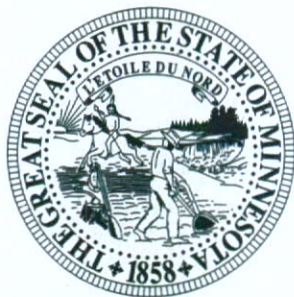


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# MINNESOTA STATE BOARD OF INVESTMENT

MINNESOTA STATE BOARD  
OF INVESTMENT  
MEETING  
**September 7, 2011**



**Governor Mark Dayton**  
**State Auditor Rebecca Otto**  
**Secretary of State Mark Ritchie**  
**Attorney General Lori Swanson**

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**STATE BOARD OF INVESTMENT**

**AGENDA AND MINUTES**

**September 7, 2011**

**AGENDA**  
**STATE BOARD OF INVESTMENT MEETING**  
**Wednesday, September 7, 2011**  
**9:00 A.M. – Room 123**  
**State Capitol, St. Paul**

- |  |            |
|--|------------|
|  | <b>TAB</b> |
| <b>1. Approval of Minutes of June 8, 2011</b>                                    |            |
| <b>2. Report from the Executive Director (H. Bicker)</b>                         | <b>A</b>   |
| A. Quarterly Investment Review<br>(April 1, 2011 – June 30, 2011)                |            |
| B. Administrative Report   | <b>B</b>   |
| 1. Reports on budget and travel  |            |
| 2. Legislative Update  |            |
| 3. Update on Sudan   |            |
| 4. Update on Iran  |            |
| 5. Review of SBI's CD Program  |            |
| 6. Litigation Update   |            |
| <b>3. Investment Advisory Council Report (J. Bailey)</b>                         |            |
| <b>A. Stock and Bond Report</b>  | <b>C</b>   |
| Review of manager performance for the period ending<br>June 30, 2011             |            |
| <b>B. Alternative Investment Report</b>  | <b>D</b>   |
| Review of current strategy.  |            |
| Consideration of new fund investments with two existing<br>real estate managers. |            |
| <b>4. Other items</b>  |            |

**Minutes**  
**State Board of Investment**  
**June 8, 2011**

The State Board of Investment (SBI) met at 10:30 A.M. Wednesday, June 8, 2011 in Room 123, State Capitol, St. Paul, Minnesota. Governor Mark Dayton, State Auditor Rebecca Otto, Secretary of State Mark Ritchie and Attorney General Lori Swanson were present.

**Executive Director's Report**

Mr. Bicker reported that the Combined Funds outperformed its Composite Index for the quarter (Combined Funds 4.4% vs. Composite 4.2%) and for the year (Combined Funds 14.7% vs. Composite 13.7%). He reported that the domestic stock manager group outperformed its target for the year (Domestic Stocks 17.6% vs. Domestic Equity Asset Class Target 17.4%). He said the International Stock manager group outperformed its Composite Index for the year (International Stocks 13.7% vs. International Equity Asset Class Target 13.1%). Mr. Bicker stated that the bond segment also outperformed its target for the year (Bonds 7.1% vs. Fixed Income Asset Class Target 5.1%).

Mr. Bicker referred members to Tab B of the meeting materials for an update on the budget and travel for the quarter. He noted that legislation of interest to the SBI is still pending. Mr. Bicker stated that updated information on Sudan and Iran is included in Tab B.

**Administrative Committee Report**

Mr. Bicker referred members to Tab C of the meeting materials and stated that the Administrative Committee had completed reviews of the Executive Director's Proposed Workplan for FY12, the Budget Plan for FY12, the Continuing Fiduciary Education Plan and the Executive Director's Evaluation process.

Mr. Bicker noted that a motion was needed to approve the minutes of the March 3, 2011 meeting. Ms. Otto moved approval of the minutes. The motion passed.

Mr. Ritchie moved approval of the four recommendations from the Administrative Committee, as stated in Tab C of the meeting materials, which read **"The Committee recommends that the SBI approve the FY12 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY12. The Committee recommends that the SBI approve the FY12 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 FY11 performance evaluation:**

- **The evaluation will be completed prior to the September 2011 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY11.**

- 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.
- Minnesota Management and Budget 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.

### **Investment Advisory Council**

Mr. Bailey referred members to Tab E of the meeting materials and stated that staff and the IAC are recommending follow-on investments with two existing resource managers, EMG and NGP and an existing private equity manager, Lexington Capital Partners. Governor Dayton thanked Mr. Bailey and the IAC members for their service and Mr. Ritchie moved approval of the recommendations, as stated in Tab E of the meeting materials, which read: **“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 \$100 million, or 20% of EMG Fund II, whichever is less. 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 EMG 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 EMG or reduction or termination of the commitment.**

**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% of NGP Natural Resources X, L.P., whichever is less. 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 NGP 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 NGP or reduction or termination of the commitment.**

**The Investment Advisory Council recommends that the SBI authorize the Executive Director, with assistance from the SBI’s legal counsel, to negotiate and execute an additional commitment of up to \$100 million in Lexington Capital Partners VII, L.P. This would increase the SBI’s total commitment from \$100 million to \$200 million or 20% of Lexington Capital Partners VII, L.P., whichever is less. Approval by the SBI of this potential additional 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 Lexington Capital 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 Lexington Capital Partners or reduction or termination of the commitment.”** The motion passed.

In response to a question and request from Ms. Geschierre, a representative of the Minnesota Break the Bonds organization, Ms. Eller confirmed that the group had already received a copy of the letter from the Attorney General’s Office regarding investments in Israeli bonds by the SBI. Ms. Swanson added that statute allows the SBI to invest in international securities such as sovereign debt, and she noted that an additional copy of the letter would be provided. Ms. Otto added that she was satisfied with the information provided and in statute.

The meeting adjourned at 10:37 A.M.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Howard Bicker".

Howard Bicker  
Executive Director

TAB

A

**LONG TERM OBJECTIVES**  
**Period Ending 6/30/2011**

<b>COMBINED FUNDS: \$47.8 Billion</b>	<b>Result</b>	<b>Compared to Objective</b>
<b>Match or Exceed Composite Index (10 Yr.)</b>  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.	<b>5.9% (1)</b>	0.1 percentage point above the target
<b>Provide Real Return (20 yr.)</b>  Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.	<b>8.8%</b>	6.3 percentage points above CPI

(1) Performance is calculated net of fees.



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**SUMMARY OF ACTUARIAL VALUATIONS****Eight Plans of MSRS, PERA and TRA  
July 1, 2010****Liabilities**

Actuarial Accrued Liabilities	\$57.5 billion
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**Assets**

Current Actuarial Value	\$46.2 billion
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**Funding Ratio**

Current Actuarial Value divided by Accrued Liabilities	80.3%
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**Actuarial Assumptions:**

1. Liabilities calculated using entry age normal cost method.
2. Difference between actual returns and actuarially expected returns spread over five years.
3. Interest/Discount Rate: 8.5%
4. Full Funding Target Date:
  - 2040 – MSRS General
  - 2031 – PERA General
  - 2037 – TRA

## EXECUTIVE SUMMARY

### Combined Funds (Net of Fees)

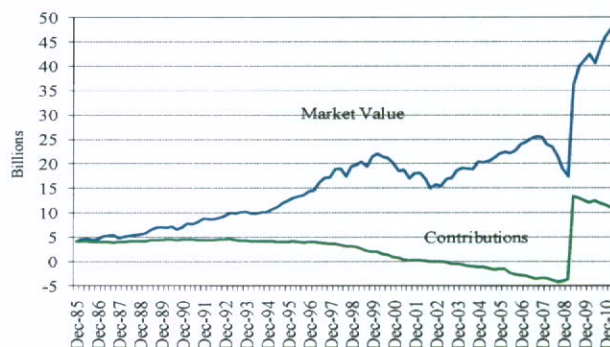
#### Asset Growth

The market value of the Combined Funds increased 0.6% during the second quarter of 2011. Positive investment returns accounted for the increase in market value.

#### Asset Growth During Second Quarter 2011 (Millions)

Beginning Value	\$ 47,497
Net Contributions	-465
Investment Return	753
Ending Value	\$ 47,785

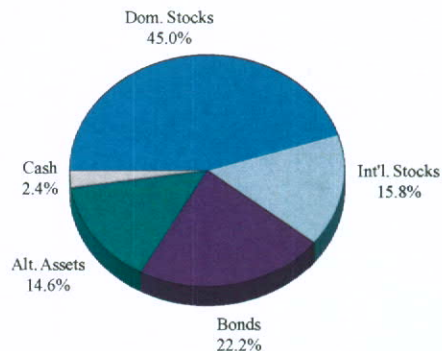
Note: The significant increase in market value and contributions in June 2009 was due to the merger of the Basics and Post Funds.



#### Asset Mix

The allocation to alternative investments and fixed income increased due to their outperformance relative to the other asset classes.

	Policy Targets	Actual Mix 6/30/2011	Actual Market Value (Millions)
Domestic Stocks	45.0%	45.0%	\$21,481
Int'l. Stocks	15.0	15.8	7,547
Bonds	18.0	22.2	10,590
Alternative Assets*	20.0	14.6	7,012
Unallocated Cash	2.0	2.4	1,155
	100.0%	100.0%	\$47,785

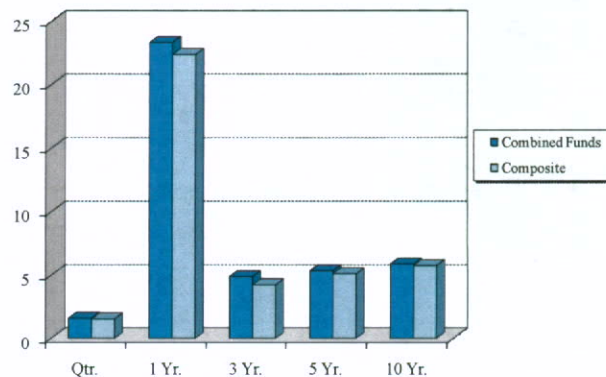


\* Any uninvested allocation is held in domestic bonds.

#### Fund Performance (Net of Fees)

The Combined Funds outperformed its target for the quarter and for the year.

	Period Ending 6/30/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds	1.6%	23.3%	4.9%	5.3%	5.9%
Composite	1.5	22.4	4.2	5.1	5.8



## 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 and for the year.

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

	Period Ending 6/30/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Dom. Stocks</b>	<b>0.2%</b>	<b>33.1%</b>	<b>4.0%</b>	<b>3.2%</b>	<b>3.2%</b>
Asset Class Target*	0.0	32.4	4.0	3.4	3.4

\* 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.

#### International Stocks

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

**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 45 countries included in this index. It does not include the United States.

	Period Ending 6/30/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Int'l. Stocks</b>	<b>0.8%</b>	<b>29.6%</b>	<b>-0.1%</b>	<b>4.0%</b>	<b>7.5%</b>
Asset Class Target*	0.4	29.7	-0.3	3.7	7.4

\* Since 6/1/08 the International Equity Asset Class Target is the Standard MSCI ACWI ex U.S. (net). From 10/1/07 to 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) + 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.

#### Bonds

The bond manager group (active and semi-passive combined) underperformed its target for the quarter and outperformed for the year.

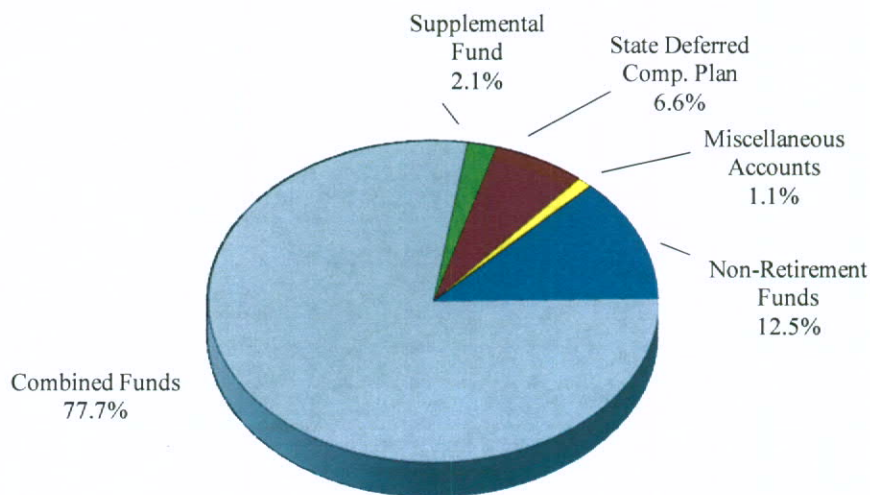
**Barclays Capital Aggregate:** The Barclays Capital Aggregate Bond Index reflects the performance of the broad bond market for investment grade (Baa or higher) bonds, U.S. treasury and agency securities, and mortgage obligations with maturities greater than one year.

	Period Ending 6/30/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Bonds</b>	<b>2.1%</b>	<b>5.5%</b>	<b>7.4%</b>	<b>6.5%</b>	<b>6.0%</b>
Asset Class Target	2.3	3.9	6.5	6.5	5.7

#### Alternative Investments

	Period Ending 6/30/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Alternatives</b>	<b>6.5%</b>	<b>18.6%</b>	<b>3.8%</b>	<b>9.8%</b>	<b>13.0%</b>

**EXECUTIVE SUMMARY**  
**Funds Under Management**



	<b>6/30/2011 Market Value (Billions)</b>
<b>Retirement Funds</b>	
Combined Funds	\$47.8
Supplemental Investment Fund	1.3
- Excluding Deferred Compensation Plan Assets	
State Deferred Compensation Plan	4.1
<b>Non-Retirement Funds</b>	
Assigned Risk Plan	0.3
Permanent School Fund	0.8
Environmental Trust Fund	0.6
State Cash Accounts	6.0
<b>Miscellaneous Accounts</b>	<b>0.7</b>
<b>Total</b>	<b>\$61.6</b>

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# MINNESOTA STATE BOARD OF INVESTMENT

## QUARTERLY INVESTMENT REPORT

Second Quarter 2011  
(April 1, 2011 - June 30, 2011)

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## VARIOUS CAPITAL MARKET INDICES

	Period Ending 6/30/2011				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Domestic Equity</b>					
Dow Jones Wilshire Composite	0.0%	32.4%	4.2%	3.6%	3.8%
Dow Jones Industrials	1.4	30.4	6.1	5.0	4.2
S&P 500	0.1	30.7	3.3	2.9	2.7
Russell 3000 (broad market)	0.0	32.4	4.0	3.4	3.4
Russell 1000 (large cap)	0.1	31.9	3.7	3.3	3.2
Russell 2000 (small cap)	-1.6	37.4	7.8	4.1	6.3
<b>Domestic Fixed Income</b>					
Barclays Capital Aggregate (1)	2.3	3.9	6.5	6.5	5.7
Barclays Capital Gov't./Corp.	2.3	3.7	6.2	6.3	5.7
3 month U.S. Treasury Bills	0.0	0.1	0.3	1.8	2.0
<b>International</b>					
EAFE (2)	1.6	30.4	-1.8	1.5	5.7
World ex-U.S. (3)	0.9	30.3	-1.6	2.0	6.1
Emerging Markets Free (4)	-1.0	28.2	4.5	11.8	16.5
ACWI Free ex-U.S. (5)	0.6	30.3	0.1	4.1	7.9
Salomon Non U.S. Gov't. Bond	3.7	13.9	6.2	7.8	8.7
<b>Inflation Measure</b>					
Consumer Price Index CPI-U (6)	1.0	3.6	1.0	2.2	2.3
Consumer Price Index CPI-W (7)	1.1	4.1	1.1	2.3	2.5

(1) Barclays Capital 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 World Ex-U.S. Index (Developed Markets) (Net index)

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

(5) Morgan Stanley Capital International All Country World Index Ex-U.S. (Gross 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 0.0% return during the second quarter of 2011. The U.S. equity markets declined for six straight weeks in May and early June prior to the quarter end rally. During the quarter, the effects of the Japan earthquake and tsunami lingered, economic data in the U.S. was weaker than expected and debt problems in Europe continued. Within the Russell 3000, the Healthcare sector had the strongest return, up 6.8% for the quarter. Energy was the worst performing sector with a -5.2% return for the quarter. Large cap companies outperformed small cap companies within the Russell 3000.

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

Large Growth	Russell 1000 Growth	0.8%
Large Value	Russell 1000 Value	-0.5%
Small Growth	Russell 2000 Growth	-0.6%
Small Value	Russell 2000 Value	-2.6%

The Russell 3000 index returned 32.4% for the year ending June 30, 2011.

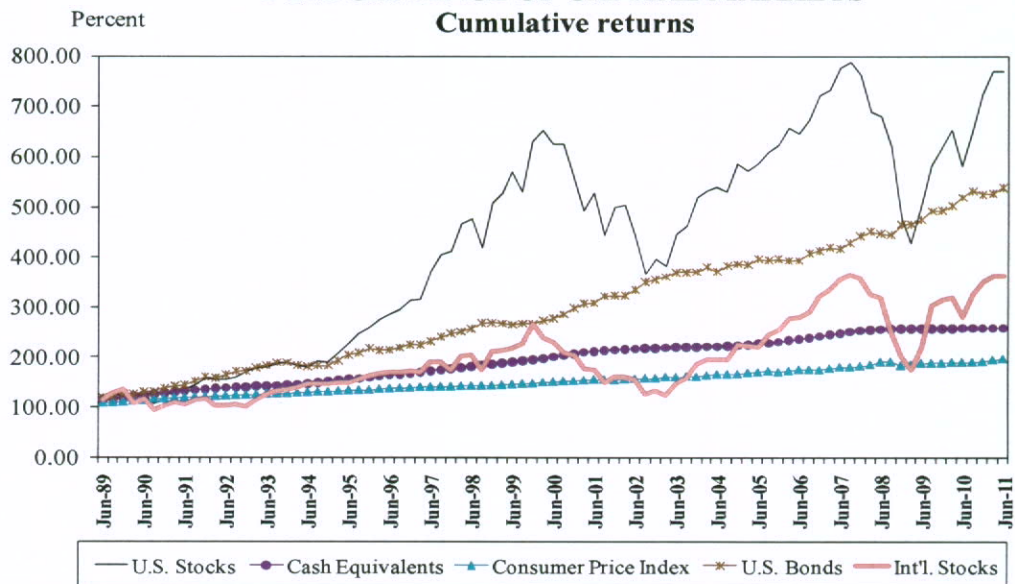
DOMESTIC BONDS

The U.S. bond market, as measured by the Barclays Capital U.S. Aggregate Bond Index, returned 2.3% for the quarter. All sectors of the bond market had positive total returns. Yields on U.S. Treasuries declined overall, as signs of deteriorating economic conditions and concerns surrounding Eurozone debt boosted demand for Treasuries. The 5-Year Treasury ended the second quarter 52 basis points lower at 1.8%, the 10-Year yield fell 31 basis points to 3.2%, and the 30-year was down 14 basis points to end the quarter at 4.4%. Agency MBS performed particularly well during the quarter, driven by a broad desire for risk-aversion and muted prepayment risk. Investment grade corporate bonds also performed well, as corporate balance sheets and fundamentals continued to improve.

The major sector returns for the Barclays Capital Aggregate Index for the quarter were:

U.S. Treasury	2.4%
Agency	1.6
Corporates	2.3
Agency MBS	2.3
Commercial Mortgages	1.6
Asset-backed	1.8

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 net) provided a return of 0.9% for the quarter. The quarterly performance of the six largest stock markets is shown below:

United Kingdom	1.7%
Japan	0.2
Canada	-4.7
France	4.5
Australia	-0.6
Germany	6.3

The World ex U.S. index returned 30.3% during the last year.

The World ex U.S. index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 23 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 gross) provided a return of -1.0% for the quarter. The quarterly performance of the six largest stock markets in the index is shown below:

China	-1.8%
Brazil	-4.0
Korea	0.9
Taiwan	1.7
India	-3.6
South Africa	-2.0

The Emerging Markets Free index returned 28.2% during the last year.

The Emerging Markets Free (EMF) index is compiled by MSCI and measures performance of 21 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 73% of the value of the international markets in the index.

### REAL ESTATE

During the second quarter of 2011, real estate posted its sixth consecutive quarter of positive returns with the NCREIF Property Index posting a return of 3.9%. Even with accommodative monetary and fiscal policies, the real estate outlook for 2011 continues to be one of caution due to continued weakness in employment.

### PRIVATE EQUITY

Several forces have driven the rebound in private equity deals this year, most notably a recovery in the credit markets. Also, private equity firms that spent the past two years improving their portfolio companies are finally ready and able to cash in on their strongest performers because strategic buyers are awash with cash, after putting away capital on their balance sheets during the recent economic contraction.

### RESOURCE FUNDS

During the second quarter of 2011, crude oil traded between \$91/bbl and \$114/bbl. The average price for the second quarter of 2011 was \$102/bbl which is approximately \$7/bbl more than the average price for the first quarter of 2011. Improved economic growth and unrest in the Middle East should continue to provide strength to oil prices.

COMBINED FUNDS

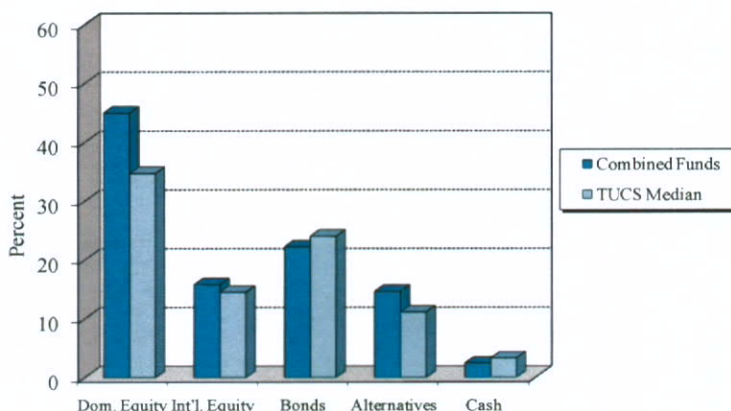
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over \$1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On June 30, 2011, the asset mix of the Combined Funds was:

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:

	\$ Millions	%
Domestic Stocks	\$21,481	45.0%
International Stocks	7,547	15.8
Bonds	10,590	22.2
Alternative Assets	7,012	14.6
Unallocated Cash	1,155	2.4
<b>Total</b>	<b>\$47,785</b>	<b>100.0%</b>



	Dom. Equity	Int'l Equity	Bonds	Alternatives	Cash
<b>Combined Funds</b>	<b>45.0%</b>	<b>15.8%</b>	<b>22.2%</b>	<b>14.6%</b>	<b>2.4%</b>
Median Allocation in TUCS*	34.7	14.5	24.0	11.1**	3.3

\* Public and corporate plans over \$1 billion.  
 \*\* May include assets other than alternatives.

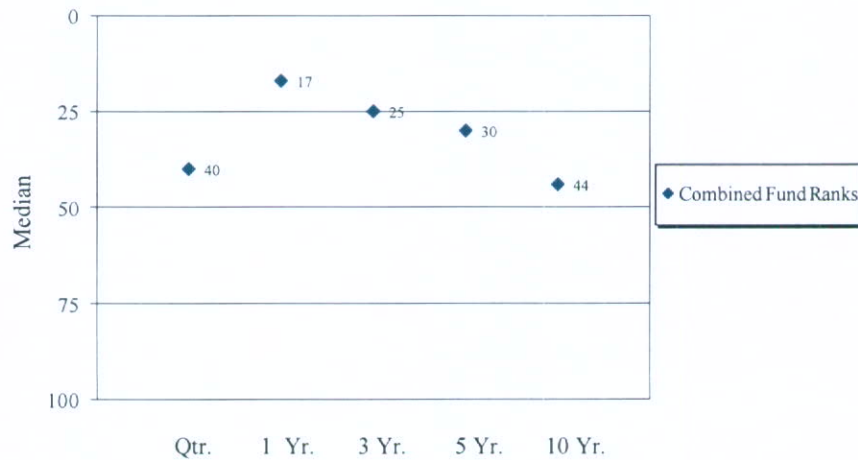
**COMBINED FUNDS  
Performance Compared to Other Pension Funds**

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 6/30/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds Percentile Rank in TUCS*	40th	17th	25th	30th	44th

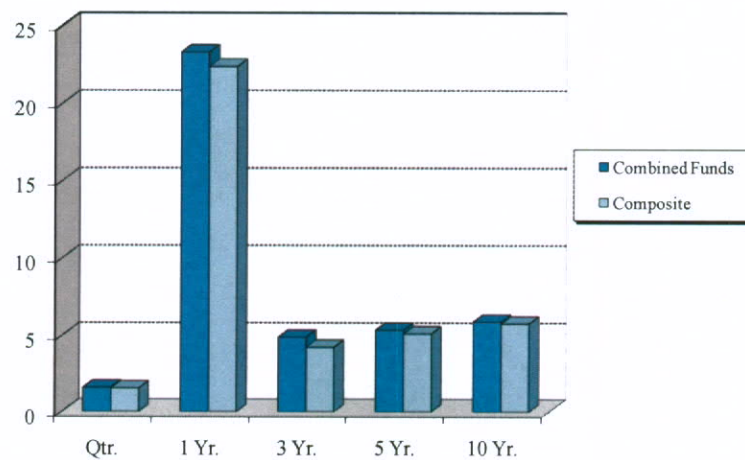
\* Compared to public and corporate plans greater than \$1 billion, gross of fees.

**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:

	<b>Market Index</b>	<b>Combined Funds Composite* 2Q11</b>
Domestic Stocks	Russell 3000	45.0%
Int'l. Stocks	MSCI ACWI Free ex-U.S.	15.0
Bonds	Barclays Capital Aggregate	23.9*
Alternative Investments	Alternative Investments	14.1*
Unallocated Cash	3 Month T-Bills	2.0
		100.0%

\* Alternative asset and fixed income 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.



	<b>Period Ending 6/30/2011</b>				
	<b>Qtr.</b>	<b>1 Yr.</b>	<b>3 Yr.</b>	<b>5 Yr.</b>	<b>10 Yr.</b>
<b>Combined Funds**</b>	<b>1.6%</b>	<b>23.3%</b>	<b>4.9%</b>	<b>5.3%</b>	<b>5.9%</b>
<b>Composite Index</b>	<b>1.5</b>	<b>22.4</b>	<b>4.2</b>	<b>5.1</b>	<b>5.8</b>

\*\* Actual returns are reported net of fees.

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

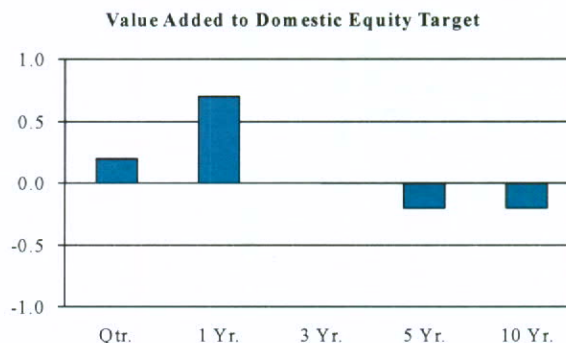
**Domestic Stocks**

**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 6/30/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Domestic Stocks</b>	<b>0.2%</b>	<b>33.1%</b>	<b>4.0%</b>	<b>3.2%</b>	<b>3.2%</b>
Asset Class Target*	0.0	32.4	4.0	3.4	3.4

\* 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.



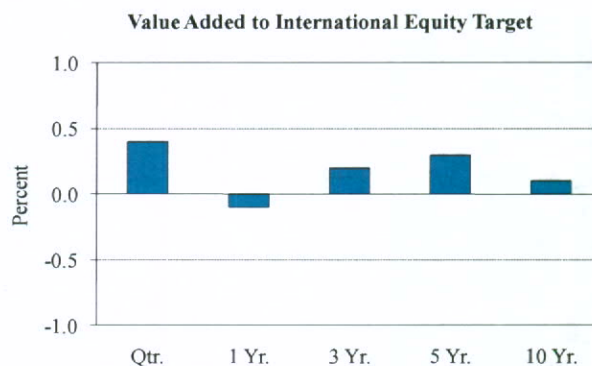
**International Stocks**

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

**Expectation:** If at least one-third of the pool is managed actively, no more than one-third is semi-passively managed, and at least one-quarter is passively managed, the entire pool is expected to exceed the target by .25% - .75% annualized, over time.

	Period Ending 6/30/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Int'l. Stocks</b>	<b>0.8%</b>	<b>29.6%</b>	<b>-0.1%</b>	<b>4.0%</b>	<b>7.5%</b>
Asset Class Target*	0.4	29.7	-0.3	3.7	7.4

\* 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.



**Bonds**

**Target:** Barclays Capital 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 6/30/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Bonds</b>	<b>2.1%</b>	<b>5.5%</b>	<b>7.4%</b>	<b>6.5%</b>	<b>6.0%</b>
Asset Class Target	2.3	3.9	6.5	6.5	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 6/30/2011				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	6.5%	18.6%	3.8%	9.8%	13.0%
Inflation	1.0%	3.6%	1.0%	2.2%	2.3%

#### 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 6/30/2011				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Real Estate	6.9%	18.7%	-10.2%	0.0%	6.0%

#### 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 6/30/2011				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Private Equity	5.0%	20.0%	6.5%	10.9%	12.7%

#### 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 6/30/2011				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Resource	16.1%	19.8%	8.8%	17.4%	24.3%

#### 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 6/30/2011				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Yield Oriented	6.4%	12.7%	5.4%	11.5%	15.4%

## 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, Hennepin County Supplemental Retirement Plan, and Health Care Savings 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.
4. It serves as the investment vehicle for the Voluntary Statewide Volunteer Firefighter Plan.

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. All returns are net of investment management fees.

**On June 30, 2011 the market value of the entire Fund was \$1.3 billion.**

## Investment Options

	<b>6/30/2011 Market Value (In Millions)</b>
<b>Income Share Account</b> – a balanced portfolio utilizing both common stocks and bonds.	\$258
<b>Growth Share Account</b> – an actively managed, all common stock portfolio.	\$131
<b>Common Stock Index Account</b> – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	\$254
<b>International Share Account</b> – a portfolio of non U.S. stocks that incorporates both active and passive management.	\$133
<b>Bond Market Account</b> – an actively managed, all bond portfolio.	\$148
<b>Money Market Account</b> – a portfolio utilizing short-term, liquid debt securities.	\$184
<b>Fixed Interest Account</b> – 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.	\$151
<b>Volunteer Firefighter Account</b> – a balanced portfolio only used by the Voluntary Statewide Volunteer Firefighter Plan.	\$3



## 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%	59.6%
Bonds	35.0	35.2
Unallocated Cash	5.0	5.2
	100.0%	100.0%

## Period Ending 6/30/2011

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	0.5%	20.6%	5.9%	5.2%	4.7%
Benchmark*	0.8	20.3	4.6	4.4	4.4

\* 60% Russell 3000/35% Barclays Capital Aggregate Bond Index/5% T-Bills Composite since 10/1/03. 60% Wilshire 5000/35% Barclays Capital 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 6/30/2011

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	0.4%	33.8%	4.1%	3.1%	3.0%
Benchmark*	0.0	32.4	4.0	3.4	3.4

\* Russell 3000 since 10/1/03. 100% Wilshire 5000 Investable from July 1999 to September 2003.

## 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 6/30/2011

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	-0.1%	32.0%	4.1%	3.5%	3.5%
Benchmark*	0.0	32.4	4.0	3.4	3.4

\* 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 no more than 33% of the Account is "semi-passively managed." These portions of the Account are designed to track and modestly outperform, respectively, the return of 23 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 6/30/2011

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	0.8%	29.6%	0.1%	4.1%	7.6%
Benchmark*	0.4	29.7	-0.3	3.7	7.4

\* 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.

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 6/30/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Account</b>	<b>2.1%</b>	<b>5.5%</b>	<b>7.4%</b>	<b>6.6%</b>	<b>6.0%</b>
Barclays Capital Aggregate	2.3	3.9	6.5	6.5	5.7

**MONEY MARKET ACCOUNT**

**Investment Objective**

The investment objective of the Money Market Account is to protect principal by investing in short-term, liquid U.S. Government securities.

**Asset Mix**

The Account is invested entirely in high quality, short-term U.S. Treasury and Agency securities. The average maturity of the portfolios is less than 90 days.

	Period Ending 6/30/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Account</b>	<b>0.1%</b>	<b>0.3%</b>	<b>0.6%</b>	<b>2.3%</b>	<b>2.3%</b>
3 month T-Bills	0.0	0.1	0.3	1.8	2.0

**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 Account is invested in a well-diversified portfolio of high-quality fixed income securities with strong credit ratings. The Account also invests in contracts issued by highly rated insurance companies and banks which are structured to provide principal protection for the Account's diversified bond portfolios, regardless of daily market changes.

	Period Ending 6/30/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Account</b>	<b>0.8%</b>	<b>3.8%</b>	<b>4.3%</b>	<b>4.5%</b>	<b>4.7%</b>
Benchmark*	0.3	1.3	1.8	2.8	3.2

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

**VOLUNTEER FIREFIGHTER ACCOUNT**

The investment objective of the Volunteer Firefighter Account is to maximize long-term returns while limiting short-term portfolio return volatility.

The Account is invested in a balanced portfolio:

	Target	Actual
Domestic Stocks	35.0	35.8%
International Stocks	15.0	14.9
Bonds	45.0	43.7
Cash	5.0	5.6
	100.0%	100.0%

	Period Ending 6/30/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Account</b>	<b>1.0%</b>	<b>17.5%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Benchmark*	1.1	17.1	N/A	N/A	N/A

\* The benchmark for this account is 35% Russell 3000, 15% MSCI ACWI Free ex U.S. (net), 45% Barclays Capital Aggregate, 5% 3 month T-Bills.

## 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

	<b>6/30/2011 Market Value (in Millions)</b>
Vanguard Institutional Index (passive)	\$457
Janus Twenty (active)	\$403
Legg Mason Appreciation I (active)	\$129
Vanguard Mid Cap Index (passive)	\$235
T. Rowe Price Small Cap (active)	\$460
Fidelity Diversified International (active)	\$250
Vanguard Institutional Developed Markets (passive)	\$107
Dodge & Cox Balanced Fund (active)	\$283
Vanguard Balanced Fund (passive)	\$202
Dodge & Cox Income Fund (active)	\$160
Vanguard Total Bond Market Fund (passive)	\$139
SIF Money Market Account	\$72
SIF Fixed Interest Account	\$1,222

## DEFERRED COMPENSATION PLAN ACCOUNTS

## LARGE CAP EQUITY

**Vanguard Institutional Index (passive)**

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

		Period Ending 6/30/2011			
		Annualized			
	Fund	Qtr.	1 Yr.	3 Yr.	5 Yr.
	S&P 500	0.1%	30.7%	3.4%	3.0%
		0.1	30.7	3.3	2.9

**Janus Twenty (active)**

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

		Period Ending 6/30/2011			
		Annualized			
	Fund	Qtr.	1 Yr.	3 Yr.	5 Yr.
	S&P 500	0.0%	22.5%	-4.0%	6.4%
		0.1	30.7	3.3	2.9

**Legg Mason Partners Appreciation I (active)**

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

		Period Ending 6/30/2011			
		Annualized			
	Fund	Qtr.	1 Yr.	3 Yr.	5 Yr.
	S&P 500	0.1%	26.2%	3.0%	4.4%
		0.1	30.7	3.3	2.9

## 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.

		Period Ending 6/30/2011			
		Annualized			
	Fund	Qtr.	1 Yr.	3 Yr.	5 Yr.
	MSCI US	-0.1%	38.7%	6.4%	5.1%
	Mid-Cap 450	-0.1	38.7	6.4	5.1

## 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.

		Period Ending 6/30/2011			
		Annualized			
	Fund	Qtr.	1 Yr.	3 Yr.	5 Yr.
	Russell 2000	-0.5%	43.9%	13.9%	6.8%
		-1.6	37.4	7.8	4.1

## 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.

		Period Ending 6/30/2011			
		Annualized			
	Fund	Qtr.	1 Yr.	3 Yr.	5 Yr.
	MSCI EAFE	0.1%	30.5%	-3.3%	1.4%
		1.6	30.4	-1.8	1.5

**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.

		Period Ending 6/30/2011			
		Annualized			
	Fund	Qtr.	1 Yr.	3 Yr.	5 Yr.
	MSCI EAFE	2.1%	32.3%	-1.4%	1.8%
		1.6	30.4	-1.8	1.5

## 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% Barclays Capital Aggregate, over time.

Fund	Period Ending 6/30/2011			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Benchmark	0.7%	24.2%	4.5%	2.4%
	1.0	19.6	5.0	4.7

**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% Barclays Capital Aggregate.

Fund	Period Ending 6/30/2011			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Benchmark	1.0%	20.5%	5.8%	5.3%
	0.9	20.6	5.6	5.1

**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 Barclays Capital Aggregate, over time.

Fund	Period Ending 6/30/2011			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Barclays Capital Agg.	1.8%	6.0%	8.5%	7.1%
	2.3	3.9	6.5	6.5

**Vanguard Total Bond Market Fund (passive)**

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

Fund	Period Ending 6/30/2011			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Barclays Capital Agg.	2.3%	3.7%	6.4%	6.6%
	2.3	3.9	6.5	6.5

**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.

Fund	Period Ending 6/30/2011			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
3-Mo. Treas.	0.1%	0.3%	0.6%	2.3%
	0.0	0.1	0.3	1.8

**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.

Fund	Period Ending 6/30/2011			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Benchmark	0.8%	3.8%	4.3%	4.5%
	0.3	1.3	1.8	2.8

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.

