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# MINNESOTA STATE BOARD OF INVESTMENT

MINNESOTA STATE BOARD  
OF INVESTMENT  
MEETING  
**March 8, 2012**



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

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**STATE BOARD OF INVESTMENT**

**AGENDA AND MINUTES**

**March 8, 2012**

**AGENDA**  
**STATE BOARD OF INVESTMENT MEETING**  
**Thursday, March 8, 2012**  
**10:00 A.M. – Room 318**  
**State Capitol, St. Paul**

- |  |            |
|--|------------|
| <b>1. Approval of Minutes of December 12, 2011</b>   | <b>TAB</b> |
| <b>2. Report from the Executive Director (H. Bicker)</b>   | <b>A</b>   |
| A. Quarterly Investment Review<br>(October 1, 2011 – December 31, 2011)                            |            |
| B. Administrative Report   | <b>B</b>   |
| 1. Reports on Budget and Travel  |            |
| 2. Results of FY11 Audit Report  |            |
| 3. Legislative Update  |            |
| 5. Review of Police and Fire Mergers   |            |
| 6. Update on Sudan   |            |
| 7. Update on Iran  |            |
| 8. Litigation Update   |            |
| <b>3. Report from the IAC Membership Review Committee (H. Bicker)</b>                              | <b>C</b>   |
| <b>4. Report from the Consultant Review Committee (H. Bicker)</b>                                  | <b>D</b>   |
| <b>5. Investment Advisory Council Report (J. Bailey)</b>   | <b>E</b>   |
| A. Stock and Bond Report   |            |
| 1. Review of manager performance for the period ending<br>December 31, 2011                        |            |
| B. Alternative Investment Report   | <b>F</b>   |
| 1. Review of current strategy  |            |
| 2. Consideration of new fund investments with three existing<br>and one new private equity manager |            |
| <b>6. Other items</b>  |            |

**Minutes**  
**State Board of Investment**  
**December 12, 2011**

The State Board of Investment (SBI) met at 1:00 P.M. Monday, December 12, 2011 in Room 123, State Capitol, St. Paul, Minnesota. Governor Mark Dayton, State Auditor Rebecca Otto, Secretary of State Mark Ritchie and Attorney General Lori Swanson were present. The minutes of the September 7, 2011 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 matched its Composite Index over the ten year period ending September 30, 2011 (Combined Funds 5.8% vs. Composite 5.8%) and had provided a real rate of return over the latest 20 year period (Combined Funds 7.9% vs. CPI 2.5%).

Mr. Bicker reported that the Combined Funds' assets decreased 10.3% for the quarter ending September 30, 2011 due to negative market performance. He said that the asset mix is essentially on target, and he stated that the Combined Funds underperformed its Composite Index for the quarter (Combined Funds -9.3% vs. Composite -8.8%) but outperformed for the year (Combined Funds 3.0% vs. Composite 2.8%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stocks -16.0% vs. Domestic Equity Asset Class Target -15.3%) and for the year (Domestic Stock 0.3% vs. Domestic Equity Asset Class Target 0.5%). He said the international stock manager group underperformed for the quarter (International Stock -20.0% vs. International Equity Asset Class Target -19.9%) and for the year (International Stock -11.1% vs. International Equity Asset Class Target -10.8%). Mr. Bicker stated that the bond segment underperformed for the quarter (Bonds 2.7% vs. Fixed Income Asset Class Target 3.8%) and for the year (Bonds 5.0% vs. Fixed Income Asset Class Target 5.3%). He stated that the alternative investments returned 3.8% for the quarter. He concluded his report with the comment that, as of September 30, 2011, 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. He reported that the Pension Commission had met several times during the quarter, and he noted that extensive discussions took place regarding assumed rates of return. He stated that the Pension Commission took no formal action, and he said he will keep the Board apprised of any further developments.

Mr. Bicker stated that the Legislative Auditor is working on the financial audit of SBI operations for FY11 and that a copy of the audit report will be distributed as soon as it is available. He noted that a draft of the SBI's Annual Report will also be distributed in December for comment and review.

Mr. Bicker stated that the tentative meeting dates for calendar year 2012 have been set, and he said staff will be confirming the availability of Board members over the next few weeks. He stated that updated information on Sudan and Iran is also included in Tab B.

Ms. Eller stated that she had two items to report regarding litigation. She said that in the Lehman bankruptcy case, the plan was approved by the bankruptcy judge and that it was more favorable to the SBI than the previous two plans that were proposed. She said that the SBI will receive between \$0.11 and \$0.15 on the dollar, depending on the type of security owned.

Ms. Eller reported that the SBI has been sued by the Minnesota Break the Bonds Campaign and a number of named plaintiffs. She said the action seeks declaratory and injunctive relief that the SBI's investment in Israel bonds is not statutorily authorized and violates the prudent person standard. She stated that the action seeks a court order prohibiting the SBI from further investment in Israel bonds pending the outcome of the case and the final judgment directing the SBI to divest from all Israel bonds. She added that the action had not yet been filed and that a response will be served on behalf of the SBI. In response to several questions from Ms. Otto, Attorney General Swanson stated that the lawsuit had not yet been filed with the courts, and she said that Minnesota law allows for a lawsuit to be initiated with what is called a "pocket summons" and that filing the lawsuit with the court triggers various court calendars. She added that there is a timeline for responding to a complaint. In response to a question from Governor Dayton, Attorney General Swanson stated that it is the prerogative of the Board as to what discussion occurs at the meeting regarding the lawsuit.

Mr. Bicker distributed a revised memo from the IAC Membership Review Committee to members (see **Attachment A**) and stated that nine of the IAC members had applied for reappointment to the IAC. He stated that the Committee is recommending reappointment of the nine current members and that the Committee will recommend one additional person at the March 2012 Board meeting. Mr. Ritchie moved approval of the Committee's recommendation, as stated in Attachment A, which reads: **"The Committee recommends that the Board reappoint the following as members of the Investment Advisory Council, with terms expiring in January 2016: Jeffery Bailey, John Bohan, Kerry Brick, Dennis Duerst, Douglas Gorence, P. Jay Kiedrowski, Judith Mares-Lazar, Gary Martin, and Malcolm McDonald. At the SBI's March 2012 meeting, the Committee will recommend one additional person for membership on the Investment Advisory Council."** The motion passed.

### **Investment Advisory Council**

Mr. Bailey referred members to Tab D of the meeting materials and stated that during the quarter staff and the IAC discussed the role of hedge fund managers and what kind of role they might play in the future in the SBI's investment program. He stated that no conclusions were reached and that further discussion was warranted. In response to comments made by Governor Dayton, Mr. Bailey agreed that the risk/reward trade-offs need to be examined further. Mr. Ritchie requested staff to supply the Board with educational materials, and Mr. Bailey stated that staff will make a more formal presentation to the Board at a future date. Ms. Otto reminded members that in-depth discussions on investment issues take place at the IAC meetings, and she noted she hopes to attend in the future for continuing education purposes.

Mr. Bailey stated that staff and the IAC are recommending the termination of AllianceBernstein. Ms. Otto moved approval of the recommendation as stated in Tab D of the meeting materials which reads: **"The SBI staff and the IAC recommend the termination of AllianceBernstein from the International Equity Program due to poor performance and organizational change."** The motion passed.

Mr. Bailey referred members to Tab E of the materials and stated that staff and the IAC are recommending new investments with two existing yield-oriented managers, Prudential Capital Group and Windjammer Capital Investors, and one existing private equity manager, Goldner Hawn Johnson and Morrison. Ms. Otto moved approval of all three Committee recommendations, as stated in Tab E which reads: **"The Investment Advisory Council recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million, or 20% of Prudential IV, whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by 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.**

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

**The Investment Advisory Council recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$20 million, or 20% of Trailhead Fund L.P., whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by GHJM 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 GHJM or reduction or termination of the commitment."** The motion passed.

Ms. Sylvia Schwarz of the Minnesota Break the Bonds Campaign addressed the Board and a discussion followed.

The meeting adjourned at 1:32 P.M.

Respectfully submitted,

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

Howard Bicker  
Executive Director

**COMMITTEE REPORT**

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DATE: December 5, 2011

TO: Members, State Board of Investment

**FROM: IAC Membership Review Committee**

On November 4, 2011 the IAC Membership Review Committee, which is comprised of a designee of each Board member, met to review applications for IAC membership.

The terms of ten members of the Investment Advisory Council have expired. The ten members are as follows:

Jeffery Bailey	Director-Benefits Finance Target Corporation
John Bohan	V.P. Pension Investments (Retired) Grand Metropolitan-Pillsbury
Kerry Brick	Manager, Pension Investments Cargill, Inc.
Dennis Duerst	Director, Benefits Funds Investments 3M Company
Douglas Gorence	Chief Investment Officer U of M Foundation Investment Advisors
P. Jay Kiedrowski	Senior Fellow Humphrey Institute University of MN
Judith Mares-Lazar	Chief Investment Officer Alliant Techsystems, Inc.
Gary Martin	V.P., Pension Investments SUPERVALU, Inc.
Malcolm McDonald	Director & Corporate Secretary (Retired) Space Center, Inc.
Gary Norstrom	Treasurer, (Retired) City of St. Paul



Nine of the above named have submitted an application for reappointment to the IAC. Gary Norstrom is retiring. In addition, the Committee received two new applications for membership to the Council.

Steven Johnson

Westwood

Douglas Neimann

Okabena Investment Services

Nine applicants seeking reappointment have extensive professional plan sponsor and institutional investment experience, as is needed for service on the IAC.

After reviewing all the applications the Committee is making the following recommendations.

**RECOMMENDATIONS:**

**The Committee recommends that the Board reappoint the following as members of the Investment Advisory Council, with terms expiring in January 2016:**

**Jeffery Bailey**

**John Bohan**

**Kerry Brick**

**Dennis Duerst**

**Douglas Gorence**

**P. Jay Kiedrowski**

**Judith Mares-Lazar**

**Gary Martin**

**Malcolm McDonald**

**At the SBI's March 2012 meeting, the Committee will recommend one additional person for membership on the Investment Advisory Council.**

TAB

A

**LONG TERM OBJECTIVES**  
**Period Ending 12/31/2011**

<b>COMBINED FUNDS: \$45.2 Billion</b>	<b>Result</b>	<b>Compared to Objective</b>
<b>Match or Exceed Composite Index (10 Yr.)</b>  Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Combined Funds over the latest 10 year period.	<b>5.7% (1)</b>	matched the target
<b>Provide Real Return (20 yr.)</b>  Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.	<b>7.8%</b>	5.3 percentage points above CPI

(1) Performance is calculated net of fees.

**SUMMARY OF ACTUARIAL VALUATIONS****Eight Plans of MSRS, PERA and TRA****July 1, 2011****Liabilities**

Actuarial Accrued Liabilities \$60.4 billion

**Assets**

Current Actuarial Value \$47.5 billion

**Funding Ratio**Current Actuarial Value divided by  
Accrued Liabilities 78.7%**Actuarial Assumptions:**

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

**EXECUTIVE SUMMARY**  
**Combined Funds (Net of Fees)**

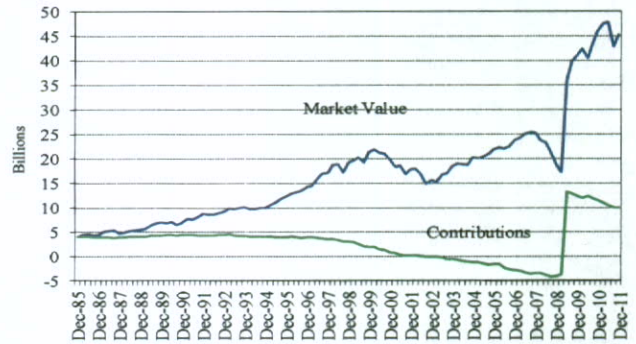
**Asset Growth**

The market value of the Combined Funds increased 5.6% during the fourth quarter of 2011. Positive investment returns caused the increase in market value.

**Asset Growth**  
**During Fourth Quarter 2011**  
**(Millions)**

Beginning Value	\$ 42,841
Net Contributions	29
Investment Return	2,358
Ending Value	\$ 45,228

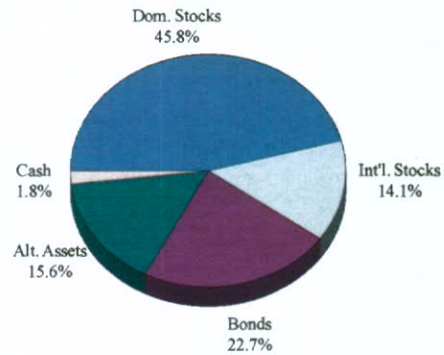
Note: The significant increase in market value and contributions in June 2009 was due to the merger of the Basics and Post Funds.



**Asset Mix**

The allocation to domestic equities increased due to outperformance relative to the other asset classes.

	Policy Targets	Actual Mix 12/31/2011	Actual Market Value (Millions)
Domestic Stocks	45.0%	45.8%	\$20,730
Int'l. Stocks	15.0	14.1	6,364
Bonds	18.0	22.7	10,245
Alternative Assets*	20.0	15.6	7,054
Cash	2.0	1.8	835
	100.0%	100.0%	\$45,228

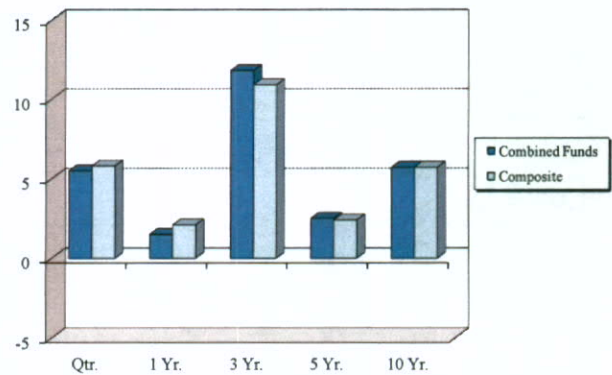


\* Any uninvested allocation is held in domestic bonds.

**Fund Performance (Net of Fees)**

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

	Period Ending 12/31/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds	5.5%	1.5%	11.8%	2.5%	5.7%
Composite	5.8	2.1	10.9	2.4	5.7



## EXECUTIVE SUMMARY

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

#### Domestic Stocks

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

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

	Period Ending 12/31/2011				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Dom. Stocks</b>	<b>12.0%</b>	<b>0.4%</b>	<b>15.1%</b>	<b>-0.2%</b>	<b>3.2%</b>
Asset Class Target*	12.1	1.0	14.9	0.0	3.5

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

#### International Stocks

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

**MSCI ACWI Free ex U.S. (net):** The Morgan Stanley Capital International All Country World Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. There are 45 countries included in this index. It does not include the United States.

	Period Ending 12/31/2011				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Int'l. Stocks</b>	<b>3.4%</b>	<b>-14.2%</b>	<b>10.8%</b>	<b>-2.7%</b>	<b>6.3%</b>
Asset Class Target*	3.7	-13.7	10.7	-2.9	6.3

\* Since 6/1/08 the International Equity Asset Class Target is the Standard MSCI ACWI ex U.S. (net). From 10/1/07 to 5/31/08 the benchmark was the Provisional Standard MSCI ACWI ex U.S. (net). From 10/1/03 to 9/30/07 the target was MSCI ACWI ex U.S. (net). From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) + Emerging Markets Free (EMF) (net), and from 7/1/99 to 12/31/00 was MSCI EAFE Free (net) + EMF (gross). From 7/1/99 to 9/30/03, the weight of each index fluctuated with market cap.

#### Bonds

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

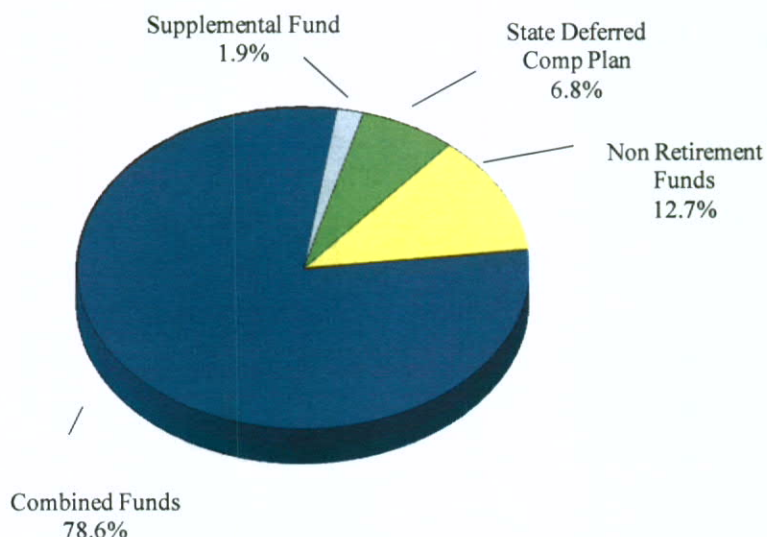
**Barclays Capital Aggregate:** The Barclays Capital Aggregate Bond Index reflects the performance of the broad bond market for investment grade (Baa or higher) bonds, U.S. treasury and agency securities, and mortgage obligations with maturities greater than one year.

	Period Ending 12/31/2011				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Bonds</b>	<b>1.4%</b>	<b>7.2%</b>	<b>10.1%</b>	<b>6.3%</b>	<b>5.9%</b>
Asset Class Target	1.1	7.8	6.8	6.5	5.8

#### Alternative Investments

	Period Ending 12/31/2011				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Alternatives</b>	<b>-2.9%</b>	<b>12.6%</b>	<b>4.9%</b>	<b>8.6%</b>	<b>13.6%</b>

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



	<b>12/31/2011 Market Value (Billions)</b>
<b>Retirement Funds</b>	
Combined Funds	\$45.2
Supplemental Investment Fund	1.1
- Excluding Deferred Compensation Plan Assets	
State Deferred Compensation Plan	3.9
<b>Non-Retirement Funds</b>	
Assigned Risk Plan	0.3
Permanent School Fund	0.8
Environmental Trust Fund	0.6
Miscellaneous Trust Accounts	0.1
Other Post Employment Benefits Accounts	0.3
State Cash Accounts	5.2
<b>Total</b>	<b>\$57.5</b>

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# MINNESOTA STATE BOARD OF INVESTMENT

## QUARTERLY INVESTMENT REPORT

Fourth Quarter 2011  
(October 1, 2011 - December 31, 2011)

### Table of Contents

	Page
Capital Market Indices .....	2
Financial Markets Review .....	3
Combined Funds.....	5
Stock and Bond Manager Pools.....	9
Alternative Investments .....	10
Supplemental Investment Fund.....	11
Fund Description	
Income Share Account	
Growth Share Account	
Common Stock Index Account	
International Share Account	
Bond Market Account	
Money Market Account	
Fixed Interest Account	
Volunteer Firefighter Account	
Deferred Compensation Plan.....	14
Assigned Risk Plan .....	17
Permanent School Fund .....	18
Environmental Trust Fund.....	19
State Cash Accounts .....	20
Composition of State Investment Portfolios.....	21

## VARIOUS CAPITAL MARKET INDICES

	Period Ending 12/31/2011				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Domestic Equity</b>					
Dow Jones Wilshire Composite	12.1%	1.1%	15.2%	0.2%	3.9%
Dow Jones Industrials	12.8	8.4	14.9	2.4	4.6
S&P 500	11.8	2.1	14.1	-0.2	2.9
Russell 3000 (broad market)	12.1	1.0	14.9	0.0	3.5
Russell 1000 (large cap)	11.8	1.5	14.8	0.0	3.3
Russell 2000 (small cap)	15.5	-4.2	15.6	0.2	5.6
<b>Domestic Fixed Income</b>					
Barclays Capital Aggregate (1)	1.1	7.8	6.8	6.5	5.8
Barclays Capital Gov't./Corp.	1.2	8.7	6.6	6.5	5.9
3 month U.S. Treasury Bills	0.0	0.1	0.1	1.3	1.8
<b>International</b>					
EAFE (2)	3.3	-12.1	7.6	-4.7	4.7
World ex-U.S. (3)	3.5	-12.2	8.5	-4.1	5.1
Emerging Markets Free (4)	4.4	-18.2	20.4	2.7	14.2
ACWI Free ex-U.S. (5)	3.8	-13.3	11.2	-2.5	6.8
Salomon Non U.S. Gov't. Bond	-0.5	5.2	4.9	7.2	8.4
<b>Inflation Measure</b>					
Consumer Price Index CPI-U (6)	-0.3	3.2	2.5	2.3	2.4
Consumer Price Index CPI-W (7)	-0.4	3.5	2.8	2.5	2.6

(1) Barclays Capital Aggregate Bond index. Includes governments, corporates and mortgages.

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

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

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

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

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

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The U.S. stock market, as measured by the Russell 3000 index, posted a 12.1% return during the fourth quarter of 2011. While the U.S. recovery remains fragile, leading economic indicators and consumer confidence showed signs of improvement in the fourth quarter. Stock market volatility continued as investors oscillated in and out of equities, with little distinction among companies. The result has been that many stocks have moved tightly as a group, driving correlations to multi-decade highs and creating a challenging environment for active stock selection. Within the Russell 3000, Energy reported the highest return, 18.6% for the quarter. Technology was the worst performing sector with an 8.5% return for the quarter. Small cap companies outperformed large cap companies within the Russell 3000.

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

Large Growth	Russell 1000 Growth	10.6%
Large Value	Russell 1000 Value	13.1%
Small Growth	Russell 2000 Growth	15.0%
Small Value	Russell 2000 Value	16.0%

The Russell 3000 index returned 1.0% for the year ending December 31, 2011.

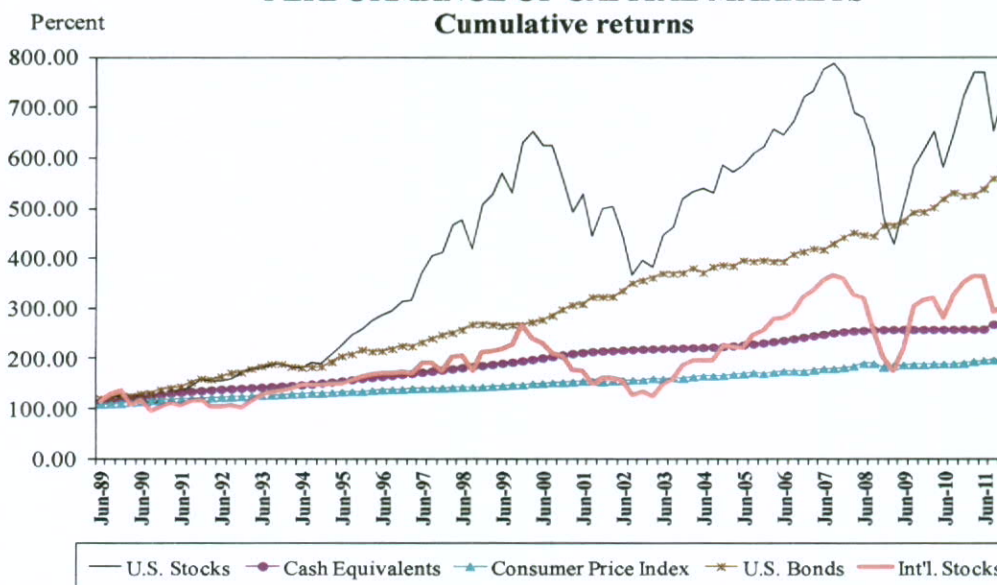
DOMESTIC BONDS

The U.S. bond market, as measured by the Barclays Capital U.S. Aggregate Bond Index, returned 1.1% for the quarter. Yields on U.S. Treasuries fell modestly in the wake of continued global financial stress and Europe's ongoing sovereign debt crisis. The 2-year U.S. Treasury ended the fourth quarter one basis point lower at 0.24%, the 10-year yield declined 2 basis points to 1.88%, and the 30-year fell 3 basis points to 2.89%. High-quality commercial mortgage-backed securities rallied during the quarter as commercial real estate values stabilized. Corporate bonds also performed well during the quarter, driven by solid credit fundamentals and healthy balance sheets.

The major sector returns for the Barclays Capital U.S. Aggregate Bond Index for the quarter were:

U.S. Treasury	0.9%
Agency	0.5
Corporates	1.9
Agency MBS	0.9
Commercial Mortgages	3.1
Asset-backed	0.2

PERFORMANCE OF CAPITAL MARKETS  
Cumulative returns



## FINANCIAL MARKETS REVIEW

### INTERNATIONAL STOCKS

In aggregate, developed international stock markets (as measured by the MSCI World ex U.S. index net) provided a return of 3.5% for the quarter. The quarterly performance of the six largest stock markets is shown below:

United Kingdom	9.1%
Japan	-3.9
Canada	5.0
France	2.7
Australia	7.5
Germany	3.9

The World ex U.S. index returned -12.2% during the last year.

The World ex U.S. index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 23 markets located in Europe, Australasia, Far East, and Canada. The major markets listed above comprise about 74% of the value of the international markets in the index.

### EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index gross) provided a return of 4.5% for the quarter. The quarterly performance of the six largest stock markets in the index is shown below:

China	8.1%
Brazil	8.9
Korea	5.9
Taiwan	-0.4
India	-14.3
South Africa	7.0

The Emerging Markets Free index returned -18.2% during the last year.

The Emerging Markets Free (EMF) index is compiled by MSCI and measures performance of 21 stock markets in Latin America, Asia, Africa and Eastern Europe. EMF includes only those securities foreign investors are allowed to hold. The markets listed above comprise about 73% of the value of the international markets in the index.

### REAL ESTATE

During the fourth quarter of 2011, real estate posted its eighth consecutive quarter of positive returns with the NCREIF Property Index posting a return of 3.0%. Even with accommodative monetary and fiscal policies, the real estate outlook for 2012 continues to be one of caution due to continued weakness in employment and weak demand.

### PRIVATE EQUITY

Private equity firms that spent the past two years improving their portfolio companies are finally able to cash in on their strongest performers. Strategic buyers are also awash with cash after accumulating capital on their balance sheets during the recent economic contraction. Deal volume has steadily increased over the last two years, and private equity firms still maintain healthy levels of committed capital for deal-making. Because of the increased transaction volume, private equity performance has rebounded over the last two years.

### RESOURCE FUNDS

During the fourth quarter of 2011, crude oil traded between a range of \$75/bbl and \$102/bbl. The average price for the fourth quarter of 2011 was \$94/bbl which is approximately \$4/bbl more than the average price for the third quarter of 2011. Improved economic growth and unrest in the Middle East should continue to provide strength to oil prices.

COMBINED FUNDS

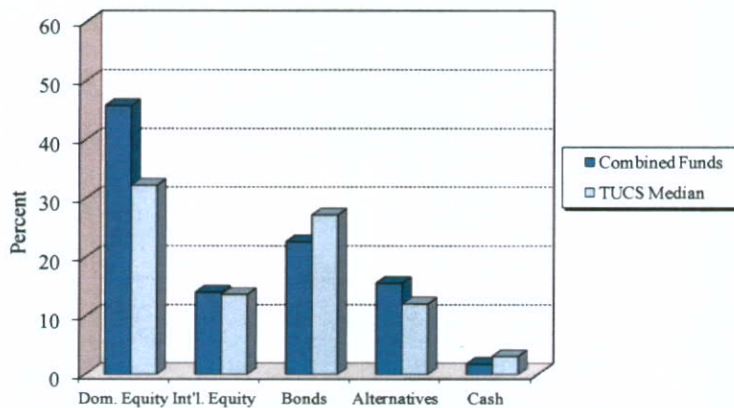
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over \$1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On December 31, 2011, the asset mix of the Combined Funds was:

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

	\$ Millions	%
Domestic Stocks	\$20,730	45.8%
International Stocks	6,364	14.1
Bonds	10,245	22.7
Alternative Assets	7,054	15.6
Unallocated Cash	835	1.8
<b>Total</b>	<b>\$45,228</b>	<b>100.0%</b>



	Dom. Equity	Int'l Equity	Bonds	Alternatives	Cash
<b>Combined Funds</b>	<b>45.8%</b>	<b>14.1%</b>	<b>22.7%</b>	<b>15.6%</b>	<b>1.8%</b>
Median Allocation in TUCS*	32.3	13.7	27.2	12.1**	3.1

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

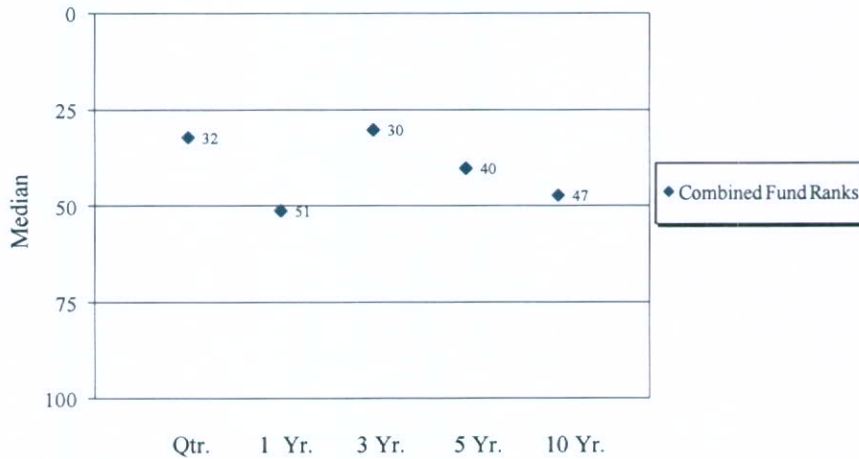
**COMBINED FUNDS  
Performance Compared to Other Pension Funds**

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 12/31/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds Percentile Rank in TUCS*	32nd	51st	30th	40th	47th

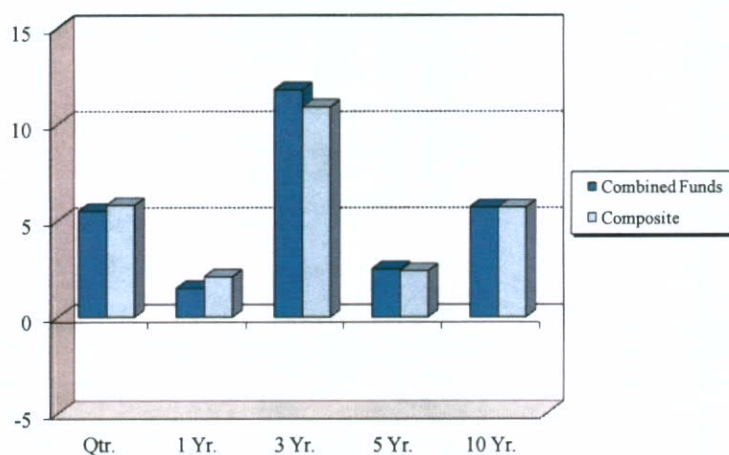
\* Compared to public and corporate plans greater than \$1 billion, gross of fees.

**COMBINED FUNDS  
Performance Compared to Composite Index**

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

	<b>Market Index</b>	<b>Combined Funds Composite* 4Q11</b>
Domestic Stocks	Russell 3000	45.0%
Int'l. Stocks	MSCI ACWI Free ex-U.S.	15.0
Bonds	Barclays Capital Aggregate	21.2*
Alternative Investments	Alternative Investments	16.8*
Unallocated Cash	3 Month T-Bills	2.0
		100.0%

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



	<b>Period Ending 12/31/2011</b>				
	<b>Qtr.</b>	<b>1 Yr.</b>	<b>3 Yr.</b>	<b>Annualized</b>	
				<b>5 Yr.</b>	<b>10 Yr.</b>
<b>Combined Funds**</b>	<b>5.5%</b>	<b>1.5%</b>	<b>11.8%</b>	<b>2.5%</b>	<b>5.7%</b>
<b>Composite Index</b>	<b>5.8</b>	<b>2.1</b>	<b>10.9</b>	<b>2.4</b>	<b>5.7</b>

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

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

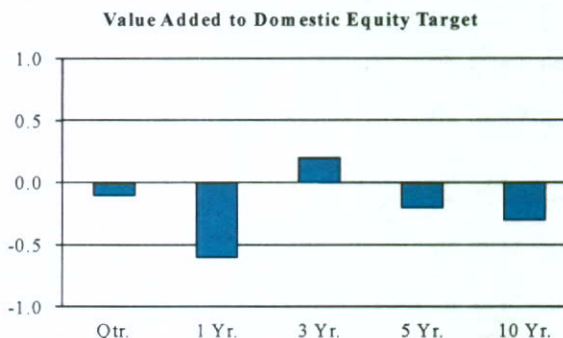
**Domestic Stocks**

**Target:** Russell 3000

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

	Period Ending 12/31/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Domestic Stocks</b>	<b>12.0%</b>	<b>0.4%</b>	<b>15.1%</b>	<b>-0.2%</b>	<b>3.2%</b>
Asset Class Target*	12.1	1.0	14.9	0.0	3.5

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



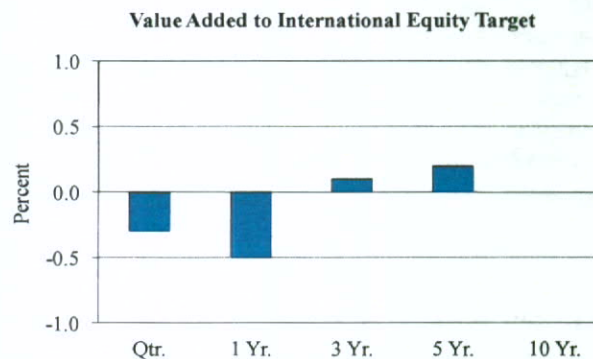
**International Stocks**

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

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

	Period Ending 12/31/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Int'l. Stocks</b>	<b>3.4%</b>	<b>-14.2%</b>	<b>10.8%</b>	<b>-2.7%</b>	<b>6.3%</b>
Asset Class Target*	3.7	-13.7	10.7	-2.9	6.3

\* The Int'l Equity Asset Class Target is MSCI ACWI Free ex U.S. (net) effective 10/1/03. From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) + Emerging Markets Free (EMF) (net), and from 7/1/99 to 12/31/00 was MSCI EAFE Free (net) + EMF (gross). From 7/1/99 to 9/30/03, the weight of each index fluctuated with market cap.

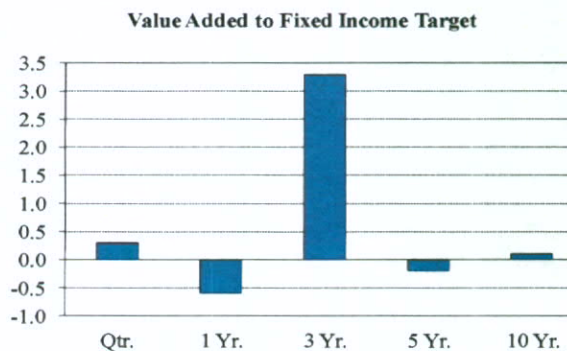


**Bonds**

**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 12/31/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Bonds</b>	<b>1.4%</b>	<b>7.2%</b>	<b>10.1%</b>	<b>6.3%</b>	<b>5.9%</b>
Asset Class Target	1.1	7.8	6.8	6.5	5.8



**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 12/31/2011				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
	Annualized				
Alternatives	-2.9%	12.6%	4.9%	8.6%	13.6%
Inflation	-0.5%	3.0%	2.4%	2.3%	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.

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

	Period Ending 12/31/2011				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
	Annualized				
Real Estate	2.4%	15.2%	-7.6%	-0.1%	6.5%

**Private Equity Investments (Equity emphasis)**

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

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

	Period Ending 12/31/2011				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
	Annualized				
Private Equity	-5.1%	11.2%	8.5%	9.6%	13.3%

**Resource Investments (Equity emphasis)**

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

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

	Period Ending 12/31/2011				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
	Annualized				
Resource	-0.5%	18.7%	7.1%	13.9%	28.0%

**Yield Oriented Investments (Debt emphasis)**

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

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

	Period Ending 12/31/2011				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
	Annualized				
Yield Oriented	-1.1%	10.9%	3.7%	11.1%	15.5%

## SUPPLEMENTAL INVESTMENT FUND

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

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

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

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

**On December 31, 2011 the market value of the entire Fund was \$1.1 billion.**

## Investment Options

	12/31/2011 Market Value (In Millions)
<b>Income Share Account</b> – a balanced portfolio utilizing both common stocks and bonds.	\$244
<b>Growth Share Account</b> – an actively managed, all common stock portfolio.	\$120
<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.	\$151
<b>International Share Account</b> – a portfolio of non U.S. stocks that incorporates both active and passive management.	\$72
<b>Bond Market Account</b> – an actively managed, all bond portfolio.	\$118
<b>Money Market Account</b> – a portfolio utilizing short-term, liquid debt securities.	\$208
<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.	\$170
<b>Volunteer Firefighter Account</b> – a balanced portfolio only used by the Voluntary Statewide Volunteer Firefighter Plan.	\$6

## 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%	63.6%
Bonds	35.0	35.2
Cash	5.0	1.2
	100.0%	100.0%

## Period Ending 12/31/2011

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	7.6%	3.0%	12.6%	2.9%	4.7%
Benchmark*	7.7	3.7	11.7	2.4	4.4

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

## GROWTH SHARE ACCOUNT

## Investment Objective

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

## Asset Mix

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

## Period Ending 12/31/2011

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	12.0%	0.1%	15.1%	-0.4%	3.0%
Benchmark*	12.1	1.0	14.9	0.0	3.5

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

## COMMON STOCK INDEX ACCOUNT

## Investment Objective and Asset Mix

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

The Account is invested 100% in common stock.

## Period Ending 12/31/2011

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	12.1%	0.8%	14.9%	0.1%	3.6%
Benchmark*	12.1	1.0	14.9	0.0	3.5

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

## INTERNATIONAL SHARE ACCOUNT

## Investment Objective and Asset Mix

The investment objective of the International Share Account is to earn a high rate of return by investing in the stock of companies outside the U.S. At least twenty-five percent of the Account is "passively managed" and no more than 33% of the Account is "semi-passively managed." These portions of the Account are designed to track and modestly outperform, respectively, the return of 23 developed markets included in the Morgan Stanley Capital International World ex U.S. Index. The remainder of the Account is "actively managed" by several international managers and emerging markets specialists who buy and sell stocks in an attempt to maximize market value.

## Period Ending 12/31/2011

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	3.4%	-14.2%	10.9%	-2.6%	6.4%
Benchmark*	3.7	-13.7	10.7	-2.9	6.3

\* The Int'l Equity Asset Class Target is MSCI ACWI Free ex U.S. (net) since 10/1/03. From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) + Emerging Markets Free (EMF) (net), and from 7/1/99 to 12/31/00 was MSCI EAFE Free (net) + EMF (gross). From 7/1/99 to 9/30/03, the weight of each index fluctuated with market cap.

## 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 12/31/2011				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Account</b>	<b>1.4%</b>	<b>7.2%</b>	<b>10.2%</b>	<b>6.4%</b>	<b>5.9%</b>
Barclays Capital Aggregate	1.1	7.8	6.8	6.5	5.8

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

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

**Asset Mix**

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

	Period Ending 12/31/2011				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Account</b>	<b>0.1%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>1.8%</b>	<b>2.2%</b>
3 month T-Bills	0.0	0.1	0.1	1.3	1.8

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

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

**Asset Mix**

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

	Period Ending 12/31/2011				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Account</b>	<b>0.8%</b>	<b>3.4%</b>	<b>4.1%</b>	<b>4.3%</b>	<b>4.5%</b>
Benchmark*	0.2	1.2	1.5	2.4	3.1

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

**VOLUNTEER FIREFIGHTER ACCOUNT**

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

The Account is invested in a balanced portfolio:

	Target	Actual
Domestic Stocks	35.0	33.9%
International Stocks	15.0	13.4
Bonds	45.0	44.7
Cash	5.0	8.0
	100.0%	100.0%

	Period Ending 12/31/2011				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Account</b>	<b>5.0%</b>	<b>1.2%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Benchmark*	5.4	2.0	N/A	N/A	N/A

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

## DEFERRED COMPENSATION PLAN ACCOUNTS

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

Participants choose from 4 actively managed mutual funds  
5 passively managed mutual funds and 11 target retirement

fund options. The SBI also offers a money market option and a stable value 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 July 1, 2011. The investment options and objectives are outlined below.

### Investment Options

	12/31/2011 Market Value (in Millions)
Vanguard Index Institutional Plus Shares (passive)	\$546
Janus Twenty (active)	\$350
Vanguard Mid Cap Index Institutional Shares (passive)	\$207
T. Rowe Price Small-Cap Stock (active)	\$403
Fidelity Diversified International (active)	\$199
Vanguard Total International Stock Index Institutional Plus (passive)	\$88
Vanguard Balanced Index Institutional Shares (passive)	\$462
Dodge & Cox Income Fund (active)	\$165
Vanguard Total Bond Market Index Institutional Shares (passive)	\$164
SIF Money Market Account	\$74
SIF Fixed Interest Account (stable value)	\$1,275
State Street Global Advisors MN Target Retirement Funds	
Income Fund	\$7
2015 Fund	\$8
2020 Fund	\$6
2025 Fund	\$4
2030 Fund	\$3
2035 Fund	\$2
2040 Fund	\$1
2045 Fund	<\$1
2050 Fund	<\$1
2055 Fund	<\$1
2060 Fund	<\$1

## DEFERRED COMPENSATION PLAN ACCOUNTS

## LARGE CAP EQUITY

**Vanguard Index Institutional Plus (passive)**

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

Fund	Period Ending 12/31/2011			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
	Annualized			
S&P 500	11.8%	2.1%	14.2%	-0.2%
	11.8	2.1	14.1	-0.2

**Janus Twenty (active)**

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

Fund	Period Ending 12/31/2011			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
	Annualized			
S&P 500	8.1%	-8.2%	12.1%	2.1%
	11.8	2.1	14.1	-0.2

## MID CAP EQUITY

**Vanguard Mid Cap Index (passive)**

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

Fund	Period Ending 12/31/2011			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
	Annualized			
MSCI US	12.1	-2.0	20.1	1.4
Mid-Cap 450	12.1	6.0	20.1	1.4

## SMALL CAP EQUITY

**T. Rowe Price Small Cap (active)**

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

Fund	Period Ending 12/31/2011			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
	Annualized			
Russell 2000	16.8%	-0.1%	22.4%	3.7%
	15.5	-4.2	15.6	0.2

## INTERNATIONAL EQUITY

**Fidelity Diversified International (active)**

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

Fund	Period Ending 12/31/2011			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
	Annualized			
MSCI EAFE	4.9%	-13.8%	7.6%	-4.6%
	3.3	-12.1	7.6	-4.7

**Vanguard Total International Stock Index (passive)**

- A fund that seeks to track the investment performance of the MSCI All Country World ex USA Investable Market Index, an index designed to measure equity market performance in developed and emerging markets, excluding the United States.

Fund	Period Ending 12/31/2011			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
	Annualized			
ACWI ex US IMI	4.2	N/A	N/A	N/A
	3.3	N/A	N/A	N/A

## DEFERRED COMPENSATION PLAN ACCOUNTS

**BALANCED****Vanguard Balanced Index (passive)**

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

Fund	Period Ending 12/31/2011			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
			<b>Annualized</b>	
	<b>7.7%</b>	<b>4.3%</b>	<b>12.4%</b>	<b>3.3%</b>
Benchmark	7.7	4.1	12.2	3.1

**FIXED INCOME****Dodge & Cox Income Fund (active)**

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

Fund	Period Ending 12/31/2011			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
			<b>Annualized</b>	
	<b>1.4%</b>	<b>4.8%</b>	<b>9.2%</b>	<b>6.3%</b>
Barclays Capital Agg.	1.1	7.8	6.8	6.5

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

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

Fund	Period Ending 12/31/2011			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
			<b>Annualized</b>	
	<b>1.0%</b>	<b>7.7%</b>	<b>6.8%</b>	<b>6.5%</b>
Barclays Capital Agg.	1.1	7.8	6.8	6.5

**Money Market Account**

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

Fund	Period Ending 12/31/2011			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
			<b>Annualized</b>	
	<b>0.1%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>1.8%</b>
3-Mo. Treas.	0.0	0.1	0.1	1.3

**FIXED INTEREST ACCOUNT**

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

Fund	Period Ending 12/31/2011			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
			<b>Annualized</b>	
	<b>0.8%</b>	<b>3.4%</b>	<b>4.1%</b>	<b>4.3%</b>
Benchmark	0.2	1.2	1.5	2.4

**MN TARGET RETIREMENT ACCOUNTS**

- Target retirement funds offer a mix of investments that are adjusted over time to reduce risk and become more conservative as the target retirement date approaches.

See Page A-107 for returns.



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.

	12/31/2011 Target	12/31/2011 Actual
Stocks	20.0%	23.8%
Bonds	80.0	76.2
Total	100.0%	100.0%

**Investment Management**

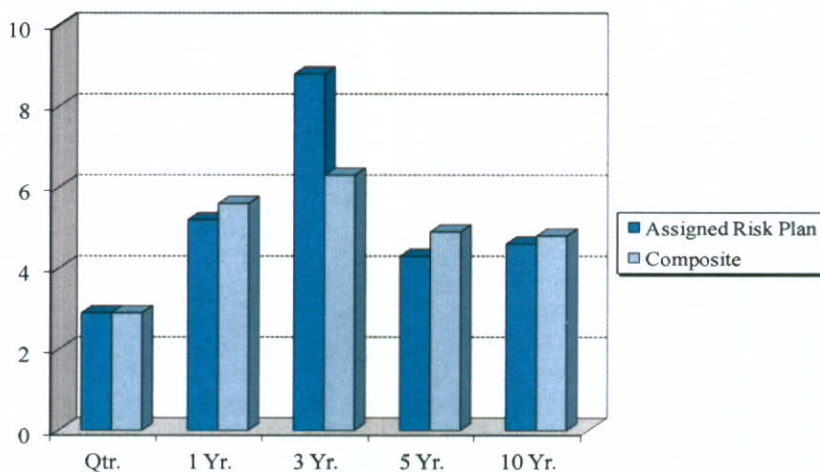
RBC Global Asset Management (US) manages the bond segment of the Fund. GE Investment Management manages the equity segment.

**Performance Benchmarks**

Since July 1, 2011, the fixed income benchmark has been the Barclays Capital Intermediate Government Index. 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, 2011 the market value of the Assigned Risk Plan was \$277 million.



Period Ending 12/31/2011

Annualized

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Fund*</b>	<b>2.9%</b>	<b>5.2%</b>	<b>8.8%</b>	<b>4.3%</b>	<b>4.6%</b>
Composite	2.9	5.6	6.3	4.9	4.8
<b>Equity Segment*</b>	<b>11.4</b>	<b>-2.2</b>	<b>12.7</b>	<b>0.0</b>	<b>2.5</b>
Benchmark	11.8	2.1	14.1	-0.2	2.9
<b>Bond Segment*</b>	<b>0.5</b>	<b>7.1</b>	<b>7.9</b>	<b>5.4</b>	<b>4.8</b>
Benchmark	0.7	6.2	4.0	5.9	5.0

\* 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.

	12/31/2011 Target	12/31/2011 Actual
Stocks	50.0%	52.3%
Bond	48.0	45.7
Cash	2.0	2.0
Total	100.0%	100.0%

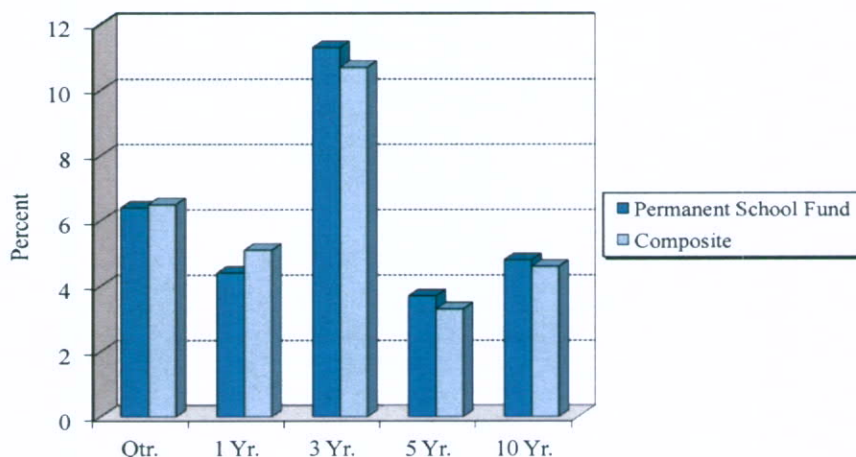
Prior to FY98, the Fund was invested entirely in fixed income securities in order to maximize current income. It is understood that the change in asset mix will reduce portfolio income in the short term, but will enhance the value of the fund, over time.

**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, 2011 the market value of the Permanent School Fund was \$773 million.



	Period Ending 12/31/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Fund*</b>	<b>6.4%</b>	<b>4.4%</b>	<b>11.3%</b>	<b>3.7%</b>	<b>4.8%</b>
Composite	6.5	5.1	10.7	3.3	4.6
<b>Equity Segment*</b>	<b>11.8</b>	<b>2.4</b>	<b>14.2</b>	<b>-0.2</b>	<b>3.0</b>
S&P 500	11.8	2.1	14.1	-0.2	2.9
<b>Bond Segment*</b>	<b>1.2</b>	<b>5.5</b>	<b>8.0</b>	<b>6.7</b>	<b>6.1</b>
Barclays Capital Agg.	1.1	7.8	6.8	6.5	5.8

\* Actual returns are calculated net of fees.

**ENVIRONMENTAL TRUST FUND**

**Investment Objective**

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

**Asset Mix**

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

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

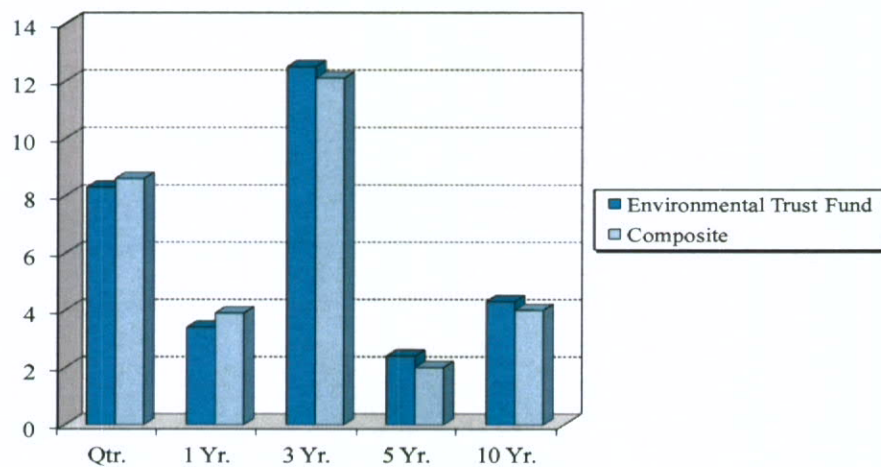
**Investment Management**

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

**Market Value**

On December 31, 2011 the market value of the Environmental Trust Fund was \$566 million.

