

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 Funds (Funds), in accordance with State Personnel and Pensions Article Section 21-123 of the Annotated Code of Maryland, are permitted to make investments subject to the terms, conditions, limitations, and restrictions imposed by the Board of Trustees of the State Retirement and Pension Systems of Maryland. The law further provides that not more than 25% of the assets that are invested in common stocks may be invested in non-dividend paying common stocks. The Funds' 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 Funds are stated at fair value which is based on quoted market prices.

The investments as of June 30, 1997, for the enterprise and pension trust funds of the Primary Government are as follows (amounts expressed in thousands).

| | Category | | | Fair Value |
|---|---------------------|---|---|---------------------|
| | 1 | 2 | 3 | |
| U. S. Treasury and agency obligations | \$ 830,157 | | | \$ 830,157 |
| Repurchase agreements | 155,769 | | | 155,769 |
| Bonds | 7,996,358 | | | 7,996,358 |
| Corporate equity securities | 13,293,606 | | | 13,293,606 |
| | <u>\$22,275,890</u> | | | <u>22,275,890</u> |
| Annuities and guaranteed investment contracts | | | | 38,255 |
| Mutual funds | | | | 1,864,120 |
| Real Estate | | | | 401,691 |
| Total | | | | <u>\$24,579,956</u> |

The Funds participate 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 combined 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 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 June 30, 1997, the Funds had no credit risk exposure to borrowers because the fair value of collateral held exceeded the fair value of securities loaned. As of June 30, 1997, the fair value of loaned securities and the related collateral were as follows (amounts expressed in thousands).

| Securities | Fair Value | | Percent Collateralized |
|--------------------------------------|--------------------|---------------------|------------------------|
| | Loaned Securities | Collateral Received | |
| International Equity | \$ 803,124 | \$ 848,673 | 105.67% |
| Domestic & International Fixed | 1,878,904 | 1,933,829 | 102.92% |
| Total | <u>\$2,682,028</u> | <u>\$2,782,502</u> | |

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 Funds' 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