STATE OF MINNESOTA

STATE BOARD OF INVESTMENT

1960 Report of The Executive Secretary

February 28, 1961

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT
115 STATE CAPITOL
SAINT PAUL 1

ROBERT E. BLIXT
EXECUTIVE SECRETARY

February 28, 1961

Members of the Legislature of the State of Minnesota:

Gentlemen:

Chapter 693 of Laws of Minnesota, 1959, provided for the establishment of a department to advise the State Board of Investment in determining the investment policies to be adopted for the various state funds and in implementing these policies through the actual purchase and sale of securities. Pursuant to the statute, the State Board of Investment has established the office of the Executive Secretary in Room 115 of the State Capitol.

All investment policies pertaining to the trust funds and the retirement funds are decided by the State Board of Investment comprised of the Governor, State Treasurer, State Auditor, Attorney General, and one member of the University Board of Regents. The Executive Secretary, who is directly responsible to the Board, has a staff of three members to aid in the securities analysis, accounting, and secretarial work. The Board has subscribed to the necessary financial journals and reporting services. Because of the time necessary in setting up the office and finding personnel, the department has been in operation only since April 1, 1960.

I submit this report to the members of the Legislature in order to summarize our work of the past eleven months and to review the problems and policies of the State Board of Investment.

THE PERMANENT TRUST FUNDS

Schedule I lists the types of investments now held in the State's Permanent Trust Funds. These funds, accumulated primarily through taxes and royalties from the mining of iron ore, are to be held as permanent investment accounts with only the income to be used for the support of the State's schools, the University, and other institutions. The Constitution limits the investments in these funds to U. S. Treasury securities, full faith and credit obligations of state governments, and obligations of certain Minnesota subdivisions which conform to high credit standards.

On December 23, 1960, the Governor's Committee on Investment of State Trust Funds presented its recommendations for consideration by the Legislature. This Committee, which had been formed in 1959 and had spent considerable time analyzing the Trust Fund problem, recommended that the Permanent Trust Funds be invested in corporate bonds, mortgages, and both common and preferred stocks, as well as the debt securities of governmental units. The Committee also recommended that the State Board of Investment should have authority to shift investments, even though a temporary book loss be shown, when an increase in yield could be obtained through such an investment rearrangement. The report pointed out the advantages of using a diversified list of investments and the inherent safety of any investment program not based entirely on fixed income securities.

The Committee emphasized that tax exempt bonds provide a comparatively low yield for any fund which has no tax problems. The report stated that many sources feel, as a fundamental principle, that there is no basis in investment logic for the ownership of state and municipal bonds by the state trust funds. Substantial quantities of state paper are included in the trust funds and obligations of Minnesota municipalities and school districts constitute a vast majority of retirement fund investments. Therefore, it is evident that the State securities portfolios have suffered through the use of investments selling at comparatively high prices and low yields when compared with other investments of similar quality, but without the tax exemption feature.

Within the present Constitutional limitations, the State Board has made certain exchanges of U. S. Government securities which have been beneficial to the Trust Funds. The largest such exchange involved $80 million 2¾% bonds due April 1, 1980. These bonds were non-marketable, but transferrable into another Treasury issue maturing in only 5 years; it was possible to exchange the 5-year issue for 3¼% bonds due during the 1980's with no significant change in book value. This exchange resulted in increased income to the Trust Funds of over $400,000 per year, or approximately $8½ million during the 19½ year period through 1980.