	12/31/2011 Target	12/31/2011 Actual
Stocks	70.0%	69.9%
Bonds	28.0	28.1
Cash	2.0	2.0
Total	100.0%	100.0%



	Period Ending 12/31/2011				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Fund*</b>	<b>8.3%</b>	<b>3.4%</b>	<b>12.5%</b>	<b>2.4%</b>	<b>4.3%</b>
Composite	8.6	3.9	12.1	2.0	4.0
<b>Equity Segment*</b>	<b>11.8</b>	<b>2.4</b>	<b>14.1</b>	<b>-0.1</b>	<b>3.1</b>
S&P 500	11.8	2.1	14.1	-0.2	2.9
<b>Bond Segment*</b>	<b>1.2</b>	<b>5.5</b>	<b>8.0</b>	<b>6.7</b>	<b>6.1</b>
Barclays Capital Agg.	1.1	7.8	6.8	6.5	5.8

\* Actual returns are calculated net of fees.

## STATE CASH ACCOUNTS

**Description**

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

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

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

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

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

**Investment Objectives**

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

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

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

**Asset Mix**

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

**Investment Management**

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

	Market Value (Millions)	Period Ending 12/31/2011				
		Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Treasurer's Cash Pool*</b>	<b>\$4,740</b>	<b>0.1%</b>	<b>0.5%</b>	<b>1.4%</b>	<b>2.4%</b>	<b>2.5%</b>
Custom Benchmark**		0.0	0.0	0.1	1.4	1.7
<b>Trust Fund Cash Pool*</b>	<b>\$134</b>	<b>0.1</b>	<b>0.3</b>	<b>0.6</b>	<b>1.7</b>	<b>2.1</b>
Custom Benchmark		0.0	0.0	0.1	1.4	1.7
3 month T-Bills		0.0	0.1	0.1	1.3	1.8

\* 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.

**MINNESOTA STATE BOARD OF INVESTMENT**  
**Composition of State Investment Portfolios By Type of Investment**  
**Market Value December 31, 2011 (in Thousands)**

	Cash & ST	Bonds Int	Bonds Ext	Stock Int	Stock Ext	Ext Intl	Alternative	Total
<b>COMBINED RETIREMENT FUNDS</b>								
Teachers Retirement Fund	292,001 1.82%	0	3,570,596 22.33%	0	7,354,519 46.00%	2,254,069 14.10%	2,517,997 15.75%	15,989,182 100%
Public Employees Retirement Fund	233,229 1.82%	0	2,853,655 22.33%	0	5,877,803 46.00%	1,801,474 14.10%	2,012,407 15.75%	12,778,568 100%
State Employees Retirement Fund	167,036 1.94%	0	1,921,349 22.31%	0	3,957,489 45.94%	1,212,921 14.08%	1,354,942 15.73%	8,613,737 100%
Public Employees Police & Fire	96,148 1.75%	0	1,370,406 25.03%	0	2,451,163 44.77%	761,413 13.91%	795,948 14.54%	5,475,078 100%
Highway Patrol Retirement Fund	10,509 2.00%	0	117,561 22.29%	0	242,145 45.92%	74,215 14.07%	82,904 15.72%	527,334 100%
Judges Retirement Fund	2,931 2.13%	0	30,660 22.26%	0	63,153 45.86%	19,356 14.05%	21,622 15.70%	137,722 100%
Correctional Employees Retirement	12,883 2.10%	0	136,817 22.27%	0	281,807 45.87%	86,370 14.06%	96,483 15.70%	614,360 100%
Public Employees Correctional	5,014 1.83%	0	61,352 22.33%	0	126,369 46.00%	38,731 14.10%	43,265 15.75%	274,731 100%
Legislative Retirement Fund	286 1.83%	0	3,493 22.33%	0	7,195 46.00%	2,205 14.10%	2,463 15.74%	15,642 100%
PERA Minneapolis Retirement	14,598 1.82%	0	178,594 22.33%	0	367,862 46.00%	112,745 14.10%	125,947 15.75%	799,746 100%
PERA Virginia Fire	32 1.82%	0	393 22.35%	0	808 45.96%	248 14.11%	277 15.76%	1,758 100%
<b>TOTAL COMBINED FUNDS</b>	<b>834,667</b> <b>1.84%</b>	<b>0</b>	<b>10,244,876</b> <b>22.65%</b>	<b>0</b>	<b>20,730,313</b> <b>45.84%</b>	<b>6,363,747</b> <b>14.07%</b>	<b>7,054,255</b> <b>15.60%</b>	<b>45,227,858</b> <b>100%</b>

	Cash & ST	Bonds Int	Bonds Ext	Stock Int	Stock Ext	Ext Intl	Alternative	Total
<b>MINNESOTA SUPPLEMENTAL FUNDS:</b>								
Income Share Account	3,050 1.25%	85,663 35.16%	0	0	154,962 63.59%	0	0	243,675 100%
Growth Share Account	0	0	0	0	120,092 100.00%	0	0	120,092 100%
Money Market Account	207,806 100.00%	0	0	0	0	0	0	207,806 100%
Common Stock Index	0	0	0	0	150,873 100.00%	0	0	150,873 100%
Bond Market Account	0	0	117,960 100.00%	0	0	0	0	117,960 100%
International Share Account	0	0	0	0	0	71,736 100.00%	0	71,736 100%
Stable Value Fund	0	0	170,011 100.00%	0	0	0	0	170,011 100%
Volunteer Firefighters Account	513 8.00%	0	2,866 44.67%	0	2,174 33.88%	863 13.45%	0	6,416 100%
<b>TOTAL SUPPLEMENTAL FUNDS</b>	211,369 19.42%	85,663 7.86%	290,837 26.72%	0	428,101 39.33%	72,599 6.67%	0	1,088,569 100%
<b>MN DEFERRED COMP PLAN</b>	78,139 1.97%	0	1,797,697 45.32%	0	1,799,533 45.37%	291,072 7.34%	0	3,966,441 100%
<b>TOTAL RETIREMENT FUNDS</b>	1,124,175 2.24%	85,663 0.17%	12,333,410 24.53%	0	22,957,947 45.66%	6,727,418 13.38%	7,054,255 14.03%	50,282,868 100%

	Cash & ST	Bonds Int	Bonds Ext	Stock Int	Stock Ext	Ext Intl	Alternative	Total
<b>ASSIGNED RISK PLAN</b>	9,489 3.43%	0	202,151 73.03%	0	65,149 23.54%	0	0	276,789 100%
<b>ENVIRONMENTAL FUND</b>	11,252 1.99%	159,345 28.15%	0	395,397 69.86%	0	0	0	565,994 100%
<b>PERMANENT SCHOOL FUND</b>	15,763 2.04%	352,902 45.65%	0	404,469 52.31%	0	0	0	773,134 100%
<b>Miscellaneous Trust Funds</b>	264 0.26%	53,493 51.49%	0	50,123 48.25%	0	0	0	103,880 100%
<b>Other Post Employment Funds (OPEB's)</b>	31,079 10.77%	65,495 22.70%	0	191,977 66.53%	0	0	0	288,551 100%
<b>TREASURERS CASH</b>	4,740,368 100.00%	0	0	0	0	0	0	4,740,368 100%
<b>MISCELLANEOUS ACCOUNTS</b>	133,831 30.36%	307,014 69.64%	0		0	0	0	440,845 100%
<b>TOTAL CASH AND NON-RETIREMENT</b>	4,942,046 68.74%	938,249 13.05%	202,151 2.81%	1,041,966 14.49%	65,149 0.91%	0	0	7,189,561 100%
<b>GRAND TOTAL</b>	6,066,221 10.56%	1,023,912 1.78%	12,535,561 21.81%	1,041,966 1.81%	23,023,096 40.06%	6,727,418 11.71%	7,054,255 12.27%	57,472,429 100%

TAB

B



## EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: March 1, 2012

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, 2012 is included as **Attachment A**.

A report on travel for the period from November 5, 2011 - February 6, 2012 is included as **Attachment B**.

### **2. Results of FY11 Financial Audit**

Each member of the State Board of Investment and the Investment Advisory Council will receive a copy of the final report when it becomes available.

### **3. Legislative Update**

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

### **4. Review of Police and Fire Mergers**

The SBI completed the transfer of assets for the consolidation of a range of local police and fire retirement organizations. Minneapolis Police, Minneapolis Fire and Virginia Fire were consolidated into PERA Police & Fire. Seventeen local volunteer firefighter organizations were consolidated into the voluntary statewide volunteer firefighter retirement plan. Assets were transferred to State Street Bank on December 30, 2011. There were a number of difficulties faced in transferring the assets. A report describing the reasons for the consolidations and the actions taken by staff to complete the transfers is in **Attachment C**.

## 5. Update on Sudan

Each quarter, staff provides a report to the Board on steps taken to implement *Minnesota Statutes*, section 11A.243 that requires SBI actions concerning companies with operations in Sudan. Staff receives periodic reports from the Conflict Risk Network (CRN) about the status of companies with operations in Sudan.

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

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

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

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

**Attachment D** is a copy of the December 9, 2011 letter sent to each international equity manager and domestic equity manager containing the most recent restricted list and the list of stocks to be divested.

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

## 6. Update on Iran

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

SBI changed vendors for information on companies with Iran operations. In the fourth quarter, SBI retained IW Financial, through Glass Lewis, for the information service. Consequently, the restricted list of Iran companies changed markedly as it reflects the new vendor's research methodology. As a result, SBI sent letters in December to seven companies newly placed on the list. Staff receives monthly

reports from the SBI's custodian bank concerning SBI holdings of companies on the restricted list.

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

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

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

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

## 7. **Litigation Update**

SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on March 8, 2012.



ATTACHMENT A

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

ITEM	FISCAL YEAR 2012 BUDGET	FISCAL YEAR 2012 1/31/2012
<b>PERSONAL SERVICES</b>		
FULL TIME EMPLOYEES	\$ 2,845,000	\$ 1,504,796
PART TIME EMPLOYEES	\$ 69,000	\$ 37,299
MISCELLANEOUS PAYROLL	600	24,456
<b>SUBTOTAL</b>	<b>\$ 2,914,600</b>	<b>\$ 1,566,551</b>
<b>STATE OPERATIONS</b>		
RENTS & LEASES	200,000	122,210
PRINTING & BINDING	4,000	1,770
PROFESSIONAL/TECHNICAL SERVICES	0	550
COMPUTER SYSTEMS SERVICES	18,000	2,028
COMMUNICATIONS	28,000	7,561
TRAVEL, IN-STATE	900	168
TRAVEL, OUT-STATE	38,000	24,286
SUPPLIES	30,000	11,989
REPAIRS TO EQUIP & FURN EQUIPMENT	10,000	5,769
	5,000	0
EMPLOYEE DEVELOPMENT	5,000	0
OTHER OPERATING COSTS	9,000	3,522
<b>SUBTOTAL</b>	<b>\$ 347,900</b>	<b>\$ 179,854</b>
<b>TOTAL ADMINISTRATIVE BUDGET</b>	<b>\$ 3,262,500</b>	<b>\$ 1,746,405</b>

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## ATTACHMENT B

## STATE BOARD OF INVESTMENT

**Travel Summary by Date**  
**SBI Travel November 5, 2011 – February 6, 2012**

Purpose	Name(s)	Destination and Date	Total Cost
<b>Manager Monitoring</b> <b>Fixed Income Managers:</b> Aberdeen Asset Mgmt., BlackRock Financial Mgmt., Goldman Sachs Asset Mgmt., <b>Manager Search</b> <b>Fixed Income Managers:</b> Jennison Associates, Prudential Investment Mgmt., Pyramis Global Advisers <b>Manager Monitoring</b> <b>Master Custodian:</b> State Street Bank & Trust	M. Menssen R. Hill	Philadelphia, PA New York, NY Boston, MA 11/13-11/17	\$4,589.77
<b>Manager Monitoring</b> <b>Investment Manager Research:</b> Blackstone <b>Manager Search</b> <b>Investment Manager Research:</b> Highbridge Bridgewater	T. Richardson	New York, NY 11/14-11/16	\$1,662.54
<b>Conference:</b> T. Rowe Price Investment Symposium	J. Heidelberg	Baltimore, MD 11/16-11/18	\$1,105.24
<b>Conference:</b> Public Funds Summit Sponsored by: Opal Financial Group	H. Bicker	Phoenix, AZ 1/10-1/12	\$594.08
<b>Conference:</b> Institutional Limited Partners Association (ILPA) Level II Program	J. Kirby	San Francisco, CA 1/16-1/20	\$2,179.32

Purpose	Name(s)	Destination and Date	Total Cost
<b>Manager Monitoring Alternative Investments:</b> Adams Street Partners	J. Griebenow	Chicago, IL 1/24-1/25	\$418.23
<b>Manager Search Alternative Investments:</b> Leonard Green and Partners	J. Kirby	Los Angeles, CA 1/24-1/25	\$1,308.09



ATTACHMENT C

MINNESOTA  
STATE  
BOARD OF  
INVESTMENT



**Board Members:**

Governor  
Mark Dayton

State Auditor  
Rebecca Otto

Secretary of State  
Mark Ritchie

Attorney General  
Lori Swanson

**Executive Director:**

Howard J. Bicker

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Suite 355

St. Paul, MN 55103  
(651) 296-3328

FAX (651) 296-9572  
E-mail:

[minn.sbi@state.mn.us](mailto:minn.sbi@state.mn.us)  
[www.sbi.state.mn.us](http://www.sbi.state.mn.us)

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DATE: February 14, 2012

TO: Members, State Board of Investment

FROM: Howard Bicker

**SUBJECT: Consolidations of Minneapolis Police and Fire, Virginia Fire and Seventeen Local Fire Plans**

The SBI completed the transfer of assets for the consolidation of a range of local police and fire retirement organizations. Assets were transferred to State Street Bank on December 30, 2011. A list of the local organizations and the dollar amounts transferred for each is in **Exhibit 1**. There were a number of difficulties faced in transferring the assets. This memo describes the reasons for the consolidations and the actions taken by staff to complete the transfers.

**Minneapolis Fire**

Pursuant to the provisions of Laws of Minnesota 2011, First Special Session, Chapter 8, Article 6, Minneapolis Firefighters' Relief Association consolidated with the Public Employees Retirement Association Police and Fire Plan, and the assets of the Relief Association were transferred to the SBI effective December 30, 2011. The Relief Association had investments in Supplemental Investment Fund accounts, in mutual funds and with investment manager firms.

Rather than accumulating cash as managers liquidated their holdings, the Relief Association invested the cash in its SIF accounts. This action allowed the Relief Association to remain invested in the market until the last few days of December. The cash was transferred to the SIF using the same procedures any relief association uses to invest in the SIF. (The SBI has well over 200 relief associations with ongoing investments in the SIF.) A residual amount of cash was transferred by wire on December 30.

Other than requiring a number of phone calls over a several week period leading up to the final money movements, the transfer went well.

### **Minneapolis Police**

Pursuant to the provisions of Laws of Minnesota 2011, First Special Session, Chapter 8, Article 7, Minneapolis Police Relief Association consolidated with the Public Employees Retirement Association Police and Fire Plan, and the assets of the Relief Association were transferred to the SBI effective December 30, 2011. The Relief Association had investments in Supplemental Investment Fund accounts, with stock and bond investment managers and with two alternative asset managers.

Rather than accumulating cash as stock and bond managers liquidated their holdings, the Relief Association invested the cash in its SIF accounts. This action allowed the Relief Association to remain invested in the market until the last few days of December. The cash was transferred to the SIF using the same procedures any relief association uses to invest in the SIF. A residual amount of cash was transferred by wire on December 30.

Because of the nature of the alternative asset investments, SBI absorbed the Relief Association's interests in PRISA and Coral Partners IV. To comply with the requirements of the law, SBI set market values as of December 30 for the two investments as described.

PRISA is an open-end commingled real estate fund that is valued quarterly. A valuation is provided to participants after the start of the subsequent quarter. Because assets were transferred effective December 30, 2011, the SBI based its December 30 valuation on the September 30, 2011 quarter ending PRISA valuation. Prudential Real Estate Investors, the manager of PRISA, determines the return derived in each quarter. The SBI adjusted the quarter ending valuation by an estimate from Prudential of the total return generated in the fourth quarter. The SBI made this calculation on December 29 and used it in the December 30, 2011 valuation of total relief association assets.

Coral Partners IV is an investment fund which contains only one security. Because the security is publicly traded, the SBI, in collaboration with Coral Partners, used the closing market price of December 29 to value the Relief Association holding for the December 30 transfer.

In mid-December staff was notified that Wells Fargo had sent the Relief Association a list of small untradeable positions in a range of downgraded fixed income securities. The securities represented the Relief Association's proportionate share of a securities lending portfolio that Wells Fargo no longer supported. Staff had to arrange with the SBI's custodian bank, State Street Bank, to have the portfolio transferred into a special account to hold in the event the minimally valued securities would receive future interest or principal payments. SBI valued the securities at zero on December 30. A copy of the portfolio is in **Exhibit 2**.

### **Virginia Fire**

Virginia Fire Relief Association consolidated with the Public Employees Police and Fire Plan pursuant to the provisions of *Minnesota Statutes*, Chapter 353A. Virginia Fire joined 46 other relief associations that have consolidated under the provisions of the law that was first adopted in 1987. All assets were transferred to the SBI in cash on December 29, 2011. The transfer of assets went smoothly.

### **Volunteer Fire Plans Joining the Voluntary Statewide Volunteer Firefighter Retirement Plan**

Under the provisions of *Minnesota Statutes*, Chapter 353G, local volunteer firefighter organizations may join a voluntary statewide volunteer firefighter retirement plan and have PERA administer their retirement provisions. For those local units that join, assets are transferred to the SBI and invested in the Supplemental Investment Fund Volunteer Firefighter Account. The law requires that the transfer of assets occurs on December 31, or the last working day of the year, which was December 30 in 2011.

A series of actions is required to execute a consolidation. The first step is for a local unit to request PERA to prepare a cost analysis of retirement coverage. Upon receipt of the request, PERA notifies the SBI to review relief association assets in preparation of a possible transfer. The SBI must communicate with a representative of the relief association starting with the information that is provided PERA by the local unit. The SBI then sends a formal letter to the representative with notification to prepare to take certain actions should the city choose to approve joining the statewide plan. These actions include telling the relief association's investment management organization (local financial planner) and local bank or credit union about the possible transfer of assets. After the local unit receives the cost and asset analyses, the city adopts a resolution approving the consolidation. Upon notification of the passage of a resolution, the SBI sends a letter of instruction detailing specific actions the relief association must take to have the assets transferred at the appropriate time. These actions include providing wire instructions to the relief association's local financial institution that sends cash to the SBI's custodian bank. (Some of the relief associations already have investments with the SBI in the Supplemental investment Fund.) With the instruction letter the SBI provides two forms. The relief association uses one to direct the SBI to move their investments in the SIF to the Volunteer Firefighter Account. The relief association completes the other to inform the SBI about the amount of cash that their financial institution will wire to the SBI's custodian bank. This form, required to be faxed by December 27, provides information the SBI needs in order to invest the proper amounts. The SBI prepares instructions to State Street Bank who verifies receipt of a wire transfer on December 30.

Seventeen relief associations chose to join the statewide plan in 2011. Staff faced difficulties identifying and communicating with relief association representatives, getting instructions to them on proper handling of assets, and receiving proper amounts on time.

*Brandon*

Brandon submitted a request to PERA on September 20. SBI contacted on September 27 a Brandon city official who forwarded the request for information to a relief association representative. The relief association representative did not respond until November 10 after an October 28 follow-up request from the SBI. The SBI sent an asset review letter on November 15 and an instruction letter on December 13.

Brandon faxed the cash transfer form in the morning of December 28 but did not make arrangements with its financial planner to wire on December 30. In late morning December 30, staff received a call from the financial planning firm reporting that the Brandon relief association representative first informed them about a transfer of assets to the state on December 28. The financial planning firm was able to liquidate the portfolio, except for a real estate investment trust holding, and transfer the assets on January 3. On December 30, State Street Bank made necessary transfers to appropriate investment pools based on the SBI's expectation of receiving the approximately \$102,000 on December 30. State Street covered the shortage from its own resources until the wire came in on January 3. However, the January 3 wire was \$8800 less than Brandon indicated. The difference required a correcting accounting entry.

Staff worked with the investment company that sold the illiquid, private placement REIT to Brandon in order to have the holding properly transferred to the SBI. This process took several weeks and numerous communications with the Brandon representative, and required an adjustment to the Brandon account with PERA.

*Willmar*

After communications with two representatives of the relief association including the fire chief, staff was instructed to contact the relief association treasurer. Staff sent an instruction letter dated November 14 to the treasurer. Staff dispensed with sending a separate asset review letter due to the late date. On December 20 a different representative called asking that the SBI send the instruction letter to him, because the treasurer was no longer with the relief association. It would appear that the treasurer left without handing off this responsibility. Staff did not receive the cash transfer form on December 27. On December 28 staff called the most recently engaged representative who related that the relief association's financial planner was on vacation with his wife in another state. The financial planner runs a solo practice with his wife handling administrative duties. A later call revealed that the financial planner stated he had faxed the form in the afternoon of December 27, but the SBI never received it. The financial planner

faxed it on December 28. Staff was assured in the second phone call that proper arrangements had been made to send the wire transfer. The wire was properly received by State Street Bank.

#### *Pennock*

SBI received a cash transfer form, but Pennock did not send the wire transfer on December 30. On January 3, staff spoke with the relief association's local bank who reported that all the necessary information had not been provided to the bank to complete the wire instruction. Then staff spoke with the Pennock representative with whom staff had been communicating. He related that he had passed the responsibility to talk with the bank to the relief association treasurer, who did not follow through. He said he would speak with the bank. The wire was sent to State Street in the afternoon of January 3. State Street covered the shortage from its own resources until the wire came in.

#### *Sunburg*

The relief association worked with its local bank to set up the proper wire transfer. However, the bank did not send the wire. Staff called the bank on January 3 and learned that the back-up person at the bank set up the wire transfer incorrectly, and the wire did not go out on December 30. This incident points out the risk of having to rely on a small bank that performs infrequent wire transfers.

#### *McKinley*

The relief association had its bank wire an amount that included non-pension assets and then requested a reversal on January 10. PERA had to submit a sell order to the SBI and had to cut a check to the relief association's bank to cover the overage.

#### *Hardwick*

The relief association transferred over \$80,000 it held in cash into its SIF account two weeks before the end of the year. The SBI and State Street handled the transaction as a normal investment by a relief association in the SIF. The transfer was an effective way for Hardwick to consolidate its assets. However, the relief association then sent the cash transfer form to the SBI on December 27 stating it was transferring cash on December 30 in the same amount. SBI and State Street processed this transfer instruction with the others on December 30, but there was no wire for the \$80,000 amount. State Street had to cover the shortage from its own assets, and staff and State Street had to make a correcting accounting entry.

#### *Communication Issues*

Staff contacted several relief associations who waited weeks or months to reply with information about asset holdings. It took more than one attempt for several of them and the assistance of PERA in a few. Several responses came in November. Staff talked with one relief association in May and was told a week later that he would have the person with the information call. That person called December 13 after the city adopted the resolution on December 8. Responding so

late in the year reduced the time in which the relief associations could instruct their respective asset managers and provide time for the asset managers to unwind their portfolios and make necessary preparations to transfer the cash in a timely fashion.

It seems odd that the SBI and PERA must prompt these relief associations to take actions when they are the fiduciarily responsible individuals.

*Wrong Wire Amounts*

State Street received eight wire amounts that differed from the expected amount. Three were trivial amounts, but five differed noticeably from the amounts stated in the cash transfer forms submitted to the SBI. These differences suggest that communications between the relief associations and their asset managers or local financial institutions was not adequate. Staff and State Street had to spend time correcting the wire entries, and State Street had to cover shortages from its own resources.

*Relief Association Investments in SIF at Year-end*

Over 200 of the more than 700 relief associations with independent investment authority invest a portion of their assets with the SBI in the Supplemental Investment Fund. Two of these relief associations wired new cash on December 30 to add to their existing investments. State Street confused the receipt of these wires and included these transactions with those received for entities joining the voluntary statewide volunteer firefighter retirement plan. Staff and State Street had to sort out the incorrect entities after December 30.

Of the seventeen relief associations that joined the statewide plan five had existing investments in the SIF. The transfer of these assets to the Volunteer Firefighter Account in the SIF and the transfer of Minneapolis Police and Fire assets in the SIF to PERA all went smoothly with no problems. One of the five new statewide plan entrants transferred its outside assets to the SIF in mid-December and avoided wire transfers and year-end issues. This experience suggests that transferring assets by investing in the SIF before year-end is a method to avoid some of the problems encountered this year.

EXHIBIT 1

State Board of Investment Dollars Received from Consolidated Local Plans For December 30, 2011		
Name	\$\$ to Voluntary Statewide Plan	\$\$ to PERA Pol & Fire
Minneapolis Police		\$268,044,841
Minneapolis Fire		196,692,632
Virginia Fire		1,757,943
Brandon VFD	\$162,392	
Breitung Township VFD	276,855	
Carsonville Fire	117,919	
Colvill Area VFD	62,368	
Ellsburg Fire	68,584	
Embarrass VFD	135,483	
Hardwick Fire	94,188	
Lester Prairie VFD	279,102	
McKinley Fire	75,987	
Normanna VFD	27,192	
Palo Regional Fire/Town of White	241,080	
Pennock Fire	207,007	
Pequaywan Lake Fire	59,669	
Scandia Valley Township	240,395	
Sunburg VFD	120,927	
Tower Fire	90,847	
Willmar Fire	802,974	
	\$3,062,970	\$466,495,416
<b>Total Dollars Transferred</b>	<b>\$469,558,385</b>	

EXHIBIT 2  
Minneapolis Police Securities Lending Portfolio

Account	Cusip	TCKRID	Name	Units	Fed/State Cost	Original Cost	Original Face	REGID	Locatio	Market Value
501	02150TAA8	VCW5447	VR COUNTRY WIDE AL 0.4237% 4/25/47	7057	7053.81	7053.81	12084	0004	0004	3725.65
501	1266715W2	VCI1329	VR CWABS INC 0.4679% 2/15/29	273	273.04	273.04	5043	0004	0004	175.95
501	12669GJB8	VCI2735A	VR CWMBS INC 0.62794% 2/25/35	1800	1802.74	1802.74	12084	0004	0004	1050.48
501	12669GNP2	VCH2835	VR COUNTRYWIDE HOM 0.56854% 3/25/35	1312	1314.43	1314.43	12084	0004	0004	737.84
501	12669GPT2	VCI4335G	VR CWMBS INC 0.63979% 3/25/35	2744	2747.53	2747.53	15467	0004	0004	1380.29
501	16705EDQ3	PVC3509	VR P/P CHEYNE FI 1/12/09	1558	0	0	0	0004	0004	0
501	16705EEB5	PCF3508	VR P/P CHEYNE FINA 68.000% 2/25/08	15820	0	0	0	0004	0004	0
501	16705EFG3	VPC5309	VR P/P CHEYNE FIN 1/12/09	1557	0	0	0	0004	0004	0
501	31678UAA7	VFT1323	VR FIFTH THIRD HOM 0.48795% 9/20/23	708	708.22	708.22	8056	0004	0004	675.6
501	361856EH6	VGM3936	VR GMAC MORTGAGE 0.53037% 2/25/36	8308	8302.48	8302.48	14702	0004	0004	5240.74
501	395385AZ0	VGH2030	VR GREENPOINT HOME 0.8079% 8/15/30	142	141.66	141.66	3734	0004	0004	89
501	40430GAG5	VHH4335	VR HSBC HOME EQUIT 0.49762% 1/20/35	2919	2919.44	2919.44	12084	0004	0004	2631.56
501	41161PSK0	VHM3835	VR HARBORVIEW MTG 0.57495% 6/20/35	1893	1894.6	1894.6	12084	0004	0004	1406.74
501	466287AB5	VJM5337C	VR J.P. MORGAN ALT 0.31722% 3/25/37	186	186.83	186.83	2005	0004	0004	167.35
501	52517PC41	LBH3908	VR LEHMAN BROS HLD 10/22/08	4009	4009.86	4009.86	0	0004	0004	1022.51
501	52517PG39	VLB1009A	VR LEHMAN BROTHERS 4/03/09	4009	4009.86	4009.86	0	0004	0004	1022.51
501	52517PN98	VLB5409A	VR LEHMAN BROS HLDGS 11/16/09	1603	1604.65	1604.65	0	0004	0004	409.01
501	52517PP21	VLB3009B	VR LEHMAN BROTHERS 11/16/09	42283	42283.51	42283.51	0	0004	0004	10782.3
501	55352RAA6	VMH5431	VR MSDWCC HELOC TR 0.38103% 12/25/31	6508	6508.41	6508.41	10472	0004	0004	4713.04
501	55353WAA4	VMH1515	VR MSDWCC HELOC TR 0.02965% 11/25/15	210	210.96	210.96	6445	0004	0004	200.68
501	59020UAR6	VML1329	VR MERRILL LYNCH 0.48722% 4/25/29	766	766.01	766.01	8056	0004	0004	649.48
501	76110VHB7	VRF0031	VR RESIDENTIAL FDG 0.51982% 2/25/27	11	11.67	11.67	8664	0004	0004	10.48
501	81743SAA8	VSM1432	VR SEQUOIA MTG TR 0.95478% 9/20/32	848	850.54	850.54	9667	0004	0004	695.93
501	863579YU6	VSA3935I	VR STRUCTURED ARM 0.59437% 10/25/35	2080	2080.58	2080.58	16111	0004	0004	1359.77
501	92922FJ25	VWM3245	VR WAMU MTG PASS-T 0.48722% 4/25/45	1364	1364.35	1364.35	8056	0004	0004	1021.77
501	92976YAA0	VWA5437	VR WACHOVIA ASSET 0.4237% 7/25/37	7470	7470.77	7470.77	12084	0004	0004	5454.19
501	93935FAA9	VWM5546B	VR WMALT MORTGAGE 0.44722% 8/25/46	1743	1743.27	1743.27	8056	0004	0004	897.23



ATTACHMENT D

Letter to SBI International Equity Managers and Domestic Equity Managers

December 9, 2011

**Regarding: Sudan Companies**

Dear Manager:

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

*Minnesota Statutes*, section 11A.243 requires the SBI to implement a Sudan restriction.

**Attachment 1** is the List of Restricted Sudan Stocks. **These securities may not be purchased for the SBI portfolio that your organization manages.** Please note that the attached List makes changes to the List of Restricted Sudan Stocks that was attached to the September 12, 2011 letter you received. **This new list is effective December 13, 2011.**

- The following company has been removed from the restricted list:
  - Areva SA (France)

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

- There were no changes to the divestment list.

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

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

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

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

Sincerely,

Teresa J. Richardson  
Assistant Executive Director

Enclosures

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

ATTACHMENT 1

**Restricted Sudan Stocks**

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

ATTACHMENT 1

**Restricted Sudan Stocks**

<b>Company Name</b>	<b>Country of Origin</b>
Ranhill Berhad	Malaysia
Scomi Group Berhad	Malaysia
Scomi Engineering Berhad	Malaysia
Electricity Generating PCL AKA EGCO	Thailand
Mercator Lines Singapore	Singapore
Alstom	France
KEPCO Plant Service & Engineering Company Limited	South Korea
LS Industrial Systems	South Korea
Nuinsco Resources Limited	Canada

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

Source: Genocide Intervention Network

SBI Effective Date:

December 13, 2011

ATTACHMENT 2

**Sudan Stocks Requiring Divestment**

<b>Company Name</b>	<b>Country of Origin</b>	<b>Divest 50 Percent By this Date</b>	<b>Divest 100 Percent By this date</b>
China Petroleum and Chemical Corporation AKA Sinopec Corp	China	April 30, 2008	October 31, 2008
PetroChina Company	China	April 30, 2008	October 31, 2008
Oil and Natural Gas Corp AKA ONGC	India	April 30, 2008	October 31, 2008
Malaysia International Shipping Company AKA MISC Berhad	Malaysia	April 30, 2008	October 31, 2008
Alstom	France	April 30, 2008	October 31, 2008
Dongfeng Motor Group Company Limited	China	March 31, 2011	September 30, 2011

Note: AKA means "Also Known As"

Source: Conflict Risk Network

SBI Effective Date:

December 13, 2011

# CONFLICT RISK NETWORK

## Attachment 3

Security Identifiers for "Scrutinized" Stocks

The following security identifiers correlate with the November 30, 2011 issue of the Sudan Company Report

ALL DATA IS FROM BLOOMBERG LP UNLESS OTHERWISE NOTED.

STOCKS ADDED SINCE LAST REPORT ARE HIGHLIGHTED

Company	Primary Company (Affiliate/Parent)	Exchange	Security Type	Security Name	Ticker	WPK No.	SEDOL	CUSIP	Sicvnam	ISIN	COMMON	C/N/S	Fondscode
ALSTOM (FRANCE)	ALSTOM	EN Paris (XPAP)	Common Stock	ALSTOM	ALO FP	A0F7BK	B0DJ8Q5 FR			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	OTC US (XOTC)	Common Stock	ALSTOM	AOMFF US	A0F7BK	B0GLY93 US			FR0010220475	022581074	F0259M475	
ALSTOM (FRANCE)	ALSTOM	Frankfurt (XFRA)	Common Stock	ALSTOM	AOMD GR	A0F7BK	B0G0412 DE			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	PLUS Mket Grp (XPLU)	Common Stock	ALSTOM	ALO PZ	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Euro Comp (XLON)	Common Stock	ALSTOM	ALO EU	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Chi-X All TS (CHIX)	Common Stock	ALSTOM	ALSP IX	A0F7BK	B0DJ8Q5 FR			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Euro Comp (XLON)	Common Stock	ALSTOM	ALOGBX EU	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Euro OTC (XLON)	Common Stock	ALSTOM	ALOGBX EO	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Euro OTC (XLON)	Common Stock	ALSTOM	ALOGBP EO	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Euro Comp (XLON)	Common Stock	ALSTOM	ALOUSD EU	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Euro OTC (XLON)	Common Stock	ALSTOM	ALOUSD EO	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Turquoise (TRQX)	Common Stock	ALSTOM	ALO TQ	A0F7BK	B0DJ8Q5 FR			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Equidut (XEQT)	Common Stock	ALSTOM	ALO BQ	A0F7BK	B0DJ8Q5 FR			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	BATS Europe (BATE)	Common Stock	ALSTOM	ALO EB	A0F7BK	B0DJ8Q5 FR			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Euro OTC (XLON)	Common Stock	ALSTOM	ALO EO	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Euro OTC (XLON)	Common Stock	ALSTOM	ALOCHE EO	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Euro Comp (XLON)	Common Stock	ALSTOM	ALOCHE EU	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Euro OTC (XLON)	Common Stock	ALSTOM	ALONOK EO	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Euro Comp (XLON)	Common Stock	ALSTOM	ALONOK EU	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Euro OTC (XLON)	Common Stock	ALSTOM	ALOAU EO	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Euro Comp (XLON)	Common Stock	ALSTOM	ALOAU EU	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Quote MTF (QMTF)	Common Stock	ALSTOM	ALO QM	A0F7BK	B0DJ8Q5 FR			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	LSE EuropeQS (XLON)	Common Stock	ALSTOM	ALO LI	A0F7BK	B0YLTQ7 GB			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	Tradegate (XGAT)	Common Stock	ALSTOM	AOMD TH	A0F7BK	B0G0412 DE			FR0010220475	022581074		
ALSTOM (FRANCE)	ALSTOM	EN Paris (XPAP)	Common Stock	ALSTOM	ALO S1	A0F7BK	B0DJ8Q5 FR			FR0010220475	022581074		
ALSTOM PROJECTS INDIA LTD (INDIA)	ALSTOM	Natl India (XNSE)	Common Stock	ALSTOM PROJECTS INDIA LTD	ABBAP IN	A0EAYM	6230834 IN			INE878A01011			
WUHAN BOILER CO (CHINA)	ALSTOM	Shenzhen (XSHE)	Common Stock	WUHAN BOILER CO-B	200770 CH	913669	6111928 CN			CNE000000VM7			
AREF ENERGY HOLDING COMPANY (KUWAIT)	AREF ENERGY HOLDING COMPANY	Kuwait (XKUW)	Common Stock	AREF ENERGY HOLDING CO KSCC	AREFENRGKX	A0KD4C	B13BW99 KW			KWQE00601801			
AVICHINA INDUSTRY & TECHNOLOGY LTD (CHINA)	AVICHINA INDUSTRY & TECHNOLOGY LTD	Hong Kong (XHKG)	Common Stock	AVICHINA INDUSTRY & TECH-H	2357 HK	A0M4WY	6707899 HK			CNE1000001Y8			
AVICHINA INDUSTRY & TECHNOLOGY LTD (CHINA)	AVICHINA INDUSTRY & TECHNOLOGY LTD	Frankfurt (XFRA)	Common Stock	AVICHINA INDUSTRY & TECH-H	AVT GR	A0M4WY	B1BJK68 DE			CNE1000001Y8			
AVICHINA INDUSTRY & TECHNOLOGY LTD (CHINA)	AVICHINA INDUSTRY & TECHNOLOGY LTD	OTC US (XOTC)	Common Stock	AVICHINA INDUSTRY & TECH-H	AVIJF US	A0M4WY	B01W4B3 US			CNE1000001Y8		Y0485Q109	
HAFEI AVIATION INDUSTRY CO (CHINA)	AVICHINA INDUSTRY & TECHNOLOGY LTD	Shanghai (XSHG)	Common Stock	HAFEI AVIATION INDUSTRY CO	600038 CH	A0M4ER	6306586 CN			CNE0000015V6			
HARBIN DONGAN AUTO ENGINE CO (CHINA)	AVICHINA INDUSTRY & TECHNOLOGY LTD	Shanghai (XSHG)	Common Stock	HARBIN DONGAN AUTO ENGINE-A	600178 CH	A0M369	6128519 CN			CNE000000XJ9			
CHINA GEZHOUBA GROUP COMPANY LTD (CHINA)	CHINA GEZHOUBA GROUP COMPANY LTD	Shanghai (XSHG)	Common Stock	CHINA GEZHOUBA GROUP CO LT-A	600068 CH	A0M31Z	6377214 CN			CNE000000QF1			
SINOHYDRO GROUP (CHINA)	CHINA HYDRAULIC AND HYDROELECTRIC CONSTRUCTION GROUP (SINOHYDRO)	Shanghai (XSHG)	Common Stock	SINOHYDRO GROUP LTD-A	601689 CH		B4TH690 CN						
DAQING HUAKE GROUP CO LTD (CHINA)	CHINA NATIONAL PETROLEUM CORP aka CNPC	Shenzhen (XSHE)	Common Stock	DAQING HUAKE GROUP CO-A	000985 CH	A0M4C2	6277949 CN			CNE000001402			
JINAN DIESEL ENGINE CO LTD (CHINA)	CHINA NATIONAL PETROLEUM CORP aka CNPC	Shenzhen (XSHE)	Common Stock	JINAN DIESEL ENGINE CO-A	000617 CH	A0M3ZT	6486109 CN			CNE000000MS5			
KUNLUN ENERGY CO LTD	CHINA NATIONAL PETROLEUM CORP aka CNPC	Hong Kong (XHKG)	Common Stock	KUNLUN ENERGY CO LTD	135 HK	A1CV3E	6340078 HK	952131		BMG5320C1082	050092003		
KUNLUN ENERGY CO LTD	CHINA NATIONAL PETROLEUM CORP aka CNPC	Frankfurt (XFRA)	Common Stock	KUNLUN ENERGY CO LTD	CTJ1 GR	A1CV3E	5387753 DE	952131		BMG5320C1082	050092003		
KUNLUN ENERGY CO LTD	CHINA NATIONAL PETROLEUM CORP aka CNPC	OTC Exchange (XOTC)	Common Stock	KUNLUN ENERGY CO LTD	KUNJF US	A1CV3E	B01DDZ3 US	952131		BMG5320C1082	050092003		
KUNLUN ENERGY CO LTD	CHINA NATIONAL PETROLEUM CORP aka CNPC	OTC Exchange (OOTC)	ADR	CNPC HONG KONG LTD-UNSP ADR	KLYCY US		B3L2812 US			US50126A1016			
KUNLUN ENERGY CO LTD	CHINA NATIONAL PETROLEUM CORP aka CNPC	Tradegate (XGAT)	Common Stock	KUNLUN ENERGY CO LTD	CTJ1 TH	A1CV3E	5387753 DE	952131		BMG5320C1082	050092003		
PETROCHINA CO LTD (CHINA)	CHINA NATIONAL PETROLEUM CORP aka CNPC	Hong Kong (XHKG)	Common Stock	PETROCHINA CO LTD-H	857 HK	A0M4YQ	6226576 HK			CNE1000003W8	011014674		
PETROCHINA CO LTD (CHINA)	CHINA NATIONAL PETROLEUM CORP aka CNPC	Frankfurt (XFRA)	Common Stock	PETROCHINA CO LTD	PC6 GR	A0M4YQ	5939507 DE			CNE1000003W8	011014674		
PETROCHINA CO LTD (CHINA)	CHINA NATIONAL PETROLEUM CORP aka CNPC	OTC US (XOTC)	Common Stock	PETROCHINA CO LTD	PCCYF US	A0M4YQ	B01DNL9 US			CNE1000003W8	011014674	Y6883Q104	
PETROCHINA CO LTD (CHINA)	CHINA NATIONAL PETROLEUM CORP aka CNPC	Shanghai (XSHG)	Common Stock	PETROCHINA CO LTD	601857 CH		B28SLD9 CN			CNE1000007Q1			
PETROCHINA CO LTD (CHINA)	CHINA NATIONAL PETROLEUM CORP aka CNPC	New York (XNYS)	ADR	PETROCHINA CO LTD -ADR	PTR US	936983	2568841 US			US71646E1001	011511449		
PETROCHINA CO LTD (CHINA)	CHINA NATIONAL PETROLEUM CORP aka CNPC	Frankfurt (XFRA)	ADR	PETROCHINA CO LTD -ADR	PC8A GR	936983	4633327 DE			US71646E1001	011511449		
PETROCHINA CO LTD (CHINA)	CHINA NATIONAL PETROLEUM CORP aka CNPC	Buenos Floor (XBUE)	Receipt	PETROCHINA CO LTD-CEDEAR	PTR AR		B1C5SR2 AR			ARDEUT113958			
PETROCHINA CO LTD (CHINA)	CHINA NATIONAL PETROLEUM CORP aka CNPC	Buenos Floor (XBUE)	Receipt	PETROCHINA CO LTD-CEDEAR BLK	PTRB AR					ARDEUT113958			

-22-







## ATTACHMENT E

### Conflict Risk Network List of "Scrutinized" Companies in Sudan, formerly "Highest Offenders" Companies List Effective Through February 29, 2012

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

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

**Genocide Intervention Network List of Companies in Sudan for "Substantial Action or  
Business Operations" formerly "Ongoing Engagement"  
List Effective Through February 29, 2012**

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

**Conflict Risk Network List of Companies in Sudan with No Publicly Traded Equity or Relevant only to CRN**  
**Formerly No Publicly Traded Equity**  
**List Effective Through February 29, 2012**

<b><u>Company Name</u></b>	<b><u>Country of Origin</u></b>
Africa Energy	Nigeria
Al-Qahtani & Sons Group of Companies	Saudi Arabia
Ansan Wikfs/Shaher Trading Company	Yemen
APS Engineering Company	Italy
Arcadia Petroleum	UK
Ascom Group SA	Moldova
China International Water & Electric Corp AKA CWE	China
China Machinery Engineering Company (CMEC)	China
China National United Oil Company	China
China Petroleum Engineering Company AKA CPEC	China
Coyne et Bellier	France
Daedong Industrial machinery Company Limited	South Korea
Dindir Petroleum International/Edgo Group	Jordan
Express Petroleum and Gas Company	Nigeria
GIAD Industrial City	Sudan
Harbin Power Engineering AKA HPE	China
Hi Tech Petroleum Group Co. Ltd.	Sudan
HTC Yemen International Limited	Yemen
JX Nippon Oil & Energy Corporation	Japan
Kuwait Foreign Petroleum Exploration Company AKA Kufpec	Kuwait
Lahmeyer International	Germany
Mott MacDonald	UK
Petrolin	Gabon
Petroneds Service International Company	Sudan
PT Pertamina Persero AKA Pertamina	Indonesia
Shandong Electric Power Construction Corporation AKA Shandong Electric Power Group	China
Snowy Mountain Engineering Corporation	Australia
Star Petroleum	Spain
Sudan Petroleum Company AKA Sudapet	Sudan
Tamoil	Libya
Trafigura Beheer	Netherlands
UAE for Gold Minerals and Investment Company Limited	Canada
Vitol Group	Switzerland
Zaver Petroleum Corporation Ltd.	Pakistan

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

December 6, 2011



ATTACHMENT F

Letter to SBI International Equity Managers and Domestic Equity Managers

December 9, 2011

**Regarding: Iran Companies**

Dear Manager:

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

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

**Attachment 1** is the List of Restricted Iran Companies. Securities of these companies **may not be purchased** for the SBI portfolio that your organization manages. If you own securities of companies on the Restricted List **and** the companies are **not** on the divestment list, then you do not need to sell your holdings. Please note that the SBI retained a different firm to provide information on Iran companies. Therefore, the attached List makes many changes to the List of Restricted Iran Companies that was attached to the September 12, 2011 letter you received. **This new list is effective December 13, 2011.**

- The following companies have been removed from the restricted list:
  - CNOOC Ltd Hong Kong
  - Energetiki i elektrifikatsii OAO AKA Mosenergo Russia
  - Gazprom нефт OAO Russia
  - Hyundai Heavy Industries Co., Ltd. South Korea
  - L'Air Liquide SA France
  - Malaysian International Shipping Company Malaysia  
AKA MISC Berhad
  - Petronas Chemicals Group Bhd Malaysia
  - Petronas Dagangan Bhd Malaysia
  - Petronas Gas Berhad Malaysia
  - PetroVietnam Engineering Consultancy Joint Stock Co Vietnam
  - Petrovietnam Fertilizer and Chemicals Corp Vietnam
  - PetroVietnam Southern Gas Joint Stock Company Vietnam
  - Petrovietnam Transportation Corporation Vietnam
  - Siemens Aktiengesellschaft Germany

- The following companies have been added to the restricted list:
  - Bharat Petroleum Corporation Ltd. India
  - Gail (India) Ltd. India
  - GS Engineering & Construction Corp Korea South
  - GS Holdings South Korea
  - Gubre Fabrikalari T.A.S. Turkey
  - Ina-Industrija Nafta DD Croatia
  - Indian Oil Corporation Ltd. India
  - KBR Inc United States
  - L G International Korea South
  - Liquefied Natural Gas Ltd Australia
  - Maire Tecnimont S.p.A. Italy
  - Mitsui & Co. Ltd Japan
  - Mitsui Engineering & Shipbuilding Co. Ltd. Japan
  - MOL Magyar Olaj-es Gazipari Nyrt Hungary
  - Nagarjuna Fertilizers & Chemicals Ltd. India
  - Oil & Natural Gas Corporation Ltd. India
  - Petrofac United Kingdom
  - Punj Lloyd Ltd. India
  - Saipem Spa Italy
  - Technip France
  - Tecnicas Reunidas Spain
  - Toyo Engineering Corporation Japan
  - Toyota Tsusho Corporation Japan

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

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

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

**Attachment 3** is a list of security identifiers for the companies on the List of Restricted Iran Companies (**Attachment 1**) that your organization may use. The SBI does not represent that this is a complete list of identifiers. The manager is responsible for identifying all listings.

