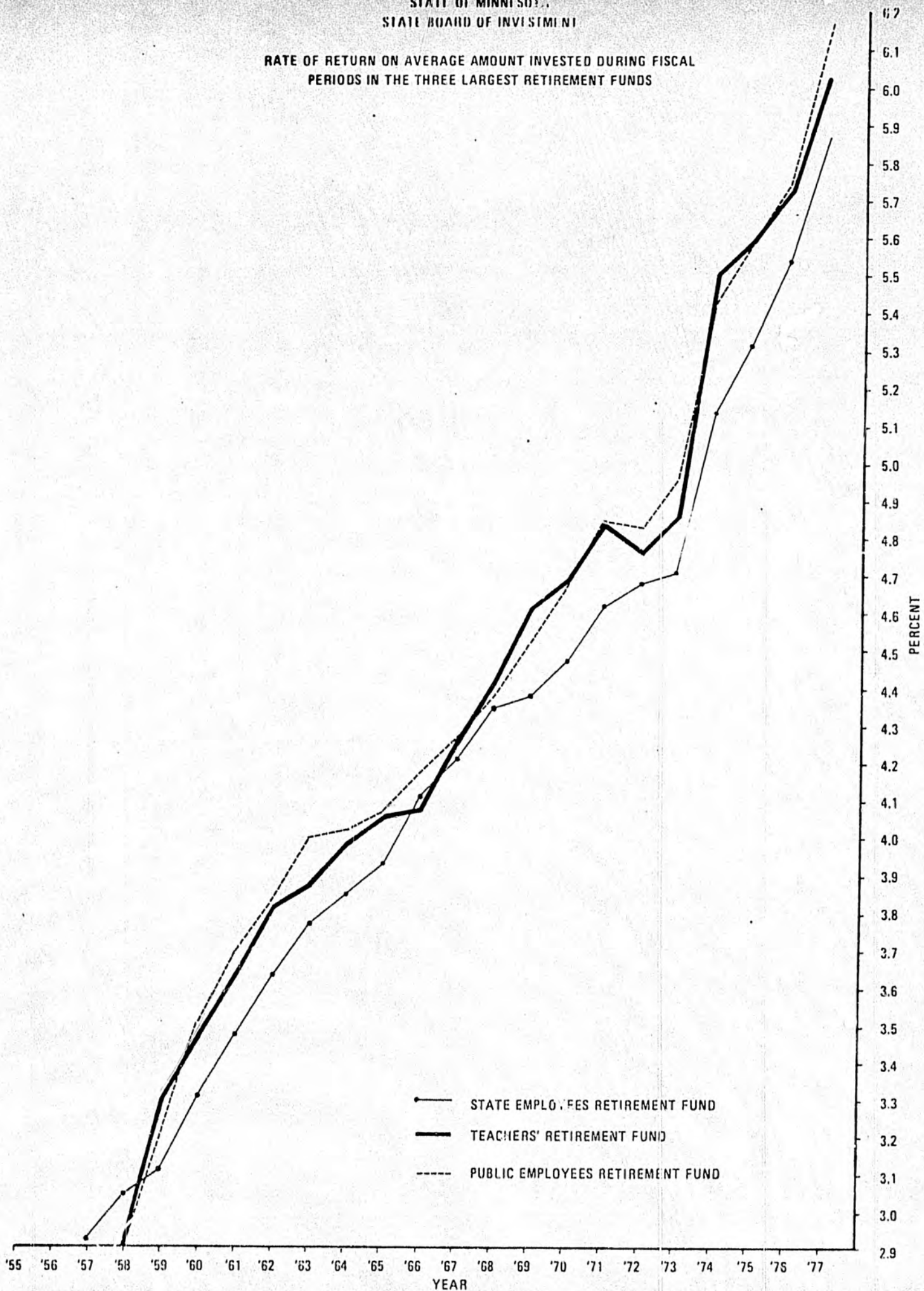
The 6.00% yield to the Adjustable Fixed Benefit Fund may be misleading in that pensions are based on a two-year moving average of "total return" (as to stock prices), often supplemented by legislative directives to increase pensions further. Pre-1973 retirees now receive pension benefits approximately 40-45% higher than originally authorized. Of this, 30% was mandated by legislation, including the use of "reserves" during the early 1970's, a portion of which was previously earned through the operation of the Fund, but remained as an integral portion of the account. The balance was due to the performance of the fund above the 5% actuarially-assumed rate.

Chart III illustrates, on a historical basis, the rate of return for the three largest retirement funds.

CHART III

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT

RATE OF RETURN ON AVERAGE AMOUNT INVESTED DURING FISCAL
PERIODS IN THE THREE LARGEST RETIREMENT FUNDS



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.

ACTIVITIES OF THE ADVISORY COUNCIL AND THE BOARD DURING FISCAL 1977

At meetings of both the Investment Advisory Council and the State Board of Investment "quality" was emphasized on all investment purchases. Some common stock sales were made when the Dow Jones Industrial Average was in the high 900's and over 1000. Cash flow into the retirement accounts totaled \$296,926,129.00. Of this amount, \$192,736,582.00 was placed in equity securities, the remaining amount was invested in governmental and corporate bonds. During the year, the Government National Mortgage Association mortgage-backed securities were more attractive from a yield standpoint than corporate debt obligations. Therefore, these securities were purchased in quantity as investments for the Permanent School Fund and various retirement accounts. The Board increased its investment activity as to securities in the "current" funds — represented by tax receipts, the highway funds, and various other accounts. Purchases and sales of U.S. Treasury obligations and short-term corporate notes amounted to \$10.72 billion during the fiscal year.

INVESTMENT BOARD POLICIES

The Investment Board took two major actions to emphasize its social, ethical, and governmental responsibilities during this past year. To minimize the possibility of governmental officials attempting to use private business associations as a means of selling securities to the State or in other ways acting in their self interest, the Board unanimously passed the following resolution on November 20, 1976:

"The Executive Secretary requests that purchases and sales of securities not be made through firms which authorize one or more brokers or other sales representatives — who are also holders of public office or officials in a position to influence legislation — to deal either with the accounts handled by the State Board of Investment or with other public funds in the State of Minnesota. The purpose of this policy is to avoid any possible conflict of interest between the Board and any person in an administrative or legislative position within state or local government who may profit through the placement of securities business by various public funds.

"This policy statement is not meant to include general, overall "year-end" bonuses or other payments made to the entire staff of a securities firm on the basis of total commissions received from all customers."

A copy of the resolution was sent to each investment dealer in Minnesota with whom the Investment Board conducts transactions. Each replied, signifying notice of the Board's position.

It is hoped that this resolution will eliminate the possibility of favoritism by any of the State's retirement accounts, including those managed by the State Board of Investment, through the placement of securities orders with officials in a position to influence legislation or administration.

After several years of discussion regarding the voting of proxies, the Board decided to cast its votes (which had been withheld since a corporate controversy in 1972) for or against management in accordance with a definite resolution regarding policy. The statement unanimously passed by the Board on March 25, 1977, is as follows:

RESOLUTION

STATEMENT OF GENERAL POLICY GUIDANCE REGARDING THE VOTING OF PROXIES BY THE STATE BOARD OF INVESTMENT

WHEREAS, the Investment Board recognizes that when performing their duty of investing the trust funds (pension and other funds) for which they are custodian, their primary responsibility is the prudent and responsible investment of the assets of the funds for the economic benefit of the beneficiaries of the funds; and

WHEREAS, it has become increasingly apparent that the standards of prudence and responsibility should be considered in light of this additional criterion; the social and environmental policies of the corporation in which the State owns or contemplates owning investment; and

WHEREAS, the investing in an enterprise which is flagrantly violating the law or stubbornly ignoring public policy constitutes implicit endorsement of those policies, and the Investment Board is of the opinion that government cannot in good faith support such activity without abrogating its duties to the citizens; and

WHEREAS, it is the Investment Board's Opinion that corporations which do not take the welfare of society and its members into consideration, jeopardize their own financial stability, and in today's world risk depreciation of their investment value,

NOW, THEREFORE, BE IT RESOLVED that the following guideline be adopted: The Investment Board shall not knowingly invest or maintain holdings in those corporations which are in flagrant violation of the law or in stubborn disregard of the social welfare of society, or do not recognize environmental responsibilities in their corporate actions, and are not taking reasonable steps to overcome the situation; and

BE IT FURTHER RESOLVED that the following measures be instituted in the matter:

- A. Policy Regarding Contemplated Investments: The Investment Board will not knowingly invest the trust funds or any other funds of the State in those corporations which are found in violation of the guidelines set forth above.
- B. Policy After Investment: In the case that a corporation in which the State owns securities is found to violate the guidelines above, all or some of the following actions will be taken:
 - 1. The Investment Board will discuss the problem with a representative of the corporation in question for the purpose of:
 - a. expressing the view that, as a shareholder, the State of Minnesota is opposed to such policies.
 - b. being informed as to the progress underway in ameliorating the problem.

2. If voting stock in such corporation is held by trust funds administered by the Investment Board, it may be voted in a manner calculated to ameliorate the existing problem.
 - a. While it is recognized that it is the Investment Board's responsibility to vote all stocks, the Investment Board may solicit recommendations from a sub-committee of the Board concerning the manner of voting stock of a corporation in violation of the guidelines set forth above.
 - b. When deemed necessary to protect the State's interest in the fund and in grave cases, the Investment Board may, upon recommendation of said sub-committee, institute procedures for a shareholder's proposal for the purpose of committing the corporation toward correcting the policy in question.
 3. In the instance that no recourse mentioned above is available and/or it is shown that the corporation is not taking steps reasonably calculated to ameliorate the problem in question within a reasonable period of time, the Investment Board may sell the State's investment in the corporation, if sale is consistent with sound investment policy for the affected funds.
-

Much of this statement is based on similar action by the State of Connecticut. The final sentence was added so as to minimize the possibility of action detrimental to investment portfolios through any possible "forced sales".

Governor Rudy Perpich has presided at all Board meetings since Governor Wendell R. Anderson resigned in December, 1976. The meetings have included a comprehensive review of State policies and securities transactions. The valuable advice from the Investment Advisory Council has been presented at Board meetings through the transaction listings and policy resumes by the Executive Secretary. A complete review of investment procedures follows.

* * * * *

The Advisory Council was formed in 1961, at the time the statutes first authorized equity investments in Minnesota's retirement funds. Most of the members originally appointed still serve on the Council. Their investment expertise, based on their responsibilities and work as leaders of Minnesota's investment community, is enhanced by this long period of service and their knowledge of retirement legislation and investment problems during the past 16 years. It is to be noted that, despite the unquestioned expertise of these members, their service is offered without compensation. Every member of this Council is, or has been, a portfolio manager or research director of a major Minnesota institution.

The accounts supervised by the State Board of Investment are divided into several groups, each governed by individual statutes and managed under different policies. The fund groupings, together with their approximate book valuations as of June 30, 1977, are as follows:

Invested Treasurer's Cash Fund, \$534.4 million. This fund includes tax receipts. Since 1969, prime quality corporate notes have been eligible for use in this account, in addition to U.S. Treasury and agency obligations maturing within three years.

Highway Funds, \$241.8 million. These accounts include U.S. Treasury obligations, debt instruments issued by U.S. Government agencies and short-term corporate notes due within 270 days of the time of purchase. The monies are used for the building and maintenance of highways, roads and streets throughout the state.

Miscellaneous Welfare, Departmental and Temporary Funds, \$186.9 million. These funds are invested according to the terms of particular statutes or applicable policies, primarily in U.S. Treasury securities. The major portion of these accounts consists of proceeds from bond sales; the monies will be used within a comparatively short period of time for state building needs. Also included are endowment funds and trust accounts held for various institutions. During the past three fiscal years, these funds have been increased through the investment of proceeds from securities issued by the Minnesota Housing Finance Agency. This investment total varies according to the needs of the agency in providing housing assistance to Minnesota residents.

Minnesota Adjustable Fixed Benefit Fund, \$757.6 million. This account, administered by the State Board of Investment, may include a maximum of 50% in stocks with the remainder in fixed-income securities. Retirement benefits are paid to all retired employees from the principal and earnings of this fund. A two-year average "total return" from this fund, in excess of the 5% actuarial assumption, has been used to augment pension benefits. Earnings and market appreciation during the early 1970's resulted in an increase in the pensions paid by the various participating retirement funds from 2% to 4% at the beginning of the 1972 calendar year; increases of 4½% to 5½% were paid at the beginning of the 1973 calendar year. The Legislature provided for an additional 25% increase which was paid in two installments — in July, 1973, and January, 1974. This adjustment was made at the time the statutes applicable to the retirement systems of Minnesota were modified to provide benefits based on salaries paid during the "five-high years" of employment. Because of this complete statutory revision, the reserves accumulated during the early 1970's were used to provide very substantial increases for those previously retired. Despite the lower stock and bond markets experienced in 1973-1975, recent portfolio results indicate additional pension increases in the near future. A one-time \$250 additional pension amount has been provided for the pre-1973 retirees and a general pension increase of up to 4% is possible for 1978.

Basic Retirement Funds, \$1,195.4 million. Six State-managed retirement funds, invested separately for employee groups, include U.S. Treasury, municipal and other governmental securities, U.S. Government-guaranteed obligations, corporate bonds, short-term corporate notes, and common stocks.

Supplemental Retirement Fund, \$79.5 million. This fund was established in 1967 for employees of the State College Board and State Junior College Board. The fund consists of three accounts, one of which may be invested up to 100% in equities, emphasizing potential growth with the accompanying market risks. The second includes long-term bonds and stocks oriented toward current income. The third — the Fixed Return Account — was initiated on July 1, 1974, and includes only bond investments; it provides an interest yield over a period of time commensurate with the average life and call protection inherent in the bonds purchased. Legislatures since 1969 have made one or more of these accounts available for use by police and fire fighter relief associations throughout the state, various county employees, those members of the State service who are "unclassified" and do not have the benefits of tenure, and State employees who wish to participate in a deferred income plan through which a portion of their salaries may be taxed at the rates in effect at the time of their retirement.

Minnesota Variable Annuity Fund, \$43.7 million. This fund was established by the 1969 Legislature and was made effective in early summer, 1970. The account now includes a diversified list of common stocks, some fixed-income instruments, and reserves of short-term securities. The participants are teachers who chose this type of program, which provides retirement benefits based on long-term investment performance. Because of the many advantages inherent in the new "five-high year" plan, the Variable Annuity may not now be opted by new teachers but is still available to present members of the State's educational system.

Trust Funds, \$269.0 million. The Permanent School Fund, invested for the benefit of the school children of Minnesota, includes U.S. Treasury securities and Government-guaranteed obligations, corporate bonds of long and short maturities, and common stocks. The Internal Improvement Land Fund includes only U.S. Treasury obligations.

Because of the differing investment policies applicable to these funds, a short review of the history and needs of the various accounts is provided along with a listing of securities.

INVESTED TREASURER'S CASH FUND

During late summer, 1974, it was evident that tax receipts were somewhat higher than the amounts necessary for immediate State expenditures. This "surplus" was invested in U.S. Treasury, government agency, and high quality corporate securities during late 1974 and early 1975, resulting in substantial investment income for fiscal 1975 and 1976. As this "surplus" was identified in late 1974, securities in an amount exceeding \$100 million were extended in maturity from a few days to a range from nine months to three years. Investments at fiscal year end 1975 totaled \$607.8 million and declined to \$580.9 million on June 30, 1976. By June 30, 1977, the fund further declined to \$534.4 million; nevertheless, a substantial surplus was still evident in the Invested Treasurer's Cash Fund. Earnings of the State's "current" accounts have shown a wide variance due to differences in both the amount invested and in short-term interest rates. During recent years, such earnings have varied from \$4.2 million in fiscal 1972 to a high of \$37.5 million in fiscal 1975. Earnings declined to \$35.0 million for fiscal 1976 and \$24.8 million for fiscal 1977. The declines were due both to somewhat lesser fund totals throughout the year and lower short-term interest rates.

Although it is very difficult to estimate average yields in this account because of variances in the amount invested, yields earned by this fund approximated 8.68% in fiscal 1975, 6.83% in fiscal 1976, and 6.06% in fiscal 1977.

Under the terms of 1973 legislation, the investment department buys and sells according to oral certification of cash available by the staff of the State Treasurer and the Department of Finance. In recent years, there has been an increase in the use of repurchase agreements and of short-term instruments so that funds may earn money over the shortest of periods — sometimes one day or over a week-end. Statutes require that securities in the Invested Treasurer's Cash account extend no longer than three years in maturity.

THE HIGHWAY FUNDS

The funds held for street, road and highway uses in Minnesota may be invested in bonds eligible for purchase by the Permanent School Fund and commercial paper used in the retirement accounts. At present, these funds own short-term U.S. Treasury and agency securities, repurchase agreements backed by U.S. Treasury or agency obligations, short-term corporate notes and securities guaranteed by the U.S. Government through the Government National Mortgage Association. The Commissioner of Transportation certifies the amounts not needed in the immediate future; these sums are invested in maturities approximating the expected disbursement schedule of the Transportation Department. The program includes considerable reinvestment and adjustment of maturity schedules because of the time necessary for planning, purchase of right of way and construction of highways. The amount of highway funds invested fluctuates throughout each fiscal year. They varied from a low of \$134.0 million in fiscal 1975 to a high of \$208.5 million in fiscal 1974 and from \$183.5 million to \$241.8 million during fiscal 1977.

The earnings from these accounts increased from \$1.7 million in fiscal 1959 to \$13.8 million in fiscal 1974. Earnings declined to \$12.5 million in fiscal 1975, and \$11.0 million in fiscal 1976. They totaled \$12.1 million in fiscal 1977.

The income earned from these highway fund investments benefits the counties and municipalities in Minnesota directly through the County State Aid Highway Fund and the Municipal State Aid Street Fund. Earnings from the Trunk Highway Fund are used for the overall state highway program.

STATE COLLEGES, WELFARE AND DEPARTMENT OF CORRECTIONS

The State Board of Investment is responsible for the investment of individual and pooled endowment accounts applicable to scholarships and the support of state institutions, certain funds designated for welfare purposes, and patient and inmate accounts in both welfare and correctional institutions. Pur-

chases are limited to U.S. Treasury obligations, except in instances where individual gifts or bequests provide for the use of other investments.

* * * * *

Schedule I reviews the short-term corporate notes and the U.S. Government and agency obligations held by the Invested Treasurer's Cash Fund, the highway funds, and the miscellaneous departmental funds on June 30, 1977. As has been indicated in previous paragraphs, the investment department has substantially increased its activity in the use of these short term debt obligations. In order to maximize yields and, thereby, increase the income to the accounts. The money market securities division of the investment department supervised short term securities totaling over \$965 million on June 30, 1977. In addition to those listed on Schedule I, there were substantial short-term investments held by the retirement funds and the Permanent School Fund.

THE MINNESOTA ADJUSTABLE FIXED BENEFIT FUND

The Minnesota Adjustable Fixed Benefit Fund includes the assets representing the reserves from which pensions are paid to individuals who have retired; these recipients are members of various public funds including the six basic retirement funds managed by the State Board of Investment and the fund administered by the Municipal Employees Retirement Board of Minneapolis. There has been a substantial revision in this portfolio during the past five years because of the many different holdings transferred into the account during the 1969-70 fiscal year. Although substantial reserves were accumulated to make possible the continuation of a high level of pensions during years of stock price downturn, these reserves were distributed to retirees during 1974 to compensate partially for the higher pensions now being paid under the "five-high year" plan. Because the 1973 and 1974 downturn in the stock market coincided with a higher rate of inflation, there is some impetus to use the increased yield generated through the price appreciation of both bonds and stocks to provide a basis for adjusting pensions as a compensation for inflationary pressures. In this way, the employer group — the State, municipality, county or school board — would face the risks of long term market fluctuations, whereas the individual would receive benefits more dependent upon actual changes in the cost of living. Concern has been expressed, however, that this account would lose its "complete funding" and become less sound from an actuarial standpoint if long-term benefit improvements were based on the cost of living rather than on actual investment performance. Favorable income gains were apparent during the past two years. It is probable that these increases will justify further benefit improvements in early 1978.

Under the provisions of 1971 legislation, the net return to the Minnesota Adjustable Fixed Benefit Fund was determined on the basis of income and an average of the cost-to-market relationships of stocks taken bi monthly over a two year period. This interpretation of investment results meant that a substantial contribution toward the cost of the increased pensions in the State-managed funds was met from this "total return" during the period through 1973; the portion attributable to the Municipal Employees Retirement Board of Minneapolis was used toward higher pensions and increased reserves. In recent years, whenever an increase was granted, the Legislature established a "new base" below which pensions may not decline.

Common stocks may comprise up to 50% of this portfolio, with convertible debentures limited to an additional 10%. On June 30, 1977, the percentage committed to common stock investments, on a net, original cost basis, was 47.27% of the portfolio. This fund increased in value by \$94.6 million during the fiscal year.

THE BASIC RETIREMENT FUNDS

The State Investment Board manages six accumulation retirement accounts which include both employer and employee contributions during the employee's working period; at the time of retirement, the assets are transferred to the Adjustable Fixed Benefit Fund. Common stocks may total 50% of these accumulation accounts. At the time of this writing, equities comprise approximately 49% of each fund on

a net original cost basis, with the remainder invested in fixed-income securities of the U.S. Government, its agencies, Canadian governmental units, and corporations.

The 1969 Legislature made it possible for each fund to include a small portion of unrealized market gains in the income portion of the account through a procedure which applies after the market valuations of equities exceed the original cost by 15% for six consecutive two-month periods – or one year. At such a time, an amount equal to 3% of the cost of the equities could be added to the retirement fund for actuarial and accounting purposes. The first such increase occurred on October 31, 1972; this was followed by a second increase on December 31, 1972. Because of the probability that such market increases would not continue, it was decided that each of these increases would be added to the income accounts in three equal installments during three successive fiscal years. The first increase applied during fiscal 1972, 1973 and 1974, while the second increase was applicable in fiscal 1973, 1974 and 1975.

The 1973 Legislature modified the law to provide for such an increase or decrease whenever the market valuation of equities varied from the revised cost figure by 10% for six consecutive two-month periods. The market downturn during 1973 and 1974 resulted in the first 3% downward revision on February 28, 1975. A second decrease applied to several of the retirement funds on April 30, 1975. Because the 1973 statute authorized the computation of such yield declines over a five-year period, it is anticipated that the net effect of such calculations will be minimal when computing fund yield performance on a long-term basis.

By early calendar 1975, because of rising stock prices, it was evident that there would be no further downward adjustment in the statutory valuation of equities for an extended period. Schedule III indicates the net yield accruing to the three largest basic retirement funds during the period 1957 through 1977. During these 21 years, the yield has increased from less than 3% to approximately 6%. Footnotes 14 and 15, following Schedule III, explain the effect of the statute relating equity valuations to the stock market.

Schedule IV lists the securities held in the largest basic retirement funds on June 30, 1977. Because of the identical purpose for which these accounts are established, it has been investment department policy to use the same securities in each account, whenever funds have been available. Differing flows of new money, however, have resulted in varying cost and a somewhat different overall composition of these three accounts.

The Public Employees Police & Fire Fund was established during the early 1960's in order to provide an investment vehicle for the smaller police and fire fighter organizations throughout the state as well as for larger organizations which chose to participate in this retirement plan. Schedule V includes the fixed-income securities in this account on June 30, 1977, and Schedule VII lists the equity portfolio. This account showed a sizable increase in value – from \$57.5 million to \$66.6 million – during the past fiscal year.

The Highway Patrolmen's Retirement Fund resulted from the merger in 1969 of the State Police Officers' Retirement Association and the Highway Patrolmen's Retirement Association. Because the two previous accounts were quite small and had limited and unpredictable flows of new money, the new merged account appears to be more manageable; this has benefited both groups. Schedule VI includes the fixed-income securities in this account on June 30, 1977, and Schedule VII lists the equity portfolio.

State, municipal and school district bonds comprised over 71.0% of total investments in these retirement funds as recently as the late 1950's; such holdings declined to 0.3% by June 30, 1977. This decline was due to the sale and maturity of bonds, as well as the placement of all new money in other types of securities. Because most of the remaining "municipals" consist of odd lots that carry either no rating or a low rating by the services, it is presumed that a large portion of these bonds must be held to maturity.

The Judges Retirement Fund was established in 1974; no permanent investments were purchased until the 1975 fiscal year. Because of statutory limitations, the percentage of funds invested in equities may be increased by only 5% of total investments each year. During the 1977 fiscal period, the fund was subject to a 15% equity limitation. Schedule VIII lists the investments as of June 30, 1977.

THE MINNESOTA SUPPLEMENTAL RETIREMENT FUND

The three accounts of the Minnesota Supplemental Retirement Fund are invested in accordance with three different philosophies in order to meet the individual needs and desires of the participants. The income share account, limited to 50% in common stock, consists primarily of high quality corporate bonds and emphasizes comparatively higher yielding equities of well-known companies. The growth share account, on the other hand, may participate in the equity market up to 100% of total assets and includes stocks of companies offering a low current yield and representing firms which may have significant long term potential from the standpoint of earnings growth. These stocks tend to fluctuate in price to a far greater extent than those in the income share account. The fixed return account, invested entirely in bonds, is not subject to market fluctuations. The amounts contributed each year into this account, however, will earn varying interest rates depending upon the existing yield structure.

The growth share and income share accounts were established on a unit basis on October 1, 1967, with each unit worth \$10.00 on that date; due to a two-for-one split on June 30, 1973, the current units had a net worth of \$5.00 on inception date. A summary of the market valuations experienced by the two accounts since the beginning of the program in 1967 is as follows (as adjusted for the two-for-one split):

	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 (July)
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. — June '77	8.84 (June)	8.51 (Mar.)	5.36 (June)	5.07 (May)

Schedule IX lists the assets in the income share account on June 30, 1977. Both equity and bond valuations have declined since calendar year-end 1976. Nevertheless, the stocks in the income share account have held their value particularly well due to the market's new emphasis on "yield securities." The comparative "safety" of this portfolio, due to the type of stock used and the diversification between fixed income and equity securities, has resulted in its use by most retirement organizations eligible to participate in the Supplemental Retirement Fund. It is anticipated that the results, over a period of years, will never be spectacular, but will tend to be satisfactory from the standpoints of safety, yield and long-term growth.

Schedule X consists of a listing of the securities in the growth share account on June 30, 1977. Under the terms of the Prospectus for the growth share account, it is a policy of the department to maintain a steady investment in stocks of companies which evidence growth potential. It has also been an established policy to avoid extreme "buy" or "sell" programs which could result in a high cash position for a brief period of time. Such a program can be disastrous if the market makes unanticipated moves. This means that the account is in a reasonably fully-invested position at all times and will continue to be subject to significant changes in market values, particularly during periods of stock market increases, as in 1972, and during times of market uncertainty and decline, such as during 1973 and 1974. Although the securities in this account have shown market gains during the recovery that began in 1975, these stocks have not experienced the acceptance evidenced by the higher yielding shares in the income share account.

The assets in the fixed return account, established on July 1, 1974, are listed in Schedule XI. Unit valuations do not change; they are arbitrarily set at \$5.00 per unit. The return from this fund is based entirely upon the rate of interest received from the bonds purchased in the account.

Under the provisions of the applicable statutes, the Investment Board establishes an "indicated rate" of return for the coming fiscal year on July 1. On July 1, 1974, this rate was set at 8.50%. The bonds purchased during the fiscal period provided a yield somewhat higher than that anticipated. The participants — then consisting only of individual retirement funds — received 9.10% on all contributions made during the 1975 fiscal year. During fiscal 1976, the plan was broadened in scope to include individuals who wish to participate in a fixed return investment under various retirement or deferred income plans. The return to individual participants was set at 8.9% for those contributions received during the 1976 fiscal year; in July, 1977, the return for individuals was established at 8.3% for 1977 fiscal contributions.

The amounts received from the various retirement organizations were invested at a rate which may, presumably, be applicable for the year of contribution plus an additional nine years. This extended period of "guaranteed" income is due primarily to the "call" and "refund" protection received on the bonds purchased. The participating retirement organizations received 8.8% for a ten-year period on those contributions received during fiscal 1976 and 8.1% for those received in fiscal 1977. The slightly lower rate attributed to the institutional participants is due to the fact that a portion of the income will be set aside in the form of reserves to provide for any possible future diminution of income. Because of the uncertainties in the economy, an assumed rate for the 1978 fiscal year has been established at 7.0%. Participants will be paid a higher rate of return if the securities purchased during the coming year warrant such payments.

There is a substantial amount of interest in the fixed-return account because of the investment uncertainties made evident by the 1973-74 decline in both the stock and bond markets. The idea of a definite interest earnings — with no dependence upon stock or bond market fluctuations — apparently has great appeal to many fund participants. Because of the response to this new account, the assets increased from \$4.2 million to \$8.6 million during the 1977 fiscal year. The significant influx of contributions to this account has resulted in considerable reserves being held in short-term investments. These monies will be placed in securities of longer maturity for which commitments are being made. It is the intent of the investment department that over 40 issues of fixed-income securities comprise the account, so that the fund may be assured of adequate industry diversification. It is emphasized that the bonds purchased are concentrated in the AAA and AA quality levels. This will add to the safety applicable to the fund contributions and should minimize the chance of losses.

MINNESOTA VARIABLE ANNUITY FUND

The Minnesota Variable Annuity Fund was advocated prior to the adoption of the "five-high year" plan by the Teachers Retirement Association. The participants received a net return of 5.4500% in fiscal 1971, 9.1670% for fiscal 1972, and 6.2393% for fiscal 1973. During fiscal 1974, the participants suffered a decline of 4.1478%, followed by another decrease of 17.9638% during fiscal 1975, and a decline of 0.0101% for the fiscal year ended June 30, 1976. The laws applicable to valuations and computation of net return dictate that a two-year period be used in calculating increases or decreases to the fund. As has previously been indicated in this report, the stock and bond market "lows" of 1974 were used in these calculations through fiscal 1976. Because the two most recent fiscal years have evidenced higher stock prices, the 1977 fiscal results showed an increase of 15.946%. Cost-to-market ratios already applicable to the June, 1978, computations indicate a probable minor positive net return for the next fiscal year.

Although most variable plans are based entirely on participation in equity investments, the widespread use of this fund and the fluctuations in the stock market since the account's inception have caused the investment department to adopt a policy which includes approximately 25% to 35% in fixed-income investments.

The option for the Variable Annuity was terminated during fiscal 1974. Therefore, the fund will continue only as an investment medium for those teachers who have already chosen to have a portion of their retirement monies invested in accordance with the Variable Annuity concept. The securities in this fund on June 30, 1977, are listed on Schedule XII.

THE PERMANENT TRUST FUNDS

The State's permanent trust funds showed their greatest rate of growth during the 1940's and 1950's. Until a constitutional amendment was passed in 1956, half of the receipts from the iron ore occupation tax accrued to the principal of the permanent trust funds, which were invested for the benefit of the schools, the University of Minnesota and other state institutions. In recent years, the entire receipts from this tax have been applied directly toward meeting the State's current educational needs.

During the years immediately following the adoption of the constitutional amendment, long-term low-coupon U.S. Treasury bonds were sold from the Permanent School Fund, with the proceeds being invested in higher-yielding corporate securities. In accordance with this amendment, corporate bonds were purchased to the approximate maximum of 40% of the fund. During the past several years, however, mortgage-backed securities guaranteed by the U.S. Government and issued through private organizations in cooperation with the Government National Mortgage Association have offered a yield comparable to, or greater than, that received from corporate bonds of similar quality. These mortgage-backed securities were purchased during the summer months of 1974 at yields as high as 10.14%. Because of the lack of inflow of new cash into this fund, the gradual return of principal offered by this type of investment has been very attractive; we have thus been able to maintain a cash flow for current investment needs.

Arrangements between the State Board of Investment and the Minnesota Banker's Association have resulted in a program through which the Permanent School Fund has purchased those portions of Small Business Administration loans which are guaranteed by the United States Government. These loans are arranged through various banks in Minnesota and are "pooled" through the facilities of the Summit State Bank of Richfield. This program, initiated through the cooperation of the Governor, the State Treasurer and the Minnesota Banker's Association, appears to offer a unique opportunity to achieve a satisfactory yield and an adequate cash flow to this permanent trust fund. It also marks a unique opportunity for following prudent investment principles in achieving an appropriate yield, while aiding the development of businesses in Minnesota.

Because of the comparative attractiveness of United States Government-backed securities, the corporate bond portfolio has been reduced to 28.9% of the book value of the Permanent School Fund; it is anticipated that the holdings of high-quality debt securities will be increased as more appropriate yield spreads become prevalent. United States Government and Government-guaranteed obligations constitute 47.3% of the book value of this account; common stock investments are maintained near the 20% limit.

Schedule XIII indicates that the investment changes have resulted in an increase in net yield from 2.68% during the late 1950's to 5.63% during the 1977 fiscal year. A marked increase in return during the past six years was possible because of the use of United States Government-guaranteed obligations. A portion of the income will be transferred on an annual basis to the principal of the account to replenish the book losses taken through the sale of long-term United States Treasury and corporate fixed-income obligations during the past 16 years.

Schedule XIV lists the securities in the Permanent School Fund on June 30, 1977.

* * * * *

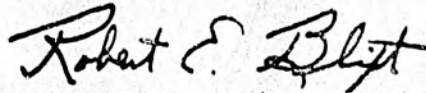
A review of policies concerning the placement of business, together with a summary of transactions completed during the fiscal year from July 1, 1976, through June 30, 1977, follows the schedules described above.

* * * * *

The investment results achieved in fiscal 1976 and 1977 have been satisfactory. The cooperation and advice received from the members of the State Board of Investment and the Advisory Council on State Trust Funds played a most important part in achieving these results. It is now evident that the funds benefited considerably through the significant purchase program completed during late 1974 and 1975. Considering the size of the fund and varying interest rates, earnings of the Invested Treasurer's Cash Fund have been increased due to the attention given to current bank balances by the Treasurer's and Finance offices.

The many Minnesota investment accounts must be managed under widely different investment policies and procedures. The Advisory Council has been of great help in determining the objectives for the various funds. It is hoped that each of these investment accounts may be managed for the lasting benefit to all of Minnesota — both the retirement beneficiaries and the State's citizens.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Robert E. Blixt". The signature is fluid and cursive, with the first name "Robert" and last name "Blixt" clearly distinguishable.

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

SCHEDULE I

STATE OF MINNESOTA STATE BOARD OF INVESTMENT

SHORT-TERM CORPORATE NOTES AND U.S. GOVERNMENT OBLIGATIONS HELD BY VARIOUS FUNDS June 30, 1977

Security	Invested Treasurer's Cash Fund	HIGHWAY FUNDS			Miscellaneous Departmental Funds
		Trunk	County State Aid	Municipal State Aid	
SHORT-TERM CORPORATE NOTES					
Maturity less than 30 days	\$103,500,000	\$ 16,166,000	\$17,861,000	\$ 6,056,000	-
Maturity 30-270 days	54,000,000	15,700,000	10,350,000	7,135,000	-
Total Short-Term Corporate Notes	\$157,500,000	\$ 31,866,000	\$28,211,000	\$13,191,000	-
U.S. TREASURY SECURITIES AND GOVERNMENT AGENCY SECURITIES					
Bills					
Maturity less than 30 days	-	\$ 2,400,000	\$ 425,000	\$ 1,500,000	-
Maturity 30-90 days	\$ 1,225,000	-	1,700,000	-	\$ 3,950,000
Maturity 91-180 days	-	2,050,000	2,050,000	-	76,915,000
Maturity 6-12 Months	-	-	-	-	575,000
Total Bills	\$ 1,225,000	\$ 2,400,000	\$ 3,675,000	\$ 3,560,000	\$ 31,390,000
Repurchase Agreements					
Maturity less than 30 days	\$ 67,100,000	\$ 19,500,000	\$ 6,967,000	\$ 300,000	\$ 20,081,000
Maturity 30-45 days	-	5,200,000	-	-	500,000
Total Repurchase Agreements	\$ 67,100,000	\$ 24,700,000	\$ 6,967,000	\$ 300,000	\$ 20,581,000
Government Agency Securities					
Maturity less than 30 days	\$ 66,100,000	\$ 4,000,000	\$ 7,000,000	\$ 4,000,000	\$ 14,000,000
Maturity 30-90 days	8,800,000	12,400,000	6,400,000	4,000,000	28,270,000
Maturity 91-180 days	119,775,000	2,500,000	9,000,000	7,000,000	32,000,000
Maturity 6 months-1 year	23,000,000	5,000,000	8,000,000	7,950,000	25,000,000
Maturity over 1 year	8,000,000	4,000,000	2,000,000	2,000,000	20,035,000
Total Government Agency Securities	\$225,675,000	\$ 27,900,000	\$32,400,000	\$24,950,000	\$119,388,000
Federal Housing Administration Certificates					
8.00% River Crossing Apartments due 11-30-78	\$ 647,142	-	-	-	-
Total Federal Housing Administration Certificates	\$ 647,142	-	-	-	-
Government National Mortgage Association, Guaranteed Mortgage Backed Securities					
6.50% IDS Mortgage Corp. due 9-15-88 + 1168	-	\$ 125,000	-	-	-
6.50% IDS Mortgage Corp. due 10-15-88 + 1169	-	300,000	-	-	-
6.50% IDS Mortgage Corp. due 5-15-90 + 2290	-	1,075,000	-	-	-
6.50% IDS Mortgage Corp. due 6-15-90 + 2291	-	1,275,000	-	-	-
6.50% IDS Mortgage Corp. due 7-15-90 + 2424	-	-	\$ 1,325,000	-	-
Total Government National Mortgage Association, Guaranteed Mortgage Backed Securities	-	\$ 2,775,000	\$ 1,325,000	-	-
U.S. Government-Guaranteed Obligations					
6.25% Export-Import bank due 8-2-77	-	\$ 5,000,000	\$ 1,000,000	\$ 1,000,000	-
6.875% FHA Insured Notes due 8-31-77	-	4,984,552	998,155	1,498,518	-
6.45% SECO Maritime, Inc., due 12-31-77	-	1,500,000	500,000	500,000	-
Total U.S. Government-Guaranteed Obligations	-	\$ 11,484,552	\$ 2,498,155	\$ 2,998,518	-
U.S. Treasury Notes and Bonds					
8.75% Notes due 8-31-77	\$ 5,000,000	-	-	-	-
8.125% Notes due 9-30-77	5,000,000	-	\$ 3,000,000	\$ 1,200,000	-
7.25% Notes due 12-31-77	3,000,000	-	1,670,000	1,000,000	\$ 3,015,000
6.375% Notes due 1-31-78	5,000,000	-	-	-	-
6.25% Notes due 2-15-78	-	-	-	-	123,000
7.125% Notes due 5-15-78	-	-	-	-	60,000
7.875% Notes due 5-15-78	15,000,000	-	-	-	40,000
7.125% Notes due 5-31-78	6,000,000	-	-	-	-
Total Maturities less than 1 year	\$ 39,000,000	-	\$ 4,670,000	\$ 2,200,000	\$ 3,268,000
5.875% Notes due 7-31-78	\$ 8,000,000	-	-	-	-
6.625% Notes due 8-31-78	5,000,000	-	-	-	-
6.25% Notes due 9-30-78	-	-	\$ 660,000	-	-
5.875% Notes due 10-31-78	-	-	-	-	\$ 35,000
6.00% Notes due 11-15-78	-	\$ 2,000,000	3,000,000	\$ 1,000,000	77,000
5.25% Notes due 12-31-78	-	-	-	-	15,000
5.875% Notes due 2-28-79	10,000,000	-	-	-	-
6.00% Notes due 3-31-79	7,250,000	-	-	-	215,000
6.125% Notes due 5-31-79	-	-	-	-	11,000,000
6.875% Notes due 8-15-79	8,000,000	2,000,000	2,000,000	3,000,000	-
6.25% Notes due 8-15-79	-	-	-	-	196,000
7.00% Notes due 11-15-79	-	-	-	-	13,000
6.50% Notes due 2-15-80	5,000,000	-	-	-	40,000
4.00% Notes due 2-15-80	-	-	-	-	28,500
6.875% Notes due 5-15-80	-	-	-	-	2,000
Total Maturities 1-3 years	\$ 43,250,000	\$ 4,000,000	\$ 5,660,000	\$ 4,000,000	\$ 11,621,500

Security	Invested Treasurer's Cash Fund	HIGHWAY FUNDS			Miscellaneous Departmental Funds
		Trunk	County State Aid	Municipal State Aid	
9.00% Notes due 8-15-80	-	-	-	-	\$ 49,000
3.50% Bonds due 11-15-80	-	-	-	-	5,000
7.25% Notes due 11-15-81	-	-	-	-	1,000
6.375% Bonds due 7-15-87	-	-	-	-	9,000
Total Maturities 3-5 years	-	-	-	-	\$ 70,000
7.875% Notes due 11-15-82	-	-	-	-	\$ 34,000
8.00% Notes due 2-15-83	-	-	-	-	2,000
3.25% Bonds due 6-15-83	-	-	-	-	50,500
6.375% Bonds due 8-15-84	-	-	-	-	74,000
4.25% Bonds due 5-15-85	-	-	-	-	19,000
7.875% Notes due 5-15-86	-	-	-	-	245,000
8.00% Notes due 8-15-86	-	-	-	-	90,000
Total Maturities 5-10 years	-	-	-	-	\$ 514,500
3.50% Bonds due 11-15-98	-	-	-	-	\$ 50,000
Total Maturities more than 10 years	-	-	-	-	\$ 50,000
Total U.S. Treasury Notes and Bonds	\$ 82,250,000	\$ 4,000,000	\$10,290,000	\$ 6,200,000	\$ 15,524,000
Total U.S. Treasury, Government Agency, and Government Guaranteed Securities	\$376,897,142	\$ 73,349,552	\$57,155,155	\$38,008,518	\$186,883,000
Total Short-Term Corporate Notes and U.S. Government Obligations Held By Various Funds	\$534,397,142	\$105,215,552	\$25,356,155	\$51,199,518	\$186,883,000

Note: "The above mentioned short-term corporate notes and U.S. Government obligations total \$563,961,367.00. If the short-term corporate notes and U.S. Treasury and agency security investments owned by the retirement funds and Permanent School Fund are included, a total of \$1,056,940,367.00 face value of investment securities were managed by the Money Market Securities Division of the Investment Department on June 30, 1977."

SCHEDULE II

MINNESOTA ADJUSTABLE FIXED BENEFIT FUND

June 30, 1977

RESUME OF ASSETS IN ACCOUNT

CASH CERTIFIED FOR INVESTMENT	\$ 74,419.45
MONEY MARKET SECURITIES	
Bills	
Maturities up to 28 days	\$ 3,435,000.00
Repurchase Agreements	
Maturities up to 7 days	\$ 20,000,000.00
Short-Term Corporate Notes	
Maturities up to 153 days	\$ 12,263,000.00
UNITED STATES GOVERNMENT-GUARANTEED OBLIGATIONS (See Listing Below)	\$ 56,953,927.70
UNITED STATES GOVERNMENT AGENCY OBLIGATIONS (See Listing Below)	\$ 3,000,000.00
CANADIAN GOVERNMENTAL OBLIGATIONS (See Listing Below)	\$ 27,760,000.00
CORPORATE BOND OBLIGATIONS (See Listing Below)	\$261,629,876.75
CONVERTIBLE DEBENTURES (See Listing Below)	\$ 5,294,275.00
DEFERRED YIELD ADJUSTMENT ACCOUNT*	\$ 5,416,754.24
COMMON STOCKS (See Listing Below)	\$361,626,177.57
TOTAL ASSETS IN ACCOUNT	\$757,647,530.87
(For actuarial purposes, not indicative of true market value)	

*This account signifies an amount equal to the discount at which fixed income securities have been sold at least 1% amortized cost; the entire amount is being accumulated over a term equal to the average maturity of the bonds sold.

Note: Bond investments are listed at face value; convertible debentures and common stocks are listed at market value.