Schedule I points out that the State holds significant amounts of Minnesota State obligations, and a lesser quantity of trust fund loans. The trust fund loans were made prior to 1956, at which time a Constitutional Amendment greatly lessened the influx of new cash into these funds. After that time, what had earlier been increments to the trust funds, went directly to the support of public schools and the University. The only state obligations recently purchased by the trust funds consist of the debt securities authorized by the 1959 Legislature to provide for the Maximum Effort School Aid Law. It should be emphasized that, except for the problems arising from the $250,000 debt limitation, the State of Minnesota may borrow money on the open market at an interest rate substantially less than that which we receive from U. S. Government obligations. When the State Board charges the State the "going rate" on state certificates of indebtedness purchased by the funds, this rate, which must be comparable to that receivable on U. S. Government obligations, is higher than the interest rate which would be paid if the State could sell its securities to other investors. The public schools, the University and other beneficiaries of these funds, however, would lose valuable income if the state certificates were assumed by the Board at any unrealistically low rate.

Additional investment rearranging, under the existing Constitutional restrictions, appears to be very limited in scope. It is evident that a Constitutional amendment such as that suggested by the Governor's Committee is necessary before the beneficiaries of the State Trust Funds can receive a more adequate income.

THE RETIREMENT FUNDS

The investments in the State retirement funds administered by the State Board of Investment totaled approximately $160 million in book value on November 30, 1960. Although the Legislature has recently greatly increased the contributions to these funds by the employers, the money now in the funds is primarily that of the employees (state, public, and school teachers) to be invested so as to provide maximum retirement benefits.

There is some question as to the applicability of various Statutes to the retirement funds. It is possible that these funds may be governed by the "prudent man" rule of the trust companies, or by Statutes governing the State's only mutual savings bank. At present, the Board is using only those investments specifically authorized by Minnesota Statutes, Chapter 50.14, in the retirement accounts.

The Public Retirement Study Commission of the Minnesota Legislature has reviewed the investment procedures of other states and has studied investment practices of comparable funds. The members of this Commission have introduced a bill authorizing far more realistic investment policies which would result both in significantly higher income and improvement in the diversification and the quality of the securities held.

Before the establishment of the investment department in early 1960, the State Board of Investment did not use the corporate securities authorized by Statute because of the lack of an investment staff. In order to maximize income, the Board purchased municipal bonds which provided a yield equal to or greater than that obtainable through U. S. Government securities. Because of the tax exemption feature applicable to state and municipal securities, the bonds offered to the State Board were primarily those of lower rating. The higher quality municipal obligations sell at a yield substantially less than that obtainable from U. S. Government bonds because of this tax advantage.

Beginning in March, 1960, the State Board of Investment decided to take advantage of existing statutes and invest in high grade corporate securities which would provide the maximum yield to the funds consistent with safety. Since that time, all securities purchased by the State Board have been rated "A" or above by one or more of three leading commercial rating services. These securities provide a diversification of risk because they consist of debt secured by first mortgages on utility property and railroad equipment throughout the United States.

Schedule II points out that the yield received on the purchase of $20,675,000 of high grade corporate securities from March 14 through November 30, 1960, approximated 4.87%.

Schedule III, which shows the yield received on the larger retirement funds during the past three years, emphasizes the increased income received through the use of corporate securities. Although changing markets make it impossible to calculate the exact yield advantage, it appears that, during the past eleven months, we have been able to increase the yield by 3/4 of 1% to 1% above that which could have been obtained through the use of municipal, state, and U. S. Government securities.

Schedule IV lists the present composition of the State's retirement funds. These funds presently lack the diversification desired by competent retirement fund managers. Of the $86 million of school and municipal securities of Minnesota subdivisions held in the retirement funds, $48 million consist of paper issued by the suburban governments of the Twin Cities area (in Hennepin, Ramsey, Anoka, Washington, and Dakota Counties).

It may have been detrimental to these communities to have their bonds placed, to such a large degree, in State funds receiving no tax benefit from owning these securities. Such bonds may be considered to over-hang the market and may compete with future issues in finding strong buyers and long term holders. Although it would be most desirable from the standpoint of the retirement funds to dispose of these bonds and reinvest the proceeds in higher yielding securities, it is apparent that such action must be taken with the utmost care and prudence so as to prevent any dislocation of the local municipal securities market which, in turn, would tend to further reduce the value of our present holdings.

