

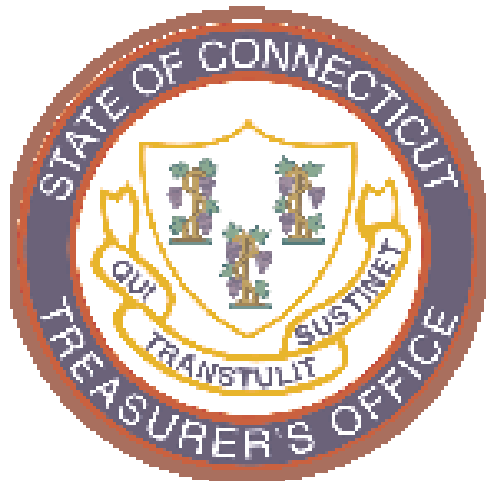
*State of Connecticut  
Office of the Treasurer*

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**Combined Investment Fund  
Comprehensive Annual  
Financial Report**

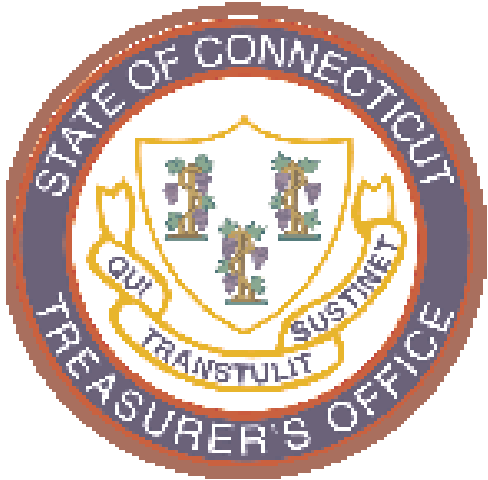
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*For Fiscal Year Ended June 30, 2000*



*Denise L. Nappier  
State Treasurer*

STATE OF CONNECTICUT  
Office of the State Treasurer



The State Motto "Qui Transtulit Sustinet," (He Who Transplanted Still Sustains), has been associated with the various versions of the state seal from the creation of the Saybrook Colony Seal.

**COMBINED INVESTMENT FUNDS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
 FOR FISCAL YEAR ENDED JUNE 30, 2000

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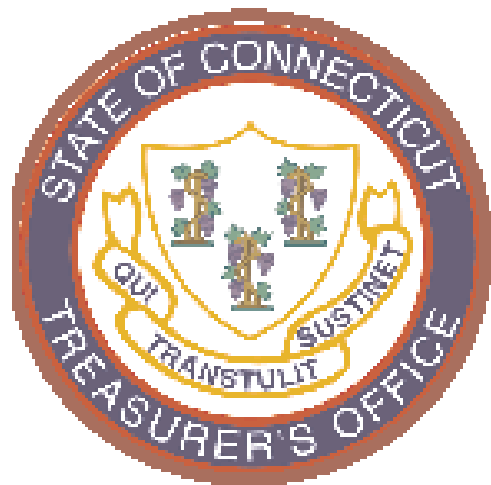
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# Introductory Section



December 11, 2000

Dear Fellow Beneficiaries:

I am pleased to submit to you this Comprehensive Annual Financial Report of the Treasurer's Combined Investment Funds (CIF) for the fiscal year ended June 30, 2000.

In this report, you will find a level of disclosure that is in keeping with the highest standards of financial reporting. This report and updated financial information will be made available on the Internet at [www.state.ct.us/ott](http://www.state.ct.us/ott) throughout the year.

### Report Contents

This report was prepared by the Department of Treasury, which is responsible for the accuracy of the data, the completeness and fairness of the presentation and all disclosures. We present the financial statements and data as being accurate in all material respects and prepared in conformity with generally accepted accounting principles and such financial statements are audited annually by the State of Connecticut Auditors of Public Accounts. The report contains four sections as follows:

The Introductory Section contains the Letter of Transmittal, Management's Report, an organizational chart, and a list of principal officials and investment advisors for the Combined Investment Funds.

The Financial Section contains the report of the State of Connecticut Auditors of Public Accounts and the financial statements of the Combined Investment Funds at June 30, 2000.

The Investment Section contains a comprehensive discussion of the Pension Funds Management Division's operations, investment policies, and approach to measuring and evaluating performance, including:

- Analysis of the fiscal year's economic conditions and their impact on the Funds' performance;
- Each Fund's performance objectives, benchmarks, and comparative risk profile; and
- Comprehensive presentation of each Fund's portfolio composition, and annual and historical investment performance.

The Statistical Section includes the Pension and Trust Funds' ownership in the Combined Investment Funds, a list of the Funds' investment advisors and their assets under management, the Pension and Trust Funds' allocation across major asset categories and the market values and rates of return for each, a listing of all brokerage firms used by the Pension Funds Management Division and the aggregate commissions paid to each, a historical table of CIF assets under management and a comprehensive glossary of investment terms.

The performance presentation formats and disclosures contained in this report are a synthesis of techniques used by public and private sector reporting entities as well as recommendations from the Government Finance Officers Association. Similarly, the financial statements and disclosures reflect a comprehensive effort by Treasury staff to integrate all appropriate accounting and disclosure standards as well as the most recent disclosures required by generally accepted accounting principles.

**Major Highlights**

The Combined Investment Funds benefited from another successful year of overall performance returns. The CIF achieved an overall return of 13.38% (13.13% net of management fees), its sixth consecutive year of posting double-digit earnings. We have achieved these outstanding rates of return while taking on less risk in our investment portfolio than other funds within our peer group which we have outperformed.

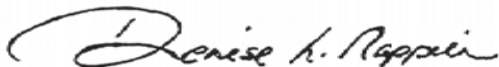
Pension fund assets rose to nearly \$22 billion during the fiscal year and earned \$2.6 billion from operations. On a relative scale, the Funds outperformed 82 percent of other public funds in the Trust Universe Comparison Service (TUCS), its peer group for Public Funds with assets greater than \$1 billion.

We remain committed to providing plan beneficiaries with the most comprehensive and accurate financial information available. To this end, audited financial statements are included herein for your review.

The Investment Advisory Council (IAC), working with me and the Treasury's Pension Funds Management Division continues to provide the practical oversight necessary for the diligent investment of CRPTF assets and to evaluate the CRPTF investment returns. Asset allocation and diversification are critical investment strategies requiring in- depth market analysis based on fundamentals that are not market timed for investment decisions. I am grateful for the insight and commitment to the State of Connecticut by the IAC members.

We believe the strategy now in place for the Combined Investment Funds, over the long-term, will continue to yield positive results for our customers. The Pension Funds Management Division is committed to its mission of prudently and productively managing its clients' pension and trust assets. We will endeavor to seek new and innovative ways to improve the performance of the pension funds while streamlining operations and containing costs.

We appreciate your participation in the Combined Investment Funds, and hope that the information provided here will prove to be both interesting and helpful.



**Denise L. Nappier**  
**Treasurer**  
**State of Connecticut**



## MANAGEMENT'S REPORT

Connecticut State Treasury  
Hartford, Connecticut  
December 11, 2000

This report was prepared by the Department of Treasury, which is responsible for the accuracy of the data, the completeness and fairness of the presentation and all disclosures. We present the financial statements and data as being accurate in all material respects and prepared in conformity with generally accepted accounting principles and such financial statements are audited annually by the State of Connecticut Auditors of Public Accounts.

To carry out this responsibility, the Treasury Department maintains financial policies, procedures, accounting systems and internal controls that management believes provide reasonable, but not absolute, assurance that accurate financial records are maintained and investments and other assets are safeguarded.

It is our belief that the contents of this Combined Investment Funds Comprehensive Annual Financial Report make evident the State of Connecticut Treasury Department support of the safe custody and conscientious stewardship of the State's property and money held by the State Treasurer.

In management's opinion, the internal control structure of the State Treasury is adequate to ensure that the financial information in this report presents fairly the financial condition and results of operations of the funds that follow.



Howard G. Rifkin  
Deputy Treasurer

## Mission Statement

To serve as the premier State Treasurer's Office in the nation through effective management of public resources, high standards of professionalism and integrity, and expansion of opportunity for the citizens and businesses of Connecticut.

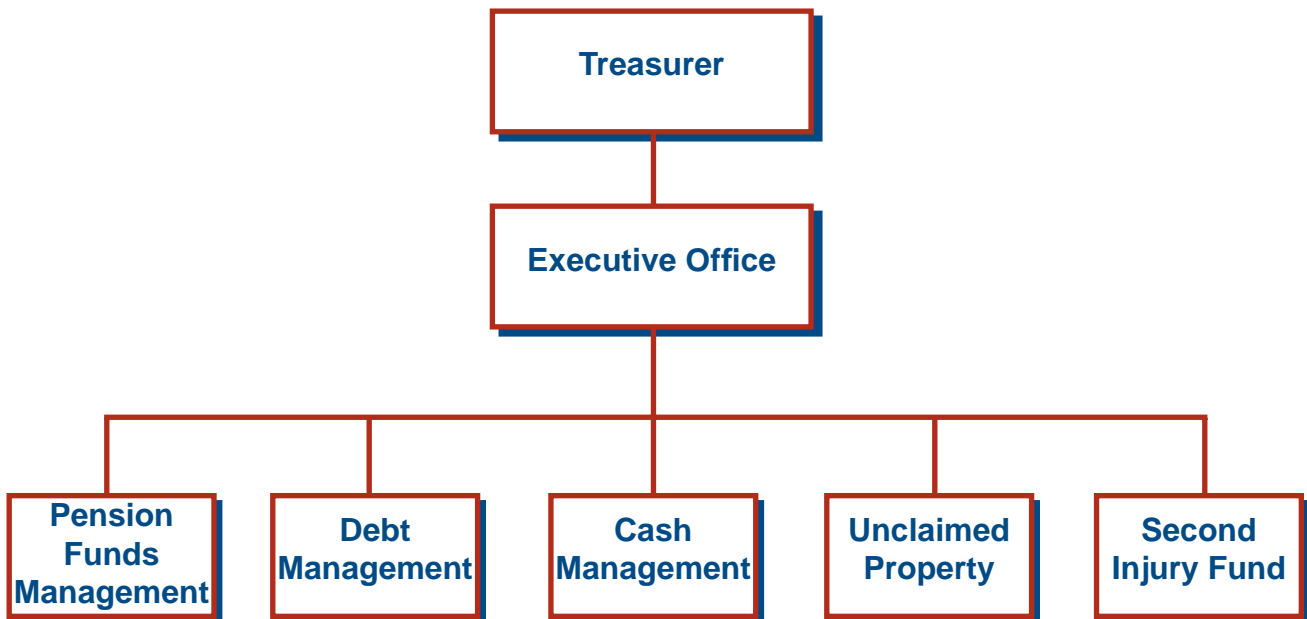
## Statutory Responsibility

The Office of the Treasurer was established following the adoption of the fundamental orders of Connecticut in 1638. The duties, as described in Article Fourth, Section 22 of the Connecticut Constitution and in Title 3 of the Connecticut General Statutes, the Treasurer shall receive all funds belonging to the state and disburse the same only as may be directed by law.

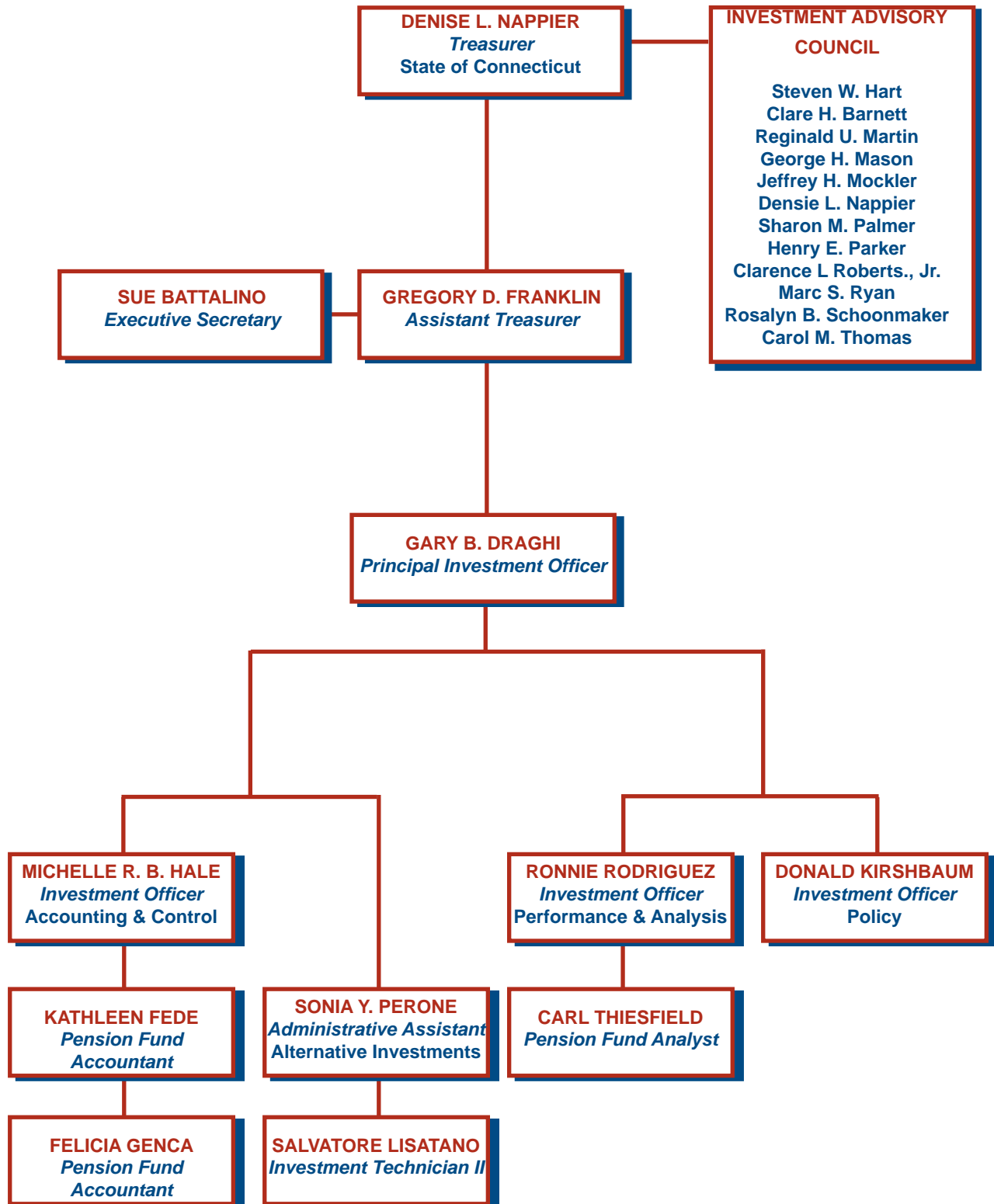
The Treasurer is the Chief Fiscal Officer for the State government, overseeing a wide variety of activities regarding the prudent conservation and management of State funds. This includes the administration of a portfolio of pension assets worth approximately \$21 billion and a short-term investment fund with an average daily balance of almost \$4 billion.

## Public Service

The Office of the Treasurer includes an Executive Office as well as five distinct divisions, each with specific responsibilities: Pension Funds Management, Cash Management, Debt Management, Unclaimed Property, and the Second Injury Fund.



# COMBINED INVESTMENT FUNDS ADMINISTRATION



Effective December 11, 2000

**COMBINED INVESTMENT FUNDS**

**55 Elm Street  
6th Floor  
Hartford, CT. 06106-2773  
Telephone: (860) 702-3155  
Facsimile: (860) 702-3042  
World Wide Web:  
[www.state.ct.us/ott](http://www.state.ct.us/ott)**

**Treasurer, State of Connecticut  
DENISE L. NAPPIER (860) 702-3001**

**Deputy Treasurer, State of Connecticut  
HOWARD G. RIFKIN (860) 702-3292**

**Assistant Treasurer  
GREGORY D. FRANKLIN, CFA (860) 702-3162**

**Principal Investment Officer  
GARY B. DRAGHI, CPA (860) 702-3162**

**Investment Officer  
RONNIE RODRIGUEZ (860) 702-3158**

**Investment Officer  
MICHELLE R. B. HALE, CPA (860) 702-3275**

## INVESTMENT ADVISORY COUNCIL

The Investment Advisory Council (IAC), created by Public Act 73-594, shall recommend to the State Treasurer investment policies consistent with the law pertaining to the kind or nature of investment, including limitations, conditions or restrictions upon the methods, practices or procedures for investment, reinvestment, purchase, sale or exchange transactions (CGS Sec. 3-13b). The IAC consists of the Secretary of the Office of Policy and Management (ex-officio) and State Treasurer (ex-officio), five public members all of whom shall be experienced in matters relating to investments appointed by the Governor and legislative leadership, and three representatives of the teachers' unions and two representatives of the state employees' unions.

Council members who contributed their time and knowledge to the IAC during fiscal 2000 include:

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**STEVEN W. HART, Chairman, as appointed by the Governor**

President, Hart Capital LLC

**CLARE H. BARNETT, (Representative of State Teachers' unions)**

Teacher and Social Studies Chair, Danbury school system

**REGINALD U. MARTIN,**

(Appointed October 22, 1999) Managing Partner, Insurance Planning Associates

**GEORGE H. MASON,**

Director, Business Applications Center, The Barney School of Business & Public Administration, University of Hartford

**JEFFREY H. MOCKLER, (Representative of State Employees' unions)**

Staff Representative, AFSCME Council 4

**DENISE L. NAPPIER, Treasurer, State of Connecticut**

**(Ex-officio member)**

**SHARON M. PALMER, (Representative of State Teachers' unions)**

(Appointed June 30, 2000) First Vice President, CT Federation of Educational and Professional Employees

**HENRY E. PARKER, Former Treasurer, State of Connecticut 1975-1986**

(Appointed August 5, 1999) Former Senior Vice President, Atlanta/Sosnoff Capital Corporation (Retired January 1998)

**JOHN J. QUIRKE, (Representative of State Teachers' unions)**

(Term expired June 30, 2000) Retired teacher, Newtown Public Schools

**CLARENCE L. ROBERTS, JR.**

(Appointed August 9, 2000) Former Assistant Treasurer, Unilever United States, Inc. (Retired 1994)

**MARC S. RYAN, Secretary, State Office of Policy and Management**

**(Ex-officio member)**

**ROSALYN B. SCHOONMAKER, (Representative of State Teachers' unions)**

Retired teacher and retirement counselor

**CAROL M. THOMAS, (Representative of State Employees' unions)**

State Department of Mental Retardation

**WILSON WILDE,**

(Term expired October 12, 1999) Chairman, Executive Committee of Hartford Steam Boiler Inspection and Insurance Company. Term expired June 30, 1999 but replaced in fiscal 2000:

**SHERRY L. BROWN,**

State Director for U.S. Senator Joseph Lieberman

**ROBERT K. KILLIAN, JR.,**

Judge, Probate Court, Hartford

## LIST OF EXTERNAL ADVISORS

### **INVESTMENT CONSULTANTS**

Council of Institutional Investors -  
Ferrell Capital Management -  
Horton International Maryland -  
Irwin Tepper Associates - Newton, Massachusetts  
Pamela J. Bartol - Colchester, Connecticut  
RogersCasey, Inc. - Darien, Connecticut

### **MASTER CUSTODIAN**

State Street Bank and Trust Co. - Boston, Massachusetts

### **AUDITORS**

Auditors of Public Accounts - Hartford, Connecticut

### **INVESTMENT ADVISORS**

#### **CASH RESERVE ACCOUNT**

State Street Global Advisors - Boston, Massachusetts

#### **MUTUAL EQUITY FUND (MEF)**

##### **Large Cap**

State Street Global Advisors - Boston, Massachusetts  
BGI Barclays Global Investors, N.A. - San Francisco, California  
J.P. Morgan Investment Management, Inc. - New York, New York

##### **Small/Mid Cap**

AXA Rosenberg Institutional Equity Management - Orinda, California  
The Travelers Investment Management Co. - Hartford, Connecticut

##### **Small/Mid Cap**

Alliance Capital - New York, New York  
Brown Capital Management, Inc. - Baltimore, Maryland  
Cowen Asset Management - New York, New York  
Dresdner RCM Global Investors, L.L.C. - San Francisco, California  
ValueQuest Ltd. - Marblehead, Massachusetts  
Other <sup>(1)</sup>

#### **International Stock Fund**

##### **EAFE - Europe**

State Street Global Advisors - Boston, Massachusetts

##### **Core**

DSI International Management - Norwalk, Connecticut  
Morgan Stanley Asset Management - New York, New York  
Grantham, Mayo, Van Otterloo & Co. - Boston, Massachusetts  
Smith Barney Capital Management - New York, New York

##### **Emerging**

Morgan Stanley Asset Management - New York, New York  
Pictet International Management - London, England  
Other <sup>(1)</sup>

## LIST OF EXTERNAL ADVISORS

### REAL ESTATE FUND (REF)

AEW Capital Management, LP - Boston, Massachusetts  
Walton Street Real Estate Fund II - Chicago, Illinois  
TimeSquare Realty Investors - Hartford, Connecticut  
Apollo Real Estate - New York, New York  
Tishman - New York, New York  
Wachovia Bank of Georgia, N.A. - Atlanta, Georgia  
Westport Senior Living – Palm Beach Gardens, Florida  
Other <sup>(1)</sup>

### MUTUAL FIXED INCOME FUND (MFIF)

#### Core

State Street Global Advisors - Boston, Massachusetts  
BlackRock Financial Management, Inc. - New York, New York  
J.P. Morgan Investment Management, Inc. - New York, New York  
Western Asset Management - Pasadena, California  
Wellington - Boston, Massachusetts  
Phoenix - Hartford, Connecticut  
Mitchell Hutchins - New York, New York

#### Convertibles

Oaktree Capital Management, L.L.C. - Los Angeles, California

#### High Yield

Loomis Sayles & Co., Inc. - Boston, Massachusetts  
W.R. Huff Asset Management - Morristown, New Jersey  
Oaktree Capital Management, L.L.C. - Los Angeles, California  
Triumph II LP - Boston, Massachusetts  
Other <sup>(1)</sup>

### COMMERCIAL MORTGAGE FUND (CMF)

AEW Capital Management, LP - Boston, Massachusetts  
Other <sup>(2)</sup>

### PRIVATE INVESTMENT FUND (PIF)

#### Corporate Buyouts

Hicks Muse Tate & Furst, L.P.- Dallas, Texas  
DLJ Merchant Banking Partners - New York, New York  
Veritas Capital Management - New York, New York  
SCP Private Equity Partners - Wayne, Pennsylvania  
KKR - New York, New York  
Blackstone Capital Partners - New York, New York  
Conning & Company - Hartford, Connecticut  
Thomas H. Lee & Company - Boston, Massachusetts  
Wellspring Capital Partners - New York, New York  
Forstmann Little - New York, New York  
Kelso Investment Associates - New York, New York  
Welsh, Carson, Anderson & Stowe – New York, New York  
Green Equity Investors – Los Angeles, California  
Greenwich Street Capital Partners – New York, New York  
Thayer Equity Investors – Washington D.C.

## LIST OF EXTERNAL ADVISORS

### Venture Capital

Cullinane & Donnelly - Westport, Connecticut  
Prospect Street Ventures - New York, New York  
Connecticut Green Ventures - Stamford, Connecticut  
Pioneer Ventures Associates - Windsor, Connecticut  
RFE Investments Partners - New Canaan, Connecticut  
Shawmut Equity Partners - Boston, Massachusetts  
Grotech Partners - Timonium, Maryland  
Keystone Venture – Philadelphia, PA  
Crescendo Venture Fund III – Minneapolis, Minnesota  
Crescendo World Fund – Minneapolis, Minnesota

### Mezzanine

Triumph Capital Partners - Boston, Massachusetts  
Triumph CT Partners - Boston, Massachusetts  
Welsh, Carson, Anderson & Stowe - New York, New York  
Forstmann Little - New York, New York  
GarMark Partners – New York, New York  
Smith Whiley & Co. - Hartford, Connecticut

### International

AIG - New York, New York  
Compass European Partners – New York, New York  
Gilbert Global Equity Partners - Tacoma, Washington  
Carlyle Asia Partners– Washington D.C.  
Carlyle European Fund – Washington D.C.

### Fund of Funds

Crossroads Group - Farmington, Connecticut  
Goldman Sachs - New York, New York  
Landmark Partners – Simsbury, Connecticut  
Lexington Capital Partners - New York, New York  
Other <sup>(1)</sup>

- (1) Other represents moneys earmarked for distribution to participants, reinvestment, and expenses as well as terminated advisor balances.
- (2) Other also includes residential mortgage-backed securities for the Commercial Mortgage Fund.

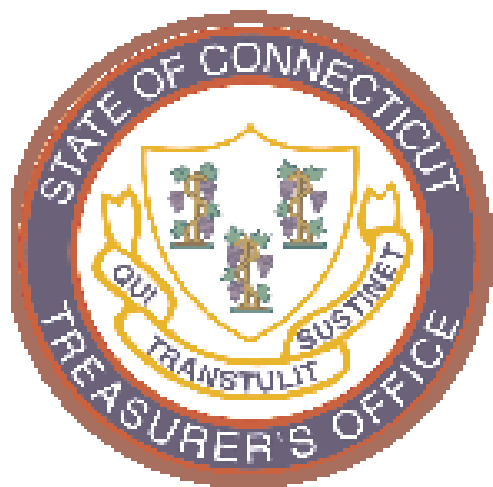




**Financial**  

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**Section**



## INDEPENDENT AUDITOR'S REPORT



**AUDITORS OF PUBLIC ACCOUNTS**  
STATE CAPITOL  
210 CAPITOL AVENUE  
HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of net assets of the Combined Investment Funds as of June 30, 2000, the related statement of operations for the fiscal year then ended, and the statement of changes in net assets for the fiscal years ended June 30, 2000, and 1999. These financial statements are the responsibility of the management of the State Treasury. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

Our procedures included confirmation of securities owned as of June 30, 2000, by correspondence with the custodians. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Combined Investment Funds as of June 30, 2000, and the results of their operations and changes in net assets for the year then ended, in conformity with generally accepted accounting principles.

As explained in Note 1B, the State Treasurer's policy is to present investments at fair value. The fair value of most of the assets of the Real Estate Fund, the Commercial Mortgage Fund and the Private Investment Fund and the limited partnership investment of the Mutual Fixed Income Fund are estimated by investment advisors in the absence of readily ascertainable market values, and reviewed and adjusted, when appropriate, by the State Treasurer. The fair value of most of the assets of the Real Estate Fund and the Private Investment Fund and the limited partnership investment of the Mutual Fixed Income Fund are presented at the cash adjusted fair values, which utilize the investment advisors' March 31, 2000, quarter ending estimated values adjusted for cash


## INDEPENDENT AUDITOR'S REPORT

flows of the Funds during the subsequent quarter that affect the value at the Funds' level. Adjustments are made for underlying investments that experienced significant changes in value during the quarter, if deemed appropriate. We have reviewed the investment advisors' values, the relevant cash flows and the procedures used by the State Treasurer in reviewing the estimated values and have read underlying documentation and, in the circumstances, we believe the procedures to be reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Our audit was made for the purpose of forming an opinion on the financial statements of the Combined Investment Funds taken as a whole. The Combined Investment Funds Total New Asset Value by Pension Plans and Trusts and the Statement of Investment Activity by Pension Plan and by Trust, contained in the Statistical Section of this document, are presented for purposes of additional analysis and are not a required part of the financial statements of the Combined Investment Funds. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of the Combined Investment Funds and, in our opinion, is fairly presented in all material respects in relation to the financial statements of the Combined Investment Funds taken as a whole.

This opinion is being issued for inclusion in an annual report for the State Treasurer's Combined Investment Funds for the fiscal year ended June 30, 2000. Other information contained within the Statistical Section of the Investment and Introductory Sections of this document has not been audited.

  
Kevin P. Johnston  
Auditor of Public Accounts

  
Robert G. Jaekle  
Auditor of Public Accounts

December 11, 2000  
State Capitol  
Hartford, Connecticut

# COMBINED INVESTMENT FUNDS

## STATEMENT OF NET ASSETS

JUNE 30, 2000

	CASH RESERVE FUND	MUTUAL EQUITY FUND	FIXED INCOME FUND	INTER- NATIONAL STOCK FUND	REAL ESTATE FUND	COMMERCIAL MORTGAGE FUND	PRIVATE INVESTMENT FUND	ELIMI- NATION ENTRY	TOTAL
<b>ASSETS</b>									
Investments in Securities, at Fair Value									
Cash Reserve Fund	\$ -	\$ 78,886,019	\$ 847,227,707	\$ 79,417,683	\$ 29,828,197	\$ 27,496,107	\$ 86,165,136	\$(1,149,020,849)	\$ -
Cash Equivalents	953,245,946	-	-	-	-	-	-	-	953,245,946
Asset Backed Securities	341,806,886	-	165,155,478	-	-	-	-	-	506,962,364
Government Securities	-	-	1,190,490,402	-	-	-	-	-	1,190,490,402
Government Agency Securities	28,513,421	-	1,892,619,352	-	-	-	-	-	1,921,132,773
Mortgage Backed Securities	57,170,766	-	569,633,594	-	-	2,343,728	-	-	629,148,088
Corporate Debt	146,967,316	-	1,984,533,560	2,340,766	-	-	-	-	2,133,841,642
Convertible Securities	-	-	290,775,777	-	-	-	-	-	290,775,777
Common Stock	-	8,764,317,380	16,366,287	2,795,458,179	61,266,709	143,804,457	5,108,845	-	11,786,321,857
Preferred Stock	-	631,250	88,974,946	45,946,878	-	-	-	-	135,553,074
Real Estate Investment Trust	-	32,233,501	517,300	-	-	-	-	-	32,750,801
Mutual Fund	-	-	36,488,020	5,529,840	-	-	-	-	42,017,860
Limited Liability Corporation	-	-	-	-	-	-	72,788,985	-	72,788,985
Trusts	-	-	-	-	52,995,032	1,571,916	-	-	54,566,948
Limited Partnerships	-	-	199,220,400	-	351,325,713	-	2,396,979,306	-	2,947,525,419
Partnerships	-	-	-	-	-	-	-	-	-
Annuities	-	-	-	-	14,595,292	-	-	-	14,595,292
<b>Total Investments in Securities, at Fair Value</b>	<b>1,527,704,335</b>	<b>8,876,068,150</b>	<b>7,282,002,823</b>	<b>2,928,693,346</b>	<b>510,010,943</b>	<b>175,216,208</b>	<b>2,561,042,272</b>	<b>(1,149,020,849)</b>	<b>22,711,717,228</b>
Cash	-	1,441,657	113,577	21,372,333	-	-	-	-	22,927,567
Receivables									
Foreign Exchange Contracts	-	-	23,878,858	1,647,105,232	-	-	-	-	1,670,984,090
Interest Receivable	14,866,286	396,615	83,858,537	562,397	158,061	148,953	650,003	(6,764,491)	93,876,361
Dividends Receivable	-	6,989,267	345,118	2,096,981	-	667,295	-	-	10,098,661
Due from Brokers	-	109,560,767	174,485,296	67,317,473	-	-	-	-	351,363,536
Management Fee Receivable	-	-	-	6,605,917	-	-	-	-	6,605,917
Foreign Taxes	-	2,699	7,500	1,673,145	-	-	-	-	1,683,344
Securities Lending Receivable	-	151,207	135,791	348,217	-	-	-	-	635,215
Reserve for Doubtful Receivables	-	(165)	(1,579,102)	(420,627)	-	-	-	-	(1,999,894)
<b>Total Receivables</b>	<b>14,866,286</b>	<b>117,100,390</b>	<b>281,131,998</b>	<b>1,725,288,735</b>	<b>158,061</b>	<b>816,248</b>	<b>650,003</b>	<b>(6,764,491)</b>	<b>2,133,247,230</b>
Invested Securities Lending Collateral	-	322,292,768	736,407,541	607,418,957	-	-	-	-	1,666,119,266
Other Funds on Deposit	-	-	-	-	-	31,257	-	-	31,257
Prepaid Expenses	-	-	-	-	-	-	3,495,781	-	3,495,781
<b>Total Assets</b>	<b>1,542,570,621</b>	<b>9,316,902,965</b>	<b>8,299,655,939</b>	<b>5,282,773,371</b>	<b>510,169,004</b>	<b>176,063,713</b>	<b>2,565,188,056</b>	<b>(1,155,785,340)</b>	<b>26,537,538,329</b>
<b>LIABILITIES</b>									
Payables									
Foreign Exchange Contracts	-	-	23,762,583	1,665,553,211	-	-	-	-	1,689,315,794
Due to Brokers	-	124,856,950	1,039,566,952	74,135,253	-	-	-	-	1,238,559,155
Income Distribution	8,660,724	-	-	-	-	-	-	(6,619,426)	2,041,298
Other Payables	95,055	-	-	-	-	-	-	(95,055)	-
<b>Total Payables</b>	<b>8,755,779</b>	<b>124,856,950</b>	<b>1,063,329,535</b>	<b>1,739,688,464</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,714,481)</b>	<b>2,929,916,247</b>
Securities Lending Collateral	-	322,292,768	736,407,541	607,418,957	-	-	-	-	1,666,119,266
Accrued Expenses	201,705	17,196,605	3,779,682	5,699,659	46,001	4,290	400,874	(49,998)	27,278,818
<b>Total Liabilities</b>	<b>8,957,484</b>	<b>464,346,323</b>	<b>1,803,516,758</b>	<b>2,352,807,080</b>	<b>46,001</b>	<b>4,290</b>	<b>400,874</b>	<b>(6,764,479)</b>	<b>4,623,314,331</b>
<b>NET ASSETS</b>	<b>\$1,533,613,137</b>	<b>\$8,852,556,642</b>	<b>\$6,496,139,181</b>	<b>\$2,929,966,291</b>	<b>\$510,123,003</b>	<b>\$176,059,423</b>	<b>\$2,564,787,182</b>	<b>\$(1,149,020,861)</b>	<b>\$21,914,223,998</b>
<b>Units Outstanding</b>	<b>1,533,613,137</b>	<b>9,736,955</b>	<b>59,940,364</b>	<b>10,784,603</b>	<b>8,424,019</b>	<b>2,406,274</b>	<b>22,301,491</b>	<b>-</b>	<b>-</b>
<b>Net Asset Value and Redemption Price per Unit</b>	<b>\$1.00</b>	<b>\$909.17</b>	<b>\$108.38</b>	<b>\$271.68</b>	<b>\$60.56</b>	<b>\$73.17</b>	<b>\$115.01</b>	<b>-</b>	<b>-</b>

The accompanying notes are an integral part of these financial statements.

**COMBINED INVESTMENT FUNDS**  
**STATEMENTS OF OPERATIONS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	CASH RESERVE FUND	MUTUAL EQUITY FUND	FIXED INCOME FUND	INTER- NATIONAL STOCK FUND	REAL ESTATE FUND	COMMERCIAL MORTGAGE FUND	PRIVATE INVESTMENT FUND	ELIMI- NATION ENTRY	TOTAL
<b>Investment Income</b>									
Dividends	\$ -	\$103,706,517	\$27,991,679	\$38,905,715	\$17,446,577	\$19,101,486	\$162,666,058	\$ -	\$369,818,036
Interest	86,748,226	4,748,676	410,315,952	3,107,410	1,796,643	738,905	6,090,497	(64,109,888)	449,436,421
Other Income	-	386,572	-	271,609	133,882	1,795	-	-	793,858
Securities Lending	-	20,960,254	36,834,238	32,340,718	-	-	-	-	90,135,210
<b>Total Income</b>	<b>86,748,226</b>	<b>129,802,019</b>	<b>475,141,869</b>	<b>74,625,452</b>	<b>19,377,102</b>	<b>19,842,186</b>	<b>168,756,555</b>	<b>(64,109,888)</b>	<b>910,183,525</b>
<b>Expenses</b>									
Investment Advisory Fees	297,695	19,427,107	9,469,542	8,736,651	703,555	763,333	8,191,141	(220,007)	47,369,017
Salary and Fringe Benefits	79,557	466,562	283,628	142,975	71,535	30,433	251,519	(58,795)	1,267,414
Custody and Transfer Agent Fees	64,859	179,283	123,180	808,161	38,396	8,380	202,876	(47,933)	1,377,202
Professional Fees	19,900	120,250	71,506	41,936	6,296	2,164	281,231	(14,707)	528,576
Security Lending Fees	-	578,059	800,702	1,155,577	-	-	-	-	2,534,338
Security Lending Rebates	-	18,299,477	34,174,927	28,531,517	-	-	-	-	81,005,921
Investment Expenses	-	-	-	-	-	9,348	-	-	9,348
<b>Total Expenses</b>	<b>462,011</b>	<b>39,070,738</b>	<b>44,923,485</b>	<b>39,416,817</b>	<b>819,782</b>	<b>813,658</b>	<b>8,926,767</b>	<b>(341,442)</b>	<b>134,091,816</b>
<b>Net Investment Income</b>	<b>86,286,215</b>	<b>90,731,281</b>	<b>430,218,384</b>	<b>35,208,635</b>	<b>18,557,320</b>	<b>19,028,528</b>	<b>159,829,788</b>	<b>(63,768,446)</b>	<b>776,091,709</b>
<b>Net Realized Gain (Loss)</b>	<b>(2,242)</b>	<b>1,252,402,094</b>	<b>(76,770,587)</b>	<b>378,895,174</b>	<b>(35,932,863)</b>	<b>(6,729,482)</b>	<b>15,305,220</b>	<b>1,657</b>	<b>1,527,168,971</b>
<b>Net Change in Unrealized Gain(Loss) on Investments and Foreign Currency</b>	<b>-</b>	<b>(518,550,311)</b>	<b>(647,406)</b>	<b>81,372,710</b>	<b>59,753,801</b>	<b>3,233,235</b>	<b>637,294,789</b>	<b>-</b>	<b>262,456,818</b>
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>\$86,283,973</b>	<b>\$824,583,064</b>	<b>\$352,800,391</b>	<b>\$495,476,519</b>	<b>\$42,378,258</b>	<b>\$15,532,281</b>	<b>\$812,429,797</b>	<b>\$(63,766,789)</b>	<b>\$2,565,717,498</b>

The accompanying notes are an integral part of these financial statements

**COMBINED INVESTMENT FUNDS**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	CASH RESERVE FUND	MUTUAL EQUITY FUND	FIXED INCOME FUND	INTER- NATIONAL STOCK FUND	REAL ESTATE FUND	COMMERCIAL MORTGAGE FUND	PRIVATE INVESTMENT FUND	ELIMI- NATION ENTRY	TOTAL
<b>Net Increase in Net Assets Resulting from Operations</b>	\$ 86,283,973	\$824,583,064	\$352,800,391	\$495,476,519	\$ 42,378,258	\$ 15,532,281	\$812,429,797	\$(63,766,789)	\$ 2,565,717,498
<b>Distributions to Unit Owners:</b>									
Income Distributed	(86,283,973)	(96,128,150)	(394,172,680)	(34,388,207)	(32,632,888)	(20,350,724)	(158,887,290)	63,766,789	(759,077,123)
<b>Unit Transactions</b>									
Purchase of Units by Participants	3,471,415,552	-	601,000,000	-	97,000,000	-	725,000,000	(2,457,704,784)	2,436,710,768
Redemption of Units by Participants	(3,311,065,052)	(1,000,000,000)	(233,000,000)	(400,000)	(25,000,000)	(56,000,000)	-	2,475,378,423	(2,150,086,629)
<b>Net Inc. (Dec.) in Net Assets Resulting from Unit Transactions</b>	<b>160,350,500</b>	<b>(1,000,000,000)</b>	<b>368,000,000</b>	<b>(400,000)</b>	<b>72,000,000</b>	<b>(56,000,000)</b>	<b>725,000,000</b>	<b>17,673,639</b>	<b>286,624,139</b>
<b>Total Inc. (Dec.) in Net Assets</b>	<b>160,350,500</b>	<b>(271,545,086)</b>	<b>326,627,711</b>	<b>460,688,312</b>	<b>81,745,370</b>	<b>(60,818,443)</b>	<b>1,378,542,507</b>	<b>17,673,639</b>	<b>2,093,264,514</b>
<b>Net Assets- Beginning of Period</b>	<b>1,373,262,637</b>	<b>9,124,101,728</b>	<b>6,169,511,470</b>	<b>2,469,277,979</b>	<b>428,377,633</b>	<b>236,877,866</b>	<b>1,186,244,675</b>	<b>(1,166,694,500)</b>	<b>19,820,959,484</b>
<b>Net Assets- End of Period</b>	<b>\$1,533,613,137</b>	<b>\$8,852,556,642</b>	<b>\$6,496,139,181</b>	<b>\$2,929,966,291</b>	<b>\$510,123,003</b>	<b>\$176,059,423</b>	<b>\$2,564,787,182</b>	<b>\$(1,149,020,861)</b>	<b>\$21,914,223,998</b>
<b>Change in Units Outstanding:</b>									
Purchased	3,471,415,552	-	5,549,908	-	1,641,244	-	7,729,045		
Redeemed	(3,311,065,052)	(1,183,953)	(2,140,771)	(1,748)	(419,738)	(753,330)	-		
Net Increase (Decrease)	160,350,500	(1,183,953)	3,409,137	(1,748)	1,221,506	(753,330)	7,729,045		

The accompanying notes are an integral part of these financial statements

**COMBINED INVESTMENT FUNDS**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	CASH RESERVE FUND	MUTUAL EQUITY FUND	FIXED INCOME FUND	INTER- NATIONAL STOCK FUND	REAL ESTATE FUND	COMMERCIAL MORTGAGE FUND	PRIVATE INVESTMENT FUND	ELIMI- NATION ENTRY	TOTAL
<b>Net Increase in Net Assets Resulting from Operations</b>	\$ 69,201,663	\$1,482,556,234	\$ 160,089,330	\$ 152,068,787	\$ 40,151,944	\$ 15,821,790	\$ 11,168,810	\$ (49,414,862)	1,881,643,698
<b>Distributions to Unit Owners:</b>									
Income Distributed	(69,201,663)	(98,838,804)	(381,768,132)	(30,295,768)	(30,844,898)	(22,581,737)	(59,510,561)	49,414,861	(643,626,703)
<b>Unit Transactions</b>									
Purchase of Units by Participants	3,760,120,119	6,859,157	219,834,231	-	197,320,424	203,055	540,000,000	(2,716,618,488)	2,007,718,498
Redemption of Units by Participants	(3,761,862,436)	(1,984,000)	(130,994,000)	(90,557,000)	(195,000,000)	(32,000,000)	(100,000,000)	2,513,454,383	(1,798,943,053)
<b>Net Inc. (Dec.) in Net Assets Resulting from Unit Transactions</b>	<b>(1,742,317)</b>	<b>4,875,157</b>	<b>88,840,231</b>	<b>(90,557,000)</b>	<b>2,320,424</b>	<b>(31,796,945)</b>	<b>440,000,000</b>	<b>(203,164,105)</b>	<b>208,775,445</b>
<b>Total Inc. (Dec.) in Net Assets</b>	<b>(1,742,317)</b>	<b>1,388,592,587</b>	<b>(132,838,571)</b>	<b>31,216,019</b>	<b>11,627,470</b>	<b>(38,556,893)</b>	<b>391,658,249</b>	<b>(203,164,106)</b>	<b>1,446,792,440</b>
<b>Net Assets-Beginning of Period</b>	<b>1,375,004,953</b>	<b>7,735,509,143</b>	<b>6,302,350,040</b>	<b>2,438,061,960</b>	<b>416,750,163</b>	<b>275,434,758</b>	<b>794,586,427</b>	<b>(963,530,394)</b>	<b>18,374,167,050</b>
<b>Net Assets-End of Period</b>	<b>\$1,373,262,637</b>	<b>\$9,124,101,728</b>	<b>\$6,169,511,470</b>	<b>\$2,469,277,979</b>	<b>\$428,377,633</b>	<b>\$236,877,866</b>	<b>\$1,186,244,675</b>	<b>\$(1,166,694,500)</b>	<b>\$19,820,959,484</b>
<b>Change in Units Outstanding:</b>									
Purchased	3,760,120,119	9,239	1,989,554	-	3,348,457	2,636	6,729,369		
Redeemed	(3,761,862,436)	(2,724)	(1,157,755)	(447,522)	(3,266,283)	(414,697)	(1,260,743)		
Net Increase(Decrease)	<u>(1,742,317)</u>	<u>6,515</u>	<u>831,799</u>	<u>(447,522)</u>	<u>82,174</u>	<u>(412,061)</u>	<u>5,468,626</u>		

The accompanying notes are an integral part of these financial statements.