SCHEDULE II continued

UNITED STATES GOVERNMENT GUARANTEED AND AGENCY BONDS, CANADIAN GOVERNMENTAL OBLIGATIONS AND CORPORATE BOND HOLDINGS June 30, 1977

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (000) (b)
UNITED STATES GOVERNMENT GUARANTEED OBLIGATIONS					
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION, GUARANTEED MORTGAGE-BACKED SECURITIES					
Advance Mortgage Corp.	Mtg. Backed Cert.	02-15-2006	8.500	8.666	\$ 1,880
American Mortgage Co.	Mtg. Backed Cert.	07-15-2006	8.000	8.173	963
Atlantic Mortgage Corp.	Mtg. Backed Cert.	09-15-2001	8.500	9.695	990
Baker Mortgage Co.	Mtg. Backed Cert.	08-15-2006	8.000	8.173	993
Bancro Mortgage Co.	Mtg. Backed Cert.	09-15-2006	8.250	8.491	1,830
Barnes, James I.	Mtg. Backed Cert.	09-15-2001	8.000	9.684	879
Calif. Federal Mortgage	Mtg. Backed Cert.	08-15-2006	8.250	8.491	1,898
Calif. Federal Mortgage	Mtg. Backed Cert.	08-15-2006	8.000	8.162	483
Cameron Brown South	Mtg. Backed Cert.	09-15-2006	8.250	8.511	914
Edwards Mortgage	Mtg. Backed Cert.	03-15-2006	8.250	8.501	1,061
Colonial Mtg. Alabama	Mtg. Backed Cert.	09-15-2001	9.000	10.138	849
Colonial Mtg. Alabama	Mtg. Backed Cert.	10-15-2006	8.000	8.162	1,979
Culwell Co.	Mtg. Backed Cert.	11-15-2006	8.000	8.173	984
Commerce Mortgage	Mtg. Backed Cert.	10-15-2004	8.250	8.522	874
Curry, Charles F. Co.	Mtg. Backed Cert.	07-15-2006	8.000	8.173	1,002
First Mortgage Corp.	Mtg. Backed Cert.	11-15-2004	9.000	10.148	869
Fort Wayne Mortgage	Mtg. Backed Cert.	04-15-2004	8.000	9.684	1,715
Foundation Mortgage	Mtg. Backed Cert.	09-15-2006	8.000	8.173	951
Glenn Justice	Mtg. Backed Cert.	10-15-2004	9.000	10.138	791
Guild Mortgage Co.	Mtg. Backed Cert.	10-15-2004	9.000	9.798	2,558
Homestead Savings	Mtg. Backed Cert.	01-15-2007	8.000	8.173	1,005
International Mortgage	Mtg. Backed Cert.	02-15-2006	8.500	8.645	893
Kissell Company	Mtg. Backed Cert.	10-15-2004	9.000	9.695	2,405
Lumbermans Investment	Mtg. Backed Cert.	05-15-2006	8.000	8.173	963
Mortgage Associates	Mtg. Backed Cert.	07-15-2005	8.000	8.173	930
Mortgage Investment Co.	Mtg. Backed Cert.	10-15-2006	8.000	8.162	970
Northland Mortgage Co.	Mtg. Backed Cert.	10-15-2006	8.000	8.260	1,391
Pfeiffercorn Co.	Mtg. Backed Cert.	08-15-2006	8.000	8.173	993
Progress Mortgage Co.	Mtg. Backed Cert.	06-15-2006	8.000	8.173	1,004
Regional Investment Co.	Mtg. Backed Cert.	10-15-2006	8.000	8.162	996
Rubio, Jacob	Mtg. Backed Cert.	01-15-2007	8.000	8.162	1,005
Seattle Mortgage Co.	Mtg. Backed Cert.	10-15-2006	8.000	8.162	497
Security Pacific Mtg.	Mtg. Backed Cert.	01-15-2006	8.500	8.645	963
Sullivan Coastal Co.	Mtg. Backed Cert.	02-15-2006	8.500	9.645	926
Timber Investment Co.	Mtg. Backed Cert.	09-15-2006	8.000	8.260	983
Valley Mortgage Co.	Mtg. Backed Cert.	07-15-2006	8.000	8.260	987
Valley Mortgage Co.	Mtg. Backed Cert.	08-15-2006	8.000	8.260	976
Western Pacific Fin.	Mtg. Backed Cert.	09-15-2006	8.000	8.162	1,969
Western Pacific Fin.	Mtg. Backed Cert.	12-15-2006	8.000	8.162	1,972
TOTAL GOVERNMENT NATIONAL MORTGAGE ASSOCIATION, GUARANTEED MORTGAGE-BACKED SECURITIES				8.650%	\$ 49,751
GOVERNMENT GUARANTEED MERCHANT MARINE BONDS					
American Pies. Lines	Government Guar. Bond	11-01-1991	4.800	5.610	\$ 1,405
States Steamship Co.	Government Guar. Bond	03-31-1993	5.100	5.100	2,400
U.S. Line Co. of N.J.	Government Guar. Bond	10-01-1987	5.000	5.000	1,809
U.S. Line Co. of N.J.	Government Guar. Bond	11-01-1986	4.375	5.990	1,584
TOTAL GOVERNMENT GUARANTEED MERCHANT MARINE BONDS				5.370%	\$ 7,198
TOTAL UNITED STATES GOVERNMENT GUARANTEED OBLIGATIONS				8.235%	\$ 56,949
UNITED STATES GOVERNMENT AGENCY OBLIGATIONS					
Fed. Natl. Mortgage Assoc.	Debenture	10-11-1987	8.600	8.600%	\$ 3,000
CANADIAN GOVERNMENTAL OBLIGATIONS					
Alberta Govt. Tel. Com.	Debenture	06-15-1994	8.000	8.171	\$ 3,000
British Columbia Hydro	Bond	07-15-1996	9.625	9.625	5,150
Manitoba Hydro Elec. Bd.	Debenture	10-15-1997	7.650	7.650	4,940
Manitoba, Province of	Debenture	04-01-1994	7.875	7.900	1,020
Nova Scotia Power Comm.	S/F Debenture	03-15-1997	7.150	7.800	3,500
Ontario Hydro	Note	03-15-1996	9.500	9.500	5,150
TOTAL PROVINCIAL OBLIGATIONS				8.618%	\$ 22,760
CANADIAN AGENCY OBLIGATIONS					
Export Development	Note	07-15-1981	8.500	8.500%	\$ 5,000
TOTAL CANADIAN GOVERNMENTAL OBLIGATIONS				8.597%	\$ 27,760
CORPORATE BOND OBLIGATIONS					
PUBLIC UTILITY OBLIGATIONS					
ELECTRIC					
Central Power & Light	First Mtg. Bond	06-01-2004	9.375	9.811	\$ 5,000
Citizens Utilities	First Mtg. Coll. Trust	12-31-1991	4.800	4.800	1,000
Hawaiian Electric Co.	First Mtg. Bond	04-01-1991	4.650	4.650	1,550
Long Island Lighting	First Mtg. Bond	04-01-1993	4.400	4.400	1,000
Minnesota Power & Light	First Mtg. Bond	06-01-2005	10.500	10.500	5,000
Minnesota Power & Light	First Mtg. Bond	09-01-2006	8.760	8.700	5,000
Montana Dakota Util.	S/F Debenture	07-01-1984	4.625	5.491	1,600
Philadelphia Electric	First & Ref. Mtg. Bond	10-15-1980	11.000	11.000	1,000
Public Serv. Indiana	First Mtg. Bond	01-01-2007	7.625	7.710	5,000

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (000) (b)
Public Serv. Ind. Gas	First & Ref. Mtg. Bond	07-01-1994	4.625	4.604	2,415
Public Serv. Ind. Gas	First & Ref. Mtg. Bond	08-01-2007	8.250	8.226	1,555
Southern Calif. Edison	First & Ref. Mtg. Bond	03-01-1985	4.125	5.117	1,285
Southern Calif. Edison	First & Ref. Mtg. Bond	03-01-1989	4.125	4.164	1,630
Utah Power & Light	First Mtg. Bond	09-01-1990	4.875	4.800	1,290
Total Electric				7.964%	\$ 37,715
GAS					
Brooklyn Union Gas	First Mtg. Bond	04-01-1990	4.625	4.560	\$ 1,175
Columbia Gas System	Debenture	01-01-1983	4.375	6.822	1,650
Mountain Fuel Supply	Debenture	09-01-1986	4.875	4.800	1,228
Southern Union Gas Co.	First Mtg. Bond	10-01-1986	4.800	6.201	863
Washington Gas Light	First Mtg. Bond	03-01-1991	5.200	6.400	1,000
Total Gas				5.793%	\$ 5,936
TELEPHONE					
Bell Tele. Co. of Canada	First Mtg. Bond	06-01-2004	9.500	9.500	\$ 5,000
General Tel. Co. (Fla.)	First Mtg. Bond	05-01-1993	4.500	6.400	1,000
General Tel. Co. of the Midwest	First Mtg. Bond	05-01-1993	7.150	7.150	2,560
N.Y. Telephone Co.	Refunding Mtg. Bond	07-15-2008	8.000	8.194	1,000
Rochester Telephone	First Mtg. Bond	07-01-1993	4.150	6.074	1,110
Southern Bell Telephone & Telegraph Co.	Debenture	03-15-2017	4.625	8.185	1,000
Total Telephone				8.332%	\$ 19,610
TOTAL PUBLIC UTILITY OBLIGATIONS				7.875%	\$ 63,261
FINANCE OBLIGATIONS					
American Investment	Note	01-01-1991	5.250	5.250	\$ 628
Beneficial Corp.	Note	03-01-1989	4.600	7.286	2,725
Deere (John) Credit	Debenture	10-31-1990	5.000	5.877	1,550
Family Finance Corp.	Senior Note	05-15-1990	4.750	4.840	1,200
First Bank System	Note	06-30-1983	8.750	8.750	5,000
Ford Motor Credit Co.	Debenture	04-01-1999	8.700	8.956	5,000
General Acceptance	Senior Note	03-01-1985	1.875	6.888	650
General Elec. Credit	Note	10-31-1982	4.625	4.625	1,500
Honeywell Finance Inc.	S/F Debenture	12-15-1988	5.200	5.200	5,000
Northwest Bancorp.	S/F Debenture	03-15-2003	7.750	7.750	4,000
Northwest Bancorp.	Note	09-15-1986	7.875	7.892	5,000
Talcott (James), Inc.	Senior Note	10-01-1985	5.000	5.000	287
TOTAL FINANCE OBLIGATIONS				7.747%	\$ 32,740
INDUSTRIAL OBLIGATIONS					
AMAX, Inc.	Senior Note	08-01-1982	4.500	7.564	\$ 2,100
AMAX, Inc.	Note	02-15-1997	8.750	8.750	5,000
Archer Daniels Midland	Promissory Note	03-01-1992	1.875	7.884	1,728
Arco Steel Corp.	Note	12-15-1986	7.875	7.875	3,000
Ashtand Oil & Refining	S/F Debenture	02-15-1985	4.125	6.344	1,570
Atlantic Richfield Co.	Guaranteed Note	07-15-1996	9.750	9.750	5,000
Beatrice Foods Co.	S/F Debenture	09-15-1994	7.875	7.900	3,000
Burns & McDonnell	S/F Debenture	07-01-1988	4.500	5.411	2,000
CIBA Geigy Corp.	Note	06-01-2000	9.500	9.500	5,000
Crown Zellerbach (S.T.)	General Mtg. Bond	08-01-1994	8.125	8.125	4,650
Dow Chemical	Note	01-15-1990	4.500	5.917	1,754
FMC Corp.	S/F Debenture	01-15-2000	9.500	9.603	4,650
Firestone Tire & Rubber	Debenture	12-01-2004	9.250	9.331	5,000
Ford Motor Co.	Debenture	07-15-1994	9.250	9.277	1,250
Ford Motor Co.	Guaranteed Note	12-01-1996	8.625	8.625	5,000
Gould, Inc.	S/F Bond	02-15-1995	9.250	9.513	2,457
Louisiana Land & Expl.	Note	12-01-1994	8.250	8.250	2,550
MacMillan Bloedel, Ltd.	Debenture	10-01-1990	5.150	4.950	352
MacMillan Bloedel, Ltd.	Debenture	07-01-1994	8.750	8.750	5,200
Marathon Oil Co.	S/F Debenture	02-01-2000	8.500	8.563	3,000
Olympic Pipeline Co.	Note	09-01-2001	8.850	8.850	5,000
Owens Illinois, Inc.	Note	02-01-1991	5.000	8.312	3,650
Ralston Purina	Guaranteed Note	11-01-1989	8.750	8.750	2,500
Ralston Purina	Note	12-31-1982	8.000	8.000	3,450
Raytheon Co.	S/F Debenture	07-01-1996	8.250	8.406	5,000
Scovill Mtg. Co.	Note	09-15-1990	4.300	6.383	1,554
Shell Canada, Ltd.	Debenture	01-01-1994	7.500	7.532	1,900
Shell Oil Co.	Debenture	01-15-1991	5.000	5.000	1,150
Sinclair Oil Corp.	S/F Debenture	12-15-1982	4.600	6.780	3,275
Sprague Electric Co.	S/F Debenture	09-01-1982	4.375	4.218	450
Standard Oil of Calif.	First Pref. Ship Mtg. Bd.	03-01-1997	7.700	7.700	1,400
Standard Oil of Calif.	First Pref. Ship Mtg. Bd.	03-01-1997	7.700	7.700	1,300
Standard Oil of Calif.	First Pref. Ship Mtg. Bd.	02-10-1997	7.700	7.700	1,300
Standard Oil of Calif.	Note	04-01-1991	5.100	5.100	700
Standard Oil of Calif.	First Pref. Ship Mtg. Bd.	07-02-1999	8.500	8.500	5,150
Standard Oil (Indiana)	Note	11-01-1993	8.250	8.250	3,000
Standard Oil (Indiana)	Note	10-01-2000	7.500	7.500	1,750
Standard Oil Co. (Ohio)	Debenture	01-01-2000	8.500	8.703	4,400
Sun Oil Co.	Note	07-01-1991	5.750	5.750	1,025
Tenneco West	Promissory Note	09-01-1989	6.625	5.826	1,475
Texas, Inc.	Note	12-01-2001	7.750	7.750	3,765
Union Tank Car	S/F Debenture	08-01-1986	5.500	5.900	1,550
Witco Chemical Corp.	Note	12-01-1984	4.650	5.890	1,650
Youngstown Sheet Tube	First Mtg. S/F Bond	07-01-1995	4.600	4.600	75
TOTAL INDUSTRIAL OBLIGATIONS				8.141%	\$123,595
TRANSPORTATION DEBT OBLIGATIONS					
Atlantic Richfield Co.	First Pref. Ship Mtg. Bd.	12-01-2001	5.750	5.753	\$ 3,300
Burlington Northern	First & Ref. Mtg. Bond	02-01-1997	4.375	4.375	300
Greyhound Corp.	Senior Note	05-15-1984	6.000	6.125	1,662
Seaboard Coast Line RR	First Mtg. Bond	12-01-1988	4.225	5.117	2,725
Southern Railway	First & Gen. Mtg. Bond	06-01-1997	4.225	7.520	2,582
TOTAL TRANSPORTATION DEBT OBLIGATIONS				7.285%	\$ 10,279

Schedule II continued

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (000) (b)
RAILROAD EQUIPMENT OBLIGATIONS					
ACI Industries, Inc.	Equipment Trust Cert.	03 01-1987/91	9.000	9.000	\$ 3,000
Canadian Pacific, Ltd.	Equipment Trust Cert.	02 01-1978/81	8.500	8.500	4,479
Canadian Pacific, Ltd.	Equipment Trust Cert.	01 15-1982/92	8.625	8.625	5,000
Chesapeake & Ohio Railway	Conditional Sale Agree.	07 01-1977/81	8.500	8.500	2,614
		01 01-1980			
Flying Tiger Corp.	Equipment Trust Cert.	09 01-1977	4.650	4.650	75
Flying Tiger Corp.	Equipment Trust Cert.	09 01-1977/78	4.650	4.650	75
Ironville & Nashville	Conditional Sale Agree.	10 20-1982/91	9.000	9.000	4,876
Norfolk & Western Railway	Conditional Sale Agree.	10 01-1977/84	8.875	8.875	1,600
St. Louis San Francisco Railway	Conditional Sale Agree.	01 15-1978/85	9.375	9.375	1,374
Seaboard Coast Line Railroad	Conditional Sale Agree.	10 10-1987/91	9.000	9.000	2,714
		04 01-1992			
Southern Pacific Trans.	Conditional Sale Agree.	03 01-1982/91	9.500	9.500	2,804
Union Tank Car	Equipment Trust Cert.	12-15-1982/95	9.500	9.500	4,000
TOTAL RAILROAD EQUIPMENT OBLIGATIONS					8.941% \$ 31,954
TOTAL CORPORATE OBLIGATIONS					8.092% \$261,829
TOTAL UNITED STATES GOVERNMENT-GUARANTEED, CANADIAN GOVERNMENTAL AND CORPORATE OBLIGATIONS					8.159% \$349,539

(a) Most corporate issues have substantial sinking funds and an average life far shorter than the stated maturity date.
 (b) Column may not add, due to rounding.

CONVERTIBLE DEBENTURE HOLDINGS

June 30, 1977

Issue	Face Amount Held	Total Cost	Market Price	Total Market Value
Pitney Corporation, Limited, 4 7/8% Convertible Subordinated Debentures, due 1-15-94	\$1,000,000.00	\$ 605,610.00	73.374	\$ 737,500.00
Radio Corporation of America, 4 1/2% Convertible Subordinated Debentures, due 8-1-92	3,500,000.00	2,683,550.00	77.578	2,716,875.00
Sherwin-Williams Co., 6 1/4% Convertible Subordinated Debentures, due 3-1-95	2,000,000.00	1,912,915.00	97	1,840,000.00
TOTALS	\$6,500,000.00	\$5,202,075.00		\$5,294,375.00

COMMON STOCK HOLDINGS

Common Stock	Shares	Market Price 6-30-77	Market Value	Total % Market
UTILITIES				
ELECTRIC				
Commonwealth Edison Company	113,000	\$ 30.88	\$ 3,488,875.00	
Florida Power & Light Company	133,300	27.13	3,615,762.50	
Houston Industries Incorporated	97,600	33.89	3,306,200.00	
Middle South Utilities Incorporated	183,800	16.50	1,032,700.00	
Minnesota Power & Light Company	20,000	22.75	445,000.00	
Northern States Power Company (Minn.)	124,500	28.75	3,579,375.00	
Pacific Gas and Electric Company	25,300	24.00	2,281,200.00	
Texas Utilities Company	170,000	21.50	3,655,000.00	
Virginia Electric and Power Company	154,700	15.13	2,181,071.00	
Total Electric			\$ 26,591,137.50	7.08%
NATURAL GAS				
Houston Natural Gas Corporation	80,000	\$ 32.25	\$ 2,580,000.00	
Panhandle Eastern Pipe Line Company	100,000	48.88	4,897,500.00	
Peoples Gas Company	35,000	50.75	1,776,250.00	
Total Natural Gas			\$ 9,243,750.00	2.56%
COMMUNICATIONS				
American Telephone & Telegraph Company	205,000	\$ 63.50	\$ 13,017,500.00	
General Telephone & Electronics Company	190,000	32.50	6,175,000.00	
Total Communications			\$ 19,192,500.00	5.31%
TOTAL UTILITIES			\$ 54,027,387.50	14.95%
FINANCIAL SERVICES				
BANKS				
BankAmerica Corporation	167,000	\$ 24.25	\$ 4,049,750.00	
Citicorp	144,400	27.38	3,952,950.00	
First Bank System Incorporated	97,400	36.63	3,567,275.00	
First International Bankshares, Inc.	49,500	40.88	2,023,317.50	
Firstwest Bank Corporation	178,000	24.13	4,294,740.00	
Security Pacific Corporation	94,179	29.56	2,796,994.76	
Total Banks			\$ 20,684,527.76	5.71%
FINANCE				
Household Finance Corporation	108,000	\$ 19.88	\$ 2,147,040.00	
Mutual Investment Corporation	45,000	15.88	714,150.00	
Total Finance			\$ 2,861,190.00	0.78%
INSURANCE				
Avina Life & Casualty Company	62,000	\$ 37.25	\$ 2,309,500.00	
Connecticut General Insurance Corporation	64,700	54.38	3,518,062.50	
Jefferson Pilot Corporation	55,500	30.13	1,671,937.50	
Northwestern National Life Insurance Co.	110,600	21.50	2,377,900.00	
SAFECO Corporation	74,400	47.13	3,506,100.00	
The St. Paul Companies, Inc.	134,200	36.38	4,881,526.00	
Total Insurance			\$ 18,265,025.00	5.06%
TOTAL FINANCIAL SERVICES			\$ 41,810,395.26	11.56%

Common Stock	Shares	Market Price 6-30-77	Market Value	Total % Market
CONSUMER ORIENTED				
AUTOS - AUTO PARTS				
Ford Motor Company	85,000	\$ 46.88	\$ 3,984,375.00	
General Motors Corporation	77,600	69.38	5,383,500.00	
Goodyear Tire & Rubber Company (The)	90,800	33.88	3,075,850.00	
Goodyear Tire & Rubber Company (The)	147,500	70.13	2,962,437.50	
Total Autos - Auto Parts			\$ 15,412,162.50	4.25%
CONSUMER DURABLES				
Sears, Roebuck and Company	90,000	\$ 23.50	\$ 2,115,000.00	
Whirlpool Corporation	80,100	74.50	1,967,450.00	
Total Consumer Durables			\$ 4,072,450.00	1.13%
CONSUMER NONDURABLES				
Avon Products Inc.	92,900	\$ 50.50	\$ 4,691,450.00	
Eastman Kodak Company	60,300	59.50	3,587,850.00	
Minnesota Mining and Manufacturing Co.	81,000	49.38	3,999,375.00	
Procter & Gamble Company (The)	42,000	80.13	3,365,250.00	
Revlon, Incorporated	86,000	41.25	3,547,500.00	
Total Consumer Nondurables			\$ 19,191,425.00	5.31%
CONSUMER MISCELLANEOUS				
Disney (Walt) Productions	45,955	\$ 36.88	\$ 1,694,590.63	
Holiday Inns Incorporated	34,800	14.13	491,550.00	
McDonald's Corporation	50,000	46.00	2,300,000.00	
Total Consumer Miscellaneous			\$ 4,486,140.63	1.24%
DRUGS				
American Home Products Corporation	89,800	\$ 28.75	\$ 2,581,750.00	
Johnson & Johnson	35,000	70.63	2,471,875.00	
Meditrace, Inc.	48,100	25.63	1,232,562.50	
Merck & Co., Inc.	45,300	55.75	2,558,325.00	
Pfizer Incorporated	95,200	26.00	2,475,200.00	
Schering Plough Corporation	56,000	26.38	2,037,000.00	
Warner Lambert Company	76,000	28.63	2,175,500.00	
Total Drugs			\$ 15,532,812.50	4.30%
FOODS BEVERAGES				
CPC International, Inc.	62,000	\$ 50.75	\$ 3,115,500.00	
Coca Cola Company (The)	100,000	37.25	3,725,000.00	
General Foods Corporation	117,100	33.38	3,908,212.50	
General Mills, Incorporated	105,000	29.50	3,097,500.00	
Kraft, Inc.	31,600	49.13	1,552,350.00	
Norton Simon, Incorporated	118,943	17.75	2,111,238.25	
PepsiCo, Inc.	60,000	22.50	1,350,000.00	
Total Foods Beverages			\$ 18,859,800.75	5.21%
RETAIL SALES				
Federated Department Stores, Incorporated	85,000	\$ 37.00	\$ 3,145,000.00	
K mart Corporation	47,27	28.50	1,343,119.50	
Pennney (J.C.) Company, Incorporated	89,400	31.33	3,117,825.00	
Sears, Roebuck and Company	60,000	58.00	3,480,000.00	
Southland Corporation (The)	79,800	21.63	1,885,275.00	
Total Retail Sales			\$ 12,971,219.50	3.54%
TOTAL CONSUMER ORIENTED			\$ 90,531,010.88	25.01%
TECHNOLOGY				
ELECTRONICS				
Hewlett Packard Company	37,000	\$ 19.60	\$ 2,927,000.00	0.81%
OFFICE EQUIPMENT				
Burroughs Corporation	60,400	\$ 62.38	\$ 3,767,450.00	
Control Data Corporation	24,000	21.63	752,250.00	
Digital Equipment Corporation	72,300	46.88	3,389,062.50	
Honeywell, Inc.	47,777	53.88	2,572,925.88	
International Business Machines Corporation	62,000	264.60	16,369,584.00	
Xerox Corporation	57,850	48.75	2,808,187.50	
Total Office Equipment			\$ 29,855,519.88	8.20%
TOTAL TECHNOLOGY			\$ 32,578,519.88	9.01%
BASIC INDUSTRY				
AEROSPACE				
Boeing Company (The)	60,000	\$ 57.88	\$ 3,472,500.00	
United Technologies Corporation	125,000	40.00	5,000,000.00	
Total Aerospace			\$ 8,472,500.00	2.34%
BUILDING & FOREST PRODUCTS				
Georgia Pacific Corporation	58,558	\$ 31.25	\$ 1,861,218.75	
Masonite Corporation	109,000	17.00	1,853,000.00	
Owens Corning Fiberglas Corporation	41,000	67.13	2,752,125.00	
Weyerhaeuser Company	78,300	35.63	2,789,437.50	
Total Building & Forest Products			\$ 9,255,781.25	2.56%
CHEMICALS				
Air Products and Chemicals, Incorporated	91,802	\$ 24.25	\$ 2,226,198.50	
Dow Chemical Company (The)	60,000	34.13	2,047,800.00	
Eastman Chemical Company	25,000	114.00	2,850,000.00	
Hercules Incorporated	110,000	18.38	2,021,900.00	
Montanto Company	20,000	12.88	2,576,000.00	
Union Carbide Corporation	14,000	62.88	8,803,200.00	
Total Chemicals			\$ 13,287,948.50	3.82%
ELECTRICAL EQUIPMENT				
Emerson Electric Co.	92,252	\$ 21.38	\$ 1,962,188.56	
General Electric Company	93,000	58.50	5,440,500.00	
Gold, Inc.	112,500	31.25	3,515,625.00	
Total Electrical Equipment			\$ 11,918,375.00	3.29%
MACHINERY				
Caterpillar Tractor Co.	67,500	\$ 57.75	\$ 3,898,125.00	

Schedule II continued

Common Stock	Shares	Market Price 6-30-77	Market Value	Total % Market
Clark Equipment Company	40,000	39.75	1,590,000.00	
Combustion Engineering, Incorporated	55,000	62.13	3,416,875.00	
Trans Union Corporation	75,100	37.75	2,835,075.00	
Total Machinery			\$ 11,740,025.00	3.25%
METALS				
Aluminum Company of America	52,000	\$ 53.00	\$ 2,756,000.00	
Pittston Company (The)	100,169	28.88	2,897,379.88	
St. Joe Minerals Corporation	88,000	34.13	3,003,000.00	
Total Metals			\$ 8,651,379.88	2.39%
PAPER				
International Paper Company	50,000	\$ 51.50	\$ 2,575,000.00	
Union Camp Corporation	35,000	54.75	1,916,250.00	
Total Paper			\$ 4,491,250.00	1.24%
MISCELLANEOUS				
Corning Glass Works	35,100	\$ 67.38	\$ 2,385,075.00	
International Telephone & Telegraph Corp.	78,400	35.88	2,812,600.00	
Total Miscellaneous			\$ 5,197,675.00	1.44%
TOTAL BASIC INDUSTRY			\$ 73,570,434.63	20.34%
ENERGY				
OIL-DOMESTIC				
Atlantic Richfield Company	109,000	\$ 60.50	\$ 6,594,500.00	
Continental Oil Company (Del.)	80,000	33.88	2,710,000.00	
Marathon Oil Company	64,000	52.63	3,368,000.00	
Phillips Petroleum Company	148,000	31.00	4,588,000.00	
Standard Oil Company (Indiana)	107,700	53.75	5,788,875.00	
Standard Oil Company (The) (Ohio)	20,000	88.75	1,775,000.00	
Total Oil-Domestic			\$ 24,824,375.00	6.87%

Common Stock	Shares	Market Price 6-30-77	Market Value	Total % Market
OIL-INTERNATIONAL				
Exxon Corporation	205,000	\$ 53.50	\$ 10,967,500.00	
Gulf Oil Corporation	145,000	28.00	4,060,000.00	
Standard Oil Company of California	120,000	41.75	5,010,000.00	
Texasco Inc.	138,300	29.13	4,027,987.50	
Total Oil-International			\$ 24,065,487.50	6.65%
ENERGY-RELATED				
Dresser Industries, Inc.	70,000	\$ 45.75	\$ 3,202,500.00	
Halliburton Company	71,000	66.75	4,739,250.00	
Wellbore Companies (The)	36,000	25.15	905,400.00	
Total Energy-Related			\$ 8,930,500.00	2.51%
TOTAL ENERGY			\$ 56,820,362.50	16.21%
TRANSPORTATION				
AIRLINES				
Northwest Airlines, Incorporated	133,368	\$ 25.25	\$ 3,367,542.00	0.93%
RAILROADS				
Southern Railway Company	63,000	\$ 58.38	\$ 3,677,625.00	
Union Pacific Corporation	56,400	57.25	3,228,900.00	
Total Railroads			\$ 6,906,525.00	
TOTAL TRANSPORTATION			\$ 10,274,067.00	2.84%
TOTAL COMMON STOCKS			\$361,620,177.67*	100.00%

*Net original cost of equities on June 30, 1977, was \$343,132,965.27.

SCHEDULE III

STATE OF MINNESOTA STATE BOARD OF INVESTMENT

RATE OF RETURN ON AVERAGE AMOUNT INVESTED DURING FISCAL PERIODS IN THE THREE LARGEST RETIREMENT FUNDS June 30, 1977

PUBLIC EMPLOYEES RETIREMENT FUND					STATE EMPLOYEES RETIREMENT FUND					TEACHERS' RETIREMENT FUND				
Book Value (1,6)	Average Book Value for Year Ending (2,11)	Income for Year Ending (3)	Yield (4)		Book Value (1)	Average Book Value for Year Ending (2,11)	Income for Year Ending (3,6)	Yield (4)		Book Value (1)	Average Book Value for Year Ending (2,11)	Income for Year Ending (3)	Yield (4)	
June 30, 1957	\$ 19,301,750				\$ 36,797,000	\$ 34,859,833	\$1,016,556.48	2.92%		\$ 31,853,900				
December 31, 1957	\$ 20,588,750				\$ 39,577,500					\$ 34,149,700				
June 30, 1958	\$ 23,625,000	\$ 21,171,833	\$ 614,096.77	2.90%	\$ 39,715,500					\$ 37,242,200	\$ 34,415,267	\$ 1,018,014.26	2.90%	
December 31, 1958	\$ 27,515,000				\$ 41,985,500	\$ 40,426,167	\$1,225,833.46	3.02%		\$ 42,777,200				
June 30, 1959	\$ 31,563,000	\$ 27,567,557	\$ 880,223.48	3.19%	\$ 44,659,000					\$ 48,523,300	\$ 42,847,567	\$ 1,409,995.45	3.29%	
December 31, 1959	\$ 35,414,500				\$ 46,911,500	\$ 44,518,667	\$1,378,022.98	3.10%		\$ 54,313,000				
June 30, 1960	\$ 41,548,500	\$ 36,175,300	\$ 1,211,061.33	3.35%	\$ 49,816,500					\$ 55,243,300	\$ 52,693,300	\$ 1,823,482.03	3.46%	
December 31, 1960	\$ 46,935,500				\$ 51,967,000	\$ 49,565,000	\$1,631,458.61	3.29%		\$ 59,160,300				
June 30, 1961	\$ 54,183,680	\$ 47,555,893	\$ 1,753,679.00	3.69%	\$ 54,499,000					\$ 63,098,540	\$ 59,167,380	\$ 2,140,761.22	3.62%	
December 31, 1961	\$ 61,433,745				\$ 56,030,438	\$ 54,432,163	\$1,885,692.64	3.46%		\$ 67,775,429				
June 30, 1962	\$ 68,132,958	\$ 61,250,128	\$ 2,340,665.00	3.82%	\$ 59,843,686					\$ 73,187,108	\$ 68,020,359	\$ 2,587,612.53	3.80%	
December 31, 1962	\$ 75,195,593				\$ 62,517,119	\$ 59,730,414	\$2,168,821.46	3.63%		\$ 77,813,737				
June 30, 1963	\$ 81,436,890	\$ 74,921,814	\$ 2,990,070.00	3.99%	\$ 65,432,932					\$ 82,990,550	\$ 77,997,152	\$ 3,011,190.37	3.86%	
December 31, 1963	\$ 92,347,700				\$ 68,922,451	\$ 65,624,167	\$2,466,205.57	3.76%		\$ 88,480,685				
June 30, 1964	\$ 96,311,091	\$ 90,031,894	\$ 3,613,002.65	4.01%	\$ 72,100,574					\$ 96,529,180	\$ 89,333,472	\$ 3,546,799.82	3.97%	
December 31, 1964	\$103,667,519				\$ 75,485,635	\$ 72,169,553	\$2,771,915.82	3.84%		\$100,413,219				
June 30, 1965	\$110,234,500	\$103,404,373	\$ 4,333,536.65	4.06%	\$ 79,128,448					\$109,221,619	\$102,054,673	\$ 4,124,491.25	4.04%	
December 31, 1965	\$120,809,744				\$ 83,578,973	\$ 79,397,685	\$3,104,510.00	3.91%		\$113,680,813				
June 30, 1966	\$126,016,044	\$119,034,099	\$ 4,901,041.08	4.17%	\$ 87,477,671					\$122,392,368	\$115,098,267	\$ 4,677,205.58	4.06%	
December 31, 1966	\$136,773,265				\$ 92,210,804	\$ 87,555,816	\$3,599,529.00	4.10%		\$129,037,233				
June 30, 1967	\$143,519,881	\$135,436,396	\$ 5,766,018.44	4.26%	\$ 97,375,985					\$141,805,453	\$131,018,351	\$ 5,553,970.00	4.24%	
December 31, 1967	\$155,763,172				\$103,557,821	\$ 97,714,870	\$4,103,671.00	4.20%		\$150,865,701				
June 30, 1968	\$158,378,261	\$152,553,771	\$ 6,670,944.32	4.37%	\$110,073,169					\$162,931,787	\$160,534,214	\$ 7,057,374.94	4.40%	
December 31, 1968	\$177,587,167				\$117,517,899	\$110,382,963	\$4,792,374.00	4.34%		\$192,422,593				

(Continued on following page)

Schedule III continued

	PUBLIC EMPLOYEES RETIREMENT FUND				STATE EMPLOYEES RETIREMENT FUND				TEACHERS' RETIREMENT FUND			
	Book Value (1,8)	Average Book Value for Year Ending (2,11)	Income for Year Ending (3)	Yield (4)	Book Value (1)	Average Book Value for Year Ending (2,11)	Income for Year Ending (3,8)	Yield (4)	Book Value (1)	Average Book Value for Year Ending (2,11)	Income for Year Ending (3)	Yield (4)
June 30, 1969 ⁽¹⁾	\$198,774,684	\$178,740,714	\$ 8,087,078.73	4.57%	\$171,331,000	—	—	—	\$213,781,373	\$186,378,751	\$ 9,037,190.00	4.60%
July 1, 1969 ⁽⁸⁾	\$158,760,588	—	—	—	\$103,331,909	—	—	—	\$193,781,373	—	—	—
December 31, 1969 ⁽¹⁾	\$165,049,959	—	—	—	\$102,604,272	\$114,484,713	\$5,001,736.00	4.37%	\$195,982,623	—	—	—
June 30, 1970	\$169,853,573	\$164,554,706 ⁽⁹⁾	\$ 7,662,334.32	4.66%	\$ 97,283,570	\$101,073,270 ⁽⁹⁾	\$4,504,934.00 ⁽¹⁰⁾	4.46%	\$196,291,329	\$195,354,108 ⁽⁹⁾	\$ 9,121,447.52	4.67%
December 31, 1970	\$182,469,105	—	—	—	\$102,940,417	—	—	—	\$216,272,996	—	—	—
June 30, 1971	\$198,648,628	\$183,657,102	\$ 8,865,744.99	4.83%	\$110,406,203	\$103,543,397	\$4,777,705.29	4.61%	\$228,603,985	\$213,722,770	\$10,394,556.77	4.82%
December 31, 1971	\$215,397,783	—	—	—	\$115,613,762	—	—	—	\$237,806,108	—	—	—
June 30, 1972	\$235,121,349	\$216,883,656	\$11,436,490.83	5.27% ⁽¹¹⁾	\$122,880,191	\$116,694,447	\$5,962,135.03	5.11% ⁽¹¹⁾	\$270,163,035	\$245,694,851	\$12,847,901.01	5.23% ⁽¹¹⁾
December 31, 1972	\$252,126,109	—	—	—	\$128,206,667	—	—	—	\$284,498,463	—	—	—
June 29, 1973	\$273,046,696	\$254,798,887	\$14,551,663.44	5.71% ⁽¹²⁾	\$137,205,300	\$131,240,981	\$7,162,365.90	5.46% ⁽¹²⁾	\$316,053,836	\$292,401,786	\$16,356,914.07	5.59% ⁽¹²⁾
December 31, 1973	\$287,353,546	—	—	—	\$135,513,840	—	—	—	\$309,496,542	—	—	—
June 28, 1974	\$309,196,034	\$292,211,130	\$17,649,265.82	6.04% ⁽¹³⁾	\$141,710,195	\$140,432,514	\$7,956,692.25	5.67% ⁽¹³⁾	\$320,407,712	\$319,347,515	\$19,412,083.51	6.08% ⁽¹³⁾
December 31, 1974	\$334,570,948	—	—	—	\$146,138,047	—	—	—	\$342,430,164	—	—	—
June 30, 1975	\$361,246,511	\$338,578,130	\$18,269,672.38	5.40% ⁽¹⁴⁾	\$156,682,776	\$151,063,112	\$7,330,288.44	4.85% ⁽¹⁴⁾	\$354,065,482	\$344,189,919	\$17,700,237.24	5.14% ⁽¹⁴⁾
December 31, 1975	\$386,284,485	—	—	—	\$159,830,045	—	—	—	\$378,807,003	—	—	—
June 30, 1976	\$419,494,658	\$392,240,328	\$20,824,777.11	5.31% ⁽¹⁵⁾	\$175,741,657	\$166,671,562	\$7,885,551.18	4.73% ⁽¹⁵⁾	\$400,948,006	\$382,701,609	\$19,085,633.30	4.99% ⁽¹⁵⁾
December 31, 1976	\$452,320,559	—	—	—	\$190,646,104	—	—	—	\$433,593,429	—	—	—
June 30, 1977	\$489,471,372	\$457,765,516	\$26,310,580.65	5.75% ⁽¹⁵⁾	\$206,605,963	\$194,256,348	\$10,010,057.00	5.15% ⁽¹⁵⁾	\$458,263,666	\$436,393,569	\$23,231,478.69	5.32% ⁽¹⁵⁾

(1) Book value figures based on those shown on Treasurer's General Report on State Finances on date listed, with adjustments for calls, maturities and investments committed for but not yet received.

(2) Computed by averaging book value of fund on last three report dates, ending with the date listed.

(3) Income figures obtained from the secretaries or directors of the respective retirement funds.

(4) Computed by dividing income of fund for fiscal period by average book value of fund during period.

(5) Includes the Public Employees Police & Fire Fund for periods after July 1, 1960, when it was established.

(6) In 1970, State Employees Retirement Fund changed from calendar-year to a fiscal-year basis.

(7) Book value figures for June 30, 1969, are listed before the transfer of bonds on that date from these basic retirement accounts to the Minnesota Adjustable Fixed Benefit Fund. The decline in book value figures during subsequent months indicates this transfer of bonds and the transfers of stocks during the next fiscal year. These basic retirement accounts own assets representing the major portion of the Minnesota Adjustable Fixed Benefit Fund; the extent of this ownership is not calculated for purposes of this table because of the varying participations by the funds.

(8) Book value figure is adjusted for the July 1, 1969, transfer of bonds, stocks and cash to the Minnesota Adjustable Fixed Benefit Fund.

(9) This figure was computed by using the July 1, 1969, book value.

(10) Actual six months receipts annualized.

(11) Computation of income for fiscal 1972 differed from that described in footnote (4) in two respects: first, the average book value for the year was increased by the amount of the deferred yield adjustment account, established by the 1971 Legislature (Minnesota Statutes 1971, Section 356.20, Subdivision 5), and secondly, an increase in equity portfolio valuation under the provisions of Minnesota Statutes 1971, Section 11.16, Subdivision 13, resulted in a 3% increase in the value of the equity portion as of October 31, 1972. One-third of the amount of this increase was applied to the income for each of the fiscal years 1972, 1973, and 1974.

(12) Computation of income for fiscal 1973 and 1974 includes allowance for the two factors mentioned in footnote (11) plus an additional one-third of the 3% increase in the value of the equity portfolios as of December 31, 1972. This second increase

will also be applied to the income for fiscal 1975. Therefore, income for fiscal 1973 and 1974 includes two such amounts, each representing one-third of 3% increases applied to the equity portfolios under the provisions of Minnesota Statutes 1971, Section 11.16, Subdivision 13.

(13) Computation of income for fiscal 1974 includes allowance for the factors mentioned in footnotes (11) and (12).

(14) Computation of income for fiscal 1975 includes one-third of the 3% increase as of December 31, 1972, as mentioned in (12). Under the provisions of a 1973 amendment to Subdivision 13, as of February 28, 1975, a 3% decrease in the value of the equity portfolio of each fund was indicated because of lower stock prices during the previous year. On April 30, 1975, another 3% decrease in the value of the equity portfolios of the Teachers' Retirement Fund, the State Employees Retirement Fund and the Police and Fire portion of the Public Employees Retirement Fund resulted from the application of the indicated statutory provision. One-fifth of each of these valuation adjustments was deducted from the income of the appropriate funds and is, therefore, reflected in the yield computations for 1975.

(15) Computation of income for fiscal 1976 and 1977 includes the February 28, 1975 3% decrease in value of the equity portfolios of each fund and the April 30, 1975, 3% decrease in value of the equity portfolios of the Teachers' Retirement Fund, the State Employees Retirement Fund and the Police and Fire portion of the Public Employees Retirement Fund resulting from the provisions of a 1973 amendment to Subdivision 13. One-fifth of each of these valuation adjustments was deducted from the income of the appropriate funds and is, therefore, reflected in the yield computations for 1976 and 1977.

Note: Yields computed as indicated in footnote number (4) for 1972 through 1976, in the manner used in prior years, would be:

	PERF	SERF	TRF
1972	4.82%	4.67%	4.75%
1973	4.95%	4.70%	4.85%
1974	5.43%	5.13%	5.48%
1975	5.57%	5.30%	5.58%
1976	5.73%	5.53%	5.71%
1977	6.14%	5.86%	6.02%

SCHEDULE IV

PUBLIC EMPLOYEES RETIREMENT FUND STATE EMPLOYEES RETIREMENT FUND TEACHERS' RETIREMENT FUND June 30, 1977

RESUME OF ASSETS IN ACCOUNTS

	Public Employees Retirement Fund	State Employees Retirement Fund	Teachers' Retirement Fund
CASH CERTIFIED FOR INVESTMENT*	\$ (563,860.47)*	\$ (170,087.82)*	\$ 810.37
MONEY MARKET SECURITIES			
Bills			
Maturities up to 98 days	\$ 6,030,000.00	\$ 2,690,000.00	\$ 4,270,000.00
Repurchase Agreements			
Maturities up to 29 days	\$ 123,000.00	\$ 1,886,000.00	\$ 1,612,000.00
Short-Term Corporate Notes			
Maturities up to 29 days	\$ 4,112,000.00	\$ 1,754,000.00	\$ 975,000.00
STATE AND LOCAL OBLIGATIONS	\$ 1,674,000.00	\$ 2,119,000.00	\$ 2,493,000.00
UNITED STATES GOVERNMENT GUARANTEED OBLIGATIONS (See Listing Below)	\$ 12,948,636.15	\$ 5,483,188.28	\$ 11,028,908.05
UNITED STATES GOVERNMENT AGENCY OBLIGATIONS (See Listing Below)	\$ 2,745,000.00	-	-
CANADIAN GOVERNMENTAL OBLIGATIONS (See Listing Below)	\$ 28,600,000.00	\$ 14,925,000.00	\$ 30,000,000.00
CORPORATE BOND OBLIGATIONS (See Listing Below)	\$158,145,815.28	\$ 76,396,356.02	\$177,276,284.03
DEFERRED YIELD ADJUSTMENT ACCOUNT**	\$ 3,572,819.94	\$ 3,258,440.29	\$ 5,458,534.79
COMMON STOCKS (See Listing Below)	\$216,129,464.59	\$104,133,708.68	\$226,383,757.65
TOTAL ASSETS IN ACCOUNT (for actuarial purposes; not indicative of true market value)	\$433,466,935.49	\$212,975,605.45	\$459,504,294.89

*A negative cash balance indicates purchase of securities prior to fiscal year end for which payment was not made until early July 1977.

**This account signifies an amount equal to the discount at which fixed income securities have been sold at less than amortized cost; the entire amount is being accumulated over a term equal to the average maturity of the bonds sold.

Note: Bond investments are listed at face value; common stocks are listed at market value.

