

SBI Fiscal Year 2001 Annual Report

# 2001 Annual Report



Minnesota State  
Board of Investment

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December, 2001

MINNESOTA  
STATE  
BOARD OF  
INVESTMENT



**Board Members**

Governor  
Jesse Ventura

State Auditor  
Judi Dutcher

State Treasurer  
Carol C. Johnson

Secretary of State  
Mary Kiffmeyer

Attorney General  
Mike Hatch

**Executive Director:**

Howard J. Bicker

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An Equal Opportunity  
Employer

The Minnesota State Board of Investment (SBI) is pleased to present its report for the fiscal year ending June 30, 2001.

**Investment Environment**

This past fiscal year was a period of economic transition, marked early on by the Federal Reserve's decision to raise interest rates, and subsequently, lower interest rates six times later in the year. Against this backdrop, financial markets were remarkably volatile. Amid disappointments in revenue and earnings growth by U.S. corporations, the Wilshire 5000 Investable Index declined by 15.2% during fiscal year 2001. The significant rally in interest rates during this period improved bond returns. The U.S. bond market, as measured by the Lehman Brothers Aggregate Bond Index, gained 11.8%.

The performance of international stock markets was also volatile throughout the year. International markets declined further than the U. S. markets and were also below their historical averages. The Morgan Stanley Capital International Index of Europe, Australasia and the Far East (EAFE) lost 23.6% for the twelve months ending June 30, 2001. The markets of developing countries, or "emerging markets", decreased by 25.9% during the fiscal year.

**SBI Results**

Within this investment environment, the retirement assets under the Board's control reflected the economic uncertainty:

- The Basic Retirement Funds decreased 7.4% during fiscal year 2001. However, over the latest five year period, the Funds have experienced an annualized return of 11.2%. (See page 9.)
- The Post Retirement Fund was down 6.9% for the year. Overall, the Fund provided a five year annualized return of 10.3%. (See page 12.)
- The annual returns combined with the strong returns in prior years, will provide a lifetime post retirement benefit increase of 4.5% for eligible retirees.

**On June 30, 2001, assets under management totaled \$48.9 billion.** This total is the aggregate of several separate pension funds, trust funds and cash accounts, each with different investment objectives. In establishing a comprehensive management program, the Board develops an investment strategy for each fund which reflects its unique requirements. **The primary purpose of this annual report is to communicate the investment goals, policies and performance of each fund managed by the Board.** Through the investment programs presented in this report, the Minnesota State Board of Investment seeks to enhance the management and performance of the funds under its control.

Sincerely,

Howard Bicker  
Executive Director



## State Board of Investment

*Governor Jesse Ventura, Chair  
State Auditor Judith H. Dutcher  
State Treasurer Carol C. Johnson  
Secretary of State Mary Kiffmeyer  
State Attorney General Mike Hatch*

## Investment Advisory Council

The Legislature has established a seventeen member Investment Advisory Council to advise the Board and its staff on investment-related matters.

— The Board appoints ten members experienced in finance and investment. These members traditionally have come from the Minneapolis and St. Paul corporate investment community.

— The Commissioner of Finance and the Executive Directors of the three statewide retirement systems are permanent members of the Council.

— Two active employee representatives and one retiree representative are appointed to the Council by the Governor.

The Council has formed three committees organized around broad investment subjects relevant to the Board's decision-making process: Asset Allocation, Stock and Bond Managers and Alternative Investments.

All proposed investment policies are reviewed by the appropriate Committee and the full Council before they are presented to the Board for action.

### Members of the Council\*

*Jan Yeomans, Chair*  
Treasurer  
3M Co.

*Malcolm W. McDonald, Vice Chair*  
Director & Corporate Secretary  
Space Center, Inc.

*Gary Austin*  
Executive Director  
Teachers Retirement Association

*David Bergstrom*  
Executive Director  
Mn. State Retirement System

*John E. Bohan, Retired*  
V.P., Pension Investments  
Diageo, LLP- Pillsbury

*Douglas Gorence*  
Chief Investment Officer  
U of M Foundation Investment  
Advisors

*Kenneth F. Gudorf*  
President and CEO  
Agio Capital Partners

*P. Jay Kiedrowski*  
Executive Vice President  
Wells Fargo & Company

*Han Chin Liu*  
Governor's Appointee  
Active Employee Representative

*Judith W. Mares*  
Financial Consultant  
Mares Financial Consulting, Inc.

*Gary R. Norstrom, Retired*  
Treasurer  
City of St. Paul

*Daralyn Peifer*  
Chief Investment Officer  
General Mills, Inc.

*Mary Stanton*  
Governor's Appointee  
Active Employee Representative

*Michael L. Troutman*  
V.P., Finance and Investments  
Evangelical Lutheran Church in  
America

*Mary Vanek*  
Executive Director  
Public Employees Retirement Assoc.

*Elaine Voss*  
Governor's Appointee  
Retiree Representative

*Pamela Wheelock*  
Commissioner  
Mn. Dept. of Finance

\* As of December 2001



## **Staff, Consultants & Custodians\***

*Howard Bicker*  
Executive Director

*Mansco Perry III*  
Assistant Executive Director

### **Investment Staff**

#### **Public Equities**

*Lois E. Buermann*  
Mgr., Public Equities

*Jason Matz*  
Analyst, Domestic Equities

*Stephanie Gleeson*  
Analyst, International Equities

#### **Fixed Income and Internal Investments**

*Michael J. Menssen*  
Mgr., Internal Investments

*Erol Sonderegger*  
Analyst, Fixed Income

#### **Alternative Assets**

*John N. Griebenow*  
Mgr., Alternative Investments

*Andrew Christensen*  
Analyst, Alternative Investments

#### **Cash Management**

*John T. Kinne*  
Mgr., Short Term Accounts

*Steve Kuettel*  
Analyst, Short Term Accounts

#### **Public Programs**

*James E. Heidelberg*  
Mgr., Public Programs

*Tammy Brusehaver-Derby*  
Analyst, Public Programs

*Deborah Griebenow*  
Analyst, Shareholder Services

*N. Robert Barman*  
Analyst, Shareholder Services

### **Administrative Staff**

#### **Finance and Accounting**

*L. Michael Schmitt*  
Administrative Director

*William Nicol*  
Accounting Supervisor, Senior

*David Nkwonta*  
Accounting Officer, Intermediate

*Nancy L. Wold*  
Accounting Officer, Intermediate

*Kathy Leisz*  
Accounting Officer, Intermediate

*John Bottomley*  
Accounting Officer

#### **Support Services**

*Charlene Olson*  
Administrative Assistant to the  
Executive Director

*Carol Nelson*  
Office Administrative Specialist,  
Intermediate

*Sondra Wagner*  
Customer Services Specialist

*Pat Koshenina*  
Office Administrative Specialist

### **Consultants**

General Consultant  
*Richards & Tierney, Inc.*  
Chicago, Illinois

Special Projects Consultant  
*Pension Consulting Alliance*  
Studio City, California

### **Custodian Banks**

Retirement and Trust Funds  
*State Street Bank & Trust Co.*  
Boston, Massachusetts

State Cash Accounts  
*Wells Fargo & Company*  
St. Paul, Minnesota

\* As of December 2001



## Introduction

**The Minnesota State Board of Investment is responsible for the investment management of various retirement funds, trust funds and cash accounts. On June 30, 2001, the market value of all assets was \$48.9 billion.**

### **Constitutional and Statutory Authority**

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership is also specified in the Constitution and is comprised of the Governor (who is designated as chair of the Board), State Auditor, State Treasurer, Secretary of State and State Attorney General.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 356A.

### **Prudent Person Rule**

The prudent person rule, as codified in *Minnesota Statutes* Section 11A.09, requires all members of the Board, Investment Advisory Council, and SBI staff to "...act in good faith and ...exercise that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived therefrom." *Minnesota Statutes* Section 356A.04 contains similar codification of the prudent person rule applicable to the investment of pension fund assets.

### **Authorized Investments**

In addition to the prudent person rule, *Minnesota Statutes* Section 11A.24 contains a specific list of asset classes available for investment, including common stocks, bonds, short term securities, real estate, private equity, and resource funds. The statutes

prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments.

### **Investment Policies**

Within the requirements defined by state law, the State Board of Investment, in conjunction with SBI staff and the Investment Advisory Council, establishes investment policies for all funds under its management. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards.

The Board has adopted guidelines concerning investments in stock markets outside the U.S. The guidelines do not prohibit investment in any market, but do require that additional notification and/or presentation be provided to SBI staff or the SBI Administrative Committee in certain cases (refer to page 46 for more information on these guidelines).

The Board, its staff, and the Investment Advisory Council have conducted detailed analyses of each of the funds under the SBI's control that address investment objectives, asset allocation policy and management structure. These studies guide the on-going management of these funds and are updated periodically.

### **Important Notes**

Readers should note that the SBI's returns in this report are shown *after* transactions costs and fees are deducted. Performance is computed and reported after all applicable charges to assure that the Board's focus is on true net returns.

Due to the large number of individual securities owned by the funds managed by the SBI, this report contains only summarized asset listings. **A complete list of securities is available upon request from the State Board of Investment.**



## Funds Under Management

Market Value  
June 30, 2001

### Basic Retirement Funds

\$18.6 billion

The Basic Retirement Funds contain the pension assets of the currently working participants in eight statewide retirement plans:

Teachers Retirement Fund	\$7.054 billion
Public Employees Retirement Fund	4.476 billion
State Employees Retirement Fund	4.169 billion
Public Employees Police and Fire Fund	2.322 billion
Highway Patrol Retirement Fund	246 million
Correctional Employees Fund	258 million
Judges Retirement Fund	28 million
Public Employees Correctional Fund	22 million

### Post Retirement Fund

\$19.4 billion

The Post Retirement Investment Fund is composed of the reserves for retirement benefits to be paid to retired employees. Life-time retirement benefit increases are permitted based on both inflation and investment performance.

### Supplemental Investment Fund

\$1.6 billion

The Supplemental Investment Fund includes assets of the state deferred compensation plan, the unclassified state employees retirement plan, other defined contribution retirement plans, and various retirement programs for local police and firefighters. Participants may choose among seven separate accounts with different investment objectives designed to meet a wide range of participant needs and objectives.

Income Share Account	stocks and bonds	\$585 million
Common Stock Index Account	passively managed stocks	363 million
Growth Share Account	actively managed stocks	264 million
Bond Market Account	actively managed bonds	132 million
Fixed Interest Account	stable value investments	90 million
Money Market Account	short-term debt securities	93 million
International Share Account	non-U.S. stocks	40 million

### Non-Retirement Funds

\$2.0 billion

#### Assigned Risk Plan

\$0.3 billion

The Minnesota Workers Compensation Assigned Risk Plan provides worker compensation insurance for companies unable to obtain coverage through private carriers.

#### Permanent School Fund

\$0.5 billion

The Permanent School Fund is a trust established for the benefit of Minnesota public schools.

#### Environmental Trust Fund

\$0.3 billion

The Environmental Trust Fund is a trust established for the protection and enhancement of Minnesota's environment. It is funded with a portion of the proceeds from the state's lottery.

#### Tobacco Prevention Fund

\$0.6 billion

The distributions from the Tobacco Prevention Fund are used by the Commissioner of Health to fund public health initiatives.

## **Funds Under Management**

### **Medical Education Fund**

The distributions from the Medical Education Fund are used for medical education at the University of Minnesota medical school.

\$0.3 billion

### **State Cash Accounts**

These accounts are the cash balances of state government funds, including the Invested Treasurers Cash Fund, transportation funds, and other miscellaneous cash accounts. Assets are invested in high quality, liquid debt securities.

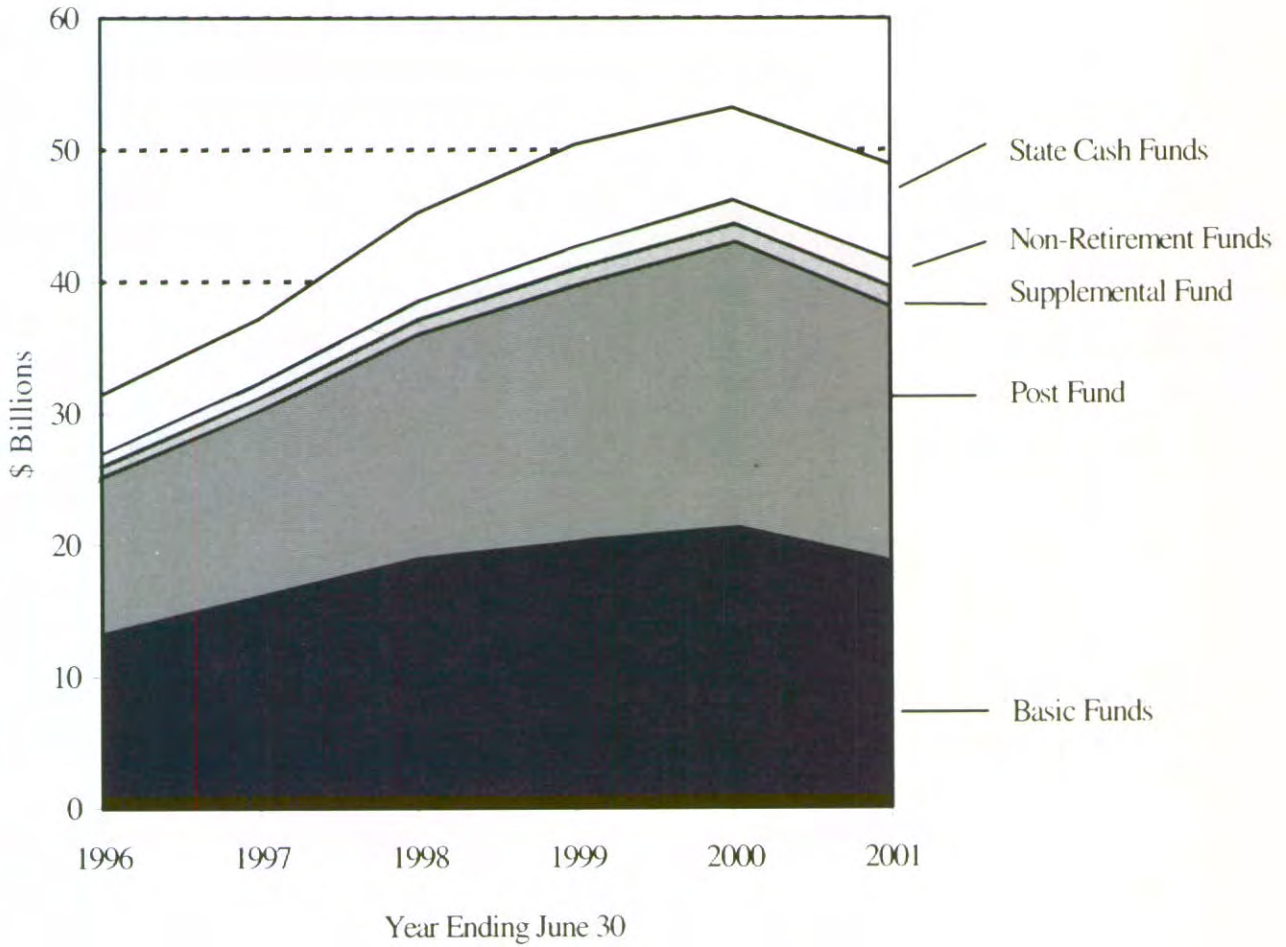
**\$7.3 billion**

### **Total Assets Under SBI Management**

**\$48.9 billion**



**Growth in Assets**  
Fiscal Years 1997 - 2001



## Combined Funds

**The "Combined Funds" represent the assets of both active and retired public employees who participate in the defined benefit plans of three state-wide retirement systems: Teachers Retirement Association (TRA), Public Employees Retirement Association (PERA) and the Minnesota State Retirement System (MSRS). On June 30, 2001, the Combined Funds had a market value of \$38.0 billion.**

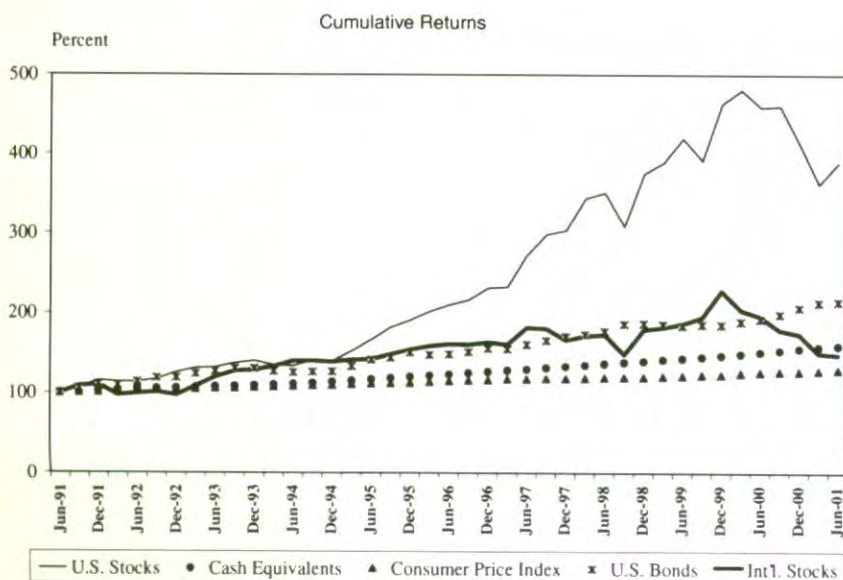
The Combined Funds are so named because they represent the combined assets of both the Basic Retirement Funds (the funds for active employees) and Post Retirement Fund (the fund for retired employees). Unlike most other public and corporate pension plans, the assets of active and retired employees are separated under statute and therefore managed and accounted for separately. More information on the structure and performance of the Basic and Post Funds is contained in the following chapters.

While the Combined Funds do not exist under statute, the Board finds it instructive to review asset mix and performance of all defined benefit pension assets under its control. This more closely parallels the structure of other public and corporate pension plan assets and therefore allows for more meaningful comparison with other pension fund investors. The comparison universe used by the SBI is the Master Trust portion of the Trust Universe Comparison Service (TUCS). This universe contains information on public and corporate pension and trust funds with a balanced asset mix and over \$1 billion in size.

**It is important to note that the historical data on the Combined Funds presented in this report reflect only the Basic Retirement Funds through fiscal year 1993. Both the Basic and Post Funds are included thereafter.**

This distinction is necessary due to the very different asset allocation strategies employed by the two funds in the past. The Basic Funds have always been managed to maximize total rates of return over the long-term and, therefore, its asset allocation has historically included a substantial stock segment. In contrast, until the post retirement benefit increase formula was changed in 1993, the Post Retirement Fund was managed to maximize current income which necessitated a large commitment to bonds. As a result, the investment goals of the two funds were incompatible for analytical purposes until fiscal year 1994.

Figure 1. Performance of Capital Markets FY 1992-2001



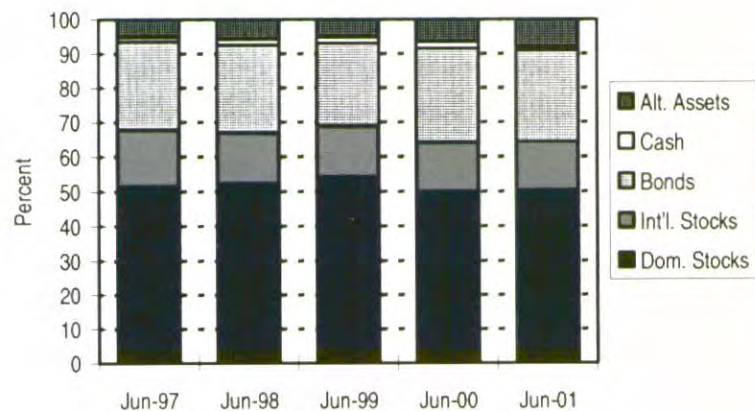


## Combined Funds

### Asset Allocation

As illustrated in Figure 1 on the prior page, historical evidence strongly indicates that common stocks will provide the greatest opportunity to maximize investment returns over the long-term. As a result, the Board has chosen to incorporate a large commitment to common stocks in its asset allocation policy for the retirement funds. In order to limit the short run volatility of returns exhibited by common stocks, the Board includes other asset classes such as bonds and alternative investments in the total portfolio. These assets diversify the Funds and reduce wide fluctuations in investment returns on a year to year basis. This diversification should not impair the Funds' ability to meet or exceed their actuarial return targets over the long-term.

Figure 3. Historical Asset Mix FY 1997-2001

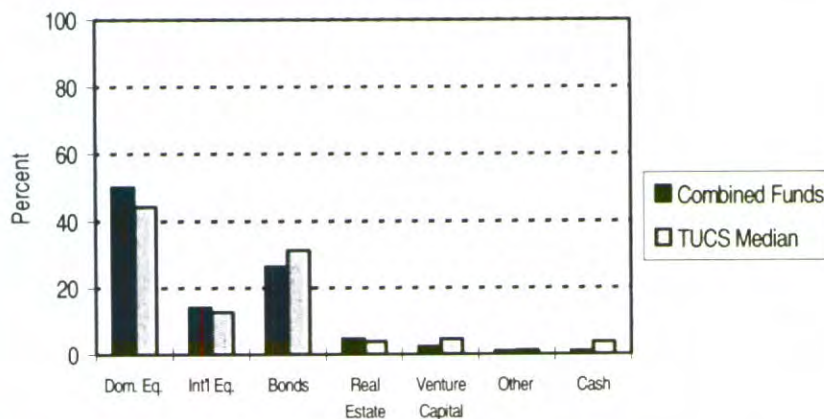


### Asset Mix Compared to Other Pension Funds

Comparisons of the Combined Funds' actual asset mix to the median allocation to stocks, bonds and other assets of the funds in TUCS on June 30, 2001 are displayed in

Figure 2. It shows that the Combined Funds were overweighted in domestic and international equities relative to the median allocation in TUCS and underweighted in their allocation to bonds. Historical data on the Combined Funds' asset mix is shown in Figure 3.

Figure 2. Asset Mix Comparison as of June 30, 2001



	Combined Funds	Median Allocation in TUCS*
Domestic Equity	50.3%	44.4%
International Equity	14.1	12.7
Bonds	26.5	31.3
Real Estate	4.7	3.9
Private Equity	2.4	4.5
Other**	1.0	1.1
Cash	1.0	3.8

\* Represents the median allocation by asset class, and does not add to 100%.

\*\* Other reflects the Resource investments in the Combined Funds; and, all other assets in TUCS.

### Return Objectives

The Combined Funds are evaluated relative to three total rate of return objectives:

- **Provide Real Returns.** Over a ten year period, the Combined Funds are expected to produce returns that exceed inflation by 3-5 percentage points on an annualized basis.
- **Exceed Median Fund Returns.** Over a five year period, the Combined Funds are expected to outperform the return of the median fund in a representative universe of other large public and corporate pension and trust funds with a balanced asset mix of stocks and bonds. As noted earlier, the universe used by the SBI is the Master Trust portion of TUCS and includes funds with assets of more than \$1 billion. All funds in TUCS report their returns gross of fees. For purposes of the TUCS



## Combined Funds

comparison, the SBI returns are ranked on a gross of fees rather than a net of fees basis.

- **Exceed Market Returns.** Over a five year period, the Combined Funds are expected to outperform a composite of market indices weighted using the asset mix of the Combined Funds.

### Investment Results

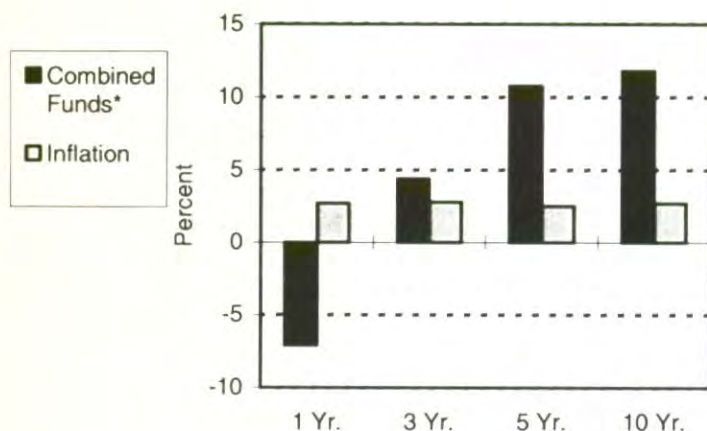
#### Comparison to Inflation

Over the last ten years, the Combined Funds exceeded inflation by 9.1 percentage points, an amount well in excess of the return objective cited above. Historical results compared to inflation are shown in Figure 4.

#### Comparison to Other Funds

While the SBI is naturally concerned with how its returns compare to other pension investors, universe

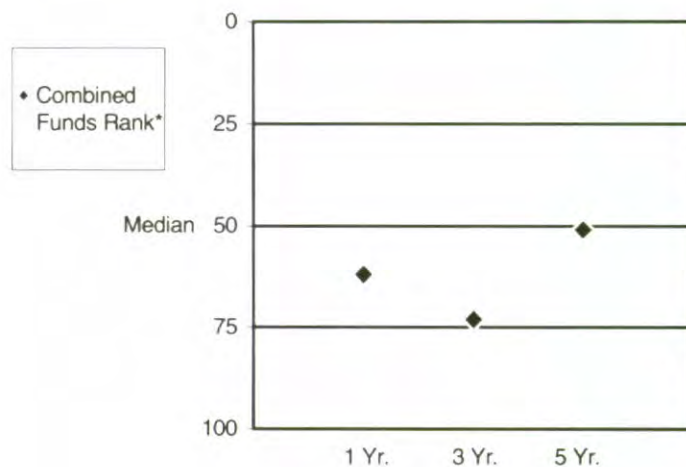
Figure 4. Combined Funds Performance vs. Inflation



	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds*	-7.1%	4.4%	10.8%	11.8%
Inflation	3.3%	3.0	2.6	2.7

\*After fees. Includes Basic Funds only through 6/30/93, Basic and Post Funds thereafter.

Figure 5. Combined Funds Performance Compared to Other Pension Funds



	1 Yr.	3 Yr.	5 Yr.
Combined Funds Percentile Rank in TUCS*	62 <sup>nd</sup>	73 <sup>rd</sup>	51 <sup>st</sup>

\*Compared to public and corporate plans greater than \$1 billion, gross of fees.

comparison data should be used with great care. There are two primary reasons why such comparisons will provide an "apples-to-oranges" look at performance:

- **Differing Allocations.** Asset allocation has a dominant effect on returns. The allocation to stocks among the funds in TUCS typically ranges from 20-90%, a very wide range for meaningful comparison. In addition, it appears that many funds do not include alternative asset holdings in their reports to TUCS. This further distorts comparisons among funds.
- **Differing Goals/Liabilities.** Each pension fund structures its portfolio to meet its own liabilities and risk tolerance. This may result in different choices on asset mix. Since asset mix will largely determine investment results, a universe ranking may not be relevant to a discussion of how well a plan sponsor is meeting its long-term liabilities.



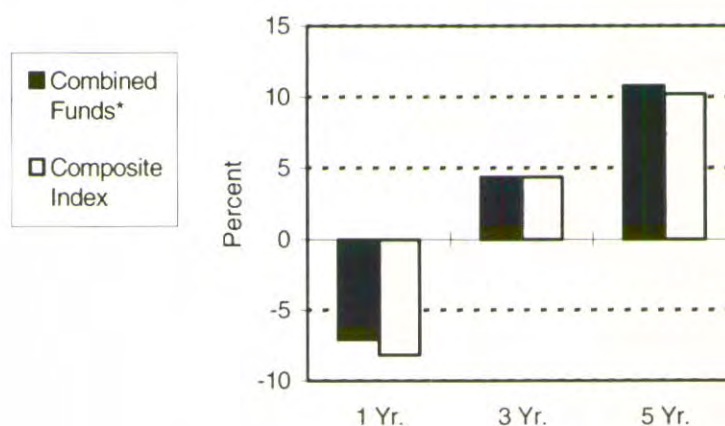
## Combined Funds

With these considerations in mind, the performance of the Combined Funds compared to other public and corporate pension funds with over \$1 billion in assets in the Master Trust portion of TUCS is displayed in Figure 5 on the previous page. It shows that the Combined Funds have ranked in the third quartile of the comparison universe over the last one year, three year, and five year periods.

### Comparison to Market Returns

The Combined Funds' performance is also evaluated relative to a composite of market indices which is weighted in a manner that reflects the actual asset allocation of the Combined Funds. Performance results and a breakdown of the composite index are shown in Figure 6. The Combined Funds exceeded the composite index by 0.6 percentage point over the last five years and, therefore, met their stated performance goal. The Funds matched the composite index over the last three years, and exceeded the composite index by 1.1 percentage points over the most recent fiscal year. These results are largely a measure of value added or lost from active management after all fees and expenses have been taken into consideration.

Figure 6. Combined Funds Performance vs. Composite Index



	Annualized		
	1 Yr.	3 Yr.	5 Yr.
Combined Funds*	-7.1%	4.4%	10.8%
Composite Index	-8.2	4.4	10.2

\* After fees.

### Composite Index for Period Ending on June 30, 2001

Asset Class	Market Index	Composite Index Wts.*
Domestic Stocks	Wilshire 5000 Investable	48.3%
Int'l. Stocks	Int'l. Composite**	15.0
Domestic Bonds	Lehman Aggregate	26.4
Alternative Assets	Real Estate Funds	2.5
	Private Equity	4.9
	Resource Funds	0.9
Unallocated Cash	3 Month T-Bills	2.0
Total		100.0%

\* Weights are reset in the composite at the start of each month to reflect the combined allocation policies of the Basic and Post Funds.

\*\* Composite of MSCI EAFE Free and MSCI Emerging Markets Free.



## Basic Retirement Funds

**The Basic Retirement Funds accumulate the retirement assets of public employees during their working years. On June 30, 2001, the Funds covered nearly 352,000 active employees and had a market value of \$18.6 billion.**

Figure 7 identifies the eight different retirement funds which comprise the Basic Funds. The Basic Funds invest the pension contributions that employees and employers make to defined benefit pension plans during the employees' years of active service.

### Investment Objectives

The State Board of Investment (SBI) has one overriding responsibility with respect to its management of the Basic Funds: to ensure that sufficient funds are available to finance promised benefits at the time of retirement.

### Actuarial Assumed Return

Employee and employer contribution rates are specified in state law as a percentage of an employee's salary.

The rates are set so that contributions plus expected investment earnings will cover the projected cost of the initially promised pension benefits. In order to meet these projected pension costs, the Basic Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

### Time Horizon

Normally, pension assets will accumulate in the Basic Retirement Funds for thirty to forty years during an employee's years of active service. This provides the Basic Funds with a long investment time horizon and permits the Board to take advantage of the long run return opportunities offered by common stocks and other equity investments in order to meet its actuarial return target.

### Return Objective

The Board measures the performance of the Basic Retirement Funds relative to a composite of market indices that is weighted using their long-term asset allocation policy. The Basic Funds are expected to exceed their composite index over a five year period. *Performance is reported net of all fees and costs* to assure that the Board's focus is on its true net return.

### Asset Allocation

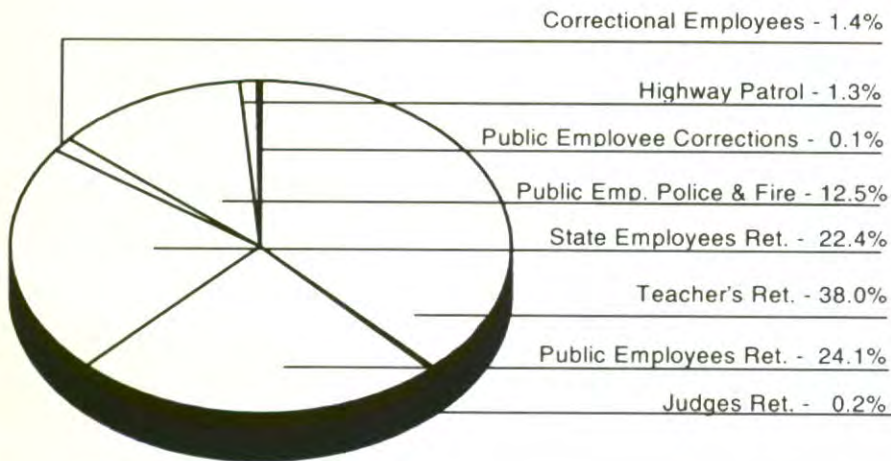
The allocation of assets among stocks, bonds, alternative investments and cash can have a dramatic impact on investment results. In fact, asset allocation decisions overwhelm the impact of individual security selection within a total portfolio. The asset allocation of the fund is under constant review. No significant changes were made during fiscal year 2001.

### Long-Term Allocation Policy

Based on the Basic Funds' investment objectives and the expected long run performance of the capital markets, the Board has adopted the following long-term asset allocation policy for the Basic Funds:

Domestic Stocks	45%
International Stocks	15
Bonds	24
Alternative Assets	15
Unallocated Cash	1

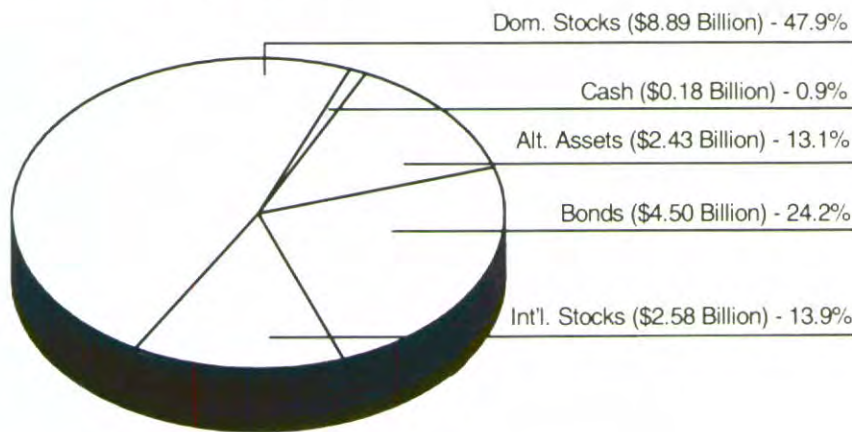
Figure 7. Composition of Basic Funds as of June 30, 2001





## Basic Retirement Funds

Figure 8. Asset Mix as of June 30, 2001



Notes: Percentages may differ slightly due to rounding of values. Uninvested portions of the allocation to Alternative Assets are held in Domestic Stocks.

It should be noted that the unfunded allocation to alternative investments in the Basic Funds is held in domestic stocks until it is needed for investment. As a result, the actual amount invested in domestic stocks was above its long-term target.

Figure 8 presents the actual asset mix of the Basic Funds at the end of fiscal year 2001. Historical asset mix data are displayed in Figure 9.

### Total Return Vehicles

The SBI invests the majority of the Basic Funds' assets in **common stocks** (both domestic and international). A large allocation is consistent with the investment time horizon of the Basic Funds and the advantageous long-term risk-return characteristics of common stocks. Including international stocks in the asset mix allows the SBI to diversify its holdings across world markets and offers the opportunity to enhance returns and reduce the risk/volatility of the total portfolio. The rationale underlying the inclusion of **private equity** (e.g., venture capital) is similar. However, the relatively smaller size of the private equity market presents a practical limit to

the amount that may be invested in this asset class.

The Board recognizes that this sizable policy allocation to common stock and private equity likely will produce more volatile portfolio returns than a more conservative policy focused on fixed income securities. It is understood that this policy may result in quarters, or even years, of disappointing results. Nevertheless, the long run return benefits of this policy are expected to

compensate for the additional volatility.

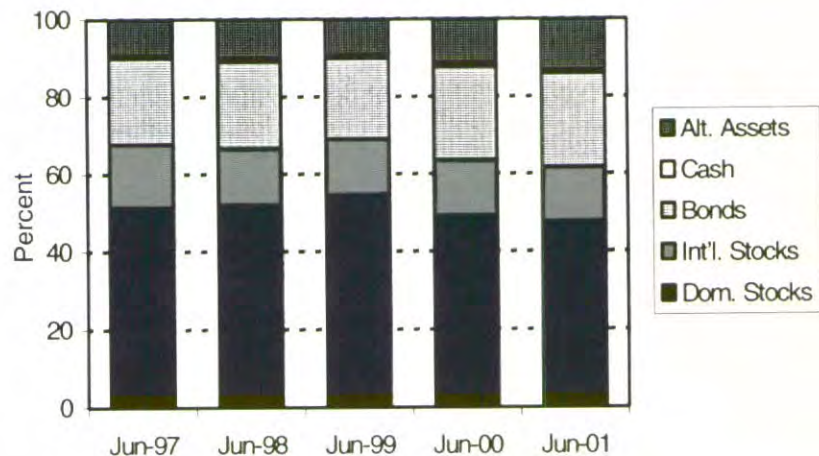
### Diversification Vehicles

The Board includes other asset classes in the Basic Funds both to provide some insulation against highly inflationary or deflationary environments and to diversify the portfolio sufficiently to avoid excessive return volatility.

**Real Estate** and **resource** (oil and gas) investments provide an inflation hedge that other financial assets cannot offer. In periods of rapidly rising prices, these assets have appreciated in value at a rate at least equal to the inflation rate. Further, even under more normal financial conditions, such as low to moderate inflation, the returns on these assets are not highly correlated with common stocks. As a result, their inclusion in the Basic Funds serves to dampen return volatility.

The allocation to **bonds** acts as a hedge against a deflationary economic environment. In the event of a major deflation, high quality fixed income assets, particularly long-term bonds, are expected to protect principal and generate significant capital gains. And, like

Figure 9. Historical Asset Mix FY 1997-2001





## Basic Retirement Funds

real estate and resource funds, under normal financial conditions, bonds help to diversify the Basic Funds, thereby controlling return volatility.

### Investment Management

All assets in the Basic Retirement Funds are managed externally by outside money management firms retained by contract. In order to gain greater operating efficiency, the Basic Funds share the same domestic stock, international stock, and bond managers with the Post Fund.

More information on the structure, management and performance of these pools of managers is included in the **Investment Pool** section of this report.

### Investment Performance

As stated earlier, the Basic Funds are expected to exceed the return of a composite of market indices over a five year period. Performance

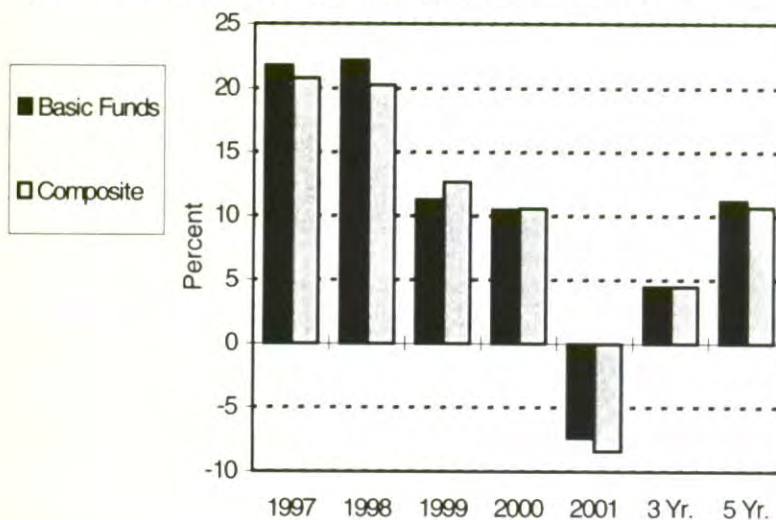
relative to this standard will measure two effects:

- The ability of the managers selected by the SBI, in aggregate, to add value to the returns available from the broad capital markets.
- The impact of the SBI's re-balancing activity. The SBI rebalances the total fund when market movements take the stock or bond segments above or below long term asset allocation targets. This policy imposes a low risk discipline of "buy low-sell high" between asset classes on a total fund basis.

For the five year period ending June 30, 2001, the Basic Funds out-performed the composite index by 0.5 percentage point annualized. The Fund matched the composite index over the last three years, and exceeded the composite index by 1.0 percentage point over the most recent

fiscal year. Actual returns relative to the total fund composite index over the last five years are shown in Figure 10.

Figure 10. Basic Funds' Performance vs. Composite Index FY 1997-2001



	1997	1998	1999	2000	2001	Annualized 3 Yr.	Annualized 5 Yr.
Basic Funds	21.8%	22.2%	11.3%	10.5%	-7.4%	4.5%	11.2%
Composite Index	20.8	20.3	12.7	10.6	-8.4	4.5	10.7



## Post Retirement Fund

**The assets of the Post Retirement Fund are used to finance monthly annuities to retired public employees. These annuities may be adjusted upwards over the life of a retiree based on a formula that reflects both inflation and investment performance. On June 30, 2001, the Post Fund had a market value of \$19.4 billion and more than 111,000 retiree participants.**

The Post Retirement Fund includes the assets of retired public employees covered by nine statewide retirement plans; the eight plans which participate in the Basic Retirement Funds as well as the Legislative and Survivors Retirement Fund.

### Benefit Increase Formula

The retirement benefit increase formula of the Post Retirement Fund is based on a combination of two components:

- **Inflation Component.** Each year, retirees receive an inflation-based adjustment equal to 100% of inflation, up to a maximum specified in statute. The inflation component is granted regardless of investment performance. The cap is necessary to maintain the actuarial soundness of the entire plan. It is the difference between the return assumption for the Basic Funds, and the return assumption for the Post Fund.

The return assumption in the Basic Funds is 8.5%. The return assumption for the Post Fund was 5.0% through fiscal year 1997. In fiscal year 1998, the return assumption for the Post Fund was changed to 6.0%. This means the cap on the inflation adjustment was 3.5% for fiscal years 1993-1997. From fiscal year 1998 forward, the inflation cap will be 2.5%. Retirees were

given a one time permanent adjustment in their pension to compensate them for the reduction in the inflation adjustment cap.

- **Investment Component.** Each year, retirees can also receive an investment-based adjustment, provided net investment gains are above the amount needed to finance the Post Fund's actuarial assumption and the inflation adjustment. Investment gains and losses are spread over five years to smooth out the volatility of returns. In addition, all accumulated investment losses must be recovered before an

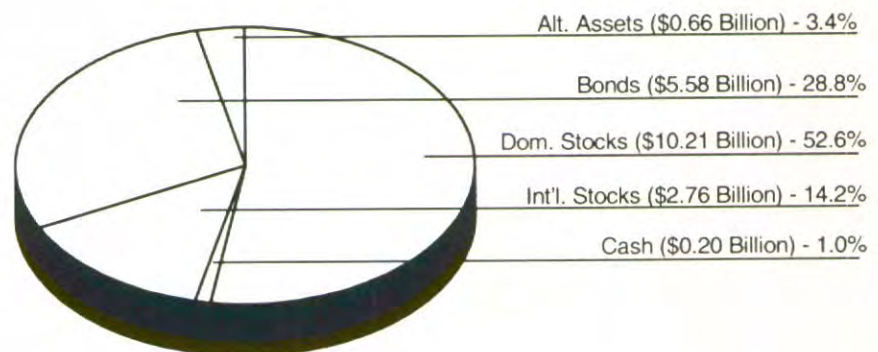
investment-based adjustment is granted.

### Investment Objective

#### Time Horizon

The time horizon of the Post Fund is 15 to 20 years and corresponds to the length of time a typical retiree can be expected to draw benefits. While this is shorter than the time horizon of the Basic Funds, it is still sufficiently long to allow the Board to take advantage of the long run return opportunities offered by common stocks in order to meet its actuarial return target as well as to finance retirement benefit increases.

Figure 11. Asset Mix as of June 30, 2001



Notes: Percentages may differ slightly due to rounding of values. Uninvested portions of the Alternative Assets allocation are held in Bonds.



## Post Retirement Fund

### Return Objective

The Board measures the performance of the Post Retirement Fund relative to a composite of market indices using its long-term asset allocation policy. The Post Fund is expected to exceed its composite index over a five year period. *Performance is reported net of all fees and costs* to assure that the Board's focus is on true net return.

### Asset Allocation

The current long-term asset allocation for the Post Fund is as follows:

Domestic Stocks	50%
Int'l. Stocks	15
Bonds	27
Alternative Assets	5
Unallocated Cash	3

The Post Fund's year-end asset mix is presented in Figure 11 on the previous page. Historical asset mix data are shown in Figure 12.

The SBI invests the majority of the Post Fund's assets in *common stocks* (both domestic and international). A large allocation is consistent with the moderately long time horizon of the Post Fund and the advantageous long term risk-return characteristics of common stocks. Including international stocks in the asset mix allows the SBI to diversify its holdings across world markets and offers the opportunity to enhance returns and reduce the risk/volatility of the total portfolio.

As with the Basic Funds, the Board recognizes that this sizable allocation will be likely to produce more volatile portfolio returns than a more conservative policy focused on fixed income securities. It is understood that this policy may result in quarters, or even years, of disappointing

results. Nevertheless, the long run return benefits of this policy are expected to compensate for the additional volatility. The asset allocation is under constant review. No substantial change occurred during fiscal year 2001.

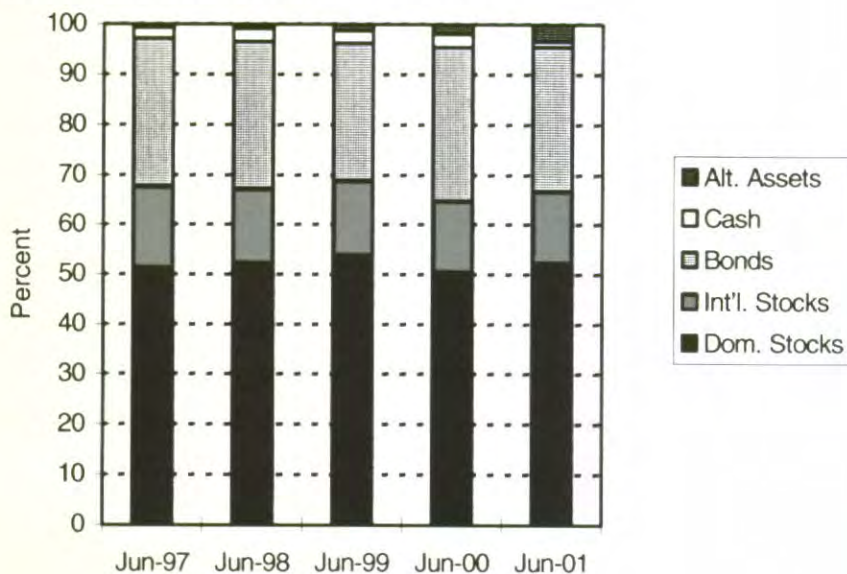
### Diversified Vehicles

The Board includes other asset classes in the Post Fund both to provide some insulation against highly deflationary environments and to diversify the portfolio sufficiently to avoid excessive return volatility.

The *bonds* in the Post Fund act as a hedge against a deflationary economic environment. In the event of a major deflation, high quality fixed income assets, particularly long term bonds, are expected to protect principal and generate significant gains. And, under more normal financial conditions, bonds diversify the Post Fund, thereby controlling return volatility on a year-to-year basis.

*Yield oriented alternative investments* provide the opportunity for higher long term returns than those typically available from bonds yet still generate sufficient current income to be compatible with the objectives of the Post Fund. Typically, these investments (e.g. business loan participations, mortgage loan participations and income producing private placements) are structured more like fixed income securities with the opportunity to participate in the appreciation of the underlying assets. While these investments may have an equity component, they display a return pattern more like a bond. As such, they will help reduce the volatility of the total portfolio but should also generate higher returns relative to more traditional bond investments.

Figure 12. Historical Asset Mix FY 1997-2001





## Post Retirement Fund

While the Board made several commitments to yield oriented alternative investments during the year, the market value of the alternative segment was only 3.4% of the total fund on June 30, 2001. The Board expects this percentage to increase gradually over the next three to five years. Until appropriate vehicles are identified, the uninvested portion of the alternative asset allocation is held in bonds. As a result, the actual amount invested in bonds was above its long-term target.

### Investment Management

In order to gain greater operating efficiency, the Basic and Post Funds share the same domestic stock, bond and international stock managers.

More information on the structure, management and performance of these pools of managers is included in the **Investment Pool** section of this report.

### Investment Performance

#### Total Fund Performance

As stated earlier, the Post Fund is expected to exceed the return of a composite of market indices over a five year period. The Post Fund's performance exceeded its composite market index by 0.6 percentage point for the most recent five year period. The fund matched the composite index over the last three years, and exceeded the composite index by 1.1 percentage points over the most recent fiscal year.

Actual returns relative to the total fund composite index over the last five years are shown in Figure 13.

#### Benefit Increase

The Post Fund will provide a benefit increase of 4.5% for fiscal year 2001 payable beginning January 1, 2002. As noted earlier, this increase is comprised of two components:

- **Inflation component** of 2.5% which is the maximum increase

Figure 14. Historical Benefit Increases Granted

Fiscal Year*	Benefit Increase
1992**	4.6
1993	6.0
1994	4.0
1995	6.4
1996	8.0
1997	10.1
1998	9.8
1999	11.1
2000	9.5
2001	4.5

\* Payable beginning January 1, of the following calendar year.

\*\* Benefit increase granted under the previous formula.

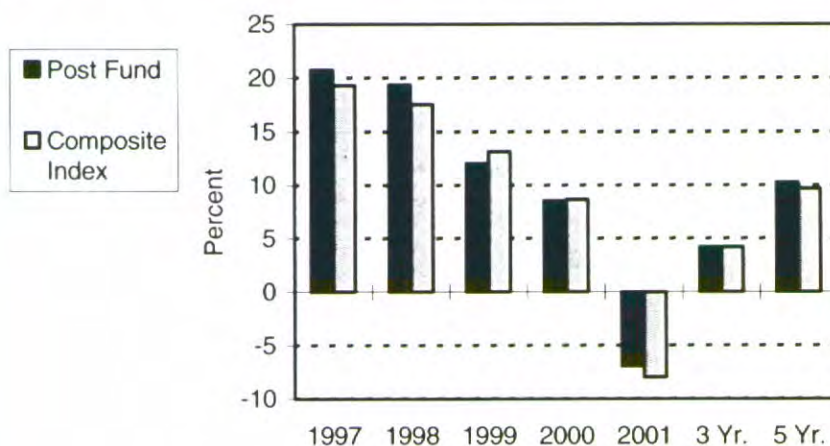
allowed by law. The increase in the Consumer Price Index for wage earners (CPI-W) for the twelve months ending June 30, 2001 exceeded 2.5%. (This is the same inflation index used to calculate increases in Social Security payments).

- **Investment component** of 2.0% This represents a portion of the market value increase that exceeds the amount needed to cover the actuarial assumed rate of return (6.0% beginning FY98) and the inflation adjustment.

Benefit increases for the past ten years are shown in Figure 14. Prior to fiscal year 1993, the benefit increase formula was dependent on the level of excess realized income generated by the Post Fund.

More detail on the calculation for the fiscal year 2001 benefit increase is included in the **Statistical Data** section.

Figure 13. Post Fund's Performance vs. Composite Index FY 1997-2001



	1997	1998	1999	2000	2001	Annualized 3 Yr.	Annualized 5 Yr.
Post Fund	20.8%	19.4%	12.1%	8.6%	-6.9%	4.2%	10.3%
Composite Index	19.3	17.6	13.2	8.7	-8.0	4.2	9.7



## Investment Pools

*To gain greater operating efficiency, external managers are grouped into several "Investment Pools" which are segregated by asset class. The various retirement funds participate in one or more of the pools corresponding to their individual asset allocation strategies.*

The Basic Retirement Funds, Post Retirement Fund and Supplemental Investment Fund share many of the same stock and bond managers. This is accomplished by grouping managers together, by asset class, into several Investment Pools. The individual funds participate in the Investment Pools by purchasing "units" which function much like shares of a mutual fund.

This investment management structure allows the State Board of Investment (SBI) to gain greater operating efficiency within asset classes and to keep management costs as low as possible for all participants.

### Domestic Stock Pool

The Basic Retirement Funds have participated in the Domestic Stock Pool since its inception in January 1984. The Post Retirement Fund has participated in the Pool since July 1993. In addition, the Growth Share Account, Common Stock Index Account, and the stock portion of the Income Share Account in the Supplemental Investment Fund have utilized a portion of the Pool.

As of June 30, 2001, the dollar value of each fund's participation in the Pool was:

Basic Funds           \$8.9 billion  
(active, passive and semi-passive)

Post Fund           \$10.2 billion  
(active, passive and semi-passive)

Growth Share  
Account           \$264 million  
(active and semi-passive)

Common Stock  
Index Account   \$363 million  
(passive)

Stock portion of  
the Income Share  
Account           \$361 million  
(passive)

#### Management Structure

The SBI uses a three-part approach to the management of the Domestic Stock Pool:

— **Active Management.** At the end of fiscal year 2001, approximately 34% of the Domestic Stock Pool was actively managed by a group of external money managers. The assets allocated to each of eight managers ranged from \$590 million to \$1.3 billion.

In addition, the actively managed segment of the Pool includes eleven managers in the SBI's Emerging Manager Program. Emerging Managers have portfolios of \$35 to \$165 million which, in aggregate, gives the Emerging Manager Program about the same weight as an average single manager in the active manager program.

— **Semi-Passive Management.** At the end of fiscal year 2001, approximately 33% of the Domestic Stock Pool was managed by a group of three semi-passive external money

managers with portfolios ranging from \$1.9 to \$2.5 billion.

— **Passive Management.** At the end of fiscal year 2001, approximately 33% of the Stock Pool was managed passively by a single manager with a portfolio of \$6.4 billion.

The goal of the Domestic Stock Pool is to add value to the asset class target which is the Wilshire 5000 Investable. Each active manager is expected to add incremental value over the long run relative to a customized benchmark which reflects its unique investment approach or style.

This type of active manager structure can result in misfit or style bias. "Misfit" can be defined as the difference between the aggregate benchmarks of the active managers and the asset class target. Some examples of misfit that the SBI could experience are the following:

- an over-exposure to mid and small-capitalization stocks and an under-exposure to large capitalization stocks;
- an over-exposure to growth oriented stocks and an under-exposure to value oriented stocks; or
- an over-exposure to the consumer non-durable sector and an under-exposure in the utility sector.



## Investment Pools

The SBI attempts to compensate for active manager misfit through the use of a **completeness fund**. A

“completeness fund” is so named because it is intended to fill in, or complete, any areas of market exposure that are not being covered by the aggregate benchmarks of the active managers. This strategy is designed to allow the value added by individual active managers to benefit the total Domestic Stock Pool. It should also result in a decrease in the volatility of returns for the entire Domestic Stock Pool relative to the asset class target since it negates the impact of style bias within the active manager group.

The SBI’s completeness fund was passively managed when it was first introduced in October 1990 until December 1994. During fiscal year 1995, the completeness fund moved from being entirely passively managed to a structure that was half passive/half semi-passive. At the start of fiscal year 1996, the completeness fund was allocated entirely to semi-passive management. Semi-passive approaches provide the potential to outperform the completeness fund benchmark, but also incorporate procedures that constrain the level of risk/volatility relative to the benchmark.

During fiscal year 1997, several current active managers modified their investment processes in order to increase the probability of producing value added in their portfolios. Five managers (Alliance, Forstmann, Franklin, Lincoln, and Oppenheimer) were asked to increase the level of active risk in their portfolio resulting in a reduction in the number of issues held at any one time. During fiscal year 2000, Brinson was asked to eliminate investments in small post-venture companies (about 7% of their portfolio) and to increase the active risk in their portfolio as well. In effect, these managers now hold more concentrated portfolios and make

larger bets on their “best” stock ideas.

A description of each domestic stock manager’s investment approach is included in the **Investment Manager Summaries** section.

### FY 2001 Changes

During June 2001, one manager (CIC Asset Management) was terminated.

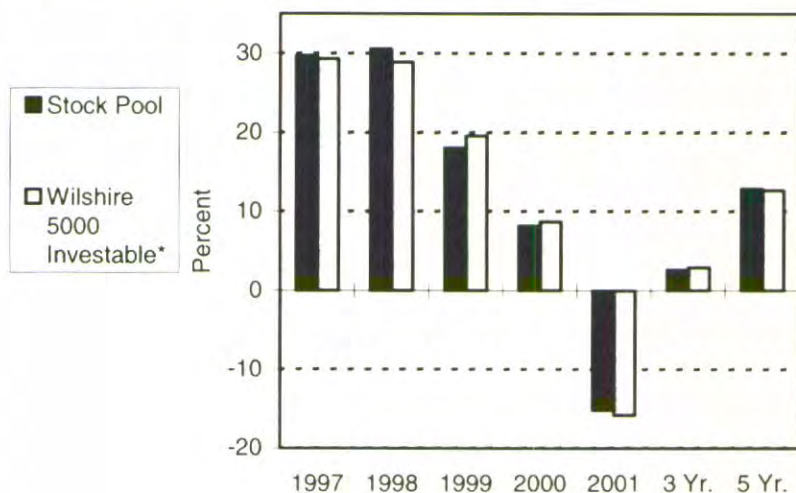
### Investment Performance

A comprehensive monitoring system has been established to ensure that the many elements of the Domestic Stock Pool conform to the SBI’s investment policies. Customized performance benchmarks have been developed for each active, emerging and semi-passive stock manager. These benchmarks enable the SBI to evaluate the managers’ results, both individually and in aggregate, with respect to risk incurred and returns achieved.