It is noted that Minnesota municipal securities offered during the past few months have been placed at favorable interest rates. We believe that, over a period of time, the elimination of the State as a major factor in the local municipal bond market will result in a more orderly marketing procedure and in increased buying interest in Minnesota municipal securities throughout the nation. It is proper that these securities be purchased by those individuals and institutions best able to use the tax advantages such securities afford. The fostering of such a market will help to lower the interest costs to the various school districts and municipalities and, in that way, lower the tax burden of the taxpayers concerned.

For several years, the State Board has attempted to reduce the paper work and bond handling procedures through the use of registered U. S. Government bonds. Beginning with the use of corporate securities, this procedure was applied to all retirement fund investments. Instead of purchasing $1,000 coupon bonds, the State now purchases in pieces of from $200,000 to $750,000. The interest on such securities is paid by check semi-annually; no coupon-clipping work is involved. By purchasing new corporate issues at the time of offering, the State is able to obtain a guarantee of one free transfer into coupon bonds, if it is deemed desirable to sell the securities at any future date. Thereby, the State Board achieves the advantages of less securities handling work and, at the same time, maintains the advantage of having fully marketable securities available for sale if necessary.

Schedule V details the types of corporate obligations purchased by the State Board of Investment since March 1960 and the redemption features of these bonds. In over 99% of the purchases, the Board has received call protection equal to the coupon rate, or greater. Assuming yield of 4¾% and call protection equal to the coupon rate, a company would have to pay $47,500 to the State for the privilege of refunding $1 million of bonds at a lower interest rate. Because many issues have additional call protection in the form of non-callable and non-refundable features, the portfolio appears to be adequately protected against anticipated fluctuations in interest rates.

Schedule VI consists of a listing of vendors from whom the State Board of Investment purchased securities during the year ended November 30, 1960.

Schedule VII shows the $27,455,000 of corporate bond purchases for the retirement funds made during the year ended February 28, 1961, at an average yield of 4.83%.

During the past year, the State Board of Investment has operated under the same basic investment statutes as have applied during previous years. The Board has continued its policy of attempting to maximize yields accruing to the various funds under its jurisdiction. The use of corporate securities in the retirement funds has resulted in yields nearly 1% higher than could have been obtained through the combined use of government and municipal securities. This additional income on the $27½ million of securities purchased through February 28, 1961, amounts to approximately $250,000 annually. This increase in income will compound as additional new money is invested in higher yielding securities.

A more realistic investment policy regarding retirement funds, based on the recommendations of the Public Retirement Study Commission, could offer income advantages to the retirement funds together with added protection against the loss of value through inflation. Added diversification of investments would also materially benefit the portfolios.

Substantial transactions involving U. S. Government securities in the trust funds have been described previously in this report. The opportunity to further enhance the income from the trust funds appears very limited unless the Legislature and the electorate authorize a broader investment program through a Constitutional amendment. A broadened base for trust fund investments has long been advocated by state officials. It is our hope that we may be of service to the State in providing the highest possible yields to the various trust and retirement accounts consistent with the high standards of safety required in the investment of public funds.

Respectfully submitted,

Robert E. Blixt
Executive Secretary

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STATE OF MINNESOTA
STATE BOARD OF INVESTMENT

COMPOSITION OF TRUST FUNDS
November 30, 1960

SECURITY	PERMANENT SCHOOL Book Value	%	PERMANENT UNIVERSITY Book Value	%	SWAMP LAND Book Value	%	INTERNAL IMPROVEMENT LAND Book Value	%
United States Treasury Obligations	$187,713,000	81.3	$39,058,000	85.0	$22,263,500	79.4	$372,000	91.4
Minnesota State Obligations	39,129,968.30	16.9	6,170,962.44	13.4	4,308,897.26	15.4	35,000	8.6
Louisiana State Obligations	28,000	--	119,000	0.3	--	--	--	--
Trust Fund Loans	1,875,050	0.8	387,475	0.8	1,235,410	4.4	--	--
Obligations of Minnesota Subdivisions	2,239,000	1.0	200,000	0.5	235,000	0.8	--	--
TOTAL	**$230,985,018.30**	**100.0**	**$45,935,437.44**	**100.0**	**$28,042,807.26**	**100.0**	**$407,000**	**100.0**

