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# MINNESOTA STATE BOARD OF INVESTMENT



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

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MINNESOTA STATE BOARD  
OF INVESTMENT  
MEETING  
**March 11, 2009**

**STATE BOARD OF INVESTMENT**

**AGENDA AND MINUTES**

**March 11, 2009**

**AGENDA**  
**STATE BOARD OF INVESTMENT MEETING**  
**Wednesday, March 11, 2009**  
**9:00 A.M. – Room 318**  
**State Capitol – St. Paul**

- |   |            |
|---|------------|
|   | <b>TAB</b> |
| <b>1. Approval of Minutes of December 10, 2008</b>  |            |
| <b>2. Report from the Executive Director (Howard Bicker)</b>  | <b>A</b>   |
| A. Quarterly Investment Review<br>(October 1, 2008 – December 31, 2008)   |            |
| B. Administrative Report  | <b>B</b>   |
| 1. Reports on budget and travel   |            |
| 2. FY08 Financial Audit   |            |
| 3. Legislative Update   |            |
| 4. Update on Sudan  |            |
| 5. Litigation Update  |            |
| 6. Consideration of a new contract for the State's 529 Plan   |            |
| <b>3. Report from the IAC Membership Review Committee (Kathy Kardell)</b>   | <b>C</b>   |
| <b>4. Report from the Proxy Voting Committee (Kathy Kardell)</b>  | <b>D</b>   |
| <b>5. Review of manager performance for the period ending<br/>December 31, 2008 (Jeff Bailey)</b>   | <b>E</b>   |
| <b>6. Alternative Investment Report (Jeff Bailey)</b>   | <b>F</b>   |
| Review of current strategy.   |            |
| Consideration of new fund investments with an existing yield-oriented<br>manager, Prudential and an existing private equity manager,<br>Hellman & Friedman. |            |
| <b>7. Other items</b>   |            |

**Minutes  
State Board of Investment  
December 10, 2008**

The State Board of Investment (SBI) met at 9:00 A.M., Wednesday, December 10, 2008 in Room 123, State Capitol, St. Paul, Minnesota. Governor Tim Pawlenty; State Auditor Rebecca Otto; Secretary of State Mark Ritchie and Attorney General Lori Swanson were present.

Governor Pawlenty presented Mr. Troutman with a plaque to acknowledge and thank him for his 17 years of service serving on the Investment Advisory Council (IAC). Mr. Troutman thanked the Board members and staff for their commitment to their fiduciary responsibilities for the retirement beneficiaries and taxpayers of Minnesota. In response to a question from Governor Pawlenty, Mr. Bicker confirmed that the IAC elects its own Chair.

The minutes of the September 10, 2008 meeting were approved.

**Executive Director's Report**

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and he reported that the Combined Funds had slightly trailed the Composite Index over the ten year period ending September 30, 2008 (Combined Funds 5.7% vs. Composite 5.8%), and had provided a real rate of return over the latest 20 year period (Combined Funds 9.2% vs. CPI 3.0%). He stated that the Basic Funds had slightly underperformed the Composite Index (Basic Funds 5.8% vs. Composite 5.9%) over the last ten years and reported that the Post Fund had also slightly underperformed its composite over the last ten-year period (Post Fund 5.6% vs. Composite 5.7%).

Mr. Bicker reported that the Basic Fund's assets decreased 8.8% for the quarter ending September 30, 2008 due to both negative investment returns and negative net contributions. He stated that rebalancing had taken place during the quarter to bring the asset mix back into line. He reported that the Basic Funds underperformed the Composite Index for the quarter (Basic funds -7.7% vs. Composite -6.9%) and for the year (Basic Funds -14.4% vs. Composite -13.0%). He noted that the fixed income performance had been impacted by the SBI's underweighting in Treasuries.

Mr. Bicker reported that the market value of the Post Fund's assets decreased 8.4% for the quarter ending September 30, 2008, also due mostly to negative investment returns. He said the Post Fund had also been rebalanced during the quarter. He stated that the Post Fund underperformed its Composite Index for the quarter (Post Fund -7.9% vs. Composite -7.0%) and for the year (Post Fund -14.8% vs. Composite -13.1%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stock -9.4% vs. Domestic Equity Asset Class Target -8.7%) and for the year (Domestic Stocks -22.3% vs. Domestic Equity Asset Class Target -21.5%).

He said the International Stock manager group underperformed its Composite Index for the quarter (International Stocks -22.2% vs. International Equity Asset Class Target -21.9%) and for the year (International Stocks -30.3% vs. International Equity Asset Class Target -30.1%). Mr. Bicker stated that the bond segment underperformed its target for the quarter (Bonds -2.8% vs. Fixed Income Asset Class Target -0.5%) and for the year (Bonds -1.3% vs. Fixed Income Asset Class Target 3.7%). He noted that bond performance suffered due to the managers' underweighting in government securities. He noted that the alternative investments had performed strongly for the year (Alternatives 10.6%). He concluded his report with the comment that as of September 30, 2008, the SBI was responsible for over \$53 billion in assets.

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

Mr. Bicker announced that the Post Retirement benefit increase for fiscal year 2008 will be 2.5%. The increase will be payable to eligible retirees effective January 1, 2009.

Mr. Bicker stated that the Legislative Auditor is nearly finished with its financial audit of SBI operations for FY08, and he noted that members will receive copies when it has been completed. He said that a draft of the SBI's annual report for FY08 has been distributed to members for comments or suggestions. Mr. Bicker referred members to the list of tentative meeting dates for calendar year 2009. He also noted that staff had completed the quarterly update on SBI actions concerning companies with operations in Sudan.

Ms. Eller reported that the State has filed a claim in the Lehman bankruptcy proceedings. She said that the State will take a more active role in this case but she noted that with exposure of approximately \$55 million, the SBI did not have as much exposure as other public pension plans.

Mr. Bicker stated that the SBI is responsible for making final recommendations for individual funds in MnSCU's Defined Contribution Plan. He said that MnSCU has requested that the SBI approve the replacement of the Social Choice Fund with the TIAA-CREF Lifecycle funds as the Plan default options. Ms. Otto moved approval of staff's recommendation, as stated in Tab B, which reads: **"Staff recommends that the Board approve the replacement of the Social Choice Fund with the TIAA-CREF Lifecycle funds as Plan default options."** The motion passed.

Mr. Bicker updated members on several other issues that took place during the quarter. He discussed the issue of securities lending, and he reported that the SBI has not experienced any losses to date and that monitoring will continue.

Mr. Bicker reported that staff completed a \$2.6 billion rebalancing during the quarter. He reminded members that legislation was enacted last year that would merge the Basics and Post Funds if the Post's funding ratio fell below 80%. He stated that the Post Fund ratio was 79.7% as of June 30, 2008, so the Basics and Post Funds will merge, effective June 30, 2009. He noted that additional information will follow later in the meeting during the asset allocation discussion.

Mr. Bicker said that during the quarter staff made a change to the money market account of the Deferred Compensation Plan due to concerns of some Plan participants. He said that the account is now invested only in Treasury and agency issues.

Mr. Bicker then reported that due to liquidity issues of some investment vehicles in the short-term market, such as a scarcity of repurchase agreements, staff has worked out arrangements to invest treasurer's cash in a couple of money market mutual funds.

Mr. Troutman updated members on the Minneapolis Employees Retirement Fund (MERF) asset transfer. He said MERF transferred \$1.2 billion to the SBI, effective October 1, 2008 and that the transfer went well.

In response to questions from Governor Pawlenty, Mr. Bicker discussed in more detail the policies and procedures the SBI has in place regarding securities lending, including the additional indemnification the SBI has in place. Mr. Bicker stated that staff has always taken a very conservative stance regarding securities lending.

#### **Equities and Fixed Income**

Mr. Troutman referred members to Tab C of the meeting materials and stated that staff does not have any action items for consideration this quarter.

#### **Alternative Investments**

Mr. Troutman referred members to Tab D of the meeting materials and stated that there are no investment recommendations for the Board's consideration this quarter. He noted that there is a lag in reporting market values in the alternative investment area and that members should expect to see some lower or even negative returns in this asset category going forward.

In response to questions from Governor Pawlenty, Mr. Bicker stated that although the Basics and Post will officially merge on July 1, 2009, staff is recommending that they be treated as if they are merged and use one asset allocation policy as of January 1, 2009. He noted that no new monies will go into the Post after January 1, 2009.

#### **Asset Allocation**

Mr. Troutman referred members to Tab E of the meeting materials and reviewed the materials with members. In response to questions from Governor Pawlenty, Mr. Troutman, Mr. Bicker and Ms. Posey all discussed the long-term time horizon of the asset allocation policy and the 8.5% required rate of return. Each stated that the 8.5% return is still appropriate at this time. Mr. Bicker noted the importance of having broad

diversification across the various asset categories, and he also stressed the importance of having a disciplined investment approach. Mr. Ritchie moved approval of the IAC's asset allocation recommendation, as stated in Tab E of the meeting materials, which reads: **"The IAC recommends that the State Board of Investment adopt the following asset allocation policy for the Combined Funds: U.S. Equity 45%; International Equity 15%; Alternative Investments 20%; Fixed Income 18%; Cash 2%; Total 100%."** The motion passed.

The meeting adjourned at 9:50 A.M.

Sincerely,

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

Howard Bicker  
Executive Director



# **Tab A**

## SUMMARY OF ACTUARIAL VALUATIONS

### All Eight Plans of MSRS, PERA and TRA Including Post Fund July 1, 2008

	Active (Basics)	Retired (Post)	Total (Combined)
<b>Liabilities</b>			
Actuarially Accrued Liabilities	\$28.92 billion	\$28.89 billion	\$57.81 billion
<b>Assets</b>			
Current Actuarial Value	\$24.11 billion	\$22.96 billion	\$47.07 billion
<b>Funding Ratio</b>			
Current Actuarial Value divided by Accrued Liabilities	83.4%	79.5%	81.4%

**Notes:**

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

**Actuarial Assumptions:**

Interest/Discount Rate:

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

Full Funding Target Date:

2020 – MSRS General

2031 – PERA General

2037 – TRA

**LONG TERM OBJECTIVES**  
**Period Ending 12/31/2008**

<b>COMBINED FUNDS: \$35.8 Billion</b>	<b>Result</b>	<b>Compared to Objective</b>
<p><b>Match or Exceed Composite Index (10 Yr.)</b></p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Combined Funds over the latest 10 year period.</p>	2.9% (1)	0.1 percentage point below target
<p><b>Provide Real Return (20 yr.)</b></p> <p>Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.</p>	8.3%	5.5 percentage points above CPI

<b>BASIC RETIREMENT FUNDS: \$18.2 Billion</b>	<b>Result</b>	<b>Compared to Objective</b>
<p><b>Match or Exceed Composite Index (10 Yr.)</b></p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 10 year period.</p>	3.0%	0.1 percentage point below target

<b>POST RETIREMENT FUND: \$17.6 Billion</b>	<b>Result</b>	<b>Compared to Objective</b>
<p><b>Match or Exceed Composite Index (10 Yr.)</b></p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 10 year period.</p>	2.7%	0.2 percentage point below target

(1) Performance is calculated net of fees.

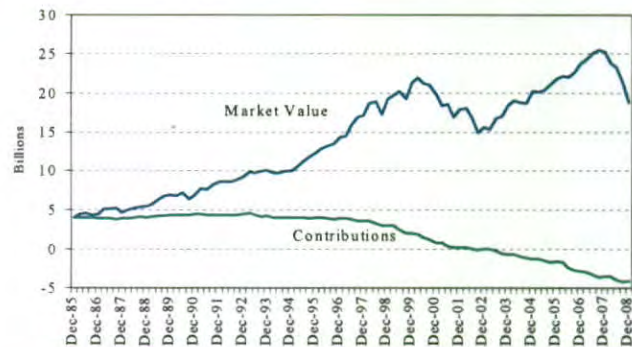
**EXECUTIVE SUMMARY**  
**Basic Retirement Funds (Net of Fees)**

**Asset Growth**

The market value of the Basic Funds decreased 14% during the fourth quarter of 2008. Negative investment returns accounted for the decrease.

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

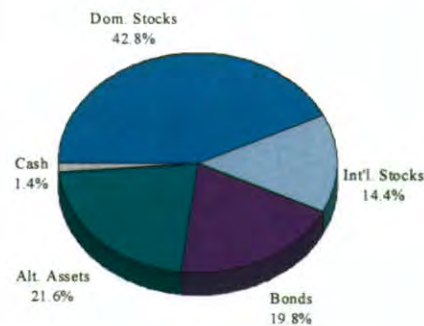
Beginning Value	\$ 21,223
Net Contributions	91
Investment Return	-3,069
Ending Value	\$ 18,245



**Asset Mix**

The allocation to domestic stocks decreased due to a declining equity market. Alternative investments increased due to better relative returns. The bond allocation decreased due to the change in asset allocation policy. Foreign equities increased due to stronger relative returns.

	Policy Targets	Actual Mix 12/31/2008	Actual Market Value (Millions)
Domestic Stocks	45.0%	42.8%	\$7,799
Int'l. Stocks	15.0	14.4	2,632
Bonds	19.0	19.8	3,607
Alternative Assets*	20.0	21.6	3,944
Unallocated Cash	1.0	1.4	263
	100.0%	100.0%	\$18,245

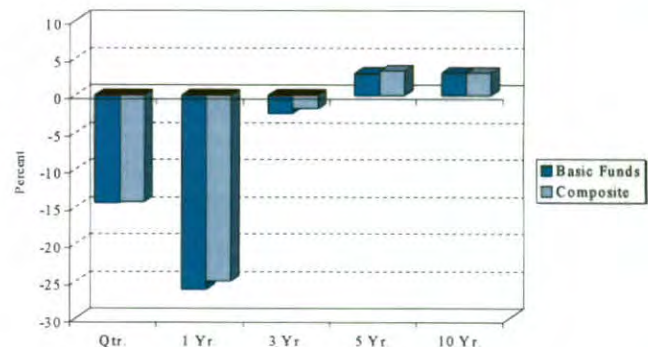


\* Any uninvested allocation is held in domestic bonds.

**Fund Performance (Net of Fees)**

The Basic Funds underperformed its target for the quarter and for the year.

	Period Ending 12/31/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Basics	-14.5%	-26.1%	-2.4%	3.0%	3.0%
Composite	-14.3	-25.0	-1.8	3.3	3.1



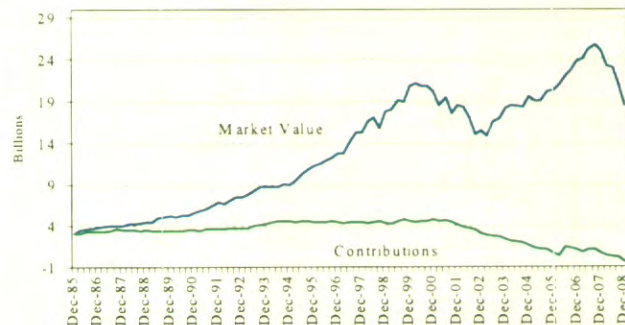
**EXECUTIVE SUMMARY**  
**Post Retirement Fund (Net of Fees)**

**Asset Growth**

The market value of the Post Fund decreased 16% during the fourth quarter of 2008. Negative investment returns were the main driver behind the decrease.

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

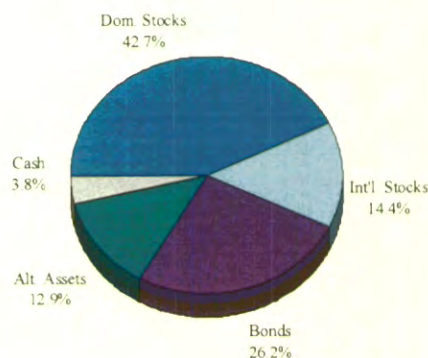
Beginning Value	\$21,030
Net Contributions	-487
Investment Return	-2,931
Ending Value	\$17,612



**Asset Mix**

The asset allocation to domestic equities decreased due to a difficult market environment in the fourth quarter. Relative outperformance of foreign equities and fixed income vs. domestic equities caused the foreign equities allocation to rise.

	Policy Targets	Actual Mix 12/31/2008	Actual Market Value (Millions)
Domestic Stocks	45.0%	42.7%	\$7,517
Int'l. Stocks	15.0	14.4	2,537
Bonds	25.0	26.2	4,615
Alternative Assets*	12.0	12.9	2,281
Unallocated Cash	3.0	3.8	662
	100.0%	100.0%	\$17,612

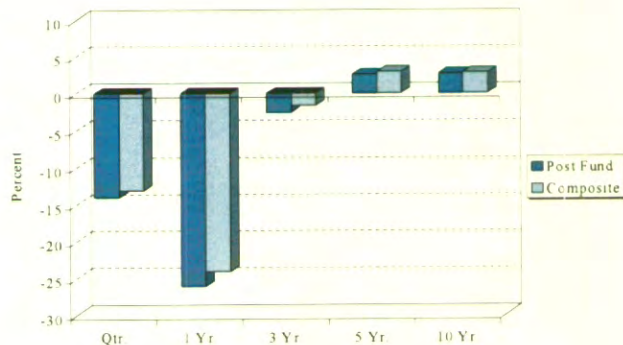


\* Any uninvested allocation is held in domestic equities.

**Fund Performance (Net of Fees)**

The Post Fund underperformed its target for the quarter and for the year.

	Period Ending 12/31/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Post	-14.1%	-26.2%	-2.6%	2.5%	2.7%
Composite	-13.2	-24.1	-1.7	3.0	2.9



## EXECUTIVE SUMMARY

### Stock and Bond Manager Performance (Net of Fees)

#### Domestic Stocks

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

	Period Ending 12/31/2008				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Dom. Stocks</b>	-23.2%	-38.1%	-9.4%	-2.4%	-1.5%
Asset Class Target*	-22.8	-37.3	-8.6	-2.0	-1.1

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

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

#### International Stocks

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

	Period Ending 12/31/2008				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Int'l. Stocks</b>	-21.9%	-45.3%	-6.7%	2.6%	2.2%
Asset Class Target*	-22.3	-45.5	-6.9	2.6	1.8

**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.

\* 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. From 12/31/96 to 6/30/99 the target was fixed at 87% EAFE Free/13% EMF. On 5/1/96 the portfolio transitioned from 100% EAFE Free to the 12/31/96 fixed weights. 100% EAFE Free prior to 5/1/96.

#### Bonds

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

	Period Ending 12/31/2008				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Bonds</b>	-0.7%	-4.2%	2.1%	2.8%	4.9%
Asset Class Target*	4.6	5.2	5.5	4.7	5.6

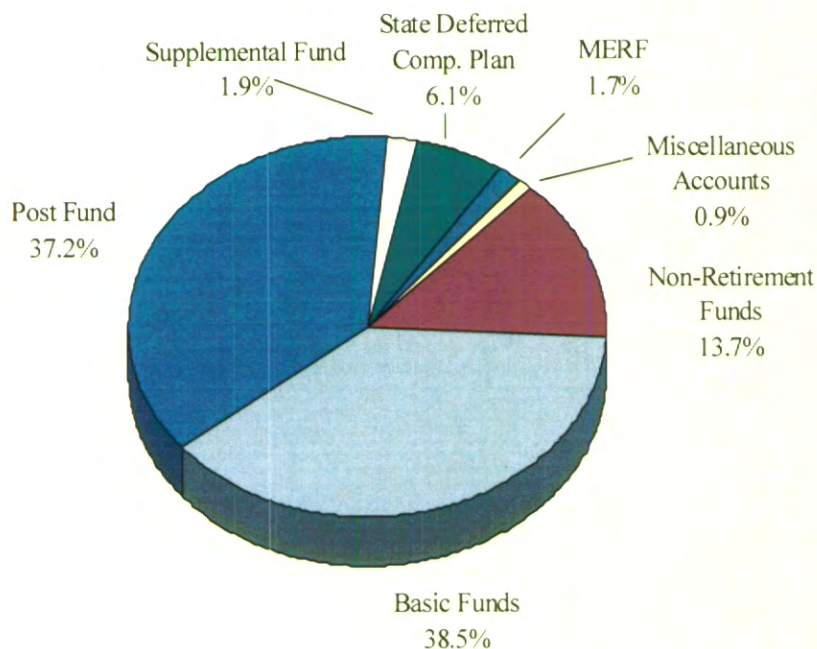
**Barclays Capital Aggregate:** The Barclays Capital Aggregate Bond Index reflects the performance of the broad bond market for investment grade (Baa or higher) bonds, U.S. treasury and agency securities, and mortgage obligations with maturities greater than one year.

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

#### Alternative Investments

	Period Ending 12/31/2008				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Alternatives</b>	-5.6%	1.4%	16.9%	23.2%	15.9%

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



**12/31/2008**  
**Market Value**  
**(Billions)**

**Retirement Funds**

Basic Retirement Funds	\$18.2
Post Retirement Fund	17.6
Supplemental Investment Fund	0.9
State Deferred Compensation Plan Non-SIF Assets	2.9
Minneapolis Employees Retirement Fund (MERF)	0.8

**Non-Retirement Funds**

Assigned Risk Plan	0.3
Permanent School Fund	0.6
Environmental Trust Fund	0.4
State Cash Accounts	5.2

**Miscellaneous Accounts**

0.4

**Total**

\$47.3

# MINNESOTA STATE BOARD OF INVESTMENT

## QUARTERLY INVESTMENT REPORT

Fourth Quarter 2008  
(October 1, 2008 - December 31, 2008)

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## VARIOUS CAPITAL MARKET INDICES

	Period Ending 12/31/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Domestic Equity</b>					
Dow Jones Wilshire Composite	-22.9%	-37.2%	-8.4%	-1.7%	-0.6%
Dow Jones Industrials	-18.4	-31.9	-4.1	-1.1	1.7
S&P 500	-21.9	-37.0	-8.4	-2.2	-1.4
Russell 3000 (broad market)	-22.8	-37.3	-8.6	-2.0	-0.8
Russell 1000 (large cap)	-22.5	-37.6	-8.7	-2.0	-1.1
Russell 2000 (small cap)	-26.1	-33.8	-8.3	-0.9	3.0
<b>Domestic Fixed Income</b>					
Barclays Capital Aggregate (1)	4.6	5.2	5.5	4.7	5.6
Lehman Gov't./Corp.	6.4	5.7	5.6	4.6	5.6
3 month U.S. Treasury Bills	0.1	1.5	3.7	3.1	3.3
<b>International</b>					
EAFE (2)	-20.0	-43.4	-7.4	1.7	0.8
Emerging Markets Free (3)	-27.6	-53.2	-4.6	8.0	9.3
ACWI Free ex-U.S. (4)	-22.3	-45.2	-6.6	3.0	2.3
World ex-U.S. (5)	-21.1	-43.6	-7.3	1.9	1.2
Salomon Non U.S. Gov't. Bond	8.8	10.1	9.5	6.0	5.6
<b>Inflation Measure</b>					
Consumer Price Index CPI-U (6)	-3.9	0.1	2.2	2.5	2.4
Consumer Price Index CPI-W (7)	-4.7	-0.5	2.1	2.6	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 Emerging Markets Free index. (Gross index)

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

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

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

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The U.S. stock market, as measured by the Russell 3000 index, posted a -22.8% return during the fourth quarter of 2008. Equity markets fell aggressively again this quarter and ended the worst year since 1937 for U.S. stocks. Large cap stocks outperformed the small cap stocks within the Russell 3000 for the quarter. Within the Russell 3000 index, the Integrated Oils Sector was the best performing sector with a -7.9% return (helped by Exxon's positive return) and the energy sector was the worst performing sector with a -40.9% return for the quarter.

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

Large Growth	Russell 1000 Growth	-22.8%
Large Value	Russell 1000 Value	-22.2%
Small Growth	Russell 2000 Growth	-27.5%
Small Value	Russell 2000 Value	-24.9%

The Russell 3000 index returned -37.3% for the year ending December 31, 2008.

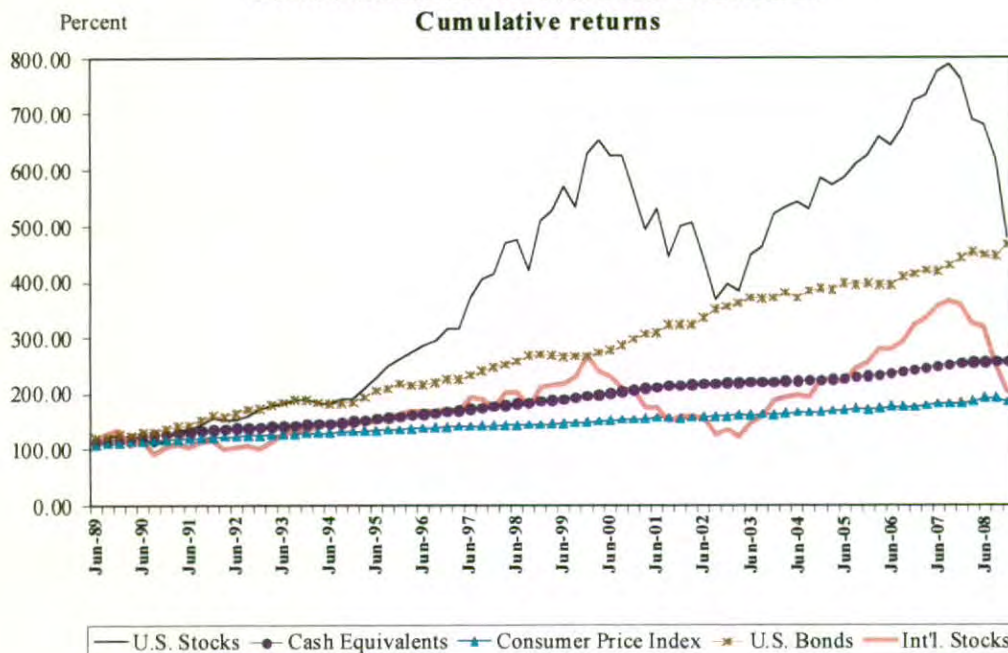
DOMESTIC BONDS

The fourth quarter of 2008 was again challenging for fixed income investors. Financial deleveraging continued as massive selling occurred amid a global flight to quality. This led to a further decline in asset prices in all spread sectors, but a slight recovery in December prevented 4Q08 from being the worst ever. The bond market, as measured by the Barclays Capital Aggregate Index, returned 4.6% for the quarter, driven primarily by the U.S. Treasury bond sector. The CMBS and ABS sectors posted a second consecutive dismal quarterly performance as forced selling by levered investors continued during the quarter. The corporate bond sector bounced back in December as the government rolled out an FDIC-guaranteed issuance program. The agency MBS sector benefited from the government's purchase program, but the non-Agency sector sell-off continued as a result of continuing declines in home prices mostly due to rising foreclosures.

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

U.S. Treasury	8.8%
Agency	6.1
Corporates	4.0
Residential Mortgages	4.3
Commercial Mortgages	-13.5
Asset-backed	-6.8

PERFORMANCE OF CAPITAL MARKETS



## FINANCIAL MARKETS REVIEW

### INTERNATIONAL STOCKS

In aggregate, developed international stock markets (as measured by the MSCI World ex U.S. index) provided a return of -21.1% for the quarter. The quarterly performance of the six largest stock markets is shown below:

United Kingdom	-26.4%
Japan	-9.0
France	-20.5
Canada	-33.1
Germany	-20.9
Switzerland	-13.3

The World ex U.S. index returned -43.6% during the last year.

The World ex U.S. index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 22 markets located in Europe, Australasia, Far East, and Canada. The major markets listed above comprise about 75% of the value of the international markets in the index.

### EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of -27.6% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below:

Brazil	-37.1%
China	-10.8
Korea	-26.5
Russia	-51.3
Taiwan	-23.8
South Africa	-16.3

The Emerging Markets Free index returned -53.2% during the last year.

The Emerging Markets Free (EMF) index is compiled by MSCI and measures performance of 23 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 64% of the value of the international markets in the index.

### REAL ESTATE

The sub-prime crisis and the ensuing credit crunch occurred over one year ago, and today's real estate investment environment remains extremely challenging. Traditional real estate lenders have been sidelined by losses. Due in large part to this credit crunch and uncertainty regarding valuations, national brokerage firms report transaction sales volumes are down significantly. Real estate property prices are under pressure given the poor economic outlook.

### PRIVATE EQUITY

Many private equity investors are bumping up against or exceeding their private equity target allocations as distributions from investments have slowed and stock markets have declined. In addition, private equity portfolios are being revalued at lower levels due to economic weakness.

### RESOURCE FUNDS

During the fourth quarter of 2008, crude oil averaged \$60 per barrel, down from the average price of \$118 per barrel during the third quarter. Oil prices are declining due to weak economic conditions.

COMBINED FUNDS

The "Combined Funds" represent the assets of both the Basic and Post Retirement Funds. While the Combined Funds do not exist under statute, the Board finds it instructive to review asset mix and performance of all defined benefit pension assets under its control. This more closely parallels the structure of other public and corporate pension plan assets and therefore allows for more meaningful comparison with other pension fund investors.

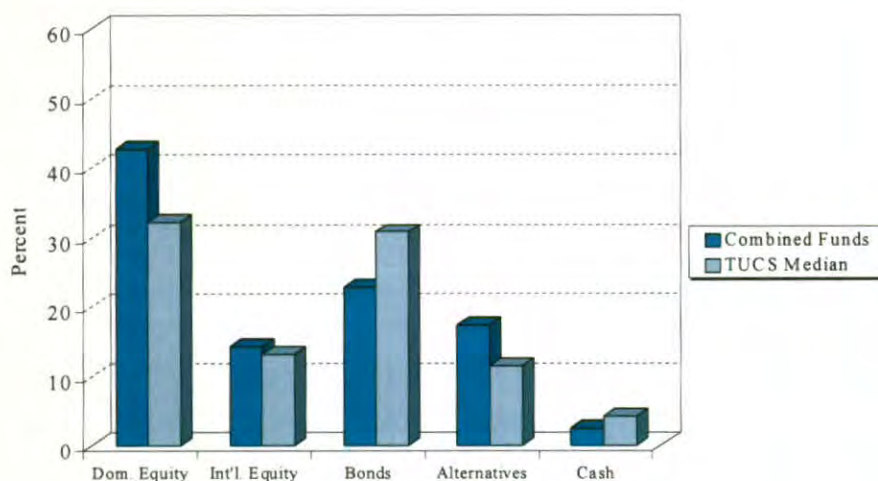
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over \$1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On December 31, 2008, the actual asset mix of the Combined Funds was:

	\$ Millions	%
Domestic Stocks	\$15,316	42.7%
International Stocks	5,169	14.4
Bonds	8,222	22.9
Alternative Assets	6,225	17.4
Unallocated Cash	925	2.6
<b>Total</b>	<b>\$35,857</b>	<b>100.0%</b>

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



	Dom. Equity	Int'l Equity	Bonds	Alternatives	Cash
<b>Combined Funds</b>	<b>42.7%</b>	<b>14.4%</b>	<b>22.9%</b>	<b>17.4%</b>	<b>2.6%</b>
Median Allocation in TUCS*	32.2	13.2	30.8	11.5**	4.2

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

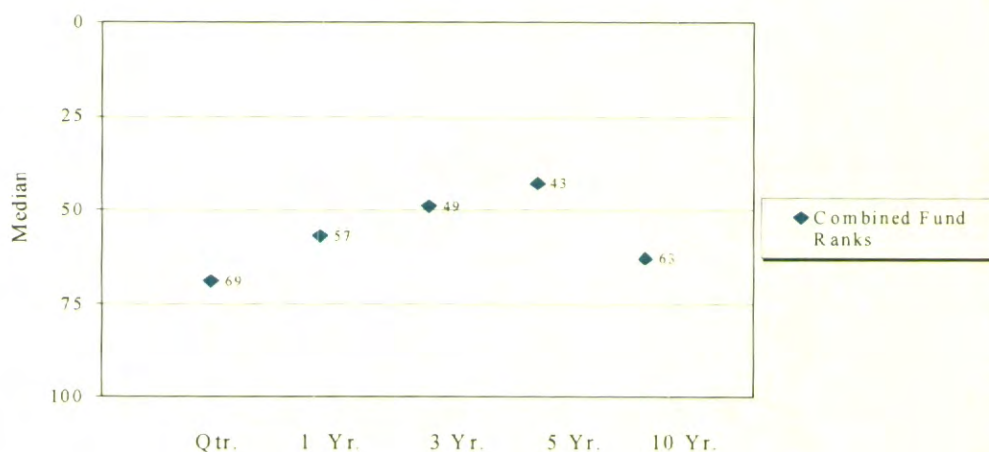
**COMBINED FUNDS**  
**Performance Compared to Other Pension Funds**

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 12/31/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds Percentile Rank in TUCS*	69th	57th	49th	43rd	63rd

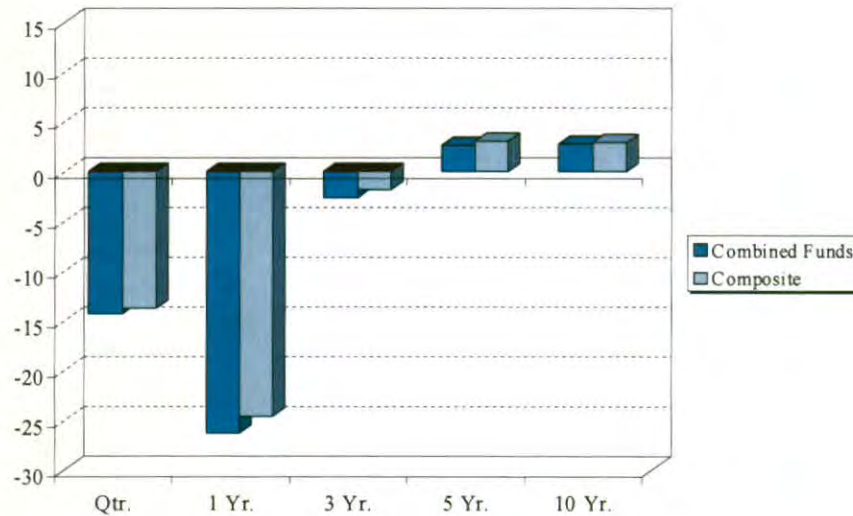
\* Compared to public and corporate plans greater than \$1 billion, gross of fees.

**COMBINED FUNDS**  
**Performance Compared to Composite Index**

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

	Market Index	Combined Funds Composite* 4Q08
Domestic Stocks	Russell 3000	44.3%*
Int'l. Stocks	MSCI ACWI Free ex-U.S.	15.0
Bonds	Barclays Capital Aggregate	23.6
Alternative Investments	Alternative Investments	15.1*
Unallocated Cash	3 Month T-Bills	2.0
		100.0%

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



**Period Ending 12/31/2008**

	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
<b>Combined Funds**</b>	<b>-14.3%</b>	<b>-26.2%</b>	<b>-2.5%</b>	<b>2.7%</b>	<b>2.9%</b>
Composite Index	-13.8	-24.6	-1.8	3.1	3.0

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

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## BASIC RETIREMENT FUNDS

### Investment Objectives

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

Employee and employer contribution rates are specified in state law as a percentage of an employee's salary. The rates are set so that contributions plus expected investment earnings will cover the projected cost of promised pension benefits. In order to meet these

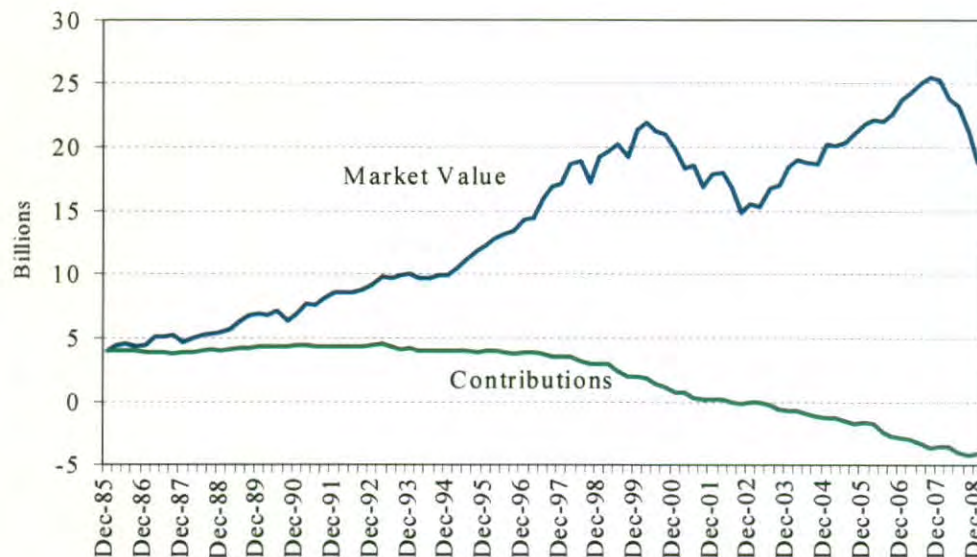
projected pension costs, the Basic Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

Normally, pension assets will accumulate in the Basic Retirement Funds for thirty to forty years during an employee's years of active service. This provides the Basic Funds with a long investment time horizon and permits the Board to take an aggressive, high expected return investment policy which incorporates a sizeable equity component in order to meet or exceed its actuarial return target.

### Asset Growth

The market value of the Basic Funds decreased 14% during the fourth quarter of 2008.

Negative investment returns were the main reason for the decrease.



	Last Five Years								Latest Qtr.
	In Millions								
	12/03	12/04	12/05	12/06	12/07	3/08	6/08	9/08	12/08
Beginning Value	\$15,561	\$18,435	\$20,201	\$21,816	\$23,694	\$25,301	\$23,800	\$23,279	\$21,223
Net Contributions	-592	-577	-411	-1,219	-662	-29	-372	-272	91
Investment Return	3,466	2,343	2,026	3,097	2,269	-1,472	-149	-1,784	-3,069
Ending Value	\$18,435	\$20,201	\$21,816	\$23,694	\$25,301	\$23,800	\$23,279	\$21,223	\$18,245



**BASIC RETIREMENT FUNDS**

**Asset Mix**

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

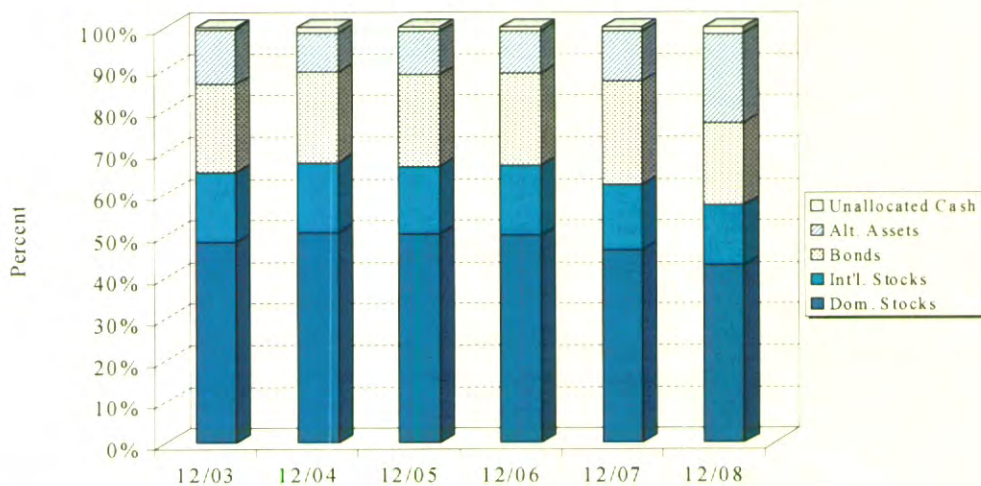
Domestic Stocks	45.0%
Int'l. Stocks	15.0
Bonds	19.0
Alternative Assets*	20.0
Unallocated Cash	1.0

\* Alternative assets include equity-oriented real estate, venture capital, resource, and yield-oriented funds. Any uninvested allocation is held in bonds as of July 1, 2008.

In October 2003, the Board provisionally revised its long term asset allocation targets for the Basic Funds, increasing the allocation for alternative investments from 15% to 20% and decreasing fixed income from 24% to 19%. This change went into effect on July 1, 2008 after the Post Fund reached its 12% allocation to Alternatives.

Over the last year, the allocation to domestic and foreign equities declined due to negative investment returns. The bond allocation decreased due to the change in asset allocation effective July 1, 2008. The allocation to alternatives increased due to strong returns and an increase to the alternative asset allocation.

During the quarter, the allocation to domestic stocks decreased due to a declining equity market. Alternative investments increased due to better relative returns. The bond allocation decreased due to the change in asset allocation policy. Foreign equities increased due to stronger relative returns.



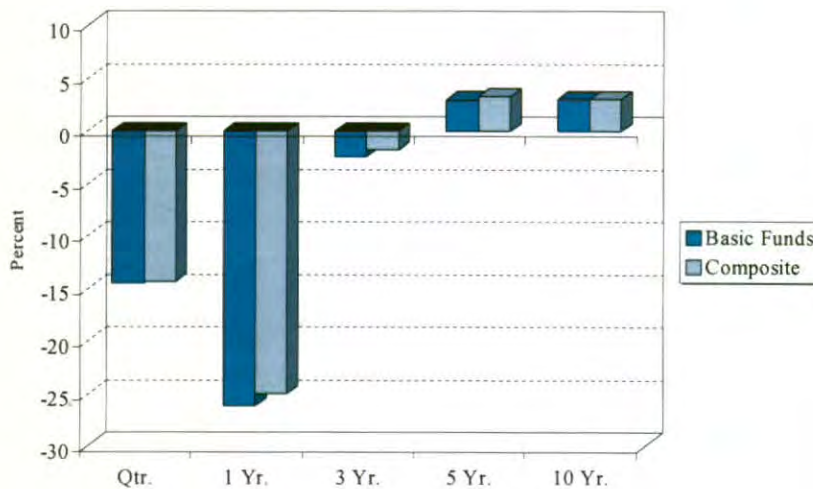
	Last Five Years							Latest Qtr.	
	12/03	12/04	12/05	12/06	12/07	3/08	6/08	9/08	12/08
Domestic Stocks	48.5%	50.9%	50.3%	50.1%	46.4%	46.3%	45.9%	44.1%	42.8%
Int'l. Stocks	16.6	16.6	16.3	16.6	15.8	15.3	15.4	12.6	14.4
Bonds	21.2	21.8	22.1	22.2	24.7	23.4	23.6	25.4	19.8
Alternative Assets	13.3	9.4	10.4	10.3	12.1	13.7	14.5	16.8	21.6
Unallocated Cash	0.4	1.3	0.9	0.8	1.0	1.3	0.6	1.1	1.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

**BASIC RETIREMENT FUNDS**  
**Total Fund Performance (Net of Fees)**

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

	<b>Basics Target</b>	<b>Market Index</b>	<b>Basics Composite* 4Q08</b>
Domestic Stocks	45.0%	Russell 3000	45%*
Int'l. Stocks	15.0	MSCI ACWI Free ex-U.S.	15.0
Bonds	19.0	Barclays Capital Aggregate	22.2
Alternative Investments	20.0	Alternative Investments	16.8*
Unallocated Cash	1.0	3 Month T-Bills	1.0
	100.0%		100.0%

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



	Period Ending 12/31/2008				
	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
<b>Basic Funds**</b>	<b>-14.5%</b>	<b>-26.1%</b>	<b>-2.4%</b>	<b>3.0%</b>	<b>3.0%</b>
Composite Index	-14.3	-25.0	-1.8	3.3	3.1

\*\*Returns are reported net of fees.

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

**POST RETIREMENT FUND**

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

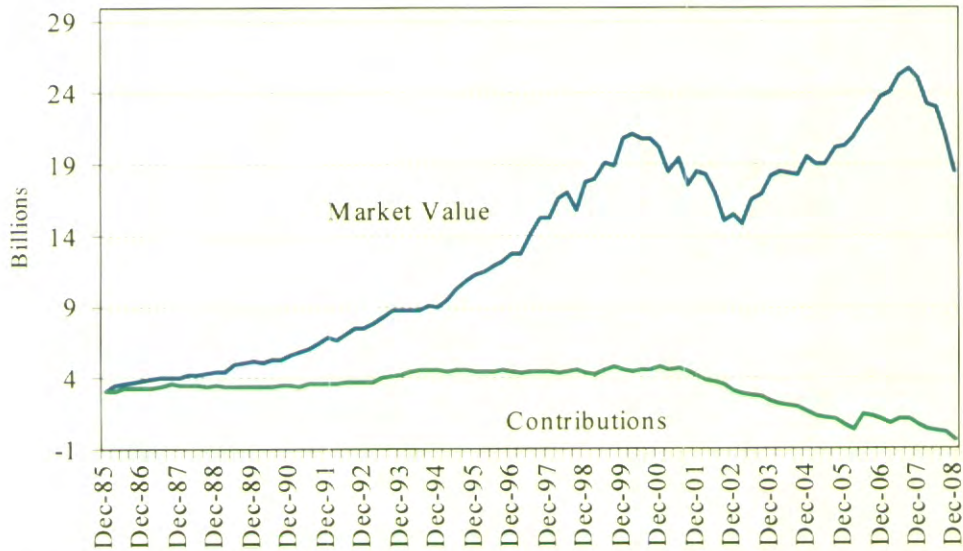
The post retirement benefit increase formula is based on the total return of the Fund. As a result, the Board maintains a long-term asset allocation strategy for the Post Fund which incorporates a substantial commitment to common stocks.

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

**Asset Growth**

The market value of the Post Fund decreased 14% during the fourth quarter of 2008.

Negative investment returns were the main driver behind the decrease.



	Last Five Years								Latest Qtr.
	In Millions								
	12/03	12/04	12/05	12/06	12/07	3/08	6/08	9/08	12/08
Beginning Value	\$15,403	\$18,162	\$19,480	\$20,295	\$23,733	\$24,998	\$23,163	\$22,968	\$21,030
Net Contributions	-719	-749	-984	-240	-886	-366	-10	-159	-487
Investment Return	3,478	2,067	1,799	1,295	2,151	-1,469	-185	-1,779	-2,931
Ending Value	\$18,162	\$19,480	\$20,295	\$23,733	\$24,998	\$23,163	\$22,968	\$21,030	\$17,612

**POST RETIREMENT FUND**

**Asset Mix**

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

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

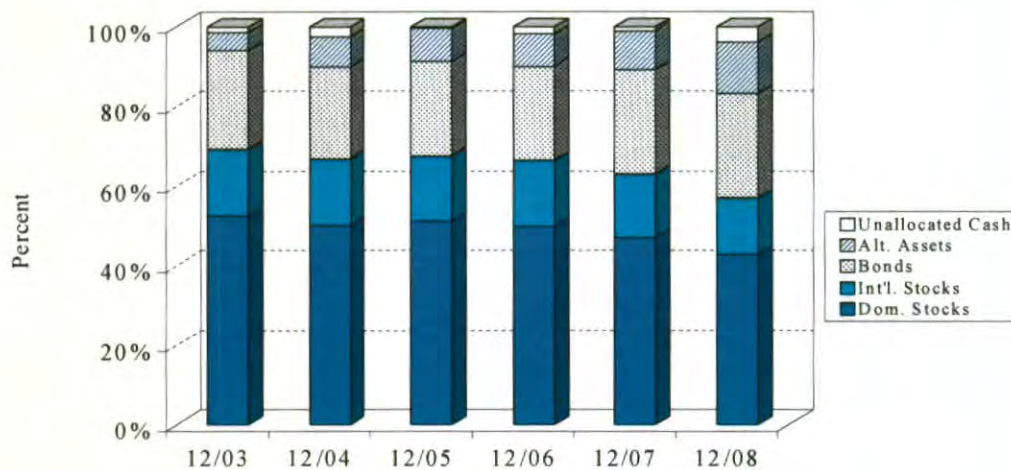
In October 2003, the Board revised its long term asset allocations for the Post Fund, increasing alternative investments from 5% to 12% and decreasing domestic equity from 50% to 45% and decreasing fixed income from 27% to 25%.

Over the last year, equity allocations decreased due to a declining equity market in 2008. This drove up the allocation to bonds and alternative assets, as these assets outperformed equities.

During the quarter, relative outperformance of bonds vs. equities caused the domestic equity allocation to decline amidst a difficult equity environment. The foreign equity allocation increased due to a stronger relative foreign equity market and rebalancing efforts to equities in the fourth quarter.

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

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



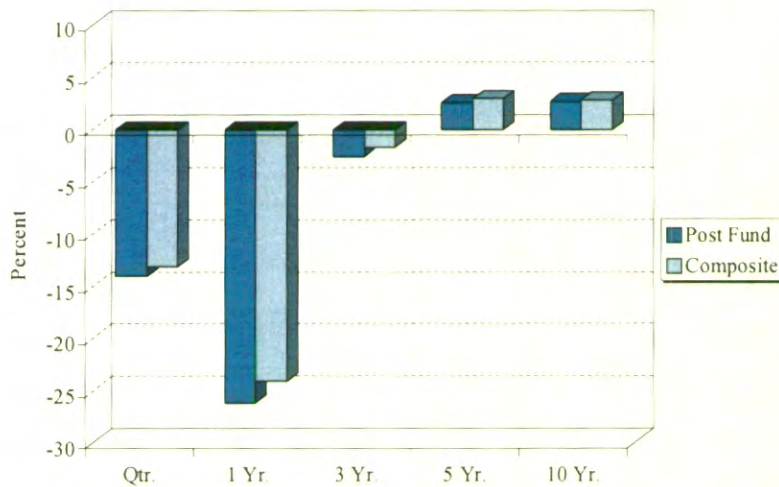
	Last Five years					Latest Qtr.			
	12/03	12/04	12/05	12/06	12/07	3/08	6/08	9/08	12/08
Dom. Stocks	52.7%	50.2%	51.1%	49.9%	47.1%	45.9%	46.7%	44.0%	42.7%
Int'l. Stocks	16.7	16.8	16.6	16.7	16.0	15.4	15.5	12.6	14.4
Bonds	24.6	22.9	23.5	23.3	26.1	24.6	25.0	26.4	26.2
Alt. Assets	4.4	7.6	8.5	8.3	9.8	11.1	11.3	13.3	12.9
Unallocated Cash	1.6	2.5	0.3	1.8	1.0	3.0	1.5	3.7	3.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

**POST RETIREMENT FUND**  
**Total Fund Performance (Net of Fees)**

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

Asset Class	Post Target	Market Index	Post Composite* 4Q08
Domestic Stocks	45.0%	Russell 3000	43.6%*
Int'l. Stocks	15.0	MSCI ACWI Free ex-U.S.	15.0
Bonds	25.0	Barclays Capital Aggregate	25.0
Alternative Investments	12.0	Alternative Investments	13.4*
Unallocated Cash	3.0	3 Month T-Bills	3.0
	100.0%		100.0%

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



**Period Ending 12/31/2008**

	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	Annualized 10 Yr.
<b>Post Fund**</b>	<b>-14.1%</b>	<b>-26.2%</b>	<b>-2.6%</b>	<b>2.5%</b>	<b>2.7%</b>
Composite Index	-13.2	-24.1	-1.7	3.0	2.9

\*\* Returns are reported net of fees.