	6/30/2011 Target	6/30/2011 Actual
Stocks	20.0%	22.3%
Bonds	80.0	77.7
Total	100.0%	100.0%

**Investment Management**

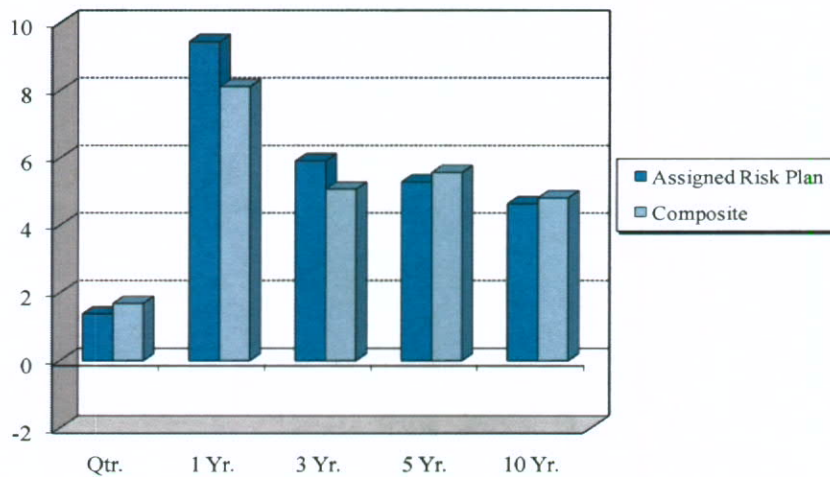
Voyageur Asset Management manages the bond segment of the Fund. GE Investment Management manages the equity segment.

**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, 2011 the market value of the Assigned Risk Plan was \$311 million.



Period Ending 6/30/2011

Annualized

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Fund*</b>	<b>1.4%</b>	<b>9.4%</b>	<b>5.9%</b>	<b>5.3%</b>	<b>4.6%</b>
Composite	1.7	8.1	5.1	5.6	4.8
<b>Equity Segment*</b>	<b>-1.3</b>	<b>27.6</b>	<b>2.8</b>	<b>3.8</b>	<b>2.8</b>
Benchmark	0.1	30.7	3.3	2.9	2.7
<b>Bond Segment*</b>	<b>2.2</b>	<b>5.3</b>	<b>6.5</b>	<b>5.5</b>	<b>4.8</b>
Benchmark	2.1	2.9	5.1	5.9	5.1

\* 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.

	6/30/2011 Target	6/30/2011 Actual
Stocks	50.0%	49.7%
Bond	48.0	48.3
Cash	2.0	2.0
Total	100.0%	100.0%

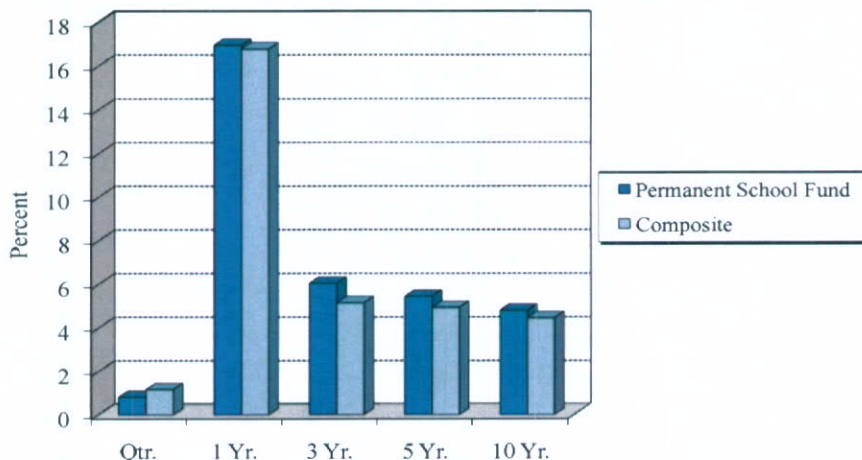
Prior to FY98, the Fund was invested entirely in fixed income securities in order to maximize current income. It is understood that the change in asset mix will reduce portfolio income in the short term, but will enhance the value of the fund, over time.

**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, 2011 the market value of the Permanent School Fund was \$785 million.



Period Ending 6/30/2011  
Annualized  
Qtr. 1 Yr. 3 Yr. 5 Yr. 10 Yr.

<b>Total Fund*</b>	<b>0.8%</b>	<b>17.0%</b>	<b>6.0%</b>	<b>5.4%</b>	<b>4.8%</b>
Composite	1.2	16.8	5.2	4.9	4.5
<b>Equity Segment*</b>	<b>0.1</b>	<b>30.8</b>	<b>3.4</b>	<b>3.0</b>	<b>2.8</b>
S&P 500	0.1	30.7	3.3	2.9	2.7
<b>Bond Segment*</b>	<b>1.5</b>	<b>4.3</b>	<b>7.4</b>	<b>7.1</b>	<b>6.3</b>
Barclays Capital Agg.	2.3	3.9	6.5	6.5	5.7

\* Actual returns are calculated net of fees.

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.

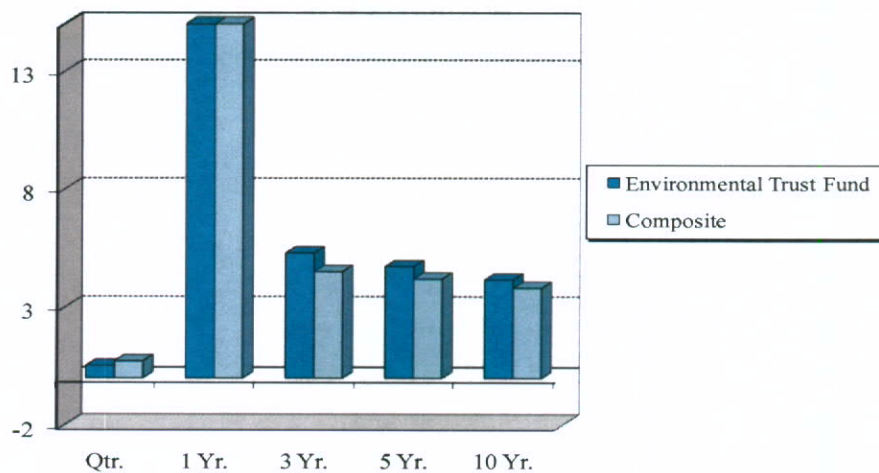
**Investment Management**

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, 2011 the market value of the Environmental Trust Fund was \$575 million.

	6/30/2011 Target	6/30/2011 Actual
Stocks	70.0%	70.0%
Bonds	28.0	28.0
Cash	2.0	2.0
Total	100.0%	100.0%



	Period Ending 6/30/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Fund*</b>					
Composite	0.5%	22.1%	5.3%	4.7%	4.2%
<b>Equity Segment*</b>					
S&P 500	0.1	30.8	3.5	3.1	2.8
<b>Bond Segment*</b>					
Barclays Capital Agg.	1.5	4.3	7.4	7.1	6.3

\* 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.

**Asset Mix**

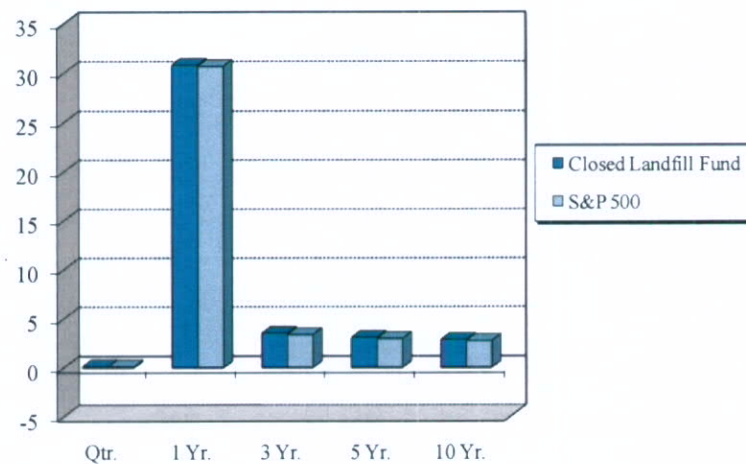
Effective July 1999, the Closed Landfill Investment Fund is invested entirely in common stock. Given the long time horizon of this Fund and the lack of need for any short or mid-term withdrawals, this strategy will maximize the long-term gain of the Fund.

**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, 2011, the market value of the Closed Landfill Investment Fund was \$0.7 million. During the 2010 legislative session, \$48 million was withdrawn for budget purposes.



**Period Ending 6/30/2011**

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Fund (1)</b>	0.1%	30.8%	3.5%	3.1%	2.8%
S&P 500	0.1	30.7	3.3	2.9	2.7

(1) Actual returns are calculated net of fees.

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 6/30/2011				
		Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
<b>Treasurer’s Cash Pool*</b>	<b>\$5,908</b>	<b>0.2%</b>	<b>0.6%</b>	<b>1.6%</b>	<b>2.9%</b>	<b>2.7%</b>
Custom Benchmark**		0.0	0.0	0.3	1.9	2.0
<b>Trust Fund Cash Pool*</b>	<b>\$137</b>	<b>0.1</b>	<b>0.3</b>	<b>0.6</b>	<b>2.2</b>	<b>2.3</b>
Custom Benchmark		0.0	0.0	0.3	1.9	1.8
3 month T-Bills		0.0	0.1	0.3	1.8	2.0

\* 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 Barclays Capital 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.

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**MINNESOTA STATE BOARD OF INVESTMENT**  
**Composition of State Investment Portfolios By Type of Investment**  
**Market Value June 30, 2011 (in Thousands)**

	Cash & ST	Bonds Int	Bonds Ext	Stock Int	Stock Ext	Ext Intl	Alternative	Total
<b>COMBINED RETIREMENT FUNDS</b>								
Teachers Retirement Fund	411,673 2.39%	0	3,821,522 22.17%	0	7,751,891 44.97%	2,723,272 15.79%	2,530,478 14.68%	17,238,836 100%
Public Employees Retirement Fund	323,195 2.38%	0	3,001,635 22.17%	0	6,088,764 44.97%	2,139,009 15.80%	1,987,577 14.68%	13,540,180 100%
State Employees Retirement Fund	230,067 2.51%	0	2,029,888 22.14%	0	4,117,592 44.91%	1,446,527 15.78%	1,344,120 14.66%	9,168,194 100%
Public Employees Police & Fire	126,555 2.38%	0	1,175,361 22.17%	0	2,384,200 44.97%	837,580 15.80%	778,283 14.68%	5,301,979 100%
⌘ Highway Patrol Retirement Fund	14,141 2.50%	0	125,526 22.14%	0	254,628 44.92%	89,452 15.78%	83,119 14.66%	566,866 100%
Judges Retirement Fund	3,966 2.68%	0	32,657 22.10%	0	66,243 44.83%	23,272 15.75%	21,624 14.64%	147,762 100%
Correctional Employees Retirement	16,839 2.62%	0	142,227 22.12%	0	288,504 44.86%	101,353 15.76%	94,178 14.64%	643,101 100%
Public Employees Correctional	6,631 2.38%	0	61,581 22.17%	0	124,916 44.97%	43,883 15.80%	40,777 14.68%	277,788 100%
Legislative Retirement Fund	449 2.38%	0	4,172 22.17%	0	8,462 44.97%	2,973 15.80%	2,762 14.68%	18,818 100%
PERA Minneapolis Retirement	21,037 2.38%	0	195,364 22.17%	0	396,296 44.97%	139,220 15.80%	129,364 14.68%	881,281 100%
<b>TOTAL COMBINED FUNDS</b>	<b>1,154,553 2.42%</b>	<b>0</b>	<b>10,589,933 22.16%</b>	<b>0</b>	<b>21,481,496 44.95%</b>	<b>7,546,541 15.79%</b>	<b>7,012,282 14.68%</b>	<b>47,784,805 100%</b>

	Cash & ST	Bonds Int	Bonds Ext	Stock Int	Stock Ext	Ext Intl	Alternative	Total
<b>MINNESOTA SUPPLEMENTAL FUNDS:</b>								
Income Share Account	13,314 5.15%	90,999 35.23%	0	0	154,004 59.62%	0	0	258,317 100%
Growth Share Account	0	0	0	0	131,447 100.00%	0	0	131,447 100%
Money Market Account	183,687 100.00%	0	0	0	0	0	0	183,687 100%
Common Stock Index	0	0	0	0	254,099 100.00%	0	0	254,099 100%
Bond Market Account	0	0	148,466 100.00%	0	0	0	0	148,466 100%
International Share Account	0	0	0	0	0	132,728 100.00%	0	132,728 100%
Stable Value Fund	0	0	150,838 100.00%	0	0	0	0	150,838 100%
Volunteer Firefighters Account	191 5.60%	0	1,493 43.74%	0	1,220 35.75%	509 14.91%	0	3,413 100%
<b>TOTAL SUPPLEMENTAL FUNDS</b>	197,192 15.61%	90,999 7.20%	300,797 23.82%	0	540,770 42.82%	133,237 10.55%	0	1,262,995 100%
<b>MN DEFERRED COMP PLAN</b>	85,213 2.07%	0	1,663,442 40.39%	0	2,012,944 48.88%	356,685 8.66%	0	4,118,284 100%
<b>TOTAL RETIREMENT FUNDS</b>	1,436,958 2.70%	90,999 0.17%	12,554,172 23.61%	0	24,035,210 45.21%	8,036,463 15.12%	7,012,282 13.19%	53,166,084 100%

	Cash & ST	Bonds Int	Bonds Ext	Stock Int	Stock Ext	Ext Intl	Alternative	Total
<b>ASSIGNED RISK PLAN</b>	7,352 2.36%	0	234,837 75.38%	0	69,337 22.26%	0	0	311,526 100%
<b>ENVIRONMENTAL FUND</b>	11,578 2.01%	161,324 28.06%	0	401,983 69.93%	0	0	0	574,885 100%
<b>PERMANENT SCHOOL FUND</b>	15,776 2.01%	379,269 48.31%	0	390,081 49.68%	0	0	0	785,126 100%
<b>CLOSED LANDFILL INVESTMENT</b>	0	0	0	776 100.00%	0	0	0	776 100%
<b>TREASURERS CASH</b>	5,908,252 100.00%	0	0	0	0	0	0	5,908,252 100%
<b>HOUSING FINANCE AGENCY</b>	0	78,697 100.00%	0	0	0	0	0	78,697 100%
<b>MINNESOTA DEBT SERVICE FUND</b>	0	63,135 100.00%	0	0	0	0	0	63,135 100%
<b>MISCELLANEOUS ACCOUNTS</b>	167,311 24.27%	285,292 41.38%	0	236,838 34.35%	0	0	0	689,441 100%
<b>TOTAL CASH AND NON-RETIREMENT</b>	6,110,269 72.64%	967,717 11.50%	234,837 2.79%	1,029,678 12.24%	69,337 0.83%	0	0	8,411,838 100%
<b>GRAND TOTAL</b>	7,547,227 12.26%	1,058,716 1.72%	12,789,009 20.77%	1,029,678 1.67%	24,104,547 39.14%	8,036,463 13.05%	7,012,282 11.39%	61,577,922 100%

**TAB**

**B**

## **EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT**

---

DATE: August 31, 2011

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 2011 is included as **Attachment A**. A report on the SBI's administrative budget for the Fiscal Year 2012 Year to Date is included as **Attachment B**.

A report on travel for the period from May 5, 2011 – August 4, 2011 is included as **Attachment C**.

### **2. Legislative Update**

A summary of legislative activity of interest to the SBI is in **Attachment D**.

### **3. Update on Sudan**

Each quarter, staff provides a report to the Board on steps taken to implement *Minnesota Statutes*, section 11A.243 that requires SBI actions concerning companies with operations in Sudan. Staff receives periodic reports from the Conflict Risk Network (CRN) 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 CRN. 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 CRN list and writes letters as required by law.

If after 90 days following the SBI's communication, a company continues to have active business operations in Sudan, 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.

SBI managers divested 1,085,400 shares in two companies in the second quarter.

**Attachment E** is a copy of the June 9, 2011 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.

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

#### 4. Update on Iran

Each quarter, staff provides a report to the Board on steps taken to implement *Minnesota Statutes*, section 11A.244 that requires SBI actions concerning companies with operations in Iran.

SBI subscribes to the Iran service provided by ISS, a unit of MSCI, and regularly receives a list of companies with operations in Iran. Staff receives monthly reports from the SBI's custodian bank concerning SBI holdings of companies on the restricted list and writes letters as required by law.

According to the law, if after 90 days from the SBI's communication with the company, the company continues to have scrutinized business operations, the SBI must divest all publicly traded securities of the company according to following schedule:

- at least 50 percent shall be sold within nine months after the company appeared on the scrutinized list.
- 100 percent, within fifteen months after the company appeared on the scrutinized list.

SBI managers held no shares in the quarter in companies on the divestment list.

**Attachment G** is a copy of the June 9, 2011 letter sent to each international equity manager and domestic equity manager and fixed income manager containing the end of quarter restricted list and the list of companies to be divested.

## **5. Update of the SBI's Certificate of Deposit (CD) Program**

For over 30 years the SBI has had a program whereby it purchases CD's from financial institutions throughout the State of Minnesota. The CD's are backed by FDIC insurance. Until 2008, the maximum insurance was \$100,000. The SBI invests the assets of eight retirement plans; therefore, the Board could purchase CD's up to \$750,000 and still maintain a margin of safety.

During the financial crisis of 2008-2009, the FDIC increased the insurance to \$250,000. Staff is reviewing the possibility of increasing the maximum CD purchase to \$1.5 million. Before a final decision is reached, a review of the new FDIC regulations must be completed by legal counsel.

## **6. Litigation Update**

SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on September 7, 2011.



## ATTACHMENT A

**STATE BOARD OF INVESTMENT  
FISCAL YEAR 2011 ADMINISTRATIVE BUDGET REPORT  
FISCAL YEAR 2011 FINAL**

ITEM	FISCAL YEAR 2011 BUDGET	FISCAL YEAR 2011 ACTUAL
<b>PERSONAL SERVICES</b>		
FULL TIME EMPLOYEES	\$ 2,845,000	\$ 2,771,646
PART TIME EMPLOYEES	\$ 69,000	\$ 68,582
SEVERENCE PAYOFF	0	17,705
WORKERS COMPENSATION INSURANCE	600	569
MISCELLANEOUS PAYROLL	0	0
<b>SUBTOTAL</b>	<b>\$ 2,914,600</b>	<b>\$ 2,858,502</b>
<b>STATE OPERATIONS</b>		
RENTS & LEASES	200,000	205,788
REPAIRS/ALTERATIONS/MAINTENANCE	10,000	12,601
PRINTING & BINDING	4,000	3,198
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	20,000	13,234
COMMUNICATIONS	29,000	24,569
TRAVEL, IN-STATE	900	385
TRAVEL, OUT-STATE	40,000	29,109
SUPPLIES	30,000	30,219
EQUIPMENT	10,000	3,570
EMPLOYEE DEVELOPMENT	5,000	14,580
OTHER OPERATING COSTS	9,000	42,144
<b>SUBTOTAL</b>	<b>\$ 357,900</b>	<b>\$ 379,397</b>
<b>TOTAL ADMINISTRATIVE BUDGET</b>	<b>\$ 3,272,500</b>	<b>\$ 3,237,899</b>



## ATTACHMENT B

**STATE BOARD OF INVESTMENT  
FISCAL YEAR 2012 ADMINISTRATIVE BUDGET REPORT  
FISCAL YEAR TO DATE THROUGH JULY 31, 2011**

ITEM	FISCAL YEAR 2012 BUDGET	FISCAL YEAR 2012 7/31/2011
<b>PERSONAL SERVICES</b>		
FULL TIME EMPLOYEES	\$ 2,845,000	\$ 222,478
PART TIME EMPLOYEES	\$ 69,000	\$ 5,657
SEVERENCE PAYOFF	0	0
WORKERS COMPENSATION INSURANCE	600	0
MISCELLANEOUS PAYROLL	0	0
<b>SUBTOTAL</b>	<b>\$ 2,914,600</b>	<b>\$ 228,135</b>
<b>STATE OPERATIONS</b>		
RENTS & LEASES	200,000	17,450
REPAIRS/ALTERATIONS/MAINTENANCE	10,000	0
PRINTING & BINDING	4,000	0
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	18,000	0
COMMUNICATIONS	28,000	0
TRAVEL, IN-STATE	900	0
TRAVEL, OUT-STATE	38,000	0
SUPPLIES	30,000	198
EQUIPMENT	5,000	0
EMPLOYEE DEVELOPMENT	5,000	0
OTHER OPERATING COSTS	9,000	243
<b>SUBTOTAL</b>	<b>\$ 347,900</b>	<b>\$ 17,891</b>
<b>TOTAL ADMINISTRATIVE BUDGET</b>	<b>\$ 3,262,500</b>	<b>\$ 246,026</b>



ATTACHMENT C

STATE BOARD OF INVESTMENT

Travel Summary by Date  
SBI Travel May 5, 2011 – August 4, 2011

Purpose	Name(s)	Destination and Date	Total Cost
<b>Manager Monitoring</b> <b>Domestic Equity Managers:</b> BlackRock, Hotchkis & Wiley, Mellon Capital Mgmt. <b>Manager Monitoring</b> <b>Master Custodian:</b> State Street Investment Analytics Client Advisory Board Meeting	T. Richardson	Los Angeles, CA San Francisco, CA 5/9-5/12	\$1,097.91
<b>Manager Monitoring</b> <b>Domestic Equity Managers</b> LSV Asset Mgmt., UBS Global Asset Mgmt. <b>Conference:</b> Wilshire Compass Technology Seminar sponsored by: Wilshire	P. Ammann	Chicago, IL 5/16-5/18	\$635.94
<b>Manager Monitoring</b> <b>Domestic Equity Managers:</b> Martingale Asset Mgmt., Mellon Capital Mgmt. <b>Manager Monitoring</b> <b>Master Custodian:</b> State Street Global Markets Annual Research Retreat	T. Brusehaver	Boston, MA 5/18-5/20	\$1,553.85
<b>Manager Monitoring</b> <b>Alternative Investment</b> <b>Managers:</b> GTCR, The Banc Funds <b>Conference:</b> ILPA Institute Level 1 Private Equity Education sponsored by: ILPA Chicago Booth School of Business	J. Kirby	Chicago, IL 6/6-6/9	\$3,071.01



<b>Purpose</b>	<b>Name(s)</b>	<b>Destination and Date</b>	<b>Total Cost</b>
<b>Manager Monitoring Fixed Income Manager:</b> Neuberger Berman	M. Menssen R. Hill	Chicago, IL 6/21	\$431.90
<b>Conference:</b> Public Fund Summit East sponsored by: Opal Financial Group	H. Bicker	Newport, RI 7/18-7/20	\$932.39
<b>Manager Monitoring Alternative Investment Managers:</b> Advent International, Audax, Blackstone, Court Square, Credit Suisse, Goldman Sachs Capital Partners, KKR, Summit Partners, TA Realty, Vestar Capital Partners, Warburg Pincus <b>Manager Monitoring Master Custodian:</b> State Street Private Edge Group	J. Kirby	New York, NY Boston, MA 7/25-7/29	1,895.41
<b>Conference:</b> Badger/Gopher Roundtable sponsored by: Sentry Insurance Company	J. Griebenow	Stevens Point, WI 7/28-7/29	\$305.00

ATTACHMENT D

**Bills of Interest to the Minnesota State Board of Investment  
2011 Legislative Session  
Includes Action Through 7/15/11**

<b>Description of Bill</b>	<b>HF/SF # and Author</b>	<b>Current Status</b>
SBI Budget in State Department's Budget Bill	SF 12 (Parry) See Article 1, Section 8	Laws of Minnesota 2011, 1 <sup>st</sup> Special Session, Chapter 10
E-verify Requirement for contracts - SBI exempted	SF 12 (Parry) See Article 3, Section 29	Laws of Minnesota 2011, 1 <sup>st</sup> Special Session, Chapter 10
Consolidating IT Services - Study required about adding SBI and retirement systems	SF 12 (Parry) See Article 4, Section 7	Laws of Minnesota 2011, 1 <sup>st</sup> Special Session, Chapter 10
Minneapolis Fire and Police Consolidation into PERA	HF 14 (Lanning) See Articles 6, 7	Laws of Minnesota 2011, 1 <sup>st</sup> Special Session, Chapter 8
State Auditor Investment Study Bill	SF 927 (Rosen)  HF 1555 (Murphy, M.)	Referred to State Government Innovation and Veterans  Referred to Government Operations and Elections



## ATTACHMENT E

Letter to SBI International Equity Managers and Domestic Equity Managers

June 9, 2011

### **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 equity portfolios managed by your organization and replaces all prior communications. This communication also applies to all depository receipts or ADR's of any of the listed companies.**

*Minnesota Statutes*, section 11A.243 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 changes to the List of Restricted Sudan Stocks that was attached to the March 10, 2011 letter you received. **This new list is effective June 14, 2011.**

- The following companies have been added to the restricted list:
  - Biopetrol Industries AG (Switzerland)
  - China Gezhouba Group Company Limited (China)
  - Glencore International PLC (Switzerland)
  - KEPCO Plant Service & Engineering Company Limited (South Korea)
  - LS Industrial Systems (South Korea)
  - PTT Aromatics & Refinery (Thailand)
  - PTT Chemical PCL (Thailand)

**Attachment 2** is the List of Sudan Stocks Requiring Divestment. There were no changes.

**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.**

**Attachment 3** is a list of security identifiers for the companies on the List of Restricted Sudan Stocks (**Attachment 1**) that your organization may use. Please note that the list of security identifiers has information on companies not on the restricted list.

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

Sincerely,

Teresa J. Richardson  
Assistant Executive Director

Enclosures

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

## ATTACHMENT 1

<b>Restricted Sudan Stocks</b>	
<b>Company Name</b>	<b>Country of Origin</b>
AviChina Industry & Technology Company Limited	China
China Gezhouba Group Company Limited	China
Daqing Huake Group Company Limited	China
Dongfeng Motor Group Company Limited	China
Hafei Aviation Industry Company	China
Harbin Dongan Auto Engine Company	China
Jiangxi Hongdu Aviation AKA Hongdu Aviation	China
Jinan Diesel Company Limited	China
PetroChina	China
Sinopec Corporation AKA China Petroleum and Chemical Corporation	China
Sinopec Shanghai Petrochemical Company Limited	China
Sinopec Yizheng Chemical Fibre Company Limited	China
Wuhan Boiler Company.	China
China North Industries Group Corporation AKA CNGC/Norinco	China
Norinco International Cooperation Limited	China
Sichuan Nitrocell Company Limited	China
China North Optical-Electrical Technology Company Limited	China
AKM Industrial Company Limited	China
Sinopec Kanton Holdings Limited	Hong Kong
Kunlun Energy Company Limited	Hong Kong
Chennai Petroleum Corporation Ltd. AKA CPCL	India
Indian Oil Corporation Ltd. AKA IOCL	India
Lanka IOC Limited	India
Mangalore Refinery and Petrochemical Limited	India
Mercator Lines	India
Oil and Natural Gas Company AKA ONGC	India
Alstom Projects India Limited	India
Oil India Limited	India
Egypt Kuwaiti Holding Company	Egypt
Kingdream PLC	Egypt/China
AREF Energy Holding Company	Kuwait
ONA S.A.	Morocco
Managem	Morocco
Malaysia International Shipping Company AKA MISC Berhad	Malaysia
Petronas Gas Berhad	Malaysia
Petronas Dagangan Berhad	Malaysia
Petronas Chemicals Group Berhad	Malaysia

## ATTACHMENT 1

<b>Restricted Sudan Stocks</b>	
<b>Company Name</b>	<b>Country of Origin</b>
Ranhill Berhad	Malaysia
Scomi Group Berhad	Malaysia
Scomi Engineering Berhad	Malaysia
Electricity Generating PCL AKA EGCO	Thailand
PTT Public Company AKA PTT	Thailand
PTT Exploration & Production PCL	Thailand
PTT Aromatics & Refinery	Thailand
PTT Chemical PCL	Thailand
Mercator Lines Singapore	Singapore
Alstom	France
Areva SA	France
JX Holdings, Inc.	Japan
Glencore International PLC	Switzerland
Biopetrol Industries AG	Switzerland
Chemoil Energy Limited	Switzerland
Minara Resources Limited	Switzerland
KEPCO Plant Service & Engineering Company Limited	South Korea
LS Industrial Systems	South Korea

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

Source: Genocide Intervention Network

SBI Effective Date:

June 14, 2011

**ATTACHMENT 2**

<b>Sudan Stocks Requiring Divestment</b>			
<b>Company Name</b>	<b>Country of Origin</b>	<b>Divest 50 Percent By this Date</b>	<b>Divest 100 Percent By this date</b>
China Petroleum and Chemical Corporation AKA Sinopec Corp	China	April 30, 2008	October 31, 2008
PetroChina Company	China	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
PTT Public Company Limited	Thailand	August 31, 2010	February 28, 2011
Dongfeng Motor Group Company Limited	China	March 31, 2011	September 30, 2011
JX Holdings, Inc.	Japan	March 31, 2011	September 30, 2011
PTT Exploration & Production PCL	Thailand	March 31, 2011	September 30, 2011

Note: AKA means "Also Known As"

Source: Conflict Risk Network

SBI Effective Date:

June 14, 2011









## ATTACHMENT F

### Conflict Risk Network List of "Srutinized" Companies in Sudan, formerly "Highest Offenders" Companies List Effective Through August 31, 2011

<u>Company Name</u>	<u>Country of Origin</u>
China National Petroleum Corporation AKA CNPC	China
Jinan Diesel Co. Ltd.	China
Daqing Huake Group Co. Ltd.	China
PetroChina	China
Petronas Gas Berhad	Malaysia
Petronas Dagangan	Malaysia
Malaysia International Shipping Company AKA MISC Berhad	Malaysia
Petronas Chemicals Group Berhad	Malaysia
Oil and Natural Gas Company, AKA ONGC	India
Mangalore Refinery and Petrochemicals Ltd.	India
Sinopec Group AKA China Petrochemical Corporation	China
Kingdream PLC	China
Sinopec Corporation AKA China Petroleum and Chemical Corporation	China
Sinopec Shanghai Petrochemical Co. Ltd.	China
Sinopec Kanton Holdings	China
Sinopec Yizheng Chemical Fibre Company, Ltd.	China
AREF Energy Holding Company	Kuwait
Egypt Kuwaiti Holding Company	Egypt
Ranhill Berhad	Malaysia
China North Industries Corporation AKA Norinco	China
Norinco International Cooperation Ltd.	China
Sichuan Nitrocell Company Limited	China
China North Optical-Electrical Technology Company Limited	China
AKM Industrial Company Limited	China
AviChina Industry & Technology Company, Ltd.	China
Hafei Aviation Industry	China
Jiangxi Hongdu Aviation AKA Hongdu Aviation	China
Harbin Dongan Auto Engine Co.	China
China Hydraulic and Hydroelectric Construction Group AKA Sinohydro	China
Mercator Lines	India
Mercator Lines Singapore	Singapore
Dongfeng Motor Group Company Limited	China
Indian Oil Corporation Ltd. AKA IOCL	India
Lanka IOC Limited	India
Chennai Petroleum Corporation Limited AKA CPCL	India
Oil India Limited	India
Scomi Group Berhad	Malaysia
Scomi Engineering Berhad	Malaysia
Alstom	France
Alstom Projects India Ltd	India
Wuhan Boiler Company	France
Electricity Generating Company Limited AKA EGCO	Thailand
ONA S.A.	Morocco
Managem	Morocco
PTT Public Company, Limited AKA PTT	Thailand
PTT Exploration & Production PCL	Thailand
PTT Aromatics & Refinery	Thailand
PTT Chemical PLC	Thailand
JX Holdings, Inc.	Japan
Minara Resources Limited	Switzerland
Chemoil Energy Limited	Switzerland
Kunlun Energy Company, Limited	Hong Kong
Glencore International PLC	Switzerland
Biopetrol Industries AG	Switzerland
China Gezhouba Group Company Limited	China
KEPCO Plant Service & Engineering Company Limited	South Korea
LS Industrial Systems	South Korea

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

Genocide Intervention Network List of Companies in Sudan for "Substantial Action or  
Business Operations" formerly "Ongoing Engagement"  
List Effective Through August 31, 2011

<u>Company Name</u>	<u>Country of Origin</u>
Shanghai Electric Group Company, Ltd..	China
Harbin Power Equipment Company Limited	China
China Poly Group Corporation	China
Bharat Electronics Limited	India
Bharat Heavy Electricals	India
Citadel Capital	Egypt
Lundin International SA	France
Saras S.p.A.	Italy
Lundin Petroleum AB	Sweden
Andritz VA Tech Hydro	Austria
Man SE	Germany
GAZ Group	Russia
Yaroclavsky Diesel Equipment Plant Oao	Russia
Kamaz	Russia

**Conflict Risk Network List of Companies in Sudan with No Publicly Traded Equity or Relevant only to CRN**  
**Formerly No Publicly Traded Equity**  
**List Effective Through August 31, 2011**

<b><u>Company Name</u></b>	<b><u>Country of Origin</u></b>
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 International Water & Electric Corp AKA CWE	China
China National Machinery and Equipment Import Export Corporation (CMEC)	China
China National United Oil Company	China
China Petroleum Engineering Company AKA CPEC	China
Coyne et Bellier	France
Daedong Industrial machinery Company Limited	South Korea
Dindir Petroleum International/Edgo Group	Jordan
Express Petroleum and Gas Company	Nigeria
GIAD Industrial City	Sudan
Harbin Power Engineering AKA HPE	China
Hi Tech Petroleum Group Co. Ltd.	Sudan
HTC Yemen International Limited	Yemen
JX Nippon Oil & Energy Corporation	Japan
K & K Capital Group AKA KKCG	Czech Republic
Kuwait Foreign Petroleum Exploration Company AKA Kufpec	Kuwait
Lahmeyer International	Germany
Mott MacDonald	UK
Petrolin	Gabon
Petronneeds Service International Company	Sudan
PT Pertamina Persero AKA Pertamina	Indonesia
Shandong Electric Power Construction Corporation AKA Shandong Electric Power Group	China
Snowy Mountain Engineering Corporation	Australia
Star Petroleum	Spain
Sudan Petroleum Company AKA Sudapet	Sudan
Tamoil	Libya
Trafigura Beheer	Netherlands
Vitol Group	Switzerland
Zaver Petroleum Corporation Ltd.	Pakistan

Source: Conflict Risk Network: CRN is a project of the merger November 10, 2010 of Save Darfur Coalition and Genocide Intervention Network

June 6, 2011



Letter to SBI International Equity Managers and Domestic Equity Managers

June 9, 2011

**Regarding: Iran Companies**

Dear Manager:

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

*Minnesota Statutes*, section 11A.244, requires the Minnesota State Board of Investment (SBI) to implement an Iran restriction.

**Attachment 1** is the List of Restricted Iran Companies. Securities of these companies **may not be purchased** for the SBI portfolio that your organization manages. If you own securities of companies on the Restricted List **and** the companies are **not** on the divestment list, then you do not need to sell your holdings. Please note that the attached List makes changes to the List of Restricted Iran Companies that was attached to the April 18, 2011 letter you received. **This new list is effective June 14, 2011.**

- The following companies have been removed from the restricted list:
  - Lanka IOC PLC
  - OMV Petrom S.A.

The following companies have been added to the restricted list.

- Hyundai Heavy Industries Company Ltd.
- Siemens Aktiengesellschaft
- Welspun Corporation Limited



**Attachment 2** is the List of Iran Companies Requiring Divestment. There were no changes.

**If you own securities of companies on the List of Iran Companies Requiring Divestment in the SBI portfolio that your company manages, then you must divest those holdings** according to the schedule 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.

