

MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
June 7, 2006

&

INVESTMENT ADVISORY
COUNCIL MEETING
June 6, 2006

STATE BOARD OF INVESTMENT

AGENDA AND MINUTES

March 8, 2006

AGENDA
STATE BOARD OF INVESTMENT MEETING
Wednesday, June 7, 2006
9:00 A.M. - Room 123
State Capitol – St. Paul

- | | |
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**Minutes
State Board of Investment
March 8, 2006**

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, March 8, 2006 in Room 123 State Capitol, St. Paul, Minnesota. Governor Tim Pawlenty; State Auditor Patricia Anderson, Secretary of State Mary Kiffmeyer and Attorney General Mike Hatch were present. The minutes of the December 7, 2005 Board meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded its Composite Index over the ten year period ending December 31, 2005 (Combined Funds 8.8% vs. Composite 8.5%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.3% vs. CPI 2.9%). He stated that the Basic Funds have outperformed its composite index (Basic Funds 9.0% vs. Composite 8.8%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 8.5% vs. Composite 8.1%).

Mr. Bicker reported that the Basic Fund's assets increased 3.7% for the quarter ending December 31, 2005 due mostly to positive investment returns. He said that the asset mix is essentially on target after being rebalanced to eliminate the overweighting in international equities. He reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds 3.3% vs. Composite 3.1%) and for the year (Basic Funds 10.2% vs. Composite 10.1%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 1.0% for the quarter ending December 31, 2005, also due to positive investment returns. He noted that the Fund had negative contributions for the quarter. He said that the Post Fund's asset mix is also on target after being rebalanced. He stated that the Post Fund outperformed its composite index for the quarter (Post Fund 3.1% vs. Composite 2.9%) and for the year (Post Fund 9.6% vs. Composite 9.4%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stock 2.4% vs. Domestic Equity Asset Class Target 2.0%) and for the year (Domestic Stocks 6.4% vs. Domestic Equity Asset Class Target 6.1%). He said the International Stock manager group matched its composite index for the quarter (International Stocks 4.3% vs. International Equity Asset Class Target 4.3%) and underperformed for the year (International Stocks 16.4% vs. International Equity Asset Class Target 16.6%). Mr. Bicker stated that the bond segment matched its target for the quarter (Bonds 0.6% vs. Fixed Income Asset Class Target 0.6%) and outperformed it for the year (Bonds 2.8% vs. Fixed Income Asset Class Target 2.4%). He noted that the alternative investments had also performed strongly for the quarter (Alternatives 13.2%) and for the year (Alternatives 44.8%). He concluded his report with the comment that as of December 31, 2005, the SBI was responsible for over \$52 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel. He stated that the SBI had received a "clean opinion" on its financial statements.

Mr. Bicker briefly updated members on legislative items that are of interest to the SBI in the 2006 Legislative Session. He said that a bill passed out of the Pension Commission that would allow other entities such as first class teacher plans and the Minneapolis Employees Retirement Fund (MERF) the option of investing certain assets with the SBI. He noted that the alternative investment pool would be the only option not available to them because withdrawals may not be made from those investments. Mr. Bicker stated that a bill relating to the merger of the Minneapolis Teachers Plan has passed out of the Pension Commission. He said that there are two issues related to this merger that the SBI is interested in. He stated the first issue is that the SBI believes that the Post Retirement Fund must not be negatively impacted by the mergers and, secondly, that any assets would need to be absorbed by the SBI at June 30, 2006. He noted that if the merger is approved, staff will review the various contracts held by Minneapolis Teachers so that those assets could be transferred. Mr. Bicker stated that the SBI's salary plan was passed by the Legislative Coordinating Commission and that a copy of the final plan had been distributed to members (see **Attachment A**). He said that legislation regarding a 5% cap on Post Retirement Fund benefit increases has been passed by the Pension Commission and is awaiting action in both the House and Senate. Mr. Bicker reported that legislation giving the SBI some additional budgetary flexibility is expected to be included in the Supplemental Budget proposal this year. He stated that legislation may be introduced by the State Auditor to have local government healthcare obligations funded and that the SBI may be used to provide investment vehicles for these assets. He added that a determination will need to be made whether these assets are considered pension assets.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She said that proofs of claims have been submitted to McKesson and AOL.

Deferred Compensation Review Committee Report

Mr. Sausen referred members to Tab C of the meeting materials and stated that the Minnesota State Colleges and Universities (MnSCU) is restructuring their defined contribution retirement plan. He reported that MnSCU agreed to retain TIAA-CREF for its recordkeeping and administrative services. Mr. Sausen stated that the Committee has three recommendations: that the SBI approve the same TIAA-CREF investment options currently offered to MnSCU participants; that the SBI approve the list of mutual funds to be utilized, including the recommended change from Legg Mason Royce Premier Fund to the Pennsylvania Mutual Fund, Investment Class Shares (as shown in **Attachment B** which was distributed to members at the meeting); and that a contract between TIAA-CREF and the Historical Society be renewed with the same terms and conditions. Mr. Hatch moved approval of all the Committee's recommendations, as stated in the Committee Report and Attachment B, which reads: "**The Deferred Compensation Review Committee recommends that the SBI approve the provision by TIAA-CREF**

of the same TIAA-CREF investment options currently offered to MnSCU Plan participants.

The Committee further recommends that the SBI approve the following mutual funds for the MnSCU Plan provided that the contracts entered into between MnSCU and the mutual fund companies offering these mutual funds substantively incorporate the same terms and conditions as existing contracts between the SBI and mutual fund company providers for the State Deferred Compensation Plan.

<i>Actively Managed</i>		<i>Passively Managed</i>	
Large Cap Blend	Legg Mason Value Trust Portfolio (Institutional Class)	Large Cap Blend	Vanguard Institutional Index
Mid Cap Blend	Vanguard Strategic Equity (Admiral Shares)	Mid Cap Blend	Vanguard Mid Capitalization Index (Admiral Share)
Small Cap Blend	Legg Mason Royce Premier (Institutional Class)	Small Cap Blend	Vanguard Small Cap Index (Admiral Shares)
Balanced	Dodge & Cox Balanced	Balanced	Vanguard Balanced Index (Admiral Shares)
Fixed Income	Legg Mason Western Asset Core Plus (Institutional Class)	Fixed Income	Vanguard Total Bond Market Index (Admiral Shares)
International Equity	T. Rowe Price International Growth and Income	International Equity	Vanguard Developed Markets Index
Money Market	Vanguard Prime Money Market Fund		

Approval by the SBI of these potential mutual fund company offerings is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by these mutual fund companies upon this approval.

RECOMMENDATION:

The Deferred Compensation Review Committee recommends that the SBI approve a contract between TIAA-CREF and the Historical Society provided the contract incorporates substantively the same terms and conditions as the existing contract between TIAA-CREF and the Historical Society.

The Deferred Compensation Review Committee recommends that the SBI approve the selection of Pennsylvania Mutual Fund, Investment Class Shares to replace the Legg Mason Royce Premier fund in its recommendation to the Board.” The motion passed.

Stock and Bond Manager Committee Report

Mr. Troutman referred members to Tab D of the meeting materials and briefly reviewed the performance of the various asset classes. He stated that staff and the Committee had conducted a review of GE Asset Management, a domestic equity manager for the Assigned Risk Plan. He said that the review was due to changes in personnel and in their portfolio investment strategy. He reported that the Committee will continue to monitor GE and that no action is being recommended at this time. Ms. Kiffmeyer noted the value that the IAC members bring to the SBI, and she thanked them for their continued service.

Alternative Investment Committee Report

Mr. Troutman referred members to Tab E of the meeting materials and briefly reviewed the current investment strategy. He said that while performance is expected to be strong, he cautioned members not to expect the high returns of this reporting period (nearly 45% for the year and 25% for the latest 3 year period) to continue.

Mr. Troutman reported that the Committee is recommending new investments with one new real estate manager, Blackstone Real Estate Partners; two existing private equity managers, Court Square Capital and Thomas, Mc Nerney & Partners; and two existing yield-oriented private equity managers, DLJ Investment Partners and GS Mezzanine. Mr. Hatch moved approval of all five of the Committee's recommendations, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million or 20%, whichever is less, in Blackstone Real Estate Partners V, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Blackstone Real Estate Partners upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Blackstone Real Estate Partners or reduction or termination of the commitment.**

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

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$50 million or 20%, whichever is less, in Thomas, McNerney & Partners II, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Thomas, McNerney & Partners upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Thomas, McNerney & Partners or reduction or termination of the commitment.

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

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million or 20%, whichever is less, in GS Mezzanine Partners 2006, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by GS Mezzanine Partners upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on GS Mezzanine Partners or reduction or termination of the commitment.” Mr. Troutman briefly reviewed each fund. The motion passed.

The meeting adjourned at 9:30 A.M.

Respectfully submitted,



Howard Bicker
Executive Director

SALARY ADMINISTRATION PLAN
FOR THE
MINNESOTA
STATE BOARD OF INVESTMENT

January 2006

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1. Purpose

The purpose of this Plan is to establish salary ranges and to define other salary policies that affect non-represented unclassified staff members of the Minnesota State Board of Investment (SBI or Board). This Plan will be effective January 1, 2006.

2. Terms and Conditions other than Salary

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

3. Annual Base Salary

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

4. Executive Director

The salary limit of the Executive Director of the Minnesota State Board of Investment will be \$138,023 effective January 1, 2006.

The salary limit available for the position of Executive Director of the State Board of Investment will increase each January thereafter by the CPI-U, as calculated under *Minnesota Statutes* 43A.17, Subd. 9(b). The Board shall review the performance of the Executive Director on an annual basis and may grant salary adjustments as a result of each review.

The salary of the Executive Director is \$138,023 effective January 1, 2006.

5. Non-represented Unclassified Employees

The Executive Director shall set the salaries of non-represented unclassified employees of the State Board of Investment within the ranges for the below listed classifications. The salary ranges shall be subject to approval pursuant to *Minnesota Statutes* §43A.18, Subdivision 3b. All below listed classifications are available to the State Board of Investment for ongoing management of the assets under its control.

The non-represented unclassified employee classifications are:

Assistant Executive Director

- Manager
- Private Equity Investments
 - Public Equity Investments
 - Long Term External Debt
 - Long Term Internal Debt
 - Short Term Debt
 - Public Programs and Governance

- Portfolio Manager
- Domestic Equity
 - International Equity
 - Fixed Income
 - Internal Investments
 - Real Assets
 - Private Equity
 - Short Term Debt
 - Defined Contributions

- Research Director
- Performance Analytics
 - Publications and Communications

Executive Aide

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

(a) Salary Ranges

The following ranges are effective January 1, 2006.

Title	Minimum	Midpoint	Maximum
Asst. Exec. Director	\$115,000	\$125,000	\$135,000
Managers	\$90,000	\$110,000	\$130,000
Portfolio Managers	\$80,000	\$100,000	\$120,000
Research Director Executive Aide	Salary ranges of the Research Director and Executive Aide positions shall be as stated in the Managerial Plan.		

(b) Annual Salary Administration

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

(c) Merit Increases

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

(d) Salary Limits

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

7. General Salary Administration Policies

- (a) Entry Appointment. The Executive Director may make entry appointments at salaries within the salary range at a level deemed appropriate by the Executive Director. Criteria including work experience and educational background shall be used in making the appointments.

- (b) Promotion. An individual promoted to a position with a higher salary range may be granted a salary increase as follows:
 - (1) Placement between the minimum and midpoint of the new salary range; or
 - (2) Up to a maximum of ten percent (10%) if the increase would place the employee above the midpoint of the new salary range.

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

- (c) Lateral Transfer. An employee who transfers to another position in the same salary range shall not require a change in compensation.

- (d) Movement to a lower salary range. An employee who voluntarily moves or is reassigned to a position in a lower salary range shall retain their current salary unless the employee's salary is above the maximum rate for the lower salary range. The Executive Director has the discretion to reduce an employee's salary to any rate in the lower salary range. The Executive Director has the discretion to permit an employee to retain their salary above the maximum for the lower range.

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

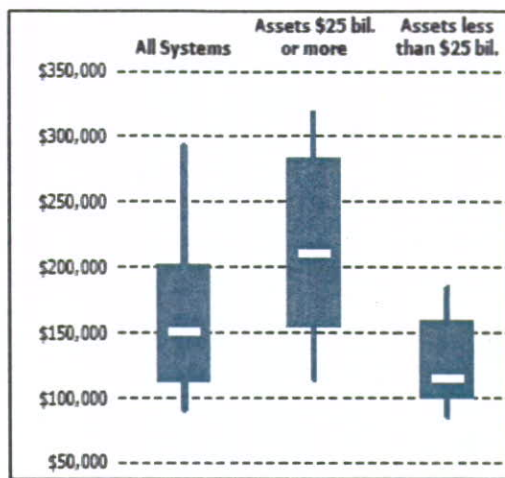
- (f) **Review of Salary Range/Positions**
 - (1) *Position Descriptions.* Position descriptions shall be reviewed by the Executive Director on a regular basis to determine if changes have occurred in the position or in the organizational structure. The Executive Director, as appropriate, shall approve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

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

Chief Investment Officer

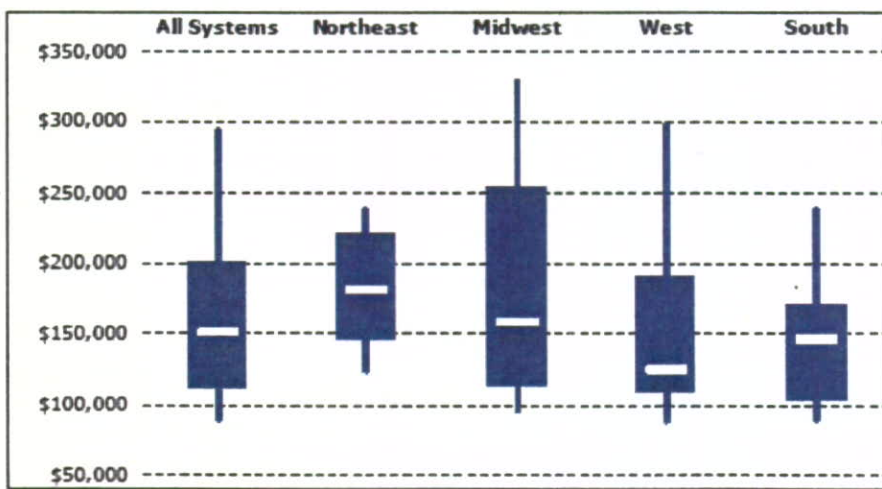
**Chief Investment Officer
2004 Compensation
By System Assets**

	All Systems	Assets \$25 bil. or more	Assets less than \$25 bil.
Average	\$174,066	\$229,321	\$139,769
Number Responding	47	18	29
Top Decile (10th%)	\$293,296	\$318,110	\$183,400
Top Quartile (25th%)	\$201,500	\$283,115	\$158,730
Median (50th%)	\$150,000	\$210,000	\$114,200
Bottom Quartile (75th%)	\$110,780	\$153,324	\$98,280
Bottom Decile (90th%)	\$89,626	\$114,378	\$85,763



**Chief Investment Officer
2004 Compensation
By Region**

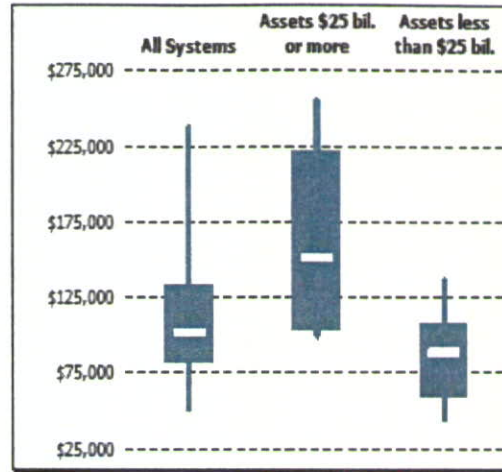
	All Systems	Northeast	Midwest	West	South
Average	\$174,066	\$181,121	\$192,767	\$180,010	\$145,910
Number Responding	47	6	15	12	14
Top Decile (10th%)	\$293,296	\$238,507	\$328,023	\$298,459	\$237,800
Top Quartile (25th%)	\$201,500	\$221,143	\$253,910	\$190,558	\$170,411
Median (50th%)	\$150,000	\$180,974	\$158,730	\$124,434	\$145,346
Bottom Quartile (75th%)	\$110,780	\$144,781	\$111,743	\$107,530	\$101,930
Bottom Decile (90th%)	\$89,626	\$124,125	\$95,940	\$88,016	\$89,206

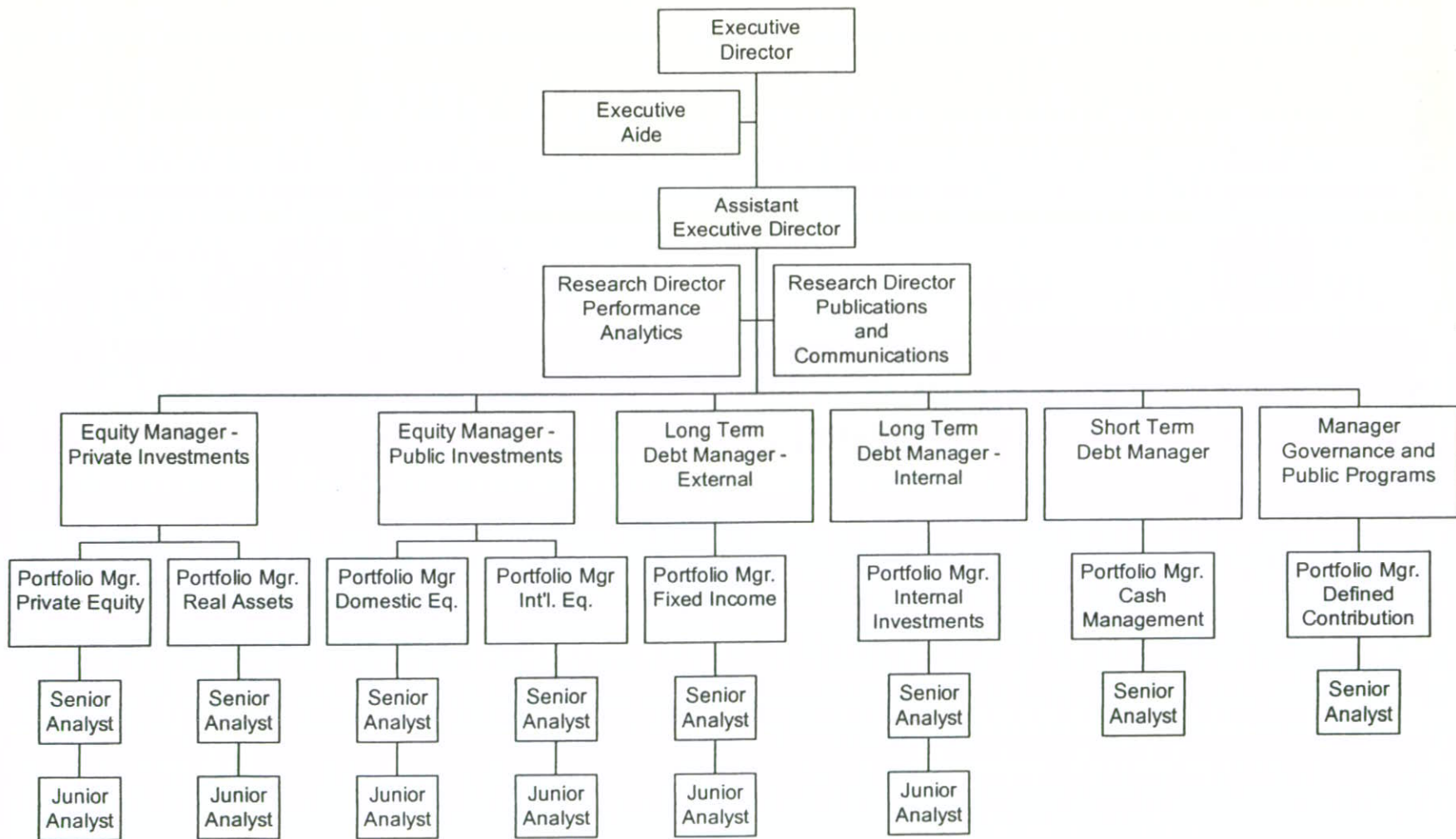


Deputy Investment Officer

**Deputy Investment Officer
2004 Compensation
By System Assets**

	All Systems	Assets \$25 bil. or more	Assets less than \$25 bil.
Average	\$119,396	\$163,135	\$96,376
Number Responding	29	10	19
Top Decile (10th%)	\$237,518	\$255,000	\$137,319
Top Quartile (25th%)	\$134,064	\$222,360	\$108,166
Median (50th%)	\$101,844	\$151,290	\$88,483
Bottom Quartile (75th%)	\$81,500	\$103,319	\$59,059
Bottom Decile (90th%)	\$50,988	\$99,434	\$44,255





**SALARY SUMMARY
STATISTICAL COMPARISON**

		Median Salary	Average Salary	Median Top of Range	Average Top of Range
(Manager)	Senior Investment Officer	\$125,653	\$138,318	\$155,134	\$151,185
	Domestic Equity	136,872	144,261	150,000	154,249
	International Equity	154,456	161,854	170,679	168,983
	Fixed Income	131,728	138,946	156,756	151,339
	Real Estate	129,003	136,693	155,878	156,565
	Alternatives	130,592	135,732	151,378	147,439
(Portfolio Manager)	Assistant Senior Investment Officer	96,846	100,541	110,950	111,154
	Domestic Equity	95,981	100,417	104,597	112,936
	International Equity	115,200	109,896	124,750	137,518
	Fixed Income	111,352	109,821	116,086	115,912
	Real Estate	96,780	102,429	110,171	112,904
	Alternatives	101,350	96,176	110,000	107,043
	Investment Officer	75,181	79,308	81,704	93,620
	Domestic Equity	72,546	79,408	81,723	92,404
	International Equity	68,112	64,407	77,433	77,626
	Fixed Income	75,061	79,162	85,400	92,015
	Real Estate	72,693	76,023	82,436	85,738
	Alternatives	68,190	67,521	73,580	75,600
	Assistant Investment Officer	52,645	54,313	55,154	63,640
	Domestic Equity	54,180	55,321	56,838	65,335
	International Equity	71,084	67,192	79,919	81,000
	Fixed Income	50,043	52,237	54,912	62,503
	Real Estate	56,895	56,710	58,500	60,127
	Alternatives	54,500	51,383	57,232	53,155



Minnesota Senate

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KEY: ~~stricken~~ = removed, old language. underscored = added, new language.

NOTE: If you cannot see a difference in the key above, you can [change the display of stricken and underscored text](#).

[Authors and Status](#) ■ [List versions](#)

S.F. No. 1598, as introduced - 84th Legislative Session (2005-2006) Posted on Mar 09, 2005

1.1 A bill for an act
1.2 relating to state government; regulating compensation
1.3 plans of the State Board of Investment; amending
1.4 Minnesota Statutes 2004, sections 11A.04; 11A.07,
1.5 subdivision 4; 15A.0815, subdivision 2; 43A.18, by
1.6 adding a subdivision.
1.7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:
1.8 Section 1. Minnesota Statutes 2004, section 11A.04, is
1.9 amended to read:
1.10 11A.04 [DUTIES AND POWERS.]
1.11 The state board shall:
1.12 (1) Act as trustees for each fund for which it invests or
1.13 manages money in accordance with the standard of care set forth
1.14 in section 11A.09 if state assets are involved and in accordance
1.15 with chapter 356A if pension assets are involved.
1.16 (2) Formulate policies and procedures deemed necessary and
1.17 appropriate to carry out its functions. Procedures adopted by
1.18 the board must allow fund beneficiaries and members of the
1.19 public to become informed of proposed board actions. Procedures
1.20 and policies of the board are not subject to the Administrative
1.21 Procedure Act.
1.22 (3) Employ an executive director as provided in section
1.23 11A.07.
1.24 (4) Employ investment advisors and consultants as it deems
1.25 necessary.
1.26 (5) Prescribe policies concerning personal investments of
2.1 all employees of the board to prevent conflicts of interest.
2.2 (6) Maintain a record of its proceedings.
2.3 (7) As it deems necessary, establish advisory committees
2.4 subject to section 15.059 to assist the board in carrying out
2.5 its duties.
2.6 (8) Not permit state funds to be used for the underwriting
2.7 or direct purchase of municipal securities from the issuer or
2.8 the issuer's agent.
2.9 (9) Direct the commissioner of finance to sell property
2.10 other than money that has escheated to the state when the board
2.11 determines that sale of the property is in the best interest of
2.12 the state. Escheated property must be sold to the highest
2.13 bidder in the manner and upon terms and conditions prescribed by
2.14 the board.
2.15 (10) Undertake any other activities necessary to implement
2.16 the duties and powers set forth in this section.
2.17 (11) Establish a formula or formulas to measure management
2.18 performance and return on investment. Public pension funds in
2.19 the state shall utilize the formula or formulas developed by the
2.20 state board.
2.21 (12) Except as otherwise provided in article XI, section 8,
2.22 of the Constitution of the state of Minnesota, employ, at its
2.23 discretion, qualified private firms to invest and manage the

2.24 assets of funds over which the state board has investment
2.25 management responsibility. There is annually appropriated to
2.26 the state board, from the assets of the funds for which the
2.27 state board utilizes a private investment manager, sums
2.28 sufficient to pay the costs of employing private firms. Each
2.29 year, by January 15, the board shall report to the governor and
2.30 legislature on the cost and the investment performance of each
2.31 investment manager employed by the board.

2.32 (13) Adopt an investment policy statement that includes
2.33 investment objectives, asset allocation, and the investment
2.34 management structure for the retirement fund assets under its
2.35 control. The statement may be revised at the discretion of the
2.36 state board. The state board shall seek the advice of the
3.1 council regarding its investment policy statement. Adoption of
3.2 the statement is not subject to chapter 14.

3.3 (14) Adopt a compensation plan setting the terms and
3.4 conditions of employment for unclassified board employees who
3.5 are not covered by a collective bargaining agreement.

3.6 Sec. 2. Minnesota Statutes 2004, section 11A.07,
3.7 subdivision 4, is amended to read:

3.8 Subd. 4. [DUTIES AND POWERS.] The director, at the
3.9 direction of the state board, shall:

3.10 (1) plan, direct, coordinate, and execute administrative
3.11 and investment functions in conformity with the policies and
3.12 directives of the state board and the requirements of this
3.13 chapter and of chapter 356A;

3.14 (2) employ professional and clerical staff as ~~is~~ necessary
3.15 ~~within the complement limits established by the legislature.~~
3.16 Employees whose primary responsibility is to invest or manage
3.17 money or employees who hold positions designated as unclassified
3.18 under section 43A.08, subdivision 1a, are in the unclassified
3.19 service of the state. Other employees are in the classified
3.20 service. Unclassified employees who are not covered by a
3.21 collective bargaining agreement are employed under the terms and
3.22 conditions of the compensation plan approved under section
3.23 43A.18, subdivision 3b;

3.24 (3) report to the state board on all operations under the
3.25 director's control and supervision;

3.26 (4) maintain accurate and complete records of securities
3.27 transactions and official activities;

3.28 (5) establish a policy relating to the purchase and sale of
3.29 securities on the basis of competitive offerings or bids. The
3.30 policy is subject to board approval;

3.31 (6) cause securities acquired to be kept in the custody of
3.32 the commissioner of finance or other depositories consistent
3.33 with chapter 356A, as the state board deems appropriate;

3.34 (7) prepare and file with the director of the Legislative
3.35 Reference Library, by December 31 of each year, a report
3.36 summarizing the activities of the state board, the council, and
4.1 the director during the preceding fiscal year. The report must
4.2 be prepared so as to provide the legislature and the people of
4.3 the state with a clear, comprehensive summary of the portfolio
4.4 composition, the transactions, the total annual rate of return,
4.5 and the yield to the state treasury and to each of the funds
4.6 whose assets are invested by the state board, and the recipients
4.7 of business placed or commissions allocated among the various
4.8 commercial banks, investment bankers, and brokerage
4.9 organizations. The report must contain financial statements for
4.10 funds managed by the board prepared in accordance with generally
4.11 accepted accounting principles;

4.12 (8) require state officials from any department or agency
4.13 to produce and provide access to any financial documents the
4.14 state board deems necessary in the conduct of its investment

- 4.15 activities;
- 4.16 (9) receive and expend legislative appropriations;
- 4.17 (10) undertake any other activities necessary to implement
- 4.18 the duties and powers set forth in this subdivision consistent
- 4.19 with chapter 356A.
- 4.20 Sec. 3. Minnesota Statutes 2004, section 15A.0815,
- 4.21 subdivision 2, is amended to read:
- 4.22 Subd. 2. [GROUP I SALARY LIMITS.] The salaries for
- 4.23 positions in this subdivision may not exceed 95 percent of the
- 4.24 salary of the governor:
- 4.25 Commissioner of administration;
- 4.26 Commissioner of agriculture;
- 4.27 Commissioner of education;
- 4.28 Commissioner of commerce;
- 4.29 Commissioner of corrections;
- 4.30 Commissioner of employee relations;
- 4.31 Commissioner of finance;
- 4.32 Commissioner of health;
- 4.33 Executive director, Higher Education Services Office;
- 4.34 Commissioner, Housing Finance Agency;
- 4.35 Commissioner of human rights;
- 4.36 Commissioner of human services;
- 5.1 ~~Executive director, State Board of Investment;~~
- 5.2 Commissioner of labor and industry;
- 5.3 Commissioner of natural resources;
- 5.4 Director of Office of Strategic and Long-Range Planning;
- 5.5 Commissioner, Pollution Control Agency;
- 5.6 Commissioner of public safety;
- 5.7 Commissioner of revenue;
- 5.8 Commissioner of employment and economic development;
- 5.9 Commissioner of transportation; and
- 5.10 Commissioner of veterans affairs.
- 5.11 Sec. 4. Minnesota Statutes 2004, section 43A.18, is
- 5.12 amended by adding a subdivision to read:
- 5.13 Subd. 3b. [STATE BOARD OF INVESTMENT PLAN.] Total
- 5.14 compensation for unclassified positions not covered by a
- 5.15 collective bargaining agreement under section 11A.04 in the
- 5.16 State Board of Investment must be determined by the State Board
- 5.17 of Investment. Before submitting a compensation plan to the
- 5.18 legislature and the Legislative Coordinating Commission, the
- 5.19 State Board of Investment must submit the plan to the
- 5.20 commissioner of employee relations for review and comment. The
- 5.21 commissioner must complete the review within 14 days of its
- 5.22 receipt. Compensation plans established under this subdivision
- 5.23 must be approved by the legislature and the Legislative
- 5.24 Coordinating Commission under section 3.855, before becoming
- 5.25 effective.
- 5.26 Sec. 5. [EFFECTIVE DATE.]
- 5.27 Sections 1 to 4 are effective July 1, 2005. An employee
- 5.28 who is covered by a compensation plan or whose salary is
- 5.29 established under Minnesota Statutes, section 15A.0815, on July
- 5.30 1, 2005, continues to be covered by the compensation plan or
- 5.31 salary until the compensation plan adopted under Minnesota
- 5.32 Statutes, section 43A.18, subdivision 3b, is first implemented.

Please direct all comments concerning issues or legislation
to your House Member or State Senator.

For Legislative Staff or for directions to the Capitol, visit the Contact Us page.

COMMITTEE REPORT

DATE: March 8, 2006

TO: Members, State Board of Investment

FROM: Deferred Compensation Review Committee

SUBJECT: Additional Item Concerning MnSCU Plan Selections

The Deferred Compensation Review Committee has a recommendation before the Board concerning new investment options for the Minnesota State Colleges and Universities (MnSCU) Defined Contribution Retirement Plan. Since the Committee last met, staff has been informed by Legg Mason that one of their mutual funds chosen by the Committee has been closed to new investors. The Committee met again on March 7 to select a replacement fund for the closed small cap fund, Legg Mason Royce Premier.

The Committee reviewed information prepared by staff and agreed to recommend Pennsylvania Mutual Fund, Investment Class Shares, a Royce & Associates, LLC fund.

RECOMMENDATION:

The Deferred Compensation Review Committee recommends that the SBI approve the selection of Pennsylvania Mutual Fund, Investment Class Shares to replace the Legg Mason Royce Premier fund in its recommendation to the Board.

INVESTMENT ADVISORY COUNCIL

AGENDA AND MINUTES

March 7, 2006

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Tuesday, June 6, 2006
1:00 P.M. - Board Room – First Floor
60 Empire Drive, St. Paul, MN

- | | |
|---|------------|
| | TAB |
| 1. Approval of Minutes of March 7, 2006
Approval of Minutes of April 28, 2006 | |
| 2. Report from the Executive Director (Howard Bicker) | A |
| A. Quarterly Investment Review
(January 1, 2006 – March 31, 2006) | |
| B. Administrative Report | B |
| 1. Reports on budget and travel | |
| 2. Legislative Update | |
| 3. Litigation Update | |
| 4. Update Concerning Pharmaceutical Company Shareholder Resolutions | |
| 3. Report from the SBI Administrative Committee (Peter Sausen) | C |
| 1. Review of Executive Director's Proposed Workplan for FY07 | |
| 2. Review of Budget Plan for FY07 | |
| 3. Review of Continuing Fiduciary Education Plan | |
| 4. Review of Executive Director's Evaluation Process | |
| 5. Recommendation to approve Annual Salary Administration | |
| 4. Reports from the Investment Advisory Council (Mike Troutman) | |
| A. Stock and Bond Manager Committee | D |
| 1. Review of manager performance | |
| 2. A review of Oppenheimer Capital Management, domestic equity manager | |
| B. Alternative Investment Committee (Malcolm McDonald) | E |
| 1. Review of current strategy | |
| 2. Recommendation with one existing real estate manager, two existing private equity managers, and one existing resource manager: | |
| • TA Associates Realty | |
| • Kohlberg, Kravis, Roberts & Co. (KKR) | |
| • GTCR Golder Rauner | |
| • First Reserve | |
| 5. Report from the IAC Governance Review Task Force (Mike Troutman) | F |

Minutes
Investment Advisory Council
March 7, 2006

MEMBERS PRESENT: Frank Ahrens; Dave Bergstrom; John Bohan; Kerry Brick; Laurie Hacking; Peggy Ingison; Heather Johnston; Malcolm McDonald; and Mike Troutman.

MEMBERS ABSENT: Doug Gorence; P. Jay Kiedrowski; Hon. Ken Maas; Judy Mares; Gary Norstrom; Daralyn Peifer; and Mary Vanek.

SBI STAFF: Howard Bicker; Mansco Perry; Jim Heidelberg; Tammy Brusehaver-Derby; Stephanie Gleeson; Susan Sutton; John Griebenow; Andy Christensen; Debbie Griebenow; Mike Messen; Carol Nelson; and Charlene Olson.

OTHERS ATTENDING: Ann Posey, Richards & Tierney; Christie Eller; Peter Sausen; Alberto Quintela; Carla Heyle; Susan Mills Moriarity, John Fisher, and Bob Heimerl, REAM.

Mr. Troutman welcomed Ms. Hacking to the Council and members introduced themselves. The minutes of the December 6, 2005 IAC meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded its Composite Index over the ten year period ending December 31, 2005 (Combined Funds 8.8% vs. Composite 8.5%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.3% vs. CPI 2.9%). He stated that the Basic Funds have outperformed its composite index (Basic Funds 9.0% vs. Composite 8.8%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 8.5% vs. Composite 8.1%).

Mr. Bicker reported that the Basic Fund's assets increased 3.7% for the quarter ending December 31, 2005 due mostly to positive investment returns. He said that the asset mix is essentially on target after being rebalanced to eliminate the overweighting in international equities. He reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds 3.3% vs. Composite 3.1%) and for the year (Basic Funds 10.2% vs. Composite 10.1%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 1.0% for the quarter ending December 31, 2005, also due to positive investment returns. He noted that the Fund had negative contributions for the quarter. He said that the Post Fund's asset mix is also on target after being rebalanced. He stated that the Post Fund

outperformed its composite index for the quarter (Post Fund 3.1% vs. Composite 2.9%) and for the year (Post Fund 9.6% vs. Composite 9.4%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stock 2.4% vs. Domestic Equity Asset Class Target 2.0%) and for the year (Domestic Stocks 6.4% vs. Domestic Equity Asset Class Target 6.1%). He said the International Stock manager group matched its composite index for the quarter (International Stocks 4.3% vs. International Equity Asset Class Target 4.3%) and underperformed for the year (International Stocks 16.4% vs. International Equity Asset Class Target 16.6%). Mr. Bicker stated that the bond segment matched its target for the quarter (Bonds 0.6% vs. Fixed Income Asset Class Target 0.6%) and outperformed it for the year (Bonds 2.8% vs. Fixed Income Asset Class Target 2.4%). He noted that the alternative investments had also performed strongly for the quarter (Alternatives 13.2%) and for the year (Alternatives 44.8%). He concluded his report with the comment that as of December 31, 2005, the SBI was responsible for over \$52 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel. He stated that the SBI had received a "clean opinion" on its financial statements.

Mr. Bicker briefly updated members on legislative items that are of interest to the SBI in the 2006 Legislative Session. He said that a bill passed out of the Pension Commission that would allow other entities such as first class teacher plans and the Minneapolis Employees Retirement Fund (MERF) the option of investing certain assets with the SBI. He noted that the alternative investment pool would be the only option not available to them because withdrawals may not be made from those investments.

Mr. Bicker stated that a bill relating to the merger of the Minneapolis Teachers Plan with the statewide Teachers Retirement Association (TRA) plan has passed out of the Pension Commission. He said that there are two issues related to this merger in which the SBI is interested. He stated the first issue is that the SBI believes that the Post Retirement Fund must not be negatively impacted by the merger and, secondly, that any assets would need to be absorbed by the SBI at June 30, 2006. He noted that if the merger is approved, staff will review the various contracts held by Minneapolis Teachers so that those assets could be transferred.

Mr. Bicker stated that the SBI's salary plan was passed by the Legislative Coordinating Commission and that a copy of the final plan had been distributed to members. He said that legislation regarding a 5% cap on Post Retirement Fund benefit increases has been passed by the Pension Commission and is awaiting action in both the House and Senate. Mr. Bicker reported that legislation giving the SBI some additional budgetary flexibility is expected to be included in the Supplemental Budget proposal this year. He said that staff expects to see some legislation introduced regarding venture capital again this session.

Mr. Bicker stated that legislation may be introduced by the State Auditor to have local government healthcare obligations funded and that the SBI may be used to provide investment vehicles for these assets. He added that a determination will need to be made as to whether these assets are considered pension assets. In response to a question from Mr. Bohan, Mr. Bicker stated that the formula for TRA benefits would be increased only for future service so that there remain sufficient contributions to take care of whatever unfunded liabilities there are at this point in time.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She said that proofs of claims have been submitted to McKesson and AOL. In response to a question from Ms. Posey, Ms. Eller stated that her office is evaluating the possibility of another opt-out case.

Deferred Compensation Review Committee Report

Mr. Sausen referred members to Tab C of the meeting materials and stated that the Minnesota State Colleges and Universities (MnSCU) is restructuring their defined contribution retirement plan. He reported that MnSCU agreed to retain TIAA-CREF for its recordkeeping and administrative services. Mr. Sausen stated that the Committee has three recommendations: that the SBI approve the same TIAA-CREF investment options currently offered to MnSCU participants; that the SBI approve the list of mutual funds to be utilized, including the recommended change from Legg Mason Royce Premier Fund to the Pennsylvania Mutual Fund, Investment Class Shares and that a contract between TIAA-CREF and the Historical Society be renewed with the same terms and conditions. In response to a question from Mr. Troutman, Mr. Bicker confirmed that the Legg Mason fund is now closed to new investors and that the Pennsylvania fund is a different fund advised by the same professionals who manage the Legg Mason Fund. In response to a question from Mr. Bohan, Mr. Bicker confirmed that Dodge & Cox Balanced Fund is closed, but that MnSCU can use it because of the SBI relationship. He noted that TIAA-CREF cannot be a record keeper for any of the Fidelity funds. Mr. McDonald moved approval of all the Committee's recommendations, as stated in the Committee Report. The motion passed.

Stock and Bond Manager Committee Report

Mr. Bohan referred members to Tab D of the meeting materials and reviewed the performance of the various asset classes. Mr. Bicker reminded members that the international program had recently been restructured. In response to questions from Mr. Troutman, Mr. Bicker stated that when the new international managers were hired there was an effort made to reduce the overall value bias of the program. Ms. Posey noted that it is much more difficult to manage by value or growth in the international markets.

Mr. Bohan stated that staff and the Committee had conducted a review of GE Asset Management, a domestic equity manager for the Assigned Risk Plan. He said that the review was due to changes in personnel and in their portfolio investment strategy. He reported that the Committee will continue to monitor GE and that no action is being recommended at this time.

Alternative Investment Committee Report

Mr. McDonald referred members to Tab E of the meeting materials and briefly reviewed the current investment strategy.

Mr. McDonald reported that the Committee is recommending new investments with one new real estate manager, Blackstone Real Estate Partners; two existing private equity managers, Court Square Capital and Thomas, McNerney & Partners; and two existing yield-oriented private equity managers, DLJ Investment Partners and GS Mezzanine. Mr. McDonald moved approval of all five of the Committee's recommendations, as stated in the Committee Report. Mr. Bohan seconded the motion. The motion passed.

In response to questions from Mr. Bohan, Mr. Bicker stated that potential legislation regarding investing in Minnesota venture capital could take many forms. He noted that the SBI has a long history of investing in venture capital in the State. Mr. Bergstrom wondered about how many dollars are placed with Minnesota based stock and bond managers. Mr. Bicker said that staff is working on putting together information on investments the SBI has in Minnesota.

Mr. Troutman briefly updated members on the progress of the Governance Review process that is currently underway. He thanked members for their participation in the interview process and said that there will be a special IAC meeting on April 28th to go over the findings and potential recommendations. Mr. McDonald and Ms. Posey also thanked members for their input and ideas. Mr. Bicker emphasized that the IAC is an extremely valuable resource to the SBI and that this review process is just to evaluate ways to further fine tune the process to make it even better.

The meeting adjourned at 3:06 P.M.

Respectfully submitted,



Howard Bicker
Executive Director

INVESTMENT ADVISORY COUNCIL

MINUTES

April 28, 2006

Minutes
Investment Advisory Council
April 28, 2006

- MEMBERS PRESENT:** Frank Ahrens; Dave Bergstrom; John Bohan; Kerry Brick; Doug Gorence; Laurie Hacking; Peggy Ingison; Heather Johnston; Hon. Ken Maas; Gary Norstrem; Mike Troutman and Mary Vanek.
- MEMBERS ABSENT:** P. Jay Kiedrowski; Judy Mares; Malcolm McDonald; and Daralyn Peifer.
- SBI STAFF:** Howard Bicker; Mansco Perry; Jim Heidelberg; Debbie Griebenow; Carol Nelson; and Charlene Olson.
- OTHERS ATTENDING:** Ann Posey, Richards & Tierney; Christie Eller; Peter Sausen; Carla Heyl and Karen Janisch.

Mr. Troutman thanked members for coming and briefly reviewed the rationale behind the IAC Governance Review and the process that has occurred to date. He said that the format of the meeting would be that he would review the findings and recommendations section by section and that discussion and preliminary approval would be requested on each section. He noted that sections that did not have strong support would be tabled until later in the meeting for further review and that he would request a vote on the entire package of findings and recommendations. He stated that final recommendations would be made to the Board on June 7, 2006. Mr. Bicker reminded members that the time of the June 6, 2006 IAC meeting had been changed from 2:00 p.m. to 1:00 p.m. due to the Private Equity Roundtable at 10:00 a.m. He noted that box lunches will be provided.

Mr. Bicker thanked the members of the Review Committee for their hard work and process has been a beneficial task and that it is a significant step forward.

Following is the draft findings and recommendations that were discussed and approved at the meeting. Members approved formally recommending these governance processes to the SBI at its meeting on June 7, 2006.

The meeting adjourned at 11:15 A.M.

Respectfully submitted,



Howard Bicker
Executive Director

Findings and Recommendations
Investment Advisory Council
Ad hoc Governance Review Task Force
April 12, 2006

Recommendations are predicated on the following assumptions

- No changes to the legislative statute that creates and defines the IAC
- The current level of professionalism and investment sophistication at the SBI staff will be maintained or improved.
 - The legislature will take the necessary actions to enhance the compensation structure that allows adequate professional staffing of the SBI investment staff.
 - The budget process will be adjusted to appropriately reflect the source of funding.
- The deputies of the SBI principals are encouraged to attend the Alternative Investment and Stock & Bond Committee meetings, as well as the full IAC meetings. These committee meetings are the best forums for information on both investment policy and implementation issues.

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Findings and Recommendations

Mission Statement

Findings: Strong affirmation that the current mission is appropriate and that there is a continued need for the existence of the IAC and its independent and expert review of investment issues, given the lay nature of the SBI Principals.

Recommendations:

- Publish the mission statement of the IAC in the annual report of the SBI.
Suggested Language:

The IAC's statutory duty is to advise the SBI and its Executive Directory by providing independent due diligence review of investment policy that guides the SBI's investment of assets.

Roles and Responsibilities

Findings: The IAC can best fulfill its advisory responsibilities by focusing more of its time and attention on investment policy issues and less time and attention on implementation issues. Modifications to the current manager search process and performance reporting will facilitate an increased focus on investment policy issues.

Recommendations:

- IAC shall gain a better understanding of the nature of the liabilities associated with retirement assets entrusted to the SBI. Presentations to the IAC by the retirement fund directors on their respective pension programs will be a primary source for this education.
- More time of the IAC meetings should be devoted to important investment policy issues. The chair of the IAC to will work with staff to develop agendas for upcoming meetings.
- The manager search process should become a part of the Stock & Bond committee responsibilities. Staff will conduct a thorough due diligence process and submit final candidates to the Stock & Bond Committee for final recommendations to the IAC. Discontinue the use of special manager search committees.
- The Minnesota statute covering the roles and responsibilities of the IAC shall be circulated annually to the members of the IAC.

Consultant Role

Findings: The role of an outside investment consultant continues to be valued. Currently, the consultant provides objective review of policy and implementation to the SBI principals through one-on-one meetings and provides investment expertise and resources to the staff. The consultant role should be expanded to include a more active participation in policy discussions at IAC meetings.

Recommendations:

- Encourage the SBI's consultant to participate at IAC meetings.

IAC Structure

Findings: The structure of the IAC sub committees should be consistent with the roles and functions assigned to each. At present, the roles of the Stock and Bond committee and the Alternative committee are different as it pertains to manager selection.

Recommendations:

- Eliminate the manager search committees.
- Transfer the manager search responsibilities to the Stock and Bond committee. With this change, the functions of the Stock and Bond and Alternative committees shall be similar.

Membership

Findings The statute provides for a total of seventeen (17) IAC members. Ten (10) members are to be investment professionals from the local community. The most desirable candidates for the ten (10) investment professional members should have broad investment knowledge and experience across all asset classes.

Recommendations:

- The ten (10) investment professional members should be generalists with broad investment knowledge across asset classes. Local plan sponsors are a primary source for potential IAC members.

Candidate Members Solicitation Process

Findings: The existing investment professional members should be encouraged to provide ideas for and input on potential new members.

Recommendations:

- Executive Director shall solicit ideas from IAC members as part of the process for identifying candidate members to be recommended for Board approval.

Attendance and Removal Policy

Findings: Section 15.059 in statute defines attendance and member removal policy.

Recommendations:

- Section 15.059 states that the chair of the advisory council shall inform the appointing authority of a member missing three consecutive meetings.
- Communicate attendance expectations clearly to IAC members as contained in section 15.059.
- Participation by videoconferencing will be considered as attendance at an IAC or committee meeting.
- Charge the vice-chair of the IAC with the responsibility to see that members are notified after they have missed two consecutive council or committee meetings.

IAC Governance Review Process

Findings: Formal and informal reviews of efficiency and effectiveness are an important component of good governance practices.

Recommendations:

- A governance review should be scheduled every 5 to 10 years unless significant events warrant an ad hoc review.
- The IAC shall annually assess the perspectives and suggestions of its members.

Tab A

LONG TERM OBJECTIVES
Period Ending 3/31/2006

COMBINED FUNDS: \$43.7 Billion	Result	Compared to Objective
<p>Match or Exceed Composite Index (10 Yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Combined Funds over the latest 10 year period.</p>	9.0% (1)	0.4 percentage point above target
<p>Provide Real Return (20 yr.)</p> <p>Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.</p>	10.0%	7.0 percentage points above CPI

BASIC RETIREMENT FUNDS: \$22.8 Billion	Result	Compared to Objective
<p>Match or Exceed Composite Index (10 Yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 10 year period.</p>	9.2%	0.3 percentage point above target

POST RETIREMENT FUND: \$20.9 Billion	Result	Compared to Objective
<p>Match or Exceed Composite Index (10 Yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 10 year period.</p>	8.7%	0.4 percentage point above target

(1) Performance is calculated net of fees.

SUMMARY OF ACTUARIAL VALUATIONS

All Eight Plans of MSRS, PERA and TRA Including Post Fund July 1, 2005

	Active (Basics)	Retired (Post)	Total (Combined)
Liability Measures			
1. Current and Future Benefit Obligation	\$34.3 billion	\$23.4 billion	\$57.7 billion
2. Accrued Liabilities	25.3	23.4	48.7
Asset Measures			
3. Current and Future Actuarial Value	\$32.0 billion	\$23.4 billion	\$55.4 billion
4. Current Actuarial Value	20.4	23.4	43.8
Funding Ratios			
Future Assets vs. Future Obligations (3 ÷ 1)	93%	100%	96%
Current Actuarial Value vs. Accrued Liabilities (4 ÷ 2)	81%	100%	90%*

* Ratio most frequently used by the Legislature and Retirement Systems.

Notes:

1. Present value of projected benefits that will be due to all current participants.
2. Liabilities attributed to past service calculated using entry age normal cost method.
3. Present value of future statutory contributions plus current actuarial value.
4. Same as required reserves for Post; Difference between actual returns and actuarially expected returns spread over five years for Basics.

Actuarial Assumptions:

Salary Growth: 6.5%, resulting from a graded rate future increase assumption

Interest/Discount Rate: 8.5% Basics, 6.0% Post

Full Funding Target Date: 2031

EXECUTIVE SUMMARY

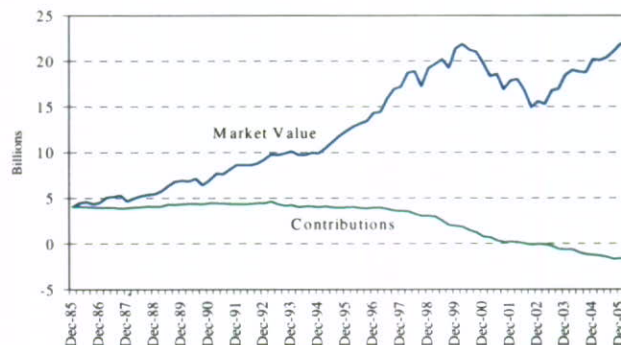
Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds increased 4.6% during the first quarter of 2006. Positive investment returns accounted for the increase.

Asset Growth During First Quarter 2006 (Millions)

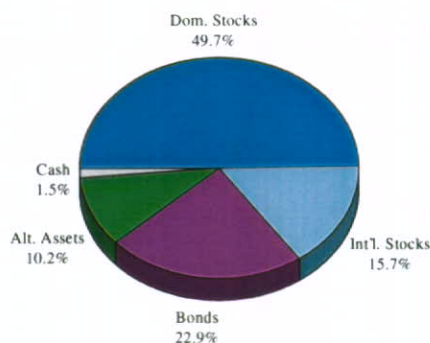
Beginning Value	\$ 21,816
Net Contributions	-24
Investment Return	1,028
Ending Value	\$ 22,820



Asset Mix

The allocation to bonds and unallocated cash increased over the quarter due to rebalancing from domestic and international stocks.

	Policy Targets	Actual Mix 3/31/2006	Actual Market Value (Millions)
Domestic Stocks	45.0%	49.7%	\$11,351
Int'l. Stocks	15.0	15.7	3,572
Bonds	24.0	22.9	5,223
Alternative Assets*	15.0	10.2	2,334
Unallocated Cash	1.0	1.5	339
	100.0%	100.0%	\$22,819

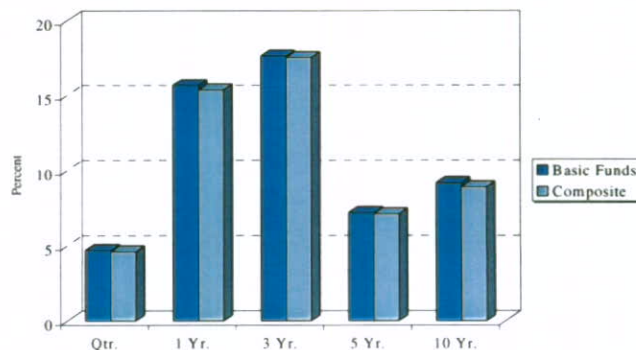


* Any uninvested allocation is held in domestic stocks

Fund Performance (Net of Fees)

The Basic Funds exceeded its composite market index for all periods shown.

