MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
June 7, 2000

&

INVESTMENT ADVISORY
COUNCIL MEETING
June 6, 2000

AGENDA
STATE BOARD OF INVESTMENT
MEETING
Wednesday, June 7, 2000
9:00 A.M. -Room 125
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of March 8, 2000	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (January 1, 2000 – March 31, 2000)	**A**
B. Administrative Report	**B**
1. Reports on budget and travel	
2. Legislative Update	
3. Litigation Update	
4. Approval of Minnesota College Savings Plan Contract	
5. Update on Tobacco Information	
3. Report from the SBI Administrative Committee (C. Johnson)	**C**
A. Approval of Executive Director's Proposed Workplan for FY01	
B. Approval of Budget Plan for FY01	
C. Review of Continuing Fiduciary Education Plan	
D. Approval of process of Executive Director's Evaluation for FY00	
E. Discussion of Agency Head Paybill	
4. Emerging Manager Search Committee Report (P. Sausen)	**D**
5. Reports from the Investment Advisory Council (J. Yeomans)	
A. Domestic Manager Committee	**E**
1. Review of manager performance	
2. Review of status of Tobacco Endowment Funds	
3. Review the status of Assigned Risk Plan	
4. Review of active manager custom benchmark quality analysis	
5. Re-interview of Brinson Partners	
6. Review of Emerging Manager Program and Search results	
7. Approval of Domestic Equity Asset Target Policy Paper	
B. International Manager Committee	**F**
1. Review of manager performance.	
C. Alternative Investment Committee	**G**
1. Review of current strategy	
2. Approval of three commitments with existing private equity managers for the Basic Retirement Funds:	
• Goldman Sachs	
• DLJ Merchant Banking	
• Thoma Cressey	

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Minutes
State Board of Investment
March 8, 2000

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, March 8, 2000 in Room 316 State Capitol, St. Paul, Minnesota. Governor Jesse Ventura; State Auditor Judith H. Dutcher; State Treasurer Carol C. Johnson; Secretary of State Mary Kiffmeyer and Attorney General Mike Hatch were present. The minutes of the December 8, 1999 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 inflation over the ten year period ending December 31, 1999 (Combined Funds 13.5% vs. Inflation 2.9%), exceeded the median fund (32nd percentile) and outperformed its composite index (Combined Funds 18.9% vs. Composite 18.6%) for the most recent five year period. He stated that the Basic Funds have exceeded its composite index (Basic Funds 19.3% vs. Composite 19.1%) over the last five years and reported that the Post Fund had outperformed its composite index over the last five year period (Post Fund 18.6% vs. Composite 18.0%).

Mr. Bicker reported that the Basic Funds' assets increased 11.1% for the quarter ending December 31, 1999 due to positive investment returns, even though the funds had negative net contributions. He said that the asset mix had been rebalanced. He reported that the Basic Funds underperformed its composite index for the quarter (Basic Funds 11.4% vs. Composite 11.7%) and for the year (Basic Funds 17.1% vs. Composite 17.9%). He noted that the Funds had outperformed over both the three and five year periods.

Mr. Bicker reported that the Post Fund's assets increased 10.2% for the quarter ending December 31, 1999 due to positive investment returns. He said that the Post Fund asset mix had also been rebalanced. He said that the Post Fund underperformed its composite index for the quarter (Post Fund 11.4% vs. Composite 11.6%) and for the year (Post Fund 15.8% vs. Composite 16.1%). He noted that the Post Fund had also outperformed over both the three and five year periods.

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stocks 16.5% vs. Wilshire 5000 18.3%) and for the year (Domestic Stocks 21.0% vs. Wilshire 5000 23.6%). He noted, that the stock segment's underperformance was due in large part to the "dotcom" phenomena occurring in high-tech stocks. He said that the International Stock manager group outperformed its composite index for the quarter (International Stocks 19.3% vs. Int'l Composite 17.8%) and for the year (International Stocks 33.2% vs. Int'l Composite 31.6%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 0.0% vs. Lehman Aggregate –0.1%) and for the year (Bonds –0.5% vs. Lehman Aggregate –0.8%). He concluded his report with the comment that as of December 31, 1999, the SBI was responsible for over $52.3 billion in assets.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab B for current budget and travel reports.

Mr. Bicker stated that the Legislative Auditor's Office had completed their audit of the SBI and that the SBI had received a "clean opinion" in its financial statements. He noted that the Auditor is suggesting that the SBI work with the Department of Finance to provide some additional data needed by the retirement systems.

Mr. Bicker stated that the SBI had initiated a legislative package this year that is mostly technical in nature. He said that the bill includes language that would remove the inviolate restriction, giving the SBI more investment flexibility for the tobacco endowment funds. He noted that later in the agenda there is a recommendation to approve a position paper for those funds. He said that the language in the SBI's bill to eliminate the Northern Ireland shareholder resolution mandate has been removed from the bill.

Mr. Bicker stated that the bill to change the Post Retirement Fund benefit increase calculation had met with some opposition and that the change will likely be brought back during the next legislative session.

Mr. Bicker said that there is legislation being introduced that relates to 403(b) annuities for teachers. He said that currently, the SBI must approve up to 10 vendors for the program. He said that there are a number of different versions of this bill that could either remove the SBI from the process totally or give the SBI additional responsibilities for the program.

Mr. Bicker reported that there is also legislation involving the Workers Compensation Assigned Risk Plan. He said that the fund currently has a $500-600 million surplus and that there is legislation which could mandate that all or a portion of the surplus be appropriated to be used for other purposes. He said that if the surplus is needed, the SBI may need to terminate one of the investment managers for reasons other than performance.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of the securities class action litigation concerning Mercury Finance Corporation and their Auditors, Peak Marwick. She reported that the arbitrator did allow claims of holders other than ours, which diminishes the amount for the class and that the State has appealed the arbitrator's decision and is awaiting that decision. She said that there has been an additional $1.6 million that has been recovered from the estate of one of the officers and that those funds were added to the settlement. She added that a settlement with Peak Marwick appears to be close and she noted that any settlement will need to be submitted to the court for approval.

A brief discussion took place on whether it is appropriate for the State/SBI to be involved as lead plaintiff in another class action suit. In response to a question from Mr. Hatch, Ms. Eller said that there has been varying procedures used in determining whether or not to become a lead plaintiff. She noted that all members had been provided with background materials on the case. Ms. Dutcher noted that she would like to see a cost/benefit analysis done to determine if it makes sense to be involved in this type of litigation and she said she would welcome dialogue from the other Board members. She said she is unsure whether it is an appropriate use of staff resources and time and that she is open-minded but concerned about involvement in future lawsuits.

Mr. Bicker noted that updated information on the Board's tobacco holdings is included in Tab B and that the final report from staff regarding Y2K preparedness is included in Attachment F of Tab B.

Mr. Bicker stated that the terms of four current IAC members had expired and that all four had reapplied and that he is recommending that these individuals be reappointed for another four year term. Ms. Dutcher moved approval of the Executive Director's recommendation, as stated in the Executive Director's Administrative Report, which reads: "I recommend that the SBI appoint the following individuals to new terms on the IAC: Douglas Gorence; Kenneth Gudorf; P. Jay Kiedrowski; and Judith Mares." Ms. Kiffmeyer seconded the motion. The motion passed.

Ms. Dutcher stated that she would like to encourage staff and the other Board members to consider supporting the changes to the Post Retirement Fund benefit calculation during the next legislative session. She said that she believes it will benefit the retirees and that she hopes information can be passed along to the retirees to make them more comfortable with the changes. Mr. Bicker added that all three retirement systems had also supported the changes, along with the Education Minnesota teachers union. He added that a small group of people who opposed the change did an effective job of stopping the legislation in a short period of time and that staff intends to support the change again next year.

Domestic Manager Committee Report

Ms. Yeomans referred members to Tab C of the meeting materials and noted that the strong performance of the Wilshire 5000 was due in large part to the phenomenal performance of initial public offerings (IPO's). She added that IPO's become part of the index immediately but that they may or may not be added to a manager's benchmark or portfolio.

Ms. Yeomans reported that the three new fixed income managers that were approved at the December 1999 meeting have been funded as of February 1, 2000. She stated that the Committee had reviewed one of the active bond managers, Standish, Ayer & Wood due to performance concerns. She said that the firm had previously been given authority to invest in high yield securities but that staff rescinded that authority in November 1999. Ms. Yeomans said that staff and the Committee felt that the firm should be closely monitored and that no further action was needed at this time.

Ms. Yeomans stated that Committee is recommending that a search be conducted for candidates for the Emerging Manager Program. Ms. Johnson moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The

Committee recommends that a search committee be formed to review potential managers for the SBI's Emerging Equity Manager Program." Ms. Kiffmeyer seconded the motion. The motion passed.

Ms. Yeomans stated that the Committee is also recommending that the SBI renew its contract with Barclays Global Investors to continue management of the SBI's passive equity portfolio. Governor Ventura moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI renew its contractual relationship with Barclays Global Investors for passive equity investment management services." Ms. Dutcher seconded the motion. The motion passed.

Ms. Yeomans reported that staff had prepared a position paper concerning increased investment flexibility for the Tobacco Endowment Funds, if the SBI's administrative bill is passed by the legislature. She stated that the recommendation is to change the asset allocation to 50% equities and 50% fixed income. She added that the equities would be invested in an S&P 500 index fund and that the fixed income segment would be semi-passively managed to track the Lehman Aggregate Bond Index, both of which would be managed internally by SBI staff. Mr. Bicker emphasized that the recommendation is contingent on the passage of the legislation. Ms. Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI adopt the revised Tobacco Fund Investment Policy Paper, which recommends a change in asset allocation to 50% equities and 50% fixed income pending the approval of a revised bill before the current legislature." Ms. Johnson seconded the motion. The motion passed.

International Manager Committee Report

Ms. Yeomans referred members to Tab D of the meeting materials and noted that there are no recommendations from the Committee at this time. She noted that the four new international managers had been funded and that the objective of having more assets actively managed had been achieved.

Alternative Investment Committee Report

Ms. Yeomans referred members to Tab E of the meeting materials and stated that the Committee is recommending an investment for the Basic Retirement Funds with an existing private equity manager, Crescendo Venture Management Ms. Dutcher moved approval of the Committee's recommendation, 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 Crescendo IV, L.P. This commitment will be allocated to the Basic Retirement Fund.

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 Crescendo

Venture Management upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Crescendo Venture Management or reduction or termination of the commitment." Governor Ventura seconded the motion. The motion passed.

Ms. Yeomans stated that the Committee is recommending another investment for the Basics, also with an existing private equity manager, DLJ Merchant Banking. She said this fund will seek to earn attractive returns through opportunistic purchases of limited partnership interests from existing limited partners. Ms. Johnson moved approval of the Committee's recommendation, as stated in the Committee Report, which states: "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 Strategic Partners, L.P. This commitment will be allocated to the Basic Retirement Fund.

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 Merchant Banking upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on DLJ Merchant Banking or reduction or termination of the commitment." Ms. Kiffmeyer seconded the motion. The motion passed.

Ms. Yeomans stated that the Committee is requesting pre-approval of a follow-on investment for the Basics with an existing private equity manager: Welsh, Carson Anderson & Stowe. Ms. Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with final approval from the Committee, which will be comprised of members of the IAC Alternative Investment Committee and a designee of each Board member, and assistance from the SBI's legal counsel, to negotiate and execute a $200 million or 20%, whichever is less, investment for the Basic Retirement Funds with an existing private equity manager, Welsh, Carson, Anderson & Stowe, in Welsh, Carson, Anderson & Stowe 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 Welsh, Carson, Anderson & Stowe upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Welsh, Carson, Anderson & Stowe or reduction or termination of the commitment." Ms. Johnson seconded the motion. The motion passed.

The meeting adjourned at 9:35 A.M.

Respectfully submitted,

Howard J. Bicker
Executive Director

AGENDA
INVESTMENT ADVISORY COUNCIL
MEETING
Tuesday, June 6, 2000
2:00 P.M. - SBI Conference Room
Room 10, Capitol Professional Office Building
590 Park Street, St. Paul, MN

	TAB
1. Approval of Minutes of March 7, 2000	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (January 1, 2000 – March 31, 2000)	A
B. Administrative Report	B
1. Reports on budget and travel	
2. Legislative Update	
3. Litigation Update	
4. Approval of Minnesota College Savings Plan Contract	
5. Update on Tobacco Information	
4. Report from the SBI Administrative Committee (C. Johnson)	C
A. Approval of Executive Director's Proposed Workplan for FY01	
B. Approval of Budget Plan for FY01	
C. Review of Continuing Fiduciary Education Plan	
D. Approval of process of Executive Director's Evaluation for FY00	
E. Discussion of Agency Head Paybill	
4. Emerging Manager Search Committee Report (P. Sausen)	D
5. Reports from the Investment Advisory Council	
A. Domestic Manager Committee (J. Bohan)	E
1. Review of manager performance	
2. Review of status of Tobacco Endowment Funds	
3. Review the status of Assigned Risk Plan	
4. Review of active manager custom benchmark quality analysis	
5. Re-interview of Brinson Partners	
6. Review of Emerging Manager Program and Search results	
7. Approval of Domestic Equity Asset Target Policy Paper	
B. International Manager Committee (J. Mares)	F
1. Review of manager performance.	
C. Alternative Investment Committee (K. Gudorf)	G
1. Review of current strategy	
2. Approval of three commitments with existing private equity managers for the Basic Retirement Funds:	
• Goldman Sachs	
• DLJ Merchant Banking	
• Thoma Cressey	

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Minutes
Investment Advisory Council
March 7, 2000

MEMBERS PRESENT:	Gary Austin; Dave Bergstrom; John Bohan; Doug Gorence; Ken Gudorf; P. Jay Kiedrowski; Han Chin Liu; Judy Mares; Mary Stanton; Mike Troutman; Mary Vanek; Elaine Voss; and Jan Yeomans.
MEMBERS ABSENT:	Malcolm McDonald; Gary Norstrem; Daralyn Peifer; and Pam Wheelock.
SBI STAFF:	Howard Bicker; Mansco Perry; Jim Heidelberg; Lois Buermann; Andy Christensen; Tammy Brusehaver-Derby; Debbie Griebenow; John Griebenow; Jason Matz; Mike Menssen; Charlene Olson; and Carol Nelson.
OTHERS ATTENDING:	Ann Posey, Richards & Tierney; Christie Eller; Charles Carmean; Jennifer Mohlenhoff; Peter Sausen; Eugene Edie; Robert Heimerl; Lloyd Belford and Dale Hanke, REAM.

Ms. Yeomans called the meeting to order and the minutes of the December 7, 1999 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 inflation over the ten year period ending December 31, 1999 (Combined Funds 13.5% vs. Inflation 2.9%), exceeded the median fund (32nd percentile) and outperformed its composite index (Combined Funds 18.9% vs. Composite 18.6%) for the most recent five year period. He stated that the Basic and Post Funds have each exceeded their composite index (Basic Funds 19.3% vs. Composite 19.1%) over the last five years. (Post Fund 18.6% vs. Composite 18.0%).

Mr. Bicker reported that the Basic Funds' assets increased 11.1% for the quarter ending December 31, 1999 due to positive investment returns in spite of negative net contributions. He said that the asset mix has been rebalanced. He said that the Basic Funds underperformed its composite index for the quarter (Basic Funds 11.4% vs. Composite 11.7%) but he noted that the Funds had outperformed over both the three and five year periods.

Mr. Bicker reported that the Post Fund's assets increased 10.2% for the quarter ending December 31, 1999 due to positive investment returns. He said that the Post Fund asset mix had also been rebalanced. He said that the Post Fund underperformed its composite index for the quarter (Post Fund 11.4% vs. Composite 11.6%) and he noted that the Post Fund had also outperformed over both the three and five year periods.

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stocks 16.5% vs. Wilshire 5000 18.3%). He noted, that the stock segment's underperformance was due in large part to the "dotcom" phenomena occurring in high-tech stocks. He said that the International Stock manager group outperformed its composite index for the quarter (International Stocks 19.3% vs. Int'l Composite 17.8%) and for all other reporting periods. Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 0.0% vs. Lehman Aggregate –0.1%) and over longer periods. He concluded his report with the comment that as of December 31, 1999, the SBI was responsible for over $52.3 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B for current budget and travel reports.

Mr. Bicker stated that the Legislative Auditor's Office had completed their audit of the SBI and that the SBI had received a "clean opinion" in its financial statements. He noted that the Auditor is suggesting that the SBI work with the Department of Finance and the retirement systems to provide some additional data needed for their balance sheets.

Mr. Bicker stated that the SBI had initiated a legislative package this year that is mostly "housekeeping" or technical in nature. He stated that the language in the SBI's bill to eliminate the Northern Ireland shareholder resolution mandate has been removed from the bill due to opposition from some lobbyists. He said that the bill also includes language that would remove the inviolate restriction, giving the SBI more investment flexibility for the tobacco endowment funds.

Mr. Bicker stated that the bill to change the Post Retirement Fund benefit increase calculation had met with some opposition and that the change will likely be brought back during the next legislative session. He added that more effort will be made next year to inform participants and others about this change.

Mr. Bicker said that there is legislation begin introduced that relates to 403(b) annuities for teachers. He said that currently the SBI must approve up to 10 vendors for the program. He said that there are a number of different versions of this bill that could either remove the SBI from the process totally or give the SBI additional responsibilities for the program. In response to a question from Mr. Bohan, Mr. Austin stated that the Teachers Retirement Association has not taken a position on the issue. In response to a question from Mr. Liu, Mr. Bergstrom stated that he is meeting with The Minnesota Association of Professional Employees (MAPE) soon to discuss the changes to the Post benefit calculation.

Mr. Bicker reported that there is also legislation involving the Workers Compensation Assigned Risk Plan. He said that the fund currently has a $500-600 million surplus and that there is legislation which could mandate that all or a portion of the surplus be appropriated to be used for other purposes. He said that if the surplus is needed, that the

SBI may need to terminate one of the investment managers for reasons other than performance.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of the securities class action litigation concerning Mercury Finance Corporation and their Auditors, Peak Marwick. She reported that the arbitrator did allow claims of holders other than ours, which diminishes the amount for the class and that the State has appealed the arbitrators decision and is awaiting that decision. She said that there has been an additional $1.6 million that has been recovered from the estate of one of the officers and that those funds were added to the settlement. She added that a settlement with Peak Marwick appears to be close and she noted that any settlement will need to be submitted to the court and members of the class for approval.

Mr. Bicker noted that updated information on the Board's tobacco holdings is included in Tab B and that the final report from staff regarding Y2K preparedness is included in Attachment F of Tab B.

Mr. Bicker stated that the terms of four current IAC members have expired and that all four have reapplied and that he will recommend to the Board that these individuals be reappointed for another four year term.

Domestic Manager Committee Report

Mr. Bohan referred members to Tab C of the meeting materials and reviewed the performance of the domestic stock and bond managers.

Mr. Bohan reported that the three new fixed income managers that were approved at the December 1999 meeting have been funded as of February 1, 2000. He noted that IAI's portfolio had also been liquidated. He stated that the Committee had reviewed one of the active bond managers, Standish, Ayer & Wood due to performance concerns. He said that the firm had previously been given authority to invest in high yield securities but that staff rescinded that authority in November 1999. He said that staff and the Committee felt that the firm should be closely monitored and that no further action was needed at this time.

Mr. Bohan stated that the Committee is recommending that a search be conducted for candidates for the Emerging Manager Program. He noted that previously, two managers had been terminated and that one manager had been promoted to a full active manager. In response to a question from Ms. Yeomans, Mr. Bohan stated that current managers in the program will also be evaluated. Mr. Bicker added that one manager may be moved up to the active equity program and that there could be one or more managers that may not continue to be part of the program.

Ms. Bohan stated that the Committee is also recommending that the SBI renew its contract with Barclays Global Investors to continue management of the SBI's passive equity portfolio.

Mr. Bohan reported that staff had prepared a position paper concerning increased investment flexibility for the Tobacco Endowment Funds, if the SBI's administrative bill is passed by the legislature. He stated that the recommendation is to change the asset allocation to 50% equities and 50% fixed income. He added that the asset mix is the same as for the Permanent School Fund which recently went through a similar situation. Mr. Bergstrom moved approval of all three of the Committee's recommendations, as stated in the Committee Report. Ms. Vanek seconded the motion. The motion passed. Mr. Bicker stated that staff is working on some amendments to the language to address some concerns of the Commissioner of Finance and that the revised position paper will be brought back for re-approval, tentatively at the June 2000 meeting. In response to questions from Mr. Bohan and Ms. Voss, Mr. Bicker clarified that the wording changes are technical in nature and shouldn't effect the legislation.

International Manager Committee Report
Mr. Kiedrowski referred members to Tab D of the meeting materials and noted that there are no recommendations from the Committee at this time. He noted that the four new international managers had been funded.

Alternative Investment Committee Report
Mr. Gudorf referred members to Tab E of the meeting materials and stated that the Committee is recommending an investment for the Basic Retirement Funds with an existing private equity manager, Crescendo Venture Management. He briefly described the fund and several members discussed the recent returns experienced in the private equity area.

Mr. Gudorf stated that the Committee is recommending another investment for the Basics, also with an existing private equity manager, DLJ Merchant Banking. He said this fund will seek to earn attractive returns through opportunistic purchases of limited partnership interests from existing limited partners.

Ms. Gudorf stated that the Committee is requesting pre-approval of a follow-on investment for the Basics with an existing private equity manager: Welsh, Carson Anderson & Stowe.

In response to questions from Mr. Gorence, Mr. Gudorf stated that the Committee examined Crescendo's strategy closely and felt comfortable making a larger commitment to their fund. He added that there may be investment opportunities within Minnesota that the fund could be involved in, as well as in Silicon Valley. Mr. Gorence moved approval of all three of the Committee's recommendations, as stated in the Committee Report. Ms. Voss seconded the motion. The motion passed.

Ms. Vanek noted that Lori Hacking, former director of PERA, has recently taken on a new position as Executive Director of the Ohio Public Employee's Retirement System.

The meeting adjourned at 2:50 P.M.

Respectfully submitted,

Howard Bicker

Howard J. Bicker
Executive Director

Tab A

LONG TERM OBJECTIVES
Period Ending 3/31/00

COMBINED FUNDS: $42.9 Billion	Result	Compared to Objective
Provide Real Return (10 yr.) Provide returns that are 3-5 percentage points greater than inflation over the latest 10 year period.	**14.1%** (1)	11.2 percentage points above CPI
Exceed Composite Index (5 yr.) Outperform a composite market index weighted in a manner that reflects the actual asset mix of the Combined Funds over the latest 5 year period.	**18.2%** (1)	0.4 percentage point above composite index
Exceed Median Fund (5 yr.) Provide returns that are ranked in the top half of universe of public and corporate plans over the latest 5 year period.	43rd percentile (2)	above the median fund in TUCS

BASIC RETIREMENT FUNDS: $21.9 Billion	Result	Compared to Objective
Exceed Composite Index (5 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 5 year period.	**18.6%**	0.1 percentage point above target

POST RETIREMENT FUND: $21.0 Billion	Result	Compared to Objective
Exceed Composite Index (5 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 5 year period.	**17.6%**	0.4 percentage point above target

(1) Reflects performance of Basic Funds only through 6/30/93, Combined Funds thereafter. Performance is calculated net of fees.

(2) The SBI's stated objective is to rank in the top half (above 50th percentile) of the comparative universe. The SBI will strive to achieve performance which ranks in the top third (above 33rd percentile). Performance is ranked gross of fees.

SUMMARY OF ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
July 1, 1999

	Active (Basics)	Retired (Post)	Total (Combined)
Liability Measures			
1. Current and Future Benefit Obligation	$20.7 billion	$13.1 billion	$33.8 billion
2. Accrued Liabilities	15.0	13.1	28.2
Asset Measures			
3. Current and Future Actuarial Value	$22.4 billion	$13.1 billion	$35.5 billion
4. Current Actuarial Value	15.3	13.1	28.5
Funding Ratios			
Future Obligations vs. Future Assets (3 ÷ 1)	108%	100%	105%
Accrued Liabilities vs. Current Actuarial Value (4 ÷ 2)	102%	100%	101%*

* 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; Cost plus one-third of the difference between cost and market value for Basics.

Actuarial Assumptions:

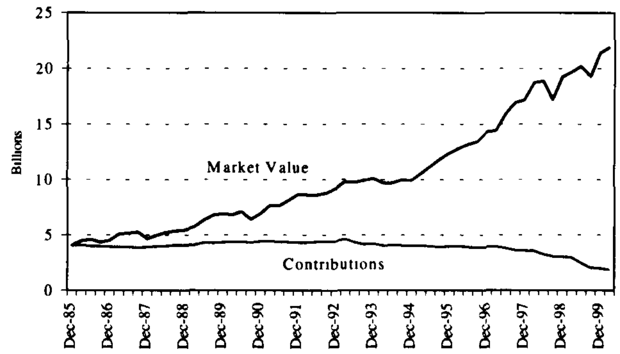
Salary Growth: 6.5%
Interest/Discount Rate: 8.5% Basics, 6.0% Post
Full Funding Target Date: 2020

EXECUTIVE SUMMARY

Basic Retirement Funds (Net of Fees)

Asset Growth

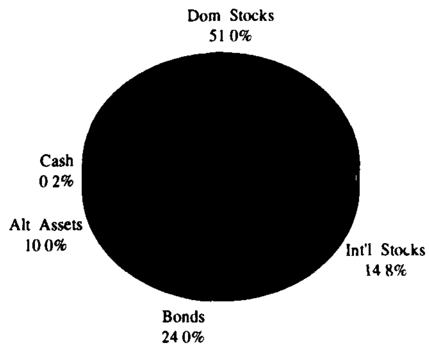
The market value of the Basic Funds increased 2.4% during the first quarter of 2000. Positive investment returns accounted for the increase. Net contributions were negative.



	Asset Growth During First Quarter 2000 (Millions)
Beginning Value	$ 21,365
Net Contributions	-98
Investment Return	618
Ending Value	$ 21,885

Asset Mix

During the quarter, the fund was rebalanced back to the asset allocation targets, which resulted in a decline in domestic and international stocks and an increase to bonds.

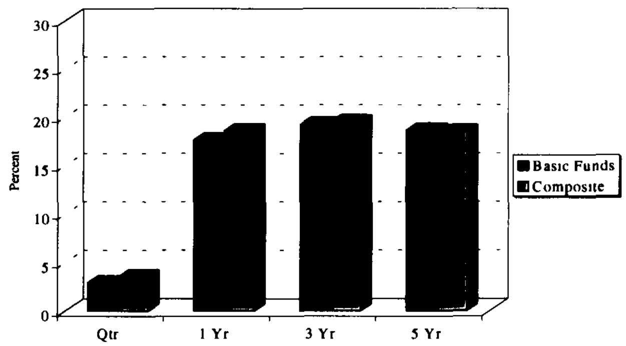


	Policy Targets	Actual Mix 3/31/00	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	51.0%	$11,159
Int'l. Stocks	**15.0**	14.8	3,246
Bonds	**24.0**	24.0	5,260
Alternative Assets*	**15.0**	10.0	2,189
Unallocated Cash	**1.0**	0.2	31
	100.0%	100.0%	$21,885

* Any uninvested allocation is held in domestic stocks

Fund Performance (Net of Fees)

The Basic Funds underperformed its composite market index for the quarter, the year, and three-year periods but remains ahead for the five year period.



Period Ending **3/31/00**

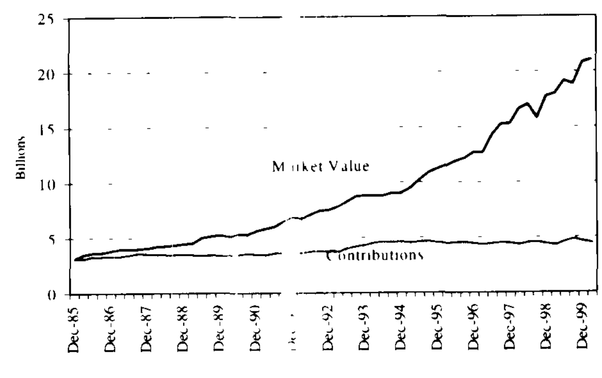
	Qtr.	1 Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Basics	**2.9%**	**17.6%**	**19.2%**	**18.6%**
Composite	3.5	18.6	19.5	18.5

EXECUTIVE SUMMARY

Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased 1.3% during the first quarter of 2000. The increase was the result of positive investment returns. Net contributions were negative.



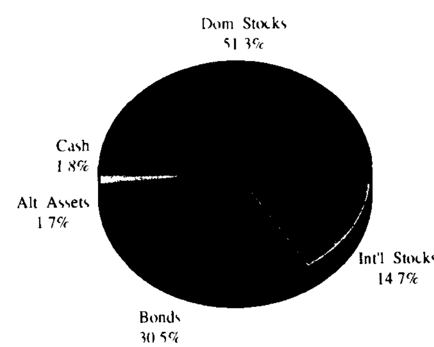
Asset Growth During First Quarter 2000 (Millions)

Beginning Value	$20,768
Net Contributions	-165
Investment Return	441
Ending Value	$21,044

Asset Mix

During the quarter, the fund was rebalanced back to the asset allocation targets, which resulted in a decline in domestic and international stocks and an increase to bonds.

	Policy Targets	Actual Mix 3/31/00	Actual Market Value (Millions)
Domestic Stocks	**50.0%**	51.3%	$10,800
Int'l Stocks	**15.0**	14.7	3,097
Bonds	**27.0**	30.5	6,418
Alternative Assets*	**5.0**	1.7	351
Unallocated Cash	**3.0**	1.8	378
	100.0%	100.0%	$21,044



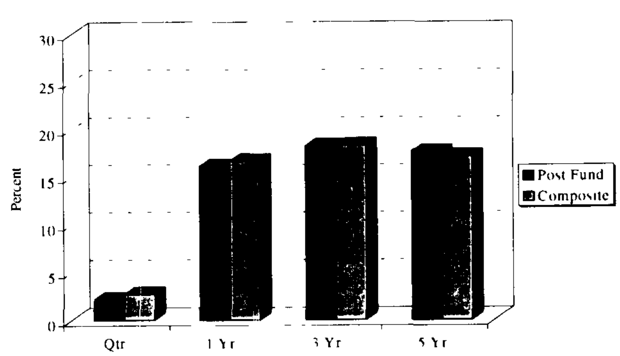
* Any uninvested allocation is held in bonds.

Fund Performance (Net of Fees)

The Post Fund underperformed its composite market index for the quarter, the year, and three-year periods but remains ahead for the five year period.

Period Ending 3/31/00

	Qtr	1 Yr	3 Yr (Annualized)	5 Yr (Annualized)
Post	**2.2%**	**16.1%**	**18.2%**	**17.6%**
Composite	2.7	16.7	18.3	17.2



EXECUTIVE SUMMARY
Stock and Bond Manager Performance
(Net of Fees)

Domestic Stocks

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

Period Ending 3/31/00

	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.
Dom. Stocks	**3.3%**	**21.5%**	**26.6%**	**25.4%**
Wilshire 5000	3.8	23.6	27.4	25.8

International Stocks

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

Period Ending 3/31/00

	Qtr.	1 Yr.	Annualized 3 Yr	5 Yr.
Int'l. Stocks	**-1.1%**	**28.3%**	**14.5%**	**13.7%**
Composite Index*	0.2	28.2	14.4	11.5

* The international benchmark is EAFE Free plus Emerging Markets Free (EMF). The weighting of each index fluctuates with market capitalization. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE-Free/13% EMF On 5/1/96 the portfolio began transitioning from 100% EAFE Free to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

Bonds

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

Period Ending 3/31/00

	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.
Bonds	**2.3%**	**2.0%**	**6.9%**	**7.5%**
Lehman Agg.	2.2	1.9	6.7	7.1

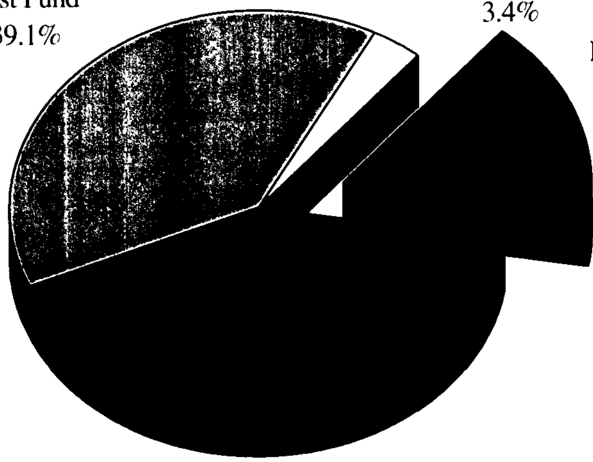
Wilshire 5000: The Wilshire 5000 stock index reflects the performance of all publicly traded stocks of companies domiciled in the U.S.

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.

EAFE-Free: The Morgan Stanley Capital International (MSCI) index of 20 stock markets in Europe, Australasia and the Far East. EAFE-Free includes only those securities foreign investors are allowed to hold

Emerging Markets Free: The Morgan Stanley Capital International index of 25 markets in developing countries throughout the world Emerging Markets Free includes only those securities foreign investors are allowed to hold.

EXECUTIVE SUMMARY
Funds Under Management



	3/31/00 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$21.9
Post Retirement Fund	21.0
Supplemental Investment Fund	1.8
Non Retirement Funds*	
Assigned Risk Plan	0.8
Permanent School Fund	0.6
Environmental Trust Fund	0.3
Tobacco Prevention Fund	0.4
Medical Education Fund	0.3
State Cash Accounts	6.5
Total	$53.6

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

First Quarter 2000
(January 1, 2000 - March 31, 2000)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 3/31/00				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	3.8%	23.6%	27.4%	25.8%	18.5%
Dow Jones Industrials	-4.6	13.4	20.4	23.7	17.9
S&P 500	2.3	18.3	27.6	26.9	18.9
Russell 2000	7.1	37.3	17.8	17.2	14.4
Domestic Fixed Income					
Lehman Aggregate*	2.2	1.9	6.7	7.1	8.0
Lehman Gov't./Corp.	2.7	1.7	6.8	7.1	8.1
3 month U.S. Treasury Bills	1.4	5.1	5.1	5.2	5.0
International					
EAFE**	-0.1	25.1	16.3	12.4	9.4
Emerging Markets Free***	2.4	51.6	1.2	5.2	12.1
Salomon Non U.S. Gov't. Bond	-1.2	-1.4	3.9	2.8	9.2
Inflation Measure					
Consumer Price Index****	1.7	3.7	2.3	2.5	2.9

* Lehman Brothers Aggregate Bond index. Includes governments, corporates and mortgages.

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

*** Morgan Stanley Capital International Emerging Markets Free index.

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The stock market, as represented by the Wilshire 5000, gained 3.8% in the first quarter. Growth stocks outperformed value stocks during the quarter despite a broader market in March and small-caps were ahead of large-cap issues. Technology generated the best returns, but suffered in terms of investor confidence toward the end of the quarter.

Performance among the different Wilshire Style Indices for the quarter is shown below:

Large Value	-0.2%
Small Value	4.1
Large Growth	6.2
Small Growth	12.3

The Wilshire 5000 increased 23.6% for the year ending March 31, 2000.

DOMESTIC BONDS

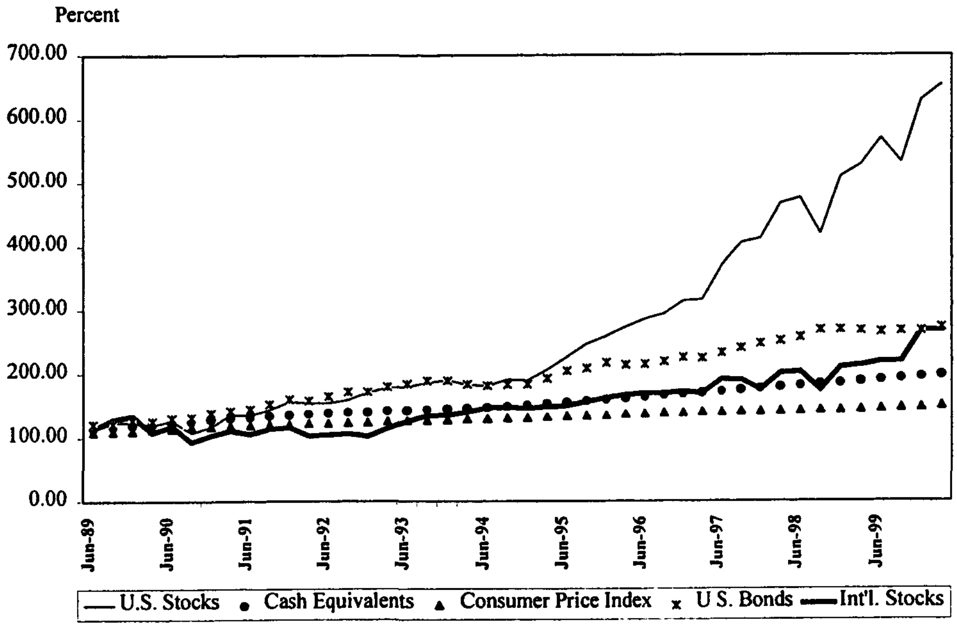
The bond market generated positive returns in the first quarter. Treasury bonds were the best performing sector of the Lehman Aggregate as yields in the intermediate and long end of the curve declined and the yield curve inverted. The corporate and mortgage sectors performed poorly relative to Treasuries as spreads widened during the quarter. Corporates suffered from negative sentiment and mortgages were hurt by increased volatility.

Overall, the Lehman Brothers Aggregate Bond Index returned 2.21% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	3.35%
Corporates	1.43
Mortgages	1.38

The Lehman Aggregate returned 1.87% for the latest year.

PERFORMANCE OF CAPITAL MARKETS
Cumulative returns



Indices used are: Morgan Stanley's Index of Europe, Australasia and the Far East (EAFE); Wilshire 5000 Stock Index; Lehman Brothers Aggregate Bond Index; 3 month Treasury Bills; and the Consumer Price Index.

FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, international stock markets (as measured by the EAFE-Free index) provided a return of –0.1% for the quarter. Performance of the major markets is shown below:

Japan	0.9%
United Kingdom	-5.5
Germany	4.9
France	2.9

The EAFE-Free index increased by 24.9% during the latest year.

The EAFE-Free index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 20 markets located in Europe, Australasia and the Far East. EAFE-Free includes only those securities foreign investors are allowed to hold. The major markets listed above comprise about 67% 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 2.4% for the quarter. The performance of the five largest stock markets in the index is show below:

Korea	-2.4%
Mexico	4.5
Taiwan	15.7
Brazil	5.2
India	17.6

The Emerging Markets Free index had a return of 51.6% for the year.

The Emerging Markets Free (EMF) index is compiled by MSCI and measures performance of 25 stock markets in Latin America, Asia, Africa and Eastern Europe. EMF includes only those securities foreign investors are allowed to hold. The markets listed above comprise about 57% of the value of the index

REAL ESTATE

U.S. property markets are in their seventh year of recovery and expansion. Although the cycle has reached a mature stage, market fundamentals remain healthy and appear likely to support an extended period of equilibrium.

PRIVATE EQUITY

U.S. private equity firms raised an unprecedented $95.5 billion for private equity limited partnerships of all types, from venture capital to buyouts in 1999. That represents a 3.6% increase from the upwardly revised 1998 total of $92.2 billion. It was the sixth consecutive record year for fundraising. So far, the year 2000 looks like another strong fundraising year.

RESOURCE FUNDS

During the first quarter of 2000, West Texas Intermediate crude oil averaged $28.77 per barrel compared to an average price of $24.51 per barrel during the fourth quarter of 1999. With the relatively high oil prices, oil companies continue to cautiously drill for oil and gas.

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.

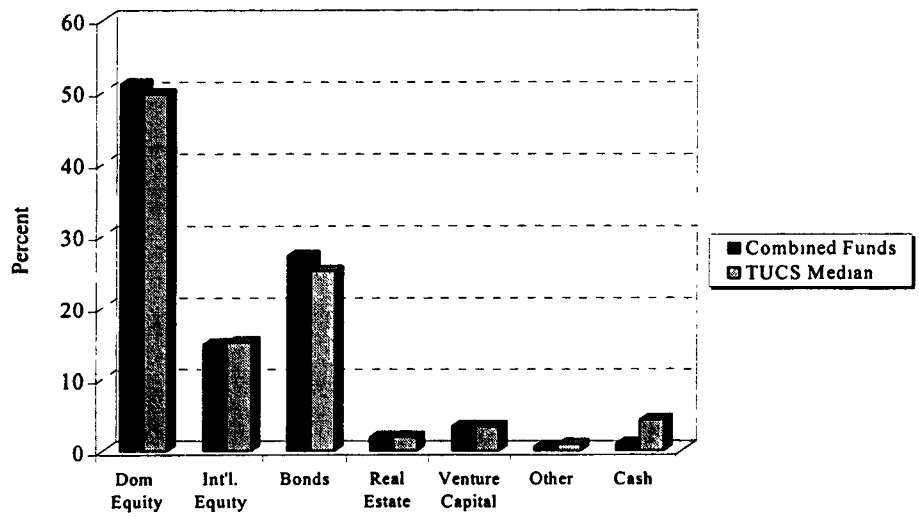
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On March 31, 2000, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$21,959	51.1%
International Stocks	6,343	14.8
Bonds	11,678	27.2
Alternative Assets	2,540	5.9
Unallocated Cash	409	1.0
Total	$42,929	100.0%

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



	Dom. Equity	Int'l Equity	Bonds	Real Estate	Venture Capital	Other	Cash
Combined Funds	51.1%	14.8%	27.2%	1.9%	3.4%	0.6%	1.0%
Median Allocation in TUCS*	49.7	15.1	25.1	1.9	3.4	0.9	4.3

* Public and corporate plans over $1 billion.

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:

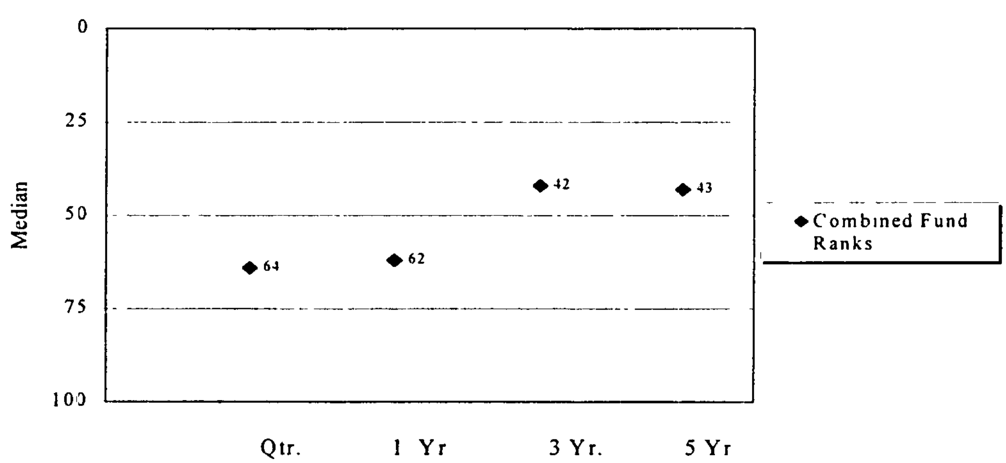
— **Differing Allocations.** Asset allocation will have a dominant effect on return. The allocation to stocks among the funds in TUCS typically ranges from 20-90%, a very wide range for meaningful comparison. In addition, it appears that many funds do not include alternative asset holdings in their reports 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.

The SBI's stated performance objective is that the Combined Funds will rank in the top half of the universe (above the 50th percentile) over the most recent five year period. The SBI will strive to achieve performance which ranks in the top third (above the 33rd percentile).



	Period Ending 3/31/00			
	Qtr.	Yr.	3 Yr.	5 Yr.
Combined Funds Percentile Rank in TUCS*	64th	62nd	42nd	43rd

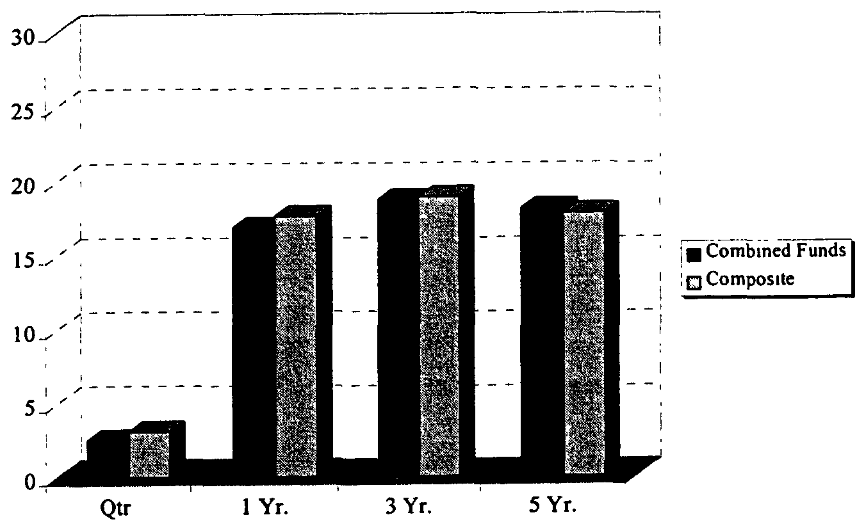
* Compared to public and corporate plans greater than $1 billion, gross of fees.

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* 1Q00
Domestic Stocks	Wilshire 5000	50.5%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	27.2*
Alternative Assets	Real Estate Funds	1.9*
	Venture Capital Funds	2.9*
	Resource Funds	0.5*
Unallocated Cash	3 Month T-Bills	2.0
		100.0%

* Alternative asset, bond 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 3/31/00

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.
Combined Funds**	2.5%	16.9%	18.8%	18.2%
Composite Index	3.1	17.7	18.9	17.8

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

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BASIC RETIREMENT FUNDS

Investment Objectives

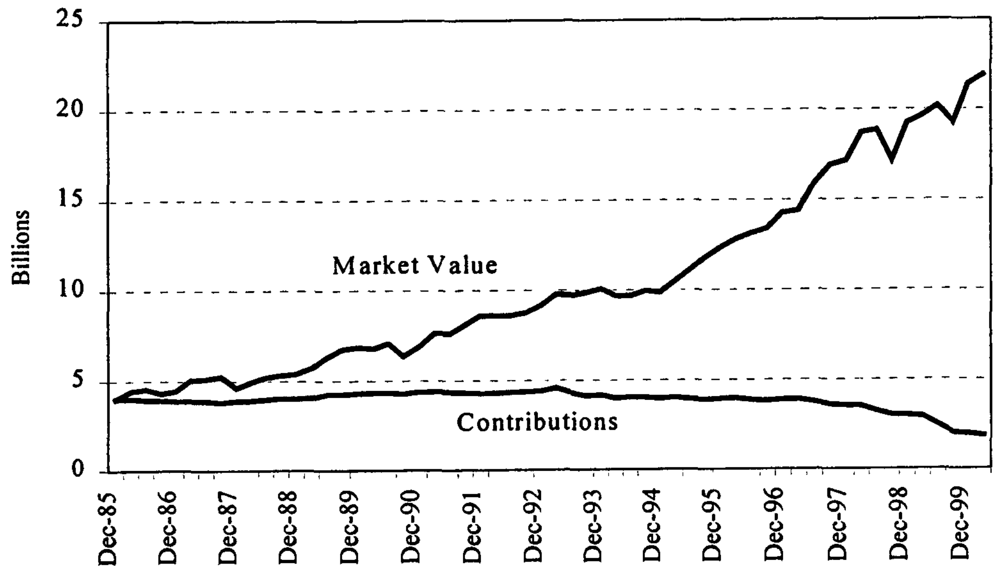
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately 300,000 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 Retirement Funds' assets increased 2.4% during the first quarter of 2000. Positive investment returns accounted for the increase during the quarter despite net negative contributions.



Last Five Years In Millions

	12/95	12/96	12/97	12/98	12/99	Latest Qtr. 3/00
Beginning Value	$9,890	$12,338	$14,275	$17,146	$19,244	$21,365
Net Contributions	-29	-59	-337	-539	-1,065	-98
Investment Return	2,477	1,996	3,208	2,637	3,186	618
Ending Value	$12,338	$14,275	$17,146	$19,244	$21,365	$21,885

BASIC RETIREMENT FUNDS
Asset Mix

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

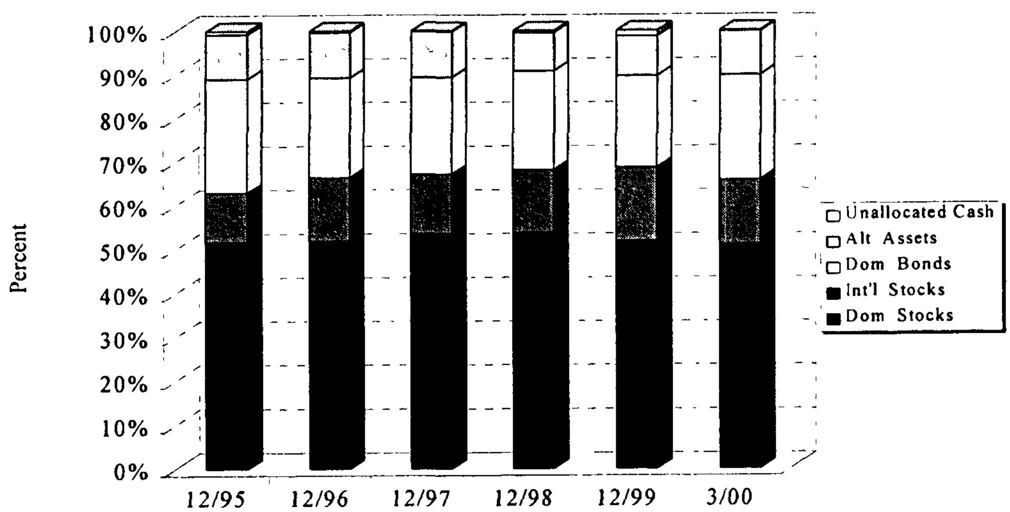
Domestic Stocks	45.0%
Int'l. Stocks	15.0
Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

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

In October 1995, the Board revised its long term asset allocation targets for the Basic Funds, increasing international stocks from 10% to 15% and decreasing domestic stocks from 50% to 45%. The change was implemented over several quarters.

Over the last year, the allocation to bonds increased due to a first quarter asset rebalancing from international and domestic equities. The allocation to domestic equities declined as a result of the asset rebalancing and underperformance for the year. International equity allocation increased slightly due to one-year outperformance.

During the quarter, the fund was rebalanced back to the asset allocation targets, which resulted in a decline in domestic and international stocks and an increase to bonds.



	Last Five Years					Latest Qtr.
	12/95	12/96	12/97	12/98	12/99	3/00
Domestic Stocks	51.7%	52.0%	53.6%	53.8%	51.9%	51.0%
Int'l. Stocks	11.3	14.5	13.6	14.4	16.8	14.8
Bonds	26.1	22.8	22.2	22.6	21 0	24.0
Real Estate	4.1	3.9	4.1	3.7	3.5	3.4
Private Equity	5.4	5.5	5.0	4.4	4.8	5.7
Resource Funds	0.7	1.0	1.4	0.7	0.8	0.9
Unallocated Cash	0.7	0.3	0.1	0.4	1.2	0.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

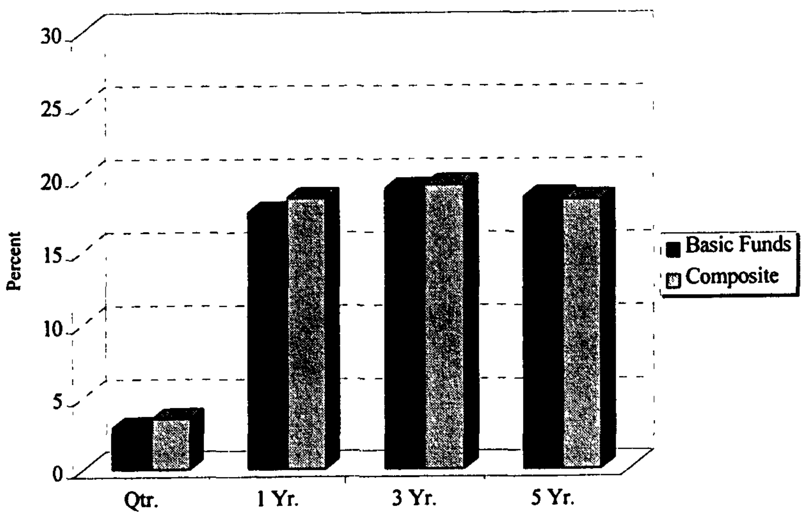
BASIC RETIREMENT FUNDS

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* 1Q00
Domestic Stocks	45.0%	Wilshire 5000	50.9%*
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Real Estate Funds	3.5*
		Private Equity Funds	4.8*
		Resource Funds	0.8*
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 3/31/00

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.
Basic Funds**	**2.9%**	**17.6%**	**19.2%**	**18.6%**
Composite Index	3.5	18.6	19.5	18.5

**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 page15 for the performance of these asset pools. Performance of the Basic Funds' 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 95,000 retirees receive monthly annuities from the assets of the Fund.

