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INTEROFFICE MEMORANDUM

Company Confidential

Date: September 19, 1997
From: Ray Schmalz
rschmalz@mail.dec.com
Dept.: Benefits Finance & Investments
Tel No: 978/493-7736 DTN: 223-7736

Ray

TO: *Benefits Investments Committees*:

Sam Fuller
Win Hindle
Ilene Jacobs
Gail Mann
Paul Milbury

cc: Dick Brophy
Jack Cutler
Dot Jacobson
Rob McMicking

Subject: Benefits Investment Committees Meeting
September 24, 1997
8:30 - 11:00; Lawrence G. Ricci III Conference Room

Attached is the background material for the upcoming meetings of the Savings and Investment Plan Investment Committee and the Cash Account Pension Plan Investment Committee on September 24.

There are currently three major agenda items:

SAVE Plan:

Dick Brophy, Digital's Retirement Plans manager in Corporate Benefits, will join us to propose changes to the SAVE Plan Investment Policy you approved in June, 1994. He will also briefly discuss SAVE Plan manager retention.

Annual Investment Performance:

We will present the annual review of the U.S. pension fund's investment performance. This review is incorporated into the Annual Report to the Board of Directors.

Portfolio Protection:

This will be a discussion of whether the pension fund's assets should be protected against market downturns, thereby controlling Digital's future U.S. pension expense.

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BENEFIT PLANS INVESTMENT COMMITTEES

111 Powdermill Road
Narragansett Bay Conference Room
(MSO2-3/E22)

Tuesday, September 24, 1997
8:30 a.m. - 11:00 a.m.

AGENDA

TIME	SECTION	TOPIC	PRESENTOR
		SAVINGS AND INVESTMENT PLAN	
8:30 - 8:35	1	Minutes	Rob McMicking
8:35 - 8:50	2	SAVE Plan Investment Strategy - Proposed Changes	Dick Brophy
8:50 - 9:00	3	SAVE Plan Manager Retention Guidelines Summary	Dick Brophy
		U.S. PENSION PLAN (CAPP)	
9:00 - 9:05	4	Minutes	Rob McMicking
9:05 - 9:30	5	Annual Review of Investment Performance	Ray Schmalz
9:30 - 11:00	6	Discussion: Portfolio Protection	Ray Schmalz

APPENDICES

Appendix 1 Investment Performance

Appendix 2 Pension Investment Manager Profiles

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MEETING OF INVESTMENT COMMITTEE

DIGITAL EQUIPMENT CORPORATION

SAVINGS AND INVESTMENT PLAN

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25 March 1997 - 8:30 A.M.
Narragansett Bay Conference Room
111 Powdermill Road/MSO2
Maynard, MA 01754

Present at the Meeting were:	Mr. Winston R. Hindle, Jr. Ms. Ilene B. Jacobs Ms. Gail S. Mann Mr. Paul J. Milbury Mr. Samuel H. Fuller
Apologies:	Mr. Charles F. Christ
Present by invitation were:	Mr. J. Richard Brophy Mr. John W. Cutler, Jr., and Mr. A. Raymond Schmalz *all of Digital Equipment Corporation*

The Committee was called into session at 8:30 a.m.

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Approval of Minutes

The Committee approved the minutes of the 25 September 1996 meeting as presented.

SAVE Internal Audit

Mr. Cutler presented the results of the SAVE Plan internal audit and the internal audit management letter to the Committee. The audit focused on the outsourcing management processes for SAVE Plan administration.

Overall, internal controls were considered "good", and two control activities - vendor selection and the continuous improvement review process - were considered "very good" controls.

The audit recommended three minor areas for improvement which have been addressed by both Benefits and Treasury.

Since the audit was completed last Fall, Mr. Cutler informed the Committee that a Type II SAS 70 audit of Hewitt Associates, the plan's record keeper had been completed by Arthur Andersen, and there were no major findings.

SAVE Plan Annual Investment Performance Report

Mr. Cutler reviewed the annual investment performance of the SAVE Plan's investment choices. All the fund choices continue to have a four or five star Morningstar rating, and all the funds except the Neuberger and Berman Guardian fund, Stock Fund A, have outperformed their benchmarks for the three years ending 31 December, 1996. Mr. Cutler indicated that we are closely monitoring the performance of Neuberger and Berman, and he will be meeting with them in April.

The Committee discussed the performance in more detail. In response to Mr. Milbury's question, Mr. Cutler will research in more detail Putnam Voyager's performance for the quarter ending 31 December, 1996.

SAVE Plan Investment Policy - Strategy Enhancements

Mr. Cutler proposed a number of strategy enhancements to the SAVE Plan.

His first proposal was to add a small capitalization U.S. stock fund as an additional core investment option. This fund would round out the core choices in the Plan. During the past two years, Putnam Voyager's average market capitalization has increased, so a new fund is needed to fill in the risk-reward spectrum.

After a brief discussion, the Committee unanimously

VOTED: To add a small capitalization U.S. stock fund as a core investment option.

VOTED: To delegate to the vice President and Treasurer of Digital Equipment Corporation the selection of the fund and the fund's investment manager, and the mix and relative weighting of the fund in the Plan's pre-mixed portfolios.

Mr. Cutler then proposed a three-tiered level of participant choice by adding a participant-directed account that would be limited to highly rated, publicly available mutual fund choices chosen by Hewitt Associates.

Following a lively discussion, it was agreed that Mr. Cutler and Mr. Brophy would consider further the design of the participant-directed account and its role in the SAVE Plan and return to the Committee at a later date for further review and discussion.

Thereafter, there being no further business to come before the meeting, the meeting was adjourned at 9:25 a.m.

A true record.

John W. Cutler Jr.

John W. Cutler, Jr.
Acting on behalf of
Robert N. McMicking
Secretary

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SAVE Plan Investment Strategy

Proposed Changes

- Two-Tiered Strategy

  Pre-mix portfolios
  Active and Passive Core Funds

- Core funds to be comprised of Actively Managed Funds and Passively Managed Funds

- Both Active and Passive Funds will span risk-reward spectrum

DIGITAL EQUIPMENT CORPORATION
Savings & Investment Plan (SAVE)
Investment Policy

Final: June 22, 1994

Proposed Revision:
September, 1997

INVESTMENT OBJECTIVES AND PRINCIPLES:

The major objectives of the Digital Equipment Corporation Savings & Investment Plan are:

(1) To provide participants with a broad range of investment alternatives across the historical risk-return spectrum which empowers ~~them~~ *participants to establish and* to implement a personal investment strategy.

(2) To provide alternatives that meet the diversification requirements of ERISA Section 404(c) and comply with all applicable ERISA law.

(3) To deliberately exclude direct investment in Digital Equipment Corporation stock because we provide other ways for employees to invest in Digital with their personal assets.

(4) To use readily available mutual funds and institutional co-mingled funds. Digital will not manage funds internally.

INVESTMENT STRATEGY:

- The Plan will provide participants with a range of investment alternatives which span the risk-reward spectrum (see graph below) in four major asset classes - cash, fixed income, domestic stocks and non-U.S. stocks.

- The Plan will *offer the* ~~meet the range of~~ investment alternatives identified above through a range of passive and active, externally-managed investment funds, *each group of* which *will span the* ~~range~~ *risk-reward spectrum* ~~from conservative to aggressive risk.~~

    (1) *At least one* core fund*s* will be provided for each of the major asset classes. ~~that are broadly diversified across the entire asset class.~~

    - ~~A~~ Passive *investment* alternative*s* will be provided for ~~the most popular risky asset classes (currently only the S&P 500 Index) in order to provide fund choice (2) for~~ those participants who do not want the risk associated with above-average returns that might be attained through active management.

- Core funds ~~will generally be~~ *may also include broadly diversified,* actively managed funds with comparatively *large value add and large information ratios relative to* ~~tighter tracking errors to~~ their benchmarks, ~~reflecting their broader diversification~~. We will not offer funds that have had historically high concentrations in industry sectors.

- ~~A passive fund alternative will be used if we are not confident any actively managed funds will add value above the benchmark.~~

~~(2)~~ Three different pre-mixeds *portfolios comprised* of *cash,* bonds, domestic and international stocks will be provided for those participants who *do not wish to make their own asset allocation decision.* ~~would like to have a blend of stocks and bonds that meet their individual investment objectives~~. ~~These mixes will be composed of the Plan's bond and stock funds.~~

~~(3) A~~ *At least one* non-U.S. stock fund will provide participants with an opportunity to further diversify their investment portfolio *outside of the U.S. capital markets.*. ~~The alternatives for this investment option are an actively-managed, broadly-diversified international stock fund or an international stock index fund targeting the capitalization-weighted EAFE (Europe, Australia, Far East).~~

~~(4)~~ A participant-directed account may be available at a future date with highly rated, publicly available mutual fund choices. This will ~~be~~ provide~~d~~ *additional investment choices* for those participants who wish to further diversify their portfolio. The funds *offered in this option would span the risk-reward spectrum of investment options.* ~~in the participant-directed account will provide additional actively-managed alternatives to the core funds in each of the major asset classes.~~

<u>CRITERIA FOR SELECTING INVESTMENT OPTIONS</u>:

(1) Publicly available mutual funds or their institutional equivalents will be selected using a combination of the following sources:

- Morningstar (primary, if available)
- other publicly available data and/or
- criteria used for selecting Digital's Defined Benefit Plan's investment managers (see attached) and the Savings and Investment Plan Investment Committee's judgment.

(2) Digital will select "best of the best" funds for each plan investment choice.

For actively managed funds, this means a consistent four and/or five star rating by Morningstar in addition to meeting the strategic needs for the fund and demonstrating consistent value of active management when compared to either a specially designed style benchmark or one derived by the "Style Advisor."

For passively managed funds, this means a solid, reputable provider, tight tracking error *to the underlying index* relative to competitors and a low expense ratio.

(3) If a family of funds is chosen (e.g., Fidelity, etc.) whether or not the investment company is the Plan's recordkeeper, it will be done such that in aggregate the selected collection of funds will have the highest average Morningstar rating or its equivalent of all of the fund alternatives available within the family of funds that also meet the criteria (1) above as well as the investment objectives and investment strategy outlined above.

If the recordkeeper is also an investment company, the preference will be to select a group of funds which meet the stated objectives and criteria from their family of funds. However, the Savings and Investment Plan Investment Committee will always retain the authority to terminate any fund or fund manager at any time.

(4) We will use the purchasing power afforded by the size of the plan assets to the extent possible to either reduce the cost of the funds in which the Plan's participants invest in or to provide better administrative services to them.

CRITERIA FOR EVALUATING AND MONITORING INVESTMENT OPTIONS:

(1) Digital's Treasury Group will monitor all funds and their investment mangers using the criteria described above for selecting funds.

(2) If a fund's performance deteriorates, there is a change in portfolio managers or another change that is of concern as a result of monitoring the fund, the fund manager and the external environment, Treasury will initiate a formal review with the Benefits Department that would lead to terminating the fund or the fund manager.

INVESTMENT GUIDELINES AND RESTRICTIONS:

(1) Fees:

Fees should be competitive and reflect the historical value added by the fund manager.

(2) Performance Fees:

Digital supports performance-based fees for the managers of these Plan assets if they are available. Performance fees, however, are not a requirement for consideration.

(3) Securities Lending:

Securities lending will be permitted by the investment manager if available only when, in the Committee's opinion, this practice results in no incremental risk to the Plan's participants.

Collateral must be at least 102% of the value of the underlying assets and the resulting cash invested in assets with no more risk than the assets on loan.

(4) Proxy Voting:

Investment managers for each of the Plan's equity funds will retain the voting right to vote the proxies consistent with their fiduciary duty under ERISA.

(5) Foreign Bonds:

Investment-grade foreign bonds will be allowed in the Plan's fixed income fund choices if they meet the same investment criteria currently is use by the defined benefit pension plan fixed income investments.

