non-dividend paying common stocks. In addition, no investment in any one organization may constitute more than 5% of the net plan assets available for pension benefits. Investments of the Funds are stated at fair value.

State employees are offered participation in a deferred compensation plan (Plan) created in accordance with the Internal Revenue Code, Sections 401(k), 403(b) and 457. The Plan is managed by a third party administrator. Assets of the Plan are held in trust, custodial account or annuity contract for the exclusive benefit of participating employees and their beneficiaries. Investments of the Plan are stated at fair value.

The investments as of June 30, 1999, for the fiduciary funds of the Primary Government are as follows (amounts expressed in thousands).

	Category 1	Category 2	Category 3	Fair Value
U.S. Treasury and agency obligations	$ 2,319,528			$ 2,319,528
Repurchase agreements	195,171			195,171
Bonds	2,942,796			2,942,796
Corporate equity securities	14,399,655			14,399,655
Commercial paper	33,931			33,931
Bankers acceptances	99,629			99,629
Mortgage related securities	2,295,599			2,295,599
	$22,286,309			22,286,309
Annuities and guaranteed investment contracts				436,922
Mutual funds				6,200,252
Real estate				611,986
Venture capital				5,866
Investments held by borrowers under securities loans with cash collateral:				
U.S. Treasury and agency obligations				820,294
Bonds				54,463
Corporate equity securities				959,800
				$31,375,892

The Funds participate in a securities lending program as permitted by the investment policies as approved by the Board of Trustees. The Funds' custodian lends specified securities to independent brokers in return for collateral of greater value. All loaned securities are reported as assets on the combined balance sheet and are included in the categorization of credit risk.

Borrowing brokers must transfer in the form of cash, other securities or letters of credits valued at a minimum of 102% of the fair value of domestic securities and international fixed income securities, or 105% of the fair value of international equity securities on loan. Collateral is marked to market daily. If the fair value of the pledged collateral falls below the specified levels, additional collateral is required to be pledged by the close of the next business day. In the event of default by a borrowing broker, the Funds' custodial bank is obligated to indemnify the Funds if, and to the extent that, the fair value of collateral is insufficient to replace the loaned securities. The Funds have not experienced any loss due to credit or market risk on securities lending activity since inception of the program. Further, as of year end the Funds held collateral in excess of the fair value of the loaned securities. As of June 30, 1999, the fair value of loaned securities and the related collateral were as follows (amounts expressed in thousands).

Securities	Fair Value: Loaned Securities	Fair Value: Collateral Received	Percent Collateralized
International equity securities	$ 669,604	$ 704,708	105%
Domestic & international fixed securities	1,278,313	1,302,049	102%
Totals	$1,947,917	$2,006,757	

The Funds may invest in derivatives as permitted by guidelines established by the Board of Trustees of the State Retirement Pension System of Maryland. Compliance with these guidelines is monitored by the Fund's staff. At times, the Funds invest in foreign currency forward contracts, options, futures, collaterized mortgage obligations, mortgage-backed securities, interest-only securities and principal-only securities. No derivatives were purchased with borrowed funds.

Derivatives are used to hedge against foreign currency risk, improve yield, adjust the duration of the fixed income portfolio, or hedge against changes in interest rates. These securities are subject to changes in value due to changes in interest rates or currency valuations. The mortgage-backed securities are subject to prepayment risk when interest rates are falling. Credit risk for derivatives held by the Funds result from the same considerations as other counterparty risk assumed by the Funds, which is the risk that the counterparty will be unable to meet its obligations.