

Investments of the enterprise funds are stated at cost, adjusted for amortization of premiums and accretion of discounts. The investment policies for all enterprise funds, with the exception of the Community Development Administration, are the same as those of the State Treasurer. The Community Development Administration, an agency of the Department of Housing and Community Development, is authorized to invest in obligations of the U.S. Treasury, U.S. Government agencies and corporations, political subdivisions of the U.S., banker's acceptances, repurchase agreements, corporate debt securities and certificates of deposit with foreign or domestic banks. The U.S. Treasury and agency obligations and collateral for the repurchase agreements are held by the enterprise fund's agent in the enterprise fund's name.

The Pension Trust Fund (Fund), in accordance with State Personnel and Pensions Article Section 21-123 of the Annotated Code of Maryland, is permitted to make investments subject to the terms, conditions, limitations, and restrictions imposed by the Board of Trustees of the State Retirement and Pension System of Maryland. The law further provides that not more than 15% of the assets that are invested in common stocks may be invested in non-dividend paying common stocks. The Fund's investments are commingled in four combined investment accounts. Two investment accounts consist principally of bonds and other fixed income investments, another consists of pooled real estate funds, real estate investment trusts and directly owned real estate, and the fourth investment account consists principally of common stocks. Investments of the Fund are stated at cost, adjusted for amortization of premiums and accretion of discounts.

The investments as of June 30, 1995, for the enterprise and pension trust funds of the Primary Government are as follows (amounts expressed in thousands).

|   | Category            |   |   | Carrying Value      | Market Value        |
|---|---------------------|---|---|---------------------|---------------------|
|   | 1                   | 2 | 3 |                     |                     |
| U.S. Treasury and agency obligations .....        | \$ 726,659          |   |   | \$ 726,659          | \$ 774,285          |
| Repurchase agreements .....                       | 523,306             |   |   | 523,306             | 523,306             |
| Bonds .....                                       | 8,578,936           |   |   | 8,578,936           | 8,999,601           |
| Corporate equity securities .....                 | 5,877,304           |   |   | 5,877,304           | 7,606,921           |
|   | <u>\$15,706,205</u> |   |   | <u>15,706,205</u>   | <u>17,904,113</u>   |
| Annuity and guaranteed investment contracts ..... |                     |   |   | 61,808              | 61,808              |
| Mutual funds .....                                |                     |   |   | 823,559             | 965,912             |
| Real estate .....                                 |                     |   |   | 388,473             | 295,259             |
| Pooled Short-term investments .....               |                     |   |   | 393,669             | 393,669             |
| Total .....                                       |                     |   |   | <u>\$17,373,714</u> | <u>\$19,620,761</u> |

The Fund participates in a securities lending program under which specified securities are loaned to independent brokers, in return for collateral of greater value. All loaned securities are reported as assets on the balance sheet and are included in the preceding categorization of custodial credit risk.

Borrowing brokers must transfer collateral valued at a minimum of 102% of the market value of domestic securities and international fixed income securities, or 105% of the market value of international equity securities on loan. Collateral is marked-to-market daily. If the market 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 Fund's custodial bank is obligated to indemnify the Fund if, and to the extent that, the market value of collateral is insufficient to replace the loaned securities. The Fund has not experienced any loss due to credit or market risk on security lending activity since inception of the program. Further, as of June 30, 1995, the Fund had no credit risk exposure to borrowers because the market value of collateral held, exceeded the market value of securities loaned. At June 30, 1995, the market value of loaned securities and the related collateral were as follows (amounts expressed in thousands):

| Securities                             | Market Value       | Collateral         | Percent Collateralized |
|--|--------------------|--------------------|------------------------|
| International Equity .....             | \$ 279,825         | \$ 295,957         | 106%                   |
| Domestic and International Fixed ..... | 1,386,135          | 1,412,407          | 102                    |
| Total .....                            | <u>\$1,665,960</u> | <u>\$1,708,364</u> |                        |

The Fund may invest in derivatives as permitted by guidelines established by the Board of Trustees. Compliance with these guidelines is monitored by Fund staff. At times, the Fund invests 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 were 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