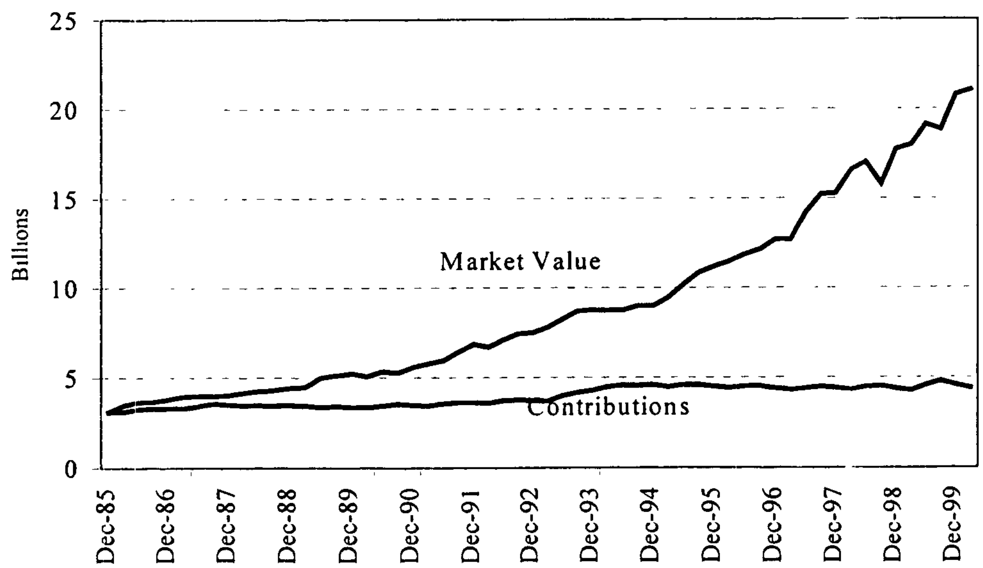
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis. If the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

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.

Asset Growth

The market value of the Post Retirement Fund increased by 1.3% during the first quarter of 2000.

The increase was the result of positive investment returns. Net contributions were negative.



Last Five Years
In Millions

	12/95	12/96	12/97	12/98	12/99	Latest Qtr. 3/00
Beginning Value	$9,001	$11,216	$12,705	$15,273	$17,743	$20,768
Net Contributions	-102	-94	23	-45	211	-165
Investment Return	2,317	1,583	2,545	2,515	2,814	441
Ending Value	$11,216	$12,705	$15,273	$17,743	$20,768	$21,044

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.

Domestic Stocks	50.0%
Int'l. Stocks	15.0
Bonds	27.0
Alternative Assets*	5.0
Unallocated Cash	3.0
Total	100.0%

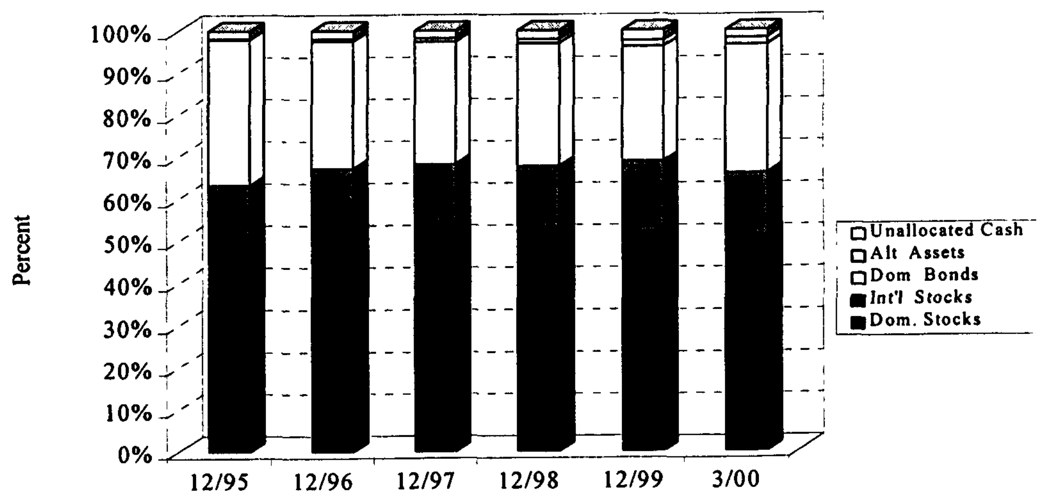
* Alternative assets include yield oriented investment vehicles. Any uninvested allocation is held in bonds.

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 1995, the Board revised its long term asset allocation targets for the Post Fund, increasing international stocks from 10% to 15% and decreasing bonds from 32% to 27%.

Over the last year, the allocation to bonds increased due to a first quarter asset rebalancing from international and domestic equities. The allocation to domestic equities declined as a result of the asset rebalancing and underperformance for the year. International equity allocation increased slightly due to one-year outperformance.

During the quarter, the fund was rebalanced back to the asset allocation targets, which resulted in a decline in domestic and international stocks and an increase to bonds.



	Last Five years					Latest Qtr.
	12/95	12/96	12/97	12/98	12/99	3/00
Dom. Stocks	51.9%	52.7%	54.7	53.2%	52.0%	51.3%
Int'l. Stocks	11.4	14.6	13.6	14.5	16.9	14.7
Bonds	34.7	30.2	29.1	29.2	27.2	30.5
Alt. Assets	0.2	0.6	0.9	1.1	1.5	1.7
Unallocated Cash	1.8	1.9	1.7	2.0	2.4	1.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

POST RETIREMENT FUND

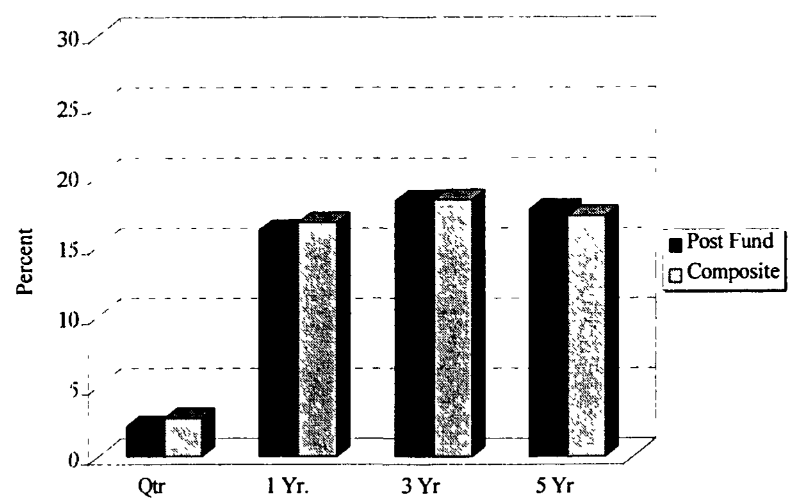
Total Fund Performance (Net of Fees)

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* 1Q00
Domestic Stocks	50.0%	Wilshire 5000	50.0%
Int'l. Stocks	15.0	Int'l. Composite	15.0
Bonds	27.0	Lehman Aggregate	30.5*
Alternative Assets	5.0	Real Estate Funds	0.4*
		Private Equity Funds	0.9*
		Resource Funds	0.2*
Unallocated Cash	3.0	3 Month T-Bills	3.0
	100.0%		100%

*Alternative assets and bond 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.

The asset mix of the Post Fund moved to a 50% stock allocation during fiscal year 1993.



	Qtr.	1 Yr.	3 Yr.	5 Yr.
	Period Ending 3/31/00		**Annualized**	
Post Fund**	**2.2%**	**16.1%**	**18.2%**	**17.6%**
Composite Index	2.7	16.7	18.3	17.2

** 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 page15 for the performance of these asset pools.

STOCK AND BOND MANAGERS

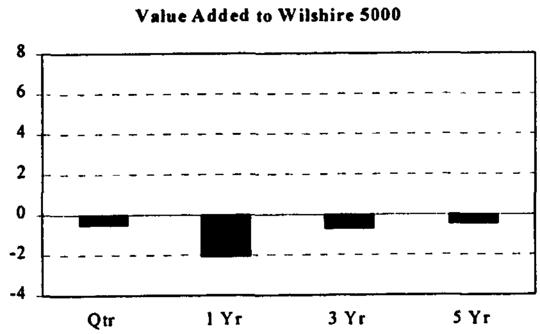
Performance of Asset Pools (Net of Fees)

Domestic Stock Pool

Target: Wilshire 5000
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 3/31/00

	Qtr.	Yr.	Annualized 3 Yrs.	5 Yrs.
Stock Pool	**3.3%**	**21.5%**	**26.6%**	**25.4%**
Wilshire 5000	3.8	23.6	27.4	25.8

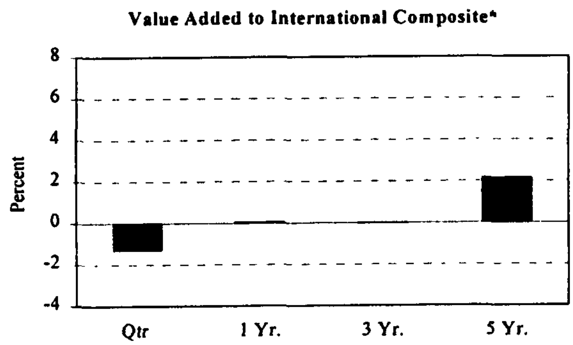


International Stock Pool

Target: Composite of EAFE-Free and Emerging Markets Free*
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 3/31/00

	Qtr.	Yr.	Annualized 3 Yr.	5 Yrs.
Int'l. Pool	**-1.1%**	**28.3%**	**14.5%**	**13.7%**
Composite Index*	0.2	28.2	14.4	11.5



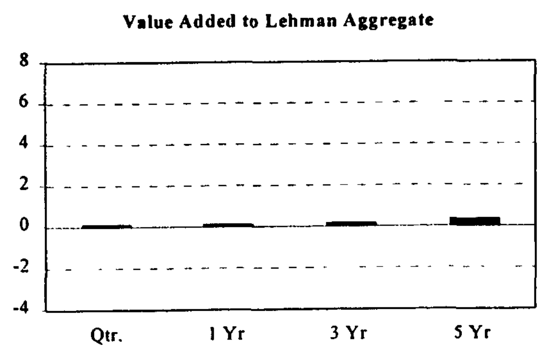
* The international benchmark is EAFE Free plus Emerging Markets Free (EMF). The weighting of each index fluctuates with market capitalization. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE-Free/13% EMF. On 5/1/96 the portfolio began transitioning from 100% EAFE to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

Bond Pool

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 3/31/00

	Qtr.	Yr.	Annualized 3 Yrs.	5 Yrs.
Bond Pool	**2.3%**	**2.0%**	**6.9%**	**7.5%**
Lehman Agg.	2.2	1.9	6.7	7.1



ALTERNATIVE ASSET MANAGERS
Performance of Asset Pools
(Net of Fees)

Real Estate Pool (Basic Funds only)

Expectation: Real estate investments are expected to exceed the rate of inflation by 3-5% 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, therefore, are relatively immature and returns may not be indicative of future results.

	Period Ending 3/31/00			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Real Estate	**2.8%**	**5.3%**	**16.4%**	**12.0%**
Inflation	1.7	3.7	2.3	2.5

Private Equity Pool (Basic Funds only)

Expectation: Private equity investments are expected to provide annualized returns at least 3% greater than historical public equity returns, over the life of the investment. This equates to an absolute return of approximately 13-14% annualized.

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

	Period Ending 3/31/00			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Private Equity	**17.8%**	**33.7%**	**25.1%**	**27.6%**

Resource Pool (Basic Funds only)

Expectation: Resource investments (primarily oil and gas) are expected to exceed the rate of inflation by 3-5% 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, therefore, are relatively immature and returns may not be indicative of future results.

	Period Ending 3/31/00			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Resource Funds	**1.3%**	**27.2%**	**4.4%**	**13.2%**

Yield Oriented Pool (Post Fund only)

Expectation: Yield oriented investments are expected to provide annualized returns at least 2% greater than historical public debt returns over the life of the investment. This equates to an absolute return of 10-11% annualized. The SBI began adding yield oriented alternative investments to the Post Fund in fiscal year 1996.

The SBI made its first commitment to the alternative investment program for the Post Fund in March 1994. All of the investments, therefore, are relatively immature and returns may not be indicative of future results.

	Period Ending 3/31/00			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Yield Oriented	**3.2%**	**9.6%**	**12.3%**	**13.1%**

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 the state's Deferred Compensation Plan, the 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, 2000 the market value of the entire Fund was $1.8 billion.

Investment Options

	3/31/00 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$681
Growth Share Account – an actively managed, all common stock portfolio.	$353
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$446
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$34
Bond Market Account – an actively managed, all bond portfolio.	$113
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$89
Fixed Interest Account – an option utilizing guaranteed investment contracts (GIC's), which offer a fixed rate of return for a specified period of time.	$88

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%	61.4%
Bonds	35.0	35.1
Unallocated Cash	5.0	3.5
	100.0%	100.0%

Period Ending 3/31/00

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Account	**3.3%**	**15.3%**	**19.3%**	**18.6%**
Composite*	3.2	14.9	19.0	18.2

* 60% Wilshire 5000/35% Lehman Aggregate Bond Index/5% T-Bills Composite.

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 3/31/00

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Account	**3.0%**	**20.6%**	**26.3%**	**24.9%**
Composite*	3.8	23.6	27.4	25.5

* 95% Wilshire 5000/5% T-Bills Composite through October 1996. 100% Wilshire 5000 since November 1996.

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

The investment objective of the Common Stock Index Account is to generate returns that match those of the U.S. stock market as a whole. The Account is designed to track the performance of the Wilshire 5000, a broad-based equity market indicator.

The Account is invested 100% in common stock.

Period Ending 3/31/00

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Account	**4.1%**	**23.7%**	**27.6%**	**25.9%**
Wilshire 5000	3 8	23.6	27.4	25.8

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 one-third of the Account is "passively managed" and is designed to track the return of 20 markets included in the Morgan Stanley Capital International index of Europe, Australasia and the Far East (EAFE-Free). 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 3/31/00

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yrs. (Annualized)
Total Account	**-1.1%**	**28.5%**	**14.5%**	**13.7%**
Composite*	0 2	28.2	14.4	11.5

* The international benchmark is EAFE Free plus Emerging Markets Free (EMF). The weighting of each index fluctuates with market capitalization. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE-Free/13% EMF On 5/1/96 the portfolio began transitioning 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 on the broad domestic bond market by investing in fixed income securities.

	Period Ending 3/31/00			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**2.3%**	**2.0%**	**6.9%**	**7.5%**
Lehman Agg.	2.2	1.9	6.7	7.1

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.

MONEY MARKET ACCOUNT

Investment Objective
The investment objective of the Money Market Account is to purchase short-term, liquid fixed income investments that pay interest at rates competitive with those available in the money market.

	Period Ending 3/31/00			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**1.5%**	**5.5%**	**5.6%**	**5.7%**
3 month T-Bills	1.4	5.1	5.1	5.2

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.

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.

	Period Ending 3/31/00			
		Annualized		
				Since
	Qtr.	1 Yr.	3 Yr.	5 Yr.
GIC Pool	1.5%	6.2%	6.3%	6.5%

Asset Mix
The Fixed Interest Account is invested primarily in stable value instruments which are guaranteed investment contracts (GIC's) and GIC type investments offered by major U.S. companies and banks. Contributions into the Account are deposited into a single pool of these investments which have varying maturities, typically 3 to 5 years. The pool has a credited interest rate that changes monthly.

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.

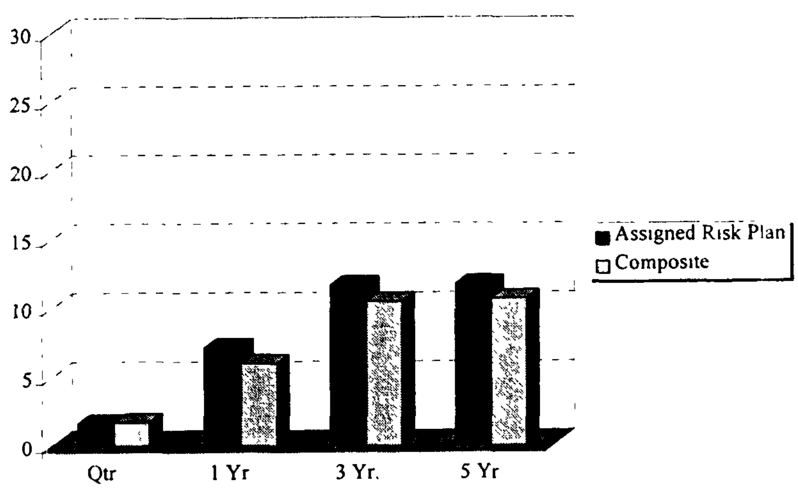
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream

	3/31/00 Target	3/31/00 Actual
Stocks	20.0%	32.8%
Bonds	80.0	67.2
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, 2000 the market value of the Assigned Risk Plan was $755 million.



Period Ending 3/31/00

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.
Total Fund*	1.6%	7.1%	11.7%	11.7%
Composite	1.7	6 0	10.5	10.7
Equity Segment*	2.1	17.1	26.8	26.1
Benchmark	2.3	17.9	27.4	26.8
Bond Segment*	1.4	3.0	6.2	6.8
Benchmark	1.5	3.0	6.3	6 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.

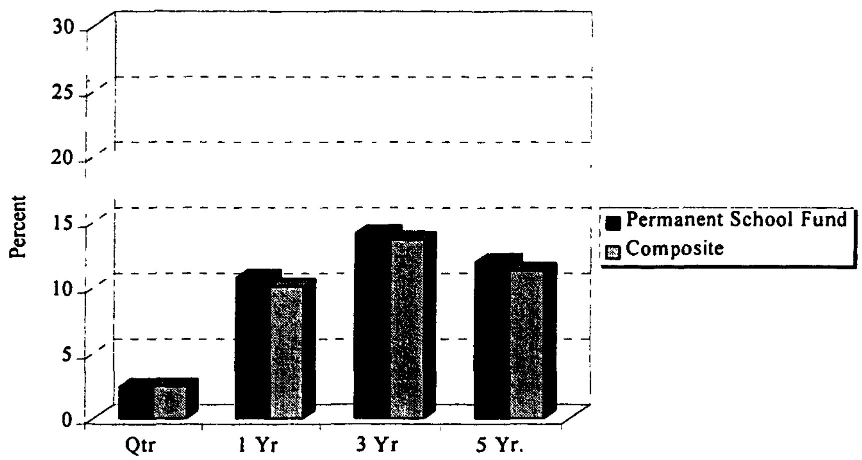
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income.

	3/31/00 Target	3/31/00 Actual
Stocks	50.0%	52.8%
Bond	48.0	45.7
Unallocated Cash	2.0	1.5
	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, 2000 the market value of the Permanent School Fund was $589 million.



	Period Ending 3/31/00			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund (1) (2)	**2.5%**	**10.7%**	**14.1%**	**11.9%**
Composite	2.4	10.0	13.6	11.2
Equity Segment (1) (2)	**2.3**	**17.8**	**N/A**	**N/A**
S&P 500	2.3	17.9	N/A	N/A
Bond Segment (1)	**2.6**	**2.7**	**7.1**	**8.0**
Lehman Aggregate	2.2	1.9	6.7	7.1

(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

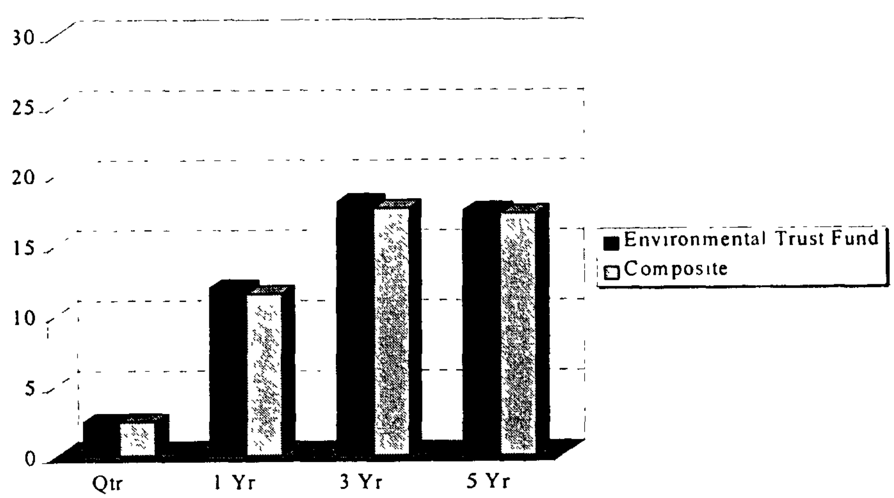
Investment Objective
The objective of the Environmental Trust Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

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, 2000 the market value of the Environmental Trust Fund was $317 million.

	3/31/00 Target	3/31/00 Actual
Stocks	70.0%	71.0%
Bonds	28.0	28.4
Unallocated Cash	2.0	0.6
	100.0%	100.0%



Period Ending 3/31/00	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund*	2.4%	11.9%	18.0%	17.4%
Composite	2 4	11.4	17.6	17.2
Equity Segment*	2 3	17.8	27.5	26.8
S&P 500	2 3	17.9	27.4	26.8
Bond Segment*	2 6	2 7	7.5	7.9
Lehman Agg	2.2	1.9	6.7	7.1

* Actual returns are calculated net of fees.

TOBACCO ENDOWMENT FUNDS

Investment Objectives
The investment objectives of the two Tobacco Endowment Funds, the Tobacco Prevention Fund (TPF) and the Medical Education Fund (MEF), are governed primarily by the constraints and goals for the Funds as established by statute. Annual earnings up to five percent of the market value of the Funds, measured each year at the beginning of the fiscal year for the Tobacco Prevention Fund and measured at the beginning of each quarter for the Medical Education Fund, may be distributed for expenditure. In addition, the principal of the Funds must remain inviolate and be returned to the State's general fund along with any remaining interest upon expiration of the Funds on June 30, 2015. The distributions from the TPF are used by the Commissioner of Health to fund public health initiatives. The distributions from the MEF are used for medical education at the University of Minnesota medical school.

Asset Mix
Effective July 1, 1999, the two endowment funds are invested in a laddered fixed income portfolio. This strategy offers the highest probability that the endowment funds will earn five percent annually while keeping the principal inviolate.

Investment Management
SBI staff manages all assets of the two endowment funds. The fixed income portfolio is invested entirely in U.S. Treasury and Government Agency bonds with maturities no greater than the expiration date of the funds. The maturities of the bonds are spread out over the entire life of the endowment funds. This strategy will minimize reinvestment risk and fluctuations in the market values of the funds while adhering to the investment objectives.

Market Value
On March 31, 2000 the market value of the Tobacco Prevention Fund was $420.1 million and the market value of the Medical Education Fund was $270.0 million. These total market values include contributions of $135.3 million and $86.5 million received at the end of December 1999 to each fund respectfully.

Period Ending 3/31/00

Annualized Yield for the current quarter:	Tobacco Prevention Fund	6.28%
	Medical Education Fund	6.38%
Market Value of Funds as of the **beginning** of the current quarter (millions):	Tobacco Prevention Fund	$414.9
	Medical Education Fund	264.0

ANNUAL DATA: TOBACCO ENDOWMENT FUNDS

	Annualized Yield:	Market Value at beginning of FY (millions):	Spendable Earnings Credited from the Fund (millions):
FY99:			
(TPF)	**7.41 %**	**$281.1**	**$7.5**
(MEF)	**7.40**	**180.7**	**7.8**

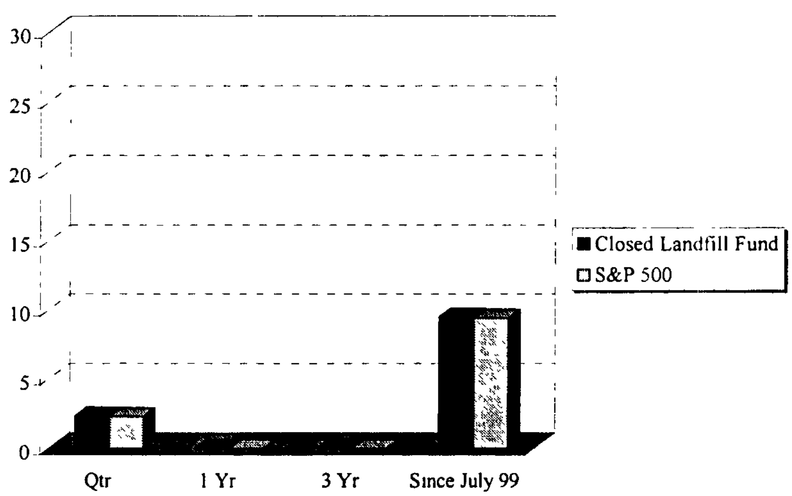
CLOSED LANDFILL INVESTMENT FUND

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

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

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

Market Value
On March 31, 2000, the market value of the Closed Landfill Investment Fund was $5.6 million.



Period Ending 3/31/00

	Qtr.	1 Yr.	3 Yr.	Since 7/1/99
Total Fund (1)	2.3%	N/A	N/A	9.5
S&P 500 (2)	2.3	N/A	N/A	9.4

(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.

Period Ending 3/31/00

	Market Value (Millions)	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Treasurer's Cash Pool*	**$5,655**	1.4%	5.2%	5.5%	5.6%
Custom Benchmark**		1.4	4.7	5.1	5.4
Trust Fund Cash Pool*	49	1.5	5.5	5.6	5.7
Custom Benchmark***		1.3	4.8	5.0	5.4
3 month T-Bills		1.4	5.1	5.1	5.2

* Actual returns are calculated net of fees.

** Beginning in January 1997, the Treasurer's Cash Pool is measured against a blended benchmark consisting of the Lehman Brother's 1 to 3 year Government Index for the first $1.2 billion and the IBC all Taxable Money Fund Index for the balance of the portfolio. From April 1993 through December 1996, the benchmark was 75% State Street Short Term Investment Fund/25% 1-3 year Treasuries.

*** Beginning in January 1997, the Trust Fund Pool is measured against the IBC All Taxable Money Fund Index. 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, 2000 (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	17,500	0	2,105,128	0	4,464,836	1,298,731	875,821	8,762,016
	0.20%		24.03%		50.96%	14.81%	10.00%	100%
Public Employees Retirement Fund	3,731	0	1,229,670	0	2,607,165	758,628	510,986	5,110,180
	0.07%		24.06%		51.02%	14.85%	10.00%	100%
State Employees Retirement Fund	1,612	0	1,138,983	0	2,419,864	703,839	476,316	4,740,614
	0.03%		24.03%		51.05%	14.84%	10.05%	100%
Public Employees Police & Fire	1,651	316	641,665	0	1,361,216	396,042	266,054	2,666,944
	0.06%		24.06%		51.04%	14.86%	9.98%	100%
Highway Patrol Retirement Fund	98	0	69,912	0	148,228	43,131	29,052	290,421
	0.03%		24.07%		51.04%	14.86%	10.00%	100%
Judges Retirement Fund	9	0	6,341	0	13,444	3,912	2,635	26,341
	0.03%		24.07%		51.04%	14.86%	10.00%	100%
Correctional Employees Retirement	96	0	67,854	0	143,866	41,862	28,197	281,875
	0.03%		24.07%		51.04%	14.86%	10.00%	100%
Public Employees Correctional	6,830	0	0	0	0	0	0	6,830
	100.00%		0.00%		0.00%	0.00%	0.00%	100%
TOTAL BASIC FUNDS	31,527	316	5,259,553	0	11,158,619	3,246,145	2,189,061	21,885,221
	0.14%	0.00%	24.03%		50.99%	14.84%	10.00%	100%
POST RETIREMENT FUND	378,316	0	6,418,184	0	10,799,702	3,096,994	350,772	21,043,968
	1.80%		30.50%		51.32%	14.71%	1.67%	100%
TOTAL BASIC AND POST	409,843	316	11,677,737	0	21,958,321	6,343,139	2,539,833	42,929,189
	0.95%	0.00%	27.20%		51.15%	14.78%	5.92%	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	23,541 3.45%	239,450 35.13%	0	0	418,528 61.42%	0	0	681,519 100%
Growth Share Account	0	0	0	0	352,758 100.00%	0	0	352,758 100%
Money Market Account	24,862 100.00%	0	0	0	0	0	0	24,862 100%
Common Stock Index	0	0	0	0	445,506 100.00%	0	0	445,506 100%
Bond Market Account	0	0	112,838 100.00%	0	0	0	0	112,838 100%
International Share Account	0	0	0	0	0	34,037 100.00%	0	34,037 100%
Fixed Interest Account	1,468 1.67%	0	86,425 98.33%	0	0	0	0	87,893 100%
Money Market Deferred Comp	63,802 100.00%	0	0	0	0	0	0	63,802 100%
TOTAL SUPPLEMENTAL FUNDS	113,673 6.30%	239,450 13.28%	199,263 11.05%	0	1,216,792 67.48%	34,037 1.89%	0	1,803,215 100%
TOTAL RETIREMENT FUNDS	523,516 1.17%	239,766 0.54%	11,877,000 26.55%	0	23,175,113 51.81%	6,377,176 14.25%	2,539,833 5.68%	44,732,404 100%

	Cash and Short Term Securities	Bond Internal	Bond External	Stock Internal	Stock External	External Int'l	Alternative Assets	Total
ASSIGNED RISK PLAN	11,729	0	497,221	0	246,405	0	0	755,355
	1.55%		65.83%		32.62%			100%
ENVIRONMENTAL FUND	1,910	90,038	0	224,945	0	0	0	316,893
	0.60%	28.41%		70.99%				100%
PERMANENT SCHOOL FUND	9,005	269,005	0	310,585	0	0	0	588,595
	1.53%	45.70%		52.77%				100%
TOBACCO SETTLEMENT POOL	3,632	686,413	0	0	0	0	0	690,045
	0.53%	99.47%						100%
CLOSED LANDFILL INVESTMENT	6	0	0	5,611	0	0	0	5,617
	0.11%			99.89%				100%
TREASURERS CASH	5,684,347	0	0	0	0	0	0	5,684,347
	100.00%							100%
HOUSING FINANCE AGENCY	23,711	236,660	0	0	0	0	0	260,371
	9.11%	90.89%						100%
MINNESOTA DEBT SERVICE FUND	61,466	168,343	0	0	0	0	0	229,809
	26.75%	73.25%						100%
MISCELLANEOUS ACCOUNTS	179,145	155,135	0	36,174	0	0	0	370,454
	48.36%	41.88%		9.76%				100%
GRAND TOTAL	6,498,467	1,845,360	12,374,221	577,315	23,421,518	6,377,176	2,539,833	53,633,890
	12.12%	3.44%	23.07%	1.07%	43.67%	11.89%	4.74%	100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: May 30, 2000

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, 2000 is included as **Attachment A**.

A report on travel for the period from February 16, 2000 – May 15, 2000 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

The SBI has been designated lead plaintiff in a class action suit against Mercury Finance Corporation. SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on June 7, 2000.

4. Minnesota College Savings Plan Contract

At its June 15, 1999 meeting, the Board approved the retention of a subsidiary of Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) to provide services for the Minnesota College Savings Plan (the Program). The contract terms were modeled after those for the state's 457 and 403(b) programs. Due to the unique characteristics of the Program, which is a qualified savings plan under the provisions of section 529 of the Internal Revenue Code, staff and legal counsel have negotiated revised terms and suggest the Board approve the revised terms. A copy of the revised contract is **Attachment D**.

In addition, it will be necessary to establish an investment option for the state matching grant funds. It is anticipated that the matching funds will be invested in a conservative option that credits a fixed return. Further, TIAA-CREF recommends that the SBI add additional investment options to the Program. These options are an all equity option invested in TIAA-CREF mutual funds and a fixed option based on a funding agreement invested by TIAA-CREF Life Insurance Company that will offer fixed returns to Program participants. A copy of the TIAA-CREF recommendation is **Attachment E**. Staff may need to make certain modifications to these options.

During the initial work in structuring the Program, it was understood that offering a set of investment options was not allowable under section 529. Since that time, other states have added options without objection from the Internal Revenue Service and at least one state has received a favorable private letter ruling on the matter. By offering a range of investment choices, the Program should appeal to a wider audience. With Board approval, staff and legal counsel will negotiate an amendment or amendments regarding the investment of the state matching grant funds and the addition of investment options to the Program.

RECOMMENDATION

Staff recommends that the Board adopt the following resolution:

Now, therefore, be it resolved that the Board authorize the executive director, with assistance from legal counsel: (1) to execute a contract with TIAA-CREF Tuition Financing, Inc., in substantially the form presented to the SBI, with such changes or additions as the executive director or legal counsel shall deem necessary or advisable; (2) to negotiate and execute an amendment or amendments to the contract adding additional investment options to the Minnesota College Savings Plan; and (3) to prepare and execute such other documents as may be necessary for Program implementation.

5. **Update on Tobacco Information**

The resolution adopted by the Board at its September 2, 1998 meeting required active managers to divest by September 2001 holdings in stock of companies that derive at least fifteen percent of revenues from tobacco products

From December 31, 1999 to March 31, 2000 shares in SBI active stock portfolios were reduced by 344,300 shares, dropping from approximately 2.3 million shares to approximately 1.9 million shares. The market value of these holdings decreased from approximately $47 million to approximately than $36 million. Tables showing the holdings for the SBI active and semi-passive managers are in **Attachment F**.

ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 2000 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH APRIL 30, 2000

ITEM	FISCAL YEAR 2000 BUDGET	FISCAL YEAR 2000 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,812,000	$ 1,321,116
SEVERENCE PAYOFF	30,000	226
WORKERS COMPENSATION INSURANCE	1,000	640
MISCELLANEOUS PAYROLL	1,000	0
SUBTOTAL	**$ 1,844,000**	**$ 1,321,982**
STATE OPERATIONS		
RENTS & LEASES	126,000	107,108
REPAIRS/ALTERATIONS/MAINTENANCE	30,000	15,619
PRINTING & BINDING	20,000	15,100
PROFESSIONAL/TECHNICAL SERVICES	35,000	1,990
COMPUTER SYSTEMS SERVICES	0	9,529
COMMUNICATIONS	30,000	22,666
TRAVEL, IN-STATE	3,000	466
TRAVEL, OUT-STATE	65,000	40,298
SUPPLIES	50,000	49,186
EQUIPMENT	50,000	46,840
EMPLOYEE DEVELOPMENT	15,000	14,269
OTHER OPERATING COSTS	42,000	2,812
SUBTOTAL	**$ 466,000**	**$ 325,883**
TOTAL GENERAL FUND	**$ 2,310,000**	**$ 1,647,865**

ATTACHMENT B

STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel February 16, 2000 – May 15, 2000

Purpose	Name(s)	Destination and Date	Total Cost
Staff Conference: "Public Funds Summit" sponsored by Opal Financial Group	H. Bicker	Phoenix, AZ 1/29-2/2	$209.00
Staff Conference: Alternative Investments VII, "Making Waves in the New Century" sponsored by Pensions 2000	H. Bicker	Palm Beach, FL 2/26-2/29	$1,331.00
Manager Monitoring Alternative Investment Managers: Blackstone, DLJ, Warburg Pincus Annual Meeting, Welsh, Carson Anderson & Stowe	A. Christensen	New York, NY 2/29-3/2	$1,218.00
Master Custodian: State Street Bank & Trust	D. Griebenow	Boston, MA 3/8-3/9	$1,158.20
Staff Conference: "5th Annual Public Funds Board Summit" sponsored by Information Management Network	H. Bicker	Phoenix, AZ 3/8-3/15	$1,055.04
Staff Conference: National Association of State Investment Professionals	L. Buermann M. Menssen	New Orleans, LA 3/18-3/22	$3,402.88

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring Domestic Equity Emerging Managers: CIC Asset Mgmt. **Manager Monitoring Fixed Income Managers:** Metropolitan West Asset Mgmt., Western Asset Mgmt. **Staff Conference:** State Street Client Conference	M. Perry	Los Angeles, CA 3/22-3/30	$778.82
Staff Conference: Institutional Limited Partners Association	J. Griebenow	Atlanta, GA 3/30-3/31	$1,156.00
Manager Monitoring Domestic Equity Manager: Barclays Global Investors **Manager Search Domestic Equity Managers:** Hahn Capital Mgmt., Pillar Point Equity Mgmt. **Staff Conference:** BARRA Equity Portfolio Management	S. Gleeson	San Francisco, CA 3/30-4/5	$1,522.43
Staff Conference: Pension Executive Roundtable	H. Bicker	New York, NY 4/5-4/6	$870.00
Manager Monitoring International Equity Manager: INVESCO Global Asset Mgmt. **Staff Conference:** "The National Equities Summit" sponsored by Frank J. Fabozzi Inc./ Information Mgmt. Network	T. Brusehaver-Derby	Atlanta, GA Orlando, FL 4/6-4/12	$2,624.78

Purpose	**Name(s)**	**Destination and Date**	**Total Cost**
Manager Monitoring: Alternative Investment Managers: GTCR Golder Rauner Annual Meeting, Thoma Cressey	Andy Christensen	Chicago, IL 4/17-4/18	$587.00
Manager Search: Alternative Investment Managers: Willis Stein			
Manager Monitoring: Alternative Investment Managers: Merit Energy Company Annual Partners Meeting	John Griebenow	Dallas, TX 4/24-4/26	$474.00
Manager Monitoring: Alternative Investment Managers: Crescendo, Fox Paine, Hellman & Friedman, KKR, RCBA	Andy Christensen	San Francisco, CA Palm Springs, CA Ontario Canada 4-26-5/2	$1,696.50
Staff Conference "Asset Allocation Summit" sponsored by Opal Finance Group	Jim Heidelberg	Kiawah Island, SC Atlanta, GA 5/7-5/10	$1,926.44

ATTACHMENT C

Bills of Interest to the Minnesota State Board of Investment
2000 Legislative Session
Includes Action Through 5/17/00

Description of Bill	**HF/SF # and Author**	**Current Status**
SBI Housekeeping Bill - Includes tobacco endowment funds investment flexibility	SF 2795 (Metzen)	Chapter 392, signed by Governor 4/14
Omnibus Pension Bill - 403(b) Annuity for Teachers; Modifies SBI selection of authorized vendors for employer match opportunity	SF 2796 (Pogemiller)	Chapter 461 (Article 13) signed by Governor 5/15
Workers Compensation Bill - Removes $325+million from Assigned Risk Plan and places in Special Compensation Fund	SF 3644 (Novak)	Chapter 447, signed by Governor 4/27
Post Retirement Fund Bill - 10 year amortization of investment gains from 5 years	SF 2674 (Stumpf) **Laid over for interim study**	Referred to Govt'l Operations

LEGISLATIVE REPORT

Several bills of interest to the State Board of Investment were passed during the 2000 legislative session.

SBI Administrative bill

The SBI's administrative bill was enacted as Laws of Minnesota 2000, Chapter 392. The law contains the following provisions:

Stock Exchanges

Currently, the SBI may invest in stock of any corporation organized under the laws of the US or Canada or any corporation listed on the New York Stock Exchange or the American Stock Exchange. New language clarifies that the SBI may invest funds in any exchange "regulated by an agency of the United States or Canadian national government". The expanded language provides the SBI with additional flexibility to invest where it can obtain the lowest cost transactions to benefit retirees and beneficiaries.

Private Equity Investment Vehicles

The structure of investment pools that bring venture capital investment opportunities to institutional investors has changed over time. The variety of legal structures has expanded. The new law broadens the statutory language to clarify that the SBI may participate in this wider variety of legal structure while at the same time leaving in place the statutory restrictions that pertain to the vehicles currently used. These restrictions include the requirement that there be at least four other investors, that the SBI participation be no more than 20 percent and that the SBI may not engage in any activity as a limited partner that exposes the SBI to general liability.

Closed end Mutual Funds

The SBI has had authority to invest in open-end mutual funds. The new law authorizes the SBI to invest in closed-end mutual funds. The SBI will use the expanded authority on a selective basis to take advantage of specific opportunities as they may become available.

Tobacco Endowment Funds

The 1999 legislation that established the two tobacco funds specified that the principal must remain inviolate and that only earnings from the funds could be used for expenditures. These restrictive provisions limited the investment options available to the SBI, resulting in the tobacco funds being invested entirely in a laddered fixed income portfolio.

At its March 2000 meeting, the Board approved a recommendation to change the asset allocation of the tobacco endowment funds to 50 percent equity/ 50 percent fixed income, subject to successful passage of legislation to increase investment flexibility.

With enactment of the new law staff will be changing the asset allocation of the Tobacco Endowment Funds to 50 percent equity/ 50 percent fixed income as provided in the revised Tobacco Fund Investment Policy Paper approved by the Board at its March 8, 2000 meeting.

Omnibus Pension Bill

Laws of Minnesota 2000, Chapter 461, Article 13 changes the SBI's responsibilities with respect to the 403(b) annuity employer match opportunity for school districts. The law repeals the subdivision requiring selection of qualified companies. Instead, the SBI is required to review the financial status and investment products of product providers who request the review and to provide the information to parties who request it.

Workers Compensation Bill and the Assigned Risk Plan

The 2000 Legislature has taken action to remove surplus assets from the Workers Compensation Assigned Risk Plan. Laws of Minnesota 2000, Chapter 447, Section 24 removes $325 million of assets and requires transfer of the total to the workers compensation special compensation fund by July 10, 2000. Laws of Minnesota 2000, Chapter 490, Article 13, Section 19 removes $110 million from the Assigned Risk Plan and requires transfer to the general fund July 15, 2000. In addition, Laws of Minnesota 2000, Chapter 488, Article 13, Section 1 removes $15 million from the Plan and requires transfer to the Minnesota Comprehensive Health Association by January 15, 2001.

The legislative actions leave approximately $300 million of assets in the Assigned Risk Plan. Preliminary analysis of the liabilities of the Plan suggests that the remaining assets should be invested in a fixed income portfolio, because the long-term liabilities are now a small portion of total liabilities.

The changes mean that GE Asset Management should be terminated and the fixed income portfolio managed by Voyageur Asset Management should be reduced in size and slightly restructured to meet a somewhat different benchmark. The assets to be transferred into the special compensation fund will be invested in the Invested Treasurer's Cash pool.

Staff is working with the Department of Commerce, which manages the Plan, and Park Glen, the firm retained by Commerce as the third party administrator, to identify asset and liability totals.

OH&S
DRAFT #4
05/03/00

MANAGEMENT AGREEMENT

by and between

MINNESOTA STATE BOARD OF INVESTMENT

and

TIAA-CREF TUITION FINANCING, INC.

Dated as of April __, 2000

MANAGEMENT AGREEMENT

This **MANAGEMENT AGREEMENT** (this "Agreement"), dated as of April __, 2000, is entered into by and between the MINNESOTA STATE BOARD OF INVESTMENT (the "Board") and TIAA-CREF TUITION FINANCING, INC., a Delaware corporation ("TFI").

W I T N E S S E T H:

WHEREAS, Minnesota Statutes 136A.241 through 136A.245, as amended from time to time (the "Statute"), provides for the establishment of a qualified state tuition program under Section 529 of the United States Internal Revenue Code of 1986, as amended from time to time entitled the Minnesota College Savings Plan (the "Plan");

WHEREAS, pursuant to Minnesota Statute 136A.244, the Board is charged with investing the money deposited in accounts in the Plan and the Board is authorized to contract with TFI to provide the investment management services contemplated hereby;

WHEREAS, pursuant to Minnesota Statute 136A.243, the director of the Minnesota Higher Education Services Office is charged with administering the Plan and the Office is authorized to contract with TFI to provide the program management services contemplated by the Management Agreement, dated as of the date hereof, between the Office and TFI (the "Office Management Agreement");

WHEREAS, TFI will perform the various investment management and other services as more fully referred to and described below in the implementation and operation of the Plan.

NOW THEREFORE, in consideration of the foregoing and of the mutual promises set forth herein, and intending to be legally bound hereby, the Board and TFI hereby agree as follows:

1. DEFINITIONS; RULES OF CONSTRUCTION.

(a) Definitions.

The following terms used in this Agreement will have the respective meanings set forth below:

"Account" shall mean a separate account established in accordance with the Statute to fund Qualified Higher Education Expenses.

"Account Owner" shall mean an organization described in Section 501(c)(3) of the Code that is exempt from federal income taxation pursuant to Section 501(a) of the Code, an individual, firm, corporation, a state or local government organization, or a legal representative of any of the foregoing who has entered into a Participation Agreement pursuant to the Statute for the advance payment of higher education costs on behalf of a Beneficiary.

"Administrative Fund" shall mean the portion of the assets of the Plan held in a separate account of the Plan established to make provision for the payment of costs of administration, investment management and related tasks of the Plan in accordance with Sections 136A.243(9) and 136A.244(4) of the Statute.

"Age Band" shall mean each portion of the assets of the Plan established for Beneficiaries born in specified years in accordance with the Allocation Guidelines.

"Agreement" shall mean this Management Agreement.

"Allocation Guidelines" shall have the meaning set forth in Section 5(b).

"Applicable Law" shall mean all applicable laws, judgments, decrees, injunctions, writs and orders of any court, tribunal, arbitrator or Governmental Authority and rules, regulations, orders, licenses and permits of any Governmental Authority.

"BFDS" shall mean Boston Financial Data Services, Inc., a Massachusetts corporation.

"Beneficiary" shall have the meaning set forth in the Statute on the date hereof.

"Board" shall have the meaning set forth in the recitals of this Agreement.

"Business Day" shall mean a day on which the New York Stock Exchange is open for trading.

"Code" shall mean the United States Internal Revenue Code of 1986, as amended from time to time.

"Confidential Information" shall have the meaning set forth in Section 14(a).

"Early Termination Event" shall have the meaning set forth in Section 17(a).

"Final Termination Date" shall mean the date on which TFI no longer holds any assets under this Agreement and TFI no longer provides Services with respect to any Accounts.

"Governmental Authority" shall mean any federal, state, local, municipal or other governmental department, commission, district, board, bureau, agency, regulatory body, court, tribunal or other instrumentality (or any officer or representative thereof) of competent jurisdiction.

"Indemnified Party" shall have the meaning set forth in Section 16(b).

"Indemnitor" shall have the meaning set forth in Section 16(b).

"IRS" shall mean the United States Internal Revenue Service.

"IRS Letter Ruling" shall have the meaning set forth in Section 9(b)(i).

"Losses" shall mean all losses, costs, claims, causes of action, liabilities, penalties, damages and expenses (including, without limitation, reasonable attorneys' fees and disbursements), excluding consequential, punitive and special damages.

"Management Fee" shall have the meaning set forth in Section 6(a) of the Office Management Agreement.

"Matching Grant" shall mean a matching grant made to the Matching Grant Fund for the benefit of a qualifying Account in accordance with Minnesota Statute 136A.245.

"Matching Grant Fund" shall mean the fund held and managed by the Office and the Board for the deposit of Matching Grants.

"Material Adverse Effect" shall mean a material adverse effect on (a) the business, operations or financial condition of TFI, the Office, the Board or the Plan, (b) the ability of any party to this Agreement to perform its material obligations under this Agreement or (c) the validity or enforceability of a material provision of this Agreement or the material rights or remedies of any party to this Agreement.

"Media Materials" shall mean the Program Logo, any slogan developed specifically for the Plan, and any trade names, trade marks or service marks created specifically for the Plan, and any copyrighted materials relating solely or primarily to the Plan, including materials contained in the Program Disclosure Booklet that are related specifically to the State, the Office, the Board or the Plan, web site content related specifically to the Plan (other than web site elements set forth in Section 13) and marketing, advertising and public relations materials that are specific to the Plan.

"Money Market Fund" shall have the meaning set forth in Section 4(a).

"Mutual Funds" shall mean the TIAA-CREF Institutional Growth Fund, the TIAA-CREF Institutional Bond Fund and the TIAA-CREF Institutional Money Market Fund.

"Net Asset Value per share" or "NAV per share" shall mean the price per share in any Age Band or Mutual Fund, respectively. Net Asset Value per share will be determined when regular trading closes on the New York Stock Exchange on each Business Day that the New York Stock Exchange is open. Net Asset Value per share will be computed by dividing the value of an Age Band's or a Mutual Fund's, as the case may be, net assets less its liabilities, by the number of outstanding shares of such Age Band or Mutual Fund. The Net Asset Value per share of each Age Band will be based upon the Net Asset Value per share of each of the Mutual Funds in which it invests.

"Non-Qualified Withdrawal" shall mean a withdrawal from an Account other than (i) a Qualified Withdrawal, (ii) a withdrawal by reason of the death or disability of a Beneficiary or (iii) a withdrawal made in connection with the receipt by the Beneficiary of a scholarship.

"Office" shall have the meaning set forth in the recitals of this Agreement.

"Office Management Agreement" shall have the meaning set forth in the recitals of this Agreement.

"Participation Agreement" shall mean the agreement to be entered into by the State (through the Office and the Board) and an Account Owner with respect to an Account in a form mutually agreed upon by TFI, the Office and the Board, as amended from time to time with the approval of TFI, the Office and the Board.

"Person" shall mean any individual, corporation, partnership, joint venture, limited liability company, joint stock company or other similar organization, trust or any other entity, an unincorporated organization, a government or any agency or political subdivision thereof, a court, or any other legal entity whether acting in an individual, fiduciary or other capacity.

"Plan" shall have the meaning set forth in the recitals to this Agreement.

"Program Disclosure Booklet" shall mean the document describing the Plan prepared for distribution to persons in connection with their opening of Accounts and entering into Participation Agreements and to Account Owners and others having an interest in the Plan.

"Program Indemnitees" shall have the meaning set forth in Section 16(a)(ii).

"Program Logo" shall mean the logo which has been designed and developed specifically for the Plan.

"Program Materials" shall mean all records, books, correspondence, papers and files relating solely or primarily to the Plan, whether or not in the possession of the Office or the Board, including, without limitation, all lists, compilations and summaries of Account Owners, Beneficiaries or prospective Account Owners who contact TFI for the purpose of expressing an interest in the Plan.

"Program Records" shall mean, collectively, the Program Materials and the Media Materials.

"Program Start Date" shall mean the later of (i) April __, 2000, and (ii) the date on which all conditions set forth in Section 10 have been satisfied or waived.

"Qualified Higher Education Expenses" shall have the meaning set forth in Section 529(e)(3) of the Code.

"Qualified Withdrawal" shall mean a withdrawal from an Account to pay the Qualified Higher Education Expenses of the Beneficiary of the Account.

"Section 529" shall mean Section 529 of the Code.

"Services" shall mean the services to be provided to the Board by TFI, which are described in Annex B.

"State" shall mean the State of Minnesota.

"State Street" shall mean State Street Bank and Trust Company, a Massachusetts trust company.

"State Tax Department" shall mean the Minnesota Department of Revenue.

"State Tax Opinion" shall have the meaning set forth in Section 9(b)(ii).

"Statute" shall have the meaning set forth in the recitals to this Agreement.

"Term" shall have the meaning set forth in Section 2(b).

