
MINNESOTA STATE BOARD OF INVESTMENT



Governor Tim Pawlenty
State Auditor Rebecca Otto
Secretary of State Mark Ritchie
Attorney General Lori Swanson

MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
September 10, 2008

STATE BOARD OF INVESTMENT

AGENDA AND MINUTES

September 10, 2008

AGENDA
STATE BOARD OF INVESTMENT MEETING
Wednesday, September 10, 2008
9:00 A.M. – Room 123
State Capitol – St. Paul

- | | |
|---|------------|
| 1. Approval of Minutes of June 20, 2008 | TAB |
| 2. Report from the Executive Director (Howard Bicker) | A |
| A. Quarterly Investment Review
(April 1, 2008 – June 30, 2008) | |
| B. Administrative Report | B |
| 1. Reports on budget and travel. | |
| 2. Update on Sudan. | |
| 3. Minneapolis Employees Retirement Fund (MERF) asset transfer. | |
| 3. A review of asset allocation assumptions and simulations for the SBI Basics, Post and Combined Funds. | C |
| 4. Review of manager performance for the period ending June 30, 2008. | D |
| 5. Review of Cohen, Klingenstein & Marks, a domestic equity manager. | |
| 6. Review of Morgan Stanley Investment Mgmt, a fixed income manager. | |
| 7. Recommendation to retain a new fixed income manager. | |
| 8. Consideration of a new fund investment with an existing resource manager, First Reserve. | E |
| 9. Other items. | |

**Minutes
State Board of Investment
June 20, 2008**

The State Board of Investment (SBI) met at 10:30 A.M., Friday, June 20, 2008 in Room 123, State Capitol, St. Paul, Minnesota. Governor Tim Pawlenty; State Auditor Rebecca Otto; Secretary of State Mark Ritchie and Attorney General Lori Swanson were present. The minutes of the March 10, 2008 were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and he reported that the Combined Funds had matched its Composite Index over the ten year period ending March 31, 2008 (Combined Funds 6.0% vs. Composite 6.1%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.0% vs. CPI 3.0%). He stated that the Basic Funds had underperformed its Composite Index (Basic Funds 6.1% vs. Composite 6.3%) over the last ten years and reported that the Post Fund had also slightly underperformed its composite over the last ten-year period (Post Fund 5.9% vs. Composite 6.0%).

Mr. Bicker reported that the Basic Fund's assets decreased 5.9% for the quarter ending March 31, 2008 mostly due to negative investment returns that were the result of weak financial markets. He said that the asset mix is essentially on target. He reported that the Basic Funds underperformed its Composite Index for the quarter (Basic Funds -5.8% vs. Composite -5.0%) and for the year (Basic Funds 0.6% vs. Composite 1.8%).

Mr. Bicker reported that the market value of the Post Fund's assets decreased 7.4% for the quarter ending March 31, 2008, also due to negative investment returns and negative net contributions. He said that the Post Fund's asset mix is also on target. He stated that the Post Fund underperformed its Composite Index for the quarter (Post Fund -5.9% vs. Composite -5.0%) and for the year (Post Fund 0.2% vs. Composite 1.5%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stock -10.1% vs. Domestic Equity Asset Class Target -9.5%) and for the year (Domestic Stocks -7.0% vs. Domestic Equity Asset Class Target -6.1%). He said the International Stock manager group underperformed its Composite Index for the quarter (International Stocks -9.5% vs. International Equity Asset Class Target -9.2%) and for the year (International Stocks 2.1% vs. International Equity Asset Class Target 2.3%). Mr. Bicker stated that the bond segment underperformed its target for the quarter (Bonds -0.1% vs. Fixed Income Asset Class Target 2.2%) and for the year (Bonds 4.5% vs. Fixed Income Asset Class Target 7.7%). He noted that bond performance suffered due to subprime issues and holdings in the financial sector. He noted that the alternative investments had performed strongly for the year (Alternatives 22.0%). He concluded his report with the comment that as of March 31, 2008, the SBI was responsible for over \$58 billion in assets.

investments had performed strongly for the year (Alternatives 22.0%). He concluded his report with the comment that as of March 31, 2008, the SBI was responsible for over \$58 billion in assets.

Mr. Bicker referred members to Tab B of the meeting materials for an update on the budget and travel for the quarter.

Mr. Bicker presented a brief legislative update. He reported that a statewide version of an Other Post Employment Benefits (OPEB) bill passed and that legislation had authorized a study be done regarding state volunteer fire relief associations. He stated that the Post Retirement Fund legislation passed, and he briefly reviewed the conditions under which the Basics and Post could merge. He noted that staff had also completed its quarterly update regarding the Sudan legislation.

IAC Membership Review Committee Report

Ms. Kardell referred members to Tab C of the meeting materials and stated that there were four members of the IAC whose terms expired in January 2008. She said five individuals had applied and that the Committee is recommending that the four current members be reappointed. In response to questions from Governor Pawlenty, Mr. Bicker noted lengths of service to the IAC of the four candidates and stated there will be some turnover in the coming months. Mr. Ritchie moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "**The Committee recommends that the Board reappoint the following as members of the Investment Advisory Council, with terms expiring in January 2012: Jeffery Bailey, Douglas Gorence, P. Jay Kiedrowski, Judith Mares.**" The motion passed.

SBI Administrative Committee Report

Ms. Kardell referred members to Tab D of the meeting materials and stated that the Committee is recommending the approval of the FY09 Executive Director's Workplan as presented in the meeting materials. She reported that the Committee is recommending the approval of the FY09 Administrative Budget Plan and the Continuing Fiduciary Education Plan. Ms. Kardell said that the Committee is also recommending approval of the process for the Executive Director's FY08 performance evaluation. She also noted that the Disaster Recovery Plan has also been updated. In response to questions from Governor Pawlenty, Mr. Bicker explained the back-up procedures in place in case of an emergency of some kind. Ms. Otto moved approval of all four recommendations from the Committee as stated in the Committee Report, which reads: "**The Committee recommends that the SBI approve the FY09 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY09.**"

The Committee recommends that the SBI approve the FY09 Administrative Budget Plan, as presented to the Committee, and that the Executive Director have the flexibility to reallocate funds between budget categories if the Executive Director deems necessary.

The Committee recommends that the SBI adopt the attached Continuing Fiduciary Education Plan.

The Committee recommends that the SBI adopt the following process for the Executive Director's FY08 performance evaluation:

- **The evaluation will be completed prior to the September 2008 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY08.**
- **The SBI deputies/designees will develop an appropriate evaluation form for use by each member, which will reflect the categories in the Executive Director's position description and workplan.**
- **As the Chair of the Board, the Governor's representative (Department of Finance), will coordinate distribution and collection of the evaluation forms and will forward the completed forms to the Executive Director. Board members are encouraged to meet individually with the Executive Director to review their own evaluation. The motion passed."**

SBI Compensation Plan

Ms. Hacking distributed a memo from the Administrative Committee and a copy of the Salary Administrative Plan to members (see **Attachments A and B**). She stated that the memo contains recommendations that would revise the Compensation Plan based on a study done by an outside compensation consultant. She emphasized that the study was requested by the three statewide retirement system boards and that it was also supported by the IAC out of a concern regarding turnover in SBI staff as well as the need for adequate succession planning. Mr. Ritchie moved approval of the Committee's recommendation, as stated in Attachment A. The motion passed.

Stock and Bond Manager Committee Report

Mr. Troutman referred members to Tab E of the meeting materials and briefly reviewed the performance for the quarter. He noted that the transition of the Minnesota Fixed Fund in the State's 457 Deferred Compensation Plan had taken place during the quarter and that the transition had gone smoothly.

Alternative Investment Committee Report

Mr. Troutman referred members to Tab F of the meeting materials and noted that since the Basics had reached their 15% allocation level, the implementation of the increase in the alternative investment allocation target for the Basic Retirement Funds from the current 15% level to the 20% allocation would begin, and he noted that it will take several years for this increased allocation to be achieved. In response to a question from Ms. Swanson, Mr. Bicker stated that the SBI's alternative allocation is just slightly above the median, and he noted that the investments have been made over approximately a twenty year time frame.

Mr. Troutman reported that the Committee is recommending new investments with one new private equity manager, Värde Partners; two existing private equity managers, Welch, Carson, Anderson and Stowe and Blackstone; and one existing real estate manager, TA Associates Realty. Mr. Ritchie moved approval of all four of the Committee's recommendations, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million or 20%, whichever is less, in Värde Fund IX, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Värde Partners upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Värde Partners or reduction or termination of the commitment.**

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute commitments of up to \$100 million or 20%, whichever is less, in Welsh, Carson, Anderson & Stowe XI, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Welsh, Carson, Anderson & Stowe upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Welsh, Carson, Anderson & Stowe or reduction or termination of the commitment.

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million or 20%, whichever is less, in Blackstone Capital Partners VI, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance

by Blackstone upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Blackstone or reduction or termination of the commitment.

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million or 20%, whichever is less, in The Realty Associates Fund IX. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by TA Associates Realty upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on TA Associates Realty or reduction or termination of the commitment." The motion passed.

The meeting adjourned at 11:15 A.M.

Respectfully submitted,



Howard Bicker
Executive Director

**MINNESOTA
STATE
BOARD OF
INVESTMENT**



Board Members:

Governor
Tim Pawlenty

State Auditor
Rebecca Otto

Secretary of State
Mark Ritchie

Attorney General
Lori Swanson

Executive Director:

Howard J. Bicker

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DATE: June 13, 2008

TO: Members, State Board of Investment

FROM: Administrative Committee

SUBJECT: SBI Compensation Plan

The Administrative Committee met June 11 to discuss a draft report from the consultant Chris Murphy, McLagan. The Committee discussed the findings and recommendations of the report and presents a recommendation to the Board for its consideration.

Background:

The boards of the three retirement systems expressed their concern about competitive compensation levels for SBI staff in light of significant staff turnover and adopted the following resolution at their April board meetings:

The TRA/PERA/MSRS Boards urge the State Board of Investment to retain an outside investment compensation specialist to conduct a thorough compensation study of all SBI professional staff salaries. The Boards believe that the SBI salary levels must be sufficiently competitive to attract and retain competent professionals with advanced investment management skills to ensure the continued success for the investment of the retirement systems' assets.

The Investment Advisory Council supported the retirement boards' concerns and adopted a similar resolution urging the SBI to study the competitiveness of staff salaries. The retirement system directors brought their concerns to the Administrative Committee to have a study performed by a compensation consultant to analyze and make recommendations concerning the appropriate and competitive compensation levels for the professional staff of the SBI.

The Committee met April 22 to review a draft request for proposal to be sent to compensation consultants familiar with public pension plan investment staff compensation issues. The RFP was sent out April 28, and two firms responded.

The Committee met May 14 to review responses and selected McLagan, a firm with extensive experience in the field. Chris Murphy was identified as the lead consultant. The Committee met with Mr. Murphy June 2 to discuss the scope of and expectations for the study.

Discussion:

The Committee met once again June 11 to discuss a draft report. The Committee discussed the findings and considered the recommendations made in the report. The Committee also discussed amendments to the current SBI Compensation Plan and the salary level of the executive director.

The Committee recommended amendments to the SBI Compensation Plan to incorporate new salary ranges based on the compensation study and to provide the executive director with the appropriate level of discretion to carry out the Plan if approved. The Committee also recommended that the Board consider a salary for the executive director and that the Board direct staff to make necessary adjustments to its budget to implement the Plan if approved. The Committee also suggested that in the future an incentive compensation program should be considered in conjunction with moving SBI compensation ranges to a blended average of public and private sector organizations.

RECOMMENDATION:

The Administrative Committee recommends that the Board approve the revised SBI Compensation Plan (Attachment A) and approve a new salary of \$245,000 for the executive director contingent upon the approval of the Plan by the Board and the legislature. The Committee further recommends that the Board direct staff to make necessary adjustments to the budget to implement the Plan and to make necessary technical changes to the Plan to comply with Legislative Coordinating Commission directives.

SALARY ADMINISTRATION PLAN
FOR THE
MINNESOTA
STATE BOARD OF INVESTMENT

Effective: July 1, 2008

TABLE OF CONTENTS

	Page
1. Purpose	13
2. Terms and Conditions other than Salary	13
3. Annual Base Salary	13
4. Executive Director	13
5. Non-represented Unclassified Employees	13
6. Salary Ranges and Salary Administration for Non-represented Unclassified Employees	14
7. General Salary Administration Policies	16

Minnesota State Board of Investment
Salary Administration Plan

1. Purpose

The purpose of this Plan is to establish salary ranges and to define other salary policies that affect non-represented unclassified staff members of the Minnesota State Board of Investment (SBI or Board). This Plan will be effective July 1, 2008.

The director will submit this plan each biennium for review by the Commissioner of Employee Relations. If the director proposes changes to this Plan, the director will follow the process described in Minnesota Statutes 2007, section 43A.18, Subd. 3b.

2. Terms and Conditions other than Salary

Except as provided in this document regarding the salaries of the employees covered by this plan and pursuant to *Minnesota Statutes* sections 11A.04 (14), 11a.07, subdivision 4 (2), and 43A.18, subdivision 3b, the terms and conditions of employees covered by this Plan are covered by the terms and conditions of the compensation plan approved under *M.S.* section 43A.18, subdivision 3 (The Managerial Plan).

3. Annual Base Salary

These salary ranges, and annual base salaries set within these ranges, are for the full fiscal year (July 1 - June 30) and shall not be added to or subtracted from to reflect fluctuations in the number of work days (260, 261 or 262) in a given year.

4. Executive Director

The Board shall review the performance of the Executive Director on an annual basis and may grant salary adjustments as a result of each review.

5. Non-represented Unclassified Employees

The Executive Director shall set the salaries of non-represented unclassified employees of the State Board of Investment within the ranges for the below listed classifications. The salary ranges shall be subject to approval pursuant to *Minnesota*

Statutes §43A.18, Subdivision 3b. All below listed classifications are available to the State Board of Investment for ongoing management of the assets under its control. Other titles may be added as necessary within salary range established by this Plan.

The non-represented unclassified employee classifications are:

Assistant Executive Director

- Manager
- Private Equity Investments
 - Public Equity Investments – Domestic
 - Public Equity Investments – International
 - Long Term External Debt
 - Long Term Internal Debt
 - Short Term Debt
 - Public Programs and Governance
- Portfolio Manager
- Domestic Equity
 - International Equity
 - Fixed Income
 - Internal Investments
 - Real Assets
 - Private Equity
 - Short Term Debt
 - Defined Contributions
- Research Director
- Performance Analytics
 - Publications and Communications

Executive Aide

6. Salary Ranges and Salary Administration for Non-represented Unclassified Employees

(a) Salary Ranges

The salary ranges for the positions covered by this plan shall be adjusted annually in January by the CPI-U, as calculated under Minnesota Statutes 43A.17, Subd. 9(b).

The following ranges are effective July 1, 2008.

Title	Minimum	Midpoint	Maximum
Executive Director	\$195,000	\$245,000	\$295,000
Asst. Exec. Director	\$145,000	\$185,000	\$225,000
Managers	\$110,000	\$150,000	\$190,000
Portfolio Managers	\$90,000	\$130,000	\$170,000
Research Director Executive Aide	Salary ranges of the Research Director and Executive Aide positions shall be as stated in the Managerial Plan.		

(b) Annual Salary Administration

The Executive Director shall annually review the performance of the employees covered by this plan and may grant compensation adjustments as a result of each review. The aggregate amount of increases granted as a result of annual reviews shall be subject to the approval of the Board.

(c) Merit Increases

Up to three (3) percent of aggregate base salaries covered under this plan, with the exception of the Executive Director, may be used for merit increases on an annual basis. Merit increases may be granted any time during the fiscal year and may be provided for either as an increase to the base or as a lump sum at the discretion of the Executive Director. Merit increases shall not result in a base salary above the maximum of the salary range to which the position is assigned. The lump sum portion of a merit increase does not become part of an employee's base salary, but the lump sum portion may cause the employee's total salary to exceed the maximum of the employee's salary range. Merit increases may be granted without Board approval.

(d) Salary Limits

No individual employee of the State Board of Investment can receive a salary that would exceed that of the Executive Director.

7. General Salary Administration Policies

- (a) Entry Appointment. The Executive Director may make entry appointments at salaries within the salary range at a level deemed appropriate by the Executive Director. Criteria including work experience and educational background shall be used in making the appointments.
- (b) Promotion. An individual promoted to a position with a higher salary range may be granted a salary increase as follows:
 - (1) Placement between the minimum and midpoint of the new salary range; or
 - (2) Up to a maximum of ten percent (10%) if the increase would place the employee above the midpoint of the new salary range.

The Executive Director may grant larger increases based on the employment conditions that may make such action necessary. With the exception of employees who are below the minimum of the new salary range, nothing in the above language should be interpreted as requiring that a salary increase be granted upon promotion.

The Executive Director may grant a promotional increase to an individual within a salary range based upon employment conditions and work experience. The increase may not exceed the maximum of the salary range.

- (c) Lateral Transfer. An employee who transfers to another position in the same salary range shall not require a change in compensation.
- (d) Movement to a lower salary range. An employee who voluntarily moves or is reassigned to a position in a lower salary range may retain their current salary unless the employee's salary is above the maximum rate for the lower salary range. The Executive Director has the discretion to reduce an employee's salary to any rate in the lower salary range. The Executive Director has the discretion

to permit an employee to retain their salary above the maximum for the lower range.

- (e) Counters to External Offers of Employment. The Executive Director may adjust the salary of any employee who has an employment offer at a higher salary from an employer other than the state government of Minnesota. There must be evidence of the offer. The base salary offered to an employee shall be limited to the salary range to which the position is assigned. Any salary adjustment resulting from a counter offer to an employee shall not be deducted from the aggregate merit increases available to employees covered under this Plan.

- (f) Review of Salary Range/Positions
 - (1) *Position Descriptions.* Position descriptions shall be reviewed by the Executive Director on a regular basis to determine if changes have occurred in the position or in the organizational structure. The Executive Director, as appropriate, shall approve revised or new position descriptions.

 - (2) *Review of Present Salary Range/Positions.* The Executive Director will assign positions to appropriate salary ranges based upon the requirements of the position. Factors, including, but not limited to, the complexity of the position and its potential for the SBI to reach its goal of superior returns for the assets under its control shall be used. An employee or his/her supervisor may initiate a request for position re-evaluation or salary range assignment review at any time. Any change in a salary range must be submitted to the Legislative Coordinating Commission for approval.

- (g) Implementation of Plan. Upon approval of this Plan the Executive Director will have discretion in determining the appropriate salary for the current staff within the established salary ranges.

Tab A

LONG TERM OBJECTIVES
Period Ending 6/30/2008

COMBINED FUNDS: \$46.3 Billion	Result	Compared to Objective
<p>Match or Exceed Composite Index (10 Yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Combined Funds over the latest 10 year period.</p>	5.7% (1)	0.1 percentage point below target
<p>Provide Real Return (20 yr.)</p> <p>Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.</p>	9.7%	6.6 percentage points above CPI

BASIC RETIREMENT FUNDS: \$23.3 Billion	Result	Compared to Objective
<p>Match or Exceed Composite Index (10 Yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 10 year period.</p>	5.8%	0.1 percentage point below target

POST RETIREMENT FUND: \$23.0 Billion	Result	Compared to Objective
<p>Match or Exceed Composite Index (10 Yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 10 year period.</p>	5.6%	0.1 percentage point below target

(1) Performance is calculated net of fees.

SUMMARY OF ACTUARIAL VALUATIONS

All Eight Plans of MSRS, PERA and TRA Including Post Fund
July 1, 2007

	Active (Basics)	Retired (Post)	Total (Combined)
Liabilities			
Actuarially Accrued Liabilities	\$28.77 billion	\$27.50 billion	\$56.27 billion
Assets			
Current Actuarial Value	\$22.26 billion	\$25.15 billion	\$47.41 billion
Funding Ratio			
Current Actuarial Value divided by Accrued Liabilities	77.37%	91.45%	84.25%

Notes:

1. Liabilities calculated using entry age normal cost method.
2. Difference between actual returns and actuarially expected returns spread over five years for Basics.

Actuarial Assumptions:

Interest/Discount Rate:

8.5% Basics, 8.5% Post (6% on required reserves, 2.5% on inflation)

Full Funding Target Date:

2020 – MSRS General

2031 – PERA General

2037 – TRA

EXECUTIVE SUMMARY

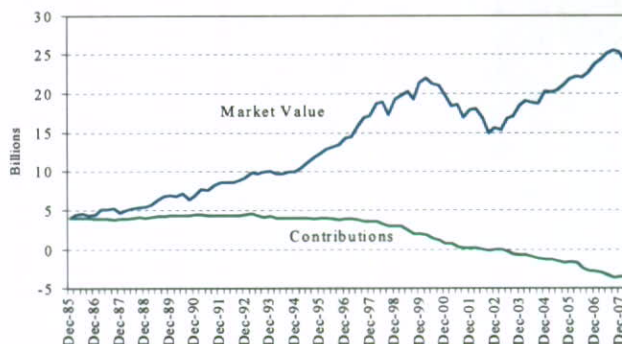
Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds decreased 2.2% during the second quarter of 2008. Negative net contributions and negative investment returns accounted for the decrease.

Asset Growth During Second Quarter 2008 (Millions)

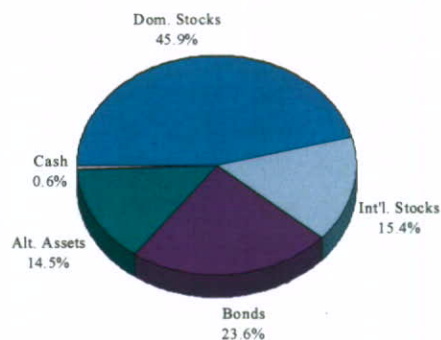
Beginning Value	\$ 23,800
Net Contributions	-372
Investment Return	-149
Ending Value	\$ 23,279



Asset Mix

The asset allocation of the Basic Funds was largely unchanged in 2Q08, though the allocation to Alternatives noticeably increased at the expense of the cash allocation.

	Policy Targets	Actual Mix 6/30/2008	Actual Market Value (Millions)
Domestic Stocks	45.0%	45.9%	\$10,674
Int'l. Stocks	15.0	15.4	3,596
Bonds	24.0	23.6	5,499
Alternative Assets*	15.0	14.5	3,372
Unallocated Cash	1.0	0.6	138
	100.0%	100.0%	\$23,279



* Any uninvested allocation is held in domestic stocks

Fund Performance (Net of Fees)

The Basic Funds outperformed for the quarter but trailed for the year.

	Period Ending 6/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Basics	-0.6%	-4.8%	8.3%	10.5%	5.8%
Composite	-1.0	-3.9	8.6	10.5	5.9



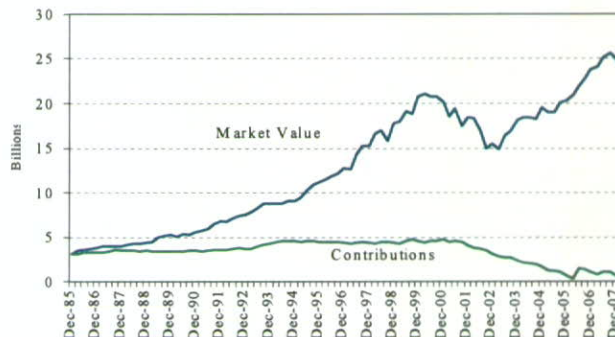
EXECUTIVE SUMMARY Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund decreased 0.8% during the second quarter of 2008. Negative investment returns accounted for the decrease.

**Asset Growth
During Second Quarter 2008
(Millions)**

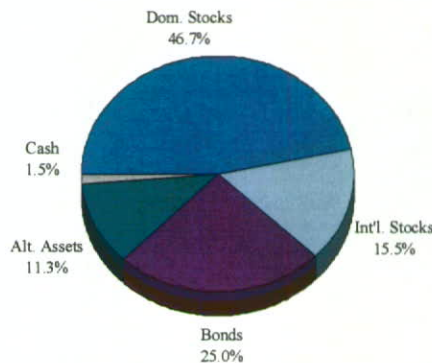
Beginning Value	\$23,163
Net Contributions	-10
Investment Return	-185
Ending Value	\$22,968



Asset Mix

The asset allocation increased slightly for all classes except cash. Cash flowed to alternatives as investment activity increased in the down markets.

	Policy Targets	Actual Mix 6/30/2008	Actual Market Value (Millions)
Domestic Stocks	45.0%	46.7%	\$10,730
Int'l. Stocks	15.0	15.5	3,563
Bonds	25.0	25.0	5,746
Alternative Assets*	12.0	11.3	2,593
Unallocated Cash	3.0	1.5	336
	100.0%	100.0%	\$22,968

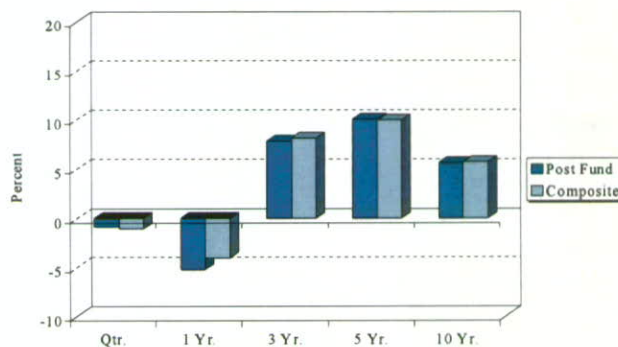


* Any uninvested allocation is held in domestic stocks.

Fund Performance (Net of Fees)

The Post Fund outperformed its target for the quarter, but trailed for the year.

	Period Ending 6/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Post	-0.9%	-5.2%	7.9%	10.0%	5.6%
Composite	-1.0	-4.0	8.1	10.0	5.7



EXECUTIVE SUMMARY

Stock and Bond Manager Performance (Net of Fees)

Domestic Stocks

The domestic stock manager group (active, semi-passive and passive combined) outperformed its target for the quarter but trailed for the year.

	Period Ending 6/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Dom. Stocks	-1.1%	-13.1%	4.3%	8.2%	2.8%
Asset Class Target*	-1.7	-12.7	4.7	8.4	3.1

Russell 3000: The Russell 3000 measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

* The Domestic Equity Asset Class Target is the Russell 3000 effective 10/1/03. From 7/1/99 to 9/30/03, it was the Wilshire 5000 Investable Index. From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments.

International Stocks

The international stock manager group (active, semi-passive and passive combined) outperformed its target for the quarter, but trailed for the year.

	Period Ending 6/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	-0.6%	-6.6%	16.0%	18.8%	7.4%
Asset Class Target*	-1.0	-6.4	15.8	19.0	7.3

MSCI ACWI Free ex U.S. (net): The Morgan Stanley Capital International All Country World Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. There are 47 countries included in this index. It does not include the United States.

* The Int'l Equity Asset Class Target is MSCI ACWI Free ex U.S. (net) effective 10/1/03. From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) + Emerging Markets Free (EMF) (net), and from 7/1/99 to 12/31/00 was MSCI EAFE Free (net) + EMF (gross). From 7/1/99 to 9/30/03, the weight of each index fluctuated with market cap. From 12/31/96 to 6/30/99 the target was fixed at 87% EAFE-Free/13% EMF. On 5/1/96 the portfolio transitioned from 100% EAFE Free to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

Bonds

The bond manager group (active and passive combined) outperformed its target for the quarter, but trailed for the year.

	Period Ending 6/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	-0.7%	4.3%	3.4%	3.8%	5.6%
Asset Class Target*	-1.0	7.1	4.1	3.9	5.7

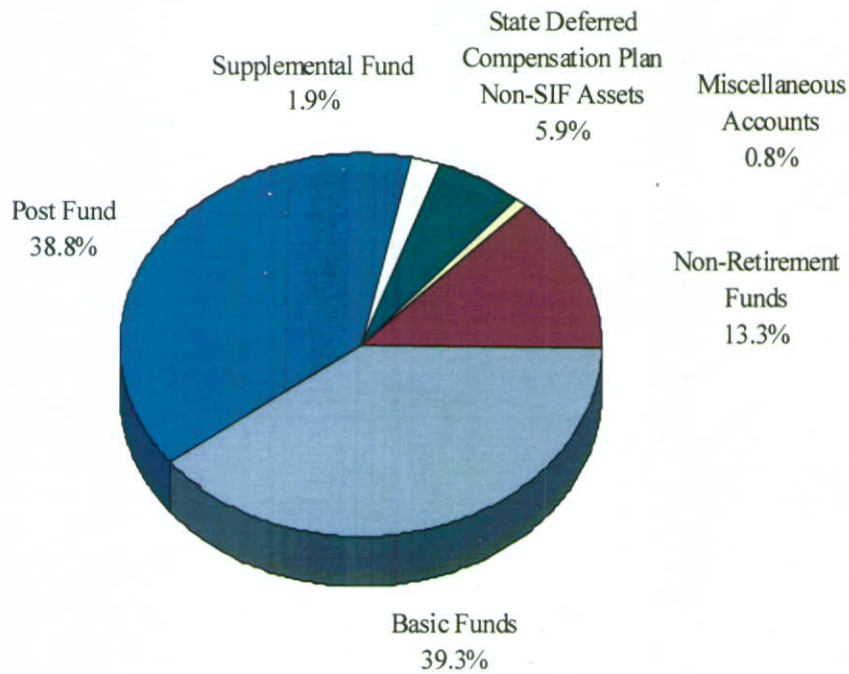
Lehman Aggregate: The Lehman Brothers Aggregate Bond Index reflects the performance of the broad bond market for investment grade (Baa or higher) bonds, U.S. treasury and agency securities, and mortgage obligations with maturities greater than one year.

* The Fixed Income Asset Class Target is the Lehman Aggregate, effective 7/1/1994. Prior to 7/1/1994, the fixed income target was the Salomon BIG.

Alternative Investments

	Period Ending 6/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	0.2%	13.4%	27.0%	24.9%	15.1%

EXECUTIVE SUMMARY
Funds Under Management



	6/30/2008 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	\$23.3
Post Retirement Fund	23.0
Supplemental Investment Fund	1.1
State Deferred Compensation Plan Non-SIF Assets	3.5
Non-Retirement Funds*	
Assigned Risk Plan	0.3
Permanent School Fund	0.7
Environmental Trust Fund	0.5
State Cash Accounts	6.5
Miscellaneous Accounts	
	0.5
Total	\$59.4

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Second Quarter 2008
(April 1, 2008 - June 30, 2008)

Table of Contents

	Page
Capital Market Indices	2
Financial Markets Review	3
Combined Funds	5
Basic Retirement Funds.....	9
Post Retirement Fund	12
Stock and Bond Manager Pools	15
Alternative Investments.....	16
Supplemental Investment Fund	17
Fund Description	
Income Share Account	
Growth Share Account	
Common Stock Index Account	
International Share Account	
Bond Market Account	
Money Market Account	
Fixed Interest Account	
Deferred Compensation Plan	20
Assigned Risk Plan	23
Permanent School Fund.....	24
Environmental Trust Fund	25
Closed Landfill Investment Fund	26
State Cash Accounts.....	27
Composition of State Investment Portfolios.....	28

VARIOUS CAPITAL MARKET INDICES

	Period Ending 6/30/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Dow Jones Wilshire Composite	-1.5%	-12.5%	5.0%	8.7%	3.6%
Dow Jones Industrials	-6.9	-13.3	5.8	7.3	4.5
S&P 500	-2.7	-13.1	4.4	7.6	2.9
Russell 3000 (broad market)	-1.7	-12.7	4.7	8.4	3.5
Russell 1000 (large cap)	-1.9	-12.4	4.8	8.2	3.4
Russell 2000 (small cap)	0.6	-16.2	3.8	10.3	5.5
Domestic Fixed Income					
Lehman Aggregate (1)	-1.0	7.1	4.1	3.9	5.7
Lehman Gov't./Corp.	-1.5	7.2	3.8	3.6	5.7
3 month U.S. Treasury Bills	0.4	3.1	4.1	3.1	3.5
International					
EAFE (2)	-2.3	-10.6	12.8	16.7	5.8
Emerging Markets Free (3)	-0.8	4.9	27.5	30.1	15.5
ACWI Free ex-U.S. (4)	-0.9	-6.2	16.2	19.4	7.7
World ex-U.S. (5)	-1.2	-8.8	13.7	17.3	6.3
Salomon Non U.S. Gov't. Bond	-4.7	18.7	6.7	7.1	6.7
Inflation Measure					
Consumer Price Index CPI-U (6)	2.5	5.0	3.7	3.4	2.9
Consumer Price Index CPI-W (7)	2.9	5.6	4.2	3.7	3.0

(1) Lehman Brothers Aggregate Bond index. Includes governments, corporates and mortgages.

(2) Morgan Stanley Capital International index of Europe, Australasia and the Far East (EAFE). (Net index)

(3) Morgan Stanley Capital International Emerging Markets Free index. (Gross index)

(4) Morgan Stanley Capital International All Country World Index Ex-U.S. (Gross index)

(5) Morgan Stanley Capital International World Ex-U.S. Index (Developed Markets) (Net index)

(6) Consumer Price Index (CPI) for all urban consumers, also known as CPI-U.

(7) Consumer Price Index (CPI) for all wage earners, also known as CPI-W.

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The U.S. stock market, as measured by the Russell 3000 index, posted a -1.7% return during the second quarter of 2008. The quarter was negatively impacted by record high oil prices, inflation concerns, lower employment numbers and continued weakness in the housing and financial sectors. The growth sectors outperformed the value sectors within the Russell 3000 for the quarter. Within the Russell 3000 index, the energy sector was the best performing sector with a 25.8% return and the "other" sector, which includes companies like GE, 3M, and Honeywell, was the worst performing sector with a -22.3% return for the quarter.

Performance of the Russell Style Indices for the quarter is shown below:

Large Growth	Russell 1000 Growth	1.2%
Large Value	Russell 1000 Value	-5.3%
Small Growth	Russell 2000 Growth	4.5%
Small Value	Russell 2000 Value	-3.5%

The Russell 3000 index returned -12.7% for the year ending June 30, 2008.

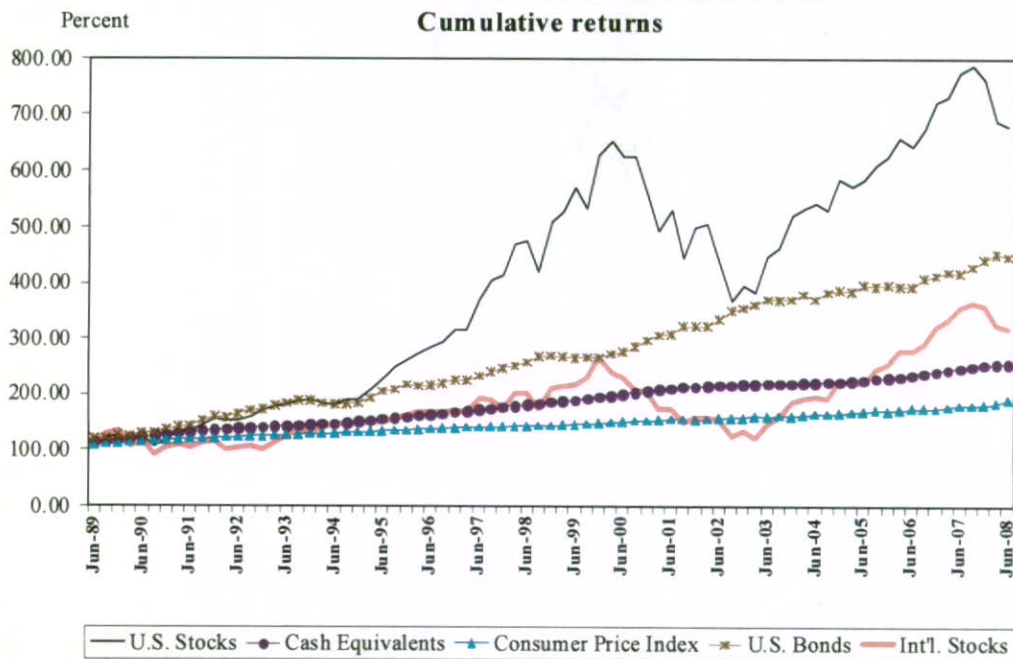
DOMESTIC BONDS

The second quarter ushered in an inflation scare that triggered a re-evaluation of interest rates, yield curves, and monetary policies around the world. After posting unheralded returns for the 12 months ending March 31, the Lehman Intermediate Treasury Index lost a cumulative 2.6% during April and May as investors began to expect the Fed to shift its focus from easing to tightening. Most spread sectors posted very strong returns in April and May as a result of this, however increasing oil prices pinched personal consumption and eroded corporate profit margins. June was a much different story than April and May, as risk aversion returned to the market and all spread sectors suffered. As a whole, the bond market returned -1.02% during the second quarter.

The major sector returns for the Lehman Aggregate for the quarter were:

U.S. Treasury	-2.1%
Agency	-1.5
Credit	-0.7
Mortgages	-0.5

PERFORMANCE OF CAPITAL MARKETS
Cumulative returns



FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, developed international stock markets (as measured by the MSCI World ex U.S. index) provided a return of -1.2% for the quarter. The quarterly performance of the six largest stock markets is shown below:

United Kingdom	-0.8%
Japan	2.5
France	-3.9
Canada	11.0
Germany	-2.4
Switzerland	5.6

The World ex U.S. index decreased by -8.8% during the last year.

The World ex U.S. index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 22 markets located in Europe, Australasia, Far East, and Canada. The major markets listed above comprise about 73% of the value of the international markets in the index.

EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of -0.8% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below:

Brazil	18.4%
China	-3.5
Korea	-7.6
Russia	11.0
Taiwan	-10.5
South Africa	4.5

The Emerging Markets Free index increased by 4.9% during the last year.

The Emerging Markets Free (EMF) index is compiled by MSCI and measures performance of 25 stock markets in Latin America, Asia, Africa and Eastern Europe. EMF includes only those securities foreign investors are allowed to hold. The markets listed above comprise about 72% of the value of the international markets in the index.

REAL ESTATE

The residential sub-prime mortgage melt down has introduced uncertainty in the capital markets. The possibility of a slowing economy coupled with the prospect of changing credit requirements has led to uncertain property pricing.

PRIVATE EQUITY

In the first half of 2008, U.S. private equity firms raised less than they did in the comparable 2007 half for the first time since 2003. Firms raised \$137.7 billion across 185 funds, just shy of the \$137.2 billion first half record set by 199 funds last year. Looking ahead to the second half of the year and beyond, most expect the slowdown in fund-raising to continue, and perhaps to deepen as the credit crunch and economic uncertainty cause investors to remain cautious.

RESOURCE FUNDS

During the second quarter of 2008, crude oil averaged \$123 per barrel, up from the average price of \$98 during the first quarter. Prices remain high relative to historical levels and continue to reflect the instability in the Middle East.

COMBINED FUNDS

The "Combined Funds" represent the assets of both the Basic and Post Retirement Funds. 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.

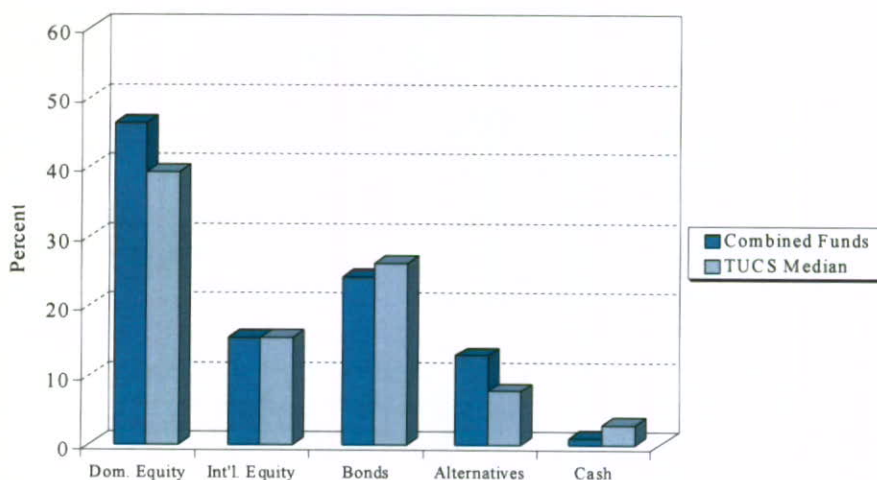
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over \$1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On June 30, 2008, the actual asset mix of the Combined Funds was:

	\$ Millions	%
Domestic Stocks	\$21,405	46.3%
International Stocks	7,158	15.5
Bonds	11,245	24.3
Alternative Assets	5,965	12.9
Unallocated Cash	474	1.0
Total	\$46,247	100.0%

Comparisons of the Combined Funds' asset mix to the median allocation to stocks, bonds and other assets of the public and corporate funds in TUCS over \$1 billion are shown below:



	Dom. Equity	Int'l Equity	Bonds	Alternatives	Cash
Combined Funds	46.3%	15.5%	24.3%	12.9%	1.0%
Median Allocation in TUCS*	39.3	15.5	26.2	7.8**	3.0

* Public and corporate plans over \$1 billion.

** May include assets other than alternatives.

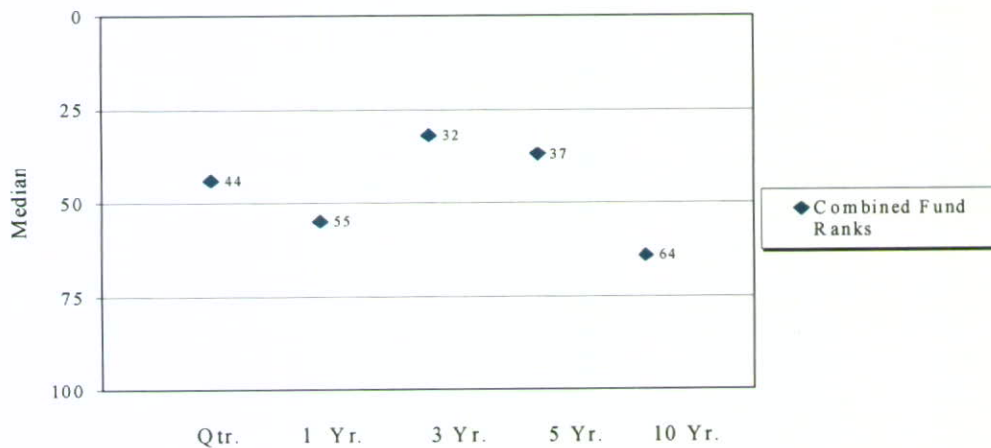
COMBINED FUNDS
Performance Compared to Other Pension Funds

While the SBI is concerned with how its returns compare to other pension investors, universe comparisons should be used with great care. There are several reasons why such comparisons will provide an “apples to oranges” look at performance:

- **Differing Allocations.** Asset allocation will have a dominant effect on return. 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 will result in different choices on asset mix. Since asset mix will largely determine investment results, a universe ranking is not relevant to a discussion of how well a plan sponsor is meeting its long-term liabilities.

With these considerations in mind, the performance of the Combined Funds compared to other public and corporate pension funds in Trust Universe Comparison Service (TUCS) are shown below.

The SBI’s returns are ranked against public and corporate plans with over \$1 billion in assets. All funds in TUCS report their returns gross of fees.



	Period Ending 6/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds Percentile Rank in TUCS*	44th	55th	32nd	37th	64th

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

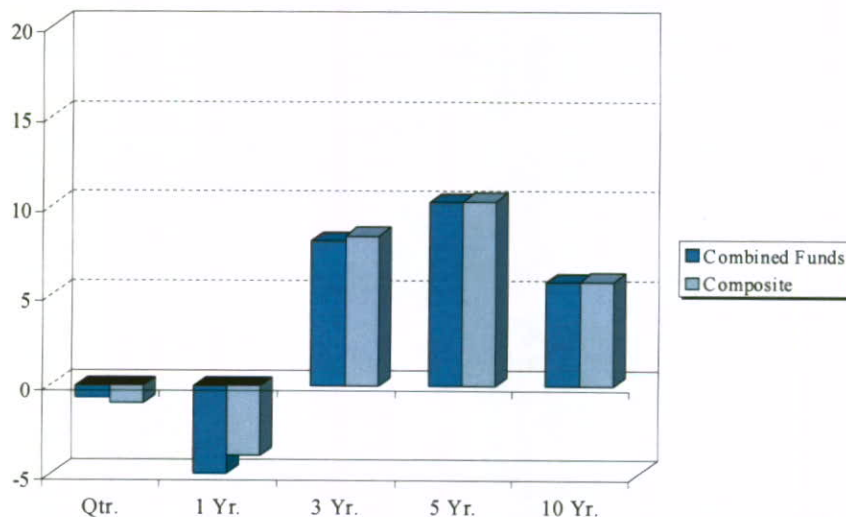
COMBINED FUNDS
Performance Compared to Composite Index

The Combined Funds' performance is evaluated relative to a composite of market indices. The composite is

weighted in a manner that reflects the asset allocation of the Combined Funds:

	Market Index	Combined Funds Composite* 2Q08
Domestic Stocks	Russell 3000	46.2%*
Int'l. Stocks	MSCI ACWI Free ex-U.S.	15.0
Bonds	Lehman Aggregate	24.5
Alternative Investments	Alternative Investments	12.3*
Unallocated Cash	3 Month T-Bills	2.0
		100.0%

* Alternative asset and domestic equity weights are reset in the composite at the start of each month to reflect the amount of unfunded commitments in alternative asset classes. The above Combined Funds Composite weighting was as of the beginning of the quarter.



Period Ending 6/30/2008

	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
Combined Funds**	-0.7%	-5.0%	8.1%	10.3%	5.7%
Composite Index	-1.0	-3.9	8.3	10.3	5.8

**Includes performance of Basic Funds through 6/30/93, Basic and Post Funds thereafter. Actual returns are reported net of fees.

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BASIC RETIREMENT FUNDS

Investment Objectives

The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately 322,000 public employees participate in the Basic Funds.

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 promised pension benefits. In order to meet these

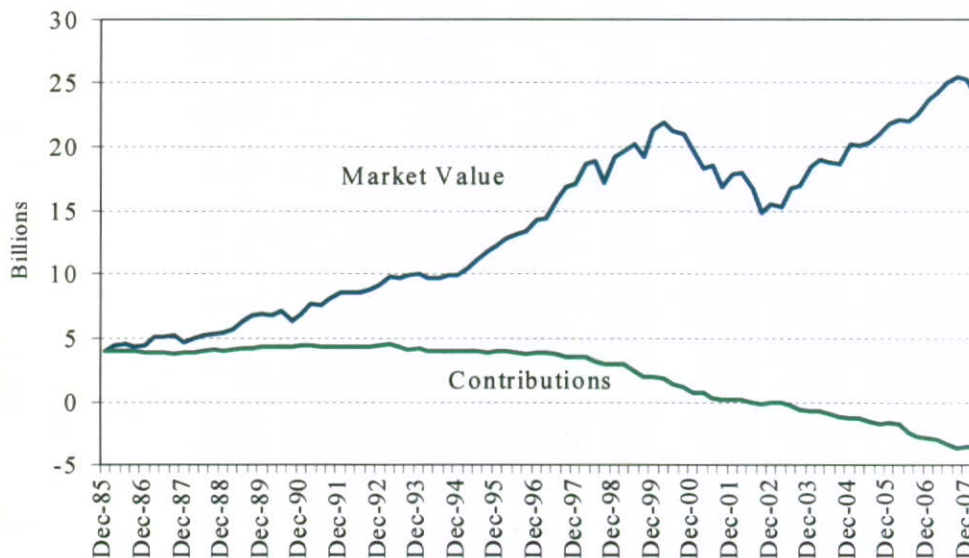
projected pension costs, the Basic Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

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 an aggressive, high expected return investment policy which incorporates a sizeable equity component in order to meet or exceed its actuarial return target.

Asset Growth

The market value of the Basic Funds decreased 2.2% during the second quarter of 2008.

Negative net contributions and negative investment returns accounted for the decrease.



	Last Five Years					Latest Qtr.	
	In Millions						
	12/03	12/04	12/05	12/06	12/07	3/08	6/08
Beginning Value	\$15,561	\$18,435	\$20,201	\$21,816	\$23,694	\$25,301	\$23,800
Net Contributions	-592	-577	-411	-1,219	-662	-29	-372
Investment Return	3,466	2,343	2,026	3,097	2,269	-1,472	-149
Ending Value	\$18,435	\$20,201	\$21,816	\$23,694	\$25,301	\$23,800	\$23,279

BASIC RETIREMENT FUNDS

Asset Mix

The long-term asset allocation of the Basic Funds is based on the superior performance of common stocks over the history of the capital markets. The asset allocation policy is designed to add value to the Basic Funds over their long-term investment time horizon.

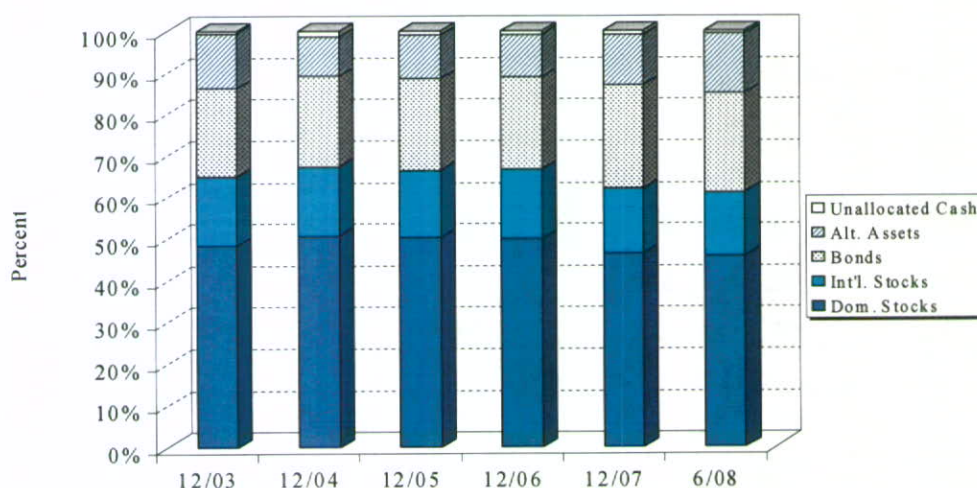
Domestic Stocks	45.0%
Int'l. Stocks	15.0
Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

* Alternative assets include equity-oriented real estate, venture capital, resource, and yield-oriented funds. Any uninvested allocation is held in domestic stocks.

In October 2003, the Board provisionally revised its long term asset allocation targets for the Basic Funds, increasing the allocation for alternative investments from 15% to 20% and decreasing fixed income from 24% to 19%.

Over the last year, the allocation to domestic equity declined due to negative investment returns. The allocation to alternatives increased due to strong returns and increased investing activity. As a result of the additional investing in alternatives, cash declined.

During the quarter, the allocation to stocks decreased slightly due to negative investment returns. Alternative investments increased due to strong investment returns and increased allocation from cash.



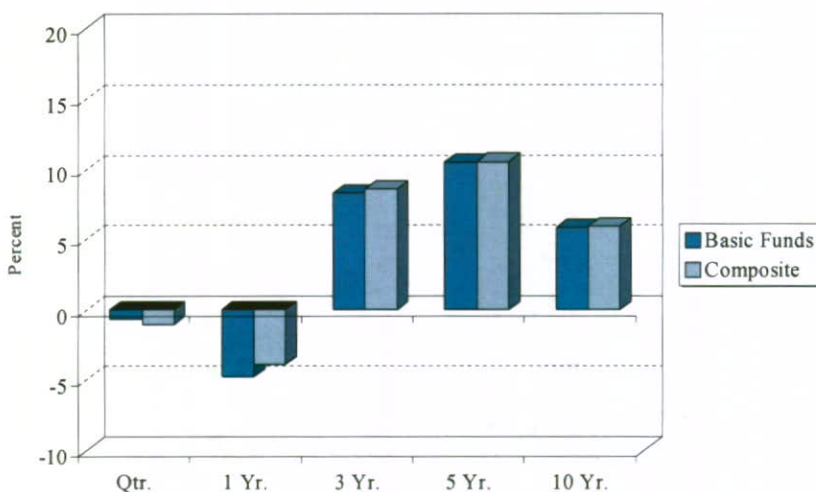
	Last Five Years					Latest Qtr.	
	12/03	12/04	12/05	12/06	12/07	3/08	6/08
Domestic Stocks	48.5%	50.9%	50.3%	50.1%	46.4%	46.3%	45.9%
Int'l. Stocks	16.6	16.6	16.3	16.6	15.8	15.3	15.4
Bonds	21.2	21.8	22.1	22.2	24.7	23.4	23.6
Alternative Assets	13.3	9.4	10.4	10.3	12.1	13.7	14.5
Unallocated Cash	0.4	1.3	0.9	0.8	1.0	1.3	0.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

BASIC RETIREMENT FUNDS
Total Fund Performance (Net of Fees)

The Basic Funds' performance is evaluated relative to a composite of market indices. The composite is weighted in a manner that reflects the long-term asset allocation of the Funds:

	Basics Target	Market Index	Basics Composite* 2Q08
Domestic Stocks	45.0%	Russell 3000	46.3%*
Int'l. Stocks	15.0	MSCI ACWI Free ex-U.S.	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Investments	15.0	Alternative Investments	13.7*
Unallocated Cash	1.0	3 Month T-Bills	1.0
	100.0%		100.0%

* Alternative asset and domestic stock weights are reset in the composite at the start of each month to reflect the uninvested portion of the allocation to alternative assets. The above Basic Funds Composite weighting was as of the beginning of the quarter.



Period Ending 6/30/2008

	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
Basic Funds**	-0.6%	-4.8%	8.3%	10.5%	5.8%
Composite Index	-1.0	-3.9	8.6	10.5	5.9

**Returns are reported net of fees.

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See page 15 for the performance of these asset pools. Effective July 1, 2003, the Basic and Post Funds share the same alternative pool. Performance of the alternative assets is on page 16.

POST RETIREMENT FUND

The Post Retirement Investment Fund contains the pension assets of retired public employees covered by statewide retirement plans. Approximately 114,000 retirees receive monthly annuities from the assets of the Fund.

