

***QUARTERLY PERFORMANCE REVIEW
FOR THE QUARTER ENDING
SEPTEMBER 30, 1998***

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Reviewed by:

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PORTFOLIO SUMMARY
Quarter Ended September 30, 1998

Portfolio Summary Items

Portfolio Performance summarizes the past quarter's and past year's performance of the pension fund's portfolio and investment managers, as compared to the market and benchmark indices.

One, Three, and Five Year Performance summarizes the plan portfolio's annualized performance over the last year and the longer three and five year periods.

Asset Allocation summarizes the distribution of portfolio assets by asset class and investment manager.

Manager Guideline Compliance indicates whether the investment managers are operating within the policies set for them by the Board of Trustees and, if not, notes the policy.

Table 1 presents the portfolio rates of return based upon periods of 5 years, 3 years, 1 year and the most recent quarter. Yearly and quarterly investment returns can be quite variable. Therefore, the returns calculated over longer periods of time are more meaningful.

Table 2 presents the portfolio's asset mix and each investment manager's percentage of total portfolio assets.

Figure 1 shows the growth of the three distinct asset classes held in the General Employees' Pension Fund(equities, fixed income, and international), as well as the aggregate portfolio, since 1981.

Figure 2 displays the asset allocation of the fund by asset class and separately the percentage of the portfolio held by each investment manager.

Table 3 presents the quarterly rates of return realized by each investment manager and for the total fund. Also presented are the related equity and fixed income indices for comparison purposes.

PORTFOLIO PERFORMANCE

3rd Quarter 1998 Summary

In the third quarter of 1998 the U.S. stock market, as measured by the S&P 500, posted a total return of negative 9.95%. The three months ending September, 1998 marked the first negative quarterly return in three years and the worst quarterly return in eight years. For the first nine months of the year, the S&P 500 posted a total return of 6.00%.

In the third quarter, ten of the eleven industry sectors within the S&P 500 had negative returns. Utilities were the best performing group as the Dow Utilities Average made all-time highs. During the quarter ending 9/30/98, smaller capitalization stocks, as represented by the Russell 2000, underperformed large capitalization equities, S&P 500, by over 10%. The Russell 2000 has not moved this low relative to the S&P 500 in the 19 year history of the Russell 2000.

International markets were hit hard in August when Russia shocked investors by defaulting on their domestic debt. Canada fell 26%, Mexico dropped 23% and Brazil was down 29%. Indonesia was down 28% and Malaysia continued to deteriorate with a 39% drop. Japan was down 15% for the quarter as politicians continued to search for a solution in dealing with their economic problems. Overall, the EAFE Index moved lower with a negative 14.1% return for the quarter.

Treasury bond prices continued to move sharply higher in the third quarter. The five year Treasury experienced a dramatic move higher as the five year yield fell from 5.47% to 4.22% and the thirty year Treasury yield declined from 5.63% to 4.97%. Non Treasury fixed income securities sharply underperformed Treasuries during the quarter. The yield differential between comparable maturity Treasury securities and agency and corporate securities increased to levels not seen since the first part of the decade. The Federal Reserve lowered interest rates by 25 basis points to 5.25%. This was the first decline since January of 1996. Given the crisis in international markets, the Fed is now viewing deflation as a potential threat to our economy.

The total market value of the General Employees' Pension Fund decreased from \$136.42 million on June 30, 1998 to \$116.57 million as of September 30, 1998. The total fund's -11.41% quarterly return was 4.67% below the 60/10/30 Index return of -6.74%.

3rd Quarter 1998 Manager Performance (Table 3, page 10)

All of the Pension Plan's domestic equity managers underperformed their benchmarks in the third quarter. DGI returned a negative 24.94% which underperformed the Russell 2000 Index by 4.79%. Pilgrim Baxter returned a negative 17.15% underperforming the Russell 1000 Value Index by 5.57% and SunTrust lost 12.17%, while the S&P 500 Index was down 9.95%.

The international equity manager, Scudder Trust Company, returned a negative 15.49% for the quarter, underperforming the benchmark EAFE Index return of negative 14.1%.

Both of the Pension Plan's fixed income managers earned positive returns in the second quarter. Mississippi Valley was up 4.29% for the quarter and their benchmark, the Merrill Lynch 1-10 year Gov./Corp., returned 4.40%. Richmond Capital was up 4.97%, while their benchmark Merrill Lynch Gov./Corp. was up 4.80%.