Two primary long run **risk objectives** have been established for the domestic stock managers:

- **Investment Approach.** Each manager (active, emerging, semi-passive, or passive) is expected to hold a portfolio that is consistent, in terms of risk characteristics, with the manager’s stated investment approach. In the short run, the active stock managers may depart from their risk targets as part of their specific investment strategies.
- **Diversification.** The passive and semi-passive managers are expected to hold highly diversified portfolios, while each active domestic stock manager is expected to hold a less diversified portfolio.

Figure 15. Domestic Stock Pool Performance FY 1997-2001



	1997	1998	1999	2000	2001	3 Yr. Annualized	5 Yr. Annualized
Stock Pool	29.7%	30.6%	18.1%	8.2%	-15.2%	2.7%	12.9%
Wilshire 5000 Investable*	29.3	28.9	19.6	8.6	-15.8	3.0	12.7

\* Reflects Wilshire 5000 as reported prior to FY 2000.



## Investment Pools

The domestic stock managers successfully fulfilled their long-term risk objectives during fiscal year 2001. In general, the managers constructed portfolios consistent with their stated investment approaches and maintained levels of diversification that were appropriate to their respective active, semi-passive and passive approaches. The Board's *return objectives* for its active and semi-passive stock managers are measured against the performance of customized indices constructed to represent a manager's specific investment approach. This type of custom index is commonly referred to as a "benchmark portfolio." A benchmark portfolio takes into account the equity market forces that at times favorably or unfavorably impact certain investment styles. Thus, an individual custom benchmark is a more appropriate return target against which to judge a manager's performance than a broad market index.

Individual active managers are expected to exceed their custom benchmark by 0.50-1.00 percentage point annualized, over time. The semi-passive managers are expected to exceed their benchmark by 0.15-0.30 percentage point, over time, and the passive manager is expected to track its index within  $\pm 0.10$  percentage point annualized, over time.

In aggregate, the Domestic Stock Pool outperformed the Wilshire 5000 Investable by 0.6 percentage point for the fiscal year. The active component underperformed their benchmarks; however, both the semi-passive and passive components outperformed their respective targets. Relative to their aggregate benchmarks, the active manager group's underperformance was due to negative security selection. The semi-passive managers outperformed due to an overweight in value oriented

Figure 16. Domestic Stock Manager Performance FY 2001

	Actual Return	Benchmark Return
<b>Active Managers</b>		
Alliance Capital Management	-24.3%	-22.0%
Brinson Partners	14.6	-13.0
Cohen Klingenstein & Marks	-14.4	-19.1
FLA Asset Management	-14.4	14.9
Franklin Portfolio Associates	2.9	-1.1
GeoCapital	-29.6	-11.1
Lincoln Capital Management	-42.8	-35.9
Oppenheimer Capital	12.3	4.2
<b>Semi-Passive Managers</b>		
Barclays Global Investors	-15.9	-19.8
Franklin Portfolio Associates	-17.8	-19.8
J.P. Morgan Investment Mgmt.	-15.8	-19.8
<b>Passive Manager</b>		
Barclays Global Investors	-15.2	-15.8
<b>Aggregate Stock Pool*</b>		
	<b>-15.2</b>	
<b>Asset Class Target</b>		
Wilshire 5000 Investable	-15.8	

\* Includes Emerging Manager Program, see below.

Figure 17. Emerging Manager Performance FY 2001

	Actual Return	Benchmark Return
Artemis Investment Management	-20.0%	1.9%
Bay Isle Financial Corp	2.3	5.2
Earnest Partners	-1.9	23.0
Holt-Smith & Yates Advisors	-8.2	2.3
New Amsterdam Partners	6.2	3.1
Next Century Growth Investors	-29.1	-20.3
Peregrine Capital Management	39.8	40.3
Valenzuela Capital Partners	9.3	15.1
Voyageur Capital Management	-8.7	-15.5
Winslow Capital Management	-3.5	-10.1
Zevenbergen Capital	-43.1	-21.1

stock issues during a period when growth stocks performed poorly. The passive segment outperformed due to positive tracking during the year. Figure 15 provides more detail on the historical performance of the entire pool.

While Fiscal Year 2001 returns for the Pool exceeded the returns available from the domestic stock market, individual manager performance relative to their respective benchmarks was mixed. Four active managers outperformed



## Investment Pools

their benchmarks while four underperformed. All three semi-passive managers outperformed the completeness fund benchmark and the passive manager outperformed its target, the Wilshire 5000 Investable index. Individual manager performance for fiscal year 2001 is shown in Figure 16.

Performance data for the individual managers in the Emerging Manager Program are presented in Figure 17. The emerging managers also had mixed performance for the fiscal year. Three managers outperformed their benchmarks and eight managers underperformed.

Historical information on individual manager performance and portfolio characteristics is included in the **Statistical Data** section. Section II of the Annual Report provides **Summarized Asset Listings** for each manager and the Pool in aggregate.

## Bond Pool

The Basic Retirement Funds have participated in the Bond Pool since its inception in July 1984. The Post Retirement Fund has participated in the Pool since July 1993. In addition, the Bond Market Account in the Supplemental Investment Fund has utilized portions of the Pool since July 1986.

As of June 30, 2001, the dollar value of each fund's participation in the Pool was:

Basic Funds           \$4.5 billion  
(active and semi-passive)

Post Fund             \$5.6 billion  
(active and semi-passive)

Bond Market         \$132 million  
Account  
(active and semi-passive)

## Investment Management

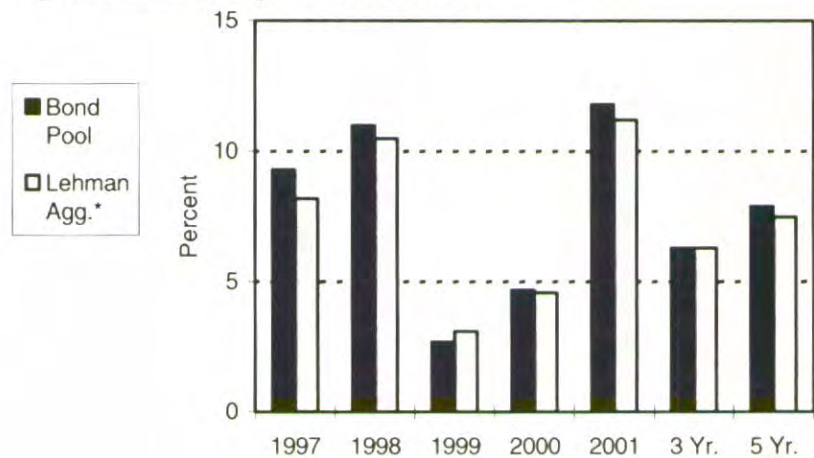
The SBI uses a two-part approach for the management of the Bond Pool:

- **Active Management.** No more than one-half of the Bond Pool will be actively managed. At the end of fiscal year 2001, approximately 50% of the Bond Pool was actively managed by a group of six external money managers with portfolios of \$290 million to \$1.5 billion each.
- **Semi-Passive Management.** At least one-half of the assets allocated to the Bond Pool will be managed by semi-passive managers. At the end of fiscal year 2001, approximately 50% of the bond segment was invested by three managers with portfolios of approximately \$1.7 billion each.

The group of **active** bond managers was selected for its blend of

investment styles. Each active manager has the goal of adding incremental value to the Lehman Aggregate Bond Index by focusing on high quality fixed income securities across all sectors of the market. The managers vary, however, in the emphasis they place on interest rate anticipation and in the manner in which they approach issue selection and sector weighting decisions. In keeping with the objective of utilizing the Bond Pool as a deflation hedge, the active managers are restricted regarding the duration of their portfolios. This requirement is designed to prevent the total Pool from assuming an excessively short-lived position and thus, severely diluting its deflation hedge capacity. In addition, the duration restriction helps to avoid extreme variability in total returns. The SBI constrains the duration range of the active managers' portfolios to a band of plus or minus two years around the

Figure 18. Bond Pool Performance FY 1997-2001



	1997	1998	1999	2000	2001	3 Yr. Annualized	5 Yr. Annualized
<b>Bond Pool</b>	9.3%	11.0%	2.7%	4.7%	11.8%	6.3%	7.9%
Lehman Aggregate*	8.2	10.5	3.1	4.6	11.2	6.3	7.5

\* Lehman Brothers Aggregate Bond Index.



## Investment Pools

duration of the Lehman Aggregate. Semi-passive managers' portfolios are constrained to plus or minus 0.2 years around the duration of the Lehman Aggregate. The active bond managers focus on high quality (BBB or better) rated bonds. Some managers have been granted authority to invest a limited portion of their portfolios in BB and B rated dollar denominated debt or in non-dollar denominated issues. The managers use this additional authority on a tactical basis.

The goal of the *semi-passive* managers is to add incremental value to the Lehman Brothers Aggregate Bond Index through superior bond selection and sector allocation. The managers essentially match the duration and maturity structure of the Lehman Aggregate. Semi-passive managers seek to add value by exploiting perceived mispricings among individual securities or by making alterations in the sector weightings within the portfolio. Although the managers seek to

exceed the performance of the index, the possibility exists that the semi-passive approach may slightly underperform the target index during some periods.

A description of each bond manager's investment approach is included in the **Investment Manager Summaries** section.

### FY 2001 Changes

During fiscal year 2001, one active manager (Standish, Ayer & Wood) was terminated by the Board. As of June 30, 2001, there are six active and three semi-passive managers in the bond pool.

### Investment Performance

The SBI constrains the *risk* of the active bond managers' portfolios to ensure that they fulfill their deflation hedge and total fund diversification roles. As noted earlier, the managers are restricted in terms of the duration of their portfolios and the quality of their fixed income investments.

The active and semi-passive bond

managers successfully fulfilled their long-term risk objectives during fiscal year 2001. The managers constructed portfolios consistent with their stated investment approaches and maintained appropriate levels of quality and duration.

The *returns* of each of the Board's bond managers are compared to the Lehman Aggregate. Due to the broad diversification of each manager, customized benchmarks are not deemed necessary for the bond managers at this time. Individual active managers are expected to exceed the target by 0.25 percentage point annualized, over time, and each semi-passive manager is expected to exceed the target by 0.10 percentage point annualized, over time.

In aggregate, the Pool exceeded the Lehman Aggregate benchmark by 0.6 percentage point for the recent fiscal year. Relative to the benchmark, the Pool was helped by an overweighting in the corporate and mortgage sectors and a corresponding underweight in Treasuries. The Pool's longer duration relative to the benchmark also helped performance over the fiscal year.

Performance over longer periods has been positive, meeting the benchmark's performance over the three-year period and exceeding the benchmark by 0.4 percentage point annualized over the five-year period ended June 30, 2001. In general, the decisions to hold portfolios with a modestly longer duration than the benchmark, overweight spread sectors and underweight Treasuries accounted for the outperformance over the longer term.

The relative performance of the active managers retained by the Board over the entire fiscal year was strong; five of the active managers exceeded the benchmark, while one lagged the benchmark. Two of the three semi-passive managers added

Figure 19. Bond Manager Performance FY 2001

	Actual Return	Benchmark Return
<b>Active Managers</b>		
American Express Asset Mgmt.	11.1%	11.2%
Deutsche Asset Mgmt.	11.8	11.2
Dodge & Cox Investment Mgmt.	12.9	11.2
Metropolitan West Asset Mgmt.	13.8	11.2
Morgan Stanley Investment Mgmt.	12.8	11.2
Western Asset Mgmt.	12.8	11.2
<b>Semi-Passive Managers</b>		
BlackRock Financial Mgmt.	11.1	11.2
Goldman Sachs Asset Mgmt.	11.4	11.2
Lincoln Capital Mgmt.	11.5	11.2
<b>Aggregate Bond Pool</b>	<b>11.8</b>	<b>11.2</b>
<b>Asset Class Target</b>		
Lehman Aggregate	11.2	



## Investment Pools

value during fiscal year 2001 while one lagged the benchmark.

Figure 18 shows historical performance for the entire Pool. Individual manager performance for fiscal year 2001 is shown in Figure 19.

Historical information on individual manager performance and portfolio characteristics is included in the **Statistical Data** section. Section II of this report provides **Summarized Asset Listings** for each manager and the Pool in aggregate.

### International Stock Pool

The SBI began its international stock program in October 1992. The Basic Retirement Funds have participated in the International Stock Pool since its inception. The Post Retirement Fund began utilizing the Pool in October 1993. The International Share Account in the Supplemental Investment Fund has participated in the Pool since September 1994.

On June 30, 2001, the dollar value of each fund's participation in the International Stock Pool was:

Basic Funds           \$2.6 billion  
(active and passive)

Post Fund             \$2.8 billion  
(active and passive)

International  
Share Account       \$40 million  
(active and passive)

#### Management Structure

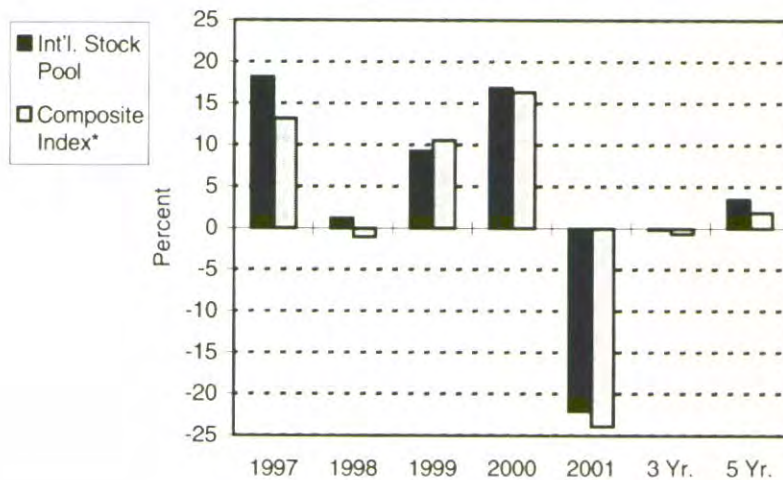
The SBI uses a two part approach to the management structure of the International Stock Pool:

— **Active Management.** The target is to have at least one-third of the International Stock Pool managed actively. At the end of fiscal year 2001, approximately 67% of the Pool was actively managed by a group of 13 external managers with portfolios ranging from \$100 to \$600 million each. Eight of these managers manage portfolios in the developed markets and five manage portfolios in the emerging markets.

— **Passive Management.** The target is to have at least one-third of the International Stock Pool managed passively. At the end of fiscal year 2001, approximately 33% of the International Stock Pool was passively managed by a single manager.

As of July 1, 1999, the SBI began using the combined market capitalization weights of the Morgan Stanley Capital International (MSCI) index of Europe, Australasia and the Far East Free (EAFE Free) and the MSCI Emerging Markets Free index as target weights for the developed versus emerging markets within the International Stock Portfolio. Eight of the **active** managers invest entirely in developed markets, and use a variety of investment approaches in an effort to maximize value added to the EAFE Free index, over time. These managers address currency management as part of their investment process. Their views on currency may be factored into their country and security selection, or they may explicitly hedge currency exposure on an opportunistic basis.

Figure 20. International Stock Pool Performance FY 1997-2001



	1997	1998	1999	2000	2001	Annualized	
Int'l. Stock Pool	18.2%	1.2%	9.3%	16.9%	-22.1%	-0.2%	3.5%
Composite Index*	13.2	-1.1	10.6	16.4	-23.9	-0.7	1.9

\* EAFE Free through 4/30/96. Composite of EAFE-Free and Emerging Markets Free since 5/1/96.



## Investment Pools

Five of the 13 active managers invest entirely in emerging markets. They are expected to add incremental value, over time, relative to the MCSI Emerging Markets Free index of markets in developing countries throughout the world.

The *passive* manager in the International Stock Pool designs its portfolio to consistently and inexpensively track the EAFE Free index. A portion of the currency exposure of the index fund was managed in a dynamic hedging program designed to avoid currency losses during periods of US dollar strength. The *currency overlay*

program was terminated as of December 1999. All contracts that were in place matured by December 2000.

A description of each international stock manager's investment approach is included in the **Investment Manager Summaries** section.

### FY 2001 Changes

During fiscal year 2001, the Board terminated two active emerging market managers, City of London and Genesis Asset Managers International, and the Board also hired four active emerging market managers, Alliance Capital

Management, Capital International, Morgan Stanley, and Schroders Investment Management.

### Investment Performance

Similar to the Domestic Stock Pool, two long term *risk objectives* have been established for the international stock managers:

- **Investment Approach.** Each manager (active or passive) is expected to hold a portfolio that is consistent with the manager's stated investment approach.
- **Diversification.** While the index manager is expected to hold a well diversified portfolio which closely tracks its target index, each active manager is expected to hold a less diversified portfolio.

The international stock managers successfully fulfilled their long-term risk objectives during fiscal year 2001. In general, the managers constructed portfolios consistent with their stated investment approaches and maintained appropriate levels of diversification.

The Board's *return objectives* for the international stock program are stated relative to the Morgan Stanley Capital International (MSCI) indices. The indices are capitalization weighted and measured in U.S. dollar terms, with currencies unhedged.

Individual active managers are expected to exceed their index by at least 1.00 percentage point annualized, over time, and the index manager is expected to track its index by  $\pm 0.50$  percentage point, annually. The currency overlay program had been expected to add value to the passively managed portion of the pool in periods when the US dollar strengthened relative to major currencies. The actual value added by the currency overlay program was

Figure 21. International Manager Performance FY 2001

	Actual Return	Benchmark
<b>Active Managers: Developed Markets</b>		
American Express Asset Mgmt.	-30.9%	-23.6%
Blairlogie Capital Mgmt.	-27.1	-23.6
Brinson Partners	-12.4	-23.6
Invesco Global Asset Mgmt.	-13.2	-23.6
Marathon Asset Mgmt.*	-11.1	-20.1
Montgomery Asset Mgmt.	-30.8	-23.6
T. Rowe Price International, Inc.	-26.2	-23.6
Zurich Scudder Investments	-27.9	-23.6
<b>Active Managers: Emerging Markets</b>		
Alliance Capital Mgmt.**	-16.3	-13.7
Capital International**	-15.6	-13.7
Montgomery Asset Mgmt.	-25.4	-25.9
Morgan Stanley Investment Mgmt.**	-15.0	-13.7
Schroder Investment Mgmt. N.A.**	-15.6	-13.7
<b>Passive EAFE Manager</b>		
State Street Global Advisors	-23.7	-23.6
<b>Aggregate International Pool</b>		
	-22.1	
<b>Asset Class Target ***</b>		
	-23.9	

\* Marathon's performance is measured against a custom benchmark since inception.

\*\* New managers retained in February 2001.

\*\*\* The asset class target is comprised of the EAFE Free and Emerging Markets Free (EMF) indices. The weighting of each index fluctuates with changes in market capitalization.



## Investment Pools

correlated to the US dollar's rise in any given period.

Performance results for the International Stock Pool are shown in Figure 20, (on page 20). In aggregate, the Pool outperformed the target for the year by 1.8 percentage points.

Performance over the last three and five year periods exceeded the benchmark by 0.5 and 1.6 percentage points annualized, respectively.

Individual manager performance during fiscal year 2001 is shown in Figure 21. The fiscal year proved to be a period of decline, due to the slowing world economy and continued economic difficulty in Japan. The relative performance of the eight developed market managers was mixed. Three of the EAFE managers outperformed the EAFE Free index, which returned -23.6% for the year. The existing emerging markets manager, Montgomery, outperformed the MSCI Emerging Markets Free Index, which returned -25.9% for the year. However, the four emerging markets managers retained by the Board during the year, underperformed this benchmark over the period during which they were funded. The passively managed portion of the program underperformed the EAFE Free index by 0.1 percentage point for the year.

More information on the performance and portfolio composition of individual managers is included in the **Statistical Data** section. Section II of this report provides **Summarized Asset Listings** for each manager and the Pool in aggregate.

### Alternative Investment Pools

Like the stock and bond segments, alternative assets (private equity, real estate and resource fund investments) are also managed on a pooled basis.

However, due to the nature of these investments, separate pools have been established for the Basic and Post Retirement Funds and each fund owns 100% of the assets in its respective pool.

#### Statutory Constraints

The statutory constraints regarding the SBI's investments to alternative assets are the same in both the Basic and Post Funds:

- **Real Estate.** State statutes authorize investments in real estate through commingled funds, limited partnerships and trusts, including real estate investment trusts (REIT's). Regardless of its form, each investment must involve at least four other participants and the SBI's investment may not exceed 20% of a given investment.
- **Private Equity.** By law, the SBI is authorized to invest in private equity through limited partnerships and corporations. As with real estate investments, each private equity investment must involve at least four other investors, and the Board's investment may not exceed 20% of a particular partnership or corporation.
- **Resource Funds.** The SBI invests in oil and gas partnerships specifically structured for pension funds and other tax-exempt investors. As with real estate and private equity investments, there must be four other investors and the Board may invest no more than 20% of a partnership's total capital.

## Alternative Investments Basic Funds

The Basic Retirement Funds began making investments in alternative assets in the early 1980's. Given their long investment time horizon, the Basic Funds are especially well suited to alternative investments that are equity oriented and focus on long-term capital gains. As a result, up to 15% of the Basic Retirement Funds are targeted for alternative investments at market value, and up to 20% at market value plus unfunded commitments. A breakdown of the segment is shown in Figure 22. As of June 30, 2001, the market value of current alternative investments was \$2.4 billion, or 13.1% of the Basic Funds.

Descriptions of each of the Basic Funds' alternative investments are included in the **Investment Manager Summaries** section.

#### Real Estate Pool

By investing in several open-end and closed-end commingled funds, the Basic Funds have created a large core portfolio of real estate that is broadly diversified by property type, location and financing structure. The core portfolio is expected to earn at least real estate market returns.

The broad diversification of the core portfolio enables the SBI to select less diversified, special orientation managers for the remaining portion of the real estate segment. With their more focused approach to real estate management, these funds offer the ability to enhance the return earned by the core portfolio.

Prospective real estate managers are reviewed and selected based on the manager's experience, investment strategy and performance history.



## Investment Pools

During fiscal year 2001, the SBI continued to review real estate investments for possible inclusion in the pool.

### Private Equity Pool

The Basic Funds maintain a private equity portfolio that is broadly diversified across three dimensions: location, industry type and stage of development of individual portfolio companies. Prospective private equity managers are reviewed and selected based, primarily, on the manager's experience, investment strategy, diversification potential and performance history.

During fiscal year 2001, the Board approved and closed on commitments with BLUM Strategic Partners II, DLJ Merchant Banking Partners III, DLJ Strategic Partners, Goldman Sachs Capital Partners 2000, KKR Millennium Fund, Thoma Cressey VII, and William Blair Capital Partners VII. The SBI will continue to review and add new private equity investments, as attractive opportunities are identified, to replenish commitments that will expire within the next five years.

### Resource Fund Pool

The oil and gas partnerships in the Basic Retirement Funds concentrate their investments in producing properties and oil service interests that are diversified geographically and/or geologically. Resource investments are selected based on the manager's experience, investment strategy and performance history.

During fiscal year 2001, the Board approved and closed on a commitment with First Reserve IX.

### Investment Performance

The SBI reviews performance of its *real estate* investments relative to inflation, as measured by changes in the Consumer Price Index (CPI).

During fiscal year 2001, the SBI's real estate pool exceeded the rate of inflation (SBI real estate 15.8%; CPI 2.7%). Comparisons over the last five years show that the real estate pool exceeded the rate of inflation (SBI real estate 15.4% annualized; CPI 2.5% annualized).

The SBI's *private equity* pool provided a -7.0% return in fiscal year 2001 and 20.5% annualized over the last five years. The *resource* (oil and gas) pool returns are 35.8% for the year and 16.6% annualized over the last five years.

At this time, benchmarks have not been established for the private equity and resource fund managers. The long-term nature of these investments and the lack of comprehensive data on the returns provided by the resource and private equity markets preclude comprehensive performance evaluation. In the future, as markets for these asset classes become more institutionalized, the SBI hopes to integrate appropriate performance standards for these assets into its performance analysis.

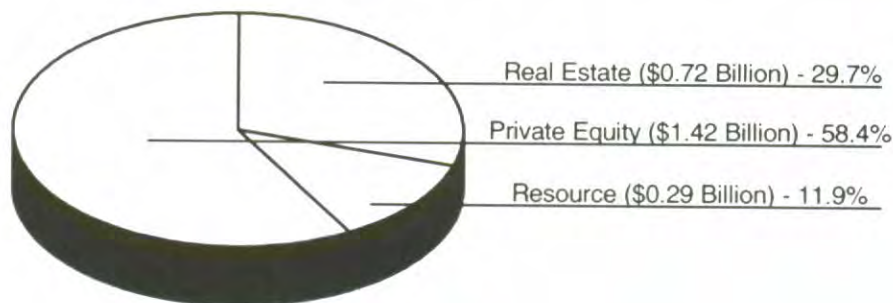
## Alternative Investments Post Fund

The Post Retirement Fund made its first commitment to alternative assets during fiscal year 1994. The Post Fund has a somewhat shorter investment time horizon than the Basic Funds and therefore is best suited to investments that will generate a fairly high level of current income. The Board has allocated up to 5% of the Post Retirement Fund to yield-oriented alternative investments at market value, and up to 10% at market value plus unfunded commitments. As of June 30, 2001, the market value of the Post Fund's alternative investments was \$654 million, 3.4% of the Post Fund.

Descriptions of each of the Post Fund's alternative investments are included in the **Investment Manager Summaries** section.

*Yield-oriented investments* (e.g. business loan participations, mortgage loan participations, and income producing private placements) provide additional vehicles to obtain both higher yield and long-term capital appreciation.

Figure 22. Basic Funds' Alternative Investments as of June 30, 2001



Note: Percentages may differ slightly due to rounding of values.



## Investment Pools

Typically, these investments are structured more like fixed income securities with an opportunity to participate in the appreciation of the underlying assets. While these investments may have an equity component, they display a return pattern more like a bond. As such, they will help to reduce the volatility of the total portfolio, but should also provide the opportunity to generate higher returns relative to bonds.

*During fiscal year 2001*, the Board approved and closed on three yield-oriented commitments for the Post Fund: Capital Trust Mezzanine Partners II, Prudential Capital Partners, and TCW Crescent Mezzanine Partners III. The Board also approved and executed an investment for the Post Fund in Equity Office Properties Trust (symbol: EOP), a publicly traded Real Estate Investment Trust (REIT). The SBI will continue to review additional investments for the Post Fund in order to move closer to the market value allocation target in future years.

The SBI's yield-oriented investments provided a 17.3% return for the year and 13.2% annualized return over the last five years.

A listing of individual investment funds can be found in the **Statistical Data** Section.



## Supplemental Investment Fund

*The Supplemental Investment Fund is a multi-purpose investment program that offers a range of investment options to state and local public employees. The Fund serves approximately 49,000 individuals who participate in defined contribution or supplemental retirement savings plans. On June 30, 2001, the market value of the entire Fund was \$1.57 billion.*

The different participating groups use the Supplemental Fund for a variety of purposes:

- It functions as the sole investment manager for all assets of the Unclassified Employees Retirement Plan, Public Employees Defined Contribution Plan and Hennepin County Supplemental Retirement Plan.
- It is one of the investment vehicles offered to public employees as part of the State's Deferred Compensation Plan, as well as the Individual Retirement Account Plan and College Supplemental Retirement Plan offered by Minnesota State Colleges and Universities (MnSCU).
- It serves as an external money manager for a portion of some local police and firefighter retirement plans.

### Fund Structure

A wide diversity of investment goals exists among the Supplemental Fund's participants. In order to meet those needs, the Supplemental Fund has been structured much like a "family of mutual funds." Participants may allocate their investments among one or more accounts that are appropriate for their needs, within statutory requirements and rules established by the participating organizations.

Participation in the Supplemental Fund is accomplished through the purchase or sale of shares in each account.

### Fund Management

The Supplemental Fund offers seven different investment options (See Figure 23). The objectives, asset allocation, management and performance of each account in the Fund are explained in the following sections.

#### Share Values

Each account in the Supplemental Fund establishes a share value and participants may buy or sell shares monthly, based on the most recent share value.

In the Income Share Account, the Growth Share Account, the Common Stock Index Account, the International Share Account and the Bond Market Account, shares are priced monthly based on the market value of each account. Individuals measure the performance of these accounts by changes in share values, which in turn are a function of the income and capital appreciation (or depreciation) generated by the securities in the accounts.

In the Money Market Account and the Fixed Interest Account, share values remain constant and the accrued interest income is credited to the accounts through the purchase of additional shares at predetermined intervals.

Figure 23. Accounts in the Supplemental Investment Fund

<b>Income Share</b>	a balanced portfolio of U.S. common stock, fixed income, and cash.
<b>Growth Share</b>	an actively managed portfolio of U.S. common stocks.
<b>Common Stock Index</b>	a passively managed portfolio of U.S. common stocks.
<b>International Share</b>	a portfolio of both actively and passively managed non U.S. stocks.
<b>Bond Market</b>	a portfolio of both actively and semi-passively managed fixed income securities.
<b>Money Market</b>	a portfolio of short-term, liquid debt securities.
<b>Fixed Interest</b>	a portfolio of stable value instruments such as insurance company investment contracts, bank investment contracts, and security backed contracts.



## Supplemental Investment Fund

The investment returns shown in this report are calculated using a time-weighted rate of return formula. *These returns are net of investment management fees and transaction costs. They do not, however, reflect any administrative expenses deducted by the retirement systems to defray their own administrative costs.*

The distribution of assets in the Supplemental Investment Fund as of June 30, 2001 are shown by Account in Figure 24 and by Plan in Figure 25.

Figure 24. Composition by Account as of June 30, 2001

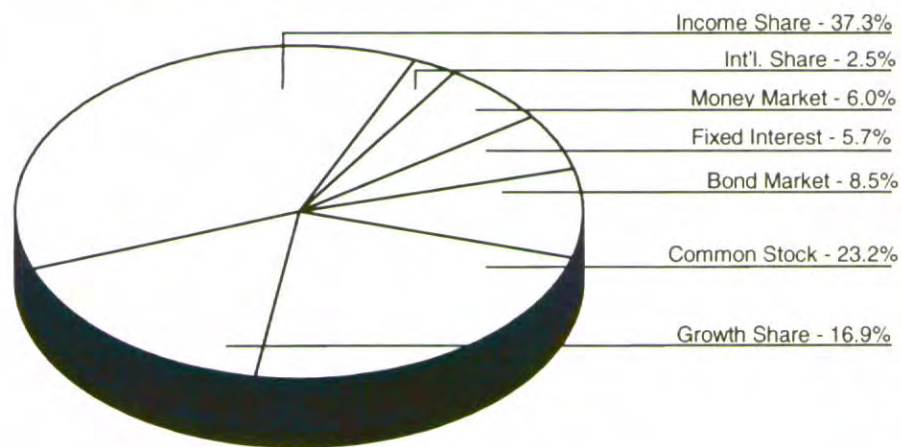
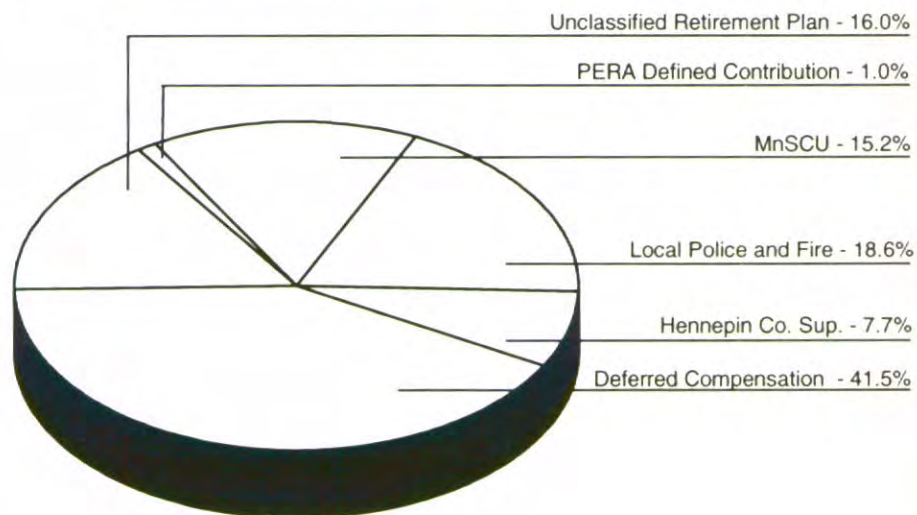


Figure 25. Participation by Plan as of June 30, 2001





## Supplemental Investment Fund

### Income Share Account

#### Objective

The Income Share Account resembles the Basic and Post Retirement Funds in terms of investment objectives. The Account seeks to earn a high rate of return both from capital appreciation (increases in market value) and current yield (dividends from stock and interest on bonds). The Income Share Account pursues this objective within the constraints of protecting against adverse financial environments and limiting short run portfolio return volatility.

The SBI invests the Income Share Account in a balanced portfolio of common stocks and fixed income securities with the following long-term asset mix: 60% domestic common stocks, 35% bonds, 5% cash equivalents.

Domestic common stocks provide the potential for significant long-term capital appreciation, while bonds provide both a hedge against deflation and the diversification needed to limit excessive portfolio return volatility.

At the close of fiscal year 2001, the value of the Income Share Account was \$585 million.

#### Management

The Income Share Account's investment management structure combines internal and external management. SBI staff manage the fixed income segment. The common stock segment is managed externally as part of a passively managed index fund designed to track the Wilshire 5000 Investable. The manager for this portion of the Account is Barclays Global Investors.

#### Performance

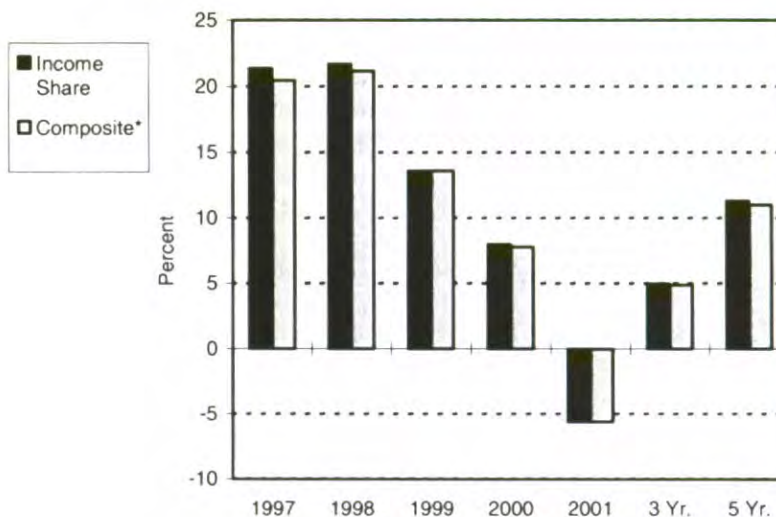
Similar to the other SBI funds which utilize a multi-manager investment structure, the Board evaluates the performance of the Income Share Account on two levels:

- **Total Account.** The Income Share Account is expected to exceed the returns of a composite of market indices weighted in the same proportion as its long term asset allocation.
- **Individual Manager.** The passive stock manager is expected to closely track the performance of the Wilshire 5000 Investable. The internal

bond manager for the Account is expected to exceed the performance of the Lehman Brothers Aggregate Bond Index.

The Income Share Account provided a return of -5.6% for fiscal year 2001, matching its composite index. Over the most recent five years, the Income Share Account has exceeded its composite by 0.3 percentage point. Figure 26 shows a five year history of performance results.

Figure 26. Income Share Account FY 1997-2001



	1997	1998	1999	2000	2001	Annualized	
Income Share	21.4%	21.7%	13.6%	8.0%	-5.6%	3 Yr.	5 Yr.
Composite*	20.5	21.2	13.6	7.8	-5.6	4.9	11.0

\*60% Wilshire 5000 Investable/35% Lehman Brothers Aggregate Bond Index/ 5% 3 Month T-Bill Composite. Prior to July 1, 2001, the 60% equity portion of the benchmark was composed of the Wilshire 5000.



## Supplemental Investment Fund

### Growth Share Account

#### Objective

The investment objective of the Growth Share Account is to generate high returns from capital appreciation. To achieve this objective, the Account is invested primarily in U.S. common stock.

At the close of fiscal year 2001, the value of the Growth Share Account was \$264 million.

#### Management

The assets of the Growth Share Account are invested by the external active and semi-passive domestic equity managers. This allocation reflects a more aggressive investment than is available through passive management. Since July 1997, these assets have been managed by the same active and semi-passive managers utilized by the Basic and Post Retirement Funds in the Domestic Stock Pool. (Prior to July 1997, the Account used only active managers.) The Account may hold a small amount of cash that represents new contributions received prior to their investment in the market and cash that may be held by the individual managers in the Account.

#### Performance

Like the Income Share Account, the Board evaluates the performance of the Growth Share Account on two levels:

— **Total Account.** The Growth Share Account is expected to exceed the returns of the Wilshire 5000 Investable, which adjusts the Wilshire 5000 for liquidity and investability constraints as well as restrictions specific to the State of Minnesota (currently tobacco). It is a quarterly buy and hold portfolio.

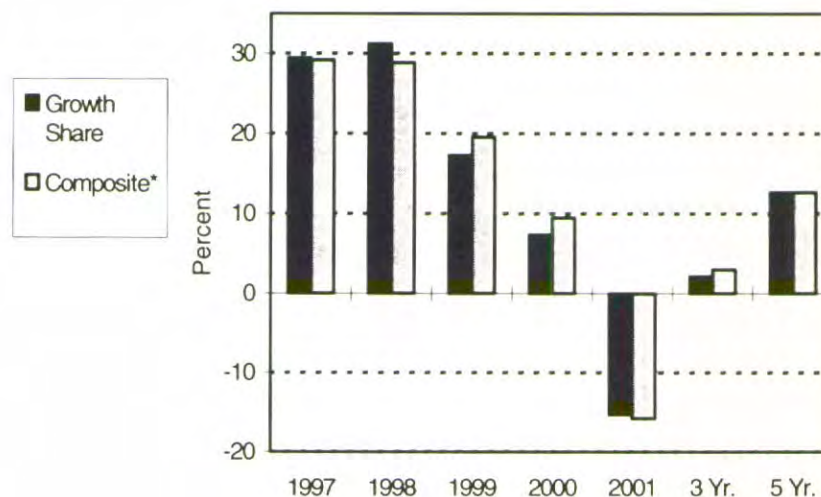
#### — Individual Manager.

Performance objectives for the individual managers are described in the **Investment Pools** section of this report.

The Growth Share Account provided a return of -15.3% for the fiscal year, outperforming its composite index by 0.5 percentage point. Individual manager performance relative to their benchmarks was mixed. See the discussion starting on page 15 concerning the Domestic Stock Pool. Over the last five year period, the

Account has matched its composite index. A five year history of performance results is shown in Figure 27.

Figure 27. Growth Share Account FY 1997-2001



	1997	1998	1999	2000	2001	Annualized 3 Yr.	Annualized 5 Yr.
<b>Growth Share</b>	29.5%	31.2%	17.3%	7.4%	-15.3%	2.2%	12.7%
<b>Composite*</b>	29.2	28.9	19.6	8.6	-15.8	3.0	12.7

\* 95% Wilshire 5000/5% T-Bill Composite through October 1996; 100% Wilshire 5000 from November 1996 through June 1999; and Wilshire 5000 Investable since July 1, 1999.



## Supplemental Investment Fund

### Common Stock Index Account

#### Objective

The investment objective of the Common Stock Index Account is to generate returns that track the performance of the broad U.S. common stock market as represented by the Wilshire 5000 Investable. To accomplish this objective, the SBI allocates all of the assets of the Common Stock Index Account to passively managed domestic stocks. At the end of fiscal year 2001, the Account had a market value of \$363 million.

#### Management

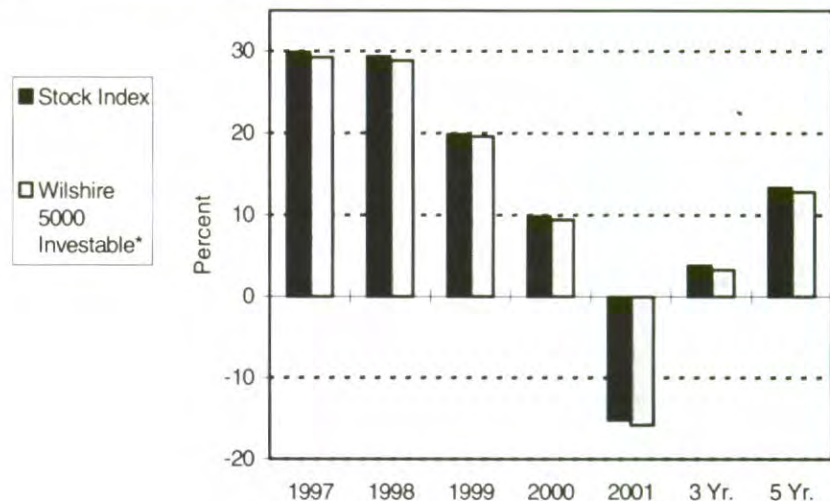
The Account participates in the passive portfolio of the Domestic Stock Pool, which is managed by Barclays Global Investors.

#### Performance

The performance objective of the Common Stock Index Account is to track the performance of the Wilshire 5000 Investable. The SBI recognizes that the Account's returns may deviate slightly from those of the Wilshire 5000 Investable due to the effects of management fees, timing of new contributions and tracking error.

During fiscal year 2001, the Common Stock Index Account produced a return of -15.2%, which was 0.6 percentage point above the Wilshire 5000 Investable. Over the most recent three and five year periods, the Account has outperformed the index by 0.5 percentage point for both time periods. Total Account results for the last five years are shown in Figure 28.

Figure 28. Common Stock Index Account FY 1997-2001



	1997	1998	1999	2000	2001	Annualized 3 Yr.	Annualized 5 Yr.
Stock Index	29.9%	29.4%	19.9%	9.9%	-15.2%	3.8%	13.4%
Wilshire 5000 Investable*	29.3	28.9	19.6	9.5	-15.8	3.3	12.9

\* Wilshire 5000 through June 2000, Wilshire 5000 Investable thereafter.



## Supplemental Investment Fund

### International Share Account

#### Objective

The investment objective of the International Share Account is to earn a high rate of return by investing in the stock of companies outside the U.S.

Typically, a majority of the Account is invested in the five largest international markets (United Kingdom, Japan, Germany, France and Switzerland). Most of the remainder is invested in other well established markets in Canada, Europe and the Pacific region. In addition, a portion of the Account is invested in developing countries or "emerging markets" around the world including those in Latin America, Asia and Africa. At the end of fiscal year 2001, the Account had a market value of \$40 million.

#### Management

The structure of the International Share Account combines both active and passive management. Approximately one third of the Account is passively managed and is designed to consistently and inexpensively track the return of the Morgan Stanley Capital International index of Europe, Australasia and the Far East (EAFE Free). The remainder of the Account is actively managed by a group of international stock managers who buy and sell stocks in an attempt to maximize market value. The Account uses the same active and passive managers utilized by the Basic and Post Retirement Funds in the International Stock Pool.

#### Performance

The Board evaluates the performance of the International Share Account on two levels:

— **Total Account.** The International share Account is expected to exceed the returns of

its custom index, which is the combined market capitalization weights of the Morgan Stanley Capital International (MSCI) index of Europe, Australasia and the Far East Free (EAFE Free) and the MSCI Emerging Markets Free index.

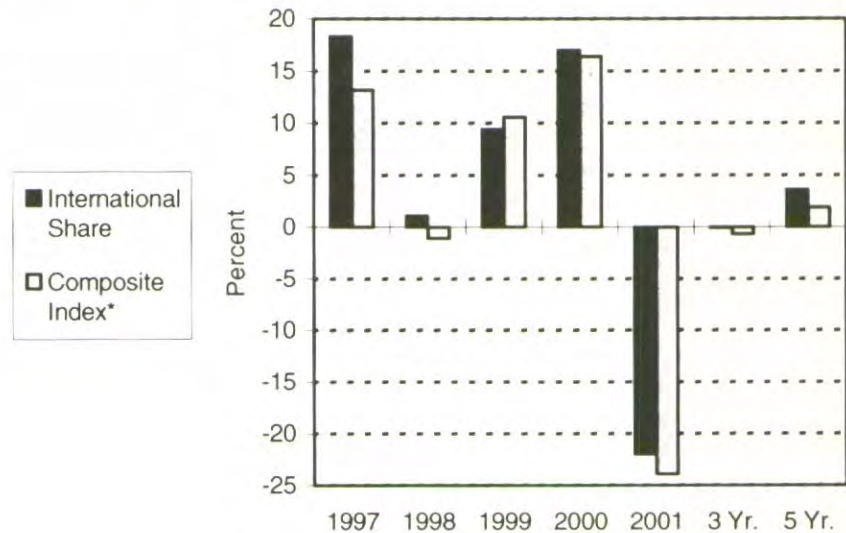
— **Individual Manager.** Performance objectives for the individual managers are described in the **Investment Pools** section of this report.

The International Share Account is expected to exceed the performance of a composite of international indices. During fiscal year 2001, the International Share Account

produced a return of -22.0%, which was 1.9 percentage points above its composite index. Over the most recent three and five year periods, the international share account has exceeded its composite index by 0.6 and 1.7 percentage points, respectively.

See the discussion on performance of the international managers beginning on page 20. Total Account results since its inception are shown in Figure 29.

Figure 29. International Share Account FY 1997-2001



	1997	1998	1999	2000	2001	Annualized 3 Yr.	Annualized 5 Yr.
<b>International Share</b>	18.2%	1.1%	9.4%	17.0%	-22.0%	-0.1%	3.6%
<b>Composite Index*</b>	13.2	-1.1	10.6	16.4	-23.9	-0.7	1.9

\*EAFE Free through 4/30/96; composite of EAFE-Free and Emerging Markets Free since 5/1/96.



## Supplemental Investment Fund

### Bond Market Account

#### Objective

The objective of the Bond Market Account is to earn above market returns from fixed income securities. The Account is invested primarily in investment-grade government bonds, corporate bonds and mortgage securities with intermediate to long maturities. As such, it is a more conservative investment alternative than the accounts described in the previous sections. At the end of fiscal year 2001, the market value of the Account was \$132 million.

The Account earns investment returns through interest income and capital appreciation. Because bond prices move inversely with interest rates, the Account entails some risk for investors. However, historically, it represents a lower risk alternative than the investment options that include common stocks.

#### Management

The Bond Market Account invests in the Bond Pool utilized by the Basic and Post Funds. Since July 1997, the structure of the account has included active and semi-passive managers. (Prior to July 1997, the Bond Market Account used only active managers.)

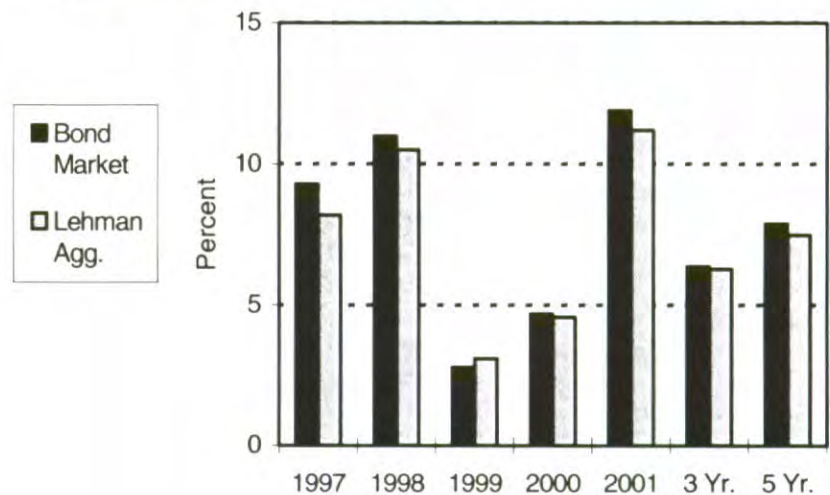
#### Performance

The Board evaluates the performance of the Bond Market Account on two levels:

- **Total Account.** The Bond Market is expected to exceed the returns of the Lehman Aggregate.
- **Individual Manager.** Performance objectives for the individual managers are described in the **Investment Pools** section of this report.

The Bond Market Account is expected to exceed the performance of the bond market, as represented by the Lehman Brothers Aggregate Bond Index. For fiscal year 2001, the Account outperformed by 0.7 percentage point. For the most recent three and five year periods, the Account has outperformed by 0.1 and 0.4 percentage point annualized. See the discussion regarding bond manager performance on page 18. Total Account results for the last five years are shown in Figure 30.

Figure 30. Bond Market Account FY 1997-2001



	1997	1998	1999	2000	2001	Annualized 3 Yr.	Annualized 5 Yr.
<b>Bond Market</b>	9.3%	11.0%	2.8%	4.7%	11.9%	6.4%	7.9%
Lehman Aggregate	8.2	10.5	3.1	4.6	11.2	6.3	7.5



## Supplemental Investment Fund

### Money Market Account

#### Objective

The Money Market Account invests solely in short-term, liquid debt securities. The Account's investment objectives are to preserve capital and offer competitive money market returns. At the end of fiscal year 2001, the Money Market Account had a market value of \$93 million.

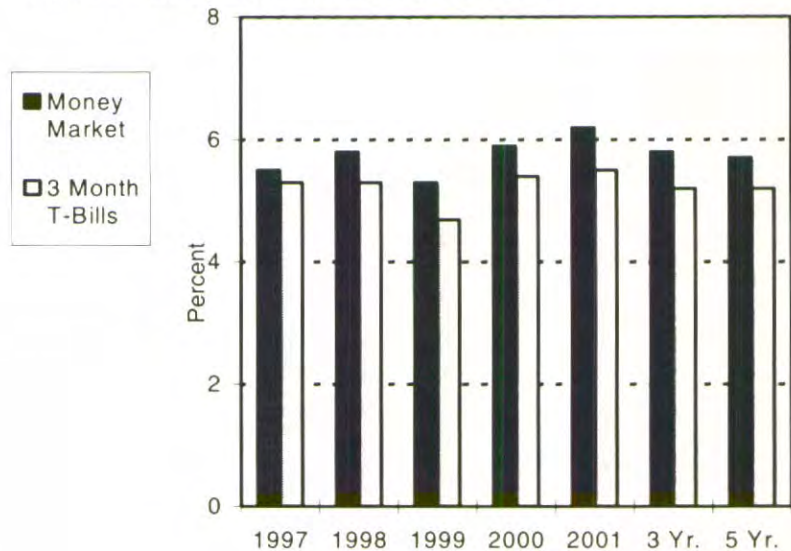
#### Management

The Account utilizes the same cash manager as the Basic and Post Retirement Funds, which is State Street Bank & Trust Company.

#### Performance

The Account is expected to produce returns competitive with those available from short-term debt securities. The Money Market Account exceeded that target in fiscal year 2001 with a 6.2% return versus a 5.5% return for the 3 Month Treasury Bill. Total account results for prior years are shown in Figure 31.

Figure 31. Money Market Account FY 1997-2001



	1997	1998	1999	2000	2001	Annualized	
						3 Yr.	5 Yr.
Money Market	5.5%	5.8%	5.3%	5.9%	6.2%	5.8%	5.7%
3 Month T-Bills	5.3	5.3	4.7	5.4	5.5	5.2	5.2



## Supplemental Investment Fund

### Fixed Interest Account

#### Objective

The investment objectives of the Fixed Interest Account are to protect investors from loss of their original investment and to provide competitive interest rates using somewhat longer term investments than typically found in a money market account. At the end of fiscal year 2001, the Account totaled \$90 million.

#### Management

The assets in the Account are invested primarily in stable value instruments such as insurance company investment contracts, bank investment contracts, and security backed contracts with varying maturities, typically 3 to 5 years. The assets also may be invested in comparable investments offered by non-U.S. financial institutions. The interest rate credited changes monthly and reflects the blended interest rate available from all investments in the pool along with any cash held for liquidity purposes.

The manager for the Account is Galliard Capital Management, a unit of Wells Fargo Bank. Galliard has managed the Account since November 1994.

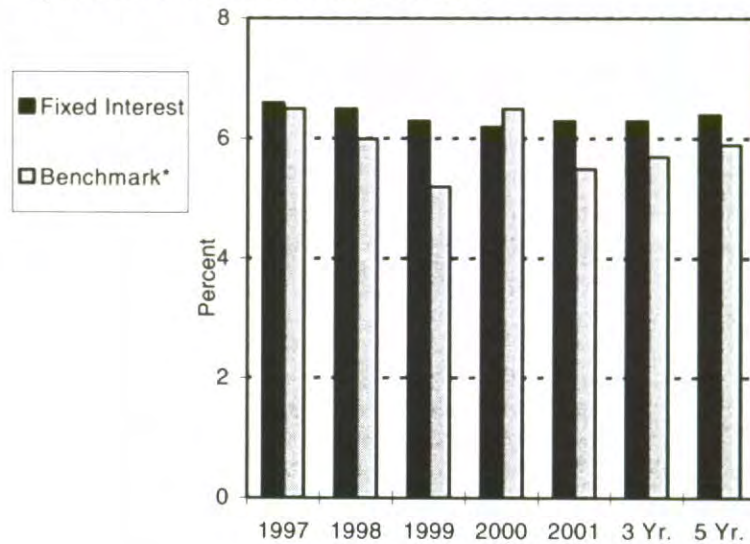
Performance results for the Fixed Interest Account are shown in Figure 32.

#### Performance

The Fixed Interest Account is expected to exceed the returns of its custom benchmark, the 3-year Constant Maturity Treasury plus 30 basis points. During fiscal year 2001, the Fixed Interest Account provided a return of 6.3%, which was 0.9 percentage point above its custom benchmark. Over the most recent

three and five year periods, the Fixed Interest Account has exceeded its composite index by 0.6 and 0.5 percentage point, respectively.

Figure 32. Fixed Interest Account FY 1997-2001



	1997	1998	1999	2000	2001	Annualized	
Fixed Interest	6.6%	6.5%	6.3%	6.2%	6.3%	6.3%	6.4%
Benchmark*	6.5	6.0	5.2	6.5	5.4	5.7	5.9

\* 3 Year Constant Maturity Treasury plus 30 basis points.



## Assigned Risk Plan

**The Minnesota Workers Compensation Assigned Risk Plan was established in 1983 to provide workers' compensation coverage to Minnesota employers rejected by a private insurance carrier. On June 30, 2001, the market value of the Plan's portfolio was \$315 million.**

The Assigned Risk Plan operates as a non-profit, tax-exempt entity and is administered by the Department of Commerce. The Plan provides disability income, medical expenses, retraining expenses and death benefits, with payments being made either periodically or in lump sum.

### Investment Objectives

The SBI recognizes that the Assigned Risk Plan has limited tolerance for risk due to erratic cash flows, no allowance for surplus, and generally short duration liabilities.

Therefore, the SBI has established two investment objectives for the Plan:

- to minimize mismatch between assets and liabilities
- to provide sufficient liquidity (cash) for payment of on-going claims and operating expenses

Performance relative to these objectives is measured against a composite index that reflects the asset allocation of the portfolio.

### Asset Allocation

The SBI believes that due to the uncertainty of premium and liability cash flows, the Plan should be invested very conservatively.

The **bond** segment is invested to fund the shorter-term liabilities (less than 10 years) and the common stock segment is invested to fund the longer-term liabilities. This creates a high fixed income allocation which minimizes the possibility of a future fund deficit. The smaller **stock** exposure provides higher expected returns and hedges some of the inflation risk associated with the liability stream.

The actual asset mix will fluctuate in response to changes in the liability

stream projected by the Plan's actuary and further analysis by the SBI staff.

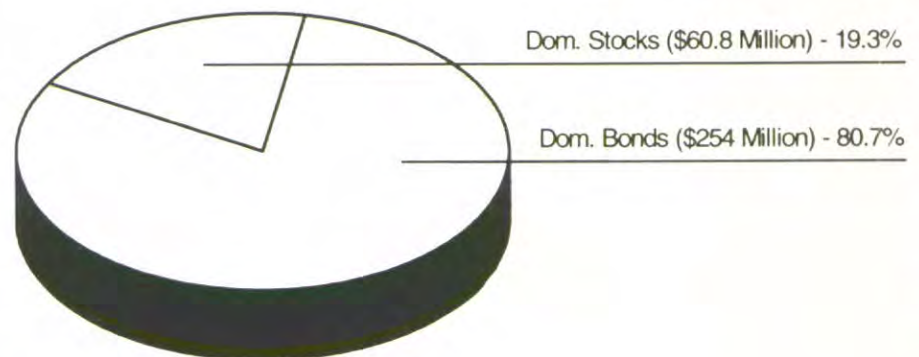
Figure 33 presents the actual asset mix of the Assigned Risk Plan at the end of fiscal year 2001. The current long term asset allocation targets for the Fund are as follows:

Domestic Stocks	20%
Domestic Bonds	80

### Investment Management

Voyageur Asset Management manages the bond segment of the Assigned Risk Plan, and GE Asset Management manages the equity segment of the Plan.