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

## 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 12/31/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Stocks	-23.2%	-38.1%	-9.4%	-2.4%	-1.5%
Asset Class Target*	-22.8	-37.3	-8.6	-2.0	-1.1

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



#### International Stocks

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

**Expectation:** If at least one-third of the pool is managed actively, 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 12/31/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	-21.9%	-45.3%	-6.7%	2.6%	2.2%
Asset Class Target*	-22.3	-45.5	-6.9	2.6	1.8

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

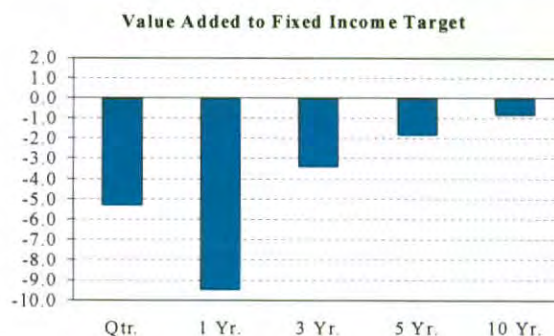


#### Bonds

**Target:** 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 12/31/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	-0.7%	-4.2%	2.1%	2.8%	4.9%
Asset Class Target	4.6	5.2	5.5	4.7	5.6



**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 12/31/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	-5.6%	1.4%	16.9%	23.2%	15.9%
Inflation	-3.9%	0.1%	2.2%	2.5%	2.4%

**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.

	Period Ending 12/31/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Real Estate	-2.5%	1.6%	15.7%	15.8%	12.5%

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.

**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.

	Period Ending 12/31/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Private Equity	-5.9%	-7.4%	13.7%	22.1%	15.0%

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.

**Resource Investments (Equity emphasis)**

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

	Period Ending 12/31/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Resource	-2.2%	16.8%	26.8%	50.3%	27.5%

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.

**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.

	Period Ending 12/31/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Yield Oriented	-8.6%	23.8%	23.7%	26.4%	18.5%

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.

## SUPPLEMENTAL INVESTMENT FUND

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

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

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

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

**On December 31, 2008 the market value of the entire Fund was \$0.9 billion.**

### Investment Options

	12/31/2008 Market Value (In Millions)
<b>Income Share Account</b> – a balanced portfolio utilizing both common stocks and bonds.	\$189
<b>Growth Share Account</b> – an actively managed, all common stock portfolio.	\$77
<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.	\$190
<b>International Share Account</b> – a portfolio of non U.S. stocks that incorporates both active and passive management.	\$79
<b>Bond Market Account</b> – an actively managed, all bond portfolio.	\$97
<b>Money Market Account</b> – a portfolio utilizing short-term, liquid debt securities.	\$160
<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.	\$84



## 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%	56.9%
Bonds	35.0	42.7
Unallocated Cash	5.0	0.4
	100.0%	100.0%

## Period Ending 12/31/2008

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	-12.9%	-23.4%	-3.2%	0.8%	1.8%
Benchmark*	-12.6	-23.7	-3.5	0.5	1.7

\* 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 12/31/2008

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	-23.3%	-38.7%	-10.0%	-2.7%	-1.8%
Benchmark*	-22.8	-37.3	-8.6	-2.0	-1.1

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

## COMMON STOCK INDEX ACCOUNT

**Investment Objective and Asset Mix**

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

The Account is invested 100% in common stock.

## Period Ending 12/31/2008

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	-22.7%	-37.0%	-8.4%	-1.8%	-0.8%
Benchmark*	-22.8	-37.3	-8.6	-2.0	-1.0

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

## INTERNATIONAL SHARE ACCOUNT

**Investment Objective and Asset Mix**

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

## Period Ending 12/31/2008

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	-21.8%	-45.2%	-6.5%	2.7%	2.3%
Benchmark*	-22.3	-45.5	-6.9	2.6	1.8

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

## SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

**BOND MARKET ACCOUNT****Investment Objective**

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

**Asset Mix**

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

	Period Ending 12/31/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Account</b>	<b>-0.8%</b>	<b>-4.2%</b>	<b>2.2%</b>	<b>2.9%</b>	<b>4.9%</b>
Barclays Capital Aggregate	4.6	5.2	5.5	4.7	5.6

**MONEY MARKET ACCOUNT****Investment Objective**

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

**Asset Mix**

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

	Period Ending 12/31/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Account</b>	<b>0.3%</b>	<b>3.0%</b>	<b>4.3%</b>	<b>3.5%</b>	<b>3.7%</b>
3 month T-Bills	0.1	1.5	3.7	3.1	3.3

**FIXED INTEREST ACCOUNT****Investment Objectives**

The investment objectives of the Fixed Interest Account are to protect investors from loss of their original investment and to provide competitive interest rates using somewhat longer term investments than typically found in a money market account.

**Asset Mix**

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

	Period Ending 12/31/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Account</b>	<b>1.2%</b>	<b>4.7%</b>	<b>4.7%</b>	<b>4.5%</b>	<b>5.2%</b>
Benchmark*	0.4	2.6	4.2	4.0	4.3

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

## DEFERRED COMPENSATION PLAN ACCOUNTS

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

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

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

### Investment Options

	<b>12/31/2008 Market Value (in Millions)</b>
Vanguard Institutional Index (passive)	\$293
Janus Twenty (active)	\$290
Legg Mason Appreciation Y (active)	\$93
Vanguard Mid Cap Index (passive)	\$90
T. Rowe Price Small Cap (active)	\$236
Fidelity Diversified International (active)	\$172
Vanguard Institutional Developed Markets (passive)	\$53
Dodge & Cox Balanced Fund (active)	\$193
Vanguard Balanced Fund (passive)	\$136
Dodge & Cox Income Fund (active)	\$98
Vanguard Total Bond Market Fund (passive)	\$86
Money Market Account	\$110
Fixed Interest Account	\$1,020

## DEFERRED COMPENSATION PLAN ACCOUNTS

## LARGE CAP EQUITY

**Vanguard Institutional Index (passive)**

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

		Period Ending 12/31/2008			
		Annualized			
Fund		Qtr.	1 Yr.	3 Yr.	5 Yr.
S&P 500		-21.9%	-36.9%	-8.3%	-2.2%
		-21.9	-37.0	-8.4	-2.2

**Janus Twenty (active)**

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

		Period Ending 12/31/2008			
		Annualized			
Fund		Qtr.	1 Yr.	3 Yr.	5 Yr.
S&P 500		-22.7%	-42.0%	-3.9%	3.7%
		-21.9	-37.0	-8.4	-2.2

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

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

		Period Ending 12/31/2008			
		Annualized			
Fund		Qtr.	1 Yr.	3 Yr.	5 Yr.
S&P 500		-17.5%	-28.8%	-3.9%	0.3%
		-21.9	-37.0	-8.4	-2.2

## MID CAP EQUITY

**Vanguard Mid Cap Index (passive)**

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

		Period Ending 12/31/2008			
		Annualized			
Fund		Qtr.	1 Yr.	3 Yr.	5 Yr.
MSCI US		-25.6%	-41.8%	-11.0%	-0.7%
Mid-Cap 450		-25.6	-41.8	-11.1	-0.7

## 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 12/31/2008			
		Annualized			
Fund		Qtr.	1 Yr.	3 Yr.	5 Yr.
Russell 2000		-23.8%	-33.4%	-9.6%	-1.0%
		-26.1	-33.8	-8.3	-0.9

## 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 12/31/2008			
		Annualized			
Fund		Qtr.	1 Yr.	3 Yr.	5 Yr.
MSCI EAFE		-23.4%	-45.2%	-8.0%	1.8%
		-20.0	-43.4	-7.4	1.7

**Vanguard Institutional Developed Markets (passive)**

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

		Period Ending 12/31/2008			
		Annualized			
Fund		Qtr.	1 Yr.	3 Yr.	5 Yr.
MSCI EAFE		-19.3%	-41.5%	-6.4%	2.3%
		-20.0	-43.4	-7.4	1.7

## 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.

	Period Ending 12/31/2008			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Fund</b>	-16.4%	-33.6%	-8.4%	-1.5%
Benchmark	-11.9	-22.4	-2.9	0.6

**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.

	Period Ending 12/31/2008			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Fund</b>	-12.5%	-22.1%	-2.7%	1.1%
Benchmark	-12.4	-22.4	-2.9	1.0

**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.

	Period Ending 12/31/2008			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Fund</b>	3.4%	-0.3%	3.2%	3.1%
Barclays Capital Aggregate	4.6	5.2	5.5	4.7

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

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

	Period Ending 12/31/2008			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Fund</b>	4.4%	5.2%	5.5%	4.7%
Barclays Capital Aggregate	4.6	5.2	5.5	4.7

**Money Market Account**

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

	Period Ending 12/31/2008			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Fund</b>	0.3%	3.0%	4.3%	3.5%
3-Mo. Treas.	0.1	1.5	3.7	3.1

**FIXED INTEREST ACCOUNT**

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

	Period Ending 12/31/2008			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Fund</b>	1.1%	4.7%	4.7%	4.5%
Benchmark	0.4	2.6	4.2	4.0

**MINNEAPOLIS EMPLOYEES RETIREMENT FUND****Investment Objectives**

The investment objective of the Minneapolis Employees Retirement Fund (MERF) is to increase the market value of the Fund over time, within the constraints of high levels of liquidity and quality.

**Asset Mix**

MERF is invested in a portfolio of stocks and bonds. The actual asset mix will fluctuate in response to changes in the market value of the assets and due to any rebalancing.

	<b>Target</b>	<b>Actual</b>
U.S. Equities	49.0%	41.9%
Non-U.S. Equities	21.0	20.0
Fixed Income	29.0	35.6
Cash	1.0	2.5
Total	100.0%	100.0%

**Investment Management**

SBI staff began management of all MERF assets on October 1, 2008. The bond and equity segments are managed to add incremental value through sector and security selection.

**Performance**

Fourth quarter performance for MERF was -15.3%.

**Market Value**

On December 31, 2008, the market value of MERF was \$848 million.

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.

	12/31/2008 Target	12/31/2008 Actual
Stocks	20.0%	15.3%
Bonds	80.0	84.7
Total	100.0%	100.0%

Investment Management

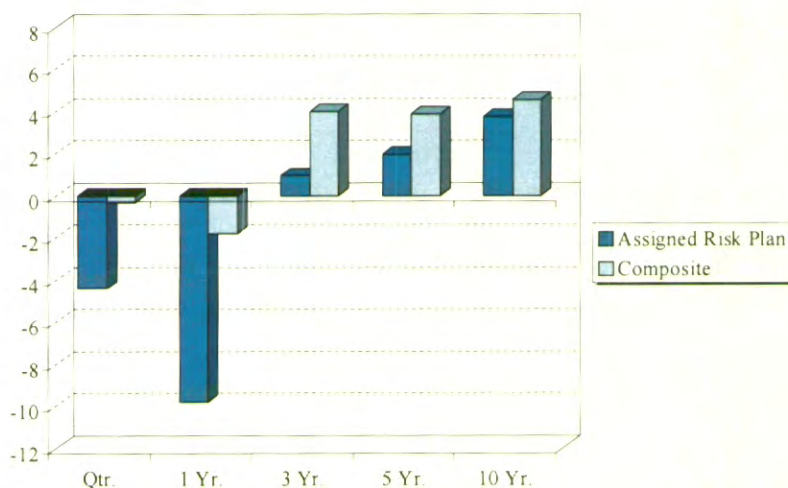
Voyageur Asset Management manages the bond segment of the Fund. GE Investment Management manages the equity segment.

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 December 31, 2008 the market value of the Assigned Risk Plan was \$299 million.



Period Ending 12/31/2008

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Fund*</b>	<b>-4.4%</b>	<b>-9.8%</b>	<b>1.0%</b>	<b>2.0%</b>	<b>3.8%</b>
Composite	-0.3	-1.8	4.0	3.9	4.5
<b>Equity Segment*</b>	<b>-23.7</b>	<b>-35.6</b>	<b>-6.6</b>	<b>-1.9</b>	<b>-0.1</b>
Benchmark	-21.9	-37.0	-8.4	-2.2	-1.4
<b>Bond Segment*</b>	<b>0.2</b>	<b>-2.4</b>	<b>2.6</b>	<b>2.7</b>	<b>4.1</b>
Benchmark	5.5	9.5	7.2	5.3	5.8

\* 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.

	12/31/2008 Target	12/31/2008 Actual
Stocks	50.0%	48.6%
Bond	48.0	49.4
Cash	2.0	2.0
Total	100.0%	100.0%

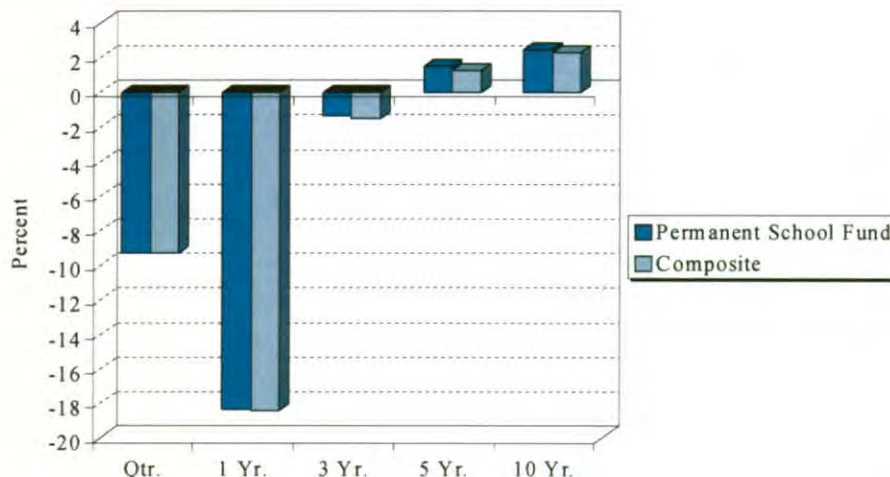
Prior to FY98, the Fund was invested entirely in fixed income securities in order to maximize current income. It is understood that the change in asset mix will reduce portfolio income in the short term, but will enhance the value of the fund, over time.

**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 December 31, 2008 the market value of the Permanent School Fund was \$596 million.



Period Ending 12/31/2008

Annualized

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Fund (1) (2)</b>	-9.3%	-18.3%	-1.4%	1.5%	2.5%
Composite	-9.3	-18.4	-1.5	1.3	2.3
<b>Equity Segment (1) (2)</b>	-21.8	-36.8	-8.2	-2.1	-1.3
S&P 500	-21.9	-37.0	-8.4	-2.2	-1.4
<b>Bond Segment (1)</b>	3.0	2.8	4.9	4.5	5.7
Barclays Capital Agg.	4.6	5.2	5.5	4.7	5.6

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



ENVIRONMENTAL TRUST FUND

**Investment Objective**

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

**Asset Mix**

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

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

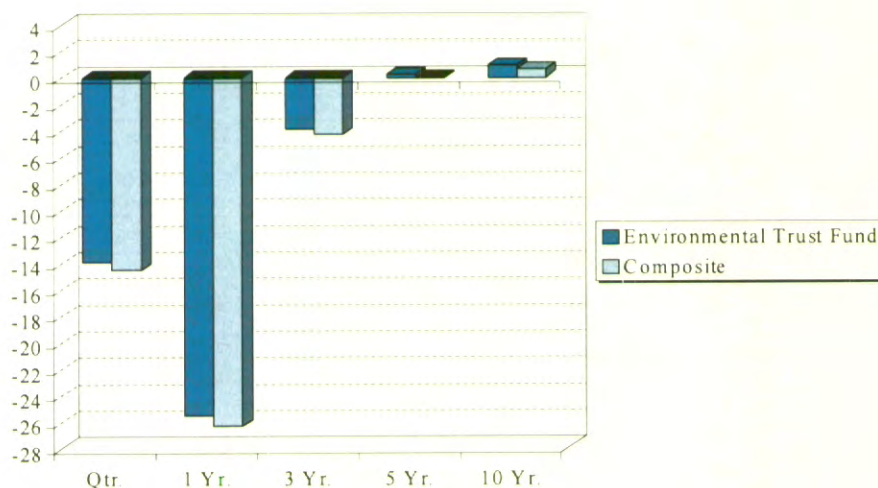
**Investment Management**

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

**Market Value**

On December 31, 2008 the market value of the Environmental Trust Fund was \$379 million.

	12/31/2008 Target	12/31/2008 Actual
Stocks	70.0%	68.7%
Bonds	28.0	30.6
Cash	2.0	0.7
Total	100.0%	100.0%



	Period Ending 12/31/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Fund*</b>	-13.9%	-25.5%	-3.8%	0.2%	0.9%
Composite	-14.5	-26.3	-4.3	-0.1	0.6
<b>Equity Segment*</b>	-21.7	-36.7	-8.2	-2.1	-1.3
S&P 500	-21.9	-37.0	-8.4	-2.2	-1.4
<b>Bond Segment*</b>	2.8	2.5	4.9	4.5	5.7
Barclays Capital Agg.	4.6	5.2	5.5	4.7	5.6

\* Actual returns are calculated net of fees.

**CLOSED LANDFILL INVESTMENT FUND**

**Investment Objectives**

The investment objective of the Closed Landfill Investment Fund is to generate high returns from capital appreciation. The Fund will be used by the Commissioner of the PCA (Pollution Control Agency) to pay for the long-term costs of maintaining the integrity of landfills in Minnesota once they are closed. However, by statute, the assets of the Fund are unavailable for expenditure until after fiscal year 2020.

**Investment Management**

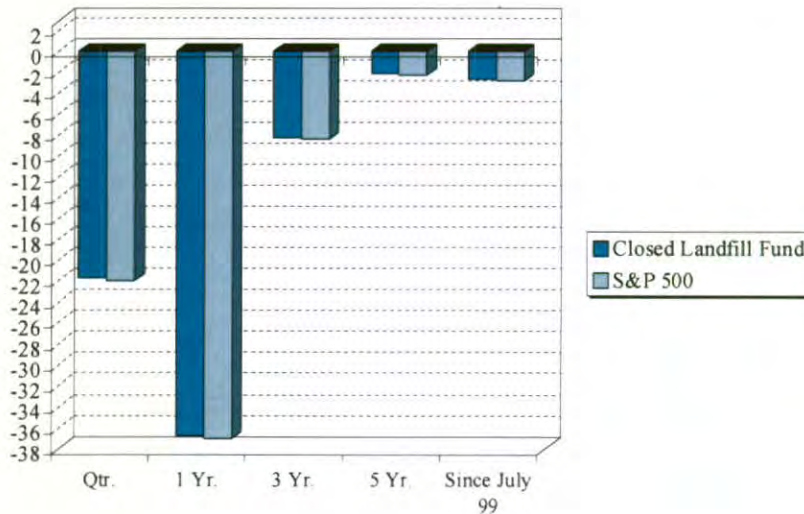
SBI staff manage all assets of the Closed Landfill Investment Fund. The assets are managed to passively track the performance of the S&P 500 index.

**Market Value**

On December 31, 2008, the market value of the Closed Landfill Investment Fund was \$36.4 million.

**Asset Mix**

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



**Period Ending 12/31/2008**

	Qtr.	1 Yr.	3 Yr.	5 Yr.	Since 7/1/1999
<b>Total Fund (1)</b>	-21.7%	-36.7%	-8.2%	-2.1%	-2.6%
<b>S&amp;P 500 (2)</b>	-21.9	-37.0	-8.4	-2.2	-2.7

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

## STATE CASH ACCOUNTS

**Description**

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

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

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

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

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

**Investment Objectives**

**Safety of Principal.** To preserve capital.

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

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

**Asset Mix**

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

**Investment Management**

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

	Market Value (Millions)	Period Ending 12/31/2008				
		Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
<b>Treasurer's Cash Pool*</b>	<b>\$5,018</b>	<b>0.9%</b>	<b>2.6%</b>	<b>4.4%</b>	<b>3.5%</b>	<b>3.9%</b>
Custom Benchmark**		0.3	2.0	3.7	2.9	3.3
<b>Trust Fund Cash Pool*</b>	<b>\$52</b>	<b>0.2</b>	<b>1.6</b>	<b>3.9</b>	<b>3.3</b>	<b>3.6</b>
Custom Benchmark***		0.3	2.0	3.7	2.9	3.1
3 month T-Bills		0.1	1.5	3.7	3.1	3.3

\* 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. From April 1993 through December 1996, the benchmark was 75% State Street Short Term Investment Fund/25% Barclays Capital 1-3 Year Treasury Index.

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

**MINNESOTA STATE BOARD OF INVESTMENT**  
**Composition of State Investment Portfolios By Type of Investment**  
**Market Value December 31, 2008 (in Thousands)**

	<b>Cash and Short term</b>	<b>Bonds Internal</b>	<b>Bonds External</b>	<b>Stocks Internal</b>	<b>Stocks External</b>	<b>External Int'l</b>	<b>Alternative Assets</b>	<b>Total</b>
<b>BASIC RETIREMENT FUNDS:</b>								
Teachers Retirement Fund	81,844 1.40%	0	1,155,971 19.78%	0	2,498,824 42.76%	843,237 14.43%	1,263,714 21.63%	5,843,590 100%
Public Employees Retirement Fund	89,324 1.67%	0	1,054,898 19.73%	0	2,280,189 42.64%	769,508 14.39%	1,153,220 21.57%	5,347,139 100%
State Employees Retirement Fund	46,266 1.12%	0	822,708 19.84%	0	1,778,303 42.88%	600,134 14.47%	899,388 21.69%	4,146,799 100%
Public Employees Police & Fire	36,819 1.58%	0	459,114 19.75%	0	992,386 42.68%	334,906 14.40%	501,906 21.59%	2,325,131 100%
Highway Patrol Retirement Fund	1,937 1.12%	0	34,450 19.84%	0	74,464 42.88%	25,130 14.47%	37,661 21.69%	173,642 100%
Judges Retirement Fund	424 1.12%	0	7,531 19.84%	0	16,278 42.88%	5,493 14.47%	8,233 21.69%	37,959 100%
Correctional Employees Retirement	2,523 1.12%	0	44,865 19.84%	0	96,978 42.88%	32,728 14.47%	49,047 21.69%	226,141 100%
Public Employees Correctional	3,603 2.47%	0	28,499 19.57%	0	61,601 42.30%	20,789 14.27%	31,155 21.39%	145,647 100%
<b>TOTAL BASIC FUNDS</b>	262,740 1.44%	0	3,608,036 19.77%	0	7,799,023 42.74%	2,631,925 14.43%	3,944,324 21.62%	18,246,048 100%
<b>POST RETIREMENT FUND</b>	662,419 3.76%	0	4,615,404 26.21%	0	7,516,852 42.68%	2,536,752 14.40%	2,281,017 12.95%	17,612,444 100%
<b>TOTAL BASIC AND POST</b>	925,159 2.58%	0	8,223,440 22.93%	0	15,315,875 42.71%	5,168,677 14.42%	6,225,341 17.36%	35,858,492 100%

	Cash and Short term	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
Mpls EE Retirement Plan	19,405 2.51%	0	276,434 35.76%	0	322,654 41.74%	154,506 19.99%	0	772,999 100%
Mpls EE Retirement Active	1,629 2.18%	0	25,785 34.45%	0	32,609 43.56%	14,829 19.81%	0	74,852 100%
Mpls EE Retirement Deposit Acct	1,106 100.00%	0	0	0	0	0	0	1,106 100%
<b>TOTAL MERF FUNDS</b>	22,140 2.61%	0	302,219 35.60%	0	355,263 41.85%	169,335 19.94%	0	848,957 100%
<b>MINNESOTA SUPPLEMENTAL FUNDS:</b>								
Income Share Account	712 0.38%	80,717 42.69%	0	0	107,646 56.93%	0	0	189,075 100%
Growth Share Account	0	0	0	0	76,843 100.00%	0	0	76,843 100%
Money Market Account	160,066 100.00%	0	0	0	0	0	0	160,066 100%
Common Stock Index	0	0	0	0	190,314 100.00%	0	0	190,314 100%
Bond Market Account	0	0	96,738 100.00%	0	0	0	0	96,738 100%
International Share Account	0	0	0	0	0	79,182 100.00%	0	79,182 100%
Stable Value Fund Monthly	1,071 1.27%	0	82,973 98.73%	0	0	0	0	84,044 100%
<b>TOTAL SUPPLEMENTAL FUNDS</b>	161,849 18.47%	80,717 9.21%	179,711 20.51%	0	374,803 42.77%	79,182 9.04%	0	876,262 100%

	Cash and Short Term	Bond Internal	Bond External	Stock Internal	Stock External	External Int'l	Alternative Assets	Total
MN DEFERRED COMP PLAN	110,529 3.85%	0	1,314,815 45.79%	0	1,221,265 42.54%	224,419 7.82%	0	2,871,028 100%
TOTAL RETIREMENT FUNDS	1,219,677 3.01%	80,717 0.20%	10,020,185 24.77%	0	17,267,206 42.68%	5,641,613 13.95%	6,225,341 15.39%	40,454,739 100%
ASSIGNED RISK PLAN	8,414 2.81%	0	245,523 82.03%	0	45,387 15.16%	0	0	299,324 100%
ENVIRONMENTAL FUND	2,767 0.73%	116,583 30.67%	0	260,798 68.60%	0	0	0	380,148 100%
PERMANENT SCHOOL FUND	12,257 2.06%	293,598 49.36%	0	288,908 48.58%	0	0	0	594,763 100%
CLOSED LANDFILL INVESTMENT	88 0.24%	0	0	36,436 99.76%	0	0	0	36,524 100%
TREASURERS CASH	5,071,383 100.00%	0	0	0	0	0	0	5,071,383 100%
HOUSING FINANCE AGENCY	2,232 2.20%	99,357 97.80%	0	0	0	0	0	101,589 100%
MINNESOTA DEBT SERVICE FUND	0	53,871 100.00%	0	0	0	0	0	53,871 100%
MISCELLANEOUS ACCOUNTS	74,661 19.55%	206,130 53.99%	0	101,028 26.46%	0	0	0	381,819 100%
TOTAL CASH AND NON-RETIREMENT	5,171,802 74.74%	769,539 11.12%	245,523 3.55%	687,170 9.93%	45,387 0.66%	0	0	6,919,421 100%
GRAND TOTAL	6,391,479 13.49%	850,256 1.80%	10,265,708 21.67%	687,170 1.45%	17,312,593 36.54%	5,641,613 11.91%	6,225,341 13.14%	47,374,160 100%

# **Tab B**

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

---

DATE: February 11, 2009

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 period ending January 31, 2009 is included as **Attachment A**.

A report on travel for the period from November 5, 2008 - February 4, 2009 is included as **Attachment B**.

### **2. Results of FY08 Financial Audit**

The Office of the Legislative Auditor has completed its audit of SBI operations for Fiscal Year 2008. Each member of the State Board of Investment and the Investment Advisory Council will receive a copy of the final report. See **Attachment C**.

### **3. Legislative Update**

I will present a verbal update on any legislation activity of interest to the SBI.

### **4. Update on Sudan Legislation**

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

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

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



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

During 2008, SBI's managers divested all shares of companies required to be divested. During the fourth quarter several managers had holdings in ABB, a Swiss Company, that was added to the divestment list for divestment in 2009.

**Attachment D** is a copy of the December 22, 2008 letter sent to each international equity manager and domestic equity manager containing the most recent restricted list and the list of stocks to be divested.

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

## **5. Litigation Update**

SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on March 11, 2009.

## **6. Consideration of a new contract for the State's 529 Plan**

The SBI is responsible for assisting the Office of Higher Education (OHE) in selecting a vendor or vendors to provide administrative, marketing and investment services for the state's College Savings Plan, an internal revenue code section 529 plan. TFI, Inc., an affiliate of TIAA-CREF, is the current vendor offering all services for the Plan. The current contract expires August 31, 2009.

Minnesota's 529 Plan is unusual in the 529 marketplace with its matching grant program. Most states' plans offer a state income tax deduction for contributions. Minnesota's Plan instead offers a matching grant to families of modest income. The assets of the matching grant remain in state ownership and are accounted for separately from the account owners' assets. Partly as a result of having a matching grant rather than a tax deduction, the Minnesota Plan has not attracted as many assets as other states' plans. The smaller accumulation of assets attracts fewer interested vendors.

Staff worked with staff of OHE in writing and distributing a request for proposal. Three responses were received:

TFI, Inc.  
Upromise/Vanguard  
OFI Private Investments

OHE and SBI staff evaluated the responses and drew the following observations:

- All three vendors have a presence in the 529 market and offer a product that is cost effective.
- The three proposals are all less expensive than the current plan.
- Upromise/Vanguard expressed concerns about the legal requirements in the RFP.
- The current vendor, TFI, Inc., has provided excellent service in administering the matching grant portion of the Plan.
- The administrative challenge of switching vendors, especially with respect to the matching grant, argues for retaining the current vendor.

Therefore, staff recommends that a new five year contract be entered into with TFI, Inc. for the 529 Plan.

**RECOMMENDATION:**

**Staff and the Investment Advisory Council recommend that the Board authorize the Executive Director, with assistance from legal counsel, to work with the Office of Higher Education to negotiate and execute a new five year contract with TIAA-CREF Tuition Financing, Inc. to provide services for the Minnesota College Savings Plan.**

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ATTACHMENT A

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

ITEM	FISCAL YEAR 2009 BUDGET	FISCAL YEAR 2009 1/31/2009
<b>PERSONAL SERVICES</b>		
FULL TIME EMPLOYEES	\$ 2,672,000	\$ 1,484,876
PART TIME EMPLOYEES	\$ 75,000	\$ 46,956
SEVERENCE PAYOFF	20,000	11,150
WORKERS COMPENSATION INSURANCE	1,000	504
MISCELLANEOUS PAYROLL	4,000	0
<b>SUBTOTAL</b>	<b>\$ 2,772,000</b>	<b>\$ 1,543,486</b>
<b>STATE OPERATIONS</b>		
RENTS & LEASES	205,000	112,199
REPAIRS/ALTERATIONS/MAINTENANCE	10,000	2,186
PRINTING & BINDING	10,000	10,054
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	20,000	4,309
COMMUNICATIONS	30,000	13,191
TRAVEL, IN-STATE	1,000	1,512
TRAVEL, OUT-STATE	50,000	14,200
SUPPLIES	35,000	15,140
EQUIPMENT	20,000	3,297
EMPLOYEE DEVELOPMENT	15,000	9,910
OTHER OPERATING COSTS	9,000	8,254
<b>SUBTOTAL</b>	<b>\$ 405,000</b>	<b>\$ 194,252</b>
<b>TOTAL ADMINISTRATIVE BUDGET</b>	<b>\$ 3,177,000</b>	<b>\$ 1,737,738</b>

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ATTACHMENT B

STATE BOARD OF INVESTMENT

Travel Summary by Date  
SBI Travel November 5, 2008 – February 4, 2009

<b>Purpose</b>	<b>Name(s)</b>	<b>Destination and Date</b>	<b>Total Cost</b>
<b>Conference:</b> Public Summit Funds sponsored by: Opal Financial Group	H. Bicker	Phoenix, AZ 1/6-1/9	\$664.00
<b>Conference:</b> Domestic and International Securities Lending and Repo sponsored by: Information Management Network	S. Kuettel	Phoenix, AZ 1/31-2/5	1,750.05





## Independent Auditor's Report

Members of the Minnesota State Board of Investment  
and  
Howard J. Bicker, Executive Director  
Minnesota State Board of Investment

We have audited the accompanying financial statements of the State of Minnesota's Supplemental Investment Fund and the Post Retirement Investment Fund as of and for the year ended June 30, 2008, as shown on pages 118 - 125. These financial statements are the responsibility of the Minnesota State Board of Investment's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements present only the Supplemental Investment Fund and the Post Retirement Investment Fund of the State of Minnesota and are not intended to present fairly the financial position and results of operation of the State Board of Investment or the State of Minnesota in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements of the Supplemental Investment Fund and the Post Retirement Investment Fund, referred to above, present fairly, in all material respects, the net assets as of June 30, 2008, and the changes in net assets and results of operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.


In accordance with *Government Auditing Standards*, we will also issue our report dated January 29, 2009, on our consideration of the Minnesota State Board of Investment's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over



Members of the Minnesota State Board of Investment  
and  
Howard J. Bicker, Executive Director  
Page 2

financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the State of Minnesota's Supplemental Investment Fund and the Post Retirement Investment Fund. The supporting schedules, on pages 127 through 176, are presented for the purpose of additional analysis and are not a required part of the financial statements of the Supplemental Investment and Post Retirement Funds of the State of Minnesota. These supporting schedules and the financial information, on pages 1 through 114, have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.



James R. Nobles  
Legislative Auditor



Cecile M. Ferkul, CPA  
Deputy Legislative Auditor

January 29, 2009

## ATTACHMENT D

Letter to SBI International Equity Managers

December 22, 2008

### **Regarding: Sudan Companies**

Dear Manager:

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

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

**Attachment 1** is the List of Restricted Sudan Stocks. **These securities may not be purchased for the SBI portfolio that your organization manages.** Please note that the attached List makes a change to the List of Restricted Sudan Stocks that was attached to the June 17, 2008 letter you received. **This new list is effective December 29, 2008.**

- The following companies have been added to the restricted list:
  - Kingdream PLC
  - Odmurtnest BRD
  - Sinopec Yizheng Chemical Fire Company, Ltd.
  
- The following company has been deleted from the restricted list:
  - Harbin Dongan Auto Engine Co.

**Attachment 2** is the List of Sudan Stocks Requiring Divestment.

- The following company has been added to the divestment list:
  - ABB

**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.

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

Sincerely,

Howard Bicker  
Executive Director

Enclosures

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

Letter to SBI Domestic Equity Managers

December 22, 2008

**Regarding: Sudan Companies**

Dear Manager:

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

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

**Attachment 1** is the List of Restricted Sudan Stocks. **These securities may not be purchased for the SBI portfolio that your organization manages.** Please note that the attached List makes a change to the List of Restricted Sudan Stocks that was attached to the June 17, 2008 letter you received. **This new list is effective December 29, 2008.**

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- **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.

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

Sincerely,

Howard Bicker  
Executive Director

Enclosures

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

**ATTACHMENT 1**

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

ATTACHMENT 1

**Restricted Sudan Stocks**

<b>Company Name</b>	<b>Country of Origin</b>
Areva SA	France
Dietswell Engineering	France
Lundin International SA	France
Lundin Petroleum AB	Sweden
ABB	Switzerland

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

Source: Sudan Divestment Task Force

December 16, 2008

## 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
Bharat Heavy Electricals Ltd.	India	April 30, 2008	October 31, 2008
Oil and Natural Gas Corp AKA ONGC	India	April 30, 2008	October 31, 2008
Malaysia International Shipping Company AKA MISC Berhad	Malaysia	April 30, 2008	October 31, 2008
Alstom	France	April 30, 2008	October 31, 2008
Lundin Petroleum	Sweden	April 30, 2008	October 31, 2008
Wartsila Oyj	Finland	May 31, 2008	November 30, 2008
Harbin Power Equipment	China	June 30, 2008	December 31, 2008
ABB	Switzerland	February 28, 2009	August 31, 2009

Note: AKA means "Also Known As"

Source: Sudan Divestment Task Force

December 16, 2008



The following security identifiers correlate with the November 30, 2008 issue of the Sudan Company Report. This list is updated as of November 30, 2008.

Exchange	Security Type	Security Name	Ticker	Security ID								
				WPK Number	SEDOL1	CUSIP	Sicovam	ISIN	COMMON	CINS	CATS Code	Valoren
<b>ABB LTD (SWITZERLAND)</b>												
SWX EuropeL1 (XVTX)	Common Stock	ABB LTD-REG	ABBN VX	919730	7108899 CH		505385	CH0012221716	012891539			001222171
Xetra (XETR)	Common Stock	ABB LTD-REG	ABJ GR	919730	7144053 DE		505385	CH0012221716	012891539			001222171
Stockholm (XSTO)	Common Stock	ABB LTD-REG	ABB SS	919730	7113815 SE		505385	CH0012221716	012891539			001222171
OTC US (XOTC)	Common Stock	ABB LTD-REG	ABLZF US	919730	802V7Z4			CH0012221716	012891539	H0010V101		001222171
Chi-X Air TS (CHIX)	Common Stock	ABB LTD-REG	ABB IX	919730	7113815 SE		505385	CH0012221716	012891539			001222171
Chi-X Air TS (CHIX)	Common Stock	ABB LTD-REG	ABBN IX	919730	7108899 CH		505385	CH0012221716	012891539			001222171
Euro Comp (XLON)	Common Stock	ABB LTD-REG	ABBN EU	919730	BOYBLH2 GB			CH0012221716	012891539			001222171
Euro Comp (XLON)	Common Stock	ABB LTD-REG	ABBNEUR EU	919730	BOYBLH2 GB			CH0012221716	012891539			001222171
PLUS Mkt Grp (XPLU)	Common Stock	ABB LTD-REG	ABB PZ	919730			505385	CH0012221716	012891539			001222171
Euro Comp (XLON)	Common Stock	ABB LTD-REG	ABBNSEK EU	919730	BOYBLH2 GB			CH0012221716	012891539			001222171
SWX EuropeL1 (XVTX)	Common Stock	ABB LTD-2ND LINE	ABBNE VX	A0NE0L	B2PY7W1 CH			CH0037934822				003793482
Turquoise (TRQX)	Common Stock	ABB LTD-REG	ABBNSEK TQ	919730	7113815 SE		505385	CH0012221716	012891539			001222171
Turquoise (TRQX)	Common Stock	ABB LTD-REG	ABBN TQ	919730	7108899 CH		505385	CH0012221716	012891539			001222171
NSDQ OMX Eur (NURQ)	Common Stock	ABB LTD-REG	ABBN NQ	919730	7108899 CH		505385	CH0012221716	012891539			001222171
New York (XNYS)	ADR	ABB LTD-SPON ADR	ABB US	675089	2748472 US			US0003752047	013066779			
Frankfurt (XFRA)	ADR	ABB LTD-SPON ADR	ABJA GR	675089	8025344 DE			US0003752047	013066779			
<b>ALSTOM (FRANCE)</b>												
EN Paris (XPAR)	Common Stock	ALSTOM	ALO FP	A0F7BK	B0DJ8Q5 FR			FR0010220475	022581074			
OTC US (OOTC)	Common Stock	ALSTOM	AOMFF US	A0F7BK	B0GLY93 US			FR0010220475	022581074	F0259M475		
Frankfurt (XFRA)	Common Stock	ALSTOM	AOMD GR	A0F7BK	B0G0412 DE			FR0010220475	022581074			
SWX EuropeL1 (XVTX)	Common Stock	ALSTOM	ALS VX	A0F7BK	B0DJ8Q5 FR			FR0010220475	022581074			
PLUS Mkt Grp (XPLU)	Common Stock	ALSTOM	ALO PZ	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074			
Euro Comp (XLON)	Common Stock	ALSTOM	ALO EU	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074			
Euro Comp (XLON)	Common Stock	ALSTOM	ALOG BX EU	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074			
Chi-X Air TS (CHIX)	Common Stock	ALSTOM	ALSP IX	A0F7BK	B0DJ8Q5 FR			FR0010220475	022581074			
Turquoise (TRQX)	Common Stock	ALSTOM	ALO TQ	A0F7BK	B0DJ8Q5 FR			FR0010220475	022581074			
ALO NQ	Common Stock	ALSTOM	ALO NQ	A0F7BK	B0DJ8Q5 FR			FR0010220475	022581074			
Equiduct (XEQT)	Common Stock	ALSTOM	ALO BQ	A0F7BK	B0DJ8Q5 FR			FR0010220475	022581074			
BATS Europe (BATE)	Common Stock	ALSTOM	ALO EB	A0F7BK	B0DJ8Q5 FR			FR0010220475	022581074			
<b>WUHAN BOILER CO (CHINA)</b>												
Shenzhen (XSHE)	Common Stock	Majority-owned, publicly-traded subsidiary of Alstom	WUHAN BOILER CO-B	200770 CH	A0M35L	6111928 CN		CNE000000VM7				
<b>AREF INVESTMENT GROUP CO (KUWAIT)</b>												
Kuwait (XKUW)	Common Stock	AREF INVESTMENT GROUP CO	AIG KK	A0JDFG	6131335 KW			KW0EQ200398				
<b>AVICHINA INDUSTRY &amp; TECHNOLOGY CO LTD (CHINA)</b>												
Hong Kong (XHKG)	Common Stock	AVICHINA INDUSTRY & TECH-H	2357 HK	A0M4WY	6707899 HK			CNE1000001Y8				
Munich (XMUN)	Common Stock	AVICHINA INDUSTRY & TECH-H	AVT GR	A0M4WY	B1BJK68 DE			CNE1000001Y8				
OTC US (OOTC)	Common Stock	AVICHINA INDUSTRY & TECH-H	AVIJF US	A0M4WY	B01W4B3 US			CNE1000001Y8		Y0485Q109		
<b>HAFEI AVIATION INDUSTRY CO (CHINA)</b>												
Shanghai (XSHG)	Common Stock	Majority-Owned, Publicly-Traded Subsidiary of Harbin Aviation Industry Group Co. Ltd., the Majority-Owned Subsidiary of AviChina Industry & Technology Co. Ltd.	HAFEI AVIATION INDUSTRY CO	600038 CH	A0M4ER	6306588 CN		CNE0000015V6				
<b>JIANGXI CHANGHE AUTOMOBILE CO, LTD (CHINA)</b>												
Shanghai (XSHG)	Common Stock	Majority-Owned, Publicly-Traded Subsidiary of Changhe Aviation Industry Group Co. Ltd., Wholly-Owned Subsidiary of AviChina Industry & Technology Co., Ltd.	JIANGXI CHANGHE AUTOMOBILE-A	600372 CH	A0M4G1	6371896 CN		CNE0000018C0				
<b>JIANGXI HONGDU AVIATION INDUSTRY CO, LTD (CHINA)</b>												
Shanghai (XSHG)	Common Stock	Majority-Owned, Publicly-Traded Subsidiary of AviChina Industry & Technology Ltd.	JIANGXI HONGDU AVIATION-A	600316 CH	A0M4EK	6304375 CN		CNE0000015N3				
<b>BHARAT HEAVY ELECTRICALS LTD (INDIA)</b>												
Natl India (XNSE)	Common Stock	BHARAT HEAVY ELECTRICALS	BHEL IN	946065	6129523 IN			INE257A01018				
<b>CNPC HONG KONG LTD (BERMUDA)</b>												
Hong Kong (XHKG)	Common Stock	Majority-Owned, Publicly-Traded Subsidiary of China National Petroleum Corp.	CNPC HONG KONG LIMITED	135 HK	888613	6340078 HK	952131	BMG2237F1005	007779755			
Frankfurt (XFRA)	Common Stock	CNPC HONG KONG LIMITED	CTJ GR	888613	5387753 DE			BMG2237F1005	007779755			
OTC US (OOTC)	Common Stock	CNPC HONG KONG LIMITED	CKKH US	888613	B01DDZ3 US			BMG2237F1005	007779755			
<b>PETROCHINA CO LTD (CHINA)</b>												
Hong Kong (XHKG)	Common Stock	Majority-Owned, Publicly-Traded Subsidiary of China National Petroleum Corp.	PETROCHINA CO LTD-H	857 HK	A0M4YQ	6226578 HK		CNE1000003W8	011014674			
Frankfurt (XFRA)	Common Stock	PETROCHINA CO LTD	PC8 GR	A0M4YQ	5939507 DE			CNE1000003W8	011014674			
OTC US (OOTC)	Common Stock	PETROCHINA CO LTD	PCCYF US	A0M4YQ	B01DNL9 US			CNE1000003W8	011014674	Y6883Q104		
Shanghai (XSHG)	Common Stock	PETROCHINA CO LTD	601857 CH	A0NANC	B28SLD9 CN			CNE1000007Q1				
New York (XNYS)	ADR	PETROCHINA CO LTD -ADR	PTR US	936983	2568841 US			US71646E1001	011511449			
Frankfurt (XFRA)	ADR	PETROCHINA CO LTD -ADR	PC6A GR	936983	4633327 DE			US71646E1001	011511449			
Buenos Floor (XBUE)	Receipt	PETROCHINA CO LTD-CEDEAR	PTR AR		B1C5SR2 AR			ARDEUT113958				
<b>DIETSWELL ENGINEERING (FRANCE)</b>												
EN Paris (XPAR)	Common Stock	DIETSWELL	ALDIE FP	A0MJX8	B1NTYL9 FR			FR0010377127	027019013			

Berlin (XBER)	Common Stock	DIETSWELL	JPZ GR	A0MJX8	B1P4MD0 DE		FR0010377127	027019013
<b>DONGFENG AUTOMOBILE CO. LTD (CHINA)</b> Shanghai (XSHG)	Common Stock	DONGFENG AUTOMOBILE CO LTD-A	600006 CH	A0M39C	6163833 CN		CNE0000002T3	
<b>ELECTRICITY GENERATING PCL, aka EGCO (THAILAND)</b> Bangkok (XBKK) Bangkok (XBKK) Frankfurt (XFRA) Bangkok (XBKK) Munich (XMUN)	Common Stock Common Stock Common Stock Receipt Receipt	ELECTRICITY GENERATING PCL ELECTRICITY GEN PUB CO-FOR R ELECTRICITY GEN PUB CO-FOR R ELECTRICITY GENERA PCL-NVDR ELECTRICITY GENERA PCL-NVDR	EGCO TB EGCO/F TB EGCF GR EGCO-R TB NVAE GR	893182 893183 893183 876043 876043	8304632 TH 8304643 TH 5336799 DE 8388553 TH B01LYC1 DE	929726 930467 930467	TH0465010005 TH0465010013 TH0465010013 TH0465010R13 TH0465010R13	006148590 006149839 006149839 015662883 015662883
<b>EGYPTIAN KUWAITI HOLDING CO (EGYPT)</b> Egypt (EGX)(XCAI) Kuwait (XKUW)	Common Stock Common Stock	<b>Majority-Owned, Publicly-Traded Subsidiary of Al-Kharafi Group</b> EGYPTIAN KUWAITI HOLDING CO EGYPTIAN KUWAITI HOLDING CO	EKHO EY EKHOLDINKK	A0H1G7 A0H1G7	B0QMD00 EG B0S8H15 KW		EGS69082C013 EGS69082C013	
<b>KINGDREAM PLC (EGYPT)</b> Shenzhen (XSHE)	Common Stock	<b>Majority-Owned, Publicly-Traded company held by Sinopec Group</b> KINGDREAM PUBLIC LIMITED-A	000852 CH	A0M37A	6136385 CN			
<b>KUWAIT FOODS (AMERICANA) (KUWAIT)</b> Kuwait (XKUW)	Common Stock	<b>Majority-Owned, Publicly-Traded Subsidiary of Al-Kharafi Group</b> KUWAIT FOODS (AMERICANA)	FOOD KK		6503149 KW		KW0EQ0701247	
<b>HARBIN POWER EQUIPMENT CO LTD (CHINA)</b> Hong Kong (XHKG) Frankfurt (XFRA)	Common Stock Common Stock	HARBIN POWER EQUIPMENT CO-H HARBIN POWER EQUIPMENT CO-H	1133 HK HP6H GR	A0M4X8 A0M4X8	6422761 HK 81HJDX0 DE	930709 930709	CNE1000003CO CNE1000003CO	011043780 011043780
<b>INDIAN OIL CORP LTD (INDIA)</b> Natl India (XNSE)	Common Stock	INDIAN OIL CORPORATION LTD	IOCL IN	A0B9FM	6253767 IN		INE242A01010	
<b>BONGAIGAOON REFINERY &amp; PETROCHEMICALS LTD (INDIA)</b> Natl India (XNSE)	Common Stock	<b>Majority-Owned, Publicly-Traded Subsidiary of Indian Oil Corp. Ltd.</b> BONGAIGAOON REFINERY & PETRO	BRPL IN	A0DKQE	6313939 IN		INE241A01012	
<b>CHENNAI PETROLEUM CORPORATION LIMITED (INDIA)</b> Natl India (XNSE)	Common Stock	<b>Majority-Owned, Publicly-Traded Subsidiary of Indian Oil Corp. Ltd.</b> CHENNAI PETROLEUM CORP LTD	MRL IN	A0B968	6121563 IN		INE178A01016	
<b>LANKA IOC LTD (SRI LANKA)</b> Colombo (XCOL)	Common Stock	<b>Majority-Owned, Publicly-Traded Subsidiary of Indian Oil Co. Ltd.</b> LANKA IOC PLC	LIOC SL	A0D83L	B0591G4 LK		LK0345N00005	
<b>KEJURUTERAAN SAMUDRA TIMUR BHD, aka KSTB (MALAYSIA)</b> Kuala Lumpur (XKLS)	Common Stock	KEJURUTERAAN SAMUDRA TIMUR	KSTB MK		B0M9M97 MY		MYL718500001	7185
<b>KENCANA PETROLEUM BHD (MALAYSIA)</b> Kuala Lumpur (XKLS)	Common Stock	KENCANA PETROLEUM BHD	KEPB MK	A0MVSU	B1L72X3 MY		MYL512200006	5122
<b>LUNDIN PETROLEUM AB (SWEDEN)</b> Stockholm (XSTO) Euro Comp (XLON) Frankfurt (XFRA) Chi-X Alt TS (CHIX) Euro Comp (XLON) PLUS Mkt Grp (XPLU) Turquoise (TRQX) NSDQ OMX Eur (NURO)	Common Stock Common Stock Common Stock Common Stock Common Stock Common Stock Common Stock Common Stock	LUNDIN PETROLEUM AB LUNDIN PETROLEUM AB LUNDIN PETROLEUM AB LUNDIN PETROLEUM AB LUNDIN PETROLEUM AB LUNDIN PETROLEUM AB LUNDIN PETROLEUM AB LUNDIN PETROLEUM AB	LUPE SS LUPE EU LYV GR LUPE IX LUPEEUR LUPE PZ LUPE TQ LUPE NQ	729364 729364 729364 729364 729364 729364 729364 729364	7187627 SE B2909K7 GB B0MQ168 DE 7187627 SE B2909K7 GB 7187627 SE 7187627 SE 7187627 SE		SE0000825820 SE0000825820 SE0000825820 SE0000825820 SE0000825820 SE0000825820 SE0000825820 SE0000825820	013489424 013489424 013489424 013489424 013489424 013489424 013489424 013489424
<b>LUNDIN INTERNATIONAL SA (FRANCE)</b> EN Paris (XPAR)	Common Stock	<b>Majority-Owned, Publicly-Traded Subsidiary of Lundin Petroleum AB</b> LUNDIN INTERNATIONAL SA	MLCOP FP	865032	5828865 FR	007417	FR0000074171	010349281
<b>MUHIBBAH ENGINEERING (M) BHD (MALAYSIA)</b> Kuala Lumpur (XKLS)	Common Stock	MUHIBBAH ENGINEERING (M) BHD	MUHI MK	894787	6609304 MY		MYL570300003	5703
<b>OIL &amp; NATURAL GAS CORP LTD (INDIA)</b> Natl India (XNSE)	Common Stock	OIL & NATURAL GAS CORP LTD	ONGC IN	779547	6139362 IN		INE213A01011	
<b>MANGALORE REFINERY &amp; PETROCHEMICALS LIMITED (INDIA)</b> Natl India (XNSE)	Common Stock	<b>Majority-Owned, Publicly-Traded Subsidiary of Oil and Natural Gas Corp. Ltd.</b> MANGALORE REFINERY & PETRO	MRPL IN	A0NANW	6121530 IN		INE103A01014	
<b>PECD BHD (MALAYSIA)</b> Kuala Lumpur (XKLS)	Common Stock	PECD BHD	PECD MK		B033B13 MY		MYL509300009	5093
<b>PETRONAS DAGANGAN BHD (MALAYSIA)</b> Kuala Lumpur (XKLS)	Common Stock	<b>Majority-Owned, Publicly-Traded Subsidiary of Petrolim Nasional Bhd. (Petronas)</b> PETRONAS DAGANGAN BHD	PETD MK	895131	6695938 MY		MYL588100001	005378044 5881
<b>PETRONAS GAS BHD (MALAYSIA)</b> Kuala Lumpur (XKLS)	Common Stock	<b>Majority-Owned, Publicly-Traded Subsidiary of Petrolim Nasional Bhd. (Petronas)</b> PETRONAS GAS BHD	PTG MK	896833	6703972 MY		MYL603300004	007076959 6033