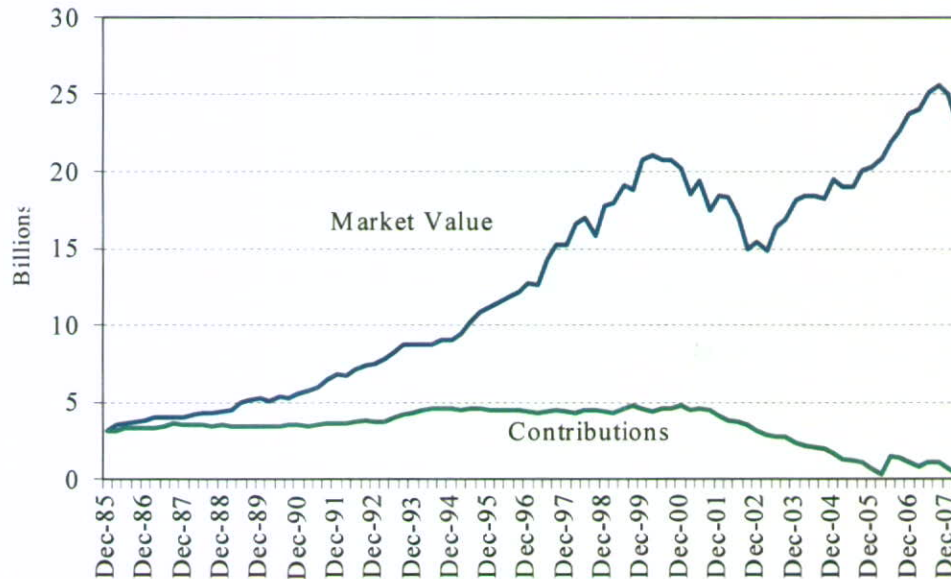
The post retirement benefit increase formula is based on the total return of the Fund. As a result, the Board maintains a long-term asset allocation strategy for the Post Fund which incorporates a substantial commitment to common stocks.

Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis. If the Post Fund exceeds this earnings rate, excess earnings are used to finance permanent benefit increases for eligible retirees.

Asset Growth

The market value of the Post Fund decreased 0.8% during the second quarter of 2008.

Negative investment returns accounted for the decrease.



	Last Five Years						Latest Qtr.
	12/03	12/04	12/05	12/06	12/07	3/08	6/08
Beginning Value	\$15,403	\$18,162	\$19,480	\$20,295	\$23,733	\$24,998	\$23,163
Net Contributions	-719	-749	-984	-240	-886	-366	-10
Investment Return	3,478	2,067	1,799	1,295	2,151	-1,469	-185
Ending Value	\$18,162	\$19,480	\$20,295	\$23,733	\$24,998	\$23,163	\$22,968

POST RETIREMENT FUND

Asset Mix

The Board adopted an asset allocation strategy for the Post Fund in fiscal year 1993 which reflects the post retirement benefit increase formula enacted by the Legislature. Throughout fiscal year 1993, the actual asset mix of the Post Fund moved toward a 50% allocation to common stocks. In fiscal year 1994, the Board added allocations to international stocks and alternative investments.

The large allocation to common stocks allows the Fund to increase the long-term earning power of its assets and allow the Fund to focus on generating higher long-term total rates of return.

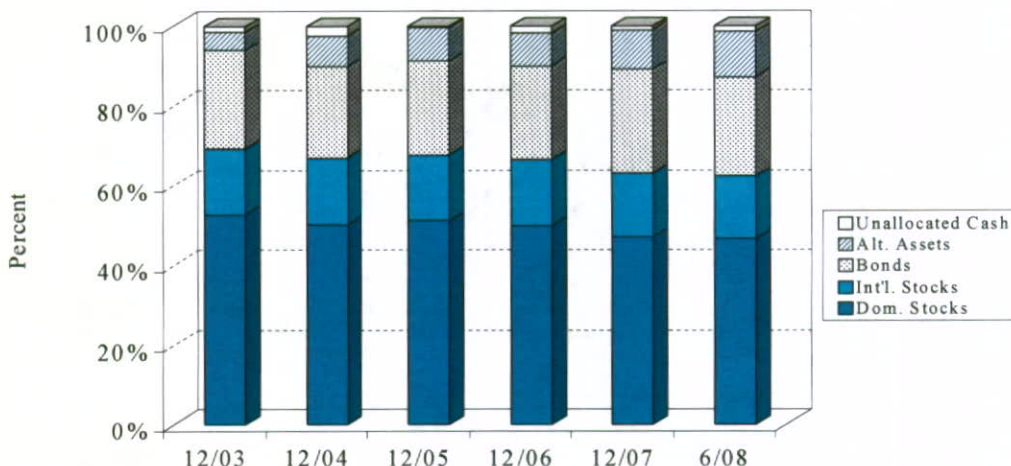
In October 2003, the Board revised its long term asset allocations for the Post Fund, increasing alternative investments from 5% to 12% and decreasing domestic equity from 50% to 45% and decreasing fixed income from 27% to 25%.

Over the last year, the allocation to alternative assets increased due to strong returns. The decrease in cash allocation is due to a shift in assets to alternatives. Stocks and bonds have remained mostly unchanged for the year, though domestic stock allocation has decreased due to poor performance by the domestic equity market.

Domestic Stocks	45.0%
Int'l. Stocks	15.0
Bonds	25.0
Alternative Assets*	12.0
Unallocated Cash	3.0
	100.0%

* Alternative assets include equity-oriented real estate, venture capital, resource, and yield-oriented funds. Any uninvested allocation is held in domestic stocks.

During the quarter, each asset class' allocation increased as cash was invested in the other asset classes.



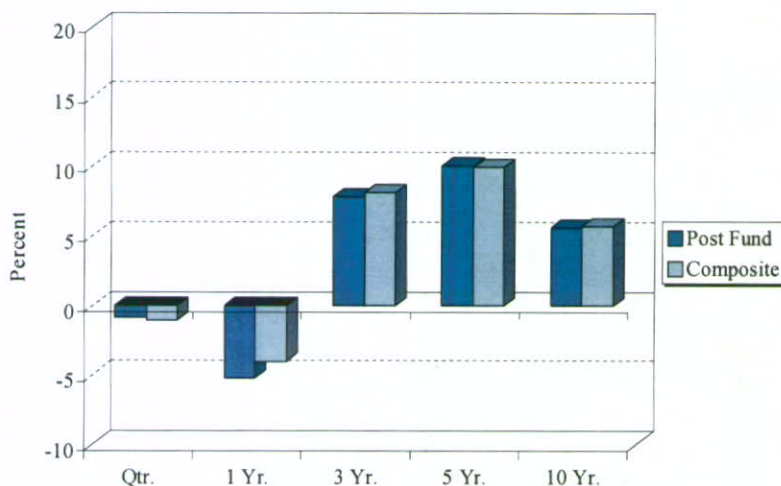
	Last Five years					Latest Qtr.	
	12/03	12/04	12/05	12/06	12/07	3/08	6/08
Dom. Stocks	52.7%	50.2%	51.1%	49.9%	47.1%	45.9%	46.7%
Int'l. Stocks	16.7	16.8	16.6	16.7	16.0	15.4	15.5
Bonds	24.6	22.9	23.5	23.3	26.1	24.6	25.0
Alt. Assets	4.4	7.6	8.5	8.3	9.8	11.1	11.3
Unallocated Cash	1.6	2.5	0.3	1.8	1.0	3.0	1.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

POST RETIREMENT FUND
Total Fund Performance (Net of Fees)

The Post Fund's performance is evaluated relative to a composite of market indices. The composite is weighted in a manner that reflects the long-term asset allocation of the Fund:

Asset Class	Post Target	Market Index	Post Composite* 2Q08
Domestic Stocks	45.0%	Russell 3000	46.0%
Int'l. Stocks	15.0	MSCI ACWI Free ex-U.S.	15.0
Bonds	25.0	Lehman Aggregate	25.0
Alternative Investments	12.0	Alternative Investments	11.0*
Unallocated Cash	3.0	3 Month T-Bills	3.0
	100.0%		100.0%

* Alternative assets and domestic stock weights are reset in the composite at the start of each month to reflect the uninvested portion of the allocation to alternative assets. The above Post Fund Composite weighting was as of the beginning of the quarter.



Period Ending 6/30/2008

	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
Post Fund**	-0.9%	-5.2%	7.9%	10.0%	5.6%
Composite Index	-1.0	-4.0	8.1	10.0	5.7

** Returns are reported net of fees.

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See page 15 for the performance of these asset pools. Effective July 1, 2003, the Basic and Post Funds share the same alternative pool. Performance of the alternative assets is on page 16.

STOCK AND BOND MANAGERS
Performance of Asset Pools (Net of Fees)

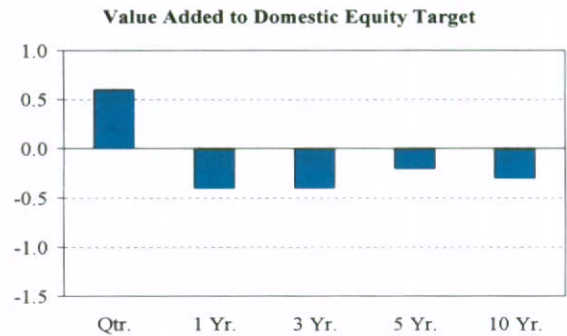
Domestic Stocks

Target: Russell 3000

Expectation: If one-third of the pool is actively managed, one-third is semi-passively managed, and one-third is passively managed, the entire pool is expected to exceed the target by +.18 - .40% annualized, over time.

	Period Ending 6/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Stocks	-1.1%	-13.1%	4.3%	8.2%	2.8%
Asset Class Target*	-1.7	-12.7	4.7	8.4	3.1

* The Domestic Equity Asset Class Target is the Russell 3000 effective 10/1/03. From 7/1/99 to 9/30/03, it was the Wilshire 5000 Investable Index. From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments.



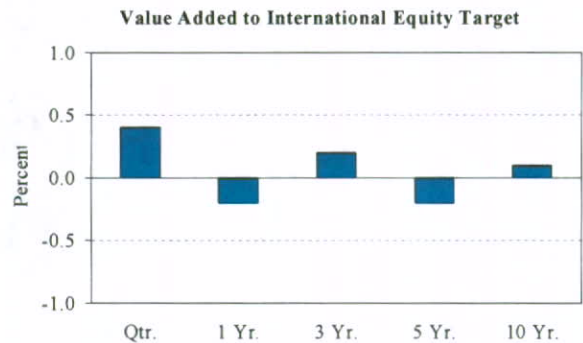
International Stocks

Target: MSCI ACWI Free ex U.S. (net)

Expectation: If at least one-third of the pool is managed actively and at least one-third is passively managed, the entire pool is expected to exceed the target by +.25%- .75% annualized, over time.

	Period Ending 6/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	-0.6%	-6.6%	16.0%	18.8%	7.4%
Asset Class Target*	-1.0	-6.4	15.8	19.0	7.3

* The Int'l Equity Asset Class Target is MSCI ACWI Free ex U.S. (net) effective 10/1/03. From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) + Emerging Markets Free (EMF) (net), and from 7/1/99 to 12/31/00 was MSCI EAFE Free (net) + EMF (gross). From 7/1/99 to 9/30/03, the weight of each index fluctuated with market cap. From 12/31/96 to 6/30/99 the target was fixed at 87% EAFE-Free/13% EMF. On 5/1/96 the portfolio transitioned from 100% EAFE Free to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

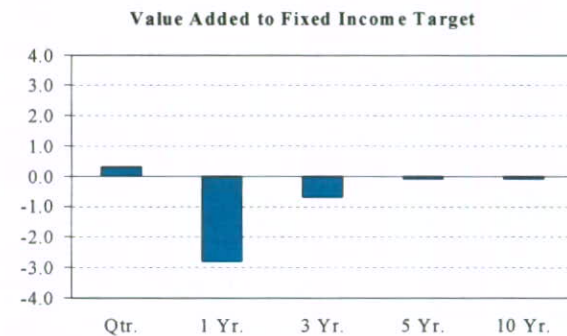


Bonds

Target: Lehman Brothers Aggregate Bond Index

Expectation: If half of the pool is actively managed and half is managed semi-passively, the entire pool is expected to exceed the target by +.20-.35% annualized, over time.

	Period Ending 6/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	-0.7%	4.3%	3.4%	3.8%	5.6%
Asset Class Target	-1.0	7.1	4.1	3.9	5.7



ALTERNATIVE INVESTMENTS

Performance of Asset Categories (Net of Fees)

Alternative Investments

Expectation: The alternative investments are measured against themselves using actual portfolio returns.

	Period Ending 6/30/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	0.2%	13.4%	27.0%	24.9%	15.1%
Inflation	2.5%	5.0%	3.7%	3.4%	2.9%

Real Estate Investments (Equity emphasis)

Expectation: Real estate investments are expected to exceed the rate of inflation by 5% annualized, over the life of the investment.

The SBI began its real estate program in the mid-1980's and periodically makes new investments. Some of the existing investments are relatively immature and returns may not be indicative of future results.

	Period Ending 6/30/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Real Estate	1.4%	11.8%	19.1%	17.6%	12.8%

Private Equity Investments (Equity emphasis)

Expectation: Private equity investments are expected to exceed the rate of inflation by 10% annualized, over the life of the investment.

The SBI began its private equity program in the mid-1980's and periodically makes new investments. Some of the existing investments are relatively immature and returns may not be indicative of future results.

	Period Ending 6/30/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Private Equity	-1.3%	11.1%	24.7%	25.1%	13.8%

Resource Investments (Equity emphasis)

Expectation: Resource investments are expected to exceed the rate of inflation by 5% annualized, over the life of the investment.

The SBI began its resource program in the mid-1980's and periodically makes new investments. Some of the existing investments are relatively immature and returns may not be indicative of future results.

	Period Ending 6/30/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Resource	2.7%	14.0%	48.4%	46.4%	23.7%

Yield Oriented Investments (Debt emphasis)

Expectation: Yield oriented investments are expected to exceed the rate of inflation by 5.5% annualized, over the life of the investment.

The SBI began its yield oriented program in 1994. Some of the existing investments are relatively immature and returns may not be indicative of future returns.

	Period Ending 6/30/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Yield Oriented	2.7%	22.1%	33.5%	25.8%	18.6%

SUPPLEMENTAL INVESTMENT FUND

The Minnesota Supplemental Investment Fund is a multi-purpose investment program that offers a range of investment options to state and local public employees. The different participating groups use the Fund for a variety of purposes:

1. It functions as the investment manager for all assets of the Unclassified Employees Retirement Plan, Public Employees Defined Contribution Plan and Hennepin County Supplemental Retirement Plan.
2. It is one investment vehicle offered to employees as part of Minnesota State Colleges and University's Individual Retirement Account Plan and College Supplemental Retirement Plan.
3. It serves as an external money manager for a portion of some local police and firefighter retirement plans.

A wide diversity of investment goals exists among the Fund's participants. In order to meet those needs, the 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 the statutory requirements and rules established by the participating organizations. Participation in the Fund is accomplished through the purchase or sale of shares in each account.

The investment returns shown in this report are calculated using a time-weighted rate of return formula. They are net of investment management fees.

On June 30, 2008 the market value of the entire Fund was \$1.1 billion.

Investment Options

	6/30/2008 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	\$236
Growth Share Account – an actively managed, all common stock portfolio.	\$112
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	\$259
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	\$132
Bond Market Account – an actively managed, all bond portfolio.	\$122
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	\$135
Fixed Interest Account – a portfolio of guaranteed investment contracts (GIC's) and GIC type investments which offer a fixed rate of return for a specified period of time.	\$72

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

INCOME SHARE ACCOUNT

Investment Objective

The primary investment objective of the Income Share Account is similar to that of the Combined Funds. The Account seeks to maximize long-term real rates of return, while limiting short-run portfolio return volatility.

Asset Mix

The Income Share Account is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds act as a deflation hedge and provide portfolio diversification.

	Target	Actual
Stocks	60.0%	59.8%
Bonds	35.0	39.6
Unallocated Cash	5.0	0.6
	100.0%	100.0%

Period Ending 6/30/2008

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	-0.9%	-5.8%	4.8%	6.9%	4.4%
Benchmark*	-1.2	-5.1	4.6	6.7	4.4

* 60% Russell 3000/35% Lehman Aggregate Bond Index/5% T-Bills Composite since 10/1/03. 60% Wilshire 5000/35% Lehman Aggregate Bond Index/5% T-Bills composite through 9/30/03.

GROWTH SHARE ACCOUNT

Investment Objective

The Growth Share Account's investment objective is to generate above-average returns from capital appreciation on common stocks.

Asset Mix

The Growth Share Account is invested primarily in the common stocks of US companies. The managers in the account also hold varying levels of cash.

Period Ending 6/30/2008

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	-1.0%	-13.5%	3.8%	7.9%	2.5%
Benchmark*	-1.7	-12.7	4.7	8.4	3.1

* Russell 3000 since 10/1/03. 100% Wilshire 5000 Investable from July 1999 to September 2003. 100% Wilshire 5000 from November 1996 to June 1999. 95% Wilshire 5000/5% T-Bills Composite through October 1996.

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

The investment objective of the Common Stock Index Account is to generate returns that track those of the U.S. stock market as a whole. The Account is designed to track the performance of the Russell 3000, a broad-based equity market indicator.

The Account is invested 100% in common stock.

Period Ending 6/30/2008

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	-1.5%	-12.5%	4.9%	8.5%	3.4%
Benchmark*	-1.7	-12.7	4.7	8.4	3.2

* Russell 3000 since 10/1/03. Wilshire 5000 Investable from 7/1/00 to 9/30/03. Wilshire 5000 through 6/30/00.

INTERNATIONAL SHARE ACCOUNT

Investment Objective and Asset Mix

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. At least twenty-five percent of the Account is "passively managed" and up to 10% of the Account is "semi-passively managed." These portions of the Account are designed to track and modestly outperform, respectively, the return of 22 developed markets included in the Morgan Stanley Capital International World ex U.S. Index. The remainder of the Account is "actively managed" by several international managers and emerging markets specialists who buy and sell stocks in an attempt to maximize market value.

Period Ending 6/30/2008

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	-0.5%	-6.5%	16.1%	18.9%	7.6%
Benchmark*	-1.0	-6.4	15.8	19.0	7.3

* The Int'l Equity Asset Class Target is MSCI ACWI Free ex U.S. (net) since 10/1/03. From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) + Emerging Markets Free (EMF) (net), and from 7/1/99 to 12/31/00 was MSCI EAFE Free (net) + EMF (gross). From 7/1/99 to 9/30/03, the weight of each index fluctuated with market cap. From 12/31/96 to 6/30/99 the target was fixed at 87% EAFE-Free/13% EMF. On 5/1/96 the portfolio transitioned from 100% EAFE Free to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT**Investment Objective**

The investment objective of the Bond Market Account is to exceed the return of the broad domestic bond market by investing in fixed income securities.

Asset Mix

The Bond Market Account invests primarily in high-quality, government and corporate bonds that have intermediate to long-term maturities, usually 3 to 20 years.

	Period Ending 6/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	-0.6%	4.4%	3.5%	3.8%	5.7%
Lehman Agg.	-1.0	7.1	4.1	3.9	5.7

MONEY MARKET ACCOUNT**Investment Objective**

The investment objective of the Money Market Account is to purchase short-term, liquid debt securities that pay interest rates that are competitive with those available in the money market.

Asset Mix

The Money Market Account is invested entirely in high quality short-term investments such as U.S. Treasury Bills, bank certificates of deposit, repurchase agreements, and high grade commercial paper. The average maturity of these investments is 30 to 60 days.

	Period Ending 6/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	0.8%	4.5%	4.5%	3.4%	3.9%
3 month T-Bills	0.4	3.1	4.1	3.1	3.5

FIXED INTEREST ACCOUNT**Investment Objectives**

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.

Asset Mix

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. These instruments are issued by highly rated U.S. financial institutions, typically have maturities of 3-6 years and are rated "A" or better at the time of purchase. The interest rate credited will change, reflecting the blended interest rate available from all investments in the account including cash reserves which are maintained to provide liquidity. The Fixed Interest Benchmark in the 3 year Constant Maturity Treasury Bill +45 basis points.

	Period Ending 6/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	1.2%	4.7%	4.6%	4.5%	5.3%
Benchmark*	0.8	3.5	4.6	4.1	4.4

* The Fixed Interest Benchmark is the 3 year Constant Maturity Treasury Bill +45 basis points.

DEFERRED COMPENSATION PLAN ACCOUNTS

The Deferred Compensation Plan provides public employees with a tax-sheltered retirement savings plan that is a supplement to their primary retirement plan. (In most cases, the primary plan is a defined benefit plan administered by TRA, PERA, or MSRS.)

Participants choose from 6 actively managed mutual funds and 5 passively managed mutual funds.

The SBI also offers a money market option, a fixed interest option, and a fixed fund option. All provide for daily pricing needs of the plan administrator. Participants may also choose from hundreds of funds in a mutual fund window. The current plan structure became effective March 1, 2004. The investment options and objectives are outlined below.

Investment Options

	6/30/2008 Market Value (in Millions)
Vanguard Institutional Index (passive)	\$413
Janus Twenty (active)	\$507
Legg Mason Appreciation Y (active)	\$122
Vanguard Mid Cap Index (passive)	\$136
T. Rowe Price Small Cap (active)	\$320
Fidelity Diversified International (active)	\$288
Vanguard Institutional Developed Markets (passive)	\$81
Dodge & Cox Balanced Fund (active)	\$267
Vanguard Balanced Fund (passive)	\$169
Dodge & Cox Income Fund (active)	\$102
Vanguard Total Bond Market Fund (passive)	\$79
Money Market Account	\$104
Fixed Interest Account	\$960

DEFERRED COMPENSATION PLAN ACCOUNTS

LARGE CAP EQUITY

Vanguard Institutional Index (passive)

- A passive domestic stock portfolio that tracks the S&P 500.

Fund	Period Ending 6/30/2008			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
			Annualized	
S&P 500	-2.7%	-13.1%	4.4%	7.6%
	-2.7	-13.1	4.4	7.6

Janus Twenty (active)

- A concentrated fund of large cap stocks which is expected to outperform the S&P 500, over time.

Fund	Period Ending 6/30/2008			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
			Annualized	
S&P 500	7.9%	23.2%	19.7%	18.6%
	-2.7	-13.1	4.4	7.6

Legg Mason Partners Appreciation Y (active)

- A diversified fund of large cap stocks which is expected to outperform the S&P 500, over time.

Fund	Period Ending 6/30/2008			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
				Since
				12/1/03
S&P 500	-1.3%	-3.6%	7.4%	7.7%
	-2.7	-13.1	4.4	6.2

MID CAP EQUITY

Vanguard Mid Cap Index (passive)

- A fund that passively invests in companies with medium market capitalizations that tracks the Morgan Stanley Capital International (MSCI) U.S. Midcap 450 index.

Fund	Period Ending 6/30/2008			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
				Since
				1/1/04
MSCI US	3.0%	-11.8%	6.9%	9.9%
Mid-Cap 450	3.0	-11.8	6.9	9.9

SMALL CAP EQUITY

T. Rowe Price Small Cap (active)

- A fund that invests primarily in companies with small market capitalizations and is expected to outperform the Russell 2000.

Fund	Period Ending 6/30/2008			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
				Annualized
Russell 2000	0.9%	-17.6%	3.0%	8.9%
	0.6	-16.2	3.8	10.3

INTERNATIONAL EQUITY

Fidelity Diversified International (active)

- A fund that invests primarily in stocks of companies located outside the United States and is expected to outperform the MSCI index of Europe, Australasia and the Far East (EAFE), over time.

Fund	Period Ending 6/30/2008			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
				Annualized
MSCI EAFE	-0.1%	-5.7%	14.4%	17.8%
	-2.3	-10.6	12.8	16.7

Vanguard Institutional Developed Markets (passive)

- A fund that passively invests in stocks of companies located outside the United States that tracks the MSCI EAFE index.

Fund	Period Ending 6/30/2008			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
				Annualized
				Since
				12/1/03
MSCI EAFE	-2.4%	-10.5%	13.1%	14.4%
	-2.3	-10.6	12.8	14.2

DEFERRED COMPENSATION PLAN ACCOUNTS

BALANCED

Dodge & Cox Balanced Fund (active)

A fund that invests in a mix of stock and bonds. The fund invests in mid-to large-cap stocks and in high quality bonds, and is expected to outperform a weighted benchmark of 60% S&P 500/40% Lehman Aggregate, over time.

	Period Ending 6/30/2008			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	Since 10/1/03
Fund	-3.6%	-14.4%	2.7%	6.7%
Benchmark	-1.9	-5.3	4.4	6.2

Vanguard Balanced Fund (passive)

- A fund that passively invests in a mix of domestic stocks and bonds. The fund is expected to track a weighted benchmark of 60% MSCI US Broad Market Index/40% Lehman Aggregate.

	Period Ending 6/30/2008			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	-1.3%	-4.7%	4.8%	6.1%
Benchmark	-1.2	-4.8	4.8	6.1

FIXED INCOME

Dodge & Cox Income Fund (active)

- A fund that invests primarily in investment grade securities in the U.S. bond market which is expected to outperform the Lehman Aggregate, over time.

	Period Ending 6/30/2008			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	-0.3%	3.7%	3.5%	3.5%
Lehman Agg.	-1.0	7.1	4.1	3.9

Vanguard Total Bond Market Fund (passive)

- A fund that passively invests in a broad, market-weighted bond index that is expected to track the Lehman Aggregate.

	Period Ending 6/30/2008			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	-1.1%	7.4%	4.1%	4.4%
Lehman Agg.	-1.0	7.1	4.1	4.4

Money Market Account

- A fund that invests in short-term debt instruments which is expected to outperform the return on 3-month U.S. Treasury Bills.

	Period Ending 6/30/2008			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	0.8%	4.5%	4.5%	3.4%
3-Mo. Treas.	0.4	3.1	4.1	3.1

FIXED INTEREST ACCOUNT

- A portfolio composed of stable value instruments which are primarily investment contracts and security backed contracts. The account is expected to outperform the return of the 3 year Constant Maturity Treasury + 45 basis points, over time.

	Period Ending 6/30/2008			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	1.1%	4.8%	4.7%	4.5%
Benchmark	0.8	3.5	4.6	4.1

ASSIGNED RISK PLAN

Investment Objectives

The Assigned Risk Plan has two investment objectives: to minimize the mismatch between assets and liabilities and to provide sufficient liquidity for the payment of on-going claims and operating expenses.

Asset Mix

The Assigned Risk Plan is invested in a portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	6/30/2008 Target	6/30/2008 Actual
Stocks	20.0%	22.3%
Bonds	80.0	77.7
Total	100.0%	100.0%

Investment Management

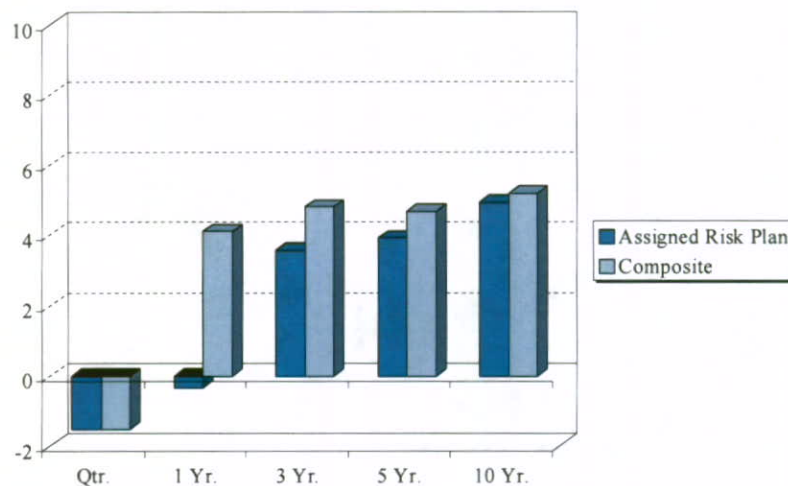
Voyageur Asset Management manages the bond segment of the Fund. GE Investment Management manages the equity segment.

Performance Benchmarks

A custom benchmark has been established for the fixed income portfolio. It reflects the duration of the liability stream and the long-term sector allocation of Voyageur Asset Management. Since July 1, 1994, the equity benchmark has been the S&P 500 index. The total fund benchmark is a combination of the fixed income and equity benchmarks, weighted according to the total fund asset allocation targets.

Market Value

On June 30, 2008 the market value of the Assigned Risk Plan was \$334 million.



Period Ending 6/30/2008

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	-1.5%	-0.3%	3.6%	3.9%	4.9%
Composite	-1.5	4.1	4.8	4.7	5.2
Equity Segment*	-0.3	-8.2	5.9	7.4	4.2
Benchmark	-2.7	-13.1	4.4	7.6	2.9
Bond Segment*	-1.9	2.3	2.9	2.9	4.6
Benchmark	-1.3	8.6	4.8	3.9	5.5

* Actual returns are calculated net of fees.

PERMANENT SCHOOL FUND

Investment Objectives

The investment objective of the Permanent School Fund is to produce a growing level of spendable income, within the constraints of maintaining adequate portfolio quality and liquidity. The income from the portfolio is used to offset expenditures on school aid payments to local school districts.

Asset Mix

Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income.

	6/30/2008 Target	6/30/2008 Actual
Stocks	50.0%	48.3%
Bond	48.0	49.9
Unallocated Cash	2.0	1.8
Total	100.0%	100.0%

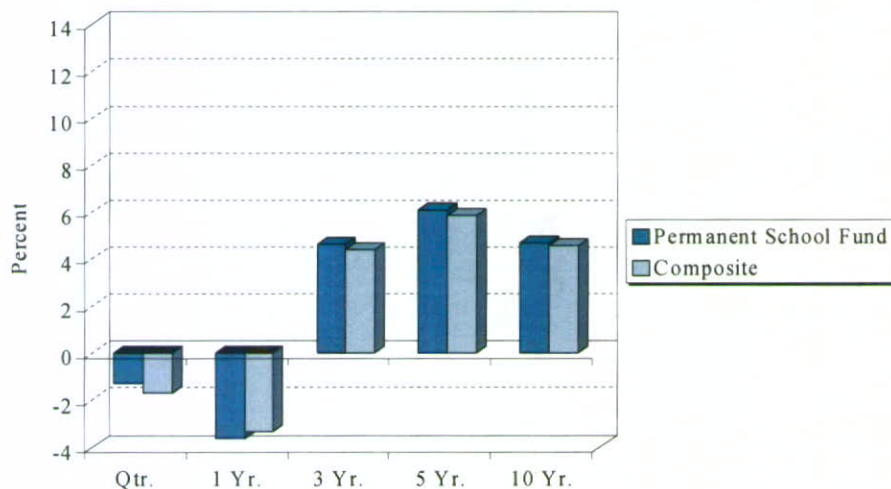
Prior to FY98, the Fund was invested entirely in fixed income securities in order to maximize current income. It is understood that the change in asset mix will reduce portfolio income in the short term, but will enhance the value of the fund, over time.

Investment Management

SBI staff manages all assets of the Permanent School Fund. The stock segment is passively managed to track the performance of the S&P 500. The bond segment is actively managed to add incremental value through sector, security and yield curve decisions.

Market Value

On June 30, 2008 the market value of the Permanent School Fund was \$690 million.



Period Ending 6/30/2008
Annualized

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund (1) (2)	-1.3%	-3.6%	4.6%	6.1%	4.7%
Composite	-1.7	-3.3	4.4	5.8	4.6
Equity Segment (1) (2)	-2.7	-13.1	4.5	7.6	3.0
S&P 500	-2.7	-13.1	4.4	7.6	2.9
Bond Segment (1)	0.1	7.0	4.5	4.3	6.0
Lehman Aggregate	-1.0	7.1	4.1	3.9	5.7

(1) Actual returns are calculated net of fees.
 (2) Equities were added to the asset mix for FY98. Prior to that date the fund was invested entirely in bonds. The composite Index has been weighted accordingly.

ENVIRONMENTAL TRUST FUND

Investment Objective

The objective of the Environmental Trust Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

Asset Mix

The Environmental Trust Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds act as a deflation hedge and provide portfolio diversification. As of July 1, 1999, the asset

allocation changed from 50% stocks/50% fixed income to 70% stocks /30% fixed income.

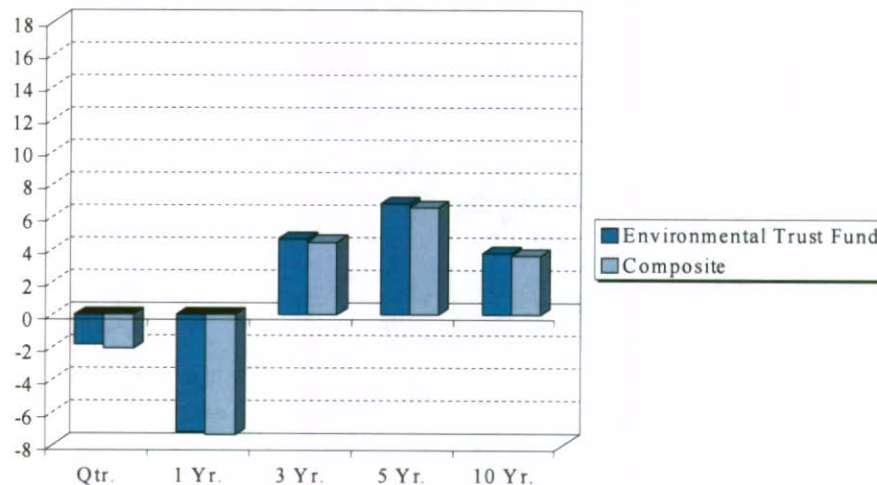
Investment Management

SBI staff manage all assets of the Environmental Trust Fund. The bond segment is actively managed to add incremental value through sector, security and yield curve decisions. The stock segment is passively managed to track the performance of the S&P 500.

Market Value

On June 30, 2008 the market value of the Environmental Trust Fund was \$466 million.

	6/30/2008 Target	6/30/2008 Actual
Stocks	70.0%	67.1%
Bonds	28.0	32.3
Unallocated Cash	2.0	0.6
Total	100.0%	100.0%



	Period Ending 6/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	-1.9%	-7.2%	4.6%	6.8%	3.8%
Composite	-2.1	-7.3	4.4	6.6	3.6
Equity Segment*	-2.7	-13.1	4.5	7.6	3.0
S&P 500	-2.7	-13.1	4.4	7.6	2.9
Bond Segment*	0.1	7.0	4.5	4.4	6.0
Lehman Agg.	-1.0	7.1	4.1	3.9	5.7

* Actual returns are calculated net of fees.

CLOSED LANDFILL INVESTMENT FUND

Investment Objectives

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 PCA (Pollution Control Agency) to pay for the long-term costs of maintaining the integrity of landfills in Minnesota once they are closed. However, by statute, the assets of the Fund are unavailable for expenditure until after fiscal year 2020.

Investment Management

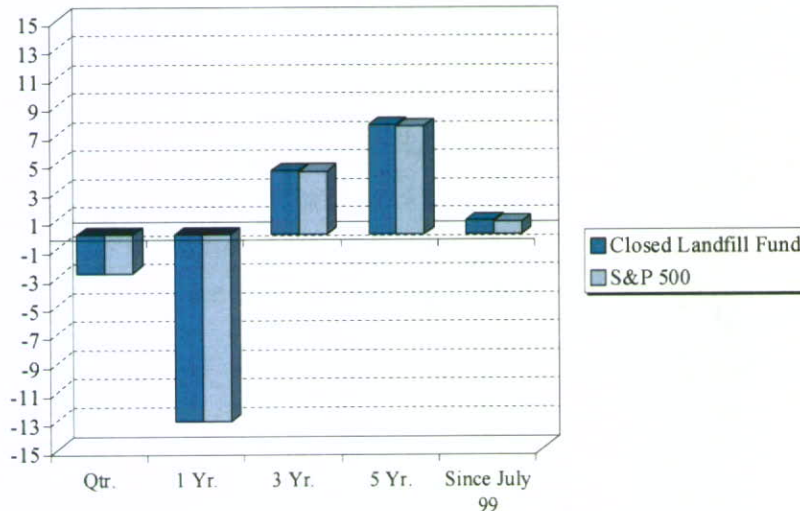
SBI staff manage all assets of the Closed Landfill Investment Fund. The assets are managed to passively track the performance of the S&P 500 index.

Market Value

On June 30, 2008, the market value of the Closed Landfill Investment Fund was \$50.8 million.

Asset Mix

Effective July 1999, the Closed Landfill Investment Fund is 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.



Period Ending 6/30/2008

	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	Since 7/1/1999
Total Fund (1)	-2.7%	-13.1%	4.5%	7.6%	0.9%
S&P 500 (2)	-2.7	-13.1	4.4	7.6	0.8

- (1) Actual returns are calculated net of fees.
- (2) The benchmark of the fund is the S&P 500. The portfolio was initially invested in mid July 1999. The benchmark was adjusted to reflect this mid month starting period.

STATE CASH ACCOUNTS

Description

State Cash Accounts represent the cash balances in more than 400 separate accounts that flow through the Minnesota State Treasury. These accounts range in size from \$5,000 to over \$400 million.

Most accounts are invested by SBI staff through two short-term pooled funds:

1. Trust Fund Pool contains the temporary cash balances of certain trusts and retirement-related accounts.
2. Treasurer's Cash Pool contains the cash balances of special or dedicated accounts necessary for the operation of certain State agencies and non dedicated cash in the State Treasury.

In addition, each State of Minnesota bond sale requires two additional pools; one for bond proceeds and one for the debt reserve transfer.

Because of special legal restrictions, a small number of cash accounts cannot be commingled. These accounts are invested separately.

Investment Objectives

Safety of Principal. To preserve capital.

Competitive Rate of Return. To provide a high level of current income.

Liquidity. To meet cash needs without the forced sale of securities at a loss.

Asset Mix

The SBI maximizes current income while preserving capital by investing all cash accounts in high quality, liquid short term investments. These include U.S. Treasury and Agency issues, repurchase agreements, bankers acceptances, commercial paper, and certificates of deposit.

Investment Management

All state cash accounts are managed by the SBI investment staff. As noted above, most of the assets of the cash accounts are invested through two large commingled investment pools.

	Market Value (Millions)	Period Ending 6/30/2008				
		Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Treasurer's Cash Pool*	\$6,396	0.9%	4.6%	4.7%	3.5%	4.1%
Custom Benchmark**		0.5	3.6	4.0	2.8	3.5
Trust Fund Cash Pool*	\$37	0.7	3.9	4.5	3.3	3.8
Custom Benchmark***		0.5	3.6	4.0	2.8	3.2
3 month T-Bills		0.4	3.1	4.1	3.1	3.5

* Actual returns are calculated net of fees.

** Beginning in January 2003, the Treasurer's Cash Pool is measured against the iMoneyNet, All Taxable Money Fund Report Average. From January 1997 to December 2002 the fund was measured against a blended benchmark consisting of the Lehman Brother's 1-3 year Government Index and the iMoneyNet, All Taxable Money Fund Report Average. The proportion of each component of the blended benchmark is adjusted periodically as the asset allocation of the Cash Pool is modified. From April 1993 through December 1996, the benchmark was 75% State Street Short Term Investment Fund/25% Lehman Brothers 1-3 Year Treasury Index.

*** Beginning in January 1997, the Trust Fund Pool is measured against the iMoneyNet, All Taxable Money Fund Report Average. From April 1993 through December 1996, the benchmark was 75% State Street Short Term Investment Fund/25% 1-3 year Treasuries.

MINNESOTA STATE BOARD OF INVESTMENT
Composition of State Investment Portfolios By Type of Investment
Market Value June 30, 2008 (in Thousands)

	Cash and Short term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	38,390 0.51%	0	1,760,555 23.43%	0	3,435,481 45.72%	1,161,802 15.46%	1,117,718 14.88%	7,513,946 100%
Public Employees Retirement Fund	42,063 0.63%	0	1,596,458 23.72%	0	3,092,302 45.94%	1,038,771 15.43%	960,961 14.28%	6,730,555 100%
State Employees Retirement Fund	33,443 0.62%	0	1,268,503 23.72%	0	2,456,629 45.94%	825,545 15.44%	763,392 14.28%	5,347,512 100%
Public Employees Police & Fire	18,440 0.63%	0	700,309 23.72%	0	1,356,136 45.94%	455,676 15.44%	421,291 14.27%	2,951,852 100%
Highway Patrol Retirement Fund	1,425 0.63%	0	53,823 23.70%	0	104,276 45.92%	35,077 15.44%	32,499 14.31%	227,100 100%
Judges Retirement Fund	308 0.64%	0	11,243 23.51%	0	21,841 45.67%	7,406 15.48%	7,031 14.70%	47,829 100%
Correctional Employees Retirement	1,780 0.63%	0	67,602 23.73%	0	130,917 45.95%	43,970 15.43%	40,626 14.26%	284,895 100%
Public Employees Correctional	2,073 1.20%	0	40,878 23.59%	0	79,234 45.73%	26,545 15.32%	24,541 14.16%	173,271 100%
TOTAL BASIC FUNDS	137,922 0.59%	0	5,499,371 23.63%	0	10,676,816 45.87%	3,594,792 15.44%	3,368,059 14.47%	23,276,960 100%
POST RETIREMENT FUND	335,710 1.46%	0	5,744,894 25.01%	0	10,726,613 46.70%	3,565,003 15.52%	2,597,210 11.31%	22,969,430 100%
TOTAL BASIC AND POST	473,632 1.03%	0	11,244,265 24.31%	0	21,403,429 46.28%	7,159,795 15.48%	5,965,269 12.90%	46,246,390 100%

	Cash and Short term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
MINNESOTA SUPPLEMENTAL FUNDS:								
Income Share Account	1,525 0.64%	93,617 39.61%	0	0	141,212 59.75%	0	0	236,354 100%
Growth Share Account	0	0	0	0	112,201 100.00%	0	0	112,201 100%
Money Market Account	134,756 100.00%	0	0	0	0	0	0	134,756 100%
Common Stock Index	0	0	0	0	260,446 100.00%	0	0	260,446 100%
Bond Market Account	0	0	123,619 100.00%	0	0	0	0	123,619 100%
International Share Account	0	0	0	0	0	129,862 100.00%	0	129,862 100%
Stable Value Fund Monthly	2,546 3.55%	0	69,135 96.45%	0	0	0	0	71,681 100%
TOTAL SUPPLEMENTAL FUNDS	138,827 12.99%	93,617 8.76%	192,754 18.03%	0	513,859 48.07%	129,862 12.15%	0	1,068,919 100%
MN DEFERRED COMP PLAN	103,953 2.93%	0	1,422,003 40.06%	0	1,653,611 46.59%	369,823 10.42%	0	3,549,390 100%
TOTAL RETIREMENT FUNDS	716,412 1.41%	93,617 0.18%	12,859,022 25.28%	0	23,570,899 46.34%	7,659,480 15.06%	5,965,269 11.73%	50,864,699 100%

	Cash and Short Term Securities	Bond Internal	Bond External	Stock Internal	Stock External	External Int'l	Alternative Assets	Total
ASSIGNED RISK PLAN	26,546 7.95%	0	244,452 73.21%	0	62,900 18.84%	0	0	333,898 100%
ENVIRONMENTAL FUND	2,888 0.62%	150,337 32.27%	0	312,630 67.11%	0	0	0	465,855 100%
PERMANENT SCHOOL FUND	12,436 1.80%	344,427 49.92%	0	333,160 48.28%	0	0	0	690,023 100%
CLOSED LANDFILL INVESTMENT	100 0.20%	0	0	50,730 99.80%	0	0	0	50,830 100%
TREASURERS CASH	6,408,958 100.00%	0	0	0	0	0	0	6,408,958 100%
HOUSING FINANCE AGENCY	2,051 1.37%	147,195 98.63%	0	0	0	0	0	149,246 100%
MINNESOTA DEBT SERVICE FUND	0	27,723 100.00%	0	0	0	0	0	27,723 100%
MISCELLANEOUS ACCOUNTS	38,433 9.79%	231,427 58.94%	0	122,771 31.27%	0	0	0	392,631 100%
TOTAL CASH AND NON-RETIREMENT	6,491,412 76.20%	901,109 10.58%	244,452 2.87%	819,291 9.61%	62,900 0.74%	0	0	8,519,164 100%
GRAND TOTAL	7,207,824 12.14%	994,726 1.67%	13,103,474 22.07%	819,291 1.38%	23,633,799 39.80%	7,659,480 12.90%	5,965,269 10.04%	59,383,863 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: September 3, 2008

TO: Members, State Board of Investment

FROM: **Howard Bicker**

1. Reports on Budget and Travel

A report on the SBI's administrative budget for the Fiscal Year 2008 is included as **Attachment A**. A report on the SBI's administrative budget for the Fiscal Year 2009 Year to Date is included as **Attachment B**.

A report on travel for the period from May 16, 2007 – August 4, 2008 is included as **Attachment C**.

2. Update on Sudan

Each quarter staff provides a report to the Board on steps taken to implement Laws of Minnesota 2007, Chapter 117 that requires SBI actions concerning companies with operations in Sudan.

Staff receives periodic reports from the Sudan Divestment Task Force about the status of companies with operations in Sudan. The SBI is restricted from purchasing stock in the companies designated as highest offenders by the Task Force. Accordingly, staff updates the list of restricted stocks and notifies investment managers that they may not purchase shares in companies on the restricted list. Staff receives monthly reports from the SBI's custodian bank concerning SBI holdings of companies on the Task Force list and writes letters as required by law.

If after 90 days following the SBI's communication with a company and it continues to have active business operations, then the SBI must divest holdings of the company according to the following schedule:

- at least 50% shall be sold within nine months after the company appeared on the Task Force list; and
- 100% shall be sold within fifteen months after the company appeared on the list.

During the second quarter of 2008, SBI's managers divested all remaining shares of companies on the list of stocks to be divested. Note that several managers have holdings in ABB, a Swiss Company that was added to the restricted list in June and is not subject to divestment until early next year.

Attachment D is a copy of the June 17, 2008 letter sent to each international equity manager and domestic equity manager containing the most recent restricted list and the list of stocks to be divested.

New List of Companies

Attachment E is an updated list of companies with operations in Sudan.

3. Minneapolis Employees Retirement Fund (MERF) asset transfer.

The Minneapolis Employees Retirement Fund (MERF) Board of Directors met on July 28, 2008 and voted to transfer management of its investment portfolio to the SBI effective October 1, 2008. The MERF Board of Directors will continue to be responsible for the fund's asset allocation policy. As of October 1, 2008, MERF will be invested in the Domestic Equity, International Equity, Fixed Income and Cash Pools that the SBI manages for retirement related assets. For legal reasons, MERF is not allowed to invest in the Alternative Investment Pools. The SBI is working together with MERF and the related investment managers and custodians to ensure that this transition is completed in an efficient manner.

**STATE BOARD OF INVESTMENT
FISCAL YEAR 2008 ADMINISTRATIVE BUDGET REPORT
FISCAL YEAR FINAL**

ITEM	FISCAL YEAR 2008 BUDGET	FISCAL YEAR 2008 ACTUAL
PERSONAL SERVICES		
FULL TIME EMPLOYEES	\$ 2,150,000	\$ 1,989,699
PART TIME EMPLOYEES		\$ 76,761
SEVERENCE PAYOFF	20,000	58,035
WORKERS COMPENSATION INSURANCE	1,000	653
MISCELLANEOUS PAYROLL	4,000	0
SUBTOTAL	\$ 2,175,000	\$ 2,125,148
STATE OPERATIONS		
RENTS & LEASES	205,000	186,859
REPAIRS/ALTERATIONS/MAINTENANCE	10,000	58,652
PRINTING & BINDING	10,000	2,788
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	22,519
COMMUNICATIONS	30,000	25,689
TRAVEL, IN-STATE	1,000	910
TRAVEL, OUT-STATE	50,000	44,085
SUPPLIES	35,000	35,255
EQUIPMENT	15,000	87,556
EMPLOYEE DEVELOPMENT	15,000	15,983
OTHER OPERATING COSTS	9,000	11,288
SUBTOTAL	\$ 390,000	\$ 491,584
ORIGINAL BUDGET	\$ 2,565,000	\$ 2,616,732
ADJUSTMENTS TO ORIGINAL BUDGET	\$ 57,332	
TOTAL GENERAL FUND	\$ 2,622,332	\$ 2,616,732

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**STATE BOARD OF INVESTMENT
FISCAL YEAR 2009 ADMINISTRATIVE BUDGET REPORT
FISCAL YEAR TO DATE THROUGH JULY 31, 2008**

ITEM	FISCAL YEAR 2009 BUDGET	FISCAL YEAR 2009 7/31/2008
PERSONAL SERVICES		
FULL TIME EMPLOYEES	\$ 2,162,000	\$ 170,759
PART TIME EMPLOYEES	\$ 25,000	\$ 10,016
SEVERENCE PAYOFF	20,000	0
WORKERS COMPENSATION INSURANCE	1,000	0
MISCELLANEOUS PAYROLL	4,000	0
SUBTOTAL	\$ 2,212,000	\$ 180,775
STATE OPERATIONS		
RENTS & LEASES	205,000	16,087
REPAIRS/ALTERATIONS/MAINTENANCE	10,000	115
PRINTING & BINDING	10,000	0
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	20,000	1,647
COMMUNICATIONS	30,000	841
TRAVEL, IN-STATE	1,000	0
TRAVEL, OUT-STATE	50,000	0
SUPPLIES	35,000	1,051
EQUIPMENT	20,000	0
EMPLOYEE DEVELOPMENT	15,000	0
OTHER OPERATING COSTS	9,000	4,320
SUBTOTAL	\$ 405,000	\$ 24,061
ORIGINAL BUDGET	\$ 2,617,000	\$ 204,836
ADJUSTMENTS TO ORIGINAL BUDGET	\$ 0	
TOTAL GENERAL FUND	\$ 2,617,000	\$ 204,836

ATTACHMENT C

STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel May 16, 2008 – August 4, 2008

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring: Alternative Investment Manager: KKR Annual Meeting	J. Griebenow	San Diego, CA 5/18-5/21	\$1,142.00
Conference: Alpha in Site sponsored by: Institutional Financial Forum	H. Bicker	Chicago, IL 5/28-5/30	359.00
Master Custodian: State Street Bank	J. White	Boston, MA 6/4-6/6	453.10
Conference: National Association of Public Pension Attorneys	C. Eller	Boston, MA 6/24-6/27	2,906.87

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ATTACHMENT D

Letter to SBI International Equity Managers

June 17, 2008

Regarding: Sudan Companies

Dear Manager:

The Minnesota State Board of Investment (SBI) sent you prior communication concerning holdings in companies doing business in Sudan. **This new communication applies to all SBI international equity portfolios managed by your organization and replaces all prior communications.**

Laws of Minnesota 2007, Chapter 117 requires the SBI to implement a Sudan restriction.

Attachment 1 is the List of Restricted Sudan Stocks. **These securities may not be purchased for the SBI portfolio that your organization manages.** Please note that the attached List makes a change to the List of Restricted Sudan Stocks that was attached to the May 1, 2008 letter you received. **This new list is effective June 20, 2008.**

- The following companies have been added to the restricted list:
 - ABB
 - Egypt Kuwait Holding Company
- The following company has been deleted from the restricted list:
 - Petrofac

Attachment 2 is the List of Sudan Stocks Requiring Divestment.

- The following company has been added to the divestment list:
 - Harbin Power Equipment
- The following company has been deleted from the divestment list:
 - Petrofac

If you own securities of companies on the List of Sudan Stocks Requiring Divestment in the SBI portfolio that your organization manages, then you must divest those holdings according to the schedules provided in the Attachment:

- **At least 50 percent of a company's holdings must be sold by the date indicated, and**
- **At least 100 percent of a company's holdings must be sold by the date indicated.**

Please recognize that you are responsible for identifying all listings of each security.

If you have any questions about this matter, please contact Stephanie Gleeson, International Equities; or James E. Heidelberg, Manager Public Programs.

Sincerely,

Howard Bicker
Executive Director

Enclosures

cc: James E. Heidelberg, Manager, Public Programs
Stephanie Gleeson, International Equities

Letter to SBI Domestic Equity Managers

June 17, 2008

Regarding: Sudan Companies

Dear Manager:

The Minnesota State Board of Investment (SBI) sent you prior communication concerning holdings in companies doing business in Sudan. **This new communication applies to all SBI domestic equity portfolios managed by your organization and replaces all prior communications. This communication applies to ADR's of any of the listed companies.**

Laws of Minnesota 2007, Chapter 117 requires the SBI to implement a Sudan restriction.

Attachment 1 is the List of Restricted Sudan Stocks. **These securities may not be purchased for the SBI portfolio that your organization manages.** Please note that the attached List makes a change to the List of Restricted Sudan Stocks that was attached to the May 1, 2008 letter you received. **This new list is effective June 20, 2008.**

- The following companies have been added to the restricted list:
 - ABB
 - Egypt Kuwait Holding Company

- The following company has been deleted from the restricted list:
 - Petrofac

Attachment 2 is the List of Sudan Stocks Requiring Divestment.

- The following company has been added to the divestment list:
 - Harbin Power Equipment

- The following company has been deleted from the divestment list:
 - Petrofac

If you own securities of companies on the List of Sudan Stocks Requiring Divestment in the SBI portfolio that your organization manages, then you must divest those holdings according to the schedules provided in the Attachment:

- **At least 50 percent of a company's holdings must be sold by the date indicated, and**
- **At least 100 percent of a company's holdings must be sold by the date indicated.**

Please recognize that you are responsible for identifying all listings of each security.

If you have any questions about this matter, please contact Tammy Brusehaver, or Patricia Ammann, Domestic Equities; or James E. Heidelberg, Manager, Public Programs.