(6) Alliance Rebates:

The Committee recognizes that Digital may employ an administrator/recordkeeper who has strategic alliances with fund managers which provide rebates to reduce the cost of administration and recordkeeping. At all times, these rebates will be incidental to the choice of fund.

POLICY DURATION:

This policy is intended to be effective for an indefinite period of time.

The Savings and Investment Plan's Investment Committee, however, reserves the right to make changes to this policy from time-to-time, especially if the following occurs:

(1) There are structural changes to the SAVE Plan

(2) New government investment regulations are legislated.

(3) Fundamental, long-term social, political and economic restructuring takes place.

(4) The Committee develops a new understanding of investments, or new forms of investment become available.

total lbs: 1.8M
2.2M

2.1B
10%

3.2 spend

2.1B

1.2?

SAVE Plan Manager Retention Policy

Summary

- Patterned after our CAPP Manager Retention Policy

- Utilizes multi-disciplinary task force comprising representatives of:

    - Human Resources
    - Legal
    - Treasury

- Integrated with SAVE Plan Investment Strategy to insure fund offerings meet plan objectives

- Additions/Terminations of investment offerings would continue to be approved by the Vice President and Treasurer

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MEETING OF INVESTMENT COMMITTEE

DIGITAL EQUIPMENT CORPORATION

CASH ACCOUNT PENSION PLAN

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25 March 1997 - 8:30 A.M.
Narragansett Bay Conference Room
111 Powdermill Road/MSO2
Maynard, MA 01754

Present at the Meeting were:	Mr. Winston R. Hindle, Jr. Ms. Ilene B. Jacobs Ms. Gail S. Mann Mr. Paul J. Milbury Mr. Samuel H. Fuller
Apologies:	Mr. Charles F. Christ
Present by invitation were:	Mr. John W. Cutler, Jr., and Mr. A. Raymond Schmalz *all of Digital Equipment Corporation*

The Committee was called into session at 9:25 a.m.

Approval of Minutes

The Committee approved the minutes of the 25 September 1996 meeting as presented.

Update

Mr. Schmalz informed the Committee that there had been a change in the fund's international equity managers. Northern Trust Global Advisors, Inc. (formerly RCB Trust Company), was terminated for performance reasons. In their place, Franklin Portfolio was hired by the fund to manage an international completeness fund in a similar manner to the domestic equity completeness fund they are currently managing for the fund.

Mr. Schmalz reported that he is still performing due diligence work with respect to enhanced index fund strategies and will make a full report to the Committee on this topic at the next meeting.

Mr. Schmalz reported that current cash flow from the plan for benefit payments is about $130M annually.

Cash Account Pension Plan Audit

Mr. Cutler presented the results of Coopers & Lybrand's financial audit of the Cash Account Pension Plan. He reported that the audit showed a clean audit opinion with no issues for concern.

Actuarial Valuation

Mr. Schmalz began his presentation of the July 1, 1996 actuarial valuation by reviewing with the Committee actuarial nomenclature. Mr. Schmalz reminded the Committee that the transition to CAPP was fully reflected in this valuation and that favorable asset growth has reduced pension expense.

As Mr. Hindle joined the meeting, Mr. Schmalz reviewed the changes to this year's valuation including a new mortality table. There followed a general discussion about all of the valuation assumptions. In response to questions about the turnover assumption used in this valuation, Mr. Schmalz noted that this was changed two years ago and that differences between assumed and actual turnover are included in gains or losses which may then be amortized over the future working lives of employees.

The plan continues to be overfunded even with a significant increase in the plan liability due to the change to CAPP. On a FAS 87 basis, Mr. Schmalz reported the plan has assets which represent 123% of plan liabilities. The plan is also overfunded on a funding basis, so no additional contributions are permitted.

Mr. Schmalz reviewed the balance sheet liability which will be reported in the Company's Annual Report. This liability is an aggregate for the entire company on a worldwide basis. The U.S. pension liability represents almost $ 500M of the total reported liability of $1.2B.

Mr. Schmalz reported that the pension plan population continues to decrease as a result of attrition due in part to the cashing out of term vested terminees whose pension benefit was less than $3500 on a present value basis.

Investment Policy

Mr. Schmalz began a discussion on the fund's investment policy by reviewing the major changes which have taken place recently including the move to CAPP, changes in asset allocation, and our further experience with active management.

In response to a question from Mr. Hindle, Mr. Schmalz described the average participant as age 42 with 11 years of service to the Company. The Committee agreed that the plan's demographics continue to impact the investment policy decision because of the implied investment horizon as well as the potential cash impact on the fund. They realize there is a cash impact from the portability of the new Cash Account Pension Plan, but the Committee also realized that some future cash flows will be met by future Company contributions based on current projections.

Mr. Schmalz then presented a variety of topics which have been or might be a part of the investment policy for review by the Committee. Shown below is a summary of the discussion and the investment policy conclusion reached by the Committee for each topic.

Investment Objective:

Current Investment Objectives:

- Pay benefits we promise employees
- Ensure lowest predictable cost to the Company

Discussion: The Committee discussed the tradeoffs between the fund's investment performance, the cost to the plan sponsor and the level of benefits provided to participants. The Committee agreed that they are not linked, and that Digital as the plan sponsor must decide on the level of benefits it can afford. Ultimately, the plan sponsor is responsible to fund the plan in order to pay the benefits if the fund's assets are not sufficient.

Conclusion: The Committee decided to focus on the fund's investments and concluded the investment objective should be to:

Maximize fund performance subject to prudent risk taking.

Total Fund Risk Appetite:

Current: The Committee has identified and currently considers and monitors the following investment risks:

- Inflation and productivity risk
- Long time horizon to absorb short-term volatility
- Company pension expense more volatile
- Company funding requirements more volatile

Discussion: The Committee discussed other ways to monitor risk, and whether or not downside protection on the portfolio is needed. The Committee concluded they will not use any downside protection at the present time.

Conclusion: The Committee agreed to continue considering and monitoring the risks above, as well as **the risk that the plan sponsor can sustain the level of benefits.**

Asset Allocation:

Current: The current asset allocation targets are developed using the following principles:

- Targets based on historical long term returns
- Assets are diversified internationally
- No market timing will be used to allocate assets

Discussion: The Committee considered the impact of using long-term historical returns as markets change in the future. For example, they wondered if the correlation of domestic and international stocks is increasing over time. They also discussed the fund's on-going cash needs and the effect of the Cash Account Pension Plan. They agreed that the question of global balanced fund management is a tactical decision that should be left to Treasury.

Conclusion: The Committee confirmed its current asset allocation principles including no market timing, but added the following:

- **The liquidity account will have enough cash to generally meet six to twelve months' benefits payments.**

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Asset Class Targets:

Current : Asset class targets are the benchmarks used to evaluate the investment performance of investments within each asset class. In the past, the Committee has used the broadest definition available of the investable market for the asset class. The current targets are:

- Domestic Equity: FR 3000+
- International Equity: Solomon Brothers Euro Pacific
- Bonds: Lehman Aggregate

Discussion: The Committee considered whether to change the domestic equity asset class target to the more popular S&P 500 index which has had higher returns than the FR 3000+ over the recent past. After a discussion, they confirmed their belief that broader asset class targets are more appropriate to reflect the total investable universe.

Conclusion: **No change**

Asset Class Investment Strategy - Equities and non-Traditional Asset Classes:

Current: The current investment strategy for equities is predicated on the following principles and guidelines:

- Public financial markets generally exhibit the characteristics of a semi-strong, efficient market
- Equities should be no more than 50% active, but active managers should be hired only if Treasury is confident the managers can add value.
- Treasury should ensure there are no aggregate size or style bets and that the investments are distributed over the broad asset class in order to ensure the most diversification.
- There will be no new investments made in venture capital because of the time and commitment of resources that would be needed for what would always be a relatively small portion of the fund.

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Asset Class Investment Strategy - Equities and non-Traditional Asset Classes (Cont'd.):

Discussion: The Committee's discussion touched on a variety of subjects including whether the market for large cap stocks is becoming increasingly more efficient and whether active management, if any, should be focused on small cap and non-U.S. emerging market stocks. They also discussed the theory that private markets are less efficient and provide opportunities for higher returns, and the Committee's delegation for active management to Treasury.

Conclusion: **No Change.**

The Committee also discussed the role of outside advisors and their potential impact on the Committee's strategic decision-making. Fund managers tend to be biased towards their firm's products. Others may be biased towards looking at the past through rose-colored glasses. One potential adverse effect of any advisor is the potential whipsawing of our pension investments. There is a need for caution in hiring any advisor.

Thereafter, there being no further business to come before the meeting, the meeting was adjourned at 12:07

A true record.

John W. Cutler, Jr.

John W. Cutler, Jr.
Acting on behalf of
Robert N. McMicking
Secretary

mms3/97

U. S. PENSION FUND

Annual Performance Review

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Treasury
September, 1997

ANNUAL PERFORMANCE REVIEW

Contents

ANNUAL PERFORMANCE REVIEW

Highlights

(Gross of Fees)	Annual Returns Ending June 30, 1997			
	6.75% 1	3	5	10
Total Fund Return	20.8 %	19.8 %	14.6 %	10.9 %
TUCS Ranking	40	20	32	79
Real Return	18.1 %	16.9 %	11.8 %	7.2 %

⇒ **Relative Performance has continued above median over past five years.**

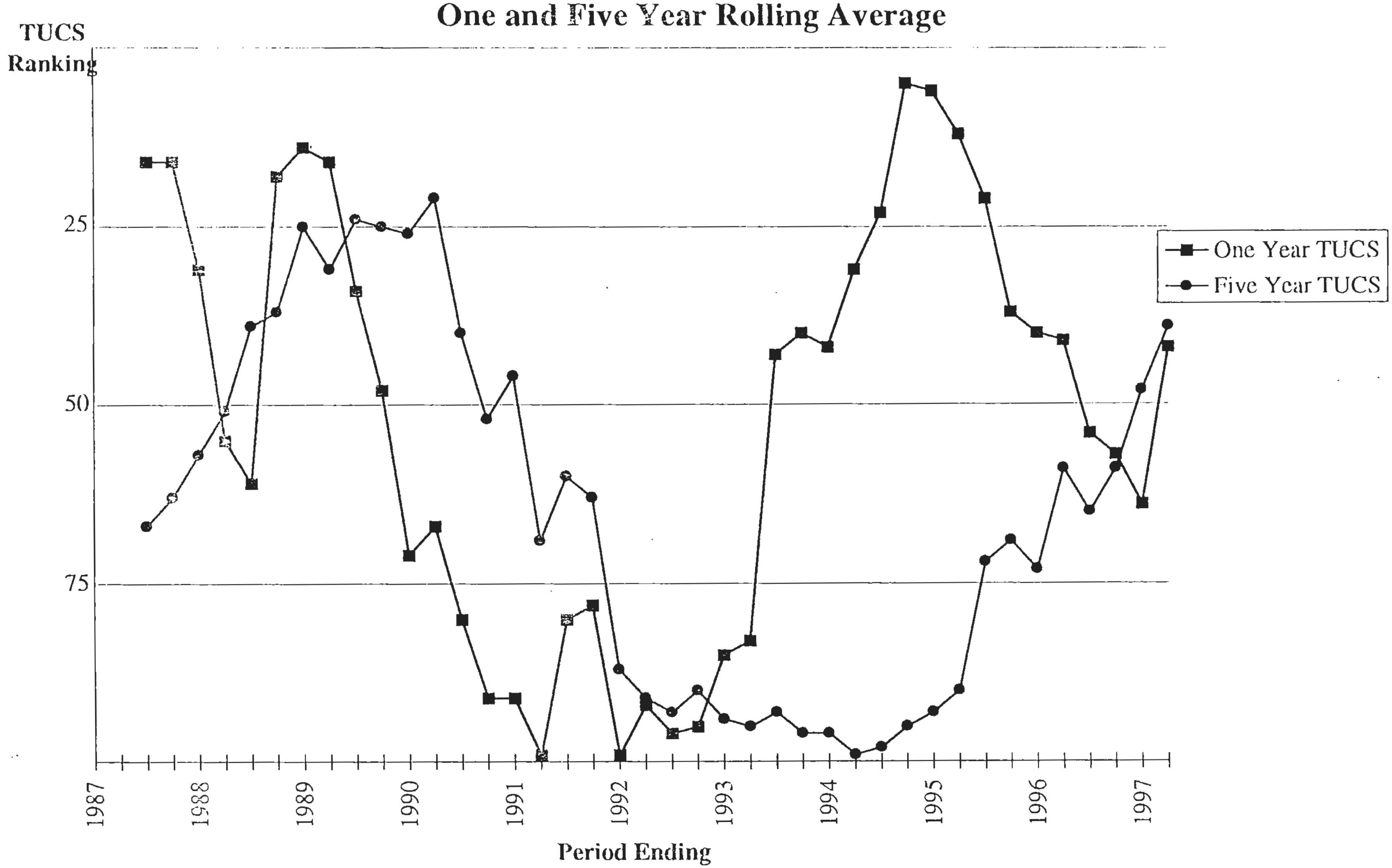
⇒ **Active management adding value in international and fixed income consistently.**