## COMBINED INVESTMENT FUNDS

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Combined Investment Funds (the "Funds") are separate legally defined funds which have been created by the Treasurer of the State of Connecticut (the "Treasurer") under the authority of the Connecticut General Statutes (CGS) Section 3-31b. The Funds are open-end, unitized portfolios consisting of the Cash Reserve Fund, Mutual Equity Fund, Mutual Fixed Income Fund, International Stock Fund, Real Estate Fund, Commercial Mortgage Fund and the Private Investment Fund. The Funds were established to provide a means for investing pension and other trust fund assets entrusted to the Treasurer in a variety of investment classes. The units of the Funds are owned by these pension and trust funds. For financial reporting purposes of the State of Connecticut, the Funds are considered to be internal investment pools and are not reported in the State's combined financial statements. Instead, each fund type's investment in the fund is reported as "equity in combined investment funds" in the State's combined balance sheet.

The Treasurer, as sole fiduciary of the Funds, is authorized to invest in a broad range of fixed income and equity securities, as well as real estate properties, mortgages and private equity. This authority is restricted only by statute. Such limitations include prohibitions against investment in companies doing business in Iran, and those doing business in Northern Ireland but who have failed to implement the MacBride principles (CGS Section 3-13h). Other legislation restricts the maximum aggregate investment in equity securities to 55% of the fair value of the Trust Funds.

The Funds of the Treasurer are proprietary in nature; the activities in these funds are similar to those found in the private sector where the determination of net income is necessary or useful to sound financial administration. The generally accepted accounting principles ("GAAP") used for such funds are generally those applicable to similar businesses in the private sector. In accordance with Government Accounting Standards Board ("GASB") Statement No. 20, the Treasurer has elected to apply all GASB pronouncements, as well as all Financial Accounting Standards Board Statements, Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins, except those that conflict with GASB pronouncements. The Funds are not subject to regulatory oversight and are not registered with the Securities and Exchange Commission as an investment company.

The following is a summary of significant accounting policies consistently followed by the Funds in the preparation of their financial statements.

#### A. New Pronouncements

There were no relevant new pronouncements for the fiscal year ended June 30, 2000.

#### B. Security Valuation

Investments are stated at fair value for each of the Funds as described below. For the Commercial Mortgage Fund, the investments listed on the Statement of Net Assets, other than the amounts invested in the Cash Reserve Fund, are shown at fair values provided to the Fund by the investment advisor, and adjusted, when appropriate, by the Treasurer's staff. For the Real Estate and Private Investment Funds and one limited partnership in the Mutual Fixed Income Fund, substantially all of the investments, other than those in the Cash Reserve Fund, are shown at values that are estimated by the Treasurer's staff. Such estimations utilize the investment advisors' prior quarter end estimated fair value, plus or minus the appropriate related cash flows as described later in this section. The Treasurer's staff reviews the valuations for all investments in these alternative asset classes (Commercial Mortgage, Real Estate, and Private Investment Funds) to see that they are reasonable and consistent. Due to the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed and the differences could be material.

##### Cash Reserve Fund

Investments are valued at amortized cost which approximates fair value. Repurchase Agreements held are collateralized at 102 percent of the securities' value. Such transactions are only entered into with primary government securities dealers who report directly to the Federal Reserve Bank of New York. The collateral is evaluated daily to ensure its fair value exceeds the current fair value of the repurchase agreements including accrued interest.

##### Mutual Equity Fund

Securities traded on securities exchanges are valued at the last reported sales price on the last business day of the fiscal year. Corporate bonds and certain over-the-counter stocks are valued at the mean of bid and asked prices as furnished by broker-dealers.

##### Mutual Fixed Income Fund

Investments are valued based on quoted market prices when available. For securities that have no quoted market value, fair value is estimated based on yields currently available on comparable securities of issuers with similar credit ratings.

**COMBINED INVESTMENT FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

An investment with a market value of \$199,220,400 and a cost value of \$201,614,206 is held through a limited partnership. The fair value of the underlying securities is based on quoted market prices when available. When quoted market prices are not available, the underlying securities are valued by the General Partner at the fair value as determined in good faith under consistently applied procedures.

When-issued securities held are fully collateralized by U.S. Government securities and such collateral is in the possession of the Fund's custodian. The collateral is evaluated daily to ensure its market value exceeds the current market value of the instruments including accrued interest.

The Mutual Fixed Income Fund invests in Mortgage Backed Securities (MBSs) and Asset Backed Securities (ABSs), which are included in the Statement of Net Assets. These are bonds issued by a special purpose trust that collects payments on an underlying collateral pool of mortgage or other loans and remits payments to bondholders. The bonds are structured in a series of classes or tranches, each with a different coupon rate and stated maturity date. Interest payments to the bondholders are made in accordance with the trust indentures and amounts received from borrowers in excess of interest payments and expenses are used to amortize the principal on the bonds. Such principal payments are made to retire the tranches of bonds in order of their stated maturity. Because mortgage prepayments are largely dependent on market interest rates, the ultimate maturity date of the bonds is unpredictable and is sensitive to changes in market interest rates, but is generally prior to the stated maturity date. At June 30, 2000, the Fund held MBSs of \$569,633,594 and ABSs of \$165,155,478.

Interest-only stripped mortgage backed securities (IOs), a specialized type of Collateralized Mortgage Obligation (CMO), are included as Mortgaged Backed Securities on the statement of Net Assets. The cash flow on these investments is derived from the interest payments on the underlying mortgage loans. Prepayments on the underlying loans curtail these interest payments, reducing the value of the IOs and, as such, these instruments are extremely sensitive to changes in interest rates, which encourage or discourage such prepayments. At June 30, 2000 the Fund's holdings had a fair value of \$7.7 million and a cost of \$9.6 million. The valuations were provided by the custodian.

Investments in non-U.S. fixed income securities are utilized on an opportunistic basis. Certain advisors within the Mutual Fixed Income Fund are authorized to invest in global fixed income securities.

**International Stock Fund**

Investments in securities listed on security exchanges are valued at the last reported sales price on the last business day of the fiscal year; securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the mean of the last reported bid and asked prices.

Certain cash held in non-U.S. dollar denominated trading accounts is non-interest bearing.

**Real Estate Fund**

Investments in securities not listed on security exchanges and investments in trusts, limited partnerships, and annuities, which comprise substantially all of the Fund's investments, are carried at the cash adjusted fair value. The cash adjusted fair value utilizes the prior calendar quarter end fair value as estimated by the investment advisor, (i) plus cash flows relating to capitalized expenses and principal contributions disbursed from and (ii) minus amounts received by the Real Estate Fund, to estimate the current fair value. The Treasurer's staff reviews the prior quarter estimated fair values provided by the investment advisors for reasonableness. In those instances where an advisor's value appears to be overstated, this estimated fair value is adjusted accordingly. Additionally, the staff monitors the estimated cash adjusted fair values against the estimated values subsequently reported by the investment advisors. In the event of significant total Fund-level differences between the cash adjusted estimates and the investment advisors' estimated values, adjustments to the reported cash adjusted fair values are made to prevent overstatement. At June 30, 2000, the estimated investment values provided by the investment advisors, net of the adjustments noted above, exceeded cash adjusted fair values reported on the Statement of Net Assets by approximately \$11 million. Consistent with the cash adjusted fair value presentation this increase will be considered for the next quarter's adjustment.

**Commercial Mortgage Fund**

This Fund invests in commercial mortgage loans and mortgage backed securities generally through indirect ownership vehicles such as trusts and corporations. The value of the Fund's interest in these entities is based on the fair value of the underlying commercial loan portfolio or securities held. Fair value for the mortgage portfolio is computed by discounting the expected cash flows of the loans at a rate commensurate with the risk inherent in the loans. The discount rate is determined using the yield on U.S. Treasury securities of comparable remaining maturities plus an appropriate market spread for credit and liquidity risk. The Fund does not record fair values in excess of amounts at which the borrower could settle the obligation, giving effect to any prepayment premiums. In

**COMBINED INVESTMENT FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

the event that the fair value of the loan collateral, based on an appraisal, is less than the outstanding principal balance, the collateral value is used as fair value. These calculations are performed by the investment advisor and reviewed by Treasury personnel.

The Fund has one commercial mortgage backed security. This security is included on the Statement of Net Assets under Trusts. The Mortgage Backed Securities on the Statement of Net Assets consist of certificates of beneficial interest in a collateralized mortgage obligation (CMO) created pursuant to a securitization of a residential mortgage pool.

**Private Investment Fund**

The Private Investment Fund is comprised of investments in various limited partnerships and limited liability companies. The general partner or managing member is the investment advisor and is compensated on a fee basis for management services in addition to its participation in partnership profits and losses. These investments are carried at their cash adjusted fair values. The cash adjusted fair value utilizes the prior quarter fair value as estimated by the investment advisor, (i) plus cash flows relating to capitalized expenses and principal contributions disbursed from and (ii) minus amounts received by the Private Investment Fund, to estimate the current fair value. The Treasurer's staff reviews the prior quarter estimated fair values provided by the investment advisors for reasonableness. In those instances where an advisor's value appears to be overstated, the estimated fair value is adjusted accordingly. Additionally, the staff monitors the estimated cash adjusted fair values against the estimated values subsequently reported by the investment advisors. In the event of significant total Fund-level differences between the cash adjusted estimates and the investment advisors' estimated values, adjustments of reported cash adjusted values are made to prevent overstatement. At June 30, 2000, the estimated investment values provided by the investment advisors, net of the adjustments noted above, exceeded the cash adjusted fair value reported on the Statement of Net Assets by approximately \$38 million. Consistent with the cash adjusted fair value presentation this increase will be considered for the next quarter's adjustment.

Fair values of the underlying investments are generally represented by cost unless there has been an additional arms-length indication of value, such as a public offering or a new investment by a third party.

**C. Investment Transactions and Related Income**

Investment transactions are accounted for on a trade date basis. Dividend income is recognized as earned on the ex-dividend date. Interest income is recorded on the

accrual basis as earned. Realized gains and losses are computed on the basis of the average cost of investments sold. Such amounts are calculated independent of and are presented separately from the Net Change in Unrealized Gains and Losses on the Statement of Operations and the Statement of Changes in Net Assets. Realized gains and losses on investments held more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year. Unrealized gains and losses represent the difference between the fair value and the cost of investments. The increase (decrease) in such difference is accounted for as a change in unrealized gain (loss). In the Funds' cost basis records, premiums are amortized using the straight-line method which approximates the interest method.

Dividends earned by the Private Investment, Real Estate, Commercial Mortgage Funds and one limited partnership in the Mutual Fixed Income Fund relate to investments that are not listed on security exchanges. Such dividends are recognized as income when received, generally net of advisory fees.

**D. Foreign Currency Translation**

The value of investments, assets and liabilities denominated in currencies other than U.S. dollars are translated into U.S. dollars based upon appropriate fiscal year end foreign exchange rates. Purchases and sales of foreign investments and income and expenses are converted into U.S. dollars based on currency exchange rates prevailing on the respective dates of such transactions. The Funds do not isolate that portion of the results of operations arising from changes in the exchange rates from that portion arising from changes in the market prices of securities.

**E. Share Transactions and Pricing**

All unit prices are determined at the end of each month based on the net asset value of each fund divided by the number of units outstanding. Purchases and redemptions of units are based on the prior month end price and are generally processed on the first business day of the month.

**F. Expenses**

Expenses of the funds are recognized on the accrual basis and are deducted in calculating net investment income and net asset value on a monthly basis. Fees and expenses of the Real Estate Fund are generally recognized when paid, by netting them against dividends received. Each of the funds bears its direct expenses, such as investment advisory fees, and, in addition, each of the funds is allocated a portion of the overhead expenses of the Pension Funds Management Division of the



**COMBINED INVESTMENT FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

Office of the State Treasurer, which services the funds. These expenses include salary and fringe benefit costs and other administrative expenses. Certain of these costs are allocated among the Funds based on relative net asset values. Other costs are charged directly based on the specific duties of personnel.

**G. Distributions**

Net investment income earned by the Combined Investment Funds is distributed monthly to the unit owners of the funds, generally in the following month.

**H. Derivative Financial Instruments**

GASB Technical Bulletin Number 94-1 states that derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. For the fiscal year ended June 30, 2000, the funds maintained positions in a variety of such securities. The Cash Reserve Fund held adjustable rate and asset backed securities. The Mutual Fixed Income Fund held CMOs, including IOs, and other asset backed securities, indexed Treasury securities and option contracts. The International Stock and Mutual Fixed Income Funds were invested in foreign exchange contracts and the Commercial Mortgage Fund held CMOs and CMO residuals. The specific nature of these investments is discussed more fully in the accounting policy note for each respective fund, where appropriate. These financial instruments are utilized for trading and other purposes. Those that are used for other than trading purposes are foreign exchange contracts, which can be used to facilitate trade settlements, and may serve as foreign currency hedges. The credit exposure resulting from such contracts is limited to the recorded fair value of the contracts on the Statement of Net Assets.

The remaining such securities are utilized for trading purposes and are intended to enhance investment returns. All positions are reported at fair value and changes in fair value are reflected in income as they occur. The funds' credit exposure resulting from such investments is limited to the recorded fair value of the derivative financial instruments.

The Mutual Fixed Income and International Stock Funds also utilize derivatives indirectly through participation in mutual funds and a limited partnership. These mutual funds may hold derivatives from time to time. Such derivatives may be used for hedging, investment and risk management purposes. These transactions subject the investor to credit and market risk.

**I. Combination/Elimination Entry**

The financial statements depict a full presentation of each of the Combined Investment Funds. However, one of these funds, the Cash Reserve Fund, is owned both directly by the pension plans and trust funds which have accounts

in the Fund, and also indirectly because each of the other Combined Investment Funds has an account with the Cash Reserve Fund. As a result, elimination entries are presented for the purpose of netting out balances and transactions relating to the ownership of the Cash Reserve Fund by the other Combined Investment Funds. The combined presentation totals to the overall net assets owned by the pension plans and trust funds.

**J. Fees and Realized Gains**

Investment advisory fees incurred for the Private Investment Fund are generally charged to the entity in which the Fund has been invested. In such cases, these amounts are either capitalized in the cost basis of the investment and become a component of unrealized gain (loss) or are netted against the corresponding income generated. Certain other fees are incurred directly by the Funds. These amounts are expensed and are reflected as Investment Advisory Fees on the Statement of Operations. The appropriate treatment is determined depending on the terms of the investment agreement. Capitalized fees are not separately presented on the Statement of Operations. These fees are borne by the partners in their respective shares. The following is a listing of the Fund's total fees for the fiscal year ended June 30, 2000:

	Netted	Capitalized	Expensed	Total
Private Investment Fund	\$ 15,630,620	\$ 19,606,869	\$ 8,191,141	\$ 43,428,630

In addition, realized gains and losses are not reported at the level of the Fund's investment since these relate to realized gains and losses on the underlying securities held by the Funds' investment vehicles. The following is the Fund's share of such realized gains for the fiscal year ended June 30, 2000:

Private Investment Fund	\$ 42,536,455
-------------------------	---------------

Past practice of partnerships was to distribute realized gains on a consistent basis. Not included in the above realized gain is approximately \$202 million which has not been distributed by one of the general partners.

Periodically the Private Investment Fund may receive stock distribution in lieu of cash. These securities are included as common stock on the Statement of Net Assets. When one of these individual securities is sold the realized gain or loss is presented on the Statement of Operations. Realized gains for such transactions for the fiscal year ended June 30, 2000 were \$15,305,220.

The Mutual Fixed Income Fund includes an investment in a mutual fund and a limited partnership interest. Fees incurred are deducted from the operations of the fund and are not separately presented on the Statement of Operations. The corresponding fees incurred for the fiscal year ended June 30, 2000 totaled \$2.2 million.

**COMBINED INVESTMENT FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

Investment advisory fees incurred for certain investments in the Real Estate Fund are generally charged to the entity in which the Fund has been invested. In such cases, these amounts are either capitalized in the cost basis of the investment and become a component of unrealized gain (loss) or are netted against the corresponding income generated. Certain other fees are incurred directly by the Funds. These amounts are expensed and are reflected as Investment Advisory Fees on the Statement of Operations. The appropriate treatment is determined depending on the terms of the investment agreement. Capitalized fees are not separately presented on the Statement of Operations. These fees are borne by the partners in their respective shares. The following is a listing of the Fund's total fees for the fiscal year ended June 30, 2000:

	Netted	Capitalized	Expensed	Total
Real Estate Fund	\$ 753,839	\$ 2,283,661	\$ 703,555	\$ 3,741,055

Additionally, the Real Estate Fund incurred disposition fees of \$2,783,390 on investments sold with a Net Asset Value of \$112,687,396. Such amounts are netted against the proceeds realized upon the disposition. These amounts are reflected in the Realized Gain (Loss) on the Statement of Operations.

Investment advisory fees for the Cash Reserve, Mutual Equity, Mutual Fixed Income (except as noted above) and International Stock Funds are estimated monthly based on periodic reviews of asset values and performance results. Accordingly, the amounts listed as Investment Advisory Fees on the Statement of Operations represent estimates of annual management fee expenses.

**K. Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**L. Related Party and Other Transactions**

There were no related party transactions during the fiscal year. Additionally, there were no "soft dollar" transactions. Soft dollar transactions result from arrangements whereby firms doing business with organizations such as the Treasury arrange for third parties to provide other services in lieu of cash payment. These arrangements tend to obscure the true cost of operations and can result in potential overpayment for services. Such transactions have been prohibited by the Treasurer.

**M. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and

expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2: CASH, INVESTMENTS AND SECURITIES LENDING**

Investments in the alternative asset classes generally utilize investment vehicles such as annuity contracts, common stocks, limited partnerships and trusts to comply with investment guidelines against direct ownership of such investment assets.

The investments of the Cash Reserve, Mutual Equity, Mutual Fixed Income and the International Stock Funds were securities registered under the State Street Bank and Trust Co. nominee name Pondwave & Co. and held by a designated agency of the Pension Plans and Trust Funds of the State of Connecticut, or bearer and held by a designated agency of the Pension Plans and Trust Funds of the State of Connecticut. Investments, as defined by GASB Statement No. 3, are categorized to give an indication of the credit risk assumed by the Treasurer at year-end. Category 1 includes investments which are insured or registered or for which securities are held by the Treasurer or its agent in the Treasurer's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Treasurer's name. Category 3 includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or agent, but not in the Treasurer's name.

All registered securities, as noted above, are classified under GASB risk category 1, except as follows:

Amounts listed as Due to Brokers are for securities purchased which are held by broker-dealers and not classified as to credit risk. Amounts listed as Due from Brokers are for securities sold and would have been classified under category 1 of credit risk if they were included in Investments in Securities, at Fair Value on the Statement of Net Assets.

Investments of cash collateral received under securities lending arrangements are registered in the master custodian's name and are invested in a fund maintained by the master custodian exclusively for the Funds. Accordingly, these investments are classified under GASB risk category 3. In circumstances where securities or letters of credit are received as collateral under securities lending arrangements, the collateral is held by the master custodian in a commingled pool in the master custodian's name, as trustee. When "tri-party" collateral is received, the collateral consists of cash, letters of credit or securities but is held in a commingled pool by a third party master custodian in the Funds' master custodian's name. The collateral received

**COMBINED INVESTMENT FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

is unable to be pledged or sold without borrower default. The underlying securities are classified under GASB risk category 3.

**Private Investment Fund**

Investments in the form of limited partnership and limited liability corporation interests are not evidenced by securities existing in physical or book entry form and therefore are not classified as to credit risk.

**Commercial Mortgage Fund**

At June 30, 2000, investments with a cost of \$137,173,790 and a fair value of \$143,804,457 in the form of common stock certificates are classified as category 1. Other Funds on Deposit represent portfolio level net assets consisting of escrow accounts. These are maintained by the portfolio manager and are not classified, as they are not investments.

Investments in the form of trusts are not evidenced by securities existing in physical or book entry form and are not classified as to credit risks as defined in GASB Statement No. 3.

The composition of the Fund's investment portfolio by the underlying assets in which the investee corporations and trusts are invested in are as follows at June 30, 2000:

Investment	Fair Value	Cost
Cash Reserve	\$ 27,496,106	\$ 27,496,107
Commercial Mortgage loans	143,804,457	137,173,790
CMO's	3,915,645	3,593,792
Total	<u>\$175,216,208</u>	<u>\$168,263,689</u>

**Real Estate Fund**

Certain investments in the form of common stock certificates with a cost of \$32,562,540 and a fair value of \$61,266,709 are classified under risk category 1.

The remaining investments, which comprise the substantial majority of the Fund's investments, are in the form of trusts, annuities and limited partnerships and are not evidenced by securities existing in physical or book entry form and are therefore not classified as to credit risk.

**Summary of Credit Risk Categories**

Breakdown by investment type of the GASB 3 credit risk categories is as follows:

Investment Type	Carrying Amount (Fair Value)			Total
	Category 1	Category 2	Category 3	
Cash Equivalents	\$953,245,946			\$953,245,946
Asset Backed	506,962,364			506,962,364
Government	778,819,064	\$10,163,895		788,982,959
Agency	737,977,998	16,401,805		754,379,803
Mortgage Backed	633,562,616			633,562,616
Corporate Debt	2,107,783,828			2,107,783,828
Convertible	292,054,772			292,054,772
U.S. Corporate Stock	8,488,071,028	177,354,864		8,665,425,892
International Equity	2,187,925,444	12,883,139		2,200,808,583
Preferred Stock	135,716,706			135,716,706
Collateral Securities held by Investment Pool under Securities Lending Arrangements:				
Cash Equivalents		403,585,678		403,585,678
Corporate Debt		1,261,148,007		1,261,148,007
SUBTOTAL	\$16,822,119,766	\$ -	\$1,881,537,388	\$18,703,657,154

Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:

Real Estate Investment Trusts	31,908,165
Mutual Funds	42,017,860
Limited Liability Corporation	72,788,985
Trusts	54,566,948
Limited Partnerships	2,947,525,419
Annuities	14,595,292
Investments held by broker-dealers under securities loans:	
U.S. Government and Agency	607,879,981
U.S. Corporate Stock	378,132,102
International Equity	525,141,937
Domestic Fixed	102,011,688
International Fixed	9,029,760
<b>Total Investments</b>	<b><u>\$23,489,255,291</u></b>

Cash balances included on the Statement of Net Assets of \$22,927,567 are fully insured by the FDIC and are, therefore, classified as Category 1.

Cash Equivalents listed on the breakdown by investment type under Category 1 consist of corporate debt. Cash Equivalents reported under Category 3 consist of certificates of deposit of \$138,830,260 and time deposits of \$264,755,418.

**Securities Lending**

Certain of the Combined Investment Funds engage in securities lending transactions to provide incremental returns to the Funds. The Funds are permitted to enter into securities lending transactions pursuant to Section 3-13d of the Connecticut General Statutes. The Funds' master custodian is authorized to lend available securities to authorized broker-dealers and banks subject to a form loan agreement.

During the period ended June 30, 2000, the master custodian lent, at the direction of the Funds, securities and received cash (in both U.S. and foreign currency), U.S. government securities, sovereign debt rated A or better, convertible bonds, and irrevocable bank letters of credit as collateral. The master custodian did not have the ability to



**COMBINED INVESTMENT FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

pledge or sell collateral securities delivered therefore absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The Funds did not impose any restrictions during the fiscal year on the amount of the loans that the master custodian made on its behalf and the master custodian indemnified the Funds by agreeing to purchase replacement securities, or return the cash collateral thereof in the event any borrower failed to return the loaned securities or pay distributions thereon. There were no such failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers of the master custodian. During the fiscal year, the Funds and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in an individual account known as the State of Connecticut Collateral Investment Trust. On June 30, 2000, the Funds had no credit risk exposure to borrowers. The value of collateral held and the market value of securities on loan for the Funds as of June 30, 2000 were \$1,922,690,204 and \$1,838,999,170, respectively.

Under ordinary circumstances, the average effective duration of the security lending operations will be managed such that it will not exceed 120 days, or fall below 1 day. Under such ordinary circumstances, the net duration, as defined by the duration of assets less the duration of liabilities, will not exceed 45 days. In the event that the average effective duration does exceed 120 days, or the net duration does exceed 45 days for any 3-day period, the Trustee shall, (i) notify the Funds within 5 business days and (ii) take appropriate action as is reasonable to return an average effective duration below 120 days or a net duration below 45 days. The average effective duration is calculated using the weighted average effective duration of holdings. The average effective duration of the security lending program at June 30, 2000 was 44 days.

The average effective duration is managed to be within 45 days due to the inability to monitor the weighted average duration of liabilities. The weighted average duration of liabilities is assumed to remain at 1 day.

The fair value of collateral held and the fair value of securities on loan are as follows for the Funds as of June 30, 2000:

Fund	Fair Value of Collateral	Fair Value of Securities Lent
Mutual Equity	\$532,949,365	\$ 488,339,124
International Stock	631,046,493	600,580,311
Mutual Fixed Income	767,166,454	750,079,735
Total	<u>\$1,931,162,312</u>	<u>\$1,838,999,170</u>

Investments made using the cash collateral received from security loans were included in the Statement of Net Assets. The fair value of these amounts is as follows:

Fund	Cash Equivalents	Corporate Debt	Total Investments
Mutual Equity	\$ 78,069,288	\$ 243,955,926	\$ 322,025,214
International Stock	147,135,680	459,777,786	606,913,466
Mutual Fixed Income	178,380,710	557,414,295	735,795,005
Total	<u>\$403,585,678</u>	<u>\$1,261,148,007</u>	<u>\$1,664,733,685</u>

These amounts are categorized in the Summary of Credit Risk Categories as Category 3 in that they are invested in a pool which is maintained solely on behalf of the Funds, but whose investments are held in the master custodian's name. The above total amounts were included on the Statement of Net Assets in "Invested Securities Lending Collateral".

**NOTE 3: PURCHASES AND SALES OF INVESTMENT SECURITIES**

For the period ended June 30, 2000, the aggregate cost of purchases and proceeds from sales of investment securities (excluding all U.S. Government securities and short-term securities) were as follows:

Fund	Purchases	Sales
Mutual Equity	\$ 4,803,691,599	\$ 5,794,844,510
Mutual Fixed Income	18,696,250,009	17,859,343,030
International Stock	1,896,752,004	1,838,484,421
Real Estate	154,079,738	114,393,543
Commercial Mortgage	-	82,640,080
Private Investment	827,535,134	100,380,890

The above amounts include the effect of cost adjustments processed during the year.

**NOTE 4: UNREALIZED APPRECIATION AND DEPRECIATION ON INVESTMENTS AND FOREIGN EXCHANGE CONTRACTS**

At June 30, 2000, the gross appreciation of investment securities and foreign currency in which there was an excess of fair value over cost, the gross depreciation of investment securities and foreign currency in which there was an excess of cost over fair value and the resulting net appreciation (depreciation) by fund were as follows:

**COMBINED INVESTMENT FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

Fund	Gross Appreciation	Gross Depreciation	Net Appreciation (Depreciation)
Mutual Equity	\$ 2,892,567,225	\$ 594,760,137	\$ 2,297,807,088
Mutual Fixed Income	87,487,597	268,948,523	(181,460,926)
International Stock	777,961,938	165,045,481	612,916,457
Real Estate	76,154,331	30,853,005	45,301,326
Commercial Mortgage	7,389,366	436,847	6,952,519
Private Investment	617,530,996	107,545,716	509,985,280

**NOTE 5: FOREIGN EXCHANGE CONTRACTS**

From time to time, the International Stock, Mutual Fixed Income, and Private Investment Funds utilize foreign currency contracts to facilitate transactions in foreign securities and to manage the Funds' currency exposure. Contracts to buy are used to acquire exposure to foreign currencies, while contracts to sell are used to hedge the Funds' investments against currency fluctuations. Also, a contract to buy or sell can offset a previous contract. Losses may arise from changes in the value of the foreign currency or failure of the counterparties to perform under the contracts' terms.

The U. S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service.

Investing in forward currency contracts may increase the volatility of the Funds' performance. Price movements of currency contracts are influenced by, among other things, international trade, fiscal, monetary, and exchange control programs and policies; national and international political and economic events; and changes in worldwide interest rates. Governments from time to time intervene in the currency markets with the specific intent of influencing currency prices. Such intervention may cause certain currency prices to move rapidly. Additionally, the currency markets may be particularly sensitive to interest rate fluctuations.

At June 30, 2000, the Funds had recorded unrealized gains (losses) from open forward currency contracts as follows:

International Stock Fund: Foreign Currency	Value	Unrealized Gain/(Loss)
<b>Contracts to Buy:</b>		
Australian Dollar	\$ 219,706	\$ 10,944
Danish Krone	1,847,496	10,653
Euro Currency	37,567,181	176,202
Greek Drachma	404,593	2,396
Hong Kong Dollar	1,570,243	374
Japanese Yen	17,001,171	154,695
New Zealand Dollar	64,550	1,833
Norwegian Krone	1,900,000	1,898
Pound Sterling	23,550,854	709
Singapore Dollar	553,212	180

Swedish Krona	4,703,662	(2,693)
Swiss Franc	2,774,925	31,129
Thailand Baht	25,034	(47)
	<u>92,182,627</u>	<u>388,273</u>

**Contracts to Sell:**

Australian Dollar	38,828,561	(448,076)
Danish Krone	10,867,046	(332,998)
Euro Currency	582,906,358	(18,535,092)
Hong Kong Dollar	15,224,690	1,244
Indonesian Rupiah	26,315	92
Japanese Yen	533,337,245	894,729
Mexican Peso	85,465	28
New Zealand Dollar	2,442,146	50,712
Norwegian Krone	6,117,403	(168,544)
Pound Sterling	248,956,909	1,533,233
Singapore Dollar	4,752,391	54,731
Swedish Krona	52,702,635	(510,960)
Swiss Franc	58,245,501	(1,375,434)
Thailand Baht	41,667	83
	<u>1,554,534,332</u>	<u>(18,836,252)</u>
Total	\$ <u>1,646,716,959</u>	\$ <u>(18,447,979)</u>

Financial Statement Amounts:

	Receivable	Payable	Net
Amount In US Dollars	\$ 1,646,716,959	\$ 1,646,716,959	-
Unrealized Gain (Loss)	388,273	(18,836,252)	(18,447,979)
Net	\$ 1,647,105,232	\$ 1,665,553,211	\$ (18,447,979)

**Mutual Fixed Income Fund:**

Foreign Currency	Value	Unrealized Gain/(Loss)
<b>Contracts to Buy:</b>		
Euro Currency	\$ 4,333,569	\$ 24,820
New Zealand Dollar	3,244,640	(49,605)
South African Rand	4,265,988	22,151
	<u>11,844,197</u>	<u>(2,634)</u>
<b>Contracts to Sell:</b>		
New Zealand Dollar	3,379,763	184,728
South African Rand	8,657,532	(65,819)
	<u>12,037,295</u>	<u>118,909</u>
Total	\$ <u>23,881,492</u>	\$ <u>116,275</u>

Financial Statement Amounts:

	Receivable	Payable	Net
Amount In US Dollars	\$ 23,881,492	\$ 23,881,492	\$ -
Unrealized Gain (Loss)	(2,634)	118,909	116,275
Net	\$ <u>23,878,858</u>	\$ <u>23,762,583</u>	\$ <u>116,275</u>

The net unrealized gain has been included in the Statement of Operations as a component of Net Change in Unrealized Gain (Loss) on Investments.

**NOTE 6: COMMITMENTS**

In accordance with the terms of the individual investment agreements, the Private Investment Fund and the Real Estate Fund have outstanding commitments to make additional investments. These commitments will be fulfilled as suitable investment opportunities become available. Unfunded commitments at June 30, 2000, were as follows:



**COMBINED INVESTMENT FUNDS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

Fund	Total Commitment	Cumulative Amounts Funded	Unfunded Commitment
Real Estate	\$ 365,000,000	\$ 294,570,877	\$ 70,429,123
Private Investment	3,184,378,765	2,101,948,470	1,082,430,295

**NOTE 7: SUBSEQUENT EVENTS**

Subsequent to June 30, 2000, net proceeds of \$67.1 million were received on the sale of one Real Estate Fund investment. The cost basis of this investment at the time of the sale was \$50.7 million, resulting in a realized gain of \$16.4 million. The proceeds of this sale exceeded the fair value of the investment included on the Statement of Net Assets by approximately \$18.4 million. This sale was

negotiated after June 30, 2000. No adjustments were made to the financial statements.

One of the Private Investment Fund partnerships indicated that realized gains not distributed during the current fiscal year were re-committed prior to June 30, 2000. The Funds' Private Investment consultant is reviewing this matter.

On October 10, 2000 a temporary receiver was appointed for an investment in a limited partnership in the Mutual Fixed Income Fund. This investment has a market value of \$199.2 million as reported on the Statement of Net Assets.

**NOTE 8: COST BASIS OF INVESTMENTS.**

The aggregate cost values of investments in the Funds are as follows at June 30, 2000:

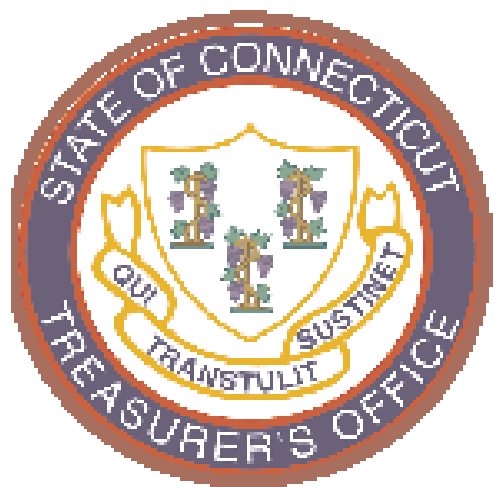
	CASH RESERVE FUND	MUTUAL EQUITY FUND	MUTUAL FIXED INCOME FUND	INTER- NATIONAL STOCK FUND	REAL ESTATE FUND	COMMERCIAL MORTGAGE FUND	PRIVATE INVESTMENT FUND
Investments, at Cost							
Cash Reserve Fund	\$ -	\$ 78,886,019	\$ 847,227,707	\$ 79,417,683	\$ 29,828,197	\$ 27,496,107	\$ 86,165,136
Cash Equivalents	953,245,946	-	-	-	-	-	-
Asset Backed Securities	341,806,886	-	166,498,749	-	-	-	-
Government Securities	-	-	1,198,382,027	-	-	-	-
Government Agency Securities	28,513,421	-	1,910,120,302	-	-	-	-
Mortgage Backed Securities	57,170,766	-	579,931,183	-	-	2,343,728	-
Corporate Debt	146,967,316	-	2,110,143,289	2,606,501	-	-	-
Convertible Securities	-	-	289,104,570	-	-	-	-
Common Stock	-	6,468,338,416	29,401,050	2,185,890,846	32,562,540	137,173,790	414,317
Preferred Stock	-	256,260	89,565,801	42,780,353	-	-	-
Real Estate Investment Trust	-	30,780,367	1,502,763	-	-	-	-
Mutual Fund	-	-	39,972,101	5,081,507	-	-	-
Limited Liability Corporation	-	-	-	-	-	-	59,372,102
Trusts	-	-	-	-	34,722,394	1,250,064	-
Limited Partnerships	-	-	201,614,206	-	327,269,149	-	1,733,149,377
Partnerships	-	-	-	-	-	-	-
Annuities	-	-	-	-	40,327,336	-	-
Total Investments, at Cost	\$ 1,527,704,335	\$ 6,578,261,062	\$ 7,463,463,748	\$ 2,315,776,890	\$ 464,709,616	\$ 168,263,689	\$ 1,879,100,932

Note: Cash Reserve Fund is presented gross of the \$1,149,020,849 elimination entry which is included in the other funds.





# Investment --- Section



## Division Overview

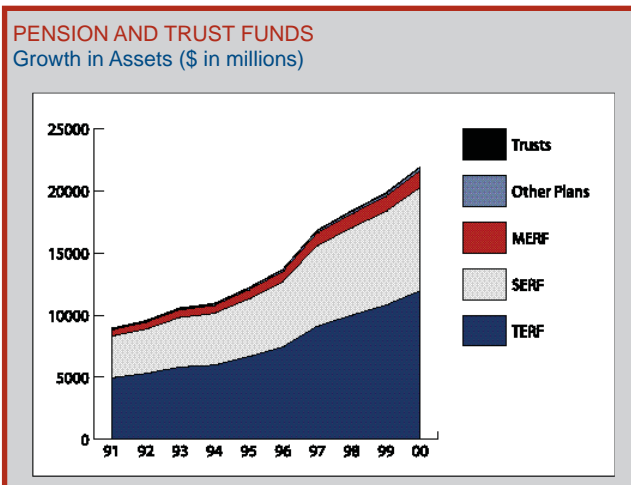
### Introduction

As principal fiduciary for six State pension and eight trust funds, the Treasurer is responsible for prudently managing approximately \$21.9 billion of investment assets on behalf of the more than 160,000 teachers, State and municipal employees as well as trust funds financing academic programs, grants, and initiatives throughout the State. The Pension Funds Management Division is responsible for the day to day operations associated with the Connecticut's Retirement Plans and Trust Funds.

Prudent investment management not only affects the retirement security of the beneficiaries, but the size of the State budget as well. Funding of the pension benefit liability is dependent on investment returns, State (taxpayer) contributions and the contribution requirements of retirement plan members. If investment returns fall below the actuarial target return, more tax dollars must be contributed to ensure full payment of benefits. When pension investment returns exceed the target return, excess returns are applied against the unfunded liability.

As shown in Figure 1, over the last ten years pension and trust assets have grown from \$8.6 billion to \$21.9 billion, or 155%. The Teachers' Retirement Fund (TERF), with \$11.9 billion under management at June 30, 2000, is the largest participating fund, followed by the State Employees' Retirement Fund (SERF) and the Municipal Employees' Retirement Fund (MERF) with \$8.3 billion and \$1.4 billion, respectively. During the last fiscal year ended June 30, 2000, total annual investment returns, comprising interest income, dividends, securities lending income, and net realized

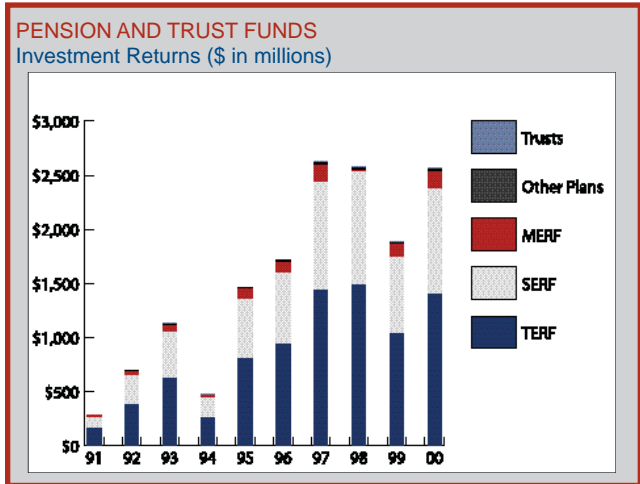
Figure 1



TERF - Teachers' Retirement Fund  
 SERF - State Employees Retirement Fund  
 MERF - Connecticut Municipal Employees' Retirement Fund

and unrealized capital gains, net of Fund operating expenses, were \$2.6 billion. (See figure 2.)

Figure 2



TERF - Teachers' Retirement Fund  
 SERF - State Employees Retirement Fund  
 MERF - Connecticut Municipal Employees' Retirement Fund

### Organization/Staff Review

Under the supervision of an Assistant Treasurer, the Division executes and manages the investment programs of the pension and trust funds. The ten-member professional staff are responsible for: analyzing plan liabilities; recommending asset allocation policy; selecting, monitoring, and reporting on the investment advisors retained to invest the State's pension and trust assets; supervising the activities of the custodian bank which retains physical custody of, safeguards, and provides record keeping services for plan assets; reviewing the accounting for the assets to ensure that the earnings of the Funds are properly determined and that each of the pension plans and trust funds receive their correct share of such earnings; analyzing investment valuations for propriety to ensure consistency and integrity in performance presentation; and reporting on the investment performance of the pension and trust assets to the Treasurer and the Investment Advisory Council. The Division's operations are conducted through three units: Pension Management, Alternative Investments, and Accounting and Control.

### Operating Expenses

The Division allocates all operating overhead directly to the earnings of the pension and trust fund assets under management. It is therefore incumbent upon the Division to manage assets in a cost-effective manner consistent with maximizing long-term returns.