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT

PURCHASES OF CORPORATE BONDS FOR RETIREMENT FUNDS
March 14 - November 30, 1960

ISSUE (Listed in order of date of initial purchase)	COUPON RATE %	PUBLIC EMPLOYEES RETIREMENT FUND (000)	STATE EMPLOYEES RETIREMENT FUND (000)	TEACHERS' RETIREMENT FUND (000)	PUBLIC EMPLOYEES POLICE & FIRE FUND (000)	GAME WARDENS RETIREMENT FUND (000)	HIGHWAY PATROLMEN'S RETIREMENT FUND (000)	TOTAL AMOUNT PURCHASED (000)	AVERAGE YIELD %
Central Illinois Light Co. First Mtge, 3-1-1990	4 7/8	$ 250	$ 250	$ 500	-	-	-	$ 1,000	4.90
Louisiana Power & Light Co. First Mtge, 4-1-1990	5	350	200	500	-	-	-	1,050	5.01
Carolina Power & Light Co. First Mtge, 4-1-1990	4 7/8	350	-	500	-	-	-	850	4.85
Alabama Power Co. First Mtge, 4-1-1990	5	300	200	500	-	-	-	1,000	5.02
Metropolitan Edison Co. First Mtge, 5-1-1990	5	350	200	500	-	-	-	1,050	4.95
Puget Sound Power & Light Co. First Mtge, 4-1-1990	5 3/8	350	200	500	-	-	-	1,050	5.30
Iowa-Illinois Gas & Electric Co. First Mtge, 4-15-1990	5	-	-	500	-	-	-	500	4.935
California Electric Power Co. First Mtge, 5-1-1990	5 1/8	400	300	500	-	$ 40	-	1,240	5.10
Jersey Central Power & Light Co. First Mtge, 6-1-1990	5 3/8	-	-	500	-	-	$ 40	540	5.20
Western Fruit Express Co. Equipment Trust Certificates, 1-1-1961/1975	4.85	450	300	700	-	-	-	1,450	4.85
Laclede Gas Co. First Mtge, 7-1-1985	4 7/8	250	200	-	$ 50	-	-	500	4.80
Illinois Bell Telephone Co. First Mtge, 7-1-1997	4 7/8	250	200	-	50	-	-	500	4.75
Southern Counties Gas Co. of California First Mtge, 8-1-1985	4 3/4	400	250	500	50	-	-	1,200	4.60
Southern California Edison Co. First Mtge, 9-1-1985	4 3/8	500	260	500	-	-	-	1,260	4.43
Utah Power & Light Co. First Mtge, 9-1-1990	4 7/8	500	260	500	-	-	30	1,290	4.80
Rochester Telephone Co. First Mtge, 9-1-1993	4 3/4	500	-	500	60	-	50	1,110	4.66
Public Service Electric & Gas Co. First Mtge, 9-1-1990	4 3/4	-	-	500	60	-	-	560	4.73
Natural Gas Pipeline Co. of America First Mtge, 10-1-1980	5	500	250	250	-	-	-	1,000	5.00
Georgia Power Co. First Mtge, 11-1-1990	4 7/8	500	200	-	60	-	40	800	4.88
ACF Industries Inc. Equipment Trust Certificates, 11-1-1961/1975	4 3/4	750	525	750	-	-	-	2,025	4.75
Central Maine Power Co. First Mtge, 11-1-1990	5 1/4	-	300	300	60	-	40	700	5.10
TOTAL		**$6,950**	**$4,095**	**$9,000**	**$390**	**$40**	**$200**	**$20,675**	**4.87%**