Figure 33. Assigned Risk Plan Asset Mix as of June 30, 2001





## Assigned Risk Plan

### Bond Segment

The bond segment is designed to fund the shorter-term liabilities of the Plan with a target duration of 3 years. The segment is actively managed to add incremental value through sector, security, and yield curve decisions.

### Stock Segment

The stock segment is structured to fund the longer-term liabilities of the Plan. Currently, the equity segment is managed with a broadly diversified portfolio of high quality, large capitalization companies.

### Investment Performance

Due to the focus on liability matching, the composition of the Assigned Risk Plan's investment portfolio is conservatively structured. While active management is utilized, return enhancement plays a secondary role.

The Assigned Risk Plan is measured against a composite index which is weighted to reflect the asset allocation of the Plan:

- the target for the equity component is the S&P 500.
- the target for the fixed income component is a custom benchmark which reflects the duration target established for the bond segment (approximately 3 years) as well as the manager's suggested sector allocation.

During fiscal year 2001, the *bond* segment underperformed its benchmark by 1.0 percentage point. The *stock* segment outperformed its benchmark by 8.9 percentage points.

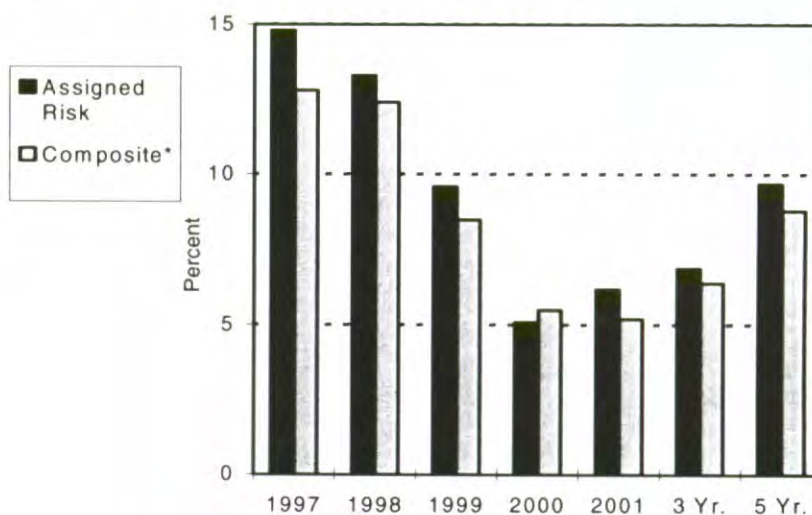
**Overall**, the Assigned Risk Plan provided a return of 6.2% for fiscal year 2001, outperforming its composite index by 1.0 percentage point, annualized. For the most recent three and five year periods, the

Account has outperformed its composite index by 0.5 and 0.9 percentage points, respectively.

Historical performance results are presented in Figure 34.

Legislation approved during the 2000 session required the transfer of \$435 million of surplus assets from the Workers Compensation Assigned Risk Plan, which occurred in July 2000.

Figure 34. Assigned Risk Plan Performance FY 1997-2001



	1997	1998	1999	2000	2001	Annualized	
<b>Assigned Risk</b>	14.8%	13.3%	9.6%	5.1%	6.2%	6.9%	9.7%
Composite Index*	12.8	12.4	8.5	5.5	5.2	6.4	8.8
<b>Stock Segment</b>	34.4	28.9	23.7	7.0	-5.9	7.6	16.6
S&P 500	34.7	30.2	22.8	7.2	-14.8	3.9	14.5
<b>Bond Segment</b>	7.8	8.4	4.2	4.2	9.5	5.9	6.8
Benchmark	7.7	8.1	4.7	4.8	10.5	6.6	7.1

\*Weighted 20% stocks, 80% bonds.



## Permanent School Fund

*The Permanent School Fund is a trust fund created by the Minnesota State Constitution and designated as a long-term source of revenue for public schools. Proceeds from land sales, mining royalties, timber sales, lake shore and other leases are invested in the Fund. Income generated by the Fund's assets is used to offset state school aid payments. On June 30, 2001, the market value of the Fund was \$549 million.*

### Investment Objective

The State Board of Investment (SBI) invests the Permanent School Fund to produce a growing level of spendable income, within the constraints of maintaining adequate portfolio quality and liquidity that will assist in offsetting state expenditures on school aid.

### Investment Constraints

The Fund's investment objectives are influenced by the legal provisions under which its investments must be managed. These provisions require that the Fund's principal remain inviolate. Any net realized capital gains from stock or bond investments must be added to the principal. Moreover, if the Fund realizes net capital losses, these

losses must be offset against interest and dividend income before such income can be distributed. Finally, all interest and dividend income must be distributed in the year in which it is earned.

### Asset Allocation

Prior to FY 1998, the Permanent School Fund had been invested entirely in fixed income securities for more than a decade. While this asset allocation maximized current income, it limited the long term growth of the Fund and caused the income stream to lose value in inflation adjusted terms, over time.

To solve both issues, a proposal to introduce equities to the Fund's asset mix was discussed. Since this

modification would reduce short term income and have budgetary implications for the state, the consent of the executive and legislative branches was necessary.

A proposal to introduce equities was presented during fiscal year 1997. It was favorably received by the Legislature and incorporated into the K-12 education finance bill. As a result, the Fund allocation was shifted to a 50% stock/48% fixed income/2% cash allocation during July 1997.

Figure 35 presents the actual asset mix of the Permanent School Fund at the end of fiscal year 2001.

### Investment Management

SBI staff manage all assets of the Permanent School Fund. Given the unique constraints of the Fund, management by SBI staff is considered to be the most cost effective at this time.

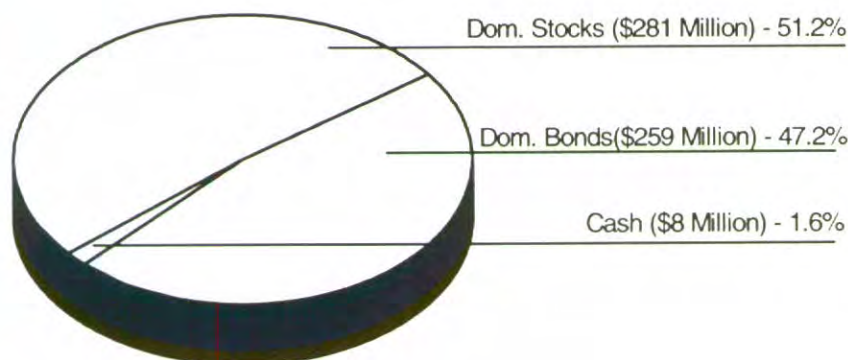
#### Stock Segment

The stock segment of the Fund is passively managed to track the performance of the S&P 500.

#### Bond Segment

The bond segment is actively managed to add incremental value through sector, security and yield curve decisions and its performance is measured against the Lehman Brothers Aggregate Bond Index.

Figure 35. Permanent School Fund Asset Mix as of June 30, 2001



Note: Percentages may differ slightly due to rounding of values.



## Permanent School Fund

### Investment Performance

The *stock* segment of the Permanent School Fund outperformed its benchmark, the S&P 500, during the fiscal year by 0.1 percentage point. By investing in all of the stocks in the benchmark at their index weighting, the segment attempts to track the benchmark return on a monthly and annual basis. The portfolio is periodically rebalanced to maintain an acceptable tracking error relative to the benchmark.

The *bond* segment matched its benchmark during the current fiscal year.

*Overall*, the Permanent School Fund provided a return of -2.6% for fiscal year 2001, underperforming its composite index by 0.3 percentage point.

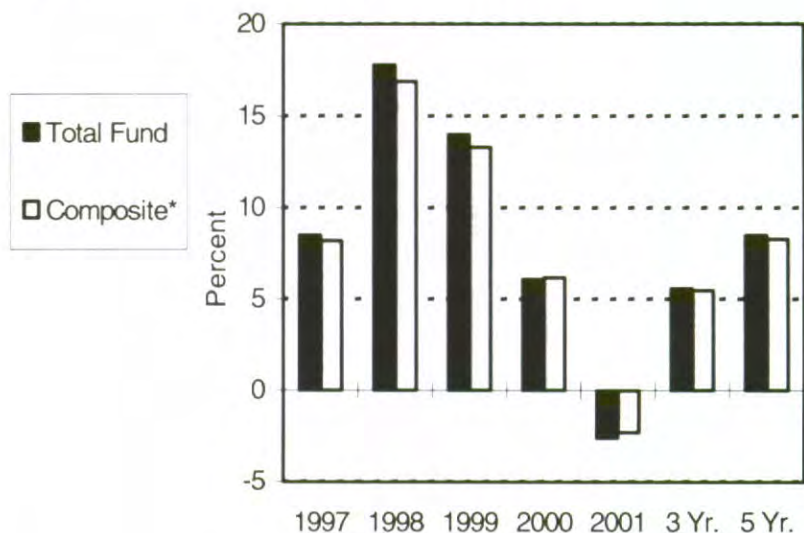
Total account results for the last five years are shown in Figure 36.

### Spendable Income

Spendable income generated by the portfolio over the last five fiscal years is shown below:

Fiscal Year	Millions
1997	\$30
1998	\$20
1999	\$19
2000	\$21
2001	\$24

Figure 36. Permanent School Performance FY 1997-2001



	1997	1998	1999	2000	2001	Annualized	
						3 Yr.	5 Yr.
<b>Total Fund</b>	<b>8.5%</b>	<b>17.8%</b>	<b>14.0%</b>	<b>6.1%</b>	<b>-2.6%</b>	<b>5.6%</b>	<b>8.5%</b>
Composite*	8.2	16.9	13.3	6.2	-2.3	5.5	8.3
Stock Segment	NA	22.8	23.1	7.4	-14.7	4.1	NA
S&P 500	NA	22.7	22.8	7.2	-14.8	3.9	NA
Bond Segment	8.6	10.7	3.7	4.7	11.2	6.5	7.7
Lehman Agg	8.2	10.5	3.1	4.6	11.2	6.3	7.5

\* 50% S&P 500/ 48% Lehman Aggregate/ 2% 3 Month T-Bills. Prior to July 1, 1997, the Fund's benchmark was 100% Lehman Aggregate.



## Environmental Trust Fund

**The Environmental Trust Fund was established in 1988 by the Minnesota Legislature to provide a long-term, consistent and stable source of funding for activities that protect and enhance the environment. On June 30, 2001, the market value of the Fund was \$300 million.**

By statute, the State Board of Investment (SBI) invests the assets of the Environmental Trust Fund. The Legislature funds environmental projects from a portion of the market value of the Fund.

### Investment Objective

The Environmental Trust Fund's investment objective is long-term growth in order to produce a growing level of spending within the constraints of maintaining adequate portfolio quality and liquidity.

### Investment Constraints

In November 1998, Minnesota voters passed a constitutional amendment to continue the mandate that 40 percent of the net proceeds from the state lottery be credited to the Fund through 2025.

The amendment also provides for spending 5.5 percent of the Fund's market value annually, beginning fiscal year 2000. The amendment also eliminates the accounting restrictions on capital gains and losses and the provision that the principal must remain inviolate.

### Asset Allocation

During fiscal year 1994, the SBI introduced equities into the portfolio and moved to a targeted 50% allocation to domestic common stocks and 50% to bonds. This allocation was maintained through fiscal year 1999.

After the constitutional amendment was adopted in 1998, SBI staff

worked with the Legislative Commission on Minnesota Resources to establish an asset allocation policy that is consistent with the Commission's goals for spending and growth of the Fund.

The SBI approved a 70% stock and 30% fixed income asset allocation which was implemented July 1, 1999. The allocation positions the Fund for the best long-term growth potential while meeting the objective of the Fund to produce a growing level of spending.

Figure 37 presents the actual asset mix of the Environmental Trust Fund at the end of fiscal year 2001. The

current long term asset allocation targets for the Fund are:

Domestic Stocks	70%
Domestic Bonds	28
Cash	2

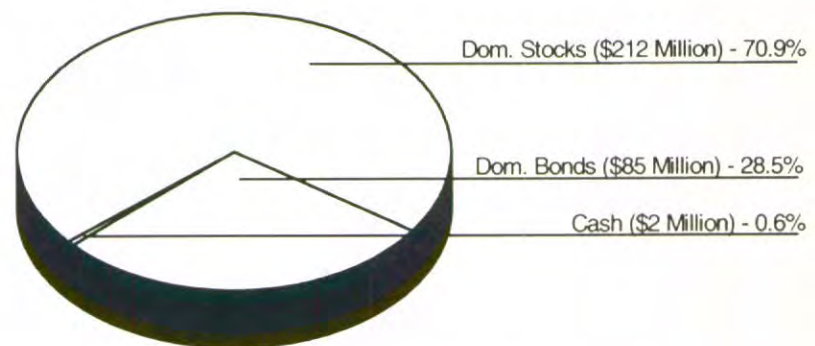
### Investment Management

SBI staff manage all assets of the Environmental Trust Fund. Given the unique constraints of the Fund, management by SBI staff is considered to be the most cost effective at this time.

### Stock Segment

The stock segment of the Fund is passively managed to track the performance of the S&P 500.

Figure 37. Environmental Trust Fund Asset Mix as of June 30, 2001



Note: Percentages may differ slightly due to rounding of values.



## Environmental Trust Fund

### Bond Segment

The bond segment is actively managed to add incremental value through sector, security and yield curve decisions and its performance is measured against the Lehman Brothers Aggregate Bond Index.

### Investment Performance

During the Fiscal Year, the *stock* segment accomplished its objective of closely tracking the return of the S&P 500 benchmark, returning 0.2 percentage point more than the S&P 500. By investing in all of the stocks in the benchmark at their index weighting, the segment attempts to track the benchmark return on a monthly and annual basis. The portfolio is periodically rebalanced to maintain an acceptable tracking error relative to the benchmark subject to keeping trading costs at a minimum.

The *bond* segment matched its benchmark during the fiscal year.

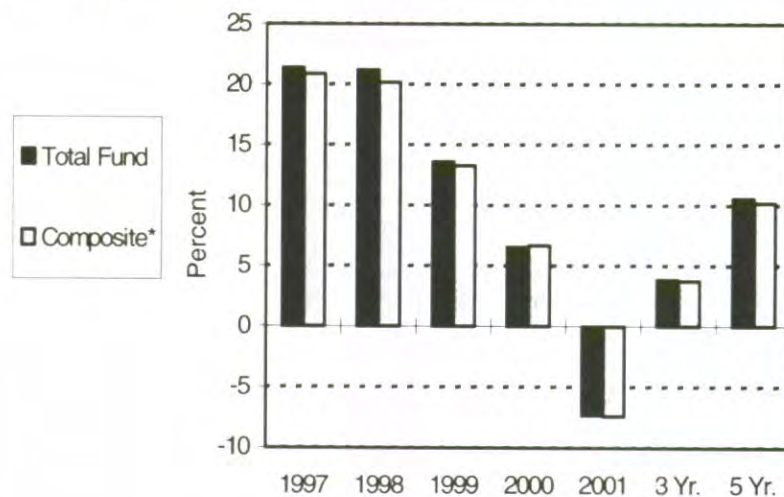
*Overall*, the Environmental Trust Fund provided a return of -7.3% for fiscal year 2001, outperforming its composite index by 0.1 percentage point. The fund experienced modest outperformance over the last three and five years due to the incremental value added by both the stock and bond segments. Performance results are presented in Figure 38.

### Spendable Income

Spendable income generated by the Fund follows:

Fiscal Year	Millions
1997	\$6.8
1998	\$8.8
1999	\$9.7
2000	\$12.7
2001	\$12.7

Figure 38. Environmental Trust Fund Performance FY 1997-2001



	1997	1998	1999	2000	2001	Annualized 3 Yr.	Annualized 5 Yr.
<b>Total Fund</b>	21.4%	21.2%	13.6%	6.6%	-7.3%	3.9%	10.6%
Composite*	20.9	20.2	13.3	6.7	-7.4	3.8	10.2
<b>Stock Segment</b>	34.7	30.4	23.1	7.4	-14.6	4.1	14.7
S&P 500	34.7	30.2	22.8	7.2	-14.8	3.9	14.5
<b>Bond Segment</b>	8.6	12.1	3.7	4.7	11.2	6.5	8.0
Lehman Aggregate	8.2	10.5	3.1	4.6	11.2	6.3	7.5

\* Weighted 50% S&P 500/ 48% Lehman Aggregate, and 2% 3 Month T-Bills through June 1999. Weighted 70% S&P 500/ 28% Lehman Aggregate/ and 2% 3 month T-Bill beginning July 1, 1999.



## Tobacco Endowment Funds

*The Tobacco Endowment Funds were established in Fiscal Year 2000 by the Minnesota Legislature to distribute the settlement proceeds from the 1998 tobacco litigation. The total settlement was \$6.1 billion with payments spread over a 20-year period. Two tobacco endowment funds were established using a portion of the proceeds. One endowment fund is the Medical Education Endowment Fund and the other is the Tobacco Prevention Fund. On June 30, 2001, the market value of the Funds was \$335 million and \$539 million, respectively.*

### Investment Objective

The State Board of Investment invests the Medical Education Endowment Fund (MEF) and the Tobacco Prevention Fund (TPF). The investment objective of the Tobacco Endowment Funds is to increase the market value of the Funds over time in order to increase the annual amount made available for spending.

### Investment Constraints

With a change in law enacted during the 2000 Legislative session, distributions from the Funds are now made up to five percent of the market value. The value is measured each year at the beginning of the fiscal year for the Tobacco Prevention Fund and measured at the beginning of each quarter for the Medical Education Fund. The increased flexibility allows a portion of the Funds to be invested in equities.

The distributions from the TPF are used by the Commissioner of Health to fund public health initiatives. The distributions from the MEF are used for medical education at the University of Minnesota medical school.

Prior to July 1, 2000, annual earnings up to five percent of the market value of the Funds could be distributed for

expenditure, and the principal of the Funds had to remain inviolate.

### Asset Allocation

Previously, the two endowment funds were invested in a laddered fixed income portfolio.

Since July 1, 2000, the two funds have an asset allocation of 50 percent equity and 50 percent fixed income.

### Investment Management

SBI staff manage all assets of the two endowment funds. Under the prior law, the fixed income portfolio was invested entirely in U.S. Treasury and Government Agency bonds with maturities no greater than the expiration date of the funds. The maturities of the bonds were spread out over the entire life of the endowment funds. This strategy minimized reinvestment risk and fluctuations in the market values of the funds while adhering to the investment objectives. With the current law, the bond portfolio is structured to invest in a range of U.S. government, corporate and mortgage securities.

### Spendable Income

Spendable income generated by the Tobacco Prevention Fund since July 1, 2000 was:

Fiscal Year	Millions
2001	\$14.1

Spendable income generated by the Medical Education Endowment Fund since July 1, 2000 was:

Fiscal Year	Millions
2001	\$14.2



## Tobacco Endowment Funds

### Investment Performance

The *stock* segment of the Tobacco Prevention Fund outperformed its benchmark, the S&P 500, during the fiscal year by 0.2 percentage point.

The *bond* segment of the Tobacco Prevention Fund matched its benchmark, the Lehman Aggregate, during the fiscal year.

*Overall* the Tobacco Prevention Fund provided a return of -2.2% for fiscal year 2001, underperforming its composite index by 0.4 percentage point.

The *stock* segment of the Medical Education Fund outperformed its benchmark, the S&P 500, during the fiscal year by 0.2 percentage point.

The *bond* segment of the Medical Education Fund matched its benchmark, the Lehman Aggregate, during the fiscal year.

*Overall* the Medical Education Fund provided a return of -2.3% for fiscal year 2001, underperforming its composite index by 0.5 percentage point.

### Tobacco Prevention Fund

	<b>2001</b>
<b>Total Fund</b>	<b>-2.2%</b>
Composite Index*	-1.8
<b>Equity Segment</b>	<b>-14.6</b>
S&P 500	-14.8
<b>Bond Segment</b>	<b>11.2</b>
Lehman Aggregate	11.2

### Medical Education Fund

	<b>2001</b>
<b>Total Fund</b>	<b>-2.3%</b>
Composite Index*	-1.8
<b>Equity Segment</b>	<b>-14.6</b>
S&P 500	-14.8
<b>Bond segment</b>	<b>11.2</b>
Lehman Aggregate	11.2

\* Weighted 50% stocks/ 50% bonds.



## Closed Landfill Investment Fund

The Closed Landfill Investment Fund is a trust fund created by the Legislature to invest moneys to pay for the long-term costs of maintaining the integrity of landfills in Minnesota once they are closed. On June 30, 2001 the market value of the Fund was \$9.0 million.

### Investment Objective

The investment objective of the Closed Landfill Investment Fund is to generate high returns from capital appreciation. The Fund will be used by the Commissioner of the Pollution Control Agency to pay for the long-term costs of maintaining the integrity of landfills in Minnesota once they are closed. By statute, the fund will receive an appropriation of \$5.1 million at the beginning of fiscal years 2000, 2001, 2002 and 2003. However, by statute, the assets of the Fund are unavailable for expenditure until after fiscal year 2020.

### Asset Allocation

Since July 1999, the Closed Landfill Investment Fund has been invested entirely in common stock. Given the long time horizon of this Fund and the lack of need for any short or mid-term withdrawals, this strategy will maximize the long-term gain of the Fund.

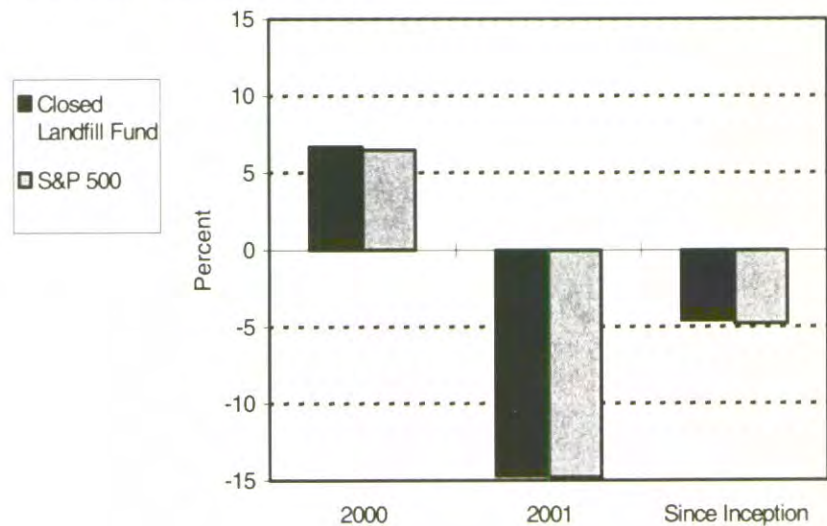
### Investment Management

SBI staff manage all assets of the Closed Landfill Investment Fund. The assets are managed to passively track the performance of the S&P 500 index.

### Investment Performance

The Closed Landfill Investment Fund outperformed its benchmark, the S&P 500, during the fiscal year by 0.1 percentage point. By investing in all the stocks in the benchmark at their index weighting, the segment attempts to track the benchmark return on a monthly and annual basis.

Figure 39. Closed Landfill Fund 2000-2001



	2000	2001	Since 7/1/99
Total Fund	6.7%	-14.7%	-4.6%
S&P 500	6.5	-14.8	-4.8



## Cash Management & Related Programs

The State Board of Investment (SBI) manages the cash balances in more than 400 state agency accounts with the objectives of preserving capital and providing competitive money market returns. On June 30, 2001, the total value of these accounts was \$7.3 billion.

### Internal Cash Pools

The SBI invests these cash accounts in short-term, liquid, high quality debt securities on a non-leveraged basis. These investments include U.S. Treasury and Agency issues, repurchase agreements, bankers acceptances, high grade corporates, and commercial paper. On June 30, 2001, the combined value of all agency cash balances was \$7.3 billion.

#### Pool Structure

Most of the cash accounts are managed by SBI staff through two pooled investment vehicles, which operate much like money market mutual funds:

- **Trust Fund Pool.** This pool contains cash balances of trust fund and retirement-related accounts that are managed internally. The Trust Fund Pool had an average daily balance of \$85.6 million during the year.
- **Treasurer's Cash Pool.** This pool contains cash balances from the Invested Treasurer's Cash and other accounts necessary for the operation of state agencies. The Treasurer's Cash Pool had an average daily balance of \$6.1 billion during the year.

Staff also manages approximately \$1 billion of assets in separately managed dedicated accounts because of special legal restrictions. The

vast majority of these assets are related to state or state agency debt issuance including debt service reserves and proceeds.

#### Performance

The SBI measures the performance of both pools against customized benchmarks which reflect the maturity structure of each pool.

For fiscal year 2001, the Trust Fund Pool and the Treasurer's Cash Pool outperformed their respective benchmarks. Both pools also outperformed the total return on 3 Month Treasury Bills.

<b>Trust Fund Pool</b>	<b>6.3%</b>
Benchmark	5.5
<b>Treasurer's Cash Pool</b>	<b>7.2</b>
Benchmark	6.2
3 Month Treasury Bills	5.5

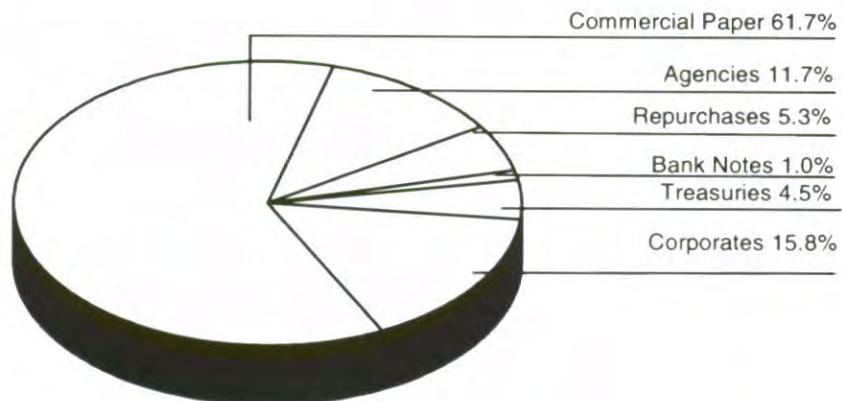
Effective January 1997, the Trust Fund Pool is measured against the IBC All Taxable Money Fund Index.

Effective January 1997, the Treasurer's Cash Pool is measured against a blended benchmark consisting of the Lehman Brother's 1-3 year Government Index for a portion of the portfolio and the IBC All Taxable Money Fund Index for the balance.

#### Treasurer's Cash Pool

On June 30, 2001, the Treasurer's Cash Pool was dominated by high quality commercial paper holdings. The composition of the pool is shown in Figure 39. At the end of the fiscal year, the pool had a current yield of 6.3% and an average maturity of 124 days.

Figure 40. Invested Treasurer's Cash Fund Distribution as of June 30, 2001





## Cash Management & Related Programs

### Securities Lending Program

The SBI participates in securities lending programs in which securities held by the SBI are loaned to banks and security dealers for a daily fee. These loans are fully collateralized. Currently, the majority of the SBI's securities lending activity is undertaken by the SBI's master custodian bank, State Street Bank and Trust. State Street Bank generated additional income of approximately \$20.3 million during fiscal year 2001.

An additional lending program began this fiscal year with Wells Fargo. This program generated additional income of approximately \$1.0 million during fiscal year 2001.

### Certificate of Deposit Program

The SBI also manages a certificate of deposit (CD) program in which it purchases CD's from Minnesota financial institutions. The SBI receives a market rate of return on these investments, using the average secondary CD market rate quoted by the New York Federal Reserve Bank.

The SBI's Certificate of Deposit program provides a reliable source of capital to Minnesota financial institutions, regardless of size, many of which do not have access to the national CD market. The Board designed the program so that no single institution is favored in the allocation of assets. Only the cash reserves of the retirement funds are used in the program.

During fiscal year 2001, the SBI purchased over \$367 million of CD's from Minnesota financial institutions. Since it began the program in 1980, the SBI has purchased over \$3.7 billion of CD's from approximately 500 financial institutions throughout the state.

### Securities Repurchase Program

In recent years, community banks throughout Minnesota have experienced an increased need for funds due to a reduction in local deposits and a reduced ability to sell investments held in bank portfolios due to changes in federal accounting requirements. The SBI created the Securities Repurchase Program to help meet the increased needs of banks throughout the state.

Under the program, the SBI temporarily buys securities such as Treasuries and Governments from banks under a repurchase agreement (repo). At the end of the agreement period, the securities are returned to the selling banks (i.e. "repurchased") and the bank pays the SBI principal and interest.

The transactions are fully collateralized and range in size from \$100,000 to \$2 million per institution. For ease of administration, the program uses the same rates, offering dates and maturity dates as the SBI's CD program.

During fiscal year 2001, the SBI purchased \$43.7 million in repos from Minnesota financial institutions.



## Major Policy Initiatives

### Legislative Update

Several items of interest to the State Board of Investment were passed during the 2001 legislative sessions.

The State Departments bill, enacted as Laws of Minnesota 2001, 1<sup>st</sup> special session, Chapter 10, creates a postretirement health care insurance plan. Article 7 authorizes the Minnesota State Retirement System (MSRS) to administer individual accounts for the new plan and provides that the assets are to be invested by the SBI in the Supplemental Investment Fund (SIF). The plan will participate in and buy shares in the SIF accounts in the same manner as the unclassified plan.

The Higher Education bill, enacted as Laws of Minnesota 2001, 1<sup>st</sup> special session, Chapter 1, creates a new account within the Medical Education Fund. Article 2, sections 2 to 5 provide that the last two one-time tobacco settlement payments (for end of year 2001 and end of year 2002) are appropriated into the new account. The new account is called the Academic Health Center Account. Up to 5 percent of the account may be withdrawn each year on a quarterly basis for expenditure by the U of M. The SBI will invest the new account in the same manner as it does the two Tobacco Endowment Funds.

Legislation adopted during the 2000 legislative session created a new trust fund to be invested by the SBI. The Lifetime Fish and Wildlife Trust Fund was established to receive the proceeds from the sale of lifetime licenses for certain hunting and fishing activities. The licenses were first sold in March 2001 and the monies were deposited in the Fund immediately thereafter.

During fiscal 2001, the SBI worked with the Department of Natural Resources (DNR), which administers the Fund, the senate author and senate staff to determine legislative intent concerning the appropriate investment strategy for the Fund. Implementation of the DNR recommendation is expected in fiscal 2002.



## Major Policy Initiatives

### Responsibility for Deferred Compensation Programs

The State Board of Investment (SBI) has responsibilities for several deferred compensation-related programs:

- The SBI selects investment product providers for the State Deferred Compensation Plan, an Internal Revenue Code (IRC) 457 plan administered by the Minnesota State Retirement System (MSRS).
- The SBI selects investment product providers for the Minnesota State Colleges and Universities (MnSCU) and the Minnesota Historical Society for their IRC 401(a) defined contribution retirement plans.
- The SBI reviews investment product providers for the employer match to IRC 403(b) tax sheltered annuities for K-12 teachers.

The investment product providers currently used by these programs are shown in Figure 41.

The restructured Deferred Compensation Plan took effect July 1, 1999. The SBI selected and retained six mutual funds as external stock and bond investment options and three insurance companies to jointly provide a fixed interest option.

At its June 2001 meeting, the SBI authorized the Deferred Compensation Review Committee to evaluate the addition of a mid-cap equity option for the plan. Final action will be taken in fiscal 2002.

In fiscal 2000, the SBI and MnSCU restructured the MnSCU plans. The restructuring resulted in the retention of a different set of investment product providers for the plans.

During the 2000 Session, the Legislature repealed the statutory provision requiring selection of qualified companies to provide investment products for the 403(b) annuity employer match opportunity. The new legislation directs the SBI, when requested by an investment product provider, to review the financial standing of the

company, the competitiveness of the company's investment options and returns, and the level of all charges and fees impacting those returns. The SBI implemented the new directive in fiscal 2001.

*Figure 41. Investment Product Providers Selected or Approved by the SBI*

#### **State Deferred Compensation 457 Plan**

Dodge & Cox, Inc. (Bond Fund)  
Fidelity Management & Research Company (International Equity)  
INVESCO Funds Group, Inc. (Balanced Fund)  
Janus Capital Corporation (Large Cap Equity)  
T. Rowe Price Associates, Inc. (Small Cap Equity)  
The Vanguard Group (Equity Index)  
Great-West Life & Annuity Insurance Co. (Fixed Fund)  
Minnesota Life Insurance Co. (Fixed Fund)  
Principal Life Insurance Co. (Fixed Fund)

#### **MnSCU 401(a) Plans (effective July 1, 2000)**

Teachers Insurance & Annuity Association-College Retirement  
Equities Fund (TIAA-CREF)  
Wells Fargo Bank Minnesota, N.A.

#### **Historical Society 401(a) Plan (effective July 1, 2000)**

Teachers Insurance & Annuity Association-College Retirement  
Equities Fund (TIAA-CREF)



## Major Policy Initiatives

### Police and Fire Fund Activity

#### **Mergers with PERA**

Under state law, local police and salaried firefighter plans may consolidate with the Public Employees Retirement Association (PERA). When a merger is approved, assets are transferred from the local plan to the State Board of Investment (SBI).

By statute, the Executive Director of the SBI has authority to accept assets in-kind or to require that individual holdings be converted to cash prior to the transfer. Since the investments made by local plans are similar to those made by the SBI, most assets can be transferred at their stated market value.

Since 1987, 44 plans with total assets of \$603 million have merged with PERA. After consolidation, these assets are managed as part of the Basic and Post Retirement Funds. (Please note that there remain only three local police plans and two salaried firefighter plans that have not merged with PERA. These five plans also have the statutory authority to invest in the Supplemental Investment Fund [SIF]).

#### **Volunteer Fire Plans Investment**

Volunteer firefighter retirement plans are not eligible to be consolidated with PERA. They may invest their assets with the SBI through the SIF. There are more than 700 local volunteer firefighter plans with investment authority.

During fiscal year 2001, an additional 21 volunteer firefighter plans selected the SIF for all or a portion of their

retirement assets. This brought the total number of plans participating in the SIF to 222 by the end of the fiscal year.

The SBI expects this growth trend to continue as volunteer firefighter plans become more familiar with the SBI and its ability to offer a variety of investment options at a low administrative cost.

#### **Local Plan Performance Reports**

The SBI provides the local plans that participate in the SIF reports displaying their annual returns and market values from the SIF in compliance with *Minnesota Statutes*, Chapter 356. The local plans are responsible for providing their specific data to the Office of the State Auditor.



## Major Policy Initiatives

### Guidelines on International Investing

As noted in prior sections of this report, the State Board of Investment (SBI) made its first international stock investments in 1992. The benefits of international investing include: increased investment opportunity, greater diversification and potential for higher return. Approximately one-half of the world's markets lie outside the U.S.

The United Kingdom, Japan, Germany and France comprise nearly two-thirds of the value of the international markets. Together with seventeen (17) other countries in Europe and the Pacific Basin, these countries comprise the developed international stock markets. Many of the emerging markets in Latin America, Eastern Europe, the Middle East, Africa and Asia may require special investment considerations and/or limitations on investment.

#### Task Force

The Board has established an International Investing Guidelines Task Force to recommend guidelines that address these limitations as well as other concerns related to international investing.

The membership of the Task Force includes a representative of each Board member, a representative of each statewide retirement system, two private sector representatives from the Investment Advisory Council, two representatives from organized labor and one representative from environmental groups. The SBI Executive Director and the SBI's consultant are also members of the Task Force.

#### Guidelines

Based on information compiled from U.S. State Department reports, the Task Force has grouped countries into three broad categories as indicated below by groups I, II and III. *It is important to note that the guidelines listed below do not prohibit an active stock manager from purchasing the stock of any country.* Rather, they require additional notification and/or that a presentation be given by the manager regarding the firm's investment strategy for investments to countries in Groups II and III.

**Group I.** These countries have legal structures that generally respect the rights of workers and human rights. Because these countries have strong protections for workers and human rights, there is little concern that economic and social disruptions may occur which would have an adverse effect on financial markets. As a result, active stock managers are authorized to invest in companies domiciled in these countries without additional notification to the SBI.

**Group II.** These countries have legal protections for workers and human rights, but violations have been cited in the State Department reports. It is thought that violations of this type may lead to economic and social disruption in these countries, which may have an adverse effect on their financial markets. An active stock manager may, however, invest in companies domiciled in the countries shown under "Group II" if the manager believes that it would be a breach of fiduciary responsibility not to do so. If a manager chooses to invest in one or more of these markets, the manager must notify the SBI in writing.

**Group III.** These countries lack basic protections for workers and human rights and do not appear to be making progress in establishing an appropriate legal structure to address these issues. The potential for economic, political and social unrest is seen to be greater in these countries, which may adversely affect the stability of these financial markets. An active stock manager may, however, invest in companies domiciled in countries shown under "Group III" if the manager believes that it would be a breach of fiduciary responsibility not to do so. If a manager chooses to invest in one or more of these markets, the manager must appear before the SBI to present its reasons for the decision to do so.

#### Review Process

When the Task Force made its original report to the Board in December 1992, they expected that the country groupings would be updated periodically to reflect changes in the world markets. At its meeting in June 1994, the Board adopted the following review process regarding guidelines:

- Staff will review reports from the US State Department regarding worker and human rights issues and designate countries "Group I, II or III" using the existing policy guidelines recommended by the Task Force and adopted by the Board.
- Staff designations will be reviewed with the SBI Administrative Committee. This includes any movement of countries between categories as well as categorizations of any new countries that need to be added to the list of available markets.



## Major Policy Initiatives

Figure 42 displays the country groupings.

Figure 42. Current International Investing Guidelines  
Country Groupings\*

<b>Group I</b> <b>EAFE Countries</b>	<b>Group I</b> <b>Non-EAFE Countries</b>	<b>Group II</b> <b>Non-EAFE Countries</b>	<b>Group III</b> <b>Non-EAFE Countries</b>
Australia	Argentina	Bangladesh	Burma
Austria	Barbados	Brazil	China
Belgium	Bermuda	Bulgaria	Cote d'Ivoire
Denmark	Bolivia	Colombia	Croatia
Finland	Botswana	Ghana	Dominican Republic
France	Canada	Guatemala	Ecuador
Germany	Chile	India	Egypt
Hong Kong	Costa Rica	Indonesia	Iran
Ireland	Cyprus	Israel	Jordan
Italy	Czech Republic	Korea, Republic of	Kazakhstan
Japan	Estonia	Kuwait	Kenya
Netherlands	Greece	Malaysia	Lebanon
New Zealand	Hungary	Mauritania	Liberia
Norway	Jamaica	Mongolia	Oman
Portugal	Latvia	Morocco	Pakistan
Singapore	Lithuania	Namibia	Paraguay
Spain	Luxembourg	Nepal	Russia
Sweden	Malawi	Nigeria	Saudi Arabia
Switzerland	Mauritius	Peru	Syria
United Kingdom	Mexico	Philippines	Turkmenistan
	Panama	Romania	Ukraine
	Papua New Guinea	South Africa	United Arab Emirates
	Poland	Sri Lanka	Uzbekistan
	Slovak Republic	Swaziland	
	Slovenia	Thailand	
	Taiwan	Turkey	
	Trinidad & Tobago	Venezuela	
	Tunisia	Vietnam	
	Uruguay	Zambia	
		Zimbabwe	

\* last revised in May 2001



## Major Policy Initiatives

### Mandate on Northern Ireland

#### Requirements

The SBI is responsible for implementing certain statutory provisions concerning its investments in U.S. companies with operations in Northern Ireland. The statute requires the State Board of Investment (SBI) to:

- Annually compile a list of U.S. corporations with operations in Northern Ireland in which the SBI invests.
- Annually determine whether those corporations have taken affirmative action to eliminate religious or ethnic discrimination. The statute lists nine goals modeled after the MacBride Principles.
- Sponsor, co-sponsor and support resolutions that encourage U.S. companies to pursue affirmative action in Northern Ireland, where feasible.

The statute does not require the SBI to divest existing holdings in any companies and does not restrict future investments by the SBI.

#### Implementation

The SBI uses the services of the Investor Responsibility Research Center (IRRC), Washington D.C., to monitor corporate activity in Northern Ireland. In January 2001, the SBI held stocks or bonds in 55 of 66 corporations identified by IRRC as having operations in Northern Ireland.

The SBI filed shareholder resolutions with 6 of these corporations during the 2001 proxy season. The resolutions asked corporations to sign the MacBride Principles, to implement affirmative action programs or to report on the steps they have taken to alleviate religious or ethnic discrimination.

Resolutions at two corporations were withdrawn after successful negotiations. The voting results on four of the resolutions that made it to the ballot are shown below:

Company	Affirmative Vote
Baker Hughes	15.6%
BE Aerospace	31.5
Dun & Bradstreet	8.1
TJX Cos.	16.3



## Major Policy Initiatives

### Tobacco Issues

At its September 1998 meeting, the Board adopted a resolution that requires each active and semi-passive equity manager to divest by September 2001 shares of any company which obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. Staff notified each active and semi-passive equity manager of the new policy.

As in the previous fiscal year, the Board received updates on the SBI's holdings of tobacco related stocks at each of its quarterly meetings.

#### **Directives to Stock Managers**

The existing policy follows many quarters of work by the Board on the tobacco issue. At its December 1997 meeting, the Board adopted a resolution requiring the SBI's stock managers to provide written justification to SBI staff if a manager chose to make new or additional purchases of stock in companies which obtain more than 50% of their revenues from the sale of tobacco.

At its June 1998 meeting, the Board took further action regarding SBI investment in tobacco-related stocks.

The first resolution required the SBI active and semi-passive equity managers to discontinue purchases of shares of any company that generates more than 15 percent of its revenue from the manufacture of consumer tobacco products. The second resolution required the SBI staff to prepare and submit to the Board a plan for divestiture of shares of any company that generates more than 15 percent of its revenue from the manufacture of consumer tobacco products held in the SBI's actively

and semi-passively managed equity portfolios.

The existing policy requiring divestment follows directly from the latter resolution.

At the close of fiscal year 2001, the SBI had divested from its active portfolios all shares of companies covered by its divestment resolution.

#### **Shareholder Resolutions**

During the 2001 proxy season, the SBI cosponsored a tobacco-related resolution at three (3) companies. The resolution requested independent testing of tobacco ads to verify that they are not youth friendly.

The resolution was withdrawn at two companies due to the proposal not meeting the necessary support level for resubmission. The proposal filed at Philip Morris received support from 7.7% of the votes cast.



## Major Policy Initiatives

### Proxy Voting

As a stockholder, the State Board of Investment (SBI) is entitled to participate in corporate annual meetings through direct attendance or casting its votes by proxy. Through proxy voting, the Board directs company representatives to vote its shares in a particular way on resolutions under consideration at annual meetings. These resolutions range from routine issues, such as those involving the election of corporate directors and ratification of auditors, to matters such as merger proposals and corporate social responsibility issues. In effect, as a shareholder the SBI can participate in shaping corporate policies and practices.

#### Voting Process

The Board recognizes its fiduciary responsibility to cast votes on proxy issues. Except for the shares held by active international managers, the SBI does not delegate the duty to its external investment managers. Rather, the SBI actively votes all shares according to guidelines established by its Proxy Committee.

The Board delegates proxy voting responsibilities to its Proxy Committee which is comprised of a designee of each Board member. The five member Committee meets only if it has a quorum and casts votes on proxy issues based on a majority vote of those present. In the unusual event that it reaches a tie vote or a quorum is not present, the Committee will cast a vote to abstain.

#### Voting Guidelines

The Committee has formulated guidelines by which it votes on a wide range of corporate governance and social responsibility issues. Each year the Proxy Committee reviews existing guidelines and determines which issues it will review on a case-by-case basis.

##### Corporate Governance Issues

The voting guidelines for major corporate governance issues are summarized below:

**Routine Matters.** In general, the SBI supports management on routine matters such as uncontested election of directors; selection of auditors; and limits on director and officer liability or increases in director and officer indemnification permitted under the laws of the state of incorporation.

**Shareholder Rights Issues.** In general, the SBI opposes proposals that would restrict shareholder ability to effect change. Such proposals include instituting super-majority requirements to ratify certain actions or events; creating classified boards; barring shareholders from participating in the determination of the rules governing the board's actions (e.g. quorum requirements and the duties of directors); prohibiting or limiting shareholder action by written consent; and granting certain stockholders superior voting rights over other stockholders.

In general, the SBI supports proposals that preserve or enhance shareholder rights to effect change. Such proposals include requiring shareholder approval of poison pill

plans; repealing classified boards; adopting secret ballot of proxy votes; reinstating cumulative voting; and adopting anti-greenmail provisions.

**Executive Compensation.** In general, the SBI supports efforts to have boards of directors comprised of a majority of independent directors, to have compensation committees made up entirely of independent directors, and to have executive compensation linked to a company's long-term performance.

**Buyout Proposals.** In general, the SBI supports friendly takeovers and management buyouts.

**Special Cases.** The Proxy Committee evaluates hostile takeovers, contested election of directors, compensation agreements that are contingent upon corporate change in control, and recapitalization plans on a case-by-case basis. In addition, the Committee may review corporate governance issues affecting companies incorporated or headquartered in Minnesota on a case-by-case basis.

##### Social Responsibility Issues

The voting guidelines for major social responsibility issues are shown below:

**Northern Ireland.** The SBI supports resolutions that call for the adoption of the MacBride Principles as a means to encourage equal employment opportunities in Northern Ireland. The SBI also supports resolutions that request companies to submit reports to shareholders concerning their labor practices or their sub-contractors' labor practices in Northern Ireland.



## Major Policy Initiatives

**Tobacco and Liquor.** In general, the SBI supports a variety of tobacco and liquor related resolutions including those that call for corporations to limit their promotion of tobacco and liquor products and to report on their involvement in tobacco issues.

**Environmental Protection.** In general, the SBI supports resolutions that require a corporation to report or disclose to shareholders company efforts in the environmental arena. In addition, the SBI supports resolutions that request a corporation to report on progress toward achieving the objectives of the Ceres Principles (formerly known as the Valdez Principles), an environmental code of conduct for corporations.

**Other Social Responsibility Issues.** In general, the SBI supports proposals that require a company to report or disclose to shareholders company efforts concerning a variety of social responsibility issues. In the past, these reporting resolutions have included issues such as affirmative action programs, animal testing procedures, nuclear plant safety procedures and criteria used to evaluate military contract proposals.

### Summary of FY 2001 Proposals

During fiscal year 2001 the SBI voted proxies for approximately 2,700 U.S. corporations and more than 1,000 international companies.

As in past years, the issues on corporate ballots included a broad range of proposals in the *corporate governance* area, as reflected in information provided by the Investor Responsibility Research Center (IRRC), Washington, D.C.:

- Shareholders submitted 18 proposals regarding the restriction of executive compensation which were supported by an average of 13.5% of the shares voted.
- Shareholders submitted 23 proposals to redeem "poison pills" (an anti-takeover device) or submit them to shareholder vote. This proposal received average support of 58.4%.
- Seven (7) proposals were submitted concerning confidential voting. These proposals received average support of 54.0%.
- Other proposals included the repeal of classified boards which were supported by an average of 53.2% of shares voted; shareholder approval of severance packages to top executives ("golden parachutes") which received support from an average of 36.8% of shares voted; cumulative voting which was supported by an average of 32.7% of shares voted; requirements for the majority of directors to be independent received support from an average of 26.5% of shares voted; and the prohibition of the repricing of underwater stock options (lowering the price of stock options whose stock price had declined) received average support of 46.6%
- Ceres Principles received 15 resolutions with average support of 7.7%. A variety of other environmental issues received 11 resolutions and received average support ranging from 3% to 10%.
- Energy related issues received 6 resolutions with an average support level of 7.0%.
- Equal employment issues received 9 resolutions with an average support of 10.6%.
- Resolutions on a variety of tobacco-related issues were on 9 ballots with an average support of 6.7%.
- Human rights issues received 8 resolutions with an average support level of 9.5%.
- Northern Ireland issues received 4 proposals this year with an average support of 13.2%.
- Global Labor/Environmental Standards received 26 proposals this year with an average support of 8.8%.

In the *social responsibility* area, the environment, global labor standards, fair employment issues-both domestic and international, and tobacco were the major issues, as reflected in information provided by the IRRC:



## Investment Manager Summaries

### Domestic Equity Program Managers

#### Active

##### **Alliance Capital Management L.P.**

Alliance searches for companies likely to experience high rates of earnings growth on either a cyclical or secular basis. Alliance invests in a wide range of medium to large growth companies and the firm does not tend to concentrate on one particular type of growth company over another. However, the firm's decision-making process appears to be much more oriented toward macroeconomic considerations than is the case with most other growth managers. Accordingly, cyclical earnings prospects, rather than secular, appear to play a larger role in terms of stock selection. Alliance is not an active market timer, rarely raising cash above minimal levels. They manage a concentrated stock portfolio of about 40 companies. The firm was retained by the SBI in March 1983.

##### **Brinson Partners, Inc.**

Brinson Partners is a fundamental, long-term, value-oriented investor. They model a quantifiable and theoretically justifiable estimate of intrinsic value from an owner's perspective, and then compare that value estimate to the current stock price. These resulting price/value differences, applied over a broad range of companies, then become the building blocks of the security selection process. Portfolio construction focuses on market sensitivity, common factor exposures, industry weightings, and individual stock selection. Brinson was retained by the SBI in July 1993.

##### **Cohen Klingenstein & Marks, Inc.**

Cohen Klingenstein & Marks seeks to outperform the market by focusing on two variables: economic cycles and security valuation. Within economic cycles, they believe that stocks exhibit predictable patterns that reflect changing expectations on corporate profits and interest rates. Similarly, they believe that stock prices normally reflect earnings expectations. The firm exploits short run inefficiencies through an unbiased process that relates the price of a stock to consensus earnings expectations. The firm was retained by the SBI in April 1994.

##### **FLA Asset Management, LLC**

Forstmann-Leff uses a combination top-down, bottom-up investment approach. The top-down is based on macroeconomic analysis, including the development of industry themes and sector emphasis. The highly structured and disciplined security selection strategy is based on proprietary fundamental research, including qualitative and quantitative techniques. Based upon its macroeconomic outlook, the firm tends to purchase liquid, medium to large capitalization stocks that will benefit the most during the current phase of the market cycle. The firm was retained by the SBI in March 1983.

##### **Franklin Portfolio Associates, LLC**

Franklin's investment decisions are quantitatively driven and controlled. The firm believes that consistent application of integrated multiple valuation models produces superior investment results. The firm's stock selection model is a composite model comprised of 30 valuation measures each of which falls into one of the following groups: fundamental momentum, relative value, future cash flow, and

economic cycle analysis. Franklin utilizes a quantitative approach in managing both the semi-passive and active portfolios.

For the *active* product, Franklin's portfolio management process adds value by focusing on buying and selling the right stock rather than attempting to time the market or pick the right sector or industry groups. Franklin was retained by the SBI as an active manager in April 1989.

##### **GeoCapital, Corporation**

GeoCapital invests primarily in small capitalization equities with the intent to hold them as they grow into medium and large capitalization companies. The firm uses a theme approach and individual stock selection analysis to invest in the growth/technology and intrinsic value areas of the market. In the growth/technology area, GeoCapital looks for companies that will have above average growth due to strong product development and limited competition. In the intrinsic value area, the key factors are corporate assets, free cash flow, and an unrecognized catalyst that will cause a positive change in the company. The firm generally stays fully invested, with any cash positions due to the lack of attractive investment opportunities. GeoCapital was retained by the SBI in April 1990.

##### **Lincoln Capital Management**

Lincoln Capital concentrates on leading, medium to large capitalization companies that have strong demonstrated and projected growth. The firm uses traditional fundamental company analysis focusing on cash flow growth and capital productivity in its stock selection process. Companies held by Lincoln generally exhibit premium price/book ratios, high



## Investment Manager Summaries

return on equity, and strong balance sheets, characteristics consistent with their large cap growth style. Lincoln was retained by the SBI in July 1993.

### **Oppenheimer Capital**

Oppenheimer Capital's strategy is to buy companies that are selling at a price below their determination of the company's intrinsic value. Their process is bottom-up based on fundamental analysis. Factors they look for when evaluating companies include a strong industrial or commercial position, often where there are significant barriers to entry. They look for companies that are financially sound and have a management team that is devoted to the interest of shareholders. They believe that discretionary cash flow, cash that remains after a company spends what is needed to sustain its commercial position, is a primary determinant of a firm's potential to build value for shareholders. The firm was retained by the SBI in July 1993.

### **Semi-Passive**

#### **Barclays Global Investors**

Barclays uses a Core Alpha Model which disaggregates individual equity returns for each of the 3500 stocks in their universe into three inputs: fundamental, expectational, and technical. The fundamental inputs look at measures of underlying company value including earnings, book value, cash flow, and sales. These factors help identify securities that trade at prices below their true economic value. The expectational inputs incorporate future earnings and growth rate forecasts made by over 2500 security analysts. The technical inputs provide a measure of recent changes in company fundamentals, consensus expectations, and

performance. Estimated alphas are used in a portfolio optimization algorithm to identify the optimal portfolio that maximizes the portfolio's alpha while maintaining a risk level specified by the SBI. The firm was retained by the SBI for semi-passive management in January 1995.

#### **Franklin Portfolio Associates, LLC**

For the *semi-passive* product, Franklin adds incremental value to a benchmark by buying stocks ranked the highest and selling stocks ranked the lowest, while maintaining the portfolio's systematic risk and industry weightings at levels similar to the benchmark. Franklin attempts to allocate 75% or more of the total risk level set by the client to specific stock selection and the rest to systematic and industry risk. The firm always remains fully invested. The SBI retained Franklin as a semi-passive manager in January 1995.

#### **J.P. Morgan Investment Management Inc.**

J.P. Morgan manages a semi-passive portfolio for the SBI and believes that superior stock selection is necessary to achieve excellent investment results. To accomplish this objective, they use fundamental research and a systematic valuation model. Analysts forecast earnings and dividends for the 650 stock universe and enter these into a stock valuation model that calculates an expected return for each security. The stocks are ranked according to their expected return within their economic sector. Stocks most undervalued are placed in the first quintile. The portfolio includes stocks from the first four quintiles, favoring the highest ranking stocks whenever possible, and sells those in the fifth quintile. In addition, the portfolio will closely approximate the sectors and style of the

benchmark. The firm remains fully invested at all times. The firm was retained by the SBI in January 1995.

### **Passive**

#### **Barclays Global Investors**

For the passive account, Barclays seeks to minimize tracking error subject to trading costs, and controls overall investment and operational risks. Their strategy is to invest across the broad market while excluding smaller, illiquid securities from the investment universe. An optimized approach is taken to security selection. Optimization effectively trades off expected tracking error with cost of trading to determine which trades should be executed. Barclays was retained by the SBI for passive management in July 1995.

### **Emerging Equity**

#### **Artemis Investment Management LLC**

Artemis believes that excess rates of return above benchmark indices are derived from investments in companies that initiate and embrace change in their businesses. They want to identify those small cap companies that they believe (1) have catalysts that can accelerate future earnings and cash flow growth rates; and (2) are attractively valued relative to their respective peer groups. In order to implement their investment philosophy, they use relative value analysis, which is a bottom-up, stock picking approach driven by fundamental research and frequent meetings with company managements. The portfolio is diversified in terms of growth rates and opportunities for exposure in all economic sectors. Artemis was retained by the SBI in July 2000.



## Investment Manager Summaries

### **Bay Isle Financial Corporation**

Bay Isle Financial believes that companies with strong fundamentals and management will outperform and that these companies can be found at a discount to fair value. To capitalize on these ideas, they perform rigorous fundamental analysis on cash flow growth and balance sheet strength and evaluate a company's business, major competitors and management strength. Bay Isle closely monitors risk levels relative to the benchmark and the portfolio is diversified across most industry sectors. Bay Isle was retained by the SBI in July 2000.

### **Earnest Partners, LLC**

Earnest Partners utilizes a proprietary valuation and performance model and rigorous fundamental review to identify stocks with the most attractive relative returns. They have identified six performance drivers – valuation measures, operating trends, market trends, growth measures, profitability measures and macroeconomic measures – and have done extensive research to determine which combination of performance drivers, or return patterns, precede out-performance for stocks in each sector. They select stocks whose return patterns suggest favorable performance and control risk using a statistical program designed to measure and control the prospects of substantially under-performing the benchmark. The portfolio is diversified across industry groups. Earnest Partners was retained by the SBI in July 2000.