"TFI" shall have the meaning set forth in the recitals to this Agreement.

"TIAA" shall mean Teachers Insurance and Annuity Association of America, a New York life insurance company.

"TIAA-CREF" shall mean the "TIAA-CREF" brand name and logo associated with Teachers Insurance and Annuity Association of America–College Retirement Equities Fund.

(b) Rules of Construction. For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

Singular words will connote the plural as well as the singular, and vice versa (except as indicated), as may be appropriate. Masculine words such as "he," "his," and "him" will connote the feminine as well as the masculine, and vice versa, as may be appropriate.

Unless otherwise indicated, references within this Agreement to articles, sections, paragraphs or clauses are references to articles, sections, paragraphs or clauses in or to this Agreement.

The words "herein," "hereof" and "hereunder" and other words of similar import used in this Agreement refer to this Agreement as a whole and not to any particular article, section, paragraph or clause.

References to any Person will include such Person, its successors and permitted assigns.

2. ENGAGEMENT OF TFI AS PROGRAM MANAGER; TERM; SUBCONTRACTING OF SERVICES.

(a) Engagement by the Board. Subject to the terms and conditions of this Agreement, the Board hereby engages TFI to provide the Services and TFI hereby accepts such engagement. Until the termination of this Agreement (either at the expiration of its Term or as a result of an Early Termination Event), the Board will not enter into any service or management contract to provide the Services with any Person other than TFI, except that within six months of the expiration of the Term or an Early Termination Event, the Board may enter into a service or management contract with a successor or successors to TFI to provide such services as the Board in its sole discretion deems are necessary in order to ensure an orderly transition to the successor or successors.

(b) Term. The term of this Agreement (the "Term") shall commence on the date hereof and shall continue until the eighth anniversary of the Program Start Date (the "Eighth Anniversary"). This Agreement shall be in effect only so long as the Office Management Agreement is in effect.

(c) Subcontracting of Services. The Board hereby acknowledges that TFI shall have the right to subcontract (i) services relating to marketing, information and distribution of the Plan to its affiliates, Teachers Personal Investors Services, Inc. and TIAA-CREF Individual and Institutional Services, Inc., which are indirect wholly-owned subsidiaries of TIAA; (ii) transfer agency services required of TFI hereunder to BFDS; and (iii) custody, fund accounting and certain administrative services required of TFI hereunder to State Street.

In addition, TFI may hereafter subcontract or otherwise delegate the performance of any of the Services, or assign this Agreement in its entirety and all of TFI's duties and obligations hereunder, to any of its affiliates which are direct or indirect wholly-owned subsidiaries of TIAA. The consent of the Board to Teachers Personal Investors Services, Inc. and TIAA-CREF Individual and Institutional Services, Inc. or to other subsidiaries of TIAA shall remain effective only so long as such entities are subsidiaries of TIAA, and the delegation to BFDS shall remain effective only so long as that entity is jointly owned by State Street Bank and Trust Company and DST Systems, Inc.; provided, however, that if there is a change in control of BFDS and the Board does not grant its consent to continued delegation to BFDS thereafter, then TFI shall have a commercially reasonable period of time to select and effect a transition to a new service provider of the services provided by BFDS.

TFI may subcontract or otherwise delegate the performance of any of the Services to other Persons only with the prior written consent of the Board, which consent will not be unreasonably withheld; provided, however, that TFI, without the consent of the Board, shall be permitted to purchase goods and services from third party vendors, that are necessary to fulfill the obligations of TFI in connection with the operation of the Plan and the provision of Services. No delegation by TFI pursuant to this paragraph (c) will relieve TFI of any of its responsibilities hereunder, and TFI will be responsible for the performance of Services by its subcontractors and will remain obligated hereunder as if no delegation had been made. The Board shall have no liability to any subcontractor of TFI for any act or omission of TFI and the Board shall be indemnified by TFI in accordance with Section 16(a)(ii) as if no such delegation had been made.

(d) Matching Grant Fund. Except as otherwise agreed in writing by the Office, the Board and TFI, the Office and the Board shall deposit Matching Grants to the Matching Grant Fund and TFI shall invest and administer the Matching Grant Fund as directed by the Office and the Board. TFI also shall have responsibility for setting forth on account statements of Account Owners any amount held in the Matching Grant Fund for the benefit of such Account as reported to TFI by the Office and to provide those Services set forth in items 10, 13(d), 19 and 20 in Annex B hereto. TFI shall establish in the future an eleventh Age Band that will hold the Matching Grant Fund. Although TFI will assist in the administrative processing of Matching Grant applications under the guidance of the Office, TFI is not responsible nor liable for any Matching Grant determinations made by the State of Minnesota or any agency thereof, including the Department of Revenue. The Office, the Board and TFI shall execute in the future a rider to this Agreement which will set forth their respective rights and obligations regarding administration of Matching Grants and the Matching Grant Fund.

3. STANDARD OF CARE; OPERATIONAL PERFORMANCE MEASUREMENTS.

(a) Standard of Care. TFI will perform the Services, and discharge its responsibilities, duties and obligations under this Agreement, in a manner that is consistent with the Plan investment objective set forth in Section 5(a) and with the same degree of care and skill under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board acknowledges that although TFI will provide investment advisory services to the Plan, Teachers Advisors, Inc., an indirect wholly-owned subsidiary of TIAA, will provide investment advisory services to the Mutual Funds, and that Teachers Advisors, Inc. manages other funds besides the Mutual Funds and provides investment advice to other clients, and Teachers Advisors, Inc. in its absolute discretion will allocate investment opportunities among its clients and funds, including the Mutual Funds.

(b) Quarterly Operational Performance Measurements. TFI will provide operational performance measurement reports to the Office in accordance with Section 3(b) of the Office Management Agreement.

(c) Status of Personnel and Services. Whenever TFI or any delegate of TFI utilizes its personnel to perform Services pursuant to this Agreement, such personnel shall at all times remain employees or consultants of TFI or such delegate, as the case may be, and TFI or such delegate, as the case may be, shall retain full liability to their respective employees and consultants in all respects, including for their respective welfare, salaries, fringe benefits, legally required employer contributions and tax obligations. No facility of TFI or such delegate used in performing Services shall be deemed to be transferred, assigned, conveyed or leased to the Board by such performance or use pursuant to this Agreement.

4. THE AGE BANDS, THE MUTUAL FUNDS AND THE ADMINISTRATIVE FUND; INVESTMENT OF PLAN ASSETS; CONTRIBUTIONS; CREDITING OF CONTRIBUTIONS; WITHDRAWALS.

(a) The Age Bands, the Mutual Funds and the Administrative Fund. The proceeds from the contributions by Account Owners to Accounts pursuant to Participation Agreements will be allocated by the Board to the Plan in accordance with the allocation guidelines in Section 5(b), and to the applicable Age Bands (as described in the Program Disclosure Booklet and the Participation Agreement). Assets held in the Plan shall be invested by TFI exclusively in shares representing ownership interests in the Mutual Funds and such other mutual fund or mutual funds as the Board and TFI may hereafter agree upon in writing. For flexibility in meeting withdrawal requests and the timing of new investments, the fund may also invest in the same types of securities that the TIAA-CREF Institutional Money Market Fund may hold. In addition, the Board will establish an account with a retail fund, the TIAA-CREF Money Market Fund (the "Money Market Fund"), and all funds allocated to the Administrative Fund will be deposited in the Money Market Fund.

All Non-Qualified Withdrawal penalties and any other penalties or fees charged to Accounts or payable by Account Owners under the Plan will be deposited in the Administrative Fund. Withdrawals from the Administrative Fund may be made from time to time by the Office to pay the costs of administration of the Plan as provided in Section 6(e) of the Office Management Agreement.

(b) Investment of Plan Assets. The Plan assets held in the Plan will be invested and administered by TFI as set forth in the Program Disclosure Booklet and in the registration statement for the Mutual Funds.

(c) Contributions. TFI will direct the investment of contributions made to the Plan by Account Owners in accordance with the Allocation Guidelines for the applicable Age Band.

(d) Crediting of Contributions. Contributions to the Plan by Account Owners received before the close of trading on the New York Stock Exchange (usually 4:00 p.m., Eastern Time) on any Business Day will be credited to the Account to which the contribution is made on the same day. Contributions received at or after the close of trading on the New York Stock Exchange or on a day other than a Business Day will be credited on the next Business Day. Contributions will be credited that same day to the applicable Age Band at the Net Asset Value per share calculated for that day for such Age Band. A contribution will be credited to an Account (i) once the documentation with respect to the Account is properly completed and such contribution is in good order and (ii) at a share price equal to the Net Asset Value per share next calculated for the applicable Age Band after the contribution is credited.

(e) Withdrawals. TFI will process requests by Account Owners for withdrawals from the Accounts in compliance with Section 529 and regulations promulgated by the IRS, as amended from time to time. The Net Asset Value per share for an Age Band applicable to a withdrawal will be the Net Asset Value per share next calculated for such Age Band once such withdrawal request is received in good order. TFI will have no liability for (i) any claims or actions arising in connection with withdrawals processed in accordance with the standard of care set forth in Section 3(a) or (ii) the use of any amounts withdrawn or transferred from Accounts after such amounts are withdrawn or transferred to (A) the Account Owner, (B) the Administrative Fund, (C) the Beneficiary or (D) institutions of higher education or unless and until amounts are returned, as they may be from institutions of higher education in some cases.

5. PLAN INVESTMENT OBJECTIVE; ALLOCATION GUIDELINES; MID-YEAR CHANGES IN ALLOCATION GUIDELINES; INVESTMENT POLICIES AND PERFORMANCE BENCHMARKS.

(a) Plan Investment Objective. In accordance with the Statute and the regulations promulgated thereunder, the Board acknowledges and understands that the investment objective of the Plan is to achieve investment returns over the applicable investment period (i.e., the period from the making of a contribution through the date on which a withdrawal for Qualified Higher Education Expenses is projected) that are at least equal to the rate of increase in the costs of higher education over that period. Costs of higher education are to be mutually agreed upon by the Office and TFI from time to time.

The Board acknowledges that TFI does not guarantee any return of amounts contributed by Account Owners or any income or earnings thereon or on the Matching Grant Fund, and that the investment of the Matching Grant Fund and of contributions made by Account Owners under the Plan is subject to market risks, and that the Mutual Funds, the Age Bands, the Matching Grant Fund and the Account Owners are subject to a risk of loss in any particular annual or other period (including the applicable investment horizon).

(b) Allocation Guidelines. TFI will invest the assets of the Plan held in the Plan allocated to each Age Band (including new contributions by Account Owners allocated to each Age Band and the net earnings of each Age Band) in accordance with the percentage ranges determined in accordance with this Section and set forth in Annex A (the "Allocation Guidelines") as approved by the Executive Director of the Board (the "Executive Director"). All Allocation Guidelines will be in the format set forth in Annex A. On or before November 1 of each calendar year during the Term commencing with November 1, 2000, TFI will submit to the Executive Director, for consideration, TFI's recommended Allocation Guidelines for each Age Band for the following calendar year. TFI will make such recommendations consistent with the objective of the Plan set forth in the Program Disclosure Booklet and the risk levels deemed appropriate by the Executive Director, and will present to the Executive Director the investment rationale used in determining the recommended Allocation Guidelines. At the request of the Executive Director, TFI will consult and may thereafter propose revised Allocation Guidelines for the following calendar year. On or before December 1 of each such calendar year, the Executive Director will either notify TFI of approval of TFI's recommended Allocation Guidelines, as they may have been revised after consultation, for the next calendar year or will deliver to TFI revised Allocation Guidelines for such year that the Executive Director deems appropriate. In performing any acts or providing any approvals set forth in this Section 5(b), the Executive Director shall so act and approve pursuant to due authority from and on behalf of the Board.

(c) Mid-Year Changes in Allocation Guidelines. Notwithstanding anything to the contrary set forth above, the Executive Director or the Board, upon 30 days' written notice to TFI, may change the Allocation Guidelines at any time for application during the remaining portion of the calendar year. In the event of any such change by the Executive Director or the Board, TFI will have a commercially reasonable period of time to implement such change in the Allocation Guidelines, including, without limitation, divestitures and acquisitions of securities, taking into consideration relevant market factors and the benefits to Account Owners of minimizing transaction costs.

(d) Investment Policies. The investment objective, policies and practices for each of the Mutual Funds will be as set forth in the Mutual Fund registration statement, as amended from time to time, but in any case subject to Applicable Law.

(e) Substitution or Addition of Investment Options. TFI may substitute or add investment options to the Plan after obtaining written Board approval of such substituted or additional investment option(s), upon 30 days advance written notice of TFI's intent to the Board.

6. MANAGEMENT FEE. TFI will be entitled to a management fee as set forth in Section 6(a) of the Office Management Agreement, which shall be TFI's sole compensation for performing all the Services hereunder and under the Office Management Agreement.

7. REPRESENTATIONS, WARRANTIES AND COVENANTS OF TFI. TFI hereby represents, warrants and covenants to the Board as of the date hereof as follows:

(a) Organization of TFI. TFI is a corporation duly organized, validly existing and in good standing under the laws of Delaware. TFI is an indirect wholly-owned subsidiary of TIAA. TFI is also duly qualified and in good standing in the State, and is in compliance with all material governmental approvals, consents, licenses, permits, certificates, franchises and Requirements of Law, that are necessary for TFI to conduct its business and to enter into and perform its obligations under this Agreement and the other Plan documents. TFI has the corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder.

(b) Authority. The execution and delivery by TFI of this Agreement, and the performance by TFI of its obligations hereunder, have been duly and validly authorized. This Agreement has been duly and validly executed and delivered by TFI and constitutes the legal, valid and binding obligation of TFI enforceable against TFI in accordance with its terms.

(c) No Conflicts. The execution and delivery by TFI of this Agreement and the performance by TFI of its duties and obligations hereunder do not: (i) conflict with or result in a breach of any of the terms, conditions or provisions of the articles of incorporation or by-laws of TFI; or (ii) conflict with or result in a violation of any term or provision of any law, rule, regulation, judgment, decree, order or injunction applicable to TFI or any of its assets and properties or (iii) conflict with or result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default under, any material agreement to which TFI is a party, or any material obligation or responsibility which TFI has to any third party.

(d) Approvals and Filings. On the date hereof, and on the date on which the conditions in Sections 10(a) and (b) have been satisfied, (i) no consent, approval or action of, or filing with or notice to, any governmental or regulatory authority is required on the part of TFI in connection with the execution, delivery and performance of this Agreement or the performance by TFI of its obligations hereunder and (ii) no consent or approval of any other Person, including the holders of any indebtedness or obligations of TFI, is required on the part of TFI in connection with the execution, delivery and performance of this Agreement by TFI or the performance by TFI of its obligations hereunder. Notwithstanding anything to the contrary contained in the immediately preceding sentence of this clause (d), no representation or warranty is made concerning any of the tax or securities laws matters to be addressed by the letters and other assurances described in Section 9.

(e) State Securities and "Blue Sky" Law Clearance. Subject to (i) verification of the availability of an applicable exemption from securities registration requirements under the securities laws of the State and (ii) the making of necessary notice filings (which filings TFI will make prior to the Program Start Date), Accounts may be promoted and offered to, opened by, and contributions thereto made by, prospective or actual Account Owners eligible to open an Account pursuant to the Statute in each state of the United States. TFI will be solely responsible for identifying all required consents, approvals, notifications and other filings to this end under applicable state securities or "blue sky" laws and for the qualification of the Accounts under the securities laws of the State, if required. The Board will cooperate with TFI, as may be necessary, in TFI's preparation and submission of all such consents, approvals, notifications and other filings.

(f) Mutual Fund Registration. The Mutual Funds are registered as an investment company under the Investment Company Act of 1940, as amended.

(g) Investment Advisers Act. TFI is a registered investment adviser under the Investment Advisers Act of 1940, as amended.

(h) 1940 Act. If the Plan shall be required to register as an investment company under the Investment Company Act of 1940, as amended, then TFI will cooperate with the Office and the Board in effecting such registration in a timely manner.

(i) Continuing Representations, Warranties and Covenants. Each of the representations, warranties and covenants made by TFI in this Agreement is true and correct as of the date hereof and will be true and correct on and as of the Program Start Date.

8. REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE BOARD. The Board hereby represents, warrants and covenants to TFI as of the date hereof that:

(a) The Board is an agency of the State; the execution and delivery of this Agreement by the Board, and the performance by the Board of its obligations hereunder, have been duly and validly authorized under Applicable Law; the Board has the legal right, power and authority to execute and deliver this Agreement, and the Board has the legal right, power and authority to perform its obligations hereunder; and this Agreement has been duly and validly executed and delivered by the Board and constitutes the legal, valid and binding obligation of the Board, enforceable against it in accordance with its terms.

(b) The execution and delivery of this Agreement by the Board, the performance by the Board of its obligations hereunder and the consummation of the transactions contemplated hereby do not: (a) conflict with or result in a violation of any term or provision of any law, rule, regulation, judgment, decree or injunction applicable to the Board or the Plan, or (b) conflict with or result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default under, any agreement or other instrument to which the Board or the Plan is a party, or any material obligation of the Board or the Plan to a third party.

(c) The Board has passed the resolution attached hereto as Schedule A approving the selection of TFI to perform the Services to the Plan and authorizing the execution of this Agreement. No additional consents, approvals or actions of, or filing with or notice to, any agency or instrumentality of the State is required in connection with the execution and delivery of this Agreement by the Board and the performance of this Agreement by the Board or the consummation by the Board of the transactions contemplated hereby, except such consents and approvals that will have been obtained upon execution and delivery of this Agreement.

(d) The Board is in full compliance with all of the provisions of the Statute and all other Applicable Law.

(e) Except as provided in Section 10, no consent, approval or further action by a Governmental Authority is required to cause proceeds from the contributions by Account Owners to be invested in the Mutual Funds and the Money Market Account.

(f) The Plan, the Account Owners and the Beneficiaries qualify for the State tax benefits and deferrals contemplated by the applicable provisions of the Statute.

(g) All assets of the Plan, including but not limited to, contributions to Accounts and Matching Grants, and any earnings thereon, will be held in a special, fiduciary account of the State. Plan assets will not be commingled with the general funds of the State or any other separate accounts of the State and may only be used as authorized under the Statute and Section 529 and any rules and regulations promulgated thereunder. Plan assets are not subject to appropriation by the State or any subdivision thereof. Plan assets will not be subject to claims by creditors of the State.

9. COOPERATION; IRS LETTER RULING; EXPENSES.

(a) Cooperation. The parties will cooperate with each other in a commercially reasonable manner in order that the conditions to the obligations of the Board and TFI contained in Section 10 are satisfied and the duties and obligations of the parties hereunder may be effectively, efficiently and promptly discharged.

(b) IRS Letter Ruling. Without limitation of the foregoing, TFI will cause to be prepared for signature and filing by the Office and the Board, in a form satisfactory to TFI, the Office and the Board, a request for a private letter ruling from the IRS to the effect that the Plan satisfies the qualification requirements of Section 529 and is exempt from federal taxation and addressing other issues agreed upon by TFI, the Office and the Board (the "IRS Letter Ruling").

(c) Actions; Expenses. The Board and TFI, except as otherwise consented to or approved by the other parties in writing or as expressly permitted or required by this Agreement, will take all commercially reasonable actions to obtain the IRS Letter Ruling, and thereafter to meet their responsibilities hereunder with a view to the continuing applicability of the IRS Letter Ruling. TFI and the Board each will pay the fees and disbursements of its own counsel in connection with the preparation of the requests for and efforts to obtain the IRS Letter Ruling.

(d) Further Cooperation. In the event that the Plan or objectives of the Plan are adversely affected due to interpretations of existing federal tax law (including, without limitation, if the IRS Letter Ruling negatively impacts the Plan or the IRS refuses to issue the

IRS Letter Ruling), State tax law or federal or State securities laws, (i) the Board and TFI will use commercially reasonable efforts to restructure the Plan within the constraints of applicable law to address such adverse consequences and (ii) the Board and TFI each will pay its own expenses in connection with such efforts through the date of such restructuring.

10. CONDITIONS TO THE PROGRAM START DATE. On or before the Program Start Date, each of the following conditions must be satisfied or waived by TFI and the Board:

(a) Tax Opinion. An opinion of Orrick, Herrington & Sutcliffe LLP, special counsel to TFI, that the Plan satisfies the qualification requirements of Section 529 and any other matters agreed upon will have been obtained, which opinion will be in form and substance reasonably satisfactory to the Office and TFI.

(b) State Tax Opinion. An opinion will have been obtained that the Plan, the Account Owners and the Beneficiaries will qualify for the State tax benefits and deferrals contemplated by the applicable provisions of the Statute and any other applicable state law.

(c) Representations and Warranties. Each of the representations and warranties made by the Board and TFI, respectively, in this Agreement will be true and correct in all material respects on and as of the Program Start Date (it being agreed and understood that each party may waive the effect of any misrepresentation by the other party).

(d) Office Management Agreement, Participation Agreement and Program Disclosure Booklet.

(i) Completion. The Office Management Agreement, the Participation Agreement and the Program Disclosure Booklet will be in form and substance acceptable to the Board and TFI.

(ii) Certificate of the Board. The Board will have delivered to TFI a Certificate, dated the Program Start Date, to the effect that (A) all portions of the Program Disclosure Booklet describing the Board, its duties and responsibilities with respect to the Plan and the Statute are complete and accurate in all material respects and (B) the Program Disclosure Booklet completely and accurately describes the Plan and the Board and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, except that the Board will not express therein any position as to the sufficiency, accuracy or completeness of any disclosure in, or omissions from the Program Disclosure Booklet relating to: (1) the design of the investment structure of the Plan; (2) the Age Bands and the Allocation Guidelines structure and the rationale therefor; (3) the implementation by TFI of the investment strategy; (4) the manner of Net Asset Value per share determinations and valuation of investments; (5) reporting to the IRS and the State Tax Department; (6) references to communications between TFI and Account Owners; (7) any projections contained in the Program Disclosure Booklet; (8) the description of the Mutual Funds and the Money Market Fund, including investment policies relating thereto; (9) how transfers in investments will be made in response to changes in the Allocation Guidelines; or (10) items referred to in clause (iii) (A) of this Section 10(d).

(iii) Certificate of TFI. TFI will have delivered to the Board a Certificate, dated the Program Start Date, executed on behalf of TFI, to the effect that (A) all portions of the Program Disclosure Booklet describing TFI, its affiliates and its delegates referred to in Section 2(c), and its and their duties and responsibilities with respect to the Plan, are complete and accurate in all material respects and (B) to the best of TFI's knowledge, based solely on its preparation of and discussions concerning the Program Disclosure Booklet, and without obligation of further inquiry, the Program Disclosure Booklet completely and accurately describes the Plan, the Office, the Board and the Age Bands and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, except that TFI will not express therein any position as to the sufficiency, accuracy or completeness of any disclosure in, or omissions from, the Program Disclosure Booklet relating to (1) changes in the Allocation Guidelines directed by the Board modifying the Allocation Guidelines recommended by TFI under Section 5(b) and mid-year changes in the Allocation Guidelines directed by the Board described in Section 5(c); (2) withdrawals by the Office from the Administrative Fund; (3) the imposition of penalties, fees or charges other than the Management Fee and the penalty for Non-Qualified Withdrawals imposed on Account Owners by the Plan; (4) selection by the Office and the Board of a successor to TFI as the provider of the Services; and (5) items referred to in clause (ii)(A) of this Section 10(d).

(e) Opinion of Attorney General. An opinion of the Minnesota Office of Attorney General that (A) this Agreement is the binding and enforceable obligation of the Board and (B) the assets of the Plan may only be used as authorized under the Statute and Section 529 and the rules and regulations promulgated thereunder and are not subject to claims of creditors of the State, which opinion will be in form and substance reasonably satisfactory to TFI.

11. MEETINGS. TFI and the Board will meet as frequently as either of them deems advisable and at least monthly during the first six calendar months of the Term, and thereafter at least once during each calendar quarter. Any of such meetings may be held in person or by telephone. TFI will meet with the Board at the Board's office at least once during each year of this Agreement.

12. REPORTS AND FINANCIAL STATEMENTS; ACCOUNT STATEMENTS; ELECTRONIC DATA SUBMISSION; AUDITS.

(a) Reports and Financial Statements. TFI will prepare and deliver certain reports and financial records to the Board and the Office as set forth in Section 12(a) of the Office Management Agreement.

(b) Account Statements. TFI will prepare and deliver account statements to each Account Owner as set forth in Section 12(b) of the Office Management Agreement.

(c) Compliance Requirements. TFI will:

(i) Use its best efforts to keep the Plan in compliance with requirements of the Statute and the regulations and Rules of the Plan promulgated thereunder and any amendments thereto, provided such amendments do not impair a material term of the Agreement, and to manage the Plan to qualify as a "qualified state tuition plan" under Section 529, as amended, along with any regulations thereunder, including the proposed regulations issued by the Internal Revenue Service as of the date hereof and such regulations when published as final;

(ii) Keep adequate records of each Account, keep each Account separate from each other Account and provide the Board with the information necessary to comply with the provisions of Minnesota Statute 136A.243(2);

(iii) Compile information for statements required to be prepared under the Statute and provide such compilations to the Office; and

(iv) Provide the Office with copies of all regulatory filings and reports made by TFI in connection with the Plan until the Final Termination Date of this Agreement.

(d) Tax Reports. TFI will:

(i) If there is any distribution from an Account to any individual or for the benefit of any individual during a calendar year, report such distribution to the Internal Revenue Service and either the Account Owner, the Beneficiary or the distributee to the extent required by federal law or regulation; and

(ii) Prepare and file statements and information relating to Accounts to the extent required by federal and State tax law.

(e) Audits. TFI will prepare, at its expense, annual financial statements for the Plan within 75 days following the end of each calendar year. Upon request, TFI will provide such books, records, documents and accounting procedures and practices within its custody and control as are relevant to the performance of the Services for examination by the Board, the Office, and the Minnesota Legislative Auditor for a period of up to six years from the expiration of the Term or termination of this Agreement, whichever is earlier. If requested, TFI will furnish data, including financial data, to the Board which could be used to assess its creditworthiness.

13. OWNERSHIP AND CUSTODY OF PROGRAM RECORDS.

The Office will own and have all right, title and interest in and to, and beneficial ownership of, the Program Records, which will be readily accessible to the Office, at TFI's expense, in a commercially reasonable manner. In performing the Services, and in the event of any action, suit, investigation or similar proceeding involving TFI that is brought in connection with the Plan, TFI and its subcontractors will have full access to the relevant Program Records and to the fullest extent permitted by law, the Board will cooperate fully, and will cause its officers and employees to cooperate fully, with TFI in connection with any such action, suit, investigation or similar proceeding.

Other than the Program Records, TFI will be and remain the sole owner of all records, books, documents, correspondence, analyses, designs, drawings, papers and files, the intellectual property rights relating to the structure and operation of the Plan (such as investment allocation methodologies and know-how, any software and analytical tools, including but not limited to the "Savings Calculator", as are otherwise owned by TFI and its affiliates and utilized or developed by or for TFI for the marketing or administration of the Plan) and research, reports, publications, training materials and manuals developed solely by or for TFI relating to savings for higher education and plans relating thereto that are not specific to the Plan; provided, however, that the Board will not be restricted in any manner in connection with the continuation of the Plan after the Term in using the same or substantially the same Plan structure or portions thereof (including the investment and Allocation Guidelines components) as have been in effect prior to the Final Termination Date, and TFI will be deemed to have granted the Board a non-exclusive, perpetual, royalty-free, non-transferable license in the United States to so use any or all of the foregoing.

14. CONFIDENTIALITY. **[DEPENDS UPON LEGISLATION OR TEMPORARY CLASSIFICATION]**

(a) TFI and the Board agree to maintain all personal and financial information concerning the Account Owners and Beneficiaries related to the Plan (except for disclosures to Account Owners of such information relating to them or their Accounts and disclosure of information regarding Qualified Withdrawals to institutions of higher education) unless written authorization to disclose of such information has been given by the appropriate party, in a manner consistent with the requirements of the Minnesota Government Data Practices Act, Minnesota Statutes Chapter 13, and Minnesota Statutes Section 136F, and any regulations promulgated thereunder as it applies to data provided by the State and as it applies to all data collected, received, stored, used, maintained or disseminated by TFI under this Agreement.

The personal and financial information referred to above is referred to as "Confidential Information."

(b) This Section 14 will not restrict any disclosure required to be made by Applicable Law, except that no such disclosure will be made sooner (unless otherwise compelled) than five (5) Business Days immediately following the other party's receipt of written notice of such requirement, and such notice will include a copy of any Applicable Law. The civil remedies of Minnesota Statutes Section 13.08 apply to the release of Confidential Information by either TFI or the Board.

(c) Use by Employees and Agents. The requirement of confidentiality under this Agreement also applies to the subcontractors and delegates of any party and employees, attorneys and other professional advisers and agents of the parties hereto and such subcontractors and delegates. Each party hereto will use its best efforts to ensure that such persons adhere to the confidentiality requirements set forth herein. Use and disclosure of proprietary and Confidential Information by employees, agents, attorneys and other professional advisers to the extent necessary to carry out the terms and purposes of this Agreement is permitted.

15. COMMUNICATIONS; TFI AND AFFILIATE MARKETING AND ADVERTISING; MARKETING PLAN; MEDIA MATERIALS. TFI and the Office have made certain agreements concerning communications, marketing, advertising and media materials of the Plan as set forth in Section 15 of the Office Management Agreement.

16. LIABILITY OF TFI; INDEMNIFICATION BY TFI; LIABILITY OF THE BOARD.

(a) (i) Liability of TFI. TFI, to the fullest extent permitted under Applicable Law, will be liable to the Board for any and all Losses suffered, incurred or sustained by the Board or its employees, agents, representatives, affiliates, delegates or subcontractors, or to which the Board, its employees, agents, representatives, affiliates, delegates or subcontractors, becomes subject, to the extent resulting from, arising out of or relating to a breach by TFI of its duties, obligations, representations, warranties or covenants under this Agreement, as a result of any negligent act or omission, willful misconduct, a material breach of this Agreement or fraud by TFI or its officers, employees, agents, representatives, delegates or subcontractors.

(ii) Indemnification by TFI. TFI will, to the full extent permitted under Applicable Law, indemnify, defend and hold harmless the Plan, the Board and the members, officers, employees and agents of any of them having responsibilities in connection with the Plan and any successors of any of them (collectively, the "Program Indemnitees"), from and against any and all Losses (excluding consequential, punitive or special damages) suffered, incurred or sustained by the Program Indemnitees or to which any of them becomes subject, to the extent resulting from, arising out of or relating to a breach of this Agreement and constituting a negligent act or omission, willful misconduct or fraud by TFI or its officers, employees, agents, representatives, affiliates, delegates or subcontractors with respect to, related to or concerning this Agreement. Notwithstanding the foregoing, a Program Indemnitee will not be entitled to indemnification hereunder if it has been adjudicated that (i) any Program Indemnitee (including any Program Indemnitee not seeking indemnification) acted in bad faith and, in the case of a criminal proceeding, had reasonable cause to believe that its, his or her conduct was unlawful or (ii) such Losses arose from a material violation of this Agreement by, or the negligent act or omission, willful misconduct or fraud of, or willful violation of law by, any Program Indemnitee (including any Program Indemnitee not seeking indemnification).

(b) Indemnification Procedures. If there is asserted any claim, liability or obligation that in the judgment of a party indemnified above ("Indemnified Party") may give rise to any Losses, or if such Indemnified Party determines the existence of the foregoing whether or not the same shall have been asserted, such Indemnified Party shall give notice to TFI (including reasonable detail of the facts giving rise to same) upon receipt of notice of the assertion of any claim, liability or obligation, or receipt of notice of the filing of any lawsuit based upon such assertion, or, with respect to a claim not yet asserted against the Indemnified Party, promptly upon the determination by the Indemnified Party of the existence of the same. No Indemnified Party or Parties shall compromise or settle any claim or dispute to which this Section applies without the written consent of TFI. Such written consent will not be unreasonably withheld. Pursuant to Minnesota Statutes section 8.06, the Minnesota Attorney General (or its designees) shall be the legal counsel for the Indemnified Parties.

(c) Exculpation of TFI. TFI will have no liability under this Agreement for (i) implementation of the revised Allocation Guidelines in the event the Board modifies, amends or alters the recommended Allocation Guidelines of TFI in accordance with paragraphs (b) or (c) of Section 5, (ii) implementing any changes in the investment objective or policies of the Plan as a result of changes in law or changes in the public policy investment guidelines of the Plan or (iii) reliance by TFI or its delegates or subcontractors on TFI's withdrawal procedures in accordance with Section 4(e), in each case, to the extent that TFI has satisfied its standard of care set forth in Section 3(a). Although TFI will assist in the administrative processing of matching grant applications, TFI will not be held responsible nor liable for any matching grant decisions made by the State or any agency thereof.

(d) Liability of the Board. The Board, to the full extent permitted under Applicable Law, will be liable to TFI for any and all Losses suffered, incurred or sustained by TFI, or its officers, employees, agents, representatives, affiliates, delegates or subcontractors, or to which TFI, its officers, employees, agents, representatives, affiliates, delegates or subcontractors, becomes subject, to the extent resulting from, arising out of or relating to a breach by the Board of its duties, obligations, representations, warranties or covenants under this Agreement, as a result of any negligence, willful misconduct, a material breach of this Agreement, a violation of law or fraud by the Board or its employees, agents, representatives, delegates or subcontractors.

17. TERMINATION OF AGREEMENT.

(a) Termination. This Agreement will terminate prior to the expiration of the Term, upon the occurrence of any of the following (each an "Early Termination Event"):

(i) at the Board's election, if TFI breaches any provision of this Agreement (with respect to representations, covenants or otherwise) and such breach remains uncured for more than ninety (90) days with respect to a breach involving TFI's computer systems or more than thirty (30) days with respect to all other breaches, in each case after the Board has given written notice thereof to TFI, and such breach has a Material Adverse Effect; or

(ii) at TFI's election, if the Board breaches any provision of this Agreement (with respect to representations, covenants or otherwise) and such breach remains uncured for more than ninety (90) days with respect to a breach involving the computer systems of the Board or more than thirty (30) days with respect to all other breaches, in each case after TFI has given written notice thereof to the Board, and such breach has a Material Adverse Effect; or

(iii) at the Board's election, if TFI commences a voluntary case or other proceeding seeking rehabilitation, liquidation, reorganization or other relief with respect to itself or its debts under any rehabilitation, bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, rehabilitator, receiver, liquidator, custodian or other similar official of it or substantially all of its property, or will consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or will make a general assignment for the benefit of creditors, or file an answer admitting the material allegations of a petition filed against it in any such proceeding or fail generally to pay its debts as they become due, or will take any corporate action to authorize any of the foregoing; or

(iv) at the Board's election, if an involuntary case or other proceeding will be commenced against TFI seeking rehabilitation, liquidation, reorganization or other relief with respect to it or its debts under any rehabilitation, bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding will remain undismissed and unstayed for a period of sixty (60) days; or

(v) at TFI's election, if the Office Management Agreement is terminated; or

(vi) in accordance with Section 16C.08 Subdivision 5(a) of the Minnesota Statutes, at the election of the Commissioner of Administration of the State, upon 30 days advance notice to TFI and payment of just compensation to TFI; or

(vii) at TFI's election, upon 30 days advance notice to the Board; or

(viii) at the Board's election in the event of a change in law which has a material adverse effect on the ability of the State to operate the Plan.

(b) No Termination Right. The Board acknowledges that it has no right to terminate this Agreement pursuant to the Investment Advisers Act of 1940, as amended, as elaborated on in the "Robert D. Brown Investment Counsel, Inc. No-Action Letter" issued July 19, 1984, and the Board will not endeavor to exercise any purported right under the Investment Advisers Act of 1940, as amended, to terminate this Agreement.

(c) Transition. In the event of contract termination at the expiration of the Term or as the result of an Early Termination Event, TFI will cease soliciting and accepting any new contributions from Account Owners and will transfer Account records and Account balances to a successor program manager in accordance with instructions from the Board and the Office.

18. NOTICES. All notices and other communications required or permitted to be given under this Agreement will be in writing and will be deemed duly given upon delivery if personally delivered, upon confirmation of transmission if sent by facsimile transmission, upon the third Business Day after mailing if sent by registered or certified mail, postage prepaid, and upon receipt if sent by reputable courier, as follows, or to such other address or Persons any party may hereafter designate by notice to the other parties hereunder. Regular or periodic reports provided under this Agreement may be made electronically. All communications to the Plan shall be deemed to be given if addressed solely to the Office.

If to the Office to:

Minnesota Higher Education Services Office
1450 Energy Park Drive
Suite 350
St. Paul, Minnesota 55108-5227
Attention: Jack Rayburn
Telephone: (651) 642-0533
Facsimile: (651) 642-0675
Electronic Mail Address: info@heso.state.mn.us

If to the Board to:

Minnesota State Board of Investment
Capitol Professional Office Building, Suite 200
590 Park Street
St. Paul, Minnesota 55103
Attention: __________
Telephone: (651) 296-3328
Facsimile: (651) 296-9572
Electronic Mail Address: minn.sbi@state.mn.us

If to TFI to:

TIAA-CREF Tuition Financing, Inc.
730 Third Avenue
New York, New York 10017
Attention: Timothy Lane, Vice President
Telephone: (212) 490-9000 x2437
Facsimile: (212) 916-6470
Electronic Mail Address: tlane@tiaa-cref.org

with a copy (which will not constitute notice) to:

Teachers Insurance and Annuity Association of America
730 Third Avenue
New York, New York 10017
Attention: General Counsel
Telephone: (212) 916-4700
Facsimile: (212) 916-6230

19. WAIVER. The terms and conditions hereof may be waived only by a written instrument signed by the party waiving compliance. The failure of the Board or TFI to insist on strict compliance with this Agreement, or to exercise any right or remedy under this Agreement, will not constitute a waiver of any rights provided under this Agreement, nor estop either party from thereafter demanding full and complete compliance nor prevent either party from exercising such a right or remedy in the future. Any waiver by either party of any right

under this Agreement will not constitute a waiver with respect to any separate or subsequent right or matter under this Agreement.

20. FORCE MAJEURE. Notwithstanding anything herein to the contrary, the Board shall not hold TFI, or TFI's affiliates, subcontractors or delegates, responsible or liable if due to *force majeure*, or other events beyond TFI's control, TFI is unable to perform any or all of the Services set forth herein.

21. NO THIRD PARTY BENEFICIARIES. Except as otherwise specifically provided for herein, nothing in this Agreement is intended or will be construed to give any person, other than the parties hereto, their successors and permitted assigns, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein.

22. NO PARTNERSHIP; INDEPENDENT CONTRACTOR. Nothing contained in this Agreement will be deemed or construed to create the relationship of a joint venture or partnership between TFI and the Board. TFI will have no authority to bind the Board without the written consent of the Board. TFI is an independent contractor and will be free, subject to the terms and conditions of this Agreement, to exercise judgment and discretion with regard to the conduct of its business, including, without limitation, performing management, investment advisory and other services for qualified state tuition savings and prepaid tuition programs other than the Plan and for other clients.

23. HEADINGS AND ANNEXES. Headings and subheadings of provisions of this Agreement and the above Table of Contents are solely for the convenience of reference and are not a part of this Agreement and will not affect the meaning, construction, operation or effect hereof. The attached Annexes are a part of this Agreement.

24. ENTIRE AGREEMENT. This Agreement (together with the Office Management Agreement) sets forth the entire understanding of the parties hereto with respect to the subject matter hereof and incorporates, merges and supersedes any and all prior understandings and communications, whether written or oral, with respect to such subject matter.

25. GOVERNING LAW. This Agreement will be construed according to the laws of the State of Minnesota.

26. SURVIVAL. Sections 1, 6, 13, 14, 16, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27 and 29 will survive the Final Termination Date.

27. AMENDMENT. This Agreement, including the Annexes hereto, may be amended only if such amendment is in writing and agreed to by the Board and TFI.

28. COUNTERPARTS. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered will be an original, but all of which taken together will constitute one and the same instrument.

29. CONSENT AND AGREEMENT TO OFFICE MANAGEMENT AGREEMENT. The Board hereby consents and agrees to the terms of the Office Management Agreement.

30. ANTITRUST CLAIMS. TFI will assign to the Board all right, title and interest in and to all causes of action it may have for overcharges as to the goods and/or services provided by TFI in connection with this Agreement resulting from antitrust violations which arise under the antitrust laws of the United States and of the State of Minnesota. If the Board receives a monetary recovery for a cause of action assigned pursuant to this Section 29, TFI shall be entitled to receive reimbursement for actual legal costs incurred and may, upon demand, recover from the Board any portion of the recovery, including treble damages, attributable to overcharges that were paid. Upon written demand by TFI, the Board will within one year from such demand, reassign the cause of action assigned pursuant to this Section 29 if TFI has been or may have been injured by the violation of law for which the cause of action arose and the Board has not been so injured or declines to file a court action for the cause of action.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective representatives duly authorized so to do on the date and year first above written.

MINNESOTA STATE BOARD OF INVESTMENT

By: ______________________________
Name:
Title:

TIAA-CREF TUITION FINANCING, INC.

By: ______________________________
Name:
Title:

ANNEX A

AGE BANDS AND
ALLOCATION GUIDELINES

Year of Birth of Beneficiary[1]	Investment Horizon	Institutional Growth Fund (Base Percentage of Age Band Assets)[2]	Institutional Bond Fund (Base Percentage of Age Band Assets)[2]	Institutional Money Market Fund (Base Percentage of Age Band Assets)[2]
2000 or 2001	19-20 years	75%	25%	0%
1998 or 1999	17-18 years	70%	30%	0%
1996 or 1997	15-16 years	65%	35%	0%
1994 or 1995	13-14 years	55%	45%	0%
1992 or 1993	11-12 years	45%	55%	0%
1990 or 1991	9-10 years	40%	60%	0%
1988 or 1989	7-8 years	35%	65%	0%
1986 or 1987	5-6 years	25%	70%	5%
1984 or 1985	3-4 years	15%	70%	15%
Pre-1984[3]	2 years or less	10%	40%	50%

1 Allocation guidelines will be established as required for Beneficiaries born after the year 2001.

2 Under the allocation guidelines, the percentage of assets of an Age Band allocated to the Mutual Funds is to be in a range from 3% below to 3% above the base percentage of each Age Band. However, if a significant movement in the market (either up or down) occurs, that results in the percentage of assets of a Mutual Fund allocated to an Age Band being outside of the applicable allocation guideline range, the Program Manager will have a commercially reasonable period of time to bring the percentage of assets of such Mutual Fund allocated to such Age Band back within the applicable range.

3 The majority of Beneficiaries in this Age Band are expected to be within two years of graduation from high school and enrollment in an Eligible Educational Institution. This Age Band, however, will also be used for Beneficiaries born before 1984 with an investment horizon longer than two years.

ANNEX B

SERVICES

The items preceded by an asterisk are the "Services" to be provided under this Agreement. The remaining items are the services to be provided by TFI to the Office pursuant to the Office Management Agreement. All Services shall be performed by TFI in consultation with the Office or the Board, as applicable.

Marketing and Promotion

1. Design, draft, print, update and distribute the Program Disclosure Booklet and other marketing and advertising materials, including descriptive information brochures, from time to time through the Final Termination Date, and obtain the prior approval of the Office of descriptive marketing/advertising materials before use.

2. Design and maintain a Web site for the Plan.

3. Write, produce and schedule promotions in the print and electronic media.

4. Conduct community forums and other similar events, including press events, with the Office, the Board, the Governor of the State of Minnesota and other public officials and personalities.

5. Coordinate marketing and information materials with the Office and create a multi-year marketing plan.

6. Develop a marketing plan to promote participation by corporations and local governments by offering payroll deduction services to employees.

7. Develop programs to enable institutions of higher education to participate in marketing and promotion of the Plan.

8. Evaluate the effectiveness of the marketing and advertising campaigns at least annually.

9. Develop and implement a marketing plan that will target low and moderate income Minnesotans.

Administration

10. Prepare and deliver to Account Owners quarterly and annual statements identifying the contributions made to the relevant Account during the applicable period and to related Matching Grant accounts as reported to TFI by the Office during the applicable period, the total contributions made to such Account and to related Matching Grants account, the value of such Account(s), distributions made and any additional information.

11. Comment upon and propose rules and guidelines governing the Plan.

12. Design, draft, print and process a Participation Agreement, which includes application information.

13. a. Review application forms and Participation Agreements.

    b. Open Accounts.

    c. Process contributions to Accounts.

    d. Manage the Plan assets and the Matching Grant Fund.

14. Customer Services/Account Owner administration — establish a toll-free telephone number or numbers, as appropriate, and provide telephone consultants (Series 6 Registered Representatives and other employees of TFI or its delegates) to provide sales/counseling support as well as related services to Account Owners (*e.g.*, changing Beneficiaries).

* 15. Perform treasury services with respect to cash flows from contributions to and withdrawals from Accounts.

16. Solicit employers in order to establish and maintain payroll deduction and automatic withdrawal procedures for contributions to Accounts.

17. Prepare forms to be submitted by Account Owners and obtain prior approval of the Office of such forms before use, with respect to information necessary to process Qualified Withdrawal Requests and Non-Qualified Withdrawal Requests, as well as other administrative services for Accounts.

18. Disburse funds for Qualified Withdrawals, Non-Qualified Withdrawals and cancellation of Participation Agreements.

19. Assist the Office in designing Matching Grant forms, provide to Account Owners and assist the State of Minnesota in the administrative processing of Matching Grant applications under the guidance of the Office, and provide such reports or data, as to be mutually determined in the future, to facilitate the processing of state matching grants by the Office, the Minnesota Department of Revenue and/or other State of Minnesota agencies.

<u>Records and Reporting</u>

20. Prepare, print and mail reports to the Office regarding the Plan, including, among other things, information on the number of Account Owners and Beneficiaries, geographical distribution of Account Owners and Beneficiaries, total yearly contributions by all Account Owners, methods used by Account Owners to make contributions, total yearly Matching Grants as reported to TFI by the Office and the Management Fee collected.

21. Provide reports to the Office and the Board as follows:

a. indicating investment returns and relevant personnel and organizational changes of key TFI employees assigned to the Plan;

b. showing monthly cash flows containing daily contributions, withdrawals, amounts invested and total funds in each Age Band and Mutual Fund;

c. showing in monthly investment reports rate of return on a monthly, quarterly, annual and multi-year basis; and

d. showing in monthly administrative reports the total number of Accounts, number of new Accounts, number of closed Accounts, total contributions, new contributions, monthly disbursements, number of telephone and internet contacts to the Plan and such other programmatic data as the Office, the Board and TFI may mutually determine to be desirable.

<u>Legal / Regulatory / Tax / Miscellaneous</u>

22. Upon reasonable request, provide the Office with all regulatory filings and reports regarding the Plan made by TFI, Teachers Personal Investors Services, Inc., TIAA-CREF Individual and Institutional Services, Inc., BFDS, State Street or any other delegate of TFI, and with access to Account Owner records, with the means of access to be mutually agreed between the parties, during the Term of this Agreement or prior to the Final Termination Date.

23. Make available to the Office the results of any periodic examination of TFI by any state insurance commission (except to the extent such report may not be disclosed under Applicable Law or rules).

24. Prepare and file statements and information relating to the Accounts to the extent required by Minnesota tax law.

25. Prepare and file statements and information relating to the Plan and the Accounts to the extent required by Federal tax law.

* 26. Perform asset allocation studies, provide investment advice and make recommendations regarding Plan assets to the Board, or any designated officer thereof.

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An extra section break has been inserted above this paragraph. Do not delete this section break if you plan to add text after the Table of Contents/Authorities. Deleting this break will cause Table of Contents/Authorities headers and footers to appear on any pages following the Table of Contents/Authorities.

ATTACHMENT E

TIAA CREF

Teachers Insurance and Annuity Association
College Retirement Equities Fund

730 Third Avenue, New York, NY 10017-3206
212 490-9000 1 800 842-2733

William J. Casill
Vice President and Actuary

1 800 842-2733 Extension 5543
Fax: (212) 916-6223

To:	**James Heidelberg, State Board of Investment**
	Jack Rayburn, Minnesota Higher Education Services Office
From:	**William J. Casill, Vice President and Actuary, TIAA-CREF**
	Michael Noone, Second Vice President, TIAA-CREF
Date:	**May 18, 2000**
Re:	**Minnesota College Savings Plan Investment Options**

As promised during your recent conversation with Mike Noone, the following is our proposal on investment options for the Minnesota College Savings Plan.

Based on our current understanding of U.S. Treasury Department Regulations, and the rapidly developing competitive landscape of Section 529 plans nationally, we recommend the addition of two investment options to the age-banded option currently in place for the Plan:

– a diversified 100% equity option comprised of TIAA-CREF Institutional Mutual Funds that invest in domestic and international equities; and

– an account offering guaranteed returns based on a guaranteed funding agreement issued and invested by TIAA-CREF Life Insurance Company, an insurer fully licensed to do business in Minnesota.

We believe there are three primary reasons to consider adding these investment options:

1) It will allow the Plan to more fully capitalize on proposed Treasury Department Regulations for Section 529 programs. Our current understanding is that Section 529 still does not allow account owners to control their investments, but that prospective purchasers may be offered more than one investment option.

2) By offering a wider range of investment choices, the Plan should immediately appeal to a wider audience of individual purchasers. Individuals who have grown accustomed to selecting a specific investment approach through their other investments should find the ability to self-select an investment style within the Plan appealing.

3) Adding these additional investment options will ensure that the Plan attains a highly competitive position in the Section 529 marketplace. Maintaining a nationally competitive position for the Program is vital, since many state-sponsored 529 plans are being marketed nationally.

The following is a summary of each of the recommended investment options.

Diversified 100% Equity Option – This option is comprised of a blend of the TIAA-CREF Institutional Growth and Income Mutual Fund and the TIAA-CREF Institutional International Equity Mutual Fund. The exact allocation between the Growth and Income and International funds will be determined by the Plan annually. TIAA-CREF's annual recommendations to the Plan will be based on an efficient frontier analysis to determine the allocation seeking the highest returns for a given level of volatility. Our current recommendation is to allocate the assets underlying this option 80% to the Growth and Income Fund and 20% to the International Fund. Our analysis is based on the annual returns and volatility of domestic and foreign equities from 1970-1999. We used this data to determine expected returns and expected volatility of different mixes between foreign and domestic equities. As the chart in Exhibit I shows, a mixture of 20% foreign equities and 80% domestic equities has had the lowest level of volatility on an annual basis. This combination also had the highest *Sharpe* ratio (the *Sharpe* ratio is equal to the expected return divided by the standard deviation, and is used to determine the expected return per unit of risk). Exhibit II shows the mix between foreign and domestic equities in the stock component from a sample of other 529 plans (for plans with less than 100% equities, we used the portfolio that had the highest equity exposure). Note that past performance is not a guarantee of future results and that the TIAA-CREF Institutional Growth and Income and International Equity Mutual Funds are not guaranteed.

The availability of an all equity option will appeal to purchasers with a higher than average risk tolerance, as well as those with significant college savings in fixed-income vehicles.

Guaranteed Option – This option invests in a funding agreement issued by the TIAA-CREF Life Insurance Company which provides for a guarantee of both principal and a minimum credited interest rate of 3%. The interest rate credited may be higher than the 3% minimum; if issued today, we would expect the credited interest rate would be approximately 6% for the first year. The contract's guarantees are backed by TIAA-CREF Life's general account, and the TIAA-CREF Life Board will set the full credited rate each year.

The availability of a guaranteed option will help make the Plan more appealing to risk-averse investors, including those who have traditionally saved using such instruments as CDs and Money Market Instruments. In addition, investors with shorter investment time frames may find this option appealing.