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

Sincerely,

Teresa J. Richardson  
Assistant Executive Director

Enclosures

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

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

<b>COMPANY_NAME</b>	<b>COUNTRY</b>
Bharat Petroleum Corporation Ltd.	India
China Petroleum & Chemical Corp	China
Daelim Industrial	Korea South
Gail (India) Ltd.	India
Gazprom	Russia
GS Engineering & Construction Corp	Korea South
GS Holdings	South Korea
Gubre Fabrikalari T.A.S.	Turkey
Ina-Industrija Nafta DD	Croatia
Indian Oil Corporation Ltd.	India
KBR Inc	United States
L G International	Korea South
Liquefied Natural Gas Ltd	Australia
Maire Tecnimont S.p.A.	Italy
Mitsui & Co. Ltd	Japan
Mitsui Engineering & Shipbuilding Co. Ltd.	Japan
MOL Magyar Olaj-es Gazipari Nyrt	Hungary
Nagarjuna Fertilizers & Chemicals Ltd.	India
Oil & Natural Gas Corporation Ltd.	India
PetroChina Co. Ltd.	China
Petrofac	United Kingdom
Punj Lloyd Ltd.	India
Saipem Spa	Italy
Sasol Ltd	South Africa
Technip	France
Tecnicas Reunidas	Spain
Toyo Engineering Corporation	Japan
Toyota Tsusho Corporation	Japan

Effective Date: December 13, 2011



ATTACHMENT 2

LIST OF IRAN COMPANIES REQUIRING DIVESTMENT

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

Effective Date: December 13, 2011

**ATTACHMENT 3  
IRAN RESTRICTED COMPANIES  
Security Identifiers**

<b>COMPANY_NAME</b>	<b>SEDOL</b>	<b>ISIN</b>	<b>SYMBOL</b>	<b>CUSIP</b>	<b>CUSIP_2</b>	<b>CUSIP_3</b>	<b>COUNTRY</b>
Bharat Petroleum Corporation Ltd.	6099723	INE029A01011	500547				India
China Petroleum & Chemical Corp	BORSW00	US16941R1086	386	16941R108			China
China Petroleum & Chemical Corp	2654375	US16941R1086	386	16941R108			China
China Petroleum & Chemical Corp	2639189	US16941R1086	386	16941R108			China
China Petroleum & Chemical Corp	B01XKR4	CNE1000002Q2	386	16941R108			China
China Petroleum & Chemical Corp	7027756	CNE1000002Q2	386	16941R108			China
China Petroleum & Chemical Corp	6291819	CNE1000002Q2	386	16941R108			China
China Petroleum & Chemical Corp	6373728	CNE0000018G1	386	16941R108			China
China Petroleum & Chemical Corp	B1C5SX8	ARDEUT114071	386	16941R108			China
Daelim Industrial	6246604	KR7000211003	A000210				Korea South
Daelim Industrial	B1T52M8	KR7000211003	A000210				Korea South
Daelim Industrial	6249584	KR7000210005	A000210				Korea South
Gail (India) Ltd.	B2NTDN1	US36268T2069	532155	36268T206			India
Gail (India) Ltd.	B033102	US36268T2069	532155	36268T206			India
Gail (India) Ltd.	3235520	US36268T2069	532155	36268T206			India
Gail (India) Ltd.	B1HJ0L7	US36268T2069	532155	36268T206			India
Gail (India) Ltd.	2498517	US36268T1079	532155	36268T206			India
Gail (India) Ltd.	3235490	US36268T1079	532155	36268T206			India
Gail (India) Ltd.	6133405	INE129A01019	532155	36268T206			India
Gazprom	B0338T0	US3682873068	GAZP	368287108	368287306	368287207	Russia
Gazprom	5385003	US3682873068	GAZP	368287108	368287306	368287207	Russia
Gazprom	5140989	US3682872078	GAZP	368287108	368287306	368287207	Russia
Gazprom	5259528	US3682872078	GAZP	368287108	368287306	368287207	Russia
Gazprom	2016629	US3682872078	GAZP	368287108	368287306	368287207	Russia
Gazprom	2398899	US3682871088	GAZP	368287108	368287306	368287207	Russia
Gazprom	3313181	US3682871088	GAZP	368287108	368287306	368287207	Russia
Gazprom	4364928	RU0007661625	GAZP	368287108	368287306	368287207	Russia
Gazprom	B2NH841	ARDEUT114261	GAZP	368287108	368287306	368287207	Russia
GS Engineering & Construction Corp	6537096	KR7006360002	A006360				Korea South
GS Engineering & Construction Corp	B06ZHC9	KR7006360002	A006360				Korea South
GS Holdings	B02FVX2	KR7078931003	A078930	Y2901P103			South Korea
GS Holdings	B01RJV3	KR7078930005	A078930	Y2901P103			South Korea
Gubre Fabrikalari T.A.S.	B188YV1	TRAGUBRF91E2	GUBRF				Turkey

**ATTACHMENT 3  
IRAN RESTRICTED COMPANIES  
Security Identifiers**

<b>COMPANY_NAME</b>	<b>SEDOL</b>	<b>ISIN</b>	<b>SYMBOL</b>	<b>CUSIP</b>	<b>CUSIP_2</b>	<b>CUSIP_3</b>	<b>COUNTRY</b>
Gubre Fabrikalari T.A.S.	B03MTC7	TRAGUBRF91E2	GUBRF				Turkey
Ina-Industrija Nafte DD	B1L1YV7	US45325E2019	INA-R-A	45325E201	45325E102		Croatia
Ina-Industrija Nafte DD	B1HJKC8	US45325E2019	INA-R-A	45325E201	45325E102		Croatia
Ina-Industrija Nafte DD	B1L56D5	US45325E2019	INA-R-A	45325E201	45325E102		Croatia
Ina-Industrija Nafte DD	B1L5RN2	US45325E1029	INA-R-A	45325E201	45325E102		Croatia
Ina-Industrija Nafte DD	B1HJKF1	US45325E1029	INA-R-A	45325E201	45325E102		Croatia
Ina-Industrija Nafte DD	B1JMYF6	HRINA0RA0007	INA-R-A	45325E201	45325E102		Croatia
Indian Oil Corporation Ltd.	6253767	INE242A01010	530965				India
KBR Inc	B1HHB29	US48242W1062	KBR	48242W106			United States
KBR Inc	B1HHB18	US48242W1062	KBR	48242W106			United States
L G International	B02PV43	KR7001120005	A001120				Korea South
L G International	6537115	KR7001120005	A001120				Korea South
Liquefied Natural Gas Ltd	B2RHN19	AU000000LNG0	LNG	Q5570T107			Australia
Liquefied Natural Gas Ltd	B05KKL5	AU000000LNG0	LNG	Q5570T107			Australia
Liquefied Natural Gas Ltd	B02L5H2	AU000000LNG0	LNG	Q5570T107			Australia
Maire Tecnimont S.p.A.	B298VS3	IT0004251689	MT				Italy
Maire Tecnimont S.p.A.	B2N7CX8	IT0004251689	MT				Italy
Maire Tecnimont S.p.A.	B29M561	IT0004251689	MT				Italy
Mitsui & Co. Ltd	4597058	XS0029348686	8031	606827202			Japan
Mitsui & Co. Ltd	B1HHX89	US6068272029	8031	606827202			Japan
Mitsui & Co. Ltd	2597061	US6068272029	8031	606827202			Japan
Mitsui & Co. Ltd	B03KWZ5	JP3893600001	8031	606827202			Japan
Mitsui & Co. Ltd	4594071	JP3893600001	8031	606827202			Japan
Mitsui & Co. Ltd	5736463	JP3893600001	8031	606827202			Japan
Mitsui & Co. Ltd	B0ZGPX0	JP3893600001	8031	606827202			Japan
Mitsui & Co. Ltd	6597302	JP3893600001	8031	606827202			Japan
Mitsui Engineering & Shipbuilding Co. Ltd.	6597380	JP3891600003	7003	J44776128			Japan
Mitsui Engineering & Shipbuilding Co. Ltd.	5822351	JP3891600003	7003	J44776128			Japan
MOL Magyar Olaj-es Gazipari Nyrt	5981616	US6084642023	MOL	608464202	608464103		Hungary
MOL Magyar Olaj-es Gazipari Nyrt	B0337L5	US6084642023	MOL	608464202	608464103		Hungary
MOL Magyar Olaj-es Gazipari Nyrt	531522	US6084642023	MOL	608464202	608464103		Hungary
MOL Magyar Olaj-es Gazipari Nyrt	B11JTL6	US6084642023	MOL	608464202	608464103		Hungary
MOL Magyar Olaj-es Gazipari Nyrt	4743549	US6084642023	MOL	608464202	608464103		Hungary

**ATTACHMENT 3  
IRAN RESTRICTED COMPANIES  
Security Identifiers**

<b>COMPANY_NAME</b>	<b>SEDOL</b>	<b>ISIN</b>	<b>SYMBOL</b>	<b>CUSIP</b>	<b>CUSIP_2</b>	<b>CUSIP_3</b>	<b>COUNTRY</b>
MOL Magyar Olaj-es Gazipari Nyrt	2587017	US6084641033	MOL	608464202	608464103		Hungary
MOL Magyar Olaj-es Gazipari Nyrt	5357950	HU0000068952	MOL	608464202	608464103		Hungary
MOL Magyar Olaj-es Gazipari Nyrt	5076880	HU0000068952	MOL	608464202	608464103		Hungary
MOL Magyar Olaj-es Gazipari Nyrt	B01YTX6	HU0000068952	MOL	608464202	608464103		Hungary
MOL Magyar Olaj-es Gazipari Nyrt	B0590W3	HU0000068952	MOL	608464202	608464103		Hungary
MOL Magyar Olaj-es Gazipari Nyrt	4742494	HU0000068952	MOL	608464202	608464103		Hungary
MOL Magyar Olaj-es Gazipari Nyrt	B28K243	HU0000068952	MOL	608464202	608464103		Hungary
Nagarjuna Fertilizers & Chemicals Ltd.	6628644	INE580A01013	500075				India
Oil & Natural Gas Corporation Ltd.	6139362	INE213A01011	500312	Y64606117			India
PetroChina Co. Ltd.	4633327	US71646E1001	857	71646E100			China
PetroChina Co. Ltd.	2568841	US71646E1001	857	71646E100			China
PetroChina Co. Ltd.	B28SLD9	CNE1000007Q1	857	71646E100			China
PetroChina Co. Ltd.	B01DNL9	CNE1000003W8	857	71646E100			China
PetroChina Co. Ltd.	B17H0R7	CNE1000003W8	857	71646E100			China
PetroChina Co. Ltd.	5939507	CNE1000003W8	857	71646E100			China
PetroChina Co. Ltd.	6226576	CNE1000003W8	857	71646E100			China
PetroChina Co. Ltd.	B1C5SR2	ARDEUT113958	857	71646E100			China
Petrofac	B0H2K53	GB00B0H2K534	PFC	G7052T101			United Kingdom
Petrofac	B11B6G6	GB00B0H2K534	PFC	G7052T101			United Kingdom
Petrofac	B0LWHB4	GB00B0H2K534	PFC	G7052T101			United Kingdom
Punj Lloyd Ltd.	B1VJSG4	INE701B01021	532693				India
Saipem Spa	2209076	US79376W1099	SPM	79376W208			Italy
Saipem Spa	4768779	IT0000068533	SPM	79376W208			Italy
Saipem Spa	B28LP70	IT0000068533	SPM	79376W208			Italy
Saipem Spa	B02ZP63	IT0000068533	SPM	79376W208			Italy
Saipem Spa	B020R51	IT0000068525	SPM	79376W208			Italy
Saipem Spa	4769103	IT0000068525	SPM	79376W208			Italy
Saipem Spa	4765996	IT0000068525	SPM	79376W208			Italy
Saipem Spa	B28LP69	IT0000068525	SPM	79376W208			Italy
Saipem Spa	4768768	IT0000068525	SPM	79376W208			Italy
Sasol Ltd	B03NQB8	ZAE000006896	SAOA	803866300	803866102		South Africa
Sasol Ltd	5734304	ZAE000006896	SAOA	803866300	803866102		South Africa
Sasol Ltd	6777450	ZAE000006896	SAOA	803866300	803866102		South Africa

**ATTACHMENT 3  
IRAN RESTRICTED COMPANIES  
Security Identifiers**

<b>COMPANY_NAME</b>	<b>SEDOL</b>	<b>ISIN</b>	<b>SYMBOL</b>	<b>CUSIP</b>	<b>CUSIP_2</b>	<b>CUSIP_3</b>	<b>COUNTRY</b>
Sasol Ltd	2777294	US8038663006	SAOA	803866300	803866102		South Africa
Sasol Ltd	4776910	US8038663006	SAOA	803866300	803866102		South Africa
Technip	2811620	US8785462099	TEC	878546209	F90676101		France
Technip	2878658	US8785461000	TEC	878546209	F90676101		France
Technip	B2NG4D9	FR0010565044	TEC	878546209	F90676101		France
Technip	B1MD4Y5	FR0010412353	TEC	878546209	F90676101		France
Technip	B0WC5Z3	FR0010273250	TEC	878546209	F90676101		France
Technip	B05K6W8	FR0010150342	TEC	878546209	F90676101		France
Technip	7328482	FR0000206039	TEC	878546209	F90676101		France
Technip	B28MSJ6	FR0000131708	TEC	878546209	F90676101		France
Technip	4122018	FR0000131708	TEC	878546209	F90676101		France
Technip	4874160	FR0000131708	TEC	878546209	F90676101		France
Technip	B06PC80	FR0000131708	TEC	878546209	F90676101		France
Tecnicas Reunidas	B16FTB9	ES0178165017	T5R	E9055J108	87875V100		Spain
Tecnicas Reunidas	B28MSQ3	ES0178165017	T5R	E9055J108	87875V100		Spain
Tecnicas Reunidas	B17MPB1	ES0178165017	T5R	E9055J108	87875V100		Spain
Tecnicas Reunidas	B1BL633	ES0178165017	T5R	E9055J108	87875V100		Spain
Toyo Engineering Corporation	6899718	JP3607800004	6330	J91343103			Japan
Toyo Engineering Corporation	B02MHK2	JP3607800004	6330	J91343103			Japan
Toyota Tsusho Corporation	6900580	JP3635000007	8015	J92719111			Japan

Effective Date: December 13, 2011

Letter to SBI Fixed Income Managers

December 9, 2011

**Regarding: Iran Companies**

Dear Manager:

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

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

**Attachment 1** is the List of Restricted Iran Companies. Securities of these companies **may not be purchased** for the SBI portfolio that your organization manages. If you own securities of companies on the Restricted List **and** the companies are **not** on the divestment list, then you do not need to sell your holdings. Please note that the SBI retained a different firm to provide information on Iran companies. Therefore, the attached List makes many changes to the List of Restricted Iran Companies that was attached to the September 12, 2011 letter you received. **This new list is effective December 13, 2011.**

- The following companies have been removed from the restricted list:
  - CNOOC Ltd Hong Kong
  - Energetiki i elektrifikatsii OAO AKA Mosenergo Russia
  - Gazprom нефт OAO Russia
  - Hyundai Heavy Industries Co., Ltd. South Korea
  - L'Air Liquide SA France
  - Malaysian International Shipping Company  
AKA MISC Berhad Malaysia
  - Petronas Chemicals Group Bhd Malaysia
  - Petronas Dagangan Bhd Malaysia
  - Petronas Gas Berhad Malaysia
  - PetroVietnam Engineering Consultancy Joint Stock Co Vietnam
  - Petrovietnam Fertilizer and Chemicals Corp Vietnam
  - PetroVietnam Southern Gas Joint Stock Company Vietnam
  - Petrovietnam Transportation Corporation Vietnam
  - Siemens Aktiengesellschaft Germany

- The following companies have been added to the restricted list:
  - Bharat Petroleum Corporation Ltd. India
  - Gail (India) Ltd. India
  - GS Engineering & Construction Corp Korea South
  - GS Holdings South Korea
  - Gubre Fabrikalari T.A.S. Turkey
  - Ina-Industrija Nafta DD Croatia
  - Indian Oil Corporation Ltd. India
  - KBR Inc United States
  - L G International Korea South
  - Liquefied Natural Gas Ltd Australia
  - Maire Tecnimont S.p.A. Italy
  - Mitsui & Co. Ltd Japan
  - Mitsui Engineering & Shipbuilding Co. Ltd. Japan
  - MOL Magyar Olaj-es Gazipari Nyrt Hungary
  - Nagarjuna Fertilizers & Chemicals Ltd. India
  - Oil & Natural Gas Corporation Ltd. India
  - Petrofac United Kingdom
  - Punj Lloyd Ltd. India
  - Saipem Spa Italy
  - Technip France
  - Tecnicas Reunidas Spain
  - Toyo Engineering Corporation Japan
  - Toyota Tsusho Corporation Japan

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

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

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

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

Sincerely,

Teresa J. Richardson  
Assistant Executive Director

Enclosures

cc.: James E. Heidelberg, Manager, Public Programs  
Steve Kuettel, Manager, Short-Term Debt  
Michael J. Menssen, Manager, Long-Term Debt



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

<b>COMPANY_NAME</b>	<b>COUNTRY</b>
Bharat Petroleum Corporation Ltd.	India
China Petroleum & Chemical Corp	China
Daelim Industrial	Korea South
Gail (India) Ltd.	India
Gazprom	Russia
GS Engineering & Construction Corp	Korea South
GS Holdings	South Korea
Gubre Fabrikalari T.A.S.	Turkey
Ina-Industrija Nafta DD	Croatia
Indian Oil Corporation Ltd.	India
KBR Inc	United States
L G International	Korea South
Liquefied Natural Gas Ltd	Australia
Maire Tecnimont S.p.A.	Italy
Mitsui & Co. Ltd	Japan
Mitsui Engineering & Shipbuilding Co. Ltd.	Japan
MOL Magyar Olaj-es Gazipari Nyrt	Hungary
Nagarjuna Fertilizers & Chemicals Ltd.	India
Oil & Natural Gas Corporation Ltd.	India
PetroChina Co. Ltd.	China
Petrofac	United Kingdom
Punj Lloyd Ltd.	India
Saipem Spa	Italy
Sasol Ltd	South Africa
Technip	France
Tecnicas Reunidas	Spain
Toyo Engineering Corporation	Japan
Toyota Tsusho Corporation	Japan

Effective Date: December 13, 2011

ATTACHMENT 2

LIST OF IRAN COMPANIES REQUIRING DIVESTMENT

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

Effective Date: December 13, 2011

TAB

C

## **COMMITTEE REPORT**

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DATE: March 1, 2012

TO: Members, State Board of Investment

FROM: **IAC Membership Review Committee**

The Board, at its December 12, 2011 meeting, appointed nine of the ten public members to the IAC.

On February 24, 2012, the IAC Membership Review Committee, which is comprised of a designee of each Board member, met to review an application for the remaining open position on the IAC.

After reviewing the application, the Committee is making the following recommendation.

### **RECOMMENDATION:**

**The Committee recommends that the Board appoint the following member to the Investment Advisory Council, with the term expiring in January 2016:**

**Kim Faust  
Director, Treasury & Financial Reporting  
Allina Health System**

**TAB**

**D**

## COMMITTEE REPORT

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DATE: March 1, 2012

TO: Members, State Board of Investment

FROM: **Consultant Review Committee**

The SBI retains consultants to provide independent advice to Board members and technical assistance to SBI staff on a variety of issues related to management of the assets under the SBI's control. Consultants are selected through a periodic Request for Proposal (RFP) process with review and recommendation by a Consultant Review Committee.

The members of the Consultant Review Committee are:

Micah Hines	Governor's Representative
Rebecca Spartz	Attorney General's Representative
Celeste Grant	Auditor's Representative
Jim Gelbmann	Secretary of State's Representative
Dave Bergstrom	IAC Representative
Judy Mares-Lazar	IAC Representative
Laurie Hacking	IAC Representative

### **Review Process**

Staff developed the RFP and criteria for evaluating responses. The range of tasks included in the RFP was very broad and consultants were encouraged to respond to any area of the RFP in which they have special expertise. The RFP stated that more than one consultant may be required to fulfill all the proposed duties. A copy of the RFP is included beginning on **page 5**.

The RFP was announced in the State Register on December 5, 2011 and sent to 12 firms. Seven (7) firms responded by the January 5, 2012 deadline:

Callan Associates Inc.  
Hewitt Ennis Knupp  
New England Pension Consulting  
Pension Consulting Alliance  
Strategic Investment Solutions, Inc.  
RV Kuhns  
Wilshire Associates

All firms responded to all sections of the RFP and submitted total fee bids. Additionally, Hewitt Ennis Knupp and Pension Consulting Alliance submitted fee bids for specified services.

After reviewing the services that the SBI requires from an investment management consultant, the Committee determined that continuing to have the services of a general consultant and a consultant for special projects is desirable.

The Committee concluded that the general consultant would provide a broad range of consulting and analytical services. The special projects consultant would address specific needs, as necessary.

### **Conclusions**

After reviewing the strengths of each responder in relation to the above needs, the Committee recommends the following:

- **Callan Associates Inc.** should be retained as the SBI's general consultant. Callan can provide general consulting on all asset classes and offer access to a range of sophisticated analytical tools that will assist the SBI in the on-going development and evaluation of its investment programs.
- **Pension Consulting Alliance (PCA)** should be retained as the SBI's special projects consultant. Through the expertise of its managing directors and its supplementary network of consulting specialists, PCA is well positioned to respond to a variety of tasks as specific needs arise.

During December 2011, Callan purchased Nuveen Investment Solutions who had served as the SBI's primary consultant since 1986. The firm has offices located in Chicago, IL and San Francisco and has over 100 clients.

The project team assigned to the SBI's account would be:

- Ann Posey, Principal (lead)
- John Simmons, Principal (back up)
- A team of other professionals would perform work on the account relationship

Pension Consulting Alliance was founded in 1988. The firm's primary offices are in Encino, CA. PCA is a boutique pension consulting firm which contracts with specialized firms in several disciplines to provide technical research and databases. PCA focuses on consulting for large public plans. The firm has 34 clients, many of whom utilize PCA for work on specific asset classes. PCA has worked with the SBI since 1992.

Allan Emkin, Managing Director, would serve as the SBI's contact for all special project work.

**RECOMMENDATION:**

**The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI's legal counsel, to negotiate and execute contracts with Callan Associates Inc. for general consulting services and with Pension Consulting Alliance for special projects. Both contracts should cover the five year period beginning July 1, 2012 and will be subject to the standard termination provisions required by state statute.**



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## REQUEST FOR PROPOSAL (RFP)

### REGARDING THE SELECTION OF A CONSULTANT OR CONSULTANTS TO ASSIST THE MINNESOTA STATE BOARD OF INVESTMENT (SBI) IN CARRYING OUT ITS FIDUCIARY RESPONSIBILITIES.

This RFP does not obligate the SBI to complete the project and the SBI reserves the right to cancel or postpone the solicitation if the SBI considers it to be in the best interest of the SBI.

#### I. INTRODUCTION

The Minnesota State Board of Investment (SBI) is charged with the investment of approximately \$61.6 billion for the State of Minnesota and related constituents.

The selected consultant(s) will report to the Board and its individual members. In carrying out its responsibilities, the consultant(s) will work closely with individual Board members and their staffs, the SBI's Executive Director and SBI staff, and members of the SBI's Investment Advisory Council.

The SBI has established performance objectives for each of the funds under its control. A brief description of each fund and its performance objectives is included as **Exhibit A**. In its efforts to meet or exceed these objectives, the SBI has sought and will continue to seek consultants' advice and recommendations in the design, development and implementation of its investment programs.

The primary advisory responsibilities of the consultant(s) selected through this RFP shall include, but are not limited to, investment objectives and asset allocation, management structures, performance measurement and analytics, manager search and evaluation, risk management and analysis, and other operational needs.

The SBI has retained the services of consulting firms since 1982. Currently, the firm of Callan Associates, Inc., Chicago IL serves as the SBI's primary consultant. Pension Consulting Alliance, Studio City, California serves as the SBI's consultant for special projects. The SBI has responsibility for deferred compensation investment activities.

The SBI is issuing this RFP to comply with State law which requires all consultant contracts be rebid every two years with a potential extension out to a maximum of five years. The SBI always is open to new and creative approaches and encourages consulting organizations to respond to this RFP.

The SBI has established a Consultant Review Committee to prepare and distribute a formal RFP to evaluate available consulting services. The Committee will review responses and will recommend one or more candidates to the SBI for approval. The SBI assumes that the process for evaluating and selecting a consultant or consultants will proceed expeditiously and will be completed by March 7, 2012.

## **II. PURPOSE**

The SBI utilizes qualified consultants to provide independent, objective and creative input in the process of fulfilling its fiduciary responsibility and to maintain performance history for reporting and analysis.

The consultant(s) employed by the SBI through this RFP will be expected to offer analysis, advice and recommendations with respect to one or more of the following:

- Investment Policies
- Investment Strategy
- Investment Management Structures
- Assist in Manager Selection
- Performance Evaluation
- Risk Management and Analysis
- Operations and Resources
- Special Projects
- On-Site Consultation and Assistance

Detailed requirements are set forth in Section V of this RFP.

## **III. CONSULTANT RELATIONSHIP**

The selected Consultant(s) will report to the Board. However, the Consultant(s) will bear the responsibility for maintaining direct communication with members of the Board and their staffs, the SBI's Executive Director and other SBI staff and members of the SBI's Investment Advisory Council.

The SBI recognizes that more than one consulting firm may be required to fulfill the duties described in Section V. The SBI's goal is to hire a consultant or consultants whose experience, whether broad-based or specialized, can best satisfy its needs.

Consultants are encouraged to respond to each of the duties cited in Section V in which they have special expertise.

#### IV. BACKGROUND REGARDING THE SBI

##### A. Legal Authorization

The SBI was created pursuant to Article XI, Section 8, of the Minnesota Constitution for the purpose of "administering and directing the investment of all state funds." Statutory provisions relating to fiduciary responsibility, portfolio composition, and the types of securities in which the SBI may legally invest are set forth in Minnesota Statutes Chapter 11A and 356A, copies of which are attached as **Exhibit B**.

##### B. Composition

By constitutional requirement, the SBI is composed of four (4) elected officials: Governor, State Auditor, Secretary of State, and State Attorney General.

The Consultant Review Committee is composed of the following six people: one designee of each member of the SBI and two (2) members of the SBI's Investment Advisory Council.

##### C. Investments and Managers

Currently, the SBI invests in domestic and international equities, fixed income, real estate, private equity, venture capital, resource funds, mezzanine debt, and derivative securities.

The state's cash account and some non-retirement assets (one equity and two bond portfolios) are managed internally. The balance of the assets, approximately \$53.2 billion, are managed externally by firms retained by the Board.

<u>Numbers of Managers</u>	<u>Asset Class</u>
24	Domestic Equity (19 active, 4 semi-passive and 1 passive)
14	Foreign Equity (7 active, 1 passive, 3 semi-passive, and 3 emerging markets)
8	Fixed Income (5 active and 3 semi-passive)
7	Real Estate
38	Private Equity and Venture Capital
9	Resource
13	Yield Oriented
1	Stable Asset/GIC
9	Deferred Compensation Mutual Funds
1	Target Date Fund Family

In addition, the SBI utilizes a master custodian, currently State Street Bank to provide a variety of administrative and management functions.

#### **D. Staffing and Support Services**

The SBI has a staff of twenty-two (22) persons supervised by an Executive Director. The staff is responsible for the implementation of Board policies on an on-going basis. The Executive Director reports investment performance and makes policy recommendations to the SBI at quarterly and special meetings. As part of their on-going duties, the SBI staff maintains close contact with the Board members and their staffs, the State Legislature, the state-wide and local retirement systems whose assets are managed by the SBI, and the other organizations with interest in the operations and results of the Board.

The SBI also utilizes the services of its 17-member Investment Advisory Council (IAC) whose duties are set forth in Minnesota Statutes 11A.08. The IAC is composed of the State Commissioner of Finance, the Executive Directors of the three statewide retirement systems, one governor designated retiree representative, two governor designated active employee representatives and ten persons knowledgeable in general investment matters.

The IAC's duties are to advise the SBI on general investment policy matters and perform other advisory tasks as the SBI requests. The IAC meets quarterly prior to the SBI's quarterly meeting.

The SBI has established an Administrative Committee to oversee the Executive Director's annual work plan and administrative budget. The Committee is comprised of each Board member (or his/her designee) as well as the chair and vice chair of the IAC and the Directors of the three statewide retirement systems.

The Proxy Committee establishes guidelines for voting shares held by the SBI.

At times, the SBI may establish ad hoc committees to carry out specific tasks which it may assign.

Charts illustrating the SBI's functional organizational structure and decision-making process are included as **Exhibits C and D**.

### E. Funds Invested by the SBI

The funds invested by the SBI are listed below, along with their June 30, 2011 market values.

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

A brief description of each fund is included as **Exhibit A**.

### V. DUTIES OF THE CONSULTANT(S)

The SBI has established performance objectives for each of the funds under its control (See **Exhibit A**). In its efforts to meet or exceed these objectives, the SBI has sought and will continue to seek consultants' advice and recommendations in the design, development and implementation of its investment programs.

The following list of duties represents the consultant(s) primary areas of responsibility. The SBI expects the consultant(s) selected through this RFP to provide independent, prudent, objective and creative input to its decision making process.

Most of the duties outlined in this section have been addressed by the SBI in the past or are being addressed now. However, during the contract period the consultant(s) may be required to perform any or all of the following tasks:

#### A. Investment Policies:

1. Prepare a comprehensive review or analysis of the investment policies established for the Combined Funds and recommend changes, if appropriate. The review should address investment objectives, asset allocation and management structure. Performance benchmarks at each management level (total fund, asset class segment, individual manager) should be reviewed as well.

2. Conduct a similar review for other funds managed by the SBI, as requested.

**B. Investment Strategy:**

1. Provide technical assistance in analyzing the investment characteristics of available asset classes and alternative asset mixes for each fund managed by the SBI.
2. Assist in the consideration of asset classes not already included in SBI funds.
3. Advise in the development of guidelines and procedures for rebalancing the asset mix of each fund and for evaluating the effectiveness of such procedures.
4. Assist in developing or updating a comprehensive written investment policy statement for each fund managed by the SBI.

**C. Investment Management Structures:**

1. Assist in developing an appropriate investment management structure for each fund and asset class considering the role of passive versus active management, the range and mix of available management styles, as well as the number of managers hired.
2. Assist in developing criteria for evaluating the effectiveness of the current investment management structure for each fund and asset class.
3. Inform the SBI of new developments in investment management techniques within each asset class and each fund as a whole. Analyze how these new techniques might enhance the SBI's investment program and how they might best be implemented.

**D. Manager Selection:**

1. Assist in designing and implementing manager selection processes.
2. Assist in analyzing the SBI's needs for particular managers within each asset class.
3. Assist in establishing appropriate qualitative and quantitative requirements for reviewing potential candidates.
4. Assist in screening prospective managers and recommending finalists which meet stated requirements.

#### **E. Performance Evaluation:**

1. Assist in developing a composite index for each fund to measure total fund performance relative to its established target asset mix.
2. Have the ability to calculate the performance at the total fund, asset class, and individual manager levels based on accounting data provided by the SBI's custodial bank.
3. Analyze actual performance relative to the composite indices established for the Combined Funds on an on-going basis.
4. Assist in analyzing the performance of other SBI funds, as requested.
5. Where appropriate, provide performance attribution for each manager in each asset class utilized in the Combined Funds. Provide an analysis of the individual and aggregate risk positions of the above managers on a periodic basis.
6. Provide a performance database and analytical system that can be accessed by the SBI.
7. Assist in establishing appropriate performance benchmarks at the asset class and individual manager level in all asset classes.
8. Assist in evaluating manager performance and consistency relative to guidelines, standards, and desired characteristics.
9. Assist the SBI in continued implementation of performance-based fees. Currently, only active domestic equity managers utilize performance-based fees.

#### **F. Risk Management and Analysis**

1. Assist in developing and maintaining comprehensive risk measurement systems for each fund, asset class and individual manager under SBI management.
2. Analyze the risk exposure of each fund, asset class and individual manager under SBI management.
3. Assist the SBI to develop an agency wide risk analysis program that includes both investment and non-investment risk.



**G. Operations and Resources:**

1. Review the Executive Director's annual work plan and recommend modifications, where appropriate.
2. Comment on the adequacy of the operational resources available to carry out the plan (e.g. budget, staffing, analytical systems technology).
3. Recommend new technologies which may be available to enhance the productivity of the operation.

**H. Special Requests:**

1. Prepare comprehensive analyses of specific issues designated by the SBI. These may include topics such as tobacco related investments, custodial relationships or data processing needs.
2. Present such analyses to the SBI and IAC when requested.

**I. On-Site Consultation and Assistance:**

1. Attend all quarterly and special meetings of the SBI and the Investment Advisory Council (IAC).

The consultant may be called upon to comment on specific items presented to the SBI for approval and to review trends in the economy and capital markets.

Board meetings (subject to change) are scheduled for the first Wednesday of March, June, September, and December. The IAC meetings (subject to change) are scheduled for the third Tuesday of February, May, August, and November. A schedule of Board and IAC meetings for the following year is presented to the Board at its December meeting.

2. Be available to meet with each member of the SBI or their designee on a quarterly basis, or as requested, to discuss pertinent investment management issues.
3. Meet with SBI staff, as needed, to assure timely completion of the tasks set forth in this section.

**VI. MINIMUM QUALIFICATIONS**

The proposer must meet all of the following minimum qualifications to be given further consideration. Failure to satisfy each of the minimum qualifications will result in the immediate rejection of the proposal.

1. The primary consultant assigned to the SBI account must have a minimum of five (5) years of experience providing consulting services to large public pension plans or relevant investment experience.
2. As of June 30, 2011 and for at least the three (3) most recent continuous years, the firm must have a verifiable operating history with at least three (3) institutional fund clients with at least \$20 billion in assets.
3. The investment consulting firm must be able to maintain a satisfactory electronic interface with SBI's custodian bank through an online connection at the firm's expense.

## VII. PREPARATION OF PROPOSAL

The consultant's response to this RFP shall be organized in the following manner. **Please observe the page limits shown for each section.** Please note that consultants will be evaluated, in part, on their ability to communicate clearly and succinctly. **Brevity will be appreciated and considered in the evaluation of the RFP responses.**

Questions regarding information to be presented in response to the RFP or requesting clarification about this RFP may only be submitted via e-mail to Teri Richardson at: [minn.sbi@state.mn.us](mailto:minn.sbi@state.mn.us) no later than December 12, 2011. For the subject line in the e-mail please use Consultant RFP 2011. SBI will consolidate all questions and its answers into a single Q&A document without divulging the source of the query. The Q&A document will be distributed via e-mail to all firms who received the RFP.

### **Executive Summary**

**Page Limit: One**

### **Section 1: Consulting Services Provided**

**Page Limit: No more than 20 (excluding manager due diligence reports and performance report sample)**

### **Investment Policies and Asset Allocation**

1. Discuss the theory and methodology of your firm's asset allocation model. Is the model proprietary or an outside vendor model? Has the model been revised in the last five (5) years? If so, what was changed?
2. Discuss the theory and methodology for determining the inputs for the model.
3. Provide your firm's current inputs to the asset allocation model. Include all asset classes for which your firm has developed inputs.

4. How often do you recommend a formal asset allocation review?
5. Is your firm capable of performing asset/liability studies?
6. To what extent do you involve staff in discussing the economic climate and asset return assumptions that form the basis of your asset allocation model?
7. Describe your firm's view of market timing and portfolio rebalancing.
8. Discuss your firm's view on what the appropriate roles are for active and passive management when developing management structures for the major asset classes.
9. Describe your firm's capabilities and experience in alternative assets. Discuss the role of alternative assets within a public pension fund. What's your firm's view of appropriate and inappropriate alternative investments for a public fund? Describe your approach to benchmarking these investments and what benchmarks you find useful.
10. Describe your firm's capabilities and experience in the area of derivatives. List the factors you would consider in recommending derivative strategies.
11. Describe your firm's ability to identify and evaluate new investment opportunities.
12. What trends, changes or key issues do you believe will impact public pension funds going forward?

#### **Performance Measurement and Portfolio Analytics**

1. Describe your firm's view of the most critical factors and methods of evaluating performance.
2. Do you calculate performance independently of the custodian? If so, do you reconcile your calculated performance to the custodians' reports? If yes, please describe.
3. Describe the methodology of your performance calculations. Describe the firm's ability to modify these conventions.
4. Do you have the capability of using rates of return calculated by the SBI's custodial bank in your performance evaluation reports?
5. What performance and portfolio analytic systems of your firm can be accessed on-line by the SBI?

6. How are performance benchmarks for the total fund, asset classes and investment managers chosen and constructed?
7. Describe your firm's performance attribution capabilities. Include a breakdown of capabilities by total fund, asset class and investment manager level.
8. What portfolio analytics is your firm capable of providing at the total fund, asset class and investment manager level?
9. Describe your capabilities in the development of risk/return characteristics at the total fund, asset class and investment manager level.
10. Can these reports be customized? Are there charges for this additional request? In general, how long does it take to implement changes?
11. When are reports generally available?
12. Are performance reports and attribution analysis tools available on line?
13. Please provide samples of performance reports.

#### **Manager Search and Evaluations**

1. Discuss the steps your firm would take to analyze SBI's current investment portfolio.
2. Describe your firm's philosophy with respect to manager evaluations.
3. What is your firm's philosophy on manager turnover?
4. Does your firm maintain a proprietary database of investment manager information?
5. Are investment managers charged direct or indirect fees to be included in the database? If so, describe the fees. If not, how are managers added/deleted from your database?
6. For firms that have a proprietary database, describe your methodology and criteria for classification of managers. How do you monitor consistency of style?
7. For proprietary databases, how often are the managers reviewed? Under what circumstances are managers added or deleted from your database?

8. For proprietary databases, describe how your firm gathers, verifies, updates and maintains the data collected for managers in the database.
9. Provide a copy of a recently completed investment manager's due diligence report for a fixed income, domestic equity, and international equity manager.

### **Alternative Managers**

1. What services are included in a general retainer relationship related to alternative assets (i.e. real estate, private equity, oil and gas, hedge funds, mezzanine funding)?
2. Describe your capabilities to evaluate and monitor alternative asset classes. Describe the resources dedicated to this area including staff and their experience.
3. Provide two (2) due diligence reports within the alternative asset class.

### **Risk Management**

1. How do you define risk?
2. How does your firm monitor risk? List what measurements are used when evaluating risk at the total fund, asset class and investment manager level.
3. What is your firm's opinion on risk allocation and risk budgeting at the total fund, asset class and investment manager level?

### **Section 2: Organization and Personnel**

**Page Limit: No more than 10 (excluding audited financial statements)**

1. Provide the date business commenced.
2. Provide details of the ownership structure including any parent, affiliated or subsidiary company, and any business partners or joint ventures.
3. Provide an organizational chart of your firm and describe the relationship between each component and your consulting group.
4. How many employees does your firm have? Please break this number into specific functions and strategic areas.
5. Provide a brief description of the firm's growth plan and capacity to undertake this consulting relationship.

6. Within the past three years have there been significant changes in your organization such as ownership, restructuring or personnel organization.
7. Describe the firm's financial position and sources of revenue. Include a copy of the firm's most recent audited financial statements.
8. Describe the key features of your firm's business continuation and disaster recovery plans.
9. Describe any litigation against the firm in the last three (3) years.
10. Has there been any SEC or other regulatory action against the firm or its principals/owners/officers?
11. Provide a list of current clients, the size of the funds and inception date of the relationships.
12. Provide the number of consulting relationships gained and lost in each of the following periods:
  - January - December 2008
  - January - December 2009
  - January - December 2010
  - January - June 2011
13. Provide the number and title of professional personnel gained and lost in the same periods.
14. Describe the firm's compensation and incentive program, and any other programs for hiring and retaining key personnel. How does the firm tie client performance and satisfaction to a consultant's compensation?
15. What is the average and maximum number of clients assigned per consultant? Describe your firm's backup procedures in the event the key personnel in this assignment should leave the firm?
16. Provide a resume or biography of each professional staff person to be assigned to this consulting relationship, outlining their qualifications, previous experience in similar tasks or engagements and name the clients they currently service.
17. What is the firm's succession plan for key personnel, including the lead on this account?
18. Does your firm accept investment managers as clients? If so, for what products?

19. What percentage of your clients utilize money managers, investment funds, brokerage service, or other service providers from whom you receive fees?
20. Do you have any arrangements with broker dealers under which you or a related company will benefit if firms place trades for their clients with them?
21. Do you have any policy or procedures to address conflicts of interest when you provide advice to clients?

**Section 3: Research**

**Page Limit: No more than 5 (excluding research reports provided)**

1. Describe how internal research is structured and organized within your firm. Please describe how your research fits into the overall organizational structure of the firm.
2. Describe how any external resources and sources of information are used in the research process.
3. Describe your ability to provide customized computer based analytical tools.
4. Describe your firm's process for monitoring industry and market trends that impact investment funds.
5. Describe your firm's process for monitoring political, legislative and media environments that may impact a client's investment program.
6. Please provide some recent research reports that will provide an indication of the range and depth of your research.
7. Provide a list of research reports prepared by the consultant for use by its clients within the last three (3) years.

**Section 4: Computer Capability**

**Page Limit: No more than 3**

1. Describe the databases, software and hardware that will be used to support the delivery of investment consultant services.
2. Describe how the databases and software will be accessed by SBI staff. Specify the hardware necessary to accomplish such access.
3. Describe the plan to keep data processing systems, databases, software and hardware current. Please reference how your organization determines the need to upgrade existing systems and when to introduce new applications.

**Section 5: Miscellaneous**  
**Page Limit: No more than 2**

1. What are your firm's consulting specialties and strengths? What differentiates your firm from your competitors? What are your firm's limitations?
2. Briefly describe how a new client would transition to your firm. What problems have you encountered in transitioning a new client to your firm from their previous consultant?

**Section 6: References**  
**Page Limit: No more than 1**

1. Provide a list of at least three references for whom you provide full retainer investment consulting services. The references must be current public or private pension fund clients that have accounts of similar size and complexity as those described in this RFP. The references shall include the name, title, organization, address, e-mail and phone number of the responder's primary contact at the client organization.

**Section 7: Fee Proposal**  
**Page Limit: No more than 1**

- Proposed fees shall be stated for a time period of July 1, 2012 to June 30, 2017 in one of the following alternatives:
  - (1) Total fee to be charged and a list of the services to be provided. Please provide quotes for any additional services not included.
  - (2) Individual costs related to each service the consultant proposes to provide. (All proposed fees should be all inclusive. No additional charges such as travel will be accepted).
- A statement that the fee estimate is valid for a minimum of one hundred and twenty (120) days. This period may be extended by mutual agreement between a responder and the Consultant Review Committee.



**Section 8 or Attachment:**    **Affirmative Action Data Page,  
Veteran-Owned Preference Form,  
Certification Regarding Lobbying,  
and Affidavit of Noncollusion.**

**Page Limit:**                    **None Specified**

- Complete the State of Minnesota Affirmative Action Data Page that appears as **Exhibit E** on **page 79** of this package.
- Complete the Veteran-Owned Preference Form, if applicable, that appears as **Exhibit F** on **page 81** of this package.
- Complete the Certification Regarding Lobbying Form that appears as **Exhibit G** on **page 83** of this package.
- Complete the Affidavit of Noncollusion Form that appears as **Exhibit H** on **page 85** of this package.

## VIII. SUBMISSION OF RESPONSE

The responder shall submit twenty (20) bound copies of its RFP response to the SBI at the following address:

Teri Richardson  
Assistant Executive Director  
Minnesota State Board of Investment  
60 Empire Drive, Suite 355  
St. Paul, MN 55103-3555

(651) 296-3328  
[minn.sbi@state.mn.us](mailto:minn.sbi@state.mn.us)

- All costs incurred in responding to this RFP will be borne by the responder.
- Fax or e-mail responses will not be considered.
- No proposal received after 3:00 P.M. Central Daylight Time on January 5, 2012 will be considered.
- One (1) copy of the response must be unbound and signed in ink by an authorized officer of the responding firm.
- One copy on disk or CD readable by Microsoft Word.
- Each copy of the response must be sealed in a mailing envelope or package with the responder's name and address clearly written on the outside. Please identify the unbound copy on the outside of its envelope as well.

## IX. PROJECT TIMETABLE AND RELATED REQUIREMENTS

RFP Issued. December 5, 2011

Consultants' proposals due. January 5, 2012

**NO PROPOSALS RECEIVED AFTER  
3:00 P.M. CENTRAL TIME ON January 5, 2012  
WILL BE CONSIDERED.**

Proposals evaluated by the Consultant  
Review Committee. January 2012\*

The Consultant Review Committee may require that a consultant submitting a proposal make an oral presentation to the Committee during the evaluation process. In such event, the Committee shall notify the consultant of the time and location.

**Consultant selected by the SBI.**

**March 7, 2012\***

**Contract completed and executed.**

**June 30, 2012\***

\* Projected dates, subject to change.

## **X. INFORMATION CONTACTS**

The SBI's exclusive agents for purposes of responding to consultants' inquiries on RFP requirements are:

**Howard Bicker**  
Executive Director

**Teri Richardson**  
Assistant Executive Director

Minnesota State Board of Investment  
60 Empire Drive, Suite 355  
St. Paul, MN 55103  
Telephone: (651) 296-3328  
minn.sbi@state.mn.us

Other persons are not authorized to discuss RFP requirements with responders before the proposal submission deadline.

The SBI shall not be bound by and responders may not rely on information regarding RFP requirements obtained from non-authorized persons.

## **XI. PROPOSAL SELECTION**

### **A. Nature of Procurement.**

This procurement is undertaken by the SBI pursuant to the provisions of Minnesota Statutes, section 16C.08. As such, it is not governed by strict competitive bidding requirements frequently associated with the purchase of supplies and materials by the State and selection will not be based exclusively on the concept of lowest responsible bidder. The SBI reserves the right to waive minor informalities. Accordingly, the SBI shall select the Consultant(s) whose proposal and oral presentation, if requested, demonstrate, in SBI's sole

opinion, clear capability to best fulfill the purposes of the RFP in a cost effective manner. The SBI reserves the right to accept or reject proposals, in whole or in part, and to negotiate separately as necessary to serve the best interest of the State of Minnesota.

**B. Selection Criteria.**

90% of the evaluation of the proposals will be based on:

**1. The quality and completeness of the consultant's answer to Section VII of the RFP as it relates to the prescribed duties. (15%)**

The approach, methodology and techniques should be appropriately specific, logical and organized. The consultant must demonstrate the capability to gather the necessary information, develop fully supportable conclusions, and communicate findings and recommendations clearly and succinctly.

**2. The consultant's demonstrated knowledge and experience in investment consulting. (15%)**

It is imperative that the consultant has been frequently and recently engaged in the field of investment consulting for large pension plan sponsors. In addition, knowledge and experience with respect to endowments, cash accounts, and insurance portfolios is desirable.

**3. The quality of staff to be assigned to fulfill this contract and available support. (15%)**

The consultant must assign to this contract, in terms of numbers and quality, sufficient staff with experience in the fields of financial and investment analysis, data processing and systems support, and general pension fund management. The consultant should explain to the best of its ability to what extent back-up professional personnel are available to substitute for loss of professional personnel identified as necessary in the proposal.

**4. The quality of the data processing and analytical systems necessary to support the consulting services. (15%)**

The consultant should demonstrate its ability to manage and maintain the computer software, hardware and databases referenced in its proposal. The consultant's commitment to upgrade existing systems and to introduce new applications which will enhance its ability to perform its duties also will be assessed.

5. **The consultant's demonstrated ability to communicate effectively. (15%)**

As the consultant will have to interact with individuals who have varying degrees of investment knowledge and experience, the consultant's ability to effectively communicate (in written and oral form) his or her opinions and observations to audiences with varying levels of investment expertise will be evaluated.

6. **The consultant's demonstrated ability to manage the assignment effectively and assure the successful delivery of the services provided. (15%)**

The plan for performing and managing the contract, including the framework within which the project team will function relative to the State, will be evaluated. The consultant should demonstrate its ability to manage and control its duties, including specification of the reporting mechanisms and inter-relationships between the consultant, the SBI and its staff, and outside vendors of the SBI.

**XII. COST AND METHOD OF PAYMENT (10%)**

1. All costs relating to the proposal shall be explained in detail.
2. Payment shall be made on a pro rata quarterly basis billed in arrears.
3. The evaluation team reserves the right to reject unreasonable costs proposed by responders. Specifically, the evaluation team will not consider any proposed costs that are, at the sole discretion of the state, not rational or are not competitively priced. Such proposals will be regarded as non-responsive and receive no further consideration.

**XIII. PERIOD OF CONTRACT**

The contract shall be for five (5) years commencing on or about July 1, 2012.

By Minnesota law, the contract may be canceled by the State Board of Investment, the Commissioner of Administration of the State of Minnesota, or the contractor at any time, with or without cause, upon thirty (30) day written notice to the other party.

#### **XIV. PUBLIC STATUS OF PROPOSALS SUBMITTED**

Pursuant to Minnesota law, all proposals submitted in response to this RFP shall become the property of the State of Minnesota. Such proposals shall also constitute public records in accordance with Minn. Stat. section 13.591 and shall be available for viewing and reproduction by any person except for portions of the response that meet the definition of Trade Secret as defined by Minnesota Statute Section 13.37 subd. 1 (b).

#### **XV. OTHER GENERAL REQUIREMENTS**

##### **Affidavit of Noncollusion**

Each responder must complete the attached Affidavit of Noncollusion and include it with the response.

##### **Conflicts of Interest**

Responder must provide a list of all entities with which it has relationships that create, or appear to create, a conflict of interest with the work that is contemplated in this request for proposals. The list should indicate the name of the entity, the relationship, and a discussion of the conflict.

##### **Proposal Contents**

By submission of a proposal, Responder warrants that the information provided is true, correct and reliable for purposes of evaluation for potential contract award. The submission of inaccurate or misleading information may be grounds for disqualification from the award as well as subject the responder to suspension or debarment proceedings as well as other remedies available by law.

##### **Disposition of Responses**

All materials submitted in response to this RFP will become property of the State and will become public record in accordance with Minnesota Statutes, section 13.591, after the evaluation process is completed. Pursuant to the statute, completion of the evaluation process occurs when the government entity has completed negotiating the contract with the selected vendor. If the Responder submits information in response to this RFP that it believes to be trade secret materials, as defined by the Minnesota Government Data Practices Act, Minn. Stat. § 13.37, the Responder must: clearly mark all trade secret materials in its response at the time the response is submitted, include a statement with its response justifying the trade secret designation for each item, and defend any action seeking release of the materials it believes to be trade secret, and indemnify and hold harmless the State, its agents and employees, from any judgments or damages awarded against the State in favor of the party requesting the materials, and any and all costs connected with that defense. This indemnification survives the State's award of a contract. In submitting a response to this RFP, the Responder agrees that this

indemnification survives as long as the trade secret materials are in possession of the State.

The State will not consider the prices submitted by the Responder to be proprietary or trade secret materials.

**Contingency Fees Prohibited**

Pursuant to Minnesota Statutes section 10A.06, no person may act as or employ a lobbyist for compensation that is dependent upon the result or outcome of any legislation or administrative action.

**Organizational Conflicts of Interest**

The responder warrants that, to the best of its knowledge and belief, and except as otherwise disclosed, there are no relevant facts or circumstances which could give rise to organizational conflicts of interest. An organizational conflict of interest exists when, because of existing or planned activities or because of relationships with other persons, a vendor is unable or potentially unable to render impartial assistance or advice to the State, or the vendor's objectivity in performing the contract work is or might be otherwise impaired, or the vendor has an unfair competitive advantage. The responder agrees that, if after award, an organizational conflict of interest is discovered, an immediate and full disclosure in writing must be made to the Assistant Director of the Department of Administration's Materials Management Division ("MMD") which must include a description of the action which the contractor has taken or proposes to take to avoid or mitigate such conflicts. If an organization conflict of interest is determined to exist, the State may, at its discretion, cancel the contract. In the event the responder was aware of an organizational conflict of interest prior to the award of the contract and did not disclose the conflict to MMD, the State may terminate the contract for default. The provisions of this clause must be included in all subcontracts for work to be performed similar to the service provided by the prime contractor, and the terms "contract," "contractor," and "contracting officer" modified appropriately to preserve the State's rights.