⇒ **Active managers have added value since July, 1993. Active Domestic Equity Managers have not added value.**

⇒ **Real estate contributed to returns over past five years.**

⇒ **Real returns above 5.4% target in all time periods.**

Digital Versus Other Pension Funds
One and Five Year Rolling Average



ANNUAL PERFORMANCE REVIEW

Total Fund Variance Analysis

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Treasury
September, 1997

U. S. PENSION FUND
Attribution of Changes in Total Assets
As of June 30, 1997

3/24

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($ Millions) (Net of Fees)	One Year Incremental		Three Years Annualized Incremental		Five Years Annualized Incremental		Ten Years Annualized Incremental	
	$Mil	Return	$Mil	Return	$Mil	Return	$Mil	Return
Beginning Market Value	$1,890	--	$1,447	--	$1,627	--	$1,069	--
+								
Net Contributions	-130	--	-255	--	-626	--	-556	--
+								
Risk Free Asset	100	5.3%	273	5.4%	365	4.5%	826	5.7%
+								
Return from 60/40 Investment Policy	276	15.8%	661	13.9%	760	9.6%	993	6.4%
+								
Return from Digital Investment Policy	-8	-0.6%	-17	-0.4%	-25	-0.3%	-166	-1.3%
+								
Benchmark Misfit	0	0.0%	0	0.0%	-5	-0.1%	20	0.1%
+								
Allocation Tactics	0	0.0%	1	0.0%	26	0.3%	68	0.4%
Subtotal: Plan Sponsor Responsibility	$2,128	20.5%	$2,110	18.9%	$2,122	14.0%	$2,254	11.3%
+								
Manager's Contribution	1	0.1%	19	0.4%	7	0.1%	-125	-0.9
=								
Ending Market Value	**$2,129**	**20.6%**	**$2,129**	**19.3%**	**$2,129**	**14.1%**	**$2,129**	**10.4%**

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Treasury
September, 1997

ANNUAL PERFORMANCE REVIEW

Market Returns Versus Expectations

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Treasury
September, 1997

ASSET CLASS RETURNS VERSUS EXPECTATIONS

	Actual 1926 - 1996 (Inflation = 3.1%)	Digital's Latest Expected Returns (Inflation = 4.0%)	Actual Annualized Nominal Returns Ending June 30, 1997			
			1	3	5	10
Domestic Stocks						
FR3000+	10.7%	11.6 %	30.1%	26.9%	18.9%	13.9%
International Stocks						
SB Euro Pacific Index	N/A	11.6 %	13.2%	9.7%	12.9%	6.0%
Fixed Income						
Lehman Aggregate	5.6%	6.6 %	8.2 %	8.5%	7.1%	8.8%
Real Estate						
Wilshire R/E Index	N/A	5.5 %	8.9 %	5.3%	1.6%	0.9%
Cash						
90-Day T-Bills	3.8%	4.8 %	5.3 %	5.4%	4.5%	5.7%

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Treasury
September, 1997

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ANNUAL PERFORMANCE REVIEW

VAM (Value of Active Management) Analysis

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Treasury
September, 1997

U.S. PENSION FUND
PENSION FUND PERFORMANCE SUMMARY
June 30, 1997

(\$Millions) (Gross of Fees)	Market Value 6/30/97	Annual Returns			
		One Year	Three Years	Five Years	Ten Years
EQUITY					
Domestic Stocks					
Active Equity	574	28.5%	26.7%	19.4%	14.3%
Passive Equity	627	28.9%	26.1%	18.5%	13.6%
Total Domestic Stocks	**\$1,201**	**28.7%**	**26.3%**	**18.8%**	**13.9%**
Frank Russell 3000+		30.1%	26.9%	18.9%	13.9%
International Stocks					
Active Equity	\$ 100	19.4%	11.4%	14.6%	--
Passive Equity	338	13.0%	9.5%	12.3%	--
Total International Equity	**\$ 438**	**14.6%**	**9.5%**	**12.8%**	**--**
Total Stocks	**\$1,639**	**25.0%**	**23.0%**	**17.3%**	**13.0%**
SB Euro Pacific Index		13.2%	9.7%	12.9%	6.0%
FIXED INCOME					
Total Fixed Income	**\$ 419**	**9.1%**	**9.1%**	**7.9%**	**9.2%**
L.B. Aggregate Index		8.2%	8.5%	7.1%	8.8%

SUMMARY OF ACTIVE MANAGER PERFORMANCE

VAM (Value of Active Management)

	Manager Contributions for Years Ended June 30, 1997			
($Millions)	1	3	5	10
Total VAM	$ 1	$ 19	$ 7	$ -125
Digital Internal	--	--	$ --	$ -45
TAA	--	--	--	-12
Real Estate	$ 2	$ 19	7	-66
Venture Capital	0	-2	-2	-6
Cash	0	0	0	0
Passive Managers***	0	-1	-6	$ -12
Treasury Responsibility*	$ -1	$ 3	$ 8	$ --
Active Dom. Equity **	$ -8	$ -8	$ 0	$ 5
Active Int'l. Equity	5	7	3	4
Fixed Income	2	4	5	7

- Major long-term shortfalls in active manager VAM due primarily to Real Estate and Digital Internal.

* Started July, 1993
** Excludes Digital Internal
*** Includes $4M for liquidations for benefit payment

ACTIVE MANAGER
PERFORMANCE SUMMARY

sept2497.doc

Treasury
September, 1997

U.S. PENSION FUND

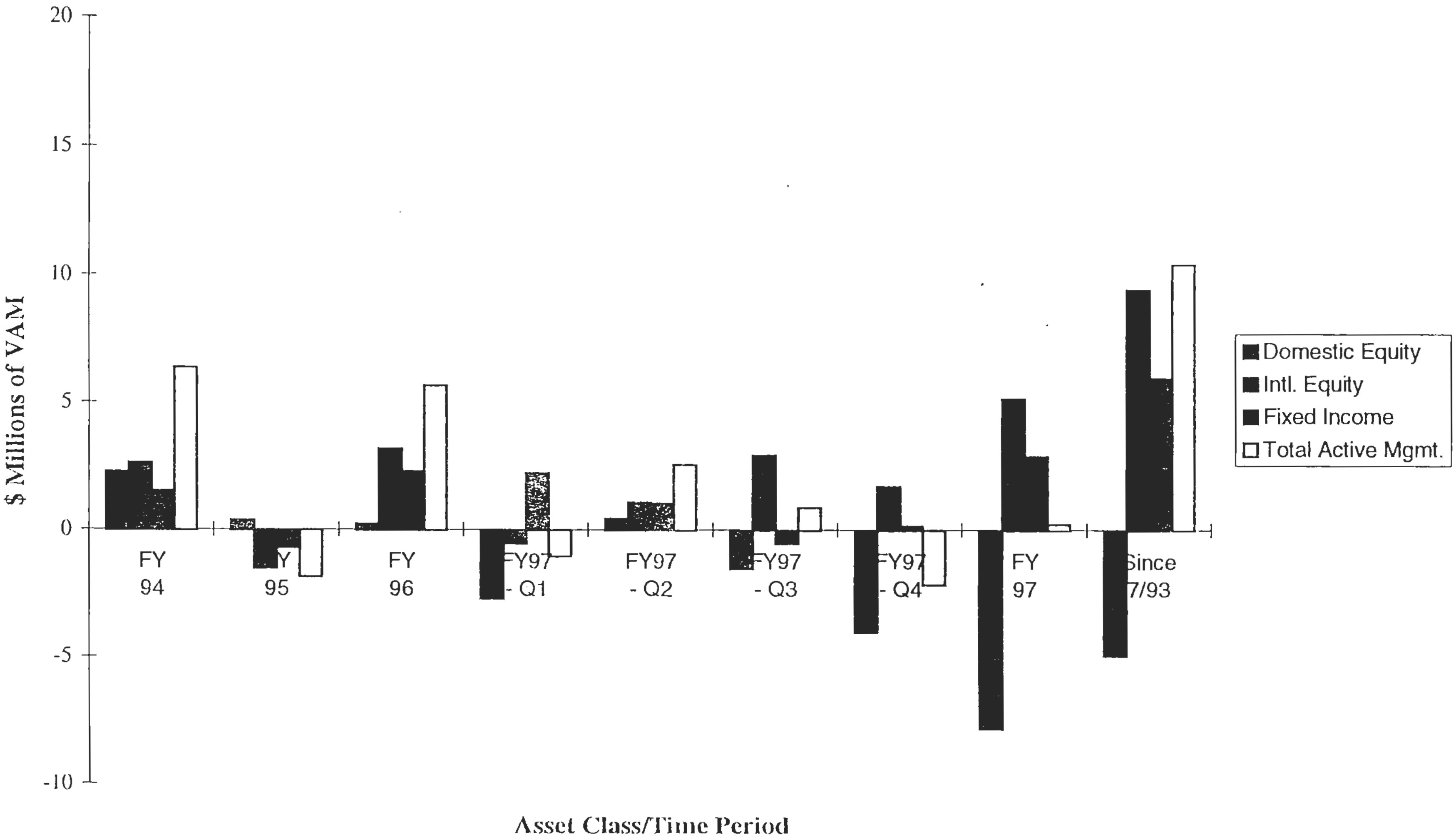
Active Manager Performance Summary
Current Managers
Actual Since Inception
As of June 30,1997

Manager	VAM ($Mil)	Annualized VAM (%)	Significance (%)	# Months
Domestic Equity				
Capital Guardian	$ 19.6	1.4%	90%	135
Columbia	-2.6	-1.1%	24%	48
Fidelity	-3.1	-1.4%	17%	21
Franklin Portfolio	3.6	0.8%	84%	48
Jacobs Levy	1.6	0.2%	55%	48
International Equity				
Capital Guardian	$ 11.8	4.9%	99%	114
CG Emerging Markets	5.1	6.8%	92%	65
Franklin International	-0.8	- 3.5%	N/A	5
Fixed Income				
Capital Guardian	$ 0.4	0.1%	59%	48
Dodge & Cox	2.2	0.8%	98%	48
Jennison Associates	0.0	0.0%	52%	48
PIMCO	1.6	0.9%	82%	48

NOTE: See Appendix 2 for additional information about these managers.

Value of Active Management By Asset Class

S5-8



Treasury
September, 1997

U.S. PENSION FUND

Investment Manager Retention

- Retain manager as long as we remain confident manager can add value

- Use probability targets as a guide
  - 25% after three years, and
  - 50% after five years

- Monitor managers using a criteria we used in hiring the manager.