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT

RATE OF RETURN ON AVERAGE AMOUNT INVESTED DURING YEAR IN THE THREE LARGEST RETIREMENT FUNDS

(Three Most Recent Fiscal Periods)
November 30, 1960

DATE	PUBLIC EMPLOYEES RETIREMENT FUND				STATE EMPLOYEES RETIREMENT FUND				TEACHERS' RETIREMENT FUND			
	Book Value of Fund (1)	Average Book Value of Fund For Year Ending (2)	Income of Fund For Year Ending (3)	Yield (4)	Book Value of Fund (1)	Average Book Value of Fund For Year Ending (2)	Income of Fund For Year Ending (3) (5)	Yield (4)	Book Value of Fund (1)	Average Book Value of Fund For Year Ending (2)	Income of Fund For Year Ending (3)	Yield (4)
June 30, 1956	$17,357,500				$32,872,500				$27,471,100			
December 31, 1956	18,286,750				34,910,000				29,748,400			
June 30, 1957	19,301,750				36,797,000	$34,859,833	$1,016,556.48	2.92%	31,853,900			
December 31, 1957	20,588,750				39,577,500				34,149,700			
June 30, 1958	23,625,000	$21,171,833	$614,096.77	2.90%	39,715,500				37,242,200	$34,415,267	$1,018,014.26	2.9%
December 31, 1958	27,515,000				41,985,500	40,426,167	1,225,833.46	3.03	42,777,200			
June 30, 1959	31,563,000	27,567,667	880,223.48	3.19	44,659,000				48,523,300	42,847,567	1,409,995.45	3.29
December 31, 1959	35,414,500				46,911,500	44,518,667	1,378,022.98	3.10	54,313,300			
June 30, 1960	41,548,500	36,175,333	1,211,061.33	3.35	49,816,500				55,243,300	52,693,300	1,823,482.03	3.46

(1) As shown on Treasurer's General Report on State Finances on date listed.
(2) Computed by averaging book values of Fund on last three report dates ending with the date listed.
(3) Income figures obtained from the secretaries of the respective retirement funds.
(4) Computed by dividing Income of Fund for fiscal period by Average Book Value of Fund during period.
(5) In 1957, State Employees Retirement Fund changed from a fiscal year basis to a calendar year basis.