**Preference to Targeted Group and Economically Disadvantaged Business and Individuals**

In accordance with Minnesota Rules, part 1230.1810, subpart B and Minnesota Rules, part 1230.1830, certified Targeted Group Businesses and individuals submitting proposals as prime contractors shall receive the equivalent of a six percent preference in the evaluation of their proposal, and certified Economically Disadvantaged Businesses and individuals submitting proposals as prime contractors shall receive the equivalent of a six percent preference in the evaluation of their proposal. Eligible Targeted Group Businesses must be currently certified by the Materials Management Division prior to the solicitation opening date and time. For information regarding certification, contact the Materials Management Helpline at 651.296.2600, or

you may reach the Helpline by e-mail at [mmd.help.line@state.mn.us](mailto:mmd.help.line@state.mn.us). For TTY/TDD communications, contact the Helpline through the Minnesota Relay Services at 1-800-627-3529.

### **Veteran-Owned Preference**

In accordance with Minnesota Statute §16C.16, subd. 6a, veteran-owned businesses with their principal place of business in Minnesota and verified as eligible by the United States Department of Veterans Affairs' Center for Veteran Enterprises (CVE Verified) will receive up to a 6 percent preference in the evaluation of its proposal.

Eligible veteran-owned small businesses include CVE verified small businesses that are majority-owned and operated by either recently separated veterans, veterans with service-connected disabilities, and any other veteran-owned small businesses (pursuant to Minnesota Statute §16C.16, subd. 6a).

Information regarding CVE verification may be found at <http://www.vetbiz.gov>.

Eligible veteran-owned small businesses should complete and **sign** the **Veteran-Owned Preference Form** in this solicitation. Only eligible, CVE verified, veteran-owned small businesses that provide the required documentation, per the form, will be given the preference.

### **Human Rights Requirements**

For all contracts estimated to be in excess of \$100,000, responders are required to complete the attached Affirmative Action Data page and return it with the response. As required by Minn. R. 5000.3600, "It is hereby agreed between the parties that Minn. Stat. § 363A.36 and Minn. R.5000.3400 - 5000.3600 are incorporated into any contract between these parties based upon this specification or any modification of it. A copy of Minn. Stat. § 363A.36 and Minn. R.5000.3400 - 5000.3600 are available upon request from the contracting agency."

### **Certification Regarding Lobbying**

If federal money will be used or may potentially be used to pay for all or part of the work under the contract, then the Proposer must complete the attached **Certification Regarding Lobbying** and submit it as part of its proposal.

### **Certification Regarding Debarment, Suspension, Ineligibility, and Voluntary Exclusion.**

If federal money will be used or may potentially be used to pay for all or part of the work under the contract, then the Proposer must certify the following, as required by the regulations implementing Executive Order 12549.



## **Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion -- Lower Tier Covered Transactions**

### Instructions for Certification

1. By signing and submitting this proposal, the prospective lower tier participant is providing the certification set out below.
2. The certification in this clause is a material representation of fact upon which reliance was placed when this transaction was entered into. If it is later determined that the prospective lower tier participant knowingly rendered an erroneous certification, in addition to other remedies available to the Federal Government, the department or agency with which this transaction originated may pursue available remedies, including suspension and/or debarment.
3. The prospective lower tier participant shall provide immediate written notice to the person to which this proposal is submitted if at any time the prospective lower tier participant learns that its certification was erroneous when submitted or had become erroneous by reason of changed circumstances.
4. The terms *covered transaction, debarred, suspended, ineligible, lower tier covered transaction, participant, person, primary covered transaction, principal, proposal, and voluntarily excluded*, as used in this clause, have the meaning set out in the Definitions and Coverages sections of rules implementing Executive Order 12549. You may contact the person to which this proposal is submitted for assistance in obtaining a copy of those regulations.
5. The prospective lower tier participant agrees by submitting this response that, should the proposed covered transaction be entered into, it shall not knowingly enter into any lower tier covered transaction with a person who is proposed for debarment under 48 CFR part 9, subpart 9.4, debarred, suspended, declared ineligible, or voluntarily excluded from participation in this covered transaction, unless authorized by the department or agency with which this transaction originated.
6. The prospective lower tier participant further agrees by submitting this proposal that it will include this clause titled "Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion--Lower Tier Covered Transaction," without modification, in all lower tier covered transactions and in all solicitations for lower tier covered transactions.

7. A participant in a covered transaction may rely upon a certification of a prospective participant in a lower tier covered transaction that it is not proposed for debarment under 48 CFR part 9, subpart 9.4, debarred, suspended, ineligible, or voluntarily excluded from covered transactions, unless it knows that the certification is erroneous. A participant may decide the method and frequency by which it determines the eligibility of its principals. Each participant may, but is not required to, check the List of Parties Excluded from Federal Procurement and Nonprocurement Programs.
8. Nothing contained in the foregoing shall be construed to require establishment of a system of records in order to render in good faith the certification required by this clause. The knowledge and information of a participant is not required to exceed that which is normally possessed by a prudent person in the ordinary course of business dealings.
9. Except for transactions authorized under paragraph 5 of these instructions, if a participant in a covered transaction knowingly enters into a lower tier covered transaction with a person who is proposed for debarment under 48 C.F.R. 9, subpart 9.4, suspended, debarred, ineligible, or voluntarily excluded from participation in this transaction, in addition to other remedies available to the federal government, the department or agency with which this transaction originated may pursue available remedies, including suspension and/or debarment.

**Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion - Lower Tier Covered Transactions**

1. The prospective lower tier participant certifies, by submission of this proposal, that neither it nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this transaction by any Federal department or agency.
2. Where the prospective lower tier participant is unable to certify to any of the statements in this certification, such prospective participant shall attach an explanation to this proposal.

**Insurance Requirements**

Consultant will provide evidence of professional liability/errors, omissions insurance, and general liability coverage to SBI. If Consultant has employees located in Minnesota, Consultant will provide evidence of workers' compensation insurance coverage that complies with Minnesota state law.

TAB

E

## INVESTMENT ADVISORY COUNCIL REPORT

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DATE: March 1, 2012

TO: Members, State Board Investment

FROM: **Members, Investment Advisory Council**

The Investment Advisory Council met on Tuesday, February 21, 2012 to consider the following agenda items:

- Review the manager performance for the period ending December 31, 2011.

### INFORMATION ITEMS:

#### 1. Review the manager performance for the period ending December 31, 2011.

- *Domestic Equity Program*

For the period ending December 31, 2011, the **Domestic Equity Program** outperformed the benchmark for the three-year period and underperformed over all other time periods.

Time period	Total Program	Russell 3000
Quarter	12.0%	12.1%
1 Year	0.4%	1.0%
3 Years	15.1%	14.9%
5 Years	-0.2%	0.0%

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

- ***Fixed Income Program***

For the period ending December 31, 2011, the **Fixed Income Program** outperformed for the quarter and three-year time periods and underperformed the index over the one and five-year time periods.

<b>Time period</b>	<b>Total Program</b>	<b>Barclays Capital Aggregate</b>
<b>Quarter</b>	1.4%	1.1%
<b>1 Year</b>	7.2%	7.8%
<b>3 Years</b>	10.1%	6.8%
<b>5 Years</b>	6.3%	6.5%

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

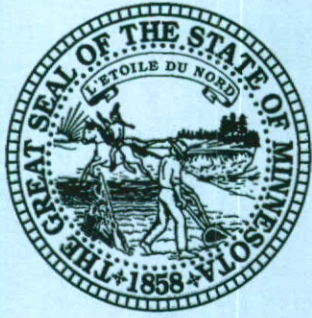
- ***International Equity Program***

For the period ending December 31, 2011, the **International Equity Program** outperformed the benchmark for the three and five year time periods and underperformed during the quarter and one year time periods.

<b>Time Period</b>	<b>Total Program</b>	<b>Int'l Equity Asset Class Target*</b>
<b>Quarter</b>	3.4%	3.7%
<b>1 Year</b>	-14.2%	-13.7%
<b>3 Year</b>	10.8%	10.7%
<b>5 Year</b>	-2.7%	-2.9%

\* Since 6/1/08 the International Equity asset class target is the Standard MSCI ACWI ex U.S. (net). From 10/1/07 to 5/31/08, the International Equity asset class target was the Provisional Standard MSCI ACWI ex U.S. (net). From 10/1/03 to 9/30/07, the target was the MSCI ACWI Free ex. U.S. (net).

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



# STATE BOARD OF INVESTMENT

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## Domestic Equity Manager Evaluation Reports

Fourth Quarter, 2011



# Domestic Equity

## Table of Contents

	<b>Page</b>
Domestic Equity Performance Summary	A-5
Active Manager Performance Summary (quarter, 1, 3, 5 year periods)	A-6
Semi-Passive and Passive Manager Performance Summary (quarter, 1, 3, 5 year periods)	A-7
Active Manager Performance Summary (by calendar year)	A-8
Semi-Passive and Passive Manager Performance Summary (by calendar years)	A-9
Large Cap Core (R1000)	A-13
Large Cap Growth (R1000 Growth)	A-19
Large Cap Value (R1000 Value)	A-29
Small Cap Growth (R2000 Growth)	A-37
Small Cap Value (R2000 Value)	A-43
Semi-Passive and Passive	A-51





**COMBINED RETIREMENT FUNDS**  
**ACTIVE DOMESTIC EQUITY MANAGERS**  
**Periods Ending December, 2011**

	Quarter		1 Year		3 Years		5 Years	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	9.6	11.8	-3.5	1.5	11.7	14.8	-2.9	0.0
Russell 1000 Growth Aggregate	8.9	10.6	-0.4	2.6	19.8	18.0	2.5	2.5
Russell 1000 Value Aggregate	13.2	13.1	-2.1	0.4	11.7	11.5	-2.2	-2.6
Russell 2000 Growth Aggregate	14.6	15.0	-5.6	-2.9	17.6	19.0	1.0	2.1
Russell 2000 Value Aggregate	17.1	16.0	-4.5	-5.5	19.3	12.4	-1.2	-1.9
<b>Active Manager Aggregate</b>	<b>12.0</b>	<b>12.8</b>	<b>-2.7</b>	<b>0.0</b>	<b>15.5</b>	<b>14.9</b>	<b>-0.5</b>	<b>-0.1</b>
<b>Semi-Passive Aggregate</b>	<b>11.9</b>	<b>11.8</b>	<b>2.2</b>	<b>1.5</b>	<b>14.8</b>	<b>14.8</b>	<b>-0.4</b>	<b>0.0</b>
<b>Passive Manager (BlackRock)</b>	<b>12.1</b>	<b>12.1</b>	<b>0.8</b>	<b>1.0</b>	<b>14.9</b>	<b>14.9</b>	<b>0.1</b>	<b>0.0</b>
<b>Total Aggregate</b>	<b>12.0</b>	<b>12.1</b>	<b>0.4</b>	<b>1.0</b>	<b>15.1</b>	<b>14.9</b>	<b>-0.2</b>	<b>0.0</b>
<b>Russell 3000 Index</b>		<b>12.1</b>		<b>1.0</b>		<b>14.9</b>		<b>0.0</b>

	2011		2010		2009		2008		2007	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	-3.5	1.5	13.3	16.1	27.6	28.4	-39.6	-37.6	2.4	5.8
Russell 1000 Growth Aggregate	-0.4	2.6	19.3	16.7	44.5	37.2	-42.7	-38.4	14.9	11.8
Russell 1000 Value Aggregate	-2.1	0.4	15.0	15.5	23.8	19.7	-38.0	-36.8	3.6	-0.2
Russell 2000 Growth Aggregate	-5.6	-2.9	29.1	29.1	33.6	34.5	-46.8	-38.5	21.6	7.0
Russell 2000 Value Aggregate	-4.5	-5.5	30.5	24.5	36.3	20.6	-36.1	-28.9	-13.4	-9.8
Active Manager Aggregate	-2.7	0.0	19.7	18.7	32.3	27.9	-40.5	-36.9	6.3	4.2
Semi-Passive Aggregate	2.2	1.5	15.2	16.1	28.5	28.4	-37.2	-37.6	3.2	5.8
Passive Manager (BlackRock)	0.8	1.0	17.2	16.9	28.2	28.3	-37.1	-37.3	5.1	5.1
Total Aggregate	0.4	1.0	17.1	16.9	29.6	28.3	-38.1	-37.3	4.9	5.1
Russell 3000 Index		1.0		16.9		28.3		-37.3		5.1

**COMBINED RETIREMENT FUNDS  
ACTIVE DOMESTIC EQUITY MANAGERS**

Periods Ending December, 2011

Performance versus Russell Style Benchmarks for All Periods

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
<b>LARGE CAP</b>												
<b>Russell 1000 Core</b>												
New Amsterdam Partners	8.8	11.8	-3.0	1.5	12.1	14.8	-1.3	0.0	9.3	8.7	\$362.2	1.7%
UBS Global	10.5	11.8	-4.1	1.5	14.3	14.8	-2.4	0.0	7.7	7.9	\$344.8	1.6%
<b>Aggregate</b>	<b>9.6</b>	<b>11.8</b>	<b>-3.5</b>	<b>1.5</b>	<b>11.7</b>	<b>14.8</b>	<b>-2.9</b>	<b>0.0</b>			<b>\$707.0</b>	<b>3.3%</b>
<b>Russell 1000 Growth</b>												
INTECH	8.7	10.6	0.1	2.6	17.0	18.0	0.4	2.5	2.4	3.8	\$329.8	1.6%
Jacobs Levy	10.4	10.6	6.6	2.6	20.4	18.0	0.9	2.5	2.2	3.8	\$309.9	1.5%
Knelman Asset Mgmt.	8.8	10.6	-3.3	2.6	14.4	18.0	1.2	2.5	2.8	3.8	\$61.0	0.3%
Sands Capital	8.7	10.6	2.7	2.6	30.7	18.0	6.5	2.5	5.3	3.8	\$286.1	1.4%
Winslow-Large Cap	9.3	10.6	0.1	2.6	18.1	18.0	4.1	2.5	5.5	3.8	\$137.0	0.6%
Zevenbergen Capital	7.6	10.6	-9.8	2.6	20.4	18.0	4.2	2.5	8.5	7.3	\$298.8	1.4%
<b>Aggregate</b>	<b>8.9</b>	<b>10.6</b>	<b>-0.4</b>	<b>2.6</b>	<b>19.8</b>	<b>18.0</b>	<b>2.5</b>	<b>2.5</b>			<b>\$1,422.7</b>	<b>6.7%</b>
<b>Russell 1000 Value</b>												
Barrow, Hanley	13.1	13.1	1.7	0.4	11.4	11.5	-1.7	-2.6	3.9	3.4	\$434.1	2.1%
Earnest Partners	11.9	13.1	-4.7	0.4	14.1	11.5	-1.0	-2.6	3.6	3.9	\$179.1	0.8%
LSV Asset Mgmt.	14.6	13.1	-0.8	0.4	11.9	11.5	-2.9	-2.6	4.0	3.4	\$398.2	1.9%
Systematic Financial Mgmt.	12.3	13.1	-7.4	0.4	10.5	11.5	-2.8	-2.6	3.1	3.4	\$283.1	1.3%
<b>Aggregate</b>	<b>13.2</b>	<b>13.1</b>	<b>-2.1</b>	<b>0.4</b>	<b>11.7</b>	<b>11.5</b>	<b>-2.2</b>	<b>-2.6</b>			<b>\$1,294.5</b>	<b>6.1%</b>
<b>SMALL CAP</b>												
<b>Russell 2000 Growth</b>												
McKinley Capital	13.0	15.0	-7.9	-2.9	14.8	19.0	-2.2	2.1	1.6	5.2	\$203.0	1.0%
Next Century Growth	14.8	15.0	-4.5	-2.9	18.6	19.0	2.6	2.1	0.3	0.7	\$256.7	1.2%
Turner Investment Partners	15.6	15.0	-4.8	-2.9	18.9	19.0	2.3	2.1	5.3	5.2	\$261.9	1.2%
<b>Aggregate</b>	<b>14.6</b>	<b>15.0</b>	<b>-5.6</b>	<b>-2.9</b>	<b>17.6</b>	<b>19.0</b>	<b>1.0</b>	<b>2.1</b>			<b>\$721.6</b>	<b>3.4%</b>
<b>Russell 2000 Value</b>												
Goldman Sachs	18.8	16.0	1.3	-5.5	18.0	12.4	2.7	-1.9	6.7	4.6	\$157.2	0.7%
Hotchkis & Wiley	15.2	16.0	-10.8	-5.5	27.6	12.4	-1.2	-1.9	3.9	4.6	\$127.5	0.6%
Martingale Asset Mgmt.	18.2	16.0	-5.2	-5.5	13.0	12.4	-4.5	-1.9	3.0	4.6	\$118.5	0.6%
Peregrine Capital	16.5	16.0	-4.1	-5.5	21.2	12.4	-1.4	-1.9	8.9	8.1	\$208.3	1.0%
<b>Aggregate</b>	<b>17.1</b>	<b>16.0</b>	<b>-4.5</b>	<b>-5.5</b>	<b>19.3</b>	<b>12.4</b>	<b>-1.2</b>	<b>-1.9</b>			<b>\$611.4</b>	<b>2.9%</b>
<b>Active Mgr. Aggregate (2)</b>	<b>12.0</b>	<b>12.8</b>	<b>-2.7</b>	<b>0.0</b>	<b>15.5</b>	<b>14.9</b>	<b>-0.5</b>	<b>-0.1</b>			<b>\$4,757.2</b>	<b>22.5%</b>

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

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

Note: All aggregates include the performance of terminated managers.

**COMBINED RETIREMENT FUNDS  
DOMESTIC EQUITY MANAGERS  
Periods Ending December, 2011  
Versus Manager Benchmarks**

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market Value (in millions)	Pool %
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk		
	%	%	%	%	%	%	%	%	%	%		%
<b>SEMI-PASSIVE MANAGERS (2)</b>												
BlackRock Institutional	11.9	11.8	1.6	1.5	13.9	14.8	-1.0	0.0	7.7	7.5	\$2,140.8	10.1%
INTECH	12.4	11.8	2.9	1.5					7.0	6.4	\$1,571.8	7.4%
JP Morgan	11.2	11.8	1.1	1.5	16.0	14.8	0.6	0.0	7.8	7.5	\$2,571.7	12.2%
Mellon Capital	12.6	11.8	4.6	1.5	14.3	14.8	-0.9	0.0	7.1	7.5	\$1,618.2	7.6%
<b>Semi-Passive Aggregate (R1000)</b>	<b>11.9</b>	<b>11.8</b>	<b>2.2</b>	<b>1.5</b>	<b>14.8</b>	<b>14.8</b>	<b>-0.4</b>	<b>0.0</b>			<b>\$7,902.5</b>	<b>37.3%</b>
<b>PASSIVE MANAGER (R3000)</b>												
BlackRock Institutional	12.1	12.1	0.8	1.0	14.9	14.9	0.1	0.0	7.2	7.1	\$8,498.7	40.2%
<b>Total Aggregate (3)</b>	<b>12.0</b>	<b>12.1</b>	<b>0.4</b>	<b>1.0</b>	<b>15.1</b>	<b>14.9</b>	<b>-0.2</b>	<b>0.0</b>	<b>9.5</b>	<b>9.7</b>	<b>\$21,158.4</b>	<b>100.0%</b>
Russell 3000		12.1		1.0		14.9		0.0		10.1		
Russell 1000		11.8		1.5		14.8		0.0		10.2		
Russell 2000		15.5		-4.2		15.6		0.2		8.7		

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

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

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

Note: All aggregates include the performance of terminated managers.

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

	2011		2010		2009		2008		2007	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>LARGE CAP</b>										
<b>Russell 1000 Core</b>										
New Amsterdam Partners	-3.0	1.5	16.2	16.1	24.8	28.4	-36.7	-37.6	5.0	5.8
UBS Global	-4.1	1.5	10.3	16.1	41.3	28.4	-41.3	-37.6	0.8	5.8
<b>Aggregate</b>	<b>-3.5</b>	<b>1.5</b>	<b>13.3</b>	<b>16.1</b>	<b>27.6</b>	<b>28.4</b>	<b>-39.6</b>	<b>-37.6</b>	<b>2.4</b>	<b>5.8</b>
<b>Russell 1000 Growth</b>										
INTECH	0.1	2.6	19.5	16.7	34.0	37.2	-42.8	-38.4	11.4	11.8
Jacobs Levy	6.6	2.6	19.5	16.7	37.1	37.2	-44.9	-38.4	8.4	11.8
Knelman Asset Mgmt.	-3.3	2.6	18.1	16.7	31.1	37.2	-39.9	-38.4	18.0	11.8
Sands Capital	2.7	2.6	26.8	16.7	71.6	37.2	-48.6	-38.4	19.5	11.8
Winslow-Large Cap	0.1	2.6	16.8	16.7	40.9	37.2	-39.1	-38.4	22.0	11.8
Zevenbergen Capital	-9.8	2.6	22.9	16.7	57.4	37.2	-43.2	-38.4	24.0	11.8
<b>Aggregate</b>	<b>-0.4</b>	<b>2.6</b>	<b>19.3</b>	<b>16.7</b>	<b>44.5</b>	<b>37.2</b>	<b>-42.7</b>	<b>-38.4</b>	<b>14.9</b>	<b>11.8</b>
<b>Russell 1000 Value</b>										
Barrow, Hanley	1.7	0.4	10.4	15.5	23.2	19.7	-35.2	-36.8	2.6	-0.2
Earnest Partners	-4.7	0.4	18.5	15.5	31.6	19.7	-39.8	-36.8	6.5	-0.2
LSV Asset Mgmt.	-0.8	0.4	14.0	15.5	24.0	19.7	-39.3	-36.8	1.3	-0.2
Systematic Financial Mgmt.	-7.4	0.4	18.1	15.5	23.2	19.7	-40.6	-36.8	8.3	-0.2
<b>Aggregate</b>	<b>-2.1</b>	<b>0.4</b>	<b>15.0</b>	<b>15.5</b>	<b>23.8</b>	<b>19.7</b>	<b>-38.0</b>	<b>-36.8</b>	<b>3.6</b>	<b>-0.2</b>
<b>SMALL CAP</b>										
<b>Russell 2000 Growth</b>										
McKinley Capital	-7.9	-2.9	28.5	29.1	28.0	34.5	-49.1	-38.5	16.2	7.0
Next Century Growth	-4.5	-2.9	29.6	29.1	35.0	34.5	-49.3	-38.5	34.2	7.0
Turner Investment Partners	-4.8	-2.9	29.0	29.1	36.9	34.5	-41.9	-38.5	14.8	7.0
<b>Aggregate</b>	<b>-5.6</b>	<b>-2.9</b>	<b>29.1</b>	<b>29.1</b>	<b>33.6</b>	<b>34.5</b>	<b>-46.8</b>	<b>-38.5</b>	<b>21.6</b>	<b>7.0</b>
<b>Russell 2000 Value</b>										
Goldman Sachs	1.3	-5.5	27.0	24.5	27.8	20.6	-26.8	-28.9	-5.0	-9.8
Hotchkis & Wiley	-10.8	-5.5	43.4	24.5	62.5	20.6	-44.1	-28.9	-18.8	-9.8
Martingale Asset Mgmt.	-5.2	-5.5	27.4	24.5	19.4	20.6	-33.8	-28.9	-16.8	-9.8
Peregrine Capital	-4.1	-5.5	27.3	24.5	45.8	20.6	-39.4	-28.9	-13.4	-9.8
<b>Aggregate</b>	<b>-4.5</b>	<b>-5.5</b>	<b>30.5</b>	<b>24.5</b>	<b>36.3</b>	<b>20.6</b>	<b>-36.1</b>	<b>-28.9</b>	<b>-13.4</b>	<b>-9.8</b>
<b>Active Mgr. Aggregate (1)</b>	<b>-2.7</b>	<b>0.0</b>	<b>19.7</b>	<b>18.7</b>	<b>32.3</b>	<b>27.9</b>	<b>-40.5</b>	<b>-36.9</b>	<b>6.3</b>	<b>4.2</b>

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

Note: All aggregates include the performance of terminated managers. Returns shown are full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

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

	2011		2010		2009		2008		2007	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>SEMI-PASSIVE MANAGERS</b>										
BlackRock Institutional	1.6	1.5	14.0	16.1	27.6	28.4	-37.1	-37.6	2.2	5.8
INTECH	2.9	1.5								
JP Morgan	1.1	1.5	16.8	16.1	32.1	28.4	-37.1	-37.6	5.1	5.8
Mellon Capital	4.6	1.5	13.7	16.1	25.6	28.4	-37.6	-37.6	2.5	5.8
<b>Semi-Passive Aggregate (R1000)</b>	<b>2.2</b>	<b>1.5</b>	<b>15.2</b>	<b>16.1</b>	<b>28.5</b>	<b>28.4</b>	<b>-37.2</b>	<b>-37.6</b>	<b>3.2</b>	<b>5.8</b>
<b>PASSIVE MANAGER (R3000)</b>										
BlackRock Institutional	0.8	1.0	17.2	16.9	28.2	28.3	-37.1	-37.3	5.1	5.1
<b>Total Aggregate</b>	<b>0.4</b>	<b>1.0</b>	<b>17.1</b>	<b>16.9</b>	<b>29.6</b>	<b>28.3</b>	<b>-38.1</b>	<b>-37.3</b>	<b>4.9</b>	<b>5.1</b>
Russell 3000		1.0		16.9		28.3		-37.3		5.1
Russell 1000		1.5		16.1		28.4		-37.6		5.8
Russell 2000		-4.2		26.9		27.2		-33.8		-1.6

Note: All aggregates include the performance of terminated managers. Returns shown are full-year returns only.  
Performance of managers hired during a calendar year are reported beginning with the following calendar year.



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





# Large Cap Core (R1000)

## Table of Contents

	<b>Page</b>
New Amsterdam Partners	A-14
UBS Global Asset Management, Inc.	A-15

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

**Portfolio Manager: Michelle Clayman**

**Assets Under Management: \$362,199,976**

**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**

New Amsterdam underperformed the benchmark for the quarter and for the year. For the quarter, stock selection in the Consumer Discretionary and Technology sectors detracted from performance. For the year, stock selection in Utilities and Consumer Staples along with an underweight position in these sectors negatively impacted performance.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Russell Index</b>
Last Quarter	8.8%	11.8%
Last 1 year	-3.0	1.5
Last 2 years	6.2	8.6
Last 3 years	12.1	14.8
Last 4 years	-2.8	-1.4
Last 5 years	-1.3	0.0
Since Inception (1) (4/94)	9.3	8.7

**Recommendation**

No action required.

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

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



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

**UBS GLOBAL ASSET MANAGEMENT, INC.**  
**Periods Ending December, 2011**

**Portfolio Manager: John Leonard**

**Assets Under Management: \$344,782,700**

**Investment Philosophy**

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

**Staff Comments**

UBS underperformed the benchmark for the quarter and for the year. Stock selection in the Energy and Consumer Discretionary sectors detracted from performance for both the quarter and the year. Stock selection in the Financial sector was the largest contributor to relative underperformance for the year.

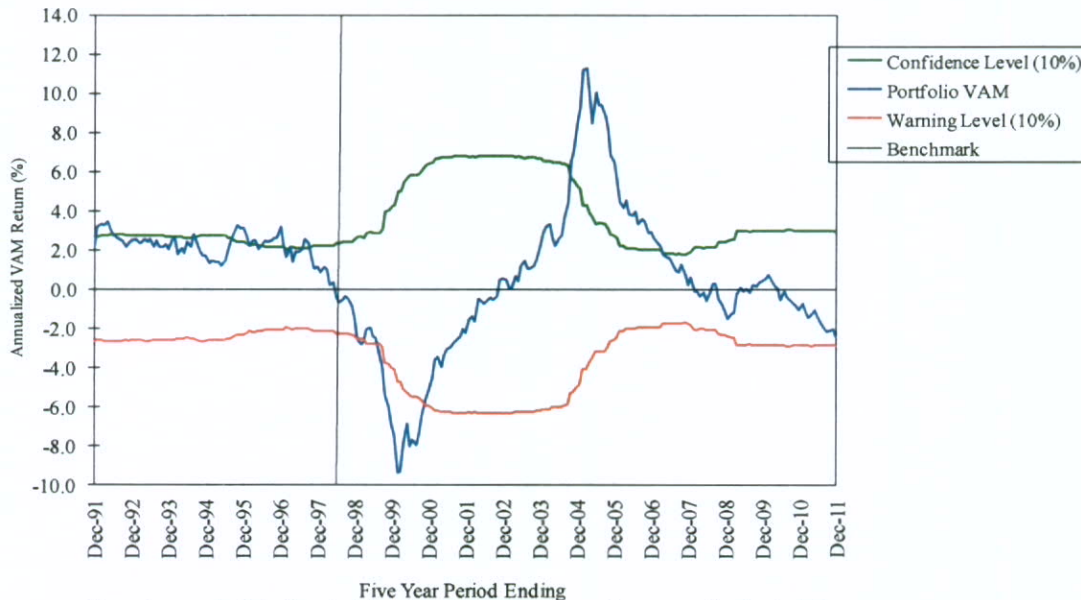
**Quantitative Evaluation**

	<b>Actual</b>	<b>(R1000 Core)</b>
Last Quarter	10.5%	11.8%
Last 1 year	-4.1	1.5
Last 2 years	2.9	8.6
Last 3 years	14.3	14.8
Last 4 years	-3.2	-1.4
Last 5 years	-2.4	0.0
Since Inception (7/93)	7.7	7.9

**Recommendation**

No action required.

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



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

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



# Large Cap Growth (R1000 Growth)

## Table of Contents

	<b>Page</b>
INTECH Investment Management LLC	A-20
Jacobs Levy Equity Management	A-21
Knelman Asset Management, LLC	A-22
Sands Capital Management, Inc.	A-23
Winslow Capital Management, Inc.	A-24
Zevenbergen Capital Inc.	A-25



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

**Portfolio Manager: Adrian Banner**

**Assets Under Management: \$329,815,157**

**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**

Jennifer Young continued her progression from co-CEO as she succeeded Robert Garvey as Chairman and CEO. Adrian Banner, Ph.D., formerly co-CIO, succeeded Robert Fernholz as CIO. These changes were effective December 31, 2011. Mr. Garvey has been designated as Founder and Chairman Emeritus and Dr. Fernholz is the Chairman of the Investment Committee. Both will serve as strategic consultants to INTECH.

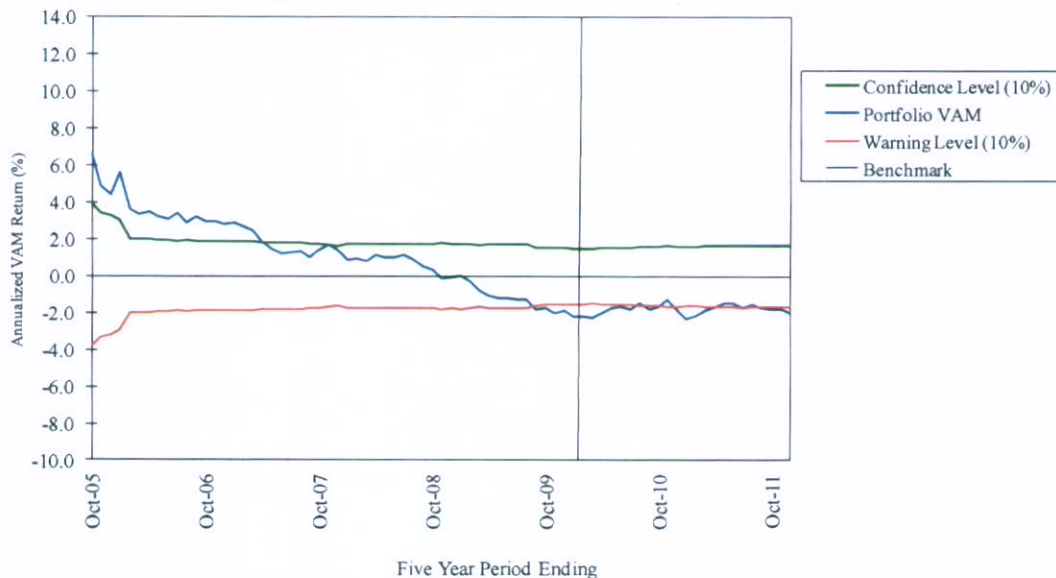
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	8.7%	10.6%
Last 1 year	0.1	2.6
Last 2 years	9.4	9.5
Last 3 years	17.0	18.0
Last 4 years	-2.1	0.3
Last 5 years	0.4	2.5
Since Inception (1/05)	2.4	3.8

**Recommendation**

No action required.

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



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

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

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

**Assets Under Management: \$309,906,510**

**Investment Philosophy**

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

**Staff Comments**

Jacobs Levy slightly underperformed the benchmark for the quarter and outperformed the benchmark for the year. For the quarter, stock selection in Consumer Staples and Technology sectors detracted from performance. For the year, stock selection in the Consumer Discretionary sector was the main contributor to relative outperformance.

**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	10.4%	10.6%
Last 1 year	6.6	2.6
Last 2 years	12.9	9.5
Last 3 years	20.4	18.0
Last 4 years	-0.9	0.3
Last 5 years	0.9	2.5
Since Inception (1/05)	2.2	3.8

**Recommendation**

No action required.

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



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

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

**Portfolio Manager: Kip Knelman**

**Assets Under Management: \$60,979,207**

**Investment Philosophy**

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

**Staff Comments**

No comment at this time.

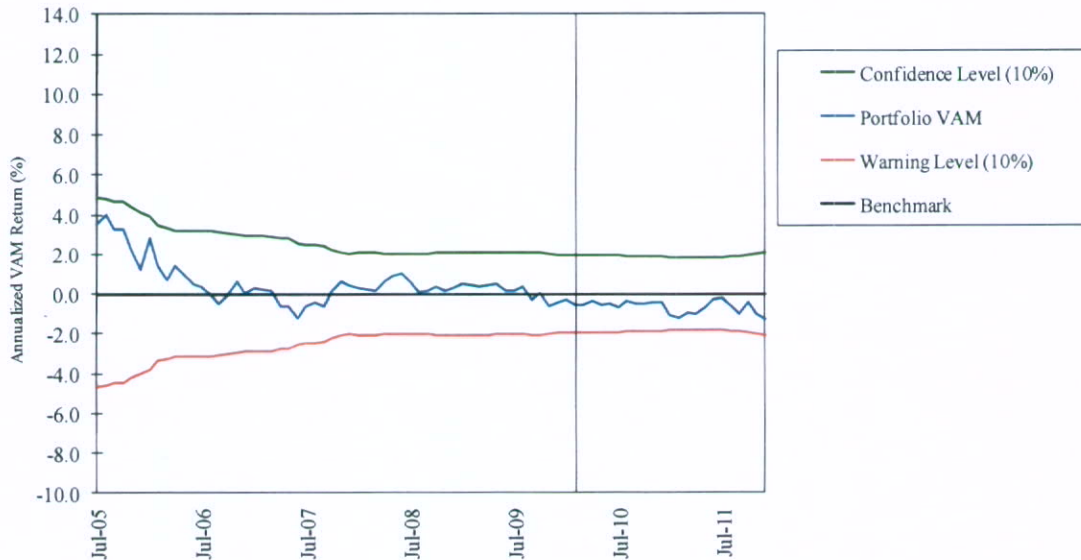
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	8.8%	10.6%
Last 1 year	-3.3	2.6
Last 2 years	6.8	9.5
Last 3 years	14.4	18.0
Last 4 years	-2.6	0.3
Last 5 years	1.2	2.5
Since Inception (1/05)	2.8	3.8

**Recommendation**

No action required.

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



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

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

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

**Assets Under Management: \$286,134,772**

**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**

No comment at this time.

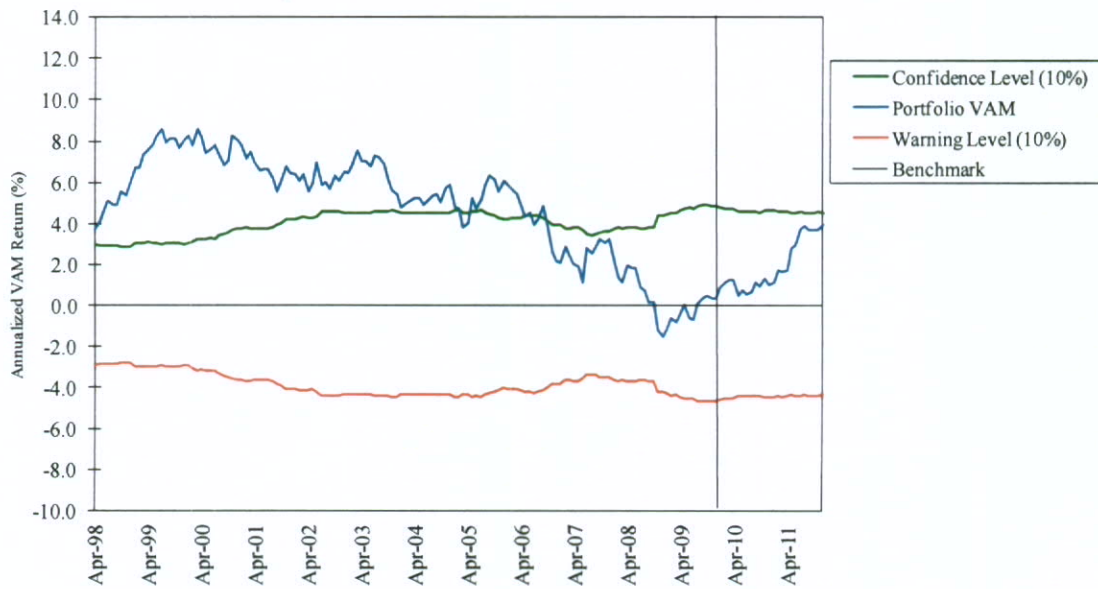
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	8.7%	10.6%
Last 1 year	2.7	2.6
Last 2 years	14.1	9.5
Last 3 years	30.7	18.0
Last 4 years	3.5	0.3
Last 5 years	6.5	2.5
Since Inception (1/05)	5.3	3.8

**Recommendation**

No action required.

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



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

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

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

**Assets Under Management: \$137,042,485**

**Investment Philosophy**

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

**Staff Comments**

No comment at this time.

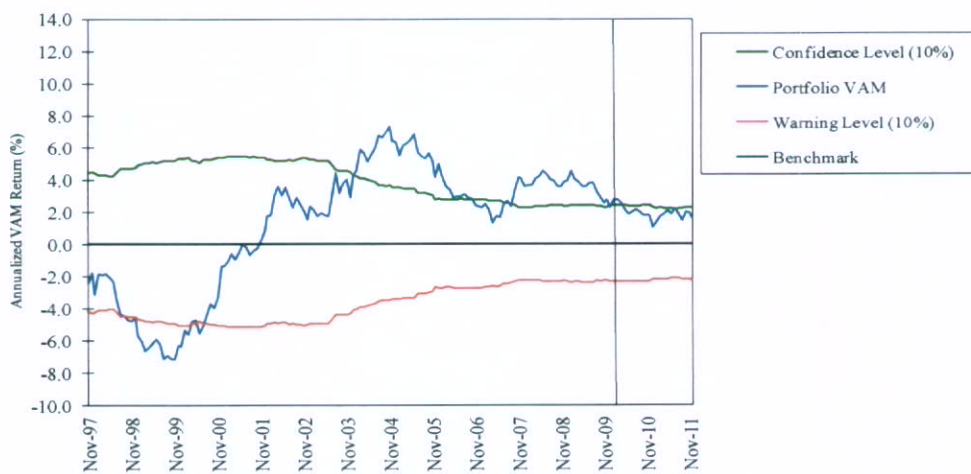
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	9.3%	10.6%
Last 1 year	0.1	2.6
Last 2 years	8.1	9.5
Last 3 years	18.1	18.0
Last 4 years	0.1	0.3
Last 5 years	4.1	2.5
Since Inception (1/05)	5.5	3.8

**Recommendation**

No action required.

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



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

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

**Portfolio Manager: Nancy Zevenbergen**

**Assets Under Management: \$298,788,164**

**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 the quarter and the year. For both periods, stock selection in Consumer Discretionary accounted for the weak relative performance. For the year, positions in the Technology sector also contributed to the relative underperformance.

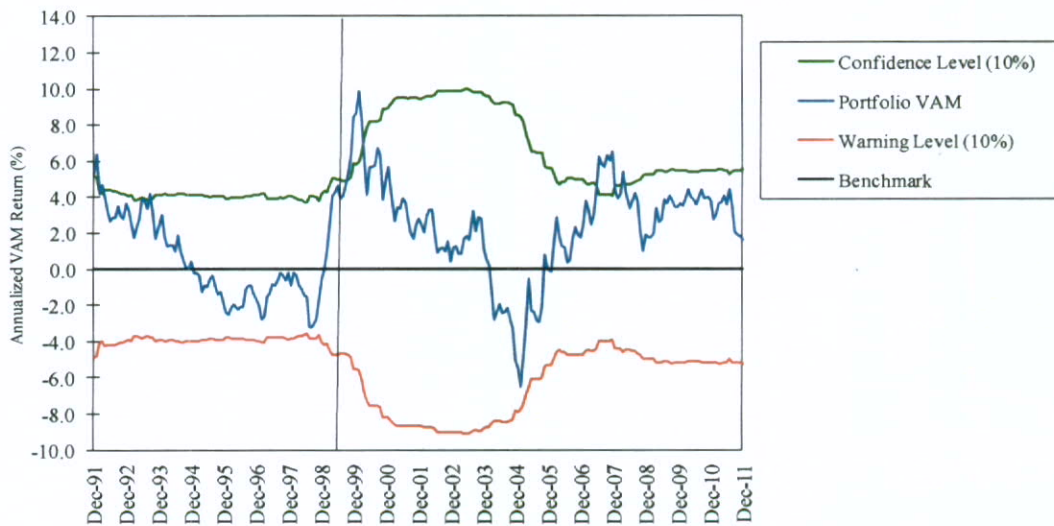
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	7.6%	10.6%
Last 1 year	-9.8	2.6
Last 2 years	5.3	9.5
Last 3 years	20.4	18.0
Last 4 years	-0.3	0.3
Last 5 years	4.2	2.5
Since Inception (4/94)	8.5	7.3

**Recommendation**

No action required.

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



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

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**Large Cap Value (R1000 Value)**





## Large Cap Value (R1000 Value)

### Table of Contents

	<b>Page</b>
Barrow, Hanley, Mewhinney & Strauss, LLC	A-30
Earnest Partners, LLC	A-31
LSV Asset Management	A-32
Systematic Financial Management, L.P.	A-33

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

**Portfolio Manager: Tim Culler**

**Assets Under Management: \$434,077,521**

**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 matched the benchmark for the quarter and outperformed for the year. Stock selection in the Energy and Consumer Discretionary sectors along with an underweight in the Utilities sector aided performance for the quarter. Stock selection and an underweight in the Financial sector along with stock selection in the Energy sector contributed to the one year relative outperformance.

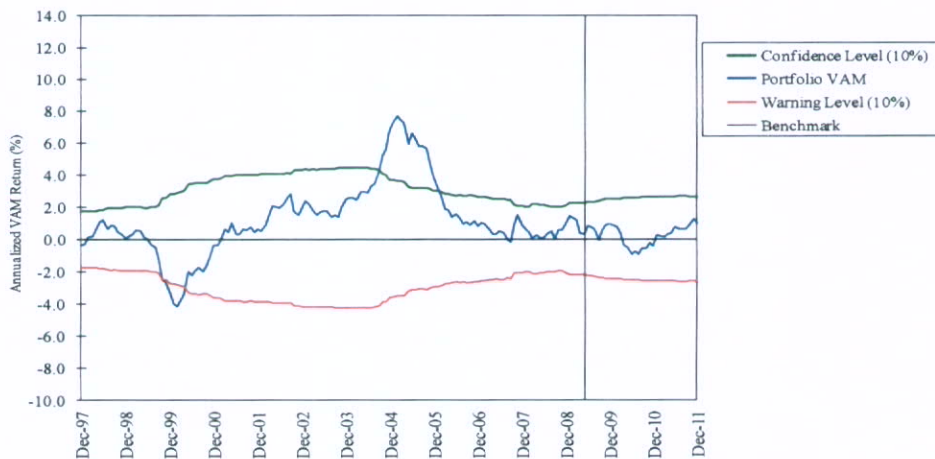
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Value</b>
Last Quarter	13.1%	13.1%
Last 1 year	1.7	0.4
Last 2 years	6.0	7.7
Last 3 years	11.4	11.5
Last 4 years	-2.7	-3.2
Last 5 years	-1.7	-2.6
Since Inception (4/04)	3.9	3.4

**Recommendation**

No action required.

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



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

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

**Portfolio Manager: Paul Viera**

**Assets Under Management: \$179,079,072**

**Investment Philosophy**

**Staff Comments**

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.

No comment at this time.

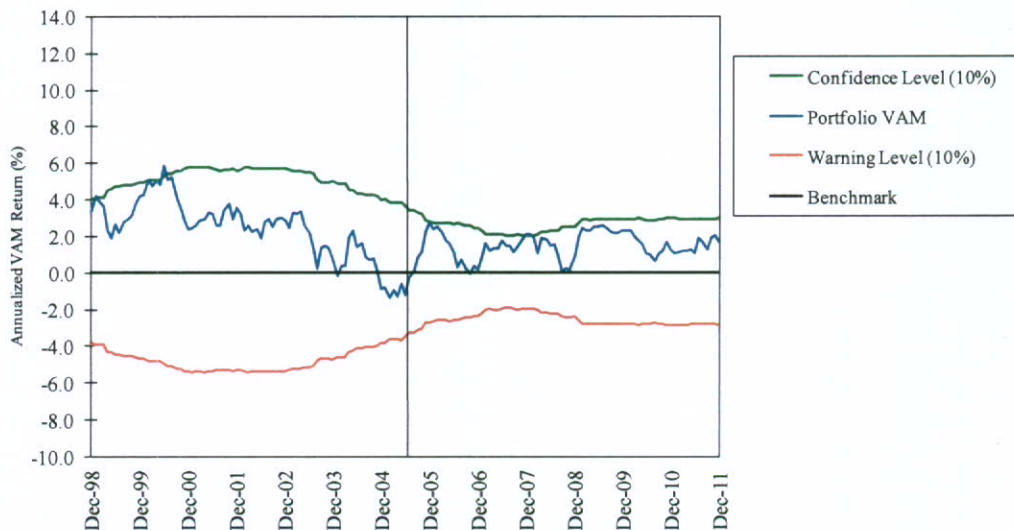
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>R1000 Value</b>
Last Quarter	11.9%	13.1%
Last 1 year	-4.7	0.4
Last 2 years	6.3	7.7
Last 3 years	14.1	11.5
Last 4 years	-2.8	-3.2
Last 5 years	-1.0	-2.6
Since Inception (7/00)	3.6	3.9

No action required.

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



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

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

**Portfolio Manager: Josef Lakonishok**

**Assets Under Management: \$398,243,055**

**Investment Philosophy**

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

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

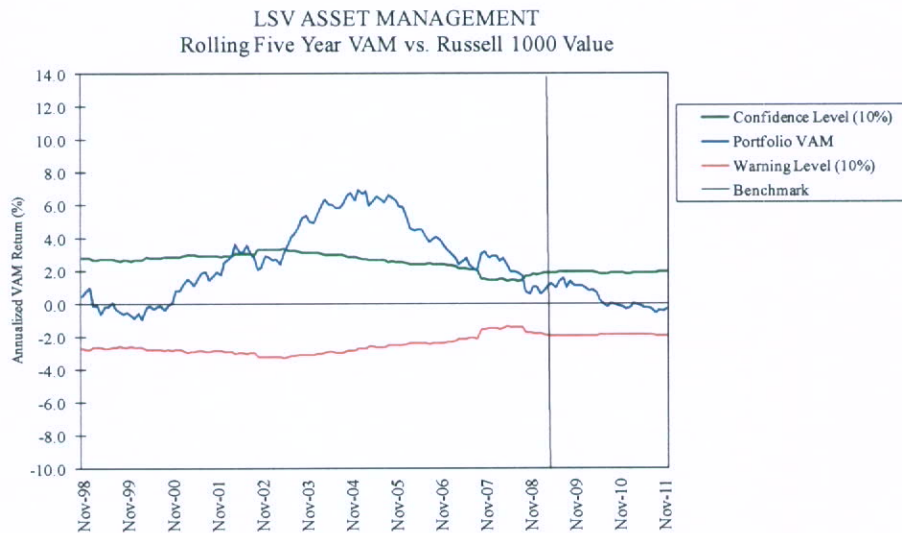
**Staff Comments**

**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Value</b>
Last Quarter	14.6%	13.1%
Last 1 year	-0.8	0.4
Last 2 years	6.4	7.7
Last 3 years	11.9	11.5
Last 4 years	-3.9	-3.2
Last 5 years	-2.9	-2.6
Since Inception (4/04)	4.0	3.4

**Recommendation**

No action required.



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

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

**Portfolio Manager: Kevin McCreesh**

**Assets Under Management: \$283,132,600**

**Investment Philosophy**

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

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

**Staff Comments**

Systematic underperformed the benchmark for the quarter and for the year. Stock selection in Technology was the largest detractor to performance for the quarter and the year. Stock selection in the Energy, Materials & Processing, and Consumer Staples sectors along with an underweight in the Utilities sector detracted from performance for the year.

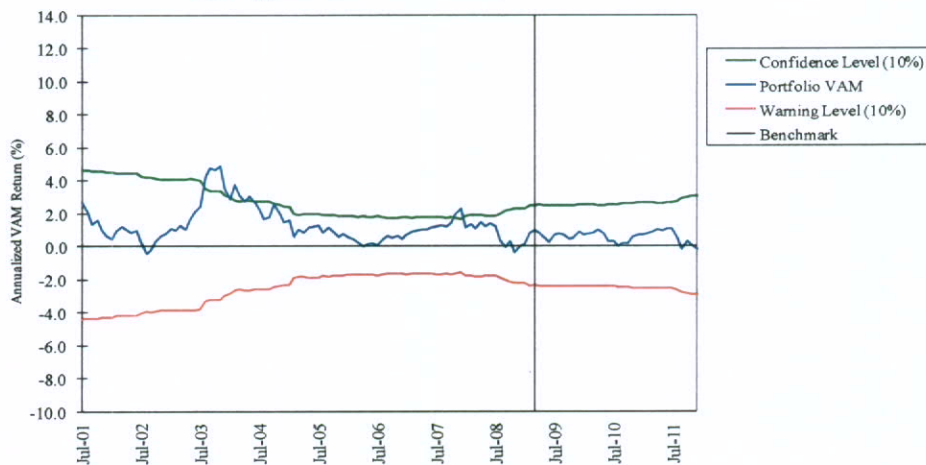
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Value</b>
Last Quarter	12.3%	13.1%
Last 1 year	-7.4	0.4
Last 2 years	4.6	7.7
Last 3 years	10.5	11.5
Last 4 years	-5.4	-3.2
Last 5 years	-2.8	-2.6
Since Inception (4/04)	3.1	3.4

**Recommendation**

No action required.