U.S. PENSION FUND

Is an Investment Manager Skillful?

Probability Manager Can Add Value

	VAM/Standard Deviation of VAM		
Years	0.20	0.30	0.50
1	58%	62%	69%
3	64	70	81
5	67	75	87
10	74	83	94
20	82	91	99

<u>PENSION PLAN/FUND EXPENSES</u>

PENSION PLAN EXPENSES

Investment Manager Fees
FY97 Spending and FY98 Projections

(All fees netted with VAM performance)

Manager	Assets ($Mil) 6/30/97	Assets ($Mil) Est. 6/30/98	FY97 Actual Spending (K$)	FY98 Projected Spending (K$)
Domestic Equity				
Bankers Trust Index	$ 625	$ 638	$ 182	$ 193
Capital Guardian	124	138	297	300
Columbia Mgmt.	94	105	315	413
Fidelity Mgmt. Co.	129	144	396	468
Franklin Portfolio	133	148	394	362
Jacobs Levy	94	105	552	588
Equity Transition	2	0	30	30
Total Domestic Equity	$ 1,201	$ 1,278	$ 2,166	$ 2,354
INTERNATIONAL EQUITY				
Capital Guardian	$ 43	$ 48	$ 145	$ 150
Franklin Portfolio	33	37	21	100
BGI EAFE	230	237	410	420
IIA Emerging Markets	0	0	96	0
CG Emerging Markets	24	27	*	*
BGI Emerging Markets	68	76	373	400
SSGI Extd. Mkt. Index	40	45	--	50
Total International Equity	$ 438	$ 470	$ 1,045	$ 1,120
FIXED INCOME				
Capital Guardian	$ 111	$ 118	$ 325	$ 330
Dodge & Cox	115	123	225	230
Jennison Associates	55	59	144	150
PIMCO	84	90	279	285
Fixed Income Transition	55	59	0	20
Total Fixed Income	$ 420	$ 449	$ 973	$ 1,015
REAL ESTATE				
AEW	$ 32	$ 19	$ 499	200
VENTURE CAPITAL*	$ 2	$ 1	*	*
LIQUIDITY*	$ 36	$ 40	*	*
TOTAL FUND	$ 2,129	$ 2,257	$ 4,683	$ 4,689

*** Not available; netted directly with returns.**

pic997.doc

23

Treasury
September, 1997

PENSION PLAN EXPENSES

Miscellaneous Pension Fund Expenses*
FY97 Spending and FY98 Projections

All $ in 000s unless indicated	FY97 Actual (K$)	FY98 Estimated Spending (K$)
PENSION PLAN EXPENSES		
Audit	$ 97	$ 100
Actuarial Valuation	40	45
PBGC Premium	1,266	1,200
Plan Administration	139	150
	--------	--------
Total Plan Expenses	**$ 1,542**	**$ 1,495**
PENSION FUND EXPENSES*		
Master Trustee	$ 779	$ 800
Performance Attribution		
Richards & Tierney	258	260
Manager Selection		
Style Advisor	13	15
Wilshire Compass	51	51
Consultants	0	10
Proxy Reporter	10	10
Dues and Subscriptions	4	4
Treasury Staff Allocation		
(Salaries & Direct Expenses)	134	136
	--------	--------
Total Fund Expenses	**$1,249**	**$ 1,286**
TOTAL EXPENSES	**$2,791**	**$ 2,781**
Estimated Average Assets ($Mil):	**$2,000**	**$2,200**
Expenses as % Average Assets:	**0.14%**	**0.13%**

*** Not including manager fees**

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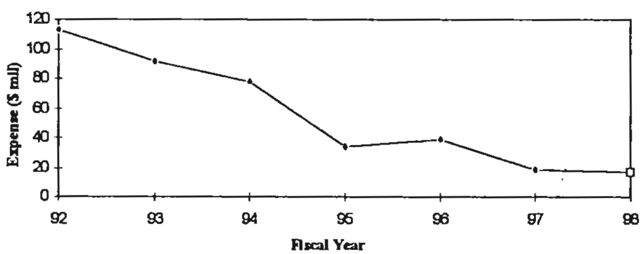
U.S. Pension Expense FY92 - FY00

FY98 "Locked In"

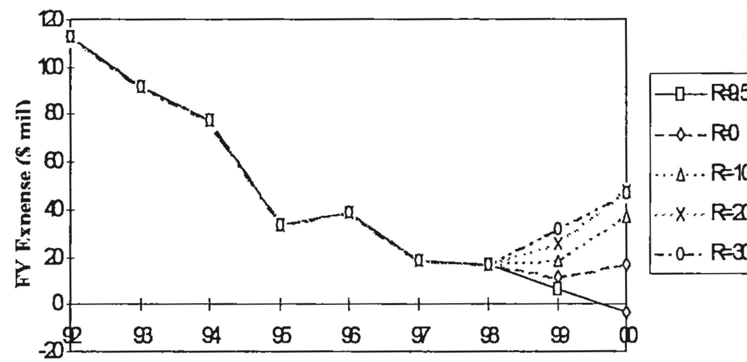
U.S. Pension Expense



2.1% ⇒ 36M

FY99 and Beyond Depends on FY98 Returns

U.S. Pension Expense at Various Annual Returns: FY98 and FY99



7.5%

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Estimated FY99 Expense

Based on Smoothed Asset Value and Interest Rates as of June 30, 1998

2.64 actual   discount rate   108

($ millions)

FY98 ROA	*6.75%*	*7.25%*	*7.75%*	*8.25%*	*8.75%*
-30.0%			$32	$19	$6
-20.0%	$40	$35	26	12	(1)
-10.0%	36	31	19	5	(7)
0.0%	32	27	12	(1)	(14)
9.5%	28	20	6	(8)	(21)
20.0%	24	13	(1)	(15)	(28)

today

9.52

9 3/4

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Estimated FY99 U.S. Pension Expense

Interest Rates

($ millions)

FY98 ROA	6.75%	7.00%	7.25%	7.50%	7.75%	8.00%	8.25%	8.50%	8.75%
-30.00%	$58	$52	$45	$39	**$32**	$26	**$19**	$13	**$6**
-27.50%	52	47	42	36	**30**	23	**17**	10	**4**
-25.00%	46	42	38	33	28	21	14	8	1
-20.00%	**40**	38	**35**	31	**26**	19	**12**	6	**(1)**
-17.50%	39	36	34	29	24	17	10	3	(3)
-15.00%	37	35	32	27	21	14	7	1	(5)
-10.00%	**36**	34	**31**	25	**19**	12	**5**	(1)	**(7)**
-7.50%	35	32	30	23	17	10	3	(3)	(9)
-5.00%	33	31	28	21	14	8	1	(5)	(12)
0.00%	**32**	30	**27**	20	**12**	6	**(1)**	(8)	**(14)**
2.38%	31	28	25	17	10	3	(3)	(10)	(16)
4.75%	29	26	22	15	8	1	(6)	(12)	(19)
9.50%	**28**	24	**20**	13	**6**	(1)	**(8)**	(15)	**(21)**
12.13%	27	22	18	11	4	(3)	(10)	(17)	(23)
14.75%	25	20	15	8	1	(6)	(13)	(19)	(26)
20.00%	**24**	19	**13**	6	**(1)**	(8)	**(15)**	(22)	**(28)**

Notes:

1. **BOLD RED** numbers are from Tepper model, others are interpolated.

2. () denotes pension income under FAS 87 accounting

Estimated FY99 U.S. Pension Expense

Interest Rates

($ millions)

FY98 ROA	**Pension Assets @6/30/98**	*6.75%*	*7.00%*	*7.25%*	*7.50%*	*7.75%*	*8.00%*	*8.25%*	*8.50%*	*8.75%*
-30.00%	$1,389	$58	$52	$45	$39	**$32**	$26	**$19**	$13	**$6**
-27.50%	1,442	52	47	42	36	**30**	23	**17**	10	**4**
-25.00%	1,495	46	42	38	33	28	21	14	8	1
-20.00%	1,602	**40**	38	**35**	31	**26**	19	**12**	6	**(1)**
-17.50%	1,655	39	36	34	29	24	17	10	3	(3)
-15.00%	1,708	37	35	32	27	21	14	7	1	(5)
-10.00%	1,814	**36**	34	**31**	25	**19**	12	**5**	(1)	**(7)**
-7.50%	1,867	35	32	30	23	17	10	3	(3)	(9)
-5.00%	1,921	33	31	28	21	14	8	1	(5)	(12)
0.00%	2,027	**32**	30	**27**	20	**12**	6	**(1)**	(8)	**(14)**
2.38%	2,078	31	28	25	17	10	3	(3)	(10)	(16)
4.75%	2,128	29	26	22	15	8	1	(6)	(12)	(19)
9.50%	2,229	**28**	24	**20**	13	**6**	(1)	**(8)**	(15)	**(21)**
12.13%	2,285	27	22	18	11	4	(3)	(10)	(17)	(23)
14.75%	2,341	25	20	15	8	1	(6)	(13)	(19)	(26)
20.00%	2,452	**24**	19	**13**	6	**(1)**	(8)	**(15)**	(22)	**(28)**

Notes:

1. **BOLD RED** numbers are from Tepper model, others are interpolated.

2. ( ) denotes pension income under FAS 87 accounting

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Alternative Protection Strategies

- IMMUNIZATION:
  Sell stocks, buy bonds to meet expected future cash flow and to synchronize with future interest rate changes.

- TACTICAL ASSET ALLOCATION:
  Invest through TAA manager who will actively shift between stocks, bonds and cash.

- CHANGE ASSET ALLOCATION:
  Reduce amount invested in stocks and re-allocate to bonds.

- DERIVATIVES:
  Use futures, swaps or options to reduce risk.

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Evaluating Alternative Protection Strategies

INVESTMENT STRATEGY CONSIDERATIONS

- Sensitivity to Plan Sponsor expense
- Risk tolerance
- Short-term view of market
- Long-term view

ECONOMIC COSTS/ BENEFITS

- Cost of strategy
- Insurance premiums
- Potential gains or losses
- Extent of risk protection

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Portfolio Protection: Proposed Objectives

- FY99 U.S. pension expense no higher than FY98
- Protect against market downturn but not at expense of all of upside potential
- Use temporary protection in order to re-evaluate on July 1, 1998

Illustrative Examples to Meet Objectives

1. Buy puts at 10% out of money

2. Buy puts at 10% out of money

   and

   Write calls at some market premium to net to no premium cost

Illustrative Examples (Pricing as of September 8)

ASSET CLASS	FUND BENCHMARK	HEDGE BENCHMARK	ASSETS AT ($ Mil) 7/31/97	% TOTAL	90% PUT PRICE	ZERO PREMIUM CALL STRIKE
Domestic Equity	RU3 and Yankee	S&P 500	$1,296	59.64%	3.25%	
International Equity	SB EP + IFC	MSCI EAFE	446	20.52%	2.25%	
Fixed Income	Lehman Aggregate	Lehman Aggregate (Total Return)	431	19.83%	0.08%	
TOTAL			**$2,173**		**2.25%**	
Give up returns above to net cost to 0					~ $50M	**111.10%**