### **Holt-Smith & Yates Advisors**

Holt-Smith & Yates invests in companies demonstrating superior growth in earnings over a long period of time. They use bottom-up fundamental analysis, focusing on historical and forecasted sales and

earnings trends, profit margin trends, debt levels and industry conditions. They seek to purchase large-cap companies that meet their strict valuation criteria and that have superior fundamentals to that of the benchmark. Companies must currently have a five year projected growth rate of over 20% and a PEG (P/E ratio to growth rate) ratio of below 150%. They hold concentrated portfolios, and the portfolio has low turnover. Holt-Smith was retained by the SBI in July 2000.

### **New Amsterdam Partners LLC**

New Amsterdam Partners believes that investment results are evaluated by actual return, and therefore, investment opportunities should be evaluated by expected return. They believe that all valid techniques depend on forecasts of the amounts and timing of future cash flows. Thus, the firm focuses on forecasted earnings growth, yield, price-to-book ratio, and forecasted return on equity. They believe that the disciplined application of their valuation techniques in conjunction with sound financial analysis of companies, is the key to understanding and maximizing investment returns. New Amsterdam was retained by the SBI in April 1994.

### **Next Century Growth Investors, LLC**

Next Century Growth's (NCG) goal is to invest in the highest quality and fastest growing companies in America. They believe that growth opportunities exist regardless of the economic cycle. NCG uses fundamental analysis to identify companies that will surpass consensus earnings estimates which they believe to be the number one predictor of future out-performance. Their investment process focuses on growth companies that have superior top line revenue growth

(15% or greater), high profitability, and strong balance sheets that are well poised to outperform the market. NCG believes in broad industry diversification; sector exposures are limited to twice the benchmark weighting and individual positions to five percent. Next Century was retained by the SBI in July 2000.

### **Peregrine Capital Management, Inc.**

Peregrine's Small Cap Value investment process begins with the style's proprietary valuation analysis, which is designed to identify the small cap value stocks most likely to outperform. The valuation analysis identifies the most under-priced securities on a sector-by-sector basis. Drawing on thirty years of data, the analysis looks at different combinations of sixty fundamental factors most relevant in each independent sector to identify stocks that offer significant value relative to the companies' underlying fundamentals. The focus of the team's fundamental research is to determine if one or more of the style's "Value Buy Criteria" are present – these include short-term problems, unrecognized assets, take-over potential, and catalysts for change. The portfolio is diversified and sector weights are aligned closely to the benchmark. This allows stock selection to drive performance. Peregrine was retained by the SBI in July 2000.

### **Valenzuela Capital Management, Inc.**

Valenzuela Capital Partners believes that stock selection and adherence to valuation analysis are the backbone of superior performance. Their investment philosophy is mid-cap value oriented. The firm seeks companies with attractive valuations which are experiencing or beginning to experience positive changes in



## Investment Manager Summaries

revenues, positive changes in gross or operating margins, and/or positive changes in financial structure. The firm believes that below market valuations provide downside protection during weak market periods. In strong markets the portfolios will be driven by both improving earnings and multiple expansion. Valenzuela was retained by the SBI in April 1994.

### ***Voyageur Asset Management, LLC***

Voyageur's Large Cap Growth Equity strategy is focused on achieving consistent, superior performance with near-benchmark risk. They seek high quality growth companies with exceptional financial strength and proven growth characteristics. They believe that sound fundamental analysis reveals those companies with superior earnings achievement and potential. Their screening process identifies companies that over the past five years have had higher growth in sales, earnings, return on equity, earnings stability and have lower debt ratios relative to their benchmark. Because they focus on diversification and sector limitations, they believe they can continue to outperform as different investment styles move in and out of favor. Voyageur was retained by the SBI in July 2000.

### ***Winslow Capital Management, Inc.***

Winslow Capital is a fundamental, "bottom-up" investment firm with all portfolio managers acting as research analysts. They believe investing in companies with consistent and sustainable growth provides the best opportunity for achieving superior portfolio returns over the long term. The objective is to achieve a weighted average annual earnings growth rate in excess of 25%, over a 2-3 year time horizon. These companies tend to have consistently strong sales and

earnings growth, high return on equity, low debt to capital, strong cash flow, high inside ownership, steady or rising margins, a high level of earnings stability, and a sustainable competitive advantage. Hands-on research includes frequent, direct communication with senior management of portfolio holdings. The research process allows implementation of their investment philosophy in all market environments and delivers superior returns with a low relative level of volatility. Winslow Capital was retained by the SBI in April 1994 to manage a large cap portfolio. This mandate was changed to a small cap focus in July 2000.

### ***Zevenbergen Capital, Inc.***

Zevenbergen Capital's investment philosophy is founded on the principles that superior fundamentals drive stock price appreciation and exceptional management combined with balance sheet strength provides capital protection. The firm employs a forward looking, bottom-up investment process designed for long-term results. Portfolios are constructed with companies presenting established and prospective revenue, cash flow and earnings growth, while diversification and risk control are accomplished through a blend of company size, expected growth rates, and appropriate portfolio weightings. ZCI remains fully invested to ensure market participation. Zevenbergen was retained by the SBI in April 1994.

**Portfolio statistics for each of the domestic equity managers can be found in the Statistical Data section of this report.**

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## International Program Managers

### ***Active Developed***

#### ***American Express Asset Management International, Inc.***

American Express Asset Management's (AEAM) objective is to identify inefficiencies in market value at the regional, sector and stock level. Their investment process concentrates on identifying non-consensus market views, focusing on return on capital criteria, leading to investment opportunities that they can exploit. AEAM's core international equity approach is to combine top-down and bottom-up factors to construct a focused portfolio of large cap stocks. They start the decision-making process with the development of their macroeconomic outlook, leading to regional and sector allocations. The bottom-up stage of their process involves identifying the most attractive stocks within sectors using a well defined set of key criteria, combined with a strong sell discipline. American Express was retained by the SBI in February 2000.

#### ***Blairlogie Capital Management***

Blairlogie has developed a model that ranks countries based on a collection of current and historical data. Their quantitative analysis is enhanced with significant qualitative assessments to evaluate things a model cannot review. They continuously strive for the optimum combination of quantitative inputs and those based on the portfolio managers' judgment, but believe that objective, measurable facts must always be the starting point for making sound investment decisions. Blairlogie's approach is primarily top-down, but also incorporates bottom-up stock selection. Their process is based on an underlying



## Investment Manager Summaries

objective of producing premium returns consistently above their benchmark in any market environment, while carefully controlling risk and limiting volatility. Blairlogie's portfolio is broadly diversified in international markets, in terms of both country and stock selection. Blairlogie was retained by the SBI in February 2000.

### **Brinson Partners, Inc.**

Brinson is a fundamental, long-term, value-oriented investor. The focus of Brinson's fully active strategy is to pick the most attractive stocks, industries and countries. Their investment research process identifies discrepancies between a security's fundamental value and its observed market price - both across and within global equity markets. They exploit these discrepancies using a disciplined fundamental approach. Their research teams evaluate companies in their markets around the world and assign relative price/value rankings based on the present value of each company's expected future cash flows. The portfolio construction group utilizes this global network of resources to systematically develop portfolio strategy. Currency strategies are developed separately and coordinated with country allocations. Brinson was retained by the SBI in April 1993 with an active country/passive stock mandate. In October of 1999, Brinson converted the portfolio to a fully active mandate.

### **INVESCO Global Asset Management, Inc.**

INVESCO employs a systematic process that identifies undervalued-companies, combined with a consistently applied portfolio design process to control the predictability and consistency of returns. INVESCO managers believe they

can add value by identifying and investing in stocks which are attractively priced relative to the sustainable growth potential of the company. Portfolios are constructed on a bottom-up basis. They select individual companies rather than countries, themes, or industry groups. This is the first of four cornerstones of their investment approach. Secondly, they conduct financial analysis on a broad universe of non-U.S. companies, with key financial data adjusted to be comparable across countries and currencies. Third, INVESCO believes that using the firms own local investment professionals enhances fundamental company research. Finally, they manage risk and ensure broad diversification relative to the clients' benchmarks utilizing a statistics-based portfolio construction approach instead of utilizing country or industry constraints. INVESCO was retained by the SBI in February 2000.

### **Marathon Asset Management, Ltd.**

Marathon uses a blend of flexible, qualitative disciplines to construct portfolios which exhibit a value bias. Style and emphasis will vary over time and by market, depending on Marathon's perception of what represents the lowest risk opportunity. Since the firm believes that competition determines profitability, Marathon is attracted to industries where the level of competition is declining, and the firm will hold a sector position as long as the level of competition does not increase. At the stock level, Marathon tracks a company's competitive position relative to the attractiveness of their products or services and determines whether the company is following an appropriate reinvestment strategy for their current competitive position. Marathon was retained by the SBI in November 1993.

### **Montgomery Asset Management, LLC**

For the developed markets account, Montgomery's international equity investing combines thorough sector and country research with a disciplined bottom-up stock selection process to identify securities with long-term projected earnings growth, attractive valuation versus applicable peers, positive business momentum and the potential to achieve minimum required returns. Montgomery believes that a consistent process, centered on accountability, sector specialization and primary, original research provides a sustainable edge in international equity investing. The SBI retained Montgomery for developed market management in February 2000.

### **T. Rowe Price International, Inc.**

The T. Rowe Price investment approach links a broad macroeconomic framework with an awareness of the attractiveness of individual stock opportunities within each market and sector. Stocks are selected using fundamental analysis that emphasizes growth at a reasonable price. The aim is to identify companies whose prospects are attractive on a two-year investment horizon and whose fundamental earnings growth will be above average within its industry or geographic region. Within this framework, a regional oriented team coupled with an international, sectorally oriented team will be responsible for investment decisions. Several quantitative tools are used to evaluate a security's prospects, however, it is ultimately the managers' seasoned judgment that will cause a stock to be introduced, held, or excluded from portfolios. Country and industry weightings result directly from stock selection. T. Rowe Price was



## Investment Manager Summaries

retained by the SBI in November 1993.

### **Zurich Scudder Investments, Inc.**

Scudder believes that successful international investing requires knowledge of each country's economy, political environment and financial market obtained through continuous and thorough research of individual markets and securities. The investment process focuses on three areas: country analysis, global themes and company analysis. Ideas from all three areas are integrated into Scudder's research universe. Using their own internal research, the firm seeks companies with potential for earnings and dividend growth, strong or improving balance sheets, superior management, conservative accounting practices and a dominant position in growing industries. Scudder was retained by the SBI in November 1993.

### **Passive**

#### **State Street Global Advisors**

State Street manages an international index portfolio designed to track the Morgan Stanley Capital International Index of Europe, Australasia and the Far East (EAFE Free). State Street uses a full replication strategy wherever possible to construct index modules on a country by country basis. These modules are then combined to form a portfolio which will track the entire index. State Street was retained by the SBI in October 1992.

### **Emerging Markets**

#### **Alliance Capital Management, L.P.**

Alliance Capital's Emerging Markets Equity process focuses on fundamental research-driven stock selection, which is structured by

industries within the emerging markets regions. Alliance's regional portfolio management and research teams, focused on Asia, Eastern Europe/Middle East/Africa and Latin America, construct portfolios within their respective regions. These regional portfolios are aggregated to establish Alliance's total emerging market exposure around the world. Alliance believes that investment success in the emerging markets stems from investing in those companies in each region with quality managements in growth businesses and with superior fundamentals. Alliance further believes that these companies can best be identified through rigorous fundamental research conducted by internal, on-the-ground research. Although the investment philosophy emphasizes bottom-up stock selection, parameters are established at the portfolio level to manage risk. Exposures by region are maintained close to the major emerging markets benchmark weights, and deviations are made when an excess or a lack of opportunities exist within a particular region. Maximum position constraints are imposed at the stock and country level, and industry exposures are generally a by-product of stock selection. The SBI retained Alliance Capital in February 2001.

#### **Capital International, Inc.**

Capital International, Inc. has a long history of investing in emerging markets for its affiliate, Capital Guardian Trust Company, one of the Capital Group Companies. Capital is distinguished by its extensive commitment to fundamental research, with a large team of experienced analysts focused on gathering in-depth information first-hand on companies throughout the world. Their philosophy can best be described as value-oriented with research efforts

focused on trying to identify the difference between the underlying value of a company and the price of its securities in its home market. This basic, fundamental approach is blended with macroeconomic and political judgments on the outlook for economies, industries, currencies and markets. A critical ingredient in this blending process is the recognition that the relative importance of each factor will vary from time to time, and none can be treated as being of paramount importance at all times. The account is divided among nine portfolio managers and a team of research analysts who are free to make their own decisions (within risk control limits) as to sector, quality emphasis, cash reserves, and issue selection. The SBI retained Capital International, Inc. in February 2001.

#### **Montgomery Asset Management, LLC**

Montgomery believes that successful investing in emerging markets is best achieved through a combination of creative, independent judgment within a disciplined execution framework designed to anticipate and control market-specific risk. Montgomery's emerging markets investment team combines quantitative tools with rigorous fundamental country, sector and stock research to identify the most attractive opportunities for investment in developing markets. The goal is to uncover trends before they are identified by others, and to find undervalued companies, whose growth prospects are not yet adequately reflected in their share price. Quantitative work emphasizes risk management tools designed to construct portfolios of 80-120 securities prudently diversified across countries and sectors. The investment process is designed to achieve excess returns with equal or lower absolute risk than the MSCI Emerging Markets Free Index. The



## Investment Manager Summaries

firm was retained by the SBI for emerging market management in May 1996.

### **Morgan Stanley Investment Management**

Morgan Stanley Investment Management is an emerging markets specialist. Morgan Stanley Investment Management believes that the emerging markets are a distinct asset class offering a diverse set of investment opportunities. As both macroeconomic and stock-specific factors drive the emerging markets, investors must integrate both top-down country allocation and bottom-up stock selection in order to produce superior performance over the medium to long term. Effective investment management requires a dedicated manager who utilizes a set of investment tools tailored to the return and risk potential of this asset class. Morgan Stanley's core investment style combines growth and value as both are potential drivers of performance in emerging markets investing. They believe that growth-oriented companies trading at attractive valuations offer the best return prospects in the emerging markets. Morgan Stanley Investment Management was retained by the SBI for emerging market management in February 2001.

### **Schroder Investment Management North America, Ltd.**

As a fundamental active manager, Schroder believes in the potential to gain a competitive advantage from in-house research, which will translate into superior investment performance through disciplined portfolio construction. Their focus in Emerging Markets is on: 1) identifying those countries that will show predictable and sustainable growth over the longer-term and 2) those companies that can leverage

this superior economic growth to generate above average growth in earnings and cash flow. All investment decisions are subject to judgment of reasonable valuation and are based on a framework of expected returns. The resulting portfolio is well diversified, as they have a preference for multiple active positions, and risk is further controlled through active consideration of liquidity and volatility characteristics. Accordingly they seek out return through their global research capability, and manage risk through the construction of portfolios which reflect their strongest research views. The SBI retained Schroders in February 2001.

**Portfolio statistics for each of the international managers can be found in the Statistical Data section of this report.**

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## Fixed Income Program Managers

### **Active**

#### **American Express Asset Management Group, Inc.**

American Express manages portfolios using a top-down approach ending with in-depth fundamental analysis. The firm actively manages five components of the portfolio: duration, maturity structure, sector selection, industry emphasis, and security selection. The duration and maturity structure of the portfolio are determined by the firm's economic analysis and interest rate outlook. This analysis will also identify the sectors and industry groups the firm expects to produce the best rates of return on a risk adjusted basis. American Express employs in-depth

fundamental research and credit analysis combined with proprietary valuation disciplines to reconfirm industry groups and identify individual securities that will achieve superior rates of return. American Express was retained by the SBI in July 1993.

#### **Deutsche Asset Management, Inc.**

Deutsche believes there are significant pricing inefficiencies inherent in bond markets and that diligent credit analysis, security structure evaluation, and relative value assessment can be used to exploit these inefficiencies. The firm avoids interest rate forecasting and sector rotation because they believe these strategies will not deliver consistent out performance versus the benchmark over time. The firm's value added is derived primarily from individual security selection. Portfolio managers and analysts research bonds within their sector of expertise and construct portfolios from the bottom-up, bond by bond. Sector weightings are a byproduct of the bottom-up security selection. Deutsche was retained by the SBI in February 2000.

#### **Dodge & Cox Incorporated**

Dodge & Cox manages a high quality, diversified portfolio of securities that are selected through fundamental analysis. The firm believes that by combining fundamental research with a long-term investment horizon it is possible to uncover inefficiencies in the valuation of market sectors and individual securities. When this fundamental research effort is combined with a disciplined program of risk analysis, attractive returns are possible over the long-term. To seek superior returns, Dodge & Cox emphasizes sector and security selection, strives to build portfolios that have a higher yield than the broad bond market,



## Investment Manager Summaries

and analyzes portfolio and individual security risk. Dodge & Cox was retained by the SBI in February 2000.

### **Metropolitan West Asset Management, LLC**

Metropolitan West manages portfolios with the goal of consistently out performing the benchmark while maintaining below average volatility. Metropolitan West believes consistent out performance is gained through the measured application of five value-added strategies: 1) limited duration shifts; 2) yield curve management; 3) security selection; 4) buy/sell execution strategies; and 5) sector rotation. The team formulates fixed income strategies based on their long-term fundamental economic outlook. This outlook is debated quarterly and revised based on cyclical and secular developments in the economy and financial markets. From this review, major themes are identified that they believe will be key in driving the economy and Federal Reserve policy. Metropolitan West was retained by the SBI in February 2000.

### **Morgan Stanley Dean Witter Investment Management**

Morgan Stanley (formerly Miller Anderson & Sherrerd) focuses on four key decisions in structuring portfolios: interest-rate sensitivity, yield-curve exposure, portfolio credit quality, and portfolio prepayment risk. The firm is a value investor, purchasing securities they believe are relatively cheap and holding them until relative values change or until other securities are identified which are better values than those in the portfolio. Morgan Stanley is a long-term investor and is willing to purchase a portfolio that represents the best values in the market, even if the market does not recognize that value in the near

future. In developing their interest-rate strategy the firm relies primarily on value-based criteria to determine when markets are offering generous compensation for bearing interest-rate risk, rather than trying to anticipate interest rates. Value is added in the corporate sector by selecting the cheapest corporate bonds and controlling credit risk through broad diversification and strict position limits. Mortgage securities are often used to replace U.S. Treasuries in portfolios, and the firm has significant expertise in managing the prepayment risks of mortgages. Morgan Stanley was retained by the SBI in July 1984.

### **Western Asset Management**

Western emphasizes the use of multiple strategies and active sector and issue selection, while constraining overall interest rate risk relative to the benchmark. Multiple strategies are proportioned so that results do not depend on one or two opportunities, and no single adverse market event would have an overwhelming effect. This approach adds consistent value over time and can reduce volatility. Long term value investing is Western Asset's fundamental approach. In making their sector decision, the firm seeks out the greatest long-term value by analyzing all fixed income market sectors and their economic expectations. Individual issues are identified based on relative credit strength, liquidity, issue structure, event risk, covenant protection, and market valuation. Western believes that successful interest rate forecasting is extremely difficult to accomplish consistently and consequently keeps portfolio duration within a narrow band around the benchmark. Western was retained by the SBI in July 1984.

### **Semi-Passive**

#### **BlackRock Financial Management**

BlackRock manages a semi-passive index portfolio that closely tracks the Lehman Aggregate. BlackRock's strategy is a controlled-duration, sector rotation style, which can be described as active management with tighter duration, sector, and quality constraints. BlackRock seeks to add value through: 1) controlling portfolio duration within a narrow band relative to the benchmark, 2) relative value sector/sub-sector rotation and security selection, 3) rigorous quantitative analysis to the valuation of each security and of the portfolio as a whole, 4) intense credit analysis and review, and 5) the judgment of experienced portfolio managers. Advanced risk analytics measure the potential impact of various sector and security strategies to ensure consistent value added and controlled volatility. BlackRock was retained by the SBI in April 1996.

#### **Goldman Sachs Asset Management**

Goldman manages a semi-passive portfolio that closely tracks the Lehman Aggregate. Goldman manages the portfolio within a risk-controlled framework. The firm relies primarily on sector allocation and security selection strategies to generate incremental return relative to the benchmark. To a lesser degree, term structure and very controlled interest rate anticipation strategies are also implemented. Portfolios are diversified among various sectors and individual securities. Goldman combines long-term strategic investment tilts with short-term tactical trading opportunities. Strategic tilts are based on fundamental and quantitative sector research and seek to optimize the long-term risk/return profile of portfolios. Tactical trades



## Investment Manager Summaries

between sectors and securities within sectors are implemented to take advantage of short-term market anomalies. Goldman was retained by the SBI in July 1993.

### **Lincoln Capital Management Company**

Lincoln manages a semi-passive portfolio that closely tracks the Lehman Aggregate. Lincoln's process relies on a combination of quantitative tools and active management judgment. Explicit quantification and control of risks are at the heart of their investment process. Lincoln uses proprietary risk exposure analysis to analyze 25 interest rate factors, and over 30 spread-related factors, including those relating to credit quality, sector classification and sub-sector representations. Lincoln analyzes every bond in the index for all relevant factors, and capitalization weights the results to calculate index level risk exposures. For each interest rate factor, the portfolio is very closely matched to the index to ensure that the portfolio earns the same return as the index for any change in interest rates. For each spread factor, the portfolio can deviate slightly from the index as a means of seeking value-added. Setting active risk exposures that must fall within pre-established limits controls risk. To control credit risk, corporate holdings are diversified across a large number of issues. Lincoln was retained by the SBI in July 1988.

Portfolio statistics for each of the bond managers can be found in the Statistical Data section of this report.

## Alternative Investment Managers

### Basic Retirement Funds

#### Real Estate

##### **UBS Realty Investors Fund: RESA**

Real Estate Separate Account (RESA) is an open-end commingled real estate fund managed by UBS Realty, acquired from Aetna Life Insurance Company. The fund was formed in 1978 and the SBI's commitment was made in 1982. The fund has no termination date; investors have the option to withdraw all or a portion of their investments. RESA invests primarily in existing equity real estate. Investments are diversified by location and type of property. On-site management of properties is contracted to outside firms or conducted by a joint venture partner.

#### Colony Advisors

##### **Funds: Colony Investors II Colony Investors III**

Colony Investors II and III are closed-end commingled real estate funds managed by Colony Capital Inc. of Los Angeles, CA. The funds' strategy is to invest in undervalued equity and debt real estate-related assets. The SBI committed to Fund II in 1994 and Fund III in 1998. Fund II is expected to terminate in 2003 and Fund III in 2008.

#### Equity Office Properties Trust

##### **Fund: Equity Office Properties Trust (EOP)**

Equity Office Properties Trust (EOP), based in Chicago, is the successor entity to three Zell/Merrill Lynch Real Estate funds in which the SBI had prior investments. In 1997, the Zell/Merrill Lynch Real Estate funds

were combined into a single publicly traded entity and the SBI received shares in EOP. Like the original Zell/Merrill Lynch Real Estate funds, EOP focuses primarily on office property real estate investments located throughout the U.S. As a publicly-traded company, EOP has an indefinite life.

#### First Asset Realty

##### **Fund: First Asset Real Estate Equity Fund**

First Asset Fund (FAREEF), was created by First Bank in 1981 as an open-end real estate fund and in 1990 adopted a closed-end format. The fund is currently in liquidation and property sale proceeds are being distributed to unit holders. The SBI received this investment through Police and Fire Fund consolidations.

#### Heitman Advisory Corp. (HAC)

##### **Funds: HAC Group Trust I HAC Group Trust II HAC Group Trust III HAC Group Trust V**

HAC Group Trusts are closed-end commingled funds managed by the Heitman Advisory Group. The majority of the trust investments are equity real estate. The real estate portfolios are diversified by the type and location of the properties. Heitman manages the trusts' wholly-owned properties. Heitman Advisory is based in Chicago. The SBI committed to the Group Trusts in 1984, 1985, 1987 and 1991. All funds are in the process of liquidating their holdings.

#### LaSalle Advisors

##### **Fund: LaSalle Income Parking Fund**

The Income Parking Fund is a closed-end commingled fund managed by LaSalle Advisors of Chicago, Illinois. The fund's main strategy is to acquire unleveraged parking facilities to maximize



## Investment Manager Summaries

current return to the investors. The SBI committed to the Fund in 1991. The fund is expected to terminate in 2005.

### **Lend Lease Real Estate Group**

#### **Fund: Prime Property Fund**

Prime Property Fund was formed in 1973 by the New York-based Lend Lease Real Estate Group, Inc. (formerly, the Equitable Real Estate Group). The account is an open-end commingled real estate fund and the SBI's commitment was made in 1981. The fund has no termination date and investors retain the option to withdraw all or a portion of their investment. The fund makes equity investments in existing real estate and is diversified by location and property type. Management of the fund's properties is contracted to outside firms or is conducted by joint venture partners.

### **Rosenberg Real Estate Equity Fund (RREEF)**

#### **Fund: RREEF USA III**

RREEF USA III is a closed-end commingled fund managed by the Rosenberg Real Estate Equity Funds. Typically, the trust purchases 100% of the equity of its properties with cash. The trust generally does not utilize leverage or participating mortgages. Properties are diversified by location and type. RREEF's in-house staff manages the trust's real estate properties. The firm's primary office is located in San Francisco. The SBI committed to the fund in May 1984. The Fund has reached the end of its investment term and is liquidating its property holdings.

### **State Street Bank & Trust**

#### **Funds: AEW - State Street Real Estate Fund III**

#### **AEW - State Street Real Estate Fund V**

State Street Real Estate Funds are closed-end commingled funds managed by the State Street Bank and Trust Company of Boston. State Street Bank has retained Aldrich, Eastman and Waltch (AEW) as the funds' advisor. The funds' special orientation is the use of creative investment vehicles such as convertible and participating mortgages to maximize real estate returns. The real estate portfolios are diversified by location and property type. On-site property management typically is contracted to outside firms or conducted by joint venture partners. The SBI committed to the funds in 1985 and 1987. The funds are in the process of liquidating their holdings.

### **TA Associates Realty**

#### **Fund: TA Realty Associates Fund III**

#### **TA Realty Associates Fund IV**

#### **TA Realty Associates Fund V**

TA Realty Associates Funds III, IV and V are closed-end, commingled real estate funds managed by TA Associates Realty of Boston, MA. The funds invest in small to medium sized properties generally diversified by location and type. On-site management of properties is contracted to outside firms. The SBI committed to the funds in 1994, 1997 and 1999, respectively. Each fund has a ten year term.

### **Trust Company of the West (TCW)**

#### **Fund: TCW Realty Fund IV**

TCW Realty Fund IV is a closed-end commingled fund. The fund is managed by CB Richard Ellis Investors of Los Angeles. The manager utilizes specialty

investment vehicles such as convertible and participating mortgages to enhance real estate returns. Investments are diversified by location and type. Portfolio properties are typically managed by local property management firms. The SBI committed to the fund in 1986. The fund has reached the end of its investment term and is in the process of liquidating its property holdings.

## Private Equity

### **Blackstone Group**

#### **Fund: Blackstone Capital Partners Fund II**

The Blackstone Capital Partners Fund II is a limited partnership which was formed in 1993 and has a ten year term. Based in New York, the fund will invest in a diverse number and type of private equity transactions. Up to 25% of the fund may be invested outside of the United States and Canada.

### **Brinson Partners**

#### **Funds: Venture Partnership Acquisition Fund I Venture Partnership Acquisition Fund II**

Brinson Partners Venture Partnership Acquisition Funds I and II were formed in 1988 and 1990, respectively. The limited partnerships have ten year terms and are currently selling remaining fund investments. Fund I and II invest exclusively in secondary venture capital limited partnership interests which are sold by investors who, for a variety of reasons, have decided to sell some or all of their venture capital holdings. Brinson Partners is based in Chicago, Illinois.



## Investment Manager Summaries

### **ChiCorp Management, Inc.**

**Funds:** *Midwest Bank Fund III*  
*Banc Fund IV*  
*Banc Fund V*

Midwest Bank Fund III was formed in 1992 and has a nine year term. Fund IV was formed in 1996 and has an eight year term. Fund V was formed in 1998 and has a nine year term. Based in Chicago, Illinois, the funds will invest primarily in sub-regional banks, located primarily in the Midwest, which have demonstrated above average growth and are likely acquisition targets.

### **Churchill Capital, Inc.**

**Fund:** *Churchill Capital Partners II*

Churchill Capital Partners II was formed in 1992 and has a twelve year term. Based in Minneapolis, Minnesota, the fund provides subordinated debt to established small and medium-sized companies.

### **Contrarian Capital Management**

**Fund:** *Contrarian Capital Fund II*

Contrarian Capital Fund II was formed in 1997 with a term of 7 years. Based in Greenwich, CT the fund focuses on investments in distressed debt securities.

### **Coral Group Inc.**

**Funds:** *Coral Partners I*  
*Coral Partners II*  
*Coral Partners IV*  
*Coral Partners V*

Coral Partners I (formerly Superior Ventures) is a Minnesota-based venture capital limited partnership. The fund invested in Minnesota-based venture capital limited partnerships and operating companies located within the state. It was formed in 1986 and is currently selling remaining fund investments. Coral Partners II, IV and V are Minnesota-based venture capital limited partnerships managed by the Coral Group. These funds have venture capital

investment strategies similar to Coral I's but are more diversified geographically. They were formed in 1991, 1994 and 1998, respectively, and have eleven year terms.

### **Crescendo Ventures**

**Funds:** *Crescendo Venture Fund II*  
*Crescendo Venture Fund III*  
*Crescendo Venture Fund IV*

Crescendo Venture Funds II, III and IV were organized in 1997, 1999 and 2000 respectively and have ten year terms. Based in Minneapolis, Minnesota, the funds will pursue opportunistic venture capital investments throughout the U.S. with an emphasis on Minnesota and the Midwest.

### **DLJ Merchant Banking**

**Fund:** *DLJ Merchant Banking Partners III*

DLJ Merchant Banking Partners III was formed in 2000 with a term of ten years. Based in New York with offices worldwide, the Fund's investments will involve a variety of transactions, including leveraged and unleveraged acquisitions, recapitalizations, restructurings, workouts, expansion financings and other, similar situations.

### **DLJ Strategic Partners**

**Fund:** *DLJ Strategic Partners*

DLJ Strategic Partners was formed in 2001 with a term of 10 years for the purpose of investing in secondary private equity limited partnership interests which are sold by investors who, for a variety of reasons, have decided liquidate all or a portion of their private equity holdings.

### **DSV Management Ltd.**

**Fund:** *DSV Partners IV*

DSV Partners IV limited partnership was formed in 1985 and is currently

in liquidation. DSV Partners IV is the fourth venture fund to be managed by DSV Management Ltd. since the firm's inception in 1968. The firm has offices in Princeton, New Jersey, and California. DSV focuses on start-up and early stage investments.

### **Fox Paine and Company**

**Funds:** *Fox Paine Capital Fund I*  
*Fox Paine Capital Fund II*

Fox Paine Capital Funds I and II were formed in 1998 and 2000 and have ten year terms. Based in Foster City, CA, the funds focus on private equity investments in middle market operating businesses in a wide variety of industries.

### **Golder, Thoma, Cressey and Rauner**

**Funds:** *Golder, Thoma and Cressey Fund III*  
*Golder, Thoma and Cressey Fund IV*  
*Golder, Thoma and Cressey Fund V*

Golder, Thoma and Cressey Funds III, IV and V are venture capital limited partnerships and were formed in 1987, 1993 and 1996, respectively. The funds are based in Chicago, Illinois and have ten year terms. Fund III is currently in liquidation. The funds invest in growing private businesses, find and build companies in fragmented industries and invest in small leveraged buyouts. In addition, each fund is diversified geographically and by industry.

### **Goldman Sachs Capital Partners**

**Fund:** *GS Capital Partners 2000*

GS Capital Partners 2000 was formed in 2000 by Goldman Sachs Advisors. Based in New York, the fund will focus on investments in the U.S. and internationally in three areas: merchant banking, telecommunications, broadband,



## Investment Manager Summaries

and technology. The fund has an expected term of ten years.

### **GTCR Golder Rauner**

**Funds:** *GTCR Golder Rauner Fund VI*  
*GTCR Golder Rauner Fund VII*

GTCR Golder Rauner Funds VI and VII, formed in 1998 and 2000, are funds of a successor firm to the private equity firm of Golder, Thoma, Cressey and Rauner. The SBI has several investments with Golder, Thoma, Cressey and Rauner. The funds have ten year terms. Based in Chicago, the funds focus primarily on a wide variety of private equity investments in consolidating and fragmented industries.

### **Goldner Hawn Johnson and Morrison**

**Fund:** *GHJM Marathon Fund IV*  
GHJM Marathon Fund IV was organized in 1998 and has a 10 year term. Based in Minneapolis, the fund will pursue primarily middle market private equity investments located in the midwest and other parts of the U.S.

### **Hellman and Friedman**

**Funds:** *Hellman and Friedman III*  
*Hellman and Friedman IV*

Hellman and Friedman III and IV were organized in 1994 and 2000 and have ten year terms. Based in San Francisco, the funds will pursue opportunistic private equity investments located in the U.S. and internationally.

### **Kohlberg, Kravis, Roberts & Co. (KKR)**

**Funds:** *KKR 1986 Fund*  
*KKR 1987 Fund*  
*KKR 1993 Fund*  
*KKR 1996 Fund*  
*KKR Millennium Fund (2001)*

KKR's Funds are structured as limited partnerships. The funds invest in large leveraged buyouts but may include other types of investments as well. The partnerships' portfolio companies are often mature, low technology companies with very diversified operations. Kohlberg, Kravis, Roberts and Co. operates offices in New York and San Francisco. The funds were formed in the years cited above and have terms of twelve years.

### **Matrix Partners**

**Funds:** *Matrix Partners II*  
*Matrix Partners III*

Matrix Partners II and III are venture capital limited partnerships that were formed in 1985 and 1990, respectively, with terms of ten years. Both funds are undergoing an orderly liquidation of holdings. Investment emphasis is on high-technology firms in the early and expansion stages of corporate development.

### **Piper Jaffray Ventures**

**Funds:** *Piper Jaffray Healthcare Fund II*  
*Piper Jaffray Healthcare Fund III*

Piper Jaffray Healthcare Funds II and III were organized in 1997 and 1999, respectively, with ten year terms. Based in Minneapolis, Minnesota, the funds will focus on a geographically diverse portfolio of healthcare venture capital investments.

### **Richard C. Blum and Associates**

**Fund:** *RCBA Strategic Partners*  
*BLUM Strategic Partners II*

RCBA Strategic Partners, L.P., and BLUM Strategic Partners II were organized in 1998 and 2001 respectively, and have ten year terms. Based in San Francisco, the funds will focus on value-oriented private and public equity investments located primarily in the U.S.

### **Smith Barney Venture Corp.**

**Fund:** *First Century III*  
First Century III was formed in 1984. It is structured as a limited partnership with a term of twelve years and is in the process of liquidating its holdings. The general partner and manager of the partnership is Smith Barney Venture Corp., a subsidiary of Smith Barney Harris Upham and Co. Smith Barney Venture has offices in New York and San Francisco. This is the third fund formed by the firm since 1972. The partnership invests primarily in early stage, high technology companies diversified by location and industry group.

### **Stamps, Woodsum and Co.**

**Funds:** *Summit Ventures I*  
*Summit Ventures II*  
*Summit Ventures V*

Summit Ventures I, II and V are limited partnerships formed in 1986, 1988 and 1998 with ten-year terms. Fund I and II are being liquidated. The funds were formed by Stamps, Woodsum & Co., the managing general partners of the fund. Stamps and Woodsum focus on profitable, expansion stage firms that have not yet received any venture backing. The majority of the partnership investments are in high tech firms. Investments are diversified by location and industry type.



## Investment Manager Summaries

### **Thoma Cressey Equity Partners**

**Funds:** *Thoma Cressey Fund VI*  
*Thoma Cressey Fund VII*

Thoma Cressey is one of two successor firms to the private equity firm of Golder, Thoma, Cressey and Rauner. The SBI has several investments with Golder, Thoma, Cressey and Rauner. Thoma Cressey Fund VI, formed in 1998, and Thoma Cressey Fund VII, formed in 2000, have ten year terms. Based in Chicago, the funds focus primarily on a wide variety of private equity investments in consolidating and fragmented industries.

### **T. Rowe Price**

T. Rowe Price, a Baltimore-based money management firm, was selected to manage stock distributions from the Board's venture capital limited partnerships. T. Rowe Price has extensive research capabilities in the small capitalization company area. In addition, the firm has a large trading staff with particular expertise in the trading of small capitalization and illiquid stocks.

### **William Blair Capital Partners**

**Fund:** *William Blair Capital Partners VII*

Formed in 2001 with a ten-year term, William Blair Capital Partners VII is based in Chicago and will seek investments in a broad spectrum of private companies at various stages of development.

### **Vestar Capital Partners**

**Fund:** *Vestar Capital Partners IV*

Vestar Capital Partners IV is a limited partnership that was formed in 1999 and has a ten year term. Based in New York, the fund will invest primarily in a number of private middle market companies.

### **E.M. Warburg Pincus & Co., Inc.**

**Funds:** *Warburg, Pincus Ventures*  
*Warburg Pincus Equity Partners*

Warburg Pincus is based in New York, New York. These funds will invest private equity in a wide variety of businesses located domestically and abroad. The SBI committed to the first fund in 1994 and the second fund in 1998. Both funds have a 12 year term.

### **Welsh, Carson, Anderson and Stowe**

**Fund:** *Welsh, Carson, Anderson and Stowe Fund VIII*  
*Welsh, Carson, Anderson and Stowe Fund IX*

Welsh, Carson, Anderson and Stowe Funds VIII and IX were formed in 1998 and 2000 and have twelve year terms. Based in New York, N.Y., the funds focus on private equity investments in the healthcare and information services industries.

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### **Resource Funds**

#### **Apache Corporation**

**Fund:** *Apache Acquisition Net Profits Interest*

Apache Corporation is a Houston based oil and gas company. Apache Acquisition Net Profits Interest is a private placement that was formed in 1986 to acquire a non-operating interest in the net profit generated by oil and gas properties acquired in 1986 from Occidental Petroleum Company. The fund will remain in effect throughout the producing life of the properties.

### **First Reserve Corp.**

**Funds:** *AMGO I*  
*AMGO II*  
*First Reserve V*  
*First Reserve VII*  
*First Reserve VIII*  
*First Reserve IX*

American Gas and Oil (AMGO) funds were formed in 1981, 1983, 1990, 1996, 1998, and 2001 respectively, and are structured as limited partnerships. Funds I, II and V are currently undergoing an orderly liquidation of holdings. The other funds have ten year terms, after which they will sell remaining fund investments over, typically, a period of years. The general partner and manager of the funds is First Reserve Corp. The general partner's long-term investment strategy is to create diversified portfolios of oil and gas investments.

### **J.P. Morgan Investment Management**

**Fund:** *Morgan Petroleum Fund II*

Morgan Petroleum Fund II was formed in 1988 and is managed by J.P. Morgan Investment Management, Inc. The fund has a 15 year term and is currently in the final stages of liquidating its oil and gas assets.

### **Simmons & Company**

**Funds:** *OFS Investments, II*  
*OFS Investments, III*  
*OFS Investments, IV*

The Funds serve as vehicles for investment in the oil field service (OFS) and equipment industry. The General Partner is located in Houston, Texas. Fund II was formed in 1992, Fund III was formed in 1994 and Fund IV was formed in 1998. All funds have a 10 year term.

### **T. Rowe Price**

T. Rowe Price, a Baltimore-based money management firm, was selected to manage stock distributions from the Board's



## Investment Manager Summaries

resource limited partnerships. T. Rowe Price has extensive research capabilities in the small capitalization company area. In addition, the firm has a large trading staff with particular expertise in the trading of small capitalization and illiquid stocks.

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### Alternative Investment Managers

#### Post Retirement Fund

#### Real Estate

##### Capital Trust, Inc.

**Fund: CT Mezzanine Partners II**  
CT Mezzanine Partners II was formed in 2001 with a six-year term. The fund is based in New York and plans to make mezzanine debt and other high yield investments in commercial real estate assets and operating companies located primarily in the United States.

##### Colony Advisors

**Fund: Colony Investors II**  
Colony Investors II is a closed-end commingled real estate fund managed by Colony Capital Inc. of Los Angeles, California. The fund's strategy is to invest in undervalued equity and debt real estate-related assets. The SBI committed to the Fund in 1994. The fund is expected to terminate in 2003.

##### Equity Office Properties Trust

**Fund: Equity Office Properties Trust (EOP)**  
Equity Office Properties Trust (EOP); based in Chicago is the successor entity to three Zell/Merrill Lynch Real Estate funds in which the SBI Basic Retirement Funds were transferred to the Post Retirement Fund. In 2001, half of the shares in the Basic Retirement Funds were transferred to the Post

Retirement Fund. EOP focuses primarily on office property real estate investments located throughout the U.S. As a publicly traded company, EOP has an indefinite life.

##### GMAC, L.L.C.

**Funds: Institutional Commercial Mortgage Fund II  
Institutional Commercial Mortgage Fund III  
Institutional Commercial Mortgage Fund IV  
Institutional Commercial Mortgage Fund V**

Institutional Commercial Mortgage Funds II, III, IV and V are funds formed in 1995, 1996, 1997, and 1999 respectively, with ten year terms. Based in Los Angeles, California, the funds focus on mortgage investment in real estate located throughout the U.S. GMAC assumed responsibility for the funds from C.B. Richard Ellis in 2001.

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#### Private Equity

##### Citicorp Capital Investors, Ltd.

**Funds: Citicorp Mezzanine Partners II  
Citicorp Mezzanine Partners III**

Citicorp Mezzanine Funds are limited partnerships formed in 1994 and 1999 by Citicorp Capital Investors Ltd. of New York, New York. The Funds will invest in a broad range of transactions utilizing subordinated debt and equity securities. The Funds have expected terms of 10 years.

##### DLJ Investment Partners

**Fund: DLJ Investment Partners II**  
DLJ Investment Partners II is a limited partnership formed in 1999 with an expected term of ten years. Based in New York, the Fund will invest in a variety of securities,

including subordinated debt with warrants, preferred stock with warrants, common stock or other securities, including interests in joint ventures.

##### Goldman Sachs Mezzanine Partners Fund: GS Mezzanine Partners II

GS Mezzanine Partners II is a limited partnership formed in 2000 with an expected term of ten years. Based in New York, the Fund's investment objective is to achieve long-term capital appreciation and current returns through investments in mezzanine securities. These securities will principally include fixed income securities such as debt and preferred stock, often with an equity component, such as warrants, options, a convertible feature, or common stock associated with the debt or preferred stock purchase.

##### GTCR Golder Rauner

**Fund: GTCR Capital Partners**  
GTCR Capital Partners is a limited partnership formed in 1999 with an expected term of ten years. Based in Chicago, the Fund will make mezzanine investments primarily in companies in which a GTCR Equity Fund invests or has invested. GTCR invests in consolidating, fragmented industries by teaming with top executives to build companies through acquisition and internal growth.

##### Equinox Investment Partners

**Fund: KB Mezzanine Fund II**  
KB Mezzanine Fund II is a limited partnership formed in 1994 by Kleinwort Benson Group, a leading London-based merchant banking firm. In 1996, the fund manager reorganized and changed its name to Equinox Investment Partners. Fund II invests in a broad range of transactions including utilizing subordinated debt and equity securities. The SBI committed to the



## Investment Manager Summaries

fund in 1994. The fund has an expected 8 year term.

### **Prudential Capital Group**

#### **Funds: Prudential Capital Partners**

Prudential Capital Partners L.P. was formed in 2001 with a 10-year term. Based in Chicago, the Fund will make mezzanine investments, typically including convertible debt, preferred stock and warrants, with a specific focus on middle market companies.

### **Stamps, Woodsum & Co.**

#### **Funds: Summit Subordinated Debt Fund I**

#### **Summit Subordinated Debt Fund II**

Summit Subordinated Debt Fund I and II are limited partnerships formed in 1994 and 1996, respectively, with ten year terms. The funds were formed by Stamps, Woodsum & Co., the managing general partners of the fund. The fund will invest in many of the same companies as the Summit Venture funds. Investments by this partnership will principally take the form of subordinated debt with equity features. These yield-oriented investments will provide current income over the life of the investment with the potential for additional returns.

### **T. Rowe Price**

T. Rowe Price, a Baltimore-based money management firm, was selected to manage stock distributions from the Board's venture capital limited partnerships. T. Rowe Price has extensive research capabilities in the small capitalization company area. In addition, the firm has a large trading staff with particular expertise in the trading of small capitalization and illiquid stocks.

### **TCW/Crescent Mezzanine**

#### **Funds: TCW/Crescent Mezzanine Partners**

#### **TCW/Crescent Mezzanine Partners II**

#### **TCW/Crescent Mezzanine Partners III**

TCW/Crescent Mezzanine Partners, L.P., TCW/Crescent Mezzanine Partners II, and TCW/Crescent Mezzanine Partners III are Los Angeles based limited partnerships formed in 1996, 1999, and 2001, respectively. The Funds will make mezzanine investments including subordinated debt with equity participations primarily in profitable, middle market companies. The Funds are expected to terminate in 2006, 2009, and 2011, respectively.

### **William Blair Mezzanine Capital Partners**

#### **Fund: William Blair Mezzanine Capital Partners III**

William Blair Mezzanine Capital Partners III is a limited partnership formed in 1999 with an expected term of ten years. Based in Chicago, the Fund will invest primarily in fixed rate subordinated debt securities. These securities generally will be purchased with a significant equity component in the form of warrants, common stock or contingent interest.

### **Windjammer Capital Investors**

#### **Fund: Windjammer Mezzanine and Equity Fund II**

Windjammer Mezzanine and Equity Fund II is a limited partnership formed in 2000 with an expected term of ten years. The Fund will provide subordinated debt and/or preferred stock accompanied by warrants or other forms of equity participation and, in certain instances, common stock to middle market companies. The Fund will seek to generate both current

income and substantial capital gains while limiting its risk.

### **Resource Funds**

#### **Merit Energy Company**

#### **Fund: Merit Energy Partners B, C, and D**

Merit Energy Partners B, C, and D were formed in 1996, 1998 and 2000, respectively, and each fund has an eight year initial term. Based in Dallas, TX, the funds will focus on resource investments in producing oil and gas properties.

## Assigned Risk Plan Managers

### **GE Asset Management**

GE Asset Management manages a stock portfolio for the Assigned Risk Plan. Their strategy is to neutralize the style bet and focus on fundamental, bottom-up stock selection to add value. This is accomplished by combining the expertise of three portfolio managers, each with different styles ranging from value to growth, supported by a staff of thirteen industry analysts. Each analyst is responsible for one or more industries and together provide analytical coverage across the full spectrum of industries. The three portfolios are combined to create a well-diversified portfolio while maintaining a style-neutral position between value and growth. GE Asset Management was retained by the SBI in January 1995.

### **Vogageur Asset Management**

Voyageur manages the fixed income portfolio for the Assigned Risk Plan. The main objective for the portfolio is to provide cash for the payment of workers compensation claims on the required dates.



## *Investment Manager Summaries*

Because of the uncertainty of premium and liability cash flows, the fund is invested conservatively. Voyageur uses a top-down approach to bond selection. They focus on sector analysis and security selection. Yield curve and duration analysis are secondary considerations. Voyageur has managed the bond portfolio since 1991.

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### *Stable Value Manager*

#### *Galliard Capital Management, Inc.*

Galliard Capital Management manages the Fixed Interest Account in the Supplemental Investment Fund. The stable value fund is managed to protect principal and provide competitive interest rates using instruments somewhat longer than typically found in money market-type accounts. The manager invests cash flows to optimize yields. The manager invests in high quality instruments diversified among traditional insurance and bank investment contracts and alternative investment contracts with U.S. and non-U.S. financial institutions. To maintain necessary liquidity, the manager invests a portion of the portfolio in its Stable Return Fund and in cash equivalents. The Stable Return Fund is a large, daily priced fund consisting of a wide range of stable value instruments that is available to retirement plans of all sizes. The firm was retained by the SBI in November 1994.



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### Stock Manager Risk Factor Exposure Glossary

The following definitions describe the risk factors that the State Board of Investment (SBI) uses in monitoring its stock managers. The terms are referred to in the Risk Factor Exposure table that follows this glossary.

SBI analysis of a stock manager's portfolio, in part, utilizes the BARRA E3 model. The BARRA model contains a number of risk factors that the SBI has found to correlate highly with a manager's investment style. That is, a manager tends to exhibit consistent exposures to many of these risk factors over time. The benchmark construction process includes identifying these persistent exposures and capturing them in the benchmark portfolio.

Factor exposures are calibrated relative to an estimation universe of the top 1,500 stocks ranked by capitalization plus smaller companies chosen to ensure a reasonable number of companies in each industry. An exposure level of 0 for a particular stock to a particular factor indicates that the stock has the same exposure as the capitalization-weighted average of the stocks in the estimation universe. Around that zero exposure, deviations are measured in standard deviation units. Thus, an exposure level of +1 indicates that the stock has a greater exposure to the factor than roughly 68% of the stocks in the estimation universe.

#### **Beta**

Forecasts the sensitivity of a stock's return to the return on the market portfolio. The BARRA E3 beta is a forecasted beta, based on a company's exposure to a number of common risk factors and industries.

#### **Volatility (Vlty.)**

Captures relative volatility using measures of both long-term historical volatility and near-term volatility. Other proxies for volatility, corrections for thin trading and changes in volatility are also included in this descriptor.

#### **Momentum (Mom.)**

Indicates common variation in returns related to recent stock price behavior. Stocks that had positive excess returns in the recent past are grouped separately from those that displayed negative excess returns.

#### **Size**

Measures differences in stock returns due to differences in the market capitalization of companies.

#### **Size Nonlinearity (Size Non.)**

Describes deviations from linearity in the relationship between returns and a measure of market capitalization.

#### **Trading Activity (Trad. Acvty.)**

Measures the amount of relative trading in each stock. Stocks that are highly traded are likely to be those with greater institutional interest. Such stocks may display different returns behavior compared with those that are not widely held by institutions.

#### **Growth**

Uses historical growth and profitability measures to predict future earnings growth.

#### **Earnings Yield (E/Y)**

Combines current and historical earnings-to-price ratios with a measure of analyst-predicted earnings-to-price. Stocks with similar values of earnings yield behave in a similar fashion with respect to their returns.

#### **Value**

Distinguishes between value stocks and growth stocks using the ratio of book value of equity to market capitalization.

#### **Earnings Variability (Earn. Var.)**

Measures the variability in earnings and cash flows using both historical measures and analyst predictions.

#### **Leverage (Lev.)**

Indicates the financial leverage of a company using debt-to-total assets and other measures.

#### **Current Sensitivity (Curr. Sens.)**

Measures the sensitivity of a company's stock return to the return on a basket of foreign currencies.

#### **Dividend Yield (Div. Yld.)**

Predicts dividend yield using the past history of dividends and the market price behavior of the stock.

#### **Average Turnover (Avg T/O)**

Measures the total equity asset sales divided by the average value of the equity assets in the manager's portfolio.

#### **Equity Allocation (Eqty. Alloc.)**

Measures the percent of the manager's total portfolio invested in common stocks, preferred stocks and convertible securities.