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



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

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





# Small Cap Growth (R2000 Growth)

## Table of Contents

	<b>Page</b>
McKinley Capital Management	A-38
Next Century Growth Investors, LLC	A-39
Turner Investment Partners	A-40

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

**Portfolio Manager: Robert A. Gillam**

**Assets Under Management: \$203,011,901**

**Investment Philosophy**

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

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

**Staff Comments**

McKinley underperformed the benchmark for the quarter and the year. For the quarter, both sector allocation and stock selection contributed to relative underperformance. An underweight allocation and weak stock selection in Energy in addition to stock selection in the Finance and Materials & Processing sectors detracted from relative performance for the quarter. Performance for the year trailed mainly from stock selection in Producer Durables, Materials & Processing and holdings in non-benchmark securities.

**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Growth</b>
Last Quarter	13.0%	15.0%
Last 1 year	-7.9	-2.9
Last 2 years	8.8	12.0
Last 3 years	14.8	19.0
Last 4 years	-6.3	0.9
Last 5 years	-2.2	2.1
Since Inception (1/04)	1.6	5.2

**Recommendation**

No action required.

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



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

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

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

**Assets Under Management: \$256,692,962**

**Investment Philosophy**

Next Century Growth's (NCG) goal is to invest in the highest quality and fastest growing companies in America. They believe that growth opportunities exist regardless of the economic cycle. NCG uses fundamental analysis to identify companies that will surpass consensus earnings estimates, which they believe to be the number one predictor of future out-performance. Their investment process focuses on growth companies that have superior top line revenue growth (15% or greater), high profitability, and strong balance sheets, and are well poised to outperform the market. NCG believes in broad industry diversification; sector exposures are limited to twice the benchmark weighting and individual positions to five percent.

**Staff Comments**

No comment at this time.

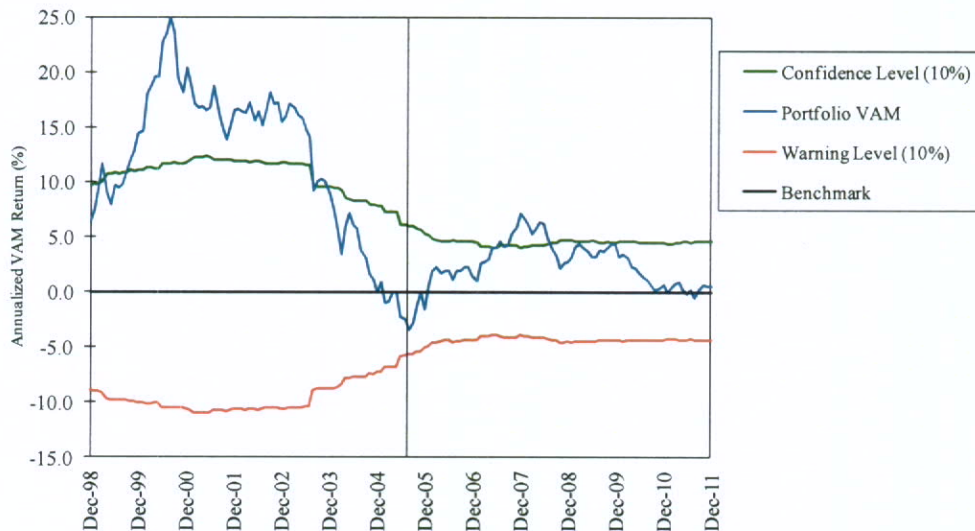
**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Growth</b>
Last Quarter	14.8%	15.0%
Last 1 year	-4.5	-2.9
Last 2 years	11.2	12.0
Last 3 years	18.6	19.0
Last 4 years	-4.1	0.9
Last 5 years	2.6	2.1
Since Inception (7/00)	0.3	0.7

**Recommendation**

No action required.

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



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

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

**Portfolio Manager: William McVail**

**Assets Under Management: \$261,904,309**

**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**

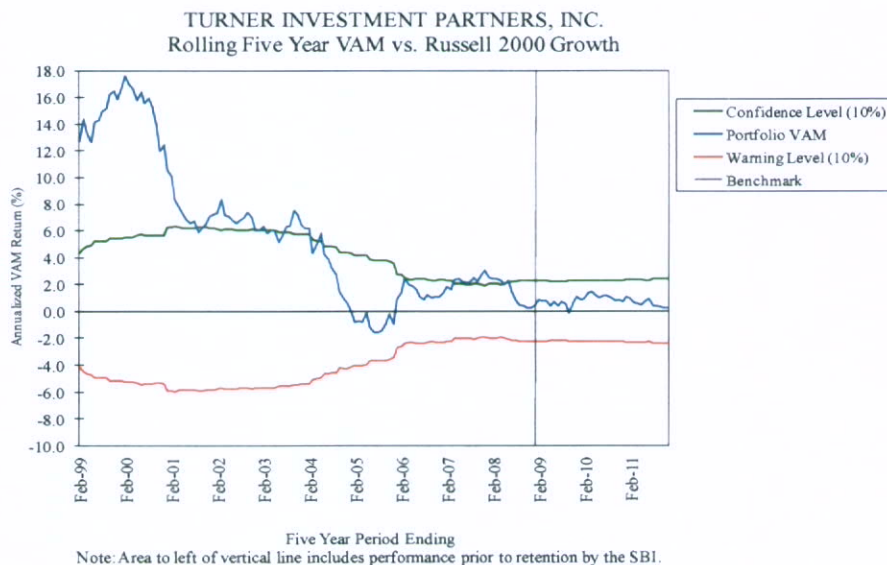
Turner outperformed the benchmark for the quarter and trailed the benchmark for the year. For the quarter, stock selection in the Technology sector was the largest contributor to positive relative performance in addition to stock selection in Health care and Producer Durables. For the year, stock selection in Producer Durables, Technology, and Financial sectors detracted from performance.

**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Growth</b>
Last Quarter	15.6%	15.0%
Last 1 year	-4.8	-2.9
Last 2 years	10.9	12.0
Last 3 years	18.9	19.0
Last 4 years	-0.6	0.9
Last 5 years	2.3	2.1
Since Inception (1/04)	5.3	5.2

**Recommendation**

No action required.



**Small Cap Value (R2000 Value)**



## Small Cap Value (R2000 Value)

### Table of Contents

	<b>Page</b>
Goldman Sachs Asset Management	A-44
Hotchkis & Wiley Capital Management	A-45
Martingale Asset Management	A-46
Peregrine Capital Management	A-47



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

**Portfolio Manager: Sally Pope-Davis and Rob Crystal      Assets Under Management: \$157,153,843**

**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**

Goldman outperformed the benchmark for the quarter and year. For the quarter, stock selection in the Energy, Technology, and Producer Durables sectors were the largest contributors to positive relative return. For the year, stock selection in the Producer Durables, Financial, and Consumer Discretionary sectors contributed to strong outperformance.

Sally Pope-Davis and Rob Crystal, co-portfolio managers, assumed Chip Otness's portfolio manager responsibilities with his retirement effective December 31, 2011. Sally and Rob have been co-leads with Chip on this strategy since 2007.

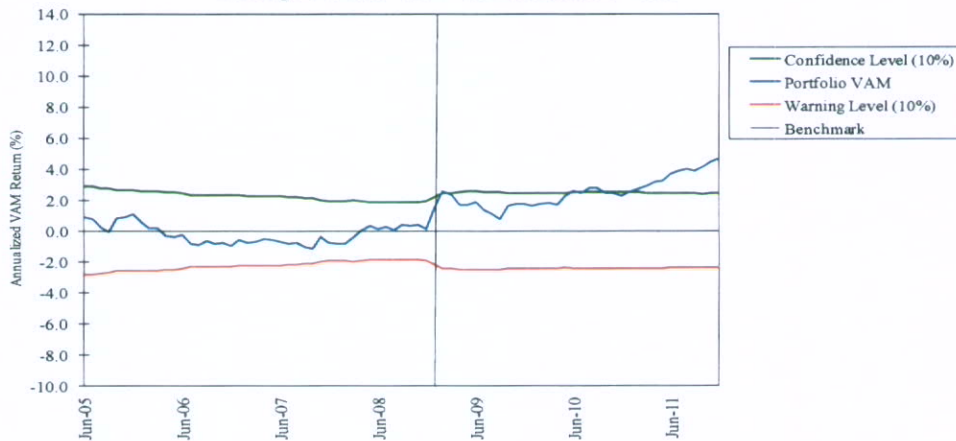
**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Value</b>
Last Quarter	18.8%	16.0%
Last 1 year	1.3	-5.5
Last 2 years	13.4	8.5
Last 3 years	18.0	12.4
Last 4 years	4.7	0.2
Last 5 years	2.7	-1.9
Since Inception (1/04)	6.7	4.6

**Recommendation**

No action required.

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



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

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

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

**Assets Under Management: \$127,496,772**

**Investment Philosophy**

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

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

**Staff Comments**

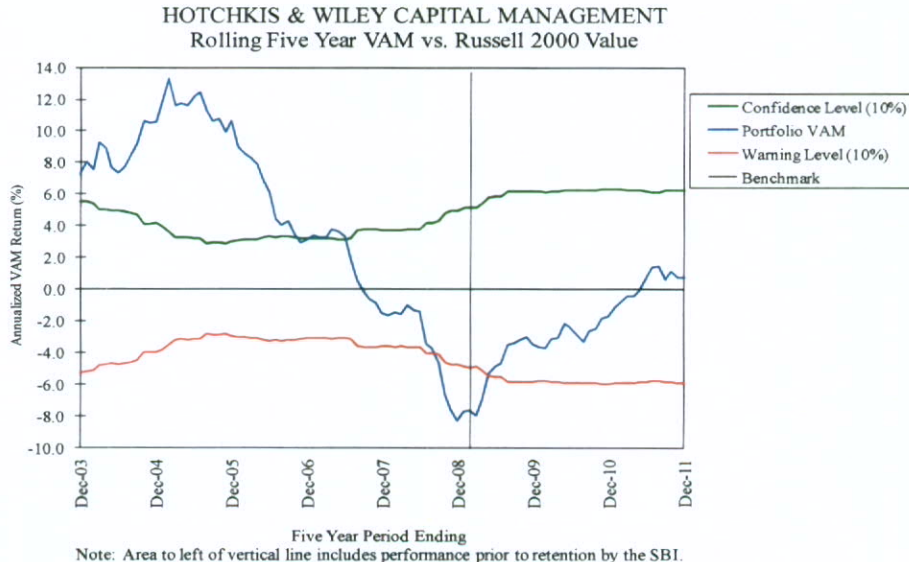
Hotchkis & Wiley underperformed the benchmark for the quarter and year. Stock selection in the Producer Durables sector was the largest detractor to relative performance for the quarter. For the year, an overweight allocation and weak stock selection in the Producer Durables and Consumer Discretionary sectors were the primary detractors to performance.

**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Value</b>
Last Quarter	15.2%	16.0%
Last 1 year	-10.8	-5.5
Last 2 years	13.1	8.5
Last 3 years	27.6	12.4
Last 4 years	3.8	0.2
Last 5 years	-1.2	-1.9
Since Inception (1/04)	3.9	4.6

**Recommendation**

No action required.



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

**Portfolio Manager: William Jacques**

**Assets Under Management: \$118,488,689**

**Investment Philosophy**

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

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

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

**Staff Comments**

Martingale outperformed the benchmark for the quarter and year. For the quarter, stock selection was strong overall in the portfolio with the Financial, Energy and Technology sectors contributing the most to relative performance. For the year, stock selection in the Producer Durables and Consumer Discretionary sectors were the largest contributors to relative outperformance.

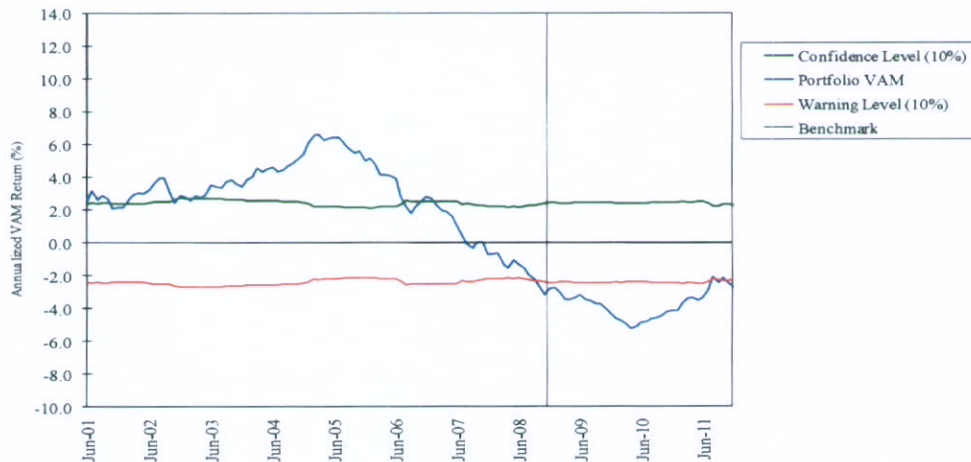
**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Value</b>
Last Quarter	18.2%	16.0%
Last 1 year	-5.2	-5.5
Last 2 years	9.9	8.5
Last 3 years	13.0	12.4
Last 4 years	-1.2	0.2
Last 5 years	-4.5	-1.9
Since Inception (1/04)	3.0	4.6

**Recommendation**

No action required.

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



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

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

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

**Assets Under Management: \$208,269,445**

**Investment Philosophy**

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

**Staff Comments**

No comment at this time.

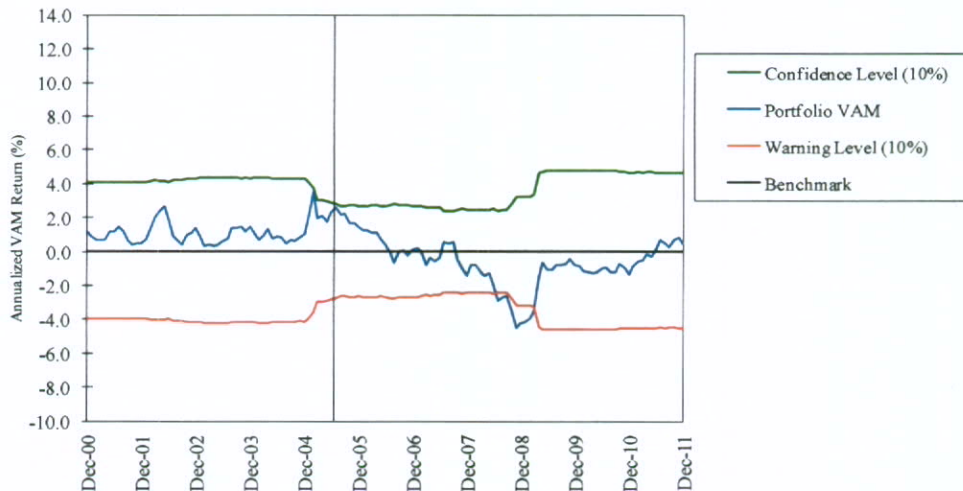
**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Value</b>
Last Quarter	16.5%	16.0%
Last 1 year	-4.1	-5.5
Last 2 years	10.5	8.5
Last 3 years	21.2	12.4
Last 4 years	1.9	0.2
Last 5 years	-1.4	-1.9
Since Inception (7/00)	8.9	8.1

**Recommendation**

No action required.

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



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

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## **Semi-Passive and Passive**

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A-50

## **Semi-Passive and Passive**

### **Table of Contents**

	<b>Page</b>
<b>Semi-Passive</b>	
BlackRock Institutional Trust Co., N.A. (Russell 1000)	A-52
INTECH Investment Management LLC	A-53
J.P. Morgan Investment Management (Russell 1000)	A-54
Mellon Capital Management (Russell 1000)	A-55
<b>Passive</b>	
BlackRock Institutional Trust Co., N.A. (Russell 3000)	A-56



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

**Portfolio Manager: Raffaele Savi**

**Assets Under Management: \$2,140,782,313**

**Investment Philosophy – Semi-Passive Style**

**Staff Comments**

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.

No comment at this time.

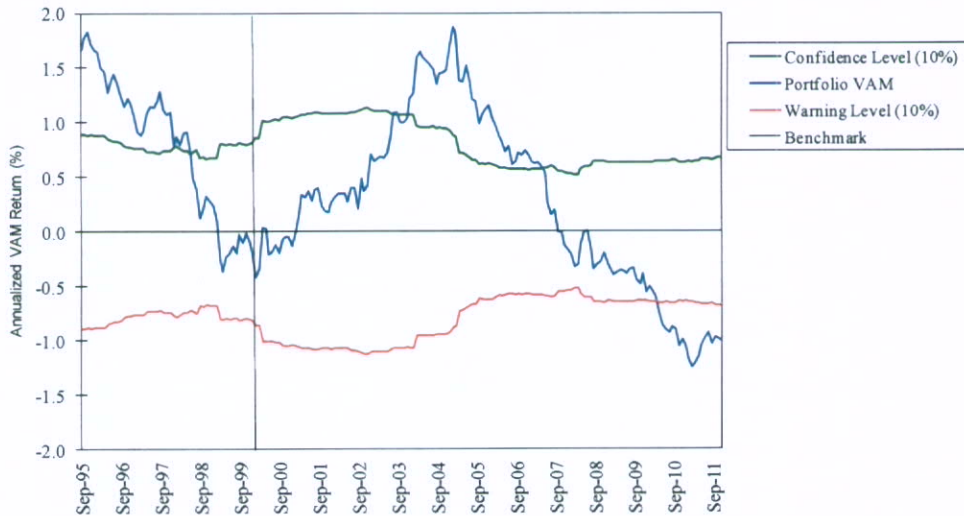
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Manager Benchmark*</b>	
Last Quarter	11.9%	11.8%	No action required.
Last 1 year	1.6	1.5	
Last 2 years	7.6	8.6	
Last 3 years	13.9	14.8	
Last 4 years	-1.8	-1.4	
Last 5 years	-1.0	0.0	
Since Inception (1/95)	7.7	7.5	

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

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



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

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

**Portfolio Manager: Adrian Banner**

**Assets Under Management: \$1,571,829,504**

**Investment Philosophy – Semi-Passive Style**

Through the application of a proprietary mathematical process, the investment strategy is designed to determine more efficient weightings of the securities within the Russell 1000 benchmark. No specific sector or security selection decisions based on fundamentals are required. Risk parameters include: 1) minimize absolute standard deviation or maximize information ratio, 2) security positions limited to lesser of 1.0% or 8 times maximum index security weight, 3) beta equal to or less than benchmark beta, and 4) constraining the weighted average capital distribution to be roughly equal to the capital distribution of the benchmark. Target security positions are established using a weekly optimization routine designed to build a portfolio that will outperform a passive benchmark over the long term. Rebalancing to target proportions occurs every six (6) business days.

**Staff Comments**

Jennifer Young continued her progression from co-CEO as she succeeded Robert Garvey as Chairman and CEO. Adrian Banner, Ph.D., formerly co-CIO, succeeded Robert Fernholz as CIO. These changes were effective December 31, 2011. Mr. Garvey has been designated as Founder and Chairman Emeritus and Dr. Fernholz, is the Chairman of the Investment Committee. Both will serve as strategic consultants to INTECH.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Russell 1000</b>
Last Quarter	12.4%	11.8%
Last 1 year	2.9	1.5
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/10)	7.0	6.4

**Recommendation**

No action required.

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

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

**Portfolio Manager: Ralph Zingone and Scott Blasdel    Assets Under Management: \$2,571,698,390**

**Investment Philosophy – Semi-Passive Style**

**Staff Comments**

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

No comment at this time.

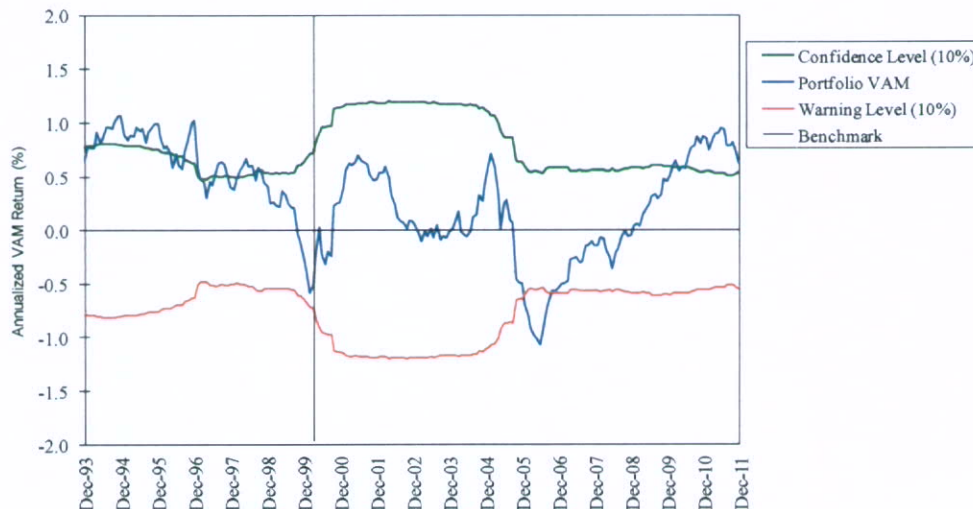
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Manager Benchmark*</b>	
Last Quarter	11.2%	11.8%	No action required.
Last 1 year	1.1	1.5	
Last 2 years	8.7	8.6	
Last 3 years	16.0	14.8	
Last 4 years	-0.5	-1.4	
Last 5 years	0.6	0.0	
Since Inception (1/95)	7.8	7.5	

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

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



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

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

**Portfolio Manager: Warren Chiang**

**Assets Under Management: \$1,618,188,375**

**Investment Philosophy – Semi-Passive Style**

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

**Staff Comments**

Mellon outperformed the benchmark for the quarter and the year. For the quarter, stock selection was strongest in the Consumer Discretionary, Materials & Processing, and Financial sectors. For the year, stock selection in the Healthcare, Energy and Financial sectors contributed to relative outperformance.

Tony Garvin, Active Equity Strategist, left Mellon during the quarter. Warren Chiang, Managing Director and Head of Active Equity replaced Mr. Garvin on our portfolio.

**Quantitative Evaluation**

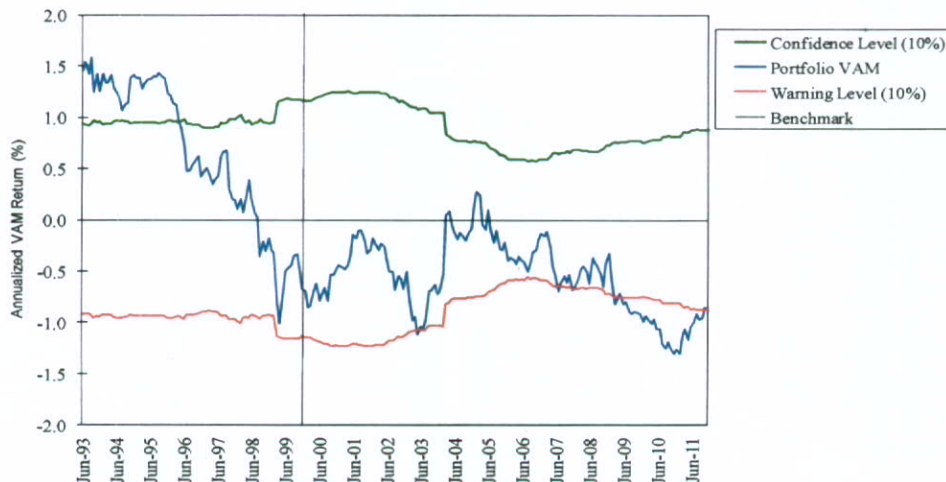
	<b>Actual</b>	<b>Manager Benchmark*</b>
Last Quarter	12.6%	11.8%
Last 1 year	4.6	1.5
Last 2 years	9.0	8.6
Last 3 years	14.3	14.8
Last 4 years	-1.8	-1.4
Last 5 years	-0.9	0.0
Since Inception (1/95)	7.1	7.5

**Recommendation**

No action required.

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

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



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

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

**Portfolio Manager: Amy Schioldager**

**Assets Under Management: \$8,498,719,188**

**Investment Philosophy – Passive Style**

**Staff Comments**

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.

No comment at this time.

**Quantitative Evaluation**

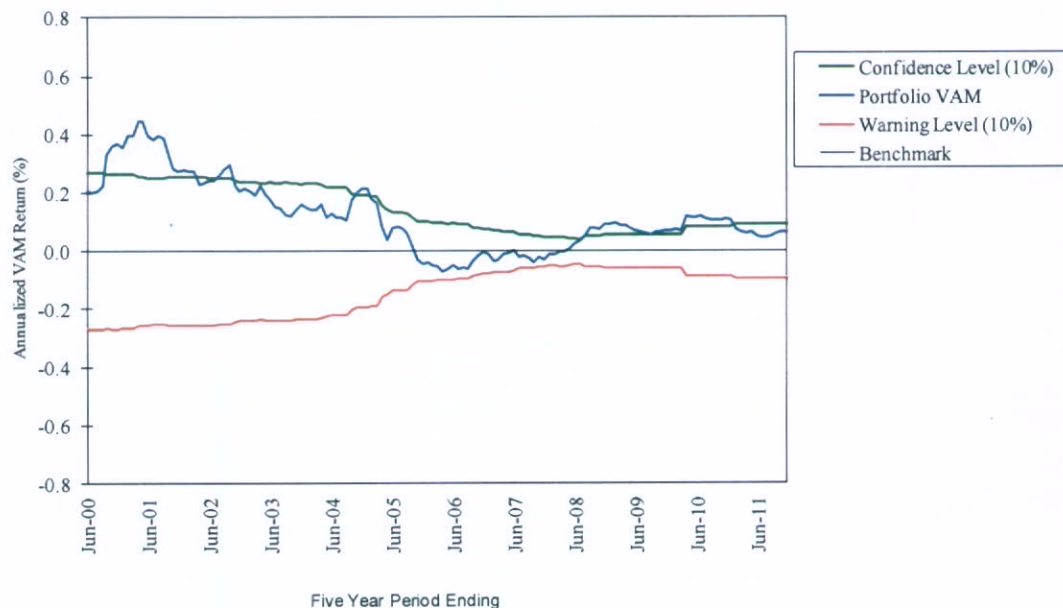
**Recommendation**

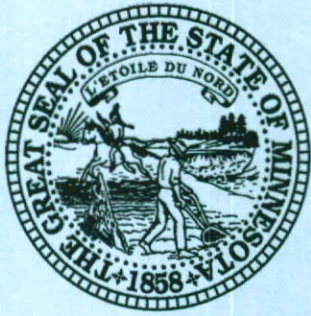
	<b>Actual</b>	<b>Manager Benchmark*</b>
Last Quarter	12.1%	12.1%
Last 1 year	0.8	1.0
Last 2 years	8.7	8.7
Last 3 years	14.9	14.9
Last 4 years	-1.2	-1.3
Last 5 years	0.1	0.0
Since Inception (7/95)	7.2	7.1

No action required.

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

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





# STATE BOARD OF INVESTMENT

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## Bond Manager Evaluation Reports

Fourth Quarter, 2011

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A-58

# Bond Managers

## Table of Contents

	<b>Page</b>
Bond Manager Performance Summary (quarter, 1, 3, 5, year periods)	A-60
Bond Manager Performance Summary (by calendar years)	A-61
Aberdeen Asset Management	A-62
Columbia Management Investment Advisers, LLC	A-63
Dodge & Cox Investment Managers	A-64
Pacific Investment Management Co. LLC (PIMCO)	A-65
Western Asset Management	A-66
BlackRock, Inc.	A-67
Goldman Sachs Asset Management	A-68
Neuberger Investment Management	A-69



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

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
<b>Active Managers</b>												
Aberdeen	1.5	1.1	8.0	7.8	12.3	6.8	5.0	6.5	6.1	6.5	\$800.4	7.7%
Columbia (RiverSource)	1.8	1.1	8.1	7.8	10.1	6.8	6.2	6.5	6.1	6.3	\$913.6	8.8%
Dodge & Cox	1.3	1.1	5.0	7.8	9.7	6.8	6.8	6.5	7.2	6.5	\$1,060.7	10.2%
PIMCO	1.1	1.1	4.5	7.8	10.6	6.8			9.9	7.7	\$1,163.6	11.2%
Western	1.4	1.1	7.1	7.8	11.7	6.8	6.5	6.5	9.5	8.4	\$1,215.6	11.7%
<b>Active Mgr. Aggregate</b>	<b>1.4</b>	<b>1.1</b>	<b>6.4</b>	<b>7.8</b>	<b>10.9</b>	<b>6.8</b>	<b>6.0</b>	<b>6.5</b>			<b>\$5,153.9</b>	<b>49.7%</b>
<b>Semi-Passive Managers</b>												
BlackRock	1.3	1.1	8.0	7.8	8.0	6.8	5.9	6.5	6.4	6.4	\$1,660.8	16.0%
Goldman	1.2	1.1	8.3	7.8	9.4	6.8	6.7	6.5	6.6	6.3	\$1,782.2	17.2%
Neuberger	1.6	1.1	7.6	7.8	10.3	6.8	7.0	6.5	7.5	7.3	\$1,768.7	17.1%
<b>Semi-Passive Mgr. Aggregate</b>	<b>1.4</b>	<b>1.1</b>	<b>8.0</b>	<b>7.8</b>	<b>9.3</b>	<b>6.8</b>	<b>6.6</b>	<b>6.5</b>			<b>\$5,211.7</b>	<b>50.3%</b>
<b>Historical Aggregate (2)</b>	<b>1.4</b>	<b>1.1</b>	<b>7.2</b>	<b>7.8</b>	<b>10.1</b>	<b>6.8</b>	<b>6.3</b>	<b>6.5</b>	<b>8.5</b>	<b>8.5</b>	<b>\$10,365.6</b>	<b>100.0%</b>
Barclays Capital Aggregate (3)		1.1	7.8		6.8		6.5		8.5			

(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**

	2011		2010		2009		2008		2007	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>Active Managers</b>										
Aberdeen	8.0	7.8	10.7	6.5	18.4	5.9	-14.7	5.2	5.6	7.0
Columbia (RiverSource)	8.1	7.8	8.1	6.5	14.0	5.9	-4.9	5.2	6.6	7.0
Dodge & Cox	5.0	7.8	7.8	6.5	16.5	5.9	0.1	5.2	5.3	7.0
PIMCO	4.5	7.8	12.1	6.5						
Western	7.1	7.8	10.9	6.5	17.5	5.9	-6.8	5.2	5.4	7.0
<b>Active Mgr. Aggregate</b>	<b>6.4</b>	<b>7.8</b>	<b>10.0</b>	<b>6.5</b>	<b>16.5</b>	<b>5.9</b>	<b>-7.3</b>	<b>5.2</b>	<b>5.8</b>	<b>7.0</b>
<b>Semi-Passive Managers</b>										
BlackRock	8.0	7.8	6.5	6.5	9.6	5.9	-1.1	5.2	6.8	7.0
Goldman	8.3	7.8	8.0	6.5	12.0	5.9	-1.2	5.2	7.0	7.0
Neuberger	7.6	7.8	9.1	6.5	14.3	5.9	-1.9	5.2	6.3	7.0
<b>Semi-Passive Mgr. Aggregate</b>	<b>8.0</b>	<b>7.8</b>	<b>7.9</b>	<b>6.5</b>	<b>12.0</b>	<b>5.9</b>	<b>-1.4</b>	<b>5.2</b>	<b>6.7</b>	<b>7.0</b>
<b>Historical Aggregate</b>	<b>7.2</b>	<b>7.8</b>	<b>9.0</b>	<b>6.5</b>	<b>14.3</b>	<b>5.9</b>	<b>-4.2</b>	<b>5.2</b>	<b>6.3</b>	<b>7.0</b>
Barclays Capital Aggregate		7.8		6.5		5.9		5.2		7.0

The benchmark for the Fixed Income Asset Class is the Barclays Capital U.S. Aggregate Bond Index.

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

**Portfolio Manager: Neil Moriarty**

**Assets Under Management: \$800,446,282**

**Investment Philosophy**

Aberdeen (formerly Deutsche) believes there are 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 outperformance versus the benchmark over time. The firm's valued added is derived primarily from individual security selection. Portfolio managers and analysts research bonds within their sector of expertise and construct portfolios from the bottom-up, bond by bond. Sector weightings are a byproduct of the bottom-up security selection. Aberdeen was retained by the SBI in February 2000.

**Staff Comments**

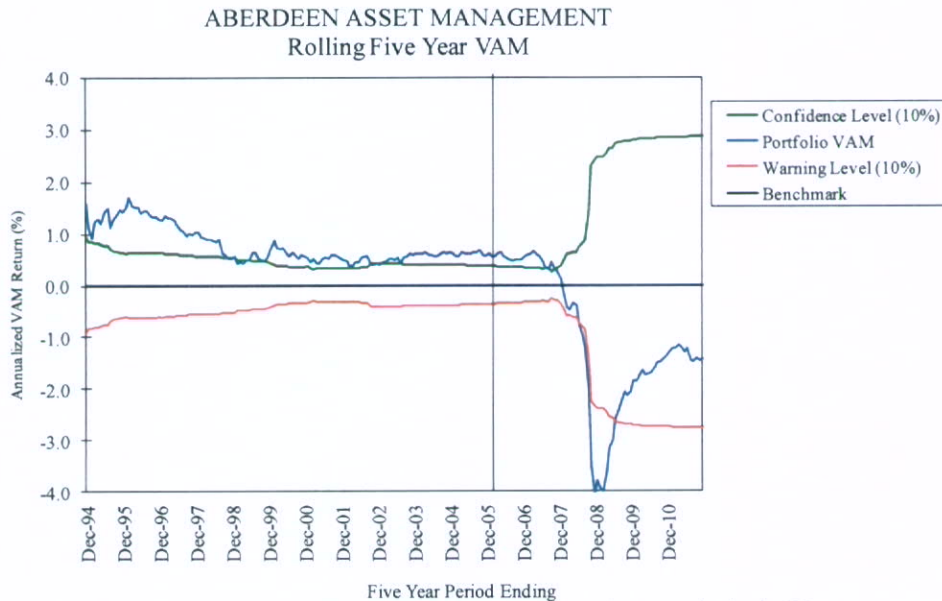
Aberdeen outperformed the benchmark by 38 bps for the quarter and 16 bps over the last 12 months. One year and quarterly performance was driven by security selection within the investment grade corporate and taxable municipal sectors and an overweight position in CMBS. An overweight to ABS and exposure to CMOs detracted from performance for the year.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.5%	1.1%
Last 1 year	8.0	7.8
Last 2 years	9.3	7.2
Last 3 years	12.3	6.8
Last 4 years	4.8	6.4
Last 5 years	5.0	6.5
Since Inception (2/00)	6.1	6.5

**Recommendations**

No action required.



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

**Portfolio Manager: Colin Lundgren**

**Assets Under Management: \$913,563,863**

**Investment Philosophy**

Columbia (formerly American Express and RiverSource) 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. Columbia was retained by the SBI in July 1993.

**Staff Comments**

Columbia outperformed the benchmark by 71 bps for the quarter and 30 bps over the last 12 months. Overweight positions in high-yield and investment grade corporate bonds contributed to performance for the quarter. Security selection within the MBS, CMBS and investment grade corporate sectors added to performance over the full year period. Interest rate decisions detracted from performance for the year.

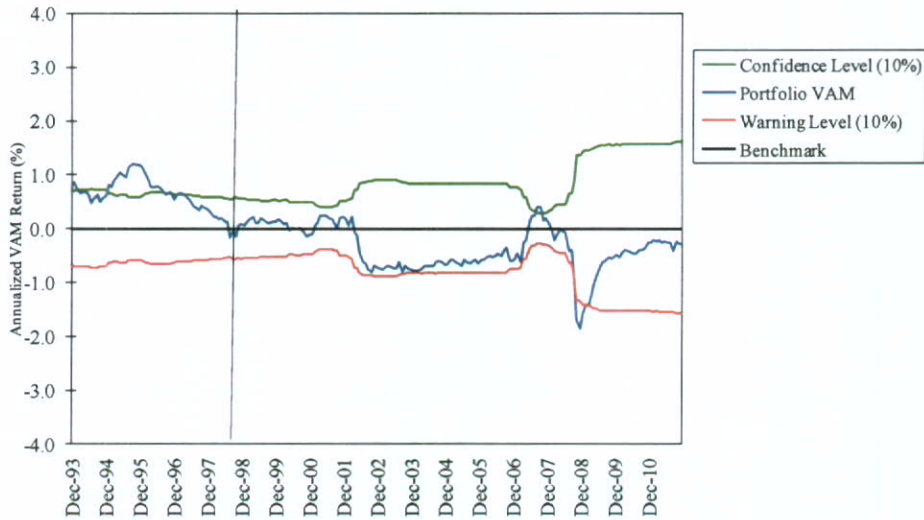
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.8%	1.1%
Last 1 year	8.1	7.8
Last 2 years	8.1	7.2
Last 3 years	10.1	6.8
Last 4 years	6.1	6.4
Last 5 years	6.2	6.5
Since Inception (7/93)	6.1	6.3

**Recommendations**

No action required.

**COLUMBIA MANAGEMENT - FIXED INCOME**  
**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.

**DODGE & COX INVESTMENT MANAGERS**  
**Periods Ending December, 2011**

**Portfolio Manager: Dana Emery**

**Assets Under Management: \$1,060,721,072**

**Investment Philosophy**

Dodge & Cox manages a high quality, diversified portfolio of securities that are selected through fundamental analysis. The firm believes that by combining fundamental research with a long-term investment horizon it is possible to uncover inefficiencies in market sectors and individual securities. The firm combines this fundamental research with a disciplined program of risk analysis. To seek superior returns over the long-term, Dodge & Cox emphasizes sector and security selection, strives to build portfolios that have a higher yield than the broad bond market, and analyzes portfolio and individual security risk. Dodge & Cox was retained by the SBI in February 2000.

**Staff Comments**

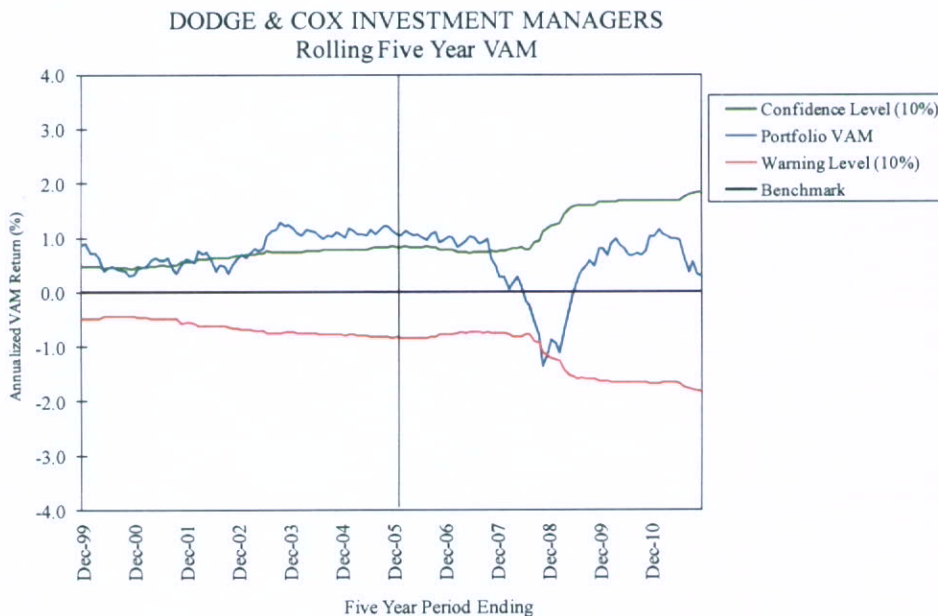
Dodge & Cox outperformed the benchmark by 13 bps for the quarter and underperformed the benchmark by 280 bps over the last 12 months. Overweight exposure to investment grade corporate and municipal securities and security selection within the MBS sector contributed to quarterly returns. A shorter relative duration position, an overweight to investment grade corporate securities, and an underweight to U.S. Treasury securities detracted from one year performance.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.3%	1.1%
Last 1 year	5.0	7.8
Last 2 years	6.4	7.2
Last 3 years	9.7	6.8
Last 4 years	7.2	6.4
Last 5 years	6.8	6.5
Since Inception (2/00)	7.2	6.5

**Recommendations**

No action required.



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

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

**Portfolio Manager: Bill Gross**

**Assets Under Management: \$1,163,627,844**

**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 outperformed the benchmark by 3 bps for the quarter and underperformed the benchmark by 337 bps over the last 12 months. Overweight positions in Agency MBS and investment-grade corporate bonds, particularly within the financial sector, added to performance for the quarter while a slight yield curve steepening bias and a significant underweight to U.S. Treasuries detracted from quarterly performance. An underweight position in U.S. Treasuries, a slight yield curve steepening bias, and security selection within Agency MBS detracted from performance for the year.

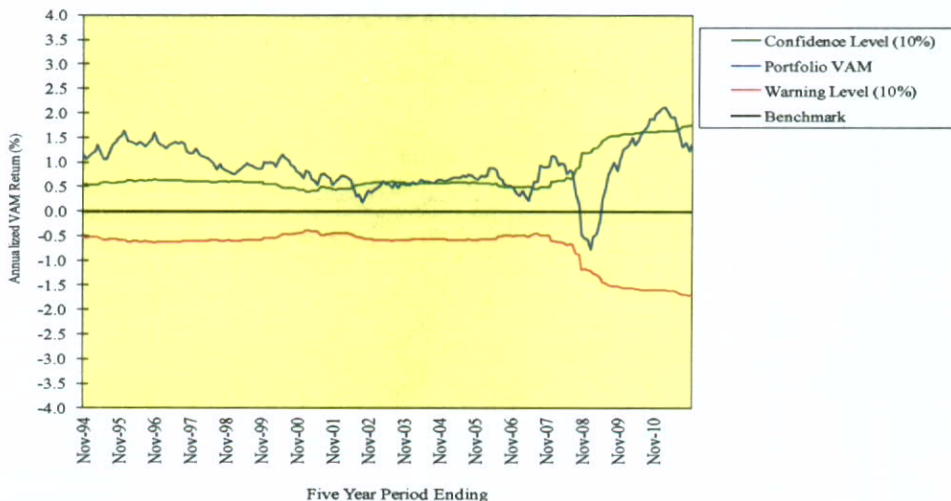
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.1%	1.1%
Last 1 year	4.5	7.8
Last 2 years	8.2	7.2
Last 3 years	10.6	6.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (9/08)	9.9	7.7

**Recommendations**

No action required.

PACIFIC INVESTMENT MANAGEMENT CO.  
 Rolling Five Year VAM



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

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

**Portfolio Manager: Steve Walsh**

**Assets Under Management: \$1,215,559,676**

**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 outperformed the benchmark by 30 bps for the quarter and underperformed the benchmark by 73 bps over the last 12 months. Exposure to high-yield corporate bonds and an overweight to investment grade credit, particularly financials, were the largest positive contributors to performance for the quarter. Exposure to TIPS and short duration portfolio positioning detracted from quarterly performance. Overweight positions in non-Agency MBS and investment grade credit, particularly financials, were the largest contributors to underperformance for the year.

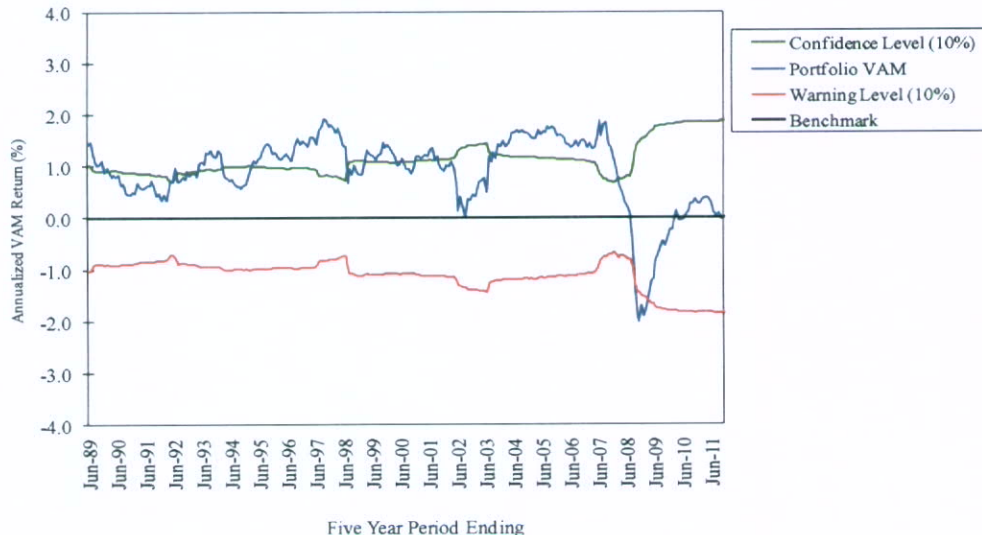
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.4%	1.1%
Last 1 year	7.1	7.8
Last 2 years	9.0	7.2
Last 3 years	11.7	6.8
Last 4 years	6.8	6.4
Last 5 years	6.5	6.5
Since Inception (7/84)	9.5	8.4

**Recommendations**

No action required.

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



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

**Portfolio Manager: Brian Weinstein**

**Assets Under Management: \$1,660,768,857**

**Investment Philosophy**

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

**Staff Comments**

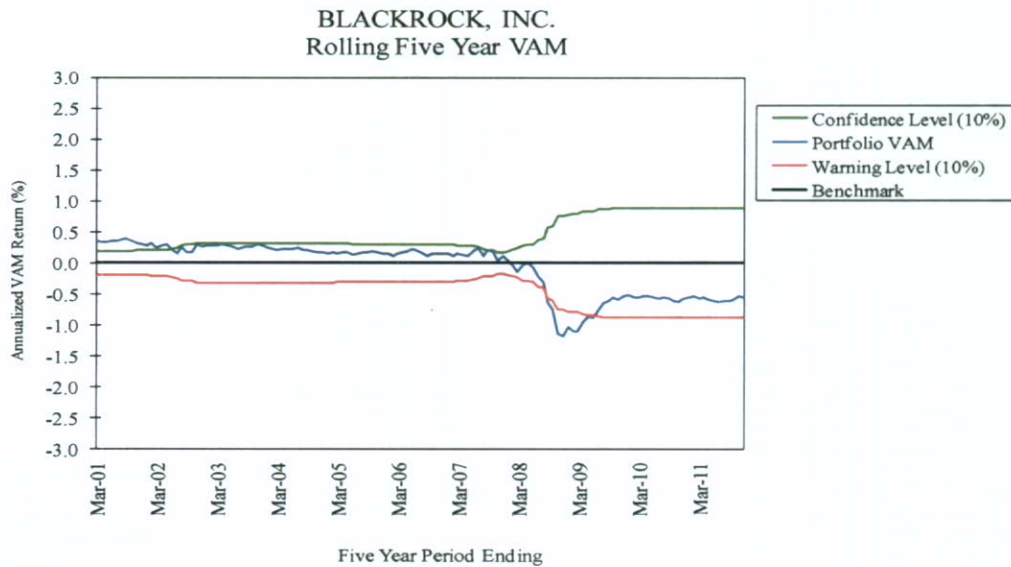
Blackrock outperformed the benchmark by 20 bps for the quarter and 14 bps over the last 12 months. An overweight position in CMBS, yield curve positioning, and security selection within the investment grade corporate sector contributed to positive quarterly performance. Positive contributors to one year performance included an overweight position in ABS and yield curve positioning. Sovereign security selection and an allocation to TIPS negatively impacted quarterly performance.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.3%	1.1%
Last 1 year	8.0	7.8
Last 2 years	7.2	7.2
Last 3 years	8.0	6.8
Last 4 years	5.7	6.4
Last 5 years	5.9	6.5
Since Inception (4/96)	6.4	6.4

**Recommendation**

No action required.





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

**Portfolio Manager: Jonathon Beinner**

**Assets Under Management: \$1,782,227,045**

**Investment Philosophy**

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

**Staff Comments**

Goldman Sachs outperformed the benchmark by 11 bps for the quarter and 49 bps over the last 12 months. Quarterly and one year performance were driven by security selection within the investment grade corporate, Agency MBS, and CMO sectors. Exposure to non-Agency MBS was the largest detractor to returns during the quarterly and one year periods.

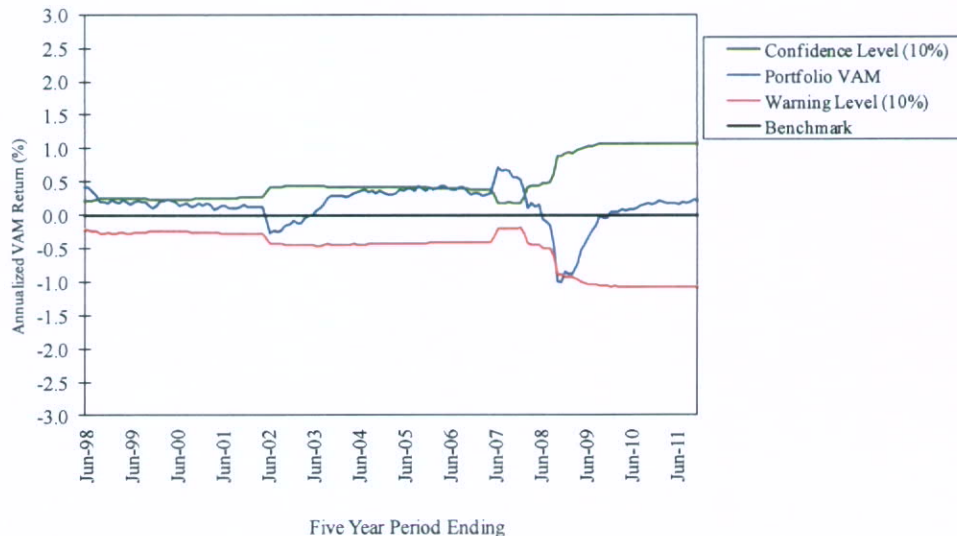
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.2%	1.1%
Last 1 year	8.3	7.8
Last 2 years	8.2	7.2
Last 3 years	9.4	6.8
Last 4 years	6.7	6.4
Last 5 years	6.7	6.5
Since Inception (7/93)	6.6	6.3

**Recommendations**

No action required.