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT

COMPOSITION OF RETIREMENT FUNDS
November 30, 1960

TYPE OF SECURITY	PUBLIC EMPLOYEES RETIREMENT FUND		STATE EMPLOYEES RETIREMENT FUND		TEACHERS' RETIREMENT FUND		PUBLIC EMPLOYEES POLICE & FIRE FUND		GAME WARDENS RETIREMENT FUND		HIGHWAY PATROLMEN'S RETIREMENT FUND		TOTAL	
	Book Value	%	Book Value	%	Book Value	%	Book Value	%	Book Value	%	Book Value	%	Book Value	%
United States Treasury Obligations.......	$ 9,143,000	20.2	$12,475,000	24.0	$16,219,000	27.3	$240,000	38.1	$ 50,000	8.4	$ 742,000	40.5	$ 38,869,000	24.3
Minnesota State Obligations.............	4,671,500	10.3	3,328,500	6.4	4,305,100	7.2	--	--	--	--	--	--	12,305,100	7.7
Obligations of Minnesota Subdivisions....	23,730,000	52.3	31,295,000	60.1	28,554,500	48.0	--	--	506,000	84.9	891,400	48.6	84,976,900	53.1
Obligations of Other States and Subdivisions:														
Arkansas.........................	486,000	1.1	374,000	0.7	1,138,000	1.9	--	--	--	--	--	--	1,998,000	1.2
California.......................	313,000	0.7	227,000	0.4	97,000	0.2	--	--	--	--	--	--	637,000	0.4
Montana..........................	3,000	--	--	--	--	--	--	--	--	--	--	--	3,000	--
New York.........................	--	--	145,000	0.3	--	--	--	--	--	--	--	--	145,000	0.1
North Dakota.....................	13,000	--	2,000	--	113,000	0.2	--	--	--	--	--	--	128,000	0.1
South Dakota.....................	2,000	--	5,000	--	15,000	--	--	--	--	--	--	--	22,000	--
Wisconsin........................	60,000	0.1	45,000	0.1	14,000	--	--	--	--	--	--	--	119,000	0.1
Corporate Obligations:														
Electric Utility Mortgage Bonds........	3,850,000	8.5	2,370,000	4.6	6,300,000	10.6	180,000	28.6	40,000	6.7	150,000	8.2	12,890,000	8.1
Gas Utility Mortgage Bonds.............	1,150,000	2.5	700,000	1.3	750,000	1.3	100,000	15.9	--	--	--	--	2,700,000	1.7
Telephone Mortgage Bonds...............	750,000	1.7	200,000	0.4	500,000	0.9	110,000	17.4	--	--	50,000	2.7	1,610,000	1.0
Railroad Mortgage Bonds (Purchased 1930-1951).........................	--	--	42,000	0.1	--	--	--	--	--	--	--	--	42,000	--
Railroad Equipment Trust Certificates..	1,200,000	2.6	825,000	1.6	1,450,000	2.4	--	--	--	--	--	--	3,475,000	2.2
Preferred Stock (Gift).................	--	--	--	--	700	--	--	--	--	--	--	--	700	--
TOTAL....................	$45,371,500	100.0	$52,033,500	100.0	$59,456,300	100.0	$630,000	100.0	$596,000	100.0	$1,833,400	100.0	$159,920,700	100.0

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT

CLASSIFICATION OF PURCHASES IN RETIREMENT FUNDS
March 14 - November 30, 1960

BREAKDOWN BY CORPORATE TYPE	DOLLAR AMOUNT	PERCENT
Electric Utility	$12,890,000	62.3
Gas Utility	2,700,000	13.1
Telephone	1,610,000	7.8
Railroad Equipment Trust Certificates	3,475,000	16.8
TOTAL	$20,675,000	100.0%

BREAKDOWN BY REDEMPTION FEATURE		
Non-Callable	$ 3,475,000	16.8
5-year Call Protection	5,070,000	24.5
More than Coupon	3,950,000	19.1
Coupon	8,040,000	38.9
Less than Coupon	140,000	0.7
TOTAL	$20,675,000	100.0%

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT

LIST OF VENDORS
December 1, 1959 - November 30, 1960

A. C. Allyn & Co., Inc.
American National Bank
American Securities Corp.
C. S. Ashmun Co.
Bache & Co.
Ball, Burge & Kraus
Barcus, Kindred & Co.
Baxter & Co.
A. G. Becker & Co., Inc.
William Blair & Co.
Blyth & Co., Inc.
Caldwell, Phillips Co.
Cruttenden, Podesta & Co.
J. M. Dain & Co., Inc.
Shelby Cullom Davis & Co.
Dick & Merle-Smith
R. S. Dickson & Co., Inc.
Dillon, Read & Co., Inc.
Dominick & Dominick
Francis I. du Pont & Co.
Eastman Dillon, Union Securities & Co.
Equitable Securities Corp.
Estabrook & Co.
First American National Bank of Duluth
The First Boston Corp.
The First National Bank of St. Paul
First National Bank of Minneapolis
Glore, Forgan & Co.
Goldman, Sachs & Co.
Granbery, Marache & Co.
Gregory & Sons
Halsey, Stuart & Co., Inc.
Harriman Ripley & Co., Inc.
Hayden, Stone & Co.
Juran & Moody, Inc.
Kalman & Co., Inc.
Kidder, Peabody & Co.
W. C. Langley & Co.
Lee Higginson Corp.
Marquette National Bank
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Midland National Bank
The Milwaukee Co.
Northern City National Bank
Northwestern National Bank of Minneapolis
John Nuveen & Co.
Paine, Webber, Jackson & Curtis
Piper, Jaffray & Hopwood
R. W. Pressprich & Co.
Reynolds & Co.
Irving J. Rice & Co., Inc.
Riter & Co.
L. F. Rothschild & Co.
Salomon Bros. & Hutzler
Shaughnessy & Co., Inc.
Shearson, Hammill & Co.
Smith, Barney & Co.
F. S. Smithers & Co.
Stone & Webster Securities Corp.
Spencer Trask & Co.
Tucker Anthony & R. L. Day
Van Alstyne, Noel & Co.
White, Weld & Co.
Dean Witter & Co.
Harold E. Wood & Co.
Woodard-Elwood & Co.