UNITED STATES GOVERNMENT-GUARANTEED AND AGENCY BONDS, CANADIAN GOVERNMENTAL OBLIGATIONS AND CORPORATE BOND HOLDINGS June 30, 1977

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Public Employees Retirement Fund (000) (b)	State Employees Retirement Fund (000) (b)	Teachers' Retirement Fund (000) (b)	Total Amount (000) (b)
UNITED STATES GOVERNMENT- GUARANTEED OBLIGATIONS								
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION, GUARANTEED MORTGAGE BACKED SECURITIES								
Amortizable								
Investment	Mtg. Backed Cert.	09-15-2005	8.000	8.193	\$ 887	-	-	\$ 887
Bank of Mtg. Co.	Mtg. Backed Cert.	12-15-2006	8.000	8.275	-	-	\$ 1,981	1,981
Collateral								
Investment	Mtg. Backed Cert.	01-15-2007	8.000	8.260	-	-	998	998
First Fed. Savings								
Loan	Mtg. Backed Cert.	12-15-2006	8.000	8.260	-	-	2,015	2,015
First Fidelity Mtg	Mtg. Backed Cert.	11-15-2006	8.000	8.193	-	\$ 995	-	995
First World Mtg	Mtg. Backed Cert.	07-15-2006	8.000	8.260	488	-	471	959
Gold Mortgage Co.	Mtg. Backed Cert.	06-15-2005	8.000	8.193	899	-	-	899
Hannett Mtg. Co.	Mtg. Backed Cert.	06-15-2006	8.000	8.260	-	-	975	975
Hartman Mtg. Co.	Mtg. Backed Cert.	08-15-2006	8.000	8.193	-	1,000	-	1,000
Home Federal								
Savings	Mtg. Backed Cert.	01-15-2007	8.000	8.183	-	-	1,996	1,996
Keystone Financial	Mtg. Backed Cert.	11-15-2006	8.000	8.296	998	-	-	998
Mid Island								
Equities	Mtg. Backed Cert.	12-15-2006	8.000	8.296	-	999	-	999
Ohio Savings								
Assoc.	Mtg. Backed Cert.	10-15-2006	8.000	8.193	-	-	988	988
Schumacher Mtg.	Mtg. Backed Cert.	11-15-2006	8.000	8.193	1,015	-	-	1,015
United California								
Bank	Mtg. Backed Cert.	11-15-2006	8.000	8.275	-	984	-	984
Utah Mtg. Loan								
Corp.	Mtg. Backed Cert.	10-15-2006	8.000	8.260	1,985	-	-	1,985
Utah Mtg. Loan								
Corp.	Mtg. Backed Cert.	06-15-2006	8.000	8.296	-	-	979	979

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Employees Retirement Fund (000) (b)	Employees Retirement Fund (000) (b)	Teachers' Retirement Fund (000) (b)	Total Amount (000) (b)
Vanguard Holding								
Co.	Mtg. Backed Cert.	10-15-2006	8.000	8.260	1,007	-	-	1,007
Washington Mtg. Co.	Mtg. Backed Cert.	11-15-2006	8.000	8.260	-	-	975	975
Waterfield Mtg	Mtg. Backed Cert.	07-15-2007	8.000	8.260	985	-	-	985
Weyburner Mtg	Mtg. Backed Cert.	12-15-2006	8.000	8.260	2,015	-	-	2,015

**TOTAL GOVERNMENT NATIONAL MORTGAGE
ASSOCIATION, GUARANTEED MORTGAGE
BACKED SECURITIES** 8.250% \$ 10,281 \$ 4,982 \$ 10,404 \$ 25,668

GOVERNMENT-GUARANTEED MERCHANT MARINE BONDS

Delta Steamship								
Lines	Govt. Guar. Bond	03-01-1906	5.500	5.500	\$ 448	-	-	\$ 448
Grace Line, Inc.	Govt. Guar. Bond	12-01-1987	4.200	4.200	855	-	-	855
Grace Line, Inc.	Govt. Guar. Bond	02-01-1992	5.100	5.100	738	-	-	738
Moore-McCormack								
Lines	Govt. Guar. Bond	04-01-1987	5.750	5.750	625	\$ 501	\$ 624	1,750

**TOTAL GOVERNMENT-GUARANTEED
MERCHANT MARINE BONDS** 5.264% \$ 2,666 \$ 501 \$ 624 \$ 3,791

**TOTAL UNITED STATES
GOVERNMENT-GUARANTEED OBLIGATIONS** 7.863% \$ 12,947 \$ 5,483 \$ 11,028 \$ 29,459

UNITED STATES GOVERNMENT AGENCY OBLIGATIONS

Federal Home								
Loan Bank	Bond	08-27-1984	7.850	7.836%	\$ 2,745	-	-	\$ 2,745

CANADIAN GOVERNMENTAL PROVINCIAL OBLIGATIONS

PROVINCIAL OBLIGATIONS								
British Columbia								
Hydro	Bond	07-15-1996	9.625	9.625	\$ 2,700	\$ 2,500	\$ 2,000	\$ 1,200
Manitoba Hydro								
Elec. Bd.	Debenture	10-15-1997	7.650	7.724	3,500	1,875	3,500	8,875
Manitoba								
Province of								
N. Brunswick	Debenture	11-01-1993	6.875	6.900	800	-	1,200	2,000
Elec. Pwr.	S/F Debenture	04-01-1998	7.875	7.875	3,500	2,000	3,500	9,000
N. Brunswick								
Elec. Pwr.	S/F Debenture	11-15-1991	6.000	6.160	500	400	500	1,400
N. Brunswick								
H. Educ.	S/F Debenture	04-15-1993	7.000	7.260	-	300	550	850
Nova Scotia								
Power Comm.	S/F Debenture	07-15-1998	8.125	8.150	1,500	1,500	1,000	4,650
Nova Scotia								
Power Comm.	S/F Debenture	03-15-1997	7.750	7.800	1,500	-	1,500	3,000
Nova Scotia								
Province of	S/F Debenture	08-01-1993	7.250	7.200	800	700	1,000	2,500
Ontario Hydro	Note	03-15-1996	9.500	9.500	4,100	2,500	4,100	10,700
Ontario								
Province of	Debenture	12-01-1997	6.875	7.160	700	250	400	1,350
Ontario								
Province of	Debenture	05-15-2001	7.850	7.850	1,500	-	2,000	3,500
Ontario								
Province of	Debenture	12-15-2002	7.300	7.300	3,500	-	3,500	7,000
Ontario								
Province of	Debenture	04-15-1997	5.625	5.625	-	400	600	1,000
TOTAL PROVINCIAL OBLIGATIONS			8.126%	\$ 24,600	\$12,475	\$ 26,000	\$ 63,025	

CANADIAN AGENCY

Export								
Development	Note	07-15-1981	8.500	8.500%	\$ 4,000	\$ 2,500	\$ 4,000	\$ 10,500
TOTAL CANADIAN GOVERNMENTAL OBLIGATIONS				8.179%	\$ 28,600	\$14,925	\$ 30,000	\$ 73,525

CORPORATE BOND OBLIGATIONS

PUBLIC UTILITY OBLIGATIONS:

ELECTRIC

Arizona Public								
Serv.	First Mtg. Bond	09-01-1997	6.250	6.331	-	\$ 500	\$ 750	\$ 1,250
Calif. Elec. Pwr.	First Mtg. Bond	05-01-1990	5.125	5.104	\$ 400	300	500	1,200
Citizens Utilities	First Mtg. Coll.							
Trust		10-01-1992	4.625	5.406	-	-	800	800
Commonwealth								
Edison	First Mtg. Bond	11-01-1996	5.750	5.834	750	500	650	1,900
Consolidated	First & Ref. Mtg.							
Edison	Bond	10-15-1994	4.600	6.350	-	-	1,100	1,100
Consolidated	Equipment Trust							
Edison	Cert.	01-01-1996	9.250	9.250	1,466	-	1,711	3,177
Dayton Power								
& Light	First Mtg. Bond	06-01-1993	4.450	4.450	500	400	600	1,500
Kansas Power								
& Light	First Mtg. Bond	06-01-1997	8.125	8.168	1,000	-	-	1,000
Louisiana Power								
& Light	First Mtg. Bond	04-01-1990	5.000	5.000	350	200	500	1,050
Philadelphia Elec.	First & Ref. Mtg.							
Bond		10-15-1980	11.000	11.000	-	-	1,200	1,200
Public Serv.								
Indiana	First Mtg. Bond	01-01-1997	7.125	7.125	4,000	1,000	3,500	8,500
Public Serv.	First & Ref. Mtg.							
Elec. Gas	Bond	06-01-1997	8.250	8.222	4,250	2,500	4,250	11,000
Rochester Gas &								
Inc.	First Mtg. Bond	07-01-1998	6.700	6.700	500	-	1,000	1,500
Tucson Gas &								
Electric	First Mtg. Bond	02-01-1996	4.875	4.875	600	400	600	1,600
Total Electric			7.465%	\$ 16,115	\$ 6,400	\$ 17,151	\$ 39,667	

GAS								
Gas Service Co.	First Mtg. Bond	05-01-1983	4.400	5.066	\$ 400	\$ 200	\$ 200	\$ 1,152
Louisiana Gas								
Service	First Mtg. Bond	06-01-1987	4.500	4.733	500	500	500	1,500
Mich. Wisc. Pipe								
Line	First Mtg. Bond	07-15-1983	4.875	4.700	495	300	300	1,355
Northwest Natural								
Gas	First Mtg. Bond	01-01-1989	4.750	4.720	600	400	600	1,600

Schedule IV continued

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Public Employees Retirement Fund (000) (b)	State Employees Retirement Fund (000) (b)	Teachers' Retirement Fund (000) (b)	Total Amount (000) (b)
Springfield Gas Light	Note	01-15-1987	4.875	4.875	406	243	-	649
Transcontinent Gas Pipe Line	First Mtg. Bond	11-01-1981	5.000	5.080	502	413	522	1,437
Transcontinent Gas Pipe Line	First Mtg. Bond	11-01-1982	4.875	4.875	281	281	-	562
Transcontinent Gas Pipe Line	First Mtg. Bond	01-01-1982	5.000	5.000	229	229	729	1,187
Total Gas				4.856%	\$ 3,559	\$ 2,719	\$ 2,570	\$ 8,848

TELEPHONE								
American Tel. & Tel.	Debtenture	10-01-1996	4.375	4.300	\$ 500	\$ 400	\$ 600	\$ 1,500
Bell Tel. Co. Canada	First Mtg. Bond	05-17-1998	6.900	6.900	800	700	500	2,000
Bell Tel. Co. Canada	First Mtg. Bond	06-01-2004	9.500	9.500	4,000	2,000	4,000	10,000
General Tel. Co. (Ill.)	First Mtg. Bond	09-01-1995	4.875	4.875	-	400	500	900
General Tel. Co. (Ind.)	First Mtg. Bond	08-01-1995	4.700	4.700	-	400	500	900
General Tel. Co. (N.Y.)	First Mtg. Bond	06-01-1999	7.125	7.324	900	700	1,000	2,600
N.Y. Tel. Co.	Refunding Mtg. Bond	07-15-2008	8.000	8.842	3,500	1,500	4,000	9,000
Southern Bell T & T Co.	Debtenture	03-15-2013	7.625	8.152	4,500	2,000	4,500	11,000
United Tel. Co. Ohio	First Mtg. Bond	07-01-1998	6.875	6.875	736	644	920	2,300
United Tel. Co. Pa.	First Mtg. Bond	11-01-1998	6.625	6.625	-	-	1,150	1,150
Total Telephone				8.116%	\$ 14,936	\$ 8,744	\$ 17,670	\$ 41,350

WATER								
Indianapolis Water	First Mtg. Bond	01-01-1992	4.750	4.700	\$ 400	\$ 300	\$ 300	\$ 1,000
Indianapolis Water	First Mtg. Bond	08-01-1992	5.875	5.875	-	-	600	600
Total Water				5.141%	\$ 400	\$ 300	\$ 900	\$ 1,600
TOTAL PUBLIC UTILITY OBLIGATIONS				7.466%	\$ 35,011	\$ 18,193	\$ 38,291	\$ 91,496

FINANCE OBLIGATIONS								
American Investment	Senior Note	11-01-1986	6.750	6.750	\$ 500	\$ 400	\$ 500	\$ 1,400
American Investment	Note	01-01-1991	5.250	5.250	-	432	576	1,008
CIT Financial Corp.	Debtenture	10-01-1986	6.375	6.593	-	750	1,000	1,750
Deere (John)	Credit	04-30-1999	7.500	7.666	3,750	2,250	4,000	10,000
First Bank System	Note	06-30-1983	8.750	8.861	1,842	-	1,843	3,685
Ford Motor Credit Co.	S/F Debtenture	07-15-2000	9.700	9.724	4,000	2,500	4,100	10,600
GRC Realty Corp.	Note	12-31-1998	7.700	7.700	3,000	-	3,000	6,000
Honeywell Finance Inc.	S/F Debtenture	12-15-1998	6.200	6.396	4,000	-	4,000	8,000
Household Finance	Debtenture	01-01-1990	7.250	7.417	900	400	500	1,800
Household Finance	Debtenture	09-15-1993	4.875	4.910	-	450	550	1,000
Northwest Bancorp.	S/F Debtenture	03-15-2003	7.750	7.750	4,000	2,500	4,000	10,500
Northwest Bancorp.	Note	09-15-1986	7.875	7.892	4,000	2,500	4,000	10,500
Wells Fargo & Co.	Promissory Note	11-01-1998	8.125	8.125	2,500	1,500	2,500	6,500
TOTAL FINANCE OBLIGATIONS				8.074%	\$ 28,482	\$ 13,082	\$ 30,569	\$ 72,143

INDUSTRIAL OBLIGATIONS								
Akzo, Inc.	Debtenture	02-15-1997	7.500	7.500	\$ 2,000	-	\$ 2,500	\$ 4,500
Aluminum Co. of America	Promissory Note	03-31-1988	4.375	4.375	302	\$ 240	358	900
Aluminum Co. of Canada	S/F Debtenture	03-01-1995	9.500	9.634	3,860	1,744	4,000	9,604
American Sterilizer	Note	08-01-1977	4.875	4.875	20	22	-	42
Armco Steel Corp.	Note	12-15-1996	7.875	7.953	2,200	-	2,800	5,000
Armour-Dial, Inc.	Note	01-15-2003	7.900	7.900	3,500	-	3,500	7,000
Ashland Oil & Refining	S/F Debtenture	09-01-2000	10.000	10.000	1,950	-	1,950	3,900
Atlantic Richfield Co.	Guaranteed Note	07-15-1996	9.250	9.250	4,000	2,500	4,000	10,500
Bendix Corp.	S/F Debtenture	12-01-1992	6.625	6.630	850	600	1,000	2,450
Cities Service Co.	Debtenture	11-01-1997	6.125	6.486	-	650	1,000	1,650
Cities Service Gas Co.	Debtenture	06-01-1991	8.250	8.250	1,450	1,000	2,000	4,450
Continental Oil	Note	12-01-2000	9.000	9.015	1,049	874	1,442	3,365
Crown Zellerbach (S.T.)	Bond	08-01-1994	8.125	8.125	3,839	1,872	3,839	9,552
Commings Engine Co.	Note	07-15-1990	4.600	5.230	350	-	700	1,050
Dow Chemical	Note	04-01-1991	5.000	5.125	396	788	396	1,080
Hessco Industries	Note	05-15-1985	8.650	8.578	1,057	-	1,057	2,114
IMC Corp.	S/F Debtenture	01-15-2000	9.500	9.603	3,800	2,400	3,800	10,000
Leathem Iron & Holdings	Debtenture	12-01-2004	9.750	9.768	4,000	2,100	4,100	10,200
Food Motor Co.	Guaranteed Note	12-01-1996	8.625	8.625	4,000	2,500	4,000	10,500
H. J. Goodrich Co.	Note	11-15-1992	6.500	6.500	500	500	1,000	2,000
Gulf Oil Corp. (Intern'l.)	First Mtg. Bond	06-15-1993	6.625	6.625	800	600	1,000	2,400
Multifoods	S/F Note	03-01-1988	4.500	4.500	359	-	359	718
MacMillan Bloedel, Ltd.	Debtenture	07-01-1994	8.750	8.750	4,150	2,500	4,150	10,800
Marathon Oil Co.	S/F Debtenture	02-01-2000	8.500	8.671	4,000	1,600	-	5,600
Moore Business Forms	Senior Note	10-01-1996	7.900	7.900	2,000	-	2,000	4,000
Pfizer, Inc.	S/F Debtenture	08-15-2000	9.250	9.316	1,000	-	1,000	2,000

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Public Employees Retirement Fund (000) (b)	State Employees Retirement Fund (000) (b)	Teachers' Retirement Fund (000) (b)	Total Amount (000) (b)
Phelps Dodge Corp.	Note	06-01-1985	8.500	8.575	4,003	2,503	4,000	10,500
Plantation Pipe Line	Guaranteed Note	10-01-2001	7.875	7.973	3,000	1,250	3,500	7,750
Shell Canada, Ltd.	Debtenture	01-01-1994	7.500	7.500	-	-	1,200	1,200
Shell Oil Co.	Note	04-15-1990	4.500	6.440	-	-	733	733
Sprague Electric Co.	S/F Debtenture	09-01-1988	4.375	4.400	-	-	550	550
Standard Oil of Calif.	First Pref. Ship. Mtg. Bd.	07-30-1997	7.700	7.700	100	-	700	1,200
Standard Oil of Calif.	Promissory Note	12-01-1992	6.000	6.170	-	100	800	900
Standard Oil of Calif.	First Pref. Ship. Mtg. Bd.	03-07-1997	7.700	7.700	100	-	700	1,400
Standard Oil of Calif.	First Pref. Ship. Mtg. Bd.	02-10-1997	7.700	7.700	700	-	600	1,300
Standard Oil of Calif.	First Pref. Ship. Mtg. Bd.	09-07-1997	7.700	7.700	500	1,400	500	2,400
Standard Oil of Calif.	First Pref. Ship. Mtg. Bd.	09-08-1997	7.700	7.700	500	550	500	1,550
Standard Oil of Calif.	First Pref. Ship. Mtg. Bd.	11-06-1997	7.700	7.700	500	550	500	1,550
Standard Oil of Calif.	First Pref. Ship. Mtg. Bd.	07-02-1999	8.500	8.500	2,000	2,000	2,000	6,000
Standard Oil (Indiana)	Note	10-01-2000	7.300	7.300	1,500	1,500	2,000	5,000
Standard Oil (Indiana)	Debtenture	01-15-1998	6.000	6.070	100	100	1,000	1,800
Standard Oil (Indiana)	Note	10-01-2000	9.000	9.000	1,500	1,000	1,500	4,000
Standard Oil (Indiana)	Note	10-01-2000	7.500	7.500	1,500	500	1,500	3,500
Standard Oil Co. Ohio	Note	07-15-1990	4.550	4.550	-	-	288	288
Stauffer Chemical Co.	Note	01-15-1997	7.500	7.500	2,000	-	2,000	4,000
Sun Oil Co.	Note	07-01-1991	5.750	5.750	-	304	304	304
Swift & Co.	Debtenture	06-01-1986	4.875	5.115	278	223	607	1,108
Swift & Co.	S/F Debtenture	08-01-1992	6.300	6.722	-	450	480	930
Texas, Inc.	Note	12-01-2001	7.750	7.750	1,381	1,411	2,352	5,144
Union Carbide Corp.	Note	05-01-1998	6.500	6.500	689	-	815	1,504
Union Carbide Corp.	Note	12-01-1988	6.500	6.500	484	-	505	1,099
Youngstown Sheet Tube	First Mtg. S/F Bond	07-01-1995	4.600	5.536	565	105	1,375	2,347
TOTAL INDUSTRIAL OBLIGATIONS				8.222%	\$ 74,531	\$ 36,115	\$ 82,757	\$ 193,403

TRANSPORTATION DEBT OBLIGATION								
Atchafalaya, Topoka & Santa Fe	General Bond	10-01-1995	4.000	4.400	-	-	\$ 500	\$ 500
Atlantic Coast Line Railroad	First Mtg. Bond	10-01-1988	4.750	4.750	\$ 481	\$ 387	480	1,348
Atlantic Richfield Co.	First Pref. Ship. Mtg. Bd.	12-01-2001	8.750	8.750	2,000	1,200	2,000	5,200
Delaware Lackawanna & W. Collateral Trust	Refunding Mtg. Bond*	05-31-1985	4.500	4.500	-	6	-	6
Louisville & Nashville	Bond	12-01-1987	4.875	4.950	503	400	450	1,353
Western Maryland RR	First Mtg. Bond	10-01-1989	4.850	4.850	480	384	480	1,344
TOTAL TRANSPORTATION DEBT OBLIGATIONS				6.901%	\$ 3,461	\$ 2,377	\$ 3,910	\$ 9,748

RAILROAD EQUIPMENT OBLIGATIONS								
ACF Industries, Inc.	Equipment Trust Cert.	04-15-1994	81	5.675	5.675	\$ 85	\$ 80	\$ 165
ACF Industries, Inc.	Equipment Trust Cert.	05-15-1997	84	7.625	7.625	210	140	\$ 700
ACF Industries, Inc.	Equipment Trust Cert.	04-01-1976	85	9.500	9.500	720	480	800
ACF Industries, Inc.	Equipment Trust Cert.	03-01-1982	91	9.000	9.000	3,000	1,000	3,200
ACF Industries, Inc.	Equipment Trust Cert.	02-01-1978	91	8.000	8.000	-	-	4,000
Burlington Northern	Conditional Sale Agree.	05-01-1978	86	8.600	8.600	-	-	1,119
Burlington Northern	Conditional Sale Agree.	10-01-1977	87	9.625	9.625	1,100	-	1,100
Chesapeake & Ohio RR	Conditional Sale Agree.	08-15-1977	87	6.875	6.926	363	330	462
Chicago, Milwaukee, St. Paul & Pacific Railroad Co.	Conditional Sale Agree.	07-15-1977	87	6.375	6.375	87	87	262
Chicago, Milwaukee, St. Paul & Pacific Railroad Co.	Conditional Sale Agree.	06-01-1981	87	5.375	5.375	120	100	116
Delaware & Hudson Canal	Conditional Sale Agree.	03-01-1978	87	10.500	10.500	877	-	877
Elgin Engine Corp.	Equipment Trust Cert.	10-15-1977	87	4.500	4.500	40	34	40
Fruit Growers Express	Equipment Trust Cert.	11-15-1977	81	6.000	6.000	150	125	150
Fruit Growers Express	Equipment Trust Cert.	06-15-1978	85	9.750	9.750	-	640	640
Illinois Central RR	Conditional Sale Agree.	02-15-1978	87	6.875	6.875	295	253	427
Louisville & Nashville	Conditional Sale Agree.	01-15-1978	86	6.875	7.027	540	336	720
Louisville & Nashville	Conditional Sale Agree.	10-20-1982	91	9.000	9.000	1,333	-	1,333

Schedule IV continued

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Public Employees Retirement Fund	State Employees Retirement Fund	Teachers' Retirement Fund	Total Amount
					(000) (b)	(000) (b)	(000) (b)	(000) (b)
Louisville & Nashville	Conditional Sale Agree.	10 20 1983/04 20 1992	8.375	8.375	2,383	1,121	2,383	5,887
N.Y. Central Railroad	Equipment Trust Cert.	10 01 2013	4.500	4.510	—	20	—	20
Norfolk & Western Ry.	Conditional Sale Agree.	08 01 1977/83	7.250	7.250	420	350	630	1,400
St. Louis San Francisco Ry.	Conditional Sale Agree.	01 01 1978/83	6.750	6.750	—	240	360	600
St. Louis San Francisco Ry.	Conditional Sale Agree.	12 15 1977/83	7.750	7.750	373	—	376	700
Southern Pacific Co.	Conditional Sale Agree.	01 01 1978/84	7.625	7.625	350	200	450	1,120
Southern Pacific Trans.	Conditional Sale Agree.	10 01 1978/92	8.250	8.250	1,200	850	1,200	3,250

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Public Employees Retirement Fund	State Employees Retirement Fund	Teachers' Retirement Fund	Total Amount
					(000)	(000)	(000)	(000)
Union Tank Car	Equipment Trust Cert.	12 15 1982/95	9.500	9.500	3,000	—	3,000	6,000
TOTAL RAILROAD EQUIPMENT OBLIGATIONS					\$ 8,488	\$ 16,650	\$ 6,528	\$ 21,748
TOTAL CORPORATE OBLIGATIONS					\$ 8,026	\$ 158,145	\$ 76,896	\$ 177,276
TOTAL UNITED STATES GOVERNMENT GUARANTEED, CANADIAN GOVERNMENTAL AND CORPORATE OBLIGATIONS					\$ 8,037	\$ 202,438	\$ 97,304	\$ 218,305
								\$ 512,318

(a) Most corporate issues have substantial sinking funds and an average life far shorter than the stated maturity date.
(b) Columns may not add, due to rounding.

*Purchased 1930 1951

COMMON STOCK HOLDINGS

Common Stock	Total Shares	Market Price 6-30-77	Public Employees Retirement Fund		State Employees Retirement Fund		Teachers' Retirement Fund		Total Market Value	Total % Market
			Shares	Market Value	Shares	Market Value	Shares	Market Value		
UTILITIES										
ELECTRIC										
Central and South West Corporation	139,400	\$ 16.13	55,400	\$ 893,325.00	26,000	\$ 419,250.00	58,000	\$ 935,250.00	\$ 2,247,825.00	
Cincinnati Gas & Electric Company (The)	65,000	24.75	28,000	693,000.00	12,000	297,000.00	25,000	618,750.00	1,608,750.00	
Commonwealth Edison Company	114,272	30.88	46,862	1,446,864.25	24,371	750,910.88	43,089	1,330,372.88	3,528,148.01	
Florida Power & Light Company	144,400	27.13	51,600	1,399,650.00	29,400	797,475.00	63,400	1,719,725.00	2,916,850.00	
Houston Industries Incorporated	86,600	13.88	29,000	987,375.00	16,500	558,937.50	41,100	1,392,262.50	2,933,575.00	
Middle South Utilities Corporation	173,500	16.50	71,400	1,178,100.00	29,800	491,700.00	72,300	1,192,950.00	2,862,750.00	
Minnesota Power & Light Company	175,000	27.25	40,000	1,090,000.00	25,000	556,250.00	60,000	1,335,000.00	2,181,250.00	
Northern States Power Company (Minn.)	111,500	28.75	47,500	1,365,625.00	22,000	632,500.00	48,000	1,380,000.00	3,378,125.00	
Pacific Gas and Electric Company	67,400	24.00	27,000	648,000.00	11,000	264,000.00	29,400	705,600.00	1,617,600.00	
Public Service Company of Indiana, Inc.	152,000	29.25	60,500	1,769,625.00	26,500	775,125.00	65,000	1,901,250.00	4,446,000.00	
Southern California Edison Company	69,000	25.13	30,500	766,312.50	13,000	326,625.00	25,500	640,687.50	1,733,625.00	
Southern Company (The)	108,300	17.25	48,300	833,175.00	16,500	284,625.00	43,500	750,375.00	1,868,175.00	
Texas Utilities Company	153,000	21.50	65,000	1,397,500.00	31,000	708,500.00	55,000	1,182,500.00	3,289,500.00	
Virginia Electric and Power Company	97,498	15.13	33,833	511,724.13	19,166	289,885.75	44,499	673,047.38	1,474,657.26	
Total Electric				\$ 14,775,275.88		\$ 7,153,784.13		\$ 15,757,770.26	\$ 37,686,830.27	6.89%
NATURAL GAS										
Houston Natural Gas Corporation	100,000	\$ 32.25	37,000	\$ 1,193,250.00	20,000	\$ 645,000.00	43,000	\$ 1,386,750.00	\$ 3,225,000.00	
Panhandle Eastern Pipe Line Company	151,648	48.88	62,510	3,055,176.25	30,214	1,476,709.25	58,924	2,879,910.50	7,411,796.00	
Peoples Gas Company	59,000	50.75	25,000	1,268,750.00	12,000	609,000.00	22,000	1,116,500.00	2,994,250.00	
Total Natural Gas				\$ 5,517,176.25		\$ 2,730,709.25		\$ 5,383,160.50	\$ 13,631,046.00	2.49%
COMMUNICATIONS										
American Telephone & Telegraph Company	276,720	\$ 63.50	106,710	\$ 6,776,085.00	54,500	\$ 3,460,750.00	115,510	\$ 7,334,885.00	\$ 17,571,720.00	
General Telephone & Electronics Corporation	235,300	32.50	91,300	2,967,250.00	49,000	1,592,500.00	95,000	3,087,500.00	7,647,250.00	
United Telecommunications, Inc.	220,200	20.50	96,200	1,972,100.00	29,000	594,500.00	95,000	1,947,500.00	4,514,100.00	
Total Communications				\$ 11,715,435.00		\$ 5,647,750.00		\$ 12,369,885.00	\$ 29,733,070.00	5.45%
TOTAL UTILITIES				\$ 32,007,887.13		\$ 15,532,243.38		\$ 33,510,815.76	\$ 81,050,946.27	14.83%
FINANCIAL SERVICES										
BANKS										
Citicorp	148,432	\$ 27.38	50,600	\$ 1,385,174.00	28,932	\$ 792,013.50	68,900	\$ 1,886,137.50	\$ 4,063,326.00	
Continental Illinois Corporation	181,777	26.75	87,272	2,334,576.00	28,000	749,000.00	72,000	1,926,000.00	5,009,576.00	
First Bank System, Incorporated	113,500	36.63	49,700	1,820,262.50	19,200	703,200.00	44,600	1,633,475.00	4,156,937.50	
First International Bancshares, Inc.	68,300	40.88	32,300	1,320,262.50	9,400	384,225.00	26,600	1,087,275.00	2,791,762.50	
Manufacturers Hanover Corporation	61,000	37.50	21,500	806,250.00	7,000	262,500.00	32,500	1,218,750.00	2,287,500.00	
J.P. Morgan & Co., Incorporated	63,016	50.38	23,540	1,185,827.50	13,176	663,741.00	26,300	1,324,862.50	3,174,431.00	
Northwest Bancorporation	167,400	24.13	60,000	1,447,500.00	34,400	829,900.00	73,000	1,761,125.00	4,038,525.00	
Security Pacific Corporation	75,609	29.56	25,886	765,267.82	11,721	346,507.92	38,002	1,123,453.13	2,235,228.87	
Valley National Bank of Arizona	90,582	16.63	32,702	543,670.75	15,896	264,271.00	41,984	697,984.00	1,505,925.75	
Total Banks				\$ 11,608,742.07		\$ 4,995,358.42		\$ 12,659,062.13	\$ 29,263,162.62	5.35%
FINANCE										
Beneficial Corporation	101,845	\$ 23.88	31,875	\$ 761,015.63	19,245	\$ 459,474.38	50,725	\$ 1,211,059.38	\$ 2,431,549.39	
Household Finance Corporation	174,500	19.88	71,300	1,417,087.50	28,900	574,387.50	74,300	1,476,712.50	3,468,187.50	
MGIC Investment Corporation	86,800	15.88	34,800	552,450.00	15,000	238,125.00	37,000	587,375.00	1,377,950.00	
Total Finance				\$ 2,730,553.13		\$ 1,271,986.88		\$ 3,275,146.88	\$ 7,277,686.89	1.33%
INSURANCE										
Aetna Life & Casualty Company	129,200	\$ 37.25	46,700	\$ 1,739,575.00	22,500	\$ 838,125.00	60,000	\$ 2,235,000.00	\$ 4,812,700.00	
The Chubb Corporation	70,500	41.50	26,700	1,108,050.00	12,900	535,350.00	30,900	1,282,350.00	2,925,750.00	
Connecticut General Insurance Corporation	49,000	54.38	18,000	978,750.00	8,500	462,187.50	22,500	1,223,437.50	2,664,375.00	
INA Corporation	111,700	45.88	57,000	2,614,875.00	16,700	766,112.50	48,000	1,743,250.00	5,124,237.50	
NTL Corporation	205,600	25.75	86,700	2,232,525.00	38,200	983,050.00	80,700	2,078,025.00	5,294,200.00	
Northwestern National Life Insurance Co.	56,800	21.50	22,100	475,150.00	5,600	120,400.00	29,100	625,650.00	1,221,200.00	
SAFECO Corporation	40,700	47.13	15,800	744,575.00	7,500	353,437.50	17,400	819,975.00	1,917,987.50	
The St. Paul Companies, Inc.	106,900	36.38	37,400	1,360,425.00	17,000	618,375.00	52,500	1,909,687.50	3,888,487.50	
Travelers Corporation (The)	72,400	34.25	24,700	845,975.00	15,500	530,875.00	32,200	1,102,850.00	2,479,700.00	
United States Fidelity & Guaranty Company	72,000	39.38	24,000	945,000.00	16,500	649,687.50	31,500	1,240,312.50	2,835,000.00	
Total Insurance				\$ 13,044,900.00		\$ 5,858,200.00		\$ 14,260,537.50	\$ 33,163,637.50	6.07%
TOTAL FINANCIAL SERVICES				\$ 27,384,195.20		\$ 12,125,545.30		\$ 30,194,746.51	\$ 69,704,487.01	12.75%

Schedule IV continued

Common Stock	Total Shares	Market Price 6-30-77	Public Employees Retirement Fund		State Employees Retirement Fund		Teachers' Retirement Fund		Total Market Value	Total % Market
			Shares	Market Value	Shares	Market Value	Shares	Market Value		
CONSUMER-ORIENTED AUTOS - AUTO PARTS										
Ford Motor Company	115,000	\$ 46.88	45,000	\$ 2,109,375.00	22,500	\$ 1,054,687.50	47,500	\$ 2,226,562.50	\$ 5,390,625.00	
General Motors Corporation	120,500	69.38	50,000	3,468,750.00	23,500	1,630,312.50	47,000	3,260,625.00	8,359,687.50	
Genuine Parts Company	79,600	33.88	33,000	1,117,875.00	14,500	491,187.50	32,100	1,087,387.50	2,696,450.00	
Goodyear Tire & Rubber Company (The)	203,500	20.13	74,500	1,499,312.50	34,000	684,250.00	95,000	1,911,875.00	4,095,437.50	
Total Autos - Auto Parts				\$ 6,195,312.50		\$ 3,860,437.50		\$ 8,486,450.00	\$ 20,542,200.00	3.76%
CONSUMER-DURABLES										
Sunbeam Corporation	165,049	\$ 23.50	63,050	\$ 1,481,675.00	27,999	\$ 657,976.50	74,000	\$ 1,739,000.00	\$ 3,878,651.50	
Whirlpool Corporation	126,400	24.50	53,600	1,313,700.00	24,000	588,000.00	48,800	1,195,600.00	3,096,800.00	
Total Consumer-Durables				\$ 2,794,875.00		\$ 1,245,976.50		\$ 2,934,600.00	\$ 6,975,451.50	1.28%
CONSUMER NONDURABLES										
Avon Products, Inc.	116,500	\$ 50.50	46,500	\$ 2,348,250.00	24,000	\$ 1,212,000.00	46,000	\$ 2,323,000.00	\$ 5,883,250.00	
Colgate Palmolive Company	216,500	24.75	90,500	2,239,875.00	35,500	878,625.00	90,500	2,239,875.00	5,538,375.00	
Eastman Kodak Company	73,180	59.50	28,000	1,666,000.00	17,180	1,022,210.00	28,000	1,666,000.00	4,354,210.00	
Minnesota Mining and Manufacturing Co.	107,400	49.38	43,000	2,123,125.00	23,600	1,165,250.00	40,800	2,014,500.00	5,302,875.00	
Procter & Gamble Company (The)	54,000	80.13	22,000	1,762,750.00	9,000	721,125.00	23,000	1,842,875.00	4,326,750.00	
Revlon, Incorporated	132,400	41.25	54,000	2,227,500.00	24,000	990,000.00	54,400	2,244,000.00	5,461,500.00	
Total Consumer-Nondurables				\$ 12,367,500.00		\$ 5,989,210.00		\$ 12,330,250.00	\$ 30,686,960.00	5.62%
CONSUMER-MISCELLANEOUS										
Disney (Walt) Productions	95,679	\$ 36.88	35,897	\$ 1,323,701.88	17,346	\$ 639,633.75	42,436	\$ 1,564,827.50	\$ 3,528,163.13	
Holiday Inns, Incorporated	67,600	14.13	23,300	329,112.50	14,000	197,750.00	30,300	427,987.50	954,850.00	
McDonald's Corporation	83,200	46.00	35,200	1,619,200.00	14,000	644,000.00	34,000	1,564,000.00	3,827,200.00	
Warner Communications, Inc.	63,600	30.38	23,900	725,962.50	15,700	476,887.50	24,000	729,000.00	1,931,850.00	
Total Consumer-Miscellaneous				\$ 3,937,976.88		\$ 1,958,271.25		\$ 4,285,815.00	\$ 10,242,063.13	1.87%
DRUGS										
American Home Products Corporation	113,800	\$ 28.75	52,000	\$ 1,495,000.00	21,400	\$ 615,250.00	40,400	\$ 1,161,500.00	\$ 3,271,750.00	
Johnson & Johnson	47,000	70.63	20,000	1,412,500.00	10,000	706,250.00	17,000	1,200,625.00	3,319,375.00	
Medtronic, Inc.	85,000	25.63	30,000	768,750.00	15,000	384,375.00	40,000	1,025,000.00	2,178,125.00	
Merck & Co., Inc.	75,000	55.75	26,000	1,449,500.00	13,500	752,625.00	35,500	1,979,125.00	4,181,250.00	
Pfizer, Incorporated	144,100	26.00	55,100	1,432,000.00	30,500	793,000.00	58,500	1,521,000.00	3,746,000.00	
Schering Plough Company	70,600	36.38	25,000	909,375.00	14,000	509,250.00	31,600	1,149,450.00	2,568,075.00	
Warner-Lambert Company	146,500	28.63	60,500	1,731,812.50	26,000	744,250.00	60,000	1,717,500.00	4,193,562.50	
Total Drugs				\$ 9,199,537.50		\$ 4,505,000.00		\$ 9,754,200.00	\$ 23,458,737.50	4.29%
FOODS-BEVERAGES										
CPC International, Inc.	105,000	\$ 50.25	45,000	\$ 2,261,250.00	18,000	\$ 904,500.00	42,000	\$ 2,110,500.00	\$ 5,276,250.00	
Coca-Cola Company (The)	115,200	37.25	46,200	1,720,950.00	21,000	782,250.00	48,000	1,788,000.00	4,291,200.00	
Consolidated Foods Corporation	119,500	25.88	57,200	1,480,050.00	24,800	641,700.00	37,500	970,312.50	3,092,062.50	
General Foods Corporation	90,200	33.38	36,600	1,221,525.00	12,000	400,500.00	41,600	1,388,400.00	3,010,425.00	
General Mills, Incorporated	134,200	29.50	49,200	1,451,400.00	29,000	855,500.00	56,000	1,652,000.00	3,958,900.00	
Norton Simon, Incorporated	132,092	17.75	51,800	919,450.00	22,766	404,096.50	57,526	1,021,066.50	2,344,633.00	
PepsiCo, Inc.	165,786	22.50	57,000	1,282,500.00	30,300	681,750.00	78,486	1,765,935.00	3,730,185.00	
Pillsbury Company (The)	102,500	38.25	35,400	1,354,050.00	21,700	806,525.00	43,400	1,660,050.00	3,920,625.00	
Total Foods-Beverages				\$ 11,691,175.00		\$ 5,576,821.50		\$ 12,356,284.00	\$ 29,624,280.50	5.42%
PRINTING-PUBLISHING										
Donnelley (R.R.) and Sons Company	84,243	\$ 24.25	28,876	\$ 700,243.00	19,246	\$ 466,715.50	36,121	\$ 875,934.25	\$ 2,042,892.75	
Dun & Bradstreet Companies, Inc.	82,100	29.50	34,300	1,011,850.00	15,000	442,500.00	32,800	967,600.00	2,421,950.00	
Harcourt Brace Jovanovich, Inc.	36,000	32.50	14,050	456,625.00	8,100	263,250.00	13,850	450,125.00	1,170,000.00	
Total Printing-Publishing				\$ 2,168,718.00		\$ 1,172,465.50		\$ 2,293,659.25	\$ 5,634,842.75	1.03%
RETAIL SALES										
Dayton Hudson Corporation	167,700	\$ 34.38	61,600	\$ 2,117,500.00	38,500	\$ 1,323,437.50	67,600	\$ 2,323,750.00	\$ 5,764,687.50	
Federated Department Stores, Incorporated	113,500	37.00	54,000	1,998,000.00	19,000	703,000.00	40,500	1,498,500.00	4,199,500.00	
Pennley (J.C.) Company, Incorporated	115,100	34.88	45,700	1,593,787.50	19,300	673,087.50	50,100	1,747,237.50	4,014,112.50	
Sears, Roebuck and Company	84,000	58.00	37,000	1,846,000.00	20,000	1,160,000.00	37,000	1,846,000.00	4,372,000.00	
Southland Corporation (The)	138,500	23.63	51,000	1,205,456.25	26,500	628,425.00	60,850	1,437,561.25	3,271,442.50	
Total Retail Sales				\$ 8,771,343.75		\$ 4,187,950.00		\$ 8,863,068.75	\$ 22,122,362.50	4.04%
TOTAL CONSUMER-ORIENTED				\$ 59,186,438.63		\$ 28,190,132.25		\$ 61,304,327.00	\$149,286,897.88	27.31%
TECHNOLOGY										
ELECTRONICS										
Hewlett-Packard Company	20,000	\$ 79.00	8,000	\$ 632,000.00	4,000	\$ 316,000.00	8,000	\$ 632,000.00	\$ 1,580,000.00	0.29%
OFFICE EQUIPMENT										
Burroughs Corporation	95,800	\$ 62.38	35,400	\$ 2,208,075.00	17,200	\$ 1,072,850.00	43,200	\$ 2,694,600.00	\$ 5,975,525.00	
Control Data Corporation	43,000	21.63	14,000	302,750.00	8,000	173,000.00	21,000	454,125.00	929,875.00	
Digital Equipment Corporation	44,400	46.88	22,500	1,054,687.50	5,400	253,125.00	16,500	773,437.50	2,051,250.00	
Honeywell, Inc.	58,200	53.88	22,800	1,228,350.00	12,000	646,500.00	23,400	1,260,675.00	3,135,525.00	
International Business Machines Corporation	102,403	264.00	41,400	10,929,600.00	20,400	5,185,600.00	40,603	10,719,192.00	27,034,392.00	
Xerox Corporation	59,020	48.75	23,500	1,145,625.00	11,260	548,925.00	24,260	1,182,675.00	2,877,225.00	
Total Office Equipment				\$ 16,869,087.50		\$ 8,080,000.00		\$ 17,084,704.50	\$ 42,033,792.00	7.69%
TOTAL TECHNOLOGY				\$ 17,501,087.50		\$ 8,196,000.00		\$ 17,716,704.50	\$ 43,613,792.00	7.98%
BASIC INDUSTRY										
AEROSPACE										
Boeing Company (The)	94,500	\$ 57.88	38,000	\$ 2,199,250.00	17,500	\$ 1,012,812.50	39,000	\$ 2,257,125.00	\$ 5,469,187.50	
United Technologies Corporation	116,000	40.00	43,000	1,720,000.00	24,000	960,000.00	49,000	1,960,000.00	4,640,000.00	
Total Aerospace				\$ 3,919,250.00		\$ 1,972,812.50		\$ 4,217,125.00	\$ 10,109,187.50	1.85%
BUILDING & FOREST PRODUCTS										
Georgia Pacific Corporation	122,181	\$ 31.25	47,015	\$ 1,469,218.75	24,348	\$ 760,875.00	50,818	\$ 1,588,062.50	\$ 3,818,156.25	
Masonite Corporation	150,400	17.00	70,400	1,196,800.00	31,000	527,000.00	49,000	833,000.00	2,556,000.00	