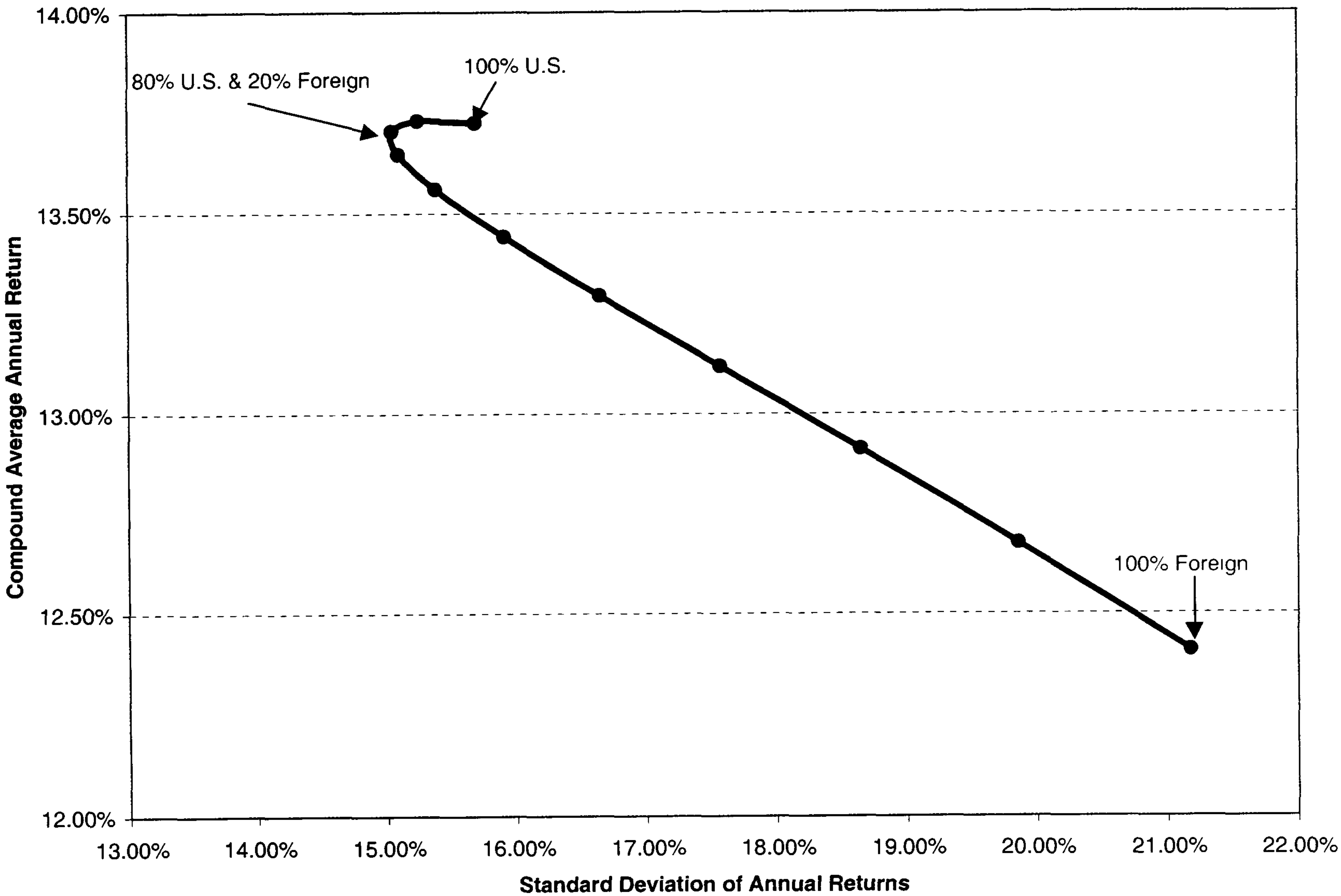
Each of these options brings to the Plan its own merits, and collectively will result in a stronger overall program. (For example, while we would recommend that the age-banded option still be positioned as the lead option, investors may additionally open accounts in both the equity and guaranteed options to suit their own specific risk tolerances.) We have included a TIAA-CREF Institutional Mutual Funds Prospectus to provide a comprehensive description of the funds that we are recommending.

We look forward to discussing these recommendations with you. If you have any questions, please contact either of us at the following numbers: Bill at (212) 916-5543 or Mike at (212) 916-2317.

EXHIBIT I

International Equity Diversification

Trade-Off Between Risk and Return 1970-1999



S&P 500 Total Return Index proxies for U.S. stock returns; Morgan Stanley EAFE Index proxies for foreign equity returns.

EXHIBIT II

Plan	Foreign Equities	Comments
Maine - 100% Equity Option	22.5%	(45% to Global Equities Funds which is assumed to be 50% foreign)
- 75% Equity Option	16.7%	(25% to Global Equities Funds which is assumed to be 50% foreign)
Portfolio 2017	26.7%	(32% Global assumed to be 50% foreign, 8% International, total Equities 90%)
Iowa -	18.75%	(Vanguard Growth Lifestyle Fund, 15% International, 80% Equities)
Illinois - Portfolio One	22%	(20% International, 90% Equities)
Equity Option	10%	
New Hampshire - Portfolio 2018	11%	(10% International, 88% Equities)
Missouri*	0%	
New York*	0%	
Virginia	25%	(20% International, 80% Equities)
Oklahoma*	25%	(20% International, 80% Equities)
Connecticut*	12.5%	(10% International, 80% Equities)

* Managed by TIAA-CREF Tuition Financing, Inc.

ATTACHMENT F

SBI Active Stock Holdings
Tobacco Companies Identified by the IRRC
that derive at least fifteen percent of revenue from tobacco products
December 31, 1999

Domestic Common Stocks and American Depository Receipts (ADR's)

Company	Percent Revenue from Tobacco in 1997	SBI Shares 12/31/99	SBI Cost Value 12/31/99	SBI Market Value 12/31/99
Philip Morris Cos., Inc.	46	1,769,070	47,364,850	41,020,311
Universal Corp.	74*	45,000	1,464,701	1,026,563
Subtotal		**1,814,070**	**$48,829,551**	**$42,046,874**

International Stocks

Company	Percent Revenue from Tobacco in 1997	SBI Shares 12/31/99	SBI Cost Value 12/31/99	SBI Market Value 12/31/99
Compagnie Financiere Richemont	68*	80,000	2,751,015	1,128,000
Rembrandt Group Ltd.	>50	385,000	3,376,822	3,665,475
Subtotal		**465,000**	**$6,127,837**	**$4,793,475**
Total SBI Holdings		**2,279,070**	**$54,957,388**	**$46,840,349**

Sources: The publication, "The Tobacco Industry," Eighth Edition, 1998, by the Investor Responsibility Research Center (IRRC), Washington D.C. is the source for the tobacco revenue information. SBI holdings data are from SBI bank records.

*1998 data

SBI Active Stock Holdings
Tobacco Companies Identified by the IRRC
that derive at least fifteen percent of revenue from tobacco products
March 31, 2000

Domestic Common Stocks and American Depository Receipts (ADR's)

Company	Percent Revenue from Tobacco in 1997	SBI Shares 12/31/99	SBI Cost Value 12/31/99	SBI Market Value 12/31/99
Philip Morris Cos., Inc.	46	1,504,770	39,308,145	31,788,266
Universal Corp.	74*	45,000	1,464,701	677,813
Subtotal		**1,549,770**	**$40,772,846**	**$32,466,079**

International Stocks

Company	Percent Revenue from Tobacco in 1997	SBI Shares 12/31/99	SBI Cost Value 12/31/99	SBI Market Value 12/31/99
Rembrandt Group Ltd.	>50	385,000	3,376,822	3,665,475
Subtotal		**385,000**	**$3,376,822**	**$3,411,744**
Total SBI Holdings		**1,934,770**	**$44,149,668**	**$35,877,823**

Sources: The publication, "The Tobacco Industry," Eighth Edition, 1998, by the Investor Responsibility Research Center (IRRC), Washington D.C. is the source for the tobacco revenue information. SBI holdings data are from SBI bank records.

*1998 data

Tab C

CAROL C. JOHNSON
Minnesota State Treasurer

DATE: May 30, 2000

TO: Members, State Board of Investment

FROM: Carol C. Johnson, Chair
Administrative Committee

SUBJECT: Report from the SBI Administrative Committee

The Administrative Committee met on May 23, 2000 to consider the following agenda items:

- Review of Executive Director's proposed workplan for FY01.
- Review of budget plan for FY01.
- Review of Continuing Fiduciary Education Plan.
- Review of Executive Director's Evaluation Process.
- Discussion of agency head paybill.

1. Review of Executive Director's proposed workplan for FY01.

Mr. Bicker presented his proposed workplan for FY01. Like previous workplans, the FY01 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**. Supporting information was sent to each Board member in May 2000 as part of the FY01 Management and Budget Plan document.

RECOMMENDATION:

The Committee recommends that the SBI approve the FY01 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY01.

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2. **FY01 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**. Supporting information was sent to each Board member in May 2000 as part of the FY01 Management and Budget Plan.

RECOMMENDATION:

The Committee recommends that the SBI approve the FY01 Administrative Budget Plan and that the Executive Director have the flexibility to reallocate funds between budget categories in the event budgeting needs change during the year.

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**. 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 FY00. The Committee members agreed that the performance reviews should be completed prior to the September 2000 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 FY00 performance evaluation:

- **The evaluation will be completed prior to the September 2000 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY00.**

- **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. **Agency Head Paybill.**

The 2000 Legislative Session passed the "agency head paybill" (SF 2826) on May 12, 2000 and it is expected that the Governor will sign the bill into law. The new law establishes salary rates for agency heads as a percentage of the Governor's salary. Two broad categories are created:

- **Group 1** up to 95% of the Governor's salary. (The SBI's executive director is included in this category.)

- **Group 2** up to 85% of the Governor's salary.

Under the law, the "appointing authority" is responsible for recommending a specific salary rate. For the SBI, the appointing authority is the full Board.

RECOMMENDATION:

The SBI Administrative Committee recommends that the SBI recommend to the Legislative Coordinating Commission (LCC) that the salary rate for the SBI Executive Director be 95% of the Governor's salary effective August 1, 2000. Further, the Committee recommends that the SBI delegate authority to the Chair of the SBI Administrative Committee to take all administrative steps necessary to implement this recommendation. This includes, but is not limited to, consulting with the Commissioners of Employee Relations, Finance and Administration as required in the law and transmitting the recommendation of the SBI to the LCC.

ATTACHMENT A

STATE BOARD OF INVESTMENT
Executive Director's Proposed Workplan

FY01
(Categories A, B, C, D, E correspond to the position description)

	Projected Time Frame
A. DEVELOPMENT OF INVESTMENT POLICIES	
1. Implement new authority for 403(b) match	Jul. – Aug.
2. Review the Assigned Risk Plan policy statement.	Jul. – Sep.
3. Prepare Trust Fund Position Paper.	Jul. – Jun.
4. Review and analyze high yield fixed income investment opportunities.	Jul. – Dec.
3. Review and analyze international fixed income investment opportunities.	Jul. – Mar.
B. IMPLEMENTATION OF INVESTMENT POLICIES APPROVED BY THE SBI	
1. Meet or exceed the performance objectives established for the Basics, Post, and Combined Funds.	On-going, reported quarterly

- Obtain returns that are 3-5 percentage points over inflation over the last 10 years (FY91-FY00) for the Combined Funds.
- Outperform the median fund from the TUCS universe of Master Trusts over the last 5 years (FY96-FY00) for the Combined Funds.
- Outperform a composite of market indices over the last 5 years (FY96-FY00). Separate composites are constructed for the Combined, the Basics and the Post Funds.

2. Conduct investment manager compliance review of guidelines and contracts.	On-going
3. Maintain External Investment Manager Short Lists.	On-going
4. Consider additional investments with new/existing alternative asset managers.	On-going
5. Review Domestic Equity customized benchmark quality.	On-going
6. Review of Domestic Equity Asset Class Target.	Mar. – Jun.
7. Review emerging market segment of International Equity program.	Jul. – Dec.
8. Implement Tobacco Fund Investment Policy.	Jul. – Sep.

C. REVIEW AND CONTROL OF INVESTMENT POLICIES

1. Monitor and evaluate investment manager performance in accordance with the SBI's Manager Continuation Policy.	Semi-annual
2. Annual review of investment manager guidelines.	On-going
3. Monitor Non-retirement plan assets.	On-going
4. Review of Invested Treasurer's Cash Fund.	Jul. – Mar.
5. Review of Minnesota Certificate of Deposit/Repurchase Agreement Programs.	Aug. – Sep.
6. Monitor Investment Product Providers for State Deferred Compensation Plan.	On-going
7. Monitor implementation of Northern Ireland mandate.	Aug. – Mar.
8. Monitor implementation of Proxy Committee Shareholder initiatives.	Jul. – Jun.
9. Provide staff support to Proxy Committee for proxy voting and shareholder initiatives.	Jul. – May

D. ADMINISTRATION AND MANAGEMENT OF STAFF OPERATIONS

1. Cooperate in all respects with the annual audit of SBI operations by the Legislative Auditor.	Jul. – Dec.
2. Coordinate police and fire fund consolidations.	On-going
3. Prepare FY02 Management and Budget Plan.	Jul.-Jun.
4. Prepare Biennial Budget Plan for FY02-03.	Jul. - May
5. Prepare and seek approval of the SBI's legislative proposals for 2001 Legislative Session, if needed.	On-going
6. Coordinate volunteer fire fund participation in Supplemental Investment Fund.	On-going

E. COMMUNICATION AND REPORTING

1. Prepare reports on investment results.	Quarterly
2. Prepare status reports on the Executive Director's FY00 workplan for review by the SBI, IAC and Consultant, as requested.	As requested
3. Meet with the SBI and IAC on a quarterly basis and at other times as required.	Quarterly, or as requested
4. Meet with the Board's designees on a monthly basis, as requested.	Monthly, or as requested
5. Prepare FY 2000 Annual Report.	Jul. – Feb.
6. Prepare annual SIF investment options Prospectus.	May – Aug.
7. Coordinate Public Pension Plan Performance Reporting Disclosure.	On-going
8. Coordinate round table discussions with SBI's external managers.	Periodic 2-3 per year

Administrative Budget
FY 01 Budget Plan
Overview

The FY01 budget plan is based on the SBI's FY00-01 Biennial Budget Request:

	FY00 Projected	FY01 Plan	Difference
Personal Services	$1,726,103	$1,906,000	$ +179,897
Operating Expenses	478,304	470,000	-8,304
	$2,204,407	**$2,376,000**	**$ + 171,593**

Personal Services: **80% of the budget**
Salaries, retirement, insurance, FICA, severance

Personnel costs were originally budgeted to be approximately $180,000 more than the current projection for FY00. The projection for FY00 is lower than originally budgeted due to staff turnover and causes the difference to appear much larger than normal. Due to the staff turnover the amount originally budgeted for FY01 may be higher than actually required.

Operating Expenses: **20% of the budget**
Rents, leases, printing, data processing
Professional/technical contracts
Communications, travel, employee development, misc. fees
Office equipment, furnishings, supplies

Overall, operating expenses will be approximately $8,000 less than the amount spent in FY 00.

STATE BOARD OF INVESTMENT
FISCAL YEARS 2000 - 2001 BUDGET PLAN
GENERAL FUND SUMMARY

DESCRIPTION	FY 1998 ACTUAL	FY1999 ACTUAL	FY2000 PROJECTED	FY 2000 REQUEST	FY 2001 REQUEST
PERSONAL SERVICES					
FULL TIME EMPLOYEES	$ 1,568,660	$ 1,537,671	$ 1,725,077	$ 1,752,000	$ 1,819,000
PART TIME EMPLOYEES	58,185	44,844	-	60,000	65,000
SEVERENCE PAYOFF	39,819	26,890	226	30,000	20,000
WORKERS COMPENSATION INSURANCE	764	1,106	800	1,000	1,000
MISCELLANEOUS PAYROLL	-	298	-	1,000	1,000
SUBTOTAL	$ 1,667,428	$ 1,610,809	$ 1,726,103	$ 1,844,000	$ 1,906,000
STATE OPERATIONS					
RENTS & LEASES	92,496	120,100	129,988	126,000	130,000
REPAIRS/ALTERATIONS/MAINTENANCE	21,704	20,465	26,938	30,000	30,000
PRINTING & BINDING	16,625	18,024	15,306	20,000	20,000
PROFESSIONAL/TECHNICAL SERVICES	31,953	1,606	50,000	35,000	35,000
COMPUTER SYSTEMS SERVICES	69,394	6,143	12,442	-	-
COMMUNICATIONS	28,606	27,905	36,470	30,000	30,000
TRAVEL, IN-STATE	563	1,298	850	3,000	3,000
TRAVEL, OUT-STATE	53,389	44,176	58,660	65,000	65,000
SUPPLIES	36,916	47,489	59,300	50,000	50,000
EQUIPMENT	16,777	187,690	51,840	50,000	50,000
EMPLOYEE DEVELOPMENT	9,401	16,769	18,210	15,000	15,000
OTHER OPERATING COSTS	26,532	41,964	18,300	42,000	42,000
SUBTOTAL	$ 404,356	$ 533,629	$ 478,304	$ 466,000	$ 470,000
TOTAL GENERAL FUND	$ 2,071,784	$ 2,144,438	$ 2,204,407	$ 2,310,000	$ 2,376,000
PERCENT INCREASE OVER PRIOR YEAR		3.5%	2.8%	4.8%	2.9%

ATTACHMENT C

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 2-3 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, 2000

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, 2000

TO: Members, State Board of Investment

FROM: Emerging Manager Search Committee

SUBJECT: Emerging Manager Program Review

At the December 1999 SBI meeting, the Board authorized a Committee to be formed with the purpose of reviewing the Emerging Manager Program and interviewing potential new managers for the program.

The initial Emerging Manager Program commenced in April 1994 with the funding of ten managers. Since that time, two of the managers have been terminated and one manager has been placed in the larger Domestic Equity Program. Of the remaining seven managers, staff recommended and the Committee concurred with, that three of the managers (Zevenbergen Capital, Valenzuela Capital, and New Amsterdam Partners) be retained. The remaining four managers (CIC Asset, Compass Capital, Wilke/Thompson Capital, and Winslow Capital) should be re-interviewed by the IAC Domestic Manager Committee to determine their status prior to interviewing prospective new candidates for the program.

On April 26, 2000, the Domestic Manager Committee met to interview those four managers and is recommending that the SBI terminate Compass Capital and Wilke Thompson Capital. The Committee is also recommending that the portfolio managed by Winslow Capital be transitioned from a large cap to a small cap mandate.

The Emerging Manager Search Committee met on May 1 and 2, 2000 to interview potential candidates for the Emerging Manager Program.

The members of the Search Committee included:

Name	**Representing**
Peter Sausen, Chair	Governor Ventura
Christie Eller	State Attorney General Hatch
Jake Manahan	State Treasurer Johnson
Jennifer Mohlenhoff	State Auditor Dutcher
Eric Lipman	Secretary of State Kiffmeyer
John Bohan	Investment Advisory Council
Elaine Voss	Investment Advisory Council
Doug Gorence	Investment Advisory Council

The Search Committee interviewed twelve (12) candidates. Based on the interviews, questionnaire responses, and other information provided the Search Committee is recommending that seven firms be retained by the SBI for inclusion in the Emerging Manager Program.

RECOMMENDATION:

The Emerging Manager Program Search Committee and the IAC Domestic Manager Committee recommend that Compass Capital and Wilke/Thompson Capital be terminated and that Winslow Capital be transitioned from a large cap growth to a small cap growth mandate. The Search Committee also recommends that the following firms be retained as a part of the SBI's Emerging Manager Program:

Artemis Investment Management	**New York, NY**
Berger/Bay Isle Financial	**San Francisco, CA**
Earnest Partners	**Atlanta, GA**
Holt-Smith & Yates Advisors	**Madison, WI**
Next Century Growth Investors	**Minneapolis, MN**
Peregrine Capital Management	**Minneapolis, MN**
Voyageur Asset-Chicago Equity Division	**Chicago, IL**

ARTEMIS INVESTMENT MANAGEMENT LLC

Investment Style: Small Cap

Investment Philosophy

ARTEMIS Investment Management LLC's (ARTEMIS) investment philosophy is built on the belief that excess rates of return above benchmark indices are derived from making investments in companies that initiate and embrace change in their business. Their objective is to identify those changing small cap companies that they believe 1) have catalysts which can accelerate earnings and cash flow growth rates; and 2) are attractively valued relative to their respective peer groups. They believe their approach will continue to be successful because of its emphasis on finding attractive growth opportunities at reasonable valuations.

The firm does not manage portfolios quantitatively with regard to residual and systematic risk. The primary method of diversification which affects the sector weights, as well as volatility, is maintaining a variety of growth rates across the portfolios. Part of the process focuses on finding a growth catalyst. This results in stocks with improving growth rates, i.e. 5% to 10%, 10% to 20%, or 20% to 30%. By requiring that the portfolios have representation from stocks with a variety of growth rates (all expected to grow), they believe they can avoid concentrating in specific industries.

Investment Management Process

Each day a report is generated from the accounting system (Advent) which illustrates the percent of each holding in each portfolio. This quickly identifies any disparity between accounts, although for reasons other than client constraints, they do rarely occur. Regarding client constraints, they maintain a requirement for clients to state their investment objectives and any investment restrictions in ARTEMIS' Investment Advisory Agreement. Subsequently, their client service and administration staff on an ongoing basis monitors compliance. The investment team is fully aware of client objectives and restrictions, although compliance and adherence to their style and process are the responsibility of the CIO and the client service officer.

Ninety percent of the research is generated internally by the three portfolio managers/ research analysts. Each of the three is a generalist; however, certain sector responsibilities are assigned to each. Wall Street analysts are used as sources of investment ideas, as are meetings with management of companies, trade publications and the database Baseline. Wall Street expertise is also utilized to aid us in the compilation of fundamental research on stocks they are considering purchasing or selling.

This information is then incorporated into the stock selection process and a stock is purchased if: 1) there is a catalyst which will accelerate future earnings and cash flow. Catalysts include new products or services, changes in key management, an acquisition or divestiture or a consolidation or restructuring. 2) The stock has a valuation level which is attractive relative to its peer group. To judge the relative value of a stock, they evaluate earnings models, or measurement criteria specific to a company's industry. Included in the valuation exercise are the examination of price-based comparisons, strength of the company's market position and the operating management's ability to execute the change. 3) Finally, a target price is set for the stock, based on appropriate valuation measurements and projections. Value is added to existing positions by executing event-driven trimming and/or adding to positions.

Ownership: ARTEMIS is 100% employee owned.

Firm's total assets under management:	$306.5 million
Assets in this product:	$154.0 million
Number of accounts in this product:	9
Number of Portfolio Managers:	3
Number of Analysts:	(Same as Portfolio Managers)
Largest Accounts:	
Public Fund	$119.3 million
Foundation	$8.1 million
Corporate Pension	$6.0 million
Corporate	$4.9 million
Corporate	$4.9 million

Location: New York, New York

		Investment Manager:	ARTEMIS - COMPOSITE			
		Benchmark:	RUSSELL 2000			

	---PORTFOLIO---		---BENCHMARK---		--------VAM--------	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
94 Q3	6.75		6.94		-0.18	
Q4	-4.60	1.84	-1.87	4.94	-2.78	-2.96
95 Q1	9.37		4.61		4.55	
Q2	7.43		9.37		-1.77	
Q3	14.29		9.88		4.02	
Q4	-1.51	32.27	2.17	28.44	-3.60	2.98
96 Q1	4.70		5.10		-0.38	
Q2	3.56		5.00		-1.37	
Q3	5.70		0.34		5.34	
Q4	3.20	18.28	5.20	16.49	-1.91	1.53
97 Q1	-2.53		-5.17		2.79	
Q2	19.26		16.21		2.62	
Q3	9.78		14.88		-4.44	
Q4	0.38	28.10	-3.35	22.36	3.86	4.69
98 Q1	17.88		10.06		7.10	
Q2	-5.18		-4.66		-0.54	
Q3	-13.13		-20.15		8.78	
Q4	29.59	25.83	16.31	-2.55	11.42	29.12
99 Q1	-13.25		-5.42		-8.28	
Q2	23.30		15.55		6.70	
Q3	-7.17		-6.32		-0.90	
Q4	37.00	36.03	18.44	21.26	15.67	12.18
Latest:						
1 yr		36.03		21.26		12.18
3 yr		29.91		13.08		14.89
5 yr		27.96		16.69		9.66
Cum 9407-9912		25.54		16.08		8.15
Std Dev		18.00		17.70		9.64

BERGER/BAY ISLE LLC

Investment Style: Large Cap Value

Investment Philosophy

Berger/Bay Isle LLC (Berger/Bay Isle) believes that companies with strong fundamentals and management will outperform all others. These companies can often be found at discounts to fair value. In order to capitalize on these opportunities they conduct rigorous fundamental analysis focusing on cash flow growth and balance sheet strength. In addition, their analysis evaluates balance sheet quality and includes a qualitative assessment of each company's business, major competitors, and management strength. All of their investment ideas are developed after extensive internal research.

The investment objective is to provide excess returns over the benchmark (R1000 Value) with lower risk. Because of their emphasis on value, Berger/Bay Isle portfolios are designed to outperform the benchmark in all cycles of the market. Berger/Bay Isle believes they are best able to add value relative to their benchmark through identifying a relatively small number of companies which meet stringent financial parameters and stress testing, and appear "undervalued" relative to the peer group and historical return levels. Thus Berger/Bay Isle runs a concentrated portfolio (25 to 40 stocks), constructed on the basis of fundamental, bottom-up research – with factors such as sector weighting and cash allocation becoming a residual of this process. Berger/Bay Isle closely monitors risk level relative to their benchmark, and their portfolio is typically diversified across most industry sectors.

Investment Management Process

Investment ideas are generated from a variety of sources including proprietary company screens, external databases, and brokerage research. They extensively monitor approximately 600 securities at any one time. The research is long-term in nature, focusing on a company's ability to generate acceptable free cash flow on a long-term basis. If the analyst finds the security worthy of purchase, the research is then presented to the Chief Investment Officer (CIO) for review. If the CIO approves, the recommendation will continue to the investment committee. Due to the time required by their due diligence process, new investment ideas are not provided daily. However, any investment idea to come through their multiple reviews has a very high probability of success given the right investment time frame. Berger/Bay Isle uses free cash flow as asset ratio valuation methods to determine fair stock price.

Positions in a security will be reduced or eliminated if that security has reached Berger/Bay Isle's "over-valued" price. For Core positions, a decline of 10% more than the comparable S&P 500 industry sector requires a review of company fundamentals and any publicly available information. A decline of 15% greater than the industry sector will result in an immediate sale unless overridden by the Investment Committee. For trading positions, an absolute decline of 10% will require a review of company fundamentals and publicly available information. An absolute price decline of 20% or reaching of the preset stop-loss, whichever is less, will result in an immediate sale unless overridden by the Investment Committee.

Positions on a security-by-security basis are added to the portfolio based on each security's merits (price, value, yield, etc.) relative to the other securities on the buy list. Their investment strategy is bottom-up rather than top-down, sector rotation plays a minor roll. Accounts are fully invested immediately and they do not attempt to time the market. Individual securities recommended by Berger/Bay Isle generally will not exceed 5% of a portfolio's value at cost, and no security position recommended by Berger/Bay Isle should comprise less than 2% of the portfolio. To ensure appropriate diversification, portfolios consist of 25 to 40 positions. Portfolios are generally fully invested (less than 5% cash). Nearly all securities that are eligible for the Large Cap Value product are highly liquid and will exceed $3B in market capitalization.

Berger/Bay Isle conducts approximately 80% of their research internally. Berger/Bay Isle's large cap value portfolio is built from the Russell 1000 Value universe – thus the investment management team is very knowledgeable as to the companies comprising this universe.

Ownership: Berger/Bay Isle is 100% employee owned.

Firm's total assets under management:	$592 million
Assets in this product:	$125 million
Number of accounts in this product:	11
Number of Portfolio Managers:	5
Number of Analysts:	2
Largest Accounts:	
Chrysler	$44 million
Copper Mountain Trust	$17 million
John Muir/Mt. Diablo Health System	$14 million
Diocese of Orange	$13 million
Memorial Medical Center	$12 million

Location: San Francisco, California

		Investment Manager: BAY ISLE FINANCIAL - COMPOSITE					
		Benchmark: RUSSELL 1000 VALUE					
		----PORTFOLIO----		----BENCHMARK----		--------VAM--------	
		Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
88	Q1	16.63		10.37		5.68	
	Q2	6.63		7.79		-1.08	
	Q3	1.47		1.25		0.22	
	Q4	4.42	31.77	2.25	23.16	2.12	6.99
89	Q1	14.20		7.48		6.25	
	Q2	6.44		7.83		-1.30	
	Q3	17.56		8.34		8.51	
	Q4	1.06	44.40	-0.30	25.19	1.37	15.35
90	Q1	-2.31		-2.88		0.59	
	Q2	11.18		1.72		9.30	
	Q3	-14.59		-13.96		-0.73	
	Q4	3.05	-4.41	8.14	-8.08	-4.71	3.99
91	Q1	10.74		13.10		-2.09	
	Q2	-2.72		0.10		-2.82	
	Q3	7.81		5.31		2.37	
	Q4	16.79	35.63	4.53	24.62	11.73	8.84
92	Q1	-3.76		1.13		-4.84	
	Q2	0.67		4.18		-3.37	
	Q3	2.02		2.07		-0.05	
	Q4	6.55	5.31	5.83	13.81	0.68	-7.47
93	Q1	11.56		9.67		1.73	
	Q2	3.60		2.92		0.66	
	Q3	5.74		4.94		0.76	
	Q4	1.42	23.94	-0.27	18.12	1.70	4.93
94	Q1	-3.21		-3.49		0.29	
	Q2	2.02		0.62		1.39	
	Q3	4.80		2.55		2.19	
	Q4	1.34	4.87	-1.58	-1.99	2.97	7.00
95	Q1	9.54		9.50		0.03	
	Q2	10.90		8.96		1.78	
	Q3	6.86		8.74		-1.73	
	Q4	2.17	32.63	6.64	38.35	-4.19	-4.14
96	Q1	3.89		5.66		-1.67	
	Q2	3.57		1.72		1.82	
	Q3	5.61		2.91		2.63	
	Q4	8.48	23.28	9.98	21.64	-1.36	1.35
97	Q1	3.37		2.56		0.79	
	Q2	23.02		14.74		7.21	
	Q3	1.72		9.96		-7.49	
	Q4	4.54	35.23	4.47	35.18	0.07	0.03
98	Q1	12.97		11.66		1.17	
	Q2	4.10		0.45		3.64	
	Q3	-7.63		-11.58		4.48	
	Q4	22.21	32.76	16.60	15.63	4.80	14.81

	----PORTFOLIO----		----BENCHMARK----		--------VAM--------	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
99 Q1	5.01		1.43		3.52	
Q2	3.50		11.28		-6.99	
Q3	-13.95		-9.80		-4.60	
Q4	11.10	3.90	5.44	7.35	5.37	-3.21
Latest:						
1 yr		3.90		7.35		-3.21
3 yr		23.10		18.83		3.59
5 yr		24.98		23.07		1.55
Cum 8801-9912		21.45		16.99		3.82
Std Dev		14.36		12.52		7.69

EARNEST PARTNERS LLC

Investment Style: Large Cap Value

Investment Philosophy

Earnest Partners LLC (Earnest Partners) is a fundamental, research based, stock selection manager. To implement this bottom-up stock selection process, Earnest Partners has identified six performance drivers that should be considered in purchasing a stock. Individually these performance drivers are not sufficient to identify a stock to purchase. Extensive research has enabled Earnest Partners to identify the combination of performance drivers that precede out-performance for each stock. Each combination of performance drivers is referred to as a return pattern. As a result, they refer to our process as Return Pattern Recognition$^{SM.}$

The performance drivers include: valuation measures, operating trends, market trends, growth measures, profitability measures, and macroeconomics. A return pattern preceding out-performance to one stock could emphasize valuation measures and operating trends while the relevant return pattern for another stock may emphasize growth measures and market trends. Earnest Partner's Return Pattern Recognition ^{SM} recognizes that all stocks do not respond to the same pattern of performance drivers.

Using stocks whose current pattern of performance drivers suggests out-performance, they select the 50 stocks that have the greatest expected rate of return. To control risk, they use a statistical approach called "downside" deviation." They have learned (as common sense would indicate) that clients care less about out-performance relative to their benchmark. As a result, they run a statistical program designed to minimize the prospect of substantially under-performing our assigned benchmark.

If the initial 50 stocks produce a "downside deviation" measure that properly controls risk, they then purchase the portfolio subject to a rigorous fundamental review described below. If the risk parameter is violated, they employ an iterative algorithm to address the issue. Our iterative algorithm either reduces position sizes or supplants one stock for another or both, until their risk considerations are met.

Earnest Partners fundamental review is implemented through their in-house investment professionals and they're outside network of sixteen analyst and industry specialists. The Earnest Partners professionals have worked with their network of analyst and industry specialists for many years. They focus on the situations and circumstances that Return Pattern Recognition^{SM} may overlook because they are real-time or qualitative in nature.

Portfolios are systematically diversified across 34 industry groups. Weightings on industry groups will vary from benchmark neutrality based on their ability, as measured by information ratios, to identify securities within an industry group that will outperform the group.

Systematic risk is intentionally incurred only within an industry group. Return Pattern Recognition[SM] drivers vary across industry groups. There is a tendency for systematic risk to be reduced at the portfolio level vis-à-vis the industry group level.

At the Portfolio optimization stage systematic and residual risk are both treated as equally undesirable in the objective function. Of course, offsetting systematic risk is the expectation of excess return, while Modern Portfolio Theory dictates that there is no such expectation for residual risk.

Investment Management Process

Return Pattern Recognition[SM] identifies the attractive securities. Earnest Partners rigorous fundamental review includes examination by their in-house investment professionals and our outside network of sixteen analyst and industry specialists. Their information sources include: Multex, Baseline, Wall Street Research, ISS, Bloomberg, Value Line, Compustate, and IBES.

A description of the Investment Process is embodied in the statement of the Investment Philosophy above.

Ownership: Earnest Partners is 100% employee owned.

Firm's total assets under management:	$1.1 billion
Assets in this product:	$1.1 billion
Number of accounts in this product:	20
Number of Portfolio Managers:	4
Number of Analysts:	2
Largest Accounts:	
State of Georgia Teachers Retirement	$300 million
City of Atlanta	$200 million
State of Georgia Employees Retirement	$100 million
Teamsters	$100 million
Raytheon	$50 million

Location: Atlanta, Georgia

Investment Manager:	EARNEST PARTNERS - COMPOSITE					
Benchmark:	RUSSELL 1000 VALUE					

	---PORTFOLIO---		---BENCHMARK---		-------VAM-------	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
94 Q1	-2.09		-3.49		1.46	
Q2	1.28		0.62		0.65	
Q3	4.21		2.55		1.61	
Q4	0.62	3.98	-1.58	-1.99	2.24	6.10
95 Q1	9.71		9.50		0.19	
Q2	8.19		8.96		-0.70	
Q3	7.30		8.74		-1.32	
Q4	6.83	36.07	6.64	38.35	0.19	-1.65
96 Q1	5.13		5.66		-0.50	
Q2	4.23		1.72		2.47	
Q3	4.02		2.91		1.08	
Q4	6.30	21.16	9.98	21.64	-3.34	-0.39
97 Q1	2.51		2.56		-0.05	
Q2	18.54		14.74		3.31	
Q3	10.22		9.96		0.24	
Q4	1.26	35.63	4.47	35.18	-3.07	0.33
98 Q1	12.55		11.66		0.80	
Q2	4.41		0.45		3.95	
Q3	-6.56		-11.58		5.69	
Q4	18.49	30.12	16.60	15.63	1.62	12.53
99 Q1	4.65		1.43		3.17	
Q2	6.82		11.28		-4.01	
Q3	-6.85		-9.80		3.27	
Q4	14.18	18.90	5.44	7.35	8.30	10.76
Latest:						
1 yr		18.90		7.35		10.76
3 yr		28.02		18.83		7.74
5 yr		28.17		23.07		4.14
Cum 9401-9912		23.78		18.49		4.47
Std Dev		11.79		13.36		7.67

HOLT-SMITH & YATES ADVISORS

Investment Style: Large Cap Growth

Investment Philosophy

Holt-Smith & Yates Advisors (Holt-Smith & Yates) believes that by investing in companies demonstrating superior growth in earnings over a long period of time they can outperform all other asset classes assuming an equal level of risk.

In implementing this philosophy, they use a bottom-up fundamental analysis and invest primarily in large capitalization growth companies. They seek to purchase companies with superior fundamentals to the S&P 500 including a faster growth rate; the companies currently have a five year projected growth rate of over 20% and they will only buy companies that meet their strict fundamental and valuation criteria including a PEG ratio of below 150%. A reflection of their commitment to this philosophy is a concentrated portfolio (18 to 22 securities) and very low turnover (five year average is 14%).

Their portfolios are concentrated with initial positions of equity ideas averaging 5% apiece. Position sizes are allowed to double if appropriate. Positions over 10% of the portfolio are pared back. Industry positions are limited to one stock per industry. Market sectors are kept to about 30% of less of the portfolio.

Investment Management Process

The Holt-Smith & Yates investment process is primarily fundamentally based. Their process reviews a number of criteria to determine if a company is a solid growth business. They develop concentrated portfolios by starting with the entire U.S. stock market as their universe. They very quickly eliminate 80% of the universe based on fundamentals. They screen their universe and rank companies based on their criteria. If a company scores highly in their process on the key issues (e.g. earnings forecasts and profit margins), they will remain on Holt-Smith & Yates' idea list even if they rank a little lower on other criteria. This tends to generate names that might be skipped over with an ordinary computer screening process. The key fundamental areas they focus on in their reviews are: historical sales and earnings trends, three to five year earnings forecasts, profit margin trends, debt levels, and industry conditions.

Next, they review their valuation criteria. They seek good growth without overpaying for that potential, focusing on the P/E Ratio to Growth Rate (PEG) in the next step of the process. Companies that are selling at a PEG of 160% or less look attractive. The S&P 500 was at 280% PEG at year-end 1999. They also evaluate sentiment issues on these companies—level of institutional ownership, insider ownership and company stock activity. By this point in the process, they are down to about 40 good ideas, or less than 1% of the market.

The final step is to determine if the new idea is a good fit into the existing portfolio. Good ideas are added to the portfolio if they enhance the diversification by industry and do not greatly distort the P/E of the existing portfolio relative to the S&P 500 P/E. Keeping the portfolio's overall P/E within range of the S&P 500 is one of our risk controls.

The sale process is fundamentally based also. Companies are sold if their fundamentals deteriorate not because of the market environment. Their focus is on buying and holding for the long-term. Their average portfolio turnover rate is 13%, which they believe indicates that their process is successful.

Ownership: Holt-Smith & Yates is 100% employee owned.

Firm's total assets under management:	$303 million
Assets in this product:	$124 million
Number of accounts in this product:	39
Number of Portfolio Managers:	3
Number of Analysts:	3
Largest Accounts:	
Kimberly Clark	$30 million
WEA Insurance-equity	$26.7 million
Penn. Public Schools Employees	$17.2 million
WEA Insurance-balanced	$13.7 million
Boardman, Suhr, Curry & Field	$6.2 million

Location: Madison, Wisconsin

		Investment Manager:	HOLT-SMITH YATES-COMPOSITE GROSS				
		Benchmark:	RUSSELL 1000 GROWTH				
		---PORTFOLIO---		---BENCHMARK---		--------VAM--------	
		Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
88	Q3	1.68		-0.43		2.12	
	Q4	3.11	4.84	2.86	2.42	0.24	2.37
89	Q1	3.56		6.95		-3.16	
	Q2	4.60		10.08		-4.98	
	Q3	7.02		12.44		-4.82	
	Q4	-0.31	15.57	2.69	35.92	-2.92	-14.98
90	Q1	-1.55		-3.70		2.23	
	Q2	3.98		10.13		-5.58	
	Q3	-11.94		-15.24		3.89	
	Q4	4.28	-6.00	10.96	-0.26	-6.02	-5.75
91	Q1	12.34		17.94		-4.74	
	Q2	-1.96		-0.96		-1.02	
	Q3	10.06		6.98		2.87	
	Q4	14.06	38.25	12.95	41.15	0.98	-2.06
92	Q1	2.97		-4.94		8.32	
	Q2	-6.98		-1.08		-5.96	
	Q3	18.56		4.40		13.56	
	Q4	17.99	33.99	6.97	5.02	10.30	27.59
93	Q1	-2.95		-0.84		-2.14	
	Q2	-7.25		-1.55		-5.79	
	Q3	6.08		1.48		4.53	
	Q4	4.09	-0.61	3.87	2.90	0.21	-3.42
94	Q1	-0.99		-4.41		3.58	
	Q2	-0.96		-1.02		0.07	
	Q3	5.27		7.69		-2.25	
	Q4	-1.42	1.76	0.75	2.66	-2.15	-0.87
95	Q1	7.10		9.52		-2.21	
	Q2	7.19		9.83		-2.41	
	Q3	2.63		9.08		-5.90	
	Q4	0.59	18.52	4.55	37.19	-3.79	-13.60
96	Q1	2.66		5.37		-2.57	
	Q2	9.07		6.36		2.55	
	Q3	5.18		3.60		1.52	
	Q4	11.98	31.89	6.04	23.12	5.60	7.12
97	Q1	4.71		0.54		4.15	
	Q2	19.71		18.91		0.67	
	Q3	15.86		7.52		7.76	
	Q4	6.27	54.33	1.52	30.49	4.68	18.27
98	Q1	16.21		15.15		0.92	
	Q2	8.63		4.54		3.92	
	Q3	-5.29		-9.08		4.18	
	Q4	23.62	47.82	26.74	38.71	-2.46	6.57

	---PORTFOLIO----		----BENCHMARK----		---- ---VAM--------	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
99 Q1	3 33		6.36		-2.85	
Q2	0 84		3.85		-2.90	
Q3	-5.88		-3.66		-2.30	
Q4	24.03	21.63	25.14	33.16	-0.89	-8.66
Latest·						
1 yr		21.63		33.16		-8.66
3 yr		40.52		34.07		4.81
5 yr		34.10		32.41		1.28
Cum 8807-9912		21.35		20.88		0.39
Std Dev		15.01		14.84		8.87

NEXT CENTURY GROWTH INVESTORS, LLC

Investment Style: Small Cap Growth

Investment Philosophy

Next Century Growth Investors, LLC's (NCG) goal is to invest in the highest quality and fastest growing companies in America. They believe that growth opportunities exist in the U.S. 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 that are well poised to outperform the market.

NCG believes broad industry diversification and investing in companies with low dependence on outside firms and on the economy is an effective way to manage portfolio risk. They limit broad sector exposure to twice the sector weighting of the Russell 2000® Growth Index and they limit individual portfolio positions to 5%. NCG's portfolios typically hold between 40 to 60 positions. They follow specific security selection criteria and, more importantly, adhere to a strict sell discipline.

Investment Management Process

NCG's investment process focuses on growth companies that have superior top line revenue growth (15% or greater), high profitability, and strong balance sheets that can out-perform over the long-term. Their security selection process starts with screening a universe of 5,000 companies with market caps less than $1 billion. A second round of screening is conducted for companies with strong fundamental growth characteristics.

This process produces a final list of 100 to 200 companies on which the team will conduct direct research and analysis. It is a combination of this direct research and use of their extensive analyst and broker network that determines stock selection. Key fundamental criteria they focus on are:

- Strong top line unit sales growth.
- Expanding Market Opportunity.
- Industry Leadership Position – leaders within the industry will have higher margins and returns on equity.
- Strong Management.

NCG's sell discipline focuses on fundamentals which fall below their screening criteria or when valuation exceeds their price target, relative under-performance exists, research uncovers a change in the original investment thesis, or an individual holding exceeds 5% of the portfolio.

NCG's portfolio managers serve both as portfolio managers and research analysts. At NCG, the investment decision-making process is driven by fundamental research derived from both internal and external sources.

NCG focuses on investing in high quality companies with great potential for superior long-term growth. They do not specialize in any given industry and participate in all growth sectors in the economy. Both managers are multi-disciplined and are very familiar with all portfolio holdings.

Ownership: NCG is 80% owned by the founding partners and 20% owned by Strong Capital Management, Inc.

Firm's total assets under management:	$70 million
Assets in this product:	$70 million
Number of accounts in this product:	3
Number of Portfolio Managers:	2
Number of Analysts:	(Same as Portfolio Managers)
Largest Accounts:	
Gates Family Foundation	$28 million
Bowana Foundation	$6 million

Location: Minneapolis, Minnesota

Investment Manager: NEXT CENTURY - COMPOSITE
Benchmark: RUSSELL 2000 GROWTH

		---PORTFOLIO---		---BENCHMARK---		---VAM---	
		Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
94	Q1	-7.88		-4.07		-3.97	
	Q2	-8.02		-6.28		-1.86	
	Q3	14.88		9.32		5.08	
	Q4	-1.35	-3.96	-0.74	-2.43	-0.61	-1.57
95	Q1	-2.33		5.48		-7.41	
	Q2	6.29		9.92		-3.30	
	Q3	12.75		11.37		1.23	
	Q4	13.46	32.81	1.48	31.04	11.81	1.35
96	Q1	5.81		5.74		0.06	
	Q2	11.00		5.84		4.87	
	Q3	0.05		-0.85		0.91	
	Q4	-5.39	11.18	0.26	11.26	-5.63	-0.07
97	Q1	-13.58		-10.49		-3.45	
	Q2	18.37		17.55		0.70	
	Q3	16.69		16.92		-0.20	
	Q4	-5.30	13.05	-8.20	12.95	3.15	0.09
98	Q1	6.76		11.88		-4.58	
	Q2	2.13		-5.74		8.35	
	Q3	0.53		-22.36		29.48	
	Q4	25.97	38.08	23.64	1.23	1.89	36.40
99	Q1	20.47		-1.68		22.52	
	Q2	3.18		14.75		-10.07	
	Q3	5.85		-4.92		11.32	
	Q4	54.95	103.86	33.39	43.09	16.16	42.47
Latest							
1 yr			103.86		43.09		42.47
3 yr			47.09		17.83		24.83
5 yr			36.27		18.99		14.52
Cum 9401-9912			28.55		15.12		11.67
Std Dev			24.88		22.12		16.94

PEREGRINE CAPITAL MANAGEMENT, INC.

Investment Style: Small Cap Value

Investment Philosophy

Peregrine Capital Management, Inc.'s (Peregrine) philosophy for investment management is that small teams of experienced investment professionals, each focused exclusively on their respective investment styles, lead to superior investment returns and high quality client service. Additionally, by limiting the number of clients accepted in each style, they assure their clients direct access to portfolio managers while allowing portfolio managers time to manage client portfolios.

Investment Management Process

The 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. Using 30 years of data, the analysis identifies the most under-priced securities on a sector-by-sector basis. The valuation analysis utilizes different combinations of 60 fundamental factors proven to be most relevant in each independent sector. The valuation analysis allows the small cap value team to identify and focus fundamentally on the 175 candidate names that meet the style's stringent valuation criteria.

Fundamental research is the backbone of the style. The team spends the majority of their time analyzing stocks on a bottom-up basis: meeting with company managements, analyzing company financial statements, and meeting with regional and Wall Street analysts. The focus of the style's fundamental research is to determine if one or more of the style's "Value Buy Criteria" are present within the 175 investment candidates. In order for a position to be initiated, at least one of the five value buy criteria listed below must be present.

Value Buy Criteria:

- Resolvable short-term problem.
- Catalyst for change.
- Unrecognized assets.
- Fundamental under-valuation.
- Take-over potential.

Peregrine believes the existence of one or more of these "Value Buy Criteria" increases the likelihood that the stock will return to fair value in a 6 to 24 month timeframe.

The small cap value style manages systematic risk by holding a diverse portfolio of 90-110 stocks with sector weights aligned closely with the Russell 2000 Value. This sector management technique places the focus for out performance on stock selection while reducing performance variability to the benchmark.

Peregrine's sell disciplines are also based on bottom-up fundamentals. The small cap value portfolio managers adhere to four sell disciplines. A stock is sold if any of the following conditions are found to exist in a holding:

- Fair value is reached relative to peers.
- Profit taking through partial sale.
- Fundamentals deteriorate.
- A better opportunity exists.

Peregrine's sell discipline seeks to ensure that clients' portfolios hold the best small cap value ideas across all sectors.

Research and Information Sources

Small cap value portfolio managers spend the majority of their time conducting fundamental research on the 175 candidate stocks. They meet with company managements, analyze financial statements, talk with analysts and attend industry conferences. The two portfolio managers meet with over 200 company management teams annually. The purpose of the fundamental analysis is to identify which of the inexpensive candidate stocks offers one or more of the five values buy criteria needed to purchase the stock.

The team is dedicated exclusively to the management of the style and has a combined total of 23 years of industry experience focused on small cap value analysis and portfolio management.

Ownership: Peregrine is a wholly owned subsidiary of Norwest Bank Minnesota, N.A. Peregrine operates autonomously from Norwest and retains 75% of revenue generated from new accounts, from which it pays all expenses, including competitive base salaries. Compensation is linked to investment performance, client retention and asset growth.

Firm's total assets under management:	$8.1 billion
Assets in this product:	$206 million
Number of accounts in this product:	6
Number of Portfolio Managers:	2
Number of Analysts:	1
Largest Accounts:	(Limited disclosure) 1 account > $100 million 1 account $10-25 million 4 accounts under $10 million

Location: Minneapolis, Minnesota

Investment Manager: PEREGRINE CAPITAL - COMPOSITE
Benchmark: RUSSELL 2000 VALUE

		----PORTFOLIO----		---BENCHMARK---		--------VAM--------	
		Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
96	Q1	5.78		4.39		1.34	
	Q2	3.15		4.09		-0.90	
	Q3	3.84		1.49		2.31	
	Q4	9.53	24.10	10.06	21.37	-0.48	2.25
97	Q1	-2.61		-0.25		-2.37	
	Q2	14.33		15.09		-0.66	
	Q3	15.42		12.89		2.24	
	Q4	1.70	30.70	1.68	31.79	0.02	-0.83
98	Q1	10.02		8.35		1.54	
	Q2	-3.91		-3.61		-0.31	
	Q3	-18.96		-17.88		-1.32	
	Q4	7.13	-8.22	9.07	-6.45	-1.78	-1.89
99	Q1	-8.97		-9.69		0.80	
	Q2	17.64		16.56		0.93	
	Q3	-6.38		-7.82		1.56	
	Q4	1.73	1.98	1.53	-1.49	0.19	3.52
Latest:							
1 yr			1.98		-1.49		3.52
3 yr			6.95		6.69		0.24
Cum 9601-9912			11.00		10.19		0.74
Std Dev			16.58		15.43		4.06

VOYAGEUR ASSET MANAGEMENT: CHICAGO EQUITY

Investment Style: Large Cap Growth

Investment Philosophy

Voyageur Asset Management's Chicago Equity Division's (Voyageur Chicago) 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 through rigorous application of a disciplined investment based on four cornerstones:

- Independent Fundamental Research. Voyageur Chicago uses Wall Street research, but conducts their own fundamental in-house research to reach decisions independent of what Wall Street may be saying.
- Careful Security Selection. Voyageur Chicago emphasizes stock selection and not market timing. They concentrate on issues with proven growth characteristics and strong financials and management.
- Strict Risk Controls. They pay close attention to the risk that results from their investment process at both the individual security level and portfolio level. Voyageur Chicago seeks to minimize risk when maximizing potential long-term returns.
- Disciplined Portfolio Construction. Through concentrated portfolios with an overlay of risk controls, their goal is to construct portfolios that reflect their best ideas.

Voyageur Chicago's process is steeped in the belief that sound fundamental analysis reveals those companies with superior earnings achievement and potential. And because they focus on diversification and sector limitations, they believe they can continue to outperform their benchmark as different investment styles or influences move in and out of favor. They believe their style and process prepares them for success in future markets.

Voyageur Chicago seeks returns higher than the market while experiencing risk levels similar to the market. Their portfolios typically exhibit an R-squared of approximately 90%, positive alpha, and a Sharpe ratio greater than 1.0. They proactively diversify the portfolio across several sectors. While there is no absolute minimum weighting for an industry sector, they do not invest additional funds in any sector where the portfolio exceeds 150% of the S&P 500 weighting for that sector. This is one of their key risk control methods.