EXTERNAL ACTIVE STOCK MANAGERS

Risk Factor Exposures  
FY 2000 and FY 2001  
(In Percentages)

	Beta	Vlty.	Mom.	Size	Size Non	Trad. Acvty	Growth	E/Y	Value	Earn. Var.	Lev.	Curr. Sens.	Div. Yld	Avg. T/O	Eqty Alloc.
<b>Alliance Capital</b>															
June-00	1.06	-0.15	0.18	0.68	0.12	-0.10	0.05	-0.15	-0.14	-0.11	-0.19	0.08	-0.24	1.89	99.1%
June-01	1.08	-0.04	-0.06	0.72	0.13	-0.14	0.23	-0.12	-0.08	-0.08	-0.26	0.08	-0.22	2.09	98.8%
Benchmark															
June-00	1.08	-0.11	0.03	0.59	0.12	0.08	0.01	-0.04	-0.12	-0.08	-0.24	0.09	-0.12	N.A.	100.0%
June-01	1.09	-0.04	-0.07	0.68	0.13	0.00	0.08	-0.08	-0.26	-0.17	-0.31	0.03	-0.18	N.A.	100.0%
<b>Brinson Partners</b>															
June-00	0.92	-0.05	-0.61	-0.70	-0.02	0.01	-0.32	0.33	0.28	-0.08	0.26	-0.27	0.20	10.23	99.1%
June-01	0.96	-0.05	-0.02	-0.46	-0.01	0.16	-0.21	0.11	0.08	-0.04	0.31	-0.05	0.09	5.11	98.8%
Benchmark															
June-00	0.98	0.05	-0.20	-0.59	0.00	0.18	-0.15	0.16	0.16	0.02	0.20	-0.07	0.10	N.A.	100.0%
June-01	1.05	0.06	-0.10	0.04	0.08	0.15	-0.03	0.01	-0.01	-0.04	0.02	0.01	-0.01	N.A.	100.0%
<b>Cohen Klingenstein &amp; Marks</b>															
June-00	1.00	0.06	-0.47	-0.17	0.06	0.08	-0.11	0.12	-0.07	-0.11	0.12	-0.11	-0.07	7.34	99.1%
June-01	1.19	0.38	-0.36	0.01	0.10	0.40	0.03	-0.13	-0.20	-0.02	0.19	0.08	-0.32	6.11	99.2%
Benchmark															
June-00	1.15	0.24	0.12	-0.28	0.05	0.44	0.13	-0.02	-0.09	0.05	0.04	0.11	-0.19	N.A.	100.0%
June-01	1.13	0.27	-0.08	-0.31	0.08	0.42	0.01	-0.09	-0.11	-0.05	0.03	-0.05	-0.30	N.A.	100.0%
<b>Forstmann Leff</b>															
June-00	1.06	0.22	0.12	-0.70	-0.04	0.71	-0.27	0.00	0.09	0.02	0.12	-0.46	-0.29	5.61	99.9%
June-01	1.03	0.20	0.10	-0.77	-0.07	0.50	-0.27	0.00	0.21	0.23	0.42	-0.15	-0.12	8.88	97.5%
Benchmark															
June-00	0.93	0.02	-0.34	-0.82	-0.06	0.13	-0.15	0.14	0.15	0.06	0.31	-0.15	0.00	N.A.	100.0%
June-01	0.98	0.05	0.06	-0.67	-0.01	0.41	-0.12	0.09	0.10	0.03	0.21	-0.11	-0.14	N.A.	100.0%
<b>Franklin Portfolio</b>															
June-00	0.92	-0.21	-0.27	-0.49	0.03	0.05	-0.15	0.34	0.29	0.25	0.11	-0.15	0.26	9.22	99.7%
June-01	0.96	-0.09	0.26	-0.50	0.06	0.53	0.01	0.16	0.20	0.25	0.25	-0.23	-0.10	7.75	99.4%
Benchmark															
June-00	0.93	-0.07	-0.23	-0.55	0.01	0.04	-0.22	0.20	0.21	0.01	0.25	-0.11	0.16	N.A.	100.0%
June-01	0.96	0.00	0.06	-0.56	0.02	0.21	-0.13	0.06	0.10	0.03	0.21	-0.06	0.01	N.A.	100.0%
<b>GeoCapital Corp.</b>															
June-00	1.14	0.90	0.08	-2.30	-0.97	-0.04	0.57	-0.35	0.19	0.49	0.53	0.34	-0.32	3.44	95.7%
June-01	1.18	0.85	0.08	-2.19	-0.90	0.17	0.70	-0.51	0.10	0.72	0.33	0.30	-0.49	5.53	91.7%
Benchmark															
June-00	1.02	0.93	-0.10	-2.58	-1.30	0.01	0.24	-0.10	0.35	0.50	0.60	0.37	-0.43	N.A.	100.0%
June-01	1.12	0.90	0.03	-2.41	-1.17	0.15	0.31	-0.32	0.24	0.62	0.52	0.27	-0.52	N.A.	100.0%
<b>Lincoln Capital Management</b>															
June-00	1.18	-0.11	0.34	0.93	0.13	0.16	0.03	-0.19	-0.32	-0.18	-0.39	0.19	-0.29	6.42	99.5%
June-01	1.26	0.41	-0.13	0.56	0.12	0.40	0.60	-0.27	-0.34	0.10	-0.17	0.04	-0.41	6.96	98.8%
Benchmark															
June-00	1.13	0.00	0.16	0.47	0.11	0.22	0.11	-0.15	-0.26	-0.12	-0.25	0.12	-0.27	N.A.	100.0%
June-01	1.25	0.41	-0.20	0.41	0.10	0.36	0.32	-0.25	-0.27	-0.06	-0.26	0.15	-0.36	N.A.	100.0%



**Statistical Data**

**EXTERNAL ACTIVE STOCK MANAGERS**

**Risk Factor Exposures  
FY 2000 and FY 2001  
(In Percentages)**

	Beta	Vlty.	Mom.	Size	Size Non	Trad. Acvty	Growth	E/Y	Value	Earn. Var.	Lev.	Curr. Sens.	Div. Yld	Avg. T/O	Eqty Alloc.
<b>Oppenheimer Capital</b>															
June-00	0.96	-0.15	-0.27	0.00	0.08	-0.23	-0.14	0.32	0.18	-0.17	0.21	0.03	0.17	1.47	99.6%
June-01	0.94	-0.18	0.04	0.03	0.09	-0.01	-0.09	0.30	0.15	-0.11	0.32	-0.02	0.09	2.09	93.5%
<b>Benchmark</b>															
June-00	0.97	-0.16	-0.12	0.13	0.09	-0.01	-0.23	0.10	-0.04	-0.18	-0.04	-0.05	0.04	N.A.	100.0%
June-01	1.12	0.13	-0.17	0.07	0.10	0.29	-0.13	0.05	0.03	0.01	0.16	0.09	-0.05	N.A.	100.0%
<b>Aggregate (Active + Emerging)</b>															
June-00	1.04	0.00	-0.02	-0.08	-0.01	0.06	-0.02	0.01	0.00	-0.02	0.03	-0.01	-0.11	4.36	98.4%
June-01	1.06	0.15	0.03	-0.30	-0.06	0.23	0.12	-0.03	0.03	0.10	0.17	0.00	-0.18	4.79	97.3%
<b>Benchmark</b>															
June-00	1.03	0.06	-0.06	-0.25	-0.08	0.12	-0.03	0.02	0.01	0.00	0.04	0.04	-0.10	N.A.	100.0%
June-01	1.08	0.20	-0.04	-0.34	-0.09	0.24	0.05	-0.05	-0.03	0.03	0.07	0.04	-0.19	N.A.	100.0%



## Statistical Data

### EXTERNAL ACTIVE STOCK MANAGERS

#### Sector Weights FY 2000 and FY 2001 (In Percentages)

		Cash	Cons. Non Dur.	Cons. Dur.	Basic Mat.	Cap. Goods	Energy	Tech.	Trans.	Util.	Finl.	Misc.	Total
<b>Alliance Capital</b>													
	June-00	0.91	44.21		1.44	2.75		35.05		15.64			100.00
	June-01	1.19	48.53			4.61	0.91	23.06		21.70			100.00
Benchmark													
	June-00		35.77	1.10	0.60	2.33		36.52	0.62	5.96	16.04	1.06	100.00
	June-01		39.88	0.19	0.27	4.27	0.59	28.24	2.33	7.41	16.22	0.62	100.00
<b>Brinson Partners</b>													
	June-00	0.93	18.33	5.70	12.20	8.20	1.96	21.95	6.67	6.82	17.24		100.00
	June-01	1.18	24.10	8.90	8.91	4.17	1.86	19.76	6.86	4.94	19.31		100.00
Benchmark													
	June-00		27.33	2.08	3.67	5.38	4.04	32.97	0.67	8.95	14.16	0.75	100.00
	June-01		29.00	2.00	3.31	6.79	4.77	24.81	0.93	8.25	19.14	1.00	100.00
<b>Cohen, Klingenstein &amp; Marks</b>													
	June-00	0.86	47.29		3.89			27.63		2.92	17.41		100.00
	June-01	0.83	38.50		2.98	3.59		33.26		3.45	17.38		100.00
Benchmark													
	June-00		27.85	2.62	2.76			47.25	0.53	1.12	17.87		100.00
	June-01		36.91	1.77	2.62	5.36	1.26	34.58	0.89	0.44	15.21	0.95	100.00
<b>Forstmann Leff</b>													
	June-00	0.14	36.57		10.17	18.08	7.87	17.50	1.39	4.87	3.41		100.00
	June-01	2.46	29.89		10.59	19.18	8.06	9.84	2.66	7.50	8.78	1.05	100.00
Benchmark													
	June-00		34.46	6.71	6.30	6.76	11.36	16.52	1.00	7.19	9.47	0.23	100.00
	June-01		40.76	6.06	8.07	8.72	8.58	9.44	1.95	4.32	12.11		100.00
<b>Franklin Portfolio</b>													
	June-00	0.31	26.46	3.50	2.83	11.38	7.95	17.61		8.60	17.39	3.97	100.00
	June-01	0.55	36.47	3.03		9.46	10.19	15.90	1.91	7.54	14.95		100.00
Benchmark													
	June-00		29.05	4.49	7.19	5.13	4.59	20.98	1.74	10.18	15.85	0.80	100.00
	June-01		31.02	3.89	4.63	5.84	5.81	18.22	2.60	9.54	17.22	1.23	100.00
<b>GeoCapital Corp.</b>													
	June-00	4.35	32.36	4.36	0.29		6.08	37.56	2.07	1.33	8.07	3.53	100.00
	June-01	8.25	28.46	3.05	0.49	0.67	13.64	30.21	3.48		11.76		100.00
Benchmark													
	June-00		35.82	2.56	1.24	3.23	2.23	43.04	0.89	1.16	8.14	1.69	100.00
	June-01		36.10	4.16	2.76	5.21	3.87	35.00	1.65	0.94	10.30		100.00
<b>Lincoln Capital Management</b>													
	June-00	0.54	33.61			8.95		49.94			6.96		100.00
	June-01	1.18	43.78			9.91		37.82		2.38	4.92		100.00
Benchmark													
	June-00		36.50	0.70	1.76	6.33		48.81	0.05	1.44	4.00	0.41	100.00
	June-01		35.97	0.11	0.41	9.16		47.09	0.07	2.33	4.55	0.31	100.00



**Statistical Data**

**EXTERNAL ACTIVE STOCK MANAGERS**

**Sector Weights  
FY 2000 and FY 2001  
(In Percentages)**

		Cash	Cons. Non Dur.	Cons. Dur.	Basic Mat.	Cap. Goods	Energy	Tech.	Trans.	Util.	Finl.	Misc.	Total
<b>Oppenheimer Capital</b>	June-00	3.99	17.67		5.92	10.69		17.54	3.95	5.66	33.11	1.47	100.00
	June-01	6.52	19.57		3.73	9.32	2.03	10.29	6.22	4.69	35.13	2.50	100.00
<b>Benchmark</b>	June-00		32.91	1.98	3.88	4.98	2.20	27.13	1.15	8.30	16.53	0.94	100.00
	June-01		22.71	1.75	3.33	5.90	3.20	29.25	1.10	6.42	25.19	1.15	100.00
<b>Aggregate</b>	June-00	1.60	33.38	1.27	4.14	7.28	2.53	29.90	1.38	3.15	14.57	0.79	100.00
	June-01	2.73	33.96	1.95	3.49	7.61	4.10	21.76	2.49	3.85	17.53	0.53	100.00
<b>Benchmark</b>	June-00		33.66	2.54	3.04	4.26	2.80	34.07	0.83	5.44	12.57	0.78	100.00
	June-01		33.85	2.44	3.28	6.23	3.49	27.98	1.52	5.18	15.37	0.66	100.00



## Statistical Data

### EXTERNAL EMERGING STOCK MANAGERS

#### Risk Factor Exposures FY 2000 and FY 2001 (In Percentages)

		Beta	Vlty.	Mom.	Size	Size Non	Trad. Actvy	Growth	E/Y	Value	Earn. Var.	Lev.	Curr. Sens.	Div. Yld	Avg. T/O	Eqty Alloc.
<b>Artemis</b>																
	June-01	0.87	0.45	0.09	-2.37	-1.10	-0.08	-0.08	-0.03	0.42	0.45	0.89	0.09	-0.39	10.49	91.36%
<b>Benchmark</b>																
	June-01	0.96	0.51	0.27	-2.46	-1.11	0.20	0.17	0.04	0.31	0.31	0.62	-0.02	-0.40	N.A.	100.00%
<b>Bay Isle</b>																
	June-01	0.87	-0.31	0.08	-0.52	0.03	0.03	-0.32	0.13	0.05	0.04	0.07	-0.08	0.14	3.88	98.25%
<b>Benchmark</b>																
	June-01	0.95	-0.08	0.03	-0.34	0.05	0.07	-0.21	0.07	0.12	0.02	0.22	-0.03	0.08	N.A.	100.00%
<b>Earnest Partners</b>																
	June-01	1.04	0.05	0.25	-0.44	0.00	0.37	-0.11	0.03	-0.07	0.23	0.96	0.12	-0.20	7.68	99.8%
<b>Benchmark</b>																
	June-01	1.03	0.23	0.12	-1.34	-0.22	0.30	-0.03	0.25	0.15	0.11	0.35	-0.05	-0.14	N.A.	100.0%
<b>Holt-Smith &amp; Yates</b>																
	June-01	1.07	0.10	0.07	-0.44	-0.03	0.31	0.38	-0.08	-0.12	-0.17	-0.07	0.16	-0.50	1.54	99.7%
<b>Benchmark</b>																
	June-01	1.09	0.25	0.13	-0.99	-0.10	0.36	0.04	0.09	-0.01	-0.13	0.12	0.06	-0.30	N.A.	100.0%
<b>New Amsterdam</b>																
	June-00	0.99	0.10	0.11	-0.96	-0.09	0.40	0.17	0.23	0.02	-0.25	0.38	0.24	-0.28	3.63	96.4%
	June-01	1.05	0.17	0.20	-1.18	-0.17	0.75	0.07	0.24	0.04	-0.05	0.54	0.16	-0.38	5.56	96.5%
<b>Benchmark</b>																
	June-00	1.01	0.18	-0.17	-0.85	-0.11	0.26	-0.12	0.21	0.18	0.07	0.23	0.04	-0.05	N.A.	100.0%
	June-01	1.08	0.32	0.12	-1.12	-0.12	0.56	0.18	0.09	0.03	0.06	0.30	0.02	-0.19	N.A.	100.0%
<b>Next Century Growth</b>																
	June-01	1.30	0.87	1.09	-2.14	-0.73	0.91	1.18	-0.32	-0.27	0.37	0.16	0.06	-0.66	11.26	99.9%
<b>Benchmark</b>																
	June-01	1.22	0.95	0.37	-2.10	-0.74	0.62	0.70	-0.39	-0.03	0.61	0.42	-0.02	-0.56	N.A.	100.0%
<b>Peregrine</b>																
	June-01	0.72	0.23	0.07	-2.62	-1.35	-0.38	-0.34	0.45	1.01	0.42	1.28	-0.04	0.38	7.17	96.5%
<b>Benchmark</b>																
	June-01	0.71	0.21	0.19	-2.70	-1.47	-0.65	-0.29	0.41	0.83	0.31	0.86	-0.07	0.15	N.A.	100.0%



## Statistical Data

### EXTERNAL EMERGING STOCK MANAGERS

#### Risk Factor Exposures FY 2000 and FY 2001 (In Percentages)

	Beta	Vlty.	Mom.	Size	Size Non	Trad. Actvy	Growth	E/Y	Value	Earn. Var.	Lev.	Curr. Sens.	Div. Yld	Avg. T/O	Eqty Alloc.
<b>Valenzuela Capital</b>															
June-00	0.91	0.16	-0.28	-1.49	-0.28	0.16	-0.13	0.29	0.27	0.10	0.51	-0.46	-0.16	13.74	90.7%
June-01	0.97	0.04	0.32	-1.14	-0.12	0.49	-0.16	0.27	0.36	0.20	0.63	-0.10	-0.09	9.87	93.8%
Benchmark															
June-00	0.89	0.15	-0.43	-1.67	-0.39	0.03	-0.26	0.44	0.46	0.16	0.46	-0.24	0.03	N.A.	100.0%
June-01	0.93	-0.01	0.23	-1.35	-0.21	0.31	-0.21	0.31	0.28	0.11	0.50	-0.14	0.05	N.A.	100.0%
<b>Voyageur (Chicago Equity)</b>															
June-01	0.99	-0.07	0.16	-0.02	0.10	0.01	0.15	-0.04	-0.30	-0.29	-0.29	-0.02	-0.27	2.38	96.6%
Benchmark															
June-01	1.13	0.21	0.02	-0.25	0.06	0.34	0.17	-0.02	-0.21	-0.18	-0.13	0.02	-0.26	N.A.	100.0%
<b>Winslow Capital</b>															
June-01	1.60	34.15	1.25	3.42	7.28	2.53	29.97	1.38	3.06	14.56	0.79				
June-01	1.09	0.82	0.91	-2.57	-1.22	0.41	0.79	-0.25	-0.11	0.23	0.26	-0.30	-0.66	7.50	95.9%
Benchmark															
June-01	2.73	33.96	1.95	3.49	7.61	4.10	21.76	2.49	3.85	17.53	0.53	-0.30			
June-01	1.05	0.81	0.44	-2.74	-1.55	0.27	0.66	-0.21	0.08	0.34	0.34	-0.09	-0.65	N.A.	100.0%
<b>Zevenbergen Capital</b>															
June-00	1.25	0.58	0.73	-0.29	0.05	0.53	0.84	-0.60	-0.19	0.72	0.53	0.38	-0.48	5.34	99.6%
June-01	1.29	0.59	0.05	-0.34	0.01	0.58	0.99	-0.47	-0.02	0.42	0.19	0.17	-0.59	8.46	98.1%
Benchmark															
June-00	1.15	0.27	0.35	-0.16	0.02	0.42	0.30	-0.20	-0.14	0.11	0.02	0.12	-0.34	N.A.	100.0%
June-01	1.21	0.32	-0.03	0.11	0.06	0.44	0.36	-0.23	-0.11	0.02	-0.14	0.20	-0.40	N.A.	100.0%
<b>Aggregate Emerging Managers</b>															
June-00	1.01	0.17	0.09	-0.70	-0.12	0.14	0.18	-0.03	0.00	0.12	0.26	0.05	-0.18	7.39	95.7%
June-01	1.04	0.25	0.26	-1.10	-0.33	0.37	0.26	0.00	0.08	0.15	0.40	0.02	-0.28	9.37	97.1%
Benchmark															
June-00	1.01	0.17	-0.04	-0.69	-0.22	0.13	0.00	0.05	0.08	0.04	0.12	0.00	-0.14	N.A.	100.0%
June-01	1.04	0.29	0.14	-1.17	-0.39	0.29	0.13	0.04	0.11	0.11	0.27	0.00	-0.20	N.A.	100.0%



## Statistical Data

### EXTERNAL EMERGING STOCK MANAGERS

#### Sector Weights FY 2000 and FY 2001 (In Percentages)

		Cash	Cons. Non Dur.	Cons. Dur.	Basic Mat.	Cap. Goods	Energy	Tech.	Trans.	Util.	Finl.	Misc.	Total
<b>Artemis</b>													
	June-01	8.64	51.73		10.41	5.58	5.93	5.15	4.20	4.74	3.61		100.00
Benchmark	June-01		42.78	7.41	7.96	8.85	2.23	20.90	3.76	0.89	4.90	0.31	100.00
<b>Bay Isle</b>													
	June-01	1.08	21.95	1.95		13.54	8.95	21.72		6.43	22.08	2.31	100.00
Benchmark	June-01		28.70	3.90	5.41	5.38	5.73	16.04	1.56	10.09	21.81	1.37	100.00
<b>Earnest Partners</b>													
	June-01	0.24	34.57		2.74		4.30	19.89		11.02	27.26		100.00
Benchmark	June-01		22.25	7.10	6.10	5.82	6.11	23.23	2.46	3.09	23.21	0.63	100.00
<b>Holt-Smith &amp; Yates</b>													
	June-01	0.32	41.39			9.50		36.86			11.93		100.00
Benchmark	June-01		31.14	0.74	5.54	9.76		30.19		1.63	19.74	1.26	100.00
<b>New Amsterdam</b>													
	June-00	3.63	26.72	6.85	5.59	12.04	2.52	20.56	0.73	13.19	8.17		100.00
	June-01	3.50	27.37	7.60	7.65	11.33	2.60	12.68	2.40	12.03	12.84		100.00
Benchmark	June-00		28.57	2.62	3.97	6.22	3.31	30.64	1.95	6.39	15.53	0.80	100.00
	June-01		30.76	2.06	5.25	6.53	3.69	24.96	1.27	6.77	17.80	0.91	100.00
<b>Next Century Growth</b>													
	June-01	0.13	38.55	2.01		3.91	3.23	43.59	4.09		4.48		100.00
Benchmark	June-01		35.60	2.30	3.44	5.15	5.37	40.57	1.20	0.14	6.23		100.00
<b>Peregrine</b>													
	June-01	3.55	20.30	7.52	14.23	7.20	4.83	6.33	4.86	6.38	22.75	2.05	100.00
Benchmark	June-01		23.90	8.24	11.93	7.28	3.64	5.60	4.17	7.92	26.50	0.81	100.00
<b>Voyageur (Chicago Equity)</b>													
	June-01	3.41	34.48	9.27	4.50	9.07		18.81		2.85	17.61		100.00
Benchmark	June-01		26.45	1.97	3.23	7.52		32.89	2.59	1.61	22.43	1.30	100.00
<b>Valenzuela Capital</b>													
	June-00	9.17	28.70	2.96	8.14	2.69	15.15	7.77	3.10	7.65	14.67		100.00
	June-01	6.17	20.17	6.48	8.08	1.56	7.93	10.33	4.81	9.40	25.09		100.00
Benchmark	June-00		26.25	8.24	10.08	7.68	10.48	12.55	3.60	4.63	16.37	0.12	100.00
	June-01		23.90	6.35	10.31	5.83	11.90	9.94	2.57	7.17	22.03		100.00



## Statistical Data

### EXTERNAL EMERGING STOCK MANAGERS

#### Sector Weights FY 2000 and FY 2001 (In Percentages)

	Cash	Cons. Non Dur.	Cons. Dur.	Basic Mat.	Cap. Goods	Energy	Tech.	Trans.	Util.	Finl.	Misc.	Total
<b>Winslow Capital</b>	1.60	34.15	1.25	3.42	7.28	2.53	29.97	1.38	3.06	14.56	0.79	
June-01	4.10	51.03	6.82	4.96	2.67		25.45	1.73			3.25	100.00
<b>Benchmark</b>	2.73	33.96	1.95	3.49	7.61	4.10	21.76	2.49	3.85	17.53	0.53	100.00
June-01		53.35	4.38	2.78	4.13		28.27	2.00	0.78	3.78	0.54	100.00
<b>Zevenbergen Capital</b>												
June-00	0.37	32.41			4.09		60.73		1.50	0.90		100.00
June-01	1.86	36.81	0.51		4.22		51.76			4.84		100.00
<b>Benchmark</b>												
June-00		35.10	1.26	1.26	2.75	1.05	49.45	0.24	1.91	6.41	0.57	100.00
June-01		35.06	0.40	0.62	2.94	5.68	47.72	0.10	3.57	3.91		100.00
<b>Aggregate Emerging Managers</b>												
June-00	4.28	31.58	2.25	6.29	6.41	5.58	29.31	0.89	4.55	8.58	0.28	100.00
June-01	2.86	32.01	4.44	4.99	6.06	3.57	22.94	1.95	5.37	15.16	0.64	100.00
<b>Benchmark</b>												
June-00		34.56	3.28	3.90	5.73	2.95	32.84	1.42	3.44	11.20	0.68	100.00
June-01		31.80	3.46	5.24	5.86	4.64	25.77	1.79	5.00	15.75	0.69	100.00



# Statistical Data

## EXTERNAL SEMI-PASSIVE STOCK MANAGERS

### Risk Factor Exposures FY 2000 and FY 2001 (In Percentages)

	Beta	Vty.	Mom.	Size	Size Non	Trad. Actvy	Growth	E/Y	Value	Earn Var.	Lev.	Curr. Div. Sens.	Yld	Avg T/O	Eqty Alloc.
<b>Barclays Global Investors</b>															
June-00	0.99	-0.07	-0.04	0.00	-0.01	-0.06	-0.06	0.12	0.04	-0.01	0.04	-0.04	0.11	5.05	99.06%
June-01	0.98	-0.06	-0.03	0.21	-0.02	-0.16	-0.02	0.07	-0.01	-0.02	-0.06	-0.01	0.08	5.95	99.17%
<b>Franklin Portfolio Associates</b>															
June-00	0.99	-0.08	-0.04	0.01	0.01	-0.07	-0.04	0.05	0.03	0.00	0.04	-0.02	0.07	5.58	99.51%
June-01	0.98	-0.07	-0.02	0.20	0.00	-0.17	0.03	0.02	0.00	0.04	-0.04	-0.03	0.05	6.97	99.57%
<b>J.P. Morgan</b>															
June-00	0.98	-0.09	-0.13	-0.02	-0.02	-0.10	-0.06	0.10	0.09	0.00	0.09	-0.07	0.12	4.34	99.72%
June-01	0.98	-0.07	-0.03	0.22	0.00	-0.13	0.00	0.03	0.00	-0.01	-0.05	0.00	0.05	5.96	99.80%
<b>Aggregate Semi-Passive Equity</b>															
June-00	0.99	-0.08	-0.07	0.00	-0.01	-0.08	-0.05	0.09	0.05	0.00	0.06	-0.04	0.10	4.41	99.43%
June-01	0.98	-0.07	-0.03	0.21	-0.01	-0.15	0.00	0.04	-0.01	0.00	-0.05	-0.01	0.06	5.79	99.49%
<b>Benchmark</b>															
June-00	0.99	-0.06	-0.06	0.00	-0.01	-0.08	-0.05	0.02	0.02	0.00	0.05	-0.01	0.08	N.A.	100.00%
June-01	0.98	-0.06	-0.05	0.22	-0.03	-0.19	0.01	-0.03	-0.01	-0.01	-0.07	0.00	0.06	N.A.	100.00%



## Statistical Data

### EXTERNAL SEMI-PASSIVE STOCK MANAGERS

#### Sector Weights FY 2000 and FY 2001 (In Percentages)

	Cash	Cons. Non Dur.	Cons. Dur.	Basic Mat.	Cap. Goods	Energy	Tech.	Trans.	Util.	Finl.	Misc.	Total
<b>Barclays Global Investors</b>												
June-00	0.94	24.94	1.69	3.44	6.34	6.50	28.93	0.88	9.99	15.05	1.30	100.00
June-01	0.83	27.66	1.22	3.29	7.48	9.27	20.34	0.63	9.91	18.33	1.05	100.00
<b>Franklin Portfolio Associates</b>												
June-00	0.49	24.31	0.90	3.63	6.43	6.72	30.79	0.78	8.83	15.87	1.25	100.00
June-01	0.43	27.57	0.90	2.96	7.41	9.32	21.33	0.31	9.89	19.37	0.51	100.00
<b>J.P. Morgan</b>												
June-00	0.28	25.29	2.28	3.77	6.01	6.05	29.41	0.82	8.97	16.32	0.80	100.00
June-01	0.20	26.92	1.62	3.96	6.68	8.00	21.14	0.85	10.39	19.48	0.77	100.00
<b>Aggregate Semi-Passive Equity</b>												
June-00	0.57	24.86	1.64	3.61	6.24	6.43	29.61	0.83	9.27	15.83	1.11	100.00
June-01	0.51	27.39	1.25	3.41	7.20	8.88	20.90	0.60	10.05	19.01	0.80	100.00
<b>Benchmark</b>												
June-00		24.30	1.71	4.02	6.34	5.84	30.55	0.86	9.78	15.76	0.84	100.00
June-01		27.42	1.64	3.69	7.09	7.74	20.95	0.53	10.58	19.57	0.79	100.00



## Statistical Data

### EXTERNAL DOMESTIC STOCK MANAGERS

#### Annualized Performance Summary Periods Ending June 30, 2001

	1 Year		3 Years		5 Years	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
<b>Active Managers</b>						
Alliance Capital Management	-24.3%	-22.0%	7.8%	5.6%	21.7%	16.7%
Brinson Partners	14.6	-13.0	1.0	5.5	10.8	14.1
Cohen, Klingenstein & Marks	-14.4	-19.1	5.6	5.6	16.8	14.9
Forstmann Leff Associates	-14.4	14.9	12.5	13.9	19.6	16.7
Franklin Portfolio Associates	2.9	-1.1	7.0	6.4	16.7	14.1
GeoCapital	-29.6	-11.1	-0.9	2.9	6.3	5.2
Lincoln Capital Management	-42.8	-35.9	-5.4	-0.7	8.3	12.5
Oppenheimer Capital	12.3	4.2	7.7	10.1	17.7	17.8
<b>Emerging Managers</b>						
Artemis Investment Management	-20.0	1.9				
Bay Isle Financial Management	2.3	5.2				
Earnest Partners	-1.9	23.0				
Holt-Smith & Yates Advisors	-8.2	2.3				
New Amsterdam Partners	6.2	3.1	12.7	13.8	21.6	18.8
Next Century Groth Investors	-29.1	-20.3				
Peregrine Capital Management	39.8	40.3				
Valenzuela Capital Partners	9.3	15.1	0.9	5.4	12.6	12.5
Voyageur Capital Management	-8.7	-15.5				
Winslow Capital Management	-3.5	-10.1				
Zevenbergen Capital	-43.1	-21.1	6.4	14.8	16.4	20.2
<b>Semi-Passive Managers</b>						
Barclays Global Investors	-15.9	-19.8	0.0	-0.7	11.5	11.1
Franklin Portfolio Associates	-17.8	-19.8	-1.9	-0.7	10.9	11.1
J.P. Morgan Investment Mgmt.	-15.8	-19.8	0.4	-0.7	11.9	11.1
<b>Passive Manager</b>						
Barclays Global Investors	-15.2	-15.8	3.7	3.3	13.4	12.9
<b>Aggregate (1)</b>	<b>-15.2</b>		<b>2.7</b>		<b>12.9</b>	
<b>Capital Markets Data</b>						
Wilshire 5000 Investable		-15.8%		3.0%		12.7%
Wilshire 5000		-15.3		3.5		13.1
90-Day Treasury Bills		5.5		5.2		5.2
Inflation		3.2		3.0		2.6

(1) Aggregate of all Domestic Stock Managers retained during the time period shown.



## **Statistical Data**

### **Bond Manager Portfolio Characteristics Glossary**

The bond manager portfolio statistics glossary is designed to define terminology the State Board of Investment uses in evaluating a bond manager's investment philosophy, risk characteristics and performance data. The definitions refer to categories shown in the Portfolio Characteristics table that follows this glossary.

#### ***Number of Issues (# of Issues)***

The number of different bond issues held in the manager's portfolio.

#### ***Average Quality Weightings (Avg. Qual.)***

The average rating given the portfolio's securities by Moody's Corp. A security's rating indicates the financial strength of its issuer and other factors related to the likelihood of full and timely payment of interest and principal.

#### ***Coupon***

The annual interest payment received on the manager's total portfolio stated as a percent of the portfolio's face value.

#### ***Yield to Maturity (Yield to Mat.)***

The compounded annualized return that the manager's total portfolio would produce if it were held to maturity and all cash flows were reinvested at an interest rate equal to the yield to maturity.

#### ***Duration***

A measure of the average life of the total portfolio. Duration is a weighted average maturity where the time in the future that each cash flow is received is weighted by the proportion that the present value of the cash flow contributes to the total present value (or price) of the total portfolio.

#### ***Term to maturity (Term. to Mat.)***

A measure of the average life of the total portfolio. Term to maturity is the number of years remaining until the average bond in the portfolio makes its final cash payment.



**Statistical Data**

**EXTERNAL ACTIVE BOND MANAGERS**  
**Portfolio Characteristics**  
**FY2000 - 2001**

	<b># Of Issues</b>	<b>Avg. Qual.</b>	<b>Coupon</b>	<b>Yield To Mat.</b>	<b>Duration</b>	<b>Term To Mat.</b>
<b>American Express Asset Management</b>						
June-01	227	AA	7.05%	6.86%	4.90 Yrs.	8.2 Yrs.
June-00	131	AAA/AA	7.04	7.53	5.44	17.0
<b>Deutsche Asset Management</b>						
June-01	131	AA	6.96	6.76	4.74	7.5
June-00	120	AA	7.20	6.49	4.91	8.2
<b>Dodge &amp; Cox Asset Management</b>						
June-01	99	AA	6.74	6.55	4.10	7.5
June-00	82	AA	6.77	7.53	4.69	9.1
<b>Metropolitan West Asset Management</b>						
June-01	52	AA-	6.68	7.68	4.43	8.1
June-00	40	AA	7.16	7.51	4.80	9.1
<b>Morgan Stanley</b>						
June-01	431	AA+	7.15	8.12	4.67	10.2
June-00	374	AA+	7.15	8.06	5.48	13.5
<b>Western Asset Management</b>						
June-01	407	AA+	6.39	8.04	5.67	12.7
June-00	376	AA	6.76	8.00	5.54	13.3
<b>Lehman Aggregate</b>						
June-01	6,414	Agency	6.79	6.15	4.75	8.4
June-00	5,632	Agency	6.85	7.24	4.91	8.8



## Statistical Data

### EXTERNAL ACTIVE BOND MANAGERS

#### Sector Weights FY2000-2001 (In Percentages)

	Gov't.	Corp.	Mtge.	ABS	Misc.	Intl.	High Yld	Cash
<b>American Express Asset Management</b>								
June-01	16	29	42	0	0	0	9	4
June-00	32	22	33	11	0	0	9	2
<b>Deutsche Asset Management</b>								
June-01	9	34	31	17	8	0	0	1
June-00	27	27	24	9	0	0	0	3
<b>Dodge &amp; Cox Asset Management</b>								
June-01	17	40	37	4	0	0	0	2
June-00	18	39	38	4	0	0	0	1
<b>Metropolitan West Asset Management</b>								
June-01	6	37	27	13	0	0	8	9
June-00	5	44	31	14	0	0	0	4
<b>Morgan Stanley</b>								
June-01	4	33	46	12	0	0	4	1
June-00	14	37	46	2	0	0	7	0
<b>Western Asset Management</b>								
June-01	20	24	31	17	4	0	4	0
June-00	22	38	40	10	4	0	7	0
<b>Lehman Aggregate</b>								
June-01	35	26	37	2	0	0	0	0
June-00	39	23	36	2	0	0	0	0

#### Abbreviations:

Gov't. Government securities  
 Corp. Corporate securities  
 Mtge. Mortgage-backed securities  
 ABS Asset-backed securities

Misc. Miscellaneous or other  
 Int'l. Non-dollar securities  
 High Yld Securities rated below investment grade



**Statistical Data**

**EXTERNAL SEMI-PASSIVE BOND MANAGERS**

**Portfolio Characteristics  
FY 2000 and FY 2001**

	# Of Issues	Avg. Qual.	Coupon	Yield To Mat.	Dur.	Term To Mat.
<b>BlackRock Financial</b>						
June-01	1,143	AA+	6.59%	6.21%	4.78 Yrs.	8.4 Yrs.
June-00	1,317	AAA	6.61	7.32	5.13	10.2
<b>Goldman Sachs Asset Management</b>						
June-01	635	AA	6.21	6.36	4.75	8.1
June-00	864	AA+	6.26	7.73	5.14	7.5
<b>Lincoln Capital Management</b>						
June-01	1,294	AAA	6.98	6.11	4.48	7.7
June-00	1,502	AAA	7.47	7.45	5.02	9.2
<b>Lehman Aggregate</b>						
June-01	6,414	Agency	6.79	6.15	4.75	8.4
June-00	5,632	Agency	6.85	7.24	4.91	8.8

**Sector Weights  
FY 2000 and FY 2001  
(In Percentages)**

	Gov't.	Corp.	Mtge.	ABS	Misc.	Cash
<b>Blackrock Financial</b>						
June-01	24	21	47	4	0	4
June-00	33	26	38	4	0	0
<b>Goldman Sachs Asset Management</b>						
June-01	12	37	36	11	1	3
June-00	11	34	41	12	2	0
<b>Lincoln Capital Management</b>						
June-01	23	26	33	16	0	2
June-00	30	22	36	11	0	1
<b>Lehman Aggregate</b>						
June-01	35	26	37	2	0	0
June-00	39	23	36	2	0	0



## Statistical Data

### EXTERNAL BOND MANAGERS

#### Annualized Performance Summary Periods Ending June 30, 2001

	1 Year		3 Years		5 Years	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
<b>Active Managers</b>						
American Express Asset Mgmt. (1)	11.1%	11.2%	6.3%	6.3%	7.7%	7.5%
Deutsche (4)	11.8	11.2				
Dodge & Cox (4)	12.9	11.2				
Metropolitan West (4)	13.8	11.2				
Morgan Stanley	12.8	11.2	6.4	6.3	8.0	7.5
Western Asset Management	12.8	11.2	6.8	6.3	8.8	7.5
<b>Semi-Passive Managers</b>						
BlackRock Financial	11.1	11.2	6.6	6.3	7.9	7.5
Goldman Sachs Asset Management	11.4	11.2	6.2	6.3	7.6	7.5
Lincoln Capital Management	11.5	11.2	6.3	6.3	7.6	7.5
<b>Aggregate (2)</b>	<b>11.8%</b>		<b>6.3%</b>		<b>7.9%</b>	
<b>Capital Markets Data</b>						
Lehman Aggregate (3)	11.2%		6.3%		7.5%	
3 month Treasury Bills	5.5		5.2		5.2	
Inflation	3.2		3.0		2.6	

(1) Prior to 1/1/96, manager had a government/corporate mandate only.

(2) Aggregate of all active and semi-passive managers retained during the time period shown.

(3) Lehman Brothers Aggregate Bond Index was used beginning 7/1/94. Prior to that time, the Salomon Broad Investment Grade Bond Index was used.

(4) Retained February 1, 2000.



## Statistical Data

### INTERNATIONAL EQUITY MANAGERS' ATTRIBUTION EAFE MANAGERS

Fiscal Year 2001

Local Returns	State Street Global Advisors	American Express	Blairlogie Capital Mgmt.	Brinson Partners	INVESCO Global Asset Mgmt.
Country Selection	0.1%	-0.5%	-2.3%	-0.1%	2.1%
Stock Selection	0.5	-8.4	-0.7	12.6	9.7
Timing	0.3	1.0	0.4	0.1	0.2
<b>Currency Returns</b>					
Currency Effect	-0.5	-0.9	-0.4	0.5	-0.1
Hedging Activity	0.0	0.0	0.0	0.2	0.0
Timing	-0.9	0.9	-1.8	-0.4	0.1
<b>Base Return</b>					
<b>Total Value Added</b>	<b>-0.4%</b>	<b>-7.0%</b>	<b>-4.1%</b>	<b>11.4%</b>	<b>10.7%</b>

Note: All attribution numbers are based on gross returns, not net returns as found in the Investment Pools section.

#### Definitions:

**Local Returns** - The return in local currency for each country in the portfolio relative to the benchmark.

**Country Selection** - The portion of return that can be attributed to over/underweighting countries relative to the benchmark. Country selection will be positive if the manager has overweighted countries that performed well and underweighted countries that did not perform well.

**Stock Selection** - The portion of return that can be attributed to the selection of securities within a country relative to the benchmark. Stock selection will be positive if a portfolio's local country return is greater than the benchmark.

**Currency Returns** - The relative difference between the base currency return and the local currency return.

**Currency Effect** - The difference between the currency effect of a manager's unhedged portfolio and the benchmark that is caused by the timing of purchases and sales of securities and spots to cover them.

**Hedging Effect** - The difference between the currency return of the manager's hedged portfolio and the currency return of the unhedged portfolio.

**Base Return** - The return after conversion from local currencies to U.S. dollars.

**Total Value Added** - The difference between the portfolio's base return and the benchmark's base return.



## Statistical Data

### INTERNATIONAL EQUITY MANAGERS' ATTRIBUTION EAFE MANAGERS

Fiscal Year 2001

Local Returns	Marathon Asset Mgmt.	Montgomery Asset Mgmt.	T. Rowe Price Int'l	Zurich Scudder
Country Selection	-1.5%	-0.2%	-0.9%	-1.5%
Stock Selection	15.4	-4.0	-2.1	-3.9
Timing	0.0	-1.3	0.3	0.6
<b>Currency Returns</b>				
Currency Effect	0.0	-1.8	0.3	-0.3
Hedging Activity	0.1	0.0	-0.0	-0.2
Timing	0.4	-0.9	0.1	0.6
<b>Base Return</b>				
<b>Total Value Added</b>	<b>12.8%</b>	<b>-7.0%</b>	<b>-2.2%</b>	<b>-4.1%</b>

Note: All attribution numbers are based on gross returns, not net returns as found in the Investment Pools section.

#### Definitions:

**Local Returns** - The return in local currency for each country in the portfolio relative to the benchmark.

**Country Selection** - The portion of return that can be attributed to over/underweighting countries relative to the benchmark. Country selection will be positive if the manager has overweighted countries that performed well and underweighted countries that did not perform well.

**Stock Selection** - The portion of return that can be attributed to the selection of securities within a country relative to the benchmark. Stock selection will be positive if a portfolio's local country return is greater than the benchmark.

**Currency Returns** - The relative difference between the base currency return and the local currency return.

**Currency Effect** - The difference between the currency effect of a manager's unhedged portfolio and the benchmark that is caused by the timing of purchases and sales of securities and spots to cover them.

**Hedging Effect** - The difference between the currency return of the manager's hedged portfolio and the currency return of the unhedged portfolio.

**Base Return** - The return after conversion from local currencies to U.S. dollars.

**Total Value Added** - The difference between the portfolio's base return and the benchmark's base return.



## Statistical Data

### INTERNATIONAL EQUITY MANAGERS' ATTRIBUTION EMERGING MARKETS MANAGERS

Fiscal Year 2001

Local Returns	Montgomery Asset Mgmt.
Country Selection	4.2%
Stock Selection	-5.5
Timing	-1.2
<b>Currency Returns</b>	
Currency Effect	-0.7
Hedging Activity	-0.0
Timing	4.8
<b>Base Return</b>	
<b>Total Value Added</b>	<b>1.0%</b>

Note: All attribution numbers are based on gross returns, not net returns as found in the 'front part of the report'. Attribution data is not applicable for City of London's closed end funds approach.

#### Definitions:

**Local Returns** - The return in local currency for each country in the portfolio relative to the benchmark.

Country Selection - The portion of return that can be attributed to over/underweighting countries relative to the benchmark. Country selection will be positive if the manager has overweighted countries that performed well and underweighted countries that did not perform well.

Stock Selection - The portion of return that can be attributed to the selection of securities within a country relative to the benchmark. Stock selection will be positive if a portfolio's local country return is greater than the benchmark.

**Currency Returns** - The relative difference between the base currency return and the local currency return.

Currency Effect - The difference between the currency effect of a manager's unhedged portfolio and the benchmark that is caused by the timing of purchases and sales of securities and spots to cover them.

Hedging Effect - The difference between the currency return of the manager's hedged portfolio and the currency return of the unhedged portfolio.

**Base Return** - The return after conversion from local currencies to U.S. dollars.

Total Value Added - The difference between the portfolio's base return and the benchmark's base return.



## Statistical Data

### EXTERNAL INTERNATIONAL STOCK MANAGERS

#### Annualized Performance Summary Periods Ending June 30, 2001

	1 Year		3 Years		5 Years	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
<b>Active EAFE</b>						
American Express Asset Mgmt. (5)	-30.9%	-23.6%				
Blairlogie Capital Mgmt. (5)	-27.1	-23.6				
Brinson Partners (1)	-12.4	-23.6	4.5%	-1.3%	7.3%	2.8%
Invesco Global Asset Mgmt. (5)	-13.2	-23.6				
Marathon Asset Mgmt. (2)	-11.1	-20.1	5.9	-0.4	5.0	1.8
Montgomery Asset Mgmt. (5)	-30.8	-23.6				
T. Rowe Price International, Inc. (2)	-26.2	-23.6	-0.4	-1.3	4.0	2.8
Zurich Scudder Investments (2)	-27.9	-23.6	-1.6	-1.3	4.5	2.8
<b>Active Emerging Markets</b>						
Alliance Capital Mgmt. (6)	-16.3	-13.7				
Capital International (6)	-15.6	-13.7				
Montgomery Asset Mgmt. (3)	-25.4	-25.9	0.3	1.4	-5.8	-6.4
Morgan Stanley Investment Mgmt. (6)	-15.0	-13.7				
Schroder Investment Mgmt. N.A. (6)	-15.6	-13.7				
<b>Passive EAFE</b>						
State Street Global Advisors (4)	-23.7	-23.6	-0.9	-1.3	3.1	2.8
Equity Only*	-22.1	-23.9	0.0	-0.7	2.8	1.9
<b>Total Program**</b>	<b>-22.1%</b>	<b>-23.9%</b>	<b>-0.2%</b>	<b>-0.7%</b>	<b>3.5%</b>	<b>1.9%</b>

\* Equity managers only. Includes impact of terminated managers. The international benchmark is MSCI EAFE Free plus MSCI Emerging Markets Free (EMF). The weighting of each index fluctuates with market capitalization. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE Free/13% Emerging Markets Free. On 5/1/96, the portfolio began transitioning from 100% EAFE to the 12/31/96 fixed weights. 100% EAFE Free prior to 5/1/96.

\*\* Includes impact of currency overlay unrealized gain/loss through December 2001, when all contracts had matured. The international benchmark is MSCI EAFE Free plus MSCI Emerging Markets Free (EMF). The weighting of each index fluctuates with market capitalization. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE Free/13% Emerging Markets Free. On 5/1/96, the portfolio began transitioning from 100% EAFE to the 12/31/96 fixed weights. 100% EAFE Free prior to 5/1/96.

- (1) Fully active since 10/1/99. Active country/passive stock from inception to 9/30/99. Retained April 1, 1993.
- (2) Retained November 1, 1993. Marathon's performance is measured against a custom benchmark since inception.
- (3) Retained May 1, 1996.
- (4) Retained October 1, 1992.
- (5) Retained February 1, 2000.
- (6) Retained February 1, 2001.



## Statistical Data

### ALTERNATIVE INVESTMENTS – REAL ESTATE June 30, 2001

BASIC FUND	MARKET \$ VALUE	UNFUNDED \$ COMMITMENT	PERIOD (YEARS)
<b>AEW V</b>	\$382,939	\$0	13.54
<b>Colony Capital</b>			
Colony Investors II	12,329,302	1,014,836	6.25
Colony Investors III	102,547,547	4,364,621	3.50
<b>Equity Office Properties Trust</b>	132,928,871	0	9.59
<b>First Asset Realty Fund</b>	121,640	0	7.17
<b>Heitman</b>			
Heitman Advisory Fund I	2,170,050	0	16.89
Heitman Advisory Fund II	3,402,746	0	15.61
Heitman Advisory Fund III	77,805	0	14.44
Heitman Advisory Fund V	8,207,725	0	9.57
<b>LaSalle Income Parking Fund</b>	8,056,634	355,599	9.78
<b>Lend Lease Real Estate Investments</b>	134,866,106	0	19.72
<b>RREEF USA Fund III</b>	527,179	0	17.14
<b>T.A. Associates Realty</b>			
Realty Associates Fund III	55,964,315	0	7.08
Realty Associates Fund IV	61,950,384	0	4.41
Realty Associates Fund V	45,174,186	6,500,000	2.10
<b>TCW Realty Fund IV</b>	88,812	0	14.66
<b>UBS Realty</b>	151,793,427	0	19.17
<b>Fund in Liquidation (AEW III)</b>	7,727	0	
<b>Real Estate Basic Totals</b>	<b>\$720,597,394</b>	<b>\$12,235,056</b>	
<b>POST FUND</b>	<b>MARKET \$ VALUE</b>	<b>UNFUNDED \$ COMMITMENT</b>	<b>PERIOD (YEARS)</b>
<b>CT Mezzanine Partners II</b>	\$0	\$100,000,000	0.00
<b>Colony Capital</b>	12,329,302	1,014,836	6.25
<b>Equity Office Properties Trust</b>	132,928,871	0	0.24
<b>GMAC Institutional Advisors</b>			
Institutional Coml MTG Fund II	10,894,995	102,500	5.93
Institutional Coml MTG Fund III	20,880,930	224,948	4.58
Institutional Coml MTG Fund IV	14,273,673	0	3.50
Institutional Coml MTG Fund V	26,633,304	11,010,753	1.91
<b>Total Real Estate (Post Fund)</b>	<b>\$217,941,075</b>	<b>\$112,353,036</b>	
<b>Total Real Estate</b>	<b>\$938,538,469</b>	<b>\$124,588,092</b>	



## Statistical Data

### ALTERNATIVE INVESTMENTS – PRIVATE EQUITY JUNE 30, 2001

BASIC FUND	MARKET \$ VALUE	UNFUNDED \$ COMMITMENT	PERIOD (YEARS)
<b>Bank Fund</b>			
Banc Fund III	\$2,541,216	\$0	8.68
Banc Fund IV	24,106,900	0	5.37
Banc Fund V	33,908,724	12,000,000	2.96
<b>Blackstone Capital Partners II</b>	25,787,790	2,728,810	7.60
<b>BLUM Capital Partners</b>			
RCBA Strategic Partners	44,847,220	697,709	2.52
BLUM Strategic Partners II	0	50,000,000	0.00
<b>Brinson Partners</b>			
Brinson Partners I	371,792	0	13.14
Brinson Partners II	2,555,249	420,002	10.59
<b>Churchill Capital Partners II</b>	5,459,357	0	8.67
<b>Contrarian Capital Fund II</b>	34,751,953	0	4.08
<b>Coral Partners</b>			
Coral Partners Fund I	631,613	0	15.03
Coral Partners Fund II	1,520,093	1,930,685	10.93
Coral Partners Fund IV	15,974,323	0	6.94
Coral Partners Fund V	16,592,193	2,250,000	3.04
<b>Crescendo</b>			
Crescendo II	14,986,575	0	4.49
Crescendo III	25,200,277	0	2.65
Crescendo IV	51,091,540	43,244,953	1.31
<b>DLJ</b>			
DLJ Merchant Banking Partners III	36,989,980	88,336,109	0.75
DLJ Strategic Partners	18,630,452	81,092,435	0.44
<b>DSV Partners IV</b>	1,470,608	0	16.22
<b>First Century Partners III</b>	3,015,784	0	16.54
<b>Fox Paine Capital Fund</b>			
Fox Paine Capital Fund	35,510,024	5,619,346	3.19
Fox Paine Capital Fund II	324,808	49,217,456	1.00
<b>Golder, Thoma, Cressey, Rauner</b>			
Golder, Thoma, Cressey Fund III	4,707,159	0	13.67
Golder, Thoma, Cressey & Rauner Fund IV	6,209,193	0	7.41
Golder, Thoma, Cressey & Rauner Fund V	29,153,835	0	5.00
<b>GS Capital Partners 2000</b>	5,455,430	43,985,796	0.83



## Statistical Data

### ALTERNATIVE INVESTMENTS – PRIVATE EQUITY (con't) June 30, 2001

BASIC FUND (con't)	MARKET \$ VALUE	UNFUNDED \$ COMMITMENT	PERIOD (YEARS)
<b>GTCR Golder Rauner</b>			
GTCR Fund VI	\$68,687,335	\$1,762,222	3.00
GTCR Fund VII	71,458,952	101,266,147	1.39
<b>GHJM Marathon Fund IV</b>	26,808,844	13,330,000	2.21
<b>Hellman &amp; Friedman</b>			
Hellman & Friedman Capital Partners III	9,366,326	7,567,566	6.78
Hellman & Friedman Capital Partners IV	29,083,464	100,249,436	1.49
<b>Kohlberg Kravis Roberts</b>			
KKR 1986 Fund	8,812,993	0	15.21
KKR 1987 Fund	147,726,940	576,348	13.60
KKR 1993 Fund	49,733,709	0	7.53
KKR 1996 Fund	171,911,207	21,044,402	4.83
KKR Millennium Fund	0	200,000,000	0.10
<b>Piper Jaffray Healthcare</b>			
Piper Jaffray Healthcare Fund II	9,178,370	500,000	4.33
Piper Jaffray Healthcare Fund III	13,508,580	5,168,885	2.44
<b>Summit Partners</b>			
Summit Ventures II	2,331,890	1,500,000	13.13
Summit Ventures V	15,963,277	6,000,000	3.25
<b>T. Rowe Price</b>	19,513,000	0	N/A
<b>Thoma Cressey</b>			
Thoma Cressey Fund VI	34,476,072	3,850,000	2.86
Thoma Cressey Fund VII	5,500,000	44,500,000	0.85
<b>Vestar Capital Partners IV</b>	10,859,826	43,708,954	1.54
<b>Warburg Pincus</b>			
Warburg, Pincus Equity Partners	85,175,719	16,000,000	3.01
Warburg, Pincus Ventures	76,356,195	0	6.50
<b>Welsh, Carson, Anderson &amp; Stowe</b>			
WCAS VIII	81,282,930	7,000,000	2.93
WCAS IX	17,223,239	101,250,000	1.01
<b>William Blair Capital Partners VII</b>	3,100,000	46,900,000	0.31
Funds in Liquidation (Matrix II, Matrix III, Summit I, & Zell/Chillmark)	2,257,468	0	N/A
<b>Total Private Equity (Basic Fund)</b>	<b>\$1,402,110,425</b>	<b>\$1,103,697,261</b>	



## Statistical Data

### ALTERNATIVE INVESTMENTS – PRIVATE EQUITY (con't) June 30, 2001

POST FUND	MARKET \$ VALUE	UNFUNDED \$ COMMITMENT	PERIOD (YEARS)
<b>Citicorp Mezzanine</b>			
Citicorp Mezzanine II	\$26,331,348	\$0	6.50
Citicorp Mezzanine III	32,864,792	68,603,887	1.66
<b>DLJ Investment Partners II</b>	20,003,706	30,189,295	1.49
<b>GS Mezzanine Partners II</b>	12,007,128	86,000,000	1.33
<b>GTCR Capital Partners</b>	68,145,149	14,400,000	1.63
<b>KB Mezzanine Partners Fund II</b>	16,789,396	1	5.75
<b>Prudential Capital Partners</b>	19,847,304	80,152,696	0.20
<b>Summit Partners</b>			
Summit Sub. Debt Fund I	865,882	2,000,000	7.25
Summit Sub. Debt Fund II	14,220,670	18,000,000	3.91
<b>T. Rowe Price</b>	522,260	0	N/A
<b>TCW/Crescent Mezzanine</b>			
TCW/Crescent Mezzanine Partners	25,844,995	511,434	5.25
TCW/Crescent Mezzanine Partners II	82,937,566	0	2.60
TCW/Crescent Mezzanine Partners III	0	75,000,000	0.25
<b>William Blair Mezzanine III</b>	27,916,242	32,498,400	1.49
<b>Windjammer Mezzanine &amp; Equity Fund II</b>	12,895,502	54,120,601	1.25
<b>Total Private Equity (Post Fund)</b>	<b>\$361,191,939</b>	<b>\$461,476,314</b>	
<b>Total Private Equity</b>	<b>\$1,763,302,364</b>	<b>\$1,565,173,575</b>	



**Statistical Data**

**ALTERNATIVE INVESTMENTS - RESOURCE**  
**June 30, 2001**

<b>BASIC FUND</b>	<b>MARKET \$ VALUE</b>	<b>UNFUNDED \$ COMMITMENT</b>	<b>PERIOD (YEARS)</b>
<b>Apache Corp III</b>	\$16,708,800	\$0	14.50
<b>First Reserve</b>			
First Reserve I	904,000	0	19.75
First Reserve II	1,299,000	0	18.40
First Reserve V	149,000	0	11.16
First Reserve VII	35,595,987	0	5.00
First Reserve VIII	105,857,709	5,313,249	3.17
First Reserve IX	10,218,978	89,781,022	0.22
<b>Morgan Oil &amp; Gas</b>	3,952,028	0	12.85
<b>Simmons</b>			
Simmons - SCF Fund II	21,504,847	2,152,471	9.90
Simmons - SCF Fund III	42,415,495	2,978,862	6.00
Simmons - SCF Fund IV	36,223,986	20,831,472	3.25
<b>T. Rowe Price</b>	8,330,000	0	N/A
<b>Total Resource (Basic Fund)</b>	<b>\$283,159,829</b>	<b>\$121,057,075</b>	
<b>POST FUND</b>	<b>MARKET \$ VALUE</b>	<b>UNFUNDED \$ COMMITMENT</b>	<b>PERIOD (YEARS)</b>
<b>Merit Energy Partners</b>			
Merit Energy Partners B	\$30,045,233	\$2,088,670	5.00
Merit Energy Partners C	40,596,055	25,095,145	2.67
Merit Energy Partners D	4,200,000	83,800,000	0.10
<b>Total Resource (Post Fund)</b>	<b>\$74,841,288</b>	<b>\$110,983,815</b>	
<b>Total Resource</b>	<b>\$358,001,117</b>	<b>\$232,040,890</b>	



## Statistical Data

### Time-Weighted Rate of Return

In measuring the performance of a manager or fund whose investment objective is to maximize the total value of an investment portfolio, the proper measuring tool is the time-weighted total rate of return. This performance measure includes the effect of income earned as well as realized and unrealized portfolio market value changes. In addition, the time-weighted total rate of return nets out the influence of contributions made to and distributions taken from the manager or fund. These are variables over which the manager or fund generally has no control.

The calculation of a portfolio's true time-weighted return requires that the portfolio be valued every time that there is a capital flow in or out. Because most portfolios are not valued that frequently, it is usually necessary to estimate the time-weighted total rates of return by approximating the required valuations.

In 1968, the Bank Administration Institute (BAI) commissioned a study, conducted by the University of Chicago, which considered desirable methods of estimating time-weighted returns. The BAI report is considered to be the definitive work in the field of performance measurement because of the academic reputations and thorough scientific efforts of its authors.

When monthly data are available, the BAI study recommends employing a technique called the linked internal rate of return (LIRR). State Street Bank, the SBI's performance measurement consultant, calculates the LIRR by solving the following equation for R:

$$VB * (1 + R) + \sum_{i=1}^n C_i * (1 + R)^{t_i} = VE$$

Where:

VB = Value of the fund at the beginning of the month

VE = Value of the fund at the end of the month

C<sub>i</sub> = Net cash flow on the i<sup>th</sup> day of the month

n = Number of cash flows in the month

R = Internal rate of return

t<sub>i</sub> = Time from cash flow i to the end of the period, expressed as a percentage of the total number of days in the month

The internal rate of return, R, is a proxy for the true time-weighted return over the month. It approximates the interim valuations by assuming a uniform growth of the invested assets throughout the period.

The IRR's calculated for each month can be linked together to estimate the time-weighted return for a longer period. For example, given three consecutive monthly IRR's (R1, R2, and R3), the quarterly time-weighted return (TWRQ) is:

$$TWRQ = (1 + R1) * (1 + R2) * (1 + R3) - 1$$

State Street's performance methodology is also in compliance with the mandatory requirements of the Association for Investment Management and Research (AIMR).