Schedule IV continued

Common Stock	Total Shares	Market Price 6/30/77	Public Employees Retirement Fund		State Employees Retirement Fund		Teachers' Retirement Fund		Total Market Value	Total % Market
			Shares	Market Value	Shares	Market Value	Shares	Market Value		
Owens Corning Fiberglas Corporation	77,100	67.13	28,100	1,886,212.50	14,000	939,750.00	30,000	2,013,750.00	4,839,712.50	
Weyerhaeuser Company	76,500	35.63	27,000	961,875.00	13,400	477,375.00	36,100	1,288,012.50	2,727,262.50	
Total Building & Forest Products				\$ 5,614,108.75		\$ 2,705,000.00		\$ 5,720,875.00	\$ 13,939,961.25	7.55%
CHEMICALS										
An Products and Chemicals, Incorporated	105,075	\$ 24.75	38,693	\$ 938,305.25	20,686	\$ 501,635.50	45,696	\$ 1,108,128.00	\$ 2,548,068.75	
Dow Chemical Company (The)	83,528	34.13	31,192	1,064,427.00	17,980	613,567.50	34,356	1,172,398.50	2,850,393.00	
du Pont (E.I.) de Nemours and Company	45,500	116.00	19,000	2,204,000.00	9,500	1,102,000.00	17,000	1,972,000.00	5,278,000.00	
Hercules Incorporated	165,000	18.38	68,000	1,249,500.00	27,000	496,125.00	70,000	1,286,250.00	3,031,875.00	
Monsanto Company	45,236	69.88	16,236	1,134,490.50	10,000	698,750.00	19,000	1,327,625.00	3,160,865.50	
Union Carbide Corporation	88,100	48.88	38,000	1,857,250.00	18,100	884,637.50	32,000	1,564,000.00	4,305,887.50	
Total Chemicals				\$ 8,447,972.75		\$ 4,296,715.50		\$ 8,430,401.50	\$ 21,175,089.75	3.87%
ELECTRICAL EQUIPMENT										
Emerson Electric Co.	135,000	\$ 34.38	50,000	\$ 1,718,750.00	25,000	\$ 859,375.00	60,000	\$ 2,062,500.00	\$ 4,640,625.00	
General Electric Company	125,000	56.50	50,000	2,825,000.00	24,000	1,356,000.00	51,000	2,881,500.00	7,067,250.00	
Gould, Inc.	135,000	31.00	55,000	1,705,000.00	25,000	775,000.00	55,000	1,705,000.00	4,185,000.00	
Westinghouse Electric Corporation	63,000	21.50	23,100	496,650.00	12,200	262,300.00	27,700	595,550.00	1,354,500.00	
Total Electrical Equipment				\$ 6,745,400.00		\$ 3,252,675.00		\$ 7,244,550.00	\$ 17,242,625.00	3.15%
MACHINERY										
Caterpillar Tractor Co.	74,600	\$ 57.75	27,100	\$ 1,565,025.00	14,500	\$ 837,375.00	33,000	\$ 1,905,750.00	\$ 4,308,150.00	
Clark Equipment Company	71,100	39.75	27,100	1,077,225.00	15,000	596,250.00	29,000	1,152,750.00	2,826,225.00	
Combustion Engineering, Incorporated	86,000	62.13	40,000	2,485,000.00	16,000	994,000.00	30,000	1,863,750.00	5,342,750.00	
Trans Union Corporation	99,000	37.75	38,000	1,434,500.00	18,000	679,500.00	43,000	1,623,250.00	3,737,250.00	
Total Machinery				\$ 6,561,750.00		\$ 3,107,125.00		\$ 6,545,500.00	\$ 16,214,375.00	2.97%
METALS										
Aluminum Company of America	63,000	\$ 53.00	23,000	\$ 1,219,000.00	11,000	\$ 583,000.00	29,000	\$ 1,537,000.00	\$ 3,339,000.00	
Pittston Company (The)	119,640	28.88	45,511	1,314,130.13	30,570	882,708.75	43,559	1,257,766.13	3,454,605.01	
St. Joe Minerals Corporation	124,500	34.13	49,000	1,672,125.00	23,000	784,875.00	52,500	1,791,562.50	4,248,562.50	
Total Metals				\$ 4,205,255.13		\$ 2,250,583.75		\$ 4,586,328.63	\$ 11,042,167.54	2.02%
PAPER										
International Paper Company	83,500	\$ 51.50	33,000	\$ 1,699,500.00	15,500	\$ 798,250.00	35,000	\$ 1,802,500.00	\$ 4,300,250.00	
Union Camp Corporation	55,000	54.25	23,000	1,247,750.00	12,000	651,000.00	20,000	1,085,000.00	2,983,750.00	
Total Paper				\$ 2,947,250.00		\$ 1,449,250.00		\$ 2,887,500.00	\$ 7,284,000.00	1.33%
TEXTILES										
Burlington Industries, Incorporated	31,200	\$ 24.00	11,200	\$ 268,800.00	7,000	\$ 168,000.00	13,000	\$ 312,000.00	\$ 748,800.00	0.14%
MISCELLANEOUS										
Corning Glass Works	38,900	\$ 67.38	16,000	\$ 1,078,000.00	7,500	\$ 505,312.50	15,400	\$ 1,037,575.00	\$ 2,620,887.50	
International Telephone & Telegraph Corp.	129,800	35.88	50,600	1,815,275.00	25,600	918,400.00	53,600	1,922,800.00	4,655,575.00	
Total Miscellaneous				\$ 2,893,275.00		\$ 1,423,712.50		\$ 2,960,475.00	\$ 7,277,462.50	1.33%
TOTAL BASIC INDUSTRY				\$ 41,503,059.13		\$ 20,625,074.25		\$ 42,904,755.13	\$105,033,688.51	19.21%
ENERGY										
OIL-DOMESTIC										
Atlantic Richfield Company	170,000	\$ 60.50	47,000	\$ 2,847,500.00	21,000	\$ 1,270,500.00	52,000	\$ 3,146,000.00	\$ 7,264,000.00	
Continental Oil Company (Ind.)	206,200	33.88	81,000	2,743,874.00	35,200	1,192,400.00	90,000	3,048,750.00	6,985,024.00	
Marathon Oil Company	97,000	52.63	38,000	1,999,750.00	21,000	1,105,125.00	38,000	1,999,750.00	5,104,625.00	
Phillips Petroleum Company	234,000	31.00	98,000	3,038,000.00	40,000	1,240,000.00	96,000	2,976,000.00	7,254,000.00	
Standard Oil Company (Indiana)	109,000	53.75	40,000	2,150,000.00	25,900	1,392,125.00	43,100	2,316,625.00	5,858,750.00	
Total Oil-Domestic				\$ 12,775,125.00		\$ 6,200,150.00		\$ 13,487,125.00	\$ 32,462,400.00	5.94%
OIL-INTERNATIONAL										
Exxon Corporation	238,044	\$ 53.50	89,016	\$ 4,762,356.00	44,416	\$ 2,376,256.00	104,612	\$ 5,596,742.00	\$ 12,735,354.00	
Gulf Oil Corporation	205,100	28.00	85,100	2,382,800.00	43,000	1,204,000.00	77,000	2,156,000.00	5,742,800.00	
Mobil Corporation	98,400	68.00	33,800	2,298,400.00	17,800	1,210,400.00	46,800	3,182,400.00	6,691,200.00	
Standard Oil Company of California	176,500	41.75	75,000	3,131,250.00	35,000	1,461,250.00	66,500	2,776,375.00	7,338,875.00	
Texaco Inc.	171,490	29.13	67,100	1,954,287.50	37,040	904,040.00	73,350	2,136,318.75	4,994,646.25	
Total Oil-International				\$ 14,529,093.50		\$ 7,155,946.00		\$ 15,847,835.75	\$ 37,532,875.25	6.87%
ENERGY-RELATED										
Dresser Industries, Inc.	128,000	\$ 45.75	60,000	\$ 2,745,000.00	16,000	\$ 732,000.00	52,000	\$ 2,379,000.00	\$ 5,856,000.00	
Halliburton Company	43,500	66.75	14,000	934,500.00	10,500	700,875.00	19,000	1,268,250.00	2,903,625.00	
Williams Companies (The)	137,000	23.13	53,000	1,225,625.00	26,000	601,250.00	58,000	1,341,250.00	3,168,125.00	
Total Energy-Related				\$ 4,905,125.00		\$ 2,034,125.00		\$ 4,988,500.00	\$ 11,927,750.00	2.18%
TOTAL ENERGY				\$ 32,209,343.50		\$ 15,390,221.00		\$ 34,323,460.75	\$ 81,923,025.25	14.99%
TRANSPORTATION										
AIRLINES										
Delta Air Lines, Incorporated	55,400	\$ 35.75	18,500	\$ 661,375.00	8,800	\$ 314,600.00	28,100	\$ 1,004,575.00	\$ 1,980,550.00	
Northwest Airlines, Incorporated	92,676	25.25	36,714	927,078.50	16,770	423,442.50	39,142	988,335.50	2,338,806.50	
UAL, Inc.	24,300	20.38	9,000	183,375.00	7,000	142,625.00	8,300	169,112.50	495,112.50	
Total Airlines				\$ 1,771,778.50		\$ 880,667.50		\$ 2,162,023.00	\$ 4,814,469.00	0.88%
RAILROADS										
Burlington Northern Incorporated	76,800	\$ 50.25	28,000	\$ 1,407,000.00	13,100	\$ 658,275.00	35,700	\$ 1,793,925.00	\$ 3,859,200.00	
Southern Railway Company	39,000	58.38	19,000	1,109,125.00	10,000	583,750.00	10,000	583,750.00	2,276,625.00	
Union Pacific Corporation	88,800	57.25	35,800	2,049,550.00	20,000	1,145,000.00	33,000	1,889,250.00	5,083,800.00	
Total Railroads				\$ 4,565,675.00		\$ 2,387,025.00		\$ 4,266,925.00	\$ 11,219,625.00	2.05%
TOTAL TRANSPORTATION				\$ 6,337,453.50		\$ 3,267,692.50		\$ 6,428,948.00	\$ 16,034,094.00	2.93%
TOTAL COMMON STOCKS				\$216,129,464.59^a		\$104,133,708.63^b		\$226,383,757.65^c	\$546,646,930.92^d	100.00%

^a Net original cost of equities on June 30, 1977, was \$203,416,314.91^b Net original cost of equities on June 30, 1977, was \$ 99,706,395.33^c Net original cost of equities on June 30, 1977, was \$217,482,772.99^d Net original cost of equities on June 30, 1977, was \$529,605,483.23

SCHEDULE V

PUBLIC EMPLOYEES POLICE AND FIRE FUND June 30, 1977

RESUME OF ASSETS IN ACCOUNT

CASH CERTIFIED FOR INVESTMENT*	\$ (23,717.62)
MONEY MARKET SECURITIES	
Bills	
Maturities up to 98 days	\$ 910,000.00
Repurchase Agreements	
Maturities up to 7 days	\$ 90,000.00
Short-Term Corporate Notes	
Maturities up to 29 days	\$
UNITED STATES GOVERNMENT-GUARANTEED OBLIGATIONS (See Listing Below)	\$ 2,008,420.93
UNITED STATES GOVERNMENT AGENCY OBLIGATIONS (See Listing Below)	\$ 105,000.00
CANADIAN GOVERNMENTAL OBLIGATIONS (See Listing Below)	\$ 3,950,000.00
CORPORATE BOND OBLIGATIONS (See Listing Below)	\$76,505,590.45
DEFERRED YIELD ADJUSTMENT ACCOUNT*	\$ 430,499.87
COMMON STOCKS (See Listing Below)	\$32,594,372.00
TOTAL ASSETS IN ACCOUNT (for actuarial purposes; not indicative of true market value)	\$66,570,670.63

*A negative cash balance indicates purchase of securities prior to fiscal year end for which payment was not made until early July 1977.

**This account signifies an amount equal to the discount at which fixed income securities have been sold at less than amortized cost; the entire amount is being accumulated over a term equal to the average maturity of the bonds sold.

Note: Bond investments are listed at face value; common stocks are listed at market value.

UNITED STATES GOVERNMENT-GUARANTEED AND AGENCY BONDS, CANADIAN GOVERNMENTAL OBLIGATIONS AND CORPORATE BOND HOLDINGS June 30, 1977

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (000) (b)
UNITED STATES GOVERNMENT-GUARANTEED OBLIGATIONS					
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION, GUARANTEED MORTGAGE-BACKED SECURITIES					
Home Federal Savings	Mtg. Backed Cert.	11-15-2006	8.000	8.193	\$ 359
Weaver Bros. Inc.	Mtg. Backed Cert.	09-15-2006	8.000	8.260	743
TOTAL GOVERNMENT NATIONAL MORTGAGE ASSOCIATION					8.222% \$ 1,102
GOVERNMENT GUARANTEED MERCHANT MARINE BONDS					
Grace Line, Inc.	Government Guar. Bond	07-01-1992	5.100	5.100	\$ 100
Monroe McCormack Lines	Government Guar. Bond	01-01-1987	5.750	5.750	125
U.S. Lines Co. of N.Y.	Government Guar. Bond	11-01-1986	4.375	4.375	81
TOTAL GOVERNMENT GUARANTEED MERCHANT MARINE BONDS					5.174% \$ 306
TOTAL UNITED STATES GOVERNMENT GUARANTEED OBLIGATIONS					7.758% \$ 2,008
UNITED STATES GOVERNMENT AGENCY OBLIGATIONS					
Federal Home Loan Bank	Bond	08-27-1981	7.850	7.850%	\$ 10%
CANADIAN GOVERNMENTAL PROVINCIAL OBLIGATIONS					
British Columbia Hydro	Bond	07-15-1996	9.625	9.625	\$ 800
Manitoba Hydro Elec. Bd.	Debenture	10-15-1997	7.650	7.650	500
New Brunswick Elec. Pwr.	S/F Debenture	04-01-1998	7.875	7.875	500
New Brunswick H. Educ.	S/F Debenture	04-15-1993	7.000	7.260	200
Nova Scotia, Province of	S/F Debenture	08-01-1993	7.250	7.200	250
Ontario Hydro	Note	03-15-1996	9.500	9.500	800
Ontario, Province of	Debenture	05-15-2001	7.850	7.850	300
Ontario, Province of	Debenture	12-15-2002	7.300	7.300	500
Ontario, Province of	Debenture	04-15-1997	5.625	5.625	100
TOTAL PROVINCIAL OBLIGATIONS					8.325% \$ 3,950
TOTAL CANADIAN GOVERNMENTAL OBLIGATIONS					8.325% \$ 3,950

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (000) (b)
CORPORATE BOND OBLIGATIONS					
PUBLIC UTILITY OBLIGATIONS					
ELECTRIC					
Commonwealth Edison	First Mtg. Bond	11-01-1996	5.750	5.750	\$ 100
Consolidated Edison	Equipment Trust Cert.	01-01-1996	9.250	7.250	244
Kansas Power & Light	First Mtg. Bond	05-01-2007	8.125	8.162	750
Minnesota Power & Light	First Mtg. Bond	09-01-2006	8.700	8.700	300
Philadelphia Electric	First & Ref. Mtg. Bond	10-15-1980	11.000	11.000	300
Public Serv. Indiana	First Mtg. Bond	01-01-2007	7.625	7.704	500
Rochester Gas & Elec.	First Mtg. Bond	07-01-1998	6.700	6.700	150
Total Electric					8.831% \$ 3,384
GAS					
Louisiana Gas Service	First Mtg. Bond	06-01-1997	4.500	4.615	\$ 100
Mich. Wisc. Pipe Line	First Mtg. Bond	07-15-1983	4.875	4.700	73
Transcontinental Gas Pipe Line	First Mtg. Bond	11-01-1982	4.875	4.820	54
Total Gas					4.891% \$ 227
TELEPHONE					
American Telephone & Telegraph	Debenture	10-01-1996	4.375	4.300	\$ 100
Bell Telephone Co. Canada	First Mtg. Bond	06-01-2004	9.500	9.500	200
N.Y. Telephone Co.	Refunding Mtg. Bond	07-15-2002	8.000	8.510	200
Southern Bell Telephone & Telegraph Co.	Debenture	03-15-2013	7.625	8.278	300
Total Telephone					8.763% \$ 2,500
TOTAL PUBLIC UTILITY OBLIGATIONS					8.649% \$ 6,111
FINANCE OBLIGATIONS					
American Investment	Senior Note	11-01-1986	6.750	6.750	\$ 100
American Investment	Note	01-01-1991	5.250	5.250	96
Deere (John) Credit	Debenture	04-30-1998	7.500	7.540	500
Ford Motor Credit Co.	S/F Debenture	07-15-2000	9.700	9.724	800
Northwest Bancorp.	S/F Debenture	03-15-2003	7.750	7.750	500
Northwest Bancorp.	Note	09-15-1986	7.875	7.892	600
Wells Fargo & Co.	Promissory Note	11-01-1998	8.125	8.125	800
TOTAL FINANCE OBLIGATIONS					8.180% \$ 3,596
INDUSTRIAL OBLIGATIONS					
Alkoma, Inc.	Debenture	02-15-1997	7.500	7.500	\$ 500
Aluminum Co. of Canada	S/F Debenture	03-01-1995	9.500	10.016	800
Armco Steel Corp.	Note	12-15-1996	7.875	7.875	500
Atlantic Richfield Co.	Guaranteed Note	07-15-1996	9.250	9.250	800
Cities Service Gas Co.	Debenture	06-01-1991	8.250	8.250	300
Continental Oil	Note	12-01-2000	9.000	9.000	218
Crown Zellerbach (S.T.)	General Mtg. Bond	08-01-1994	8.125	8.125	749
FMC Corp.	S/F Debenture	01-15-2000	9.500	9.603	800
Firestone Tire & Rubber	Debenture	12-01-2001	9.250	9.250	200
Ford Motor Co.	Guaranteed Note	12-01-1996	8.625	8.625	500
Gulf Oil Corp.	First Mtg. Bond	06-15-1993	6.625	6.625	200
MacMillan Bloedel, Ltd.	Debenture	07-01-1994	8.750	8.750	250
Marathon Oil Co.	S/F Debenture	02-01-2000	8.500	8.561	250
Monroe Business Forms	Senior Note	10-01-1996	7.900	7.900	500
Phelps Dodge Corp.	Note	06-01-1985	8.500	8.622	800
Plantation Pipe Line	Guaranteed Note	10-01-2001	7.875	7.875	300
Standard Oil of Calif.	First Pref. Ship. Mtg. Bd.	03-30-1997	7.700	7.700	150
Standard Oil of Calif.	Promissory Note	12-01-1992	6.000	6.120	171
Standard Oil of Calif.	First Pref. Ship. Mtg. Bd.	03-02-1997	7.700	7.700	150
Standard Oil of Calif.	First Pref. Ship. Mtg. Bd.	02-10-1997	7.700	7.700	200
Standard Oil of Calif.	First Pref. Ship. Mtg. Bd.	09-07-1997	7.700	7.700	100
Standard Oil of Calif.	First Pref. Ship. Mtg. Bd.	09-08-1997	7.700	7.700	100
Standard Oil of Calif.	First Pref. Ship. Mtg. Bd.	11-06-1997	7.700	7.700	100
Standard Oil (Indiana)	Note	10-01-2000	7.300	7.300	300
Standard Oil (Indiana)	Note	10-01-2000	9.000	9.000	250
Standard Oil (Indiana)	Note	10-01-2000	7.500	7.500	250
Stauffer Chemical Co.	Note	03-15-1997	7.500	7.500	500
Swift & Co.	Debenture	06-01-1986	4.875	6.540	140
Union Oil Co. of Calif.	Note	12-01-1983	6.500	6.500	91
Youngstown Sheet Tube	First Mtg. S.F. Bond	07-01-1995	4.500	7.300	176
TOTAL INDUSTRIAL OBLIGATIONS					8.438% \$12,295
TRANSPORTATION DEBT OBLIGATIONS					
Atlantic Richfield Co.	First Pref. Ship. Mtg. Bd.	12-01-2001	8.750	8.750	\$ 700
Louisville & Nashville	Collateral Trust Bond	12-01-1997	4.875	4.950	50
Western Maryland RR	First Mtg. Bond	10-01-1995	4.850	4.850	72
TOTAL TRANSPORTATION DEBT OBLIGATIONS					8.177% \$ 822
RAILROAD EQUIPMENT OBLIGATIONS					
A.T. Industries, Inc.	Equipment Trust Cert.	04-15-1992/93	5.625	5.625	\$ 48
A.T. Industries, Inc.	Equipment Trust Cert.	04-01-1992/93	5.500	5.500	720
A.T. Industries, Inc.	Equipment Trust Cert.	03-01-1992/91	5.000	5.000	200
Burlington Northern	Conditional Sale Agree.	05-01-1992/85	8.500	8.500	225
Chesapeake & Ohio	Conditional Sale Agree.	09-15-1997			
Railway	Conditional Sale Agree.	03-15-1989	8.750	8.750	294
Chicago, Milwaukee, St. Paul & Pacific Railroad Co.	Conditional Sale Agree.	07-15-1997			
Chicago, Milwaukee, St. Paul & Pacific Railroad Co.	Conditional Sale Agree.	07-15-1997			
Chicago, Milwaukee, St. Paul & Pacific Railroad Co.	Conditional Sale Agree.	01-15-1982	6.375	6.375	26
Delaware & Hudson (Gen. GE)	Conditional Sale Agree.	12-01-1997			
Flying Tiger Corp.	Equipment Trust Cert.	06-01-1981	5.375	5.375	60
First Growers Express	Equipment Trust Cert.	03-01-1995	10.500	10.500	177
First Growers Express	Equipment Trust Cert.	10-15-1997	5.500	4.500	6
First Growers Express	Equipment Trust Cert.	11-15-1997/91	6.000	6.000	50
First Growers Express	Equipment Trust Cert.	06-15-1992/93	9.750	9.750	120

Schedule V continued

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (000) (b)
Louisville & Nashville	Conditional Sale Agree.	10-20-1982/91	9.000	9.000	487
St. Louis San Francisco					
Railway	Conditional Sale Agree.	01-01-1978/83	6.750	6.750	60
Seaboard Coast Line		10-01-1982/			
Railroad	Conditional Sale Agree.	04-01-1992	9.000	9.000	787
Southern Pacific Co.	Conditional Sale Agree.	03-01-1978/84	7.625	7.625	70
Southern Pacific Trans.	Conditional Sale Agree.	10-01-1978/92	8.250	8.250	350
TOTAL RAILROAD EQUIPMENT OBLIGATIONS					8.764% \$ 3,680
TOTAL CORPORATE BOND OBLIGATIONS					8.489% \$26,505
TOTAL UNITED STATES GOVERNMENT GUARANTEED, AND AGENCY, CANADIAN GOVERNMENTAL AND CORPORATE OBLIGATIONS					8.422% \$32,569

(a) Most corporate issues have substantial sinking funds and an average life far shorter than the stated maturity date.
(b) Column may not add, due to rounding.

SCHEDULE VI

HIGHWAY PATROLMEN'S RETIREMENT FUND June 30, 1977

RESUME OF ASSETS IN ACCOUNT

CASH CERTIFIED FOR INVESTMENT	\$ 198.03
MONEY MARKET SECURITIES	
Repurchase Agreements	
Maturities up to 7 days	\$ 392,000.00
Short Term Corporate Notes	
Maturities up to 29 days	\$ 152,000.00
STATE AND LOCAL OBLIGATIONS	\$ 213,000.00
UNITED STATES GOVERNMENT GUARANTEED OBLIGATIONS (See Listing Below)	\$ 521,476.25
CANADIAN GOVERNMENTAL OBLIGATIONS (See Listing Below)	\$ 1,250,000.00
CORPORATE BOND OBLIGATIONS (See Listing Below)	\$ 8,116,193.46
DEFERRED YIELD ADJUSTMENT ACCOUNT*	\$ 121,198.38
COMMON STOCKS (See Listing Below)	\$10,394,419.26
TOTAL ASSETS IN ACCOUNT (for actuarial purposes; not indicative of true market value)	\$21,160,485.38

*This account signifies an amount equal to the discount at which fixed income securities have been sold at less than amortized cost; the entire amount is being accumulated over a term equal to the average maturity of the bonds sold.

Note: Bond investments are listed at face value; common stocks are listed at market value.

UNITED STATES GOVERNMENT GUARANTEED BONDS, CANADIAN GOVERNMENTAL OBLIGATIONS AND CORPORATE BOND HOLDINGS June 30, 1977

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (000) (b)
UNITED STATES GOVERNMENT GUARANTEED OBLIGATIONS					
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION, GUARANTEED MORTGAGE BACKED SECURITIES					
Weaver Bros. Inc.	Mtg. Backed Cert.	09-15-2006	8.000	8.260%	\$ 396
GOVERNMENT GUARANTEED MERCHANT MARINE BONDS					
Moore McCormack Lines	Government Guar. Bond	04-01-1987	5.750	5.750%	125
TOTAL UNITED STATES GOVERNMENT GUARANTEED OBLIGATIONS					7.658% \$ 521
CANADIAN GOVERNMENTAL PROVINCIAL OBLIGATIONS					
British Columbia Hydro	Bond	01-15-1996	9.625	9.625	\$ 400
New Brunswick Elec. Power	S.F. Debenture	01-01-1978	7.875	7.875	300
Nova Scotia Power Inc.	S.F. Debenture	08-01-1977	7.250	7.200	150
Ontario Hydro	Note	01-15-1996	9.500	9.500	100
TOTAL PROVINCIAL OBLIGATIONS					8.874% \$1,750
TOTAL CANADIAN GOVERNMENTAL OBLIGATIONS					8.874% \$1,750

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (000) (b)
CORPORATE BOND OBLIGATIONS					
PUBLIC UTILITY OBLIGATIONS					
ELECTRIC					
California Electric Power	First Mtg. Bond	05-01-1990	5.125	5.060	\$ 40
Kansas Power & Light	First Mtg. Bond	06-01-2007	8.125	8.168	400
Public Service of Indiana	First Mtg. Bond	01-01-2007	7.625	7.734	320
Rochester Gas & Electric	First Mtg. Bond	07-01-1998	6.700	6.700	50
Total Electric					7.753% \$ 810
GAS					
Louisiana Gas Service	First Mtg. Bond	06-01-1987	4.500	4.400	\$ 50
Transcontinental Gas Pipe Line	First Mtg. Bond	11-01-1987	4.275	4.820	14
Total Gas					4.778% \$ 144
TELEPHONE					
Bell Telephone Co. of Canada	First Mtg. Bond	06-01-2004	9.500	9.500	\$ 400
N.Y. Telephone Co.	Refunding Mtg. Bond	07-15-2003	8.000	8.418	400
Total Telephone					8.958% \$ 800
TOTAL PUBLIC UTILITY OBLIGATIONS					8.058% \$1,754
FINANCE OBLIGATIONS					
CIT Financial Corp.	Debenture	10-01-1996	6.375	6.320	\$ 150
Ford Motor Credit Co.	S.F. Debenture	07-15-2000	9.700	9.724	400
Northwest Bancorp.	S.F. Debenture	03-15-2003	7.750	7.750	300
Wells Fargo & Co.	Promissory Note	11-01-1996	8.125	8.125	250
TOTAL FINANCE OBLIGATIONS					8.372% \$1,100
INDUSTRIAL OBLIGATIONS					
Aluminum Co. of Canada	S.F. Debenture	03-01-1995	9.500	9.370	\$ 150
Atlantic Richfield Co.	Guaranteed Note	07-15-1996	9.250	9.250	400
Crown Zellerbach (S.T.)	General Mtg. Bond	08-01-1991	8.125	8.125	250
FMC Corp.	S.F. Debenture	01-15-2000	9.500	9.600	400
Firestone Tire & Rubber	Debenture	12-01-2001	9.250	9.250	400
Gulf Oil Corp.	First Mtg. Bond	06-15-1993	6.525	6.625	150
MacMillan Bloedel, Ltd.	Debenture	07-01-1993	8.750	8.750	300
Marathon Oil Co.	S.F. Debenture	02-01-2000	8.500	8.570	400
Olympic Pipeline Co.	Note	09-01-2001	8.850	8.850	150
Phelps Dodge Corp.	Note	06-31-1985	5.500	5.638	100
Plantation Pipe Line	Guaranteed Note	10-01-2001	7.275	7.275	300
Standard Oil of Calif.	First Pref. Ship. Mtg. Bd.	09-07-1977	7.700	7.700	200
Standard Oil of Calif.	First Pref. Ship. Mtg. Bd.	09-08-1977	7.700	7.700	100
Standard Oil of Calif.	First Pref. Ship. Mtg. Bd.	11-06-1977	7.700	7.700	150
Standard Oil (Indiana)	Debenture	01-15-1992	6.000	6.000	50
Standard Oil (Indiana)	Note	10-01-2000	9.000	9.000	150
Union Oil Co. of Calif.	Note	12-01-1983	6.500	6.500	50
TOTAL INDUSTRIAL OBLIGATIONS					8.579% \$3,891
TRANSPORTATION DEBT OBLIGATIONS					
Atlantic Coast Line RR	First Mtg. Bond	10-01-1985	4.750	4.750	\$ 40
Louisville & Nashville Railroad Co.	Collateral Trust Bond	12-01-1987	4.375	4.950	100
Western Maryland RR	First Mtg. Bond	10-01-1989	4.850	4.850	72
TOTAL TRANSPORTATION DEBT OBLIGATIONS					4.873% \$ 212
RAILROAD EQUIPMENT OBLIGATIONS					
Burlington Northern	Conditional Sale Agree.	05-01-1978/85	8.600	8.600	\$ 223
Chesapeake & Ohio Ry.	Conditional Sale Agree.	03-15-1978			
		03-15-1989	8.750	8.750	195
Chicago, Milwaukee, St. Paul and Pacific Railroad Co.	Conditional Sale Agree.	07-15-1977			
Fruit Growers Express	Equipment Trust Cert.	01-15-1982	6.375	6.375	17
Fruit Growers Express	Equipment Trust Cert.	11-15-1977/81	6.000	6.000	25
Fruit Growers Express	Equipment Trust Cert.	05-15-1978/81	9.750	9.750	80
Illinois Central RR	Conditional Sale Agree.	02-15-1977/81	6.875	6.875	65
Seaboard Coast Line RR	Conditional Sale Agree.	10-01-1982/			
		04-01-1992	9.000	9.000	255
Southern Pacific Trans.	Conditional Sale Agree.	10-01-1978/97	8.250	8.250	155
TOTAL RAILROAD EQUIPMENT OBLIGATIONS					8.612% \$1,149
TOTAL CORPORATE OBLIGATIONS					8.342% \$8,116
TOTAL UNITED STATES GOVERNMENT GUARANTEED, CANADIAN GOVERNMENTAL AND CORPORATE OBLIGATIONS					8.373% \$9,887

(a) Most corporate issues have substantial sinking funds and an average life far shorter than the stated maturity date.
(b) Column may not add, due to rounding.

SCHEDULE VII

HIGHWAY PATROLMEN'S RETIREMENT FUND PUBLIC EMPLOYEES POLICE AND FIRE FUND COMMON STOCK HOLDINGS

June 30, 1977

Common Stock	Total Shares	Market Price 6-30-77	Highway Patrolmen's Retirement Fund		Public Employees Police and Fire Fund		Total Market Value	Total % Market
			Shares	Market Value	Shares	Market Value		
UTILITIES								
ELECTRIC								
Central and South West Corporation	8,603	\$ 16.13	8,600	\$ 138,675.00	-	-	\$ 138,675.00	
Commonwealth Edison Company	15,000	30.88	4,000	123,500.00	11,000	\$ 339,625.00	463,125.00	
Florida Power & Light Company	17,000	27.13	-	-	17,000	461,125.00	461,125.00	
Houston Industries Incorporated	7,500	33.88	-	-	7,500	254,062.50	254,062.50	
Middle South Utilities, Incorporated	27,100	16.50	7,100	117,150.00	20,000	330,000.00	447,150.00	
Pacific Gas and Electric Company	7,700	24.00	-	-	7,700	184,800.00	184,800.00	
Public Service Company of Indiana, Inc.	6,050	29.25	6,050	176,962.50	-	-	176,962.50	
Southern California Edison Company	10,000	25.13	3,700	92,962.50	6,300	158,287.50	251,250.00	
Southern Company (The)	3,500	17.25	3,500	60,375.00	-	-	60,375.00	
Texas Utilities Company	16,000	21.50	-	-	16,000	344,000.00	344,000.00	
Virginia Electric and Power Company	6,100	15.13	-	-	6,400	96,800.00	96,800.00	
Total Electric				\$ 709,625.00		\$ 2,168,700.00	\$ 2,878,325.00	6.70%
NATURAL GAS								
Houston Natural Gas Corporation	8,900	\$ 32.25	1,600	\$ 51,600.00	7,300	\$ 235,425.00	\$ 287,025.00	
Panhandle Eastern Pipe Line Company	16,500	48.88	4,500	219,937.50	12,000	586,500.00	806,437.50	
Total Natural Gas				\$ 271,537.50		\$ 821,925.00	\$ 1,093,462.50	2.54%
COMMUNICATIONS								
American Telephone & Telegraph Company	22,936	\$ 63.50	4,500	\$ 285,750.00	18,436	\$ 1,170,686.00	\$ 1,456,436.00	
General Telephone & Electronics Corporation	27,500	32.50	9,100	292,500.00	18,500	601,250.00	893,750.00	
Total Communications				\$ 578,250.00		\$ 1,771,936.00	\$ 2,350,186.00	5.47%
TOTAL UTILITIES				\$ 1,559,412.50		\$ 4,762,561.00	\$ 6,321,973.50	14.71%
FINANCIAL SERVICES								
BANKS								
BankAmerica Corporation	7,000	\$ 24.25	7,000	\$ 169,750.00	-	-	\$ 169,750.00	
Citicorp	17,900	27.38	6,000	164,250.00	11,900	325,762.50	490,012.50	
First Bank System, Incorporated	11,300	36.63	-	-	11,300	413,862.50	413,862.50	
Manufacturers Hanover Corporation	12,000	37.50	-	-	12,000	450,000.00	450,000.00	
Northwest Bancorporation	19,800	24.13	6,000	144,750.00	13,800	332,925.00	477,675.00	
Security Pacific Corporation	7,000	29.56	-	-	7,000	206,941.00	206,941.00	
Valley National Bank of Arizona	6,618	16.63	6,618	110,024.25	-	-	110,024.25	
Total Banks				\$ 588,774.25		\$ 1,720,481.00	\$ 2,318,265.25	5.39%
FINANCE								
Beneficial Corporation	13,380	\$ 23.88	4,000	\$ 95,500.00	9,380	\$ 223,947.50	\$ 319,447.50	
MGIC Investment Corporation	12,200	15.88	2,600	41,275.00	9,600	152,400.00	193,675.00	
Total Finance				\$ 136,775.00		\$ 376,347.50	\$ 513,122.50	1.19%
INSURANCE								
Aetna Life & Casualty Company	15,000	\$ 37.25	4,000	\$ 149,000.00	11,000	\$ 409,750.00	\$ 558,750.00	
INA Corporation	8,400	45.88	-	-	8,400	385,350.00	385,350.00	
NLT Corporation	30,100	25.75	7,700	198,275.00	22,400	576,800.00	775,075.00	
Northwestern National Life Insurance Co.	8,200	21.50	2,000	43,000.00	6,200	133,300.00	176,300.00	
The St. Paul Companies, Inc.	13,000	36.38	5,000	181,875.00	8,000	291,000.00	472,875.00	
Total Insurance				\$ 572,150.00		\$ 1,798,200.00	\$ 2,368,350.00	5.51%
TOTAL FINANCIAL SERVICES				\$ 1,297,699.25		\$ 3,802,038.50	\$ 5,199,737.75	12.09%
CONSUMER-ORIENTED								
AUTOS - AUTO PARTS								
Ford Motor Company	10,375	\$ 46.88	3,125	\$ 146,484.38	7,250	\$ 339,843.75	\$ 486,328.13	
General Motors Corporation	9,700	69.38	2,300	159,562.50	7,400	513,375.00	672,937.50	
Genuine Parts Company	8,700	33.88	2,700	91,462.50	6,000	203,250.00	294,712.50	
Goodyear Tire & Rubber Company (The)	10,000	20.13	-	-	10,000	201,250.00	201,250.00	
Total Autos - Auto Parts				\$ 397,509.38		\$ 1,257,718.75	\$ 1,855,228.13	3.85%
CONSUMER DURABLES								
Whirlpool Corporation	19,000	\$ 24.50	5,000	\$ 122,500.00	14,000	\$ 343,000.00	\$ 465,500.00	1.09%
CONSUMER NONDURABLES								
Avon Products, Inc.	14,500	\$ 50.50	4,500	\$ 227,250.00	10,000	\$ 505,000.00	\$ 732,250.00	
Colgate-Palmolive Company	16,000	24.75	5,000	123,750.00	11,000	272,250.00	396,000.00	
Eastman Kodak Company	6,800	59.50	1,800	107,100.00	5,000	297,500.00	404,600.00	
Minnesota Mining and Manufacturing Co.	11,000	49.38	2,500	123,437.50	8,500	419,687.50	543,125.00	
Procter & Gamble Company (The)	4,000	80.13	-	-	4,000	320,500.00	320,500.00	
Total Consumer Nondurables				\$ 581,537.50		\$ 1,814,937.50	\$ 2,396,475.00	5.57%
CONSUMER MISCELLANEOUS								
Disney (Walt) Productions	9,559	\$ 36.88	2,835	\$ 104,540.63	6,764	\$ 249,422.50	\$ 353,963.13	
Holiday Inns, Incorporated	8,800	14.13	3,100	43,787.50	5,700	80,512.50	124,300.00	
McDonald's Corporation	8,200	46.00	2,000	92,000.00	6,200	285,200.00	377,200.00	
Total Consumer Miscellaneous				\$ 240,328.13		\$ 615,135.00	\$ 855,463.13	1.99%

Schedule VII continued

Common Stock	Total Shares	Market Price 6-30-77	Highway Patrolmen's Retirement Fund		Public Employees Police and Fire Fund		Total Market Value	Total % Market
			Shares	Market Value	Shares	Market Value		
DRUGS								
American Home Products Corporation	11,500	\$ 28.75	—	—	11,500	\$ 330,625.00	\$ 330,625.00	
Johnson & Johnson	4,700	70.63	—	—	4,700	331,937.50	331,937.50	
Mellinco, Inc.	8,000	25.63	3,000	\$ 76,875.00	5,000	128,175.00	205,000.00	
Merck & Co., Inc.	8,600	55.75	2,000	122,650.00	8,400	356,800.00	479,450.00	
Pfizer Incorporated	10,100	76.00	6,000	130,000.00	11,100	288,600.00	418,600.00	
Schering Plough Corporation	3,000	36.30	3,000	109,125.00	—	—	109,125.00	
Total Drugs				\$ 438,650.00		\$ 1,438,087.50	\$ 1,874,737.50	4.37%
FOODS-BEVERAGES								
CPC International, Inc.	14,000	\$ 50.25	4,000	\$ 201,000.00	10,000	\$ 502,500.00	\$ 703,500.00	
Consolidated Foods Corporation	16,000	25.88	—	—	16,000	414,000.00	414,000.00	
General Mills Incorporated	14,900	29.50	2,900	85,550.00	12,000	354,000.00	439,550.00	
Norton Simon, Incorporated	8,124	17.75	—	—	8,124	144,201.00	144,201.00	
PepsiCo, Inc.	22,500	22.50	6,000	135,000.00	16,500	371,250.00	506,250.00	
Pillsbury Company (The)	3,500	38.25	3,500	133,875.00	—	—	133,875.00	
Total Foods-Beverages				\$ 555,425.00		\$ 1,785,951.00	\$ 2,341,376.00	5.45%
PRINTING-PUBLISHING								
Donnelly (R.R.) and Sons Company	8,859	\$ 24.25	—	—	8,859	\$ 214,830.75	\$ 214,830.75	0.50%
RETAIL SALES								
Federated Department Stores, Incorporated	8,700	\$ 37.00	—	—	8,700	\$ 321,900.00	\$ 321,900.00	
Penney (J.C.) Company, Incorporated	12,800	34.88	3,800	\$ 132,525.00	9,000	313,875.00	446,400.00	
Sears, Roebuck and Company	9,000	58.00	3,000	174,000.00	6,000	348,000.00	522,000.00	
Southland Corporation (The)	18,364	23.63	4,154	98,138.25	14,210	335,711.25	433,849.50	
Total Retail Sales				\$ 404,663.25		\$ 1,319,486.25	\$ 1,724,149.50	4.01%
TOTAL CONSUMER-ORIENTED				\$ 2,740,613.26		\$ 8,787,146.75	\$11,527,760.01	26.82%
TECHNOLOGY								
ELECTRONICS								
Hewlett Packard Company	1,700	\$ 79.00	—	—	1,700	\$ 134,300.00	\$ 134,300.00	0.31%
OFFICE EQUIPMENT								
Burroughs Corporation	9,000	\$ 62.38	2,500	\$ 155,937.50	6,500	\$ 405,437.50	\$ 561,375.00	
Control Data Corporation	4,000	21.63	—	—	4,000	86,500.00	86,500.00	
Honeywell, Inc.	4,800	53.88	—	—	4,800	258,600.00	258,600.00	
International Business Machines Corporation	8,150	264.00	2,000	528,000.00	6,150	1,623,600.00	2,151,600.00	
Xerox Corporation	6,100	48.75	2,400	117,000.00	3,700	180,375.00	297,375.00	
Total Office Equipment				\$ 800,937.50		\$ 2,554,512.50	\$ 3,355,450.00	7.61%
TOTAL TECHNOLOGY				\$ 800,937.50		\$ 2,688,812.50	\$ 3,489,750.00	8.12%
BASIC INDUSTRY								
AEROSPACE								
Boeing Company (The)	5,000	\$ 57.88	—	—	5,000	\$ 289,375.00	\$ 289,375.00	
United Technologies Corporation	13,000	40.00	5,000	\$ 200,000.00	8,000	320,000.00	520,000.00	
Total Aerospace				\$ 200,000.00		\$ 609,375.00	\$ 809,375.00	1.88%
BUILDING & FOREST PRODUCTS								
Owens Corning Fiberglas Corporation	10,000	\$ 67.13	2,000	\$ 134,250.00	8,900	\$ 597,412.50	\$ 731,662.50	
Weyerhaeuser Company	10,000	35.63	3,200	114,000.00	7,500	267,187.50	381,187.50	
Total Building & Forest Products				\$ 248,250.00		\$ 864,600.00	\$ 1,112,850.00	2.59%
CHEMICALS								
Air Products and Chemicals, Incorporated	11,363	\$ 24.25	—	—	11,363	\$ 275,552.75	\$ 275,552.75	
Dow Chemical Company (The)	4,000	34.13	4,000	\$ 136,500.00	—	—	136,500.00	
du Pont (E.I.) de Nemours and Company	4,660	116.00	600	69,600.00	4,060	470,960.00	540,560.00	
Hercules Incorporated	22,500	18.38	4,500	82,687.50	18,000	330,750.00	413,437.50	
Monsanto Company	4,500	69.88	—	—	4,500	314,437.50	314,437.50	
Union Carbide Corporation	3,500	48.88	3,500	171,062.50	—	—	171,062.50	
Total Chemicals				\$ 459,850.00		\$ 1,391,700.25	\$ 1,851,550.25	4.31%
ELECTRICAL EQUIPMENT								
Emerson Electric Co.	15,000	\$ 34.38	5,500	\$ 189,062.50	9,500	\$ 326,562.50	\$ 515,625.00	
General Electric Company	6,200	56.50	—	—	6,200	350,300.00	350,300.00	
Gould, Inc.	15,500	31.00	4,000	124,000.00	11,500	356,500.00	480,500.00	
Westinghouse Electric Corporation	3,200	21.50	—	—	3,200	68,800.00	68,800.00	
Total Electrical Equipment				\$ 313,062.50		\$ 1,102,162.50	\$ 1,415,225.00	3.28%
MACHINERY								
Caterpillar Tractor Co.	2,250	\$ 57.75	—	—	2,250	\$ 129,937.50	\$ 129,937.50	
Clark Equipment Company	7,600	39.75	2,100	\$ 83,475.00	5,500	218,625.00	302,100.00	
Combustion Engineering, Incorporated	7,000	62.13	—	—	7,000	434,875.00	434,875.00	
Trans Union Corporation	11,000	37.75	5,000	188,750.00	6,000	226,500.00	415,250.00	
Total Machinery				\$ 272,225.00		\$ 1,009,937.50	\$ 1,282,162.50	2.98%
METALS								
Aluminum Company of America	5,200	\$ 53.00	1,400	\$ 74,200.00	3,800	\$ 201,400.00	\$ 275,600.00	
Pittston Company (The)	18,818	28.88	4,434	128,031.75	14,384	415,338.00	543,369.75	
Total Metals				\$ 202,231.75		\$ 616,738.00	\$ 818,969.75	1.91%
PAPER								
International Paper Company	6,500	\$ 51.50	1,500	\$ 77,250.00	5,000	\$ 257,500.00	\$ 334,750.00	
Union Camp Corporation	4,000	54.25	1,000	54,250.00	3,000	162,750.00	217,000.00	
Total Paper				\$ 131,500.00		\$ 420,250.00	\$ 551,750.00	1.26%

Schedule VII continued

Common Stock	Total Shares	Market Price 6-30-77	Highway Patrolmen's Retirement Fund		Public Employees Police and Fire Fund		Total Market Value	Total % Market
			Shares	Market Value	Shares	Market Value		
MISCELLANEOUS								
Corning Glass Works	3,800	\$ 67.38	1,000	\$ 67,375.00	2,800	\$ 188,650.00	\$ 256,025.00	
International Telephone & Telegraph Corp.	9,200	35.88	2,200	78,925.00	7,000	251,125.00	330,050.00	
Total Miscellaneous				\$ 146,300.00		\$ 439,775.00	\$ 586,075.00	1.38%
TOTAL BASIC INDUSTRY				\$ 1,873,419.25		\$ 8,454,538.25	\$ 8,427,957.50	19.80%
ENERGY								
OIL-DOMESTIC								
Continental Oil Company (Del.)	18,000	\$ 33.88	5,000	\$ 169,375.00	13,000	\$ 440,375.00	\$ 609,750.00	
Marathon Oil Company	9,800	57.63	1,800	94,725.00	8,000	421,000.00	515,725.00	
Phillips Petroleum Company	32,000	31.00	8,000	248,000.00	24,000	744,000.00	992,000.00	
Standard Oil Company (Indiana)	14,100	53.75	4,100	220,375.00	10,000	537,500.00	757,875.00	
Total Oil-Domestic				\$ 732,475.00		\$ 2,142,875.00	\$ 2,875,350.00	6.69%
OIL-INTERNATIONAL								
Exxon Corporation	20,700	\$ 53.50	7,700	\$ 411,950.00	13,000	\$ 695,500.00	\$ 1,107,450.00	
Gulf Oil Corporation	15,000	28.00	—	—	15,000	420,000.00	420,000.00	
Mobil Corporation	9,600	68.00	5,100	346,800.00	4,500	306,000.00	652,800.00	
Standard Oil Company of California	12,000	41.75	—	—	12,000	501,000.00	501,000.00	
Texaco Inc.	11,500	29.13	—	—	11,500	334,937.50	334,937.50	
Total Oil-International				\$ 758,750.00		\$ 2,257,437.50	\$ 3,016,187.50	7.02%
ENERGY-RELATED								
Compass Industries, Inc.	8,500	\$ 45.75	2,500	\$ 114,375.00	6,000	\$ 274,500.00	\$ 388,875.00	
Halliburton Company	2,500	66.75	—	—	2,500	166,875.00	166,875.00	
Williams Companies (The)	16,500	23.13	5,500	127,187.50	11,000	254,375.00	381,562.50	
Total Energy-Related				\$ 241,562.50		\$ 695,750.00	\$ 937,312.50	2.18%
TOTAL ENERGY				\$ 1,732,787.50		\$ 5,096,062.50	\$ 6,828,850.00	15.89%
TRANSPORTATION								
AIRLINES								
Delta Air Lines, Incorporated	2,600	\$ 35.75	1,100	\$ 39,325.00	1,500	\$ 53,625.00	\$ 92,950.00	
Northwest Airlines, Incorporated	7,900	25.25	2,700	68,175.00	5,200	131,300.00	199,475.00	
UAL, Inc.	1,500	20.38	—	—	1,500	30,562.50	30,562.50	
Total Airlines				\$ 107,500.00		\$ 215,487.50	\$ 322,987.50	0.75%
RAILROADS								
Burlington Northern Incorporated	6,300	\$ 50.25	1,800	\$ 90,450.00	4,500	\$ 226,125.00	\$ 316,575.00	
Southern Railway Company	3,200	58.38	—	—	3,200	186,800.00	186,800.00	
Union Pacific Corporation	6,400	57.25	1,600	91,600.00	4,800	274,800.00	366,400.00	
Total Railroads				\$ 182,050.00		\$ 687,725.00	\$ 869,775.00	2.02%
TOTAL TRANSPORTATION				\$ 289,550.00		\$ 903,212.50	\$ 1,192,762.50	2.77%
TOTAL COMMON STOCKS				\$10,394,419.25^a		\$32,594,372.00^b	\$42,988,791.26^c	100.00%

a Net original cost of equities on June 30, 1977, was \$10,079,121.24.
b Net original cost of equities on June 30, 1977, was \$31,839,264.54.
c Net original cost of equities on June 30, 1977, was \$41,918,385.78.