Investment Management Process

The Voyageur Chicago group functions in a team environment and is structured to take full advantage of the experience of their professionals. The small, flexible growth equity team encourages creativity while imposing discipline and consistency.

Portfolio managers and research analysts handle multiple responsibilities, which provides full accountability at every level. Fundamental research is conducted by members of their portfolio management team, each of whom has specific areas of industry or sector expertise in which they are responsible for finding companies that meet their expectations for future growth and success.

The Voyageur Chicago investment office convenes an Equity Committee (Committee) at least weekly. The Committee, consisting of the office's four most senior portfolio professionals, collaborates on portfolio strategy and makes final investment decisions for the strategy. Committee actions are based on buy and sell recommendations emerging from their research process.

The Committee makes the final investment decision on individual stock issues strategy-wide, with each portfolio manager then responsible for implementing Committee decisions in the portfolios they manage. While certain quantitative elements (such as maximum sector and individual issue exposure) must be adhered to in every portfolio, portfolio managers do exercise portfolio-by-portfolio judgment on whether or not an issue falls within that client's specific objectives and guidelines.

Two critical considerations–risk and return–are paramount in their process. To enhance alpha, they begin with a screening process that creates a stock universe (currently 265 names) with fundamentals superior to those of the S&P 500. The screening process reveals companies that over the past five years have had higher growth in sales, earnings, return on equity, and earnings stability relative to their benchmark The companies in their screened universe also have lower debt levels than those of the S&P 500 component companies.

In addition to adding alpha through positive screens for superior companies, they seek to preserve alpha through strict risk controls, including the following:

- No more than 5% of the portfolio in any one name.
- A purchase limit of 150% of an S&P 500 economic sector.
- Lower P/E to Expected Growth rates.

Voyageur Chicago's style focuses on stock selection through fundamental bottom-up analysis, with the specific goal of positive portfolio returns with less-than-benchmark risk. They utilize the S&P 500 in portfolio construction to identify an appropriate "basket" of stocks with characteristics–revenue growth, earnings growth, ROE, debt/total cap, and earnings stability.

In addition to "front end" use of the S&P 500 to screen portfolio holdings, the benchmark is employed to monitor on-going sector exposure. While portfolios are built stock-by-stock, they are keenly aware of sector exposure. They limit new money into a sector to 150% of the benchmark weight and to 200% when return on holdings are considered, giving them the opportunity to capture sector upside while limiting downside exposure.

Voyageur Chicago constructs concentrated portfolios of 30 to 40 issues, each with a target portfolio weighting of 1.5% to 4% as determined by their Committee. Sector allocation is a residual of their bottom-up investment process, but risk controls limit sector weighting to 150% of benchmark at purchase of a holding and no more than 200% ultimate exposure due to increase in value of a holding. Holdings are screened for a $2 billion minimum market capitalization. They use no hedging and do not purchase derivative securities.

While they consider themselves to be "large cap" investors, they use the entire range of capitalizations above their $2 billion minimum. They do, however, limit exposure to smaller issues ($2 to $10 billion) to no more than 25% of the portfolio.

They exercise the discipline of selling stocks on any of the following criteria:

- Deterioration of a company's long-term fundamentals.
- A company falls from their universe because it fails a quantitative screen.
- The holding violates their risk controls.

Ownership: The Voyageur Chicago investment office is a wholly owned division of Voyageur Asset Management LLC. Majority ownership of the firm rests with the founder and key employees.

Firm's total assets under management:	$6.8 billion
Assets in this product:	$313 million
Number of accounts in this product:	20
Number of Portfolio Managers:	4
Number of Analysts:	3
Largest Accounts:	
Taft-Hartley Pension	$52.8 million
Taft-Hartley Pension	$50.6 million
Taft-Hartley Pension	$42.6 million
Taft-Hartley Pension	$35.6 million
Taft-Hartley Pension	$22.0 million

Location: Chicago, Illinois

	Investment Manager:	VOYAGER CHICAGO LARGE CAP GROWTH COMP.	
	Benchmark:	S&P 500	

		----PORTFOLIO----		----BENCHMARK----		--------VAM--------	
		Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
94	Q1	-4.00		-3.81		-0.19	
	Q2	1.01		0.46		0 55	
	Q3	2.33		4.94		-2 48	
	Q4	2.55	1.76	-0.03	1.38	2.58	0.38
95	Q1	7.48		9.73		-2 05	
	Q2	9.57		9.54		0 03	
	Q3	9.89		8.00		1 75	
	Q4	5.87	37.02	5.97	37.55	-0.10	-0.39
96	Q1	6.42		5.51		0 86	
	Q2	5.61		4.53		1 03	
	Q3	7.08		3.11		3 85	
	Q4	5.33	26.76	8.36	23.23	-2.79	2.87
97	Q1	-1.41		2.61		-3 92	
	Q2	20.79		17.45		2 84	
	Q3	3.11		7.54		-4 12	
	Q4	4.34	28.12	2.87	33.34	1.43	-3.91
98	Q1	16.15		13.97		1 91	
	Q2	4.19		3.31		0 85	
	Q3	-8.77		-9.82		1 16	
	Q4	23.99	36.89	21.40	28.90	2.14	6.20
99	Q1	6.99		4.93		1 96	
	Q2	6.46		6.93		-0 45	
	Q3	-4.16		-6.19		2 16	
	Q4	17.61	28.38	15.06	21.10	2.22	6.01
Latest:							
1 yr			28.38		21.10		6.01
3 yr			31.07		27.68		2.65
5 yr			31.36		28.68		2.08
Cum 9401-9912			25.88		23.67		1.79
Std Dev			15.15		13.70		4.68

Tab E

COMMITTEE REPORT

DATE: May 30, 2000

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

FROM: Domestic Manager Committee

The Domestic Manager Committee met on May 15, 2000 to consider the following agenda items:

- Review the manager performance for the period ending March 31, 2000.
- Review the status of Tobacco Endowment Funds.
- Review the status of Assigned Risk Plan.
- Review of active manager custom benchmark quality analysis.
- Re-interview of Brinson Partners.
- Review of Emerging Manager Program and Search results.
- Approval of Domestic Equity Asset Class Target Policy Paper.

Action is required by the SBI / IAC on the last item.

INFORMATION ITEMS:

1. Review of manager performance for the period ending March 31, 2000.

- ***Equity Managers***

For the period ending March 31, 2000, the **domestic equity manager program** under-performed the Wilshire 5000 for all time periods. The **current managers** out-performed the aggregate benchmark for the three, and five-year time periods and under-performed for the quarter and for one year.

Time period	Total Program	Wilshire 5000
Quarter	3.3%	3.8%
1 Year	21.5	23.6
3 Years	26.6	27.4
5 Years	25.4	25.8

Current Mgrs. Only	Aggregate Benchmark
3.3%	4.1%
21.7	22.4
27.9	27.1
26.6	25.5

The performance evaluation reports for the domestic equity managers start on the **first "blue page"** of this Tab.

- *Fixed Income Managers*

For the period ending March 31, 2000, the **fixed income manager program** and **current managers** outperformed the Lehman Aggregate and the aggregate benchmark during all time periods.

Time period	Total Program	Lehman Aggregate
Quarter	2.3%	2.2%
1 Year	2.0	1.9
3 Years	6.8	6.7
5 Years	7.5	7.1

Current Mgrs. Only	Aggregate Benchmark
2.3%	2.2%
2.0	1.9
6.8	6.7
7.5	7.2

The performance evaluation reports for the fixed income managers start on the **third "blue page"** of this Tab.

2. Review of status of Tobacco Endowment Funds.

The Committee reviewed the status of the proposed investment policy and asset allocation for the Tobacco Endowment Funds. The 1999 legislation established two tobacco funds specifying that the principal of the funds remain inviolate and that only earnings from the funds could be used for expenditures. These restrictive provisions limited the investment options available to the SBI. Since July 1999, the tobacco funds have been invested entirely in a laddered fixed income portfolio.

The Board authorized the Executive Director to seek legislative changes to relax the restrictive provisions and adopted a revised Tobacco Fund Investment Policy Paper recommending a change in asset allocation of the tobacco endowment funds to 50% equity and 50% fixed income.

During the 2000 Legislative Session, a bill was passed, which is now effective, allowing the change in the asset allocation. Staff will liquidate securities from the current laddered fixed income portfolio and allocate 50% of the funds to purchase fixed income securities with characteristics similar to the Lehman Aggregate index. The balance of the portfolio will be invested passively to track the S&P 500 Index. The transition will be completed by July 1, 2000.

3. Review of status of Assigned Risk Plan.

Staff reported to the Committee that the Legislature is finalizing legislation that will remove in excess of $400 million of surplus assets from the Assigned Risk Plan. The action may require the termination of GE Asset Management because an equity portfolio may no longer be needed. The action also may result in a change in the fixed income portfolio invested by Voyageur Asset Management. Staff will work with the Commerce Department and the Department of Labor and Industry to determine the magnitude and timing of asset transfers and report to the Investment Advisory Council and the Board on the issue.

4. **Review of active manager custom benchmark quality analysis.**

The SBI's Manager Continuation Policy requires staff to review all active domestic stock managers' custom benchmarks on an annual basis to determine if the benchmarks can be used as a valid performance measurement standard for the manager. The custom benchmarks are evaluated by using a set of quantitative benchmark quality measures.

A review of the benchmark quality measures indicated that the managers' current benchmarks are a satisfactory representation of the managers' investment styles, and that the benchmarks can be used as valid measurement standards. A summary of the benchmark quality evaluation and a description of the benchmark quality measures are included beginning on **page 7** of this tab.

5. **Re-interview of Brinson Partners.**

The Committee re-interviewed Brinson Partners due to significant portfolio underperformance and recent organizational changes. For the past year, Brinson's performance has lagged its benchmark over a five-year period, and for the past two quarters, it has plotted below the lower confidence interval on a five-year rolling VAM graph

Staff met with Brinson Partners on several occasions in the last six months to discuss performance issues. Brinson uses a relative value approach to equity investing, which has been out of favor in the market. Brinson believes that the portfolio's underweight to the momentum-driven technology sector, in favor of the transportation, utility, bank, and material sectors was a major source of under-performance. However, they feel that the portfolio is well positioned to benefit from a rotation toward broader market performance. This was evidenced by the portfolio's outperformance relative to its custom benchmark in March and April when value investing was rewarded in the market place.

In addition, in March 2000, Brinson Partners announced that they would combine their organization with Phillips & Drew under UBS Asset Management. At the same time, Gary Brinson, the founder and CEO of Brinson Partners, announced his intention to resign at the end of the year after the completion of a planned management transition. Following these announcements in the first quarter of 2000, Brinson Partners lost thirty-three equity accounts valued at $4.5 billion, approximately 2.8% of their total institutional assets.

At the Committee meeting, Gary Brinson, Chairman; Jeff Diermeier, CIO; and John Leonard, Co-Head of North American Core Equities addressed these concerns. The Committee was encouraged by the portfolio's recent performance, Brinson's commitment to their investment process with an effort to make improvements upon it, and by the strong leadership that will remain in place following Gary Brinson's retirement. The Committee voted to take no action with regard to Brinson Partners at this time.

6. **Review of Emerging Manager Program and Search results.**

At the December 1999 SBI meeting, the Board authorized a review of the Emerging Manager Program and a search for potential new managers. As part of the process, staff recommended and the Committee concurred that three of the seven managers in the program be retained (Zevenbergen Capital, Valenzuela Capital, and New Amsterdam Partners). The remaining four managers (CIC Asset Management, Compass Capital, Wilke/Thompson Capital, and Winslow Capital) were re-interviewed on April 26, 2000 by the Domestic Manager Committee to determine their status prior to the Emerging Manager Search Committee interviewing prospective new managers for the program. The Committee recommended that the SBI terminate Compass Capital and Wilke/Thompson Capital. The Committee also recommended that the portfolio managed by Winslow Capital be transitioned from a large cap to a small cap mandate.

The Emerging Manager Search Committee met on May 1 and 2, 2000 to interview potential new managers. The Search Committee recommended seven managers be added to the Program. The results and recommendations from the Search Committee and the Domestic Manager Committee appear in **Tab D**.

ACTION ITEMS:

7. **Approval of Domestic Equity Asset Class Target Policy Paper.**

The SBI has used the published Wilshire 5000 (W5000) as the Domestic Equity asset class target since the early 1980's. Recently, the stock market environment highlighted issues that caused unacceptable tracking in the Program relative to the published W5000. In reviewing the tracking error of 1999, staff identified the following issues regarding the use of the published W5000 as the asset class target:

- A mismatch exists between the SBI Domestic Equity program benchmark planning and performance reporting processes.
- The timing of the index changes in the published W5000 differs significantly from that of the SBI's aggregate custom benchmarks.
- The W5000 includes a significant number of illiquid stocks.
- The published W5000 is not float adjusted for the shares owned by company insiders or venture capitalists that are not available for trade in the open market.

The attached policy paper beginning on **page 15** reviews these issues, examines the options for an asset class target among published and modified published indices, and makes recommendations for a new asset class target. The paper also discusses several specific requirements that the SBI's asset class target should meet including:

- The asset class should be completely investable.
- The asset class target should be consistent with the benchmark planning and the performance reporting process.
- The asset class target should be adjusted to remove stocks the SBI chooses not to invest in.

The paper recommends the SBI modify the W5000 to meet the SBI's specific investment needs and to more accurately measure the program's performance. This modified W5000 would be called the **W5000 Investable**, and it would more closely reflect an institutional investors' domestic equity universe. The index construction process would start with the prior month-end published W5000 holdings on a quarterly basis, and then be modified according to the SBI's requirements, which are outlined in the paper. Other than changes due to corporate actions, the list of stocks in the asset class target would remain constant until the next quarterly reconstitution.

The Committee concurs that the W5000 Investable is a better measure of the performance of the SBI's investable universe and, during the past few quarters of extreme market volatility, would have offered a more realistic target for measurement. Therefore, it would be appropriate to restate the asset class target's returns for fiscal year 2000 using the new asset class target. Restating the returns of the W5000 to W5000 Investable would not affect the active, semi-passive, or aggregate benchmarks, but would simply reflect an asset class target more similar to the aggregate of all managers' benchmarks.

RECOMMENDATION:

The Committee recommends that the SBI adopt the attached policy paper establishing the W5000 Investable as the asset class target for the Domestic Equity Program effective July 1, 2000.

The Committee, also, recommends that staff negotiate any contractual changes necessary to implement this new asset class target with the SBI's index fund provider. Staff is also directed to restate fiscal 2000 results to reflect the new asset class target.

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DATE: May 8, 2000

TO: Members, Domestic Manager Committee

FROM: Lois Buermann LB
Stephanie Gleeson SMG

SUBJECT: Annual Benchmark Quality Evaluation

The SBI's Manager Continuation Policy requires staff to review all custom benchmarks for active domestic stock managers on an annual basis. The purpose of the analysis is to determine whether a benchmark adequately reflects the manager's unique investment style and therefore can be used as a valid performance measurement standard for the manager.

Attached is a summary of the benchmark evaluation showing the key characteristics of the benchmarks through December 1999, and staff's assessment of each manager's benchmark. A glossary of terms is included for your reference.

The custom benchmarks for the active domestic stock managers are satisfactory and continue to show characteristics of benchmarks that reflects the investment style of each manager. Oppenheimer Capital and Cohen, Klingenstein & Marks' benchmarks have shown improvements in quality over the past year.

BENCHMARK QUALITY EVALUATION

For Period Ending
December 1999

	General Guidelines	Alliance Capital	Brinson Partners	Cohen, Klingenstein & Marks	Forstmann-Leff	Franklin Portfolio
Source of Benchmark	NA	Manager	R&T	Mngr 5/94-6/98 R&T 7/98-12/99	R&T	Manager
Benchmark Evaluation Period		1/86 - 12/99	8/93 - 12/99	5/94 - 12/99	1/86 - 12/99	5/89 - 12/99
Benchmark Coverage (Recent)	≥ 85%	95%	98%	86%	96%	97%
Positive Active Positions (Recent)	Near 100%	96%	100%	100%	99%	100%
Turnover (Recent semi-annual)	< 25%	25%	9%	19%	40%	12%
Active Risk						
Annualized Std. Dev. of VAM - Portfolio vs. S&P500	Larger #	6.51	6.81	6.94	8.32	5.63
- Portfolio vs. Bnmk	Smaller #	4.44	5.65	6.42	7.1	4.32
Risk Reduction	% Change	32%	17%	8%	15%	23%
Correlation Analysis						
Portfolio vs S&P500 correlation to Bnmk vs S&P500	> 0.500	0.658	0.559	0.434	0.539	0.644
Portfolio vs Bnmk correlation to Bnmk vs S&P500	-0.2 to 0.2	-0.060	0.028	-0.227	-0.163	0.018
Relative Style Coordinate Analysis (Portfolio located closer to bnmk than S&P500?)	Yes	Yes	Yes	Yes	Yes	Yes
Risk Characteristics (B/P, E/P, Growth, Etc.) (Portfolio similar to bnmk over time?)	Yes	Yes	Yes	Yes	Yes	Yes
Economic Sector Weights (Portfolio similar to bnmk over time?)	Yes	Yes	Yes	Yes	Yes	Yes
SBI's Overall Assessment	Excellent, Satisfactory, Unsatisfactory	Excellent	Excellent	Satisfactory	Satisfactory	Excellent

BENCHMARK QUALITY EVALUATION

For Period Ending
December 1999

	General Guidelines	GeoCapital Corporation	Lincoln Capital	Oppenheimer Capital
Source of Benchmark	NA	Barra 5/90-6/91 R&T 7/91-12/99	R&T	Barra
Benchmark Evaluation Period		5/90 - 12/99	8/93 - 12/99	8/93 - 12/99
Benchmark Coverage (Recent)	≥ 85%	85%	100%	78%
Positive Active Positions (Recent)	Near 100%	98%	100%	100%
Turnover (Recent semi-annual)	< 25%	28%	12%	29%
Active Risk				
Annualized Std. Dev. of VAM - Portfolio vs. S&P500	Larger #	13.96	5.26	5.51
- Portfolio vs. Bnmk	Smaller #	8.96	3.56	4.86
Risk Reduction	% Change	36%	32%	12%
Correlation Analysis				
Portfolio vs S&P500 correlation to Bnmk vs S&P500	> 0.500	0.781	0.738	0.483
Portfolio vs Bnmk correlation to Bnmk vs S&P500	-0.2 to 0.2	-0.227	-0.045	0.118
Relative Style Coordinate Analysis (Portfolio located closer to bnmk than S&P500?)	Yes	Yes	Yes	Yes
Risk Characteristics (B/P, E/P, Growth, Etc.) (Portfolio similar to bnmk over time?)	Yes	Yes	Yes	Yes
Economic Sector Weights (Portfolio similar to bnmk over time?)	Yes	Yes	Yes	No
SBI's Overall Assessment	Excellent, Satisfactory, Unsatisfactory	Satisfactory	Excellent	Satisfactory

BENCHMARK QUALITY EVALUATION

For Period Ending
December 1999

	General Guidelines	CIC Asset	Compass Capital	New Amsterdam Partners	Valenzuela Capital
Source of Benchmark	NA	Barra 5/94-6/98 R&T 7/98-12/99	R&T	R&T	R&T
Benchmark Evaluation Period		5/94 - 12/99	5/94 - 12/99	5/94 - 12/100	5/94 - 12/101
Benchmark Coverage (Recent)	≥ 85%	85%	97%	100%	88%
Positive Active Positions (Recent)	Near 100%	100%	100%	100%	100%
Turnover (Recent semi-annual)	< 25%	34%	13%	27%	18%
Active Risk					
Annualized Std. Dev. of VAM - Portfolio vs. S&P500	Larger #	7.26	6.54	5.31	7.95
- Portfolio vs. Bnmk	Smaller #	4.16	5.72	4.9	6.08
Risk Reduction	% Change	43%	13%	8%	24%
Correlation Analysis					
Portfolio vs S&P500 correlation to Bnmk vs S&P500	> 0.500	0.824	0.489	0.538	0.685
Portfolio vs Bnmk correlation to Bnmk vs S&P500	-0.2 to 0.2	0.139	-0.071	-0.406	-0.303
Relative Style Coordinate Analysis (Portfolio located closer to bnmk than S&P500?)	Yes	Yes	Yes	Yes	Yes
Risk Characteristics (B/P, E/P, Growth, Etc.) (Portfolio similar to bnmk over time?)	Yes	Yes	Yes	Yes	Yes
Economic Sector Weights (Portfolio similar to bnmk over time?)	Yes	Yes	Yes	Yes	Yes
SBI's Overall Assessment	Excellent, Satisfactory, Unsatisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory

BENCHMARK QUALITY EVALUATION

For Period Ending
December 1999

	General Guidelines	Wilke/ Thompson	Winslow Capital	Zevenbergen Capital
Source of Benchmark	NA	R&T 5/94-12/99 (per mngr specifications)	Barra 5/94-12/97 R&T 1/98-12/99	Manager
Benchmark Evaluation Period		5/94 - 12/102	5/94 - 12/103	5/94 - 12/104
Benchmark Coverage (Recent)	≥ 85%	73%	97%	90%
Positive Active Positions (Recent)	Near 100%	100%	100%	100%
Turnover (Recent semi-annual)	< 25%	13%	20%	30%
Active Risk				
Annualized Std. Dev. of VAM - Portfolio vs. S&P500	Larger #	16.28	10.2	11.67
- Portfolio vs. Bnmk	Smaller #	10.3	7.29	7.41
Risk Reduction	% Change	37%	29%	37%
Correlation Analysis				
Portfolio vs S&P500 correlation to Bnmk vs S&P500	> 0.500	0.776	0.704	0.777
Portfolio vs Bnmk correlation to Bnmk vs S&P500	-0.2 to 0.2	-0.078	0.116	0.133
Relative Style Coordinate Analysis (Portfolio located closer to bnmk than S&P500?)	Yes	Yes	Yes	Yes
Risk Characteristics (B/P, E/P, Growth, Etc.) (Portfolio similar to bnmk over time?)	Yes	Yes	Yes	Yes
Economic Sector Weights (Portfolio similar to bnmk over time?)	Yes	Yes	Yes	Yes
SBI's Overall Assessment	Excellent, Satisfactory, Unsatisfactory	Satisfactory	Excellent	Satisfactory

GLOSSARY

Benchmark coverage measures the percentage of securities held in the actual portfolio which also are contained in the benchmark portfolio. If a benchmark truly captures the securities on which the manager has an investment opinion, it will have a high coverage ratio. Coverage ratios vary according to the level of discipline exhibited in a manager's definition and implementation of the investment process. A valid benchmark should produce a coverage ratio of 80% or greater.

An **active position** is the difference between the actual portfolio weight of a security less the corresponding benchmark weight of the same security. A good benchmark will generate positive active positions with very rare exceptions. The weighting of each holding in the active portfolio should exceed the corresponding weights assigned to the same securities in the benchmark because if a manager finds a particular stock attractive, he will hold more than the benchmark position. Conversely, if a manager feels a security is unattractive, he will not hold the security at all.

Benchmark turnover measures the proportion of the benchmark's market value allocated to purchases and reinvestment of income during a periodic rebalancing. A valid and investable benchmark should experience reasonable levels of turnover. Semi-annual turnover in the 20 to 30% range is consistent with a passive investment in the benchmark.

Active Risk analysis is a useful measure in determining explanatory power of a customized benchmark. It is the variability (standard deviation) of the manager's active return (active portfolio return less benchmark return). Since a customized benchmark is constructed to capture a manager's investment style, a good benchmark should produce lower active risk than using a market index as the benchmark. This indicates that the benchmark more effectively screens out random noise associated with factors unrelated to a manager's investment style. To indicate the amount of return the manager generates relative to the risk they take, an information ratio (IR) can be calculated. An IR is calculated by dividing the Value of Active Management (VAM or active return) by the active risk. Holding everything else constant, the lower active risk resulting from a valid benchmark will produce a higher information ratio (IR) than a market index. In general, the higher the information ratio the shorter the time frame needed to determine whether the manager can or cannot add value at a statistically significant level.

Correlation analysis: The explanatory power of a manager's benchmark can also be evaluated by looking at the correlation between three residual return series: the manager's actual returns versus those of the market, the benchmark returns versus those of the market, and the actual portfolio returns versus those of the benchmark.

A good benchmark should exhibit significantly positive correlation between portfolio vs. market and benchmark vs. market, because when the manager's benchmark, or investment style, performs well relative to the market, the actual portfolio should also do well relative to the market. A good benchmark will have a correlation between portfolio vs. market and benchmark vs. market greater than 0.50.

If a manager's investment style is accurately reflected in the benchmark, the manager's ability to add value relative to the benchmark should not be affected by the performance of its investment style relative to the market. Therefore, the correlation between benchmark vs. market and portfolio vs. benchmark should be essentially zero over time.

DOMESTIC EQUITY
ASSET CLASS TARGET

Minnesota State Board of Investment

Staff Position Paper

May 2000

DOMESTIC EQUITY ASSET CLASS TARGET

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INTRODUCTION

In 1983, the State Board of Investment (SBI) selected the Wilshire 5000 (W5000) as its asset class target for the Domestic Equity Program. The purpose of this paper is to review the current options and to determine which index represents the most appropriate asset class target for the SBI's Domestic Equity Program at this time.

BACKGROUND

An asset class target is a diversified collection of securities within a particular asset class. It represents the set of feasible investment opportunities that best achieves the purposes for which the asset class is included in the policy asset mix. In general, an appropriate asset class target should fulfill the following objectives:

- It should represent the broad range of investment opportunities available in the market place to institutional investors.
- It should reflect the constraints an institutional investor experiences in the market place.
- It should embody the plan's return objectives and risk tolerance for a particular asset class. By defining the range of available investments, the selection of an appropriate asset class target assures that implementation is consistent with the stated policy.
- It should provide a measurable performance standard with which to evaluate the results of the plan's total investment program for that asset class.

A market index can be categorized in general terms as either "broad" or "narrow." Broad indices (e.g., Wilshire 5000 or Russell 3000) provide broad coverage of the domestic stock market. Conversely, narrow indices (e.g. Dow Jones Industrial or S&P 500) represent a smaller sub-set of the market. Broad and narrow indices will differ in the amount of coverage they provide relative to the stock investments held by a plan sponsor's active domestic equity managers. For example, the W5000 and Russell 3000 (R3000), both broad indices, contain at least 93% of the market value of all the investments made by the SBI's active domestic equity managers. By comparison, the S&P 500 covers approximately 77%. By choosing a narrow index as its asset class target, a plan sponsor implicitly or explicitly targets investment in a certain part of the available market. On the other hand, if a plan sponsor wishes to target a wider set of investment opportunities, it should designate a broad index as its target.

In 1983, the SBI selected the W5000 as its asset class target for the Domestic Equity Program. At that time, the published indices available for use as a target included the W5000 and the S&P 500. Given the SBI's desire to have broad exposure to publicly traded domestic equities, the W5000 was the appropriate choice.

In June 1994, Staff again reviewed the asset class target with the Stock and Bond Manager Committee of the IAC and found the R3000 attractive. However, the advantages of the R3000 did not appear to outweigh the one-time transaction cost of moving from the W5000 to the R3000, so the W5000 continued as the SBI's Domestic Equity asset class target.

Historically, the SBI has believed that a broad market index is the most appropriate asset class target for the Domestic Equity Program. Broad market indices represent the return behavior of the U.S. common stock market and reflect the belief that one segment of the market will not produce better long-term performance than another. At times, the SBI has instituted investment restrictions such as prohibiting tobacco and alcohol stocks from being included in equity portfolios. During these times, the asset class target has been appropriately adjusted to reflect these restrictions.

INVESTABILITY ISSUES WITH THE WILSHIRE 5000 AS AN ASSET CLASS TARGET

Recently, several issues surfaced to cause Staff to revisit the Domestic Equity asset class target. These issues have always existed and have caused minor tracking in the performance evaluation of the Domestic Equity Program relative to its asset class target. However, in 1999, these issues resulted in unacceptable tracking error for the Domestic Equity Program. Because the Domestic Equity Program is a significant part of the Basic and Post Retirement Plans, the total return of both Plans also suffered tracking error relative to their composite indices.

The issues that Staff has identified with the published W5000 include the following:

Mismatch Between Planning and Reporting. The SBI manages the Domestic Equity Program on a quarterly planning cycle. Each quarter, the SBI's consultant works with the SBI's active managers to construct and modify their individual custom benchmarks. The consultant then analyzes the active managers' benchmarks to construct the Dynamic Completeness Fund benchmark for the ensuing quarter. This benchmark is then delivered to the SBI's semi-passive managers five days in advance of the quarter-end to allow the managers to prepare a modification to their portfolio. To operationally accomplish these steps, data based on the prior month-end must be used.

The SBI has used this quarterly buy/hold methodology to plan benchmarks since 1990, while the program's performance has been reported against a published index, the W5000, which changes daily. (The S&P 500 and the R3000 are also buy/hold indices.) Historically, the mismatch between planning and reporting has caused a variance of approximately 19 basis points. However, this mismatch between planning and reporting periods caused a tracking error of 79.3 basis points during the year ended December 1999. This very significant tracking error had not been experienced in the past, but due to the extremes in the market place during 1999, such as narrow market advances (technology), significant initial public offerings, and high merger and acquisition activity, it had a very large impact on the Domestic Equity Program's performance.

Timing of Index Changes. Wilshire reconstitutes the W5000 (determines which companies belong in the index) daily, based on whether the stock traded or did not trade on that day. Wilshire rebalances (adjusts the weights of stocks in the index for changes in the number of shares outstanding) monthly, and incorporates changes to its index due to corporate actions (i.e. mergers, stock splits, etc.) during the month. Companies with initial public offerings (IPO's) are included in the W5000 at the end of the month in which they are brought to market. The SBI's custom benchmarks and Dynamic Completeness Fund benchmark are reconstituted at the start of each quarter based on the previous month-end data (for example, the first quarter of the year is based on November month-end data) and held constant until the next quarterly reconstitution. This difference in the timing of changes in the benchmarks may result in significant tracking error between the Domestic Equity Program's aggregate benchmarks and the published W5000 Index.

For example, a company that goes public during December would be included in the W5000 on January 1, but would not be incorporated into the custom benchmarks until April 1 (the January 1 custom benchmark reconstitution is based on November 30 data). The company's stock price could markedly change during this three-month period. This change results in misfit or tracking error between the SBI Aggregate Domestic Equity benchmark and the published W5000. During periods such as 1999, this can have a significant impact on tracking error. IPO's caused a

45 basis point impact to the W5000 in 1999, because of the significant number of IPOs and because so many had very good performance. Thus, the Wilshire index construction methodology is inconsistent with the SBI's benchmark construction process and may at times put the SBI's portfolio at significant variance relative to its ability to track the current asset class target.

Significant Number of Illiquid Stocks. The SBI is unable to invest in a significant portion (number of names not market capitalization) of the W5000 due to the illiquid nature of many small capitalization names. The all-inclusive nature of the W5000 adds some measure of difficulty for passive managers to track the performance of the index, because it includes more than 3000 small companies below $100 million in market capitalization. Included in these are 1300 micro-cap companies with market capitalization of less than $25 million. The stocks of these very small companies are illiquid and expensive to trade, so the SBI's passive portfolio owns few of them. Therefore, an asset class target that does not include small cap names (less than 1% of the published W5000 market capitalization) would be an improvement over the published W5000.

Lack of Float Adjustment. Wilshire's index construction methodology includes all companies in the index at their full market capitalization weighting (number of shares times price per share). Wilshire does not adjust the weight of a security in the index for float, that is, for the shares owned by company insiders or venture capitalists that are not available for trade in the open market. This lack of float adjustment inflates the level at which some companies are included in the W5000, and makes it difficult for a passive manager to get the proper exposure to a name relative to its weighting in the benchmark.

A passive manager can incur high negative tracking error when they are unable to get sufficient exposure to stocks that perform well and are included in the W5000 at a full market cap weighting. For example, companies with IPOs often have significant insider and/or venture capitalist ownership. In recent periods, many IPO companies significantly outperformed broad index measures, and the inability of the passive manager to obtain a market weight, due to lack of float, exposed the passive portfolio to tracking problems relative to the benchmark. During the quarter ending December 1999, the SBI's passive index account under performed by 50 basis points due to insufficient exposure to eleven IPO companies.

An appropriate asset class target should allow for passive implementation and the ability to transact in and out of an index position quickly and with little market impact or direct cost. Therefore, float adjustment should be given consideration in the selection of an asset class target.

These issues with the W5000 as an asset class target were exaggerated due to the stock market environment in late 1999. This paper will address these issues.

CURRENT OPTIONS FOR THE ASSET CLASS TARGET

The SBI has several options for an asset class target including various published indices and modified indices. Included in this section and in **Attachment 1** is information on the construction methodology and characteristics of the following indices:

Published Indices:	Wilshire 5000
	Russell 3000
	Standard & Poors 1500
	Standard & Poors 500
	Dow Jones Total Market Index
Modified Indices:	BGI US Equity
	Modified Published Indices

PUBLISHED INDICES

The published indices offer the plan sponsor the ability to follow their performance in various published sources. All are priced on a daily basis.

The **W5000** is the broadest of all U.S. equity indices currently containing over 7000 capitalization-weighted securities. The W5000 is constructed by Wilshire Associates and includes the common stock of all U.S.-domiciled companies that are publicly traded in the U.S. and for which daily prices are obtainable. This definition includes, in part, real estate investment trusts (REIT's) and master limited partnerships (MLP's). The index does not include American Depository Receipts (ADRs). The actual number of issues contained in the W5000 varies over time, depending on how many publicly held companies come into and go out of existence. Companies are added and deleted by Wilshire Associates on a continual basis.

The **R3000** is constructed by the Russell / Mellon Analytical Services. It measures the performance of the 3000 largest U.S. companies by market capitalization that meet their inclusion rules. The securities must be domiciled (incorporated) in the U.S. or its territories. All companies listed on a U.S. exchange or the NASDAQ are considered for inclusion in the index. The index is reconstituted annually based on data available on May 31 of each year. The weighting of securities may be adjusted for float, that is, for factors that limit the available shares such as cross-holdings and private ownership based on a set of specific rules. As of June 1999, the R3000 represented approximately 90% of the investable U.S. equity market. The R3000 is also divided into numerous sub-indices that represent the small, mid, and large capitalization universes as well as value and growth measures.

The **S&P 1500** has been compiled since 1995 by Standard and Poor's. It measures the performance of the 1500 securities in the S&P 500, the S&P MidCap 400, and the S&P SmallCap 600 indices. Index reconstitution is a continuous process that is based on the judgment of a committee and not on clear published rules. The S&P indices include companies for their market size, liquidity, and industry group representation. The S&P 1500 is not widely used by institutional investors.

The **S&P 500** consists of 500 stocks that represent the major industries in the U.S. market. It is the most widely followed index in the U.S., and is used as a large capitalization benchmark. While it covers approximately 74% of the U.S. equity market capitalization, the S&P 500 is not considered a broad capitalization index. As with the S&P 1500, index reconstitution is continuous and based on committee judgment.

The **Dow Jones Total Market Index** is a new family of benchmark indices launched in February 2000. This new index covers a constant 95%

of the U.S. equity market's capitalization, so it offers more consistent coverage, particularly during periods of rapid market expansion, than indices with a fixed number of constituents. The Total Market Index is made up of three sub-indices: Large-Cap, Mid-Cap, and Small-Cap. The index includes all NYSE, Amex, and NASDAQ stocks, but excludes those with less than six months trading history, foreign issues, non-common equity issues, illiquid stocks, and stocks owned significantly by insiders or other organizations. Stocks that constitute the top 70% of the universe's market value become the Large-Cap Index; those in the next 20% become the Mid-Cap Universe; those in the bottom 10% become the Small-Cap Universe.

The Dow Jones Total Market Index is a new index without historical experience, and therefore Staff is not recommending it at this time. However, over time, the Dow Jones Total Market Index Series may be more widely used by institutional investors, because its construction is designed to be more institutionally investable and to cover 95% of the market while preserving index liquidity.

Most of these published indices are well known and used by many plan sponsors as asset class targets. It should be noted, however, that many of the problems the SBI recently experienced with the W5000 would not be resolved by using these published Indices as the asset class target. For example, only the Dow Jones Total Market Index is reconstituted on a quarterly basis. The W5000, R3000, and S&P indices would not resolve the mismatch between planning and reporting time periods. In addition, the W5000 and the S&P indices are not float adjusted. Timing of index changes is problematic in the W5000, because it occurs daily compared to the SBI's quarterly benchmark reconstitution. In the S&P indices, index changes are not predictable, as they are a result of committee judgment. The R3000 is reconstituted once a year, so index changes cause significant turnover during July.

MODIFIED INDICES

Many consultants and others have the capability to construct asset class targets that meet the needs of large plan sponsors. These indices are constructed to represent the client's investable universe, and can be monitored and measured by various entities. An example of a modified index is the BGI U.S. Equity Index. It is a broad market index that captures the performance of about 5000 securities. The following is a brief description of this index:

> The **BGI U.S. Equity Index** is constructed by Barclays Global Investors (BGI), and is used by more than 90 BGI clients with $43 billion invested in an index fund designed to track it. The BGI U.S. Equity Index is a composite of the S&P 500 and the BGI Extended Market Index. The BGI Extended consists of more than 4500 securities that represent the broad market beyond the S&P 500. It does not include about 1500 securities that fail liquidity and market capitalization cutoff screens. While the BGI Extended is float adjusted, the S&P 500 portion of the BGI U.S. Equity is not. BGI also includes ADRs and other non-U.S. stocks that are part of the S&P 500. The non-U.S. stocks include 13 companies that total about 4% of the S&P 500 market capitalization. They are companies generally headquartered in Canada or Bermuda and trading on U S. exchanges. Approximately 80% of the BGI U.S. Equity total capitalization is in the S&P 500 component. Reconstitution is monthly.

Modified indices represent improvements for institutional investors, as they more closely reflect an institutional investor's domestic equity universe. Specific modified indices resolve most but not all of the issues the SBI has identified with the asset class target. If the SBI were to consider a modified index as an asset class target, the SBI should seek (if not immediately, then in the future) adjustments that address all of the known investability concerns identified in this paper.

REQUIREMENTS FOR AN ASSET CLASS TARGET

The SBI's Domestic Equity Program uses active management, and inherent to active manager programs is style misfit relative to a broad market index. To control style misfit, the SBI uses a Completeness Fund investment structure. This structure necessitates some unique requirements for an asset class target. The completeness fund approach involves assigning every stock in the target to either an active or semi-passive manager's benchmark in order to actively manage all parts of the equity market and minimize the misfit or tracking error between the aggregated benchmarks and the asset class target. For this reason, it is very important that the asset class target be completely investable.

Second, in order to remove the mismatch between the benchmark planning process and reporting, the asset class target should also be reconstituted on a quarterly basis. Since inception in 1990, the SBI's Completeness Fund investment structure has been based on quarterly reconstitution of the benchmarks. Quarterly reconstitution generates the majority of the refinements that a monthly reconstitution would, but does not generate the high level of one-time turnover that annual reconstitution would.

Finally, the SBI has, at times, had specific investment restrictions in place. Currently, all active domestic equity managers are restricted from owning stocks in companies that generate more than 15% of revenue from tobacco proceeds. The asset class target should be adjusted to remove the tobacco stocks that the SBI chooses not to invest in to more accurately measure the Domestic Equity Program's performance.

In order to satisfy these requirements and address the issues identified in this paper, the SBI should consider using a modified W5000 as an asset class target. The asset class target should start with the published W5000 but include adjustments to reflect the SBI's Domestic Equity Program structure and constraints. The adjustments should also make the new target more institutionally investable, so the SBI's passive manager can better replicate the target with tracking error coming only from transaction costs.

If the Board adopts the recommendations in this paper, the SBI would use a specific set of rules and procedures to create the asset class target. The SBI's consultant would build a custom asset class target for the SBI called the **W5000 Investable** according to SBI's requirements as follows:

- The asset class target would be constructed each calendar quarter or at a time consistent with a planned and significant change to the program's structure.
- The starting point for each reconstitution will be the prior month-end published W5000 holdings (i.e. the first quarter target would be based on November month-end W5000 holdings). Then the following adjustments would be made:
    - Remove stocks that are part of the SBI's directed restrictions (currently, restricted tobacco company list).
    - Eliminate low volume stocks. Stocks must trade 50% or more of the time.
    - Eliminate low capitalization stocks, which are defined as the 10th decile of the New York Stock Exchange. This determines the market capitalization cut-off point applied to all stocks in the published W5000. (As of March 31, 2000, this would eliminate companies below $91.7 million in market capitalization).
    - Eliminate ADR's, REIT's, Dual Class Stocks, MLPs, Closed-end and Exchange Traded Funds, Unit Trusts, Preferred Stock (non common stock).
- With regard to float, the **W5000 Investable** will use the published W5000 shares outstanding as reported until a process to adjust for float is determined by Staff.
- The asset class target's list of stocks and number of shares would remain constant until the next reconstitution.
- The weights of the stocks in the asset class target would float with price movement until the next reconstitution.
- Any adjustment for corporate actions would be made to the asset class target as necessary in a manner consistent with the custom benchmarks and the Dynamic Completeness Fund benchmark.

The characteristics of the **W5000 Investable** index are included in **Attachment 1**. The index contains approximately 3700 securities as of March 31, 2000. It is similar to the R3000 in terms of median and average market capitalization, and it excludes those securities not considered to be part of the SBI's investment universe, such as tobacco, ADR's, REITs, MLPs, etc.

Back tests of the **W5000 Investable** index modified for the SBI demonstrates that there is little difference in the total rate of return over time versus both the published W5000 and the R3000 (see **Attachment 2**). The benefit offered by the **W5000 Investable** is the ability of the SBI to reduce short-term volatility around the new asset class target and better evaluate the performance of the Domestic Equity Program. A better performance measurement target will improve short-term decision-making.

If the Board approves the **W5000 Investable** as the asset class target for the Domestic Equity Program, it should also consider using it as the target during the volatile markets experienced during fiscal year 2000. By restating the returns of the asset class target from the published W5000 to the **W5000 Investable** for quarters ending *September 1999, December 1999, March 2000, and June 2000,* the SBI can more accurately evaluate the Program's performance during that unusual period of market activity. Restating the asset class target returns would not impact the active, semi-passive, or aggregate benchmark returns, but would simply reflect an asset class target more similar to the aggregate of all managers' benchmarks.

Using the **W5000 Investable** as the asset class target for the SBI's Domestic Equity Program will immediately address three of the four issues identified in this paper. Those issues are

- A mismatch between planning and reporting,
- The timing of index changes, and
- A significant number of illiquid stocks.

Staff and SBI's consultant will research the fourth issue, which is float adjustment, and identify a satisfactory source of holdings information. Once a source and process for incorporating it have been determined, float adjustments will be incorporated into the **W5000 Investable** asset class target.

If the SBI approves the implementation of this **W5000 Investable** as the asset class target, the construction rules and methodology described within this paper should be reviewed regularly to ensure that it continues to reflect the market environment, the practices of the investment industry, and the needs of the SBI. The asset class target should be viewed as an evolving index, modified to incorporate realities of institutional investing and appropriately evaluate the Domestic Equity Program.

RECOMMENDATION

The Investment Advisory Council recommends that the SBI adopt this position paper establishing the W5000 Investable as the new asset class target for the Domestic Equity Program.

The Council also recommends that the SBI authorize Staff to negotiate all necessary changes in our contractual relationship with the Board's passive manager to facilitate the implementation of this new asset class target.

INDEX CHARACTERISTICS

Index	Wilshire 5000	Wilshire 5000 Investable	Russell 3000	BGI U.S. Equity
Data as of	March 2000	March 2000	April 1999	April 1999
Number of Stocks	6,987	3748	2822	5378
Market Coverage	97.0%	93.9%	86.1%	99.6%
Median Mkt. Cap.	$153 M	$431 M	$554 M	$217 M
Avg. (Mean) Mkt. Cap.	$2.4 B	$4.3 B	$4.3 B	$2.6 B
Reconstitution	Daily	Quarterly with one month lag	Annual	Monthly
Inclusion	-Common stock of all U.S. domiciled companies (for which prices are available)	-Common stock of all U.S. domiciled companies less specific exclusions listed below.	-3000 largest cap. U.S. domiciled companies -REIT's, -MLP's	-All stocks in the S&P 500 and approx. 4500 stocks in BGI Extended Mkt. Index (smaller-cap. stocks) -ADR's in S&P 500 -REIT's -Large non-U.S. companies in S&P 500
Exclusion	-ADR's, -Large non-U.S companies (except Slumberger)	-Board mandated exclusions -ADR's, -Large non-U.S co.'s (except Slumberger) -REIT's -MLP's -Dual class stocks -Small, illiquid issues -Closed-end funds	-ADR's, -Dual class stocks -Large non U.S. companies -Low priced stock ($1 per share) -Illiquid stocks -Stocks owned significantly by insiders or other organizations	-MLP's -Dual class stocks -Approx. 1,500 small, illiquid issues
Float Adjusted	No	No, not at this time	Yes	Yes (for non-S&P 500 component)

Sources: Barclays Global Investors
Dow Jones
Richards & Tierney

INDEX CHARACTERISTICS

Index	S&P 1500	S&P 500	Dow Jones Total Market Index
Data as of:	April 1999	April 1999	April 2000
Number of Stocks	1500	500	2016
Market Coverage	87.0%	78.3%	95.0%
Median Mkt. Cap.	$1.4 B	$8.4 B	$1.3 B
Avg. (Mean) Mkt. Cap.	$8.1 B	$21.9 B	$7.3 B
Reconstitution	Continuous	Continuous	Quarterly
Inclusion	-1500 securities in the S&P 500, S&P Mid Cap 600, and the S&P Small Cap 400 -Large non U.S. companies	-500 U.S. traded stocks included for their market size, liquidity and industry representation -Large non-U.S. companies	-All NYSE, Amex & NASDAQ stocks
Exclusion	-At S&P Committee's discretion	-At S&P Committee's discretion	-Stocks with less than six months trading history -Foreign issues -Non-common equity -Illiquid stocks -Stocks owned significantly by insiders or other organizations
Float Adjusted	No	No	Yes

Sources: Barclays Global Investors
Dow Jones

ATTACHMENT 2

PERFORMANCE COMPARISONS

Annualized Returns
As of December 31, 1999

	1 Year	3 Year	5 Year	7 Year
W5000 Investable	22.3	26.3	27.3	20.6
W5000	23.6	26.0	27.1	20.5
R3000	20.9	25.5	26.9	20.4

Quarterly Returns
As of Quarter Ending

	Mar-00	Dec-99	Sep-99	Jun-99
W5000 Investable	4.2	17.2	-6.8	8.2
W5000	3.8	18.3	-6.6	7.8
R3000	4.6	16.2	-6.6	7.7

STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

First Quarter, 2000

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending March, 2000

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	%
Active Managers												
Alliance Capital	7 0	5.8	33.7	27 0	46 8	36 3	39 0	31.6	22 9	17 1	$2,075 25	9 0%
Brinson Partners	-8.2	8.2	-14 6	29 7	7 1	26 9	15 0	25 0	13 4	20 6	$579 92	2.5%
Cohen, Klingenstein & Marks	1.2	11.1	14.3	36 4	30 9	33 4	28 8	29 5	26 8	26 4	$451 36	1 9%
Forstmann-Leff	26 1	8.9	56 3	27 8	45 1	21 4	37.0	21 2	19 0	14 3	$874 15	3 8%
Franklin Portfolio	-0 7	2.5	25.6	15.5	23 9	22.1	23.6	21 7	17 5	16.3	$677.59	2 9%
GeoCapital	7 8	8.6	79 4	48.5	34.5	19 6	25.5	17.0	19 8	16 6	$641 57	2 8%
Lincoln	3.7	4.2	21.4	26.3	33 2	37 3	31.2	32.4	25 5	26 3	$1,119.50	4 8%
Oppenheimer	1.3	4.9	9.1	16 2	20 7	25.0	24 0	24 4	20 3	20 1	$859 72	3 7%
Emerging Managers (2)	5.0	9.0	27.8	35 4	29 8	29.7	25 6	25.9	23.2	23 5	$697.67	3 0%
Semi-Passive Managers (3)												
Franklin Portfolio	0.4	1.6	14 6	15.5	23 1	24 6	23 6	24 7	24 3	25 4	$2,434 29	10 5%
JP Morgan	0 4	1 6	12 3	15 5	23 5	24 6	24 0	24.7	24 8	25 4	$2,540 29	11 0%
Barclays Global Investors	0.4	1 6	14 4	15.5	22.6	24 6	24 2	24.7	25 0	25 4	$2,507 47	10 8%
Passive Manager (4)												
Barclays Global Investors	4.1	3 8	23.6	23.6	27.5	27 4			25 1	24 9	$7,716 83	33 3%
									Since 1/1/84			
Current Aggregate	3.3	4.1	21 7	22.4	27.9	27.1	26 6	25.5	18.5	15 9	$23,175 61	100 0%
Historical Aggregate (5)	**3.3**	**4.1**	**21.5**	**22.3**	**26.6**	**26.7**	**25.4**	**25.3**	**16.5**	**16.7**		
Wilshire Adjusted		3.8		23.6		27.4		25 8		16 9		
Wilshire 5000		3.8		23 6		27 4		25 8		17 1		

(1) Since retention by the SBI. Time period varies for each manager.
(2) Aggregate of emerging manager group. The benchmark reflects a composite of the individual manager customized benchmarks since inception of the program on 4/1/94
(3) Semi-passive managers retained 1/95. All use completeness fund benchmark.
(4) Passive manager retained 7/95 to manage a Wilshire 5000 index fund
(5) Includes the performance of terminated managers.

ALLIANCE CAPITAL MANAGEMENT
Periods Ending March, 2000

Portfolio Manager: Jack Koltes **Assets Under Management: $2,075,250,518**

Investment Philosophy

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

Staff Comments

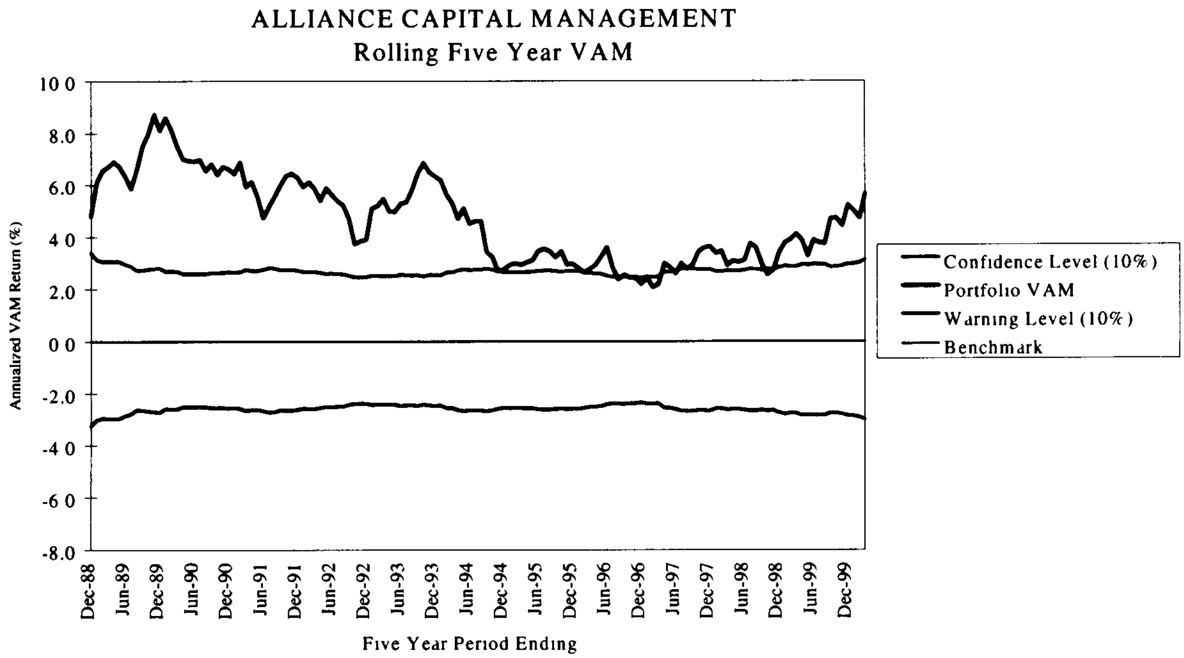
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.0%	5.8%
Last 1 year	33.7	27.0
Last 2 years	36.8	28.1
Last 3 years	46.8	36.3
Last 4 years	40.0	31.5
Last 5 years	39.0	31.6
Since Inception (1/84)	22.9	17.1

Recommendation

No action required.