	Period Ending 3/31/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Basics	4.7%	15.7%	17.7%	7.2%	9.2%
Composite	4.6	15.4	17.5	7.1	8.9



EXECUTIVE SUMMARY

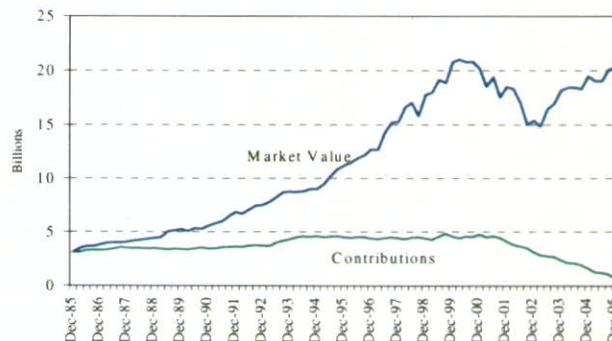
Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased 3.0% during the first quarter of 2006. Positive investment returns accounted for the increase.

Asset Growth During First Quarter 2006 (Millions)

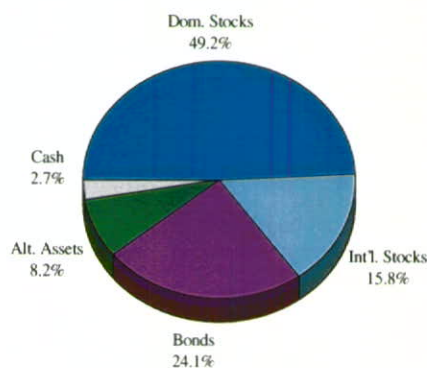
Beginning Value	\$20,295
Net Contributions	-315
Investment Return	929
Ending Value	\$20,909



Asset Mix

The allocation to bonds and unallocated cash increased over the quarter due to rebalancing from domestic and international stocks.

	Policy Targets	Actual Mix 3/31/2006	Actual Market Value (Millions)
Domestic Stocks	45.0%	49.2%	\$10,280
Int'l. Stocks	15.0	15.8	3,304
Bonds	25.0	24.1	5,039
Alternative Assets*	12.0	8.2	1,726
Unallocated Cash	3.0	2.7	560
	100.0%	100.0%	\$20,909

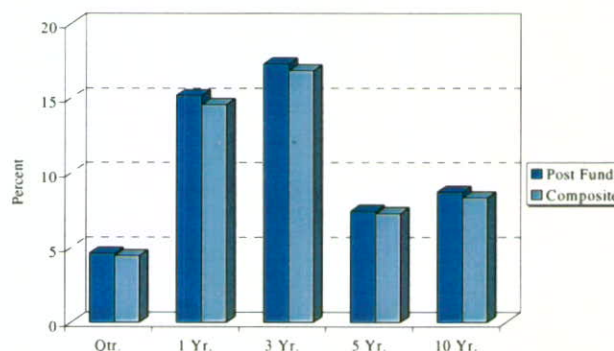


* Any uninvested allocation is held in domestic stocks.

Fund Performance (Net of Fees)

The Post Fund outperformed its composite market index for all periods shown.

	Period Ending 3/31/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Post	4.6%	15.2%	17.3%	7.4%	8.7%
Composite	4.5	14.6	16.9	7.3	8.3



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 outperformed 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 3/31/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Dom. Stocks	5.1%	14.4%	19.0%	5.3%	8.7%
Asset Class Target*	5.3	14.3	19.1	5.5	8.7

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

International Stocks

The international stock manager group (active and passive combined) outperformed 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 48 countries included in this index. It does not include the United States.

	Period Ending 3/31/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	10.0%	27.9%	32.3%	11.2%	7.6%
Asset Class Target*	9.7	27.6	33.0	11.1	6.6

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

Bonds

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

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

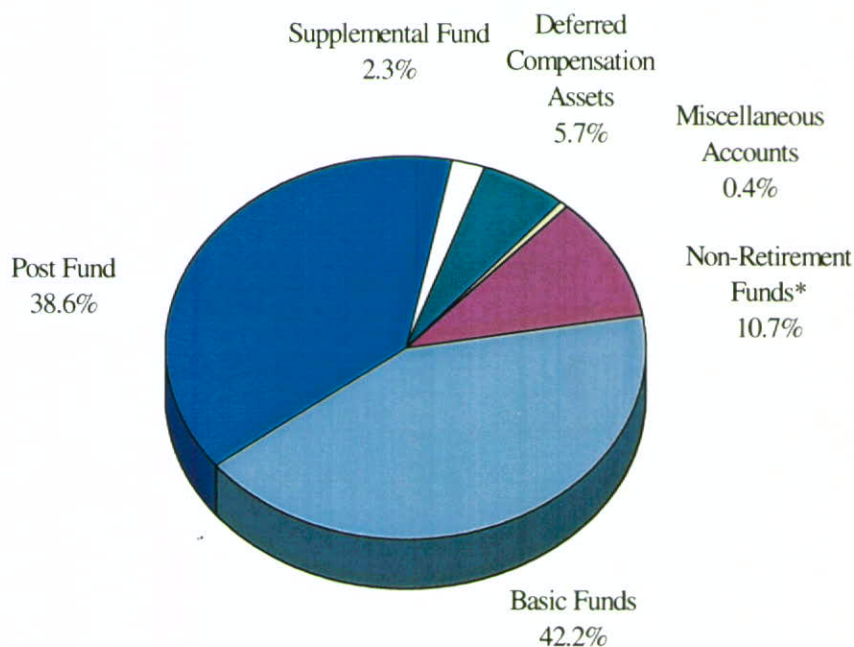
	Period Ending 3/31/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	-0.4%	2.7%	3.7%	5.5%	6.7%
Asset Class Target*	-0.6	2.3	2.9	5.1	6.3

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

Alternative Investments

	Period Ending 3/31/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	6.8%	38.9%	27.8%	14.1%	17.2%

EXECUTIVE SUMMARY
Funds Under Management



	3/31/2006 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	\$22.8
Post Retirement Fund	20.9
Supplemental Investment Fund	1.2
State Deferred Compensation Plan Non-SIF Assets	3.1
Non-Retirement Funds*	
Assigned Risk Plan	0.3
Permanent School Fund	0.6
Environmental Trust Fund	0.4
State Cash Accounts	4.5
Miscellaneous Accounts	
	0.2
Total	\$54.1

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

First Quarter 2006
(January 1, 2006 - March 31, 2006)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 3/31/2006				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Dow Jones Wilshire Composite	5.4%	14.7%	19.7%	5.9%	9.1%
Dow Jones Industrials	4.3	8.4	14.3	4.7	9.3
S&P 500	4.2	11.7	17.2	4.0	9.0
Russell 3000 (broad market)	5.3	14.3	19.1	5.3	9.2
Russell 1000 (large cap)	4.5	13.2	18.3	4.7	9.2
Russell 2000 (small cap)	13.9	25.8	29.5	12.6	10.1
Domestic Fixed Income					
Lehman Aggregate (1)	-0.6	2.3	2.9	5.1	6.3
Lehman Gov't./Corp.	-1.0	2.0	2.8	5.2	6.3
3 month U.S. Treasury Bills	1.1	3.7	2.1	2.1	3.7
International					
EAFE (2)	9.4	24.4	31.1	9.6	6.5
Emerging Markets Free (3)	12.1	48.0	46.7	23.6	7.6
ACWI Free ex-U.S. (4)	9.8	28.1	33.5	11.8	7.4
World ex-U.S. (5)	9.3	25.1	31.5	10.1	6.9
Salomon Non U.S. Gov't. Bond	-0.2	-6.5	5.1	8.3	4.6
Inflation Measure					
Consumer Price Index CPI-U (6)	1.5	2.6	2.5	2.4	2.4
Consumer Price Index CPI-W (7)	1.5	3.6	2.7	2.5	2.5

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

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

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

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

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

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

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The U.S. stock market, as measured by the Russell 3000 index, gained 5.3% during the first quarter of 2006. The market rallied despite continued Federal Reserve rate increases, high energy prices, economic uncertainty, and ongoing geopolitical concerns. Investors seemed to prefer more speculative names as the best performing stocks exhibited strong price momentum or were of lower quality. Small capitalization stocks outperformed large capitalization stocks, and value stocks outperformed growth stocks. However, among small capitalization stocks, growth outperformed value. The materials and processing sector generated the largest total return within the Russell 3000 index. The consumer staples sector generated the lowest total return.

DOMESTIC BONDS

The bond market was down 0.6% for the quarter and gained 2.3% for the year. Rates rose during the quarter largely in reaction to continued policy tightening by the Fed (25 bps per meeting at two meetings). The poor performance of the bond market during the quarter resulted from sharply rising rates across the spectrum of maturities. Commercial mortgage-backed securities were the best performing portion of the Lehman Aggregate Index, on a relative return basis this quarter. The yield curve regained its normal positive slope between 2-year and 10-year maturities by quarter-end, following an inversion which peaked in mid-February.

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

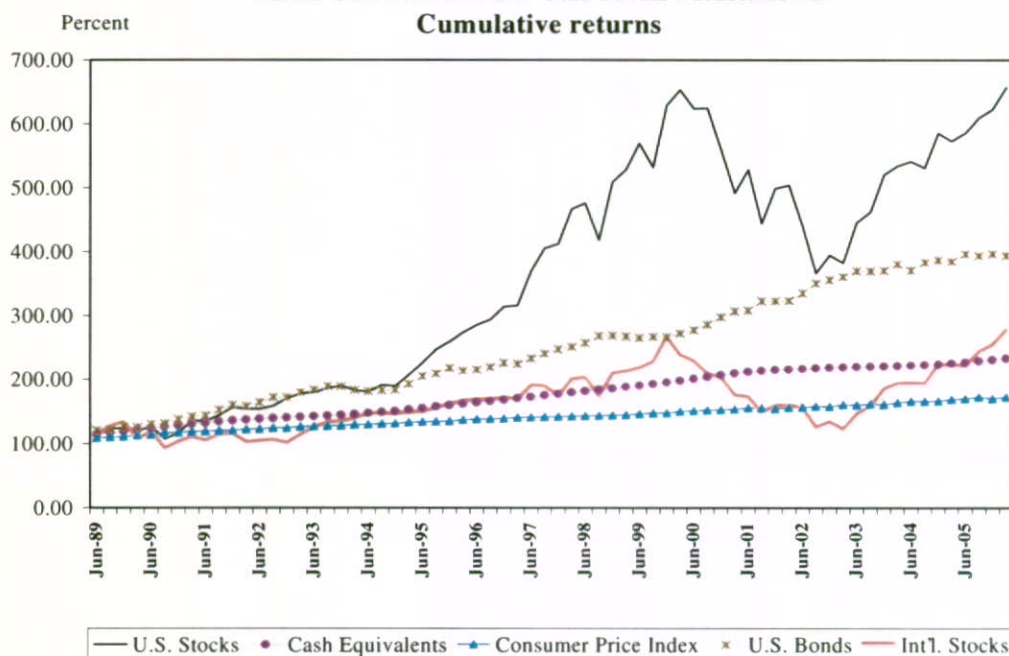
Performance of the Russell Style Indices for the quarter is shown below:

Large Growth	Russell 1000 Growth	3.1%
Large Value	Russell 1000 Value	5.9%
Small Growth	Russell 2000 Growth	14.4%
Small Value	Russell 2000 Value	13.5%

U.S. Treasury	-1.2%
Agency	-0.2
Credit	-1.2
Mortgages	-0.1

The Russell 3000 returned 14.3% for the year ending March 31, 2006.

PERFORMANCE OF CAPITAL MARKETS



FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, developed international stock markets (as measured by the MSCI World ex U.S. index) provided a return of 9.3% for the quarter. The quarterly performance of the six largest stock markets is shown below:

United Kingdom	8.3%
Japan	6.8
France	13.2
Switzerland	7.1
Germany	13.8
Canada	8.4

The World ex U.S. index increased by 25.1% during the last year.

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

EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of 12.1% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below:

Korea	5.5%
Taiwan	2.6
South Africa	18.0
Mexico	7.1
Brazil	21.5

The Emerging Markets Free index increased by 48.0% during the last year.

The Emerging Markets Free (EMF) index is compiled by MSCI and measures performance of 26 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 66% of the value of the international markets in the index.

REAL ESTATE

2005 was a relatively strong year for real estate. In general, prices increased and fundamentals improved. In the early part of 2006, investors will need to be aware of the potential negative effect on real estate of increased interest rates and a possible slowing global economy.

PRIVATE EQUITY

U.S. private equity firms raised \$152 billion for private equity limited partnerships of all types, from venture capital to buyouts in 2005. This represents an 66% increase relative to the revised 2004 total of \$92 billion. The first quarter of 2006 saw a total of \$12 billion in funds raised.

RESOURCE FUNDS

During the first quarter of 2006, crude oil averaged \$63.48 per barrel, slightly higher than an average price of \$60.15 during the prior quarter. The sustained high oil prices continue to reflect the relative instability in the Middle East.

COMBINED FUNDS

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

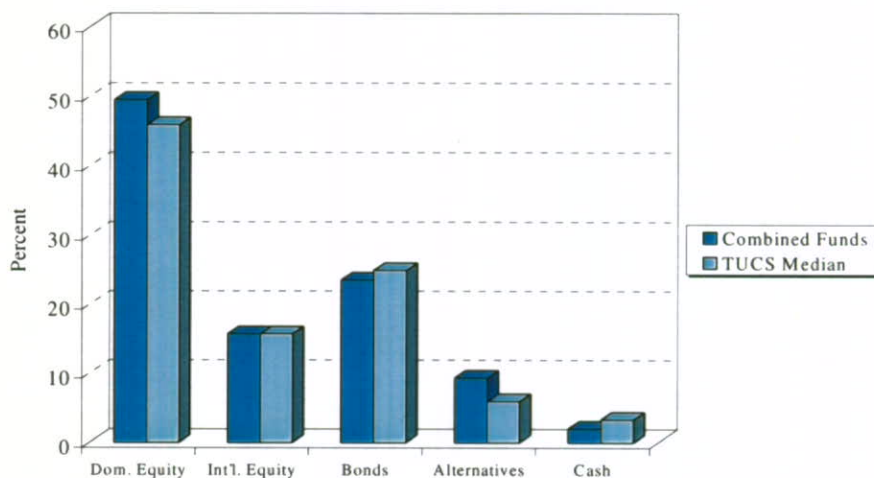
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over \$1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On March 31, 2006, the actual asset mix of the Combined Funds was:

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

	\$ Millions	%
Domestic Stocks	\$21,631	49.5%
International Stocks	6,876	15.7
Bonds	10,262	23.5
Alternative Assets	4,060	9.3
Unallocated Cash	899	2.0
Total	\$43,728	100.0%



	Dom. Equity	Int'l Equity	Bonds	Alternatives	Cash
Combined Funds	49.5%	15.7%	23.5%	9.3%	2.0%
Median Allocation in TUCS*	45.9	15.7	24.9	5.9**	3.3

* Public and corporate plans over \$1 billion.

** May include assets other than alternatives.

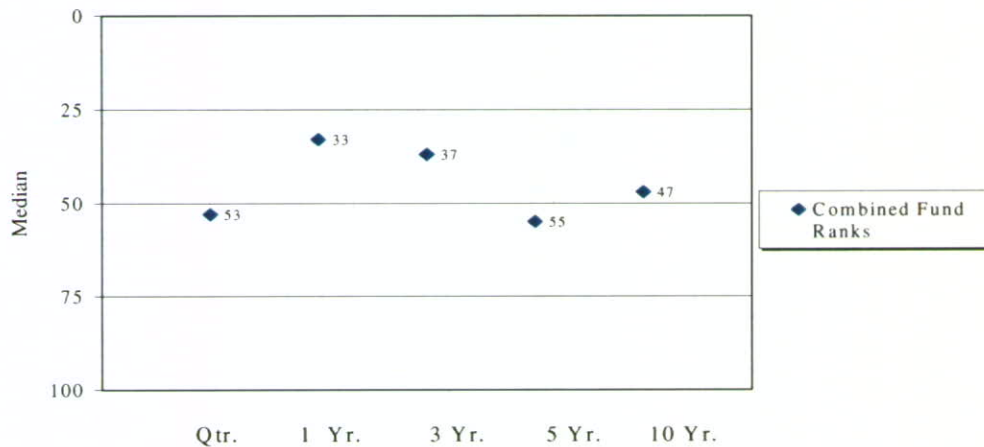
COMBINED FUNDS
Performance Compared to Other Pension Funds

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

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

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

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



	Period Ending 3/31/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds Percentile Rank in TUCS*	53rd	33rd	37th	55th	47th

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

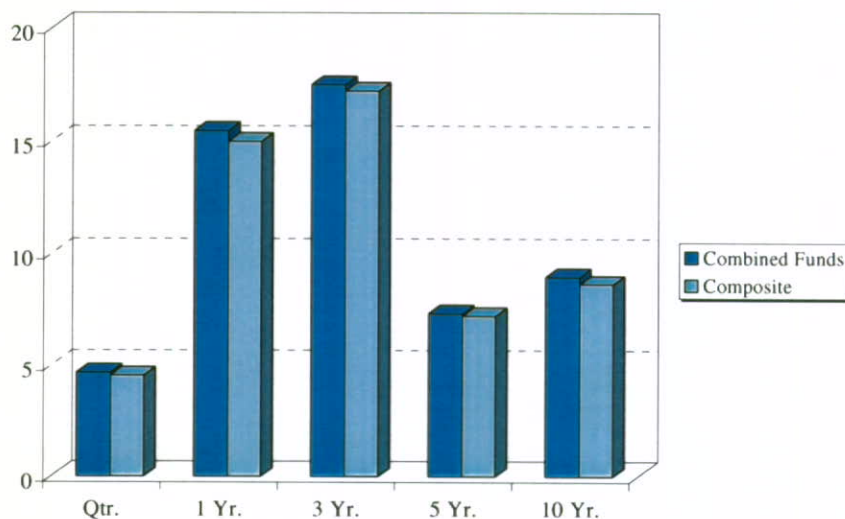
**COMBINED FUNDS
Performance Compared to Composite Index**

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:

	Market Index	Combined Funds Composite* 1Q06
Domestic Stocks	Russell 3000	49.1%*
Int'l. Stocks	MSCI ACWI Free ex-U.S.	15.0
Bonds	Lehman Aggregate	24.5
Alternative Investments	Alternative Investments	9.5*
Unallocated Cash	3 Month T-Bills	1.9
		100.0%

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



	Period Ending 3/31/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds**	4.7%	15.5%	17.5%	7.3%	9.0%
Composite Index	4.5	15.0	17.2	7.2	8.6

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

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BASIC RETIREMENT FUNDS

Investment Objectives

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

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

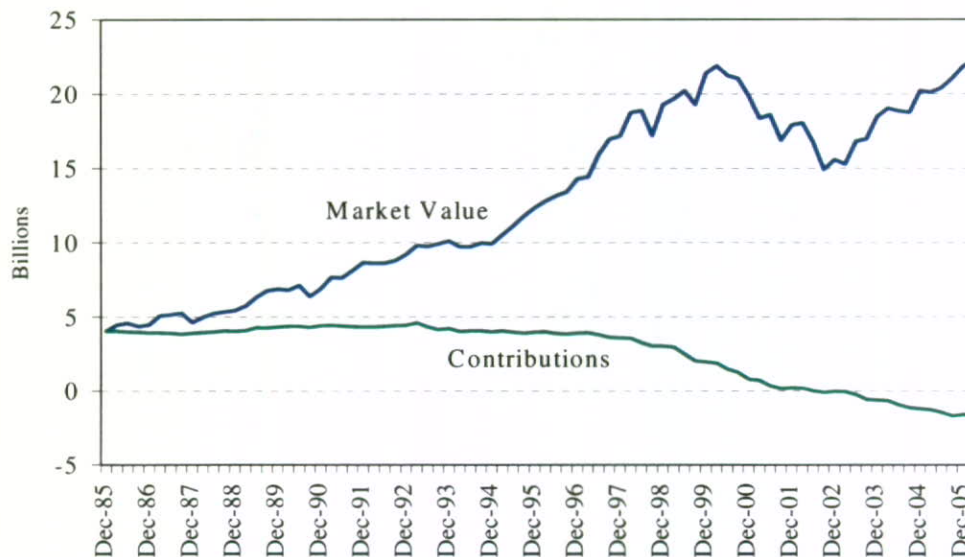
projected pension costs, the Basic Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

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

Asset Growth

The market value of the Basic Funds increased 4.6% during the first quarter of 2006.

Positive investment returns accounted for the increase.



	Last Five Years					Latest Qtr.
	In Millions					
	12/01	12/02	12/03	12/04	12/05	3/06
Beginning Value	\$19,807	\$17,874	\$15,561	\$18,435	\$20,201	\$21,816
Net Contributions	-572	-247	-592	-577	-411	-24
Investment Return	-1,361	-2,066	3,466	2,343	2,026	1,028
Ending Value	\$17,874	\$15,561	\$18,435	\$20,201	\$21,816	\$22,820

BASIC RETIREMENT FUNDS

Asset Mix

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

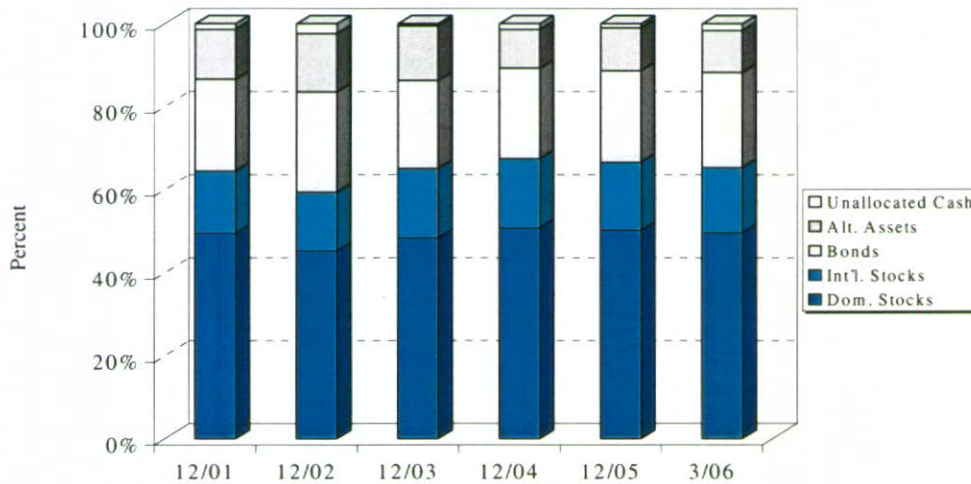
In October 2003, the Board provisionally revised its long term asset allocation targets for the Basic Funds, increasing the allocation for alternative investments from 15% to 20% and decreasing fixed income from 24% to 19%.

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

Over the last year, the allocation to alternatives and international stocks increased due to strong returns.

During the quarter, the bonds and unallocated cash allocations increased due to rebalancing from domestic and international stocks.

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



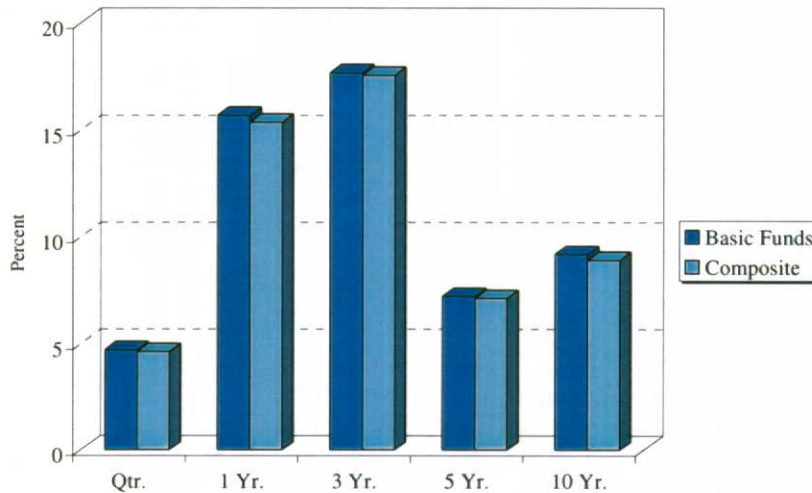
	Last Five Years					Latest Qtr.
	12/01	12/02	12/03	12/04	12/05	3/06
Domestic Stocks	49.5%	45.3%	48.5%	50.9%	50.3%	49.7%
Int'l. Stocks	15.0	14.1	16.6	16.6	16.3	15.7
Bonds	22.1	24.2	21.2	21.8	22.1	22.9
Alternative Assets	13.3	9.4	13.3	9.4	10.4	10.2
Unallocated Cash	1.3	2.3	0.4	1.3	0.9	1.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

BASIC RETIREMENT FUNDS
Total Fund Performance (Net of Fees)

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

	Basics Target	Market Index	Basics Composite* 1Q06
Domestic Stocks	45.0%	Russell 3000	49.5%*
Int'l. Stocks	15.0	MSCI ACWI Free ex-U.S.	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Investments	15.0	Alternative Investments	10.5*
Unallocated Cash	1.0	3 Month T-Bills	1.0
	100.0%		100.0%

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



	Period Ending 3/31/2006				
	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
Basic Funds**	4.7%	15.7%	17.7%	7.2%	9.2%
Composite Index	4.6	15.4	17.5	7.1	8.9

**Returns are reported net of fees.

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

POST RETIREMENT FUND

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

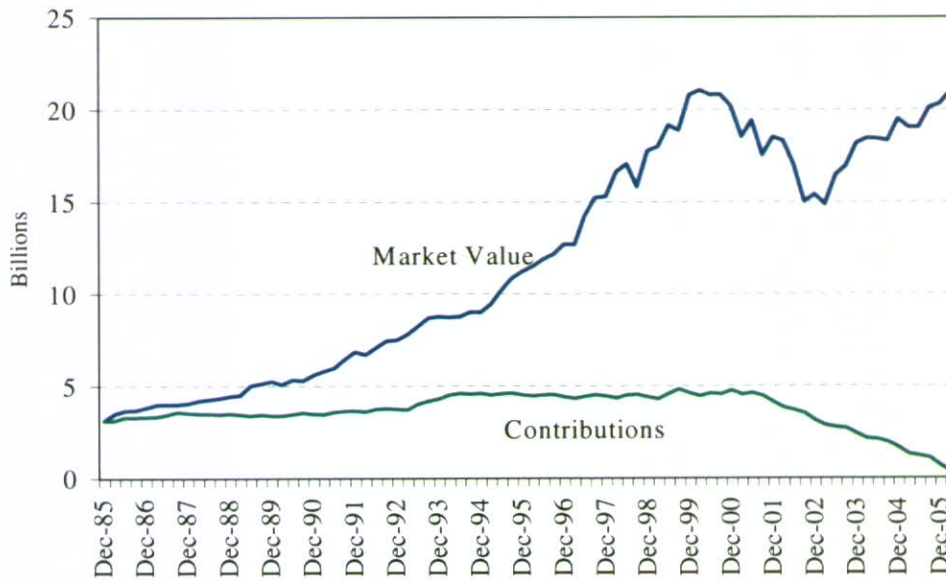
The post retirement benefit increase formula is based on the total return of the Fund. As a result, the Board maintains a long-term asset allocation strategy for the Post Fund which incorporates a substantial commitment to common stocks.

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

Asset Growth

The market value of the Post Fund increased 3.0% during the first quarter of 2006.

Positive investment returns accounted for the increase.



	Last Five Years					Latest Qtr.
	In Millions					
	12/01	12/02	12/03	12/04	12/05	3/06
Beginning Value	\$20,153	\$18,475	\$15,403	\$18,162	\$19,480	\$20,295
Net Contributions	-647	-1,000	-719	-749	-984	-315
Investment Return	-1,031	-2,072	3,478	2,067	1,799	929
Ending Value	\$18,475	\$15,403	\$18,162	\$19,480	\$20,295	\$20,909

POST RETIREMENT FUND

Asset Mix

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

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

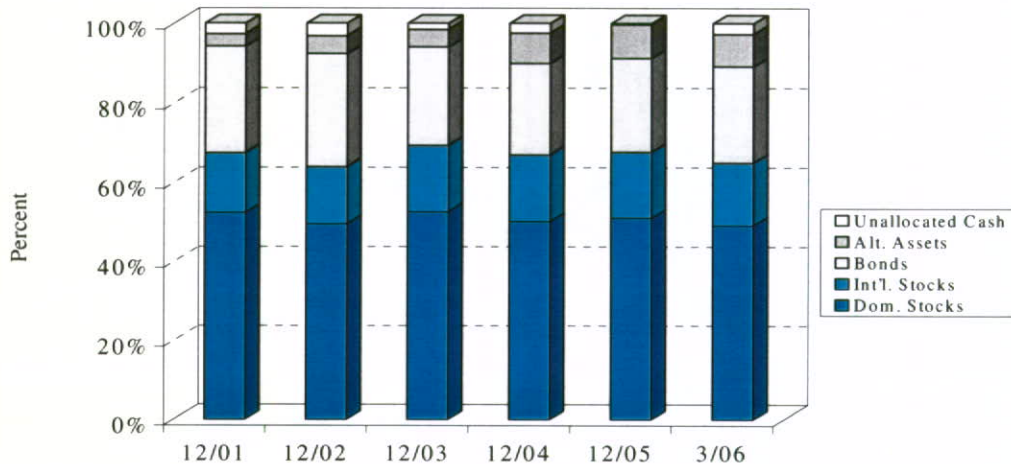
In October 2003, the Board revised its long term asset allocations for the Post Fund, increasing alternative investments from 5% to 12% and decreasing domestic equity from 50% to 45% and decreasing fixed income from 27% to 25%.

Over the last year, the allocation to alternatives and international stocks increased due to strong returns.

During the quarter, the allocation to bonds and unallocated cash increased over the quarter due to rebalancing from domestic and international stocks.

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

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



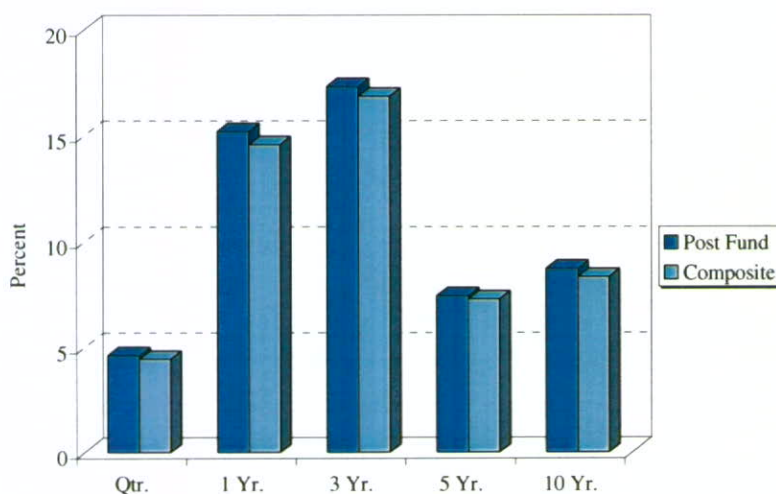
	Last Five years					Latest Qtr.
	12/01	12/02	12/03	12/04	12/05	3/06
Dom. Stocks	52.4%	49.6%	52.7%	50.2%	51.1%	49.2%
Int'l. Stocks	15.1	14.4	16.7	16.8	16.6	15.8
Bonds	26.7	28.3	24.6	22.9	23.5	24.1
Alt. Assets	3.1	4.5	4.4	7.6	8.5	8.2
Unallocated Cash	2.7	3.2	1.6	2.5	0.3	2.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

POST RETIREMENT FUND
Total Fund Performance (Net of Fees)

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

Asset Class	Post Target	Market Index	Post Composite* 4Q05
Domestic Stocks	45.0%	Russell 3000	48.6%
Int'l. Stocks	15.0	MSCI ACWI Free ex-U.S.	15.0
Bonds	25.0	Lehman Aggregate	25.0
Alternative Investments	12.0	Alternative Investments	8.4*
Unallocated Cash	3.0	3 Month T-Bills	3.0
	100.0%		100.0%

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



Period Ending 3/31/2006

	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
Post Fund**	4.6%	15.2%	17.3%	7.4%	8.7%
Composite Index	4.5	14.6	16.9	7.3	8.3

** Returns are reported net of fees.

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

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

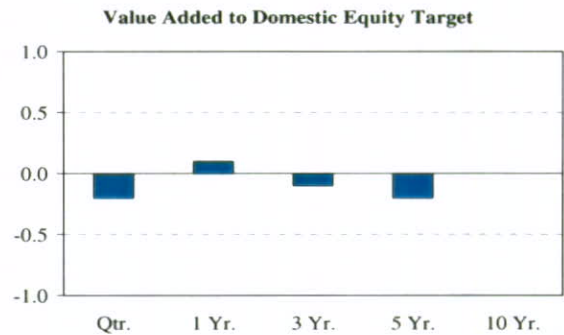
Domestic Stocks

Target: Russell 3000

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

	Period Ending 3/31/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Stocks	5.1%	14.4%	19.0%	5.3%	8.7%
Asset Class Target*	5.3	14.3	19.1	5.5	8.7

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



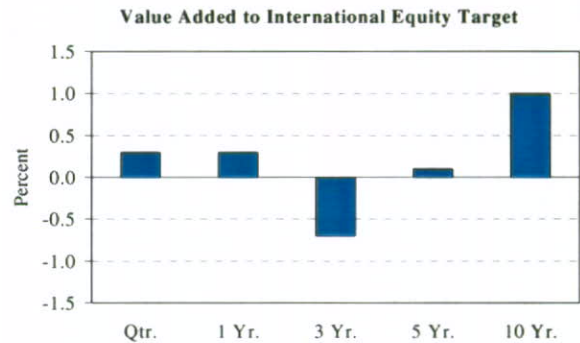
International Stocks

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

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

	Period Ending 3/31/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	10.0%	27.9%	32.3%	11.2%	7.6%
Asset Class Target*	9.7	27.6	33.0	11.1	6.6

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

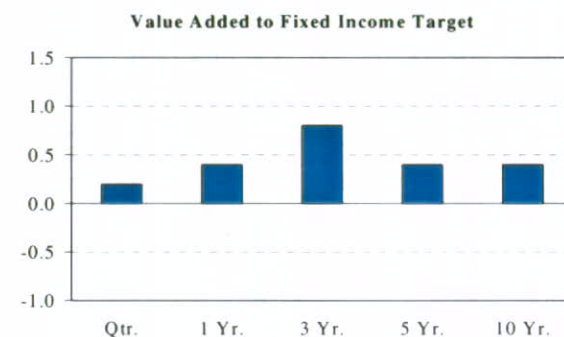


Bonds

Target: Lehman Brothers Aggregate Bond Index

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

	Period Ending 3/31/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	-0.4%	2.7%	3.7%	5.5%	6.7%
Asset Class Target	-0.6	2.3	2.9	5.1	6.3



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 3/31/2006				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	6.8%	38.9%	27.8%	14.1%	17.2%
Inflation	1.5%	2.6%	2.5%	2.4%	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 3/31/2006				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Real Estate	11.2%	23.4%	17.7%	12.2%	13.7%

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 3/31/2006				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Private Equity	7.6%	34.5%	30.1%	11.1%	18.1%

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 3/31/2006				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Resource	-6.7%	118.8%	54.3%	29.4%	23.3%

Yield Oriented Investments (Debt emphasis)

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

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

	Period Ending 3/31/2006				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Yield Oriented	5.7%	43.6%	25.4%	17.8%	15.4%

SUPPLEMENTAL INVESTMENT FUND

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

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

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

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

On March 31, 2006 the market value of the entire Fund was \$1.2 billion.

Investment Options

	3/31/2006 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	\$463
Growth Share Account – an actively managed, all common stock portfolio.	\$149
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	\$245
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	\$113
Bond Market Account – an actively managed, all bond portfolio.	\$136
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	\$62
Fixed Interest Account – a portfolio of guaranteed investment contracts (GIC's) and GIC type investments which offer a fixed rate of return for a specified period of time.	\$73

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%	61.5%
Bonds	35.0	33.9
Unallocated Cash	5.0	4.6
	100.0%	100.0%

Period Ending 3/31/2006

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	3.5%	10.2%	12.8%	5.4%	8.2%
Benchmark*	3.0	9.5	12.5	5.5	8.0

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

GROWTH SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

Period Ending 3/31/2006

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	4.8%	14.1%	18.9%	5.1%	8.4%
Benchmark*	5.3	14.3	19.1	5.5	8.7

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

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

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

The Account is invested 100% in common stock.

Period Ending 3/31/2006

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	5.5%	14.6%	19.2%	5.5%	9.1%
Benchmark*	5.3	14.3	19.1	5.5	8.8

* 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 is designed to track the return of 22 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 3/31/2006

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	10.0%	28.1%	32.4%	11.4%	7.7%
Benchmark*	9.7	27.6	33.0	11.1	6.6

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

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

Investment Objective

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

Asset Mix

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

	Period Ending 3/31/2006				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	-0.4%	2.8%	3.8%	5.6%	6.7%
Lehman Agg.	-0.6	2.3	2.9	5.1	6.3

MONEY MARKET ACCOUNT

Investment Objective

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

Asset Mix

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

	Period Ending 3/31/2006				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	1.0%	3.6%	2.3%	2.4%	4.1%
3 month T-Bills	1.1	3.7	2.1	2.1	3.7

FIXED INTEREST ACCOUNT

Investment Objectives

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

Asset Mix

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

	Period Ending 3/31/2006				
	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	1.1%	4.4%	4.3%	4.9%	5.7%
Benchmark*	1.3	4.6	3.6	3.6	4.8

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

DEFERRED COMPENSATION PLAN ACCOUNTS

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

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

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

Investment Options

	3/31/2006 Market Value (in Millions)
Vanguard Institutional Index (passive)	\$425
Janus Twenty (active)	\$338
Smith Barney Appreciation Y (active)	\$115
Vanguard Mid Cap Index (passive)	\$107
T. Rowe Price Small Cap (active)	\$414
Fidelity Diversified International (active)	\$225
Vanguard Institutional Developed Markets (passive)	\$44
Dodge & Cox Balanced Fund (active)	\$232
Vanguard Balanced Fund (passive)	\$168
Dodge & Cox Income Fund (active)	\$78
Vanguard Total Bond Market Fund (passive)	\$47
Money Market Account	\$50
Fixed Interest Account	\$118
Fixed Fund	\$733

DEFERRED COMPENSATION PLAN ACCOUNTS

LARGE CAP EQUITY

Vanguard Institutional Index (passive)

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

	Period Ending 3/31/2006			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	4.2%	11.8%	17.3%	4.0%
S&P 500	4.2	11.7	17.2	4.0

Janus Twenty (active)

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

	Period Ending 3/31/2006			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	3.0%	21.4%	20.7%	4.5%
S&P 500	4.2	11.7	17.2	4.0

Smith Barney Appreciation Y (active)

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

	Period Ending 3/31/2006			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	Since
Fund	5.7%	11.0%	N/A	12/1/03 10.6%
S&P 500	4.2	11.7	N/A	11.0

MID CAP EQUITY

Vanguard Mid Cap Index (passive)

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

	Period Ending 3/31/2006			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	Since
Fund	7.6%	23.2%	N/A	1/1/04 19.0%
MSCI US Mid-Cap 450	7.6	23.0	N/A	18.9

SMALL CAP EQUITY

T. Rowe Price Small Cap (active)

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

	Period Ending 3/31/2006			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	11.2%	24.8%	25.8%	13.7%
Russell 2000	13.9	25.8	29.5	12.6

INTERNATIONAL EQUITY

Fidelity Diversified International (active)

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

	Period Ending 3/31/2006			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	9.7%	28.4%	32.5%	14.4%
MSCI EAFE	9.4	24.4	31.1	9.7

Vanguard Institutional Developed Markets (passive)

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

	Period Ending 3/31/2006			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	Since
Fund	9.2%	24.3%	N/A	12/1/03 22.7%
MSCI EAFE	9.4	24.4	N/A	22.6

DEFERRED COMPENSATION PLAN ACCOUNTS

BALANCED

Dodge & Cox Balanced Fund (active)

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

	Period Ending 3/31/2006			
	Qtr.	1 Yr.	3 Yr.	Annualized Since 10/1/03
Fund	3.5%	10.5%	N/A	13.6%
Benchmark	2.3	7.9	N/A	8.9

Vanguard Balanced Fund (passive)

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

	Period Ending 3/31/2006			
	Qtr.	1 Yr.	3 Yr.	Annualized Since 12/1/03
Fund	3.0%	9.7%	N/A	8.8%
Benchmark	3.0	9.6	N/A	8.7

FIXED INCOME

Dodge & Cox Income Fund (active)

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

	Period Ending 3/31/2006			
	Qtr.	1 Yr.	3 Yr.	Annualized Since 5 Yr.
Fund	0.1%	2.5%	3.5%	5.7%
Lehman Agg.	-0.6	2.3	2.9	5.1

Vanguard Total Bond Market Fund (passive)

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

	Period Ending 3/31/2006			
	Qtr.	1 Yr.	3 Yr.	Annualized Since 12/1/03
Fund	-0.7%	2.2%	N/A	3.0%
Lehman Agg.	-0.6	2.3	N/A	3.1

Money Market Account

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

	Period Ending 3/31/2006			
	Qtr.	1 Yr.	3 Yr.	Annualized Since 5 Yr.
Fund	1.0%	3.6%	2.3%	2.4%
3-Mo. Treas.	1.1	3.7	2.1	2.1

FIXED INTEREST ACCOUNT

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

	Period Ending 3/31/2006			
	Qtr.	1 Yr.	3 Yr.	Annualized Since 5 Yr.
Fund	1.1%	4.4%	4.3%	5.0%
Benchmark	1.3	4.6	3.6	3.6

FIXED FUND

- The Fixed Fund invests participant balances in the general accounts of three insurance companies that have been selected by the SBI. The three insurance companies provide a new rate each quarter. A blended yield rate is calculated and then credited to the participants.

Period Ending 3/31/2006

The quarterly blended rate is: 4.56%

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.

	3/31/2006 Target	3/31/2006 Actual
Stocks	20.0%	22.6%
Bonds	80.0	77.4
Total	100.0%	100.0%

Investment Management

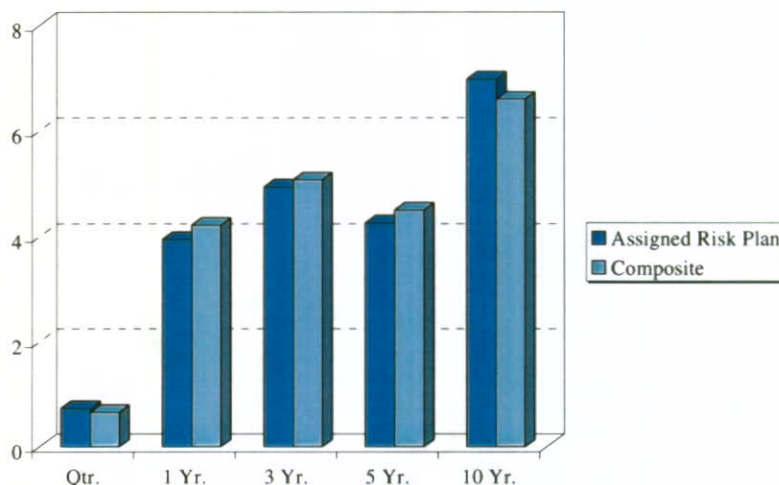
Voyageur Asset Management manages the bond segment of the Fund. GE Investment Management manages the equity segment.

Performance Benchmarks

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

Market Value

On March 31, 2006 the market value of the Assigned Risk Plan was \$320 million.



Period Ending 3/31/2006

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	0.7%	3.9%	4.9%	4.3%	7.0%
Composite	0.7	4.2	5.1	4.5	6.6
Equity Segment*	4.2	9.1	14.1	2.7	9.4
Benchmark	4.2	11.7	17.2	4.0	9.0
Bond Segment*	-0.2	2.5	2.4	4.1	5.4
Benchmark	-0.2	2.4	2.1	4.4	5.7

* 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.

	3/31/2006 Target	3/31/2006 Actual
Stocks	50.0%	50.8%
Bond	48.0	47.3
Unallocated Cash	2.0	1.9
Total	100.0%	100.0%

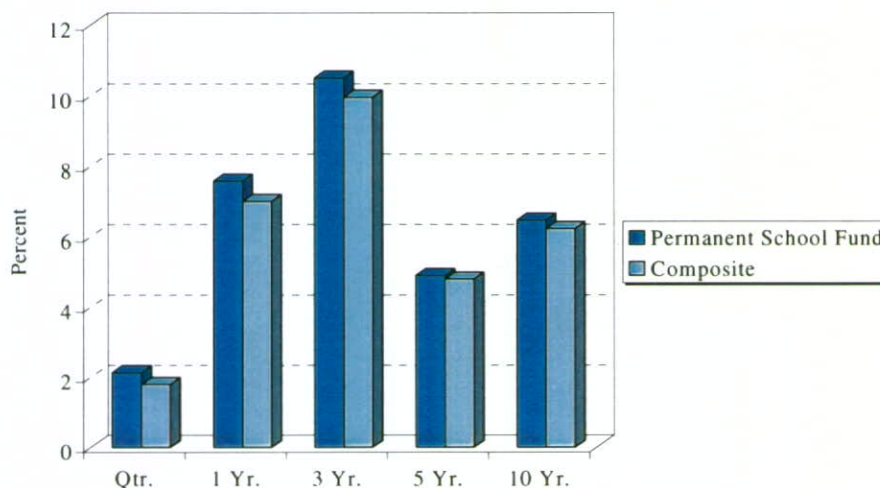
Prior to FY98, the Fund was invested entirely in fixed income securities in order to maximize current income. It is understood that the change in asset mix will reduce portfolio income in the short term, but will enhance the value of the fund, over time.

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 March 31, 2006 the market value of the Permanent School Fund was \$641 million.



	Period Ending 3/31/2006 Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund (1) (2)	2.1%	7.6%	10.5%	4.9%	6.5%
Composite	1.8	7.0	10.0	4.8	6.2
Equity Segment (1) (2)	4.2	11.8	17.2	4.0	N/A
S&P 500	4.2	11.7	17.2	4.0	N/A
Bond Segment (1)	-0.1	3.1	3.8	5.5	6.6
Lehman Aggregate	-0.6	2.3	2.9	5.1	6.3

(1) Actual returns are calculated net of fees.
 (2) Equities were added to the asset mix effective July 28, 1997. Prior to that date the fund was invested entirely in bonds. The composite Index has been weighted accordingly.

ENVIRONMENTAL TRUST FUND

Investment Objective

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

Asset Mix

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

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

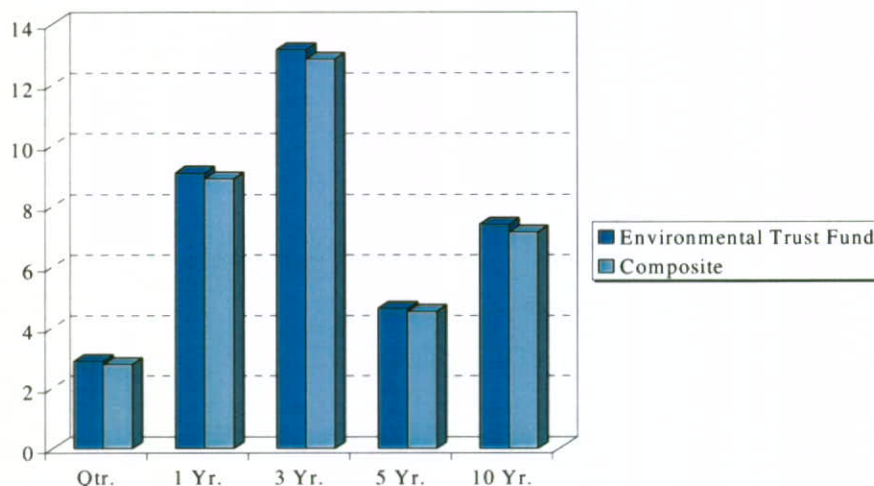
Investment Management

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

Market Value

On March 31, 2006 the market value of the Environmental Trust Fund was \$414 million.

	3/31/2006 Target	3/31/2006 Actual
Stocks	70.0%	69.4%
Bonds	28.0	30.0
Unallocated Cash	2.0	0.6
Total	100.0%	100.0%



	Period Ending 3/31/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	2.9%	9.1%	13.2%	4.6%	7.4%
Composite	2.8	8.9	12.8	4.5	7.1
Equity Segment*	4.2	11.8	17.3	4.0	9.1
S&P 500	4.2	11.7	17.2	4.0	9.0
Bond Segment*	-0.1	3.1	3.9	5.6	6.8
Lehman Agg.	-0.6	2.3	2.9	5.1	6.3

* Actual returns are calculated net of fees.

CLOSED LANDFILL INVESTMENT FUND

Investment Objectives

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

Investment Management

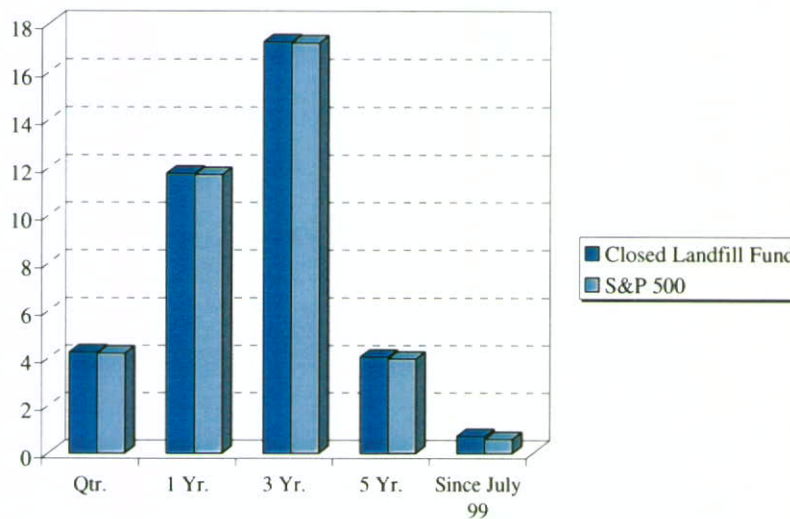
SBI staff manage all assets of the Closed Landfill Investment Fund. The assets are managed to passively track the performance of the S&P 500 index.

Market Value

On March 31, 2006, the market value of the Closed Landfill Investment Fund was \$45.9 million.

Asset Mix

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



Period Ending 3/31/2006

	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	Since 7/1/1999
Total Fund (1)	4.2%	11.8%	17.3%	4.1%	0.7%
S&P 500 (2)	4.2	11.7	17.2	4.0	0.6

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

STATE CASH ACCOUNTS

Description

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

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

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

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

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

Investment Objectives

Safety of Principal. To preserve capital.

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

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

Asset Mix

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

Investment Management

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

	Market Value (Millions)	Period Ending 3/31/2006				
		Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Treasurer's Cash Pool*	\$4,091	1.1%	3.8%	2.2%	2.5%	4.2%
Custom Benchmark**		1.0	3.2	1.6	2.1	3.7
Trust Fund Cash Pool*	\$38	1.1	3.7	2.2	2.3	4.0
Custom Benchmark***		1.0	3.2	1.6	1.7	3.5
3 month T-Bills		1.1	3.7	2.1	2.1	3.7

* Actual returns are calculated net of fees.

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

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

MINNESOTA STATE BOARD OF INVESTMENT
Composition of State Investment Portfolios By Type of Investment
Market Value March 31, 2006 (in Thousands)

	Cash and Short term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	124,188 1.53%	0	1,863,177 22.88%	0	4,048,694 49.73%	1,273,736 15.64%	831,871 10.22%	8,141,666 100%
Public Employees Retirement Fund	95,072 1.57%	0	1,387,734 22.88%	0	3,014,941 49.70%	948,707 15.64%	619,582 10.21%	6,066,036 100%
State Employees Retirement Fund	68,622 1.35%	0	1,162,463 22.91%	0	2,527,208 49.80%	795,353 15.68%	520,765 10.26%	5,074,411 100%
Public Employees Police & Fire	39,611 1.42%	0	639,741 22.91%	0	1,389,877 49.78%	437,350 15.66%	285,618 10.23%	2,792,197 100%
Highway Patrol Retirement Fund	3,610 1.35%	0	61,414 22.93%	0	133,425 49.81%	41,985 15.67%	27,420 10.24%	267,854 100%
Judges Retirement Fund	687 1.38%	0	11,320 22.78%	0	24,719 49.73%	7,787 15.67%	5,187 10.44%	49,700 100%
Correctional Employees Retirement	4,135 1.35%	0	70,129 22.91%	0	152,455 49.81%	47,979 15.67%	31,412 10.26%	306,110 100%
Public Employees Correctional	3,123 2.56%	0	27,672 22.65%	0	60,119 49.20%	18,918 15.48%	12,359 10.11%	122,191 100%
TOTAL BASIC FUNDS	339,048 1.49%	0	5,223,650 22.89%	0	11,351,438 49.74%	3,571,815 15.65%	2,334,214 10.23%	22,820,165 100%
POST RETIREMENT FUND	559,770 2.68%	0	5,039,577 24.10%	0	10,279,648 49.16%	3,304,185 15.80%	1,725,849 8.26%	20,909,029 100%
TOTAL BASIC AND POST	898,818 2.06%	0	10,263,227 23.47%	0	21,631,086 49.47%	6,876,000 15.72%	4,060,063 9.28%	43,729,194 100%

	Cash and Short term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
MINNESOTA SUPPLEMENTAL FUNDS:								
Income Share Account	21,207 4.58%	156,851 33.88%	0	0	284,857 61.54%	0	0	462,915 100%
Growth Share Account	0	0	0	0	149,470 100.00%	0	0	149,470 100%
Money Market Account	62,210 100.00%	0	0	0	0	0	0	62,210 100%
Common Stock Index	0	0	0	0	245,136 100.00%	0	0	245,136 100%
Bond Market Account	0	0	136,056 100.00%	0	0	0	0	136,056 100%
International Share Account	0	0	0	0	0	113,437 100.00%	0	113,437 100%
Fixed Interest Account	1,670 2.28%	0	71,724 97.72%	0	0	0	0	73,394 100%
TOTAL SUPPLEMENTAL FUNDS	85,087 6.85%	156,851 12.62%	207,780 16.72%	0	679,463 54.68%	113,437 9.13%	0	1,242,618 100%
MN DEFERRED COMP PLAN *	50,495 1.63%	0	1,226,655 39.60%	0	1,551,222 50.08%	269,092 8.69%	0	3,097,464 100%
TOTAL RETIREMENT FUNDS	1,034,400 2.15%	156,851 0.33%	11,697,662 24.33%	0	23,861,771 49.64%	7,258,529 15.10%	4,060,063 8.45%	48,069,276 100%

* includes assets in the MN Fixed Fund,
which are invested with three insurance cos.