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



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

**Portfolio Manager: Andrew Johnson**

**Assets Under Management: \$1,768,719,872**

**Investment Philosophy**

Neuberger (formerly Lincoln) manages an enhanced index portfolio closely tracking the Barclays Capital U.S. Aggregate Bond Index. Neuberger's process relies on a combination of quantitative tools and active management judgment. Explicit quantification and control of risks are at the heart of their process. Neuberger uses proprietary risk exposure measures to analyze 24 interest rate factors, and over 30 spread-related factors. For each interest rate factor, the portfolio is very closely matched to the index to ensure that the portfolio earns the same return as the index for any change in interest rates. For each spread factor, the portfolio can deviate slightly from the index as a means of seeking value-added. Setting target active risk exposures that must fall within pre-established maximums controls risk. To control credit risk, corporate holdings are diversified across a large number of issues. Neuberger was retained by the SBI in July 1988.

**Staff Comments**

Neuberger Berman outperformed the benchmark by 43 bps for the quarter and underperformed the benchmark by 23 bps over the last 12 months. Quarterly results were driven by overweight positions in the CMBS and investment grade corporate sector, as well as security selection within the investment grade corporate sector. One year performance was negatively impacted by an overweight to investment grade corporate bonds, particularly in the financial sector.

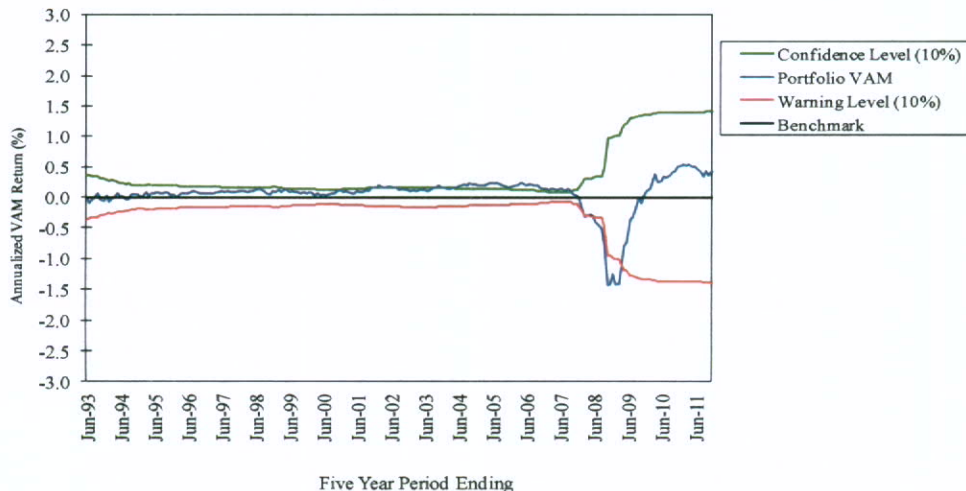
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.6%	1.1%
Last 1 year	7.6	7.8
Last 2 years	8.3	7.2
Last 3 years	10.3	6.8
Last 4 years	7.1	6.4
Last 5 years	7.0	6.5
Since Inception (7/88)	7.5	7.3

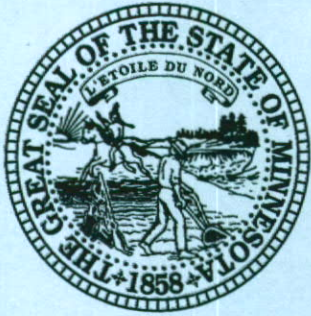
**Recommendations**

No action required.

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



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# STATE BOARD OF INVESTMENT

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## International Manager Evaluation Reports

Fourth Quarter, 2011

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A-72

# International Managers

## Table of Contents

	<b>Page</b>
International Manager Performance Summary (quarter, 1, 3, 5, year periods)	A-74
International Manager Performance Summary (by calendar years)	A-75
Acadian Asset Management, Inc.	A-76
Columbia Management Investment Advisors, LLC	A-77
INVESCO Global Asset Management	A-78
J.P. Morgan Investment Management Inc.	A-79
Marathon Asset Management	A-80
McKinley Capital Management, Inc.	A-81
Pyramis Global Advisors Trust Company – Active	A-82
AllianceBernstein L.P.	A-83
Capital International, Inc.	A-84
Morgan Stanley Investment Management	A-85
AQR Capital Management, LLC	A-86
Pyramis Global Advisors Trust Company – Semi-Passive	A-87
State Street Global Advisors – Semi-Passive	A-88
State Street Global Advisors – Passive	A-89

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

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk		
	%	%	%	%	%	%	%	%	%	%		
<b>Active Developed Markets (2)</b>												
Acadian	3.2	3.5	-12.9	-12.2	8.5	8.5	-7.0	-4.0	1.6	2.6	\$248.4	3.9%
Columbia (RiverSource)	5.0	3.5	-12.1	-12.2	9.4	8.5	-2.7	-4.0	-0.5	1.2	\$242.5	3.8%
Invesco	2.7	3.5	-13.0	-12.2	6.7	8.5	-4.2	-4.0	2.6	1.2	\$205.0	3.2%
J.P. Morgan	5.9	3.5	-10.2	-12.2	9.9	8.5	-3.3	-4.0	2.6	2.6	\$216.4	3.4%
Marathon	3.1	3.5	-9.2	-12.2	10.5	8.5	-0.7	-4.0	7.6	4.3	\$497.1	7.7%
McKinley	5.0	3.5	-15.5	-12.2	5.4	8.5	-6.2	-4.0	1.0	2.6	\$204.2	3.2%
Pyramis (Fidelity)	4.3	3.5	-11.9	-12.2	10.0	8.5	-2.2	-4.0	3.9	2.6	\$238.4	3.7%
<b>Aggregate</b>	<b>4.0</b>	<b>3.5</b>	<b>-11.7</b>	<b>-12.2</b>	<b>9.2</b>	<b>8.5</b>	<b>-3.4</b>	<b>-4.0</b>			<b>\$1,852.0</b>	<b>28.8%</b>
<b>Active Emerging Markets (3)</b>												
AllianceBernstein (4)	2.9	4.4	-23.0	-18.4	16.7	20.1	-0.6	2.5	9.5	11.3	\$144.5	2.2%
Capital International	2.7	4.4	-22.8	-18.4	18.0	20.1	3.0	2.5	10.2	11.3	\$652.4	10.1%
Morgan Stanley	2.2	4.4	-17.8	-18.4	18.7	20.1	1.7	2.5	11.3	11.3	\$657.2	10.2%
<b>Aggregate</b>	<b>2.4</b>	<b>4.4</b>	<b>-20.6</b>	<b>-18.4</b>	<b>18.1</b>	<b>20.1</b>	<b>1.6</b>	<b>2.5</b>			<b>\$1,454.1</b>	<b>22.6%</b>
<b>Semi-Passive Developed Markets (2)</b>												
AQR	4.6	3.5	-13.9	-12.2	9.2	8.5	-4.5	-4.0	2.4	2.6	\$233.4	3.6%
Pyramis (Fidelity)	4.0	3.5	-12.6	-12.2	8.3	8.5	-3.4	-4.0	3.3	2.6	\$354.9	5.5%
State Street	2.5	3.5	-15.6	-12.2	7.4	8.5	-5.9	-4.0	1.3	2.6	\$216.6	3.4%
<b>Aggregate</b>	<b>3.8</b>	<b>3.5</b>	<b>-13.8</b>	<b>-12.2</b>	<b>8.4</b>	<b>8.5</b>	<b>-4.5</b>	<b>-4.0</b>			<b>\$804.8</b>	<b>12.5%</b>
<b>Passive Developed Markets (2)</b>												
State Street	3.5	3.5	-11.9	-12.2	9.1	8.5	-3.7	-4.0	5.7	5.4	\$2,325.4	36.1%
									<b>Since 10/1/92</b>			
Equity Only (5) (7)	3.4	3.7	-14.2	-13.7	10.8	10.7	-2.7	-2.9	6.2	5.8	\$6,436.3	100.0%
<b>Total Program (6) (7)</b>	<b>3.4</b>	<b>3.7</b>	<b>-14.2</b>	<b>-13.7</b>	<b>10.8</b>	<b>10.7</b>	<b>-2.7</b>	<b>-2.9</b>	<b>6.4</b>	<b>5.8</b>	<b>\$6,436.3</b>	<b>100.0%</b>
SBI Int'l Equity Target (7)	3.7		-13.7		10.7		-2.9		5.8			
MSCI ACWI Free ex. U.S. (8)	3.7		-13.7		10.7		-2.9		6.1			
MSCI World ex U.S. (net)	3.5		-12.2		8.5		-4.1		5.6			
MSCI EAFE Free (net)	3.3		-12.1		7.6		-4.7		5.2			
MSCI Emerging Markets Free (9)	4.4		-18.4		20.1		2.4		8.4			

(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) Manager terminated effective 12/12/11. A transition manager managed the portfolio through 12/27/11. On 12/28/11 SSgA began managing the account as a MSCI Emerging Markets index passive portfolio.

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

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

(7) 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.

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

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

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

	2011		2010		2009		2008		2007	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>Active Developed Markets (1)</b>										
Acadian	-12.9	-12.2	13.9	8.9	28.8	33.7	-50.5	-43.5	10.0	12.6
Columbia (RiverSource)	-12.1	-12.2	15.2	8.9	29.3	33.7	-40.8	-43.5	12.4	12.6
Invesco	-13.0	-12.2	5.8	8.9	32.0	33.7	-38.8	-43.5	8.4	12.6
J.P. Morgan	-10.2	-12.2	7.6	8.9	37.5	33.7	-41.5	-43.5	8.8	12.6
Marathon	-9.2	-12.2	14.4	8.9	29.8	33.7	-38.0	-43.5	15.4	12.6
McKinley	-15.5	-12.2	11.8	8.9	24.1	33.7	-48.5	-43.5	20.4	12.6
Pyramis (Fidelity)	-11.9	-12.2	11.7	8.9	35.1	33.7	-42.9	-43.5	17.7	12.6
<b>Aggregate</b>	<b>-11.7</b>	<b>-12.2</b>	<b>11.9</b>	<b>8.9</b>	<b>31.9</b>	<b>33.7</b>	<b>-42.8</b>	<b>-43.5</b>	<b>13.0</b>	<b>12.6</b>
<b>Active Emerging Markets (2)</b>										
AllianceBernstein (3)	-23.0	-18.4	15.8	18.9	78.4	78.5	-56.0	-53.2	38.8	39.9
Capital International	-22.8	-18.4	16.1	18.9	83.1	78.5	-48.9	-53.2	38.4	39.9
Morgan Stanley	-17.8	-18.4	18.4	18.9	71.7	78.5	-54.5	-53.2	43.0	39.9
<b>Aggregate</b>	<b>-20.6</b>	<b>-18.4</b>	<b>17.1</b>	<b>18.9</b>	<b>77.3</b>	<b>78.5</b>	<b>-53.0</b>	<b>-53.2</b>	<b>40.0</b>	<b>39.9</b>
<b>Semi-Passive Developed Markets (1)</b>										
AQR	-13.9	-12.2	11.4	8.9	36.0	33.7	-44.0	-43.5	9.0	12.6
Pyramis (Fidelity)	-12.6	-12.2	11.5	8.9	30.2	33.7	-44.0	-43.5	18.2	12.6
State Street	-15.6	-12.2	8.7	8.9	34.9	33.7	-45.3	-43.5	9.1	12.6
<b>Aggregate</b>	<b>-13.8</b>	<b>-12.2</b>	<b>10.6</b>	<b>8.9</b>	<b>33.6</b>	<b>33.7</b>	<b>-44.4</b>	<b>-43.5</b>	<b>12.1</b>	<b>12.6</b>
<b>Passive Developed Markets (1)</b>										
State Street	-11.9	-12.2	9.9	8.9	34.0	33.7	-43.4	-43.5	12.9	12.6
Equity Only (4) (5)	-14.2	-13.7	12.3	11.2	41.2	41.5	-45.3	-45.5	17.1	16.9
<b>Total Program (5)</b>	<b>-14.2</b>	<b>-13.7</b>	<b>12.3</b>	<b>11.2</b>	<b>41.2</b>	<b>41.5</b>	<b>-45.3</b>	<b>-45.5</b>	<b>17.1</b>	<b>16.9</b>
SBI Int'l Equity Target (5)		-13.7		11.2		41.5		-45.5		16.9
MSCI ACWI Free ex. U.S. (net)		-13.7		11.2		41.5		-45.5		16.7
MSCI World ex U.S. (net)		-12.2		8.9		33.7		-43.6		12.4
MSCI EAFE Free (net)		-12.1		7.7		31.8		-43.4		11.2
MSCI Emerging Markets Free (net)		-18.4		18.9		78.5		-53.3		39.4

- (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).
- (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).
- (3) Manager terminated effective 12/12/11. A transition manager managed the portfolio through 12/27/11. On 12/28/11 SSgA began managing the account as a MSCI Emerging Markets index passive portfolio.
- (4) Equity managers only. Includes impact of terminated managers.
- (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).



**ACADIAN ASSET MANAGEMENT LLC**  
**Periods Ending December, 2011**

**Portfolio Manager: John Chisholm**

**Assets Under Management: \$248,388,231**

**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**

No comment at this time.

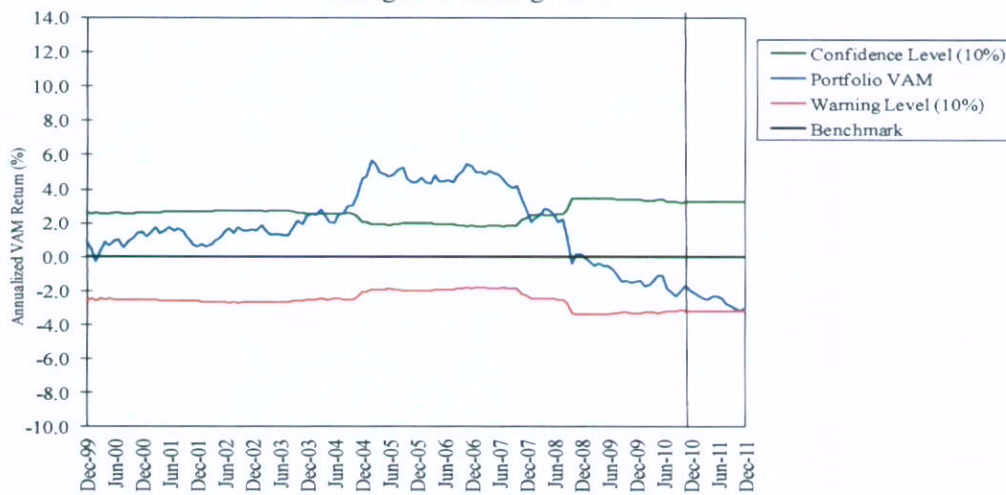
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	3.2%	3.5%
Last 1 year	-12.9	-12.2
Last 2 years	-0.4	-2.2
Last 3 years	8.5	8.5
Last 4 years	-10.8	-7.8
Last 5 years	-7.0	-4.0
Since Inception (7/05)	1.6	2.6

**Recommendations**

No action required.

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



5 Year Period Ending

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

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

**Portfolio Manager:** Esther Perkins

**Assets Under Management:** \$242,547,826

**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**

Positive stock selection in Japan and in the materials, industrials and financials sectors contributed to the portfolio's outperformance during the quarter.

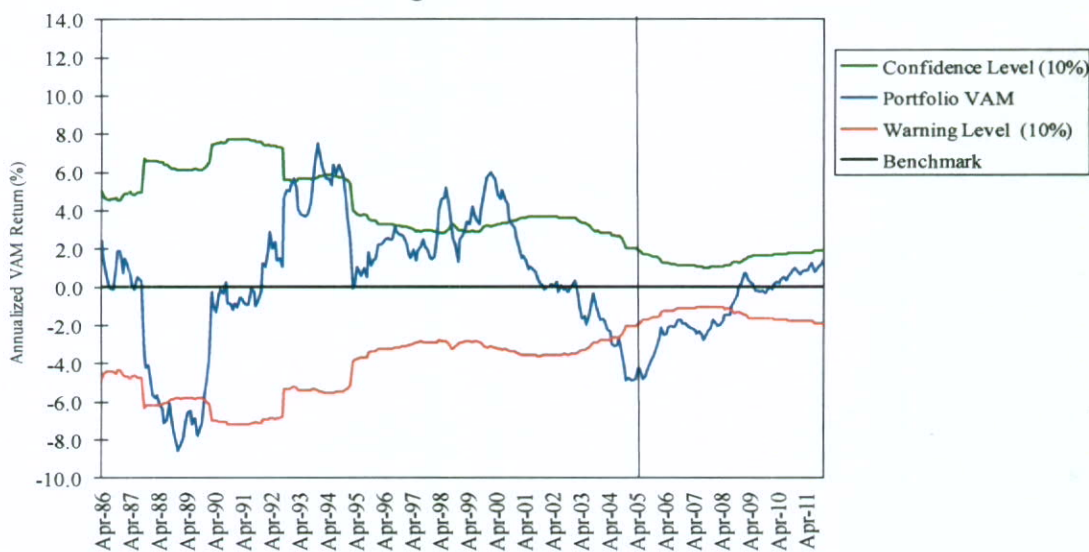
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	5.0%	3.5%
Last 1 year	-12.1	-12.2
Last 2 years	0.7	-2.2
Last 3 years	9.4	8.5
Last 4 years	-6.2	-7.8
Last 5 years	-2.7	-4.0
Since Inception (3/00)	-0.5	1.2

**Recommendations**

No action required.

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



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

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

**Portfolio Manager: W. Lindsay Davidson**

**Assets Under Management: \$204,956,452**

**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**

Negative stock selection in the industrials and materials sectors contributed to the portfolio's underperformance during the quarter and the year.

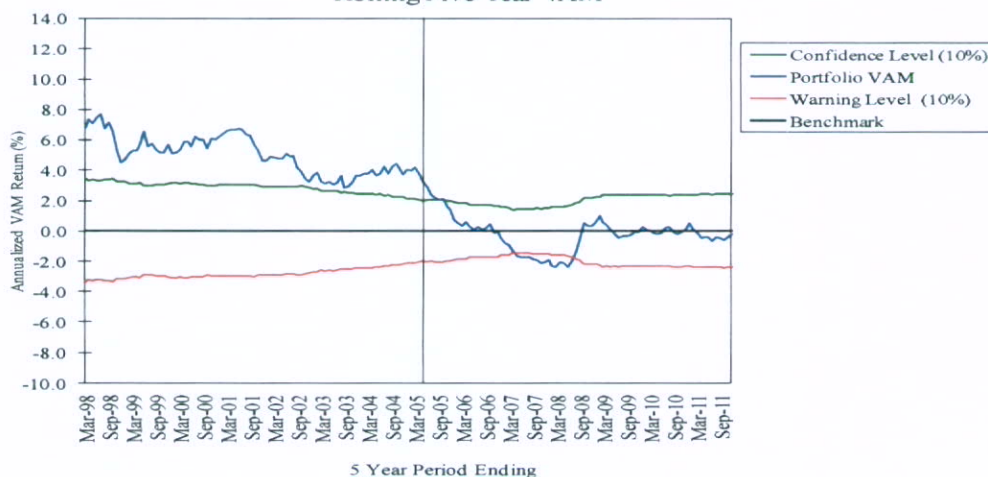
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.7%	3.5%
Last 1 year	-13.0	-12.2
Last 2 years	-4.0	-2.2
Last 3 years	6.7	8.5
Last 4 years	-7.1	-7.8
Last 5 years	-4.2	-4.0
Since Inception (3/00)	2.6	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, 2011**

**Portfolio Manager: James Fisher**

**Assets Under Management: \$216,416,827**

**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**

Positive stock selection in Japan and in the financials, materials and consumer staples sectors contributed to the portfolio's outperformance during the quarter.

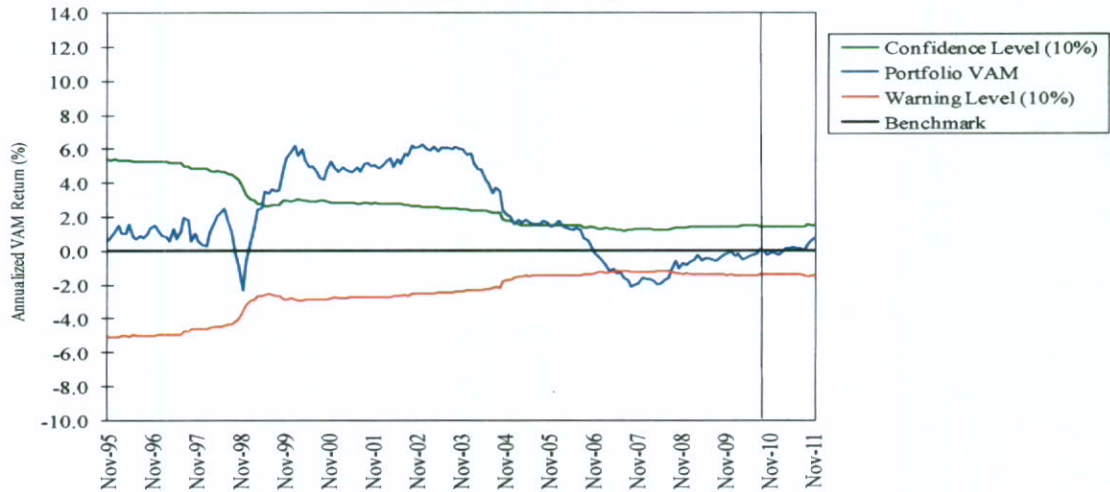
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	5.9%	3.5%
Last 1 year	-10.2	-12.2
Last 2 years	-1.7	-2.2
Last 3 years	9.9	8.5
Last 4 years	-6.1	-7.8
Last 5 years	-3.3	-4.0
Since Inception (7/05)	2.6	2.6

**Recommendations**

No action required.

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



5 Year Period Ending

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

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

**Portfolio Manager: William Arah**

**Assets Under Management: \$497,070,239**

**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**

No comment at this time.

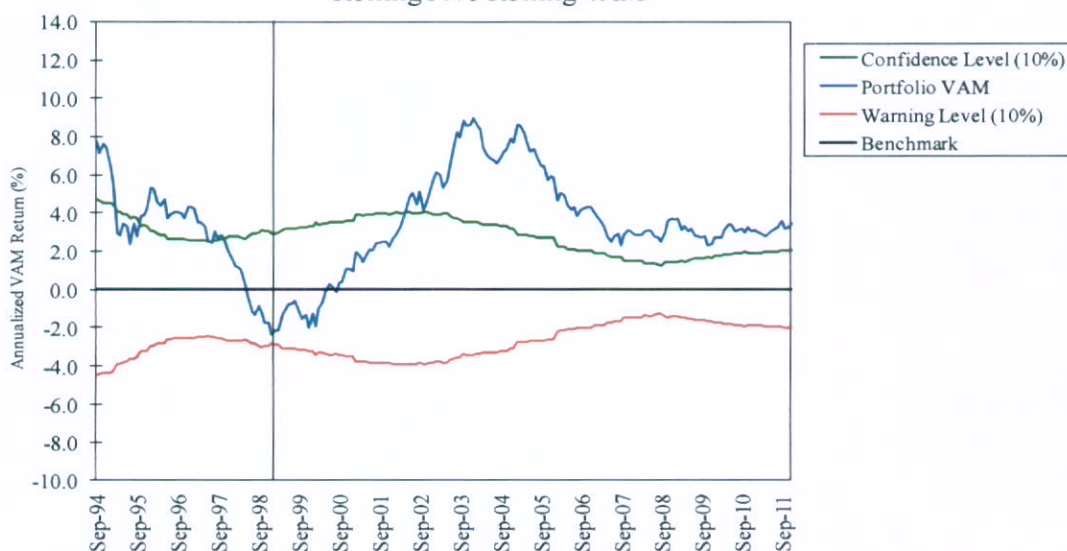
**Quantitative Evaluation**

	<b>Actual</b>	<b>Custom Benchmark</b>
Last Quarter	3.1%	3.5%
Last 1 year	-9.2	-12.2
Last 2 years	1.9	-2.2
Last 3 years	10.5	8.5
Last 4 years	-4.4	-7.8
Last 5 years	-0.7	-4.0
Since Inception (11/93)	7.6	4.3

**Recommendations**

No action required.

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



5 Year Period Ending

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

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

**Portfolio Manager: Robert A. Gillam**

**Assets Under Management: \$204,235,550**

**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**

Stock selection in the financials, industrials, and materials sectors and in Australia contributed positively to the portfolio's outperformance during the quarter.

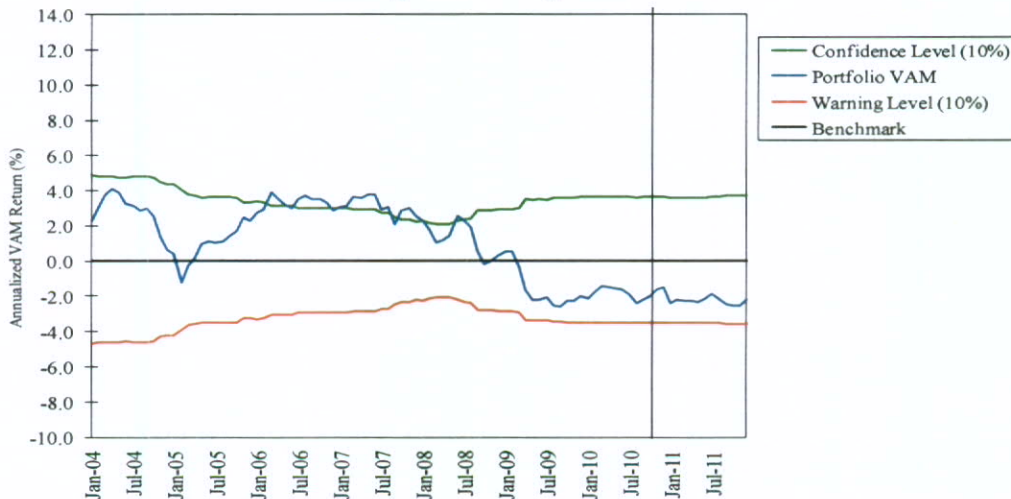
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	5.0%	3.5%
Last 1 year	-15.5	-12.2
Last 2 years	-2.8	-2.2
Last 3 years	5.4	8.5
Last 4 years	-11.9	-7.8
Last 5 years	-6.2	-4.0
Since Inception (7/05)	1.0	2.6

**Recommendations**

No action required.

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



5 Year Period Ending

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

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

**Portfolio Manager:** Michael Strong

**Assets Under Management:** \$238,394,608

**Investment Philosophy**

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

**Staff Comments**

No comment at this time.

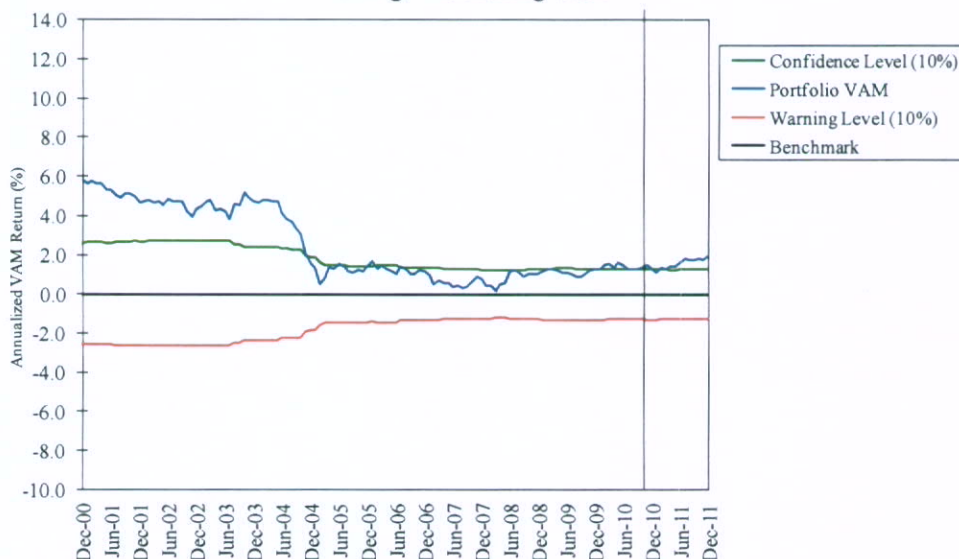
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	4.3%	3.5%
Last 1 year	-11.9	-12.2
Last 2 years	-0.8	-2.2
Last 3 years	10.0	8.5
Last 4 years	-6.6	-7.8
Last 5 years	-2.2	-4.0
Since Inception (7/05)	3.9	2.6

**Recommendations**

No action required.

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



5 Year Period Ending

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

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

**Portfolio Manager: Jean Van de Walle**

**Assets Under Management: \$144,522,449**

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**Staff Comments**

AllianceBernstein was terminated effective 12/12/11 due to high turnover of investment professionals and the portfolio's continued underperformance. A transition manager managed the portfolio through 12/27/11. On 12/28/11 State Street Global Advisors (SSgA) began managing the account as a MSCI Emerging Markets index passive portfolio.



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

**Portfolio Manager: Victor Kohn**

**Assets Under Management: \$652,405,196**

**Investment Philosophy**

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

**Staff Comments**

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

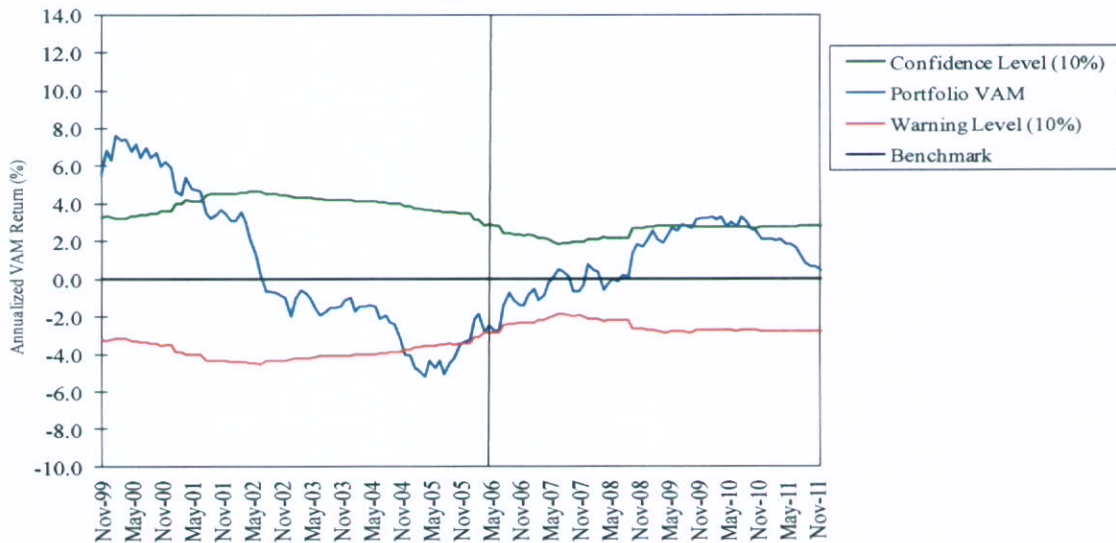
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.7%	4.4%
Last 1 year	-22.8	-18.4
Last 2 years	-5.3	-1.5
Last 3 years	18.0	20.1
Last 4 years	-4.3	-5.1
Last 5 years	3.0	2.5
Since Inception (3/01)	10.2	11.3

**Recommendations**

No action required.

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



5 Year Period Ending

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

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

**Portfolio Manager: Ruchir Sharma**

**Assets Under Management: \$657,208,933**

**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**

Stock selection in China and Indonesia and in the financials, telecommunication and information technology sectors contributed to the portfolio's underperformance during the quarter. Over the year, stock selection in Brazil and Korea and in the consumer staples and industrials sectors contributed to the portfolio's outperformance.

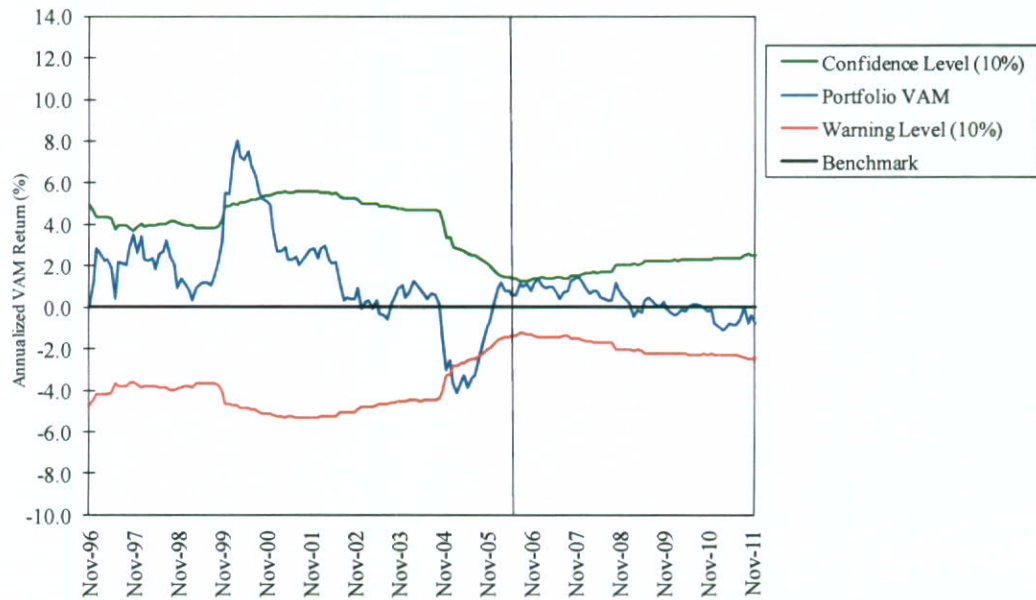
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.2%	4.4%
Last 1 year	-17.8	-18.4
Last 2 years	-1.3	-1.5
Last 3 years	18.7	20.1
Last 4 years	-6.6	-5.1
Last 5 years	1.7	2.5
Since Inception (3/01)	11.3	11.3

**Recommendations**

No action required.

**MORGAN STANLEY INVESTMENT MANAGEMENT**  
**Rolling Five Year VAM**



5 Year Period Ending

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

**AQR CAPITAL MANAGEMENT, LLC**  
**Periods Ending December, 2011**

**Portfolio Manager:** Cliff Asness

**Assets Under Management:** \$233,353,896

**Investment Philosophy**

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

**Staff Comments**

Stock selection in the energy and information technology sectors as well as in Canada, France and Sweden contributed positively to the portfolio's outperformance this quarter.

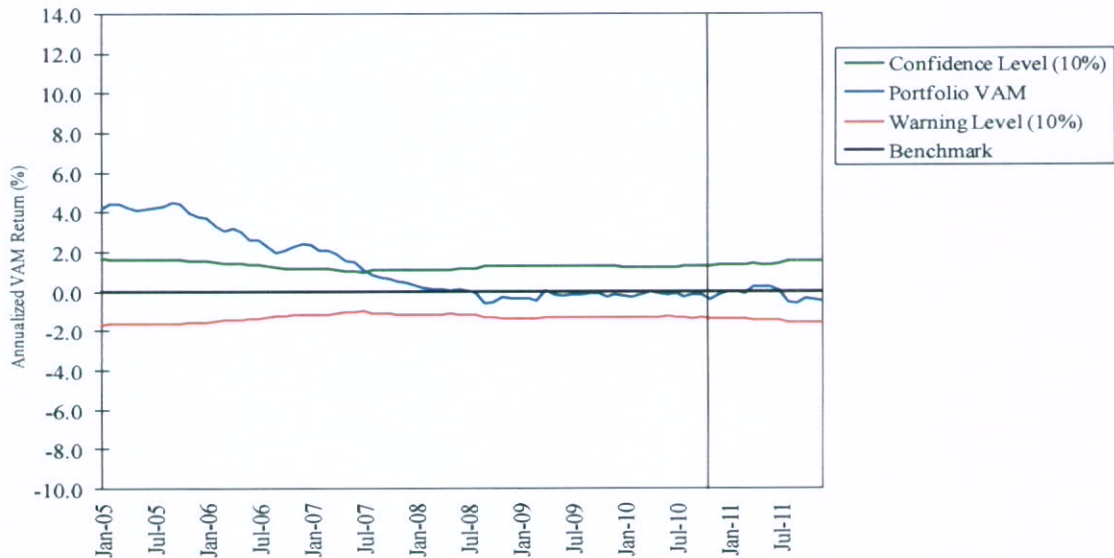
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	4.6%	3.5%
Last 1 year	-13.9	-12.2
Last 2 years	-2.1	-2.2
Last 3 years	9.2	8.5
Last 4 years	-7.5	-7.8
Last 5 years	-4.5	-4.0
Since Inception (7/05)	2.4	2.6

**Recommendations**

No action required.

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



5 Year Period Ending

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

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

**Portfolio Manager: Cesar Hernandez**

**Assets Under Management: \$354,882,920**

**Investment Philosophy**

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

**Staff Comments**

No comment at this time.

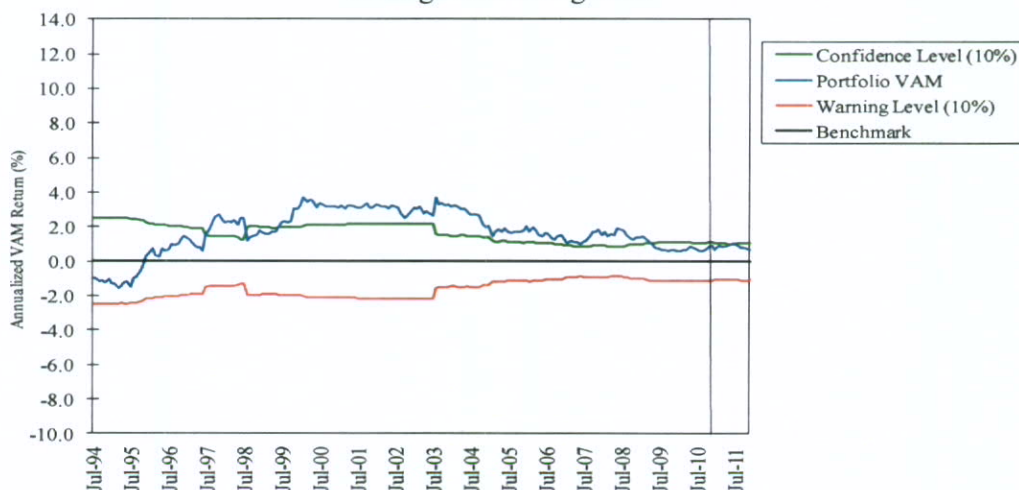
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	4.0%	3.5%
Last 1 year	-12.6	-12.2
Last 2 years	-1.3	-2.2
Last 3 years	8.3	8.5
Last 4 years	-8.2	-7.8
Last 5 years	-3.4	-4.0
Since Inception (7/05)	3.3	2.6

**Recommendations**

No action required.

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



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

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

**Portfolio Manager: Didier Rosenfeld**

**Assets Under Management: \$216,572,671**

**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 and industrials sectors and in the United Kingdom contributed significantly to the portfolio's underperformance during both the quarter and the year.

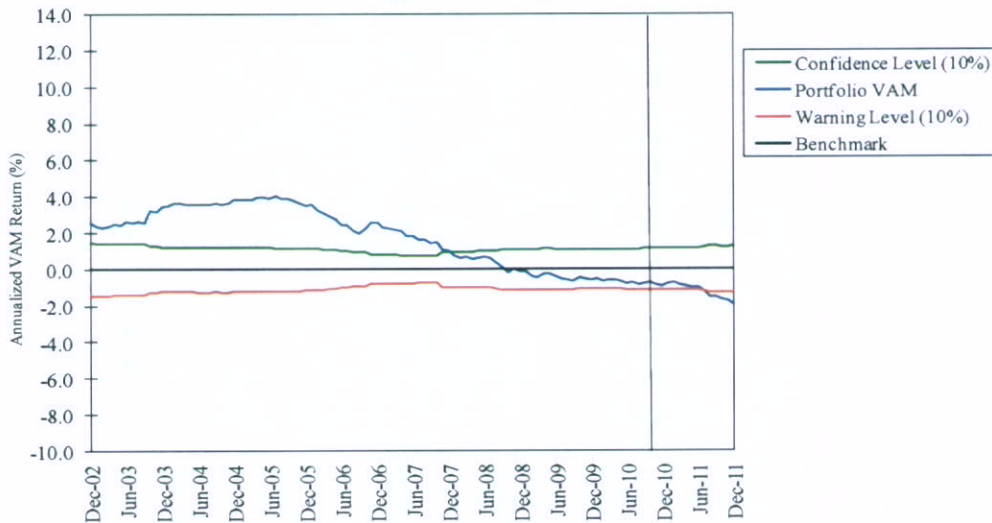
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.5%	3.5%
Last 1 year	-15.6	-12.2
Last 2 years	-4.2	-2.2
Last 3 years	7.4	8.5
Last 4 years	-9.3	-7.8
Last 5 years	-5.9	-4.0
Since Inception (7/05)	1.3	2.6

**Recommendations**

No action required.

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



5 Year Period Ending

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

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

**Portfolio Manager: Lynn Blake**

**Assets Under Management: \$2,325,389,636**

**Investment Philosophy**

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

**Staff Comments**

The portfolio's positive tracking error is within expectation over all time periods.

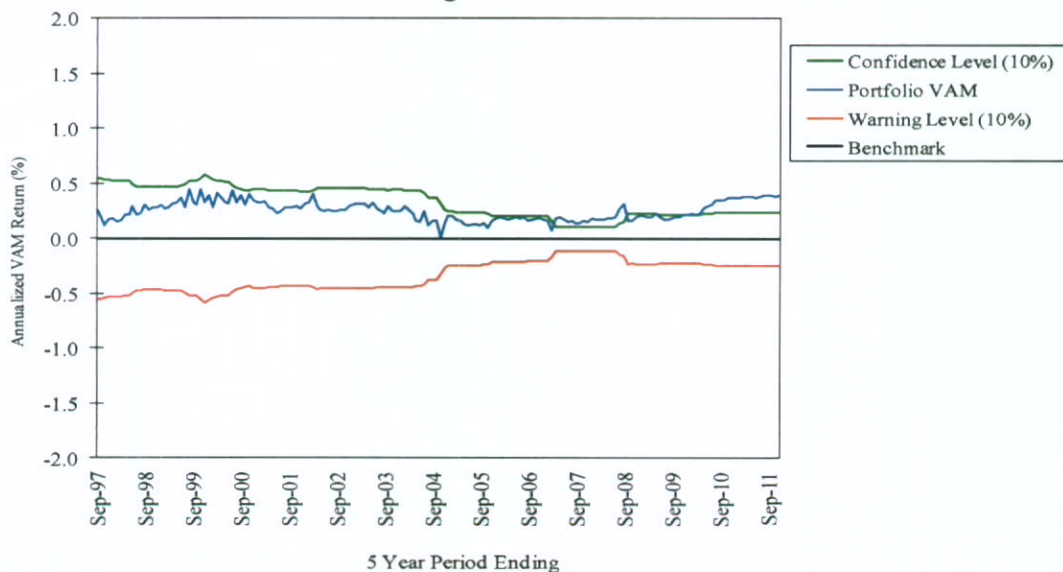
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	3.5%	3.5%
Last 1 year	-11.9	-12.2
Last 2 years	-1.6	-2.2
Last 3 years	9.1	8.5
Last 4 years	-7.4	-7.8
Last 5 years	-3.7	-4.0
Since Inception (10/92)	5.7	5.4

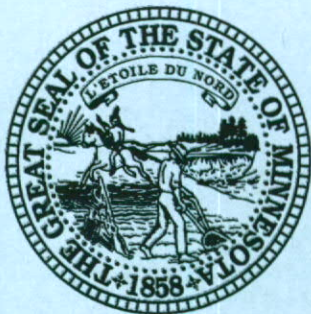
**Recommendation**

No action required.

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



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# STATE BOARD OF INVESTMENT

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## Non-Retirement Manager Evaluation Reports

Fourth Quarter, 2011





# Non-Retirement Managers

## Table of Contents

	<b>Page</b>
Non-Retirement Manager Performance Summary (quarter, 1, 3, 5 year periods)	A-94
Non-Retirement Manager Performance Summary (by calendar year)	A-95
GE Asset Management – Assigned Risk Plan	A-96
RBC Global Asset Management (U.S.) – Assigned Risk Plan	A-97
Galliard Capital Management	A-98
Internal Stock Pool – Trust/Non-Retirement Assets	A-99
Internal Bond Pool – Income Share Account	A-100
Internal Bond Pool – Trust/Non-Retirement Assets	A-101

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

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	
GE Asset Management (S&P 500 Index)	11.4	11.8	-2.2	2.1	12.7	14.1	0.0	-0.2	8.5	8.1	\$65.8
RBC Global Asset Management (2) (Barclays Capital Intermediate Government)	0.5	0.7	7.1	6.2	7.9	4.0	5.4	5.9	6.1	6.3	\$211.0
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)	0.8	0.2	3.4	1.2	4.1	1.5	4.3	2.4	5.3	4.2	\$1,444.9
Internal Stock Pool (S&P 500 Index)	11.7	11.8	2.2	2.1	14.1	14.1	-0.1	-0.2	7.9	7.8	\$1,040.4
Internal Bond Pool - Income Share (Barclays Capital Aggregate) (3)	1.0	1.1	5.3	7.8	8.3	6.8	6.5	6.5	7.6	7.3	\$85.7
Internal Bond Pool - Trust (Barclays Capital Aggregate)	1.2	1.1	5.6	7.8	8.0	6.8	6.7	6.5	7.1	6.7	\$628.8

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

(2) Prior to July 2011, a blended benchmark consisting 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, and 10% ML 91 day T-Bill was utilized.

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

**NON - RETIREMENT MANAGERS**  
**Calendar Year Returns**

	2011		2010		2009		2008		2007	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
GE Asset Management (S&P 500 Index)	-2.2	2.1	10.7	15.1	32.3	26.5	-35.6	-37.0	8.5	5.5
RBC Global Asset Management (1) (Barclays Capital intermediate Government)	7.1	6.2	8.4	5.0	8.3	0.9	-2.4	9.5	5.8	7.9
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)	3.4	1.2	4.1	1.5	4.7	1.9	4.7	2.6	4.8	4.7
Internal Stock Pool (S&P 500 Index)	2.2	2.1	15.1	15.1	26.3	26.5	-36.7	-37.0	5.5	5.5
Internal Bond Pool - Income Share (Barclays Capital Aggregate)	5.3	7.8	7.0	6.5	12.9	5.9	1.3	5.2	6.4	7.0
Internal Bond Pool - Trust (Barclays Capital Aggregate)	5.6	7.8	6.3	6.5	12.2	5.9	2.6	5.2	7.1	7.0

(1) Prior to July 2011, a blended benchmark consisting 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, and 10% ML 91 day T-Bill was utilized.

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

**Portfolio Manager: Dave Carlson**

**Assets Under Management: \$65,764,602**

**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	11.4%	11.8%
Last 1 year	-2.2	2.1
Last 2 years	4.0	8.4
Last 3 years	12.7	14.1
Last 4 years	-2.0	-1.6
Last 5 years	0.0	-0.2
Since Inception (1/95)	8.5	8.1

**Recommendation**

No action required.

**GE ASSET MANAGEMENT**  
**Rolling Five Year VAM**



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

**Portfolio Manager: John Huber**

**Assets Under Management: \$211,023,952**

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

**Staff Comments**

RBC uses a top-down approach to fixed income investing. Their objective is to obtain superior long-term investment returns over a pre-determined benchmark that reflects the quality constraints and risk tolerance of the Assigned Risk Plan. Due to the specific liability requirement of the plan, return enhancement will focus on sector analysis and security selection. Yield curve and duration analysis are secondary considerations.

No comment at this time.

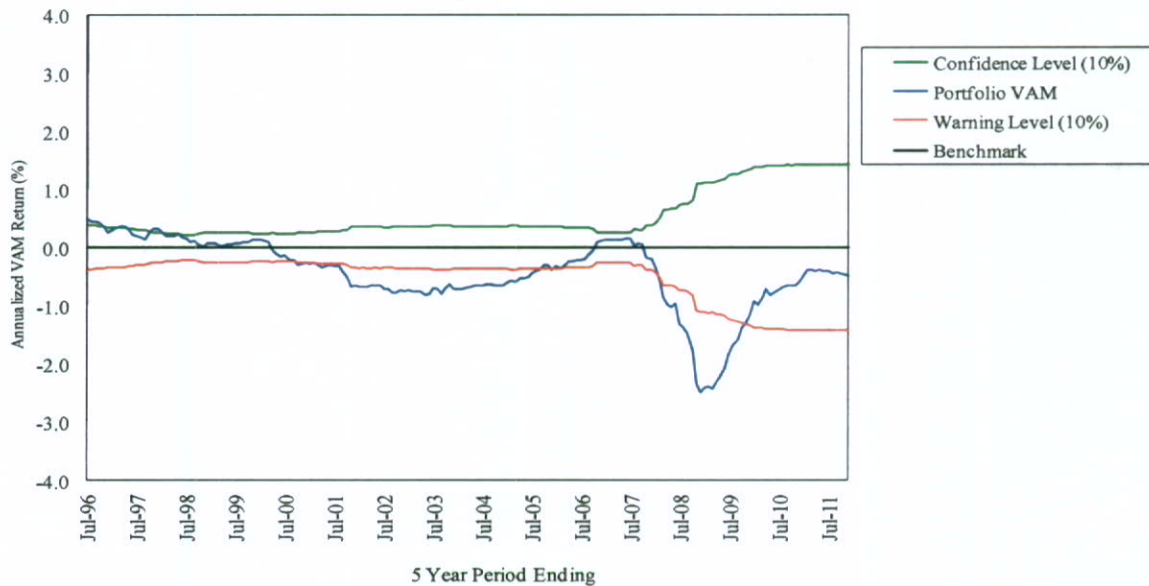
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark*</b>	
Last Quarter	0.5%	0.7%	No action required.
Last 1 year	7.1	6.2	
Last 2 years	7.7	5.6	
Last 3 years	7.9	4.0	
Last 4 years	5.2	5.4	
Last 5 years	5.4	5.9	
Since Inception (7/91)	6.1	6.3	

\* From 4/1/02-6/30/11, blended benchmark consisted 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. Effective 7/1/11, Barclays Capital Intermediate Government Index.