<b>MALAYSIA INTERNATIONAL SHIPPING COMPANY aka MISC BHD (MALAYSIA)</b>			<b>Majority-Owned, Publicly-Traded Subsidiary of Petroliaam Nasional Bhd.</b>						
Kuala Lumpur (XKLS)	Common Stock	MISC BHD	MISC MK	860504	6557997 MY	905279	MYL381600005	003527883	3816
Kuala Lumpur (XKLS)	Common Stock	MISC BHD-FRGN	MISF MK	883081	6558031 MY	908550	MYF381601005	006039111	3816F
<b>RANHILL BERHAD (Malaysia)</b>			<b>RANHILL BHD</b>	<b>RANH MK</b>	<b>A0B9G6</b>	<b>6328717 MY</b>	<b>MYL50300001</b>		<b>5030</b>
<b>SCOMI GROUP BERHAD (MALAYSIA)</b>			<b>SCOMI GROUP BHD</b>	<b>SGB MK</b>	<b>120745</b>	<b>800PKJ3 MY</b>	<b>MYL71580008</b>		<b>7158</b>
<b>SCOMI ENGINEERING BERHAD (MALAYSIA)</b>			<b>Majority-Owned, Publicly-Traded Subsidiary of Scomi Group Berhad</b>						
Kuala Lumpur (XKLS)	Common Stock	SCOMI ENGINEERING BHD	SEB MK	903056	6098452 MY		MYL73660007		7366
<b>SINOPEC CORP (CHINA)</b>			<b>A.K.A. China Petroleum and Chemical Corp</b>						
Hong Kong (XHKG)	Common Stock	CHINA PETROLEUM & CHEMICAL-H	386 HK	A0M4XN	6291819 HK		CNE1000002Q2	012150504	
Frankfurt (XFRA)	Common Stock	CHINA PETROLEUM & CHEMICAL -H	CHU GR	A0M4XN	7027756 DE		CNE1000002Q2	012150504	
OTC US (OOC)	Common Stock	CHINA PETROLEUM & CHEMICAL-H	SNPMF US	A0M4XN	B01XKR4 US		CNE1000002Q2	012150504	Y15010104
Shanghai (XSHG)	Common Stock	CHINA PETROLEUM & CHEMICAL-A	600028 CH	A0M4G4	6373728 CN		CNE10000018G1		
New York (XNYS)	ADR	CHINA PETROLEUM & CHEM-ADR	SNP US	578971	2639189 US		US16941R1086	011899374	
Munich (XMUN)	ADR	CHINA PETROLEUM & CHEM-ADR	CHUA GR	578971	BORSWOO DE		US16941R1086	011899374	
Buenos Floor (XBUE)	Receipt	CHINA PETROLEUM & CHEM-CEDEA	SNP AR		B1C5SX8 AR		ARDEUT114071		
Buenos Floor (XBUE)	Receipt	CHINA PETROLEUM & CHEM-C C/E	SNPC AR				ARDEUT114071		
<b>ODMURTNEFT BRD (Russia)</b>			<b>Majority-Owned, Publicly-Traded Company Held by Sinopec Corp</b>						
RTS (RTSX)	Common Stock	ODMURTNEFT-BRD	UDMN RU	904650	4967189 RU		RU0009046502		
RTS (RTSX)	Preference	ODMURTNEFT-PFD-CLS	UDMNP RU	908703	5082627 RU		RU0009087035	012471980	
RTS (RTSX)	Preference	ODMURTNEFT-PFD-T+0	UDMNP RU	908703	5082627 RU		RU0009087035	012471980	
<b>SINOPEC KANTON HOLDINGS LTD (CHINA)</b>			<b>Majority-Owned Publicly-Traded Subsidiary of Sinopec Corp</b>						
Hong Kong (XHKG)	Common Stock	SINOPEC KANTONS HOLDINGS	934 HK	923923	6162692 HK		BMG8165U1009	011563384	
Frankfurt (XFRA)	Common Stock	SINOPEC KANTONS HOLDINGS	SAK GR	923923	4601197 DE		BMG8165U1009	011563384	
<b>SINOPEC SHANGHAI PETROCHEMICAL CO LTD (CHINA)</b>			<b>Majority-Owned Publicly-Traded Subsidiary of Sinopec Corp</b>						
Shanghai (XSHG)	Common Stock	SINOPEC SHANGHAI PETROCHEM	600688 CH	A0M3RA	6802794 CN		CNE000000BB2		
Frankfurt (XFRA)	Common Stock	SINOPEC SHANGHAI PETROCHEM	SGJH GR	A0M4Y5	5888632 DE	908303	CNE1000004C8	005096162	
Hong Kong (XHKG)	Common Stock	SINOPEC SHANGHAI PETROCHEM-H	338 HK	A0M4Y5	6797458 HK	908303	CNE1000004C8	005096162	
OTC US (OOC)	Common Stock	SINOPEC SHANGHAI PETROCHEM-H	SPTJF US	A0M4Y5	B01XTG6 US		CNE1000004C8	005096162	Y80373106
New York (XNYS)	ADR	SINOPEC SHANGHAI-SPONS ADR	SHI US	887169	2800059 US	908289	US82935M1099	012248750	
Frankfurt (XFRA)	ADR	SINOPEC SHANGHAI-SPONS ADR	SHI GR	887169	5734638 DE	908289	US82935M1099	012248750	
<b>SINOPEC YIZHENG CHEMICAL FIBRE CO LTD (CHINA)</b>			<b>Majority-Owned Publicly-Traded Subsidiary of Sinopec Corp</b>						
Shanghai (XSHG)	Common Stock	SINOPEC YIZHENG CHEMICAL FIB	600871 CH	A0M3V6	6986740 CN		CNE000000HSE		
OTC US (OOC)	Common Stock	SINOPEC YIZHENG CHEMICAL-H	YZCFF US	A0M4Y6	B01XVLS US		CNE1000004D6	008069662	Y9841W106
Hong Kong (XHKG)	Common Stock	SINOPEC YIZHENG CHEMICAL-H	1033 HK	A0M4Y6	6984669 HK	917709	CNE1000004D6	008069662	
<b>WARTSILA OYJ (FINLAND)</b>			<b>WARTSILA OYJ-A SHS</b>	<b>WRTAV EU</b>	<b>888242</b>	<b>B28N640 GB</b>	<b>F10009003719</b>	<b>003021416</b>	
Euro Comp (XLON)	Common Stock	WARTSILA OYJ	WRT1V FH	881050	4525189 FI		F10009003727	004174488	
Helsinki (XHEL)	Common Stock	WARTSILA OYJ-B SHARES	WRTBV FH	881050	4525189 FI	980070	F10009003727	004174488	
Helsinki (XHEL)	Common Stock	WARTSILA OYJ	MTA GR	881050	B06KRC4 DE	980070	F10009003727	004174488	
Stuttgart (XSTU)	Common Stock	WARTSILA OYJ	WRTB IX	881050	4525189 FI	980070	F10009003727	004174488	
Chi-X Alt TS (CHIX)	Common Stock	WARTSILA OYJ	WRTBV PZ	881050		980070	F10009003727	004174488	
PLUS Mkt Grp (XPLU)	Common Stock	WARTSILA OYJ	WRT1V EU	881050	B28N651 GB		F10009003727	004174488	
Euro Comp (XLON)	Common Stock	WARTSILA OYJ							

**COMPANIES REMOVED FROM "HIGHEST OFFENDERS" CATEGORY SINCE 8/31/08**

The following subsidiary was removed from this list:  
Harbin Dongan Auto Engine Co. (No longer a majority-owned subsidiary of AviChina Industry & Technology)

**COMPANIES ADDED TO "HIGHEST OFFENDERS" CATEGORY SINCE 8/31/08**

The following subsidiaries are new to this list:  
Kingdream PLC (Majority-owned by Sinopec Group)  
Sinopec Yizheng Chemical Fibre Co. Ltd (Majority-owned by Sinopec Corp)  
Odmurtnft BRD (Majority-owned by Sinopec Corp)

## ATTACHMENT E

**Sudan Divestment Task Force List of "Highest Offenders" Companies in Sudan**  
**Task Force List Effective Through February 28, 2009**  
 Companies Ranked from Worst to Least Problematic

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

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

**Sudan Divestment Task Force List of Companies in Sudan for Ongoing Engagement**  
**Task Force List Effective Through February 28, 2009**  
 Companies Ranked from Worst to Least Problematic

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

**Sudan Divest.Task Force List of Companies in Sudan with No Publicly Traded Equity**  
**Task Force List Effective Through February 28, 2009**

<b>Company Name</b>	<b>Country of Origin</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 Hydraulic and Hydroelectric Construction Group AKA Sinohydro	China
China International Water & Electric Corp AKA CWE	China
Delta Petrol/Tower Holdings	Turkey/Luxembourg
Edgo Group/Dindir Petroleum	Jordan
Express Petroleum and Gas Company	Nigeria
GIAD Industrial City	Sudan
Hi Tech Petroleum	Sudan
K & K Capital Group AKA KKCG	Czech Republic
Kuwait Foreign Petroleum Exploration Company AKA Kufpec	Kuwait
Lahmeyer	Germany
Mohan Energy Corp.	India
Mott MacDonald	UK
Mubadala Development Company	UAE
Peschaud & Cie International	France
Petrolin	Gabon
Petroneeds Service International Company	Sudan
PetroSA	South Africa
PT Pertamina Persero AKA Pertamina	Indonesia
Shandong Electric Power Construction Corporation AKA Shandong Electric Power Group	China
Snowy Mountain Engineering Corporation	Australia
Sudan Petroleum Company AKA Sudapet	Sudan
Tamoil	Libya
Trafigura Beheer	Netherlands
Vitol Group	Switzerland
Zaver Petroleum Company	Pakistan

11-Dec-08

# **Tab C**





# **Tab D**

## INVESTMENT ADVISORY COUNCIL REPORT

DATE: March 4, 2009

TO: Members, State Board of Investment

FROM: Proxy Voting Committee

### **1. Reauthorization of the Proxy Voting Committee**

In March 1982, the Board established the Proxy Voting Committee to carry out the SBI's voting responsibilities. Each Board member has one designee on the Committee. The current membership is:

Kathy Kardell	Governor's designee
Celeste Grant	State Auditor's designee
Jim Gelbmann	Secretary of State designee
Rebecca Spartz	Attorney General's designee

According to statute, committees of this nature must be re-authorized every two years (the last authorization was in October 2007). A resolution to accomplish this is in **Attachment A**.

#### **RECOMMENDATION:**

**The Executive Director recommends that the SBI adopt the resolution in Attachment A which reauthorizes the Proxy Voting Committee and delegates proxy voting responsibilities according to established guidelines.**

### **2. Proxy Voting Guidelines**

The Proxy Voting Committee votes the Board's proxies according to Guidelines approved by the Board. The Committee recommends that the Board review and reaffirm the Guidelines as shown in **Attachment B**.

#### **RECOMMENDATION:**

**The Proxy Voting Committee recommends that the Board reaffirm the Proxy Voting Guidelines as shown in Attachment B.**



ATTACHMENT A

**RESOLUTION OF THE  
MINNESOTA BOARD OF INVESTMENT  
CONCERNING PROXY VOTING**

WHEREAS, as a stockholder, the Minnesota State Board of Investment (SBI) is entitled to sponsor and cosponsor shareholder resolutions and participate in corporate annual meetings by casting its votes by proxy or through direct attendance at the meetings; and

WHEREAS, the SBI has previously established a Proxy Committee:

NOW THEREFORE, BE IT RESOLVED THAT:

1. To advise and assist the SBI in the implementation of proxy voting guidelines previously adopted by the Board the SBI hereby authorizes and reaffirms the establishment of the SBI Proxy Committee composed of a representative selected by each member of the SBI to be chaired by the designee of the Governor and convened as necessary in accord with the Guidelines.
2. The SBI further authorizes the SBI Proxy Committee to review the Guidelines periodically and report to the SBI as necessary.
3. The SBI further directs its staff to advise and assist the Proxy Committee in the implementation of this resolution and directs its Executive Director to obtain such consulting and reporting services as may be necessary.
4. This resolution shall take effect immediately.

Adopted this 11th day  
of March, 2009

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Governor Tim Pawlenty  
Chair, Minnesota  
State Board of Investment

(Blank)

**MINNESOTA STATE BOARD OF INVESTMENT**

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**Proxy Voting Guidelines**

The Minnesota State Board of Investment (SBI) has formulated proxy voting guidelines by which it casts votes on a wide range of corporate governance and social responsibility issues.

As a stockholder, the Board is entitled to participate in corporate annual meetings by casting its votes by proxy or through direct attendance at the meetings. The following guidelines constitute an effort by the SBI to manage and control its proxy voting.

**Overview  
of the SBI**

By the Minnesota Constitution, the Board is composed of the Governor, the State Auditor, the Secretary of State, and the Attorney General. The Board employs a professional staff to carry out its policies. The Board and staff are assisted by a seventeen member Investment Advisory Council.

The SBI invests the pension assets of the three statewide public employee retirement systems with approximately 320,000 members:

- Public Employees Retirement Association (PERA)
- Teachers Retirement Association (TRA)
- Minnesota State Retirement System (MSRS)

The SBI also invests the cash balances of state government funds and assets of several trust funds.

**Statutory Purpose**

According to statute, state assets are to be responsibly invested by the SBI to maximize the total rate of return without incurring undue risk.<sup>1</sup> Only a small portion of the SBI's equity holdings are in non-pension accounts. The focus, therefore, of the SBI's proxy voting activities is the extensive domestic and international equity holdings within the pension asset portfolios.

**Fiduciary  
Responsibility**

As fiduciaries of pension assets, members of the Board and the executive director owe a fiduciary duty to the members of the plans, to the taxpayers of the state and political subdivisions who help to finance the plans, and to the State of Minnesota.<sup>2</sup>

In addition to the general standard of fiduciary conduct, members of the Board, the executive director, the members of the Investment Advisory Council, staff, and members of Board committees must carry out their duties in accordance with the prudent person standard as articulated in statute.<sup>3</sup>

**Voting  
Process**

The Board recognizes its fiduciary responsibility to cast votes on proxy issues. The Board delegates proxy voting responsibilities to its Proxy Committee. Each Board member appoints one member to the Proxy Committee. The four member Committee meets only if it has a quorum and casts votes on proxy issues based on a majority vote of those present. In the unusual event that it reaches a tie vote or a quorum is not present, the Committee will cast a vote to abstain.

The Committee has formulated guidelines by which it casts votes on a wide range of corporate governance and social responsibility issues. These guidelines encompass both domestic and international proxy issues. Each year the Committee reviews existing guidelines and determines which issues it will review on a case-by-case basis. The Proxy Committee also reviews certain corporate governance issues pertaining to companies headquartered in Minnesota.

Domestic voting: The SBI directly votes shares held in non-pension accounts and shares held in domestic equity manager portfolios.

International voting: The SBI delegates to international equity managers the voting of shares held in the managers' portfolios. The SBI believes that several factors affecting the voting of international proxies, including time constraints and lack of company specific information, support the conclusion that the SBI's international equity managers can more efficiently and effectively vote the proxies in their portfolios.

**Corporate Governance Issues**

**Routine  
Matters**

In general, the SBI **supports** management on routine matters of corporate governance. These issues include:

- uncontested election of directors.
- selection of auditors and approval of financial statements.
- management proposals on non-executive compensation issues including savings plans and stock options.
- limits on director and officer liability or increases in director and officer indemnification permitted under the laws of the state of incorporation.

The SBI directs the Proxy Committee, at its discretion, to review the positions taken by directors and withhold votes from some or all of the directors standing for election if they have taken positions on issues which are potentially not in the best interests of shareholders.

**Shareholder Rights**

In general, the SBI **opposes** proposals that would restrict shareholder ability to effect change. Such proposals include:

- instituting supermajority requirements to ratify certain or events.
- creating classified boards.
- barring shareholders from participating in the determination of the rules governing the board's actions, such as quorum requirements and the duties of directors.
- prohibiting or limiting shareholder action by written consent.
- granting certain stockholders superior voting rights over other stockholders.

In general, the SBI **supports** proposals that preserve shareholder rights to effect change. Such proposals include:

- having boards of directors comprised of a majority of independent directors.
- having compensation committees comprised entirely of independent directors.
- requiring shareholder approval of poison pill plans.
- repealing classified boards.
- adopting secret ballot of proxy votes.
- reinstating cumulative voting.
- adopting anti-greenmail provisions.

**Executive Compensation**

In general, the SBI **supports** efforts to have executive compensation linked to a company's long-term performance and to encourage full disclosure of compensation packages for principal executives. Accordingly, the SBI evaluates compensation packages on a case-by-case basis, including compensation agreements that are contingent upon corporate change in control.

**Buyouts**

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



**Special Cases**

The SBI evaluates the following proposals on a case-by-case basis:

- hostile takeovers.
- recapitalization plans.
- contested election of directors.

Notwithstanding the above, in general, the SBI reviews corporate governance issues if the company is incorporated or is headquartered in Minnesota.

**Social Responsibility Issues**

**Tobacco**

The SBI supports shareholder resolutions that call for a company to reduce its involvement in liquor and tobacco production, product marketing and other related lines of business in order to diversify its business in a manner that will reduce or eliminate potential liability to legal claims associated with liquor and tobacco that may negatively impact the value of the SBI's holdings.

In furtherance of this policy, the SBI has sponsored and co-sponsored shareholder resolutions to reduce youth access to tobacco products, to request companies to voluntarily comply with FDA regulations, to eliminate smoking in restaurants, and other tobacco related issues.

**Northern  
Ireland**

The SBI **supports** resolutions that call for the adoption of the MacBride Principles as a means to encourage equal employment opportunities in Northern Ireland.

The SBI **supports** resolutions that request companies to submit reports to shareholders concerning their labor practices or their sub-contractors' labor practices in Northern Ireland.

In addition to casting proxy votes, the SBI sponsors and cosponsors Northern Ireland resolutions as required by *Minnesota Statutes*, Section 11A.241.

**Environmental  
Protection/Awareness**

In general, the SBI **supports** resolutions that require a corporation to report or disclose to shareholders company efforts in the environmental arena.

In general, the SBI **supports** resolutions that request a corporation to report on progress toward achieving the objectives of the CERES Principles, an environmental code of conduct for corporations.

**Sudan**

Laws of Minnesota 2007, Chapter 117, which became effective August 1, 2007 requires the SBI to make its best efforts to identify all "scrutinized companies" with operations in the Sudan, in which the SBI has direct or indirect holdings or could possibly have holdings in the future. The SBI will engage each scrutinized company. The legislation calls for the SBI to: encourage companies with inactive business operations to continue to refrain from initiating active operations; and to notify companies with active business operations that it may be subject to divestment by the State Board of Investment. In general, the SBI **supports** resolutions consistent with this legislation.

**Other  
Issues**

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

In general, the SBI **opposes** proposals that require a company to institute a specific business action in response to such issues. As an example, the SBI voted against a shareholder proposal which would have required a utility to phase out operations of a nuclear power plant.

- 
- 1 *Minnesota Statutes* 2008, Section 11A.01.
  - 2 *Minnesota Statutes* 2008, Section 356A.04, subdivision 1.
  - 3 *Minnesota Statutes* 2008, Section 11A.09, and Section 356A.04, subdivision 2.

# Tab E



# STATE BOARD OF INVESTMENT

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## Domestic Equity Manager Evaluation Reports

Fourth Quarter, 2008

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## Domestic Equity

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**COMBINED RETIREMENT FUNDS**  
**ACTIVE DOMESTIC STOCK MANAGERS**  
**Periods Ending December, 2008**

	Quarter		1 Year		3 Years		5 Years	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	-23.7	-22.5	-39.6	-37.6	-10.5	-8.7	-2.7	-2.0
Russell 1000 Growth Aggregate	-25.5	-22.8	-42.7	-38.4	-12.4	-9.1	-5.2	-3.4
Russell 1000 Value Aggregate	-20.8	-22.2	-38.0	-36.8	-9.0	-8.3	-1.8	-0.8
Russell 2000 Growth Aggregate	-29.7	-27.4	-46.8	-38.5	-10.7	-9.3	-4.0	-2.4
Russell 2000 Value Aggregate	-29.6	-24.9	-36.1	-28.9	-14.4	-7.5	-3.3	0.3
<b>Active Manager Aggregate</b>	<b>-24.7</b>	<b>-23.3</b>	<b>-40.5</b>	<b>-36.9</b>	<b>-11.0</b>	<b>-8.7</b>	<b>-3.3</b>	<b>-2.0</b>
<b>Semi-Passive Aggregate</b>	<b>-22.3</b>	<b>-22.5</b>	<b>-37.2</b>	<b>-37.6</b>	<b>-9.1</b>	<b>-8.7</b>	<b>-2.3</b>	<b>-2.0</b>
<b>Passive Manager (BGI)</b>	<b>-22.7</b>	<b>-22.8</b>	<b>-37.1</b>	<b>-37.3</b>	<b>-8.5</b>	<b>-8.6</b>	<b>-1.9</b>	<b>-2.0</b>
<b>Total Domestic Equity Aggregate</b>	<b>-23.2</b>	<b>-22.8</b>	<b>-38.1</b>	<b>-37.3</b>	<b>-9.4</b>	<b>-8.7</b>	<b>-2.4</b>	<b>-2.0</b>
<b>SBI DE Asset Class Target</b>		<b>-22.8</b>		<b>-37.3</b>		<b>-8.6</b>		<b>-2.0</b>
<b>Russell 3000 Index</b>		<b>-22.8</b>		<b>-37.3</b>		<b>-8.6</b>		<b>-2.0</b>

	2008		2007		2006		2005		2004	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	-39.6	-37.6	2.4	5.8	15.8	15.5	6.4	6.3	14.5	11.4
Russell 1000 Growth Aggregate	-42.7	-38.4	14.9	11.8	2.2	9.1	7.3	5.3	6.1	6.3
Russell 1000 Value Aggregate	-38.0	-36.8	3.6	-0.2	17.4	22.2	6.0	7.1	14.3	16.5
Russell 2000 Growth Aggregate	-46.8	-38.5	21.6	7.0	10.0	13.3	4.7	4.2	9.7	14.3
Russell 2000 Value Aggregate	-36.1	-28.9	-13.4	-9.8	13.1	23.5	7.7	4.7	25.0	22.2
Active Manager Aggregate	-40.5	-36.9	6.3	4.2	11.5	15.8	6.5	6.0	12.5	12.3
Semi-Passive Aggregate	-37.2	-37.6	3.2	5.8	16.1	15.5	6.2	6.3	11.7	11.4
Passive Manager (BGI)	-37.1	-37.3	5.1	5.1	15.8	15.7	6.2	6.1	12.0	11.9
Total Domestic Equity Aggregate	-38.1	-37.3	4.9	5.1	14.5	15.7	6.4	6.1	12.2	11.9
SBI DE Asset Class Target		-37.3		5.1		15.7		6.1		11.9
Russell 3000 Index		-37.3		5.1		15.7		6.1		11.9



**COMBINED RETIREMENT FUNDS  
ACTIVE DOMESTIC STOCK MANAGERS**

Periods Ending December, 2008

Performance versus Russell Style Benchmarks for All Periods

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
<b>LARGE CAP</b>												
<b>Russell 1000 Core</b>												
Franklin Portfolio	-23.9	-22.5	-40.7	-37.6	-9.9	-8.7	-2.6	-2.0	8.2	8.2	\$302.5	1.9%
New Amsterdam Partners (2)	-20.3	-22.5	-36.7	-37.6	-10.1	-8.7	-2.1	-2.0	8.7	7.5	\$343.1	2.1%
UBS Global	-27.0	-22.5	-41.3	-37.6	-11.6	-8.7	-3.2	-2.0	6.4	6.6	\$310.1	1.9%
<b>Aggregate</b>	<b>-23.7</b>	<b>-22.5</b>	<b>-39.6</b>	<b>-37.6</b>	<b>-10.5</b>	<b>-8.7</b>	<b>-2.7</b>	<b>-2.0</b>			<b>\$955.7</b>	<b>6.0%</b>
<b>Russell 1000 Growth</b>												
Alliance Capital	-21.8	-22.8	-40.3	-38.4	-11.8	-9.1	-3.7	-3.4	11.3	8.4	\$188.4	1.2%
INTECH	-25.1	-22.8	-42.8	-38.4	-11.9	-9.1			-7.3	-5.7	\$205.7	1.3%
Jacobs Levy	-25.7	-22.8	-44.9	-38.4	-14.1	-9.1			-9.6	-5.7	\$177.4	1.1%
Knelman Asset Mgmt.	-20.4	-22.8	-39.9	-38.4	-8.7	-9.1			-5.1	-5.7	\$40.8	0.3%
Sands Capital	-30.7	-22.8	-48.6	-38.4	-16.6	-9.1			-10.4	-5.7	\$128.1	0.8%
Voyageur-Chicago Equity (4)	-25.8	-22.8	-39.3	-38.4	-11.8	-9.1	-4.6	-3.4	-4.8	-8.6	\$33.5	0.2%
Winslow-Large Cap	-23.1	-22.8	-39.1	-38.4	-7.2	-9.1			-3.1	-5.7	\$83.2	0.5%
Zevenbergen Capital	-27.8	-22.8	-43.2	-38.4	-9.3	-9.1	-1.6	-3.4	6.2	5.2	\$171.3	1.1%
<b>Aggregate</b>	<b>-25.5</b>	<b>-22.8</b>	<b>-42.7</b>	<b>-38.4</b>	<b>-12.4</b>	<b>-9.1</b>	<b>-5.2</b>	<b>-3.4</b>			<b>\$1,028.4</b>	<b>6.4%</b>
<b>Russell 1000 Value</b>												
Barrow, Hanley	-17.4	-22.2	-35.2	-36.8	-8.5	-8.3			-0.6	-1.5	\$313.7	2.0%
Earnest Partners	-20.2	-22.2	-39.8	-36.8	-10.0	-8.3	0.0	-0.8	0.1	1.3	\$120.5	0.8%
Lord Abbett & Co.	-20.8	-22.2	-36.3	-36.8	-7.6	-8.3			-2.1	-1.5	\$223.0	1.4%
LSV Asset Mgmt.	-23.7	-22.2	-39.3	-36.8	-9.2	-8.3			-0.8	-1.5	\$283.9	1.8%
Systematic Financial Mgmt.	-21.9	-22.2	-40.6	-36.8	-8.8	-8.3			-1.3	-1.5	\$210.1	1.3%
<b>Aggregate</b>	<b>-20.8</b>	<b>-22.2</b>	<b>-38.0</b>	<b>-36.8</b>	<b>-9.0</b>	<b>-8.3</b>	<b>-1.8</b>	<b>-0.8</b>			<b>\$1,151.2</b>	<b>7.2%</b>
<b>SMALL CAP</b>												
<b>Russell 2000 Growth</b>												
McKinley Capital	-29.8	-27.4	-49.1	-38.5	-12.7	-9.3	-5.6	-2.4	-5.6	-2.4	\$134.1	0.8%
Next Century Growth	-31.5	-27.4	-49.3	-38.5	-8.5	-9.3	0.4	-2.4	-5.4	-5.1	\$153.8	1.0%
Turner Investment Partners	-27.7	-27.4	-41.9	-38.5	-8.8	-9.3	-2.1	-2.4	-2.1	-2.4	\$155.6	1.0%
<b>Aggregate</b>	<b>-29.7</b>	<b>-27.4</b>	<b>-46.8</b>	<b>-38.5</b>	<b>-10.7</b>	<b>-9.3</b>	<b>-4.0</b>	<b>-2.4</b>			<b>\$443.5</b>	<b>2.8%</b>
<b>Russell 2000 Value</b>												
Goldman Sachs	-25.2	-24.9	-26.8	-28.9	-6.5	-7.5	0.4	0.3	0.4	0.3	\$95.6	0.6%
Hotchkis & Wiley	-36.5	-24.9	-44.1	-28.9	-22.4	-7.5	-8.1	0.3	-8.1	0.3	\$61.4	0.4%
Martingale Asset Mgmt.	-27.4	-24.9	-33.8	-28.9	-14.2	-7.5	-2.6	0.3	-2.6	0.3	\$82.2	0.5%
Peregrine Capital	-32.0	-24.9	-39.4	-28.9	-15.7	-7.5	-4.0	0.3	4.9	6.7	\$117.0	0.7%
RiverSource/Kenwood	-24.6	-24.9	-35.5	-28.9	-12.1	-7.5	-2.2	0.3	-2.2	0.3	\$37.5	0.2%
<b>Aggregate</b>	<b>-29.6</b>	<b>-24.9</b>	<b>-36.1</b>	<b>-28.9</b>	<b>-14.4</b>	<b>-7.5</b>	<b>-3.3</b>	<b>0.3</b>			<b>\$393.7</b>	<b>2.5%</b>
<b>Active Mgr. Aggregate (3)</b>	<b>-24.7</b>	<b>-23.3</b>	<b>-40.5</b>	<b>-36.9</b>	<b>-11.0</b>	<b>-8.7</b>	<b>-3.3</b>	<b>-2.0</b>			<b>\$3,972.5</b>	<b>24.8%</b>

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

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

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

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

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

	2008		2007		2006		2005		2004	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>LARGE CAP</b>										
<b>Russell 1000 Core</b>										
Franklin Portfolio	-40.7	-37.6	2.4	5.8	20.4	15.5	3.4	6.3	15.7	11.4
New Amsterdam Partners (1)	-36.7	-37.6	5.0	5.8	9.3	15.5	7.6	6.3	14.8	11.4
UBS Global	-41.3	-37.6	0.8	5.8	16.8	15.5	8.6	6.3	13.4	11.4
<b>Aggregate</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>6.4</b>	<b>6.3</b>	<b>14.5</b>	<b>11.4</b>
<b>Russell 1000 Growth</b>										
Alliance Capital	-40.3	-38.4	15.4	11.8	-0.4	9.1	14.2	5.3	5.7	6.3
INTECH	-42.8	-38.4	11.4	11.8	7.4	9.1	7.8	5.3		
Jacobs Levy	-44.9	-38.4	8.4	11.8	6.1	9.1	5.3	5.3		
Knelman Asset Mgmt.	-39.9	-38.4	18.0	11.8	7.1	9.1	6.6	5.3		
Sands Capital	-48.6	-38.4	19.5	11.8	-5.5	9.1	10.9	5.3		
Voyageur-Chicago Equity (3)	-39.3	-38.4	10.9	11.8	2.1	9.1	3.9	5.3	10.6	6.3
Winslow-Large Cap	-39.1	-38.4	22.0	11.8	7.6	9.1	10.5	5.3		
Zevenbergen Capital	-43.2	-38.4	24.0	11.8	6.2	9.1	9.0	5.3	13.1	6.3
<b>Aggregate</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>7.3</b>	<b>5.3</b>	<b>6.1</b>	<b>6.3</b>
<b>Russell 1000 Value</b>										
Barrow, Hanley	-35.2	-36.8	2.6	-0.2	15.4	22.2	9.6	7.1		
Earnest Partners	-39.8	-36.8	6.5	-0.2	13.8	22.2	15.6	7.1	18.9	16.5
Lord Abbett & Co.	-36.3	-36.8	4.4	-0.2	18.6	22.2	3.5	7.1		
LSV Asset Mgmt.	-39.3	-36.8	1.3	-0.2	21.7	22.2	12.5	7.1		
Systematic Financial Mgmt.	-40.6	-36.8	8.3	-0.2	17.9	22.2	10.3	7.1		
<b>Aggregate</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>6.0</b>	<b>7.1</b>	<b>14.3</b>	<b>16.5</b>
<b>SMALL CAP</b>										
<b>Russell 2000 Growth</b>										
McKinley Capital	-49.1	-38.5	16.2	7.0	12.5	13.3	0.2	4.2	12.2	14.3
Next Century Growth	-49.3	-38.5	34.2	7.0	12.4	13.3	25.2	4.2	6.4	14.3
Turner Investment Partners	-41.9	-38.5	14.8	7.0	13.6	13.3	6.2	4.2	11.6	14.3
<b>Aggregate</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>4.7</b>	<b>4.2</b>	<b>9.7</b>	<b>14.3</b>
<b>Russell 2000 Value</b>										
Goldman Sachs	-26.8	-28.9	-5.0	-9.8	17.8	23.5	4.1	4.7	19.9	22.2
Hotchkis & Wiley	-44.1	-28.9	-18.8	-9.8	3.0	23.5	10.4	4.7	27.1	22.2
Martingale Asset Mgmt.	-33.8	-28.9	-16.8	-9.8	14.8	23.5	6.2	4.7	30.8	22.2
Peregrine Capital	-39.4	-28.9	-13.4	-9.8	14.3	23.5	10.1	4.7	23.6	22.2
RiverSource/Kenwood	-35.5	-28.9	-11.8	-9.8	19.4	23.5	4.8	4.7	25.8	22.2
<b>Aggregate</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>7.7</b>	<b>4.7</b>	<b>25.0</b>	<b>22.2</b>
<b>Active Mgr. Aggregate (2)</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>	<b>6.5</b>	<b>6.0</b>	<b>12.5</b>	<b>12.3</b>

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

Prior to that date it was the Russell Midcap Index.

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

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

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

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

	Quarter		1 Year		3 Years		5 Years		Since Inception (2)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
<b>SEMI-PASSIVE MANAGERS (1)</b>												
Barclays Global Investors	-22.1	-22.5	-37.1	-37.6	-9.4	-8.7	-2.2	-2.0	6.5	6.0	\$2,142.4	13.4%
Franklin Portfolio	-22.7	-22.5	-37.6	-37.6	-9.3	-8.7	-2.4	-2.0	5.6	6.0	\$1,693.6	10.6%
JP Morgan	-22.1	-22.5	-37.1	-37.6	-8.4	-8.7	-2.1	-2.0	6.1	6.0	\$1,888.7	11.8%
<b>Semi-Passive Aggregate (R1000)</b>	<b>-22.3</b>	<b>-22.5</b>	<b>-37.2</b>	<b>-37.6</b>	<b>-9.1</b>	<b>-8.7</b>	<b>-2.3</b>	<b>-2.0</b>	<b>6.1</b>	<b>6.0</b>	<b>\$5,724.7</b>	<b>35.7%</b>
<b>PASSIVE MANAGER (R3000)</b>												
Barclays Global Investors	-22.7	-22.8	-37.1	-37.3	-8.5	-8.6	-1.9	-2.0	5.5	5.4	\$6,348.4	39.6%
<b>Historical Aggregate (3)</b>	<b>-23.2</b>	<b>-22.8</b>	<b>-38.1</b>	<b>-37.3</b>	<b>-9.4</b>	<b>-8.7</b>	<b>-2.4</b>	<b>-2.0</b>	<b>8.8</b>	<b>9.2</b>	<b>\$16,045.6</b>	<b>100.0%</b>
SBI DE Asset Class Target (4)		-22.8		-37.3		-8.6		-2.0		9.1		
Russell 3000		-22.8		-37.3		-8.6		-2.0		9.5		
Wilshire 5000		-22.9		-37.2		-8.4		-1.7		9.4		
Russell 1000		-22.5		-37.6		-8.7		-2.0		9.7		
Russell 2000		-26.1		-33.8		-8.3		-0.9		7.9		

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

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

(3) Includes the performance of terminated managers.

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

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

	2008		2007		2006		2005		2004	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>SEMI-PASSIVE MANAGERS (1)</b>										
Barclays Global Investors	-37.1	-37.6	2.2	5.8	15.6	15.5	7.6	6.3	11.7	11.4
Franklin Portfolio	-37.6	-37.6	2.5	5.8	16.5	15.5	6.1	6.3	11.7	11.4
JP Morgan	-37.1	-37.6	5.1	5.8	16.5	15.5	4.7	6.3	11.7	11.4
<b>Semi-Passive Aggregate (R1000)</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>6.2</b>	<b>6.3</b>	<b>11.7</b>	<b>11.4</b>
<b>PASSIVE MANAGER (R3000)</b>										
Barclays Global Investors	-37.1	-37.3	5.1	5.1	15.8	15.7	6.2	6.1	12.0	11.9
<b>Historical Aggregate (2)</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>	<b>6.4</b>	<b>6.1</b>	<b>12.2</b>	<b>11.9</b>
SBI DE Asset Class Target (3)		-37.3		5.1		15.7		6.1		11.9
Russell 3000		-37.3		5.1		15.7		6.1		11.9
Wilshire 5000		-37.2		5.6		15.8		6.4		12.5
Russell 1000		-37.6		5.8		15.5		6.3		11.4
Russell 2000		-33.8		-1.6		18.4		4.6		18.3

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

(2) Includes the performance of terminated managers.

(3) The Domestic Equity Asset Class Target is the Russell 3000 Index effective 10/1/03. From 7/1/99 to 9/30/03, it was the Wilshire 5000 Investable Index.

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

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

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

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## **Large Cap Core (R1000)**

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## Large Cap Core (R1000)

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**FRANKLIN PORTFOLIO ASSOCIATES**  
**Periods Ending December, 2008**

**Portfolio Manager: Tony Garvin**

**Assets Under Management: \$302,530,205**

**Investment Philosophy – Active Style**

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

**Staff Comments**

Effective January 1, 2009 Franklin merged with the active quantitative equity units of Mellon Capital Management Corporation, an affiliate of Franklin's. Franklin will be combined under one common structure at Mellon Capital, and will now be Mellon Capital Management. Currently, they continue to operate under their previous structure and are working through the details of what the combined entity will be throughout 2009.

**Recommendation**

No action required

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Core</b>
Last Quarter	-23.9%	-22.5%
Last 1 year	-40.7	-37.6
Last 2 years	-22.1	-18.8
Last 3 years	-9.9	-8.7
Last 4 years	-6.7	-5.1
Last 5 years	-2.6	-2.0
Since Inception (4/89)	8.2	8.2

**Calendar Year Returns**

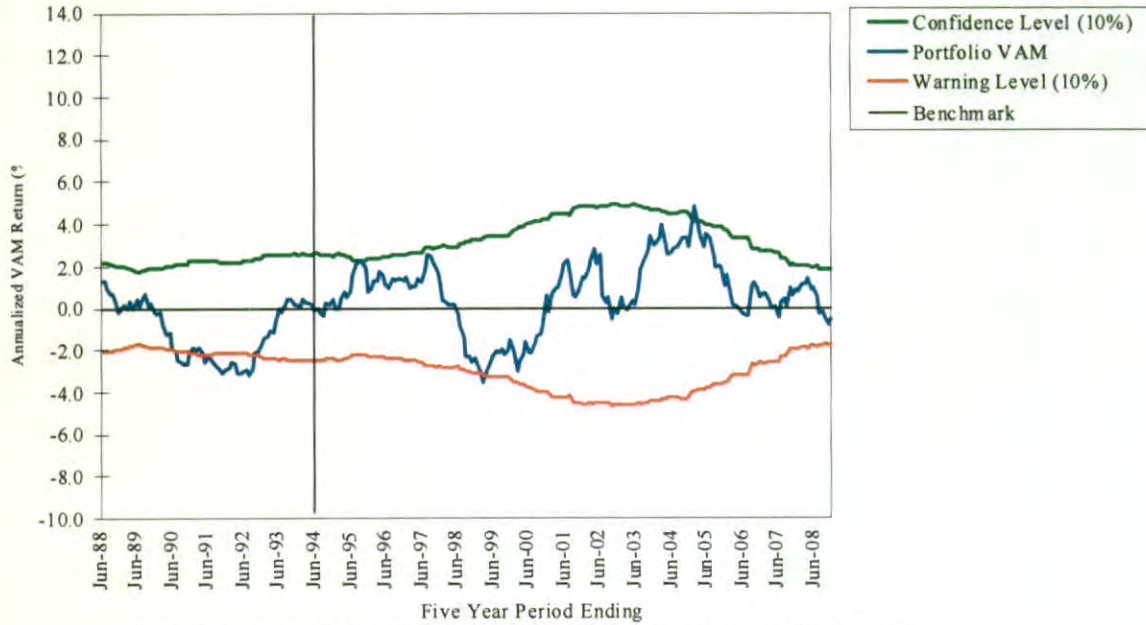
	<b>Actual</b>	<b>Russell 1000 Core</b>
2008	-40.7%	-37.6%
2007	2.4	5.8
2006	20.4	15.5
2005	3.4	6.3
2004	15.7	11.4

**FRANKLIN PORTFOLIO ASSOCIATES**  
**Periods Ending December, 2008**

**Portfolio Manager: Tony Garvin**

**Assets Under Management: \$302,530,205**

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



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

**NEW AMSTERDAM PARTNERS**  
**Periods Ending December, 2008**

**Portfolio Manager: Michelle Clayman**

**Assets Under Management: \$343,116,096**

**Investment Philosophy**

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

**Staff Comments**

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell Index (1)</b>
Last Quarter	-20.3%	-22.5%
Last 1 year	-36.7	-37.6
Last 2 years	-18.5	-18.8
Last 3 years	-10.1	-8.7
Last 4 years	-6.0	-5.1
Last 5 years	-2.1	-2.0
Since Inception (4/94)	8.7	7.5

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell Index (1)</b>
2008	-36.7%	-37.6%
2007	5.0	5.8
2006	9.3	15.5
2005	7.6	6.3
2004	14.8	11.4

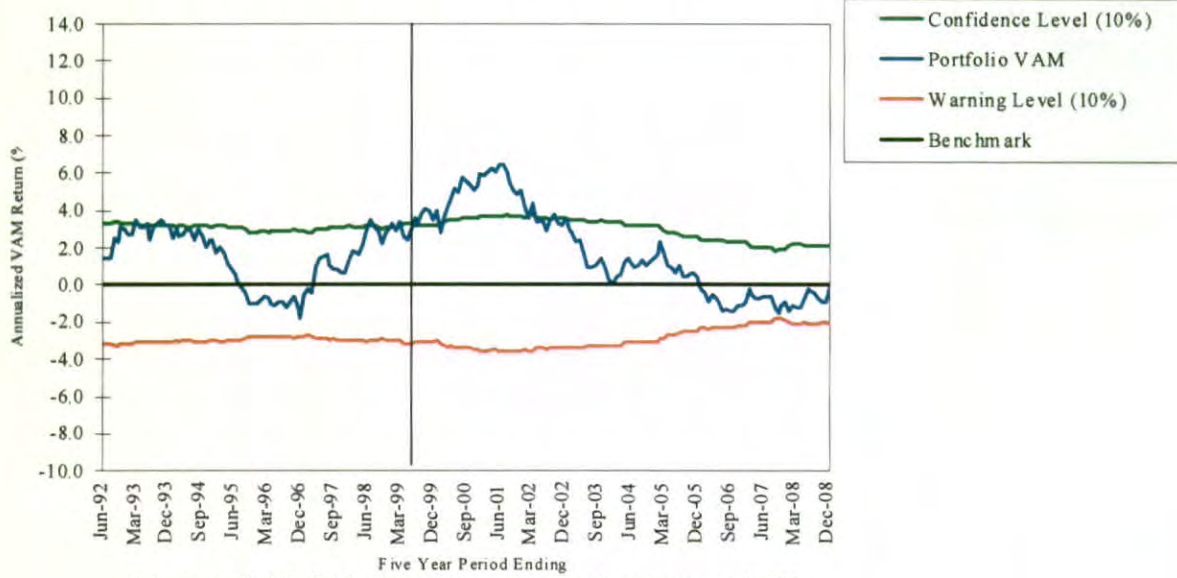
(1) New Amsterdam Partners' published benchmark is the Russell 1000 Core beginning 10/1/03. Prior to that date it was the Russell Midcap index.

**NEW AMSTERDAM PARTNERS**  
**Periods Ending December, 2008**

**Portfolio Manager: Michelle Clayman**

**Assets Under Management: \$343,116,096**

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 December, 2008**

**Portfolio Manager: John Leonard**

**Assets Under Management: \$310,080,092**

**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**

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Core</b>
Last Quarter	-27.0%	-22.5%
Last 1 year	-41.3	-37.6
Last 2 years	-23.1	-18.8
Last 3 years	-11.6	-8.7
Last 4 years	-6.9	-5.1
Last 5 years	-3.2	-2.0
Since Inception (7/93)	6.4	6.6

**Calendar Year Returns**

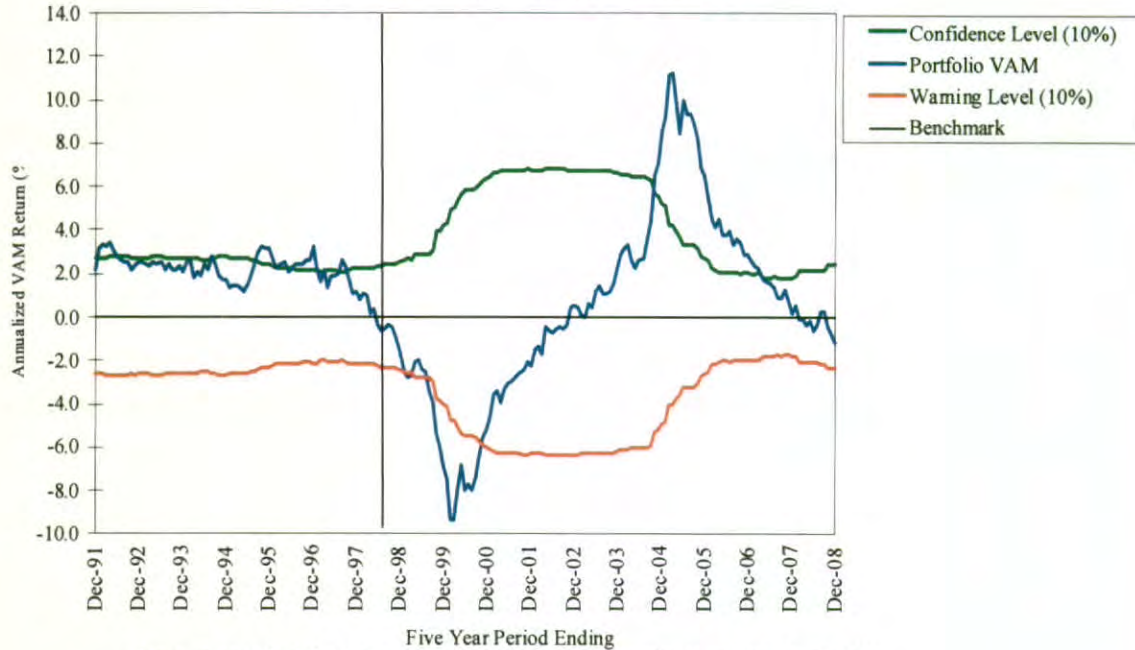
	<b>Actual</b>	<b>Russell 1000 Core</b>
2008	-41.3%	-37.6%
2007	0.8	5.8
2006	16.8	15.5
2005	8.6	6.3
2004	13.4	11.4

**UBS GLOBAL ASSET MANAGEMENT, INC.**  
**Periods Ending December, 2008**

**Portfolio Manager: John Leonard**

**Assets Under Management: \$310,080,092**

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



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

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## **Large Cap Growth (R1000 Growth)**



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## Large Cap Growth (R1000 Growth)

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**ALLIANCE CAPITAL MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Stephanie Simon**

**Assets Under Management: \$188,422,263**

**Investment Philosophy**

Alliance searches for companies likely to experience high rates of earnings growth, on either a cyclical or secular basis. Alliance invests in a range of medium to large growth and cyclically sensitive companies. There is no clear distinction on the part of the firm as to an emphasis on one particular type of growth company over another. However, the firm's decision-making process appears to be much more oriented toward macroeconomic considerations than is the case with most other growth managers. Accordingly, cyclical earnings prospects, rather than secular, appear to play a larger role in terms of stock selection. Alliance is not an active market timer, rarely raising cash above minimal levels.