Source: Goldman Sachs

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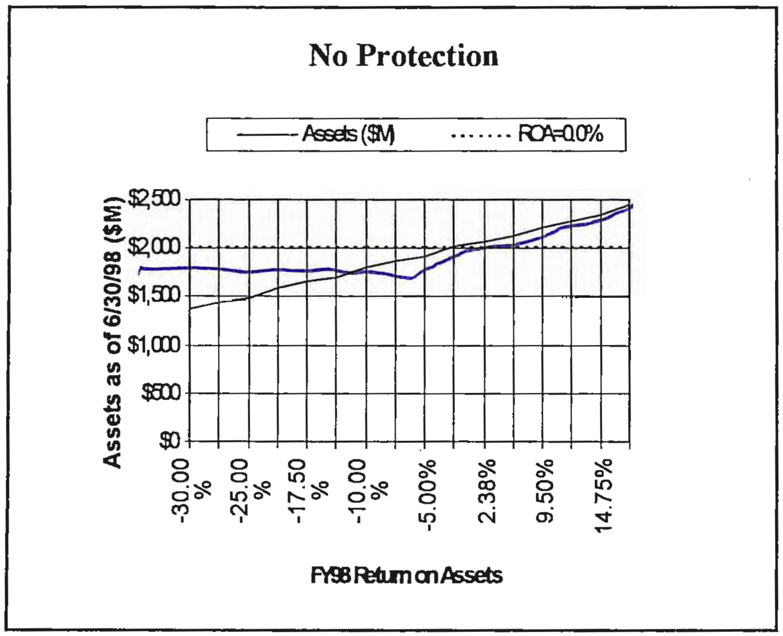
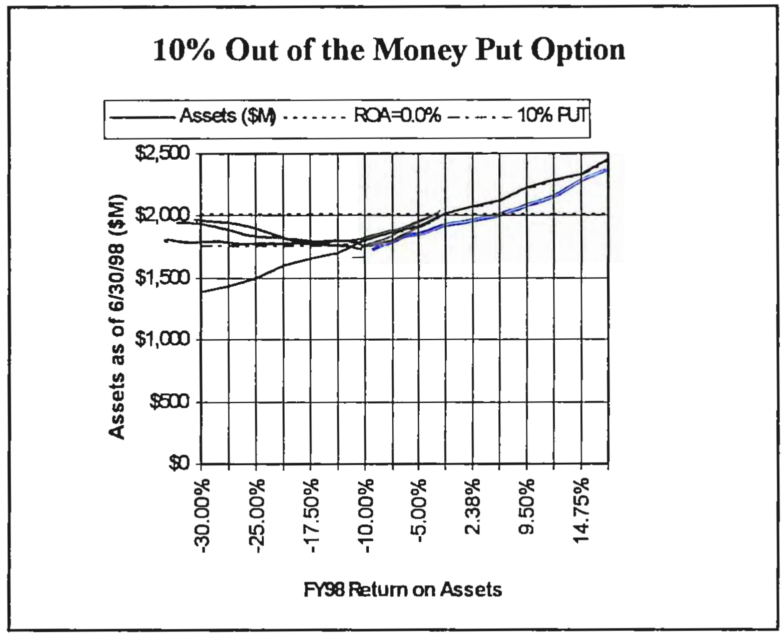
Put Options

- Buy option (right) to sell assets back at a set price on a specified date
- The cost of a put is based on the "strike price", the volatility of the market, the date, etc.
- If the market value of assets is < the strike price, the trust receives the incremental value
- Effectively sets an asset value floor equal to the strike price minus the premium paid





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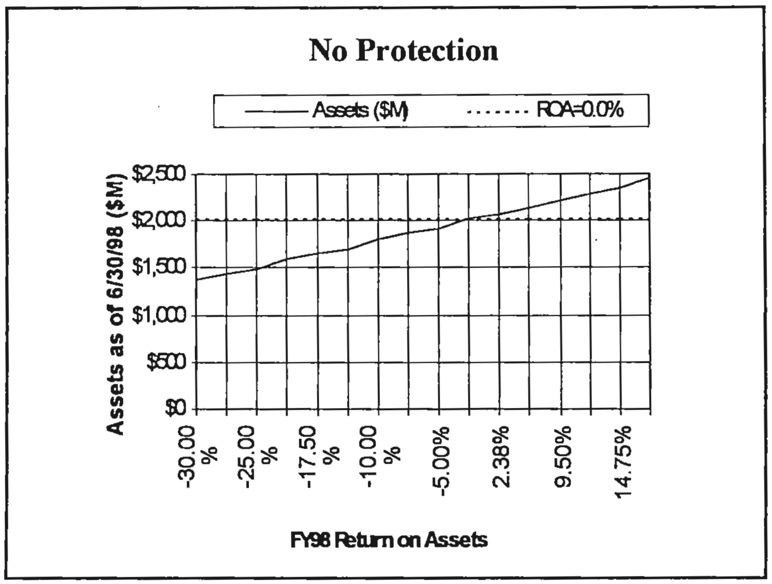
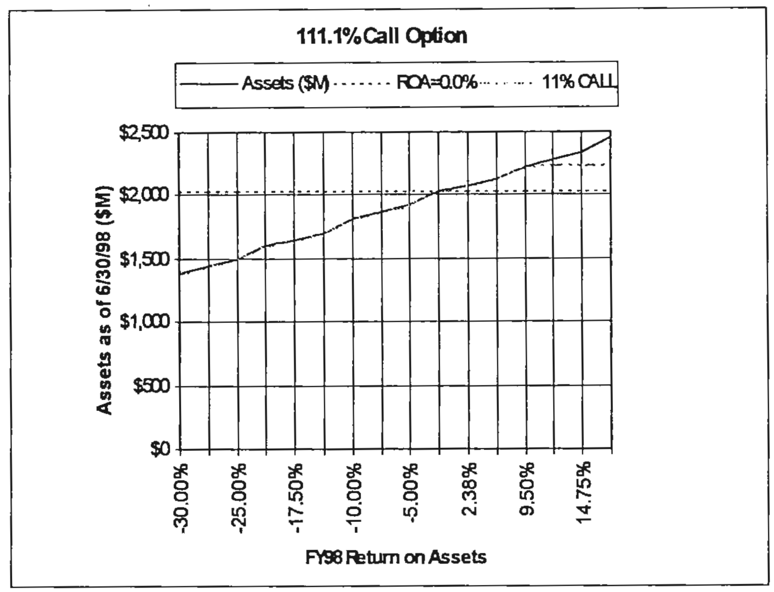
Call Options

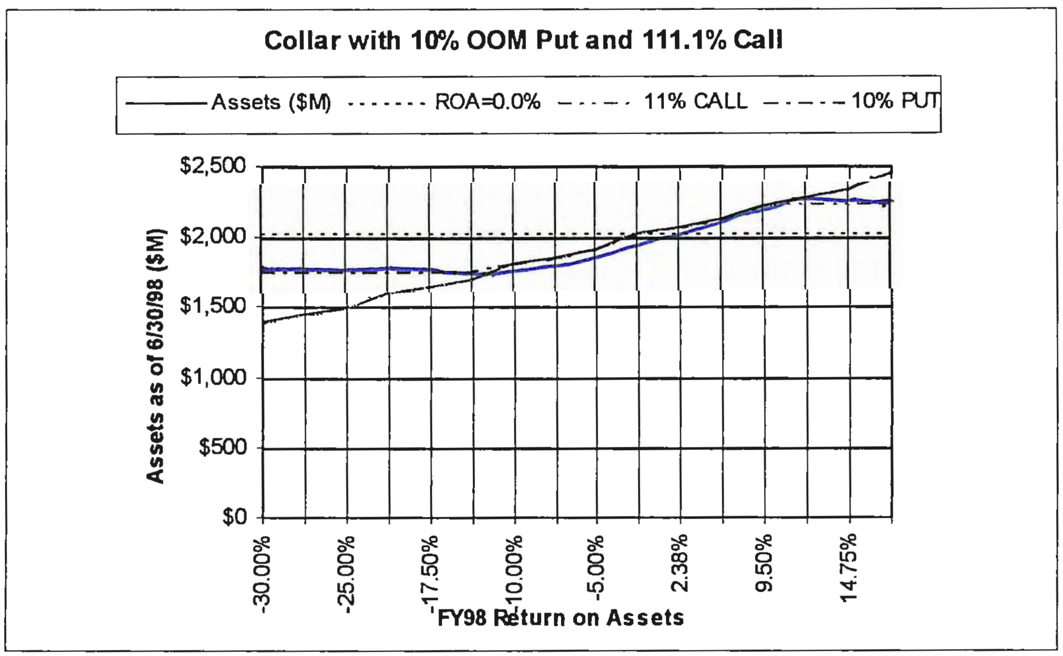
- Sell option (right) to sell fund's market value above a special return on a specified date
- Effectively sets the fund's maximum investment return for the period
- If the market value of assets is below the strike price, option expires unexercised





Collars

- Buy a put option to limit the impact of a market downturn, then to finance the put a call option is sold
- Strike prices and maturities can be structured so as to minimize or eliminate the net cash outlay
- Effectively sets a bandwidth in for the pension fund's returns



For Consideration

- **Declining interest rates not protected (October '87 scenario or Japan since 1990)**

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Straw Proposal

- **Approve temporary portfolio protection through June 30, 1998**
- **Re-evaluate portfolio protection for FY99**
- **Delegate to Paul Milbury authority to hire investment manager and to choose protection method that is most cost effective**

U. S. PENSION FUND INVESTMENT POLICY

October 1, 1991
Revised: June 16, 1993

Contents

Pension Fund Objectives

The major objective of the pension fund is to pay the benefits we promise our employees. The investment policy is established to insure the Company can provide a competitive level of pension benefits at the lowest predictable level of cost to the Company.

Company Background

In developing the investment policy, the Investment Committee considers a profile of the Company's workforce as it formulates investment strategies.

This profile includes the following:

- Digital is a young company with a relatively young workforce. The average age of its active employees in the U.S. is below the average age of more mature companies. In 1992, the average age was 39. → 42.

- There is a very low ratio of retirees to active employees. As of 1992, there are only 2,000 retirees in-pay out of a U.S. workforce of almost 50,000. In addition, there are 12,000 deferred vested employees who will receive annuity benefits in the future.

- As a result, there is a very long time horizon until significant payouts from the pension fund begin. Annual income from the fund and required contributions are projected to exceed benefits payments for the next 20 years. Benefit payments are currently about $10 million annually and are expected to remain small relative to the fund balance.

- Digital is in a sound financial condition. The Company, however,

Years service: 11 years.

places the highest priority on cash for operations and will defer additional funding for its pension plans.

- Pension expense as reported in the P&L will be based on competitive assumptions.

- The Company is likely to enhance its pension benefits over time to reflect inflation.

- While current benefit obligations are small, they will increase significantly in the future due to increases in service and average salary as well as long-term inflation and productivity increases.

Risks

The Committee has identified four primary risks in considering the fund's strategy.

1. Inflation and Productivity Risk:

   Digital's pension liabilities will grow due to the effects of both long-term inflation and the productivity increases we expect. The pension fund's investment strategy should reflect this risk.

2. Time Horizon:

   As noted above, the pension fund has a very long time horizon. As a result, the pension fund can absorb more volatility in the short term in order to achieve higher long-term returns.

3. Pension Expense:

   As the amount of assets in relation to liabilities decline, the Company's pension expense will become more volatile as a result of short-term fluctuations in pension assets. These changes are dampened to some extent by FAS 87, the method for calculating Digital's ongoing pension expense.

4. Fund Solvency:

   Generally, IRS and ERISA minimum funding requirements will prevent the fund from becoming insolvent. As the ratio of assets to liabilities decline, however, pension plan funding requirements will increase and become more volatile.

Components of Strategy

There are three components to the Digital Pension Strategy:

- Funding

- Expense, and
- Investments.

(1) Funding Strategy:

The objective of our funding strategy is to minimize the long-term economic cost of providing the pension plan to the Company. We do this by maximizing the tax deductible contributions into the pension fund where returns are tax exempt.

Currently, the U.S. plan is overfunded based on IRS guidelines and no contributions can be made.

(2) Expense Strategy:

Our expense strategy is to burden today's management fairly with respect to our competitors. We base our pension expense on competitive or average assumptions and realistic expectations about the future. The effect of this strategy is that future years' expense will be higher per capita as the average age of our employees increases and somewhat more volatile, but the volatility will generally be in line with our competitors' assuming similar demographics.