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT

CORPORATE OBLIGATIONS PURCHASED FOR MINNESOTA RETIREMENT FUNDS
March 14, 1960 - February 28, 1961

Since the preceding schedules were compiled and printed, additional corporate bonds have been purchased. The following listing, according to industry, includes all corporate obligations purchased for the Minnesota retirement funds through February 28, 1961.

FACE AMOUNT (000)	STATED INTEREST RATE	COMPANY	MATURITY DATE*	YIELD AT PURCHASE PRICE
I. Electric Utility Mortgage Bonds				
$ 1,000	5%	Alabama Power Co.	1990	5.02%
1,240	5 1/8	California Electric Power Co.	1990	5.10
850	4 7/8	Carolina Power & Light Co.	1990	4.85
1,000	4 7/8	Central Illinois Light Co.	1990	4.90
700	5 1/4	Central Maine Power Co.	1990	5.10
800	4 7/8	Georgia Power Co.	1990	4.88
500	5	Iowa-Illinois Gas & Electric Co.	1990	4.94
540	5 3/8	Jersey Central Power & Light Co.	1990	5.20
500	4 5/8	Lake Superior District Power Co.	1991	4.60
1,050	5	Louisiana Power & Light Co.	1990	5.01
1,050	5	Metropolitan Edison Co.	1990	4.95
850	4 7/8	Otter Tail Power Co.	1991	4.80
560	4 3/4	Public Service Electric & Gas Co.	1990	4.73
1,050	5 3/8	Puget Sound Power & Light Co.	1990	5.30
500	4 5/8	Puget Sound Power & Light Co.	1991	4.65
1,260	4 3/8	Southern California Edison Co.	1990	4.43
1,290	4 7/8	Utah Power & Light Co.	1990	4.80
II. Gas Mortgage Bonds				
$ 500	4 7/8%	Laclede Gas Co.	1985	4.80%
1,000	5	Natural Gas Pipeline Co. of America	1980	5.00
1,200	4 3/4	Southern Counties Gas Co. of California	1985	4.60
III. Telephone Mortgage Bonds				
$ 500	4 7/8%	Illinois Bell Telephone Co.	1997	4.75%
500	4 5/8	New York Telephone Co.	1997	4.57
1,110	4 3/4	Rochester Telephone Co.	1993	4.66
IV. Railroad Equipment Trust Certificates				
$2,025	4 3/4%	ACF Industries Inc.	1961-1975	4.75%
2,205	4 3/4	Fruit Growers Express	1961-1975	4.75
950	4 3/4	New York Central Railroad	1971-1974	5.00
985	4 1/4	Southern Pacific Co.	1971-1973	4.50
1,450	4.85	Western Fruit Express Co.	1961-1975	4.85
290	2 3/8	Western Fruit Express Co.	1963, 1964	4.73
$27,455		TOTAL		4.83%

**Most utility issues have substantial sinking funds and an average life far shorter than the stated maturity date.*