BRINSON PARTNERS
Periods Ending March, 2000

Portfolio Manager: John Leonard **Assets Under Management: $579,917,213**

Investment Philosophy

Brinson Partners 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 also believe both a macroeconomic theme approach and a bottom-up stock selection process can provide insight into finding opportunistic investments. Brinson uses their own discounted free cash flow model as their primary analytical tool for estimating the intrinsic value of a company.

Staff Comments

Brinson Partners underperformed in all time periods. The firm's investment process has been significantly out of sync with the present market environment. Despite outperformance during the month of March, the portfolio has suffered over longer time periods from an underweight to the technology sector and from fundamental disappointments in stock selection. In March, it was announced that as part of the restructuring of UBS Asset Management (the parent company), Brinson Partners and Phillips & Drew will combine and that Gary Brinson, Chairman, will retire.

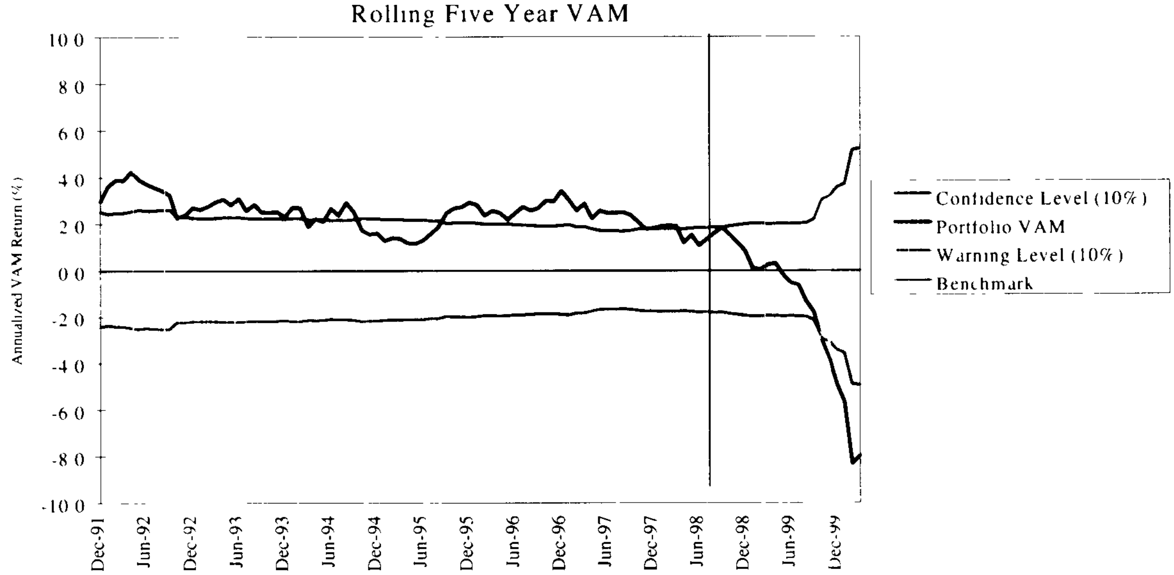
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-8.2%	8.2%
Last 1 year	-14.6	29.7
Last 2 years	-7.7	17.7
Last 3 years	7.1	26.9
Last 4 years	9.8	23.8
Last 5 years	15.0	25.0
Since Inception (7/93)	13.4	20.6

Recommendation

Brinson Partners will be present to discuss portfolio performance and recent organizational changes at the 1Q00 Domestic Manager Committee meeting.

BRINSON PARTNERS
Rolling Five Year VAM



Five Year Period Ending

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

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending March, 2000

Portfolio Manager: George Cohen **Assets Under Management: $451,355,941**

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 on 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

Cohen, Klingenstein & Marks underperformed their custom benchmark for all but the since inception time periods. The most recent underperformance was due primarily to under-weighting the technology sector and was significant enough to have a negative impact on the returns for the longer time periods. Cohen remains a stable organization and committed to their clearly articulated investment strategy.

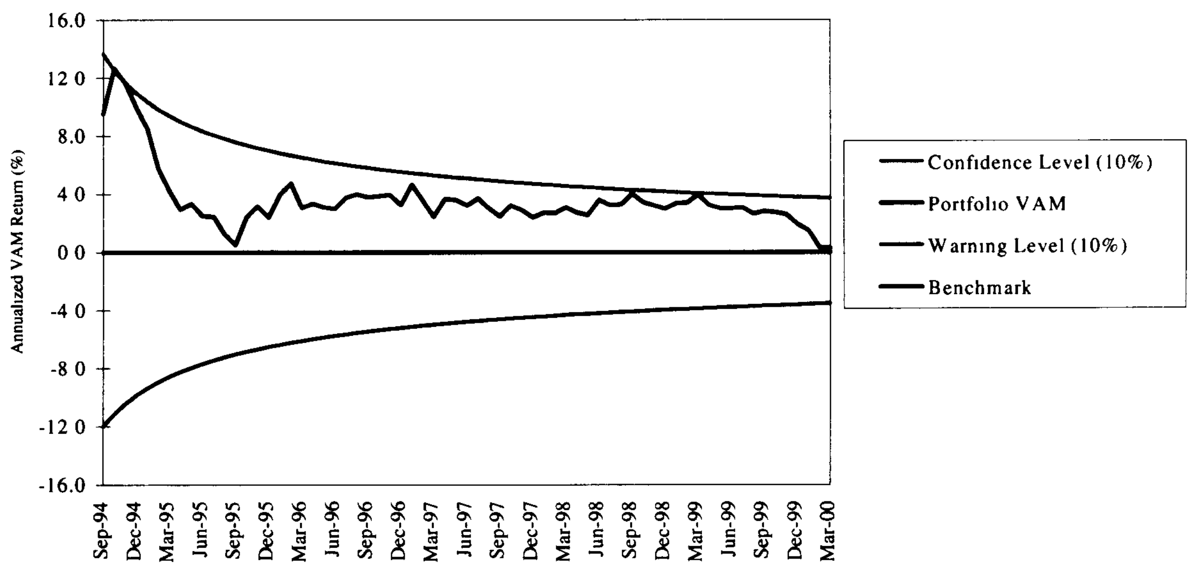
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.2%	11.1%
Last 1 Year	14.3	36.4
Last 2 Years	21.2	27.7
Last 3 Years	30.9	33.4
Last 4 Years	27.8	29.3
Last 5 Years	28.8	29.5
Since Inception. (4/94)	26.8	26.4

Recommendation

No action required.

COHEN KLINGENSTEIN & MARKS
Cumulative Tracking



FORSTMANN-LEFF ASSOCIATES
Periods Ending March, 2000

Portfolio Manager: Joel Leff **Assets Under Management: $874,149,032**

Investment Philosophy

Forstmann-Leff is a classic example of a "rotational" manager The firm focuses almost exclusively on asset mix and sector weighting decisions Based upon its macroeconomic outlook, the firm will move aggressively into and out of equity sectors over the course of a market cycle The firm tends to purchase liquid, medium to large capitalization stocks In the past, Forstmann-Leff has made sizable market timing moves at various points during a market cycle.

Staff Comments

Forstmann-Leff Associates significantly outperformed their custom benchmark for the quarter and the year The performance was attributed to an overweight in the consumer cyclical and technology sectors and to successful stock selection within those sectors.

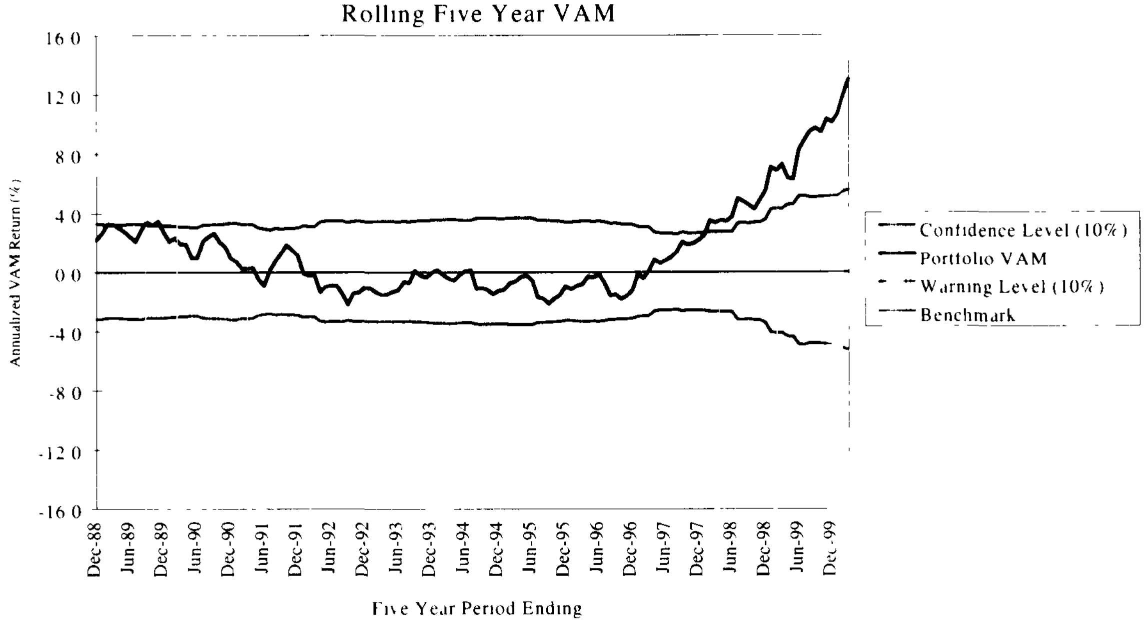
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	26.1%	8.9%
Last 1 year	56.3	27 8
Last 2 years	40 6	13 8
Last 3 years	45 1	21 4
Last 4 years	37 8	19 0
Last 5 years	37 0	21 2
Since Inception (1/84)	19 0	14 3

Recommendation

No action required

FORSTMANN-LEFF ASSOCIATES
Rolling Five Year VAM



FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 2000

Portfolio Manager: John Cone **Assets Under Management: $677,594,957**

Investment Philosophy
Active

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, then a composite ranking provides one ranked list of securities reflecting their relative attractiveness. Stocks that fall below the median ranking are sold and proceeds 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

Staff met with Franklin Portfolio Associates at SBI offices in March 2000 to review their investment process and organizational changes. John Cone was named President of Franklin Portfolio Associates and will take over more of the day-to-day activities as John Nagorniak curtails his involvement . John Nagorniak will remain the Chairman and will continue to have a vested interest in the success of the business. Staff believes there is a strong team in place to implement the quantitative strategy.

Performance has exceeded the benchmark over longer time periods, but lagged for the quarter. The recent negative performance was due to stock selection and in particular an overweight position in Qualcom which retraced some of its earlier gain.

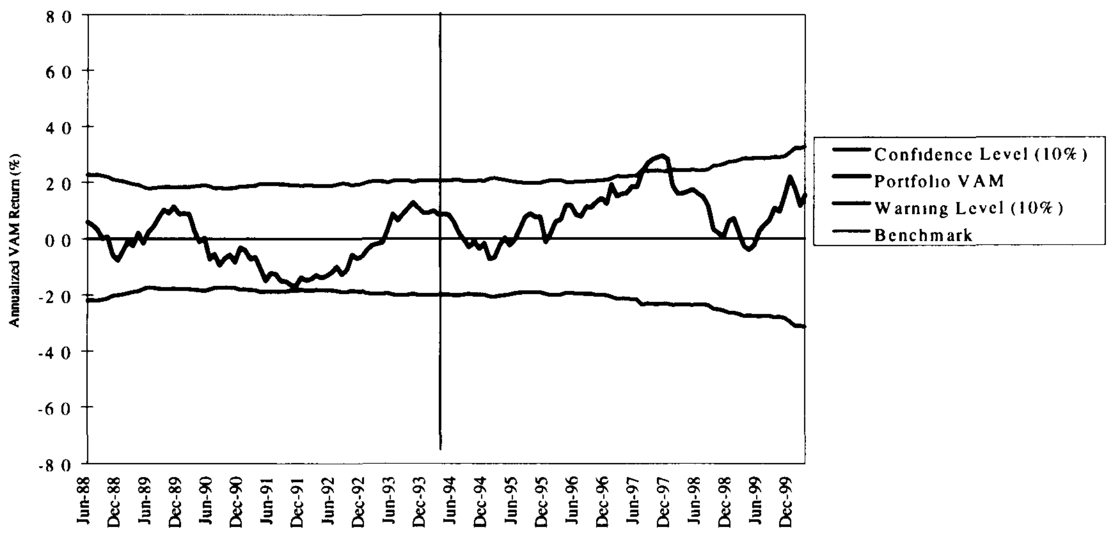
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.7%	2.5%
Last 1 year	25.6	15.5
Last 2 years	12.3	11.8
Last 3 years	23.9	22.1
Last 4 years	21.5	19.7
Last 5 years	23.6	21.7
Since Inception (4/89)	17.5	16.3

Recommendation

No action required.

FRANKLIN PORTFOLIO ASSOCIATES - Active
Rolling Five Year VAM



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

GEOCAPITAL CORP.
Periods Ending March, 2000

Portfolio Manager: Barry Fingerhut | **Assets Under Management: $641,574,546**

Investment Philosophy

GeoCapital invests primarily in small capitalization equities with the intent to hold them as they grow into medium and large capitalization companies The firm uses a theme approach and individual stock selection analysis to invest in the growth/technology and special situation areas of the market In the growth/technology area, GeoCapital looks for companies that will have above average growth due to good product development and limited competition In the special situation area, the key factors are corporate assets, free cash flow, and a catalyst that will cause a positive change in the company The firm generally stays fully invested, with any cash positions due to a lack of attractive investment opportunities

Staff Comments

No comments at this time

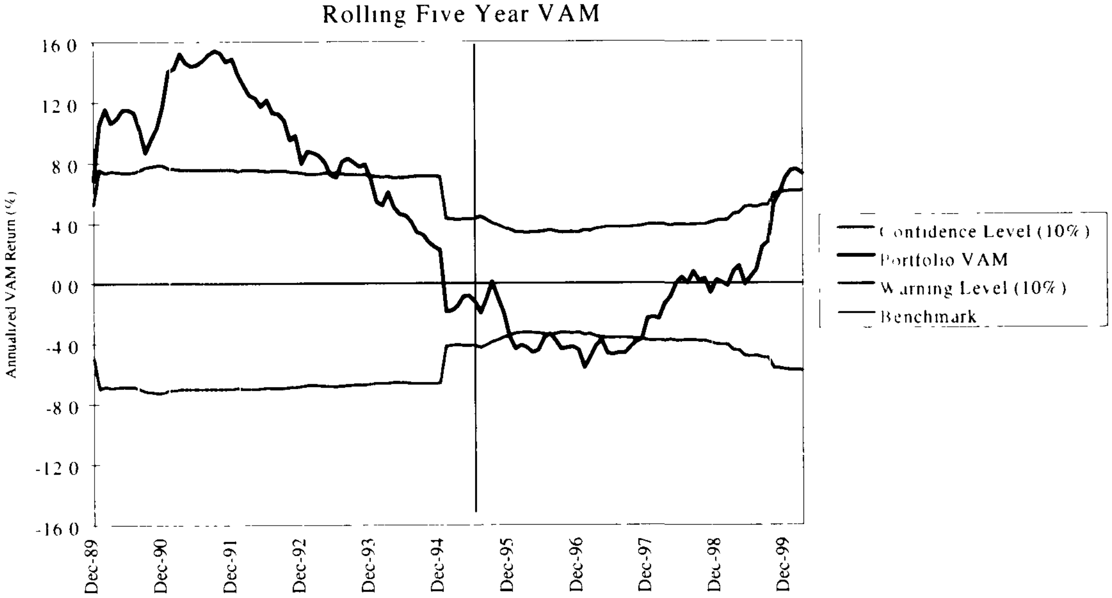
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.8%	8 6%
Last 1 year	79.4	48 5
Last 2 years	26 6	10 1
Last 3 years	34 5	19.6
Last 4 years	25.4	12 8
Last 5 years	25 5	17 0
Since Inception (4/90)	19 8	16 6

Recommendation

No action required

GEOCAPITAL CORP
Rolling Five Year VAM



Note Scale differs from other VAM graphs
Area to the left of vertical line includes performance prior to retention by the SBI

LINCOLN CAPITAL MANAGEMENT
Periods Ending March, 2000

Portfolio Manager: David Fowler **Assets Under Management: $1,119,495,456**

Investment Philosophy

Lincoln Capital concentrates on established medium to large capitalization companies that have demonstrated historically strong growth and will continue to grow. The firm uses traditional fundamental company analysis and relative price/earnings valuation disciplines in its stock selection process. In addition, companies held by Lincoln generally exhibit premium price/book ratios, high return on equity, strong balance sheets and moderate earnings variability.

Staff Comments

No comments at this time.

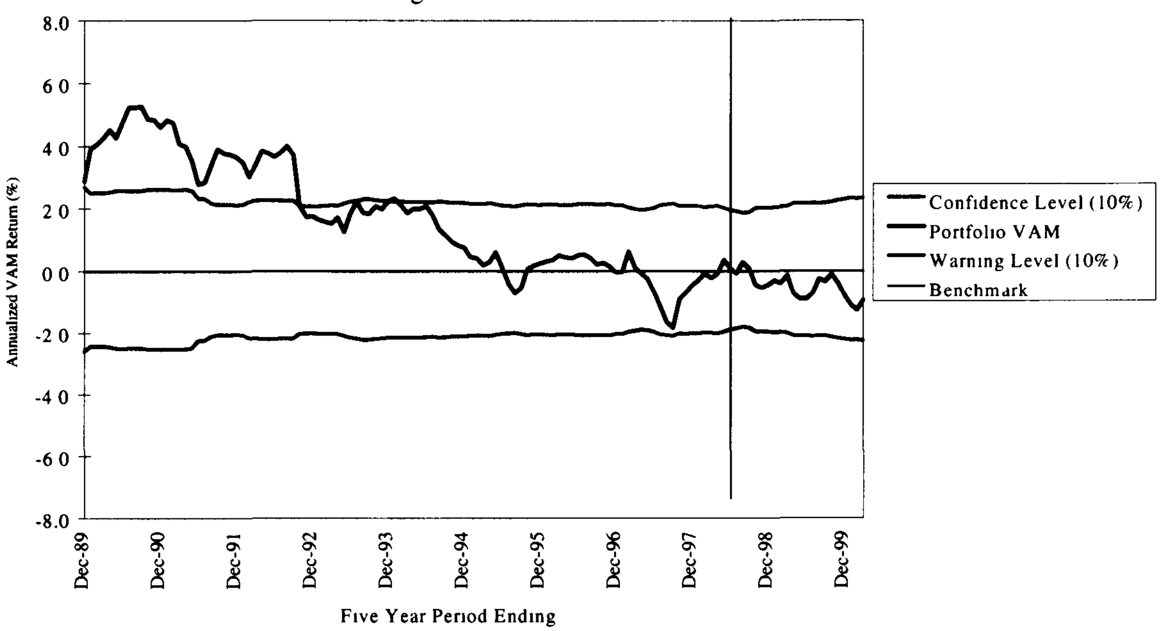
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.7%	4.2%
Last 1 year	21.4	26.3
Last 2 years	27.4	29.1
Last 3 years	33.2	37.3
Last 4 years	29.7	32.7
Last 5 years	31.2	32.4
Since Inception (7/93)	25.5	26.3

Recommendation

No action required.

LINCOLN CAPITAL MANAGEMENT - Domestic Equity
Rolling Five Year VAM



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

OPPENHEIMER CAPITAL
Periods Ending March, 2000

Portfolio Manager: John Lindenthal **Assets Under Management: $859,724,718**

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

No comments at this time

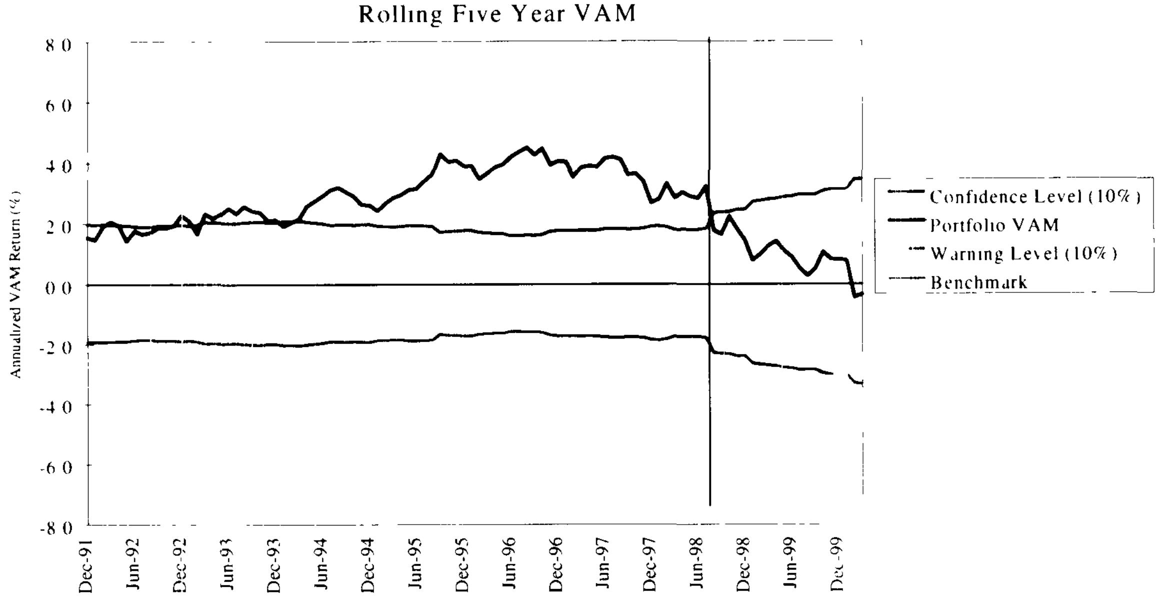
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.3%	4 9%
Last 1 year	9.1	16.2
Last 2 years	8 7	15.1
Last 3 years	20 7	25.0
Last 4 years	20.8	22 8
Last 5 years	24.0	24.4
Since Inception (7/93)	20.3	20 1

Recommendation

No action required

OPPENHEIMER CAPITAL
Rolling Five Year VAM



Five Year Period Ending

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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 2000

Portfolio Manager: John Nagorniak **Assets Under Management: $2,434,289,290**

Investment Philosophy
Semi-Passive

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

See comments for Franklin Portfolio Associates active portfolio.

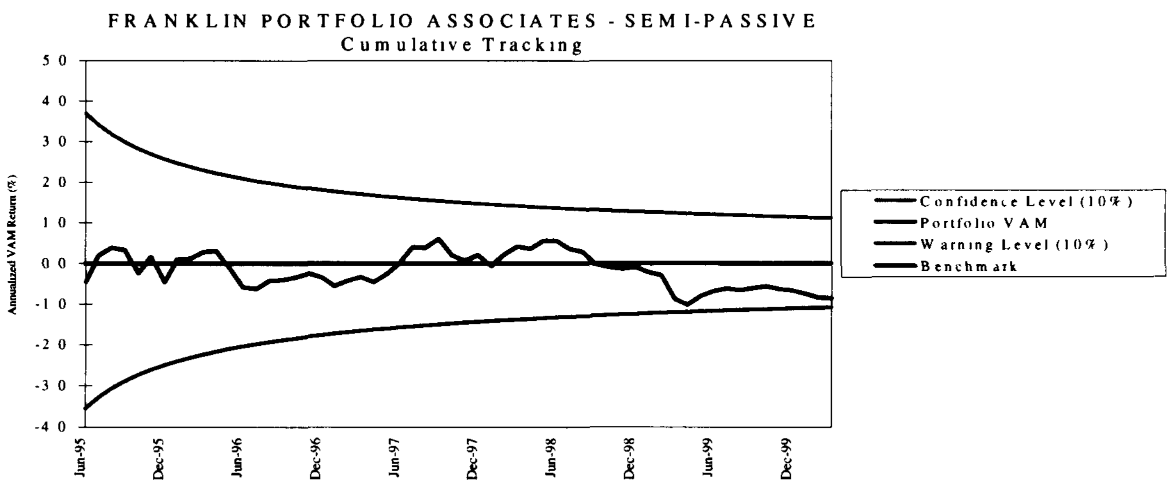
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	0.4%	1.6%
Last 1 year	14.6	15.5
Last 2 years	10.7	14.0
Last 3 years	23.1	24.6
Last 4 years	21.6	23.1
Last 5 years	23.6	24.7
Since Inception (1/95)	24.3	25.4

* Completeness Fund

Recommendation

No action required.



J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending March, 2000

Portfolio Manager: Tim Devlin | **Assets Under Management: $2,540,292,065**

Investment Philosophy
Semi-Passive

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

Staff Comments

No comments at this time

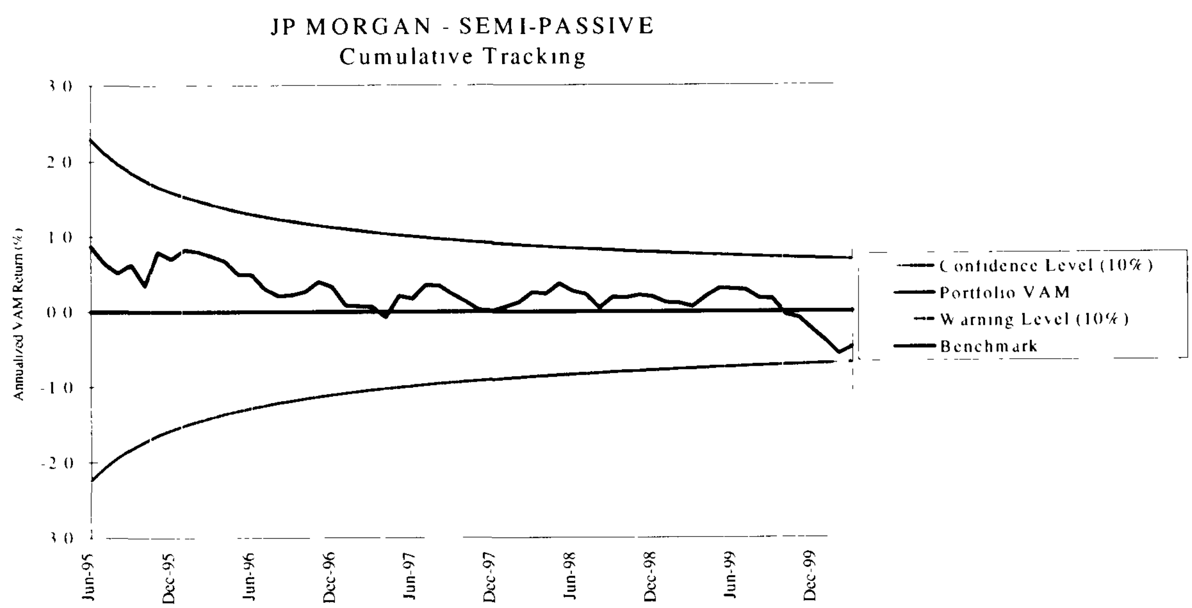
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	0 4%	1.6%
Last 1 year	12 3	15 5
Last 2 years	12 1	14 0
Last 3 years	23.5	24.6
Last 4 years	22 1	23 1
Last 5 years	24 0	24 7
Since Inception (1/95)	24 8	25 4

* Completeness Fund

Recommendation

No action required



BARCLAYS GLOBAL INVESTORS
Periods Ending March, 2000

Portfolio Manager: Nancy Feldkircher **Assets Under Management: $2,507,469,040**

Investment Philosophy
Semi-Passive

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

Staff met with Barclays Global Investors (BGI) at their offices in San Francisco in March 2000 and reviewed the semi-passive portfolio. The organization and investment process remain stable and the visit uncovered no areas of concern. Performance was positive relative to the benchmark in March, but has lagged during all other time periods. The valuation inputs into their model, which seek to identify stocks trading at attractive prices versus their fundamentals, detracted from active returns.

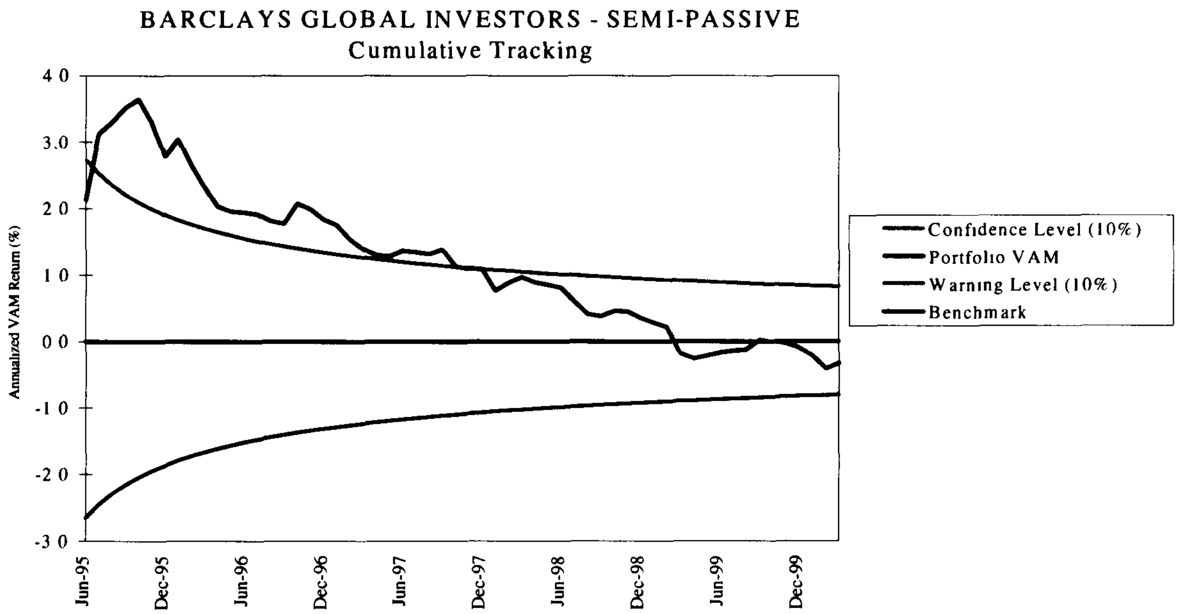
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	0.4%	1.6%
Last 1 year	14.4	15.5
Last 2 years	11.3	14.0
Last 3 years	22.6	24.6
Last 4 years	21.7	23.1
Last 5 years	24.2	24.7
Since Inception (1/95)	25.0	25.4

* Completeness Fund

Recommendation

No action required.



BARCLAYS GLOBAL INVESTORS
Periods Ending March, 2000

Portfolio Manager: Brad Pope | **Assets Under Management: $7,716,832,799**

Investment Philosophy
Passive

Barclays Global Investors passively manages the portfolio against the Wilshire 5000 by minimizing tracking error and trading costs, and maximizing control over all investment and operational risks. Their strategy is to fully replicate the larger capitalization segments of the market and to use an optimization approach for the smaller capitalization segments. The optimizer weighs the cost of a trade against its contribution to expected tracking error to determine which trades should be executed.

Staff Comments

Staff met with Barclays Global Investors (BGI) at their offices in San Francisco in March 2000 and reviewed the passive portfolio. Performance for the recent and longer time periods is within expectation. The organization and investment process remain stable and the visit uncovered no areas of concern.

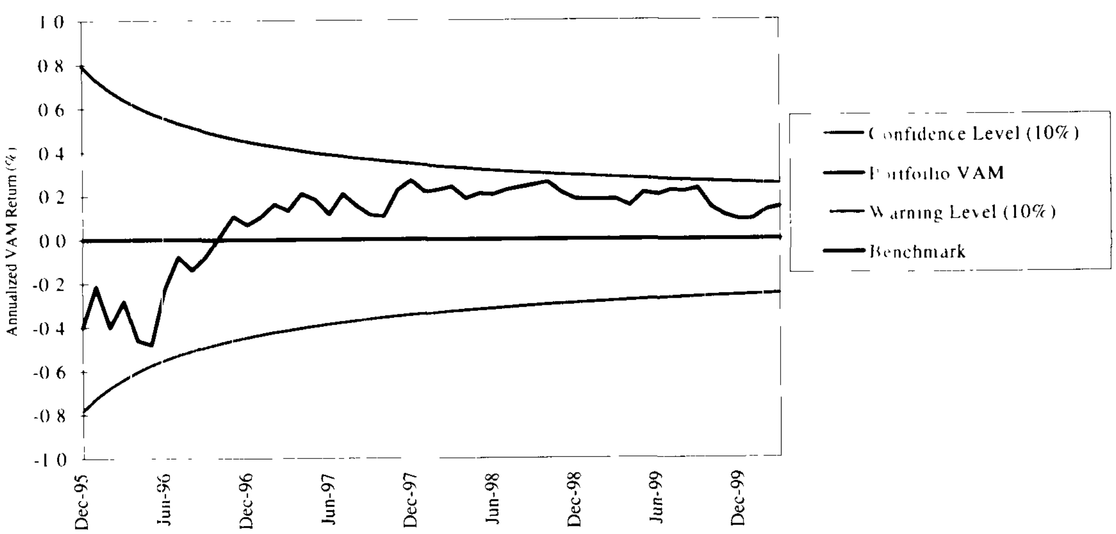
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.1%	3.8%
Last 1 year	23.6	23.6
Last 2 years	18.3	18.2
Last 3 years	27.5	27.4
Last 4 years	24.6	24.3
Last 5 years	N.A.	N.A.
Since Inception (7/95)	25.1	24.9

Recommendation

No action required

BARCLAYS GLOBAL INVESTORS - PASSIVE
Cumulative Tracking



STATE BOARD OF INVESTMENT

Emerging Stock Manager Evaluation Reports

First Quarter, 2000

COMBINED RETIREMENT FUNDS
EMERGING EQUITY MANAGERS
Periods Ending March, 2000

	Quarter		1 Year		3 years		5 Years		Since Inception (1)		Market Value	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	(in millions)	%
Active Managers												
CIC Asset	-4.9	-1.5	-4.2	5.1	9.5	15.8	15.1	19.4	14.4	18.6	$67.39	9.7%
Compass Capital	1.5	4.4	10.8	18.3	18.7	27.2	19.1	25.4	19.0	23.2	85.20	12.2%
New Amsterdam	10.1	7.5	27.3	39.3	29.5	29.6	26.2	25.2	22.8	23.3	102.98	14.9%
Valenzuela Capital	6.4	5.4	3.7	12.7	10.1	13.1	16.6	16.0	15.5	15.3	71.35	11.5%
Wilke/Thompson	14.1	16.0	48.4	56.3	26.3	25.1	16.4	19.9	15.9	17.9	72.85	10.4%
Winslow Capital	8.1	10.7	37.6	44.2	33.1	39.0	24.7	31.2	23.0	28.0	103.73	14.9%
Zevenbergen Capital	2.7	15.6	64.2	70.7	60.9	45.5	42.8	35.0	36.5	31.1	194.17	27.8%
											$697.67	**100.0%**
									Since 4/1/94			
Current Aggregate	5.0	9.0	29.5	36.8	29.2	29.5	25.0	25.8	22.8	23.5		
Historical Aggregate (2)	**5.0**	**9.0**	**27.8**	**35.4**	**29.8**	**29.7**	**25.6**	**25.9**	**23.2**	**23.5**		

(1) Since retention by the SBI.

(2) Includes the performance of terminated managers.

CIC ASSET MANAGEMENT
Periods Ending March, 2000

Portfolio Manager: Jorge Castro **Assets Under Management: $67,392,979**

Investment Philosophy

CIC Asset Management (CIC) uses a disciplined relative value approach to manage equities. CIC believes that purchasing companies at attractive prices provides superior long-term performance with lower volatility. This investment process is designed for clients who desire equity market exposure with both incremental value added and downside protection due to reasonable dividend yields, moderate price to book values and low normalized price to earnings ratios. Finally, the process provides a synergy between quantitative valuation techniques and "Graham & Dodd" fundamental analysis.

Staff Comments

CIC recently merged with HCM Capital Management, a Honolulu based fixed income asset manager. The merger should create cost savings which the combined firm plans to use to increase its marketing effort.

CIC underperformed their benchmark for the quarter and the year. The consistent theme behind the underperformance has been the firm's underweight in sectors it believes to be overvalued, such as technology and telecommunications.

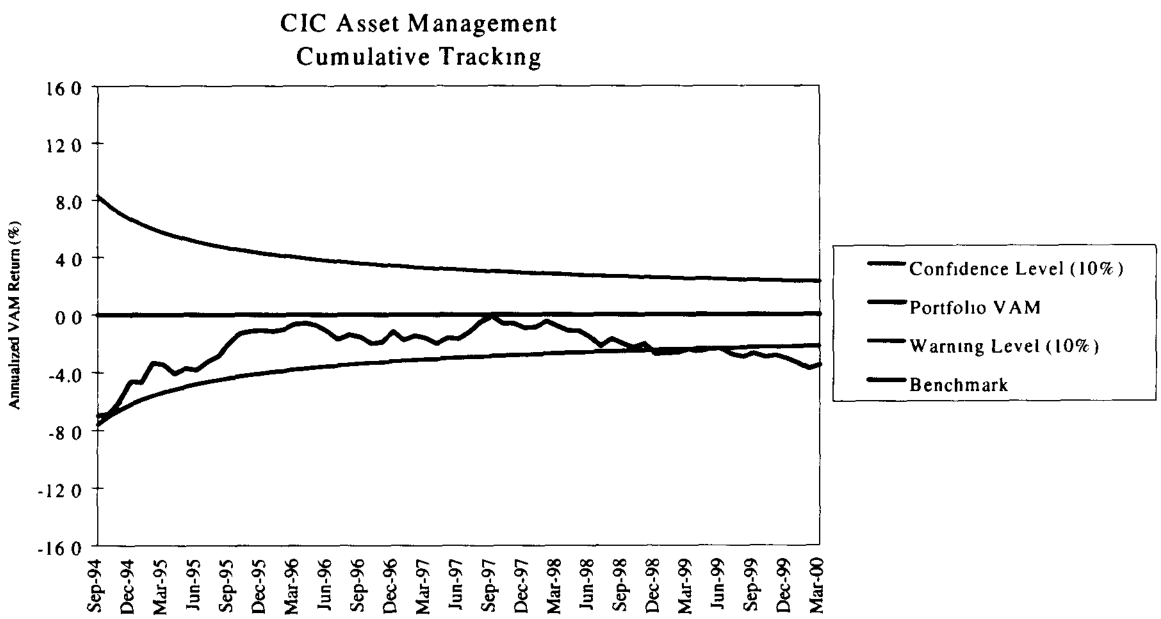
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-4.9%	-1.5%
Last 1 Year	-4.2	5.1
Last 2 Years	-6.1	2.9
Last 3 Years	9.5	15.8
Last 4 Years	10.7	16.4
Last 5 Years	15.1	19.4
Since Inception (4/94)	14.4	18.6

* Custom benchmark since inception date.

Recommendation

No recommendation at this time.



COMPASS CAPITAL MANAGEMENT
Periods Ending March, 2000

Portfolio Manager: Charles Kelley | **Assets Under Management: $85,196,437**

Investment Philosophy

Compass Capital Management (CCM) combines aspects of growth and value investing to achieve the proper blend of return (growth) and risk (value) They use a computer based data network to screen for large, well established companies whose earnings grow in spite of a weak economy and over long time periods, but which may experience earnings pressure with downturns in the economy Particular focus is given to growth in sales, earnings, dividends, book value and the underlying industry. Due to their "growing company" orientation, their portfolios generally do not hold utility, bank, deep cyclical (auto companies for example), or oil and gas stocks

Staff Comments

Compass underperformed their benchmark for the quarter and the year due to the portfolio's underweight in the technology sector The portfolio's weight in technology stocks over the past quarter was about one third the weight in their benchmark

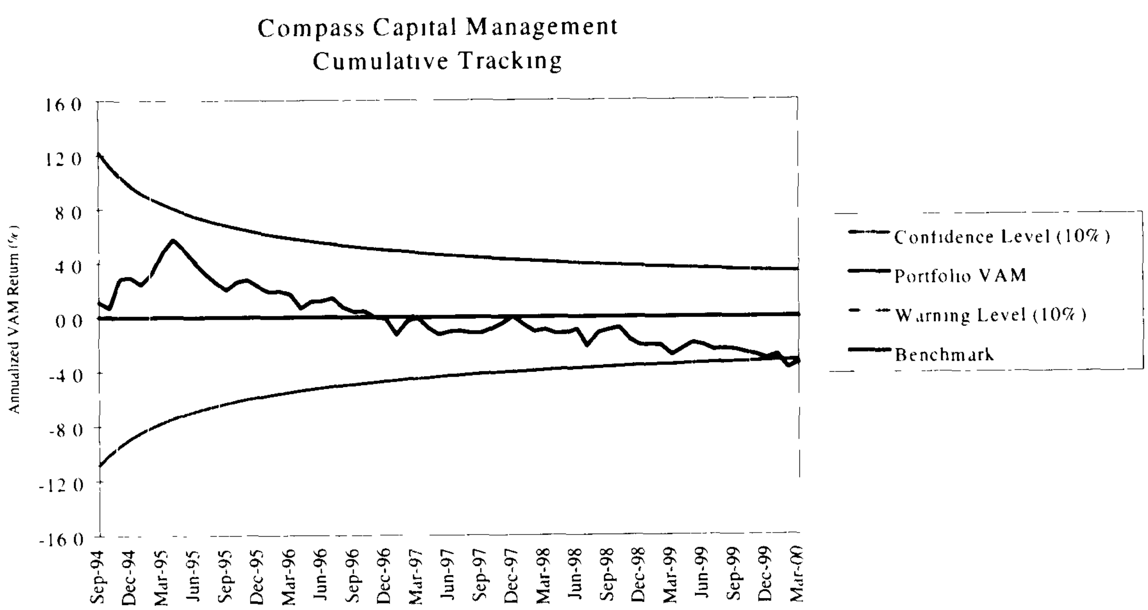
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.5%	4.4%
Last 1 Year	10.8	18.3
Last 2 Years	7 2	16 7
Last 3 Years	18 7	27.2
Last 4 Years	17.2	24.5
Last 5 Years	19.1	25 4
Since Inception (4/94)	19.0	23.2

* Custom benchmark since inception date.

Recommendation

No recommendation at this time.



NEW AMSTERDAM PARTNERS
Periods Ending March, 2000

Portfolio Manager: Michelle Clayman — **Assets Under Management: $102,980,961**

Investment Philosophy

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

Staff Comments

No comments at this time.

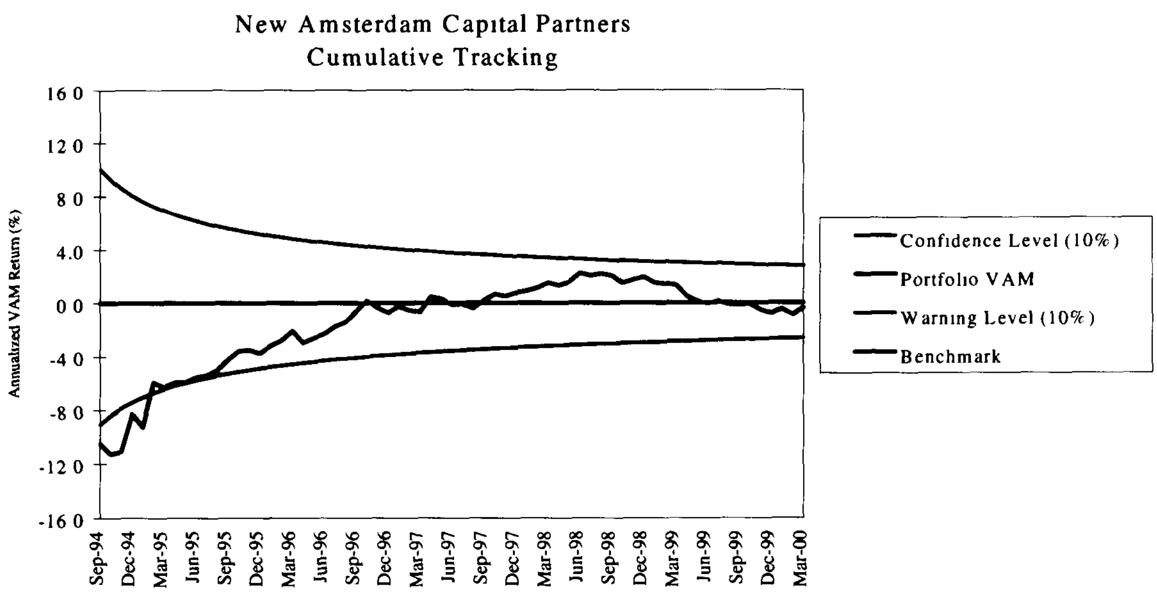
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	10.1%	7.5%
Last 1 Year	27.3	39.3
Last 2 Years	16.9	21.9
Last 3 Years	29.5	29.6
Last 4 Years	25.6	25.1
Last 5 Years	26.2	25.2
Since Inception (4/94)	22.8	23.3

* Custom benchmark since inception date.

Recommendation

No action required.



VALENZUELA CAPITAL MANAGEMENT
Periods Ending March, 2000

Portfolio Manager: Tom Valenzuela **Assets Under Management: $71,352,776**

Investment Philosophy

Valenzuela Capital Management (VCM) believes that stock selection and adherence to valuation analysis are the backbone of superior performance. Their investment philosophy is one of risk averse growth. VCM seeks companies undergoing strong rates of change in earnings, cash flow and returns. These companies are experiencing positive changes in revenues, gross and operating margins and financial structure To be considered for investment, these stocks must sell at or below market valuations VCM believes that below-market valuations provide downside protection during weak market periods. In strong markets, the portfolios will be driven by both earnings growth and multiple expansion.

Staff Comments

No comments at this time

Recommendation

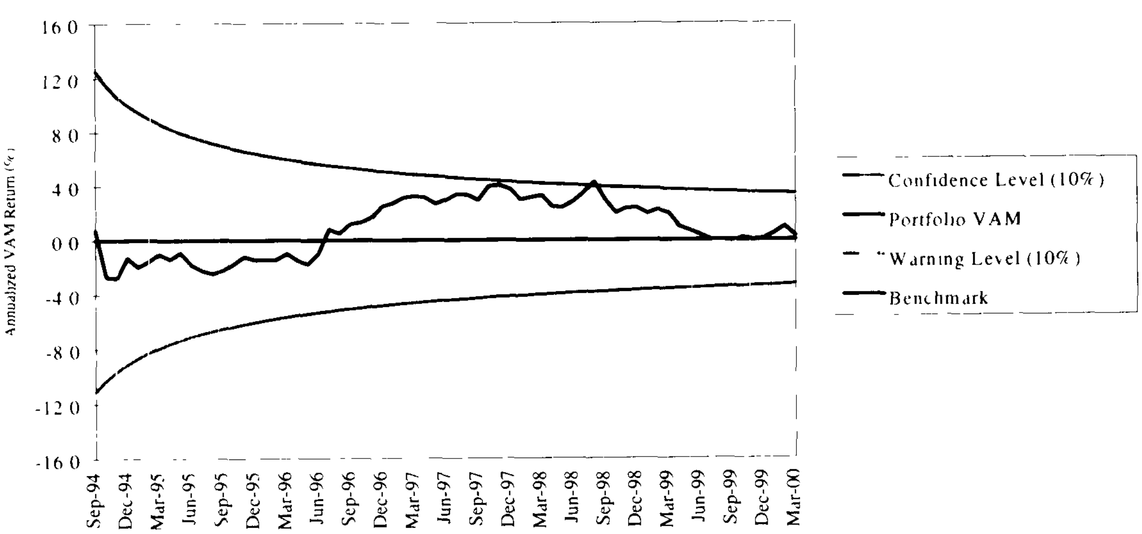
No action required

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	6 4%	5 4%
Last 1 Year	3 7	12 7
Last 2 Years	-5 6	0.0
Last 3 Years	10.1	13 1
Last 4 Years	14 0	13 0
Last 5 Years	16.6	16 0
Since Inception (4/94)	15.5	15.3

* Custom benchmark since inception date

Valenzuela Capital Partners
Cumulative Tracking



WILKE/THOMPSON CAPITAL MANAGEMENT INC.
Periods Ending March, 2000

Portfolio Manager: Mark Thompson | **Assets Under Management: $72,846,812**

Investment Philosophy

The investment philosophy of Wilke/Thompson (W/T) is to invest in high quality growth companies that demonstrate the ability to sustain strong secular earnings growth, notwithstanding overall economic conditions. W/T's investment approach involves a bottom-up fundamental process. The stock selection process favors companies with strong earnings, high unit growth, a proprietary market niche, minimum debt, conservative accounting and strong management practices. They formulate investment ideas by networking with the corporate managers of their current and prospective holdings, as well as with regional brokers, venture capitalists, and other buy-side portfolio managers.

Staff Comments

No comments at this time.

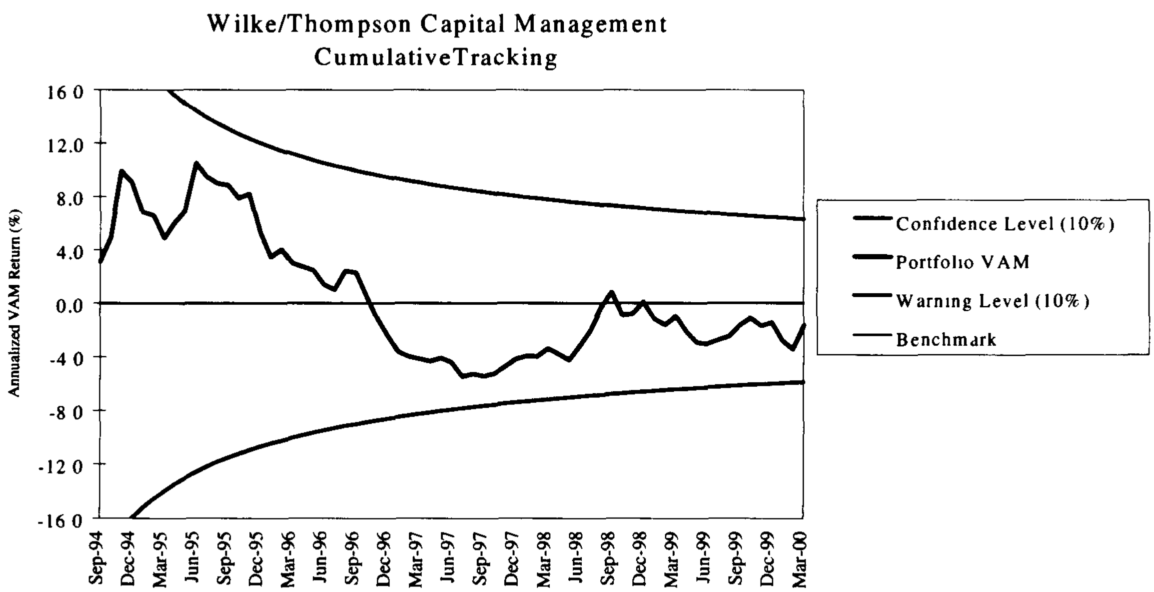
Recommendation

No recommendation at this time.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	14.1%	16.0%
Last 1 Year	48.4	56.3
Last 2 Years	17.0	14.8
Last 3 Years	26.3	25.1
Last 4 Years	13.0	17.6
Last 5 Years	16.4	19.9
Since Inception (4/94)	15.9	17.9

* Custom benchmark since inception date.