(3) Investment Strategy:

The investment strategy has been developed based on the Company profile described above. As a result, the Investment Committee takes a long-term view of investment returns.

Because of our long-time horizon, the Committee can increase the level of investment risk and volatility of returns it is willing to accept in anticipation of higher long-term returns that will outstrip both inflation and the productivity increases we foresee in the future.

History has shown that the long-term returns of stocks are greater than the returns of real estate which have been greater than the returns of bonds. Because the returns of stocks are more volatile than other asset classes, investors who hold an equity interest in companies should theoretically receive higher returns over the long-term than investors in real estate and bonds.

Accordingly, the Investment Committee believes the Digital pension plan portfolio should contain a heavy weighting in stocks.

Asset Structure

We believe the asset allocation decision will have a greater impact than any other on the long-term rate of return of the pension fund.

In determining the target asset allocation of the fund, the Committee examines the major investable asset classes - domestic stocks, international stocks, domestic bonds, real estate and cash.

The Committee also considers whether other asset classes should be examined such as venture capital, leveraged buy-outs, or international bonds. To date, the Committee believes these investments require such a high level of specialized knowledge and effort to ensure we can successfully select a skilled manager that the pension plan would not be adequately rewarded by the value of assets that could prudently be allocated to these asset classes.

In developing the target asset mix for the fund, the Committee examines the long-term historical rates of return of the broad market indices or proxies for stocks, bonds and cash and their volatility and correlations. These data are available for years since 1925.

Because data for real estate and international stocks is not available for as long a period, the Committee must infer what the long-term returns for these asset classes might have been using the data for the periods that are available.

The data confirms that stocks have outperformed real estate which has outperformed bonds which have outperformed cash. Through an analysis of the "efficient frontier", the Committee believes that adding more stocks above 80% of the total assets does not increase returns sufficiently to offset the extra risk that is assumed.

As a result, the Committee believes that a portfolio that has some bonds can increase the probability of achieving the expected long-term returns without the additional risk.

The Committee has been especially concerned about the recent decline in real estate values and is skeptical whether rents for real estate can exceed inflation and lead to positive real returns for real estate in the future. As a result, the Committee has decided to allow real estate to decline as a percentage of our total portfolio as opportunities to sell our real estate investments arise over time.

As a result of this research, the Committee has set a long-term asset allocation target of 80% stocks, 20% domestic bonds. Any remaining investments in real estate or venture capital will reduce the allocation to stocks.

In addition, as part of the allocation to stocks, 10% of stocks have been invested in international stocks as further diversification.

Any cash needed to pay benefits over the next twelve months will reduce the allocation to bonds. We expect the ongoing cash allocation needed to meet future benefit payments will be 1% of the total fund.

Because the Committee is skeptical that market timing can increase long-term returns, it will restrict its active, separate account stock managers from holding any more than 5% of their portfolios in cash.

Management Structure

For each asset class, we define the market as the entire market (i.e., U.S. equity is the Wilshire 5000), but the Committee chooses to invest in the investable market - in the case of U.S. equity, the Frank Russell 3000+, and in the case of bonds, the Lehman Brothers Aggregate Bond Index. For international stocks, the Committee has chosen a combination of two indices - 90% of the Capitalization-Weighted EAFE (Europe, Australia, Far East) Index and 10% of the Emerging Markets Index.

Once an investable market is chosen, the Committee decides whether to invest in the market passively through an index fund or equivalent or hire active managers who specialize in specific subsets of the market.

In the U.S. stock market, the Committee believes in the semi-strong form of efficient market. That is, anomalies or opportunities to add value above the passive index do exist but only the best investment managers will be able to consistently respond fast enough to invest or disinvest to benefit from these opportunities.

As a result, the Committee has decided to allocate 50% of stocks to active management. In the bond market, the Committee believes there are investment managers who are capable of finding arbitrage opportunities who will add value in the bond markets.

Because of the amount of data that must be analyzed, and the need for timely decisions, the Committee has delegated the day-to-day tactical management including hiring and firing investment managers to Treasury.

In keeping with the Committee's investment philosophy, Treasury will hire active managers only when it is confident the manager can add value over a passive, realizable index or a benchmark reflecting the manager's style. The Committee will hold Treasury accountable for the group of active managers it selects to add value over and above the realizable asset class target.

The Committee and Treasury on its behalf are also skeptical that any manager can forecast interest rates accurately in the short term, so it will hire bond managers who add value primarily through other bond management techniques.

The Committee has restructured the fund's real estate investments into two portfolios - the permanent and transition portfolios. The Committee has instructed the real estate manager to prepare the transition portfolio properties for sale and to sell them as quickly as possible. They have also asked the real estate manager to present opportunities to sell assets in the permanent portfolio as they become available.

Implementation Tactics

In implementing the investment manager structure described above for three asset classes - domestic stocks, international stocks and domestic bonds - Treasury will follow a number of principles including the following:

- Treasury will hire investment managers that best meet the particular needs of the pension fund.
- In hiring and terminating investment managers for the fund, Treasury will review managers based on a combination of factors including how managers fit the needs of the fund, a qualitative assessment of the manager and its people, an assessment of the manager's investment process, the consistency of historical data and portfolios with the manager's objectives and the pension fund's needs, and the historical investment results.
- Treasury will not take active management "bets" in the actively managed portions of each asset class such as overweighting growth versus value stocks, overweighting small cap versus large cap stocks, or lengthening the maturity of the bond portfolio. These decisions will be left to the discretion of the investment managers.
- To reduce bets in domestic stocks, Treasury will hire investment managers with a broad range of investment styles. They will be supplemented by a completeness fund that will invest in stocks in which other active managers are not investing.
- To reduce bets in international stocks and domestic bonds, Treasury will hire investment managers whose benchmarks are equal to the asset class target.
- Treasury will hire a diversified portfolio of active managers for each class who collectively will increase the value of active management in relation to the risk.

Standards of Performance

The Committee's ability to judge the effectiveness of these policies is critical to the ongoing development of our pension fund. The Committee will, therefore, attempt to measure the impact of each decision it makes on the overall performance of the fund.

These measurements will show the effect of the asset allocation decision, the actual management structure compared to the investable market alternative, and the value of active investment management for the fund as a whole, for each asset class and for each investment manager.

Treasury, on behalf of the Committee, will not hesitate to terminate investment managers if through their performance or changes in their investment process they have lost Treasury's confidence in their ability to add value relative to the realizable passive index or in the case of index managers to maintain their returns within the targeted ranges, or if they lose key personnel who have been instrumental in achieving past performance.

Policy Duration

This policy is intended to be effective for an indefinite period of time.

The Pension Investment Committee anticipates that it will make changes to this policy from time-to-time, especially if the following occurs:

1. There is a major change in the Company profile described above.
2. There are structural changes to the pension plan.
3. New government investment regulations are legislated.
4. Fundamental, long-term social, political and economic restructuring takes place.
5. The Committee develops a new understanding of investments, or new forms of investment become available.
6. The pension plan's liabilities mature or change.

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U.S. PENSION FUND

INVESTMENT POLICY

digital™ **INVESTMENT POLICY**

Proposed Agenda

Today:

- Discuss potential policy changes

Next Meeting:

- Invite experts to discuss

Evolution Since Last Revision

- CAPP introduced March, 1996
- Refined risk assessment to reflect risk to plan sponsor
- Further diversified asset allocation
  - Reduced real estate to <3%
  - Increased international equity to ~23%
  - Added international fixed income
  - Added non-investment grade bonds
- Gained further experience with active management

Proposed Discussion Topics

- Investment Objectives
- Risk Appetite
- Asset Allocation
- Asset Class Investment Strategy
- Alternative Investments
- Manager Structure
- Advisors

digital INVESTMENT POLICY

Investment Objective

CURRENT:

Plan Sponsor

- **Pay benefits ~~we~~ promise employees**
- **Ensure lowest predictable pension cost to the Company**

STRAW:

- **Ensure lowest sustainable pension cost subject to prudent risk-taking**

Total Fund Risk Appetite

CURRENT:

- Inflation and productivity risk
- Long time horizon to absorb short-term volatility
- Company pension expense more volatile
- Company funding requirements more volatile

STRAW:

- Add new risk

  Risk that plan sponsor can sustain level of plan benefits

- Add risk monitor

  Monitor projected risk levels and adjust asset allocation as necessary to reflect sustainable level of expense and contributions

POSSIBLE ALTERNATIVE:

- Add downside protection

digital™ **INVESTMENT POLICY**

Asset Allocation

CURRENT:

- **Committee sets asset allocation targets based on long-term returns**
- **Diversified internationally**
- **No market timing**

STRAW:

- **Recognize increased cash needs due to CAPP**
- **No change**

(2%) cash needs

POSSIBLE ALTERNATIVE:

- **Global, balanced managers**

Asset Class Targets

CURRENT:

- **Broadest definition available of investable market**
  - **FR 3000+**
  - **SB Euro Pacific**
  - **Lehman Aggregate**

STRAW:

- **No change**

POSSIBLE ALTERNATIVE:

- **Return to most popular benchmarks**
  - **S&P 500**

Asset Class Investment Strategy

Equities

CURRENT:

- Semi-strong, efficient market
- 50% active, 50% passive
- No aggregate size or style bets

STRAW:

- Large cap stocks becoming increasingly efficient
  - Shift to passive or enhanced index funds as managers falter

- Consider using active management for small cap and non-US emerging market stocks

- Tighten tracking error versus underlying manager benchmarks and asset class targets whenever possible

Alternative Investments

CURRENT:

- **Orderly liquidation of real estate in process**
- **Venture capital investments frozen since 1984**

STRAW:

- **Expand alternative investments up to at least 10% of fund over time through opportunistic investing in such areas as:**
  - **Long-Short Equity**
  - **Bankruptcy/Distressed Public Companies**
  - **Hedge Funds**
  - **Private Equity Investments**

POSSIBLE ALTERNATIVE:

- **Invest solely in public markets**

Investment Managers

CURRENT:

- **Choose best manager to meet need**

STRAW:

- **Limit searches primarilyto existing managers (worldwide) and small number of possible new managers such as State Street Global Advisors and Wellington**

- **Focus efforts on developing these relationships**

Advisors

CURRENT (BY PRACTICE):

- Periodically invite representatives from our investment managers to comment on our investment policy
- No representative twice

STRAW:

- Establish standing advisory group that may consist of:
  - representatives from key investment managers
  - retired corporate pension executives
  - pension consultants
  - graduate business school professors

APPENDIX I

APPENDIX 1

PENSION FUND PERFORMANCE
ENDING December 31, 1996

Contents

U. S. PENSION FUND

<u>Asset Allocation</u>

Treasury
March, 1997

U.S. PENSION FUND

Pension Fund Allocation (By Manager)
December 31, 1996

($ Millions)

	Equities	Fixed Income	Real Estate	Cash	Total	% Total	Target
EQUITY							
Domestic Equity							
Bankers Trust Index	$ 538			$ 3	$ 541	27.8 %	
Capital Guardian	103			5	108	5.6	
Columbia Mgmt.	78			4	82	4.2	
Fidelity Mgmt. Co.	107			1	108	5.6	
Franklin Portfolio	110			1	111	5.7	
Jacobs Levy	79			1	80	4.1	
Nicholas-Applegate	50			2	52	2.7	
Subtotal 1	**$1,065**	**$ 0**	**$ 0**	**$ 17**	**$1,082**	**55.7 %**	
less ADR's & Yankees held by Dom Eqty Mgrs	49	0	0	0	49	2.5	
Subtotal 2	**$1,016**	**$ 0**	**$ 0**	**$ 17**	**$1,033**	**53.2 %**	**54.1 %**
International Equity							
Capital Guardian *	$ 36			$ 0	36	1.9 %	
RCB International *	28			0	28	1.5	
BGI EAFE *	206			0	206	10.6	
BIA Emerging Mkts *	9			0	9	0.4	
CG Emerging Mkts *	18			0	18	1.0	
BGI EM Mkts *	59			0	59	3.0	
Subtotal 1	**$ 356**			**$ 0**	**356**	**18.4 %**	
plus ADR's & Yankees held by Dom Eqty Mgrs	49	0	0	0	49	2.5	
Subtotal 2	**$ 405**	**$ 0**	**$ 0**	**$ 0**	**$ 405**	**20.9 %**	**23.2 %**
Real Estate							
AEW			$ 31	$ 3	$ 34	1.8 %	1.8 %
Venture Capital							
DEC Venture Capital	$ 3			$ 0	$ 3	0.1 %	0.1 %
TOTAL EQUITY	**$1,424**	**$ 0**	**$ 31**	**$ 20**	**$1,475**	**76.0 %**	**77.3 %**