Sincerely,

Howard Bicker
Executive Director

Enclosures

cc: James E. Heidelberg, Manager, Public Programs
Tammy Brusehaver, Domestic Equities
Patricia Ammann, Domestic Equities

ATTACHMENT 1

Restricted Sudan Stocks	
Company Name	Country of Origin
AviChina Industry & Technology Co. Ltd.	China
Dongfeng Automotive Company Ltd.	China
Hafei Aviation Industry Co.	China
Harbin Dongan Auto Engine Co. Ltd.	China
Harbin Power Equipment	China
Jiangxi Changhe Automobile Co. Ltd.	China
Jiangxi Hongdu Aviation AKA Hongdu Aviation	China
PetroChina	China
Sinopec Corporation AKA China Petroleum and Chemical Corporation	China
Sinopec Shanghai Petrochemical Co. Ltd.	China
Wuhan Boiler Co.	China
CNPC Hong Kong	Hong Kong
Sinopec Kanton Holdings, Ltd.	Hong Kong
Bharat Heavy Electricals Ltd.	India
Bongaigaon Refinery & Petrochemicals Limited (BRPL)	India
Chennai Petroleum Corporation Ltd. (CPCL)	India
Indian Oil Corporation Ltd. AKA IOCL	India
Lanka IOC Ltd.	India
Mangalore Refinery and Petrochemical Ltd.	India
Oil and Natural Gas Company, AKA ONGC	India
AREF Investment Group	Kuwait
Egypt Kuwait Holding Company	Egypt
Kejuruteraan Samudra Timur Bhd	Malaysia
Kencana Petroleum Berhad	Malaysia
Malaysia International Shipping Company AKA MISC Berhad	Malaysia
Muhibbah Engineering Berhad	Malaysia
PECD Berhad	Malaysia
Petronas Gas, Bhd.	Malaysia
Petronas Dagangan, Bhd.	Malaysia
Ranhill Berhad	Malaysia
Scomi Group Bhd	Malaysia
Scomi Engineering Bhd	Malaysia
Electricity Generating PCL AKA EGCO	Thailand
Wartsila Oyj	Finland

ATTACHMENT 1

Restricted Sudan Stocks	
Company Name	Country of Origin
Alstom	France
Areva SA	France
Dietswell Engineering	France
Lundin International SA	France
Lundin Petroleum AB	Sweden
ABB	Switzerland

Note: List contains parent companies and subsidiaries publicly traded.
AKA means "Also Known As"

Source: Sudan Divestment Task Force

June 17, 2008

ATTACHMENT 2

Sudan Stocks Requiring Divestment			
Company Name	Country of Origin	Divest 50 Percent By this Date	Divest 100 Percent By this date
China Petroleum and Chemical Corporation AKA Sinopec Corp	China	April 30, 2008	October 31, 2008
PetroChina Company	China	April 30, 2008	October 31, 2008
Bharat Heavy Electricals Ltd.	India	April 30, 2008	October 31, 2008
Oil and Natural Gas Corp AKA ONGC	India	April 30, 2008	October 31, 2008
Malaysia International Shipping Company AKA MISC Berhad	Malaysia	April 30, 2008	October 31, 2008
Alstom	France	April 30, 2008	October 31, 2008
Lundin Petroleum	Sweden	April 30, 2008	October 31, 2008
Wartsila Oyj	Finland	May 31, 2008	November 30, 2008
Harbin Power Equipment	China	June 30, 2008	December 31, 2008

Note: AKA means "Also Known As"

Source: Sudan Divestment Task Force

June 17, 2008

ATTACHMENT E

Sudan Divestment Task Force List of "Highest Offenders" Companies in Sudan

Task Force List Effective Through August 31, 2008

Companies Ranked from Worst to Least Problematic

Company Name	Country of Origin
China National Petroleum Corporation AKA CNPC	China
PetroChina	China
CNPC Hong Kong	Hong Kong
Petronas Gas	Malaysia
Petronas Dagangan	Malaysia
MISC Berhad AKA Malaysia International Shipping Company	Malaysia
Oil and Natural Gas Company, AKA ONGC	India
Mangalore Refinery and Petrochemicals Ltd.	India
Sinopec Group AKA China Petrochemical Corporation	China
Sinopec Corporation AKA China Petroleum and Chemical Corporation	China
Sinopec Shanghai Petrochemical Co. Ltd.	China
Sinopec Kanton Holdings	China
Lundin Petroleum AB	Sweden
Lundin International SA	France
AREF Investment Group	Kuwait
Mohammed Abdulmohsin Al-Kharafi & Sons Company	Kuwait
Egypt Kuwait Holding Company	Egypt
Ranhill Berhad	Malaysia
Dietswell Engineering	France
Muhibbah Engineering Berhad	Malaysia
Kencana Petroleum Berhad	Malaysia
Kejuruteraan Samundra Timur Bhd	Malaysia
AviChina Industry & Technology Company, Ltd.	China
Jiangxi Hongdu Aviation AKA Hongdu Aviation	China
Hafei Aviation Industry	China
Harbin Dongan Auto Engine Co.	China
Jiangxi Changhe Automobile Co.	China
Harbin Power Equipment Company Limited	China
Alstom	France
Wuhan Boiler Company	France
ABB	Switzerland
Wartsila Oyj	Finland
Bharat Heavy Electricals	India
Dongfeng Automotive Company Limited	China
Indian Oil Corporation Ltd. AKA IOCL	India
Lanka IOC Limited	India
Bongaigaon Refinery & Petrochemicals Limited (BRPL)	India
Chennai Petroleum Corporation Limited (CPCL)	India
Scomi Group Berhad	Malaysia
Scomi Engineering Berhad	Malaysia
PECD Berhad	Malaysia
Electricity Generating Company Limited AKA EGCO	Thailand

Note: List contains parent companies and subsidiaries publicly traded
AKA means "also known as"

Sudan Divestment Task Force List of Companies in Sudan for Ongoing Engagement
Task Force List Effective Through August 31, 2008
 Companies Ranked from Worst to Least Problematic

Company Name	Country of Origin
Bharat Electronics Limited	India
Norinco AKA China North Industries Corporation	China
Sudan Telecommunications Company AKA Sudatel	Sudan
Saras S.p.A.	Italy
Man AG	Germany
Kamaz	Russia
Total SA	France
Rolls Royce PLC	UK
Nippon Oil	Japan
Suez SA	France
Shanghai Power Transmission and Distribution Co. Ltd.	China
Bousted Heavy Industries Corporation	Malaysia
Atlas Copco AB	Sweden
Nam Fatt Corporation Berhad	Malaysia
Reliance Industries Limited AKA RIL	India
Schlumberger	France
La Mancha Resources	Canada
Petrofac	UK
Brinkley Mining PLC	UK
Mitsui Engineering & Shipbuilding Company Limited	Japan
Mercator Lines	India
Concordia Maritime	Sweden
Bollere Group	France

Sudan Divest.Task Force List of Companies in Sudan with No Publicly Traded Equity
Task Force List Effective Through August 31, 2008

Company Name	Country of Origin
Africa Energy	Nigeria
Al-Qahtani & Sons Group of Companies	Saudi Arabia
Ansan Wikfs/Shaher Trading Company	Yemen
APS Engineering Company	Italy
Arcadia Petroleum	UK
Ascom Group SA	Moldova
China Hydraulic and Hydroelectric Construction Group AKA Sinohydro	China
China International Water & Electric Corp AKA CWE	China
Delta Petrol/Tower Holdings	Turkey/Luxembourg
Dindir Petroleum/Edgo Group	Jordan
Express Petroleum and Gas Company	Nigeria
Hi Tech Petroleum	Sudan
K & K Capital Group AKA KKCG	Czech Republic
Kuwait Foreign Petroleum Exploration Company AKA Kufpec	Kuwait
Lahmeyer	Germany
Mohan Energy Corp.	India
Mott MacDonald	UK
Peschaud & Cie International	France
Petrolin	Gabon
Petroneeds Service International Company	Sudan
PetroSA	South Africa
PT Pertamina Persero AKA Pertamina	Indonesia
Shandong Electric Power Construction Corporation AKA Shandong Electric Power Group	China
Snowy Mountain Engineering Corporation	Australia
Sudan Petroleum Company AKA Sudapet	Sudan
Tamoil	Libya
Trafigura Beheer	Netherlands
Vitol Group	Switzerland
Zaver Petroleum Company	Pakistan

4-Jun-08

Tab C

INVESTMENT ADVISORY COUNCIL REPORT

DATE: September 3, 2008

TO: Members, State Board of Investment

FROM: **Howard Bicker**

1. A review of asset allocation assumptions and simulations for the SBI Basics, Post and Combined Funds.

The IAC reviewed the asset allocation assumptions and agreed that they were reasonable expectations of what the Funds can expect to incur over a long term time frame. In regard to the simulations staff prepared, the IAC asked that a couple of additional simulations be run for their review. These additional simulations included some more variations on asset allocation policy and some analysis on the volatility of the returns that the fund could expect over time. Over the next few months, staff will complete the additional analysis and present the findings to the IAC at the next meeting.

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ASSET ALLOCATION REVIEW
Basic Retirement Funds
Post Retirement Fund
Combined Retirement Funds

Table of Contents

	Page
Executive Summary	5
Current Asset Allocation Policy	6
Comparison to Other Pension Plans	7
Considerations in Determining Asset Allocation Policy	7
Assumptions and Simulations	12
 Attachments:	
A Assumptions Used in Simulations	13
B Comparative Data	15
C Asset Mix Simulations-Basic Funds	17
D Asset Mix Simulations-Post Fund	19
E Asset Mix Simulations-Combined Retirement Funds	21

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ASSET ALLOCATION REVIEW

Basic, Post and Combined Retirement Funds

Executive Summary

Long-term asset allocation policy is the core focus of the State Board of Investment (“the Board” or “SBI”) in the oversight of the assets under its charge. The asset allocation decision is the most significant determinant of an investment fund’s return and risk.

The asset allocation policy of the Basic and Post Retirement Funds are reviewed periodically. The most recent formal review of the Funds’ policy asset allocations occurred in 2003. The 2003 review resulted in the Board increasing its allocation to alternative investments in the Basic Retirement Funds from 15% to 20% with a corresponding decrease in fixed income from 24% to 19%. The Board also increased the alternative investments allocation in the Post Retirement Fund from 5% to 12% with a corresponding decrease in domestic equities from 50% to 45% and a decrease in fixed income from 27% to 25%. Lastly, the increase in the alternative investment in the Basic Retirement Funds would not be enacted until the Post Retirement Fund achieved its 12% allocation to alternative investments.

The Board also decided that the alternative investments for the Basic and Post Retirement funds would be identical. To accomplish this, the current yield orientated portfolio in the Post and the equity orientated portfolio in the Basics were pooled. All new alternative investments are purchased for the pool and are funded on a prorated share from the Basic and Post funds.

This review is prompted by new legislation that provides the possibility that the Basic and Post Retirement Funds could be merged if certain criteria is met. Therefore a combined asset allocation policy must be determined so it can be enacted quickly if the legislative criteria is met. Also since it has been five years since the last review, it is good general discipline to review the appropriateness of the SBI’s existing asset allocation policies

given current expectations for capital market returns and volatility. While the asset allocation is most appropriately treated as a long-term guideline to achieve desired performance levels, it is prudent to review its status and make refinements given changing economic environments and advances in the capital markets. Over time, most of the change in the asset allocation of the Retirement Funds has come from the availability of an increasingly diversifiable array of investment products. Domestic common stocks, once the only available source of equity returns, are now just one of a variety of investable equity vehicles for pension funds. As do many major pension plan sponsors, the SBI now utilizes international stocks, private equity and venture capital, real estate, and resource investments in combination with domestic equities. This is expected to achieve higher long-term rates of return while experiencing lower rates of volatility than can be achieved by using domestic stocks alone. The lower volatility is due to the diversification benefits of owning a variety of investment vehicles, which perform differently over time. Fixed income products have also expanded, giving the plan sponsor a broader base of investment opportunities from which to choose.

Current Asset Allocation Policy

The current long-term asset allocation policy for the Basic and Post Funds are shown below. While the Board did not set a specific policy for the Combined Retirement Funds in 2003, the policy shown below is derived by using the asset allocation policies and the market values of the two underlying funds.

	Basics	Post	Combined*
Stocks	60.0%	60.0%	60.0%
Domestic	45.0	45.0	45.0
International	15.0	15.0	15.0
Alternative Assets**	<u>20.0</u>	<u>12.0</u>	<u>16.0</u>
Total Equity	80.0	72.0	76.0
Bonds	19.0	25.0	22.0
Cash	<u>1.0</u>	<u>3.0</u>	<u>2.0</u>
Total Fund	100.0%	100.0%	100.0%

*Based on 06/30/08 market values. Basics \$23.3 billion; Post \$23.0 billion.

**Market value. Unfunded commitments plus market value may be up to 1.5 times market value.

Comparison to Other Pension Plans

The median allocations to stocks, bonds, and cash in the master trust portion of the Trust Universe Comparison Service (TUCS) are as follows:

Median Allocation*	Stocks**	Bonds**	Cash
all funds	57.2%	27.0%	3.1%
public only	57.0%	29.0%	2.8%
corporate only	59.7%	29.7%	2.6%

* Median allocation to each asset class as of 03/31/08. Will not add to 100%.

** Includes both domestic and international.

The data indicate that the asset allocation policy for the Basics and the Post have more stocks and less bonds than many plans included in the comparison universe.

Considerations in Determining Strategic Asset Allocation Policy

There are a number of factors to consider when determining an appropriate strategic asset allocation policy for an investment portfolio. The review considered the following factors in determining the asset allocation mix for the Basic and Post Funds:

- Fund Objective
- Time Horizon
- Return Objective
- Liquidity Needs
- Risk Tolerance
- Accounting Considerations

BASIC RETIREMENT FUNDS

- **Fund Objective:** The objective of the Basic Retirement Funds is to ensure that sufficient assets are available to pay promised benefits at the time of retirement.

- **Time Horizon:** The expected time horizon of the investment period is determined by the nature of the liabilities. Everything being equal, long-term liability streams afford the investor the opportunity to withstand short-term volatility in pursuit of higher returns. A shorter time horizon requires investors to take less equity risk. The Basic Retirement Funds consist of assets for active (working) employees. It has an investment horizon of 30 to 40 years.
- **Return Objective:** The stated return objective directly influences the asset allocation by focusing the decision on allocations to investment vehicles with sufficient expected return. The Basic Retirement Funds have a statutorily required rate of return of 8.5% which must be achieved over the long term in order to meet the Fund's investment and actuarial assumptions. The return objective has a significant influence on the plan's allocation to equity assets.
- **Liquidity Needs:** A plan's cash needs over the investment horizon must be considered in forming an effective asset allocation policy. Plans with higher liquidity needs should maintain a higher liquid cash balance than plans with little need for cash. In addition, the liquidity impact due to allocations to non-marketable securities should be carefully considered. The Basic Funds have minimal liquidity needs, since transfers to fund retiree benefits from the Basic Funds to the Post Fund are accomplished with the transfer of assets via pool units, not cash.
- **Risk Tolerance:** Rather than a purely independent factor, risk tolerance is, in part, an outcome of the time horizon, return objective and liquidity decisions. For example, a 30-year time horizon combined with high return objectives and low liquidity needs allow for a high risk tolerance. This review recommends that the Basic Funds should have a high tolerance for risk. This decision is based upon the length of the investment horizon (30 to 40 years), low liquidity needs, and importantly, the aggressive return objective of 8.5% for the Funds.

A higher risk tolerance suggests a greater emphasis on equity-type investments that offer higher absolute levels of return.

- **Accounting Considerations:** The retirement funds that make up the Basic Funds have statutorily required employer and employee contribution rates and assumed rates of return that will fully fund the plans by specific dates. (The dates range from 2020 to 2031.) Unlike corporate pension plans, the State has the ability to withstand short-term negative results without being required to make one-time cash contributions or make contribution rate changes. These factors further support the assertion that the Basic Funds have a high tolerance for investment risk, and therefore a high level of equity exposure is appropriate.

POST RETIREMENT FUND

- **Fund Objective:** The Post Retirement Fund's objective is to earn sufficient returns to ensure that assets are available to pay initially promised benefits as well as any increases granted for all participants in the Fund.
- **Time Horizon:** The Post Fund has an investment horizon of 15 to 20 years, which represents the length of time a typical beneficiary is expected to draw a benefit.
- **Return Objective:** The Post Fund's return objective is the sum of the actuarial assumed rate of return (6%) used in the Post Fund's funding calculation plus a promised inflation-based benefit adjustment of up to 2.5% per year.
- **Liquidity Needs:** The Post Fund makes monthly benefit payments to retirees, and therefore has specific liquidity needs. Based on historical cash flows of monthly annuity payments and ongoing funding for new retirees, the Post

Fund experiences net outflows of approximately \$1.2 billion over a six-month period, or about 5% of the fund

- **Risk Tolerance:** This review recommends the Post Fund, like the Basic Funds, should have a high tolerance for risk. This decision is based upon the length of the investment horizon, 15 to 20 years, moderate liquidity needs, and importantly, the aggressive return objective of 8.5% for the Fund. This objective suggests that a commensurate level of investment risk must be accepted in order to achieve the required return over the long term. To accomplish this goal the Post Fund should have a high level of equity exposure. In addition, the Post Fund should have a higher level of liquidity than the Basic Funds.
- **Accounting Considerations:** In the Post Fund, sufficient assets (discounted at the 6% return assumption) are transferred from the Basic Funds to the Post Fund to support the initially promised benefit. An inflation increase of up to 2.5% is granted annually. If returns exceed the 6% return assumption and the inflation component, an investment based increase may be granted. If investment performance does not meet the return assumption and the inflation component, an unfunded liability occurs in the Post Fund. No investment component benefit increase will be granted until the unfunded liability is recovered. The need for the Post Fund to fund the initially promised benefits and to fund benefit increases support the assertion that the Post Fund has a high tolerance for investment risk. Therefore, a high level of equity exposure is appropriate.

COMBINED RETIREMENT FUND

- **Fund Objective:** The Combined Retirement Fund's objective is to earn sufficient returns to ensure that assets are available to pay initially promised benefits as well as any increases granted in the future.
- **Time Horizon:** The expected time horizon of the investment period is determined by the nature of the liabilities. Everything being equal, long-term liability streams afford the investor the opportunity to withstand short-term volatility in pursuit of higher returns. A shorter time horizon requires investors to take less equity risk. The Combined Retirement Funds consist of assets for active (working) employees and retirees. It has an investment horizon of 25 to 30 years.
- **Return Objective:** The stated return objective directly influences the asset allocation by focusing the decision on allocations to investment vehicles with sufficient expected return. The Combined Retirement Funds has a required rate of return of 8.5% which must be achieved over the long term in order to meet the Fund's investment and actuarial assumptions. The return objective has a significant influence on the plan's allocation to equity assets.
- **Liquidity Needs:** A plan's cash needs over the investment horizon must be considered in forming an effective asset allocation policy. Plans with higher liquidity needs should maintain a higher liquid cash balance than plans with little need for cash. In addition, the liquidity impact due to allocations to non-marketable securities should be carefully considered. The Combined Fund has monthly benefit payments to retirees, and therefore has specific liquidity needs. Based on historical cash flows of monthly annuity payments and ongoing funding for new retirees, the Combined Fund would experience net outflows of approximately \$1.2 billion over a six-month period, or about 2.5% of the fund.

- **Risk Tolerance:** Rather than a purely independent factor, risk tolerance is, in part, an outcome of the time horizon, return objective and liquidity decisions. For example, a 30-year time horizon combined with high return objectives and low liquidity needs allow for a high risk tolerance. This review recommends that the Combined Funds should have a high tolerance for risk. This decision is based upon the length of the investment horizon (25 to 30 years), low liquidity needs, and importantly, the aggressive return objective of 8.5% for the Funds. A higher risk tolerance suggests a greater emphasis on equity-type investments that offer higher absolute levels of return.
- **Accounting Considerations:** Unlike corporate pension plans, the State has the ability to withstand short-term negative results without being required to make one-time cash contributions or make contribution rate changes. These factors further support the assertion that the Combined Funds have a high tolerance for investment risk, and therefore a high level of equity exposure is appropriate.

Assumptions and Simulations

With the above considerations in mind, several asset mix simulations were run for the Basic, Post and Combined Funds that utilize various combinations of assets.

The expected return, standard deviation and correlation assumptions used in the simulations are in **Attachment A**. The figures in Attachment A take into consideration long-term historical returns, data from consultants and long-term capital market assumptions from a number of investment management organizations (shown in **Attachment B**.) The assumptions used by the SBI in its 2003 asset allocation review are included for reference.

The results of the simulations for the Basic Funds, Post Fund and Combined Retirement Funds are shown in **Attachments C, D and E**.

Attachment A

Assumptions Used in Simulations

Asset Class	Return/Risk		
	Real* Return	Nominal** Return	Risk/ Std. Dev.
Equity			
Domestic	6.0	9.0	17.0
International-unhedged	6.0	9.0	18.0
Emerging markets	8.0	11.0	25.0
Alternative Assets	8.5	11.5	20.0
Fixed Income			
Domestic bonds	3.0	6.0	7.0
Non dollar bonds-unhedged	3.0	6.0	8.0
High Yield	4.0	7.0	10.0
Cash equivalents	1.0	4.0	2.0
Inflation		3.0	

* Real return = nominal return - inflation.

** Nominal return is the long-term (20+ years) expected return.

Correlation Matrix

	1	2	3	4	5	6	7	8
1 US stocks	1.00							
2 Intl.-unhed.	.70	1.00						
3 Emerg. mkts.	.65	.65	1.00					
4 Alternatives	.55	.45	.40	1.00				
5 US bonds	.20	.10	-.05	.20	1.00			
6 Non US-un.	.10	.30	-.10	.10	.55	1.00		
7 Cash equiv.	0	-.05	-.05	.00	.00	-.10	1.00	
8 High yield	.50	.40	.35	.40	.40	.15	.00	1.00

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Attachment B

COMPARATIVE DATA Long Term Expected Real Returns

	SBI 2008 Study	SBI-2003	BGI	J.P. Morgan	Goldman Sachs	Wilshire	State Street	UBS	Morgan Stanley	Richards & Tierney	Ibbotson
Equities											
Domestic	6.00	6.25	6.90	6.10	5.60	6.75	5.10	6.60	7.10	5.90	7.20
International-unhedged	6.00	6.25	6.75	6.75	5.50	6.75	5.10	6.80	6.80	6.70	8.40
Emerging Markets	8.00	8.50	7.50	7.50	7.80	6.75	6.50	8.30	9.60	6.80	13.10
Alternative Assets	8.50										
Private Equity	N/A	10.00	8.75	7.00	9.40	10.00	6.50	10.50	N/A	9.30	N/A
Real Assets	N/A	5.00	5.50	5.00	3.80	5.25	4.00	5.10	N/A	4.40	7.00
Yield Oriented	N/A	5.50									
Fixed Income											
Domestic Bonds	3.00	3.50	4.25	3.25	2.20	3.75	2.10	4.00	2.80	3.00	5.40
Non-dollar Bonds- Unhedged	3.00	3.50	N/A	2.75	2.10	3.50	N/A	4.00	N/A	4.00	N/A
High Yield	4.00	4.50	5.25	5.50	3.50	5.25	3.90	5.10	6.50	3.50	N/A
Cash Equivalents	1.00	1.00	2.5	2.50	N/A	1.50	0.40	3.20	2.30	N/A	0.50
Inflation	3.00	3.00	2.00	2.50	2.50	2.25	3.00	2.25	2.50	2.50	3.10

Standard Deviation

	SBI 2008 Study	SBI-2003*	BGI	J.P. Morgan	Goldman Sachs	Wilshire	State Street	UBS	Richards & Tierney	Ibbotson
Equities										
Domestic	17.00	17.00	16.00	16.00	14.70	16.00	17.50	14.60	15.80	25.00
International-unhedged	18.00	19.00	16.25	14.80	14.70	17.00	18.00	15.10	16.60	20.30
Emerging Markets	25.00	25.00	24.00	24.10	23.00	24.00	23.00	18.70	23.90	30.10
Alternative Assets	20.00									
Private Equity	N/A	30.00	30.00	23.00	21.30	26.00	26.00	25.50	24.50	N/A
Real Assets	N/A	12.00	13.50	14.50	13.50	13.00	14.50	10.10	N/A	N/A
Yield Oriented	N/A	13.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fixed Income										
Domestic Bonds	7.00	7.00	5.00	3.50	3.80	5.00	6.00	4.20	5.20	7.30
Non-dollar Bonds- unhedged	8.00	8.00	N/A	8.20	2.90	10.00	N/A	4.70	9.60	N/A
High Yield	10.00	10.00	9.50	7.30	6.90	10.00	7.00	9.00	7.30	N/A
Cash Equivalents	2.00	2.00	1.50	1.20	N/A	1.00	2.00	0.50	N/A	1.60

- SBI-1995 reflects the data used in the previous asset allocation study conducted in July 1995. PCS, UBS, J.P. Morgan, Wilshire and Goldman Sachs reflects the data currently used by those organizations. Ibbotson reflects longest available observed historical data.

PCA = Pension Consulting Alliance. UBS = UBS PaineWebber Asset Management.

Attachment C

Basic Asset Allocation Policy

	Basics Current	Option 1	Option 2	Option 3	Option 4
Equity	60.0%	55.0%	62.0%	62.0%	60.0%
Domestic	45.0	40.0	47.0	42.0	40.0
International-unhgd.	12.0	12.0	12.0	16.0	16.0
Emerging Markets	3.0	3.0	3.0	4.0	4.0
Altern. Assets*	20.0%	20.0%	18.0%	18.0%	20.0%
Total Equity	80.0%	75.0%	80.0%	80.0%	80.0%
Fixed Income	20.0%	25.0%	20.0%	20.0%	20.0%
Domestic Bonds	19.0	24.0	19.0	19.0	19.0
Cash Equivalents	1.0	1.0	1.0	1.0	1.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Annual Expected Return (Nominal)	8.94%	8.79%	8.89%	8.91%	8.96%
Annual Expected Risk/Stand. Dev.	±12.83	±12.75	±12.86	±12.79	±12.77

Return change from current	-0.15	-0.05	-0.03	+0.02
Risk change from current	-0.08	+0.03	-0.04	-0.06

Changes from Current Policy

- Option 1
 - increase domestic bonds 5%
 - decrease domestic equities 5%

- Option 2
 - increase domestic equities 2%
 - decrease alternative assets 2%

- Option 3
 - increase international equities 4%
 - increase emerging markets equities 1%
 - decrease alternative assets 2%
 - decrease domestic equities 3%

- Option 4
 - increase international equities 4%
 - increase emerging markets equities 1%
 - decrease domestic equities 5%

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Attachment D

Post Asset Allocation Policy

	Post Current	Option 1	Option 2	Option 3	Option 4
Equity	60.0%	60.0%	55.0%	60.0%	60.0%
Domestic	45.0	45.0	40.0	45.0	40.0
International-unhgd.	12.0	12.0	12.0	12.0	16.0
Emerging Markets	3.0	3.0	3.0	3.0	4.0
Altern. Assets*	12.0%	15.0%	20.0%	18.0%	18.0%
Total Equity	72.0%	75.0%	75.0%	78.0%	78.0%
Fixed Income	28.0%	25.0%	25.0%	22.0%	22.0%
Domestic Bonds	25.0	22.0	22.0	19.0	19.0
Cash Equivalents	3.0	3.0	3.0	3.0	3.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Annual Expected Return (Nominal)	8.46%	8.62%	8.75%	8.79%	8.81%
Annual Expected Risk/Stand. Dev.	±11.80	±12.16	±12.10	±12.53	±12.47

Return change from current	+0.16	+0.29	+0.33	+0.35
Risk change from current	+0.36	+0.30	+0.73	+0.67

Changes from Current Policy

- Option 1
 - increase alternative assets 3%
 - decrease domestic bonds 3%

- Option 2
 - increase alternative assets 8%
 - decrease domestic bonds 3%
 - decrease domestic equities 5%

- Option 3
 - increase alternative assets 6%
 - decrease domestic bonds 6%

- Option 4
 - increase alternative assets 6%
 - increase international equities 4%
 - increase emerging markets equities 1%
 - decrease domestic bonds 6%
 - decrease domestic equities 5%

Attachment E

Combined Asset Allocation Policy

	Combined Current	Option 1	Option 2	Option 3	Option 4	Option 5
Equity	60.0%	60.0%	60.0%	58.0%	62.0%	60.0%
Domestic	45.0	45.0	45.0	39.0	42.0	40.0
International-unhgd.	12.0	12.0	12.0	12.0	16.4	16.0
Emerging Markets	3.0	3.0	3.0	3.0	4.0	4.0
Altern. Assets*	16.0%	18.0%	20.0%	20.0%	18.0%	20.0%
Total Equity	76.0%	78.0%	80.0%	74.0%	80.0%	80.0%
Fixed Income	26.5%	22.0%	20.0%	26.0%	20.0%	20.0%
Domestic Bonds	22.0	20.0	18.0	24.0	19.0	18.0
Cash Equivalents	2.0	2.0	2.0	2.0	1.0	2.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Annual Expected Return (Nominal)	8.70%	8.81%	8.92%	8.74%	8.91%	8.94%
Annual Expected Risk/Stand. Dev.	±12.30	±12.55	±12.81	±11.99	±12.79	±12.75

Return change from current	+0.11	+0.22	+0.04	+0.21	+0.24
Risk change from current	+0.25	+0.51	-0.31	+0.49	+0.45

Changes from Current Policy

Option 1	-increase alternative assets 2% -decrease domestic bonds 2%	Option 5	-increase alternative assets 4% -increase international equities 4% -increase emerging markets equities 1% -decrease domestic bonds 4% -decrease domestic equities 5%
Option 2	-increase alternative assets 4% -decrease domestic bonds 4%		
Option 3	-increase alternative assets 4% -increase domestic bonds 2% -decrease domestic equities 6%		
Option 4	-increase alternative assets 2% -increase international equities 4% -increase emerging markets equities 1% -decrease domestic bonds 3% -decrease domestic equities 3% -decrease cash 1%		

Tab D

INVESTMENT ADVISORY COUNCIL REPORT

DATE: September 3, 2008

TO: Members, State Board Investment

FROM: **Members, Investment Advisory Council**

The Investment Advisory Council met on Wednesday, August 20, 2008 to consider the following agenda items:

- Review the manager performance for the period ending June 30, 2008.
- Review of Cohen, Klingenstein & Marks, a domestic equity manager.
- Review of Morgan Stanley Investment Mgmt, a fixed income manager.
- Recommendation to retain a new fixed income manager.

Action is required by the SBI on the last three items.

INFORMATION ITEMS:

1. Review the manager performance for the period ending June 30, 2008.

- *Domestic Equity Program*

For the period ending June 30, 2008, the **Domestic Equity Program** outperformed over the quarter and underperformed over all other time periods.

Time period	Total Program	DE Asset Class Target*
Quarter	-1.1%	-1.7%
1 Year	-13.1%	-12.7%
3 Years	4.3%	4.7%
5 Years	8.2%	8.4%

* The DE Asset Class Target is the Russell 3000 since 10/1/03, the Wilshire 5000 Investable from 7/1/99 to 9/30/03, and the Wilshire 5000 prior to 7/1/99.

The performance evaluation reports for the domestic equity managers start on the **blue page A-1** of this Tab.

- **Fixed Income Program**

For the period ending June 30, 2008, the **Fixed Income Program** outperformed over the quarter and underperformed over all other time periods.

Time period	Total Program	Lehman Aggregate
Quarter	-0.7%	-1.0%
1 Year	4.3%	7.1%
3 Years	3.4%	4.1%
5 Years	3.8%	3.9%

The performance evaluation reports for the fixed income managers start on the **blue page A-91** of this Tab.

- **International Equity Program**

For the period ending June 30, 2008, the **International Equity Program** outperformed over the quarter and three-year time periods, and underperformed over the year and five-years.

Time Period	Total* Program	Int'l Equity Asset Class Target**
Quarter	-0.6%	-1.0%
1 Year	-6.6%	-6.4%
3 Year	16.0%	15.8%
5 Year	18.8%	19.0%

* Includes impact of currency overlay on the passive EAFE portfolio from 12/1/95-10/31/00.

** Since 10/1/07 the International Equity asset class target is the Standard MSCI ACWI ex U.S. (net). From 10/1/07 to 5/31/08, the International Equity asset class target was the Provisional Standard MSCI ACWI ex U.S. (net). From 10/1/03 to 9/30/07, the target was the MSCI ACWI Free ex. U.S. (net). From 7/1/99 to 9/30/03 the target was the MSCI EAFE-Free plus Emerging Markets Free index. The weighting of each index fluctuated with market capitalization. From 12/31/96 to 6/30/99, the target was fixed at 87% EAFE-Free/13% Emerging Markets Free. On 5/1/96, the portfolio began transitioning from 100% EAFE-Free to the 12/31/96 fixed weights. Prior to 5/1/96, the target was 100% EAFE-Free.

The performance evaluation reports for the international equity managers start on the **blue page A-105** of this Tab.

ACTION ITEMS:

2. Review of Cohen Klingenstein and Marks, a domestic equity manager.

Organization

The SBI hired Cohen Klingenstein and Marks (Cohen) in May 1994 to manage a large cap portfolio. There were three principals (George Cohen, Richard Marks, and Tom Klingenstein) at the firm. Since that time, there has been significant personnel turnover with new hires as the firm attempted to retain additional staff. The most recent change was the notification by Cohen on June 10th that they were "cutting back our support staff and eliminating our marketing team to focus on the assets of our principals, their families and our existing client base". As a result, Cohen reduced their staff from 22 to 10 effective July 1, 2008. Two of the three principals, George Cohen and Tom Klingenstein, will remain at Cohen. Richard Marks will retire in a few months.

Re-interview

Cohen, Klingenstein and Marks made a presentation to the Stock & Bond Committee on November 15, 2006 to address organizational issues and the underperformance of the SBI portfolio. The Committee chose to take no action at that time, but requested an update in one year. The one-year update in November of 2007 recommended no action at that time.

Performance

Period Ending (3-31-08)	Cohen, Klingenstein & Marks	Russell 1000 Growth
Quarter	-8.1%	-10.2%
1 Year	-1.9	-0.7
3 Years	2.3	6.3
5 Years	8.9	10.0
Since Inception (4/1994)	7.8	8.4

Calendar Years

2007	7.4%	11.8%
2006	4.4	9.1
2005	-0.9	5.3
2004	6.1	6.3
2003	41.2	29.7

RECOMMENDATION:

Due to the on-going loss of key professionals and underperformance, the Committee recommends that the SBI terminate the relationship with Cohen Klingenstein and Marks for investment management services.

3. Review of Morgan Stanley Investment Mgmt, a fixed income manager.

Morgan Stanley Investment Management (MSIM) has been a fixed income manager for the SBI since 1984 and has generally performed quite well. However, the credit crisis that began in August 2007 has impacted Morgan Stanley more than any of the SBI's other fixed income managers. Performance has slipped over the last year as Morgan Stanley's bets in the mortgage sector have performed poorly.

As a result of MSIM's poor performance, its New York headquarters has elected to shut down its fixed income operations located in West Conshohocken, PA, which is where the SBI's portfolio is managed. All of Morgan Stanley's fixed income operations will be moved to the New York headquarters, forcing the relocation of over 30 portfolio managers and analysts in West Conshohocken. SBI staff viewed this as alarming as these types of moves typically result in portfolio management turnover and a makeover of investment styles and philosophies. Therefore, staff recommended to the IAC that Morgan Stanley be terminated from its fixed income mandate.

The IAC agreed that MSIM's performance was disappointing, but, like SBI staff, was more concerned about the relocation of the fixed income operations to New York. The IAC pointed out that one year of underperformance is not enough to terminate an investment manager. However, the relocation to New York and the changes that will certainly bring, along with disappointing performance, prompted the IAC to recommend termination.

RECOMMENDATION:

The SBI staff and the IAC recommend that the Board terminate Morgan Stanley from its fixed income manager mandate. Poor performance over the last year, which prompted a relocation of the fixed income operations to New York, have caused the SBI staff and the IAC to lose confidence in Morgan Stanley's ability to achieve its investment management objectives.

4. Recommendation to retain a new fixed income manager.

After SBI staff came to the conclusion to recommend the termination of Morgan Stanley, a search for a replacement began. After evaluating a short list of managers, SBI staff came to the conclusion that Pacific Investment Management Company (PIMCO) was the best option for replacing Morgan Stanley. SBI staff visited with PIMCO here in St. Paul as well as in their offices in Newport Beach, California in order to make this determination.

SBI staff recommended to the IAC that PIMCO be hired to replace Morgan Stanley. PIMCO was invited to the IAC meeting to give a brief presentation. After the presentation, the IAC concurred with the staff recommendation to retain PIMCO as a fixed income manager. Members of the IAC cited PIMCO's leadership and resources as drivers of their success. Hiring PIMCO would allow the SBI to merge the M.E.R.F. portfolio with the existing Morgan Stanley portfolio.

RECOMMENDATION:

The SBI Staff and the IAC recommend that the Board retain PIMCO as an active fixed income manager. This recommendation is based upon PIMCO's leadership, innovation, and strong investment performance in the fixed income markets. PIMCO's investment approach will be a compliment to the SBI's current fixed income managers. A write-up of PIMCO is attached.

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PIMCO REVIEW

Organization and Investment Process

Pacific Investment Management Company (PIMCO) is an asset management firm based in Newport Beach, California that as of June 30, 2008 had over \$820 billion in assets under management. PIMCO was founded in 1971 by Bill Gross, who is still in place as the firm's co-CIO. PIMCO's leadership is one of their best assets, as Gross has surrounded himself with many of the brightest fixed income minds in the world, including Mohamed El-Erian, Paul McCauley, and Bill Thompson. PIMCO currently has over 1,000 employees worldwide, and PIMCO's flat management structure allows each of the 373 investment professionals an opportunity to make a difference in the implementation of portfolio strategies.

PIMCO breaks their organization up into three categories: portfolio management, account management, and business management. In portfolio management, the Generalists (portfolio managers) receive input from the Specialists (analysts) in each market sector. These sector specialists relay timely information, provide strategic ideas, trading strategies and assist with execution. The Generalists and Specialists all sit in an open trading floor format, allowing for quick and open communication. Gross and El-Erian sit in the center of the trading floor so they can be easily accessible and react quickly to new information. Account Managers are primarily responsible for maintaining the client relationship and monitoring investment strategies to be sure they comply with client objectives. PIMCO's business management group comprises the Executive Office, Legal & Compliance and Technology & Operations.

- The Executive Office provides global business leadership, sets performance goals and establishes strategic initiatives.
- Legal & Compliance monitors and enforces client, firm and regulatory guidelines.
- Technology & Operations delivers technology, analytics and investment support globally.

On a quarterly basis, PIMCO's portfolio management group holds what they call "cyclical and secular forums". This is where long-term (secular: three to five years) and short-term (cyclical: 6 to 12 months) strategies are discussed and ultimately implemented by the portfolio management group. On a weekly basis, each market sector specialist group will meet with their Generalists to discuss economic factors going on in their respective sectors. This is where PIMCO's top-down views discussed in the cyclical and secular forums meets the bottom-up research done by PIMCO's analysts. Mohamed El-Erian described PIMCO's investment approach as a seven-lane highway. Top-down macro views tell them which direction to go, but it is the diligent research of the analysts that drive the bottom-up analysis which tells them which "lane" to be in. This proves to be true as PIMCO's alpha is generated primarily by bottom-up strategies rather than macro bets. In summary, PIMCO's investment philosophy embodies three key principles:

- They make major shifts in portfolio strategy based on long-term or secular trends, as opposed to short-term aberrations in interest rates.
- They seek to achieve consistent investment performance by avoiding extreme swings in either maturity or duration.
- Their emphasis is placed on attempting to add value through multiple, diversified strategies combined with volatility analytics, and adjustments to traditional variables such as sector, coupon and quality.

Analytics and Risk Management

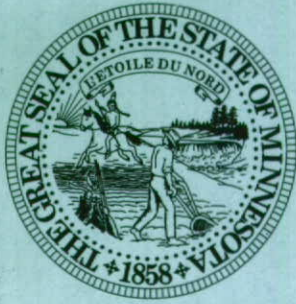
PIMCO uses an in-house analytics and risk management system that seems to be very user friendly. Every evening, each portfolio is run through PIMCO's analytics system. The output is comprehensive portfolio characteristics that indicate where the given portfolio's risk lies, i.e. sector breakdown, duration and yield curve exposure, credit quality, etc. Every PIMCO employee worldwide has access to this system so client information can be accessed quickly. These risk measures have evolved over time as the market has become more complex.

PIMCO's risk and analytics system also works to keep portfolios guideline compliant. All trades are screened for guideline compliance before they are allowed to get allocated to a portfolio. Mohamed El-Erian heads up PIMCO's risk management committee, so although the risk management system is automated, there are always human beings involved in the process to interpret the results.

The following table is a return series for a representative PIMCO account that operates most closely to the SBI's active fixed income manager guidelines. This account's allocation to emerging market debt (less than 2% on a contribution to duration basis) attributed 15-20 basis points of alpha for the periods up to 5 years, and 10-15 basis points of alpha in the 5 and 10 year periods.

Representative Account					
DATE	YTD	12 MOS	3 YRS	5 YRS	10 YRS
As of 6/30/2008	2.3*	10.82*	5.28*	5.1*	6.61*
Lehman Agg.	1.13	7.12	4.09	3.85	5.68
Alpha	1.17	3.70	1.19	1.25	0.93

*Returns are gross of fees and include an allocation to emerging market debt of 1.6%



STATE BOARD OF INVESTMENT

Domestic Equity Manager Evaluation Reports

Second Quarter, 2008

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A-2

Domestic Equity

Table of Contents

	Page
Domestic Equity Performance Summary	A-5
Active Manager Performance Summary (quarter, 1, 3, 5, year periods)	A-6
Active Manager Performance Summary (by calendar years)	A-7
Semi-Passive and Passive Manager Performance Summary (quarter, 1, 3, 5 year periods)	A-8
Semi-Passive and Passive Manager Performance Summary (by calendar years)	A-9
Large Cap Core (R1000)	A-13
Large Cap Growth (R1000 Growth)	A-23
Large Cap Value (R1000 Value)	A-43
Small Cap Growth (R2000 Growth)	A-57
Small Cap Value (R2000 Value)	A-67
Semi-Passive and Passive	A-81

COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending June, 2008

	Quarter		1 Year		3 Years		5 Years	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	-1.4	-1.9	-15.7	-12.4	3.2	4.8		
Russell 1000 Growth Aggregate	3.4	1.2	-4.7	-6.0	4.6	5.9		
Russell 1000 Value Aggregate	-4.3	-5.3	-18.1	-18.8	2.8	3.5		
Russell 2000 Growth Aggregate	6.2	4.5	-7.1	-10.8	8.1	6.1		
Russell 2000 Value Aggregate	-3.3	-3.5	-25.5	-21.6	-2.2	1.4		
Active Manager Aggregate	-0.2	-1.4	-13.6	-13.3	3.5	4.5		
Semi-Passive Aggregate	-1.7	-1.9	-13.5	-12.4	4.2	4.8		
Passive Manager (BGI)	-1.7	-1.7	-12.6	-12.7	4.8	4.7		
Total Domestic Equity Aggregate	-1.1	-1.7	-13.1	-12.7	4.3	4.7		
SBI DE Asset Class Target		-1.7		-12.7		4.7		
Russell 3000 Index		-1.7		-12.7		4.7		

	2007		2006		2005		2004	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	2.4	5.8	15.8	15.5	6.4	6.3	14.5	11.4
Russell 1000 Growth Aggregate	14.9	11.8	2.2	9.1	7.3	5.3	6.1	6.3
Russell 1000 Value Aggregate	3.6	-0.2	17.4	22.2	6.0	7.1	14.3	16.5
Russell 2000 Growth Aggregate	21.6	7.0	10.0	13.3	4.7	4.2	9.7	14.3
Russell 2000 Value Aggregate	-13.4	-9.8	13.1	23.5	7.7	4.7	25.0	22.2
Active Manager Aggregate	6.3	4.2	11.5	15.8	6.5	6.0	12.5	12.3
Semi-Passive Aggregate	3.2	5.8	16.1	15.5	6.2	6.3	11.7	11.4
Passive Manager (BGI)	5.1	5.1	15.8	15.7	6.2	6.1	12.0	11.9
Total Domestic Equity Aggregate	4.9	5.1	14.5	15.7	6.4	6.1	12.2	11.9
SBI DE Asset Class Target		5.1		15.7		6.1		11.9
Russell 3000 Index		5.1		15.7		6.1		11.9

**COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS**

Periods Ending June, 2008

Performance versus Russell Style Benchmarks for All Periods

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
LARGE CAP												
Russell 1000 Core												
Franklin Portfolio	-0.4	-1.9	-13.6	-12.4	4.7	4.8	9.3	8.2	10.7	10.5	\$456.6	2.1%
New Amsterdam Partners (2)	0.2	-1.9	-12.8	-12.4	2.3	4.8	8.6	8.9	11.7	10.4	\$481.7	2.2%
UBS Global	-3.1	-1.9	-18.9	-12.4	2.9	4.8	7.6	8.2	9.4	9.4	\$706.0	3.2%
Aggregate	-1.4	-1.9	-15.7	-12.4	3.2	4.8					\$1,644.4	7.5%
Russell 1000 Growth												
Alliance Capital	3.5	1.2	-3.6	-6.0	5.7	5.9	6.5	7.3	13.4	10.3	\$281.9	1.3%
INTECH	1.7	1.2	-6.9	-6.0	4.5	5.9			3.9	4.5	\$318.6	1.5%
Jacobs Levy	2.2	1.2	-9.6	-6.0	2.6	5.9			1.8	4.5	\$282.3	1.3%
Lazard Asset Mgmt.	2.3	1.2	-4.5	-6.0	7.5	5.9			5.6	4.5	\$60.9	0.3%
Sands Capital	4.8	1.2	-0.6	-6.0	4.4	5.9			3.2	4.5	\$221.8	1.0%
Voyageur-Chicago Equity (4)	-1.8	1.2	-7.4	-6.0	2.1	5.9	5.1	7.3	-0.6	-4.6	\$48.4	0.2%
Winslow-Large Cap	5.4	1.2	3.5	-6.0	10.8	5.9			9.3	4.5	\$128.5	0.6%
Zevenbergen Capital	4.9	1.2	-5.0	-6.0	9.2	5.9	10.9	7.3	9.7	8.3	\$263.8	1.2%
Aggregate	3.4	1.2	-4.7	-6.0	4.6	5.9					\$1,606.1	7.3%
Russell 1000 Value												
Barrow, Hanley	-3.0	-5.3	-19.6	-18.8	1.5	3.5			6.0	5.9	\$414.6	1.9%
Earnest Partners	-4.6	-5.3	-17.1	-18.8	3.3	3.5	10.5	8.9	4.5	5.4	\$169.7	0.8%
Lord Abbett & Co.	-5.5	-5.3	-15.0	-18.8	4.4	3.5			4.9	5.9	\$302.0	1.4%
LSV Asset Mgmt.	-6.5	-5.3	-22.0	-18.8	3.3	3.5			7.1	5.9	\$394.3	1.8%
Systematic Financial Mgmt.	-2.0	-5.3	-14.4	-18.8	5.8	3.5			7.6	5.9	\$306.0	1.4%
Aggregate	-4.3	-5.3	-18.1	-18.8	2.8	3.5					\$1,586.7	7.2%
SMALL CAP												
Russell 2000 Growth												
McKinley Capital	1.9	4.5	-14.0	-10.8	5.7	6.1			5.1	6.3	\$223.8	1.0%
Next Century Growth	9.3	4.5	-1.3	-10.8	14.9	6.1	17.3	10.4	0.9	-0.7	\$266.4	1.2%
Turner Investment Partners	6.9	4.5	-6.4	-10.8	9.5	6.1			8.0	6.3	\$244.9	1.1%
Aggregate	6.2	4.5	-7.1	-10.8	8.1	6.1					\$735.2	3.4%
Russell 2000 Value												
Goldman Sachs	-2.7	-3.5	-15.7	-21.6	3.7	1.4			6.3	5.7	\$123.0	0.6%
Hotchkis & Wiley	-1.2	-3.5	-29.2	-21.6	-5.4	1.4			2.4	5.7	\$104.3	0.5%
Martingale Asset Mgmt.	-1.5	-3.5	-24.4	-21.6	-3.4	1.4			4.5	5.7	\$114.3	0.5%
Peregrine Capital	-6.4	-3.5	-30.0	-21.6	-3.6	1.4	7.9	10.0	9.9	10.4	\$165.5	0.8%
RiverSource/Kenwood	-2.7	-3.5	-25.0	-21.6	-1.1	1.4			4.4	5.7	\$50.9	0.2%
Aggregate	-3.3	-3.5	-25.5	-21.6	-2.2	1.4					\$557.9	2.5%
Active Mgr. Aggregate (3)	-0.2	-1.4	-13.6	-13.3	3.5	4.5					\$6,130.2	28.0%

(1) Since retention by the SBI. Time period varies for each manager.

(2) New Amsterdam Partners' published benchmark is the Russell 1000 core index beginning 10/1/03. Prior to that date it was the Russell Midcap Index.

(3) The Active Manager Aggregate Benchmark is the aggregate of the weighted average of the active manager benchmarks and is not the Russell 3000.

(4) Voyageur's benchmark was changed to the Russell 1000 Growth for all time periods on 1/1/2007.

**COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Calendar Year Returns Versus
Russell Style Benchmarks for All Periods**

	2007		2006		2005		2004		2003	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
LARGE CAP										
Russell 1000 Core										
Franklin Portfolio	2.4	5.8	20.4	15.5	3.4	6.3	15.7	11.4	32.9	29.9
New Amsterdam Partners (1)	5.0	5.8	9.3	15.5	7.6	6.3	14.8	11.4	34.2	38.0
UBS Global	0.8	5.8	16.8	15.5	8.6	6.3	13.4	11.4	30.7	29.9
Aggregate	2.4	5.8	15.8	15.5	6.4	6.3	14.5	11.4		
Russell 1000 Growth										
Alliance Capital	15.4	11.8	-0.4	9.1	14.2	5.3	5.7	6.3	22.4	29.7
INTECH	11.4	11.8	7.4	9.1	7.8	5.3				
Jacobs Levy	8.4	11.8	6.1	9.1	5.3	5.3				
Lazard Asset Mgmt.	18.0	11.8	7.1	9.1	6.6	5.3				
Sands Capital	19.5	11.8	-5.5	9.1	10.9	5.3				
Voyageur-Chicago Equity (3)	10.9	11.8	2.1	9.1	3.9	5.3	10.6	6.3	23.2	29.7
Winslow-Large Cap	22.0	11.8	7.6	9.1	10.5	5.3				
Zevenbergen Capital	24.0	11.8	6.2	9.1	9.0	5.3	13.1	6.3	49.3	29.7
Aggregate	14.9	11.8	2.2	9.1	7.3	5.3				
Russell 1000 Value										
Barrow, Hanley	2.6	-0.2	15.4	22.2	9.6	7.1				
Earnest Partners	6.5	-0.2	13.8	22.2	15.6	7.1	18.9	16.5	32.0	30.0
Lord Abbett & Co.	4.4	-0.2	18.6	22.2	3.5	7.1				
LSV Asset Mgmt.	1.3	-0.2	21.7	22.2	12.5	7.1				
Systematic Financial Mgmt.	8.3	-0.2	17.9	22.2	10.3	7.1				
Aggregate	3.6	-0.2	17.4	22.2	6.0	7.1				
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	16.2	7.0	12.5	13.3	0.2	4.2	12.2	14.3		
Next Century Growth	34.2	7.0	12.4	13.3	25.2	4.2	6.4	14.3	50.7	48.5
Turner Investment Partners	14.8	7.0	13.6	13.3	6.2	4.2	11.6	14.3		
Aggregate	21.6	7.0	10.0	13.3	4.7	4.2	9.7	14.3		
Russell 2000 Value										
Goldman Sachs	-5.0	-9.8	17.8	23.5	4.1	4.7	19.9	22.2		
Hotchkis & Wiley	-18.8	-9.8	3.0	23.5	10.4	4.7	27.1	22.2		
Martingale Asset Mgmt.	-16.8	-9.8	14.8	23.5	6.2	4.7	30.8	22.2		
Peregrine Capital	-13.4	-9.8	14.3	23.5	10.1	4.7	23.6	22.2	44.2	46.0
RiverSource/Kenwood	-11.8	-9.8	19.4	23.5	4.8	4.7	25.8	22.2		
Aggregate	-13.4	-9.8	13.1	23.5	7.7	4.7	25.0	22.2		
Active Mgr. Aggregate (2)	6.3	4.2	11.5	15.8	6.5	6.0				

(1) New Amsterdam Partners' published benchmark is the Russell 1000 core index beginning 10/1/03.

Prior to that date it was the Russell Midcap Index.

(2) The Active Manager Aggregate Benchmark is the aggregate of the weighted average of the active manager benchmarks and is not the Russell 3000.

(3) Voyageur's benchmark was changed to the Russell 1000 Growth for all time periods on 1/1/2007.

Note: Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

**COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending June, 2008
Versus Manager Benchmarks**

	Quarter		1 Year		3 Years		5 Years		Since Inception (2)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
SEMI-PASSIVE MANAGERS (1)												
Barclays Global Investors	-0.4	-1.9	-13.3	-12.4	4.4	4.8	8.2	8.2	9.6	9.1	\$3,073.7	14.0%
Franklin Portfolio	-2.3	-1.9	-13.9	-12.4	3.9	4.8	7.6	8.2	8.6	9.1	\$2,402.2	11.0%
JP Morgan	-2.6	-1.9	-13.4	-12.4	4.3	4.8	7.8	8.2	9.0	9.1	\$2,653.9	12.1%
Semi-Passive Aggregate (R1000)	-1.7	-1.9	-13.5	-12.4	4.2	4.8	7.9	8.2	9.1	9.1	\$8,129.8	37.1%
PASSIVE MANAGER (R3000)												
Barclays Global Investors	-1.7	-1.7	-12.6	-12.7	4.8	4.7	8.4	8.4	8.6	8.5	\$7,505.1	34.2%
Historical Aggregate (3)	-1.1	-1.7	-13.1	-12.7	4.3	4.7	8.2	8.3	10.6	10.9	\$21,917.1	100.0%
SBI DE Asset Class Target (4)		-1.7		-12.7		4.7		8.4		10.9		
Russell 3000		-1.7		-12.7		4.7		8.4		11.3		
Wilshire 5000		-1.5		-12.5		5.0		8.7		11.2		
Russell 1000		-1.9		-12.4		4.8		8.2		11.5		
Russell 2000		0.6		-16.2		3.8		10.3		9.4		

(1) Semi-Passive managers' benchmark is the Russell 1000 index beginning 1/1/04 and was the Completeness Fund benchmark prior to 1/1/04.

(2) Since retention by the SBI. Time period varies for each manager.

(3) Includes the performance of terminated managers.

(4) The Domestic Equity Asset Class Target is the Russell 3000 effective 10/1/03. From 7/1/99 to 9/30/03, it was the Wilshire 5000 Investable Index. From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments. Prior to 11/1/93, the Wilshire 5000 was adjusted to reflect SBI mandated restrictions, which included liquor and tobacco, American Home Products and South Africa.

**COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Calendar Year Returns Versus
Manager Benchmarks**

	2007		2006		2005		2004		2003	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
SEMI-PASSIVE MANAGERS (1)										
Barclays Global Investors	2.2	5.8	15.6	15.5	7.6	6.3	11.7	11.4	30.0	28.5
Franklin Portfolio	2.5	5.8	16.5	15.5	6.1	6.3	11.7	11.4	26.9	28.5
JP Morgan	5.1	5.8	16.5	15.5	4.7	6.3	11.7	11.4	28.9	28.5
Semi-Passive Aggregate (R1000)	3.2	5.8	16.1	15.5	6.2	6.3	11.7	11.4	28.8	28.5
PASSIVE MANAGER (R3000)										
Barclays Global Investors	5.1	5.1	15.8	15.7	6.2	6.1	12.0	11.9	30.9	31.2
Historical Aggregate (2)	4.9	5.1	14.5	15.7	6.4	6.1	12.2	11.9	31.0	31.4
SBI DE Asset Class Target (3)		5.1		15.7		6.1		11.9		31.2
Russell 3000		5.1		15.7		6.1		11.9		31.1
Wilshire 5000		5.6		15.8		6.4		12.5		31.6
Russell 1000		5.8		15.5		6.3		11.4		29.9
Russell 2000		-1.6		18.4		4.6		18.3		47.3

(1) Semi-Passive managers' benchmark is the Russell 1000 index beginning 1/1/04 and was the Completeness Fund benchmark prior to 1/1/04.