SCHEDULE VIII

JUDGES RETIREMENT FUND June 30, 1977

RESUME OF ASSETS IN ACCOUNT

CASH CERTIFIED FOR INVESTMENT	\$ 416.20
MONEY MARKET SECURITIES	
Repurchase Agreements Maturities up to 29 days	\$ 104,000.00
UNITED STATES GOVERNMENT GUARANTEED OBLIGATIONS (See Listing Below)	\$ 290,878.57
UNITED STATES GOVERNMENT AGENCY OBLIGATIONS (See Listing Below)	\$ 175,000.00
CORPORATE BOND OBLIGATIONS (See Listing Below)	\$ 900,000.00
DEFERRED YIELD ADJUSTMENT ACCOUNT*	\$ (7,071.00)
COMMON STOCKS (See Listing Below)	\$ 266,167.40
TOTAL ASSETS IN ACCOUNT (For actuarial purposes, not indicative of true market value)	\$1,729,786.27

*This account signifies an amount equal to the discount at which fixed income securities have been sold at less than amortized cost; the entire amount is being accumulated over a term equal to the average maturity of the bonds sold.

Note: Bond investments are listed at face value; common stocks are listed at market value.

UNITED STATES GOVERNMENT-GUARANTEED AND AGENCY BONDS, AND CORPORATE BOND HOLDINGS June 30, 1977

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (000) (b)
UNITED STATES GOVERNMENT-GUARANTEED OBLIGATIONS					
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION, GUARANTEED MORTGAGE BACKED SECURITIES					
Weaver Bros. Inc.	Mtg. Backed Cert.	09-15-2006	8.000	8.260%	\$ 148
GOVERNMENT GUARANTEED MERCHANT MARINE BOND					
Puget Sound Tug & Barge	Government Guar. Bond	02-15-2001	9.125	9.125%	\$ 142
TOTAL UNITED STATES GOVERNMENT- GUARANTEED OBLIGATIONS				8.693%	\$ 290
UNITED STATES GOVERNMENT AGENCY OBLIGATIONS					
Federal Home Loan Bank	Bond	02-26-1979	9.450	9.450	\$ 100
Federal Home Loan Bank	Bond	11-26-1979	8.150	8.150	75
TOTAL UNITED STATES GOVERNMENT AGENCY OBLIGATIONS				8.693%	\$ 175
CORPORATE BOND OBLIGATIONS					
PUBLIC UTILITY OBLIGATIONS					
ELECTRIC					
Pacific Gas & Electric	First & Ref. Mtg. Bond	08-01-1985	9.500	9.577%	\$ 100
TELEPHONE					
Southern Bell Telephone & Telegraph Co.	Debenture	03-15-2017	7.625	7.699%	\$ 170
TOTAL PUBLIC UTILITY OBLIGATIONS				9.638%	\$ 200
FINANCE OBLIGATIONS					
Northwest Bancorporation	Note	09-15-1986	7.875	7.297	\$ 100
INDUSTRIAL OBLIGATIONS					
Atlantic Richfield Co.	Guaranteed Note	07-01-1996	9.250	9.250	\$ 100
du Pont (E. I.) de Nemours	Debenture	11-01-2004	8.450	8.895	100

Schedule VIII continued

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (000) (b)
Exxon Pipeline Company	S/F Bond	10-15-2000	8.875	8.899	100
Ford Motor Co.	Debenture	07-15-1994	9.250	9.294	100
Olympic Pipeline Co.	Note	09-01-2001	8.850	8.850	100
TOTAL INDUSTRIAL OBLIGATIONS				9.038%	\$ 500
RAILROAD EQUIPMENT OBLIGATIONS					
Canadian Pacific, Ltd.	Equipment Trust Cert.	01-15-1983/92	8.625	8.625%	\$ 100
TOTAL CORPORATE OBLIGATIONS				8.998%	\$ 900
TOTAL UNITED STATES GOVERNMENT GUARANTEED AND CORPORATE OBLIGATIONS				8.817%	\$1,385

(a) Most corporate issues have substantial sinking funds and an average life far shorter than the stated maturity date.
(b) Column may not add, due to rounding.

COMMON STOCK HOLDINGS

Common Stock	Shares	Market Price 6-30-77	Market Value	Total % Market
UTILITIES				
ELECTRIC				
Northern States Power Company (Minn.)	300	\$ 28.75	\$ 8,625.00	
Texas Utilities Company	400	21.50	8,600.00	
Total Electric			\$ 17,225.00	6.46%
NATURAL GAS				
Panhandle Eastern Pipe Line Company	200	\$ 48.88	\$ 9,775.00	3.66%
COMMUNICATIONS				
American Telephone & Telegraph Company	300	\$ 63.50	\$ 19,050.00	7.14%
TOTAL UTILITIES			\$ 46,050.00	17.26%
CONSUMER ORIENTED CONSUMER DURABLES				
Sunbeam Corporation	300	\$ 23.50	\$ 7,050.00	2.64%
CONSUMER NONDURABLES				
Eastman Kodak Company	100	\$ 59.50	\$ 5,950.00	
Minnesota Mining and Manufacturing Company	200	49.38	9,875.00	
Total Consumer-Nondurables			\$ 15,825.00	5.93%
DRUGS				
Schering-Plough Corporation	100	\$ 36.38	\$ 3,637.50	1.36%
FOODS/BEVERAGES				
CPC International, Inc.	200	\$ 50.25	\$ 10,050.00	
Coca-Cola Company (The)	200	37.25	7,450.00	
Total Foods/Beverages			\$ 17,500.00	6.56%
RETAIL SALES				
Federated Department Stores, Incorporated	100	\$ 37.00	\$ 3,700.00	
Pennney (J.C.) Company, Incorporated	200	34.88	6,975.00	
Total Retail Sales			\$ 10,675.00	4.00%
TOTAL CONSUMER ORIENTED			\$ 54,687.50	20.49%
TECHNOLOGY OFFICE EQUIPMENT				
International Business Machines Corporation	100	\$264.00	\$ 26,400.00	9.90%
TOTAL TECHNOLOGY			\$ 26,400.00	9.90%
BASIC INDUSTRY AEROSPACE				
Boeing Company (The)	200	\$ 57.88	\$ 11,575.00	4.34%
BUILDING & FOREST PRODUCTS				
Georgia-Pacific Corporation	102	\$ 31.25	\$ 3,187.50	1.19%
CHEMICALS				
Dow Chemical Company (The)	300	\$ 34.13	\$ 10,237.50	3.84%
ELECTRICAL EQUIPMENT				
General Electric Company	300	\$ 56.50	\$ 16,950.00	
Gould, Inc.	300	31.00	9,300.00	
Total Electrical Equipment			\$ 26,250.00	9.85%
METALS				
Aluminum Company of America	200	\$ 53.00	\$ 10,600.00	3.97%
TOTAL BASIC INDUSTRY			\$ 61,850.00	23.19%
ENERGY (U.S. DOMESTIC)				
Atlantic Richfield Company	400	\$ 10.50	\$ 4,200.00	
Continental Oil Company (The)	200	11.88	2,375.00	
Total Oil Domestic			\$ 6,575.00	2.51%
OIL INTERNATIONAL				
Exxon Corporation	400	\$ 15.50	\$ 6,200.00	2.32%
ENERGY-RELATED				
Dresser Industries, Inc.	300	\$ 45.75	\$ 13,725.00	5.15%
TOTAL ENERGY			\$ 26,500.00	10.02%

Common Stock	Shares	Market Price 6-30-77	Market Value	Total % Market
TRANSPORTATION RAILROADS				
Southern Railway Company	200	\$ 58.38	\$ 11,675.00	4.38%
TOTAL TRANSPORTATION			\$ 11,675.00	4.38%
TOTAL COMMON STOCKS			\$268,762.50	100.00%

*Net original cost of equities on June 30, 1977, was \$241,658.81

SCHEDULE IX

SUPPLEMENTAL RETIREMENT FUND - INCOME SHARE ACCOUNT June 30, 1977

RESUME OF ASSETS IN ACCOUNT

CASH CERTIFIED FOR INVESTMENT*	\$ (144,003.25)
MONEY MARKET SECURITIES	
Bills:	
Maturities up to 98 days	\$ 635,000.00
Repurchase Agreements	
Maturities up to 7 days	\$ 311,000.00
UNITED STATES GOVERNMENT-GUARANTEED OBLIGATIONS (See Listing Below)	\$ 1,689,796.24
CANADIAN GOVERNMENTAL OBLIGATIONS (See Listing Below)	\$ 4,500,000.00
CORPORATE BOND OBLIGATIONS (See Listing Below)	\$19,043,395.67
COMMON STOCKS (See Listing Below)	\$27,834,831.25
TOTAL ASSETS IN ACCOUNT	\$52,870,019.91

*A negative cash balance indicates purchase of securities prior to fiscal year end for which payment was not made until early July 1977.

Note: Bond investments are listed at face value; common stocks are listed at market value.

UNITED STATES GOVERNMENT-GUARANTEED BONDS, CANADIAN GOVERNMENTAL OBLIGATIONS AND CORPORATE BOND HOLDINGS June 30, 1977

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (000) (b)
UNITED STATES GOVERNMENT GUARANTEED OBLIGATIONS					
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION, GUARANTEED MORTGAGE-BACKED SECURITIES					
Nebraska Federal	Mtg. Backed Cert.	12-15-2006	8.000	8.183	\$ 996
Weaver Bros. Inc.	Mtg. Backed Cert.	09-15-2006	8.000	8.260	693
TOTAL GOVERNMENT NATIONAL MORTGAGE ASSOCIATION, GUARANTEED MORTGAGE-BACKED SECURITIES				8.215%	\$ 1,689
TOTAL UNITED STATES GOVERNMENT GUARANTEED OBLIGATIONS				8.215%	\$ 1,689
CANADIAN GOVERNMENTAL PROVINCIAL OBLIGATIONS					
British Columbia Hydro	Bond	07-15-1996	9.625	9.625	\$ 800
Manitoba Hydro Electric Board	Debenture	10-15-1997	7.650	7.650	500
New Brunswick Electric Power	S F Debenture	04-01-1998	7.375	7.875	500
Nova Scotia Power Comm.	S F Debenture	07-15-1995	8.125	8.150	800
Ontario Hydro	Note	03-15-1996	9.500	9.500	800
Ontario, Province of	Debenture	05-15-2001	7.850	7.850	300
Ontario, Province of	Debenture	12-15-2002	7.300	7.300	500
TOTAL PROVINCIAL OBLIGATIONS				8.433%	\$ 4,500
TOTAL CANADIAN GOVERNMENTAL OBLIGATIONS				8.433%	\$ 4,500
CORPORATE BOND OBLIGATIONS					
PUBLIC UTILITY OBLIGATIONS					
GAS					
Minnesota Gas Company	Debenture	11-15-1981	9.250	9.374	\$ 250
TELEPHONE					
Bell Telephone Co. of Canada	First Mtg. Bond	06-01-2004	9.500	9.550	\$ 250
N. Y. Telephone Co.	Refunding Mtg. Bond	07-15-2008	8.000	8.000	350
Total Telephone				9.082%	\$ 1,600
TOTAL PUBLIC UTILITY OBLIGATIONS				9.176%	\$ 2,400

Schedule IX continued

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (000) (b)
FINANCE OBLIGATIONS					
Deere (John) Credit	Debtenture	04-30-1998	7.500	7.540	\$ 500
Ford Motor Credit Co.	Debtenture	04-01-1999	8.700	8.917	800
Ford Motor Credit Co.	S/F Debtenture	07-12-2000	9.700	9.724	800
Honeywell Finance Inc.	S/F Debtenture	12-15-1998	8.200	8.367	800
Northwest Bancorporation	S/F Debtenture	03-15-2003	7.750	7.750	800
Northwest Bancorporation	Note	09-15-1986	7.875	7.892	800
Wells Fargo & Co.	Promissory Note	11-01-1998	8.125	8.125	800
TOTAL FINANCE OBLIGATIONS				8.375%	\$ 5,300
INDUSTRIAL OBLIGATIONS					
Aluminum Co. of Canada	S/F Debtenture	03-01-1995	9.500	9.604	\$ 800
Atlantic Richfield Co.	Guaranteed Note	07-15-1996	9.250	9.250	800
Citic Service Gas Co.	Debtenture	06-01-1991	8.250	8.250	400
Dresser Industries	Note	05-15-1985	8.650	8.564	400
FMC Corp.	S/F Debtenture	01-15-2000	9.500	9.603	800
Ford Motor Co.	Guaranteed Note	12-01-1996	8.625	8.625	700
Marathon Oil Co.	S/F Debtenture	02-01-2000	8.500	8.580	800
Monroe Business Forms	Senior Note	10-01-1996	7.900	7.900	500
Petrols Dodge Corp.	Note	06-01-1985	8.500	8.570	400
Plastation Pipe Line	Guaranteed Note	10-01-2001	7.875	7.875	400
Robt. & Hays Company	Note	04-15-1985	9.000	9.000	500
Standard Oil of California	First Pref. Ship. Mtg. Bd.	03-30-1997	7.700	7.700	150
Standard Oil of California	First Pref. Ship. Mtg. Bd.	01-07-1997	7.700	7.700	150
Standard Oil of California	First Pref. Ship. Mtg. Bd.	02-10-1997	7.700	7.700	200
Standard Oil of California	First Pref. Ship. Mtg. Bd.	09-07-1997	7.700	7.700	100
Standard Oil of California	First Pref. Ship. Mtg. Bd.	09-08-1997	7.700	7.700	100
Standard Oil of California	First Pref. Ship. Mtg. Bd.	11-06-1997	7.700	7.700	100
Standard Oil (Indiana)	Note	10-01-2000	7.500	7.766	800
Stauffer Chemical Co.	Note	03-15-1997	7.500	7.500	500
TOTAL INDUSTRIAL OBLIGATIONS				8.560%	\$ 8,600
RAILROAD EQUIPMENT OBLIGATIONS					
ACF Industries, Inc.	Equipment Trust Cert.	04-01-1978/85	9.500	9.500	\$ 120
ACF Industries, Inc.	Equipment Trust Cert.	02-01-1978/91	8.000	8.000	500
Burlington Northern	Conditional Sale Agree.	05-01-1978/86	8.600	8.600	186
Burlington Northern	Conditional Sale Agree.	10-01-1977/87	9.625	9.625	183
Canadian Pacific, Ltd.	Equipment Trust Cert.	01-15-1983/92	8.625	8.625	500
Chesapeake & Ohio Railway	Conditional Sale Agree.	09-15-1977	8.750	8.750	490
Delaware & Hudson (Guar. GE)	Conditional Sale Agree.	03-01-1978	10.500	10.500	154
Fruit Growers Express	Equipment Trust Cert.	06-15-1978/85	9.750	9.750	120
Louisville & Nashville	Conditional Sale Agree.	10-20-1982/91	9.000	9.000	487
TOTAL RAILROAD EQUIPMENT OBLIGATIONS				8.859%	\$ 2,743
TOTAL CORPORATE OBLIGATIONS				8.629%	\$19,043
TOTAL UNITED STATES GOVERNMENT GUARANTEED, CANADIAN GOVERNMENTAL AND CORPORATE OBLIGATIONS				8.566%	\$25,233

(a) Most corporate issues have substantial sinking funds and an average life far shorter than the stated maturity date.
(b) Column may not add, due to rounding.

COMMON STOCK HOLDINGS

Common Stock	Shares	Market Price 6/30/77	Market Value	Total % Market
UTILITIES				
ELECTRIC				
Commonwealth Edison Company	17,000	\$ 30.88	\$ 524,875.00	
Minnesota Power & Light Company	20,200	22.25	449,450.00	
Northern States Power Company (Minn.)	18,000	28.75	517,500.00	
Public Service Company of Indiana, Inc.	8,000	29.25	234,000.00	
Texas Utilities Company	23,800	21.50	511,700.00	
Total Electric			\$ 2,237,525.00	8.03%
NATURAL GAS				
Houston Natural Gas Corporation	3,000	\$ 32.25	\$ 96,750.00	
Panhandle Eastern Pipe Line Company	14,000	48.88	684,320.00	
Producers Gas Company	1,500	50.75	76,125.00	
Total Natural Gas			\$ 1,161,425.00	4.18%
COMMUNICATIONS				
American Telephone & Telegraph Company	10,000	\$ 63.50	\$ 1,206,500.00	
General Telephone & Electronics Corporation	22,000	72.50	1,595,000.00	
Total Communications			\$ 1,921,500.00	6.90%
TOTAL UTILITIES				12.11%
FINANCIAL SERVICES				
BANKS				
Continental Illinois Corporation	18,000	\$ 26.75	\$ 481,500.00	
Manufacturers Hanover Corporation	11,000	37.50	412,500.00	
Northwest Bancorporation	20,000	24.13	482,500.00	
Total Banks			\$ 1,376,500.00	4.95%
FINANCE				
Household Finance Corporation	22,000	\$ 19.88	\$ 437,750.00	1.57%
INSURANCE				
INA Corporation	10,000	\$ 45.88	\$ 458,750.00	
NLT Corporation	11,000	25.75	283,250.00	
United States Fidelity & Guaranty Company	13,200	39.38	519,750.00	
Total Insurance			\$ 1,261,750.00	4.53%
TOTAL FINANCIAL SERVICES				11.05%

Common Stock	Shares	Market Price 6/30/77	Market Value	Total % Market
CONSUMER ORIENTED				
AUTOS - AUTO PARTS				
Ford Motor Company	9,500	\$ 46.88	\$ 445,312.50	
General Motors Corporation	7,000	69.38	485,625.00	
Goodyear Tire & Rubber Company (The)	11,500	20.13	231,437.50	
Total Autos - Auto Parts			\$ 1,162,375.00	4.18%
CONSUMER DURABLES				
Sunbeam Corporation	14,000	\$ 23.53	\$ 329,000.00	1.18%
CONSUMER NONDURABLES				
Avon Products, Inc.	10,000	\$ 50.50	\$ 505,000.00	
Colgate Palmolive Company	9,000	24.75	222,750.00	
Minnesota Mining and Manufacturing Company	10,000	49.38	493,750.00	
Total Consumer-Nondurables			\$ 1,221,500.00	4.39%
CONSUMER MISCELLANEOUS				
McDonald's Corporation	2,000	\$ 46.00	\$ 92,000.00	0.33%
DRUGS				
American Home Products Corporation	5,000	\$ 28.75	\$ 143,750.00	
Pfizer Incorporated	16,000	26.00	416,000.00	
Warner Lambert Company	14,000	28.63	400,750.00	
Total Drugs			\$ 960,500.00	3.45%
FOODS & BEVERAGES				
LFIC International, Inc.	10,000	\$ 50.25	\$ 502,500.00	
Consolidated Foods Corporation	12,000	25.88	310,500.00	
General Foods Corporation	15,000	33.38	500,625.00	
PepsiCo, Inc.	19,800	22.50	445,500.00	
Total Food-Beverages			\$ 1,759,125.00	6.32%
RETAIL SALES				
Federated Department Stores, Incorporated	11,000	\$ 37.00	\$ 407,000.00	
Pennney (J.C.) Company, Incorporated	5,000	34.88	174,375.00	
Sears, Roebuck and Company	7,500	58.00	435,000.00	
Total Retail Sales			\$ 1,016,375.00	3.65%
TOTAL CONSUMER-ORIENTED				23.50%
TECHNOLOGY				
OFFICE EQUIPMENT				
International Business Machines Corporation	4,800	\$264.00	\$ 1,267,200.00	4.55%
TOTAL TECHNOLOGY				4.55%
BASIC INDUSTRY				
AEROSPACE				
United Technologies Corporation	13,000	\$ 40.00	\$ 520,000.00	1.87%
BUILDING & FOREST PRODUCTS				
Georgia Pacific Corporation	15,953	\$ 31.25	\$ 498,531.25	
Masonite Corporation	4,000	17.00	68,000.00	
Total Building & Forest Products			\$ 566,531.25	2.04%
CHEMICALS				
Dow Chemical Company (The)	4,000	\$ 34.13	\$ 136,500.00	
du Pont (E. I.) de Nemours and Company	3,500	116.00	406,000.00	
Montanto Company	3,000	65.58	196,725.00	
Union Carbide Corporation	9,500	48.88	464,312.50	
Total Chemicals			\$ 1,216,437.50	4.37%
ELECTRICAL EQUIPMENT				
General Electric Company	5,000	\$ 56.50	\$ 282,500.00	
Gould, Inc.	30,000	31.00	930,000.00	
Total Electrical Equipment			\$ 1,212,500.00	4.35%
MACHINERY				
Clark Equipment Company	4,000	\$ 39.75	\$ 159,000.00	
Combustion Engineering, Incorporated	8,000	62.13	497,000.00	
Trans Union Corporation	8,000	37.75	302,000.00	
Total Machinery			\$ 958,000.00	3.44%
METALS				
St. Joe Minerals Corporation	13,000	\$ 34.13	\$ 443,625.00	1.55%
PAPER				
International Paper Company	4,000	\$ 51.13	\$ 204,500.00	
Union Camp Corporation	3,000	54.25	162,750.00	
Total Paper			\$ 367,250.00	2.25%
MISCELLANEOUS				
International Telephone & Telegraph Corp.	12,000	\$ 35.88	\$ 430,500.00	1.55%
TOTAL BASIC INDUSTRY				21.46%
ENERGY				
OIL-DOMESTIC				
Continental Oil Company (Del.)	22,000	\$ 33.88	\$ 745,250.00	
Marathon Oil Company	11,000	52.63	578,875.00	
Standard Oil Company (Indiana)	12,000	53.75	645,000.00	
Total Oil-Domestic			\$ 1,969,125.00	7.08%
OIL INTERNATIONAL				
Exxon Corporation	23,000	\$ 53.13	\$ 1,232,500.00	
Amoco Corporation	12,500	68.00	850,000.00	
Texaco Inc.	17,000	25.12	427,000.00	
Total Oil International			\$ 2,519,500.00	9.25%
ENERGY RELATED				
Dresser Industries, Inc.	9,000	\$ 45.75	\$ 411,750.00	
Williams Companies (The)	6,000	22.12	132,750.00	
Total Energy Related			\$ 544,500.00	1.93%
TOTAL ENERGY				18.31%

Schedule IX continued

Common Stock	Shares	Market Price 6/30/77	Market Value	Total % Market
TRANSPORTATION				
RAILROADS				
Southern Railway Company	5,500	\$ 58.38	\$ 321,067.50	
Union Pacific Corporation	4,200	57.25	240,450.00	
Total Railroads			\$ 561,517.50	2.02%
TOTAL TRANSPORTATION			\$ 561,517.50	2.02%
TOTAL COMMON STOCKS			\$27,834,831.25	100.00%

*Net original cost of equities on June 30, 1977, was \$25,337,326.69.

SCHEDULE X

SUPPLEMENTAL RETIREMENT FUND - GROWTH SHARE ACCOUNT June 30, 1977

RESUME OF ASSETS IN ACCOUNT

CASH CERTIFIED FOR INVESTMENT*	\$ (165,14)
MONEY MARKET SECURITIES	
Repurchase Agreements	
Maturities up to 7 days	\$ 380,000.00
COMMON STOCKS (See Listing Below)	\$16,583,717.63
TOTAL ASSETS IN ACCOUNT	\$16,963,052.49

*A negative cash balance indicates purchase of securities prior to fiscal year end for which payment was not made until early July 1977.

Note: Money market securities are listed at face value; common stocks are listed at market value.

COMMON STOCK HOLDINGS

Common Stock	Shares	Market Price 6/30/77	Market Value	Total % Market
UTILITIES				
ELECTRIC				
Florida Power & Light Company	17,000	\$ 27.13	\$ 461,175.00	
Texas Utilities Company	18,000	21.50	387,000.00	
Total Electric			\$ 848,175.00	5.11%
NATURAL GAS				
Houston Natural Gas Corporation	8,000	\$ 32.25	\$ 258,000.00	1.56%
COMMUNICATIONS				
American Telephone & Telegraph Company	4,800	\$ 63.50	\$ 304,800.00	
United Telecommunications, Inc.	17,800	20.50	364,900.00	
Total Communications			\$ 669,700.00	4.04%
TOTAL UTILITIES			\$ 1,775,825.00	10.71%
FINANCIAL SERVICES				
BANKS				
BankAmerica Corporation	5,000	\$ 24.25	\$ 121,250.00	
First Bank System, Incorporated	6,000	36.63	219,750.00	
Valley National Bank of Arizona	7,500	16.63	124,687.50	
Total Banks			\$ 465,687.50	2.81%
FINANCE				
Household Finance Corporation	10,000	\$ 19.88	\$ 198,750.00	
MGIC Investment Corporation	6,000	15.88	95,250.00	
Total Finance			\$ 294,000.00	1.77%
INSURANCE				
INA Corporation	6,000	\$ 45.88	\$ 275,250.00	
RLT Corporation	10,400	25.75	267,800.00	
SATCO Corporation	3,400	47.13	160,275.00	
Total Insurance			\$ 703,275.00	4.24%
TOTAL FINANCIAL SERVICES			\$ 1,462,962.50	8.82%
CONSUMER-ORIENTED				
AUTOS - AUTO PARTS				
Genuine Parts Company	19,500	\$ 33.88	\$ 660,562.50	3.98%
CONSUMER DURABLES				
Sunbeam Corporation	9,000	\$ 23.50	\$ 211,500.00	1.28%
CONSUMER NONDURABLES				
Avon Products, Inc.	5,000	\$ 50.50	\$ 252,500.00	
Clorox Company (The)	6,500	13.00	84,500.00	
Colgate Palmolive Company	6,000	24.75	148,500.00	
Eastman Kodak Company	4,400	59.50	261,800.00	
Minnesota Mining and Manufacturing Company	6,000	49.38	296,250.00	
Revlon, Incorporated	8,000	41.75	334,000.00	
Total Consumer Nondurables			\$ 1,373,550.00	8.29%
CONSUMER MISCELLANEOUS				
ARA Services, Incorporated	1,800	\$ 41.75	\$ 75,150.00	
Disney (Walt) Productions	5,197	36.82	191,639.38	

Common Stock	Shares	Market Price 6/30/77	Market Value	Total % Market
Holiday Inn, Incorporated	4,200	\$ 14.17	\$ 59,374.00	
McDonald's Corporation	5,000	46.00	230,000.00	
Total Consumer Miscellaneous			\$ 556,114.38	3.35%
DRUGS				
American Home Products Corporation	7,000	\$ 28.75	\$ 201,250.00	
Johnson & Johnson	3,500	70.63	247,187.50	
Meditronic, Inc.	7,000	25.63	179,375.00	
Schering Plough Corporation	4,500	36.38	163,725.00	
Total Drugs			\$ 791,500.00	4.77%
FOODS/BEVERAGES				
General Mills, Incorporated	7,000	\$ 29.50	\$ 206,500.00	
PepsiCo, Inc.	16,500	22.50	371,250.00	
Pillsbury Company (The)	5,000	33.25	166,250.00	
Total Foods/Beverages			\$ 743,000.00	4.64%
RETAIL SALES				
American Greetings Corporation	13,000	\$ 10.81	\$ 140,569.00	
K mart Corporation	6,500	28.50	185,250.00	
Penney (J.C.) Company, Incorporated	6,000	34.88	209,250.00	
Southland Corporation (The)	6,150	23.63	145,297.50	
Total Retail Sales			\$ 680,367.50	4.10%
TOTAL CONSUMER ORIENTED			\$ 5,042,589.63	30.41%
TECHNOLOGY				
ELECTRONICS				
Hewlett Packard Company	4,000	\$ 77.00	\$ 308,000.00	1.90%
OFFICE EQUIPMENT				
Burroughs Corporation	2,000	\$ 62.38	\$ 124,750.00	
Digital Equipment Corporation	6,000	46.82	281,250.00	
Honeywell, Inc.	4,000	53.88	215,500.00	
International Business Machines Corporation	3,512	264.00	927,168.00	
Xerox Corporation	3,700	48.75	180,375.00	
Total Office Equipment			\$ 1,729,043.00	10.43%
TOTAL TECHNOLOGY			\$ 2,045,043.00	12.33%
BASIC INDUSTRY				
AEROSPACE				
Boeing Company (The)	7,000	\$ 57.88	\$ 405,125.00	2.44%
BUILDING & FOREST PRODUCTS				
Georgia Pacific Corporation	8,000	\$ 31.25	\$ 250,000.00	
Matson Corporation	11,000	17.30	190,300.00	
Total Building & Forest Products			\$ 440,300.00	2.64%
CHEMICALS				
Air Products and Chemicals, Incorporated	8,670	\$ 24.25	\$ 210,247.50	
Olin Chemical Company (The)	4,500	34.15	153,675.00	
du Pont (E. I.) de Nemours and Company	2,100	116.00	243,600.00	
Total Chemicals			\$ 607,410.00	3.65%
ELECTRICAL EQUIPMENT				
Emerson Electric Co.	11,000	\$ 34.32	\$ 377,520.00	
Gould, Inc.	6,500	31.00	201,500.00	
Total Electrical Equipment			\$ 579,020.00	3.50%
MACHINERY				
Clark Equipment Company	4,000	\$ 39.75	\$ 159,000.00	
Trans Union Corporation	3,500	37.75	132,125.00	
Total Machinery			\$ 291,125.00	1.76%
METALS				
Hanna Mining Company (The)	6,500	\$ 49.00	\$ 318,500.00	
St. Joe Minerals Corporation	6,500	34.13	221,812.50	
Total Metals			\$ 540,312.50	3.28%
PAPER				
International Paper Company	4,300	\$ 51.50	\$ 221,450.00	1.34%
MISCELLANEOUS				
International Telephone & Telegraph Corp.	6,000	\$ 35.28	\$ 211,680.00	1.29%
TOTAL BASIC INDUSTRY			\$ 3,297,297.50	19.88%
ENERGY				
OIL DOMESTIC				
Atlantic Richfield Company	5,000	\$ 65.50	\$ 327,500.00	
Louisiana Land and Exploration Company (The)	10,000	27.50	275,000.00	
Marathon Oil Company	8,000	52.63	421,000.00	
Total Oil Domestic			\$ 1,023,500.00	6.02%
OIL INTERNATIONAL				
Exxon Corporation	15,500	\$ 53.50	\$ 829,250.00	5.00%
ENERGY RELATED				
Baker International Corporation	8,000	\$ 52.83	\$ 422,640.00	
Hubbards Corporation	8,000	66.75	534,000.00	
Williams Companies (The)	5,600	27.13	151,928.00	
Total Energy Related			\$ 1,988,568.00	11.92%
TOTAL ENERGY			\$ 3,012,068.00	17.94%
TRANSPORTATION				
AIRLINES				
Northwest Airlines, Incorporated	6,000	\$ 25.25	\$ 151,500.00	0.91%
TOTAL TRANSPORTATION			\$ 151,500.00	0.91%
TOTAL COMMON STOCKS			\$16,583,717.63*	100.00%

*Net original cost of equities on June 30, 1977, was \$17,736,198.06

SCHEDULE XI

SUPPLEMENTAL RETIREMENT FUND - FIXED-RETURN ACCOUNT June 30, 1977

RESUME OF ASSETS IN ACCOUNT

CASH CERTIFIED FOR INVESTMENT	\$ 535.81
MONEY MARKET SECURITIES	
Repurchase Agreements Maturities up to 7 days	\$ 367,000.00
UNITED STATES GOVERNMENT AGENCY OBLIGATIONS (See Listing Below)	\$ 200,000.00
CANADIAN GOVERNMENTAL OBLIGATIONS (See Listing Below)	\$ 750,000.00
CORPORATE BOND OBLIGATIONS (See Listing Below)	\$7,337,685.29
DEFERRED YIELD ADJUSTMENT ACCOUNT*	\$ (15,034.62)
TOTAL ASSETS IN ACCOUNT	\$8,640,186.48

*This account supplies an amount equal to the premium at which fixed income securities have been sold at more than amortized cost, the entire amount is being accumulated over a term equal to the average maturity of the bonds sold.

Note: Bond investments are listed at face value.

UNITED STATES GOVERNMENT AGENCY BONDS, CANADIAN GOVERNMENTAL OBLIGATIONS AND CORPORATE BOND HOLDINGS June 30, 1977

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (000) (b)
UNITED STATES GOVERNMENT AGENCY OBLIGATIONS					
Federal Home Loan Btg.	Mtg. Backed Cert.	03-15-2007	8.050	8.093%	\$ 200
CANADIAN GOVERNMENTAL PROVINCIAL OBLIGATIONS					
British Columbia Hydro	Bond	07-15-1996	9.625	9.625	150
Manitoba Hydro Electric Bd.	Bond	10-01-1985	9.500	9.500	150
Ontario Hydro	Note	03-15-1996	9.500	9.500	150
Ontario, Province of	Debenture	06-15-2005	9.125	9.248	150
TOTAL PROVINCIAL OBLIGATIONS				9.468%	\$ 600
CANADIAN AGENCY OBLIGATIONS					
Export Development	Note	07-15-1981	8.500	8.500%	\$ 150
TOTAL CANADIAN GOVERNMENTAL				8.275%	\$ 750
CORPORATE BOND OBLIGATIONS					
PUBLIC UTILITY OBLIGATIONS					
ELECTRIC					
Duquesne Light	First Mtg. Bond	04-01-2007	8.375	8.348	\$ 250
Houston Lighting & Power	First Mtg. Bond	10-01-2003	8.375	8.420	250
Iowa-Illinois Gas & Electric	First Mtg. Bond	01-15-2007	8.250	8.316	250
Kansas Power & Light	First Mtg. Bond	06-01-2007	8.125	8.168	350
Minnesota Power & Light	First Mtg. Bond	08-01-2005	10.500	10.500	150
Minnesota Power & Light	First Mtg. Bond	09-01-2006	8.700	8.700	100
Pacific Gas & Electric	First & Ref. Mtg. Bond	12-01-2005	7.750	7.999	250
Public Service of Indiana	First Mtg. Bond	01-01-2007	7.625	7.853	250
Public Service Elec. Gas	First & Ref. Mtg. Bond	06-01-2007	8.250	8.226	350
Texas Power & Light Co.	First Mtg. Bond	02-01-2007	8.250	8.261	250
Total Electric				8.360%	\$2,450
TELEPHONE					
N.Y. Telephone Co.	Refunding Mtg. Bond	07-15-2008	8.000	9.082	\$ 250
Pacific Telephone & Telegraph	Debenture	03-01-2007	7.800	7.788	250
Southern Bell Telephone & Telegraph Co.	Debenture	03-15-2013	7.625	8.524	250
Total Telephone				8.465%	\$ 750
TOTAL PUBLIC UTILITY OBLIGATIONS				8.385%	\$3,200
FINANCE OBLIGATIONS					
Fair Motor Credit Co.	S/F Debenture	07-15-2000	9.000	9.174	\$ 150
Northwest Bancorporation	Note	03-15-1986	7.125	7.892	250
TOTAL FINANCE OBLIGATIONS				8.579%	\$ 400
INDUSTRIAL OBLIGATIONS					
AMAX, Inc.	S/F Debenture	03-01-2001	8.675	8.679	\$ 150
Ashland Oil & Refining	S/F Debenture	09-01-2000	10.000	10.000	150
Atlantic Richfield Co.	Guaranteed Note	07-15-1996	9.250	9.250	150
du Pont (E.I.) de Nemours Company	Debenture	11-15-2004	8.450	8.537	150
Exxon Pipeline Company	Debenture	03-01-2001	8.750	8.382	250
FMC Corporation	S/F Debenture	01-15-2000	9.500	9.603	150
Firestone Tire & Rubber	Debenture	12-01-2004	9.250	9.286	150
Ford Motor Co.	Debenture	07-15-1994	9.250	9.283	150
Olympic Pipeline Co.	Note	09-01-2001	8.850	8.850	250
Plantation Pipe Line	Guaranteed Note	10-01-2001	7.875	8.152	250
Ralston Purina	Note	12-31-1982	8.000	8.000	250
Standard Oil of California	First Pref. Ship Mtg. Bd.	07-02-1999	8.500	8.500	150
Standard Oil (Indiana)	S/F Debenture	07-15-2004	9.200	9.059	150

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (000) (b)
Stauffer Chemical Co.	Debenture	01-15-2001	8.850	8.850	150
Union Oil Co. of California	S/F Debenture	03-01-2006	8.625	8.615	250
TOTAL INDUSTRIAL OBLIGATIONS				8.785%	\$2,750
RAILROAD EQUIPMENT OBLIGATIONS					
ACE Industries, Inc.	Equipment Trust Cert.	01-01-1982/91	9.000	9.990	\$ 150
ACE Industries, Inc.	Equipment Trust Cert.	02-01-1982/91	8.000	8.000	100
Canadian Pacific, Ltd.	Equipment Trust Cert.	01-15-1982/92	8.625	8.625	250
Louisville & Nashville	Conditional Sale Agree.	10-20-1982/91	9.000	9.000	145
Louisville & Nashville	Conditional Sale Agree.	10-20-1982/91			
		04-20-1992	8.375	8.375	35
Seaboard Coast Line Railroad	Conditional Sale Agree.	10-01-1982/91			
		04-01-1992	9.000	9.000	245
TOTAL RAILROAD EQUIPMENT OBLIGATIONS				8.744%	\$ 987
TOTAL CORPORATE OBLIGATIONS				8.594%	\$7,337
TOTAL UNITED STATES GOVERNMENT-GUARANTEED, CANADIAN GOVERNMENTAL AND CORPORATE OBLIGATIONS				8.643%	\$8,287

(a) Most corporate issues have substantial sinking funds and an average life far shorter than the stated maturity date.
(b) Column may not add, due to rounding.

SCHEDULE XII

MINNESOTA VARIABLE ANNUITY FUND June 30, 1977

RESUME OF ASSETS IN ACCOUNT

CASH CERTIFIED FOR INVESTMENT*	\$ (237,704.79)
MONEY MARKET SECURITIES	
Bills Maturities up to 98 days	\$ 590,000.00
CANADIAN GOVERNMENTAL OBLIGATIONS (See Listing Below)	\$ 2,800,000.00
CORPORATE BOND OBLIGATIONS (See Listing Below)	\$ 8,208,860.45
COMMON STOCKS (See Listing Below)	\$32,350,437.63
TOTAL ASSETS IN ACCOUNT (For accounting purposes; not indicative of true market value)	\$43,711,593.29

*A negative cash balance indicates purchase of securities prior to fiscal year end for which payment was not made until early July 1977.

Note: Bond investments are listed at face value; common stocks are listed at market value.

CANADIAN GOVERNMENTAL OBLIGATIONS AND CORPORATE BOND HOLDINGS June 30, 1977

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (000) (b)
CANADIAN GOVERNMENTAL PROVINCIAL OBLIGATIONS					
British Columbia Hydro	Bond	07-15-1996	9.625	9.625	\$ 500
Manitoba Hydro Elec. Bd.	Debenture	10-15-1997	7.650	7.650	400
New Brunswick Electric Power	S/F Debenture	04-01-1998	7.875	7.875	100
Nova Scotia Power Comm.	S/F Debenture	07-15-1998	8.125	8.150	500
Ontario Hydro	Note	03-15-1996	9.500	9.500	500
TOTAL PROVINCIAL OBLIGATIONS				8.629%	\$2,390
CANADIAN AGENCY OBLIGATIONS					
Export Development	Note	07-15-1981	8.500	8.500	\$ 500
TOTAL CANADIAN GOVERNMENTAL OBLIGATIONS				8.604%	\$2,890
CORPORATE BOND OBLIGATIONS					
PUBLIC UTILITY OBLIGATIONS					
ELECTRIC					
Kansas Power & Light	First Mtg. Bond	06-01-2007	8.125	8.168	\$ 500
Montana Power Company	First Mtg. Bond	12-01-1981	8.150	8.150	500
Public Serv. Elec. Gas	First & Ref. Mtg. Bond	06-01-2007	8.250	8.225	500
Total Electric				8.381%	\$1,500
GAS					
Minnesota Gas Company	Debenture	11-15-1981	9.250	9.250%	\$ 500
TELEPHONE					
Southern Bell Telephone & Telegraph Co.	Debenture	03-15-2013	7.625	8.240	\$ 500
TOTAL PUBLIC UTILITY OBLIGATIONS				8.527%	\$2,500
FINANCE OBLIGATIONS					
First Bank System	Note	06-30-1983	8.750	8.829	\$ 500
Fair Motor Credit Co.	S/F Debenture	07-15-2000	9.700	9.724	500
Honeywell Finance Inc.	S/F Debenture	12-15-1998	8.200	8.200	500
Northwest Bancorporation	S/F Debenture	03-15-2003	7.750	7.750	500
TOTAL FINANCE OBLIGATIONS				8.626%	\$2,000

Schedule XII continued

Company	Type of Security	Maturity Date (a)	Common Rate %	Average Yield %	Total Amount (000) (b)
INDUSTRIAL OBLIGATIONS					
Crown Zellerbach (S.T.)	General Mtg. Bond	08-01-1994	8.125	8.125	\$ 468
Firestone Tire & Rubber	Debenture	12-01-2004	9.250	9.426	500
MacMillan Bloedel, Ltd.	Debenture	07-01-1994	8.750	8.750	500
Phelps Dodge Corp.	Note	06-01-1985	8.500	8.618	250
Standard Oil of California	First Pref. Ship Mtg. Bd.	09-07-1997	7.700	7.700	200
Standard Oil of California	First Pref. Ship Mtg. Bd.	09-08-1997	7.700	7.700	150
Standard Oil of California	First Pref. Ship Mtg. Bd.	11-06-1997	7.700	7.700	150
TOTAL INDUSTRIAL OBLIGATIONS					8.519% \$ 2,218
RAILROAD EQUIPMENT OBLIGATIONS					
ACF Industries, Inc.	Equipment Trust Cert.	03-01-1982/91	9.000	9.000	\$ 500
ACF Industries, Inc.	Equipment Trust Cert.	02-01-1978/91	8.000	8.000	400
Canadian Pacific, Ltd.	Equipment Trust Cert.	01-15-1983/92	8.625	8.625	480
Delaware & Hudson (Guar. GE)	Conditional Sale Agree.	03-01-1978/09-01-1985	10.500	10.500	110
TOTAL RAILROAD EQUIPMENT OBLIGATIONS					8.722% \$ 1,490
TOTAL CORPORATE OBLIGATIONS					8.584% \$ 2,208
TOTAL CANADIAN GOVERNMENTAL AND CORPORATE OBLIGATIONS					8.580% \$11,008

(a) Most corporate issues have substantial sinking funds and an average life far shorter than the stated maturity date.
(b) Column may not add, due to rounding.