**Staff Comments**

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Growth</b>
Last Quarter	-21.8%	-22.8%
Last 1 year	-40.3	-38.4
Last 2 years	-17.0	-17.0
Last 3 years	-11.8	-9.1
Last 4 years	-5.9	-5.7
Last 5 years	-3.7	-3.4
Since Inception (1/84)	11.3	8.4

**Calendar Year Returns**

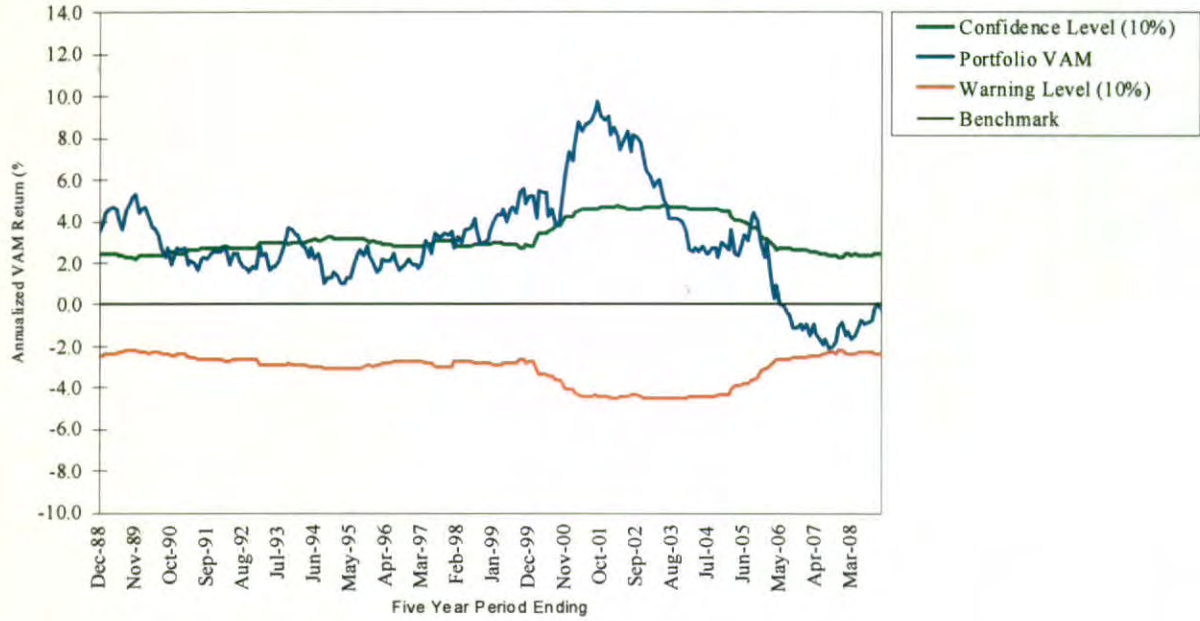
	<b>Actual</b>	<b>Russell 1000 Growth</b>
2008	-40.3%	-38.4%
2007	15.4	11.8
2006	-0.4	9.1
2005	14.2	5.3
2004	5.7	6.3

**ALLIANCE CAPITAL MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Stephanie Simon**

**Assets Under Management: \$188,422,263**

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



**INTECH INVESTMENT MANAGEMENT LLC**  
**Periods Ending December, 2008**

**Portfolio Manager: Robert Fernholz**

**Assets Under Management: \$ 205,715,436**

**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**

Effective October 28, 2008 INTECH (Enhanced Investment Technologies, LLC) has changed their formal company name to INTECH Investment Management LLC.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Growth</b>
Last Quarter	-25.1%	-22.8%
Last 1 year	-42.8	-38.4
Last 2 years	-20.2	-17.0
Last 3 years	-11.9	-9.1
Last 4 years	-7.3	-5.7
Last 5 years	N/A	N/A
Since Inception (1/05)	-7.3	-5.7

**Calendar Year Returns**

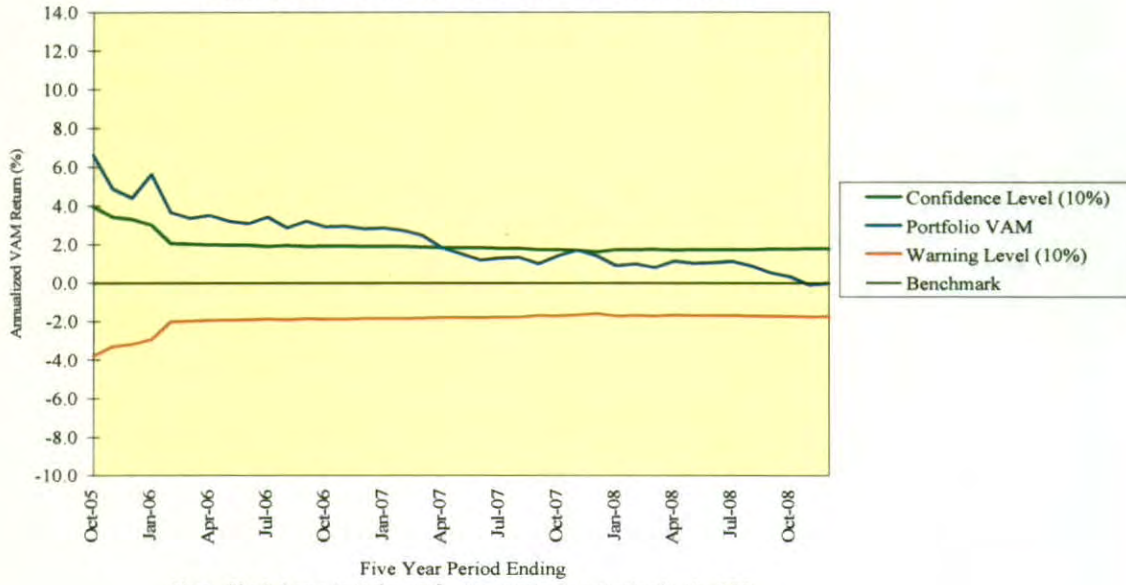
	<b>Actual</b>	<b>Russell 1000 Growth</b>
2008	-42.8%	-38.4%
2007	11.4	11.8
2006	7.4	9.1
2005	7.8	5.3
2004	N/A	N/A

**INTECH INVESTMENT MANAGEMENT LLC**  
**Periods Ending December, 2008**

**Portfolio Manager: Robert Fernholz**

**Assets Under Management: \$205,715,436**

INTECH Investment Management LLC  
 Rolling Five Year VAM vs. Russell 1000 Growth



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

# JACOBS LEVY EQUITY MANAGEMENT

Periods Ending December, 2008

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

**Assets Under Management: \$177,400,610**

## Investment Philosophy

## Staff Comments

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.

No comment at this time.

## Recommendation

No action required.

## Quantitative Evaluation

### Period Returns

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Growth</b>
Last Quarter	-25.7%	-22.8%
Last 1 year	-44.9	-38.4
Last 2 years	-22.7	-17.0
Last 3 years	-14.1	-9.1
Last 4 years	-9.6	-5.7
Last 5 years	N/A	N/A
Since Inception (1/05)	-9.6	-5.7

### Calendar Year Returns

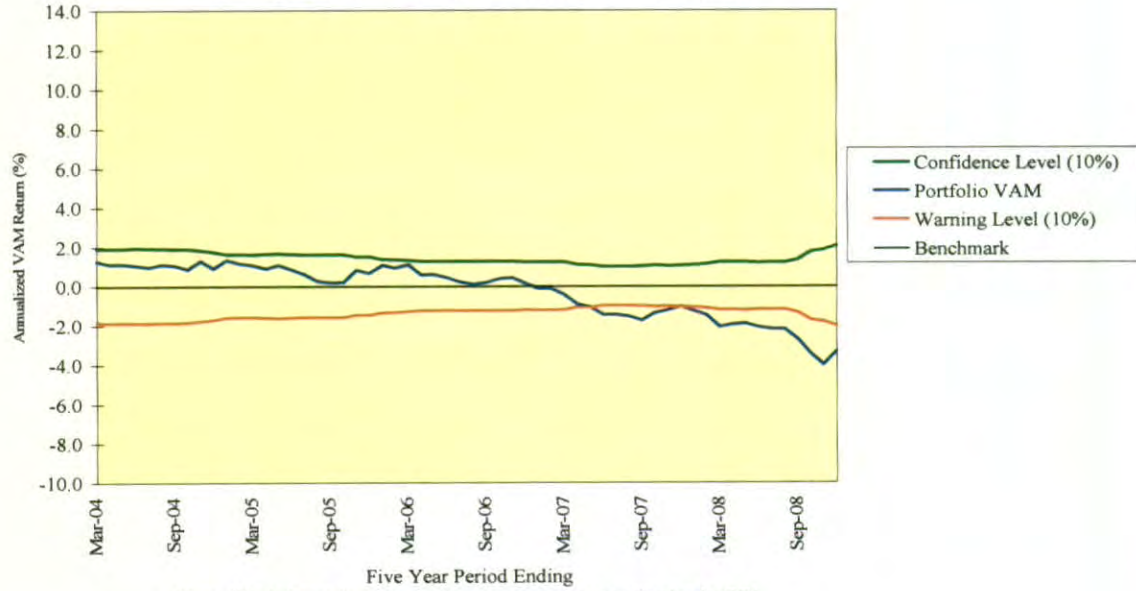
	<b>Actual</b>	<b>Russell 1000 Growth</b>
2008	-44.9%	-38.4%
2007	8.4	11.8
2006	6.1	9.1
2005	5.3	5.3
2004	N/A	N/A

**JACOBS LEVY EQUITY MANAGEMENT**  
**Periods Ending December, 2008**

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

**Assets Under Management: \$177,400,610**

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



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



**KNELMAN ASSET MANAGEMENT, LLC**  
**Periods Ending December, 2008**

**Portfolio Manager: Kip Knelman**

**Assets Under Management: \$40,758,217**

**Investment Philosophy**

**Staff Comments**

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

The transfer of the U.S. Equity Growth strategy from Lazard back to Knelman Asset Management was completed December 5, 2008.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Growth</b>
Last Quarter	-20.4%	-22.8%
Last 1 year	-39.9	-38.4
Last 2 years	-15.8	-17.0
Last 3 years	-8.7	-9.1
Last 4 years	-5.1	-5.7
Last 5 years	N/A	N/A
Since Inception (1/05)	-5.1	-5.7

**Calendar Year Returns**

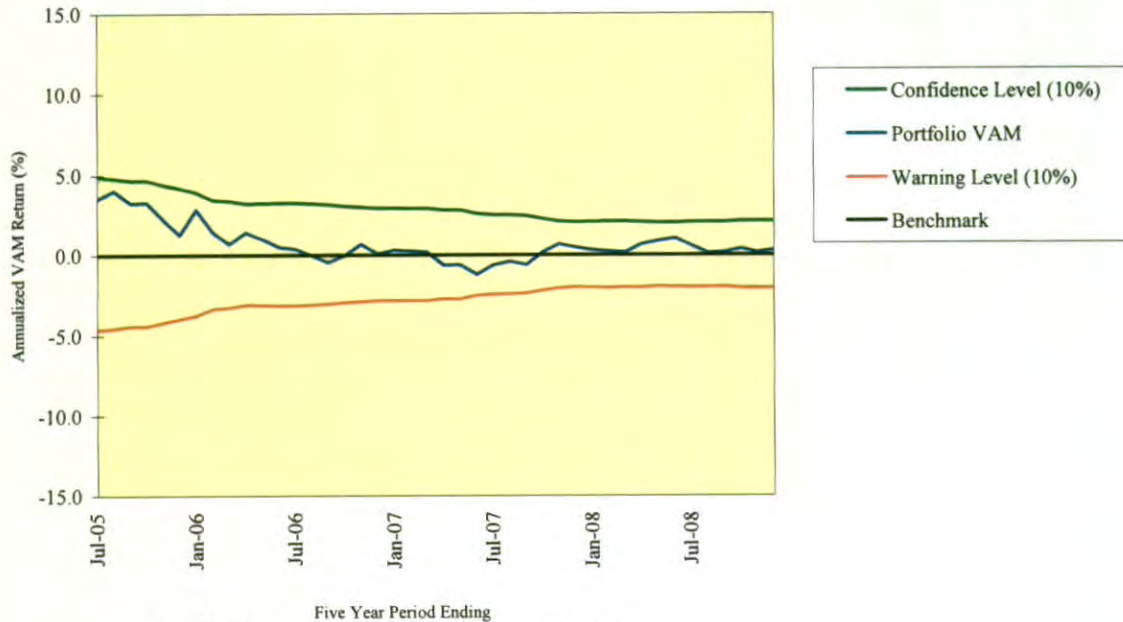
	<b>Actual</b>	<b>Russell 1000 Growth</b>
2008	-39.9%	-38.4%
2007	18.0	11.8
2006	7.1	9.1
2005	6.6	5.3
2004	N/A	N/A

**KNELMAN ASSET MANAGEMENT, LLC**  
**Periods Ending December, 2008**

**Portfolio Manager: Kip Knelman**

**Assets Under Management: \$40,758,217**

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



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

**SANDS CAPITAL MANAGEMENT LLC**  
**Periods Ending December, 2008**

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

**Assets Under Management: \$128,054,302**

**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 underperformed the quarterly and one-year benchmark. For both periods, an overweight to the Other Energy sector and stock selection in the Consumer Discretionary sector negatively impacted performance. The quarterly performance was also impacted by poor stock selection on the Health Care sector.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Growth</b>
Last Quarter	-30.7%	-22.8%
Last 1 year	-48.6	-38.4
Last 2 years	-21.6	-17.0
Last 3 years	-16.6	-9.1
Last 4 years	-10.4	-5.7
Last 5 years	N/A	N/A
Since Inception (1/05)	-10.4	-5.7

**Calendar Year Returns**

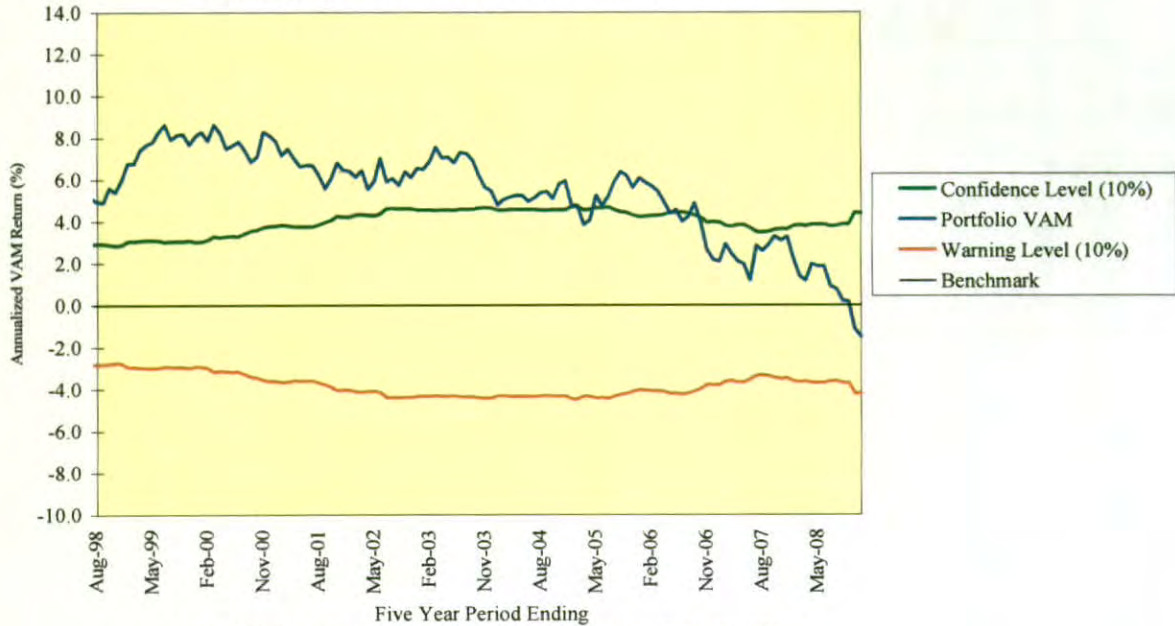
	<b>Actual</b>	<b>Russell 1000 Growth</b>
2008	-48.6%	-38.4%
2007	19.5	11.8
2006	-5.5	9.1
2005	10.9	5.3
2004	N/A	N/A

**SANDS CAPITAL MANAGEMENT LLC**  
**Periods Ending December, 2008**

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

**Assets Under Management: \$128,054,302**

Sands Capital Management, LLC  
 Rolling Five Year VAM vs. Russell 1000 Growth



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

**VOYAGEUR ASSET MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Gordon Telfer and Nancy Scinto      Assets Under Management: \$33,539,593**

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**Investment Philosophy**

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

**Staff Comments**

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Growth</b>
Last Quarter	-25.8%	-22.8%
Last 1 year	-39.3	-38.4
Last 2 years	-18.0	-17.0
Last 3 years	-11.8	-9.1
Last 4 years	-8.1	-5.7
Last 5 years	-4.6	-3.4
Since Inception (7/00)	-4.8	-8.6

**Calendar Year Returns**

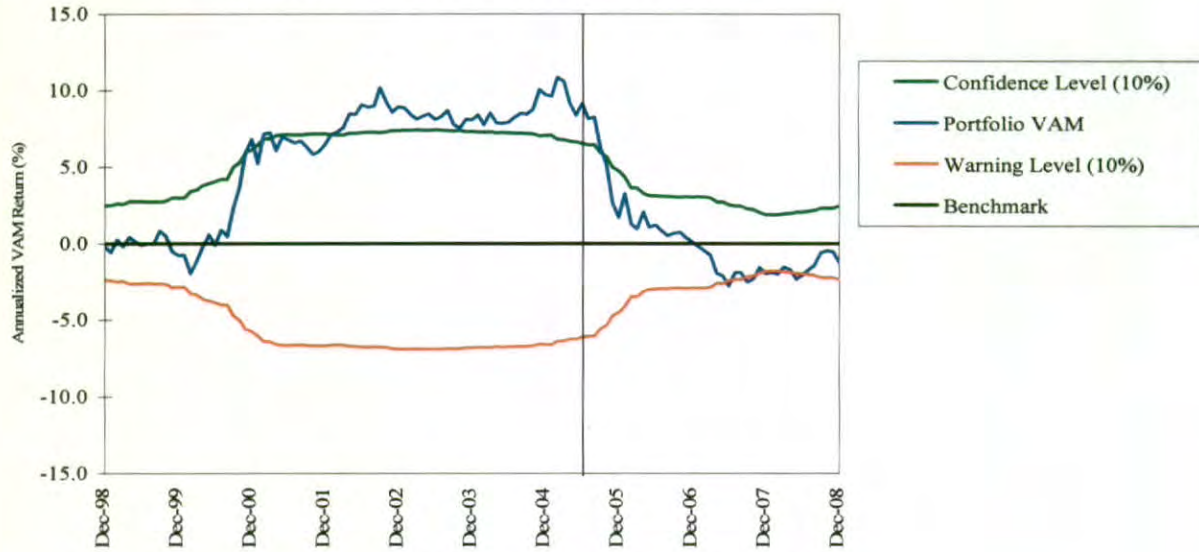
	<b>Actual</b>	<b>Russell 1000 Growth</b>
2008	-39.3%	-38.4%
2007	10.9	11.8
2006	2.1	9.1
2005	3.9	5.3
2004	10.6	6.3

**VOYAGEUR ASSET MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Gordon Telfer and Nancy Scinto**

**Assets Under Management: \$33,539,593**

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



Five Year Period Ending

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

**WINSLOW CAPITAL MANAGEMENT, INC.**  
**Periods Ending December, 2008**

**Portfolio Manager: Clark Winslow**

**Assets Under Management: \$83,228,854**

**Investment Philosophy**

**Staff Comments**

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.

Effective December 26, 2008 Winslow agreed to a strategic combination with Nuveen Investments, Inc. The entire Winslow Capital team will remain in Minneapolis and operate as a separate subsidiary of Nuveen under the Winslow Capital name. Nuveen will provide support in non-investment activities.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Growth</b>
Last Quarter	-23.1%	-22.8%
Last 1 year	-39.1	-38.4
Last 2 years	-13.8	-17.0
Last 3 years	-7.2	-9.1
Last 4 years	-3.1	-5.7
Last 5 years	N/A	N/A
Since Inception (1/05)	-3.1	-5.7

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 1000 Growth</b>
2008	-39.1%	-38.4%
2007	22.0	11.8
2006	7.6	9.1
2005	10.5	5.3
2004	N/A	N/A

**WINSLOW CAPITAL MANAGEMENT, INC.**  
**Periods Ending December, 2008**

**Portfolio Manager: Clark Winslow**

**Assets Under Management: \$83,228,854**

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





**ZEVENBERGEN CAPITAL INC.**  
**Periods Ending December, 2008**

**Portfolio Manager:** Nancy Zevenbergen

**Assets Under Management:** \$171,323,309

**Investment Philosophy**

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

**Staff Comments**

Zevenbergen trailed the benchmark for both periods. The biggest detractor for both periods was stock selection in the Consumer Discretionary sector.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Growth</b>
Last Quarter	-27.8%	-22.8%
Last 1 year	-43.2	-38.4
Last 2 years	-16.1	-17.0
Last 3 years	-9.3	-9.1
Last 4 years	-5.0	-5.7
Last 5 years	-1.6	-3.4
Since Inception (4/94)	6.2	5.2

**Calendar Year Returns**

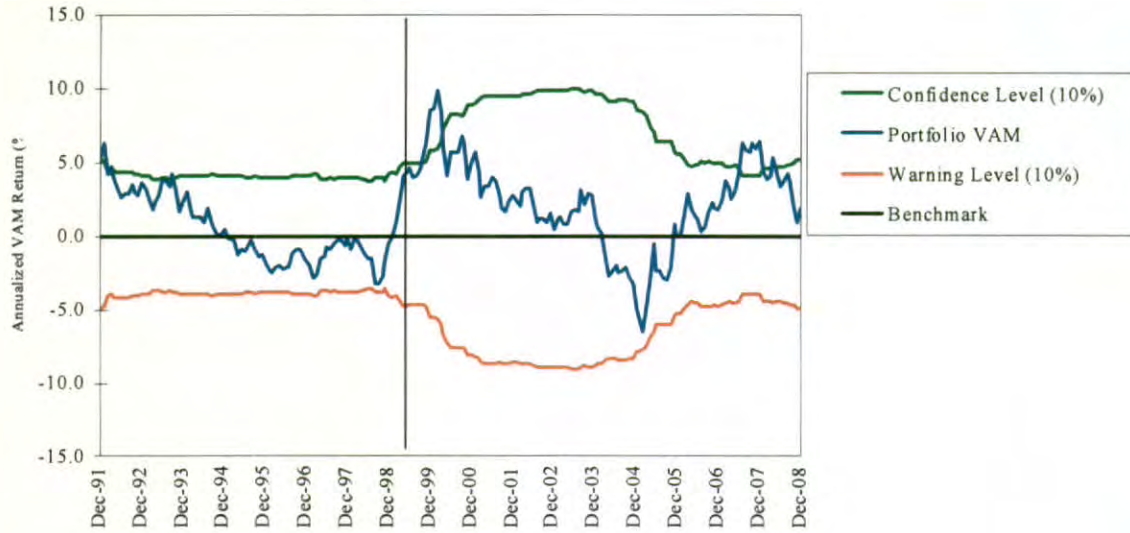
	<b>Actual</b>	<b>Russell 1000 Growth</b>
2008	-43.2%	-38.4%
2007	24.0	11.8
2006	6.2	9.1
2005	9.0	5.3
2004	13.1	6.3

**ZEVENBERGEN CAPITAL INC.**  
**Periods Ending December, 2008**

**Portfolio Manager: Nancy Zevenbergen**

**Assets Under Management: \$171,323,309**

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



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

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## **Large Cap Value (R1000 Value)**

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## Large Cap Value (R1000 Value)

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**BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.**  
**Periods Ending December, 2008**

**Portfolio Manager: Tim Culler**

**Assets Under Management: \$313,749,732**

**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**

Barrow Hanley outperformed the benchmark for the quarter and for the year. An overweight to the Healthcare sector and stock selection within the sector made a positive contribution to the quarterly return. Stock selection within the Consumer Discretionary and Technology sectors helped the one-year return.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Value</b>
Last Quarter	-17.4%	-22.2%
Last 1 year	-35.2	-36.8
Last 2 years	-18.5	-20.6
Last 3 years	-8.5	-8.3
Last 4 years	-4.3	-4.7
Last 5 years	N/A	N/A
Since Inception (4/04)	-0.6	-1.5

**Calendar Year Returns\***

	<b>Actual</b>	<b>Russell 1000 Value</b>
2008	-35.2%	-36.8%
2007	2.6	-0.2
2006	15.4	22.2
2005	9.6	7.1
2004	N/A	N/A

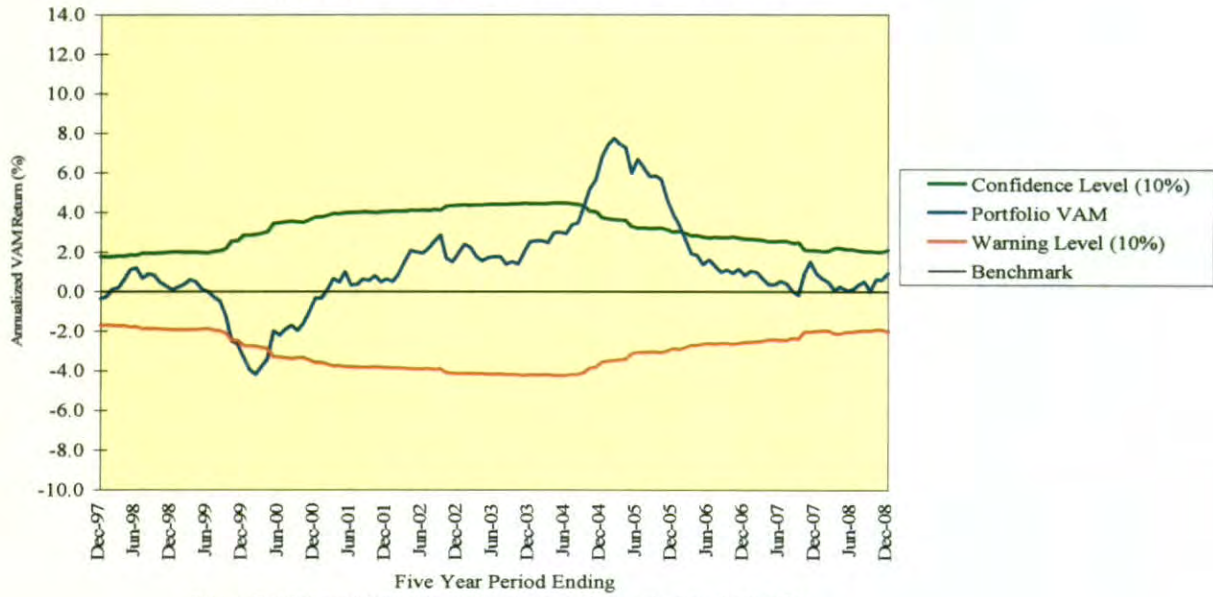
\* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

**BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.**  
**Periods Ending December, 2008**

**Portfolio Manager: Tim Culler**

**Assets Under Management: \$313,749,732**

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



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



**EARNEST PARTNERS, LLC**  
**Periods Ending December, 2008**

**Portfolio Manager: Paul Viera**

**Assets Under Management: \$120,487,936**

**Investment Philosophy**

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

**Staff Comments**

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Value</b>
Last Quarter	-20.2%	-22.2%
Last 1 year	-39.8	-36.8
Last 2 years	-20.0	-20.6
Last 3 years	-10.0	-8.3
Last 4 years	-4.2	-4.7
Last 5 years	0.0	-0.8
Since Inception (7/00)	0.1	1.3

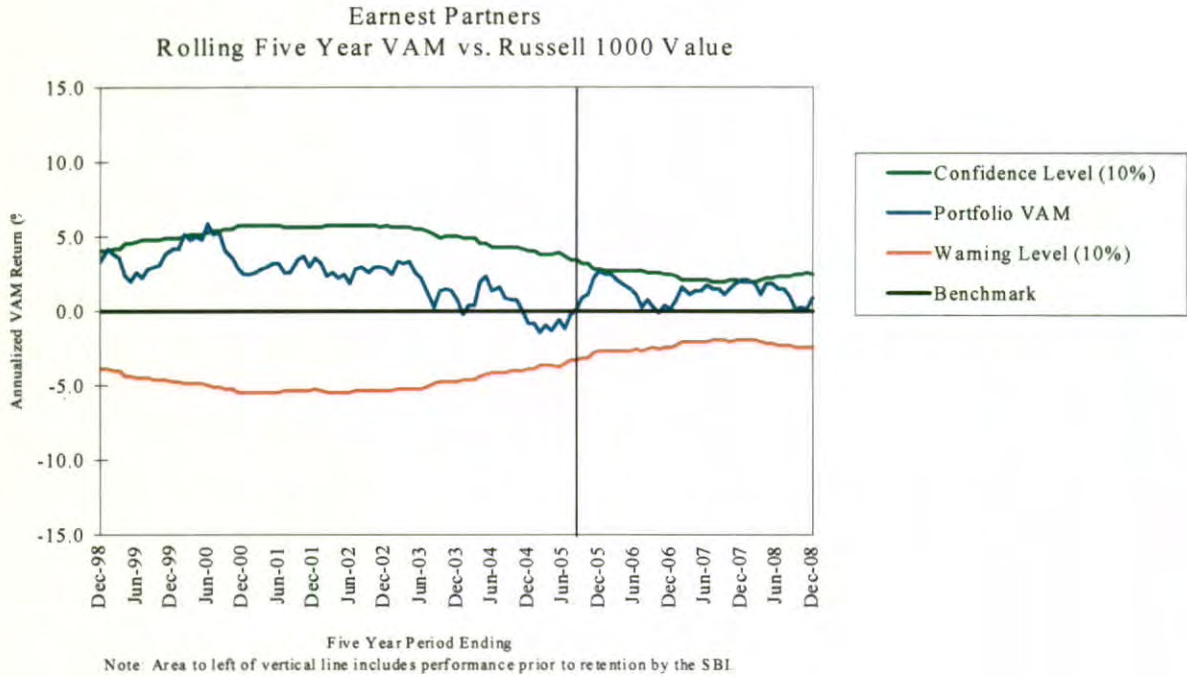
**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 1000 Value</b>
2008	-39.8%	-36.8%
2007	6.5	-0.2
2006	13.8	22.2
2005	15.6	7.1
2004	18.9	16.5

**EARNEST PARTNERS, LLC**  
**Periods Ending December, 2008**

**Portfolio Manager: Paul Viera**

**Assets Under Management: \$120,487,936**



**LORD ABBETT & CO. LLC**  
**Periods Ending December, 2008**

**Portfolio Manager: Eli Salzmann**

**Assets Under Management: \$223,044,055**

**Investment Philosophy**

**Staff Comments**

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

No comment at this time.

**Recommendation**

No action required.

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

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Value</b>
Last Quarter	-20.8%	-22.2%
Last 1 year	-36.3	-36.8
Last 2 years	-18.4	-20.6
Last 3 years	-7.6	-8.3
Last 4 years	-4.9	-4.7
Last 5 years	N/A	N/A
Since Inception (4/04)	-2.1	-1.5

**Calendar Year Returns\***

	<b>Actual</b>	<b>Russell 1000 Value</b>
2008	-36.3%	-36.8%
2007	4.4	-0.2
2006	18.6	22.2
2005	3.5	7.1
2004	N/A	N/A

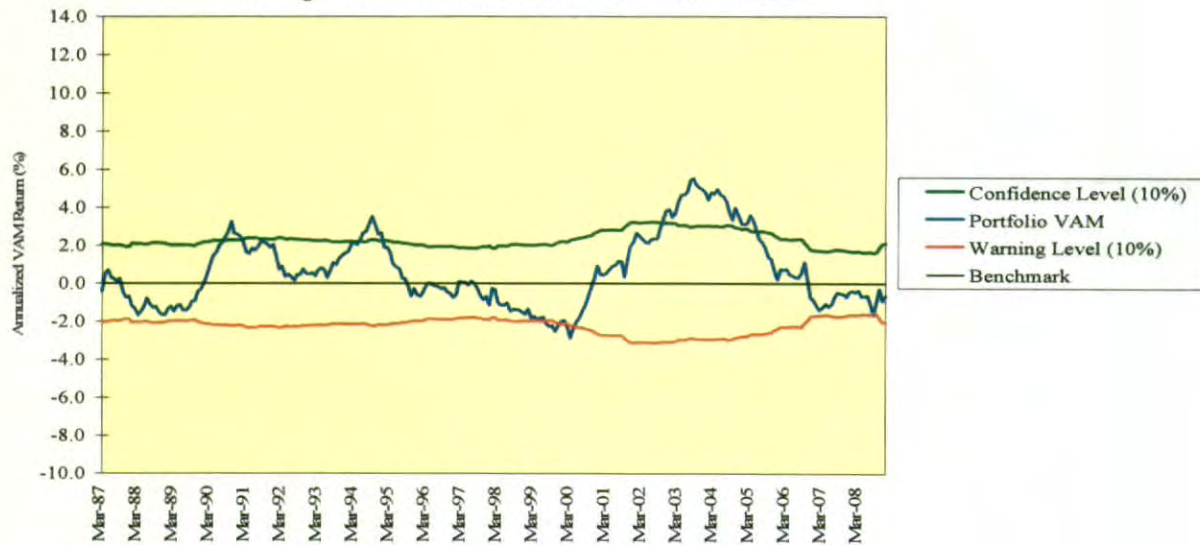
\* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

**LORD ABBETT & CO. LLC**  
**Periods Ending December, 2008**

**Portfolio Manager: Eli Salzmann**

**Assets Under Management: \$223,044,055**

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



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

**LSV ASSET MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Josef Lakonishok**

**Assets Under Management: \$283,875,446**

**Investment Philosophy**

**Staff Comments**

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

No comment at this time.

**Recommendation**

No action required.

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.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Value</b>
Last Quarter	-23.7%	-22.2%
Last 1 year	-39.3	-36.8
Last 2 years	-21.6	-20.6
Last 3 years	-9.2	-8.3
Last 4 years	-4.2	-4.7
Last 5 years	N/A	N/A
Since Inception (4/04)	-0.8	-1.5

**Calendar Year Returns\***

	<b>Actual</b>	<b>Russell 1000 Value</b>
2008	-39.3%	-36.8%
2007	1.3	-0.2
2006	21.7	22.2
2005	12.5	7.1
2004	N/A	N/A

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

**LSV ASSET MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Josef Lakonishok**

**Assets Under Management: \$283,875,446**

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



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

**SYSTEMATIC FINANCIAL MANAGEMENT, L.P.**  
**Periods Ending December, 2008**

**Portfolio Manager: Kevin McCreesh**

**Assets Under Management: \$210,050,561**

**Investment Philosophy**

**Staff Comments**

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

No comment at this time.

**Recommendation**

No action required.

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

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Value</b>
Last Quarter	-21.9%	-22.2%
Last 1 year	-40.6	-36.8
Last 2 years	-19.8	-20.6
Last 3 years	-8.8	-8.3
Last 4 years	-4.4	-4.7
Last 5 years	N/A	N/A
Since Inception (4/04)	-1.3	-1.5

**Calendar Year Returns\***

	<b>Actual</b>	<b>Russell 1000 Value</b>
2008	-40.6%	-36.8%
2007	8.3	-0.2
2006	17.9	22.2
2005	10.3	7.1
2004	N/A	N/A

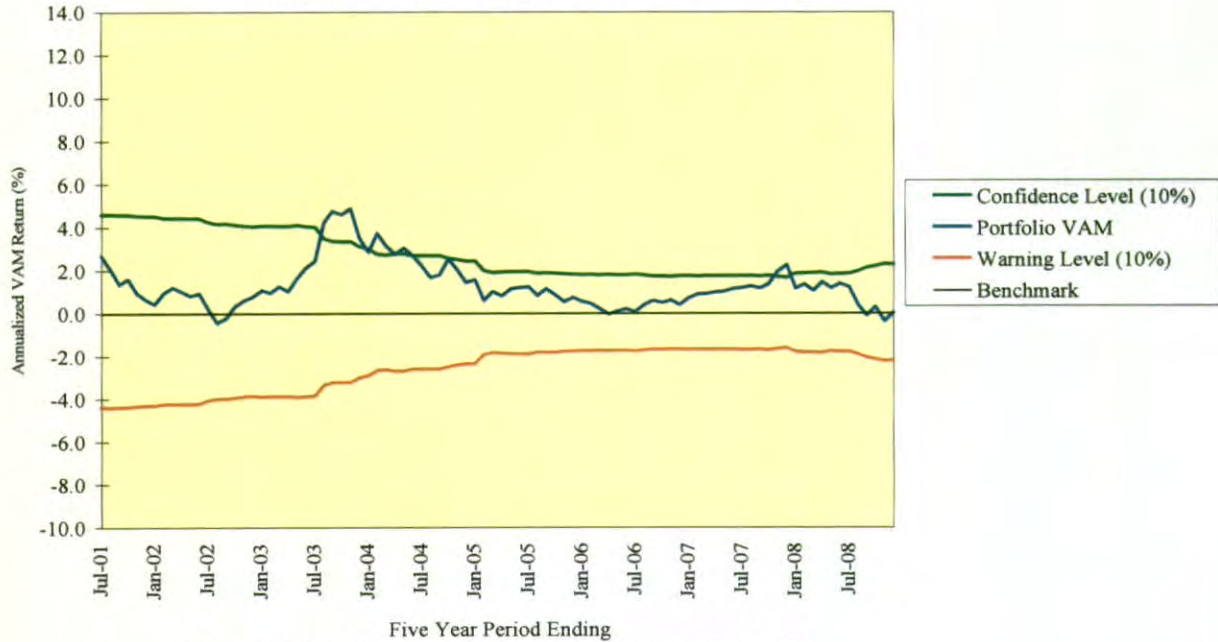
\* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

**SYSTEMATIC FINANCIAL MANAGEMENT, L.P.**  
**Periods Ending December, 2008**

**Portfolio Manager: Kevin McCreesh**

**Assets Under Management: \$210,050,561**

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



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



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

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## Small Cap Growth (R2000 Growth)

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**MCKINLEY CAPITAL MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Robert A. Gillam**

**Assets Under Management: \$134,066,318**

**Investment Philosophy**

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

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

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 2000 Growth</b>
Last Quarter	-29.8%	-27.4%
Last 1 year	-49.1	-38.5
Last 2 years	-23.1	-18.9
Last 3 years	-12.7	-9.3
Last 4 years	-9.6	-6.1
Last 5 years	-5.6	-2.4
Since Inception (1/04)	-5.6	-2.4

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 2000 Growth</b>
2008	-49.1%	-38.5%
2007	16.2	7.0
2006	12.5	13.3
2005	0.2	4.2
2004	12.2	14.3

**Staff Comments**

The portfolio underperformed its benchmark for the quarter and the year. Security selection hurt performance for both periods, particularly in the Producer Durables sector and the Technology sector.

**Recommendation**

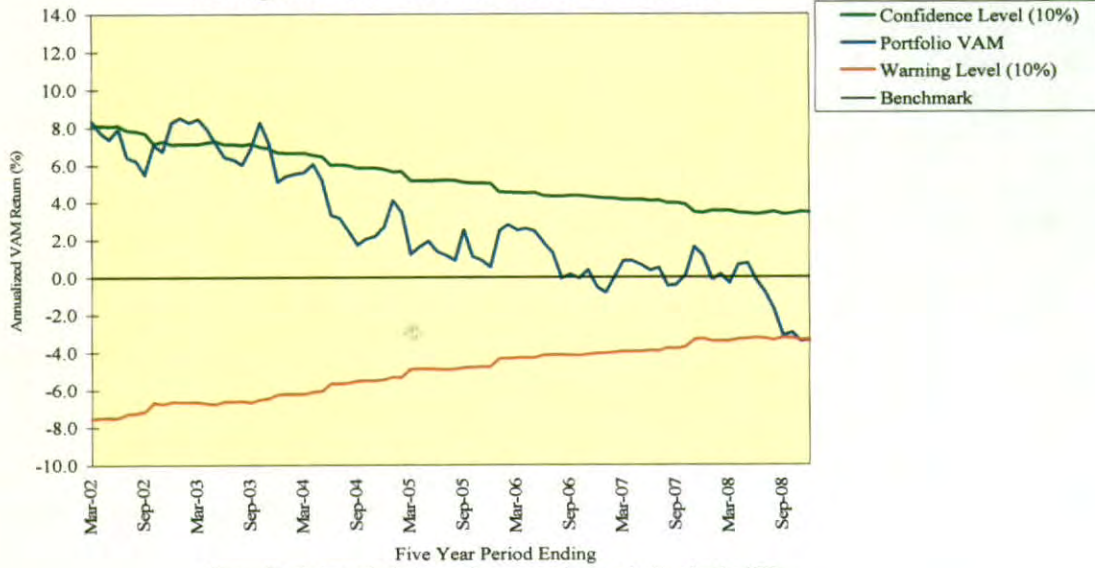
No action required.

**MCKINLEY CAPITAL MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Robert A. Gillam**

**Assets Under Management: \$134,066,318**

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



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

**NEXT CENTURY GROWTH INVESTORS, LLC**  
**Periods Ending December, 2008**

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

**Assets Under Management: \$153,750,712**

**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**

The portfolio trailed the benchmark for the quarter and for the year. For both periods, stock selection in the Producer Durables sector negatively impacted performance. The 12-month return was also hurt by security selection in the Financial Services and Technology sectors.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 2000 Growth</b>
Last Quarter	-31.5%	-27.4%
Last 1 year	-49.3	-38.5
Last 2 years	-17.5	-18.9
Last 3 years	-8.5	-9.3
Last 4 years	-1.1	-6.1
Last 5 years	0.4	-2.4
Since Inception (7/00)	-5.4	-5.1

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 2000 Growth</b>
2008	-49.3%	-38.5%
2007	34.2	7.0
2006	12.4	13.3
2005	25.2	4.2
2004	6.4	14.3

**NEXT CENTURY GROWTH INVESTORS, LLC**  
**Periods Ending December, 2008**

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

**Assets Under Management: \$153,750,712**

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



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



**TURNER INVESTMENT PARTNERS**  
**Periods Ending December, 2008**

**Portfolio Manager: William McVail**

**Assets Under Management: \$155,640,779**

**Investment Philosophy**

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

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

**Staff Comments**

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 2000 Growth</b>
Last Quarter	-27.7%	-27.4%
Last 1 year	-41.9	-38.5
Last 2 years	-18.3	-18.9
Last 3 years	-8.8	-9.3
Last 4 years	-5.3	-6.1
Last 5 years	-2.1	-2.4
Since Inception (1/04)	-2.1	-2.4

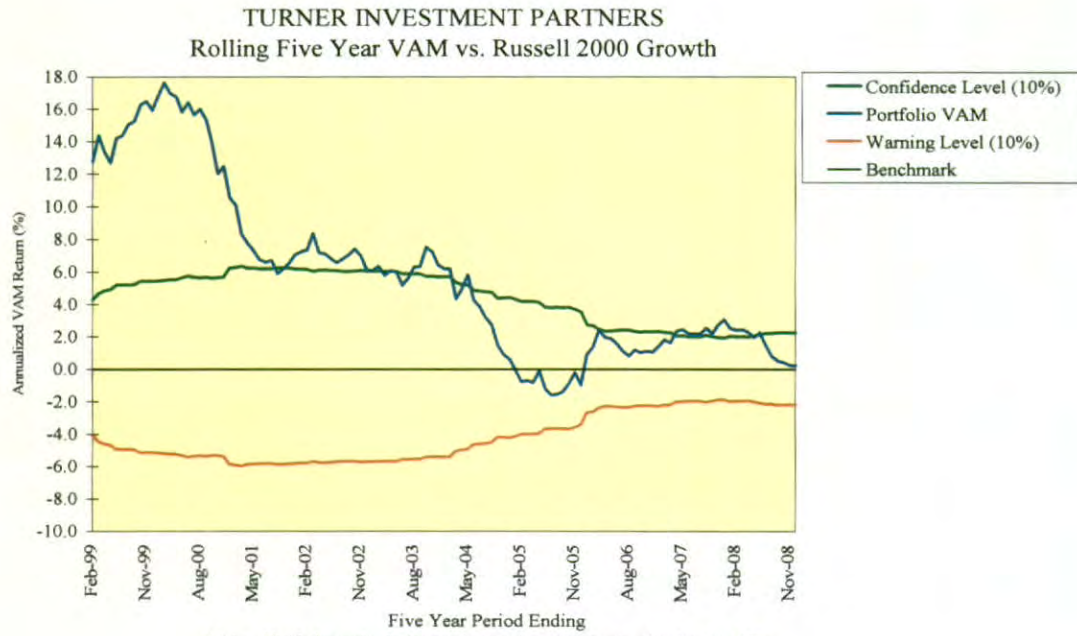
**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 2000 Growth</b>
2008	-41.9%	-38.5%
2007	14.8	7.0
2006	13.6	13.3
2005	6.2	4.2
2004	11.6	14.3

**TURNER INVESTMENT PARTNERS**  
**Periods Ending December, 2008**

**Portfolio Manager: William McVail**

**Assets Under Management: \$155,640,779**



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

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## Small Cap Value (R2000 Value)

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**GOLDMAN SACHS ASSET MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Chip Otness**

**Assets Under Management: \$95,614,798**

**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.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 2000 Value</b>
Last Quarter	-25.2%	-24.9%
Last 1 year	-26.8	-28.9
Last 2 years	-16.6	-19.9
Last 3 years	-6.5	-7.5
Last 4 years	-3.9	-4.6
Last 5 years	0.4	0.3
Since Inception (1/04)	0.4	0.3

**Calendar Year Returns**

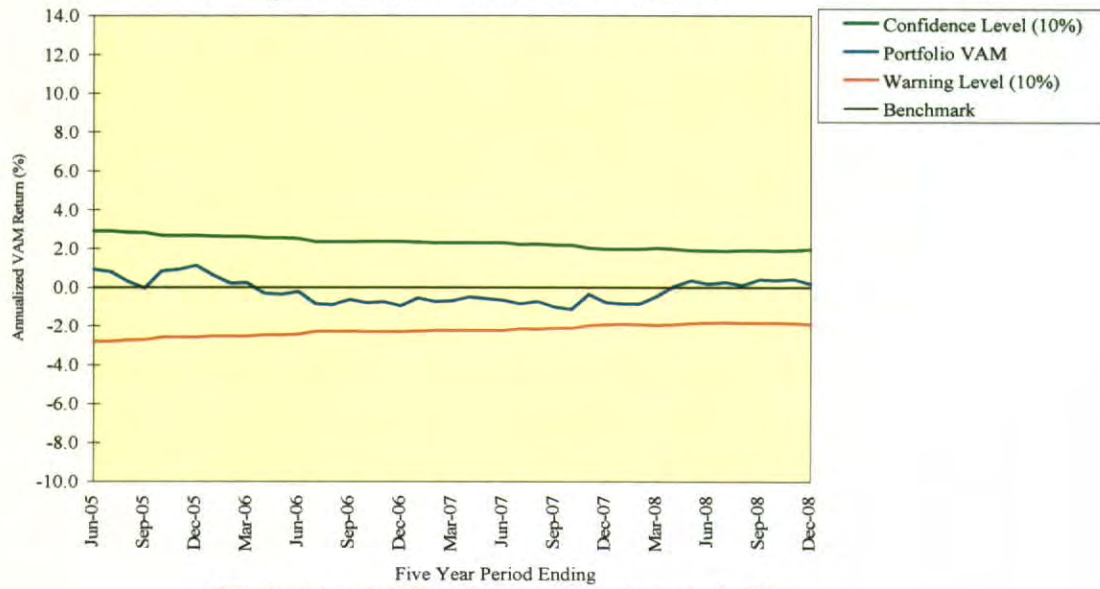
	<b>Actual</b>	<b>Russell 2000 Value</b>
2008	-26.8%	-28.9%
2007	-5.0	-9.8
2006	17.8	23.5
2005	4.1	4.7
2004	19.9	22.2

**GOLDMAN SACHS ASSET MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Chip Otness**

**Assets Under Management: \$95,614,798**

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



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



**HOTCHKIS & WILEY CAPITAL MANAGEMENT**  
Periods Ending December, 2008

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

**Assets Under Management: \$61,353,645**

**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**

The portfolio continued to trail its benchmark for the quarter and the year. For both periods, the majority of the underperformance came from negative stock selection in the Consumer Discretionary and Financial Services sectors. The portfolio has an underweight to the Financial Services sector, but several securities with overweight positions had significant double digit losses. The Consumer Discretionary sector had a quarterly benchmark return of -34.2% and a one-year return of -42.5%. Positions in stocks that lagged the benchmark had a considerable impact on the quarterly return.

Staff continues to monitor the portfolio closely.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 2000 Value</b>
Last Quarter	-36.5%	-24.9%
Last 1 year	-44.1	-28.9
Last 2 years	-32.6	-19.9
Last 3 years	-22.4	-7.5
Last 4 years	-15.2	-4.6
Last 5 years	-8.1	0.3
Since Inception (1/04)	-8.1	0.3

**Calendar Year Returns**

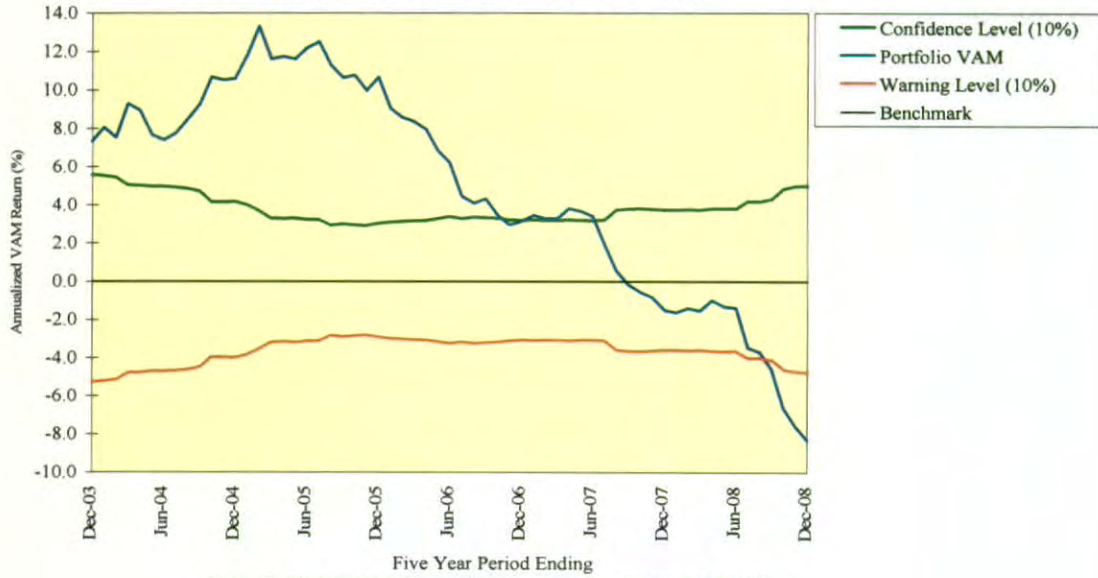
	<b>Actual</b>	<b>Russell 2000 Value</b>
2008	-44.1%	-28.9%
2007	-18.8	-9.8
2006	3.0	23.5
2005	10.4	4.7
2004	27.1	22.2

**HOTCHKIS & WILEY CAPITAL MANAGEMENT**  
**Periods Ending December, 2008**

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

**Assets Under Management: \$61,353,645**

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



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

**MARTINGALE ASSET MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: William Jacques**

**Assets Under Management: \$82,178,962**

**Investment Philosophy**

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

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

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

**Staff Comments**

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 2000 Value</b>
Last Quarter	-27.4%	-24.9%
Last 1 year	-33.8	-28.9
Last 2 years	-25.8	-19.9
Last 3 years	-14.2	-7.5
Last 4 years	-9.5	-4.6
Last 5 years	-2.6	0.3
Since Inception (1/04)	-2.6	0.3

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 2000 Value</b>
2008	-33.8%	-28.9%
2007	-16.8	-9.8
2006	14.8	23.5
2005	6.2	4.7
2004	30.8	22.2

**MARTINGALE ASSET MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: William Jacques**

**Assets Under Management: \$82,178,962**

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



**PEREGRINE CAPITAL MANAGEMENT**  
**Periods Ending December, 2008**

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

**Assets Under Management: \$117,031,697**

**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**

Peregrine trailed its benchmark for the quarter and for the year. For the quarter, stock selection and an overweight to the Producer Durables sector hurt performance. Stock selection in the Financial Services sector negatively impacted both periods. The one-year return was overwhelmingly due to the negative performance in the fourth quarter.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 2000 Value</b>
Last Quarter	-32.0%	-24.9%
Last 1 year	-39.4	-28.9
Last 2 years	-27.6	-19.9
Last 3 years	-15.7	-7.5
Last 4 years	-9.9	-4.6
Last 5 years	-4.0	0.3
Since Inception (7/00)	4.9	6.7

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 2000 Value</b>
2008	-39.4%	-28.9%
2007	-13.4	-9.8
2006	14.3	23.5
2005	10.1	4.7
2004	23.6	22.2

**PEREGRINE CAPITAL MANAGEMENT**  
**Periods Ending December, 2008**

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

**Assets Under Management: \$117,031,697**

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



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

**RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Jacob Hurwitz and Kent Kelley**

**Assets Under Management: \$37,528,219**

**Investment Philosophy**

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

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

**Staff Comments**

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 2000 Value</b>
Last Quarter	-24.6%	-24.9%
Last 1 year	-35.5	-28.9
Last 2 years	-24.6	-19.9
Last 3 years	-12.1	-7.5
Last 4 years	-8.1	-4.6
Last 5 years	-2.2	0.3
Since Inception (1/04)	-2.2	0.3

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 2000 Value</b>
2008	-35.5%	-28.9%
2007	-11.8	-9.8
2006	19.4	23.5
2005	4.8	4.7
2004	25.8	22.2

**RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Jacob Hurwitz and Kent Kelley**

**Assets Under Management: \$37,528,219**

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



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



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## **Semi-Passive and Passive**

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## **Semi-Passive and Passive**

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**BARCLAYS GLOBAL INVESTORS**  
**Periods Ending December, 2008**

**Portfolio Manager: Russ Koesterich**

**Assets Under Management: \$2,142,399,423**

**Investment Philosophy – Semi-Passive Style**

The Core Alpha Model desegregates individual equity returns for each of the 3500 stocks in their universe into fundamental, expectational, and technical components. The fundamental factors look at measures of underlying company value including earnings, book value, cash flow, and sales. These factors help identify securities that trade at prices below their true economic value. The expectational factors incorporate future earnings and growth rate forecasts made by over 2500 security analysts. The technical factors provide a measure of recent changes in company fundamentals, consensus expectations, and performance. Estimated alphas are then calculated and are used in a portfolio optimization algorithm to identify the optimal portfolio.