One, Three, and Five Year Performance (Table 1, page 6)

Investment returns are quite erratic over short time horizons; thus, returns over time horizons longer than one year are more meaningful measures of performance. When evaluating pension investment returns, it is important to maintain a long-term view of investment performance.

In Table 1 (performance of the aggregate portfolio), individual asset classes and individual investment managers are shown for both short and intermediate time periods. Actual performance is compared with the performance of selected benchmark indices. The domestic equity index made up of 60% of the S&P 500 Index and 40% of the Russell 2000 Index has been replaced by the Russell 3000. The EAFE Index is used for the international equity manager, and a combination index composed of 50% of the Merrill Lynch 1-10 year Government/Corporate Index and 50% of the Merrill Lynch Government/Corporate Index is used for the fixed income managers. The Total Fund is compared to an index weighted 60% domestic equities, 10% international equities, and 30% fixed income securities.

During the past year (last 4 quarters) the Pension Plan's total portfolio has lost 5.68%, underperforming its benchmark 60/10/30 Asset Class Index return of 5.79% by 11.47%. DGI and Pilgrim/Baxter underperformed their benchmarks by 13.78% and 10.97% respectively, while Sun Trust underperformed the S&P 500 Index by 1.90%. The Plan's international equity portfolio return of negative 10.54% lagged the EAFE benchmark's return of negative 8.12%. The fixed income portfolio has returned 12.37% during the last four quarters, outpacing the fixed income index return of 11.58%.

The total portfolio's three and five year annualized returns were 9.13% and 10.81%, respectively, while the 60/10/30 benchmark index's three and five year returns were 15.03% and 13.50%, respectively. The domestic equity portfolio's three year annualized return of 8.91% was below the index return of 20.11% and the five year return of 13.26% was 5.28% below the benchmark return of 18.54%. The international portfolio three year return of 7.56% was above the EAFE index three year annualized return of 3.74%. The fixed income portfolio's three year return of 8.76% was ahead of the index return of 8.40%.

ASSET ALLOCATION (Table 2, page 7 and Figure 2, page 9)

The Plan's portfolio cash and non-cash asset values as of September 30, 1998 are shown by manager on page 7, while asset mix and manager allocation are shown on page 9. At the end of the third quarter in 1998, 3.05% or \$3,561,189 of the portfolio's assets were held as cash, 55.76% or \$65,000,822 of the assets were U.S. equities, 9.15% or \$10,661,571 were international equities, and 32.04% or \$37,351,600 were fixed income securities. The General Pension Plan's Board of Trustees has in place a policy that maintains pension fund asset levels among the portfolio managers in order to be in compliance with the asset allocation guidelines of 70% equities(60% U.S. and 10% International), and 30% fixed income. Rebalancing of assets shall be at the beginning of the next quarter when asset distribution varies by more than 5% from target allocation levels.

MANAGER COMPLIANCE WITH GUIDELINES

All investment managers were in compliance with all of their respective investment guidelines as of September 30, 1998.

CHANGES OF FUND MANAGERS/NAME CHANGES

On February 7, 1997, management of all portfolio assets previously overseen by Mitchell Hutchins became the responsibility of Disciplined Growth Investors. It should be noted that Fred Martin, the investment manager who previously ran the Pension Plan's portfolio at Mitchell Hutchins for 15 years, left Mitchell Hutchins in February 1997 to start his own firm - Disciplined Growth Investors(DGI). It was determined by the Pension Review Committee and the Board of Trustees that Fred Martin should continue to invest the Plan's assets at his new firm, and management of those assets was therefore transferred to DGI.

Newbold's became a wholly-owned subsidiary of Pilgrim Baxter on October 1, 1997 and, effective January 1, 1998 Newbold's name changed to Pilgrim Baxter.

TABLE 1
City of Gainesville
General Employees' Pension Fund
1, 3, 5 Year Portfolio Returns
as of Sept 30, 1998