COMMON STOCK HOLDINGS

Common Stock	Shares	Market Price 6-30-77	Market Value	Total % Market
UTILITIES				
ELECTRIC				
Commonwealth Edison Company	16,000	\$ 30.88	\$ 494,000.00	
Florida Power & Light Company	19,000	27.13	515,375.00	
Texas Utilities Company	30,000	21.50	645,000.00	
Total Electric				5.12%
NATURAL GAS				
Panhandle Eastern Pipe Line Company	12,000	\$ 48.88	\$ 586,560.00	1.26%
COMMUNICATIONS				
American Telephone & Telegraph Company	13,300	\$ 63.50	\$ 844,550.00	
General Telephone & Electronics Company	14,500	32.50	471,250.00	
Total Communications				4.07%
TOTAL UTILITIES				10.99%
FINANCIAL SERVICES				
BANKS				
Citicorp	9,000	\$ 27.38	\$ 246,375.00	
First Bank System, Incorporated	3,000	36.63	109,875.00	
First International Bancshares, Inc.	6,600	40.88	269,775.00	
Northwest Bancorporation	11,000	24.13	265,375.00	
Total Banks				2.76%
FINANCE				
Household Finance Corporation	16,000	\$ 19.88	\$ 318,080.00	0.98%
INSURANCE				
INA Corporation	5,000	\$ 45.88	\$ 229,375.00	
Jefferson Pilot Corporation	9,000	30.13	271,125.00	
NLT Corporation	13,700	25.75	352,775.00	
The St. Paul Companies, Inc.	4,000	36.38	145,500.00	
Total Insurance				3.09%
TOTAL FINANCIAL SERVICES				6.83%
CONSUMER ORIENTED				
AUTOS - AUTO PARTS				
Ford Motor Company	5,625	\$ 46.88	\$ 263,671.88	
General Motors Corporation	6,700	16.18	108,312.50	
Goodyear Tire & Rubber Company	16,000	31.88	510,080.00	
Total Autos - Auto Parts				3.93%
CONSUMER DURABLES				
Whirlpool Corporation	15,000	\$ 24.50	\$ 367,500.00	1.14%
CONSUMER NONDURABLES				
Avon Products, Inc.	6,000	\$ 50.50	\$ 303,000.00	
Colgate-Palmolive Company	15,000	24.75	371,250.00	
Eastman Kodak Company	8,000	59.50	476,000.00	
Minnesota Mining and Manufacturing Company	12,000	49.38	592,500.00	
Revlon, Incorporated	16,000	41.25	660,000.00	
Total Consumer Nondurables				7.43%
CONSUMER MISCELLANEOUS				
Disney (Walt) Productions	8,000	\$ 36.88	\$ 295,000.00	
McDonald's Corporation	15,000	46.00	690,000.00	
Total Consumer Miscellaneous				3.04%
DRUGS				
Johnson & Johnson	4,000	\$ 70.63	\$ 282,500.00	
Medtronic, Inc.	6,000	25.63	153,750.00	
Merck & Co., Inc.	5,000	55.75	278,750.00	
Pfizer Incorporated	11,000	21.00	231,000.00	
Schering-Plough Corporation	7,000	31.38	219,675.00	
Waters-Lambert Company	11,000	24.63	270,975.00	
Total Drugs				4.85%

Common Stock	Shares	Market Price 6-30-77	Market Value	Total % Market
FOODS/BEVERAGES				
CPC International, Inc.	6,000	\$ 50.25	\$ 301,500.00	
Coca-Cola Company (The)	19,000	37.25	707,750.00	
General Foods Corporation	3,000	33.38	233,250.00	
Norton Simon, Incorporated	23,953	17.75	425,165.75	
Total Foods/Beverages				5.16%
RETAIL SALES				
Federated Department Stores, Incorporated	8,000	\$ 37.00	\$ 296,000.00	
Kmart Corporation	13,000	28.50	370,500.00	
Sears, Roebuck and Company	6,000	58.00	348,000.00	
Southland Corporation (The)	14,710	23.63	347,523.75	
Total Retail Sales				4.21%
TOTAL CONSUMER-ORIENTED				29.76%
TECHNOLOGY				
ELECTRONICS				
Hewlett-Packard Company	8,000	\$ 79.00	\$ 632,000.00	1.95%
OFFICE EQUIPMENT				
Burroughs Corporation	7,500	\$ 62.38	\$ 467,812.50	
Digital Equipment Corporation	19,000	46.88	890,675.00	
International Business Machines Corporation	7,793	264.00	2,057,352.00	
Total Office Equipment				10.56%
TOTAL TECHNOLOGY				12.51%
BASIC INDUSTRY				
AEROSPACE				
Boeing Company (The)	14,000	\$ 57.88	\$ 810,250.00	2.50%
BUILDING & FOREST PRODUCTS				
Masonite Corporation	24,000	\$ 17.00	\$ 408,000.00	
Weyerhaeuser Company	14,000	35.63	498,750.00	
Total Building & Forest Products				2.80%
CHEMICALS				
Air Products and Chemicals, Incorporated	10,201	\$ 24.25	\$ 247,374.25	
Dow Chemical Company (The)	12,000	34.13	409,500.00	
du Pont (E.I.) de Nemours and Company	5,000	116.00	580,000.00	
Total Chemicals				3.83%
ELECTRICAL EQUIPMENT				
Emerson Electric Co.	9,000	\$ 34.33	\$ 309,375.00	
General Electric Company	8,000	56.50	452,000.00	
Gould, Inc.	7,000	31.00	217,000.00	
Total Electrical Equipment				3.02%
MACHINERY				
Caterpillar Tractor Co.	3,100	\$ 57.75	\$ 179,025.00	
Combustion Engineering, Incorporated	7,000	62.12	434,875.00	
Trans Union Corporation	8,000	37.75	302,000.00	
Total Machinery				2.83%
METALS				
Aluminum Company of America	4,500	\$ 53.00	\$ 238,500.00	
Hanna Mining Company (The)	10,000	49.00	490,000.00	
St. Joe Minerals Corporation	8,000	34.13	273,000.00	
Total Metals				3.11%
PAPER				
International Paper Company	4,500	\$ 51.50	\$ 231,750.00	
Union Camp Corporation	5,000	54.25	271,250.00	
Total Paper				1.55%
MISCELLANEOUS				
Corning Glass Works	2,200	\$ 67.75	\$ 149,225.00	
International Telephone & Telegraph Corp.	7,000	31.50	220,500.00	
Total Miscellaneous				1.27%
TOTAL BASIC INDUSTRY				20.87%
ENERGY				
OIL DOMESTIC				
Atlantic Richfield Company	10,000	\$ 60.50	\$ 605,000.00	
Continental Oil Company (The)	11,000	33.88	372,675.00	
Louisiana Land and Exploration Company (The)	16,000	27.50	440,000.00	
Marathon Oil Company	8,000	52.63	421,000.00	
Standard Oil Company (Indiana)	7,000	53.75	376,250.00	
Total Oil Domestic				6.84%
OIL INTERNATIONAL				
Exxon Corporation	17,500	\$ 53.50	\$ 936,250.00	
Mobil Corporation	7,000	65.00	455,000.00	
Total Oil International				4.37%
ENERGY RELATED				
Baker International Corporation	11,000	\$ 52.88	\$ 581,625.00	
Halliburton Company	13,000	68.75	893,750.00	
Williams Companies (The)	18,000	23.13	416,250.00	
Total Energy Related				5.77%
TOTAL ENERGY				16.98%
TRANSPORTATION				
AIRLINES				
Northwest Airlines, Incorporated	6,000	\$ 25.25	\$ 151,500.00	0.47%
RAILROADS				
Union Pacific Corporation	9,000	\$ 57.25	\$ 515,250.00	1.59%
TOTAL TRANSPORTATION				2.06%
TOTAL COMMON STOCKS				100.00%

*Net group's cost of equities on June 30, 1977, was \$33,646,925.56

SCHEDULE XIII

STATE OF MINNESOTA STATE BOARD OF INVESTMENT

PERMANENT SCHOOL FUND

RATE OF RETURN ON AVERAGE AMOUNT INVESTED DURING FISCAL PERIODS June 30, 1977

	Book Value (1)	Average Book Value for Year Ending (2)	Total Investment Income for Year Ending (3,4)	Yield (5)		Less Transfer to Principal (6)	Net Investment Income for Year Ending (3)	Net Yield (7)
June 30, 1957	\$244,700,475.47	\$242,386,448.84	\$ 6,486,999.20	2.68%				
December 31, 1957	\$248,558,062.99	-	-	-				
June 30, 1958	\$249,513,238.84	\$247,590,592.43	\$ 6,512,261.41	2.63%				
December 31, 1958	\$252,324,357.47	-	-	-				
June 30, 1959	\$253,243,896.53	\$251,693,830.95	\$ 7,005,142.82	2.78%				
December 31, 1959	\$225,520,490.05	-	-	-				
June 30, 1960	\$256,276,151.72	\$255,013,512.77	\$ 7,116,641.31	2.79%				
December 31, 1960	\$259,324,537.57	-	-	-				
June 30, 1961	\$260,019,901.33	\$258,540,196.87	\$ 7,978,635.92	3.09%				
December 31, 1961	\$261,981,702.84	-	-	-				
June 30, 1962	\$262,388,564.04	\$261,463,389.40	\$ 8,610,672.52*	3.29%*				
December 31, 1962	\$264,203,940.11	-	-	-				
June 30, 1963	\$264,631,949.36	\$263,741,484.50	\$ 8,048,170.78*	3.05%*				
December 31, 1963	\$263,710,744.23	-	-	-				
June 30, 1964	\$263,552,120.96	\$263,964,938.18	\$ 8,579,156.81	3.25%				
December 31, 1964	\$264,704,185.42	-	-	-				
June 30, 1965	\$262,170,084.20	\$263,475,463.53	\$ 9,186,790.66	3.49%		\$ 76,938.86	\$ 9,109,853.80	3.46%
December 31, 1965	\$262,324,844.32	-	-	-				
June 30, 1966	\$261,686,901.05	\$262,060,609.86	\$ 9,647,417.30	3.68%		\$ 329,472.90	\$ 9,317,944.40	3.56%
December 31, 1966	\$263,433,844.16	-	-	-				
June 30, 1967	\$263,816,276.40	\$262,979,007.20	\$10,215,172.70	3.88%		\$ 856,275.93	\$ 9,358,896.77	3.56%
December 31, 1967	\$264,303,404.43	-	-	-				
June 30, 1968	\$264,578,182.47	\$264,232,621.10	\$10,511,771.10	3.98%		\$1,016,014.48	\$ 9,495,756.62	3.59%
December 31, 1968	\$266,225,867.42	-	-	-				
June 30, 1969	\$264,122,329.06	\$264,975,459.65	\$10,512,970.80	3.97%		\$1,100,277.41	\$ 9,412,693.39	3.55%
December 31, 1969	\$264,797,800.95	-	-	-				
June 30, 1970	\$259,550,484.67	\$262,823,538.23	\$11,324,161.11	4.51%		\$1,034,987.16	\$10,289,173.95	3.91%
December 31, 1970	\$248,210,564.03	-	-	-				
June 30, 1971	\$248,077,642.59	\$251,946,230.43	\$12,380,084.17	4.91%		\$1,435,834.16	\$10,944,250.01	4.34%
December 31, 1971	\$250,918,742.94	-	-	-				
June 30, 1972	\$251,249,760.37	\$250,082,048.63	\$13,691,318.87	5.47%		\$1,937,452.41	\$11,753,866.46	4.70%
December 31, 1972	\$251,129,595.01	-	-	-				
June 30, 1973	\$249,010,960.05	\$250,463,438.48	\$14,348,252.97	5.73%		\$2,361,011.68	\$11,987,241.29	4.79%
December 31, 1973	\$252,105,340.61	-	-	-				
June 30, 1974	\$256,282,207.39	\$252,466,169.35	\$14,947,257.78	5.92%		\$2,445,336.93	\$12,501,920.85	4.95%
December 31, 1974	\$254,000,064.12	-	-	-				
June 30, 1975	\$254,252,508.35	\$254,845,059.95	\$15,993,845.27	6.28%		\$2,784,257.93	\$13,209,587.34	5.18%
December 31, 1975	\$258,709,589.62	-	-	-				
June 30, 1976	\$259,305,894.51	\$257,422,797.49	\$17,048,127.54	6.62%		\$2,793,175.78	\$14,254,951.76	5.54%
December 31, 1976	\$263,345,172.22	-	-	-				
June 30, 1977	\$259,744,015.36	\$260,798,360.70	\$17,767,902.49	6.81%		\$3,093,125.10	\$14,674,777.39	5.63%

(1) Book value figures based on those shown on Treasurer's General Report on State Finances on date listed, with adjustments for calls, maturities and investments committed for but not yet received. Beginning December 31, 1974, book value was taken from State Board of Investment ledgers.

(2) Computed by averaging book value of fund on last three report dates, ending with date listed.

(3) Income figures obtained from the State Department of Finance. Beginning June 30, 1975, income figures are from State Board of Investment ledgers.

(4) Includes investment income from the Swamp Land Fund which was combined into the Permanent School Fund after passage of a Constitutional Amendment in 1962.

(5) Computed by dividing total investment income of fund for fiscal period by average book value of fund. Yield figures beginning on June 30, 1975, reflect the fact that income was taken from the State Board of Investment ledgers, which are computed on an accrual basis, whereas the figures formerly obtained from the State Department of Finance were on a cash basis.

(6) The transfer of a portion of the income to the principal of the account is called for under the Minnesota Constitution, Article VIII, Section 4, as amended in 1967, and implemented by Minnesota Statutes 1974, Section 11.015, Subdivision 2, in order that the difference between the sales price and original cost of securities be returned to the principal of the account. Sales of low coupon U.S. Treasury securities at less than cost resulted in the transfers during recent years.

(7) Computed by dividing net investment income of fund for fiscal period by average book value of fund.

*The income received during fiscal 1962 and 1963 was subjected to accounting adjustments which tended to overstate the 1962 figures, due to the accumulation of discounts on bonds purchased (Minnesota Statutes 1976, Section 11.05, Subdivision 2) and understate the 1963 results, due to the combining of the Swamp Land Fund into the Permanent School Fund during that fiscal year.

SCHEDULE XIV

PERMANENT SCHOOL FUND June 30, 1977

RESUME OF ASSETS IN ACCOUNT

CASH CERTIFIED FOR INVESTMENT	\$ 43,696.07
MONEY MARKET SECURITIES	
Bills	
Maturities up to 98 days	\$ 5,000,000.00
Repurchase Agreements	
Maturities up to 90 days	\$ 5,479,000.00
STATE AND LOCAL OBLIGATIONS	\$ 317,000.00
UNITED STATES GOVERNMENT GUARANTEED OBLIGATIONS (See Listing Below)	\$124,323,821.56
CORPORATE BOND OBLIGATIONS (See Listing Below)	\$ 75,982,138.44
COMMON STOCKS (See Listing Below)	\$ 57,421,387.76
TOTAL ASSETS IN ACCOUNT (for accounting purposes; not indicative of true market value)	\$268,567,043.83

Note: Bond investments are listed at face value; common stocks are listed at market value.

UNITED STATES GOVERNMENT-GUARANTEED BONDS AND CORPORATE BOND HOLDINGS June 30, 1977

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (b)
UNITED STATES GOVERNMENT GUARANTEED OBLIGATIONS					
FARMERS HOME ADMINISTRATION					
U.S. Dept. of Agriculture	Insured Note	01/31/1980	8.900	8.900	\$ 2,997
U.S. Dept. of Agriculture	Insured Note	07/31/1985	8.625	8.625	2,995
TOTAL FARMERS HOME ADMINISTRATION			8.763%		\$ 5,993
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION GUARANTEED MORTGAGE BACKED SECURITIES					
California Mortgage Service	Mtg. Backed Cert.	07/15/2004	8.250	9.612	\$ 603
Citizens Mortgage	Mtg. Backed Cert.	12/15/2000	8.000	8.730	1,374
First National Bank (Mpls.)	Mtg. Backed Cert.	12/15/2000	8.000	8.650	1,028
First National Bank (Mpls.)	Mtg. Backed Cert.	02/15/2001	8.000	8.500	1,014
Guild Mortgage Co.	Mtg. Backed Cert.	02/15/2004	8.000	8.522	1,652
Heritage Mortgage	Mtg. Backed Cert.	07/15/2004	8.250	9.478	1,810
International Mortgage	Mtg. Backed Cert.	04/15/2004	8.000	8.522	1,703
IDS Mortgage Corp.	Mtg. Back. Serial Note	12/15/2001	6.500	7.125	2,503
IDS Mortgage Corp.	Mtg. Back. Serial Note	11/15/2001	6.500	7.125	2,502
IDS Mortgage Corp.	Mtg. Backed Cert.	02/15/2000	7.000	8.920	1,814
IDS Mortgage Corp.	Mtg. Backed Cert.	06/15/2000	8.000	8.940	1,239
IDS Mortgage Corp.	Mtg. Backed Cert.	07/15/2000	8.000	8.730	1,395
IDS Mortgage Corp.	Mtg. Backed Cert.	10/15/2000	8.000	8.730	1,342
IDS Mortgage Corp.	Mtg. Backed Cert.	11/15/2000	8.000	8.650	1,275
IDS Mortgage Corp.	Mtg. Backed Cert.	01/15/2001	8.000	8.570	1,330
IDS Mortgage Corp.	Mtg. Backed Cert.	02/15/2001	8.000	8.500	544
IDS Mortgage Corp.	Mtg. Backed Cert.	03/15/2001	7.500	7.400	731
IDS Mortgage Corp.	Mtg. Back. Serial Note	01/15/2001	6.500	7.140	3,004
IDS Mortgage Corp.	Mtg. Backed Cert.	04/15/2001	6.500	7.140	3,001
IDS Mortgage Corp.	Mtg. Back. Serial Note	04/15/2001	6.500	7.140	3,001
IDS Mortgage Corp.	Mtg. Backed Cert.	06/15/2001	6.500	7.400	2,482
IDS Mortgage Corp.	Mtg. Backed Cert.	07/15/2001	6.500	7.900	4,245
IDS Mortgage Corp.	Mtg. Backed Cert.	11/15/2001	8.000	8.553	1,663
IDS Mortgage Corp.	Mtg. Backed Cert.	11/15/2001	8.000	8.550	2,533
IDS Mortgage Corp.	Mtg. Backed Cert.	04/15/2004	8.000	8.170	2,495
Iowa Securities Co.	Mtg. Backed Cert.	12/15/2000	8.000	8.940	1,112
Iowa Securities Co.	Mtg. Backed Cert.	02/15/2001	8.000	8.100	1,088
Lomas & Nettie	Mtg. Backed Cert.	12/15/2005	8.000	8.296	899
Lumbermans Investment	Mtg. Backed Cert.	07/15/2004	8.250	9.612	1,681
Modern American Mtg.	Mtg. Backed Cert.	06/15/2006	8.250	8.470	967
Molton, Allen & Wms.	Mtg. Backed Cert.	02/15/2004	8.000	8.522	882
Mortgage Associates	Mtg. Backed Cert.	07/15/2006	8.250	8.470	994
National Homes Acceptance	Mtg. Back. Serial Note	05/15/2000	7.000	8.320	1,316
National Homes Acceptance	Mtg. Back. Serial Note	09/15/2000	8.000	8.800	1,351
National Homes Acceptance	Mtg. Back. Serial Note	07/15/2000	8.000	8.800	1,410
Our Lady of Victory	Construction Loan	01/01/2002	8.750	8.661	165
Peoples Mortgage Co.	Mtg. Backed Cert.	11/15/2004	9.000	9.921	1,547
Steed (W.S.)	Mtg. Backed Cert.	07/15/2004	8.000	8.861	1,826
Virginia Mtg. & Inv. Co.	Mtg. Backed Cert.	09/15/2004	9.000	9.900	836
Wells Fargo Mortgage	Mtg. Backed Cert.	10/15/2006	8.000	8.296	1,020
Percy Wilson Mortgage & Finance Co.	Mtg. Back. Serial Note	08/01/2000	8.000	8.940	1,467
TOTAL GOVERNMENT NATIONAL MORTGAGE ASSOCIATION GUARANTEED MORTGAGE BACKED SECURITIES			8.358%		\$ 65,017
GOVERNMENT GUARANTEED MERCHANT MARINE BONDS					
American Mail Line	Government Guar. Bond	01/01/1991	4.000	4.000	\$ 1,470
American Post Lines	Government Guar. Bond	11/01/1992	4.000	4.000	1,000
American Post Lines	Government Guar. Bond	11/01/1991	4.000	4.000	1,470
Construction Aggregate	Government Guar. Bond	04/01/1991	4.000	4.000	1,250
Delta Steamship Lines	Government Guar. Bond	01/01/1991	4.000	4.000	899
High Terminal Tankers	Government Guar. Bond	06/01/1991	6.000	6.000	1,070
El Paso Columbia Tank	Government Guar. Bond	12/15/2001	9.250	9.250	3,000
Farrell Lines, Inc.	Government Guar. Bond	05/20/1998	9.000	9.000	214

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (b)
Farrell Lines, Inc.	Government Guar. Bond	05/20/1997	3.050	9.030	205
Farrell Lines, Inc.	Government Guar. Bond	11/21/1997	9.000	9.000	205
Farrell Lines, Inc.	Government Guar. Bond	02/26/1995	9.000	9.000	210
Farrell Lines, Inc.	Government Guar. Bond	04/01/1993	8.050	8.050	1,551
Grace Line, Inc.	Government Guar. Bond	02/01/1992	5.100	5.100	1,467
Ingram Ocean Systems	Government Guar. Bond	02/01/1993	8.750	8.750	1,165
Intercontinental Bulk Tank	Government Guar. Bond	09/01/1990	7.800	7.800	1,155
Marlin Drilling Co.	Government Guar. Bond	01/01/1991	8.900	8.900	2,338
Matson Navigation Co.	Government Guar. Bond	11/10/1994	7.500	7.500	954
Moore McCormack Leasing	Government Guar. Bond	07/15/2001	8.875	8.875	2,607
Moore McCormack Lines	Government Guar. Bond	04/01/1997	5.750	5.872	1,243
Overseas Bulk Tank	Government Guar. Bond	12/01/1990	7.800	7.800	1,132
Pacific Far East Line	Government Guar. Bond	07/01/1997	8.750	8.750	2,061
Pearl Tanker Co.	Government Guar. Bond	10/01/1994	6.000	6.000	1,211
Prudential Lines, Inc.	Government Guar. Bond	11/01/1994	6.000	6.000	2,168
Puget Sound Tug & Barge	Government Guar. Bond	02/15/2001	9.125	9.125	2,814
States Steamship Co.	Government Guar. Bond	03/31/1993	5.100	5.100	1,500
U.S. Line Co. of New Jersey	Government Guar. Bond	10/01/1997	5.000	5.000	1,275
U.S. Lines	Government Guar. Bond	03/01/1991	8.625	8.625	1,520
Western Co. of North America	Government Guar. Bond	06/01/1990	9.250	9.250	2,595
Zapata Off Shore Co.	Government Guar. Bond	04/15/1994	8.625	8.625	7,722
TOTAL GOVERNMENT-GUARANTEED MERCHANT MARINE BONDS			7.566%		\$ 46,510
NEW COMMUNITY ACT DEBENTURES					
Cedar Riverside Land	New Community Deb.	12/15/1991	7.200	7.200	\$ 2,500
Jonathan Development	New Community Deb.	10/01/1990	8.500	8.500	2,530
TOTAL NEW COMMUNITY ACT DEBENTURES			7.850%		\$ 5,030
SMALL BUSINESS ADMINISTRATION					
SBA Guaranteed Loan	Government Guar. Bond	08/22/1985	9.250	9.324	\$ 451
SBA Guaranteed Loan	Government Guar. Bond	04/27/1984	9.250	9.314	465
SBA Guaranteed Loan	Government Guar. Bond	02/22/1997	8.500	8.500	497
SBA Guaranteed Loan	Government Guar. Bond	02/23/1984	9.000	9.000	66
SBA Guaranteed Loan	Government Guar. Bond	05/25/1984	8.250	8.235	315
TOTAL SMALL BUSINESS ADMINISTRATION			8.899%		\$ 1,795
TOTAL UNITED STATES GOVERNMENT-GUARANTEED OBLIGATIONS			8.069%		\$124,316
CORPORATE BOND OBLIGATIONS					
PUBLIC UTILITY OBLIGATIONS					
ELECTRIC					
Duke Power Co.	First & Ref. Mtg. Bond	02/01/1995	4.500	4.470	\$ 1,520
Hawaiian Electric Co.	First Mtg. Bond	07/01/1993	4.450	4.450	1,720
Iowa Power & Light Co.	S/F Bond	04/01/1989	4.625	4.570	1,200
Kansas Power & Light	First Mtg. Bond	06/01/2007	8.125	8.168	4,995
Long Island Lighting	First Mtg. Bond	05/01/1995	4.550	4.724	1,772
Total Electric				6.100%	\$ 9,400
GAS					
Consolidated Natural Gas	Debenture	06/01/1997	8.125	3.149	\$ 1,000
Gas Service Co.	First Mtg. Bond	06/01/1985	4.650	4.650	812
Peoples Gas Light Coke	First & Ref. Mtg. Bond	07/15/1991	5.375	5.375	1,211
Total Gas				7.050%	\$ 6,113
TELEPHONE					
Bell Telephone Co. of Canada	First Mtg. Bond	03/01/1995	4.850	5.530	\$ 2,500
Bell Telephone Co. of Canada	First Mtg. Bond	06/01/2004	9.500	9.500	3,010
General Telephone Co. (Illinois)	First Mtg. Bond	09/01/1995	4.875	4.875	1,200
General Telephone Co. (Indiana)	First Mtg. Bond	08/01/1995	4.700	4.700	1,200
Michigan Bell Telephone Co.	Debenture	05/01/2015	8.125	8.149	2,500
Southern Bell Telephone & Telegraph Co.	Debenture	03/15/2012	7.625	8.418	4,070
Total Telephone				7.490%	\$ 14,410
TOTAL PUBLIC UTILITY OBLIGATIONS				6.866%	\$ 29,913
FINANCE OBLIGATIONS					
Unit Life Insurance	Capital Note	06/01/1989	4.750	4.750	\$ 770
Northwest Bancorporation	Debenture	10/15/1990	4.750	4.750	1,570
Northwest Bancorporation	S/F Debenture	03/15/2001	7.750	7.750	1,570
Northwest Bancorporation	Note	09/15/1990	7.875	7.875	1,570
TOTAL FINANCE OBLIGATIONS				6.909%	\$ 7,710
INDUSTRIAL OBLIGATIONS					
Aluminum Co. of America	Promissory Note	03/31/1998	4.375	4.352	\$ 972
Aluminum Co. of America	S/F Debenture	03/31/1995	5.500	5.571	1,200
Armour Dal, Inc.	Note	01/15/2003	7.500	7.500	3,277
Atlantic Richfield Co.	Guaranteed Note	07/15/1994	5.250	3.250	3,040
Cummins Engine Co.	Note	07/15/1997	4.600	4.600	800
Diamond Shamrock Corp.	Note	05/01/1997	4.500	5.260	900
Dow Chemical	Debenture	09/15/1993	4.350	4.350	1,010
FMC Corp.	S/F Debenture	01/15/2000	3.500	3.603	3,000
General Cable Corp.	S/F Note	01/01/1989	4.875	4.875	600
Honeywell, Inc.	Note	04/01/1990	4.550	5.732	1,802
Ingersoll Rand Co.	Note	01/01/1991	4.750	4.750	970
Shell Oil Co.	Note	04/15/1990	4.500	5.500	1,100
Sprague Electric Co.	S/F Debenture	09/01/1988	4.375	4.400	1,000
Standard Oil of California	First Pref. Ship Mtg. Bd	09/07/1997	7.700	7.700	1,000
Standard Oil of California	First Pref. Ship Mtg. Bd	09/08/1997	7.700	7.700	1,000
Standard Oil of California	First Pref. Ship Mtg. Bd	11/05/1997	7.700	7.700	1,000
Standard Oil (Indiana)	Note	10/01/2000	7.200	7.200	1,000
Standard Oil Co. (Ohio)	Note	07/15/1995	4.550	4.550	1,000
Swift & Co.	S/F Debenture	08/01/1992	4.500	4.500	1,000
Tecumseh, Inc.	Note	12/15/1992	4.500	4.500	1,000
Union Carbide Corp.	Note	12/15/1990	4.500	4.500	1,000
Union Carbide Corp.	First Mtg. S/F Bond	07/01/1995	4.500	4.500	1,000
TOTAL INDUSTRIAL OBLIGATIONS				6.404%	\$ 32,538
TRANSPORTATION DEBT OBLIGATIONS					
Atlantic Richfield Co.	First Pref. Ship Mtg. Bd	12/01/2007	5.375	5.375	\$ 2,000
TOTAL TRANSPORTATION DEBT OBLIGATIONS				6.884%	\$ 3,500

Schedule XIV continued

Company	Type of Security	Maturity Date (a)	Coupon Rate %	Average Yield %	Total Amount (000) (b)
RAILROAD EQUIPMENT OBLIGATIONS					
Canadian Pacific Ltd.	Equipment Trust Cert.	01-15 1983/92	8.625	8.625	\$ 1,500
Flying Tiger Corp.	Equipment Trust Cert.	09-01 1977	4.650	4.650	200
Flying Tiger Corp.	Equipment Trust Cert.	09-01 1977/78	4.650	4.650	200
Illinois Central Railroad	Conditional Sale Agree.	02-15 1978/83	6.875	6.875	633
Kansas City Southern Railway Co.	Conditional Sale Agree.	01-15 78/07-15 78	4.450	4.450	147
TOTAL RAILROAD EQUIPMENT OBLIGATIONS					7.389% \$ 2,681
TOTAL CORPORATE OBLIGATIONS					6.887% \$ 75,982
TOTAL UNITED STATES GOVERNMENT-GUARANTEED, CANADIAN GOVERNMENTAL AND CORPORATE OBLIGATIONS					7.621% \$200,298

(a) Most corporate issues have substantial sinking funds and an average life far shorter than the stated maturity date.
(b) Column may not add, due to rounding.

COMMON STOCK HOLDINGS

Common Stock	Shares	Market Price 6-30-77	Market Value	Total % Market
UTILITIES				
ELECTRIC				
Central and South West Corporation	23,000	\$ 16.13	\$ 370,875.00	
Cincinnati Gas & Electric Company (The)	24,000	24.75	594,000.00	
Commonwealth Edison Company	21,499	30.88	663,781.63	
Florida Power & Light Company	25,400	27.13	688,975.00	
Houston Industries Incorporated	16,500	33.88	558,937.50	
Middle South Utilities Incorporated	34,000	16.50	561,000.00	
Minnesota Power & Light Company	32,000	22.25	712,000.00	
Northern States Power Company (Minn.)	21,500	28.75	618,125.00	
Pacific Gas and Electric Company	21,500	24.00	516,000.00	
Public Service Company of Indiana, Inc.	28,150	29.25	823,387.50	
Southern California Edison Company	20,000	25.13	502,500.00	
Southern Company (The)	24,000	17.75	414,000.00	
Texas Utilities Company	28,000	21.50	602,000.00	
Virginia Electric and Power Company	18,000	15.13	272,250.00	
Total Electric			\$ 7,897,831.63	13.76%
NATURAL GAS				
Panhandle Eastern Pipe Line Company	20,000	\$ 48.88	\$ 977,500.00	
Peoples Gas Company	5,000	50.75	253,750.00	
Total Natural Gas			\$ 1,231,250.00	2.14%
COMMUNICATIONS				
American Telephone & Telegraph Company	32,000	\$ 63.50	\$ 2,032,000.00	
General Telephone & Electronics Corporation	40,800	32.50	1,326,000.00	
Total Communications			\$ 3,358,000.00	5.85%
TOTAL UTILITIES				\$12,487,081.63 21.75%
FINANCIAL SERVICES				
BANKS				
BankAmerica Corporation	33,000	\$ 24.25	\$ 800,250.00	
Citicorp	29,112	27.38	796,941.00	
First Bank Systems, Incorporated	21,500	36.63	787,437.50	
J.P. Morgan & Co., Incorporated	16,920	50.38	852,345.00	
Northwest Bancorporation	54,000	24.13	1,302,750.00	
Total Banks			\$ 4,539,723.50	7.91%
FINANCE				
Beneficial Corporation	17,925	\$ 23.88	\$ 427,959.38	
Household Finance Corporation	26,000	19.88	516,750.00	
Total Finance			\$ 944,709.38	1.65%
INSURANCE				
INA Corporation	15,300	\$ 45.86	\$ 701,887.50	
Northwestern National Life Insurance Company	25,300	21.50	543,950.00	
SAFECO Corporation	15,800	47.13	744,575.00	
The St. Paul Companies, Inc.	32,000	36.38	1,164,000.00	
United States Fidelity & Guaranty Company	25,500	39.38	1,004,062.50	
Total Insurance			\$ 4,158,475.00	7.24%
TOTAL FINANCIAL SERVICES				\$ 9,642,907.88 16.80%
CONSUMER-ORIENTED				
AUTOS - AUTO PARTS				
Ford Motor Company	23,250	\$ 46.88	\$ 1,089,843.75	
General Motors Corporation	21,200	69.38	1,470,750.00	
Goodyear Tire & Rubber Company (The)	33,000	20.13	664,125.00	
Total Autos - Auto Parts			\$ 3,224,718.75	5.62%
CONSUMER DURABLES				
Sunbeam Corporation	14,000	\$ 21.50	\$ 301,000.00	
Whirlpool Corporation	22,200	24.50	543,900.00	
Total Consumer-Durables			\$ 872,900.00	1.52%
CONSUMER NONDURABLES				
Eastman Kodak Company	7,350	\$ 59.50	\$ 437,325.00	
Monometa Mining and Manufacturing Company	18,000	49.38	888,750.00	
Procter & Gamble Company (The)	7,700	80.11	616,767.50	
Reebok Incorporated	16,000	41.25	660,000.00	
Total Consumer Nondurables			\$ 2,603,075.00	4.53%

Common Stock	Shares	Market Price 6-30-77	Market Value	Total % Market
DRUGS				
American Home Products Corporation	22,800	\$ 28.75	\$ 655,500.00	
Merck & Co., Inc.	10,000	55.75	557,500.00	
Pfizer Incorporated	30,000	26.00	780,000.00	
Total Drugs			\$ 1,993,000.00	3.47%
FOODS-BEVERAGES				
CPC International, Inc.	8,000	\$ 50.25	\$ 402,000.00	
Coca Cola Company (The)	16,000	37.25	596,000.00	
General Foods Corporation	35,000	33.38	1,168,125.00	
General Mills, Incorporated	30,000	29.50	885,000.00	
Total Foods-Beverages			\$ 3,051,125.00	5.31%
RETAIL SALES				
Federated Department Stores, Incorporated	18,000	\$ 37.00	\$ 666,000.00	
Penney (J.C.) Company, Incorporated	10,800	34.88	376,656.00	
Sears, Roebuck and Company	12,000	52.00	624,000.00	
Total Retail Sales			\$ 1,738,656.00	3.03%
TOTAL CONSUMER-ORIENTED				\$13,483,431.25 23.48%
TECHNOLOGY				
OFFICE EQUIPMENT				
Burroughs Corporation	11,600	\$ 62.38	\$ 723,550.00	
Honeywell, Inc.	10,000	53.88	538,750.00	
International Business Machines Corporation	12,535	261.00	3,292,240.00	
Xerox Corporation	6,440	48.75	313,950.00	
Total Office Equipment			\$ 4,885,490.00	8.51%
TOTAL TECHNOLOGY				\$ 4,885,490.00 8.51%
BASIC INDUSTRY				
BUILDING & FOREST PRODUCTS				
Weyerhaeuser Company	17,800	\$ 35.63	\$ 634,125.00	1.10%
CHEMICALS				
Dow Chemical Company (The)	12,000	\$ 34.13	\$ 409,500.00	
du Pont (E.I.) de Nemours and Company	7,000	116.00	812,000.00	
Montanto Company	4,000	69.22	276,880.00	
Union Carbide Corporation	11,700	48.82	571,827.50	
Total Chemicals			\$ 2,072,837.50	3.61%
ELECTRICAL EQUIPMENT				
General Electric Company	16,200	\$ 56.50	\$ 915,300.00	1.59%
MACHINERY				
Caterpillar Tractor Co.	15,150	\$ 57.75	\$ 874,912.50	
Trans Union Corporation	10,400	37.75	392,600.00	
Total Machinery			\$ 1,267,512.50	2.21%
METALS				
Aluminum Company of America	12,000	\$ 53.00	\$ 636,000.00	
St. Joe Minerals Corporation	10,000	34.13	341,250.00	
Total Metals			\$ 977,250.00	1.70%
PAPER				
International Paper Company	8,000	\$ 51.50	\$ 412,000.00	
Union Camp Corporation	5,000	54.25	271,250.00	
Total Paper			\$ 683,250.00	1.19%
TOTAL BASIC INDUSTRY				\$ 6,550,275.00 11.40%
ENERGY				
OIL-DOMESTIC				
Atlantic Refining Company	16,000	\$ 60.50	\$ 968,000.00	
Continental Oil Company (Del.)	20,000	33.68	673,500.00	
Marathon Oil Company	7,000	57.63	403,375.00	
Standard Oil Company (Indiana)	24,000	52.14	1,251,360.00	
Total Oil Domestic			\$ 3,305,875.00	5.78%
OIL-INTERNATIONAL				
Exxon Corporation	47,816	\$ 53.50	\$ 2,558,156.00	
Mobil Corporation	21,300	68.00	1,448,400.00	
Texaco Inc.	34,000	29.13	990,250.00	
Total Oil-International			\$ 4,996,806.00	8.70%
TOTAL ENERGY				\$ 8,302,681.00 14.46%
TRANSPORTATION				
AIRLINES				
Northwest Airlines, Incorporated	16,884	\$ 25.25	\$ 426,221.00	0.72%
RAILROADS				
Burlington Northern Incorporated	13,600	\$ 50.25	\$ 683,400.00	
Union Pacific Corporation	16,800	57.25	961,800.00	
Total Railroads			\$ 1,645,200.00	2.87%
TOTAL TRANSPORTATION				\$ 2,071,521.00 3.60%
TOTAL COMMON STOCKS				\$57,421,387.75* 100.00%

*Net original cost of equities on June 30, 1977, was \$51,340,496.93

MEMBERS OF 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

**STATE OF MINNESOTA
STATE BOARD OF INVESTMENT**

Room 105, MEA Building
55 Sherburne Avenue
Saint Paul 55155

October 7, 1977

TO: Members of the Minnesota Legislature
Investment Underwriters, Brokers and Dealers

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

Since the office of the Executive Secretary of the Minnesota State Board of Investment was established in 1960, it has been the policy of the department to list the recipients of all securities orders and to explain the reasons for the distribution of business. Although this review may be somewhat lengthy and too detailed, we believe it mandatory because of the many considerations which are so obvious in reviewing the business practices of any public fund holding over \$3 billion of securities. Orders are placed for several billion dollars of securities each year. Securities firms and organizations with differing specialties and located throughout the United States and Canada deal with the investment department. As Congress, the Securities and Exchange Commission and governmental groups throughout the nation have become more interested in reviewing the "prudence" demanded in the management of public funds, it has become even more necessary and appropriate that recipients of these orders be mentioned and that explanations be provided to the citizens of Minnesota.

The members of the Advisory Council have been particularly cognizant of avoiding any possible "conflict of interest" as to their business and professional life as related to their advisory capacity with the State Board of Investment. Important considerations include:

1. No appointee has been associated with a brokerage house, "government bond" sales department of a bank, or any other organization which could profit from securities orders by the Investment Board. In those instances in which Minnesota banks have sold U.S. Treasury and agency obligations to the Board, transactions have been handled on a competitive basis and are through departments having no direct association with the bank's trust department or portfolio management division whose members may serve on the Advisory Council.
2. No member of the Advisory Council votes as to the purchase or sale of stock representing a company of which he is an officer or employee.
3. It is presumed that several or all of the Council members may own these stocks in their official capacities, since they represent investment departments of financial institutions. In fact, we prefer owning investments which are also held by major Minnesota institutions so that we know such securities are being followed from a financial and quality standpoint by the staffs of those serving on the Council. In instances pertaining to situations where local institutions own substantial amounts of any one stock, the Council member working for such an institution fully discloses the relationship and does not vote as to "buy", "sell" or "hold" the particular issue.
4. No purchases or sales are made on the basis of a simple majority of the Council members present at any particular meeting. Instead, we ask that the unanimous opinion of those voting be expressed concerning the purchase or sale of a particular security.
5. In recent years, since the investment department has received appropriations with which to maintain analysts and specialists, the specific recommendations to buy and sell have been made by State investment staff members.

Therefore, any possible conflict of interest appears to be minimal or nonexistent in that Council decisions and actions come in the form of leading and directing lines of discussion, comparing economic thoughts, and setting policy as to types of purchases and sales under probable future economic and market conditions.

It should be stressed that the State funds do own common stocks and fixed-income securities of firms whose officers serve or have served on the Advisory Council. These organizations include: The First Bank System (Gaylord W. Glarner; Senior Vice President, First Trust Company, St. Paul, and John M. Harris, Investment Counsel, Northern City National Bank of Duluth), Northwest Bancorporation (James C. Harris, Vice Chairman of the Board of Directors, Northwestern National Bank of Minneapolis; Peter A. Heegaard, C.F.A., Senior Vice President, Trust Investment Department, Northwestern National Bank of Minneapolis; LeRoy F. Piche, C.F.A., Senior Vice President, Investments, Northwest Bancorporation), The Northwestern National Life Insurance Company (Donald E. Jondahl, Executive Vice President of Finance), and The St. Paul Companies, Inc. (Robert S. Davis, C.F.A., Executive Vice President of Finance), and Medtronic, Inc. (Dale R. Olseth, President). Mr. Olseth was formerly President of Tonka Corporation.

The investment department has been informed of only two members of the legislature who work for brokerage houses which deal with the State of Minnesota and therefore may present appearance of a "conflict of interest". In the case of Dain, Kalman & Quail, the State's business is divided between representatives of the former J.M. Dain organization (Paul Stoner of St. Paul) and the previous Kalman group (Stan Aby of Minneapolis). Senator Mel Frederick is employed by the Rochester office of this firm and received no direct commissions from State business. Likewise, some business is placed with the institutional division of Piper, Jaffray & Hopwood in Minneapolis (Dan Lastavich), with a portion of the commissions going toward the Leuthold Service, consisting of statistical information valuable to investors. Again, an account representative, Senator Eugene E. Stokowski, has no direct benefit from the State account. We have been informed of no other Minnesota elected or appointed official who is associated with the brokerage business. There may be some criticism of dealings with Piper and Dain in that the general economic well-being of the firms and possible long-term profit sharing and bonus plans could be affected by the State business. We feel this to be too minimal to be of any significance.

The Advisory Council and the investment staff sincerely believe that there has been no "conflict of interest" in our placement of business among the various securities firms.

The following schedules detail the securities orders placed during the twelve-month period from July 1, 1976, through June 30, 1977. It is to be emphasized that the Executive Secretary of the State Board of Investment takes full responsibility for the methods and procedures used in this allocation of securities business. It is recognized that the commissions on the shares of stock purchased and sold over major exchanges and the profits -- as well as losses -- from dealings with the investment department in bonds, unlisted stocks and short-term money market instruments, may be very significant. It is certainly a credit to Minnesota's constitutional officers who have served on the State Board of Investment since this program was initiated in 1960 that none have asked that business go to friends or political supporters. Likewise, pressures from other Minnesota citizens and officials have been comparatively minimal. Nevertheless, there may have been evidences of proposed changes in investment organization and policies because of our insistence that politics play no part in the placement of securities business. It is hoped that such pressures, which have been evident during the past two years, may be minimized.