**Staff Comments**

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Manager Benchmark*</b>
Last Quarter	-22.1%	-22.5%
Last 1 year	-37.1	-37.6
Last 2 years	-19.8	-18.8
Last 3 years	-9.4	-8.7
Last 4 years	-5.4	-5.1
Last 5 years	-2.2	-2.0
Since Inception (1/95)	6.5	6.0

**Calendar Year Returns**

	<b>Actual</b>	<b>Manager Benchmark*</b>
2008	-37.1%	-37.6%
2007	2.2	5.8
2006	15.6	15.5
2005	7.6	6.3
2004	11.7	11.4

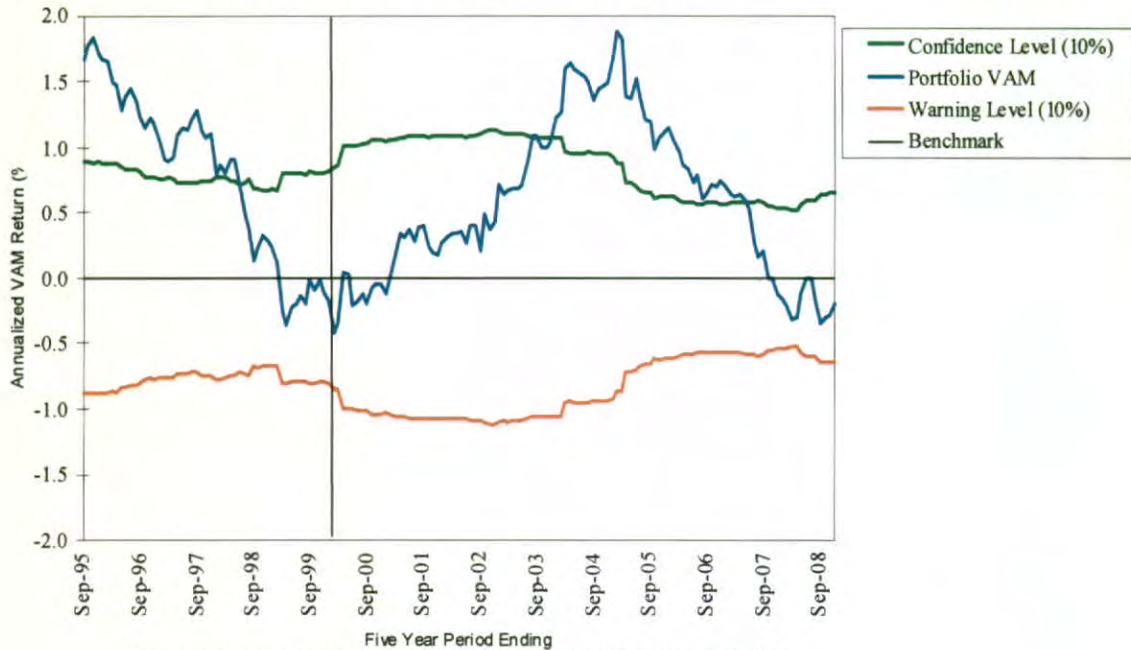
\*Russell 1000 since 1/1/04, Completeness Fund through 12/31/03.

**BARCLAYS GLOBAL INVESTORS**  
**Periods Ending December, 2008**

**Portfolio Manager: Russ Koesterich**

**Assets Under Management: \$2,142,399,423**

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



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

**FRANKLIN PORTFOLIO ASSOCIATES**  
**Periods Ending December, 2008**

**Portfolio Manager: Tony Garvin**

**Assets Under Management: \$1,693,580,495**

**Investment Philosophy – Semi-Passive Style**

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

**Staff Comments**

Effective January 1, 2009 Franklin merged with the active quantitative equity units of Mellon Capital Management Corporation, an affiliate of Franklin's. Franklin will be combined under one common structure at Mellon Capital, and will now be Mellon Capital Management. Currently, they continue to operate under their previous structure and are working through the details of what the combined entity will be throughout 2009.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Manager Benchmark*</b>
Last Quarter	-22.7%	-22.5%
Last 1 year	-37.6	-37.6
Last 2 years	-20.0	-18.8
Last 3 years	-9.3	-8.7
Last 4 years	-5.7	-5.1
Last 5 years	-2.4	-2.0
Since Inception (1/95)	5.6	6.0

**Calendar Year Returns**

	<b>Actual</b>	<b>Manager Benchmark*</b>
2008	-37.6%	-37.6%
2007	2.5	5.8
2006	16.5	15.5
2005	6.1	6.3
2004	11.7	11.4

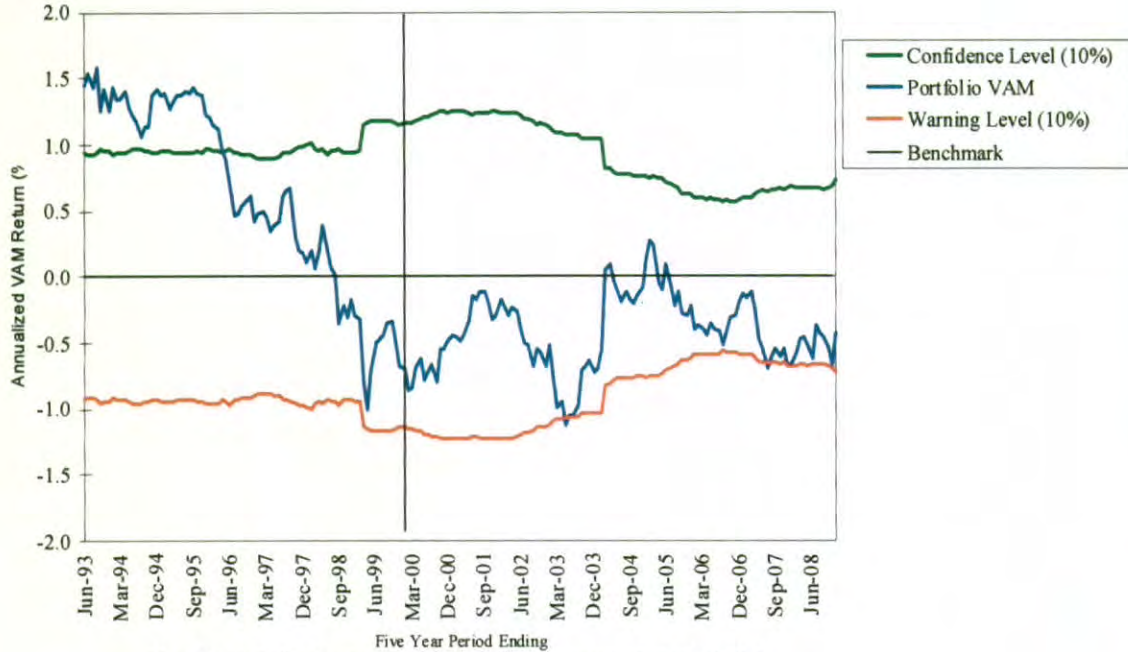
\*Russell 1000 since 1/1/04, Completeness Fund through 12/31/03.

**FRANKLIN PORTFOLIO ASSOCIATES**  
**Periods Ending December, 2008**

**Portfolio Manager: Tony Garvin**

**Assets Under Management: \$1,693,580,495**

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



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



**J.P. MORGAN INVESTMENT MANAGEMENT, INC.**  
**Periods Ending December, 2008**

**Portfolio Manager: Ralph Zingone and Terance Chen    Assets Under Management: \$1,888,700,389**

**Investment Philosophy – Semi-Passive Style**

J.P. Morgan believes that superior stock selection is necessary to achieve excellent investment results. To accomplish this objective, they use fundamental research and a systematic valuation model. Analysts forecast the earnings and dividends for the 650 stock universe and enter them into a stock valuation model that calculates an expected return for each security. The stocks are ranked according to their expected return within their economic sectors. The most undervalued stocks are placed in the first quintile. The portfolio includes stocks from the first four quintiles, always favoring the highest ranked stocks whenever possible. Stocks in the fifth quintile are sold. In addition, the portfolio closely approximates the sector, style, and security weightings of the index chosen by the plan sponsor. The firm remains fully invested at all times.

**Staff Comments**

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Manager Benchmark*</b>
Last Quarter	-22.1%	-22.5%
Last 1 year	-37.1	-37.6
Last 2 years	-18.7	-18.8
Last 3 years	-8.4	-8.7
Last 4 years	-5.2	-5.1
Last 5 years	-2.1	-2.0
Since Inception (1/95)	6.1	6.0

**Calendar Year Returns**

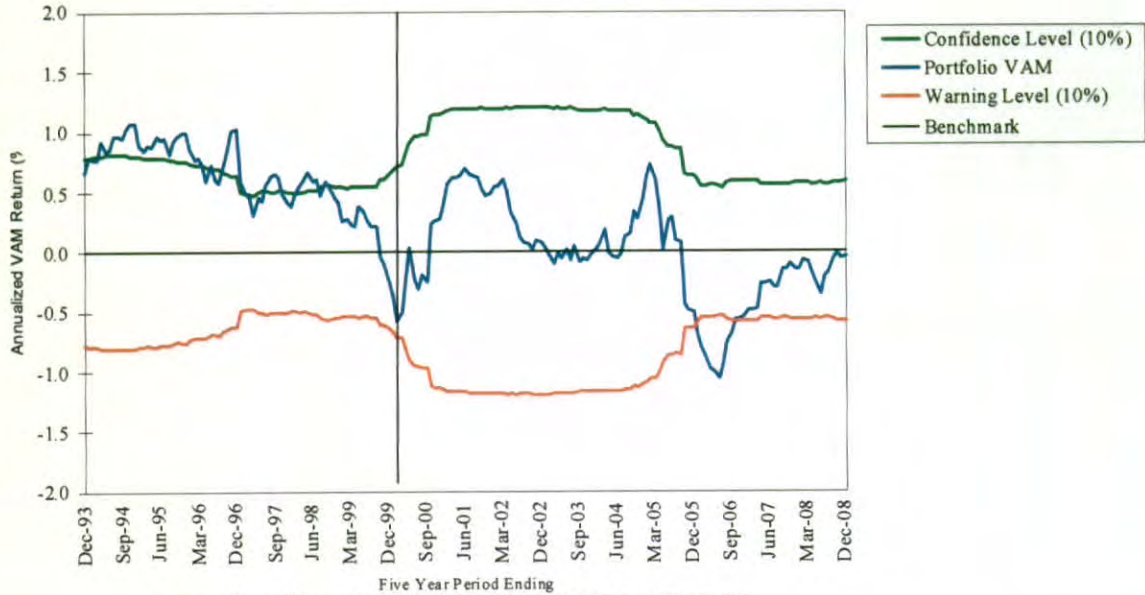
	<b>Actual</b>	<b>Manager Benchmark*</b>
2008	-37.1%	-37.6%
2007	5.1	5.8
2006	16.5	15.5
2005	4.7	6.3
2004	11.7	11.4

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

**J.P. MORGAN INVESTMENT MANAGEMENT, INC.**  
**Periods Ending December, 2008**

**Portfolio Manager: Ralph Zingone and Terance Chen    Assets Under Management: \$1,888,700,389**

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



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

**BARCLAYS GLOBAL INVESTORS**  
**Periods Ending December, 2008**

**Portfolio Manager: Amy Schioldager**

**Assets Under Management: \$6,348,384,602**

**Investment Philosophy – Passive Style**

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

**Staff Comments**

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Manager Benchmark*</b>
Last Quarter	-22.7%	-22.8%
Last 1 year	-37.1	-37.3
Last 2 years	-18.7	-18.8
Last 3 years	-8.5	-8.6
Last 4 years	-5.0	-5.1
Last 5 years	-1.9	-2.0
Since Inception (7/95)	5.5	5.4

**Calendar Year Returns**

	<b>Actual</b>	<b>Manager Benchmark*</b>
2008	-37.1%	-37.3%
2007	5.1	5.1
2006	15.8	15.7
2005	6.2	6.1
2004	12.0	11.9

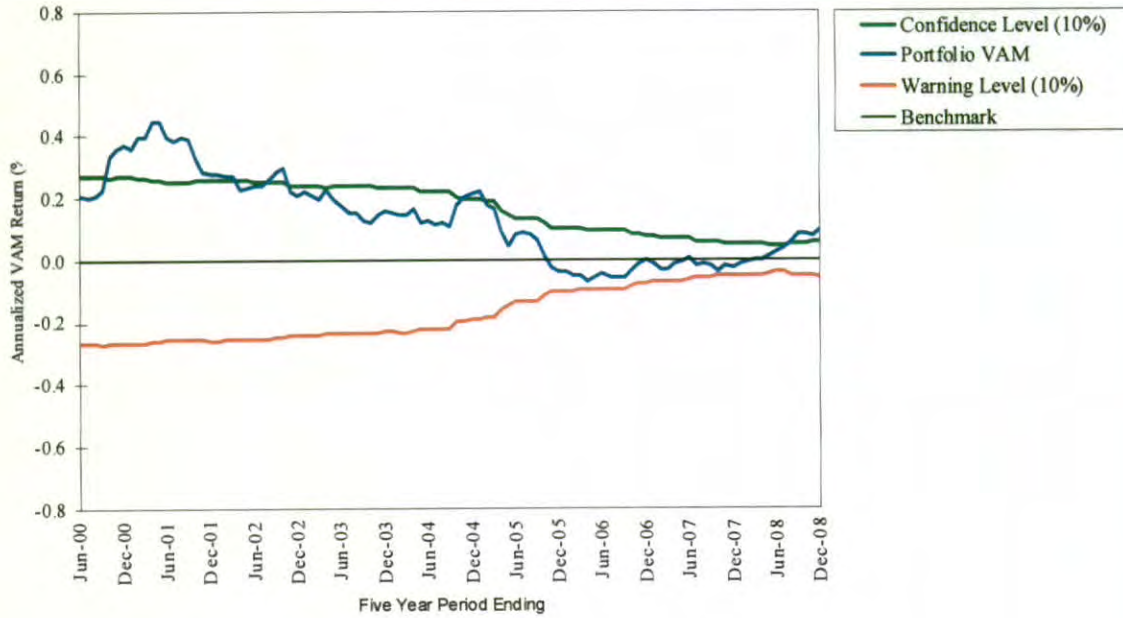
\* The Domestic Equity Asset Class Target is the Russell 3000 Index effective 10/1/03. From Account inception to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments.

**BARCLAYS GLOBAL INVESTORS**  
**Periods Ending December, 2008**

**Portfolio Manager: Amy Schioldager**

**Assets Under Management: \$6,348,384,602**

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



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# STATE BOARD OF INVESTMENT

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## Bond Manager Evaluation Reports

Fourth Quarter, 2008

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## Bond Managers

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

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
<b>Active Managers</b>												
Aberdeen	-9.4	4.6	-14.7	5.2	-1.9	5.5	0.4	4.7	4.1	6.4	\$855.3	9.9%
Dodge & Cox	2.6	4.6	0.1	5.2	3.6	5.5	3.5	4.7	6.4	6.4	\$877.9	10.2%
PIMCO	0.3	4.6							0.3	4.6	\$750.8	8.7%
RiverSource	-2.7	4.6	-4.9	5.2	2.0	5.5	2.7	4.7	5.3	6.2	\$730.6	8.5%
Western	-1.5	4.6	-6.8	5.2	1.2	5.5	2.6	4.7	9.3	8.6	\$1,125.1	13.1%
<b>Active Mgr. Aggregate</b>	<b>-2.3</b>	<b>4.6</b>	<b>-7.3</b>	<b>5.2</b>	<b>1.0</b>	<b>5.5</b>	<b>2.2</b>	<b>4.7</b>	<b>8.4</b>	<b>8.6</b>	<b>\$4,339.7</b>	<b>50.3%</b>
<b>Semi-Passive Managers</b>												
BlackRock	1.9	4.6	-1.1	5.2	3.3	5.5	3.4	4.7	6.0	6.3	\$1,424.1	16.5%
Goldman	0.4	4.6	-1.2	5.2	3.4	5.5	3.6	4.7	6.0	6.2	\$1,422.0	16.5%
Neuberger	0.0	4.6	-1.9	5.2	2.9	5.5	3.2	4.7	7.1	7.4	\$1,435.2	16.6%
<b>Semi-Passive Mgr. Aggregate</b>	<b>0.8</b>	<b>4.6</b>	<b>-1.4</b>	<b>5.2</b>	<b>3.2</b>	<b>5.5</b>	<b>3.4</b>	<b>4.7</b>	<b>7.2</b>	<b>7.4</b>	<b>\$4,281.3</b>	<b>49.7%</b>
<b>Historical Aggregate (2)</b>	<b>-0.7</b>	<b>4.6</b>	<b>-4.2</b>	<b>5.2</b>	<b>2.1</b>	<b>5.5</b>	<b>2.8</b>	<b>4.7</b>	<b>8.3</b>	<b>8.7</b>	<b>\$8,620.97</b>	<b>100.0%</b>
Barclays Capital Aggregate (3)		4.6		5.2		5.5		4.7		8.7		

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

(2) Includes performance of terminated managers.

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

**COMBINED RETIREMENT FUNDS  
BOND MANAGERS  
Calendar Year Returns**

	2008		2007		2006		2005		2004	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>Active Managers</b>										
Aberdeen	-14.7	5.2	5.6	7.0	4.8	4.3	2.7	2.4	5.1	4.3
Dodge & Cox	0.1	5.2	5.3	7.0	5.5	4.3	2.5	2.4	4.1	4.3
RiverSource	-4.9	5.2	6.6	7.0	4.7	4.3	2.6	2.4	5.1	4.3
Western	-6.8	5.2	5.4	7.0	5.4	4.3	2.7	2.4	6.6	4.3
<b>Active Mgr. Aggregate</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>2.9</b>	<b>2.4</b>	<b>5.3</b>	<b>4.3</b>
<b>Semi-Passive Managers</b>										
BlackRock	-1.1	5.2	6.8	7.0	4.3	4.3	2.7	2.4	4.5	4.3
Goldman	-1.2	5.2	7.0	7.0	4.5	4.3	2.8	2.4	5.1	4.3
Neuberger	-1.9	5.2	6.3	7.0	4.5	4.3	2.5	2.4	4.6	4.3
<b>Semi-Passive Mgr. Aggregate</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>2.6</b>	<b>2.4</b>	<b>4.7</b>	<b>4.3</b>
<b>Historical Aggregate</b>										
Barclays Capital Aggregate		5.2		7.0		4.3		2.4		4.3

**ABERDEEN ASSET MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Warren Davis**

**Assets Under Management: \$855,344,580**

**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 1400 bps during the 4<sup>th</sup> quarter and by 1990 bps over the last 12 months. Overweights to the CMBS and non-Agency mortgage sectors were drags on performance in 4Q08 as well as the previous 12 months. Mark-to-market impact of non-Agency mortgage holdings contributed just over 60% of the 4Q08 underperformance, and another 20% of underperformance was due to holdings in super-senior AAA CMBS bonds. Also, SBI's portfolio manager at Aberdeen, Warren Davis, has left the firm. Staff is monitoring the situation closely.

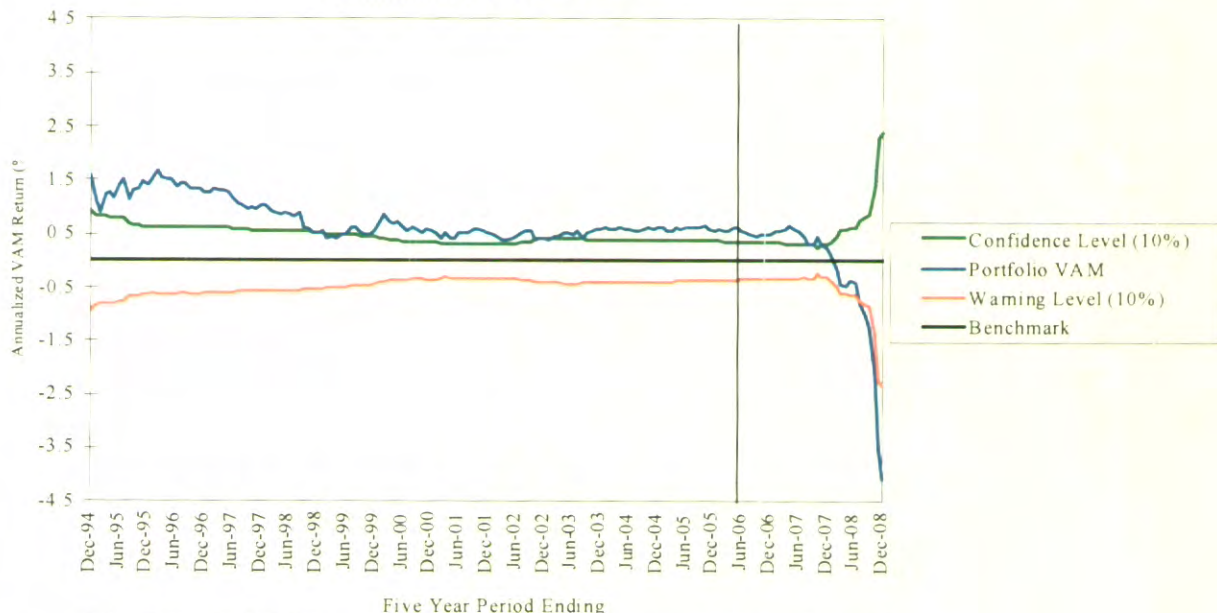
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-9.4%	4.6%
Last 1 year	-14.7	5.2
Last 2 years	-5.1	6.1
Last 3 years	-1.9	5.5
Last 4 years	-0.8	4.7
Last 5 years	0.4	4.7
Since Inception (2/00)	4.1	6.4

**Recommendations**

No action required.

ABERDEEN ASSET MANAGEMENT  
 Rolling Five Year VAM



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

## DODGE & COX INVESTMENT MANAGERS

Periods Ending December, 2008

**Portfolio Manager:** Dana Emery

**Assets Under Management:** \$877,877,692

### 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 200 bps during the 4<sup>th</sup> quarter, and by 510 bps over the last 12 months. The portfolio's corporate sector overweight was the main detractor of returns, as that sector underperformed amid a very difficult market environment. A short portfolio duration also detracted from returns for the quarter and the last 12 months. Over the last year, underperformance was driven by corporate and Agency MBS sector overweights. Going forward, Staff believes the Dodge & Cox portfolio is well positioned to benefit from a return to normalcy in the broader fixed income markets. A recent recovery in the corporate bond sector, as well as the Agency MBS sector, have already led a rebound in the Dodge & Cox portfolio.

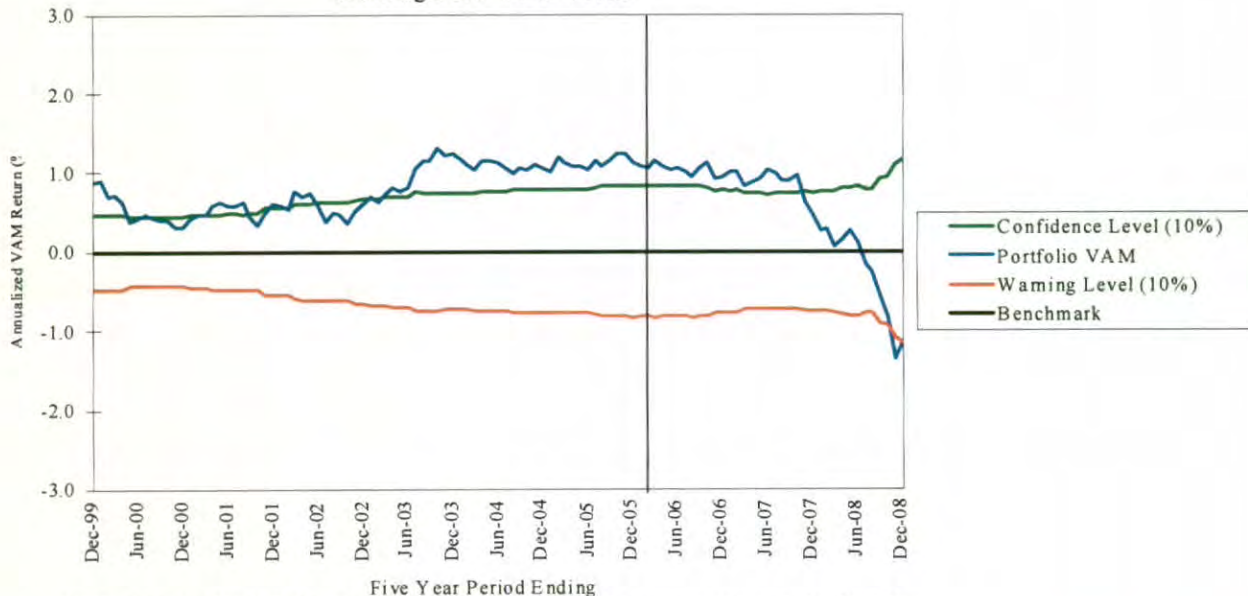
### Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.6%	4.6%
Last 1 year	0.1	5.2
Last 2 years	2.7	6.1
Last 3 years	3.6	5.5
Last 4 years	3.3	4.7
Last 5 years	3.5	4.7
Since Inception (2/00)	6.4	6.4

### Recommendations

No action required.

DODGE & COX INVESTMENT MANAGERS  
Rolling Five Year VAM



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

**PACIFIC INVESTMENT MANAGEMENT CO. LLC (PIMCO)**  
**Periods Ending December, 2008**

**Portfolio Manager: Bill Gross**

**Assets Under Management: \$750,792,305**

**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 was hired as an active fixed income manager on September 11, 2008. They were funded with the portfolio previously invested by Morgan Stanley, whom the SBI terminated on September 10, 2008. In the 4<sup>th</sup> quarter, PIMCO underperformed the benchmark by 430 bp. The main driver of underperformance was holdings in Alt-A non-Agency mortgage bonds as well as security selection in the corporate sector. A short-duration stance also negatively impacted performance. PIMCO has been managing the formerly Morgan Stanley portfolio so as to avoid locking in losses on assets that are currently being priced well below their fundamental value. Therefore, staff is confident in PIMCO's ability to restore this portfolio to positive performance.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	0.3%	4.6%
Last 1 year	N/A	N/A
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 (9/08)	N/A	N/A

**Recommendations**

No action required.

**VAM Graph will be drawn for period ending 3/31/2010.**

**RIVERSOURCE INVESTMENTS**  
**Periods Ending December, 2008**

**Portfolio Manager: Colin Lundgren**

**Assets Under Management: \$730,613,268**

**Investment Philosophy**

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

**Staff Comments**

RiverSource underperformed the benchmark by 730 bps for the 4<sup>th</sup> quarter and by 1010 bps over the last 12 months. An overweight exposure to the corporate bond and non-Agency mortgage sectors were the main drivers of underperformance, as these sectors continued their weakness in 4Q08. A short duration position also detracted from returns, as interest rates declined. These same strategies detracted from returns over the last 12 months. Going forward, the portfolio is well positioned for a "bounce" in performance as the credit crisis abates. The portfolio's CMBS and RMBS holdings represent significant value and have the potential to perform quite well in light of the government's purchase of mortgage securities.

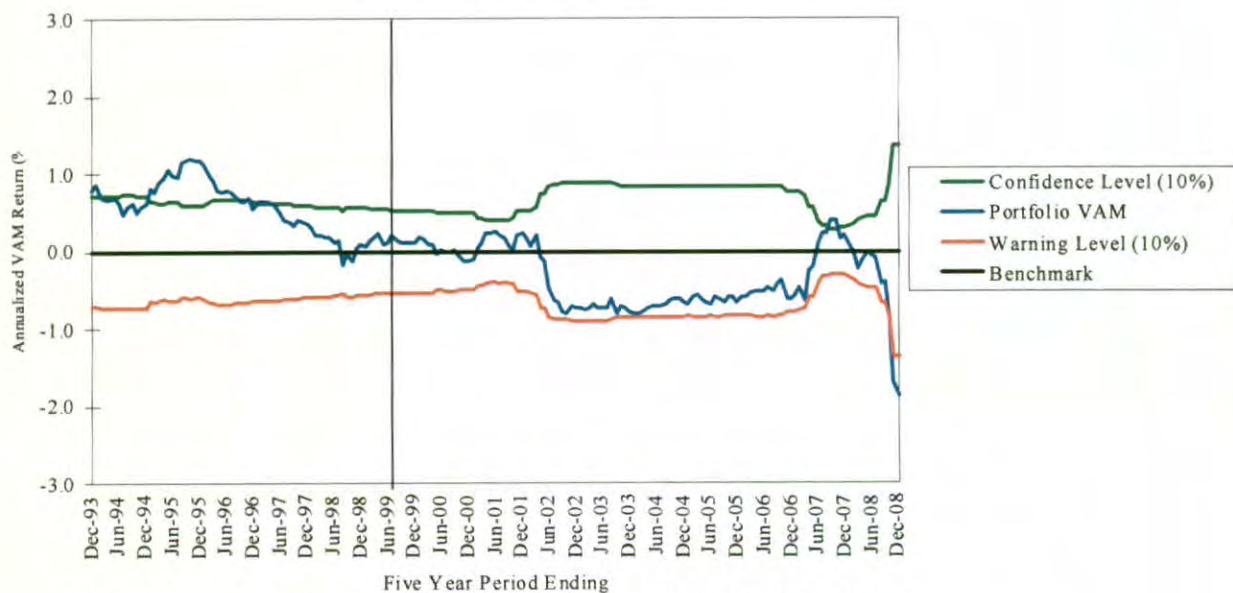
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-2.7%	4.6%
Last 1 year	-4.9	5.2
Last 2 years	0.7	6.1
Last 3 years	2.0	5.5
Last 4 years	2.1	4.7
Last 5 years	2.7	4.7
Since Inception (7/93)	5.3	6.2

**Recommendations**

No action required.

**RIVERSOURCE INVESTMENTS - FIXED INCOME**  
**Rolling Five Year VAM**



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

**WESTERN ASSET MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Ken Leech**

**Assets Under Management: \$1,125,063,034**

**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 610 bps during the 4<sup>th</sup> quarter and by 1200 bps over the last 12 months. An overweight to the financial sector and Agency debentures significantly impacted performance to the downside. Mortgage-backed securities were the main driver of underperformance in 4Q08 and over the last 12 months. A long duration stance was a positive contributor to returns in 4Q08 and over the last 12 months as Treasury yields plummeted. Currently, the portfolio's non-Agency mortgage and lower quality corporate bond holdings are being priced at deep discounts due to significant selling pressure from firms deleveraging their portfolios. Staff expects the portfolio to outperform once this selling pressure abates and fundamental pricing returns to the market.

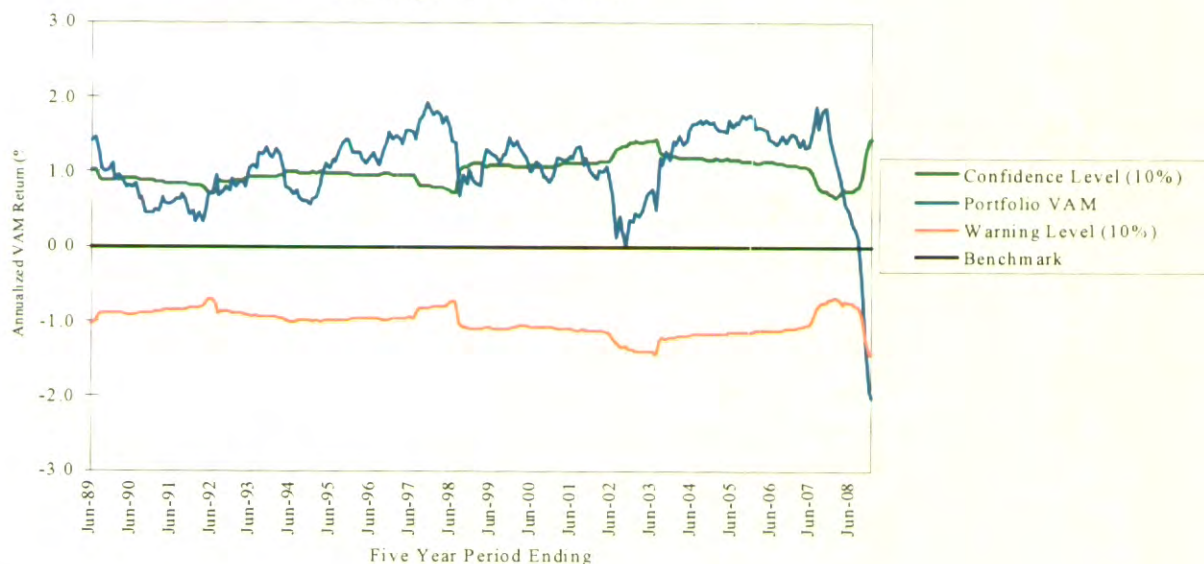
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-1.5%	4.6%
Last 1 year	-6.8	5.2
Last 2 years	-0.9	6.1
Last 3 years	1.2	5.5
Last 4 years	1.6	4.7
Last 5 years	2.6	4.7
Since Inception (7/84)	9.3	8.6

**Recommendations**

No action required.

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



**BLACKROCK, INC.**  
**Periods Ending December, 2008**

**Portfolio Manager: Keith Anderson**

**Assets Under Management: \$1,424,075,919**

**Investment Philosophy**

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

**Staff Comments**

Blackrock underperformed the benchmark by 270 bps during the 4<sup>th</sup> quarter and by 630 bps over the last 12 months. An overweight to the CMBS and ABS sectors were drags on performance, as these sectors underperformed. Non-Agency MBS also detracted from performance in 4Q08 as well as the last 12 months. Corporate security selection also detracted from 4Q08 performance. Staff is confident that the non-Agency mortgage and CMBS securities in the portfolio offer enough credit enhancement to withstand worst-case scenario defaults, and therefore remain confident that the portfolio is positioned to outperform once fundamental valuation returns to asset pricing.

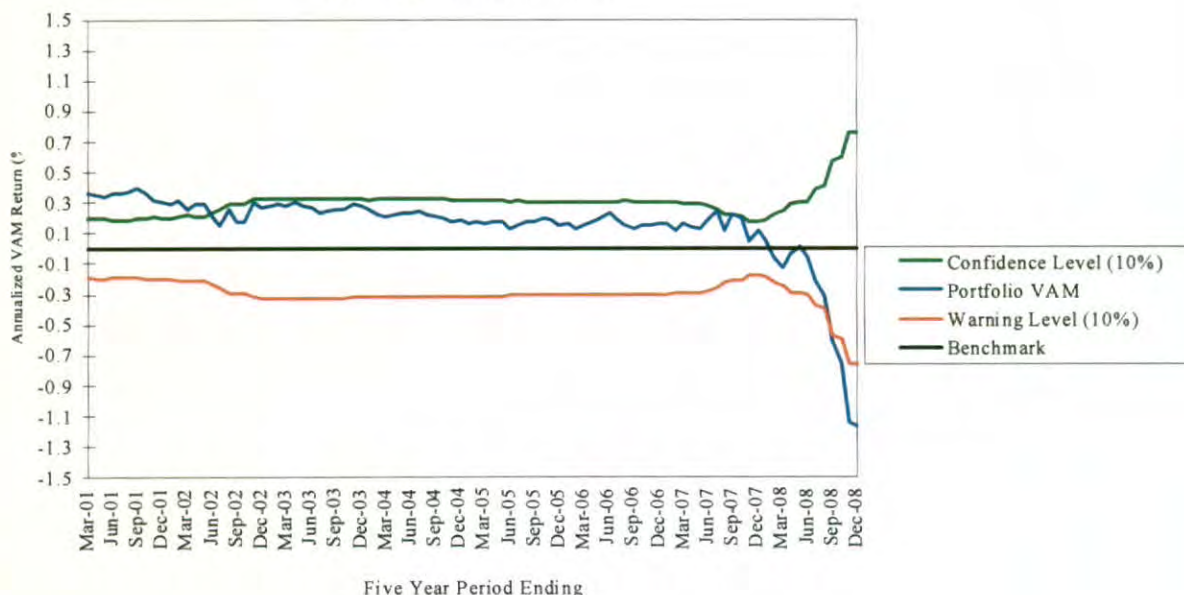
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.9%	4.6%
Last 1 year	-1.1	5.2
Last 2 years	2.8	6.1
Last 3 years	3.3	5.5
Last 4 years	3.2	4.7
Last 5 years	3.4	4.7
Since Inception (4/96)	6.0	6.3

**Recommendation**

No action required.

BLACKROCK, INC.  
 Rolling Five Year VAM





**GOLDMAN SACHS ASSET MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Jonathon Beinner**

**Assets Under Management: \$1,421,991,627**

**Investment Philosophy**

Goldman manages an enhanced index portfolio closely tracking the Lehman Aggregate. Goldman's process can be viewed as active management within a very risk-controlled framework. The firm relies primarily on sector allocation and security selection strategies to generate incremental return. To a lesser degree, term structure strategies are also implemented. Goldman combines long-term strategic investment tilts with short-term tactical trading opportunities. Strategic tilts are based on fundamental and quantitative sector research and seek to optimize the long-term risk/return profile of portfolios. Tactical trades between sectors and securities within sectors are implemented to take advantage of short-term market anomalies. Goldman was retained by the SBI in July 1993.

**Staff Comments**

Goldman Sachs underperformed the benchmark by 420 bps during the 4<sup>th</sup> quarter and by 640 bps over the last 12 months. Security selection of AAA super-senior non-Agency ARMs (Alt-A) was the main driver of underperformance for the quarter and the last 12 months. Corporate bond security selection added value in 4Q08. An overall slight underweight in portfolio duration also detracted from returns, as interest rates declined throughout the quarter and the last 12 months. Going forward, Staff is confident that Goldman Sachs' performance will rebound as the credit crisis abates. Holdings in non-Agency mortgages offer significant credit enhancement protection even in the event of extreme default rates.

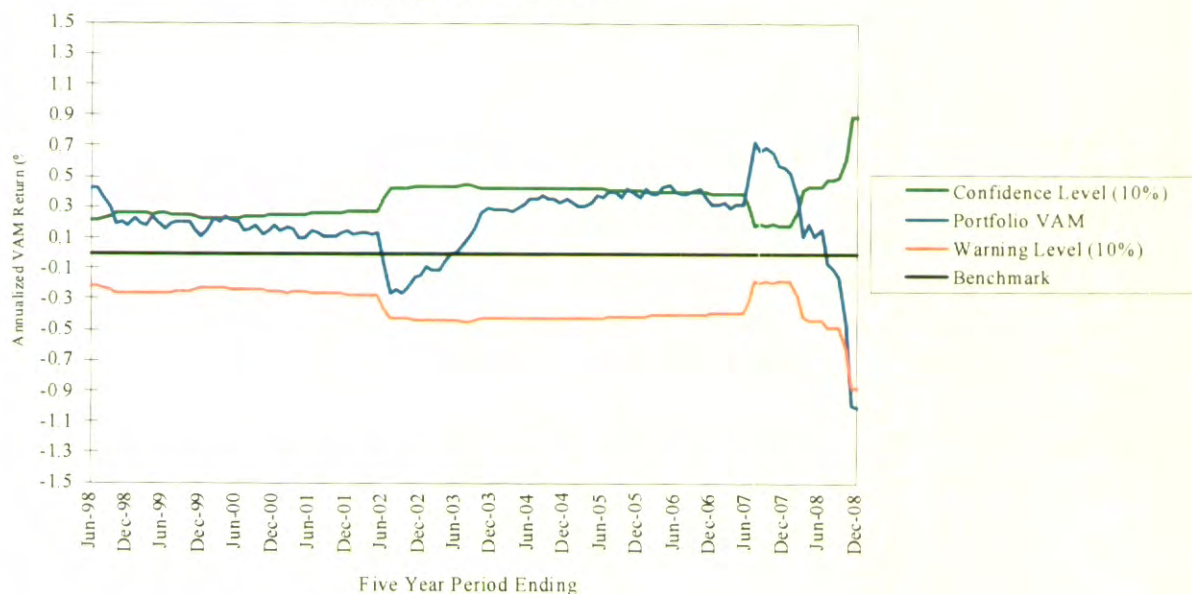
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	0.4%	4.6%
Last 1 year	-1.2	5.2
Last 2 years	2.8	6.1
Last 3 years	3.4	5.5
Last 4 years	3.2	4.7
Last 5 years	3.6	4.7
Since Inception (7/93)	6.0	6.2

**Recommendations**

No action required.

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



**NEUBERGER INVESTMENT MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Andrew Johnson**

**Assets Under Management: \$1,435,208,959**

**Investment Philosophy**

Neuberger (formerly Lincoln) manages an enhanced index portfolio closely tracking the Barclay's Capital Aggregate. 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 underperformed the benchmark by 460 bps during the 4<sup>th</sup> quarter, and by 710 bps over the last 12 months. Decisions to overweight non-Agency hybrid ARMs and CMBS were primary causes of underperformance. Floating-rate ABS held as cash equivalents also detracted from returns. These same decisions drove underperformance over the last 12 months, as fundamentals took a back seat to volatility and forced selling pressures. Going forward, Staff believes that underperformance of the non-Agency mortgage as well as CMBS holdings has been mainly driven by mark-to-market accounting as forced selling and illiquidity in these sectors has driven yield spreads to all-time wides. These holdings are of high quality and benefit from substantial credit enhancement, so a return to par value is expected.

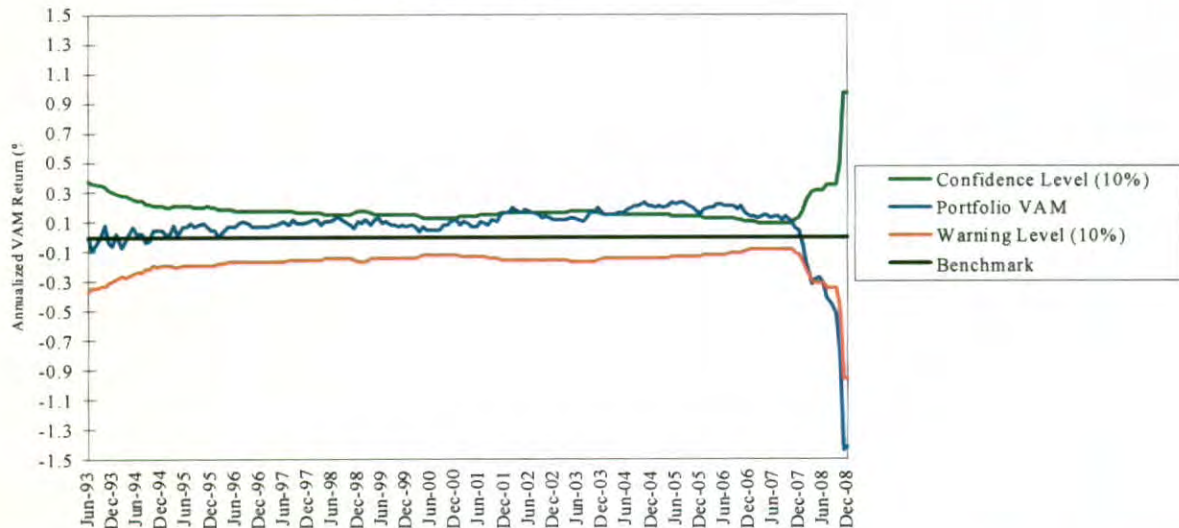
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	0.0%	4.6%
Last 1 year	-1.9	5.2
Last 2 years	2.1	6.1
Last 3 years	2.9	5.5
Last 4 years	2.8	4.7
Last 5 years	3.2	4.7
Since Inception (7/88)	7.1	7.4

**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

Fourth Quarter, 2008

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# International Managers

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

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk		
	%	%	%	%	%	%	%	%	%	%		
<b>Active Developed Markets (2)</b>												
Acadian	-25.6	-21.1	-50.5	-43.5	-10.4	-7.2			-3.9	-2.3	\$171.9	3.2%
Invesco	-17.9	-21.1	-38.8	-43.5	-5.8	-7.2	2.3	2.0	1.2	-1.2	\$199.2	3.7%
J.P. Morgan	-19.9	-21.1	-41.5	-43.5	-7.8	-7.2			-3.2	-2.3	\$163.0	3.0%
Marathon	-17.5	-21.1	-38.0	-43.5	-3.0	-7.2	5.7	2.0	7.1	3.4	\$368.6	6.8%
McKinley	-20.7	-21.1	-48.5	-43.5	-8.0	-7.2			-2.6	-2.3	\$174.2	3.2%
Pyramis (Fidelity)	-20.9	-21.1	-42.9	-43.5	-6.2	-7.2			-1.0	-2.3	\$179.3	3.3%
RiverSource	-19.1	-21.1	-40.8	-43.5	-6.3	-7.2	2.0	2.0	-3.6	-1.2	\$185.1	3.4%
UBS Global	-20.5	-21.1	-44.0	-43.5	-8.8	-7.2	0.0	2.0	5.2	4.6	\$180.6	3.3%
<b>Aggregate</b>	<b>-19.9</b>	<b>-21.1</b>	<b>-42.8</b>	<b>-43.5</b>	<b>-6.7</b>	<b>-7.2</b>	<b>1.9</b>	<b>2.0</b>	<b>4.5</b>	<b>3.4</b>	<b>\$1,622.0</b>	<b>29.9%</b>
<b>Active Emerging Markets (3)</b>												
AllianceBernstein	-29.2	-27.6	-56.0	-53.2	-7.3	-4.7	6.3	7.8	6.9	8.2	\$217.3	4.0%
Capital International	-22.9	-27.6	-48.9	-53.2	-1.4	-4.7	9.6	7.8	7.4	8.2	\$363.1	6.7%
Morgan Stanley	-25.9	-27.6	-54.5	-53.2	-3.6	-4.7	8.4	7.8	8.7	8.2	\$359.0	6.6%
<b>Aggregate</b>	<b>-25.7</b>	<b>-27.6</b>	<b>-53.0</b>	<b>-53.2</b>	<b>-4.0</b>	<b>-4.7</b>	<b>8.0</b>	<b>7.8</b>	<b>3.6</b>	<b>3.5</b>	<b>\$939.3</b>	<b>17.3%</b>
<b>Semi-Passive Developed Markets (2)</b>												
AQR	-20.0	-21.1	-44.0	-43.5	-8.5	-7.2			-3.1	-2.3	\$175.9	3.2%
Pyramis (Fidelity)	-21.9	-21.1	-44.0	-43.5	-5.7	-7.2			-0.8	-2.3	\$193.7	3.6%
State Street	-21.8	-21.1	-45.3	-43.5	-8.8	-7.2			-3.6	-2.3	\$175.0	3.2%
<b>Aggregate</b>	<b>-21.2</b>	<b>-21.1</b>	<b>-44.4</b>	<b>-43.5</b>	<b>-7.6</b>	<b>-7.2</b>			<b>-2.5</b>	<b>-2.3</b>	<b>\$544.6</b>	<b>10.1%</b>
<b>Passive Developed Markets (2)</b>												
State Street	-21.6	-21.1	-43.4	-43.5	-7.0	-7.2	2.2	2.0	5.1	4.9	\$2,311.3	42.7%
<b>Since 10/1/92</b>												
Equity Only (4) (6)	-21.9	-22.3	-45.3	-45.5	-6.7	-6.9	2.6	2.6	5.4	5.0	\$5,417.2	100.0%
<b>Total Program (5) (6)</b>	<b>-21.9</b>	<b>-22.3</b>	<b>-45.3</b>	<b>-45.5</b>	<b>-6.7</b>	<b>-6.9</b>	<b>2.6</b>	<b>2.6</b>	<b>5.7</b>	<b>5.0</b>	<b>\$5,417.2</b>	<b>100.0%</b>
SBI Int'l Equity Target (6)	-22.3		-45.5		-6.9		2.6		5.0			
MSCI ACWI Free ex. U.S. (7)	-22.3		-45.5		-7.0		2.6		5.3			
MSCI World ex U.S. (net)	-21.1		-43.6		-7.3		1.9		5.0			
MSCI EAFE Free (net)	-20.0		-43.4		-7.4		1.7		4.8			
MSCI Emerging Markets Free (8)	-27.6		-53.3		-4.9		7.7		6.4			

- (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**

	2008		2007		2006		2005		2004	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>Active Developed Markets (1)</b>										
Acadian	-50.5	-43.5	10.0	12.6	31.9	25.7				
Invesco	-38.8	-43.5	8.4	12.6	26.0	25.7	10.6	14.5	21.4	20.4
J.P. Morgan	-41.5	-43.5	8.8	12.6	23.1	25.7				
Marathon	-38.0	-43.5	15.4	12.6	27.5	25.7	16.4	14.5	24.6	20.4
McKinley	-48.5	-43.5	20.4	12.6	25.4	25.7				
Pyramis (Fidelity)	-42.9	-43.5	17.7	12.6	22.7	25.7				
RiverSource	-40.8	-43.5	12.4	12.6	23.6	25.7	14.2	14.5	17.5	20.4
UBS Global	-44.0	-43.5	7.7	12.6	25.6	25.7	10.0	14.5	20.1	20.4
<b>Aggregate</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>13.6</b>	<b>14.5</b>	<b>19.0</b>	<b>20.4</b>
<b>Active Emerging Markets (2)</b>										
AllianceBernstein	-56.0	-53.2	38.8	39.9	30.4	32.2	32.7	34.0	28.6	25.5
Capital International	-48.9	-53.2	38.4	39.9	35.6	32.2	38.4	34.0	19.5	25.5
Morgan Stanley	-54.5	-53.2	43.0	39.9	37.6	32.2	34.3	34.0	24.2	25.5
<b>Aggregate</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>34.9</b>	<b>34.0</b>	<b>22.9</b>	<b>25.5</b>
<b>Semi-Passive Developed Markets (1)</b>										
AQR	-44.0	-43.5	9.0	12.6	25.2	25.7				
Pyramis (Fidelity)	-44.0	-43.5	18.2	12.6	26.8	25.7				
State Street	-45.3	-43.5	9.1	12.6	27.1	25.7				
<b>Aggregate</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	-43.4	-43.5	12.9	12.6	26.0	25.7	14.6	14.5	20.6	20.4
Equity Only (3) (5)	-45.3	-45.5	17.1	16.9	27.0	26.7	16.4	16.6	20.0	20.9
<b>Total Program (4) (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>	<b>16.4</b>	<b>16.6</b>	<b>20.0</b>	<b>20.9</b>
SBI Int'l Equity Target (5)	-45.5		16.9		26.7		16.6		20.9	
MSCI ACWI Free ex. U.S. (6)	-45.5		16.7		26.7		16.6		20.9	
MSCI World ex U.S. (net)	-43.6		12.4		25.7		14.5		20.4	
MSCI EAFE Free (net)	-43.4		11.2		26.3		13.5		20.2	
MSCI Emerging Markets Free (7)	-53.3		39.4		32.2		34.0		25.5	

- (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 December, 2008**

**Portfolio Manager: John Chisholm**

**Assets Under Management: \$171,864,836**

**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**

Over the quarter and the year, stock selection in Japan and Switzerland and in the information technology, consumer discretionary and industrials sectors detracted significantly from performance. Widespread deleveraging pressured many of the larger more liquid stocks in equity markets, particularly in Japan.