(2) Includes the performance of terminated managers.

(3) The Domestic Equity Asset Class Target is the Russell 3000 Index effective 10/1/03.

From 7/1/99 to 9/30/03, it was the Wilshire 5000 Investable Index.

From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments.

Prior to 11/1/93, the Wilshire 5000 was adjusted to reflect SBI mandated restrictions, which included liquor and tobacco, American Home Products and South Africa.

Note: Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

Large Cap Core (R1000)

Large Cap Core (R1000)

Table of Contents

	Page
Franklin Portfolio Associates	A-14
New Amsterdam Partners	A-16
UBS Global Asset Management, Inc.	A-18

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2008

Portfolio Manager: Tony Garvin

Assets Under Management: \$456,644,722

Investment Philosophy – Active Style

Franklin believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns. Franklin builds a portfolio by using a series of more than 30 integrated computer models that value a universe of 3500 stocks. Their models rank each security based on fundamental momentum, relative value, future cash flow, and supplementary models. A composite ranking then provides one ranked list of securities reflecting relative attractiveness. Stocks that fall below the median ranking are sold and proceeds are reinvested in stocks from the top deciles in the ranking system. Franklin uses the BARRA E3 risk model to monitor the portfolio's systematic risk and industry weightings, relative to the selected benchmark, to achieve a residual risk of 4.0 to 4.5 percent for the active portfolio.

Staff Comments

Oliver Buckley, CIO, replaced John Cone as CEO on July 1, 2008. Tony Garvin was assigned lead portfolio manager on the account. Franklin's quantitatively driven investment process is not dependent upon individual portfolio managers. Staff does not anticipate any impact on the portfolio as a result of this departure.

Recommendation

No action required

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Core
Last Quarter	-0.4%	-1.9%
Last 1 year	-13.6	-12.4
Last 2 years	2.3	2.7
Last 3 years	4.7	4.8
Last 4 years	6.5	5.6
Last 5 years	9.3	8.2
Since Inception (4/89)	10.7	10.5

Calendar Year Returns

	Actual	Russell 1000 Core
2007	2.4%	5.8%
2006	20.4	15.5
2005	3.4	6.3
2004	15.7	11.4
2003	32.9	29.9

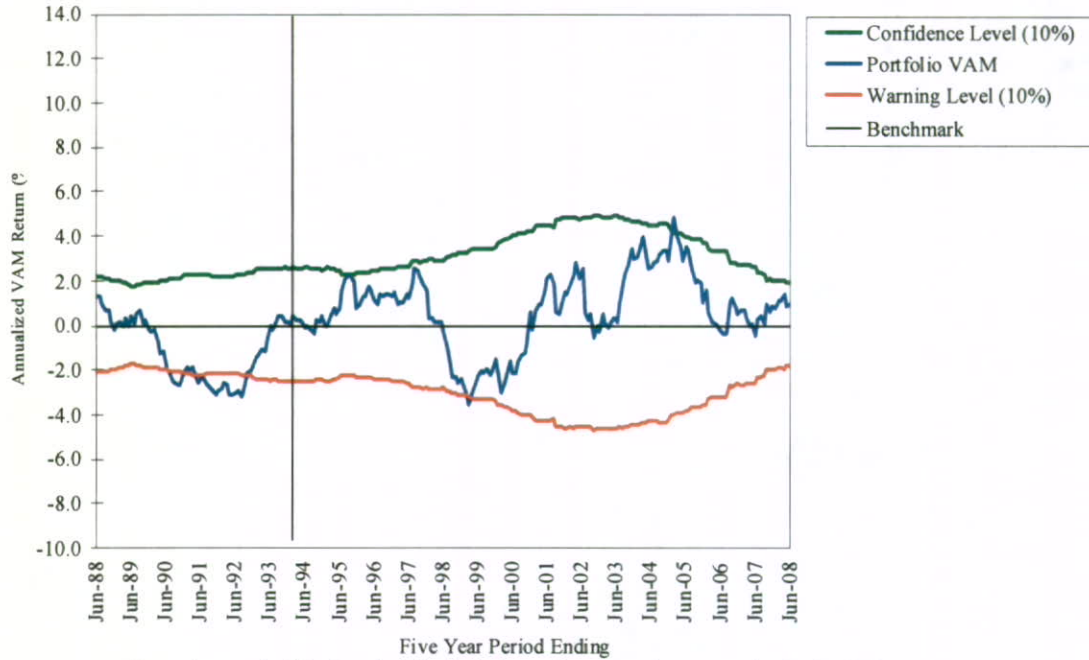
FRANKLIN PORTFOLIO ASSOCIATES

Periods Ending June, 2008

Portfolio Manager: Tony Garvin

Assets Under Management: \$456,644,722

FRANKLIN PORTFOLIO ASSOCIATES - Active
Rolling Five Year VAM vs. Russell 1000 Core



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

NEW AMSTERDAM PARTNERS
Periods Ending June, 2008

Portfolio Manager: Michelle Clayman

Assets Under Management: \$481,735,349

Investment Philosophy

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.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell Index (1)
Last Quarter	0.2%	-1.9%
Last 1 year	-12.8	-12.4
Last 2 years	0.5	2.7
Last 3 years	2.3	4.8
Last 4 years	5.0	5.6
Last 5 years	8.6	8.9
Since Inception (4/94)	11.7	10.4

Calendar Year Returns

	Actual	Russell Index (1)
2007	5.0%	5.8%
2006	9.3	15.5
2005	7.6	6.3
2004	14.8	11.4
2003	34.2	38.0

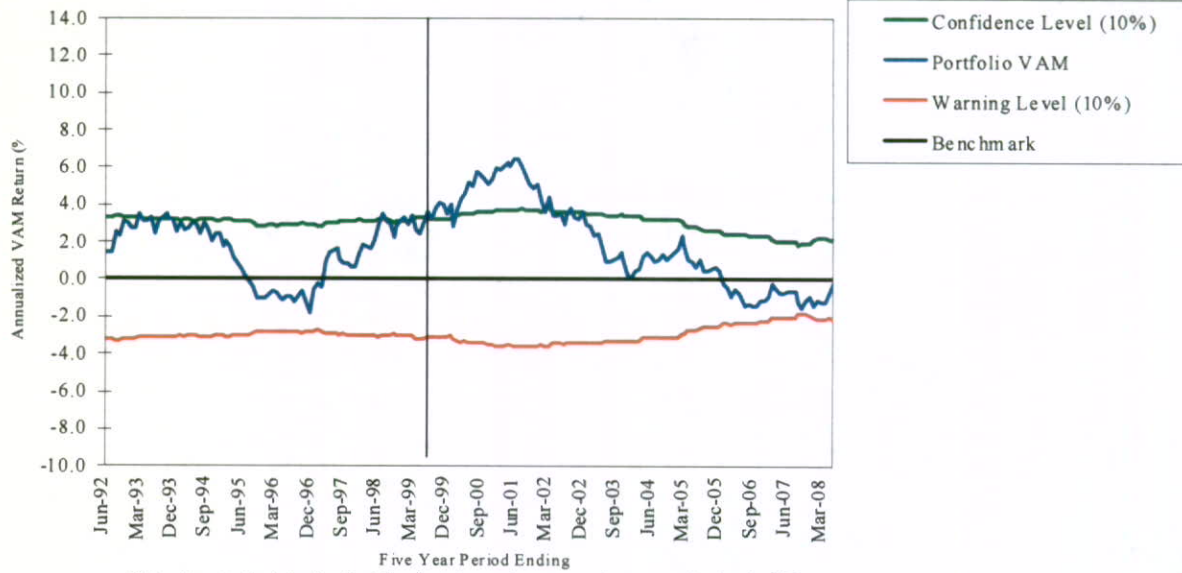
(1) New Amsterdam Partners' published benchmark is the Russell 1000 Core beginning 10/1/03. Prior to that date it was the Russell Midcap index.

NEW AMSTERDAM PARTNERS
Periods Ending June, 2008

Portfolio Manager: Michelle Clayman

Assets Under Management: \$481,735,349

NEW AMSTERDAM PARTNERS
 Rolling Five Year VAM vs. Russell Index (1)



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending June, 2008

Portfolio Manager: John Leonard

Assets Under Management: \$705,993,811

Investment Philosophy

UBS uses a relative value approach to equity investing. They believe that the market price will ultimately reflect the present value of the cash flows the security will generate for the investor. They focus on a bottom-up stock selection process to provide insight into finding opportunistic investments. UBS uses a proprietary discounted free cash flow model as the primary analytical tool for estimating the intrinsic value of a company.

Staff Comments

The portfolio trailed the benchmark for the quarter and the year. Stock selection in finance, consumer discretionary and materials and processing sectors detracted from performance for the quarter and the year. To a lesser extent, an overweight position in the finance sector and having no exposure in the integrated oils sector also had a negative impact on performance for the year.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Core
Last Quarter	-3.1%	-1.9%
Last 1 year	-18.9	-12.4
Last 2 years	-0.5	2.7
Last 3 years	2.9	4.8
Last 4 years	4.8	5.6
Last 5 years	7.6	8.2
Since Inception (7/93)	9.4	9.4

Calendar Year Returns

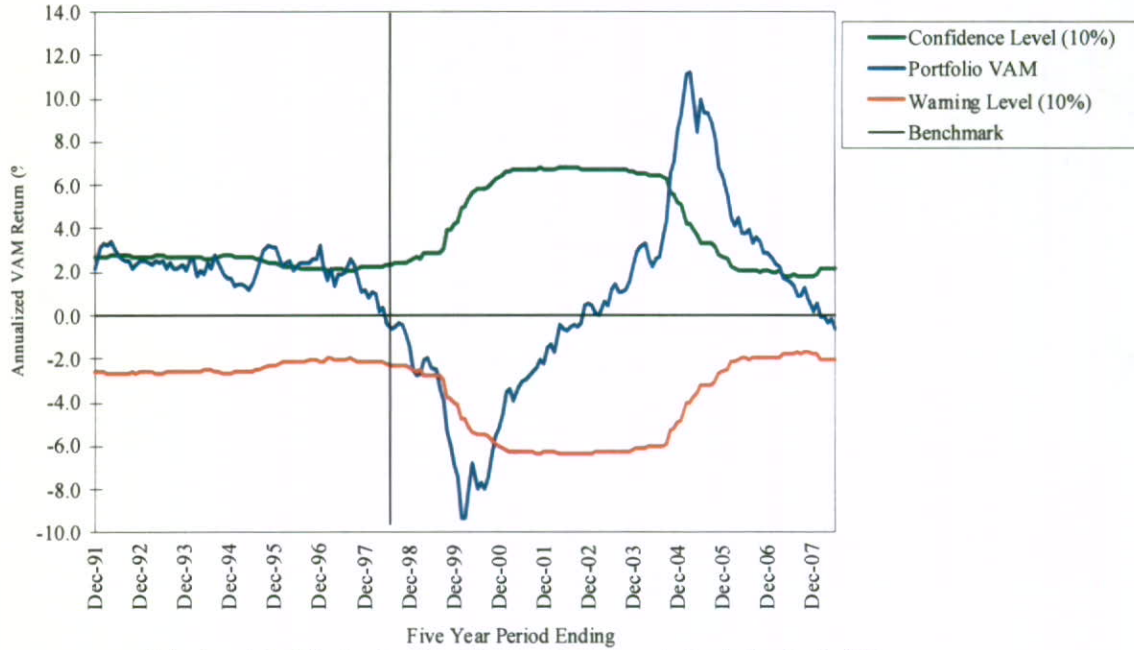
	Actual	Russell 1000 Core
2007	0.8%	5.8%
2006	16.8	15.5
2005	8.6	6.3
2004	13.4	11.4
2003	30.7	29.9

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending June, 2008

Portfolio Manager: John Leonard

Assets Under Management: \$705,993,811

UBS GLOBAL ASSET MANAGEMENT, INC.
 Rolling Five Year VAM vs. Russell 1000 Core



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

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Large Cap Growth (R1000 Growth)

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A-22

Large Cap Growth (R1000 Growth)

Table of Contents

	Page
Alliance Capital Management	A-24
INTECH (Enhanced Investment Technologies, LLC)	A-26
Jacobs Levy Equity Management	A-28
Lazard Asset Management LLC	A-30
Sands Capital Management, Inc.	A-32
Voyageur Asset Management	A-34
Winslow Capital Management, Inc.	A-36
Zevenbergen Capital Inc.	A-38

ALLIANCE CAPITAL MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Stephanie Simon

Assets Under Management: \$281,932,603

Investment Philosophy

Alliance searches for companies likely to experience high rates of earnings growth, on either a cyclical or secular basis. Alliance invests in a range of medium to large growth and cyclically sensitive companies. There is no clear distinction on the part of the firm as to an emphasis 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.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	3.5%	1.2%
Last 1 year	-3.6	-6.0
Last 2 years	5.2	5.8
Last 3 years	5.7	5.9
Last 4 years	5.3	4.8
Last 5 years	6.5	7.3
Since Inception (1/84)	13.4	10.3

Calendar Year Returns

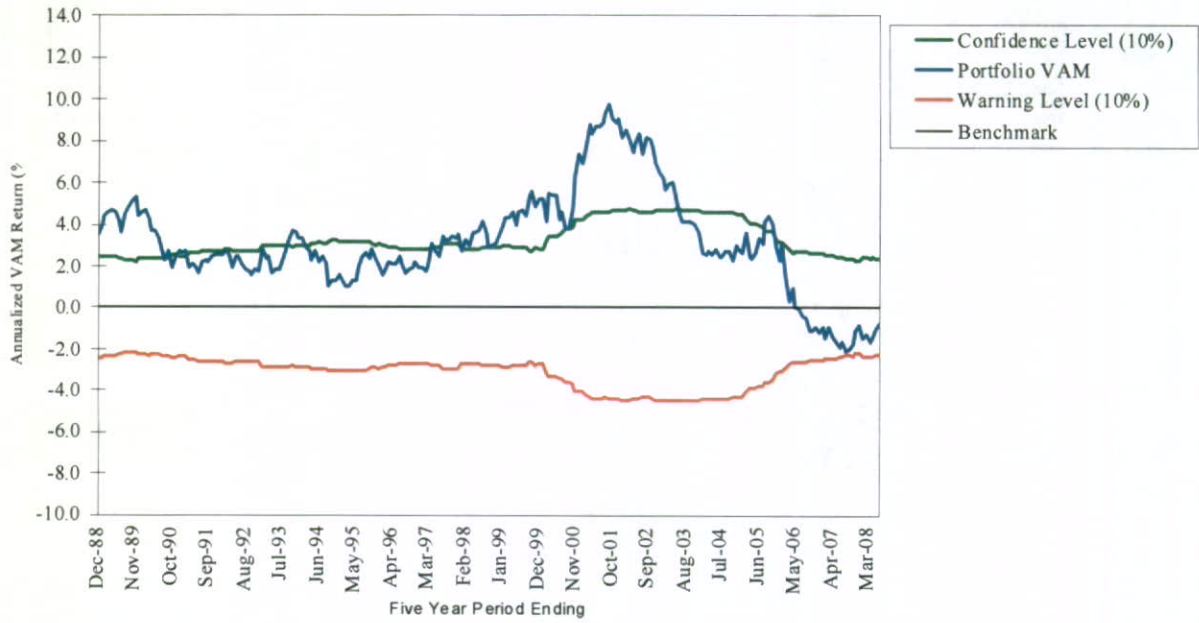
	Actual	Russell 1000 Growth
2007	15.4%	11.8%
2006	-0.4	9.1
2005	14.2	5.3
2004	5.7	6.3
2003	22.4	29.7

ALLIANCE CAPITAL MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Stephanie Simon

Assets Under Management: \$281,932,603

ALLIANCE CAPITAL MANAGEMENT
 Rolling Five Year VAM vs. Russell 1000 Growth



INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)
Periods Ending June, 2008

Portfolio Manager: Robert Fernholz

Assets Under Management: \$ 318,571,958

Investment Philosophy

Through the application of a proprietary mathematical process, the investment strategy is designed to determine more efficient weightings of the securities within the Russell 1000 Growth benchmark. No specific sector or security selection decisions based on fundamentals are required. Risk parameters include: 1) minimize absolute standard deviation or maximize information ratio, 2) security positions limited to lesser of 2.5% or 10 times maximum index security weight, and 3) beta equal to or less than benchmark beta. Target security positions are established using an optimization routine designed to build a portfolio that will outperform a passive benchmark over the long term. Rebalancing to target proportions occurs every six (6) business days, and partial re-optimization occurs weekly.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	1.7%	1.2%
Last 1 year	-6.9	-6.0
Last 2 years	3.4	5.8
Last 3 years	4.5	5.9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	3.9	4.5

Calendar Year Returns

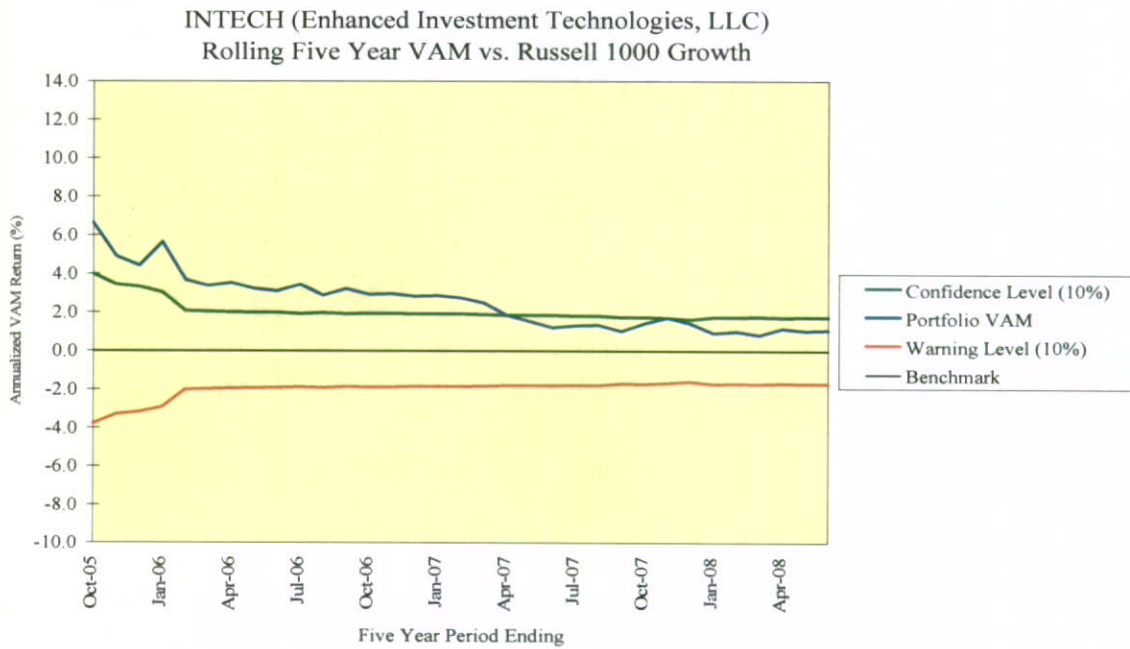
	Actual	Russell 1000 Growth
2007	11.4%	11.8%
2006	7.4	9.1
2005	7.8	5.3
2004	N/A	N/A
2003	N/A	N/A

INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)

Periods Ending June, 2008

Portfolio Manager: Robert Fernholz

Assets Under Management: \$318,571,958



JACOBS LEVY EQUITY MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Bruce Jacobs and Ken Levy

Assets Under Management: \$282,261,427

Investment Philosophy

The strategy combines human insight and intuition, finance and behavioral theory, and state-of-the-art quantitative and statistical methods. Security expected returns generated from numerous models become inputs for the firm's proprietary portfolio optimizer. The optimizer is run daily with the objective of maximizing the information ratio, while ensuring proper diversification across market inefficiencies, securities, industries, and sectors. Extensive data scrubbing is conducted on a daily basis using both human and technology resources. Liquidity, trading costs, and investor guidelines are incorporated within the optimizing process.

Staff Comments

Jacobs Levy outperformed the quarterly benchmark due to strong stock selection in the information technology sector. Jacobs Levy trailed the one-year benchmark due to stock selection across several sectors, especially the energy sector.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	2.2%	1.2%
Last 1 year	-9.6	-6.0
Last 2 years	1.9	5.8
Last 3 years	2.6	5.9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	1.8	4.5

Calendar Year Returns

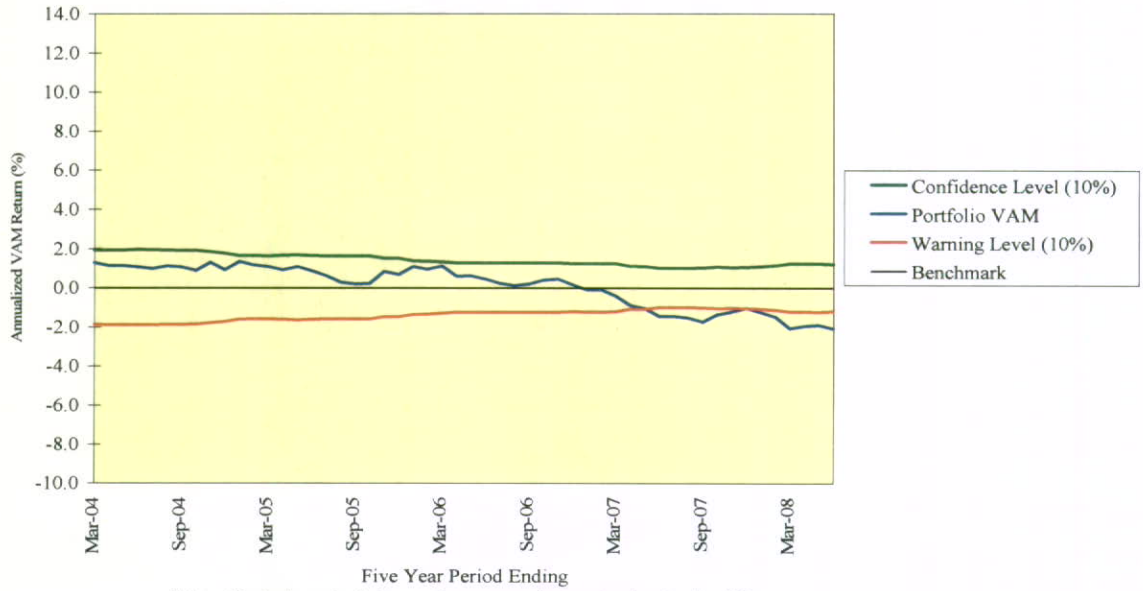
	Actual	Russell 1000 Growth
2007	8.4%	11.8%
2006	6.1	9.1
2005	5.3	5.3
2004	N/A	N/A
2003	N/A	N/A

JACOBS LEVY EQUITY MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Bruce Jacobs and Ken Levy

Assets Under Management: \$282,261,427

JACOBS LEVY EQUITY MANAGEMENT
Rolling Five Year VAM vs. Russell 1000 Growth



Note: Shaded area includes performance prior to retention by the SBI.

LAZARD ASSET MANAGEMENT LLC
Periods Ending June, 2008

Portfolio Manager: Kip Knelman

Assets Under Management: \$60,865,356

Investment Philosophy

Staff Comments

The strategy invests in companies exhibiting substantial growth opportunities, strong business models, solid management teams, and the probability for positive earnings surprises. The approach emphasizes earnings growth as the fundamental driver of stock prices over time. The process combines quantitative, qualitative and valuation criteria. The quantitative component addresses fundamentals and is focused on operating trends. Qualitative analysis involves confirmation of company fundamentals through discussions with company contacts and related parties. Valuation models focus on relative rankings of the fundamentals within the industry, the market overall and the company itself.

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	2.3%	1.2%
Last 1 year	-4.5	-6.0
Last 2 years	7.6	5.8
Last 3 years	7.5	5.9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	5.6	4.5

Calendar Year Returns

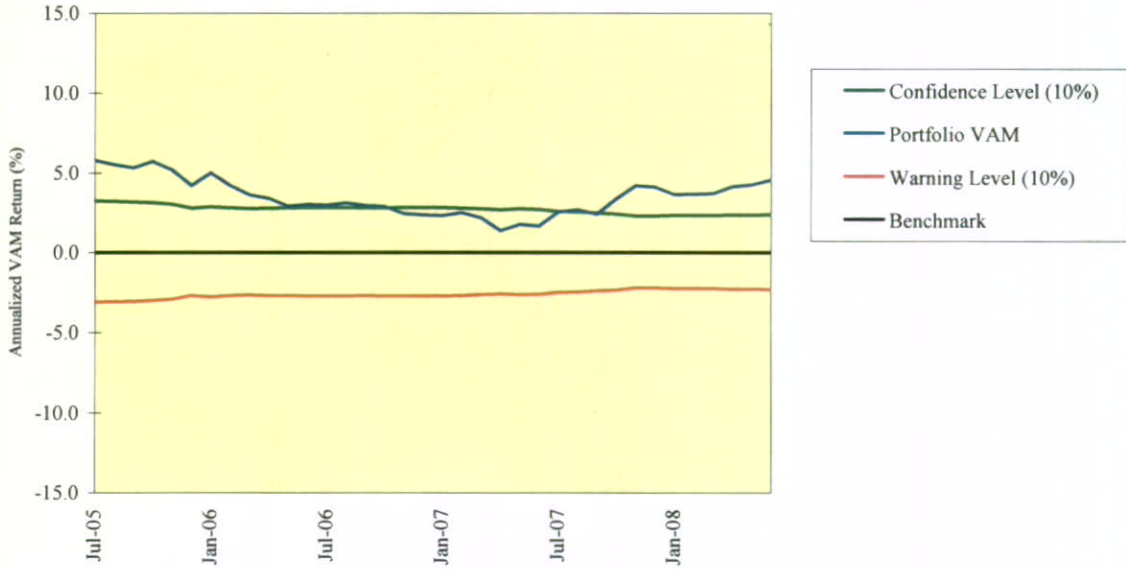
	Actual	Russell 1000 Growth
2007	18.0%	11.8%
2006	7.1	9.1
2005	6.6	5.3
2004	N/A	N/A
2003	N/A	N/A

LAZARD ASSET MANAGEMENT LLC
Periods Ending June, 2008

Portfolio Manager: Kip Knelman

Assets Under Management: \$60,865,356

LAZARD ASSET MANAGEMENT, LLC.
Rolling Five Year VAM vs. Russell 1000 Growth



Five Year Period Ending
Note: Shaded area includes performance prior to retention by the SBI.

SANDS CAPITAL MANAGEMENT LLC
Periods Ending June, 2008

Portfolio Manager: Frank Sands, Sr.

Assets Under Management: \$221,827,458

Investment Philosophy

The manager invests in high-quality, seasoned and growing businesses. Bottom-up, company-focused, long-term oriented research is the cornerstone of the investment process. The strategy focuses on six (6) key investment criteria: 1) sustainable above average earnings growth; 2) leadership position in a promising business space; 3) significant competitive advantages or unique business franchise; 4) management with a clear mission and value added focus; 5) financial strength; and 6) rational valuation relative to the overall market and the company's business prospects.

Staff Comments

Sands exceeded the benchmark for the quarter and the year. Both periods were helped by an overweight to the energy sector and stock selection in the technology sector. The one-year return also benefited from stock selection in the health care sector.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	4.8%	1.2%
Last 1 year	-0.6	-6.0
Last 2 years	5.1	5.8
Last 3 years	4.4	5.9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	3.2	4.5

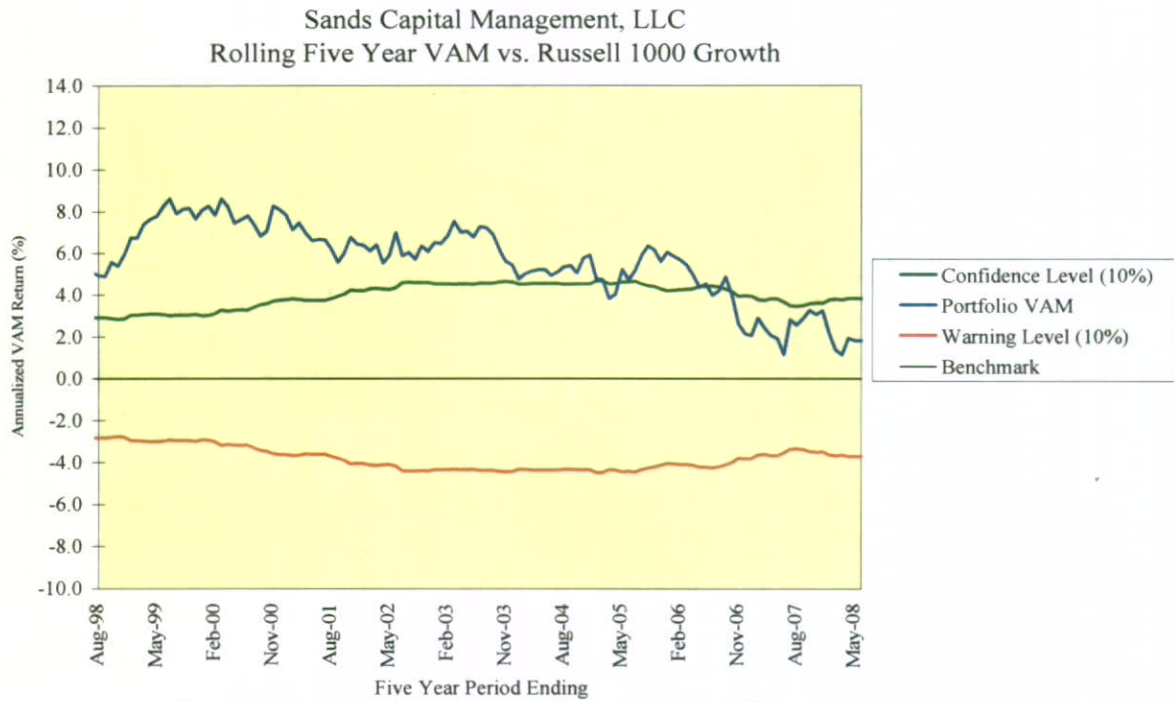
Calendar Year Returns

	Actual	Russell 1000 Growth
2007	19.5%	11.8%
2006	-5.5	9.1
2005	10.9	5.3
2004	N/A	N/A
2003	N/A	N/A

SANDS CAPITAL MANAGEMENT LLC
Periods Ending June, 2008

Portfolio Manager: Frank Sands, Sr.

Assets Under Management: \$221,827,458



Note: Shaded area includes performance prior to retention by the SBI.

VOYAGEUR ASSET MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Gordon Telfer and Nancy Scinto Assets Under Management: \$48,419,274

Investment Philosophy

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.

Staff Comments

Voyageur announced that David Cox resigned on July 15, 2008. Nancy Scinto will continue to manage the account with co-portfolio manager Gordon Telfer.

Voyageur underperformed this quarter and for the year. Overall stock selection hurt performance in both periods. The quarterly performance was primarily hurt by stock selection in the financial sector. One-year performance was mainly hurt by stock selection in the consumer discretionary sector.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	-1.8%	1.2%
Last 1 year	-7.4	-6.0
Last 2 years	1.2	5.8
Last 3 years	2.1	5.9
Last 4 years	2.0	4.8
Last 5 years	5.1	7.3
Since Inception (7/00)	-0.6	-4.6

Calendar Year Returns

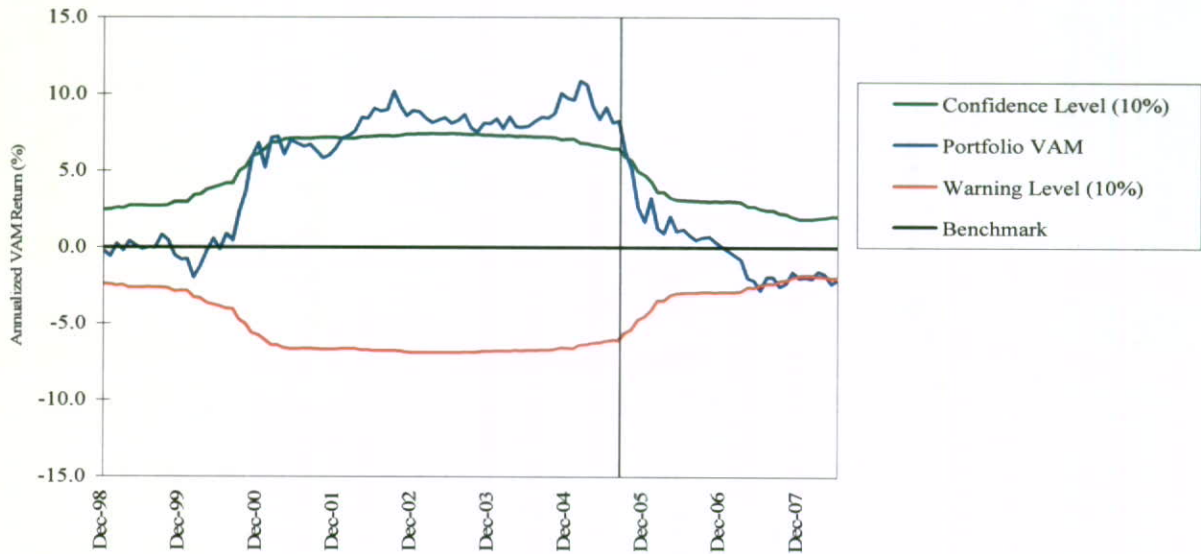
	Actual	Russell 1000 Growth
2007	10.9%	11.8%
2006	2.1	9.1
2005	3.9	5.3
2004	10.6	6.3
2003	23.2	29.7

VOYAGEUR ASSET MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Gordon Telfer and Nancy Scinto

Assets Under Management: \$48,419,274

Voyageur Asset Management
 Rolling Five Year VAM vs. Russell 1000 Growth



Five Year Period Ending
 Note: Area to the left of the vertical line includes performance prior to retention by the SBI.

WINSLOW CAPITAL MANAGEMENT, INC.
Periods Ending June, 2008

Portfolio Manager: Clark Winslow

Assets Under Management: \$128,476,411

Investment Philosophy

The strategy identifies companies that can grow earnings above consensus expectations to build portfolios with forward weighted earnings growth in the range of 15-20% annually. A quantitative screen is employed for factors such as revenue and earnings growth, return on invested capital, earnings consistency, earnings revisions, low financial leverage and high free cash flow rates relative to net income. Resulting companies are subjected to a qualitative assessment within the context of industry sectors. Detailed examination of income statements, cash flow and balance sheet projections is conducted, along with a judgment on the quality of management. Attractively valued stocks are chosen based on P/E relative to the benchmark, sector peers, the company's sustainable future growth rate and return on invested capital. Final portfolio construction includes diversification by economic sectors, earnings growth rates, price/earnings ratios and market capitalizations.

Staff Comments

Winslow outperformed for the quarter and for the year. Both periods were helped by overall sector allocation and stock selection, specifically stock selection in the energy sector.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	5.4%	1.2%
Last 1 year	3.5	-6.0
Last 2 years	11.1	5.8
Last 3 years	10.8	5.9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	9.3	4.5

Calendar Year Returns

	Actual	Russell 1000 Growth
2007	22.0%	11.8%
2006	7.6	9.1
2005	10.5	5.3
2004	N/A	N/A
2003	N/A	N/A

WINSLOW CAPITAL MANAGEMENT, INC.
Periods Ending June, 2008

Portfolio Manager: Clark Winslow

Assets Under Management: \$128,476,411

WINSLOW CAPITAL MANAGEMENT, INC.
Rolling Five Year VAM vs. Russell 1000 Growth



Note: Shaded area includes performance prior to retention by the SBI.

ZEVENBERGEN CAPITAL INC.
Periods Ending June, 2008

Portfolio Manager: Nancy Zevenbergen

Assets Under Management: \$263,777,774

Investment Philosophy

Zevenbergen is an equity growth manager. The investment philosophy is based on the belief that earnings drive stock prices while quality provides capital protection. Hence, portfolios are constructed with companies showing above-average earnings growth prospects and strong financial characteristics. They consider diversification for company size, expected growth rates and industry weightings to be important risk control factors. Zevenbergen uses a bottom-up fundamental approach to security analysis. Research efforts focus on finding companies with superior products or services showing consistent profitability. Attractive buy candidates are reviewed for sufficient liquidity and potential diversification. The firm emphasizes that they are not market timers.

Staff Comments

Zevenbergen exceed the quarterly and one-year benchmark. Both periods were helped by stock selection. Their top holding, Apple, contributed to stock selection in the technology sector being the biggest contributor to performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	4.9%	1.2%
Last 1 year	-5.0	-6.0
Last 2 years	7.3	5.8
Last 3 years	9.2	5.9
Last 4 years	7.3	4.8
Last 5 years	10.9	7.3
Since Inception (4/94)	9.7	8.3

Calendar Year Returns

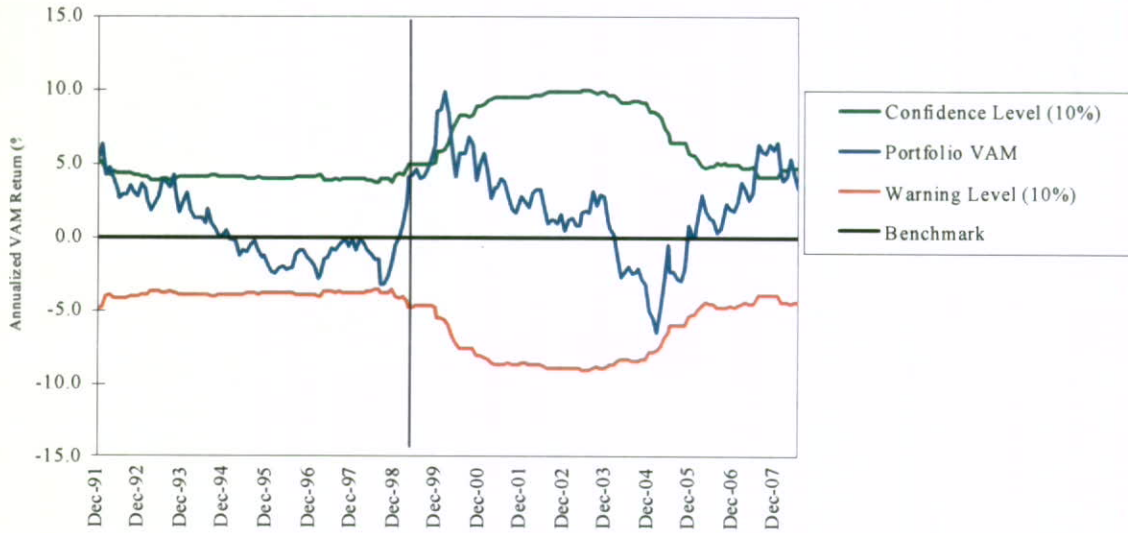
	Actual	Russell 1000 Growth
2007	24.0%	11.8%
2006	6.2	9.1
2005	9.0	5.3
2004	13.1	6.3
2003	49.3	29.7

ZEVENBERGEN CAPITAL INC.
Periods Ending June, 2008

Portfolio Manager: Nancy Zevenbergen

Assets Under Management: \$263,777,774

Zevenbergen Capital Management
 Rolling Five Year VAM vs. Russell 1000 Growth



Five Year Period Ending
 Note: Area to the left of vertical line includes performance prior to retention by the SBI.

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Large Cap Value (R1000 Value)

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A-42

Large Cap Value (R1000 Value)

Table of Contents

	Page
Barrow, Hanley, Mewhinney & Strauss, Inc.	A-44
Earnest Partners, LLC	A-46
Lord Abbett & Co. LLC	A-48
LSV Asset Management	A-50
Systematic Financial Management, L.P.	A-52

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
Periods Ending June, 2008

Portfolio Manager: Tim Culler

Assets Under Management: \$414,622,066

Investment Philosophy

Staff Comments

The manager's approach is based on the underlying philosophy that markets are inefficient. Inefficiencies can best be exploited through adherence to a value-oriented investment process dedicated to the selection of securities on a bottom-up basis. The team does not attempt to time the market or rotate in and out of broad market sectors.

No comment at this time.

Recommendation

No action required.

The manager remains fully invested with a defensive, conservative orientation based on the belief that superior returns can be achieved while taking below average risks. This strategy is implemented by constructing portfolios of individual stocks that exhibit price/earnings and price/book ratios significantly *below* the market and dividend yields significantly *above* the market. Risk control is achieved by limiting sector weights to 35% and industry weights to 15%. In periods of economic recovery and rising equity markets, profitability and earnings growth are rewarded by the expansion of price/earnings ratios and the generation of excess returns.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	-3.0%	-5.3%
Last 1 year	-19.6	-18.8
Last 2 years	-1.0	-0.5
Last 3 years	1.5	3.5
Last 4 years	5.7	6.1
Last 5 years	N/A	N/A
Since Inception (4/04)	6.0	5.9

Calendar Year Returns*

	Actual	Russell 1000 Value
2007	2.6%	-0.2%
2006	15.4	22.2
2005	9.6	7.1
2004	N/A	N/A
2003	N/A	N/A

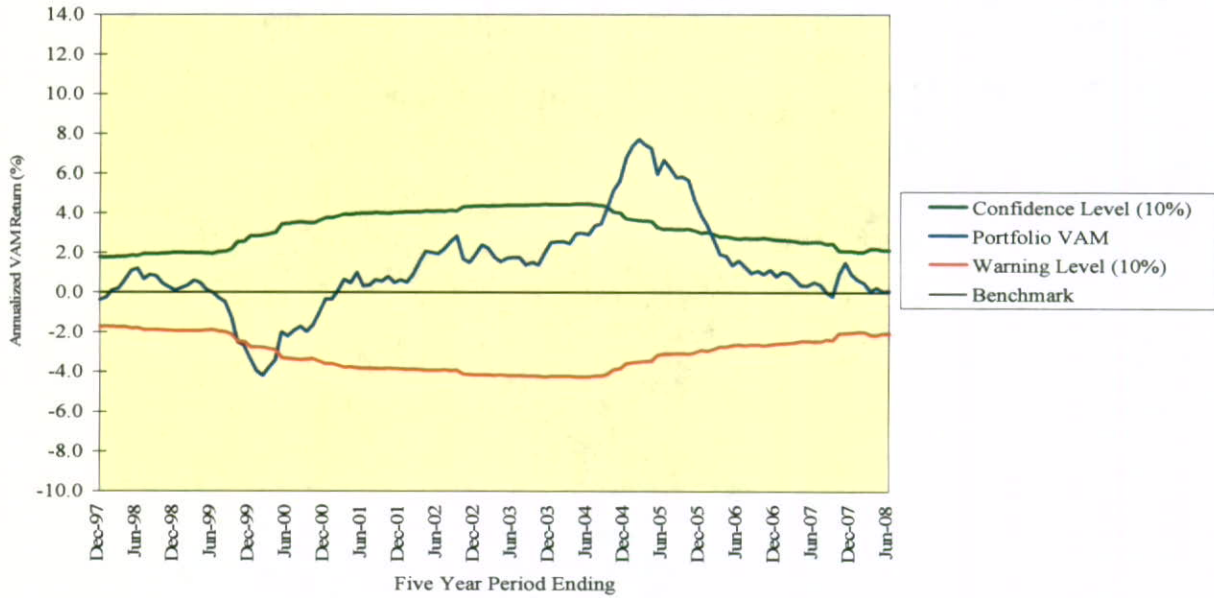
* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
Periods Ending June, 2008

Portfolio Manager: Tim Culler

Assets Under Management: \$414,622,066

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
Rolling Five Year VAM vs. Russell 1000 Value



Note: Shaded area includes performance prior to retention by the SBI.

EARNEST PARTNERS, LLC
Periods Ending June, 2008

Portfolio Manager: Paul Viera

Assets Under Management: \$169,748,085

Investment Philosophy

Earnest Partners utilizes its proprietary Return Pattern Recognition 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. Extensive research is conducted 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.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	-4.6%	-5.3%
Last 1 year	-17.1	-18.8
Last 2 years	-0.9	-0.5
Last 3 years	3.3	3.5
Last 4 years	7.4	6.1
Last 5 years	10.5	8.9
Since Inception (7/00)	4.5	5.4

Calendar Year Returns

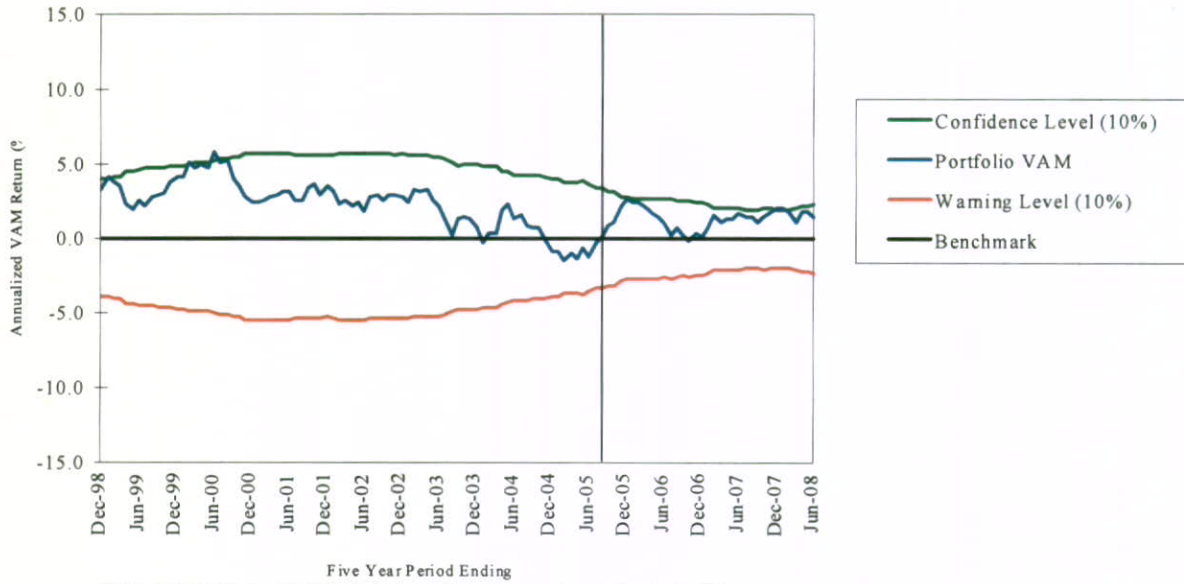
	Actual	Russell 1000 Value
2007	6.5%	-0.2%
2006	13.8	22.2
2005	15.6	7.1
2004	18.9	16.5
2003	32.0	30.0

EARNEST PARTNERS, LLC
Periods Ending June, 2008

Portfolio Manager: Paul Viera

Assets Under Management: \$169,748,085

Earnest Partners
 Rolling Five Year VAM vs. Russell 1000 Value



Note: Area to left of vertical line includes performance prior to retention by the SBI.

LORD ABBETT & CO. LLC
Periods Ending June, 2008

Portfolio Manager: Eli Saltzmann

Assets Under Management: \$302,037,233

Investment Philosophy

Staff Comments

Utilizing a value-based, disciplined investment process that employs both informed judgment and quantitative analysis, Lord Abbett seeks to invest in companies with improving business fundamentals that are attractively valued. This process is implemented via a traditional fundamental active stock selection approach.

No comment at this time.

Recommendation

No action required.

As a value manager, Lord Abbett believes that the market systematically misprices stocks. By coupling valuation criteria with thorough research of corporate and industry fundamentals, informed judgments can be made about where the market would price these stocks at fair value. The portfolio is constructed to exploit pricing discrepancies where it is perceived that: 1) these price differences will be closed over a reasonable period of time, or 2) there may be a catalyst for price appreciation. This process is implemented while maintaining sensitivity to both benchmark and macro-economic risk exposures.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	-5.5%	-5.3%
Last 1 year	-15.0	-18.8
Last 2 years	0.6	-0.5
Last 3 years	4.4	3.5
Last 4 years	4.8	6.1
Last 5 years	N/A	N/A
Since Inception (4/04)	4.9	5.9

Calendar Year Returns*

	Actual	Russell 1000 Value
2007	4.4%	-0.2%
2006	18.6	22.2
2005	3.5	7.1
2004	N/A	N/A
2003	N/A	N/A

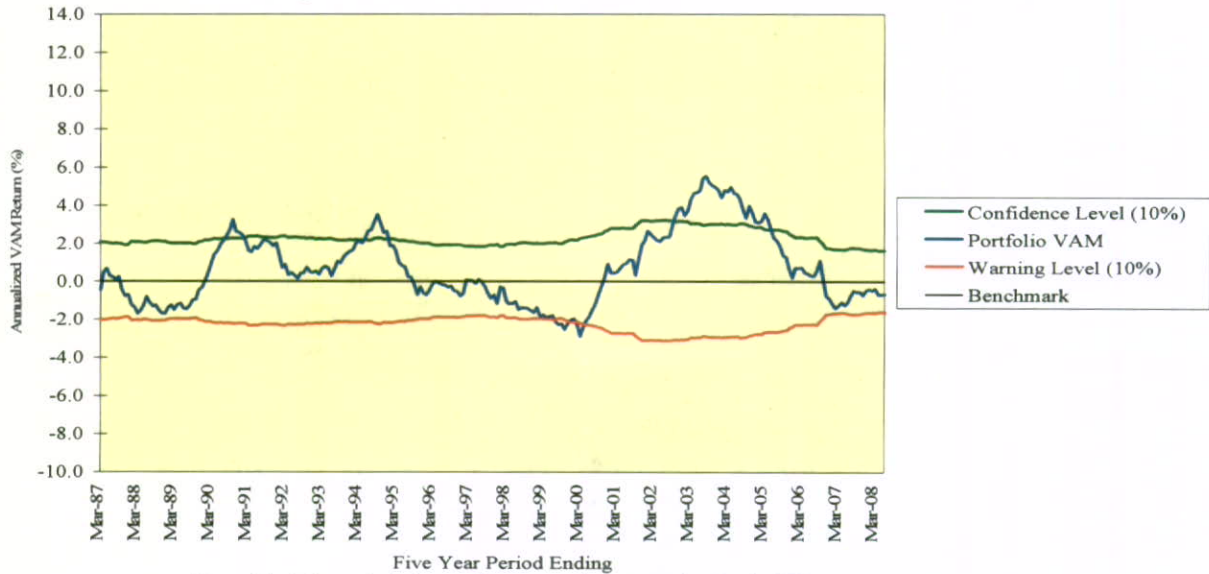
* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

LORD ABBETT & CO. LLC
Periods Ending June, 2008

Portfolio Manager: Eli Saltzmann

Assets Under Management: \$302,037,233

LORD ABBETT & CO. LLC
Rolling Five Year VAM vs. Russell 1000 Value



Note: Shaded area includes performance prior to retention by the SBI.

LSV ASSET MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Josef Lakonishok

Assets Under Management: \$394,293,103

Investment Philosophy

Staff Comments

The fundamental premise on which LSV's investment philosophy is based is that superior long-term results can be achieved by systematically exploiting the judgmental biases and behavioral weaknesses that influence the decisions of many investors. These include: the tendency to extrapolate the past too far into the future, wrongly equating a good company with a good investment irrespective of price, ignoring statistical evidence and developing a "mindset" about a company.

LSV underperformed the benchmark for the quarter and for the year. Stock selection and an underweight position in the energy and utilities sectors had a negative impact on performance for the quarter. For the year, positive returns in the integrated oil and producer durables sectors helped returns, but this was offset by weak stock selection in the finance and energy sectors.

The strategy's primary emphasis is the use of quantitative techniques to select individual securities in what would be considered a bottom-up approach. Value factors and security selection dominate sector/industry factors as explanatory variables of performance. The competitive strength of this strategy is that it avoids introducing to the process any judgmental biases and behavioral weaknesses that often influence investment decisions.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	-6.5%	-5.3%
Last 1 year	-22.0	-18.8
Last 2 years	-2.2	-0.5
Last 3 years	3.3	3.5
Last 4 years	7.0	6.1
Last 5 years	N/A	N/A
Since Inception (4/04)	7.1	5.9

Calendar Year Returns*

	Actual	Russell 1000 Value
2007	1.3%	-0.2%
2006	21.7	22.2
2005	12.5	7.1
2004	N/A	N/A
2003	N/A	N/A

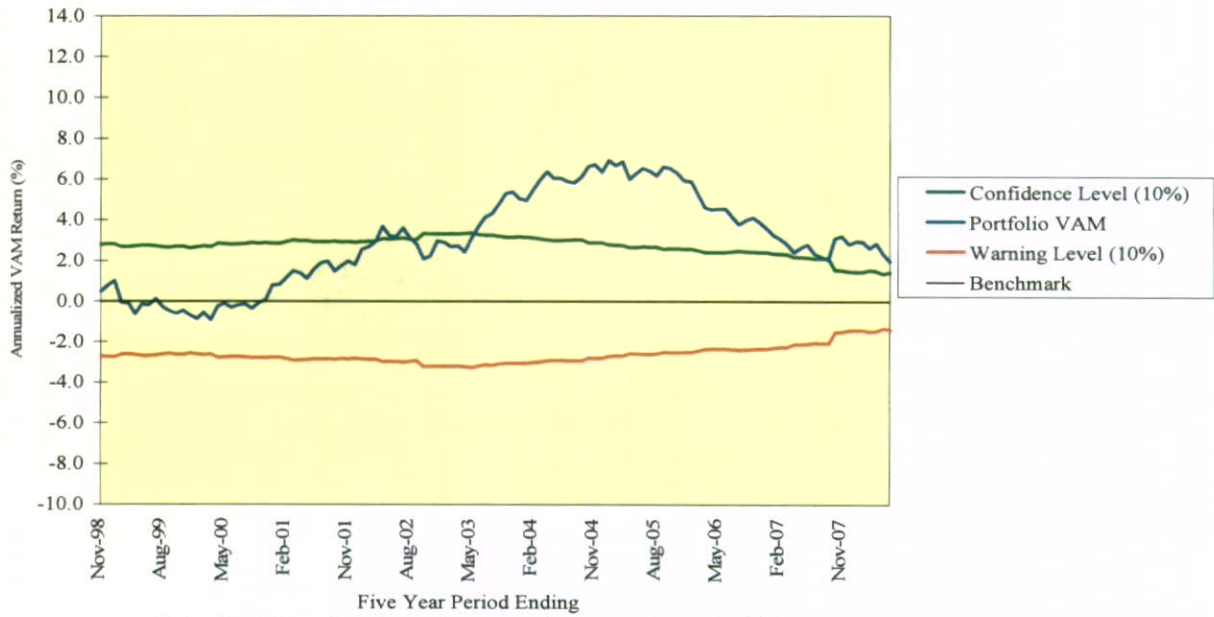
* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

LSV ASSET MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Josef Lakonishok

Assets Under Management: \$394,293,103

LSV ASSET MANAGEMENT
Rolling Five Year VAM vs. Russell 1000 Value



Note: Shaded area includes performance prior to retention by the SBI.