	Cash and Short Term Securities	Bond Internal	Bond External	Stock Internal	Stock External	External Int'l	Alternative Assets	Total
ASSIGNED RISK PLAN	7,878 2.46%	0	240,778 75.24%	0	71,374 22.30%	0	0	320,030 100%
ENVIRONMENTAL FUND	2,374 0.57%	124,419 30.03%	0	287,526 69.40%	0	0	0	414,319 100%
PERMANENT SCHOOL FUND	11,997 1.87%	303,251 47.30%	0	325,949 50.83%	0	0	0	641,197 100%
CLOSED LANDFILL INVESTMENT	67 0.15%	0	0	45,842 99.85%	0	0	0	45,909 100%
TREASURERS CASH	4,095,321 100.00%	0	0	0	0	0	0	4,095,321 100%
HOUSING FINANCE AGENCY	24,750 12.75%	169,337 87.25%	0	0	0	0	0	194,087 100%
MINNESOTA DEBT SERVICE FUND	0	184,742 100.00%	0	0	0	0	0	184,742 100%
MISCELLANEOUS ACCOUNTS	46,138 23.48%	99,344 50.56%	0	51,020 25.96%	0	0	0	196,502 100%
TOTAL CASH AND NON-RETIREMENT	4,188,525 68.76%	881,093 14.46%	240,778 3.95%	710,337 11.66%	71,374 1.17%	0	0	6,092,107 100%
GRAND TOTAL	5,222,925 9.64%	1,037,944 1.92%	11,938,440 22.04%	710,337 1.31%	23,933,145 44.19%	7,258,529 13.40%	4,060,063 7.50%	54,161,383 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: May 30, 2006

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 April 30, 2006 is included as **Attachment A**.

A report on travel for the period from February 16, 2006 - May 15, 2006 is included as **Attachment B**.

2. Legislative Update

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

3. Litigation Update

SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on June 7, 2006.

4. Update Concerning Pharmaceutical Company Shareholder Resolutions

A member of staff attended the annual meeting of Wyeth to fulfill the SEC requirement that a shareholder must be present to introduce a resolution. The resolution received 25.5% of total votes cast at Wyeth.

ATTACHMENT A

**STATE BOARD OF INVESTMENT
FISCAL YEAR 2006 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH MARCH 31, 2006**

ITEM	FISCAL YEAR 2006 BUDGET	FISCAL YEAR 2006 ACTUAL
PERSONAL SERVICES		
FULL TIME EMPLOYEES	\$ 1,900,000	\$ 1,242,335
SEVERENCE PAYOFF	37,000	0
WORKERS COMPENSATION INSURANCE	1,000	800
MISCELLANEOUS PAYROLL	2,000	0
SUBTOTAL	\$ 1,940,000	\$ 1,243,135
STATE OPERATIONS		
RENTS & LEASES	205,000	153,404
REPAIRS/ALTERATIONS/MAINTENANCE	15,000	3,476
PRINTING & BINDING	10,000	4,817
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	7,082
COMMUNICATIONS	20,000	13,923
TRAVEL, IN-STATE	1,000	430
TRAVEL, OUT-STATE	50,000	18,496
SUPPLIES	30,000	12,741
EQUIPMENT	20,000	5,076
EMPLOYEE DEVELOPMENT	10,000	6,420
OTHER OPERATING COSTS	10,000	5,196
SUBTOTAL	\$ 381,000	\$ 231,061
ORIGINAL BUDGET	\$ 2,321,000	\$ 1,474,196
UNALLOCATED BALANCE FORWARD - FY 2005	\$ 102,388	
TOTAL GENERAL FUND	\$ 2,423,388	\$ 1,474,196

ATTACHMENT B

STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel February 16, 2006 –May 15, 2006

<u>Purpose</u>	<u>Name(s)</u>	<u>Destination and Date</u>	<u>Total Cost</u>
Conference: LATEC Mardi Gras Summit sponsored by: Information Management Network	H. Bicker	New Orleans, LA 2/22-2/24	\$1,133.20
Manager Monitoring: Fixed Income Managers: Aberdeen Asset Mgmt.; BlackRock Financial Mgmt.; Goldman Sachs Asset Mgmt.; Morgan Stanley Investments Manager Search: Fixed Income Managers: Delaware Investment Advisors; Prudential	M. Menssen T. Brusehaver-Derby	Philadelphia, PA Newark, NJ New York, NY 3/27-3/29	1,866.97
Manager Monitoring: Domestic Equity Managers: Cohen, Klingenstein & Marks; J.P. Morgan Asset Mgmt.; New Amsterdam Partners; Oppenheimer Capital; Manager Monitoring: Alternative Investment Manager: KKR Manager Monitoring: International Manager: Morgan Stanley Investment Mgmt.	H. Bicker	New York, NY 3/29-4/2	1,181.47
Manager Monitoring: Alternative Investment Managers: Summit Ventures; TA Realty Master Custodian: State Street Bank	A. Christensen	Boston, MA 4/12-4/13	776.21
Conference: National Association of State Investment Professionals (NASIP)	M. Menssen	Albuquerque, NM 4/18-4/21	1,875.10

<u>Purpose</u>	<u>Name(s)</u>	<u>Destination and Date</u>	<u>Total Cost</u>
Manager Monitoring: Alternative Investment Managers: The Banc Funds; Chicago Growth Partners; GTCR Golder Rauner; GTCR Limited Partners Annual Meeting; Merit Capital Partners; Prudential Capital Group; Thoma Cressey Equity Partners	J. Griebenow	Chicago, IL 4/24-4/26	890.80
Other: Wyeth Annual Meeting	M. Perry	Morristown, NJ 4/26-4/27	644.67
Manager Monitoring: Alternative Investment Managers: First Reserve; KKR Manager Search: Alternative Investment Manager: Diamond Castle	A. Christensen	New York, NY 5/3-5/5	815.00

ATTACHMENT C

**Bills of Interest to the Minnesota State Board of Investment
2006 Legislative Session
Includes Action Through 5/22/06**

Description of Bill	HF/SF # and Author	Current Status
Minneapolis Teachers Merger - Merging with TRA - Post Fund Benefit Cap - SBI budget	S.F. 1057 (Pogemiller)	5/20 Passed Senate 5/20 Passed House
SBI Budget	See S.F. 1057, Article 4	
Post Fund Benefit Cap	S.F. 1057, Article 1	
SBI Compensation Plan - In Supplemental Budget Bill	H.F. 4162 (Knoblach) See Article 14, Section 12, Subd. 14	5/22 Passed Senate 5/21 Passed House
Omnibus Pension Bill - First Class City Teachers may invest with SBI	S.F. 2239 (Pogemiller)	5/21 Passed Senate 5/21 Passed House
Local Government Post Retirement Health Liabilities - May invest with SBI	S.F. 3183 (Betzold) Did Not Pass H.F. 3380 (Buesgens)	Amended onto SF 2489 as section 43 On General Orders
SBI Investments in MN Venture Capital in Environmental Trust Fund	S.F. 2276 (Kelley)	Passed Senate in '05 Session; No action in '06 Session
Sudan - Report holdings in Sudan	S.F. 3616 (Bonoff) H.F. 4057 (Simon)	4/3 Amended and passed State & Local Gov't Op's; referred to Finance Referred to Gov't Op's & Vet. Affairs

Tab C

COMMITTEE REPORT

DATE: May 30, 2006

TO: Members, State Board of Investment

FROM: SBI Administrative Committee

The Administrative Committee met on May 17, 2006 to consider the following agenda items:

- Review of Executive Director's Proposed Workplan for FY07
- Review of Budget Plan for FY07
- Review of Continuing Fiduciary Education Plan
- Review of Executive Director's Evaluation Process
- Recommendation to approve Annual Salary Administration

Action is required by the SBI on these items.

1. Review of Executive Director's Proposed Workplan for FY07.

The Executive Director's Proposed Workplan for FY07 was presented. As in previous workplans, the FY07 plan follows the same category order found in the Executive Director's position description. The plan is a compilation of on-going responsibilities as well as the new initiatives the Executive Director will undertake during the next fiscal year.

A summary of the proposed plan is shown in **Attachment A** on **page 5** of this tab. Supporting information was sent to each Board member in May 2006 as part of the FY07 Management and Budget Plan document.

RECOMMENDATION:

The Committee recommends that the SBI approve the FY07 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY07.

2. **FY07 Administrative Budget Plan.**

The SBI's Administrative budget is funded by a legislative appropriation from the general fund. All expenditures are billed back to the various funds under the supervision of the SBI and the receipts are deposited in the general fund as non-dedicated revenue.

An overview of the budget is in **Attachment B, as FY2007 Budget As Appropriated**, on **page 7** of this tab. Supporting information was sent to each Board member in May 2006 as part of the FY07 Management and Budget Plan.

Legislation has been introduced which would change the procedure for setting the budget of the SBI. If enacted, the new procedure would take effect for Fiscal Year 2007. The new procedure would authorize the Board to set the budget annually with direct charge back to the entities that invest with the SBI. The general fund appropriation for the management of general fund assets would continue to be appropriated by the legislature.

In the event this legislation is enacted, the Committee has recommended an alternative budget to the Board. The alternative budget is in **Attachment B, as FY2007 Budget Revised** on **page 7** of this tab.

RECOMMENDATION:

If the proposed legislation to change the SBI budget procedure is enacted, the Committee recommends that the SBI approve the revised FY07 Administrative Budget Plan, as presented to the Committee, and that the Executive Director has the flexibility to reallocate funds between budget categories if the Executive Director deems necessary.

If the proposed legislation is not enacted, the Committee recommends that the SBI approve the FY07 Administrative Budget Plan As Appropriated, as presented to the Committee, and that the Executive Director has the flexibility to reallocate funds between budget categories if the Executive Director deems necessary.

3. Review of Continuing Fiduciary Education Plan.

Minnesota Statutes Chapter 356A requires each public pension plan to establish a continuing education plan for its fiduciaries. The plan approved by the Committee is in **Attachment C** on **page 9** of this tab. Please note that the travel allocation policy for Board members and their designees is included in the plan.

RECOMMENDATION:

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

4. Review of Executive Director's Evaluation Process.

The Committee discussed the process that will be used by the Board to evaluate the Executive Director for FY06. The Committee members agreed that the performance reviews should be completed prior to the September 2006 meeting of the SBI and should follow the process used in the past.

RECOMMENDATION:

The Committee recommends that the SBI adopt the following process for the Executive Director's FY06 performance evaluation:

- **The evaluation will be completed prior to the September 2006 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY06.**
- **The SBI deputies/designees will develop an appropriate evaluation form for use by each member, which will reflect the categories in the Executive Director's position description and workplan.**
- **As the Chair of the Board, the Governor's representative (Department of Finance), will coordinate distribution and collection of the evaluation forms and will forward the completed forms to the Executive Director. Board members are encouraged to meet individually with the Executive Director to review their own evaluation.**

5. Recommendation to approve Annual Salary Administration for Non-represented Unclassified Employees.

The SBI Salary Administration Plan was approved by the Board at its March 2006 meeting.

Section 6(b) of the SBI Salary Administration Plan provides that the Executive Director of the SBI shall annually review the performance of employees covered by the SBI Plan. As a result of each review, the Executive Director may grant compensation adjustments. The aggregate amount of salary increases granted through this provision shall be subject to the approval of the Board.

The Compensation Review Subcommittee is recommending that the SBI grant approval authorizing the Executive Director to grant salary increases to the employees covered by this Plan up to 2.0% in aggregate for Fiscal Year 2007.

The Managerial Plan of the Department of Employee Relations (DOER) provides for a general salary increase of 2.0% effective July 1, 2006. The granting of annual salary increases of up to 2.0% for the SBI Plan members would put the increase on an equal basis with the Managerial Plan for Fiscal Year 2007.

RECOMMENDATION:

The Compensation Review Subcommittee recommends that the SBI grant approval authorizing the Executive Director to grant salary increases to non-represented unclassified employees covered by the SBI Salary Administration Plan up to 2.0% in aggregate salaries for Fiscal Year 2007.

ATTACHMENT A

STATE BOARD OF INVESTMENT
Executive Director's Proposed Workplan

FY07

(Categories A, B, C, D, E correspond to the position description)

	Projected Time Frame
A. DEVELOPMENT OF INVESTMENT POLICIES	
1. Develop Plan to Merge Minneapolis Teachers Fund	Jul-Jun
2. Develop Plan to Manage Local Government Post Retirement Health Plans	Jul-Jun
B. IMPLEMENTATION OF INVESTMENT POLICIES APPROVED BY THE SBI	
1. Meet or exceed the performance objectives	Ongoing
2. Conduct Investment Manager Compliance Review of Guidelines and Contracts	Ongoing
3. Maintain External Investment Manager Short Lists	Ongoing
4. Investments with New/Existing Alternative Asset Managers	On-going
5. Implementation of Investment Advisory Council Governance Policies	Jul – Jun
C. REVIEW AND CONTROL OF INVESTMENT POLICIES	
1. Monitor and Evaluate Investment Manager Performance	On-going
2. Annual Review of Investment Manager Guidelines	Mar-Jun
3. Monitor Implementation of Northern Ireland Mandate	Aug-Mar
4. Provide Staff Support to Proxy Committee for Proxy Voting and Shareholder Initiatives	Jul-Jun
5. Review of Fixed Income Authority for Below Investment Grade and Non-Dollar Bonds	Oct-May
6. Review of Domestic Equity Indices	Jul-Dec

**D. ADMINISTRATION AND MANAGEMENT
OF STAFF OPERATIONS**

- | | |
|--|---------|
| 1. RFP for Investment Consultant(s) | Jul-Jun |
| 2. Coordinate Financial Audit by Legislative Auditor | Jul-Dec |
| 3. Prepare 2007 Legislative package | Sep-May |
| 4. Prepare FY08 Management and Budget Plan | Jan-Jun |
| 5. Update Disaster Recovery Plan | April |

E. COMMUNICATION AND REPORTING

- | | |
|---|--------------|
| 1. Prepare reports on investment results | Qtly |
| 2. Prepare status reports | As requested |
| 3. Meet with SBI and IAC. | Qtly |
| 4. Meet with Board's designees | Qtly |
| 5. Prepare FY 2006 Annual Report | Jul-Jan |
| 6. Prepare Annual SIF Investment Options
Prospectus | May-Aug |
| 7. Coordinate Public Pension Plan Performance
Reporting Disclosure | On-going |
| 8. Conduct Manager Round Tables | Periodic |

**STATE BOARD OF INVESTMENT
FISCAL YEARS 2007
ADMINISTRATIVE BUDGET PLAN**

<u>DESCRIPTION</u>	<u>FY2006 PROJECTED</u>	<u>FY2007 BUDGET AS APPROPRIATED</u>	<u>FY2007 BUDGET REVISED</u>
PERSONAL SERVICES			
FULL TIME EMPLOYEES	\$1,750,000	\$1,810,000	\$1,975,000
PART TIME EMPLOYEES	--	--	--
SEVERENCE PAYOFF	--	35,000	20,000
WORKERS COMPENSATION INSURANCE	860	1,000	1,000
MISCELLANEOUS PAYROLL	150		4,000
SUBTOTAL	\$1,751,010	\$1,846,000	2,000,000
STATE OPERATIONS			
RENTS & LEASES	205,000	205,000	205,000
REPAIRS/ALTERATIONS/MAINTENANCE	13,709	10,000	10,000
PRINTING & BINDING	5,123	10,000	10,000
PROFESSIONAL/TECHNICAL SERVICES	--	--	--
COMPUTER SYSTEMS SERVICES	10,000	10,000	10,000
COMMUNICATIONS	26,344	20,000	30,000
TRAVEL, IN-STATE	219	1,000	1,000
TRAVEL, OUT-STATE	32,950	25,000	35,000
SUPPLIES	27,010	30,000	35,000
EQUIPMENT	15,000	--	15,000
EMPLOYEE DEVELOPMENT	11,000	5,000	12,000
OTHER OPERATING COSTS	13,000	5,000	7,000
SUBTOTAL	\$ 359,355	\$ 321,000	\$ 370,000
TOTAL GENERAL FUND	<u>\$2,110,365</u>	<u>\$2,167,000</u>	<u>\$2,370,000</u>
PERCENT INCREASE OVER PRIOR YEAR		2.7%	12.3%

CONTINUING FIDUCIARY EDUCATION PLAN

REQUIRED BY MS 356A.13

The State Board of Investment (SBI) undertakes the following activities related to fiduciary education. Taken as a group, these activities shall constitute the plan for continuing fiduciary education required by Minnesota Statutes 356A.13 (copy attached). In addition, pursuant to statutory requirements of qualification, the SBI executive director and many members of the Board's Investment Advisory Council (IAC) can be reasonably considered to be experts with respect to their duties as fiduciaries.

1. Briefing for New Board/IAC Members

Shortly after election to the Board or appointment to the IAC, each new member is briefed on SBI operations and policies. As part of the briefing, SBI's legal counsel will review the member's fiduciary obligations and responsibilities as specified in Minnesota Statutes Chapters 11A and 356A.

2. Development and Review of Investment Policies

The SBI adopts comprehensive investment policies for each fund under its control. The policies cover investment objectives, asset allocation, management structure and performance evaluation. Policy papers or reports on these topics are developed and written by SBI staff in conjunction with the IAC and consultants. Relevant research and analyses from the academic and professional investment fields are used to formulate these policy guidelines.

After they are formally adopted by the Board, these written policies guide the management of all assets under the SBI's control. The SBI intends to review its stated investment policies periodically. This review may occur within the framework of the SBI's regular quarterly meetings or may take place at special meetings or seminars specifically designated for this purpose.

3. Input from Board's Consultants

The SBI retains outside investment consultants to advise the Board members on a wide variety of investment management issues. As part of their contracts with the SBI, the consultants offer to meet with the Board members or their designees to discuss investment-related issues. These individual consultations occur throughout the year. In addition, the general consultant is available at each meeting of the Board and IAC. These meetings are supplemented by quarterly reports on investment performance prepared by the general consultant.

4. **Manager Round Tables**

The SBI intends to convene small groups of its external money managers to discuss issues related to investment management and the financial markets. These round table discussions will be held periodically throughout the year and will be open to Board members and their designees, IAC members and other interested parties. It is anticipated that 1-2 round tables will be held each year.

5. **Travel Allocation**

The SBI allocates \$2,500 annually to each Board member (or their designee) for costs associated with attendance at investment-related seminars and conferences. This allocation is used at the discretion of each Board member.

Date: May, 2006

1996 Minnesota Statutes

356A.13. CONTINUING FIDUCIARY EDUCATION.

Subdivision 1. **Obligation of fiduciaries.** A fiduciary of a covered pension plan shall make reasonable effort to obtain knowledge and skills sufficient to enable the fiduciary to perform fiduciary activities adequately. At a minimum, a fiduciary of a covered pension plan shall comply with the program established in accordance with subdivision 2.

Subd. 2. **Continuing fiduciary education program.** The governing boards covered pension plans shall each develop and periodically revise a program for the continuing education of any of their board members and any of their chief administrative officers who are not reasonably considered to be experts with respect to their activities as fiduciaries. The program must be designed to provide those persons with knowledge and skills sufficient to enable them to perform their fiduciary activities adequately.

Tab D

COMMITTEE REPORT

DATE: May 30, 2006

TO: Members, State Board Investment
Members, Investment Advisory Council

FROM: **Stock and Bond Manager Committee**

The Stock and Bond Manager Committee met on Tuesday, May 16, 2006 to consider the following agenda items:

- Review the manager performance for the period ending March 31, 2006.
- A review of Oppenheimer Capital Management, domestic equity manager.

No action is required by the SBI / IAC.

INFORMATION ITEMS:

1. Review the manager performance for the period ending March 31, 2006.

- ***Domestic Equity Program***

For the period ending March 31, 2006, the **Domestic Equity Program** outperformed during the one year period, but underperformed during the quarter, three year and 5 year periods.

Time period	Total Program	DE Asset Class Target*
Quarter	5.1%	5.3%
1 Year	14.4%	14.3%
3 Years	19.0%	19.1%
5 Years	5.3%	5.5%

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

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

- **Fixed Income Program**

For the period ending March 31, 2006, the **Fixed Income Program** outperformed the Lehman Aggregate over all time periods.

Time period	Total Program	Lehman Aggregate
Quarter	-0.4	-0.6
1 Year	2.7	2.3
3 Years	3.7	2.9
5 Years	5.5	5.1

The performance evaluation reports for the fixed income managers start on the **blue page A-101** of this Tab.

- **International Equity Program**

For the period ending March 31, 2006, the **International Equity Program** outperformed the composite index over the quarter, one and five year time periods and underperformed over three years.

Time Period	Total* Program	Int'l Equity Asset Class Target**
Quarter	10.0	9.7
1 Year	27.9	27.6
3 Year	32.3	33.0
5 Year	11.2	11.1

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

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

The performance evaluation reports for the international equity managers start on the **blue page A-113** of this Tab.

2. Review of Oppenheimer Capital Management, Domestic Equity Manager.

Staff requested that Oppenheimer Capital make a presentation to the Stock & Bond Committee to address the underperformance of the SBI portfolio.

Oppenheimer's investment process involves investing in stocks at a discount to intrinsic value. The manager believes that in the long term, markets are efficient and a stock's price reflects its true worth. However, in the short term, there are opportunities to capitalize on mispriced securities. The manager is not confined to traditional definitions of value. Rather, Oppenheimer will invest in stocks that are undervalued regardless of growth and value classifications.

Our portfolio manager, John Lindenthal, has managed our account since inception (July 1993). He has over 30 years of experience and is a true stockpicker. He has managed assets through many market cycles and environments. Our account is managed with a long term focus; annual turnover is approximately 30%. The SBI account is invested in a concentrated portfolio with approximately 43 securities.

Oppenheimer Capital is a deep organization that devotes significant resources to the large cap research team, which is comprised of 18 members. The firm has a history of well defined succession planning and pays close attention to the management of the business.

The value style has been in favor in recent periods. In addition, the market has been very narrow, with the energy sectors accounting for a significant portion of Russell 3000 returns. Colin Glinsman, CIO, explained that the philosophy and process will tend to lag during extended periods of rising narrow markets, or during extended periods when the value style is in favor.

John Lindenthal explained that he believed energy prices were overvalued before the recent outperformance of energy stocks. He explained to the Committee that he was concerned with what appeared to be speculation in the market and the impact of hedge funds. In hindsight, he would have focused more on industry supply and demand fundamentals. John remains focused on investing in the best ideas of the firm and is committed to improving execution on the SBI portfolio.

The Committee decided to take no action regarding Oppenheimer Capital at this time but asked staff to gather additional information for the Committee's review. The Committee suggested that there may be the need to review Oppenheimer Capital again in a year.



STATE BOARD OF INVESTMENT

Domestic Equity Manager Evaluation Reports

First Quarter, 2006

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**COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending March, 2006**

	Quarter		1 Year		3 Years		5 Years	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	4.5	4.5	13.2	13.2				
Russell 1000 Growth Aggregate	2.0	3.1	15.7	13.1				
Russell 1000 Value Aggregate	4.6	5.9	11.5	13.3				
Russell 2000 Growth Aggregate	16.3	14.4	30.8	27.8				
Russell 2000 Value Aggregate	10.2	13.5	21.7	23.8				
Active Manager Aggregate	5.2	6.0	15.4	15.2				
Semi-Passive Aggregate	4.6	4.5	13.1	13.2				
Passive Manager (BGI)	5.4	5.3	14.4	14.3				
Historical Aggregate	5.1	5.3	14.4	14.2				
SBI DE Asset Class Target		5.3		14.3				
Russell 3000 Index		5.3		14.3				

	2005		2004		2003		2002		2001	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	6.4	6.3	14.5	11.4						
Russell 1000 Growth Aggregate	7.3	5.3	6.1	6.3						
Russell 1000 Value Aggregate	6.0	7.1	14.3	16.5						
Russell 2000 Growth Aggregate	4.7	4.2	9.7	14.3						
Russell 2000 Value Aggregate	7.7	4.7	25.0	22.2						
Active Manager Aggregate	6.5	6.0	12.5	12.3						
Semi-Passive Aggregate	6.2	6.3	11.7	11.4						
Passive Manager (BGI)	6.2	6.1	12.0	11.9						
Historical Aggregate	6.4	6.1	12.2	11.9						
SBI DE Asset Class Target		6.1		11.9						
Russell 3000 Index		6.1		11.9						

COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending March, 2006
Performance versus Russell Style Benchmarks for All Periods

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
LARGE CAP										
Russell 1000 Core										
Franklin Portfolio	6.1	4.5	11.8	13.2	21.1	18.3	4.9	4.7	12.0	11.7
New Amsterdam Partners (2)	2.4	4.5	10.7	13.2	20.6	20.5	7.6	8.6	14.1	12.2
UBS Global	4.5	4.5	16.5	13.2	20.4	18.3	9.1	4.7	11.4	10.8
Voyageur-Chicago Equity	2.4	4.5	10.9	13.2	14.6	18.3	2.6	4.7	-0.3	0.1
Aggregate	4.5	4.5	13.2	13.2						
Russell 1000 Growth										
Alliance Capital	0.6	3.1	22.0	13.1	14.5	14.8	2.0	1.7	14.8	11.0
Cohen, Klingenstein & Marks	0.6	3.1	4.6	13.1	14.3	14.8	-3.3	1.7	9.0	9.3
Holt-Smith & Yates	3.8	3.1	9.0	13.1	13.5	14.8	2.3	1.7	-1.6	-7.5
INTECH	3.8	3.1	14.0	13.1					9.4	6.8
Jacobs Levy	2.4	3.1	12.8	13.1					6.2	6.8
Lazard Asset Mgmt.	5.1	3.1	16.8	13.1					9.4	6.8
Sands Capital	-1.5	3.1	20.5	13.1					7.3	6.8
Winslow-Large Cap	5.0	3.1	22.0	13.1					12.6	6.8
Zevenbergen Capital	6.9	3.1	25.5	13.1	24.3	14.8	4.6	1.7	10.9	9.3
Aggregate	2.0	3.1	15.7	13.1						
Russell 1000 Value										
Barrow, Hanley	3.7	5.9	11.5	13.3					14.5	13.2
Earnest Partners	4.7	5.9	17.6	13.3	24.9	21.8	10.1	7.8	6.7	7.7
Lord Abbett & Co.	5.8	5.9	12.3	13.3					10.1	13.2
LSV Asset Mgmt.	7.0	5.9	18.5	13.3					17.4	13.2
Oppenheimer	3.2	5.9	6.6	13.3	16.4	21.8	4.7	7.8	12.5	12.0
Systematic Financial Mgmt.	5.5	5.9	15.2	13.3					14.2	13.2
Aggregate	4.6	5.9	11.5	13.3						
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	18.1	14.4	29.5	27.8					13.4	14.7
Next Century Growth	19.3	14.4	50.8	27.8	35.4	28.1	11.1	8.6	-0.5	-0.3
Summit Creek Advisors	13.7	14.4	25.7	27.8	23.2	28.1	9.1	8.6	2.0	-0.3
Turner Investment Partners	17.0	14.4	33.8	27.8					15.7	14.7
Aggregate	16.3	14.4	30.8	27.8						
Russell 2000 Value										
RiverSource/Kenwood	12.9	13.5	22.4	23.8					19.3	18.1
Goldman Sachs	11.1	13.5	21.8	23.8					15.6	18.1
Hotchkis & Wiley	7.3	13.5	19.2	23.8					20.0	18.1
Martingale Asset Mgmt.	10.3	13.5	19.6	23.8					20.9	18.1
Peregrine Capital	10.7	13.5	24.6	23.8	33.2	30.7	17.6	16.2	19.4	17.2
Aggregate	10.2	13.5	21.7	23.8						
Active Mgr. Aggregate (3)	5.2	6.0	15.4	15.2						

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

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

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

COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Calendar Year Returns Versus (1)
Russell Style Benchmarks for All Periods

	2005		2004		2003		2002		2001	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
LARGE CAP										
Russell 1000 Core										
Franklin Portfolio	3.4	6.3	15.7	11.4	32.9	29.9	-25.4	-21.7	-6.6	-12.5
New Amsterdam Partners (2)	7.6	6.3	14.8	11.4	34.2	38.0	-17.5	-16.2	-3.3	-5.6
UBS Global	8.6	6.3	13.4	11.4	30.7	29.9	-14.7	-21.7	5.2	-12.5
Voyageur-Chicago Equity	3.9	6.3	10.6	11.4	23.2	29.9	-20.6	-21.7	-19.4	-12.5
Aggregate	6.4	6.3								
Russell 1000 Growth										
Alliance Capital	14.2	5.3	5.7	6.3	22.4	29.7	-26.8	-27.9	-13.7	-20.4
Cohen, Klingenstein & Marks	-0.9	5.3	6.1	6.3	41.2	29.7	-35.0	-27.9	-25.0	-20.4
Holt-Smith & Yates	1.5	5.3	7.3	6.3	22.1	29.7	-28.0	-27.9	-1.7	-20.4
INTECH (1)	7.8	5.3								
Jacobs Levy (1)	5.3	5.3								
Lazard Asset Mgmt. (1)	6.6	5.3								
Sands Capital (1)	10.9	5.3								
Winslow-Large Cap (1)	10.5	5.3								
Zevenbergen Capital	9.0	5.3	13.1	6.3	49.3	29.7	-36.2	-27.9	-29.0	-20.4
Aggregate	7.3	5.3	6.1	6.3						
Russell 1000 Value										
Barrow, Hanley (1)	9.6	7.1								
Earnest Partners	15.6	7.1	18.9	16.5	32.0	30.0	-18.1	-15.5	-0.4	-5.6
Lord Abbett & Co. (1)	3.5	7.1								
LSV Asset Mgmt. (1)	12.5	7.1								
Oppenheimer	1.0	7.1	12.0	16.5	28.9	30.0	-15.5	-15.5	-7.0	-5.6
Systematic Financial Mgmt. (1)	10.3	7.1								
Aggregate	6.0	7.1	14.3	16.5						
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	0.2	4.2	12.2	14.3						
Next Century Growth	25.2	4.2	6.4	14.3	50.7	48.5	-33.3	-30.3	-22.8	-9.2
Summit Creek Advisors	4.4	4.2	8.9	14.3	37.6	48.5	-25.0	-30.3	-6.1	-9.2
Turner Investment Partners	6.2	4.2	11.6	14.3						
Aggregate	4.7	4.2	9.7	14.3						
Russell 2000 Value										
RiverSource/Kenwood	4.8	4.7	25.8	22.2						
Goldman Sachs	4.1	4.7	19.9	22.2						
Hotchkis & Wiley	10.4	4.7	27.1	22.2						
Martingale Asset Mgmt.	6.2	4.7	30.8	22.2						
Peregrine Capital	10.1	4.7	23.6	22.2	44.2	46.0	-8.1	-11.4	12.6	14.0
Aggregate	7.7	4.7	25.0	22.2						
Active Mgr. Aggregate (3)	6.5	6.0	12.5	12.3						

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

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

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

**COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending March, 2006
Versus Manager Benchmarks**

	Quarter		1 Year		3 Years		5 Years		Since Inception (2)		Market Value (in millions)	Pool %
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk		
	%	%	%	%	%	%	%	%	%	%		%
ACTIVE MANAGERS												
Large Cap Core (R1000)												
Franklin Portfolio	6.1	4.5	11.8	13.2	21.1	20.3	4.9	6.9	12.0	11.8	\$612.0	2.7%
New Amsterdam Partners	2.4	4.5	10.7	13.2	20.6	20.6	7.6	8.5	14.1	13.6	\$484.0	2.2%
UBS Global	4.5	4.5	16.5	13.2	20.4	18.7	9.1	5.4	11.4	10.8	\$905.7	4.1%
Voyageur-Chicago Equity	2.4	4.5	10.9	13.2	14.6	18.1	2.6	5.5	-0.3	0.5	\$50.0	0.2%
Aggregate	4.5	4.5	13.2	13.2								
Large Cap Growth (R1000 Growth)												
Alliance Capital	0.6	3.1	22.0	13.1	14.5	14.7	2.0	2.1	14.8	11.0	\$531.9	2.4%
Cohen, Klingenstein & Marks	0.6	3.1	4.6	13.1	14.3	17.2	-3.3	4.8	9.0	11.1	\$422.9	1.9%
Holt-Smith & Yates	3.8	3.1	9.0	13.1	13.5	16.2	2.3	6.8	-1.6	4.0	\$82.2	0.4%
INTECH	3.8	3.1	14.0	13.1					9.4	6.8	\$312.0	1.4%
Jacobs Levy	2.4	3.1	12.8	13.1					6.2	6.8	\$127.2	0.6%
Lazard Asset Mgmt.	5.1	3.1	16.8	13.1					9.4	6.8	\$29.1	0.1%
Sands Capital	-1.5	3.1	20.5	13.1					7.3	6.8	\$217.4	1.0%
Winslow-Large Cap	5.0	3.1	22.0	13.1					12.6	6.8	\$55.4	0.2%
Zevenbergen Capital	6.9	3.1	25.5	13.1	24.3	15.3	4.6	3.5	10.9	12.4	\$245.1	1.1%
Aggregate	2.0	3.1	15.7	13.1								
Large Cap Value (R1000 Value)												
Barrow, Hanley	3.7	5.9	11.5	13.3					14.5	13.2	\$323.5	1.4%
Earnest Partners	4.7	5.9	17.6	13.3	24.9	24.7	10.1	14.0	6.7	13.8	\$73.1	0.3%
Lord Abbett & Co.	5.8	5.9	12.3	13.3					10.1	13.2	\$299.2	1.3%
LSV Asset Mgmt.	7.0	5.9	18.5	13.3					17.4	13.2	\$406.0	1.8%
Oppenheimer	3.2	5.9	6.6	13.3	16.4	22.1	4.7	5.8	12.5	12.5	\$725.1	3.3%
Systematic Financial Mgmt.	5.5	5.9	15.2	13.3					14.2	13.2	\$192.7	0.9%
Aggregate	4.6	5.9	11.5	13.3								
Small Cap Growth (R2000 Growth)												
McKinley Capital	18.1	14.4	29.5	27.8					13.4	14.7	\$225.7	1.0%
Next Century Growth	19.3	14.4	50.8	27.8	35.4	27.5	11.1	11.8	-0.5	1.8	\$158.3	0.7%
Summit Creek Advisors	13.7	14.4	25.7	27.8	23.2	29.2	9.1	12.4	2.0	4.4	\$165.2	0.7%
Turner Investment Partners	17.0	14.4	33.8	27.8					15.7	14.7	\$176.4	0.8%
Aggregate	16.3	14.4	30.8	27.8								
Small Cap Value (R2000 Value)												
Goldman Sachs	11.1	13.5	21.8	23.8					15.6	18.1	\$129.7	0.6%
Hotchkis & Wiley	7.3	13.5	19.2	23.8					20.0	18.1	\$140.8	0.6%
Martingale Asset Mgmt.	10.3	13.5	19.6	23.8					20.9	18.1	\$143.3	0.6%
Peregrine Capital Mgmt.	10.7	13.5	24.6	23.8	33.2	30.5	17.6	18.6	19.4	19.7	\$216.1	1.0%
RiverSource/Kenwood	12.9	13.5	22.4	23.8					19.3	18.1	\$62.4	0.3%
Aggregate	10.2	13.5	21.7	23.8								
Active Mgr. Aggregate (1)	5.2	6.0	15.4	15.2								

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

**COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Calendar Year Returns Versus
Manager Benchmarks (1)**

	2005		2004		2003		2002		2001	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
ACTIVE MANAGERS										
Large Cap Core (R1000)										
Franklin Portfolio	3.4	6.3	15.7	11.4	32.9	36.9	-25.4	-19.8	-6.6	-5.4
New Amsterdam Partners	7.6	6.3	14.8	11.4	34.2	37.1	-17.5	-22.2	-3.3	3.7
UBS Global	8.6	6.3	13.4	11.4	30.7	30.8	-14.7	-20.6	5.2	-11.0
Voyageur-Chicago Equity	3.9	6.3	10.6	11.4	23.2	28.9	-20.6	-20.7	-19.4	-12.0
Aggregate	6.4	6.3	14.5	11.4						
Large Cap Growth (R1000 Growth)										
Alliance Capital	14.2	5.3	5.7	6.3	22.4	26.3	-26.8	-24.0	-13.7	-15.3
Cohen, Klingenstein & Marks	-0.9	5.3	6.1	6.3	41.2	39.3	-35.0	-23.8	-25.0	-11.2
Holt-Smith & Yates	1.5	5.3	7.3	6.3	22.1	31.3	-28.0	-19.0	-1.7	4.6
INTECH (1)	7.8	5.3								
Jacobs Levy (1)	5.3	5.3								
Lazard Asset Mgmt. (1)	6.6	5.3								
Sands Capital (1)	10.9	5.3								
Winslow-Large Cap (1)	10.5	5.3								
Zevenbergen Capital	9.0	5.3	13.1	6.3	49.3	31.3	-36.2	-24.2	-29.0	-3.2
Aggregate	7.3	5.3	6.1	6.3						
Large Cap Value (R1000 Value)										
Barrow, Hanley (1)	9.6	7.1								
Earnest Partners	15.6	7.1	18.9	16.5	32.0	41.8	-18.1	-11.6	-0.4	11.5
Lord Abbett & Co. (1)	3.5	7.1								
LSV Asset Mgmt. (1)	12.5	7.1								
Oppenheimer	1.0	7.1	12.0	16.5	28.9	31.4	-15.5	-20.7	-7.0	-9.5
Systematic Financial Mgmt. (1)	10.3	7.1								
Aggregate	6.0	7.1	14.3	16.5						
Small Cap Growth (R2000 Growth)										
McKinley Capital	0.2	4.2	12.2	14.3						
Next Century Growth	25.2	4.2	6.4	14.3	50.7	48.5	-33.3	-27.8	-22.8	-5.5
Summit Creek Advisors	4.4	4.2	8.9	14.3	37.6	51.3	-25.0	-26.7	-6.1	4.6
Turner Investment Partners	6.2	4.2	11.6	14.3						
Aggregate	4.7	4.2	9.7	14.3						
Small Cap Value (R2000 Value)										
RiverSource/Kenwood	4.8	4.7	25.8	22.2						
Goldman Sachs	4.1	4.7	19.9	22.2						
Hotchkis & Wiley	10.4	4.7	27.1	22.2						
Martingale Asset Mgmt.	6.2	4.7	30.8	22.2						
Peregrine Capital Mgmt.	10.1	4.7	23.6	22.2	44.2	44.2	-8.1	-6.9	12.6	22.9
Aggregate	7.7	4.7	25.0	22.2						
Active Mgr. Aggregate (2)	6.5	6.0	12.5	12.3						

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

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

**COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending March, 2006
Versus Manager Benchmarks (1)**

	Quarter		1 Year		3 Years		5 Years		Since Inception (2)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
SEMI-PASSIVE MANAGERS												
Barclays Global Investors	4.9	4.5	14.6	13.2	18.7	17.9	6.7	5.7	11.5	10.6	\$3,024.4	13.6%
Franklin Portfolio	4.4	4.5	12.5	13.2	17.7	17.9	5.3	5.7	10.2	10.6	\$2,138.9	9.6%
JP Morgan	4.4	4.5	12.0	13.2	17.5	17.9	4.7	5.7	10.6	10.6	\$2,334.9	10.5%
Semi-Passive Aggregate (R1000)	4.6	4.5	13.1	13.2	18.1	17.9	5.7	5.7	10.8	10.6		
PASSIVE MANAGER (R3000)												
Barclays Global Investors	5.4	5.3	14.4	14.3	19.1	19.1	5.4	5.5	10.2	10.1	\$7,299.7	32.7%
Historical Aggregate (3)	5.1	5.3	14.4	14.2	19.0	19.1	5.3	5.9	11.7	12.0	\$22,310.6	100.0%
SBI DE Asset Class Target (4)		5.3		14.3		19.1		5.5		11.9		
Russell 3000		5.3		14.3		19.1		5.3		12.3		
Wilshire 5000		5.4		14.7		19.7		5.9		12.2		
Russell 1000		4.5		13.2		18.3		4.7		12.5		
Russell 2000		13.9		25.8		29.5		12.6		10.8		

(1) Active and emerging manager benchmarks are Russell Style Indexes beginning 10/1/03, and were custom benchmarks prior to 10/1/03.

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

(3) Includes the performance of terminated managers.

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

**COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Calendar Year Returns Versus
Manager Benchmarks (1)**

	2005		2004		2003		2002		2001	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
SEMI-PASSIVE MANAGERS										
Barclays Global Investors	7.6	6.3	11.7	11.4	30.0	28.5	-19.1	-19.7	-7.8	-9.7
Franklin Portfolio	6.1	6.3	11.7	11.4	26.9	28.5	-20.2	-19.7	-9.0	-9.7
JP Morgan	4.7	6.3	11.7	11.4	28.9	28.5	-21.8	-19.7	-8.7	-9.7
Semi-Passive Aggregate (R1000)	6.2	6.3	11.7	11.4	28.8	28.5	-20.3	-19.7	-8.5	-9.7
PASSIVE MANAGER (R3000)										
Barclays Global Investors	6.2	6.1	12.0	11.9	30.9	31.2	-21.4	-21.5	-11.8	-11.7
Historical Aggregate (2)	6.4	6.1	12.2	11.9	31.0	31.4	-22.4	-21.1	-11.1	-9.9
SBI DE Asset Class Target (3)		6.1		11.9		31.2		-21.5		-11.7
Russell 3000		6.1		11.9		31.1		-21.5		-11.5
Wilshire 5000		6.4		12.5		31.6		-20.9		-11.0
Russell 1000		6.3		11.4		29.9		-21.7		-12.5
Russell 2000		4.6		18.3		47.3		-20.5		2.5

(1) Active and Emerging Manager benchmarks are Russell Style Indexes beginning 10/1/03, and were custom benchmarks prior to 10/1/03.

(2) Includes the performance of terminated managers.

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

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

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

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

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Large Cap Core (R1000)

Large Cap Core (R1000)

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FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 2006

Portfolio Manager: John Cone

Assets Under Management: \$611,960,226

Investment Philosophy – Active Style

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

Staff Comments

No comment at this time.

Recommendation

No action required

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	6.1%	4.5%	4.5%
Last 1 year	11.8	13.2	13.2
Last 2 years	11.3	10.2	10.2
Last 3 years	21.1	18.3	20.3
Last 4 years	4.9	5.7	7.2
Last 5 years	4.9	4.7	6.9
Since Inception (4/89)	12.0	11.7	11.8

Calendar Year Returns

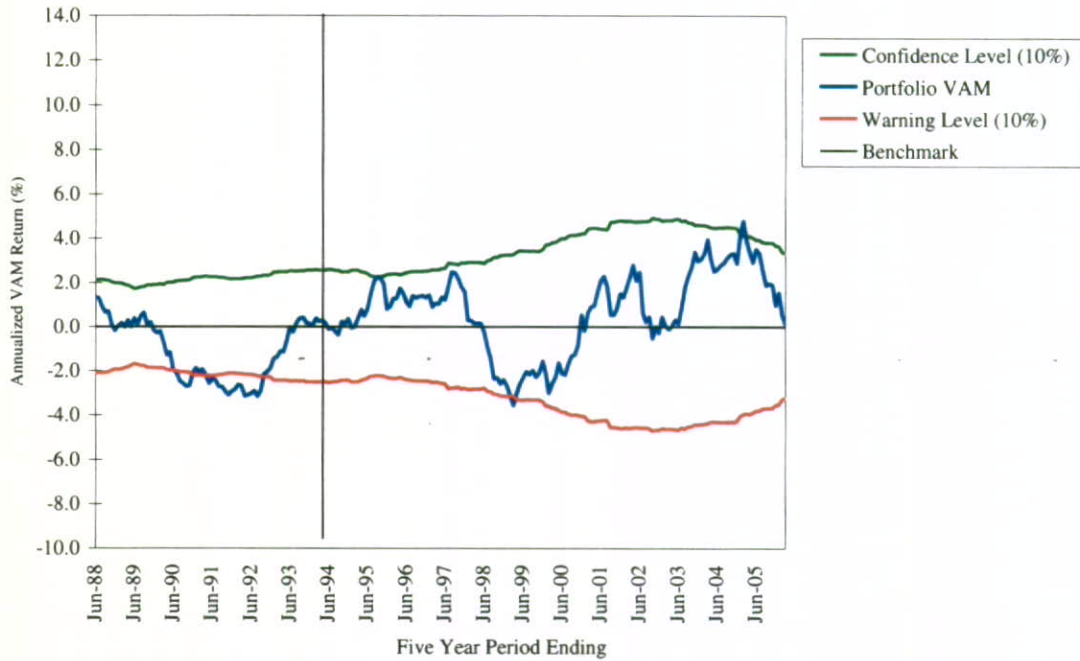
	Actual	Russell 1000 Core	Manager Benchmark
2005	3.4%	6.3%	6.3%
2004	15.7	11.4	11.4
2003	32.9	29.9	36.9
2002	-25.4	-21.7	-19.8
2001	-6.6	-12.5	-5.4

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 2006

Portfolio Manager: John Cone

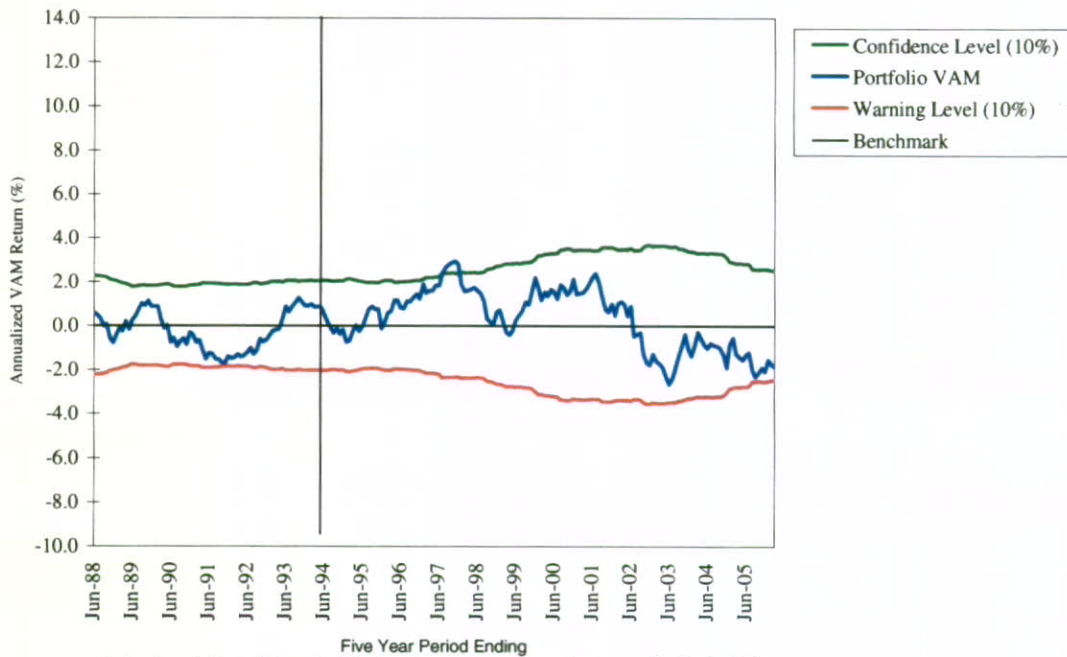
Assets Under Management: \$611,960,226

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



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

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



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

NEW AMSTERDAM PARTNERS
Periods Ending March, 2006

Portfolio Manager: Michelle Clayman

Assets Under Management: \$484,021,399

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

The portfolio underperformed the Russell 1000 Index by 2.1 percentage points (ppt) during the quarter. Weak overall stock selection and sector allocation decisions negatively impacted returns. An underweight position in producer durables represented a missed opportunity as the sector outperformed; weak stock selection further detracted from performance.

For the year, the portfolio underperformed the Russell 1000 Index by 2.5 ppt. Ineffective stock selection within the technology sector pressured returns. Despite strong stock selection within other energy, the portfolio suffered from an underweight allocation to this outperforming sector.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell Index (1)	Manager Benchmark
Last Quarter	2.4%	4.5%	4.5%
Last 1 year	10.7	13.2	13.2
Last 2 years	10.7	10.2	10.2
Last 3 years	20.6	20.5	20.6
Last 4 years	8.4	8.2	6.5
Last 5 years	7.6	8.6	8.5
Since Inception (4/94)	14.1	12.2	13.6

Calendar Year Returns

	Actual	Russell Index (1)	Manager Benchmark
2005	7.6%	6.3%	6.3%
2004	14.8	11.4	11.4
2003	34.2	38.0	37.1
2002	-17.5	-16.2	-22.2
2001	-3.3	-5.6	3.7

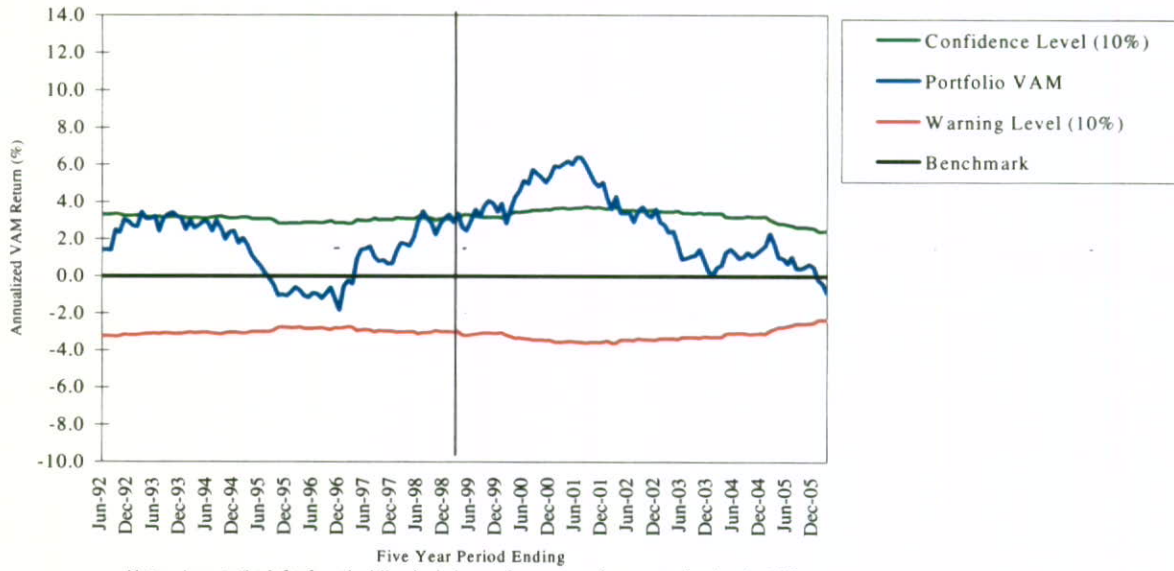
(1) New Amsterdam Partners' published benchmark is the Russell 1000 Core beginning 10/1/03. Prior to that date it was the Russell Midcap index.