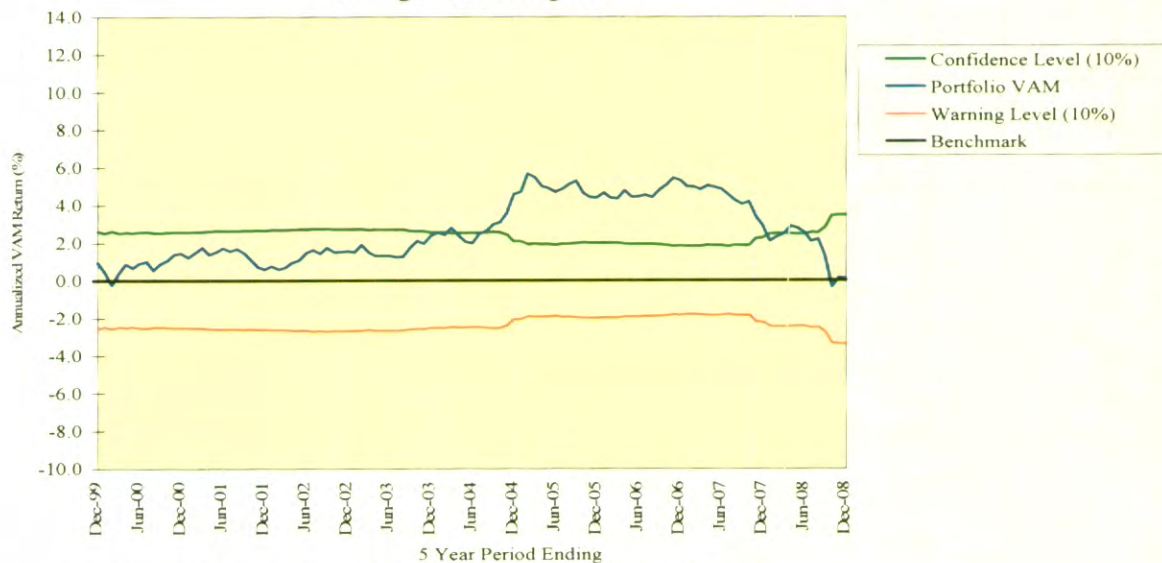
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-25.6%	-21.1%
Last 1 year	-50.5	-43.5
Last 2 years	-26.2	-20.2
Last 3 years	-10.4	-7.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	-3.9	-2.3

**Recommendations**

No action required.

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



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

**INVESCO GLOBAL ASSET MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Erik Granade**

**Assets Under Management: \$199,237,730**

**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**

The portfolio's overweight to the telecommunications sector and underweight to the materials sector, strong and weak performers respectively, added value over both the quarter and the year.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-17.9%	-21.1%
Last 1 year	-38.8	-43.5
Last 2 years	-18.6	-20.2
Last 3 years	-5.8	-7.2
Last 4 years	-2.0	-2.2
Last 5 years	2.3	2.0
Since Inception (3/00)	1.2	-1.2

**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 December, 2008**

**Portfolio Manager: James Fisher**

**Assets Under Management: \$163,031,689**

**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**

During the quarter and the year, weighting decisions overall added value, in particular the portfolio's overweight to the healthcare sector and underweight to the materials and financials sectors.

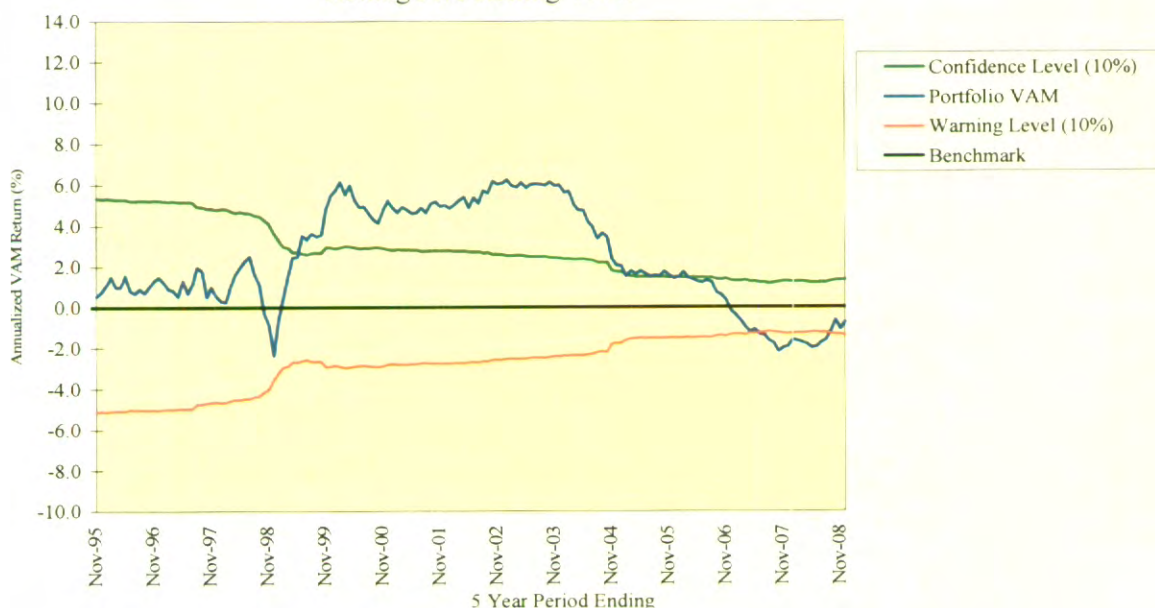
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-19.9%	-21.1%
Last 1 year	-41.5	-43.5
Last 2 years	-20.2	-20.2
Last 3 years	-7.8	-7.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	-3.2	-2.3

**Recommendations**

No action required.

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



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

# MARATHON ASSET MANAGEMENT

Periods Ending December, 2008

**Portfolio Manager:** William Arah

**Assets Under Management:** \$368,612,052

## Investment Philosophy

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

## Staff Comments

The portfolio's underweight to the financials sector and overweight to the telecommunications sector, which were the worst and best performers over the quarter, contributed significantly to recent performance. Additionally, stock selection in Japan continued to be a very strong contributor over both the quarter and the year. The Japanese portfolio continued to benefit from the underweight exposure to the export market which has suffered as a result of Yen strength and weakening global demand.

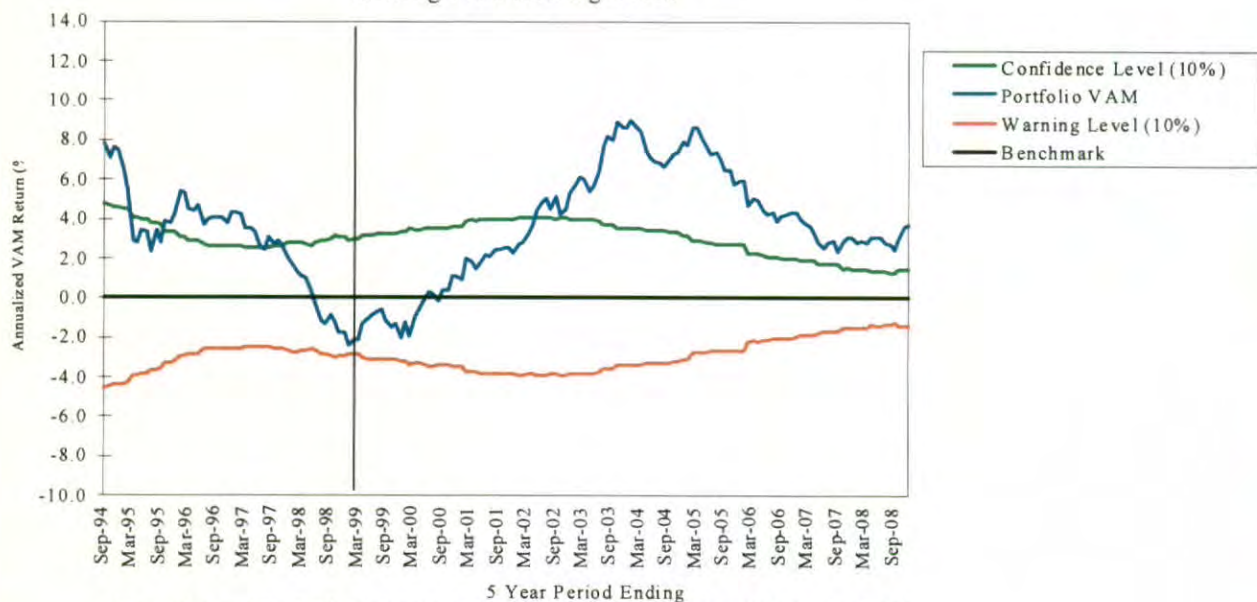
## Quantitative Evaluation

	Custom	
	Actual	Benchmark
Last Quarter	-17.5%	-21.1%
Last 1 year	-38.0	-43.5
Last 2 years	-15.4	-20.2
Last 3 years	-3.0	-7.2
Last 4 years	1.5	-2.2
Last 5 years	5.7	2.0
Since Inception (11/93)	7.1	3.4

## Recommendations

No action required.

MARATHON ASSET MANAGEMENT  
Rolling Five Rolling VAM



**MCKINLEY CAPITAL MANAGEMENT, INC.**  
**Periods Ending December, 2008**

**Portfolio Manager: Robert Gillam, Jr.**

**Assets Under Management: \$174,244,664**

**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**

An underweight position in the financials and consumer discretionary sectors and an overweight in the healthcare sector contributed to the portfolio's outperformance during the quarter. Weighting and selection decisions in the energy, materials and industrials sectors had a negative effect on performance over the year.

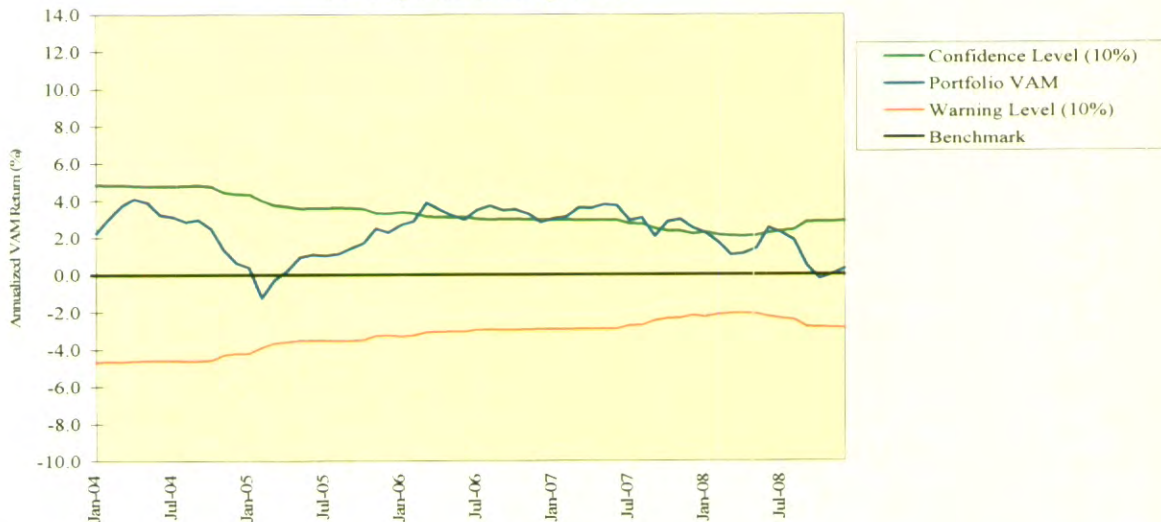
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-20.7%	-21.1%
Last 1 year	-48.5	-43.5
Last 2 years	-21.3	-20.2
Last 3 years	-8.0	-7.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	-2.6	-2.3

**Recommendations**

No action required.

MCKINLEY CAPITAL MANAGEMENT, INC.  
 Rolling Five Rolling VAM



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

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

**Portfolio Manager:** Michael Strong

**Assets Under Management:** \$179,257,297

**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**

The portfolio added value relative to the index over the quarter and the year due primarily to an underweight position in the materials sector and an overweight position in the healthcare sector.

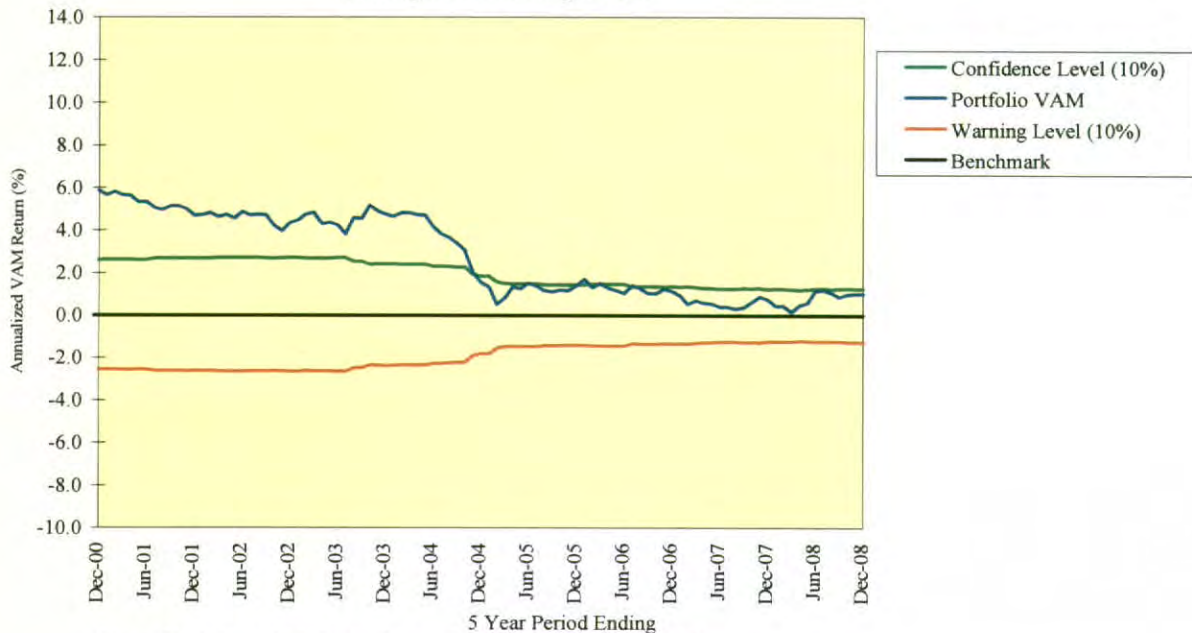
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-20.9%	-21.1%
Last 1 year	-42.9	-43.5
Last 2 years	-18.0	-20.2
Last 3 years	-6.2	-7.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	-1.0	-2.3

**Recommendations**

No action required.

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



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

**RIVERSOURCE INVESTMENTS**  
**Periods Ending December, 2008**

**Portfolio Manager: Esther Perkins**

**Assets Under Management: \$185,099,252**

**Investment Philosophy**

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

**Staff Comments**

The portfolio's underweight position in the financials sector and overweight position in the healthcare sector added value relative to the index over the quarter and the year.

Esther Perkins, who joined Threadneedle on March 17, 2008, has formally taken over as portfolio manager for the SBI's portfolio as of January 1, 2009.

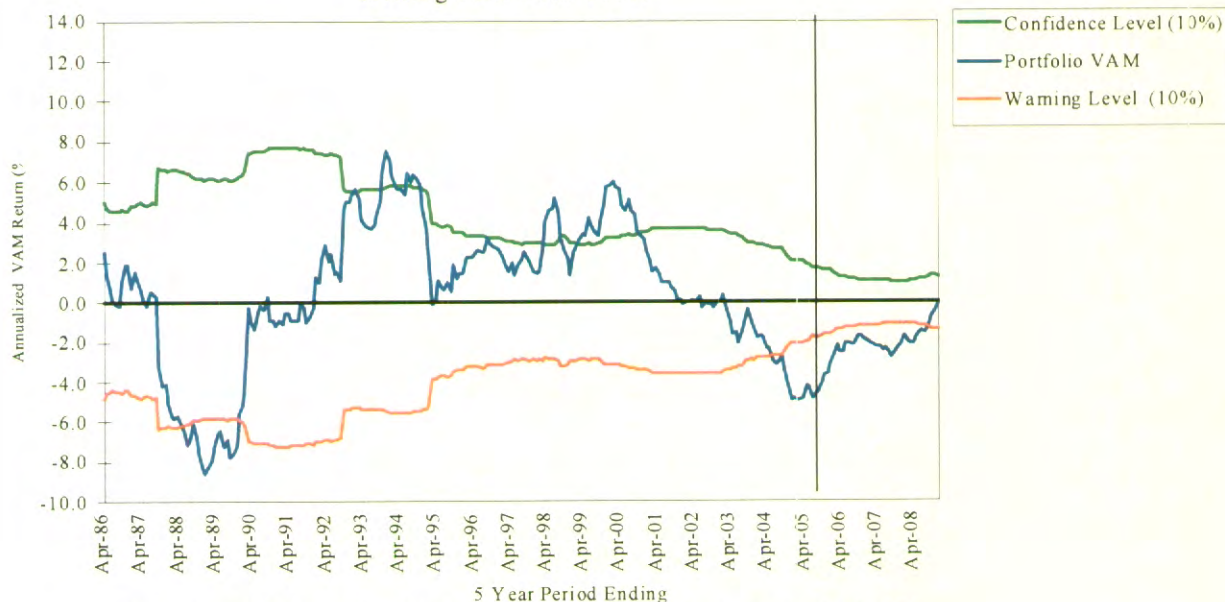
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-19.1%	-21.1%
Last 1 year	-40.8	-43.5
Last 2 years	-18.5	-20.2
Last 3 years	-6.3	-7.2
Last 4 years	-1.6	-2.2
Last 5 years	2.0	2.0
Since Inception (3/00)	-3.6	-1.2

**Recommendations**

No action required.

RIVERSOURCE INVESTMENTS  
 Rolling Five Year VAM



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

**UBS GLOBAL ASSET MANAGEMENT, INC.**  
**Periods Ending December, 2008**

**Portfolio Manager:** Nick Irish

**Assets Under Management:** \$180,617,437

**Investment Philosophy**

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

**Staff Comments**

Stock selection in Japan has continued to have a significant negative effect on the performance of the portfolio, most recently over the quarter and the year. This effect was offset during the quarter by stock selection in the energy, consumer discretionary and information technology sectors.

During the quarter, additional senior investment team professionals left the firm. Jill Dodds, Research Director for European Equities, departed, as did Niraj Bhajwat, who was one of the six portfolio managers on the Global Equity portfolio management team. He was responsible for emerging markets equities.

**Quantitative Evaluation**

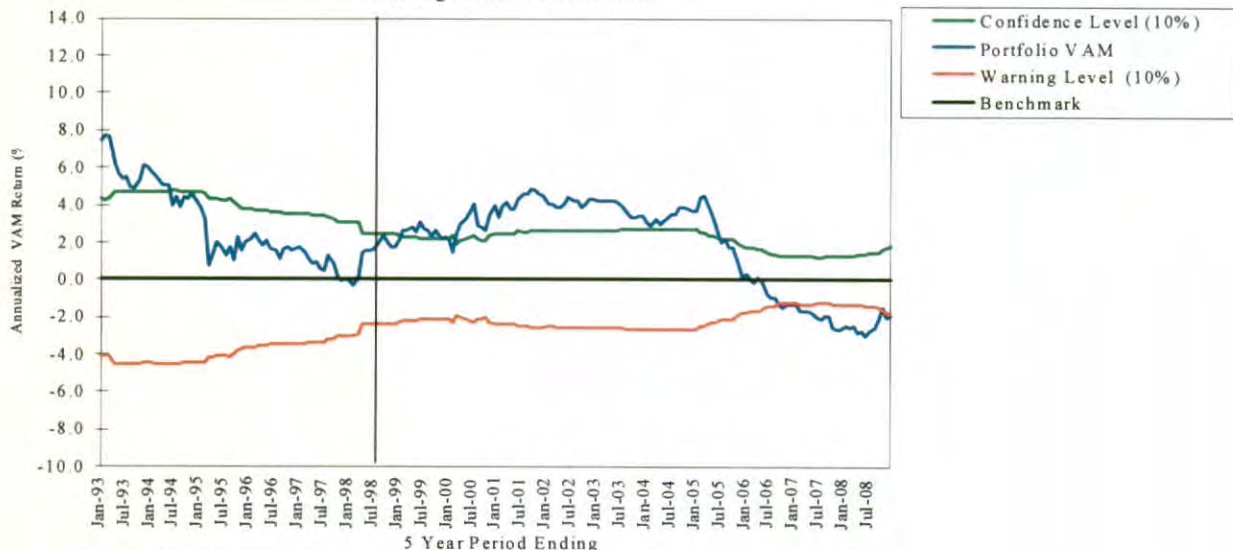
	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-20.5%	-21.1%
Last 1 year	-44.0	-43.5
Last 2 years	-22.3	-20.2
Last 3 years	-8.8	-7.2
Last 4 years	-4.4	-2.2
Last 5 years	0.0	2.0
Since Inception	5.2	4.6

(4/93)

**Recommendations**

No action required.

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



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



**ALLIANCEBERNSTEIN L.P.**  
**Periods Ending December, 2008**

**Portfolio Manager: Steve Beinhacker**

**Assets Under Management: \$217,279,027**

**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 the quarter and the year, stock selection in South Africa and in China contributed negatively to returns.

During the quarter, AllianceBernstein announced that Lew Sanders had stepped down as Chairman and CEO and was replaced, in both roles, by Peter S. Kraus. Mr. Kraus previously worked at Merrill Lynch from 9/08 through 12/08. Prior to that, he spent 22 years with Goldman Sachs, most recently as co-head of the Investment Management Division.

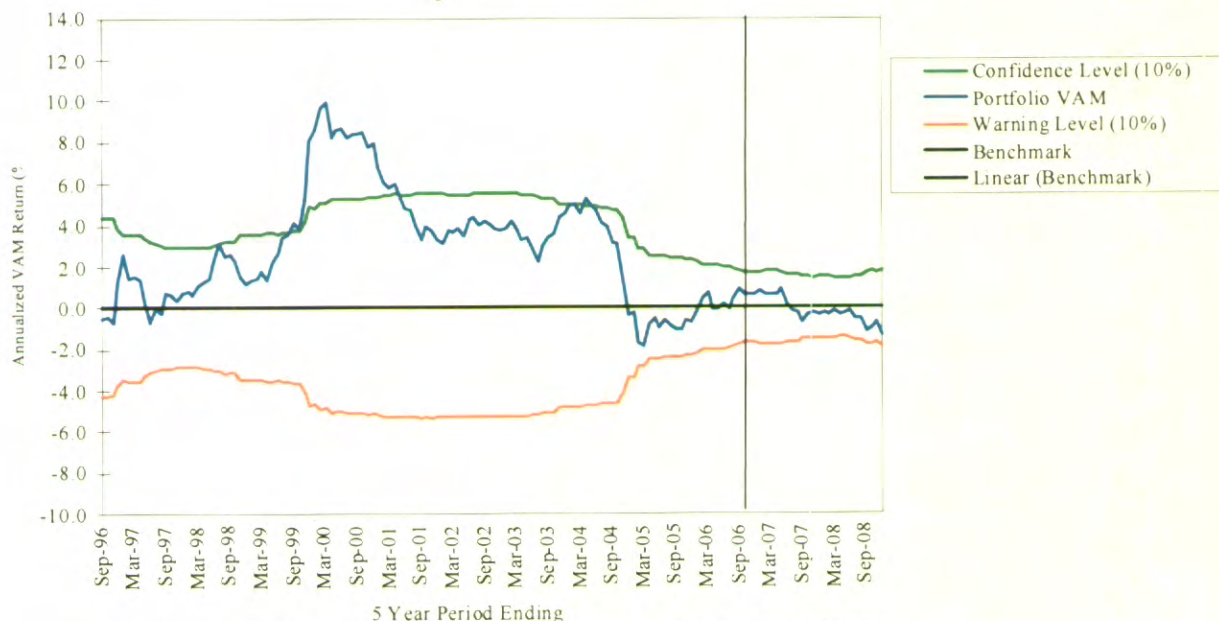
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-29.2%	-27.6%
Last 1 year	-56.0	-53.2
Last 2 years	-21.8	-19.1
Last 3 years	-7.3	-4.7
Last 4 years	1.4	3.8
Last 5 years	6.3	7.8
Since Inception (3/01)	6.9	8.2

**Recommendations**

No action required.

ALLIANCEBERNSTEIN L.P.  
 Rolling Five Year VAM



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

**CAPITAL INTERNATIONAL, INC.**  
**Periods Ending December, 2008**

**Portfolio Manager: Victor Kohn**

**Assets Under Management: \$363,074,360**

**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**

The portfolio's underweight position in Russia, one of the weakest performing markets over the quarter and the year, together with strong stock selection in the energy, materials and information technology sectors contributed to strong recent relative returns.

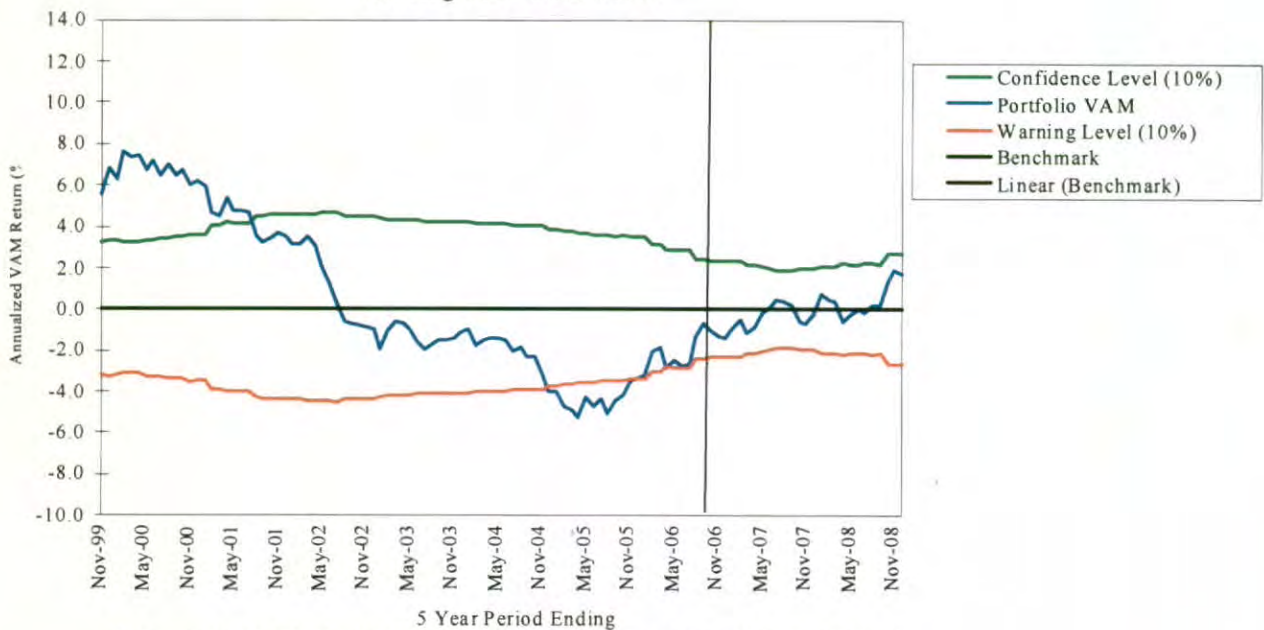
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-22.9%	-27.6%
Last 1 year	-48.9	-53.2
Last 2 years	-15.9	-19.1
Last 3 years	-1.4	-4.7
Last 4 years	7.3	3.8
Last 5 years	9.6	7.8
Since Inception (3/01)	7.4	8.2

**Recommendations**

No action required.

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



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

**MORGAN STANLEY INVESTMENT MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Ruchir Sharma**

**Assets Under Management: \$358,957,387**

**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 materials sector and an underweight to Russia, contributed to the portfolio's outperformance. Over the year, stock selection in China and in the energy and telecommunications sectors contributed to negative relative returns.

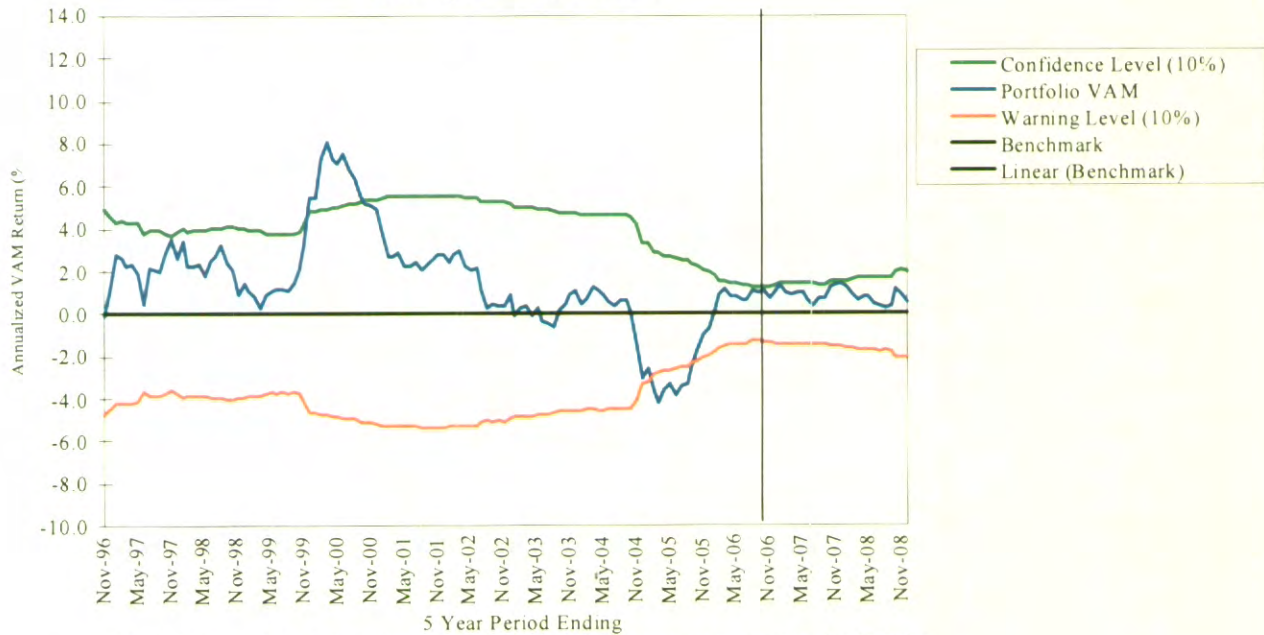
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-25.9%	-27.6%
Last 1 year	-54.5	-53.2
Last 2 years	-19.3	-19.1
Last 3 years	-3.6	-4.7
Last 4 years	4.7	3.8
Last 5 years	8.4	7.8
Since Inception (3/01)	8.7	8.2

**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 December, 2008**

**Portfolio Manager:** Cliff Asness

**Assets Under Management:** \$175,862,036

**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**

The portfolio's underweight to financials contributed to positive relative performance over the quarter. During the year, this benefit was offset by negative stock selection in the consumer discretionary, industrials and information technology sectors.

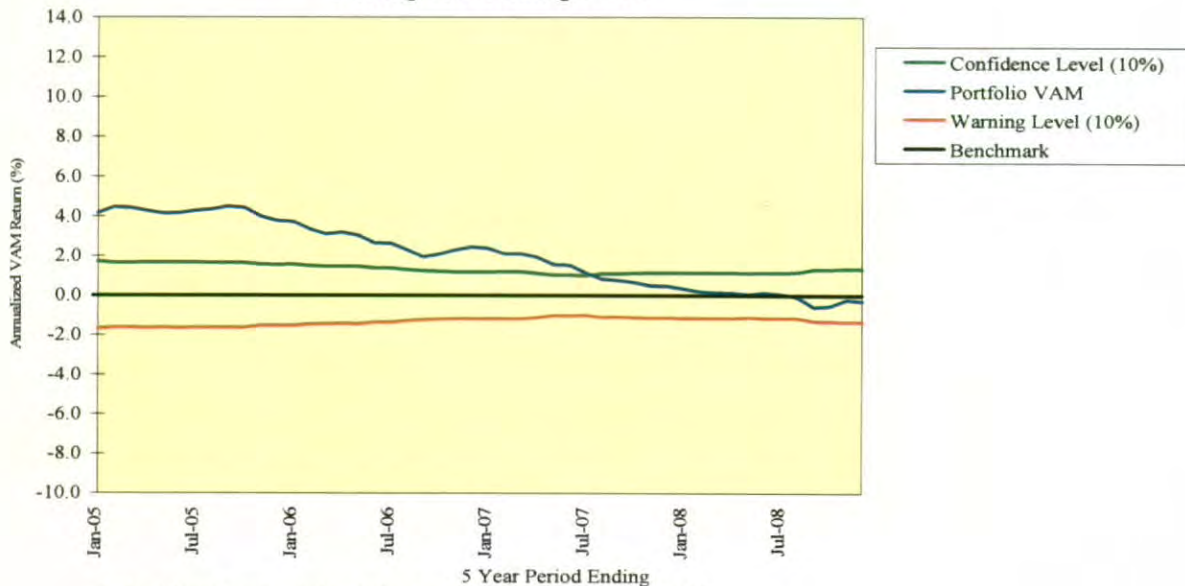
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-20.0%	-21.1%
Last 1 year	-44.0	-43.5
Last 2 years	-21.8	-20.2
Last 3 years	-8.5	-7.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	-3.1	-2.3

**Recommendations**

No action required.

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



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

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

**Portfolio Manager:** Cesar Hernandez

**Assets Under Management:** \$193,730,242

**Investment Philosophy**

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

**Staff Comments**

Stock selection in the industrials and information technology sectors contributed negatively to performance over the quarter and the year.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-21.9%	-21.1%
Last 1 year	-44.0	-43.5
Last 2 years	-18.6	-20.2
Last 3 years	-5.7	-7.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	-0.8	-2.3

**Recommendations**

No action required.

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



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

**STATE STREET GLOBAL ADVISORS**  
**Periods Ending December, 2008**

**Portfolio Manager: Didier Rosenfeld**

**Assets Under Management: \$175,027,920**

**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**

Stock selection in the financials, consumer discretionary and information technology sectors were the primary negative contributors to performance during the quarter and the year.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-21.8%	-21.1%
Last 1 year	-45.3	-43.5
Last 2 years	-22.7	-20.2
Last 3 years	-8.8	-7.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	-3.6	-2.3

**Recommendations**

No action required.

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



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

**STATE STREET GLOBAL ADVISORS**  
**Periods Ending December, 2008**

**Portfolio Manager: Lynn Blake**

**Assets Under Management: \$2,311,260,842**

**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 negative tracking error during the quarter was primarily due to the rebalancing of assets into the portfolio during the last two weeks of October and, to a lesser extent, to not owning Sudan-restricted stocks. These effects were overcome during the year by the higher dividend income received in the portfolio relative to the net return of the benchmark.

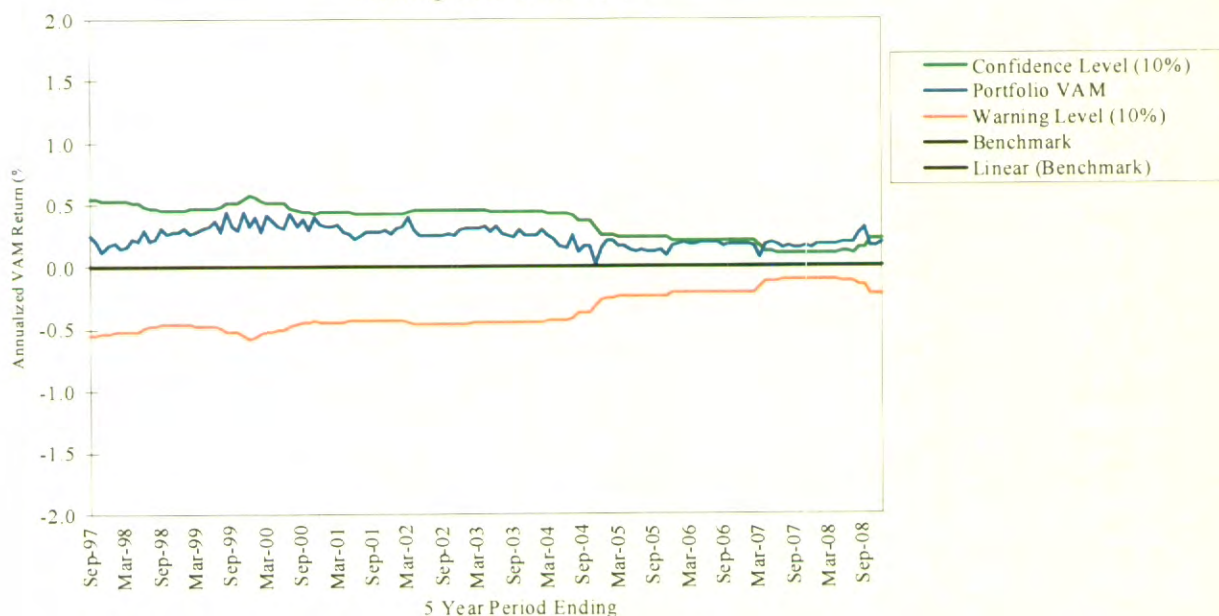
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-21.6%	-21.1%
Last 1 year	-43.4	-43.5
Last 2 years	-20.0	-20.2
Last 3 years	-7.0	-7.2
Last 4 years	-2.0	-2.2
Last 5 years	2.2	2.0
Since Inception (10/92)	5.1	4.9

**Recommendation**

No action required.

STATE STREET GLOBAL ADVISORS - PASSIVE  
 Rolling Five Year VAM





# STATE BOARD OF INVESTMENT

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## Non-Retirement Manager Evaluation Reports

Fourth Quarter, 2008



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## **Non-Retirement Managers**

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**NON - RETIREMENT MANAGERS**  
**Periods Ending December, 2008**

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	
GE Asset Management (S&P 500 Index)	-23.7	-21.9	-35.6	-37.0	-6.6	-8.4	-1.9	-2.2	7.6	6.8	\$45.9
Voyageur Asset Management (Custom Benchmark)	0.2	5.5	-2.4	9.5	2.6	7.2	2.7	5.3	5.8	6.6	\$253.4
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)	1.1	0.4	4.7	2.6	4.7	4.2	4.5	4.0	5.6	4.8	\$1,103.9
Internal Stock Pool (S&P 500 Index)	-21.7	-21.9	-36.7	-37.0	-8.2	-8.4	-2.1	-2.2	6.7	6.6	\$687.2
Internal Bond Pool - Income Share (Barclays Capital Aggregate) (2)	2.4	4.6	1.3	5.2	4.2	5.5	4.1	4.7	7.5	7.4	\$80.7
Internal Bond Pool - Trust (Barclays Capital Aggregate)	2.8	4.6	2.6	5.2	4.9	5.5	4.5	4.7	6.9	6.7	\$473.0

(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**

	2008		2007		2006		2005		2004	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
GE Asset Management (S&P 500 Index)	-35.6	-37.0	8.5	5.5	16.4	15.8	2.6	4.9	8.8	10.9
Voyageur Asset Management (Custom Benchmark)	-2.4	9.5	5.8	7.9	4.5	4.3	2.5	2.1	3.2	3.0
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)	4.7	2.6	4.8	4.7	4.6	5.2	4.3	4.4	4.2	3.3
Internal Stock Pool (S&P 500 Index)	-36.7	-37.0	5.5	5.5	15.9	15.8	4.9	4.9	10.9	10.9
Internal Bond Pool - Income Share (Barclays Capital Aggregate) (1)	1.3	5.2	6.4	7.0	5.0	4.3	2.7	2.4	5.1	4.3
Internal Bond Pool - Trust (Barclays Capital Aggregate)	2.6	5.2	7.1	7.0	5.1	4.3	2.8	2.4	5.0	4.3

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

**GE ASSET MANAGEMENT - Assigned Risk Plan**  
**Periods Ending December, 2008**

**Portfolio Manager: Dave Carlson**

**Assets Under Management: \$45,914,992**

**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.

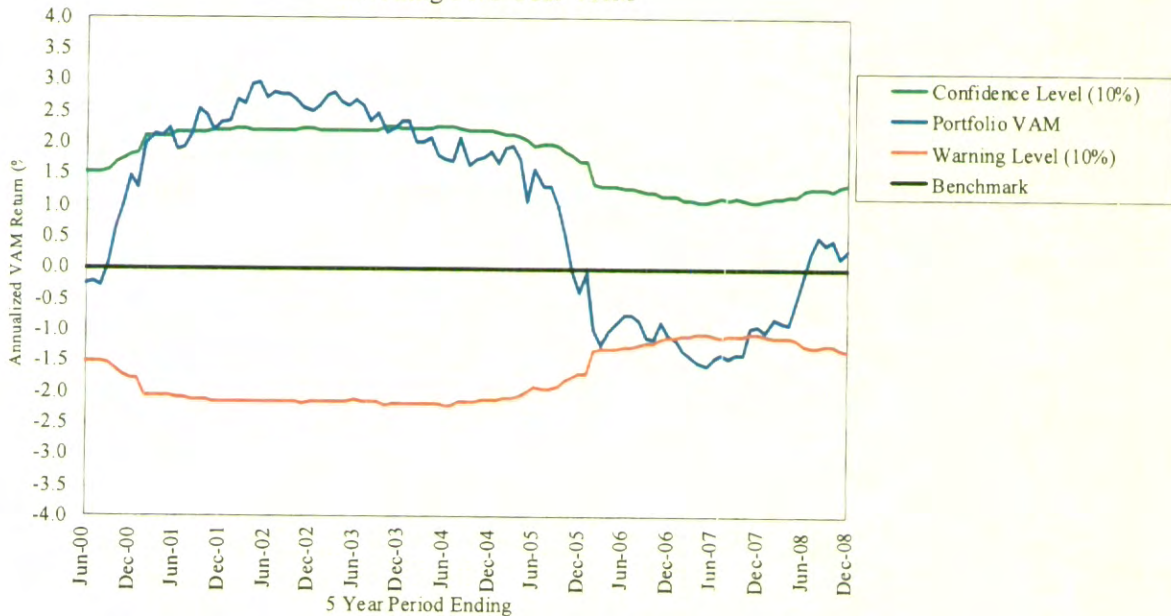
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-23.7%	-21.9%
Last 1 year	-35.6	-37.0
Last 2 years	-16.4	-18.5
Last 3 years	-6.6	-8.4
Last 4 years	-4.4	-5.2
Last 5 years	-1.9	-2.2
Since Inception (1/95)	7.6	6.8

**Recommendation**

No action required.

**GE ASSET MANAGEMENT**  
**Rolling Five Year VAM**



**VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan**  
**Periods Ending December, 2008**

**Portfolio Manager: John Huber**

**Assets Under Management: \$253,414,887**

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

Voyageur uses a top-down approach to fixed income investing. Their objective is to obtain superior long-term investment returns over a pre-determined benchmark that reflects the quality constraints and risk tolerance of the Assigned Risk Plan. Due to the specific liability requirement of the plan, return enhancement will focus on sector analysis and security selection. Yield curve and duration analysis are secondary considerations.

**Staff Comments**

The manager has had several quarters of significant underperformance. The manager continues to emphasize an income advantage for the portfolio relative to the benchmark and maintains an overweight to structured mortgage product. Due to the market impact on mortgage product valuations, portfolio performance continues to lag.

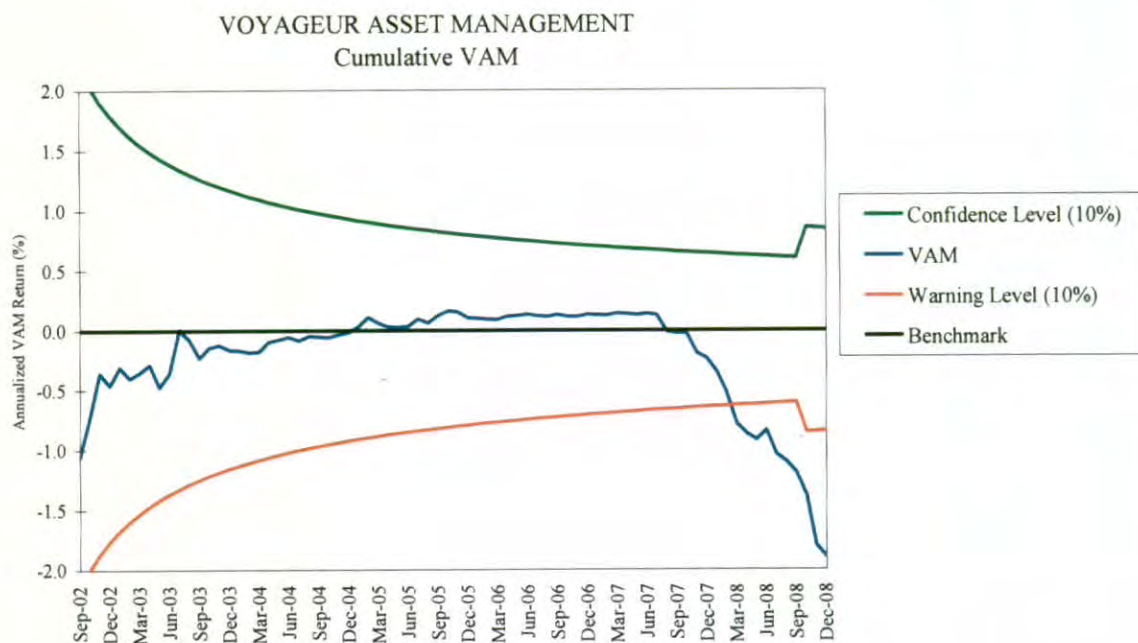
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	0.2%	5.5%
Last 1 year	-2.4	9.5
Last 2 years	1.6	8.7
Last 3 years	2.6	7.2
Last 4 years	2.6	5.9
Last 5 years	2.7	5.3
Since Inception (7/91)	5.8	6.6

**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.



**GALLIARD CAPITAL MANAGEMENT**  
**Periods Ending December, 2008**

**Portfolio Manager: Karl Tourville**

**Assets Under Management: \$1,103,934,190**

**Investment Philosophy**

**Staff Comments**

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

No comment at this time.

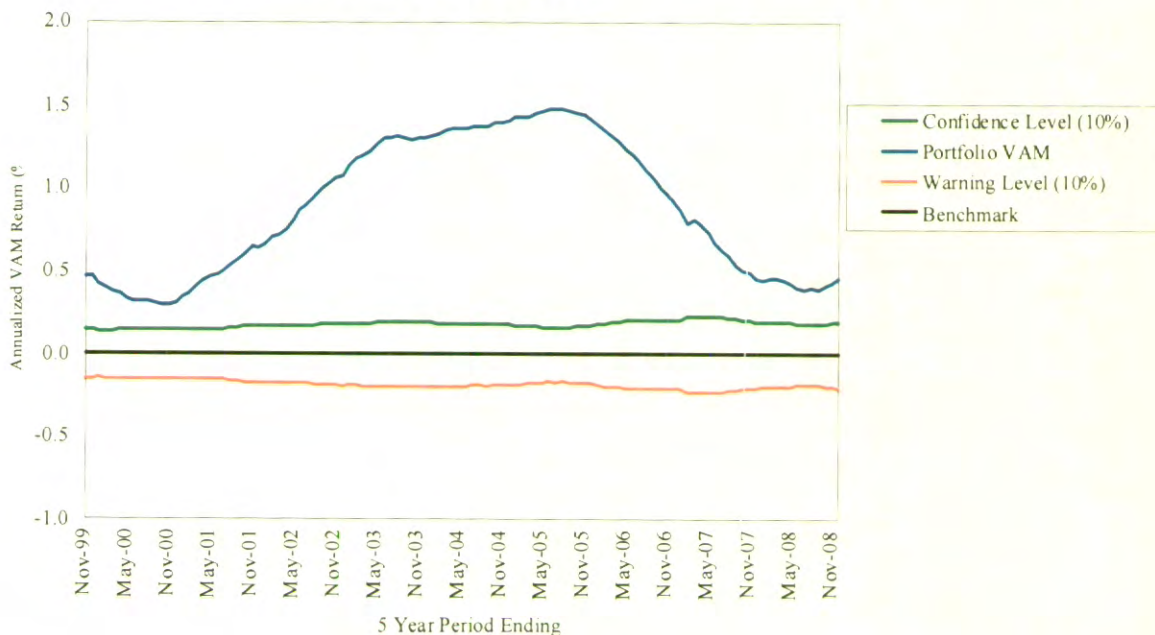
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.1%	0.4%
Last 1 year	4.7	2.6
Last 2 years	4.7	3.7
Last 3 years	4.7	4.2
Last 4 years	4.6	4.2
Last 5 years	4.5	4.0
Since Inception (11/94)	5.6	4.8

No action required.

Galliard Capital Management  
 Rolling Five Year VAM



**INTERNAL STOCK POOL - Trust/Non-Retirement Assets**  
**Periods Ending December, 2008**

**Portfolio Manager: Mike Messen**

**Assets Under Management: \$687,169,645**

**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.

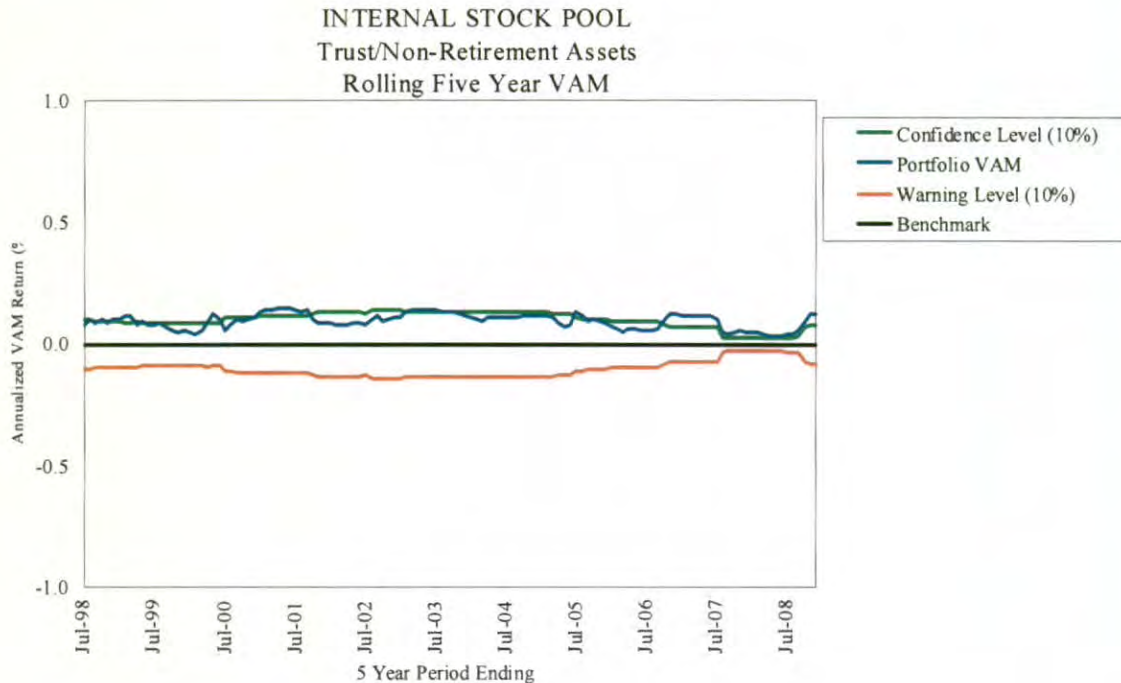
No comment at this time.