**Calculation of January 1, 2002 Benefit Increase**

Actuarial value of required reserves at January 1, 2002	\$19,722,373,000
Less: Reserves not eligible for increase	804,573,000
Actuarially determined eligible reserves at January 1, 2002	<u>18,917,800,000</u>
CPI Inflation rate capped at 2.5%	2.5%
Dollar cost of inflationary increase	472,945,000
June 30, 2001 total required reserves	<u>19,922,098,000</u>
June 30, 2001 total required reserves adjusted for inflationary increase	20,395,043,000
Market value of Assets at June 30, 2001	19,347,412,000
Less: Inflation adjusted required reserves	<u>20,395,043,000</u>
Current year excess market value	<u>-1,047,631,000</u>
Negative balance carry forward	<u>1,919,158,867</u>
Excess market value available for investment based benefit increase	<u>-2,966,789,867</u>
Divided by 5 year pay out period	5
Current year portion of excess market value	-593,357,973
Second year portion	68,733,579
Third year portion	184,136,183
Fourth year portion	374,194,800
Fifth year portion	<u>343,426,405</u>
Total five year excess market value	377,132,994
Greater of current year excess market value or cost of transition adjustment	<u>377,132,994</u>
Divided by eligible required reserves at January 1, 2002	18,917,800,000
Investment based increase for FY2001	1.9935%
<b>Summary:</b>	
<b>Investment Based Benefit Increase</b>	<b>1.9935%</b>
<b>Inflation Based Benefit Increase</b>	<b>2.5000%</b>
<b>Total Benefit Increase</b>	<b><u>4.4935%</u></b>
<b>Total Dollar Value of January 1, 2002 Benefit Increase</b>	<b><u>\$850,077,994</u></b>

# Statistical Data

## COMMISSIONS AND TRADING VOLUME

### By Broker for Fiscal Year 2001

Broker	Stock \$ Volume	Stock \$ Commissions	Bond \$ Volume	Bond \$ Commissions	Short Term \$ Volume
A & C BROKERAGE	0	0	0	0	5,987,060.00
A B WATLEY INC	2,046,848.13	8,742.00	0	0	0
ABD SECURITIES	18,038,842.57	25,787.21	0	0	0
ABN AMRO ASIA SECS LTD	1,161,167.96	5,108.26	0	0	0
ABN AMRO BANK NV	4,182,935.90	8,416.92	0	0	0
ABN AMRO CHICAGO CORP	16,403,857.55	39,703.55	0	0	0
ABN AMRO EQUITIES AUSTRALIA LT	1,523,465.33	5,305.59	0	0	0
ABN AMRO SECURITIES	38,599,795.30	79,326.84	137,959,220.61	0	16,938,417.50
ABN AMRO, HOARE, GOVETTE	1,449,377.01	3,262.33	0	0	0
ACCESS SECURITIES	166,630,729.94	240,790.90	0	0	0
ACCIONES Y VALORES	5,468,188.41	16,406.90	0	0	0
ADAMS HARKNESS & HILL	21,670,132.78	0	0	0	0
ADVEST CO.	1,674,037.62	3,375.00	81,893,072.63	0	0
ALLEN & COMPANY	12,142,768.82	9,480.00	0	0	0
ALLIANCE CAPITAL MANAGEMENT	297,231.77	107.28	0	0	0
ALPHA BROKER	50,884.02	153.67	0	0	0
AMADON CORPORATION	37,180,856.71	85,701.17	55,977,873.78	0	0
AMERICAN EXPRESS CREDIT	0	0	0	0	304,444,706.94
AMERICAN GENERAL FINANCE	0	0	0	0	332,155,321.66
AMHERST SECURITIES GROUP INC.	0	0	27,002,557.01	0	0
ARCHELAG	1,459,046.98	877.2	0	0	0
ARNHOLD	14,954,025.86	23,987.53	0	0	0
ASSOC CORP OF N AMER	0	0	0	0	2,043,073,162.77
ATLANTIK (PRAGUE)	4.37	0	0	0	0
AUBREY G LANSTON	5,306,208.62	9,401.87	0	0	0
AUTRANET	102,773,659.76	123,608.00	2,558,757.00	0	0
B-TRADE SERVICES LLC	35,567,810.24	28,575.75	0	0	0
BA SECURITIES INC	0	0	1,441,296,954.84	0	4,095,371,297.47
BAIRD, ROBERT W & CO.	0	0	3,118,590.00	0	0
BANAMEX	635,898.34	2,456.03	0	0	0
BANC ONE CAPITAL CORP.	0	0	19,198,625.00	0	0
BANCA EUROMOBILIARE SPA	510,921.40	1,538.22	0	0	0
BANCO CHAS	57,451.01	200.38	0	0	0
BANCO DE INV	245,655.47	736.58	0	0	0
BANCO DE SABADEL	260,945.42	784.34	0	0	0
BANCO DE SANTANDER VALENCIA	181,200.80	545.43	0	0	0
BANCO EXTERIOR DE ESPANA	342,075.23	0	0	0	0
BANCO FRANCES DEL RIO	2,547,341.87	8,616.14	0	0	0
BANCO ICATER	572,337.62	1,342.19	0	0	0
BANCO NACIONAL DE MEXICO	1,172,453.23	3,877.36	0	0	0
BANCO PACTUAL S.A.	3,094,346.70	9,272.75	0	0	0
BANCO SANT	39,160.89	117.9	0	0	0
BANCO SANTANDER DE NEGOCIOS	3,401,899.54	10,557.10	0	0	0
BANCO WARB	2,262,011.38	7,936.83	0	0	0
BANCONE CAPITAL CORP	0	0	0	0	263,608,317.98
BANK AM BELLEVUE ZURICH	362,990.77	723.92	0	0	0
BANK AMERICA	92,202.00	768.68	0	0	0
BANK AUSTR	133,024.98	793.39	0	0	0
BANK AUSTRIA	1,329,258.08	7,949.09	0	0	0
BANK J. VONTOBEL, ZURICH	727,912.99	1,825.90	0	0	0
BANK OF AMERICA	0	0	119,859,144.31	0	0
BANK OF NEW YORK	0	0	265,597,316.67	0	0
BANK OF NY SECURITIES INC	7,281,980.45	7,016.08	0	0	0
BANKERS TRUST	4,704,637.50	0	12,989,900.39	0	13,942,483.33
BANQUE NAT	578,402.01	1,449.62	0	0	0
BANQUE NATIONALE DE PARIS	668,104.36	2,013.37	0	0	0
BANQUE PARIBAS	145,324.00	0	0	0	0
BARCLAYS CAPITAL INC	0	0	8,038,225.50	0	226,150,607.62
BARCLAYS DEZOETE WEDD	0	0	380,884,907.05	0	0
BARING SECURITIES	138,998,810.53	211,421.16	0	0	0
BARNARD JACOBS AND CO (PTY) LTD	15,115,188.06	44,588.11	0	0	0
BARRETT & CO.	139,022.00	0	0	0	0
BARRINGTON TRADING CO	5,051,536.60	4,185.00	0	0	0



# Statistical Data

## COMMISSIONS AND TRADING VOLUME

### By Broker for Fiscal Year 2001

Broker	Stock \$ Volume	Stock \$ Commissions	Bond \$ Volume	Bond \$ Commissions	Short Term \$ Volume
BB & T CAPITAL MARKETS	0	0	17,880,794.85	0	0
BEAL M. R. & CO	2,282,311.89	738	0	0	0
BEAR, STEARNS & CO.	798,539,529.56	1,047,649.00	6,315,544,160.82	1,015.00	0
BENCHMARK CO INC	0	0	13,871,220.00	0	0
BENDER MEN	96,165.65	0	0	0	0
BERKSHIRE EQUITY SALES INC	6,074,242.73	2,132.51	0	0	0
BERNSTEIN SANFORD	112,583,651.37	145,961.55	0	0	0
BHF BK FRANKFURT	881,986.76	2,199.47	0	0	0
BHF SECURITIES	4,181,388.17	9,960.21	756,412.50	0	0
BK NYC-BONY BROK/DEALER OMNIBUS	0	0	62,717,287.34	0	0
BLACK & CO	10,771,068.80	10,080.00	0	0	0
BLAIR & COMPANY	68,868,946.58	50,563.86	0	0	0
BLAYLOCK	0	0	54,922,100.00	0	0
BNNCM BONY NATIONS BANC CAP MKTS	0	0	37,364,521.20	0	0
BNP PARIBAS	4,187,666.03	10,479.66	1,216,826.00	0	0
BNP PRIME	5,665,420.22	16,547.98	0	0	0
BNP SECURITIES	80,280.56	239.96	0	0	0
BNY CAPITAL MARKETS INC	0	0	28,050,928.19	0	0
BOSTON INST. SERVICES	405,876.00	1,500.00	0	0	0
BRAD PEERY CAP	2,487,568.50	3,451.74	0	0	0
BRANDT (ROBERT) & CO	10,419,096.16	11,002.40	0	0	0
BRIDGE TRADING CO.	75,058,821.04	98,618.17	0	0	0
BROADCORT CAPITAL	145,175,518.46	194,796.85	0	0	0
BROCKHOUSE & COOPER	234,082.74	1,467.02	0	0	0
BROWN (ALEX) & SONS INC.	361,137,801.07	228,880.94	294,744,596.67	0	0
BROWN BROS. HARRIMAN	686,229.22	1,246.63	0	0	0
BT SECURITIES CORP	1,435,694.48	0	0	0	0
BTN RESEARCH	2,101,560.00	1,660.00	0	0	0
BUCKINGHAM RESEARCH GRP	3,457,500.42	11,153.24	0	0	0
BUNTING WARVURGER SEC	975,162.32	1,655.00	0	0	0
BURNS FRY & TIMMINS	0	0	155,540.00	0	0
C.L. KING & ASSOC.	10,319,697.52	11,083.90	0	0	0
CA IB INVE	2,032.13	12.27	0	0	0
CAIS INC C	773,030.37	1,927.75	0	0	0
CANTOR FITZGERALD	424,238,793.93	266,810.99	1,225,992.19	0	0
CAPEL, JAMES	4,574,770.52	7,731.37	0	0	0
CAPITAL INST. SERVICES	49,367,731.88	69,233.18	0	0	0
CARNEGIE	9,777,496.99	25,608.35	0	0	0
CARNEGIE HELSINKI	58,393.92	174.66	0	0	0
CARROLL MCENTEE & MCG	0	0	296,069,478.26	0	46,615,925.92
CASA DE BO	1,473,244.91	4,419.55	0	0	0
CATHAY FINANCIAL	5,157.82	4	0	0	0
CAZENOVE & CO.	29,524,715.53	40,205.81	0	0	0
CENTURY SECS	0	0	4,444,071.25	0	0
CHAPMAN COMPANY	7,126,537.05	11,250.00	0	0	0
CHARTERHOUSE TILNEY	737,241.28	740.84	0	0	0
CHASE	0	0	16,445,365.84	0	0
CHASE MANHATTAN BANK	0	0	955,459,284.37	0	17,936,679.85
CHASE SECURITIES INC	0	0	311,281,617.06	0	318,803,186.46
CHEMICAL BANK	0	0	608,894,634.79	0	0
CHEMICAL SECS. INC.	0	0	41,133,937.80	0	0
CHEUVREUX	29,364,082.40	81,931.93	0	0	0
CHEUVREUX DE NORDIC A B	869,950.25	2,180.32	0	0	0
CHEVEAUX J. PARIS	3,859,172.55	12,130.11	0	0	0
CHEVREUX DE VIRIEU	14,265,758.73	33,754.97	0	0	0
CHICAGO CORP	30,221,898.46	28,831.77	8,396,280.00	0	0
CHINA SECURITIES CO LTD	598,316.18	853.27	0	0	0
CHUO SECURITIES CO.	322,140.00	910	0	0	0
CIBC OPPENHEIMER	281,308.79	0	0	0	0
CIBC WORLD	1,352,726.73	1,284.07	0	0	0
CIBC/WOOD GUNDY	0	0	0	0	357,234,217.22
CIT GROUP INC	0	0	0	0	128,664,993.33
CITATION GROUP	307,655,785.33	391,257.05	0	0	0



## Statistical Data

### COMMISSIONS AND TRADING VOLUME

#### By Broker for Fiscal Year 2001

Broker	Stock \$ Volume	Stock \$ Commissions	Bond \$ Volume	Bond \$ Commissions	Short Term \$ Volume
CITIBANK	2,715,535.45	4,259.08	0	0	0
CITIBANK NA TOKYO	1,231,784.33	3,210.56	0	0	0
CITICORP	157,142.87	470.02	0	0	0
CITIGROUP INC	0	0	0	0	2,957,195,189.15
CL GLAZER INC.	7,930,094.94	17,268.18	0	0	0
CLARKE & CO	0	0	15,235,546.88	0	0
CLARKE GX & CO.	0	0	5,667,968.75	0	0
CLEARY GULL REILAND	4,539,880.59	10,271.56	0	0	0
CLYDESDALE BANK PLC	0	0	86,555.51	0	0
COLLINS STEWART	2,274,029.20	2,274.20	0	0	0
COMMERZ BANK	3,705,120.00	6,281.51	0	0	0
COMMERZ SECURITIES	683,003.11	1,253.69	0	0	0
COMMERZBANK AG	10,250,026.12	17,546.94	95,091,052.78	0	0
CONNING & COMPANY	930,504.69	1,579.58	0	0	0
CORNA AND CO. INC.	0	0	940,162.50	0	0
COUNTRYWIDE	0	0	464,878,976.19	7	4,576,887.55
COUNTY NATWEST SEC CORP USA	108,825,947.50	119,489.34	102,219,207.42	0	0
COWEN&CO	63,975,669.83	71,907.20	1,324,236.25	0	0
CREATIVE PLANNING	2,561,219.11	1,665.00	0	0	0
CREDIT AGR	1,047,931.15	3,134.40	0	0	0
CREDIT AGR I DOSUEZ CHEUVREAU	1,941,310.94	5,378.76	0	0	0
CREDIT AGRICOLE	1,054,273.61	3,534.65	0	0	0
CREDIT ANSTALT	737,254.20	5,100.42	0	0	0
CREDIT LYONNAIS SECURITIES	36,202,410.53	111,100.65	0	0	0
CREDIT SUISSE FIRST BOSTON LTD	225,877,077.72	492,489.26	865,447.14	0	0
CREDIT SWISS GROUP INC	4,549,085.62	9,080.01	0	0	0
CREDITANSTALT BANK	385,125.92	2,463.92	0	0	0
CREWS & ASSOCIATES	0	0	323,720.00	0	0
CRONIN & CO INC	0	0	819,690.75	0	0
CROSBY CORP, THE	697,412.86	2,084.63	0	0	0
CROSBY SECURITIES	2,248,203.41	6,774.63	0	0	0
CS FIRST BOSTON	41,787,788.22	82,357.99	9,653,894.98	0	544,198,075.46
CTSSTG - CUSTODIAL TR CO	0	0	13,312,104.91	0	0
D.A. DAVIDSON	4,568,751.00	10,560.25	0	0	0
DAIMLER CHRYSLER N.A. HLDG	0	0	0	0	118,438,958.33
DAIN RAUSCHER INC	33,829,437.04	29,438.50	84,111,692.88	0	0
DAIWA EUROPE LIMITED	223,785.84	448.47	0	0	0
DAIWA SEC	170,232.22	255.73	0	0	0
DAIWA SEC. AMERICA	35,201,421.43	46,903.46	0	0	0
DAVY & CO DUBLIN	834,475.25	2,930.93	0	0	0
DAVY STOCKBROKERS	1,733,213.81	5,359.77	0	0	0
DEAN WITTER REYNOLDS	337,536.05	552	665,575.74	0	0
DEERE & COMPANY	0	0	0	0	24,740,283.33
DEN DANSKE BANK	308,517.64	615.8	0	0	0
DEUTSCHE B	108,931,913.53	210,812.38	4,506,135.70	0	0
DEUTSCHE BANK AG / LONDON	4,544,009.04	13,554.06	0	0	0
DEUTSCHE BANK AG NEW YORK	51,550.80	129.2	0	0	0
DEUTSCHE BANK CAPITAL	13,637,940.59	27,931.78	383,186,918.83	0	0
DEUTSCHE BANK GOVT SEC INC	106,060,647.42	194,568.56	73,063,541.17	0	2,608,399,705.03
DEUTSCHE BANK SECS	1,595,481.12	8,060.83	0	0	589,715,461.96
DEUTSCHE MORGAN GREINFELL	20,408,281.15	47,603.48	64,997,747.29	0	0
DEUTSCHE MORGAN GREINFELL (LONDON)	10,867,908.21	36,849.19	0	0	0
DEUTSCHE MORGAN GREINFELL AUSTR	55,099.13	221.62	0	0	0
DEUTSCHE SECURITIES ASIA	20,215,718.93	31,209.86	0	0	0
DIRECT BROKERAGE SVCS.	855,124.20	1,260.00	0	0	0
DLJ FIXED INCOME	1,418,950.00	0	460,246,108.71	0	38,901,871.31
DLJ SECURITIES CORP	178,433.51	354.38	0	0	0
DMG AND PARTNERS SECS.	1,289,450.34	128.93	0	0	0
DOMINICK & DOMINICK	2,726,054.80	1,400.00	0	0	0
DONALD & CO.	2,278.17	3	0	0	0
DONALDSON LUFKIN & JENRETTE	1,896,949.59	2,653.95	78,583,036.59	0	5,979,000,000.00
DRESDNER BANK	2,185,454.63	6,114.20	0	0	0
DRESDNER BANK - KLEINWORT BENS	2,562,825.62	6,588.48	1,810,148.24	0	0



# Statistical Data

## COMMISSIONS AND TRADING VOLUME

### By Broker for Fiscal Year 2001

Broker	Stock \$ Volume	Stock \$ Commissions	Bond \$ Volume	Bond \$ Commissions	Short Term \$ Volume
DRESDNER BANK AG FRANKFURT	788,058.91	1,180.66		0	0
DRESDNER H	0	0	1,035,859.38	0	0
DRESDNER K	941,361.63	2,154.70	0	0	0
DRESDNER KLEINWORT BENSON ASIA	1,195,189.41	583.73	0	0	0
DRESDNER SEC (USA) INC	0	0	0	0	19,363,194.44
EDGE SECURITIES	4,753,616.47	8,565.00	0	0	0
EDINBURGH FUND MGR UNIT TRUST	342,422.41	35.91	0	0	0
EDWARDS A.G. & SONS	4,930,627.64	11,186.15	0	0	0
ENSKILDA SECURITIES	11,101,688.64	25,620.37	0	0	0
EQUITABLE SECURITIES	2,625,901.97	2,245.80	0	0	0
EQYPTIAN FINANCIAL GROUP	167,769.61	1,097.93	0	0	0
ERNST & CO.	7,166,519.22	9,679.46	0	0	0
EXANE INC	2,202,406.86	4,396.02	0	0	0
EXANE, PARIS	25,239,573.72	55,378.71	0	0	0
EXCHANGE O	3,550,737.85	0	0	0	0
EXECUTION SERVICES INC	164,445,521.74	178,548.86	0	0	0
F C B	682,362.89	1,710.18	0	0	0
F P MAGLIO & CO INC	243,812.75	346.2	0	0	0
FACTSET DATA	127,792,158.51	147,105.25	0	0	0
FAGENSON & CO	9,630.36	19.98	0	0	0
FATOR	1,409,369.00	3,557.70	0	0	0
FAULKNER DAWKINS AND SULLIVAN	355,485.46	706.02	0	0	0
FERRIS BAKER WATTS INC	661,690.15	667.56	0	0	0
FHLMC	0	0	408,974,156.35	0	0
FIDELITY C	223,319,310.84	301,562.12	3,996,120.00	0	0
FINANCIAL BROKERAGE	760,833.95	5,382.23	0	0	0
FINANCIAL INVESTMENTS CORP	178,966.21	1,170.89	0	0	0
FIRST ALBANY	35,876,121.66	28,405.08	13,387,619.92	0	0
FIRST ANALYSIS SEC. CORP.	4,948,666.06	6,625.00	0	0	0
FIRST BOSTON CORPORATION	672,943,542.10	813,052.80	12,313,480,749.81	0	8,058,673,335.08
FIRST CHICAGO CAP MKTS INC	0	0	14,802,937.20	0	998,277.50
FIRST FLORIDA BANK N.A.	303,001.16	528	0	0	0
FIRST HERITAGE CORP.	0	0	5,014,750.00	0	0
FIRST MANHATTAN COMPANY	249,696.50	438	0	0	0
FIRST OPTIONS OF CHICAGO	2,022,171.27	3,013.15	0	0	0
FIRST PACIFIC	2,079,533.66	7,272.47	0	0	0
FIRST SOUTHWEST CO.	0	0	30,607,989.79	0	0
FIRST TENN BANK, NA	869,560.66	2,063.20	27,014,659.76	0	0
FIRST UNION BROKERAGE SERVICES	129,270.57	0	0	0	0
FIRST UNION CAP MKTS	72,323,500.64	82,087.00	194,470,725.26	0	0
FLEMING (ROBERT) INC	122,545,826.50	119,787.95	3,000,000.00	0	0
FLEMING SECURITIES LTD.	7,980,867.39	33,725.29	0	0	0
FORD FINANCIAL SERVICES	0	0	0	0	1,214,513,057.77
FOX PITT KELTON INC	24,819,137.74	42,210.07	0	0	0
FRANK RUSSEL	7,618,225.38	7,655.00	0	0	0
FRANKEL STUART & CO	22,468,338.33	20,090.00	0	0	0
FREDDIE MAC SECS AND TRADE	0	0	229,602,332.46	0	0
FREIMARK BLAIR	747,876.00	1,000.00	0	0	0
FREUNDLICH LUBECK CO	2,134,116.10	5,335.78	0	0	0
FRIEDMAN, BILLINGS & RAMSEY	14,152,179.07	1,860.80	887,500.00	0	0
FROST SECURITIES	555,371.46	810	0	0	0
FUJI GOVERNMENT SEC	0	0	257,301,587.94	0	739,605.00
FUJI SECURITIES	0	0	10,041,500.00	0	0
G-TRADE SEC	975,625.55	979.91	0	0	0
G.K. GOH	608,090.15	1,830.66	0	0	0
GARANTIA INVESTMENTOS	1,146,485.33	4,605.97	0	0	0
GARDNER RICH & COLE	12,627,725.33	15,570.00	0	0	0
GENERAL ELEC CAPITAL CORP	0	0	0	0	1,736,245,054.58
GENESIS	5,808,516.00	0	0	0	0
GLOBAL SECURITIES	4,139,653.21	14,582.50	0	0	0
GMAC FINANCIAL SERVICES	0	0	0	0	767,531,649.14
GOLDMAN SACHS & COMPANY	2,018,734,369.37	1,504,594.81	6,744,356,992.07	865,317.15	9,009,295,841.06
GOLDMAN SACHS (SINGAPORE) PTE	2,365,202.09	6,292.23	0	0	0



## Statistical Data

### COMMISSIONS AND TRADING VOLUME

#### By Broker for Fiscal Year 2001

Broker	Stock \$ Volume	Stock \$ Commissions	Bond \$ Volume	Bond \$ Commissions	Short Term \$ Volume
GOODBODY STOCKBROKERS	2,409,468.25	5,430.74	0	0	0
GORDON HASKETT & CO.	4,105,133.45	2,472.00	0	0	0
GRABER	4,220,316.44	0	0	0	0
GREAT PACIFIC SECS. CORP.	0	0	9,265,406.25	0	0
GREENFIELD ARBITRAGE PARTNERS	100,000.00	0	2,524,395,975.15	0	0
GREENLINE INVESTORS SVCS. INC.	1,081,460.85	2,900.00	0	0	0
GREENWICH CAPITAL MARKETS INC	0	0	1,592,785,574.68	0	46,361,937,721.40
GRIFFITHS	407,750.00	250	0	0	0
GRUNTAL & COMPANY	642,623.35	287.56	19,014,003.05	0	0
GS & CO SEC A/C FOR. FUT.	291,747.39	878.21	0	0	0
GUZMAN & CO.	9,770,606.70	9,764.00	0	0	0
HALIM SEC SON BHO SELANGOR	0	0	15,227,343.75	0	0
HAMBRECHT & QUIST	499,355.29	720	0	0	0
HANDLELSBA	971,668.46	3,812.01	0	0	0
HANIFIN	19,546,160.49	15,522.00	0	0	0
HBSC SECURITIES	455,221.16	1,350.43	81,089,254.60	0	48,657,329.08
HENDERSON CROSTHWAIT	6,244,635.08	18,790.29	0	0	0
HENNINGS & ASSOCIATES	0	0	0	0	1,487,737.50
HERZOG HEINE GEDVID	139,670,138.71	771	0	0	0
HOAK SECURITIES	353,506.16	204	0	0	0
HOARE GOVETT	62,294,552.75	132,551.29	0	0	0
HOENIG & CO.	11,576,349.39	20,796.32	0	0	0
HOLDING ADJUSTMENT	36.75	0	0	0	0
HONG KONG & SHANG HIGH BANKING COR	0	0	8,261,335.25	0	0
HOUSEHOLD INTERNATIONAL	0	0	0	0	169,684,233.33
HOWARD WEIL LABOUISSIE FRIEDRIC	1,301,956.55	1,500.00	0	0	0
HSBC ASSET MANAGEMENT	18,033,177.52	43,377.50	0	0	0
HSBC INVESTMENT BANK	6,604,936.47	16,489.58	0	0	0
HSBC JAMES CAPEL	3,226,343.30	7,538.27	0	0	0
HSBC SECURITIES INC	74,620,865.50	202,252.89	95,059,438.05	0	24,800,000,000.00
HYUNDAI SEC CO. LTD.	17,545.99	52.96	0	0	0
I.M. FINN CO LONDON	9.1	0	0	0	0
IBES	608,930.92	1,524.33	0	0	0
IKTISAT BANKASI TURK A.S.	598,061.62	477.66	0	0	0
INC CURREN	0	0	1,416,936.53	0	0
INDEPENDENT BROKER + DEALERS	48,937.50	0	0	0	0
INDOSUEZ W.I. CARR SECURITIES	3,294,002.78	13,113.88	0	0	0
INDUSTIAL BK OF JAPAN	818,888.22	1,634.51	0	0	0
INDUSTRIAL	3,526,356.83	7,054.42	0	0	0
ING BANK BRAZIL	704,134.33	1,755.94	0	0	0
ING BARING SECURITIES	14,752,939.64	35,661.89	0	0	0
INSTINET	1,467,026,896.37	761,664.95	0	0	0
INSTITUTIONAL SERVICES UNLIMITED	2,949,291.41	4,713.85	0	0	0
INTERMOBIL	4,551,075.48	12,501.52	0	0	0
INTERMOBILIARE SEC.	3,944,828.64	10,767.49	0	0	0
INTERMONTE	6,858,643.83	18,964.47	0	0	0
INTERSTATE SEC CORP	118,750,399.64	165,986.76	0	0	0
INVEMED ASSOCIATES	7,169,749.90	9,975.00	0	0	0
INVEST SECURITIES	122,771.54	369.42	0	0	0
INVESTEC B	351,891.24	926.4	0	0	0
INVESTEC H	87,638.21	263.71	0	0	0
INVESTEC SECURITIES LTD	3,083,157.79	6,996.32	0	0	0
INVESTMENT	1,775,520.07	1,060.30	0	0	0
INVESTMENT TECHNOLOGY CORP	5,600,875,447.95	3,036,154.76	0	0	0
INVESTMENT TECHNOLOGY GRP INC	327,259.89	325.31	0	0	0
IRVING TRUST COMPANY/CORP.	218,125.73	111	0	0	0
ISI GROUP	19,429,730.35	23,960.32	0	0	0
ISLAND EXE	25,005.16	40	0	0	0
ITG POSIT	5,264,412.14	3,762.92	0	0	0
J P MORGAN & CO	77,096,266.65	196,599.40	68,574,031.37	0	1,993,333.33
J P MORGAN SECURITIES INC	528,989,169.67	753,619.22	1,892,630,930.91	0	2,295,048,376.13
J STREICHER	3,514,697.21	9,690.00	0	0	0
J.B. WERE & SON	9,286,370.24	27,101.50	0	0	0



# Statistical Data

## COMMISSIONS AND TRADING VOLUME

By Broker for Fiscal Year 2001

Broker	Stock \$ Volume	Stock \$ Commissions	Bond \$ Volume	Bond \$ Commissions	Short Term \$ Volume
JACKSON PARTNERS & ASSOCIATES INC	28,361,925.20	18,372.48	0	0	0
JACKSON SECURITIES	7,263,314.82	6,015.00	0	0	0
JAMES CAPE	98,696,384.63	186,673.83	0	0	0
JANCO PARTNERS	3,387,079.79	10,728.00	0	0	0
JANNEY MONTGOMERY SCOTT	1,905,413.56	3,652.74	1,068,419.00	0	0
JARDINE FLEMING	18,822,236.45	54,664.63	0	0	0
JAVELIN SECS.	1,500,021.82	3,001.81	0	0	0
JB WERE AND SON MELBOURNE	1,487,874.24	5,245.84	0	0	0
JEAN PIERRE PINATTON	2,166,709.82	1,083.24	0	0	0
JEFFERIES & CO	309,179,666.78	370,843.48	25,308,456.80	0	0
JEFFERIES INTERNATIONAL LTD	311,789.91	155.81	0	0	0
JOHNSON RICE & CO	3,165,253.33	6,716.28	0	0	0
JONES & ASSOCIATES	155,297,741.19	201,503.45	0	0	0
JP MORGAN	2,912,887.81	5,733.44	0.01	0	0
JULIUS BAER	1,153,429.51	1,666.26	0	0	0
KALB VOORHIS & CO	4,476,536.50	1,614.00	0	0	0
KAS ASSOCIATES	455,407.64	0	0	0	0
KEEFE BRUYETTE & WOOD	54,886,704.95	47,782.26	0	0	0
KIM. ENG. SEC.	2,469,505.88	6,166.95	0	0	0
KINNARD (JOHN G.) & CO	102,600.00	0	0	0	0
KLEINWORTH BENSON SECS	46,349,005.42	92,641.69	0	0	0
KLEINWORTH BENSON INC	145,042,518.22	204,707.08	0	0	0
KNIGHT SECURITIES	708,174,119.38	136,262.98	0	0	0
KOKUSAI	1,467,599.11	2,115.82	0	0	0
LADENBURG THALMAN & CO.	76,469.63	71.52	0	0	0
LAMBERSON KNIGHT	0	0	0	0	74,666,916.66
LASKER STONE AND STERN	5,092,048.14	10,296.44	0	0	0
LATINVEST	51,091.60	163.01	0	0	0
LAWRENCE	1,007,980.50	2,196.00	0	0	0
LAZARD BROS CAPITAL MKT	0	0	1,353,343.75	0	0
LAZARD FRERES & CO	35,924,560.02	30,452.93	4,519,095.02	0	0
LEEFINK SWANN & CO	13,784,525.56	16,805.00	0	0	0
LEGG MASON	16,577,394.40	19,134.65	51,165,748.48	0	0
LEHMAN BROTHERS INC	2,151,039,253.82	1,771,169.64	7,174,884,835.32	0	4,973,839,012.30
LEHMAN GOVT SECURITIES	0	0	1,534,992,386.28	0	192,042,305.55
LEWCO SECURITIES INC.	103,931,122.82	106,040.45	41,087,600.00	0	0
LIQUIDNETI	448,747.82	98	0	0	0
LOEB PTRN	3,442,938.52	4,899.00	0	0	0
LOOP CAPITAL	10,128,836.55	12,280.00	0	0	0
LORRAINE L BLAIR INC	8,341,177.52	17,324.61	0	0	0
LOUIS PAULS & CO	266,451.69	1,324.61	0	0	0
LYNCH, JONES & RYAN	116,463,352.97	160,248.88	12,181,560.00	0	0
M L PIERCE FENNER	0	0	28,810,116.57	0	0
MACPEG ROSS CONNELL	0	0	251,443.20	0	0
MACQUARIE EQUITIES	18,731,852.58	55,796.78	0	0	0
MAGNA SECURITIES CORP	1,704,734.93	2,715.00	0	0	0
MALACHI GROUP	3,654,549.56	4,080.90	0	0	0
MALONEY & CO	12,263,661.85	11,556.64	0	0	0
MANDATORY EXCHANGE/NON-CASH	187,608,721.91	0	0	0	0
MAXUS CORP.	5,747,146.45	10,910.12	0	0	0
MCDONALD & COMPANY	14,517,479.89	12,081.51	37,059,035.11	0	0
MEAF CART/ROUSELL	774,759.84	2,317.33	0	0	0
MELLON BANK	66,037,845.99	0	0	0	0
MELLON CAPITAL MKTS	0	0	0	0	24,890,277.78
MERITA BANK LTD	26,452.29	79.6	0	0	0
MERITA SEC	9,594.24	28.87	0	0	0
MERRIL-PERFORMANCE MEASURE	1,578,035,417.08	1,360,718.95	4,206,145,361.87	44,192.00	119,331,329.91
MERRILL LYNCH PIERCE	623,727,998.16	1,143,311.36	7,197,913,325.23	0	3,718,638,889.31
MESIROW AND COMPANY	0	0	8,218,954.30	0	0
MESIROW FINANCIAL INC	0	0	20,026,237.40	0	0
MFGRS. HANOVER	0	0	0	0	1,746,859.71
MIDWEST RESEARCH	340,399.22	1,104.90	0	0	0
MILLER SEC. INC.	2,262,953.41	0	0	0	0



# Statistical Data

## COMMISSIONS AND TRADING VOLUME

### By Broker for Fiscal Year 2001

Broker	Stock \$ Volume	Stock \$ Commissions	Bond \$ Volume	Bond \$ Commissions	Short Term \$ Volume
MILLER TABAK HIRCH	1,675,049.65	993	1,037,192.50	0	0
MONTGOMERY SECURITIES	302,094,053.73	316,404.04	48,713,267.75	0	0
MOORS & CABOT	13,123.76	17.28	0	0	0
MORGAN GRENFELL	185,360,709.86	259,543.93	0	0	0
MORGAN GUARANTY	1,822,637.79	5,943.88	0	0	0
MORGAN KEGAN INC.	16,255,838.22	16,383.90	0	0	0
MORGAN STANLEY & CO	1,414,332,595.42	1,591,422.42	3,925,947,480.00	0	2,033,281,017.69
MUIR JOHN / GROUP 4	799,880.84	379.2	0	0	0
MULLER AND COLE	462,604.59	92.5	14,813,718.75	0	0
MUTUAL FUND BUREAU	53,623.58	0	0	0	0
NATIONAL FINANCIAL	8,250,350.95	9,908.75	4,551,389.00	0	0
NATIONAL SECURITIES CORP	56,194.96	79.8	0	0	0
NATIONS BANK	0	0	43,849,721.61	0	0
NESBITT BURNS INC.	795,331.13	1,377.95	70,000.00	0	407,637.71
NEUBERGER & BERMAN	76,702,637.20	81,819.86	0	0	0
NIKKO SALO	27,324,884.31	26,480.02	0	0	0
NOMURA SECURITIES INTL	91,103,992.95	119,977.91	2,632,763,675.26	0	18,894,375,323.66
NUTMEG SECURITIES	6,209,144.92	5,128.02	0	0	0
O'NEIL (WM COMPNY INC	2,625,603.74	3,745.00	0	0	0
ODDO FINANCE	8,998,472.92	22,532.42	0	0	0
OLD MUTUAL	1,731,211.62	3,462.34	0	0	0
OLDE & CO	102,409.50	0	6,956,786.35	0	0
OPPENHEIMER & CO	188,115,847.92	242,335.67	10,665,683.50	0	0
OPSTOCK SECURITIES	2,292,068.32	6,806.71	0	0	0
ORD MINNETT	4,968,222.58	14,966.05	0	0	0
ORMES CAPITAL	1,619,813.63	3,051.48	0	0	0
OROSEY & PEPE CAPITAL	0	0	6,597,370.00	0	0
OTA LTD PARTNERSHIP	1,969,350.81	2,494.00	0	0	0
PACIFIC AMERICAN SECURITIES	1,858,267.39	556.95	0	0	0
PACIFIC CR	2,732,355.25	2,497.93	0	0	0
PACIFIC GROWTH EQUITIES	1,082,739.73	1,860.00	0	0	0
PACTUAL	2,307,325.79	7,353.62	0	0	0
PAINE WEBBER INC	1,851,923.12	4,641.41	43,676,391.67	0	3,466,000,000.00
PAINE WEBBER J & C	43,738,808.05	42,052.62	373,595,612.53	0	0
PANMURE GORDON	2,207,949.05	1,777.53	0	0	0
PARIBAS CO	3,527,884.19	6,781.58	2,815,087.51	0	0
PAULSEN, DOWLING	3,943,200.36	4,077.76	0	0	0
PCS SECURITIES INC.	30,529,309.52	38,658.90	0	0	0
PERSHING	39,828,122.29	18,307.74	2,423,091,536.40	0	0
PIONEER SECURITIES INC.	0	0	49,869,041.90	0	0
PIPER,JAFFRAY & HOP S	42,053,082.88	17,906.10	47,019,108.75	0	0
POSIT	329,231.28	592	0	0	0
POST OAK CAPITAL	135,661.82	966	0	0	0
PRECURSOR	18,013.54	42.35	0	0	0
PREREFUNDED CALL LOTTERY	0	0	3,986,328.44	0	0
PRUDENTIAL FUNDING CORP	0	0	0	0	647,876,524.99
PRUDENTIAL SECURITIES INC	280,780,306.01	290,350.72	227,351,770.91	0	0
PUTNAM	3,169,701.18	4,170.15	0	0	0
QUICK + REILLY INC	4,388,119.08	3,840.00	0	0	0
QUINN & CO. INC.	0	0	28,100,625.00	0	0
R S HARMAN & COMPANY	0	0	1,018,492.20	0	0
RAYMOND JAMES & ASSOCIATES	51,131,253.53	62,358.77	24,552,412.29	0	0
RBC DOMINION SECURITIES	13,832,850.28	23,688.91	109,312.50	0	0
REAVES (W.H.) & CO	100,919.60	182.67	0	0	0
REDEMPTION (MBS)	0	0	195,320.23	0	0
RENAISSANCE CAPITAL	14,087.50	0	0	0	0
RESEARCH CAPITAL CORP	3,093,352.50	4,500.00	0	0	0
RESIDENTIAL FUNDING CORP	0	0	13,593,112.50	0	0
REYNDERS GRAY & CO	1,675,837.50	1,150.00	0	0	0
ROBB PECK & MCCOOEY & CO INC.	70,728,148.83	49,335.00	0	0	0
ROBBINS	5,907.64	0.96	0	0	0
ROBERT FLEMING INC.	22,521,913.58	49,521.49	0	0	0
ROBERT W. BAIRD & CO	29,746,394.58	22,821.15	2,920,260.00	0	0



# Statistical Data

## COMMISSIONS AND TRADING VOLUME

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ROBERTSON COLMAN & STEPHENS	155,017,179.45	50,063.43	1,790,650.00	0	0
ROBINSON-HUMPHREY CO	17,314,164.87	7,897.82	0	0	0
ROCHDALE SECURITIES CORP	56,251,200.07	54,600.15	0	0	0
ROULSTON & COMPANY	2,318,011.20	1,200.00	0	0	0
RYAN BECK & CO.	21,514,000.56	48,515.00	0	0	0
SALOMON SMITH BARNEY HOLDINGS	390,448,662.95	741,217.09	9,633,931,440.43	0	1,914,692,359.08
SAMSUNG SECURITIES	5,553,502.39	16,329.17	0	0	0
SANDERS, MORRIS & MUNDY INC.	1,076,197.53	5,808.20	0	0	0
SANDLER O NEIL	9,788,859.35	11,976.00	0	0	0
SANTANDER INVESTMENT SEC'S.	6,055,143.37	17,535.22	0	0	0
SASSON (HONG KONG)	646,123.46	2,836.17	0	0	0
SASSOON SECURITIES	1,085,942.57	4,874.11	0	0	0
SBC WARBURG, LONDON	23,557,440.69	47,464.78	0	0	0
SBCI + ASSOCIATES	0	0	21,989,767.21	0	0
SBK BROOKS INVESTMENT CORP	1,073,426.55	1,962.00	0	0	0
SCHRODER INV MGT	10,874,652.60	79,011.09	0	0	0
SCOTIA MCLEOD	14,545,909.82	20,467.57	432,425.00	0	0
SCOTT & STRINGFELLOW	7,965,652.53	0	5,117,888.35	0	0
SECURITY PLANNING COMPANY	2,809,188.90	3,020.32	0	0	0
SELIGMAN SECURITIES	267,248.50	133.56	0	0	0
SG COWEN SECURITIES CORP	2,164,951.98	3,922.50	0	0	0
SG SECURITIES	8,584,199.17	27,781.32	0	0	0
SGS SECURITIES CORP.	42,114.12	365.28	0	0	0
SHEARSON LEHMAN AMER EXPRESS	0	0	18,098,042.47	0	0
SHERWOOD SECURITIES	4,983,834.32	0	0	0	0
SHIELD & CO	7,647.14	12	0	0	0
SIGMA SECS, ATHENS	5,239,971.65	2,560.23	0	0	0
SILVIS BARNARD JACOS	2,394,864.35	6,006.80	0	0	0
SIMMONS +	2,473,085.78	5,155.62	0	0	0
SIMMONS FIRST NATL BANK	0	0	181,742,980.61	0	0
SK INTERNATIONAL SECURITIES	47,623,505.15	54,126.74	0	0	0
SKANDINAVISKA ENSKILDA	5,129,101.54	12,854.89	0	0	0
SMITH BARNEY & COMPANY	2,154,467.20	361.51	92,384,362.37	0	0
SOCGENT CROSBY SECS	17,439.43	61.43	0	0	0
SOCIETE GENERAL	15,220,690.43	34,663.83	0	0	624,479,590.90
SOUNDVIEW	65,236,037.90	55,602.53	0	0	0
SOUTHCOAST CAPITAL CORP	3,489,983.34	6,680.00	0	0	0
SOUTHWEST SECURITIES	1,057,551.97	0	0	0	0
SPEAR,LEEDS & KELLOGG	20,703,075.95	20,515.95	23,007,174.65	0	0
SSGA EXTERNAL	34,426,887.51	0	0	0	0
STANDARD & POOR SECURITIES	208,534,610.48	291,079.83	0	0	0
STANDARD BANK OF SA JOHANNESBURG	389,058.76	1,169.98	0	0	0
STATE BOARD OF INVESTMENT	0	0	20,782,476.35	0	0
STATE ST BK & TRUST	6,222,779,144.05	53,308.06	3,431,268,724.91	0	46,664,123,103.82
STEPHENS, INC.	14,365,125.99	10,283.50	0	0	0
STEVEN AMES	0	0	24,710,937.50	0	0
STIFEL NICOLAUS & COMPANY	942,466.03	1,919.60	0	0	0
SUN COAST CAPITAL GROUP INC.	0	0	1,988,074.80	0	0
SUN EQUITIES INC	0	0	11,759,827.76	0	0
SUNTRUST CAPITAL MARKETS INC	1,417,277.71	1,225.00	0	0	0
SUTRO AND COMPANY INC.	455,333.04	959.4	0	0	0
SVENSKA HANDELSBANKEN	12,208,109.31	29,598.55	0	0	0
SWISS BANK	419,379,416.07	475,606.13	1,643,600,494.58	0	0
TAI OF FLORIDA INC	638,949.21	2,161.98	0	0	0
THOMAS C BOWLES & CO.	317,404.62	978	0	0	0
THOMAS WEISEL PARTNERS	40,665,853.59	10,658.84	0	0	0
THOMASON INV	5,825,136.68	10,318.20	0	0	0
THRIFT TRADING	296,123.94	591.06	0	0	0
TITAN VALUE EQUITIES CORP	0	0	12,714,841.79	0	0
TOKYO MITSUBISHI	3,064,913.78	6,132.08	0	0	0
TONGE CO.	16,832,440.26	13,447.11	128,179,131.79	0	0
TORONTO DOMINION SEC INC	0	0	2,767,527.50	0	49,944,083.33
TRADEPOINT	952,934.05	327.26	0	0	0



## Statistical Data

### COMMISSIONS AND TRADING VOLUME

#### By Broker for Fiscal Year 2001

Broker	Stock \$ Volume	Stock \$ Commissions	Bond \$ Volume	Bond \$ Commissions	Short Term \$ Volume
TUCKER, ANTHONY & R.L. DAY, IN	2,345,261.27	2,175.00	0	0	0
U.S. BANCORP INVESTMENT	0	0	0	0	99,318,000.00
U.S. CLEARING	26,034,833.26	36,328.40	129,210.00	0	0
UBS AG	17,678,427.69	52,113.77	0	0	0
UBS PAINEW	1,100,344.42	2,440.23	0	0	0
UBS SECURITIES	89,166,899.79	200,570.89	0	0	2,733,754,804.31
UBS WARBUR	897,926.55	1,931.92	1,077,062.50	0	6,145,203.33
UBS-DB CORPORATION	237,087,410.85	291,842.10	87,204,624.28	0	14,930,137.50
UNION BANK OF L.A.	0	0	1,976,700.00	0	0
UNITED FINANCIAL CORPORATION	108,901.11	0	0	0	0
UNITED FINANCIAL GROUP	289,479.91	0	0	0	0
UNITED SECURITIES	0	0	3,662,179.88	0	0
UNITED SERVICES PLANNING ASSOC	0	0	9,103,460.95	0	0
UNIVERSITY CAPITAL CORP.	0	0	0	0	6,175,211.33
UNTERBURG HARRIS & DESANTIS	1,208,882.51	450	0	0	0
UTENDAHL	14,961,539.82	11,895.00	375,886.20	0	0
VALORES MEXICANA	669,187.86	2,013.60	0	0	0
VAN KASPER	392,950.08	576	0	0	0
VENHU SECURITIES	0	0	13,909,267.62	0	0
VINING SPARKS	0	0	5,016,300.00	0	0
VONTOBEL	4,321,946.64	10,807.12	0	0	0
W H MELL INC	4,726,692.84	2,958.00	0	0	0
W.I. CARR	1,768,042.15	4,437.05	0	0	0
WACHOVIA BANK N.A.	0	0	0	0	454,011,068.40
WAGNER STOTT & CO.	36,743,582.59	28,422.43	0	0	0
WALL STREET PLANNING INC.	0	0	5,257,096.00	0	0
WARBURG, DILLON READ	126,442,735.02	283,732.04	23,203,630.40	0	352,794,837.84
WASSERSTEI	1,851,318.00	2,520.00	131,950.00	0	0
WATKINS & COMPANY	0	0	779,151.21	0	0
WEDBUSH SECURITIES	2,462,188.01	0	0	0	0
WEEDEN & COMPANY	77,695,669.20	99,880.33	0	0	0
WEISS	11,560,303.29	23,848.92	0	0	0
WELLS FARGO FINANCIAL INC	0	0	0	0	3,015,866.67
WELLS FARGO INSTITUTL BROK & SALES	0	0	2,499,631.60	0	150,311,832.51
WEST LB SECURITIES	7,861,877.14	9,955.68	0	0	0
WESTMINSTER	80,235,050.21	171,917.87	0	0	0
WHEATON FIRST SECURITIES INC	0	0	1,725,415.63	0	0
WILLIAM R. HOUGH & CO	410,600.00	0	0	0	0
WILLIAMS	132,132.00	132	0	0	0
WILLIAMS CAP GROWTH	39,311,599.68	48,912.44	4,646,138.00	0	0
WOOD & CO.	2,484,696.92	18,259.75	0	0	0
WR HAMBRE	388,303.38	558	0	0	0
ZANNEX SECURITIES	899,960.56	3,601.25	0	0	0
BROKER NOT AVAILABLE*	7,597,591,083.30	145,284.39	4,458,570,021.90	0	14,514,206,019.68
<b>ALL BROKERS COMBINED</b>	<b>41,878,454,251.19</b>	<b>27,875,247.56</b>	<b>90,212,616,482.79</b>	<b>910,531.15</b>	<b>217,257,259,769.48</b>

\*Includes transactions where broker data was incomplete, income reinvestment transactions and transfers and adjustments between funds.

Note: Totals may not add due to rounding



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## OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

### Independent Auditor's Report

Members of the State Board of Investment  
and  
Howard J. Bicker, Executive Director  
State Board of Investment

We have audited the accompanying financial statements of the State of Minnesota's Supplemental Investment Fund and the Post Retirement Investment Fund as of and for the year ended June 30, 2001, as shown on pages 112 to 116. These financial statements are the responsibility of the State Board of Investment's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements present only the Supplemental Investment Fund and the Post Retirement Investment Fund of the State of Minnesota and are not intended to present fairly the financial position and results of operation of the State Board of Investment or the State of Minnesota in conformity with generally accepted accounting principles.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements of the Supplemental Investment Fund and the Post Retirement Investment Fund referred to above present fairly, in all material respects, the net assets as of June 30, 2001, and the changes in net assets and results of operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

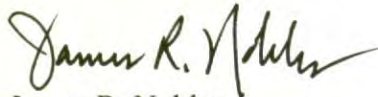
Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supporting schedules on pages 117-162 are presented for the purpose of additional analysis and are not a required part of the financial statements of the Supplemental Investment




Members of the State Board of Investment  
and  
Howard J. Bicker, Executive Director  
Page 2

and Post Retirement Funds of the State of Minnesota. Such information has been subject to the auditing procedures applied in the audit of the financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2001, on our consideration of the Minnesota State Board of Investment's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

  
James R. Nobles  
Legislative Auditor

  
Claudia J Gudvangen, CPA  
Deputy Legislative Auditor

November 30, 2001



**STATE BOARD OF INVESTMENT  
SUPPLEMENTAL AND POST INVESTMENT FUNDS  
STATEMENT OF ASSETS AND LIABILITIES  
JUNE 30, 2001  
AMOUNTS IN (000)'S**

	<b>SUPPLEMENTAL INVESTMENT FUND (5)</b>	<b>POST RETIREMENT INVESTMENT FUND (6)</b>
<b>ASSETS:</b>		
<b>Investments (at market value) (2),(3):</b>		
<b>Common Stock</b>	\$ 1,028,701	\$ 12,965,989
<b>Alternative Equities</b>	0	655,425
<b>Fixed Income Securities</b>	411,529	5,576,686
<b>Short Term Securities</b>	124,539	197,845
<b>Short Term Securities-Lending Collateral(4b)</b>	92,088	1,764,018
<b>Total Investments (4a)</b>	\$ 1,656,857	\$ 21,159,963
<b>Cash</b>	0	0
<b>Security Sales Receivable</b>	20	0
<b>Accounts Receivable-Fee Refunds</b>	0	0
<b>Accounts Receivable-Mortality</b>	0	4,565
<b>Accounts Receivable-Participants</b>	0	11,471
<b>Accrued Interest</b>	2,311	0
<b>Accrued Dividends</b>	0	0
<b>Accrued Short Term Gain</b>	448	492
<b>Reserve Adjustment</b>	0	0
<b>TOTAL ASSETS</b>	\$ 1,659,636	\$ 21,176,491
<b>LIABILITIES:</b>		
<b>Management Fees Payable</b>	338	9,176
<b>Security Purchases Payable</b>	0	0
<b>Accounts Payable-Participants</b>	0	12
<b>Accounts Payable-Mortality</b>	0	55,873
<b>Payable to MSRS</b>	0	0
<b>Reserve Adjustment</b>	0	0
<b>Securities-Lending Collateral (4b)</b>	92,088	1,764,018
<b>TOTAL LIABILITIES</b>	\$ 92,426	\$ 1,829,079
<b>NET ASSETS AT JUNE 30, 2001</b>	\$ 1,567,210	\$ 19,347,412

Notes are an integral part of the Financial Statements



**STATE BOARD OF INVESTMENT  
SUPPLEMENTAL AND POST INVESTMENT FUNDS  
STATEMENT OF CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2001  
AMOUNTS IN (000)'S**

	<b>SUPPLEMENTAL INVESTMENT FUND</b>	<b>POST RETIREMENT INVESTMENT FUND</b>
<b>FROM INVESTMENT ACTIVITY:</b>		
Net Investment Income	\$ 74,866	\$ 832,213
Realized Gains (Losses)	15,427	258,683
Unrealized Gains (Losses)	( 226,315)	( 2,512,151)
<b>TOTAL INCOME</b>	<b>(\$ 136,022)</b>	<b>(\$ 1,421,255)</b>
Less Distribution To		
Participant Accounts	136,022	( 2,668,195)
Undistributed Dedicated Income	0	1,577,299
<b>Net Change In Undistributed Income</b>	<b>\$ 0</b>	<b>(\$ 2,512,151)</b>
<b>FROM PARTICIPANT TRANSACTIONS:</b>		
Additions To Participant Accounts		
Participant Contributions	117,650	1,429,859
Income Distribution	( 136,022)	2,668,196
Income To Be Distributed	0	( 1,577,299)
<b>Total Additions</b>	<b>(\$ 18,372)</b>	<b>\$ 2,520,756</b>
Deductions From Participant Accounts		
Withdrawals	175,966	1,940,193
<b>Total Deductions</b>	<b>\$ 175,966</b>	<b>\$ 1,940,193</b>
Net Change In Participation	(\$ 194,338)	\$ 580,563
<b>TOTAL CHANGE IN ASSETS</b>	<b>(\$ 194,338)</b>	<b>(\$ 1,931,588)</b>
<b>NET ASSETS:</b>		
Beginning Of Period	1,761,548	21,279,000
<b>End Of Period</b>	<b>\$ 1,567,210</b>	<b>\$ 19,347,412</b>

Notes are an integral part of the Financial Statements



**STATE BOARD OF INVESTMENT  
SUPPLEMENTAL AND POST INVESTMENT FUNDS  
STATEMENT OF OPERATIONS  
YEAR ENDED JUNE 30, 2001  
AMOUNTS IN (000)'S**

	<b>SUPPLEMENTAL INVESTMENT FUND</b>	<b>POST RETIREMENT INVESTMENT FUND</b>
<b>INVESTMENT INCOME:</b>		
Interest	\$ 33,282	\$ 569,688
Dividends	36,188	249,738
Short Term Gains	6,133	34,416
Security Lending Gross Earnings(4c)	6,955	121,805
Less: Borrower Rebates	( 6,259)	( 108,151)
Less: Fees Paid to Agents	( 169)	( 3,507)
Security Lending Net Earnings	527	10,147
Income Before Expenses	\$ 76,130	\$ 863,989
Management Fees	1,264	31,776
<b>NET INCOME</b>	<b>\$ 74,866</b>	<b>\$ 832,213</b>
 <b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS</b>		
<b>Realized:</b>		
Proceeds From Sales	\$ 168,552	\$ 2,742,775
Cost Of Securities Sold	153,125	2,484,092
Net Realized Gain (Loss)	\$ 15,427	\$ 258,683
<b>Unrealized:</b>		
Beginning Of Period	294,297	1,502,412
End Of Period	67,982	( 1,009,739)
Increase (Decrease) In Unrealized Appreciation	(\$ 226,315)	(\$ 2,512,151)
<b>NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS</b>	<b>(\$ 210,888)</b>	<b>(\$ 2,253,468)</b>

Notes are an integral part of the Financial Statements



# NOTES TO THE FINANCIAL STATEMENTS

## JUNE 30, 2001

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity and Basis of Presentation: This report includes financial statements for the Supplemental Investment, and Post Retirement Trust Funds of the State of Minnesota, which are administered by the State Board of Investment under authority of *Minnesota Statutes Chapter 11A*.

The financial statements presented for these funds are based on the preferred accounting practices described in the **American Institute of Certified Public Accountants** audit guide, "**Audits of Investment Companies**". These practices, and the significant accounting policies which follow, conform with generally accepted accounting principles.

Authorized Investments: *Minnesota Statutes, Section 11A.24* broadly restricts investments to obligations and stocks of the U.S. and Canadian governments, their agencies and their registered corporations; short term obligations of specified high quality, international securities; restricted participation as a limited partner in venture capital, real estate or resource equity investments; and restricted participation in registered mutual funds.

Risk Categories: At June 30, 2001, all investments of the Investment Trust Funds and pooled investment accounts are in risk category 1, and are insured or registered, or are held by the state or its agent in the state's name. In addition, all security lending transactions are collateralized by at least 100% of the value of loaned securities. A State Board of Investment policy, which limits transactions to those with primary government securities dealers whose net excess capital is greater than \$200,000,000 reduces the state's investment risk for repurchase agreements.

Security Valuation: All securities are valued at market except for U.S. Government short-term securities and commercial paper, which are valued at market less accrued interest. Accrued short-term interest is recognized as income as part of "Short-Term Gain". For long-term fixed income securities the SBI uses the Merrill Lynch valuation system. This pricing service is capable of providing prices for both actively traded and privately placed bonds. For equity securities the State Board uses a valuation service provided by Financial Control Systems, Inc. The basis for determining the fair value of investments that are not based on market quotations

includes audited financial statements, analysis of future cash flows, and independent appraisals.

Recognition of Security Transactions: Security transactions are accounted for on the date the securities are purchased or sold.

Income Recognition: Dividend income is recorded on the ex-dividend date. Interest and dividend income are accrued monthly. Short-term interest is accrued monthly and is presented as "Accrued Short-Term Gain".

Amortization of Fixed Income Securities: Premiums and discounts on fixed income purchases are amortized over the remaining life of the security using the "Effective Interest Method".

Loaning Securities: State Statutes do not prohibit the SBI from participating in security lending. As such, domestic and international corporate securities as well as certain US Government and Government Agency securities are loaned out by the State Board to banks and brokers for additional income. Collateral in the amount of 100% of the market value of the security loaned is required. The collateral held and the market value of securities on loan for the State Board as of June 30, 2001 were \$4,448,469,317 and \$ 3,655,809,034 respectively.

The SBI utilizes State Street Bank (SSB) to manage its Securities Lending program. SSB provides the SBI indemnification in the event a borrower defaults by failing to return a loaned security.

### 2. PORTFOLIO LISTING

Asset listings summarizing the securities held by these funds can be found starting on page 147 of this report. A complete listing is available by contacting the State Board's office. Fixed income and equity securities are presented at market value.