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

Sincerely,

Teresa J. Richardson  
Assistant Executive Director

Enclosures

cc: James E. Heidelberg, Manager, Public Programs  
Tammy Brusehaver, Manager, Domestic Equity  
Patricia Ammann, Portfolio Manager, Domestic Equity  
Stephanie Gleeson, Manager, International Equity

**ATTACHMENT 1**  
**RESTRICTED IRAN COMPANIES**  
**SECURITIES OF COMPANIES MAY NOT BE PURCHASED FOR PORTFOLIO**

<b>ISSUER_NAME</b>	<b>ID</b>	<b>TICKER</b>	<b>CUSIP</b>	<b>SEDOL</b>	<b>ISIN</b>	<b>COUNTRY</b>
China Petroleum & Chemical Corporation	IID000000002161850	600028	16941R108	6373728	CNE0000018G1	China
CNOOC Ltd	IID000000002140797	883	126132109	B00G0S5	HK0883013259	Hong Kong
Costain Group PLC	IID000000002133808	COST		B64NSP7	GB00B64NSP76	UK
Daelim Industrial Company Limited	IID000000002163524	000210		6249584	KR7000210005	South Korea
Energetiki i elektrifikatsii OAO AKA Mosenerg	IID000000002127313	MSNG	037376308	B59MBC0	RU0008958863	Russia
Gazprom neft OAO	IID000000002145433	SIBN	36829G107	B59L417	RU0009062467	Russia
Gazprom OAO	IID000000002167503	GAZP	368287207	B59L4L7	RU0007661625	Russia
Hyundai Heavy Industries Co., Ltd.	IID000000002135061	009540		6446620	KR7009540006	South Korea
KunLun Energy Company Limited	IID000000002160624	135	50126A101	6340078	BMG5320C1082	Hong Kong
L'Air Liquide SA	IID000000002124820	AI	009126202	B1YXBJ7	FR0000120073	France
Malaysia International Shipping Company AKA MISC Berhad	IID000000002174397	MISC		6557997	MYL38160O005	Malaysia
Malaysia Marine and Heavy Engineering Holdings Berhad	IID000000002602213	MHB		B3W5NN7	MYL5186O0001	Malaysia
PetroChina Company Limited	IID000000002179403	601857	71646E100	B28SLD9	CNE1000007Q1	China
Petronas Chemicals Group Berhad	IID000000002603699	PCHEM		B5KQGT3	MYL5183O0008	Malaysia
Petronas Dagangan Bhd	IID000000002179442	PETDAG		6695938	MYL5681O0001	Malaysia
Petronas Gas Berhad	IID000000002178591	PETGAS		6703972	MYL6033O0004	Malaysia
Petrovietnam Fertilizer And Chemicals Corp	IID000000002179451	DPM		B291F68	VN000000DPM1	Vietnam
Petrovietnam Investment Consultancy And Engineering Joint Stock Co	IID000000002179453	PVE		B2NFY69	VN000000PVE0	Vietnam
PetroVietnam Southern Gas Joint Stock Company	IID000000002179409	PGS		B2988V5	VN000000PGS1	Vietnam
Petrovietnam Transportation Corporation	IID000000002148121	PVT		B1LB990	VN000000PVT8	Vietnam
Sasol Limited	IID000000002129090	SOL	803866102	6777450	ZAE000006896	Switzerland
Siemens Aktiengesellschaft	IID000000002183691	SIE	826197501	5727973	DE0007236101	Germany
Sinopec Kantons Holdings Ltd.	IID000000002149237	934	82934W207	6162692	BMG8165U1009	Hong Kong
Sinopec Shanghai Petrochemical Company Limited	IID000000002133087	600688	82935M109	6802794	CNE000000BB2	China
Sinopec Yizheng Chemical Fibre Company Limited	IID000000002125077	600871		6986740	CNE000000HS3	China
Welspun Corp Limited	IID000000002129541	WELCORP		B07PYG1	INE191B01025	India

Effective Date: June 14, 2011

## ATTACHMENT 2

### LIST OF IRAN COMPANIES REQUIRING DIVESTMENT

<b>Company Name</b>	<b>Country of Origin</b>	<b>Divest 50 Percent By this Date</b>	<b>Divest 100 Percent By this Date</b>
CNOOC Ltd	China	July 31, 2010	January 31, 2011
Gazprom Oao	Russia	July 31, 2010	January 31, 2011
L'Air Liquide	France	July 31, 2010	January 31, 2011
Sasol Ltd	South Africa	July 31, 2010	January 31, 2011

Effective Date: June 14, 2011

Letter to SBI Fixed Income Managers

June 9, 2011

### **Regarding Iran Companies**

Dear Manager:

The Minnesota State Board of Investment (SBI) sent you prior communication concerning holdings in companies doing business in Iran. **This communication applies to the SBI fixed income portfolio managed by your organization.**

*Minnesota Statutes*, section 11A.244, requires the Minnesota State Board of Investment (SBI) to implement an Iran restriction.

**Attachment 1** is the List of Restricted Iran Companies. Securities of these companies **may not be purchased** for the SBI portfolio that your organization manages. If you own securities of companies on the Restricted List **and** the companies are **not** on the divestment list, then you do not need to sell your holdings. Please note that the attached List makes changes to the List of Restricted Iran Companies that was attached to the April 18, 2011 letter you received. **This new list is effective June 14, 2011.**

- The following companies have been removed from the restricted list:
  - Lanka IOC PLC
  - OMV Petrom S.A.

The following companies have been added to the restricted list.

- Hyundai Heavy Industries Company Ltd.
- Siemens Aktiengesellschaft
- Welspun Corporation Limited

**Attachment 2** is the List of Iran Companies Requiring Divestment. There were no changes.

**If you own securities of companies on the List of Iran Companies Requiring Divestment in the SBI portfolio that your company manages, then you must divest those holdings** according to the schedule 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.

If you have any questions about this matter, please contact Ryan Hill, Portfolio Manager, Long-Term Debt or James E. Heidelberg, Manager, Public Programs.

Sincerely,

Teresa J. Richardson  
Assistant Executive Director

Enclosures

cc.: James E. Heidelberg, Manager, Public Programs  
Steve Kuettel, Manager, Short-Term Debt  
Ryan Hill, Portfolio Manager, Long-Term Debt

**ATTACHMENT 1**  
**RESTRICTED IRAN COMPANIES**  
**SECURITIES OF COMPANIES MAY NOT BE PURCHASED FOR PORTFOLIO**

<b>ISSUER_NAME</b>	<b>COUNTRY</b>
China Petroleum & Chemical Corporation	China
CNOOC Ltd	Hong Kong
Costain Group PLC	UK
Daelim Industrial Company Limited	South Korea
Energetiki i elektrifikatsii OAO AKA Mosenerg	Russia
Gazprom neft OAO	Russia
Gazprom OAO	Russia
Hyundai Heavy Industries Co., Ltd.	South Korea
KunLun Energy Company Limited	Hong Kong
L'Air Liquide SA	France
Malaysia International Shipping Company AKA MISC Berhad	Malaysia
Malaysia Marine and Heavy Engineering Holdings Berhad	Malaysia
PetroChina Company Limited	China
Petronas Chemicals Group Berhad	Malaysia
Petronas Dagangan Bhd	Malaysia
Petronas Gas Berhad	Malaysia
Petrovietnam Fertilizer And Chemicals Corp	Vietnam
Petrovietnam Investment Consultancy And Engineering Joint Stock Co	Vietnam
PetroVietnam Southern Gas Joint Stock Company	Vietnam
Petrovietnam Transportation Corporation	Vietnam
Sasol Limited	Switzerland
Siemens Aktiengesellschaft	Germany
Sinopec Kantons Holdings Ltd.	Hong Kong
Sinopec Shanghai Petrochemical Company Limited	China
Sinopec Yizheng Chemical Fibre Company Limited	China
Welspun Corp Limited	India

Effective Date: June 14, 2011

## ATTACHMENT 2

### LIST OF IRAN COMPANIES REQUIRING DIVESTMENT

<b>Company Name</b>	<b>Country of Origin</b>	<b>Divest 50 Percent By this Date</b>	<b>Divest 100 Percent By this Date</b>
CNOOC Ltd	China	July 31, 2010	January 31, 2011
Gazprom Oao	Russia	July 31, 2010	January 31, 2011
L'Air Liquide	France	July 31, 2010	January 31, 2011
Sasol Ltd	South Africa	July 31, 2010	January 31, 2011

Effective Date: June 14, 2011

TAB

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## **INVESTMENT ADVISORY COUNCIL REPORT**

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DATE: August 31, 2011

TO: Members, State Board Investment

**FROM: Members, Investment Advisory Council**

The Investment Advisory Council met on Tuesday, August 23, 2011 to consider the following agenda items:

- Review the manager performance for the period ending June 30, 2011.

### **INFORMATION ITEMS:**

#### **1. Review the manager performance for the period ending June 30, 2011.**

- *Domestic Equity Program*

For the period ending June 30, 2011, the **Domestic Equity Program** outperformed the benchmark for the quarter and the year, matched the benchmark for the three year period and trailed over the five- year time period.

<b>Time period</b>	<b>Total Program</b>	<b>Russell 3000</b>
<b>Quarter</b>	0.2%	0.0%
<b>1 Year</b>	33.1%	32.4%
<b>3 Years</b>	4.0%	4.0%
<b>5 Years</b>	3.2%	3.4%

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, 2011, the **Fixed Income Program** underperformed for the quarter, outperformed over one and three years, and matched the index over the five year time period.

<b>Time period</b>	<b>Total Program</b>	<b>Barclays Capital Aggregate</b>
<b>Quarter</b>	2.1%	2.3%
<b>1 Year</b>	5.5%	3.9%
<b>3 Years</b>	7.4%	6.5%
<b>5 Years</b>	6.5%	6.5%

The performance evaluation reports for the fixed income managers start on the **blue page A-57** of this Tab.

- ***International Equity Program***

For the period ending June 30, 2011, the **International Equity Program** outperformed the benchmark for the quarter, three and five year time periods and underperformed for the year.

<b>Time Period</b>	<b>Total Program</b>	<b>Int'l Equity Asset Class Target*</b>
<b>Quarter</b>	0.8%	0.4%
<b>1 Year</b>	29.6%	29.7%
<b>3 Year</b>	-0.1%	-0.3%
<b>5 Year</b>	4.0%	3.7%

\* Since 6/1/08 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).

The performance evaluation reports for the international equity managers start on the **blue page A-71** of this Tab.



# STATE BOARD OF INVESTMENT

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## Domestic Equity Manager Evaluation Reports

Second Quarter, 2011



# Domestic Equity

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**COMBINED RETIREMENT FUNDS**  
**ACTIVE DOMESTIC STOCK MANAGERS**  
**Periods Ending June, 2011**

	Quarter		1 Year		3 Years		5 Years	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	0.3	0.1	31.9	31.9	1.7	3.7	1.3	3.3
Russell 1000 Growth Aggregate	1.2	0.8	40.4	35.0	6.3	5.0	5.9	5.3
Russell 1000 Value Aggregate	-0.1	-0.5	32.1	28.9	3.4	2.3	1.9	1.2
Russell 2000 Growth Aggregate	-1.1	-0.6	46.2	43.5	4.6	8.4	4.5	5.8
Russell 2000 Value Aggregate	-2.0	-2.6	36.7	31.4	9.9	7.1	2.4	2.2
<b>Active Manager Aggregate</b>	<b>-0.1</b>	<b>-0.3</b>	<b>37.1</b>	<b>33.5</b>	<b>4.9</b>	<b>4.5</b>	<b>3.4</b>	<b>3.5</b>
<b>Semi-Passive Aggregate</b>	<b>0.7</b>	<b>0.1</b>	<b>32.1</b>	<b>31.9</b>	<b>3.6</b>	<b>3.7</b>	<b>3.0</b>	<b>3.3</b>
<b>Passive Manager (BlackRock)</b>	<b>-0.1</b>	<b>0.0</b>	<b>32.1</b>	<b>32.4</b>	<b>4.1</b>	<b>4.0</b>	<b>3.4</b>	<b>3.4</b>
<b>Total Aggregate</b>	<b>0.2</b>	<b>0.0</b>	<b>33.1</b>	<b>32.4</b>	<b>4.0</b>	<b>4.0</b>	<b>3.2</b>	<b>3.4</b>
<b>Russell 3000 Index</b>		<b>0.0</b>		<b>32.4</b>		<b>4.0</b>		<b>3.4</b>

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	2010		2009		2008		2007		2006	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	13.3	16.1	27.6	28.4	-39.6	-37.6	2.4	5.8	15.8	15.5
Russell 1000 Growth Aggregate	19.3	16.7	44.5	37.2	-42.7	-38.4	14.9	11.8	2.2	9.1
Russell 1000 Value Aggregate	15.0	15.5	23.8	19.7	-38.0	-36.8	3.6	-0.2	17.4	22.2
Russell 2000 Growth Aggregate	29.1	29.1	33.6	34.5	-46.8	-38.5	21.6	7.0	10.0	13.3
Russell 2000 Value Aggregate	30.5	24.5	36.3	20.6	-36.1	-28.9	-13.4	-9.8	13.1	23.5
Active Manager Aggregate	19.7	18.7	32.3	27.9	-40.5	-36.9	6.3	4.2	11.5	15.8
Semi-Passive Aggregate	15.2	16.1	28.5	28.4	-37.2	-37.6	3.2	5.8	16.1	15.5
Passive Manager (BlackRock)	17.2	16.9	28.2	28.3	-37.1	-37.3	5.1	5.1	15.8	15.7
Total Aggregate	17.1	16.9	29.6	28.3	-38.1	-37.3	4.9	5.1	14.5	15.7
Russell 3000 Index		16.9		28.3		-37.3		5.1		15.7

**COMBINED RETIREMENT FUNDS**  
**ACTIVE DOMESTIC STOCK MANAGERS**  
Periods Ending June, 2011  
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 %		
<b>LARGE CAP</b>												
<b>Russell 1000 Core</b>												
New Amsterdam Partners	0.6	0.1	36.3	31.9	3.6	3.7	2.3	3.3	10.2	9.2	\$401.8	1.8%
UBS Global	-0.1	0.1	27.5	31.9	3.5	3.7	1.9	3.3	8.4	8.4	\$374.6	1.7%
<b>Aggregate</b>	<b>0.3</b>	<b>0.1</b>	<b>31.9</b>	<b>31.9</b>	<b>1.7</b>	<b>3.7</b>	<b>1.3</b>	<b>3.3</b>			<b>\$776.4</b>	<b>3.5%</b>
<b>Russell 1000 Growth</b>												
INTECH	2.3	0.8	37.2	35.0	4.1	5.0	3.8	5.3	4.0	4.7	\$359.1	1.6%
Jacobs Levy	2.1	0.8	40.8	35.0	4.8	5.0	3.7	5.3	3.2	4.7	\$325.2	1.5%
Knelman Asset Mgmt.	1.1	0.8	38.1	35.0	3.4	5.0	5.0	5.3	4.6	4.7	\$67.2	0.3%
Sands Capital	3.4	0.8	46.2	35.0	10.8	5.0	8.5	5.3	6.6	4.7	\$301.4	1.4%
Winslow-Large Cap	0.2	0.8	40.1	35.0	4.8	5.0	7.3	5.3	7.2	4.7	\$147.8	0.7%
Zevenbergen Capital	-2.2	0.8	41.8	35.0	10.3	5.0	9.1	5.3	9.8	7.8	\$354.1	1.6%
<b>Aggregate</b>	<b>1.2</b>	<b>0.8</b>	<b>40.4</b>	<b>35.0</b>	<b>6.3</b>	<b>5.0</b>	<b>5.9</b>	<b>5.3</b>			<b>\$1,554.8</b>	<b>7.1%</b>
<b>Russell 1000 Value</b>												
Barrow, Hanley	1.8	-0.5	33.6	28.9	3.9	2.3	1.9	1.2	5.2	4.4	\$465.5	2.1%
Earnest Partners	-1.9	-0.5	29.0	28.9	4.4	2.3	2.2	1.2	4.5	4.5	\$193.0	0.9%
LSV Asset Mgmt.	-1.0	-0.5	29.5	28.9	3.0	2.3	0.9	1.2	5.4	4.4	\$431.4	2.0%
Systematic Financial Mgmt.	-0.4	-0.5	34.7	28.9	2.1	2.3	2.2	1.2	5.3	4.4	\$325.4	1.5%
<b>Aggregate</b>	<b>-0.1</b>	<b>-0.5</b>	<b>32.1</b>	<b>28.9</b>	<b>3.4</b>	<b>2.3</b>	<b>1.9</b>	<b>1.2</b>			<b>\$1,415.3</b>	<b>6.4%</b>
<b>SMALL CAP</b>												
<b>Russell 2000 Growth</b>												
McKinley Capital	0.0	-0.6	42.4	43.5	1.7	8.4	1.0	5.8	3.7	7.1	\$235.2	1.1%
Next Century Growth	-2.1	-0.6	49.0	43.5	4.2	8.4	5.6	5.8	1.8	1.7	\$301.0	1.4%
Turner Investment Partners	-0.8	-0.6	46.6	43.5	7.5	8.4	6.6	5.8	7.8	7.1	\$304.5	1.4%
<b>Aggregate</b>	<b>-1.1</b>	<b>-0.6</b>	<b>46.2</b>	<b>43.5</b>	<b>4.6</b>	<b>8.4</b>	<b>4.5</b>	<b>5.8</b>			<b>\$840.7</b>	<b>3.8%</b>
<b>Russell 2000 Value</b>												
Goldman Sachs	-0.8	-2.6	35.9	31.4	10.5	7.1	6.0	2.2	8.0	6.3	\$166.1	0.8%
Hotchkis & Wiley	-2.8	-2.6	41.3	31.4	12.8	7.1	3.0	2.2	6.5	6.3	\$149.7	0.7%
Martingale Asset Mgmt.	-2.9	-2.6	35.6	31.4	4.5	7.1	-1.2	2.2	4.5	6.3	\$130.5	0.6%
Peregrine Capital	-1.9	-2.6	35.0	31.4	11.8	7.1	2.3	2.2	10.4	9.5	\$231.4	1.1%
<b>Aggregate</b>	<b>-2.0</b>	<b>-2.6</b>	<b>36.7</b>	<b>31.4</b>	<b>9.9</b>	<b>7.1</b>	<b>2.4</b>	<b>2.2</b>			<b>\$677.7</b>	<b>3.1%</b>
<b>Active Mgr. Aggregate (2)</b>	<b>-0.1</b>	<b>-0.3</b>	<b>37.1</b>	<b>33.5</b>	<b>4.9</b>	<b>4.5</b>	<b>3.4</b>	<b>3.5</b>			<b>\$5,264.8</b>	<b>23.9%</b>

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

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

Note: All aggregates include the performance of terminated managers.



**COMBINED RETIREMENT FUNDS  
DOMESTIC STOCK MANAGERS  
Periods Ending June, 2011  
Versus Manager Benchmarks**

	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 %		
<b>SEMI-PASSIVE MANAGERS (2)</b>												
BlackRock Institutional	1.1	0.1	31.8	31.9	2.6	3.7	2.2	3.3	8.3	8.1	\$2,243.9	10.2%
INTECH	0.9	0.1	32.3	31.9					13.9	13.3	\$1,423.9	6.5%
JP Morgan	0.1	0.1	32.2	31.9	5.2	3.7	4.3	3.3	8.3	8.1	\$2,699.0	12.3%
Mellon Capital	1.0	0.1	32.2	31.9	2.8	3.7	2.2	3.3	7.5	8.1	\$1,455.2	6.6%
<b>Semi-Passive Aggregate (R1000)</b>	<b>0.7</b>	<b>0.1</b>	<b>32.1</b>	<b>31.9</b>	<b>3.6</b>	<b>3.7</b>	<b>3.0</b>	<b>3.3</b>			<b>\$7,822.0</b>	<b>35.5%</b>
<b>PASSIVE MANAGER (R3000)</b>												
BlackRock Institutional	-0.1	0.0	32.1	32.4	4.1	4.0	3.4	3.4	7.7	7.6	\$8,935.4	40.6%
<b>Total Aggregate (3)</b>	<b>0.2</b>	<b>0.0</b>	<b>33.1</b>	<b>32.4</b>	<b>4.0</b>	<b>4.0</b>	<b>3.2</b>	<b>3.4</b>	<b>9.9</b>	<b>10.1</b>	<b>\$22,022.3</b>	<b>100.0%</b>
Russell 3000		0.0	32.4		4.0		3.4		10.4			
Russell 1000		0.1	31.9		3.7		3.3		10.6			
Russell 2000		-1.6	37.4		7.8		4.1		9.2			

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

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

(3) The Total Aggregate benchmark 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.

Note: All aggregates include the performance of terminated managers.

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

	2010		2009		2008		2007		2006	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>LARGE CAP</b>										
<b>Russell 1000 Core</b>										
New Amsterdam Partners	16.2	16.1	24.8	28.4	-36.7	-37.6	5.0	5.8	9.3	15.5
UBS Global	10.3	16.1	41.3	28.4	-41.3	-37.6	0.8	5.8	16.8	15.5
<b>Aggregate</b>	<b>13.3</b>	<b>16.1</b>	<b>27.6</b>	<b>28.4</b>	<b>-39.6</b>	<b>-37.6</b>	<b>2.4</b>	<b>5.8</b>	<b>15.8</b>	<b>15.5</b>
<b>Russell 1000 Growth</b>										
INTECH	19.5	16.7	34.0	37.2	-42.8	-38.4	11.4	11.8	7.4	9.1
Jacobs Levy	19.5	16.7	37.1	37.2	-44.9	-38.4	8.4	11.8	6.1	9.1
Knelman Asset Mgmt.	18.1	16.7	31.1	37.2	-39.9	-38.4	18.0	11.8	7.1	9.1
Sands Capital	26.8	16.7	71.6	37.2	-48.6	-38.4	19.5	11.8	-5.5	9.1
Winslow-Large Cap	16.8	16.7	40.9	37.2	-39.1	-38.4	22.0	11.8	7.6	9.1
Zevenbergen Capital	22.9	16.7	57.4	37.2	-43.2	-38.4	24.0	11.8	6.2	9.1
<b>Aggregate</b>	<b>19.3</b>	<b>16.7</b>	<b>44.5</b>	<b>37.2</b>	<b>-42.7</b>	<b>-38.4</b>	<b>14.9</b>	<b>11.8</b>	<b>2.2</b>	<b>9.1</b>
<b>Russell 1000 Value</b>										
Barrow, Hanley	10.4	15.5	23.2	19.7	-35.2	-36.8	2.6	-0.2	15.4	22.2
Earnest Partners	18.5	15.5	31.6	19.7	-39.8	-36.8	6.5	-0.2	13.8	22.2
LSV Asset Mgmt.	14.0	15.5	24.0	19.7	-39.3	-36.8	1.3	-0.2	21.7	22.2
Systematic Financial Mgmt.	18.1	15.5	23.2	19.7	-40.6	-36.8	8.3	-0.2	17.9	22.2
<b>Aggregate</b>	<b>15.0</b>	<b>15.5</b>	<b>23.8</b>	<b>19.7</b>	<b>-38.0</b>	<b>-36.8</b>	<b>3.6</b>	<b>-0.2</b>	<b>17.4</b>	<b>22.2</b>
<b>SMALL CAP</b>										
<b>Russell 2000 Growth</b>										
McKinley Capital	28.5	29.1	28.0	34.5	-49.1	-38.5	16.2	7.0	12.5	13.3
Next Century Growth	29.6	29.1	35.0	34.5	-49.3	-38.5	34.2	7.0	12.4	13.3
Turner Investment Partners	29.0	29.1	36.9	34.5	-41.9	-38.5	14.8	7.0	13.6	13.3
<b>Aggregate</b>	<b>29.1</b>	<b>29.1</b>	<b>33.6</b>	<b>34.5</b>	<b>-46.8</b>	<b>-38.5</b>	<b>21.6</b>	<b>7.0</b>	<b>10.0</b>	<b>13.3</b>
<b>Russell 2000 Value</b>										
Goldman Sachs	27.0	24.5	27.8	20.6	-26.8	-28.9	-5.0	-9.8	17.8	23.5
Hotchkis & Wiley	43.4	24.5	62.5	20.6	-44.1	-28.9	-18.8	-9.8	3.0	23.5
Martingale Asset Mgmt.	27.4	24.5	19.4	20.6	-33.8	-28.9	-16.8	-9.8	14.8	23.5
Peregrine Capital	27.3	24.5	45.8	20.6	-39.4	-28.9	-13.4	-9.8	14.3	23.5
<b>Aggregate</b>	<b>30.5</b>	<b>24.5</b>	<b>36.3</b>	<b>20.6</b>	<b>-36.1</b>	<b>-28.9</b>	<b>-13.4</b>	<b>-9.8</b>	<b>13.1</b>	<b>23.5</b>
<b>Active Mgr. Aggregate (1)</b>	<b>19.7</b>	<b>18.7</b>	<b>32.3</b>	<b>27.9</b>	<b>-40.5</b>	<b>-36.9</b>	<b>6.3</b>	<b>4.2</b>	<b>11.5</b>	<b>15.8</b>

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

Note: All aggregates include the performance of terminated managers. Returns shown are 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  
Calendar Year Returns Versus  
Manager Benchmarks**

	2010		2009		2008		2007		2006	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>SEMI-PASSIVE MANAGERS</b>										
BlackRock Institutional	14.0	16.1	27.6	28.4	-37.1	-37.6	2.2	5.8	15.6	15.5
JP Morgan	16.8	16.1	32.1	28.4	-37.1	-37.6	5.1	5.8	16.5	15.5
Mellon Capital	13.7	16.1	25.6	28.4	-37.6	-37.6	2.5	5.8	16.5	15.5
<b>Semi-Passive Aggregate (R1000)</b>	<b>15.2</b>	<b>16.1</b>	<b>28.5</b>	<b>28.4</b>	<b>-37.2</b>	<b>-37.6</b>	<b>3.2</b>	<b>5.8</b>	<b>16.1</b>	<b>15.5</b>
<b>PASSIVE MANAGER (R3000)</b>										
BlackRock Institutional	17.2	16.9	28.2	28.3	-37.1	-37.3	5.1	5.1	15.8	15.7
<b>Total Aggregate</b>	<b>17.1</b>	<b>16.9</b>	<b>29.6</b>	<b>28.3</b>	<b>-38.1</b>	<b>-37.3</b>	<b>4.9</b>	<b>5.1</b>	<b>14.5</b>	<b>15.7</b>
Russell 3000		16.9		28.3		-37.3		5.1		15.7
Russell 1000		16.1		28.4		-37.6		5.8		15.5
Russell 2000		26.9		27.2		-33.8		-1.6		18.4

Note: All aggregates include the performance of terminated managers. Returns shown are 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)

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**NEW AMSTERDAM PARTNERS**  
**Periods Ending June, 2011**

**Portfolio Manager: Michelle Clayman**

**Assets Under Management: \$401,836,418**

**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.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Russell Index</b>
Last Quarter	0.6%	0.1%
Last 1 year	36.3	31.9
Last 2 years	20.9	23.3
Last 3 years	3.6	3.7
Last 4 years	-0.8	-0.6
Last 5 years	2.3	3.3
Since Inception (1) (4/94)	10.2	9.2

**Recommendation**

No action required.

- (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**  
**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, 2011**

**Portfolio Manager: John Leonard**

**Assets Under Management: \$374,558,458**

**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**

UBS underperformed the benchmark for the quarter and for the year. Both periods were impacted by negative stock selection, especially in the Financial sector as large diversified financials in the portfolio fell with concern over proposed financial regulation. Negative stock selection in the Energy, Technology, and Consumer Discretionary sectors also detracted from performance for the year.

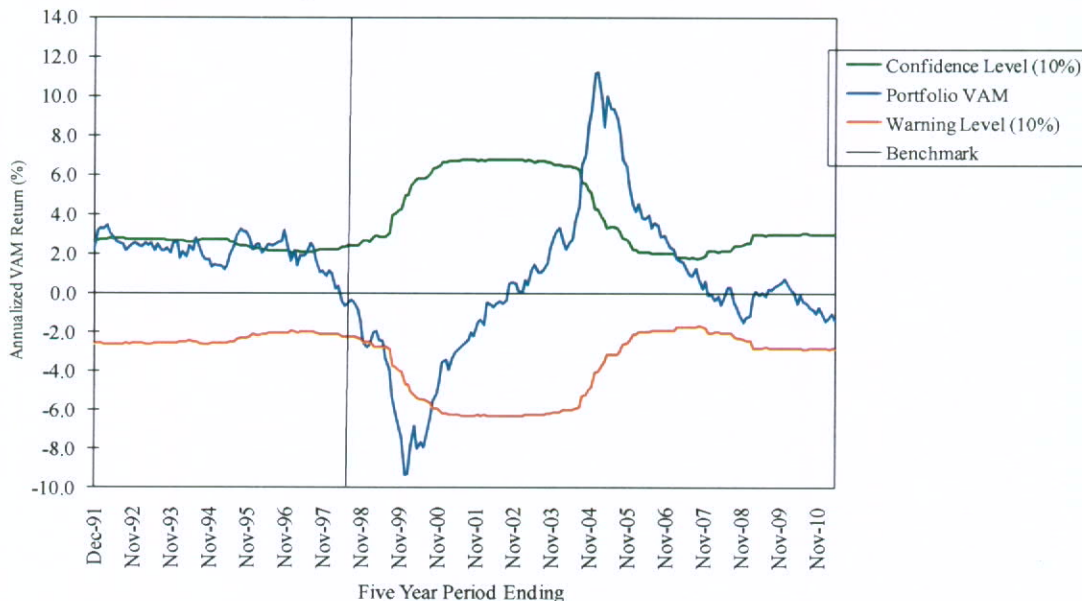
**Quantitative Evaluation**

	<b>Actual</b>	<b>(R1000 Core)</b>
Last Quarter	-0.1%	0.1%
Last 1 year	27.5	31.9
Last 2 years	21.5	23.3
Last 3 years	3.5	3.7
Last 4 years	-2.6	-0.6
Last 5 years	1.9	3.3
Since Inception (7/93)	8.4	8.4

**Recommendation**

No action required.

**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)**



## Large Cap Growth (R1000 Growth)

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**INTECH INVESTMENT MANAGEMENT LLC**  
**Periods Ending June, 2011**

**Portfolio Manager: Adrian Banner**

**Assets Under Management: \$359,141,247**

**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.

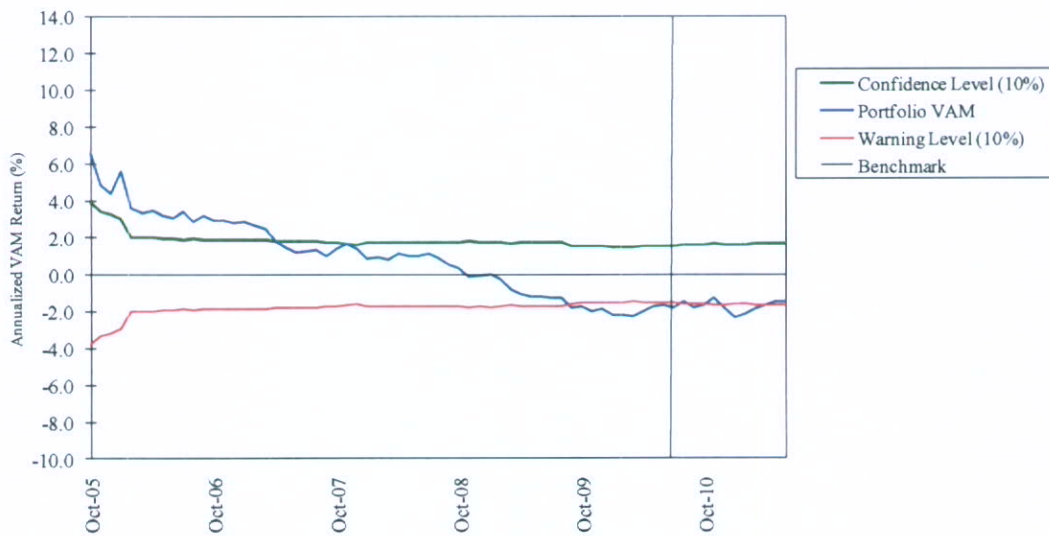
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	2.3%	0.8%
Last 1 year	37.2	35.0
Last 2 years	26.3	23.9
Last 3 years	4.1	5.0
Last 4 years	1.2	2.2
Last 5 years	3.8	5.3
Since Inception (1/05)	4.0	4.7

**Recommendation**

No action required.

**INTECH INVESTMENT MANAGEMENT LLC**  
**Rolling Five Year VAM vs. Russell 1000 Growth**



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

**JACOBS LEVY EQUITY MANAGEMENT**  
**Periods Ending June, 2011**

**Portfolio Manager: Bruce Jacobs and Ken Levy**

**Assets Under Management: \$325,184,866**

**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**

No comment at this time.

**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	2.1%	0.8%
Last 1 year	40.8	35.0
Last 2 years	27.8	23.9
Last 3 years	4.8	5.0
Last 4 years	1.0	2.2
Last 5 years	3.7	5.3
Since Inception (1/05)	3.2	4.7

**Recommendation**

No action required.

**JACOBS LEVY EQUITY 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.

**KNELMAN ASSET MANAGEMENT, LLC**  
**Periods Ending June, 2011**

**Portfolio Manager: Kip Knelman**

**Assets Under Management: \$67,194,699**

**Investment Philosophy**

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.

**Staff Comments**

No comment at this time.

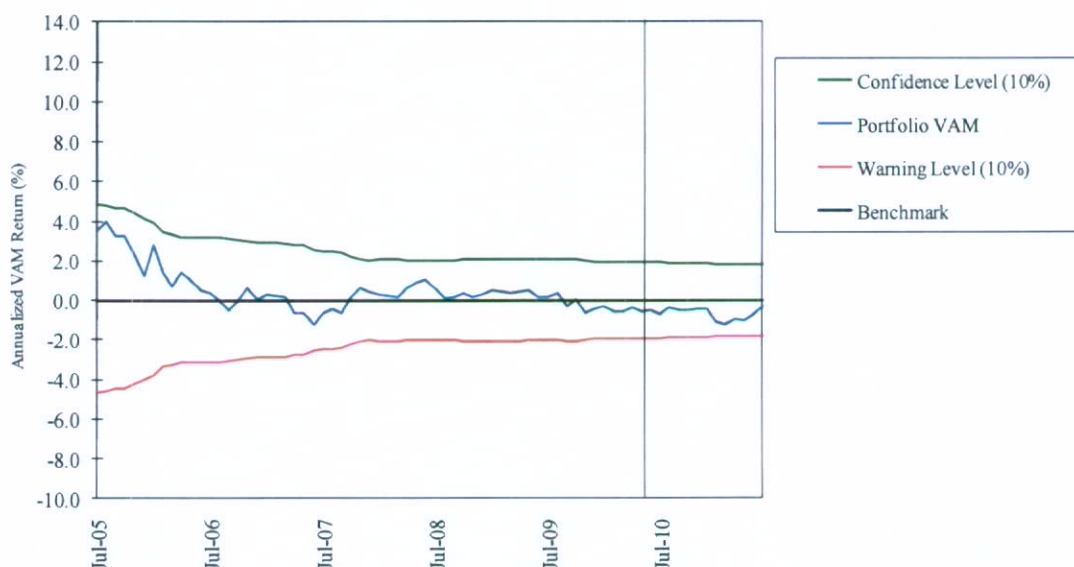
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	1.1%	0.8%
Last 1 year	38.1	35.0
Last 2 years	23.5	23.9
Last 3 years	3.4	5.0
Last 4 years	1.3	2.2
Last 5 years	5.0	5.3
Since Inception (1/05)	4.6	4.7

**Recommendation**

No action required.

**KNELMAN ASSET MANAGEMENT, LLC.**  
**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.



**SANDS CAPITAL MANAGEMENT LLC**  
**Periods Ending June, 2011**

**Portfolio Manager: Frank Sands, Jr.**

**Assets Under Management: \$301,354,530**

**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 outperformed the benchmark for the quarter and the year. Both periods benefited from positive stock selection in the Consumer Discretionary sector. The strong outperformance for the one year return was primarily attributed to stock selection in the Health Care, Energy, and Technology sectors. The largest individual contributors for the year were National Oilwell Varco, Amazon, and Salesforce.com.

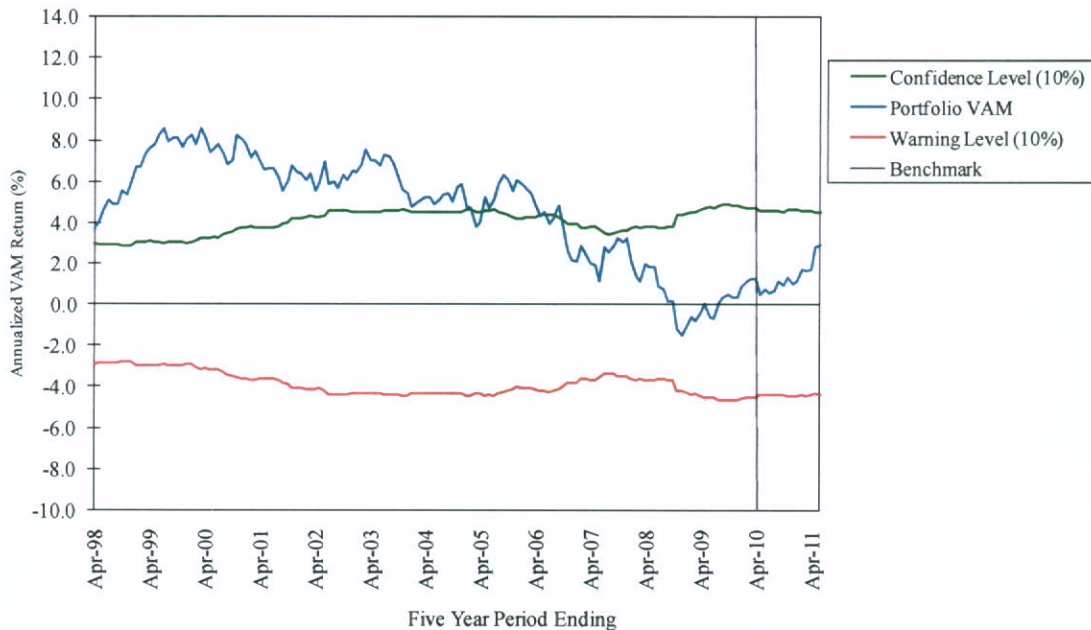
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	3.4%	0.8%
Last 1 year	46.2	35.0
Last 2 years	35.7	23.9
Last 3 years	10.8	5.0
Last 4 years	7.8	2.2
Last 5 years	8.5	5.3
Since Inception (1/05)	6.6	4.7

**Recommendation**

No action required.