## PENSION FUNDS MANAGEMENT DIVISION

### Investment Policy

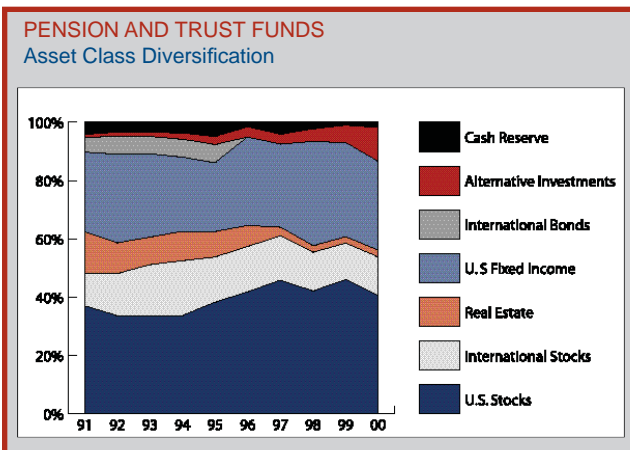
It is an immutable principle of pension fund management that the decision on how fund assets are allocated represents as much as 90% of the returns. In August, 1999, the Investment Advisory Council (see page 14) endorsed the asset allocation plan, which governs Fund investments today. The Asset Allocation Plan's main objective is to maximize investment returns over the long term at an acceptable level of risk, primarily through asset diversification. Risk, in this context, is defined as volatility of investment returns. (See Investment Performance discussion.)

Diversification across asset classes is a critical component in structuring portfolios to maximize return at a given level of risk. Likewise, asset allocation is used to minimize risk while seeking a specific level of return. In selecting an asset allocation strategy, there is a careful examination of the expected risk/return tradeoffs, correlation of investment returns, and diversification benefits of the available asset classes (i.e., those not restricted by statute) under different economic scenarios.

As shown in Figure 3, the number and complexity of asset classes comprising the Investment Policy have fluctuated during the last ten years. New asset classes have been introduced to diversify the pension and trust assets while changing economic environments have required different allocation strategies. As of June 30, 2000, multiple asset classes were included in the Investment Policy, including U.S. Equity, International Equity, U.S. Fixed Income, Equity Real Estate, and Alternative Investments.

At fiscal year-end, domestic and international equities comprised the largest asset allocation, at 54%. Equities have an established record of maximizing investment returns over the long term. Fixed income and alternative investments were also included to allow the Fund both to leverage portfolio returns during highly

Figure 3



inflationary or deflationary environments and to mitigate the effects of volatility in the stock market. The actual asset allocations at fiscal year-end differed slightly from the Investment Policy targets as shown in Figure 4.

Figure 4

### PENSION AND TRUST FUND ASSET ALLOCATION Actual vs. Policy at June 30, 2000

Target	Actual	Policy
<b>U.S. EQUITY</b>	<b>40.4%</b>	<b>36.0%</b>
Mutual Equity Fund (MEF)	40.4%	
<b>INTERNATIONAL EQUITY</b>	<b>13.4%</b>	<b>18.0%</b>
International Stock Fund (ISF)	13.4%	
<b>EQUITY COMMERCIAL REAL ESTATE</b>	<b>2.3%</b>	<b>5.0%</b>
Real Estate Fund (REF)	2.3%	
<b>U.S. FIXED INCOME</b>	<b>32.2%</b>	<b>30.0%</b>
Mutual Fixed Income Fund (MFIF)	29.6%	
Commercial Mortgage Fund (CMF)	0.8%	
Cash Reserve Account (CRA)	1.8%	
<b>NON U.S. FIXED INCOME<sup>(1)</sup></b>	<b>n/a</b>	<b>n/a</b>
<b>ALTERNATIVE INVESTMENTS</b>	<b>11.7%</b>	<b>11.0%</b>
Venture Capital Fund (VCF)	11.7%	
<b>TOTAL</b>	<b>100.0%</b>	

(1) MFIF's advisors are allowed to invest in non U.S. fixed income assets on an opportunistic basis.

To realize the allocations set forth in the Asset Allocation Plan, the Division operates seven Combined Investment Funds ("CIF" or the "Funds") as a series of mutual funds in which the pension and trust funds may invest through the purchase of ownership interests. Each Fund is designed to replicate one or more of the six asset classes outlined in the Policy.

During the 2000 General Assembly, Public Act 00-43, *An Act Concerning Powers and Duties of the Treasurer and the Investment Advisory Council*, was passed and signed into law by the Governor. At the behest of the Treasurer, the requirement that a comprehensive Investment Policy Statement be developed, under which the Connecticut Retirement Pension and Trust Funds would be governed, was included in the Act. The Act requires that the Treasurer develop and submit to the Investment Advisory Council an Investment Policy Statement that includes the following: (A) investment objectives; (B) asset allocation policy and risk tolerance; (C) asset and specific limitation or other considerations governing the investment of any funds; (D) investment manager guidelines; (E) investment performance evaluation guidelines; (F) guidelines for the selection and termination of providers of investment related services; and (G) proxy voting guidelines.

### Fund Management

The Treasurer employs external advisors to invest each Fund. Advisors are selected based on asset class

## PENSION FUNDS MANAGEMENT DIVISION

expertise, investment performance and style and are expected to comply with the parameters, guidelines, and restrictions set forth in the Policy.

As of June 30, 2000, 71 external advisors were employed by the Treasury to invest the pension and trust assets, a decrease of 3 advisors from June 30, 1999.

Figure 5

<b>COMBINED INVESTMENT FUNDS</b>		
<b>Advisor Breakdown</b>		
Fund	June 30, 1999	June 30, 2000
MEF	10	10
ISF	6	6
PIF	35	35
MFIF	11	11
CMF	1	1
REF	10	7
CRA	1	1
<b>Total<sup>(1)</sup></b>	<b>74</b>	<b>71</b>

(1) Actual total advisors was 68 and 66, respectively when factoring in advisors across multiple funds.

### Securities Lending

Since November 1973, the Treasury has maintained a securities lending program for the Combined Investment Funds designed to enhance investment returns. This program involves the lending of securities to broker/dealers secured by collateral valued slightly in excess of the market value of the loaned securities. Typically, the loaned securities are used by broker/dealers as collateral for repurchase agreements and other structured investment products, as well as to cover short sales, customer defaults, dividend recapture, and arbitrage trades. To mitigate the risks of securities lending transactions, the master custodian carefully monitors the credit ratings of each counter-party and overall collateral level. Collateral held is marked-to-market on a daily basis to ensure adequate coverage.

State Street Bank and Trust Company, the current master custodian for the Funds, is responsible for marketing the program, lending the securities, and obtaining adequate collateral. For the year ended June 30, 2000, securities with a market value of approximately \$1.84 billion had been loaned against collateral of approximately \$1.93 billion. Income generated by securities lending totaled \$6.6 million for the fiscal year.

## The Year in Review

### Total Fund Performance

During the fiscal year ended June 30, 2000, the Combined Investment Funds achieved an annual total

return of 13.13%, net of all expenses. The Funds continued to be well diversified given the long-term risk/return objectives, while adhering to established investment guidelines. For the sixth year in a row, the Funds have outperformed their actuarially determined assumed rate of return of 8.5%. For a detailed explanation of Fund performance, see the 2000 Investment Performance discussion that follows.

### Investment Policy

#### DOMESTIC EQUITY

Management of the equity portfolio uses both a pure indexing and enhanced indexing strategy. Enhanced indexing involves identifying, through market analysis and research, those securities in the index which are most likely to under-perform, and discarding them from the portfolio. This is achieved while maintaining industry weightings consistent with the overall index. The goal of enhanced indexing is to generate a return slightly in excess of the selected index. Indexing is a particularly appropriate strategy for the "large-cap" segment of the equity markets, which is defined as the securities of the largest capitalized public companies, typically comprising the major market indices. Moreover, significant research demonstrates that the U.S. equity markets, particularly the large-cap segment, are widely considered the world's most "efficient" markets, and therefore are the most difficult to "beat" with active investment management.

Within the "small- and mid-cap" sections of the equity markets, active management continues allow pension funds the opportunity to receive enhance returns. Small- and mid-cap securities are issued by companies that are much smaller and not as closely monitored, researched or analyzed as the larger capitalization companies. Consequently, the small-cap segment of the U.S. equity market is less "efficient." Certain active investment advisors are therefore more likely to outperform the markets over the long term, while earning an acceptable level of return per unit of risk.

As currently structured, the domestic equity portfolio replicates the approximate capitalization of the market as a whole with 77.4% of the Fund invested in large-cap stocks and 22.6% in small-cap stocks. More than 84% of the entire domestic equity portfolio adheres to an indexing or enhanced indexing strategy.

#### INTERNATIONAL EQUITY

During fiscal year 2000, the structure of the International Stock Fund (ISF) was revised to reflect the long-term performance objectives of this asset class. It was determined that the Fund would consist of a series of externally managed equity portfolios which,



in aggregate, are structured to achieve long-term performance consistent with non-U.S. equity markets and add diversification of the total portfolio. The ISF's hybrid benchmark is 83% of the Morgan Stanley Extended Index-ex U.S.-half-hedged and 17% of the Morgan Stanley Emerging Markets Free Index.

The ISF performance objective is to outperform the hybrid benchmark net of management fees by 100 basis points per annum over rolling five-year time periods. The revised structure and new benchmark will be implemented during fiscal year 2001.

### **FIXED INCOME**

The Mutual Fixed Income Fund serves as an investment tool for the Pension and Trust Funds with the goal of reducing volatility in Fund returns under various economic scenarios. During periods of low inflation, fixed income investments may enhance the overall performance of the Pension and Trust Funds, while in times of moderate inflation and high nominal interest rates, these investments may contribute investment returns. The Fund measures its performance against the Lehman Brothers Aggregate Index, widely considered to be a surrogate for the performance of the U.S. bond market.

The current fixed income structure includes convertible bonds and high yield bonds as security classes. Convertible bonds allow bondholders to exchange bonds for a specified number of shares of common stock in a firm. This gives holders of the bonds an option to share in the price appreciation of the company's stock and is an effective diversification tool for the fixed income portfolio. The high yield asset class allows the fund to take advantage of attractive yields of securities of companies with the potential for improving credit quality.

### **REAL ESTATE AND PRIVATE EQUITY INVESTMENTS**

During fiscal year 2000, hundreds of millions of dollars in commitments of pension assets were withdrawn or reduced from private equity investments selected by the former Treasurer. In addition, new protocols including mandatory disclosure of third party fees were designed and implemented to protect against the types of misconduct committed by the former Treasurer.

The portion of the Policy governing the structure of the alternative investment portfolios, comprising investments in real estate and private equity, is under review. The strategic asset allocation that was determined for the real estate asset class was 5% , and 11% for Private equity.

## **2000 Investment Performance**

### **Introduction**

This section presents the performance of the Combined Investment Funds and discusses the Treasury's approach to measuring performance, including risk and return.

The charts, tables, and graphs on the following pages represent a synthesis of techniques and formats used by the mutual fund industry, public and private sector pension funds, and recognized investment authorities.

### **Understanding Performance**

To measure success in achieving the primary objective of the Asset Allocation Plan, the Fund's performance is evaluated in two principal areas: risk and return. The results of these reviews, coupled with information on portfolio characteristics, are used to monitor and improve the performance of the Fund's external investment advisors.

To bring accountability and perspective to Fund performance and measurements of risk and return, The Connecticut Retirement Pension and Trust Funds are compared to those of similarly structured peer groups and indices. These comparisons enable plan participants, the Treasurer and the Investment Advisory Council, to determine whether and by how much Fund returns exceeded or fell short of the benchmarks. Each Fund's benchmark is selected on the basis of portfolio composition, investment style, and objectives.

Comparative performance is reviewed over both the near-term and the long-term for two reasons. First, pension management is, by its very nature, a long-term process. While both young and old employees comprise the pool of plan beneficiaries, the average age of plan participants is relatively low and requires that plan assets be managed for the long term. Second, as experience has shown, results attained in the short term are not necessarily an indicator of results to be achieved over the long term. Performance must be viewed in a broader context.

Overall performance is measured by calculating monthly returns and linking them to provide one-, three-, five- and ten-year histories of overall investment performance. Short-term performance is measured by total return over one-month, quarter-end, and trailing one-year time periods. Risk is also measured over both short- and the long-term periods.

### **Risk**

The measurement of risk is a critical component in



investment management. It is the basis for both strategic decision-making and investment evaluation. As an investment tool, investors assume risk to enhance portfolio returns. These enhancements, viewed as returns in excess of those available on “risk-free” investments, such as Treasury Bills, vary in magnitude according to the degree of risk assumed. Many investors focus on the negative aspects of risk and in doing so forego substantial upside potential, which can significantly enhance long-term returns. Thus, while risk can never be completely eliminated from a portfolio, the prudent management of risk can maximize investment returns at acceptable levels of risk.

Risk can take several forms and include: market risk, the risk of fluctuations in the overall market for securities; company risk, the risk of investing in any single company’s stock or bonds; currency-exchange risk, the risk that a foreign country’s currency may appreciate or depreciate relative to the U.S. dollar, thus impacting the value of foreign investments; and political risk, risk incurred through investing in foreign countries with volatile economies and political systems.

With respect to fixed income investments, investors also assume: reinvestment risk, the risk that cash flows received from a security will be reinvested at lower rates due to declining interest rates; credit or default risk, the risk that the issuer of a fixed income security may fail to make principal and interest payments on the security; interest rate risk, the risk that prices of fixed coupon bonds will decline in the event of rising market interest rates; and inflation or purchasing power risk, the risk that the real value of a security and its cash flows may be reduced by inflation. The level of risk incurred in fixed income investing increases as the investment time horizon is lengthened. This is demonstrated by the comparatively higher yields available on “long bonds,” or bonds maturing in 20 to 30 years, versus those available on short-term fixed income securities.

In the alternative investment category, risks are significantly greater than those of publicly traded investments. Assessment of progress is more tenuous and valuation judgments are more complex. The investor assumes not only management, product, market, and operations risk, similar to equity investing, but also assumes liquidity risk, the risk that one’s investment cannot be immediately liquidated at other than substantially discounted value.

**VOLATILITY**

To measure the effects of risk on the portfolio, the volatility of returns is calculated over time. Volatility, viewed as deviation of returns from an average of these returns over time, is measured statistically by standard

deviation. Standard deviation is one of the most widely accepted and descriptive risk measures used by investment professionals today. Funds with high standard deviations are considered riskier than those with low standard deviations.

To evaluate the significance of the Funds’ standard deviation, each Fund’s relative volatility, or the ratio of the Fund’s standard deviation to that of the benchmark is calculated. A relative volatility greater than 1.0 indicates that the Fund is more volatile than the benchmark while a measure less than 1.0 indicates less volatility. A relative volatility of 1.0 signifies an equal degree of volatility between the Fund and the benchmark.

As an extension of standard deviation, each Fund’s beta, or a measure of the relative price fluctuation of the Fund to its benchmark, is also calculated. The measurement of beta allows one to evaluate the sensitivity of Fund returns to given movements in the market and/or its benchmark. A beta greater than 1.0 compared to the selected market benchmark signifies greater price sensitivity while a beta less than 1.0 indicates less sensitivity.

To measure the degree of correlation between Fund returns and the benchmark, the Division calculates the coefficient of determination, or R<sup>2</sup>. This calculation, which is used in conjunction with beta, allows one to evaluate how much of the volatility in Fund returns is explained by returns in the selected market benchmark. An R<sup>2</sup> of 1.0 indicates that Fund returns are perfectly explained by returns of the benchmark, while a value less than 1.0 indicates that the returns of the benchmark explain only a portion of the fund return.

Finally, to evaluate how well each of the above measures actually predicted returns of the Fund, a calculation is performed on the Fund’s alpha. This calculation measures the absolute difference between the Fund’s monthly return and that predicted by its beta. Used together, these measures provide a comprehensive view of a Fund’s relative risk profile.

**RETURN**

The Pension and Trust Funds are managed for maximum return with minimal risk. Return, viewed in this context, includes realized and unrealized gains in the market value of a security, including those attributable to currency fluctuations, as well as income distributed from a security such as dividends and interest. Return is measured through two calculations: compounded annual total return and cumulative total return.

Compounded Annual Total Return - This return measure evaluates performance over the short and

## PENSION FUNDS MANAGEMENT DIVISION

long-term. Compounded annual total return measures the implicit annual percentage change in value of an investment, assuming reinvestment of dividends, interest, and realized and unrealized capital gains, including those attributable to currency fluctuations. In effect, compounded annual total return “smoothes” fluctuations in long-term investment returns to derive an implied year-to-year annual return.

**Cumulative Total Return** - This calculation measures the absolute percentage change in value of an investment over a specified period, assuming reinvestment of dividends, interest income, and realized capital gains. While this calculation does not “smooth” year-to-year fluctuations in long-term returns to derive implied annual performance, cumulative total return allows one to see on an absolute basis the percentage increase in the total Fund’s value over a specified time. Viewed graphically, cumulative total return shows one what a \$10 million investment in the Combined Investment Funds a set number of years ago would be worth today.

### TOTAL FUND PERFORMANCE

The return of the Combined Investment Funds is evaluated as a whole against two benchmarks: the actuarially determined assumed rate of return of 8.5%, which when combined with scheduled funding will allow the plan to meet future benefits payments as they become due, and a 50/50 blend of the S&P 500 and the Lehman Brothers Aggregate Index (“blended index”). The actuarially determined assumed rate of return includes normal pension costs and past service amortization payments as well as payments necessary to reduce the unfunded liabilities. Performance, evaluated against the blended indices, is shown graphically on the basis of net total Fund returns versus those achieved by the benchmarks.

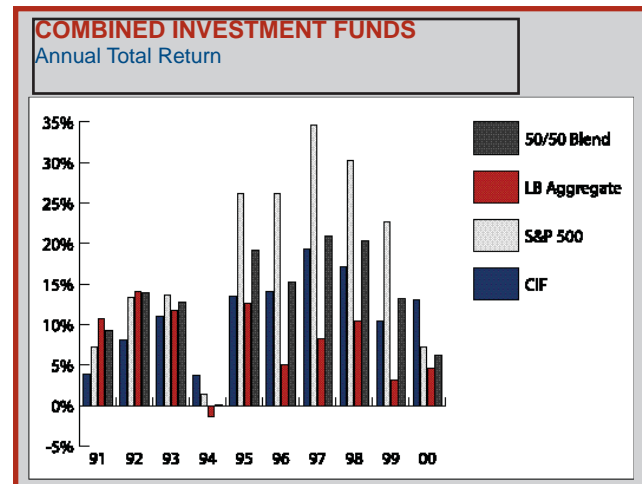
As shown in Figure 6, for the one-year period ended June 30, 2000, the Combined Investment Funds

<b>COMBINED INVESTMENT FUNDS</b>				
<b>Periods ending June 30, 2000</b>				
	1 YR	3 YRS	5 YRS	10 YRS
Compounded, Annual Total Return (%)				
<b>CIF</b>	<b>13.13</b>	<b>13.57</b>	<b>14.81</b>	<b>11.42</b>
S&P 500	7.30	19.65	23.79	17.80
Lehman Agg	4.56	6.03	6.25	7.82
50/50 Blend	6.22	13.09	15.02	12.92
Cumulative Total Return (%)				
<b>CIF</b>	<b>13.13</b>	<b>46.49</b>	<b>99.47</b>	<b>194.76</b>
S&P 500	7.30	71.35	190.82	414.57
Lehman Agg	4.56	19.21	35.39	112.22
50/50 Blend	6.22	44.62	101.33	237.14

achieved a net annual total return of 13.13%. This return outperformed the blended index return of 6.22% by 691 basis points. For the past one-year and three-year periods, the Funds outperformed the actuarial rate by 4.6 and 5.1 percentage points, respectively. It should be noted that performance above the actuarially determined assumed rate of return helps further reduce the unfunded pension obligation.

Solid returns produced in the Mutual Equity Fund, International Stock Fund, and Private Investment Fund helped to enhance the CRPTF’s return. An explanation of each Fund’s performance, including portfolio characteristics and benchmark comparisons, is included in the individual Fund discussion, which follows.

Figure 7



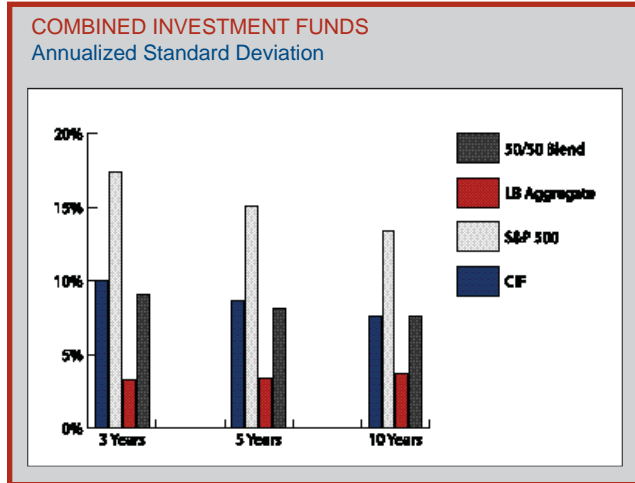
While volatility in investment returns is expected in the short-term, the Treasurer’s long-term performance with respect to managing the Pension and Trust assets is most important. The Combined Investment Funds generated compounded annual total returns of 13.57%, 14.81%, and 11.42%, net of all expenses, over the last three-, five-, and ten-year periods, respectively. These returns outperformed those generated by the blended index for three years by 0.48 percentage points, and underperformed by 0.21, and 1.50 percentage points for the five- and ten-year periods, respectively. Principal reasons include investment environments and asset allocation strategy in effect over the selected time periods. Viewed on a dollar-for-dollar basis, had one invested \$10 million in the Combined Investment Funds ten years ago, that investment would have been worth \$29.4 million at June 30, 2000, versus \$33.7 million for an investment in the blended index.

Figure 8 shows the Combined Investment Funds annualized standard deviation relative to its benchmark, the blended Index and the two Indices that make up the

## PENSION FUNDS MANAGEMENT DIVISION

benchmark, the S&P 500 and the LB Aggregate, over the last three, five, and ten-year periods. As the chart shows, the Funds standard deviation was slightly higher than the blended index. The Fund was 1.10, 1.06, and equally as risky as the blended index over the respective time periods.

Figure 8



During fiscal year 2000, the total Pension and Trust net assets under management of the Treasurer grew from \$19.8 billion to \$21.9 billion, an increase of approximately \$2.1 billion. Of this total, \$2.6 billion was due primarily to net investment income and realized and unrealized capital gains, offset by \$473 million in net cash outflows to participating pension plans and trusts.

### ECONOMIC REVIEW

Although the economy showed signs of slowing during the beginning of the fiscal year, investors and the Fed were focused on inflation. However, fiscal year 2000 represented a continuation of the robust

Figure 9

CONNECTICUT PENSION AND TRUST FUNDS TUCS Ranking (%) for Periods ending June 30, 2000				
	1 YR	3 YRS	5 YRS	10 YRS
5th	20.21	15.43	17.45	13.97
25th	12.69	14.35	16.10	13.49
50th	9.56	13.10	15.35	12.77
75th	7.63	11.59	13.56	12.23
95th	6.13	10.43	12.56	11.52
Return <sup>1</sup>	13.38	13.85	15.09	11.74
Public Funds Ranking	18	42	50	84
Total Master Trusts Ranking	26	44	60	86

Source: State Street Bank  
(1) Gross Return (net of fees)

U.S. economic growth. Gross Domestic Product (GDP) growth continued its quick pace of expansion with the fourth quarter of 1999 achieving the strongest economic growth performance (7.3%) since the first quarter of 1984. As the economy marched ahead, consumer spending continued to increase. Prices at both the producer and the consumer levels were up, in part because oil prices were higher and the labor market was tight. At the producer level, new and existing housing sales decreased due to the rising interest rates. In response to continued inflationary signs, the Federal Reserve announced an increase of 0.25% in the Federal Funds rate to 5.25% on August 24<sup>th</sup>, a second consecutive quarterly increase. Throughout the fiscal year, the Federal Open Market Committee raised the federal funds rate by 125 basis points to 6.50% on May 16<sup>th</sup>. Employment data remained strong as new jobs were added to the economy and the unemployment rate remained near its 30-year low of 4.1%.

U.S. Equity Markets closed the fiscal year on a negative note as most major indices declined during the second quarter of 2000. For the first time since the second quarter of 1999, technology and telecommunications relinquished their market leadership. Reacting to rising rates and economic slowdown, investors rotated to "defensive" sectors (reasonable valuations and consistent earnings) including healthcare stocks (steady earnings growth and attractive price multiples), utilities (healthy dividends and cheap valuations) and oil and natural gas segments (price and demand for oil remained high). Due to the overall flight to quality, small cap stocks lagged the broader indices as a consequence of their proportionally larger concentration in technology names and companies without current earnings.

U.S. Fixed Income Market suffered continued weakness during the fiscal year as yields increased. In response to continued inflationary signs, the Federal Reserve announced increases in the Federal Funds rate throughout the fiscal year. Yields continued to rise throughout the year reaching a high of 6.75% in mid-January, their highest level since June 1997, and declined steadily to finish the fiscal year at 5.90%.

International Markets made advances during the fiscal year due to the weakening dollar providing positive returns in US dollar terms however stock markets worldwide fell during the end of the fiscal year as markets anticipated the ancillary effect of a further rate increase by the U.S. Federal Reserve. The negative market sentiment was further exacerbated by the collapse of the technology, media, and telecommunications (TMT) sectors, which investors began to question in the slowing economic environment.

## PENSION FUNDS MANAGEMENT DIVISION

### Combined Investment Funds

#### Total Return Analysis (%)

Asset Class (% of Total Fund)	Fiscal Years Ending June 30,					Annualized		
	2000	1999	1998	1997	1996	3 Years	5 Years	10 Years
<b>Total Fund (100.0%)</b>								
Combined Investment Funds	13.13%	10.49%	17.19%	19.35%	14.14%	13.57%	14.81%	11.42%
S&P 500	7.30	22.74	30.21	34.56	26.12	19.65	23.79	17.80
LB Aggregate	4.56	3.13	10.54	8.16	5.01	6.03	6.25	7.82
50/50 Blend	6.22	13.22	20.26	20.90	15.17	13.09	15.02	12.92
<b>U.S. Stocks (46.0%)</b>								
Mutual Equity Fund (46.0%)	10.03	19.38	28.40	30.74	23.98	19.04	22.28	16.65
Russell 3000 Index	9.60	20.10	28.81	30.58	26.05	19.24	22.78	17.52
Russell 1000 Index	9.25	21.92	30.15	32.26	26.24	20.13	23.69	17.93
<b>International Stocks (12.5%)</b>								
International Stock Fund (12.5%)	20.13	6.77	1.52	15.67	12.58	9.20	11.14	7.62
MSCI EAFE Index (Unhedged)	17.16	7.62	6.10	12.84	13.28	10.18	11.32	7.95
MSCI EAFE Index (Hedged)	19.93	7.83	14.89	19.94	28.74	14.11	18.06	6.22
MSCI Europe Index	15.10	(0.84)	37.06	29.99	14.67	16.08	18.45	12.86
MSCI Pacific Index	21.60	32.64	(34.60)	(4.53)	11.89	1.79	2.41	2.34
<b>Real Estate (2.2%)</b>								
Real Estate Fund	9.18	9.96	25.63	10.69	0.83	14.68	10.98	1.77
Russell NCREIF(1 Qtr. Lag)	11.10	14.32	15.48	10.21	7.85	13.82	11.88	5.82
<b>U.S. Fixed Income (32.3%)</b>								
Mutual Fixed Income Fund (31.1%)	5.77	2.64	10.52	10.62	5.97	6.26	7.06	8.96
Commercial Mortgage Fund (1.2%)	8.26	6.10	17.71	9.82	6.46	10.58	9.59	8.72
LB Aggregate	4.56	3.13	10.54	8.16	5.01	6.03	6.25	7.82
Lehman Treasury	5.33	2.97	11.32	7.30	4.47	6.48	6.24	7.78
Lehman Agency	3.96	3.24	10.76	8.05	4.79	5.94	6.12	7.76
Lehman Corporate	3.02	1.90	11.39	8.79	5.11	5.35	5.98	8.18
Lehman Mortgage	5.04	4.01	8.92	9.09	5.86	5.97	6.56	7.78
Lehman Asset Backed	4.77	4.44	8.07	7.52	5.51	5.75	6.05	N/A
<b>Alternative Assets (6.0%)</b>								
Private Investment Fund (6.0%)	53.86	-0.81	18.55	5.68	43.78	21.85	21.99	13.30
Russell 3000 Index	9.60	20.10	28.81	30.58	26.05	19.24	22.78	17.52
<b>Cash (1.0%)</b>								
Cash Reserve Account (1.0%)	5.96	5.46	5.86	5.70	5.90	5.76	5.78	5.62
Consumer Price Index All Urban	3.69	1.96	1.76	2.31	2.75	2.44	2.47	2.87
Salomon Bros 3 Month T-Bills	5.31	4.71	5.23	5.26	5.44	5.08	5.19	4.93
Salomon Bros 3 Month CD	6.00	5.37	5.82	5.64	5.79	5.73	5.72	5.38
IBC	5.58	5.03	5.49	5.27	5.44	5.37	5.36	4.98



**CASH RESERVE ACCOUNT**

**Fund Facts at June 30, 2000**

**Investment Strategy/Goals:** To serve as a cash management tool for the pension and trust funds by investing in high quality, liquid money market securities.

**Performance Objective:** An annual total return in excess of the index.

**Benchmark:** IBC Index

**Date of Inception:** September 1, 1987

**Total Net Assets:** \$1,533,613,137

**Number of Advisors:** 1 external

**Management Fees:** \$297,695

**Operating Expenses:** \$164,316

**Expense Ratio:** 0.03 %

**Description of the Fund**

The Cash Reserve Account is an externally managed money-market pool investing in high-quality liquid money market securities. It serves as a cash management investment tool for the State's Pension and Trust Funds and is considered a separate asset class in the Combined Investment Funds, offering protection against inflation.

**CASH RESERVE ACCOUNT INVESTMENT ADVISOR**

**June 30, 2000**

Investment Advisor	Net Asset Value	% of Fund
State Street Global Advisors	\$1,533,613,137	100.0%
<b>TOTAL</b>	<b>\$1,533,613,137</b>	<b>100.0%</b>

The Account uses the basic strategy of buying on market weakness, that is, when interest rates rise, CRA takes advantage by investing in higher fixed yields and by extending the average maturity for the Fund. Conversely, CRA increases exposure in floating rate securities, which perform well in a declining interest rate environment. To ensure sufficient liquidity for unexpected plan withdrawals, CRA maintains adequate investments in extremely short-term assets. CRA continually analyzes potential interest rate movement and change in the shape of the yield curve to ensure the most effective short-term money management for the Pension and Trust Funds. Due to the short-term investment nature of CRA, it is considered to be low-risk. Consequently, returns realized by CRA may be lower than those realized by funds with fixed income investments maturing over a longer time horizon.

CRA's performance objective is to exceed the IBC First Tier Institutions Only Rated Money Fund Report Index, an average of rated institutional money market mutual funds that invest primarily in first-tier (securities rated A1, P1) taxable securities.

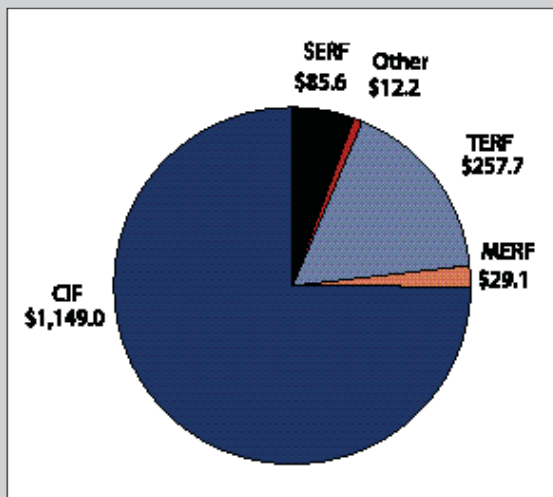
During the fiscal year, CRA assets under management grew from \$1.373 billion to \$1.534 billion, an increase of \$161 million or 12%.

**Portfolio Characteristics**

Persistent consumer demand and tight labor markets in the U.S. combined with recovering economies abroad led Federal Reserve policy makers to conduct a string of three increases of 25 basis point beginning June 30, 1999 and ending November 16, 1999. During this period, the CRA investment portfolio was shortened from 67 days on June 30, 1999 to 40 days on November 30, 1999 primarily due to an influx of cash to maintain a greater liquid position than normal throughout the last quarter of 1999 (to hedge against Y2K liquidity

**CASH RESERVE ACCOUNT**

Ownership Analysis at June 30, 2000 (\$ in millions)



CIF - Combined Investment Funds  
 TERF - Teachers' Retirement Fund  
 SERF - State Employees Retirement Fund  
 MERF - Connecticut Municipal Employees' Retirement Fund

**Performance Summary**

For the fiscal year ended June 30, 2000, the Cash Reserve Account (CRA) generated a total return of 6.0%, outperforming the benchmark IBC Index of 5.6%, by 40 basis points. The Fund's return also outperformed the 90 Day Treasury Bill (5.3%) by 70 basis points.

For the trailing three, five, and ten-year periods, CRA's compounded annual total return was 5.8%, 5.8%, and 5.6%, respectively, net of expenses. The returns exceeded those of the IBC Index for all time periods.

## PENSION FUNDS MANAGEMENT DIVISION

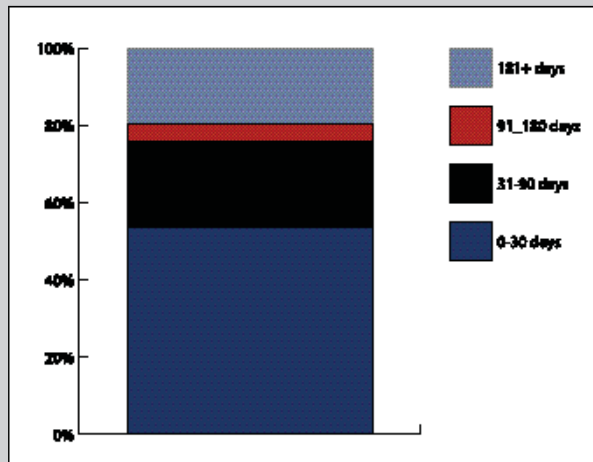
concerns). This investment decision resulted in the fund calendar year-end investment maturity of 44 days, slightly lower than IBC benchmark of 48 days. United States Y2K liquidity reserves dried up throughout the first quarter of 2000, and excessive consumer demand along with continued labor market tightness stirred fears of higher inflation with Federal Reserve governors. Prompted by changing economic data, the Federal Reserve tightened monetary policy with additional interest rate increases of 25 basis points on February 2, 2000, followed by 25 basis points on March 21, 2000, and finally 50 basis points on May 16, 2000. This fairly aggressive 100 basis point tightening in the first half of 2000, combined with the markets perception of the need for further tightening, created a very steep yield curve environment.

days (24%). The Fund's three largest security weightings included adjustable and fixed rate Asset-Backed Securities (27.5%), Certificates of Deposit (24.1%), and Commercial Paper (29.8%).

### CASH RESERVE ACCOUNT Quarterly Weighted Average Maturity

Quarter End	CRA	IBC Index
6/30/00	81 days	52 days
3/31/00	80 days	48 days
12/31/99	44 days	48 days
9/30/99	86 days	49 days
6/30/99	67 days	58 days

### CASH RESERVE ACCOUNT Security Maturity <sup>(1)</sup> Analysis at June 30, 2000



(1) Or interest rate reset period.

During this time, a favorable backdrop for fixed income securities set the tone for an aggressive posture of buying on market weakness and thereby extending CRA average investment maturity to 81 days at year-end, compared to the index benchmark of 52 days. The distribution of investments by maturity at June 30, 2000 included: overnight (16%), 2-90 days (60%), over 90

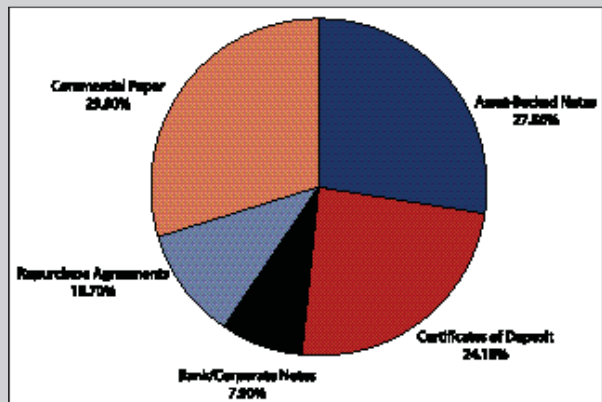
Over the last year the Fund's assets ranged from \$1.0 billion to \$1.9 billion, ending the year at \$1.5 billion. The average days to maturity ranged as short as 40 days to as long as 86 days. Due to aggressive Federal Reserve posture and market perception of higher future rates, the short-term yield remained relatively steep throughout the year. The Fund's average days to maturity were permitted to decline in anticipation of Y2K related liquidity risks, and then promptly extended during the first and second quarter of 2000. Exposure was increased in fixed and floating rate Asset Backed Securities to 27.5% on June 30, 2000 from 26.8% on June 30, 1999. This increased exposure to secured debt helps to hedge against credit risk, which generally deteriorates in a high interest rate environment. Exposure was also increased in one to three month Asset Backed Securities-Commercial Paper, which was priced from 2 basis points to 5 basis points less than the corresponding maturity of bank and finance Commercial Paper. Management continues to look for opportunities to increase the floating rate note exposure,

### CASH RESERVE ACCOUNT Distribution by Yield <sup>(1)</sup> at June 30, 2000

Yield	Percentage
5.00% - 6.00%	11.9%
6.01% - 6.75%	49.5%
6.76% - 7.25%	35.5%
7.26+%	3.1%
TOTAL	100.0%

(1) Represents yield to maturity.

### CASH RESERVE ACCOUNT Distribution by Security Type at June 30, 2000



## PENSION FUNDS MANAGEMENT DIVISION

using standard money market indices such as one month LIBOR, three month LIBOR, prime and Federal Reserve funds, which will perform well in a rising interest rate environment.

### Risk Profile

Due to the short-term nature of CRA, it is generally considered to be low-risk. Consequently, returns realized by CRA may be significantly lower than those realized by funds with fixed income investments maturing over a longer time horizon. Similarly, the investments' short time horizon, along with the quality of the issuing entities, mitigates traditional concerns over interest rate, default and currency exchange risk.

Based on returns over the last five years, the Fund exhibited a higher degree of risk relative to the IBC Index, as evidenced by its relative volatility of 1.00. Its standard deviation of .14 suggests comparatively low overall volatility, while its beta of .94 indicates a high overall correlation to returns achieved by the Index. The R<sup>2</sup> of .81 indicates a moderate correlation to returns achieved by the Index. In the aggregate, CRA achieved a positive annual alpha, or return in excess of that predicted by returns of its benchmark of .48.

### CASH RESERVE ACCOUNT Quarterly Yield <sup>(1)</sup> Analysis

Quarter End	CRA	IBC Index
6/30/00	6.59%	5.86%
3/31/00	6.26%	5.26%
12/31/99	5.85%	5.08%
9/30/99	5.44%	4.69%
6/30/99	5.16%	4.78%

*(1) An annualized historical yield based on the preceding month's level of income earned by the Fund.*

### CASH RESERVE ACCOUNT Periods ending June 30, 2000

	1 YR	3 YRS	5 YRS	10 YRS
<b>Compounded, Annual Total Return (%)</b>				
CRA	5.96	5.76	5.78	5.62
IBC	5.58	5.37	5.36	4.98
CPI-Urban	3.69	2.44	2.47	2.87
Salomon 3 Month CD	6.00	5.73	5.72	5.38
Salomon 3 Month T-Bill	5.31	5.08	5.19	4.93
<b>Cumulative Total Return (%)</b>				
CRA	5.96	18.30	32.44	72.71
IBC	5.58	16.98	29.85	62.54
CPI-Urban	3.69	7.50	13.00	32.67
Salomon 3 Month CD	6.00	18.18	32.08	68.94
Salomon 3 Month T-Bill	5.31	16.03	28.77	61.80

### CASH RESERVE ACCOUNT Comprehensive Profile

Date	Number of Issues	Yield <sup>(1)</sup>	Average Maturity	Average Quality
2000	109	5.96%	81 days	A-1+/AA+
1999	102	5.46%	67 days	A-1+/AA+
1998	81	5.86%	60 days	A-1+/AA+
1997	53	5.70%	71 days	A-1+/AA+
1996	46	5.90%	50 days	A-1+/AA
1995	48	5.83%	32 days	TBW-1/AAA

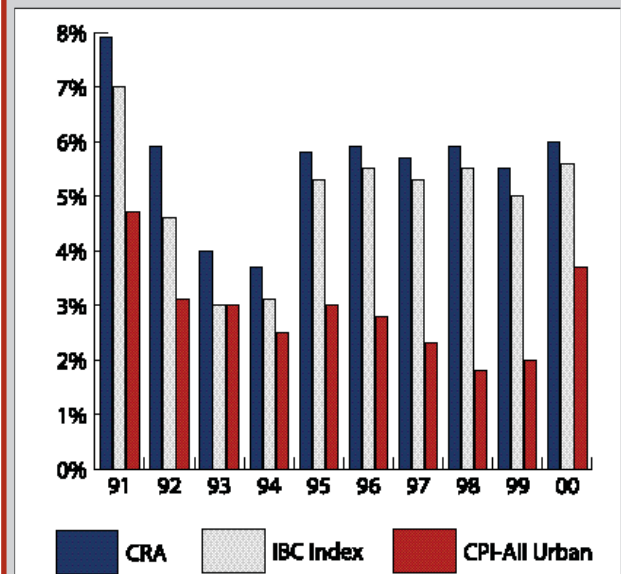
*(1) Represents annual total return of the Fund for the year ended June 30.*

### CASH RESERVE ACCOUNT <sup>(1)</sup> Risk Profile at June 30, 2000

Relative Volatility	1.00
Standard Deviation	0.14
R <sup>2</sup>	0.81
Beta	0.94
Alpha	0.48

*(1) Based upon returns over the last five years.*

### CASH RESERVE ACCOUNT Annual Total Return



*(1) Represents annual total return of the Fund for year ended June 30.*

## PENSION FUNDS MANAGEMENT DIVISION

### MUTUAL EQUITY FUND

#### Fund Facts at June 30, 2000

**Investment Strategy/Goals:** To participate in the growth of the U.S. economy through the ownership of domestic equity securities.

**Performance Objective:** An annual total return which is one percentage point greater than that of the Russell 3000 after expenses.

**Benchmark:** Russell 3000 Index

**Date of Inception:** July 1, 1972  
**Total Net Assets:** \$8,852,556,642  
**Number of Advisors:** 10 external  
**Management Fees:** \$19,427,107  
**Operating Expenses <sup>(1)</sup>:** \$766,095  
**Expense Ratio <sup>(1)</sup>:** 0.22 %  
**Turnover:** 56.2 %

(1) Excludes securities lending fees and rebates.

