Borrowing brokers must transfer collateral in the form of cash, other securities or letters of credit 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, 1998, the fair value of loaned securities and the related collateral were as follows (amounts expressed in thousands).

	Fair Value		
Securities	Loaned Securities	Collateral Received	Percent Collateralized
International equity	$ 844,273	$ 889,246	105.3%
Domestic and international fixed	1,790,158	1,834,653	102.5%
Total	$2,634,431	$2,723,899	

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, collateralized 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.

The Funds invest in foreign currency forward contracts to hedge the currency risk in its international and global portfolios. The following summary shows the foreign currency forward contracts outstanding as of June 30, 1998 (amounts expressed in thousands).

Purchases

Currency	Purchase Amount (In Local Currency)	Fair Value as of June 30, 1998
Australian dollar	30,496	$ 18,899
Canadian dollar	52,227	38,969
Danish krone	83,111	12,116
Deutsche mark	454,351	252,257
French franc	104,681	17,359
Hong Kong dollar	26,000	3,336
Italian lira	50,673,227	28,511
Japanese yen	25,229,233	182,488
Malaysian ringgit	21,700	5,080
Netherlands guilder	21,500	10,611
New Zealand dollar	690	358
Norwegian krone	26,840	3,503
Pound sterling	65,860	109,793
Spanish peseta	5,848,272	38,279
Swedish krona	77,259	9,711
Swiss franc	103,179	68,176
U.S. dollar	1,551,308	1,551,308
Total purchases		$2,350,754