### 3. COST OF INVESTMENTS

At June 30, 2001, the cost of investments for the Investment Trust Funds, excluding security lending collateral, was:

Supplemental Investment Fund	\$ 1,497,426,038
Post Retirement Fund	\$ 20,406,175,397



**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**4. LOANED SECURITIES**

4(a) The market value of loaned securities outstanding at June 30, 2001 was:

Supplemental Investment Fund	\$ 94,300,486
Post Retirement Fund	\$ 1,809,563,188

4(b) In accordance with GASB\_28, Accounting and Financial Reporting for Security Lending Transactions, the amount of cash collateral is concurrently an asset and a liability at the balance sheet date.

Non-cash collateral is considered an asset and a liability only if the lender has the right to sell collateral absent of borrower default. There is no such right in our case.

4(c) In accordance with GASB\_28, Accounting and Financial Reporting for Security Lending Transactions, gross lending income, borrower rebate and agent fees must be reported on the face of the Statement of Operations.

**5. SUPPLEMENTAL INVESTMENT FUND**

The Supplemental Investment Fund serves as an investment vehicle for the various state and locally administered pension plans. During Fiscal Year 2001 the fund included seven separate accounts with different investment objectives. Financial information on the individual accounts is shown on pages 120 to 135 of this report. Participation in the Supplemental Investment Fund accounts is determined in accordance with various statutory requirements.

**6. POST RETIREMENT INVESTMENT FUND**

The Post Retirement Investment Fund (POST) serves as an investment vehicle for the Defined Benefit Pension Funds of the State of Minnesota. The fund invests amounts certified by the various pension funds as reserves required for the payment of retirement benefits. Assets of the POST Fund are held in custody at State Street Bank in Boston.

Participation in the POST Fund is equal to the actuarially determined required reserves for retirement benefits as of June 30, 2001. It includes a 6% assumed income distribution, in accordance with *Minnesota Statutes* Section 11A.18, and any mortality gains or losses as determined by an independent actuary hired by the State Legislature.

*Laws of Minnesota 1992, Chapter 530* changed the formula used to calculate post retirement benefit increases. The new formula contains both an inflation adjustment and an investment component and became effective for benefit increases granted January 1, 1994.

Pursuant to *Minnesota Statutes Section 11A.18, Subdivision 9*, the inflation increase is based on the change during the Fiscal Year in the *Consumer Price Index for urban wage earners and clerical workers all items index published by the Bureau of Labor Statistics of the United States Department of Labor*. In addition to the inflation based increase, a portion of the June 30, 2001 net market value in excess of Required Reserves is available for distribution as an investment based benefit increase to pension fund participants in January 2002.

The benefit increase is stated as a percentage of eligible required reserves. In accordance with statutory provisions, the amount available for the benefit increase is certified to each participating pension fund for distribution to eligible individuals. Annuitants and other individuals receiving benefits at May 31, 2001 are eligible to receive the January 1, 2002 benefit increase.

Inflation Based Benefit Increase	2.5000%
Investment Based Benefit Increase	<u>1.9935</u>
<b>Total Benefit Increase</b>	<b>4.4935%</b>

**7. POOLED INVESTMENT ACCOUNTS**

The State Board of Investment manages ten pooled investment accounts for the Investment Trust Funds, the Supplemental Investment Fund and the Defined Benefit Pension Funds of the State of Minnesota. Our master custodian, State Street Bank and Trust hold the assets of the pooled accounts. Financial information on these pooled accounts is shown on pages 136 to 143 of this report.

**STATE BOARD OF INVESTMENT  
SUPPLEMENTAL AND POST INVESTMENT FUNDS  
SCHEDULE OF PARTICIPATION  
JUNE 30, 2001  
AMOUNTS IN (000)'S**

	<u>SUPPLEMENTAL INVESTMENT FUND</u>	<u>POST RETIREMENT INVESTMENT FUND</u>
Teacher's Retirement Fund	\$ 0	\$ 9,106,198
Public Employees Retirement Fund	0	5,595,214
State Employees Retirement Fund	0	2,771,952
Public Employees Police & Fire Fund	0	1,874,227
Public Employees Consolidation Fund	0	127
Highway Patrolmen's Retirement Fund	0	303,600
Legislators & Survivors Retirement Fund	0	36,306
Correctional Employees Retirement Fund	0	144,906
Judges Retirement Fund	0	89,568
Income Share Account	584,746	0
Growth Share Account	264,188	0
Money Market Account	93,372	0
Common Stock Index Account	363,073	0
International Stock Account	39,772	0
Bond Market Account	132,445	0
Fixed Interest Account	89,614	0
<b>TOTAL PARTICIPATION</b>	<u>\$ 1,567,210</u>	<u>\$ 19,922,098</u>
 <b>Adjustments</b>		
Unrealized Appreciation		
(Depreciation) of Investments	0	( 1,009,739)
Undistributed Earnings	0	435,053
<b>NET ASSETS</b>	<u>\$ 1,567,210</u>	<u>\$ 19,347,412</u>

Notes are an integral part of the Financial Statements



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**STATE BOARD OF INVESTMENT  
MINNESOTA SUPPLEMENTAL INVESTMENT FUND  
COMBINING STATEMENT OF NET ASSETS**

**JUNE 30, 2001**

**AMOUNTS IN (000)'S**

	<b>INCOME SHARE ACCOUNT</b>	<b>GROWTH SHARE ACCOUNT</b>	<b>MONEY MARKET ACCOUNT</b>
<b>ASSETS:</b>			
<b>Investments (at market value) (2), (3):</b>			
<b>Common Stock</b>	\$ 361,408	\$ 264,402	\$ 0
<b>Alternative Equities</b>	0	0	0
<b>Fixed Income Securities</b>	196,533	0	0
<b>Short Term Securities</b>	24,706	0	93,057
<b>Securities-Lending Collateral (4b)</b>	39,653	12,416	0
<b>Total Investments (3)</b>	\$ 622,300	\$ 276,818	\$ 93,057
<b>Cash</b>	0	0	0
<b>Security Sales Receivable</b>	20	0	0
<b>Account Receivable- Fee Refunds</b>	0	0	0
<b>Account Receivable-Mortality</b>	0	0	0
<b>Account Receivable-Participants</b>	0	0	0
<b>Accrued Interest</b>	1,987	0	0
<b>Accrued Dividend</b>	0	0	0
<b>Accrued Short Term Gain</b>	110	0	316
<b>TOTAL ASSETS</b>	\$ 624,417	\$ 276,818	\$ 93,373
<b>LIABILITIES:</b>			
<b>Management Fees Payable</b>	\$ 18	\$ 214	\$ 1
<b>Security Purchases Payable</b>	0	0	0
<b>Accounts Payable-Participants</b>	0	0	0
<b>Options Premiums Received</b>	0	0	0
<b>Securities-Lending Collateral (4b)</b>	39,653	12,416	0
<b>TOTAL LIABILITIES</b>	\$ 39,671	\$ 12,630	\$ 1
<b>NET ASSETS AT JUNE 30, 2001</b>	\$ 584,746	\$ 264,188	\$ 93,372

Notes are an integral part of the Financial Statements

<b>STOCK INDEX ACCOUNT</b>	<b>INT'L SHARE ACCOUNT</b>	<b>BOND MARKET ACCOUNT</b>	<b>FIXED INTEREST ACCOUNT</b>	<b>SUPPLEMENTAL INVESTMENT FUND TOTAL</b>
\$ 363,089	\$ 39,802	\$ 0	\$ 0	\$ 1,028,701
0	0	0	0	\$ 0
0	0	132,476	82,520	\$ 411,529
0	0	0	6,776	\$ 124,539
17,217	7,779	15,023	0	\$ 92,088
<u>\$ 380,306</u>	<u>\$ 47,581</u>	<u>\$ 147,499</u>	<u>\$ 89,296</u>	<u>\$ 1,656,857</u>
0	0	0	0	\$ 0
0	0	0	0	\$ 20
0	0	0	0	\$ 0
0	0	0	0	\$ 0
0	0	0	0	\$ 0
0	0	0	324	\$ 2,311
0	0	0	0	\$ 0
0	0	0	22	\$ 448
<u>\$ 380,306</u>	<u>\$ 47,581</u>	<u>\$ 147,499</u>	<u>\$ 89,642</u>	<u>\$ 1,659,636</u>
\$ 16	\$ 30	\$ 31	\$ 28	\$ 338
0	0	0	0	\$ 0
0	0	0	0	\$ 0
0	0	0	0	\$ 0
17,217	7,779	15,023	0	\$ 92,088
<u>\$ 17,233</u>	<u>\$ 7,809</u>	<u>\$ 15,054</u>	<u>\$ 28</u>	<u>\$ 92,426</u>
<u>\$ 363,073</u>	<u>\$ 39,772</u>	<u>\$ 132,445</u>	<u>\$ 89,614</u>	<u>\$ 1,567,210</u>

Notes are an integral part of the Financial Statements



**STATE BOARD OF INVESTMENT  
MINNESOTA SUPPLEMENTAL INVESTMENT FUND  
COMBINING STATEMENT OF CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2001  
AMOUNTS IN (000)'S**

	<u>INCOME SHARE ACCOUNT</u>	<u>GROWTH SHARE ACCOUNT</u>	<u>MONEY MARKET ACCOUNT</u>
<b>FROM INVESTMENT ACTIVITY:</b>			
Net Investment Income	\$ 34,030	\$ 4,497	\$ 5,216
Realized Gains (Losses)	11,849	564	0
Unrealized Gains (Losses)	( 80,931)	( 53,402)	0
<b>TOTAL INCOME</b>	<u>(\$ 35,052)</u>	<u>(\$ 48,341)</u>	<u>\$ 5,216</u>
Less Distributions to Participant Accts.	\$ 35,052	\$ 48,341	(\$ 5,216)
Undistributed Dedicated Income	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net Change In Undistributed Income</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>FROM PARTICIPANT TRANSACTIONS:</b>			
<b>Additions To Participant Accounts</b>			
Participant Contributions	\$ 11,762	\$ 6,784	\$ 63,783
Income Distributions	( 35,052)	( 48,341)	5,216
Income To Be Distributed	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Additions</b>	<u>(\$ 23,290)</u>	<u>(\$ 41,557)</u>	<u>\$ 68,999</u>
<b>Deductions From Participant Accounts</b>			
Withdrawals	\$ 53,470	\$ 28,287	\$ 62,696
<b>Total Deductions</b>	<u>53,470</u>	<u>28,287</u>	<u>62,696</u>
<b>Net change In Participation</b>	<u>(\$ 76,760)</u>	<u>(\$ 69,844)</u>	<u>\$ 6,303</u>
<b>TOTAL CHANGE IN ASSETS</b>	<u>( 76,760)</u>	<u>( 69,844)</u>	<u>6,303</u>
<b>NET ASSETS:</b>			
Beginning Of Period	<u>661,506</u>	<u>334,032</u>	<u>87,069</u>
<b>End Of Period</b>	<u><u>\$ 584,746</u></u>	<u><u>\$ 264,188</u></u>	<u><u>\$ 93,372</u></u>

Notes are an integral part of the Financial Statements

STOCK INDEX ACCOUNT	INT'L SHARE ACCOUNT	BOND MARKET ACCOUNT	FIXED INTEREST ACCOUNT	SUPPLEMENTAL INVESTMENT FUND TOTAL
\$ 16,699	(\$ 970)	\$ 10,862	\$ 4,532	\$ 74,866
2,900	( 259)	106	267	15,427
( 84,906)	( 9,985)	2,364	545	( 226,315)
(\$ 65,307)	(\$ 11,214)	\$ 13,332	\$ 5,344	(\$ 136,022)
\$ 65,307	\$ 11,214	(\$ 13,332)	(\$ 5,344)	\$ 136,022
0	0	0	0	0
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
\$ 15,188	\$ 2,235	\$ 12,654	\$ 5,244	\$ 117,650
( 65,307)	( 11,214)	13,332	5,344	( 136,022)
0	0	0	0	0
(\$ 50,119)	(\$ 8,979)	\$ 25,986	\$ 10,588	(\$ 18,372)
\$ 14,953	\$ 2,059	\$ 5,782	\$ 8,719	\$ 175,966
14,953	2,059	5,782	8,719	175,966
(\$ 65,072)	(\$ 11,038)	\$ 20,204	\$ 1,869	(\$ 194,338)
( 65,072)	( 11,038)	20,204	1,869	( 194,338)
428,145	50,810	112,240	87,746	1,761,548
\$ 363,073	\$ 39,772	\$ 132,444	\$ 89,615	\$ 1,567,210

Notes are an integral part of the Financial Statements



**STATE BOARD OF INVESTMENT  
MINNESOTA SUPPLEMENTAL INVESTMENT FUND  
COMBINING STATEMENT OF OPERATIONS  
YEAR ENDED JUNE 30, 2001  
AMOUNTS IN (000)'S**

	<u>INCOME SHARE ACCOUNT</u>	<u>GROWTH SHARE ACCOUNT</u>	<u>MONEY MARKET ACCOUNT</u>
<b>INVESTMENT INCOME:</b>			
Interest	\$ 17,715	\$ 0	\$ 0
Dividends	15,356	5,044	0
Short Term Gains	819	0	5,220
Security Lending Gross Earnings	3,166	905	0
Less: Borrower Rebates	( 2,898)	( 778)	0
Less: Fees Paid to Agents	( 62)	( 32)	0
Security Lending Net Earnings	206	95	0
Income Before Expenses	\$ 34,096	\$ 5,139	\$ 5,220
Management Fees	66	642	4
<b>NET INCOME</b>	<u>\$ 34,030</u>	<u>\$ 4,497</u>	<u>\$ 5,216</u>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS</b>			
<b>Realized:</b>			
Proceeds From Sales	\$ 75,735	\$ 29,299	\$ 0
Cost Of Securities Sold	63,886	28,735	0
Net Realized Gain (Loss)	<u>\$ 11,849</u>	<u>\$ 564</u>	<u>\$ 0</u>
<b>Unrealized:</b>			
Beginning Of Period	\$ 167,733	\$ 20,619	\$ 0
End Of Period	86,802	( 32,783)	0
Increase (decrease) In Unrealized Appreciation	(\$ 80,931)	(\$ 53,402)	\$ 0
<b>NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS</b>	<u>(\$ 69,082)</u>	<u>(\$ 52,838)</u>	<u>\$ 0</u>

Notes are an integral part of the Financial Statements

STOCK INDEX ACCOUNT	INTERNATIONAL SHARE ACCOUNT	BOND MARKET ACCOUNT	FIXED INTEREST ACCOUNT	SUPPLEMENTAL INVESTMENT FUND TOTAL
\$ 0	\$ 0	\$ 10,890	\$ 4,677	\$ 33,282
16,655	( 897)	30	0	36,188
0	0	0	94	6,133
1,255	494	1,135	0	6,955
( 1,107)	( 415)	( 1,061)	0	( 6,259)
( 37)	( 23)	( 15)	0	( 169)
111	56	59	0	527
<u>\$ 16,766</u>	<u>(\$ 841)</u>	<u>\$ 10,979</u>	<u>\$ 4,771</u>	<u>\$ 76,130</u>
67	129	117	239	1,264
<u>\$ 16,699</u>	<u>(\$ 970)</u>	<u>\$ 10,862</u>	<u>\$ 4,532</u>	<u>\$ 74,866</u>
\$ 15,064	\$ 3,083	\$ 5,801	\$ 39,570	\$ 168,552
12,164	3,342	5,695	39,303	153,125
<u>\$ 2,900</u>	<u>(\$ 259)</u>	<u>\$ 106</u>	<u>\$ 267</u>	<u>\$ 15,427</u>
\$ 105,362	\$ 2,375	(\$ 2,648)	\$ 856	\$ 294,297
20,456	( 7,610)	( 284)	1,401	67,982
(\$ 84,906)	(\$ 9,985)	\$ 2,364	\$ 545	(\$ 226,315)
<u>(\$ 82,006)</u>	<u>(\$ 10,244)</u>	<u>\$ 2,470</u>	<u>\$ 812</u>	<u>(\$ 210,888)</u>

Notes are an integral part of the Financial Statements



**STATE BOARD OF INVESTMENT  
MINNESOTA SUPPLEMENTAL INVESTMENT FUND  
SCHEDULE OF PARTICIPATION  
JUNE 30, 2001**

<b>PARTICIPATION</b>	<b>INCOME SHARE ACCOUNT</b>	<b>GROWTH SHARE ACCOUNT</b>	<b>MONEY MARKET ACCOUNT</b>
Adrian Fire	\$109,346	\$66,694	\$0
Alaska Fire	0	0	0
Alborn Fire	25,402	4,897	0
Alden Fire	0	21,526	0
Almelund Fire	28,651	77,808	0
Amboy Fire	0	0	0
Argyle Fire	10,641	9,815	0
Askov Fire	50,474	0	0
Audubon Fire	76,127	0	0
Austin Part-time Fire	81,319	54,823	0
Avon Fire	0	9,602	0
Bagley Fire	47,101	0	42,942
Balsam Fire	95,313	65,436	456
Barnum Fire	21,184	0	0
Beaver Creek Fire	0	0	0
Belle Plaine Fire	114,658	14,213	0
Bemidji Fire	415,842	93,992	113,464
Benson Fire	35,133	37,875	0
Bertha Fire	28,943	21,892	0
Bigfork Fire	9,063	45,591	0
Bird Island Fire	29,011	27,261	0
Biwabik Township Fire	16,440	0	0
Blooming Prairie Fire	34,163	0	0
Bloomington Fire	22,870,780	0	0
Bovey Fire	3,915	3,783	0
Boyd Fire	9,317	8,453	0
Bricelyn Fire	142,220	0	0
Brooklyn Park Fire	3,660,623	0	0
Brooten Fire	0	0	0
Buffalo Lake Fire	72,375	103,378	0
Caledonia Fire	61,030	22,758	0
Canby Fire	78,523	88,201	1,251
Carlton Fire	0	47,351	0
Center City Fire	43,594	9,431	0
Ceylon Fire	29,016	27,091	0
Chaska Fire	608,471	0	0
Chatfield Fire	18,465	37,875	0
Cherry Fire	50,343	11,465	415
Chisago City Fire	324,821	25,245	0
Chokio Fire	99,700	0	0

Notes are an integral part of the Financial Statements

STOCK INDEX ACCOUNT	INTERNATIONAL SHARE ACCOUNT	BOND MARKET ACCOUNT	FIXED INTEREST ACCOUNT	SUPPLEMENTAL INVESTMENT FUND TOTAL
\$0	\$17,776	\$0	\$0	\$193,816
8,395	0	0	0	8,395
8,810	0	0	0	39,109
22,141	0	0	0	43,667
0	0	0	0	106,460
47,224	0	15,118	0	62,342
0	0	0	0	20,456
0	0	0	0	50,474
0	0	0	0	76,127
0	0	0	0	136,142
9,545	0	0	0	19,148
0	0	27,982	0	118,025
0	0	0	0	161,205
213,077	0	0	0	234,260
37,989	0	0	0	37,989
0	0	0	0	128,872
89,575	124,896	0	0	837,768
39,717	0	23,841	0	136,566
0	0	0	0	50,835
47,211	8,440	0	0	110,304
0	0	0	0	56,272
9,201	0	0	0	25,640
32,681	0	38,066	0	104,911
1,680,425	0	0	0	24,551,205
8,451	0	0	0	16,150
0	0	0	0	17,770
0	0	0	0	142,220
1,630,758	0	0	0	5,291,381
147,581	0	0	0	147,581
0	0	0	0	175,753
0	13,490	0	0	97,278
0	0	0	0	167,975
48,998	0	0	0	96,348
0	4,912	0	0	57,936
28,248	0	0	0	84,355
0	0	0	0	608,471
0	0	0	0	56,340
0	0	0	0	62,223
0	0	84,803	0	434,869
0	0	0	0	99,700

Notes are an integral part of the Financial Statements



**STATE BOARD OF INVESTMENT  
MINNESOTA SUPPLEMENTAL INVESTMENT FUND  
SCHEDULE OF PARTICIPATION  
JUNE 30, 2001**

<b>PARTICIPATION</b>	<b>INCOME SHARE ACCOUNT</b>	<b>GROWTH SHARE ACCOUNT</b>	<b>MONEY MARKET ACCOUNT</b>
Clarkfield Fire	\$141,517	\$35,512	\$0
Clear Lake Fire	159,031	123,481	0
Cleveland Fire	0	0	2,192
Cohasset Fire	0	58,269	0
Colerane Fire	15,186	13,828	16,815
Coon Rapids Fire	1,212,921	0	0
Crane Lake Fire	26,552	36,457	2,477
Dakota Fire Relief	1,253	4,968	0
Dawson Fire	203,034	143,203	0
Deer Creek Fire	59,698	24,442	0
Delano Fire	0	36,221	0
Dover Fire	49,522	800	29,994
East Grand Forks Fire	592,785	0	0
Edgerton Fire	107,744	0	0
Edina Fire	3,817,276	0	186,734
Elbow Lake Fire	109,439	48,640	0
Elk River Fire	544,699	88,060	2,230
Ellendale Fire	0	0	0
Elmore Fire	0	23,630	0
Emmons Fire	38,541	26,108	0
Excelsior Fire	1,101,714	483,674	0
Eyota Fire	46,000	0	52,824
Farmington Cataract	94,737	0	0
Fayal Fire	19,563	16,268	1,703
Fergus Falls Fire	0	294,782	0
Forest Lake Fire	272,547	0	0
Frazee Fire	104,769	11,567	0
Frost Fire	10,968	10,926	0
Glencoe Fire	0	129,188	0
Glenwood Fire	40,863	39,795	0
Golden Valley Fire	1,676,489	0	0
Gonvick Fire	27,116	27,949	0
Good Thunder Fire	125,493	71,249	0
Goodland Fire	0	32,605	0
Grand Marais Fire	44,094	39,401	60,925
Grand Meadow Fire	37,999	38,236	0
Grand Rapids Fire	544,996	0	0
Greenwood Fire	23,047	81,840	0
Grey Eagle Fire	84,994	12,699	0
Hackensack Fire	31,523	0	0

Notes are an integral part of the Financial Statements

STOCK INDEX ACCOUNT	INTERNATIONAL SHARE ACCOUNT	BOND MARKET ACCOUNT	FIXED INTEREST ACCOUNT	SUPPLEMENTAL INVESTMENT FUND TOTAL
\$10,016	\$0	\$19,878	\$0	\$206,924
0	0	0	0	282,512
37,277	0	27,710	0	67,179
0	0	0	0	58,269
13,862	0	0	0	59,691
0	0	0	0	1,212,921
3,419	0	0	0	68,906
0	0	0	0	6,220
0	0	0	0	346,237
0	0	0	0	84,140
37,941	0	0	0	74,162
23,371	748	38,322	0	142,757
0	0	0	0	592,785
54,325	0	0	0	162,069
0	157,826	0	0	4,161,835
0	0	0	0	158,079
128,026	0	168,964	0	931,979
38,458	0	0	0	38,458
14,344	0	0	0	37,974
27,435	15,228	0	0	107,312
231,141	0	0	0	1,816,528
18,297	0	40,624	0	157,745
99,055	0	0	0	193,792
11,745	5,485	2,733	0	57,497
281,967	0	307,015	0	883,765
38,236	0	0	0	310,783
10,779	0	22,596	0	149,712
11,286	0	0	0	33,180
0	0	0	0	129,188
39,588	0	41,677	0	161,923
1,827,430	0	122,379	0	3,626,299
0	0	0	0	55,066
83,040	10,444	0	0	290,226
0	0	0	0	32,605
0	0	89,960	0	234,380
39,461	0	0	0	115,696
0	0	0	0	544,996
0	0	8,899	0	113,786
0	16,046	0	0	113,739
0	0	0	0	31,523

Notes are an integral part of the Financial Statements



**STATE BOARD OF INVESTMENT  
MINNESOTA SUPPLEMENTAL INVESTMENT FUND  
SCHEDULE OF PARTICIPATION  
JUNE 30, 2001**

<b>PARTICIPATION</b>	<b>INCOME SHARE ACCOUNT</b>	<b>GROWTH SHARE ACCOUNT</b>	<b>MONEY MARKET ACCOUNT</b>
Hamel Fire	\$223,993	\$18,235	\$317,288
Harmony Fire	0	5,441	0
Haska	0	9,911	0
Hawley Fire	49,164	0	0
Hayward Fire	0	71,119	0
Hector Fire	361,246	0	0
Henning Fire	30,976	14,040	0
Hibbing Fire	36,403	62,538	0
Hinckley Fire	11,801	11,307	0
Holdingford Fire	7,076	6,948	0
Holland Fire	38,253	0	19,488
Houston Fire	7,791	7,174	0
Hovland Area Fire	0	0	0
Industrial Fire	38,328	0	0
Isanti Fire	0	280,493	0
Jacobson Fire	17,242	14,341	16,009
Jasper Fire	0	33,341	0
Jordan Fire	123,810	0	0
Kabetogama Fire	0	76,389	0
Kandiyohi Fire	17,703	15,096	0
Kelliher Fire	20,823	19,971	0
Kerkhoven Fire	29,642	28,875	0
Kettle River Fire	40,266	20,421	0
Kiester Fire	0	10,865	0
Kimball Fire	46,746	35,706	0
La Crescent Fire	0	42,999	0
Lafayette Fire	104,911	20,341	0
Lake City Fire	418,864	0	0
Lake Crystal Fire	113,987	110,076	0
Lake Henry Fire	42,851	0	0
Lakeville Fire	432,928	373,891	0
Lewiston Fire	103,933	80,030	0
Linwood Fire	379,408	0	0
Lismore Fire	11,849	17,903	0
Little Falls Fire	0	0	0
Littlefork Fire	78,666	2,391	0
Lowry Fire	0	0	0
Madison Fire	55,210	51,975	0
Madison Lake Fire	16,120	15,691	0
Mahtomedi Fire	331,848	0	0

Notes are an integral part of the Financial Statements

<b>STOCK INDEX ACCOUNT</b>	<b>INTERNATIONAL SHARE ACCOUNT</b>	<b>BOND MARKET ACCOUNT</b>	<b>FIXED INTEREST ACCOUNT</b>	<b>SUPPLEMENTAL INVESTMENT FUND TOTAL</b>
\$0	\$7,478	\$0	\$0	\$566,994
23,128	12,332	0	0	40,901
0	4,699	0	0	14,610
34,431	0	0	0	83,594
106,661	0	0	0	177,780
0	0	0	0	361,246
35,450	13,311	22,592	0	116,369
58,504	24,214	0	0	181,660
11,787	3,226	11,718	0	49,839
7,213	0	0	0	21,237
12,620	0	12,568	0	82,929
7,182	6,886	0	0	29,033
13,406	0	0	0	13,406
38,756	0	0	0	77,084
144,923	130,527	0	0	555,943
0	0	0	0	47,591
0	0	0	0	33,341
0	0	18,591	0	142,401
0	0	0	0	76,389
12,307	0	14,817	0	59,924
20,541	0	0	0	61,335
29,876	0	0	0	88,393
20,544	0	0	0	81,231
11,399	9,819	0	0	32,083
18,104	0	0	0	100,556
0	0	0	0	42,999
46,675	0	35,010	0	206,938
0	0	0	0	418,864
119,839	0	0	0	343,903
0	0	0	0	42,851
324,914	0	0	0	1,131,732
0	0	0	0	183,963
0	0	0	0	379,408
18,475	0	0	0	48,227
195,692	0	0	0	195,692
66,384	0	0	0	147,441
41,994	0	0	0	41,994
54,214	0	0	0	161,398
0	11,243	0	0	43,053
0	0	0	0	331,848

Notes are an integral part of the Financial Statements



**STATE BOARD OF INVESTMENT  
MINNESOTA SUPPLEMENTAL INVESTMENT FUND  
SCHEDULE OF PARTICIPATION  
JUNE 30, 2001**

<b>PARTICIPATION</b>	<b>INCOME SHARE ACCOUNT</b>	<b>GROWTH SHARE ACCOUNT</b>	<b>MONEY MARKET ACCOUNT</b>
Mapleton Fire	\$62,060	\$30,586	\$0
Mapleview Fire	34,978	53,410	0
Maplewood Fire	0	0	0
Marine St. Croix Fire	66,681	106,491	0
Mayer Fire	71,649	0	0
Maynard Fire	51,234	0	0
McDavitt Fire	51,724	40,500	0
McGrath Fire	8,950	5,228	0
McIntosh Fire	26,538	34,056	0
MedFord Fire	36,803	46,792	0
Medicine Lake Fire	389,719	0	20,230
Menahga Fire	52,337	0	0
Mendota Heights Fire	0	208,078	0
Milaca Fire	46,819	0	0
Milan Fire	25,985	25,993	0
Minneapolis Fire	0	0	0
Minneapolis Fire (Health Insuranc	3,053,234	0	0
Minneapolis Police	0	0	0
Minneota Fire	13,847	9,602	0
Minnetonka Fire	3,686,242	0	0
Montrose Fire	5,171	7,546	0
Morris Fire	43,654	37,519	0
Morristown Fire	212,022	0	0
Murdock Fire	11,293	10,176	0
New Brighton Fire	0	695,139	0
New Germany Fire	36,897	0	0
New Ulm Fire	61,410	0	0
New York Mills Fire	80,496	0	0
Nicollet Fire	100,799	45,008	0
Nodine Fire	0	0	0
North Branch Fire	36,958	37,502	0
North Mankato Fire	31,980	32,251	0
North Star Fire	0	0	0
Northfield Fire	704,296	307,229	0
Northrop Fire	24,679	34,303	0
Norwood Young America Fire	30,267	19,190	0
Oak Grove Fire	0	260,267	0
Osakis Fire	0	85,932	0
Ottertail Fire	176,491	0	0
Owatonna Fire	240,586	437,281	40,903

Notes are an integral part of the Financial Statements

STOCK INDEX ACCOUNT	INTERNATIONAL SHARE ACCOUNT	BOND MARKET ACCOUNT	FIXED INTEREST ACCOUNT	SUPPLEMENTAL INVESTMENT FUND TOTAL
\$0	\$0	\$0	\$0	\$92,646
0	8,944	30,850	0	128,183
2,119,177	0	907,163	0	3,026,340
91,380	0	28,098	0	292,650
111,937	0	21,583	0	205,168
0	0	0	0	51,234
0	8,217	19,457	0	119,899
0	0	5,416	0	19,593
38,842	0	0	0	99,435
35,025	0	0	0	118,619
83,640	0	0	0	493,589
0	0	55,442	0	107,779
213,154	52,146	424,539	0	897,917
0	0	0	0	46,819
27,160	0	0	0	79,138
42,756,508	0	59,179,091	0	101,935,599
0	0	0	0	3,053,234
58,518,640	13,158,258	18,989,405	0	90,666,303
9,545	4,509	16,969	0	54,473
0	0	0	0	3,686,242
9,121	0	0	0	21,838
39,448	21,267	0	0	141,887
333,643	0	0	0	545,665
10,244	3,585	0	0	35,297
0	0	452,507	0	1,147,646
0	0	0	0	36,897
180,492	0	0	0	241,901
0	0	0	0	80,496
45,074	42,172	0	0	233,054
27,930	13,133	31,001	0	72,064
38,794	21,546	0	0	134,800
68,074	24,916	0	0	157,222
16,537	0	0	0	16,537
512,883	0	0	0	1,524,408
0	0	0	0	58,982
0	0	0	0	49,457
0	0	0	0	260,267
87,798	5,557	73,590	0	252,877
0	0	0	0	176,491
39,518	37,772	0	0	796,060

Notes are an integral part of the Financial Statements



**STATE BOARD OF INVESTMENT  
MINNESOTA SUPPLEMENTAL INVESTMENT FUND  
SCHEDULE OF PARTICIPATION  
JUNE 30, 2001**

<b>PARTICIPATION</b>	<b>INCOME SHARE ACCOUNT</b>	<b>GROWTH SHARE ACCOUNT</b>	<b>MONEY MARKET ACCOUNT</b>
Pennock Fire	\$27,537	\$24,162	\$0
Pequaywan Lake Fire	0	0	0
Pine Island Fire	110,127	71,121	0
Pipestone Fire	95,431	0	0
Porter Fire	12,276	26,916	0
Randall Fire	36,667	121,702	0
Randolph Fire	92,440	0	0
Red Lake Falls Fire	47,820	0	0
Redwood Falls Fire	0	0	0
Remer Fire	3,405	3,141	0
Renville Fire	31,136	34,385	0
Rice Lake Fire	140,514	95,245	0
Robbinsdale Fire	391,499	141,881	51,308
Rose Creek Fire	27,705	16,463	25,658
Roseau Fire	0	812	0
Rosemount Fire	303,289	29,134	0
Roseville Fire	0	1,458,637	0
Rush City Fire	57,631	79,333	0
Ruthton Fire	6,404	5,876	6,193
Saint Clair Fire	39,443	36,777	25,794
Saint James Fire	0	66,369	0
Saint. Michael Fire	0	19,425	0
Saint. Peter Fire	0	95,852	0
Sandstone Fire	119,946	0	0
Savage Fire Relief Assoc	104,858	0	0
Scandia Valley Fire	234,279	0	0
Schroeder Fire	0	90,410	0
Shakopee Fire	0	336,941	0
Sherburn Fire	152,435	0	0
Shevlin Fire	15,672	0	0
Silver Bay Fire	38,865	41,814	0
Solway Fire	52,714	0	0
Spring Lake Park Fire	957,741	1,270,804	0
Starbuck Fire	19,649	17,513	0
Stephen Fire	45,541	65,205	0
Stewart Fire	51,769	0	0
Stewartville Fire	67,773	31,649	0
Stillwater Fire	199,160	136,702	0
Sturgeon Lake Fire	0	7,598	0
Thomson Township Fire	23,487	25,605	0

Notes are an integral part of the Financial Statements

<b>STOCK INDEX ACCOUNT</b>	<b>INTERNATIONAL SHARE ACCOUNT</b>	<b>BOND MARKET ACCOUNT</b>	<b>FIXED INTEREST ACCOUNT</b>	<b>SUPPLEMENTAL INVESTMENT FUND TOTAL</b>
\$24,205	\$22,419	\$0	\$0	\$98,324
14,019	0	0	0	14,019
0	0	0	0	181,248
91,587	0	0	0	187,018
0	0	0	0	39,192
77,524	0	0	0	235,893
111,605	0	0	0	204,045
0	0	0	0	47,820
0	0	23,951	0	23,951
3,237	2,883	0	0	12,667
6,013	0	24,583	0	96,116
96,761	0	0	0	332,520
140,854	86,907	0	0	812,449
16,611	0	0	0	86,437
0	0	0	0	812
29,150	0	0	0	361,573
1,535,231	708,369	2,050,213	0	5,752,449
86,155	0	0	0	223,119
11,871	0	0	0	30,345
50,297	0	0	0	152,312
67,628	0	0	0	133,997
19,968	15,155	0	0	54,547
49,187	46,623	386	0	192,048
0	0	0	0	119,946
0	0	0	0	104,858
0	0	0	0	234,279
0	0	0	0	90,410
349,508	77,243	0	0	763,692
0	0	0	0	152,435
0	0	23,115	0	38,787
0	9,563	0	0	90,243
0	0	56,921	0	109,636
1,316,021	0	0	0	3,544,566
17,671	3,946	0	0	58,779
0	0	0	0	110,746
27,001	0	0	0	78,771
31,698	15,037	0	0	146,157
0	0	0	0	335,862
9,312	0	6,945	0	23,856
21,234	0	0	0	70,327

Notes are an integral part of the Financial Statements



**STATE BOARD OF INVESTMENT  
MINNESOTA SUPPLEMENTAL INVESTMENT FUND  
SCHEDULE OF PARTICIPATION  
JUNE 30, 2001**

<b>PARTICIPATION</b>	<b>INCOME SHARE ACCOUNT</b>	<b>GROWTH SHARE ACCOUNT</b>	<b>MONEY MARKET ACCOUNT</b>
Tofte Fire	\$36,908	\$0	\$0
Truman Fire	28,805	29,678	0
Two Harbors Fire	39,016	156,911	0
Vadnais Heights Fire	51,763	0	0
Vergas Fire	125,020	0	0
Vermilion Lake Fire	78,498	0	0
Verndale Fire	0	6,899	0
Wabasha Fire	55,945	28,803	0
Waconia Fire	80,682	102,361	0
Warba-Feeley-Sago Fire	15,855	15,448	0
Warroad Area Fire	140,563	0	0
Williams Fire	25,670	19,913	0
Willow River Fire	0	17,596	0
Winnebago Fire	11,027	0	0
Woodbury Fire	1,259,583	843,907	108,197
Woodstock Fire	13,161	12,518	0
Wright Fire	69,405	0	0
Wykoff Fire	85,383	0	0
Wyoming Fire	85,926	0	0
Zumbro Falls Fire	103,548	18,488	0
Deferred Comp	180,894,305	118,732,387	66,761,669
Hennepin County	62,822,550	32,973,584	5,718,241
MnSCU DCR	159,633,916	45,713,999	6,313,579
Pera-DCP	6,632,097	3,620,229	720,273
Unclassified	115,613,214	50,625,441	12,712,152
<b>TOTAL PARTICIPATION</b>	<b>\$584,745,809</b>	<b>\$264,187,477</b>	<b>\$93,371,402</b>
<b>Adjustments</b>			
Unrealized Appreciation			
(Depreciation) of Investments	0	0	0
Undistributed Earnings	0	0	0
<b>NET ASSETS</b>	<b>\$584,745,809</b>	<b>\$264,187,477</b>	<b>\$93,371,402</b>

Notes are an integral part of the Financial Statements

<b>STOCK INDEX ACCOUNT</b>	<b>INTERNATIONAL SHARE ACCOUNT</b>	<b>BOND MARKET ACCOUNT</b>	<b>FIXED INTEREST ACCOUNT</b>	<b>SUPPLEMENTAL INVESTMENT FUND TOTAL</b>
\$34,513	\$0	\$0	\$0	\$71,421
32,170	0	23,173	0	113,826
0	0	0	0	195,927
0	0	0	0	51,763
0	0	0	0	125,020
0	0	0	0	78,498
6,979	0	0	0	13,878
7,873	0	0	0	92,621
0	0	0	0	183,043
0	0	0	0	31,302
0	0	0	0	140,563
20,625	0	0	0	66,208
25,326	0	20,726	0	63,648
0	0	0	0	11,027
608,013	104,630	110,511	0	3,034,840
6,911	0	0	0	32,590
0	0	0	0	69,405
0	0	0	0	85,383
0	0	77,286	0	163,212
17,986	0	14,835	0	154,858
168,206,246	13,772,413	32,190,689	69,666,717	650,224,425
15,820,426	1,628,709	1,730,616	0	120,694,127
13,880,285	1,812,433	4,745,175	6,507,259	238,606,646
2,820,590	339,143	790,230	1,321,766	16,244,328
43,300,996	7,125,870	9,124,410	12,118,616	250,620,697
<u>\$363,073,395</u>	<u>\$39,772,390</u>	<u>\$132,444,742</u>	<u>\$89,614,357</u>	<u>\$1,567,209,573</u>
0	0	0	0	0
0	0	0	0	0
<u>\$363,073,395</u>	<u>\$39,772,390</u>	<u>\$132,444,742</u>	<u>\$89,614,357</u>	<u>\$1,567,209,573</u>

Notes are an integral part of the Financial Statements



**STATE BOARD OF INVESTMENT  
MINNESOTA POOLED INVESTMENT ACCOUNTS  
SCHEDULE OF ASSETS AND LIABILITIES**

**JUNE 30, 2001  
AMOUNTS IN (000)'S**

	<u>REAL ESTATE ACCOUNT</u>	<u>RESOURCE ACCOUNT</u>
<b>ASSETS:</b>		
<b>Investments (at market value) (2),(3):</b>		
Common Stock	\$ 0	\$ 0
Alternative Equities	720,597	283,160
Fixed Income Securities	0	0
Short Term Securities	435	5,781
Securities-Lending Collateral(4b)	0	0
<b>Total Investments</b>	<u>\$ 721,032</u>	<u>\$ 288,941</u>
Cash	0	0
Security Sales Receivable	0	0
Accounts Receivable-Fee Refunds	0	0
Accounts Receivable-Mortality	0	0
Accounts Receivable-Participants	0	0
Accrued Interest	0	0
Accrued Dividends	0	0
Accrued Short Term Gain	0	3
<b>TOTAL ASSETS</b>	<u>\$ 721,032</u>	<u>\$ 288,944</u>
<b>LIABILITIES:</b>		
Management Fees Payable	0	0
Security Purchases Payable	0	0
Accounts Payable-Participants	0	0
Options Premiums Received	0	0
Securities-Lending Collateral(4b)	0	0
<b>TOTAL LIABILITIES</b>	<u>\$ 0</u>	<u>\$ 0</u>
<b>NET ASSETS AT JUNE 30, 2001</b>	<u><u>\$ 721,032</u></u>	<u><u>\$ 288,944</u></u>

Notes are an integral part of the Financial Statements

VENTURE CAPITAL ACCOUNT(4)	DOMESTIC BOND ACCOUNT	DOMESTIC EQUITY ACCOUNTS	INTERNATIONAL EQUITY ACCOUNT
\$ 0	\$ 69,173	\$ 19,151,887	\$ 5,148,267
1,402,111	0	0	0
0	10,415,115	488	826
14,344	905,260	918,439	164,349
0	1,157,313	946,272	1,051,960
<u>\$ 1,416,455</u>	<u>\$ 12,546,861</u>	<u>\$ 21,017,086</u>	<u>\$ 6,365,402</u>
494	2,583	17,170	68,552
0	739,518	142,299	20,786
0	0	0	0
0	0	0	0
0	0	0	0
0	110,747	6	17
0	0	14,791	7,931
16	3,251	1,520	(\$ 5,547)
<u>\$ 1,416,965</u>	<u>\$ 13,402,960</u>	<u>\$ 21,192,872</u>	<u>\$ 6,457,141</u>
0	2,405	10,823	3,940
0	2,039,966	158,769	22,782
0	0	0	0
0	0	0	0
0	1,157,313	946,272	1,051,960
<u>\$ 0</u>	<u>\$ 3,199,684</u>	<u>\$ 1,115,864</u>	<u>\$ 1,078,682</u>
<u><u>\$ 1,416,965</u></u>	<u><u>\$ 10,203,276</u></u>	<u><u>\$ 20,077,008</u></u>	<u><u>\$ 5,378,459</u></u>

Notes are an integral part of the Financial Statements



**STATE BOARD OF INVESTMENT  
MINNESOTA POOLED INVESTMENT ACCOUNTS  
SCHEDULE OF CHANGES IN NET ASSETS**

**JUNE 30, 2001**

**AMOUNTS IN (000)'S**

	<b>REAL ESTATE ACCOUNT</b>	<b>RESOURCE ACCOUNT</b>
<b>FROM INVESTMENT ACTIVITY:</b>		
Net Investment Income	\$ 36,893	\$ 38,429
Realized Gains (Losses)	54,201	( 106)
Unrealized Gains (Losses)	24,053	32,876
<b>TOTAL INCOME</b>	<b>\$ 115,147</b>	<b>\$ 71,199</b>
Less Distribution To		
Participant Accounts	( 91,094)	( 38,323)
Undistributed Dedicated Income	0	( 0)
<b>Net Change In Undistributed Income</b>	<b>\$ 24,053</b>	<b>\$ 32,876</b>
<b>FROM PARTICIPANT TRANSACTIONS:</b>		
<b>Additional To Participant Accounts</b>		
Participant Contributions	5,410	59,803
Income Distribution	91,094	38,323
Income To Be Distributed	0	0
<b>Total Additions</b>	<b>\$ 96,504</b>	<b>\$ 98,126</b>
<b>Deductions From Participant Accounts</b>		
Withdrawals	173,455	36,144
<b>Total Deductions</b>	<b>\$ 173,455</b>	<b>\$ 36,144</b>
<b>Net Change In Participation</b>	<b>(\$ 76,951)</b>	<b>\$ 61,982</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>(\$ 52,898)</b>	<b>\$ 94,858</b>
<b>NET ASSETS:</b>		
Beginning Of Period	774,230	194,086
<b>End Of Period</b>	<b>\$ 721,332</b>	<b>\$ 288,944</b>

Notes are an integral part of the Financial Statements

<u>VENTURE CAPITAL ACCOUNT(4)</u>	<u>DOMESTIC BOND ACCOUNT</u>	<u>DOMESTIC EQUITY ACCOUNTS</u>	<u>INTERNATIONAL EQUITY ACCOUNT</u>
\$ 184,530	\$ 779,812	\$ 174,430	\$ 55,627
( 9,023)	247,776	309,271	( 197,488)
( 283,635)	283,228	( 3,717,689)	( 1,272,600)
<u>(\$ 108,128)</u>	<u>\$ 1,310,816</u>	<u>(\$ 3,233,988)</u>	<u>(\$ 1,414,461)</u>
( 175,507)	( 1,021,148)	( 483,659)	133,768
( 0)	( 6,440)	( 42)	8,093
<u>(\$ 283,635)</u>	<u>\$ 283,228</u>	<u>(\$ 3,717,689)</u>	<u>(\$ 1,272,600)</u>
227,020	19,740	2,216,175	1,642,807
175,507	1,021,148	483,659	( 133,768)
0	6,440	42	( 8,093)
<u>\$ 402,527</u>	<u>\$ 1,047,328</u>	<u>\$ 2,699,876</u>	<u>\$ 1,500,946</u>
130,470	2,687,242	1,123,075	878,301
<u>\$ 130,470</u>	<u>\$ 2,687,242</u>	<u>\$ 1,123,075</u>	<u>\$ 878,301</u>
<u>\$ 272,057</u>	<u>(\$ 1,639,914)</u>	<u>\$ 1,576,801</u>	<u>\$ 622,645</u>
<u>(\$ 11,578)</u>	<u>(\$ 1,356,686)</u>	<u>(\$ 2,140,888)</u>	<u>(\$ 649,955)</u>
1,428,543	11,559,962	22,217,896	6,028,414
<u><u>\$ 1,416,965</u></u>	<u><u>\$ 10,203,276</u></u>	<u><u>\$ 20,077,008</u></u>	<u><u>\$ 5,378,459</u></u>

Notes are an integral part of the Financial Statements



**STATE BOARD OF INVESTMENT  
MINNESOTA POOLED INVESTMENT ACCOUNTS  
SCHEDULE OF OPERATIONS  
YEAR ENDED JUNE 30, 2001  
AMOUNTS IN (000)'S**

	<u>REAL ESTATE ACCOUNT</u>	<u>RESOURCE ACCOUNT</u>
Interest	\$ 0	\$ 0
Dividends	37,860	40,268
Short Term Gains	127	50
Security Lending Gross Earnings(4c)	0	0
Less: Borrower Rebates	0	0
Less: Fees Paid to Agents	0	0
Security Lending Net Earnings	0	0
Income Before Expenses	<u>\$ 37,987</u>	<u>\$ 40,318</u>
Management Fees	1,094	1,889
NET INCOME	<u>\$ 36,893</u>	<u>\$ 38,429</u>

**REALIZED AND UNREALIZED  
GAIN (LOSS) ON INVESTMENTS**

<b>Realized:</b>		
Proceeds From Sales	\$ 142,037	\$ 43,931
Cost Of Securities Sold	<u>87,836</u>	<u>44,037</u>
Net Realized Gain (Loss)	\$ 54,201	(\$ 106)
<b>Unrealized:</b>		
Beginning Of Period	216,480	( 2,664)
End Of Period	<u>240,533</u>	<u>30,212</u>
Increase (Decrease)		
In Unrealized Appreciation	\$ 24,053	\$ 32,876
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	<u>\$ 78,254</u>	<u>\$ 32,770</u>

Notes are an integral part of the Financial Statements

<b>VENTURE CAPITAL ACCOUNT(4)</b>	<b>DOMESTIC BOND ACCOUNT</b>	<b>DOMESTIC EQUITY ACCOUNTS</b>	<b>INTERNATIONAL EQUITY ACCOUNT</b>
\$ 0	\$ 722,309	\$ 54	(\$ 88)
189,267	6,728	176,818	63,833
407	56,883	20,568	597
0	87,406	68,972	66,804
0	( 81,707)	( 59,782)	( 56,131)
0	( 1,180)	( 2,302)	( 3,144)
0	4,519	6,888	7,529
<u>\$ 189,674</u>	<u>\$ 790,439</u>	<u>\$ 204,328</u>	<u>\$ 71,871</u>
5,144	10,627	29,898	16,244
<u>\$ 184,530</u>	<u>\$ 779,812</u>	<u>\$ 174,430</u>	<u>\$ 55,627</u>
\$ 359,440	\$ 49,599,798	\$ 11,849,750	\$ 3,731,507
368,463	49,352,022	11,540,479	3,928,995
<u>(\$ 9,023)</u>	<u>\$ 247,776</u>	<u>\$ 309,271</u>	<u>(\$ 197,488)</u>
277,583	( 175,517)	7,767,058	1,146,684
<u>( 6,052)</u>	<u>107,711</u>	<u>4,049,369</u>	<u>( 125,916)</u>
(\$ 283,635)	\$ 283,228	(\$ 3,717,689)	(\$ 1,272,600)
<u>(\$ 292,658)</u>	<u>\$ 531,004</u>	<u>(\$ 3,408,418)</u>	<u>(\$ 1,470,088)</u>

Notes are an integral part of the Financial Statements



**STATE BOARD OF INVESTMENT  
MINNESOTA POOLED INVESTMENT ACCOUNTS  
SCHEDULE OF PARTICIPATION  
JUNE 30, 2001  
AMOUNTS IN (000)'S**

	<b>REAL ESTATE ACCOUNT</b>	<b>RESOURCE ACCOUNT</b>
Teachers Retirement Fund	\$ 281,897	\$ 112,843
Public Employees Retirement Fund	170,317	68,213
State Employees Retirement Fund	158,700	63,645
Public Employees Police & Fire Fund	89,492	35,867
Highway Patrolmen's Retirement Fund	9,443	3,782
Judges Retirement Fund	918	368
Police & Fire Consolidation Fund	737	290
Correctional Employees Retire. Fund	9,828	3,936
<b>TOTAL BASIC RETIREMENT FUNDS</b>	<b>\$ 721,332</b>	<b>\$ 288,944</b>
 Post Retirement Fund	 0	 0
 Supplemental Income Share Account	 0	 0
Supplemental Growth Share Account	0	0
Supplemental Index Share Account	0	0
Supplemental Bond Market Account	0	0
Supplemental International Equity Account	0	0
 <b>TOTAL PARTICIPATION</b>	<b>\$ 721,332</b>	<b>\$ 288,944</b>

Notes are an integral part of the Financial Statements

<b>VENTURE CAPITAL ACCOUNT(4)</b>	<b>DOMESTIC BOND ACCOUNT</b>	<b>DOMESTIC EQUITY ACCOUNTS</b>	<b>INTERNATIONAL EQUITY ACCOUNT</b>
\$ 553,500	\$ 1,699,987	\$ 3,368,455	\$ 968,086
334,530	1,085,974	2,143,981	626,683
311,991	1,013,371	2,000,607	584,870
175,857	563,205	1,112,886	324,199
18,547	59,703	117,897	34,385
1,804	5,860	11,569	3,382
1,431	4,652	9,184	2,685
19,305	62,707	123,797	36,192
\$ 1,416,965	\$ 4,495,459	\$ 8,888,376	\$ 2,580,482
0	5,575,372	10,200,266	2,758,204
0	0	361,214	0
0	0	264,259	0
0	0	362,893	0
0	132,445	0	0
0	0	0	39,773
\$ 1,416,965	\$ 10,203,276	\$ 20,077,008	\$ 5,378,459

Notes are an integral part of the Financial Statements



**NOTES TO THE SUPPLEMENTAL FINANCIAL STATEMENTS**  
**JUNE 31, 2001**

**1. PORTFOLIO LISTING:**

Asset listings summarizing securities held by these funds can be found starting on page 149 of this report. Fixed income and equity securities are presented at market value.

**2. COST OF INVESTMENTS:**

At June 30, 2001 the cost plus accrued income of investments for the Minnesota Pooled Investment Accounts and the individual accounts of the Minnesota Supplemental Investment Fund, excluding security lending collateral, was:

**MINNESOTA POOLED INVESTMENT ACCOUNTS**

DOMESTIC ACCOUNTS

Equity Account	\$ 16,038,348,528
Bond Account	\$ 10,097,651,089
Real Estate Account	\$ 480,799,553
Resource Account	\$ 258,731,339
Venture Capital Account	\$ 1,423,017,173

INTERNATIONAL ACCOUNTS

Equity Account	\$ 5,508,232,888
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**SUPPLEMENTAL INVESTMENT FUND**

Income Share Account	\$ 495,822,433
Growth Share Account	\$ 297,184,479
International Share Account	\$ 47,412,056
Money Market Account	\$ 93,372,670
Stock Index Account	\$ 342,639,935
Bond Market Account	\$ 132,759,665
Fixed Interest Account	\$ 88,241,799

**3. LOANED SECURITIES:**

The market value of loaned securities outstanding at June 30, 2001 for the Minnesota Pooled Investment Accounts included in the total investments figure was:

Equity Account (Domestic)	\$ 645,380,247
Equity Index Account (Domestic)	\$ 305,990,847
Bond Account (Domestic)	\$ 1,127,895,352
International Equity Account	\$ 1,171,974,102

The market value for non-pooled investment accounts includes:

Money Market Account	\$ 205,092,675
Income share Account Fixed Income	\$ 23,996,369

## External Stock and Bond Managers' Fees

Total Payments for Fiscal Year 2001

### Active Domestic Stock Managers (1)

Alliance Capital	\$ 5,541,288
Artemis Investment Managers	409,369
Berger Bay Isle	242,034
Brinson Partners	1,198,659
CIC Asset Management**	304,874
Cohen Klingenstein	1,231,827
Earnest Partners	194,432
Forstmann Leff Associates	2,654,900
Franklin Portfolio	1,900,866
GeoCapital Corp.	2,152,065
Holt Smith & Yates Advisors	286,328
Lincoln Capital	1,603,372
New Amsterdam Partners	432,628
Next Century	388,908
Oppenheimer Capital	1,639,197
Peregrine Capital Management	630,567
Valenzuela Capital	354,829
Voyageur Asset Management	263,781
Winslow Capital	648,968
Zevenbergen Capital	723,667

### Passive Domestic Stock Managers (2)

BZW Barclays	815,534
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### Semi-Passive Domestic Bond Managers (2)

Franklin Portfolio	2,343,567
JP Morgan	2,264,151
BZW Barclays	2,497,600

### Active Domestic Bond Managers (2)

American Express	885,490
Deutsche Asset	1,169,339
Dodge & Cox	862,357
Metropolitan	627,186
Miller Anderson	1,784,825
Standish Ayer Woods **	720,655
Western Asset Management	1,431,990

cont.