	QUARTER RETURN		1 YEAR RETURN		3 YEAR RETURN*		5 YEAR RETURN*	
	Manager	Index	Manager	Index	Manager	Index	Manager	Index
DOMESTIC EQUITY FUNDS								
DGI	-24.94%	-20.15%	-32.84%	-19.06%	-2.67%	7.59%	8.39%	11.05%
Pilgrim/Baxter	-17.15%	-11.58%	-7.36%	3.61%	13.34%	20.26%	13.22%	17.14%
SunTrust	-12.17%	-9.95%	7.13%	9.03%	21.06%	22.57%	17.61%	19.88%
Domestic Equity Average	-18.65%	-11.18%	-13.61%	4.61%	8.91%	20.11%	13.26%	18.54%
INTERNATIONAL EQUITY FUND								
Scudder Trust	-15.49%	-14.10%	-10.54%	-8.12%	7.56%	3.74%	N/A	N/A
Total International Equity	-15.49%	-14.10%	-10.54%	-8.12%	7.56%	3.74%	N/A	N/A
FIXED INCOME FUNDS								
Mississippi Valley	4.29%	4.40%	10.80%	10.40%	7.97%	7.89%	N/A	6.59%
Richmond Capital	4.97%	4.80%	13.89%	12.74%	9.54%	8.89%	7.57%	7.22%
Total Fixed Income	4.64%	4.60%	12.37%	11.58%	8.76%	8.40%	N/A	6.95%
TOTAL PORTFOLIO	-11.41%	-6.74%	-5.68%	5.79%	9.13%	15.03%	10.81%	13.50%

* Annualized time weighted rates of return, derived from separately calculated returns.

TABLE 2
City of Gainesville
General Employees' Pension Fund
Investment Manager Cash Positions
Sept 30, 1998

	TOTAL FUND VALUE	CASH COMPONENT	PERCENTAGE OF FUND IN CASH
DOMESTIC EQUITY MANAGERS			
DGI	\$24,009,421	\$1,086,334	4.52%
Pilgrim Baxter	\$20,044,749	\$375,247	1.87%
SunTrust	\$22,437,304	\$29,071	0.13%
Total Domestic Equity	\$66,491,474	\$1,490,652	2.24%
INTERNATIONAL EQUITY MANAGER			
Scudder Trust	\$11,342,097	\$680,526	6.00%
Total International Equity	\$11,342,097	\$680,526	6.00%
FIXED INCOME MANAGERS			
Mississippi Valley	\$19,224,132	\$520,868	2.71%
Richmond	\$19,517,479	\$869,143	4.45%
Total Fixed Income	\$38,741,611	\$1,390,011	3.59%
TOTAL PORTFOLIO	\$ 116,575,182	\$ 3,561,189	3.05%

Figures in this Table do not include the General Pension cash balance in the City's operating account, (\$1,456,367.04 as of 9/30/98).