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending June, 2008

Portfolio Manager: Kevin McCreesh

Assets Under Management: \$305,969,788

Investment Philosophy

Staff Comments

Systematic's investment strategy favors companies with low forward P/E multiples and a positive earnings catalyst. Cash flow is analyzed to confirm earnings and to avoid companies that may have employed accounting gimmicks to report earnings in excess of Wall Street expectations. The investment strategy attempts to avoid stocks in the "value trap" by focusing only on companies with confirmed fundamental improvement as evidenced by a genuine positive earnings surprise.

No comment at this time.

Recommendation

No action required.

The investment process begins with quantitative screening that ranks the universe based on: 1) low forward P/E, and 2) a positive earnings catalyst, which is determined by a proprietary 16-factor model that is designed to be predictive of future positive earnings surprises. The screening process generates a research focus list of 150 companies, sorted by sector, upon which rigorous fundamental analysis is conducted to confirm each stock's value and catalysts for appreciation.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	-2.0%	-5.3%
Last 1 year	-14.4	-18.8
Last 2 years	2.5	-0.5
Last 3 years	5.8	3.5
Last 4 years	7.8	6.1
Last 5 years	N/A	N/A
Since Inception (4/04)	7.6	5.9

Calendar Year Returns*

	Actual	Russell 1000 Value
2007	8.3%	-0.2%
2006	17.9	22.2
2005	10.3	7.1
2004	N/A	N/A
2003	N/A	N/A

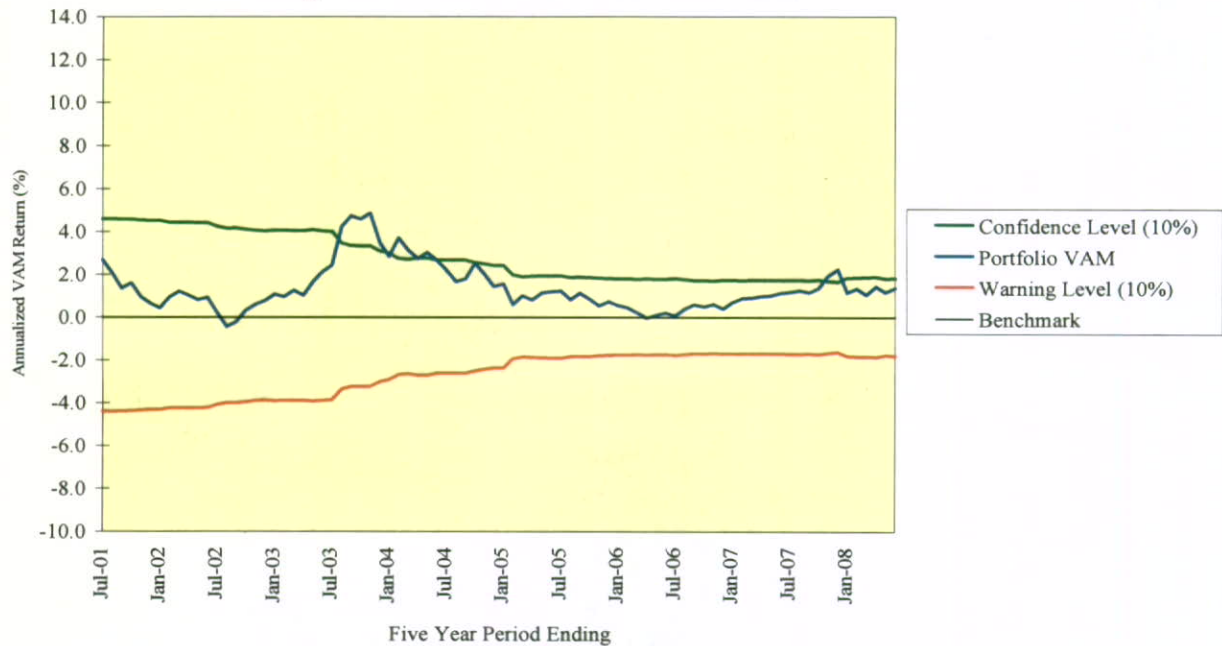
* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending June, 2008

Portfolio Manager: Kevin McCreesh

Assets Under Management: \$305,969,788

SYSTEMATIC FINANCIAL MANAGEMENT, LP
 Rolling Five Year VAM vs. Russell 1000 Value



Note: Shaded area includes performance prior to retention by the SBI.

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Small Cap Growth (R2000) Growth

Small Cap Growth (R2000 Growth)

Table of Contents

	Page
McKinley Capital Management	A-58
Next Century Growth Investors, LLC	A-60
Turner Investment Partners	A-62

MCKINLEY CAPITAL MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Robert B. Gillam

Assets Under Management: \$223,794,065

Investment Philosophy

The team believes that excess market returns can be achieved through the construction and management of a diversified, fundamentally sound portfolio of inefficiently priced securities whose earnings growth rates are accelerating above market expectations. Using proprietary quantitative models, the team systematically searches for and identifies early signs of accelerating growth. The initial universe consists of growth and value stocks from all capitalization categories.

The primary model includes a linear regression model to identify common stocks that are inefficiently priced relative to the market while adjusting each security for standard deviation. The ratio of alpha to standard deviation is the primary screening value and is used to filter out all but the top 10% of stocks in our initial universe. The remaining candidates are tested for liquidity and strength of earnings. In the final portfolio construction process, qualitative aspects are examined, including economic factors, Wall Street research, and specific industry themes.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Growth
Last Quarter	1.9%	4.5%
Last 1 year	-14.0	-10.8
Last 2 years	-0.1	2.1
Last 3 years	5.7	6.1
Last 4 years	4.7	5.6
Last 5 years	N/A	N/A
Since Inception (1/04)	5.1	6.3

Calendar Year Returns

	Actual	Russell 2000 Growth
2007	16.2%	7.0%
2006	12.5	13.3
2005	0.2	4.2
2004	12.2	14.3
2003	N/A	N/A

Staff Comments

McKinley underperformed the benchmark for the quarter and for the year. Stock selection in the consumer discretionary and health care sectors detracted from performance for the quarter. The main detractor to performance for the year was stock selection in the technology sector.

Recommendation

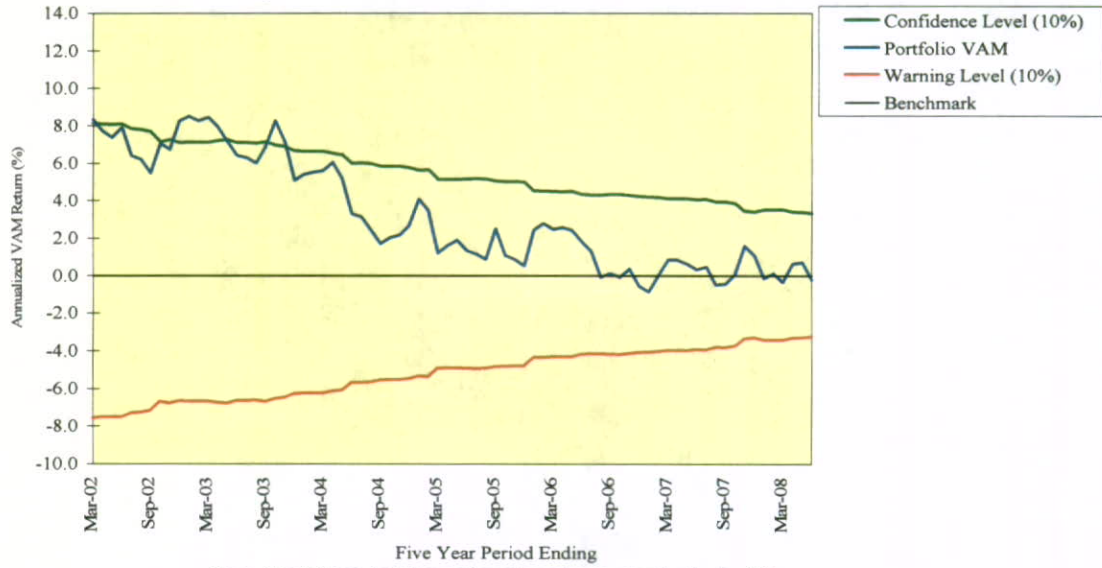
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MCKINLEY CAPITAL MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Robert B. Gillam

Assets Under Management: \$223,794,065

MCKINLEY CAPITAL MANAGEMENT
Rolling Five Year VAM vs. Russell 2000 Growth



Note: Shaded area includes performance prior to retention by the SBI.

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending June, 2008

Portfolio Manager: Thomas Press and Don Longlet

Assets Under Management: \$266,432,385

Investment Philosophy

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, and 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.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Growth
Last Quarter	9.3%	4.5%
Last 1 year	-1.3	-10.8
Last 2 years	7.8	2.1
Last 3 years	14.9	6.1
Last 4 years	14.6	5.6
Last 5 years	17.3	10.4
Since Inception (7/00)	0.9	-0.7

Calendar Year Returns

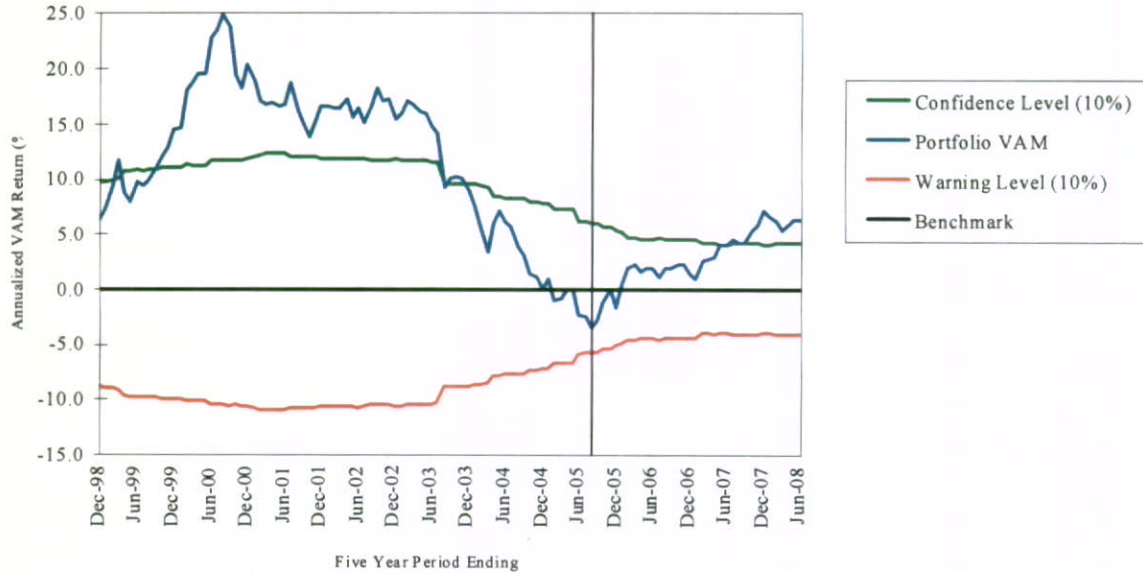
	Actual	Russell 2000 Growth
2007	34.2%	7.0%
2006	12.4	13.3
2005	25.2	4.2
2004	6.4	14.3
2003	50.7	48.5

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending June, 2008

Portfolio Manager: Thomas Press and Don Longlet

Assets Under Management: \$266,432,385

Next Century Growth Investors
 Rolling Five Year VAM vs. Russell 2000 Growth



Note: Area to left of vertical line includes performance prior to the retention by the SBI.

TURNER INVESTMENT PARTNERS
Periods Ending June, 2008

Portfolio Manager: William McVail

Assets Under Management: \$244,934,462

Investment Philosophy

The team's investment philosophy is based on the belief that earnings expectations drive stock prices. The team adds value primarily through stock selection and pursues a bottom-up strategy. Ideal candidates for investment are growth companies that have above average earnings prospects, reasonable valuations, favorable trading volume, and price patterns. Each security is subjected to three separate evaluation criteria: fundamental analysis (80%), quantitative screening (10%), and technical analysis (10%).

Proprietary computer models enable the team to assess the universe based on multiple earnings growth and valuation factors. The factors are specific to each economic sector. Fundamental analysis is the heart of the stock selection process and helps the team determine if a company will exceed, meet or fall short of consensus earnings expectations. Technical analysis is used to evaluate trends in trading volume and price patterns for individual stocks as the team searches for attractive entry and exit points.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Growth
Last Quarter	6.9%	4.5%
Last 1 year	-6.4	-10.8
Last 2 years	5.3	2.1
Last 3 years	9.5	6.1
Last 4 years	7.8	5.6
Last 5 years	N/A	N/A
Since Inception (1/04)	8.0	6.3

Calendar Year Returns

	Actual	Russell 2000 Growth
2007	14.8%	7.0%
2006	13.6	13.3
2005	6.2	4.2
2004	11.6	14.3
2003	N/A	N/A

TURNER INVESTMENT PARTNERS
Periods Ending June, 2008

Portfolio Manager: William McVail

Assets Under Management: \$244,934,462

TURNER INVESTMENT PARTNERS
Rolling Five Year VAM vs. Russell 2000 Growth



Note: Shaded area includes performance prior to retention by the SBI.

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Small Cap Value (R2000 Value)

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A-66

Small Cap Value (R2000 Value)

Table of Contents

	Page
Goldman Sachs Asset Management	A-68
Hotchkis & Wiley Capital Management	A-70
Martingale Asset Management	A-72
Peregrine Capital Management	A-74
RiverSource Investments/Kenwood Capital Management	A-76

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Chip Otness

Assets Under Management: \$122,970,442

Investment Philosophy

The firm's value equity philosophy is based on the belief that all successful investing begins with fundamental stock selection that should thoughtfully weigh a stock's price and prospects. A company's prospective ability to generate high cash flow returns on capital will strongly influence investment success. The team follows a strong valuation discipline to purchase well-positioned, cash generating businesses run by shareholder-oriented management teams.

Through extensive proprietary research, the team confirms that a candidate company's long-term competitive advantage and earnings power are intact. The team seeks to purchase a stock at a price that encompasses a healthy margin of safety. The investment process involves three steps: 1) prioritizing research, 2) analyzing fundamentals, and 3) portfolio construction. The independent Risk and Performance Analytics Group (RPAG) monitors daily portfolio management risk, adherence to client guidelines and general portfolio strategy.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value
Last Quarter	-2.7%	-3.5%
Last 1 year	-15.7	-21.6
Last 2 years	-0.5	-4.6
Last 3 years	3.7	1.4
Last 4 years	5.7	4.5
Last 5 years	N/A	N/A
Since Inception (1/04)	6.3	5.7

Calendar Year Returns

	Actual	Russell 2000 Value
2007	-5.0%	-9.8%
2006	17.8	23.5
2005	4.1	4.7
2004	19.9	22.2
2003	N/A	N/A

Staff Comments

No comment at this time.

Recommendation

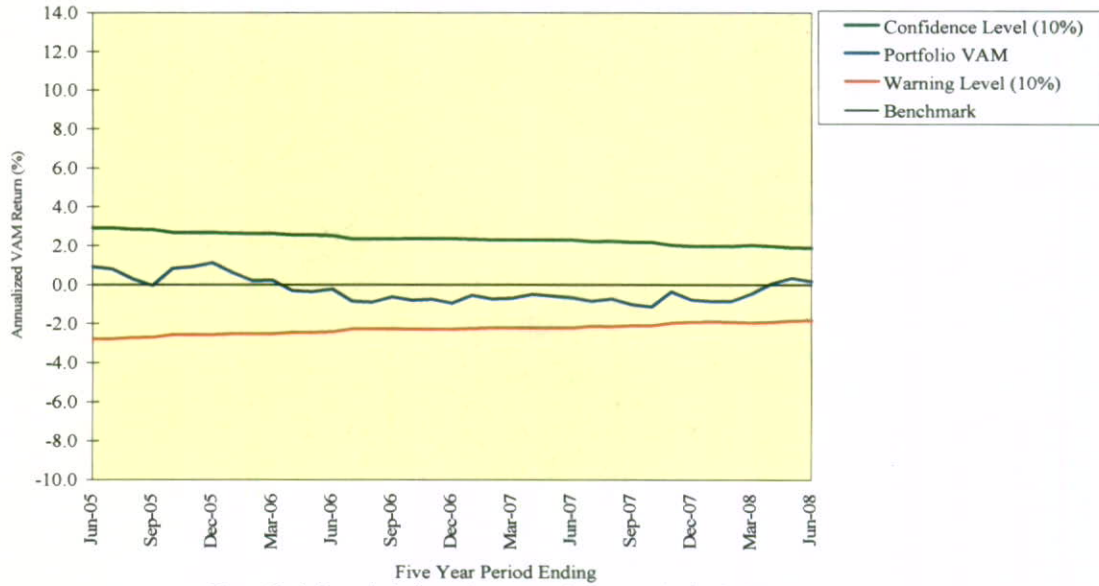
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GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Chip Otness

Assets Under Management: \$122,970,442

GOLDMAN SACHS ASSET MANAGEMENT
Rolling Five Year VAM vs. Russell 2000 Value



Note: Shaded area includes performance prior to retention by the SBI.

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Jim Miles and David Green

Assets Under Management: \$104,268,538

Investment Philosophy

The firm seeks to exploit mis-priced securities in the small cap market by investing in “undiscovered” or “out of favor” companies. The team invests in stocks where the present value of the company's future cash flows exceeds the current market price. This approach exploits equity market inefficiencies created by irrational investor behavior and lack of Wall Street research coverage of smaller capitalization stocks. The team employs a disciplined, bottom-up investment process that emphasizes internally generated fundamental research.

The investment process begins with a quantitative screen based on market capitalization, trading liquidity and enterprise value/normalized EBIT, supplemented with ideas generated from the investment team. Internal research is then utilized to identify the most attractive valuation opportunities within this value universe. The primary focus of the research analyst is to determine a company's “normal” earnings power, which is the basis for security valuation.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value
Last Quarter	-1.2%	-3.5%
Last 1 year	-29.2	-21.6
Last 2 years	-10.1	-4.6
Last 3 years	-5.4	1.4
Last 4 years	0.1	4.5
Last 5 years	N/A	N/A
Since Inception (1/04)	2.4	5.7

Calendar Year Returns

	Actual	Russell 2000 Value
2007	-18.8%	-9.8%
2006	3.0	23.5
2005	10.4	4.7
2004	27.1	22.2
2003	N/A	N/A

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Jim Miles and David Green

Assets Under Management: \$104,268,538

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Rolling Five Year VAM vs. Russell 2000 Value



Note: Shaded area includes performance prior to retention by the SBI.

MARTINGALE ASSET MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: William Jacques

Assets Under Management: \$114,266,699

Investment Philosophy

Martingale's investment process seeks to exploit the long-term link between undervalued company fundamentals and current market prices to achieve superior investment returns. Martingale has a long history of employing sound quantitative methods.

The valuation process is comprised of well-researched valuation indicators that have stood the test of time, with improvements made only after careful evaluation, testing and analysis. Multiple characteristics of quality, value and momentum are examined. The quality of company management is assessed by reviewing commitment to R&D, accounting practices with regard to earnings and cash flow from operations, and the ability to manage inventory.

The average holding period of a stock is typically one year. Every holding is approached as an investment in the business, with the intention of holding it until either objectives are reached, or it becomes apparent that there are better opportunities in other stocks.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value
Last Quarter	-1.5%	-3.5%
Last 1 year	-24.4	-21.6
Last 2 years	-9.2	-4.6
Last 3 years	-3.4	1.4
Last 4 years	2.1	4.5
Last 5 years	N/A	N/A
Since Inception (1/04)	4.5	5.7

Calendar Year Returns

	Actual	Russell 2000 Value
2007	-16.8%	-9.8%
2006	14.8	23.5
2005	6.2	4.7
2004	30.8	22.2
2003	N/A	N/A

MARTINGALE ASSET MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: William Jacques

Assets Under Management: \$114,266,699

MARTINGALE ASSET MANAGEMENT
Rolling Five Year VAM vs. Russell 2000 Value



Note: Shaded area includes performance prior to retention by the SBI.

PEREGRINE CAPITAL MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Doug Pugh and Tasso Coin

Assets Under Management: \$165,466,977

Investment Philosophy

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 with the benchmark. This allows stock selection to drive performance.

Staff Comments

The portfolio trailed the benchmark for the quarter and the year. Stock selection in the materials and processing sector in addition to an underweight position in the energy sector negatively impacted performance for both time periods. The main detractor to performance for the year was stock selection in the finance sector.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value
Last Quarter	-6.4%	-3.5%
Last 1 year	-30.0	-21.6
Last 2 years	-10.4	-4.6
Last 3 years	-3.6	1.4
Last 4 years	2.0	4.5
Last 5 years	7.9	10.0
Since Inception (7/00)	9.9	10.4

Calendar Year Returns

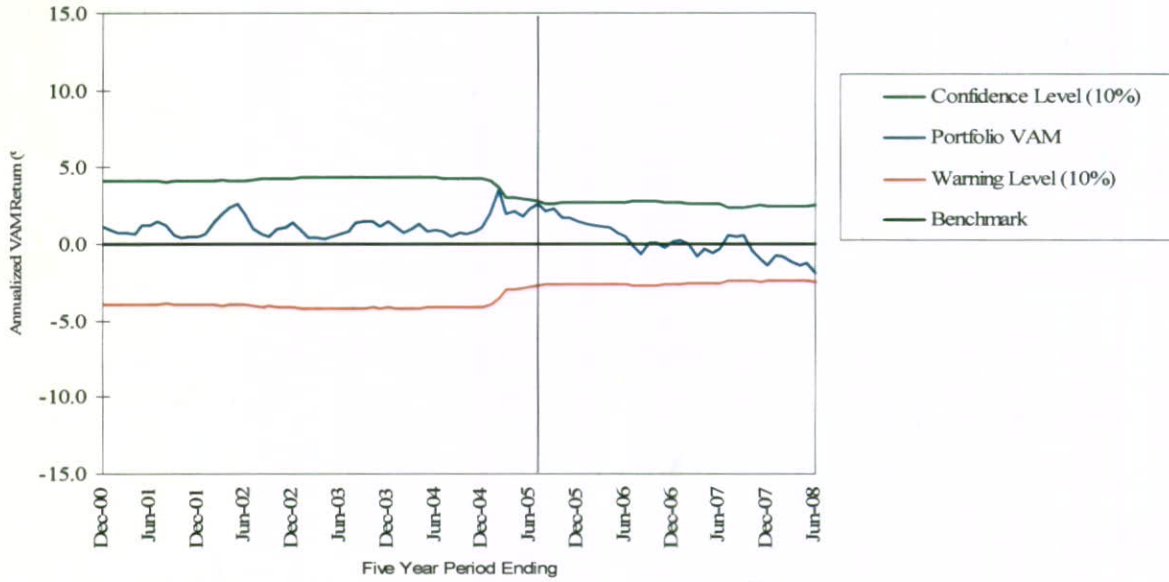
	Actual	Russell 2000 Value
2007	-13.4%	-9.8%
2006	14.3	23.5
2005	10.1	4.7
2004	23.6	22.2
2003	44.2	46.0

PEREGRINE CAPITAL MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Doug Pugh and Tasso Coin

Assets Under Management: \$165,466,977

Peregrine Capital Management
 Rolling Five Year VAM vs. Russell 2000 Value



Note: Area to left of vertical line includes performance prior to retention by SBI.

RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Jacob Hurwitz and Kent Kelley

Assets Under Management: \$50,915,793

Investment Philosophy

The portfolio management team relies primarily on quantitative appraisal; fundamental analysis supplements the model-based stock selection discipline. The goal is to systematically tilt client portfolios toward stocks that offer a superior return-to-risk tradeoff. In order to achieve consistency of performance, risk management is integrated into all aspects of the investment process. Risk is monitored at the security, sector, and portfolio level.

The centerpiece of the stock selection process is a quantitative model that ranks stocks based upon potential excess return. Key elements of the model include assessments of valuation, earnings, and market reaction. Models are created for twelve sectors using sector-specific criteria. Qualitative analysis assesses liquidity, litigation/regulatory risk, and event risk. The team focuses on bottom up stock selection within a sector neutral framework.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value
Last Quarter	-2.7%	-3.5%
Last 1 year	-25.0	-21.6
Last 2 years	-8.7	-4.6
Last 3 years	-1.1	1.4
Last 4 years	2.4	4.5
Last 5 years	N/A	N/A
Since Inception (1/04)	4.4	5.7

Calendar Year Returns

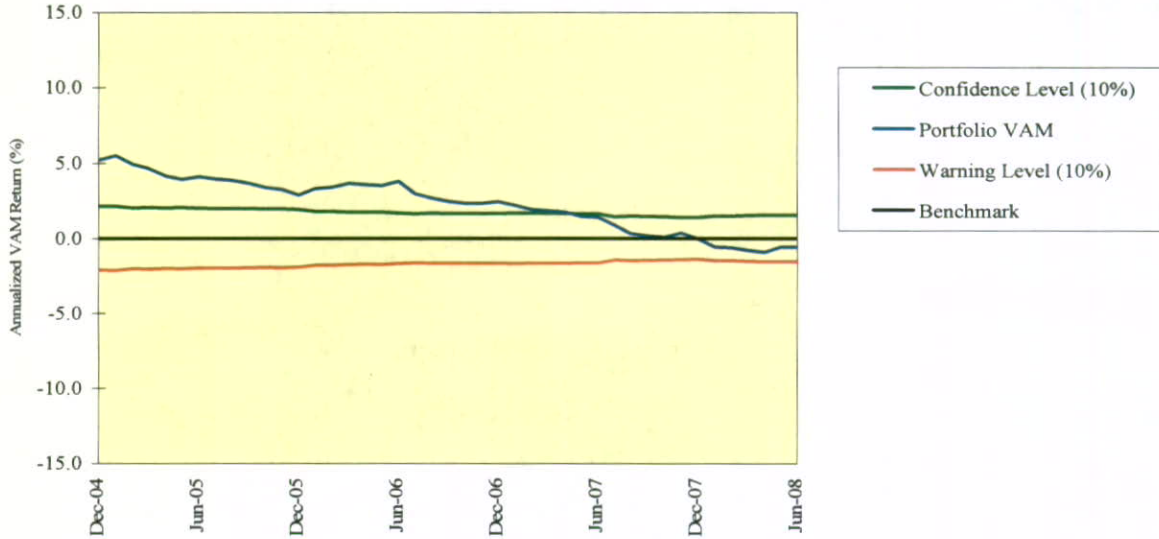
	Actual	Russell 2000 Value
2007	-11.8%	-9.8%
2006	19.4	23.5
2005	4.8	4.7
2004	25.8	22.2
2003	N/A	N/A

RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Jacob Hurwitz and Kent Kelley

Assets Under Management: \$50,915,793

RIVERSOURCE / KENWOOD CAPITAL MANAGEMENT
Rolling Five Year VAM vs. Russell 2000 Value



Five Year Period Ending
 Note: Shaded area includes performance prior to retention by the SBI.

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Semi-Passive and Passive

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A-80

Semi-Passive and Passive

Table of Contents

	Page
Semi-Passive	
Barclays Global Investors (Russell 1000)	A-82
Franklin Portfolio Associates (Russell 1000)	A-84
J.P. Morgan Investment Management (Russell 1000)	A-86
Passive	
Barclays Global Investors (Russell 3000)	A-88

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2008

Portfolio Manager: Russ Koesterich

Assets Under Management: \$3,073,698,676

Investment Philosophy – Semi-Passive Style

The Core Alpha Model desegregates individual equity returns for each of the 3500 stocks in their universe into fundamental, expectational, and technical components. The fundamental factors 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 factors incorporate future earnings and growth rate forecasts made by over 2500 security analysts. The technical factors provide a measure of recent changes in company fundamentals, consensus expectations, and performance. Estimated alphas are then calculated and are used in a portfolio optimization algorithm to identify the optimal portfolio.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	-0.4%	-1.9%
Last 1 year	-13.3	-12.4
Last 2 years	1.7	2.7
Last 3 years	4.4	4.8
Last 4 years	5.4	5.6
Last 5 years	8.2	8.2
Since Inception (1/95)	9.6	9.1

Calendar Year Returns

	Actual	Manager Benchmark*
2007	2.2%	5.8%
2006	15.6	15.5
2005	7.6	6.3
2004	11.7	11.4
2003	30.0	28.5

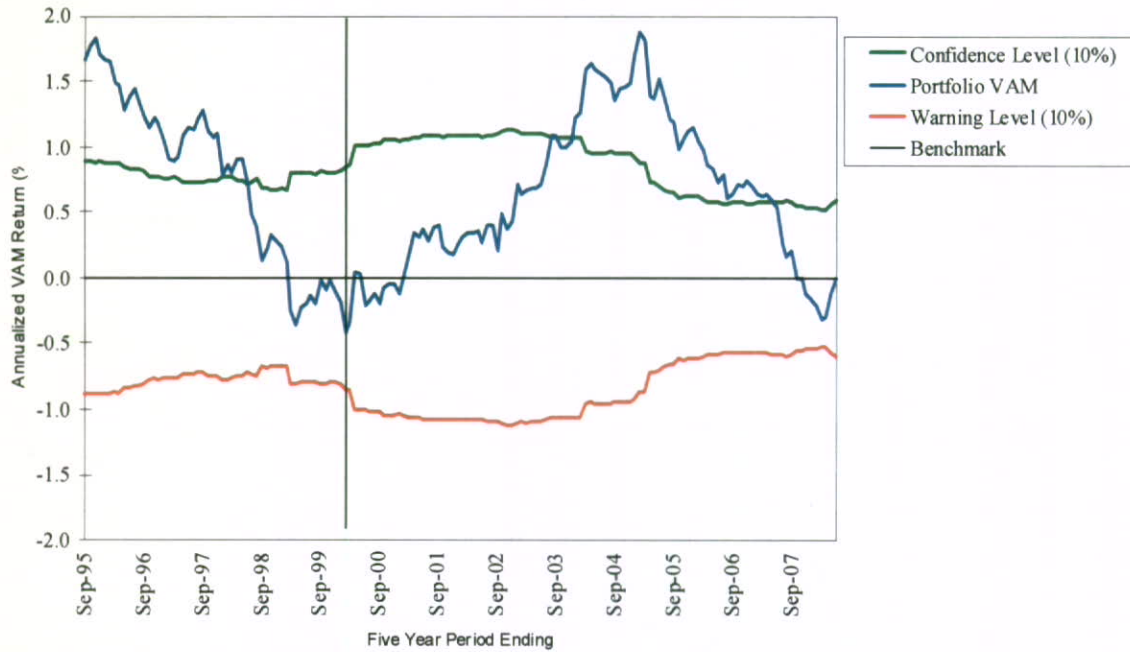
*Russell 1000 since 1/1/04, Completeness Fund through 12/31/03.

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2008

Portfolio Manager: Russ Koesterich

Assets Under Management: \$3,073,698,676

BARCLAYS GLOBAL INVESTORS - SEMI-PASSIVE
Rolling Five Year VAM vs. Manager Benchmark



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2008

Portfolio Manager: Tony Garvin

Assets Under Management: \$2,402,150,592

Investment Philosophy – Semi-Passive Style

Franklin believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns. Franklin builds a portfolio by using a series of more than 30 integrated computer models that value a universe of 3500 stocks. Their models rank each security based on fundamental momentum, relative value, future cash flow, and supplementary models. A composite ranking then provides one ranked list of securities reflecting their relative attractiveness. Stocks that fall below the median ranking are sold, and proceeds are reinvested in stocks from the top deciles in the ranking system. They use the BARRA risk model to monitor the portfolio's systematic risk and industry weightings relative to the selected benchmark. For this semi-passive mandate, they seek to achieve a residual risk of 1.5% or less. The firm remains fully invested at all times.

Staff Comments

Oliver Buckley, CIO, replaced John Cone as CEO on July 1, 2008. Tony Garvin was assigned lead portfolio manager on the account. Franklin's quantitatively driven investment process is not dependent upon individual portfolio managers. Staff does not anticipate any impact on the portfolio as a result of this departure.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	-2.3%	-1.9%
Last 1 year	-13.9	-12.4
Last 2 years	1.3	2.7
Last 3 years	3.9	4.8
Last 4 years	4.9	5.6
Last 5 years	7.6	8.2
Since Inception (1/95)	8.6	9.1

Calendar Year Returns

	Actual	Manager Benchmark*
2007	2.5%	5.8%
2006	16.5	15.5
2005	6.1	6.3
2004	11.7	11.4
2003	26.9	28.5

*Russell 1000 since 1/1/04, Completeness Fund through 12/31/03.

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2008

Portfolio Manager: Tony Garvin

Assets Under Management: \$2,402,150,592

FRANKLIN PORTFOLIO ASSOCIATES - SEMI-PASSIVE
Rolling Five Year VAM vs. Manager Benchmark



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending June, 2008

Portfolio Manager: Ralph Zingone and Terance Chen Assets Under Management: \$2,653,917,001

Investment Philosophy – Semi-Passive Style

J.P. Morgan 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 the earnings and dividends for the 650 stock universe and enter them 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 sectors. The most undervalued stocks are placed in the first quintile. The portfolio includes stocks from the first four quintiles, always favoring the highest ranked stocks whenever possible. Stocks in the fifth quintile are sold. In addition, the portfolio closely approximates the sector, style, and security weightings of the index chosen by the plan sponsor. The firm remains fully invested at all times.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	-2.6%	-1.9%
Last 1 year	-13.4	-12.4
Last 2 years	2.9	2.7
Last 3 years	4.3	4.8
Last 4 years	5.1	5.6
Last 5 years	7.8	8.2
Since Inception (1/95)	9.0	9.1

Calendar Year Returns

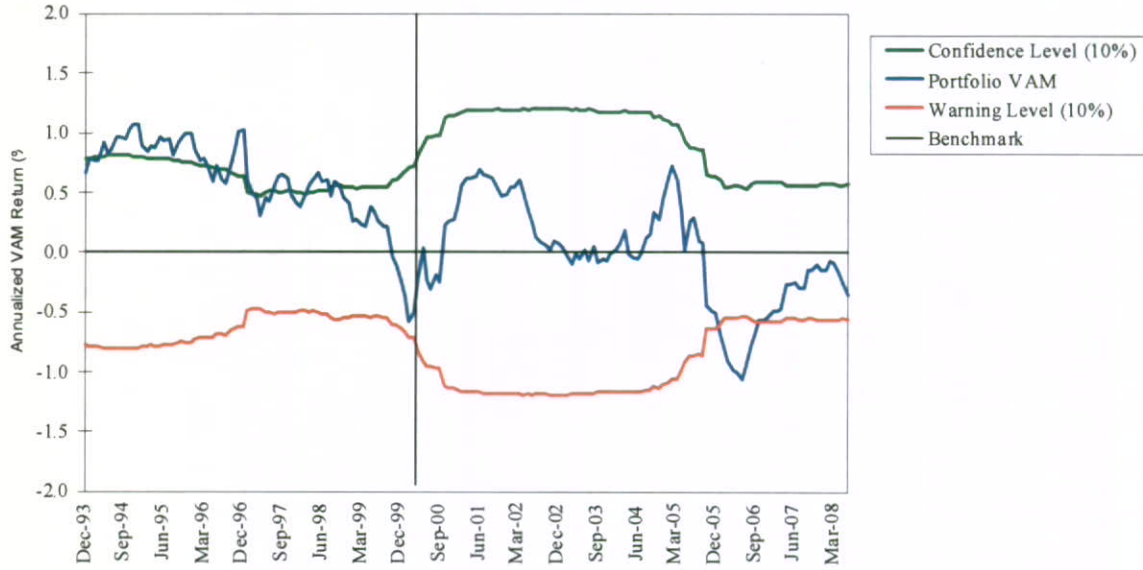
	Actual	Manager Benchmark*
2007	5.1%	5.8%
2006	16.5	15.5
2005	4.7	6.3
2004	11.7	11.4
2003	28.9	28.5

*Russell 1000 since 1/1/04, Completeness Fund through 12/31/03.

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending June, 2008

Portfolio Manager: Ralph Zingone and Terance Chen Assets Under Management: \$2,653,917,001

JP MORGAN - SEMI-PASSIVE
Rolling Five Year VAM vs. Manager Benchmark



Note: Area to left of vertical line includes performance prior to retention by SBI

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2008

Portfolio Manager: Amy Schioldager

Assets Under Management: \$7,505,111,268

Investment Philosophy – Passive Style

Barclays Global Investors seeks to minimize 1) tracking error, 2) transaction costs, and 3) investment and operational risks. The portfolio is passively managed against the asset class target using a proprietary optimization process that integrates a transaction cost model. The resulting portfolio closely matches the characteristics of the benchmark with less exposure to illiquid stocks.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	-1.7%	-1.7%
Last 1 year	-12.6	-12.7
Last 2 years	2.4	2.4
Last 3 years	4.8	4.7
Last 4 years	5.6	5.5
Last 5 years	8.4	8.4
Since Inception (7/95)	8.6	8.5

Calendar Year Returns

	Actual	Manager Benchmark*
2007	5.1%	5.1%
2006	15.8	15.7
2005	6.2	6.1
2004	12.0	11.9
2003	30.9	31.2

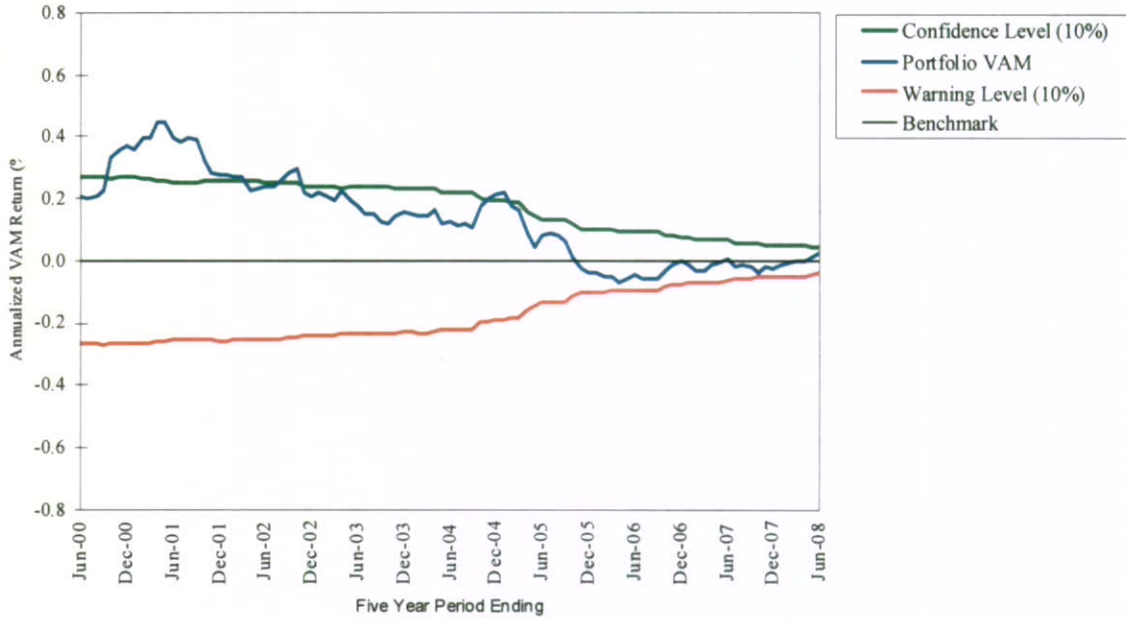
* The Domestic Equity Asset Class Target is the Russell 3000 Index effective 10/1/03. From Account inception to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments.

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2008

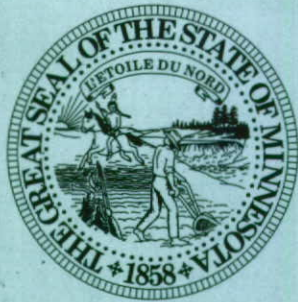
Portfolio Manager: Amy Schioldager

Assets Under Management: \$7,505,111,268

BARCLAYS GLOBAL INVESTORS - PASSIVE
Rolling Five Year VAM vs. Domestic Equity Target
(Russell 3000 as of 10/1/2003)



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STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Second Quarter, 2008

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A-92

Bond Managers

Table of Contents

	Page
Bond Manager Performance Summary (quarter, 1, 3, 5, year periods)	A-94
Bond Manager Performance Summary (by calendar years)	A-95
Aberdeen Asset Management	A-96
Dodge & Cox Investment Managers	A-97
Morgan Stanley Dean Witter Investment Management	A-98
RiverSource Investments	A-99
Western Asset Management	A-100
BlackRock, Inc.	A-101
Goldman Sachs Asset Management	A-102
Lehman Brothers Asset Management	A-103

**COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending June, 2008**

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
Aberdeen	-0.2	-1.0	3.0	7.1	2.9	4.1	3.4	3.9	6.2	6.3	\$1,116.3	9.8%
Dodge & Cox	-0.1	-1.0	4.5	7.1	3.9	4.1	4.0	3.9	6.9	6.3	\$1,159.6	10.2%
Morgan Stanley	-2.5	-1.0	-2.1	7.1	1.6	4.1	2.8	3.9	8.6	8.7	\$890.7	7.8%
RiverSource	-0.1	-1.0	5.3	7.1	3.8	4.1	3.8	3.9	5.9	6.1	\$980.5	8.6%
Western	-1.7	-1.0	3.0	7.1	3.2	4.1	4.2	3.9	9.7	8.7	\$1,458.3	12.8%
Active Mgr. Aggregate	-0.9	-1.0	2.8	7.1	3.1	4.1	3.7	3.9	8.9	8.6	\$5,605.4	49.3%
Semi-Passive Managers												
BlackRock	-0.5	-1.0	6.5	7.1	3.9	4.1	3.8	3.9	6.4	6.2	\$1,899.2	16.7%
Goldman	-0.2	-1.0	5.8	7.1	3.8	4.1	4.0	3.9	6.3	6.1	\$1,897.5	16.7%
Lehman	-0.8	-1.0	4.8	7.1	3.4	4.1	3.5	3.9	7.4	7.4	\$1,965.3	17.3%
Semi-Passive Mgr. Aggregate	-0.5	-1.0	5.7	7.1	3.7	4.1	3.8	3.9	7.5	7.4	\$5,762.0	50.7%
Since 7/1/84												
Historical Aggregate (2)	-0.7	-1.0	4.3	7.1	3.4	4.1	3.8	3.9	8.7	8.7	\$11,367.33	100.0%
Lehman Aggregate (3)		-1.0		7.1		4.1		3.9		8.7		

(1) Since retention by the SBI. Time period varies for each manager.

(2) Includes performance of terminated managers.

(3) Prior to July 1994, this index reflects the Salomon BIG.

COMBINED RETIREMENT FUNDS
BOND MANAGERS
Calendar Year Returns

	2007		2006		2005		2004		2003	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Active Managers										
Aberdeen	5.6	7.0	4.8	4.3	2.7	2.4	5.1	4.3	5.2	4.1
Dodge & Cox	5.3	7.0	5.5	4.3	2.5	2.4	4.1	4.3	7.4	4.1
Morgan Stanley	6.3	7.0	4.2	4.3	4.1	2.4	4.6	4.3	5.1	4.1
RiverSource	6.6	7.0	4.7	4.3	2.6	2.4	5.1	4.3	4.3	4.1
Western	5.4	7.0	5.4	4.3	2.7	2.4	6.6	4.3	9.2	4.1
Active Mgr. Aggregate	5.8	7.0	5.0	4.3	2.9	2.4	5.3	4.3	6.6	4.1
Semi-Passive Managers										
BlackRock	6.8	7.0	4.3	4.3	2.7	2.4	4.5	4.3	4.4	4.1
Goldman	7.0	7.0	4.5	4.3	2.8	2.4	5.1	4.3	5.7	4.1
Lehman	6.3	7.0	4.5	4.3	2.5	2.4	4.6	4.3	4.4	4.1
Semi-Passive Mgr. Aggregate	6.7	7.0	4.5	4.3	2.6	2.4	4.7	4.3	4.8	4.1
Historical Aggregate										
	6.3	7.0	4.7	4.3	2.8	2.4	5.0	4.3	5.7	4.1
Lehman Aggregate		7.0		4.3		2.4		4.3		4.1

ABERDEEN ASSET MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Warren Davis

Assets Under Management: \$1,116,299,787

Investment Philosophy

Aberdeen (formerly 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 valued 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. Aberdeen was retained by the SBI in February 2000.

Staff Comments

Aberdeen outperformed the benchmark by 80 bps during the 2nd quarter, but underperformed over the last 12 months. Overweight exposures to CMBS and AAA prime non-Agency hybrid mortgages contributed to returns, as those sectors outperformed during the quarter thanks to improved liquidity conditions. The same overweights that benefited the portfolio in the 2nd quarter detracted from returns over the last year.

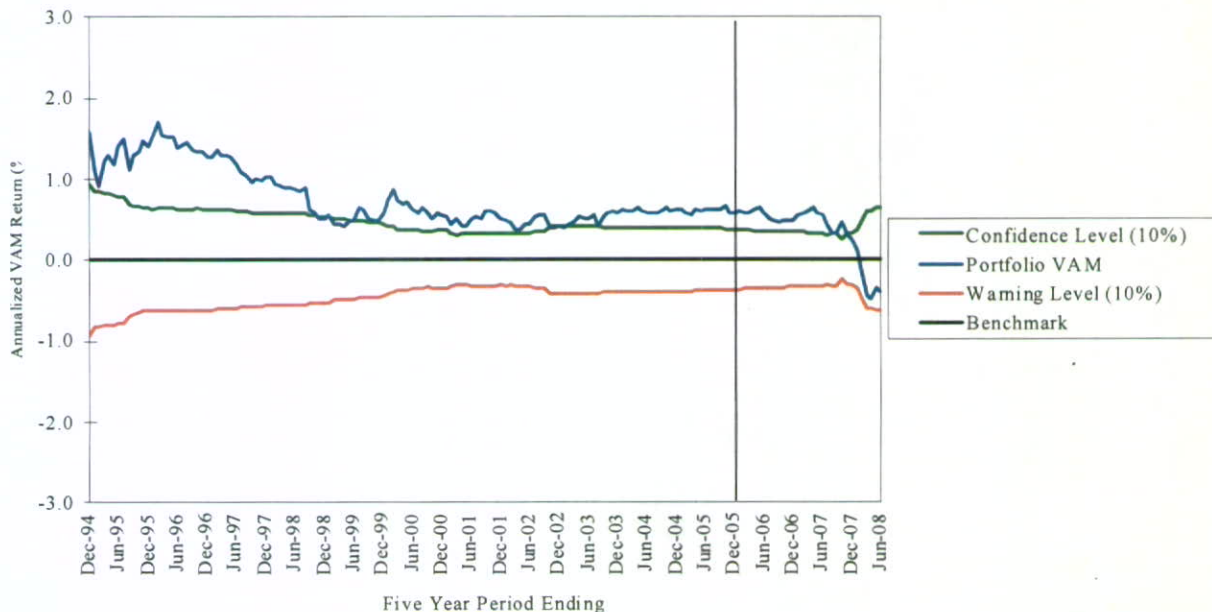
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.2%	-1.0%
Last 1 year	3.0	7.1
Last 2 years	4.7	6.6
Last 3 years	2.9	4.1
Last 4 years	4.0	4.8
Last 5 years	3.4	3.9
Since Inception (2/00)	6.2	6.3

Recommendations

No action required.

ABERDEEN ASSET MANAGEMENT
 Rolling Five Year VAM



Note: Area to the left of the vertical line includes performance prior to retention by the SBI.

DODGE & COX INVESTMENT MANAGERS
Periods Ending June, 2008

Portfolio Manager: Dana Emery

Assets Under Management: \$1,159,573,800

Investment Philosophy

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 market sectors and individual securities. The firm combines this fundamental research with a disciplined program of risk analysis. To seek superior returns over the long-term, Dodge & Cox emphasizes sector and security selection, strives to build portfolios that have a higher yield than the broad bond market, and analyzes portfolio and individual security risk. Dodge & Cox was retained by the SBI in February 2000.

Staff Comments

Dodge & Cox outperformed the benchmark by 90 bps during the 2nd quarter, but underperformed over the last 12 months. Overweights to the corporate and MBS sectors bolstered returns in the 2nd quarter, as those sectors outperformed. The portfolio also benefited from a shorter than benchmark duration as Treasury yields rose significantly during the quarter. The portfolio's nominal yield advantage also added to returns. Over the last year, the MBS and corporate sector overweights were the main detractors, as those sectors underperformed Treasuries during the last 12 months. The shorter than benchmark detracted from 12 month returns, as a strong Treasury rally occurring during the nine-months ending 3/31/08 pushed yields lower.

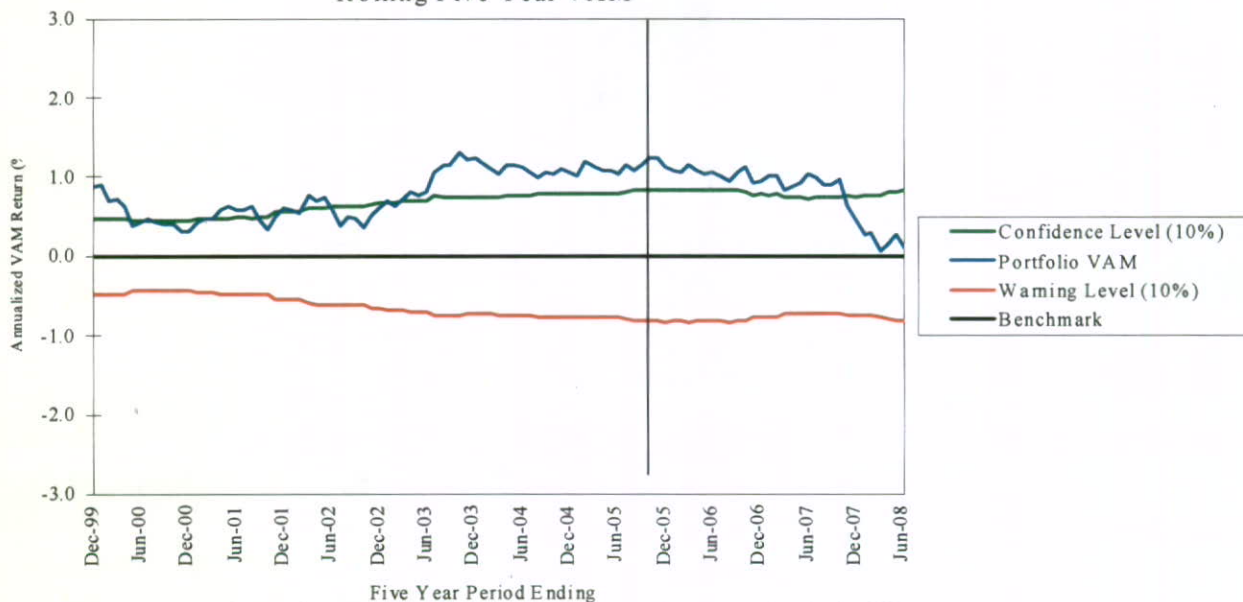
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.1%	-1.0%
Last 1 year	4.5	7.1
Last 2 years	5.6	6.6
Last 3 years	3.9	4.1
Last 4 years	4.5	4.8
Last 5 years	4.0	3.9
Since Inception (2/00)	6.9	6.3

Recommendations

No action required.

DODGE & COX INVESTMENT MANAGERS
Rolling Five Year VAM



Note: Area to the left of the vertical line includes performance prior to retention by the SBI

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: David Armstrong

Assets Under Management: \$890,651,823

Investment Philosophy

Morgan Stanley focuses on four key portfolio decisions: interest-rate sensitivity, yield-curve exposure, credit quality, and 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. In developing interest-rate strategy, the firm relies 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 bonds and controlling credit risk through diversification. Morgan Stanley has developed significant expertise in mortgage securities, which are often used to replace U.S. Treasuries in portfolios. Morgan Stanley was retained by the SBI in July 1984.

Staff Comments

Morgan Stanley underperformed the benchmark for the quarter and the last 12 months. Holdings in the Alt-A option ARM non-Agency mortgage sector were the main contributor to underperformance, as the portfolio maintained its overweight position in that sector in the 2nd quarter. The same is true of performance over the last 12 months, as the poor performance in the mortgage sector vastly outweighed the positive contributions of a yield curve-steepening strategy and underweights in credit and Agency debentures.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.5%	-1.0%
Last 1 year	-2.1	7.1
Last 2 years	1.9	6.6
Last 3 years	1.6	4.1
Last 4 years	2.9	4.8
Last 5 years	2.8	3.9
Since Inception (7/84)	8.6	8.7

Recommendations

No action required.

MORGAN STANLEY INVESTMENT MANAGEMENT
Rolling Five Year VAM



RIVERSOURCE INVESTMENTS
Periods Ending June, 2008

Portfolio Manager: Colin Lundgren

Assets Under Management: \$980,514,073

Investment Philosophy

RiverSource (formerly American Express) manages portfolios using a top-down approach culminating with in-depth fundamental research and credit analysis. Five portfolio components are actively managed: duration, maturity structure, sector selection, industry emphasis, and security selection. Duration and maturity structure are determined by the firm's economic analysis and interest rate outlook. This analysis also identifies sectors and industries expected to produce the best risk adjusted return. In-depth fundamental research and credit analysis combined with proprietary valuation disciplines is used to identify attractive individual securities. RiverSource was retained by the SBI in July 1993.

Staff Comments

Riversource outperformed the benchmark by 90 bps during the 2nd quarter, but underperformed over the last 12 months. Overweights to CMBS and investment grade corporate bonds, as well as an allocation to TIPS, boosted performance for the quarter. Security selection within these sectors was also a major contributor to performance, as was interest rate decisions, as the portfolio maintained a short-duration position in 2Q08. However, all of these factors that contributed positively in the 2nd quarter, contributed negatively to returns over the last 12 months, as Treasuries rallied due to immense risk aversion by the fixed income market.