## External Stock and Bond Managers' Fees

Total Payments for Fiscal Year 2001

### Semi-Passive Domestic Bond Managers (3)

Blackrock Financial	\$	1,063,049
Goldman Sachs		1,453,722
Lincoln Capital Management		629,194

### International Stock Managers (2)

Alliance Capital	413,641
American Express	967,568
Blairlogie	600,706
Brinson Partners International	1,555,350
Capital International	486,294
City of London **	1,068,576
Genesis	835,831
Invesco Global	1,318,154
Marathon	1,525,020
Montgomery Emerging	1,177,498
Montgomery International	1,100,697
Morgan Stanley Dean Witter	500,348
Record Treasury Ltd. **	14,469
Rowe Price - Fleming	2,195,053
Schroder Investments	531,780
Scudder Kemper	1,438,760
State Street Global Advisors	424,196

### Assigned Risk Plan

GE Investment Management	242,008
Voyager Asset Management	321,716

\*\* Manager Terminated in Fiscal '01

- (1) Active stock managers are compensated on a performance-based fee formula. Four fee options are available and fees earned range from zero to twice the manager's base fee, depending on the manager's performance relative to an established benchmark
- (2) The passive stock manager, international stock managers, active bond managers and two semi passive bond managers are compensated based on a specified percentage of assets under management.
- (3) One semi-passive bond manager is compensated on a performance-based fee formula. Fees earned range from 5 to 10 basis points of assets under management, depending on the manager's performance relative to an established benchmark

## Summarized Asset Listing - Domestic Stock Managers

June 30, 2001

### ALLIANCE CAPITAL MANAGEMENT L.P.

Equities	Market Value	%
COMMINGLED FUND	\$0.00	0.00
CONSUMER DISCRETIONARY	282,621,310.00	22.46
CONSUMER STAPLES	56,163,060.00	4.46
ENERGY	16,222,350.00	1.29
FINANCIALS	208,950,300.00	16.61
HEALTH CARE	158,335,640.00	12.58
INDUSTRIALS	73,697,000.00	5.86
INFORMATION TECHNOLOGY	149,192,060.00	11.86
MATERIALS	0.00	0.00
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	26,212,665.00	2.08
UNCLASSIFIED	0.00	0.00
UTILITIES	0.00	0.00
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>971,394,385.00</b>	<b>77.21</b>
<b>Cash Equivalents</b>	<b>286,788,163.52</b>	<b>22.79</b>
<b>Grand Total</b>	<b>\$1,258,182,548.52</b>	<b>100.00 %</b>

### BAY ISLE FINANCIAL CORP.

Equities	Market Value	%
COMMINGLED FUND	0.00	0.00
CONSUMER DISCRETIONARY	4,958,003.10	9.70
CONSUMER STAPLES	2,106,240.00	4.12
ENERGY	4,577,271.00	8.95
FINANCIALS	11,303,543.20	22.11
HEALTH CARE	1,212,565.20	2.37
INDUSTRIALS	10,542,757.90	20.62
INFORMATION TECHNOLOGY	9,691,588.40	18.95
MATERIALS	0.00	0.00
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	3,618,389.60	7.08
UNCLASSIFIED	0.00	0.00
UTILITIES	1,834,326.50	3.59
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>49,844,684.90</b>	<b>97.48</b>
<b>Cash Equivalents</b>	<b>1,288,086.89</b>	<b>2.52</b>
<b>Grand Total</b>	<b>51,132,771.79</b>	<b>100.00 %</b>

### ARTEMIS INVESTMENT MGMT LLC

Equities	Market Value	%
COMMINGLED FUND	0.00	0.00
CONSUMER DISCRETIONARY	12,099,250.00	30.39
CONSUMER STAPLES	2,684,785.00	6.74
ENERGY	2,542,266.00	6.39
FINANCIALS	1,199,513.00	3.01
HEALTH CARE	7,843,948.00	19.70
INDUSTRIALS	5,636,252.00	14.16
INFORMATION TECHNOLOGY	1,901,867.00	4.78
MATERIALS	2,959,924.00	7.43
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	709,355.00	1.78
UNCLASSIFIED	0.00	0.00
UTILITIES	1,261,611.00	3.17
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>38,838,771.00</b>	<b>97.55</b>
<b>Cash Equivalents</b>	<b>976,018.59</b>	<b>2.45</b>
<b>Grand Total</b>	<b>39,814,789.59</b>	<b>100.00 %</b>

### BRINSON PARTNERS, INC.

Equities	Market Value	%
COMMINGLED FUND	\$0.00	0.00
CONSUMER DISCRETIONARY	67,290,681.00	9.75
CONSUMER STAPLES	18,315,963.96	2.66
ENERGY	12,770,570.00	1.85
FINANCIALS	120,530,272.00	17.47
HEALTH CARE	139,372,360.00	20.20
INDUSTRIALS	125,580,333.00	18.20
INFORMATION TECHNOLOGY	106,509,715.08	15.44
MATERIALS	35,336,663.39	5.12
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	28,528,968.00	4.14
UNCLASSIFIED	0.00	0.00
UTILITIES	24,281,495.00	3.52
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>678,517,021.43</b>	<b>98.36</b>
<b>Cash Equivalents</b>	<b>11,298,422.21</b>	<b>1.64</b>
<b>Grand Total</b>	<b>\$689,815,443.64</b>	<b>100.00 %</b>



## Summarized Asset Listing - Domestic Stock Managers

June 30, 2001

### COHEN, KLINGENSTEIN, & MARKS INC.

Equities	Market Value	%
COMMINGLED FUND	\$0.00	0.00
CONSUMER DISCRETIONARY	122,436,114.50	20.37
CONSUMER STAPLES	39,753,646.00	6.61
ENERGY	0.00	0.00
FINANCIALS	104,862,442.75	17.44
HEALTH CARE	77,884,306.20	12.96
INDUSTRIALS	0.00	0.00
INFORMATION TECHNOLOGY	195,950,751.00	32.60
MATERIALS	0.00	0.00
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	54,973,976.50	9.14
UNCLASSIFIED	0.00	0.00
UTILITIES	0.00	0.00
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>595,861,236.95</b>	<b>99.12</b>
<b>Cash Equivalents</b>	<b>5,279,197.22</b>	<b>0.88</b>
<b>Grand Total</b>	<b>\$601,140,434.17</b>	<b>100.00 %</b>

### FLA ASSET MGMT., LLC

Equities	Market Value	%
COMMINGLED FUND	\$0.00	0.00
CONSUMER DISCRETIONARY	278,509,417.75	33.32
CONSUMER STAPLES	2,785,705.00	0.33
ENERGY	32,901,382.00	3.94
FINANCIALS	35,027,407.00	4.19
HEALTH CARE	31,730,249.50	3.80
INDUSTRIALS	130,292,401.40	15.59
INFORMATION TECHNOLOGY	24,094,140.00	2.88
MATERIALS	85,972,625.40	10.29
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	0.00	0.00
UNCLASSIFIED	0.00	0.00
UTILITIES	20,413,695.00	2.44
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>641,727,023.05</b>	<b>76.77</b>
<b>Cash Equivalents</b>	<b>194,146,953.69</b>	<b>23.23</b>
<b>Grand Total</b>	<b>\$835,873,976.74</b>	<b>100.00 %</b>

### EARNEST PARTNERS, LLC

Equities	Market Value	%
COMMINGLED FUND	0.00	0.00
CONSUMER DISCRETIONARY	4,961,739.00	10.06
CONSUMER STAPLES	3,366,000.00	6.82
ENERGY	2,045,100.00	4.15
FINANCIALS	13,876,606.00	28.13
HEALTH CARE	8,912,875.00	18.07
INDUSTRIALS	1,386,630.00	2.81
INFORMATION TECHNOLOGY	7,130,974.00	14.45
MATERIALS	1,253,525.00	2.54
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	5,283,642.00	10.71
UNCLASSIFIED	665,280.00	1.35
UTILITIES	0.00	0.00
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>48,882,371.00</b>	<b>99.08</b>
<b>Cash Equivalents</b>	<b>454,297.09</b>	<b>0.92</b>
<b>Grand Total</b>	<b>49,336,668.09</b>	<b>100.00 %</b>

### FRANKLIN PORTFOLIO ASSOC., LLC

Equities	Market Value	%
COMMINGLED FUND	\$0.00	0.00
CONSUMER DISCRETIONARY	147,076,317.00	21.60
CONSUMER STAPLES	38,255,580.00	5.62
ENERGY	58,490,286.00	8.59
FINANCIALS	108,242,482.95	15.89
HEALTH CARE	100,711,391.00	14.79
INDUSTRIALS	91,875,757.00	13.49
INFORMATION TECHNOLOGY	46,842,080.00	6.88
MATERIALS	13,638,057.00	2.00
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	22,320,374.00	3.28
UNCLASSIFIED	0.00	0.00
UTILITIES	52,181,784.00	7.66
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>679,634,108.95</b>	<b>99.80</b>
<b>Cash Equivalents</b>	<b>1,361,318.29</b>	<b>0.20</b>
<b>Grand Total</b>	<b>\$680,995,427.24</b>	<b>100.00 %</b>

**Summarized Asset Listing - Domestic Stock Managers**

**June 30, 2001**

**GEOCAPITAL, CORPORATION**

Equities	Market Value	%
COMMINGLED FUND	\$0.00	0.00
CONSUMER DISCRETIONARY	46,679,763.00	7.89
CONSUMER STAPLES	0.00	0.00
ENERGY	68,172,106.00	11.52
FINANCIALS	63,173,508.68	10.68
HEALTH CARE	35,688,375.00	6.03
INDUSTRIALS	177,162,586.80	29.94
INFORMATION TECHNOLOGY	178,353,478.35	30.14
MATERIALS	5,148,550.00	0.87
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	322,178.00	0.05
UNCLASSIFIED	10,565,428.80	1.79
UTILITIES	0.00	0.00
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>585,265,974.63</b>	<b>98.90</b>
<b>Cash Equivalents</b>	<b>6,504,723.82</b>	<b>1.10</b>
<b>Grand Total</b>	<b>\$591,770,698.45</b>	<b>100.00 %</b>

**LINCOLN CAPITAL MGMT.**

Equities	Market Value	%
COMMINGLED FUND	\$0.00	0.00
CONSUMER DISCRETIONARY	97,231,611.00	15.32
CONSUMER STAPLES	38,505,800.00	6.07
ENERGY	0.00	0.00
FINANCIALS	39,435,490.00	6.21
HEALTH CARE	120,153,932.00	18.93
INDUSTRIALS	88,148,300.00	13.89
INFORMATION TECHNOLOGY	193,285,690.00	30.45
MATERIALS	0.00	0.00
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	8,867,880.00	1.40
UNCLASSIFIED	9,808,400.00	1.55
UTILITIES	12,205,620.00	1.92
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>607,642,723.00</b>	<b>95.73</b>
<b>Cash Equivalents</b>	<b>27,081,527.76</b>	<b>4.27</b>
<b>Grand Total</b>	<b>\$634,724,250.76</b>	<b>100.00 %</b>

**HOLT-SMITH & YATES ADVISORS**

Equities	Market Value	%
COMMINGLED FUND	0.00	0.00
CONSUMER DISCRETIONARY	8,486,925.00	18.26
CONSUMER STAPLES	4,644,700.00	9.99
ENERGY	0.00	0.00
FINANCIALS	5,826,000.00	12.54
HEALTH CARE	2,928,000.00	6.30
INDUSTRIALS	12,258,020.00	26.38
INFORMATION TECHNOLOGY	11,300,210.00	24.32
MATERIALS	0.00	0.00
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	0.00	0.00
UNCLASSIFIED	0.00	0.00
UTILITIES	0.00	0.00
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>45,443,855.00</b>	<b>97.79</b>
<b>Cash Equivalents</b>	<b>1,028,700.15</b>	<b>2.21</b>
<b>Grand Total</b>	<b>46,472,555.15</b>	<b>100.00 %</b>

**NEW AMSTERDAM PARTNERS LLC**

Equities	Market Value	%
COMMINGLED FUND	\$0.00	0.00
CONSUMER DISCRETIONARY	32,900,543.63	19.84
CONSUMER STAPLES	4,504,962.00	2.72
ENERGY	4,142,400.00	2.50
FINANCIALS	22,717,112.00	13.70
HEALTH CARE	21,797,017.00	13.15
INDUSTRIALS	9,417,242.00	5.68
INFORMATION TECHNOLOGY	32,816,077.25	19.79
MATERIALS	10,978,350.00	6.62
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	3,658,848.00	2.21
UNCLASSIFIED	0.00	0.00
UTILITIES	15,693,515.00	9.47
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>158,626,066.88</b>	<b>95.67</b>
<b>Cash Equivalents</b>	<b>7,174,444.15</b>	<b>4.33</b>
<b>Grand Total</b>	<b>\$165,800,511.03</b>	<b>100.00 %</b>



## Summarized Asset Listing - Domestic Stock Managers

June 30, 2001

### NEXT CENTURY GROWTH INVESTORS, LLC

Equities	Market Value	%
COMMINGLED FUND	0.00	0.00
CONSUMER DISCRETIONARY	6,172,362.00	17.47
CONSUMER STAPLES	0.00	0.00
ENERGY	1,187,941.00	3.36
FINANCIALS	1,629,260.00	4.61
HEALTH CARE	7,116,332.00	20.14
INDUSTRIALS	4,775,798.50	13.52
INFORMATION TECHNOLOGY	13,709,570.00	38.81
MATERIALS	493,230.00	1.40
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	0.00	0.00
UNCLASSIFIED	90,060.00	0.25
UTILITIES	0.00	0.00
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>35,174,553.50</b>	<b>99.56</b>
<b>Cash Equivalents</b>	<b>153,964.77</b>	<b>0.44</b>
<b>Grand Total</b>	<b>35,328,518.27</b>	<b>100.00 %</b>

### PEREGRINE CAPITAL MGMT., INC.

Equities	Market Value	%
COMMINGLED FUND	0.00	0.00
CONSUMER DISCRETIONARY	7,471,217.19	10.49
CONSUMER STAPLES	6,178,878.00	8.67
ENERGY	1,024,227.20	1.44
FINANCIALS	18,172,152.05	25.51
HEALTH CARE	5,429,705.20	7.62
INDUSTRIALS	15,077,822.06	21.17
INFORMATION TECHNOLOGY	2,435,419.80	3.42
MATERIALS	6,098,252.60	8.56
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	0.00	0.00
UNCLASSIFIED	1,310,919.60	1.84
UTILITIES	5,186,737.40	7.28
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>68,385,331.10</b>	<b>96.00</b>
<b>Cash Equivalents</b>	<b>2,852,394.09</b>	<b>4.00</b>
<b>Grand Total</b>	<b>71,237,725.19</b>	<b>100.00 %</b>

### OPPENHEIMER CAPITAL

Equities	Market Value	%
COMMINGLED FUND	\$0.00	0.00
CONSUMER DISCRETIONARY	86,899,000.00	9.26
CONSUMER STAPLES	49,895,000.00	5.32
ENERGY	18,100,000.00	1.93
FINANCIALS	277,667,000.00	29.58
HEALTH CARE	26,954,500.00	2.87
INDUSTRIALS	130,739,500.00	13.93
INFORMATION TECHNOLOGY	65,360,000.00	6.96
MATERIALS	15,760,000.00	1.68
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	62,284,000.00	6.64
UNCLASSIFIED	644,000.00	0.07
UTILITIES	0.00	0.00
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>734,303,000.00</b>	<b>78.23</b>
<b>Cash Equivalents</b>	<b>204,310,567.43</b>	<b>21.77</b>
<b>Grand Total</b>	<b>\$938,613,567.43</b>	<b>100.00 %</b>

### VALENZUELA CAPITAL MANAGEMENT, INC.

Equities	Market Value	%
COMMINGLED FUND	\$0.00	0.00
CONSUMER DISCRETIONARY	16,058,387.50	19.99
CONSUMER STAPLES	772,200.00	0.96
ENERGY	6,055,595.00	7.54
FINANCIALS	19,400,708.00	24.15
HEALTH CARE	7,308,225.00	9.10
INDUSTRIALS	5,393,991.00	6.71
INFORMATION TECHNOLOGY	5,584,029.00	6.95
MATERIALS	5,882,005.00	7.32
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	0.00	0.00
UNCLASSIFIED	3,684,915.92	4.59
UTILITIES	3,762,480.00	4.68
ALL NON U.S.	0.00	0.00
BONDS	24,136.00	0.03
<b>Total Equities</b>	<b>73,926,672.42</b>	<b>92.01</b>
<b>Cash Equivalents</b>	<b>6,418,045.61</b>	<b>7.99</b>
<b>Grand Total</b>	<b>\$80,344,718.03</b>	<b>100.00 %</b>

**Summarized Asset Listing - Domestic Stock Managers**

**June 30, 2001**

**VOYAGEUR ASSET MANAGEMENT, LLC**

Equities	Market Value	%
COMMINGLED FUND	0.00	0.00
CONSUMER DISCRETIONARY	6,338,716.00	13.69
CONSUMER STAPLES	3,055,450.00	6.60
ENERGY	0.00	0.00
FINANCIALS	8,167,430.00	17.64
HEALTH CARE	6,155,970.00	13.29
INDUSTRIALS	13,194,430.00	28.50
INFORMATION TECHNOLOGY	7,198,676.00	15.55
MATERIALS	0.00	0.00
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	0.00	0.00
UNCLASSIFIED	0.00	0.00
UTILITIES	1,291,500.00	2.79
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>45,402,172.00</b>	<b>98.05</b>
<b>Cash Equivalents</b>	<b>901,354.81</b>	<b>1.95</b>
<b>Grand Total</b>	<b>46,303,526.81</b>	<b>100.00 %</b>

**ZEVENBERGEN CAPITAL, INC.**

Equities	Market Value	%
COMMINGLED FUND	\$0.00	0.00
CONSUMER DISCRETIONARY	30,835,849.60	20.11
CONSUMER STAPLES	6,383,110.00	4.16
ENERGY	0.00	0.00
FINANCIALS	8,433,050.00	5.50
HEALTH CARE	28,225,260.00	18.41
INDUSTRIALS	10,288,017.00	6.71
INFORMATION TECHNOLOGY	49,089,664.00	32.01
MATERIALS	0.00	0.00
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	16,750,564.00	10.92
UNCLASSIFIED	0.00	0.00
UTILITIES	0.00	0.00
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>150,005,514.60</b>	<b>97.83</b>
<b>Cash Equivalents</b>	<b>3,328,018.00</b>	<b>2.17</b>
<b>Grand Total</b>	<b>\$153,333,532.60</b>	<b>100.00 %</b>

**WINSLOW CAPITAL MANAGEMENT, INC.**

Equities	Market Value	%
COMMINGLED FUND	\$0.00	0.00
CONSUMER DISCRETIONARY	17,503,537.50	16.84
CONSUMER STAPLES	0.00	0.00
ENERGY	0.00	0.00
FINANCIALS	2,815,800.00	2.71
HEALTH CARE	26,000,311.00	25.01
INDUSTRIALS	27,811,776.50	26.75
INFORMATION TECHNOLOGY	24,122,414.00	23.21
MATERIALS	0.00	0.00
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	0.00	0.00
UNCLASSIFIED	0.00	0.00
UTILITIES	0.00	0.00
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>98,253,839.00</b>	<b>94.52</b>
<b>Cash Equivalents</b>	<b>5,697,038.05</b>	<b>5.48</b>
<b>Grand Total</b>	<b>\$103,950,877.05</b>	<b>100.00 %</b>

**BARCLAYS GLOBAL INVESTORS  
(Semi - Passive)**

Equities	Market Value	%
COMMINGLED FUND	\$0.00	0.00
CONSUMER DISCRETIONARY	285,312,618.94	11.49
CONSUMER STAPLES	137,042,500.55	5.52
ENERGY	213,242,510.70	8.59
FINANCIALS	452,810,632.90	18.24
HEALTH CARE	302,556,767.02	12.19
INDUSTRIALS	271,176,538.77	10.92
INFORMATION TECHNOLOGY	445,931,946.36	17.96
MATERIALS	63,667,996.30	2.56
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	169,593,515.84	6.83
UNCLASSIFIED	25,002,828.44	1.01
UTILITIES	98,277,473.47	3.96
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>2,464,615,329.29</b>	<b>99.28</b>
<b>Cash Equivalents</b>	<b>17,808,694.94</b>	<b>0.72</b>
<b>Grand Total</b>	<b>\$2,482,424,024.23</b>	<b>100.00 %</b>



## Summarized Asset Listing - Domestic Stock Managers

June 30, 2001

### FRANKLIN PORTFOLIO ASSOC., LLC

(Semi - Passive)

Equities	Market Value	%
COMMINGLED FUND	\$0.00	0.00
CONSUMER DISCRETIONARY	268,183,541.83	13.87
CONSUMER STAPLES	101,272,798.08	5.24
ENERGY	157,860,526.90	8.16
FINANCIALS	390,144,412.02	20.17
HEALTH CARE	242,934,301.40	12.56
INDUSTRIALS	193,505,143.50	10.01
INFORMATION TECHNOLOGY	266,451,529.80	13.78
MATERIALS	28,938,585.00	1.50
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	141,716,070.92	7.33
UNCLASSIFIED	23,150,948.00	1.20
UTILITIES	79,995,850.51	4.14
ALL NON U.S.	0.00	0.00
BONDS	58,828.00	0.00
<b>Total Equities</b>	<b>1,894,212,535.96</b>	<b>97.95</b>
<b>Cash Equivalents</b>	<b>39,638,629.67</b>	<b>2.05</b>
<b>Grand Total</b>	<b>\$1,933,851,165.63</b>	<b>100.00 %</b>

### J.P. MORGAN INVESTMENT MANAGEMENT INC.

(Semi - Passive)

Equities	Market Value	%
COMMINGLED FUND	\$0.00	0.00
CONSUMER DISCRETIONARY	264,666,094.48	12.71
CONSUMER STAPLES	122,083,346.00	5.86
ENERGY	152,886,097.00	7.34
FINANCIALS	401,485,660.00	19.28
HEALTH CARE	261,484,988.66	12.56
INDUSTRIALS	199,287,340.32	9.57
INFORMATION TECHNOLOGY	361,349,179.00	17.35
MATERIALS	53,263,737.00	2.56
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	144,048,156.00	6.92
UNCLASSIFIED	16,156,961.60	0.78
UTILITIES	103,277,990.60	4.96
ALL NON U.S.	0.00	0.00
BONDS	454,009.50	0.02
<b>Total Equities</b>	<b>2,080,443,560.16</b>	<b>99.90</b>
<b>Cash Equivalents</b>	<b>2,035,365.51</b>	<b>0.10</b>
<b>Grand Total</b>	<b>\$2,082,478,925.67</b>	<b>100.00 %</b>

### BARCLAYS GLOBAL INVESTORS

(Passive)

Equities	Market Value	%
COMMINGLED FUND	\$3,517.90	0.00
CONSUMER DISCRETIONARY	942,731,202.48	14.68
CONSUMER STAPLES	369,357,397.94	5.75
ENERGY	352,914,385.97	5.50
FINANCIALS	1,136,333,280.41	17.70
HEALTH CARE	869,158,758.45	13.54
INDUSTRIALS	713,915,758.76	11.12
INFORMATION TECHNOLOGY	1,249,974,474.90	19.47
MATERIALS	159,336,110.71	2.48
RIGHTS/WARRANTS	4.03	0.00
TELECOMMUNICATIONS SERVICES	328,257,913.10	5.11
UNCLASSIFIED	34,620,152.56	0.54
UTILITIES	249,337,169.17	3.88
ALL NON U.S.	0.00	0.00
BONDS	34,560.00	0.00
<b>Total Equities</b>	<b>6,405,974,686.38</b>	<b>99.78</b>
<b>Cash Equivalents</b>	<b>14,265,178.98</b>	<b>0.22</b>
<b>Grand Total</b>	<b>\$6,420,239,865.36</b>	<b>100.00 %</b>

### MINNESOTA STATE BOARD OF INVESTMENT

(Transition Account I)

Equities	Market Value	%
COMMINGLED FUND	\$0.00	0.00
CONSUMER DISCRETIONARY	0.00	0.00
CONSUMER STAPLES	0.00	0.00
ENERGY	0.00	0.00
FINANCIALS	0.00	0.00
HEALTH CARE	0.00	0.00
INDUSTRIALS	0.00	0.00
INFORMATION TECHNOLOGY	0.00	0.00
MATERIALS	0.00	0.00
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	0.00	0.00
UNCLASSIFIED	0.00	0.00
UTILITIES	0.00	0.00
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>0.00</b>	<b>0.00</b>
<b>Cash Equivalents</b>	<b>77,648,111.71</b>	<b>100.00</b>
<b>Grand Total</b>	<b>\$77,648,111.71</b>	<b>100.00 %</b>

## Summarized Asset Listing - Domestic Stock Managers

June 30, 2001

### AGGREGATE DOMESTIC EQUITY POOL\*

Equities	Market Value	%
COMMINGLED FUND	\$3,517.90	0.00
CONSUMER DISCRETIONARY	\$3,037,424,202.50	15.13
CONSUMER STAPLES	\$1,007,127,122.53	5.02
ENERGY	\$1,105,135,014.77	5.51
FINANCIALS	\$3,452,204,062.96	17.20
HEALTH CARE	\$2,489,895,777.63	12.41
INDUSTRIALS	\$2,311,163,396.51	11.52
INFORMATION TECHNOLOGY	\$3,448,275,533.94	17.18
MATERIALS	\$488,727,611.40	2.44
RIGHTS/WARRANTS	\$4.03	0.00
TELECOMMUNICATIONS SERVICES	\$1,017,146,495.96	5.07
UNCLASSIFIED	\$125,699,894.92	0.63
UTILITIES	\$669,001,247.65	3.33
ALL NON U.S.	\$0.00	0.00
BONDS	\$571,533.50	0.00
<b>Total Equities</b>	<b>\$19,152,375,416.20</b>	<b>95.42</b>
<b>Cash Equivalents</b>	<b>\$918,439,216.95</b>	<b>4.58</b>
<b>Grand Total</b>	<b>\$20,070,814,633.15</b>	<b>100.00 %</b>

\* Aggregate of all managers in the Domestic Equity Account in the financial statements. Includes Active, Semi-Passive, and Passive Managers.



# Summarized Asset Listing - International Stock Managers

June 30, 2001

## AMERICAN EXPRESS ASSET MGMT INTL., INC.

Exposure by Country	Market Value	%
AUSTRALIA	6,279,925.79	2.24
CANADA	8,986,792.05	3.21
DENMARK	5,051,054.00	1.81
EURO	118,790,222.29	42.45
HONG KONG	4,545,266.89	1.62
JAPAN	65,191,707.01	23.30
SINGAPORE	127,445.38	0.05
SWEDEN	897,083.02	0.32
UNITED KINGDOM	42,177,465.52	15.07
UNITED STATES	15,459,062.82	5.52
FRANCE	12,317,545.67	4.40
FORWARD CURRENCY CONTR.	10,211.57	0.00
<b>Grand Total</b>	<b>\$279,833,782.01</b>	<b>100.00 %</b>

## BLAIRLOGIE CAPITAL MGMT.

Exposure by Country	Market Value	%
CANADA	177,310.60	0.11
DENMARK	1,258,757.24	0.81
EURO	58,792,346.99	37.62
HONG KONG	7,353,229.59	4.70
JAPAN	36,098,650.34	23.10
SINGAPORE	2,460,096.48	1.57
SWEDEN	3,972,365.79	2.54
SWITZERLAND	5,672,342.13	3.63
UNITED KINGDOM	35,172,481.91	22.51
UNITED STATES	5,332,659.26	3.41
FORWARD CURRENCY CONTR.	(3,142.05)	0.00
<b>Grand Total</b>	<b>\$156,287,098.28</b>	<b>100.00 %</b>

## BRINSON PARTNERS, INC.

Exposure by Country	Market Value	%
AUSTRALIA	24,080,627.13	4.01
CANADA	13,166,691.89	2.19
DENMARK	14,366,025.20	2.39
EURO	174,435,096.36	29.07
JAPAN	123,476,021.16	20.58
MALAYSIA	0.00	0.00
NORWAY	5,448,293.60	0.91
HONG KONG	20,688,652.76	3.45
NEW ZEALAND	1,512.34	0.00
SINGAPORE	7,300,909.33	1.22
SWEDEN	32,858,094.28	5.48
SWITZERLAND	48,898,965.48	8.15
UNITED KINGDOM	135,926,964.03	22.65
UNITED STATES	2,158,888.29	0.36
FORWARD CURRENCY CONTR.	(2,738,973.76)	-0.46
<b>Grand Total</b>	<b>\$600,067,768.09</b>	<b>100.00 %</b>

## INVESCO GLOBAL ASSET MGMT., INC.

Exposure by Country	Market Value	%
AUSTRALIA	16,803,932.77	3.69
DENMARK	0.02	0.00
EURO	100,892,408.08	22.18
JAPAN	109,805,287.11	24.14
NORWAY	4,434,666.75	0.97
SWITZERLAND	38,744,043.33	8.52
UNITED KINGDOM	80,729,148.36	17.75
UNITED STATES	103,464,300.44	22.75
FORWARD CURRENCY CONTR.	0.00	0.00
<b>Grand Total</b>	<b>\$454,873,786.86</b>	<b>100.00 %</b>

## MARATHON ASSET MGMT., LTD.

Exposure by Country	Market Value	%
AUSTRALIA	15,505,172.80	3.47
CANADA	5,064,538.80	1.13
DENMARK	4,496,113.08	1.01
EURO	92,842,388.07	20.78
HONG KONG	19,964,350.78	4.47
JAPAN	122,594,021.44	27.44
MALAYSIA	7.11	0.00
MEXICO	0.54	0.00
NEW ZEALAND	1,447,324.27	0.32
NORWAY	3,311,008.97	0.74
SINGAPORE	14,793,858.34	3.31
SWEDEN	23,998,855.04	5.37
SWITZERLAND	9,818,102.14	2.20
UNITED KINGDOM	94,905,677.55	21.25
UNITED STATES	37,975,400.18	8.50
FORWARD CURRENCY CONTR.	1,127.25	0.00
<b>Grand Total</b>	<b>\$446,717,946.36</b>	<b>100.00 %</b>

## MONTGOMERY ASSET MGMT., LLC

Exposure by Country	Market Value	%
AUSTRALIA	4,392,467.56	1.61
DENMARK	9,596,071.24	3.52
EURO	108,680,072.71	39.83
HUNGARY	0.01	0.00
HONG KONG	4,124,073.83	1.51
JAPAN	39,413,694.49	14.44
SWEDEN	3,723,978.24	1.36
SWITZERLAND	6,830,375.76	2.50
UNITED KINGDOM	64,101,674.77	23.49
UNITED STATES	32,034,305.28	11.74
FORWARD CURRENCY CONTR.	(13,017.04)	0.00
<b>Grand Total</b>	<b>\$272,883,696.85</b>	<b>100.00 %</b>

## T. ROWE PRICE INTERNATIONAL, INC.

Exposure by Country	Market Value	%
AUSTRALIA	5,338,541.76	1.29
DENMARK	7.99	0.00
EURO	183,453,242.79	44.31
HONG KONG	6,808,156.08	1.64
JAPAN	75,428,805.28	18.22
NEW ZEALAND	171.69	0.00
NORWAY	308,948.45	0.07
PHILIPPINES	440.38	0.00
SWEDEN	15,610,098.53	3.77
SWITZERLAND	15,106,393.55	3.65
THAILAND	0.03	0.00
UNITED KINGDOM	107,793,043.75	26.04
UNITED STATES	4,151,886.74	1.00
FORWARD CURRENCY CONTR.	0.00	0.00
<b>Grand Total</b>	<b>\$413,999,737.02</b>	<b>100.00 %</b>



# Summarized Asset Listing - International Stock Managers

June 30, 2001

## ZURICH SCUDDER INVESTMENTS, INC.

Exposure by Country	Market Value	%
AUSTRALIA	8,001,902.64	1.88
CANADA	13.43	0.00
DENMARK	2,822,261.18	0.66
EURO	158,259,397.67	37.25
HONG KONG	7,326,517.41	1.72
JAPAN	101,101,146.84	23.80
NORWAY	3,082,632.95	0.73
SWEDEN	3,778,755.63	0.89
SWITZERLAND	19,345,345.50	4.55
UNITED KINGDOM	83,394,920.13	19.63
UNITED STATES	38,317,002.02	9.02
FORWARD CURRENCY CONTR.	(608,529.07)	-0.14
<b>Grand Total</b>	<b>\$424,821,366.33</b>	<b>100.00 %</b>

## ALLIANCE CAPITAL MANAGEMENT INT'L, L.P.

(Emerging Markets)

Exposure by Country	Market Value	%
BRAZIL	3,144,020.27	2.84
EGYPT	1,095,216.78	0.99
EURO	384,445.23	0.35
HONG KONG	12,321,920.39	11.12
HUNGARY	1,008,230.85	0.91
INDONESIA	354,490.14	0.32
ISRAEL	1,027,179.77	0.93
MALAYSIA	1,586,907.25	1.43
MEXICO	4,615,618.44	4.17
NEW TAIWAN	7,415,472.17	6.69
SOUTH AFRICA	9,845,675.29	8.89
SOUTH KOREA	10,823,303.82	9.77
TURKEY	1,948,413.19	1.76
THAILAND	1,530,346.61	1.38
PHILIPPINES	622,244.34	0.56
UNITED STATES	53,066,929.11	47.90
FORWARD CURRENCY CONTR.	0.00	0.00
<b>Grand Total</b>	<b>\$110,790,413.65</b>	<b>100.00 %</b>

## CAPITAL INTERNATIONAL, INC.

(Emerging Markets)

Exposure by Country	Market Value	%
BRAZIL	4,502,350.13	4.00
EURO	568,949.76	0.51
HONG KONG	8,376,492.20	7.44
JORDAN	0.11	0.00
INDONESIA	1,507,914.91	1.34
ISRAEL	201,445.32	0.18
MALAYSIA	1,485,874.15	1.32
MEXICO	5,499,002.27	4.88
NEW TAIWAN	783,846.18	0.70
PERU	217,041.42	0.19
PHILIPPINES	1,309,104.79	1.16
POLAND	184,449.93	0.16
SOUTH AFRICA	3,100,275.02	2.75
SOUTH KOREA	11,290,212.77	10.02
TURKEY	3,336,259.21	2.96
UNITED KINGDOM	2,041,412.87	1.81
UNITED STATES	68,511,710.51	60.83
FORWARD CURRENCY CONTR.	(284,851.26)	-0.25
<b>\$112,631,490.29</b>	<b>100.00 %</b>	

## STATE STREET GLOBAL ADVISORS

Exposure by Country	Market Value	%
AUSTRALIA	56,849,363.76	3.22
CANADA	954.46	0.00
DENMARK	16,092,610.30	0.91
EURO	658,517,486.08	37.34
FRANCE	26.02	0.00
HONG KONG	37,688,696.79	2.14
ISRAEL	1.56	0.00
JAPAN	427,041,024.59	24.21
MALAYSIA	114,779.82	0.01
MEXICO	0.03	0.00
NEW ZEALAND	2,589,857.98	0.15
NORWAY	8,633,725.95	0.49
SINGAPORE	16,252,758.19	0.92
SWEDEN	39,161,790.07	2.22
SWITZERLAND	118,233,095.09	6.70
UNITED KINGDOM	382,205,867.94	21.67
UNITED STATES	170,602.67	0.01
FORWARD CURRENCY CONTR.	0.00	0.00
<b>Grand Total</b>	<b>\$1,763,552,641.30</b>	<b>100.00 %</b>

## MONTGOMERY ASSET MGMT., LLC

(Emerging Markets)

Exposure by Country	Market Value	%
BRAZIL	\$5,720,999.76	4.81
CZECH REPUBLIC	2,074,868.78	1.75
EGYPT	2,597,979.96	2.19
HONG KONG	7,851,674.47	6.60
HUNGARY	1,217,142.31	1.02
INDONESIA	613,690.99	0.52
INDIA	1,233,037.46	1.04
ISRAEL	502,167.22	0.42
JORDAN	9.27	0.00
MALAYSIA	1,507,225.82	1.27
MEXICO	7,367,026.02	6.20
NEW TAIWAN	10,174,975.21	8.56
PAKISTAN	0.00	0.00
PHILIPPINES	1,718,197.45	1.45
POLAND	924,091.75	0.78
SINGAPORE	0.00	0.00
SOUTH AFRICA	14,592,516.87	12.27
SOUTH KOREA	10,523,203.27	8.85
THAILAND	1,517,249.90	1.28
UNITED STATES	48,758,821.93	41.01
FORWARD CURRENCY CONTR.	0.00	0.00
<b>Grand Total</b>	<b>\$118,894,878.44</b>	<b>100.00 %</b>



**MORGAN STANLEY INVESTMENT MGMT.**

(Emerging Markets)

Exposure by Country	Market Value	%
ARGENTINA	(\$0 200)	0.00
BRAZIL	4,081,339.80	3.88
CZECH REPUBLIC	139,998.61	0.13
EGYPT	91,192.65	0.09
EURO	9,682.12	0.01
HONG KONG	8,572,566.26	8.14
HUNGARY	901,423.45	0.86
INDONESIA	429,233.78	0.41
MALAYSIA	1,946,294.11	1.85
MEXICO	7,097,886.01	6.74
NEW TAIWAN	6,513,122.74	6.19
POLAND	492,902.00	0.47
SOUTH AFRICA	8,739,333.61	8.30
SOUTH KOREA	13,149,886.08	12.49
THAILAND	1,570,007.05	1.49
TURKEY	2,610,676.76	2.48
UNITED KINGDOM	2,394,172.20	2.27
UNITED STATES	46,880,295.84	44.52
ZIMBABWE	6,353.61	0.01
FORWARD CURRENCY CONTR.	(323,640.26)	-0.31
<b>Grand Total</b>	<b>\$105,302,726.22</b>	<b>100.00 %</b>

**SCHRODER INV. MGMT. NO. AMERICA, LTD.**

(Emerging Markets)

Exposure by Country	Market Value	%
BRAZIL	5,682,626.25	4.95
CZECH REPUBLIC	618,435.68	0.54
EGYPT	287,662.96	0.25
EURO	40.52	0.00
HONG KONG	7,987,816.08	6.96
HUNGARY	593,008.24	0.52
INDONESIA	705,218.78	0.61
ISRAEL	1,323,862.10	1.15
MALAYSIA	2,012,201.03	1.75
MEXICO	8,267,417.82	7.20
NEW TAIWAN	13,668,060.50	11.91
PHILIPPINES	898,591.78	0.78
POLAND	911,030.90	0.79
SOUTH AFRICA	12,161,531.35	10.60
SOUTH KOREA	13,204,814.57	11.50
TURKEY	2,327,110.73	2.03
THAILAND	1,662,377.64	1.45
UNITED STATES	42,489,446.11	37.02
YUAN	(14,918.53)	-0.01
FORWARD CURRENCY CONTR.	(2,029.76)	0.00
<b>Grand Total</b>	<b>\$114,784,304.75</b>	<b>100.00 %</b>

**AGGREGATE INTERNATIONAL STOCK POOL\***

Exposure by Country	Market Value	%
ARGENTINA	(0 20)	0.00
AUSTRALIA	137,251,934.21	2.55
BRAZIL	23,131,336.21	0.43
CANADA	27,396,301.23	0.51
CZECH REPUBLIC	2,833,303.07	0.05
DENMARK	53,682,900.25	1.00
EGYPT	4,072,052.35	0.08
EURO	1,655,625,778.67	30.80
FRANCE	12,317,571.69	0.23
GREECE	0.00	0.00
HONG KONG	153,609,413.53	2.86
HUNGARY	3,719,804.86	0.07
India	1,233,037.46	0.02
INDONESIA	3,610,548.60	0.07
ISRAEL	3,054,655.97	0.06
JAPAN	1,100,150,358.26	20.47
JORDAN	9.38	0.00
MALAYSIA	8,653,289.29	0.16
MEXICO	32,846,951.13	0.61
NEW TAIWAN	38,555,476.80	0.72
NEW ZEALAND	4,038,866.28	0.08
NORWAY	25,219,276.67	0.47
PAKISTAN	0.00	0.00
PERU	217,041.42	0.00
PHILIPPINES	4,548,578.74	0.08
POLAND	2,512,474.58	0.05
SINGAPORE	40,935,067.72	0.76
SOUTH AFRICA	48,439,332.14	0.90
SOUTH KOREA	58,991,420.51	1.10
SWEDEN	124,001,020.60	2.31
SWITZERLAND	262,648,662.98	4.89
THAILAND	6,279,981.23	0.12
TURKEY	10,222,459.89	0.19
UNITED KINGDOM	1,030,842,829.03	19.18
UNITED STATES	498,771,311.20	9.28
ZIMBABWE	6,353.61	0.00
YUAN	(14,918.53)	0.00
FORWARD CURRENCY CONTR.	(3,962,844.38)	-0.07
<b>GRAND TOTAL</b>	<b>\$5,375,441,636.45</b>	<b>100.00 %</b>

\* Aggregate of all managers in the International Equity Account in the Financial Statements Includes Active, Passive, and Emerging Markets.

**ALTERNATIVE ASSETS**

Asset listing for the Alternative Asset Pools can be found on pages 92-96 of this report



## Summarized Asset Listing - Bond Managers

June 30, 2001

### AMERICAN EXPRESS ASSET MGMT. GROUP, INC. DODGE & COX INC.

Fixed Income	Market Value	%
U.S. AGENCY	\$46,271,893.00	4.75
U.S. CORPORATE	225,608,572.59	23.18
U.S. MTG. REL.	310,890,841.04	31.94
U.S. MUNICIPALS	0.00	0.00
U.S. PREFERRED STOCK	0.00	0.00
U.S. TREASURY	102,964,167.90	10.58
PRIVATE PLACEMENTS	0.00	0.00
YANKEE	0.00	0.00
FOREIGN RELATED	0.00	0.00
MISCELLANEOUS	103,643,662.99	10.65
<b>Total Fixed Income</b>	<b>789,379,137.52</b>	<b>81.09</b>
<b>Cash Equivalent</b>		
U.S.	184,051,220.72	18.91
Non U.S.	0.00	0.00
<b>Grand Total</b>	<b>\$973,430,358.24</b>	<b>100.00 %</b>

Fixed Income	Market Value	%
U.S. AGENCY	\$23,258,788.11	3.35
U.S. CORPORATE	228,905,611.53	33.02
U.S. MTG. REL.	294,720,519.71	42.51
U.S. MUNICIPALS	0.00	0.00
U.S. PREFERRED STOCK	0.00	0.00
U.S. TREASURY	91,354,567.48	13.18
PRIVATE PLACEMENTS	0.00	0.00
YANKEE	0.00	0.00
FOREIGN RELATED	0.00	0.00
MISCELLANEOUS	44,966,528.20	6.49
<b>Total Fixed Income</b>	<b>683,206,015.03</b>	<b>98.54</b>
<b>Cash Equivalent</b>		
U.S.	10,130,939.75	1.46
Non U.S.	0.00	0.00
<b>Grand Total</b>	<b>\$693,336,954.78</b>	<b>100.00 %</b>

### DEUTSCHE ASSET MANAGEMENT, INC.

Fixed Income	Market Value	%
U.S. AGENCY	\$9,635,157.80	1.39
U.S. CORPORATE	180,660,639.45	26.05
U.S. MTG. REL.	303,995,818.78	43.84
U.S. MUNICIPALS	36,846,552.10	5.31
U.S. PREFERRED STOCK	0.00	0.00
U.S. TREASURY	71,310,799.31	10.28
PRIVATE PLACEMENTS	0.00	0.00
YANKEE	1,259,250.00	0.18
FOREIGN RELATED	0.00	0.00
MISCELLANEOUS	80,280,363.18	11.58
<b>Total Fixed Income</b>	<b>683,988,580.62</b>	<b>98.64</b>
<b>Cash Equivalent</b>		
U.S.	9,431,441.62	1.36
Non U.S.	0.00	0.00
<b>Grand Total</b>	<b>\$693,420,022.24</b>	<b>100.00 %</b>

### METROPOLITAN WEST ASSET MGMT., LLC

Fixed Income	Market Value	%
U.S. AGENCY	\$0.00	0.00
U.S. CORPORATE	129,239,201.82	44.80
U.S. MTG. REL.	66,052,105.01	22.90
U.S. MUNICIPALS	0.00	0.00
U.S. PREFERRED STOCK	0.00	0.00
U.S. TREASURY	18,204,909.75	14.22
PRIVATE PLACEMENTS	6,062,370.00	2.10
YANKEE	0.00	0.00
FOREIGN RELATED	0.00	0.00
MISCELLANEOUS	41,026,591.55	14.22
<b>Total Fixed Income</b>	<b>260,585,178.13</b>	<b>90.33</b>
<b>Cash Equivalent</b>		
U.S.	27,889,446.09	9.67
Non U.S.	0.00	0.00
<b>Grand Total</b>	<b>\$288,474,624.22</b>	<b>100.00 %</b>

### MORGAN STANLEY DEAN WITTER INV. MGMT.

Fixed Income	Market Value	%
U.S. AGENCY	\$30,407,543.10	2.08
U.S. CORPORATE	345,290,977.22	23.66
U.S. MTG. REL.	809,898,534.10	55.50
U.S. MUNICIPALS	0.00	0.00
U.S. PREFERRED STOCK	0.00	0.00
U.S. TREASURY	0.00	0.00
PRIVATE PLACEMENTS	573,565.00	0.04
YANKEE	4,202,925.00	0.29
FOREIGN RELATED	1,957,750.00	0.13
MISCELLANEOUS	136,532,767.21	9.36
<b>Total Fixed Income</b>	<b>1,328,864,061.63</b>	<b>91.06</b>
<b>Cash Equivalent</b>		
U.S.	130,450,584.22	8.94
Non U.S.	0.00	0.00
<b>Grand Total</b>	<b>\$1,459,314,645.85</b>	<b>100.00 %</b>

### BLACKROCK FINANCIAL MANAGEMENT

(Semi-Passive)	Market Value	%
U.S. AGENCY	\$95,866,760.30	5.44
U.S. CORPORATE	292,686,597.50	16.62
U.S. MTG. REL.	822,328,858.64	46.70
U.S. MUNICIPALS	0.00	0.00
U.S. PREFERRED STOCK	0.00	0.00
U.S. TREASURY	250,971,831.21	14.25
PRIVATE PLACEMENTS	6,062,644.50	0.34
YANKEE	22,264,204.65	1.26
FOREIGN RELATED	0.00	0.00
MISCELLANEOUS	171,671,287.20	9.75
<b>Total Fixed Income</b>	<b>1,661,852,184.00</b>	<b>94.37</b>
<b>Cash Equivalent</b>		
U.S.	99,071,693.04	5.63
Non U.S.	0.00	0.00
<b>Grand Total</b>	<b>\$1,760,923,877.04</b>	<b>100.00 %</b>



## Summarized Asset Listing - Bond Managers

June 30, 2001

### WESTERN ASSET MANAGEMENT

Fixed Income	Market Value	%
U.S. AGENCY	\$105,773,927.44	5.38
U.S. CORPORATE	339,762,347.24	17.29
U.S. MTG. REL.	942,875,923.42	47.98
U.S. MUNICIPALS	0.00	0.00
U.S. PREFERRED STOCK	0.00	0.00
U.S. TREASURY	165,689,673.80	8.43
PRIVATE PLACEMENTS	1,011,000.00	0.05
YANKEE	58,975,851.59	3.00
FOREIGN RELATED	8,286,400.00	0.42
MISCELLANEOUS	135,618,975.45	6.90
<b>Total Fixed Income</b>	<b>1,757,994,098.94</b>	<b>89.46</b>
<b>Cash Equivalent</b>		
U.S.	207,228,182.12	10.54
Non U.S.	0.00	0.00
<b>Grand Total</b>	<b>\$1,965,222,281.06</b>	<b>100.00 %</b>

### GOLDMAN SACHS ASSET MANAGEMENT

(Semi-Passive)

Fixed Income	Market Value	%
U.S. AGENCY	\$2,149,060.00	0.13
U.S. CORPORATE	545,849,325.00	32.87
U.S. MTG. REL.	724,093,907.82	43.61
U.S. MUNICIPALS	0.00	0.00
U.S. PREFERRED STOCK	0.00	0.00
U.S. TREASURY	156,895,466.70	9.45
PRIVATE PLACEMENTS	0.00	0.00
YANKEE	39,643,404.45	2.39
FOREIGN RELATED	0.00	0.00
MISCELLANEOUS	105,681,200.73	6.36
<b>Total Fixed Income</b>	<b>1,574,312,364.70</b>	<b>94.81</b>
<b>Cash Equivalent</b>		
U.S.	86,220,236.47	5.19
Non U.S.	0.00	0.00
<b>Grand Total</b>	<b>\$1,660,532,601.17</b>	<b>100.00 %</b>

### LINCOLN CAPITAL MANAGEMENT CO.

(Semi-Passive)

Fixed Income	Market Value	%
U.S. AGENCY	\$83,720,773.81	4.42
U.S. CORPORATE	364,047,242.45	19.21
U.S. MTG. REL.	830,562,812.99	43.83
U.S. MUNICIPALS	0.00	0.00
U.S. PREFERRED STOCK	0.00	0.00
U.S. TREASURY	260,725,772.15	13.76
PRIVATE PLACEMENTS	0.00	0.00
YANKEE	24,587,085.50	1.30
FOREIGN RELATED	0.00	0.00
MISCELLANEOUS	180,462,831.92	9.52
<b>Total Fixed Income</b>	<b>1,744,106,518.82</b>	<b>92.04</b>
<b>Cash Equivalent</b>		
U.S.	150,786,112.54	7.96
Non U.S.	0.00	0.00
<b>Grand Total</b>	<b>\$1,894,892,631.36</b>	<b>100.00 %</b>

### AGGREGATE BOND POOL\*

Fixed Income	Market Value	%
U.S. AGENCY	\$397,083,903.56	3.49
U.S. CORPORATE	\$2,652,050,514.80	23.28
U.S. MTG. REL.	\$5,105,419,321.51	44.83
U.S. MUNICIPALS	\$36,846,552.10	0.32
U.S. PREFERRED STOCK	\$0.00	0.00
U.S. TREASURY	\$1,118,117,188.30	9.82
PRIVATE PLACEMENTS	\$13,709,579.50	0.12
YANKEE	\$150,932,721.19	1.33
FOREIGN RELATED	\$10,244,150.00	0.09
MISCELLANEOUS	\$999,884,208.43	8.78
<b>Total Fixed Income</b>	<b>10,484,288,139.39</b>	<b>92.05</b>
<b>Cash Equivalent</b>		
U.S.	\$905,259,856.57	7.95
Non U.S.	\$0.00	0.00
<b>Grand Total</b>	<b>\$11,389,547,995.96</b>	<b>100.00 %</b>

\* Aggregate of all managers in the Bond Account in the Financial Statements. Includes both Active and Semi-Passive managers.

**Summarized Asset Listing - Supplemental Investment Fund**

**June 30, 2001**

**BOND MARKET ACCOUNT**

	Market Value	%
BONDS	\$132,482,140.82	100.00
CASH EQUIVALENTS	\$0.00	0.00
<b>Grand Total</b>	<b>\$132,482,140.82</b>	<b>100.00 %</b>

**INCOME SHARE ACCOUNT**

	Market Value	%
EQUITIES	\$361,408,179.73	61.81
BONDS	\$198,540,130.68	33.96
CASH EQUIVALENTS	\$24,732,358.03	4.23
<b>Grand Total</b>	<b>\$584,680,668.44</b>	<b>100.00 %</b>

**COMMON STOCK INDEX ACCOUNT**

	Market Value	%
EQUITIES	\$363,089,147.51	100.00
CASH EQUIVALENTS	\$0.00	0.00
<b>Grand Total</b>	<b>\$363,089,147.51</b>	<b>100.00 %</b>

**INTERNATIONAL EQUITY ACCOUNT**

	Market Value	%
EQUITIES	\$39,802,076.52	100.00
CASH EQUIVALENTS	\$0.00	0.00
<b>Grand Total</b>	<b>\$39,802,076.52</b>	<b>100.00 %</b>

**FIXED INTEREST ACCOUNT**

	Market Value	%
GIC POOL	\$82,520,311.84	92.41
CASH EQUIVALENTS	\$6,775,602.92	7.59
<b>Grand Total</b>	<b>\$89,295,914.76</b>	<b>100.00 %</b>

**MONEY MARKET ACCOUNT**

	Market Value	%
CASH EQUIVALENTS	\$26,518,384.75	100.00
<b>Grand Total</b>	<b>\$26,518,384.75</b>	<b>100.00 %</b>

**GROWTH SHARE ACCOUNT**

	Market Value	%
EQUITIES	\$264,399,973.27	100.00
CASH EQUIVALENTS	\$0.00	0.00
<b>Grand Total</b>	<b>\$264,399,973.27</b>	<b>100.00 %</b>

**SUPPLEMENTAL INVESTMENT FUND**

	Market Value	%
INCOME SHARE	\$584,680,668.44	38.97
GROWTH SHARE	264,399,973.27	17.62
COMMON STOCK INDEX	363,089,147.51	24.20
INTERNATIONAL SHARE	39,802,076.52	2.65
BOND MARKET	\$132,482,140.82	8.83
MONEY MARKET	26,518,384.75	1.77
FIXED INTEREST	89,295,914.76	5.95
<b>Grand Total</b>	<b>\$1,500,268,306.07</b>	<b>100.00 %</b>



## Summarized Asset Listing - Other Funds

June 30, 2001

### ASSIGNED RISK ACCOUNT

Equities	Market Value	%
COMMINGLED FUND	0.00	0.00
CONSUMER DISCRETIONARY	6,000,062.75	10.04
CONSUMER STAPLES	3,412,599.92	5.71
ENERGY	5,746,052.32	9.61
FINANCIALS	11,582,015.68	19.38
HEALTH CARE	8,661,961.52	14.49
INDUSTRIALS	10,957,490.70	18.34
INFORMATION TECHNOLOGY	7,010,222.34	11.73
MATERIALS	1,544,978.98	2.59
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	2,914,302.64	4.88
UNCLASSIFIED	153,467.86	0.26
UTILITIES	1,778,575.72	2.98
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>59,761,730.43</b>	<b>100.00 %</b>
<b>Fixed Income</b>		<b>%</b>
U.S. AGENCY	\$38,944,422.40	12.49
U.S. CORPORATE	75,202,663.51	24.11
U.S. MTG. REL.	79,948,394.42	25.63
U.S. TREASURY	21,009,265.65	6.74
MISCELLANEOUS	15,981,257.64	5.12
<b>Fixed Income Total</b>	<b>231,086,003.62</b>	<b>74.09</b>
<b>Cash Equivalents</b>	<b>21,049,620.99</b>	<b>6.75</b>
<b>Grand Total</b>	<b>\$311,897,355.04</b>	<b>100.00 %</b>

### INTERNAL FIXED ACCOUNT

Fixed Income	Market Value	%
U.S. AGENCY	\$52,063,160.50	6.45
U.S. CORPORATE	\$214,315,702.47	26.55
U.S. MTG. REL.	388,484,314.85	48.12
U.S. TREASURY	74,100,968.00	9.18
MISCELLANEOUS	20,512,841.62	2.54
<b>Fixed Income Total</b>	<b>749,476,987.44</b>	<b>92.84</b>
<b>Cash Equivalents</b>	<b>57,767,870.48</b>	<b>7.16</b>
<b>Grand Total</b>	<b>\$807,244,857.92</b>	<b>100.00 %</b>

### INTERNAL EQUITY ACCOUNT

Equities	Market Value	%
COMMINGLED FUND	\$0.00	0.00
CONSUMER DISCRETIONARY	111,261,338.52	11.41
CONSUMER STAPLES	64,098,207.82	6.57
ENERGY	55,928,600.92	5.74
FINANCIALS	148,385,330.22	15.22
HEALTH CARE	108,371,160.27	11.12
INDUSTRIALS	96,586,468.94	9.91
INFORMATION TECHNOLOGY	154,917,795.97	15.89
MATERIALS	21,333,781.95	2.19
RIGHTS/WARRANTS	0.00	0.00
TELECOMMUNICATIONS SERVICES	46,957,508.24	4.82
UNCLASSIFIED	4,699,231.35	0.48
UTILITIES	31,500,469.97	3.23
ALL NON U.S.	0.00	0.00
BONDS	0.00	0.00
<b>Total Equities</b>	<b>844,039,894.17</b>	<b>86.57</b>
<b>Cash Equivalents</b>	<b>130,899,342.20</b>	<b>13.43</b>
<b>Grand Total</b>	<b>\$974,939,236.37</b>	<b>100.00 %</b>

### CLOSED LANDFILL FUND

	Market Value	%
EQUITIES	9,015,957.43	100.00
BONDS	0.00	0.00
CASH EQUIVALENTS	0.00	0.00
<b>Grand Total</b>	<b>9,015,957.43</b>	<b>100.00 %</b>

### EMERGENCY MEDICAL FUND

	Market Value	%
EQUITIES	4,574,251.41	57.78
BONDS	3,342,499.20	42.22
CASH EQUIVALENTS	0.00	0.00
<b>Grand Total</b>	<b>7,916,750.61</b>	<b>100.00 %</b>

### ENVIRONMENTAL TRUST FUND

	Market Value	%
EQUITIES	212,322,031.29	71.02
BONDS	85,388,258.72	28.56
CASH EQUIVALENTS	1,251,600.20	0.42
<b>Grand Total</b>	<b>298,961,890.21</b>	<b>100.00 %</b>

### ETHEL CURREY FUND

	Market Value	%
EQUITIES	360,267.91	61.02
BONDS	230,129.76	38.98
CASH EQUIVALENTS	0.00	0.00
<b>Grand Total</b>	<b>590,397.67</b>	<b>100.00 %</b>

### IRON RANGE FUND

	Market Value	%
EQUITIES	24,275,707.50	54.58
BONDS	20,198,667.44	45.42
<b>Grand Total</b>	<b>44,474,374.94</b>	<b>100.00 %</b>

### PERMANENT SCHOOL FUND

	Market Value	%
EQUITIES	281,037,101.97	51.32
BONDS	259,476,799.46	47.38
CASH EQUIVALENTS	7,112,625.43	1.30
<b>Grand Total</b>	<b>547,626,526.86</b>	<b>100.00 %</b>

### WINONA STATE FUND

	Market Value	%
EQUITIES	1,795,297.32	46.21
BONDS	2,081,671.16	53.58
CASH EQUIVALENTS	8,513.38	0.22
<b>Grand Total</b>	<b>3,885,481.86</b>	<b>100.00 %</b>

Notes applicable to all Summarized Asset Listings:

The data source for the Summarized Asset Listings was State Street Bank & Trust, the SBI's custodian.

Market value figures in the Summarized Asset Listings may not reconcile to the amounts shown for various Accounts in the Financial Statements due to minor pricing differences between Financial Control Systems and State Street Bank as well as trade adjustments that were reflected in the Financial Statements.

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