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



**GALLIARD CAPITAL MANAGEMENT**  
**Periods Ending December, 2011**

**Portfolio Manager: Karl Tourville**

**Assets Under Management: \$1,444,862,533**

**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.

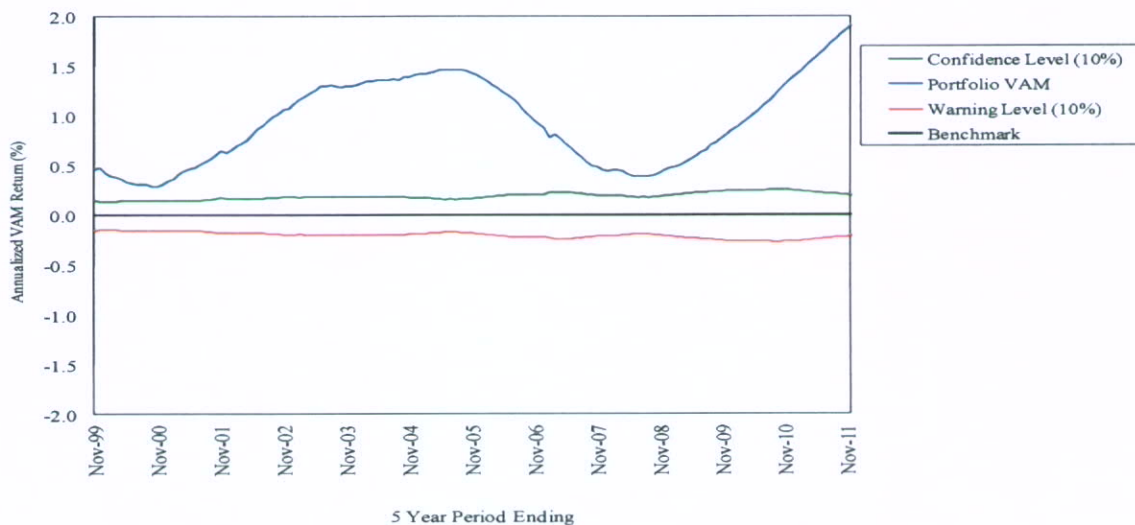
No comment at this time.

**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark</b>	
Last Quarter	0.8%	0.2%	No action required.
Last 1 year	3.4	1.2	
Last 2 years	3.8	1.3	
Last 3 years	4.1	1.5	
Last 4 years	4.2	1.8	
Last 5 years	4.3	2.4	
Since Inception (11/94)	5.3	4.2	

Galliard Capital Management  
 Rolling Five Year VAM



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

**Portfolio Manager: Mike Messen**

**Assets Under Management: \$1,040,371,331**

**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.

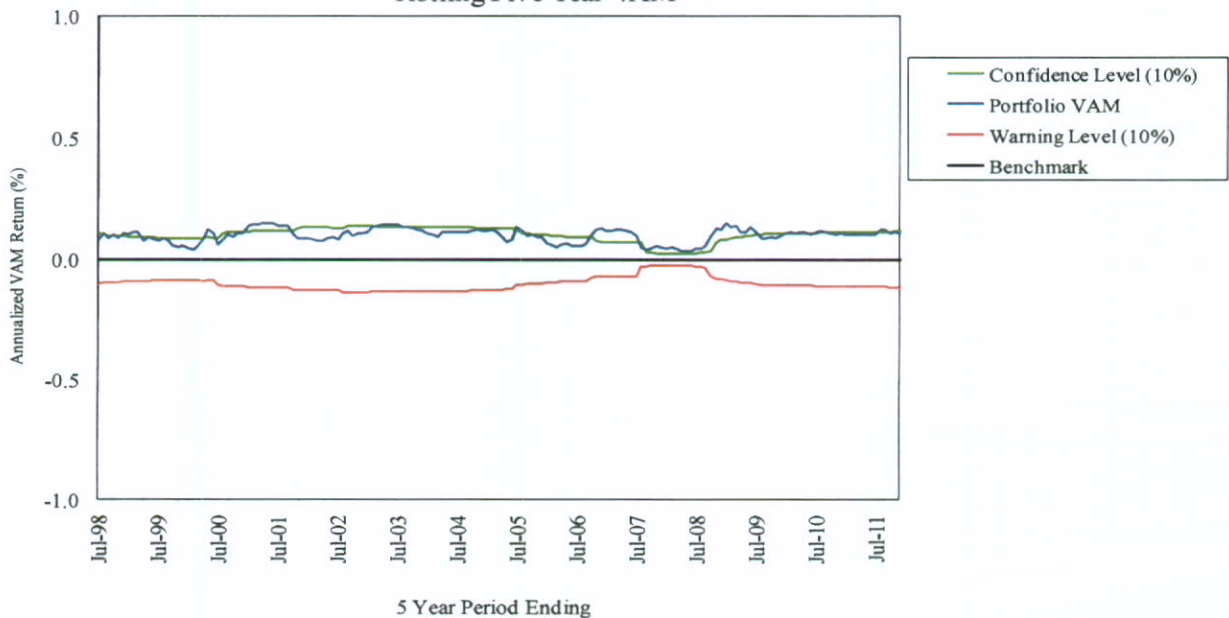
No comment at this time.

**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark</b>	
Last Quarter	11.7%	11.8%	No action required.
Last 1 year	2.2	2.1	
Last 2 years	8.5	8.4	
Last 3 years	14.1	14.1	
Last 4 years	-1.5	-1.6	
Last 5 years	-0.1	-0.2	
Since Inception (7/93)	7.9	7.8	

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





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

**Portfolio Manager: Mike Messen**

**Assets Under Management: \$85,662,983**

**Investment Philosophy**  
**Income Share Account**

The investment approach emphasizes sector and security selection. The approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings. The portfolio duration remains close to the benchmark duration but may be shortened or lengthened depending on changes in the economic outlook.

**Staff Comments**

No comment at this time.

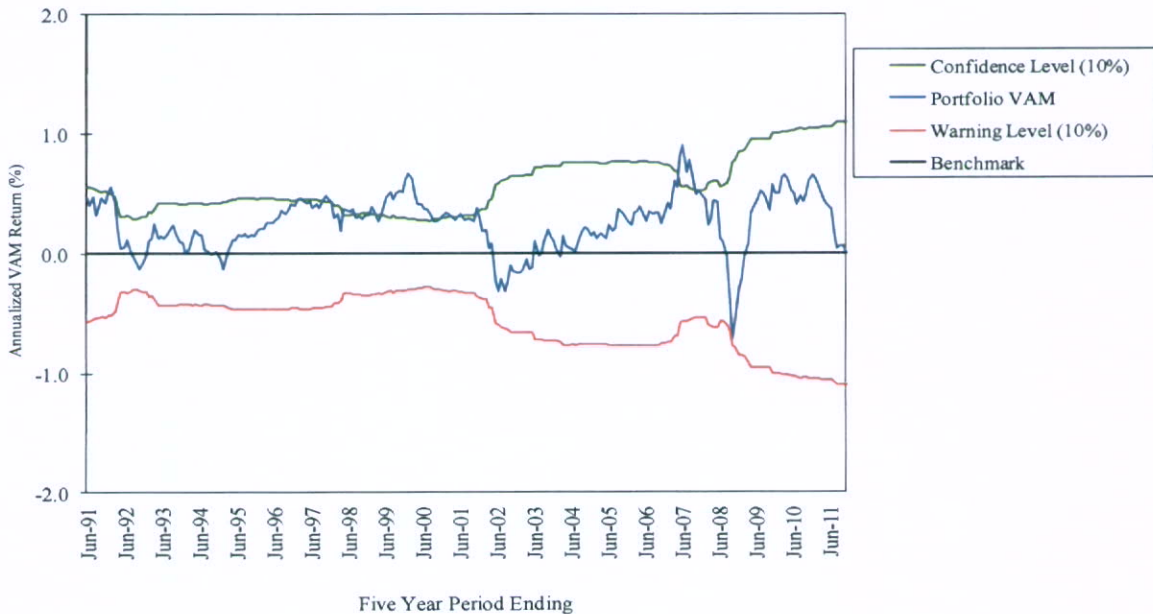
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.0%	1.1%
Last 1 year	5.3	7.8
Last 2 years	6.1	7.2
Last 3 years	8.3	6.8
Last 4 years	6.5	6.4
Last 5 years	6.5	6.5
Since Inception (7/86)	7.6	7.3

**Recommendation**

No action required.

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



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

**Portfolio Manager: Mike Messen**

**Assets Under Management: \$628,814,954**

**Investment Philosophy**  
**Environmental Trust Fund**  
**Permanent School Trust Fund**

**Staff Comments**

The internal bond portfolio's investment approach emphasizes sector and security selection. The approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings. The portfolio duration remains close to the benchmark duration but may be shortened or lengthened depending on changes in the economic outlook.

No comment at this time.

**Quantitative Evaluation**

**Recommendation**

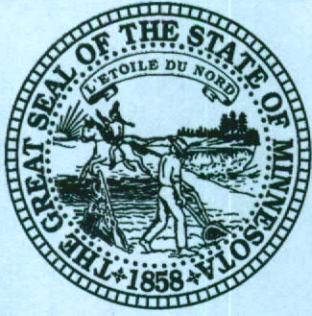
	<b>Actual</b>	<b>Benchmark</b>	
Last Quarter	1.2%	1.1%	No action required.
Last 1 year	5.6	7.8	
Last 2 years	5.9	7.2	
Last 3 years	8.0	6.8	
Last 4 years	6.6	6.4	
Last 5 years	6.7	6.5	
Since Inception (7/94)*	7.1	6.7	

\* 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, 2011

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A-104

# Deferred Compensation Plan

## Table of Contents

	<b>Page</b>
Fund Manager Performance Summary (quarter, 1, 3, 5 year periods)	A-106
Fund Manager Performance Summary (by calendar year)	A-108
Janus Twenty	A-110
Vanguard Index Institutional Plus	A-111
Vanguard Mid-Cap Index Institutional	A-112
T. Rowe Price Small Cap Stock Fund	A-113
Vanguard Balanced Index Institutional Fund	A-114
Dodge & Cox Income Fund	A-115
Vanguard Total Bond Market Index Institutional	A-116
Fidelity Diversified International	A-117
Vanguard Total International Stock Index Institutional Plus	A-118
State Street Global Advisors MN Target Retirement Funds	A-119

**MN STATE 457 DEFERRED COMPENSATION PLAN**  
**FUND OPTIONS (1)**  
**Periods Ending December, 2011**

	Quarter		1 Year		3 Years		5 Years		Since (2) Retention by SBI		State's Participation
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	%	%	In Fund (\$ millions)
<b>457 Mutual Funds</b>											
<b>Large Cap Equity:</b>											
Janus Twenty (S&P 500)	8.1	11.8	-8.2	2.1	12.1	14.1	2.1	-0.2	0.6	1.1	\$349.8
Vanguard Institutional Index Plus (S&P 500)	11.8	11.8	2.1	2.1	14.2	14.1	-0.2	-0.2	1.2	1.1	\$546.0
<b>Mid Cap Equity:</b>											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	12.1	12.1	-2.0	-1.9	20.1	20.1	1.4	1.4	6.7	6.6	\$207.2
<b>Small Cap Equity:</b>											
T. Rowe Price Small-Cap Stock (Russell 2000)	16.8	15.5	-0.1	-4.2	22.4	15.6	3.7	0.2	8.3	5.3	\$402.9
<b>Balanced:</b>											
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Barclays Capital Agg)	7.7	7.7	4.3	4.1	12.4	12.2	3.3	3.1	5.5	5.4	\$462.0
<b>Bond:</b>											
Dodge & Cox Income Fund (Barclays Capital Aggregate)	1.4	1.1	4.8	7.8	9.2	6.8	6.3	6.5	6.5	6.3	\$165.4
Vanguard Total Bond Market Index Inst. (Barclays Capital Aggregate)	1.0	1.1	7.7	7.8	6.8	6.8	6.5	6.5	5.5	5.5	\$164.4
<b>International:</b>											
Fidelity Diversified International (MSCI EAFE-Free)	4.9	3.3	-13.8	-12.1	7.6	7.6	-4.6	-4.7	5.3	2.1	\$199.4
Vanguard Total International Stock Index (ACWI ex US IMI) (3)	4.2	3.3	-14.6	-14.3	9.1	10.0	-3.5	-3.4	-17.6	-17.2	\$87.9

Numbers in blue include returns prior to retention by SBI.

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

- (1) Money Market Account and Fixed Interest Accounts are also offered in the Supplemental Investment Fund, which is described within Tab A. Performance for these accounts is reported under the Deferred Compensation Plan accounts within Tab A.
- (2) Vanguard Total International retained July 2011; Vanguard Mid-Cap Index Fund retained January 2004; Vanguard Balanced, Vanguard Total Bond Mkt. retained December 2003; all others, July 1999.
- (3) Benchmark is the MSCI ACWI ex US IMI beginning December 2010; MSCI EAFE and Emerging Markets Index beginning August 2006. Prior to that date it was the total International Composite Index, which is the MSCI EAFE Index and the Select Emerging Markets Free Index.

**MN STATE 457 DEFERRED COMPENSATION PLAN  
FUND OPTIONS  
Periods Ending December, 2011**

SSgA Target Retirement Funds	Quarter		1 Year		3 Years		5 Years		Since Retention by the SBI*		State Participation in Fund (\$ millions)
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	
	%	%	%	%	%	%	%	%	%	%	
Income Fund	4.9	4.9	4.6	4.8	9.6	9.9	4.1	4.2	0.5	0.5	\$6.8
2015 Fund	5.7	5.7	6.9	7.1	11.4	11.3	4.2	4.0	2.3	2.4	\$8.0
2020 Fund	6.8	6.7	7.3	7.4	13.0	12.9	3.8	3.5	2.5	2.6	\$6.4
2025 Fund	7.7	7.7	5.9	6.0	13.5	13.3	3.3	3.0	0.9	1.0	\$4.3
2030 Fund	8.2	8.1	4.9	5.0	13.8	13.7	2.7	2.4	-0.1	0.0	\$3.4
2035 Fund	8.7	8.6	3.5	3.6	14.2	14.1	2.1	1.9	-1.6	-1.5	\$1.8
2040 Fund	9.1	8.9	1.5	1.6	14.2	14.3	1.3	1.2	-3.6	-3.5	\$1.2
2045 Fund	9.4	9.2	0.0	0.1	13.9	13.9	1.2	1.0	-5.1	-5.0	\$0.5
2050 Fund	9.4	9.2	0.1	0.1	13.9	13.9	1.3	1.1	-5.1	-5.0	\$0.2
2055 Fund	9.4	9.2	0.1	0.1	13.9	13.9			-5.1	-5.0	\$0.2
2060 Fund	9.4	9.2							-5.0	-5.0	\$0.1

Note: Each Fund benchmark is the aggregate of the returns of the Fund's underlying index funds weighted by the Fund's asset allocation. The underlying index funds are listed below.

SSgA Index Funds	Quarter		1 Year		3 Years		5 Years			
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk		
	%	%	%	%	%	%	%	%		
S&P 500 Index Fund (S&P 500)	11.8	11.8	2.1	2.1	14.2	14.1	-0.2	-0.2	-3.7	-3.7
S&P Mid Cap Index Fund (S&P 400)	13.0	13.0	-1.7	-1.7	19.5	19.6	3.4	3.3	-9.5	-9.5
Russell Small Cap Index Fund (Russell 2000)	15.5	15.5	-4.1	-4.2	15.5	15.6	0.1	0.2	-9.8	-9.8
Global All Cap Equity ex US Index Fund (MSCI ACWI ex U.S. IMI)	4.4	3.3							-17.0	-17.2
Global Real Estate Securities Index Fund (FTSE EPRA/NAREIT Dev Liquid)	7.2	7.0	-5.4	-5.8					-10.7	-11.2
Long Government Bond Index Fund (Barclays Capital Long Government)	1.8	1.8	29.2	29.1	7.5	7.5	10.8	10.8	26.1	26.2
Bond Index Fund (Barclays Capital Aggregate)	1.1	1.1	7.8	7.8	6.9	6.8	6.7	6.5	5.0	5.0
Inflation Protection Bond Index Fund (Barclays Capital U.S. TIPS)	2.7	2.7	13.5	13.6	10.3	10.4	7.9	8.0	7.3	7.3
High Yield Bond Index Fund (Barclays Capital U.S. High Yield Very Liquid)	8.3	8.4	5.7	6.1					1.1	1.2
U.S. Short-Term Govt/Credit Index Fund (Barclays Capital 1-3 Yr Govt/Credit)	0.2	0.2	1.5	1.6					0.5	0.5

Numbers in blue include returns prior to retention by SBI.

Benchmarks for the Funds are noted in parenthesis below the Fund names.

\*Target Retirement Funds inception date is July 2011.



**MN STATE 457 DEFERRED COMPENSATION PLAN  
FUND OPTIONS (1)  
Calendar Year Returns**

457 Mutual Funds	2011		2010		2009		2008		2007	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>Large Cap Equity:</b>										
Janus Twenty (S&P 500)	-8.2	2.1	7.0	15.1	43.3	26.5	-42.0	-37.0	35.9	5.5
Vanguard Institutional Index Plus (S&P 500)	2.1	2.1	15.1	15.1	26.7	26.5	-36.9	-37.0	5.5	5.5
<b>Mid Cap Equity:</b>										
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	-2.0	-1.9	25.7	25.7	40.5	40.5	-41.8	-41.8	6.2	6.2
<b>Small Cap Equity:</b>										
T. Rowe Price Small-Cap Stock (Russell 2000)	-0.1	-4.2	32.5	26.9	38.5	27.2	-33.4	-33.8	-1.7	-1.6
<b>Balanced:</b>										
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Barclays Capital Agg)	4.3	4.1	13.3	13.5	20.2	19.7	-22.1	-22.4	6.3	6.3
<b>Bond:</b>										
Dodge & Cox Income Fund (Barclays Capital Aggregate)	4.8	7.8	7.2	6.5	16.1	5.9	-0.3	5.2	4.7	7.0
Vanguard Total Bond Market Index Inst. (Barclays Capital Aggregate)	7.7	7.8	6.6	6.5	6.1	5.9	5.2	5.2	7.0	7.0
<b>International:</b>										
Fidelity Diversified International (MSCI EAFE-Free)	-13.8	-12.1	9.7	7.7	31.8	31.8	-45.2	-43.4	16.0	11.2
Vanguard Total International Stock Index (ACWI ex US IMI) (2)	-14.6	-14.3	11.1	10.7	36.7	40.4	-44.1	-45.5	15.5	15.9

Numbers in blue include returns prior to retention by SBI.

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

- (1) Money Market Account and Fixed Interest Accounts are also offered in the Supplemental Investment Fund, which is described within Tab A. Performance for these accounts are reported under the Deferred Compensation Plan accounts within Tab A.
- (2) Benchmark is the MSCI ACWI ex US IMI beginning December 2010; MSCI EAFE and Emerging Markets Index beginning August 2006. Prior to that date it was the total International Composite Index, which is the MSCI EAFE Index and the Select Emerging Markets Free Index.

**MN STATE 457 DEFERRED COMPENSATION PLAN  
FUND OPTIONS  
Calendar Year Returns**

	2011		2010		2009		2008		2007	
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk
<b>SSgA Target Retirement Funds</b>	%	%	%	%	%	%	%	%	%	%
Income Fund	4.6	4.8	9.6	10.1	14.8	15.0	-12.9	-13.2	6.4	6.7
2015 Fund	6.9	7.1	12.1	12.5	15.3	14.4	-16.7	-17.6	6.9	7.2
2020 Fund	7.3	7.4	13.6	13.9	18.3	17.5	-22.2	-23.1	7.2	7.4
2025 Fund	5.9	6.0	14.6	14.7	20.3	19.6	-25.2	-26.1	7.6	7.7
2030 Fund	4.9	5.0	15.1	15.3	21.9	21.4	-28.1	-29.0	7.7	7.8
2035 Fund	3.5	3.6	15.7	15.8	24.3	23.9	-30.9	-31.6	7.8	7.9
2040 Fund	1.5	1.6	15.9	16.1	26.7	26.5	-33.6	-34.1	7.8	7.9
2045 Fund	0.0	0.1	16.2	16.2	27.2	27.0	-33.7	-34.1	8.1	8.2
2050 Fund	0.1	0.1	16.1	16.2	27.2	27.0	-33.5	-34.1	8.5	8.5
2055 Fund	0.1	0.1	16.1	16.2	27.2	27.0				
2060 Fund										

Note: Each Fund benchmark is the aggregate of the returns of the Fund's underlying index funds weighted by the Fund's asset allocation. The underlying index funds are listed below.

	2011		2010		2009		2008		2007	
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk
<b>SSgA Index Funds</b>	%	%	%	%	%	%	%	%	%	%
S&P 500 Index Fund (S&P 500)	2.1	2.1	15.1	15.1	26.7	26.5	-36.9	-37.0	5.5	5.5
S&P Mid Cap Index Fund (S&P 400)	-1.7	-1.7	26.6	26.6	37.3	37.4	-36.1	-36.2	8.0	8.0
Russell Small Cap Index Fund (Russell 2000)	-4.1	-4.2	26.7	26.9	26.8	27.2	-33.6	-33.8	-1.7	-1.6
Global All Cap Equity ex U.S. Index Fund (MSCI ACWI ex U.S. IMI)										
Global Real Estate Securities Index Fund (FTSE EPRA/NAREIT Dev Liquid)	-5.4	-5.8	19.1	18.4						
Long Government Bond Index Fund (Barclays Capital Long Government)	29.2	29.1	9.5	9.4	-12.2	-12.2	22.6	22.7	9.6	9.6
Bond Index Fund (Barclays Capital Aggregate)	7.8	7.8	6.6	6.5	6.4	5.9	5.6	5.2	7.0	7.0
Inflation Protection Bond Index Fund (Barclays Capital U.S. TIPS)	13.5	13.6	6.2	6.3	11.3	11.4	-2.4	-2.4	11.6	11.6
High Yield Bond Index Fund (Barclays Capital U.S. High Yield Very Liquid)	5.7	6.1	12.5	15.1						
U.S. Short-Term Govt/Credit Bond Index Fund (Barclays Capital 1-3 Yr Govt/Credit)	1.5	1.6	2.4	2.8						

Numbers in blue include returns prior to retention by SBI.

Benchmarks for the Funds are noted in parenthesis below the Fund names.

**MN STATE 457 DEFERRED COMPENSATION PLAN  
LARGE CAP EQUITY – JANUS TWENTY  
Periods Ending December, 2011**

**Portfolio Manager: Ron Sachs**

**State's Participation in Fund: \$349,838,586  
Total Assets in Fund: \$7,400,000,000**

**Investment Philosophy  
Janus Twenty**

The investment objective of this fund is long-term growth of capital from increases in the market value of the stocks it owns. The fund will concentrate its investments in a core position of between twenty to thirty common stocks. This non-diversified fund seeks to invest in companies that the portfolio manager believes have strong current financial positions and offer growth potential.

**Staff Comments**

No comment at this time.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	8.1%	11.8%
Last 1 year	-8.2	2.1
Last 2 years	-0.9	8.4
Last 3 years	12.1	14.1
Last 4 years	-4.9	-1.6
Last 5 years	2.1	-0.2
Since Retention by SBI (7/99)	0.6	1.1

**Recommendation**

No action required.

\*Benchmark is the S&P 500.

**LARGE CAP EQUITY - JANUS TWENTY  
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, 2011**

**Portfolio Manager: Mike Buek**

**State's Participation in Fund: \$545,973,518  
Total Assets in Fund: \$35,141,000,000**

**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.

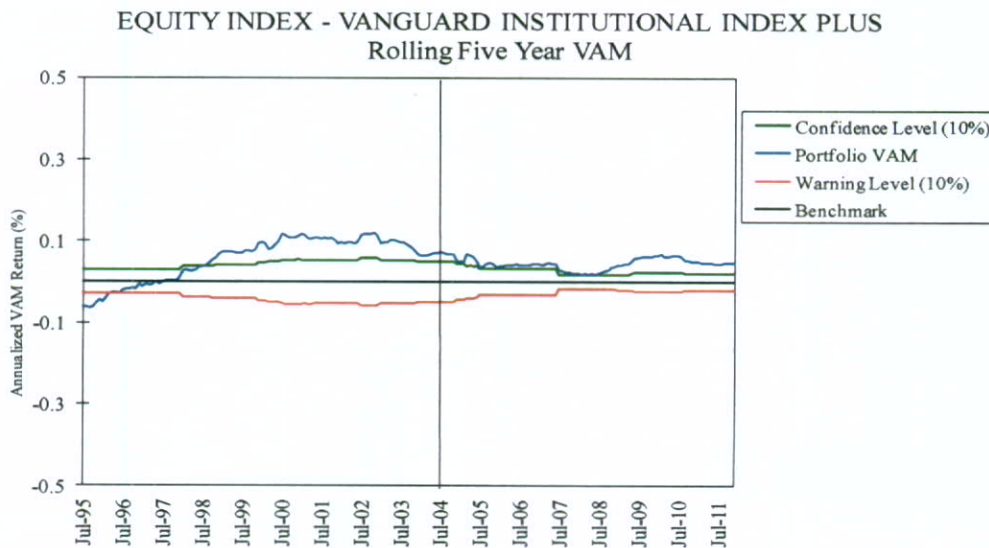
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	11.8%	11.8%
Last 1 year	2.1	2.1
Last 2 years	8.4	8.4
Last 3 years	14.2	14.1
Last 4 years	-1.6	-1.6
Last 5 years	-0.2	-0.2
Since Retention by SBI (7/99)	1.2	1.1

**Recommendation**

No action required.

\*Benchmark is the S&P 500.



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

**MN STATE 457 DEFERRED COMPENSATION PLAN  
MID CAP EQUITY – VANGUARD MID-CAP INDEX  
Periods Ending December, 2011**

**Portfolio Manager: Donald Butler**

**State's Participation in Fund: \$207,233,203  
Total Assets in Fund: \$5,611,000,000**

**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.

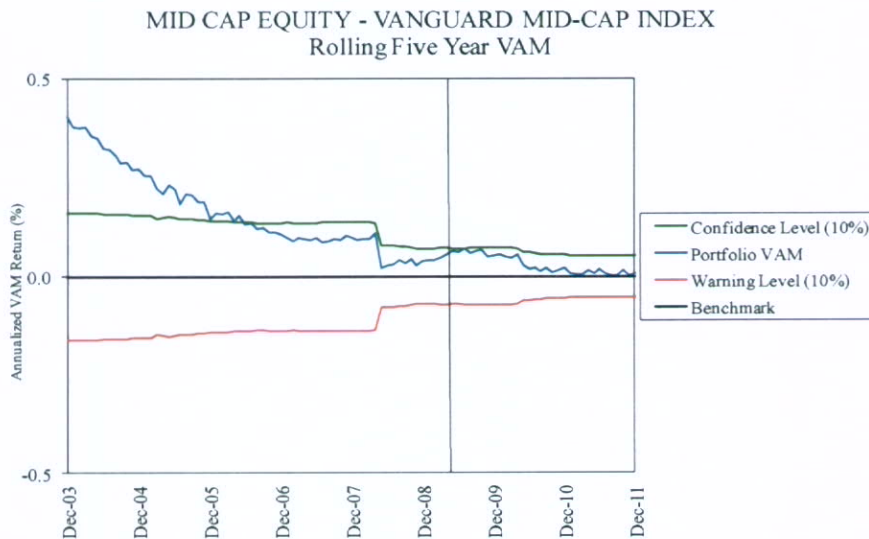
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	12.1%	12.1%
Last 1 year	-2.0	-1.9
Last 2 years	11.0	11.0
Last 3 years	20.1	20.1
Last 4 years	0.2	0.2
Last 5 years	1.4	1.4
Since Retention by SBI (1/04)	6.7	6.6

**Recommendation**

No action required.

\*Benchmark is the MSCI US Mid Cap 450.



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  
SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP STOCK FUND  
Periods Ending December, 2011**

<b>Portfolio Manager: Gregory A. McCrickard</b>	<b>State's Participation in Fund:</b>	<b>\$402,908,929</b>
	<b>Total Assets in Fund:</b>	<b>\$6,387,382,870</b>

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

The strategy of this fund is to invest primarily in stocks of small to medium-sized companies that are believed to offer either superior earnings growth or appear undervalued. The fund normally invests at least 80% of assets in equities traded in the U.S over-the-counter market. The manager does not favor making big bets on any particular sector or any particular stock. The fund's combination of growth and value stocks offers investors relatively more stable performance compared to other small cap stock funds.

**Staff Comments**

No comment at this time.

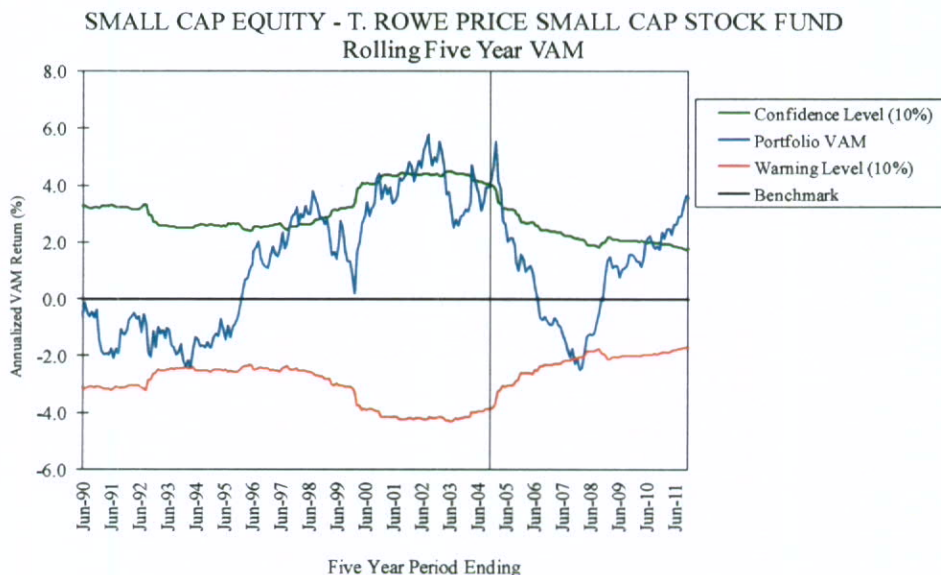
**Quantitative Evaluation**

	Actual	Benchmark*
Last Quarter	16.8%	15.5%
Last 1 year	-0.1	-4.2
Last 2 years	15.1	10.3
Last 3 years	22.4	15.6
Last 4 years	5.1	0.6
Last 5 years	3.7	0.2
Since Retention by SBI (7/99)	8.3	5.3

**Recommendation**

No action required.

\*Benchmark is the Russell 2000.



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

**Portfolio Manager: Michael Perre**

**State's Participation in Fund: \$461,966,312  
Total Assets in Fund: \$4,224,000,000**

**Investment Philosophy  
Vanguard Balanced Index Fund**

The fund's assets are divided between stocks and bonds, with an average of 60% of its assets in stocks and 40% in bonds. The fund's stock segment attempts to track the performance of the MSCI US Broad Market Index, an unmanaged index representing the overall U.S. equity market. The fund's bond segment attempts to track the performance of the Barclays Capital Aggregate Bond Index, an unmanaged index that covers virtually all taxable fixed-income securities.

**Staff Comments**

No comment at this time.

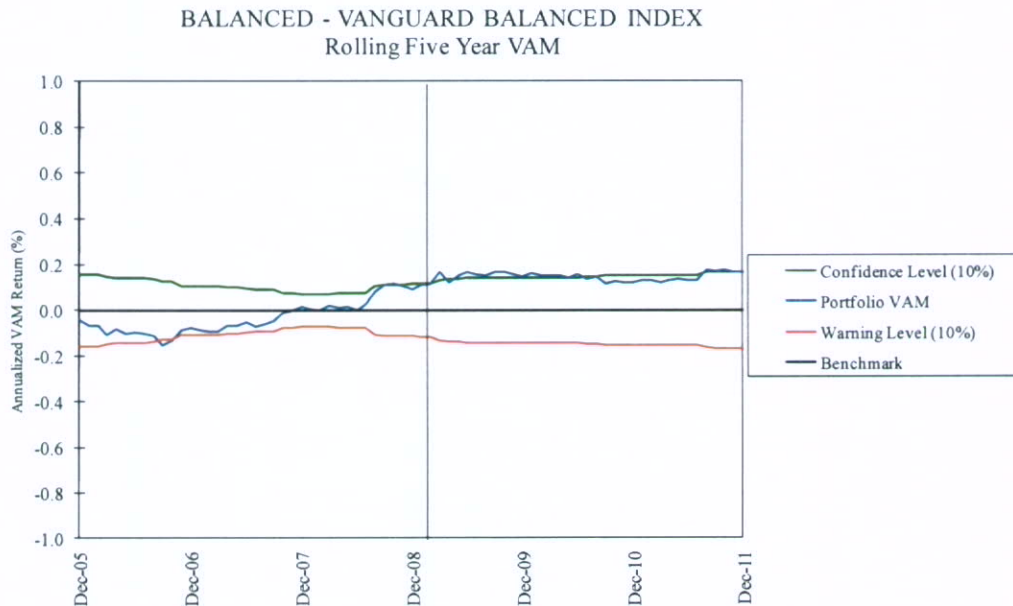
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	7.7%	7.7%
Last 1 year	4.3	4.1
Last 2 years	8.7	8.7
Last 3 years	12.4	12.2
Last 4 years	2.6	2.4
Last 5 years	3.3	3.1
Since Retention by SBI (12/03)	5.5	5.4

**Recommendation**

No action required.

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



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

**MN STATE 457 DEFERRED COMPENSATION PLAN  
BOND – DODGE & COX INCOME FUND  
Periods Ending December, 2011**

**Portfolio Manager: Dana Emery**

**State's Participation in Fund: \$165,435,805  
Total Assets in Fund: \$24,051,215,937**

**Investment Philosophy  
Dodge & Cox Income Fund**

**Staff Comments**

The objective of this fund is a high and stable rate of current income with capital appreciation being a secondary consideration. This portfolio is invested primarily in intermediate term, investment-grade quality corporate and mortgage bonds and, to a lesser extent, government issues. While the fund invests primarily in the U.S. bond market, it may invest a small portion of assets in dollar-denominated foreign securities. The duration of the portfolio is kept near that of the bond market as a whole.

No comment at this time.

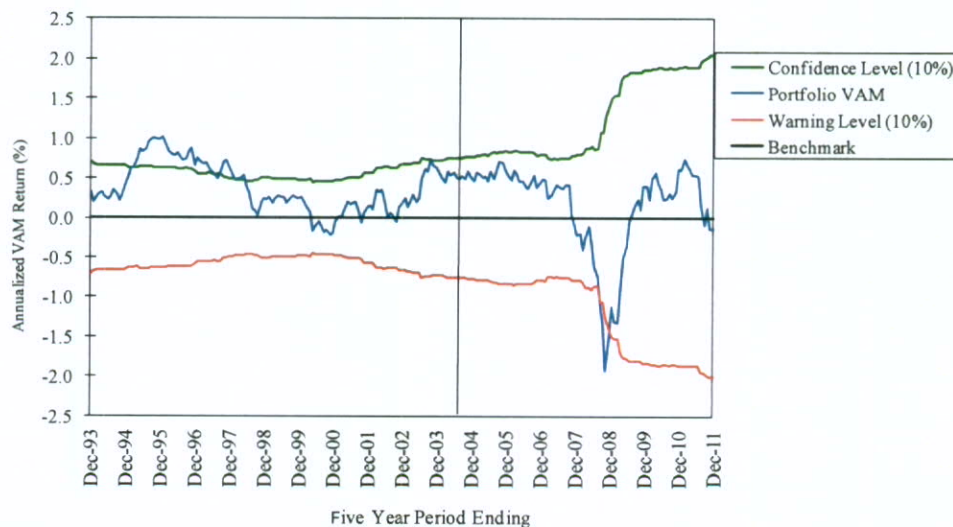
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark*</b>	
Last Quarter	1.4%	1.1%	No action required.
Last 1 year	4.8	7.8	
Last 2 years	6.0	7.2	
Last 3 years	9.2	6.8	
Last 4 years	6.8	6.4	
Last 5 years	6.3	6.5	
Since Retention By SBI (7/99)	6.5	6.3	

\*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, 2011

**Portfolio Manager: Kenneth Volpert**

**State's Participation in Fund: \$164,405,653**  
**Total Assets in Fund: \$22,812,000,000**

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

**Staff Comments**

The fund attempts to track the performance of the Barclays Capital Aggregate Bond Index, which is a widely recognized measure of the entire taxable U.S. bond market. The index consists of more than 5,000 U.S. Treasury, federal agency, mortgage-backed, and investment-grade corporate securities. Because it is not practical or cost-effective to own every security in the index, the fund invests in a large sampling that matches key characteristics of the index (such as market-sector weightings, coupon interest rates, credit quality, and maturity). To boost returns, the fund holds a higher percentage than the index in short-term, investment-grade corporate bonds and a lower percentage in short-term Treasury securities.

No comment at this time.

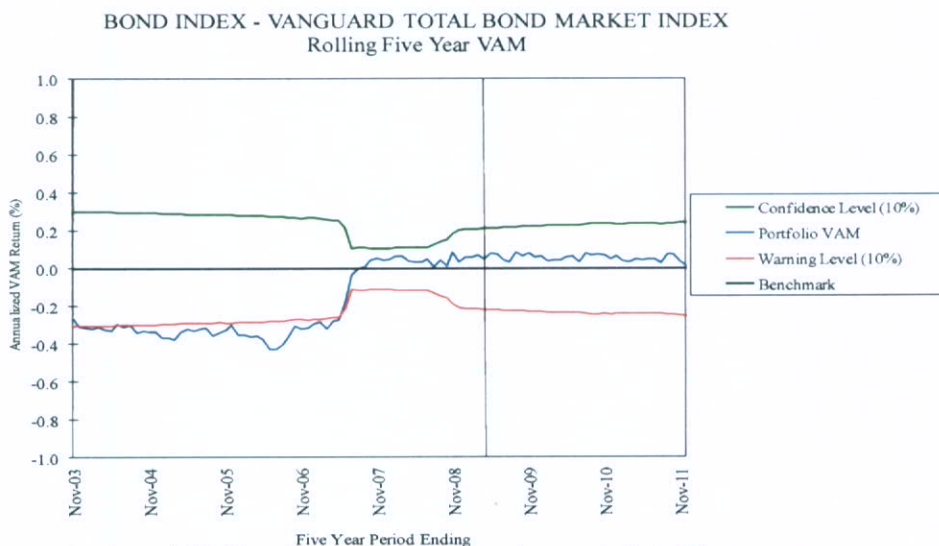
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	1.0%	1.1%
Last 1 year	7.7	7.8
Last 2 years	7.1	7.2
Last 3 years	6.8	6.8
Last 4 years	6.4	6.4
Last 5 years	6.5	6.5
Since Retention by SBI (12/03)	5.5	5.5

No action required.

\*Benchmark is the Barclays Capital Aggregate.



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

**Portfolio Manager: William Bower**

**State's Participation in Fund: \$199,430,123  
Total Assets in Fund: \$15,026,900,000**

**Investment Philosophy  
Fidelity Diversified International**

The goal of this fund is capital appreciation by investing in securities of companies located outside of the United States. While the fund invests primarily in stocks, it may also invest in bonds. Most investments are made in companies that have a market capitalization of \$100 million or more and which are located in developed countries. To select the securities, the fund utilizes a rigorous computer-aided quantitative analysis supplemented by relevant economic and regulatory factors. The manager rarely invests in currency to protect the account from exchange fluctuations.

**Staff Comments**

No comment at this time.

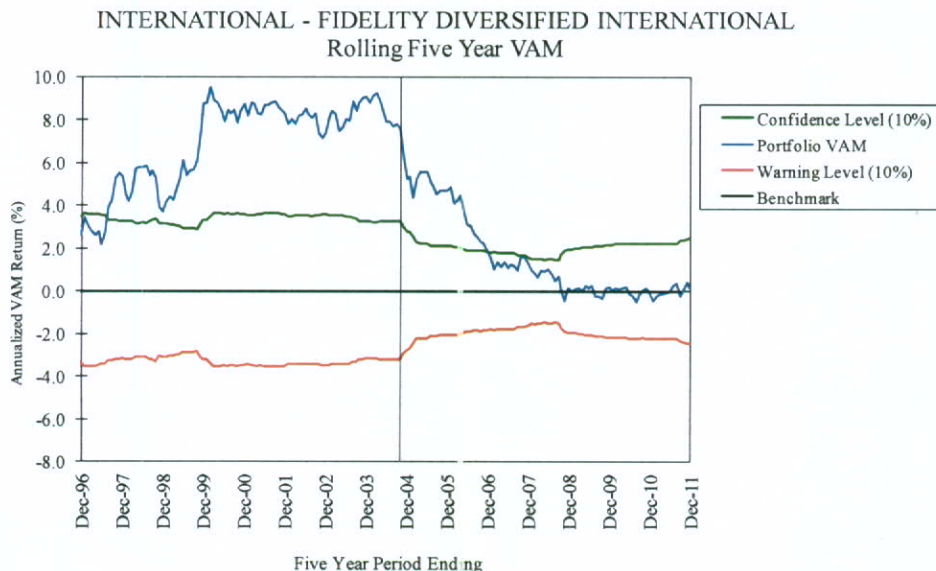
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	4.9%	3.3%
Last 1 year	-13.8	-12.1
Last 2 years	-2.8	-2.7
Last 3 years	7.6	7.6
Last 4 years	-9.1	-8.3
Last 5 years	-4.6	-4.7
Since Retention By SBI (7/99)	5.3	2.1

**Recommendation**

No action required.

\*Benchmark is the MSCI EAFE-Free.



**MN STATE 457 DEFERRED COMPENSATION PLAN  
INTERNATIONAL – VANGUARD TOTAL INTERNATIONAL STOCK INDEX  
Periods Ending December, 2011**

**Portfolio Manager: Michael Perre**

**State's Participation in Fund: \$87,945,514  
Total Assets in Fund: \$8,237,000,000**

**Investment Philosophy  
Vanguard Total International Stock Index**

The fund seeks to track the performance of the MSCI All Country World ex USA Investable Market Index, an index designed to measure equity market performance in developed and emerging markets, excluding the United States. The fund assets are invested in the small, mid, and large cap common stocks included in the target index. The fund assets are allocated based on each region's weighting in the index.

**Staff Comments**

No comment at this time.

**Quantitative Evaluation**

	Actual	Benchmark*
Last Quarter	4.2%	3.3%
Last 1 year	-14.6	-14.3
Last 2 years	-2.6	-2.6
Last 3 years	9.1	10.0
Last 4 years	-7.7	-7.7
Last 5 years	-3.5	-3.4
Since Retention by SBI (7/11)	-17.6	-17.2

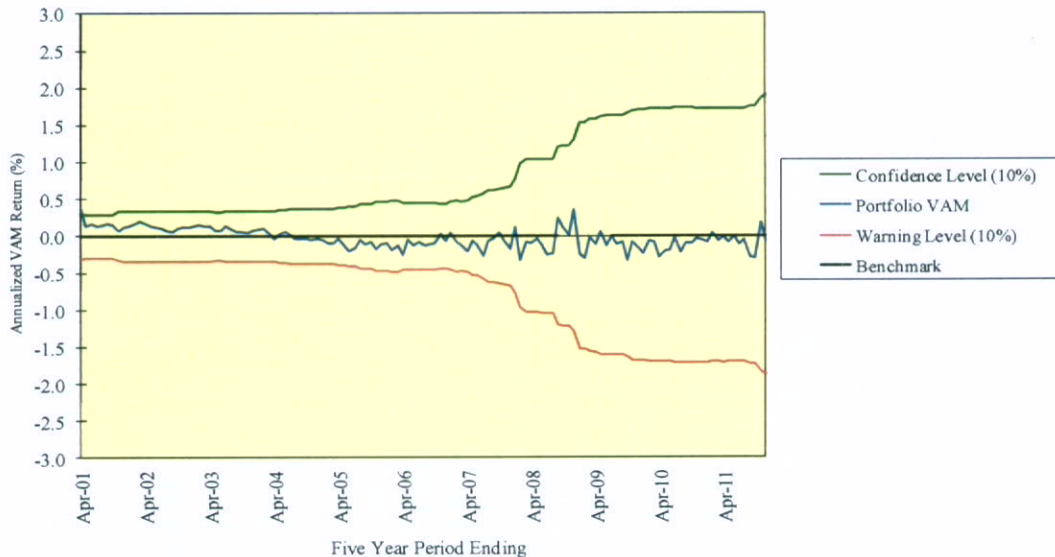
**Recommendation**

No action required.

Numbers in blue include returns prior to retention by SBI.

\* Benchmark is the MSCI ACWI ex US IMI Index beginning December 2010; MSCI EAFE + Emerging Markets Index beginning August 2006. Prior to that date it was the Total International Composite Index, which is the MSCI EAFE Index and the Select Emerging Markets Free Index.

**INTERNATIONAL - VANGUARD TOTAL INTERNATIONAL INDEX  
Rolling Five Year VAM**



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

**MN STATE 457 DEFERRED COMPENSATION PLAN  
TARGET RETIREMENT FUNDS -- STATE STREET GLOBAL ADVISORS (SSgA)  
Periods Ending December, 2011**

<b>Portfolio Manager: Various Index Fund Managers</b>	<b>State's Participation in Fund:</b>	<b>\$32,945,002</b>
	<b>Total Assets in Fund:</b>	<b>\$688,716,765</b>

**Investment Philosophy  
Target Retirement Funds**

The most important factor in determining the asset allocation mix is the time horizon of each fund. Funds with longer time horizons are assigned initial risk and return objectives which reflect the need to outpace inflation, the ability to take on more short-term volatility, and a reduced need for regular income. This results in larger starting equity allocations. Funds with shorter time horizons are assigned risk and return objectives that reflect a lower tolerance for volatility and an increased need for regular income, and therefore lower equity allocations.

The broad equity/fixed allocations are driven by the risk and return objectives for each fund. In determining the mix, the following factors are considered:

- The time horizon of each fund, which translates into a specific risk/return objective.
- SSgA current capital market assumptions and their impact on the forward looking risk/return of the portfolio.
- The need to differentiate the risk/return profiles for each portfolio so as to offer distinctly different options for plan participants.

**Staff Comments**

No comment at this time.

**Recommendation**

No action required.

**Targeted Asset Allocations: Rebalanced Quarterly**

Fund	Total Equity	Total Fixed Income	US		US High Yield Bonds	US Long-Term Gov't Bonds	Large US Stocks	Mid-Cap Stocks	Small US Stocks	Non-US Stocks	Global REITs	
			1-3 Yr Gov't Credit	US TIPS								
2060	90.0	10.0	0.0	0.0	0.0	0.0	10.0	45.0	10.0	10.0	25.0	0.0
2055	90.0	10.0	0.0	0.0	0.0	0.0	10.0	45.0	10.0	10.0	25.0	0.0
2050	90.0	10.0	0.0	0.0	0.0	0.0	10.0	45.0	10.0	10.0	25.0	0.0
2045	90.0	10.0	0.0	0.0	0.0	0.0	10.0	45.0	10.0	10.0	25.0	0.0
2040	86.2	13.8	0.0	0.0	0.0	0.0	13.8	45.0	9.1	9.1	23.1	0.0
2035	81.2	18.8	0.0	0.0	0.0	0.0	18.8	45.0	7.8	7.8	20.6	0.0
2030	74.4	25.6	0.0	1.9	1.9	1.9	20.0	43.1	6.9	6.2	18.1	0.0
2025	66.9	33.1	0.0	4.4	4.4	4.4	20.0	39.9	6.1	4.4	15.6	0.9
2020	55.6	44.4	0.0	6.9	12.5	5.0	20.0	33.5	4.5	3.0	11.3	3.4
2015	43.1	56.9	6.9	16.9	17.5	5.0	10.6	27.1	2.9	2.0	6.3	5.0
Income	35.0	65.0	20.0	20.0	20.0	5.0	0.0	21.8	2.5	1.7	4.0	5.0

Note: Totals may not add due to rounding.

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## **INVESTMENT ADVISORY COUNCIL REPORT**

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DATE: March 1, 2012

TO: Members, State Board of Investment

FROM: **Members, Investment Advisory Council**

The Investment Advisory Council met on February 21, 2012 and reviewed the following information and action agenda items:

1. Review of current strategy.
2. New investments with three existing private equity managers, Court Square Capital Partners, Wayzata Investment Partners and Adams Street Partners, and one new private equity manager, Leonard Green & Partners.

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

### **INFORMATION ITEMS:**

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

To increase overall portfolio diversification, 20% of the Combined Funds is allocated to alternative investments. Alternative investments include real estate, private equity, resource, and yield-oriented investments in which Minnesota State Board of Investment (SBI) participation is limited to commingled funds or other pooled vehicles. Charts summarizing the Board's current commitments are attached (see **Attachments A and B**).

- a. The real estate investment strategy is to establish and maintain a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified Real Estate Investment Trusts (REITs), open-end commingled funds and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified, more focused (specialty) commingled funds and REITs.
- b. The private equity investment strategy, which includes leveraged buyouts and venture capital, is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location.

- c. The strategy for resource investments is to establish and maintain a portfolio of resource investment vehicles that provide an inflation hedge and additional diversification. Resource investments will include oil and gas investments, energy service industry investments and other investments that are diversified geographically and by type.
- d. The strategy for yield-oriented investments is to target funds that typically provide a current return and may have an equity component such as subordinated debt or mezzanine investments. Yield-oriented investments will provide diversification by including investments in the private equity, resource and real estate categories.