FIGURE 1
Market Value of Asset Classes
1st Quarter 1981 - 3rd Quarter 1998

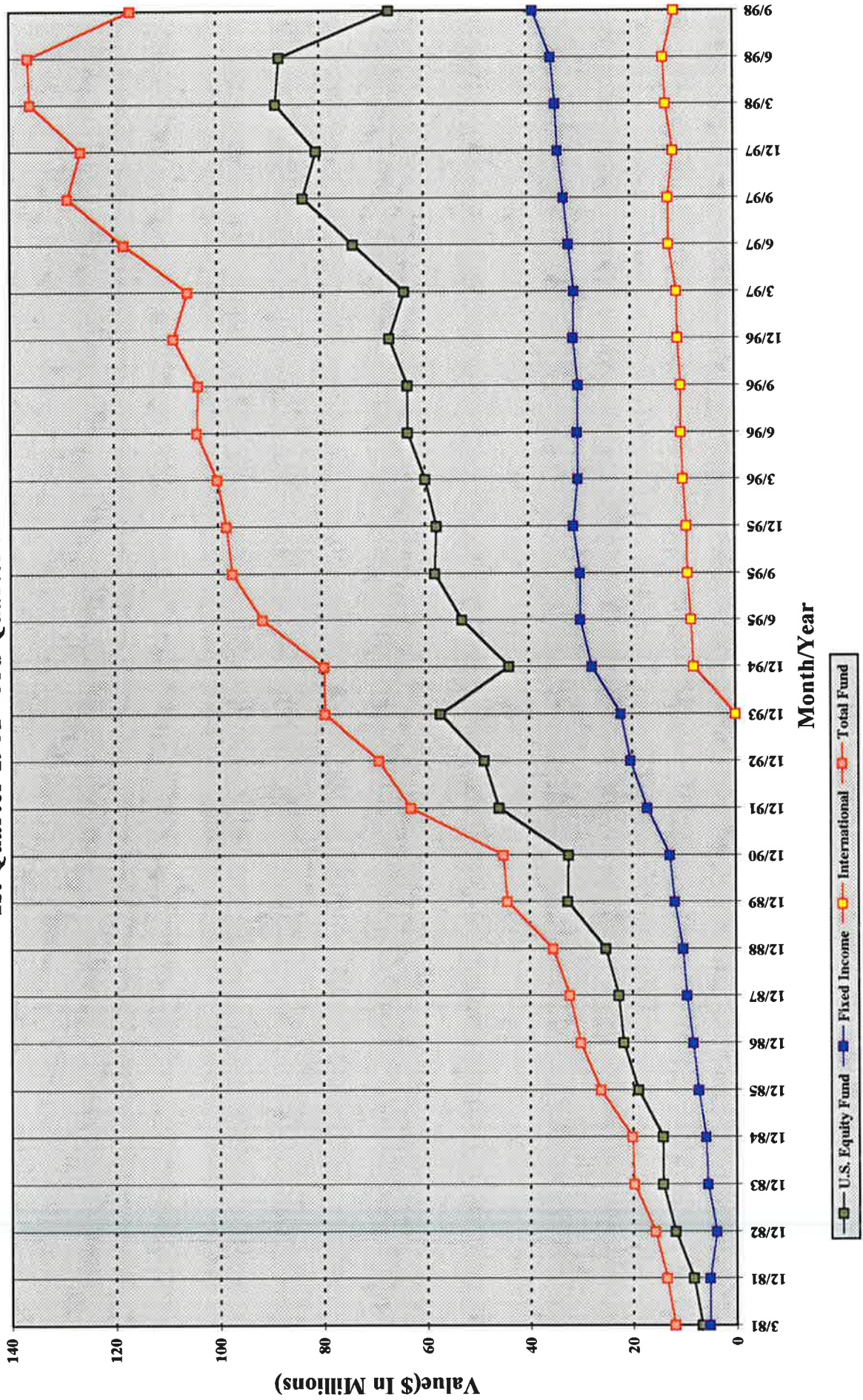
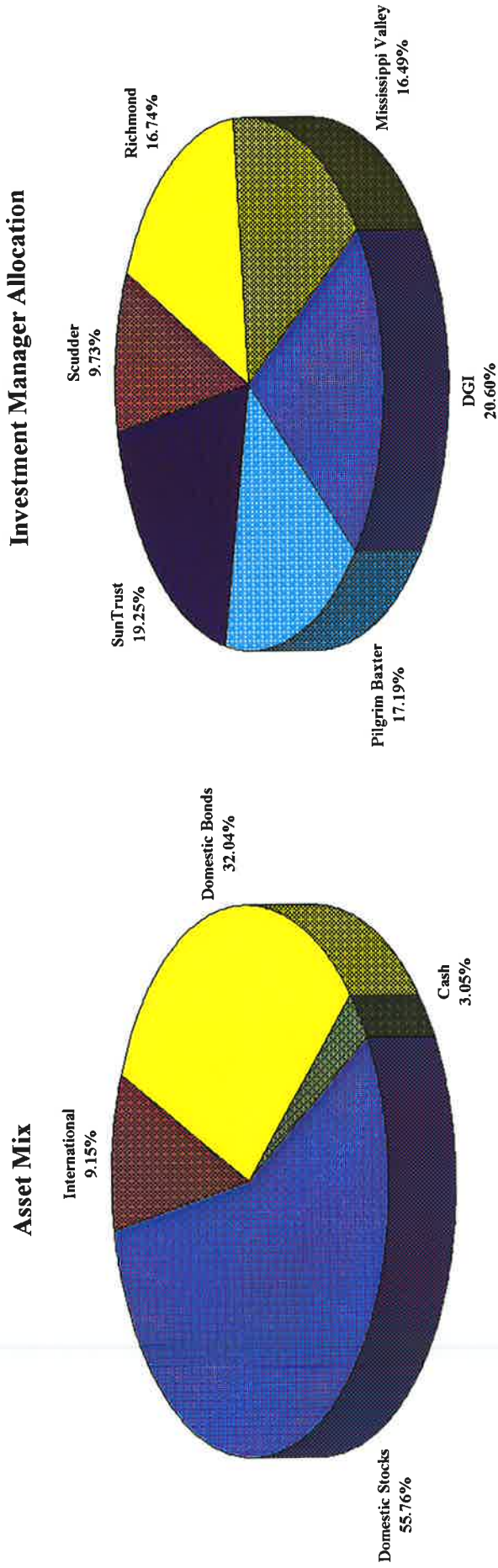


FIGURE 2
Asset Mix/Investment Manager Allocation: \$116.58 Million
 as of Sept 30, 1998