### Performance Summary

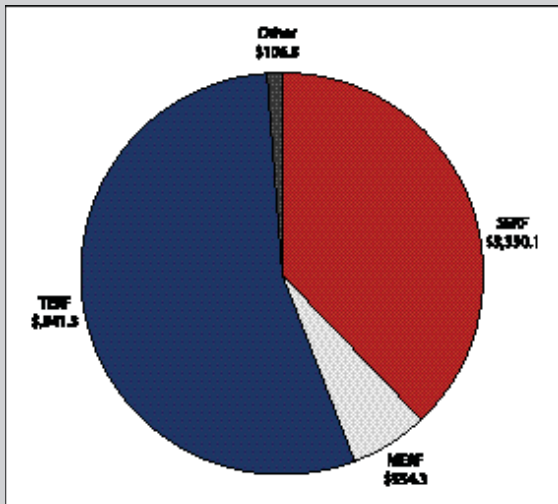
For the fiscal year ended June 30, 2000, the Mutual Equity Fund (MEF) generated a total return of 10.0%, net of fees, outperforming the benchmark Russell 3000 index (9.6%) by 43 basis points. The Fund's superior performance was driven primarily by advantageous stock selection by the managers during the year.

During this same period, MEF's net assets declined from \$9.124 billion to approximately \$8.853 billion, a decrease of \$0.271 billion. Of this net total change, approximately \$0.825 billion was added due to net investment income including realized and unrealized capital gains, while \$1.096 billion was subtracted due to net cash outflows to participating pension plans and trusts.

While volatility in investment returns is expected in the short-term, the Fund's long-term performance is most important. As the table below illustrates, MEF has generated compounded annual total returns, net of all expenses, of 19.0%, 22.3%, and 16.7% over the last three, five, and ten-year periods, respectively. However, while investment performance has been impressive, the returns under-performed the Russell 3000 for the same time periods by 20, 50, and 87 basis points, respectively.

### MUTUAL EQUITY FUND

#### Ownership Analysis at June 30, 2000 (\$ in millions)



TERF - Teachers' Retirement Fund  
 SERF - State Employees Retirement Fund  
 MERF - Connecticut Municipal Employees' Retirement Fund

### MUTUAL EQUITY FUND

#### Periods ending June 30, 2000

	1 YR	3 YRS	5 YRS	10 YRS
Compounded, Annual Total Return (%)				
MEF	10.03	19.04	22.28	16.65
Russell 3000	9.60	19.24	22.78	17.52
Cumulative Total Return (%)				
MEF	10.03	68.66	173.41	366.46
Russell 3000	9.60	69.55	179.00	402.55

The MEF's cumulative total returns for the three, five, and ten year periods ending June 30, 2000, were 68.7%, 173.4%, and 366.5%, respectively.

### Description of the Fund

The Mutual Equity Fund (MEF) is an externally managed fund investing in domestic equity securities. It serves as an investment vehicle for the Pension and Trust Funds with the goal of earning prudent returns while participating in the growth of the U.S. economy.

MEF's performance objective is an annual total return, net of management fees and Division operating expenses, which exceeds that of the Russell 3000 Index by 100 basis points per annum. The Russell 3000 Index



## PENSION FUNDS MANAGEMENT DIVISION

is a broad stock market index of the securities from the largest 3,000 publicly traded U.S. companies.

At the close of the fiscal year, MEF consisted of 10 externally managed equity portfolios structured to approximate the composition of the Russell 3000 Index. Five advisors actively managed approximately 15% of the portfolio in small to mid-capitalization stocks. Two advisors invested a total of 7% of the portfolio in small to mid-capitalization stocks using an enhanced indexing strategy. Three advisors in large capitalization stocks (of which 53% was invested using enhanced indexing strategies and 25% was invested using a passive strategy) managed the balance of the portfolio, or approximately 78%. At fiscal year end, approximately \$7.5 billion, or 86%, of the Fund's net assets were invested in indexed or enhanced index portfolios.

### MUTUAL EQUITY FUND INVESTMENT ADVISORS

June 30, 2000

Investment Advisor	Net Asset Value	% of Fund
<b>Large Cap</b>	<b>\$6,849,223,561</b>	<b>77.4%</b>
<b>(Enhanced/Risk Controlled)</b>		
J.P. Morgan Investment Management, Inc.	2,476,874,063	28.0
BGI Barclays Global Investors, N.A.	2,199,400,548	24.8
<b>(Index Passive)</b>		
State Street Global Advisors	2,172,948,950	24.6
<b>Small/Mid Cap</b>	<b>\$1,351,525,119</b>	<b>15.3%</b>
<b>(Active Management)</b>		
Brown Capital Management, Inc.	357,587,492	4.0
ValueQuest Ltd.	237,476,167	2.7
Cowen Asset Management	225,115,171	2.6
Dresdner RCM Global Investors LLC	360,683,506	4.1
Alliance Capital	170,662,783	1.9
<b>Small/Mid Cap</b>	<b>\$ 648,189,749</b>	<b>7.3%</b>
<b>(Enhanced/Risk Controlled)</b>		
The Travelers Investment Management Co.	329,488,679	3.7
AXA Rosenberg Investment Management	318,701,070	3.6
<b>Other (1)</b>	<b>\$ 3,618,213</b>	<b>0.0%</b>

(1) Other represents funds earmarked for distribution to participants, reinvestment, and expenses.

### Portfolio Characteristics

At fiscal year-end, MEF was 99.3% invested, primarily in domestic stocks, reflecting the Fund's policy that it be fully invested. The largest industry weighting at June 30, 2000 was technology (33.2%), followed by financials (14.5%) and health care (11.3%).

The MEF's ten largest holdings, aggregating to 21.4% of Fund investments, included a variety of blue chip companies.

Company	Industry	Market Value	%
General Electric	Technology	\$309,429,900	3.5
Intel	Technology	280,837,331	3.2
Cisco Systems	Technology	275,238,338	3.1
Microsoft	Technology	249,056,000	2.8
Nortel Networks	Technology	158,770,248	1.8
Wal Mart Stores	Consumer Non-Durables	150,072,788	1.7
Citigroup	Finance	140,677,424	1.6
Oracle	Technology	112,557,502	1.3
Exxon Mobil	Energy	111,964,864	1.3
Sun Microsystems	Technology	110,170,781	1.2
<b>TOTAL</b>		<b>\$1,898,775,175</b>	<b>21.4%</b>

### Risk Profile

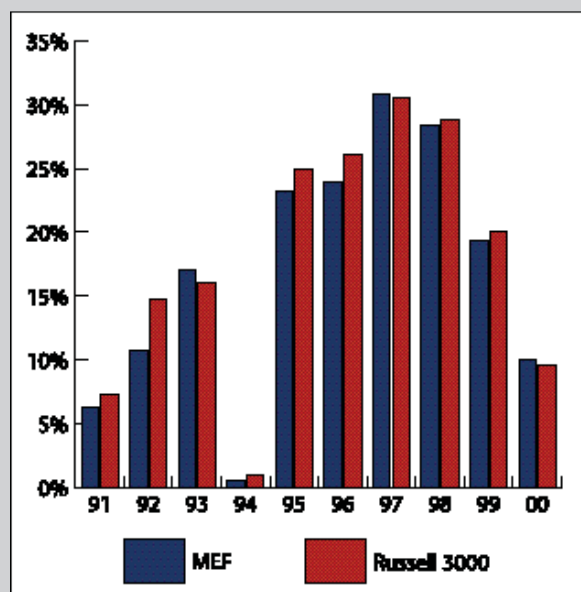
Based on returns over the last five years, the Fund has exhibited a similar degree of risk as that of its benchmark, the Russell 3000 Index. With a realized tracking error of 1.2%, the MEF's returns have almost equal volatility to those of the Index and reflect a strong degree of correlation, 0.99, to those of the Index. However, MEF's annual alpha during the period, or return relative to that achieved by the benchmark, was a negative 0.27.

#### MUTUAL EQUITY FUND (1) Risk Profile at June 30, 2000

Relative Volatility	1.00
Standard Deviation	14.83
R <sup>2</sup>	0.99
Beta	0.99
Alpha	-0.27

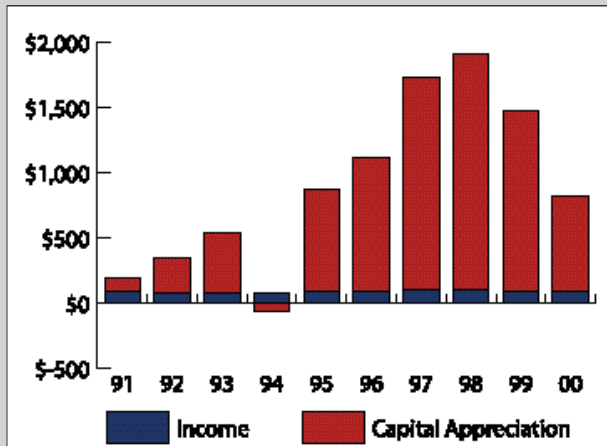
(1) Based upon returns over the last five years.

#### MUTUAL EQUITY FUND Annual Total Return



CHARTS PROVIDED FOR ILLUSTRATION OF FINANCIAL INFORMATION.

**MUTUAL EQUITY FUND**  
Components of Total Return (\$ in Millions)



**MUTUAL EQUITY FUND**  
Fiscal 2000 Industrial Sector vs. Index (%)  
Based on Investments in Securities, at Value <sup>(1)</sup>

	MEF Percent of Net Assets <u>6/30/00</u>	Russell 3000 Percent of Net Assets <u>6/30/00</u>
Banks	6.0	6.9
Business Services	6.5	7.0
Capital Goods	5.8	5.5
Consumer Durables	1.9	2.0
Consumer Non-Durables	4.6	5.0
Consumer Services	4.4	5.5
Energy	5.4	4.2
Financial Services	6.4	6.8
Health Care	9.2	9.6
Multi-Industry	0.1	0.1
Raw Materials	3.8	2.7
Retail	5.2	4.9
Technology	31.2	30.7
Transportation	0.8	0.7
Utilities	<u>8.3</u>	<u>8.8</u>
	100.0	100.0

<sup>(1)</sup> Excludes the Cash Reserve Account.

<sup>(2)</sup> Sector Breakdown changed during fiscal 2000 and prior fiscal data not available.

**MUTUAL EQUITY FUND**  
Comprehensive Profile for Fiscal Years Ending June 30,

	2000		1999		1998		1997		1996	
	MEF	Russell	MEF	Russell	MEF	Russell	MEF	Russell	MEF	Russell
Number of Issues	2,325	3,000	2,370	3,000	1,568	3,000	2,397	3,000	1,498	3,000
Cap (\$ Bil)	\$118.2	\$121.3	\$85.4	\$86.6	\$54.0	\$56.0	\$37.4	\$39.5	\$25.4	\$26.7
P/E	26.8x	30.2x	31.4x	32.9x	28.3x	26.9x	23.2x	22.3x	20.2x	18.4x
Div Yield	1.10%	1.10%	1.20%	1.20%	1.30%	1.30%	1.50%	1.60%	1.89%	2.00%
ROE	19.4%	20.5%	20.2%	20.4%	20.2%	20.6%	19.4%	20.0%	20.2%	18.7%
P/B	9.8x	10.7x	7.5x	7.8x	7.6x	7.9x	5.9x	5.9x	5.00x	3.03x
Cash & Equivalents	0.9%	0.0%	1.1%	0.0%	1.4%	0.0%	2.16%	0.0%	2.1%	0.0%

**INTERNATIONAL STOCK FUND**

**Fund Facts at June 30, 2000**

**Investment Strategy/Goals:** To participate in the growth of the global economy through the ownership of foreign equity securities.

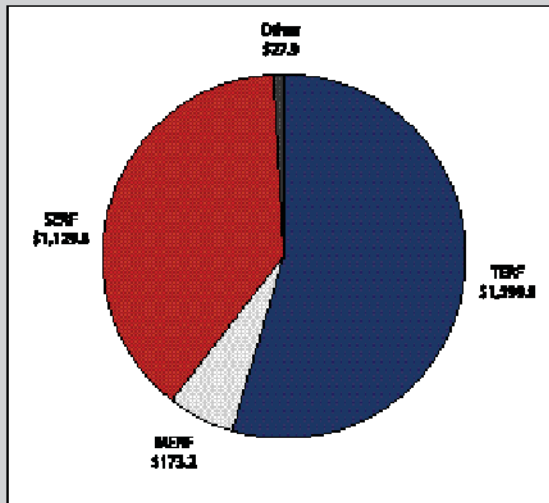
**Performance Objective:** An annual total return which is one percentage point greater than the MSCI- EAFE index after expenses.

**Benchmark:** Morgan Stanley Europe Australasia Far East Index (MSCI-EAFE).

<b>Date of Inception:</b>	January 1, 1988
<b>Total Net Assets:</b>	\$2,929,966,291
<b>Number of Advisors:</b>	6 external
<b>Management Fees:</b>	\$8,736,651
<b>Operating Expenses <sup>(1)</sup>:</b>	\$933,072
<b>Expense Ratio <sup>(1)</sup>:</b>	0.36%
<b>Turnover:</b>	61.30%

(1) Excludes securities lending fees and rebates.

**INTERNATIONAL STOCK FUND**  
Ownership Analysis at June 30, 2000 (\$ in millions)



TERF - Teachers' Retirement Fund  
SERF - State Employees Retirement Fund  
MERF - Connecticut Municipal Employees' Retirement Fund

**Performance Summary**

For the fiscal year ended June 30, 2000, the International Stock Fund (ISF) generated a total return of 20.1%, net of fees, but under-performed the hybrid benchmark index (20.7%) by 54 basis points. The principal reason for the Fund's below-benchmark performance was the relative weakness of several of the program's active managers.

During fiscal year 2000, ISF increased from \$2.469 billion to approximately \$2.930 billion. This included net investment income of \$35 million and realized and unrealized net capital gains of \$460 million, which was partially offset by \$34 million due to net cash outflows to participating pension plans and trusts.

The Fund has under-performed relative to its benchmark over the last three, five and ten year periods, as illustrated below. For the trailing ten-year period, ISF's compounded annual total return fell short of the hybrid index by 66 basis points, and was behind the Morgan Stanley Capital International Europe, Australasia, Far East Index (MSCI-EAFE) by 33 basis points over the same time period. The three and five-year results lagged those of the index due primarily to the Fund's significant underperformance in 1998.

For an additional perspective on long-term performance, (see below), which shows that ISF's cumulative total return over the three, five and ten-year periods ending June 30, 2000 was 30.2%, 69.6%, and 108.4%, respectively.

**INTERNATIONAL STOCK FUND**  
**Periods ending June 30, 2000**

	1 YR	3 YRS	5 YRS	10 YRS
Compounded, Annual Total Return (%)				
ISF	20.13	9.20	11.14	7.62
MSCI-EAFE	17.16	10.18	11.32	7.95
Cumulative Total Return (%)				
ISF	20.13	30.21	69.59	108.41
MSCI-EAFE	17.16	33.77	70.99	114.99

**Description of the Fund**

The International Stock Fund is an externally managed fund which invests in foreign equity securities. It serves as an investment tool for the Pension and Trust Funds, with the goal of participating in the growth of international economies. It is used to reduce short-term volatility in the Pension and Trust Funds returns by providing an additional layer of asset and currency diversification. In environments where the value of the U.S. dollar is declining relative to other currencies, international stocks are expected to enhance total Pension and Trust Funds returns.

## PENSION FUNDS MANAGEMENT DIVISION

Established in 1988, ISF's performance objective was an annual total return, net of management fees and Division operating expenses, which exceeds that of the MSCI EAFE index, a measure of the returns of developed, non-U.S. stock markets, by 100 basis points. During the structure review in fiscal year 2000, the objective was changed to reflect the Fund's strategic exposure to emerging markets, as well as an exposure to stocks of smaller companies in the developed markets. The new objective is for the net of fees return of the Fund to exceed the return of a hybrid index comprising 83% of the MSCI EAFE Extended (50% Hedged) and 17% of the Morgan Stanley Capital International Emerging Market Free Index (MSCI EMF) by 100 basis points.

Continuing implementation of the Asset Allocation Plan for the Connecticut Retirement Plans and Trust Funds (CRPTF).

### Portfolio Composition

At fiscal year-end, ISF was 97.6% invested in international securities. Japanese equity securities continued to be the largest percentage of Fund assets, at 16.9%. The United Kingdom accounted for 14.8% and German securities, 10.6% of investments. The Fund's allocation to non-EAFE countries, including the emerging markets, stood at 15.2% of investment in securities at the end of fiscal year 2000. These geographic concentrations differed from those comprising the EAFE index, reflecting the Fund's allocation to active management strategies.

### INTERNATIONAL STOCK FUND INVESTMENT ADVISORS

June 30, 2000

Investment Advisor	Net Asset Value	% of Fund
<b>Portfolio benchmark countries (Core Management)</b>	<b>\$1,767,005,941</b>	<b>60.4%</b>
Morgan Stanley Asset Management (Active Management)	726,141,347	24.8
Grantham, Mayo, Van Otterloo & Co.	594,587,545	20.3
Smith Barney Capital Management (Enhanced Risk Controlled)	248,201,259	8.5
DSI International Management	198,075,790	6.8
<b>European (MSCI-EAFE) (Index Passive)</b>	<b>\$ 680,963,252</b>	<b>23.2%</b>
State Street Global Advisors	680,963,252	23.2
<b>Emerging Markets (Active Management)</b>	<b>\$ 468,627,576</b>	<b>16.0%</b>
Morgan Stanley Asset Management	293,534,365	10.0
Pictet International Management	175,093,211	6.0
<b>Other <sup>(1)</sup></b>	<b>\$ 13,369,522</b>	<b>0.4%</b>

(1) Other represents funds earmarked for distribution to participants, reinvestment, and expenses.

At the end of fiscal year 2000, the Fund had six external advisors, selected on the basis of expected future performance and investment style: One advisor managed both an emerging market and a core portfolio. Based on the Fund's holdings as of June 30, 2000, approximately 60% of the portfolio was managed by four advisors in countries comprising the Fund's benchmark, 16% was actively managed by two advisors within the emerging markets, and 23% was allocated to one advisor for passive management against the European portion of the MSCI EAFE Index.

Near the end of the fiscal year, the Office of the Treasurer issued a Request For Proposal (RFP) for Fund managers, as part of its con-

### INTERNATIONAL STOCK FUND Comprehensive Profile at June 30, 2000

	ISF	EAFE
Number of Issues	2,507	953
European Allocation (%)	57.7	67.3
Pacific Allocation (%)	22.9	32.7
Other (%)	19.4	0.0
Annual Total Return (%)	20.13	17.16

- (1) Represents securities for which the Macaulay Duration could not be calculated.  
 (2) Represents funds invested in the Cash Reserve Account.

The ISF was well diversified at year-end, holding more than 2,507 securities in the portfolio. The ISF's ten largest holdings, not including cash, included a variety of companies located throughout Europe and the Far East. The Fund's largest investment, comprising 1.5% of investment securities, was Deutsche Telekom of Germany.

In the aggregate, these ten holdings accounted for 10.0% of the Fund's investments at June 30, 2000.

Company	Country	Net Asset Value	% of Fund
Deutsche Telekom NPV(REGD)	Germany	\$ 43,357,515	1.5
Vodafone Airtouch Ord USDO.10	United Kingdom	42,703,702	1.5
Total Fina ELF Eur10	France	32,116,921	1.1
Telefonica CA EUR 1	Spain	31,403,008	1.1
Nokia AB OY Euro 0.06	Japan	31,069,042	1.1
Telecom Italia SPA ITL 1000	Italy	23,256,718	0.8
BP Amoco Ord USDO.25	United Kingdom	22,614,333	0.8
Aventis SA EUR 3.82	France	22,194,904	0.7
Samsung Electronics KRW 5000	Korea	21,939,350	0.7
Canon Inc. JPY50	Japan	21,908,195	0.7
<b>TOTAL</b>		<b>\$ 292,563,686</b>	<b>10.0%</b>

## PENSION FUNDS MANAGEMENT DIVISION

### INTERNATIONAL STOCK FUND

Diversification by Benchmark Country with Return (%) at June 30, 2000 <sup>(1)</sup>

	ISF			EAFE INDEX		
	% of Net Assets 6/30/99	% of Net Assets 6/30/00	Total Return	% of Net Assets 6/30/99	% of Net Assets 6/30/00	Total Return
Japan	15.8	16.9	30.9	24.0	26.8	26.6
United Kingdom	12.9	14.8	5.9	22.1	19.5	-3.3
Germany	10.5	10.6	11.7	9.8	8.6	16.0
France	9.2	8.8	35.5	9.7	11.4	35.5
Italy	6.5	5.9	25.8	4.4	4.4	19.2
Switzerland	3.7	3.0	18.6	6.8	5.8	6.3
Netherlands	3.4	3.2	12.1	5.7	5.4	15.7
Spain	3.3	3.4	9.1	3.0	2.7	5.1
Hong Kong	2.4	3.0	20.8	2.5	2.1	5.5
Sweden	1.8	2.2	28.7	2.3	3.3	64.9
Australia	1.7	1.7	2.5	2.9	2.7	3.1
Finland	1.6	1.3	73.5	1.9	3.1	101.1
Belgium	1.2	1.1	-8.5	1.3	0.8	-10.7
Singapore	1.1	0.8	0.6	1.0	1.0	-3.9
Denmark	0.9	0.5	20.6	0.8	0.8	27.3
Ireland	0.8	0.5	-19.4	0.4	0.4	-19.0
Norway	0.8	1.3	13.2	0.4	0.4	17.6
Malaysia	0.7	0.9	17.2	0.0	0.0	26.4
Austria	0.5	0.6	-13.2	0.3	0.2	-12.8
New Zealand	0.5	0.5	-11.1	0.2	0.1	-12.2
Portugal	0.5	0.5	9.5	0.5	0.5	9.0
Other	20.2	18.5		0.0	0.0	
Total	100.0	100.0		100.0	100.0	

*(1) Includes Cash Reserve Account and cash equivalents at each country level.*

### Risk Profile

Given ISF's investment policies and objectives, the Fund is exposed to several forms of risk. These include, but are not limited to, political and economic risk, currency exchange risk, market risk, and individual company risk. Effective February 1, 1998, the three developed market managers were given 100% hedged benchmarks, and the benchmark for the three core managers was changed to a 100% hedged benchmark from an unhedged benchmark. This was the result of an analysis which determined that although the historical long-term effects of currency returns sum to zero, the short-term effects could be dramatic given the market volatility. As part of the implementation of the current Asset Allocation Plan, it was decided that the most efficient and cost effective method of mitigating this short-term volatil-

ity was to change the benchmark to a completely hedged one.

The Treasurer determined that 100% hedging may reduce some of the potential short-term benefits of currency movements as well as increase the risk of the international investments, and that a 50% hedge ratio would provide the greatest reduction in portfolio risk over time. It has also been decided to implement the currency hedging strategy by hiring a dedicated currency overlay manager, who would ensure that the Fund's foreign currency exposure is always 50% hedged. The outstanding RFP includes this currency mandate, and once all of the new managers are in place, hedging will not be part of any of the equity managers' mandates.

Based on returns over the last five years, the Fund's risk profile is similar to that of the MSCI-EAFE index. The Fund's active risk relative to its benchmark over the five-year period ending June 30, 2000 has been 1.05%, while its high R<sup>2</sup> of 0.83 demonstrates a relatively strong overall correlation. In the aggregate, ISF's annual alpha over the five-year period, or return in excess of that predicted by the benchmark, was 0.27.

#### INTERNATIONAL STOCK FUND <sup>(1)</sup> Risk Profile at June 30, 2000

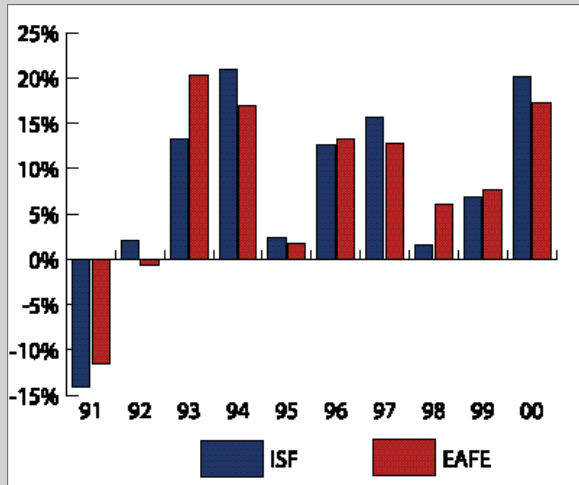
Relative Volatility	1.05
Standard Deviation	15.10
R <sup>2</sup>	0.83
Beta	0.96
Alpha	0.27

*(1) Based upon returns over the last five years.*

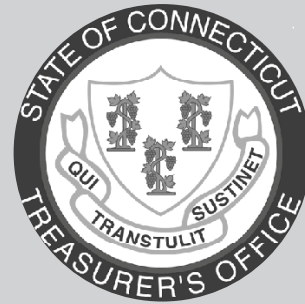
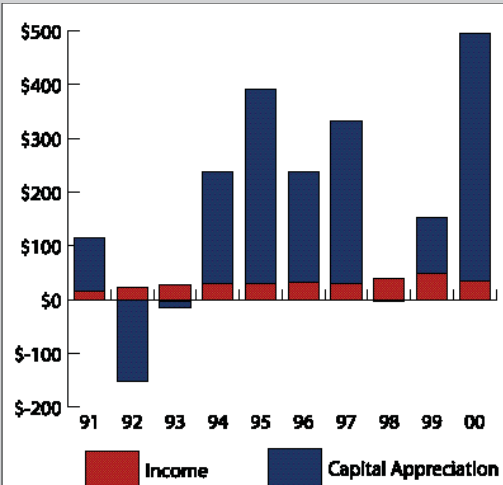


# PENSION FUNDS MANAGEMENT DIVISION

## INTERNATIONAL STOCK FUND Annual Total Return



## INTERNATIONAL STOCK FUND Components of Total Return (\$ in Millions)



## PENSION FUNDS MANAGEMENT DIVISION

### REAL ESTATE FUND

#### Fund Facts at June 30, 2000

**Investment Strategy/Goals:** To hedge against inflation, reduce volatility of returns, and provide a long-term rate of return similar to equity investments by investing in equity commercial real estate.

**Performance Objective:** An annual total return which is one percentage point greater than the index.

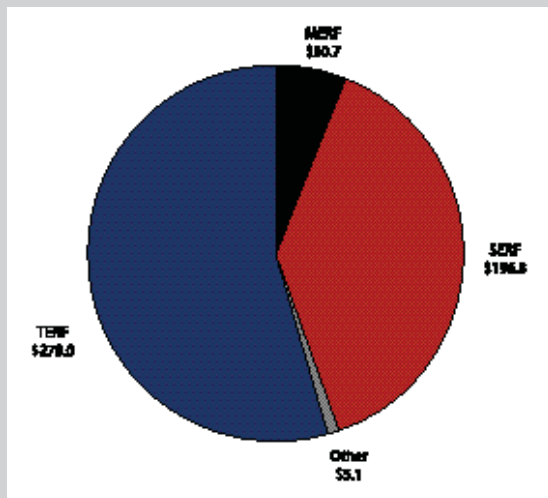
**Benchmark:** National Council of Real Estate Investment Fiduciaries Index (NCREIF) 1 quarter lag.

**Date of Inception:** July 1, 1982  
**Total Net Assets:** \$510,123,003  
**Number of Advisors:** 7 external  
**Management Fees <sup>(1)</sup>:** \$3,741,055  
**Operating Expenses:** \$116,227  
**Expense Ratio:** 0.17 %

(1) See Note 1 to the Financial Statements for a discussion of similar fees incurred at the investment level.

### REAL ESTATE FUND

#### Ownership Analysis at June 30, 2000 (\$ in millions)



TERF - Teachers' Retirement Fund  
 SERF - State Employees Retirement Fund  
 MERF - Connecticut Municipal Employees' Retirement Fund

### Performance Summary

For the fiscal year ended June 30, 2000, the Real Estate Fund (REF) generated a total return of 9.2%, but fell short of the National Council of Real Estate Investment Fiduciaries Index (NCREIF), (11.1%), by 192 basis points. This underperformance

is primarily attributable to the "J curve" effect of the four opportunity fund investments. Such funds were recently invested in and are at a point where significant investment returns are just beginning to be evident. These returns are not yet enough to overcome the negative impact of fees and other investment expenses incurred to date.

During the fiscal year, the value of REF's portfolio grew from \$428 million to \$510 million, an increase of \$82 million. The increase was primarily due to net funds generated by operations in the amount of \$42 million and the net funding of commitments to existing investment funds totaling \$72 million. These were offset by the net distributions to participating pension plans of \$32 million.

For the trailing three, five, and ten-year periods, REF's compounded annual total return was 14.7%, 11.0%, and 1.8%, respectively, net of all expenses. For the three-year period, the REF return exceeded the NCREIF index by 86 basis points. The REF returns significantly under performed the benchmark in each of the other corresponding time periods. Principal reasons for this underperformance include adverse asset selection and asset sales in a weak domestic real estate market in the early and mid 1990's. Management fees, operating expenses and significant write-downs taken in the mid 1990's have also contributed to the Fund's below-benchmark performance.

### REAL ESTATE FUND

#### Periods ending June 30, 2000

	1 YR	3 YRS	5 YRS	10 YRS
Compounded, Annual Total Return (%)				
REF	9.18	14.68	10.98	1.77
NCREIF Property	11.10	13.82	11.88	5.82
Cumulative Total Return (%)				
REF	9.18	50.83	68.33	19.15
NCREIF Property	11.10	47.45	75.29	76.04

### Description of the Fund

The Real Estate Fund is an externally managed fund which invests in real estate properties and mortgages. It serves as a long-term investment tool for the pension funds and is designed to dampen volatility of overall returns through diversification and to provide long-term rates of return similar to the Mutual Equity Fund. Over the short-term, REF is expected to provide a real rate of return above the rate of inflation during most economic conditions. In periods of rising inflation, REF is expected to add substantially to the performance of the pension funds.

## PENSION FUNDS MANAGEMENT DIVISION

REF's performance objective is an annual total return, net of management fees and operating expenses, which exceeds that of the NCREIF index by 100 basis points, or one percentage point, per annum.

### REAL ESTATE FUND INVESTMENT ADVISORS

June 30, 2000

Investment Advisor	Net Asset Value	% of Fund
AEW Capital Management, LP	201,312,626	39.5
Apollo Real Estate	85,823,060	16.8
Walton Street Real Estate Fund II, LP	69,677,100	13.7
Westport Senior Living	46,291,546	9.1
Tishman	45,789,637	9.0
Wachovia Bank of Georgia, N.A.	15,477,072	3.0
TimeSquare Realty Investors	14,595,292	2.9
Other (1)	31,156,670	6.0

(1) Other represents funds earmarked for distribution to participants, reinvestment, and expenses.

### Portfolio Activity

The Connecticut Pension and Trust Fund (CRPTF) continues to maintain an investment strategy, which focuses on investing with strong real estate operators who offer significant co-investment opportunities. In addition, staff has overseen the successful disposition of many of the portfolio assets as REF continues the transition from older single-asset real estate investments.

### REAL ESTATE FUND Investment Analysis <sup>(1)</sup>

At	No. of REF Investments	REF Book Value	REF Market Value
6/30/00	11	434,881,420	478,966,334
6/30/99	14	395,221,763	380,769,286
6/30/98	20	407,989,996	379,124,673
6/30/97	24	540,133,490	475,213,540
6/30/96	41	1,111,459,897	924,414,185
6/30/95	51	1,185,277,530	1,055,418,296
6/30/94	46	1,362,061,563	1,031,355,740
6/30/93	46	1,325,161,790	993,261,272

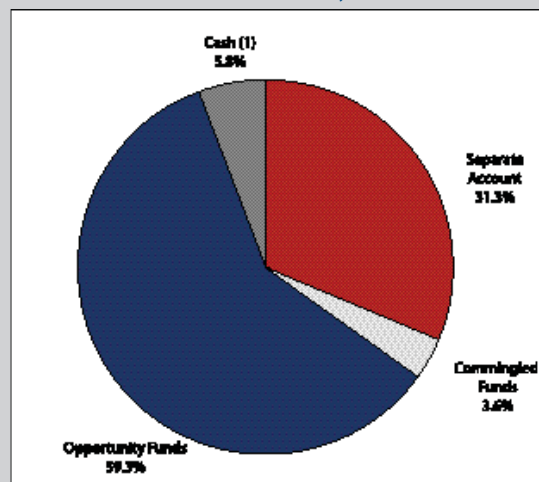
(1) Number of investments in annuities, partnerships, corporations, and trusts, excluding the Cash Reserve Account.

During the fiscal year, the REF pursued new real estate investment opportunities by funding existing commitments to commingled funds. The major focus of these funds is opportunistic investing with private operators and owners. During the fiscal year, REF funded \$97 million associated with four commitments to such funds, totaling \$350 million, leaving an unfunded balance of \$70 million. The Fund achieved asset reductions through the sales of separate account real estate investments. Two such positions were sold for net

sales proceeds of approximately \$60 million. Another investment, a commingled fund, made its final disposition of funds. REF continues to position the remaining single-asset investments for sale. The focus during this process is on maximizing returns.

### REAL ESTATE FUND

Distribution by Investment Type at June 30, 2000  
Based on Investments in Securities, at Fair Value



(1) Cash Reserve Account.

The portfolio has benefited from both healthy real estate markets and consistently strong investor interest in this asset class. Market value increases were recognized on many investments.

During the reporting period, real estate property market conditions paralleled the favorable conditions in the overall economy, with moderate new construction and solid demand growth across most markets. Risk relative to the overall health of the property markets still appears to lie more on the demand side than on the supply side.

Looking ahead, demand appears to be moderating. In fact, new supply is starting to outpace demand in most sectors. Accordingly, it appears vacancies will rise. The extent to which this trend impacts property values is dependent on the economy's reaction to a new and somewhat unsettled financial environment. Interest rates and fuel prices are up and the labor market is tight. These circumstances could adversely impact continued economic growth. Significant negative impacts to the economy as a result of these factors would prove detrimental to returns.



## PENSION FUNDS MANAGEMENT DIVISION

### Portfolio Characteristics

Real estate investment is a complex and intensive asset management process. REF's investments are restricted by policy to the purchase of shares in group annuities, limited partnerships, group trusts, corporations, and other indirect ownership structures managed by professional commercial real estate investment firms. At June 30, 2000, the portfolio consisted of 11 externally managed portfolios, with 22% of the Fund's net assets invested in real estate separate accounts, 13% invested in commingled funds, 59% invested in opportunity funds and 6% invested in cash and other net assets.

The Funds ten largest holdings, aggregating 93.6% of REF investments, include:

Property Name	Location	Property Type	\$	%
AEW Partners III	Various	Various	\$100,784,007	19.8
Apollo RE Fund III	Various	Various	85,823,060	16.8
Walton St. RE II LP	Various	Various	69,677,100	13.7
Connecticut Storage Fund	Various	Storage Facilities	48,750,000	9.5
Westport Senior Living	Various	Senior Living	46,291,546	9.1
Goodwin Square	Hartford, CT	Mixed Use	45,789,637	9.0
Union Station	Washington, DC	Mixed Use	33,653,322	6.6
AEW 221 Trust	Various	Various	18,125,297	3.5
Worcester Center	Worcester, MA	Mixed Use	14,595,292	2.9
Wachovia Timber Fund	Various	Timber	13,887,577	2.7
<b>TOTAL</b>			<b>\$477,376,838</b>	<b>93.6%</b>

As currently structured, office properties constitute the single largest component of REF's portfolio at 22% with industrial 18%, retail 11%, apartments 14%, and hotel 16% comprising 81% of the Fund. The "other"

### REAL ESTATE FUND

#### Diversification by Property Type vs. Index at June 30, 2000 Based on Investments in Securities, at Fair Value

	REF	NCREIF	Variance
Apartment	13.7%	17.8%	-4.1%
Industrial	17.5	16.4	1.1
Office	22.0	41.2	-19.2
Retail	11.4	23.2	-11.8
Hotel	16.2	1.4	14.9
Cash and Other Assets <sup>(1)</sup>	19.2	0.0	19.2
	100.0%	100.0%	

(1) Other includes mixed use, land, timberland, public storage, and cash and other assets.

category, 19% of net assets, includes mixed-use, land, timberland and storage facilities.

The portfolio is reasonably well diversified geographically with 34% of its assets invested in the East, 17% in the West, 16% in the South, and 12% in the Midwest. The remaining 21% comprise "other" and in-

### REAL ESTATE FUND

#### Distribution by Geographic Location at June 30, 2000 Based on Investments in Securities, at Fair Value

	REF	NCREIF	Variance
Northeast	26.0%	14.4%	11.6%
Mideast	11.3%	12.8%	-1.5%
East North Central	4.5%	12.4%	-7.9%
West North Central	0.9%	4.2%	-3.3%
Southeast	14.5%	12.5%	2.0%
Southwest	6.9%	10.4%	-3.5%
Pacific	13.9%	25.2%	-11.3%
Mountain	1.2%	8.1%	-6.9%
Other Assets <sup>(1)</sup>	14.7%	0.0%	14.7%
Cash <sup>(2)</sup>	6.1%	0.0%	6.1%
	100.0%	100.0%	

(1) Includes properties held in a commingled fund and other properties located in various U.S. and non-U.S. geographic locations.

(2) Cash Reserve Account.

clude investments distributed nationally across the U.S. (7%), and internationally (8%), while cash and other net assets account for the remainder (6%).

### Risk Profile

Given REF's investment policy and objectives, the Fund is exposed to several forms of risk. These include risks attendant to alternative investments, such as management, operations, market, and liquidity risk, but also

include geographic, financing, and construction risks specific to real estate investments.

As shown below, based on returns over the last five years, the Fund has exhibited substantially more volatility than its benchmark. The Fund's statistics are consistent with its extraordinarily low R<sup>(2)</sup> of 0.03 which signifies almost no correlation between Fund returns and those of the benchmark, and its beta of -0.27, which indicates little sensitivity to overall fluctuations in the benchmark. In the aggregate, the Fund's monthly alpha, or return relative to that achieved by the benchmark, was a -0.34 over the five-year time period.

### REAL ESTATE FUND <sup>(1)</sup>

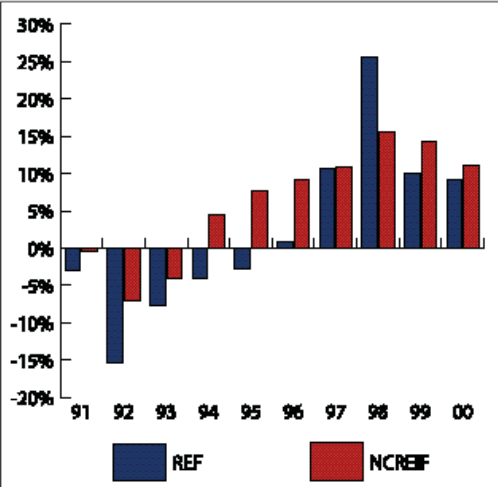
#### Risk Profile at June 30, 2000

Relative Volatility	1.48
Standard Deviation	7.38
R <sup>2</sup>	0.03
Beta	-0.27
Alpha	-0.34

(1) Based upon returns over the last five years.

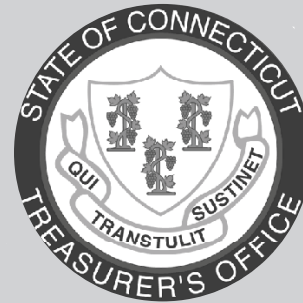
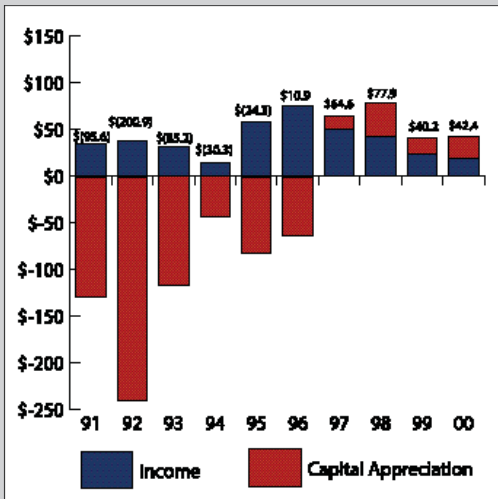
**REAL ESTATE FUND**

Annual Total Return



**REAL ESTATE FUND**

Components of Total Return



## PENSION FUNDS MANAGEMENT DIVISION

### MUTUAL FIXED INCOME FUND

#### Fund Facts at June 30, 2000

**Investment Strategy/Goals:** To provide diversification in different economic environments.

**Performance Objective:** An annual total return which is 0.5 percentage points greater than that of the index.

**Benchmark:** Lehman Brothers Aggregate Index (LB Aggregate)

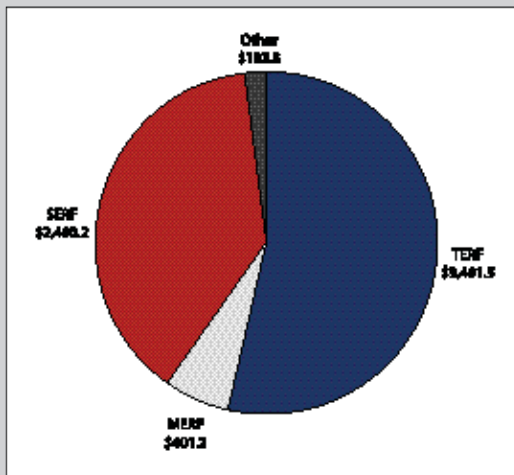
**Date of Inception:** July 1, 1972  
**Total Net Assets:** \$6,496,139,181  
**Number of Advisors:** 11 external  
**Management Fees <sup>(1)</sup>:** \$9,469,542  
**Operating Expenses:** \$478,314  
**Expense Ratio <sup>(2)</sup>:** 0.16 %  
**Turnover:** 315.90 %

(1) See note 1 to the Financial Statement for a discussion of similar fees incurred at the investment level.

(2) Excludes securities lending fees and rebates.

### MUTUAL FIXED INCOME FUND

#### Ownership Analysis at June 30, 2000 (\$ in millions)



TERF - Teachers' Retirement Fund

SERF - State Employees Retirement Fund

MERF - Connecticut Municipal Employees' Retirement Fund

### Performance Summary

For the fiscal year ended June 30, 2000, the Mutual Fixed Income Fund (MFIF) generated a total return of 5.8%, slightly better than the hybrid benchmark, (5.5%), and the Lehman Brothers Aggregate Index, (4.6%) (LB Aggregate).

Principal reasons for the Fund's favorable returns are the strength of the high yield managers in the Fund (despite a decline in the overall high yield market), as well as an allocation to convertibles, which posted strong gains over the year.

Comparative returns from other indexes include: The Salomon High Yield Market Index (-1.4%), LB Aggregate (1.9%), and JP Morgan Emerging Markets Bond Index+ (23.2%) (JP EMBI+).

During the fiscal year, the Fund increased from \$6.169 billion to \$6.496 billion. Of this total, approximately \$430 million resulted from net investment income, partially offset by \$77 million from realized and unrealized losses, and \$26 million due to net cash outflows to participating Pension and Trust Funds.