NEW AMSTERDAM PARTNERS
Periods Ending March, 2006

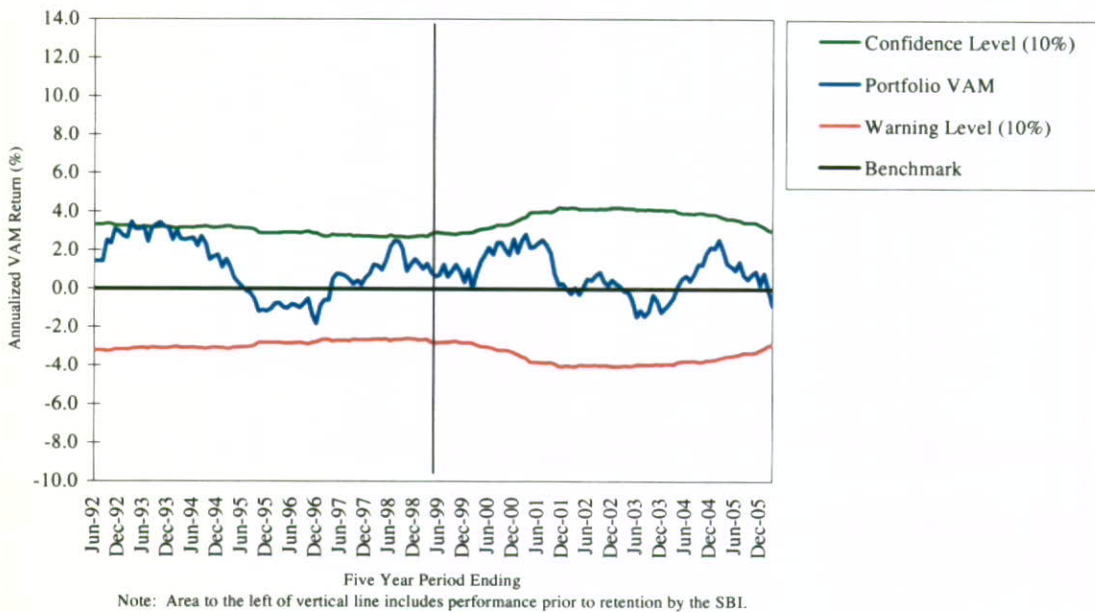
Portfolio Manager: Michelle Clayman

Assets Under Management: \$484,021,399

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



NEW AMSTERDAM PARTNERS
Rolling Five Year VAM vs. Manager Benchmark



UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending March, 2006

Portfolio Manager: John Leonard

Assets Under Management: \$905,659,347

Investment Philosophy

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	4.5%	4.5%	4.5%
Last 1 year	16.5	13.2	13.2
Last 2 years	12.8	10.2	10.2
Last 3 years	20.4	18.3	18.7
Last 4 years	8.7	5.7	6.1
Last 5 years	9.1	4.7	5.4
Since Inception (7/93)	11.4	10.8	10.8

Calendar Year Returns

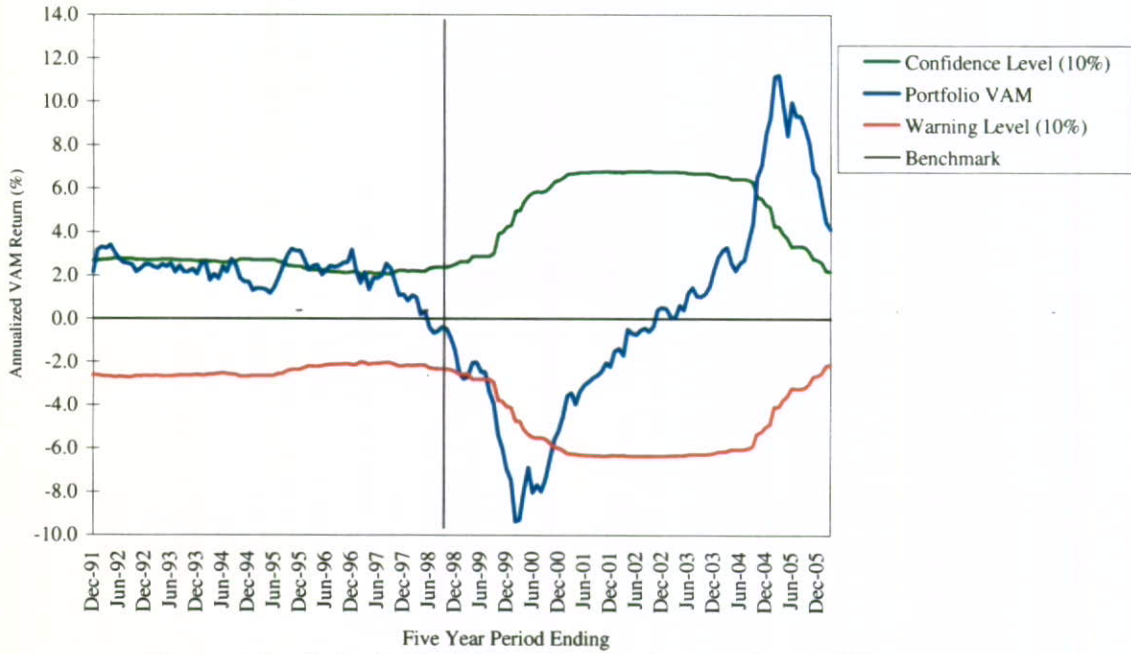
	Actual	Russell 1000 Core	Manager Benchmark
2005	8.6%	6.3%	6.3%
2004	13.4	11.4	11.4
2003	30.7	29.9	30.8
2002	-14.7	-21.7	-20.6
2001	5.2	-12.5	-11.0

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending March, 2006

Portfolio Manager: John Leonard

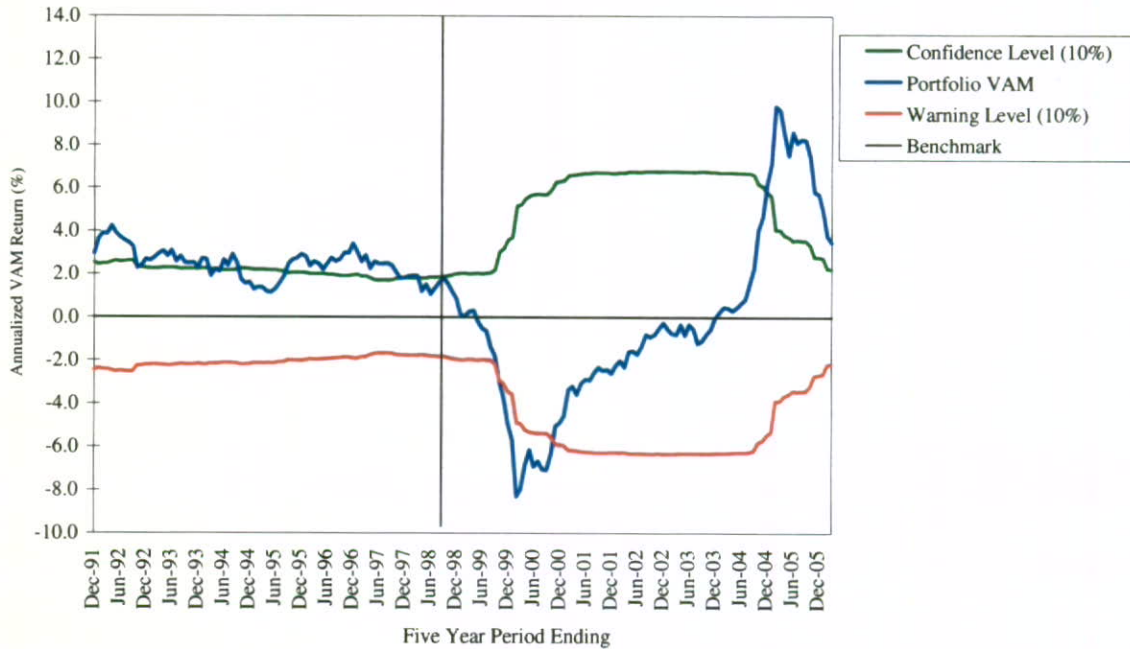
Assets Under Management: \$905,659,347

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.

UBS GLOBAL ASSET MANAGEMENT, INC.
Rolling Five Year VAM vs. Manager Benchmark



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

VOYAGEUR ASSET MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Charles Henderson

Assets Under Management: \$49,972,587

Investment Philosophy

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

Staff Comments

The portfolio underperformed the Russell 1000 Index during the quarter by 2.1 percentage points (ppt). Overweight allocations to the health care, consumer staples and other energy sectors pressured returns. Weak stock selection exacerbated the negative impact.

For the year, the portfolio underperformed the Russell 1000 Index by 2.3 ppt. Weak overall stock selection hindered returns and was particularly ineffective within the technology and other energy sectors. A significantly underweight position in financial services coupled with weak stock selection detracted from performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	2.4%	4.5%	4.5%
Last 1 year	10.9	13.2	13.2
Last 2 years	6.6	10.2	10.2
Last 3 years	14.6	18.3	18.1
Last 4 years	3.4	5.7	5.2
Last 5 years	2.6	4.7	5.5
Since Inception (7/00)	-0.3	0.1	0.5

Calendar Year Returns

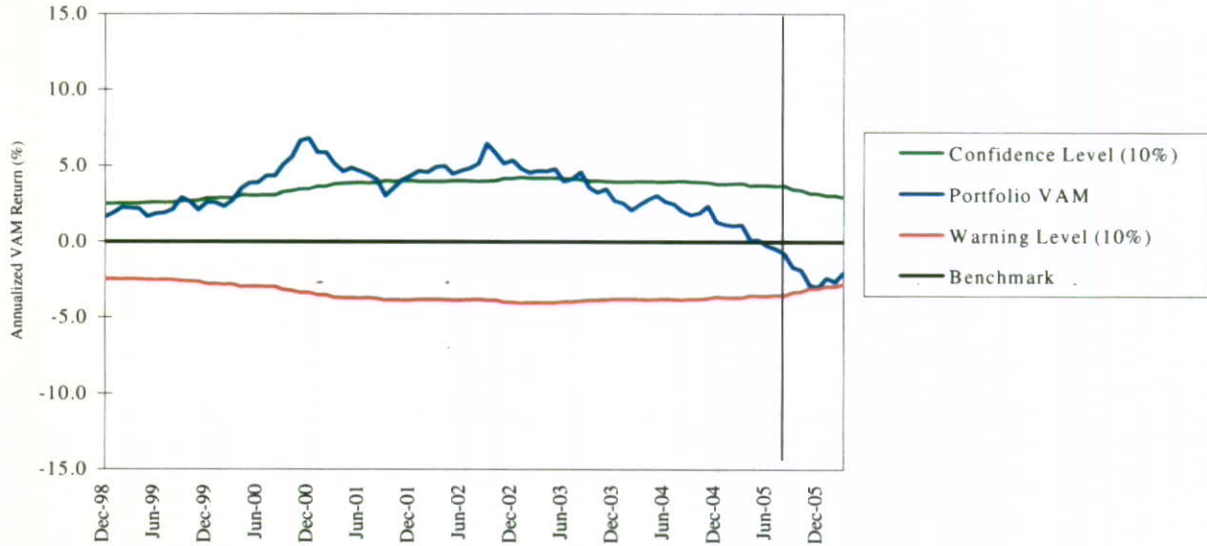
	Actual	Russell 1000 Core	Manager Benchmark
2005	3.9%	6.3%	6.3%
2004	10.6	11.4	11.4
2003	23.2	29.9	28.9
2002	-20.6	-21.7	-20.7
2001	-19.4	-12.5	-12.0

VOYAGEUR ASSET MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Charles Henderson

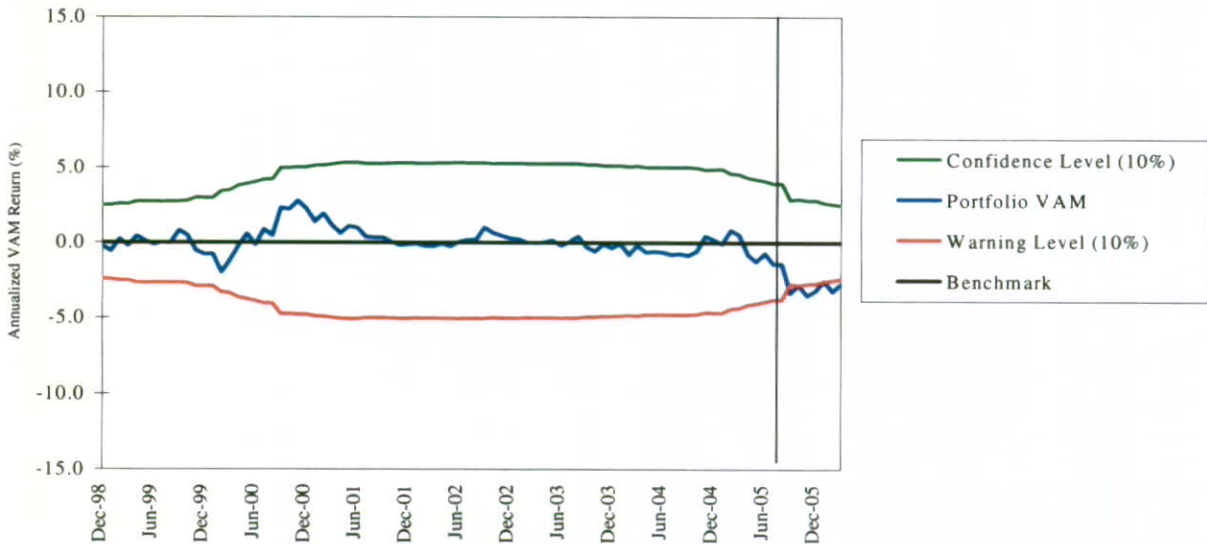
Assets Under Management: \$49,972,587

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



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

Voyageur Asset Management
 Rolling Five Year VAM vs. Manager Benchmark



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

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Large Cap Growth (R1000 Growth)

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Large Cap Growth (R1000 Growth)

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ALLIANCE CAPITAL MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Jack Koltes

Assets Under Management: \$531,938,164

Investment Philosophy

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

Staff Comments

The portfolio underperformed the Russell 1000 Growth Index by 2.5 percentage points (ppt) during the quarter. Overweight allocations to the health care and consumer discretionary sectors proved detrimental. Weak stock selection enhanced the negative impact.

For the year the portfolio outperformed the Russell 1000 Growth Index by 8.9 ppt. Strong overall stock selection aided returns and was particularly effective within the technology, health care and consumer discretionary sectors. Overweight positions in other energy and financial services coupled with effective stock selection contributed to performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	0.6%	3.1%	3.1%
Last 1 year	22.0	13.1	13.1
Last 2 years	10.2	7.0	7.0
Last 3 years	14.5	14.8	14.7
Last 4 years	3.1	2.6	3.1
Last 5 years	2.0	1.7	2.1
Since Inception (1/84)	14.8	11.0	11.0

Calendar Year Returns

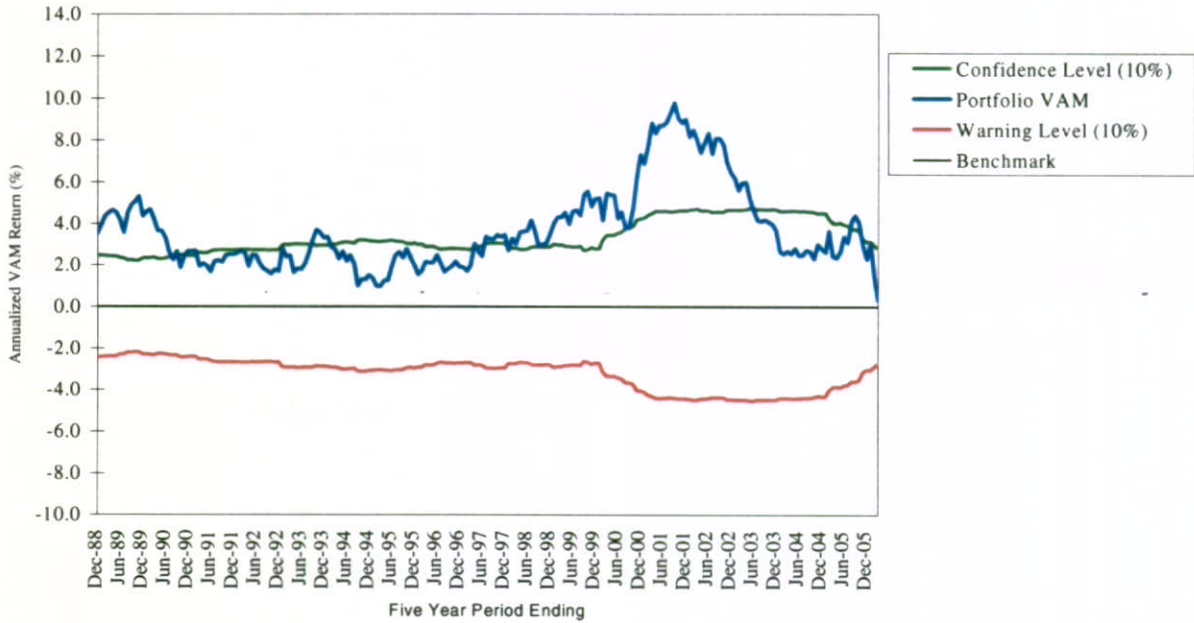
	Actual	Russell 1000 Growth	Manager Benchmark
2005	14.2%	5.3%	5.3%
2004	5.7	6.3	6.3
2003	22.4	29.7	26.3
2002	-26.8	-27.9	-24.0
2001	-13.7	-20.4	-15.3

ALLIANCE CAPITAL MANAGEMENT
Periods Ending March, 2006

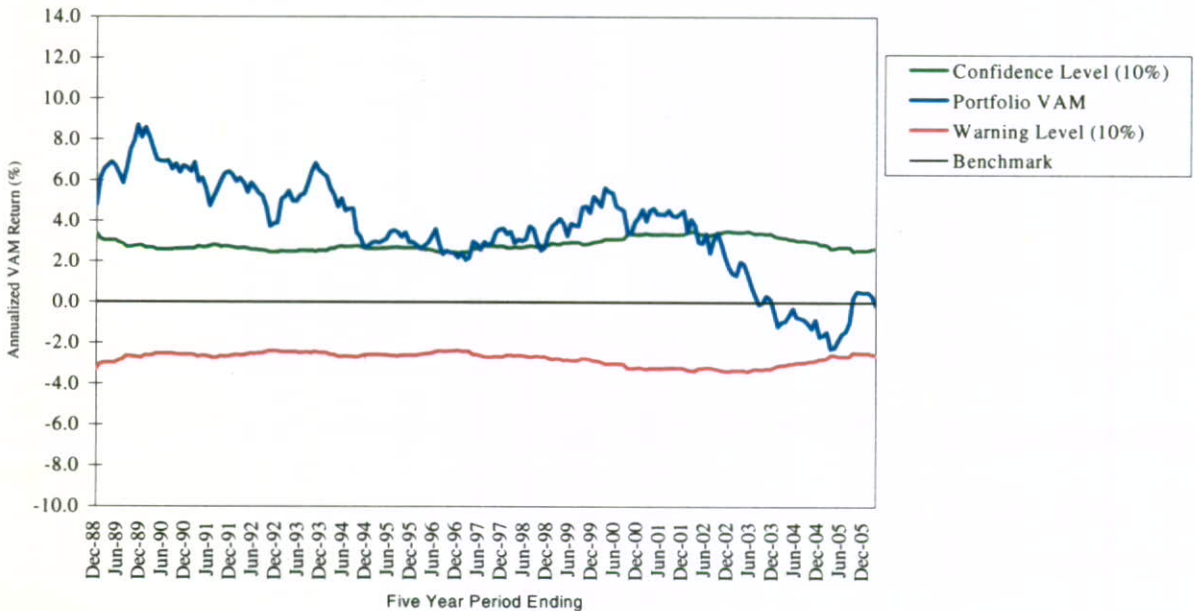
Portfolio Manager: Jack Koltes

Assets Under Management: \$531,938,164

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



ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year VAM vs. Manager Benchmark



COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending March, 2006

Portfolio Manager: George Cohen

Assets Under Management: \$422,948,894

Investment Philosophy

Cohen Klingenstein & Marks Inc. (CKM) seeks to outperform the market by focusing on two variables: 1) economic cycles; and 2) security valuation. Within economic cycles, they believe that stocks exhibit predictable patterns that reflect changing expectations of corporate profits and interest rates. Similarly, they believe that stock prices normally reflect earnings expectations. CKM exploits short run inefficiencies through an unbiased process that relates the price of a stock to the consensus earnings expectations.

Staff Comments

The portfolio underperformed the Russell 1000 Growth Index by 2.5 percentage points (ppt) during the quarter. Weak stock selection within the consumer discretionary and technology sectors pressured returns. An underweight allocation to producer durables represented a missed opportunity; ineffective stock selection further detracted from performance.

For the year, the portfolio underperformed the Russell 1000 Growth Index by 8.5 ppt. An overweight position in the consumer discretionary sector coupled with weak stock selection hindered returns. Ineffective stock selection within the technology sector detracted from performance. Lack of exposure to the outperforming other energy sector hurt on a relative basis.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	0.6%	3.1%	3.1%
Last 1 year	4.6	13.1	13.1
Last 2 years	1.7	7.0	7.0
Last 3 years	14.3	14.8	17.2
Last 4 years	0.2	2.6	4.8
Last 5 years	-3.3	1.7	4.8
Since Inception (4/94)	9.0	9.3	11.1

Calendar Year Returns

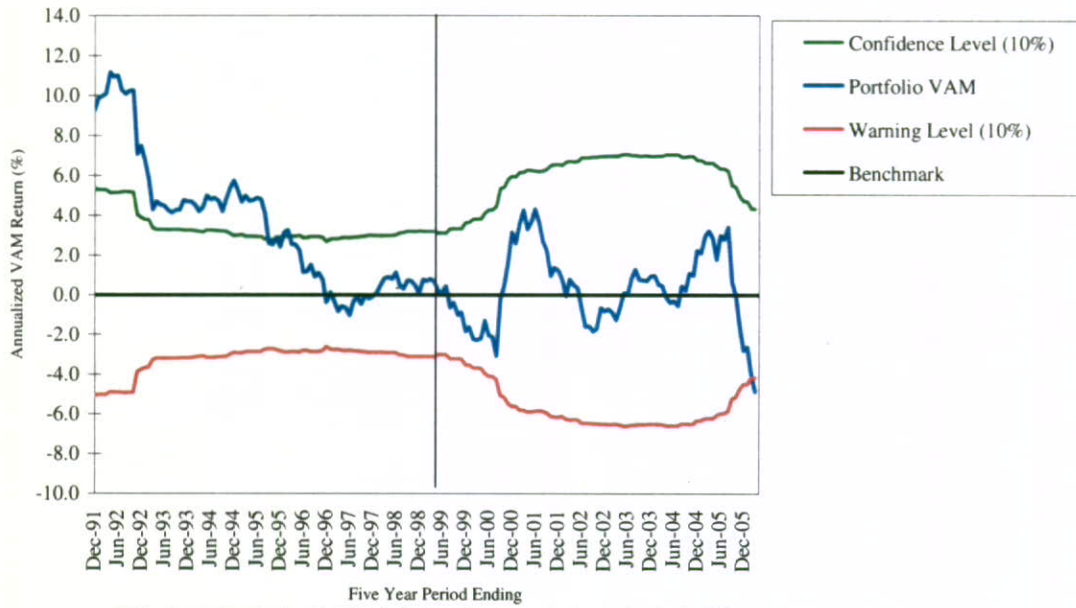
	Actual	Russell 1000 Growth	Manager Benchmark
2005	-0.9%	5.3%	5.3%
2004	6.1	6.3	6.3
2003	41.2	29.7	39.3
2002	-35.0	-27.9	-23.8
2001	-25.0	-20.4	-11.2

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending March, 2006

Portfolio Manager: George Cohen

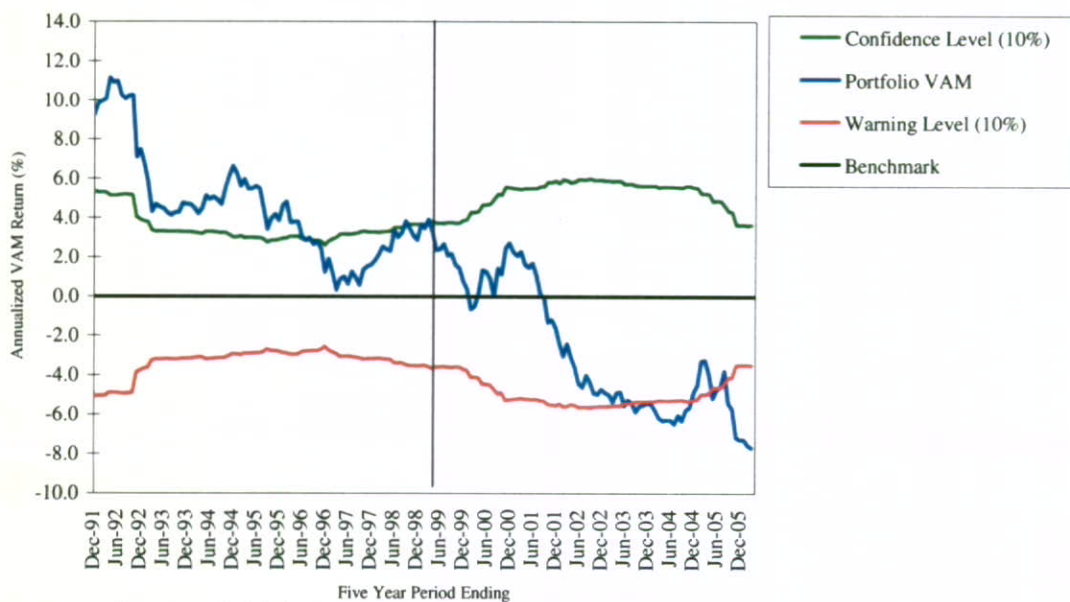
Assets Under Management: \$422,948,894

COHEN KLINGENSTEIN & MARKS
Rolling Five Year VAM vs. Russell 1000 Growth



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

COHEN KLINGENSTEIN & MARKS
Rolling Five Year VAM vs. Manager Benchmark



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

HOLT-SMITH & YATES ADVISORS
Periods Ending March, 2006

Portfolio Manager: Ryan Erickson

Assets Under Management: \$82,244,097

Investment Philosophy

Holt-Smith & Yates invest in companies demonstrating superior growth in earnings over a long period of time. They use bottom-up fundamental analysis, focusing on historical and forecasted sales and earnings trends, profit margin trends, debt levels and industry conditions. They seek to purchase large-cap companies that meet their strict valuation criteria and have superior fundamentals to that of the benchmark. Companies must currently have a five year projected growth rate of over 20% and a PEG (P/E ratio to growth rate) ratio of below 150%. They hold concentrated portfolios; industry positions are limited to one stock per industry, and the portfolio has low turnover.

Staff Comments

No comments at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	3.8%	3.1%	3.1%
Last 1 year	9.0	13.1	13.1
Last 2 years	5.7	7.0	7.0
Last 3 years	13.5	14.8	16.2
Last 4 years	0.8	2.6	4.1
Last 5 years	2.3	1.7	6.8
Since Inception (7/00)	-1.6	-7.5	4.0

Calendar Year Returns

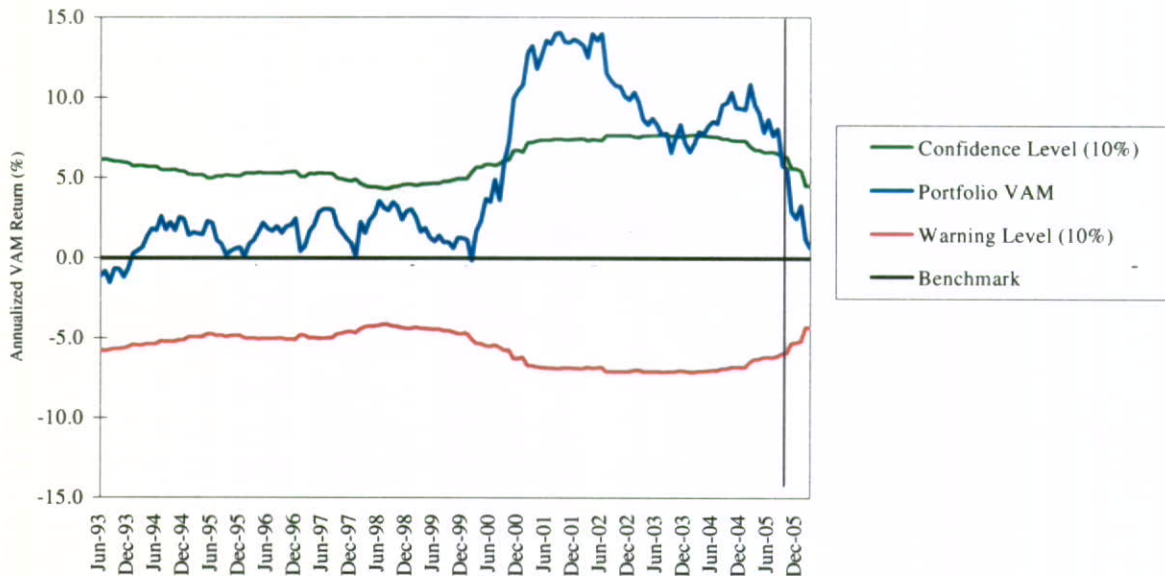
	Actual	Russell 1000 Growth	Manager Benchmark
2005	1.5%	5.3%	5.3%
2004	7.3	6.3	6.3
2003	22.1	29.7	31.3
2002	-28.0	-27.9	-19.0
2001	-1.7	-20.4	4.6

HOLT-SMITH & YATES ADVISORS
Periods Ending March, 2006

Portfolio Manager: Ryan Erickson

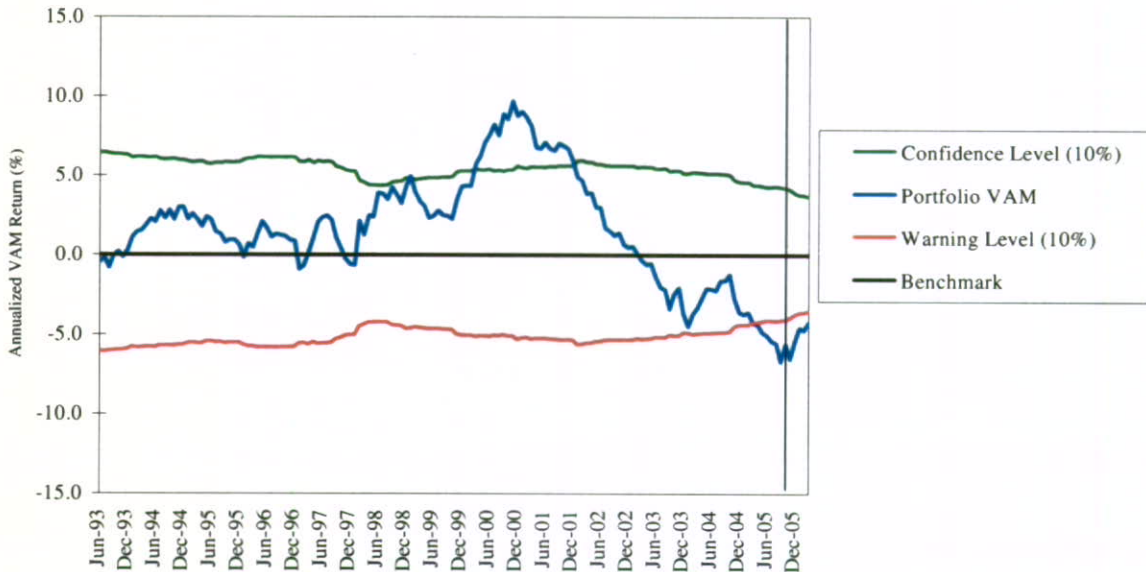
Assets Under Management: \$82,244,097

Holt-Smith & Yates
 Rolling Five Year VAM vs. Russell 1000 Growth



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

Holt-Smith & Yates
 Rolling Five Year VAM vs. Manager Benchmark



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

INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)
Periods Ending March, 2006

Portfolio Manager: Robert Fernholz

Assets Under Management: \$ 312,019,878

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

The portfolio outperformed the Russell 1000 Growth Index by 0.7 percentage point (ppt) during the quarter. For the year, the portfolio outperformed the Russell 1000 Growth Index by 0.9 ppt. Strong overall stock selection contributed to performance in both periods. During the quarter, the portfolio gained 1.3% due to the emphasis on smaller cap names, but lost 0.5% from the use of volatility and correlation characteristics in the investment process.

Staff conducted a site visit during the quarter. Philosophy, process, portfolio and organization were reviewed in detail. The rebalancing/trading process was demonstrated. Firm has increased the middle management ranks and is developing internal compliance and legal resources. Staff was impressed with attention to managing the business as well as the investment process.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	3.8%	3.1%	3.1%
Last 1 year	14.0	13.1	13.1
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/05)	9.4	6.8	6.8

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	7.8%	5.3%	5.3%
2004	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)
Periods Ending March, 2006

Portfolio Manager: Robert Fernholz

Assets Under Management: \$312,019,878

VAM Graphs will be drawn for period ending 3/31/07.

JACOBS LEVY EQUITY MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Bruce Jacobs and Ken Levy

Assets Under Management: \$127,228,293

Investment Philosophy

Staff Comments

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	2.4%	3.1%	3.1%
Last 1 year	12.8	13.1	13.1
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/05)	6.2	6.8	6.8

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	5.3%	5.3%	5.3%
2004	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

JACOBS LEVY EQUITY MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Bruce Jacobs and Ken Levy

Assets Under Management: \$127,228,293

VAM Graphs will be drawn for period ending 3/31/07

LAZARD ASSET MANAGEMENT LLC
Periods Ending March, 2006

Portfolio Manager: Jim Tatera

Assets Under Management: \$29,111,305

Investment Philosophy

Staff Comments

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	5.1%	3.1%	3.1%
Last 1 year	16.8	13.1	13.1
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/05)	9.4	6.8	6.8

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	6.6%	5.3%	5.3%
2004	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

LAZARD ASSET MANAGEMENT LLC
Periods Ending March, 2006

Portfolio Manager: Jim Tatera

Assets Under Management: \$29,111,305

VAM Graphs will be drawn for period ending 3/31/07

SANDS CAPITAL MANAGEMENT LLC
Periods Ending March, 2006

Portfolio Manager: Frank Sands, Sr.

Assets Under Management: \$217,376,960

Investment Philosophy

Staff Comments

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.

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	-1.5%	3.1%	3.1%
Last 1 year	20.5	13.1	13.1
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/05)	7.3	6.8	6.8

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	10.9%	5.3%	5.3%
2004	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

SANDS CAPITAL MANAGEMENT LLC
Periods Ending March, 2006

Portfolio Manager: Frank Sands, Sr.

Assets Under Management: \$217,376,960

VAM Graphs will be drawn for period ending 3/31/07

WINSLOW CAPITAL MANAGEMENT, INC.
Periods Ending March, 2006

Portfolio Manager: Clark Winslow

Assets Under Management: \$55,398,206

Investment Philosophy

Staff Comments

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	5.0%	3.1%	3.1%
Last 1 year	22.0	13.1	13.1
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/05)	12.6	6.8	6.8

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	10.5%	5.3%	5.3%
2004	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

WINSLOW CAPITAL MANAGEMENT, INC.
Periods Ending March, 2006

Portfolio Manager: Clark Winslow

Assets Under Management: \$55,398,206

VAM Graphs will be drawn for period ending 3/31/07

ZEVENBERGEN CAPITAL INC.
Periods Ending March, 2006

Portfolio Manager: Nancy Zevenbergen

Assets Under Management: \$245,133,677

Investment Philosophy

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	6.9%	3.1%	3.1%
Last 1 year	25.5	13.1	13.1
Last 2 years	13.4	7.0	7.0
Last 3 years	24.3	14.8	15.3
Last 4 years	7.6	2.6	3.9
Last 5 years	4.6	1.7	3.5
Since Inception (4/94)	10.9	9.3	12.4

Calendar Year Returns

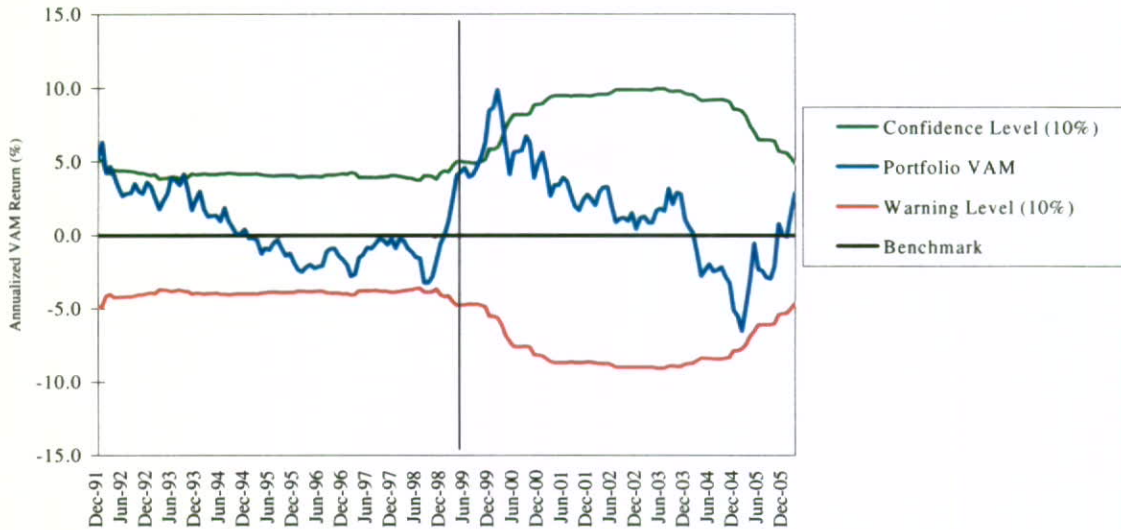
	Actual	Russell 1000 Growth	Manager Benchmark
2005	9.0%	5.3%	5.3%
2004	13.1	6.3	6.3
2003	49.3	29.7	31.3
2002	-36.2	-27.9	-24.2
2001	-29.0	-20.4	-3.2

ZEVENBERGEN CAPITAL INC.
Periods Ending March, 2006

Portfolio Manager: Nancy Zevenbergen

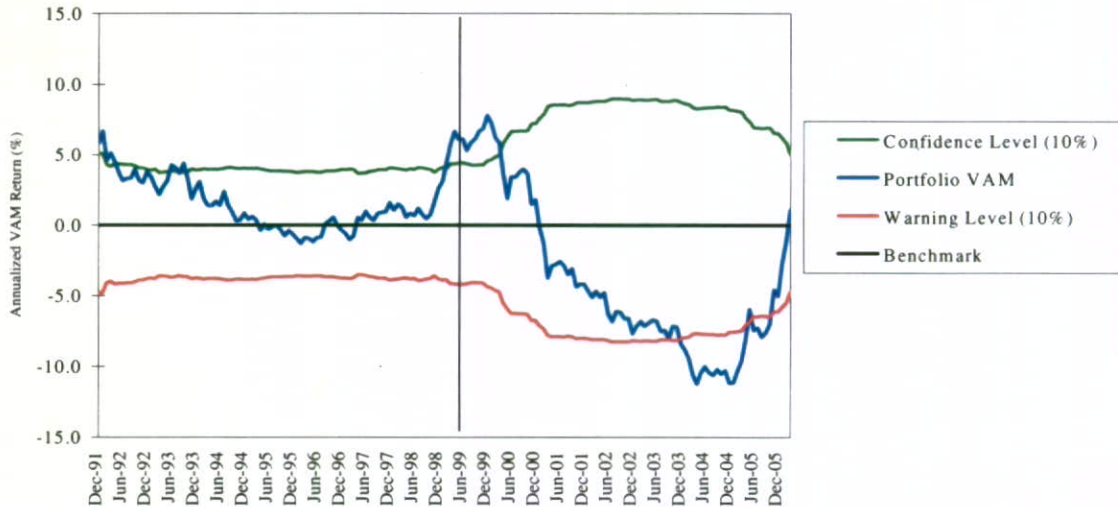
Assets Under Management: \$245,133,677

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



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

Zevenbergen Capital Management
 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.

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Large Cap Value (R1000 Value)

Large Cap Value (R1000 Value)

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BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
Periods Ending March, 2006

Portfolio Manager: Tim Culler

Assets Under Management: \$323,454,545

Investment Philosophy

Staff Comments

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

The portfolio underperformed the Russell 1000 Value Index by 2.2 percentage points (ppt) during the quarter and 1.8 ppt for the year. An underweight allocation to financial services proved detrimental in both periods. Weak stock selection within the sector exacerbated the negative impact.

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 conducted a site visit during the quarter. Philosophy, process, portfolio and organization were reviewed in detail. The firm gained approximately \$2 billion in assets from former PFR clients; this was not as much as the firm hoped, but they plan to keep the large value strategy closed anyway. Staff was impressed with the team and the organization.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	3.7%	5.9%	5.9%
Last 1 year	11.5	13.3	13.3
Last 2 years	14.5	13.2	13.2
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (4/04)	14.5	13.2	13.2

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2005	9.6%	7.1%	7.1%
2004*	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

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

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
Periods Ending March, 2006

Portfolio Manager: Tim Culler

Assets Under Management: \$323,454,545

VAM Graphs will be drawn for period ending 6/30/06

EARNEST PARTNERS, LLC
Periods Ending March, 2006

Portfolio Manager: Paul Viera

Assets Under Management: \$73,119,293

Investment Philosophy

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

Staff Comments

The portfolio underperformed the Russell 1000 Value Index by 1.2 percentage points (ppt) during the quarter. Weak stock selection within the health care, materials & processing and utilities sectors detracted from performance. For the year, the portfolio outperformed the Russell 1000 Value Index by 4.3 ppt. An overweight allocation to the other energy sector coupled with strong stock selection proved beneficial.

Staff conducted a site visit during the quarter. Philosophy, process, portfolio and organization were reviewed in detail. The energy overweight has been pared a bit, and the portfolio names are more leveraged to natural gas prices than oil prices. Approximately a third of portfolio value added is attributable to the screening model, and two thirds to the fundamental research process.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	4.7%	5.9%	5.9%
Last 1 year	17.6	13.3	13.3
Last 2 years	17.5	13.2	13.2
Last 3 years	24.9	21.8	24.7
Last 4 years	11.9	8.7	11.7
Last 5 years	10.1	7.8	14.0
Since Inception (7/00)	6.7	7.7	13.8

Calendar Year Returns

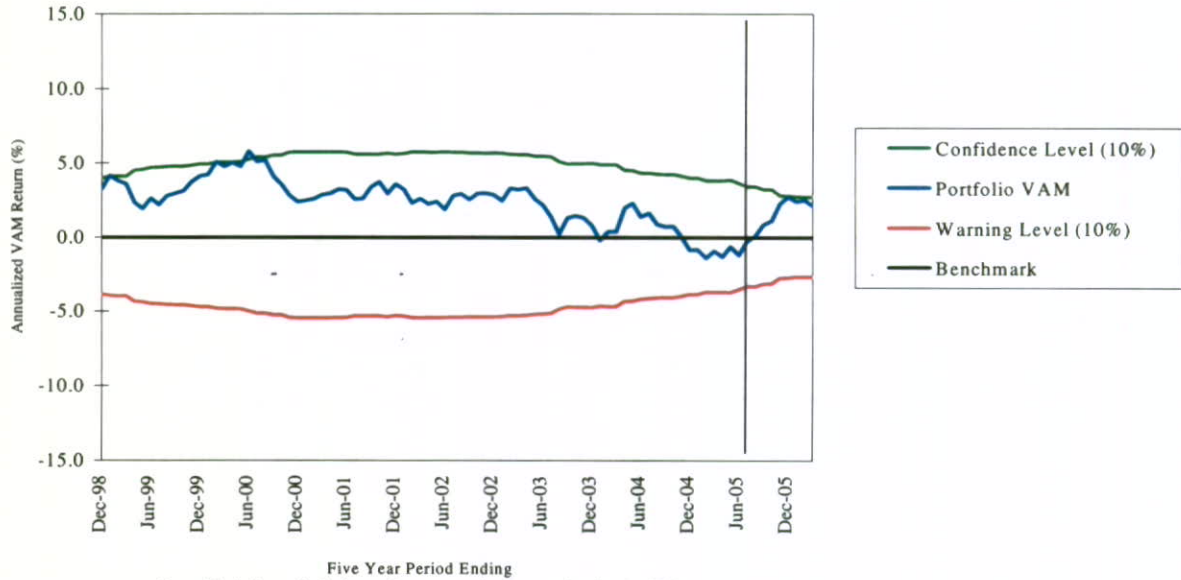
	Actual	Russell 1000 Value	Manager Benchmark
2005	15.6%	7.1%	7.1%
2004	18.9	16.5	16.5
2003	32.0	30.0	41.8
2002	-18.1	-15.5	-11.6
2001	-0.4	-5.6	11.5

EARNEST PARTNERS, LLC
Periods Ending March, 2006

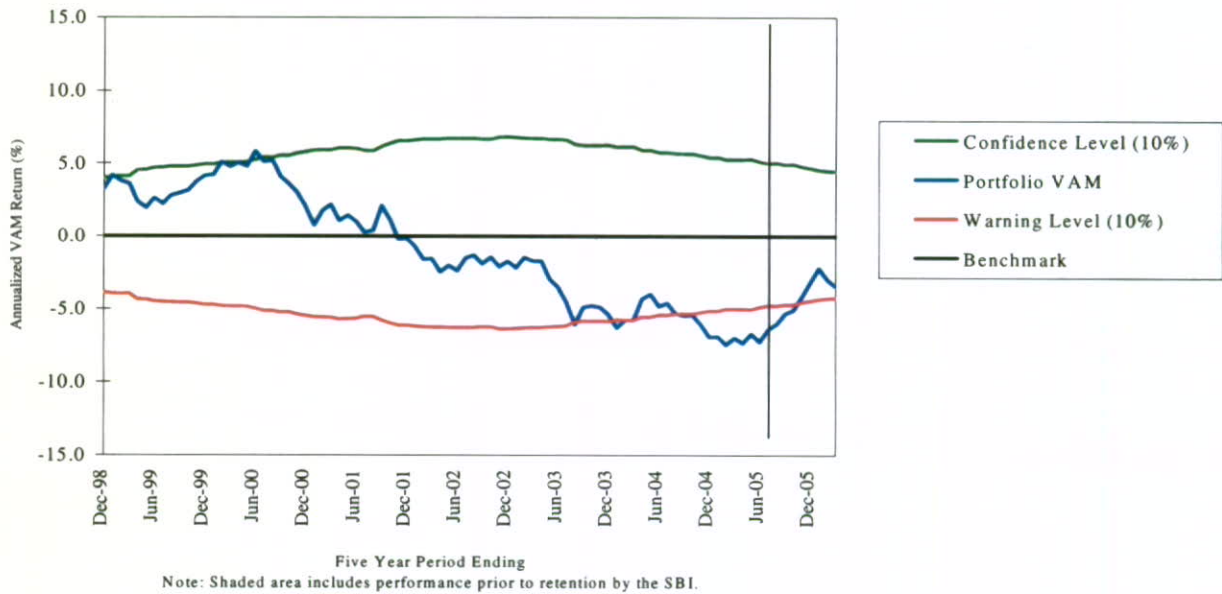
Portfolio Manager: Paul Viera

Assets Under Management: \$73,119,293

Earnest Partners
Rolling Five Year VAM vs. Russell 1000 Value



Earnest Partners
Rolling Five Year VAM vs. Manager Benchmark



LORD ABBETT & CO. LLC
Periods Ending March, 2006

Portfolio Manager: Eli Saltzmann

Assets Under Management: \$299,171,864

Investment Philosophy

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

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

Staff Comments

The portfolio underperformed the Russell 1000 Value Index by 0.1 percentage point (ppt) during the quarter. Weak overall stock selection detracted from returns, and was particularly ineffective within the health care, materials & processing, and financial services sectors.

For the year, the portfolio underperformed the Russell 1000 Value Index by 1.0 ppt. An underweight allocation to financial services coupled with weak stock selection detracted from performance. Despite strong stock selection within consumer staples, an overweight position in the underperforming sector proved detrimental.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	5.8%	5.9%	5.9%
Last 1 year	12.3	13.3	13.3
Last 2 years	10.1	13.2	13.2
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (4/04)	10.1	13.2	13.2

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2005	3.5%	7.1%	7.1%
2004*	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

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

LORD ABBETT & CO. LLC
Periods Ending March, 2006

Portfolio Manager: Eli Saltzmann

Assets Under Management: \$299,171,864

VAM Graphs will be drawn for period ending 6/30/06

LSV ASSET MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Josef Lakonishok

Assets Under Management: \$405,965,083

Investment Philosophy

Staff Comments

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

No comment at this time.

Recommendation

No action required.

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

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	7.0%	5.9%	5.9%
Last 1 year	18.5	13.3	13.3
Last 2 years	17.4	13.2	13.2
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (4/04)	17.4	13.2	13.2

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2005	12.5%	7.1%	7.1%
2004*	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

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

LSV ASSET MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Josef Lakonishok

Assets Under Management: \$405,965,083

VAM Graphs will be drawn for period ending 6/30/06

OPPENHEIMER CAPITAL
Periods Ending March, 2006

Portfolio Manager: John Lindenthal

Assets Under Management: \$725,126,712

Investment Philosophy

Oppenheimer's objectives are to: 1) preserve capital in falling markets; 2) manage risk in order to achieve less volatility than the market; and 3) produce returns greater than the market indices, the inflation rate and a universe of comparable portfolios with similar objectives. The firm achieves its objectives by purchasing securities considered to be undervalued on the basis of known data and strict financial standards and by making timely changes in the asset mix. Oppenheimer focuses on five key variables when evaluating companies: management, financial strength, profitability, industry position, and valuation.

Staff Comments

The portfolio underperformed the Russell 1000 Value Index by 2.7 percentage points (ppt) during the quarter. Despite an underweight position in the technology sector, weak stock selection detracted from performance. An overweight allocation to the consumer discretionary sector coupled with ineffective stock selection pressured returns.

For the year the portfolio underperformed the Russell 1000 Value Index by 6.7 ppt. An overweight allocation to the consumer discretionary sector coupled with ineffective stock selection detracted from returns. An underweight position in financial services represented a missed opportunity as the sector outperformed. Weak stock selection enhanced the negative impact.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	3.2%	5.9%	5.9%
Last 1 year	6.6	13.3	13.3
Last 2 years	7.2	13.2	13.2
Last 3 years	16.4	21.8	22.1
Last 4 years	6.0	8.7	7.6
Last 5 years	4.7	7.8	5.8
Since Inception (7/93)	12.5	12.0	12.5

Calendar Year Returns

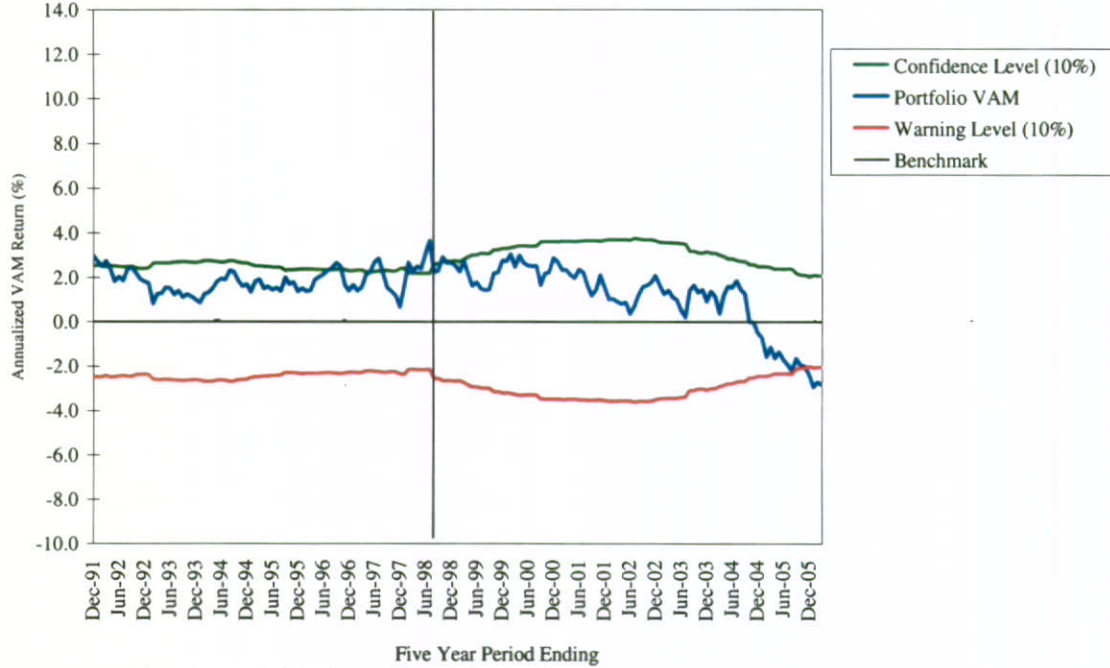
	Actual	Russell 1000 Value	Manager Benchmark
2005	1.0%	7.1%	7.1%
2004	12.0	16.5	16.5
2003	28.9	30.0	31.4
2002	-15.5	-15.5	-20.7
2001	-7.0	-5.6	-9.5

OPPENHEIMER CAPITAL
Periods Ending March, 2006

Portfolio Manager: John Lindenthal

Assets Under Management: \$725,126,712

OPPENHEIMER CAPITAL
Rolling Five Year VAM vs. Russell 1000 Value



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

OPPENHEIMER CAPITAL
Rolling Five Year VAM vs. Manager Benchmark



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

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending March, 2006

Portfolio Manager: Kevin McCreesh

Assets Under Management: \$192,670,017

Investment Philosophy

Staff Comments

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

No comment at this time.

Recommendation

No action required.

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

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	5.5%	5.9%	5.9%
Last 1 year	15.2	13.3	13.3
Last 2 years	14.2	13.2	13.2
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (4/04)	14.2	13.2	13.2

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2005	10.3%	7.1%	7.1%
2004*	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

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

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending March, 2006

Portfolio Manager: Kevin McCreesh

Assets Under Management: \$192,670,017

VAM Graphs will be drawn for period ending 6/30/06

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Small Cap Growth (R2000) Growth

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Small Cap Growth (R2000 Growth)

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MCKINLEY CAPITAL MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Robert Gillam, Sr.