U.S. PENSION FUND

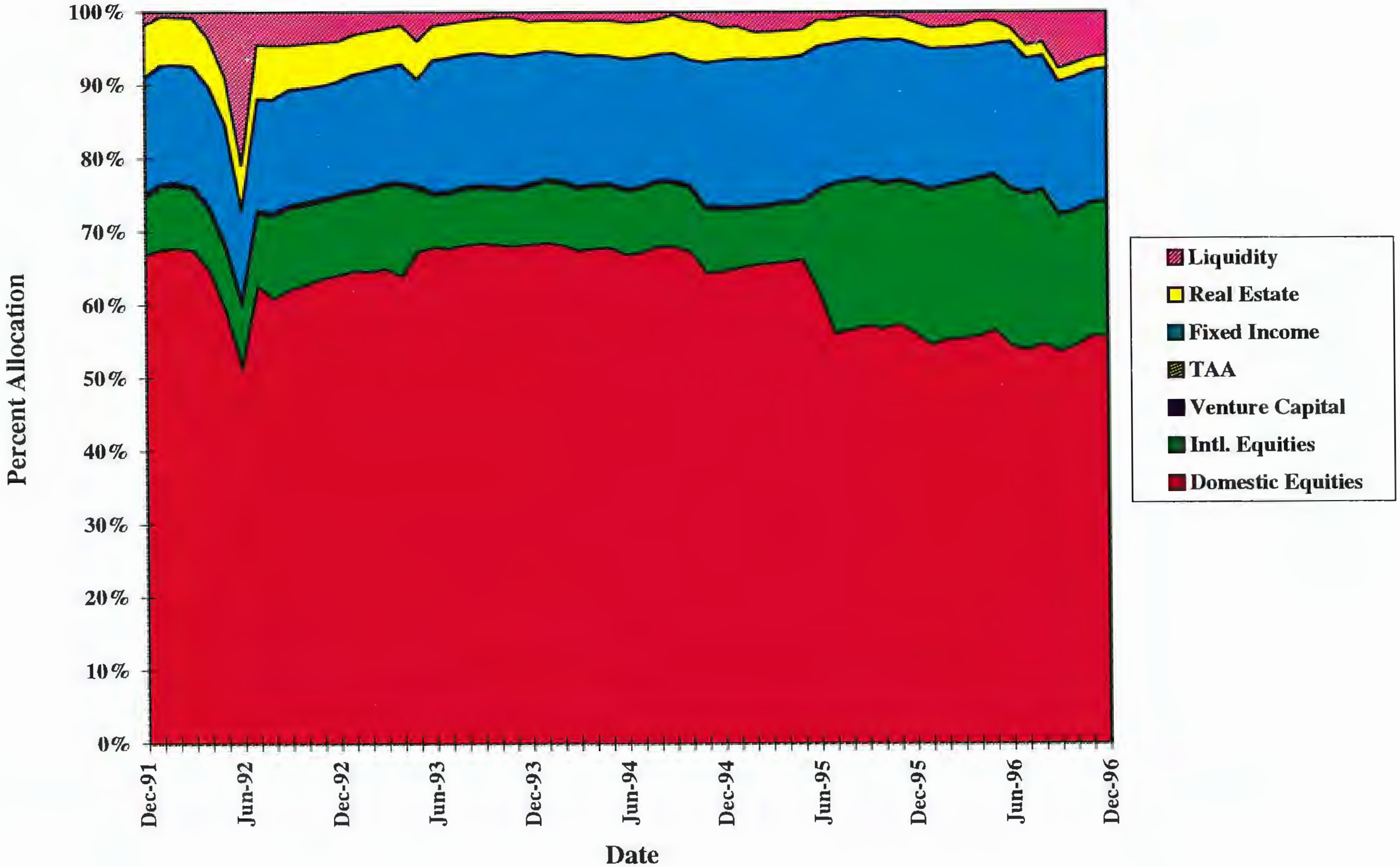
Pension Fund Allocation (By Manager)
December 31, 1996 (continued)

($ Millions)

	Equities	Fixed Income	Real Estate	Cash	Total	% Total	Target
FIXED INCOME							
Capital Guardian		$ 103		$ 5	$ 108	5.5 %	
Dodge & Cox		109		2	111	5.7	
Jennison Associates		49		4	53	2.7	
PIMCO		54		28	82	4.2	
TOTAL FIXED INCOME		**$ 315**		**$ 39**	**$ 354**	**18.1 %**	**19.8%**
LIQUIDITY				$114	$ 114	5.9 %	1.0%
TOTAL	**$1,424**	**$315**	**$ 31**	**$173**	**$1,943**	**100.0 %**	**100.0%**
% TOTAL	**73.3 %**	**16.2 %**	**1.6 %**	**8.9 %**		**100.0 %**	

*** Pooled funds; Assets include cash**

Pension Fund Asset Allocation
December 1991 - December 1996



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U. S. PENSION FUND

Performance Summary

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U.S. PENSION FUND

Pension Fund Performance Summary
December 31, 1996

($ Millions) (Gross of Fees)	Market Value	Annual Returns				Manager Trust Universe - Percentile Rank (Best = 1, Worst = 99)			
EQUITY	**12/31/96**	**One Year**	**Three Years**	**Five Years**	**Ten Years**	**One Year**	**Three Years**	**Five Years**	**Ten Years**
Domestic Stocks									
Active Equity	$ 541	21.5%	18.3%	15.6%	15.6%	58	54	49	41
Passive Equity	541	20.7%	17.7%	14.4%	14.2%	65	61	72	74
Total Domestic Stocks	$1,082	21.1%	18.0%	14.8%	15.0%	62	57	65	59
Frank Russell 3000 +		21.7%	18.2%	14.7%	14.6%	57	55	66	69
International Stocks									
Active Equity	$ 82	11.9%	6.6%	11.1%	--	56	75	40	--
Passive Equity	274	6.9%	7.0%	8.9%	--	80	73	77	--
Total International Stocks	$ 356	7.9%	6.3%	9.5%	--	77	76	64	--
EAFE		6.1%	8.3%	8.2%	8.4%	85	64	83	77
Total Stocks	$1,438	17.5%	15.5%	13.5%	14.2%				
Real Estate									
Total AEW	$ 34	9.8%	18.6%	1.7%	-2.2%	46	2	52	80
Wilshire R/E Index		7.3%	4.3%	0.1%	0.8%	58	59	63	64
Venture Capital									
DEC Venture Capital	$ 3	-4.2%	7.7%	8.3%	4.3%				

U.S. PENSION FUND

Pension Fund Performance Summary
December 31, 1996 (continued)

($ Millions) (Gross of Fees)	Market Value 12/31/96	Annual Returns				Manager Trust Universe - Percentile Rank (Best = 1, Worst = 99)			
FIXED INCOME		One Year	Three Years	Five Years	Ten Years	One Year	Three Years	Five Years	Ten Years
Total Fixed Income	$ 354	4.6%	6.6%	7.7%	8.4%	36	30	45	69
L. B. Aggregate Index		3.6%	6.0%	7.0%	8.5%	61	53	66	67
LIQUIDITY									
Total Liquidity	$ 114	5.4%	5.4%	4.7%	6.3%	53	38	58	75
90-Day T-Bills		5.3%	5.1%	4.4%	5.8%	71	75	81	93
TOTAL FUND	**$1,943**	**14.2%**	**13.8%**	**11.5%**	**11.5%**	**57**	**23**	**59**	**63**
CPI		3.3%	2.8%	2.8%	3.7%				
REAL RETURN		10.6%	10.7%	8.5%	7.6%				

U.S. PENSION FUND

Performance by Manager
December 31, 1996

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($ Millions) (Gross of Fees) EQUITY	Market Value 12/31/96	Annual Returns One Year	Three Years	Five Years	Ten Years	Trust Universe Comparison Percentile Rank (Best = 1, Worst = 99) One Year	Three Years	Five Years	Ten Years
Active Domestic Stocks									
Capital Guardian	$ 108	23.2%	20.5%	15.9%	17.3%				
Columbia Management	82	18.5%	16.8%						
Fidelity Mgmt. Co.	108	21.6%							
Franklin Portfolio	111	26.8%	20.0%						
Jacobs Levy	80	19.6%	19.4%						
Nicholas-Applegate	52	12.9%	12.1%						
Subtotal	$ 541	21.5%	18.3%	15.6%	15.6%	58	54	49	41
Passive Domestic Stocks									
Bankers Trust Accounts	$ 541	20.7%	17.7%	14.4%	14.4%				
Subtotal	$ 541	20.7%	17.7%	14.4%	14.2%	65	61	72	74
Total Domestic Stocks	$1,082	21.1%	18.0%	14.8%	15.0%	62	57	65	59
S&P 500		23.2%	19.8%	15.3%	15.3%	39	31	55	48
Frank Russell 3000+		21.7%	18.2%	14.7%	14.6%	57	55	66	69

U.S. PENSION FUND
Performance by Manager
December 31, 1996

($ Millions) (Gross of Fees)	Market Value 12/31/96	Annual Returns One Year	Annual Returns Three Years	Annual Returns Five Years	Annual Returns Ten Years	Trust Universe Comparison Percentile Rank (Best = 1, Worst = 99) One Year	Three Years	Five Years	Ten Years
Active International Stocks									
Capital Guardian	$ 36	15.6%	11.3%	13.1%					
RCB International	28	5.2%	4.0%						
CG Emerging Markets	18	15.9%	1.3%	13.0%					
Subtotal	$ 82	11.9%	6.6%	11.1%		56	75	40	
Passive International Stocks									
BGI EAFE	$ 206	6.6%	8.7%	9.2%					
BGI Emerging Mkts.	59	7.9%							
BIA Emerging Markets	9	12.4%	-1.8%	8.8%					
Subtotal	$ 274	6.9%	7.0%	8.9%		80	73	77	
Total International Stocks	$ 351	7.9%	6.3%	9.5%		77	76	64	
EAFE		6.1%	8.3%	8.2%	8.4%	85	64	83	77
IFC Investable (Emerging Mkts.)		9.4%	-4.2%	10.2%		71	97	53	--
Real Estate									
Total AEW	$ 34	9.8%	18.6%	1.7%	-2.2%	46	2	52	80
Wilshire R/E Index		7.3%	4.3%	0.1%	0.8%	58	59	63	64
Venture Capital	$ 3	-4.2%	7.7%	8.3%	4.3%				

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Treasury
March, 1997

U.S. PENSION FUND

Performance by Manager
December 31, 1996

($ Millions)
(Gross of Fees)

	Market Value 12/31/96	Annual Returns				Trust Universe Comparison Percentile Rank (Best = 1, Worst = 99)			
		One Year	Three Years	Five Years	Ten Years	One Year	Three Years	Five Years	Ten Years
FIXED INCOME									
Capital Guardian	$ 108	4.2%	6.2%						
Dodge & Cox	111	3.9%	7.0%						
Jennison Associates	53	3.3%	6.0%	7.9%	8.6%				
PIMCO	82	6.8%	7.3%	8.2%					
Total Fixed Income	$ 354	4.6%	6.6%	7.7%	8.4%	36	30	45	69
L. B. Aggregate		3.6%	6.0%	7.0%	8.5%	61	53	66	67
LIQUIDITY	$ 114	5.4%	5.4%	4.7%	6.3%	53	38	58	75
90-Day T-Bills		5.3%	5.1%	4.4%	5.8%	71	75	81	93
TOTAL FUND	$1,943	14.2%	13.8%	11.5%	11.5%	57	23	59	63
CPI		3.3%	2.8%	2.8%	3.7%				
REAL RETURN		10.6%	10.7%	8.5%	7.6%				

Note: Up to 236 Pension Funds are included in the Trust Universe Comparison (TUCS).