**TABLE 3
General Employees Pension Fund Investment Manager Performance
Qtr Ending Sep 30, 1998**

MARKET VALUE & INVESTMENT RETURN SUMMARY									
	DOMESTIC EQUITY MANAGERS			INTERNATIONAL	FIXED INCOME MANAGERS			TOTAL FUNDS^B	
	DGI^A	Pilgrim Baxter	SunTrust	Domestic Equity	Scudder Trust Co.	Mississippi Valley	Richmond Capital	Total Fixed Inc.	TOTAL FUNDS^B
Percentage of Assets Managed	20.60%	17.19%	19.25%	57.04%	9.73%	16.49%	16.74%	33.23%	100.00%
Managed Fund Market Values:									
Beginning of Period (07/01/98)	28,992,941	27,694,562	31,047,349	87,734,852	13,422,660	17,204,046	18,060,708	35,264,754	136,422,266
Additions/(Withdrawals)	3,000,000	(3,500,000)	(5,500,000)	(6,000,000)	-	1,200,000	500,000	1,700,000	(4,300,000)
Adjusted Beginning Value	31,992,941	24,194,562	25,547,349	81,734,852	13,422,660	18,404,046	18,560,708	36,964,754	132,122,266
End of Period^A (09/30/98)	24,009,421	20,044,749	22,437,304	66,491,474	11,342,097	19,224,132	19,517,479	38,741,611	116,575,182
Manager's Adjusted Return:	(7,983,520)	(4,149,813)	(3,110,045)	(15,243,378)	(2,080,563)	820,086	956,771	1,776,857	(15,547,084)
PERFORMANCE STATISTICS									
	DOMESTIC EQUITY MANAGERS			INTERNATIONAL	FIXED INCOME MANAGERS			TOTAL FUNDS^B	
	DGI^A	Pilgrim Baxter	SunTrust	Domestic Equity	Scudder Trust Co.	Mississippi Valley	Richmond Capital	Total Fixed Inc.	TOTAL FUNDS^B
QUARTERLY RETURNS									
Managed Fund Returns:	-24.94%	-17.15%	-12.17%	-18.65%	-15.49%	4.29%	4.97%	4.64%	-11.41%
Performance Monitoring Index:	Russell ^D 2000 Index:	Russell 1000 Value Index:	S&P 500 Index:	Russell 3000 Index:	EAFE Index:	ML 1-10G/ 2000 Index:	Fixed Inc. Index:	60/10/30 Index:	
Managed Fund Returns vs. Index:	-20.15%	-11.58%	-9.95%	-11.18%	-14.10%	ML G/C:	4.60%	-6.74%	
	-4.79%	-5.57%	-2.22%	-7.47%	-1.39%	0.17%	0.04%	-4.67%	
YEAR TO DATE RETURNS									
Managed Fund Returns:	-26.43%	-8.02%	4.40%	8.80%	-2.38%	7.70%	9.78%	8.75%	-4.24%
Performance Monitoring Index:	Russell ^D 2000 Index:	Russell 1000 Value Index:	S&P 500 Index:	Russell 3000 Index:	EAFE Index:	ML 1-10G/C:	Fixed Inc. Index:	60/10/30 Index:	
Managed Fund Returns vs. Index:	-16.21%	-0.83%	6.00%	2.23%	-0.55%	8.08%	9.28%	8.68%	3.89%
	-10.22%	-7.19%	-1.60%	6.57%	-1.83%	-0.38%	0.50%	0.07%	-8.13%

Notes: This report is based on Custodian Reports from State Street Bank and returns are reported gross of investment manager fees.

A) Assets managed by Mitchell Hutchins were transferred to Disciplined Growth Investors as of February 7, 1997. YTD returns for those assets reflect both managers' combined returns.

B) Excludes general pension fund dollars held in the City's operating account for the purpose of making disbursements (\$1,456,367.04 as of 09/30/98).

C) ML 1 to 10 yr Govt/Corp: Merrill Lynch 1 to 10 yr Government/Corporate Index (Benchmark for Mississippi Valley Advisors - 50% weight of the Fixed Income Index).

ML G/C: Merrill Lynch Government/Corporate Index (Benchmark for Richmond Capital - 50% weight of the Fixed Income Index).

D) Mitchell Hutchin's/DGI's benchmark was changed from the Hybrid Index (50% S&P 500 & 50% NASDAQ), to the Russell 2000 Index in 1997.

E) The Domestic Equity was changed from 40% Russell 2000 and 60% S&P 500 to the Russell 3000 Index in the 3rd Quarter of 1997.