**SANDS CAPITAL MANAGEMENT, LLC**  
**Rolling Five Year VAM vs. Russell 1000 Growth**



**WINSLOW CAPITAL MANAGEMENT, INC.**  
**Periods Ending June, 2011**

**Portfolio Manager: Bart Wear and Justin Kelly**

**Assets Under Management: \$147,800,855**

**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**

No comment at this time.

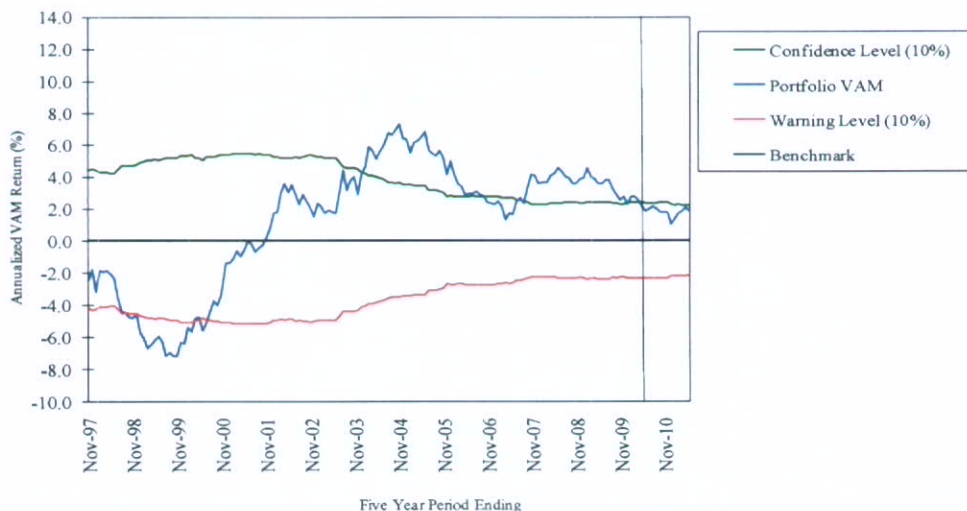
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	0.2%	0.8%
Last 1 year	40.1	35.0
Last 2 years	25.2	23.9
Last 3 years	4.8	5.0
Last 4 years	4.5	2.2
Last 5 years	7.3	5.3
Since Inception (1/05)	7.2	4.7

**Recommendation**

No action required.

**WINSLOW CAPITAL MANAGEMENT, INC.**  
**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.

**ZEVENBERGEN CAPITAL LLC**  
**Periods Ending June, 2011**

**Portfolio Manager:** Nancy Zevenbergen

**Assets Under Management:** \$354,082,217

**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**

No comment at this time.

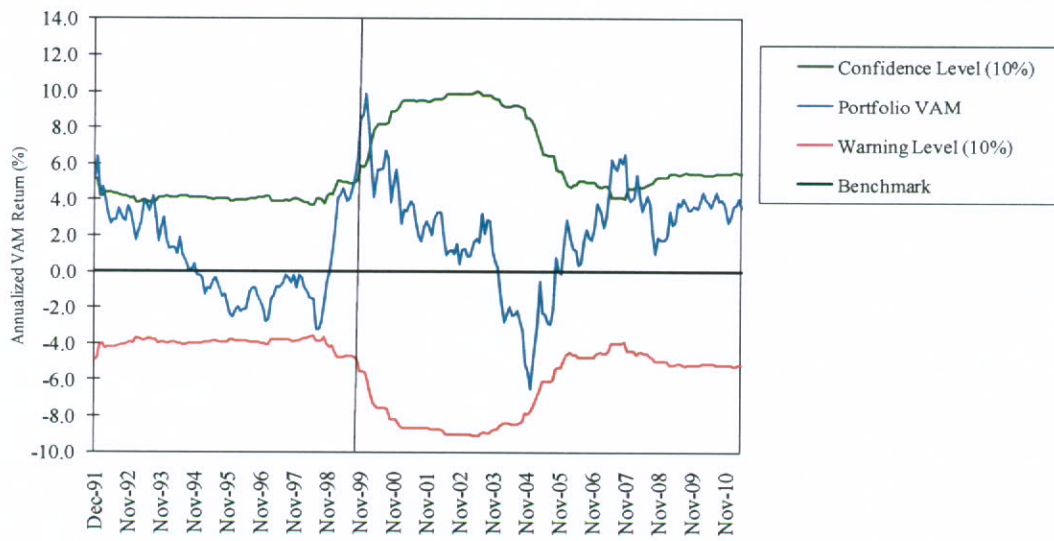
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	-2.2%	0.8%
Last 1 year	41.8	35.0
Last 2 years	30.7	23.9
Last 3 years	10.3	5.0
Last 4 years	6.3	2.2
Last 5 years	9.1	5.3
Since Inception (4/94)	9.8	7.8

**Recommendation**

No action required.

**ZEVENBERGEN CAPITAL INVESTMENTS LLC**  
**Rolling Five Year VAM vs. Russell 1000 Growth**



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)**



## Large Cap Value (R1000 Value)

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**BARROW, HANLEY, MEWHINNEY & STRAUSS, LLC**  
**Periods Ending June 2011**

**Portfolio Manager: Tim Culler**

**Assets Under Management: \$465,506,453**

**Investment Philosophy**

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.

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.

**Staff Comments**

No comments at this time.

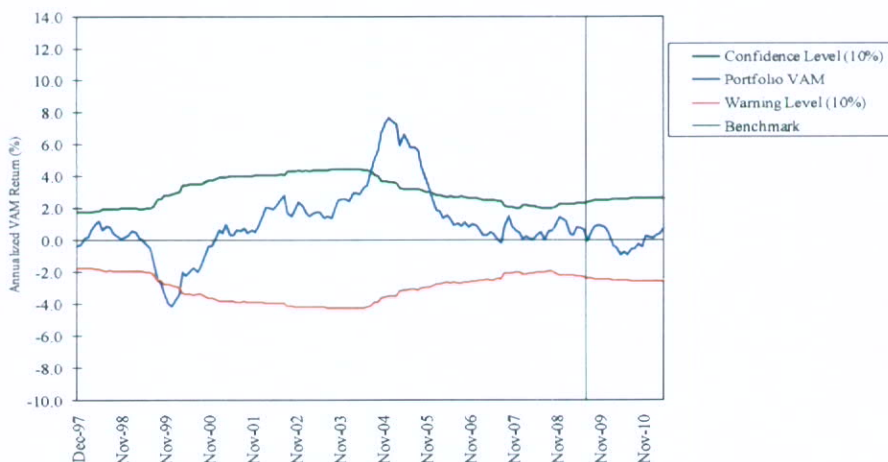
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Value</b>
Last Quarter	1.8%	-0.5%
Last 1 year	33.6	28.9
Last 2 years	22.4	22.8
Last 3 years	3.9	2.3
Last 4 years	-2.5	-3.4
Last 5 years	1.9	1.2
Since Inception (4/04)	5.2	4.4

**Recommendation**

No action required.

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



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



**EARNEST PARTNERS, LLC**  
**Periods Ending June, 2011**

**Portfolio Manager: Paul Viera**

**Assets Under Management: \$192,970,394**

**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.

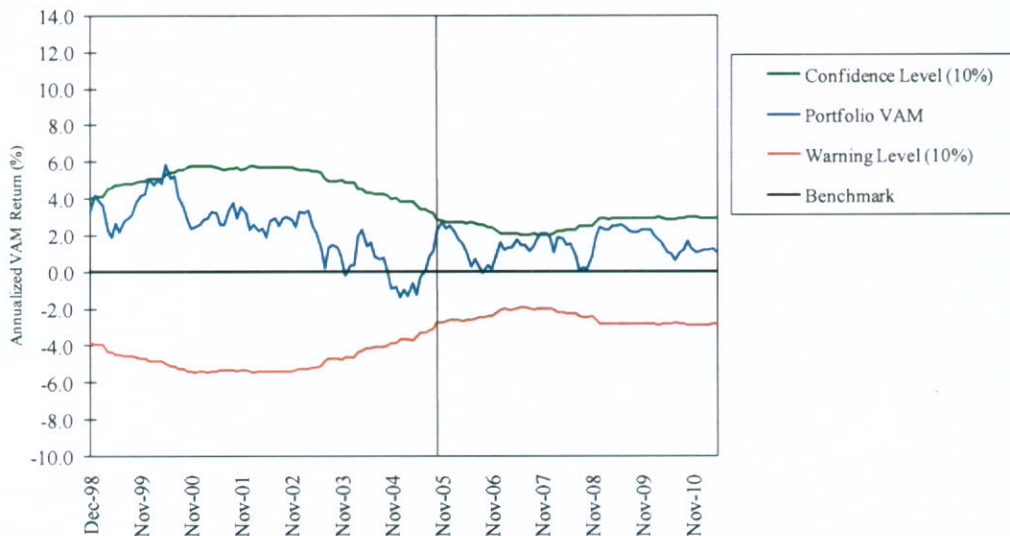
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Value</b>
Last Quarter	-1.9%	-0.5%
Last 1 year	29.0	28.9
Last 2 years	22.0	22.8
Last 3 years	4.4	2.3
Last 4 years	-1.5	-3.4
Last 5 years	2.2	1.2
Since Inception (7/00)	4.5	4.5

**Recommendation**

No action required.

**EARNEST PARTNERS**  
**Rolling Five Year VAM vs. Russell 1000 Value**



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

**LSV ASSET MANAGEMENT**  
**Periods Ending June, 2011**

**Portfolio Manager: Josef Lakonishok**

**Assets Under Management: \$431,409,872**

**Investment Philosophy**

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.

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.

**Staff Comments**

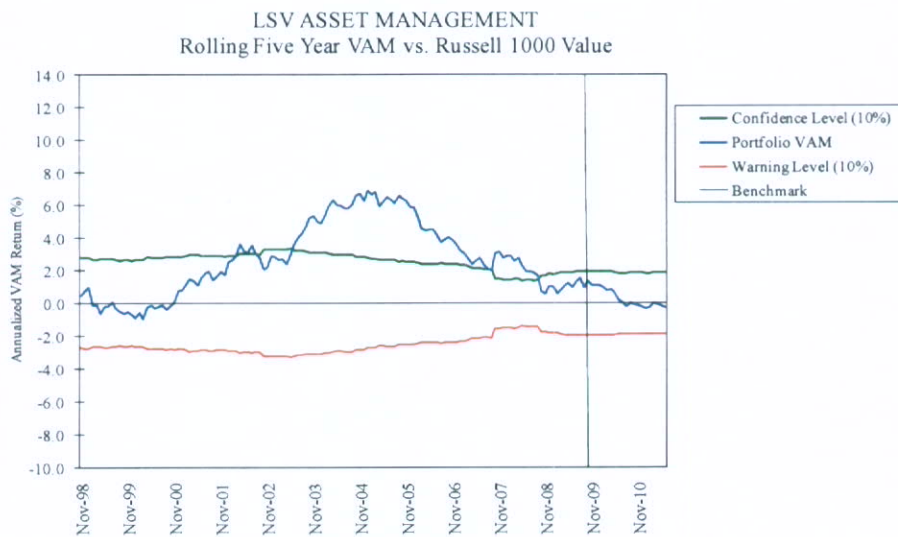
No comment at this time.

**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Value</b>
Last Quarter	-1.0%	-0.5%
Last 1 year	29.5	28.9
Last 2 years	23.4	22.8
Last 3 years	3.0	2.3
Last 4 years	-3.9	-3.4
Last 5 years	0.9	1.2
Since Inception (4/04)	5.4	4.4

**Recommendation**

No action required.



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

**SYSTEMATIC FINANCIAL MANAGEMENT, L.P.**  
**Periods Ending June, 2011**

**Portfolio Manager: Kevin McCreesh**

**Assets Under Management: \$325,374,643**

**Investment Philosophy**

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.

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.

**Staff Comments**

No comment at this time.

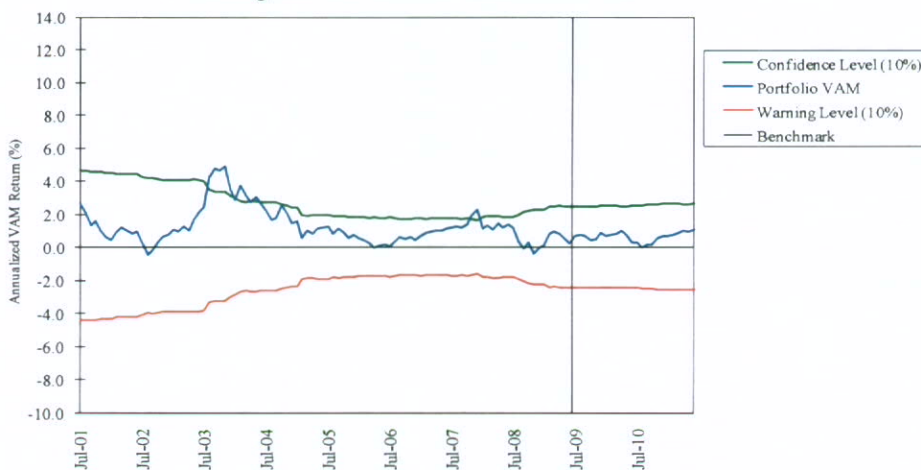
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Value</b>
Last Quarter	-0.4%	-0.5%
Last 1 year	34.7	28.9
Last 2 years	25.7	22.8
Last 3 years	2.1	2.3
Last 4 years	-2.3	-3.4
Last 5 years	2.2	1.2
Since Inception (4/04)	5.3	4.4

**Recommendation**

No action required.

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



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

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## **Small Cap Growth (R2000 Growth)**



## Small Cap Growth (R2000 Growth)

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**MCKINLEY CAPITAL MANAGEMENT**  
**Periods Ending June, 2011**

**Portfolio Manager: Robert A. Gillam**

**Assets Under Management: \$235,165,687**

**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.

**Staff Comments**

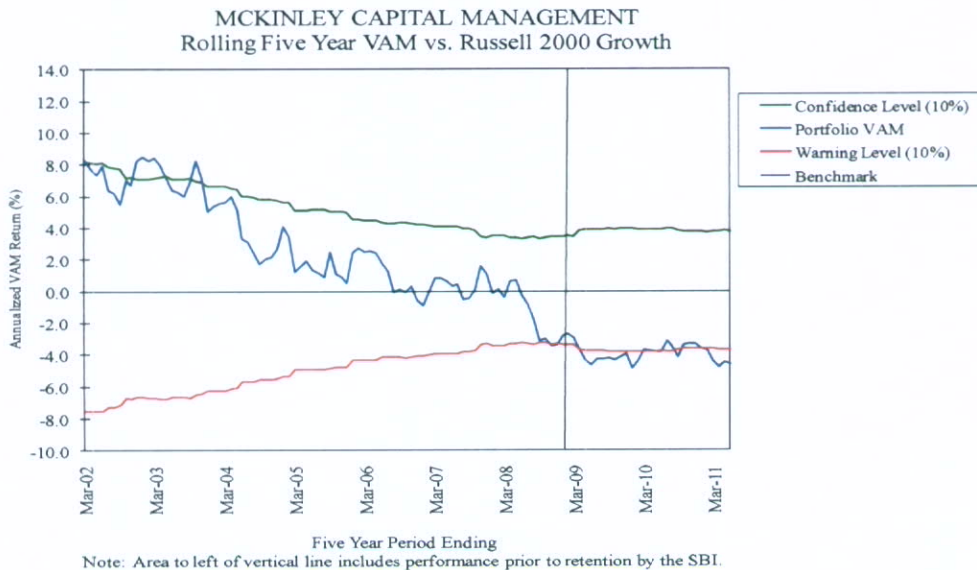
McKinley outperformed the benchmark for the quarter and lagged for the year. For the quarter, stock selection in the Consumer Discretionary, Technology, and Financial sectors added to relative performance. Performance for the year trailed due to negative stock selection in the Consumer Staples and Producer Durables sectors along with non-benchmark positions.

**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Growth</b>
Last Quarter	0.0%	-0.6%
Last 1 year	42.4	43.5
Last 2 years	30.8	30.1
Last 3 years	1.7	8.4
Last 4 years	-2.5	3.2
Last 5 years	1.0	5.8
Since Inception (1/04)	3.7	7.1

**Recommendation**

No action required.





**NEXT CENTURY GROWTH INVESTORS, LLC**  
**Periods Ending June, 2011**

**Portfolio Manager: Thomas Press and Don Longlet**

**Assets Under Management: \$301,036,940**

**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**

Next Century underperformed the benchmark for the quarter and outperformed for the year. Stock selection in the Producer Durables sector along with an overweight in Technology detracted from the quarterly return. For the year, performance benefited from the overweight and stock selection in the Technology sector and strong stock selection in the Consumer Staples sector.

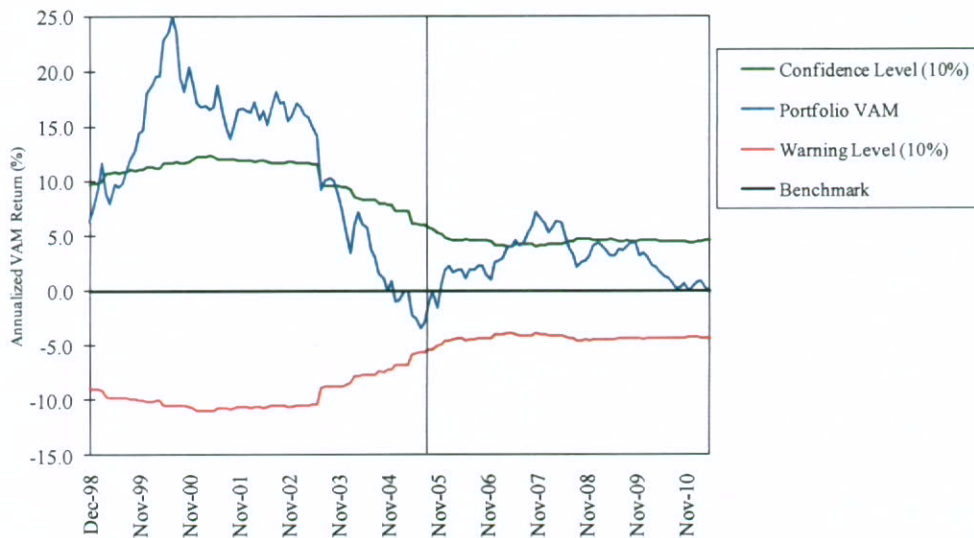
**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Growth</b>
Last Quarter	-2.1%	-0.6%
Last 1 year	49.0	43.5
Last 2 years	33.3	30.1
Last 3 years	4.2	8.4
Last 4 years	2.8	3.2
Last 5 years	5.6	5.8
Since Inception (7/00)	1.8	1.7

**Recommendation**

No action required.

**NEXT CENTURY GROWTH INVESTORS, LLC**  
**Rolling Five Year VAM vs. Russell 2000 Growth**



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

**TURNER INVESTMENT PARTNERS**  
**Periods Ending June, 2011**

**Portfolio Manager: William McVail**

**Assets Under Management: \$304,495,165**

**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**

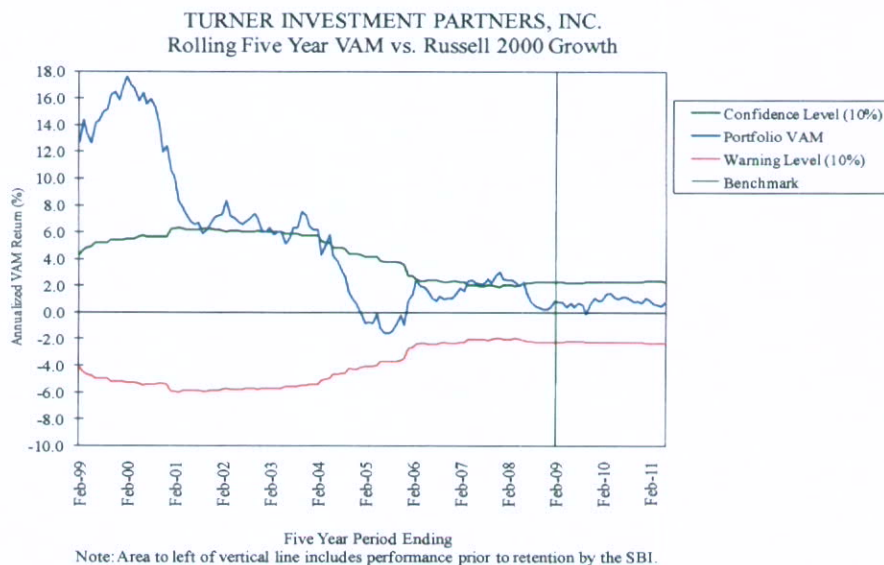
No comment at this time.

**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Growth</b>
Last Quarter	-0.8%	-0.6%
Last 1 year	46.6	43.5
Last 2 years	31.8	30.1
Last 3 years	7.5	8.4
Last 4 years	3.9	3.2
Last 5 years	6.6	5.8
Since Inception (1/04)	7.8	7.1

**Recommendation**

No action required.



## **Small Cap Value (R2000 Value)**



## Small Cap Value (R2000 Value)

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**GOLDMAN SACHS ASSET MANAGEMENT**  
**Periods Ending June, 2011**

**Portfolio Manager: Chip Otness**

**Assets Under Management: \$166,103,377**

**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.

**Staff Comments**

No comment at this time.

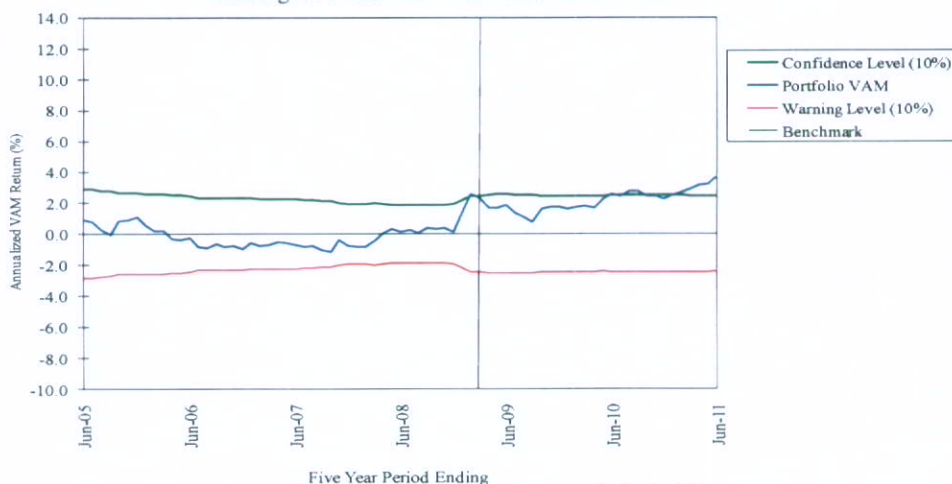
**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Value</b>
Last Quarter	-0.8%	-2.6%
Last 1 year	35.9	31.4
Last 2 years	31.2	28.2
Last 3 years	10.5	7.1
Last 4 years	3.3	-1.0
Last 5 years	6.0	2.2
Since Inception (1/04)	8.0	6.3

**Recommendation**

No action required.

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



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

**HOTCHKIS & WILEY CAPITAL MANAGEMENT**  
**Periods Ending June, 2011**

**Portfolio Manager: Jim Miles and David Green**

**Assets Under Management: \$149,702,414**

**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**

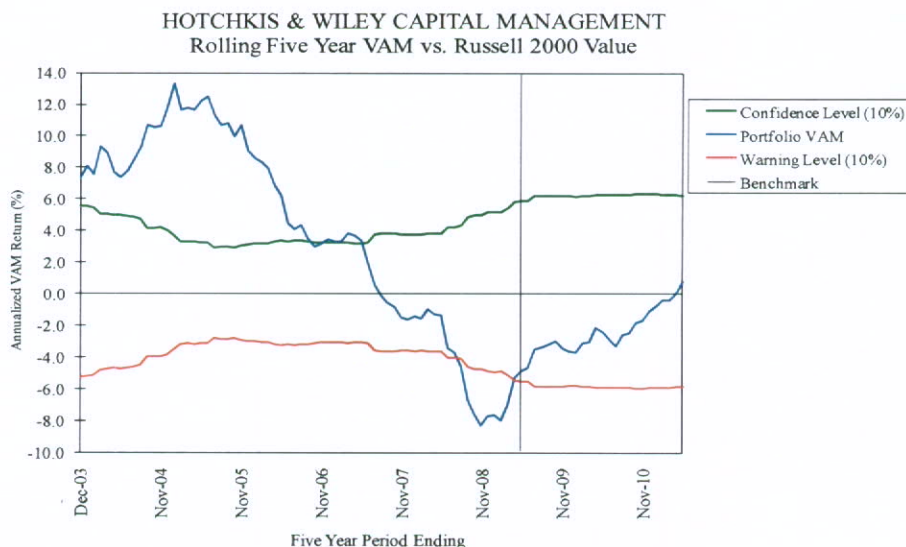
Hotchkis & Wiley slightly underperformed for the quarter and outperformed for the year. Positive sector allocation for the quarter was offset by negative stock selection in Energy, Producer Durables, and Consumer Staples. For the year, overall stock selection and sector allocation added to relative outperformance.

**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Value</b>
Last Quarter	-2.8%	-2.6%
Last 1 year	41.3	31.4
Last 2 years	44.2	28.2
Last 3 years	12.8	7.1
Last 4 years	0.4	-1.0
Last 5 years	3.0	2.2
Since Inception (1/04)	6.5	6.3

**Recommendation**

No action required.



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

**MARTINGALE ASSET MANAGEMENT**  
**Periods Ending June, 2011**

**Portfolio Manager: William Jacques**

**Assets Under Management: \$130,495,282**

**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**

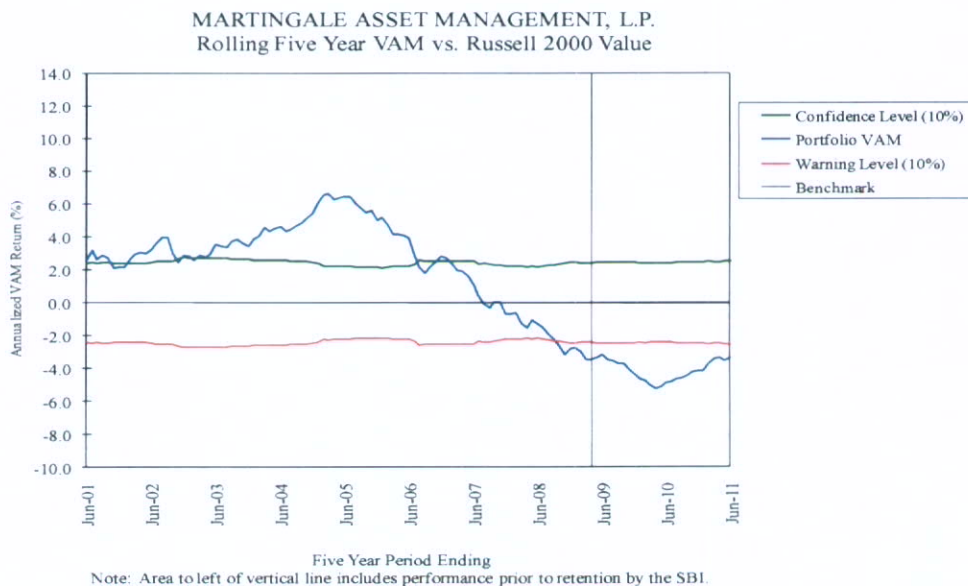
Martingale underperformed the benchmark for the quarter and outperformed for the year. For the quarter, an overweight and stock selection in the Energy sector detracted from relative return. For the year, the portfolio benefited from the overweight and stock selection in Energy along with strong stock selection in the Financial, Consumer Discretionary, and Technology sectors.

**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Value</b>
Last Quarter	-2.9%	-2.6%
Last 1 year	35.6	31.4
Last 2 years	27.9	28.2
Last 3 years	4.5	7.1
Last 4 years	-3.6	-1.0
Last 5 years	-1.2	2.2
Since Inception (1/04)	4.5	6.3

**Recommendation**

No action required.





**PEREGRINE CAPITAL MANAGEMENT**  
**Periods Ending June, 2011**

**Portfolio Manager: Doug Pugh and Tasso Coin**

**Assets Under Management: \$231,385,264**

**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**

No comment at this time.

**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Value</b>
Last Quarter	-1.9%	-2.6%
Last 1 year	35.0	31.4
Last 2 years	33.9	28.2
Last 3 years	11.8	7.1
Last 4 years	-0.5	-1.0
Last 5 years	2.3	2.2
Since Inception (7/00)	10.4	9.5

**Recommendation**

No action required.

**PEREGRINE CAPITAL MANAGEMENT**  
**Rolling Five Year VAM vs. Russell 2000 Value**



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

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## **Semi-Passive and Passive**



## **Semi-Passive and Passive**

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**BLACKROCK INSTITUTIONAL TRUST CO., N.A.**  
**Periods Ending June, 2011**

**Portfolio Manager: Raffaele Savi**

**Assets Under Management: \$2,243,879,996**

**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**

BlackRock outperformed the benchmark for the quarter and slightly underperformed for the year. For the quarter, positive stock selection in Consumer Discretionary, Consumer Staples, and Health Care sectors were the primary contributors. For the year, negative stock selection in Technology and a cash drag from a rebalance during the first quarter accounted for most of the underperformance.

BlackRock repurchased Bank of America's roughly 7% stake in the company during the quarter. The shares will be retired.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Manager Benchmark*</b>
Last Quarter	1.1%	0.1%
Last 1 year	31.8	31.9
Last 2 years	22.1	23.3
Last 3 years	2.6	3.7
Last 4 years	-1.6	-0.6
Last 5 years	2.2	3.3
Since Inception (1/95)	8.3	8.1

**Recommendation**

No action required.

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

**BLACKROCK INSTITUTIONAL TRUST CO.- SEMI-PASSIVE**  
**Rolling Five Year VAM vs. Manager Benchmark**



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

**INTECH INVESTMENT MANAGEMENT LLC**  
**Periods Ending June, 2011**

**Portfolio Manager: Adrian Banner**

**Assets Under Management: \$1,423,894,954**

**Investment Philosophy – Semi-Passive Style**

**Staff Comments**

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 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 1.0% or 8 times maximum index security weight, 3) beta equal to or less than benchmark beta, and 4) constraining the weighted average capital distribution to be roughly equal to the capital distribution of the benchmark. Target security positions are established using a weekly 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.

No comment at this time.

**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Russell 1000</b>
Last Quarter	0.9%	0.1%
Last 1 year	32.3	31.9
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/10)	13.9	13.3

No action required.

**VAM Graph will be drawn for period ending 6/30/12.**

**J.P. MORGAN INVESTMENT MANAGEMENT, INC.**  
**Periods Ending June, 2011**

**Portfolio Manager: Ralph Zingone and Scott Blasdel      Assets Under Management: \$2,699,021,495**

**Investment Philosophy – Semi-Passive Style**

**Staff Comments**

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.

No comment at this time.

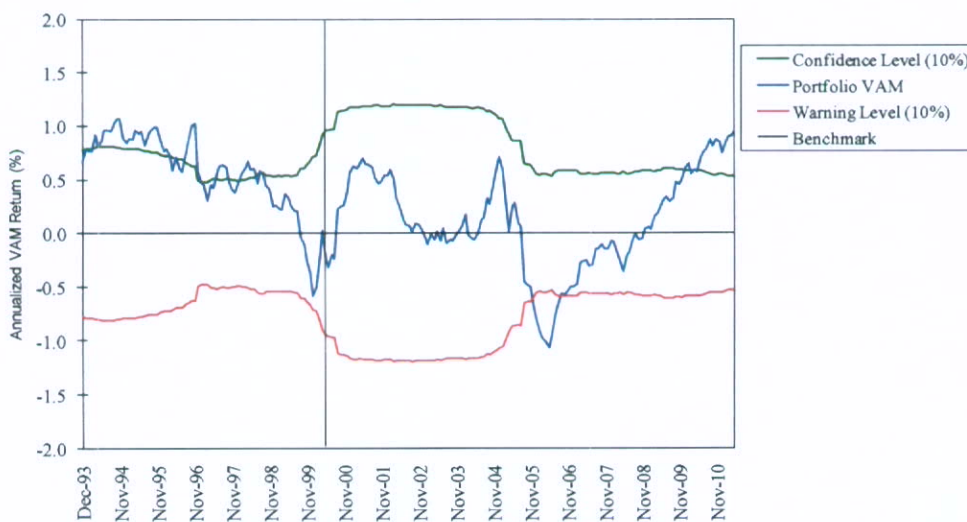
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Manager Benchmark*</b>	
Last Quarter	0.1%	0.1%	No action required.
Last 1 year	32.2	31.9	
Last 2 years	24.2	23.3	
Last 3 years	5.2	3.7	
Last 4 years	0.2	-0.6	
Last 5 years	4.3	3.3	
Since Inception (1/95)	8.3	8.1	

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

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.



**MELLON CAPITAL MANAGEMENT**  
**Periods Ending June, 2011**

**Portfolio Manager: Tony Garvin**

**Assets Under Management: \$1,455,177,141**

**Investment Philosophy – Semi-Passive Style**

**Staff Comments**

Mellon believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns. Mellon 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.

No comment at this time.

**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Manager Benchmark*</b>	
Last Quarter	1.0%	0.1%	No action required.
Last 1 year	32.2	31.9	
Last 2 years	22.7	23.3	
Last 3 years	2.8	3.7	
Last 4 years	-1.6	-0.6	
Last 5 years	2.2	3.3	
Since Inception (1/95)	7.5	8.1	

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

MELLON CAPITAL MANAGEMENT- SEMI-PASSIVE  
 Rolling Five Year VAM vs. Manager Benchmark



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

**BLACKROCK INSTITUTIONAL TRUST CO., N.A.**  
**Periods Ending June, 2011**

**Portfolio Manager: Amy Schioldager**

**Assets Under Management: \$8,935,388,834**

**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**

The passive portfolio slightly underperformed for the quarter and for the year. For the year, the underperformance reflects the impact of raising cash for a rebalance during the first quarter.

BlackRock repurchased Bank of America's roughly 7% stake in the company during the quarter. The shares will be retired.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Manager Benchmark*</b>
Last Quarter	-0.1%	0.0%
Last 1 year	32.1	32.4
Last 2 years	23.8	23.8
Last 3 years	4.1	4.0
Last 4 years	-0.4	-0.4
Last 5 years	3.4	3.4
Since Inception (7/95)	7.7	7.6

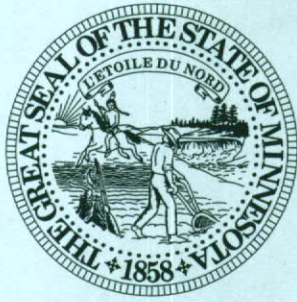
**Recommendation**

No action required.

\* Russell 3000 since 10/1/03, Wilshire 5000 through 7/1/95.