Assets Under Management: \$225,658,760

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	18.1%	14.4%	14.4%
Last 1 year	29.5	27.8	27.8
Last 2 years	11.2	13.6	13.6
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	13.4	14.7	14.7

Calendar Year Returns

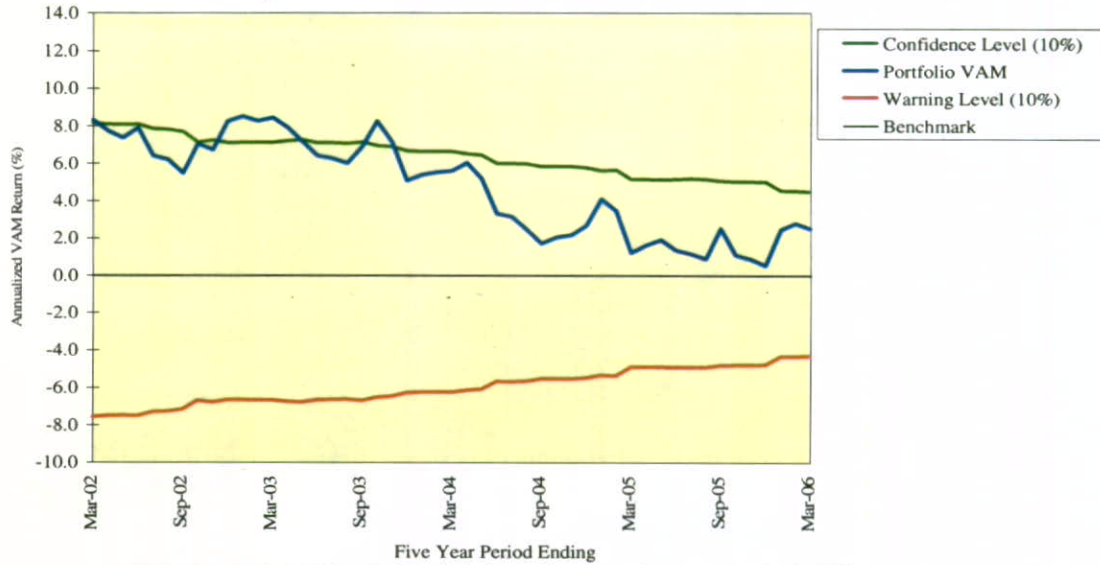
	Actual	Russell 2000 Growth	Manager Benchmark
2005	0.2%	4.2%	4.2%
2004	12.2	14.3	14.3
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

MCKINLEY CAPITAL MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Robert Gillam, Sr.

Assets Under Management: \$225,658,760

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



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

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending March, 2006

Portfolio Manager: Thomas Press and Don Longlet

Assets Under Management: \$158,332,505

Investment Philosophy

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

Staff Comments

The portfolio outperformed the Russell 2000 Growth Index by 4.9 percentage points (ppt) during the quarter. Strong stock selection within the technology sector aided returns. An overweight allocation to the producer durables sector coupled with strong stock selection contributed to performance.

For the year, the portfolio outperformed the Russell 2000 Growth Index by 23.0 ppt. An overweight position in producer durables coupled with strong stock selection proved beneficial. Underweight allocations to the consumer discretionary and materials & processing sectors aided returns. Strong stock selection enhanced the positive impact.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	19.3%	14.4%	14.4%
Last 1 year	50.8	27.8	27.8
Last 2 years	26.1	13.6	13.6
Last 3 years	35.4	28.1	27.5
Last 4 years	14.3	9.5	10.4
Last 5 years	11.1	8.6	11.8
Since Inception (7/00)	-0.5	-0.3	1.8

Calendar Year Returns

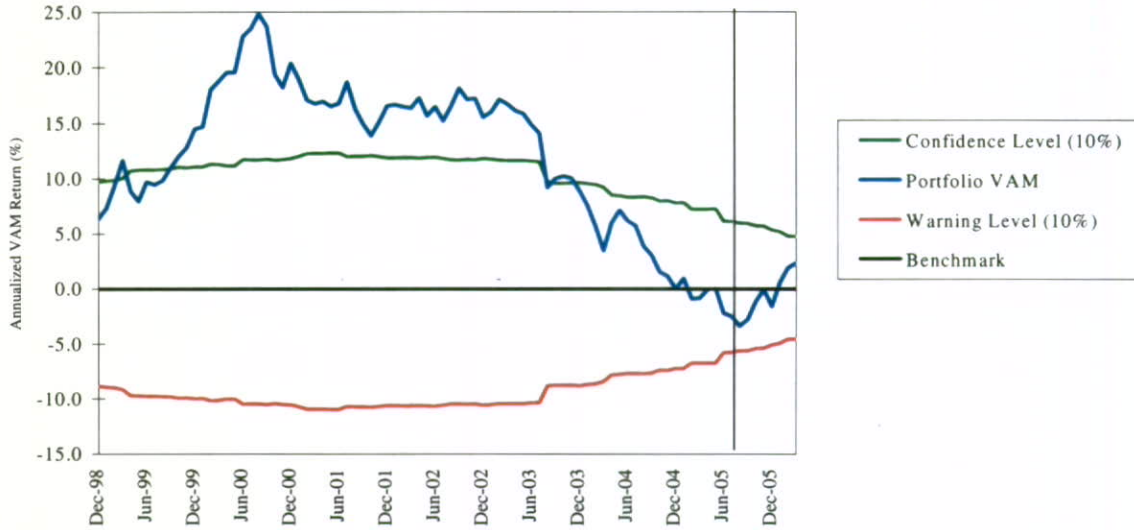
	Actual	Russell 2000 Growth	Manager Benchmark
2005	25.2%	4.2%	4.2%
2004	6.4	14.3	14.3
2003	50.7	48.5	48.5
2002	-33.3	-30.3	-27.8
2001	-22.8	-9.2	-5.5

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending March, 2006

Portfolio Manager: Thomas Press and Don Longlet

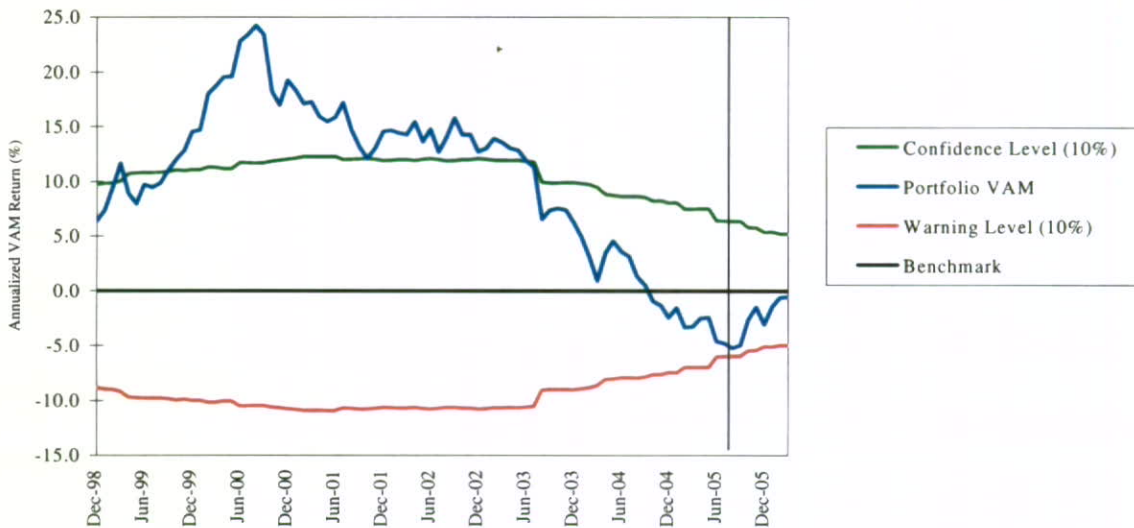
Assets Under Management: \$158,332,505

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



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

Next Century Growth Investors
 Rolling Five Year VAM vs. Manager Benchmark



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

SUMMIT CREEK ADVISORS, LLC
Periods Ending March, 2006

Portfolio Manager: Joseph Docter

Assets Under Management: \$165,246,488

Investment Philosophy

Winslow Capital believes that companies with above average earnings growth rates provide the best opportunities for superior portfolio returns. They look for companies with three to five year records of increased sales and earnings, steady 20-30% growth, low financial leverage with strong cash flow, and significant management ownership. Through internal fundamental research, they calculate projected fundamentals – earnings projections, forecasts of relative P/E ratios, and projected 12-18 month returns – which are used in the valuation model to rank securities. Individual positions do not exceed five percent. The portfolio is diversified across sectors.

Staff Comments

The portfolio underperformed the Russell 2000 Growth Index by 0.7 percentage point for the quarter. Strong overall stock selection was not enough to mitigate the negative impact of sector allocation decisions. Weak stock selection within the technology, auto & transportation and health care sectors weighed on performance.

For the year, the portfolio underperformed the Russell 2000 Growth Index by 2.1 ppt. Weak stock selection within the health care sector pressured returns. Minimal exposure to the energy sectors represented a missed opportunity as the sectors outperformed; strong stock selection helped offset some of the negative impact.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	13.7%	14.4%	14.4%
Last 1 year	25.7	27.8	27.8
Last 2 years	12.5	13.6	13.6
Last 3 years	23.2	28.1	29.2
Last 4 years	7.3	9.5	10.5
Last 5 years	9.1	8.6	12.4
Since Inception (7/00)	2.0	-0.3	4.4

Calendar Year Returns

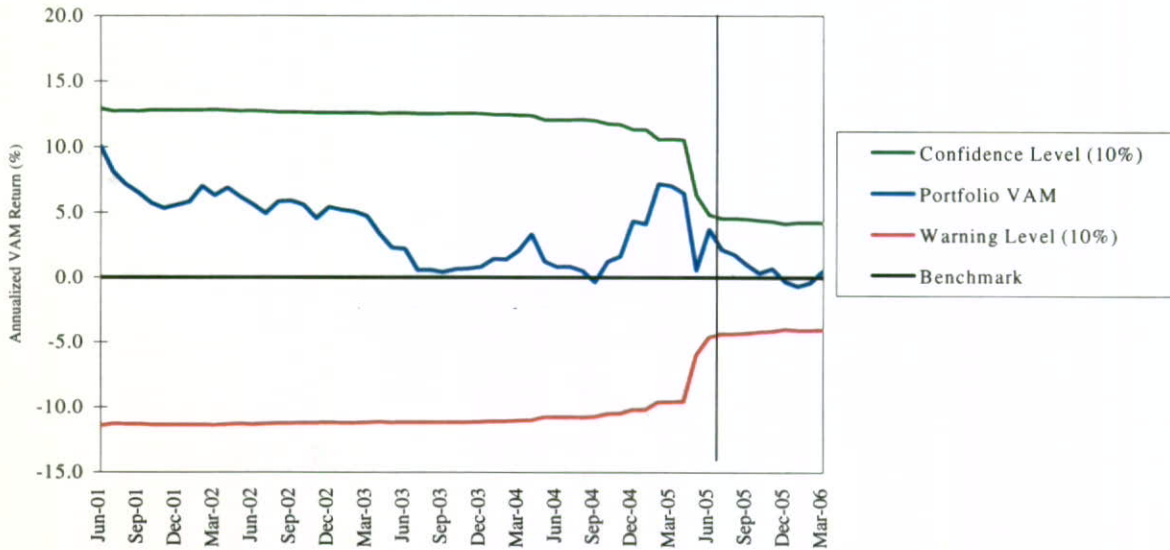
	Actual	Russell 2000 Growth	Manager Benchmark
2005	4.4%	4.2%	4.2%
2004	8.9	14.3	14.3
2003	37.6	48.5	51.3
2002	-25.0	-30.3	-26.7
2001	-6.1	-9.2	4.6

SUMMIT CREEK ADVISORS, LLC
Periods Ending March, 2006

Portfolio Manager: Joseph Docter

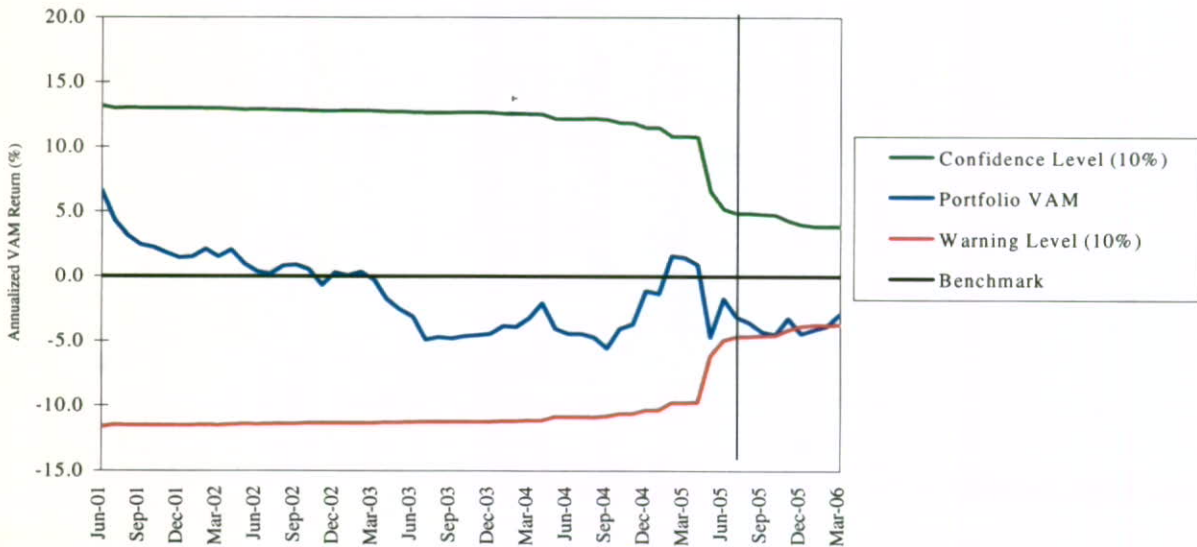
Assets Under Management: \$165,246,488

Summit Creek Advisors, LLC
 Rolling Five Year VAM vs. Russell 2000 Growth



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

Summit Creek Advisors, LLC
 Rolling Five Year VAM vs. Manager Benchmark



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

TURNER INVESTMENT PARTNERS
Periods Ending March, 2006

Portfolio Manager: William McVail

Assets Under Management: \$176,393,261

Investment Philosophy

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

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	17.0%	14.4%	14.4%
Last 1 year	33.8	27.8	27.8
Last 2 years	15.8	13.6	13.6
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	15.7	14.7	14.7

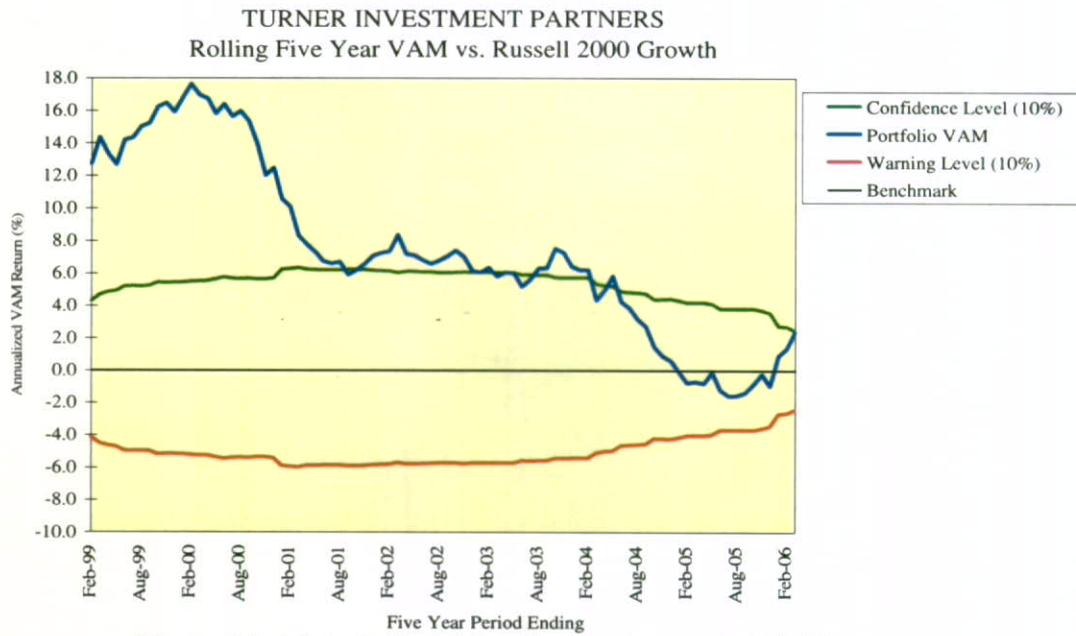
Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
2005	6.2%	4.2%	4.2%
2004	11.6	14.3	14.3
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

TURNER INVESTMENT PARTNERS
Periods Ending March, 2006

Portfolio Manager: William McVail

Assets Under Management: \$176,393,261



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Small Cap Value (R2000 Value)

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Small Cap Value (R2000 Value)

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GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Chip Otness

Assets Under Management: \$129,714,372

Investment Philosophy

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

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

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	11.1%	13.5%	13.5%
Last 1 year	21.8	23.8	23.8
Last 2 years	15.4	16.6	16.6
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	15.6	18.1	18.1

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2005	4.1%	4.7%	4.7%
2004	19.9	22.2	22.2
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

Staff Comments

The portfolio underperformed the Russell 2000 Value Index during the quarter by 2.4 percentage points (ppt). Underweight allocations to technology and producer durables represented missed opportunities, as the sectors outperformed. Weak stock selection exacerbated the negative impact.

For the year, the portfolio underperformed the Russell 2000 Value Index by 2.0 ppt. Underweight positions in technology and materials & processing coupled with ineffective stock selection proved detrimental. Weak stock selection within the utilities sector pressured returns.

Recommendation

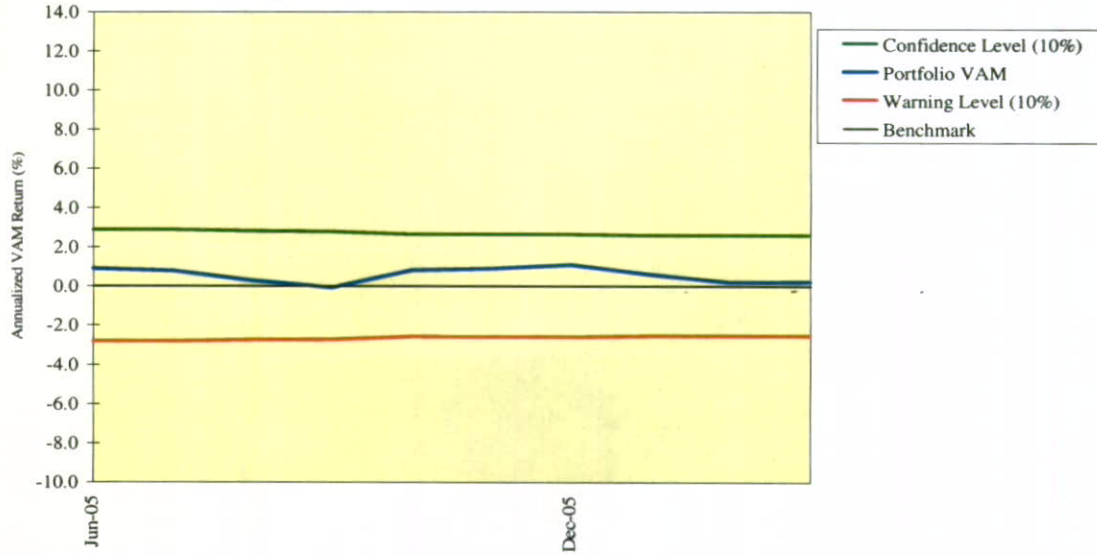
No action required.

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Chip Otness

Assets Under Management: \$129,714,372

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



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

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Jim Miles and David Green

Assets Under Management: \$140,827,124

Investment Philosophy

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

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	7.3%	13.5%	13.5%
Last 1 year	19.2	23.8	23.8
Last 2 years	16.2	16.6	16.6
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	20.0	18.1	18.1

Calendar Year Returns

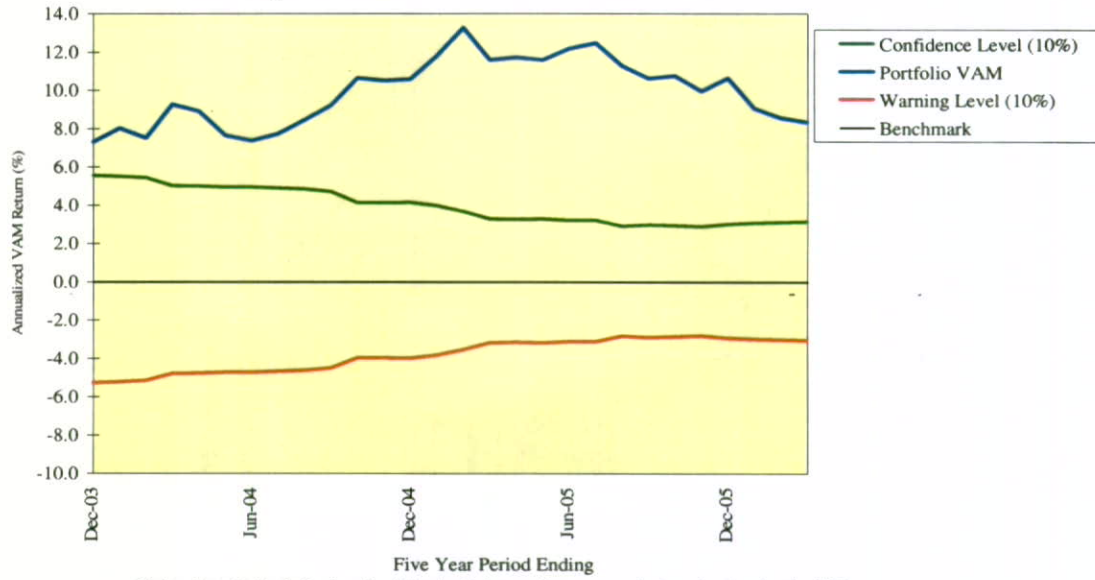
	Actual	Russell 2000 Value	Manager Benchmark
2005	10.4%	4.7%	4.7%
2004	27.1	22.2	22.2
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Jim Miles and David Green

Assets Under Management: \$140,827,124

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



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

MARTINGALE ASSET MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: William Jacques

Assets Under Management: \$143,284,851

Investment Philosophy

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

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

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	10.3%	13.5%	13.5%
Last 1 year	19.6	23.8	23.8
Last 2 years	17.9	16.6	16.6
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	20.9	18.1	18.1

Calendar Year Returns

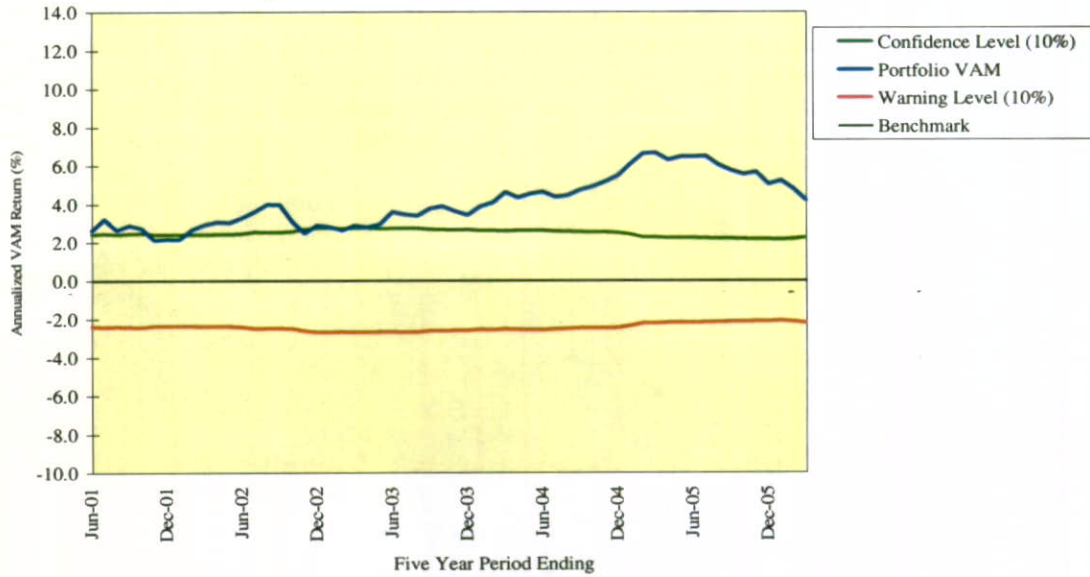
	Actual	Russell 2000 Value	Manager Benchmark
2005	6.2%	4.7%	4.7%
2004	30.8	22.2	22.2
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

MARTINGALE ASSET MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: William Jacques

Assets Under Management: \$143,284,851

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



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

PEREGRINE CAPITAL MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Doug Pugh and Tasso Coin

Assets Under Management: \$216,068,658

Investment Philosophy

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

Staff Comments

The portfolio underperformed the Russell 2000 Value Index during the quarter by 2.8 percentage points (ppt). Weak overall stock selection detracted from performance, and was particularly ineffective within the technology, materials & processing, and financial services sectors.

For the year, the portfolio outperformed the Russell 2000 Value Index by 0.8 ppt. Strong overall stock selection proved beneficial, particularly within the autos & transportation and consumer discretionary sectors. An underweight allocation to financial services coupled with effective stock selection contributed to performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	10.7%	13.5%	13.5%
Last 1 year	24.6	23.8	23.8
Last 2 years	19.8	16.6	16.6
Last 3 years	33.2	30.7	30.5
Last 4 years	14.7	14.4	15.3
Last 5 years	17.6	16.2	18.6
Since Inception (7/00)	19.4	17.2	19.7

Calendar Year Returns

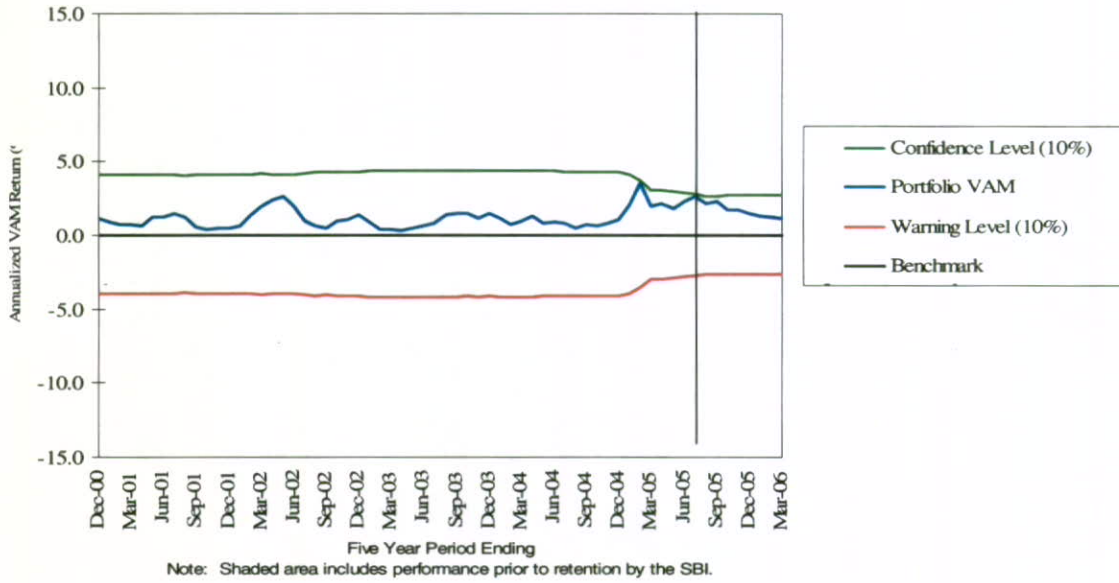
	Actual	Russell 2000 Value	Manager Benchmark
2005	10.1%	4.7%	4.7%
2004	23.6	22.2	22.2
2003	44.2	46.0	44.2
2002	-8.1	-11.4	-6.9
2001	12.6	14.0	22.9

PEREGRINE CAPITAL MANAGEMENT
Periods Ending March, 2006

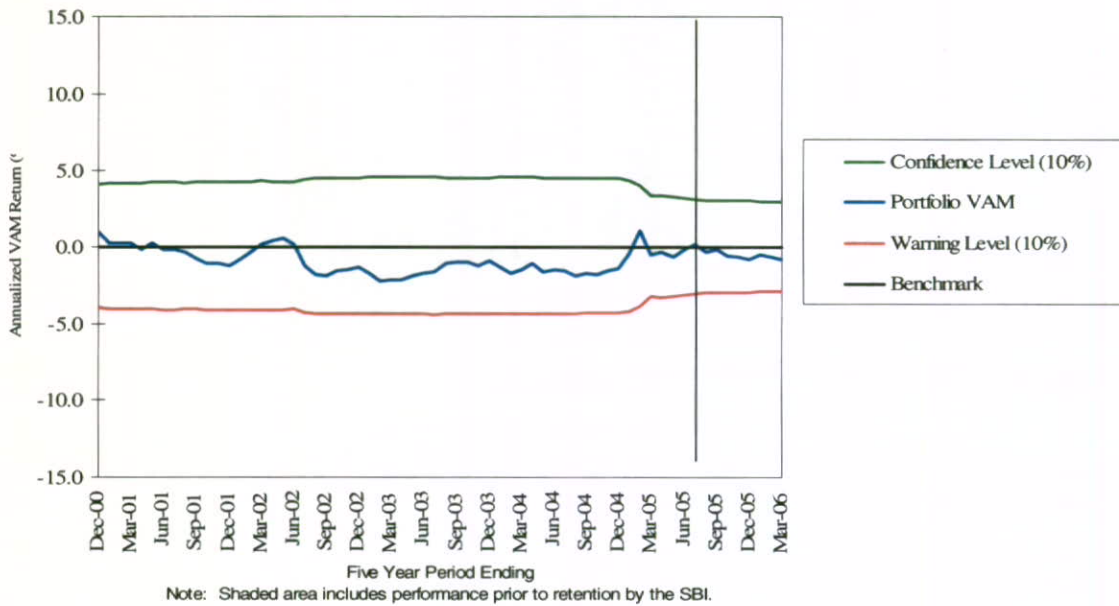
Portfolio Manager: Doug Pugh and Tasso Coin

Assets Under Management: \$216,068,658

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



Peregrine Capital Management
 Rolling Five Year VAM vs. Manager Benchmark



RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Jacob Hurwitz and Kent Kelley

Assets Under Management: \$62,361,657

Investment Philosophy

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

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

Staff Comments

The portfolio underperformed the Russell 2000 Value Index by 0.6 percentage points (ppt) during the quarter and 1.4 ppt for the year. In both periods weak stock selection within technology and utilities pressured returns, negating the positive impact of overweight sector allocations.

Staff conducted a site visit during the quarter. Philosophy, process, portfolio and organization were reviewed in detail. Institutional assets have surpassed retail assets, and the strategy is "soft closed". Ken Heinecke was promoted from analyst to Director of Research. Staff was impressed with the group interaction and team communication. The firm continues to grow in a healthy way. The relationship with RiverSource remains positive and value added.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	12.9%	13.5%	13.5%
Last 1 year	22.4	23.8	23.8
Last 2 years	16.8	16.6	16.6
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	19.3	18.1	18.1

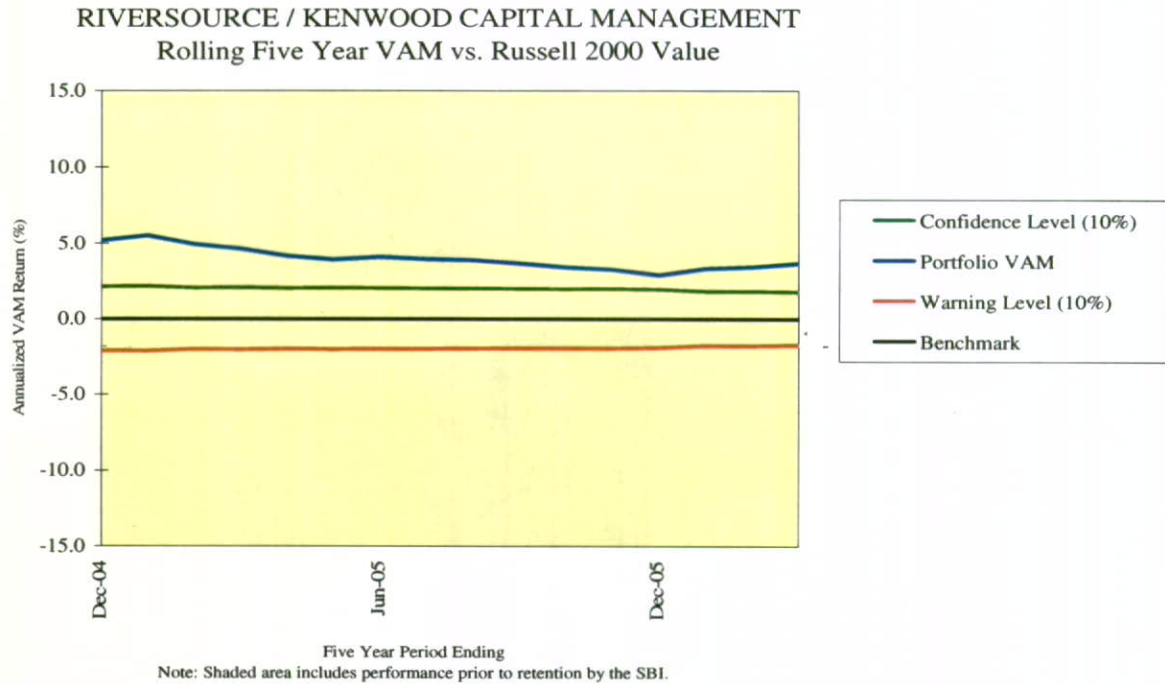
Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2005	4.8%	4.7%	4.7%
2004	25.8	22.2	22.2
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Jacob Hurwitz and Kent Kelley

Assets Under Management: \$62,361,657



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Semi-Passive and Passive

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Semi-Passive and Passive

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BARCLAYS GLOBAL INVESTORS
Periods Ending March, 2006

Portfolio Manager: Rhonda Vitanye

Assets Under Management: \$3,024,373,534

Investment Philosophy – Semi-Passive Style

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	4.9%	4.5%
Last 1 year	14.6	13.2
Last 2 years	10.9	10.2
Last 3 years	18.7	17.9
Last 4 years	7.1	6.1
Last 5 years	6.7	5.7
Since Inception (1/95)	11.5	10.6

Calendar Year Returns

	Actual	Manager Benchmark*
2005	7.6%	6.3%
2004	11.7	11.4
2003	30.0	28.5
2002	-19.1	-19.7
2001	-7.8	-9.7

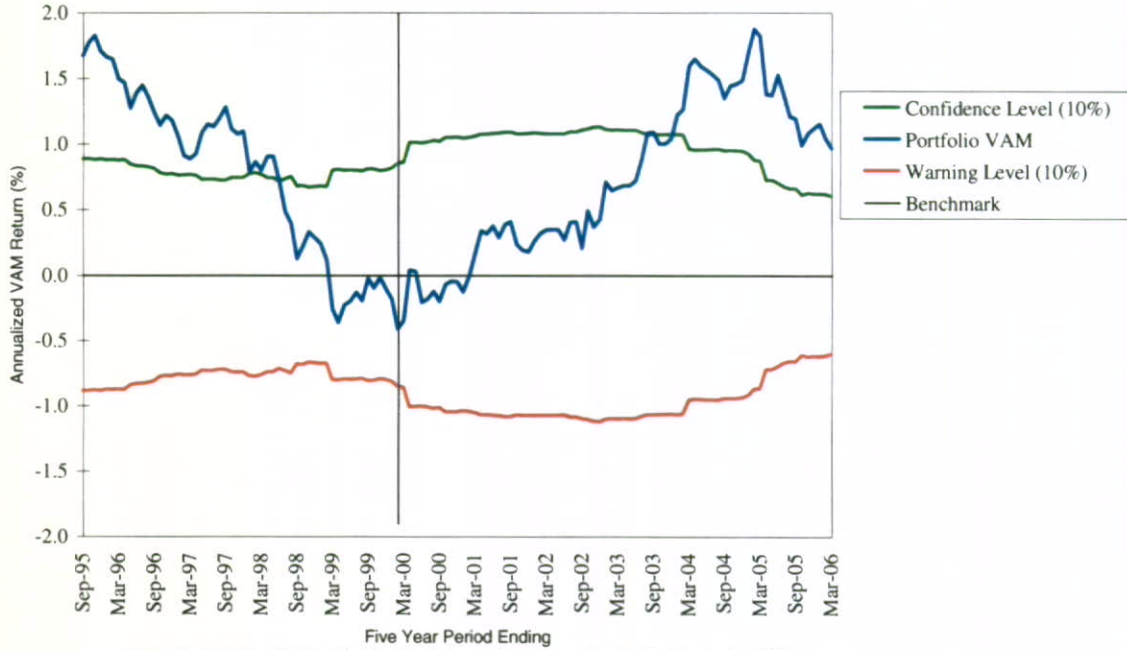
* Completeness Fund until 12/31/03; Russell 1000 beginning 1/1/04.

BARCLAYS GLOBAL INVESTORS
Periods Ending March, 2006

Portfolio Manager: Rhonda Vitanye

Assets Under Management: \$3,024,373,534

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



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 2006

Portfolio Manager: John Cone

Assets Under Management: \$2,138,935,480

Investment Philosophy – Semi-Passive Style

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	4.4%	4.5%
Last 1 year	12.5	13.2
Last 2 years	9.9	10.2
Last 3 years	17.7	17.9
Last 4 years	5.7	6.1
Last 5 years	5.3	5.7
Since Inception (1/95)	10.2	10.6

Calendar Year Returns

	Actual	Manager Benchmark*
2005	6.1%	6.3%
2004	11.7	11.4
2003	26.9	28.5
2002	-20.2	-19.7
2001	-9.0	-9.7

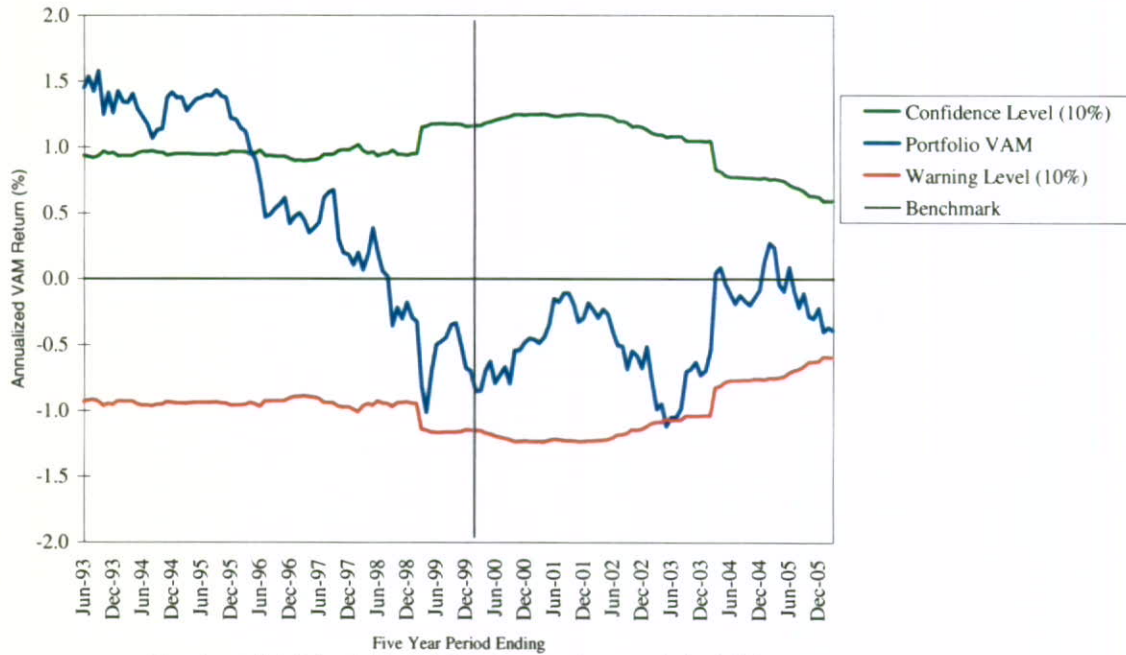
* Completeness Fund until 12/31/03; Russell 1000 beginning 1/1/04.

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 2006

Portfolio Manager: John Cone

Assets Under Management: \$2,138,935,480

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



J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending March, 2006

Portfolio Manager: Ralph Zingone and Terance Chen Assets Under Management: \$2,334,946,548

Investment Philosophy – Semi-Passive Style

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

Staff Comments

The portfolio slightly underperformed the Russell 1000 Index during the quarter by 0.1 percentage point (ppt). For the year, the portfolio underperformed the Russell 1000 Index by 1.2 ppt. In both periods, overweight positions in the consumer discretionary and health care sectors coupled with weak stock selection detracted from performance.

Staff met with Paul Quinsee, CIO of US Equity, Eric Remole, Head of Quantitative Research, and Lee Spelman, Client Portfolio Manager. Portfolio underperformance was discussed; the group cited difficulty with some analyst picks and the inability to hold Altria, which is overweighted in other portfolios, as detractors in recent periods. New analysts have been added to the team and their contributions positively impacted quarterly performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	4.4%	4.5%
Last 1 year	12.0	13.2
Last 2 years	9.2	10.2
Last 3 years	17.5	17.9
Last 4 years	5.2	6.1
Last 5 years	4.7	5.7
Since Inception (1/95)	10.6	10.6

Calendar Year Returns

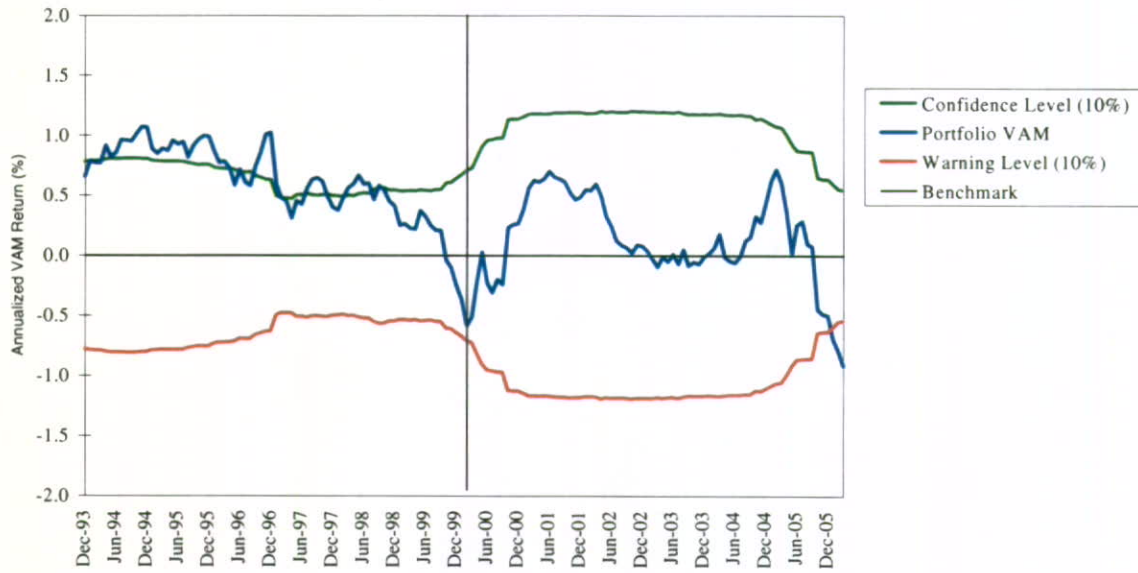
	Actual	Manager Benchmark*
2005	4.7%	6.3%
2004	11.7	11.4
2003	28.9	28.5
2002	-21.8	-19.7
2001	-8.7	-9.7

* Completeness Fund until 12/31/03; Russell 1000 beginning 1/1/04.

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending March, 2006

Portfolio Manager: Ralph Zingone and Terance Chen Assets Under Management: \$2,334,946,548

JP MORGAN - 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.

BARCLAYS GLOBAL INVESTORS
Periods Ending March, 2006

Portfolio Manager: Amy Schioldager

Assets Under Management: \$7,299,726,258

Investment Philosophy – Passive Style

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	5.4%	5.3%
Last 1 year	14.4	14.3
Last 2 years	10.7	10.6
Last 3 years	19.1	19.1
Last 4 years	6.3	6.3
Last 5 years	5.4	5.5
Since Inception (7/95)	10.2	10.1

Calendar Year Returns

	Actual	Manager Benchmark*
2005	6.2%	6.1%
2004	12.0	11.9
2003	30.9	31.2
2002	-21.4	-21.5
2001	-11.8	-11.7

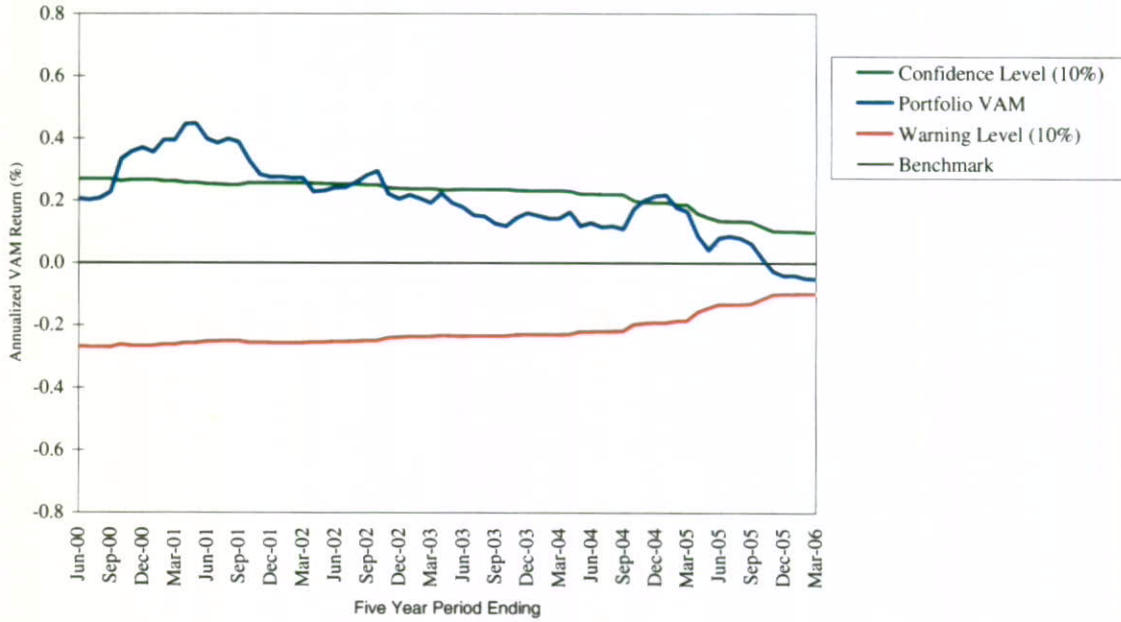
* The Domestic Equity Asset Class Target is the Russell 3000 Index effective 10/1/03. From Account inception to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments.

BARCLAYS GLOBAL INVESTORS
Periods Ending March, 2006

Portfolio Manager: Amy Schioldager

Assets Under Management: \$7,299,726,258

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



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STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

First Quarter, 2006

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**COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending March, 2006**

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
Aberdeen	-0.4	-0.6	2.6	2.3	3.7	2.9	5.7	5.1	7.0	6.4	\$1,031.3	9.9%
Dodge & Cox	0.1	-0.6	2.9	2.3	3.9	2.9	6.3	5.1	7.6	6.4	\$1,052.0	10.1%
Morgan Stanley	-0.3	-0.6	3.8	2.3	4.0	2.9	5.6	5.1	9.3	9.0	\$851.5	8.2%
RiverSource	-0.3	-0.6	2.6	2.3	3.3	2.9	4.5	5.1	6.0	6.2	\$868.5	8.4%
Western	-0.3	-0.6	3.2	2.3	5.1	2.9	6.8	5.1	10.3	9.0	\$1,376.0	13.2%
Semi-Passive Managers												
BlackRock	-0.6	-0.6	2.4	2.3	3.1	2.9	5.3	5.1	6.6	6.3	\$1,806.4	17.4%
Goldman	-0.5	-0.6	2.6	2.3	3.7	2.9	5.5	5.1	6.5	6.1	\$1,807.7	17.4%
Lehman	-0.6	-0.6	2.4	2.3	3.2	2.9	5.3	5.1	7.7	7.6	\$1,604.9	15.4%
											\$10,398.3	100.0%
									Since 7/1/84			
Historical Aggregate (2)	-0.4	-0.6	2.7	2.3	3.7	2.9	5.5	5.1	9.1	8.9		
Lehman Aggregate (3)		-0.6		2.3		2.9		5.1		9.0		

(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.

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ABERDEEN ASSET MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Warren Davis

Assets Under Management: \$1,031,299,057

Investment Philosophy

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

Staff Comments

Aberdeen exceeded the benchmark for the quarter and the year due to individual security selection and an overweight position to mortgage-backed and asset-backed securities.

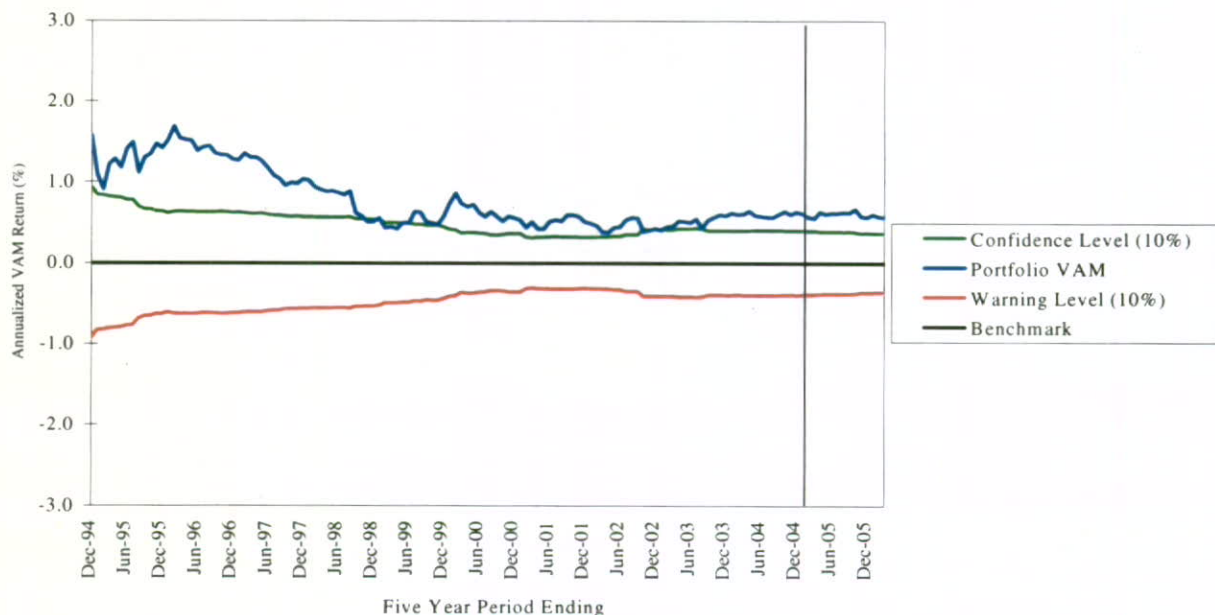
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.4%	-0.6%
Last 1 year	2.6	2.3
Last 2 years	2.1	1.7
Last 3 years	3.7	2.9
Last 4 years	5.8	5.0
Last 5 years	5.7	5.1
Since Inception (2/00)	7.0	6.4

Recommendations

No action required.

ABERDEEN ASSET MANAGEMENT
Rolling Five Year VAM



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

DODGE & COX INVESTMENT MANAGERS
Periods Ending March, 2006

Portfolio Manager: Dana Emery

Assets Under Management: \$1,052,043,314

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 quarterly and one-year benchmark. Both periods were helped by the portfolio's shorter effective duration and security selection, specifically Ford Motor Credit and GMAC. The quarterly return also benefited from an overweight of the corporate sector.

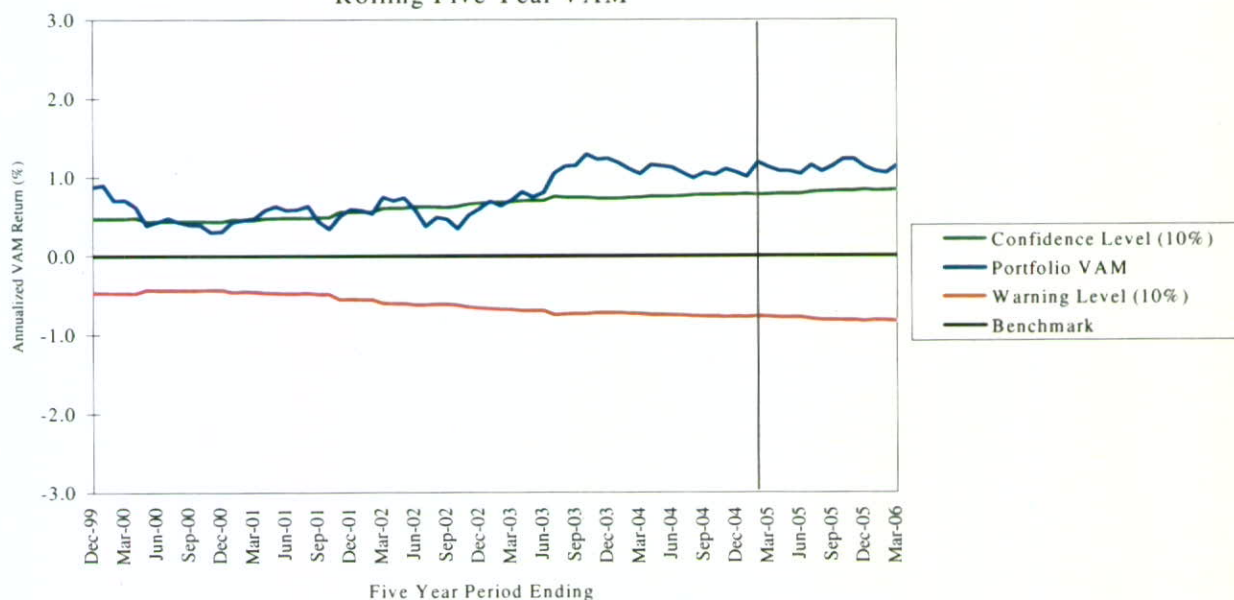
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.1%	-0.6%
Last 1 year	2.9	2.3
Last 2 years	2.2	1.7
Last 3 years	3.9	2.9
Last 4 years	6.0	5.0
Last 5 years	6.3	5.1
Since Inception (2/00)	7.6	6.4

Recommendations

No action required.