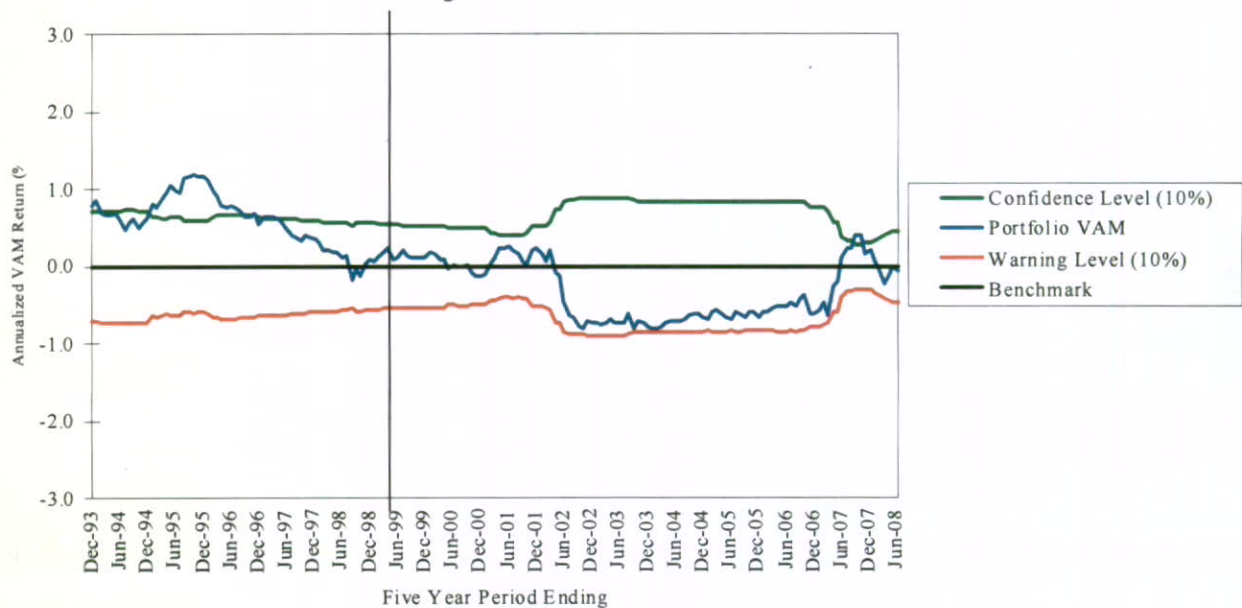
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.1%	-1.0%
Last 1 year	5.3	7.1
Last 2 years	5.8	6.6
Last 3 years	3.8	4.1
Last 4 years	4.6	4.8
Last 5 years	3.8	3.9
Since Inception (7/93)	5.9	6.1

Recommendations

No action required.

RIVERSOURCE INVESTMENTS - FIXED INCOME
Rolling Five Year VAM



Note: Area to the left of the vertical line includes performance prior to retention by the SBI.

WESTERN ASSET MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Ken Leech

Assets Under Management: \$1,458,318,816

Investment Philosophy

Western emphasizes the use of multiple strategies and active sector and issue selection, while constraining interest rate risk. Multiple strategies are proportioned so that results do not depend on one or two opportunities. This approach adds consistent value over time and can reduce volatility. Long term value investing is Western'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, and market valuation. Western believes that successful interest rate forecasting is extremely difficult and consequently keeps portfolio duration within a narrow band around the benchmark. Western was retained by the SBI in July 1984.

Staff Comments

Western underperformed the benchmark for both the quarter and the last 12 months. An overweight to Agency mortgage pass-through securities was a positive contributor to performance, as that sector outperformed Treasuries. Security selection detracted from returns as an emphasis on option ARM Alt-A non-Agency structures underperformed. A modest exposure to TIPS boosted returns, but duration and yield curve positioning detracted from 2nd quarter returns. Over the last year, an overweight exposure to the mortgage-backed sector detracted significantly from returns. An emphasis on lower-quality corporate bonds also detracted from returns. A tactically driven duration posture contributed modestly to returns as bond yields rallied over the last 12 months. A modest TIPS exposure also contributed to returns.

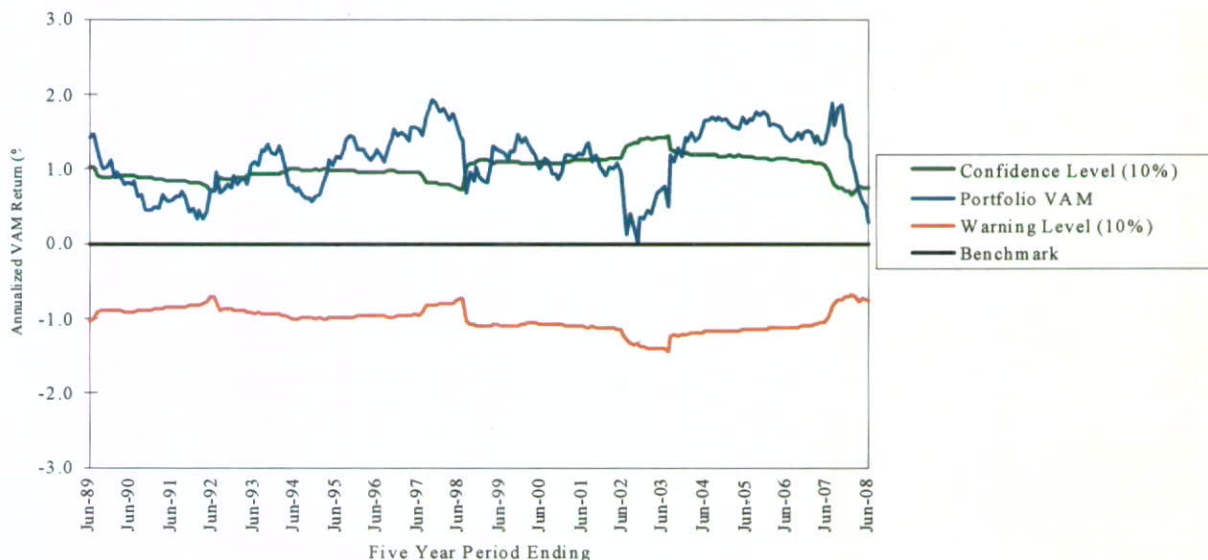
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.7%	-1.0%
Last 1 year	3.0	7.1
Last 2 years	4.9	6.6
Last 3 years	3.2	4.1
Last 4 years	4.2	4.8
Last 5 years	4.2	3.9
Since Inception (7/84)	9.7	8.7

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM



BLACKROCK, INC.
Periods Ending June, 2008

Portfolio Manager: Keith Anderson

Assets Under Management: \$1,899,156,697

Investment Philosophy

BlackRock manages an enhanced index portfolio closely tracking the Lehman Aggregate. The firm's enhanced index 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: (i) controlling portfolio duration within a narrow band relative to the benchmark, (ii) relative value sector/sub-sector rotation and security selection, (iii) rigorous quantitative analysis to the valuation of each security and of the portfolio as a whole, (iv) intense credit analysis and review, and (v) 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.

Staff Comments

Blackrock outperformed the benchmark by 50 bps during the 2nd quarter and underperformed over the last 12 months. Overweight exposures to the CMBS and ABS sectors were positive contributors in the 2nd quarter as those sectors outperformed. Corporate security selection also contributed. The portfolio's yield curve positioning was a detractor, however. Over the last 12 months, an Agency underweight contributed to performance, as that sector underperformed. The CMBS and mortgage overweight positions hurt performance over the last year as the sectors underperformed Treasuries.

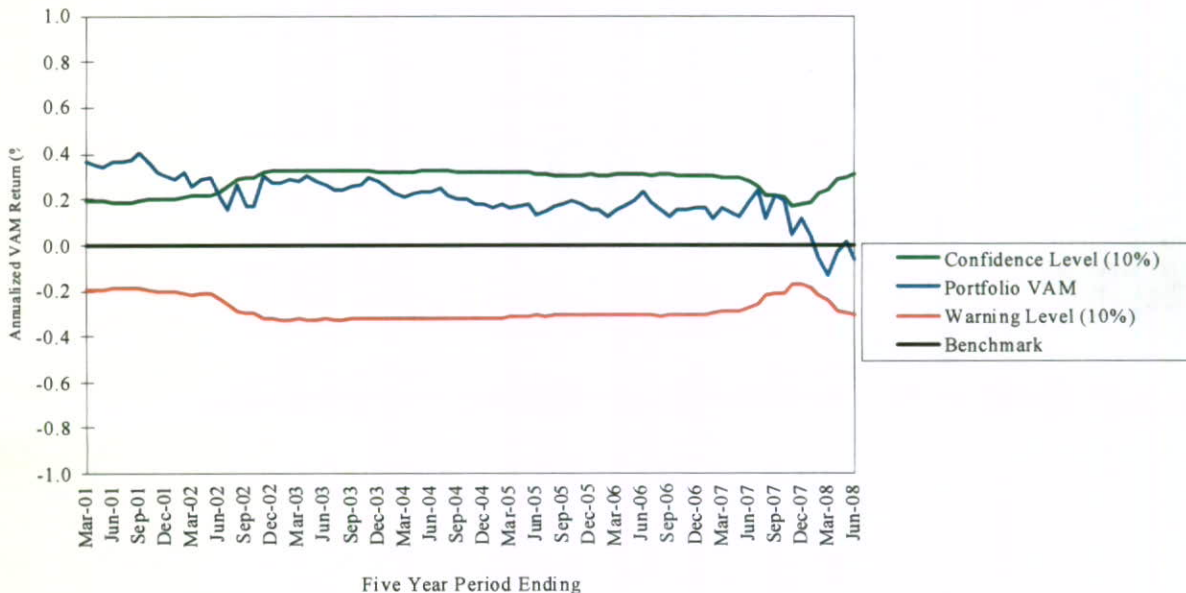
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.5%	-1.0%
Last 1 year	6.5	7.1
Last 2 years	6.1	6.6
Last 3 years	3.9	4.1
Last 4 years	4.6	4.8
Last 5 years	3.8	3.9
Since Inception (4/96)	6.4	6.2

Recommendation

No action required.

BLACKROCK, INC.
 Rolling Five Year VAM



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Jonathon Beinner

Assets Under Management: \$1,897,522,186

Investment Philosophy

Goldman manages an enhanced index portfolio closely tracking the Lehman Aggregate. Goldman's process can be viewed as active management within a very risk-controlled framework. The firm relies primarily on sector allocation and security selection strategies to generate incremental return. To a lesser degree, term structure strategies are also implemented. 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 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.

Staff Comments

Goldman Sachs outperformed the Lehman Aggregate by 80 bps during the 2nd quarter, but underperformed over the last 12 months. Security selection in AAA prime non-Agency mortgages was the main driver of returns for the quarter. Goldman's overall duration position also contributed positively. During the past 12 months, underperformance was driven by the same security selection in non-Agency mortgages that drove 2nd quarter returns. Government Agency bonds also detracted over the last 12 months, but an underweight exposure to the corporate sector boosted returns.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.2%	-1.0%
Last 1 year	5.8	7.1
Last 2 years	6.0	6.6
Last 3 years	3.8	4.1
Last 4 years	4.7	4.8
Last 5 years	4.0	3.9
Since Inception (7/93)	6.3	6.1

Recommendations

No action required.

GOLDMAN SACHS ASSET MANAGEMENT
Rolling Five Year VAM



LEHMAN BROTHERS ASSET MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Andrew Johnson

Assets Under Management: \$1,965,293,872

Investment Philosophy

Lehman (formerly Lincoln) manages an enhanced index portfolio closely tracking the Lehman Aggregate. Lehman'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 process. Lehman uses proprietary risk exposure measures to analyze 25 interest rate factors, and over 30 spread-related factors. 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 target active risk exposures that must fall within pre-established maximums controls risk. To control credit risk, corporate holdings are diversified across a large number of issues. Lehman was retained by the SBI in July 1988.

Staff Comments

Lehman outperformed the benchmark by 20 bps during the 2nd quarter, but underperformed over the last 12 months. Overall, the portfolio's overweight in CMBS and exposure to prime and Alt-A non-Agency hybrid mortgage securities were beneficial to 2nd quarter returns. Over the last year however, the portfolio underperformed mostly due to its exposure to non-Agency hybrid mortgage securities and floating rate notes. CMBS exposure was also a detractor to performance, to a lesser extent, over the last year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.8%	-1.0%
Last 1 year	4.8	7.1
Last 2 years	5.5	6.6
Last 3 years	3.4	4.1
Last 4 years	4.3	4.8
Last 5 years	3.5	3.9
Since Inception (7/88)	7.4	7.4

Recommendations

No action required.

LEHMAN BROTHERS ASSET MANAGEMENT
 Rolling Five Year VAM



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STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Second Quarter, 2008

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A-106

International Managers

Table of Contents

	Page
International Manager Performance Summary (quarter, 1, 3, 5, year periods)	A-108
International Manager Performance Summary (by calendar years)	A-109
Acadian Asset Management, Inc.	A-110
INVESCO Global Asset Management	A-111
J.P. Morgan Investment Management Inc.	A-112
Marathon Asset Management	A-113
McKinley Capital Management, Inc.	A-114
Pyramis Global Advisors Trust Company – Active	A-115
RiverSource Investments	A-116
UBS Global Asset Management, Inc.	A-117
AllianceBernstein L.P.	A-118
Capital International, Inc.	A-119
Morgan Stanley Investment Management	A-120
AQR Capital Management, LLC	A-121
Pyramis Global Advisors Trust Company – Semi-Passive	A-122
State Street Global Advisors – Semi-Passive	A-123
State Street Global Advisors – Passive	A-124

**COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending June, 2008**

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk		
	%	%	%	%	%	%	%	%	%	%		
Active Developed Markets (2)												
Acadian	0.2	-1.1	-13.5	-8.6	16.7	13.8			16.7	13.8	\$313.8	4.3%
Invesco	-2.3	-1.1	-13.7	-8.6	10.4	13.8	14.6	17.4	5.7	4.5	\$285.1	3.9%
J.P. Morgan	-1.0	-1.1	-10.7	-8.6	11.1	13.8			11.1	13.8	\$250.5	3.4%
Marathon	-0.5	-1.1	-5.8	-8.6	16.0	13.8	21.0	17.4	10.3	6.9	\$549.8	7.5%
McKinley	2.7	-1.1	-5.6	-8.6	17.3	13.8			17.3	13.8	\$308.4	4.2%
Pyramis (Fidelity)	2.0	-1.1	-2.7	-8.6	15.9	13.8			15.9	13.8	\$289.1	4.0%
RiverSource	0.5	-1.1	-6.9	-8.6	13.8	13.8	15.7	17.4	1.3	4.5	\$285.3	3.9%
UBS Global	-3.8	-1.1	-14.3	-8.6	9.5	13.8	13.9	17.4	8.4	8.0	\$279.6	3.8%
Aggregate	-0.3	-1.1	-9.0	-8.6	13.9	13.8	16.7	17.4	8.0	6.9	\$2,561.6	35.1%
Active Emerging Markets (3)												
AllianceBernstein	0.5	-0.6	5.3	5.3	26.6	27.4	29.7	29.9	18.1	18.5	\$440.2	6.0%
Capital International	-3.0	-0.6	3.4	5.3	29.3	27.4	29.9	29.9	16.4	18.5	\$443.3	6.1%
Morgan Stanley	-1.0	-0.6	2.4	5.3	28.3	27.4	30.5	29.9	18.7	18.5	\$460.6	6.3%
Aggregate	-1.2	-0.6	3.6	5.3	27.9	27.4	29.9	29.9	9.2	9.2	\$1,344.0	18.4%
Semi-Passive Developed Markets (2)												
AQR	0.7	-1.1	-11.1	-8.6	13.3	13.8			13.3	13.8	\$285.5	3.9%
Pyramis (Fidelity)	0.6	-1.1	-3.5	-8.6	16.8	13.8			16.8	13.8	\$318.0	4.4%
State Street	0.2	-1.1	-10.9	-8.6	13.5	13.8			13.5	13.8	\$291.2	4.0%
Aggregate	0.5	-1.1	-8.5	-8.6	14.6	13.8			14.6	13.8	\$894.7	12.3%
Passive Developed Markets (2)												
State Street	-0.9	-1.1	-8.2	-8.6	14.1	13.8	17.6	17.4	8.5	8.2	\$2,489.0	34.1%
									Since 10/1/92			
Equity Only (4) (6)	-0.6	-1.0	-6.6	-6.4	16.0	15.8	18.8	19.0	9.0	8.5	\$7,289.7	100.0%
Total Program (5) (6)	-0.6	-1.0	-6.6	-6.4	16.0	15.8	18.8	19.0	9.2	8.5	\$7,289.7	100.0%
SBI Int'l Equity Target (6)		-1.0		-6.4		15.8		19.0		8.5		
MSCI ACWI Free ex. U.S. (7)		-1.1		-6.6		15.7		18.9		8.9		
MSCI World ex U.S. (net)		-1.2		-8.8		13.7		17.3		8.4		
MSCI EAFE Free (net)		-2.3		-10.6		12.8		16.7		8.0		
MSCI Emerging Markets Free (8)		-0.8		4.6		27.1		29.7		11.0		

(1) Since retention by the SBI. Time period varies for each manager.

(2) Since 6/1/08 the developed markets manager's benchmark is the Standard (large + mid) MSCI World ex U.S. (net).

From 10/1/07 through 5/31/08 the benchmark was the Provisional Standard MSCI World ex U.S. (net). From 10/1/03 to 9/30/07 the benchmark was MSCI World ex U.S. (net). Prior to that date, it was MSCI EAFE Free (net). From 10/1/01 to 5/31/02 the benchmark was the Provisional MSCI EAFE Free (net).

(3) Since 6/1/08 the emerging markets manager's benchmark is the Standard (large + mid) MSCI Emerging Markets Free (net).

From 10/1/07 through 5/31/08 the benchmark was the Provisional Standard MSCI Emerging Markets Free (net). From 1/1/01 to 9/30/07 the benchmark was MSCI Emerging Markets Free (net). Prior to that date, it was MSCI Emerging Markets Free (gross). From 10/1/01 to 5/31/02 the benchmark was the Provisional MSCI Emerging Markets Free (net).

(4) Equity managers only. Includes impact of terminated managers.

(5) Includes impact of currency overlay on the passive EAFE portfolio from 12/1/95-10/31/00.

(6) Since 6/1/08 the International Equity asset class target is the Standard (large + mid) MSCI ACWI ex U.S. (net).

From 10/1/07 through 5/31/08 the benchmark was the Provisional Standard MSCI ACWI ex U.S. (net). From 10/1/03 to 9/30/07 the target was MSCI ACWI ex U.S. (net). From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) plus Emerging Markets Free (net), and from 7/1/99 to 12/31/00 the target was MSCI EAFE Free (net) plus Emerging Markets Free (gross). From 7/1/99 to 9/30/03, the weighting of each index fluctuated with market capitalization. From 10/1/01 to 5/31/02 all international benchmarks being reported were the MSCI Provisional indices. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE Free (net)/13% Emerging Markets Free (gross). On 5/1/96, the portfolio began transitioning from 100% EAFE Free (net) to the 12/31/96 fixed weights. 100% EAFE Free (net) prior to 5/1/96.

(7) MSCI ACWI Free ex U.S. (gross) through 12/31/00. MSCI ACWI Free ex U.S. (net) thereafter.

(8) MSCI Emerging Markets Free (gross) through 12/31/00. MSCI Emerging Markets Free (net) thereafter.

**COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Calendar Year Returns**

	2007		2006		2005		2004		2003	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Active Developed Markets (1)										
Acadian	10.0	12.6	31.9	25.7						
Invesco	8.4	12.6	26.0	25.7	10.6	14.5	21.4	20.4	33.0	38.5
J.P. Morgan	8.8	12.6	23.1	25.7						
Marathon	15.4	12.6	27.5	25.7	16.4	14.5	24.6	20.4	47.2	38.5
McKinley	20.4	12.6	25.4	25.7						
Pyramis (Fidelity)	17.7	12.6	22.7	25.7						
RiverSource	12.4	12.6	23.6	25.7	14.2	14.5	17.5	20.4	30.2	38.5
UBS Global	7.7	12.6	25.6	25.7	10.0	14.5	20.1	20.4	32.3	38.5
Aggregate	13.0	12.6	25.8	25.7	13.6	14.5	19.0	20.4	35.1	38.5
Active Emerging Markets (2)										
AllianceBernstein	38.8	39.9	30.4	32.2	32.7	34.0	28.6	25.5	54.1	55.8
Capital International	38.4	39.9	35.6	32.2	38.4	34.0	19.5	25.5	54.2	55.8
Morgan Stanley	43.0	39.9	37.6	32.2	34.3	34.0	24.2	25.5	58.8	55.8
Aggregate	40.0	39.9	34.4	32.2	34.9	34.0	22.9	25.5	56.0	55.8
Semi-Passive Developed Markets (1)										
AQR	9.0	12.6	25.2	25.7						
Pyramis (Fidelity)	18.2	12.6	26.8	25.7						
State Street	9.1	12.6	27.1	25.7						
Aggregate	12.1	12.6	26.4	25.7						
Passive Developed Markets (1)										
State Street	12.9	12.6	26.0	25.7	14.6	14.5	20.6	20.4	38.6	38.5
Equity Only (3) (5)	17.1	16.9	27.0	26.7	16.4	16.6	20.0	20.9	38.2	40.1
Total Program (4) (5)	17.1	16.9	27.0	26.7	16.4	16.6	20.0	20.9	38.2	40.1
SBI Int'l Equity Target (5)		16.9		26.7		16.6		20.9		40.1
MSCI ACWI Free ex. U.S. (6)		16.7		26.7		16.6		20.9		40.8
MSCI World ex U.S. (net)		12.4		25.7		14.5		20.4		39.4
MSCI EAFE Free (net)		11.2		26.3		13.5		20.2		38.6
MSCI Emerging Markets Free (7)		39.4		32.2		34.0		25.5		55.8

- (1) Since 6/1/08 the developed markets manager's benchmark is the Standard (large + mid) MSCI World ex U.S. (net). From 10/1/07 through 5/31/08 the benchmark was the Provisional Standard MSCI World ex U.S. (net). From 10/1/03 to 9/30/07 the benchmark was MSCI World ex U.S. (net). Prior to that date, it was MSCI EAFE Free (net). From 10/1/01 to 5/31/02 the benchmark was the Provisional MSCI EAFE Free (net).
- (2) Since 6/1/08 the emerging markets manager's benchmark is the Standard (large + mid) MSCI Emerging Markets Free (net). From 10/1/07 through 5/31/08 the benchmark was the Provisional Standard MSCI Emerging Markets Free (net). From 1/1/01 to 9/30/07 the benchmark was MSCI Emerging Markets Free (net). Prior to that date, it was MSCI Emerging Markets Free (gross). From 10/1/01 to 5/31/02 the benchmark was the Provisional MSCI Emerging Markets Free (net).
- (3) Equity managers only. Includes impact of terminated managers.
- (4) Includes impact of currency overlay on the passive EAFE portfolio from 12/1/95-10/31/00.
- (5) Since 6/1/08 the International Equity asset class target is the Standard (large + mid) MSCI ACWI ex U.S. (net). From 10/1/07 through 5/31/08 the benchmark was the Provisional Standard MSCI ACWI ex U.S. (net). From 10/1/03 to 9/30/07 the target was MSCI ACWI ex U.S. (net). From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) plus Emerging Markets Free (net), and from 7/1/99 to 12/31/00 the target was MSCI EAFE Free (net) plus Emerging Markets Free (gross). From 7/1/99 to 9/30/03, the weighting of each index fluctuated with market capitalization. From 10/1/01 to 5/31/02 all international benchmarks being reported were the MSCI Provisional indices. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE Free (net)/13% Emerging Markets Free (gross). On 5/1/96, the portfolio began transitioning from 100% EAFE Free (net) to the 12/31/96 fixed weights. 100% EAFE Free (net) prior to 5/1/96.
- (6) MSCI ACWI Free ex U.S. (gross) through 12/31/00. MSCI ACWI Free ex U.S. (net) thereafter.
- (7) MSCI Emerging Markets Free (gross) through 12/31/00. MSCI Emerging Markets Free (net) thereafter.

ACADIAN ASSET MANAGEMENT LLC
Periods Ending June, 2008

Portfolio Manager: John Chisholm

Assets Under Management: \$313,776,388

Investment Philosophy

Acadian believes there are inefficiencies in the global equity markets that can be exploited by a disciplined quantitative investment process. In evaluating markets and stocks, Acadian believes it is most effective to use a range of measures, including valuation, price trends, financial quality and earnings information. Risk control is a critical part of the Acadian approach. Acadian's process seeks to capture value-added at both the stock and the sector/country level. The process is active and bottom-up, but each stock forecast also contains a sector/country forecast. Selection is made from a very broad investment universe using disciplined, factor-driven quantitative models. Portfolios are constructed with an optimizer and are focused on targeting a desired level of active risk relative to a client's chosen benchmark index.

Staff Comments

The portfolio's overweight position in both the energy and materials sectors, added significant value over the quarter and the year. These were the top performing sectors over both periods. Selection in the financials, telecommunications and healthcare sectors contributed to the portfolio's underperformance for the year.

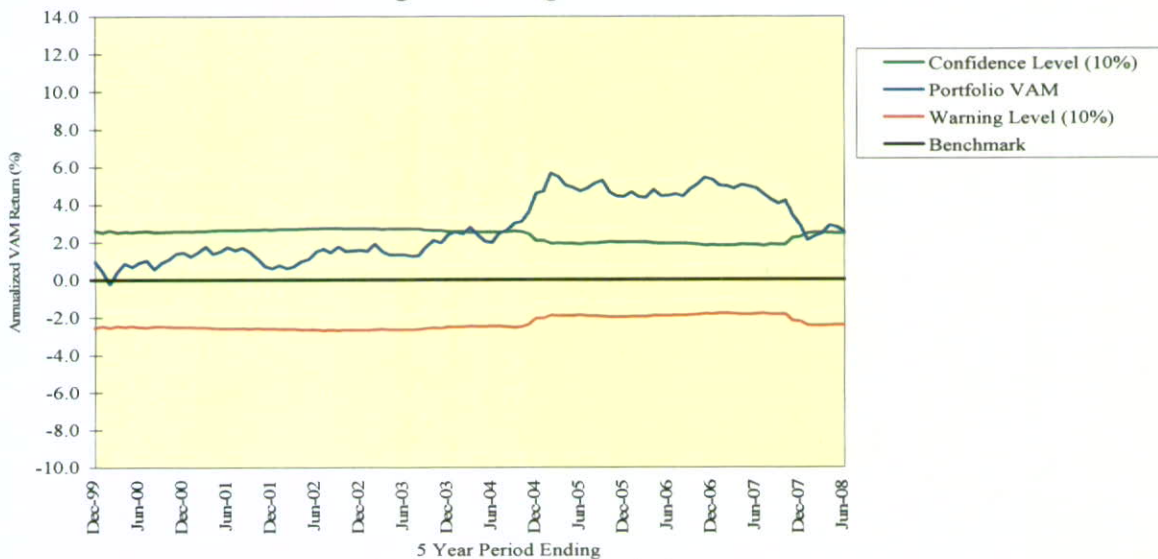
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.2%	-1.1%
Last 1 year	-13.5	-8.6
Last 2 years	7.7	7.8
Last 3 years	16.7	13.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	16.7	13.8

Recommendations

No action required.

ACADIAN ASSET MANAGEMENT
Rolling Five Rolling VAM



Note: Shaded area includes performance prior to retention by the SBI.

INVESCO GLOBAL ASSET MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Erik Granade

Assets Under Management: \$285,123,271

Investment Philosophy

INVESCO believes they can add value by identifying and investing in companies whose share price does not reflect the proven and sustainable growth of the company's earnings and assets. They also believe that a systematic process that identifies mis-valued companies, combined with a consistently applied portfolio design process, can control the predictability and consistency of returns. 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 whose key financial data is adjusted to be comparable across borders and currencies. Third, Invesco believes that using local investment professionals enhances fundamental company research. Finally, they manage risk and assure broad diversification relative to clients' benchmarks through a statistics-based portfolio construction approach rather than resorting to country or industry constraints.

Staff Comments

Stock selection in the materials and consumer discretionary sectors along with an underweight position in the materials sector detracted from performance over the quarter and the year.

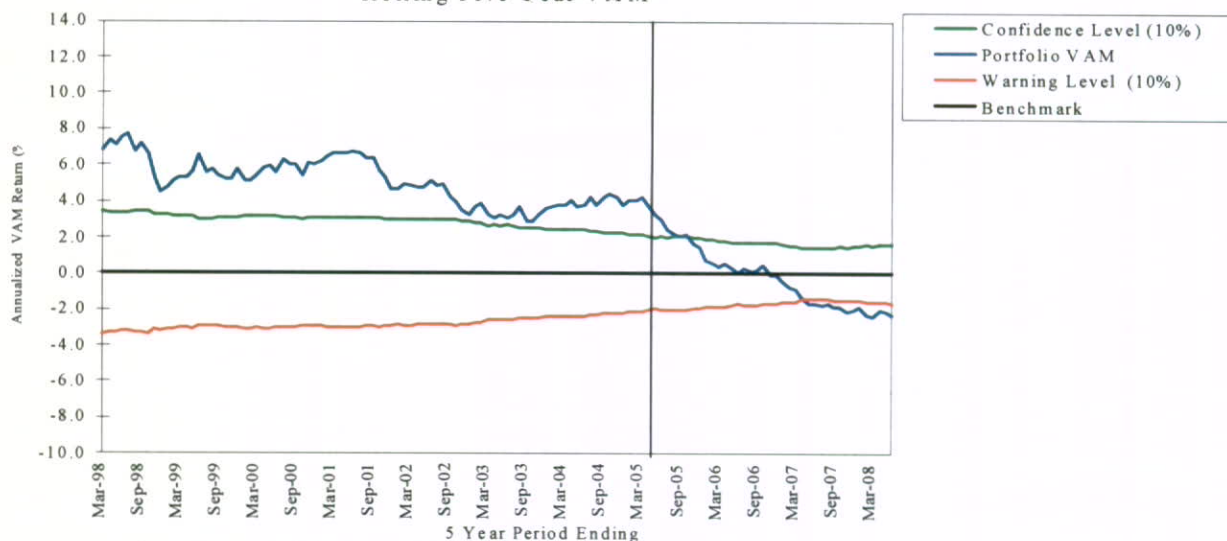
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.3%	-1.1%
Last 1 year	-13.7	-8.6
Last 2 years	3.8	7.8
Last 3 years	10.4	13.8
Last 4 years	10.8	14.0
Last 5 years	14.6	17.4
Since Inception (3/00)	5.7	4.5

Recommendations

No action required.

INVESCO GLOBAL ASSET MANAGEMENT
 Rolling Five Year VAM



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

J.P. MORGAN INVESTMENT MANAGEMENT INC.
Periods Ending June, 2008

Portfolio Manager: James Fisher

Assets Under Management: \$250,459,366

Investment Philosophy

JP Morgan's international equity strategy seeks to add value through active stock selection, while remaining diversified by both sector and region. The portfolio displays a large capitalization size bias and a slight growth orientation. Stock selection decisions reflect the insights of approximately 150 locally based investors, ranking companies within their respective local markets. The most attractive names in each region are then further validated by a team of Global Sector Specialists who seek to take the regional team rankings and put these into a global context. The team of six senior portfolio managers draws together the insights of both the regional and global specialists, constructing a portfolio of the most attractive names.

Staff Comments

Stock selection in and an underweight to the materials sector detracted from performance over the quarter and the year.

During the quarter, shareholder approval was granted for the JP Morgan and Bear Stearns merger. The organizations merged as of June 2, 2008.

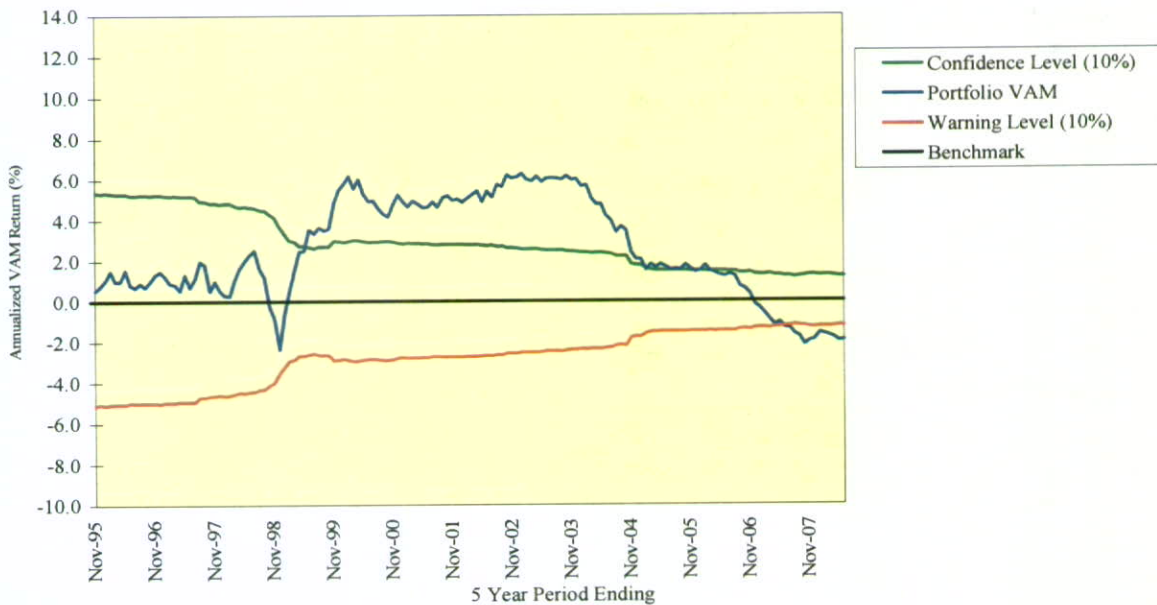
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.0%	-1.1%
Last 1 year	-10.7	-8.6
Last 2 years	4.6	7.8
Last 3 years	11.1	13.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	11.1	13.8

Recommendations

No action required.

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Rolling Five Rolling VAM



Note: Shaded area includes performance prior to retention by the SBI.

MARATHON ASSET MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: William Arah

Assets Under Management: \$549,835,410

Investment Philosophy

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 lowest risk opportunity. Since they believe that competition determines profitability, Marathon is attracted to industries where the level of competition is declining and they 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 versus the attractiveness of their products or services and attempts to determine whether the company is following an appropriate reinvestment strategy for their current competitive position.

Staff Comments

The portfolio's underweight position in the financials sector together with stock selection in that sector and in the industrials sector contributed significantly to outperformance over both the quarter and the year.

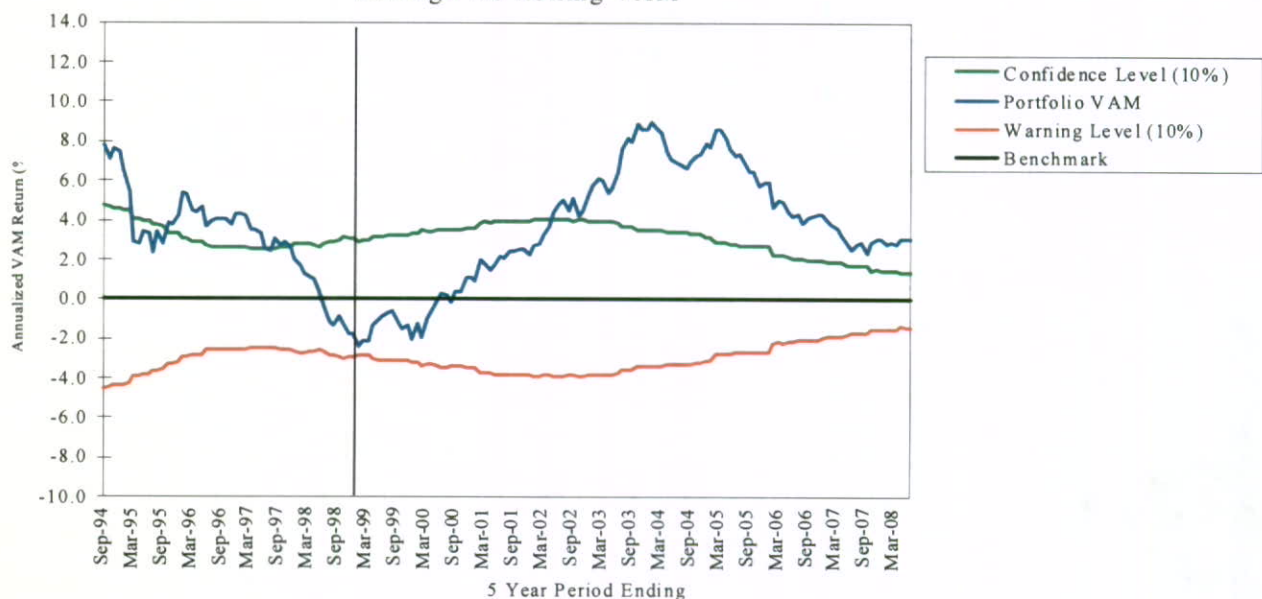
Quantitative Evaluation

	Custom	
	Actual	Benchmark
Last Quarter	-0.5%	-1.1%
Last 1 year	-5.8	-8.6
Last 2 years	10.5	7.8
Last 3 years	16.0	13.8
Last 4 years	16.4	14.0
Last 5 years	21.0	17.4
Since Inception (11/93)	10.3	6.9

Recommendations

No action required.

MARATHON ASSET MANAGEMENT
Rolling Five Rolling VAM



Note: Area to the left of vertical line includes performance prior to retention by the SBI

MCKINLEY CAPITAL MANAGEMENT, INC.
Periods Ending June, 2008

Portfolio Manager: Robert Gillam, Jr.

Assets Under Management: \$308,394,345

Investment Philosophy

At McKinley Capital, investment decisions are based on the philosophy that excess market returns can be achieved through the construction and active management of a diversified, fundamentally sound portfolio of inefficiently priced common stocks whose earnings growth rates are accelerating above market expectations. A disciplined quantitative investment process drives all product strategies. The firm can be described as a bottom-up growth manager. They employ both a systematic screening process and a qualitative overview to construct and manage portfolios. Investment ideas are initially generated by the quantitative investment process. The balance of the qualitative overlay seeks to identify securities with earnings estimates that are reasonable and sustainable. All portfolios managed by McKinley Capital use the same investment process and construction methodology to manage portfolios.

Staff Comments

The portfolio's overweight to the materials sector and underweight to the financials sector, the best and worst performing sectors, added value over both the quarter and the year. During the quarter, stock selection in the financials and industrials sector was also beneficial.

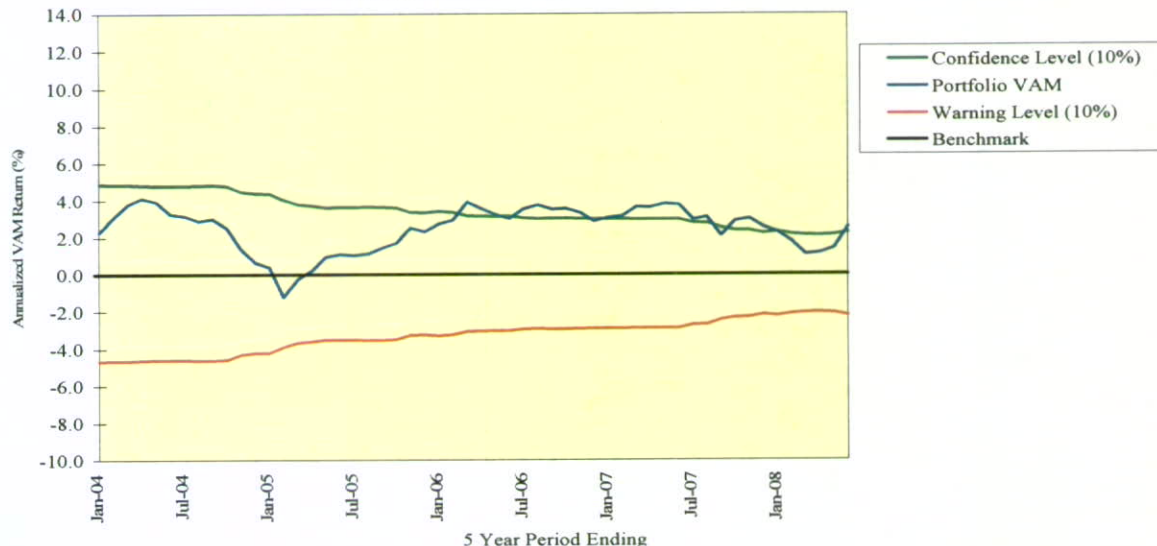
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.7%	-1.1%
Last 1 year	-5.6	-8.6
Last 2 years	11.1	7.8
Last 3 years	17.3	13.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	17.3	13.8

Recommendations

No action required.

MCKINLEY CAPITAL MANAGEMENT, INC.
 Rolling Five Rolling VAM



Note: Shaded area includes performance prior to retention by the SBI.

PYRAMIS GLOBAL ADVISORS TRUST COMPANY
(Formerly Fidelity Management Trust Company)
Periods Ending June, 2008

Portfolio Manager: Michael Strong

Assets Under Management: \$289,130,020

Investment Philosophy

International Growth is a core, growth-oriented strategy that provides diversified exposure to the developed international markets. The investment process combines active stock selection and regional asset allocation. Four portfolio managers in London, Tokyo, Hong Kong, and Boston construct regional sub-portfolios, selecting stocks based on Fidelity analysts' bottom-up research and their own judgment and expertise. Portfolio guidelines seek to ensure risk is commensurate with the performance target and to focus active risk on stock selection. Resulting portfolios typically contain between 200-250 holdings.

Staff Comments

Holdings in the financials and materials sectors contributed to returns for the quarter and the year. During the quarter, stock selection in the utilities and consumer discretionary sectors also added value.

Pyramis announced the retirement of its CEO & President, Peter Smail, effective June 28, 2008. Kevin Uebelein was named Peter's successor and joined Pyramis on June 30th as the firm's new CEO & President.

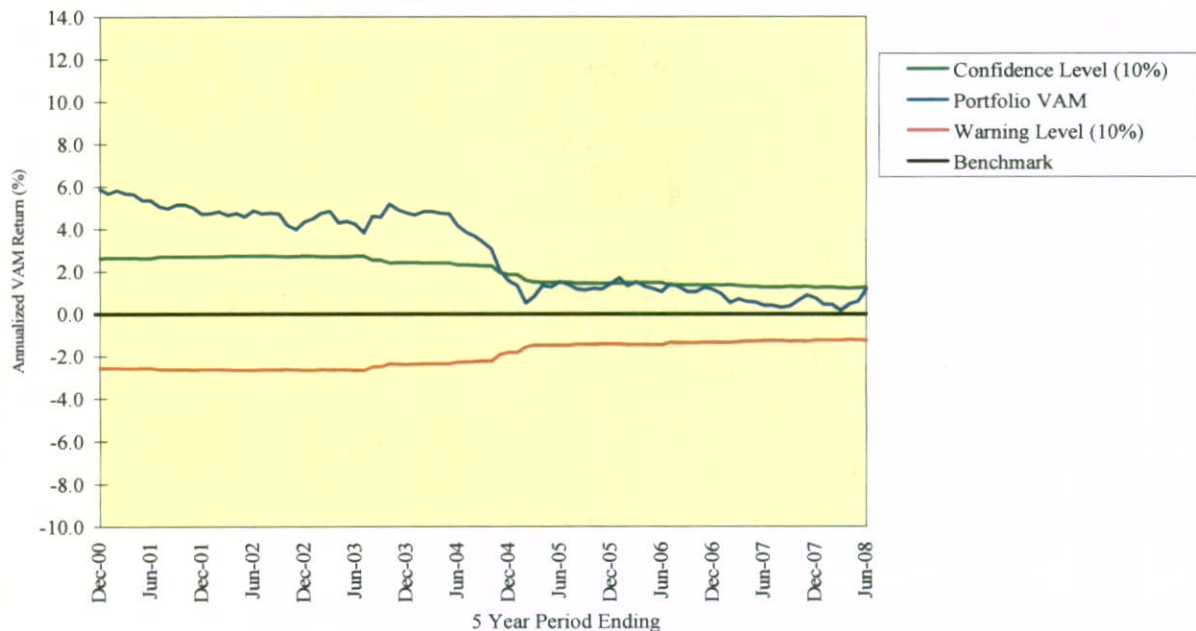
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.0%	-1.1%
Last 1 year	-2.7	-8.6
Last 2 years	10.5	7.8
Last 3 years	15.9	13.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	15.9	13.8

Recommendations

No action required.

PYRAMIS GLOBAL ADVISORS TRUST Co. - INTL GROWTH
Rolling Five Rolling VAM



Note: Shaded area includes performance prior to retention by the SBI.

RIVERSOURCE INVESTMENTS
Periods Ending June, 2008

Portfolio Manager: Esther Perkins

Assets Under Management: \$285,259,557

Investment Philosophy

RiverSource's philosophy focuses on key forces of change in markets and the companies that will benefit. The firm believes that in a global marketplace, where sustainable competitive advantage is rare, their research should focus on the dynamics of change. A good understanding of the likely impact of these changes at a company level, complemented with an appreciation of the ability of management to exploit these changes, creates significant opportunities to pick winners and avoid losers.

Staff Comments

The portfolio outperformed over both the quarter and the year. Stock selection in the industrials, financials, and consumer discretionary sectors added value over the quarter, while selection in the energy sector was the most significant contributor to returns for the year.

On May 12th, 2008, Ian Burden joined Threadneedle as Head of Japanese Equities. He replaces Ed Gaunt who left the firm in the 4Q07.

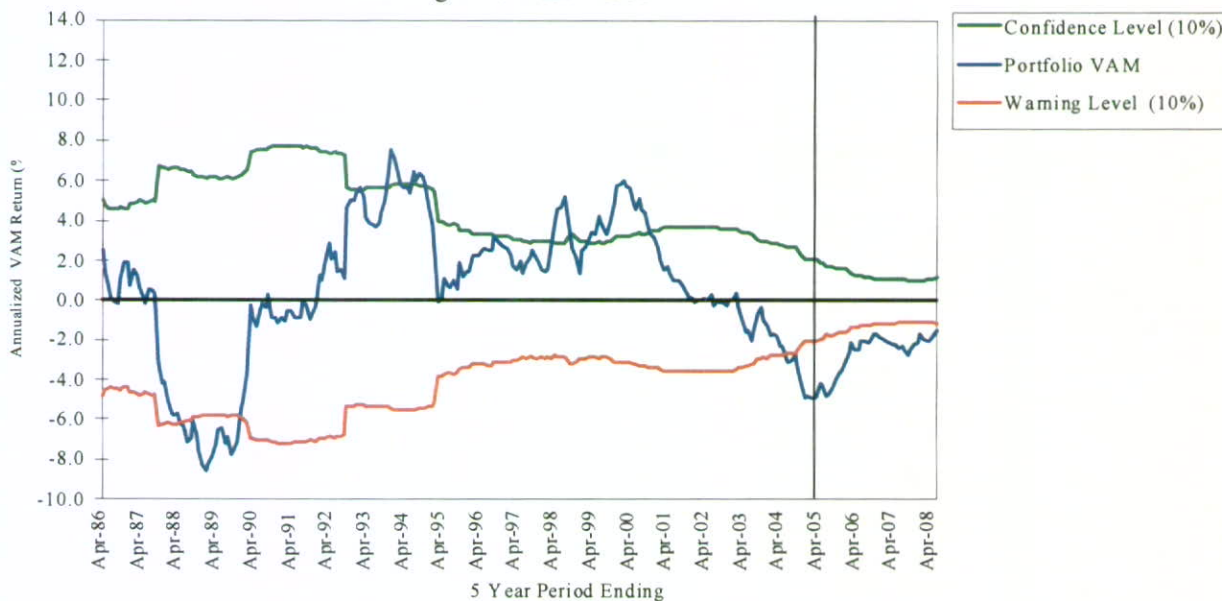
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.5%	-1.1%
Last 1 year	-6.9	-8.6
Last 2 years	7.0	7.8
Last 3 years	13.8	13.8
Last 4 years	13.5	14.0
Last 5 years	15.7	17.4
Since Inception (3/00)	1.3	4.5

Recommendations

No action required.

RIVERSOURCE INVESTMENTS
 Rolling Five Year VAM



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending June, 2008

Portfolio Manager: Nick Irish

Assets Under Management: \$279,642,997

Investment Philosophy

UBS's investment research process focuses on identifying discrepancies between a security's fundamental or intrinsic value and its observed market price both across and within international equity markets. UBS exploits these discrepancies using a disciplined fundamental approach. The research analysts evaluate companies in their markets around the world and assign relative price/intrinsic value rankings based on the present value of the future cash flows. The portfolio management team draws upon the analysts' stock and industry-level research and synthesizes it with the firm's macro analysis of the global economy, country specific views and various market-driven issues to systematically develop portfolio strategy. UBS develops currency strategies separately and in coordination with country allocations. They utilize currency equilibrium bands to determine which currencies are over or under valued.

Staff Comments

Stock selection in and an underweight to both the materials and energy sectors contributed significantly to the portfolio's underperformance over both the quarter and the year.

During the quarter, UBS disbanded its Japan office, together with all but one of the firm's Japan analysts, who was relocated to Singapore. Coverage for Japanese equities has been reassigned to sector analysts in other regions.

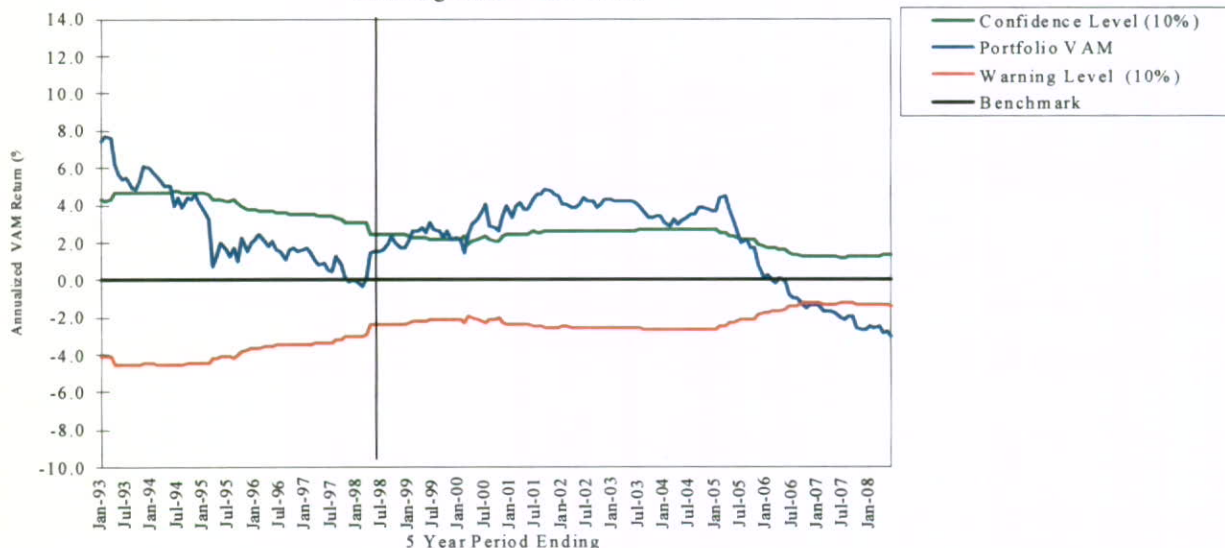
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-3.8%	-1.1%
Last 1 year	-14.3	-8.6
Last 2 years	3.4	7.8
Last 3 years	9.5	13.8
Last 4 years	10.4	14.0
Last 5 years	13.9	17.4
Since Inception (4/93)	8.4	8.0

Recommendations

No action required.

UBS GLOBAL ASSET MANAGEMENT, INC. (INT'L)
 Rolling Five Year VAM



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

ALLIANCEBERNSTEIN L.P.
Periods Ending June, 2008

Portfolio Manager: Steve Beinhacker

Assets Under Management: \$440,177,218

Investment Philosophy

Alliance employs a growth style of investment management. They believe that fundamental research-driven stock selection, structured by industries within regions, will produce superior investment performance. Their strategy emphasizes bottom-up, large capitalization stock selection. Country and industry exposures are a by-product of stock selection. Alliance looks for companies with the best combination of forward-looking growth and valuation attractiveness.

Staff Comments

Stock selection China and Israel added value over the quarter, as did the portfolio's overweight to Brazil, a top performing market, and underweight to Taiwan. For the year, while allocation decisions added value, selection decisions overall detracted from returns.

During the quarter, Alliance announced the resignation of Manish Singhai, the portfolio manager for the Asian portion of the SBI's portfolio. He will be replaced by Richard Chow, who has been with Alliance since 1997, most recently as director of their China Research team.

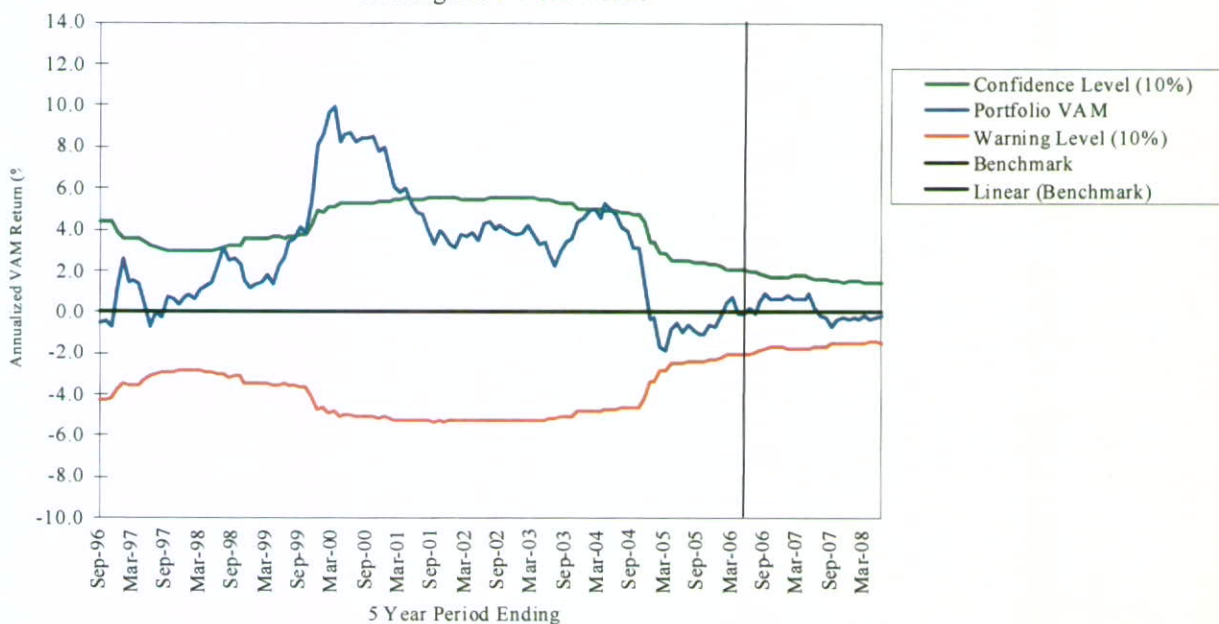
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.5%	-0.6%
Last 1 year	5.3	5.3
Last 2 years	23.5	23.6
Last 3 years	26.6	27.4
Last 4 years	28.6	29.1
Last 5 years	29.7	29.9
Since Inception (3/01)	18.1	18.5

Recommendations

No action required.

ALLIANCEBERNSTEIN L.P.
 Rolling Five Year VAM



Note: Area to the left of vertical line includes performance prior to retention by the SBI.

CAPITAL INTERNATIONAL, INC.
Periods Ending June, 2008

Portfolio Manager: Victor Kohn

Assets Under Management: \$443,280,425

Investment Philosophy

Capital International's philosophy is value-oriented, as they focus on identifying the difference between the underlying value of a company and the price of its securities in its home market. Capital International's basic, fundamental, bottom-up approach is blended with macroeconomic and political judgments on the outlook for economies, industries, currencies and markets. The team of portfolio managers and analysts each select stocks for the portfolio based on extensive field research and direct company contact.