#### **ACTION ITEMS:**

**1) Investment with an existing private equity manager, Court Square Capital Partners (Court Square) in Court Square Capital Partners III, L.P. (Court Square III)**

Court Square is seeking investors for a new \$3 billion private equity fund, Court Square Capital Partners III, L.P. This fund is a successor to two other private equity funds managed by Court Square. The SBI has invested in the two prior private equity funds with Court Square. Like the two prior private equity funds, this fund will focus on middle market private equity investments.

In addition to reviewing the attractiveness of the Court Square III investment offering, staff has conducted on-site due diligence, reference checks, a literature database search and reviewed the potential investor base for the fund.

More information on Court Square Capital Partners III, L.P. is included as **Attachment C**.

#### **RECOMMENDATION:**

**The Investment Advisory Council recommends that the SBI authorize the Executive Director, with the assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$175 million, or 20% of Court Square Capital Partners III, L.P., whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Court Square 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 Court Square or reduction or termination of the commitment.**



**2) Investment with an existing private equity manager, Wayzata Investment Partners (Wayzata) in Wayzata Opportunities Fund III, L.P (Wayzata III)**

Wayzata is seeking investors for a new \$2.5 billion private equity fund, Wayzata Opportunities Fund III, L.P. This fund is a successor to two other private equity funds managed by Wayzata. The SBI has invested in the two prior private equity funds with Wayzata. Like the two prior private equity funds, this fund will continue the primary focus on special situations, including those in bankruptcy or undergoing financial restructuring or reorganization.

In addition to reviewing the attractiveness of the Wayzata III investment offering, staff has conducted on-site due diligence, reference checks, a literature database search and reviewed the potential investor base for the fund.

More information on Wayzata Opportunities Fund III, L.P. is included as **Attachment D**.

**RECOMMENDATION:**

**The Investment Advisory Council recommends that the SBI authorize the Executive Director, with the assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$150 million, or 20% of Wayzata Opportunities Fund III, L.P., whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Wayzata 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 Wayzata or reduction or termination of the commitment.**

**3) Investment with an existing private equity manager, Adams Street Partners (Adams Street) in Adams Street Global Secondary Fund 5 LP (ASGSF 5)**

Adams Street is seeking investors for a new \$750 million private equity fund, Adams Street Global Secondary Fund 5 LP. This fund is a successor to four other similar private equity funds managed by Adams Street. The SBI has invested in the first two of the prior four similar private equity funds with Adams Street. Like the prior private equity funds, this fund will continue the primary focus on acquiring partially or fully funded private equity partnership interests, commonly called secondary interests.

In addition to reviewing the attractiveness of the Adams Street investment offering, staff has conducted on-site due diligence reference checks, a literature database search and reviewed the potential investor base for the fund.

More information on Adams Street Global Secondary Fund 5 LP is included as **Attachment E**.

**RECOMMENDATION:**

**The Investment Advisory Council recommends that the SBI authorize the Executive Director, with the assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million, or 20% of Adams Street Global Secondary Fund 5 LP, whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Adams Street 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 Adams Street or reduction or termination of the commitment.**

- 4) Investment with a new private equity manager, Leonard Green & Partners (Leonard Green) in Green Equity Investors VI, L.P. (Green Equity VI).**

Leonard Green is seeking investors for a new \$5-6 billion private equity fund. This fund is a successor to five other private equity funds managed by Leonard Green. The SBI has not invested with Leonard Green in the past. The Fund will continue the primary focus of the prior Leonard Green funds, which is to invest primarily in market-leading middle-market companies with attractive growth prospects across a broad range of industries

In addition to reviewing the attractiveness of the Green Equity VI investment offering, staff has conducted on-site due diligence, reference checks, a literature database search and reviewed the potential investor base for fund.

More information on Green Equity Investors VI, L.P. is included as **Attachment F**.

**RECOMMENDATION:**

**The Investment Advisory Council recommends that the SBI authorize the Executive Director, with the assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$200 million, or 20% of Green Equity Investors VI, L.P., whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Leonard Green 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 Leonard Green or reduction or termination of the commitment.**

ATTACHMENT A

**Minnesota State Board of Investment**  
*Pooled Alternative Investments*  
*Combined Funds*  
*December 31, 2011*

Combined Funds Market Value	\$45,227,858,746
Amount Available for Investment	<b>\$2,096,294,382</b>

	Current Level	Target Level	Difference
Market Value (MV)	\$6,949,277,367	\$9,045,571,749	\$2,096,294,382
MV +Unfunded	\$9,959,650,719	\$13,568,357,624	\$3,608,706,905

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	\$3,971,633,913	\$1,460,068,324	\$5,431,702,237
Real Estate	\$1,141,270,072	\$213,556,586	\$1,354,826,658
Resource	\$838,479,356	\$749,074,727	\$1,587,554,084
Yield-Oriented	\$997,894,026	\$587,673,714	\$1,585,567,741
<b>Total</b>	<b>\$6,949,277,367</b>	<b>\$3,010,373,352</b>	<b>\$9,959,650,719</b>



ATTACHMENT B

Minnesota State Board of Investment

--Alternative Investments--

As of December 31, 2011

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	MOIC**	Period Years
<b>I. REAL ESTATE</b>								
<b>Blackstone</b>								
Blackstone Real Estate Partners V	100,000,000	96,510,534	105,698,222	27,029,063	4,693,860	7.98	<b>1.38</b>	5.68
Blackstone Real Estate Partners VI	100,000,000	91,365,002	111,428,615	4,654,317	10,893,096	7.53	<b>1.27</b>	4.75
Blackstone Real Estate Partners VII	100,000,000	8,995,458	8,995,458	0	91,004,542	0.00	<b>1.00</b>	0.18
<b>Colony Capital</b>								
Colony Investors II	80,000,000	78,482,328	1,800	90,022,404	1,517,672	4.68	<b>1.15</b>	16.75
Colony Investors III	100,000,000	100,000,000	4,384,600	167,834,385	0	14.61	<b>1.72</b>	14.00
<b>CSFB</b>								
CSFB Strategic Partners III RE	25,000,000	25,166,547	13,195,810	568,588	398,070	-15.38	<b>0.55</b>	6.50
CS Strategic Partners IV RE	50,000,000	46,911,315	32,605,425	3,678,747	3,676,898	-8.97	<b>0.77</b>	3.54
Prime Property Fund	40,000,000	40,000,000	244,952,895	0	0	6.22	<b>6.12</b>	30.22
PRISA Real Estate Fund	9,111,000	9,111,000	9,111,000	0	0	0.00	<b>1.00</b>	0.01
<b>Silverpeak Real Estate Partners</b>								
Silverpeak Legacy Pension Partners II	75,000,000	70,513,382	38,921,518	28,383,951	10,097,960	-1.36	<b>0.95</b>	6.50
Silverpeak Legacy Pension Partners III	150,000,000	66,143,137	31,858,768	0	83,274,488	-21.01	<b>0.48</b>	3.61
<b>T.A. Associates Realty</b>								
Realty Associates Fund V	50,000,000	50,000,000	8,191,563	86,288,239	0	10.62	<b>1.89</b>	12.60
Realty Associates Fund VI	50,000,000	50,000,000	30,542,076	51,716,581	0	11.46	<b>1.65</b>	9.51
Realty Associates Fund VII	75,000,000	75,000,000	53,311,082	20,712,291	0	-0.33	<b>0.99</b>	7.12
Realty Associates Fund VIII	100,000,000	100,000,000	67,680,400	4,835,919	0	-8.17	<b>0.73</b>	5.50
Realty Associates Fund IX	100,000,000	92,000,000	96,938,836	6,550,236	8,000,000	10.14	<b>1.12</b>	3.35
UBS- Trumbull Property Fund	42,376,529	42,376,529	283,452,002	0	0	7.06	<b>6.69</b>	29.67
<b>Real Estate Total</b>	<b>1,246,487,529</b>	<b>1,042,575,332</b>	<b>1,141,270,072</b>	<b>492,274,721</b>	<b>213,556,586</b>		<b>1.57</b>	
<b>II. RESOURCE</b>								
Apache Corp III	30,000,000	30,000,000	4,290,300	56,030,519	0	12.22	<b>2.01</b>	25.00
<b>EnCap Energy</b>								
EnCap Energy Capital Fund VII	100,000,000	74,219,935	65,818,618	39,345,746	26,332,808	20.13	<b>1.42</b>	4.50
EnCap Energy Capital Fund VIII	100,000,000	12,273,544	12,564,022	23,155	87,726,456	4.89	<b>1.03</b>	1.25
<b>Energy &amp; Minerals Group</b>								
NGP Midstream & Resources	100,000,000	91,062,949	66,636,044	64,239,065	9,248,074	16.19	<b>1.44</b>	4.75
The Energy & Minerals Group Fund II	100,000,000	3,137,235	3,137,235	0	96,862,765	-1.36	<b>1.00</b>	0.27
Energy Capital Partners II-A	100,000,000	44,048,429	46,917,010	5,076,298	59,892,104	20.39	<b>1.18</b>	1.45
<b>First Reserve</b>								
First Reserve Fund X	100,000,000	100,000,000	52,143,428	132,790,549	0	33.32	<b>1.85</b>	7.16
First Reserve Fund XI	150,000,000	122,035,340	86,767,378	34,991,924	27,964,660	-0.12	<b>1.00</b>	5.02
First Reserve Fund XII	150,000,000	106,481,734	95,980,500	6,942,147	43,518,266	-1.91	<b>0.97</b>	3.17
<b>NGP</b>								
Natural Gas Partners IX	150,000,000	110,473,482	144,303,127	7,534,472	36,866,328	18.94	<b>1.37</b>	4.19
NGP Natural Resources X	150,000,000	0	0	0	150,000,000	N/A	N/A	0.22
<b>Sheridan</b>								
Sheridan Production Partners I	100,000,000	100,002,260	122,024,991	25,250,000	0	16.83	<b>1.47</b>	4.75
Sheridan Production Partners II	100,000,000	12,500,000	11,032,000	0	87,500,000	-18.87	<b>0.88</b>	1.25
<b>IIG Global Energy Partners</b>								
TCW Energy Partners XIV	100,000,000	90,450,170	73,955,364	47,479,188	24,163,266	14.16	<b>1.34</b>	4.70
Energy Fund XV	150,000,000	51,000,000	52,909,338	0	99,000,000	9.43	<b>1.04</b>	1.57
<b>Resource Total</b>	<b>1,680,000,000</b>	<b>947,685,077</b>	<b>838,479,356</b>	<b>419,703,063</b>	<b>749,074,727</b>		<b>1.33</b>	
<b>III. YIELD-ORIENTED</b>								
Audax Mezzanine Fund III	100,000,000	9,654,806	9,311,535	344,951	90,345,194	0.02	<b>1.00</b>	1.74
Citicorp Mezzanine III	100,000,000	88,029,296	432,086	132,324,719	0	15.61	<b>1.51</b>	12.16
<b>DLJ Investment Partners</b>								
DLJ Investment Partners II	27,375,168	23,164,217	1,313,256	33,933,985	4,955,172	10.50	<b>1.52</b>	12.00
DLJ Investment Partners III	100,000,000	47,722,503	20,667,293	27,403,191	54,276,686	-3.09	<b>1.01</b>	5.52
<b>Gold Hill Venture Lending</b>								
Gold Hill Venture Lending	40,000,000	40,000,000	13,071,460	39,749,064	0	7.17	<b>1.32</b>	7.26
Gold Hill 2008	25,852,584	20,940,593	24,172,962	2,638,806	4,911,991	16.78	<b>1.28</b>	3.50
<b>GS Mezzanine Partners</b>								
GS Mezzanine Partners II	100,000,000	100,000,000	3,723,584	128,064,866	0	7.07	<b>1.32</b>	11.83
GS Mezzanine Partners III	75,000,000	75,000,000	18,936,669	79,484,867	0	8.25	<b>1.31</b>	8.47
GS Mezzanine Partners 2006 Institutional	100,000,000	74,999,888	43,866,881	46,285,208	25,000,112	0.96	<b>1.20</b>	5.73
GS Mezzanine Partners V	150,000,000	58,465,770	47,542,957	29,217,542	82,518,217	8.22	<b>1.31</b>	4.19
<b>Merit Capital Partners</b>								
William Blair Mezzan. Cap. Fd. III	60,000,000	57,633,241	7,025,638	95,643,470	2,366,759	14.58	<b>1.78</b>	12.00
Merit Mezzanine Fund IV	75,000,000	69,807,692	37,234,276	55,783,199	5,192,308	8.21	<b>1.33</b>	7.04
Merit Mezzanine Fund V	75,000,000	24,734,594	22,380,569	0	50,265,306	-14.60	<b>0.90</b>	2.03

# Minnesota State Board of Investment

--Alternative Investments--

As of December 31, 2011

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	MOIC**	Period Years
<b>Merit Energy Partners</b>								
Merit Energy Partners B	24,000,000	24,000,000	60,795,324	113,329,951	0	24.76	7.26	15.50
Merit Energy Partners C	50,000,000	50,000,000	150,595,350	253,522,196	0	31.11	8.08	13.17
Merit Energy Partners D	88,000,000	70,938,303	111,015,259	179,028,311	0	23.22	4.09	10.60
Merit Energy Partners E	100,000,000	39,983,197	60,446,225	36,279,826	0	16.91	2.42	7.21
Merit Energy Partners F-II	100,000,000	57,841,607	63,147,921	9,703,531	42,158,394	8.36	1.26	5.77
Merit Energy Partners H	100,000,000	18,848,793	19,186,036	0	81,151,207	6.10	1.02	0.91
<b>Prudential Capital Partners</b>								
Prudential Capital Partners I	100,000,000	97,244,439	33,312,755	112,945,166	7,498,997	11.12	1.50	10.70
Prudential Capital Partners II	100,000,000	93,307,126	51,403,538	78,998,979	7,094,842	9.67	1.40	6.50
Prudential Capital Partners III	100,000,000	72,041,634	74,070,416	9,517,221	30,864,833	11.59	1.16	2.71
<b>Quadrant Real Estate Advisors</b>								
Institutional Commercial Mortgage Fd V	37,200,000	37,200,000	1,670,314	58,215,181	0	7.90	1.61	12.42
<b>Summit Partners</b>								
Summit Subordinated Debt Fund I	20,000,000	18,000,000	79,905	31,406,578	2,000,000	30.54	1.75	17.75
Summit Subordinated Debt Fund II	45,000,000	40,500,000	2,798,039	86,621,801	4,500,000	56.28	2.21	14.41
Summit Subordinated Debt Fund III	45,000,000	42,690,965	22,601,005	29,912,171	2,850,000	8.51	1.23	7.87
Summit Subordinated Debt Fund IV	50,000,000	26,000,000	27,503,216	0	24,000,000	6.32	1.06	3.76
TCW/Crescent Mezzanine Partners III	75,000,000	68,868,042	6,715,235	152,168,789	29,701,079	36.05	2.31	10.75
<b>Windjammer Capital Investors</b>								
Windjammer Mezzanine & Equity Fund II	66,708,861	52,064,413	9,873,951	65,388,707	14,391,081	8.08	1.45	11.75
Windjammer Senior Equity Fund III	75,000,000	55,959,872	53,000,371	36,770,222	21,631,538	18.06	1.60	5.99
<i>Yield-Oriented Total</i>	<b>2,204,136,613</b>	<b>1,555,641,193</b>	<b>997,894,026</b>	<b>1,924,682,499</b>	<b>587,673,714</b>		<b>1.88</b>	
<b>IV. PRIVATE EQUITY</b>								
<b>Adams Street Partners</b>								
Adams Street VPAF Fund I	3,800,000	3,800,000	42,305	9,440,295	0	13.22	2.50	23.64
Adams Street VPAF Fund II	20,000,000	20,000,000	49,455	37,988,511	0	24.09	1.90	21.09
Advent International GPE VI-A	50,000,000	33,350,000	33,926,605	1,750,000	16,650,000	4.24	1.07	3.75
<b>Affinity Ventures</b>								
Affinity Ventures IV	4,000,000	4,000,000	2,501,806	1,423,858	0	-0.70	0.98	7.50
Affinity Ventures V	5,000,000	3,300,000	2,858,032	814,728	1,700,000	5.45	1.11	3.49
<b>Banc Fund</b>								
Banc Fund VII	45,000,000	45,000,000	21,335,445	812,725	0	-13.92	0.49	6.75
Banc Fund VIII	98,250,000	38,317,500	35,217,039	0	59,932,500	-5.84	0.92	3.68
<b>Blackstone</b>								
Blackstone Capital Partners IV	70,000,000	70,771,598	49,253,116	120,515,618	3,499,710	38.92	2.40	9.47
Blackstone Capital Partners V	140,000,000	127,781,140	118,861,660	12,510,387	14,141,565	0.06	1.03	5.91
Blackstone Capital Partners VI	100,000,000	9,801,259	9,329,868	0	90,198,741	-48.90	0.95	3.43
<b>BLUM Capital Partners</b>								
Blum Strategic Partners I	50,000,000	49,158,307	205,566	99,450,576	2,009,928	12.71	2.03	13.02
Blum Strategic Partners II	50,000,000	40,185,889	8,231,321	78,945,586	2,127,584	22.35	2.17	10.45
Blum Strategic Partners III	75,000,000	74,806,485	21,591,990	54,876,520	193,515	-0.47	1.02	6.58
Blum Strategic Partners IV	150,000,000	153,163,538	88,243,694	27,507,489	9,263,781	-9.44	0.76	4.11
<b>Carval Investors</b>								
CVI Global Value Fund	200,000,000	190,000,000	197,137,508	39,272,498	10,000,000	5.97	1.24	4.97
CarVal Credit Value Fund I	100,000,000	95,000,000	93,387,660	63,000	5,000,000	-2.87	0.98	1.25
<b>Chicago Growth Partners (William Blair)</b>								
William Blair Capital Partners VII	50,000,000	48,150,000	8,386,371	63,343,842	1,650,000	9.60	1.49	10.81
Chicago Growth Partners I	50,000,000	50,291,998	30,391,724	30,540,179	2,450,000	6.23	1.21	6.43
Chicago Growth Partners II	60,000,000	34,112,261	28,983,829	11,973,833	25,635,739	10.26	1.20	3.81
<b>Coral Partners</b>								
Coral Partners IV	15,078,665	15,078,665	662,951	13,538,879	0	-1.47	0.94	17.45
Coral Partners V	15,000,000	15,000,000	1,190,294	8,125,294	0	-5.58	0.62	13.54
<b>Court Square Capital</b>								
Court Square Capital Partners	100,000,000	80,223,910	22,966,316	153,076,138	10,576,235	28.96	2.19	10.05
Court Square Capital Partners II	175,000,000	120,237,946	147,096,210	3,158,605	56,402,260	8.24	1.25	5.32
<b>Crescendo</b>								
Crescendo III	25,000,000	25,000,000	762,639	10,804,457	0	-13.28	0.46	13.15
Crescendo IV	101,500,000	101,500,000	24,733,816	20,124,650	0	-8.93	0.44	11.81
<b>CSFB/ DLJ</b>								
DLJ Merchant Banking Partners III	125,000,000	121,435,226	26,433,207	243,916,307	3,564,774	19.24	2.23	11.25
DLJ Strategic Partners	100,000,000	94,237,131	9,851,777	161,982,130	4,212,869	22.63	1.82	10.95
CSFB Strategic Partners II-B	100,000,000	83,679,380	12,389,671	147,177,767	10,520,620	35.69	1.91	8.45
CSFB Strategic Partners III VC	25,000,000	23,209,750	15,298,064	13,423,350	1,790,250	6.14	1.24	6.58
CSFB Strategic Partners III-B	100,000,000	76,342,785	80,012,217	22,272,146	16,815,119	6.95	1.34	6.58
CS Strategic Partners IV-B	100,000,000	79,780,343	87,918,247	28,632,224	20,219,657	17.91	1.46	3.76
CS Strategic Partners IV VC	40,500,000	35,316,896	40,711,458	6,519,194	5,018,210	13.84	1.34	3.54
CS Strategic Partners V	100,000,000	8,716,215	9,377,715	0	91,283,785	8.53	1.08	0.37

## Minnesota State Board of Investment

--Alternative Investments--

As of December 31, 2011

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	MOIC**	Period Years
CVC European Equity Partners V	134,170,018	83,741,194	83,624,696	10,786,522	31,660,878	4.42	1.13	3.76
Diamond Castle Partners IV	100,000,000	88,059,040	78,057,497	23,449,033	11,981,445	4.01	1.15	5.31
DSV Partners IV	10,000,000	10,000,000	32,113	39,196,082	0	10.61	3.92	26.72
EBF and Associates								
Merced Partners II	75,000,000	63,768,881	27,195,272	92,411,403	0	25.75	1.88	4.75
Merced Partners III	100,000,000	70,000,000	71,718,220	0	30,000,000	2.99	1.02	1.65
Elevation Partners	75,000,000	68,074,239	57,321,741	36,623,438	13,011,351	10.54	1.38	6.62
Fox Paine Capital Fund II	50,000,000	45,653,758	33,083,933	46,170,294	12,599,080	18.95	1.74	11.50
GHJM Marathon Fund								
GHJM Marathon Fund IV	40,000,000	39,051,000	897,267	56,587,488	949,000	8.34	1.47	12.71
GHJM Marathon Fund V	50,000,000	48,846,806	66,412,730	16,890,745	1,229,905	13.44	1.71	7.25
Golder, Thoma, Cressey, Rauner								
Golder, Thoma, Cressey & Rauner Fund IV	20,000,000	20,000,000	78,077	42,300,018	0	25.06	2.12	17.91
Golder, Thoma, Cressey & Rauner Fund V	30,000,000	30,000,000	720,171	53,955,241	0	10.99	1.82	15.50
GS Capital Partners								
GS Capital Partners 2000	50,000,000	50,000,000	10,672,195	96,222,602	0	22.47	2.14	11.33
GS Capital Partners V	100,000,000	66,390,364	53,674,652	75,946,402	26,041,099	13.91	1.95	6.75
GS Capital Partners VI	100,000,000	56,033,118	40,204,781	11,577,721	36,133,876	-4.47	0.92	4.91
GTCR Golder Rauner								
GTCR VI	90,000,000	90,000,000	950,344	77,813,800	0	-4.80	0.88	13.50
GTCR VII	175,000,000	159,249,989	770,963	387,322,726	15,750,001	25.31	2.44	11.90
GTCR IX	75,000,000	68,002,159	63,500,806	6,947,306	6,997,841	1.66	1.04	5.50
GTCR X	100,000,000	20,448,605	19,820,547	0	79,551,395	-4.86	0.97	1.06
Hellman & Friedman								
Hellman & Friedman Capital Partners IV	150,000,000	133,967,494	231,616	383,769,706	15,365,585	34.67	2.87	12.00
Hellman & Friedman Capital Partners V	160,000,000	144,770,997	110,623,392	226,882,362	17,262,025	27.35	2.33	7.08
Hellman & Friedman Capital Partners VI	175,000,000	154,329,840	125,777,141	56,078,922	21,792,779	5.09	1.18	4.75
Hellman & Friedman Capital Partners VII	50,000,000	10,429,243	9,847,156	0	39,570,757	-9.84	0.94	2.70
Kohlberg Kravis Roberts								
KKR 1987 Fund	145,373,652	145,373,652	77,221	398,846,165	0	8.73	2.74	24.10
KKR 1993 Fund	150,000,000	150,000,000	139,975	309,264,018	0	16.75	2.06	18.03
KKR 1996 Fund	200,000,000	199,902,841	2,271,371	372,364,247	0	13.17	1.87	15.33
KKR Millennium Fund	200,000,000	200,000,000	146,360,394	211,294,597	0	16.47	1.79	9.06
KKR 2006 Fund	200,000,000	199,691,098	174,480,646	56,184,894	13,613,100	3.59	1.16	5.26
Lexington Capital Partners								
Lexington Capital Partners VI-B	100,000,000	98,403,369	71,102,193	40,478,209	1,596,631	4.57	1.13	6.02
Lexington Capital Partners VII	200,000,000	74,453,060	77,322,511	12,670,472	125,546,940	29.09	1.21	2.55
RWI Ventures								
RWI Group III	616,430	616,430	35,969	526,806	0	-3.25	0.91	5.50
RWI Ventures I	7,603,265	7,603,265	609,798	5,974,262	0	-5.05	0.87	5.50
Sightline Healthcare								
Sightline Healthcare Fund II	10,000,000	10,000,000	314,645	5,635,402	0	-7.12	0.60	14.83
Sightline Healthcare Fund III	20,000,000	20,000,000	2,562,381	5,465,766	0	-10.80	0.40	12.94
Sightline Healthcare Fund IV	7,700,000	7,598,598	1,836,419	4,621,834	155,075	-4.87	0.85	8.27
Silver Lake Partners								
Silver Lake Partners II	100,000,000	88,740,757	56,637,428	75,962,515	12,255,111	9.51	1.49	7.50
Silver Lake Partners III	100,000,000	64,628,931	51,837,224	41,503,631	36,106,496	18.28	1.44	4.75
Split Rock Partners								
Split Rock Partners	50,000,000	41,018,180	30,554,348	555,384	8,981,820	-7.64	0.76	6.67
Split Rock Partners II	60,000,000	14,940,000	12,195,686	0	44,360,000	-10.94	0.82	3.67
Summit Partners								
Summit Ventures V	25,000,000	24,125,000	216,009	32,936,046	875,000	8.03	1.37	13.75
Summit Partners Growth Equity Fund VIII	100,000,000	0	0	0	100,000,000	N/A	N/A	0.66
T. Rowe Price	35,428,999	35,428,999	13,888,627	15,300,715	0	-14.04	0.82	6.87
Thoma Cressey								
Thoma Cressey Fund VI	35,000,000	33,915,000	3,562,131	29,371,225	1,085,000	-0.36	0.97	13.36
Thoma Cressey Fund VII	50,000,000	50,000,000	22,019,235	70,940,816	0	22.99	1.86	11.35
Thoma Cressey Fund VIII	70,000,000	68,932,574	69,844,317	50,601,306	770,000	12.82	1.75	5.67
Thomas, McNerney & Partners								
Thomas, McNerney & Partners I	30,000,000	28,050,000	12,771,349	10,504,694	1,950,000	-4.95	0.83	9.15
Thomas, McNerney & Partners II	50,000,000	36,375,000	28,618,189	5,132,263	13,625,000	-3.03	0.93	5.50
Varde Fund								
Varde Fund IX	100,000,000	100,000,000	142,682,800	0	0	11.66	1.43	3.52
Varde Fund X	150,000,000	120,000,000	122,242,440	0	30,000,000	1.92	1.02	1.69
Vestar Capital Partners								
Vestar Capital Partners IV	55,000,000	52,683,929	19,496,547	73,704,488	824,510	13.81	1.77	12.04
Vestar Capital Partners V	75,000,000	73,233,427	62,316,806	20,481,051	2,091,802	3.67	1.13	6.03
Vestar Capital Partners VI	100,000,000	0	0	0	100,000,000	N/A	N/A	0.27

## Minnesota State Board of Investment

--Alternative Investments--

As of December 31, 2011

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	MOIC**	Period Years
<b>Warburg Pincus</b>								
<i>Warburg, Pincus Ventures</i>	50,000,000	50,000,000	227,303	256,193,050	0	49.21	<b>5.13</b>	17.00
<i>Warburg Pincus Equity Partners</i>	100,000,000	100,000,000	4,414,961	155,167,955	0	9.85	<b>1.60</b>	13.51
<i>Warburg Pincus Private Equity VIII</i>	100,000,000	100,000,000	93,517,603	116,918,281	0	15.70	<b>2.10</b>	9.71
<i>Warburg Pincus Private Equity IX</i>	100,000,000	100,000,000	93,913,531	46,475,067	0	7.92	<b>1.40</b>	6.43
<i>Warburg Pincus Private Equity X</i>	150,000,000	136,860,914	130,495,379	7,726,527	13,200,000	0.49	<b>1.01</b>	4.19
<b>Wayzata</b>								
<i>Wayzata Opportunities Fund</i>	100,000,000	93,180,000	111,536,695	41,939,109	6,820,000	9.77	<b>1.65</b>	6.03
<i>Wayzata Opportunities Fund II</i>	150,000,000	84,000,000	148,171,464	429,900	66,000,000	13.66	<b>1.77</b>	4.19
<b>Welsh, Carson, Anderson &amp; Stowe</b>								
<i>Welsh, Carson, Anderson &amp; Stowe VIII</i>	100,000,000	100,000,000	1,138,009	127,849,708	0	3.12	<b>1.29</b>	13.44
<i>Welsh, Carson, Anderson &amp; Stowe IX</i>	125,000,000	122,500,000	34,416,256	160,012,266	2,500,000	11.20	<b>1.59</b>	11.51
<i>Welsh, Carson, Anderson &amp; Stowe X</i>	100,000,000	96,578,466	90,253,931	15,288,784	4,000,000	2.17	<b>1.09</b>	6.04
<i>Welsh, Carson, Anderson &amp; Stowe XI</i>	100,000,000	51,042,019	52,997,235	0	48,957,981	3.27	<b>1.04</b>	3.44
<b>Private Equity Total</b>	<b>7,954,021,028</b>	<b>6,471,440,459</b>	<b>3,971,633,913</b>	<b>5,943,234,051</b>	<b>1,460,068,324</b>		<b>1.53</b>	
<b>Alternatives Total</b>	<b>13,084,645,170</b>	<b>10,017,342,060</b>	<b>6,949,277,367</b>	<b>8,779,894,334</b>	<b>3,010,373,352</b>		<b>1.57</b>	

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

\*\* MOIC: Multiple of Invested Capital



<b>PRIVATE EQUITY MANAGER SUMMARY PROFILE</b>
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**I. Background Data**

<b>Name of Fund:</b>	Court Square Capital Partners III, L.P.
<b>Type of Fund:</b>	Private Equity
<b>Total Fund Size:</b>	\$3.0 billion
<b>Fund Manager:</b>	Court Square Capital Management, L.P.
<b>Manager Contact:</b>	John Kim Court Square Capital Partners 55 East 52nd Street, 34th Floor New York, NY 10055 Tel: (212) 752-6681

**II. Organization and Staff**

Tracing its history to 1979, Court Square has one of the most experienced teams in the private equity industry. William Comfort, David Thomas, Thomas McWilliams, Michael Delaney, Joseph Silvestri, John Weber and Ian Highet (collectively, the Managing Partners') have worked together, on average, for 25 years. In addition to the seven Managing Partners, Court Square's senior investment team is comprised of six highly experienced partners. The Investment Team has worked together, on average, for 16 years. The longest tenured members of the Investment Team were among the pioneers of the leveraged buyout industry. In total, Court Square is comprised of 25 investment professionals and 16 support staff.

Court Square was established in 2006 when the entire Citigroup Venture Capital team spun out to create the Firm. Despite having venture capital in its name, the Investment Team focused almost entirely on U.S. middle market buyouts. Over the past 30+ years, the Investment Team has invested in 200 companies including several landmark transactions and developed numerous businesses into leaders in their respective markets.

**III. Investment Strategy**

Court Square intends to follow the same middle market investment strategy that the Investment Team has utilized in Fund I and II and refined over the last three decades. The Firm invests in middle market businesses predominately in the U.S. that Court Square believes possess superior value creation opportunities. The Firm expects to invest primarily in the business services, general industrial, healthcare, and technology & telecommunications sectors. In executing its strategy, Court Square uses a combination of

its broad network, domain expertise and strong reputation to identify and obtain preferential or exclusive access to attractive investment opportunities. Once an opportunity is identified, Court Square relies on its collective experience combined with its disciplined investment process to evaluate the investment opportunity. Upon making an investment, Court Square works closely with portfolio company management to develop a value creation roadmap and implement key initiatives to maximize value creation.

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

Previous fund performance as of September 30, 2011 for Court Square and the SBI's investments with previous funds, where applicable, is shown below:

<b>Fund</b>	<b>Inception Date</b>	<b>Total Commitments (\$ in millions)</b>	<b>SBI Investment (\$ in millions)</b>	<b>Net IRR from Inception*</b>	<b>Net MOIC from Inception*</b>
Court Square Capital Partners	2001	\$2,584	\$100	28.5%	2.2
Court Square Capital Partners II	2006	\$3,128	\$175	9.0%	1.2

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

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

At least 5% of the total capital commitments of the Fund, but not to exceed \$150 million.

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

Limited Partners will generally receive 10 business days' advance notice prior to each capital call.

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

1.5% per annum of aggregate capital commitments until the earlier of (i) the termination of the Commitment Period or (ii) the operation of a successor fund, and thereafter, 1.0% per annum of aggregate unreturned investment contributions, in each case, payable in advance on a quarterly basis.

#### ***VIII. Distributions***

100% to all Partners until (i) all previously contributed capital for realized investments (including permanent write-downs or write-offs) have been returned, (ii) all expenses or liabilities of the Fund to the extent allocated to realized investments have been returned and (iii) a preferred return of 8% per annum has been paid with respect to the amounts

returned under clauses (i) and (ii). Thereafter, 80% to all Partners and 20% to the General Partner, after 100% catch-up for the General Partner on account of the preferred return.

**IX. Investment Period and Term**

The term of the Fund shall be 10 years from final closing of the Fund, subject to extension for up to three additional one-year terms and subject to early termination for cause by a majority in interest of the Fund's limited partners

The investment period is 5 years from final closing of the Fund.

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



<b>PRIVATE EQUITY MANAGER SUMMARY PROFILE</b>
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**I. Background Data**

<b>Name of Fund:</b>	Wayzata Opportunities Fund III, L.P.
<b>Type of Fund:</b>	Private Equity
<b>Total Fund Size:</b>	\$2.5 billion
<b>Fund Manager:</b>	Wayzata Investment Partners LLC
<b>Manager Contact:</b>	Patrick Halloran Wayzata Investment Partners 701 Lake Street, Suite 300 Wayzata, MN 55391 P: (952) 345-0700

**II. Organization and Staff**

Wayzata Opportunities Fund III, L.P. is being sponsored by Wayzata Investment Partners LLC, to further pursue Wayzata's strategy of investing primarily in special situations, including those in bankruptcy or undergoing financial restructuring or reorganization. The Fund may invest throughout the capital structure in situations that Wayzata believes are undervalued, including debt and equity securities of public and private companies.

Wayzata will apply its time-tested investment approach, emphasizing comprehensive credit research, thorough due diligence and a focus on companies and situations with underlying physical assets, in an effort to achieve its targeted returns. The general partner of the Fund is WOF III GP, L.P., the partners of which will be Patrick J. Halloran, Joseph M. Deignan, John E. Foley, Blake M. Carlson, John D. McEvoy and Mary I. Burns and certain employees of Wayzata, or such parties' respective affiliates.

The team currently consists of 34 investment professionals and 14 operational and administrative personnel. The Wayzata Partners have an average of 15 years of investing experience and five of the six Wayzata Partners have worked together since the formation of the first fund in 1997. Patrick Halloran, Wayzata's managing partner, has been managing distressed debt and special situation investments for over 21 years, including the Wayzata Funds since their inception and the management of the High Yield/Reorg Group of Cargill from 1990 through 1997. Wayzata believes that the experience level of the Wayzata investment team provides it with a distinct competitive advantage over many other distressed asset investment managers.

### **III. Investment Strategy**

Wayzata will employ the same disciplined investment strategy and approach that it has used in previous funds and investing efforts. Wayzata believes that the following four key elements of its investment strategy distinguish it from its competitors: (i) its emphasis on controlling risk by targeting investments in the debt of companies with underlying physical assets; (ii) its focus on research and investments in the small to middle-market sectors where more opportunistic investors cannot withstand the illiquid nature of investments and which are not the focus of larger distressed investors; (iii) its willingness to champion the reorganization process through active involvement in the bankruptcy and restructuring process; and (iv) its ability to invest in both complicated situations and cyclical sectors in an effort to achieve superior long-term, risk-adjusted returns. While many Fund investments will be in assets of distressed companies, Wayzata may also elect to pursue non-distressed investments and strategies if such opportunities are deemed to offer compelling risk/reward profiles. Such non-distressed investments may include, among other things, senior debt obligations, direct investment in assets and equity securities (including those not traded on public exchanges). Depending on the opportunities available, Wayzata may make substantial investments in non-distressed situations. In general, Wayzata expects to focus on distressed investments and situations as follows:

- Activist, Control-Oriented Investments;
- Issuers with Physical Assets;
- Senior Secured and/or “Fulcrum” Securities;
- Small to Middle-Market Credits;
- Out-of-Favor Industries; and
- Special Situations

### **IV. Investment Performance**

Previous fund performance as of December 31, 2011 for Wayzata and the SBI's investments with previous funds, where applicable, is shown below:

<b>Fund</b>	<b>Inception Date</b>	<b>Total Commitments (\$ in millions)</b>	<b>SBI Investment (\$ in millions)</b>	<b>Net IRR from Inception*</b>	<b>Net MOIC from Inception*</b>
Wayzata Opportunities Fund I	2005	\$1,250	\$100	11.6%	1.7
Wayzata Opportunities Fund II	2007	\$3,380	\$150	15.5%	1.5

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

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

Certain Wayzata partners and employees will commit to invest (through the General Partner or otherwise) a minimum of \$50 million in the aggregate.

## **VI. Takedown Schedule**

Limited Partners will generally receive 10 business days' advance notice prior to each capital call.

## **VII. Management Fee**

Until the earlier of (i) the end of the Investment Period and (ii) such time as the General Partner or an Affiliate closes a Successor Fund, the Fund will pay Wayzata advisory fees quarterly in advance at a rate equal to 1.50% annually of the total Commitments to the Fund. Thereafter, until termination or liquidation of the Fund, the Advisory Fees will be 1.50% of the aggregate cost basis of all investments (other than cash and cash equivalents) then held by the Fund, calculated at the beginning of each fiscal quarter.

## **VIII. Distributions**

In general, distributions shall be made as follows:

- First, 100% to the Limited Partners until they receive a return of their aggregate capital contributions and an 8% annual rate of return thereon;
- Then, 80% to the General Partner and 20% to the Limited Partners until the General Partner "catches up" to an overall 20% Carried Interest;
- Followed by 80% to the Limited Partners and 20% to the General Partner.

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

The Term of the Fund shall be eight years after the final closing date, subject to three consecutive one-year extensions at the discretion of the General Partner (subject to the consent of the Advisory Committee).

The Investment Period shall commence for a period of four years after the date of the final closing of the Fund.

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





<b>PRIVATE EQUITY MANAGER SUMMARY PROFILE</b>
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**I. Background Data**

<b>Name of Fund:</b>	Adams Street Global Secondary Fund 5 LP
<b>Type of Fund:</b>	Private Equity – Secondary Interests
<b>Total Fund Size:</b>	\$750 million
<b>Fund Manager:</b>	Adams Street Partners
<b>Manager Contact:</b>	Bon French Adams Street Partners One North Wacker Drive Suite 2200 Chicago, IL 60606-2823 P: (312) 553-8480

**II. Organization and Staff**

Adams Street Partners is a leading private equity investment firm, providing primary and secondary partnership, co-investments and direct investment management services to institutional clients. The sole business activity of Adams Street Partners is to provide private equity investment advisory services. Adams Street Partners is one of the few private equity investment advisers that focuses on all of these areas. Together with its predecessor organizations, the firm began investing in private equity partnerships in 1979 and has been an active direct investor in private equity since 1972. Adams Street Partners was formed on January 1, 2001 and was comprised of the members of Brinson Partners' Private Equity Group. Today, Adams Street Partners is an independent, 100% employee owned organization.

In the development of the private equity secondary market, Adams Street Partners was an industry pioneer, first investing in secondaries in 1986. Since that time, the firm has closed over 125 secondary transactions and now has over \$3.5 billion of secondary assets under management. Throughout this history, Adams Street Partners has maintained a focused approach on investing in high quality funds. The Venture Partnership Acquisition Fund and the Venture Partnership Acquisition Fund II ("VPAF II") were formed in 1988 and 1990, respectively, for the purpose of acquiring private equity limited partner interests in the secondary market. These funds were among the first dedicated funds in the industry formed to purchase secondaries. Following the investment of VPAF II, Adams Street Partners continued making secondary investments via its fund of funds programs. The Adams Street Global Opportunities Secondary Fund I, L.P. ("ASGOS I") and the Adams Street Global Opportunities Secondary Fund II, L.P. ("ASGOS II") were formed in 2004 and 2009, respectively, for the purpose of investing in interests that exceeded the Adams Street Partners' managed entities allocations to secondary investments.

Adams Street Partners currently utilizes 42 investment professionals across its three primary platforms: the Secondary Investments team, the Primary Investments team, and the Direct Investments team. The Secondary Investments team is lead by Jason Gull, CFA and includes 12 investment professionals. The Adams Street Executive Committee, which oversees the operation of the three strategies, is lead by CEO Bon French and includes 6 investment professionals.

### ***III. Investment Strategy***

Adams Street Partners believes that outperformance can be achieved through a selective, disciplined and integrated process. Adams Street Partner's strategy is to leverage its entire platform to pursue high quality assets in situations where they have an information advantage.

Adams Street Partners utilizes a thematic approach targeting specific funds and specific exposures that it believes present the best secondary investment opportunities. It is a process that is active, systematic and ongoing. The Secondary Investment Team views the secondary landscape through several different lenses: macroeconomic trends, sub-class exposure, supply and demand, and general partner / limited partner related issues driven by fundraising or market sentiment. Because the secondary market has become more active, transparent and efficient, the Secondary Investment Team's success is driven by understanding where the best secondary investments can be found in a broader landscape. For the Adams Street Global Secondary Fund 5, areas of focus will include (but are not limited to):

- Growth Equity
- Buyout Funds heavily invested through 2009-2010 downturn
- High-quality managers having difficulties fundraising
- Royalty and yield-oriented strategies
- Diversified energy and real assets
- Developed Asia buyout funds
- Middle market European buyouts

#### IV. Investment Performance

Previous fund performance as of September 30, 2011 for Adams Street Partners and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Commitments (\$ in millions)	SBI Investment (\$ in millions)	Net IRR from Inception*	Net MOIC from Inception*
<i>Dedicated Secondary Funds: (Funds 1 - 4)</i>					
Venture Partnership Acquisition Fund	1988	\$47.0	\$3.8	12.12%	1.8
Venture Partnership Acquisition Fund II, L.P.	1990	\$111.1	\$20	25.26%	2.0
Adams Street Global Opportunities Secondary Fund	2004	\$210.5	\$0	12.29%	1.5
Adams Street Global Opportunities Secondary Fund II	2009	\$738.1	\$0	38.58%	1.3
Pre-ASP Global Program	1987-2005	\$215.4	\$0	15.98%	1.5
<i>Secondary Portion of Global Portfolios:</i>					
ASP 2 Global Participant	2002	\$83.6	\$0	19.09%	1.6
ASP 3 Global Participant	2003	\$73.0	\$0	31.17%	1.8
ASP 4 Global Participant	2004	\$117.1	\$0	12.58%	1.3
ASP 5 Global Participant	2005	\$173.2	\$0	7.34%	1.2
ASP 6 Global Participant	2006	\$232.5	\$0	4.76%	1.1
ASP 7 Global Participant	2007	\$402.1	\$0	11.11%	1.3
ASP 8 Global Participant	2008	\$432.0	\$0	21.68%	1.5
ASP 9 Global Participant	2009	\$189.6	\$0	31.90%	1.2

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

#### V. General Partner's Investment

The general partner will contribute 1% of the aggregate subscriptions to the Fund.

#### VI. Takedown Schedule

Limited Partners will receive 10 days' advance written notice prior to each capital call.

#### VII. Management Fee

The Fund will pay Adams Street Partners an annual management fee as described below.

*Fee Break Points:* Each investor (other than Adams Street Partners and its affiliates) that invests in the Fund will be assessed, quarterly in arrears, a management fee equal to 100 basis points per annum of the first \$25 million of its aggregate subscription to the Fund, 90 basis points per annum on amounts subscribed over \$25 million and up to \$50 million, 75 basis points per annum on amounts subscribed over \$50 million and up to \$100 million, 50 basis points per annum on amounts subscribed over \$100 million and up to \$150 million, and 40 basis points per annum on amounts subscribed over \$150 million.

*Fee Tail-down:* Beginning on the sixth anniversary of the initial investment date, the annual management fee will be reduced by 10% of the original annual fee and by 10% of the original annual fee on each anniversary thereafter (i.e., 90% of the original annual fee beginning on the sixth anniversary of the initial investment date, 80% of the original annual fee beginning on the seventh anniversary of the initial investment date, etc.).

The expected average annual management fee with respect to an investor's subscription to the Fund in an amount of \$25 million, \$50 million and \$100 million would be approximately 70 basis points, 67 basis points and 60 basis points, respectively. This assumes no fee credits and a Fund term of 15 years.

### **VIII. Distributions**

Adams Street Partners and its designated affiliates (the "Carried Interest Partners") will be allocated a 10% carried interest on cumulative net profits (calculated after return of fees and expenses) attributable to the Fund's secondary investments. The Carried Interest Partners will be entitled to receive a distribution of carried interest related to secondary investments only after the fifth anniversary of the initial investment date and the subscription has been returned.

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

The Fund will make investments typically over a three- to four-year period, provided that the Fund shall not make new investments to any new partnership after the fifth anniversary of the date of the first investment by the Fund (the "initial investment date").

The term of the Fund will begin on the initial closing date of the Fund and continue until the twelfth anniversary of the initial investment date, subject to extension of up to three successive one year periods at the sole discretion of Adams Street Partners.

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

<b>PRIVATE EQUITY MANAGER SUMMARY PROFILE</b>
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**I. Background Data**

<b>Name of Fund:</b>	Green Equity Investors VI, L.P. ("GEI VI")
<b>Type of Fund:</b>	Private Equity
<b>Total Fund Size:</b>	\$5 to 6 billion
<b>Fund Manager:</b>	Leonard Green & Partners
<b>Manager Contact:</b>	Jonathan D. Sokoloff Leonard Green & Partners (LGP) 11111 Santa Monica Boulevard, Suite,2000 Los Angeles, California 90025 (310) 954-0444

**II. Organization and Staff**

Based in Los Angeles, California, Leonard Green & Partners was founded in 1989 and has raised five successive funds. In addition, LGP sponsored GCP California Fund, L.P., a fully-realized 2003 vintage fund with \$51 million in commitments from a major California pension plan, to invest in industries and geographies traditionally underserved by private equity, and Green Credit Investors, L.P., a fully-realized 2008 vintage fund with \$414 million in commitments, to primarily make debt investments.

The investment activities of the Firm are led by John G. Danhaki, Peter J. Nolan, Jonathan D. Sokoloff and seven other Partners. The Partners form an experienced and cohesive team with over 130 years of collective private equity experience and an average tenure of 12 years at LGP. The team is led by Messrs. Danhaki, Nolan and Sokoloff, who have worked together in various capacities for over 25 years. In addition to the 10 Partners, there are 13 other investment professionals, 7 finance/operations staff and another 10 support staff.

**III. Investment Strategy**

Consistent with LGP's past investment practice, the Fund will target acquisitions of market-leading middle-market companies with attractive growth prospects across a broad range of industries, with a preference for companies in the following sectors: retail, distribution, healthcare, aerospace/defense and consumer/business services.

LGP's philosophy is to invest in middle-market companies with (i) market-leading franchises and defensible competitive positions, (ii) attractive growth prospects and (iii)

proven management teams. Once such an opportunity is indentified, the Firm is flexible as to the form and structure of its investment. While the Firm is primarily a control investor, LGP has also successfully invested in shared control and non-control transactions. The Firm's investments have been in the form of traditional buyouts, going-private transactions, recapitalizations, growth capital investments, corporate carve-outs and selective public equity and debt positions.

The Partners believe that this flexibility, combined with its reputation for developing strong relationships with management, has established LGP as a partner of choice for management teams and owners. LGP has capitalized on this reputation to differentiate itself from other private equity firms in competitive situations and to successfully source proprietary transactions. Based on these experiences, LGP believes that it is particularly well positioned in situations where a management team or owner is selecting from several different private equity firms to be its partner going forward.

In GEI VI, the Partners will continue to pursue the same successful investment strategy and process that LGP has employed since 1990 in the GEI Predecessor Funds. This strategy encompasses (i) adherence to LGP's core investment philosophy, (ii) proactive sourcing of investment opportunities, (iii) rigorous due diligence, (iv) creative structuring and financing, (v) active involvement in value creation post-acquisition to optimize portfolio companies' financial performance and (vi) opportunistic and timely realizations to return capital to limited partners.

Consistent with its investments in the GEI Predecessor Funds, in GEI VI the Firm will seek to invest up to \$500 million in equity per transaction in middle-market companies with enterprise values of up to \$3 billion.

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

Previous fund performance as of September 30, 2011 for the Green Equity Investors funds and the SBI's investments with previous funds, where applicable, is shown below:

<b>Fund</b>	<b>Inception Date</b>	<b>Total Equity Commitments (\$ in millions)</b>	<b>SBI Investment (\$ in millions)</b>	<b>Net IRR from Inception*</b>	<b>Net MOIC from Inception*</b>
Green Equity Investors I, L.P.	1990	\$216		34.8%	4.3
Green Equity Investors II, L.P.	1995	\$311		14.9%	2.1
Green Equity Investors III, L.P.	1999	\$1,244		21.8%	2.3
Green Equity Investors IV, L.P.	2004	\$1,852		10.0%	1.5
Green Equity Investors V, L.P.	2007	\$5,300		17.3%	1.3

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

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

The Partners are collectively committing \$200 million to GEI VI.

## **VI. Takedown Schedule**

Limited Partners will generally receive 10 business days' advance notice prior to each capital call.

## **VII. Management Fee**

During the Commitment Period, 1.5% per annum of aggregate Commitments. Thereafter, 1.0% per annum of aggregate funded Commitments (excluding funded Commitments in respect of the Management Fee) for two years and 0.75% per annum thereafter

## **VIII. Distributions**

In general, the partners first will receive:

1. a return of capital on all realized or written-down investments plus Management Fees and other expenses related to such investments; and
2. an 8% Preferred Return on the above amounts;

After which distributions will be made:

1. 80% to the General Partner and 20% to all partners in proportion to funded Commitments as a catch-up provision until the General Partner has received a 20% carried interest; and thereafter;
2. 80% to all partners in proportion to funded Commitments and 20% to the General Partner.

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

The Commitment Period will be six years from the initial management fee drawdown.

The Term will be ten years from the date of the initial management fee drawdown, subject to three consecutive one-year extensions.

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