Certain firms both within Minnesota and outside the state have questioned our procedures and have asked whether they are receiving their "fair share". There is no "fair share" for any individual or firm. It would be no more logical to "give business" to every securities firm in Minnesota -- or throughout the nation -- than to buy groceries to fulfill the needs of the State's institutions and schools from every small grocery store throughout the state. The changes witnessed by the securities industry in recent years -- the new degree of competition, the merger and consolidation of many securities firms, the problems of "May Day" 1975 with the accompanying negotiated commission rates, the new questions as to whether securities research should be "unbundled" from the package that once was included in total commission rates -- have all affected the ways and methods in which the investment department places securities orders.

Since the department was established, all transactions have been a matter of public record. Each

purchase and sale, along with the indicated commission or probable profit in the case of a net transaction, is reported to the Board members at each meeting. Members of the press may be in attendance and receive lists of this information.

The department has been appreciative of the economic, general business and securities research which has been provided by many firms. It is evident that the State's investment department may have limited use of research oriented primarily toward those individuals or funds which speculate in the market. Moreover, it may be inappropriate for comparatively conservative portfolios such as those represented by public trust and retirement funds to invest in securities of smaller companies. It has usually been found that the quick action necessary to time such purchases and sales is often difficult under State investment procedures. It is recognized that firms handling such equities and fixed income instruments aid the State's securities industry through the investment banking process. They also provide markets for securities of new businesses. Nevertheless, there appears little relationship between the specialization in these securities and servicing the needs of large institutional accounts.

These considerations, together with the economic pressures suffered by many brokerage organizations during the extreme market fluctuations from 1969 through 1977, have caused the investment department's personnel to review the allocations and methods of handling our transactions so as to achieve the best possible results for the State funds. The accompanying paragraphs point out the extent to which Minnesota's investment department has used "soft dollars" — commissions on securities business transacted over a major exchange — to pay for specific investment services. The introduction of "negotiated rates" by member firms of the stock exchanges, however, may decrease — or perhaps eliminate — the use of such "soft dollars" for these services.

Many individuals familiar with the securities industry believed that the use of "soft dollars" to pay for information and services would be eliminated after "May Day" 1975. Since that date, the State Board of Investment has received these services through "soft dollar" commissions at rates from 25% to 45% less than those previously in effect. Some firms have completed transactions at even far greater discount. Nevertheless, we are somewhat fearful of the quality of the execution to be expected through such transactions and hope to continue the receipt of investment information and research materials. Many types of service are now being purchased through "soft dollar" commissions at these prevailing lower commission rates. The investment department has found that competition is intense.

During the past years, some "soft dollar" commissions were paid to Paine, Webber, Jackson & Curtis, Inc., for work regarding a data processing system which had been first suggested by them. Most of this fee, however, is now covered by legislative appropriations. This service, operated by Gibbons Associates, Inc., provides the State's retirement administrators and financial officials — as well as the investment staff — with information concerning our portfolios and details regarding the securities transactions. The system makes possible some research analysis and a complete portfolio listing.

During fiscal 1976, a "bidding process" was initiated to determine which firms, of known trading capabilities, could participate in "soft dollar" arrangements for a performance measurement contract with Standard Valuations, a subsidiary of LFK, Inc. This procedure has been continued during 1977; the Milwaukee Company now handles the transactions.

Other research services are paid through securities orders placed with investment firms chosen by the research organization. Commission business to Mesriow & Company pays for research service provided by the Harris Bank and Trust Company of Chicago. Compensation for investment advice received from the Bank of New York is handled by business placed through DeHaven Townsend, Crouter & Bodine. Other particular investment information is provided on a commission basis through Jessup & Lamont; Morgan Olmsted & Kennedy; Merrill Lynch, Pierce, Fenner & Smith; Shearson Hayden Stone; Smith Barney, Harris Upham; Cowen & Co.; and Wertheim & Co.

During fiscal 1977, the State Board of Investment and the investment staff have shown renewed interest in ideas, opinions, and services which have not been emphasized in the past. For example, each member of the State Board of Investment, as well as the investment office, now receives copies of Investor Responsibility Research Center, Inc., publications which offer complete information concerning the voting of proxies. This service, provided through Morgan, Olmstead, Kennedy & Gardner, also makes possible participation in symposiums regarding the role of stockholders in corporate decisions. Other programs and conferences have been sponsored in recent years by: Merrill Lynch, Pierce, Fenner & Smith,

Inc.; Smith Barney, Harris Upham; Sutro & Co.; Jefferies & Co.; and Salomon Brothers. These firms provide "free" tuition or conference fees, if any exist. On the other hand, the department is dependent upon its legislative appropriations for all travel and hotel expenses for these meetings. It is our opinion that pertinent meetings and discussions are having a greater value than the stacks of written materials which previously were regarded as the limits of research.

The accompanying schedules in this report list the number of shares purchased or sold, or the face value in the case of bond transactions. This listing is not necessarily indicative of the commissions involved because of the impossibility of determining the exact profit or loss associated with any transaction handled on a competitive or a net price basis. After a review of departmental operations by a legislative commission, the 1965 Legislature passed a bill, now Minnesota Statutes 1976, Section 11.13, which reads as follows:

"All securities purchased or sold by the State Board of Investment, except stocks listed or traded on a major United States stock exchange, securities bound by underwriting restrictions, or securities classified as private placements and offered only to a limited number of institutional investors, shall be purchased or sold on the basis of competitive offerings or bids received from at least two firms known to specialize in the securities being traded and likely to position these securities in relevant quantities."

Except in the instances mentioned above — where there is a type of specialized service or evidence of proven trading ability — we have allocated securities business on the basis of continuing long-term research. It has been found, even prior to the initiation of negotiated rates, that the distribution of business on a price basis is sometimes very effective. In such instances, dealings are handled by the "third market" firms or over the "Instinet System" through which institutions trade directly with each other. The investment department accepts competitive offerings and bids from dealers who are either prime market makers or are known to position these particular securities in quantities desired for the State funds. During recent years, price has been the dominant factor in transactions involving U.S. Treasury securities, unlisted stocks, corporate bonds purchased after the termination of underwriting syndicates, and a significant percentage of listed stocks. We have found definite disadvantages in the use of open competitive offerings and bids in transactions involving large blocks of stocks. It appears that it is preferable to deal with one lead broker or dealer in these instances; under Minnesota law, however, we must check with other firms to be assured of a satisfactory price.

A number of dealers often provide the same merchandise at identical prices. This applies particularly to corporate bonds still in syndicate and to stocks that are purchased over a major exchange. The State's purchase of bonds at the time of original issuance has declined in recent years. This was partially due to the apparent attractiveness of bonds on the secondary market, particularly when the market was declining so rapidly that underwriters found it almost impossible to establish viable offering prices for new bond issues. During the past four years, there was a continued increase in the use of Government-guaranteed mortgage-backed securities. "Private placements", or fixed-income issues sold to a comparatively small number of customers, were used to a considerable extent until the past fiscal year. We have felt, in recent months, that there is a comparatively small yield differential between that offered by these securities and that which could be obtained through more marketable issues.

The dealers used in completing transactions for the State often change along with investment policies; certain firms specialize in particular stocks or bonds or are more active in the underwriting of certain securities issues. Factors involved in the placement of securities orders when there is no price distinction include the extent of participation by various dealers in the bond syndicates; the value of stock, bond and economic research provided by these firms; and, in the instance of corporate bonds, some preference is given to Minnesota dealers who are members of the bond syndicates and have committed their funds to the underwriting. There has been a tendency during recent years for firms to divide their bond and stock departments into separate organizations with little apparent coordination or relationship as to service. It is, therefore, becoming increasingly difficult to compensate for stock information through bond orders or, likewise, for bond service through stock transactions.

The distribution of public fund business has been somewhat complicated in recent years due to the establishment of institutional departments in many securities firms. The employees and sales representatives working in these departments receive a somewhat lower commission than is usual for brokers. The

obvious reason is that institutional accounts make greater use of the research departments and can place orders in larger volume. Therefore, it is only appropriate that a far greater portion of the commission be used for the securities firm to enhance the quality of the research department. Whenever possible, the Minnesota State Board of Investment has dealt with the "institutional" department or with individuals assigned the institutional accounts. In several instances, securities business for bonds, stocks, U.S. Treasury obligations and commercial paper are all assigned to different specialists or sales departments. Because of the various capabilities of these sales personnel, there are limited instances in which more than one individual handles the State account. We believe it most inappropriate to deal with more than one office of the same securities firm merely to distribute business to additional salesmen.

A listing is available showing the names of individuals handling the account of the Minnesota State Board of Investment by various securities firms as of fiscal year-end 1977. In numerous cases, particularly involving firms underwriting large bond issues, dealings are handled through the "bond department", or "order desk", with no particular individual designation.

We have been most disappointed with a tendency on the part of some larger securities firms to place the Minnesota investment account in the hands of "eager" sales personnel who know nothing about the history or needs of the department, sometimes replacing individuals who have long-term associations with our investment program. The merger of securities firms during the past few years has resulted in significant changes in personnel. In this process, we have sometimes lost the opportunity to deal with experienced investment experts who have proved to be of great assistance over the past years. We are particularly disturbed when one well-informed expert may be replaced by several sales-oriented individuals who wish to ask questions and "push merchandise" being promoted at that particular time. It is our opinion that there is little to gain by the securities industry in fostering such sales practices. Those of us in the Minnesota investment department hope we can continue to deal with "low pressure" organizations which recognize the whole program, not potential opportunities for many individual salesmen.

We have been questioned concerning the possible loss which could result from the bankruptcy of any organization dealing with the State. It is presumed that the accounts would be protected in such an instance because the State pays for the securities only after they are received, in good form, by banks in New York, Chicago, or the Twin Cities, acting for the State of Minnesota.

The following resumes outline the policies of the State in distributing securities business; the listings show the firms with which the State completed specific transactions. It is to be emphasized that this supplement in no way signifies approval, endorsement, or license of such firms by any State agency. The regulation of securities and dealers in Minnesota is handled by the Securities Division of the Department of Commerce. The investment department, on the other hand, concerns itself with completion of securities transactions at the best possible price, consistent with the receipt of necessary research materials and services.

Section 1. U.S. Treasury Securities Transactions

All purchases and sales of U.S. obligations are placed on a competitive basis. In transactions of larger size and longer maturity, in which cases it is possible that Minnesota banks do not position the securities in appropriate quantities, offerings or bids have been sought from two or three Minnesota banks and from various prime market dealers. If a Minnesota bank contacted is able to equal the best price quoted by any other dealer, the purchase or sale is completed through that particular bank. Repurchase agreements are negotiated on a competitive basis through those banks and investment firms which have expressed an interest in providing this type of security. These transactions consist simply of the purchase of U.S. Government or agency securities, with a simultaneous sale of such securities to the same dealer at some later date. In this way, the amount of net income is set at the time of the initial purchase. During fiscal 1974, the volume of purchases and sales nearly doubled; there was an additional increase of 50% in fiscal 1975. During the past two fiscal years, there have been further increases in activity. Renewed attempts have been made to maximize earnings through investing a higher portion of funds available in the State's major pooled account for tax receipts — The Invested Treasurer's Cash Fund. A surplus in tax receipts above earlier expectations was evident in late summer, 1974. Although the legislature has appropriated these funds to be used since that date, balances still exist to a degree somewhat higher than those on hand prior to the past three years. Additional monies for investment made possible the use of longer maturities, with higher yields.

Section 2. Purchases and Sales of Short-Term Corporate Notes

The use of short-term corporate notes of prime quality has increased since 1969 legislation authorized a broader use of these securities in many of the State funds; purchases and sales doubled in volume during fiscal 1974, increased by an additional 50% in fiscal 1975, remained stable during fiscal 1976, and were reduced by 30% during 1977. The financial condition of corporations is now somewhat better than in 1974; therefore, issuing firms find it unnecessary to pay the previous "premium" for these funds. Because of this factor, the State uses U.S. Government repurchase agreements to a greater extent at a somewhat higher yield. The investment department uses corporate notes of only well-known, marketable names. There are agreements with the vendors that they will repurchase the notes if the State needs cash. These credit instruments have the advantage of complete flexibility as to maturity, combined with a very fine degree of service offered by the companies issuing these securities.

Section 3. Purchases of U.S. Government-Guaranteed Obligations

Beginning in early 1970, the Government National Mortgage Association approved a program whereby major mortgage bankers could issue securities representing groups of mortgages and backed by the full faith and credit of the U.S. Government. Minnesota's investment department had worked closely with IDS Mortgage Corporation in explaining to the Department of Housing and Urban Development the need for this type of security in funds such as Minnesota's Permanent School Fund — a portion of which must be invested in government obligations under Constitutional provisions. After lengthy negotiations, the Treasury Department approved these securities late in 1969. They have been used in the Permanent School Fund since that time during periods of attractive yields. During the past five fiscal years, commitments have been made in the Minnesota Adjustable Fixed Benefit Fund; shorter maturities have been purchased for the highway trust funds. During fiscal 1977, Government National Mortgage Association certificates were used in the larger basic retirement funds; they offered a yield somewhat higher than that obtainable through corporate bond investments of lesser quality. During recent years, most of these certificates have been purchased on the open market at the lowest offering price as of the time of commitment.

The only purchase of Merchant Marine (Title XI) bonds, guaranteed in full by the United States Government, during 1977 was in an instance in which the State already owned a substantial quantity of an issue. There may be certain price benefits from additional commitments in this security at the time these bonds are called for "sinking fund" purposes.

A third type of United States Government-guaranteed obligation used during fiscal 1977 consisted of securities guaranteed by the Small Business Administration. Under a procedure developed in cooperation with the Minnesota Banker's Association, the bank handling such loans retains the 10% not guaranteed by the United States Government and sells the remaining 90% to the State Board of Investment. The Summit State Bank of Richfield, Minnesota, has been designated as the organization to pool the various loans placed by Minnesota banks.

Section 4. Private Placements of Fixed-Income Securities

Certain fixed-income issues of leading national corporations, other than bonds offered to the general public, are used by the investment department if they have received a rating of "A" or better by a recognized service and have met definite statutory requirements. Because of the quality and size of these issues, their value is ascertainable from current market conditions and a degree of marketability is assured. Such transactions must be completed through the investment firms handling the issue for the particular corporation desiring the funds. In order to avoid being the sole determinant as to interest rate, the investment department has followed the policy of purchasing only a portion of an individual issue, with other recognized institutional buyers participating at the same price and interest rate. Private placements are used only if there appears to be an adequate spread in interest rates between such securities and bonds available on the open market. This differential has varied considerably during the past few years. Private placements purchased during the 1960's were found to be particularly advantageous during the periods of high interest rates since 1970 in that the pro-rata sinking fund provisions resulted in a portion of these securities being retired by the issuer at face value. The amounts received from these mandatory prepayments were far in excess of the market values of bonds with similar coupons.

Section 5. Fixed-Income Obligations Purchased at Time of Offering on a Designated Basis

Bonds in the amounts indicated were bought at the time of offering when the issues were readily available from members of the syndicate. The orders were placed only with those firms that assumed the underwriting risk and held the bonds. The largest individual order was placed with the managing underwriter in those cases when this particular firm had sufficient bonds available; this syndicate leader was asked to provide the billings and deliveries for all members of the underwriting group.

There have been requests from several securities firms to be included in bond purchases made at the time of original offering because of participation in a "selling group". Such participation simply signifies that the firm would receive a portion of the commission on the bonds sold through the State's order even though such firm assumes no part of the underwriting risk. Because Minnesota's accounts have benefited greatly through the services offered by underwriters at a time when bond issues have been "tight" — with the new issues difficult to obtain — it is felt to be very unfair to allocate profits to firms not taking the underwriting risk at a time when bonds are easy to obtain.

As this is being written in late 1977, certain adjustments are being made in purchase policies for fixed-income obligations because of renewed interest in bond investments. The comparatively low level of stock commissions, due to "discounts" by various firms, has resulted in a portion of the general economic and equity research information being paid through orders for new issues of corporate bonds. To an increased degree, the original underwriters of bond issues are willing to "designate" commissions on a portion of such sales to their research departments for the general service provided to institutional customers.

Section 6. Fixed-Income Obligations Purchased at or after Time of Offering through Dealers Having Bonds Available

This schedule includes a listing of orders for bonds placed on the basis of availability, with consideration, when possible, of the factors mentioned previously. In certain instances, such purchases were of issues in great demand by institutional investors; in other cases, the decision to buy the bonds was made after a large portion had been sold by the members of the syndicate. These transactions were completed on the basis of offerings to our department or through firms known to have unsold balances of the issues involved.

The investment staff is particularly appreciative of the attempts by leading underwriters to obtain bonds for the State accounts at the times certain new issues, in great demand, were sold to investors.

Section 7. Corporate Bonds Purchased through Secondary Offerings

The investment department has purchased bonds on the secondary market in recent years for various reasons, usually as additions to previous commitments. These purchases were completed by calling several dealers, practically always including the manager of the original syndicate, those firms known to position the issue, and organizations likely to maintain a market for the securities. The purchases were made at the best price.

Section 8. Sale of Fixed-Income Securities

A substantial number of corporate bonds was sold from the retirement funds during the past eight years. In the early 1970's, sales consisted of small holdings inherited into the various funds. During the past two fiscal years, certain convertible debenture issues have been sold in an effort to increase portfolio quality. Certificates issued by the Government National Mortgage Association and Canadian provincial obligations were sold during the 1977 fiscal year to take advantage of attractive prices and to balance portfolio maturities. Although it is unlikely that the State Board of Investment will engage actively in bond trading for small theoretical income advantages, it is apparent that there are attractive opportunities for significant portfolio improvements through exchanges of fixed-income obligations.

Section 9. Common Stock Purchases Allocated by Investment Department

Until May 1, 1975, stock purchases completed through a major exchange, or at the time of a secondary distribution, were allocated on the basis of service received by the investment department. Those firms providing the most useful research material or, to a lesser extent, the investment bankers furnishing attractive private placements of fixed-income securities and bonds in appropriate quantities

received favorable consideration. As has been previously indicated, the department also allocated stock orders to those firms providing specialized services in the fields of portfolio comparisons and in computer applications helpful for research and listings of security holdings. During fiscal 1977, negotiations and "competitive bidding" completed with several firms resulted in particular payments for various research and performance measurement services.

The introductory paragraphs of this memorandum regarding the distribution of brokerage business indicated that any placement of securities orders on the basis of "service" or "research" leads to inequities in the case of public funds. Due to time and staff limitations, we have found it necessary to be dependent primarily upon the reports from those firms which have provided particularly valuable information over the years. During the 1969-77 period, there were many personnel changes in brokerage and investment banking organizations. It was often difficult to determine whether the research and investment service had been due to the individual or the general quality of the firm. The continuing mergers and consolidations of investment firms cause ever-increasing problems as competent representatives of several former competitors find themselves working for one organization.

Representatives of several outstanding firms have suggested that their research be used to a greater extent; however, it is impossible for us to use the volume of written materials presented to us. We feel it may be inappropriate to compensate for this material with securities orders when we do not have the procedural flexibility, nor statutory or Board approval to use many of the issues advocated. Nevertheless, written research materials and discussions with analysts have been most beneficial.

The value of certain telephone calls regarding future securities offerings, current earnings, up-to-the-minute financial news and continuing order solicitations is definitely questioned by the Executive Secretary and the investment staff. The legislature has appropriated funds for the necessary electronic equipment to provide current market data and information regarding securities. As a whole, the market price of the stocks owned in the State's accounts is little affected by minor changes in earnings estimates or actual earnings amounting to only a few cents a share. Even in the instance of more significant developments, it is doubtful whether the accounts could either buy or sell — quickly — in quantities which could make any difference to the overall investment performance.

It has been our continuing hope that we could reduce the number of firms with whom we conduct stock transactions. Not only would records be simplified, but we would be able to concentrate our business with organizations which have demonstrated their effectiveness in working with us. Because of the State's needs for specialized information and service in many fields, however, the list of dealers handling State transactions will continue to be longer than that deemed appropriate by most private funds. The size of the investment department staff has increased in recent years; therefore, it was logical that individuals, with new preferences as to analysts and research departments, requested that even more firms receive a portion of the department's securities business. It appears appropriate that the department deal primarily with those firms which have serviced the State accounts for substantial periods of years and through which specific "soft dollar" services are received. During the past three years, an attempt has been made to concentrate research commission dollars with firms which have serviced the State account in a particularly meaningful manner over the many years since the common stock program was initiated.

In certain instances, it is noted that many individual securities firms provide stocks to the State accounts. In the case of the Minnesota Power and Light Company common stock, for example, purchases during fiscal 1977 were completed through thirty different securities organizations. This was because of two new offerings of the stock, as the company needed new funds for expansion purposes. The investment department tries to divide these orders among a number of firms because of the somewhat higher commissions applicable to the underwriters. The largest orders are usually placed with the managers of such issues; these higher commissions are considered in the distribution of other securities business throughout the year.

It has been previously indicated in this report that "negotiated rates" is a misnomer. It is not known whether or not the execution was well handled until after the order is completed. At that point, there is only one firm with which the customer can negotiate. It would appear illogical for a State to negotiate "harder" with one firm than another. It is probable that difficulties could be encountered if rates negotiated for transactions related to one of the many funds handled by the investment board were

lower than those applicable to other funds. Although some firms have offered to complete sizable transactions for only nominal amounts, it is apparent that future higher commissions are anticipated in order to pay for such services.

It must be emphasized, however, that significant research and securities information is worth more than the saving of all or a portion of a commission. The interest in "negotiated rates" and net prices seems to be unrealistic if investors try to save a fraction of one per cent of the price of securities in the commission rate while discounting the value of advice through research that could lead to very substantial appreciation in the securities purchased — or, just as important, the minimizing of losses.

Therefore, the investment department is continuing to distribute securities orders on the basis of service received. At the time of this writing, firms which are members of the New York Stock Exchange — and other major exchanges — are requested to complete the transactions at commission rates lower than those in effect prior to May 1, 1975, by 45%. It appears that such a "standard reduction" is typical within the industry. Total annual commissions are limited to the amounts believed appropriate for the research materials and services gained by the department.

During the summers of 1976 and 1977, investment personnel visited the research departments of several firms with Minnesota offices. These New York interviews revealed a high degree of competence on the part of analysts and research personnel. The extreme turnover evidenced by many research departments during the past three years, however, has made it somewhat difficult for any institutional investor to maintain a set list of firms with which transactions are completed. It is apparent that the department's analysts and portfolio managers will still find it necessary to maintain contacts with and receive information from analysts in firms throughout North America. There will be an even greater attempt by department personnel, however, to use the research services available through the larger securities organizations which have Minnesota offices.

Section 10. Common Stock Purchases Placed on the Basis of Lowest Available Price — in Instances of Over-the-Counter Securities, on the "Third Market", or through Direct Dealings with Other Institutions

During recent years, no purchases nor sales were made of over-the-counter stocks until the offerings and bids had been checked with two or more dealers. We attempted to contact organizations specializing in the particular stocks to be bought.

Substantial blocks of stocks were purchased from several large firms that buy and sell securities at a net price. This usually results in a definite saving to the customer when compared with the latest quotations on the major exchanges, including the standard commissions. The off-board, or "third market", has proven to be very helpful, especially in obtaining stocks that show comparatively low trading activity on the major exchanges. Prior to "May Day" 1975, our experience over one decade indicated that net commission savings on "third market" transactions approximated $3/8$ to $1/2$ of a point per share, or \$375 to \$500 per thousand shares. During the past 30 months, the department has dealt, to a great degree, with stock exchange member firms because of the "soft dollar" commitments for various services and due to the lower commission rates. Although we continue to be very impressed with the ability of the "third market" organizations to provide well-known quality stocks at all times, it appears that leading members of the New York Stock Exchange are also attempting to make markets for various securities. The methods of trading stocks, prevalent until recent months, appear to be changing; the answers are not yet definitive. The "third market" appears to offer a competitive price and is often able to handle blocks of securities at a price more favorable than possible on a major stock exchange, even considering the discounts.

The apparent advantage still applicable to an off-board trade is that the entire transaction is completed with no appreciable effect on the price of the stock. Negotiations on such transactions may be completed before the actual trade. This is in marked contrast to the situation involving "negotiated rates" on the major stock exchanges — which may apply to a wide range of prices applicable to the various shares purchased or sold through one order.

It is not our intent to become unduly concerned with the relative merits of the major exchanges versus the "third market"; we are simply pointing out the advantages of using all recognized markets —

major exchanges, over-the-counter market, the "third market", and the "fourth market" (a direct meeting of buyers and sellers) — for the benefit of the State funds. In dealing with firms which are not members of major exchanges, all trades are handled on a competitive basis so that the comparative prices may be checked.

Since early 1970, the investment department has received the services of the AutEx organization, which provides detailed, current, televised information concerning blocks of stocks which may be of interest to us. Since 1973, the investment staff has also used the Institutional Networks Corporation in handling trades; this makes possible direct transactions between institutions and among other large holders of stocks while withholding the identity of the buyers and sellers. Several very successful transactions have been completed through this system.

Section 11. Common Stock Sales

Sales of common stocks during fiscal 1977 were made primarily to balance the portfolio and to take advantage of what appeared to be attractive market prices. A portion of the more successful holdings, when relatively high priced, were sometimes sold for a profit to offset losses on other stocks. It is anticipated that this process of investment upgrading will continue in order to make the equity portfolio more appropriate for the purposes of the funds. The stocks listed were sold through the markets which appeared to be appropriate at the time of the transactions. When the "over-the-counter", "third market" or the "fourth market" were used, bids were checked so as to assure a proper price. Commission business was allocated as described for stock purchases.

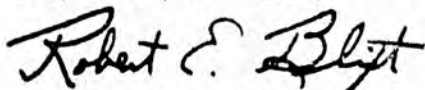
* * * * *

A favorable and equitable allocation of securities business has become increasingly difficult as financial difficulties have plagued the industry, especially as analysts have moved to different firms and have been replaced by sales personnel somewhat less attentive to the needs of State retirement and trust funds. Nevertheless, we are impressed with the progress of many leading securities organizations as to the quality of their research.

The members of the State Board of Investment, acting through the investment department, are trustees for the beneficiaries of the retirement funds, for the State's educational institutions, and for the people living in Minnesota. This responsibility continues to be recognized.

There are many possible equitable ways of allocating and dividing the State's securities business. It is felt, however, that the confidence of Minnesota citizens can be retained only if these orders are placed on a reasonable basis and if the ultimate good of the State is placed above all other considerations.

Respectfully submitted,



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

SECTION 1

STATE OF MINNESOTA STATE BOARD OF INVESTMENT

PURCHASES AND SALES OF U.S. TREASURY OBLIGATIONS AND GOVERNMENT AGENCY SECURITIES

July 1, 1976 - June 30, 1977
(000 Omitted)

Dealer	Purchases and Sales 1-90 days	Purchases and Sales over 90 days	Repurchase Agreements 1-45 days	Total Volume
Banco Mortgage Company	-	\$ 647	-	\$ 647
Bank of America	\$ 57,600	32,325	-	89,925
Bankers Trust Company	400	26,430	\$ 262,899	289,729
A.G. Becker & Company	15,850	49,100	-	64,950
Biggs Schaeble & Company, Inc.	-	6,535	8,000	14,535
Carroll McEntee & McGinley, Inc.	-	14,835	170,347	185,182
Chemical Bank, New York	-	11,000	409,204	420,204
Citicorp, New York	6,000	18,000	168,468	192,468
Continental Illinois National Bank	2,000	8,945	136,761	147,706
Discount Corporation	10,000	9,000	-	19,000
Donaldson Lufkin	-	-	93,704	93,704
First Boston Corporation	-	3,500	-	3,500
First National Bank, Chicago	-	1,000	-	1,000
First National Bank, Minneapolis	9,100	41,030	1,129,580	1,179,710
First National Bank, St. Paul	13,590	175,975	1,004,343	1,149,508
Goldman Sachs & Company	13,985	141,665	-	155,650
Hutton, H. J. & Co., Inc.	-	7,000	35,000	42,000
Ashbury G. Landon & Company, Inc.	-	8,325	-	8,325
Lehman Government Securities, Inc.	11,040	35,330	9,700	56,070
Merrill Lynch, Pierce, Fenner & Smith	15,345	30,420	-	45,765
Morgan Guaranty Trust Co.	3,725	78,380	618,320	700,425
New York Hanseatic	3,000	24,500	-	27,500
Northwestern National Bank, Minneapolis	1,425	42,766	3,784,170	3,828,361
Northwestern National Bank, St. Paul	-	-	11,556	11,556
John Nuveen & Company	320	19,550	38,940	58,810
Salomon Brothers	5,350	32,200	-	37,550
Security Pacific National Bank	-	27,000	-	27,000
United California Bank	16,400	11,010	362,280	389,690
Weiden & Company	2,000	23,425	14,000	39,425
TOTALS	\$192,130	\$829,943	\$8,257,872	\$9,279,945

SECTION 3

STATE OF MINNESOTA STATE BOARD OF INVESTMENT

PURCHASES OF U.S. GOVERNMENT GUARANTEED OBLIGATIONS AND GOVERNMENT AGENCY SECURITIES

July 1, 1976 - June 30, 1977

A. GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

Face Amount (000)	Dealer or Issuer
\$12,859	First Boston Corporation
1,996	First National City Bank
9,808	Goldman, Sachs & Company
2,009	Jesup & Lamont Company
15,962	Merrill Lynch, Pierce, Fenner & Smith, Inc.
12,862	Paine, Webber, Jackson & Curtis, Inc.
10,136	Salomon Brothers

B. MERCHANT MARINE (TITLE XI)

Face Amount (000)	Dealer or Issuer
\$ 871	Hambrecht & Quist, Inc.

C. SMALL BUSINESS ADMINISTRATION GUARANTEED

Face Amount (000)	Dealer or Issuer
\$ 882	Summit Bank of America, Minnesota

D. GOVERNMENT AGENCY SECURITIES

Face Amount (000)	Dealer or Issuer
\$ 300	Salomon Brothers

SECTION 2

STATE OF MINNESOTA STATE BOARD OF INVESTMENT

PURCHASES AND SALES OF SHORT-TERM CORPORATE NOTES

July 1, 1976 - June 30, 1977
(000 Omitted)

Issuer/Dealer	Purchases 1-90 days	Purchases 21-270 days	Sales Prior to Maturity Date	Total Volume
Associates Corp. of North America	\$ 115,839	\$ 19,399	-	\$ 135,238
Beneficial Corp.	77,900	9,500	-	87,400
Borg Warner Acceptance Corp./Goldman Sachs	28,459	44,221	-	72,680
CIT Financial Corp.	36,885	17,704	-	108,589
Dow Chemical Co./Goldman Sachs	-	5,600	-	5,600
First Bank System/First Boston Corp.	1,000	-	-	1,000
First Motor Credit Co.	50,500	14,254	-	75,162
General Electric Credit Corp.	59,871	12,447	-	72,317
General Motors Acceptance Corp.	44,151	17,000	-	81,151
General Motors Acceptance Corp. Salomon Brothers	10,000	-	-	10,000
Heller & Heller & Co.	114,216	18,723	-	213,639
Honeywell Finance Inc./John Sawyer Associates Inc.	10,523	600	-	31,123
Hortford Finance Corp.	10,916	6,184	\$ 7,000	99,151
International Harvester Credit Co.	118,343	13,773	-	198,116
Montgomery Ward Credit Corp.	74,414	3,298	-	77,712
Northwest Bancorporation	6,023	1,310	-	7,333
J.C. Penney Financial Corp.	32,866	14,633	7,760	55,259
Sears Roebuck Acceptance Corp.	82,968	15,668	-	78,636
Texaco, Inc./Goldman Sachs	-	5,600	-	5,600
Transamerica Financial Corp.	61,122	6,824	-	74,946
TOTALS	\$1,204,162	\$226,793	\$9,760	\$1,440,719

SECTION 4

STATE OF MINNESOTA STATE BOARD OF INVESTMENT

PURCHASES OF PRIVATE PLACEMENT FIXED-INCOME SECURITIES

July 1, 1976 - June 30, 1977

Face Amount (000)	Dealer
\$ 4,911	Ames IA L & Company
8,750	Bache, Halsey, Stuart & Co., Inc.
10,900	Blyth Eastman Dillon & Co., Inc.
2,000	First Boston Corporation
20,700	Goldman, Sachs & Company
3,000	Kuhn, Loeb & Company
5,000	Lehman Brothers, Inc.
3,000	McLeod Young West Inc.
5,500	Morgan Stanley & Co., Inc.
39,266	Salomon Brothers
8,075	Wood Gundy, Inc.

SECTION 5

STATE OF MINNESOTA STATE BOARD OF INVESTMENT

DEBT OBLIGATIONS PURCHASED AT TIME OF OFFERING ON A DESIGNATED BASIS

July 1, 1976 - June 30, 1977

Face Amount (000)	Dealer	Face Amount (000)	Dealer
100	Advest Company	1,680	Loeb, Rhodes & Company
305	Allison Williams Company	50	Loew & Co., Inc.
1,060	Bache Halsey Stuart, Inc.	1,820	Merrill Lynch, Pierce, Fenner & Smith, Incorporated
330	Baird, (Robert W.) Co., Inc.	230	Milwaukee Company (The)
200	Bate Securities Corporation	110	Mitchell, Hutchins, Inc.
100	Bateman Fitcher, Hill Richards, Inc.	2,400	Morgan Stanley & Co., Inc.
500	Bea, Stearns & Company	300	New Court Securities Corporation
40	Bier, (William) & Company	200	Nikko Securities (The) Co. International, Inc.
200	Bloom & Simmons, Inc.	100	Nomura Securities International, Inc.
2,530	Blyth Eastman Dillon & Co., Inc.	100	Novick (M.H.) & Co., Inc.
100	Bradford (J.C.) & Company	100	Olun Company (The)
150	Caldwell Phillips, Inc.	220	Oppenheimer & Co., Inc.
25	Craig Hallum, Inc.	270	Paine, Webber, Jackson & Curtis, Inc.
200	Crowell, Weedon & Company	695	Piper, Jaffray & Hopwood, Inc.
620	Dain, Kalman & Quail, Inc.	540	Pressprich, R.W. & Co., Inc.
100	Daiwa Securities America, Inc.	70	Reinhold & Gardner
100	Dickinson (R.G.) & Company	860	Reynolds Securities, Inc.
1,530	Dillon, Read & Co., Inc.	200	Robinson Humphrey Company, Inc.
100	Dominion Securities	100	Rodman & Renshaw, Inc.
150	Donaldson, Lufkin & Jenrette Corp.	150	Rothschild (L.F.) & Co.
1,490	Drexel Burnham & Co., Inc.	3,770	Salomon Brothers
625	Edwards, (A.G.) & Sons, Inc.	100	Schapiro (M.A.) & Co., Inc.
200	Europartners Securities Corporation	280	Shearson Hayden Stone, Inc.
410	Faulkner, Dawkins & Sullivan, Inc.	350	Shields Model Ruland Inc.
1,200	First Boston Corporation	960	Smith Barney, Harris Upham & Co., Inc.
60	First Harlem Securities Corporation	160	Spencer Trask & Co., Inc.
100	Greenfield & Co.	200	Stuart Brothers
1,980	Goldman, Sachs & Company	40	Sutro & Co., Inc.
1,580	Hamerslag, Kemper & Marks	430	Thomson McKinnon Securities, Inc.
100	Herzfeld & Stern	100	Tucker, Anthony & R.L. Day, Inc.
1,070	Hornblower & Weeks Hemphill, Noyes	550	UBS-DB Corporation
910	Hutton, (E.F.) & Co., Inc.	80	Warburg Paribas Becker, Inc.
50	Jesup & Lamont	580	Weeden & Company
210	Keefe Bruyette & Woods, Inc.	1,000	Wertheim & Company
1,560	Kulder, Peabody & Co., Inc.	200	Wheat, First Securities, Inc.
200	Kleinworth, Benson, Inc.	1,390	White, Weld & Company
800	Kuhn, Loeb & Co.	1,920	Witter, Dean & Co.
200	Ladenburg, Thalmann & Co., Inc.	340	Wood Gundy, Inc.
480	Lazard Freres & Co.	200	Wood, Struthers & Wainthrop, Inc.
100	Legg Mason	200	Yamachi International (America), Inc.
1,080	Lehman Brothers, Inc.		

SECTION 6

STATE OF MINNESOTA STATE BOARD OF INVESTMENT

DEBT OBLIGATIONS PURCHASED AT OR AFTER TIME OF OFFERING THROUGH DEALERS HAVING BONDS AVAILABLE

July 1, 1976 - June 30, 1977

Face Amount (000)	Dealer
\$1,000	Bernstein (Sanford C.) & Co., Inc.
3,000	Blyth Eastman Dillon & Co., Inc.
1,000	Donaldson, Lufkin & Jenrette Securities Corp.
1,075	Drexel Burnham & Co., Inc.
1,000	Edwards, (A.G.) & Sons, Inc.
1,525	Goldman, Sachs & Company
500	Hornblower & Weeks - Hemphill, Noyes
500	Hutton, (E.F.) & Co., Inc.
4,025	Kidder, Peabody & Co., Inc.
500	Loeb Rhodes & Co., Inc.
2,500	Merrill Lynch, Pierce, Fenner & Smith, Inc.
1,100	Morgan Stanley & Co., Inc.
400	Paine, Webber, Jackson & Curtis Incorporated
3,350	Salomon Brothers
1,000	Smith, Barney & Co.
1,500	Thomson McKinnon Securities, Inc.
1,000	Weeden & Company
1,500	Wertheim & Co., Inc.
2,075	White, Weld & Company
1,550	Witter, Dean & Co.

SECTION 7

STATE OF MINNESOTA STATE BOARD OF INVESTMENT

CORPORATE BONDS PURCHASED THROUGH SECONDARY OFFERINGS

July 1, 1976 - June 30, 1977

Face Amount (000)	Dealer
\$350	First Boston Corporation
750	Goldman Sachs & Company
250	Kidder, Peabody & Co., Inc.
650	Salomon Brothers

SECTION 8

STATE OF MINNESOTA STATE BOARD OF INVESTMENT

SALE OF FIXED INCOME SECURITIES

July 1, 1976 - June 30, 1977

A. GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

Face Amount (000)	Dealer
\$ 1,234	Hambrecht & Quist, Inc.
1,600	Merrill Lynch, Pierce, Fenner & Smith, Inc.
6,856	Paine, Webber, Jackson & Curtis, Inc.

B. CANADIAN GOVERNMENTAL OBLIGATIONS

Face Amount (000)	Dealer
\$13,200	Salomon Brothers

C. CORPORATE OBLIGATIONS

Face Amount (000)	Dealer
\$ 2,375	Bernstein (Sanford C.) & Co., Inc.
2,600	Blyth Eastman Dillon & Co., Inc.
550	Edwards, (A.G.) & Sons, Inc.
3,315	Goldman, Sachs & Company
1,200	Hutton, (E.F.) & Co., Inc.
6,316	Merrill Lynch, Pierce, Fenner & Smith, Inc.
6,512	Morgan Stanley & Co., Inc.
23,727	Salomon Brothers
1,500	Thomson McKinnon Securities, Inc.
13,143	Weeden & Company
684	White, Weld & Company

SECTION 9

STATE OF MINNESOTA STATE BOARD OF INVESTMENT

COMMON STOCK PURCHASES ALLOCATED BY INVESTMENT DEPARTMENT

July 1, 1976 - June 30, 1977

Total Shares	Issue and Vendor	Total Shares	Issue and Vendor
UTILITIES			
Electric		6200	Goldman Sachs
12000	Commonwealth Edison Company	2700	Hornblower Weeks
	1000 Paine Webber	2200	E.F. Hutton
	11000 Wamwright Securities	2700	Kidder Peabody
	Minnesota Power & Light Company	2200	Merrill Lynch
116700	1000 Allison Williams	1200	Morgan Stanley & Co.
	1400 Robert Baird	1200	Norfolk & Co.
	4100 Bache Halsey	5300	Paine Webber
	31000 Blyth Eastman	15500	Piper Jaffray
	100 Caldwell Phillips	3700	Reynolds Securities
	1000 Craig Hallum	900	Reynolds & Gardner
	8300 Dain Kalman	900	Robinson Humphrey
	30000 A.G. Edwards	1400	L.F. Rothschild
	1600 First Boston	2600	Salomon Brothers
		3200	Shearson Haynes

Total Shares	Issue and Vendor	Total Shares	Issue and Vendor
	10000 Shearson Hayden	41000 Morgan Olmstead	
	4500 Sutor & Co.	10500 Paine Webber	
	9000 Dean Witter	21500 Smith Barney	
Electrical Equipment		ENERGY	
15400	Everett Electric Co.	Oil Domestic	
11000	Morgan Olmstead	75700	Atlanta, Hotchfield Company
11000	Smith Barney	6000	Bache Halsey
9700	Dean Witter	4000	Hornblower Weeks
70400	General Electric Company	5000	Kidder Peabody
6000	E.F. Hutton	6000	Robinson Humphrey
8100	Kidder Peabody	4700	Wainwright Securities
3500	Milwaukee & Co.	13000	Continental Oil Company (The)
3000	Wertheim & Co.	1000	First Boston
279800	Gould, Inc.	6000	Hornblower Weeks
48100	Bear Stearns	1000	Lipper Analytical
40350	Wm. Blair	5000	Morgan Olmstead
3000	Hornblower Weeks	5000	Louisiana Land and Exploration Co. (The)
121950	Kidder Peabody	2000	DeHaven Townsend
13500	Merrill Lynch	1000	Hornblower Weeks
15000	Reynolds Securities	2000	Morgan Stanley
5400	Robinson Humphrey	3000	Paine Webber
34500	Wainwright Securities	1000	Piper Jaffray
		153400	Marathon Oil Company
Machinery		18000	Bache Halsey
7500	Caterpillar Tractor Co.	11600	Donaldson Lufkin
2500	Paine Webber	5700	Drexel Burnham
112400	Clark Equipment Company	3000	First Boston
70000	Wm. Blair	3000	Hornblower Weeks
21500	Merrill Lynch	8000	Kidder Peabody
27000	Paine Webber	8000	Cyrus Lawrence
15000	Rutan Muhl	4000	Legg Mason
10500	Salomon Bros.	7000	Merrill Lynch
14500	Wertheim & Co.	15000	Merrill & Co.
8300	White Weld	9000	Morgan Olmstead
28000	Combustion Engineering, Incorporated	6500	Paine Webber
1000	Sanford Bernstein	4000	Piper Jaffray
1000	Caldwell Phillips	8000	W.H. Reaves
900	Drexel Burnham	5000	Reynolds Securities
5000	Mitchell Hutchins	10000	Shearson Hayden
11000	Salomon Bros.	2500	Shields Model
9100	White Weld	2000	Wertheim & Co.
14000	Trans Union Corporation	5000	White Weld
1500	Salomon Bros.	18100	Dean Witter
4500	Smith Barney	44000	Phillips Petroleum Company
8000	White Weld	6000	DeHaven Townsend
		2000	Jesup & Lamont
Metals		10000	Merrill & Co.
6500	Hanna Mining Company (The)	26000	Wainwright Securities
2000	Spencer Trask	Standard Oil Company (Indiana)	
3500	White Weld	4000	First Boston
1000	Wood Struthers	2000	E.F. Hutton
39226	Pittston Company (The)	6500	Kidder Peabody
10506	Dain Kalman	13600	Morgan Olmstead
2400	E.F. Hutton	500	Paine Webber
15396	Paine Webber	5000	Shearson Hayden
4000	White Weld	10000	Wheat First
4488	Dean Witter	12000	Standard Oil Company (The) Ohio
1836	Sutor & Co.	12000	Wertheim & Co.
155000	St. Joe Minerals Corporation	Oil International	
21090	First Manhattan	50200	Exxon Corporation
6000	Hornblower Weeks	19000	Brown Bros.
10000	E.F. Hutton	1800	Caldwell Phillips
21000	Kuhn Loeb	8500	Lipper Analytical
7000	Merrill Lynch	5000	Merrill Lynch
2000	Mitchell Hutchins	1500	Paine Webber
2000	Paine Webber	3100	Smith Barney
5000	Reynolds Securities	10500	Wainwright Securities
10300	Robinson Humphrey	22000	Gulf Oil Corporation
16700	Shearson Hayden	2000	Caldwell Phillips
13000	Sutor & Co.	10000	Merrill & Co.
34000	Wainwright Securities	10000	Paine Webber
5500	Dean Witter	8000	Mobil Corporation
		1500	Jesup & Lamont
Paper		2000	Legg Mason
35000	International Paper Company	2000	Milwaukee & Co.
3000	Caldwell Phillips	2500	Morgan Olmstead
10000	First Manhattan	86500	Standard Oil Company of California
3900	Merrill Lynch	5000	Bache Halsey
6500	Milwaukee & Co.	23300	Brown Bros.
2500	Paine Webber	7700	Hardy & Co.
6100	Piper Jaffray	8000	Jesup & Lamont
3000	Shearson Hayden	14500	Keele Bruyette
79500	Union Camp Corporation	7000	Neuberger Berman
2500	Sanford Bernstein	10000	M.H. Novick
4300	Caldwell Phillips	6000	Paine Webber
6000	First Boston	10000	W.H. Reaves
4700	Gulldman Sachs	52000	Texas, Inc.
1000	Hornblower Weeks	7000	Robert Baird
3000	Keele Bruyette	20000	Milwaukee & Co.
13500	Milwaukee & Co.	18000	Paine Webber
7000	Oppenheimer & Co.	7000	Sutor & Co.
7000	Piper Jaffray		
1000	Reynolds Securities	Energy Related	
5000	L.F. Rothschild	3000	Baker International Corporation
25000	Wood Struthers	1000	First Boston
		2000	Salomon Bros.
Miscellaneous		Dresser Industries, Inc.	
73000	International Telephone & Telegraph Corp.	2000	Morgan Olmstead
5000	Robert Baird	1000	Robinson Humphrey
4000	Caldwell Phillips	Hainburton Company	
7000	A.G. Edwards	3000	Robert Baird
2000	E.F. Hutton	18500	Sanford Bernstein
9000	Lipper Analytical	5000	Brown Bros.
10000	Milwaukee & Co.	5500	Mitchell Hutchins

Total Shares	Issue and Vendor	Total Shares	Issue and Vendor
	3500 Morgan Stanley	5000	Legg Mason
	5000 W.H. Reaves	5000	Piper Jaffray
	9100 Shields Model	7000	Smith Barney
43800	Williams Companies (The)	42600	Southern Railway Company
4000	Dain Kalman	1000	Bache Halsey
7000	Gulldman Sachs	5000	Edwin Hochstet
13000	Hornblower Weeks	1100	First Boston
7000	Milwaukee & Co.	5900	First Manhattan
4000	Salomon Bros.	5000	Gulldman Sachs
11000	Shearson Hayden	14500	Salomon Bros.
2000	Spencer Trask	11000	Wainwright Securities
		2000	Union Pacific Corporation
		2000	Merrill Lynch

Total Shares	Issue and Vendor
TRANSPORTATION	
Railroads	
12000	Burlington Northern Incorporated

SECTION 10

STATE OF MINNESOTA STATE BOARD OF INVESTMENT

COMMON STOCK PURCHASES PLACED ON THE BASIS OF LOWEST AVAILABLE PRICE - IN INSTANCES OF OVER-THE-COUNTER SECURITIES, ON THE "THIRD MARKET," OR THROUGH DIRECT DEALINGS WITH OTHER INSTITUTIONS

Total Shares	Issue and Vendor	Total Shares	Issue and Vendor
UTILITIES		Consumer Nondurables	
Electric		2000	Avon Products, Inc.
9000	Commonwealth Edison Company	2000	Jefferies & Co.
6000	Jefferies & Co.	17500	Coqate Palmolive Company
3000	Weeden & Co.	2500	Institutional Networks
14900	Northern States Power Company (Minn.)	15000	Jones & Associates
1500	Institutional Networks	1700	Eastman Kodak Company
300	Jefferies & Co.	1200	Institutional Networks
13100	Weeden & Co.	500	Weeden & Co.
11000	Public Service Co. of Indiana, Inc.	2400	Minnesota Mining and Manufacturing Co.
5000	Institutional Networks	1000	Jefferies & Co.
6000	Weeden & Co.	1400	Weeden & Co.
9510	Texas Utilities Company	3000	Revlon, Incorporated
3000	Institutional Networks	3000	Jefferies & Co.
500	Jefferies & Co.		
6000	Weeden & Co.	Consumer Miscellaneous	
		5030	Disney (Walt) Productions
Natural Gas		4030	Institutional Networks
15510	Houston Natural Gas Corporation	1000	Weeden & Co.
15000	Jefferies & Co.	11200	McDonald's Corporation
500	Kali & Co.	10200	Institutional Networks
5500	Panhandle Eastern Pipe Line Company	1000	Weeden & Co.
500	American Securities		
2500	Institutional Networks	Drugs	
2500	Weeden & Co.	4500	American Home Products Corporation
48720	Peoples Gas Company	1000	Institutional Networks
36700	American Securities	3500	Jefferies & Co.
6000	Institutional Networks	200	Merck & Co., Inc.
3000	Jefferies & Co.	200	Institutional Networks
3000	Weeden & Co.	2000	Pfizer Incorporated
		2000	Institutional Networks
Communications		Food Beverage	
24810	American Telephone & Telegraph Co.	38000	EPC International, Inc.
500	American Securities	6800	Institutional Networks
12300	Institutional Networks	28200	Jefferies & Co.
1000	Jefferies & Co.	3000	Weeden & Co.
10000	Jones & Associates	2000	Coca Cola Company, (The)
1000	Kali & Co.	2000	Institutional Networks
15300	General Telephone & Electronics Corp.	2000	Jefferies & Co.
500	Institutional Networks	12500	General Mills, Incorporated
1000	Jefferies & Co.	3500	Institutional Networks
		9000	Jones & Associates
FINANCIAL SERVICES		5700	Peoples Co., Inc.
Banks		4200	Institutional Networks
1000	Citicorp	1500	Weeden & Co.
1000	Institutional Networks	12000	Pittsburg Company, (The)
3030	First Bank System, Incorporated	10000	Jefferies & Co.
500	First Boston	2000	Weeden & Co.
500	Keele Bruyette		
500	Piper Jaffray	Retail Sales	
1500	Salomon Bros.	7000	Dayton Hudson Corporation
850	Valley National Bank of Arizona	7000	Jefferies & Co.
	Keele Bruyette	13700	Federated Department Stores, Inc.
Insurance		7000	Institutional Networks
1030	INA Corporation	6100	Jefferies & Co.
1000	Weeden & Co.	1500	Kimber Corporation
		1000	Institutional Networks
CONSUMER ORIENTED		500	Jefferies & Co.
Automobiles & Automotive Parts		100	Pennsylvania Company, Incorporated
19700	Genuine Parts Company	100	Jefferies & Co.
6200	Institutional Networks	96119	Southland Corporation (The)
10500	Jefferies & Co.	7000	Robert Baird
3000	Weeden & Co.	6000	Institutional Networks
		53119	Jefferies & Co.
Consumer Durables			
7400	Sunbeam Corporation		
7400	Jefferies & Co.		