WINSLOW CAPITAL MANAGEMENT
Periods Ending March, 2000

Portfolio Manager: Clark Winslow **Assets Under Management: $103,726,495**

Investment Philosophy

Winslow Capital Management (WCM) believes that investing in companies with above average earnings growth provides the best opportunities for superior portfolio returns over time WCM believes that a high rate of earnings growth is often found in medium capitalization growth companies of $1 to $10 billion market capitalization Thus, to seek superior portfolio returns while maintaining good liquidity, Winslow Capital emphasizes a growth strategy buying securities of both medium and large cap companies. The objective is to achieve a weighted average annual earnings growth rate of 15-20% over a 2-3 year time horizon

Staff Comments

No comments at this time

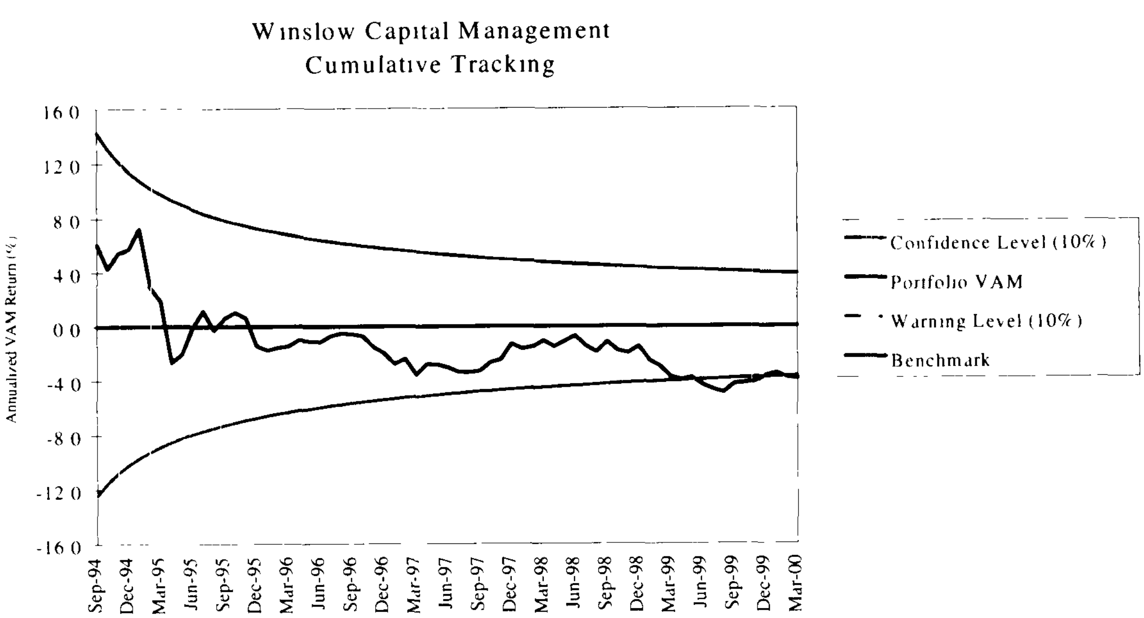
Recommendation

No recommendation at this time

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	8.1%	10.7%
Last 1 Year	37 6	44.2
Last 2 Years	21 2	33.6
Last 3 Years	33 1	39 0
Last 4 Years	25.1	31.8
Last 5 Years	24 7	31 2
Since Inception (4/94)	23 0	28 0

* Custom benchmark since inception date



ZEVENBERGEN CAPITAL INC
Periods Ending March, 2000

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $194,169,068**

Investment Philosophy

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

Staff Comments

Zevenbergen underperformed over the past quarter as their holdings in software and internet service/content and wireless services corrected. Offsetting the poor performance in these sectors were Zevenbergen's holdings in internet infrastructure and telecommunications, which continued their strong performance through the first quarter.

Quantitative Evaluation

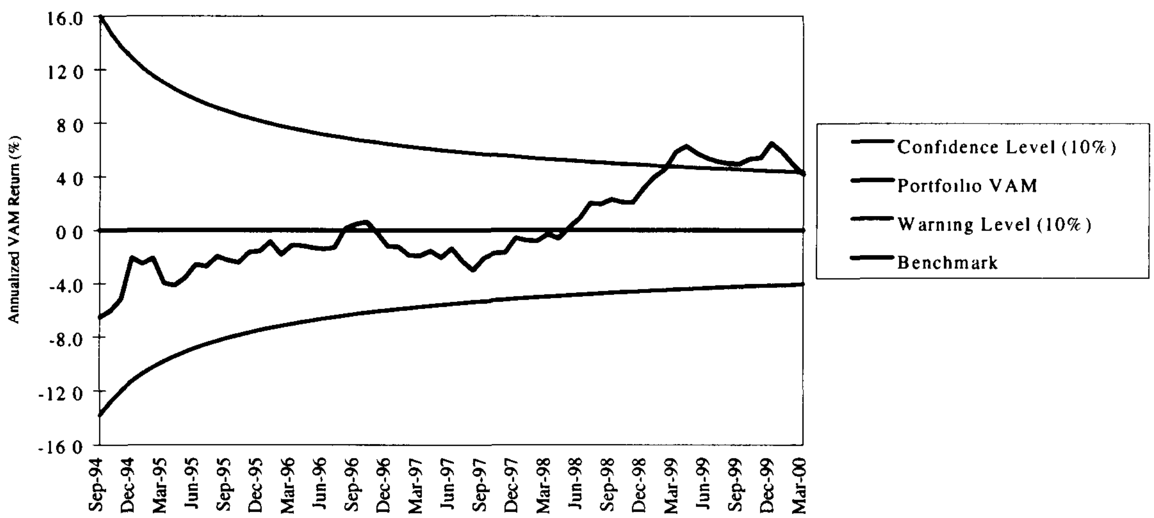
	Actual	Benchmark*
Last Quarter	2.7%	15.6%
Last 1 Year	64.2	70.7
Last 2 Years	62.4	42.8
Last 3 Years	60.9	45.5
Last 4 Years	46.4	37.0
Last 5 Years	42.8	35.0
Since Inception (4/94)	36.5	31.1

* Custom benchmark since inception date.

Recommendation

No recommendation at this time.

Zevenbergen Capital Management
Cumulative Tracking



STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

First Quarter, 2000

COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending March, 2000

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market Value	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	(in millions)	%
Active Managers												
American Express (AMG)	1.8	2.2	1.5	1.9	6.9	6.7	7.4	7.3	6.1	6.0	$759.11	6.4%
Deutsche									1.4	1.3	$617.67	5.2%
Dodge & Cox									1.5	1.3	$613.42	5.2%
Metropolitan West									1.0	1.3	$254.90	2.2%
Morgan Stanley	2.0	2.2	1.4	1.9	6.3	6.7	7.6	7.1	10.3	10.0	$1,247.65	10.6%
Standish	2.3	2.2	0.8	1.9	5.7	6.7	7.0	7.1	5.6	6.0	$724.64	6.1%
Western	2.4	2.2	2.7	1.9	7.7	6.7	8.5	7.1	11.2	10.0	$1,466.05	12.4%
Semi-Passive Managers												
BlackRock	2.4	2.2	2.5	1.9	7.1	6.7			6.7	6.3	2,029.85	17.2%
Goldman	2.6	2.2	2.3	1.9	6.8	6.7	7.4	7.1	6.3	6.0	2,159.54	18.3%
Lincoln	2.3	2.2	1.8	1.9	6.8	6.7	7.2	7.1	8.3	8.2	1,917.70	16.3%
											$11,790.53	**100.0%**
									Since 7/1/84			
Current Aggregate	2.3	2.2	2.0	1.9	6.8	6.7	7.5	7.2	10.5	10.0		
Historical Aggregate (2)	**2.3**	**2.2**	**2.0**	**1.9**	**6.8**	**6.7**	**7.5**	**7.2**	**10.0**	**10.0**		
Lehman Aggregate (3)		2.2		1.9		6.7		7.1		9.6		

(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

DEUTSCHE ASSET MANAGEMENT
Periods Ending March, 2000

Portfolio Manager: Warren Davis **Assets Under Management: $617,665,127**

Investment Philosophy

Deustche 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. Deutsche was retained by the SBI in February 2000.

Staff Comments

Staff visited Deutsche Asset Management's office in Philadelphia to perform due diligence and review the initial investment activity in the portfolio. Deutsche was funded with $600 million on February 1.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	N/A	N/A
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 (3/00)	1.4%	1.3%

Recommendations

No action required.

Tracking graph will be created for period ending 3/31/02.

AMERCIAN EXPRESS ASSET MANAGEMENT
Periods Ending March, 2000

Portfolio Manager: Jim Snyder **Assets Under Management: $759,109,677**

Investment Philosophy

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. American Express was retained by the SBI in July 1993

Staff Comments

Staff visited American Express at their Minneapolis office in early February to review the portfolio and performance. The firm underperformed over the past quarter and year. During the quarter, the firm suffered from a short duration as rates fell and underexposure to long Treasury bonds relative to the benchmark. High yield also detracted from performance during the quarter

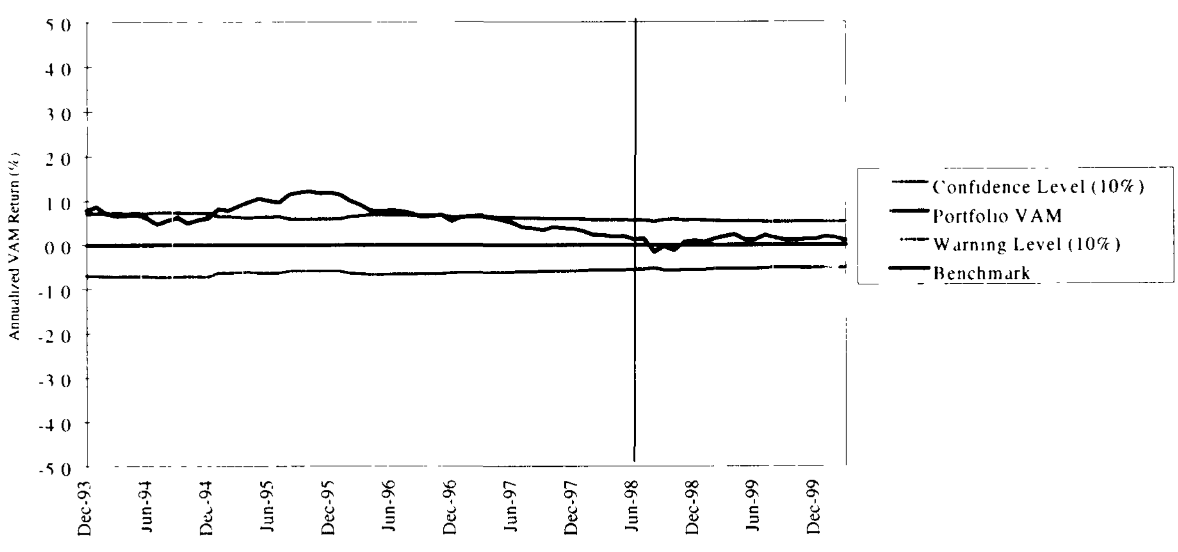
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.8%	2.2%
Last 1 year	1.5	1.9
Last 2 years	4.2	4 2
Last 3 years	6.9	6 7
Last 4 years	6.4	6.3
Last 5 years	7 4	7.3
Since Inception (7/93)	6 1	6 0

Recommendations

No action required

AMERICAN EXPRESS ASSET MANAGEMENT - Fixed Income
Rolling Five Year VAM



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

DODGE & COX INVESTMENT MANAGERS
Periods Ending March, 2000

Portfolio Manager: Dana Emery **Assets Under Management: $613,417,622**

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 was funded with $600 million on February 1.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	N/A	N/A
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 (3/00)	1.5%	1.3%

Recommendations

No action required.

Tracking graph will be created for period ending 3/31/02.

METROPOLITAN WEST ASSET MANAGEMENT
Periods Ending March, 2000

Portfolio Manager: Tad Rivelle | **Assets Under Management: $254,904,109**

Investment Philosophy

MWAM manages portfolios through the application of five value-added strategies: duration shifts, yield curve management, sector and security selection, and buy/sell execution strategies. MWAM formulates investment strategies based on their long-term fundamental economic outlook, which is debated and revised quarterly. Duration is limited to a one-year band around the benchmark and is determined by the economic outlook. The economic outlook combined with quantitative analysis determines yield curve strategies Sector allocations are determined based on relative value comparisons and the economic outlook. MWAM employs proprietary models and credit analysis to select individual securities Metropolitan West was retained by the SBI in February 2000

Staff Comments

Metropolitan West was funded with $250 million on February 1

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	N/A	N/A
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 (3/00)	1.0%	1 3%

Recommendations

No action required

Tracking graph will be created for period ending 3/31/02.

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
(Formerly Miller, Anderson & Sherrerd)
Periods Ending March, 2000

Portfolio Manager: Tom Bennett **Assets Under Management: $1,247,650,277**

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

During the quarter, Staff visited Morgan Stanley's office in West Conshohocken, PA to review the portfolio and performance. Morgan Stanley's performance over the quarter was helped by the portfolio's long duration as Treasury rates decreased. More than offsetting this was Morgan Stanley's overweight in spread product, which performed poorly as their yields did not decline with the rally in Treasuries. The firm is now below the benchmark for the three years ending in March. However, the firm's investment strategy and organizational structure remain solid and Staff is confident in their ability to add value over time.

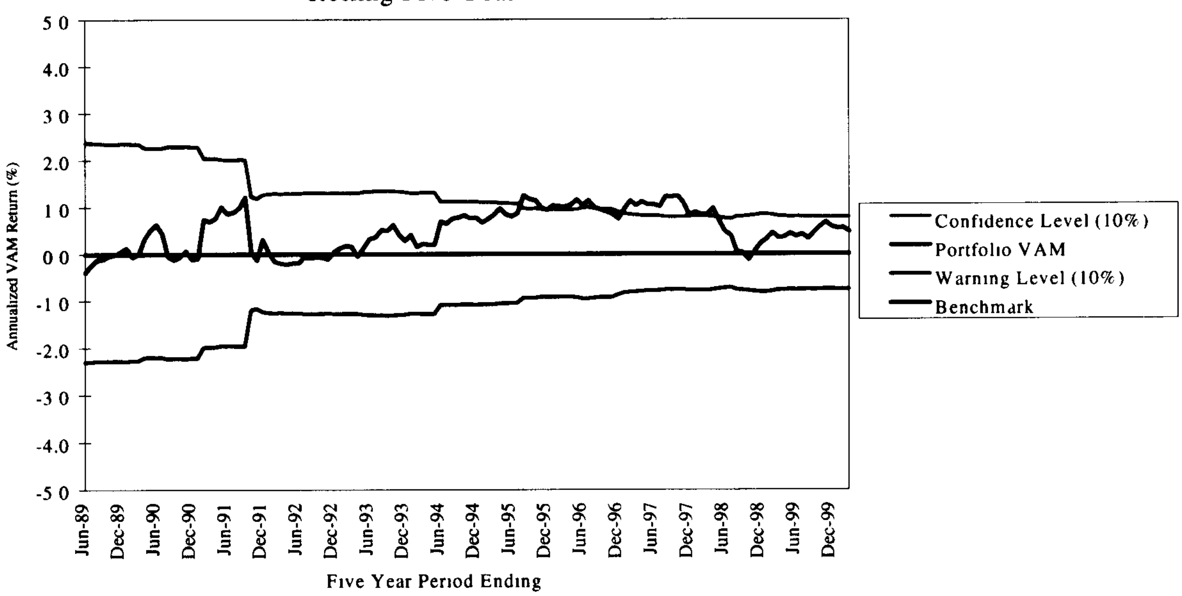
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.0%	2.2%
Last 1 year	1.4	1.9
Last 2 years	3.4	4.2
Last 3 years	6.3	6.7
Last 4 years	6.6	6.3
Last 5 years	7.6	7.1
Since Inception (7/84)	10.3	10.0

Recommendations

No action required.

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Rolling Five Year VAM



STANDISH, AYER & WOOD
Periods Ending March, 2000

Portfolio Manager: Austin Smith | **Assets Under Management: $724,637,510**

Investment Philosophy

Standish seeks to add consistent value to a bond portfolio by uncovering undervalued securities, and to a secondary degree through sector rotation Intensive research and credit analysis are the driving forces in finding undervalued issues. U.S Treasury and agency issue holdings are minimized except during flights of quality but provide balance to portfolio quality, maturity distribution, and liquidity A conservative approach to interest rate anticipation is employed, therefore, portfolio risk is derived not so much from interest rate volatility as from the liquidity and credit risk of non-Treasury holdings, where the offset is higher yields and appreciation potential. Standish was retained by the SBI in July 1993

Staff Comments

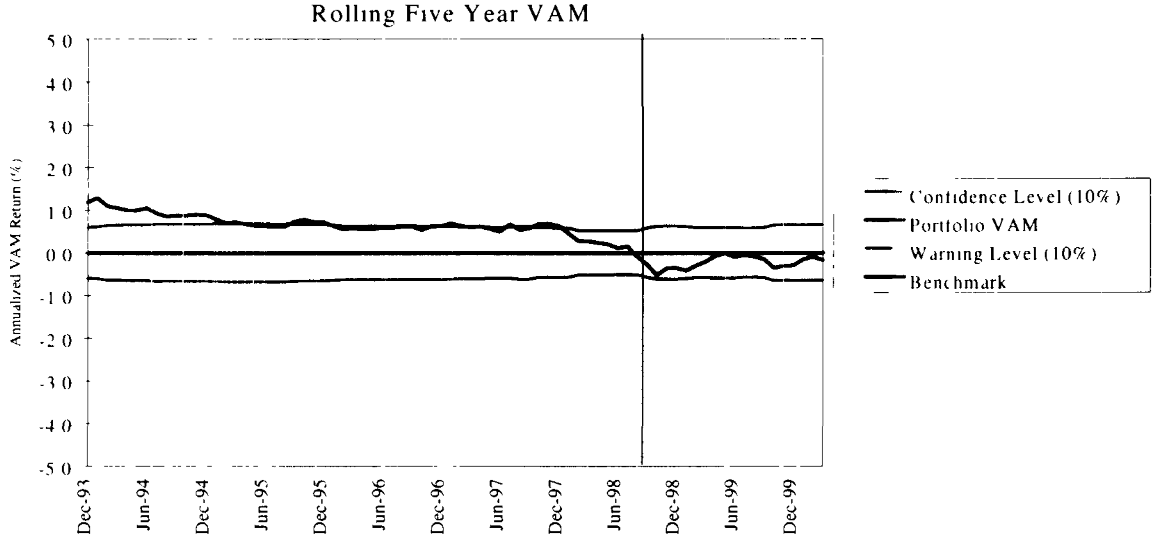
Standish's portfolio slightly outperformed during the quarter as corporate bond selection offset the general widening in spreads

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.3%	2 2%
Last 1 year	0.8	1 9
Last 2 years	2 7	4.2
Last 3 years	5.7	6.7
Last 4 years	5 9	6.3
Last 5 years	7.0	7 1
Since Inception (7/93)	5.6	6 0

Recommendations

No action required



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

WESTERN ASSET MANAGEMENT
Periods Ending March, 2000

Portfolio Manager: Ken Leech | **Assets Under Management: $1,466,054,631**

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

No comments at this time.

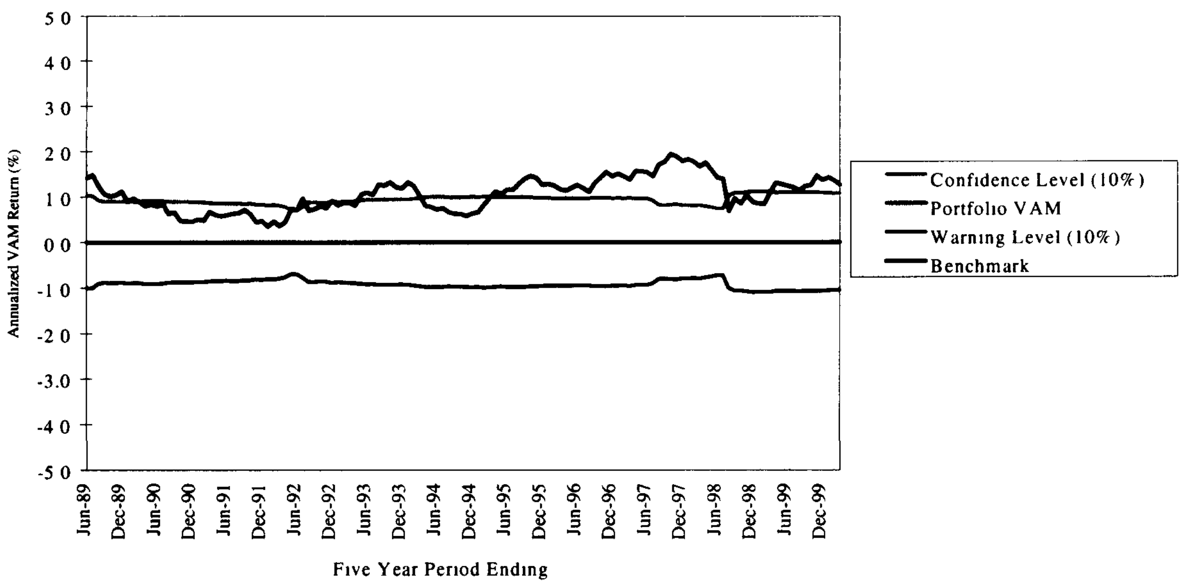
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.4%	2.2%
Last 1 year	2.7	1.9
Last 2 years	4.3	4.2
Last 3 years	7.7	6.7
Last 4 years	7.6	6.3
Last 5 years	8.5	7.1
Since Inception (7/84)	11.2	10.0

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM



BLACKROCK FINANCIAL MANAGEMENT
Periods Ending March, 2000

Portfolio Manager: Keith Anderson **Assets Under Management: $2,029,849,485**

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

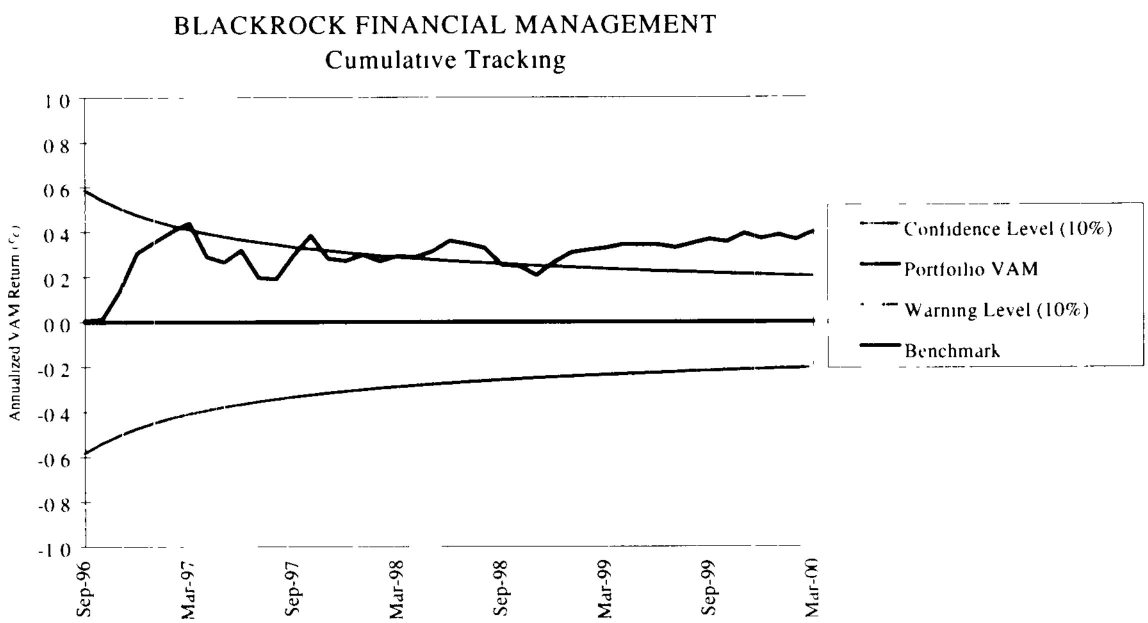
No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.4%	2.2%
Last 1 year	2.5	1 9
Last 2 years	4.7	4.2
Last 3 years	7 1	6 7
Last 4 years	6.7	6.3
Last 5 years	N/A	N/A
Since Inception (4/96)	6 7	6.3

Recommendation

No action required



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending March, 2000

Portfolio Manager: Sharmin Mossavar Rahmani **Assets Under Management: $2,159,542,355**

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

No comments at this time.

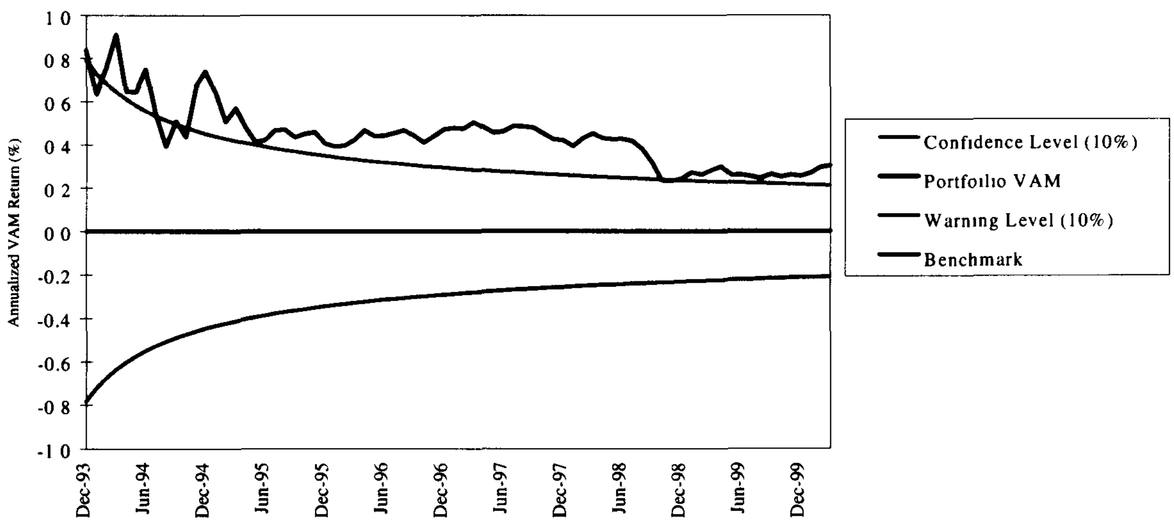
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.6%	2.2%
Last 1 year	2.3	1.9
Last 2 years	4.1	4.2
Last 3 years	6.8	6.7
Last 4 years	6.5	6.3
Last 5 years	7.4	7.1
Since Inception (7/93)	6.3	6.0

Recommendations

No action required.

GOLDMAN SACHS
Cumulative Tracking



LINCOLN CAPITAL MANAGEMENT
Periods Ending March, 2000

Portfolio Manager: Andrew Johnson — **Assets Under Management: $1,917,698,507**

Investment Philosophy

Lincoln manages an enhanced index portfolio closely tracking the Lehman Aggregate. Lincoln'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 Lincoln 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. Lincoln was retained by the SBI in July 1988

Staff Comments

No comments at this time

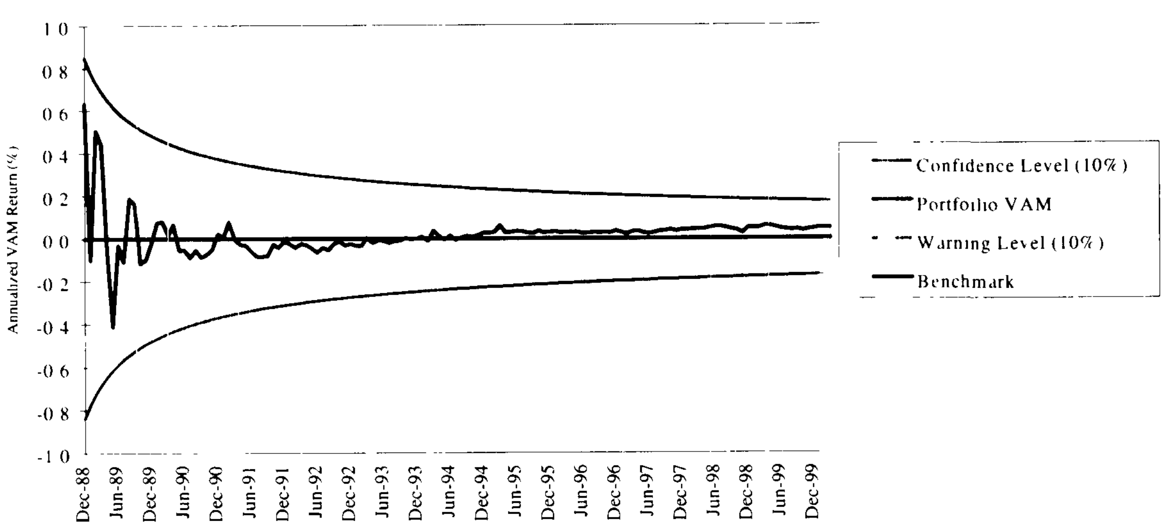
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2 3%	2 2%
Last 1 year	1.8	1.9
Last 2 years	4.2	4 2
Last 3 years	6 8	6 7
Last 4 years	6.3	6.3
Last 5 years	7.2	7 1
Since Inception (7/88)	8.3	8 2

Recommendations

No action required

LINCOLN CAPITAL MANAGEMENT - Fixed Income
Cumulative Tracking



STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

First Quarter, 2000

COMBINED RETIREMENT FUNDS
NON - RETIREMENT MANAGERS
Periods Ending March, 2000

	Quarter		1 Year		3 years		5 Years		Since Inception		Market Value
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	($ millions)
GE Investment Management (1)	2.1	2.3	17.0	17.9	26.8	27.4	26.1	26.8	26.9	27.6	$247.99
Voyageur Asset Management (2)	1.4	1.5	3.0	3.0	6.2	6.3	6.8	6.7	7.3	7.0	507.35
Internal Stock Pool (3)	2.3	2.3	17.8	17.9	27.5	27.4	26.8	26.8	22.0	22.0	577.32
Internal Bond Pool - Income Share (4)	2.6	2.2	2.5	1.9	7.1	6.7	7.8	7.1	8.5	8.1	239.46
Internal Bond Pool - Trust (5)	2.6	2.2	2.7	1.9	7.1	6.7	7.8	7.1	7.9	7.3	381.38

(1) GE Investment Management was retained by the SBI in January 1995.
The benchmark is the S&P 500 Index.
(2) Voyageur Asset Management was retained by the SBI in July 1991.
The benchmark is a custom index.
(3) The Internal Stock Pool was initiated in July 1993.
The benchmark is the S&P 500 Index.
(4) The Income Share Account was initiated in July 1986.
The benchmark is the Lehman Aggregate.
Prior to July 1994, this index reflects the Salomon BIG.
(5) The Trust Account was initiated in July 1994.
The benchmark is the Lehman Aggregate.

Periods Ending March, 2000

Tobacco Settlement Funds: Tobacco Prevention Fund
Medical Education Fund

Annualized Yield for the current Quarter:	Tobacco Prevention Fund	6.28%
	Medical Education Fund	6.38%
Market Value of Funds as of the beginning of the current quarter (millions):	Tobacco Prevention Fund	$414.9
	Medical Education Fund	$264.0

GE ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending March, 2000

Portfolio Manager: Gene Bolton **Assets Under Management: $247,989,651**

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. Three portfolio managers with value or growth orientations are supported by a team of analysts. The three portfolios 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

The GE semi-passive portfolio underperformed relative to the S&P 500 benchmark during the first quarter of 2000. The slight underperformance was due to a downturn in the consumer cyclical area and an underweighting in the natural gas industry. The portfolio was also down for the year. Positive stock selection in the financial and consumer cyclical industries could not overcome underperformance elsewhere, especially due to an underweighting in technology.

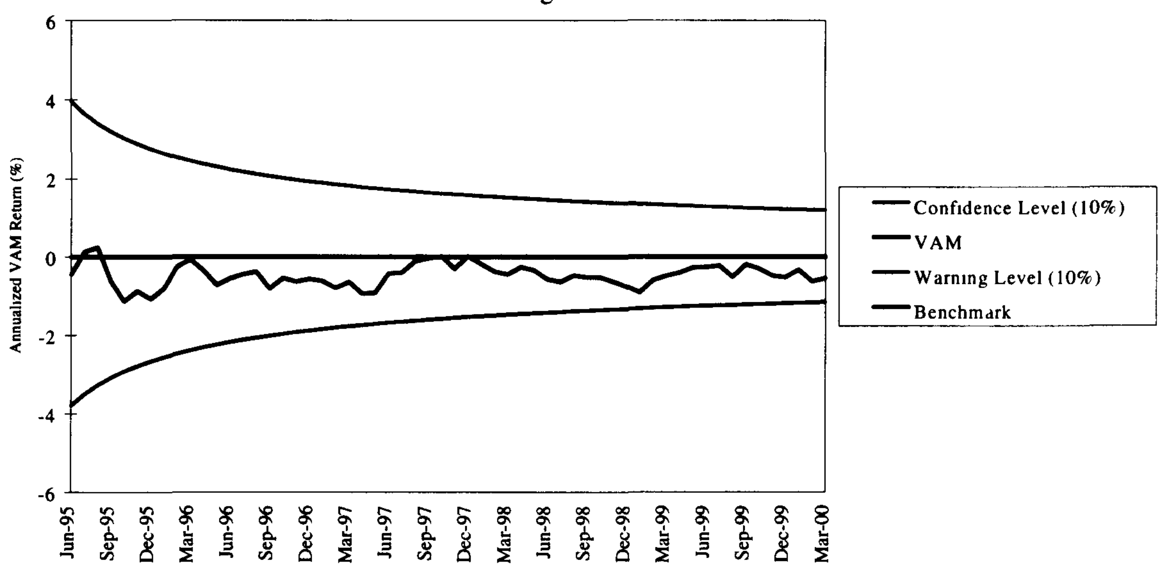
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.1%	2.3%
Last 1 year	17.0	17.9
Last 2 years	17.4	18.2
Last 3 years	26.8	27.4
Last 4 years	24.6	25.5
Last 5 years	26.1	26.8
Since Inception (1/95)	26.9	27.6

Recommendation

No recommendation at this time.

GE INVESTMENT MANAGEMENT
Cumulative Tracking



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending March, 2000

Portfolio Manager: Melissa A. Uppgren **Assets Under Management: $507,352,970**

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

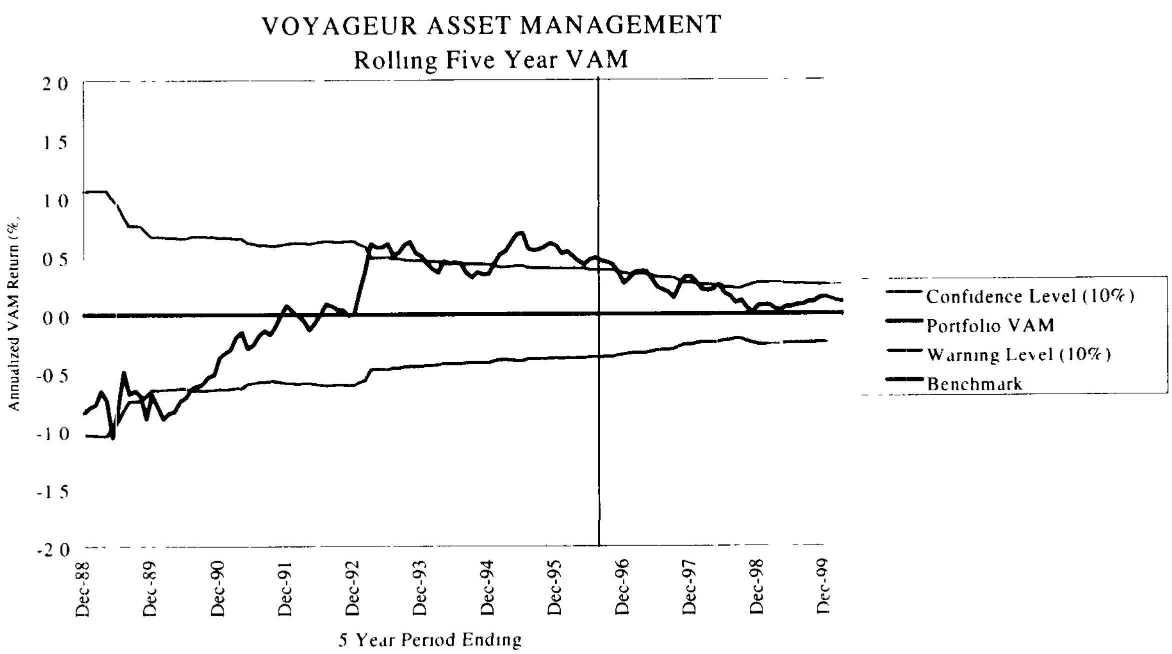
No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.4%	1.5%
Last 1 year	3.0	3.0
Last 2 years	4.6	4.7
Last 3 years	6.2	6.3
Last 4 years	6.0	6.1
Last 5 years	6.8	6.7
Since Inception (7/91)	7.3	7.0

Recommendation

No action required



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

INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending March, 2000

Portfolio Manager: Mike Menssen **Assets Under Management: $577,320,703**

Investment Philosophy
Environmental Trust Fund
Permanent School Fund

The current manager assumed responsibility for the account in December 1996. 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.

Staff Comments

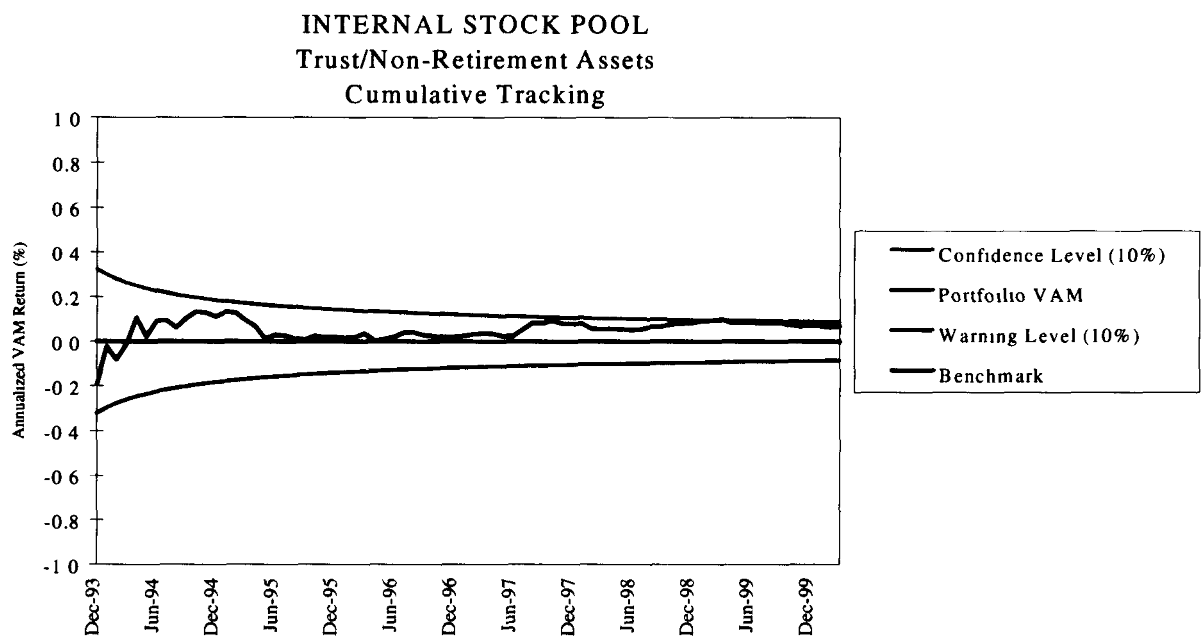
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.3%	2.3%
Last 1 year	17.8	17.9
Last 2 years	18.3	18.2
Last 3 years	27.5	27.4
Last 4 years	25.6	25.5
Last 5 years	26.8	26.8
Since Inception (7/93)	22.0	22.0

Recommendation

No action required.



INTERNAL BOND POOL - Income Share Account
Periods Ending March, 2000

Portfolio Manager: Mike Menssen **Assets Under Management: $239,456,764**

Investment Philosophy Income Share Account

The current manager assumed responsibility for this portfolio in December 1996 The investment approach emphasizes sector and security selection The approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings. The portfolio duration remains close to the benchmark duration but may be shortened or lengthened depending on changes in the economic outlook.

Staff Comments

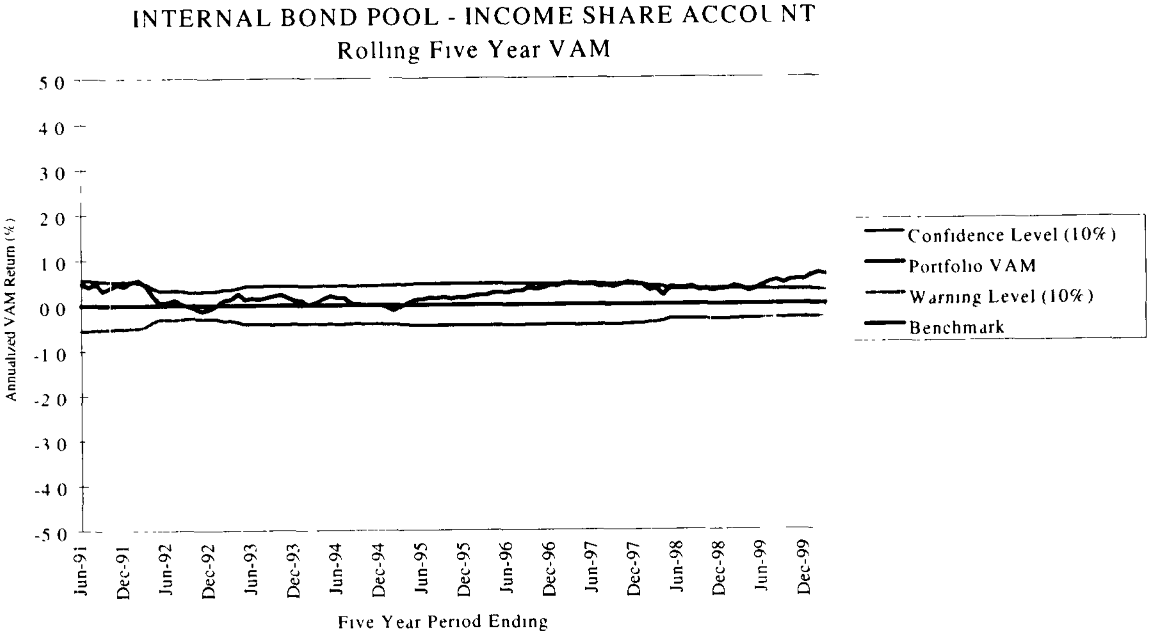
No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.6%	2.2%
Last 1 year	2.5	1.9
Last 2 years	4.6	4.2
Last 3 years	7.1	6.7
Last 4 years	6.8	6 3
Last 5 years	7.8	7.1
Since Inception (7/86)	8.5	8.1

Recommendation

No action required



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending March, 2000

Portfolio Manager: Mike Menssen **Assets Under Management: $381,378,640**

Investment Philosophy
Environmental Trust Fund
and Permanent School Trust Fund

The current manager assumed responsibility for the portfolio in December 1996. 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.

Staff Comments

No comments at this time.

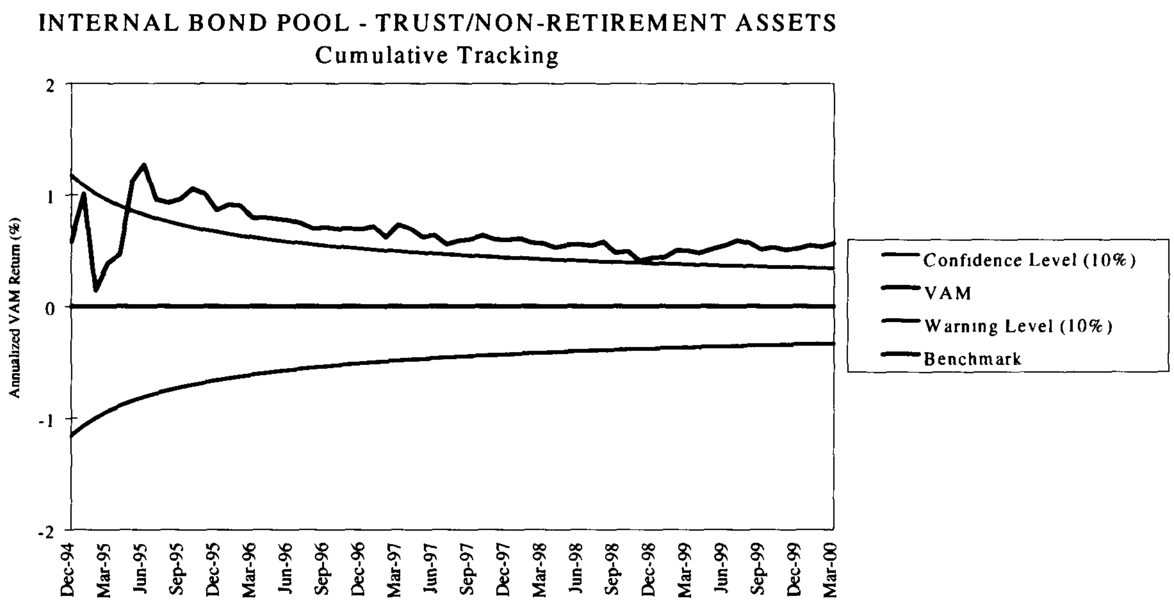
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.6%	2.2%
Last 1 year	2.7	1.9
Last 2 years	4.7	4.2
Last 3 years	7.1	6.7
Last 4 years	6.7	6.3
Last 5 years	7.8	7.1
Since Inception (7/94)*	7.9	7.3

Recommendation

No action required.

* Date started managing the Permanent School Fund against the Lehman Aggregate.



STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

First Quarter, 2000

MN STATE 457 DEFERRED COMPENSATION PLAN

MUTUAL FUND MANAGERS

Periods Ending March, 2000

457 Mutual Funds	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Retention by SBI* %	Since Retention by SBI* %	State's Participation In Fund ($ millions)
Large Cap Equity:											
Janus Twenty	5.5	2.3	41.4	17.9	56.7	27.4	44 8	26 8	47.7	10.2	456.89
(S&P 500)**											
Small Cap Equity:											
T. Rowe Price Small-Cap Equity	9.3	7.1	37 3	37.3	17.4	17.8	19.2	17.2	19 9	18.8	207.67
(Russell 2000)											
Equity Index:											
Vanguard Institutional Index	2.2	2.3	18.0	17.9	27.5	27.4	26.9	26 8	10.2	10.2	197.49
(S&P 500)											
Balanced:											
INVESCO Total Return	-3.4	2.6	-3.1	11.6	9.9	19 3	12.9	18 9	-10.6	7.6	90 26
(60% S&P 500/40% Lehman Gov-Corp)											
Bond:											
Dodge & Cox Income Fund	2.1	2 2	1.6	1.9	6.7	6 7	7.3	7 1	2.7	2 8	22 53
(Lehman Aggregate)											
International:											
Fidelity Diversified International	0.3	-0.1	47 1	24.9	24.2	16.2	22.4	12 3	37.8	22.0	85.54
(MSCI EAFE-Free)											

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

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

*The mutual fund managers were retained by the SBI in July 1999.

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

Fixed Fund:	%
Blended Yield Rate for current quarter***:	6.2
Bid Rates for current quarter:	
Great West Life	6.9
Minnesota Life	6.9
Principal Life	7.0

***The Blended Yield Rate for the current quarter includes the return on the existing porfolio assets and also the Liquidity Buffer Account (money market). The Bid Rates for the current quarter are for the new cash flow only.

MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY - JANUS TWENTY
Periods Ending March, 2000

State's Participation in Fund: $456,886,243

Portfolio Manager: Scott W. Schoelzel **Total Assets in Fund: $38,526,600,000**

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

The Janus Twenty Fund had significant outperformance relative to its S&P 500 benchmark in all time periods. The Fund's preference for technology stocks continues to serve it well.

Quantitative Evaluation

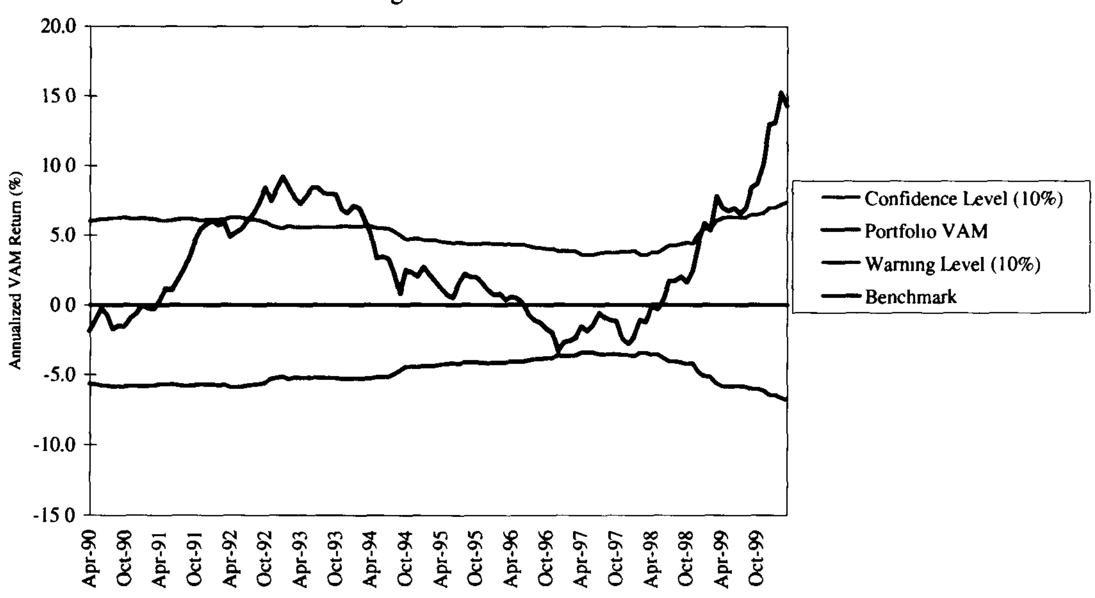
	Actual	Benchmark*
Last Quarter	5.5%	2.3%
Last 1 year	41 4	17.9
Last 2 years	59 5	18 2
Last 3 years	56 7	27.4
Last 4 years	46.3	25 5
Last 5 years	44 8	26.8
Since Retention by SBI (7/99)	47.7	10.2

*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.

Recommendation

No action required.