DODGE & COX INVESTMENT MANAGERS
Rolling Five Year VAM



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

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: David Horowitz

Assets Under Management: \$851,454,538

Investment Philosophy

MSDW focuses on four key portfolio decisions: interest-rate sensitivity, yield-curve exposure, credit quality, and prepayment risk. The firm is a value investor, purchasing securities they believe are relatively cheap and holding them until relative values change or until other securities are identified which are better values. In developing interest-rate strategy, the firm relies on value-based criteria to determine when markets are offering generous compensation for bearing interest-rate risk, rather than trying to anticipate interest rates. Value is added in the corporate sector by selecting the cheapest bonds and controlling credit risk through diversification. MSDW has developed significant expertise in mortgage securities, which are often used to replace U.S. Treasuries in portfolios. Morgan Stanley was retained by the SBI in July 1984.

Staff Comments

Morgan Stanley outperformed for the quarter and the year. The portfolio benefited from its below benchmark interest rate bet for both time periods as well as security selection in the corporate sector.

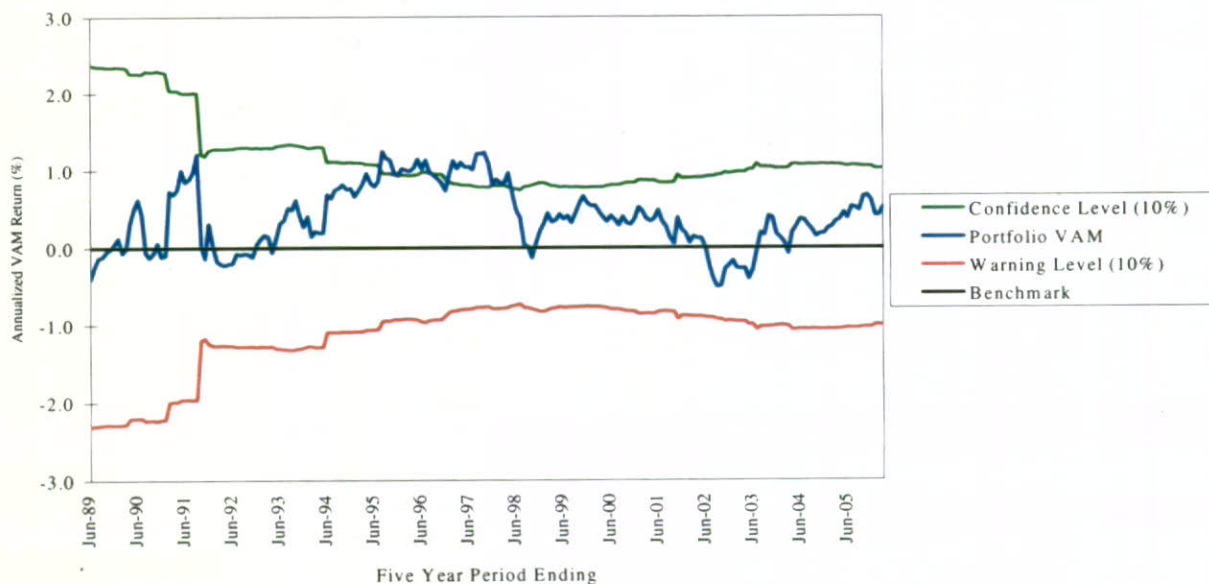
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.3%	-0.6%
Last 1 year	3.8	2.3
Last 2 years	3.2	1.7
Last 3 years	4.0	2.9
Last 4 years	5.4	5.0
Last 5 years	5.6	5.1
Since Inception (7/84)	9.3	9.0

Recommendations

No action required.

MORGAN STANLEY INVESTMENT MANAGEMENT
Rolling Five Year VAM



RIVERSOURCE INVESTMENTS
Periods Ending March, 2006

Portfolio Manager: Colin Lundgren

Assets Under Management: \$868,505,519

Investment Philosophy

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

Staff Comments

RiverSource outperformed for the quarter and the year. Both periods were helped by a short duration position and security selection in the credit sector. The quarterly outperformance was also due to an overweight position in mortgages.

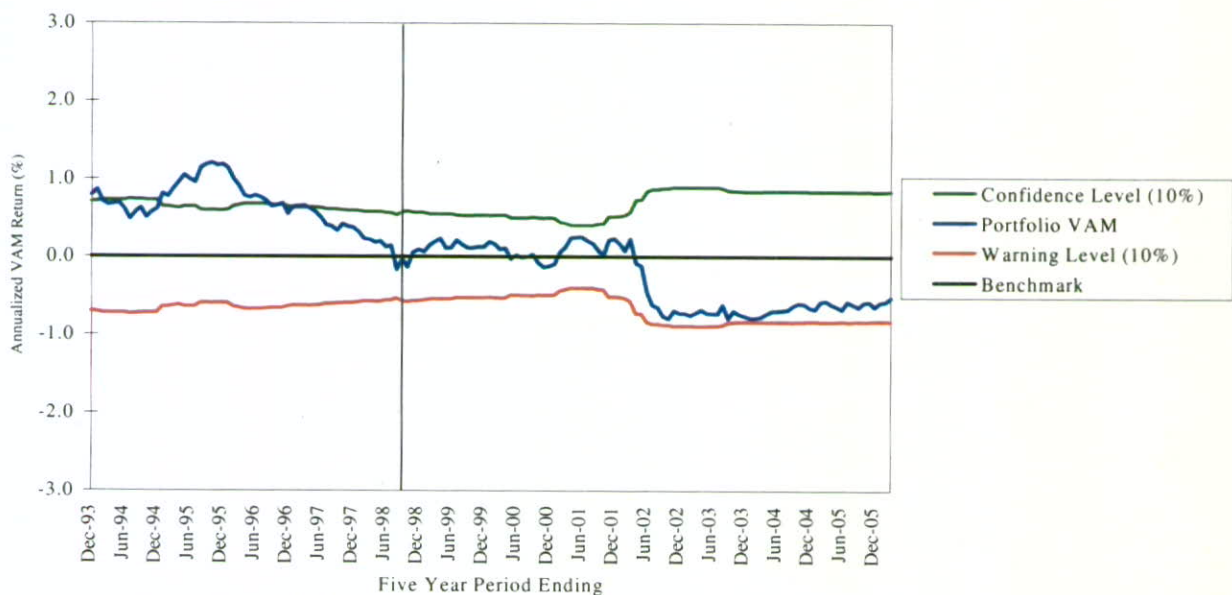
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.3%	-0.6%
Last 1 year	2.6	2.3
Last 2 years	2.2	1.7
Last 3 years	3.3	2.9
Last 4 years	4.2	5.0
Last 5 years	4.5	5.1
Since Inception (7/93)	6.0	6.2

Recommendations

No action required.

RIVERSOURCE INVESTMENTS - FIXED INCOME
Rolling Five Year VAM



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

WESTERN ASSET MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Ken Leech

Assets Under Management: \$1,376,013,785

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 exceeded the quarterly and one-year benchmark. The quarterly return was positively impacted by an overweight exposure to the mortgage-backed sector and security selection in the credit sector. The one-year return was helped by an underweight exposure to the mortgage-backed sector in the first part of the period and a shift to an overweight exposure later in the period.

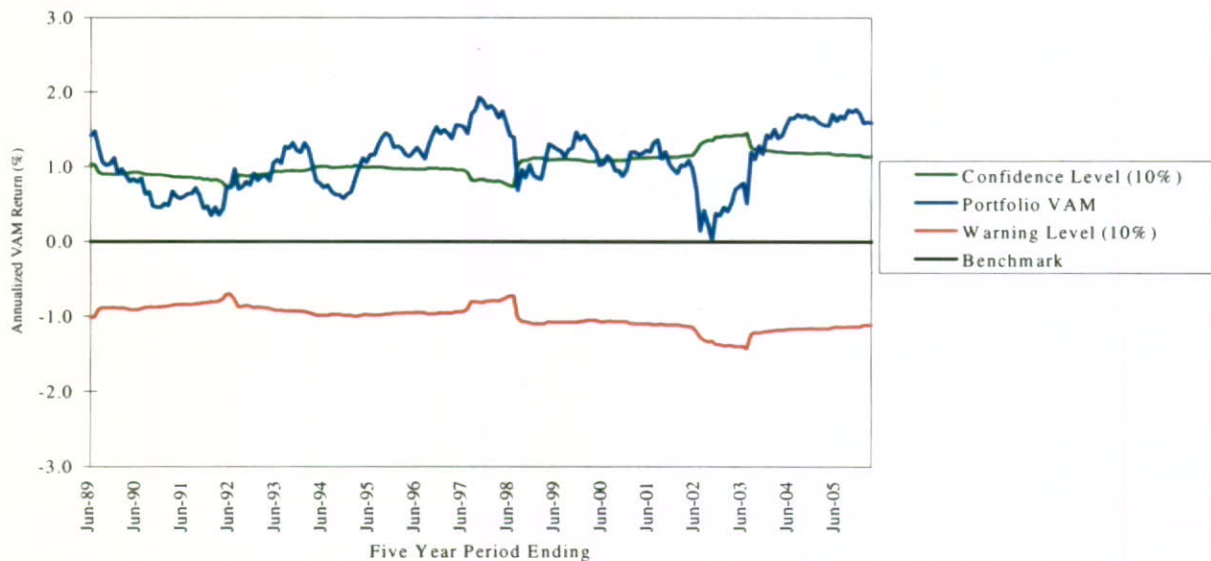
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.3%	-0.6%
Last 1 year	3.2	2.3
Last 2 years	3.0	1.7
Last 3 years	5.1	2.9
Last 4 years	6.7	5.0
Last 5 years	6.8	5.1
Since Inception (7/84)	10.3	9.0

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM



BLACKROCK, INC.
Periods Ending March, 2006

Portfolio Manager: Keith Anderson

Assets Under Management: \$1,806,428,737

Investment Philosophy

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

Staff Comments

BlackRock matched the quarterly benchmark and outperformed for the year. The short duration position and an overweight to asset-backed securities helped the one-year performance.

On February 15, 2006, Blackrock announced an agreement to merge Blackrock and Merrill Lynch Investment Managers. The merger is expected to close September 30, 2006. The new firm will be independent in governance and ownership with a majority of the board being independent directors and no single majority stockholder. Laurence Fink will continue as Chairman and CEO.

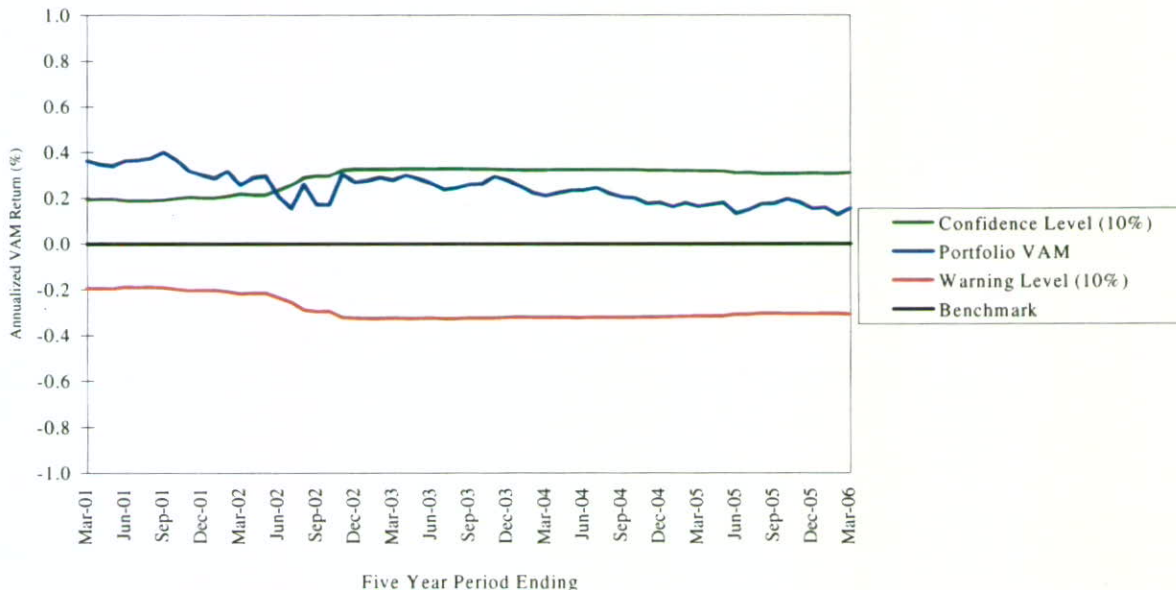
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.6%	-0.6%
Last 1 year	2.4	2.3
Last 2 years	2.0	1.7
Last 3 years	3.1	2.9
Last 4 years	5.3	5.0
Last 5 years	5.3	5.1
Since Inception (4/96)	6.6	6.3

Recommendation

No action required.

BLACKROCK, INC.
Rolling Five Year VAM



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Jonathon Beinler

Assets Under Management: \$1,807,674,840

Investment Philosophy

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

Staff Comments

For the quarter and the year, Goldman outperformed their benchmark. Both periods were helped by a short duration bias. The one-year return was also helped by their yield curve position.

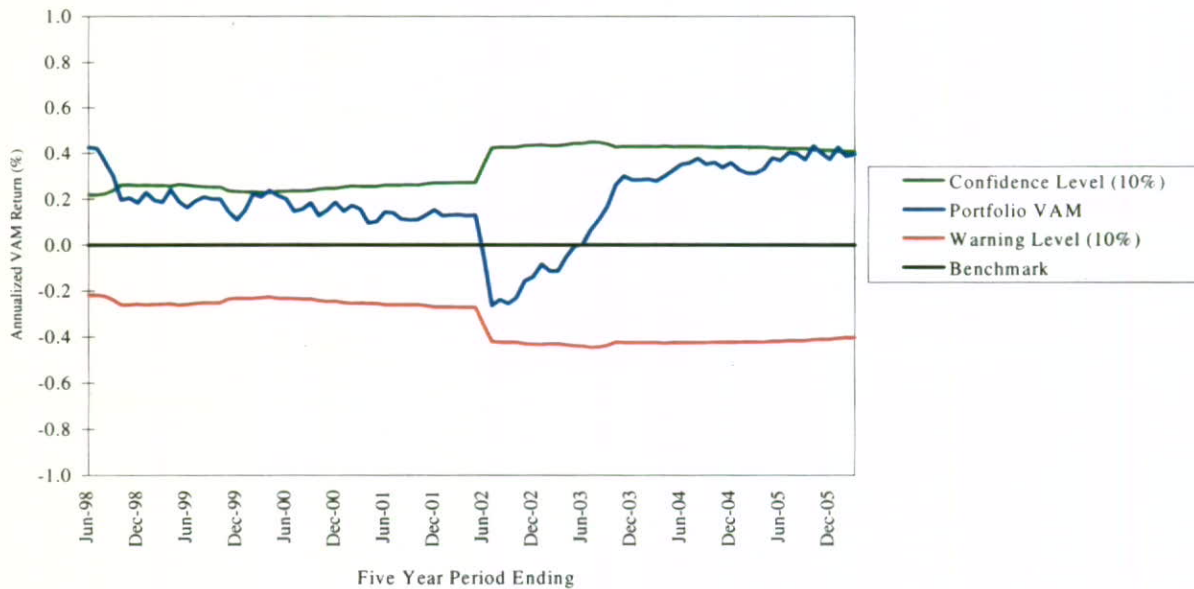
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.5%	-0.6%
Last 1 year	2.6	2.3
Last 2 years	2.2	1.7
Last 3 years	3.7	2.9
Last 4 years	5.4	5.0
Last 5 years	5.5	5.1
Since Inception (7/93)	6.5	6.1

Recommendations

No action required.

GOLDMAN SACHS ASSET MANAGEMENT
Rolling Five Year VAM



LEHMAN BROTHERS ASSET MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Andrew Johnson

Assets Under Management: \$1,604,869,409

Investment Philosophy

Lehman (formerly Lincoln) manages an enhanced index portfolio closely tracking the Lehman Aggregate. Lehman's process relies on a combination of quantitative tools and active management judgment. Explicit quantification and control of risks are at the heart of their process. Lehman uses proprietary risk exposure measures to analyze 25 interest rate factors, and over 30 spread-related factors. For each interest rate factor, the portfolio is very closely matched to the index to ensure that the portfolio earns the same return as the index for any change in interest rates. For each spread factor, the portfolio can deviate slightly from the index as a means of seeking value-added. Setting target active risk exposures that must fall within pre-established maximums controls risk. To control credit risk, corporate holdings are diversified across a large number of issues. Lehman was retained by the SBI in July 1988.

Staff Comments

Lehman matched the benchmark for the quarter and outperformed for the year. The one-year return was helped by an overweight in the corporate sector and security selection in the mortgage sector.

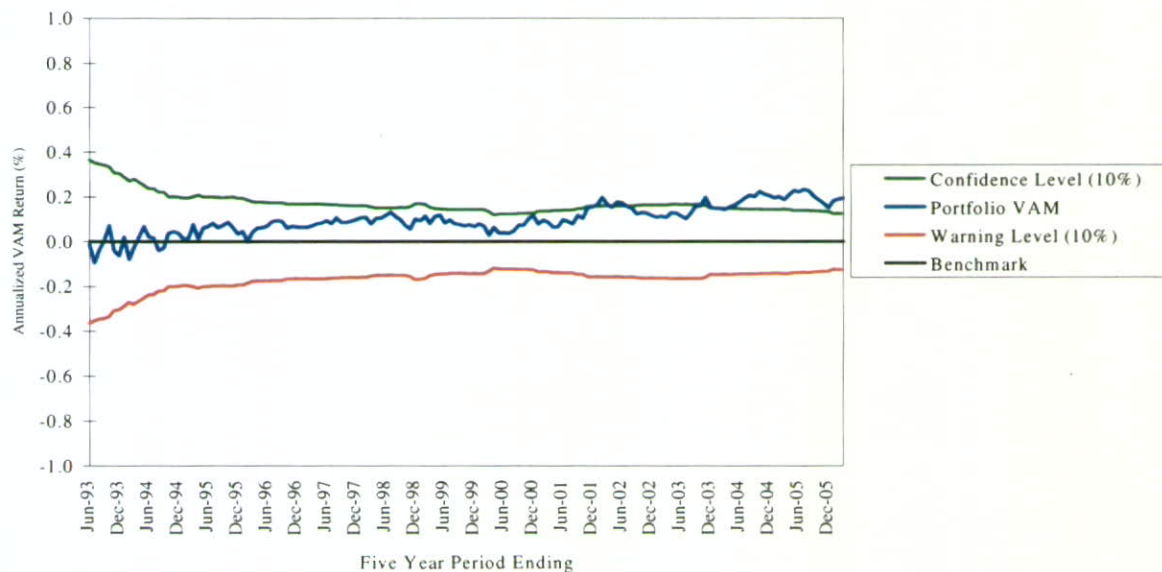
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.6%	-0.6%
Last 1 year	2.4	2.3
Last 2 years	1.9	1.7
Last 3 years	3.2	2.9
Last 4 years	5.2	5.0
Last 5 years	5.3	5.1
Since Inception (7/88)	7.7	7.6

Recommendations

No action required.

LEHMAN BROTHERS ASSET MANAGEMENT
Rolling Five Year VAM





STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

First Quarter, 2006

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**COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending March, 2006**

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk		
	%	%	%	%	%	%	%	%	%	%		
Active Developed Markets (2)												
Acadian	11.1	9.3							34.4	26.0	\$340.0	4.9%
Fidelity	9.3	9.3							27.8	26.0	\$317.1	4.5%
Invesco	9.1	9.3	20.7	25.1	28.5	31.5	10.2	9.8	6.3	3.5	\$454.1	6.5%
J.P. Morgan	9.9	9.3							25.2	26.0	\$312.0	4.5%
Marathon (3)	10.1	9.3	26.0	25.1	35.5	33.5	15.4	12.9	10.4	7.5	\$530.7	7.6%
McKinley	11.3	9.3							30.5	26.0	\$326.2	4.7%
RiverSource	10.4	9.3	27.0	25.1	28.5	31.5	7.6	9.8	-0.5	3.5	\$331.8	4.7%
UBS Global	9.0	9.3	20.4	25.1	28.3	31.5	9.7	9.8	9.3	8.1	\$474.2	6.8%
Active Emerging Markets												
Alliance Capital	12.8	12.0	47.8	47.4	47.2	46.2	24.7	23.8	18.5	18.6	\$351.0	5.0%
Capital International	11.9	12.0	52.6	47.4	44.6	46.2	21.5	23.8	14.9	18.6	\$294.7	4.2%
Morgan Stanley	13.7	12.0	50.5	47.4	47.8	46.2	25.3	23.8	19.0	18.6	\$316.7	4.5%
Semi-Passive Developed Markets (2)												
AQR	9.2	9.3							27.8	26.0	\$251.0	3.6%
Fidelity	9.9	9.3							27.2	26.0	\$253.5	3.6%
State Street	10.1	9.3							27.7	26.0	\$254.0	3.6%
Passive Developed Markets (2)												
State Street	9.3	9.3	25.1	25.1	31.6	31.5	10.0	9.8	8.6	8.4	\$2,112.3	30.2%
									Since 10/1/92			
Equity Only (4) (6)	10.0	9.7	27.9	27.6	32.3	33.0	11.2	11.1	9.0	8.4	\$6,989.4	99.0%
Total Program (5) (6)	10.0	9.7	27.9	27.6	32.3	33.0	11.2	11.1	9.3	8.4	\$6,989.4	
SBI Int'l Equity Target (6)		9.7		27.6		33.0		11.1		8.4		
MSCI ACWI Free ex. U.S. (7)		9.7		27.6		33.0		11.4		8.9		
MSCI World ex U.S. (net)		9.3		25.1		31.4		10.1		8.6		
MSCI EAFE Free (net)		9.4		24.4		31.1		9.6		8.3		
MSCI Emerging Markets Free (8)		12.0		47.4		46.2		23.2		9.9		

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

(2) Since 10/1/03, the Active and Passive Developed Markets managers benchmark is 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). Since inception of 7/1/05, the Semi-Passive Developed Markets managers benchmark is MSCI World ex U.S. (net).

(3) As of 10/1/03, Marathon's benchmark is MSCI World ex U.S. (net). Through 9/30/03 Marathon was measured against a custom composite benchmark: 55% Citigroup EMI EPAC and 45% Citigroup PMI EPAC.

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

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

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

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

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

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ACADIAN ASSET MANAGEMENT, INC.
Periods Ending March, 2006

Portfolio Manager: John Chisholm

Assets Under Management: \$340,006,026

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

Both allocation and selection decisions added value during the quarter. Stock selection in Germany, the United Kingdom, France and Canada was particularly strong. In addition, the portfolio's overweight position in Norway, the top performing market during the quarter, added value.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	11.1%	9.3%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	34.4	26.0

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

FIDELITY MANAGEMENT TRUST COMPANY
Periods Ending March, 2006

Portfolio Manager: Michael Strong

Assets Under Management: \$317,118,978

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

Fidelity matched the benchmark during the quarter. Value added from allocation decisions was offset by negative stock selection overall. The portfolio's underweight positions in the telecommunications and consumer staples sectors, the two worst performing sectors during the quarter, was beneficial.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.3%	9.3%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	27.8	26.0

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

INVESCO GLOBAL ASSET MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Erik Granade

Assets Under Management: \$454,124,946

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

INVESCO underperformed during the quarter and the year. Over both time periods, stock selection decisions and the portfolio's modest cash position were a drag on performance. For the quarter, selection in Spain, Hong Kong, and Belgium did not add value. For the year, selection in Japan was the primary negative contributor.

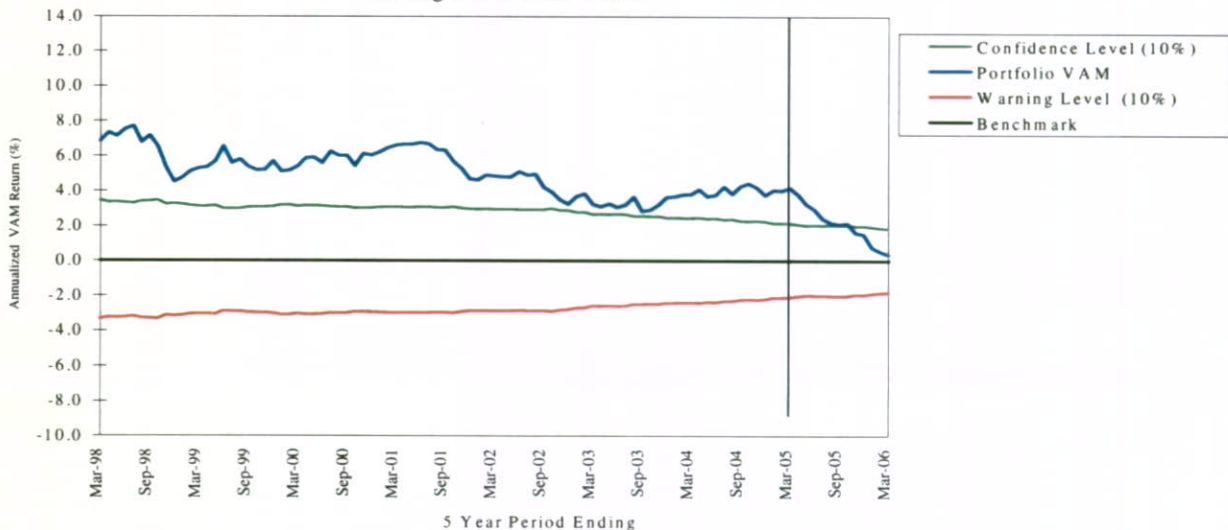
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.1%	9.3%
Last 1 year	20.7	25.1
Last 2 years	19.1	20.2
Last 3 years	28.5	31.5
Last 4 years	13.7	15.0
Last 5 years	10.2	9.8
Since Inception (3/00)	6.3	3.5

Recommendations

No action required.

INVESCO GLOBAL ASSET MANAGEMENT
Rolling Five Year VAM



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

J.P. MORGAN INVESTMENT MANAGEMENT INC.
Periods Ending March, 2006

Portfolio Manager: James Fisher

Assets Under Management: \$312,049,809

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

J.P. Morgan outperformed during the quarter. Stock selection in Japan, Australia and Germany as well as in the information technology and consumer discretionary sectors added value.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.9%	9.3%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	25.2	26.0

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

MARATHON ASSET MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: William Arah

Assets Under Management: \$530,692,661

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

Marathon outperformed for the quarter and the year. Stock selection was a significant contributor to returns over both time periods, particularly in the United Kingdom and in Italy.

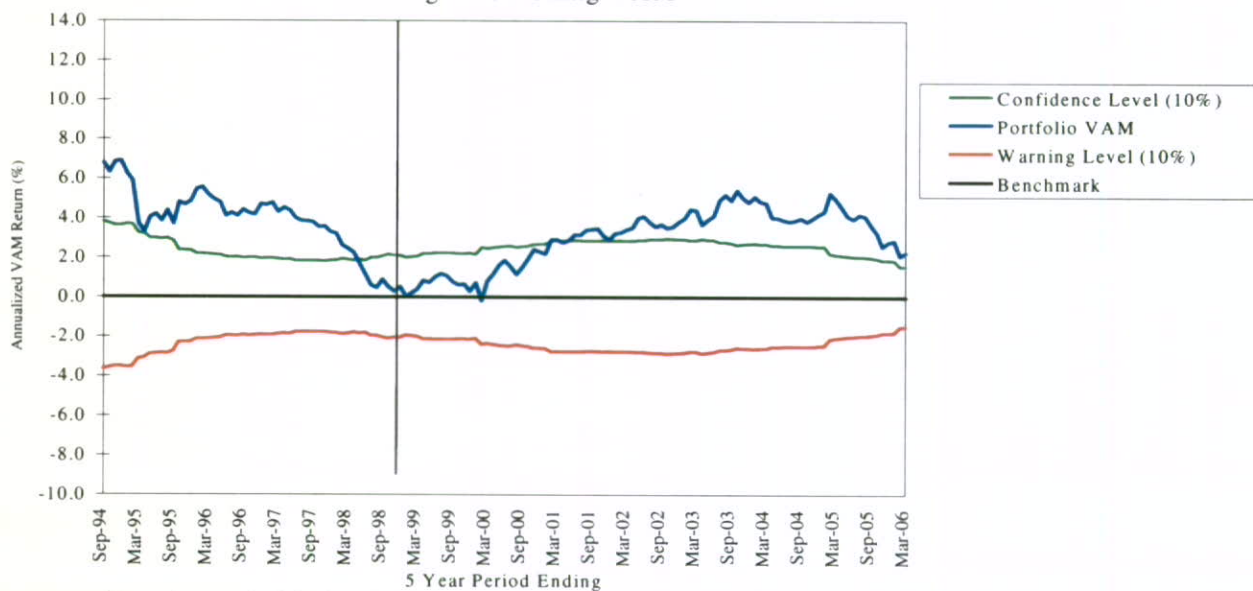
Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	10.1%	9.3%
Last 1 year	26.0	25.1
Last 2 years	21.9	20.2
Last 3 years	35.5	33.5
Last 4 years	19.5	17.6
Last 5 years	15.4	12.9
Since Inception (11/93)	10.4	7.5

Recommendations

No action required.

MARATHON ASSET MANAGEMENT
Rolling Five Rolling VAM



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

MCKINLEY CAPITAL MANAGEMENT, INC.
Periods Ending March, 2006

Portfolio Manager: Robert Gillam, Jr.

Assets Under Management: \$326,231,307

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

Allocation and selection decisions contributed to McKinley's outperformance during the quarter. The portfolio benefited from being overweight Norway and Finland, two top performing markets. Selection in several European markets, including Germany, Italy, Spain and France, also added value.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	11.3%	9.3%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	30.5	26.0

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

RIVERSOURCE INVESTMENTS
Periods Ending March, 2006

Portfolio Manager: Alex Lyle and Ed Gaunt

Assets Under Management: \$331,767,179

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

Riversource outperformed during the quarter and the year benefiting from strong stock selection overall. Over both time periods, selection in the United Kingdom and in the energy sector added significant value to the portfolio.

Quantitative Evaluation

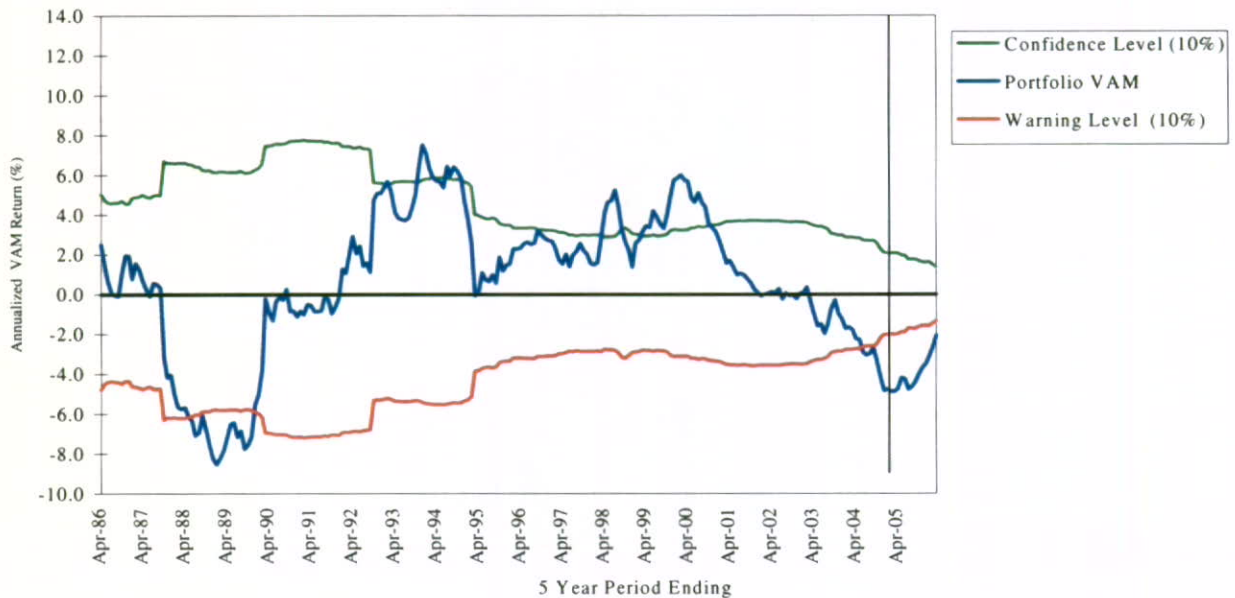
	Actual	Benchmark
Last Quarter	10.4%	9.3%
Last 1 year	27.0	25.1
Last 2 years	19.6	20.2
Last 3 years	28.5	31.5
Last 4 years	12.9	15.0
Last 5 years	7.6	9.8
Since Inception	-0.5	3.5

(3/00)

Recommendations

No action required.

RIVERSOURCE INVESTMENTS
Rolling Five Year VAM



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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending March, 2006

Portfolio Manager: Thomas Madsen

Assets Under Management: \$474,223,648

Investment Philosophy

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

Staff Comments

UBS underperformed over the quarter and the year. Stock selection in Japan, France and Canada was the primary negative contributor over both time periods.

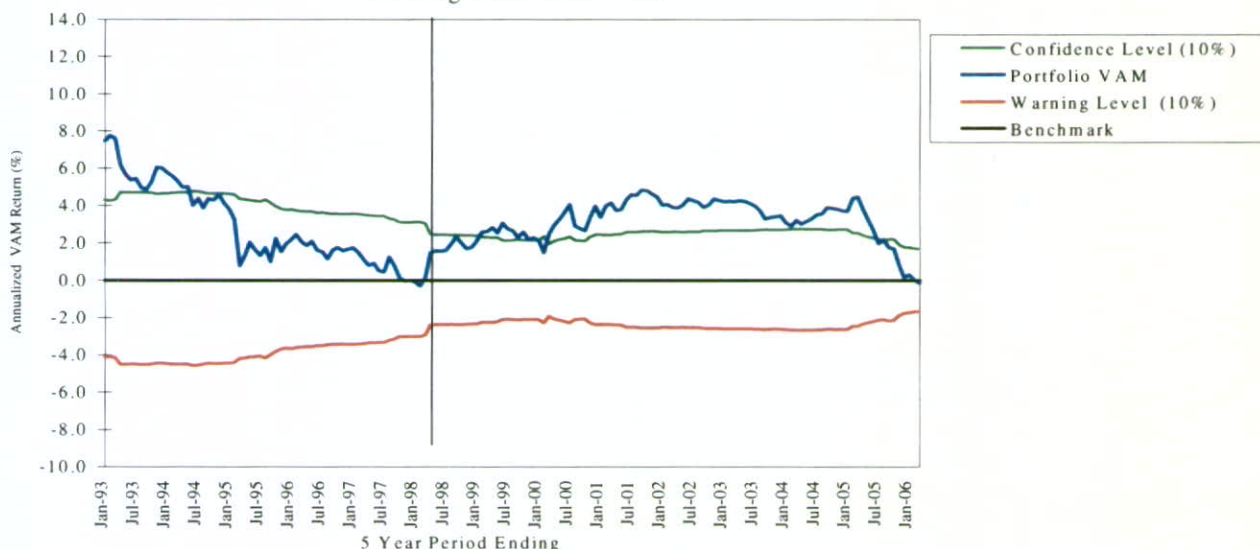
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.0%	9.3%
Last 1 year	20.4	25.1
Last 2 years	17.8	20.2
Last 3 years	28.3	31.5
Last 4 years	13.1	15.0
Last 5 years	9.7	9.8
Since Inception (4/93)	9.3	8.1

Recommendations

No action required.

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



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

ALLIANCE CAPITAL MANAGEMENT INTERNATIONAL
Periods Ending March, 2006

Portfolio Manager: Edward Baker

Assets Under Management: \$351,023,422

Investment Philosophy

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

Staff Comments

Alliance outperformed over the quarter and the year. Stock selection and allocation decisions added value. Over both time periods, selection in Brazil and Taiwan was particularly strong.

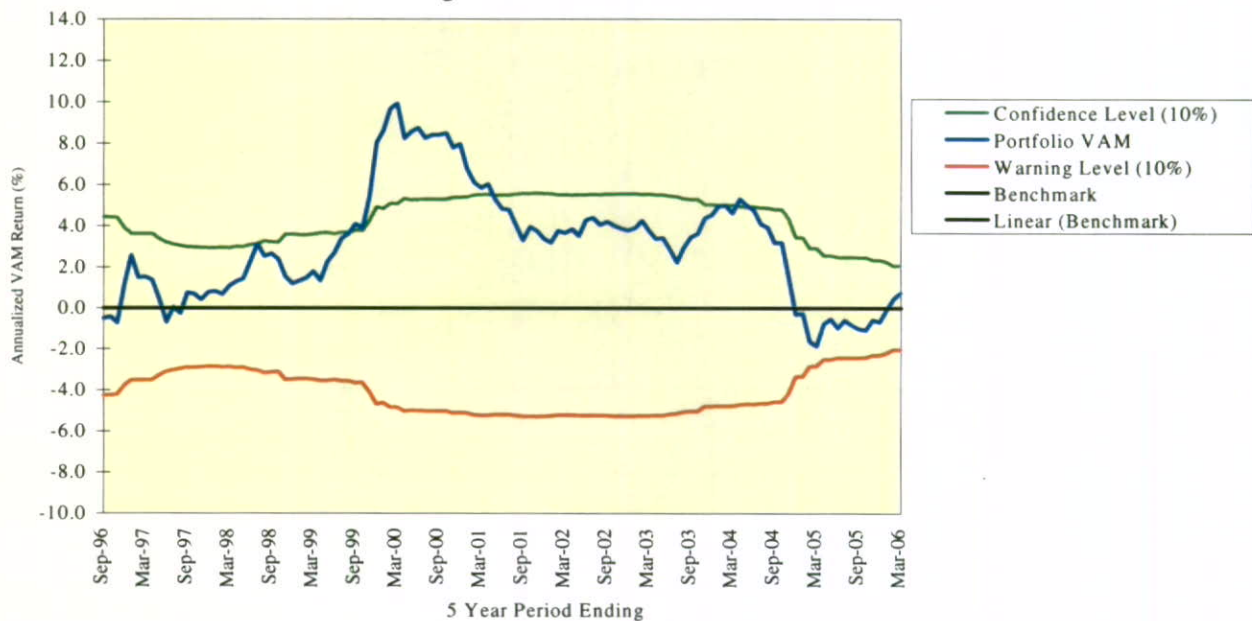
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	12.8	12.0
Last 1 year	47.8	47.4
Last 2 years	31.8	31.1
Last 3 years	47.2	46.2
Last 4 years	27.1	25.6
Last 5 years	24.7	23.8
Since Inception (3/01)	18.5	18.6

Recommendations

Staff is closely monitoring the firm due to personnel turnover.

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year VAM



Note: Shaded area includes performance prior to managing SBI account.

CAPITAL INTERNATIONAL, INC.
Periods Ending March, 2006

Portfolio Manager: Victor Kohn

Assets Under Management: \$294,701,903

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

Capital narrowly underperformed during the quarter and strongly outperformed over the year. For the quarter, allocation decisions, particularly the portfolio's underweight positions in Russia and the energy sector, did not add value. For the year, stock selection overall was very strong, especially in Brazil, Taiwan, Korea, and South Africa.

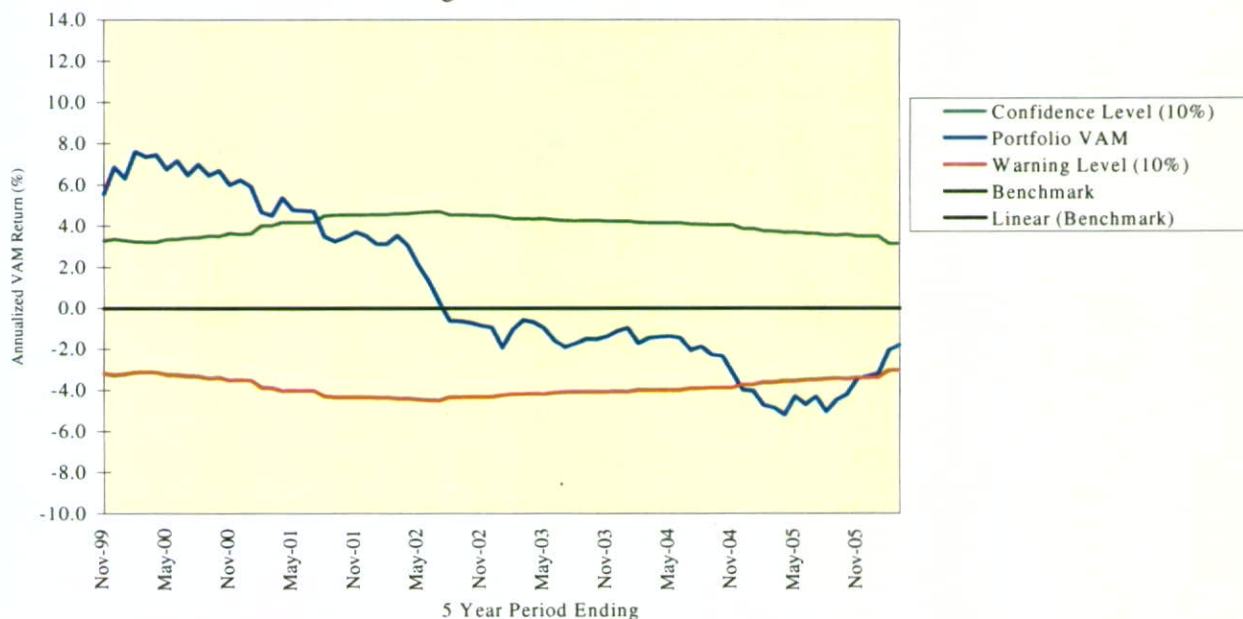
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	11.9	12.0
Last 1 year	52.6	47.4
Last 2 years	29.7	31.1
Last 3 years	44.6	46.2
Last 4 years	22.5	25.6
Last 5 years	21.5	23.8
Since Inception (3/01)	14.9	18.6

Recommendations

Staff is closely monitoring the firm due to longer term performance concerns.

CAPITAL INTERNATIONAL, INC.
Rolling Five Year VAM



Note: Shaded area includes performance prior to managing SBI account.

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Narayan Ramachandran

Assets Under Management: \$316,722,394

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

Morgan Stanley outperformed over the quarter and the year. While allocation and selection decisions were positive, allocation decisions added significant value over both time periods. The portfolio's overweight positions in Russia and India, and underweight position in Taiwan contributed strongly to returns for the quarter and the year.

Quantitative Evaluation

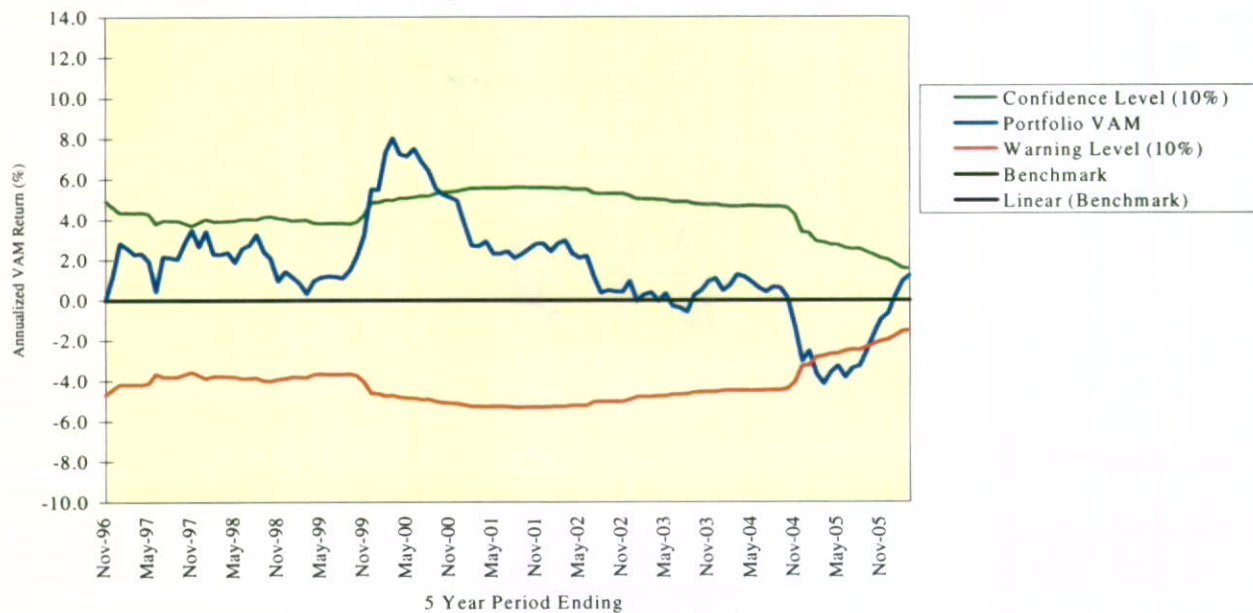
	Actual	Benchmark
Last Quarter	13.7%	12.0%
Last 1 year	50.5	47.4
Last 2 years	31.1	31.1
Last 3 years	47.8	46.2
Last 4 years	26.2	25.6
Last 5 years	25.3	23.8
Since Inception	19.0	18.6

(3/01)

Recommendations

Staff is closely monitoring the firm due to personnel turnover.

MORGAN STANLEY INVESTMENT MANAGEMENT
Rolling Five Year VAM



AQR CAPITAL MANAGEMENT, LLC
Periods Ending March, 2006

Portfolio Manager: Cliff Asness

Assets Under Management: \$250,984,753

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

AQR narrowly underperformed during the quarter due to country allocation decisions.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.2%	9.3%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	27.8	26.0

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

FIDELITY MANAGEMENT TRUST COMPANY
Periods Ending March, 2006

Portfolio Manager: Cesar Hernandez

Assets Under Management: \$253,500,456

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

Fidelity outperformed during the quarter. Stock selection in Germany, the United Kingdom and the financials sector added value to the portfolio.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.9%	9.3%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	27.2	26.0

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

STATE STREET GLOBAL ADVISORS
Periods Ending March, 2006

Portfolio Manager: Paul Moghtader

Assets Under Management: \$254,002,873

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

SSgA outperformed during the quarter. Both allocation and selection decisions added value to the portfolio. Selection in France, Germany and the United Kingdom as well as in the materials and industrials sectors was particularly strong.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.1%	9.3%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	27.7	26.0

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

STATE STREET GLOBAL ADVISORS
Periods Ending March, 2006

Portfolio Manager: Lynn Blake

Assets Under Management: \$2,112,287,658

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

SSgA's passive strategy's tracking error is within expectation over all time periods.

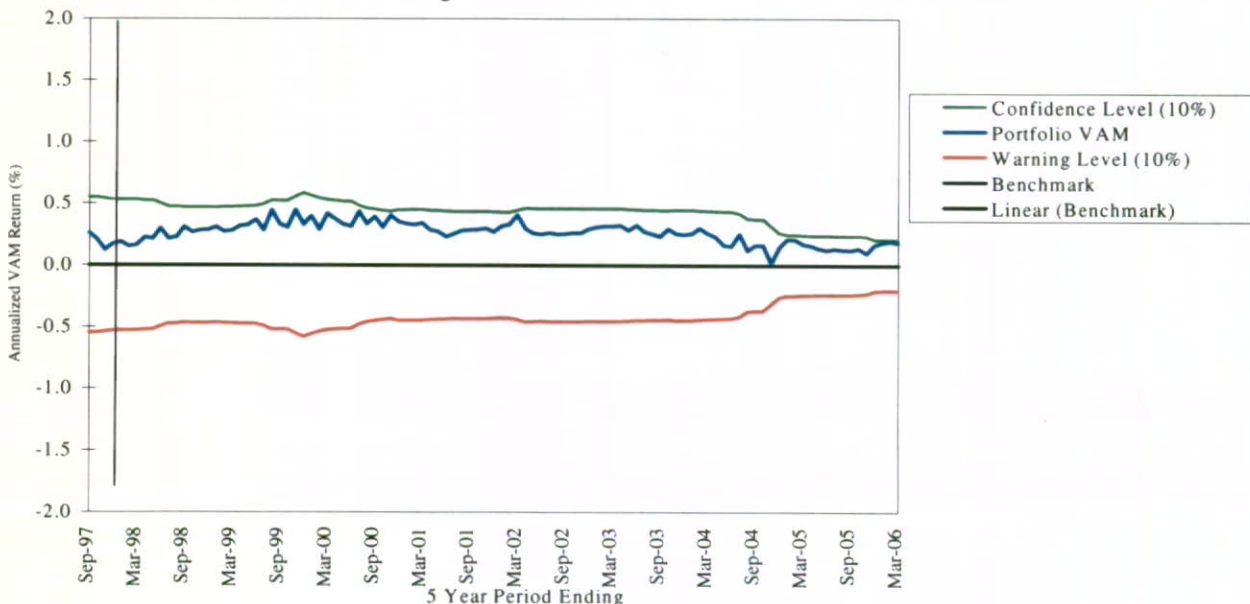
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.3%	9.3%
Last 1 year	25.1	25.1
Last 2 years	20.4	20.2
Last 3 years	31.6	31.5
Last 4 years	15.1	15.0
Last 5 years	10.0	9.8
Since Inception (10/92)	8.6	8.4

Recommendation

No action required.

STATE STREET GLOBAL ADVISORS
Rolling Five Year VAM



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

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STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

First Quarter, 2006

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NON - RETIREMENT MANAGERS
Periods Ending March, 2006

	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)*	4.2	4.2	9.1	11.7	14.1	17.2	2.7	4.0	12.0	11.5	\$72.4
Voyageur Asset Management (Custom Benchmark)*	-0.2	-0.2	2.5	2.4	2.4	2.1	4.1	4.4	6.4	6.4	\$247.7
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	1.1	1.3	4.4	4.6	4.3	3.6	4.9	3.6	5.8	5.0	\$191.8
Internal Stock Pool (S&P 500 Index)*	4.2	4.2	11.8	11.7	17.3	17.2	4.0	4.0	10.7	10.7	\$710.3
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	-0.1	-0.6	3.0	2.3	3.9	2.9	5.5	5.1	7.9	7.5	\$156.9
Internal Bond Pool - Trust (Lehman Aggregate)*	-0.1	-0.6	3.1	2.3	3.9	2.9	5.6	5.1	7.3	6.8	\$469.4

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

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

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

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GE ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending March, 2006

Portfolio Manager: Dave Carlson

Assets Under Management: \$72,362,765

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

GE matched the quarterly benchmark and trailed the one-year benchmark. Security selection in pharmaceutical companies, the information technology sector and the consumer discretionary sector detracted from the one-year return.

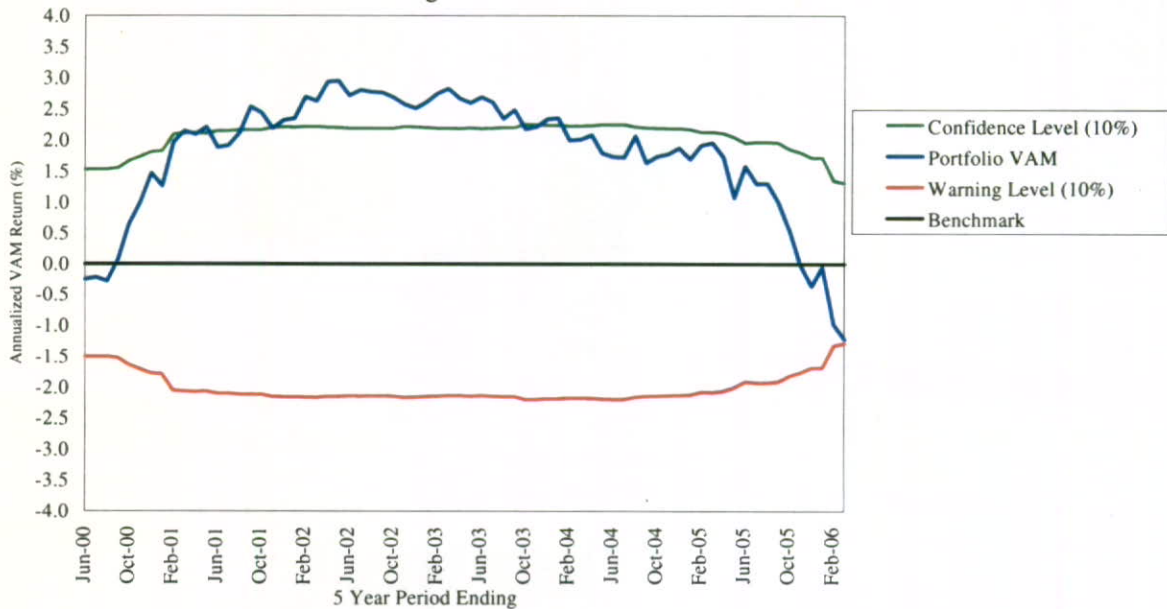
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.2%	4.2%
Last 1 year	9.1	11.7
Last 2 years	7.3	9.2
Last 3 years	14.1	17.2
Last 4 years	3.1	4.9
Last 5 years	2.7	4.0
Since Inception (1/95)	12.0	11.5

Recommendation

No recommendation at this time.