For the trailing three, five and ten-year periods, MFIF's compounded annual total return was 6.3%, 7.1% and 9.0%, respectively, net of all expenses. These returns exceeded those of the Fund's benchmark for the five and ten year periods, but were slightly behind the index for the three-year period. Principal reasons for this long-term success included effective management of the Fund's duration in response to changing market interest rates and strong security analysis, which enabled advisors to identify undervalued credits offering comparatively higher yields.

The cumulative total returns for the three, five, and ten-year periods ending June 30, 2000, were 20.0%, 40.6% and 135.8% respectively.

### MUTUAL FIXED INCOME FUND

#### Periods ending June 30, 2000

	1 YR	3 YRS	5 YRS	10 YRS
Compounded, Annual Total Return (%)				
MFIF	5.77	6.26	7.06	8.96
LB Aggregate	4.56	6.03	6.25	7.82
Cumulative Total Return (%)				
MFIF	5.77	19.98	40.64	135.82
LB Aggregate	4.56	19.21	35.39	112.22

### Description of the Fund

The Mutual Fixed Income Fund is an externally managed fund investing primarily in domestic fixed income securities. The Fund serves as an investment tool for the Pension and Trust Funds with the goal of reducing volatility in returns under various economic scenarios. Fixed income securities represent fixed, variable, and zero coupon bonds issued by the federal and state governments, foreign governments, domestic and international corporations, and municipalities. Dur-

## PENSION FUNDS MANAGEMENT DIVISION

ing periods of low inflation, fixed income investments may enhance the overall performance of the Pension and Trust Funds, while in times of moderate inflation and high nominal interest rates, these investments may contribute satisfactory investment returns.

As a consequence of the restructuring of the liquid portfolios in fiscal year 1996, including the termination of the International Bond Fund, MFIF's mandate was expanded to include investments in international fixed income securities. Investments in these types of securities are permitted when, in the opinion of the Fund's advisors, there is opportunity to increase return with no, or nominal, increase in relative risk. MFIF's mandate was also expanded to include both convertible and high-yield bonds. Convertible bonds allow bondholders to exchange a company's bond for a specified number of shares of common stock in the company, giving holders of the bonds an option to share in the price appreciation of the company's stock.

At June 30, 2000, eleven advisors managed investments in the Fund.

of the portfolio in domestic high yield products. A few managers were allowed to expand their investment opportunity set to include below investment grade bonds and/or international bonds, these mandates have been classified as core-plus strategies. One of the Fund's emerging debt managers was terminated near the end of fiscal year 1999, although their holdings had not been liquidated as of June 30, 2000, and still accounted for over 3% of the portfolio at the end of the fiscal year. (Note that one advisor manages both a convertible and high yield portfolio.)

Since inception, the MFIF's objective was an annual return, net of management fees and operating expenses, of 50 basis points in excess of the LB Aggregate, which is widely considered to be parallel to the performance of the U.S. bond market.

During fiscal year 2000, the performance measurement benchmark for the MFIF was changed to reflect the Fund's strategic allocation to other fixed income markets, such as high yield securities and emerging market debt. The new benchmark is a hybrid

### MUTUAL FIXED INCOME FUND INVESTMENT ADVISORS

June 30, 2000

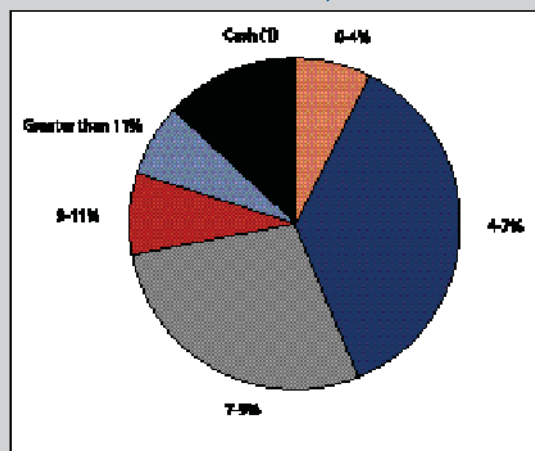
Investment Advisor	Net Asset Value	% of Fund
<b>Core</b>	<b>\$5,039,188,557</b>	<b>77.6%</b>
<b>(Active Management)</b>		
BlackRock Financial Management, Inc.	1,039,954,165	16.0
Western Asset Management Co.	734,031,906	11.3
Wellington	703,638,814	10.8
J.P. Morgan Investment Management Inc.	618,938,006	9.5
Phoenix	296,411,626	4.6
Mitchell Hutchins	290,455,613	4.5
<b>(Index Passive)</b>		
State Street Global Advisors	1,355,758,427	20.9
<b>High Yield</b>	<b>\$1,079,289,028</b>	<b>16.6%</b>
<b>(Active Management)</b>		
Loomis Sayles & Co., Inc.	355,534,523	5.5
W.R. Huff Asset Management	289,967,580	4.4
Oaktree Capital Management, L.L.C.	234,566,525	3.6
Triumph II LP	199,220,400	3.1
<b>Convertibles</b>	<b>\$ 349,224,546</b>	<b>5.4%</b>
<b>(Active Management)</b>		
Oaktree Capital Management, L.L.C.	349,224,546	5.4
<b>Other (1)</b>	<b>\$ 28,437,050</b>	<b>0.4%</b>

(1) Other represents funds earmarked for distribution to participants, reinvestment, and expenses.

The Fund's investments were allocated to seven advisors investing 78% of the portfolio in core/core-plus strategies, one advisor with 5% in a convertible bond mandate, and four advisors actively investing 17%

### MUTUAL FIXED INCOME FUND

Distribution by Coupon at June 30, 2000  
Based on Investments in Securities, at Fair Value



(1) Represents securities for which the Macaulay Duration could not be calculated by the Custodian..

### MUTUAL FIXED INCOME FUND

Maccaulay Duration Distribution at June 30, 2000  
Based on Investment in Securities, at Fair Value

0-3 Years	13.8
3-5 Years	29.4
5-7 Years	22.9
7-10 Years	7.0
10+ Years	10.5
Unknown <sup>(1)</sup>	3.4
Cash <sup>(2)</sup>	13.0
<b>Total</b>	<b>100.0</b>

(1) Represents securities for which the Macaulay Duration could not be calculated.

(2) Represents funds invested in the Cash Reserve Account.

## PENSION FUNDS MANAGEMENT DIVISION

comprising 73% LB Aggregate, 17% Salomon High Yield Market Index, and 10% JP EMBI+, and the Fund's goal is to exceed the return of the hybrid index by 50 basis points annually.

### Portfolio Characteristics

MFIF continues to be well diversified across the spectrum of available fixed income securities. The Fund maintained a strong concentration in corporate securities, comprising approximately 27.3% of the Fund's investment securities at fiscal year-end. Government securities were slightly above the benchmark at 42.3% of the Fund, compared to 41.2% for the benchmark. Sector concentrations differed from those comprising the LB Aggregate, reflecting the collective allocations of the Fund's active investment advisors. The Fund's average quality rating was A-1, as judged by Moody's Investor Services, supported by its 50.1% concentration in mortgage-backed U.S. Treasury and Agency securities. Relative to the Index, MFIF held a greater degree of below investment grade securities including emerging market debt.

At fiscal year end, 87% of Fund investments were in fixed income securities with the balance held in cash.

#### MUTUAL FIXED INCOME FUND

##### Distribution by Sector at June 30, 2000 Based on Investments in Securities, at Fair Value

	MFIF	LB Aggregate	Variance
Treasury	16.3%	33.3%	-17.0%
Agency	26.0%	7.9%	18.1%
Corporate	27.3%	17.4%	9.9%
Mortgage-Backed	7.8%	34.2%	-26.4%
Asset-Backed	2.3%	1.4%	0.9%
Other <sup>1</sup>	20.3%	5.8%	14.5%

<sup>(1)</sup> Other category includes non fixed-income securities such as common and preferred stock and convertible securities, cash and other assets.

### Risk Profile

Given MFIF's investment policies and objectives, the Fund is exposed to several forms of risk. These include, but are not limited to, purchasing power risk, default risk, reinvestment risk, and market risk. In addition, the Fund is occasionally exposed to political and economic risk and currency risk resulting from investments in international fixed income securities.

#### MUTUAL FIXED INCOME FUND <sup>(1)</sup>

##### Risk Profile at June 30, 2000

Relative Volatility	1.09
Standard Deviation	3.67
R <sup>2</sup>	0.60
Beta	0.86
Alpha	0.98

<sup>(1)</sup> Based upon returns over the last five years.

In fixed income investing, returns are extremely sensitive to changes in market interest rates. As such, the longer the time to maturity of a fixed income investment (and the resultant increase in time during which interest rates may change), the greater the level of risk assumed. To measure the degree of MFIF's price sensitivity to changes in market interest rates, the Fund's duration, or the weighted average time period over which cash flows are received by the investor, is monitored. At June 30, 2000, the Fund's duration was at 5.4 years versus 4.9 years for the hybrid index. While often viewed as an indicator of risk, duration can, if managed effectively, contribute significantly to total Fund returns.

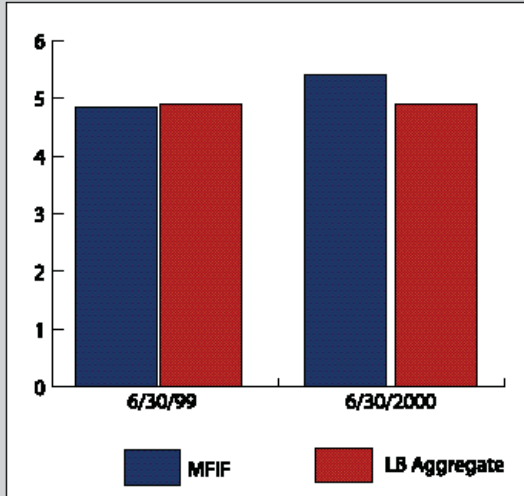
The Fund's ten largest holdings, not including cash, included the following:

Security Name	Coupon	Maturity	Security Type	Net Asset Value	% of Fund
Triumph Connecticut II LLP	NA	NA	NA	\$ 199,220,400	2.7
FNMA TBA Jul 30 Single	FAM 6.5%	10/1/2030	U.S. Govt. Agency	128,680,366	1.8
FNMA TBA Jul 30 Single	FAM 7.5%	10/1/2030	U.S. Govt. Agency	102,343,680	1.4
FHLMC TBA Jul 30 Gold	Single 6.5%	10/1/2030	U.S. Govt. Agency	95,340,987	1.3
FNMA TBA Jul 30 Single	FAM 7.0%	10/1/2030	U.S. Govt. Agency	74,148,096	1.0
U. S. Treasury Bonds	FAM 3.625%	4/15/2028	U.S. Govt. Agency	67,612,318	0.9
U.S. Treasury Bonds	12.00%	8/15/2013	U.S. Govt. Treasury	62,647,424	0.9
FHLMC TBA Jul 30 Gold	Single 7.5%	10/1/2030	U.S. Govt. Agency	58,823,148	0.8
FNMA TBA Jul 15 Single	FAM 6.5%	10/1/2030	U.S. Govt. Agency	56,561,526	0.8
FNMA TBA Jul 30 Single	FAM 8.0%	10/1/2030	U.S. Govt. Agency	56,070,624	0.8
<b>TOTAL</b>				<b>\$ 901,448,569</b>	<b>12.4%</b>



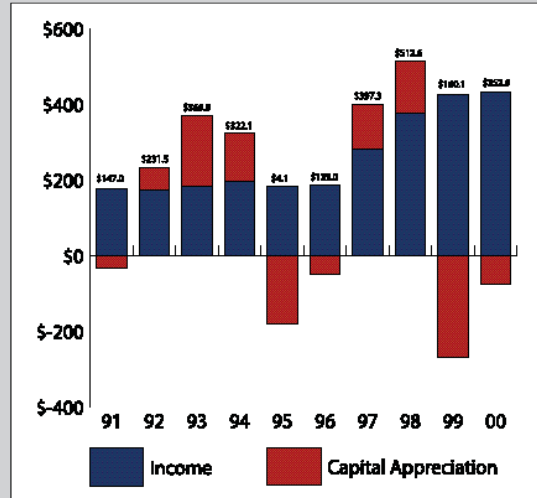
CHARTS PROVIDED FOR ILLUSTRATION OF FINANCIAL INFORMATION.

MUTUAL FIXED INCOME FUND  
Modified Duration vs. Index <sup>(1)</sup> (in Years)

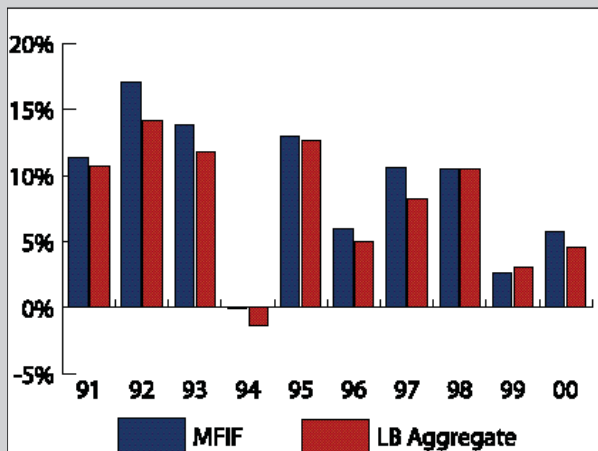


<sup>(1)</sup> Computed without the effect of Cash and other Net Assets.

MUTUAL FIXED INCOME FUND  
Components of Total Return (\$ in Millions)



MUTUAL FIXED INCOME FUND  
Annual Total Return



MUTUAL FIXED INCOME FUND  
Quarterly Current Yield <sup>(1)</sup> vs. Indices (%)

	6/30/00	3/31/00	12/31/99	9/30/99	6/30/99
MFIF	6.41	6.54	6.51	6.57	6.02
LB Aggregate	6.68	6.55	6.49	6.48	6.68
Salomon 3 Month T-Bill	4.64	4.67	4.52	4.89	4.64
Lehman Treasury	6.35	6.23	6.09	6.07	6.35
Lehman Agency	5.96	5.93	5.92	5.93	5.96
Lehman Mortgage	6.91	6.83	6.89	6.93	6.91
Lehman Corporate	7.15	6.96	6.82	6.82	7.15
Lehman Asset Backed	6.21	6.16	6.25	6.06	6.21

<sup>(1)</sup> Current Yield represents annual coupon interest divided by the market value of securities.

MUTUAL FIXED INCOME FUND  
Comprehensive Profile for Fiscal Years Ending June 30,

	2000		1999		1998		1997		1996	
	MFIF	LB Agg	MFIF	LB Agg	MFIF	LB Agg	MFIF	LB Agg	MFIF	LB Agg
Number of Issues	3,226	5,974	2,689	5,381	2,086	6,860	1,631	6,055	1,365	5,492
Average Coupon	7.00%	7.00%	6.60%	6.90%	7.00%	7.20%	7.18%	7.34%	7.20%	7.23%
Yield Maturity	8.20%	7.20%	7.60%	6.50%	6.80%	6.10%	7.50%	6.87%	7.80%	NA
Average Maturity	9.70	8.50	10.30	8.90	9.70	7.90	8.40	8.09	8.60	8.76
Modified Duration <sup>(2)</sup>	5.40	4.90	6.20	5.10	5.70	4.60	5.06	4.62	5.30	4.76
Average Quality	AA-3	AAA	A1	AAA	A1	AAA	A1	AA1	AA1	AAA
Cash <sup>(1)</sup>	13.0%	0.0%	13.1%	0.0%	10.1%	0.0%	12.9%	0.0%	7.70%	0.0%

<sup>(1)</sup> Includes funds invested in the Cash Reserve Fund.

<sup>(2)</sup> Compounded without the effect of Cash and Other Net Assets.

## PENSION FUNDS MANAGEMENT DIVISION

### COMMERCIAL MORTGAGE FUND

#### Fund Facts at June 30, 2000

**Investment Strategy/Goals:** To achieve yields in excess of those available on domestic fixed income securities by investing in mortgages on income producing property or in commercial mortgage backed securities (CMBS).

**Performance Objective:** An annual total return which is one percentage point greater than that of the LB Aggregate after expenses.

**Benchmark:** Lehman Brothers Aggregate Index.

**Date of Inception:** November 2, 1987  
**Total Net Assets:** \$176,059,423  
**Number of Advisors:** 1 external  
**Management Fees:** \$763,333  
**Operating Expenses:** \$50,325  
**Expense Ratio:** 0.39 %

The Fund's favorable performance is attributable to the receipt of prepayment penalties, high weighted-average coupon, current yield advantages relative to the benchmark and shorter duration than the benchmark in a rising interest rate environment.

#### COMMERCIAL MORTGAGE FUND Quarterly Current <sup>(1)</sup> Yield Analysis

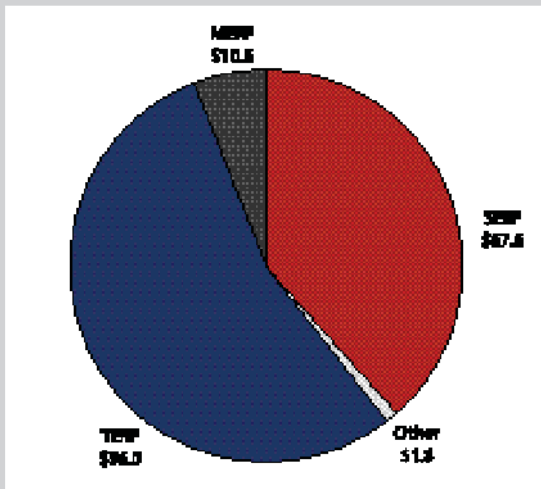
	CMF	LB Agg
6/30/00	9.48%	6.68%
3/31/00	10.43	6.55
12/31/99	10.51	6.49
9/30/99	11.00	6.48
6/30/99	7.25	6.68

*(1) Current yield represents annual coupon interest divided by the market value of securities.*

During the fiscal year, CMF declined from \$237 million to \$176 million, a decrease of approximately \$61 million. The majority of this decrease was due to \$56 million of net cash outflows to the participating pension plans resulting from prepayments and normal loan amortization and \$20 million relating to income distributions to these participants. These outflows were partially offset by a \$15 million increase in net assets from operations.

For the trailing three, five, and ten-year periods, CMF's compounded annual portfolio total return was 10.6%, 9.6% and 8.7%, net of all expenses and exceeded the index over the three, five, and ten-year periods by 455 basis points, 334 basis points and 90 basis points, respectively.

#### COMMERCIAL MORTGAGE FUND Ownership Analysis at June 30, 2000 (\$ in millions)



TERF - Teachers' Retirement Fund  
 SERF - State Employees Retirement Fund  
 MERF - Connecticut Municipal Employees' Retirement Fund

### Performance Summary

For the fiscal year ended June 30, 2000, the Commercial Mortgage Fund (CMF) generated a total return of 8.3%, net of management fees and operating expenses, outperforming the Lehman Brothers Aggregate Index (4.6%) by 370 basis points.

#### COMMERCIAL MORTGAGE FUND Periods ending June 30, 2000

	1 YR	3 YRS	5 YRS	10 YRS
Compounded, Annual Total Return (%)				
CMF	8.26	10.58	9.59	8.72
LB Aggregate	4.56	6.03	6.25	7.82
Cumulative Total Return (%)				
CMF	8.26	35.21	58.06	130.81
LB Aggregate	4.56	19.21	35.39	112.22

### Description of the Fund

The Commercial Mortgage Fund is an externally managed fund which invests in mortgages on income-producing commercial property. Established in 1987, it serves as a fixed income investment tool for the pension plans with the goal of realizing yields in excess of those available from traditional domestic fixed income securities, while accepting slightly greater credit risk.

## PENSION FUNDS MANAGEMENT DIVISION

CMF's assets consist of an externally managed portfolio of commercial real estate mortgage loans and commercial mortgage-backed securities (CMBS), and an interest in a number of mortgage-backed securities, which were created through a residential mortgage program known as Yankee Mac.

### COMMERCIAL MORTGAGE FUND INVESTMENT ADVISOR

June 30, 2000

Investment Advisor	Net Asset Value	% of Fund
AEW Capital Management, LP	145,376,373	82.6
Other (1)	30,683,050	17.4

(1) Other also includes residential mortgage-backed securities and funds ear-marked for distributions to participants and expenses.

CMF's performance objective is an annual total return, net of management fees and operating expenses, which exceeds that of LB Aggregate Index by 100 basis points.

### Mortgage Market

Last year the economic environment resulted in two concerns for investors. The first was whether economic growth predicated on wealth induced spending was sustainable. It appears to have been sustainable, but continuance of this trend is in doubt due to tightening by the Federal Reserve Bank. The other concern was whether above trend Gross Domestic Product (GDP) (6.0%) would result in the inflationary pressures often associated with tight labor markets and high labor utilization rates. So far in 2000, this fear is somewhat more evident as the Consumer Price Index (CPI) rose at an annual rate of 3.7%. The impact of higher fuel and food costs account for the difference between this rate and the more benign core rate of 2.4%. Looking forward, the impact of rising prices, especially energy prices, could have a significant effect on economic growth.

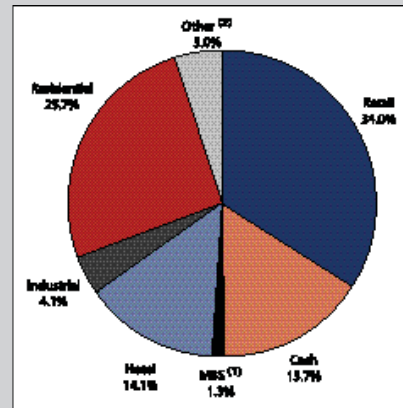
Although core inflation remains less than 2.5%, tight labor markets and increased economic activity abroad have contributed to the Federal Reserve Board's continuing inflationary fears. Over the past year the Fed has raised the Federal Funds Rate four times. These actions have resulted in an increase in the Ten Year Treasury yield of more than 190 basis points. The resulting increase in mortgage rates has had the anticipated affect of slowing the rate of refinancing and new construction activity. To a lesser extent, this has also impacted asset sales. Commercial mortgage rate spreads have widened to yield about 225 to 250 basis points over Treasury securities.

### Portfolio Characteristics

During fiscal year 2000, the Fund did not close any new commercial mortgage loan investments. Two mortgage-backed securities and five portfolio loans were paid off during the fiscal year. The loans payoffs resulted in the receipt of prepayment penalties totaling \$3.5 million.

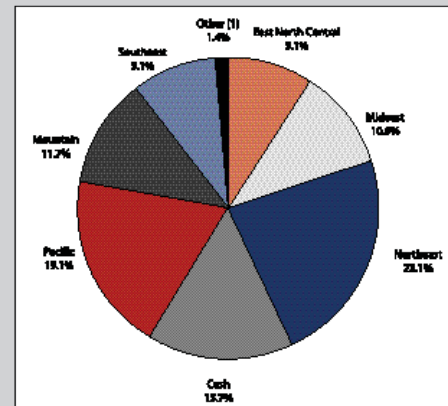
Consistent with its goal of broad diversification, the largest portion of the Fund's net assets, 34%, was invested in retail properties at fiscal year-end, followed by a 26% investment in the residential sector and 14% in the hotel sector. The Fund continues to be well diversified across geographic regions with 23% of investments located in the Northeast, 19% in the Pacific,

**COMMERCIAL MORTGAGE FUND**  
Distribution by Property Type at June 30, 2000  
Based on Investments in Securities, at Fair Value



- (1) Mortgage Backed Securities include certain mortgage loans classified as trusts and common stock on the balance sheet.
- (2) Includes loans secured by self storage facilities and senior ground lease.

**COMMERCIAL MORTGAGE FUND**  
Distribution by Location at June 30, 2000  
Based on Investments in Securities, at Fair Value



- (1) Other represents mortgage backed security holdings which include certain mortgage loans classified as trusts and common stock on the balance sheet.



## PENSION FUNDS MANAGEMENT DIVISION

12% in the Mountain and 9% in both the North Central and Southwest regions.

The CMF's ten largest holdings, aggregating to 83.6% of Fund investments, included the following:

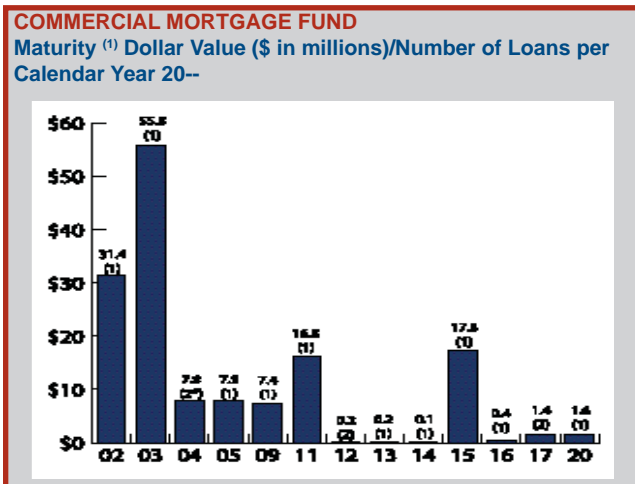
Property Name	Location	Property Type	Market Value	%
SASCO	Various	Other	\$ 55,824,299	31.9
Vancouver Mall	Vancouver, WA	Retail	31,375,244	17.9
57 Park Plaza	Boston, MA	Hotel	17,278,612	9.9
Green Hill Apts.	Detroit, MI	Residential	16,255,447	9.3
Sheraton Denver West	Lakewood, CO	Hotel	7,887,668	4.5
North Haven Crossing	No. Haven, CT	Retail	7,425,098	4.2
Bidderman	Secaucus, NJ	Warehouse	6,552,358	3.7
1992 LBM I Class B	Various	CMBS	1,571,916	0.9
Upland Commerce Center	Upland, CA	Retail	1,205,731	0.7
Yankee Mac	Various	Residential	1,065,076	0.6
<b>TOTAL</b>			<b>\$ 146,441,449</b>	<b>83.6%</b>

To measure the Fund's price sensitivity to changes in market interest rates, the Fund's duration, or weighted average time period over which cash flows are received by the investor, is monitored. At June 30, 2000, the Fund's duration was 3.1 years versus 4.9 years for the LB Aggregate Index. Therefore, the Fund is less sensitive to interest rate changes than the LB Aggregate Index.

Based on returns over the last five years, the Fund's risk profile is similar to that of the LB Aggregate Index. With a relative volatility of 1.69, its returns are slightly more volatile than the index; however, its returns show very little correlation to those achieved by the benchmark.

While the Fund's beta of 0.24 signifies low sensitivity to movements in the index as a whole, CMF's five-year monthly alpha at June 30, 2000, or return in excess of that predicted by returns in the overall market, was 3.72.

The portfolio is healthy with no delinquent or non-performing loans at fiscal year end. Over the next 12 months, none of the Fund's investments are scheduled to mature.



(1) Or interest rate reset period.

### Risk Profile

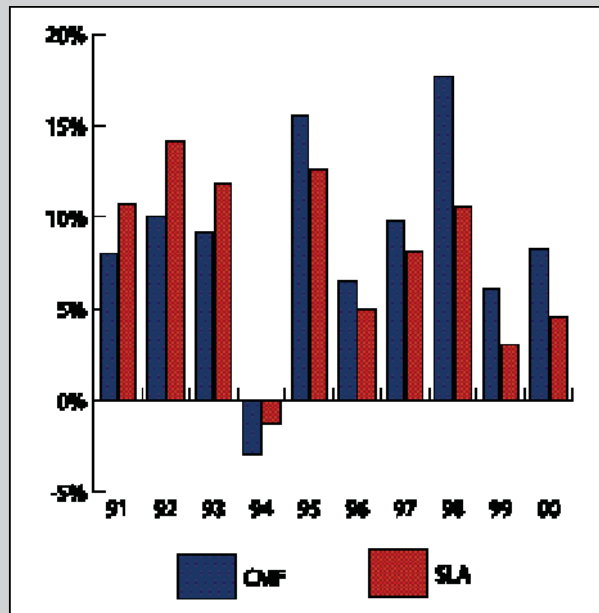
Given CMF's investment policies and objectives, the Fund is exposed to several forms of risk. These include risks specific to fixed income investing, such as purchasing power risk, market risk, and default risk. Moreover, falling interest rates subject commercial mortgages to the risk of prepayment, thereby shortening investors' assumed time horizon and exposing them to reinvestment risk. However, yield maintenance-based prepayment penalties, which are included in the majority of the Fund's commercial mortgage investments, help minimize this risk.

### COMMERCIAL MORTGAGE FUND <sup>(1)</sup> Risk Profile at June 30, 2000

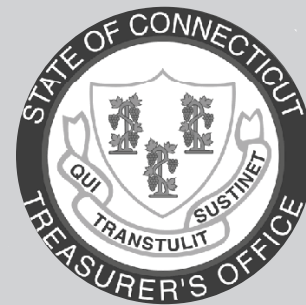
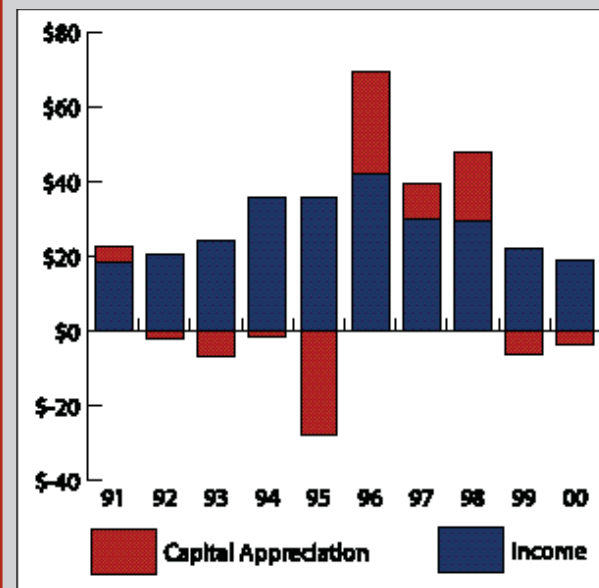
Relative Volatility	1.69
Standard Deviation	5.79
R <sup>2</sup>	0.02
Beta	0.24
Alpha	3.72

(1) Based upon returns over the last five years.

**COMMERCIAL MORTGAGE FUND**  
Annual Total Return



**COMMERCIAL MORTGAGE FUND**  
Components of Total Return



**PRIVATE INVESTMENT FUND**

**Fund Facts at June 30, 2000**

**Investment Strategy/Goals:** To participate in the fastest growing segments of the domestic and international economies, including emerging industries and technologies, by investing in private equity partnerships.

**Performance Objective:** To outperform the Russell 3000 Index by 500 basis points at the end of ten years.

**Benchmark:** Russell 3000 Index

**Date of Inception:** July 1, 1987

**Total Net Assets:** \$2,564,787,182

**Number of Advisors:** 35 external

**Management Fees <sup>(1)</sup>:** \$43,428,630

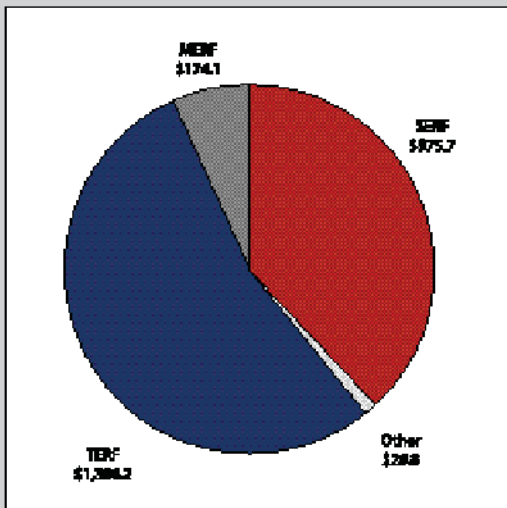
**Operating Expenses:** \$735,626

**Expense Ratio:** 0.48 %

(1) See Note 1 to the Financial Statements for a discussion of similar fees incurred at the investment level.

**PRIVATE INVESTMENT FUND**

**Ownership Analysis at June 30, 2000 (\$ in millions)**



TERF - Teachers' Retirement Fund  
 SERF - State Employees Retirement Fund  
 MERF - Connecticut Municipal Employees' Retirement Fund

**Performance Summary**

For the fiscal year ended June 30, 2000, the Private Investment Fund (PIF) generated a total return of 53.9%. The positive performance is an indication that many of the Fund's investments are emerging from the "J-Curve effect". The J-Curve effect often results in negative performance during the early stages of an

investment's life cycle as a result of investments being valued at cost, while managerial and organizational expenses are incurred. Investments are expected to have positive performance during the later stages of the life cycle, as investments appreciate and/or are liquidated through strategic sales or initial public offerings. As investments exit this stage, significant returns become evident. The PIF is currently benefiting from the fact that a majority of invested assets are with partnerships whose vintage years (initial years of investment) are 1997 or the early part of 1998. This, combined with the continued economic expansion has greatly benefited Fund returns.

During fiscal year 2000, PIF's assets increased from \$1.186 billion to \$2.565 billion, an increase of \$1.379 billion. The increase was due to \$813 million of net investment income, including realized and unrealized capital gains and \$566 million of net cash inflow from participating pension plans and trusts.

The Fund significantly outperformed the assigned benchmark, which had a return of 9.60 percent for the fiscal year. While staff monitors and evaluates short-term performance, the Fund has a long-term perspective in evaluating performance, in that it measures the performance over a 10-year time period. This long-term perspective reflects the illiquid nature of the Fund's underlying partnership holdings that require a meaningful length of time to progress through specific developmental periods. As an additional check on long-term performance, the table below shows PIF's cumulative total return over the three, five and ten-year periods. These returns are consistent with those achieved on an annualized basis over the same time periods.

**PRIVATE INVESTMENT FUND**

**Periods ending June 30, 2000**

	1 YR	3 YRS	5 YRS	10 YRS
Compounded, Annual Total Return (%)				
PIF	53.86	21.85	21.99	13.30
Russell 3000	9.60	19.24	22.78	17.52
Cumulative Total Return (%)				
PIF	53.86	80.93	170.14	248.70
Russell 3000	9.60	69.55	179.00	402.55

In reporting values for PIF, private market valuations are often imprecise. Accordingly, the PIF advisors adopt a conservative valuation policy, carrying the investments at cost unless and until there is concrete evidence to write the values up, or reasonable doubt, which indicates that they should be written down. One cause for a write-up would be a successful initial public offering of stock in a private company where the value

## PENSION FUNDS MANAGEMENT DIVISION

is determined in an arms-length, public transaction. Likewise, consistently missing important milestones in a company's business plan signifying a reversal in the company's fortunes is considered a reason to write-down the value of an investment. These determinations are made on an on-going basis.

PIF's earliest tranche of committed capital is now ten years old and should continue, along with mezzanine debt, to provide the Fund with positive cash flow from its investments.

### Description of the Fund

The Private Investment Fund (PIF) is an externally managed fund which invests in venture capital, corporate buyout, mezzanine, fund of funds, and international financing opportunities. It serves as a long-term investment tool for the Pension and Trust Funds, with the goal of participating in the fastest growing segments of domestic and international economies, including emerging industries and technologies. PIF also invests in selected opportunities in mature industries.

At fiscal year-end, thirty-five advisors were responsible for investing the PIF's \$3.2 billion in committed capital in the outlined strategic investment areas.

The strategic focus of the PIF is divided among four specific areas: fifteen partnerships focus on corporate buyout strategies, ten on venture capital strategies, six on mezzanine debt strategies, and five on international strategies. Five advisors each managed two separate partnerships for the Fund.

Four of the limited partnerships are in "fund of funds" arrangements whereby advisors are responsible for investor's committed capital across a number of selected private equity limited partnerships, which subsequently invest in underlying companies.

This Fund structure allows for experienced industry professionals to manage PIF's assets while allowing the Fund to realize the benefits of a diversified private market portfolio. The performance objective of the Fund is to outperform, net of management fees and Division operating expenses over a ten-year period, the Russell 3000 Index by 500 basis points, or five percentage points, per annum.

### Portfolio Characteristics

The Private Investment Fund consists of private equity investments, which include five primary areas of strategic focus: venture capital, corporate buyout, mezzanine debt, fund of funds, and international private equity strategies.

### PRIVATE INVESTMENT FUND INVESTMENT ADVISORS

June 30, 2000

Investment Advisor	Net Asset Value	% of Fund
<b>Corporate Buyout</b>	<b>\$795,828,287</b>	<b>31.0%</b>
Hicks, Muse Tate & Furst Equity Fund III	210,449,050	8.2
SCP Private Equity Partners	90,774,965	3.5
Thomas H. Lee Equity Fund IV	78,347,895	3.0
Welsh Carson Anderson & Stowe VIII	60,423,689	2.4
DLJ Merchant Banking Fund II	56,856,485	2.2
Conning Insurance Capital Fund V	56,083,357	2.2
Veritas Capital Fund	56,282,309	2.2
KKR 1996 Fund	38,764,853	1.5
Greenwich Street Capital Partners II	37,963,562	1.5
Wellspring Capital Partners II	25,841,247	1.0
Thayer Equity Investors IV	22,109,822	0.9
Kelso Investment Associates VI	18,646,905	0.7
Forstmann Little Equity Fund VI (4)	18,095,296	0.7
Blackstone Capital Partners III	14,972,969	0.6
Green Equity Investors III	10,215,883	0.4
<b>Fund of Funds</b>	<b>\$707,804,267</b>	<b>27.6%</b>
Crossroads Constitution Fund	579,000,910	22.6
Landmark Private Equity Fund VIII	69,254,924	2.7
Goldman Sachs Private Equity Fund	51,567,871	2.0
Lexington Capital Partners II	7,980,562	0.3
<b>Venture Capital</b>	<b>\$399,337,624</b>	<b>15.6%</b>
Crescendo World Fund	158,972,651	6.2
Grotech Partners V	59,117,076	2.3
Crescendo Venture Fund III	46,947,698	1.8
Pioneer Ventures Associates	37,964,558	1.5
Shawmut Equity Partners	29,159,641	1.1
Keystone Ventures V	25,137,922	1.0
CT Financial Development Fund	18,426,060	0.7
Connecticut Futures Fund	15,351,244	0.6
Connecticut Greene Ventures	3,845,408	0.2
RFE Investment Partners VI	4,415,366	0.2
<b>Mezzanine Debt</b>	<b>\$364,161,698</b>	<b>14.2%</b>
Triumph Capital Partners III	99,529,585	3.9
Welsh Carson Anderson & Stowe III	87,349,821	3.4
Forstmann Little MBO VII (4)	69,091,241	2.7
Triumph CT Partners	65,183,217	2.5
GarMark Partners	29,129,904	1.2
SW Pelham Fund	13,877,930	0.5
<b>International Private Equity</b>	<b>\$202,636,375</b>	<b>7.9%</b>
Gilbert Global Equity Fund	75,313,136	2.9
Compass European Partners	50,354,343	2.0
Carlyle European Fund	35,123,033	1.4
AIG Global Emerging Markets Fund	33,196,223	1.3
Carlyle Asia Partners	8,649,640	0.3
<b>Other <sup>(1)</sup></b>	<b>\$ 95,018,931</b>	<b>3.7%</b>

(1) Other represents funds earmarked for distribution to participants, reinvestment, and expenses.

## PENSION FUNDS MANAGEMENT DIVISION

**Corporate Buyout** focused investments can be defined as controlling or majority investments in private equity or equity-like securities of more established companies on the basis of the company's asset values and/or cash flow. Corporate buyout investors usually target two types of companies: special situations and turnaround opportunities.

**Fund of Funds** investments are investment funds which may have multiple areas of strategic focus. These funds invest in multiple partnerships that invest in underlying companies.

**Venture Capital** focused investments can be narrowly defined as investments in the private equity or equity-like securities of developing companies in need of growth or expansion capital. These investments can range from early-stage financing, where the principals have little more than a marketable idea, to expansion financing, where a company has a marketable product but requires additional capital to bring the product to market.

**Mezzanine Debt** focused investments can be defined as investments in securities located between equity and senior debt in the company's capital structure. Mezzanine debt investments offer higher current income than senior debt securities and often offer equity participation features that may take the form of warrants, convertibility features, or common stock.

**International Private Equity** focused investments can be defined as controlling or majority investments in private equity or equity-like securities in companies located outside the continental United States. International Private Equity investment opportunities often offer more attractive return/risk characteristics as a result of the above average rates of growth available in select international economies.

The Fund's ten largest holdings aggregating 9.7% of Fund investments include:

Date of Purchase	Company	Industry	Net Asset Value	% of Fund
6/5/98	US Internet Working	Computer Related	38,324,291	1.5
1/6/98	Amdocs Limited	Communications	27,205,126	1.0
8/31/98	Republic Engineered Steels, Inc.	Manufacturing	26,845,559	1.0
1/7/99	BC Components Holdings B. V.	Electronics	25,852,506	1.0
12/9/98	Metris Companies, Inc..	Services	25,327,594	1.0
9/30/98	Electrolux Zanussi Vending	Manufacturing	22,199,508	0.9
1/6/99	Centennial Cellular	Communications	22,180,526	0.9
12/27/96	Rossi American Hardwoods	Industrial Products	21,485,829	0.8
11/4/97	AirNet Communications Corp.	Communications	20,561,699	0.8
9/16/98	PacWest Telecommunication	Communications	19,379,874	0.8
<b>TOTAL</b>			<b>\$249,362,512</b>	<b>9.7%</b>

In order to protect the Fund from various risks associated with this asset class, the PIF is diversified by investment type, strategic focus, industry type and geographic region. This strategy allows for experienced industry professionals to manage a portion of PIF's assets while realizing additional benefits from broad market diversification.

Through June 30, 2000, the PIF had aggregate capital commitments in the amount of \$3.2 billion to 40 partnerships of which approximately 66 percent, or \$2.1 billion has been "drawn down" for investment purposes while the balance of approximately \$1.1 billion or 34 percent is committed but uninvested. The amount committed but uninvested has increased significantly from the prior year as a number of new partnerships were closed during fiscal year 2000.

### Risk Profile

Given PIF's investment policy and objectives, the Fund is exposed to several forms of risk. These include, but are not limited to, risks attendant with alternative investments, such as management, operations, and product risk, as well as overall liquidity risk. Assuming these risks as part of a prudent, total portfolio strategy enables the Private Investment Fund to participate in the possibility of substantial long-term investment returns.

Due to the Fund's focus on alternative invest-

PRIVATE INVESTMENT FUND <sup>(1)</sup>	
Risk Profile at June 30, 2000	
Relative Volatility	1.07
Standard Deviation	15.87
R <sup>2</sup>	0.04
Beta	-0.21
Alpha	-0.04

(1) Based upon returns over the last five years.