Total Shares	Issue and Vendor	Total Shares	Issue and Vendor	Total Shares	Issue and Vendor	Total Shares	Issue and Vendor
TECHNOLOGY							
Electronics							
3700	Hewlett Packard Company		Pittston Company (The)	5000	Merrill Lynch	11400	Owens Corning Fiberglas Corporation
700	Jefferies & Co.	39518	6834 Robert Brandt	2000	Paine Webber	4000	Jefferies & Co.
200	Kall & Co.		17892 Jefferies & Co.	Hewlett Packard Company		7400	Merrill Lynch
2300	Weeden & Co.	95000	14792 Kall & Co.	200	Jefferies & Co.	Penney U.C.I. Company, Incorporated	
Office Equipment				42000	Hoerner Waldorf Corporation	8000	Merrill Lynch
500	Burroughs Corporation		St. Joe Minerals Corporation	16000	Merrill Lynch	12000	Philips Petroleum Company
500	Jefferies & Co.		6000 Robert Brandt	2000	Roulston & Co.	12000	Dan Kalman
1000	Digital Equipment Corporation		3000 Institutional Networks	16000	Salomon Bros.	Pittston Company (The)	
1000	Jefferies & Co.		80000 Jefferies & Co.	8000	White Weld	7920	Jefferies & Co.
2500	International Business Machines Corp.		6000 Jones & Associates	Holiday Inns, Incorporated		30994	Merrill Lynch
1700	Institutional Networks			3800	White Weld	7800	Paine Webber
400	Jefferies & Co.			31000	Kraft, Inc.	13000	The St. Paul Companies, Inc.
400	Weeden & Co.			3000	Institutional Networks	8700	Southern California Edison Company
1000	Xerox Corporation			10000	Kall & Co.	52000	Texas Corporation
1000	Institutional Networks			13000	Smith Barney	22000	Dan Kalman
BASIC INDUSTRY				53000	Louisville Gas and Electric Company	24000	United Technologies Corporation
Aerospace				43000	Goldman Sachs	4000	Jefferies & Co.
7700	Boring Company (The)			10000	Weeden & Co.	10000	Milwaukee & Co.
700	Institutional Networks			57300	McGill Investment Corporation	6000	Morgan Olmstead
7000	Kall & Co.			14000	Shields Muel	4000	Oppenheimer & Co.
3700	United Technologies, Inc.			14700	Dean Witter	Standard Oil Company (The) (Ohio)	
3200	Institutional Networks			22600	White Weld	4000	Institutional Networks
500	Weeden & Co.			20000	Middle South Utilities, Incorporated	12500	Morgan Olmstead
Building & Forest Products				27000	Smith Barney	10000	Shearson Hayden
7752	Georgia Pacific Corporation			2800	Institutional Networks	6500	Vertheim & Co.
6222	Institutional Networks			12200	Jefferies & Co.	Xerox Corporation	
1530	Kall & Co.			10000	Jesup & Lamont	4000	Milwaukee & Co.
15000	Masonite Corporation			2000	Smith Barney	4000	Shearson Hayden
15000	Robert Brandt			Northwest Airlines, Incorporated			
4700	Weyerhaeuser Company			2800	Institutional Networks		
2200	Institutional Networks			12200	Jefferies & Co.		
2000	Jefferies & Co.			10000	Jesup & Lamont		
500	Weeden & Co.			2000	Smith Barney		
Chemicals							
700	du Pont (E.I.) de Nemours and Company						
500	Institutional Networks						
200	Weeden & Co.						
6300	Hercules Incorporated						
6300	Jefferies & Co.						
5000	Monsanto Company						
1000	Institutional Networks						
3400	Jefferies & Co.						
1500	Weeden & Co.						
9000	Union Carbide Corporation						
3000	Jefferies & Co.						
6000	Weeden & Co.						
Electrical Equipment							
15000	Emerson Electric Co.						
10000	Kall & Co.						
5000	Weeden & Co.						
1500	General Electric Company						
1000	Institutional Networks						
500	Weeden & Co.						
Machinery							
2000	Caterpillar Tractor Co.						
14300	Clark Equipment Company						
1300	Jefferies & Co.						
13000	Weeden & Co.						
7500	Trans Union Corporation						
7500	Jefferies & Co.						
Metals							
Paper							
Miscellaneous							
ENERGY							
Oil-International							
Oil-Domestic							
Energy-Related							
TRANSPORTATION							
Railroads							

SECTION 11

STATE OF MINNESOTA STATE BOARD OF INVESTMENT

COMMON STOCK SALES July 1, 1976 - June 30, 1977

Total Shares	Issue and Vendor	Total Shares	Issue and Vendor
15100	Aluminum Company of America	52600	Continental Illinois Corporation
15100	Oppenheimer & Co.	200	E. F. Hutton
25000	American Greetings Corporation	26000	Institutional Networks
17500	Diesel Burnham	14600	Kidder Peabody
7500	Jefferies & Co.	11800	Morgan Stanley
16200	BankAmerica Corporation	Dresler Industries, Inc.	
8000	Dresler Burnham	5000	First Boston
1000	Institutional Networks	2000	Institutional Networks
6000	E. F. Hutton	2000	Jefferies & Co.
17000	Smith Barney	3000	Merrill Lynch
17000	CPA International Inc.	28000	Oppenheimer & Co.
8000	Robert Brandt	10000	Paine Webber
4000	Salomon Bros.	12500	Shields Muel
5000	Dean Witter	10200	International Department Stores, Inc.
7000	Chas. Company (The)	10200	Smith Barney
3000	E. F. Hutton	General Food, Corporation	
7000	Jefferies & Co.	2000	E. F. Hutton
5000	Comstock General Insurance Corp.	5000	Jefferies & Co.
5000	Goldman Sachs	2000	Kidder Peabody

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1976 REPORT

of the

EXECUTIVE SECRETARY

of the

MINNESOTA STATE BOARD

OF INVESTMENT

Office of the Executive Secretary
State Board of Investment
Room 105, MEA Building
55 Sherburne Avenue
Saint Paul, Minnesota 55155
July 1, 1976

MEMBERS OF THE STATE BOARD OF INVESTMENT

HON. WENDELL R. ANDERSON, GOVERNOR

HON. ROBERT W. MATTSON, STATE AUDITOR

HON. JIM LORD, STATE TREASURER

HON. JOAN ANDERSON GROWE, SECRETARY OF STATE

HON. WARREN SPANNAUS, ATTORNEY GENERAL

THE ADVISORY COMMITTEE ON STATE TRUST FUNDS

Active Members

Franklin Briesse, *Chairman of the Board (retired), Minnesota Mutual Life Insurance Company, St. Paul*

Robert S. Davis, C.F.A., *Executive Vice President of Finance, The St. Paul Companies, Inc.*

Gaylord W. Glarner, *Senior Vice President, First Trust Company, St. Paul*

James C. Harris, *Vice Chairman of the Board of Directors, Northwestern National Bank of Minneapolis*

John M. Harris, *Investment Counsel, Northern City National Bank, Duluth*

John H. Herrell, *Vice Chairman of Investment Committee, Mayo Foundation, Rochester*

Donald E. Jondahl, *Executive Vice President, Finance, Northwestern National Life Insurance Company, Minneapolis*

Laurence R. Lunden, *former Vice President, Business Administration, University of Minnesota*

Dale R. Olseth, *President, Medtronic, Inc.*

Norman Terwilliger, *Investment Counsel to the Minneapolis Teachers Retirement Association*

Members Emeriti

Hermon J. Arnott, *retired Chairman of the Board, Farmers and Mechanics Savings Bank of Minneapolis*

Francis Hassing, *former Investment Counsel to the Board of Regents of the University of Minnesota*

Maxwell B. Hight, *Section of Administration, Mayo Foundation, Rochester*

INVESTMENT DEPARTMENT PERSONNEL

Robert E. Blixt, B.A., M.S., J.D., C.F.A.
Executive Secretary

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

Betty J. Eskuri
Portfolio Coordinator

Margaret I. Conley
Administrative Assistant

Judy A. Kaufman
Secretarial Assistant

* * * * *

Portfolio Managers and Financial Analysts

Money Market Securities
Grant A. Feldman, Jr., B.S.
Howard J. Bicker, B.A.

Equity Securities
Miles J. Cohen, B.B.A., J.D.
C. Robert Parsons, B.S.
Michael L. Hudson, B.S., M.B.A., C.F.A.
Roger W. Henry, B.A.
Peter G. Robb, B.A.

Fixed-Income Securities
N. Robert Barman, B.C.S., M.A.
Arthur M. Blauzda, B.S., M.B.A.

Secretarial & Investment Assistants

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

James E. Oss, B.A.
Transaction Supervisor

Harold Syverson, B.A.
Securities Trader

Accountants & Statistical Assistants
Alice P. Chermak

Thomas L. Delmont, B.A.

Audrey I. Moore

MEMBERS OF BOARD:

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



ROBERT E. BLIXT
EXECUTIVE SECRETARY

**STATE OF MINNESOTA
STATE BOARD OF INVESTMENT**

Room 105, MEA Building
55 Sherburne Avenue
Saint Paul 55155

August 20, 1976

Members of the Legislature of the State of Minnesota:

The Investment Staff of the State of Minnesota is most appreciative of the policies and procedures approved by the State Board of Investment and Advisory Committee on State Trust Funds during the past few years. The results, as detailed in this report, have been very satisfactory by any standard — particularly those which may be considered appropriate for public funds.

Short-term money-market investments, retirement accounts, trust funds and other investment portfolios are often considered to be staid and unimaginative when handled by committees representing the general public. Yet, the Investment Staff has been most impressed and enthusiastic about the encouragement, support and ideas put forth by the Advisory Committee and Board members. The success of the portfolio in calendar 1975 and early 1976 has been due to the support received in implementing an aggressive purchase program in late 1974 and 1975 — at the time many investment experts were all too apprehensive regarding the future of the nation and its economy.

The period covered by this report includes the fiscal year from July 1, 1975 through June 30, 1976. Previous reports are available since the year 1960.

Although there were no significant changes in Minnesota's investment laws during the 1975 and 1976 legislative sessions, various inter-department procedural changes and the use of new types of securities have resulted in an improved investment program — one which, in our opinion, is more pertinent to the needs of the constituents.

One feature of Minnesota statutes which is sometimes misunderstood by legislators and retirement fund beneficiaries is that "market valuations" which determine retirement fund benefits and values in the Variable Annuity Fund and the Minnesota Adjustable Fixed Benefit Fund are based on bi-monthly security prices averaged over a two-year period. Therefore, the results of these two funds for fiscal 1976 will still be dependent, to some degree, on the low prices prevailing on both stocks and bonds in late calendar 1974. Actually, the State accounts were much benefited by this decline in securities values. We were able to increase our holdings significantly at substantially lower prices. Yet, because these prices are still included in the statistical base from which fiscal 1976 year-end results are computed, the investment progress of these two funds appears comparatively minimal for this past fiscal year. It must be emphasized, however, that the computations and ratios already effective for this fiscal year — that ending on June 30, 1977 — indicate substantial future gains for both the Variable Annuity Fund and the Minnesota Adjustable Fixed Benefit Fund.

The Investment Staff is particularly appreciative of the work of the Advisory Committee on State Trust Funds. This group was formed in 1961, at the time the statutes first authorized equity investments in Minnesota's retirement funds. Most of the members originally appointed still serve on the Committee. Their investment expertise, based on their responsibilities and work as leaders of Minnesota's investment community is enhanced by this long period of service and their knowledge of retirement legislation and investment problems during the past 15 years. It is to be noted that, despite the unquestioned expertise of these members, their service is offered without compensation. Every member of this Committee is, or has been, a portfolio manager or research director of a major Minnesota institution.

The accounts supervised by the State Board of Investment are divided into several groups, each governed by individual statutes and managed under different policies. The fund groupings, together with their approximate book valuations as of June 30, 1976, are as follows:

Invested Treasurer's Cash Fund, \$580.9 million. This fund includes all tax receipts. Since 1969, prime quality corporate notes have been eligible for use in this account, in addition to U.S. Treasury and agency obligations maturing within three years.

Highway Funds, \$216.9 million. These accounts include U.S. Treasury obligations, debt instruments issued by U.S. government agencies and short-term corporate notes due within 270 days of the time of purchase. The moneys are used for the building and maintenance of highways, roads and streets throughout the state.

Miscellaneous Welfare, Departmental and Temporary Funds, \$167.4 million. These funds are invested according to the terms of particular statutes or applicable policies, primarily in U.S. Treasury securities. The major portion of these accounts consists of proceeds from bond sales; the moneys will be used within a comparatively short period of time for state building needs. Also included are endowment funds and trust accounts held for various institutions. During the past two fiscal years, these funds have been increased through the investment of bond proceeds from securities issued by the Minnesota Housing Finance Agency. This investment total varies according to the needs of the agency in providing funds to Minnesota's home buyers.

Minnesota Adjustable Fixed Benefit Fund, \$648.8 million. This account, administered by the State Board of Investment, may include a maximum of 50% in stocks with the remainder in debt securities. Retirement benefits are paid to all retired employees from the principal and earnings of this fund. A two-year average "total return" from this fund, in excess of the 5% actuarial assumption, has been used to augment pension benefits. Earnings and market appreciation during the early 1970's resulted in an increase in the pensions paid by the various participating retirement funds of from 2% to 4% at the beginning of the 1972 calendar year; increases of 4½% to 5½% were paid at the beginning of the 1973 calendar year. The Legislature provided for an additional 25% increase which was paid in two installments - in July 1973 and January 1974. This adjustment was made at the time that the statutes applicable to the retirement systems of Minnesota were modified to provide benefits based on salaries paid during the "five-high years" of employment. Because of this complete statutory revision, the reserves accumulated during the early 1970's were used to provide very substantial increases for those previously retired. Despite the lower stock and bond markets experienced in 1973-1975, recent portfolio results indicate additional pension increases beginning in calendar 1978 or 1979.

Basic Retirement Funds, \$1,035.7 million. Six state-managed retirement funds, invested separately for employee groups, include U.S. Treasury, municipal and other governmental securities, U.S. government-guaranteed obligations, corporate bonds, short-term corporate notes, and common stocks.

Supplemental Retirement Fund, \$62.6 million. This fund was established in 1967 for employees of the State College Board and State Junior College Board. The fund consists of three accounts, one of which may be invested up to 100% in equities, emphasizing potential growth with the accompanying market risks. The second includes long-term bonds and stocks oriented toward current income. The third - the Fixed Return Account - was initiated on July 1, 1974, and includes only bond investments; it provides an interest yield over a period of time commensurate with the average life and call protection inherent in the bonds purchased. Legislatures since 1969 have made one or more of these accounts available for use by police and fire fighter relief associations throughout the state, various county employees, those members of the state service who are "unclassified" and do not have the benefits of tenure, and state employees who wish to participate in a deferred income plan through which a portion of their salaries may be taxed at the rates in effect at the time of their retirement.

Minnesota Variable Annuity Fund, \$33.9 million. This fund was established by the 1969 Legislature and was made effective in early summer 1970. The account now includes a diversified list of common stocks, some long-term debt instruments, and reserves in the form of short-term fixed-income securities. The participants are teachers who chose this type of program, which provides retirement benefits based on long-term investment performance. Because of the many advantages inherent in the new "five high year" plan, the Variable Annuity may not now be opted by new teachers but is still available to present members of the State's educational system.

Trust Funds, \$267.6 million. The Permanent School Fund, invested for the benefit of the school children of Minnesota, includes U.S. Treasury securities and government guaranteed obligations, corporate bonds of long and short maturities, and common stocks. The Internal Improvement Land Fund includes only U.S. Treasury obligations.

Because of the differing investment policies applicable to these funds, a short review of the history and needs of the various accounts is provided along with a listing of securities.

INVESTED TREASURER'S CASH FUND

This pooled fund reached new highs in size and activity during the past three fiscal years. It represents most tax receipts and other State revenues. In late summer 1974, it was evident that tax accumulations were somewhat greater than the amounts allocated for expenditures during fiscal 1975. After this "surplus" was identified, the State's administration, the Legislature and the Investment Board took action appropriate to increase the earnings from the fund and, yet, maintained the required liquidity due to the economic uncertainties and the anticipated needs of the State during the next biennium.

Because it was evident that a portion of this "surplus" would remain in the account until fiscal 1976 and 1977, securities in an amount exceeding \$100 million were extended in maturity from a few days to a range of from nine months to three years during early autumn 1974. This extension, at a time when interest rates were higher than prevalent for many years, produced significant added income to the account. The 1976 fiscal year-end total investment of \$580.9 million is the second highest in Minnesota's history, it was exceeded only by the \$607.8 million invested at 1975 fiscal year-end.

The Investment Department personnel have been helped by the cooperation and interest of the State Treasurer's office in providing current information — several times per day — regarding the investment needs and possibilities in this fund. The Finance Department, over the past few years, has also led in determining new investment potentials in order to maximize interest earnings for Minnesota State funds.

Interest earnings from this account have fluctuated considerably due to the varying size of the funds invested as well as the wide swings in interest rates applicable to short-term obligations of high quality. Record high earnings of \$14.8 million were reached in 1969 — up from only \$6.0 million in 1966. The small amounts available for investment in 1972 combined with low rates resulted in earnings of only \$4.2 million during that fiscal year. This figure increased to \$7.2 million for fiscal 1973, \$22.0 million for 1974, and a new high of \$37.5 million for fiscal 1975. These earnings declined to \$35.0 million for fiscal 1976 because of somewhat lesser fund totals throughout the year and lower short-term interest rates in effect.

Under the terms of 1973 legislation, the Investment Department buys and sells according to oral certification of cash available by the staff of the State Treasurer and the Department of Finance. In recent years, there has been an increase in the use of repurchase agreements and of short-term instruments so that funds may earn money over the shortest of periods — sometimes one day or over a week-end. Statutes require that securities in the Invested Treasurer's Cash account extend no longer than three years in maturity.

THE HIGHWAY FUNDS

The funds held for street, road and highway construction in Minnesota may be invested in bonds eligible for purchase by the Permanent School Fund and commercial paper used in the retirement accounts. At present these funds own short-term U.S. Treasury and agency securities, repurchase agreements backed by U.S. Treasury or agency obligations, short-term corporate notes, and securities guaranteed by the U.S. government through the Government National Mortgage Association. The Commissioner of Highways certifies the amounts not needed in the immediate future; these sums are invested in maturities approximating the expected disbursement schedule of the highway department. The program includes considerable reinvestment and adjustment of maturity schedules because of the time necessary for planning, purchase of right-of-way, and construction of highways. The amount of highway funds invested fluctuates throughout each fiscal year, they totaled from \$151.0 million to \$208.5 million during fiscal 1974, from \$134.0 million to \$168.0 million during fiscal 1975, and from \$153.1 million to \$216.9 million during fiscal 1976. These accounts show temporary increases after the sale of state highway bonds, until the proceeds are used for construction purposes. The increase in investable moneys during the past fiscal year was due to an increase in the gasoline tax from 7¢ to 9¢ on July 1, 1975, and a revised program of automobile license tax collections so that payments are made at dates throughout the year. Due to these changes in income potential, the Highway Department and the State Board of Investment are reviewing the needs of these funds so as to maximize the income potential from the investment securities.

The earnings from these accounts increased from \$1.7 million in fiscal year 1959 to \$7.7 million in fiscal 1970, \$9.5 million in fiscal 1971, \$9.6 million in each of the two fiscal years 1972 and 1973, and \$13.8 million in fiscal 1974. Earnings were reduced to \$12.5 million in fiscal 1975 and to \$11.0 million in fiscal 1976.

The income earned from these highway fund investments benefits the counties and municipalities in Minnesota directly through the County State Aid Highway Fund and the Municipal State Aid Street Fund. Earnings from the Trunk Highway Fund are used for the overall state highway program.

STATE COLLEGES, WELFARE, AND DEPARTMENT OF CORRECTIONS

The State Board of Investment is responsible for the investment of individual and pooled endowment accounts applicable to scholarship and the support of state institutions, certain funds designated for welfare purposes, and patient and inmate accounts in both welfare and correctional institutions. Purchases are limited to U.S. Treasury obligations, except in instances where individual gifts or bequests provide for the use of other investments.

* * * * *

Schedule I reviews the short-term corporate notes and the U.S. government and agency obligations held by the Invested Treasurer's Cash Fund, the highway funds, and the miscellaneous departmental funds on June 30, 1976. As has been indicated in previous paragraphs, the Investment Department has substantially increased its activity in the use of these short-term debt obligations in order to maximize yields and, thereby, increase the income to the accounts. The Money Market Securities Division of the Investment Department supervised short-term securities totaling over \$1.1 billion on June 30, 1976. In addition to those listed on Schedule I, there were substantial short-term investments held by the retirement funds and the Permanent School Fund.

THE MINNESOTA ADJUSTABLE FIXED BENEFIT FUND

The Minnesota Adjustable Fixed Benefit Fund includes the assets representing the reserves from which pensions are paid to individuals who have retired; these recipients are members of various public funds including the six basic retirement funds managed by the State Board of Investment and the fund administered by the Municipal Employees Retirement Board of Minneapolis. There has been a substantial revision in this portfolio during the past five years because of the many different holdings transferred into the account during the 1969-70 fiscal year. Although substantial reserves were accumulated to make possible the continuation of a high level of pensions during years of stock price downturn, these reserves were distributed to retirees during 1974 to compensate partially for the higher pensions now being paid under the "five high year" plan. Because the 1973 and 1974 downturn in the stock market coincided with a higher rate of inflation, there is some impetus to use the increased yield generated through the price appreciation of both bonds and stocks to provide a basis for adjusting pensions as a compensation for inflationary pressures. In this way, the employer group — the state, municipality, county or school board — would face the risks of long term market fluctuations, whereas the individual would receive benefits more dependent upon actual changes in the cost of living. Concern has been expressed, however, that this account would lose its "complete funding" and become less sound from an actuarial standpoint if long-term benefit improvements were based on the cost of living rather than on actual investment performance.

Under the provisions of 1971 legislation, the net return to the Minnesota Adjustable Fixed Benefit Fund was determined on the basis of income and an average of the market-to-cost relationships taken bi-monthly over a two year period. This interpretation of investment results meant that a substantial contribution toward the cost of the increased pensions in the state managed funds was met from this "total return" during the period through 1973; the portion attributable to the Municipal Employees Retirement Board of Minneapolis was used toward higher pensions and increased reserves. The 1974 Legislature established a "new base" below which pensions may not decline. This figure was established at the level of pensions paid during 1974. The 1975 Legislature granted comparatively modest one-time payments to retirement fund participants in lieu of any increased benefit from this fund. In early calendar 1976, the Legislature appropriated a portion of the high earnings accrued from the investments in the Invested Treasurer's Cash Fund as a supplement to those retirees who were receiving benefits computed on the basis of legislation in effect prior to the "five-high years" statute. This supplement to pensions in Minnesota — to be granted to members of various municipal and teachers' funds as well as those managed by the State Board of Investment — will tend to aid those retirees not benefiting from recent legislative programs.

Benefits accruing from the market action and net yield have not increased during the past two years for several reasons — including the "two year averaging" on rate of return which still includes the lower valuations prevalent in 1974 and 1975. Other factors include a change in the actuarial assumption applicable in the fund of from 3% to 5%, an allocation of certain moneys to pre-1973 retirees and slight adjustments in some cases in order to pay the full increase in benefits legislated during 1973 and 1974.

Common stocks may comprise up to 50% of this portfolio, with convertible debentures limited to an additional 10%. On June 30, 1976, the percentage committed to common stock investments, on a net original cost basis, amounted to 45.26% of the portfolio, declining from 48.92% on December 1975. During the past six months, there have been substantial portfolio revisions due to the recent increases in stock prices with the accompanying opportunity to balance the sales of less successful stocks with those which had shown substantial gains in price during the past 18 months. This portfolio revision, combined with a consolidation of bond holdings and elimination of securities held in smaller quantities, will continue during the months ahead.

This fund increased in value by \$100.6 million during the fiscal year. This sizeable increase is due to the fact that the pensions being paid to present retirees have been raised substantially through recent legislation. The higher value was due to \$94.3 million in net contributions and income. An additional upward adjustment of \$6.3 million was due to higher market valuations.

THE BASIC RETIREMENT FUNDS

The State Investment Board manages six accumulation retirement accounts which include both employer and employee contributions during the employee's working period; at the time of retirement, the assets are transferred

to the Adjustable Fixed Benefit Fund. Common stocks may total 50% of these accounts. At the time of this writing, equities comprise approximately 46% of each fund on a cost basis, with the remainder invested in debt securities of the U.S. government, its agencies, Canadian governmental units, and United States and Canadian corporations. Common stock commitments totaled nearly 50% of these accounts on a cost basis on December 31, 1975. Since that date, profits have been taken through the sale of many equities, as the Dow Jones Industrial Average approximated the 1000 level. The Department's research personnel and portfolio managers also have suggested a revision in the composition of the equity portfolios so as to include higher holdings of those stocks showing particular promise — with assured earnings and dividends in the years ahead.

The 1969 Legislature made it possible for each fund to include a small portion of unrealized gains in the income portion of the account through a procedure which applies after the market valuations of equities exceed the original cost price by 15% for six consecutive two month periods — or one year. At such a time, an amount equal to 3% of the cost of the equities could be added to the retirement fund for actuarial and accounting purposes. The first such increase occurred on October 31, 1972; this was followed by a second increase on December 31, 1972. Because of the probability that such market increases would not continue, it was decided that each of these increases would be added to the income accounts in three equal installments during three successive fiscal years. The first increase applied during fiscal 1972, 1973 and 1974, while the second increase was applicable in fiscal 1973, 1974 and 1975.

The 1973 Legislature modified the law to provide for such an increase or decrease whenever the market valuation of equities varied from the revised cost figure by 10% for six consecutive two month periods. The market downturn during 1973 and 1974 resulted in the first 3% downward revision on February 28, 1975. A second decrease applied to several of the retirement funds on April 30, 1975. Because the 1973 statute authorized the computation of such yield declines over a five-year period, it is anticipated that the net effect of such calculations will be minimal when computing fund yield performance on a long-term basis.

By early calendar 1975, because of rising stock prices, it was evident that there would be no further downward adjustment in the statutory valuation of equities for an extended period. Schedule III indicates the net yield accruing to the three largest basic retirement funds during the period from 1957 through 1976. During these 19 years, the yield has increased from less than 3% to nearly 6%. Footnote 14, following Schedule III, explains the effect of the statute tying equity valuations to the stock market.

Schedule IV lists the securities held in the three largest basic retirement funds on June 30, 1976. Because of the identical purpose for which these accounts are established, it has been Investment Department policy to use the same securities in each account, whenever funds have been available. A differing flow of new moneys, however, has resulted in varying cost and a somewhat different overall composition of these three accounts. Because of the recent sales of equities, the net original cost of stocks in the three major accounts increased from \$392.3 million on June 30, 1975, to \$422.6 million on June 30, 1976. The market valuation of these equities showed a greater increase, from \$397.2 million to \$460.9 million.

The Public Employees Police & Fire Fund was established during the early 1960's in order to provide an investment vehicle for the smaller police and fire fighter organizations throughout the state as well as for larger organizations which chose to participate in this retirement plan. Schedule V includes the fixed-income securities in this account on June 30, 1976 and Schedule VII lists the equity portfolio. This account showed a sizeable increase in value — from \$45.3 million to \$56.3 million during the past fiscal year. Although nearly \$2 million of this change was due to higher stock market valuations, most of the increase was derived from the significantly higher contributions.

The Highway Patrolmen's Retirement Fund resulted from a merger, in 1969, of the State Police Officer's Retirement Association and the Highway Patrolmen's Retirement Association. Because the two previous accounts were quite small and had limited and unpredictable flows of new money, the new merged account appears to be more manageable; this has benefited both groups. Schedule VI includes the fixed-income securities in this account on June 30, 1975 and Schedule VII lists the equity portfolio.

State, municipal and school district bonds comprised over 71.0% of total investments in these retirement funds as recently as the late 1950's; such holdings declined to 0.4% by June 30, 1976. This decline was due to the sale and maturity of bonds as well as the placement of all new money in other types of securities. Because most of the remaining "municipals" consist of odd lots that carry either no rating or a low rating by the services, it is presumed that a large portion of these bonds must be held to maturity. In recent years, the municipal bond dealers and fiscal agents of the Upper Midwest area have been most helpful in aiding the State's sales of these securities.

The Judges Retirement Fund was established in 1974; no permanent investments were purchased until the 1975 fiscal year. Because of statutory limitations, the percentage of funds invested in equities may be increased by only 5% of total investments each year. During the 1976 fiscal period, the fund was subject to a 10% equity limitation. Schedule VIII lists the investments as of June 30, 1976.

THE MINNESOTA SUPPLEMENTAL RETIREMENT FUND

The three accounts of the Minnesota Supplemental Retirement Fund are invested in accordance with three different philosophies in order to meet the individual needs and desires of the participants. The income share account, limited to 50% in common stock, consists primarily of high quality corporate bonds and emphasizes comparatively higher yielding equities of well-known companies. The growth share account, on the other hand, may participate in the equity market up to 100% of total assets and includes stocks of companies offering a low current yield and representing firms which may have significant long-term potential from the standpoint of earnings growth. These stocks tend to fluctuate in price to a far greater extent than those in the income share account. The fixed return account, invested entirely in bonds, is not subject to changes in market fluctuations. The amounts contributed each year into this account, however, will earn varying interest rates depending upon the existing yield structure.

The growth share and income share accounts were established on a unit basis on October 1, 1967, with each unit worth \$10.00 on that date; due to a two-for-one split on June 30, 1973, the current units had a net worth of \$5.00 on inception date. A summary of the market valuations experienced by the two accounts since the beginning of the program in 1967 is as follows (as adjusted for the two-for-one split):

		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 (July)
	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.)
Jan.	June '76	8.00 (June)	6.94 (Jan.)	5.52 (June)	5.28 (May)

Schedule IX lists the assets in the income share account on June 30, 1976. Because of the increase in both equity and bond valuations during the past 18 months, this account has shown particularly favorable market results. The comparative "safety" of this portfolio, due to the type of stock used and the diversification between fixed-income and equity securities, has resulted in its use by most retirement organizations eligible to participate in the Supplemental Retirement Fund. It is anticipated that the results, over a period of years, will never be spectacular, but will tend to be satisfactory from the standpoints of safety, yield and long-term growth.

Schedule X consists of a listing of the securities in the growth share account on June 30, 1976. Under the terms of the Prospectus for the growth share account, it is a policy of the Department to maintain a steady investment in stocks of companies which evidence growth potential. It has also been an established policy to avoid extreme "buy" or "sell" programs which could result in a high cash position for a brief period of time. Such a program can be disastrous if the market makes unanticipated moves. This means that the account is in a reasonably fully invested position at all times and will continue to be subject to significant changes in market values, particularly during periods of stock market increases, as in 1972, and during times of market uncertainty and decline, such as during 1973 and 1974. The upward movement of stock prices in 1975 and 1976 resulted in sizeable increases in market valuations of the growth share account. It is apparent, however, that those stocks which led the market increases during the 1971-73 period may not provide such leadership in future market recoveries. We are now revising the investment policies applicable to this fund to achieve a greater degree of diversification by industry and to include equities representing broad segments of our economy.

The assets in the fixed return account, established on July 1, 1974, are listed in Schedule XI. Unit valuations do not change; they are arbitrarily set at \$5.00 per unit. The return from this fund is based entirely upon the rate of interest received from the bonds purchased in the account.

Under the provisions of the applicable statutes, the Investment Department establishes an "indicated rate" of return for the coming fiscal year on July 1. On July 1, 1974, this rate was set at 8.50%. The bonds purchased during the fiscal period provided a yield somewhat higher than that anticipated. The participants then consisting only of individual retirement funds received 9.10% on all contributions made during the 1975 fiscal year. During fiscal 1976, the plan was broadened in scope to include individuals who wish to participate in a fixed-return investment under various retirement or deferred income plans. In early July 1976, the return for individual participants was set at 8.9% for those contributions received during the 1976 fiscal year. This rate will be subject to change annually.

The contributions received from the various retirement organizations will provide earnings of 8.8% during the past fiscal year, with an indication that the rate set on these contributions will continue for another nine years, or

through June 30, 1985. The slightly lower rate attributed to the institutional participants is due to the fact that a portion of the income will be set aside in the form of reserves to provide for any possible future diminution of income. Most bonds purchased during the year may not be refunded at a lower interest rate for a ten-year period.

Because of the uncertainties in the economy, an assumed rate for the 1977 fiscal year has been established at 7.50%. Participants will be paid a higher rate of return if the securities purchased during the coming year warrant such payments.

There is a substantial amount of interest in the fixed-return account because of the investment uncertainties made evident by the 1973-74 decline in both the stock and bond markets. The idea of a definite interest earnings - with no dependence upon stock or bond market fluctuations - apparently has great appeal to many fund participants. Because of the response to this new account, the assets increased from \$1.0 to \$4.2 million during the 1976 fiscal year. The significant influx of incoming contributions to this account has resulted in considerable reserves being held in short-term investments. These moneys will be placed in securities of longer maturity for which commitments are being made. It is the intent of the Investment Department that approximately 30 to 40 issues of fixed-income securities be selected within a comparatively short time so that the fund may be assured of adequate industry diversification. It is emphasized that the bonds purchased are concentrated in the AAA and AA quality levels. This will add to the safety applicable to the fund contributions and should minimize the chance of losses.

MINNESOTA VARIABLE ANNUITY FUND

The Minnesota Variable Annuity Fund was advocated prior to the adoption of the "five high year" plan by the Teachers Retirement Association. The participants received a net return of 5.4500% in fiscal 1971, 9.1670% for fiscal 1972, and 6.2393% for fiscal 1973. During fiscal 1974, the participants suffered a decline of 4.1478%, followed by another decrease of 17.9638% during fiscal 1975, and a decline of 0.0101% for the fiscal year ended June 30, 1976. The laws applicable to valuations and computation of net return dictate that a two-year period be used in calculating increases or decreases to the fund. As has previously been indicated in this report, the stock and bond market "lows" of 1974 will be used in these calculations until mid-1977. Therefore, the Minnesota Variable Annuity Fund will not show a positive net return until the end of the 1977 fiscal year. Market-value-to-cost ratios already applicable to the June, 1977 computations indicate a significant positive net return for the next fiscal year.

Although most variable plans are based entirely on participation in equity investments, the widespread use of this fund and the fluctuations in the stock market since the account's inception have caused the investment department to adopt a policy which includes approximately 25% to 35% in fixed-income investments.

The option for the Variable Annuity was terminated during fiscal 1974. Therefore, the fund will continue only as an investment medium for those teachers who have already chosen to have a portion of their retirement moneys invested in accordance with the Variable Annuity concept. The securities in this fund on June 30, 1976, are listed on Schedule XII.

THE PERMANENT TRUST FUNDS

The State's permanent trust funds showed their greatest rate of growth during the 1940's and 1950's. Until a constitutional amendment was passed in 1956, half of the receipts from the iron ore occupation tax accrued to the principal of the permanent trust funds, which were invested for the benefit of the schools, the University of Minnesota and other state institutions. In recent years, the entire receipts from this tax have been applied directly toward meeting the State's current educational needs.

During the years immediately following the adoption of the constitutional amendment, long-term low-coupon U.S. Treasury bonds were sold from the Permanent School Fund, with the proceeds being invested in higher yielding corporate securities. In accordance with this amendment, corporate bonds were purchased to the approximate maximum of 40% of the fund. During the past several years, however, mortgage backed securities guaranteed by the U.S. government and issued through private organizations in cooperation with the Government National Mortgage Association have offered a yield comparable to or greater than that received from corporate bonds of similar quality. These Government National Mortgage Association mortgage backed securities were purchased during the summer months of 1974 at yields as high as 10.14%. Because of the lack of inflow of new cash into this fund, the gradual return of principal offered by this type of investment has been very attractive; we have thus been able to maintain a cash flow for current investment needs. During fiscal 1976, additional types of United States Government guaranteed securities were used; they have added both quality and yield to the fund. Arrangements between the State Board of Investment and the Minnesota Banker's Association have resulted in a program through which the Permanent School Fund has purchased those portions of Small Business Administration loans which are guaranteed by the United States Government. These loans are arranged through various banks in Minnesota and are "pooled" through the facilities of the Summit National Bank of Richfield. This program, initiated through the cooperation of

the Governor, the State Treasurer and the Minnesota Banker's Association, appears to offer a unique opportunity to achieve a comparatively high yield and an adequate cash flow to this permanent trust fund. It also marks a unique opportunity for following prudent investment principles in achieving an appropriate yield, while aiding the development of businesses in Minnesota.

Within the past few months, we have negotiated for other United States Government guaranteed securities based on hospital mortgages throughout the United States. These securities also offer a comparatively high yield, a continued repayment of principal and the highest possible quality.

Because of the comparative attractiveness of United States Government backed securities, the corporate bond portfolio has been reduced to 29.8% of the book value of the Permanent School Fund; it is anticipated that the holdings of high quality debt securities will be increased as more appropriate yield spreads become prevalent. United States Government and government guaranteed obligations constitute 47.7% of the book value of this account; common stock investments are maintained very near to the 20% limit.

Schedule XIII indicates that the investment changes have resulted in an increase in net yield from 2.68% during the late 1950's to 5.54% during the 1976 fiscal year. A very marked increase in return during the past five years was possible because of the use of United States Government guaranteed obligations. A portion of the income will be transferred on an annual basis to the principal of the account to replenish the book losses taken through the sale of long-term United States Treasury and corporate fixed-income obligations during the past 15 years.

Schedule XIV lists the securities in the Permanent School Fund on June 30, 1976.

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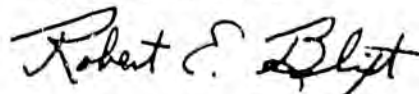
A review of policies concerning the placement of business, together with a summary of transactions completed during the fiscal year from July 1, 1975, through June 30, 1976, follows the schedules described above.

* * * * *

The investment results achieved in fiscal 1975 and 1976 have been particularly pleasing to the Departmental staff. The cooperation and advice received from the members of the State Board of Investment and the Advisory Committee on State Trust Funds played a most important part in achieving these results. It is now evident that the funds benefited considerably through the significant purchase program completed during late 1974 and 1975. Likewise, the income from the Invested Treasurer's Cash Fund has been increased both through the accumulated surplus during the period of high interest rates and the degree of attention accorded this account by the various State finance offices.

The Investment Department is also appreciative of the cooperation by the staff of the Legislative Commission on Pensions and Retirement and by the interest shown in the State funds by the securities dealers, brokers and research personnel throughout the securities industry. Although the many Minnesota investment accounts must be managed under widely different investment policies and procedures in order to achieve individual objectives it is hoped that all of these funds can be invested so as to be of lasting benefit to the beneficiaries and to all citizens of Minnesota.

Respectfully submitted,



Robert E. Blyt, C.F.A.
Executive Secretary

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