**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-21.7%	-21.9%
Last 1 year	-36.7	-37.0
Last 2 years	-18.3	-18.5
Last 3 years	-8.2	-8.4
Last 4 years	-5.1	-5.2
Last 5 years	-2.1	-2.2
Since Inception (7/93)	6.7	6.6

No action required.





**INTERNAL BOND POOL - Income Share Account**  
**Periods Ending December, 2008**

**Portfolio Manager: Mike Messen**

**Assets Under Management: \$80,716,964**

**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**

During the quarter and the past year, the portfolio has underperformed due to overweights in spread products in the corporate mortgage and CMBS sectors.

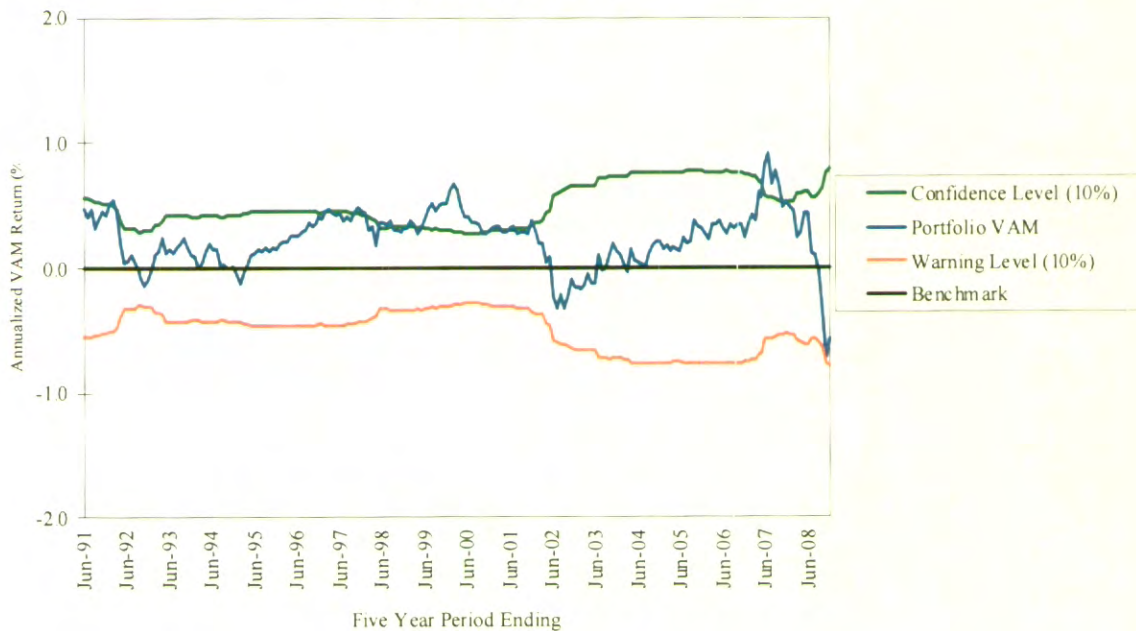
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.4%	4.6%
Last 1 year	1.3	5.2
Last 2 years	3.8	6.1
Last 3 years	4.2	5.5
Last 4 years	3.8	4.7
Last 5 years	4.1	4.7
Since Inception (7/86)	7.5	7.4

**Recommendation**

No action required.

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



**INTERNAL BOND POOL - Trust/Non-Retirement Assets**  
**Periods Ending December, 2008**

**Portfolio Manager: Mike Messen**

**Assets Under Management: \$472,968,118**

**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.

During the quarter and the past year, the portfolio has underperformed due to overweights in spread products in the corporate mortgage and CMBS sectors.

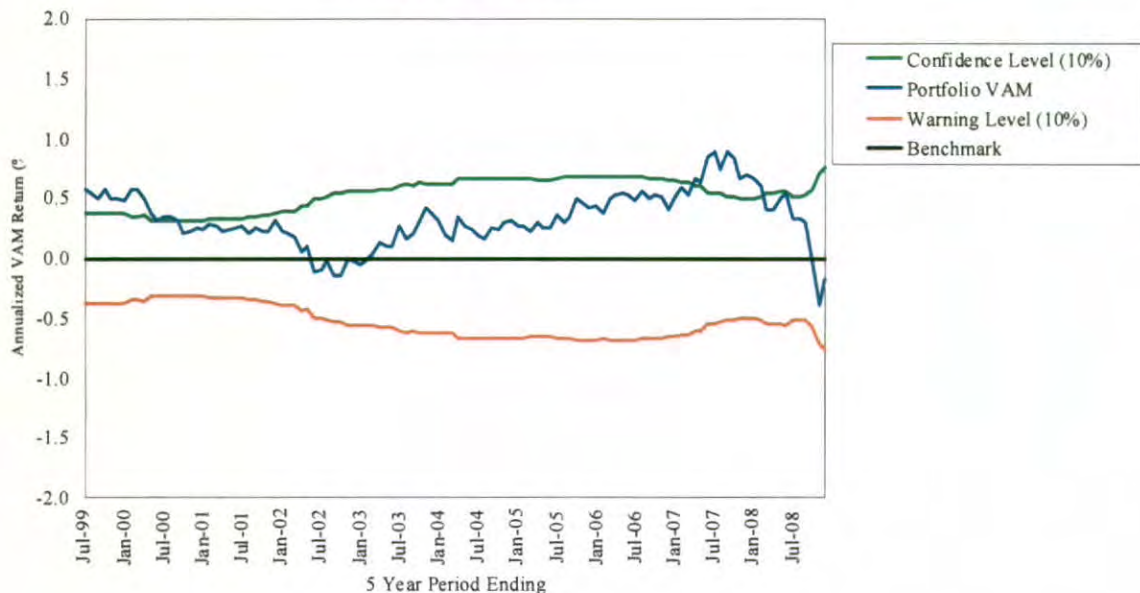
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark</b>	
Last Quarter	2.8%	4.6%	No action required.
Last 1 year	2.6	5.2	
Last 2 years	4.8	6.1	
Last 3 years	4.9	5.5	
Last 4 years	4.3	4.7	
Last 5 years	4.5	4.7	
Since Inception (7/94)*	6.9	6.7	

\* 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

Fourth Quarter, 2008

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# Mutual Fund Managers

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**MN STATE 457 DEFERRED COMPENSATION PLAN**  
**MUTUAL FUND MANAGERS**  
**Periods Ending December, 2008**

457 Mutual Funds	Quarter		1 Year		3 Years		5 Years		Since Retention by SBI *		State's Participation In Fund (\$ millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	%	%	
<b>Large Cap Equity:</b>											
Janus Twenty (S&P 500)	-22.7	-21.9	-42.0	-37.0	-3.9	-8.4	3.7	-2.2	-2.8	-2.7	\$290.1
Legg Mason Partners Apr I (S&P 500)	-17.5	-21.9	-28.8	-37.0	-3.9	-8.4	0.3	-2.2	1.2	-1.2	\$93.0
Vanguard Institutional Index Plus (S&P 500)	-21.9	-21.9	-36.9	-37.0	-8.3	-8.4	-2.2	-2.2	-2.6	-2.7	\$292.7
<b>Mid Cap Equity:</b>											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	-25.6	-25.6	-41.8	-41.8	-11.0	-11.1	-0.7	-0.7	-0.7	-0.7	\$90.0
<b>Small Cap Equity:</b>											
T. Rowe Price Small-Cap Stock (Russell 2000)	-23.8	-26.1	-33.4	-33.8	-9.6	-8.3	-1.0	-0.9	4.3	2.2	\$236.5
<b>Balanced:</b>											
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	-16.4	-11.9	-33.6	-22.4	-8.4	-2.9	-1.5	0.6	0.4	2.0	\$193.0
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Barclays Capital Agg)	-12.5	-12.4	-22.1	-22.4	-2.7	-2.9	1.1	1.0	1.7	1.6	\$136.3
<b>Bond:</b>											
Dodge & Cox Income Fund (Barclays Capital Aggregate)	3.4	4.6	-0.3	5.2	3.2	5.5	3.1	4.7	5.6	6.1	\$98.5
Vanguard Total Bond Market Index Inst. (Barclays Capital Aggregate)	4.4	4.6	5.2	5.2	5.5	5.5	4.7	4.7	4.8	4.8	\$86.0
<b>International:</b>											
Fidelity Diversified International (MSCI EAFE-Free)	-23.4	-20.0	-45.2	-43.4	-8.0	-7.4	1.8	1.7	4.6	0.4	\$171.5
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	-19.3	-20.0	-41.5	-43.4	-6.4	-7.4	2.3	1.7	3.8	3.1	\$52.9

Numbers in black are returns **since** retention by SBI.

Numbers in blue include returns **prior** to retention by SBI.

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

\* Vanguard Mid-Cap Index Fund retained January 2004; Legg Mason, Vanguard Inst. Dev. Mkt., Vanguard Balanced, Vanguard Total Bond Mkt. retained December 2003; Dodge & Cox Balanced Fund retained in October 2003; all others, July 1999.

**MN STATE 457 DEFERRED COMPENSATION PLAN  
MUTUAL FUND MANAGERS  
Calendar Year Returns**

457 Mutual Funds	2008		2007		2006		2005		2004	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>Large Cap Equity:</b>										
Janus Twenty (S&P 500)	-42.0	-37.0	35.9	5.5	12.3	15.8	9.4	4.9	23.9	10.9
Legg Mason Partners Appr I (S&P 500)	-28.8	-37.0	8.6	5.5	15.0	15.8	4.6	4.9	9.3	10.9
Vanguard Institutional Index Plus (S&P 500)	-36.9	-37.0	5.5	5.5	15.8	15.8	5.0	4.9	10.9	10.9
<b>Mid Cap Equity:</b>										
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	-41.8	-41.8	6.2	6.2	13.8	13.7	14.1	13.9	20.5	20.5
<b>Small Cap Equity:</b>										
T. Rowe Price Small-Cap Stock (Russell 2000)	-22.2	-33.8	-1.7	-1.6	12.8	18.4	8.4	4.6	18.8	18.3
<b>Balanced:</b>										
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	-33.6	-22.4	1.7	6.2	13.8	11.1	6.6	4.0	13.3	8.3
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Lehman Agg)	-22.1	-22.4	6.3	6.3	11.1	11.1	4.8	4.8	9.5	9.3
<b>Bond:</b>										
Dodge & Cox Income Fund (Lehman Aggregate)	-0.3	5.2	4.7	7.0	5.3	4.3	2.0	2.4	3.8	4.3
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	5.2	5.2	7.0	7.0	4.4	4.3	2.5	2.4	4.4	4.3
<b>International:</b>										
Fidelity Diversified International (MSCI EAFE-Free)	-45.2	-43.4	16.0	11.2	22.5	26.3	17.2	13.5	19.7	20.2
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	-41.5	-43.4	11.0	11.2	26.3	26.3	13.6	13.5	20.3	20.2

Numbers in black are returns **since** retention by SBI.

Numbers in blue include returns **prior** to retention by SBI.

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



**MN STATE 457 DEFERRED COMPENSATION PLAN  
LARGE CAP EQUITY – JANUS TWENTY  
Periods Ending December, 2008**

**Portfolio Manager: Ron Sachs**

**State's Participation in Fund: \$290,118,746  
Total Assets in Fund: \$7,045,222,457**

**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.

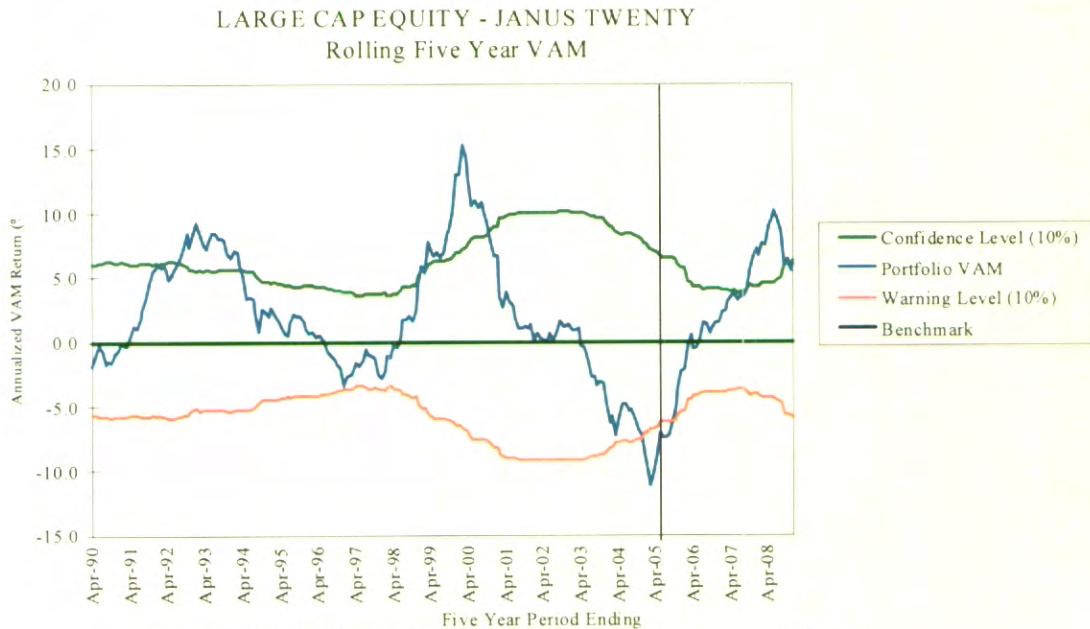
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	-22.7%	-21.9%
Last 1 year	-42.0	-37.0
Last 2 years	-11.2	-18.5
Last 3 years	-3.9	-8.4
Last 4 years	-0.8	-5.2
Last 5 years	3.7	-2.2
Since Retention by SBI (7/99)	-2.8	-2.7

**Recommendation**

No action required.

\*Benchmark is the S&P 500.



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

**MN STATE 457 DEFERRED COMPENSATION PLAN  
LARGE CAP EQUITY – LEGG MASON PARTNERS APPRECIATION I  
Periods Ending December, 2008**

**Portfolio Manager: Scott Glasser**

**State's Participation in Fund: \$93,048,128  
Total Assets in Fund: \$3,771,332,483**

**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**

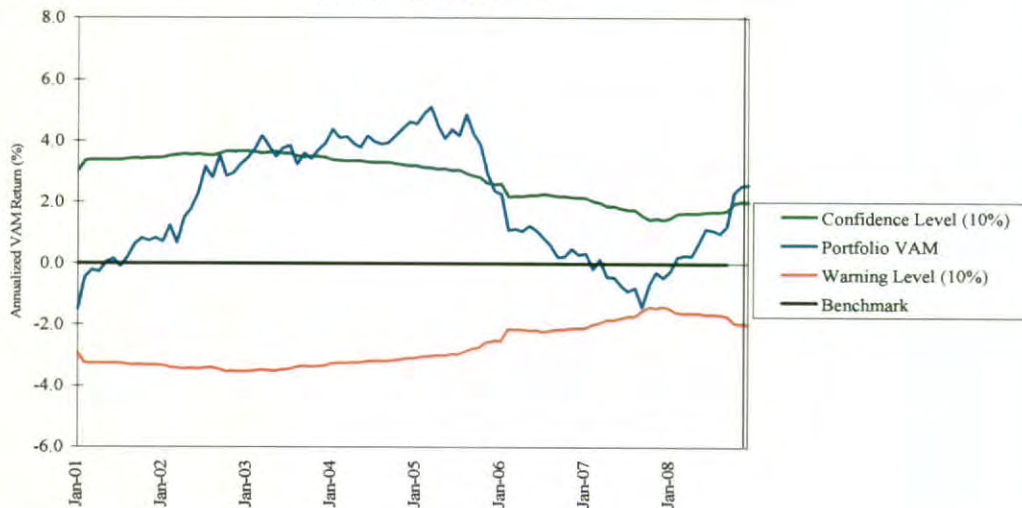
	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	-17.5%	-21.9%
Last 1 year	-28.8	-37.0
Last 2 years	-12.1	-18.5
Last 3 years	-3.9	-8.4
Last 4 years	-1.8	-5.2
Last 5 years	0.3	-2.2
Since Retention by SBI (12/03)	1.2	-1.2

**Recommendation**

No action required.

\*Benchmark is the S&P 500.  
Numbers in black are returns since retention by SBI.  
Numbers in blue include returns prior to retention by SBI.

**LARGE CAP EQUITY - LEGG MASON PARTNERS APPRECIATION I  
Rolling Five Year VAM**



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

**MN STATE 457 DEFERRED COMPENSATION PLAN  
EQUITY INDEX – VANGUARD INSTITUTIONAL INDEX PLUS  
Periods Ending December, 2008**

**Portfolio Manager: Donald Butler**

**State's Participation in Fund: \$292,730,373  
Total Assets in Fund: \$17,643,000,000**

**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.

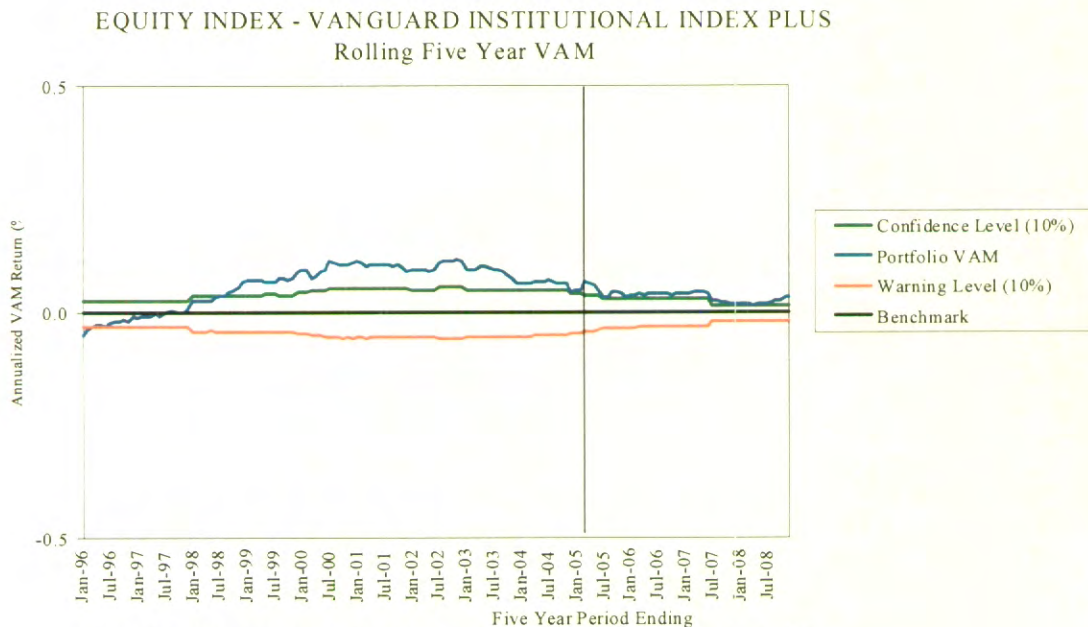
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	-21.9%	-21.9%
Last 1 year	-36.9	-37.0
Last 2 years	-18.4	-18.5
Last 3 years	-8.3	-8.4
Last 4 years	-5.2	-5.2
Last 5 years	-2.2	-2.2
Since Retention by SBI (7/99)	-2.6	-2.7

**Recommendation**

No action required.

\*Benchmark is the S&P 500.



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

**MN STATE 457 DEFERRED COMPENSATION PLAN  
MID CAP EQUITY – VANGUARD MID-CAP INDEX  
Periods Ending December, 2008**

**Portfolio Manager: Donald Butler**

**State's Participation in Fund: \$90,049,735  
Total Assets in Fund: \$3,820,000,000**

**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.

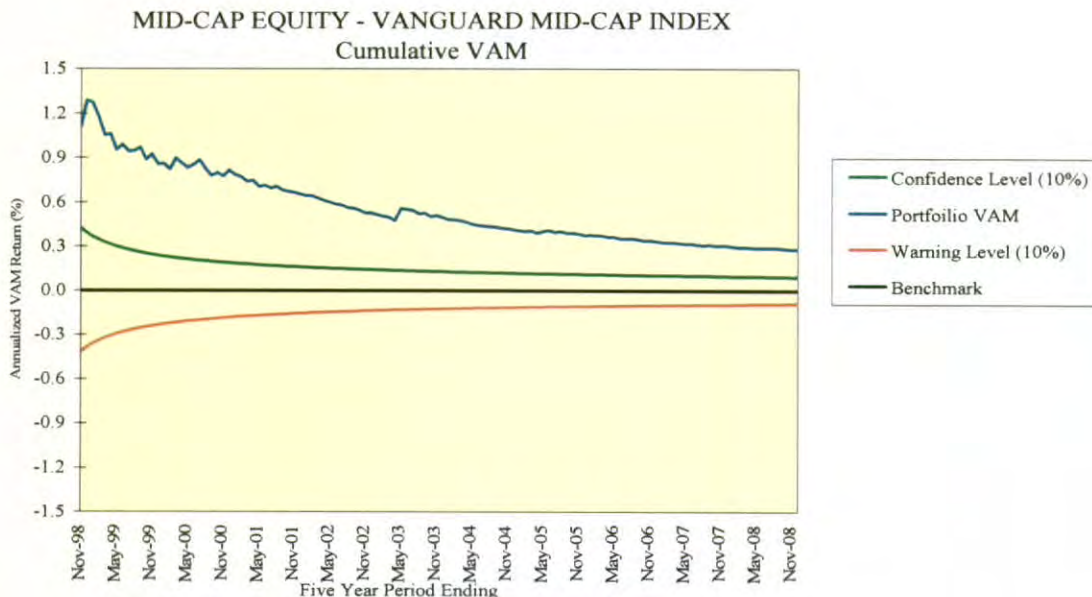
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	-25.6%	-25.6%
Last 1 year	-41.8	-41.8
Last 2 years	-21.4	-21.4
Last 3 years	-11.0	-11.1
Last 4 years	-5.3	-5.4
Last 5 years	-0.7	-0.7
Since Retention by SBI (1/04)	-0.7	-0.7

**Recommendation**

No action required.

\*Benchmark is the MSCI US Mid Cap 450.  
Numbers in black are returns since retention by SBI.  
Numbers in blue include returns prior to retention by SBI.



**MN STATE 457 DEFERRED COMPENSATION PLAN  
SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP STOCK FUND  
Periods Ending December, 2008**

<b>Portfolio Manager: Gregory A. McCrickard</b>	<b>State's Participation in Fund:</b>	<b>236,472,975</b>
	<b>Total Assets in Fund:</b>	<b>3,802,986,470</b>

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

**Staff Comments**

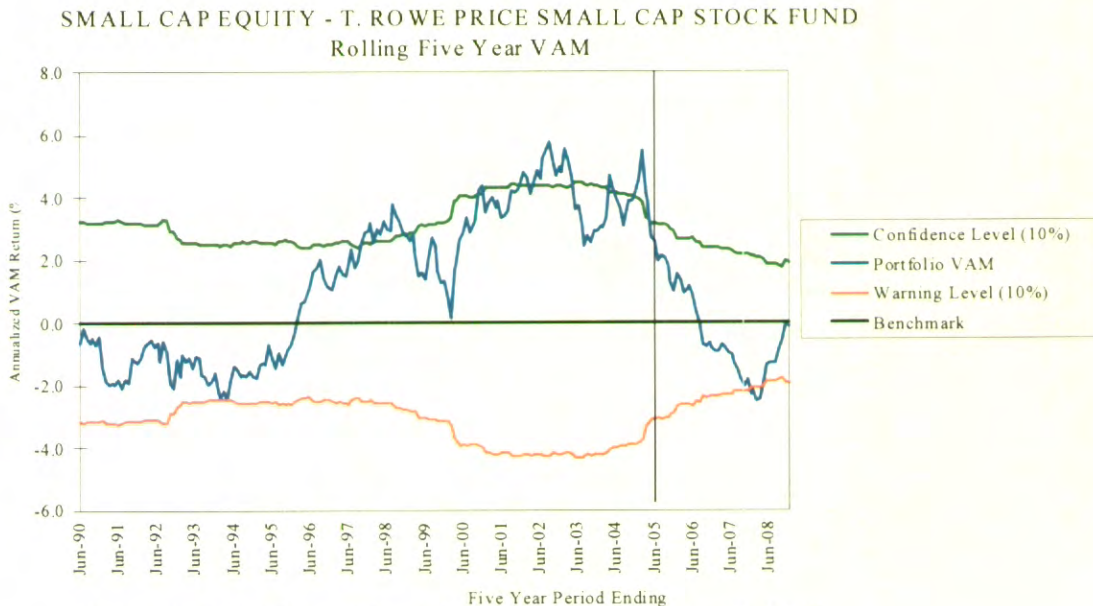
The strategy of this fund is to invest primarily in stocks of small to medium-sized companies that are believed to offer either superior earnings growth or appear undervalued. The fund normally invests at least 80% of assets in equities traded in the U.S. over-the-counter market. The manager does not 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.

**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark*</b>	
Last Quarter	-23.8%	-26.1%	No action required.
Last 1 year	-33.4	-33.8	
Last 2 years	-19.1	-19.3	
Last 3 years	-9.6	-8.3	
Last 4 years	-5.4	-5.2	
Last 5 years	-1.0	-0.9	
Since Retention by SBI (7/99)	4.3	2.2	

\*Benchmark is the Russell 2000.



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

**STATE 457 DEFERRED COMPENSATION PLAN  
BALANCED – DODGE & COX BALANCED FUND  
Periods Ending December, 2008**

**Portfolio Manager: John Gunn**

**State's Participation in Fund: \$193,009,185  
Total Assets in Fund: \$14,675,781,761**

**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**

The manager underperformed for the quarter and the year. An overweight in equities and stock selection hurt performance in both periods. The fixed income portfolio lagged the benchmark due to an overweight in the weak corporate sector and an underweight to Treasuries.

**Quantitative Evaluation**

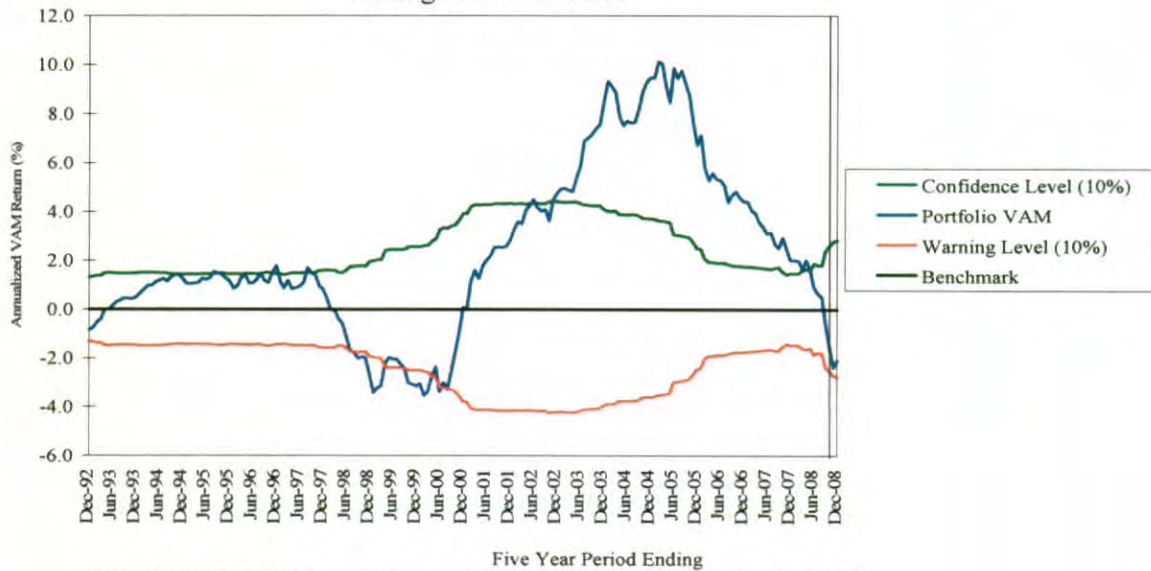
	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	-16.4%	-11.9%
Last 1 year	-33.6	-22.4
Last 2 years	-17.8	-9.2
Last 3 years	-8.4	-2.9
Last 4 years	-4.8	-1.2
Last 5 years	-1.5	0.6
Since Retention By SBI (10/03)	0.4	2.0

**Recommendation**

No action required.

\*Benchmark is 60% S&P 500, 40% Barclays Capital Aggregate.  
Numbers in black are returns since retention by SBI.  
Numbers in blue include returns prior to retention by SBI.

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



**MN STATE 457 DEFERRED COMPENSATION PLAN  
BALANCED – VANGUARD BALANCED INDEX INSTITUTIONAL FUND  
Periods Ending December, 2008**

**Portfolio Manager: Michael Perre**

**State's Participation in Fund: \$136,347,625  
Total Assets in Fund: \$2,299,000,000**

**Investment Philosophy  
Vanguard Balanced Index Fund**

The fund's assets are divided between stocks and bonds, with an average of 60% of its assets in stocks and 40% in bonds. The fund's stock segment attempts to track the performance of the MSCI US Broad Market Index, an unmanaged index representing the overall U.S. equity market. The fund's bond segment attempts to track the performance of the Lehman Brothers Aggregate Bond Index, an unmanaged index that covers virtually all taxable fixed-income securities.

**Staff Comments**

No comment at this time.

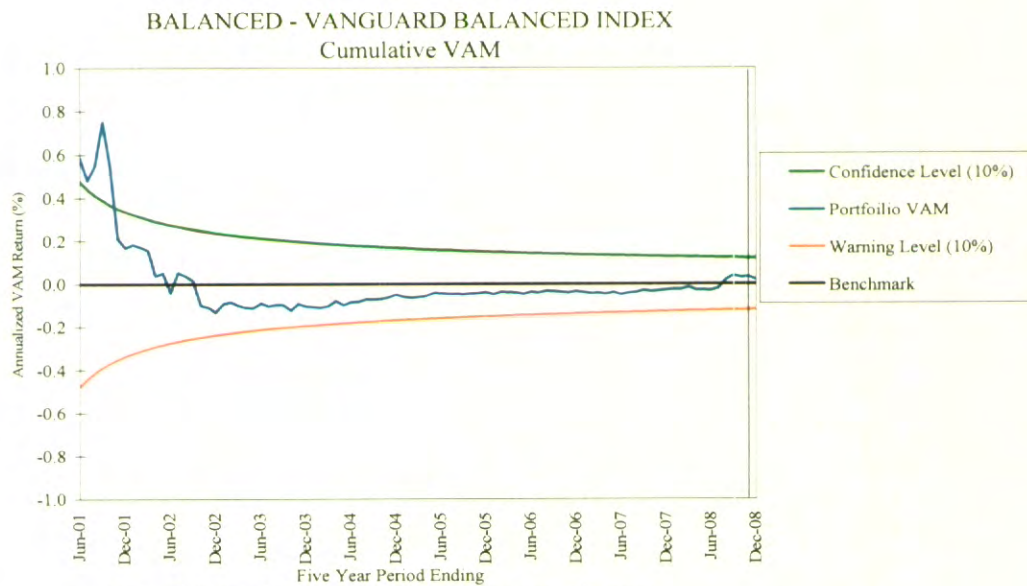
**Quantitative Evaluation**

	Actual	Benchmark*
Last Quarter	-12.5%	-12.4%
Last 1 year	-22.1	-22.4
Last 2 years	-9.0	-9.2
Last 3 years	-2.7	-2.9
Last 4 years	-0.9	-1.0
Last 5 years	1.1	1.0
Since Retention by SBI (12/03)	1.7	1.6

**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.  
Numbers in black are returns since retention by SBI.  
Numbers in blue include returns prior to retention by SBI.



Note: Shaded area includes performance prior to managing SBI account

**MN STATE 457 DEFERRED COMPENSATION PLAN  
BOND – DODGE & COX INCOME FUND  
Periods Ending December, 2008**

**Portfolio Manager:** Dana Emery

**State's Participation in Fund:** \$98,463,479  
**Total Assets in Fund:** \$13,808,306,967

**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**

Underperformance in the quarter and for the year was due to overweight in corporates and agency mortgages, which underperformed Treasuries, and a short duration position during a period in which long rates dropped. Also contributing to underperformance was security selection in the corporate sector.

**Quantitative Evaluation**

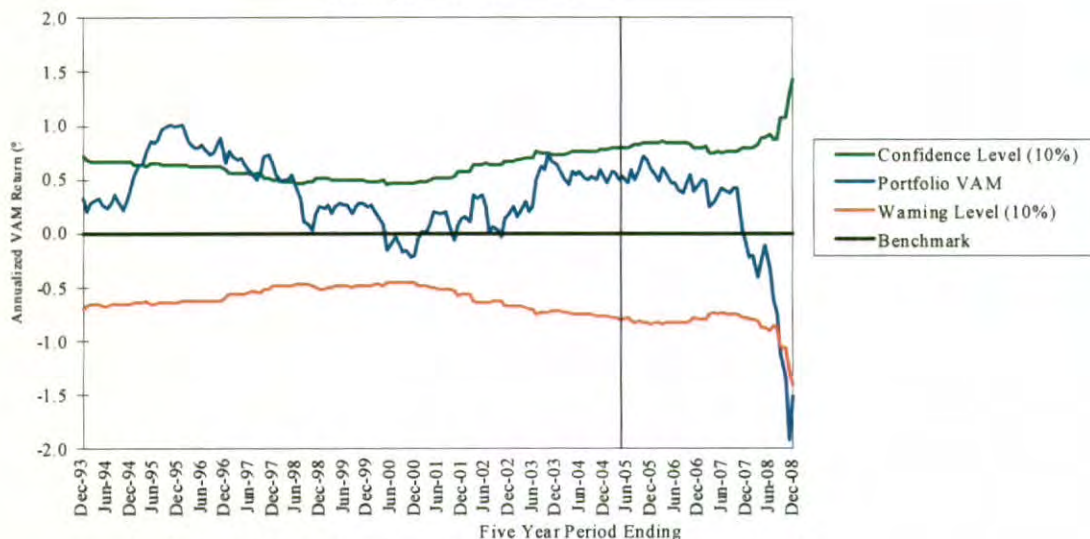
	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	3.4%	4.6%
Last 1 year	-0.3	5.2
Last 2 years	2.2	6.1
Last 3 years	3.2	5.5
Last 4 years	2.9	4.7
Last 5 years	3.1	4.7
Since Retention By SBI (7/99)	5.6	6.1

**Recommendation**

No action required.

\*Benchmark is the Barclays Capital Aggregate.

**BOND - DODGE & COX INCOME FUND  
Rolling Five Year VAM**



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



**MN STATE 457 DEFERRED COMPENSATION PLAN  
BOND – VANGUARD TOTAL BOND MARKET INDEX INSTITUTIONAL  
Periods Ending December, 2008**

**Portfolio Manager: Kenneth Volpert**

**State's Participation in Fund: \$85,950,324  
Total Assets in Fund: \$7,437,000,000**

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

**Staff Comments**

The fund attempts to track the performance of the Lehman Brothers Aggregate Bond Index, which is a widely recognized measure of the entire taxable U.S. bond market. The index consists of more than 5,000 U.S. Treasury, federal agency, mortgage-backed, and investment-grade corporate securities. Because it is not practical or cost-effective to own every security in the index, the fund invests in a large sampling that matches key characteristics of the index (such as market-sector weightings, coupon interest rates, credit quality, and maturity). To boost returns, the fund holds a higher percentage than the index in short-term, investment-grade corporate bonds and a lower percentage in short-term Treasury securities.

No comment at this time.

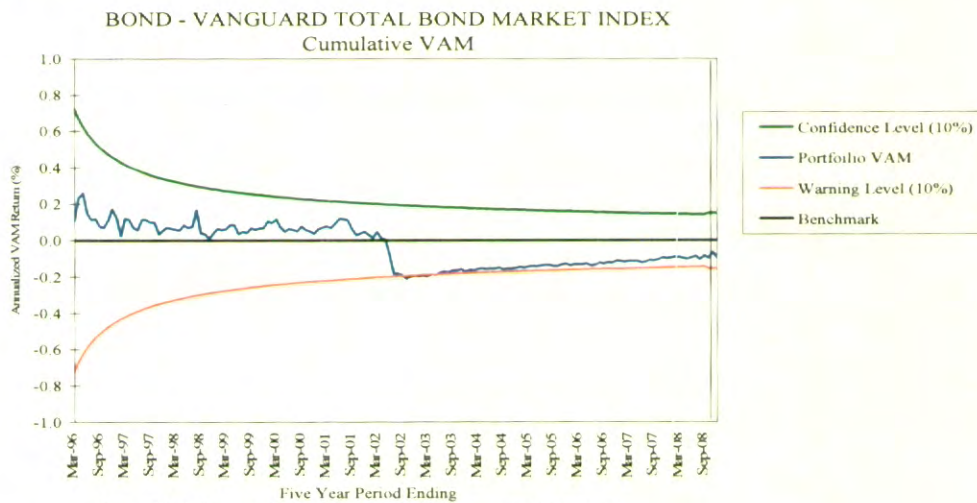
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	4.4%	4.6%
Last 1 year	5.2	5.2
Last 2 years	6.1	6.1
Last 3 years	5.5	5.5
Last 4 years	4.8	4.7
Last 5 years	4.7	4.7
Since Retention by SBI (12/03)	4.8	4.8

No action required.

\*Benchmark is the Barclays Capital Aggregate.  
Numbers in black are returns since retention by SBI.  
Numbers in blue include returns prior to retention by SBI.



**MN STATE 457 DEFERRED COMPENSATION PLAN  
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL  
Periods Ending December, 2008**

**Portfolio Manager: William Bower**

**State's Participation in Fund: \$171,540,615  
Total Assets in Fund: \$27,130,000,000**

**Investment Philosophy  
Fidelity Diversified International**

**Staff Comments**

The goal of this fund is capital appreciation by investing in securities of companies located outside of the United States. While the fund invests primarily in stocks, it may also invest in bonds. Most investments are made in companies that have a market capitalization of \$100 million or more and which are located in developed countries. To select the securities, the fund utilizes a rigorous computer-aided quantitative analysis supplemented by relevant economic and regulatory factors. The manager rarely invests in currency to protect the account from exchange fluctuations.

No comment at this time.

**Quantitative Evaluation**

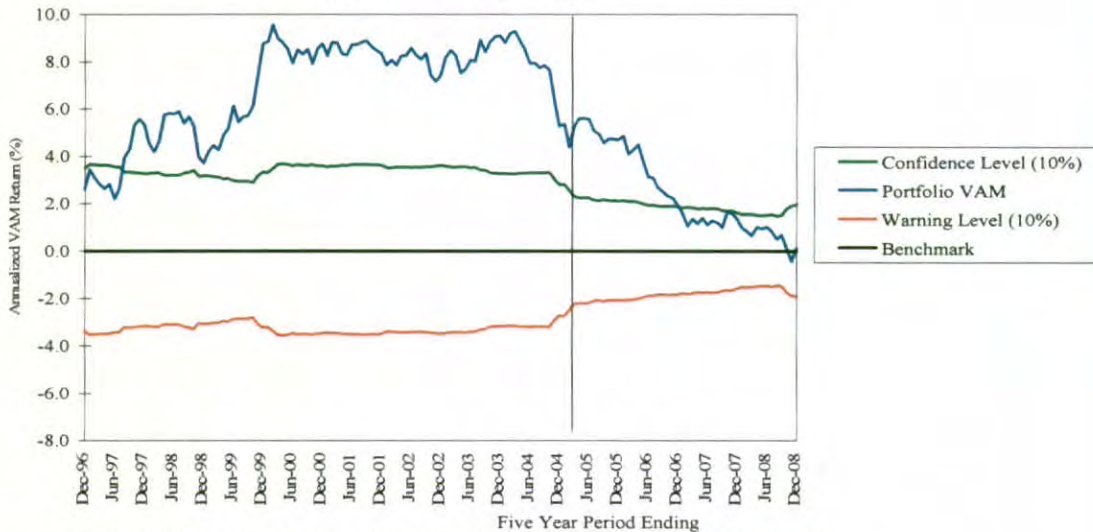
**Recommendation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	-23.4%	-20.0%
Last 1 year	-45.2	-43.4
Last 2 years	-20.3	-20.7
Last 3 years	-8.0	-7.4
Last 4 years	-2.3	-2.5
Last 5 years	1.8	1.7
Since Retention By SBI (7/99)	4.6	0.4

No action required.

\*Benchmark is the MSCI EAFE-Free.

**INTERNATIONAL - FIDELITY DIVERSIFIED INTERNATIONAL  
Rolling Five Year VAM**



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

**MN STATE 457 DEFERRED COMPENSATION PLAN  
INTERNATIONAL – VANGUARD INSTITUTIONAL DEVELOPED MARKETS INDEX  
Periods Ending December, 2008**

<b>Portfolio Manager: Duane Kelly and Michael Buek</b>	<b>State's Participation in Fund: \$52,878,774</b>
	<b>Total Assets in Fund: \$3,802,000,000</b>

**Investment Philosophy  
Vanguard Institutional Developed Market  
Index**

**Staff Comments**

The fund seeks to track the performance of the MSCI EAFE Index by passively investing in two other Vanguard funds—the European Stock Index Fund and the Pacific Stock Index Fund. The combination of the two underlying index funds, in turn, seeks to track the investment results of the Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East (EAFE) Index. The MSCI EAFE Index includes approximately 1,000 common stocks of companies located in Europe, Australia, Asia, and the Far East.

No comment at this time.

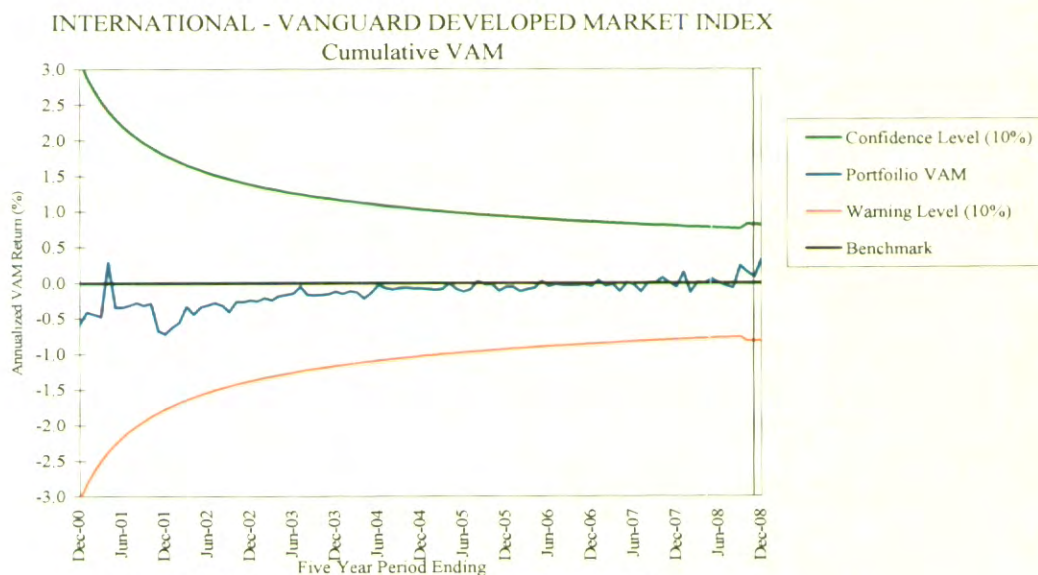
**Quantitative Evaluation**

**Recommendation**

	Actual	Benchmark*
Last Quarter	-19.3%	-20.0%
Last 1 year	-41.5	-43.4
Last 2 years	-19.4	-20.7
Last 3 years	-6.4	-7.4
Last 4 years	-1.8	-2.5
Last 5 years	2.3	1.7
Since Retention by SBI (12/03)	3.8	3.1

No action required.

\*Benchmark is the MSCI EAFE International  
Numbers in black are returns since retention by SBI.  
Numbers in blue include returns prior to retention by SBI.



# Tab F

## **INVESTMENT ADVISORY COUNCIL REPORT**

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DATE: March 4, 2009

TO: Members, State Board of Investment

**FROM: Members, Investment Advisory Council**

The Investment Advisory Council met on February 19, 2009 to review the following information and action agenda items:

1. Review of current strategy.
2. New investment with an existing yield-oriented manager, Prudential and a new investment with an existing private equity manager, Hellman & Friedman.

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

### **INFORMATION ITEMS:**

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

To increase overall portfolio diversification, 20% of the Basic and Post Retirement 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**).

1. The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified Real Estate Investment Trusts (REITs), open-end commingled funds and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified; more focused (specialty) commingled funds and REITs.
2. The private equity investment strategy, which includes leveraged buyouts and venture capital, is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location.

3. The strategy for resource investments is to establish and maintain a portfolio of resource investment vehicles that provide an inflation hedge and additional diversification. Resource investments will include oil and gas investments, energy service industry investments and other investments that are diversified geographically and by type.
4. The strategy for yield-oriented investments will target funds that typically provide a current return and may have an equity component such as subordinated debt or mezzanine investments. Yield-oriented investments will provide diversification by including investments in the private equity, resource and real estate categories.

**ACTION ITEM:**

**1) Investment with an existing yield-oriented manager, Prudential, in Prudential Capital Partners III, L.P.**

Prudential is seeking investors for a new \$900 million yield-oriented fund. This fund is a successor to two other prior yield-oriented funds managed by Prudential. The SBI has invested in both of the prior funds. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of yield-oriented investments.

In addition to reviewing the attractiveness of the Prudential Capital Partners III, L.P. investment offering, staff has conducted reference checks, a literature database search and reviewed the potential investor base for Fund III.

More information on Prudential Capital Partners III, 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 \$50 million or 20%, whichever is less, in Prudential Capital Partners III, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Prudential 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 Prudential or reduction or termination of the commitment.**

**2) Investment with an existing private equity manager, Hellman & Friedman, in Hellman & Friedman Capital Partners VII, L.P.**

Hellman & Friedman is seeking investors for a new \$10 billion private equity fund. This fund is a successor to six other prior private equity funds managed by Hellman & Friedman. The SBI has invested in four of the last six prior funds. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments.

In addition to reviewing the attractiveness of the Hellman & Friedman Capital Partners VII, L.P. investment offering, staff has conducted reference checks, a literature database search and reviewed the potential investor base for Fund VII.