Staff Comments

An underweight position in Brazil and stock selection in India, top and bottom performing markets respectively, detracted from performance over both the quarter and the year.

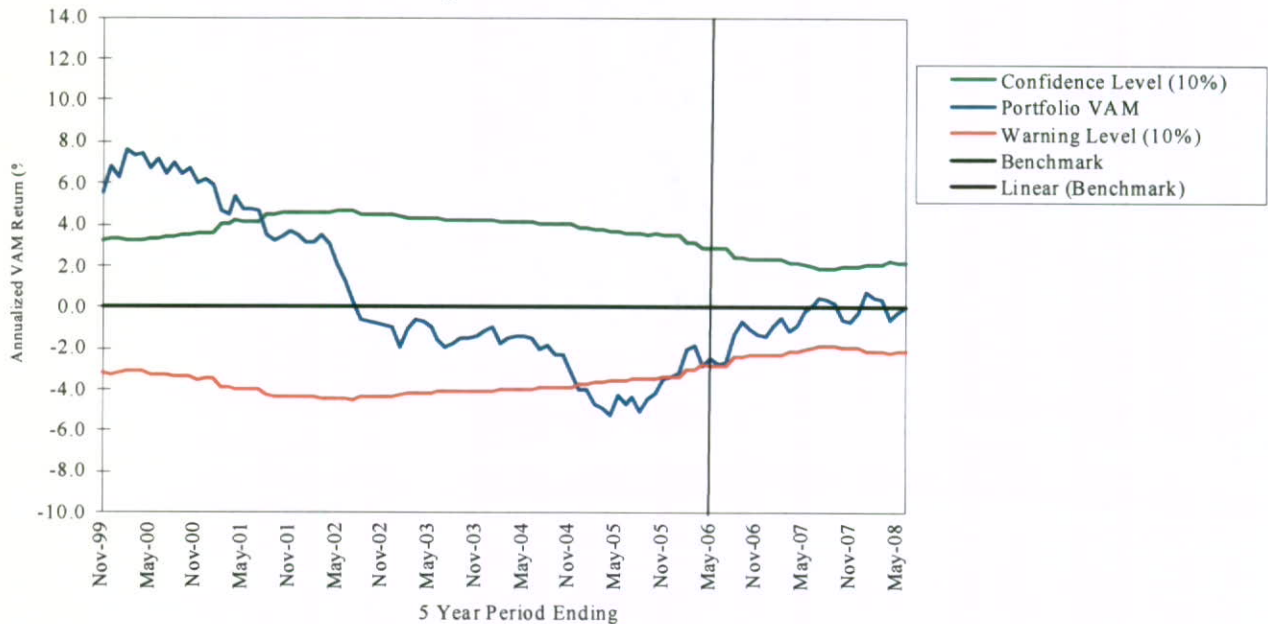
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-3.0%	-0.6%
Last 1 year	3.4	5.3
Last 2 years	25.3	23.6
Last 3 years	29.3	27.4
Last 4 years	30.2	29.1
Last 5 years	29.9	29.9
Since Inception (3/01)	16.4	18.5

Recommendations

No action required.

CAPITAL INTERNATIONAL, INC.
Rolling Five Year VAM



MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Ruchir Sharma

Assets Under Management: \$460,563,881

Investment Philosophy

Morgan Stanley's style is core with a growth bias. They follow a top-down approach to country allocation and a bottom-up approach to stock selection. Morgan Stanley's macro-economic and stock selection analyses are qualitative as well as quantitative, concentrating on fundamentals. Their top-down analysis highlights countries with improving fundamentals and attractive valuations. Their bottom-up approach to stock selection focuses on purchasing companies with strong operating earnings potential at attractive valuations.

Staff Comments

The portfolio's underweight position in Brazil, a top performing market, along with stock selection in and an overweight to Poland detracted from returns over both the quarter and the year.

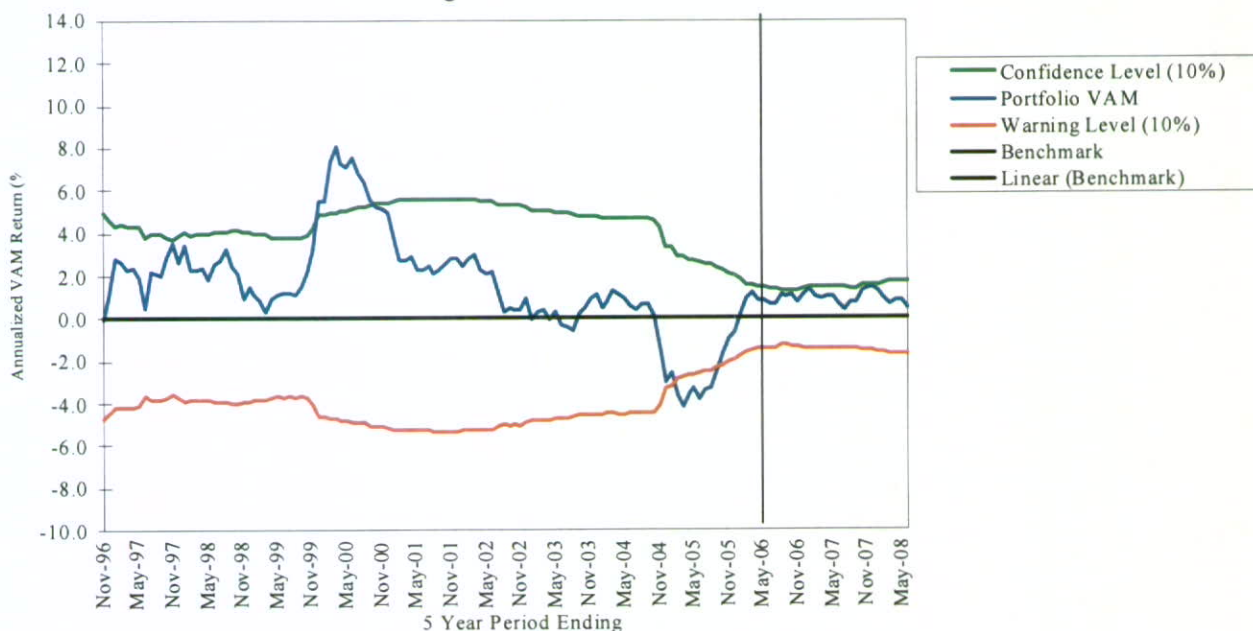
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.0%	-0.6%
Last 1 year	2.4	5.3
Last 2 years	23.4	23.6
Last 3 years	28.3	27.4
Last 4 years	29.8	29.1
Last 5 years	30.5	29.9
Since Inception (3/01)	18.7	18.5

Recommendations

No action required.

MORGAN STANLEY INVESTMENT MANAGEMENT
Rolling Five Year VAM



Note: Area to the left of vertical line includes performance prior to retention by the SBI

AQR CAPITAL MANAGEMENT, LLC
Periods Ending June, 2008

Portfolio Manager: Cliff Asness

Assets Under Management: \$285,516,037

Investment Philosophy

AQR employs a disciplined quantitative approach emphasizing both top-down country/currency allocation and bottom-up security selection decisions to generate excess returns. AQR's investment philosophy is based on the fundamental concepts of value and momentum. AQR's international equity product incorporates stock selection, country selection, and currency selection models as the primary alpha sources. Dynamic strategy allocation (between the three primary alpha sources) and style weighting are employed as secondary alpha sources.

Staff Comments

Stock selection in the financials and consumer sectors contributed to the portfolio's outperformance during the quarter. However, stock selection in and an underweight to both the materials and energy sectors detracted from returns over the year.

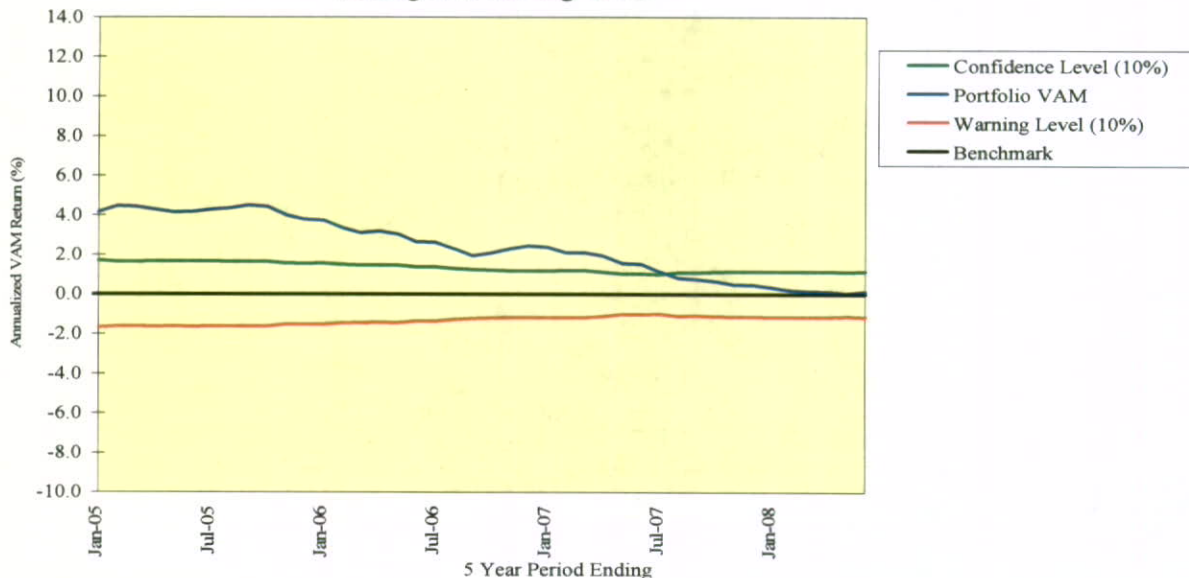
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.7%	-1.1%
Last 1 year	-11.1	-8.6
Last 2 years	6.7	7.8
Last 3 years	13.3	13.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	13.3	13.8

Recommendations

No action required.

AQR CAPITAL MANAGEMENT, LLC
Rolling Five Rolling VAM



Note: Shaded area includes performance prior to retention by the SBI.

PYRAMIS GLOBAL ADVISORS TRUST COMPANY
(Formerly Fidelity Management Trust Company)
Periods Ending June, 2008

Portfolio Manager: Cesar Hernandez

Assets Under Management: \$317,968,733

Investment Philosophy

Select International combines active stock selection with quantitative risk control to provide consistent excess returns above the benchmark while minimizing relative volatility and risk. By combining five regional sub-portfolios in the U.K., Canada, Continental Europe, Japan, and the Pacific Basin ex Japan, the portfolio manager produces a portfolio made up of the best ideas of the firm's research analysts. Each regional portfolio is created so that stock selection is the largest contributor to active return while systematic, sector, and factor risks are minimized. The portfolio manager uses a combination of proprietary and third-party optimization models to monitor and control risk within each regional module. Resulting portfolios typically contain between 275-325 holdings.

Staff Comments

Stock selection in the financials and industrials sectors along with the energy and materials sectors contributed to the portfolio's outperformance during the quarter and the year.

Pyramis announced the retirement of its CEO & President, Peter Smail, effective June 28, 2008. Kevin Uebelein was named Peter's successor and joined Pyramis on June 30th as the firm's new CEO & President.

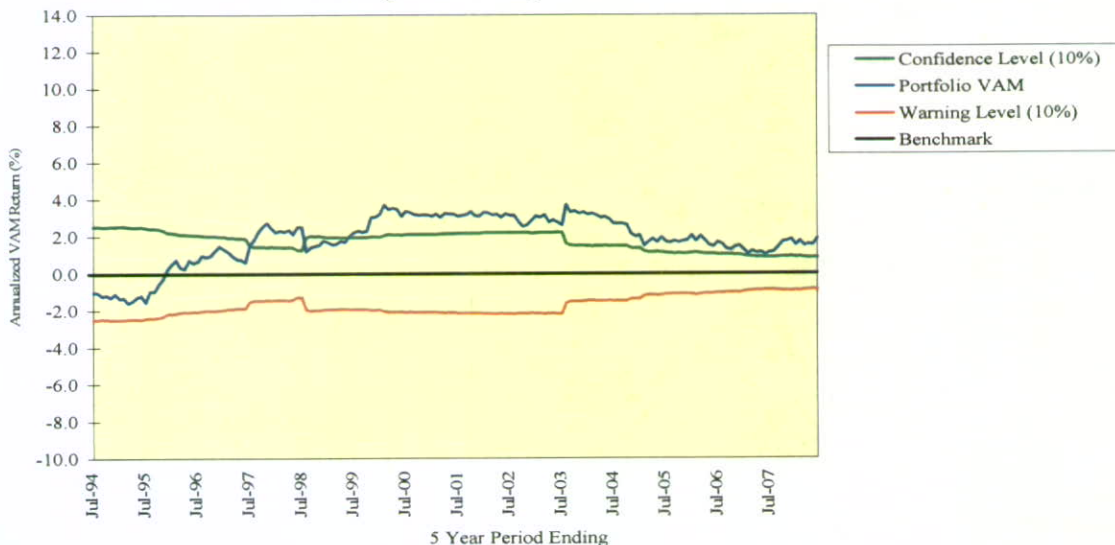
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.6%	-1.1%
Last 1 year	-3.5	-8.6
Last 2 years	11.9	7.8
Last 3 years	16.8	13.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	16.8	13.8

Recommendations

No action required.

PYRAMIS GLOBAL ADVISORS TRUST Co. - SELECT INTL
Rolling Five Rolling VAM



Note: Shaded area includes performance prior to retention by the SBI.

STATE STREET GLOBAL ADVISORS
Periods Ending June, 2008

Portfolio Manager: Didier Rosenfeld

Assets Under Management: \$291,236,647

Investment Philosophy

SSgA's Alpha strategy is managed using a quantitative process. Stock selection provides the best opportunity to add consistent value. Industry factors have come to dominate country factors and an approach that uses industry weights to add incremental value complements stock selection. Unwanted biases are controlled for through disciplined risk-control techniques. Country and regional allocations are a result of the security selection process but are managed to remain with +/- 5% of the benchmarks allocation. Sector and industry allocations are managed to be within +/- 3% of the benchmarks allocation. The portfolio managers on this team have extensive experience and insight, which is used in conjunction with the models to create core portfolios.

Staff Comments

While stock selection in the financials, energy and materials sectors added value during the quarter, it detracted from returns over the year.

During the quarter, Scott Powers, formerly CEO of Old Mutual, joined SSgA as President and CEO.

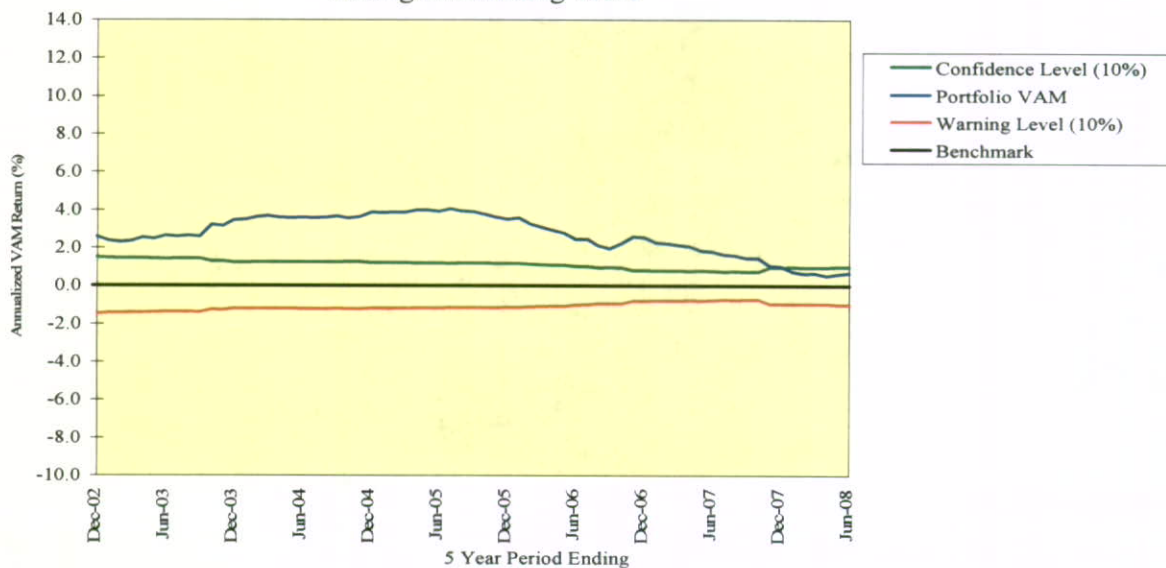
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.2%	-1.1%
Last 1 year	-10.9	-8.6
Last 2 years	6.6	7.8
Last 3 years	13.5	13.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	13.5	13.8

Recommendations

No action required.

STATE STREET GLOBAL ADVISORS - ALPHA
Rolling Five Rolling VAM



Note: Shaded area includes performance prior to retention by the SBI.

STATE STREET GLOBAL ADVISORS
Periods Ending June, 2008

Portfolio Manager: Lynn Blake

Assets Under Management: \$2,488,998,346

Investment Philosophy

State Street Global Advisors passively manages the portfolio against the Morgan Stanley Capital International (MSCI) World ex U.S. index of 22 markets located in the developed markets outside of the United States (including Canada). SSgA fully replicates the index whenever possible because it results in lower turnover, higher tracking accuracy and lower market impact costs. The MSCI World ex U.S. (net) index reinvests dividends assuming a withholding tax on dividends, according to the Luxembourg tax rate. Whereas the portfolio reinvests dividends using all available reclaims and tax credits available to a U.S. pension fund, which should result in modest positive tracking error, over time.

Staff Comments

The tracking error of the passive portfolio is within expectation over all time periods.

During the quarter, Scott Powers, formerly CEO of Old Mutual, joined SSgA as President and CEO.

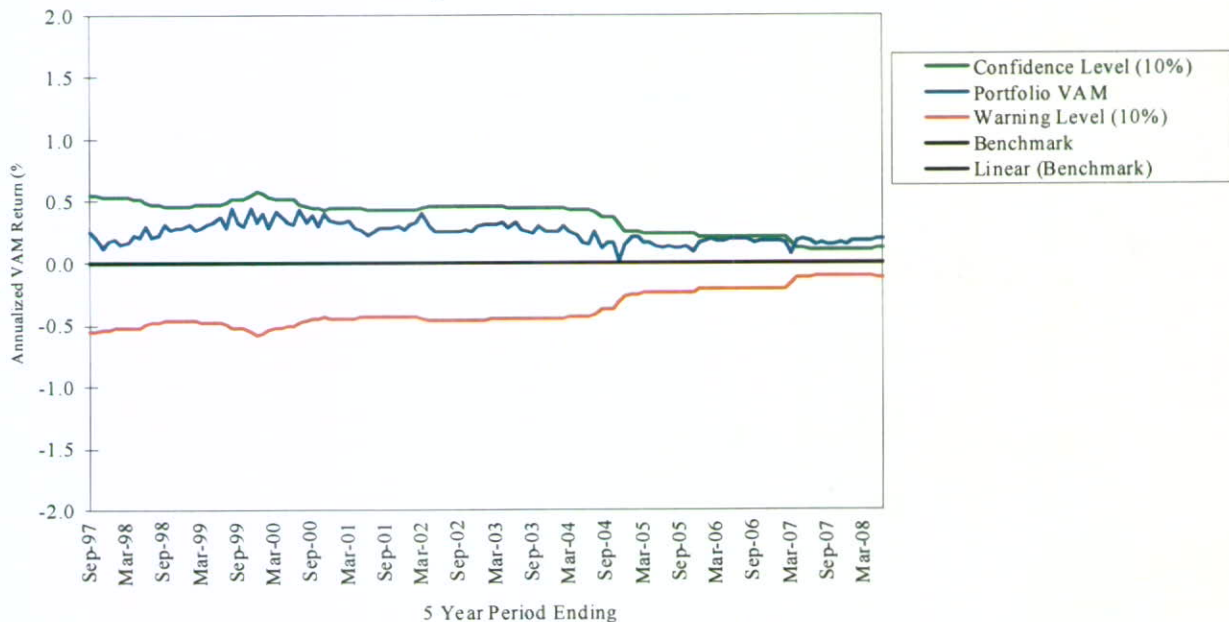
Quantitative Evaluation

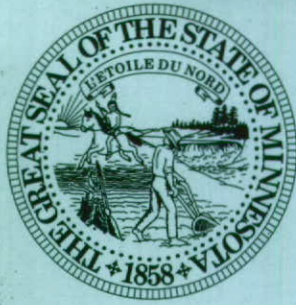
	Actual	Benchmark
Last Quarter	-0.9%	-1.1%
Last 1 year	-8.2	-8.6
Last 2 years	8.1	7.8
Last 3 years	14.1	13.8
Last 4 years	14.2	14.0
Last 5 years	17.6	17.4
Since Inception (10/92)	8.5	8.2

Recommendation

No action required.

STATE STREET GLOBAL ADVISORS - PASSIVE
 Rolling Five Year VAM





STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Second Quarter, 2008

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A-126

Non-Retirement Managers

Table of Contents

	Page
Non-Retirement Manager Performance Summary (quarter, 1, 3, 5, year periods)	A-128
Non-Retirement Manager Performance Summary (by calendar years)	A-129
GE Asset Management – Assigned Risk Plan	A-130
Voyageur Asset Management – Assigned Risk Plan	A-131
Galliard Capital Management	A-132
Internal Stock Pool – Trust/Non-Retirement Assets	A-133
Internal Bond Pool – Income Share Account	A-134
Internal Bond Pool – Trust/Non-Retirement Assets	A-135

NON - RETIREMENT MANAGERS
Periods Ending June, 2008

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	
GE Asset Management (S&P 500 Index)*	-0.3	-2.7	-8.2	-13.1	5.9	4.4	7.4	7.6	10.7	9.8	\$74.6
Voyageur Asset Management (Custom Benchmark)*	-1.9	-1.3	2.3	8.6	2.9	4.8	2.9	3.9	6.0	6.4	\$259.3
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	1.1	0.8	4.8	3.5	4.7	4.6	4.5	4.1	5.6	4.9	\$1,031.6
Internal Stock Pool (S&P 500 Index)*	-2.7	-2.7	-13.1	-13.1	4.5	4.4	7.6	7.6	9.3	9.2	\$819.3
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	0.2	-1.0	6.1	7.1	4.3	4.1	4.3	3.9	7.7	7.4	\$93.6
Internal Bond Pool - Trust (Lehman Aggregate)*	0.1	-1.0	7.0	7.1	4.5	4.1	4.4	3.9	7.0	6.6	\$552.4

* Benchmarks for the Funds are noted in parentheses below the Fund names.

(1) Since retention by the SBI. Time period varies by manager.

(2) Prior to July 1994, the benchmark was the Salomon BIG.

NON - RETIREMENT MANAGERS
Calendar Year Returns

	2007		2006		2005		2004		2003	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
GE Asset Management (S&P 500 Index)*	8.5	5.5	16.4	15.8	2.6	4.9	8.8	10.9	23.7	28.7
Voyageur Asset Management (Custom Benchmark)*	5.8	7.9	4.5	4.3	2.5	2.1	3.2	3.0	2.6	2.5
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	4.8	4.7	4.6	5.2	4.3	4.4	4.2	3.3	4.7	2.6
Internal Stock Pool (S&P 500 Index)*	5.5	5.5	15.9	15.8	4.9	4.9	10.9	10.9	28.9	28.7
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	6.4	7.0	5.0	4.3	2.7	2.4	5.1	4.3	5.8	4.1
Internal Bond Pool - Trust (Lehman Aggregate)*	7.1	7.0	5.1	4.3	2.8	2.4	5.0	4.3	5.9	4.1

* Benchmarks for the Funds are noted in parentheses below the Fund names.

(1) Since retention by the SBI. Time period varies by manager.

(2) Prior to July 1994, the benchmark was the Salomon BIG.

GE ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending June, 2008

Portfolio Manager: Dave Carlson

Assets Under Management: \$74,578,235

Investment Philosophy
Assigned Risk Plan

GE's Multi-Style Equity program attempts to outperform the S&P 500 consistently while controlling overall portfolio risk through a multiple manager approach. A value portfolio, a growth portfolio and a research portfolio are combined to create a well diversified equity portfolio while maintaining low relative volatility and a style-neutral position between growth and value. All GE managers focus on stock selection from a bottom-up perspective.

Staff Comments

No comment at this time.

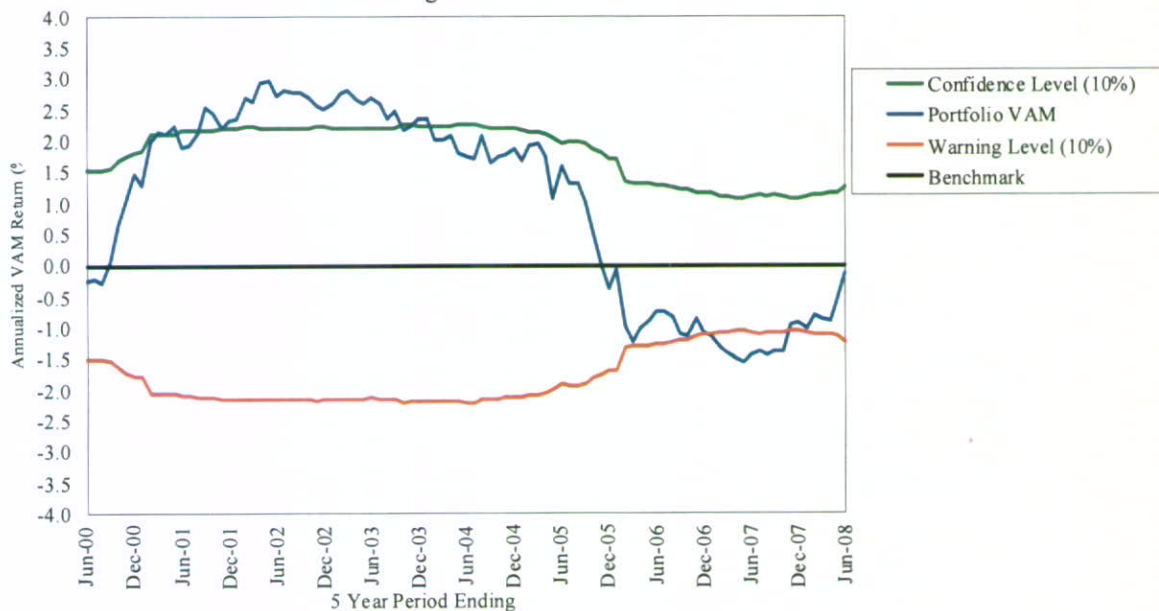
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.3%	-2.7%
Last 1 year	-8.2	-13.1
Last 2 years	5.3	2.4
Last 3 years	5.9	4.4
Last 4 years	5.7	4.9
Last 5 years	7.4	7.6
Since Inception (1/95)	10.7	9.8

Recommendation

No action required.

GE ASSET MANAGEMENT
Rolling Five Year VAM



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending June, 2008

Portfolio Manager: John Huber

Assets Under Management: \$259,315,565

Investment Philosophy
Assigned Risk Plan

Voyageur uses a top-down approach to fixed income investing. Their objective is to obtain superior long-term investment returns over a pre-determined benchmark that reflects the quality constraints and risk tolerance of the Assigned Risk Plan. Due to the specific liability requirement of the plan, return enhancement will focus on sector analysis and security selection. Yield curve and duration analysis are secondary considerations.

Staff Comments

The portfolio continues to be affected by high risk premiums for non-Treasury securities, which are the focus of the manager's strategy. The manager remains optimistic that the portfolio's high quality assets and yield advantage provides the right mix for longer term performance.

Quantitative Evaluation

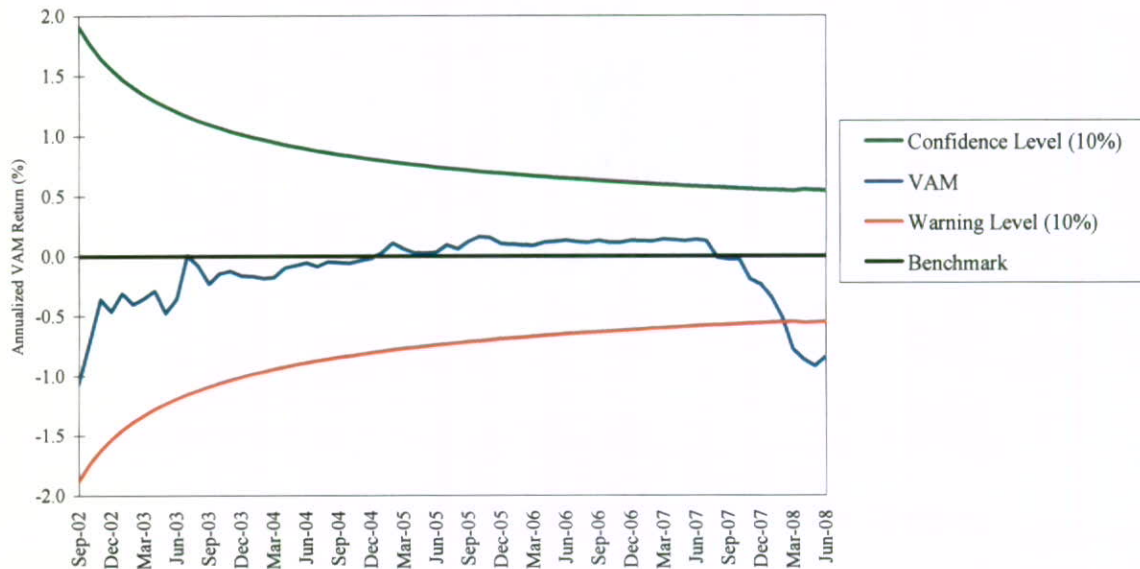
	Actual	Benchmark*
Last Quarter	-1.9%	-1.3%
Last 1 year	2.3	8.6
Last 2 years	4.1	7.2
Last 3 years	2.9	4.8
Last 4 years	3.5	4.8
Last 5 years	2.9	3.9
Since Inception (7/91)	6.0	6.4

Recommendation

No action required.

*Effective 4/1/02 blended benchmark consists of 25% Merrill Lynch (ML) Mortgage Master, 25% ML 1-3 Yr. Gov't, 25% ML 5-10 Yr. Tsy/Ag, 15% ML 3-5 Yr. Tsy/Ag, 10% ML 91 day T-Bill.

VOYAGEUR ASSET MANAGEMENT
 Cumulative VAM



GALLIARD CAPITAL MANAGEMENT
Periods Ending June, 2008

Portfolio Manager: Karl Tourville

Assets Under Management: \$1,031,596,324

Investment Philosophy

Staff Comments

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 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.

No comment at this time.

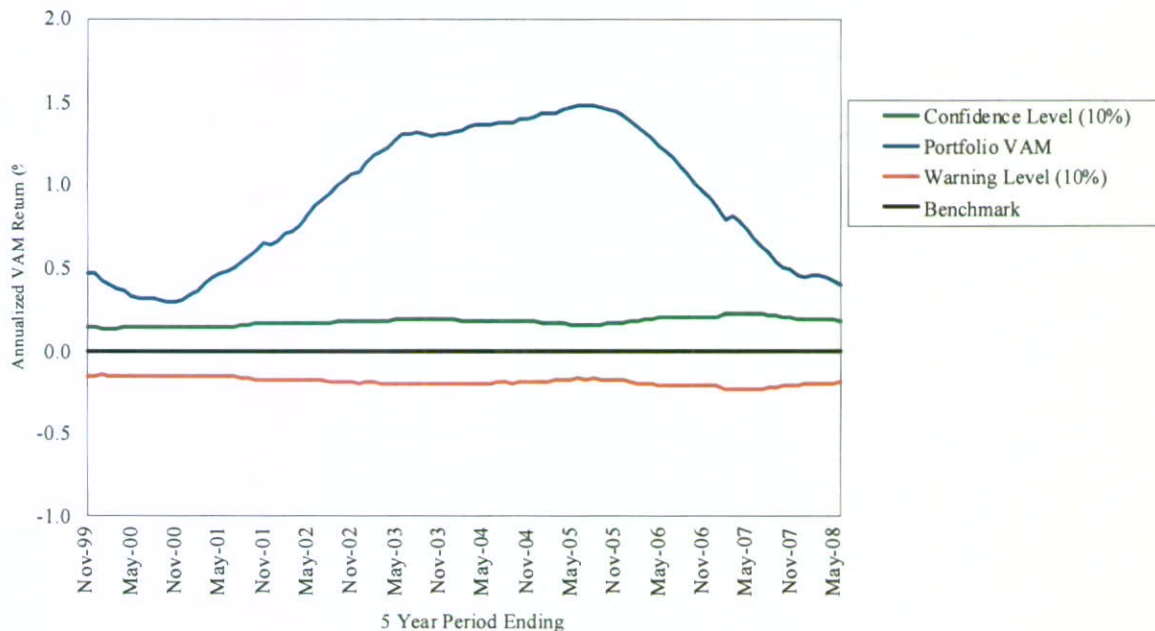
Quantitative Evaluation

Recommendation

	Actual	Benchmark
Last Quarter	1.1%	0.8%
Last 1 year	4.8	3.5
Last 2 years	4.8	4.3
Last 3 years	4.7	4.6
Last 4 years	4.5	4.4
Last 5 years	4.5	4.1
Since Inception (11/94)	5.6	4.9

No action required.

Galliard Capital Management
 Rolling Five Year VAM



INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending June, 2008

Portfolio Manager: Mike Messen

Assets Under Management: \$819,289,934

Investment Philosophy
Environmental Trust Fund
Permanent School Fund

Staff Comments

The Internal Equity Pool is managed to closely track the S&P 500 Index. The strategy replicates the S&P 500 by owning all of the names in the index at weightings similar to those of the index. The optimization model's estimate of tracking error with this strategy is approximately 10 basis points per year.

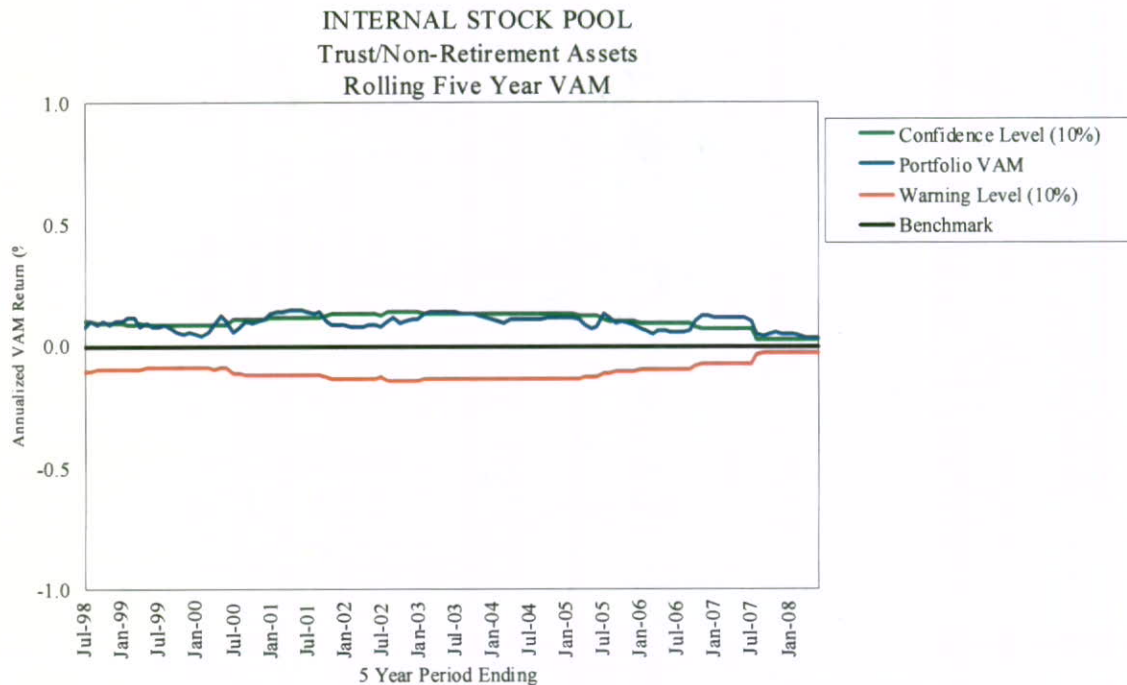
No comment at this time.

Quantitative Evaluation

Recommendation

	Actual	Benchmark
Last Quarter	-2.7%	-2.7%
Last 1 year	-13.1	-13.1
Last 2 years	2.4	2.4
Last 3 years	4.5	4.4
Last 4 years	4.9	4.9
Last 5 years	7.6	7.6
Since Inception (7/93)	9.3	9.2

No action required.



INTERNAL BOND POOL - Income Share Account
Periods Ending June, 2008

Portfolio Manager: Mike Messen

Assets Under Management: \$93,617,238

Investment Philosophy
Income Share Account

The investment approach emphasizes sector and security selection. The approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings. The portfolio duration remains close to the benchmark duration but may be shortened or lengthened depending on changes in the economic outlook.

Staff Comments

No comment at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.2%	-1.0%
Last 1 year	6.1	7.1
Last 2 years	6.3	6.6
Last 3 years	4.3	4.1
Last 4 years	5.0	4.8
Last 5 years	4.3	3.9
Since Inception (7/86)	7.7	7.4

Recommendation

No action required.

INTERNAL BOND POOL - INCOME SHARE ACCOUNT
Rolling Five Year VAM



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending June, 2008

Portfolio Manager: Mike Messen

Assets Under Management: \$552,388,925

Investment Philosophy
Environmental Trust Fund
Permanent School Trust Fund

Staff Comments

The internal bond portfolio's investment approach emphasizes sector and security selection. The approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings. The portfolio duration remains close to the benchmark duration but may be shortened or lengthened depending on changes in the economic outlook.

No comment at this time.

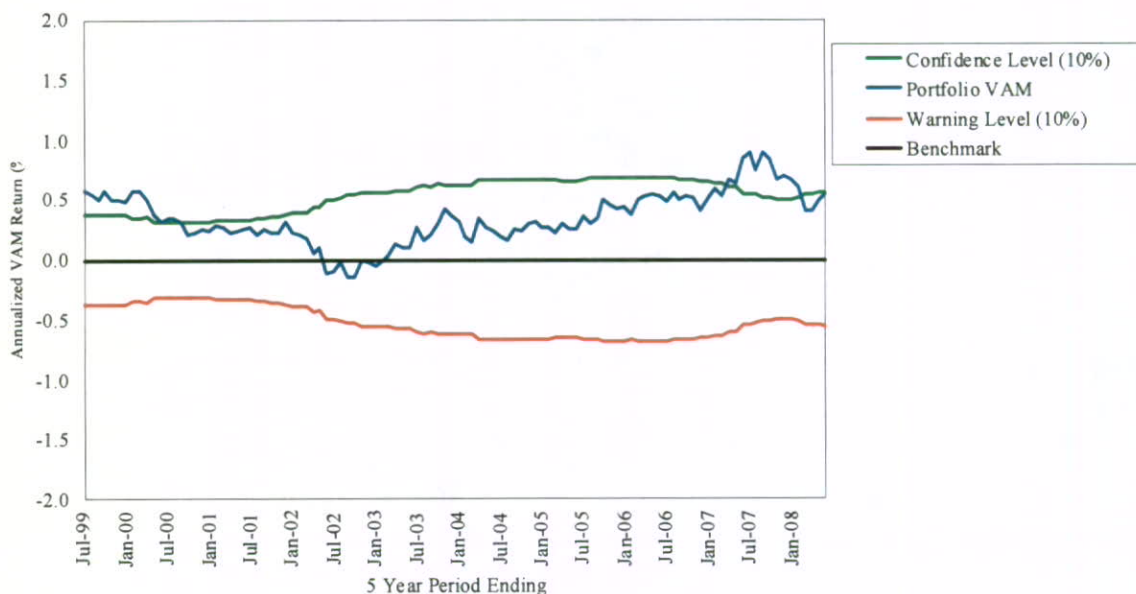
Quantitative Evaluation

Recommendation

	Actual	Benchmark	
Last Quarter	0.1%	-1.0%	No action required.
Last 1 year	7.0	7.1	
Last 2 years	6.6	6.6	
Last 3 years	4.5	4.1	
Last 4 years	5.2	4.8	
Last 5 years	4.4	3.9	
Since Inception (7/94)*	7.0	6.6	

* Date started managing the pool against the Lehman Aggregate.

INTERNAL BOND POOL - TRUST/NON-RETIREMENT ASSETS
Rolling Five Year VAM



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STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

Second Quarter, 2008

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A-138

Mutual Fund Managers

Table of Contents

	Page
Mutual Fund Manager Performance Summary (quarter, 1, 3, 5, year periods)	A-140
Mutual Fund Manager Performance Summary (by calendar years)	A-141
Janus Twenty	A-142
Legg Mason Partners Appreciation I	A-143
Vanguard Institutional Index Plus	A-144
Vanguard Mid-Cap Index	A-145
T. Rowe Price Small Cap Stock Fund	A-146
Dodge & Cox Balanced Fund	A-147
Vanguard Balanced Index Institutional Fund	A-148
Dodge & Cox Income Fund	A-149
Vanguard Total Bond Market Index Institutional	A-150
Fidelity Diversified International	A-151
Vanguard Institutional Developed Markets Index	A-152

MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Periods Ending June, 2008

457 Mutual Funds	Quarter		1 Year		3 Years		5 Years		Since Retention by SBI *		State's Participation In Fund (\$ millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	%	%	
Large Cap Equity:											
Janus Twenty (S&P 500)	7.9	-2.7	23.2	-13.1	19.7	4.4	18.6	7.6	3.3	0.9	\$507.4
Legg Mason Partners Appr I (S&P 500)	-1.3	-2.7	-3.6	-13.1	7.4	4.4	8.8	7.6	7.7	6.2	\$122.4
Vanguard Institutional Index Plus (S&P 500)	-2.7	-2.7	-13.1	-13.1	4.4	4.4	7.6	7.6	0.9	0.9	\$413.1
Mid Cap Equity:											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	3.0	3.0	-11.8	-11.8	6.9	6.9	13.1	13.1	9.9	9.9	\$136.0
Small Cap Equity:											
T. Rowe Price Small-Cap Stock (Russell 2000)	0.9	0.6	-17.6	-16.2	3.0	3.8	8.9	10.3	8.0	6.0	\$319.9
Balanced:											
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	-3.6	-1.9	-14.4	-5.3	2.7	4.4	7.2	6.2	6.7	6.2	\$267.0
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Lehman Agg)	-1.3	-1.2	-4.7	-4.8	4.8	4.8	6.9	6.9	6.1	6.1	\$168.8
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)	-0.3	-1.0	3.7	7.1	3.5	4.1	3.5	3.9	6.0	6.0	\$102.5
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	-1.1	-1.0	7.4	7.1	4.1	4.1	3.9	3.9	4.4	4.4	\$78.6
International:											
Fidelity Diversified International (MSCI EAFE-Free)	-0.1	-2.3	-5.7	-10.6	14.4	12.8	17.8	16.7	10.9	5.7	\$288.4
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	-2.4	-2.3	-10.5	-10.6	13.1	12.8	16.8	16.7	14.4	14.2	\$81.4

Numbers in black are returns **since** retention by SBI.

Numbers in blue include returns **prior** to retention by SBI.

Benchmarks for the Funds are noted in parentheses below the Fund names.

* Vanguard Mid-Cap Index Fund retained January 2004; Legg Mason, Vanguard Inst. Dev. Mkt., Vanguard Balanced, Vanguard Total Bond Mkt. retained December 2003; Dodge & Cox Balanced Fund retained in October 2003; all others, July 1999.

**MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Calendar Year Returns**

457 Mutual Funds	2007		2006		2005		2004		2003	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Large Cap Equity:										
Janus Twenty (S&P 500)	35.9	5.5	12.3	15.8	9.4	4.9	23.9	10.9	25.3	28.7
Legg Mason Partners Appr I (S&P 500)	8.6	5.5	15.0	15.8	4.6	4.9	9.3	10.9	25.1	28.7
Vanguard Institutional Index Plus (S&P 500)	5.5	5.5	15.8	15.8	5.0	4.9	10.9	10.9	28.7	28.7
Mid Cap Equity:										
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	6.2	6.2	13.8	13.7	14.1	13.9	20.5	20.5	34.3	33.8
Small Cap Equity:										
T. Rowe Price Small-Cap Stock (Russell 2000)	-1.7	-1.6	12.8	18.4	8.4	4.6	18.8	18.3	32.3	47.3
Balanced:										
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	1.7	6.2	13.8	11.1	6.6	4.0	13.3	8.3	24.5	18.5
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Lehman Agg)	6.3	6.3	11.1	11.1	4.8	4.8	9.5	9.3	20.1	20.1
Bond:										
Dodge & Cox Income Fund (Lehman Aggregate)	4.7	7.0	5.3	4.3	2.0	2.4	3.8	4.3	6.0	4.1
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	7.0	7.0	4.4	4.3	2.5	2.4	4.4	4.3	4.1	4.1
International:										
Fidelity Diversified International (MSCI EAFE-Free)	16.0	11.2	22.5	26.3	17.2	13.5	19.7	20.2	42.4	38.6
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	11.0	11.2	26.3	26.3	13.6	13.5	20.3	20.2	38.9	38.6

Numbers in black are returns **since** retention by SBI.

Numbers in blue include returns **prior** to retention by SBI.

Benchmarks for the Funds are noted in parentheses below the Fund names.

**MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – JANUS TWENTY
Periods Ending June, 2008**

Portfolio Manager: Ron Sachs

**State's Participation in Fund: \$507,358,039
Total Assets in Fund: \$12,796,300,000**

**Investment Philosophy
Janus Twenty**

The investment objective of this fund is long-term growth of capital from increases in the market value of the stocks it owns. The fund will concentrate its investments in a core position of between twenty to thirty common stocks. This non-diversified fund seeks to invest in companies that the portfolio manager believes have strong current financial positions and offer growth potential.

Staff Comments

Janus outperformed the quarterly benchmark and outperformed for the year. Overall stock selection was the biggest driver of the quarterly outperformance. An overweight to the materials sector also contributed to the strong returns.

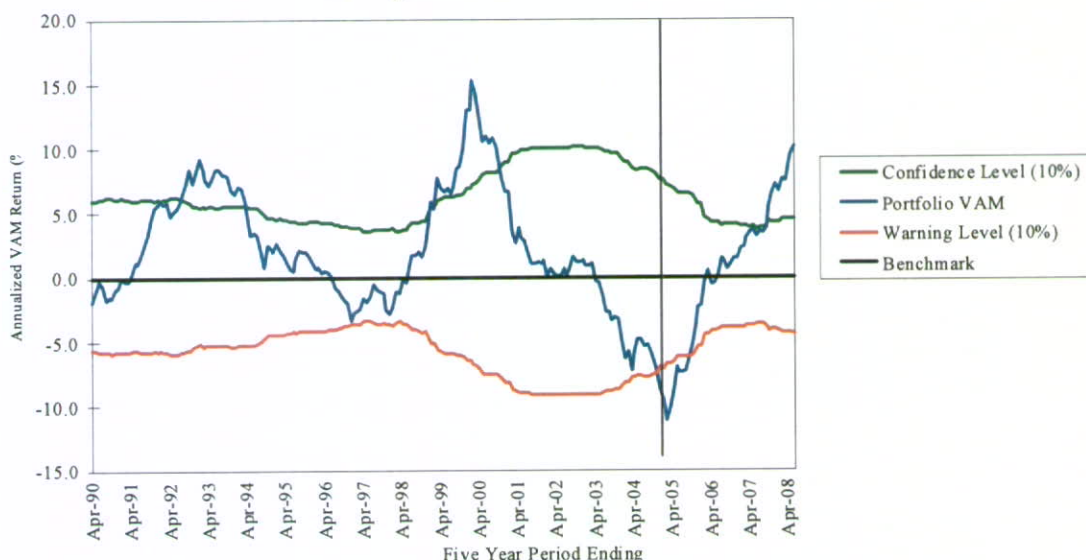
Quantitative Evaluation

	Actual	Benchmark*	
Last Quarter	7.9%	-2.7%	No action required.
Last 1 year	23.2	-13.1	
Last 2 years	23.9	2.4	
Last 3 years	19.7	4.4	
Last 4 years	17.7	4.9	
Last 5 years	18.6	7.6	
Since Retention by SBI (7/99)	3.3	0.9	

Recommendation

*Benchmark is the S&P 500.

**LARGE CAP EQUITY - JANUS TWENTY
Rolling Five Year VAM**



Note: Area to the left of the vertical line includes performance prior to retention by the SBI.

**MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – LEGG MASON PARTNERS APPRECIATION I
Periods Ending June, 2008**

Portfolio Manager: Scott Glasser

**State's Participation in Fund: \$122,386,191
Total Assets in Fund: \$5,292,704,847**

**Investment Philosophy
Legg Mason Partners Appreciation I**

The Fund invests in U.S. growth and value stocks, primarily blue-chip companies that are dominant in their industries. Investments are selected from among a core base of stocks with a strong financial history, recognized industry leadership, and effective management teams that strive to earn consistent returns for shareholders. The portfolio manager looks for companies that he believes are undervalued with the belief that a catalyst will occur to unlock these values.

Staff Comments

No comment at this time.

Quantitative Evaluation

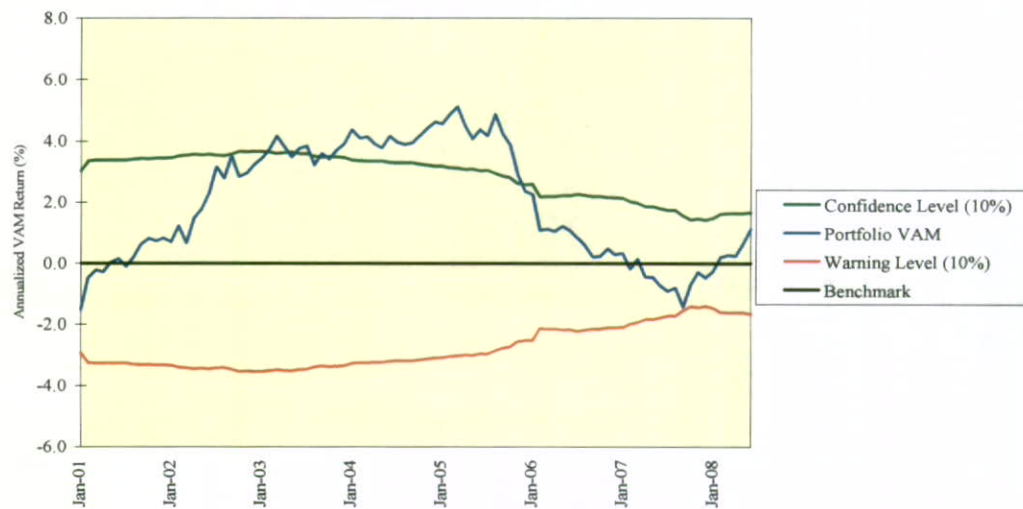
	Actual	Benchmark*
Last Quarter	-1.3%	-2.7%
Last 1 year	-3.6	-13.1
Last 2 years	6.4	2.4
Last 3 years	7.4	4.4
Last 4 years	6.7	4.9
Last 5 years	8.8	7.6
Since Retention by SBI (12/03)	7.7	6.2

Recommendation

No action required.

*Benchmark is the S&P 500.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

**LARGE CAP EQUITY - LEGG MASON PARTNERS APPRECIATION I
Rolling Five Year VAM**



Five Year Period Ending
Note: Area to the left of the vertical line includes performance prior to retention by the SBI.

**MN STATE 457 DEFERRED COMPENSATION PLAN
EQUITY INDEX – VANGUARD INSTITUTIONAL INDEX PLUS
Periods Ending June, 2008**

Portfolio Manager: Donald Butler

**State's Participation in Fund: \$413,126,453
Total Assets in Fund: \$24,236,000,000**

**Investment Philosophy
Vanguard Institutional Index**

This fund attempts to provide investment results, before fund expenses, that parallel the performance of the Standard & Poor's 500 Index. The fund invests in all 500 stocks listed in the S&P 500 index in approximately the same proportions as they are represented in the index. The managers have tracked the S&P 500's performance with a high degree of accuracy. The fund may use futures and options for temporary purposes, but generally remains fully invested in common stock.

Staff Comments

No comment at this time.

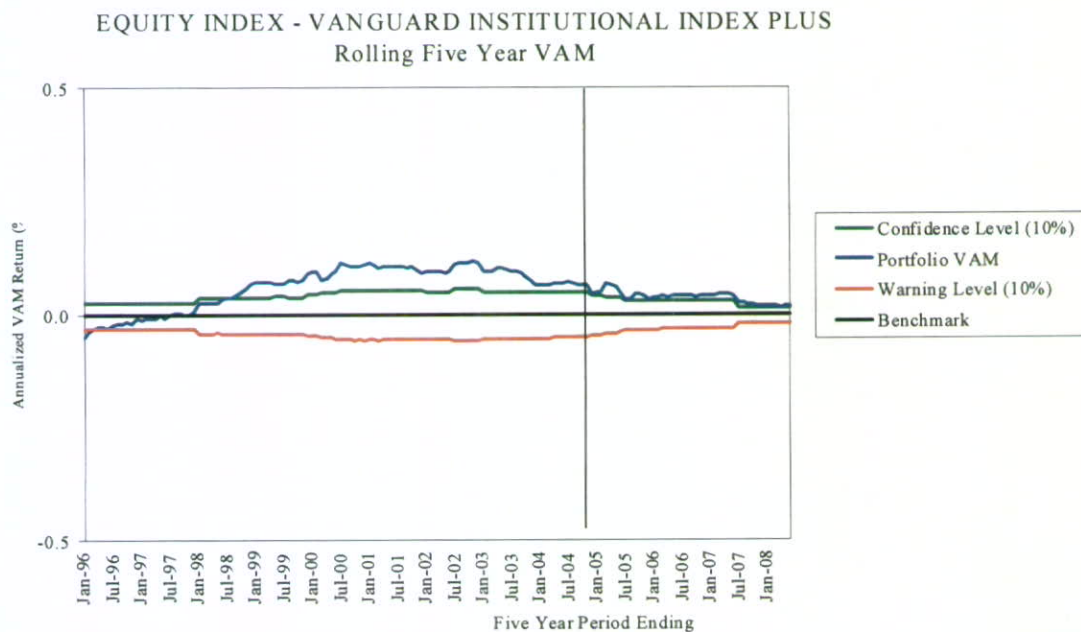
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-2.7%	-2.7%
Last 1 year	-13.1	-13.1
Last 2 years	2.4	2.4
Last 3 years	4.4	4.4
Last 4 years	4.9	4.9
Last 5 years	7.6	7.6
Since Retention by SBI (7/99)	0.9	0.9

Recommendation

No action required.