GE ASSET MANAGEMENT
Rolling Five Year VAM



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending March, 2006

Portfolio Manager: John Huber

Assets Under Management: \$247,688,155

Investment Philosophy
Assigned Risk Plan

Voyageur uses a top-down approach to fixed income investing. Their objective is to obtain superior long-term investment returns over a pre-determined benchmark that reflects the quality constraints and risk tolerance of the Assigned Risk Plan. Due to the specific liability requirement of the plan, return enhancement will focus on sector analysis and security selection. Yield curve and duration analysis are secondary considerations.

Staff Comments

Voyageur matched the benchmark for the quarter and outperformed for the year. The one-year return was helped by security selection in the mortgage sector.

On April 3rd, Tom McGlinch left Voyageur to pursue a new opportunity at RBC Capital Markets in the institutional fixed income sales group. John Huber, Chief Investment Officer – Fixed Income, will be the primary portfolio manager for the account.

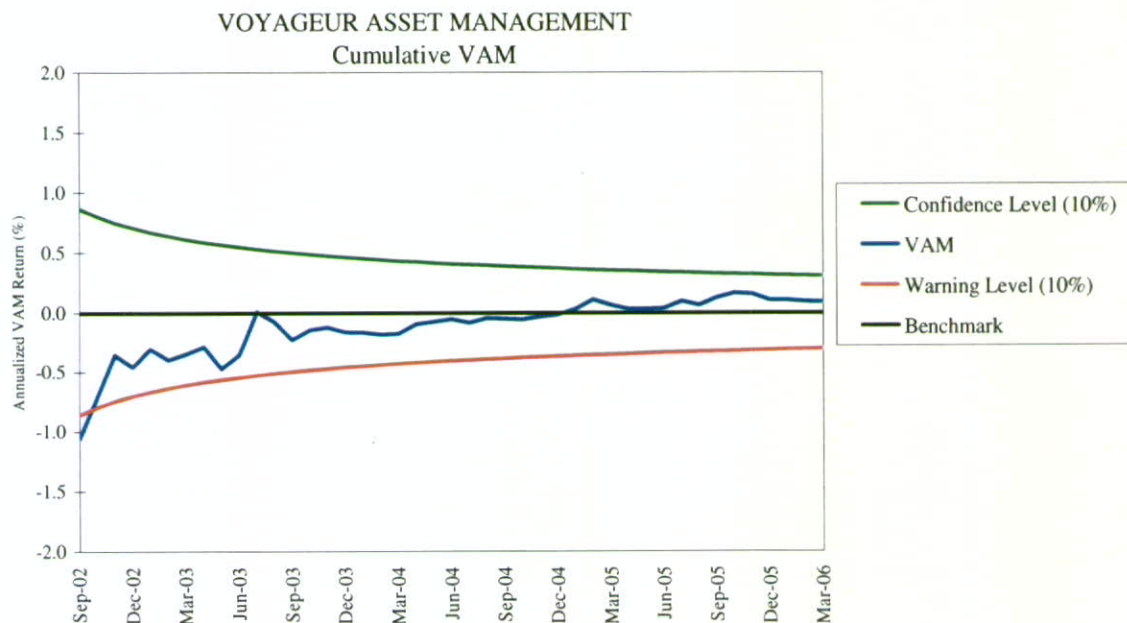
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-0.2%	-0.2%
Last 1 year	2.5	2.4
Last 2 years	1.8	1.4
Last 3 years	2.4	2.1
Last 4 years	4.2	4.1
Last 5 years	4.1	4.4
Since Inception (7/91)	6.4	6.4

Recommendation

No action required.

*Custom benchmark since inception date.



GALLIARD CAPITAL MANAGEMENT
Periods Ending March, 2006

Portfolio Manager: Karl Tourville

Assets Under Management: \$191,759,238

Investment Philosophy

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

Staff Comments

Galliard slightly trailed its quarterly benchmark.

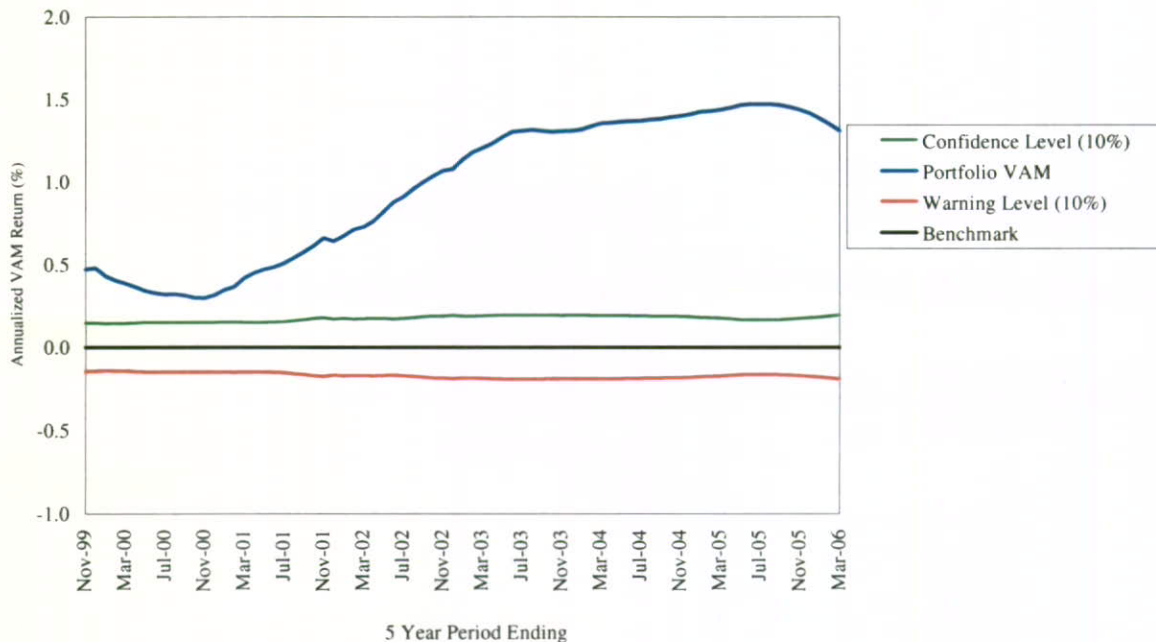
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.1%	1.3%
Last 1 year	4.4	4.6
Last 2 years	4.2	4.1
Last 3 years	4.3	3.6
Last 4 years	4.6	3.4
Last 5 years	4.9	3.6
Since Inception (11/94)	5.8	5.0

Recommendation

No action required.

Galliard Capital Management
Rolling Five Year VAM



INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending March, 2006

Portfolio Manager: Mike Menssen

Assets Under Management: \$710,336,875

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.

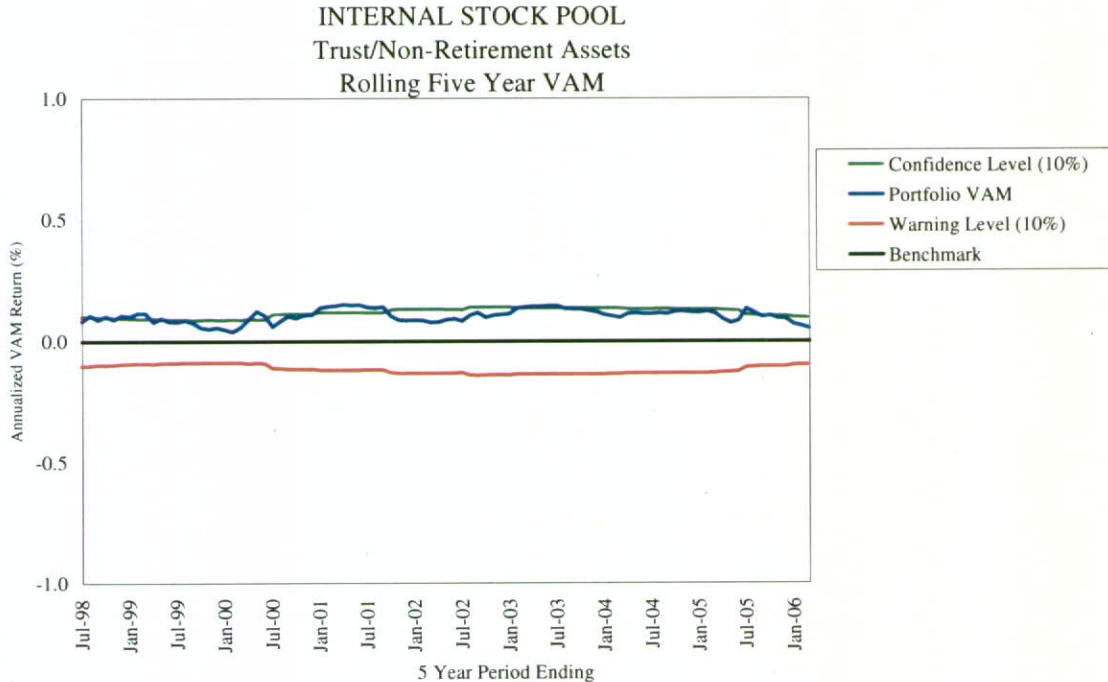
The portfolio matched the benchmark for the quarter and slightly outperformed for the year.

Quantitative Evaluation

Recommendation

	Actual	Benchmark
Last Quarter	4.2%	4.2%
Last 1 year	11.8	11.7
Last 2 years	9.2	9.2
Last 3 years	17.3	17.2
Last 4 years	5.1	4.9
Last 5 years	4.0	4.0
Since Inception (7/93)	10.7	10.7

No action required.



INTERNAL BOND POOL - Income Share Account
Periods Ending March, 2006

Portfolio Manager: Mike Messen

Assets Under Management: \$156,851,437

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

The internal bond pools outperformed the quarterly and one-year benchmark. Both periods were helped by a short duration position.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.1%	-0.6%
Last 1 year	3.0	2.3
Last 2 years	2.8	1.7
Last 3 years	3.9	2.9
Last 4 years	5.4	5.0
Last 5 years	5.5	5.1
Since Inception (7/86)	7.9	7.5

Recommendation

No action required.

INTERNAL BOND POOL - INCOME SHARE ACCOUNT
Rolling Five Year VAM



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending March, 2006

Portfolio Manager: Mike Menssen

Assets Under Management: \$469,422,612

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.

The internal bond pools outperformed the quarterly and one-year benchmark. Both periods were helped by a short duration position.

Quantitative Evaluation

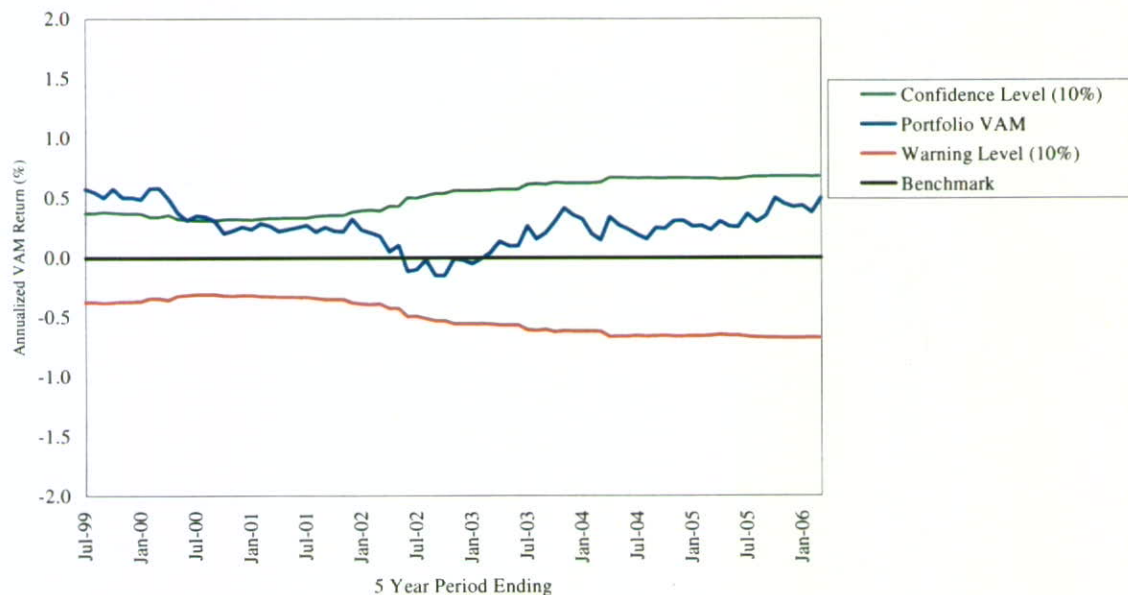
Recommendation

	Actual	Benchmark
Last Quarter	-0.1%	-0.6%
Last 1 year	3.1	2.3
Last 2 years	2.8	1.7
Last 3 years	3.9	2.9
Last 4 years	5.6	5.0
Last 5 years	5.6	5.1
Since Inception (7/94)*	7.3	6.8

No action required.

* Date started managing the pool against the Lehman Aggregate.

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





STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

First Quarter, 2006

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MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Periods Ending March, 2006

457 Mutual Funds	Quarter		1 Year		3 Years		5 Years		Since Retention by SBI *		State's Participation
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	%	%	In Fund (\$ millions)
Large Cap Equity:											
Janus Twenty (S&P 500)	3.0	4.2	21.4	11.7	20.7	17.2	4.5	4.0	-1.7	0.7	\$338.5
Legg Mason Partners Appr Y (S&P 500)	5.7	4.2	11.0	11.7	15.5	17.2	5.4	4.0	10.6	11.0	\$115.5
Vanguard Institutional Index Plus (S&P 500)	4.2	4.2	11.8	11.7	17.3	17.2	4.0	4.0	0.8	0.7	\$425.3
Mid Cap Equity:											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	7.6	7.6	23.2	23.0	27.6	27.4	13.7	13.5	19.0	18.9	\$106.8
Small Cap Equity:											
T. Rowe Price Small-Cap Stock (Russell 2000)	11.2	13.9	24.8	25.8	25.8	29.5	13.7	12.6	12.7	9.3	\$414.2
Balanced:											
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	3.5	2.3	10.5	7.9	17.0	11.4	10.3	4.7	13.6	8.9	\$231.7
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Lehman Agg)	3.0	3.0	9.7	9.6	12.8	12.8			8.8	8.7	\$168.0
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)	0.1	-0.6	2.5	2.3	3.5	2.9	5.7	5.1	6.5	6.0	\$77.8
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	-0.7	-0.6	2.2	2.3	3.0	2.9	4.7	5.1	3.0	3.1	\$46.7
International:											
Fidelity Diversified International (MSCI EAFE-Free)	9.7	9.4	28.4	24.4	32.5	31.1	14.4	9.7	12.1	5.5	\$225.5
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	9.2	9.4	24.3	24.4	31.2	31.1	9.6	9.6	22.7	22.6	\$43.6

Numbers in black are returns **since** retention by SBI.

Numbers in blue include returns **prior** to retention by SBI.

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

* Vanguard Mid-Cap Index Fund retained January 2004; Smith Barney, Vanguard Inst. Dev. Mkt., Vanguard Balanced, Vanguard Total Bond Mkt. retained December 2003; Dodge & Cox Balanced Fund retained in October 2003; all others, July 1999.

Fixed Fund:	%
Blended Yield Rate for current quarter***:	4.6
Bid Rates for current quarter:	
Great West Life	4.7
Minnesota Life	4.7
Principal Life	4.9

***The Blended Yield Rate for the current quarter includes the return on the existing portfolio assets and the Liquidity Buffer Account (money market). The Bid Rates for the current quarter determine the allocation of new cash flow.

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**MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – JANUS TWENTY
Periods Ending March, 2006**

Portfolio Manager: Scott W. Schoelzel

State's Participation in Fund: \$338,488,923
Total Assets in Fund: \$9,733,300,000

**Investment Philosophy
Janus Twenty**

The investment objective of this fund is long-term growth of capital from increases in the market value of the stocks it owns. The fund will concentrate its investments in a core position of between twenty to thirty common stocks. This non-diversified fund seeks to invest in companies that the portfolio manager believes have strong current financial positions and offer growth potential.

Staff Comments

Janus underperformed for the quarter and outperformed the one-year benchmark. The quarterly performance was hurt by stock selection in the healthcare sector.

Quantitative Evaluation

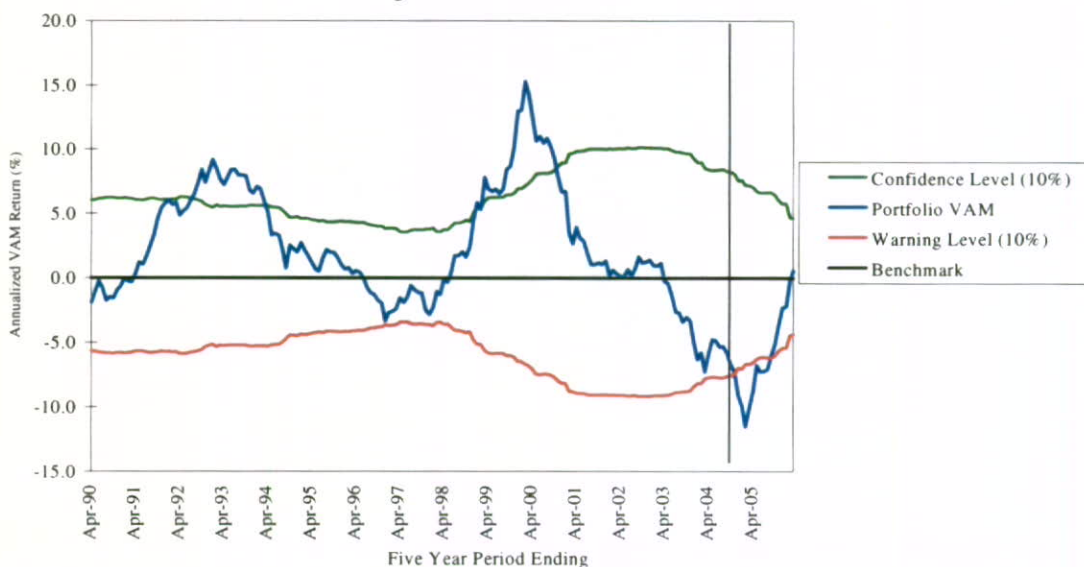
	Actual	Benchmark*
Last Quarter	3.0%	4.2%
Last 1 year	21.4	11.7
Last 2 years	15.0	9.2
Last 3 years	20.7	17.2
Last 4 years	9.0	4.9
Last 5 years	4.5	4.0
Since Retention by SBI (7/99)	-1.7	0.7

Recommendation

No action required.

*Benchmark is the S&P 500.

**LARGE CAP EQUITY - JANUS TWENTY
Rolling Five Year VAM**



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

**MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – LEGG MASON PARTNERS APPRECIATION Y
Periods Ending March, 2006**

Portfolio Manager: Scott Glasser

**State's Participation in Fund: \$115,474,344
Total Assets in Fund: \$5,942,583,000**

**Investment Philosophy
Legg Mason Partners Appreciation Y**

The Fund invests in U.S. growth and value stocks, primarily blue-chip companies that are dominant in their industries. Investments are selected from among a core base of stocks with a strong financial history, recognized industry leadership, and effective management teams that strive to earn consistent returns for shareholders. The portfolio manager looks for companies that he believes are undervalued with the belief that a catalyst will occur to unlock these values.

Staff Comments

Legg Mason (formerly Smith Barney) exceeded the quarterly benchmark, but underperformed for one year due to stock selection, especially in industrials, financials and consumer discretionary, and the Fund's cash position.

On April 7, 2006 the Smith Barney Appreciation Fund was renamed Legg Mason Partners Appreciation Fund. This change was expected as Legg Mason integrates the investment products that were acquired from Citigroup. There have been no changes to the team.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	5.7%	4.2%
Last 1 year	11.0	11.7
Last 2 years	8.8	9.2
Last 3 years	15.5	17.2
Last 4 years	5.9	4.9
Last 5 years	5.4	4.0
Since Retention by SBI (12/03)	10.6	11.0

Recommendation

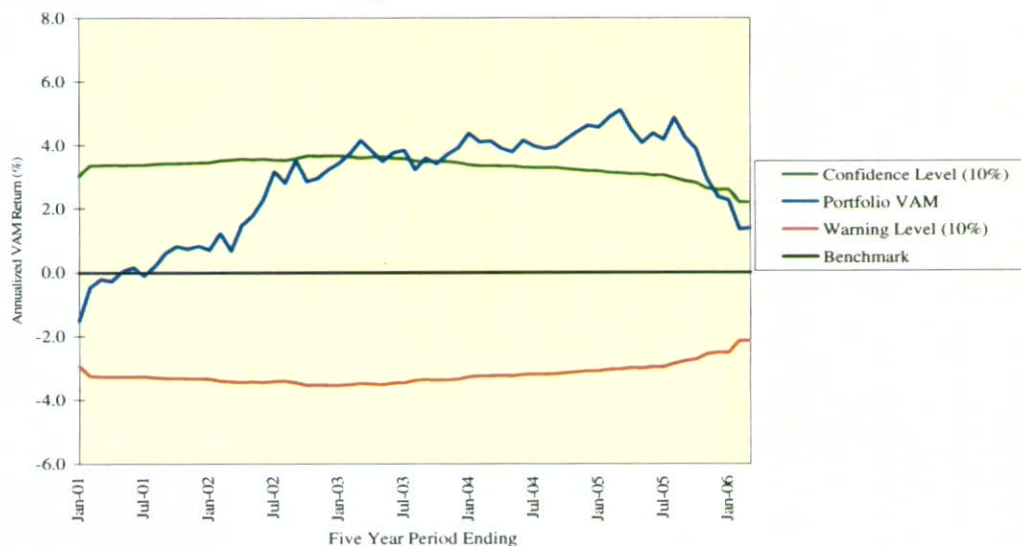
No action required.

*Benchmark is the S&P 500.

Numbers in black are returns since retention by SBI.

Numbers in blue include returns prior to retention by SBI.

**LARGE CAP EQUITY - LEGG MASON PARTNERS APPRECIATION Y
Rolling Five Year VAM**



Note: Shaded area includes performance prior to managing SBI account.

**MN STATE 457 DEFERRED COMPENSATION PLAN
EQUITY INDEX – VANGUARD INSTITUTIONAL INDEX PLUS
Periods Ending March, 2006**

Portfolio Manager: George U. Sauter

**State's Participation in Fund: \$425,345,800
Total Assets in Fund: \$18,276,157,594**

**Investment Philosophy
Vanguard Institutional Index**

This fund attempts to provide investment results, before fund expenses, that parallel the performance of the Standard & Poor's 500 Index. The fund invests in all 500 stocks listed in the S&P 500 index in approximately the same proportions as they are represented in the index. The managers have tracked the S&P 500's performance with a high degree of accuracy. The fund may use futures and options for temporary purposes, but generally remains fully invested in common stock.

Staff Comments

No comment at this time.

Quantitative Evaluation

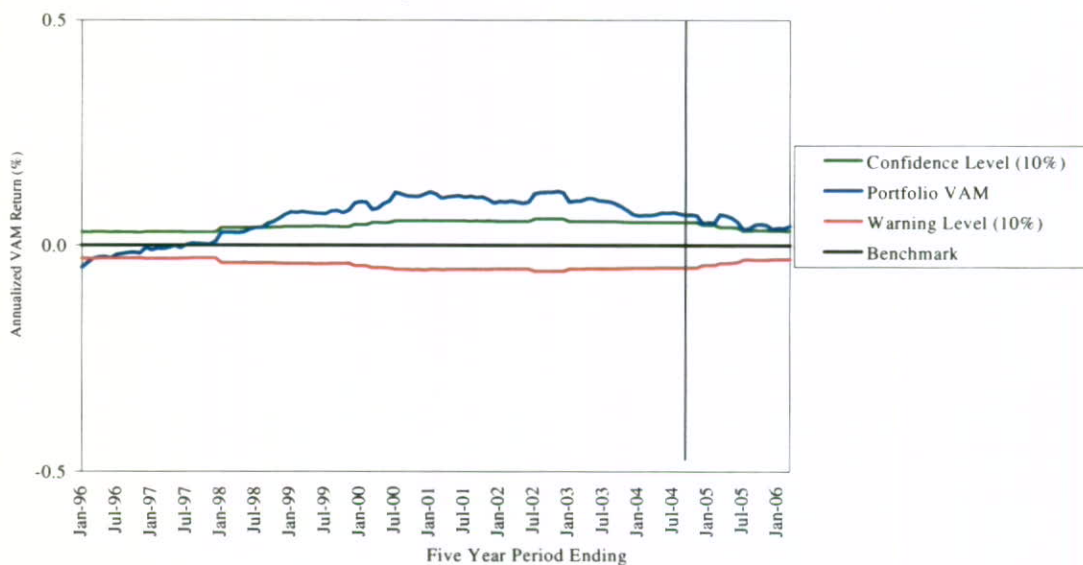
	Actual	Benchmark*
Last Quarter	4.2%	4.2%
Last 1 year	11.8	11.7
Last 2 years	9.2	9.2
Last 3 years	17.3	17.2
Last 4 years	5.0	4.9
Last 5 years	4.0	4.0
Since Retention by SBI (7/99)	0.8	0.7

Recommendation

No action required.

*Benchmark is the S&P 500.

**EQUITY INDEX - VANGUARD INSTITUTIONAL INDEX PLUS
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
MID CAP EQUITY – VANGUARD MID-CAP INDEX
Periods Ending March, 2006**

Portfolio Manager: George U. Sauter

**State's Participation in Fund: \$106,783,710
Total Assets in Fund: \$3,545,913,819**

**Investment Philosophy
Vanguard Mid-Cap Index**

The fund employs a "passive management"- or indexing-investment approach designed to track the performance of the MSCI® US Mid Cap 450 Index, a broadly diversified index of stocks of medium-size U.S. companies. The fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting within the index.

Staff Comments

No comment at this time.

Quantitative Evaluation

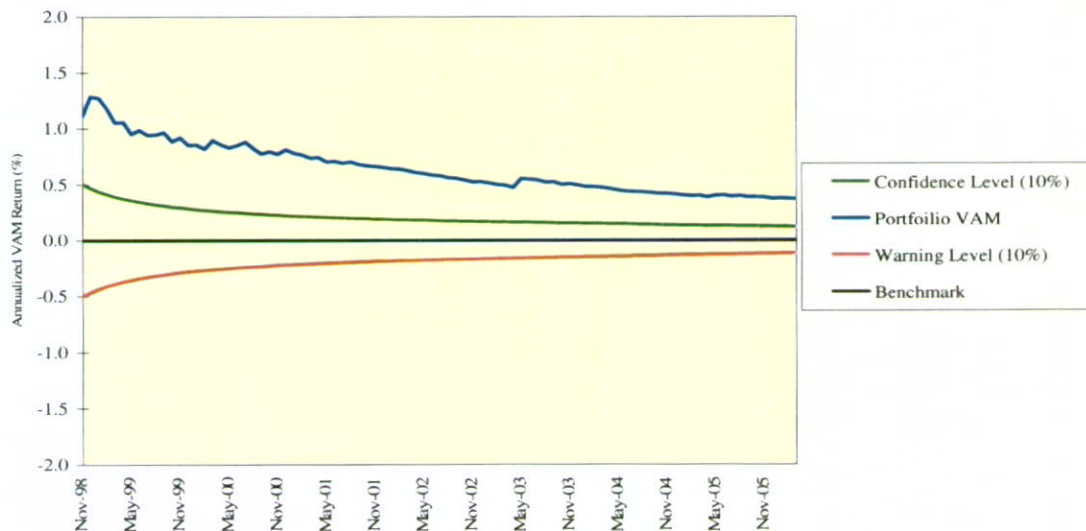
	Actual	Benchmark*
Last Quarter	7.6%	7.6%
Last 1 year	23.2	23.0
Last 2 years	18.9	18.8
Last 3 years	27.6	27.4
Last 4 years	12.3	12.2
Last 5 years	13.7	13.5
Since Retention by SBI (1/04)	19.0	18.9

Recommendation

No action required.

*Benchmark is the MSCI US Mid Cap 450.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

**MID-CAP EQUITY - VANGUARD MID-CAP INDEX
Cumulative VAM**



Note: Shaded area includes performance prior to managing SBI account

**MN STATE 457 DEFERRED COMPENSATION PLAN
SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP STOCK FUND
Periods Ending March, 2006**

Portfolio Manager: Gregory A. McCrickard	State's Participation in Fund: 414,238,594
	Total Assets in Fund: 8,104,751,889

**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

T. Rowe-Price underperformed the quarterly and one-year benchmark. An overweight to the health care sector and poor stock selection in the information technology sector hurt the quarterly performance. The one-year return was hurt by the strategy's stock selection in industrials, materials and information technology.

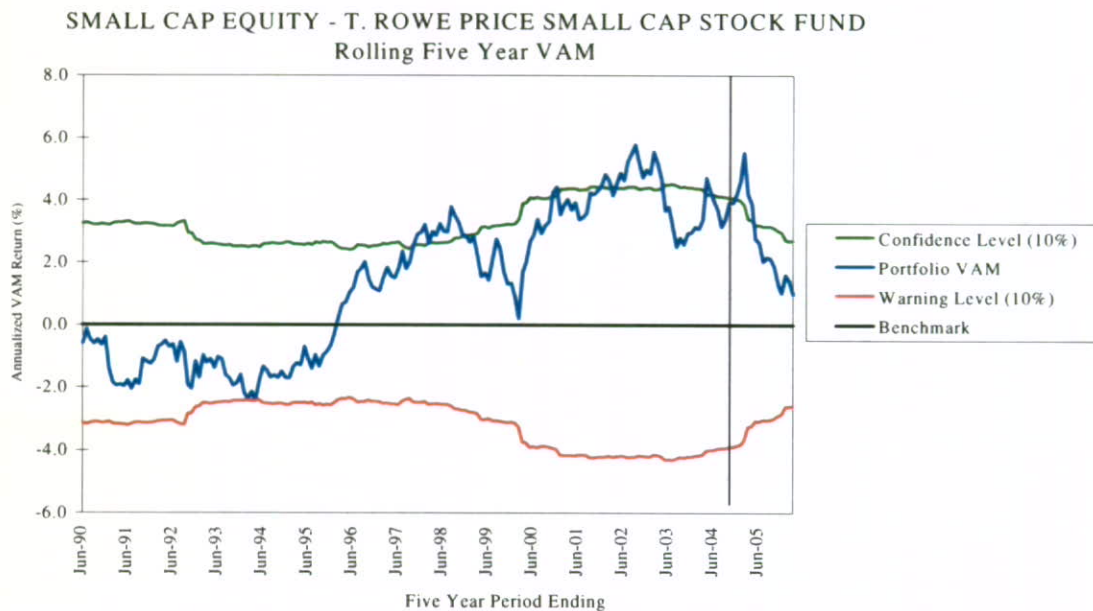
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	11.2%	13.9%
Last 1 year	24.8	25.8
Last 2 years	16.9	15.2
Last 3 years	25.8	29.5
Last 4 years	11.8	12.2
Last 5 years	13.7	12.6
Since Retention by SBI (7/99)	12.7	9.3

Recommendation

No action required.

*Benchmark is the Russell 2000.



**STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – DODGE & COX BALANCED FUND
Periods Ending March, 2006**

Portfolio Manager: John Gunn

**State's Participation in Fund: \$231,655,371
Total Assets in Fund: \$24,595,615,416**

**Investment Philosophy
Dodge & Cox Balanced Fund**

The Fund seeks regular income, conservation of principal and an opportunity for long-term growth of principal and income. The Fund invests in a diversified portfolio of common stocks preferred stocks and fixed income securities.

Staff Comments

Dodge & Cox outperformed the quarterly benchmark due to the equity portfolio and fixed income portfolio exceeding its respective benchmark. The equity portfolio was helped by security selection in the information technology and consumer discretionary sectors. The fixed income portfolio was positively impacted by its shorter than benchmark duration.

Quantitative Evaluation

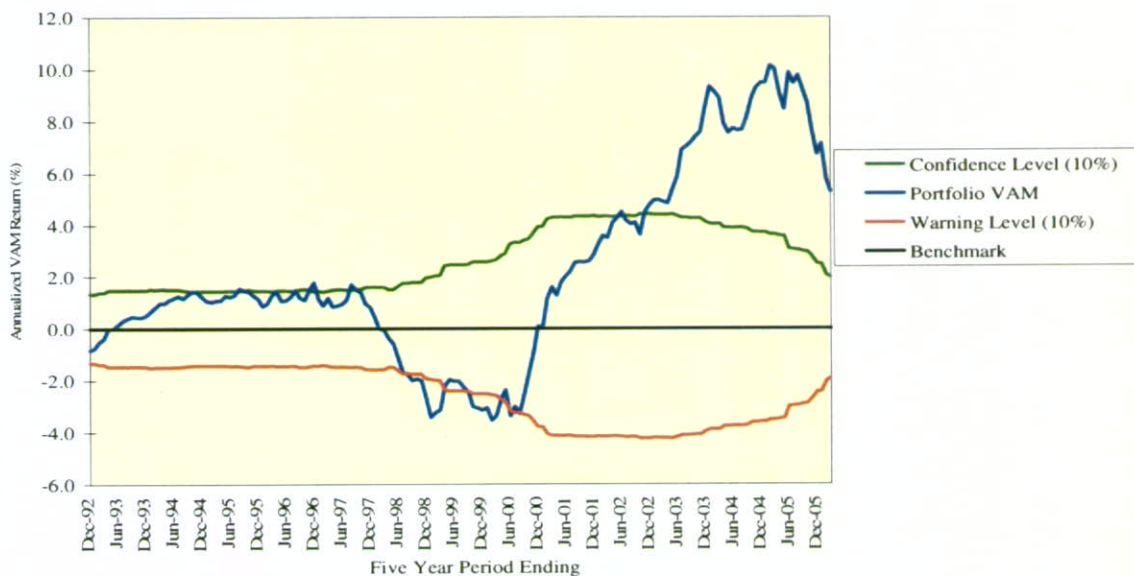
	Actual	Benchmark*
Last Quarter	3.5%	2.3%
Last 1 year	10.5	7.9
Last 2 years	9.6	6.2
Last 3 years	17.0	11.4
Last 4 years	10.0	5.3
Last 5 years	10.3	4.7
Since Retention By SBI (10/03)	13.6	8.9

Recommendation

No action required.

*Benchmark is 60% S&P 500, 40% Lehman Aggregate.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

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



Note: Shaded area includes performance prior to managing SBI account.

**MN STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – VANGUARD BALANCED INDEX INSTITUTIONAL FUND
Periods Ending March, 2006**

Portfolio Manager: George U. Sauter

**State's Participation in Fund: \$167,975,783
Total Assets in Fund: \$2,214,102,556**

**Investment Philosophy
Vanguard Balanced Index Fund**

The fund's assets are divided between stocks and bonds, with an average of 60% of its assets in stocks and 40% in bonds. The fund's stock segment attempts to track the performance of the MSCI US Broad Market Index, an unmanaged index representing the overall U.S. equity market. The fund's bond segment attempts to track the performance of the Lehman Brothers Aggregate Bond Index, an unmanaged index that covers virtually all taxable fixed-income securities.

Staff Comments

No comment at this time.

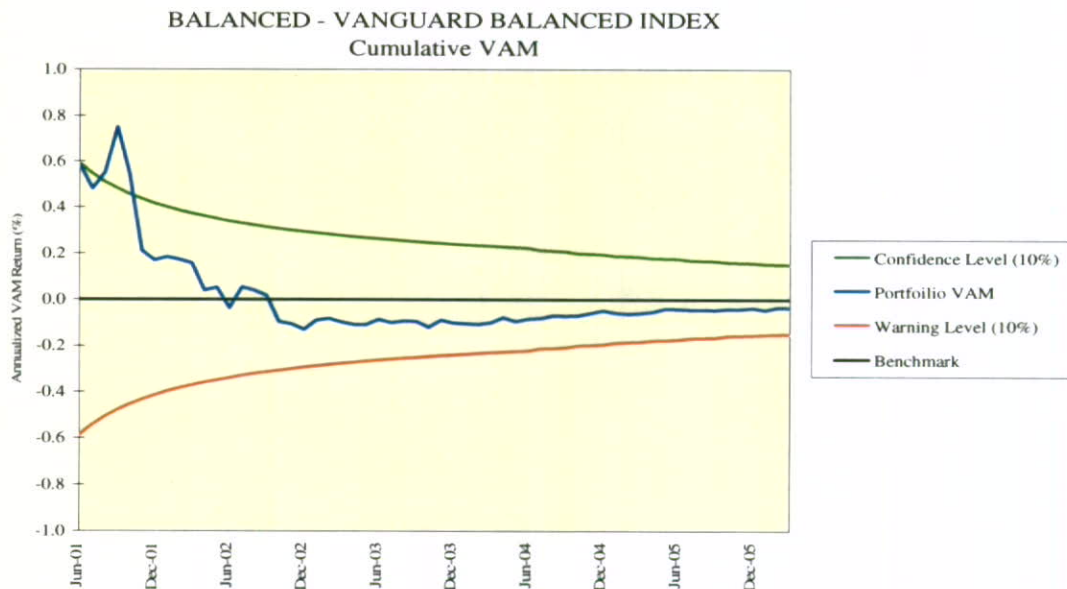
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	3.0%	3.0%
Last 1 year	9.7	9.6
Last 2 years	7.3	7.2
Last 3 years	12.8	12.8
Last 4 years	6.3	6.4
Last 5 years	N/A	N/A
Since Retention by SBI (12/03)	8.8	8.7

Recommendation

No action required.

*Benchmark is 60% MSCI US Broad Market, 40% Lehman Aggregate.
Equity benchmark was Wilshire 5000 prior to April 1, 2005.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.



Note: Shaded area includes performance prior to managing SBI account

**MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – DODGE & COX INCOME FUND
Periods Ending March, 2006**

Portfolio Manager: Dana Emery

State's Participation in Fund: \$77,785,270
Total Assets in Fund: \$10,004,186,001

**Investment Philosophy
Dodge & Cox Income Fund**

The objective of this fund is a high and stable rate of current income with capital appreciation being a secondary consideration. This portfolio is invested primarily in intermediate term, investment-grade quality corporate and mortgage bonds and, to a lesser extent, government issues. While the fund invests primarily in the U.S. bond market, it may invest a small portion of assets in dollar-denominated foreign securities. The duration of the portfolio is kept near that of the bond market as a whole.

Staff Comments

Dodge & Cox exceeded the quarterly benchmark due to the fund's shorter than benchmark duration.

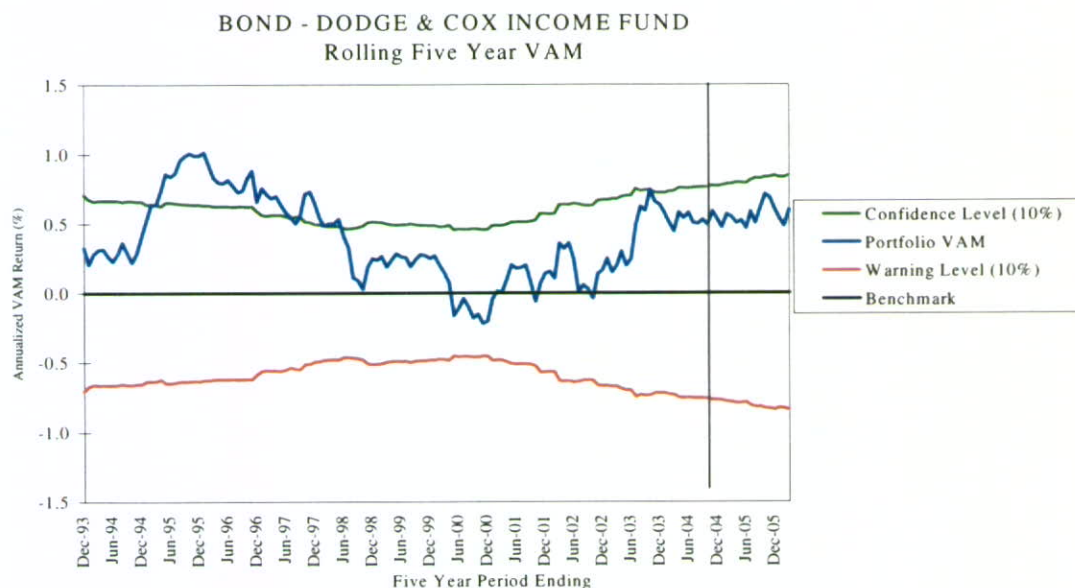
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	0.1%	-0.6%
Last 1 year	2.5	2.3
Last 2 years	2.0	1.7
Last 3 years	3.5	2.9
Last 4 years	5.3	5.0
Last 5 years	5.7	5.1
Since Retention By SBI (7/99)	6.5	6.0

Recommendation

No action required.

*Benchmark is the Lehman Aggregate.



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 March, 2006**

Portfolio Manager: Robert Auwaerter	State's Participation in Fund: \$46,724,792
	Total Assets in Fund: \$7,629,744,816

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

Staff Comments

The fund attempts to track the performance of the Lehman Brothers Aggregate Bond Index, which is a widely recognized measure of the entire taxable U.S. bond market. The index consists of more than 5,000 U.S. Treasury, federal agency, mortgage-backed, and investment-grade corporate securities. Because it is not practical or cost-effective to own every security in the index, the fund invests in a large sampling that matches key characteristics of the index (such as market-sector weightings, coupon interest rates, credit quality, and maturity). To boost returns, the fund holds a higher percentage than the index in short-term, investment-grade corporate bonds and a lower percentage in short-term Treasury securities.

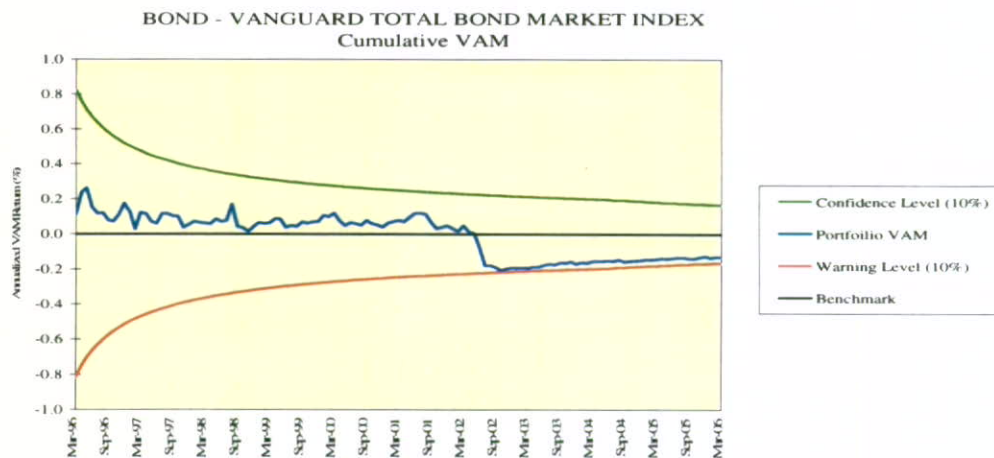
No comment at this time.

Quantitative Evaluation

Recommendation

	Actual	Benchmark*	
Last Quarter	-0.7%	-0.6%	No action required.
Last 1 year	2.2	2.3	
Last 2 years	1.7	1.7	
Last 3 years	3.0	2.9	
Last 4 years	4.6	5.0	
Last 5 years	4.7	5.1	
Since Retention by SBI (12/03)	3.0	3.1	

*Benchmark is the Lehman Aggregate.
 Numbers in black are returns since retention by SBI.
 Numbers in blue include returns prior to retention by SBI.



**MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending March, 2006**

Portfolio Manager: William Bower

**State's Participation in Fund: \$225,477,369
Total Assets in Fund: \$39,302,220,000**

**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

Fidelity outperformed the quarterly benchmark primarily due to stock selection in the industrials sector. The one-year return was helped by stock selection in the energy and financials sectors.

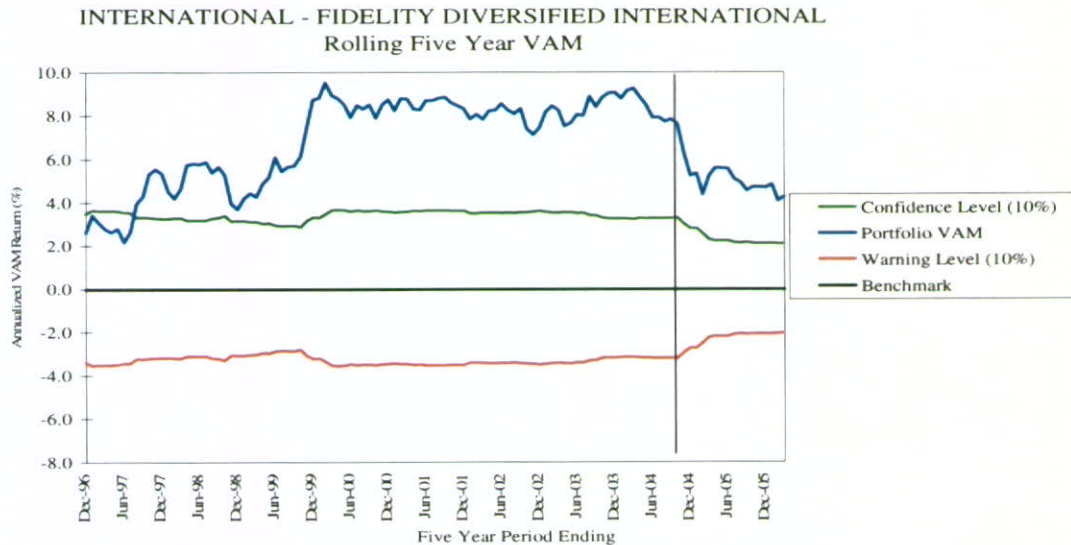
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	9.7%	9.4%
Last 1 year	28.4	24.4
Last 2 years	20.0	19.6
Last 3 years	32.5	31.1
Last 4 years	18.0	14.8
Last 5 years	14.4	9.7
Since Retention By SBI (7/99)	12.1	5.5

Recommendation

No action required.

*Benchmark is the MSCI EAFE-Free.



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

**MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – VANGUARD INSTITUTIONAL DEVELOPED MARKETS INDEX
Periods Ending March, 2006**

Portfolio Manager: George U. Sauter

**State's Participation in Fund: \$43,614,122
Total Assets in Fund: \$2,337,884,422**

**Investment Philosophy
Vanguard Institutional Developed Market
Index**

Staff Comments

The fund seeks to track the performance of the MSCI EAFE Index by passively investing in two other Vanguard funds—the European Stock Index Fund and the Pacific Stock Index Fund. The combination of the two underlying index funds, in turn, seeks to track the investment results of the Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East (EAFE) Index. The MSCI EAFE Index includes approximately 1,000 common stocks of companies located in Europe, Australia, Asia, and the Far East.

No comment at this time.

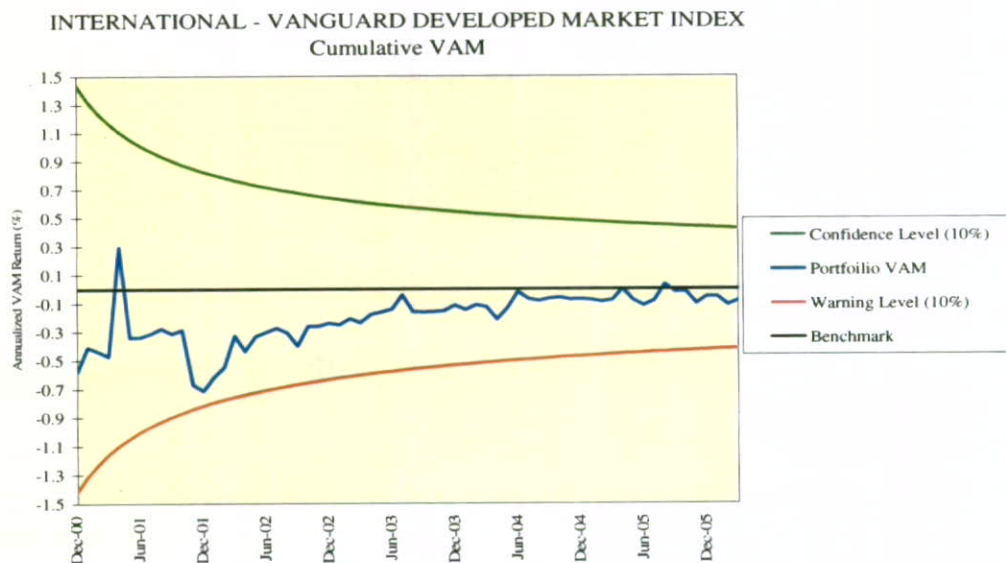
Quantitative Evaluation

Recommendation

	Actual	Benchmark*
Last Quarter	9.2%	9.4%
Last 1 year	24.3	24.4
Last 2 years	19.6	19.6
Last 3 years	31.2	31.1
Last 4 years	14.7	14.7
Last 5 years	9.6	9.6
Since Retention by SBI (12/03)	22.7	22.6

No action required.

*Benchmark is the MSCI EAFE International
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.



**MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending March, 2006**

Total Assets in MN Fixed Fund: \$732,558,140 *
*Includes \$14-18M in Liquidity Buffer Account

Total Assets in 457 Plan: \$735,039,448 **
**Includes all assets in new and old fixed options

Principal Life

Investment Philosophy

Ratings: Moody's Aa2
 S&P AA
 A.M. Best A+
 Duff & Phelps AA+

Assets in MN Fixed Fund: \$328,024,926

The manager invests in fixed income securities, commercial mortgages, mortgage-backed securities and residential whole loans, with lesser amounts invested in stock, cash equivalents and direct real estate. The manager relies upon in-house analysis and prefers investments that offer more call protection. The manager strongly prefers private placements to corporate bonds in the belief that private placements offer higher yields and superior protective covenants compared to public bonds. A portion of the fixed income portfolio is invested in US dollar-denominated foreign corporate bonds. Mortgage-backed bonds are actively managed to prices at or below par to reduce prepayment risk. Conservative underwriting standards, small loan sizes and an emphasis on industrial properties minimizes commercial loan risk.

Minnesota Life

Investment Philosophy

Ratings: Moody's Aa2
 S&P AA
 A.M. Best A++
 Duff & Phelps AA+

Assets in MN Fixed Fund: \$170,567,428

Assets in Prior MN 457 Plan: \$0

Total Assets: \$170,567,428

Investment decisions support an asset/liability match for the company's many product lines. A conservative investment philosophy uses a number of active and passive investment strategies to manage general account assets and cash flow. Assets are primarily invested in a widely diversified portfolio of high quality fixed income investments that includes public and private corporate bonds, commercial mortgages, residential mortgage securities and other structured investment products, providing safety of principal and stable, predictable cash flow to meet liabilities and to invest in and produce consistent results in all phases of the economic cycle.

Great-West Life

Investment Philosophy

Ratings: Moody's Aa2
 S&P AA+
 A.M. Best A++
 Duff & Phelps AAA

Assets in MN Fixed Fund: \$214,223,826

Assets in Prior MN 457 Plan: \$ 2,481,308

Total Assets: \$216,705,134

The Company observes strict asset/liability matching guidelines to ensure that the investment portfolio will meet the cash flow and income requirements of its liabilities. The manager invests in public and privately placed corporate bonds, government and international bonds, common stocks, mortgage loans, real estate, redeemable preferred stocks and short-term investments. To reduce portfolio risk, the manager invests primarily in investment grade fixed maturities rated by third-party rating agencies or by the manager if private placements. Mortgage loans reflect a broadly diversified portfolio of commercial and industrial mortgages subject to strict underwriting criteria.

**MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending March, 2006**

Current Quarter

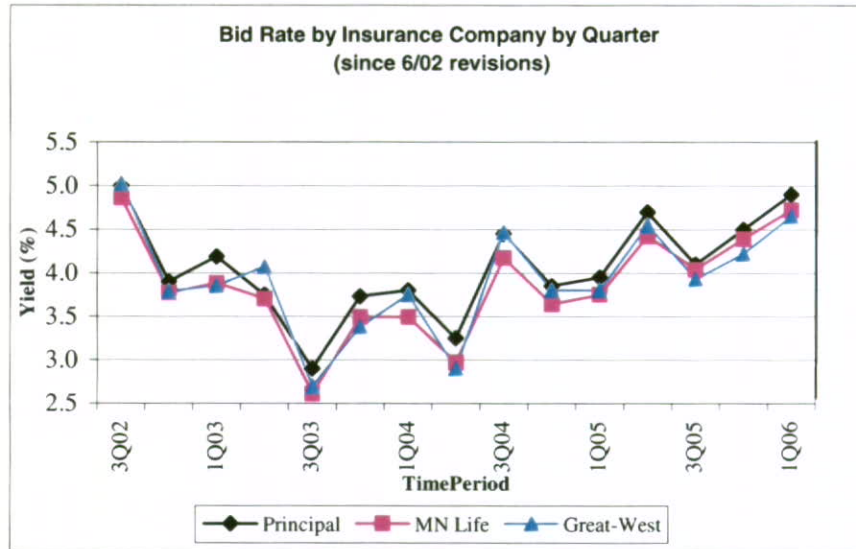
Dollar Amount of Bid: \$30,600,000

Blended Rate: 4.56%

Bid Rates:

Principal Life 4.90%
Minnesota Life 4.72%
Great-West Life 4.65%

Contracts were renewed in June 2002. Under these contracts, bid rates are effective for five years on the quarterly cash flows, the bid rate bands were narrowed to 8 b.p. from 10 b.p., and additional bid scenarios were added. All changes were effective for 3Q 2002 bids. The separate portfolio managed by Minnesota Life (previously referred to as the "existing portfolio") no longer exists. All assets of that portfolio matured in June 2004 and have been rolled into the Fixed Fund.