**BLACKROCK INSTITUTIONAL TRUST CO.- PASSIVE**  
**Rolling Five Year VAM vs. Manager Benchmark**





# STATE BOARD OF INVESTMENT

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## Bond Manager Evaluation Reports

Second Quarter, 2011



## **Bond Managers**

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**COMBINED RETIREMENT FUNDS  
BOND MANAGERS  
Periods Ending June, 2011**

	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 %		
<b>Active Managers</b>												
Aberdeen	2.1	2.3	6.4	3.9	5.4	6.5	5.1	6.5	6.0	6.3	\$913.3	8.5%
Columbia (RiverSource)	2.3	2.3	5.7	3.9	6.6	6.5	6.3	6.5	6.0	6.2	\$970.5	9.0%
Dodge & Cox	2.0	2.3	6.4	3.9	8.9	6.5	7.6	6.5	7.4	6.3	\$1,143.6	10.6%
PIMCO	1.1	2.3	6.6	3.9					11.0	7.3	\$1,141.3	10.6%
Western	2.0	2.3	6.6	3.9	8.3	6.5	6.9	6.5	9.5	8.4	\$1,167.2	10.9%
<b>Active Mgr. Aggregate</b>	<b>1.9</b>	<b>2.3</b>	<b>6.4</b>	<b>3.9</b>	<b>7.6</b>	<b>6.5</b>	<b>6.4</b>	<b>6.5</b>			<b>\$5,335.9</b>	<b>49.7%</b>
<b>Semi-Passive Managers</b>												
BlackRock	2.3	2.3	4.0	3.9	5.7	6.5	5.9	6.5	6.2	6.3	\$1,581.6	14.7%
Goldman	2.3	2.3	4.7	3.9	7.1	6.5	6.7	6.5	6.4	6.2	\$1,937.2	18.0%
Neuberger	2.2	2.3	5.2	3.9	8.1	6.5	7.0	6.5	7.5	7.3	\$1,885.1	17.6%
<b>Semi-Passive Mgr. Aggregate</b>	<b>2.3</b>	<b>2.3</b>	<b>4.6</b>	<b>3.9</b>	<b>7.0</b>	<b>6.5</b>	<b>6.6</b>	<b>6.5</b>			<b>\$5,403.9</b>	<b>50.3%</b>
<b>Historical Aggregate (2)</b>	<b>2.1</b>	<b>2.3</b>	<b>5.5</b>	<b>3.9</b>	<b>7.4</b>	<b>6.5</b>	<b>6.5</b>	<b>6.5</b>	<b>8.5</b>	<b>8.4</b>	<b>\$10,739.8</b>	<b>100.0%</b>
Barclays Capital Aggregate (3)		2.3		3.9		6.5		6.5		8.4		

(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**

	2010		2009		2008		2007		2006	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>Active Managers</b>										
Aberdeen	10.7	6.5	18.4	5.9	-14.7	5.2	5.6	7.0	4.8	4.3
Columbia (RiverSource)	8.1	6.5	14.0	5.9	-4.9	5.2	6.6	7.0	4.7	4.3
Dodge & Cox	7.8	6.5	16.5	5.9	0.1	5.2	5.3	7.0	5.5	4.3
PIMCO	12.1	6.5	15.5	5.9						
Western	10.9	6.5	17.5	5.9	-6.8	5.2	5.4	7.0	5.4	4.3
<b>Active Mgr. Aggregate</b>	<b>10.0</b>	<b>6.5</b>	<b>16.5</b>	<b>5.9</b>	<b>-7.3</b>	<b>5.2</b>	<b>5.8</b>	<b>7.0</b>	<b>5.0</b>	<b>4.3</b>
<b>Semi-Passive Managers</b>										
BlackRock	6.5	6.5	9.6	5.9	-1.1	5.2	6.8	7.0	4.3	4.3
Goldman	8.0	6.5	12.0	5.9	-1.2	5.2	7.0	7.0	4.5	4.3
Neuberger	9.1	6.5	14.3	5.9	-1.9	5.2	6.3	7.0	4.5	4.3
<b>Semi-Passive Mgr. Aggregate</b>	<b>7.9</b>	<b>6.5</b>	<b>12.0</b>	<b>5.9</b>	<b>-1.4</b>	<b>5.2</b>	<b>6.7</b>	<b>7.0</b>	<b>4.5</b>	<b>4.3</b>
<b>Historical Aggregate</b>										
	<b>9.0</b>	<b>6.5</b>	<b>14.3</b>	<b>5.9</b>	<b>-4.2</b>	<b>5.2</b>	<b>6.3</b>	<b>7.0</b>	<b>4.7</b>	<b>4.3</b>
Barclays Capital Aggregate		6.5		5.9		5.2		7.0		4.3

**ABERDEEN ASSET MANAGEMENT**  
**Periods Ending June, 2011**

**Portfolio Manager:** Neil Moriarty

**Assets Under Management:** \$913,349,828

**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**

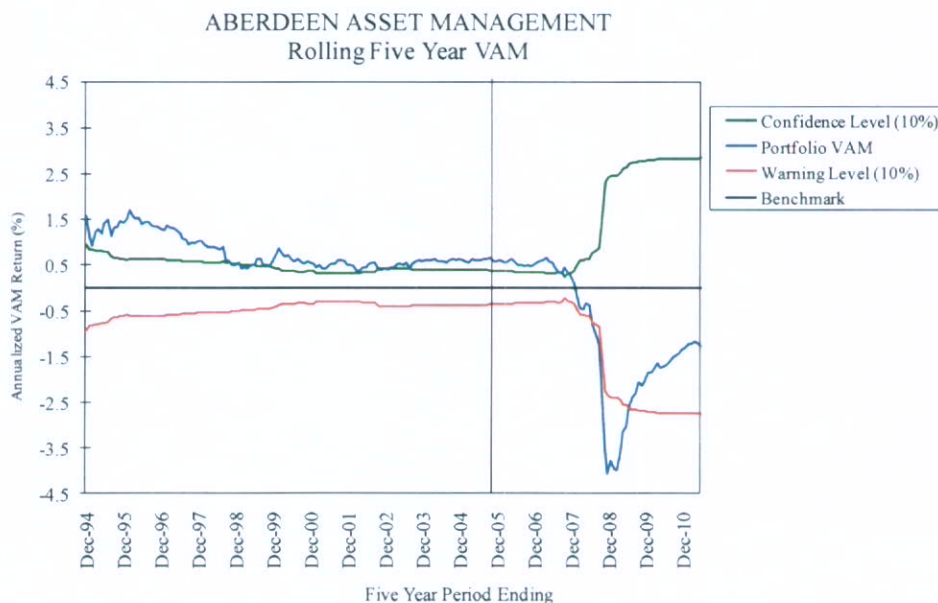
Aberdeen underperformed the benchmark by 24 bps in 2Q11 and outperformed the benchmark by 253 bps over the last 12 months. One year performance was driven by overweight exposure to and security selection within the investment grade corporate, CMBS, and non-Agency MBS sectors. Yield curve steepening and the overweight exposure to non-Agency MBS and CMBS securities negatively impacted quarterly performance, as average spreads widened.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.1%	2.3%
Last 1 year	6.4	3.9
Last 2 years	12.0	6.7
Last 3 years	5.4	6.5
Last 4 years	4.8	6.6
Last 5 years	5.1	6.5
Since Inception (2/00)	6.0	6.3

**Recommendations**

No action required.





**COLUMBIA MANAGEMENT INVESTMENT ADVISERS, LLC**  
**(Formerly RiverSource Investments)**  
**Periods Ending June, 2011**

**Portfolio Manager: Colin Lundgren**

**Assets Under Management: \$970,475,264**

**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**

Columbia outperformed the benchmark by 3 bps in 2Q11 and 183 bps over the last 12 months. Overweight positions in investment grade corporate bonds and CMBS added to performance over the full year period; however they detracted from performance during the quarter. Security selection in MBS and investment grade corporate bonds also added value over the last 12 months. Overall, active interest rate positions detracted from performance.

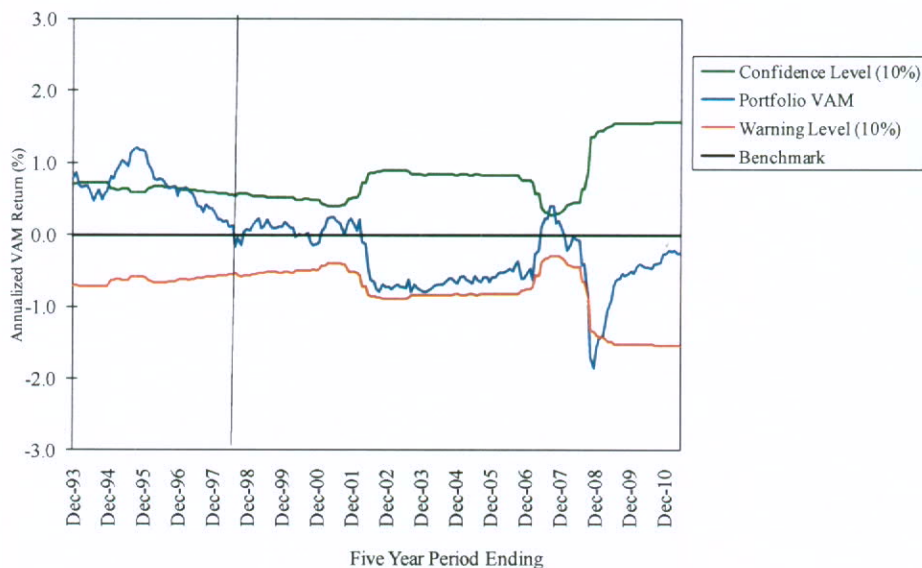
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.3%	2.3%
Last 1 year	5.7	3.9
Last 2 years	9.0	6.7
Last 3 years	6.6	6.5
Last 4 years	6.2	6.6
Last 5 years	6.3	6.5
Since Inception (7/93)	6.0	6.2

**Recommendations**

No action required.

**COLUMBIA MANAGEMENT - FIXED INCOME**  
**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, 2011**

**Portfolio Manager:** Dana Emery

**Assets Under Management:** \$1,143,551,846

**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**

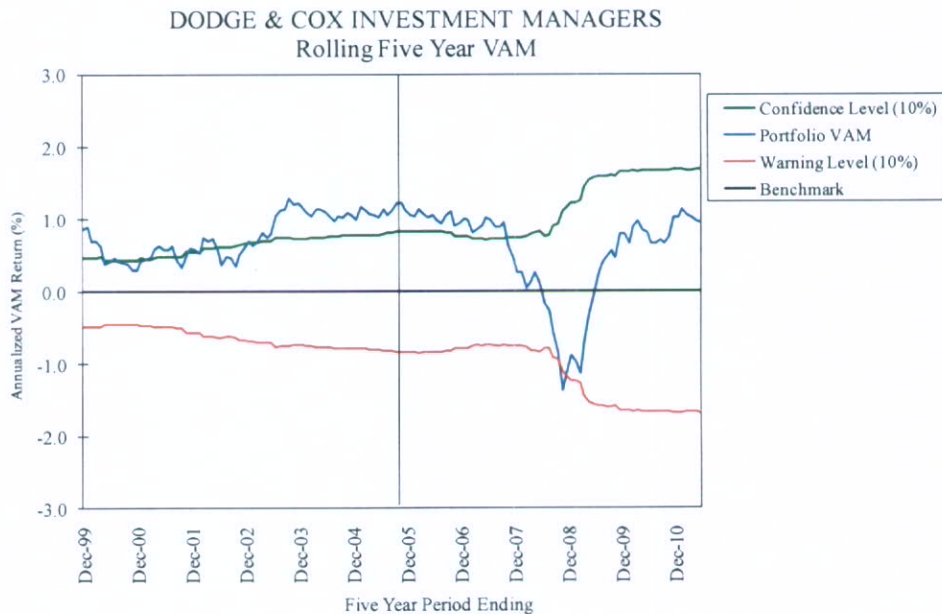
Dodge & Cox underperformed the benchmark by 28 bps in 2Q11 and outperformed the benchmark by 247 bps over the last 12 months. Overweight positions in the investment grade corporate and Agency MBS sectors contributed to excess returns for the year, and the portfolio's nominal yield advantage benefited relative returns. Security selection within the taxable municipal sector also contributed to quarterly and annual performance. The portfolio's shorter duration position and significant overweight to investment grade corporate bonds detracted from relative returns in the quarter.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.0%	2.3%
Last 1 year	6.4	3.9
Last 2 years	9.9	6.7
Last 3 years	8.9	6.5
Last 4 years	7.8	6.6
Last 5 years	7.6	6.5
Since Inception (2/00)	7.4	6.3

**Recommendations**

No action required.



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

**PACIFIC INVESTMENT MANAGEMENT CO. LLC (PIMCO)**  
**Periods Ending June, 2011**

**Portfolio Manager: Bill Gross**

**Assets Under Management: \$1,141,326,360**

**Investment Philosophy**

PIMCO's investment approach seeks to outperform a client's benchmark on a consistent basis, while maintaining overall risk similar to the index. PIMCO's approach to investing has three key principles: the utilization of multiple strategies, a long-term orientation and bond selection from a broad universe. PIMCO's investment process starts with an annual Secular Forum. The goal of this Forum is to look beyond the current business cycle and determine how secular forces will play out over the next 3 to 5 years. Quarterly, PIMCO holds Economic Forums to evaluate growth and inflation over the next 6 to 9 months. Following PIMCO's Secular and Economic Forums, the PIMCO Investment Committee (IC) develops key portfolio strategies. They consider both the "top-down" conclusions emanating from PIMCO's Forum, as well as the "bottom-up" market intelligence provided by PIMCO's teams of sector specialist portfolio managers. Through an interactive series of meetings, the IC defines a set of consistent strategies that are then implemented.

**Staff Comments**

PIMCO underperformed the benchmark by 117 bps in 2Q11 and outperformed the benchmark by 267 bps over the last 12 months. U.S. duration positioning during the second half of 2010 (overweight in 3Q and underweight in 4Q) contributed to annual returns. An overweight to investment grade corporate bonds with a focus on financials was positive for performance during 1Q11 and most of 2010; however these positions detracted from returns in the second quarter. Exposure to high-yield corporate bonds also added to performance for the year, while holdings of non-Agency MBS positively contributed to performance for the year but detracted from the most recent quarterly returns. An underweight to Agency MBS produced detracted from returns for the quarter and year.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.1%	2.3%
Last 1 year	6.6	3.9
Last 2 years	11.7	6.7
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (9/08)	11.0	7.3

**Recommendations**

No action required.

PACIFIC INVESTMENT MANAGEMENT CO.  
 Rolling Five Year VAM



Note: Graph includes performance of the manager prior to retention by SBI.

**WESTERN ASSET MANAGEMENT**  
**Periods Ending June, 2011**

**Portfolio Manager: Steve Walsh**

**Assets Under Management: \$1,167,225,025**

**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 by 27 bps in 2Q11 and outperformed the benchmark by 274 bps over the last 12 months. The largest contributor to annual performance was overweight exposure to investment grade corporate bonds, especially within the financial sector. Overweight exposure to non-Agency MBS and security selection within the Agency MBS sector also contributed to annual returns. Exposure to non-Agency MBS and investment grade corporate bonds detracted from performance during the quarter, as did a bias toward the back end of the steepening yield curve.

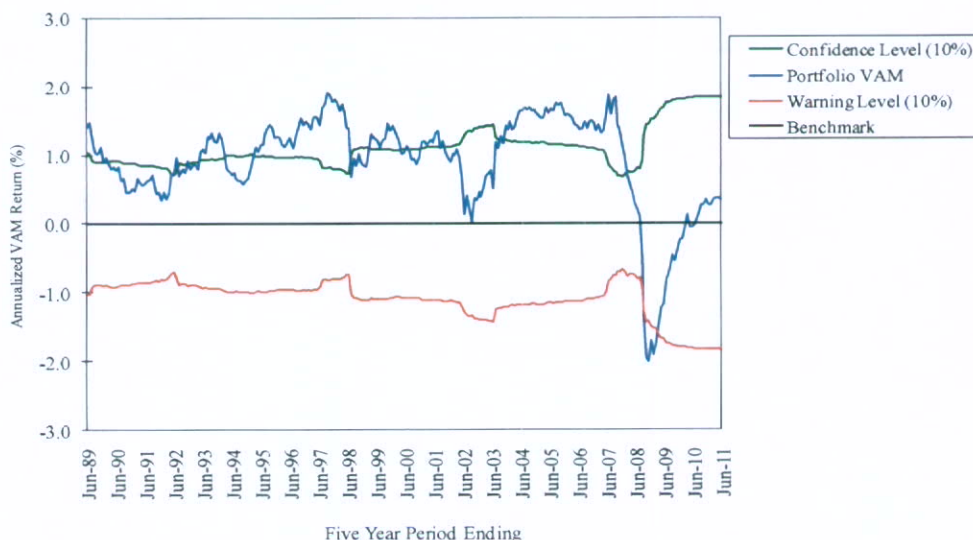
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.0%	2.3%
Last 1 year	6.6	3.9
Last 2 years	11.6	6.7
Last 3 years	8.3	6.5
Last 4 years	6.9	6.6
Last 5 years	6.9	6.5
Since Inception (7/84)	9.5	8.4

**Recommendations**

No action required.

**WESTERN ASSET MANAGEMENT**  
**Rolling Five Year VAM**



**BLACKROCK, INC.**  
**Periods Ending June, 2011**

**Portfolio Manager: Keith Anderson**

**Assets Under Management: \$1,581,559,106**

**Investment Philosophy**

BlackRock manages an enhanced index portfolio closely tracking the Barclays Capital U.S. Aggregate Bond Index. 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**

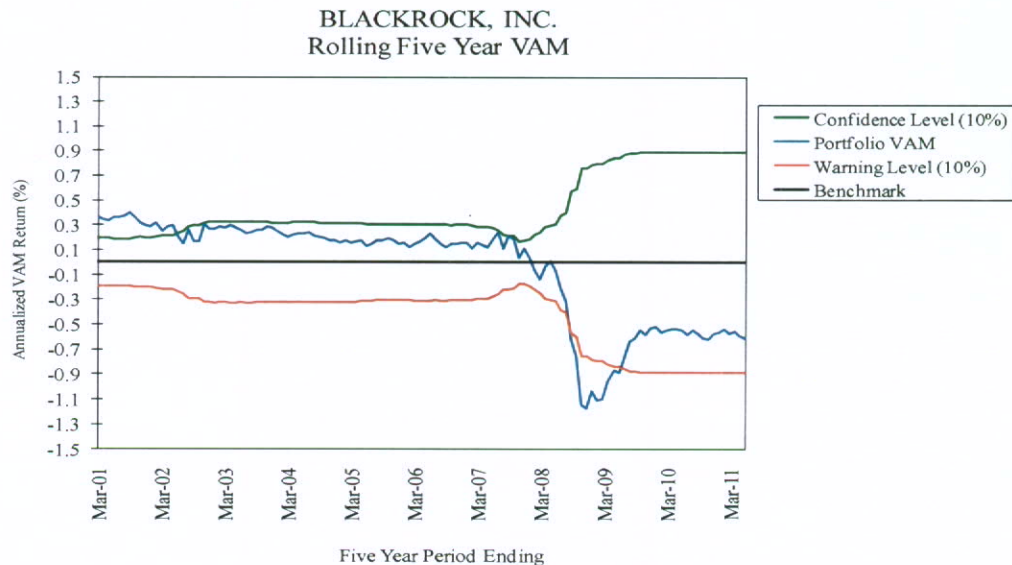
Blackrock outperformed the benchmark by 3 bps in 2Q11 and 9 bps over the last 12 months. One year performance was driven by overweight positions in the ABS and CMBS sectors and security selection within the investment grade corporate sector. Positive contributors to quarterly performance included security selection within the investment grade corporate and CMBS sectors, whereas the overweight position to CMBS detracted from performance.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.3%	2.3%
Last 1 year	4.0	3.9
Last 2 years	7.7	6.7
Last 3 years	5.7	6.5
Last 4 years	5.9	6.6
Last 5 years	5.9	6.5
Since Inception (4/96)	6.2	6.3

**Recommendation**

No action required.



**GOLDMAN SACHS ASSET MANAGEMENT**  
**Periods Ending June, 2011**

**Portfolio Manager: Jonathon Beinner**

**Assets Under Management: \$1,937,226,988**

**Investment Philosophy**

Goldman manages an enhanced index portfolio closely tracking the Barclays Capital U.S. Aggregate Bond Index. 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 benchmark by 1 bp in 2Q11 and 77 bps over the last 12 months. One year performance was driven by an overweight position in non-Agency MBS and security selection within the corporate space. Security selection in the corporate and government sectors (primarily TIPS) contributed to quarterly returns. An overweight position in non-Agency MBS was the largest detractor to returns during the quarter.

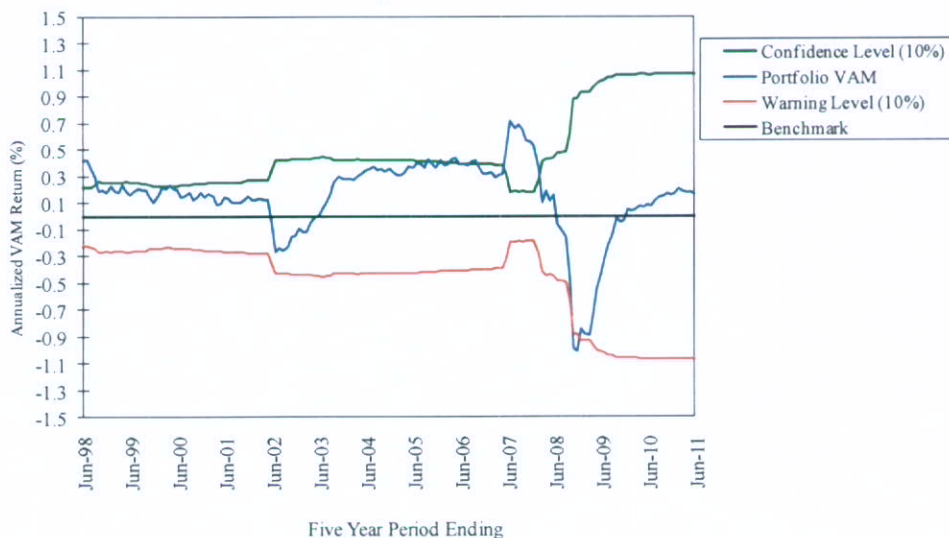
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.3%	2.3%
Last 1 year	4.7	3.9
Last 2 years	8.7	6.7
Last 3 years	7.1	6.5
Last 4 years	6.8	6.6
Last 5 years	6.7	6.5
Since Inception (7/93)	6.4	6.2

**Recommendations**

No action required.

**GOLDMAN SACHS ASSET MANAGEMENT**  
**Rolling Five Year VAM**



**NEUBERGER INVESTMENT MANAGEMENT**  
**Periods Ending June, 2011**

**Portfolio Manager: Andrew Johnson**

**Assets Under Management: \$1,885,103,492**

**Investment Philosophy**

Neuberger (formerly Lincoln) manages an enhanced index portfolio closely tracking the Barclays Capital U.S. Aggregate Bond Index. Neuberger'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. Neuberger 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. Neuberger was retained by the SBI in July 1988.

**Staff Comments**

Neuberger Berman underperformed the benchmark by 10 bps in 2Q11 and outperformed the benchmark by 127 bps over the last 12 months. One year performance was driven by overweight positions in CMBS, RMBS and investment grade corporate bonds. Security selection within the corporate sector also contributed to annual performance. Quarterly performance was negatively impacted by overweight positions within the investment grade credit sector, primarily within the banking and cyclical industrial space.

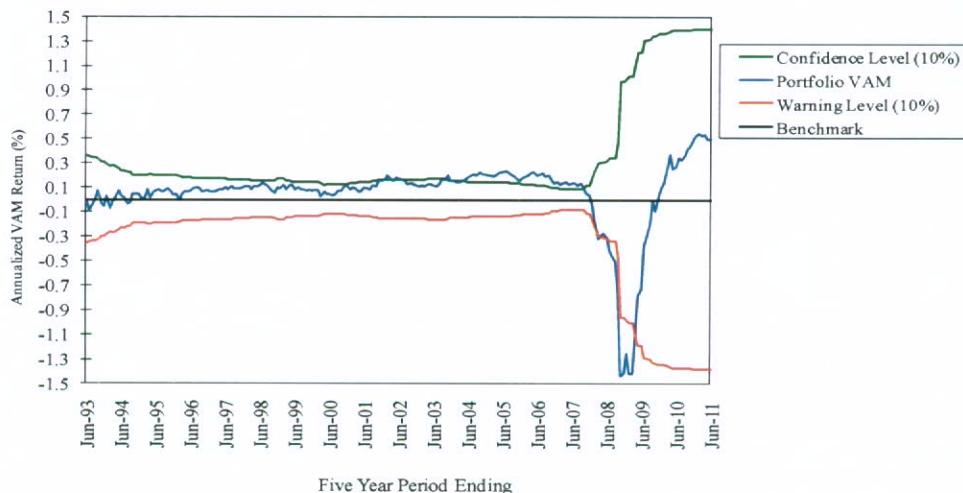
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.2%	2.3%
Last 1 year	5.2	3.9
Last 2 years	10.2	6.7
Last 3 years	8.1	6.5
Last 4 years	7.3	6.6
Last 5 years	7.0	6.5
Since Inception (7/88)	7.5	7.3

**Recommendations**

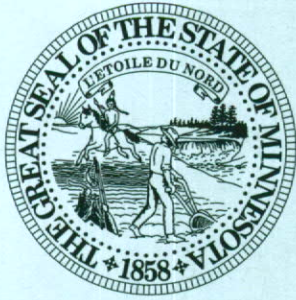
No action required.

**NEUBERGER INVESTMENT MANAGEMENT**  
**Rolling Five Year VAM**



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# STATE BOARD OF INVESTMENT

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## International Manager Evaluation Reports

Second Quarter, 2011



# International Managers

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**COMBINED RETIREMENT FUNDS  
INTERNATIONAL STOCK MANAGERS  
Periods Ending June, 2011**

	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 %		
<b>Active Developed Markets (2)</b>												
Acadian	2.9	0.9	32.7	30.3	-5.2	-1.6	-0.3	2.1	5.2	5.8	\$302.3	3.9%
Columbia (RiverSource)	1.6	0.9	36.1	30.3	0.6	-1.6	3.1	2.1	1.1	2.8	\$290.6	3.8%
Invesco	0.9	0.9	26.8	30.3	0.4	-1.6	1.7	2.1	4.2	2.8	\$243.8	3.2%
J.P. Morgan	1.5	0.9	32.2	30.3	0.8	-1.6	2.3	2.1	5.8	5.8	\$256.1	3.3%
Marathon	2.3	0.9	29.2	30.3	1.8	-1.6	5.2	2.1	8.8	5.4	\$580.5	7.6%
McKinley	1.3	0.9	30.8	30.3	-6.9	-1.6	-0.1	2.1	4.5	5.8	\$248.7	3.2%
Pyramis (Fidelity)	1.6	0.9	31.8	30.3	-0.6	-1.6	3.7	2.1	7.3	5.8	\$283.9	3.7%
<b>Aggregate</b>	<b>1.8</b>	<b>0.9</b>	<b>31.2</b>	<b>30.3</b>	<b>-0.6</b>	<b>-1.6</b>	<b>2.7</b>	<b>2.1</b>			<b>\$2,205.9</b>	<b>28.7%</b>
<b>Active Emerging Markets (3)</b>												
AllianceBernstein	-1.8	-1.1	24.9	27.8	0.5	4.2	9.1	11.6	12.7	14.2	\$186.9	2.4%
Capital International	-1.9	-1.1	22.5	27.8	6.4	4.2	13.6	11.6	13.4	14.2	\$790.8	10.3%
Morgan Stanley	-0.1	-1.1	25.2	27.8	2.9	4.2	10.6	11.6	13.9	14.2	\$741.2	9.7%
<b>Aggregate</b>	<b>-1.1</b>	<b>-1.1</b>	<b>23.9</b>	<b>27.8</b>	<b>3.4</b>	<b>4.2</b>	<b>11.2</b>	<b>11.6</b>			<b>\$1,718.9</b>	<b>22.4%</b>
<b>Semi-Passive Developed Markets (2)</b>												
AQR	1.7	0.9	34.0	30.3	-0.4	-1.6	2.4	2.1	6.2	5.8	\$286.9	3.7%
Pyramis (Fidelity)	1.2	0.9	32.1	30.3	-2.4	-1.6	3.1	2.1	6.8	5.8	\$427.1	5.6%
State Street	0.6	0.9	30.9	30.3	-2.4	-1.6	1.1	2.1	5.2	5.8	\$270.4	3.5%
<b>Aggregate</b>	<b>1.2</b>	<b>0.9</b>	<b>32.3</b>	<b>30.3</b>	<b>-1.7</b>	<b>-1.6</b>	<b>2.2</b>	<b>2.1</b>			<b>\$984.3</b>	<b>12.8%</b>
<b>Passive Developed Markets (2)</b>												
State Street	1.1	0.9	31.1	30.3	-1.1	-1.6	2.5	2.1	6.9	6.6	\$2,770.4	36.1%
<b>Since 10/1/92</b>												
Equity Only (4) (6)	0.8	0.4	29.6	29.7	-0.1	-0.3	4.0	3.7	7.5	7.0	\$7,679.8	100.0%
<b>Total Program (5) (6)</b>	<b>0.8</b>	<b>0.4</b>	<b>29.6</b>	<b>29.7</b>	<b>-0.1</b>	<b>-0.3</b>	<b>4.0</b>	<b>3.7</b>	<b>7.7</b>	<b>7.0</b>	<b>\$7,679.8</b>	<b>100.0%</b>
SBI Int'l Equity Target (6)		0.4		29.7		-0.3		3.7		7.0		
MSCI ACWI Free ex. U.S. (7)		0.4		29.7		-0.3		3.7		7.4		
MSCI World ex U.S. (net)		0.9		30.3		-1.6		2.0		6.7		
MSCI EAFE Free (net)		1.6		30.4		-1.8		1.5		6.4		
MSCI Emerging Markets Free (8)		-1.1		27.8		4.2		11.4		9.9		

- (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**

	2010		2009		2008		2007		2006	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>Active Developed Markets (1)</b>										
Acadian	13.9	8.9	28.8	33.7	-50.5	-43.5	10.0	12.6	31.9	25.7
Columbia (RiverSource)	15.2	8.9	29.3	33.7	-40.8	-43.5	12.4	12.6	23.6	25.7
Invesco	5.8	8.9	32.0	33.7	-38.8	-43.5	8.4	12.6	26.0	25.7
J.P. Morgan	7.6	8.9	37.5	33.7	-41.5	-43.5	8.8	12.6	23.1	25.7
Marathon	14.4	8.9	29.8	33.7	-38.0	-43.5	15.4	12.6	27.5	25.7
McKinley	11.8	8.9	24.1	33.7	-48.5	-43.5	20.4	12.6	25.4	25.7
Pyramis (Fidelity)	11.7	8.9	35.1	33.7	-42.9	-43.5	17.7	12.6	22.7	25.7
<b>Aggregate</b>	<b>11.9</b>	<b>8.9</b>	<b>31.9</b>	<b>33.7</b>	<b>-42.8</b>	<b>-43.5</b>	<b>13.0</b>	<b>12.6</b>	<b>25.8</b>	<b>25.7</b>
<b>Active Emerging Markets (2)</b>										
AllianceBernstein	15.8	18.9	78.4	78.5	-56.0	-53.2	38.8	39.9	30.4	32.2
Capital International	16.1	18.9	83.1	78.5	-48.9	-53.2	38.4	39.9	35.6	32.2
Morgan Stanley	18.4	18.9	71.7	78.5	-54.5	-53.2	43.0	39.9	37.6	32.2
<b>Aggregate</b>	<b>17.1</b>	<b>18.9</b>	<b>77.3</b>	<b>78.5</b>	<b>-53.0</b>	<b>-53.2</b>	<b>40.0</b>	<b>39.9</b>	<b>34.4</b>	<b>32.2</b>
<b>Semi-Passive Developed Markets (1)</b>										
AQR	11.4	8.9	36.0	33.7	-44.0	-43.5	9.0	12.6	25.2	25.7
Pyramis (Fidelity)	11.5	8.9	30.2	33.7	-44.0	-43.5	18.2	12.6	26.8	25.7
State Street	8.7	8.9	34.9	33.7	-45.3	-43.5	9.1	12.6	27.1	25.7
<b>Aggregate</b>	<b>10.6</b>	<b>8.9</b>	<b>33.6</b>	<b>33.7</b>	<b>-44.4</b>	<b>-43.5</b>	<b>12.1</b>	<b>12.6</b>	<b>26.4</b>	<b>25.7</b>
<b>Passive Developed Markets (1)</b>										
State Street	9.9	8.9	34.0	33.7	-43.4	-43.5	12.9	12.6	26.0	25.7
Equity Only (3) (5)	12.3	11.2	41.2	41.5	-45.3	-45.5	17.1	16.9	27.0	26.7
<b>Total Program (4) (5)</b>	<b>12.3</b>	<b>11.2</b>	<b>41.2</b>	<b>41.5</b>	<b>-45.3</b>	<b>-45.5</b>	<b>17.1</b>	<b>16.9</b>	<b>27.0</b>	<b>26.7</b>
SBI Int'l Equity Target (5)		11.2	41.5		-45.5		16.9		26.7	
MSCI ACWI Free ex. U.S. (6)		11.2	41.5		-45.5		16.7		26.7	
MSCI World ex U.S. (net)		8.9	33.7		-43.6		12.4		25.7	
MSCI EAFE Free (net)		7.7	31.8		-43.4		11.2		26.3	
MSCI Emerging Markets Free (7)		18.9	78.5		-53.3		39.4		32.2	

- (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, 2011**

**Portfolio Manager: John Chisholm**

**Assets Under Management: \$302,286,069**

**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**

Stock selection in the industrials and the materials sectors added value over both the quarter and the year.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.9%	0.9%
Last 1 year	32.7	30.3
Last 2 years	20.7	18.1
Last 3 years	-5.2	-1.6
Last 4 years	-7.4	-3.4
Last 5 years	-0.3	2.1
Since Inception (7/05)	5.2	5.8

**Recommendations**

No action required.

**ACADIAN ASSET MANAGEMENT**  
**Rolling Five Rolling VAM**



5 Year Period Ending

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

**COLUMBIA MANAGEMENT INVESTMENT ADVISERS, LLC**  
**(Formerly RiverSource Investments)**  
**Periods Ending June, 2011**

**Portfolio Manager:** Esther Perkins

**Assets Under Management:** \$290,552,908

**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**

Stock selection in the consumer discretionary and the industrials sectors added value over both the quarter and the year.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.6%	0.9%
Last 1 year	36.1	30.3
Last 2 years	20.6	18.1
Last 3 years	0.6	-1.6
Last 4 years	-1.3	-3.4
Last 5 years	3.1	2.1
Since Inception (3/00)	1.1	2.8

**Recommendations**

No action required.

**COLUMBIA MANAGEMENT INVESTMENT ADVISORS**  
**Rolling Five Year VAM**



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

**INVESCO GLOBAL ASSET MANAGEMENT**  
**Periods Ending June, 2011**

**Portfolio Manager:** W. Lindsay Davidson

**Assets Under Management:** \$243,801,637

**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**

During the quarter, positive stock selection in the consumer discretionary sector was offset by negative stock selection in the financials and the industrials sectors which also detracted from the one-year performance.

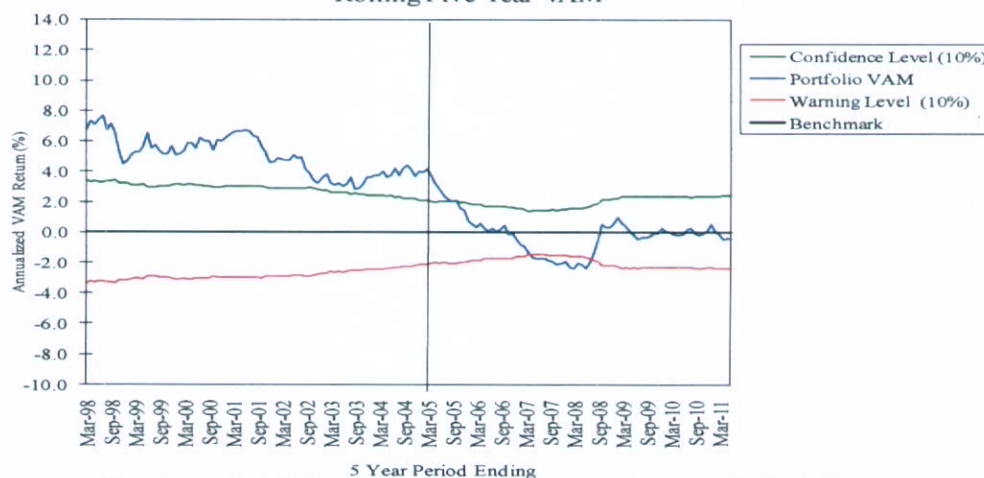
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	0.9%	0.9%
Last 1 year	26.8	30.3
Last 2 years	15.4	18.1
Last 3 years	0.4	-1.6
Last 4 years	-3.4	-3.4
Last 5 years	1.7	2.1
Since Inception (3/00)	4.2	2.8

**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, 2011**

**Portfolio Manager: James Fisher**

**Assets Under Management: \$256,137,884**

**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**

No comment at this time.

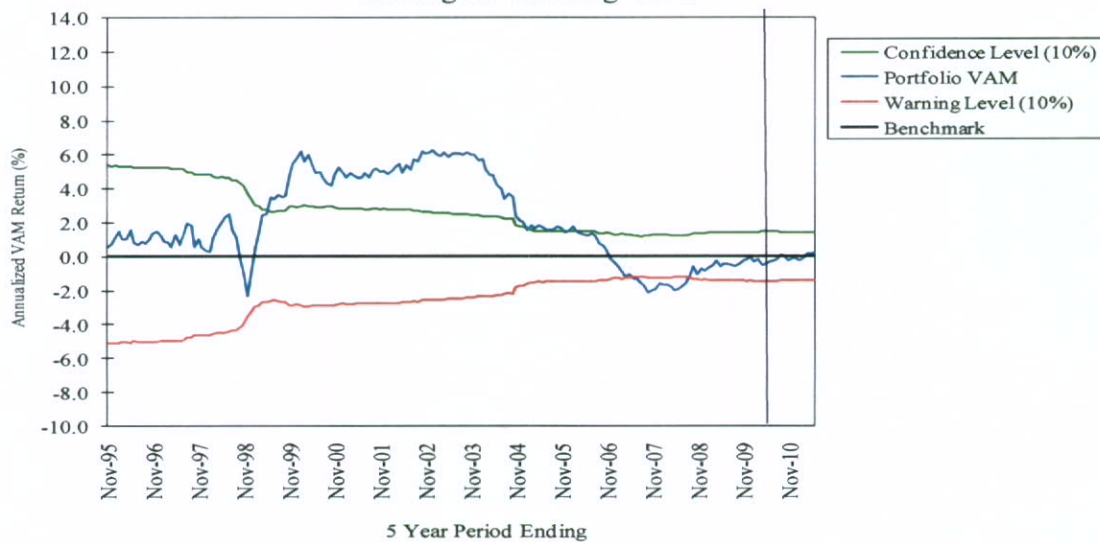
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.5%	0.9%
Last 1 year	32.2	30.3
Last 2 years	19.6	18.1
Last 3 years	0.8	-1.6
Last 4 years	-2.2	-3.4
Last 5 years	2.3	2.1
Since Inception (7/05)	5.8	5.8

**Recommendations**

No action required.