More information on Hellman & Friedman Capital 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 \$50 million or 20%, whichever is less, in Hellman & Friedman Capital Partners VII, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Hellman & Friedman 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 Hellman & Friedman or reduction or termination of the commitment.**





ATTACHMENT A

**Minnesota State Board of Investment**  
*Pooled Alternative Investments*  
*Combined Retirement Funds*  
*December 31, 2008*

Basic Retirement Funds Market Value	\$18,245,480,979
Post Retirement Fund Market Value	\$17,611,745,934
 Amount Available for Investment	 <b>\$987,120,316</b>

	Current Level	Target Level	Difference
Market Value (MV)	\$6,184,325,067	\$7,171,445,383	\$987,120,316
MV +Unfunded	\$9,517,939,138	\$10,757,168,074	\$1,239,228,936

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	\$3,305,377,397	\$1,805,442,655	\$5,110,820,052
Real Estate	\$1,176,824,879	\$323,680,643	\$1,500,505,522
Resource	\$449,065,672	\$527,073,157	\$976,138,829
Yield-Oriented	\$1,253,057,119	\$677,417,616	\$1,930,474,735
<b>Total</b>	\$6,184,325,067	\$3,333,614,071	\$9,517,939,138

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**ATTACHMENT B**

Minnesota State Board of Investment  
- Alternative Investments \* -

As of December 31, 2008

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<b><u>I. Real Estate</u></b>							
<b>Blackstone</b>							
<i>Blackstone Real Estate V</i>	100,000,000	83,667,867	100,635,917	22,751,431	16,332,133	24.4	2.7
<i>Blackstone Real Estate VI</i>	100,000,000	42,577,941	44,004,941	0	57,422,059	0.5	1.8
<b>Colony Capital</b>							
<i>Colony Investors III</i>	100,000,000	100,000,000	7,659,200	167,834,385	0	15.0	11.0
<b>CSFB</b>							
<i>CSFB Strategic Partners III RE</i>	25,000,000	18,046,778	17,623,724	568,588	6,953,222	0.6	3.5
<i>CS Strategic Partners IV RE</i>	50,000,000	29,527,619	31,650,862	14,802	20,472,381	8.1	0.5
<b>Lehman Brothers Real Estate Partners</b>							
<i>Lehman Brothers Real Estate Partners II</i>	75,000,000	65,568,548	57,151,931	22,008,951	9,431,452	11.5	3.5
<i>Lehman Brothers Real Estate Partners II.</i>	150,000,000	41,930,604	31,638,779	0	108,069,396	-30.0	0.6
<b>Prime Property Fund</b>	40,000,000	40,000,000	301,131,791	17,853,051	0	8.1	27.2
<b>T.A. Associates Realty</b>							
<i>Realty Associates Fund V</i>	50,000,000	50,000,000	26,321,784	77,166,072	0	12.5	9.6
<i>Realty Associates Fund VI</i>	50,000,000	50,000,000	54,271,416	40,997,213	0	18.3	6.5
<i>Realty Associates Fund VII</i>	75,000,000	75,000,000	87,698,768	18,564,691	0	13.4	4.1
<i>Realty Associates Fund VIII</i>	100,000,000	95,000,000	98,092,535	3,871,965	5,000,000	4.6	2.5
<i>Realty Associates Fund IX</i>	100,000,000	0	0	0	100,000,000	N/A	0.4
<i>UBS Trumbull Property Fund</i>	42,376,529	42,376,529	318,943,231	2,818,431	0	8.5	26.7
<b>Real Estate Total</b>	1,057,376,529	733,695,886	1,176,824,879	374,449,580	323,680,643		
<b><u>II. Resource</u></b>							
<b>Apache Corp III</b>	30,000,000	30,000,000	7,331,400	54,074,657	0	12.4	22.0
<b>EnCap Energy Capital Fund VII</b>	100,000,000	22,889,921	22,017,534	1,234,124	77,110,079	3.1	1.5
<b>First Reserve</b>							
<i>First Reserve Fund VII</i>	40,000,000	40,000,000	101,354	60,916,558	0	10.2	12.5
<i>First Reserve Fund VIII</i>	100,000,000	100,000,000	1,848,000	201,883,104	0	15.9	10.7
<i>First Reserve Fund IX</i>	100,000,000	100,000,000	1,008,000	298,659,472	0	48.1	7.7
<i>First Reserve Fund X</i>	100,000,000	100,000,000	82,863,142	110,288,083	0	50.5	4.2
<i>First Reserve Fund XI</i>	150,000,000	104,798,479	109,821,994	354,267	45,201,521	5.5	2.0
<i>First Reserve Fund XII</i>	150,000,000	43,099,438	43,083,573	15,865	106,900,562	0.0	0.2
<b>NGP</b>							
<i>NGP Midstream &amp; Resources</i>	100,000,000	40,663,553	43,446,270	219,102	59,336,447	9.2	1.8
<i>Natural Gas Partners IX</i>	150,000,000	22,862,557	24,442,158	365,317	127,137,443	12.2	1.2
<b>Sheridan Production Partners I</b>	100,000,000	39,002,260	44,717,977	4,000,000	60,997,740	21.8	1.8
<b>Simmons</b>							
<i>SCF-IV</i>	47,626,265	47,626,265	20,271,669	145,600,193	0	25.2	10.8
<b>T. Rowe Price</b>	71,002,692	71,002,692	0	97,346,757	0	28.1	N/A
<b>TCW Energy Partners XIV</b>	100,000,000	49,610,636	48,112,602	6,062,053	50,389,364	11.4	1.7
<b>Resource Total</b>	1,338,628,957	811,555,800	449,065,672	981,019,552	527,073,157		
<b><u>III. Yield-Oriented</u></b>							
<b>Carbon Capital</b>	46,184,308	46,184,308	1,761,008	59,522,956	0	15.6	6.6
<b>Citicorp Mezzanine</b>							
<i>Citicorp Mezzanine I</i>	40,000,000	40,000,000	94,653	60,023,024	0	11.3	14.0
<i>Citicorp Mezzanine III</i>	100,000,000	88,029,296	10,976,809	120,074,597	11,970,704	15.8	9.2
<b>DLJ Investment Partners</b>							
<i>DLJ Investment Partners II</i>	50,000,000	23,119,388	5,921,456	30,360,759	26,880,612	11.6	9.0
<i>DLJ Investment Partners III</i>	100,000,000	21,668,258	18,951,829	1,495,396	78,331,742	-4.8	2.5
<b>Gold Hill Venture Lending</b>							
<i>Gold Hill Venture Lending</i>	40,000,000	40,000,000	35,583,787	11,569,217	0	7.2	4.3
<i>Gold Hill 2008</i>	50,000,000	379,263	379,263	0	49,620,737	0.0	0.5

Minnesota State Board of Investment  
- Alternative Investments \* -

As of December 31, 2008

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<b>GS Mezzanine Partners</b>							
<i>GS Mezzanine Partners II</i>	100,000,000	83,092,437	39,934,503	81,663,174	16,907,563	9.4	8.8
<i>GS Mezzanine Partners III</i>	75,000,000	52,896,411	33,204,987	39,124,047	22,103,589	11.4	5.5
<i>GS Mezzanine Partners 2006 Institutiona</i>	100,000,000	67,374,802	48,127,833	13,122,742	32,625,198	-8.1	2.7
<i>GS Mezzanine Partners V</i>	150,000,000	46,500,000	44,315,709	0	103,500,000	-6.2	1.2
<b>GTCR Capital Partners</b>	80,000,000	69,589,422	3,372,862	104,523,155	10,410,578	11.0	9.1
<b>KB Mezzanine Fund II</b>	25,000,000	25,000,000	311,649	12,218,730	0	-13.5	13.3
<b>Merit Capital Partners</b>							
<i>William Blair Mezzan. Cap. Fd. III</i>	60,000,000	56,958,000	12,959,930	89,260,609	3,042,000	15.2	9.0
<i>Merit Mezzanine Fund IV</i>	75,000,000	54,407,967	51,125,901	9,621,152	20,592,033	6.1	4.0
<b>Merit Energy Partners</b>							
<i>Merit Energy Partners B</i>	24,000,000	24,000,000	87,123,876	77,156,787	0	26.7	12.5
<i>Merit Energy Partners C</i>	50,000,000	50,000,000	277,715,841	155,912,917	0	36.7	10.2
<i>Merit Energy Partners D</i>	88,000,000	70,938,303	231,248,992	103,145,055	17,061,697	31.8	7.6
<i>Merit Energy Partners E</i>	100,000,000	36,489,813	63,710,059	17,481,210	63,510,187	22.9	4.2
<i>Merit Energy Partners F</i>	100,000,000	23,440,563	25,597,284	1,770,831	76,559,437	8.0	2.8
<b>Prudential Capital Partners</b>							
<i>Prudential Capital Partners I</i>	100,000,000	95,856,253	36,846,050	94,889,866	4,143,747	10.4	7.7
<i>Prudential Capital Partners II</i>	100,000,000	89,314,107	85,366,912	16,719,352	10,685,893	8.5	3.5
<b>Quadrant Real Estate Advisors</b>							
<i>Institutional Commercial Mortgage Fd IV</i>	14,300,000	14,300,000	1,617,793	21,458,469	0	8.3	11.0
<i>Institutional Commercial Mortgage Fd V</i>	37,200,000	37,200,000	18,937,015	39,689,691	0	8.3	9.4
<b>Summit Partners</b>							
<i>Summit Subordinated Debt Fund I</i>	20,000,000	18,000,000	84,982	31,406,578	2,000,000	30.6	14.8
<i>Summit Subordinated Debt Fund II</i>	45,000,000	40,500,000	4,172,900	83,140,047	4,500,000	56.3	11.4
<i>Summit Subordinated Debt Fund III</i>	45,000,000	37,065,965	25,353,581	16,722,997	7,934,035	7.1	4.9
<i>Summit Subordinated Debt Fund IV</i>	50,000,000	0	0	0	50,000,000	N/A	0.8
<b>T. Rowe Price</b>	54,428,437	54,428,437	654,076	52,586,511	0	-11.6	N/A
<b>TCW/Crescent Mezzanine</b>							
<i>TCW/Crescent Mezzanine Partners I</i>	40,000,000	37,213,077	1,339,928	60,761,020	2,786,923	15.0	12.8
<i>TCW/Crescent Mezzanine Partners II</i>	100,000,000	87,479,046	155,910	137,859,454	12,520,954	13.4	10.1
<i>TCW/Crescent Mezzanine Partners III</i>	75,000,000	68,835,264	14,359,414	140,442,743	6,164,736	36.9	7.8
<b>Windjammer Capital Investors</b>							
<i>Windjammer Mezzanine &amp; Equity Fund I</i>	66,708,861	51,266,514	35,224,665	40,115,359	15,442,347	10.0	8.8
<i>Windjammer Senior Equity Fund III</i>	67,974,684	39,851,780	36,525,664	3,467,540	28,122,904	-0.3	3.0
<b>Yield-Oriented Total</b>	2,268,796,290	1,591,378,674	1,253,057,119	1,727,305,986	677,417,616		
<b>IV. Private Equity</b>							
<b>Adams Street Partners</b>							
<i>Adams Street VPAF Fund I</i>	3,800,000	3,800,000	39,863	9,440,295	0	13.2	20.6
<i>Adams Street VPAF Fund II</i>	20,000,000	20,000,000	120,186	37,988,511	0	24.1	18.1
<b>Advent International GPE VI-A</b>	50,000,000	6,250,000	5,583,088	0	43,750,000	-13.3	0.8
<b>Affinity Ventures</b>							
<i>Affinity Ventures IV</i>	4,000,000	2,511,847	1,882,267	405,436	1,488,153	-5.6	4.5
<i>Affinity Ventures V</i>	5,000,000	250,000	222,037	0	4,750,000	-11.2	0.5
<b>Banc Fund</b>							
<i>Banc Fund VII</i>	45,000,000	39,600,000	26,739,623	812,725	5,400,000	-14.8	3.8
<i>Banc Fund VIII</i>	98,250,000	2,947,500	3,227,347	0	95,302,500	17.5	0.7
<b>Blackstone</b>							
<i>Blackstone Capital Partners II</i>	47,271,190	47,271,190	4,134,381	95,379,217	0	34.1	15.1
<i>Blackstone Capital Partners IV</i>	70,000,000	65,248,011	50,145,478	87,721,288	4,751,989	43.6	6.5
<i>Blackstone Capital Partners V</i>	140,000,000	105,129,908	93,943,193	5,061,592	34,870,092	-5.0	2.9
<i>Blackstone Capital Partners VI</i>	100,000,000	0	0	0	100,000,000	N/A	0.4
<b>BLUM Capital Partners</b>							
<i>Blum Strategic Partners I</i>	50,000,000	49,001,812	9,212,136	89,408,820	998,188	13.0	10.0
<i>Blum Strategic Partners II</i>	50,000,000	40,187,230	12,405,389	72,946,530	9,812,770	23.5	7.5
<i>Blum Strategic Partners III</i>	75,000,000	73,976,127	47,576,180	24,239,937	1,023,873	-1.4	3.6
<i>Blum Strategic Partners IV</i>	150,000,000	125,921,720	96,183,543	0	24,078,280	-32.5	1.1

Minnesota State Board of Investment  
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As of December 31, 2008

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<b>CVI Global Value Fund</b>	200,000,000	152,500,000	140,001,045	2,087,004	47,500,000	-5.6	2.0
<b>Chicago Growth Partners (William Blair)</b>							
<i>William Blair Capital Partners VII</i>	50,000,000	47,850,000	17,110,013	56,980,990	2,150,000	11.4	7.8
<i>Chicago Growth Partners VIII</i>	50,000,000	43,541,998	35,464,053	15,789,143	6,458,002	12.3	3.4
<i>Chicago Growth Partners II</i>	60,000,000	6,005,878	6,035,061	0	53,994,122	-3.6	0.8
<b>Coral Partners</b>							
<i>Coral Partners II</i>	10,000,000	10,000,000	4,051	36,805,076	0	24.9	18.4
<i>Coral Partners IV</i>	15,000,000	15,000,000	1,841,407	13,538,879	0	0.5	14.4
<i>Coral Partners V</i>	15,000,000	15,000,000	3,208,502	3,106,198	0	-12.2	10.5
<b>Court Square Capital</b>							
<i>Court Square Capital Partners</i>	100,000,000	79,743,358	27,741,255	126,462,035	20,256,642	29.0	7.1
<i>Court Square Capital Partners II</i>	175,000,000	52,036,953	47,369,021	1,324,487	122,963,047	-5.0	2.3
<b>Crescendo</b>							
<i>Crescendo III</i>	25,000,000	25,000,000	1,357,156	9,321,908	0	-19.4	10.2
<i>Crescendo IV</i>	101,500,000	101,500,000	45,984,685	4,018,614	0	-10.8	8.8
<b>CSFB/ DLJ</b>							
<i>DLJ Merchant Banking Partners III</i>	125,000,000	118,989,550	78,473,821	164,622,011	6,010,450	20.3	8.3
<i>DLJ Strategic Partners</i>	100,000,000	88,346,075	26,795,173	137,893,981	11,653,925	24.0	7.9
<i>CSFB Strategic Partners II-B</i>	100,000,000	82,878,385	47,898,281	114,690,727	17,121,615	42.4	5.5
<i>CSFB Strategic Partners III VC</i>	25,000,000	22,340,078	22,333,256	6,263,558	2,659,922	15.4	3.6
<i>CSFB Strategic Partners III-B</i>	100,000,000	86,861,131	83,333,744	28,982,120	13,138,869	20.9	3.6
<i>CS Strategic Partners IV-B</i>	100,000,000	35,062,500	37,477,002	1,330,463	64,937,500	13.8	0.8
<i>CS Strategic Partners IV VC</i>	40,000,000	17,279,171	17,243,708	154,171	22,720,829	-0.2	0.5
<b>CVC European Equity Partners V</b>	139,004,919	21,936,059	16,430,985	3,531,211	117,068,861	-12.4	0.8
<b>Diamond Castle Partners IV</b>	100,000,000	59,665,831	47,350,622	12,445,847	40,334,169	-0.8	2.3
<b>DSV Partners IV</b>	10,000,000	10,000,000	36,084	39,196,082	0	10.6	23.7
<b>EBF Merced Partners II</b>	75,000,000	60,000,000	60,882,780	0	15,000,000	2.4	1.8
<b>Elevation Partners</b>	75,000,000	43,443,189	26,312,284	14,244,241	31,556,811	-5.1	3.6
<b>Fox Paine Capital Fund</b>							
<i>Fox Paine Capital Fund II</i>	50,000,000	38,742,510	34,079,206	45,038,976	11,257,490	26.7	8.5
<b>GHJM Marathon Fund</b>							
<i>GHJM Marathon Fund IV</i>	40,000,000	39,051,000	9,194,931	44,201,952	949,000	7.2	9.7
<i>GHJM Marathon Fund V</i>	50,000,000	43,883,933	33,073,248	13,103,457	6,116,067	2.5	4.2
<b>Golder, Thoma, Cressey, Rauner</b>							
<i>Golder, Thoma, Cressey &amp; Rauner Fund</i>	14,000,000	14,000,000	185,019	78,123,015	0	30.9	21.2
<i>Golder, Thoma, Cressey &amp; Rauner Fund</i>	20,000,000	20,000,000	28,060	42,160,456	0	25.0	14.9
<i>Golder, Thoma, Cressey &amp; Rauner Fund</i>	30,000,000	30,000,000	2,001,795	53,955,241	0	11.3	12.5
<b>GS Capital Partners</b>							
<i>GS Capital Partners 2000</i>	50,000,000	50,000,000	25,915,240	79,762,693	0	24.4	8.3
<i>GS Capital Partners V</i>	100,000,000	66,390,364	109,043,586	13,787,485	33,609,636	26.3	3.8
<i>GS Capital Partners VI</i>	100,000,000	41,000,000	37,274,084	0	59,000,000	-8.6	1.9
<b>GTCR Golder Rauner</b>							
<i>GTCR VI</i>	90,000,000	90,000,000	7,275,117	75,082,762	0	-3.1	10.5
<i>GTCR VII</i>	175,000,000	159,249,989	30,274,029	342,401,683	15,750,011	24.8	8.9
<i>GTCR IX</i>	75,000,000	22,493,105	19,597,939	4,741,730	52,506,895	9.4	2.5
<b>Hellman &amp; Friedman</b>							
<i>Hellman &amp; Friedman Capital Partners IV</i>	150,000,000	133,967,494	22,773,957	347,829,859	16,032,506	35.0	9.0
<i>Hellman &amp; Friedman Capital Partners V</i>	160,000,000	142,485,547	147,184,093	129,080,577	17,514,453	34.5	4.1
<i>Hellman &amp; Friedman Capital Partners VI</i>	175,000,000	108,907,922	102,073,780	2,712,656	66,092,078	-3.6	1.8
<b>Kohlberg Kravis Roberts</b>							
<i>KKR 1987 Fund</i>	145,373,652	145,373,652	1,081,730	396,018,930	0	8.7	21.1
<i>KKR 1993 Fund</i>	150,000,000	150,000,000	424,181	308,128,283	0	16.7	15.0
<i>KKR 1996 Fund</i>	200,000,000	200,000,000	24,791,832	337,773,594	0	13.0	12.3
<i>KKR Millennium Fund</i>	200,000,000	200,000,000	175,199,098	149,594,566	0	21.2	6.1
<i>KKR 2006 Fund</i>	200,000,000	150,555,528	134,820,598	5,932,838	49,444,472	-4.8	2.3
<b>Lexington Capital Partners VI-B</b>	100,000,000	72,196,297	59,469,364	14,005,079	27,803,703	1.6	3.0
<b>RWI Ventures</b>							
<i>RWI Group III</i>	616,430	616,430	125,415	330,192	0	-19.3	2.5
<i>RWI Ventures I</i>	7,603,265	7,403,265	3,342,557	4,025,809	200,000	-0.3	2.5

Minnesota State Board of Investment  
- Alternative Investments \* -

As of December 31, 2008

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<b>Sightline Healthcare</b>							
<i>Sightline Healthcare Fund II</i>	10,000,000	10,000,000	2,259,691	4,883,002	0	-4.7	11.8
<i>Sightline Healthcare Fund III</i>	20,000,000	20,000,000	8,275,986	3,288,320	0	-8.1	9.9
<i>Sightline Healthcare Fund IV</i>	7,700,000	6,900,769	4,155,425	4,008,034	799,231	5.4	5.3
<b>Silver Lake Partners</b>							
<i>Silver Lake Partners II</i>	100,000,000	86,224,172	72,969,562	25,315,234	13,775,828	5.4	4.5
<i>Silver Lake Partners III</i>	100,000,000	22,102,944	16,812,884	588,153	77,897,056	-29.9	1.8
<b>Split Rock Partners</b>							
<i>Split Rock Partners</i>	50,000,000	25,854,548	25,523,411	428,377	24,145,452	0.2	3.7
<i>Split Rock Partners II</i>	60,000,000	0	0	0	60,000,000	N/A	0.7
<b>Summit Partners</b>							
<i>Summit Ventures II</i>	30,000,000	28,500,000	168,729	74,524,292	1,500,000	28.8	20.6
<i>Summit Ventures V</i>	25,000,000	24,125,000	2,004,583	32,228,645	875,000	8.7	10.8
<b>T. Rowe Price</b>	829,937,879	829,937,879	67,212,575	790,388,878	0	5.4	N/A
<b>Thoma Cressey</b>							
<i>Thoma Cressey Fund VI</i>	35,000,000	33,915,000	10,182,164	15,371,225	1,085,000	-4.1	10.4
<i>Thoma Cressey Fund VII</i>	50,000,000	49,104,075	30,994,548	46,489,614	895,925	23.6	8.4
<i>Thoma Cressey Fund VIII</i>	70,000,000	60,602,574	61,753,174	0	9,397,426	0.8	2.7
<b>Thomas, McNerney &amp; Partners</b>							
<i>Thomas, McNerney &amp; Partners I</i>	30,000,000	24,825,000	15,926,973	10,504,694	5,175,000	2.4	6.2
<i>Thomas, McNerney &amp; Partners II</i>	50,000,000	16,000,000	12,932,784	768,885	34,000,000	-11.9	2.5
<b>Varde Fund IX</b>	100,000,000	85,000,000	77,006,940	0	15,000,000	-12.7	0.5
<b>Vestar Capital Partners</b>							
<i>Vestar Capital Partners IV</i>	55,000,000	52,090,758	29,538,540	54,760,364	2,909,242	14.4	9.0
<i>Vestar Capital Partners V</i>	75,000,000	55,644,838	54,394,936	4,239,291	19,355,162	3.5	3.0
<b>Warburg Pincus</b>							
<i>Warburg, Pincus Ventures</i>	50,000,000	50,000,000	451,376	255,993,050	0	49.2	14.0
<i>Warburg Pincus Equity Partners</i>	100,000,000	100,000,000	21,403,521	129,432,094	0	9.4	10.5
<i>Warburg Pincus Private Equity VIII</i>	100,000,000	100,000,000	94,510,333	81,529,796	0	16.6	6.7
<i>Warburg Pincus Private Equity IX</i>	100,000,000	98,405,208	97,710,206	8,046,200	1,594,792	3.8	3.4
<i>Warburg Pincus Private Equity X</i>	150,000,000	45,060,914	39,287,395	121,413	104,939,086	-16.4	1.2
<b>Wayzata</b>							
<i>Wayzata Opportunities Fund</i>	100,000,000	99,600,000	119,520,996	339,109	400,000	7.9	3.0
<i>Wayzata Opportunities Fund II</i>	150,000,000	120,000,000	114,720,120	429,900	30,000,000	-7.2	1.2
<b>Welsh, Carson, Anderson &amp; Stowe</b>							
<i>Welsh, Carson, Anderson &amp; Stowe VIII</i>	100,000,000	100,000,000	35,880,469	82,347,673	0	2.3	10.4
<i>Welsh, Carson, Anderson &amp; Stowe IX</i>	125,000,000	118,750,000	81,093,022	126,738,700	6,250,000	15.0	8.5
<i>Welsh, Carson, Anderson &amp; Stowe X</i>	100,000,000	82,578,466	87,323,755	0	17,421,534	3.2	3.0
<i>Welsh, Carson, Anderson &amp; Stowe XI</i>	100,000,000	0	0	0	100,000,000	N/A	0.4
<b>Zell/ Chilmark Fund</b>	30,000,000	30,000,000	35,745	77,129,496	0	17.7	18.5
<b>Private Equity Total</b>	7,884,057,335	6,078,614,680	3,305,377,397	5,533,879,369	1,805,442,655		
<b>Alternatives Total</b>	12,548,859,112	9,215,245,040	6,184,325,067	8,616,654,487	3,333,614,071		

\* 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.

<b>YIELD-ORIENTED MANAGER SUMMARY PROFILE</b>
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**I. Background Data**

<b><i>Name of Fund:</i></b>	Prudential Capital Partners III, L.P. (the "Fund")
<b><i>Type of Fund:</i></b>	Yield-Oriented
<b><i>Total Fund Size:</i></b>	\$900 million, targeted
<b><i>Fund Manager:</i></b>	Prudential Capital Group
<b><i>Manager Contact:</i></b>	Mark Hoffmeister 180 No. Stetson, Ste 5600 Chicago Ill. 60601 312-540-4215

**II. Organization and Staff**

Prudential Insurance has been in the private placement investing business since 1935. Prudential Capital Group is Prudential's sole private placement unit. With more than \$43 billion of domestic and international private debt and equity investments in more than 970 companies (as of September 30, 2008), PCG is the largest investor in the U.S. private placement market. PCG, which has an investment staff of 139, operates through corporate offices in Chicago and Newark and six U.S. regional offices in Atlanta, Chicago, Dallas, Los Angeles, New York and San Francisco. PCG also has three international offices located in London, Frankfurt and Paris. Fund III (like the Predecessor Funds) generally will have exclusive access to all mezzanine deal flow originated by PCG's U.S. regional office network.

Fund III will be managed by five of PCG's most experienced mezzanine investors, the same team as Fund I and II: Jeff Dickson, Mark Hoffmeister, Charles King, Matt Chanin and Allen Weaver. All of these five principals (the "Principals") have broad private market investment experience, including mezzanine and private equity. They have been responsible for the design and implementation of PCG's mezzanine investment strategy since 1995, and have developed strong mezzanine investment networks. The Principals have a combined 129 years of private market investment experience.

**III. Investment Strategy**

Fund III will invest primarily in mezzanine and structured equity securities. Such investments typically combine both debt and equity securities and include convertible debt, preferred stock and warrants. Mezzanine investments combine a current rate of return through scheduled interest payments with opportunities for significant capital appreciation through equity participation. The principal of these debt instruments is

typically senior in rights and preference to both preferred and common equity, and benefits from covenants tied to the issuer's financial performance.

Similar to the Legacy Portfolio and the Predecessor Funds, Fund III will continue to focus on transactions with middle market companies that generally generate annual revenues in the \$20 million to \$300 million range. Fund III's investments are expected to be between \$10 and \$75 million. The portfolio of investments is expected to be broadly diversified with respect to industry, geography and type of financing. Investments will generally be made to facilitate the financing of recapitalizations, acquisitions and internal growth opportunities.

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

Previous fund performance as of September 30, 2008 for the Prudential Capital Mezzanine Funds and the SBI's investments with the previous funds, where applicable, is shown below:

<b>Fund</b>	<b>Inception Date</b>	<b>Total Equity Commitments</b>	<b>SBI Investment</b>	<b>Net IRR from Inception *</b>
Prudential Capital Partners Fund II, L.P.	2004	\$775 million	\$100 million	10.4%
Prudential Capital Partners, L.P.	2001	\$619 million	\$100 million	11.8%

\* Net IRR's were provided by the General Partner.

Previous Fund investments may be relatively immature and, therefore, returns may not be indicative of future results.

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

Prudential Insurance Company of America will contribute one-third of total capital commitments, up to \$300 million.

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

Limited Partners will make their capital contributions in installments as called by the General Partner on not less than 10 days' notice.



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

The annual management fee is equal to 1.5 percent of committed capital during the investment period and thereafter 1% of the funded capital commitments outstanding. Management fees will be reduced by 80% of net fee income.

### ***VIII. Distributions***

In general, profits will go 80% to all partners and 20% to the General Partner, subject to an 8% preferred return to all partners. Profits will consist of income and gains net of all investment losses, management fees and partnership expenses.

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

The investment period is five years from the final closing of the Fund. The term of the Partnership will be 10 years, with an option to extend for three additional years at the General Partner's discretion.



<b>PRIVATE EQUITY MANAGER SUMMARY PROFILE *</b>
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**I. Background Data**

<b>Name of Fund:</b>	Hellman & Friedman Capital Partners VII, L.P.
<b>Type of Fund:</b>	Private Equity Limited Partnership
<b>Total Fund Size:</b>	\$10 billion, targeted
<b>Fund Manager</b>	Hellman & Friedman LLC
<b>Manager Contact:</b>	Brian Powers Hellman & Friedman LLC One Maritime Plaza, 12 <sup>th</sup> Floor San Francisco, CA. 94111 415-698-6322

**II. Organization and Staff**

Hellman & Friedman LLC ("H&F" or the "Firm") is headquartered in San Francisco, with additional offices in New York and London, and has over 45 investment professionals and approximately 90 employees. The Firm has 15 Managing Directors, many of whom have worked and invested successfully together over many years through several economic and private equity market cycles. The Firm has maintained consistent and controlled growth in its investment capital since raising its first institutionally-sponsored private equity partnership in 1987.

**III. Investment Strategy**

The Firm seeks to invest in businesses with strong and defensible franchises with predictable revenue and earnings growth that generate high levels of free cash flow or attractive returns on the capital reinvested in the business. The Firm generally invests in businesses with strong operating management teams already in place; however, the Firm has experience attracting new managers to supplement or replace existing management teams. In applying its investment philosophy, the Firm has become an active private equity investor in a broad range of industries, including financial services, media, software/data services, business services, healthcare, internet/digital media and energy/industrials. The Firm continually works to identify new industries and companies that meet its investment criteria.

While H&F's investment philosophy specifically targets certain types of businesses, the Firm has been flexible about the form and structure of its investments. As a result, the Firm has significant experience investing in both control and non-control

positions. H&F's investments often serve as transition capital, ranging from facilitating ownership changes in privately held companies to financing growth. The Firm has invested in a variety of transaction structures, including traditional buyouts, leveraged recapitalizations, financial restructurings, strategic minority transactions, and capital infusions to launch or expand franchises. Regardless of investment structure, H&F selects companies that it believes it can add value to by serving as a knowledgeable working business partner that actively assists with major strategic and financial initiatives.

The Fund will focus on making equity-related investments mainly in the \$300 million to \$1.5 billion range, and primarily in the United States and developed countries outside of the United States. The Firm targets investments in mid to large cap companies, depending on where it believes it can find the most compelling opportunities. In building the portfolio for each fund, H&F prefers to make fewer, larger investments to concentrate resources on the Firm's best ideas. Its deep knowledge and relationships in select industries frequently have allowed H&F to identify opportunities early, with many of its investments to date resulting from proprietary projects rather than from broad investment banker-led auction processes.

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

Previous fund performance as of September 30, 2008 for the prior H&F Capital Partners (HFCP) funds is shown below:

<b>Fund</b>	<b>Inception Date</b>	<b>Total Equity Commitments</b>	<b>SBI Investment</b>	<b>Net IRR from Inception*</b>
HFCP VI	2006	\$8.4 billion	\$175 million	-9%
HFCP V	2004	\$3.5 billion	\$160 million	37%
HFCP IV	2000	\$2.2 billion	\$150 million	35%
HFCP III	1995	\$1.5 billion	\$40 million	34%
HFCP II	1991	\$877 million		22%
HFCP	1987	\$327 million		12%

\* Net IRR's were provided by the General Partner.

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

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

H&F professionals will make an aggregate capital commitment of at least \$400 million.

## **VI. Takedown Schedule**

Each Partner's commitment will be payable when called by the General Partner upon at least 10 business days notice to meet anticipated Fund expenses and to make investments.

## **VII. Management Fee**

The annual management fee will be 1.5% of committed capital. Upon the commencement of operations of HFCP VII's successor fund or the end of the commitment period, the Management Fee will be reduced to 0.75% of the cost of investments then held by HFCP VII. All investment banking fees, monitoring fees, directors' fees and other fee income (in all cases net of related expenses) from Portfolio Companies will be credited in full against the Management Fee.

## **VIII. Distributions**

Profits will be split 80% to all partners of HFCP VII and 20% to the General Partner. Profits will consist of income and gains net of all investment losses, management fees and partnership expenses.

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

The Fund Term will be ten years, subject to a two year extension with the approval of a majority in interest of the Limited Partners. The investment period will be six years.

\* *This document is a summary of more detailed information regarding Hellman & Friedman and Hellman & Friedman Capital Partners VII provided in the Confidential Private Placement Memorandum of Hellman & Friedman Capital Partners VII (the "PPM"). It is qualified in its entirety by the more detailed information provided in the PPM.*

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# Mortgage Market Overview

February 18, 2009

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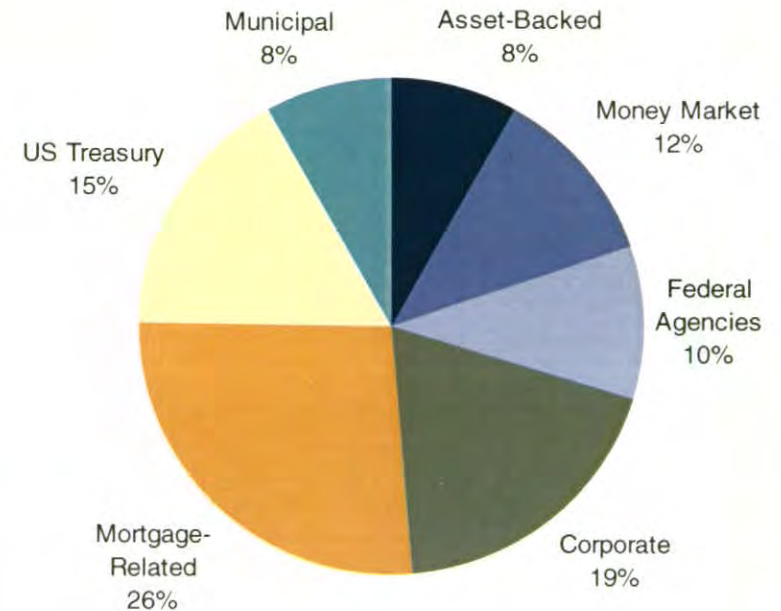


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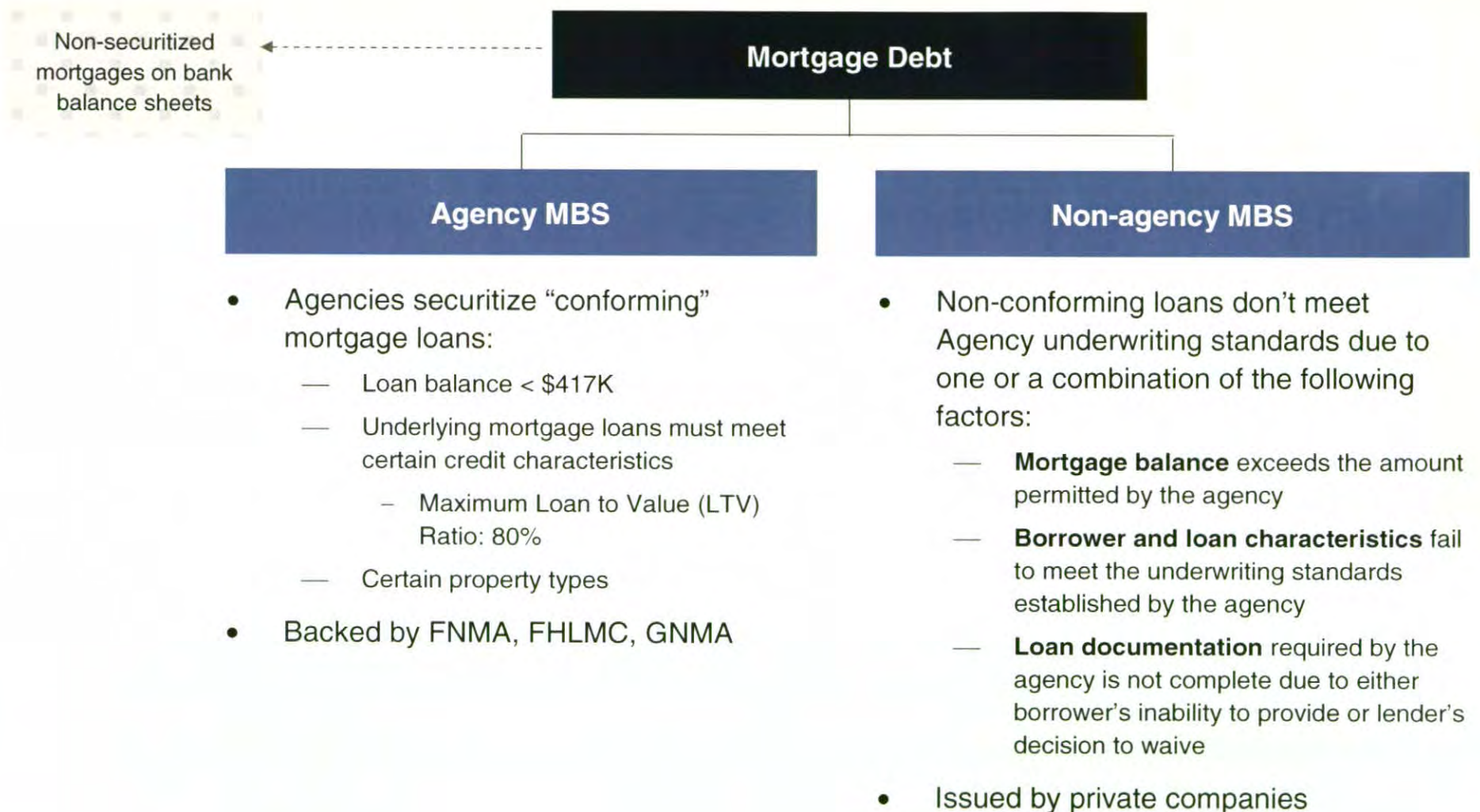
# The US mortgage market is one of the largest capital markets in the world

- There are many products within the mortgage-backed securities (MBS) market:
  - Agency fixed-rates and adjustable rate mortgages (ARMs)
  - Non-agency fixed rates and adjustable rate mortgages (Jumbos, Alt-As)
  - Whole loans
  - CMOs and other structured MBS
- In general, the mortgage market is divided into agency, prime, Alt-A and subprime sectors

Total market: \$33.2 trillion



# Mortgages are securitized either in the agency or the Non-agency mortgage market





# Credit analysis in Non-agency mortgages

## Two-levels to analyze in mortgage credit

```
graph TD; A[Two-levels to analyze in mortgage credit] --> B[Collateral Analysis]; A --> C[Structural Analysis];
```

### Collateral Analysis

Analyze pool of mortgages across several factors:

- FICO
- Loan-to-Value (LTV)
- Documentation
- DTI
- Layered collateral risk
- Geographics, etc.

### Structural Analysis

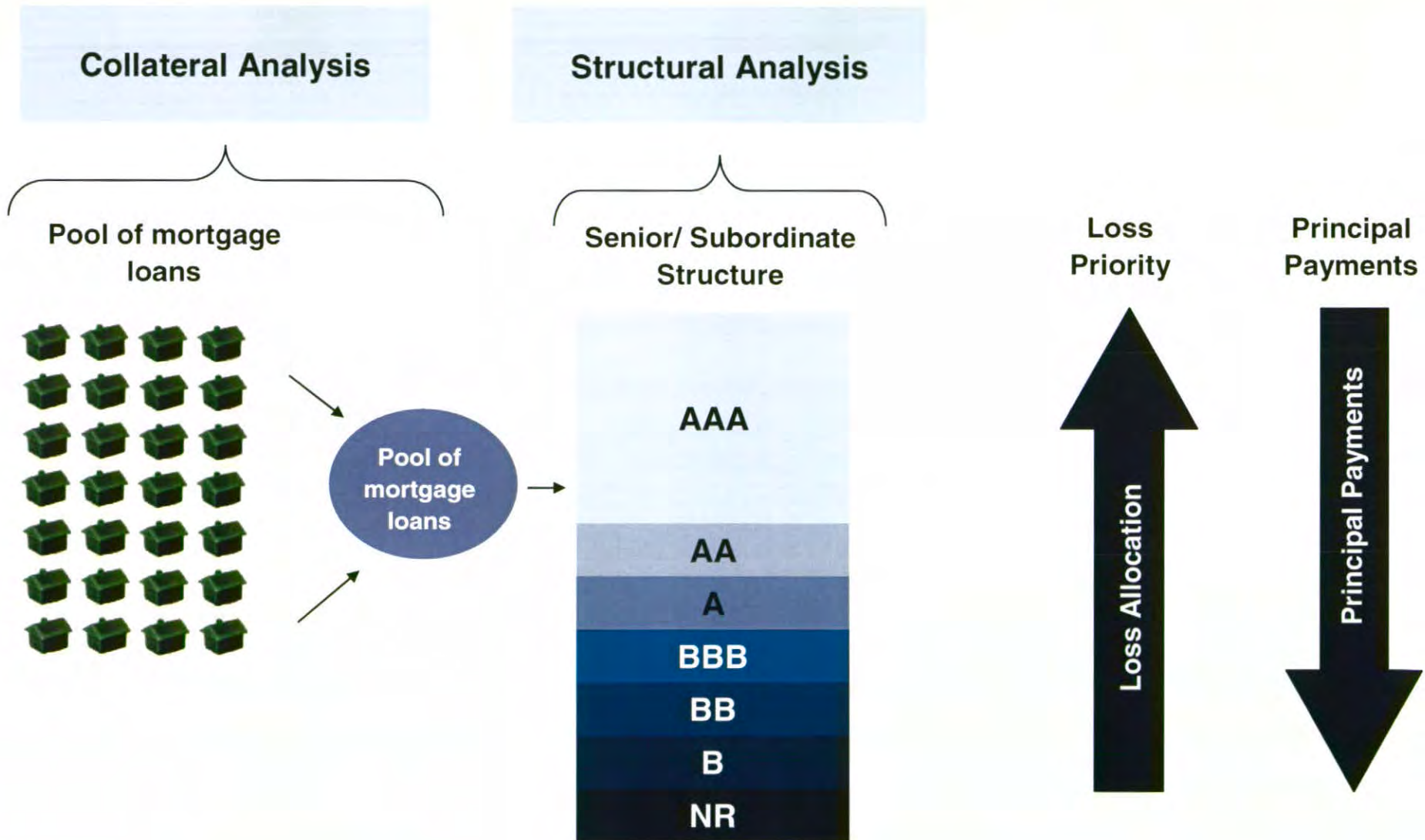
Evaluate and quantify credit enhancement:

- Subordination
- Evaluate triggers and covenants
- Waterfall

"Curr FICO" is the weighted average original credit score for the remaining loans in the pool. We also report percentage of loans with original FICO between 600-650, between 650-700, and greater than 700.

DTI stands for Debt-to-Income ratio, and is one measure of a borrower's ability to pay their mortgage on a monthly basis.

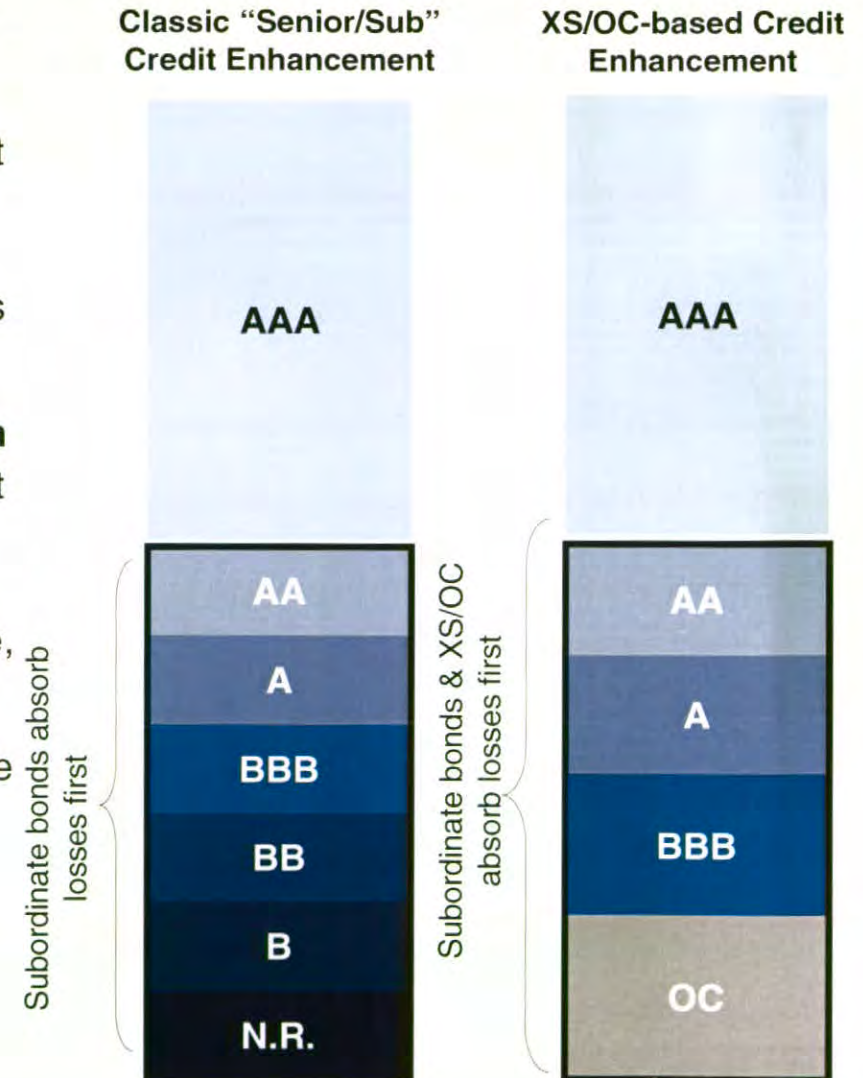
# The two levels of mortgage credit analysis



# A closer look at mortgage capital structures

In Non-agency MBS, credit enhancement structures come mainly in two flavors

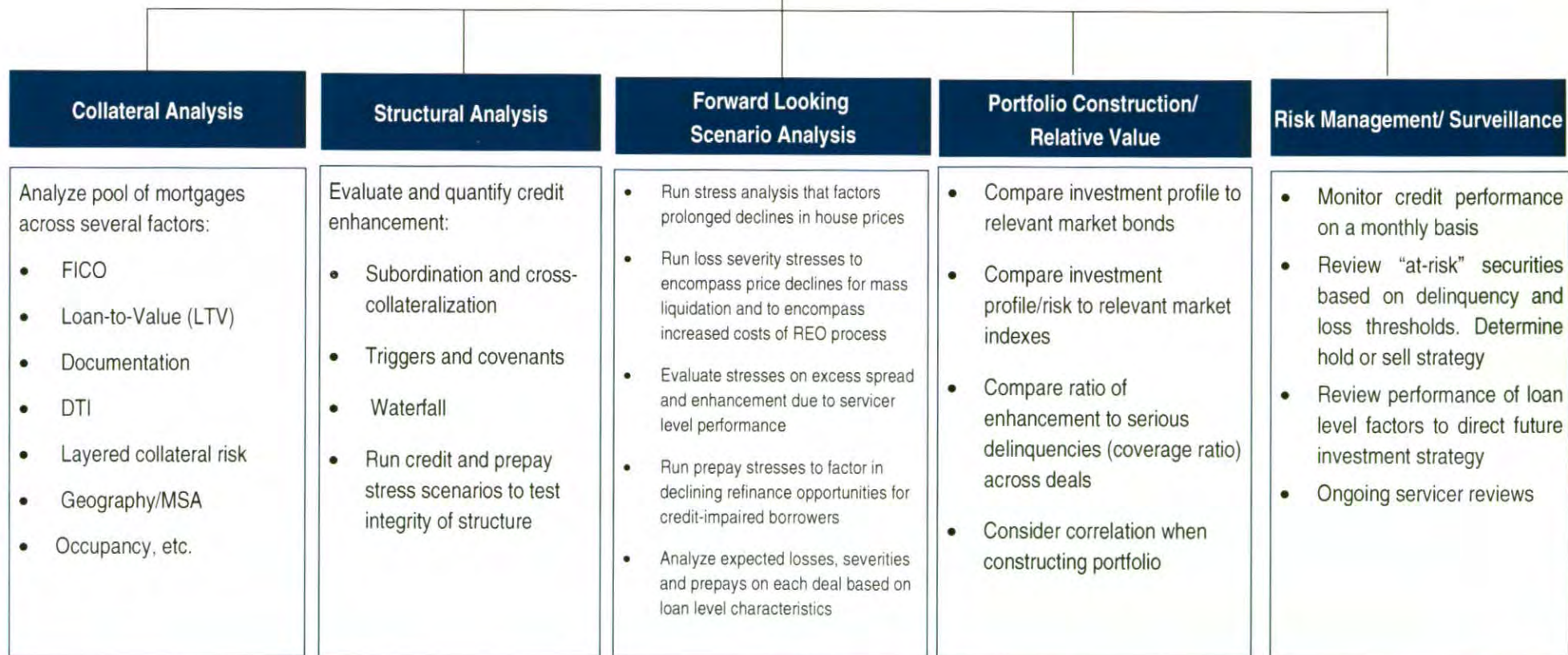
- **Classic “Senior/Sub”** shifting-interest structures where several locked-out subordinate bonds provide credit enhancement. Mainly used on Jumbos and Alt-As
- **Excess-spread/Overcollateralization structures (XS/OC)**, where locked-out subordinates are complemented by excess interest from the collateral to cover losses. Mainly used in Subprime, High-LTV, Alt-A
- In both cases, senior AAA class can be further tranching into a super-senior AAA and support AAA



# GSAM's approach to mortgage credit

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## 5-Step process to analyze mortgage credit



# A multi-dimensional approach to loan-level collateral analysis seeks to highlight key risk factors

- Looking at layered risk factors can highlight large quality differences in the underlying collateral across deals

## Not all deals are created the same

	Deal		
	Bond #1	Bond #2	Bond #3
<b>Average Characteristics of Underlying Loans</b>			
FICO	698	707	707
HPA Unadjusted Loan to Value (LTV)	77%	73%	77%
HPA Unadjusted Combined LTV (CLTV)	93%	77%	86%
HPA Adjusted LTV	88%	88%	84%
HPA Adjusted CLTV	106%	92%	94%
Full Doc (% of Loans)	10%	18%	19%
Non-Owner Occupied Investor Property (% of Loans)	31%	11%	21%
<b>Layered Risk Factors</b>			
Non-Owner Occupied + Low Documentation	28%	8%	17%
Interest Only + Debt To Income > 45	8%	0%	6%
Low Documentation + Cumulative LTV > 90 + FICO < 700	39%	8%	20%
<b>Performance</b>			
Serious Delinquencies	50%	22%	34%

**Bonds with similar "average" characteristics can have very different risk profiles.**

Source: Loan Performance as of December 2008

Please see additional disclosures. Characteristics are independent, security-specific statistics, Layered Risk Factors describe the combined outcome of two or more characteristics on the specific bonds in this example. This is not intended to suggest all bonds will behave in a similar manner, but to serve as an example of the compounding effects of security factors and compounded risks.

Serious Delinquencies are defined as 60 days delinquent or greater. FICO is Fair Isaac and Company, LTV is loan to value ratio, DTI is debt to income ratio, CLTV is combined loan to value ratio. HPA Adjusted LTV/CLTV is estimated LTV after adjusting for the effects of Home Price Appreciation (HPA) using home price index changes as provided by the Federal Housing Finance Agency (FHFA). For illustrative purposes only.

# We believe prices have overshot value within mortgages

## Non-Agency Mortgages

(Simulated default scenarios analysis)

Type	Current Mark	Credit Enhancement	Serious Delinquencies	Cum Loss (% Current)				Tranche Write-Down				Yield*			
				Optimistic	Base	High Stress	Pessimistic	Optimistic	Base	High Stress	Pessimistic	Optimistic	Base	High Stress	Pessimistic
Prime ARM	\$77	8.4	1.6	2	4	7	12	0.0	0.1	0.9	2.3	11.4	10.4	9.5	8.8
Alt-A ARM	\$47	21.4	26.3	20	28	38	49	1.4	8.3	19.3	33.8	24.4	21.2	17.6	13.2
Option ARM	\$42	42.3	29.4	31	41	51	61	5.6	13.8	26.5	41.0	35.5	30.1	24.1	16.7

- While fundamentals have deteriorated on the underlying collateral, this has not been enough to justify the recent extreme price action on high quality mortgage securities
- Even under severe stress scenarios, we believe that many non-agency mortgages offer attractive loss-adjusted yields

\* Assumes no loan modifications.

Source: GSAM, as of January 2009. For illustrative purposes only. The performance contained herein should not be relied upon as representative of actual or future returns for any Goldman Sachs products. Such data may vary for each client in the strategy due to market conditions, client guidelines, and diversity of portfolio holdings, and is not indicative of future portfolio characteristics or returns. Simulated performance results do not reflect actual trading and have inherent limitations. The analysis is designed to give you insights into our views on how these holdings, in aggregate, might perform under different market conditions. Although this review shows each individual position, it is based on a number of assumptions and is therefore more accurate viewed in aggregate rather than bond by bond. The table above projects the performance of our mortgage holdings under three progressively more extreme hypothetical market scenarios. The analysis considers factors such as default risk, pre-payment risk, and loss severity assuming different rates of Housing Price Depreciation ("HPD") in an attempt to estimate the recovery rate of the mortgages. The portfolio management team analyzes data based on a variety of assumptions (e.g. delinquency data, broad economic trends, market liquidity, analyst sentiment) in order to arrive at the data shown in the attached tables. As a result, the information in the attached is subjective, reflecting only our best current judgment about these positions. Please be aware that the mortgage market is currently very volatile, and therefore the information presented is likely to change as market conditions change. This information discusses general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice. Please see additional disclosures.

# Loan Modifications

## Change In Contractual Terms of the loan:

- Interest Rate
- Amortization term or maturity
- Principal forbearance or forgiveness

## Purpose:

- Make loans more affordable
- Reduces loss compared to foreclosure
- Used when borrower has long term financial hardship
  - wants to stay in home
  - has ability and willingness to make a reduced payment
- Principal forgiveness is rarely used
  - a few servicers forgive principal
  - expect use of principal forbearance/forgiveness to grow

## Impact on Securities:

- Reduces interest available to securities
- Principal losses applied to subordinate tranches



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# Disclosures

This material is provided for educational purposes only and should not be construed as investment advice or an offer or solicitation to buy or sell securities.

Past performance is not indicative of future results, which may vary. The value of investments and the income derived from investments can go down as well as up. Future returns are not guaranteed, and a loss of principal may occur.

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