Staff Comments on Bid Rates

The line on the graph indicates when the contracts were renewed and the bid rates for the new cash flows became effective for five year periods. Prior to that, the bids were effective for a quarter for the total portfolio.

	2Q05	3Q05	4Q05	1Q06	Staff Comments
Principal Life	60.0%	40.0%	60.0%	75.0%	Principal and Minnesota Life were the top bidders. Principal was awarded 75%, and Minnesota Life received 25%.
Minnesota Life	0.0%	40.0%	40.0%	25.0%	
Great-West Life	40.0%	20.0%	0.0%	0.0%	

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Tab E

COMMITTEE REPORT

DATE: May 30, 2006

TO: Members, State Board of Investment
Members, Investment Advisory Council

FROM: Alternative Investment Committee

The Alternative Investment Committee met on May 17, 2006 to review the following information and action agenda items:

- Review of current strategy.
- New investments with one existing real estate manager, TA Associates Realty; two existing private equity managers, KKR Associates and GTCR Golder Rauner, and one existing resource manager, First Reserve.

Board/IAC action is required on the last item.

INFORMATION ITEMS:

1) Review of Current Strategy.

To increase overall portfolio diversification, 15% of the Basic Retirement Funds and 12% of the Post Retirement Fund are allocated to alternative investments. Alternative investments include real estate, private equity, resource, and yield-oriented investments where Minnesota State Board of Investment (SBI) participation is limited to commingled funds or other pooled vehicles. Charts summarizing the Board's current commitments are attached (see **Attachments A and B**).

- The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified Real Estate Investment Trusts (REITs), open-end commingled funds and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified; more focused (specialty) commingled funds and REITs.
- 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.

- 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.
- The strategy for yield-oriented investments will target funds that typically provide a current return and may have an equity component such as subordinated debt or mezzanine investments. Yield-oriented investments will provide diversification by including investments in the private equity, resource and real estate categories.

ACTION ITEMS:

1) Investment with an existing real estate manager, TA Associates Realty, in The Realty Associates Fund VIII.

TA Associates Realty is seeking investors for a new \$1.25 billion real estate fund. This fund is a successor to seven prior real estate funds managed by TA Associates Realty. The SBI has invested an aggregate of \$265 million in the last five prior funds. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of real estate investments.

More information on The Realty Associates Fund VIII is included as **Attachment C**.

RECOMMENDATION:

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

2) Investment with an existing private equity manager, KKR Associates, in KKR 2006 Fund, L.P.

KKR Associates is seeking investors for a new \$10-11 billion private equity fund. This fund is a successor to six other prior private equity funds managed by KKR Associates in which the SBI had invested \$739 million, in aggregate, since 1984. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments.

More information on KKR 2006 Fund, L.P. is included as **Attachment D**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$200 million or 20%, whichever is less, in KKR 2006 Fund, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by KKR Associates 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 KKR Associates or reduction or termination of the commitment.

3) Investment with an existing private equity manager, GTCR Golder Rauner, LLC in GTCR Fund IX, L.P.

GTCR Golder Rauner is seeking investors for a new \$2.25 billion private equity fund. This fund is a successor to eight prior private equity funds managed by GTCR Golder Rauner. The SBI has invested in five of the prior funds with an aggregate investment of \$329 million. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments.

More information on GTCR Fund IX, L.P. is included as **Attachment E**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million or 20%, whichever is less, in GTCR Fund IX, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal

obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by GTCR Golder Rauner 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 GTCR Golder Rauner or reduction or termination of the commitment.

4) Investment with an existing resource manager, First Reserve in First Reserve Fund XI, L.P.

First Reserve is seeking investors for a new \$5.5 billion resource fund. This fund is a successor to ten prior resource funds managed by First Reserve. The SBI has an aggregate investment of \$391 million in eight of the prior funds. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of resource related investments.

More information on First Reserve Fund XI, L.P. is included as **Attachment F**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$150 million or 20%, whichever is less, in First Reserve Fund XI, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by First Reserve upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on First Reserve or reduction or termination of the commitment.

ATTACHMENT A

Minnesota State Board of Investment
Pooled Alternative Investments
Combined Retirement Funds
 March 31, 2006

Basic Retirement Funds Market Value	\$22,819,672,295
Post Retirement Fund Market Value	\$20,908,555,960
 Amount Available for Investment	 \$1,917,442,596

	Current Level	Target Level	Difference
Market Value (MV)	\$4,014,534,964	\$5,931,977,560	\$1,917,442,596
MV +Unfunded	\$6,466,631,355	\$8,897,966,339	\$2,431,334,984

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	\$2,014,952,345	\$1,420,443,651	\$3,435,395,996
Real Estate	\$820,064,145	\$218,356,087	\$1,038,420,232
Resource	\$257,086,819	\$59,206,031	\$316,292,850
Yield-Oriented	\$922,431,654	\$754,090,623	\$1,676,522,277
Total	\$4,014,534,964	\$2,452,096,392	\$6,466,631,355

(Blank)

ATTACHMENT B

Minnesota State Board of Investment

- Alternative Investments -

As of March 31, 2006

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate							
American Republic	1	1	90,000	5,000	0	109.2	16.2
Blackstone Real Estate Partners V	100,000,000	0	0	0	100,000,000	N/A	0.0
Colony Capital							
<i>Colony Investors II</i>	80,000,000	78,482,328	828,807	88,273,673	1,517,672	4.4	11.0
<i>Colony Investors III</i>	100,000,000	100,000,000	21,938,743	145,688,012	0	14.6	8.2
CSFB Strategic Partners RE III	25,000,000	1,981,488	1,929,282	0	23,018,512	N/A	0.7
Equity Office Properties Trust	258,062,214	258,062,214	131,260,185	374,848,902	0	15.3	14.3
Heitman Advisory Fund V	20,000,000	20,000,000	16,965	35,792,461	0	8.6	14.3
Lehman Brothers Real Estate Partners II	75,000,000	14,680,097	18,403,190	0	60,319,903	N/A	0.7
Morgan Stanley (Lend Lease)	55,646,548	55,646,548	227,906,736	22,410,501	0	7.7	24.5
T.A. Associates Realty							
<i>Realty Associates Fund III</i>	40,000,000	40,000,000	563,864	81,734,724	0	10.9	11.8
<i>Realty Associates Fund IV</i>	50,000,000	50,000,000	21,345,063	82,517,201	0	13.1	9.2
<i>Realty Associates Fund V</i>	50,000,000	50,000,000	51,931,535	36,176,590	0	11.9	6.9
<i>Realty Associates Fund VI</i>	50,000,000	48,000,000	56,097,048	14,471,963	2,000,000	20.6	3.8
<i>Realty Associates Fund VII</i>	75,000,000	43,500,000	46,371,609	581,555	31,500,000	25.2	1.4
UBS Realty	42,376,529	42,376,529	241,381,120	0	0	8.1	23.9
Real Estate Total	1,021,085,292	802,729,206	820,064,145	882,500,582	218,356,087		
Resource							
Apache Corp III	30,000,000	30,000,000	7,027,380	51,622,932	0	12.4	19.2
First Reserve							
<i>First Reserve I</i>	15,000,000	15,000,000	18,947	14,552,526	0	-0.3	24.5
<i>First Reserve II</i>	7,000,000	7,000,000	56,488	14,879,948	0	5.9	23.2
<i>First Reserve V</i>	16,800,000	16,800,000	173,146	50,261,377	0	16.2	15.9
<i>First Reserve VII</i>	40,000,000	40,000,000	3,064,000	55,976,613	0	9.8	9.7
<i>First Reserve VIII</i>	100,000,000	100,000,000	51,022,983	116,877,537	0	12.9	7.9
<i>First Reserve IX</i>	100,000,000	100,000,000	83,159,682	199,956,991	0	49.4	5.0
<i>First Reserve X</i>	100,000,000	47,100,437	63,814,178	14,371,394	52,899,563	88.1	1.4
Simmons							
<i>Simmons - SCF Fund II</i>	17,000,000	14,706,629	999,999	30,582,945	2,293,371	9.2	14.6
<i>Simmons - SCF Fund III</i>	25,000,000	23,408,729	5,951,145	58,498,156	1,591,271	18.4	10.7
<i>Simmons - SCF Fund IV</i>	50,000,000	47,578,173	31,843,576	64,090,033	2,421,827	16.4	8.0
T. Rowe Price	43,732,107	43,732,107	9,955,293	56,291,003	0	29.3	N/A
Resource Total	544,532,107	485,326,076	257,086,819	727,961,455	59,206,031		

Minnesota State Board of Investment

- Alternative Investments -

As of March 31, 2006

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Yield-Oriented							
Carbon Capital	50,000,000	46,184,308	2,685,155	57,208,660	3,815,692	15.2	3.9
CT Mezzanine Partners	100,000,000	36,804,097	2,646,072	48,990,214	63,195,903	19.3	4.5
Citicorp Mezzanine							
<i>Citicorp Mezzanine Partners</i>	40,000,000	40,000,000	7,855,136	46,488,644	0	9.4	11.2
<i>Citicorp Mezzanine Partners III</i>	100,000,000	88,098,283	42,598,021	82,942,084	11,901,717	16.5	6.4
DLJ Investment Partners II	50,000,000	20,725,318	5,791,248	25,236,321	29,274,682	10.8	6.2
Gold Hill Venture Lending	40,000,000	26,800,000	25,216,790	1,545,583	13,200,000	-0.2	1.5
GS Mezzanine Partners							
<i>GS Mezzanine Partners II</i>	100,000,000	83,092,437	46,448,080	67,804,848	16,907,563	10.7	6.1
<i>GS Mezzanine Partners III</i>	75,000,000	52,896,411	51,688,453	10,257,092	22,103,589	16.2	2.7
<i>GS Mezzanine Partners 2006</i>	100,000,000	0	0	0	100,000,000	N/A	0.0
GTCR Capital Partners	80,000,000	69,589,422	22,731,723	73,046,037	10,410,578	8.7	6.4
KB Mezzanine Fund IV	25,000,000	25,000,000	2,157,782	11,448,032	0	-11.8	10.5
Merit Capital Partners (William Blair)							
<i>William Blair Mezzanine Fund III</i>	60,000,000	55,521,600	26,748,653	53,186,400	4,478,400	11.3	6.2
<i>Merit Mezzanine IV</i>	75,000,000	13,116,758	12,302,168	0	61,883,242	-10.1	1.3
Merit Energy Partners							
<i>Merit Energy Partners B</i>	24,000,000	24,000,000	55,076,238	44,601,851	0	24.8	9.7
<i>Merit Energy Partners C</i>	50,000,000	50,000,000	172,132,143	47,181,941	0	35.3	7.4
<i>Merit Energy Partners D</i>	88,000,000	70,938,303	167,584,844	18,382,691	17,061,697	33.0	4.8
<i>Merit Energy Partners E</i>	100,000,000	33,664,337	41,611,135	2,483,297	66,335,663	21.1	1.5
<i>Merit Energy Partners F</i>	100,000,000	5,237,753	5,237,753	0	94,762,247	N/A	0.0
Prudential Capital Partners							
<i>Prudential Capital Partners I</i>	100,000,000	91,876,550	46,267,648	64,354,418	8,123,450	8.5	5.0
<i>Prudential Capital Partners II</i>	100,000,000	12,325,162	11,755,555	433,625	87,674,838	N/A	0.8
Quadrant Institutional Advisors (GMAC)							
<i>Institutional Commercial Mortgage Fd II</i>	13,500,000	13,397,500	771,775	21,052,426	102,500	9.6	10.7
<i>Institutional Commercial Mortgage Fd III</i>	21,500,000	21,275,052	10,464,598	24,073,851	224,948	8.2	9.3
<i>Institutional Commercial Mortgage Fd IV</i>	14,300,000	14,300,000	6,905,389	15,222,545	0	8.3	8.3
<i>Institutional Commercial Mortgage Fd V</i>	37,200,000	37,200,000	28,723,384	24,276,802	0	8.3	6.7
Summit Partners							
<i>Summit Sub. Debt Fund I</i>	20,000,000	18,000,000	82,571	31,406,578	2,000,000	30.6	12.0
<i>Summit Sub. Debt Fund II</i>	45,000,000	40,275,000	10,430,555	76,258,113	4,725,000	56.7	8.7
<i>Summit Sub. Debt Fund III</i>	45,000,000	20,250,000	17,873,668	3,232,113	24,750,000	5.4	2.1
T. Rowe Price	53,340,603	53,340,603	503,054	51,844,812	0	-9.9	N/A
TCW/Crescent Mezzanine							
<i>TCW/Crescent Mezzanine Partners</i>	40,000,000	37,130,039	4,081,962	50,659,420	2,869,961	13.2	10.0
<i>TCW/Crescent Mezzanine Partners II</i>	100,000,000	87,479,046	8,993,617	122,496,128	12,520,954	12.7	7.4
<i>TCW/Crescent Mezzanine Partners III</i>	75,000,000	63,537,250	37,853,412	72,876,339	11,462,750	33.1	5.0
Windjammer Capital Investors							
<i>Windjammer Mezzanine & Equity Fund II</i>	66,708,861	49,620,215	46,454,990	20,384,646	17,088,646	11.5	6.0
<i>Windjammer Senior Equity Fund III</i>	67,974,684	758,081	758,081	0	67,216,603	N/A	0.2
Yield-Oriented Total	2,056,524,148	1,302,433,525	922,431,654	1,169,375,511	754,090,623		

Minnesota State Board of Investment

- Alternative Investments -

As of March 31, 2006

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Private Equity							
Adams Street Partners (Brinson)							
<i>Brinson Partners I</i>	5,000,000	3,800,000	154,380	9,280,721	1,200,000	13.2	17.9
<i>Brinson Partners II</i>	20,000,000	20,000,000	243,787	37,754,513	0	24.1	15.3
<i>Affinity Ventures</i>	4,000,000	711,847	495,777	405,436	3,288,153	20.5	1.7
Bank Fund							
<i>Banc Fund V</i>	48,000,000	48,000,000	61,775,376	34,376,369	0	14.6	7.7
<i>Banc Fund VII</i>	45,000,000	14,400,000	13,516,171	0	30,600,000	-12.7	1.0
Blackstone Capital Partners							
<i>Blackstone Capital Partners II</i>	50,000,000	47,271,190	3,800,096	94,640,802	2,728,810	34.2	12.4
<i>Blackstone Capital Partners IV</i>	70,000,000	52,005,477	60,231,565	38,995,761	17,994,523	62.6	3.7
<i>Blackstone Capital Partners V</i>	100,000,000	359,385	359,385	0	99,640,615	N/A	0.2
BLUM Capital Partners							
<i>Blum Strategic Partners I</i>	50,000,000	48,771,954	22,088,891	86,426,434	1,228,046	15.8	7.3
<i>Blum Strategic Partners II</i>	50,000,000	40,384,728	42,215,624	39,335,885	9,615,272	27.5	4.7
<i>Blum Strategic Partners III</i>	75,000,000	33,716,641	32,111,509	3,097,331	41,283,359	N/A	0.8
Chicago Growth Partners (William Blair)							
<i>Chicago Growth Partners VIII</i>	50,000,000	6,991,998	7,438,836	0	43,008,002	N/A	0.7
<i>William Blair Capital Partners VII</i>	50,000,000	43,650,000	40,854,568	7,023,248	6,350,000	3.5	5.1
<i>Citigroup Venture Capital Equity</i>	100,000,000	74,083,773	47,454,426	78,636,648	25,916,227	30.1	4.3
<i>Contrarian Capital Fund II</i>	37,000,000	33,244,395	13,602,866	33,256,841	3,755,605	5.1	8.8
Coral Partners							
<i>Coral Partners Fund II</i>	10,000,000	10,000,000	333,127	36,632,559	0	24.9	15.7
<i>Coral Partners Fund IV</i>	15,000,000	15,000,000	1,390,959	13,156,023	0	-0.8	11.7
<i>Coral Partners Fund V</i>	15,000,000	14,625,000	3,389,768	2,016,216	375,000	-17.5	7.8
Crescendo							
<i>Crescendo II</i>	15,000,000	15,000,000	553,230	20,347,039	0	20.6	9.2
<i>Crescendo III</i>	25,000,000	25,000,000	3,009,906	8,084,795	0	-22.1	7.4
<i>Crescendo IV</i>	101,500,000	98,962,500	37,696,460	4,018,614	2,537,500	-22.1	6.1
Credit-Suisse/CSFB/ DLJ							
<i>CSFB Strategic Partners, L.P.</i>	100,000,000	84,137,635	48,500,604	88,976,144	15,862,365	24.0	5.2
<i>CSFB Strategic Partners II-B</i>	100,000,000	70,129,387	59,830,747	59,488,504	29,870,613	54.7	2.7
<i>CSFB Strategic Partners III-B</i>	100,000,000	9,564,810	8,239,837	1,241,776	90,435,190	N/A	0.8
<i>CSFB Strategic Partners III VC</i>	25,000,000	6,000,000	6,223,260	0	19,000,000	N/A	0.8
<i>DLJ Merchant Banking Partners III</i>	125,000,000	115,274,843	75,139,593	111,071,384	9,725,157	17.7	5.5
DSV Partners	10,000,000	10,000,000	1,247,796	27,940,158	0	9.5	21.0
Elevation Partners	75,000,000	12,176,973	10,666,322	0	62,823,027	N/A	0.9
First Century Partners III	10,000,000	10,000,000	75,432	15,098,689	0	7.5	21.3
Fox Paine Capital Fund							
<i>Fox Paine Capital Fund</i>	40,000,000	40,000,000	5,106,760	39,288,122	0	1.8	7.9
<i>Fox Paine Capital Fund II</i>	50,000,000	37,246,462	18,693,850	44,478,121	12,753,538	28.0	5.7
Golder,Thoma, Cressey, Rauner							
<i>Golder, Thoma, Cressey & Rauner Fund IV</i>	20,000,000	20,000,000	157,975	41,020,323	0	24.8	12.2
<i>Golder, Thoma, Cressey & Rauner Fund V</i>	30,000,000	30,000,000	9,801,118	42,483,476	0	10.8	9.7
GTCR Golder Rauner							
<i>GTCR VI</i>	90,000,000	89,137,778	27,985,459	68,918,378	862,222	2.9	7.7
<i>GTCR VII</i>	175,000,000	149,843,749	135,325,688	158,825,453	25,156,251	23.2	6.1

Minnesota State Board of Investment

- Alternative Investments -

As of March 31, 2006

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
GS Capital Partners 2000							
<i>GS Capital Partners 2000</i>	50,000,000	50,000,000	30,145,954	48,621,557	0	20.2	5.6
<i>GS Capital Partners V</i>	100,000,000	29,005,427	30,911,722	0	70,994,573	14.4	1.0
GHJM Marathon Fund							
<i>GHJM Marathon Fund IV</i>	40,000,000	38,481,000	10,973,246	43,533,952	1,519,000	9.1	7.0
<i>GHJM Marathon Fund V</i>	28,985,714	17,966,228	16,661,902	137,660	11,019,486	-13.3	1.5
Hellman & Friedman							
<i>Hellman & Friedman Capital Partners IV</i>	150,000,000	133,967,494	176,268,816	123,566,089	16,032,506	35.0	6.2
<i>Hellman & Friedman Capital Partners V</i>	160,000,000	51,150,859	43,696,938	6,230,238	108,849,141	-4.1	1.3
Kohlberg Kravis Roberts							
<i>KKR 1987 Fund</i>	145,950,000	145,373,652	3,394,583	395,130,030	576,348	8.7	18.4
<i>KKR 1993 Fund</i>	150,000,000	150,000,000	508,421	307,737,864	0	16.7	12.3
<i>KKR 1996 Fund</i>	200,000,000	200,000,000	59,875,513	290,859,457	0	13.1	9.6
<i>KKR Millennium Fund</i>	200,000,000	172,122,098	199,763,522	70,624,014	27,877,902	41.2	3.3
Matrix Partners III	10,000,000	10,000,000	53,427	78,027,244	0	75.1	15.9
Lexington Capital Partners VI	100,000,000	4,590,277	4,590,277	0	95,409,723	N/A	0.3
Sightline Healthcare							
<i>Sightline Healthcare Fund II</i>	10,000,000	10,000,000	3,329,664	4,190,002	0	-4.7	9.1
<i>Sightline Healthcare Fund III</i>	20,000,000	19,400,002	6,565,534	2,494,843	599,998	-16.1	7.2
<i>Sightline Healthcare Fund IV</i>	7,700,000	5,660,182	4,481,528	4,891	2,039,818	-15.0	2.5
Silver Lake Partners II	100,000,000	49,142,166	50,258,184	107,001	50,857,834	3.8	1.7
Split Rock Partners	50,000,000	6,327,271	5,449,634	0	43,672,729	N/A	0.9
Summit Partners							
<i>Summit Ventures II</i>	30,000,000	28,500,000	104,249	74,524,292	1,500,000	28.8	17.9
<i>Summit Ventures V</i>	25,000,000	23,875,000	4,816,039	23,878,713	1,125,000	5.2	8.0
T. Rowe Price	661,857,530	661,857,530	79,811,436	633,284,574	0	10.6	N/A
Thoma Cressey							
<i>Thoma Cressey Fund VI</i>	35,000,000	33,915,000	17,432,831	7,881,225	1,085,000	-5.6	7.6
<i>Thoma Cressey Fund VII</i>	50,000,000	38,855,000	24,428,738	38,275,600	11,145,000	31.1	5.6
<i>Thoma Cressey Fund VIII</i>	70,000,000	0	0	0	70,000,000	N/A	0.0
Thomas, Mc Nerney & Partners	30,000,000	13,800,000	14,625,226	0	16,200,000	3.3	3.4
Vestar Capital Partners							
<i>Vestar Capital Partners IV</i>	55,000,000	47,876,664	30,032,758	28,545,950	7,123,336	8.7	6.3
<i>Vestar Capital Partners V</i>	100,000,000	3,746,543	3,746,543	0	96,253,457	N/A	0.3
Warburg Pincus							
<i>Warburg, Pincus Ventures</i>	50,000,000	50,000,000	8,892,934	243,361,314	0	49.2	11.2
<i>Warburg Pincus Equity Partners</i>	100,000,000	100,000,000	27,633,190	118,996,987	0	9.6	7.8
<i>Warburg Pincus Private Equity VIII</i>	100,000,000	94,200,000	90,003,031	22,913,650	5,800,000	9.6	4.0
<i>Warburg Pincus Private Equity IX</i>	100,000,000	23,505,208	23,160,340	43,000	76,494,792	N/A	0.7
Wayzata Opportunities Fund	100,000,000	42,163,000	42,022,113	0	57,837,000	N/A	0.3
Welsh, Carson, Anderson & Stowe							
<i>Welsh, Carson, Anderson & Stowe VIII</i>	100,000,000	100,000,000	69,976,839	22,744,972	0	-1.3	7.7
<i>Welsh, Carson, Anderson & Stowe IX</i>	125,000,000	115,000,000	112,008,731	57,644,585	10,000,000	15.3	5.8
<i>Welsh, Carson, Anderson & Stowe X</i>	100,000,000	19,578,466	19,578,466	0	80,421,534	N/A	0.3
Zell/ Chilmark	30,000,000	30,000,000	38,865	76,940,413	0	17.7	15.7
Private Equity Total	5,269,993,244	3,849,549,594	2,014,952,345	3,966,615,880	1,420,443,651		

REAL ESTATE MANAGER SUMMARY PROFILE
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I. Background Data

<i>Name of Fund:</i>	The Realty Associates Fund VIII
<i>Type of Fund:</i>	Real Estate Investment Trust
<i>Total Fund Size:</i>	\$1,250 million
<i>Fund Manager:</i>	TA Associates Realty 28 State Street Boston MA 02109
<i>Manager Contact:</i>	Mike Ruane 617-476-2799

II. Organization and Staff

TA Associates Realty ("TA") was formed in 1982. TA currently has 27 investment professionals and a total staff of fifty-six in the primary functional areas of acquisitions, asset management, portfolio management, finance and accounting. Property management at the local level is typically administered through third party property managers. These property managers are responsible for all aspects of the day to day operations and are overseen by the asset management group at TA. The Realty Associates Fund VIII is the eighth commingled, closed-end fund for TA. Total real estate assets under management, including both commingled and separate accounts, exceeds \$8 billion.

III. Investment Strategy

The investment strategy of The Realty Associates Fund VIII is to create portfolios that are diversified as to property type, location, age, lease, structure, tenant size, credit and type of business. The portfolios will primarily consist of office, industrial, multifamily and retail properties.

There will be not more than 35% of the Capital Commitments in any one market, nor more than 20% in any one property. Small to medium-sized properties generally ranging from \$10 to \$50 million per property are the planned typical investment. Leverage is expected not to exceed 50% of the value of the real estate investments at the time the indebtedness is incurred. However, the fifty percent (50%) limitations above may be exceeded from time to time on a temporary basis to take advantage of favorable conditions in the debt markets or to fund short-term cash needs; provided that in no event shall such temporary borrowing cause the measurements above to exceed sixty percent (60%) at the time such borrowing occurs.

IV. Investment Performance

Previous fund performance as of March 31, 2006 for the SBI's investments with TA Realty is shown below :

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Realty Assoc. III	1994	\$487 million	\$40 million	10.9%
Realty Assoc. IV	1996	\$450 million	\$50 million	13.1%
Realty Assoc. V	1999	\$562 million	\$50 million	11.9%
Realty Assoc. VI	2002	\$738 million	\$50 million	20.6%
Realty Assoc. VII	2004	\$917 million	\$75 million	25.2%

Previous Fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

The Principals intend to contribute \$1.0 million dollars.

VI. Takedown Schedule

Takedown of investor commitments will be as needed with a minimum of 30 calendar days notice

VII. Fees

Specifically, 0.5% in year 1, 0.8% in year 2, 1.1% in year 3, all based upon total committed capital; then 1.2% in year 4, 1.0% in year 5, 1.0% in year 6, .90% in year 7 and .60% thereafter, all based upon aggregate invested equity plus related reserves

VIII. Allocation and Distributions

100% to all investors in proportion to their investments until they have received a return of capital and an annual compounded preferred return representing inflation as measured by annual changes in the core Consumer Price Index (CPI-U). Additional distributions will initially be shared 95% to investors and 5% to the Sponsor General Partner. After a 1% real rate of return, distributions are divided 94% to the investors and 6% to the Sponsor General Partner; after a 2% real rate of return, distributions are divided 92.5% to the investors and 7.5% to the Sponsor General Partner; after a 3% real rate of return, distributions are divided 90.5% to the investors and 9.5% to the Sponsor General Partner; after a 4% real rate of return, distributions are divided 88.5% to the investors and 11.5% to

the Sponsor General Partner; after a 5% real rate of return, distributions are divided 86.5% to the investors and 13.5% to the Sponsor General Partner; after a 6% real rate of return, distributions are divided 84.5% to the investors and 15.5% to the Sponsor General Partner; after a 7% real rate of return, distributions are divided 82.5% to the investors and 17.5% to the Sponsor General Partner; and after an 8% real rate of return, all further distributions are divided 80% to the investors and 20% to the Sponsor General Partner.

IX. Investment Period and Term

The acquisition period will last between eighteen and thirty months depending on the ultimate size of the fund and the state of the real estate markets during the acquisition phase. Liquidation is expected within ten years from being fully invested.

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PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	KKR 2006 Fund, L.P.
Type of Fund:	Private Equity
Total Fund Size:	\$10-11 billion
Fund Manager:	KKR Associates 2006, L.P.
Manager Contact:	Perry Golkin 9 West 57 th St. New York, NY, 10019 Phone: 212-750-0003

II. Organization and Staff

Kohlberg Kravis Roberts & Co. ("KKR"), operating from offices in New York, Menlo Park, London, Paris, Hong Kong and Tokyo, is one of the world's oldest and most experienced private equity firms specializing in management buyouts. Founded in 1976 by Jerome Kohlberg, Henry R. Kravis and George R. Roberts, KKR seeks to provide its investors with long-term capital appreciation through the acquisition of companies and by making other selective equity and related investments. Typically, KKR utilizes debt to finance a significant portion of any acquisition, with a view to enhancing the rates of return received by its investor group. During the firm's 30-year history and through varied business conditions, KKR's objective has remained the same: invest large amounts of capital over the long-term and to create value through operational change in order to achieve high rates of return.

KKR has been the largest and most active participant in the buyout market since the mid-1970s. Through the KKR Funds, the firm has invested, on behalf of itself and its investors, in excess of \$25 billion of equity capital in more than 140 transactions. These investments have been made across a broad range of industries and through various economic cycles. The total financing raised by KKR (including the \$25 billion of equity) for these management buyouts and other investments exceeds \$194 billion. KKR is one of only a few private equity firms that specialize in larger transactions.

KKR's team of professionals has unparalleled experience in the buyout field. Messrs. Kravis and Roberts each have more than 35 years of experience in the private equity industry, having pioneered the use of management buyouts in the late-1960s. They will continue to provide leadership to KKR and the Fund and to participate in all investment activities. The 24 members of KKR have been with KKR for, on average, over 11 years. The six most senior members have been with the firm for more than 20 years and the senior most 14 members have been with the

firm on average 17 years. KKR is comprised of 273 people, including 24 members, 5 managing directors, 7 directors and 38 principles and associates who are responsible for the investment transactions, the various KKR Funds and the myriad of accounting and tax matters relating to KKR, its principals and its investors.

III. Investment Strategy

In seeking out attractive investment opportunities, KKR employs a variety of strategies. Listed below are some of those strategies:

Historically, KKR has focused on acquiring companies that are larger than those typically pursued by most other private equity funds. The Fund will similarly be interested in sizable transactions. One of the advantages of such a strategy is the high quality of the companies that can be acquired. The various KKR Funds have sought to own businesses with superior franchises and the highest caliber of management.

At any one time, KKR is intensely pursuing and scrutinizing opportunities in 9 different industries in the US and 7 industries in Europe. Such an approach has resulted in KKR's recent investments, including those in energy, financial services, consumer products, healthcare, media and telecom (particularly in printing and satellites), technology, industrials, chemicals, retail and recycling..

Due to KKR's extensive relationships in the business and financial community and its long-standing reputation as the leading firm in the buyout industry, KKR executives regularly are able to work with companies and managers on an exclusive basis to develop transactions for the KKR Funds. KKR also has an extensive network of relationships with businesses, banking and government leaders.

KKR will selectively participate in auctions. While the auctions process does not represent KKR's preferred method of making investments, KKR believes that a disciplined approach to participating in auctions can provide attractive opportunities. Since 2004, more than 80% of KKR's investments have been sourced through proprietary or limited processes (2 or less other bidders).

KKR, in a number of situations, has successfully implemented a "build-up" strategy; i.e., created a partnership with a management team and then assisted that management team in the acquisition of companies in its industry, an industry which KKR has determined to be an attractive one for investment.

Finally, KKR will creatively pursue unique situations. For instance, in the investment, which the Millennium Fund made in the International Transmission Company in Michigan, KKR acquired a transmission asset after several years of working to understand the energy and power sector. Three years after the initial investment KKR took the company public, creating the first publicly traded transmission company.

KKR expects to provide investors in the Fund with a well-diversified portfolio of investments and may hold minority investments and participate in joint ventures in certain situations.

Investments outside the United States and Canada will be made by the Fund side-by-side with KKR's European Fund II (or any successor thereto), with 15% of the total equity available to KKR being allocated to the 2006 Fund, unless capital for any such investment is unavailable from the European Fund II or its successor, in which case the Fund may make the entire investment. In any event, investments outside the United States and Canada will be limited to not more than 25% of the capital committed to the Fund.

IV. Investment Performance

Previous fund performance as of March 31, 2006 for KKR and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
KKR 1984 Fund	1984	\$1,059 million	\$25 million	29%
KKR 1986 Fund	1986	\$857 million	\$18 million	31%
KKR 1987 Fund	1987	\$6,240 million	\$146 million	9%
KKR 1993 Fund	1993	\$1,958 million	\$150 million	17%
KKR 1996 Fund	1996	\$6,084 million	\$200 million	13%
KKR Millennium Fund	2002	\$6,000 million	\$200 million	53%

Previous Fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

The executives of KKR will commit \$200 million to the 2006 Fund.

VI. Takedown Schedule

Capital will be called as needed with at least 10-business days prior written notice.

VII. Fees

Until the earlier to occur of the end of the Investment Period and the permanent reduction of unused capital commitments to \$150 million or less, the Limited Partners will make capital contributions to the 2006 Fund to enable the 2006 Fund to pay an annual management fee to KKR or an affiliate thereof in an amount equal to the sum of 1.5% of the first \$7.5 billion of capital committed to the 2006 Fund by

the Limited Partners (excluding any excess amount referred to in the next sentence), plus 1.0% of all such capital in excess thereof (in each case, whether or not called), except that any such payment made prior to the 2006 Fund's initial investment will be paid directly to KKR or an affiliate thereof by the Limited Partners. As with prior KKR funds, a Limited Partner whose capital commitment exceeds \$975 million may be entitled to receive a reduction in its overall management fee.

VIII. Allocations and Distributions

Net proceeds from any investment by the 2006 Fund will be distributed to the Partners that participated in such investment in the following order of priority:

a. for dispositions of securities of a portfolio company, first to all Partners in proportion to their participation in such investment until the proceeds equal the aggregate of (i) the cost basis and the amount of capital contributions from the Partners used to pay Fund expenses allocable to the securities so disposed of (that have not been recouped from prior distribution made after a writedown with respect to such securities, or otherwise recouped), (ii) the amount of realized losses on any 2006 Fund investment allocated to such Partner (that has not been previously recouped) and (iii) the "writedown amount: (as defined below) for securities of any portfolio company, and thereafter 80% to the Partners in proportion to their participation in such investment and 20% to the General Partner;

b. for cash income (except as otherwise provided below), first to all Partners in proportion to their participation in the investment until the proceeds equal (i) the amount of capital contributions from the Partners used to pay Fund expenses allocable to the investment that produced such cash income (that has not been previously recouped), (ii) the amount of realized losses on any 2006 Fund investment allocated to such Partners (that has not been precisely recouped) and (iii) the "writedown amount": for securities of any portfolio company, and thereafter 80% to the Partners in proportion to their participation in such investment and 20% to the General Partner;

c. for income with respect to bridge financings, to all Partners in proportion to their participation in such Bridge Financing; and

d. for interest income with respect to cash held short term prior to investment or distribution, to all Partner in proportion to their interests in such cash.

IX. Investment Period and Term

The investment period for the 2006 Fund will commence on the date on which all capital under KKR Millennium Fund L.P. has been invested, and will continue for up to six years.

The General Partner must sell or distribute the securities of each investment no later than the twelfth anniversary of the date such investment was made.

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

<i>Name of Fund:</i>	GTCR Fund IX, LP
<i>Type of Fund:</i>	Private Equity Limited Partnership
<i>Total Fund Size:</i>	\$2.25 billion
<i>Fund Manager:</i>	GTCR Golder Rauner, LLC 6100 Sears Tower Chicago, Illinois 60606
<i>Manager Contact:</i>	David Donnini 312-382-2201

II. Organization and Staff

GTCR Golder Rauner, LLC was founded in 1980. Since its founding GTCR has managed eight private equity funds over the last 25 years, during which time it has invested approximately \$5.0 billion of equity capital.

GTCR has a staff of 37 investment professionals, including 11 principals, three portfolio principals, eight vice presidents, 12 associates, two research professionals and one executive recruiter, who collectively conduct a nationwide investment program from a single office in Chicago, Illinois. 22 of the 37 investment professionals are owners in the firm. 27 administrative staff members support the investment professionals.

III. Investment Strategy

During its 25-year history, GTCR has achieved superior returns by focusing on three core tenets:

1. GTCR proactively recruits and partners with top executives as the foundation for creating value in its investments. GTCR pioneered the strategy of identifying, recruiting, and partnering with exceptional executives to identify and acquire attractive companies in their specific areas of experience. The principals devote considerable time working to identify such executives and form partnerships with them. GTCR currently contacts approximately 900 new executives each year and maintains a proprietary database of over 45,000 executives with whom it has made contact. With its extensive experience, GTCR rigorously evaluates the executives and typically selects five to seven individuals per year with whom to structure partnerships. The Firm has brought in new management at the closing of a transaction in 68% of its investments since 1990. While this approach is more time intensive than a traditional leveraged buyout strategy, these management-led investments give GTCR the opportunity to assemble a top team in an industry. GTCR values the quality of management so highly that it frequently initiates an investment with

management before an acquisition is identified and funds salaries and overhead for the team as it looks for the appropriate first company to purchase. Since 1990, approximately 56% of GTCR's 101 investments have begun in this way – as management “start-ups.” In addition to a significant carried interest, GTCR expects management to co-invest a significant amount of their net worth alongside the Firm's investment to help align interests.

2. GTCR seeks to add value by executing multiple acquisitions within each investment. GTCR further differentiates itself from other private equity firms through its long-standing focus on creating added value in virtually all of its investments through highly strategic and synergistic follow-on acquisitions. In this way, GTCR uses the acquisition process as a way to create valuable companies. This process often generates synergies and scale economies as well as incremental revenue opportunities associated with product line and geographic expansion. Additionally, barriers to entry are often increased. Because the consolidated companies are typically larger and more professionally managed, they are often more highly valued by prospective buyers than the sum of their component parts.

3. GTCR seeks to create unique opportunities and makes better decisions through its focus on five major growing sectors of the economy. GTCR primarily focuses on five sectors of the economy: consumer products and services, healthcare, outsourced business services, technology and transaction processing. Within each of these core areas, GTCR has become highly knowledgeable and well-known. The Firm's professionals network with industry experts, subscribe to trade magazines, study industry publications, and attend trade shows and conferences. These efforts lead to an in-depth understanding of an industry's important secular trends, profitability, economics of consolidation and prevailing acquisition and exit multiples. GTCR believes that this industry knowledge gives it a competitive advantage in executive recruiting, deal flow, investment decision making, investment management and optimization of exit. GTCR has developed a substantial franchise as a leading investor in these areas. GTCR's strategic understanding of its targeted industries is evidenced by its success in exiting 43 of its 48 realized investments since 1990 via sales to strategic buyers or IPOs.

IV. Investment Performance

Previous fund performance as of March 31, 2006 for GTCR and predecessor funds is shown below:

Fund Name	Inception Date	Total Capital Commitments (millions)	SBI Investment (millions)	Net IRR from Inception
Fund I	1980	\$60 million	\$0 million	31%
Fund II	1984	\$100 million	\$0 million	18%
Fund III	1987	\$235 million	\$14 million	31%
Fund IV	1992	\$312 million	\$20 million	25%
Fund V	1996	\$521 million	\$30 million	11%
Fund VI	1998	\$870 million	\$90 million	3%
Fund VII	2001	\$2000 million	\$175 million	23%
Fund VIII	2003	\$1837 million	\$0 million	38%*

*as of 12/31/05

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

The principals intend to contribute at least sixty million dollars.

VI. Takedown Schedule

Takedown of investor commitments will be as needed on 10 business days' notice

VII. Fees

An annual management fee equal to 1.5% of total commitments will be paid to the manager for the first six years of the fund's life. During the seventh, eighth, ninth and tenth year the fee will be 90%, 85%, 80%, and 75%, respectively, of the prior year fee. During the eleventh year and each succeeding year thereafter until the partnership is terminated, the fee will be an amount based on 0.75% of the aggregate amount of the partnership's capital invested in portfolio companies, but not to exceed the amount payable in the tenth year.

The management fee will be reduced by 100% of any (i) director's fees, financial consulting fees or advisory fees received by the general partner from portfolio companies and (ii) transaction fees and break-up fees from transactions not completed which are paid

to the general partner.

The partnership will reimburse the general partner for up to \$2.0 million of the partnership's organizational and startup expenses.

VIII. Allocation and Distributions

Generally, profits will accrue 80% to the limited partners and 20% to the general partner, except for income derived from cash and cash equivalents that generally will accrue to the limited partners.

IX. Investment Period and Term

Generally, the partnership will have a commitment period of six years. The partnership will terminate on its tenth anniversary, but may be extended for up to a maximum of three consecutive one-year periods at the discretion of the General Partner if the partnership holds non-marketable securities, so long as limited partners holding a majority of the limited partner interests do not oppose any such extension.

RESOURCE MANAGER SUMMARY PROFILE

I. Background Data

<i>Name of Fund:</i>	First Reserve Fund XI, L.P.
<i>Type of Fund:</i>	Resource Limited Partnership
<i>Total Fund Size:</i>	\$5.5 billion with \$1.0 billion reserved for deals in excess of \$500 million of equity
<i>Fund Manager:</i>	First Reserve Corporation
<i>Manager Contact:</i>	Bill Macaulay One Lafayette Place Greenwich, CT 06830 (203) 661-6601

II. Organization and Staff

First Reserve Corporation ("First Reserve" or the "Firm") is forming First Reserve Fund XI, L.P. ("Fund XI" or the "Partnership") to make privately negotiated equity and equity-related investments in a diversified portfolio of energy companies. Throughout its 23-year history, First Reserve has focused exclusively on the energy industry in order to capitalize on its broad base of specialized industry knowledge. In ten previous Funds, First Reserve has made investments in over 100 entities, more than 60 of which were platform companies for further acquisitions. First Reserve has also funded more than 225 add-on acquisitions for these portfolio companies.

First Reserve is one of the oldest resource private equity firms in the country. The Firm, which has raised approximately \$5.3 billion in capital for investment in the energy industry. The 23 member investment team is headed by William E. Macaulay, Chairman and Chief Executive Officer.

III. Investment Strategy

Fund XI will pursue the same investment strategy the Principals employed to achieve the investment success of First Reserve's prior Equity Funds.

Fund XI generally will target equity investments of \$100 million to \$500 million in global energy companies with enterprise values of \$300 million to \$4 billion. Consistent with First Reserve's longstanding strategy, the companies will generally have proven management teams, significant growth potential, strong market positions and multiple exit opportunities. Many investments will be focused on companies in which First Reserve will have significant influence through the Fund's ownership position and board representation. Other investments, particularly those

in less-traditional sectors of the energy industry or in emerging markets, may be structured so that First Reserve will work closely with an experienced industry or regional partner. With respect to all investments, First Reserve will bring to bear its industry and strategic expertise.

As in prior successful funds, Fund XI will continue to focus on the broad worldwide energy industry. Fund XI plans to make investments that capitalize on its primary investment themes, including the underinvestment in worldwide infrastructure, the increasing importance of natural gas and natural gas-related products (LNG and coal) and the increasingly global nature of the energy industry. First Reserve believes that manufacturing and service companies operating in the worldwide oil and natural gas, infrastructure and power sectors present particularly attractive investments for executing on these themes, and some of the best opportunities for First Reserve to execute its overall strategy of "building value by building companies," creating value through add-on investments, sector consolidations, cost reductions and improved marketing and distribution. For example, First Reserve acted on the theme of underinvestment in worldwide infrastructure through its investment in Dresser-Rand, a manufacturing and service company which services the worldwide market for energy infrastructure. Underlying the themes relating to natural gas and its globalization is the belief that, as commodity prices remain above historic levels, it is economically attractive to liquefy natural gas and transport it globally. First Reserve has acted on these themes by investing in companies on the manufacturing and service side of LNG, such as Chicago Bridge & Iron and Chart Industries.

As First Reserve has successfully done in the past, Fund XI will also target Energy Reserve acquisitions in situations where First Reserve believes there are significant capital appreciation opportunities in the underlying assets. The Firm focuses on geographically concentrated reserves with long production lives, which it believes will generate future interest from strategic buyers or the capital markets. Traditionally, First Reserve has focused its reserve investments in the natural gas and coal sectors. One example of value creation in the coal sector is the formation of Alpha Natural Resources, a buy and build U.S. coal-producing company, which was established through nine acquisitions. Alpha also is an example of how First Reserve capitalized on the macro themes developed at the onset of a fund. In this case, coal was a play on the increasing importance and price of natural gas. In its reserve investments, Fund XI also expects to capitalize on the theme that energy demand is growing globally. In fact, a significant portion of the new energy demand is coming from China and India. An example of First Reserve's acting on this theme is our Australian coal investment, Southern Cross. A majority of the coal mined by Southern Cross is exported to Asia.

Renewable energy investments are expected to be more evident in Fund XI's portfolio. Although First Reserve has invested in renewable energy and emissions-related service and manufacturing companies in prior funds, First Reserve believes that the renewable energy segment of the energy industry has matured to the point where investment opportunities will be larger and, therefore, will be more prominent in the portfolio. An example of capitalizing on this trend is INGENCO,

a recently announced transaction focused on low-cost conversion of landfill gas to saleable power.

IV. Investment Performance

Previous fund performance as of March 31, 2006 for the First Reserve funds is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
AmGo I	1981	\$144 million	\$15 million	0%
AmGo II	1983	\$36 million	\$7 million	6%
AmGo III	1986	\$17 million	--	7%
First Reserve SEA Fund	1988	\$63 million	\$12 million	14%
First Reserve Fund V	1990	\$84 million	\$17 million	16%
First Reserve Fund V-2	1990	\$34 million	--	15%
First Reserve Fund VI	1992	\$184 million	--	28%
First Reserve Fund VII	1996	\$244 million	\$40 million	10%
First Reserve Fund VIII	1998	\$812 million	\$100 million	13%
First Reserve Fund IX	2001	\$1.4 billion	\$100 million	49%
First Reserve Fund X	2004	\$2.3 billion	\$100 million	88%

Previous Fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

The General Partner and its affiliates will make a cash commitment of not less than 2% of aggregate Primary Commitments.

VI. Takedown Schedule

Commitments are expected to be drawn down as needed during the Commitment Period, generally with not less than ten business days' prior written notice.

VII. Fees

Commencing on the date of the first investment, 1.36% of Committed Capital until the earlier of the end of the Commitment Period or the commencement of payment of a management fee on a Competing Fund, thereafter, the fee will be 1.0% of Invested Capital. Generally, no management fee will be charged on the portion of aggregate Commitments in excess of \$6 billion until invested.

After offsetting expenses associated with transactions, the Partnership's allocable share of transaction and break-up fees will be credited 100% against the management fee.

The Partnership's allocable share of Directors' and Advisory Fees will be credited 100% against the management fee.

VIII. Allocations and Distributions

In general, investors will receive distributions in the following order of priority:

- a return of all capital invested in realized investments and net management fees and other expenses attributable to thereto and write-downs; plus
- an 8% compound, cumulative annual preferred return on the above amounts;

After which distributions will be made:

- 80% to the General Partner and 20% to the Limited Partners as a "catch-up" until the General Partner has received an overall 20% carried interest; and thereafter
- 80% to Limited Partners and 20% to the General Partner

IX. Investment Period and Term

Generally, the Commitment period will be six years from the closing date of the first investment.

The term will be ten years from date of initial investment, subject to two consecutive one-year extensions.

Tab F

COMMITTEE REPORT

DATE: May 30, 2006

TO: Members, State Board of Investment

FROM: IAC Governance Review Task Force

In the Fall of 2005, the IAC created an ad hoc committee to review its own governance practices and policies. As noted in the attached statement of the rationale for the governance review, this process was undertaken to identify any opportunities that might exist to improve the management of funds entrusted to the SBI. The process we followed was deliberate and included soliciting the ideas and input from each and every member of the IAC, as well as from the deputies of the members of the SBI.

We believe that the recommendations we developed will enable the IAC to better fulfill its mission of supporting the SBI with advice on important investment policy and implementation recommendations. We urge your review and support of the governance recommendations that we are proposing.

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**Minnesota State Board of Investment
Investment Advisory Council
Governance Review**

Rational for Governance Review

The Investment Advisory Council (IAC) of the Minnesota State Board of Investment (SBI) decided to undertake this governance review for several important reasons:

- The current process has largely been in place for 20 years. IAC was created to help staff and Board make the transition from internal management to selection and monitoring of external management firms and investing in a broader range of asset classes.
- This process has benefited from a strong sense of fiduciary responsibility on the part of the IAC and SBI.
- Over time the SBI staff has evolved and gained significant expertise in manager selection and monitoring, and the funds in trust have grown to over \$50 billion.
- Prudence strongly suggests that it is time to evaluate how the IAC can best serve the current needs of Board members and staff, and be appropriately structured to meet future needs.

We are undertaking this review out of a sense of fiduciary responsibility to the beneficiaries of the fund and the taxpayers of the State of Minnesota to continually consider what could improve the management of the funds entrusted to the SBI.

Governance Review Process

- Ad hoc committee formed and met to review process, timeline and questionnaire topics.
 - Mike Troutman
 - Malcolm McDonald
 - Howard Bicker
 - Doug Gorence
 - Judy Mares
 - Dave Bergstrom
 - Ann Posey
- Gathered information from other public systems and sources on governance
- Conducted interviews of IAC members, staff and deputies

- Governance Committee reviewed compiled feedback from interviews and developed recommendations
- Presented summary feedback and ad hoc committee's recommendations presented to full IAC at a special meeting (April 28, 2006)
- Review recommendations with SBI principals (as requested)
- IAC final review of recommendations
- Present recommendations to SBI at June 7, 2006 meeting
- Implementation of governance policies (as approved by the SBI)

Findings and Recommendations
Investment Advisory Council
Ad hoc Governance Review Task Force
April 12, 2006

Recommendations are predicated on the following assumptions

- No changes to the legislative statute that creates and defines the IAC.
- The current level of professionalism and investment sophistication at the SBI staff will be maintained or improved.
 - The legislature will take the necessary actions to enhance the compensation structure that allows adequate professional staffing of the SBI investment staff.
 - The budget process will be adjusted to appropriately reflect the source of funding.
- The deputies of the SBI principals are encouraged to attend the Alternative Investment and Stock & Bond Committee meetings, as well as the full IAC meetings. These committee meetings are the best forums for information on both investment policy and implementation issues.

Findings and Recommendations

Mission Statement

Findings: Strong affirmation that the current mission is appropriate and that there is a continued need for the existence of the IAC and its independent and expert review of investment issues, given the lay nature of the SBI Principals.

Recommendations:

- Publish the mission statement of the IAC in the annual report of the SBI.
Suggested Language:

The IAC's statutory duty is to advise the SBI and its Executive Directory by providing independent due diligence review of investment policy that guides the SBI's investment of assets.

Proposed revision to Mission Statement:

The IAC fulfills its statutory duty to the SBI by providing advice and independent due diligence review of the investment policy and implementation recommendations that guide the SBI's investment of assets.

Roles and Responsibilities

Findings: The IAC can best fulfill its advisory responsibilities by focusing more of its time and attention on investment policy issues and less time and attention on implementation issues. Modifications to the current manager search process and performance reporting will facilitate an increased focus on investment policy issues.

Recommendations:

- IAC shall gain a better understanding of the nature of the liabilities associated with retirement assets entrusted to the SBI. Presentations to the IAC by the retirement fund directors on their respective pension programs will be a primary source for this education.
- More time of the IAC meetings should be devoted to important investment policy issues. The chair of the IAC to will work with staff to develop agendas for upcoming meetings.
- The manager search process should become a part of the Stock & Bond committee responsibilities. Staff will conduct a thorough due diligence process and submit final candidates to the Stock & Bond Committee for final recommendations to the IAC. Discontinue the use of special manager search committees.

- The Minnesota statute covering the roles and responsibilities of the IAC shall be circulated annually to the members of the IAC.

Consultant Role

Findings: The role of an outside investment consultant continues to be valued. Currently, the consultant provides objective review of policy and implementation to the SBI principals through one-on-one meetings and provides investment expertise and resources to the staff. The consultant role should be expanded to include a more active participation in policy discussions at IAC meetings.

Recommendations:

- Encourage the SBI's consultant to participate at IAC meetings.

IAC Structure

Findings: The structure of the IAC sub committees should be consistent with the roles and functions assigned to each. At present, the roles of the Stock and Bond committee and the Alternative committee are different as they pertain to manager selection.

Recommendations:

- Eliminate the manager search committees.
- Transfer the manager search responsibilities to the Stock and Bond committee. With this change, the functions of the Stock and Bond and Alternative committees shall be similar.

Membership

Findings: The statute provides for a total of seventeen (17) IAC members. Ten (10) members are to be investment professionals from the local community. The most desirable candidates for the ten (10) investment professional members should have broad investment knowledge and experience across all asset classes.

Recommendations:

- The ten (10) investment professional members should be generalists with broad investment knowledge across asset classes. Local plan sponsors are a primary source for potential IAC members.

Candidate Members Solicitation Process

Findings: The existing investment professional members should be encouraged to provide ideas for and input on potential new members.

Recommendations:

- Executive Director shall solicit ideas from IAC members as part of the process for identifying candidate members to be recommended for Board approval.

Attendance and Removal Policy

Findings: Section 15.059 in statute defines attendance and member removal policy.

Recommendations:

- Section 15.059 states that the chair of the advisory council shall inform the appointing authority of a member missing three consecutive meetings.
- Communicate attendance expectations clearly to IAC members as contained in section 15.059.
- Participation by videoconferencing will be considered as attendance at an IAC or committee meeting.
- Charge the vice-chair of the IAC with the responsibility to see that members are notified after they have missed two consecutive council or committee meetings.

IAC Governance Review Process

Findings: Formal and informal reviews of efficiency and effectiveness are an important component of good governance practices.

Recommendations:

- A governance review should be scheduled every 5 to 10 years unless significant events warrant an adhoc review.
- The IAC shall annually assess the perspectives and suggestions of its members.