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



**MARATHON ASSET MANAGEMENT**  
**Periods Ending June, 2011**

**Portfolio Manager: William Arah**

**Assets Under Management: \$580,507,722**

**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**

During the quarter, an underweight position to and stock selection in the materials, energy and financials sectors contributed positively to performance. During the year, stock selection in the telecommunications, consumer staples, and utilities sectors detracted from returns.

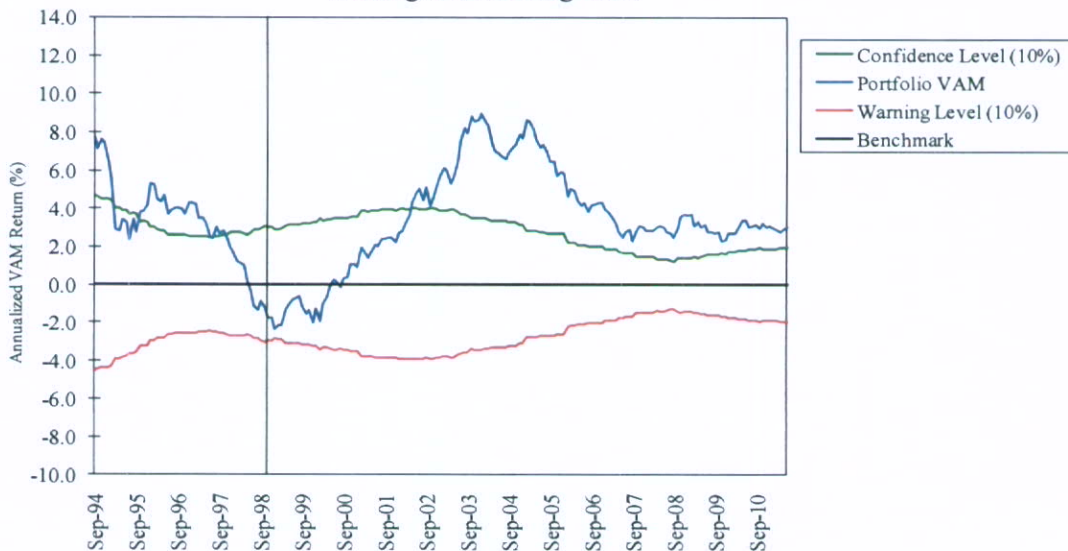
**Quantitative Evaluation**

	<b>Custom</b>	
	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.3%	0.9%
Last 1 year	29.2	30.3
Last 2 years	19.8	18.1
Last 3 years	1.8	-1.6
Last 4 years	-0.2	-3.4
Last 5 years	5.2	2.1
Since Inception (11/93)	8.8	5.4

**Recommendations**

No action required.

**MARATHON ASSET MANAGEMENT**  
**Rolling Five Rolling VAM**



5 Year Period Ending

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

**MCKINLEY CAPITAL MANAGEMENT, INC.**  
**Periods Ending June, 2011**

**Portfolio Manager: Robert A. Gillam**

**Assets Under Management: \$248,694,202**

**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**

No comment at this time.

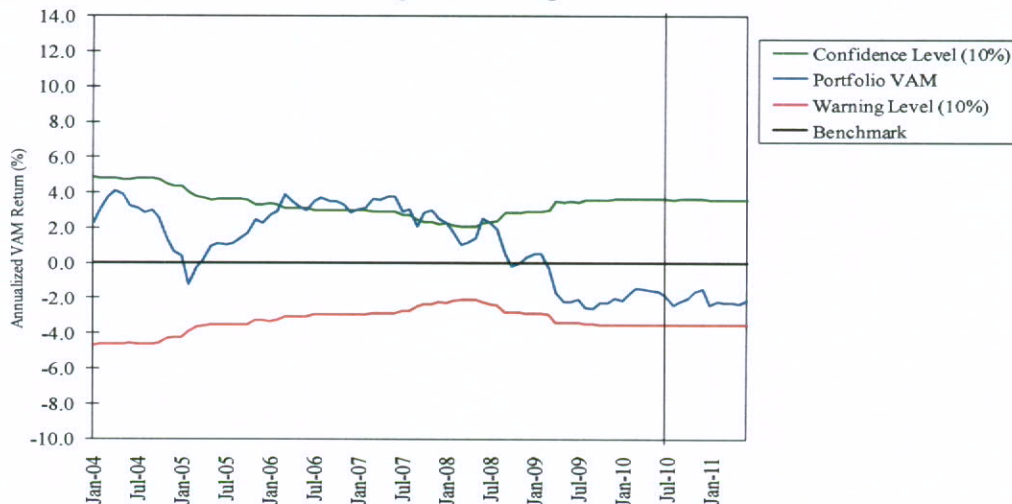
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.3%	0.9%
Last 1 year	30.8	30.3
Last 2 years	19.2	18.1
Last 3 years	-6.9	-1.6
Last 4 years	-6.6	-3.4
Last 5 years	-0.1	2.1
Since Inception (7/05)	4.5	5.8

**Recommendations**

No action required.

**McKINLEY CAPITAL MANAGEMENT, INC.**  
**Rolling Five Rolling VAM**



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

**PYRAMIS GLOBAL ADVISORS TRUST COMPANY**  
**(Formerly Fidelity Management Trust Company)**  
**Periods Ending June, 2011**

**Portfolio Manager: Michael Strong**

**Assets Under Management: \$283,902,473**

**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**

No comment at this time.

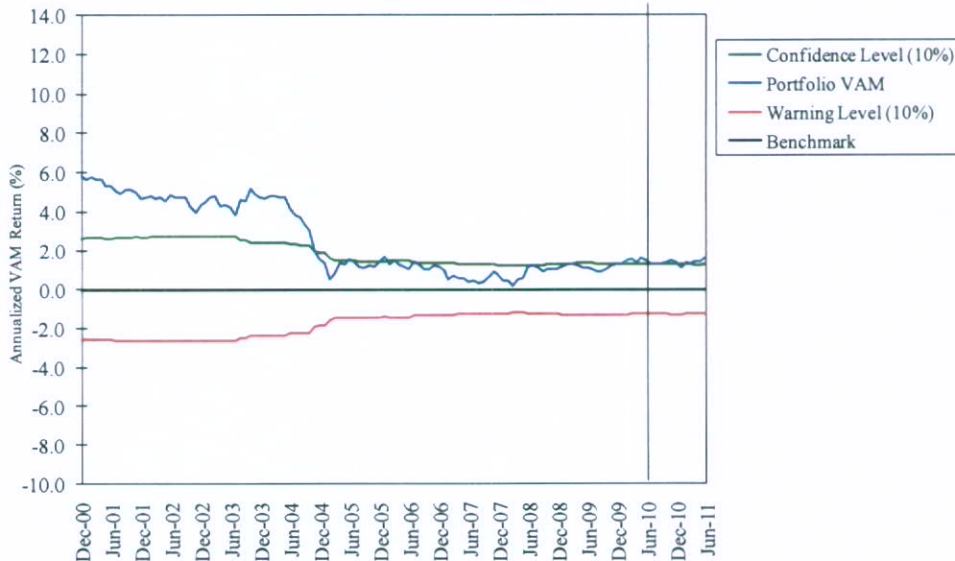
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.6%	0.9%
Last 1 year	31.8	30.3
Last 2 years	20.1	18.1
Last 3 years	-0.6	-1.6
Last 4 years	-1.1	-3.4
Last 5 years	3.7	2.1
Since Inception (7/05)	7.3	5.8

**Recommendations**

No action required.

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



5 Year Period Ending

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

**ALLIANCEBERNSTEIN L.P.**  
**Periods Ending June, 2011**

**Portfolio Manager: Steve Beinhacker**

**Assets Under Management: \$186,932,382**

**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**

Over both the quarter and the year, stock selection in Brazil, Taiwan, Mexico and China, and in the consumer staples sector detracted from the portfolio's returns.

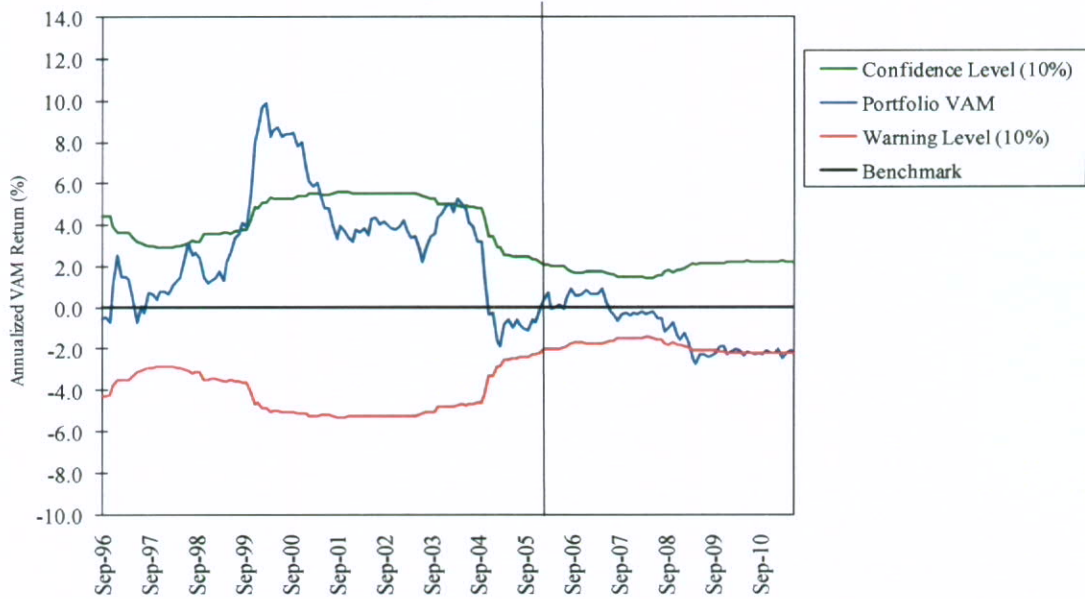
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-1.8%	-1.1%
Last 1 year	24.9	27.8
Last 2 years	24.7	25.4
Last 3 years	0.5	4.2
Last 4 years	1.6	4.5
Last 5 years	9.1	11.6
Since Inception (3/01)	12.7	14.2

**Recommendations**

No action required.

**ALLIANCEBERNSTEIN L.P.**  
**Rolling Five Year VAM**



5 Year Period Ending

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

**CAPITAL INTERNATIONAL, INC.**  
**Periods Ending June, 2011**

**Portfolio Manager: Victor Kohn**

**Assets Under Management: \$790,770,754**

**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**

Stock selection in Taiwan, China, and in the consumer staples sector contributed significantly to the portfolio's underperformance for the quarter and the year.

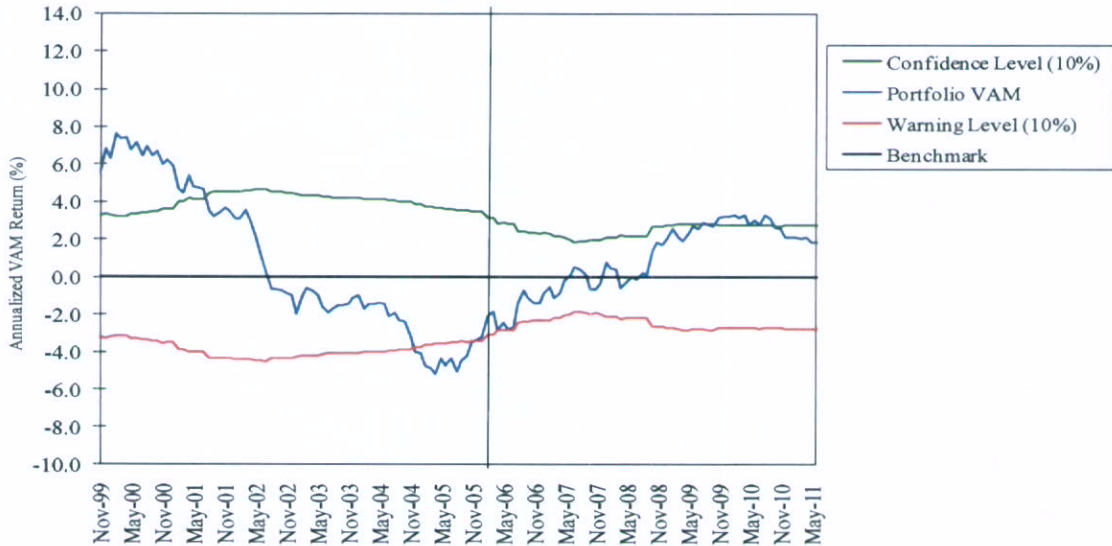
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-1.9%	-1.1%
Last 1 year	22.5	27.8
Last 2 years	23.3	25.4
Last 3 years	6.4	4.2
Last 4 years	5.7	4.5
Last 5 years	13.6	11.6
Since Inception (3/01)	13.4	14.2

**Recommendations**

No action required.

**CAPITAL INTERNATIONAL, INC.**  
**Rolling Five Year VAM**



5 Year Period Ending

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

**MORGAN STANLEY INVESTMENT MANAGEMENT**  
**Periods Ending June, 2011**

**Portfolio Manager: Ruchir Sharma**

**Assets Under Management: \$741,201,151**

**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**

During the quarter, stock selection in the consumer staples sector and in Brazil, India and Turkey contributed to the portfolio's outperformance relative to the benchmark. An underweight position and stock selection in the energy sector was a significant drag on performance for the year.

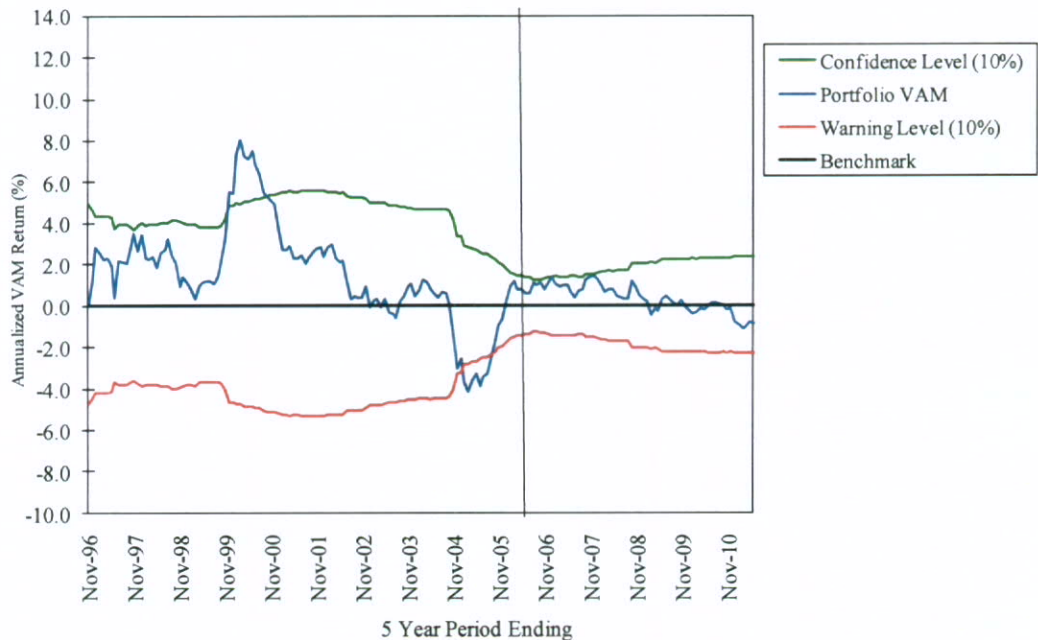
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-0.1%	-1.1%
Last 1 year	25.2	27.8
Last 2 years	23.3	25.4
Last 3 years	2.9	4.2
Last 4 years	2.8	4.5
Last 5 years	10.6	11.6
Since Inception (3/01)	13.9	14.2

**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, 2011**

**Portfolio Manager:** Cliff Asness

**Assets Under Management:** \$286,919,713

**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 the industrials sectors added value over both the quarter and the year.

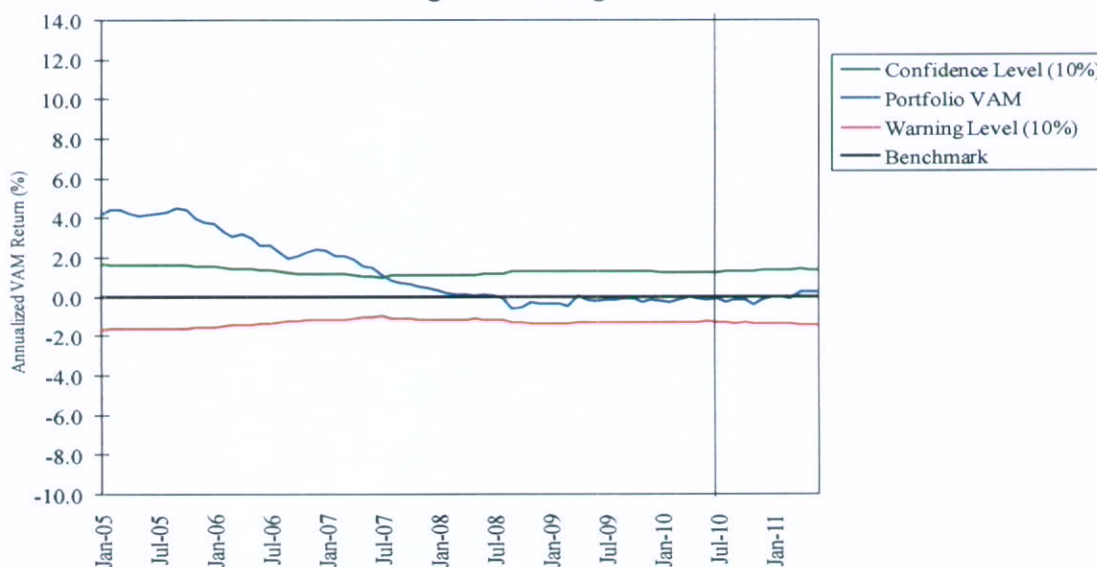
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.7%	0.9%
Last 1 year	34.0	30.3
Last 2 years	20.8	18.1
Last 3 years	-0.4	-1.6
Last 4 years	-3.2	-3.4
Last 5 years	2.4	2.1
Since Inception (7/05)	6.2	5.8

**Recommendations**

No action required.

**AQR CAPITAL MANAGEMENT, LLC**  
**Rolling Five Rolling VAM**



5 Year Period Ending

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



**PYRAMIS GLOBAL ADVISORS TRUST COMPANY**  
**(Formerly Fidelity Management Trust Company)**  
**Periods Ending June, 2011**

**Portfolio Manager: Cesar Hernandez**

**Assets Under Management: \$427,059,423**

**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**

No comment at this time.

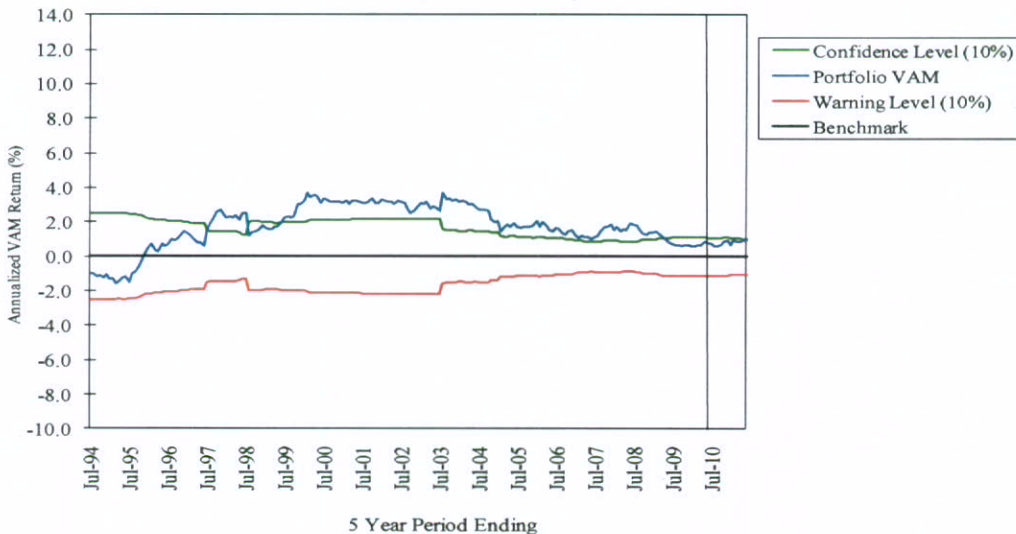
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.2%	0.9%
Last 1 year	32.1	30.3
Last 2 years	19.1	18.1
Last 3 years	-2.4	-1.6
Last 4 years	-2.6	-3.4
Last 5 years	3.1	2.1
Since Inception (7/05)	6.8	5.8

**Recommendations**

No action required.

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



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

**STATE STREET GLOBAL ADVISORS**  
**Periods Ending June, 2011**

**Portfolio Manager: Didier Rosenfeld**

**Assets Under Management: \$270,370,376**

**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**

No comment at this time.

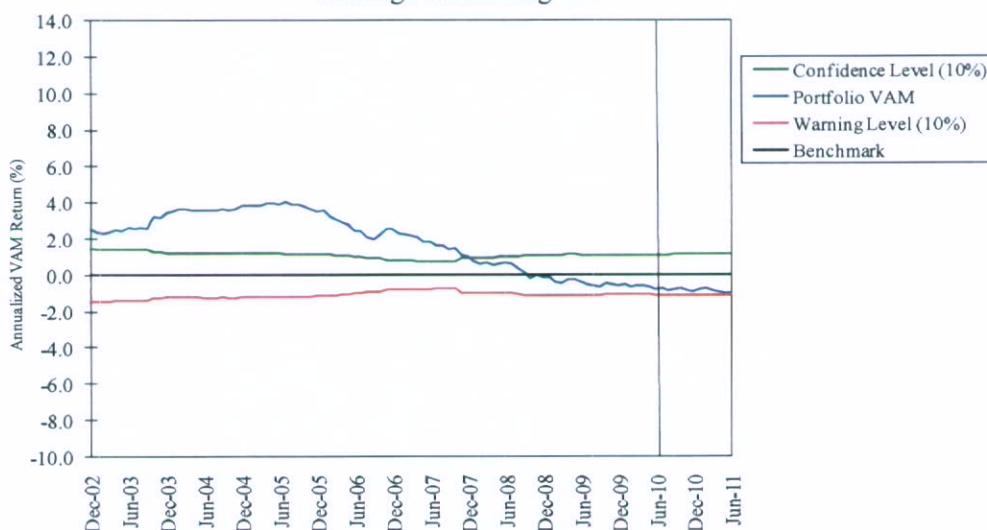
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	0.6%	0.9%
Last 1 year	30.9	30.3
Last 2 years	18.2	18.1
Last 3 years	-2.4	-1.6
Last 4 years	-4.6	-3.4
Last 5 years	1.1	2.1
Since Inception (7/05)	5.2	5.8

**Recommendations**

No action required.

**STATE STREET GLOBAL ADVISORS - ALPHA**  
**Rolling Five Rolling VAM**



5 Year Period Ending

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

**STATE STREET GLOBAL ADVISORS**  
**Periods Ending June, 2011**

**Portfolio Manager: Lynn Blake**

**Assets Under Management: \$2,770,411,381**

**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 portfolio's positive tracking error is within expectation.

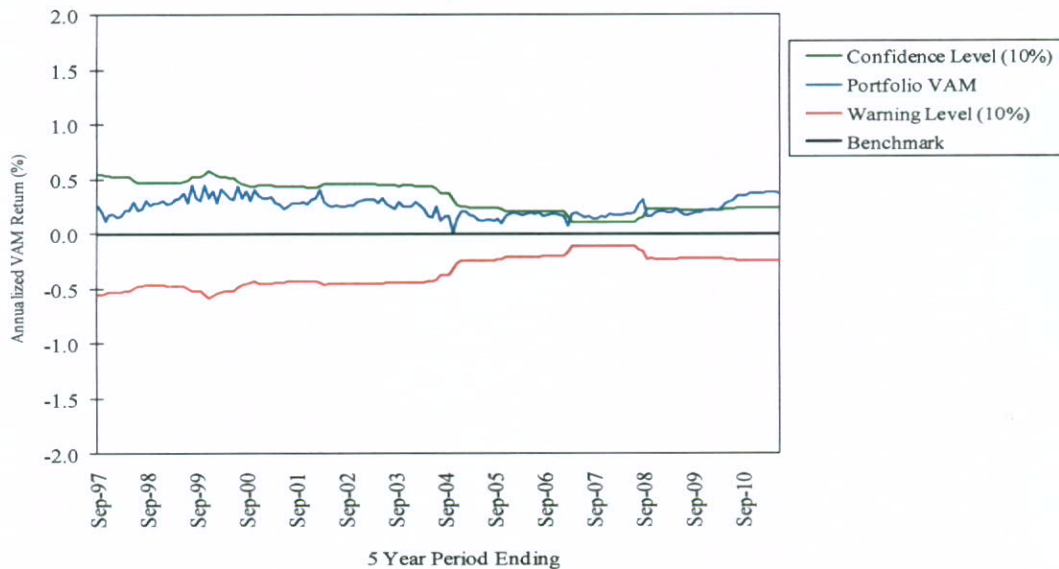
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.1%	0.9%
Last 1 year	31.1	30.3
Last 2 years	18.8	18.1
Last 3 years	-1.1	-1.6
Last 4 years	-3.0	-3.4
Last 5 years	2.5	2.1
Since Inception (10/92)	6.9	6.6

**Recommendation**

No action required.

**STATE STREET GLOBAL ADVISORS - PASSIVE**  
**Rolling Five Year VAM**



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# STATE BOARD OF INVESTMENT

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## Non-Retirement Manager Evaluation Reports

Second Quarter, 2011



## **Non-Retirement Managers**

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**NON - RETIREMENT MANAGERS**  
**Periods Ending June, 2011**

	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)	-1.3	0.1	27.6	30.7	2.8	3.3	3.8	2.9	9.2	8.6	\$70.2
RBC Global Asset Management (Custom Benchmark)	2.2	2.1	5.3	2.9	6.5	5.1	5.5	5.9	6.1	6.2	\$241.3
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)	0.8	0.3	3.8	1.3	4.3	1.8	4.5	2.8	5.4	4.3	\$1,372.6
Internal Stock Pool (S&P 500 Index)	0.1	0.1	30.8	30.7	3.5	3.3	3.0	2.9	8.3	8.2	\$1,028.2
Internal Bond Pool - Income Share (Barclays Capital Aggregate) (2)	1.5	2.3	4.4	3.9	7.4	6.5	7.0	6.5	7.6	7.3	\$91.0
Internal Bond Pool - Trust (Barclays Capital Aggregate)	1.5	2.3	4.2	3.9	7.4	6.5	7.1	6.5	7.1	6.6	\$654.7

(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**

	2010		2009		2008		2007		2006	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
GE Asset Management (S&P 500 Index)	10.7	15.1	32.3	26.5	-35.6	-37.0	8.5	5.5	16.4	15.8
RBC Global Asset Management (Custom Benchmark)	8.4	5.0	8.3	0.9	-2.4	9.5	5.8	7.9	4.5	4.3
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)	4.1	1.5	4.7	1.9	4.7	2.6	4.8	4.7	4.6	5.2
Internal Stock Pool (S&P 500 Index)	15.1	15.1	26.3	26.5	-36.7	-37.0	5.5	5.5	15.9	15.8
Internal Bond Pool - Income Share (Barclays Capital Aggregate)	7.0	6.5	12.9	5.9	1.3	5.2	6.4	7.0	5.0	4.3
Internal Bond Pool - Trust (Barclays Capital Aggregate)	6.3	6.5	12.2	5.9	2.6	5.2	7.1	7.0	5.1	4.3

**GE ASSET MANAGEMENT - Assigned Risk Plan  
Periods Ending June, 2011**

**Portfolio Manager: Dave Carlson**

**Assets Under Management: \$70,241,530**

**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**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-1.3%	0.1%
Last 1 year	27.6	30.7
Last 2 years	17.7	22.3
Last 3 years	2.8	3.3
Last 4 years	0.0	-1.0
Last 5 years	3.8	2.9
Since Inception (1/95)	9.2	8.6

**Recommendation**

No action required.

**GE ASSET MANAGEMENT  
Rolling Five Year VAM**



**RBC GLOBAL ASSET MANAGEMENT (U.S.) - Assigned Risk Plan**  
**Periods Ending June, 2011**

**Portfolio Manager: John Huber**

**Assets Under Management: \$241,283,512**

**Investment Philosophy**  
**Assigned Risk Plan**

RBC 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**

No comment at this time.

**Quantitative Evaluation**

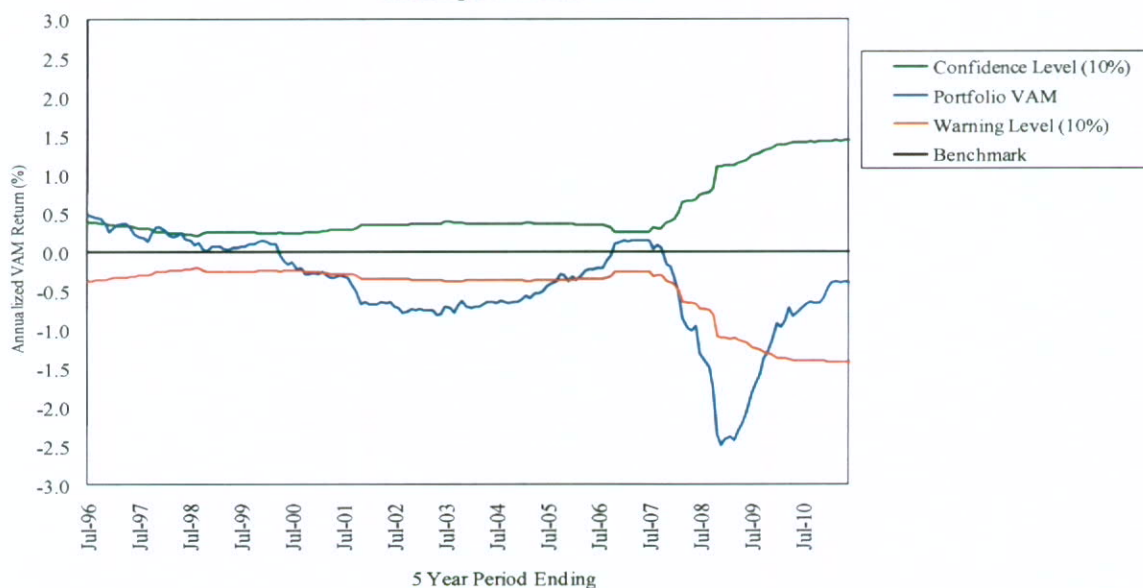
	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	2.2%	2.1%
Last 1 year	5.3	2.9
Last 2 years	9.3	4.4
Last 3 years	6.5	5.1
Last 4 years	5.4	6.0
Last 5 years	5.5	5.9
Since Inception (7/91)	6.1	6.2

**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.

**RBC GLOBAL ASSET MANAGEMENT**  
**Rolling Five Year VAM**



**GALLIARD CAPITAL MANAGEMENT**  
**Periods Ending June, 2010**

**Portfolio Manager: Karl Tourville**

**Assets Under Management: \$1,372,618,399**

**Investment Philosophy**

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.

**Staff Comments**

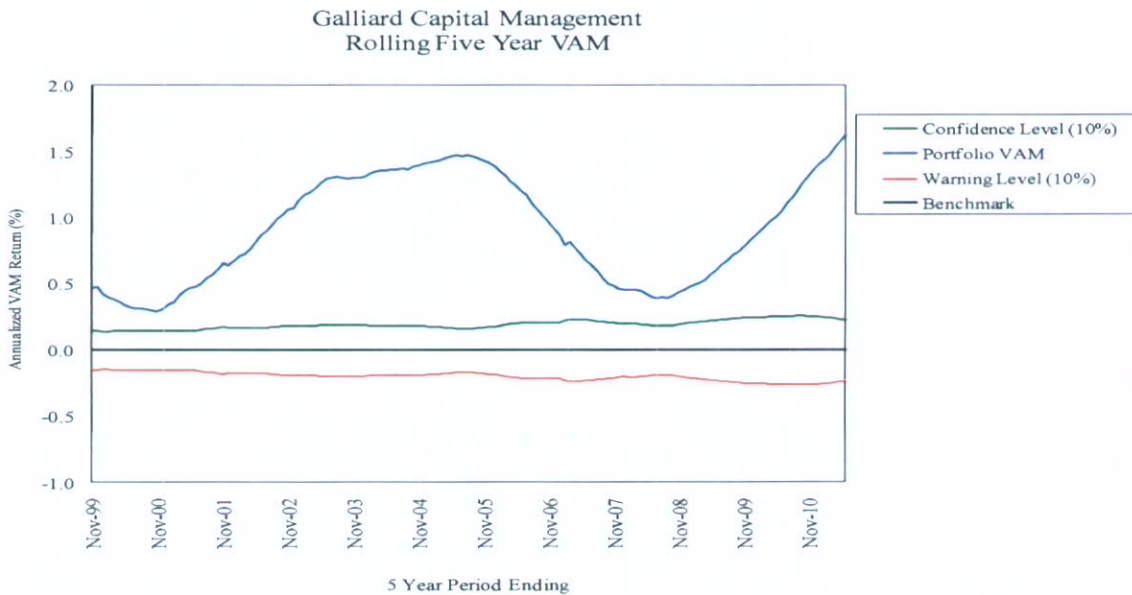
No comment at this time.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	0.8%	0.3%
Last 1 year	3.8	1.3
Last 2 years	4.1	1.6
Last 3 years	4.3	1.8
Last 4 years	4.4	2.2
Last 5 years	4.5	2.8
Since Inception (11/94)	5.4	4.3

**Recommendation**

No action required.



**INTERNAL STOCK POOL - Trust/Non-Retirement Assets**  
**Periods Ending June, 2011**

**Portfolio Manager: Mike Messen**

**Assets Under Management: \$1,028,173,379**

**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.

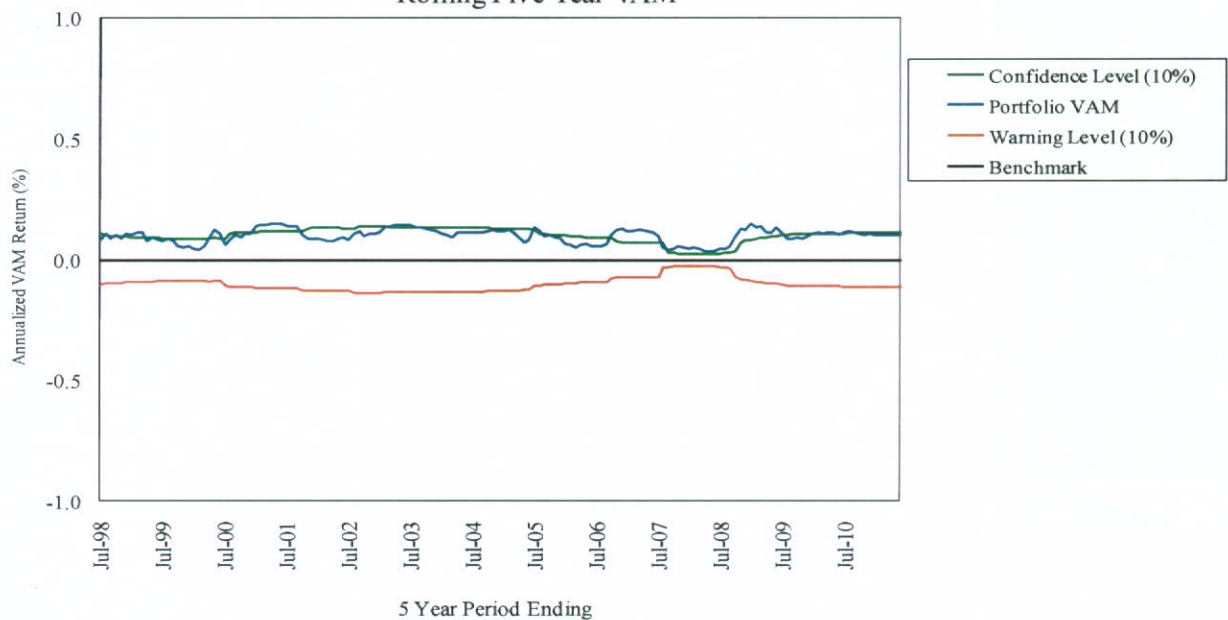
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	0.1%	0.1%
Last 1 year	30.8	30.7
Last 2 years	22.2	22.3
Last 3 years	3.5	3.3
Last 4 years	-0.9	-1.0
Last 5 years	3.0	2.9
Since Inception (7/93)	8.3	8.2

No action required.