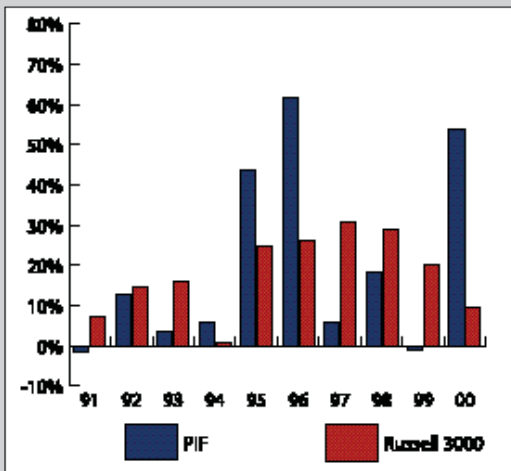
ments, PIF's risk profile relative to its benchmark is very difficult to evaluate. Its relative volatility of 1.07 indicates comparable volatility to the Russell 3000 Index: However, the Fund's risk

profile is more complex given the valuation judgments and liquidity constraints placed on it due to its alternative investment strategy. In the aggregate, the Fund shows almost zero correlation with returns achieved by the benchmark, and has returned an annual alpha, or return relative to that predicted by its benchmark, of negative .04.

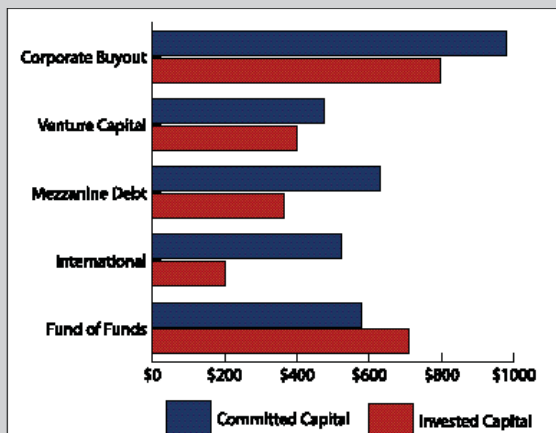


CHARTS PROVIDED FOR ILLUSTRATION OF FINANCIAL INFORMATION.

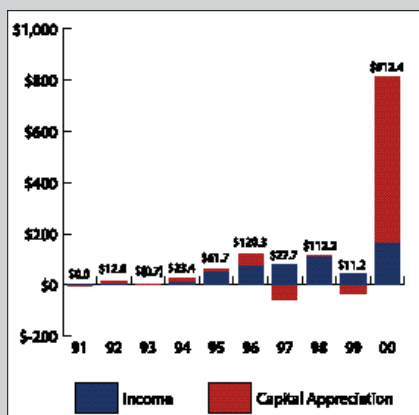
**PRIVATE INVESTMENT FUND**  
Annual Total Return



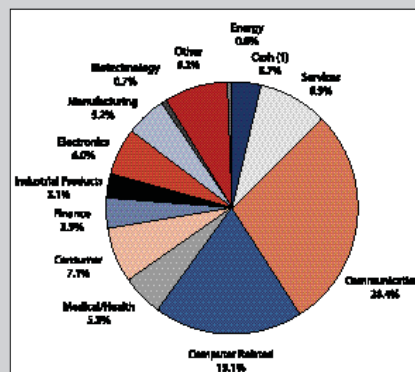
**PRIVATE INVESTMENT FUND**  
Distributed by Committed and Invested Capital  
As of June 30, 2000 (\$ in Millions)



**PRIVATE INVESTMENT FUND**  
Components of Total Return



**PRIVATE INVESTMENT FUND**  
Distribution by Industry at June 30, 2000  
Based on Investment in Securities, at Fair Value



(1) Includes the Cash Reserve Account and cash and other assets at the partnership level.

**PRIVATE INVESTMENT FUND**  
Distribution by Geographic Location at June 30, 2000  
Based on Investments in Securities, at Fair Value

Region	% of Market Value
Mid-Atlantic	16.5%
West Coast	21.8
Northeast	8.5
Southeast	12.7
Southwest	6.1
MidWest	12.1
International	15.9
Cash/Other Assets & Liabilities (1)	3.7
Unclassified (2)	2.7
TOTAL	100.0%

(1) Includes the Cash Reserve Account and cash and other assets at the partnership level.

PENSION FUNDS MANAGEMENT DIVISION

CHARTS PROVIDED FOR ILLUSTRATION OF FINANCIAL INFORMATION.

**PRIVATE INVESTMENT FUND**

**New Investments Made in Fiscal Year 2000 <sup>(1)</sup> (in Excess of \$3 Million)**

Description	Industry	Investment Date	PIF Cost Basis	Investment Type
NextLink Communications	Communications	January-00	\$52,964,308	Buyout
McLeod USA	Communications	September-99	32,215,055	Mezzanine
Electrolux Zanussi Vending	Manufacturing	September-99	24,738,601	International
Internet Capital Group, Inc.	Computer Related	May-00	19,896,324	Buyout
VeloCom, Inc.	Communications	March-00	19,491,531	Venture Capital
Phone.com, Inc.	Communications	January-00	18,435,010	Venture Capital
Integrated Defense Technologies	Electronics	October-99	17,422,918	Buyout
Optical Capital Group, Inc.	Communications	June-00	16,730,842	Buyout
Amkor Technology, Inc.	Electronics	April-00	15,771,992	Buyout
Fitness Holdings Worldwide	Medical/Health Related	October-99	15,756,565	Mezzanine
Alteon Websystems, Inc.	Communications	December-99	13,614,730	Venture Capital
Paragon Trade Brands, Inc.	Consumer	January-00	12,649,731	Buyout
Conseco, Inc.	Finance	October-99	12,498,900	Buyout
Ionex Telecommunications	Communications	November-99	11,250,049	Buyout
BancTec	Computer Related	July-99	10,586,586	Mezzanine
BORN Information Services, Inc.	Computer Related	March-00	10,171,707	Mezzanine
Algety	Communications	March-00	9,042,927	Venture Capital
Big Flower Holdings, Inc.	Services	November-99	8,048,127	Buyout
Nuspeed	Communications	January-00	7,786,813	Venture Capital
Advertising.com, Inc.	Computer Related	September-99	7,640,731	Venture Capital
Transworld Healthcare	Medical/Health Related	December-99	7,486,341	Mezzanine
Rite Aid Corporation	Services	October-99	6,446,208	Buyout
Citation Corporation	Manufacturing	December-99	6,375,905	Buyout
SHPS, Inc.	Medical/Health Related	June-00	5,573,537	Mezzanine
Quintus Corporation	Computer Related	January-00	5,521,078	Venture Capital
Le Figaro	Communications	July-99	5,292,589	International
CapeSuccess	Computer Related	December-99	5,272,337	Buyout
Corvis Corporation	Communications	December-99	5,235,225	Buyout
Yorkshire Global Restaurants, Inc.	Services	September-99	5,145,825	Venture Capital
LifeMasters Supported Selfcare, Inc.	Medical/Health Related	June-00	5,088,977	Buyout
RealPulse.com, Inc.	Services	March-00	5,088,977	Buyout
Tessera Enterprise Systems, Inc.	Computer Related	February-00	5,088,977	Buyout
World Access	Communications	December-99	4,740,209	Buyout
Brook Mays Music Co.	Consumer	April-00	4,711,260	Buyout
Diasan B.V.	Services	January-00	4,466,992	International
Event Zero, Inc.	Services	November-99	4,129,953	Venture Capital
OneCoast Network Corporation	Manufacturing	August-99	3,966,363	Buyout
IASIS Healthcare	Medical/Health Related	October-99	3,939,141	Mezzanine
Allied Waste Industries, Inc.	Industrial Products	July-99	3,890,810	Buyout
360networks, Inc.	Communications	July-99	3,791,210	Buyout
Dayton Power & Light	Energy Related	February-00	3,757,990	Buyout
Unilab Corporation	Biotechnology	November-99	3,623,312	Buyout
Intersections, Inc.	Services	January-00	3,570,293	Buyout
IconixGroup	Computer Related	August-99	3,554,221	Buyout
Concentra Managed Care	Medical/Health Related	October-99	3,524,260	Mezzanine
Politzer & Hanley, Inc.	Finance	February-00	3,459,583	Venture Capital
Lease Forum, Inc.	Services	March-00	3,441,627	Venture Capital
NexClaim Technologies	Computer Related	September-99	3,441,627	Venture Capital
BTI Telecom Corporation	Communications	December-99	3,355,872	Buyout
Concur Technologies	Computer Related	November-99	3,285,871	Venture Capital
VirtualRelocation.com, Inc.	Services	November-99	3,249,201	Buyout
Impresse Corporation	Services	November-99	3,160,139	Buyout
B2	Communications	July-99	3,150,683	International
LogistiCare, Inc.	Services	August-99	3,119,800	Mezzanine
<b>TOTAL</b>			<b>\$485,659,840</b>	

(1) These holdings represent underlying portfolio companies that were invested in by the Fund during fiscal year 2000 through one or more of its 40 partnerships. The investments listed in this chart each had a cost basis in excess of \$3.0 million at June 30, 2000. Additional investments of less than \$3.0 million were made in 518 companies totaling \$271.9 million.





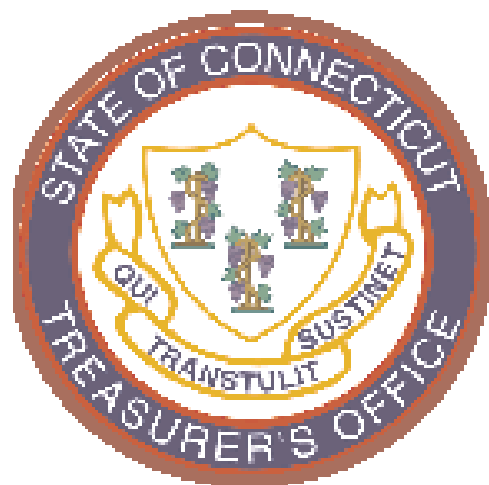


Statistical  

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Section





## COMBINED INVESTMENT FUNDS

### TOTAL NET ASSET VALUE BY PENSION PLANS AND TRUST FUNDS JUNE 30, 2000

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<b>Retirement Funds</b>	<b>Net Asset Value</b>
Teachers' Retirement Fund	\$11,940,222,779
State Employees Retirement Fund	8,284,938,346
Connecticut Municipal Employees' Retirement Fund	1,373,221,508
State Judges Retirement Fund	141,210,024
The Probate Court Retirement Fund	70,761,332
State's Attorney Retirement Fund	901,703
<b>Non-retirement Trust Funds</b>	
Soldiers, Sailors and Marines' Fund	57,517,049
Policemen and Firemen Survivors' Retirement Fund	18,059,624
Connecticut Arts Endowment Fund	12,438,900
School Fund	9,464,923
The Ida Eaton Cotton Fund	2,116,446
Hopemead Fund	1,754,903
Andrew C. Clark Fund	994,214
Agricultural College Fund	622,247
<b>TOTAL</b>	<b><u>\$21,914,223,998</u></b>

## COMBINED INVESTMENT FUNDS

### STATEMENT OF INVESTMENT ACTIVITY BY PENSION PLAN FOR THE FISCAL YEAR ENDING JUNE 30, 2000

	CASH RESERVE FUND	MUTUAL EQUITY FUND	MUTUAL FIXED INCOME FUND	INTER- NATIONAL STOCK FUND	REAL ESTATE FUND	COMMERCIAL MORTGAGE FUND	PRIVATE INVESTMENT FUND	TOTALS
<b>Teachers' Retirement Fund</b>								
Book Value at June 30, 1999	\$104,344,428	\$1,117,610,911	\$3,093,274,342	\$741,104,511	\$275,771,703	\$128,973,540	\$647,310,700	\$6,108,390,137
Market Value at June 30, 1999	\$104,344,428	\$5,026,528,501	\$3,310,192,262	\$1,348,027,119	\$233,442,185	\$129,205,331	\$641,115,104	\$10,792,854,929
Shares Purchased	617,493,288	-	329,475,000	-	52,859,650	-	391,831,860	1,391,659,797
Shares Redeemed	(464,103,679)	(584,000,000)	(136,040,000)	(218,368)	(13,623,621)	(30,545,180)	-	(1,228,530,848)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	455,559,738	8,569,852	98,286	(2,075,394)	(205,306)	-	461,947,176
Net Investment Income Earned	13,335,103	52,721,206	211,098,678	18,773,195	17,783,125	11,100,335	85,871,865	410,683,507
Net Investment Income Distributed	(13,335,103)	(52,721,206)	(211,098,678)	(18,773,195)	(17,783,125)	(11,100,335)	(85,871,865)	(410,683,507)
Changes in Market Value of Fund Shares	-	(56,777,922)	(30,724,463)	251,618,836	7,386,081	(2,422,923)	353,212,114	522,291,723
Market Value at June 30, 2000	\$257,734,037	\$4,841,310,316	\$3,481,472,652	\$1,599,525,873	\$277,988,900	\$96,031,923	\$1,386,159,078	\$11,940,222,779
Book Value at June 30, 2000	257,734,037	989,170,649	3,295,279,194	740,984,430	312,932,338	98,223,055	1,039,142,560	6,733,466,263
Shares Outstanding	257,734,037	5,324,972	32,123,810	5,887,525	4,590,625	1,312,506	12,053,014	319,026,490
Market Value per Share	\$ 1.00	\$ 909.17	\$ 108.38	\$ 271.68	\$ 60.56	\$ 73.17	\$ 115.01	
<b>State Employees' Retirement Fund</b>								
Book Value at June 30, 1999	\$51,957,827	\$788,155,079	\$2,187,280,572	\$522,274,560	\$194,313,938	\$90,347,404	\$455,383,727	\$4,289,713,106
Market Value at June 30, 1999	\$51,957,827	\$3,454,444,756	\$2,358,990,115	\$951,753,245	\$164,875,483	\$90,995,471	\$451,277,045	\$7,524,293,945
Shares Purchased	325,538,990	-	234,000,000	-	37,333,699	-	275,808,074	872,680,764
Shares Redeemed	(291,935,086)	(380,000,000)	(96,960,000)	(154,175)	(9,622,087)	(21,512,061)	-	(800,183,410)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	294,240,375	6,813,789	69,551	(1,443,061)	(28,996)	-	299,651,657
Net Investment Income Earned	5,718,731	36,384,792	150,407,133	13,254,518	12,559,860	7,817,634	60,444,686	286,587,354
Net Investment Income Distributed	(5,718,731)	(36,384,792)	(150,407,133)	(13,254,518)	(12,559,860)	(7,817,634)	(60,444,686)	(286,587,354)
Changes in Market Value of Fund Shares	-	(18,549,045)	(22,602,682)	177,651,348	5,193,893	(1,821,986)	248,623,865	388,495,392
Market Value at June 30, 2000	\$85,561,731	\$3,350,136,085	\$2,480,241,222	\$1,129,319,968	\$196,337,927	\$67,632,427	\$975,708,984	\$8,284,938,346
Book Value at June 30, 2000	85,561,731	702,395,453	2,331,134,361	522,189,936	220,582,489	68,806,346	731,191,801	4,661,862,117
Shares Outstanding	85,561,731	3,684,825	22,885,372	4,156,794	3,242,266	924,359	8,484,043	128,939,391
Market Value per Share	\$ 1.00	\$ 909.17	\$ 108.38	\$ 271.68	\$ 60.56	\$ 73.17	\$ 115.01	
<b>Municipal Employees' Retirement Fund</b>								
Book Value at June 30, 1999	\$35,966,742	\$120,686,022	\$344,892,934	\$80,105,255	\$30,267,362	\$14,051,881	\$82,541,096	\$708,511,292
Market Value at June 30, 1999	\$35,966,742	\$540,722,159	\$369,712,262	\$145,965,777	\$25,813,076	\$14,253,413	\$80,525,294	\$1,212,958,725
Shares Purchased	56,042,729	-	34,000,000	-	-	5,845,003	-	49,214,837
145,102,568								
Shares Redeemed	(62,920,145)	(31,675,000)	-	(23,645)	(1,506,444)	(3,369,622)	-	(99,494,856)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	24,681,972	-	10,666	(218,247)	19,305	-	24,493,695
Net Investment Income Earned	1,533,502	5,893,949	24,400,879	2,032,781	1,966,384	1,224,545	10,785,673	47,837,712
Net Investment Income Distributed	(1,533,502)	(5,893,949)	(24,400,879)	(2,032,781)	(1,966,384)	(1,224,545)	(10,785,673)	(47,837,712)
Changes in Market Value of Fund Shares	-	20,596,654	(2,541,167)	27,245,526	805,482	(309,241)	44,364,121	90,161,376
Market Value at June 30, 2000	\$29,089,326	\$554,325,785	\$401,171,095	\$173,198,323	\$30,738,870	\$10,593,856	\$174,104,252	\$1,373,221,508
Book Value at June 30, 2000	29,089,326	113,692,994	378,892,934	80,092,276	34,387,673	10,701,564	131,755,933	778,612,700
Shares Outstanding	29,089,326	609,705	3,701,636	637,507	507,612	144,790	1,513,882	36,204,458
Market Value per Share	\$ 1.00	\$ 909.17	\$ 108.38	\$ 271.68	\$ 60.56	\$ 73.17	\$ 115.01	

**COMBINED INVESTMENT FUNDS**  
**STATEMENT OF INVESTMENT ACTIVITY BY PENSION PLAN (Continued)**  
**FOR THE FISCAL YEAR ENDING JUNE 30, 2000**

	CASH RESERVE FUND	MUTUAL EQUITY FUND	MUTUAL FIXED INCOME FUND	INTER- NATIONAL STOCK FUND	REAL ESTATE FUND	COMMERCIAL MORTGAGE FUND	PRIVATE INVESTMENT FUND	TOTALS
<b>Probate Court Retirement Fund</b>								
Book Value at June 30, 1999	\$ 1,039,948	\$ 6,443,459	\$ 18,679,729	\$ 4,985,705	\$ 1,740,232	\$ 833,278	\$ 2,320,899	\$ 36,043,250
Market Value at June 30, 1999	\$ 1,039,948	\$ 29,779,095	\$ 20,430,058	\$ 9,119,113	\$ 1,477,044	\$ 831,295	\$ 2,325,580	\$ 65,002,132
Shares Purchased	3,398,204	-	2,100,000	-	334,455	-	1,421,330	7,253,989
Shares Redeemed	(2,499,983)	(3,900,000)	-	(1,477)	(86,200)	(196,525)	-	(6,684,185)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	3,065,285	-	669	(12,901)	(2,150)	-	3,050,904
Net Investment Income Earned	98,592	309,197	1,356,804	126,995	112,517	71,420	311,493	2,387,017
Net Investment Income Distributed	(98,592)	(309,197)	(1,356,804)	(126,995)	(112,517)	(71,420)	(311,493)	(2,387,017)
Changes in Market Value of Fund Shares	-	(736,382)	(140,252)	1,702,143	46,502	(14,760)	1,281,241	2,138,491
Market Value at June 30, 2000	\$ 1,938,168	\$ 28,207,998	\$ 22,389,806	\$ 10,820,448	\$ 1,758,900	\$ 617,860	\$ 5,028,152	\$ 70,761,332
Book Value at June 30, 2000	1,938,168	5,608,744	20,779,729	4,984,897	1,975,587	634,603	3,742,230	39,663,958
Shares Outstanding	1,938,168	31,026	206,592	39,828	29,046	8,445	43,721	2,296,826
Market Value per Share	\$ 1.00	\$ 909.17	\$ 108.38	\$ 271.68	\$ 60.56	\$ 73.17	\$ 115.01	
<b>Judges' Retirement Fund</b>								
Book Value at June 30, 1999	\$ 6,299,911	\$ 12,521,422	\$ 35,923,026	\$ 7,985,605	\$ 2,860,773	\$ 1,380,949	\$ 11,399,660	\$ 78,371,347
Market Value at June 30, 1999	\$ 6,299,911	\$ 50,804,388	\$ 38,031,194	\$ 14,412,725	\$ 2,382,753	\$ 1,404,032	\$ 11,001,640	\$ 124,336,644
Shares Purchased	4,250,521	-	-	-	539,541	-	6,723,899	11,513,960
Shares Redeemed	(7,162,915)	-	-	(2,335)	(139,057)	(331,924)	-	(7,636,232)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	-	1,041	(23,466)	2,672	-	(19,753)
Net Investment Income Earned	257,341	575,037	2,376,796	200,718	181,515	120,624	1,473,574	5,185,604
Net Investment Income Distributed	(257,341)	(575,037)	(2,376,796)	(200,718)	(181,515)	(120,624)	(1,473,574)	(5,185,604)
Changes in Market Value of Fund Shares	-	4,481,642	(264,104)	2,690,248	77,674	(31,232)	6,061,177	13,015,405
Market Value at June 30, 2000	\$ 3,387,516	\$ 55,286,030	\$ 37,767,090	\$ 17,101,680	\$ 2,837,444	\$ 1,043,547	\$ 23,786,716	\$ 141,210,024
Book Value at June 30, 2000	3,387,516	12,521,422	35,923,026	7,984,311	3,237,790	1,051,697	18,123,559	82,229,322
Shares Outstanding	3,387,516	60,809	348,480	62,948	46,857	14,263	206,832	4,127,704
Market Value per Share	\$ 1.00	\$ 909.17	\$ 108.38	\$ 271.68	\$ 60.56	\$ 73.17	\$ 115.01	
<b>State's Attorneys' Retirement Fund</b>								
Book Value at June 30, 1999	\$ 240,781	\$ 92,347	\$ 157,239	\$ -	\$ 5,181	\$ -	\$ -	\$ 495,549
Market Value at June 30, 1999	\$ 240,781	\$ 454,548	\$ 186,054	\$ -	\$ 4,968	\$ -	\$ -	\$ 886,348
Shares Purchased	57,883	-	-	-	1,125	-	-	59,008
Shares Redeemed	(82,281)	-	-	-	(290)	-	-	(82,571)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	-	-	(10)	-	-	(10)
Net Investment Income Earned	14,891	5,145	11,627	-	379	-	-	32,043
Net Investment Income Distributed	(14,891)	(5,145)	(11,627)	-	(379)	-	-	(32,043)
Changes in Market Value of Fund Shares	-	40,097	(1,293)	-	123	-	-	38,927
Market Value at June 30, 2000	\$ 216,383	\$ 494,645	\$ 184,760	\$ -	\$ 5,916	\$ -	\$ -	\$ 901,703
Book Value at June 30, 2000	216,383	92,347	157,239	-	6,006	-	-	471,976
Shares Outstanding	216,383	544	1,705	-	98	-	-	218,729
Market Value per Share	\$ 1.00	\$ 909.17	\$ 108.38	\$ -	\$ 60.56	\$ -	\$ -	

## COMBINED INVESTMENT FUNDS

### STATEMENT OF INVESTMENT ACTIVITY BY TRUST FOR THE FISCAL YEAR ENDING JUNE 30, 2000

	CASH RESERVE FUND	MUTUAL EQUITY FUND	MUTUAL FIXED INCOME FUND	INTER- NATIONAL STOCK FUND	REAL ESTATE FUND	COMMERCIAL MORTGAGE FUND	PRIVATE INVESTMENT FUND	TOTALS
<b>Soldiers' Sailors' &amp; Marines' Fund</b>								
Book Value at June 30, 1999	\$ 333,874	\$ 1,095,686	\$ 49,098,734	\$ -	\$ -	\$ -	\$ -	\$ 50,528,295
Market Value at June 30, 1999	\$ 333,874	\$ 5,731,229	\$ 51,578,409	\$ -	\$ -	\$ -	\$ -	\$ 57,643,512
Shares Purchased	3,773,675	-	-	-	-	-	-	3,773,675
Shares Redeemed	(4,047,531)	-	-	-	-	-	-	(4,047,531)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	-	-	-	-	-	-
Net Investment Income Earned	4,234	64,869	3,223,443	-	-	-	-	3,292,546
Net Investment Income Distributed	(4,234)	(64,869)	(3,223,443)	-	-	-	-	(3,292,546)
Changes in Market Value of Fund Shares	-	505,573	(358,179)	-	-	-	-	147,394
Market Value at June 30, 2000	\$ 60,018	\$ 6,236,802	\$ 51,220,230	\$ -	\$ -	\$ -	\$ -	\$ 57,517,049
Book Value at June 30, 2000	60,018	1,095,686	49,098,734	-	-	-	-	\$ 50,254,438
Shares Outstanding	60,018	6,860	472,613	-	-	-	-	539,491
Market Value per Share	\$ 1.00	\$ 909.17	\$ 108.38	\$ -	\$ -	\$ -	\$ -	-
<b>Endowment for the Arts</b>								
Book Value at June 30, 1999	\$ 1,418,577	\$ -	\$ 10,472,429	\$ -	\$ -	\$ -	\$ -	\$ 11,891,006
Market Value at June 30, 1999	\$ 1,418,577	\$ -	\$ 10,536,895	\$ -	\$ -	\$ -	\$ -	\$ 11,955,472
Shares Purchased	1,989,303	-	1,000,000	-	-	-	-	2,989,303
Shares Redeemed	(2,450,188)	-	-	-	-	-	-	(2,450,188)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	-	-	-	-	-	-
Net Investment Income Earned	82,629	-	665,279	-	-	-	-	747,908
Net Investment Income Distributed	(82,629)	-	(665,279)	-	-	-	-	(747,908)
Changes in Market Value of Fund Shares	-	-	(55,687)	-	-	-	-	(55,687)
Market Value at June 30, 2000	\$ 957,692	\$ -	\$ 11,481,208	\$ -	\$ -	\$ -	\$ -	\$ 12,438,900
Book Value at June 30, 2000	957,692	-	11,472,429	-	-	-	-	\$ 12,430,122
Shares Outstanding	957,692	-	105,938	-	-	-	-	1,063,630
Market Value per Share	\$ 1.00	\$ -	\$ 108.38	\$ -	\$ -	\$ -	\$ -	-
<b>Agricultural College Fund</b>								
Book Value at June 30, 1999	\$ 40,757	\$ 62,061	\$ 206,912	\$ -	\$ -	\$ -	\$ -	\$ 309,729
Market Value at June 30, 1999	\$ 40,757	\$ 331,652	\$ 220,406	\$ -	\$ -	\$ -	\$ -	\$ 592,815
Shares Purchased	20,237	-	20,000	-	-	-	-	40,237
Shares Redeemed	(17,017)	(20,000)	-	-	-	-	-	(37,017)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	16,298	-	-	-	-	-	16,298
Net Investment Income Earned	2,087	3,612	14,538	-	-	-	-	20,237
Net Investment Income Distributed	(2,087)	(3,612)	(14,538)	-	-	-	-	(20,237)
Changes in Market Value of Fund Shares	-	11,430	(1,516)	-	-	-	-	9,914
Market Value at June 30, 2000	\$ 43,977	\$ 339,380	\$ 238,890	\$ -	\$ -	\$ -	\$ -	\$ 622,247
Book Value at June 30, 2000	43,977	58,359	226,912	-	-	-	-	\$ 329,247
Shares Outstanding	43,977	373	2,204	-	-	-	-	46,555
Market Value per Share	\$ 1.00	\$ 909.17	\$ 108.38	\$ -	\$ -	\$ -	\$ -	-



**COMBINED INVESTMENT FUNDS**

**STATEMENT OF INVESTMENT ACTIVITY BY TRUST (Continued)  
FOR THE FISCAL YEAR ENDING JUNE 30, 2000**

	CASH RESERVE FUND	MUTUAL EQUITY FUND	MUTUAL FIXED INCOME FUND	INTER- NATIONAL STOCK FUND	REAL ESTATE FUND	COMMERCIAL MORTGAGE FUND	PRIVATE INVESTMENT FUND	TOTALS
<b>Ida Eaton Cotton Fund</b>								
Book Value at June 30, 1999	\$ 113,470	\$ 212,656	\$ 723,347	\$ -	\$ -	\$ -	\$ -	1,049,474
Market Value at June 30, 1999	\$ 113,470	\$ 1,124,215	\$ 779,090	\$ -	\$ -	\$ -	\$ -	2,016,775
Shares Purchased	68,979	-	60,000	-	-	-	-	128,979
Shares Redeemed	(58,530)	(60,000)	-	-	-	-	-	(118,530)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	48,774	-	-	-	-	-	48,774
Net Investment Income Earned	5,664	12,297	50,977	-	-	-	-	68,938
Net Investment Income Distributed	(5,664)	(12,297)	(50,977)	-	-	-	-	(68,938)
Changes in Market Value of Fund Shares	-	45,812	(5,364)	-	-	-	-	40,448
Market Value at June 30, 2000	\$ 123,920	\$ 1,158,800	\$ 833,726	\$ -	\$ -	\$ -	\$ -	2,116,446
Book Value at June 30, 2000	123,920	201,429	783,347	-	-	-	-	1,108,696
Shares Outstanding	123,920	1,275	7,693	-	-	-	-	132,887
Market Value per Share	\$ 1.00	\$ 909.17	\$ 108.38	\$ -	\$ -	\$ -	\$ -	
<b>Andrew Clark Fund</b>								
Book Value at June 30, 1999	\$ 43,370	\$ 103,041	\$ 357,231	\$ -	\$ -	\$ -	\$ -	503,642
Market Value at June 30, 1999	\$ 43,370	\$ 541,660	\$ 362,823	\$ -	\$ -	\$ -	\$ -	947,854
Shares Purchased	32,275	-	45,000	-	-	-	-	77,275
Shares Redeemed	(27,773)	(45,000)	-	-	-	-	-	(72,773)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	36,532	-	-	-	-	-	36,532
Net Investment Income Earned	2,077	5,810	24,389	-	-	-	-	32,275
Net Investment Income Distributed	(2,077)	(5,810)	(24,389)	-	-	-	-	(32,275)
Changes in Market Value of Fund Shares	-	7,811	(2,484)	-	-	-	-	5,326
Market Value at June 30, 2000	\$ 47,872	\$ 541,003	\$ 405,339	\$ -	\$ -	\$ -	\$ -	994,214
Book Value at June 30, 2000	47,872	94,573	402,231	-	-	-	-	544,676
Shares Outstanding	47,872	595	3,740	-	-	-	-	52,207
Market Value per Share	\$ 1.00	\$ 909.17	\$ 108.38	\$ -	\$ -	\$ -	\$ -	
<b>School Fund</b>								
Book Value at June 30, 1999	\$ 634,079	\$ 986,979	\$ 2,981,754	\$ -	\$ -	\$ -	\$ -	4,602,812
Market Value at June 30, 1999	\$ 634,079	\$ 5,216,288	\$ 3,181,789	\$ -	\$ -	\$ -	\$ -	9,032,156
Shares Purchased	305,500	-	300,000	-	-	-	-	605,500
Shares Redeemed	(288,090)	(300,000)	-	-	-	-	-	(588,090)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	243,852	-	-	-	-	-	243,852
Net Investment Income Earned	40,061	56,899	210,278	-	-	-	-	307,240
Net Investment Income Distributed	(40,061)	(56,899)	(210,278)	-	-	-	-	(307,240)
Changes in Market Value of Fund Shares	-	193,371	(21,864)	-	-	-	-	171,507
Market Value at June 30, 2000	\$ 651,488	\$ 5,353,511	\$ 3,459,925	\$ -	\$ -	\$ -	\$ -	9,464,923
Book Value at June 30, 2000	\$ 651,488	\$ 930,831	\$ 3,281,754	\$ -	\$ -	\$ -	\$ -	4,864,073
Shares Outstanding	651,488	5,888	31,925	-	-	-	-	689,301
Market Value per Share	\$ 1.00	\$ 909.17	\$ 108.38	\$ -	\$ -	\$ -	\$ -	

## COMBINED INVESTMENT FUNDS

### STATEMENT OF INVESTMENT ACTIVITY BY TRUST (Continued) FOR THE FISCAL YEAR ENDING JUNE 30, 2000

	CASH RESERVE FUND	MUTUAL EQUITY FUND	MUTUAL FIXED INCOME FUND	INTER- NATIONAL STOCK FUND	REAL ESTATE FUND	COMMERCIAL MORTGAGE FUND	PRIVATE INVESTMENT FUND	TOTALS
<b>Hopemead Fund</b>								
Book Value at June 30, 1999	\$ 700,549	\$ 134,254	\$ 187,244	\$ -	\$ -	\$ -	\$ -	\$ 1,022,047
Market Value at June 30, 1999	\$ 700,549	\$ 704,505	\$ 225,996	\$ -	\$ -	\$ -	\$ -	\$ 1,631,049
Shares Purchased	63,276	-	-	-	-	-	-	63,276
Shares Redeemed	-	-	-	-	-	-	-	-
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	-	-	-	-	-	-
Net Investment Income Earned	41,182	7,973	14,122	-	-	-	-	63,276
Net Investment Income Distributed	(41,182)	(7,973)	(14,122)	-	-	-	-	(63,276)
Changes in Market Value of Fund Shares	-	62,147	(1,571)	-	-	-	-	60,577
Market Value at June 30, 2000	\$ 763,825	\$ 766,652	\$ 224,425	\$ -	\$ -	\$ -	\$ -	\$ 1,754,903
Book Value at June 30, 2000	\$ 763,825	\$ 134,254	\$ 187,244	\$ -	\$ -	\$ -	\$ -	\$ 1,085,324
Shares Outstanding	763,825	843	2,071	-	-	-	-	766,739
Market Value per Share	\$ 1.00	\$ 909.17	\$ 108.38	\$ -	\$ -	\$ -	\$ -	
<b>Police &amp; Fireman's Survivors' Benefit Fund</b>								
Book Value at June 30, 1999	\$ 3,433,822	\$ 6,859,157	\$ 5,134,231	\$ -	\$ 380,191	\$ 193,475	\$ -	\$ 16,000,876
Market Value at June 30, 1999	\$ 3,433,822	\$ 7,718,736	\$ 5,084,118	\$ -	\$ 382,127	\$ 188,324	\$ -	\$ 16,807,127
Shares Purchased	675,908	-	-	-	86,527	-	-	762,436
Shares Redeemed	(93,409)	-	-	-	(22,301)	(44,688)	-	(160,398)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	-	-	140	(1,611)	-	(1,471)
Net Investment Income Earned	205,560	87,366	317,737	-	29,108	16,166	-	655,937
Net Investment Income Distributed	(205,560)	(87,366)	(317,737)	-	(29,108)	(16,166)	-	(655,937)
Changes in Market Value of Fund Shares	-	680,898	(35,306)	-	8,553	(2,215)	-	651,931
Market Value at June 30, 2000	\$ 4,016,321	\$ 8,399,634	\$ 5,048,812	\$ -	\$ 455,047	\$ 139,810	\$ -	\$ 18,059,624
Book Value at June 30, 2000	\$ 4,016,321	\$ 6,859,157	\$ 5,134,231	\$ -	\$ 444,557	\$ 147,176	\$ -	\$ 16,601,442
Shares Outstanding	4,016,321	9,239	46,586	-	7,515	1,911	-	4,081,571
Market Value per Share	\$ 1.00	\$ 909.17	\$ 108.38	\$ -	\$ 60.56	\$ 73.17	\$ -	

## COMBINED INVESTMENT FUNDS

### SUPPLEMENTAL SCHEDULE OF FINANCIAL HIGHLIGHTS

	MUTUAL EQUITY FISCAL YEAR ENDED JUNE 30,					PRIVATE INVESTMENT FISCAL YEAR ENDED JUNE 30,				
	2000	1999	1998	1997	1996	2000	1999	1998	1997	1996
<b>PER SHARE DATA</b>										
Net Asset Value- Beginning of Period	\$835.47	\$708.74	\$558.77	\$434.79	\$356.79	\$81.40	\$87.28	\$86.79	\$102.98	\$86.82
<b>INCOME FROM INVESTMENT OPERATIONS</b>										
Net Investment Income (Loss)	8.87	8.46	8.84	8.32	7.47	18.12	4.23	11.84	17.96	26.08
Net Gains or (Losses) on Securities (Both Realized and Unrealized)	74.23	127.32	148.87	123.88	77.60	24.17	(5.30)	4.29	(14.09)	15.88
Total from Investment Operations	83.10	135.78	157.71	132.20	85.07	42.29	(1.07)	16.13	3.87	41.96
<b>LESS DISTRIBUTIONS</b>										
Dividends from Net Investment Income	(9.40)	(9.05)	(7.74)	(8.22)	(7.07)	(8.68)	(4.81)	(15.64)	(20.06)	(25.80)
Net Asset Value - End of Period	\$909.17	\$835.47	\$708.74	\$558.77	\$434.79	\$115.01	\$81.40	\$87.28	\$86.79	\$102.98
<b>TOTAL RETURN</b>	<b>10.03%</b>	<b>19.38%</b>	<b>28.40%</b>	<b>30.74%</b>	<b>23.98%</b>	<b>53.86%</b>	<b>-0.81%</b>	<b>18.55%</b>	<b>5.68%</b>	<b>43.78%</b>
<b>RATIOS</b>										
Net Assets - End of Period (\$000,000 Omitted)	\$8,853	\$9,124	\$7,736	\$7,340	\$5,715	\$2,565	\$1,186	\$795	\$542	\$303
Ratio of Expenses to Average Net Assets (excl. sec. lending fees & rebates)	0.22%	0.27%	0.17%	0.13%	0.20%	0.48%	1.21%	0.55%	0.06%	0.03%
Ratio of Expenses to Average Net Assets	0.43%	0.57%	0.56%	0.63%	0.28%	na	na	na	na	na
Ratio of Net Investment Income ( Loss) to Average Net Assets	1.01%	1.10%	1.42%	1.74%	1.88%	17.91%	5.28%	14.25%	17.65%	31.87%
<b>INTERNATIONAL STOCK FISCAL YEAR ENDED JUNE 30,</b>										
	2000	1999	1998	1997	1996					
<b>PER SHARE DATA</b>										
Net Asset Value- Beginning of Period	\$228.93	\$217.03	\$216.52	\$189.26	\$170.57	\$109.13	\$113.15	\$108.04	\$104.20	\$104.94
<b>INCOME FROM INVESTMENT OPERATIONS</b>										
Net Investment Income (Loss)	3.26	5.29	3.54	2.78	3.05	8.01	6.79	8.65	7.47	8.20
Net Gains or (Losses) on Securities (Both Realized and Unrealized)	42.68	9.34	(0.17)	26.76	18.39	(1.44)	(4.44)	3.21	3.26	(1.80)
Total from Investment Operations	45.94	14.63	3.37	29.54	21.44	6.57	2.35	11.86	10.73	6.40
<b>LESS DISTRIBUTIONS</b>										
Dividends from Net Investment Income	(3.19)	(2.73)	(2.86)	(2.28)	(2.75)	(7.32)	(6.37)	(6.75)	(6.89)	(6.63)
Distributions from Capital Gains	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(0.51)
Net Asset Value - End of Period	\$271.68	\$228.93	\$217.03	\$216.52	\$189.26	\$108.38	\$109.13	\$113.15	\$108.04	\$104.20
<b>TOTAL RETURN</b>	<b>20.13%</b>	<b>6.77%</b>	<b>1.52%</b>	<b>15.67%</b>	<b>12.58%</b>	<b>5.77%</b>	<b>2.64%</b>	<b>10.52%</b>	<b>10.62%</b>	<b>5.97%</b>
<b>RATIOS</b>										
Net Assets - End of Period (\$000,000 Omitted)	\$2,930	\$2,469	\$2,438	\$2,440	\$2,133	\$6,496	\$6,170	\$6,302	\$4,250	\$3,696
Ratio of Expenses to Average Net Assets (excl. sec. lending fees & rebates)	0.36%	0.24%	0.52%	0.65%	0.39%	0.16%	0.17%	0.16%	0.23%	0.19%
Ratio of Expenses to Average Net Assets	1.46%	1.27%	1.71%	1.62%	0.70%	0.71%	0.69%	0.61%	0.67%	0.40%
Ratio of Net Investment Income ( Loss) to Average Net Assets	1.30%	1.98%	1.69%	1.45%	1.70%	6.79%	6.83%	7.09%	7.06%	6.90%
<b>COMMERCIAL MORTGAGE FISCAL YEAR ENDED JUNE 30,</b>										
	2000	1999	1998	1997	1996					
<b>PER SHARE DATA</b>										
Net Asset Value- Beginning of Period	\$74.97	\$77.12	\$72.87	\$71.67	\$72.93	\$59.48	\$58.53	\$54.06	\$51.91	\$55.48
<b>INCOME FROM INVESTMENT OPERATIONS</b>										
Net Investment Income (Loss)	6.98	6.24	8.33	6.70	5.66	2.34	1.71	6.33	3.58	3.89
Net Gains or (Losses) on Securities (Both Realized and Unrealized)	(1.29)	(1.78)	5.01	0.66	(1.20)	3.00	0.03	8.60	1.62	(3.34)
Total from Investment Operations	5.69	4.46	13.34	7.36	4.46	5.34	1.74	14.93	5.20	0.55
<b>LESS DISTRIBUTIONS</b>										
Dividends from Net Investment Income	(7.49)	(6.61)	(9.09)	(6.16)	(5.72)	(4.26)	(0.79)	(10.46)	(3.05)	(4.12)
Net Asset Value - End of Period	\$73.17	\$74.97	\$77.12	\$72.87	\$71.67	\$60.56	\$59.48	\$58.53	\$54.06	\$51.91
<b>TOTAL RETURN</b>	<b>8.26%</b>	<b>6.10%</b>	<b>17.71%</b>	<b>9.82%</b>	<b>6.46%</b>	<b>9.18%</b>	<b>9.96%</b>	<b>25.63%</b>	<b>10.69%</b>	<b>0.83%</b>
<b>RATIOS</b>										
Net Assets - End of Period (\$000,000 Omitted)	\$176	\$237	\$275	\$328	\$449	\$510	\$428	\$417	\$488	\$986
Ratio of Expenses to Average Net Assets (excl. sec. lending fees & rebates)	0.39%	0.35%	0.32%	0.44%	0.39%	0.17%	0.42%	0.70%	0.70%	0.94%
Ratio of Expenses to Average Net Assets	na	na	na	na	na	na	na	na	na	na
Ratio of Net Investment Income ( Loss) to Average Net Assets	9.22%	8.64%	9.45%	8.91%	11.13%	3.95%	6.65%	6.75%	5.86%	6.99%

**COMBINED INVESTMENT FUNDS**  
**SUMMARY OF OPERATIONS (Dollars in Thousands)**  
**FISCAL YEARS ENDING JUNE 30**

	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Investment Income (1)	\$1,002,774	\$731,983	\$734,928	\$648,136	\$621,540	\$510,890	\$453,150	\$462,742	\$438,572	\$415,791
Expenses (1)	50,552	54,417	40,817	38,316	36,558	36,623	45,682	44,137	32,180	18,790
Net Investment Income	952,222	677,566	694,111	609,820	584,982	474,267	407,468	418,605	406,392	397,001
Realized Gains/(Losses)	1,522,994	673,802	1,350,408	277,293	1,240,686	(7,954)	539,865	387,899	433,240	127,274
Change in Unrealized Gains/(Losses)	90,500	530,276	681,413	1,727,651	(103,966)	998,758	(473,565)	357,989	(143,362)	(248,203)
<b>Total</b>	<b>\$ 2,565,716</b>	<b>\$1,881,644</b>	<b>\$2,725,932</b>	<b>\$2,614,764</b>	<b>\$1,721,702</b>	<b>\$1,465,070</b>	<b>\$473,768</b>	<b>\$1,164,493</b>	<b>\$696,270</b>	<b>\$276,072</b>

(1) Securities lending income and expenses are shown net in the Investment Income line above for all periods presented.