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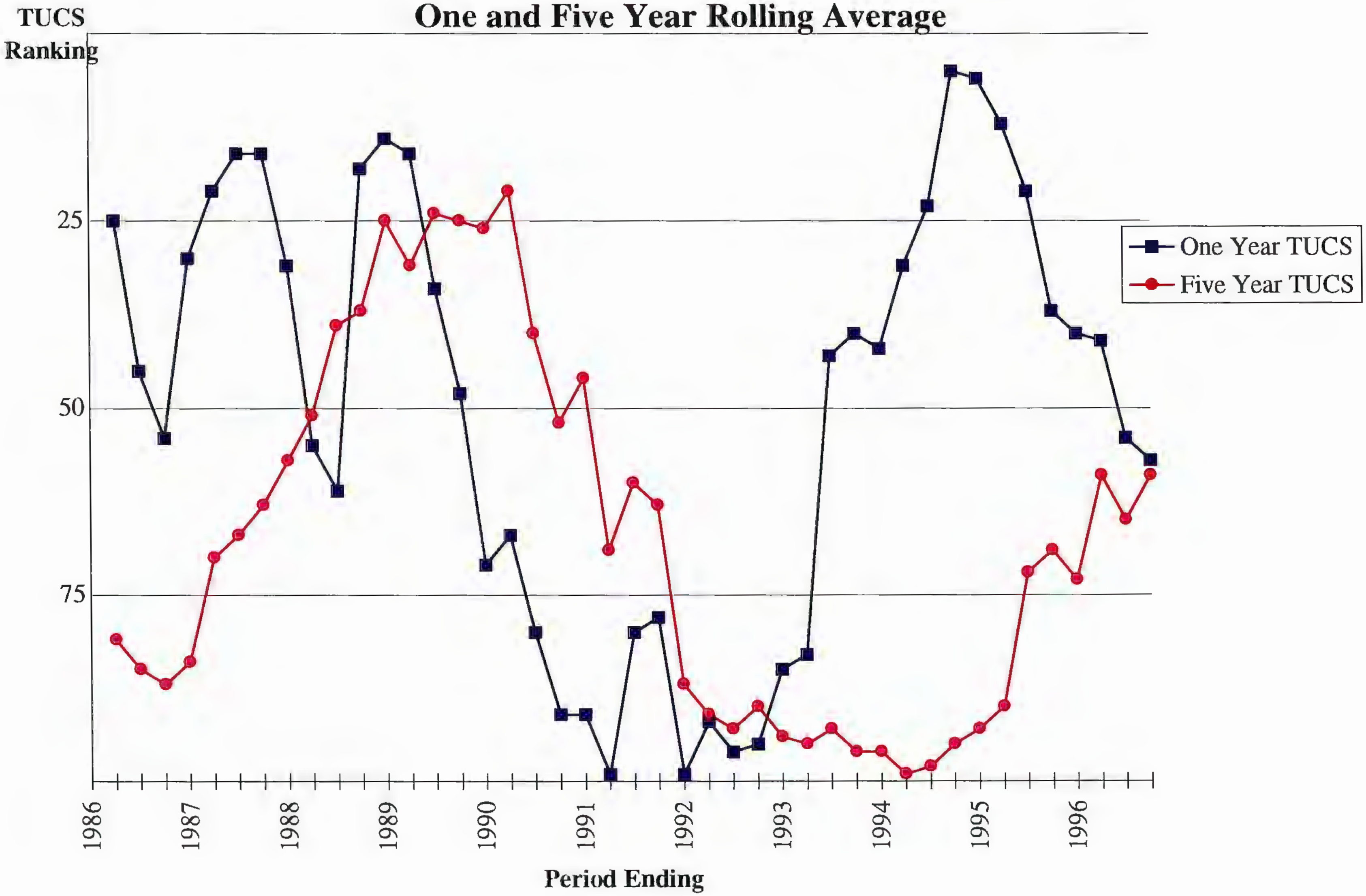
Treasury
March, 1997

Digital Versus Other Pension Funds
One and Five Year Rolling Average



U.S. PENSION FUND

SAVE Plan Performance Summary

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Treasury
March, 1997

U. S. PENSION FUND

Variance Analysis

Conclusions

1. Capital Guardian a winner!
Dom & Int!

Treasury
March, 1997

U. S. PENSION FUND
Attribution of Changes in Total Assets
As of December 31, 1996

($ Millions) (Net of Fees)	One Year Incremental $Mil	One Year Incremental Return	Three Years Annualized Incremental $Mil	Three Years Annualized Incremental Return	Five Years Annualized Incremental $Mil	Five Years Annualized Incremental Return	Ten Years Annualized Incremental $Mil	Ten Years Annualized Incremental Return
Beginning Market Value	$1,807	--	$1,508	--	$1,667	--	$ 903	--
+								
Net Contributions	-109	--	-207	--	-580	--	-497	--
+								
Risk Free Asset	96	5.3%	249	5.1%	347	4.4%	805	5.8%
+								
Return from 60/40 Investment Policy	155	9.0%	393	8.2%	549	7.3%	911	6.6%
+								
Return from Digital Investment Policy	-6	-0.3%	-19	-0.4%	-66	-0.9%	-148	-1.1%
+								
Benchmark Misfit	0	0.0%	0	0.0%	-3	0.0%	19	0.1%
+								
Allocation Tactics	-3	-0.2%	-1	0.0%	15	0.2%	49	0.3%
Subtotal: Plan Sponsor Responsibility	$1,940	13.8%	$ 1,923	12.9%	$1,929	11.0%	$2,042	11.7%
+								
Manager's Contribution	3	0.1%	20	0.4%	14	0.2%	-99	-0.5%
=								
Ending Market Value	**$1,943**	**13.9%**	**$1,943**	**13.3%**	**$1,943**	**11.2%**	**$1,943**	**11.2%**

this is largely from R.F.

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Treasury
March, 1997

U.S. PENSION FUND
Variance Analysis - Value of Active Management
As of December 31, 1996

($ Millions)	One-Year		Three-Year		Five-Year		Five-Year VAM Probability
Domestic Stocks	**$Mil**	**Return**	**$Mil**	**Return**	**$Mil**	**Return**	**Due to Skill**
Active:							
Capital Guardian	1.1	1.2 %	4.5	1.8 %	5.7	1.1 %	76.0 %
Columbia	-2.0	-3.6 %	-3.6	-2.2 %	-2.0	-1.0 % *	73.6 %
Fidelity	-1.6	-1.4 %	-2.8	-1.8 %	-2.8	-1.8 % *	61.1 %
Franklin Portfolio	3.1	2.9 %	3.3	1.0 %	3.6	0.9 % *	~~93.0 %~~
Jacobs-Levy	-1.9	-2.4 %	0.9	0.1 %	1.0	0.1 % * actually 3½ YR	47.8 %
Nicholas-Applegate	-2.0	-3.9 %	-4.4	-3.6 %	-5.1	-3.4 % *	38.3 %
Allocation	0.7	0.1 %	5.4	0.3 %	6.1	0.3 % *	----
Closed:							
Jennison Associates	----	----	-2.8	-4.9 % *	-1.8	-2.2 % *	
Provident Investment	----	----	-4.3	-7.6 % *	-4.2	-5.3 % *	
Total Active:	**-2.6**	**-0.5 %**	**-3.8**	**-0.2 %**	**0.5**	**0.0 %**	**----**
Passive:							
Bankers Trust Index	-1.1	-0.2 %	-3.2	-0.2 %	-1.9	0.0 %	
Benchmark Misfit	-0.4	-0.1	1.5	0.1	0.9	0.0	
Total Passive:	**-1.5**	**-0.3 %**	**-1.7**	**-0.1 %**	**-1.0**	**0.0 %**	
Closed:							
Alliance Small Cap	----	----	----	----	0.0	-0.2 % *	
DEC Internal	----	----	----	----	12.3	2.8 % *	
Total Domestic Stocks:	**-4.1**	**-0.4 %**	**-5.5**	**-0.2 %**	**11.8**	**0.2 %**	
International Stocks							
Active:							
Capital Guardian	2.9	8.8 %	2.6	2.6 %	5.8	4.3 %	94.9 %
CG Emerging Markets	1.2	6.9 %	2.2	6.5 %	2.1	4.5 % *	N/A
RCB International	-0.1	-0.5 %	-2.9	-3.7 %	-1.0	-0.9 % *	57.8 %
Allocation	-0.1	-0.1 %	-1.7	-0.8 %	-0.4	-0.2 % *	----
Total Active:	**3.9**	**5.0 %**	**0.2**	**-0.2 %**	**6.5**	**2.9 %**	**----**
Passive:							
BIA Emerging Markets	0.3	3.3 %	0.4	2.0 %	0.1	0.1 % *	----
BGI EM	-0.6	-1.0 %	0.0	0.3 % *	0.0	0.3 % *	
BGI Index	0.7	0.2 %	1.3	0.4 %	1.4	0.3 % *	----
Allocation	-0.4	-0.1 %	-1.0	-0.5 %	0.4	-0.1 % *	
Total Passive:	**0.0**	**0.0 %**	**0.7**	**0.0 %**	**1.9**	**0.4 %**	
Closed:							
Boston Intl. Advisors	----	----	----	----	0.4	0.7 % *	N/A
Total International Stocks:	**3.9**	**1.0 %**	**0.9**	**-0.6 %**	**8.8**	**1.2 %**	

① 25% for 3 years.
② 51% for 5 years.

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U.S. PENSION FUND
Variance Analysis - Value of Active Management
As of December 31, 1996 (Continued)

($ Millions)	One-Year		Three-Year		Five-Year		Five-Year VAM Probability
	$Mil	Return	$Mil	Return	$Mil	Return	Due to Skill
Real Estate							
Total AEW:	1.1	2.3 %	22.0	10.9 %	-8.8	-0.1 %	N/A
Venture Capital							
DEC Venture Capital	-1.2	-30.2 %	-1.6	-14.0 %	-2.9	-12.4 %	N/A
Fixed Income							
Active:							
Capital Guardian	0.4	0.4 %	0.0	0.0 %	0.3	0.1 % *	91.6 %
Dodge & Cox	0.3	0.2 %	1.7	0.8 %	2.0	0.8 % *	99.3 %
Jennison Associates	-0.3	-0.5 %	-0.4	-0.2 %	0.0	0.1 % *	79.9 %
PIMCO	2.2	2.9 %	2.4	1.0 %	3.5	1.2 % *	93.1 %
Allocation	0.0	0.0 %	0.1	0.0 %	-1.9	-0.1 %	
Previous Style:							
Jennison Associates	----	----	----	----	0.3	0.3 % *	N/A
PIMCO	----	----	----	----	-0.1	0.0 % *	N/A
Total Fixed Income:	**2.6**	**0.8 %**	**3.8**	**0.3 %**	**4.1**	**0.2 %**	----
Liquidity	**0.3**	**0.9 %**	**0.7**	**1.7 %**	**0.9**	**1.2 %**	N/A
Total Fund	**2.6**	**0.1 %**	**20.3**	**0.4 %**	**13.9**	**0.2 %**	----

*Time period under Management less than cumulative period.