**INTERNAL STOCK POOL**  
**Trust/Non-Retirement Assets**  
**Rolling Five Year VAM**



**INTERNAL BOND POOL - Income Share Account**  
**Periods Ending June, 2011**

**Portfolio Manager: Mike Messen**

**Assets Under Management: \$90,999,153**

**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.

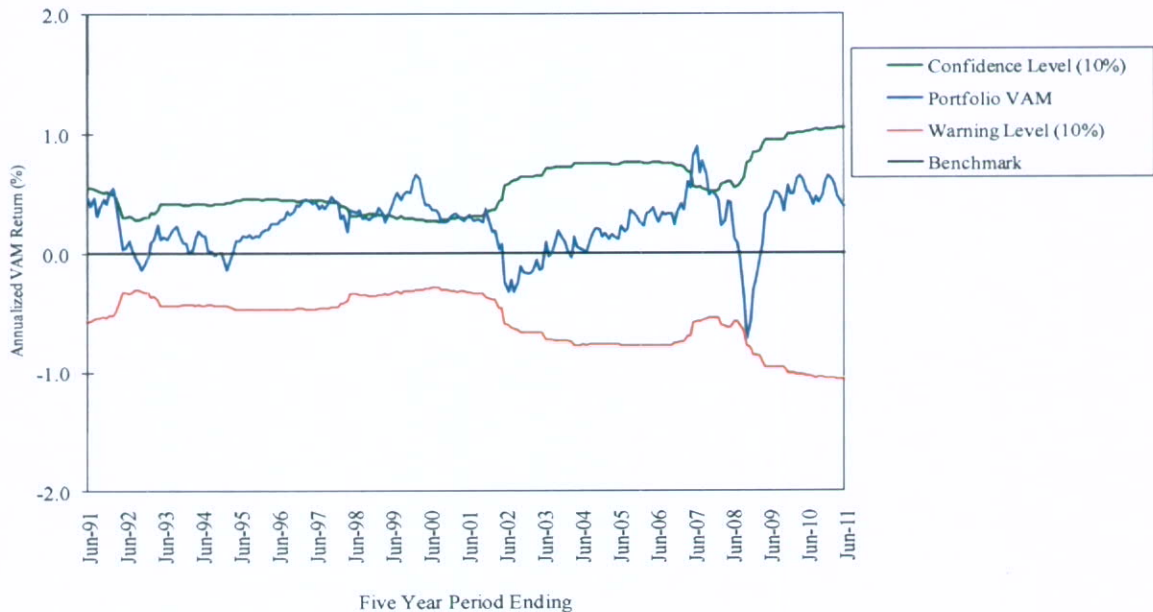
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.5%	2.3%
Last 1 year	4.4	3.9
Last 2 years	7.5	6.7
Last 3 years	7.4	6.5
Last 4 years	7.1	6.6
Last 5 years	7.0	6.5
Since Inception (7/86)	7.6	7.3

**Recommendation**

No action required.

**INTERNAL BOND POOL - INCOME SHARE ACCOUNT**  
**Rolling Five Year VAM**



**INTERNAL BOND POOL - Trust/Non-Retirement Assets**  
**Periods Ending June, 2011**

**Portfolio Manager: Mike Messen**

**Assets Under Management: \$654,677,029**

**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**

	<b>Actual</b>	<b>Benchmark</b>	
Last Quarter	1.5%	2.3%	No action required.
Last 1 year	4.2	3.9	
Last 2 years	6.9	6.7	
Last 3 years	7.4	6.5	
Last 4 years	7.3	6.6	
Last 5 years	7.1	6.5	
Since Inception (7/94)*	7.1	6.6	

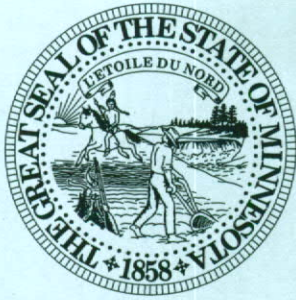
\* Date started managing the pool against the Barclays Capital Aggregate.

**INTERNAL BOND POOL - TRUST/NON-RETIREMENT ASSETS**  
**Rolling Five Year VAM**



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# STATE BOARD OF INVESTMENT

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## Deferred Compensation Plan Evaluation Reports

Second Quarter, 2011



# Mutual Fund Managers

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**MN STATE 457 DEFERRED COMPENSATION PLAN**  
**MUTUAL FUND MANAGERS**  
**Periods Ending June, 2011**

457 Mutual Funds	Quarter		1 Year		3 Years		5 Years		Since Retention by SBI *		State's Participation
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	%	%	In Fund (\$ millions)
<b>Large Cap Equity:</b>											
Janus Twenty (S&P 500)	0.0	0.1	22.5	30.7	-4.0	3.3	6.4	2.9	1.4	1.5	\$402.9
Legg Mason Partners Appr I (S&P 500)	0.1	0.1	26.2	30.7	3.0	3.3	4.4	2.9	5.8	5.1	\$129.0
Vanguard Institutional Index Plus (S&P 500)	0.1	0.1	30.7	30.7	3.4	3.3	3.0	2.9	1.5	1.5	\$457.1
<b>Mid Cap Equity:</b>											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	-0.1	-0.1	38.7	38.7	6.4	6.4	5.1	5.1	8.5	8.5	\$234.8
<b>Small Cap Equity:</b>											
T. Rowe Price Small-Cap Stock (Russell 2000)	-0.5	-1.6	43.9	37.4	13.9	7.8	6.8	4.1	9.5	6.4	\$460.1
<b>Balanced:</b>											
Dodge & Cox Balanced Fund (60% S&P 500/40% Barclays Capital Agg)	0.7	1.0	24.2	19.6	4.5	5.0	2.4	4.7	5.8	5.7	\$282.6
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Barclays Capital Agg)	1.0	0.9	20.5	20.6	5.8	5.6	5.3	5.1	6.0	5.9	\$202.3
<b>Bond:</b>											
Dodge & Cox Income Fund (Barclays Capital Aggregate)	1.8	2.3	6.0	3.9	8.5	6.5	7.1	6.5	6.6	6.1	\$159.7
Vanguard Total Bond Market Index Inst. (Barclays Capital Aggregate)	2.3	2.3	3.7	3.9	6.4	6.5	6.6	6.5	5.2	5.2	\$139.1
<b>International:</b>											
Fidelity Diversified International (MSCI EAFE-Free)	0.1	1.6	30.5	30.4	-3.3	-1.8	1.4	1.5	7.1	3.7	\$249.9
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	2.1	1.6	32.3	30.4	-1.4	-1.8	1.8	1.5	7.9	7.6	\$106.8

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	2010		2009		2008		2007		2006	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>Large Cap Equity:</b>										
Janus Twenty (S&P 500)	7.0	15.1	43.3	26.5	-42.0	-37.0	35.9	5.5	12.3	15.8
Legg Mason Partners Appr I (S&P 500)	12.7	15.1	21.8	26.5	-28.8	-37.0	8.6	5.5	15.0	15.8
Vanguard Institutional Index Plus (S&P 500)	15.1	15.1	26.7	26.5	-36.9	-37.0	5.5	5.5	15.8	15.8
<b>Mid Cap Equity:</b>										
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	25.7	25.7	40.5	40.5	-41.8	-41.8	6.2	6.2	13.8	13.7
<b>Small Cap Equity:</b>										
T. Rowe Price Small-Cap Stock (Russell 2000)	32.5	26.9	38.5	27.2	-33.4	-33.8	-1.7	-1.6	12.8	18.4
<b>Balanced:</b>										
Dodge & Cox Balanced Fund (60% S&P 500/40% Barclays Capital Agg)	12.2	12.1	28.4	18.4	-33.6	-22.4	1.7	6.2	13.8	11.1
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Barclays Capital Agg)	13.3	13.5	20.2	19.7	-22.1	-22.4	6.3	6.3	11.1	11.1
<b>Bond:</b>										
Dodge & Cox Income Fund (Barclays Capital Aggregate)	7.2	6.5	16.1	5.9	-0.3	5.2	4.7	7.0	5.3	4.3
Vanguard Total Bond Market Index Inst. (Barclays Capital Aggregate)	6.6	6.5	6.1	5.9	5.2	5.2	7.0	7.0	4.4	4.3
<b>International:</b>										
Fidelity Diversified International (MSCI EAFE-Free)	9.7	7.7	31.8	31.8	-45.2	-43.4	16.0	11.2	22.5	26.3
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	8.7	7.7	28.2	31.8	-41.5	-43.4	11.0	11.2	26.3	26.3

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, 2011**

**Portfolio Manager: Ron Sachs**

**State's Participation in Fund: \$402,909,307  
Total Assets in Fund: \$8,700,000,000**

**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**

No comment at this time.

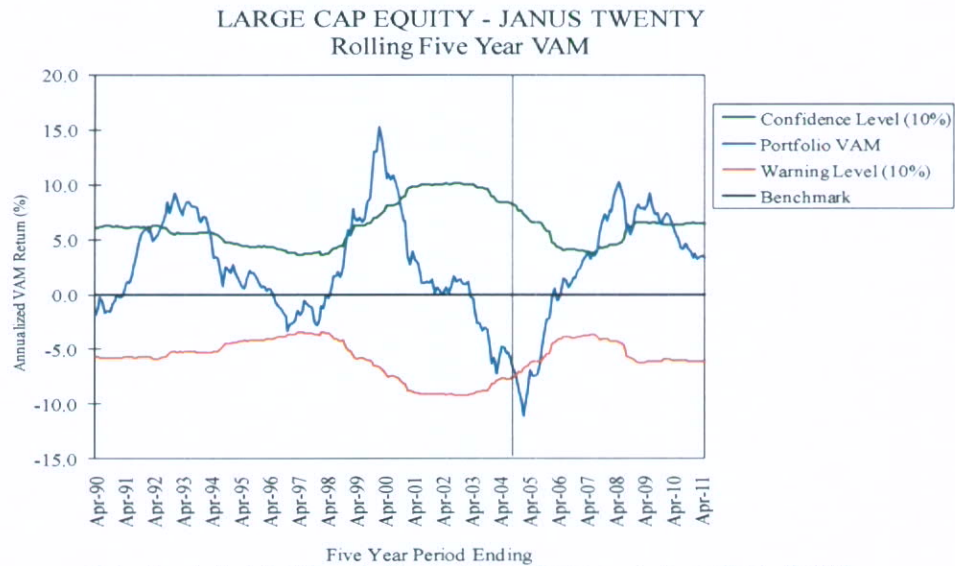
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	0.0%	0.1%
Last 1 year	22.5	30.7
Last 2 years	13.5	22.3
Last 3 years	-4.0	3.3
Last 4 years	2.2	-1.0
Last 5 years	6.4	2.9
Since Retention by SBI (7/99)	1.4	1.5

**Recommendation**

No action required.

\*Benchmark is the S&P 500.



**MN STATE 457 DEFERRED COMPENSATION PLAN  
LARGE CAP EQUITY – LEGG MASON PARTNERS APPRECIATION I  
Periods Ending June, 2011**

**Portfolio Manager: Scott Glasser**

**State's Participation in Fund: \$128,979,161  
Total Assets in Fund: \$4,400,000,000**

**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**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	0.1%	0.1%
Last 1 year	26.2	30.7
Last 2 years	18.7	22.3
Last 3 years	3.0	3.3
Last 4 years	1.3	-1.0
Last 5 years	4.4	2.9
Since Retention by SBI (12/03)	5.8	5.1

**Recommendation**

No action required.

\*Benchmark is the S&P 500.

**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, 2011**

**Portfolio Manager: Donald Butler**

**State's Participation in Fund: \$457,124,915  
Total Assets in Fund: \$37,511,000,000**

**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**

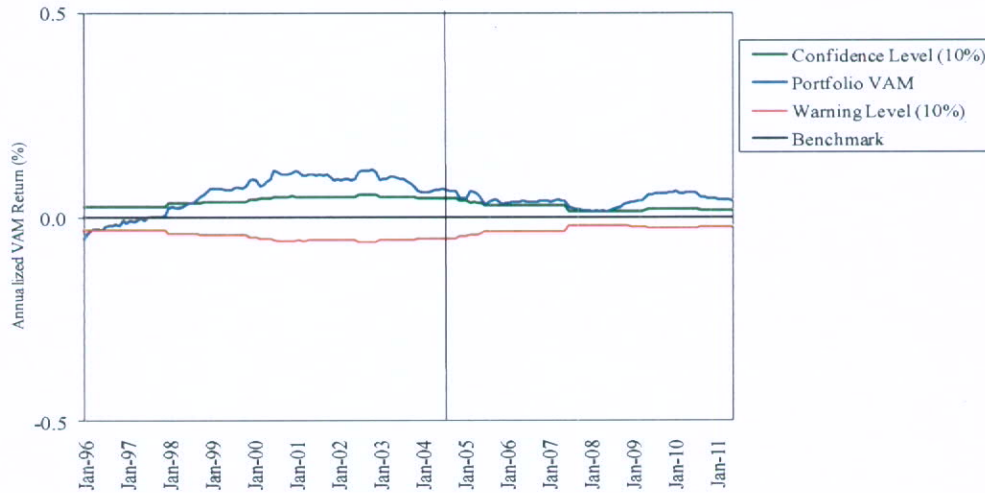
	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	0.1%	0.1%
Last 1 year	30.7	30.7
Last 2 years	22.3	22.3
Last 3 years	3.4	3.3
Last 4 years	-1.0	-1.0
Last 5 years	3.0	2.9
Since Retention by SBI (7/99)	1.5	1.5

**Recommendation**

No action required.

\*Benchmark is the S&P 500.

**EQUITY INDEX - VANGUARD INSTITUTIONAL INDEX PLUS  
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  
MID CAP EQUITY – VANGUARD MID-CAP INDEX  
Periods Ending June, 2011**

**Portfolio Manager: Donald Butler**

**State's Participation in Fund: \$234,798,172  
Total Assets in Fund: \$7,479,000,000**

**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.

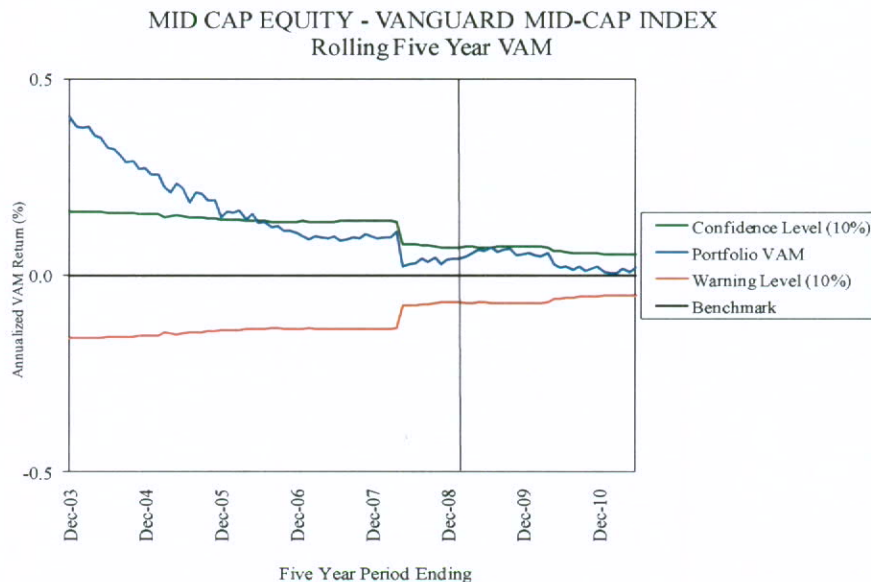
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	-0.1%	-0.1%
Last 1 year	38.7	38.7
Last 2 years	32.7	32.7
Last 3 years	6.4	6.4
Last 4 years	1.6	1.5
Last 5 years	5.1	5.1
Since Retention by SBI (1/04)	8.5	8.5

**Recommendation**

No action required.

\*Benchmark is the MSCI US Mid Cap 450.



**MN STATE 457 DEFERRED COMPENSATION PLAN  
SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP STOCK FUND  
Periods Ending June, 2011**

<b>Portfolio Manager: Gregory A. McCrickard</b>	<b>State's Participation in Fund: \$460,110,532</b>
	<b>Total Assets in Fund: \$7,598,000,000</b>

**Investment Philosophy  
T. Rowe Price Small Cap Equity Fund**

**Staff Comments**

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.

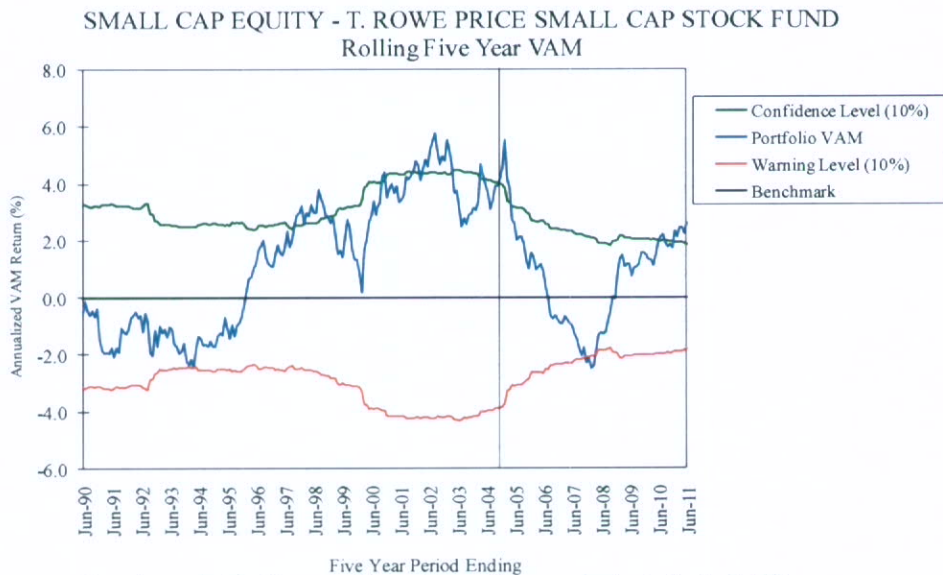
No comment at this time.

**Quantitative Evaluation**

**Recommendation**

	Actual	Benchmark*	
Last Quarter	-0.5%	-1.6%	No action required.
Last 1 year	43.9	37.4	
Last 2 years	34.8	29.2	
Last 3 years	13.9	7.8	
Last 4 years	5.0	1.2	
Last 5 years	6.8	4.1	
Since Retention by SBI (7/99)	9.5	6.4	

\*Benchmark is the Russell 2000.



**STATE 457 DEFERRED COMPENSATION PLAN  
BALANCED – DODGE & COX BALANCED FUND  
Periods Ending June, 2011**

**Portfolio Manager: John Gunn**

**State's Participation in Fund: \$282,568,500  
Total Assets in Fund: \$14,700,000,000**

**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**

No comment at this time.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	0.7%	1.0%
Last 1 year	24.2	19.6
Last 2 years	19.5	16.1
Last 3 years	4.5	5.0
Last 4 years	-0.6	2.3
Last 5 years	2.4	4.7
Since Retention By SBI (10/03)	5.8	5.7

**Recommendation**

No action required.

\*Benchmark is 60% S&P 500, 40% Barclays Capital Aggregate.

**BALANCED - DODGE & COX BALANCED FUND  
Rolling Five Year VAM**



**MN STATE 457 DEFERRED COMPENSATION PLAN  
BALANCED – VANGUARD BALANCED INDEX INSTITUTIONAL FUND  
Periods Ending June, 2011**

**Portfolio Manager: Michael Perre**

**State's Participation in Fund: \$202,288,607  
Total Assets in Fund: \$3,841,000,000**

**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 Barclays Capital Aggregate Bond Index, an unmanaged index that covers virtually all taxable fixed-income securities.

**Staff Comments**

No comment at this time.

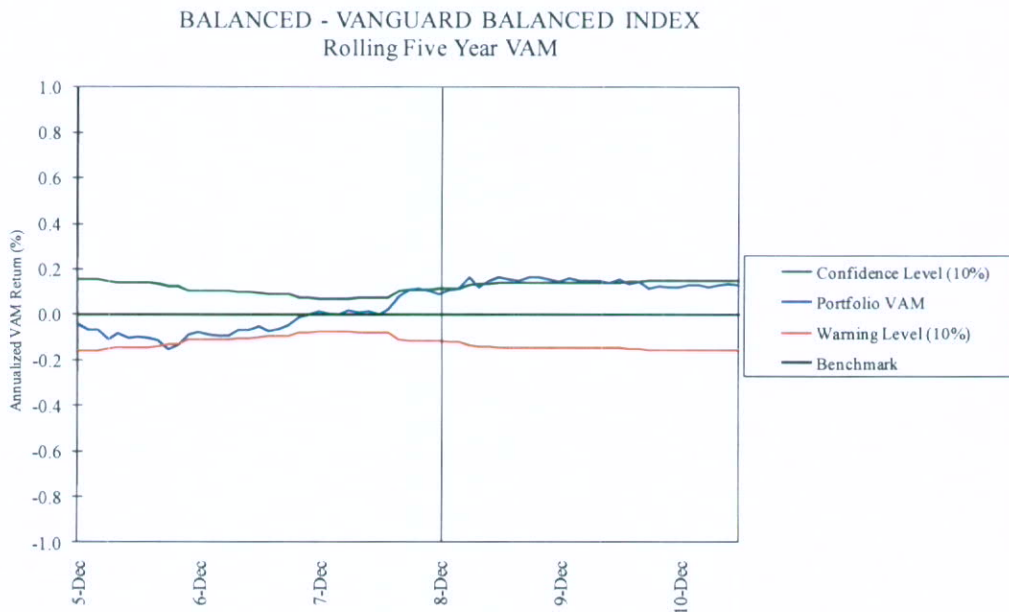
**Quantitative Evaluation**

	Actual	Benchmark*
Last Quarter	1.0%	0.9%
Last 1 year	20.5	20.6
Last 2 years	17.1	17.2
Last 3 years	5.8	5.6
Last 4 years	3.1	2.9
Last 5 years	5.3	5.1
Since Retention by SBI (12/03)	6.0	5.9

**Recommendation**

No action required.

\*Benchmark is 60% MSCI US Broad Market, 40% Barclays Capital Aggregate. Equity benchmark was Wilshire 5000 prior to April 1, 2005.



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  
BOND – DODGE & COX INCOME FUND  
Periods Ending June, 2011**

**Portfolio Manager: Dana Emery**

**State's Participation in Fund: \$159,717,277  
Total Assets in Fund: \$23,900,000,000**

**Investment Philosophy  
Dodge & Cox Income Fund**

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.

**Staff Comments**

No comment at this time.

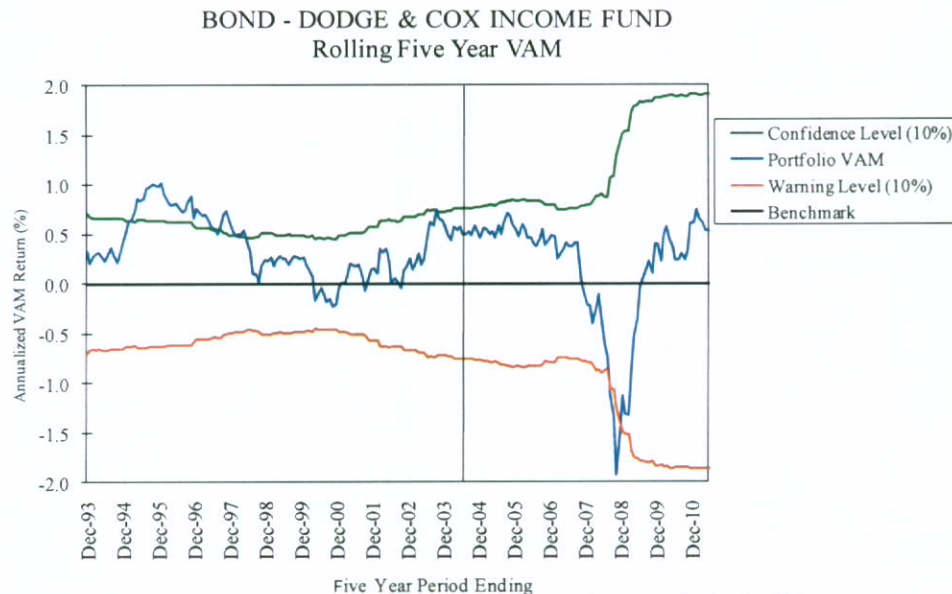
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	1.8%	2.3%
Last 1 year	6.0	3.9
Last 2 years	9.1	6.7
Last 3 years	8.5	6.5
Last 4 years	7.3	6.6
Last 5 years	7.1	6.5
Since Retention By SBI (7/99)	6.6	6.1

**Recommendation**

No action required.

\*Benchmark is the Barclays Capital Aggregate.



**MN STATE 457 DEFERRED COMPENSATION PLAN  
BOND – VANGUARD TOTAL BOND MARKET INDEX INSTITUTIONAL  
Periods Ending June, 2011**

**Portfolio Manager: Kenneth Volpert**

**State's Participation in Fund: \$139,070,716  
Total Assets in Fund: \$20,930,000,000**

**Investment Philosophy  
Vanguard Total Bond Market Index  
Institutional**

**Staff Comments**

The fund attempts to track the performance of the Barclays Capital 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.

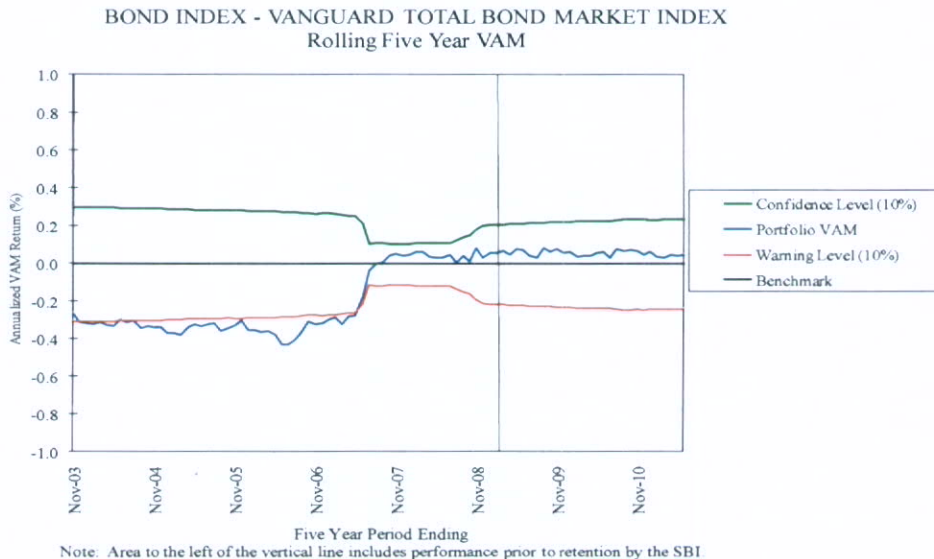
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	2.3%	2.3%
Last 1 year	3.7	3.9
Last 2 years	6.5	6.7
Last 3 years	6.4	6.5
Last 4 years	6.7	6.6
Last 5 years	6.6	6.5
Since Retention by SBI (12/03)	5.2	5.2

No action required.

\*Benchmark is the Barclays Capital Aggregate.



**MN STATE 457 DEFERRED COMPENSATION PLAN  
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL  
Periods Ending June, 2011**

**Portfolio Manager: William Bower**

**State's Participation in Fund: \$249,923,134  
Total Assets in Fund: \$22,741,360,000**

**Investment Philosophy  
Fidelity Diversified International**

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.

**Staff Comments**

No comment at this time.

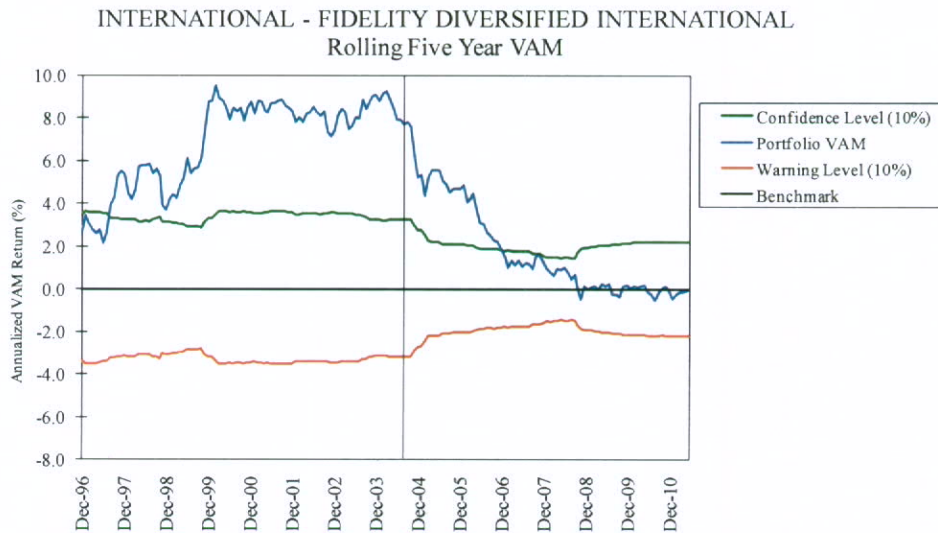
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	0.1%	1.6%
Last 1 year	30.5	30.4
Last 2 years	17.4	17.5
Last 3 years	-3.3	-1.8
Last 4 years	-3.9	-4.1
Last 5 years	1.4	1.5
Since Retention By SBI (7/99)	7.1	3.7

**Recommendation**

No action required.

\*Benchmark is the MSCI EAFE-Free.



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**  
**INTERNATIONAL – VANGUARD INSTITUTIONAL DEVELOPED MARKETS INDEX**  
**Periods Ending June, 2011**

<b>Portfolio Manager:</b> Duane Kelly and Michael Buek	<b>State's Participation in Fund:</b> \$106,761,973	<b>Total Assets in Fund:</b> \$5,381,000,000
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**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.

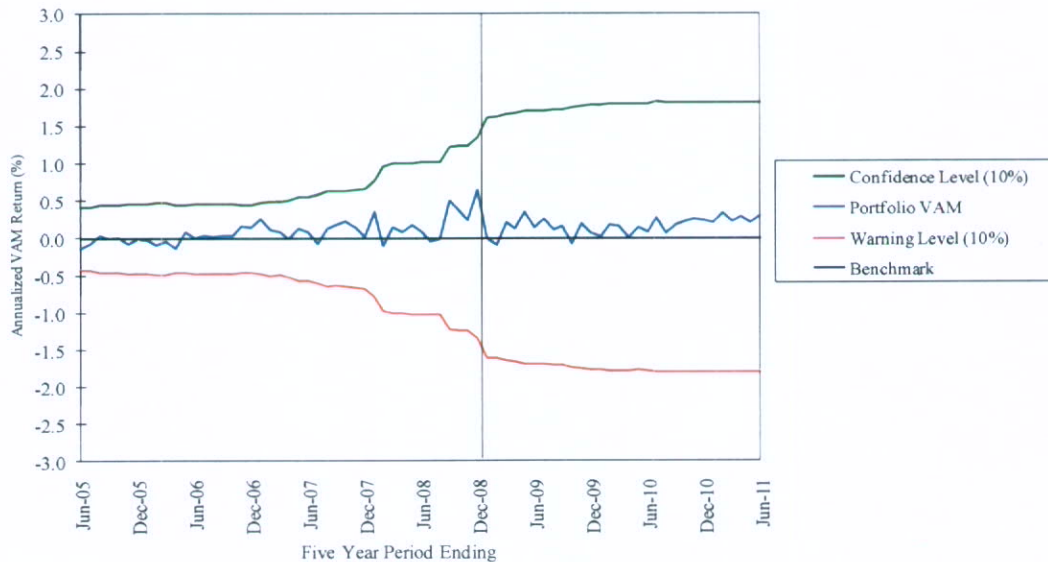
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark*</b>	
Last Quarter	2.1%	1.6%	No action required.
Last 1 year	32.3	30.4	
Last 2 years	17.8	17.5	
Last 3 years	-1.4	-1.8	
Last 4 years	-3.7	-4.1	
Last 5 years	1.8	1.5	
Since Retention by SBI (12/03)	7.9	7.6	

\*Benchmark is the MSCI EAFE International

INTERNATIONAL - VANGUARD DEVELOPED MARKET INDEX  
Rolling Five Year VAM



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



TAB

D

## **INVESTMENT ADVISORY COUNCIL REPORT**

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DATE: August 31, 2011

TO: Members, State Board of Investment

**FROM: Members, Investment Advisory Council**

The Investment Advisory Council met on August 23, 2011 and reviewed the following information and action agenda items:

1. Review of current strategy.
2. New investments with two existing real estate managers, TA Associates Realty and Blackstone Real Estate Partners.

**Board action is required on the last item.**

### **INFORMATION ITEMS:**

#### **1) Review of Current Strategy.**

To increase overall portfolio diversification, 20% of the Combined Funds are allocated to alternative investments. Alternative investments include real estate, private equity, resource, and yield-oriented investments in which 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**).

- a. The real estate investment strategy is to establish and maintain 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.
- b. 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.

- c. 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.
- d. The strategy for yield-oriented investments is to 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 ITEMS:**

##### **1) Investment with an existing real estate manager, TA Associates Realty (TA Realty) in The Realty Associates Fund X, L.P. (TA Realty X)**

TA Realty is seeking investors for a new \$1.25 billion real estate fund, TA Realty X. This fund is a successor to nine real estate funds managed by TA Realty. The SBI has invested in five prior real estate funds with TA Realty. Like the other real estate funds, this fund will seek to earn attractive returns through a diversified portfolio of income producing real estate assets.

In addition to reviewing the attractiveness of the TA Realty X investment offering, staff has conducted reference checks, a literature database search and reviewed the potential investor base for the fund.

More information on The Realty Associates Fund X, 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 \$100 million, or 20% of TA Realty X, whichever is less. 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 TA 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 Realty or reduction or termination of the commitment.**

**2) Investment with an existing real estate manager, Blackstone Real Estate Partners (BREP), in Blackstone Real Estate Partners VII L.P. (BREP VII).**

BREP is seeking investors for a new \$10 billion real estate fund. This fund is a successor to six other real estate funds managed by BREP. The SBI has invested in the prior two funds. The Fund will continue the primary focus of the prior BREP funds, which have targeted a broad range of opportunistic real estate-related investments primarily in the U.S. and Canada.

In addition to reviewing the attractiveness of the BREP VII investment offering, staff has conducted reference checks, a literature database search and reviewed the potential investor base for fund.

More information on Blackstone Real Estate Partners VII L.P. is included as **Attachment D**.