Source: Amounts were derived from Custodial Records.

**COMBINED INVESTMENT FUNDS**  
**PENSION AND TRUST FUNDS**  
**BALANCES <sup>(1)</sup> IN COMBINED INVESTMENT FUNDS (Dollars in Thousands)**  
**AT JUNE 30, 2000**

Fund Name	Teachers' Retirement Fund		State Employees' Retirement Fund		Municipal Employees' Retirement Fund		Judges Retirement Fund		Probate Court Retirement Fund		State's Attorneys' Retirement Fund		Trust Funds	
	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage
CRA	\$257,734	2.16%	\$85,562	1.03%	\$29,089	2.12%	\$3,388	2.40%	\$1,938	2.74%	\$216	24.00%	\$6,665	6.47%
MEF	4,841,310	40.55%	3,350,136	40.44%	554,326	40.37%	55,286	39.15%	28,208	39.86%	495	54.86%	22,796	22.14%
ISF	1,599,526	13.40%	1,129,320	13.63%	173,198	12.61%	17,102	12.11%	10,820	15.29%	-	0.00%	-	0.00%
REF	277,989	2.33%	196,338	2.37%	30,739	2.24%	2,837	2.01%	1,759	2.49%	6	0.66%	455	0.44%
MFIF	3,481,473	29.16%	2,480,241	29.94%	401,171	29.21%	37,767	26.75%	22,390	31.64%	185	20.49%	72,913	70.81%
CMF	96,032	0.80%	67,632	0.82%	10,594	0.77%	1,044	0.74%	618	0.87%	-	0.00%	140	0.14%
PIF	1,386,159	11.61%	975,709	11.78%	174,104	12.68%	23,787	16.84%	5,028	7.11%	-	0.00%	-	0.00%
<b>Total</b>	<b>\$11,940,223</b>	<b>100.00%</b>	<b>\$8,284,938</b>	<b>100.00%</b>	<b>\$1,373,222</b>	<b>100.00%</b>	<b>\$141,210</b>	<b>100.00%</b>	<b>\$70,761</b>	<b>100.00%</b>	<b>\$902</b>	<b>100.00%</b>	<b>\$102,968</b>	<b>100.00%</b>

(1) Based on Net Asset Value

Source: Amounts were derived from custodial records.

**COMBINED INVESTMENT FUNDS**  
**LIST OF INVESTMENT ADVISORS**  
**AND NET ASSETS UNDER MANAGEMENT**  
**JUNE 30, 2000**

Name of Fund	Investment Strategy	Net Assets Under Management	Percent of Fund Total
<b>CASH RESERVE ACCOUNT (CRA)</b>			
State Street Global Advisors	Active	\$ 1,533,613,137	100.0%
<b>SUBTOTAL CRA</b>		<b>\$ 1,533,613,137</b>	<b>100.0%</b>
<b>MUTUAL EQUITY FUND (MEF)</b>			
<b>Large Cap</b>		<b>\$ 6,849,223,561</b>	<b>77.4%</b>
State Street Global Advisors	Passive - Indexed	2,172,948,950	24.6
J.P. Morgan Investment Management, Inc.	Passive - Enhanced	2,476,874,063	28.0
BGI Barclays Global Investors, N.A.	Passive - Enhanced	2,199,400,548	24.8
<b>Small/Mid Cap</b>		<b>\$ 648,189,749</b>	<b>7.3%</b>
The Travelers Investment Management Co.	Passive-Enhanced	329,488,679	3.7
AXA Rosenberg Investment Management	Passive-Enhanced	318,701,070	3.6
<b>Small/Mid Cap</b>		<b>\$ 1,351,525,119</b>	<b>15.3%</b>
Brown Capital Management, Inc.	Active	357,587,492	4.0
ValueQuest Ltd.	Active	237,476,167	2.7
Cowen Asset Management	Active	225,115,171	2.6
Dresdner RCM Global Investors LLC	Active	360,683,506	4.1
Alliance Capital	Active	170,662,783	1.9
<b>Other <sup>(1)</sup></b>		<b>\$ 3,618,213</b>	<b>0.0%</b>
<b>SUBTOTAL MEF</b>		<b>\$ 8,852,556,642</b>	<b>100.0%</b>
<b>INTERNATIONAL STOCK FUND (ISF)</b>			
<b>EAFE - Europe</b>		<b>\$ 680,963,252</b>	<b>23.2%</b>
State Street Global Advisors	Passive - Enhanced	680,963,252	23.2
<b>Core</b>		<b>\$ 1,767,005,941</b>	<b>60.4%</b>
Morgan Stanley Asset Management	Active	726,141,347	24.8
Grantham, Mayo, Van Otterloo & Co.	Active	594,587,545	20.3
Smith Barney Capital Management	Active	248,201,259	8.5
DSI International Management	Active	198,075,790	6.8
<b>Emerging</b>		<b>\$ 468,627,576</b>	<b>16.0%</b>
Morgan Stanley Asset Management	Active	293,534,365	10.0
Pictet International Management	Active	175,093,211	6.0
<b>Other <sup>(1)</sup></b>		<b>\$ 13,369,522</b>	<b>0.4%</b>
<b>SUBTOTAL ISF</b>		<b>\$ 2,929,966,291</b>	<b>100.0%</b>
<b>REAL ESTATE FUND (REF)</b>			
AEW Capital Management, LP	Active	\$201,312,626	39.5%
Apollo Real Estate Investment Fund III	Active	85,823,060	16.8
Walton Street Real Estate Fund II L.P.	Active	69,677,100	13.7
Tishman	Active	45,789,637	9.0
TimeSquare Realty Investors	Active	14,595,292	2.9
Wachovia Bank of Georgia, N.A.	Active	15,477,072	3.0
Westport Senior Living.	Active	46,291,546	9.1
<b>Other <sup>(1)</sup></b>	<b>Active</b>	<b>31,156,670</b>	<b>6.0%</b>
<b>SUBTOTAL REF</b>		<b>\$ 510,123,003</b>	<b>100.0%</b>
<b>MUTUAL FIXED INCOME FUND (MFIF)</b>			
<b>Core</b>		<b>\$ 5,039,188,557</b>	<b>77.6%</b>
State Street Global Advisors	Passive-Enhanced	1,355,758,427	20.9
BlackRock Financial Management, Inc.	Active	1,039,954,165	16.0
Western Asset Management Co.	Active	734,031,906	11.3
Wellington	Active	703,638,814	10.8
J.P. Morgan Investment Management Inc.	Active	618,938,006	9.5

**COMBINED INVESTMENT FUNDS**  
**LIST OF INVESTMENT ADVISORS**  
**AND NET ASSETS UNDER MANAGEMENT (Continued)**  
**JUNE 30, 2000**

Name of Fund	Investment Strategy	Net Assets Under Management	Percent of Fund Total
Phoenix	Active	296,411,626	4.6
Mitchell Hutchins	Active	290,455,613	4.5
<b>Convertibles</b>		<b>\$ 349,224,546</b>	<b>5.4%</b>
Oaktree Capital Management, L.L.C.	Active	349,224,546	5.4
<b>High Yield</b>		<b>\$ 1,079,289,028</b>	<b>16.6%</b>
Loomis Sayles & Co., Inc.	Active	355,534,523	5.5
W.R. Huff Asset Management	Active	289,967,580	4.4
Oaktree Capital Management, L.L.C.	Active	234,566,525	3.6
Triumph II LP	Active	199,220,400	3.1
<b>Other <sup>(1)</sup></b>		<b>\$ 28,437,050</b>	<b>0.4%</b>
<b>SUBTOTAL MFIF</b>		<b>\$ 6,496,139,181</b>	<b>100.0%</b>
<b>COMMERCIAL MORTGAGE FUND (CMF)</b>			
AEW Capital Mangement, LP	Active	\$ 146,075,128	83.0%
Other <sup>(2)</sup>		29,984,295	17.0%
<b>SUBTOTAL CMF</b>		<b>\$ 176,059,423</b>	<b>100.0%</b>
<b>PRIVATE INVESTMENT FUND (PIF)</b>			
Hicks, Muse Tate & Furst Equity Fund III	Active	210,449,050	8.2
SCP Private Equity Partners	Active	90,774,965	3.5
DLJ Merchant Banking Fund II	Active	56,856,485	2.2
Conning Insurance Capital Fund V	Active	56,083,357	2.2
Veritas Capital Fund	Active	56,282,309	2.2
Thomas H. Lee Equity Fund IV	Active	78,347,895	3.0
KKR 1996 Fund	Active	38,764,853	1.5
Greenwich Street Capital Partners II	Active	37,963,562	1.5
Welsh Carson Anderson & Stowe VIII	Active	60,423,689	2.4
Wellspring Capital Partners II	Active	25,841,247	1.0
Blackstone Capital Partners III	Active	14,972,969	0.6
Thayer Equity Investors IV	Active	22,109,822	0.9
Kelso Investment Associates VI	Active	18,646,905	0.7
Green Equity Investors III	Active	10,215,883	0.4
Forstmann Little Equity Fund VI <sup>(4)</sup>	Active	18,095,296	0.7
Crescendo World Fund	Active	158,972,651	6.2
Pioneer Ventures Associates	Active	37,964,558	1.5
Crescendo Venture Fund III	Active	46,947,598	1.8
Connecticut Futures Fund	Active	15,351,244	0.6
CT Financial Development Fund	Active	18,426,060	0.7
Keystone Ventures V	Active	25,137,922	1.0
Shawmut Equity Partners	Active	29,159,641	1.1
Grotech Partners V	Active	59,117,076	2.3
Connecticut Greene Ventures	Active	3,845,408	0.2
RFE Investment Partners VI	Active	4,415,366	0.2
Welsh Carson Anderson & Stowe III	Active	87,349,821	3.4
Triumph Capital Partners III	Active	99,529,585	3.9
Triumph CT Partners	Active	65,183,217	2.5
GarMark Partners	Active	29,129,904	1.2
SW Pelham Fund	Active	13,877,930	0.5
Forstmann Little MBO VII <sup>(4)</sup>	Active	69,091,241	2.7
Compass European Partners	Active	50,354,343	2.0
Carlyle European Fund	Active	35,123,033	1.4
Gilbert Global Equity Fund	Active	75,313,136	2.9
AIG Global Emerging Markets Fund	Active	33,196,223	1.3
Carlyle Asia Partners	Active	8,649,640	0.3
Crossroads Constitution Fund	Active	579,000,910	22.6
Goldman Sachs Private Equity Fund	Active	51,567,871	2.0
Landmark Private Equity Fund VIII	Active	69,254,924	2.7
Lexington Capital Partners II	Active	7,980,562	0.3



**COMBINED INVESTMENT FUNDS**  
**LIST OF INVESTMENT ADVISORS**  
**AND NET ASSETS UNDER MANAGEMENT (Continued)**  
**JUNE 30, 2000**

Name of Fund	Investment Strategy	Net Assets Under Management	Percent of Fund Total
<b>Other <sup>(1)</sup></b>		<b>95,018,931</b>	<b>3.7%</b>
<b>SUBTOTAL PIF</b>		<b>\$ 2,564,787,182</b>	<b>100.0%</b>
<b>TOTAL</b>		<b>\$ 23,063,244,860</b>	
Adjustments <sup>(3)</sup>		(1,149,020,861)	
<b>GRAND TOTAL</b>		<b>\$ 21,914,223,999</b>	

- (1) Other represents moneys earmarked for distribution to participants, reinvestment, and expenses as well as terminated advisor balances and \$867,276 in marketable securities.
- (2) Other also includes residential mortgage-backed securities for the Commercial Mortgage Fund.
- (3) Represents Elimination Entry to the Financial Statements to account for investment of Combined Investment Funds in CRA.
- (4) Private Investment advisors under contract which are unfunded as of June 30, 1999.

**COMBINED INVESTMENT FUNDS**  
**INVESTMENT SUMMARY AT JUNE 30, 2000 <sup>(1)</sup>**

**Cash Reserve Account <sup>(2)</sup>**

	Book Value	Market Value	% of Total Fund MV	Rate of Return
2000	\$378,683,486	\$378,683,486	1.67%	5.96%
1999	227,101,012	227,101,012	1.11%	5.46%
1998	409,767,394	409,767,394	2.17%	5.86%
1997	640,227,925	640,227,925	3.57%	5.70%
1996	217,728,153	217,728,153	1.57%	5.90%
1995	594,092,737	594,092,737	4.80%	5.83%
1994	400,801,402	400,801,402	3.66%	3.70%
1993	360,298,297	360,298,297	3.39%	4.02%
1992	320,988,105	320,988,105	3.41%	5.89%
1991	368,272,756	368,272,756	4.16%	7.85%

**Mutual Equity Fund**

	Book Value	Market Value	% of Total Fund MV	Rate of Return
2000	\$6,578,261,062	\$8,876,068,150	39.08%	10.03%
1999	6,321,181,834	9,137,539,233	44.77%	19.38%
1998	5,597,631,659	7,735,628,862	41.04%	28.40%
1997	5,740,662,847	8,072,686,952	44.95%	30.74%
1996	5,473,247,153	5,722,251,986	41.19%	23.98%
1995	3,626,292,305	4,666,476,576	37.71%	23.20%
1994	3,281,944,393	3,666,548,982	33.48%	0.52%
1993	2,684,910,855	3,568,316,032	33.61%	17.10%
1992	2,529,490,941	3,171,585,397	33.72%	10.67%
1991	2,604,555,839	3,273,705,502	36.97%	6.30%

**International Stock Fund**

	Book Value	Market Value	% of Total Fund MV	Rate of Return
2000	\$2,315,776,890	\$2,928,693,346	12.89%	20.13%
1999	1,937,731,869	2,436,960,573	11.94%	6.77%
1998	1,988,516,841	2,394,774,756	12.71%	1.52%
1997	2,056,745,949	2,988,188,715	16.64%	15.67%
1996	2,013,932,947	2,080,961,453	14.98%	12.58%
1995	1,629,499,154	1,881,836,637	15.21%	2.27%
1994	1,681,401,549	2,047,505,365	18.70%	20.97%
1993	1,790,846,646	1,948,549,126	18.36%	13.20%
1992	1,436,422,448	1,360,522,434	14.46%	2.11%
1991	1,065,275,575	1,010,520,806	11.41%	(14.08%)

**Real Estate Fund**

	Book Value	Market Value	% of Total Fund MV	Rate of Return
2000	\$464,709,616	\$510,010,943	2.25%	9.18%
1999	442,674,319	428,221,842	2.10%	9.96%
1998	445,482,545	416,617,227	2.21%	25.63%
1997	553,333,465	488,413,514	2.72%	10.69%
1996	1,172,793,083	985,747,371	7.09%	0.83%
1995	1,198,474,807	1,068,615,573	8.63%	(2.78%)
1994	1,455,508,818	1,100,002,995	10.05%	(3.95%)
1993	1,348,453,216	978,014,999	9.21%	(7.68%)
1992	1,237,086,506	985,482,361	10.48%	(15.36%)
1991	1,246,307,162	1,241,192,197	14.02%	(3.03%)

**Mutual Fixed Income Fund**

	Book Value	Market Value	% of Total Fund MV	Rate of Return
2000	\$ 7,463,463,748	\$7,282,002,823	32.06%	5.77%
1999	6,943,741,512	6,762,463,935	33.13%	2.64%
1998	6,798,694,018	6,826,179,406	36.22%	10.52%
1997	4,612,052,907	4,902,597,809	27.30%	10.62%
1996	3,946,699,249	3,961,751,213	28.51%	5.97%
1995	2,493,278,232	2,576,238,602	20.82%	13.00%
1994	2,395,459,874	2,333,628,878	21.31%	(0.07%)
1993	2,396,492,799	2,492,239,958	23.48%	13.84%
1992	2,312,419,702	2,429,003,128	25.83%	17.07%
1991	2,129,076,685	2,158,157,197	24.37%	11.41%

**International Bond Fund <sup>(3)</sup>**

	Book Value	Market Value	% of Total Fund MV	Rate of Return
2000	—	—	—	—
1999	—	—	—	—
1998	—	—	—	—
1997	—	—	—	—
1996	—	—	—	—
1995	\$695,139,207	\$749,095,597	6.05%	19.10%
1994	624,328,836	657,973,564	6.01%	7.27%
1993	574,207,418	600,603,560	5.66%	11.11%
1992	531,177,878	579,853,055	6.17%	27.01%
1991	452,536,642	434,818,413	4.91%	10.76%

**Commercial Mortgage Fund**

	Book Value	Market Value	% of Total Fund MV	Rate of Return
2000	\$168,263,689	\$175,216,208	0.77%	8.26%
1999	231,513,066	235,232,350	1.15%	6.10%
1998	262,476,294	271,419,535	1.44%	17.71%
1997	343,534,264	324,002,103	1.80%	9.82%
1996	467,004,415	442,659,307	3.19%	6.46%
1995	464,667,416	455,820,517	3.68%	15.46%
1994	481,528,231	439,917,392	4.02%	(2.90%)
1993	484,589,826	483,295,439	4.55%	9.05%
1992	356,687,815	349,504,144	3.72%	10.54%
1991	232,050,209	229,773,851	2.59%	8.04%

**Residential Mortgage Fund <sup>(4)</sup>**

	Book Value	Market Value	% of Total Fund MV	Rate of Return
2000	—	—	—	—
1999	—	—	—	—
1998	—	—	—	—
1997	—	—	—	—
1996	—	—	—	—
1995	\$50,630,376	\$48,602,786	0.39%	11.54%
1994	73,484,931	67,780,499	0.62%	(2.38%)
1993	25,055,151	25,530,507	0.24%	1.55%
1992	79,163,570	79,804,310	0.85%	9.30%
1991	34,961,527	33,970,886	0.38%	16.88%

**COMBINED INVESTMENT FUNDS**  
**INVESTMENT SUMMARY AT JUNE 30, 2000 (Continued)**

**Private Investment Fund <sup>(5)</sup>**

	Book Value	Market Value	% of Total Fund MV	Rate of Return
2000	\$1,879,100,932	\$2,561,042,272	11.28%	53.86%
1999	1,138,252,584	1,182,905,063	5.80%	(0.81%)
1998	715,880,779	794,324,372	4.21%	18.55%
1997	496,527,964	542,174,959	3.02%	5.68%
1996	198,233,821	302,481,786	2.18%	43.78%
1995	167,316,010	222,837,361	1.80%	25.39%
1994	164,964,030	169,773,008	1.55%	5.20%
1993	135,432,242	134,922,131	1.27%	3.15%
1992	110,123,666	114,773,181	1.22%	2.65%
1991	85,334,633	85,879,104	0.97%	(6.07%)

**Connecticut Programs Fund**

	Book Value	Market Value	% of Total Fund MV	Rate of Return
2000	—	—	—%	—%
1999	—	—	—%	—%
1998	—	—	—%	—%
1997	—	—	—%	—%
1996	\$172,656,335	\$179,638,107	1.29%	14.24%
1995	122,511,963	112,633,665	0.91%	(5.86%)
1994	87,711,051	66,076,102	0.60%	3.38%
1993	40,927,545	19,576,472	0.18%	(1.75%)
1992	31,113,182	10,774,932	0.11%	(48.51%)
1991	26,210,006	15,825,756	0.18%	(21.90%)

**Mutual Mortgage Fund<sup>(6)</sup>**

	Book Value	Market Value	% of Total Fund MV	Rate of Return
2000	—	—	—	—
1999	—	—	—	—
1998	—	—	—	—
1997	—	—	—	—
1996	—	—	—	—
1995	—	—	—	—
1994	—	—	—	—
1993	\$3,899,616	\$3,903,265	0.04%	26.92%
1992	3,780,230	3,269,669	0.03%	8.88%
1991	3,761,889	3,239,165	0.04%	9.43%

**Total Fund**

	Book Value	Market Value	% of Total Fund MV	Rate of Return
2000	\$19,248,259,423	\$22,711,717,228	100.00%	13.13%
1999	17,242,196,196	20,410,424,008	100.00%	10.49%
1998	16,218,449,530	18,848,711,553	100.00%	17.19%
1997	14,443,085,321	17,958,291,977	100.00%	19.35%
1996	13,662,295,156	13,893,219,375	100.00%	14.14%
1995	11,041,902,207	12,376,250,052	100.00%	13.48%
1994	10,647,133,115	10,950,008,187	100.00%	3.74%
1993	9,845,113,611	10,615,249,786	100.00%	11.81%
1992	8,948,454,043	9,405,560,716	100.00%	8.07%
1991	8,248,342,923	8,855,355,633	100.00%	3.88%

- (1) All rates of return are net of management fees and division operating expenses.
- (2) The market value of CRA for the periods presented represents the market value of the pension and trust balances in CRA only (excluding receivables and payables); the CRA balances of the other combined investment funds are shown in the market value of each fund.
- (3) The International Bond Fund merged with The Mutual Fixed Income Fund in March 1996.
- (4) Residential Mortgage Fund was merged with the Commercial Mortgage Fund in November 1995.
- (5) The Connecticut Programs Fund merged with Venture Capital Fund In December 1996. In fiscal year 1999, the Venture Capital Fund was renamed as the Private Investment Fund.
- (6) In May 1994, the operations of the Mutual Mortgage Fund were discontinued; the assets were sold and shares were redeemed by the Retirement Funds.

**COMBINED INVESTMENT FUNDS**  
**SCHEDULE OF BROKERAGE COMMISSIONS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

Broker Name	\$	Shares/	Avg	Broker Name	\$	Shares/	Avg
Commission	Par Value	Comm	Commission	Par Value	Comm	Commission	Par Value
AB ASESORES BURSATILES	625.49	77,000	0.008	BARNARD JACOBS MELLET (USA) LLC	4,372.99	242,500	0.018
AB ASESORES BURSATILES BOLSA	10,672.85	1,383,400	0.008	BARNARD JACOBS MELLETT + CO (PTY)	7,943.12	1,169,400	0.007
AB ASESORES MONEDA	78.26	4,000	0.020	BAUM GEORGE K. + COMPANY	2,959.50	84,150	0.035
ABEL NOSER CORPORATION	9,744.50	194,890	0.050	BBV INTERACTIVOS SVB	2,621.77	54,000	0.049
ABG	18,296.31	324,200	0.056	BBV LATINVEST	1,531.76	36,875	0.042
ABG SECURITIES	10,787.14	276,190	0.039	BBV SECURITIES INC. NEW YORK	59.21	1,196	0.050
ABG SECURITIES AS (STOCKHOLM)	28,018.36	509,920	0.055	BEAR STEARNS	1,078.83	325,000	0.003
ABN AMRO	132,702.08	11,422,516	0.012	BEAR STEARNS + CO INC	16,772.04	451,048	0.037
ABN AMRO ASIA LIMITED	15,534.11	3,851,200	0.004	BEAR STEARNS ASIA LTD	4,987.56	7,877,300	0.001
ABN AMRO ASIA SECS LTD	8,397.56	1,240,480	0.007	BEAR STEARNS CO	9,287.68	1,073,769,815	0.000
ABN AMRO BANK N.V. (CHICAGO)	8,387.43	367,279	0.023	BEAR STEARNS NY	768.98	192,000	0.004
ABN AMRO CHICAGO CORPORATION	91,409.09	2,667,217	0.034	BEAR STEARNS SECURITIES	400.02	139,800,000	0.000
ABN AMRO EQUITIES (UK) LTD	77,333.95	24,428,017	0.003	BEAR STEARNS SECURITIES CORP	123,620.90	236,122,009	0.001
ABN AMRO SECURITIES	22,679.31	21,533,810	0.001	BENDER MENKUL DEGERLER A.S.	2,523.23	11,032,000	0.000
ABN AMRO SECURITIES (USA) INC	113,032.64	44,745,694	0.003	BENDER SECS ISTANBUL	30,228.61	348,664,000	0.000
ABN AMRO SECURITIES UK LTD	2,544.99	251,100	0.010	BENDER SECURITIES	10,494.60	194,178,000	0.000
ACCIONES Y VALORES DE MEXICO	52.20	3,100	0.017	BERNSTEINANSFORD C + CO INC	10,833.00	195,800	0.055
ADAMS HARKNESS + HILL, INC	7,002.00	401,000	0.017	BHF BANK	330.71	24,000	0.014
AHORRO CORP. FINANCIERA S.A. A.V.B	27,643.55	396,900	0.070	BHF SECURITIES CORPORATION	5,306.48	245,000	0.022
ALFRED BERG-LONDON	1,453.77	81,500	0.018	BLACK & COMPANY	8,440.95	168,219	0.050
ALLEN & COMPANY INCORPORATED	4,559.00	309,500	0.015	BLACKFORD SECURITIES CORP	3,047.00	64,300	0.047
AMRO BANK	2,169.15	1,242,000	0.002	BLAIR, WILLIAM, AND COMPANY	24,096.50	2,030,969	0.012
ARCHIPELAGO BCC CAPITAL CLEAR	156.00	9,500	0.016	BNP CAP. MARKETS	521.85	243,286	0.002
ARNHOLD AND S BLEICHROEDER, INC	18,723.97	1,257,990	0.015	BNP INTERNATIONAL FINANCIAL SRVCS	378.21	500,000	0.001
AROS SEC	184.01	495	0.372	BNP LONDON	1,698.03	500,000	0.003
ASESORES BURSATILES	2,617.78	615,300	0.004	BNP PACIFIC SECURITIES FRANCE	2,237.32	12,990	0.172
ASIASEC EQUITIES INC	284.93	155,000	0.002	BNP PARIBAS LONDON	88.13	30,000	0.003
ASIASEC EQUITIES INC.	3,726.51	281,730	0.013	BNP PEREGRINE SECURITIES	460.04	395,500	0.001
ATA SECURITIES INC. (ISTANBUL)	3,799.73	25,373,000	0.000	BNP PRIMEEAST	299.55	142,000	0.002
AUERBACH GRAYSON	14,882.75	533,700	0.028	BNP PRIMEPEREGRINE	4,805.47	4,638,620	0.001
AUTRANET, INC.	36,050.95	758,310	0.048	BNP SECURITIES (U.S.A.), INC	333.81	151,644	0.002
BAER (JULIUS) SECURITIES, INC.	726.07	45,437	0.016	BNP SECURITIES LONDON UK	5,061.48	28,660	0.177
BANC AMERICA SECURITY LLC				BNP-BANQUE NATIONALE DE PARIS	1,777.32	130,325	0.014
MONTGOMERY DIV	229,479.59	9,447,591	0.024	BNY/ABN AMRO (UK) LTD	607.00	15,175	0.040
BANCBOSTON OBERTSON STEPHENS	78,471.55	2,255,799	0.035	BNY/ING BARING	2,316.00	119,500	0.019
BANCO BBA	999.85	19,500,000	0.000	BOE NATWEST SEC LTD	542.82	93,500	0.006
BANCO BBA CREDITANSTALT S.A.	3,416.56	13,276,400	0.000	BRADFORD, J.C. + CO	2,451.00	180,250	0.014
BANCO ICATU	9,245.05	26,408,100	0.000	BRENARK SECURITIES LTD	108.36	600,000	0.000
BANCO ICATU S.A.	6,197.77	161,741,758	0.000	BRIDGE TRADING	92,122.10	1,868,842	0.049
BANCO PACTUAL S.A.	10,960.75	54,148,152	0.000	BROWN BROTHERS HARRIMAN & CO	4,483.00	236,170	0.019
BANCO SABADELL	97.51	10,000	0.010	BT ALEX BROWN	1,620.00	63,700	0.025
BANCO SANTANDER	144.98	23,000,000	0.000	BT/MORGANGREENFELL	122.50	14,750	0.008
BANCO SANTANDER CENTRAL HISPANO	1,567.97	56,887,427	0.000	B-TRADE SERVICES LLC	46,158.72	1,892,756	0.024
BANCO SANTANDER MEXICANO, S.A.	562.62	155,000	0.004	BUCKINGHAM RESEARCH GROUP	2,962.50	56,200	0.053
BANCO SANTANDER S.A.	492.68	15,039,569	0.000	C.L.KING & ASSOCIATES	5,833.00	154,900	0.038
BANCO SANTANDER S.A., HONG KONG	252.71	25,462	0.010	CAIS INC CHEUVREUX DIV NY	2,795.65	38,000	0.074
BANK OF AMERICA SECURITIES LLC	54.00	900	0.060	CANTOR FITZGERALD + CO., INC.	116,873.40	3,961,865	0.029
BANK OF NEW YORK	1,139.20	22,520	0.051	CAPITAL INSTITUTIONAL SERVICES	1,325.00	22,500	0.059
BANK OF SCOTLAND (BE02E)	45.99	5,310	0.009	CARNAGIE FOND KOMMISSION	700.14	28,890	0.024
BANK OF TOKYO				CARNEGIE A S	689.66	11,000	0.063
MITSUBISHI LTD, TOKYO	2,911.65	17,000	0.171	CARNEGIE INT'L LND	12,994.69	166,587	0.078
BANKERS TRUST	459.00	8,900	0.052	CAZENOVE + CO	28,945.64	2,235,332	0.013
BANQUE PARIBAS	263.68	90,000	0.003	CAZENOVE + COMPANY (OVERSEAS) LTD	1,722.53	1,922,000	0.001
BARING SECS	1,680.00	54,500	0.031				

**COMBINED INVESTMENT FUNDS**  
**SCHEDULE OF BROKERAGE COMMISSIONS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

Broker Name	\$ Commission	Shares/ Par Value	Avg Comm	Broker Name	\$ Commission	Shares/ Par Value	Avg Comm
CAZENOVE INCORPORATED	11,561.12	895,534	0.013	DEGERLER (ISTANBUL)	3,237.59	6,587,000	0.000
CHARLES SCHWAB & CO., INC.	13,536.70	689,200	0.020	DEMIRBANK	22,969.57	361,815,200	0.000
CHEUVREUX DE VIRIEU	11,960.32	57,648	0.207	DEUTSCHE ASIA & PARTNERS SECURITIES	3,822.66	356,400	0.011
CHEUVREUX DE VIRIEUX, PARIS	9,232.37	77,124	0.120	DEUTSCHE BANK	13,638.35	761,350	0.018
CHEUVREUX DE VIRIEU NORDIC LDN	257.20	215	1.196	DEUTSCHE BANK A.G.	9,708.59	2,963,250	0.003
CIBC OPPENHEIMER	896.86	26,000	0.034	DEUTSCHE BANK AG LONDON	136,135.88	101,087,253	0.001
CIBC WORLD MARKETS CORP	92,674.77	2,533,412	0.037	DEUTSCHE BANK SECURITIES	25,913.78	4,670,893	0.006
CITATION GROUP	1,050.00	21,000	0.050	DEUTSCHE BANK SECURITIES INC	51,113.06	5,096,600	0.010
CITIBANK	1,512.90	202,380	0.007	DEUTSCHE BANK SINGAPORE	456.84	58,000	0.008
CITIBANK,N.A.	1,822.42	53,907	0.034	DEUTSCHE MORGAN GRENPELL	3,782.56	725,800	0.005
CITIBANK,NA ADR/KLIENWORT BENSON	273.04	104,980	0.003	DEUTSCHE MORGAN GRENPELL			
COLLINS STEWART	8,451.34	480,000	0.018	SECURITIES	70.70	1,699,000	0.000
COLLINS STEWART + CO	6,127.95	671,802	0.009	DIVIDEND REINVEST	195.53	59,907	0.003
COMMERZBANK	29,852.64	484,740	0.062	DLJ INTERNATIONAL SECURITIES	556.98	17,900	0.031
COMMERZBANK AG	17,635.57	388,469	0.045	DLJ SECURITIES CORP	231.43	827,000	0.000
CONNING +CO.	4,976.50	132,800	0.037	DMG AND PARTNERS SECURITIES	19,208.94	1,735,400	0.011
CORRESPONDENT SERVICES, INC	11,294.20	396,800	0.028	DONALDSON, LUFKIN + JENRETTE SECS	243,648.60	140,117,519	0.002
COWEN & CO LONDON	145,577.17	1,609,686	0.090	DONALDSON, LUFKIN + JENRETTE INTL	37,406.75	3,007,320	0.012
CREDIT AGRICOLE INDOSUEZ				DRESDNER BANK - KLEINWORT BENSON	7,350.25	84,800	0.087
CHEUVREUX	3,505.47	10,430	0.336	DRESDNER BANK AG FRANKFURT	2,143.44	49,031	0.044
CREDIT LYONNAIS	71,244.84	7,452,645	0.010	DRESDNER BANK AG HAMBURG	3,375.38	39,200	0.086
CREDIT LYONNAIS - ACTIF	82.30	82,000	0.001	DRESDNER KLEINWORT BENSON	105,351.06	3,000,440	0.035
CREDIT LYONNAIS SECS	95,062.42	36,229,314	0.003	DRESDNER KLEINWORT BENSON			
CREDIT LYONNAIS				ASIA LTD	14,299.37	390,782	0.037
SECURITIES (USA) INC	456.89	6,915,200	0.000	DRESDNER SECURITIES (USA) INC.	20,820.00	354,691	0.059
CREDIT LYONNAIS SECURITIES(ASIA)	616.78	1,384,000	0.000	EW BALDERSON	807.19	49,000	0.016
CREDIT SUISSE FIRST BOSTON	31,216.74	68,697,073	0.000	EDWARDS AG & SONS INC	2,696.80	45,300	0.060
CREDIT SUISSE FIRST BOSTON				EGYPTIAN FINANCIAL GROUP	32,422.10	713,783	0.045
EQUITIES (EUR)	1,517.67	104,733	0.014	ENGELMAN SECURITIES	16,521.85	333,917	0.049
CREDIT SUISSE FIRST BOSTON LONDON	72,736.13	122,328,697	0.001	ENSKILDA SECS	2,754.67	31,800	0.087
CREDIT SUISSE FIRST BOSTON EMM	251.25	20,500	0.012	ENSKILDA SECURITIES	5,248.13	69,300	0.076
CROSBY SECURITIES (PHILS) INC.	1,156.30	115,000	0.010	ERNST + CO	2,448.00	75,180	0.033
CROSBY SECURITIES INC	30,287.87	2,000,340	0.015	ESI SECURITIES COMPANY	9.00	300	0.030
CROSBY SECURITIES LIMITED (HONG KONG)	65.26	1,440	0.045	EVEREN CLEARING CORP	495.00	45,300	0.011
CROSBY SECURITIES PTE LTD	5,033.69	251,000	0.020	EXANE GENEVE	1,495.42	10,869	0.138
CS FIRST BOSTON	2,663.44	909,950	0.003	EXANE S.A.	32,960.07	158,258	0.208
CS FIRST BOSTON (GILTS) LIMITED	1,017.47	57,100	0.018	FACTSET DATA SYSTEMS			
CS FIRST BOSTON (HONG KONG) LIMITED	98,769.67	7,353,579	0.013	(THRU BEAR STEARNS)	113,823.95	57,899	0.050
CS FIRST BOSTON CORPORATION	386,255.68	101,119,379	0.004	FACTSET DATA SYSTEMS INC	33,565.00	671,300	0.050
CS FIRST BOSTON EQUITIES (EUROPE) LTD	8,158.14	15,557,729	0.001	FAHNESTOCK + CO.	5,834.00	105,000	0.056
CSFB	8,003.46	2,892,462	0.003	FC FINANCIAL SERVICES	2,426.00	48,520	0.050
CSFB GILTS	181.23	13,550	0.013	FECHTOR, DETWILER + CO., INC.	3,955.00	72,100	0.055
D E SHAW SECURITIES	1,740.00	58,000	0.030	FIDELITY CAPITAL MARKETS	22,366.30	526,500	0.042
D.A. DAVIDSON + CO., INC.(CLR.THRU 443)	5,308.80	106,400	0.050	FINANCIALBROKERAGE CAIRO	2,741.38	14,868	0.184
DAIN RAUCHSER INC	28,464.00	1,588,400	0.018	FINANCIALBROKERAGE GROUP	1,887.04	11,847	0.159
DAIWA	19,051.56	582,200	0.033	FINANTIA	1,087.75	37,400	0.029
DAIWA SECURITIES	17,573.62	566,736	0.031	FIRST ALBANY CORP.	11,149.00	432,300	0.026
DAIWA SECURITIES AMERICA INC	284.98	39,000	0.007	FIRST ANALYSIS SECURITIES CORP	19,723.00	512,400	0.038
DAIWA SECURITIES CO LTD	1,921.47	136,000	0.014	FIRST BOSTON CORP	52.41	1,000	0.052
DAVY (J+E)	4,694.79	201,750	0.023	FIRST OPTIONS OF CHICAGO	33.00	1,100	0.030
DAVY STOCKBROKERS	5,577.34	169,717	0.033	FIRST SECURITY VAN KASPER + CO	1,505.00	27,100	0.056
DB CLEARING SERVICES	300,754.62	11,983,840	0.025	FIRST UNION CAPITAL MARKETS	11,272.00	404,550	0.028
DEMIR YATIRIM MENKUL							

## COMBINED INVESTMENT FUNDS

### SCHEDULE OF BROKERAGE COMMISSIONS (Continued) FOR THE FISCAL YEAR ENDED JUNE 30, 2000

Broker Name	\$	Shares/	Avg	Broker Name	\$	Shares/	Avg
Commission		Par Value	Comm	Commission		Par Value	Comm
FIRST UNION SECURITIES INC	13,140.00	455,900	0.029	IKTISAT BANKASI TURK A.S	223.78	3,980,000	0.000
FIRST USACAPITAL MARKETS	4.00	200	0.020	IKTISAT BANKASI TURK T.A.S.	4,894.10	53,199,000	0.000
FISERV CORRESPONDENT SERVICES INC	1,710.00	31,000	0.055	IMI SECURITIES	62.21	4,355	0.014
FLEETBOSTON ROBERTS				IMI SIGECO UK LTD	819.79	91,537	0.009
ON STEPHENS INC	27,345.00	985,800	0.028	INDOSUEZ CAPITAL SEC	2,059.82	15,102,609	0.000
FOX PITT KELTON INC	46,186.33	997,100	0.046	INDOSUEZ WI CARR SECS	1,245.37	19,160,000	0.000
FOX-PITT KELTON LTD	16,892.03	823,300	0.021	INDOSUEZ WI CARR SECS HONG KONG LTD	10,033.33	367,960	0.027
FRANK RUSSELL	16,260.00	325,200	0.050	INDOSUEZ WI CARR SECURITIES LIMITED	36,989.78	13,396,017	0.003
FREIMARK BLAIR + COMPANY, INC.	789.00	25,400	0.031	INDOSUEZ WI CARR SECURITIES LTD	34,364.48	2,798,900	0.012
FRIEDMAN BILLINGS + RAMSEY	4,466.00	134,700	0.033	ING BARING LLC	38,353.04	978,200	0.039
FRIEND, L.H., WEINRESS + FRANKSON	480.00	9,600	0.050	ING BARING SECS HONG KONG LTD	1,602.41	392,500	0.004
FURMAN, SELZ, MAGERDIETZ + BIRNEY	31,856.20	1,124,800	0.028	ING BARING SECURITIES	139,815.97	44,594,871	0.003
GARANTIA	1,397.23	31,262,500	0.000	ING BARING SECURITIES (SINGAPORE)	108,315.30	4,552,250	0.024
GARANTIA INVESTMENT	6,470.06	100,261,000	0.000	ING BARING SECURITIES LTD	125.11	8,000	0.016
GARANTIA MENKUL DEGERLER	37,838.53	344,778,000	0.000	ING BARING US CAP MKTS INC NY	1,418.17	4,690	0.302
GARANTIA BANKING LTD	582.22	13,209,000	0.000	ING BARINGS LLC	10,898.14	667,630	0.016
GARANTIA INC	207.27	2,742,000	0.000	ING BARINGS SEC LTD	36,423.73	11,731,280	0.003
GARANTIA INVESTMENTOS	2,979.22	9,875,000	0.000	ING SECURITIES	771.34	69,000	0.011
GENA, INC. NEW YORK	1,724.29	108,665	0.016	INSTINET	254,400.68	14,060,388	0.018
GENESIS MERCHANT GROUP SECURITIES	550.00	11,000	0.050	INSTINET CLEARING SERVICES, INC	29,057.98	3,150,492	0.009
GERARD KLAUER MATTISON + CO	11,326.70	221,800	0.051	INSTINET CORP	8,237.08	498,689	0.017
GINSBERG & COMPANY INC	74.04	650	0.114	INSTINET INVESTMENT SERVICES LIMITED	40,276.61	1,173,805	0.034
GLAZER C.L. + COMPANY	11,738.00	232,100	0.051	INSTINET PACIFIC LIMITED	1,151.41	219,000	0.005
GLOBAL SECURITIES INC. (ISTANBUL)	8,694.61	154,870,000	0.000	INSTINET UK LIMITED	62.80	2,700	0.023
GOLDMAN SACHS	2,943.09	30,024	0.098	INTERMOBILIARE SECURITIES SIM SPA	13,913.43	937,100	0.015
GOLDMAN SACHS (SINGAPORE) PTE	100,893.07	3,631,097	0.028	INTERMONTE SEC SIM SPA	35,430.62	1,720,574	0.021
GOLDMAN SACHS + CO	232,806.94	250,440,763	0.001	INVESTEC EQUITIES JOHANNESBURG	2,437.77	175,900	0.014
GOLDMAN SACHS INTERNATIONAL				INVESTEC SECS	6,907.51	243,600	0.028
LONDON	96,325.69	40,215,310	0.002	INVESTEC SECURITIES LTD	482.62	36,300	0.013
GOLDMAN SACHS INTL LTD	5,861.30	272,548	0.022	INVESTMENT TECHNOLOGY GROUP	1,856.36	291,562	0.006
GOODBODY STOCKBROKERS	5,370.75	711,992	0.008	INVESTMENT TECHNOLOGY GROUP INC.	888,465.78	46,346,950	0.019
GORDON HASKETT	6,600.00	110,000	0.060	INVESTMENT TECHNOLOGY GROUP LTD	8,460.31	1,751,773	0.005
GRUNTAL +CO.	2,530.00	104,300	0.024	ISI GROUPINC	14,716.00	407,200	0.036
GS2 SECURITIES INC	1,155.00	21,500	0.054	ITG INC	13.21	2,483	0.005
GUZMAN + CO	31,700.28	792,507	0.040	J B WERE + SON LIMITED	32.73	10,000	0.003
HEFLIN + CO., LLC	27,206.96	604,769	0.045	J B WERE AND SON	2,381.66	113,500	0.021
HENDERSONCROSTHWAIT INSTL				J B WERE AND SON INC.	626.80	790,528	0.001
BROK LTD	864.95	77,500	0.011	J CHEUVREAU	2,330.59	2,908	0.801
HOARE GOVETT SECURITIES LTD	100,300.21	9,290,803	0.011	JACKSON PARTNERS + ASSOCIATES INC	27,675.55	1,104,285	0.025
HOENIG (FAR EAST) LIMITED	3,347.70	335,027	0.010	JAMES CAPEL + CO	8,636.73	131,533	0.066
HOENIG + CO.	12,279.75	415,325	0.030	JANNEY MONTGOMERY, SCOTT	5,075.00	87,500	0.058
HOENIG + COMPANY INC	1,317.00	34,900	0.038	JARDINE FLEMING INTL SEC LTD	773.67	64,600	0.012
HOWARD WEIL DIVISION LEGG MASON	3,757.50	63,000	0.060	JARDINE FLEMING SECS	25,720.57	7,005,640	0.004
HOWARD, WEIL, LABOUISSIE, FRIEDRICH	7,190.50	157,300	0.046	JARDINE FLEMING SECURITIES LIMITED	93,103.78	3,638,743	0.026
HSBC	22,981.32	615,630	0.037	JARDINE FLEMING SECURITIES LTD	63,822.95	8,010,820	0.008
HSBC INVESTMENT BANK PLC	45,585.08	23,802,070	0.002	JB WERE +SON LTD LDN	831.08	280,000	0.003
HSBC INVESTMENT LTD	5,064.05	65,900	0.077	JB WERE AND SON (NZ) LTD	2,824.50	1,452,000	0.002
HSBC JAMES CAPEL	851.06	35,776	0.024	JB WERE CAPITAL MARKETS	679.59	89,000	0.008
HSBC JAMES CAPEL + CO LTD	2,215.36	350,530	0.006	JEFFERIES+ CO	54,511.30	2,877,900	0.019
HSBC JAMES CAPEL LIMITED	132,164.99	2,263,090	0.058	JOHN HANCOCK CLEARING CORP	53.58	2,200	0.024
HSBC SECURITIES (JAMES CAPEL)	29,723.81	1,723,174	0.017	JONES + ASSOCIATES	42,275.90	1,303,318	0.032
HSBC SECURITIES INC	31,557.01	998,058	0.032	JOSEPHTHAL LYON + ROSS	2,730.00	56,900	0.048
HYUNDAI SECURITIES CO. LTD.	55,966.77	411,888	0.136	JP MORGANSECURITIES LIMITED	23,680.32	638,588	0.037