F) The 60/10/30 Index is derived by weighting 60% of the Equity Index, 10% of the EAFE Index, and 30% of the Fixed Income Index.

GLOSSARY

ASSET ALLOCATION - The optimal allocation of investments among various classes of assets in an effort to achieve a desired goal. The City's pension fund asset allocation target is 70% invested in stocks and 30% invested in bonds.

EQUITY (STOCK) - A certificate representing ownership or shares in a company.

FIXED INCOME (BOND) - A promissory note or debt issued by a company with specified repayment terms.

CHANGES IN UNIT VALUE - A method used to represent relative compounded performance. A unit value common base is selected (e.g. \$1 in 1955). By applying the rates of return (for specified periods) in historical sequence, the compounded growth rate can be determined. (e.g. in 1985 the \$1 from 1955 had increased in value to \$40).

MARKET VALUE - The current price of a security. A price at which both buyers and sellers are willing to do business. The **TOTAL MARKET VALUE** is the sum of all the individual market values for each security held in the portfolio.

RATE OF RETURN - The rate of return on investments is a performance measurement ratio used to determine a particular investment manager's performance, and in addition, can be used in aggregate to gauge the performance of all the equity managers, fixed income managers, and the total portfolio. The General Employees' Pension Fund's rate of return is calculated by adding or subtracting any inflows or outflows to the ending market value of the pension fund, then subtracting the beginning market value from the ending market value and dividing the result by the beginning market value.

S&P 500 - The S&P 500 Index is the market index used by most institutional investors to measure/evaluate performance. It is a market value-weighted average of 500 large capitalized stocks. Although relative rankings change from time to time, these 500 securities represent well known firms. There are variations in S&P 500 Index valuations (with dividends reinvested, without dividends reinvested, etc.). The calculation used in the General Employees' Pension Fund Reports as a performance benchmark for **STI Capital Management(Sun Trust)** is the S&P 500 total return with dividends reinvested.

GLOSSARY

Merrill Lynch 1 to 10 year Government-Corporate Bond Index - This index is comprised of both government and corporate securities with maturities ranging from 1 to 10 years and is used to evaluate the performance of **Mississippi Valley Advisors**. The Fixed Income Guidelines for **Mississippi Valley Advisors** require that they maintain an average maturity less than 7 years and an effective average duration less than 4.5 years. The the Merrill Lynch 1 to 10 year Government-Corporate Bond Index is used to evaluate the performance of **Mississippi Valley Advisors**.

Merrill Lynch Government-Corporate Bond Index - This index is comprised of both government and corporate securities with maturities ranging from 1 to 30 years and is used to evaluate the performance of **Richmond Capital**. The Fixed Income Guidelines for **Richmond Capital** require that they maintain an average maturity less than 13 years and an effective average duration less than 7 years. The Merrill Lynch Government-Corporate Index is used to evaluate the performance of **Richmond Capital**.

Fixed Income Composite Index - This index is calculated by City (Finance Department) staff and is comprised of a portion of both the Merrill Lynch 1 to 10 year Government-Corporate Bond Index and the Merrill Lynch Government-Corporate Index. The percentage of each Fixed Income Manager's portfolio (market value) relative to total fixed income (market value) is determined and then applied to the applicable index. The result for each manager is then added together deriving a composite index of the two fixed income indices. This index is necessary in order to evaluate the performance of all fixed income funds combined.

EAFE Index(Europe, Australia & Far East) - An arithmetic, market value-weighted average of the performance of over 900 securities listed on the stock exchanges of 18 countries in Europe, Australia, and the Far East. The index is calculated on a total return basis, which includes reinvestment of gross dividends before deduction of withholding taxes.

GLOSSARY

Russell 2000 Index - The Russell 2000 Index is an index comprised of 2000 smaller capitalized corporations, and is used to measure the performance of Disciplined Growth Investors since the first quarter of 1997. This index is considered the most relative benchmark based on the mix of securities invested in by the manager.

Russell 1000 Value Index - The Russell 1000 Value Index is an index which measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values and is used to measure the performance of Pilgrim Baxter since July 1st of 1998. This index is considered the most relative benchmark based on the mix of securities invested in by the manager.

Equity Index - This index is now the Russell 3000 and will be used as the benchmark for the total domestic equity portion of the fund. The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the U.S. equity market.

60/10/30 Index - The 60/10/30 index is based on the pension fund asset allocation. It is comprised of 60% of the Equity Index, 10% of the EAFE Index, and 30% of the Fixed Income Composite Index. See definition of Equity Index and Fixed Income Composite Index.