**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 \$100 million, or 20% of BREP VII, whichever is less. 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 BREP 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 BREP or reduction or termination of the commitment.**



ATTACHMENT A

**Minnesota State Board of Investment**  
*Pooled Alternative Investments*  
**Combined Funds**  
*June 30, 2011*

Combined Funds Market Value	\$47,784,802,231
Amount Available for Investment	<b>\$2,613,652,102</b>

	Current Level	Target Level	Difference
Market Value (MV)	\$6,943,308,344	\$9,556,960,446	\$2,613,652,102
MV +Unfunded	\$9,975,170,065	\$14,335,440,669	\$4,360,270,604

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	\$4,121,320,976	\$1,603,946,158	\$5,725,267,134
Real Estate	\$1,067,434,201	\$139,862,508	\$1,207,296,709
Resource	\$728,493,585	\$645,441,278	\$1,373,934,863
Yield-Oriented	\$1,026,059,582	\$642,611,777	\$1,668,671,359
<b>Total</b>	<b>\$6,943,308,344</b>	<b>\$3,031,861,721</b>	<b>\$9,975,170,065</b>



# ATTACHMENT B

## Minnesota State Board of Investment - Alternative Investments - As of June 30, 2011

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	MOIC **	Period Years
<b>I. REAL ESTATE</b>								
Blackstone								
<i>Blackstone Real Estate V</i>	100,000,000	92,507,161	98,270,130	25,135,272	8,697,233	7.81	1.33	5.17
<i>Blackstone Real Estate VI</i>	100,000,000	86,380,924	103,131,789	3,447,145	15,877,174	7.59	1.23	4.25
Colony Capital								
<i>Colony Investors II</i>	80,000,000	78,482,328	1,800	90,022,404	1,517,672	4.68	1.15	16.25
<i>Colony Investors III</i>	100,000,000	100,000,000	4,199,200	167,834,385	0	14.62	1.72	13.49
CSFB/ DLJ								
<i>CSFB Strategic Partners III RE</i>	25,000,000	25,166,647	11,829,471	568,588	398,070	-20.56	0.49	6.00
<i>CS Strategic Partners IV RE</i>	50,000,000	45,845,636	27,944,179	3,678,747	4,742,577	-14.51	0.69	3.03
Prime Property Fund	40,000,000	40,000,000	225,007,114	0	0	6.01	5.63	29.72
Silverpeak Real Estate Partners								
<i>Silverpeak Legacy Pension Partners II</i>	75,000,000	70,256,048	45,793,756	22,008,951	10,355,294	-1.13	0.97	6.00
<i>Silverpeak Legacy Pension Partners III</i>	150,000,000	66,143,137	32,126,582	0	83,274,488	-24.39	0.49	3.11
T.A. Associates Realty								
<i>Realty Associates Fund V</i>	50,000,000	50,000,000	12,623,438	81,031,780	0	10.59	1.87	12.10
<i>Realty Associates Fund VI</i>	50,000,000	50,000,000	34,111,231	47,072,611	0	11.61	1.62	9.00
<i>Realty Associates Fund VII</i>	75,000,000	75,000,000	52,007,921	19,340,000	0	-1.21	0.95	6.62
<i>Realty Associates Fund VIII</i>	100,000,000	100,000,000	66,354,600	4,782,330	0	-9.80	0.71	5.00
<i>Realty Associates Fund IX</i>	100,000,000	85,000,000	87,838,150	857,304	15,000,000	5.61	1.04	2.84
UBS- Trumbull Property Fund	42,376,529	42,376,529	266,194,842	0	0	6.95	6.28	29.17
<b>Real Estate Total</b>	<b>1,137,376,529</b>	<b>1,007,158,410</b>	<b>1,067,434,201</b>	<b>465,779,517</b>	<b>139,862,508</b>		<b>1.52</b>	
<b>II. RESOURCE</b>								
Apache Corp III								
EnCap Energy	30,000,000	30,000,000	4,791,210	55,595,774	0	12.24	2.01	24.50
EnCap Energy Capital Fund VII								
<i>EnCap Energy Capital Fund VIII</i>	100,000,000	68,657,182	64,545,728	23,340,704	31,895,561	16.29	1.28	4.00
Energy and Minerals Group I	100,000,000	5,228,572	5,368,907	0	94,771,428	4.36	1.03	0.74
Energy Capital Partners II-A	100,000,000	86,183,859	82,979,582	32,957,928	14,127,164	14.80	1.35	4.25
First Reserve	100,000,000	22,864,210	24,448,892	3,955,190	81,076,323	23.20	1.24	0.95
First Reserve Fund X								
<i>First Reserve Fund XI</i>	100,000,000	100,000,000	69,898,989	122,963,396	0	35.90	1.93	6.66
<i>First Reserve Fund XII</i>	150,000,000	118,876,282	97,468,420	34,699,812	31,123,718	3.45	1.11	4.52
Natural Gas Partners IX	150,000,000	87,335,702	69,310,065	6,339,490	62,664,298	-8.57	0.87	2.66
Sheridan	150,000,000	86,862,853	109,500,411	5,098,952	60,476,956	17.26	1.32	3.69
Sheridan Production Partners I								
<i>Sheridan Production Partners II</i>	100,000,000	89,502,260	115,455,007	19,500,000	10,500,000	19.44	1.51	4.25
T. Rowe Price	100,000,000	8,500,000	7,282,001	0	91,500,000	-34.71	0.86	0.74
Trust Company of the West	74,064,672	74,064,672	645,600	99,814,376	0	28.09	1.36	N/A
TCW Energy Partners XIV								
<i>TCW Energy Partners XV</i>	100,000,000	87,557,607	68,589,185	44,899,475	27,055,829	14.00	1.30	4.20
Resource Total	1,504,064,672	875,383,198	728,493,585	449,165,098	645,441,278		1.35	
<b>III. YIELD-ORIENTED</b>								
Audax Mezzanine Fund III								
Citicorp Mezzanine III	100,000,000	5,652,532	5,288,967	0	94,347,468	-6.94	0.94	1.23
DLJ Investment Partners	100,000,000	88,029,296	622,113	132,134,651	0	15.62	1.51	11.66
DLJ Investment Partners II								
<i>DLJ Investment Partners III</i>	27,375,168	23,164,217	1,394,097	33,886,457	4,955,172	10.55	1.52	11.49
Gold Hill Venture Lending	100,000,000	44,543,022	20,491,795	22,550,816	57,456,267	-5.96	0.97	5.02
Gold Hill Venture Lending								
<i>Gold Hill 2008</i>	40,000,000	40,000,000	16,509,841	35,731,266	0	7.16	1.31	6.75
GS Mezzanine Partners	25,852,584	19,130,912	23,801,763	1,272,656	6,721,672	23.60	1.31	3.00
GS Mezzanine Partners II								
<i>GS Mezzanine Partners III</i>	100,000,000	100,000,000	4,053,230	128,064,866	0	7.15	1.32	11.33
<i>GS Mezzanine Partners 2006 Institutional</i>	75,000,000	75,000,000	16,875,254	79,484,867	0	7.74	1.28	7.97
<i>GS Mezzanine Partners V</i>	100,000,000	74,999,888	60,183,347	36,649,311	25,000,112	5.77	1.29	5.23
Merit Capital Partners	150,000,000	54,542,693	51,403,652	23,906,444	86,441,294	11.03	1.38	3.69
Merit Capital Partners								
<i>William Blair Mezzan. Cap. Fd. III</i>	60,000,000	56,958,000	6,309,674	95,643,470	3,042,000	14.63	1.79	11.49
<i>Merit Mezzanine Fund IV</i>	75,000,000	69,230,769	55,639,467	28,715,010	5,769,231	6.06	1.22	6.54
<i>Merit Mezzanine Fund V</i>	75,000,000	10,653,061	10,267,175	0	64,346,939	-4.68	0.96	1.53
Merit Energy Partners								
<i>Merit Energy Partners B</i>	24,000,000	24,000,000	59,657,058	109,046,407	0	24.80	7.03	15.00
<i>Merit Energy Partners C</i>	50,000,000	50,000,000	156,526,544	238,545,241	0	31.35	7.90	12.67
<i>Merit Energy Partners D</i>	88,000,000	70,938,303	117,368,796	172,165,932	0	23.72	4.08	10.10
<i>Merit Energy Partners E</i>	100,000,000	39,983,197	61,672,008	32,607,537	0	17.38	2.36	6.70
<i>Merit Energy Partners F</i>	100,000,000	57,841,607	63,225,405	7,116,986	42,158,394	8.38	1.22	5.27
<i>Merit Energy Partners H</i>	100,000,000	2,630,064	2,630,064	0	97,369,936	0.00	1.00	0.41
Prudential Capital Partners								
<i>Prudential Capital Partners I</i>	100,000,000	97,100,859	31,466,192	112,801,586	7,642,577	11.10	1.49	10.20
<i>Prudential Capital Partners II</i>	100,000,000	93,307,126	64,104,364	60,619,287	7,094,842	8.99	1.34	6.00
<i>Prudential Capital Partners III</i>	100,000,000	69,628,574	68,545,475	7,133,299	33,277,893	9.37	1.09	2.20
Quadrant Real Estate Advisors								
<i>Institutional Commercial Mortgage Fd V</i>	37,200,000	37,200,000	4,647,492	55,379,258	0	7.96	1.61	11.91
Summit Partners								
<i>Summit Subordinated Debt Fund I</i>	20,000,000	18,000,000	80,518	31,406,578	2,000,000	30.55	1.75	17.25
<i>Summit Subordinated Debt Fund II</i>	45,000,000	40,500,000	2,218,963	86,223,399	4,500,000	56.28	2.18	13.91
<i>Summit Subordinated Debt Fund III</i>	45,000,000	42,690,965	23,320,881	28,420,376	2,850,000	8.62	1.21	7.37
<i>Summit Subordinated Debt Fund IV</i>	50,000,000	21,500,000	22,141,904	0	28,500,000	5.68	1.03	3.26



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T. Rowe Price	55,800,931	55,800,931	0	55,217,895	0	-3.31	0.99	N/A
TCW/Crescent Mezzanine Partners III	75,000,000	68,835,264	9,465,295	148,415,166	29,733,857	36.12	2.29	10.25
Windjammer Capital Investors								
Windjammer Mezzanine & Equity Fund II	66,708,861	52,076,514	11,066,639	65,115,211	14,378,980	8.39	1.46	11.24
Windjammer Senior Equity Fund III	75,000,000	52,566,265	55,081,611	24,271,759	25,025,145	16.78	1.51	5.49
Yield-Oriented Total	2,259,937,544	1,556,504,061	1,026,059,582	1,852,525,734	642,611,777		1.85	
<b>IV. PRIVATE EQUITY</b>								
Adams Street Partners								
Adams Street VPAF Fund I	3,800,000	3,800,000	42,305	9,440,295	0	13.22	2.50	23.14
Adams Street VPAF Fund II	20,000,000	20,000,000	49,455	37,988,511	0	24.09	1.90	20.59
Advent International GPE VI-A	50,000,000	27,500,000	28,373,488	1,500,000	22,500,000	5.90	1.09	3.24
Affinity Ventures								
Affinity Ventures IV	4,000,000	3,800,000	2,392,443	1,423,858	200,000	0.17	1.00	7.00
Affinity Ventures V	5,000,000	3,300,000	3,097,960	115,993	1,700,000	-1.69	0.97	2.99
Banc Fund								
Banc Fund VII	45,000,000	45,000,000	25,961,265	812,725	0	-11.44	0.59	6.25
Banc Fund VIII	98,250,000	32,422,500	34,362,306	0	65,827,500	5.11	1.06	3.18
Blackstone								
Blackstone Capital Partners II	47,271,190	47,271,190	63,458	100,012,939	0	34.04	2.12	17.60
Blackstone Capital Partners IV	70,000,000	69,863,496	52,849,188	119,244,981	4,407,812	40.17	2.46	8.97
Blackstone Capital Partners V	140,000,000	124,750,575	118,151,328	9,310,176	17,172,130	-0.13	1.02	5.40
Blackstone Capital Partners VI	100,000,000	0	0	0	100,000,000	N/A	0.00	2.93
BLUM Capital Partners								
Blum Strategic Partners I	50,000,000	49,158,307	419,162	99,450,576	2,009,928	12.73	2.03	12.52
Blum Strategic Partners II	50,000,000	40,185,889	12,313,447	78,945,586	2,127,584	23.08	2.27	9.95
Blum Strategic Partners III	75,000,000	74,806,485	37,138,734	54,513,310	193,515	5.00	1.23	6.08
Blum Strategic Partners IV	150,000,000	148,496,870	127,299,658	24,656,730	13,930,449	0.70	1.02	3.61
Carval Investors								
CVI Global Value Fund	200,000,000	190,000,000	225,585,494	16,321,454	10,000,000	7.50	1.27	4.46
CarVal Credit Value Fund I	100,000,000	45,000,000	45,000,000	63,000	55,000,000	0.16	1.00	0.75
Chicago Growth Partners (William Blair)								
William Blair Capital Partners VII	50,000,000	48,150,000	8,468,957	63,343,842	1,650,000	9.71	1.49	10.31
Chicago Growth Partners I	50,000,000	49,291,998	40,710,303	18,593,098	3,450,000	6.59	1.20	5.93
Chicago Growth Partners II	60,000,000	30,278,587	31,649,792	1,968,000	29,469,413	6.76	1.11	3.30
Coral Partners								
Coral Partners IV	15,000,000	15,000,000	1,734,032	13,538,879	0	0.35	1.02	16.94
Coral Partners V	15,000,000	15,000,000	1,579,043	7,854,144	0	-5.46	0.63	13.03
Court Square Capital								
Court Square Capital Partners	100,000,000	80,223,910	24,704,881	152,364,190	10,576,235	29.26	2.21	9.55
Court Square Capital Partners II	175,000,000	114,876,461	139,381,880	2,645,238	61,763,745	9.13	1.24	4.82
Crescendo								
Crescendo III	25,000,000	25,000,000	1,374,976	9,321,908	0	-16.49	0.43	12.65
Crescendo IV	101,500,000	101,500,000	24,724,917	20,124,650	0	-9.24	0.44	11.30
CSFB/ DLJ								
DLJ Merchant Banking Partners III	125,000,000	121,335,666	53,887,481	205,825,296	3,664,334	18.87	2.14	10.75
DLJ Strategic Partners	100,000,000	93,493,319	12,842,830	156,515,113	4,956,681	22.60	1.81	10.44
CSFB Strategic Partners II-B	100,000,000	83,234,943	14,233,119	144,213,242	10,965,057	35.87	1.90	7.95
CSFB Strategic Partners III VC	25,000,000	22,753,367	15,910,945	11,915,988	2,246,633	6.19	1.22	6.08
CSFB Strategic Partners III-B	100,000,000	76,224,058	85,191,984	10,698,445	16,933,846	5.98	1.26	6.08
CS Strategic Partners IV-B	100,000,000	70,554,261	84,303,076	10,602,714	29,445,739	15.19	1.35	3.26
CS Strategic Partners IV VC	40,500,000	31,339,981	35,766,567	4,515,169	8,995,125	13.23	1.29	3.03
CVC European Equity Partners V	144,984,900	70,887,240	74,978,777	10,260,837	55,329,715	9.63	1.20	3.26
Diamond Castle Partners IV	100,000,000	87,689,766	84,090,505	18,410,655	12,350,719	4.96	1.17	4.81
DSV Partners IV	10,000,000	10,000,000	32,305	39,196,082	0	10.61	3.92	26.22
EBF and Associates								
Merced Partners II	75,000,000	63,768,881	46,859,070	66,079,064	0	25.05	1.77	4.25
Merced Partners III	100,000,000	55,000,000	54,881,475	0	45,000,000	-0.44	1.00	1.15
Elevation Partners	75,000,000	67,653,776	48,168,728	36,623,438	13,431,814	8.09	1.25	6.12
Fox Paine Capital Fund II	50,000,000	45,534,856	35,923,946	46,170,294	12,717,982	20.40	1.80	11.00
GHJM Marathon Fund								
GHJM Marathon Fund IV	40,000,000	39,051,000	2,670,515	55,127,488	949,000	8.45	1.48	12.21
GHJM Marathon Fund V	50,000,000	48,668,903	59,628,056	14,848,567	1,407,808	11.84	1.53	6.74
Golder,Thoma, Cressey, Rauner								
Golder, Thoma, Cressey & Rauner Fund IV	20,000,000	20,000,000	56,701	42,300,018	0	25.06	2.12	17.41
Golder, Thoma, Cressey & Rauner Fund V	30,000,000	30,000,000	720,541	53,955,241	0	11.00	1.82	15.00
GS Capital Partners								
GS Capital Partners 2000	50,000,000	50,000,000	13,530,456	94,641,290	0	22.79	2.16	10.83
GS Capital Partners V	100,000,000	66,390,364	77,108,861	68,747,521	26,041,099	18.16	2.20	6.25
GS Capital Partners VI	100,000,000	53,574,317	43,770,127	9,951,647	38,592,677	-1.41	1.00	4.41
GTCR Golder Rauner								
GTCR VI	90,000,000	90,000,000	999,730	77,813,800	0	-4.79	0.88	13.00
GTCR VII	175,000,000	159,249,989	826,099	387,322,726	15,750,001	25.31	2.44	11.39
GTCR IX	75,000,000	68,002,159	63,882,854	5,535,603	6,997,841	1.23	1.02	5.00
GTCR X	100,000,000	0	0	0	100,000,000	N/A	0.00	0.55
Hellman & Friedman								
Hellman & Friedman Capital Partners III	32,113,684	32,113,684	0	72,930,553	0	34.45	2.27	16.78
Hellman & Friedman Capital Partners IV	150,000,000	133,967,494	22,535,806	353,483,051	15,365,585	34.63	2.81	11.49
Hellman & Friedman Capital Partners V	160,000,000	144,729,318	127,364,218	222,192,907	17,303,704	29.42	2.42	6.58
Hellman & Friedman Capital Partners VI	175,000,000	154,305,705	159,051,298	28,494,089	21,816,914	7.22	1.22	4.25
Hellman & Friedman Capital Partners VII	50,000,000	0	0	0	50,000,000	N/A	0.00	2.19

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<b>Kohlberg Kravis Roberts</b>								
<i>KKR 1987 Fund</i>	145,373,652	145,373,652	1,923,060	396,223,778	0	8.72	2.74	23.60
<i>KKR 1993 Fund</i>	150,000,000	150,000,000	793,676	308,173,269	0	16.75	2.06	17.52
<i>KKR 1996 Fund</i>	200,000,000	199,902,841	8,381,691	366,258,556	97,159	13.18	1.87	14.83
<i>KKR Millennium Fund</i>	200,000,000	200,000,000	172,205,915	207,933,653	0	18.68	1.90	8.56
<i>KKR 2006 Fund</i>	200,000,000	172,106,198	161,970,780	41,954,384	41,198,000	4.18	1.18	4.76
<b>Lexington Capital Partners</b>								
<i>Lexington Capital Partners VI-B</i>	100,000,000	95,970,081	71,994,944	35,150,482	4,029,919	4.43	1.12	5.51
<i>Lexington Capital Partners VII</i>	200,000,000	37,061,420	42,830,808	147,376	162,938,580	24.83	1.16	2.05
<b>RWI Ventures</b>								
<i>RWI Group III</i>	616,430	616,430	120,278	330,192	0	-13.06	0.73	5.00
<i>RWI Ventures I</i>	7,603,265	7,603,265	1,133,888	4,137,987	0	-15.30	0.69	5.00
<b>Sightline Healthcare</b>								
<i>Sightline Healthcare Fund II</i>	10,000,000	10,000,000	289,188	5,635,402	0	-7.24	0.59	14.33
<i>Sightline Healthcare Fund III</i>	20,000,000	20,000,000	3,101,246	4,856,820	0	-11.25	0.40	12.44
<i>Sightline Healthcare Fund IV</i>	7,700,000	7,598,598	1,894,632	4,621,834	155,075	-4.81	0.86	7.76
<b>Silver Lake Partners</b>								
<i>Silver Lake Partners II</i>	100,000,000	88,740,757	68,166,359	71,823,141	12,255,111	11.30	1.58	7.00
<i>Silver Lake Partners III</i>	100,000,000	55,934,635	56,108,098	14,615,183	44,800,792	11.92	1.26	4.25
<b>Split Rock Partners</b>								
<i>Split Rock Partners</i>	50,000,000	39,000,000	27,135,554	428,377	11,000,000	-10.52	0.71	6.16
<i>Split Rock Partners II</i>	60,000,000	14,340,000	12,344,646	0	44,960,000	-10.73	0.86	3.17
<b>Summit Partners</b>								
<i>Summit Ventures V</i>	25,000,000	24,125,000	394,440	32,736,823	875,000	8.03	1.37	13.25
<i>Summit Ventures VIII</i>	100,000,000	0	0	0	100,000,000	N/A	0.00	0.20
<b>T. Rowe Price</b>	886,388,666	886,388,666	35,482,780	921,706,564	0	8.67	1.08	N/A
<b>Thoma Cressey</b>								
<i>Thoma Cressey Fund VI</i>	35,000,000	33,915,000	4,103,760	28,671,225	1,085,000	-0.42	0.97	12.86
<i>Thoma Cressey Fund VII</i>	50,000,000	50,000,000	20,346,588	69,209,289	0	22.75	1.79	10.84
<i>Thoma Cressey Fund VIII</i>	70,000,000	68,932,574	79,150,073	28,640,522	770,000	11.73	1.56	5.16
<b>Thomas, McNerney &amp; Partners</b>								
<i>Thomas, McNerney &amp; Partners I</i>	30,000,000	28,050,000	16,584,193	10,504,694	1,950,000	-0.95	0.97	8.65
<i>Thomas, McNerney &amp; Partners II</i>	50,000,000	32,250,000	25,268,780	5,132,263	17,750,000	-2.52	0.94	5.00
<b>Varde Fund</b>								
<i>Varde Fund IX</i>	100,000,000	100,000,000	151,683,100	0	0	16.53	1.52	3.02
<i>Varde Fund X</i>	150,000,000	75,000,000	80,799,450	0	75,000,000	8.42	1.08	1.19
<b>Vestar Capital Partners</b>								
<i>Vestar Capital Partners IV</i>	55,000,000	52,586,908	28,295,228	67,518,284	921,531	14.61	1.82	11.54
<i>Vestar Capital Partners V</i>	75,000,000	73,190,583	65,139,306	18,995,008	2,134,646	4.69	1.15	5.53
<b>Warburg Pincus</b>								
<i>Warburg, Pincus Ventures</i>	50,000,000	50,000,000	227,303	256,193,050	0	49.21	5.13	16.50
<i>Warburg Pincus Equity Partners</i>	100,000,000	100,000,000	6,536,146	154,764,955	0	10.01	1.61	13.01
<i>Warburg Pincus Private Equity VIII</i>	100,000,000	100,000,000	97,435,402	114,220,153	0	16.38	2.12	9.21
<i>Warburg Pincus Private Equity IX</i>	100,000,000	100,000,000	95,849,924	41,824,867	0	8.10	1.38	5.93
<i>Warburg Pincus Private Equity X</i>	150,000,000	118,110,914	116,976,935	7,726,527	31,950,000	2.95	1.06	3.68
<b>Wayzata</b>								
<i>Wayzata Opportunities Fund</i>	100,000,000	92,300,000	138,389,994	21,739,109	7,700,000	11.59	1.73	5.52
<i>Wayzata Opportunities Fund II</i>	150,000,000	91,350,000	153,227,384	429,900	58,650,000	15.16	1.68	3.69
<b>Welsh, Carson, Anderson &amp; Stowe</b>								
<i>Welsh, Carson, Anderson &amp; Stowe VIII</i>	100,000,000	100,000,000	14,089,194	114,068,902	0	3.05	1.28	12.93
<i>Welsh, Carson, Anderson &amp; Stowe IX</i>	125,000,000	120,000,000	32,663,164	160,012,266	5,000,000	11.42	1.61	11.01
<i>Welsh, Carson, Anderson &amp; Stowe X</i>	100,000,000	96,578,466	87,317,259	15,288,784	4,000,000	1.65	1.06	5.54
<i>Welsh, Carson, Anderson &amp; Stowe XI</i>	100,000,000	37,515,240	34,321,268	0	62,484,760	-8.62	0.91	2.94
<b>Private Equity Total</b>	<b>8,695,101,787</b>	<b>7,068,740,542</b>	<b>4,121,320,976</b>	<b>6,623,598,541</b>	<b>1,603,946,158</b>		1.52	
<b>Alternatives Total</b>	<b>13,596,480,531</b>	<b>10,507,786,210</b>	<b>6,943,308,343</b>	<b>9,391,068,891</b>	<b>3,031,861,722</b>		1.55	

\* None of the data presented herein has been reviewed or approved by either the general partner or investment manager. The performance and valuation data presented herein is not a guarantee or prediction of future results. Ultimately, the actual performance and value of any investment is not known until final liquidation. Because there is no industry-standardized method for valuation or reporting, comparisons of performance and valuation data among different investments is difficult.

\*\* MOIC: Multiple of Invested Capital



ATTACHMENT C

**REAL ESTATE MANAGER SUMMARY PROFILE**

**I. Background Data**

<b>Name of Fund:</b>	The Realty Associates Fund X, L.P.
<b>Type of Fund:</b>	Real Estate Limited Partnership
<b>Total Fund Size:</b>	\$1.25 billion
<b>Fund Manager:</b>	TA Realty
<b>Manager Contact:</b>	Michael A. Ruane TA Associates Realty 28 State Street Boston, MA 02109 Phone: 617.476.2700

**II. Organization and Staff**

TA Associates Realty (“TA Realty” or the “Firm”) is a Boston-based private real estate investment management firm established in 1982. Since that time, the Firm has invested and managed in excess of \$17.0 billion of capital on behalf of endowments, foundations, public and private pension funds and other institutional investors. During its three decades in the business, TA Realty has acquired over 720 commercial (office, industrial and retail) and multifamily properties located in more than 35 markets throughout the U.S.

The Firm has successfully implemented its investment strategy through a series of nine value-added, closed-end, commingled funds, as well as a select number of customized core separate accounts for certain large institutions.

The Firm employs 63 professionals with extensive experience in property acquisitions, asset management, portfolio management, valuations, dispositions, finance and accounting.

**III. Investment Strategy**

TA Realty is a value investor focused on pursuing the intrinsic growth of income produced by real estate investments, while minimizing the associated downside risk. Since the Firm’s inception, it has maintained a consistent investment philosophy during multiple real estate and economic cycles. The Firm is focused on creating diversified real estate portfolios that will generate strong cash flow, benefit from an active asset management approach, and result in the long-term creation of value over the life of the Fund. TA Realty seeks to construct highly diversified portfolios of real estate investments with characteristics that allow us to dynamically add value over time, maximizing both income and property value while also protecting cash flow and moderating overall portfolio risk.

TA Realty believes there are clear benefits to diversifying across property type, geography and investment size. Various markets and property types perform differently during real estate and economic cycles, thus diversification helps enhance risk-adjusted returns. It has been the Firm's experience that, by not putting "all its eggs in one basket," it can offset the effects of underperforming markets, property types or individual investments with better-performing markets, property types and investments. By targeting an average investment size of \$25-\$30 million, TA Realty also acquires more individual assets to further diversify the Fund's investment risk.

In the current environment, TA Realty believes looming debt maturities will continue to force owners to bring quality assets to market, giving those investing with a long-term outlook a unique opportunity to acquire quality commercial real estate assets at favorable prices. TA Realty's deep relationships with banks and other lending institutions are expected to yield significant investment opportunities during the acquisition period for the Fund. At TA Realty, favorable pricing is a key tenet of the Firm's acquisition strategy, which it applies consistently across all market environments and at every stage of the real estate cycle.

TA Realty seeks to buy assets at below replacement cost and to identify those assets with attributes that have become more common in today's environment, including:

- Under-leased assets with good fundamentals
- Below market in-place rents
- Supply-constrained locations
- Assets in need of repositioning
- High-quality assets burdened by distressed ownership

Using its broad network of third-party local market relationships cultivated over nearly three decades, TA Realty aims to identify opportunities to acquire such assets before they become known to the general market. The Firm's ability to source investments like these is aided by its reputation as all-cash buyers who can act quickly to close transactions.

TA Realty has successfully applied this philosophy in nine other funds across a wide variety of markets and real estate cycles. As a result, the Firm is confident that, together with its low leverage discipline, its focus on income and real estate investment fundamentals, it can generate positive results for investors in this, TA Realty's tenth fund.

#### **IV. Investment Performance**

The historical investment performance of TA Realty as of June 30, 2011 is presented below:

<b>Fund</b>	<b>Inception Date</b>	<b>Total Commitments</b>	<b>SBI Investment</b>	<b>Net IRR from Inception*</b>	<b>Net MOIC from Inception *</b>
Advent Realty L.P.	1987	\$163 million	\$0	2.4%	1.2
Advent Realty II L.P.	1990	\$332 million	\$0	11.6%	2.1
Realty Associates Fund III	1994	\$487 million	\$40 million	10.9%	2.1
Realty Associates Fund IV	1996	\$450 million	\$50 million	12.8%	2.1
Realty Associates Fund V	1999	\$562 million	\$50 million	10.5%	1.8
Realty Associates Fund VI	2002	\$738 million	\$50 million	11.0%	1.6
Realty Associates Fund VII	2004	\$917 million	\$75 million	-0.9%	1.0
Realty Associates Fund VIII	2006	\$1,742 million	\$100 million	-9.5%	0.7
Realty Associates Fund IX	2008	\$1,492 million	\$100 million	11.3%	1.1

\* Previous Fund investments may be relatively immature and, therefore, returns may not be indicative of future results. Net IRR and Multiple of Invested Capital (MOIC) were provided by TA Realty.

#### **V. General Partner's Investment**

The Sponsor General Partner's Capital Commitment to the Fund shall be equal to two-tenths of one percent (0.2%) of the total Capital Commitments of the investors in the Fund.

#### **VI. Takedown Schedule**

Commitments are expected to be drawn as needed, with a minimum of 30 days' prior written notice; provided that not less than 10 business days' prior written notice will be required for the Fund's first draw down and any other draw down for which the Advisory Committee has consented to such shorter notice period.

#### **VII. Management Fee**

The Management fee shall be 0.5% in year 1, 0.8% in year 2, 1.1% in year 3, all based upon total committed capital; then 1.2% in year 4, 1.25% in year 5, 1.2% in year 6, 1.0% in year 7 and 0.6% thereafter, all based upon Aggregate Invested Equity plus related reserves.

#### **VIII. Distributions**

Generally, distributions of cash from operations and disposition proceeds shall be made to the Partners of the Operating Partnership in the following order and priority: To return inflation adjusted contributed capital to the Partners, 95% to the Partners and 5% to the Sponsor General Partner until the Partners (which includes the Sponsor General Partner in respect of its contributed capital) have been distributed an amount equal to a 1% real return (i.e. an inflation adjusted, 1% IRR, computed under the formula in the Partnership Agreement), 94% to the

Partners and 6% to the Sponsor General Partner until the Partners have been distributed an amount equal to a to a 2% real return, 92.5% to the Partners and 7.5% to the Sponsor General Partner until the Partners have been distributed an amount equal to a to a 3% real return, 90.5% to the Partners and 9.5% to the Sponsor General Partner until the Partners have been distributed an amount equal to a to a 4% real return, 88.5% to the Partners and 11.5% to the Sponsor General Partner until the Partners have been distributed an amount equal to a to a 5% real return, 86.5% to the Partners and 13.5% to the Sponsor General Partner until the Partners have been distributed an amount equal to a to a 6% real return, 84.5% to the Partners and 15.5% to the Sponsor General Partner until the Partners have been distributed an amount equal to a to a 7% real return, 82.5% to the Partners and 17.5% to the Sponsor General Partner until the Partners have been distributed an amount equal to a to an 8% real return, and thereafter, 80% to the investors and 20% to the Sponsor General Partner.

### ***IX. Investment Period and Term***

Generally, the investment period will be two years from the final closing, subject to possible extension.

The term of the Partnerships will continue for a period of seven years from the date when at least 90% of all Capital Commitments of the Operating Partnership have been invested, or committed for investment in Real Estate Investments. The term may be extended by up to three one-year extensions..

*\* This document is a summary of more detailed information provided in the Confidential Private Placement Memorandum (the "PPM"). It is qualified in its entirety by the more detailed information provided in the PPM.*

<b>REAL ESTATE MANAGER SUMMARY PROFILE</b>
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**I. Background Data**

<b>Name of Fund:</b>	Blackstone Real Estate Partners VII L.P. (“BREP VII”)
<b>Type of Fund:</b>	Real Estate Limited Partnership
<b>Total Fund Size:</b>	\$10 billion
<b>Fund Manager:</b>	Blackstone
<b>Manager Contact:</b>	Alexandra Hill 345 Park Avenue New York, NY 10154 Phone (212) 583-5366

**II. Organization and Staff**

Blackstone’s Real Estate group was founded in 1991 and is the largest opportunistic real estate investment manager in the world, having invested or committed to invest \$26.6 billion of equity in over 260 investments since inception. Blackstone is raising its seventh global real estate opportunity fund, Blackstone Real Estate Partners VII L.P. (“BREP”).

Jonathan Gray and Chad Pike, Senior Managing Directors, are Co-Heads of the Real Estate group. Gary Summers is the Global Chief Operating Officer of the group and William Stein is its Global Head of Asset Management. Blackstone currently has 178 professionals in the Real Estate group (89 located in the United States, 43 located in Europe and 46 located in Asia). All investment and disposition decisions of BREP VII will be reviewed and approved by the Investment Committee of its General Partner, which currently is co-chaired by Stephen Schwarzman and John Schreiber. Hamilton (“Tony”) James, President of Blackstone, is also a member of the Investment Committee.

**III. Investment Strategy**

Blackstone intends to continue to focus on acquiring high quality assets by targeting large, complicated situations where competition is limited and its ability to move quickly is an advantage. Blackstone’s goal is to acquire distressed and/or undermanaged properties at below market prices, execute a strategy to fix the issues, and thereby create assets that can be sold to core real estate owners at higher values. At this time, investment themes are expected to be:

**Purchase Debt in Order to Gain Control of Assets.** Blackstone expects to invest in debt securities at or near the position in the capital stack deemed to be the “fulcrum,” or the cutoff point for current value, in order to position the fund to take control of the assets or company through a debt restructure.



***Equity Investment in Restructuring / Recapitalization.*** Blackstone expects to be a capital provider to overleveraged owners of real estate who need capital to pay down debt and restructure their investments.

***Dispositions by Motivated Sellers.*** Blackstone expects to make investments where financial institutions and owners of real estate need to de-lever, clean up their balance sheets or sell non-core assets.

***Bankruptcy Situations.*** Blackstone is one of few real estate investors with the expertise to wade through lengthy and complex bankruptcy processes. Blackstone benefits not only from the Real Estate group's extensive experience, but also from the Blackstone Advisory & Restructuring team's intellectual capital.

***Public-to-Private Transactions.*** Blackstone has a highly successful track record of converting publicly traded companies to private companies and subsequently creating value through a number of different avenues. The team has cultivated significant expertise through 13 privatizations of public companies and Blackstone believes it can apply its "technology" to create significant value in the underlying assets. Publicly traded companies often are comprised of hybrid assets that together are worth less than their valuations on an individual basis. Once a company is taken private, the individual assets can be sold separately to operators that are interested in specific aspects of the company, rather than the entire company. Furthermore, many public companies are not capable of undertaking growth initiatives that can be pursued in a privately held portfolio. Blackstone has unlocked value in public real estate and real estate-related companies it privatized by selling individual assets and/or geographically concentrated portfolios, trimming corporate overhead expenditures, borrowing more flexible and cost effective debt capital, implementing more efficient tax structures, and uncovering "hidden assets" in the form of undervalued land or money losing assets. In addition, during its ownership Blackstone improves operations and refocuses companies on long term value creation.

***International Investments.*** BREP VII is expected to benefit from international diversification due to Blackstone's presence in Europe and Asia. Blackstone anticipates that, consistent with its history, BREP VII will focus primarily on investments in the U.S. Since inception, 91% of the BREP global funds' capital has been invested or committed in the U.S.

#### **IV. Investment Performance**

The historical investment performance of Blackstone Real Estate (BREP) as of June 30, 2011 is presented below:

<b>Fund</b>	<b>Inception Date</b>	<b>Total Commitments</b>	<b>SBI Investment</b>	<b>Net IRR from Inception*</b>	<b>Net MOIC from Inception *</b>
BREP Fund I	1994	\$284.7 million	\$0	39.7%	2.4
BREP Fund II	1996	\$1,076 million	\$0	18.7%	1.8
BREP Fund III	1999	\$1,382 million	\$0	21.5%	2.0
BREP Fund IV	2003	\$2,000 million	\$0	16.1%	1.4
BREP Fund V	2006	\$5,202 million	\$100 million	9.5%	1.3
BREP Fund VI	2007	\$10,128 million	\$100 million	9.0%	1.2

\* Previous Fund investments may be relatively immature and, therefore, returns may not be indicative of future results. Net IRR and Multiple of Invested Capital (MOIC) were provided by BREP.

#### **V. General Partner's Investment**

Blackstone investment will be at least \$300 million, plus up to an additional 10% in each Investment on a side-by-side basis (based on an annual election).

#### **VI. Takedown Schedule**

Commitments are expected to be drawn as needed, with not less than 10 business days' prior written notice.

#### **VII. Management Fee**

BREP VII's management fees are 1.5% per annum if such Limited Partner has aggregate Capital Commitments of less than \$300 million, 1.25% per annum if such Limited Partner has aggregate Capital Commitments equal to or greater than \$300 million, and 1.15% per annum if such Limited Partner has aggregate Capital Commitments equal to or greater than \$500 million.

Management Fees will be generally reduced by an amount equal to the sum of 80% of any Additional Fees. Acquisition fees can be offset by 70%, but the offset shall not apply to any acquisition fees equal to 0.30% or less of the total acquisition price payable in connection with the acquisition of an investment.

#### **VIII. Distributions**

Upon disposition of an Investment (calculated separately for each Limited Partner with respect to its *pro rata* share):

- First, 100% to the Limited Partner until it receives a return of contributions for the Investment that has been disposed of, Allocated Fees and Expenses that have not been recouped on all Investments that have been disposed of, unrecouped losses on

Investments previously disposed of, unrealized losses on Investments not disposed of, and an 8% compound annual return on contributions with respect to Investments disposed of, plus Allocated Fees and Expenses;

- Second, 80% to the General Partner and 20% to the Limited Partner until the General Partner receives its 20% carried interest with respect to Investments that have been disposed of; and
- Thereafter, 80% to the Limited Partner and 20% to the General Partner.

Current Income is generally distributed as described above, except that distributions are made on an Investment-by-Investment basis and will not take into account a return of capital contributions or any writedowns, but will take into account actual unrecouped losses from prior dispositions.

### ***IX. Investment Period and Term***

The Investment Period will be five years from the last equalization date. The Term will be five years from the last day of the Investment Period, subject to two one year extensions unless the L.P. Advisory Committee objects.

*\* This document is a summary of more detailed information provided in the Confidential Private Placement Memorandum (the "PPM"). It is qualified in its entirety by the more detailed information provided in the PPM.*