**COMBINED INVESTMENT FUNDS**  
**SCHEDULE OF BROKERAGE COMMISSIONS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

Broker Name	\$	Shares/	Avg	Broker Name	\$	Shares/	Avg
	Commission	Par Value	Comm		Commission	Par Value	Comm
JPP EURO SEC	13,217.72	51,629	0.256	MONTGOMERY SEC LLC/S.F.	27,726.40	878,800	0.032
JULIUS BAER SECURITIES	29,437.34	1,057,918	0.028	MORGAN GUARANTY TRUST COMPANY			
JULIUS BAER/BANK JULIUS BAER	3,024.22	33,093	0.091	NEW YORK	714.75	7,400	0.015
KALB,VOORHIS & CO	4,225.00	84,500	0.050	MORGAN GUARANTY TRUST CO. (UK)	34,491.13	712,165	0.048
KASB	10,045.60	1,900,000	0.005	MORGAN STANLEY	7,059.03	1,344,334	0.005
KEB SMITHBARNEY SECS	17,368.52	67,690	0.257	MORGAN STANLEY + CO	11.53	3,000	0.004
KEEFE BRUYETTE + WOODS INC	25,093.55	624,241	0.040	MORGAN STANLEY AND CO, INC	534,776.43	25,737,154	0.021
KINNARD JOHN G. + CO.	1,593.00	38,300	0.042	MORGAN, J.P. SECURITIES	1,426.47	14,451,300	0.000
KIRKPATRICK PETTIS SMITH	1,021.13	39,000	0.026	MORGAN,J.P.,SECURITIES INC	94,298.66	2,966,961	0.032
KLEINWORTBENSON FRANCE S.A.	576.87	408,200	0.001	NATIONAL BANK OF CANADA	2,012.09	58,700	0.034
KLEINWORTBENSON INC	4,478.13	243,694	0.018	NATIONAL SECURITIES CORP	2,189.88	947,000	0.002
KLEINWORTBENSON INTERNATIONAL	3,409.41	61,590	0.055	NATIONS Banc MONTGOMERY SEC LLC/S.F.	5,269.00	246,450	0.021
KLEINWORTBENSON SEC ASIA LTD	603.79	343,000	0.002	NBG INTL,LONDON	290.09	1,140	0.254
KLEINWORTBENSON SECS	29,962.61	6,301,233	0.005	ND DEVLET OGLOU SECURITIES SA	8,996.45	178,600	0.050
KLEINWORTBENSON SECURITIES LIMITED	46,523.91	5,533,996	0.008	NEEDHAM +COMPANY	8,932.70	232,800	0.038
KLEINWORTBENSON SECURITIES LTD	889.40	45,387	0.020	NESBITT BURNS	3,263.98	119,981	0.027
KNIGHT SECURITIES	36.00	440,064	0.000	NESBITT BURNS SECURITIES INC	35,537.42	830,100	0.043
KOKUSAI SECURITIES CO., LTD.	1,332.60	11,300	0.118	NEUBERGER+ BERMAN	37,156.12	928,903	0.040
LATINVEST	167.19	28,559,000	0.000	NEW JAPAN SECURITIES CO. LTD., TOKYO	229.09	9,500	0.024
LATINVEST SECURITIES	2,257.50	17,347,080	0.000	NEW JAPAN SECURITIES INTERNATIONAL	423.87	89,000	0.005
LATINVEST SECURITIES BBV	696.00	11,600	0.060	NEW JAPAN SECURITIES INTERNATIONAL INC	634.50	14,000	0.045
LATINVEST SECURITIES INC	84.36	1,406	0.060	NEW JAPAN BANK (SCHWEIZ) AG,ZUR	219.42	15,000	0.015
LAZARD FRERES & CO.	47,064.65	1,257,509	0.037	NOMURA INTERNATIONAL PIC	771.12	69,200	0.011
LEGG MASON WOOD WALKER INC	28,917.00	608,940	0.047	NOMURA INTERNATIONAL			
LEHMAN BROS INC.	396,292.33	14,124,542	0.028	(HONG KONG) LTD	6,985.09	544,000	0.013
LEHMAN BROTHERS	1,908.69	515,300	0.004	NOMURA INTERNATIONAL, PLC	919.94	5,000	0.184
LEHMAN BROTHERS ASIA LTD	698.66	722,000	0.001	NOMURA SEC SINGAPORE	1,507.45	107,300	0.014
LEHMAN BROTHERS INTERNATIONAL				NOMURA SECURITIES CO LTD	3,654.14	123,170	0.030
(EUROPE)	63,009.44	612,675	0.103	NOMURA SECURITIES CO., LTD.	21,320.47	725,520	0.029
LEWCO SECS AGENT FOR				NOMURA SECURITIES INTL	1,152.35	8,800	0.131
HAMBRECHT+QUIST	4,765.20	1,073,813	0.004	NOMURA SECURITIES INTL INC	50,293.91	4,116,420	0.012
LEWCO SECS AGENT FOR WERTHEIM				NORDIC PARTNERS INC NY, NY	2,152.47	3,800	0.566
SHCRODER	20,711.60	462,400	0.045	NUTMEG SECURITIES	1,188.50	30,650	0.039
LEWCO SECURITIES AGENT/CHASE H&Q	7,547.70	1,047,850	0.007	O NEIL, WILLIAM AND CO. INC/BCC CLRG	13,447.00	267,600	0.050
LG SECURITIES CO	919.61	5,960	0.154	ODD LOT SALE	66.74	3,361	0.020
LOOP CAPITAL MARKETS INC	3,970.00	79,400	0.050	OKASAN SECURITIES CO., LTD.	3,971.72	130,522	0.030
LYNCH JONES AND RYAN INC	27,792.00	1,374,000	0.020	ORD MINNET GROUP LIMITED			
MACQUARI EQUITIES (USA) INC	4,619.34	2,603,000	0.002	(MELBOURNE)	1,196.95	350,600	0.003
MACQUARIE BANK LIMITED	1,865.46	222,200	0.008	ORD MINNETT	8,349.18	1,966,478	0.004
MACQUARIE EQUITIES LIMITED (SYDNEY)	7,369.03	922,491	0.008	ORD MINNETT LTD	15,362.07	1,787,775	0.009
MACQUARIE EQUITIES U S A	4,909.49	1,260,000	0.004	OSCAR GRUSS AND SONS	6,480.00	216,000	0.030
MASTERLINK SECURITIES CO LTD	4,667.34	1,462,313	0.003	OTA LTD PARTNERSHIP	10,962.00	365,400	0.030
MAXUS CORP	1,552.00	38,900	0.040	PACIFIC CREST SECURITIES	3,797.50	123,800	0.031
MCDONALD + CO	4,384.00	98,500	0.045	PACIFIC SECS INC	1,950.00	39,000	0.050
MERRILL LYNCH	46,551.52	1,872,241	0.025	PAINE WEBBER INCORPORATED	158,157.02	3,905,665	0.040
MERRILL LYNCH FAR EAST LTD	164,213.76	8,926,945	0.018	PANMURE GORDON & CO LTD	19.43	5,242	0.004
MERRILL LYNCH INTERNATIONAL	104,469.38	264,154,367	0.000	PARIBAS LONDON	566.60	69,384	0.008
MERRILL LYNCH INTERNATIONAL BK LTD	13,734.36	503,200	0.027	PATRIA FINANCE	4,272.62	328,900	0.013
MERRILL LYNCH PIERCE				PAULSEN, DOWLING SECURITIES INC.	1,250.00	25,000	0.050
FENNER + SMITH	402,651.37	21,838,927	0.018	PICTET (CANADA) + COMPANY LIMITED	5,485.40	1,100	4.987
MIDWEST RESEARCH	9,203.71	65,600	0.140	PICTET AND CIE	4,705.56	1,085	4.337
MIDWEST RESEARCH MAXXUS GROUP	738.00	24,600	0.030	PINATTON SOCIETE DE BOURSE SA	5,515.98	89,526	0.062
MILLER SECURITIES INC	580.00	11,600	0.050	PIPER JAFFRAY INC	12,726.20	1,489,888	0.009

**COMBINED INVESTMENT FUNDS**  
**SCHEDULE OF BROKERAGE COMMISSIONS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

Broker Name	\$	Shares/	Avg	Broker Name	\$	Shares/	Avg
Commission	Par Value	Comm	Commission	Par Value	Comm	Commission	Par Value
PRABHUDASLILLADHHER PVT LTD	586.16	364,224	0.002	SIEBERT BRANFORD SHANK AND CO	4,614.00	153,800	0.030
PRUDENTIAL SECURITIES INCORPORATED	47,174.40	1,575,800	0.030	SIGMA SECS, ATHENS	8,485.69	236,160	0.036
QUICK + REILLY INC	80.00	1,600	0.050	SIGMA SECURITIES S.A.	13,403.48	425,630	0.031
RAYMOND JAMES AND ASSOCIATES INC	21,190.11	561,400	0.038	SILVIS BARNARD JACOS	2,254.35	575,200	0.004
RBC DOMINION SECURITIES CORPORATION	1,000.00	20,000	0.050	SK INTERNATIONAL SECURITIES	7,725.00	154,500	0.050
RBS TRUSTBANK LTD.	1,932.83	358,000	0.005	SKANDINAVISKA ENSKILDA			
ROBBINS	696.00	23,200	0.030	BANKEN LONDON	36,089.60	666,683	0.054
ROBERT FLEMING	73,075.06	14,136,614	0.005	SOCGEN CROSBY SECS	62.21	15,000	0.004
ROBERT FLEMING + CO LONDON	1,069.77	221,800	0.005	SOCIETE GENERALE	2,747.35	28,591,025	0.000
ROBERT FLEMING + CO LTD	76,605.90	193,812,672	0.000	SOCIETE GENERALE S.A. MILAN	963.85	2,480	0.389
ROBERT FLEMING INC. BANK				SOCIETE GENERALE SECS	9,365.30	324,020	0.029
OF NEW YORK	2,116.61	14,054,694	0.000	SOCIETE GENERALE SECURITIES	8,936.32	404,120	0.022
ROBERT FLEMING SECURITIES LIMITED	4,355.55	1,629,010	0.003	SOCIETE GENERALE SECURITIES CORP	38,054.78	38,414,940	0.001
ROBERT FLEMMING SECS INC	405.46	6,700	0.061	SOUNDVIEWTECHNOLOGY GROUP INC	24,134.00	781,100	0.031
ROBERT W BAIRD & CO., INCORPORATED	6,075.78	519,863	0.012	SOUTHWESTSECURITIES	1,526.00	86,900	0.018
ROBERTSONSTEPHENS + CO L P	21,471.00	851,800	0.025	SPEAR, LEEDS & KELLOGG	26,409.00	578,040	0.046
ROBINSON HUMPHREY	7,877.50	388,000	0.020	STANDARD + POORS SECURITIES	7,618.88	137,475	0.055
ROCHDALE SEC CORP.(CLS THRU 443)	56,292.25	1,226,550	0.046	STANDARD + POORS SECURITIES INC	49,206.45	1,001,810	0.049
RUSSELL FRANK SECURITIES INC	1,460.00	76,600	0.019	STANDARD BANK	1,508.76	171,438	0.009
RYAN BECK+ CO	6,177.00	149,700	0.041	STANDARD BANK EMM	174.37	25,000	0.007
S G WARBURG SECS	1,143.48	98,000	0.012	STANDARD BANK LONDON LIMITED	510.88	76,150	0.007
SAITAMA	369.00	34,700	0.011	STANDARD CHARTERED BANK NY	103.06	25,500	0.004
SAL OPPENHEIM ET CIE	1,282.73	4,880	0.263	STANDARD CHARTERED SECS LTD	101.90	24,500	0.004
SALOMAN BROS	13,257.13	755,390	0.018	STANDARD NEW YORK	5,760.31	1,468,308	0.004
SALOMAN BROTHERS INC.	11,128.49	482,750	0.023	STATE STREET BROKERAGE SERVICES	6,872.60	324,534	0.021
SALOMON BROS HONG KONG	68,691.91	3,831,545	0.018	STEPHENS, INC.	5,871.00	127,700	0.046
SALOMON BROTHERS FINANZ AG	401.64	429,000	0.001	STRATEJI SECURITIES INC (ISTANBUL)	15.34	82,000	0.000
SALOMON BROTHERS INC, NY	4,900.61	23,083,209	0.000	SUNTRUST EQUITABLE SECURITIES CORP	9,260.00	287,600	0.032
SALOMON BROTHERS INTERNATIONAL	46,733.28	34,193,545	0.001	SUTHERLAND EDINBURGH	5,722.91	129,600	0.044
SALOMON SMITH BARNEY	11,457.60	548,500	0.021	SUTHERLANDS LIMITED	2,136.46	77,900	0.027
SALOMON SMITH BARNEY INC	522,262.60	17,238,133	0.030	SUTRO ANDCOMPANY INC.	5,048.00	139,900	0.036
SAMSUNG SECURITIES CO LTD	6,260.65	44,106	0.142	T HOARE	2,934.57	260,600	0.011
SANDERS MORRIS MUNDY	3,181.00	62,000	0.051	TAIWAN SECURITIES CO LTD	3,139.71	1,002,000	0.003
SANTANDERINVESTMENT BANK LTD	23.58	4,564,000	0.000	THOMAS WEISEL PARTNERS	24,620.00	1,932,000	0.013
SANTANDERINVESTMENT SECURITIES	301.88	564,238	0.001	THOMASON INSTITUTIONAL SERVICES, INC	4,502.50	91,850	0.049
SANTANDERINVESTMENT SECURITIES INC	14,443.01	262,843	0.055	TIR SECURITIES LTD HONG KONG	3,687.75	489,750	0.008
SBC WARBURG	12,359.65	4,268,187	0.003	TORONTO DOMINION BANK TORONTO	949.29	34,400	0.028
SBC WARBURG DILLON READ ASIA LTD	6,064.40	429,400	0.014	TORONTO DOMINION BANK, NEW YORK	1,508.71	55,000	0.027
SBC WARBURG DILLON READ INC	1,224.28	106,268	0.012	TROSTER SINGER STEVENS			
SBC WARBURG LONDON	4,677.00	559,245	0.008	ROTHCHILD CORP	25,853.00	2,029,601	0.013
SBK BROOKS INVESTMENY CORP	13,275.00	265,500	0.050	TUCKER ANTHONY CLEARY GULL	635.00	11,700	0.054
SCHRODER + CO.	15,298.75	1,860,014	0.008	TUCKER, ANTHONY + R.L. DAY, INC	1,000.00	20,000	0.050
SCHRODER SECS INTL	94.18	11,000	0.009	U.S. CLEARING CORPORATION	11,347.56	222,342	0.051
SCHRODER SECURITIES ASIA LTD	977.65	20,090	0.049	UBS AG	15,843.12	140,836,866	0.000
SCHRODER SECURITIES JAPAN LTD	1,610.38	12,400	0.130	UBS AG LONDON	55,070.51	43,171,757	0.001
SCHRODER SECURITIES LTD	19,080.58	1,296,600	0.015	UBS BANK CANADA	952.03	100,784	0.009
SCHRODER SECURITIES LTD (SSL)	69,446.81	2,780,630	0.025	UBS WARBURG LLC	31,178.17	7,544,455	0.004
SCOTIA MCLEOD	341.18	10,000	0.034	USCC/SANTANDER	85.26	1,421	0.060
SCOTT + STRINGFELLOW	846.50	15,800	0.054	UTENDAHL CAPITAL PARTNERS	4,098.00	136,700	0.030
SG COWEN SECURITIES CORP	70,932.71	132,714,832	0.001	VICKER BALLAS	31,935.69	2,797,020	0.011
SG SECURITIES (LONDON) LTD	9,215.19	45,854,000	0.000	VICKERS BALLAS AND COMPANY PTE	2,187.32	31,500	0.069
SG SECURITIES LONDON	36.76	58,000	0.001	VONTOBEL SECURITIES	8,998.71	20,500	0.439
SHARPE CAPITAL INC., NEW YORK	625.00	12,500	0.050	W.I. CARR	85,543.52	21,783,078	0.004

**COMBINED INVESTMENT FUNDS**  
**SCHEDULE OF BROKERAGE COMMISSIONS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

Broker Name	\$	Shares/	Avg
Commission	Par Value	Comm	
W I CARR (FAR EAST) LONDON	21,101.43	4,645,900	0.005
W R HAMBRECHT + CO LLC	3,600.00	60,000	0.060
WACHOVIA SECURITIES INS	12,514.00	252,000	0.050
WAGNER STOTT + CO	2,711.00	75,500	0.036
WAKO SECURITIES	2,037.68	21,300	0.096
WAKO SECURITIES CO LTD	1,457.21	26,200	0.056
WARBURG DILLON READ LLC	15,248.01	88,763	0.172
WARBURG DILLON READ	104,832.31	159,649,636	0.001
WARBURG DILLON READ (HK) LTD	52,830.63	2,978,558	0.018
WARBURG DILLON READ EQUITIES (MELBOURNE)	31,795.35	6,617,720	0.005
WARBURG DILLON READ LLC	206,434.44	85,192,441	0.002
WARBURG DILLON READ SECURITIES	1,067.10	15,000	0.071
WARBURG FORMERLY S G WARBURG SECS	7,425.20	12,655,280	0.001
WARBURG SECURITIES	28,767.58	1,008,290	0.029
WARBURG, S.G., + COMPANY, INC	84,460.19	12,148,063	0.007
WASSERSTEIN PERELLA COMPANY	595.00	11,900	0.050
WATERHOUSE SECURITIES INC	1,260.00	21,000	0.060
WEEDEN + CO.	77,551.60	1,926,000	0.040
WERE J B + SONS INC	335.22	16,000	0.021
WEST LB PANMURE SECS INC	202.18	1,000	0.202
WESTDEUTSCHE LANDES BANK	382.50	8,000	0.048
WILLAMS DE BROE PIC	370.55	18,740	0.020
WILLIAM DE BROE	504.60	79,500	0.006
WOOD GUNDY INC.	2,180.44	79,858	0.027
ZANNEX SECURITIES	7,362.83	183,910	0.040

**COMBINED INVESTMENT FUNDS**  
**TOP TEN HOLDINGS BY FUND AT JUNE 30, 2000**

**MUTUAL EQUITY FUND**

Security Name	Industry Sector	Market Value	% of MEF Net Assets
General Electric Company	Technology	\$ 309,429,900	3.5
Intel Corp	Technology	280,837,331	3.2
Cisco Systems Inc.	Technology	275,238,338	3.1
Microsoft Corporation	Technology	249,056,000	2.8
Nortel Networks Corp	Technology	158,770,248	1.8
Wal Mart Stores, Inc.	Consumer Non-Durables	150,072,788	1.7
Citigroup, Inc.	Finance	140,677,424	1.6
Oracle Corp.	Technology	112,557,502	1.3
Exxon Mobil Corp.	Energy	111,964,864	1.3
Sun Microsystems Inc.	Technology	110,170,781	1.2
<b>TOTAL</b>		<b>\$1,898,775,175</b>	<b>21.4%</b>

**INTERNATIONAL STOCK FUND**

Security Name	Country	Market Value	% of ISF Net Assets
Deutsche Telekom NPV(REGD)	Germany	\$ 43,357,514	1.5
Vodafone Airtouch Ord USDO.10	United Kingdom	42,703,702	1.5
Total Fina ELF Eur10	France	32,116,921	1.1
Telefonica CA EUR 1	Spain	31,403,007	1.1
Nokia AB OY Euro 0.06	Japan	31,069,042	1.1
Telecom Italia SPA ITL 1000	Italy	23,256,718	0.8
BP Amoco Ord USDO.25	United Kingdom	22,614,333	0.8
Aventis SA EUR 3.82	France	22,194,904	0.7
Samsung Electronics KRW 5000	Korea	21,939,350	0.7
Canon Inc. JPY50	Japan	21,908,195	0.7
<b>TOTAL</b>		<b>\$ 292,563,686</b>	<b>10.0%</b>

**REAL ESTATE FUND**

Property Name	Location	Property Type	Market Value	% of REF Net Assets
AEW Partners III	Various	Various	\$ 100,784,007	19.8
Apollo RE Fund III	Various	Various	85,823,060	16.8
Walton St. RE II LP	Various	Various	69,677,100	13.7
Connecticut Storage Fund	Various	Storage Facilities	48,750,000	9.5
Westport Senior Living	Various	Senior Living	46,291,546	9.1
Goodwin Square	Hartford, CT	Mixed Use	45,789,637	9.0
Union Station	Washington, DC	Mixed Use	33,653,322	6.6
AEW 221 Trust	Various	Various	18,125,297	3.5
Worcester Center	Worcester, MA	Mixed Use	14,595,292	2.9
Wachovia Timber Fund	Various	Timber	13,887,577	2.7
<b>TOTAL</b>			<b>\$ 477,376,838</b>	<b>93.6%</b>

**COMBINED INVESTMENT FUNDS**

**TOP TEN HOLDINGS BY FUND AT JUNE 30, 2000 (Continued)**

**MUTUAL FIXED INCOME FUND**

Security Name	Coupon	Maturity	Security Type	Market Value	% of MFIF Net Assets
Triumph Connecticut II LLP	NA	NA	NA	\$199,220,400	2.7%
FNMA TBA Jul 30 Single	FAM 6.5%	10/1/2030	U.S. Govt. Agency	128,680,366	1.8%
FNMA TBA Jul 30 Single	FAM 7.5%	10/1/2030	U.S. Govt. Agency	102,343,680	1.4%
FHLMC TBA Jul 30 Gold	Single 6.5%	10/1/2030	U.S. Govt. Agency	95,340,987	1.3%
FNMA TBA Jul 30 Single	FAM 7.0%	10/1/2030	U.S. Govt. Agency	74,148,096	1.0%
U.S. Treasury Bonds	FAM 3.625%	4/15/2028	U.S. Govt. Agency	67,612,318	0.9%
U.S. Treasury Bonds	12.00%	8/15/2013	U.S. Govt. Treasury	62,647,424	0.9%
FHLMC TBA Jul 30 Gold	Single 7.5%	10/1/2030	U.S. Govt. Agency	58,823,148	0.8%
FNMA TBA Jul 15 Single	FAM 6.5%	10/1/2030	U.S. Govt. Agency	56,561,526	0.8%
FNMA TBA Jul 30 Single	FAM 8.0%	10/1/2030	U.S. Govt. Agency	56,070,624	0.8%
<b>TOTAL</b>				<b>\$ 901,448,569</b>	<b>12.4%</b>

**COMMERCIAL MORTGAGE FUND**

Property Name	Location	Property Type	Market Value	% of CMF Net Assets
SASCO	Various	Other	\$ 55,824,299	31.9
Vancouver Mall	Vancouver, WA	Retail	31,375,244	17.9
57 Park Plaza	Boston, MA	Hotel	17,278,612	9.9
Green Hill Apts.	Detroit, MI	Residential	16,255,447	9.3
Sheraton Denver West	Lakewood, CO	Hotel	7,887,668	4.5
North Haven Crossing	No. Haven, CT	Retail	7,425,098	4.2
Bidderman	Secaucus, NJ	Warehouse	6,552,358	3.7
1992 LBM I Class B	Various	CMBS	1,571,916	0.9
Upland Commerce Center	Upland, CA	Retail	1,205,731	0.7
Yankee Mac	Various	Residential	1,065,076	0.6
<b>TOTAL</b>			<b>\$ 146,441,449</b>	<b>83.6%</b>

**PRIVATE INVESTMENT FUND**

Date of Purchase	Company	Industry	Market Value	Percent of PIF Net Assets
06/05/98	US Internet Working	Computer Related	\$ 38,324,291	1.5
01/06/98	Amdocs Limited	Communications	27,205,126	1.1
08/31/98	Republic Engineered Steels, Inc.	Manufacturing	26,845,559	1.0
01/07/99	BC Components Holdings B. V.	Electronics	25,852,506	1.0
12/09/98	Metris Companies, Inc..	Services	25,327,594	1.0
09/30/98	Electrolux Zanussi Vending	Manufacturing	22,199,508	0.9
01/06/99	Centennial Cellular	Communications	22,180,526	0.9
12/27/96	Rossi American Hardwoods	Industrial Products	21,485,829	0.8
11/04/97	AirNet Communications Corp.	Communications	20,561,699	0.8
09/16/98	PacWest Telecommunication	Communications	19,379,874	0.7
<b>TOTAL</b>			<b>\$ 249,362,512</b>	<b>9.7%</b>



## GLOSSARY OF INVESTMENT TERMS

- Agency Securities** - Securities issued by U.S. Government agencies, such as the Federal Home Loan Bank. These securities have high credit ratings but are not backed by the full faith and credit of the U.S. Government.
- Alpha** - A measurement of the difference between the actual performance of a fund and its expected performance given the overall return of the market and the fund's beta. Positive alpha indicates successful management of risk while a negative alpha suggests unsuccessful management.
- Asset** - Anything owned that has value; any interest in real property or personal property that can be used for payment of debts.
- Asset Backed Security** - Financial instruments collateralized by one or more types of assets including real property, mortgages, and receivables.
- Banker's Acceptance (BA)** - A high-quality, short-term negotiable discount note, drawn on and accepted by banks which are obligated to pay the face amount at maturity.
- Basis Point (bp)** - The smallest measure used in quoting yields or returns. One basis point is 0.01% of yield, 100 basis points equals 1%. A yield that changed from 8.75% to 9.50% increased by 75 basis points.
- Benchmark** - A standard unit used as the basis of comparison; a universal unit that is identified with sufficient detail so that other similar classifications can be compared as being above, below, or comparable to the benchmark.
- Beta** - A measure of the volatility associated with the price movement of a stock in relation to the price movement of the overall stock market or benchmark.
- Book Value (BV)** - The value of individual assets, calculated as actual cost less allowances for any depreciation. Book value may be more or less than current market value.
- Capital Gain(Loss)** - Also known as capital appreciation(depreciation), capital gain(loss) measures the increase(decrease) in value of an asset over time.
- Certificates of Deposit (CDs)** - A debt instrument issued by banks, usually paying interest, with maturities ranging from seven days to several years.
- Coefficient of Determination (R<sup>2</sup>)** - A statistic which indicates the amount of variability in a dependent variable, such as Fund returns, which may be explained by an independent variable, such as market returns, in a regression model. The coefficient of determination is denoted R<sup>2</sup> and ranges from 0 to 1.0. If the statistic measures 0, the independent variable offers no explanation of the dependent variable. If the statistic measures 1.0, the independent variable fully explains the dependent variable.
- Collateral** - Property offered as security, usually as an inducement to another party, to lend money or extend credit.
- Collateralized Mortgage Obligation (CMO)** - A generic term for a security backed by real estate mortgages. CMO payment obligations are covered by interest and/or principal payments from a pool of mortgages.
- Commercial Paper** - Short-term obligations with maturities ranging from 1 to 270 days. They are issued by banks, corporations, and other borrowers to investors with temporarily idle cash.
- Compounded Annual Total Return** - Compounded annual total return measures the implicit annual percentage change in value of an investment, assuming reinvestment of dividends, interest, and realized capital gains, including those attributable to currency fluctuations. In effect, compounded annual total return "smoothes" fluctuations in long-term investment returns to derive an implied year-to-year annual return.
- Consumer Price Index (CPI)** - A measure of change in consumer prices, as determined by a monthly survey of the U.S. Bureau of Labor Statistics. Components of the CPI include housing costs, food, transportation, electricity, etc.
- Cumulative Rate of Return** - A measure of the total return earned for a particular time period. This calculation measures the absolute percentage change in value of an investment over a specified period, assuming reinvestment of dividends, interest income, and realized capital gains. For example, if a \$100 investment grew to \$120 in a two-year period, the cumulative rate of return would be 20%.
- Current Yield** - The relationship between the annual coupon interest rate and the market price of a fixed-income security. In calculating current yield, only the coupon interest payments are considered; no consideration is given to capital gain/loss or interest on interest.
- Derivative** - Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. For example, an option is a derivative instrument because its value derives from an underlying stock, stock index, or future.
- Discount Rate** - The interest rate that the Federal Reserve charges banks for loans, using government securities or eligible paper as collateral.
- Diversification** - The spreading of risk by putting assets in several categories of investments - stocks, bonds, money market instruments, or a mutual fund with its broad range of stocks in one portfolio.
- Duration** - A measure of the average time to receipt of all bond cash flows. Duration is used to determine the percentage change in price of a fixed income security for a given change in the security's yield to maturity. Duration is stated in terms of time periods, generally years. (See Modified and Macaulay duration).
- Equity** - The ownership interest possessed by shareholders in a corporation.
- ERISA (Employee Retirement Income Security Act)** - The 1974 law governing the operation of most private pension and benefit plans. The law eased pension eligibility rules, set up the Pension Benefit Guarantee Corporation, and established guidelines for the management of pension funds.
- Expense Ratio** - The amount, expressed as a percentage of total investment, that shareholders pay for mutual fund operating expenses and management fees.
- Fair Value** - The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.
- Federal Funds Rate** - The interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is one of the most sensitive indicators of the direction of interest rates since it is set daily by the market.
- Federal Reserve Board** - The governing body of the Federal Reserve System (12 regional Federal banks monitoring the commercial and savings banks in their regions). The board establishes FRS policies on such key matters as reserve requirements and other regulations, sets the discount rate, and tightens or loosens the availability of credit in the economy.
- Fiduciary** - A person, company, or association holding assets in trust for a beneficiary. The fiduciary is charged with the responsibility to invest the money wisely for the beneficiary's benefit.
- Floating Rate Note** - A fixed principal instrument which has a long or even indefinite life and whose yield is periodically reset relative to a reference rate to reflect changes in short- or intermediate-term interest rates.
- Gross Domestic Product** - Total final value of goods and services produced in the United States over a particular period or time, usually one year. The GDP growth rate is the primary indicator of the health of the economy.
- Hedge** - An investment in assets which serves to reduce the overall risk of a portfolio, usually at the expense of potential reward.



GLOSSARY OF INVESTMENT TERMS (Continued)

- IBC Index (Formerly Donoghue's)** - An index which represents an average of the returns of institutional money market mutual funds that invest primarily in first-tier (securities rated A-1, P-1) taxable securities.
- Index** - A benchmark used in executing investment strategy which is viewed as an independent representation of market performance. An index implicitly assumes cost-free transactions; some assume reinvestment of income. Example: S&P 500 index.
- Index Fund** - A fund whose portfolio matches that of a broadbased index such as the S&P 500 so as to match its performance.
- Inflation** - A measure of the rise in price of goods and services, as happens when spending increases relative to the supply of goods on the market, i.e. too much money chasing too few goods.
- Investment Income** - The equity dividends, bond interest, and/or cash interest paid on an investment.
- J-Curve** - An economic theory stating that a policy designed to have one effect will initially have the opposite effect. With regard to closed end commingled fund investments, this generally refers to the impact on returns of contributions made in the early portion of a fund's existence. Invested capital is used to pay fees and organizational costs as well as to make investments in non-income producing enterprises. Such uses negatively impact returns in early periods but are expected to generate increasing income and valuations in the late periods as the previously non-income producing entities start producing income and the relative size of fees and other costs diminish relative to the value of invested capital.
- LB Aggregate Index** - An index made up of Government, Corporate, Mortgage Backed, and Asset Backed securities, all rated investment grade. Returns are market value weighted inclusive of dividends. Issues must have at least one year to maturity and an outstanding par value of at least \$100 million.
- Letter of Credit** - An instrument or document issued by a bank, guaranteeing the payment of a customer's drafts up to a stated amount for a specified period. It substitutes the bank's credit for the buyer's and eliminates the seller's risk.
- Liability** - The claim on the assets of a company or individual - excluding ownership equity. The obligation to make a payment to another.
- Leverage** - The use of borrowed funds to increase purchasing power and, ideally, to increase profitability of an investment business.
- Macaulay Duration** - The present value weighted time to maturity of the cash flows of a fixed payment instrument or of the implicit cash flows of a derivative based on such an instrument.
- Market Value** - The price at which buyers and sellers trade similar items in an open marketplace. Stocks are considered liquid and are therefore valued at a market price. Real estate is illiquid and valued on an appraised basis.
- Master Custodian** - An entity, usually a bank, used as a place for safekeeping of securities. The bank is also responsible for many other functions which include accounting, performance, and securities lending.
- Maturity Date** - The date on which the principal amount of a bond or other debt instrument becomes payable or due.
- Mezzanine Debt** - Subordinated debt.
- Modified Duration** - A measurement of the change in the value of an instrument in response to a change in interest rates. It is the primary basis for comparing the effect of interest rate changes on prices of fixed income securities.
- Money Market Fund** - An open-ended mutual fund that invests in commercial paper, bankers' acceptances, repurchase agreements, government securities, certificates of deposit, and other highly liquid and safe securities and pays money market rates of interest. The fund's net asset value remains a constant \$1 per share - only the interest rate goes up or down.
- Moody's (Moody's Investors Service)** - A financial services company which is one of the best known bond rating agencies in the country. Moody's investment grade ratings are assigned to certain municipal short-term debt securities, classified as MIG-1, 2, 3, and 4 to signify best, high, favorable, and adequate quality, respectively. All four are investment grade or bank quality.
- MSCI-EAFE - Morgan Stanley Europe Australasia Far East foreign equity index.** An arithmetic value weighted average of the performance of over 900 securities on the stock exchanges of 19 countries on three continents. The index is calculated on a total return basis, which includes reinvestment of dividends net of withholding taxes.
- Net Asset Value (NAV)** - The total assets minus liabilities, including any gains or losses on investments or currencies, and any accrued income or expense. NAV is similar to Shareholders' Equity.
- NCREIF (National Council of Real Estate Investment Fiduciaries)** - An index consisting of investment-grade, non-agricultural, income-producing properties: apartments, hotels, offices, and warehouses. The return includes appreciation, realized capital gains, and income. It is computed by adding the income return and capital appreciation return on a quarterly basis.
- Par Value** - The stated or face value of a stock or bond. It has little significance for common stocks, however, for bonds it specifies the payment amount at maturity.
- Pension Fund** - A fund set up by a corporation, labor union, governmental entity, or other organization to pay the pension benefits of retired workers.
- Percentile** - A description of the percentage of the total universe in which portfolio performance is ranked.
- Price/Book (P/B)** - A ratio showing the price of a stock divided by its book value. The P/B measures the multiple at which the market is capitalizing the net asset value per share of a company at any given time.
- Price/Earnings (P/E)** - A ratio showing the price of a stock divided by its earnings per share. The P/E measures the multiple at which the market is capitalizing the earnings per share of a company at any given time.
- Present Value** - The current value of a future cash flow or series of cash flows discounted at an appropriate interest rate or rates. For example, at a 12% interest rate, the receipt of one dollar a year from now has a present value of \$0.89286.
- Principal** - Face value of an obligation, such as a bond or a loan, that must be repaid at maturity.
- Prudent Man Rule** - The standard adopted by some states to guide those fiduciaries with responsibility for investing money of others. Such fiduciaries must act as a prudent man would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investment.
- Realized Gain (Loss)** - A gain (loss) that has occurred financially. The difference between the principal amount received and the cost basis after the sale of an asset.
- Relative Volatility** - A ratio of the standard deviation of the Fund to the standard deviation of its selected benchmark. A relative volatility greater than 1.0 suggests comparatively more volatility in Fund returns than those of the benchmark.
- Repurchase Agreements ("Repos")** - An agreement to purchase securities from an entity for a specified amount of cash and to resell the securities to the entity at an agreed upon price and time. Repos are widely used as a money market instrument.

## GLOSSARY OF INVESTMENT TERMS (Continued)

- Reverse Repurchase Agreements (“Reverse Repos”)** - An agreement to sell securities to an entity for a specified amount of cash and to repurchase the securities from the entity at an agreed upon price and time.
- Return on Equity (ROE)** - The net income for the accounting period after payment of preferred stock dividends and before payment of common stock dividends of a company divided by the common stock equity at the beginning of the accounting period.
- Risk Adjusted Return** - A modified (usually reduced) return which allows for the cost or value of a specific exposure or for aggregate risk exposures.
- Russell 3000** - An equity index comprised of the securities of the 3,000 largest public U.S. companies as determined by total market capitalization. This index represents approximately 98% of the U.S. equity market. The largest security has a market capitalization of approximately \$85 billion; the smallest is approximately \$90 million.
- Salomon Brothers Broad Investment-Grade Bond Index (SBIG)** - A market value-weighted index composed of over 4,000 individually priced securities with a quality rating of at least BBB. Each issue has a minimum maturity of one year with an outstanding par amount of at least \$25 million.
- Salomon Brothers World Government Bond Index Non-U.S. (SWGBI)** - An unhedged index measuring government issues of 12 major industrialized countries.
- Securities Lending** - A carefully collateralized process of loaning portfolio positions to custodians, dealers, and short sellers who must make physical delivery of positions. Securities lending can reduce custody costs or enhance annual returns by a full percentage point or more in certain market environments.
- Soft Dollars** - The value of research or other services that brokerage houses and other service entities provide to a client “free of charge” in exchange for the client’s business.
- S&P 500 (Standard & Poor’s)** - The composite price average of 425 industrial stocks, 50 utility stocks, and 25 railroad stocks.
- S&P Ratings** -
- AAA** - Debt having the highest rating assigned by Standard & Poor’s. It has the highest capacity to pay interest and its ability to repay principal is extremely strong.
  - AA** - Debt having a very strong capacity to pay interest and repay principal. AA rated debt differs from the higher rated issues by only a small degree.
  - A** - Debt which has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of change in circumstances and economic conditions than debt in higher rated categories.
  - BBB** - Debt regarded as having an adequate capacity to pay interest and repay principal. BBB is the lowest rating assignable to investment grade securities. Although debt rated BBB normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.
  - BB, B, CCC, and CC** - These ratings are regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance to the terms of the obligation.
  - C** - These ratings are reserved for income bonds on which no interest is being paid.
  - D** - These ratings are for debt which is in default. No interest or repayment of principal is being paid.
- Standard Deviation** - A statistical measure showing the deviation of an individual value in a probability distributed from the mean (average) of the distribution. The greater the degree of dispersion from the mean rate of return, the higher the standard deviation; therefore, the higher the risk.
- Thomson Bank Watch** - Rating agency for banks. Thomson’s ratings on short-term securities span from TBW-1 through TBW-4. Long-term investments are rated A through E.
- Treasury Bill (T-Bill)** - Short-term, highly liquid government securities issued at a discount from the face value and returning the face amount at maturity.
- Treasury Bond or Note** - Debt obligations of the Federal government that make semiannual coupon payments and are sold at or near par value in denominations of \$1,000 or more.
- Trust** - A fiduciary relationship in which a person, called a trustee, holds title to property for the benefit of another person, called a beneficiary.
- TUCS** - Trust Universe Comparison Service. TUCS is based upon a pooling of quarterly trust accounting data from participating banks and other organizations that provide custody for trust assets.
- Turnover** - The minimum of security purchases or sales divided by the fiscal year’s beginning and ending market values for a given portfolio.
- Unrealized Gain (Loss)** - A profit (loss) that has not been realized through the sale of a security. The gain (loss) is realized when a security or futures contract is actually sold or settled.
- Variable Rate Note** - Floating rate notes with a coupon rate adjusted at set intervals, such as daily, weekly, or monthly, based on different interest rate indices, such as LIBOR, Fed Funds, and Treasury Bills.
- Volatility** - A statistical measure of the tendency of a market price or yield to vary over time. Volatility is said to be high if the price, yield, or return typically changes dramatically in a short period of time.
- Yield** - The return on an investor’s capital investment.
- Yield Curve** - A graph showing the term structure of interest rates by plotting the yields of all bonds of the same quality with maturities ranging from the shortest to the longest possible. The Y-axis represents the interest rate and the X-axis represents time with a normal curve being convex in shape.
- Zero Coupon Bond** - A bond paying no interest that sells at a discount and returns principal only at maturity.

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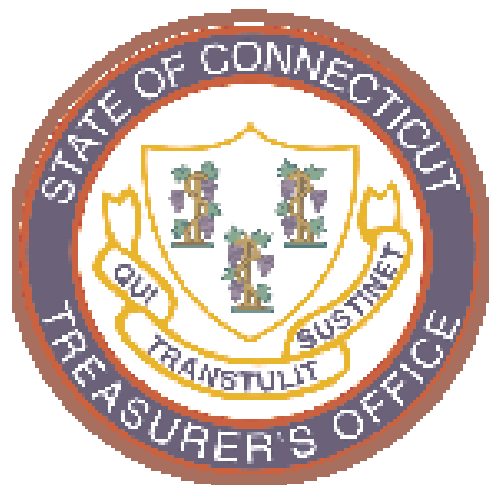
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