*Benchmark is the S&P 500.



Note: Area to the left of the vertical line includes performance prior to retention by the SBI.

**MN STATE 457 DEFERRED COMPENSATION PLAN
MID CAP EQUITY – VANGUARD MID-CAP INDEX
Periods Ending June, 2008**

Portfolio Manager: Donald Butler

**State's Participation in Fund: \$135,999,171
Total Assets in Fund: \$5,985,000,000**

**Investment Philosophy
Vanguard Mid-Cap Index**

The fund employs a "passive management"- or indexing-investment approach designed to track the performance of the MSCI US Mid Cap 450 Index, a broadly diversified index of stocks of medium-size U.S. companies. The fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting within the index.

Staff Comments

No comment at this time.

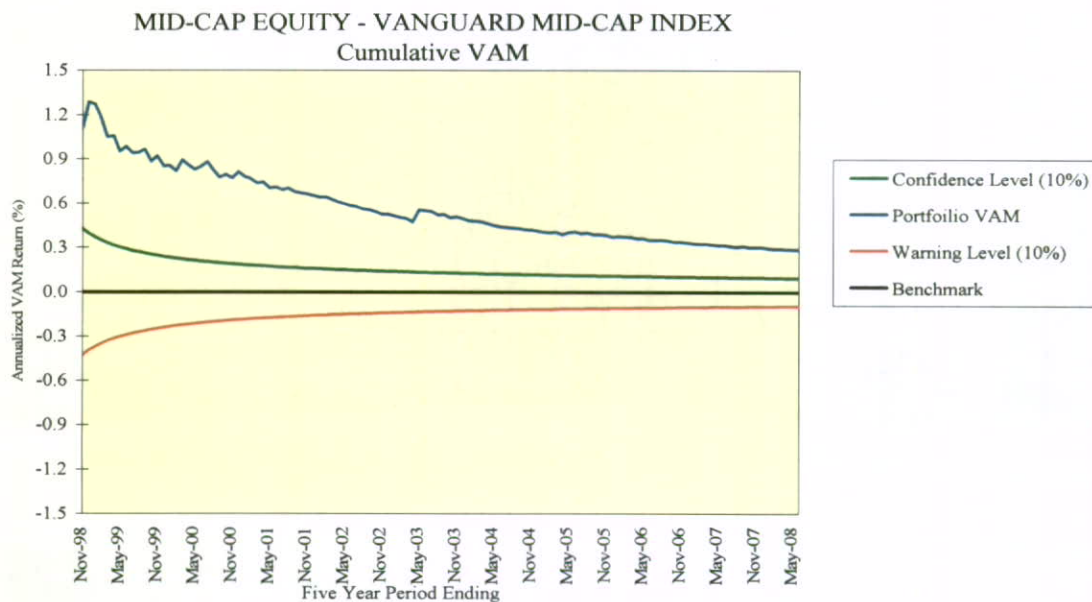
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	3.0%	3.0%
Last 1 year	-11.8	-11.8
Last 2 years	3.2	3.2
Last 3 years	6.9	6.9
Last 4 years	9.7	9.6
Last 5 years	13.1	13.1
Since Retention by SBI (1/04)	9.9	9.9

Recommendation

No action required.

*Benchmark is the MSCI US Mid Cap 450.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.



Note: Shaded area includes performance prior to managing SBI account

**MN STATE 457 DEFERRED COMPENSATION PLAN
 SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP STOCK FUND
 Periods Ending June, 2008**

Portfolio Manager: Gregory A. McCrickard

**State's Participation in Fund: 319,854,125
 Total Assets in Fund: 5,558,253,811**

**Investment Philosophy
 T. Rowe Price Small Cap Equity Fund**

The strategy of this fund is to invest primarily in stocks of small to medium-sized companies that are believed to offer either superior earnings growth or appear undervalued. The fund normally invests at least 80% of assets in equities traded in the U.S. over-the-counter market. The manager does not favor making big bets on any particular sector or any particular stock. The fund's combination of growth and value stocks offers investors relatively more stable performance compared to other small cap stock funds.

Staff Comments

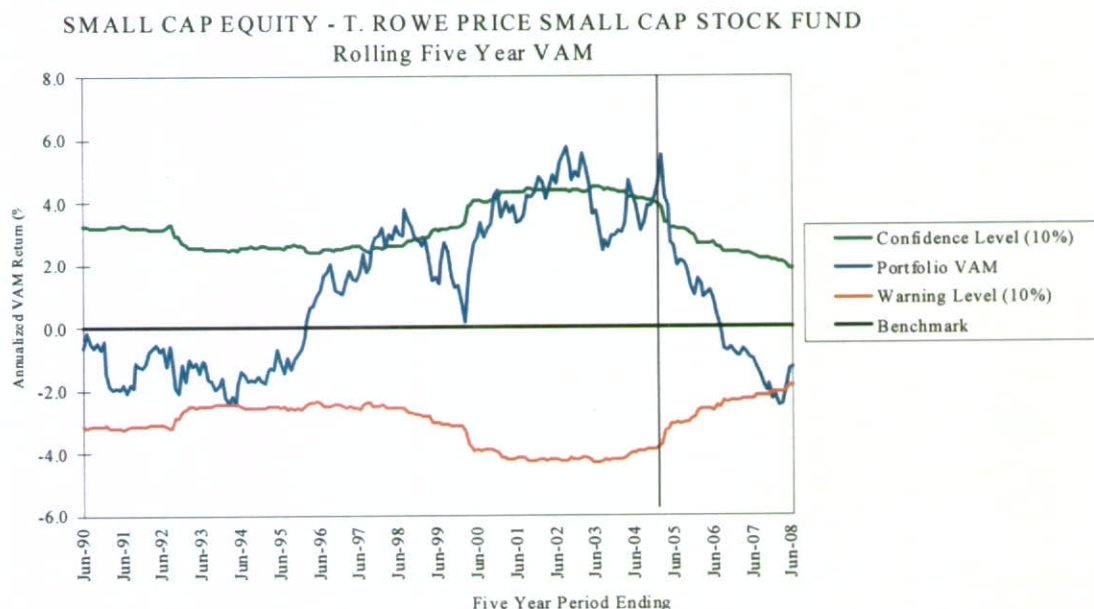
No comment at this time.

Quantitative Evaluation

	Actual	Benchmark*	
Last Quarter	0.9%	0.6%	No action required.
Last 1 year	-17.6	-16.2	
Last 2 years	-2.9	-1.2	
Last 3 years	3.0	3.8	
Last 4 years	4.6	5.2	
Last 5 years	8.9	10.3	
Since Retention by SBI (7/99)	8.0	6.0	

Recommendation

*Benchmark is the Russell 2000.



Note: Area to the left of the vertical line includes performance prior to retention by the SBI.

**STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – DODGE & COX BALANCED FUND
Periods Ending June, 2008**

Portfolio Manager: John Gunn

**State's Participation in Fund: \$267,043,070
Total Assets in Fund: \$22,392,289,290**

**Investment Philosophy
Dodge & Cox Balanced Fund**

The Fund seeks regular income, conservation of principal and an opportunity for long-term growth of principal and income. The Fund invests in a diversified portfolio of common stocks preferred stocks and fixed income securities.

Staff Comments

Dodge & Cox trailed the quarterly benchmark and also the one-year benchmark due to the relatively high allocation to equities and stock selection within the equity portfolio, specifically within the financials sector. The fund continues to add positions in both portfolios, but have found more interesting valuation decline opportunities in equities and increased the equity overweight during the quarter.

Quantitative Evaluation

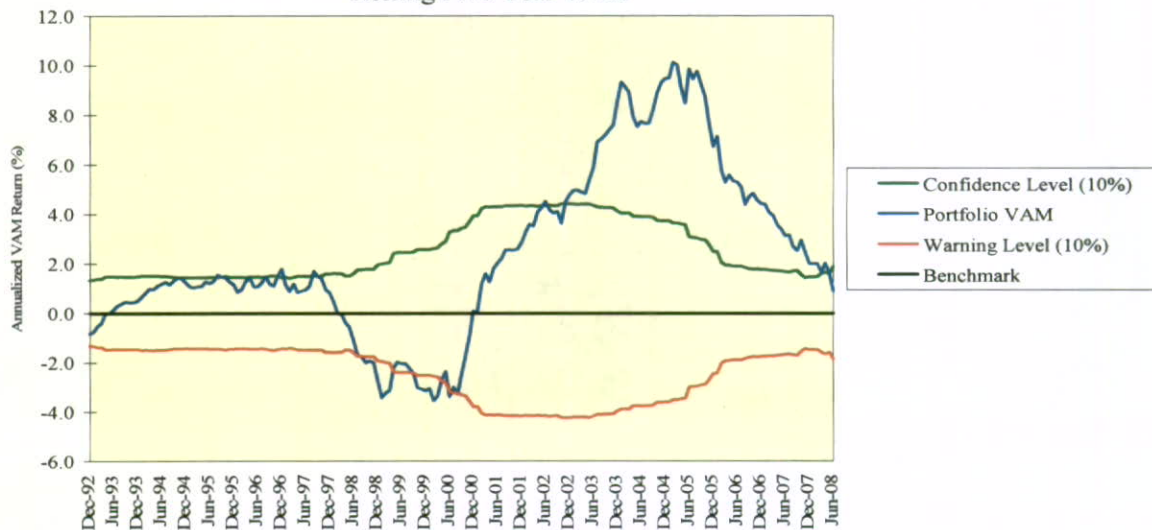
	Actual	Benchmark*
Last Quarter	-3.6%	-1.9%
Last 1 year	-14.4	-5.3
Last 2 years	-0.7	4.2
Last 3 years	2.7	4.4
Last 4 years	4.4	5.0
Last 5 years	7.2	6.2
Since Retention By SBI (10/03)	6.7	6.2

Recommendation

No action required.

*Benchmark is 60% S&P 500, 40% Lehman Aggregate.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

**BALANCED - DODGE & COX BALANCED FUND
Rolling Five Year VAM**



Five Year Period Ending
Note: Area to the left of the vertical line includes performance prior to retention by the SBI.

**MN STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – VANGUARD BALANCED INDEX INSTITUTIONAL FUND
Periods Ending June, 2008**

Portfolio Manager: Michael Perre

**State's Participation in Fund: \$168,809,146
Total Assets in Fund: \$2,610,000,000**

**Investment Philosophy
Vanguard Balanced Index Fund**

The fund's assets are divided between stocks and bonds, with an average of 60% of its assets in stocks and 40% in bonds. The fund's stock segment attempts to track the performance of the MSCI US Broad Market Index, an unmanaged index representing the overall U.S. equity market. The fund's bond segment attempts to track the performance of the Lehman Brothers Aggregate Bond Index, an unmanaged index that covers virtually all taxable fixed-income securities.

Staff Comments

No comment at this time.

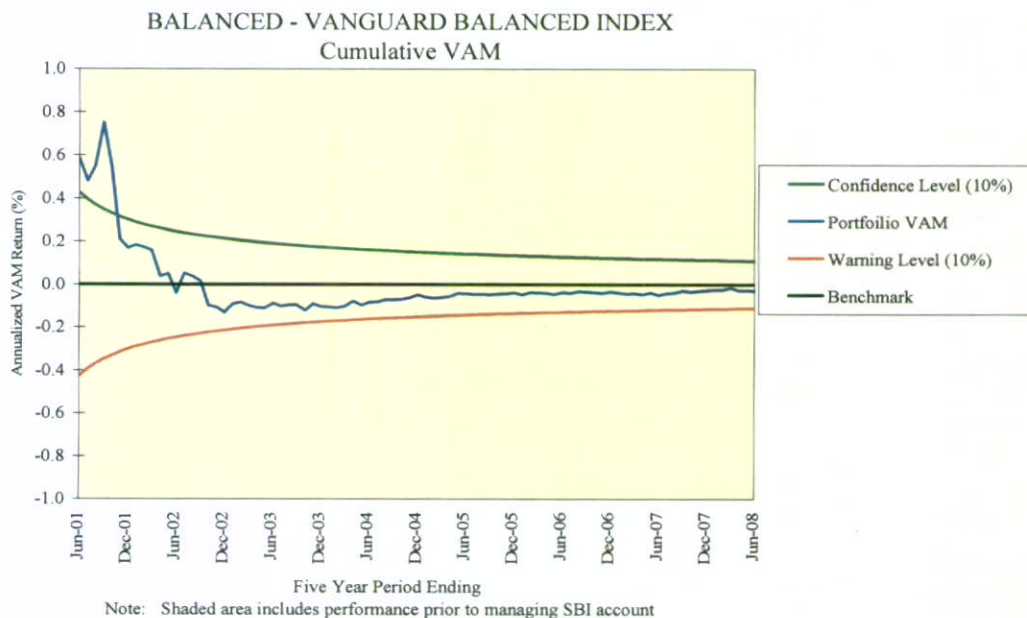
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-1.3%	-1.2%
Last 1 year	-4.7	-4.8
Last 2 years	4.4	4.4
Last 3 years	4.8	4.8
Last 4 years	5.6	5.5
Last 5 years	6.9	6.9
Since Retention by SBI (12/03)	6.1	6.1

Recommendation

No action required.

*Benchmark is 60% MSCI US Broad Market, 40% Lehman Aggregate.
Equity benchmark was Wilshire 5000 prior to April 1, 2005.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.



**MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – DODGE & COX INCOME FUND
Periods Ending June, 2008**

Portfolio Manager: Dana Emery

State's Participation in Fund: \$102,499,262

Total Assets in Fund: \$15,605,991,951

**Investment Philosophy
Dodge & Cox Income Fund**

Staff Comments

The objective of this fund is a high and stable rate of current income with capital appreciation being a secondary consideration. This portfolio is invested primarily in intermediate term, investment-grade quality corporate and mortgage bonds and, to a lesser extent, government issues. While the fund invests primarily in the U.S. bond market, it may invest a small portion of assets in dollar-denominated foreign securities. The duration of the portfolio is kept near that of the bond market as a whole.

No comment at this time.

Quantitative Evaluation

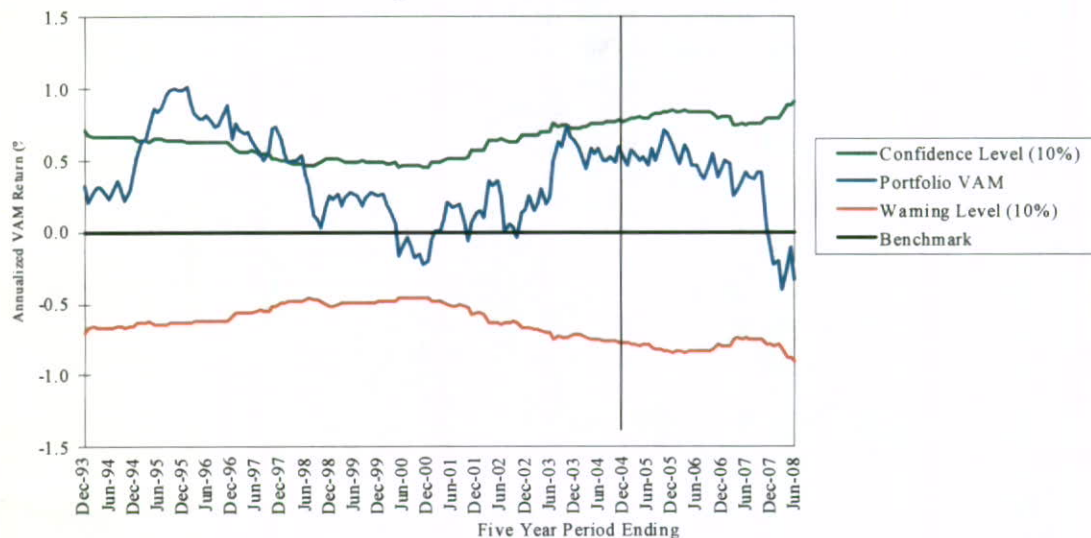
Recommendation

	Actual	Benchmark*
Last Quarter	-0.3%	-1.0%
Last 1 year	3.7	7.1
Last 2 years	5.1	6.6
Last 3 years	3.5	4.1
Last 4 years	4.0	4.8
Last 5 years	3.5	3.9
Since Retention By SBI (7/99)	6.0	6.0

No action required.

*Benchmark is the Lehman Aggregate.

**BOND - DODGE & COX INCOME FUND
Rolling Five Year VAM**



Note: Area to the left of the vertical line includes performance prior to retention by the SBI.

**MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – VANGUARD TOTAL BOND MARKET INDEX INSTITUTIONAL
Periods Ending June, 2008**

Portfolio Manager: Kenneth Volpert

**State's Participation in Fund: \$78,623,529
Total Assets in Fund: \$11,167,000,000**

**Investment Philosophy
Vanguard Total Bond Market Index
Institutional**

Staff Comments

The fund attempts to track the performance of the Lehman Brothers Aggregate Bond Index, which is a widely recognized measure of the entire taxable U.S. bond market. The index consists of more than 5,000 U.S. Treasury, federal agency, mortgage-backed, and investment-grade corporate securities. Because it is not practical or cost-effective to own every security in the index, the fund invests in a large sampling that matches key characteristics of the index (such as market-sector weightings, coupon interest rates, credit quality, and maturity). To boost returns, the fund holds a higher percentage than the index in short-term, investment-grade corporate bonds and a lower percentage in short-term Treasury securities.

No comment at this time.

Quantitative Evaluation

Recommendation

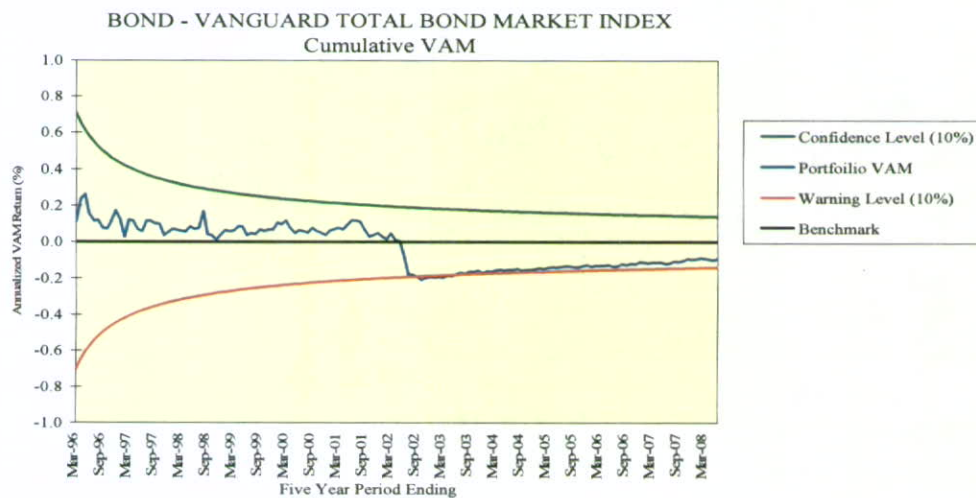
	Actual	Benchmark*
Last Quarter	-1.1%	-1.0%
Last 1 year	7.4	7.1
Last 2 years	6.8	6.6
Last 3 years	4.1	4.1
Last 4 years	4.8	4.8
Last 5 years	3.9	3.9
Since Retention by SBI (12/03)	4.4	4.4

No action required.

*Benchmark is the Lehman Aggregate.

Numbers in black are returns since retention by SBI.

Numbers in blue include returns prior to retention by SBI.



**MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending June, 2008**

Portfolio Manager: William Bower

**State's Participation in Fund: \$288,383,939
Total Assets in Fund: \$50,320,080,000**

**Investment Philosophy
Fidelity Diversified International**

Staff Comments

The goal of this fund is capital appreciation by investing in securities of companies located outside of the United States. While the fund invests primarily in stocks, it may also invest in bonds. Most investments are made in companies that have a market capitalization of \$100 million or more and which are located in developed countries. To select the securities, the fund utilizes a rigorous computer-aided quantitative analysis supplemented by relevant economic and regulatory factors. The manager rarely invests in currency to protect the account from exchange fluctuations.

No comment at this time.

Quantitative Evaluation

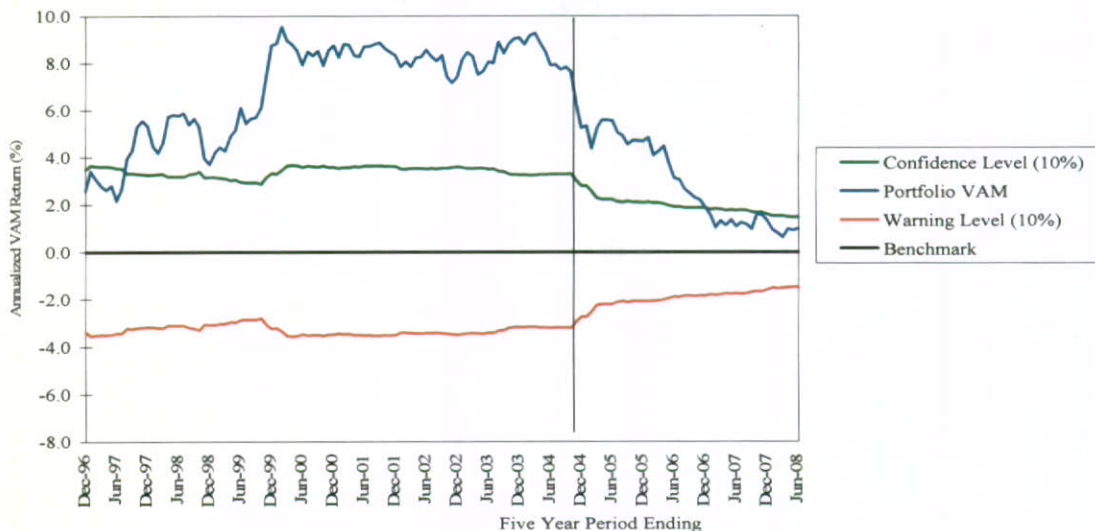
Recommendation

	Actual	Benchmark*
Last Quarter	-0.1%	-2.3%
Last 1 year	-5.7	-10.6
Last 2 years	8.9	6.5
Last 3 years	14.4	12.8
Last 4 years	14.5	13.0
Last 5 years	17.8	16.7
Since Retention By SBI (7/99)	10.9	5.7

No action required.

*Benchmark is the MSCI EAFE-Free.

**INTERNATIONAL - FIDELITY DIVERSIFIED INTERNATIONAL
Rolling Five Year VAM**



Note: Area to the left of the vertical line includes performance prior to retention by the SBI.

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – VANGUARD INSTITUTIONAL DEVELOPED MARKETS INDEX
Periods Ending June, 2008

Portfolio Manager: Duane Kelly and Michael Buek **State's Participation in Fund:** \$81,438,419
Total Assets in Fund: \$4,865,000,000

Investment Philosophy
Vanguard Institutional Developed Market Index

Staff Comments

The fund seeks to track the performance of the MSCI EAFE Index by passively investing in two other Vanguard funds—the European Stock Index Fund and the Pacific Stock Index Fund. The combination of the two underlying index funds, in turn, seeks to track the investment results of the Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East (EAFE) Index. The MSCI EAFE Index includes approximately 1,000 common stocks of companies located in Europe, Australia, Asia, and the Far East.

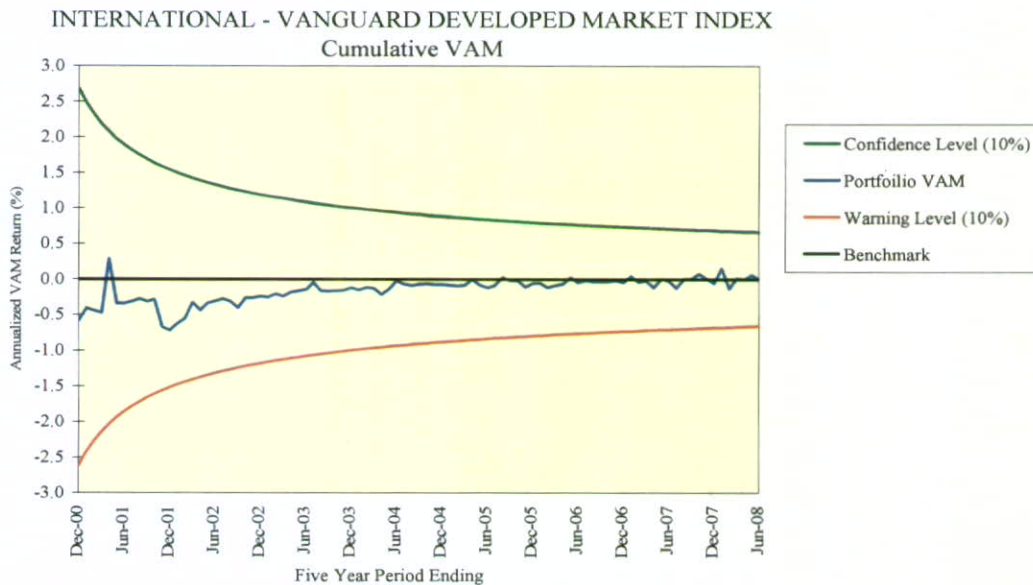
No comment at this time.

Quantitative Evaluation

Recommendation

	Actual	Benchmark*	
Last Quarter	-2.4%	-2.3%	No action required.
Last 1 year	-10.5	-10.6	
Last 2 years	6.7	6.5	
Last 3 years	13.1	12.8	
Last 4 years	13.1	13.0	
Last 5 years	16.8	16.7	
Since Retention by SBI (12/03)	14.4	14.2	

*Benchmark is the MSCI EAFE International
 Numbers in black are returns since retention by SBI.
 Numbers in blue include returns prior to retention by SBI.



Tab E

INVESTMENT ADVISORY COUNCIL REPORT

DATE: September 3, 2008

TO: Members, State Board of Investment

FROM: Members, Investment Advisory Council

The Investment Advisory Council met on August 20, 2008 to review the following information and action agenda items:

1. Review of current strategy.
2. New investment with an existing resource manager, First Reserve.

Board action is required on the last item.

INFORMATION ITEMS:

1) Review of Current Strategy.

To increase overall portfolio diversification, 20% of the Basic Retirement Funds and 12% of the Post Retirement Fund are allocated to alternative investments. Alternative investments include real estate, private equity, resource, and yield-oriented investments where Minnesota State Board of Investment (SBI) participation is limited to commingled funds or other pooled vehicles. Charts summarizing the Board's current commitments are attached (see **Attachments A and B**).

1. The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified Real Estate Investment Trusts (REITs), open-end commingled funds and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified; more focused (specialty) commingled funds and REITs.
2. The private equity investment strategy, which includes leveraged buyouts and venture capital, is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location.

3. The strategy for resource investments is to establish and maintain a portfolio of resource investment vehicles that provide an inflation hedge and additional diversification. Resource investments will include oil and gas investments, energy service industry investments and other investments that are diversified geographically and by type.
4. The strategy for yield-oriented investments will target funds that typically provide a current return and may have an equity component such as subordinated debt or mezzanine investments. Yield-oriented investments will provide diversification by including investments in the private equity, resource and real estate categories.

ACTION ITEM:

1) Investment with an existing resource manager, First Reserve, in First Reserve Fund XII, L.P.

First Reserve is seeking investors for a new \$12-16 billion resource fund. This fund is a successor to eleven other prior resource funds managed by First Reserve. The SBI has invested in nine of the prior eleven funds. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of resource investments.

In addition to reviewing the attractiveness of the First Reserve Fund XII investment offering, staff has conducted reference checks, a literature database search and reviewed the potential investor base for Fund XII.

More information on First Reserve Fund XII, L.P. is included as **Attachment C**.

RECOMMENDATION:

The Investment Advisory Council recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$150 million or 20%, whichever is less, in First Reserve Fund XII, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by First Reserve upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on First Reserve or reduction or termination of the commitment.

ATTACHMENT A

Minnesota State Board of Investment
Pooled Alternative Investments
Combined Retirement Funds
June 30, 2008

Basic Retirement Funds Market Value	\$23,279,376,135
Post Retirement Fund Market Value	\$22,967,518,284
 Amount Available for Investment	 \$1,494,856,510

	Current Level	Target Level	Difference
Market Value (MV)	\$5,917,120,911	\$7,411,977,421	\$1,494,856,510
MV +Unfunded	\$9,389,871,923	\$11,117,966,132	\$1,728,094,209

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	\$3,243,528,470	\$2,035,164,124	\$5,278,692,594
Real Estate	\$1,179,152,410	\$264,886,788	\$1,444,039,198
Resource	\$309,798,531	\$498,214,692	\$808,013,223
Yield-Oriented	\$1,184,641,499	\$674,485,408	\$1,859,126,908
Total	\$5,917,120,911	\$3,472,751,012	\$9,389,871,923

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ATTACHMENT B

Minnesota State Board of Investment - Alternative Investments -

As of June 30, 2008

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<u>I. Real Estate</u>							
Blackstone							
<i>Blackstone Real Estate V</i>	100,000,000	83,667,867	112,226,489	22,751,431	16,332,133	41.48	2.17
<i>Blackstone Real Estate VI</i>	100,000,000	41,468,434	46,808,773	0	58,531,566	13.10	1.25
Colony Capital							
<i>Colony Investors III</i>	100,000,000	100,000,000	11,337,900	167,674,385	0	15.32	10.50
CSFB							
<i>CSFB Strategic Partners III RE</i>	25,000,000	14,855,535	15,004,868	416,063	10,144,465	3.33	3.00
<i>CSFB Strategic Partners IV RE</i>	50,000,000	20,000,000	20,000,000	0	30,000,000	0.00	0.04
Lehman Brothers Real Estate Partners							
<i>Lehman Brothers Real Estate Partners II</i>	75,000,000	65,121,376	65,512,337	22,008,951	9,878,624	22.92	3.00
<i>Lehman Brothers Real Estate Partners III</i>	150,000,000	30,000,000	30,000,000	0	120,000,000	0.00	0.11
Morgan Stanley (Lend Lease)	40,000,000	40,000,000	304,500,836	5,827,664	0	8.15	26.72
T.A. Associates Realty							
<i>Realty Associates Fund V</i>	50,000,000	50,000,000	30,274,141	73,343,453	0	12.75	9.10
<i>Realty Associates Fund VI</i>	50,000,000	50,000,000	55,611,438	38,800,702	0	19.65	6.01
<i>Realty Associates Fund VII</i>	75,000,000	75,000,000	87,166,086	16,901,194	0	15.03	3.62
<i>Realty Associates Fund VIII</i>	100,000,000	80,000,000	82,648,480	2,225,999	20,000,000	6.01	2.00
UBS Trumbull Property Fund	42,376,529	42,376,529	318,061,062	0	0	8.59	26.17
Real Estate Total	957,376,529	692,489,741	1,179,152,410	349,949,842	264,886,788		
<u>II. Resource</u>							
Apache Corp III	30,000,000	30,000,000	8,386,200	52,977,486	0	12.42	21.50
EnCap Energy Capital Fund VII	100,000,000	11,949,201	10,905,617	0	88,050,800	-16.53	1.00
First Reserve							
<i>First Reserve Fund VII</i>	40,000,000	40,000,000	872,998	60,016,961	0	10.20	12.00
<i>First Reserve Fund VIII</i>	100,000,000	100,000,000	1,705,002	201,883,104	0	15.88	10.17
<i>First Reserve Fund IX</i>	100,000,000	100,000,000	940,000	298,659,472	0	48.14	7.23
<i>First Reserve Fund X</i>	100,000,000	98,563,321	67,400,979	108,853,321	1,436,679	50.53	3.66
<i>First Reserve Fund XI</i>	150,000,000	94,489,704	99,394,759	0	55,510,296	11.06	1.52
NGP							
<i>NGP Midstream & Resources</i>	100,000,000	21,485,389	19,665,029	216,421	78,514,611	-10.41	1.25
<i>Natural Gas Partners IX</i>	150,000,000	14,562,063	17,995,711	365,317	135,437,937	32.85	0.69
Sheridan Production Partners I	100,000,000	39,002,260	44,426,652	2,000,000	60,997,740	30.50	1.25
Simmons							
<i>SCF-IV</i>	47,626,265	47,626,265	17,892,286	141,185,413	0	24.81	10.25
T. Rowe Price	71,002,692	71,002,692	0	97,346,757	0	28.11	N/A
TCW Energy Partners XIV	100,000,000	21,733,371	20,213,298	2,817,995	78,266,629	6.24	1.20
Resource Total	1,188,628,957	690,414,265	309,798,531	966,322,247	498,214,692		
<u>III. Yield-Oriented</u>							
Carbon Capital	46,184,308	46,184,308	1,708,343	59,522,956	0	15.63	6.13
Citicorp Mezzanine							
<i>Citicorp Mezzanine I</i>	40,000,000	40,000,000	43,328	59,964,518	0	11.24	13.50
<i>Citicorp Mezzanine III</i>	100,000,000	88,029,296	14,422,815	120,074,597	11,970,704	16.65	8.66
DLJ Investment Partners							
<i>DLJ Investment Partners II</i>	50,000,000	21,058,969	3,120,852	30,182,804	28,941,031	11.21	8.50
<i>DLJ Investment Partners III</i>	100,000,000	14,908,119	14,709,736	228,259	85,091,881	0.14	2.02
Gold Hill Venture Lending	40,000,000	32,400,000	27,857,988	10,535,160	7,600,000	7.17	3.76

Minnesota State Board of Investment
- Alternative Investments -

As of June 30, 2008

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
GS Mezzanine Partners							
<i>GS Mezzanine Partners II</i>	100,000,000	83,092,437	38,556,064	81,663,174	16,907,563	9.51	8.33
<i>GS Mezzanine Partners III</i>	75,000,000	52,896,411	38,975,653	39,124,047	22,103,589	16.13	4.97
<i>GS Mezzanine Partners 2006 Institutional</i>	100,000,000	71,660,451	69,030,991	12,957,060	28,339,549	13.85	2.23
<i>GS Mezzanine Partners V</i>	150,000,000	37,500,000	37,394,925	0	112,500,000	-0.47	0.69
GTCR Capital Partners	80,000,000	69,589,422	3,473,271	104,017,598	10,410,578	10.94	8.63
KB Mezzanine Fund II	25,000,000	25,000,000	217,314	12,218,730	0	-13.79	12.75
Merit Capital Partners (fka William Blair)							
<i>William Blair Mezz.III</i>	60,000,000	56,958,000	13,435,272	87,851,529	3,042,000	15.23	8.50
<i>Merit Mezzanine Fund IV</i>	75,000,000	51,605,769	49,932,255	6,958,403	23,394,231	6.59	3.54
Merit Energy Partners							
<i>Merit Energy Partners B</i>	24,000,000	24,000,000	77,401,973	69,428,179	0	26.18	12.00
<i>Merit Energy Partners C</i>	50,000,000	50,000,000	247,781,380	129,848,856	0	36.22	9.67
<i>Merit Energy Partners D</i>	88,000,000	70,938,303	211,501,686	79,350,319	17,061,697	30.95	7.10
<i>Merit Energy Partners E</i>	100,000,000	36,489,813	64,176,676	11,167,152	63,510,187	23.30	3.71
<i>Merit Energy Partners F</i>	100,000,000	17,879,492	20,373,348	1,770,831	82,120,508	10.98	2.27
Prudential Capital Partners							
<i>Prudential Capital Partners I</i>	100,000,000	95,856,253	35,907,940	94,168,694	4,143,747	10.48	7.20
<i>Prudential Capital Partners II</i>	100,000,000	85,721,931	81,355,137	9,881,142	14,278,069	4.93	3.00
Quadrant Real Estate Advisors							
<i>Institutional Commercial Mortgage Fd III</i>	21,275,052	21,275,052	226,271	35,091,552	0	8.17	11.58
<i>Institutional Commercial Mortgage Fd IV</i>	14,300,000	14,300,000	2,241,096	20,782,469	0	8.33	10.50
<i>Institutional Commercial Mortgage Fd V</i>	37,200,000	37,200,000	20,946,638	36,883,569	0	8.28	8.91
Summit Partners							
<i>Summit Subordinated Debt Fund I</i>	20,000,000	18,000,000	86,023	31,406,578	2,000,000	30.55	14.25
<i>Summit Subordinated Debt Fund II</i>	45,000,000	40,500,000	6,697,761	83,140,047	4,500,000	56.44	10.91
<i>Summit Subordinated Debt Fund III</i>	45,000,000	35,040,965	22,321,051	16,722,997	9,959,035	6.75	4.37
<i>Summit Subordinated Debt Fund IV</i>	50,000,000	0	0	0	50,000,000	N/A	0.26
T. Rowe Price	53,922,881	53,922,881	274,687	52,586,511	0	-9.67	N/A
TCW/Crescent Mezzanine							
<i>TCW/Crescent Mezzanine Partners I</i>	40,000,000	37,213,077	1,579,679	59,445,548	2,786,923	14.82	12.25
<i>TCW/Crescent Mezzanine Partners II</i>	100,000,000	87,479,046	1,801,275	137,608,725	12,520,954	13.66	9.60
<i>TCW/Crescent Mezzanine Partners III</i>	75,000,000	68,835,264	14,559,254	140,442,743	6,164,736	37.31	7.25
Windjammer Capital Investors							
<i>Windjammer Mezzanine & Equity Fund II</i>	66,708,861	50,116,966	36,681,256	37,705,359	16,591,895	10.67	8.25
<i>Windjammer Senior Equity Fund III</i>	67,974,684	29,428,153	25,849,560	2,761,067	38,546,531	-3.95	2.49
Yield Oriented Total	2,239,565,786	1,565,080,378	1,184,641,499	1,675,491,175	674,485,408		
IV. Private Equity							
Adams Street Partners							
<i>Adams Street VPAF Fund I</i>	3,800,000	3,800,000	89,891	9,387,104	0	13.23	20.14
<i>Adams Street VPAF Fund II</i>	20,000,000	20,000,000	108,872	37,898,512	0	24.09	17.59
Advent International GPE VI	50,000,000	0	0	0	50,000,000	N/A	0.25
Affinity Ventures IV	4,000,000	2,111,847	1,460,376	405,436	1,888,153	-8.27	4.00
Banc Fund							
<i>Banc Fund VII</i>	45,000,000	39,600,000	30,864,557	812,725	5,400,000	-11.74	3.25
<i>Banc Fund VIII</i>	80,000,000	800,000	800,000	0	79,200,000	0.00	0.18
Blackstone							
<i>Blackstone Capital Partners II</i>	47,271,190	47,271,190	3,623,901	95,379,217	0	34.11	14.60
<i>Blackstone Capital Partners IV</i>	70,000,000	63,773,643	52,043,295	87,642,360	6,226,357	47.23	5.97
<i>Blackstone Capital Partners V</i>	140,000,000	88,020,052	85,306,851	5,029,255	51,979,948	1.94	2.41

Minnesota State Board of Investment
- Alternative Investments -

As of June 30, 2008

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
BLUM Capital Partners							
<i>Blum Strategic Partners I</i>	50,000,000	49,001,812	14,425,583	89,408,820	998,188	13.95	9.52
<i>Blum Strategic Partners II</i>	50,000,000	40,187,230	17,003,448	72,946,530	9,812,770	25.07	6.95
<i>Blum Strategic Partners III</i>	75,000,000	73,976,127	53,177,805	24,239,937	1,023,873	2.45	3.08
<i>Blum Strategic Partners IV</i>	150,000,000	92,588,387	80,096,732	0	57,411,613	-21.30	0.61
CVI Global Value Fund	200,000,000	133,750,000	139,666,805	2,087,004	66,250,000	6.71	1.46
Chicago Growth Partners (William Blair)							
<i>William Blair Capital Partners VII</i>	50,000,000	47,850,000	35,422,102	39,727,039	2,150,000	12.20	7.31
<i>Chicago Growth Partners VIII</i>	50,000,000	43,091,998	38,721,238	10,648,312	6,908,002	13.54	2.93
<i>Chicago Growth Partners II</i>	60,000,000	5,882,204	5,882,204	0	54,117,796	-4.11	0.30
Coral Partners							
<i>Coral Partners II</i>	10,000,000	10,000,000	101,490	36,763,904	0	24.88	17.93
<i>Coral Partners IV</i>	15,000,000	15,000,000	1,574,862	13,538,879	0	0.14	13.94
<i>Coral Partners V</i>	15,000,000	15,000,000	2,534,641	3,106,198	0	-14.67	10.04
Court Square Capital							
<i>Court Square Capital Partners I</i>	100,000,000	79,682,733	31,148,745	123,271,816	20,317,267	29.67	6.55
<i>Court Square Capital Partners II</i>	175,000,000	46,757,402	42,204,422	1,086,500	128,242,598	-7.86	1.82
Crescendo							
<i>Crescendo III</i>	25,000,000	25,000,000	1,377,088	9,321,908	0	-19.97	9.65
<i>Crescendo IV</i>	101,500,000	101,500,000	45,691,622	4,018,614	0	-11.74	8.31
CSFB/ DLJ							
<i>DLJ Merchant Banking Partners III</i>	125,000,000	118,989,550	82,191,975	159,846,561	6,010,450	20.97	7.75
<i>DLJ Strategic Partners</i>	100,000,000	88,346,075	30,213,759	135,288,602	11,653,925	24.55	7.44
<i>CSFB Strategic Partners II-B</i>	100,000,000	81,114,926	49,569,324	110,538,406	18,885,074	44.45	4.95
<i>CSFB Strategic Partners III VC</i>	25,000,000	21,390,653	22,825,610	4,717,685	3,609,347	19.77	3.08
<i>CSFB Strategic Partners III-B</i>	100,000,000	83,379,860	86,441,047	25,216,539	16,620,140	32.58	3.08
<i>CS Strategic Partners IV-B</i>	100,000,000	27,750,000	27,750,000	277,862	72,250,000	1.36	0.26
<i>CS Strategic Partners IV VC</i>	40,000,000	4,000,000	4,000,000	0	36,000,000	0.00	0.04
CVC European Equity Partners V	157,554,999	0	0	0	157,554,999	N/A	0.26
Diamond Castle Partners IV	100,000,000	50,288,284	53,102,659	1,395,796	49,711,716	4.73	1.81
DSV Partners IV	10,000,000	10,000,000	36,524	39,196,082	0	10.61	23.22
EBF Merced Partners II	75,000,000	22,500,000	23,457,578	0	52,500,000	5.05	1.25
Elevation Partners	75,000,000	42,373,754	32,682,812	14,244,241	32,626,246	5.48	3.12
Fox Paine Capital Fund							
<i>Fox Paine Capital Fund II</i>	50,000,000	38,742,510	36,240,489	45,038,976	11,257,490	28.80	8.00
GHJM Marathon Fund							
<i>GHJM Marathon Fund IV</i>	40,000,000	39,051,000	9,194,904	44,201,952	949,000	7.37	9.21
<i>GHJM Marathon Fund V</i>	50,000,000	37,219,679	36,723,082	5,862,155	12,780,321	7.33	3.75
Golder,Thoma, Cressey, Rauner							
<i>Golder, Thoma, Cressey & Rauner Fund III</i>	14,000,000	14,000,000	185,019	78,123,015	0	30.87	20.67
<i>Golder, Thoma, Cressey & Rauner Fund IV</i>	20,000,000	20,000,000	28,060	42,160,456	0	25.00	14.41
<i>Golder, Thoma, Cressey & Rauner Fund V</i>	30,000,000	30,000,000	2,295,571	53,681,701	0	11.35	12.00
GS Capital Partners							
<i>GS Capital Partners 2000</i>	50,000,000	50,000,000	30,632,176	76,985,773	0	25.53	7.83
<i>GS Capital Partners V</i>	100,000,000	66,390,364	116,500,107	13,787,485	33,609,636	35.97	3.25
<i>GS Capital Partners VI</i>	100,000,000	31,000,000	25,761,000	0	69,000,000	-21.05	1.41
GTCR Golder Rauner							
<i>GTCR VI</i>	90,000,000	90,000,000	21,314,492	75,082,762	0	2.05	10.00
<i>GTCR VII</i>	175,000,000	154,437,499	34,276,530	331,937,520	20,562,501	24.93	8.39
<i>GTCR IX</i>	75,000,000	17,495,471	14,860,370	4,741,730	57,504,529	19.64	2.00

Minnesota State Board of Investment
- Alternative Investments -

As of June 30, 2008

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Hellman & Friedman							
<i>Hellman & Friedman Capital Partners IV</i>	150,000,000	133,967,494	34,293,528	341,637,107	16,032,506	35.55	8.50
<i>Hellman & Friedman Capital Partners V</i>	160,000,000	141,981,656	175,107,550	126,115,943	18,018,344	44.90	3.58
<i>Hellman & Friedman Capital Partners VI</i>	175,000,000	88,328,187	90,272,548	141,777	86,671,813	3.36	1.25
Kohlberg Kravis Roberts							
<i>KKR 1987 Fund</i>	145,373,652	145,373,652	3,225,316	395,916,506	0	8.74	20.60
<i>KKR 1993 Fund</i>	150,000,000	150,000,000	1,365,678	308,083,297	0	16.77	14.53
<i>KKR 1996 Fund</i>	200,000,000	200,000,000	33,501,886	337,712,666	0	13.45	11.83
<i>KKR Millennium Fund</i>	200,000,000	196,315,009	195,722,165	150,117,314	3,684,991	26.71	5.56
<i>KKR 2006 Fund</i>	200,000,000	150,445,528	142,442,397	5,906,251	49,554,472	-1.55	1.76
Lexington Capital Partners VI-B	100,000,000	57,638,192	51,145,884	10,957,931	42,361,808	7.98	2.51
RWI Ventures							
<i>RWI Group III</i>	616,430	616,430	193,373	259,070	0	-22.69	2.00
<i>RWI Ventures I</i>	7,603,265	7,303,265	3,485,343	4,025,809	300,000	1.83	2.00
Sightline Healthcare							
<i>Sightline Healthcare Fund II</i>	10,000,000	10,000,000	2,306,852	4,883,002	0	-4.71	11.33
<i>Sightline Healthcare Fund III</i>	20,000,000	20,000,000	7,625,663	3,288,320	0	-9.50	9.44
<i>Sightline Healthcare Fund IV</i>	7,700,000	6,590,622	3,716,760	3,612,034	1,109,378	3.46	4.76
Silver Lake Partners							
<i>Silver Lake Partners II</i>	100,000,000	85,919,166	99,756,882	17,255,765	14,080,834	15.44	4.00
<i>Silver Lake Partners III</i>	100,000,000	12,507,610	11,099,648	586,157	87,492,390	-12.35	1.25
Split Rock Partners							
<i>Split Rock Partners</i>	50,000,000	24,036,366	22,409,538	428,377	25,963,634	-3.44	3.16
<i>Split Rock Partners II</i>	60,000,000	0	0	0	60,000,000	0.00	0.20
Summit Partners							
<i>Summit Ventures II</i>	30,000,000	28,500,000	169,288	74,524,292	1,500,000	28.82	20.13
<i>Summit Ventures V</i>	25,000,000	24,125,000	2,607,997	32,091,300	875,000	9.01	10.25
T. Rowe Price	809,225,257	809,225,257	80,134,016	765,200,315	0	6.86	N/A
Thoma Cressey							
<i>Thoma Cressey Fund VI</i>	35,000,000	33,915,000	12,299,177	15,371,225	1,085,000	-3.05	9.86
<i>Thoma Cressey Fund VII</i>	50,000,000	49,104,075	34,422,705	46,489,614	895,925	26.57	7.85
<i>Thoma Cressey Fund VIII</i>	70,000,000	60,602,574	60,656,570	0	9,397,426	-0.33	2.17
Thomas, Mc Nerney & Partners							
<i>Thomas, Mc Nerney & Partners I</i>	30,000,000	22,950,000	15,275,074	10,504,694	7,050,000	4.62	5.65
<i>Thomas, Mc Nerney & Partners II</i>	50,000,000	13,875,000	11,756,940	768,885	36,125,000	-10.58	2.00
The Varde Fund IX	100,000,000	0	0	0	100,000,000	N/A	0.02
Vestar Capital Partners							
<i>Vestar Capital Partners IV</i>	55,000,000	51,660,023	29,357,664	54,477,273	3,339,977	15.04	8.54
<i>Vestar Capital Partners V</i>	75,000,000	53,341,725	52,035,600	3,665,481	21,658,275	3.92	2.53
Warburg Pincus							
<i>Warburg, Pincus Ventures</i>	50,000,000	50,000,000	451,376	255,993,050	0	49.21	13.50
<i>Warburg Pincus Equity Partners</i>	100,000,000	100,000,000	21,523,805	128,432,094	0	9.44	10.01
<i>Warburg Pincus Private Equity VIII</i>	100,000,000	100,000,000	104,043,054	79,709,195	0	19.10	6.21
<i>Warburg Pincus Private Equity IX</i>	100,000,000	98,405,208	104,425,337	4,037,000	1,594,792	6.74	2.93
<i>Warburg Pincus Private Equity X</i>	150,000,000	34,860,914	31,198,566	0	115,139,086	-15.60	0.68
Wayzata							
<i>Wayzata Opportunities Fund</i>	100,000,000	99,450,000	116,942,857	339,109	550,000	8.84	2.53
<i>Wayzata Opportunities Fund II</i>	150,000,000	57,000,000	55,159,869	0	93,000,000	-5.01	0.69
Welsh, Carson, Anderson & Stowe							
<i>Welsh, Carson, Anderson & Stowe VIII</i>	100,000,000	100,000,000	42,281,944	80,127,336	0	2.79	9.94
<i>Welsh, Carson, Anderson & Stowe IX</i>	125,000,000	118,750,000	85,295,569	124,671,350	6,250,000	15.85	8.01
<i>Welsh, Carson, Anderson & Stowe X</i>	100,000,000	73,578,466	82,175,668	0	26,421,534	7.78	2.54
Zell/ Chilmark	30,000,000	30,000,000	34,765	77,129,496	0	17.71	17.97
Private Equity Total	7,658,644,793	5,623,480,668	3,243,528,470	5,393,504,408	2,035,164,124		

RESOURCE MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	First Reserve Fund XII, L.P.
Type of Fund:	Resource Limited Partnership
Total Fund Size:	\$12-16 billion
Fund Manager:	First Reserve Corporation One Lafayette Place Greenwich, CT 06830 Tel: 203 661-6601 Fax: 203 661-6729
Manager Contact:	Cathleen Ellsworth

II. Organization and Staff

First Reserve is one of the oldest private equity firms and among the first to recognize the advantages of specializing in a single industrial sector. The Firm, which has raised approximately \$12.7 billion in equity capital for investment in the energy industry, is managed by a seasoned team of investment professionals. First Reserve principals have extensive experience in the energy industry which enables them to make keen judgments on investment selection, operations and ultimately exit. The 55 member investment team is headed by William E. Macaulay, Chairman and Chief Executive Officer, and managed by a seasoned team of 13 Managing Directors, and executive management who play various key roles. Collectively, the members of the investment team have worked together for an average of ten years and have an average of 12 years of prior professional experience. This prior experience includes both investment experience with financial firms and experience in energy industry operating companies.

III. Investment Strategy

Fund XII will pursue substantially the same investment strategy that First Reserve employed to achieve the investment success of its prior equity funds. First Reserve anticipates that the largest portion of investments will be in energy manufacturing and service companies that both maintain existing energy infrastructure and participate in new infrastructure development. A significant portion of Fund XII is expected to be in energy and natural resources reserves. The balance of Fund XII is anticipated to be in renewables and alternative energy and energy related insurance and financial investments. Holding periods for First Reserve portfolio companies have typically ranged from three to six years, and it is anticipated that the holding period for Fund XII investments will also generally be in that range. There can be no assurance with respect to the diversification or holding periods of investments. First Reserve expects that Fund XII will build upon the Firm's

proven strategy, substantial experience and long-established success in global energy and natural resources.

IV. Investment Performance

Previous fund performance as of March 31, 2008 for First Reserve is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception *
First Reserve Fund XI	2006	\$7.8 billion	\$150 million	35%
First Reserve Fund X	2004	\$2.3 billion	\$100 million	58%
First Reserve Fund IX	2001	\$1.4 billion	\$100 million	49%
First Reserve Fund VIII	1998	\$812 million	\$100 million	16%
First Reserve Fund VII	1996	\$244 million	\$40 million	10%
First Reserve Fund VI	1992	\$184 million	--	26%
First Reserve Fund V	1990	\$84 million	\$17 million	16%
First Reserve Fund V-2	1990	\$34 million	--	15%
First Reserve SEA Fund	1988	\$63 million	\$12 million	13%
AmGo III	1986	\$17 million	--	7%
AmGo II	1983	\$36 million	\$7 million	6%
AmGo I	1981	\$144 million	\$15 million	0%

* Net IRR's were provided by the General Partner.

(AmGO and AmGO II), which were not originally raised or invested by First Reserve, had an income orientation with return targets equivalent to high yield bonds. The middle funds (AmGO III, the SEA Fund and Fund V) had a balanced strategy with lower risk/reward targets and included unleveraged equity investments and an income component.

Previous Fund investments may be relatively immature and therefore, returns may not be indicative of future results

V. General Partner's Investment

The General Partner and its affiliates will make a commitment of not less than 2% of aggregate Commitments.

VI. Takedown Schedule

As needed, on ten business days notice.

VII. Fees

Until the earlier of (i) the expiration or termination of the Commitment Period, (ii) the commencement of payment of a management fee by investors in a Competing Fund or (iii) such earlier date as is determined by the General Partner in its sole discretion, the Partnership will pay the Advisor an annual Management Fee equal to the lesser of (A) 1.36% and (B) an effective blended rate equal to 1.5% with respect to the first \$8 billion of aggregate Fund Capital Commitments (other than those of the General Partner and Affiliated Investors and the general partners or other managing entities of any Parallel Vehicles and their Affiliates) and 1% with respect to aggregate Fund Capital Commitments (other than those of the General Partner and Affiliated Investors and the general partners or other managing entities of any Parallel Vehicles and their Affiliates) in excess of \$8 billion. After offsetting expenses associated with transactions, the Partnership's allocable share of transaction and break-up fees will be credited 100% against the Management Fee.

VIII. Distributions

In general, Limited Partners will receive distributions in the following order of priority:

- a return of all capital invested in realized investments and net management fees and other expenses attributable thereto and write-downs; plus
- an 8% compound, cumulative annual preferred return on the above amounts; After which distributions will be made:
- 80% to the General Partner and 20% to the Limited Partners as a "catch-up" until the General Partner has received an overall 20% Carried Interest; and thereafter
- 80% to the Limited Partners and 20% to the General Partner.

IX. Commitment Period and Term

The Commitment Period will be the earlier of (a) the sixth anniversary of the initial investment date and (b) the date on which either the Commitment Period is terminated or the obligation of Limited Partners to make capital contributions for new Investments is cancelled pursuant to the Partnership Agreement. The Term will be ten years from the initial investment date, subject to two consecutive one-year extensions in the General Partner's discretion with the consent of the Advisory Board or 66-2/3% in interest of the Limited Partners.