LARGE CAP EQUITY - JANUS TWENTY
Rolling Five Year 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 EQUITY FUND
Periods Ending March, 2000

State's Participation in Fund: $207,669,999

Portfolio Manager: Gregory A. McCrickard | **Total Assets in Fund: $1,962,234,466**

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

The small cap fund outperformed its benchmark in the first quarter. The Fund's blended portfolio benefited from a market broadening in early 2000 To the extent the market focuses on valuation going forward, the Fund is well positioned

Quantitative Evaluation

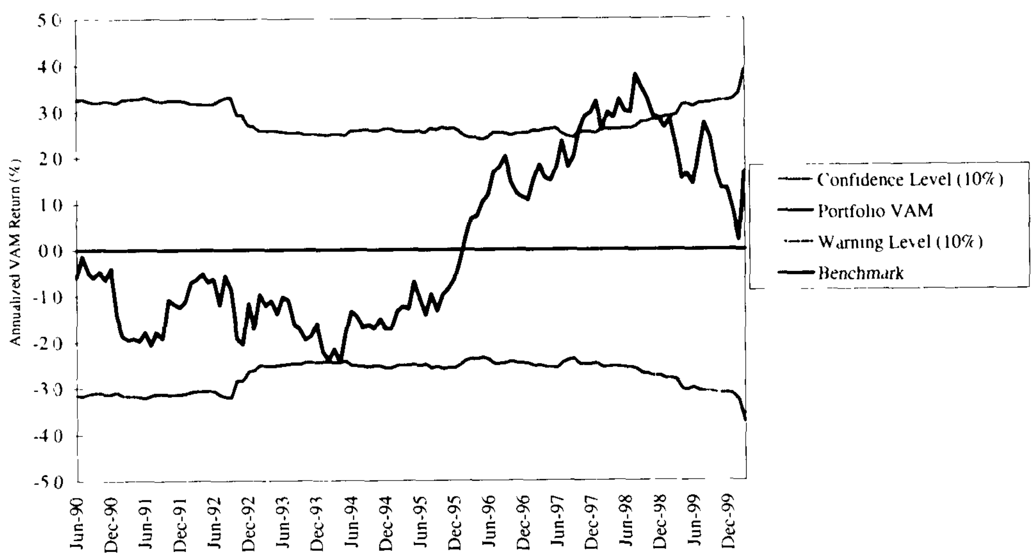
	Actual	Benchmark*
Last Quarter	9.3%	7.1%
Last 1 year	37.3	37.3
Last 2 years	5.6	7.2
Last 3 years	17.4	17.8
Last 4 years	15.9	14.5
Last 5 years	19.2	17.2
Since Retention by SBI (7/99)	19.9	18.8

*Benchmark is the Russell 2000.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required

SMALL CAP EQUITY - T. ROWE PRICE SMALL CAP EQUITY FUND
Rolling Five Year VAM



Five Year Period Ending
Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
EQUITY INDEX – VANGUARD INSTITUTIONAL INDEX
Periods Ending March, 2000

State's Participation in Fund: $197,493,004

Portfolio Manager: George U. Sauter **Total Assets in Fund: $30,475,000,818**

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 comments at this time.

Quantitative Evaluation

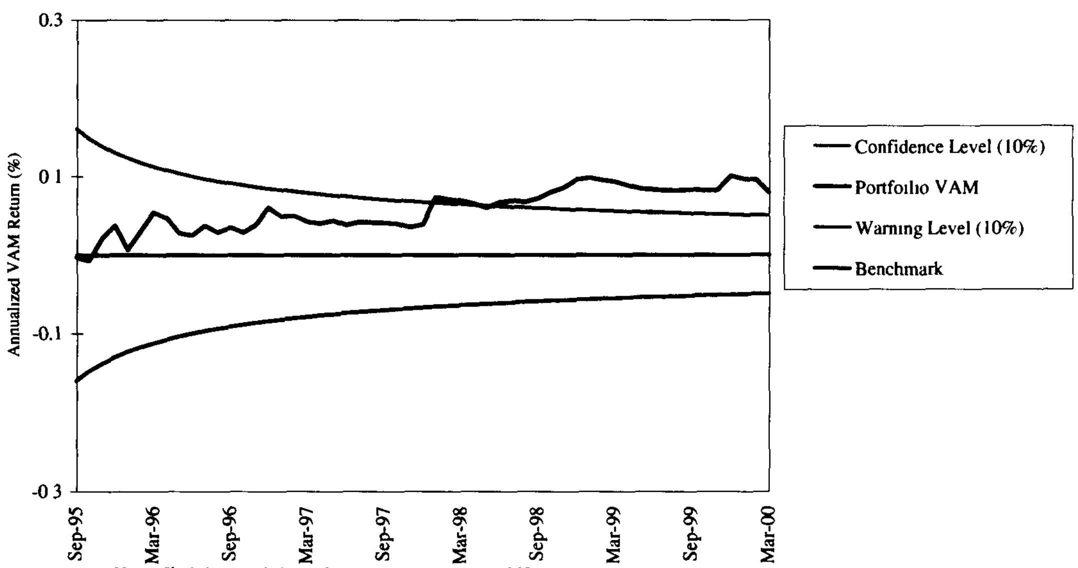
	Actual	Benchmark*
Last Quarter	2.2%	2.3%
Last 1 year	18.0	17.9
Last 2 years	18.3	18.2
Last 3 years	27.5	27.4
Last 4 years	25.6	25 5
Last 5 years	26.9	26.8
Since Retention by SBI (7/99)	10.2	10.2

*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.

Recommendation

No action required.

EQUITY INDEX - VANGUARD INSTITUTIONAL INDEX
Cumulative Tracking



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – INVESCO TOTAL RETURN
Periods Ending March, 2000

State's Participation in Fund: **$90,259,222**
Total Assets in Fund: **$2,443,510,000**

Portfolio Manager: Edward Mitchell, Jr.

Investment Philosophy
Invesco Total Return

This fund is designed for investors who want to invest in a mix of stocks and bonds in the same fund. The fund seeks both capital appreciation and current income. The managers start from a 60% stock / 40% bond asset allocation and adjusts the mix based on the expected risks and returns of each asset class. The fund invests in mid- to large-cap value stocks and in high quality bonds with the bond portfolio having a duration somewhat less than the bond market as a whole

Staff Comments

Invesco Total Return continues to suffer from the market's overwhelming preference for growth over value The Fund's value discipline in equities along with its larger allocation to equities compared to bonds has caused the poor performance in the past several quarters. Value outperformed growth in March providing the Fund with a positive 50 basis points performance in the month.

Quantitative Evaluation

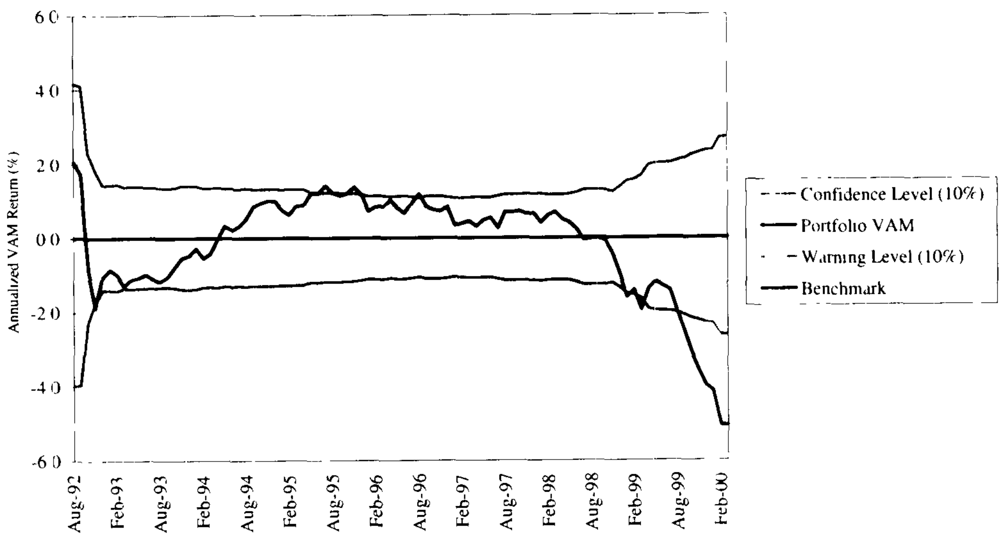
	Actual	Benchmark*
Last Quarter	-3.4%	2.6%
Last 1 year	-3.1	11.6
Last 2 years	-0.2	13.0
Last 3 years	9.9	19.3
Last 4 years	10.5	17.8
Last 5 years	12.9	18.9
Since Retention by SBI (7/99)	-10.6	7.6

*Benchmark is the 60% S&P 500/ 40% Lehman Gov-Corp.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

Staff will visit the manager in the manager's offices second quarter

BALANCED - INVESCO TOTAL RETURN
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – DODGE & COX INCOME FUND
Periods Ending March, 2000

Portfolio Manager: Dana Emery	**State's Participation in Fund: $22,533,012**
	Total Assets in Fund: $1,002,378,477

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

The Fund's overweight positions in mortgage-backed securities and corporate securities had a negative impact on performance to the Lehman Aggregate as yield premiums widened during the quarter..

Quantitative Evaluation

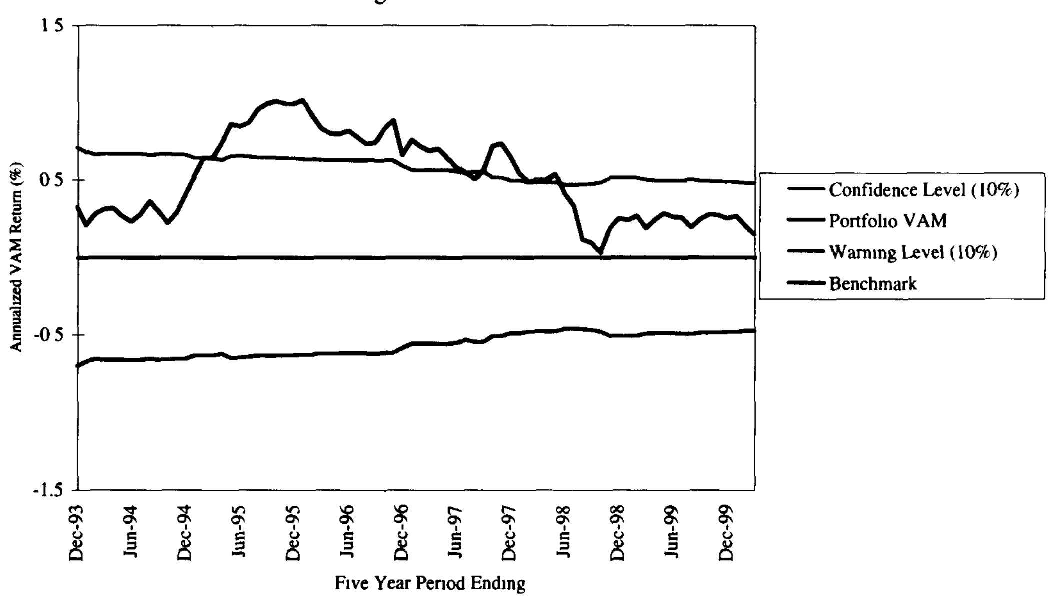
	Actual	Benchmark*
Last Quarter	2.1%	2.2%
Last 1 year	1.6	1.9
Last 2 years	3 9	4.2
Last 3 years	6.7	6.7
Last 4 years	6.3	6.3
Last 5 years	7.3	7.1
Since Retention By SBI (7/99)	2.7	2.8

*Benchmark is the Lehman Aggregate.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.

BOND - DODGE & COX INCOME FUND
Rolling Five Year VAM



Note. Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending March, 2000

State's Participation in Fund: $85,540,832
Portfolio Manager: Gregory Fraser | **Total Assets in Fund: $5,945,000,000**

Investment Philosophy
Fidelity Diversified International

The goal of this fund is capital appreciation by investing in securities of companies located outside of the United States. While the fund invests primarily in stocks, it may also invest in bonds Most investments are made in companies that have a market capitalization of $100 million or more and which are located in developed countries. To select the securities, the fund utilizes a rigorous computer-aided quantitative analysis supplemented by relevant economic and regulatory factors. The manager rarely invests in currency to protect the account from exchange fluctuations.

Staff Comments

No comments at this time.

Quantitative Evaluation

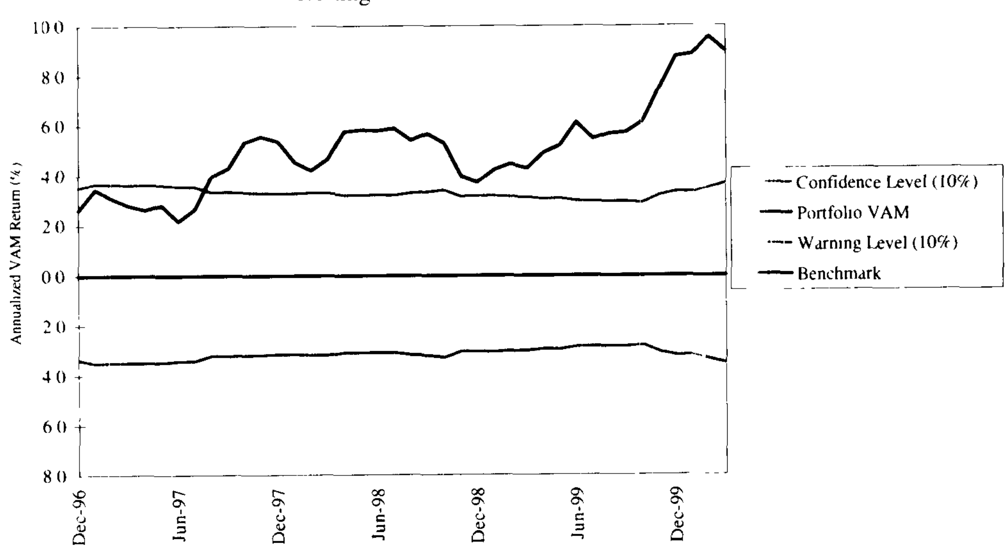
	Actual	Benchmark*
Last Quarter	0.3%	-0.1%
Last 1 year	47.1	24.9
Last 2 years	23.5	15.1
Last 3 years	24.2	16.2
Last 4 years	22.4	12.3
Last 5 years	22.4	12.3
Since Retention By SBI (7/99)	37.8	22.0

*Benchmark is the MSCI EAFE-Free.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required

INTERNATIONAL - FIDELITY DIVERSIFIED INTERNATIONAL
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending March, 2000

Total Assets in MN Fixed Fund: $64,735,381 *
*Includes $5-10M in Liquidity Buffer Account

Total Assets in 457 Plan: $591,856,694 **
**Includes all assets in new and old fixed options

Principal Life

Ratings:	Moody's	Aa2
	S&P	AA
	A.M. Best	A+
	Duff & Phelps	AA+

Assets in MN Fixed Fund: $22,585,484

Investment Philosophy

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

Ratings:	Moody's	Aa2
	S&P	AA+
	A.M. Best	A++
	Duff & Phelps	AA+

Assets in MN Fixed Fund: $19,672,114

Assets in Prior MN 457 Plan: $223,068,869

Total Assets: $242,740,983

Investment Philosophy

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

Ratings:	Moody's	Aa2
	S&P	AA+
	A.M. Best	A++
	Duff & Phelps	AAA

Assets in MN Fixed Fund: $18,217,473

Assets in Prior MN 457 Plan: $304,052,443

Total Assets: $322,269,917

Investment Philosophy

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, 2000

Current Quarter

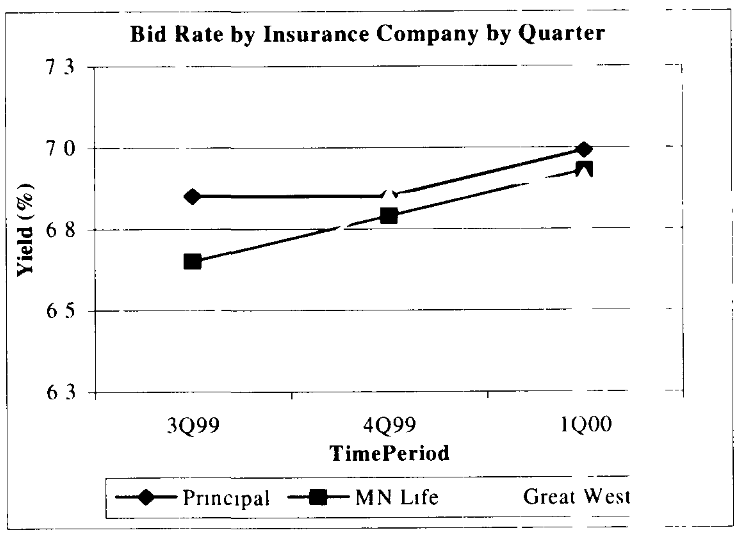
Dollar Amount of Bid: $25,000,000 **Blended Rate: 6.23%**

Bid Rates:

Principal Life	6.99%
Minnesota Life	6.93%
Great West Life	6.91%

Dollar Amount in existing Minnesota Life portfolio: $223,068,869

Rate on existing Minnesota Life portfolio: 6.05 %



Staff Comments on Bid Rates

The spread in the bid rates by the three insurance companies on the new inflow of dollars into the MN Fixed Fund in the first quarter remained narrow. The overall bid rates increased slightly from those of the prior quarter.

Please note that Duff & Phelps lowered Minnesota Life's rating to its second highest rating in March 2000 The rating change is not indicative of any deterioration of Minnesota Life's fundamentals

Percentage Allocation of Dollars by Quarter

	3Q99	4Q99	1Q00
Principal Life	50%	33.3%	33 3%
Minnesota Life	30%	33.3%	33.3%
Great West Life	20%	33.3%	33 3%

Staff Comments

In the most recent quarter, the percentage allocation of the bid dollars to each insurance company was equal because all three companies' bid rates were within ten basis points of each other

Tab F

COMMITTEE REPORT

DATE: May 30, 2000

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

FROM: **International Manager Committee**

The International Manager Committee met on May 17, 2000 to consider the following agenda items:

- Review of manager performance for the period ending March 31, 2000.

No Board/IAC action is required at this time.

INFORMATION ITEMS:

1. **Review of manager performance for the period ending March 31, 2000.**

For the period ending March 31, 2000, the **International Equity Program** underperformed its composite index for the quarter, but outperformed for all other periods. Performance of the **equity managers** (excluding the currency overlay) underperformed the target for the quarter, one year, and three year time periods, while continuing to outperform for the five year period.

Time Period	Total Program	Composite Index*
Quarter	-1.1%	0.2%
1 Year	28.3	28.2
3 Year	14.5	14.4
5 Year	13.7	11.5

Equity Mgrs. Only
-1.1%
28.1
14.1
12.9

* The international benchmark is EAFE-Free plus Emerging Markets Free. The weight fluctuates with market capitalization. From 12/31/96 to 6/30/99 the benchmark 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 benchmark was 100% EAFE-Free.

Performance evaluation (VAM) reports are behind the **"blue page"** in this Tab section.

STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

First Quarter, 2000

COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending March, 2000

	Quarter		1 Year		3 years		5 Years		Since Inception		Market Value	Equity Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	(in millions)	%
Active EAFE												
American Express (6)									3.5	3.9	$310.97	4.9%
Blairlogie (6)									4.7	3.9	104.95	1.6%
Brinson (1)	-4.1	-0.1	17.3	24.9	14.1	16.2	15.1	12.3	12.2	12.8	665.04	10.4%
Invesco (6)									2.9	3.9	411.24	6.4%
Marathon (2)	-1.6	0.6	26.4	25 0	12.1	12.7	11.2	10.4	10.4	9.1	490.25	7.7%
Montgomery (6)									0.7	3.9	307.24	4.8%
Rowe Price (2)	1.1	-0.1	34.9	24.9	17.6	16.2	16.3	12.3	13.6	10.7	585.42	9.2%
Scudder (2)	0.4	-0.1	37.2	24.9	19.0	16.2	18.6	12.3	14.6	10.7	608.02	9.5%
Active Emerging Markets												
City of London (3)	-2.4	2.4	36.5	51.6	2.1	1.2			5.1	4.2	247.35	3.9%
Genesis (4)	-1.6	2.4	39.4	51.6	-4.0	1.2			0.1	2.0	266.00	4.2%
Montgomery (4)	5.8	2.4	64.8	51.6	-0.1	1.2			2.5	2.0	297.21	4.7%
Passive EAFE												
State Street (5)	-0.2	-0.1	25.8	24.9	16.7	16.2	12.8	12.3	13.3	13.0	2,086.67	32.7%
									Since 10/1/92			
Equity Only*	-1.1	0.2	28.1	28.2	14.1	14.4	12.9	11.5	13.0	12.5	6,380.37	100.0%
Total Program**	**-1.1**	**0.2**	**28.3**	**28.2**	**14.5**	**14.4**	**13.7**	**11.5**	**13.6**	**12.5**	**$6,377.18**	

* Equity managers only. Includes impact of terminated managers. The international benchmark is EAFE Free plus Emerging Markets Free (EMF). The weighting of each index fluctuates with market capitalization. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE-Free/13% Emerging Markets Free. On 5/1/96, the portfolio began transitioning from 100% EAFE to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

** Includes impact of currency overlay unrealized gain/loss. The international benchmark is EAFE Free plus Emerging Markets Free (EMF). The weighting of each index fluctuates with market capitalization. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE-Free/13% Emerging Markets Free. On 5/1/96, the portfolio began transitioning from 100% EAFE to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

(1) Fully active since 10/1/99. Active country/passive stock from inception to 9/30/99. Retained April 1, 1993.
(2) Fully active. Retained November 1, 1993. Marathon's performance against custom benchmark returns can be seen on page 6.
(3) Retained November 1, 1996.
(4) Retained May 1, 1996.
(5) Retained October 1, 1992.
(6) Retained February 1, 2000

Impact of Currency Overlay Program

Cumulative Dollar Value Added $154,066,206
(Since inception, December 1, 1995)

AMERICAN EXPRESS ASSET MANAGEMENT INTERNATIONAL, INC.
Periods Ending March, 2000

Portfolio Manager: Peter Lamaison **Assets Under Management: $310,965,886**

Investment Philosophy

American Express Asset Management's (AEAM) objective is to identify inefficiencies in market value at the regional, country and stock level. Their investment process concentrates on identifying non-consensus views that they can exploit. AEAM's core international equity approach is a blend of top-down and bottom up styles with an emphasis on large cap growth stocks. They start the decision making process with the development of their geopolitical and macroeconomic outlook. The bottom-up stage of their process begins with real-time relative valuation comparisons of the stocks in their investable universe. The most attractively priced stocks then go through in depth fundamental analysis.

Staff Comments

American Express was funded with $300 million on February 1.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	N/A	N/A
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 (03/00)	3.5%	3.9%

Recommendations

No action required.

VAM Graph will be drawn for period ending 03/31/2002.

BLAIRLOGIE CAPITAL MANAGEMENT
Periods Ending March, 2000

Portfolio Manager: Gavin Dobson **Assets Under Management: $104,950,392**

Investment Philosophy

Blairlogie has developed a model that ranks countries based on a collection of current and historical data. Their quantitative analysis is enhanced with significant qualitative assessments to evaluate things a model cannot review. They continuously strive for the optimum combination of quantitative and judgmental inputs but believe that objective, measurable facts must always be the starting point for making sound investment decisions. Blairlogie is primarily top-down, but incorporates bottom-up stock selection. Their process is based upon an underlying objective of producing premium returns above their benchmark consistently in any market environment while consciously controlling risk and limiting volatility. Blairlogie's portfolio is broadly diversified in international markets both by country and stock.

Staff Comments

Blairlogie was funded with $100 million on February 1

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	N/A	N/A
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 (03/00)	4.7%	3 9%

Recommendations

No action required

VAM Graph will be drawn for period ending 03/31/2002.

BRINSON PARTNERS
Periods Ending March, 2000

Portfolio Manager: Thomas Madsen **Assets Under Management: $665,036,046**

Investment Philosophy

Brinson is a fundamental, long-term, value-oriented investor. Brinson uses a proprietary valuation model to rank the relative attractiveness of individual markets based on fundamental considerations. Inputs include forecasts for growth, inflation rates, risk premiums and foreign exchange movements. Quantitative tools are used to monitor and control portfolio risk, while qualitative judgments from the firm's professionals are used to determine final allocations. Brinson establishes an allocation range around the target index to define the limits of their exposure to individual countries and to assure diversification.

Brinson utilizes currency equilibrium bands to determine which currencies are over or under valued. The firm will hedge to control the potential risk for real losses from currency depreciation.

Staff Comments

Brinson underperformed the quarterly benchmark due to the decision to avoid technology, media and telecommunication sectors. Currency allocation and industry and stock selection also detracted for the quarter and one-year periods. The underweight to Asia (Ex-Japan) during 1999 also hurt one-year performance.

In March 2000, UBS Asset Management combined Brinson with Phillips and Drew. In addition, the firm had several organizational changes due to the retirement of the SBI's portfolio manager, Richard Carr, and the forthcoming retirement of Gary Brinson. Thomas Madsen will succeed Richard Carr as the Head of Equities for UBS Asset Management. He joined Brinson in early-2000 after holding various positions with JP Morgan Investment Management.

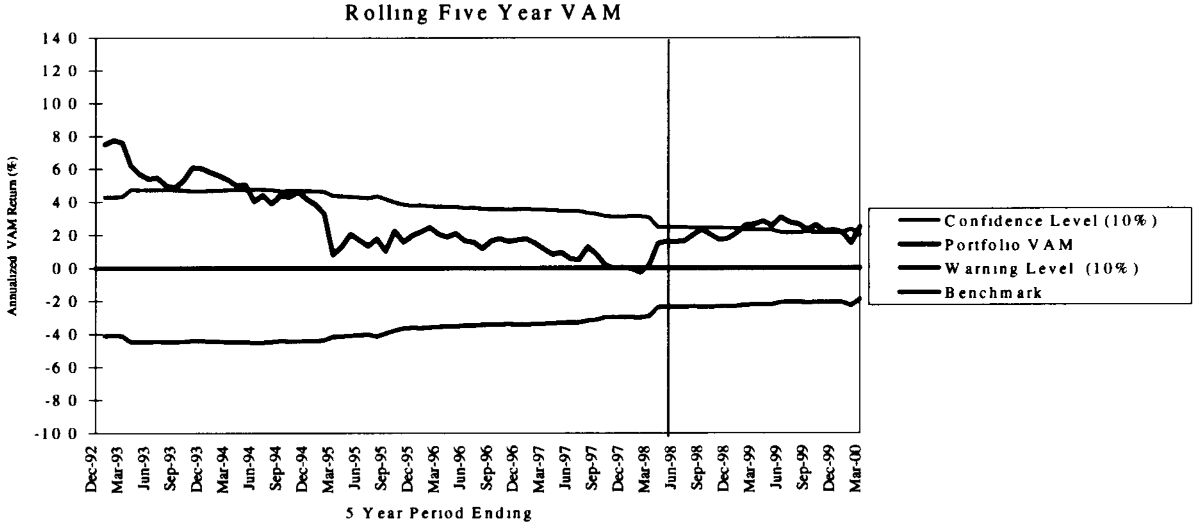
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.1%	-0.1%
Last 1 year	17.3	24.9
Last 2 years	12.5	15.1
Last 3 years	14.1	16.2
Last 4 years	12.8	12.3
Last 5 years	15.1	12.3
Since Inception (4/93)	12.2	12.8

Recommendations

In April, staff met with Tom Madsen to discuss the organizational changes, and is comfortable that the firm has strong leadership in place. Staff recommends no action at this time.

BRINSON PARTNERS, INC. (INT'L)
Rolling Five Year VAM



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

INVESCO GLOBAL ASSET MANAGMENT
Periods Ending March, 2000

Portfolio Manager: John Rogers **Assets Under Management: $411,242,730**

Investment Philosophy

INVESCO believes they can add value by identifying and investing in companies whose share price does not reflect the proven and sustainable growth of the company's earnings and assets. They also believe that a systematic process that identifies mis-valued companies, combined with a consistently applied portfolio design process, can control the predictability and consistency of returns. Portfolios are constructed on a bottom-up basis; they select individual companies rather than countries, themes, or industry groups. This is the first of four cornerstones of their investment approach Secondly, they conduct financial analysis on a broad universe of non-U S companies whose key financial data is adjusted to be comparable across borders and currencies. Third, Invesco believes that using local investment professionals enhances fundamental company research. Finally, they manage risk and assure broad diversification relative to clients' benchmarks through a statistics-based portfolio construction approach rather than resorting to country or industry constraints.

Staff Comments

INVESCO was funded with $400 million on February 1.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	N/A	N/A
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 (03/00)	2.9%	3.9%

Recommendations

No action required

VAM Graph will be drawn for period ending 03/31/2002.

MARATHON ASSET MANAGEMENT
Periods Ending March, 2000

Portfolio Manager: William Arah **Assets Under Management: $490,253,539**

Investment Philosophy

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

Staff Comments

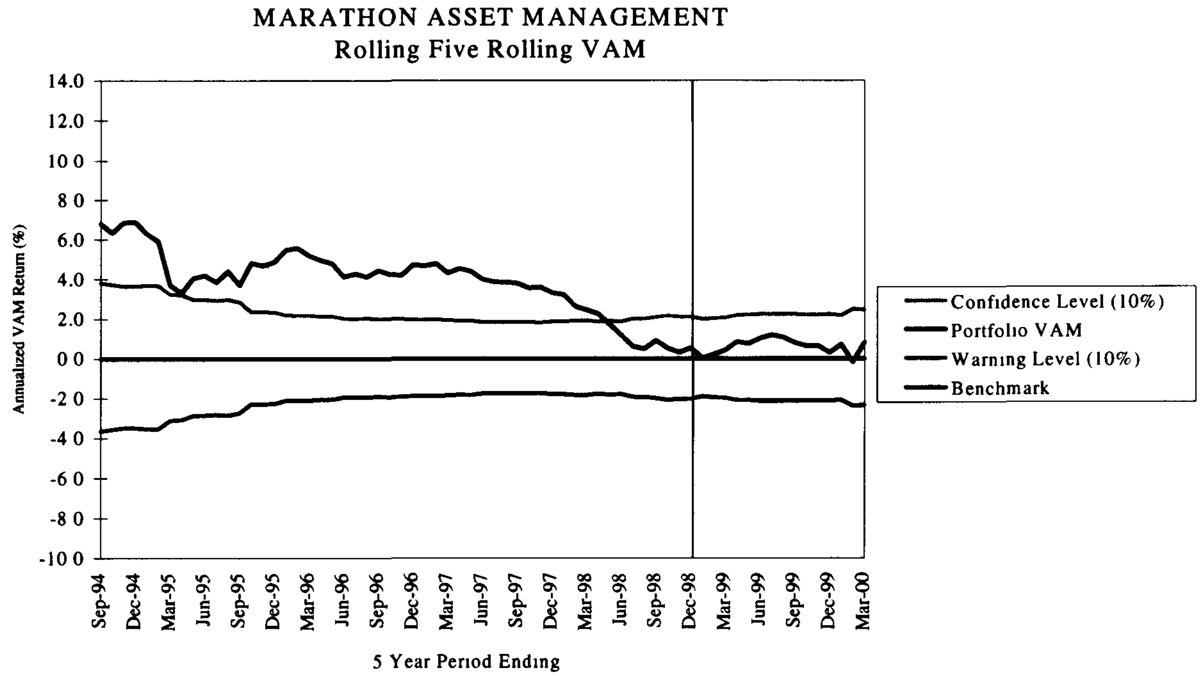
No comments at this time.

Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	-1.6%	0.6%
Last 1 year	26.4	25.0
Last 2 years	13.1	12.4
Last 3 years	12.1	12.7
Last 4 years	10.0	9.9
Last 5 years	11.2	10.4
Since Inception (11/93)	10.4	9.1

Recommendations

No action required.



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

MONTGOMERY ASSET MANAGEMENT, LLC (EAFE)
Periods Ending March, 2000

Portfolio Manager: John Boich **Assets Under Management: $307,244,386**

Investment Philosophy

Montgomery manages a developed markets portfolio for the SBI, in addition to an emerging portfolio. Montgomery believes that a consistent process, centered on accountability, sector specialization and primary, original research provides a sustainable edge in international equity investing. Their international equity investing combines thorough sector and country research with a disciplined bottom-up stock selection process to identify securities with long-term projected earnings growth, attractive valuation versus applicable peers, positive business momentum and the potential to achieve minimum required returns.

Staff Comments

Montgomery was funded with $300 million on February 1.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	N/A	N/A
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 (03/00)	0.7%	3.9%

Recommendations

No action required

VAM Graph will be drawn for period ending 03/31/2002.

ROWE PRICE-FLEMING INTERNATIONAL, INC.
Periods Ending March, 2000

Portfolio Manager: David Warren | **Assets Under Management: $585,422,065**

Investment Philosophy

Rowe Price-Fleming (RPF) believes that world stock markets are segmented. The firm attempts to add value by identifying and exploiting the resulting pricing inefficiencies. In addition, they believe that growth is frequently under priced in the world markets. RPF establishes its economic outlook based largely on interest rate trends and earnings momentum. The portfolio management team then assesses the country, industry and currency profile for the portfolio. Within this framework, stock selection is the responsibility of regional portfolio managers. Stocks are selected using fundamental analysis that emphasizes companies with above-market earnings growth at reasonable valuations. Information derived from the stock selection process is a key factor in country allocation as well.

Staff Comments

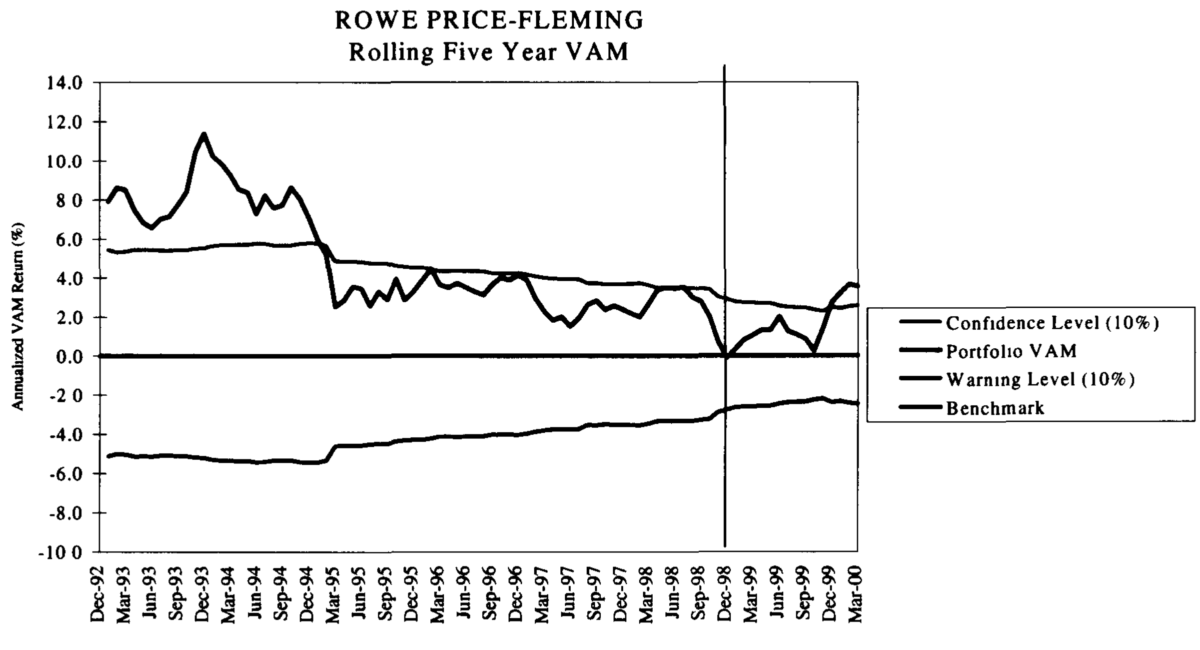
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.1%	-0.1%
Last 1 year	34.9	24.9
Last 2 years	18.3	15.1
Last 3 years	17.6	16.2
Last 4 years	15.6	12.3
Last 5 years	16.3	12.3
Since Inception (11/93)	13.6	10.7

Recommendations

No action required.



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

SCUDDER, STEVENS & CLARK
Periods Ending March, 2000

Portfolio Manager: Deborah Chaplin **Assets Under Management: $608,017,680**

Investment Philosophy

Scudder believes that successful international investing requires knowledge of each country's economy, political environment and financial market obtained through continuous and thorough research of individual markets and securities. The investment process focuses on three areas: country analysis, global themes and unique situations Ideas from all three areas are integrated into Scudder's research universe. Using their own internal research, the firm seeks companies with potential for earnings and dividend growth, strong or improving balance sheets, superior management, conservative accounting practices and dominant position in growing industries.

Staff Comments

Scudder announced on April 25, 2000 that the EAFE portfolio team of Deborah Chaplin and Sheridan Reilly has resigned from Scudder to pursue other opportunities. As a result of this change, Scudder has appointed Theresa Gusman as the lead portfolio manager for the institutional EAFE product. In addition, Scudder is restructuring the organization to incorporate regional manager inputs in the EAFE product. A team of regional and international portfolio managers will support Theresa Gusman. This new team will be managing the SBI's portfolio going forward.

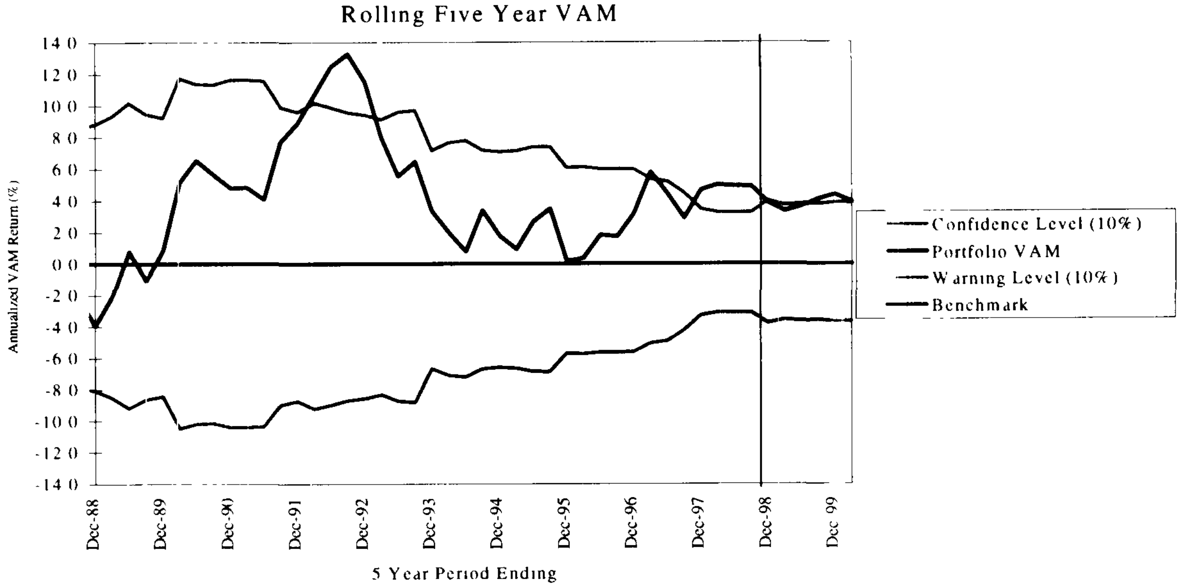
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0 4%	-0.1%
Last 1 year	37.2	24.9
Last 2 years	19.4	15 1
Last 3 years	19.0	16 2
Last 4 years	17.1	12.3
Last 5 years	18 6	12.3
Since Inception (11/93)	14 6	10.7

Recommendations

Due to significant change in the portfolio management team, staff will meet with the firm during the next quarter to determine what action is warranted.

SCUDDER KEMPER INVESTMENTS
Rolling Five Year VAM



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

CITY OF LONDON
Periods Ending March, 2000

Portfolio Manager: Barry Olliff **Assets Under Management: $247,350,295**

Investment Philosophy

City of London is an emerging markets specialist. The firm invests in closed-end country and regional funds to enhance performance when discounts to net asset value (NAV) narrow and to assure broad diversification within markets. They perform two levels of analysis. The first level is to compile macro-economic data for each country in their universe. Countries are ranked nominally according to the relative strength of their fundamentals and the expected upward potential of their stock markets. The second level is research on closed-end country and regional funds which use analyzed funds for corporate activity, liquidation dates, liquidity and discounts to NAV. They also analyze the quality and expertise of the closed-end fund managers. Countries are then re-ranked according to the relative pricing and discounts to NAV of country specific funds.

Staff Comments

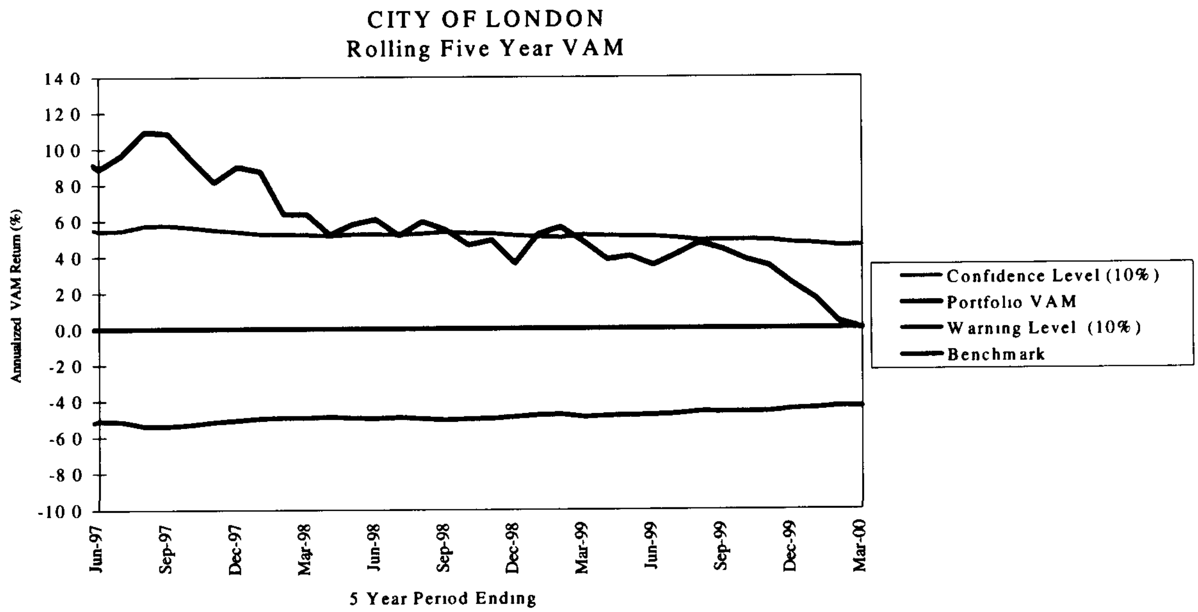
City of London underperformed the benchmark for the quarter and the year. The key driver behind the quarterly underperformance was the widening disparity between the underlying value of their closed-end fund holdings and the market value of the closed-end funds. When these discounts narrow, the portfolio will outperform the index. For the year, underperformance was due to underweight positions in Turkey, Greece, South Africa, Brazil, and Russia.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.4%	2.4%
Last 1 year	36.5	51.6
Last 2 years	4.4	9.5
Last 3 years	2.1	1.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/96)	5.1	4.2

Recommendations

No action required.



Note Shaded area includes performance prior to managing SBI account

GENESIS ASSET MANAGERS, LTD.
Periods Ending March, 2000

Portfolio Manager: Paul Greatbatch | **Assets Under Management: $266,001,526**

Investment Philosophy

Genesis is an emerging markets specialist. The firm believes that the critical factor for successful investment performance in emerging markets is stock selection. They also believe that structural changes in emerging markets will continue to create both winners and losers in the corporate sector. Finally, they believe that following index stocks will not necessarily expose an investor to the highest returns since those stocks are typically concentrated in large capitalization companies that have already attained a certain level of recognition. They identify those countries in which structural change will most likely generate growth opportunities for business and/or where the environment is supportive of a flourishing private sector. Stock selection is based on Genesis' estimate of the value of the company's future real earnings stream over five years relative to its current price. The portfolio consists of the most undervalued stocks across all markets with emphasis on growth with value.

Staff Comments

Genesis underperformed for the quarter due to an underweight in the technology sector. Genesis stated that sector selection was the most crucial factor this quarter. Two out of MSCI EMF's 10 sectors had good performance, while the remaining eight were all in negative territory. For the year, the underweight to Asia in the second quarter of 1999 negatively impacted performance since Asia was up 40% and the other regions were relatively flat. In addition, the first quarter technology underweight detracted from one-year performance. Genesis has also been out of Taiwan, which was magnified by the number of technology stocks available in Taiwan. Genesis is currently awaiting Taiwanese authorization to invest in Taiwan.

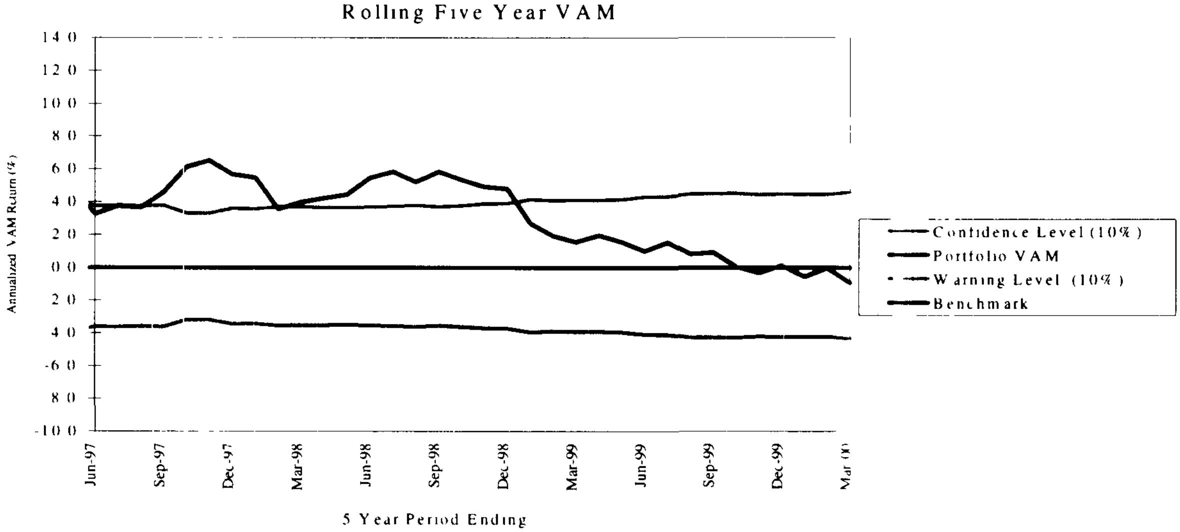
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.6%	2.4%
Last 1 year	39.4	51.6
Last 2 years	-1.0	9.5
Last 3 years	-4.0	1.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (5/96)	0.1	2.0

Recommendations

No action required

GENESIS ASSET MANAGERS
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MONTGOMERY ASSET MANAGEMENT, LLC (EMF)
Periods Ending March, 2000

Portfolio Manager: Josephine Jimenez | **Assets Under Management: $297,213,194**

Investment Philosophy

Montgomery is an emerging markets specialist. The firm combines quantitative investment techniques and fundamental stock selection to take advantage of market inefficiencies and low correlations within the emerging markets. Their top-down analysis begins with a quantitative approach which evaluates historical volatility and correlations between markets. The model identifies attractive countries which are then qualitatively analyzed for "event risk" which the model cannot take into account. Fundamental analysis is used to evaluate the financial condition, quality of management, and competitive position of each stock. Stocks will come from two tiers. Tier 1 will be 60-100 blue chip stocks. Tier 2 will be 100-150 smaller cap stocks with substantial growth potential. Characteristics of selected stocks may include low PE's to internal growth rates, above average earnings growth potential or undervalued/hidden assets.

Staff Comments

No comments at this time.

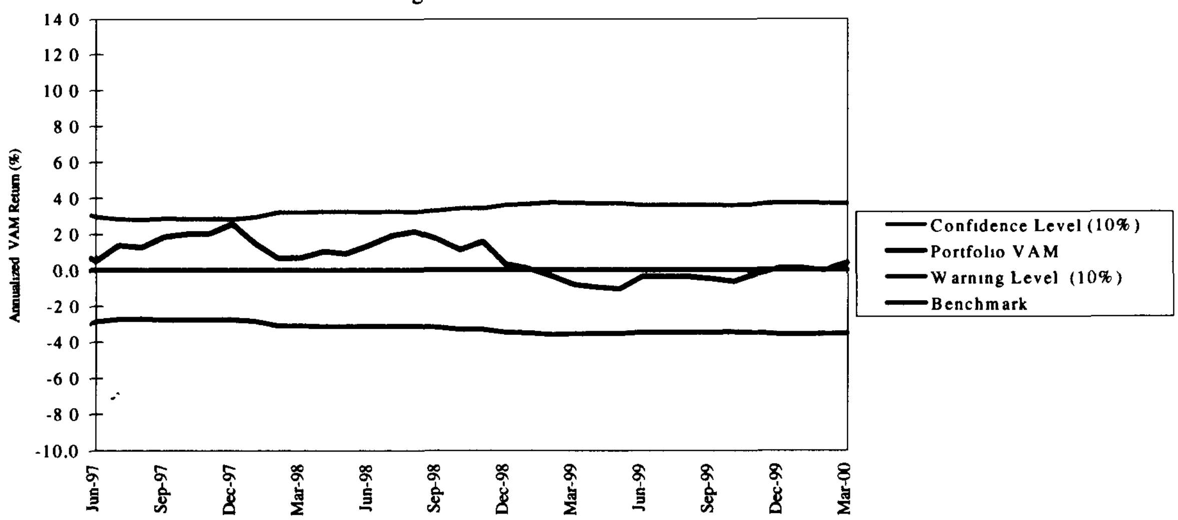
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.8%	2.4%
Last 1 year	64.8	51.6
Last 2 years	7.0	9.5
Last 3 years	-0.1	1.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (5/96)	2.5	2.0

Recommendations

No action required.

MONTGOMERY ASSET MANAGEMENT
Rolling Five Year VAM



5 Year Period Ending
Note Shaded area includes performance prior to managing SBI account

STATE STREET GLOBAL ADVISORS
Periods Ending March, 2000

Portfolio Manager: Lynn Blake **Assets Under Management: $2,086,674,256**

Investment Philosophy

State Street Global Advisors passively manages the portfolio against the Morgan Stanley Capital International (MSCI) index of 20 markets located in Europe, Australia and the Far East (EAFE) They buy only securities which are eligible for purchase by foreign investors, therefore they are benchmarked against the MSCI EAFE-Free index SSgA fully replicates the index whenever possible because it results in lower turnover, higher tracking accuracy and lower market impact costs The MSCI EAFE-Free reinvests dividends at the Belgian tax rate. The portfolio reinvests dividends at the lower U.S. tax rate, which should result in modest positive tracking error, over time.

Staff Comments

No comments at this time

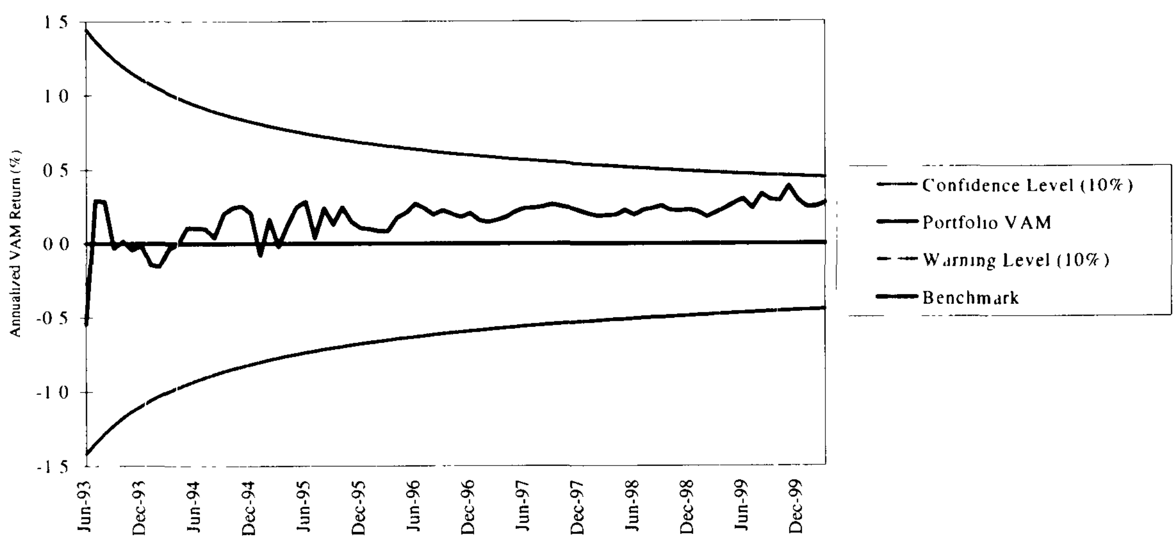
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0 2%	-0.1%
Last 1 year	25 8	24.9
Last 2 years	15 7	15.1
Last 3 years	16.7	16.2
Last 4 years	12.8	12.3
Last 5 years	12 8	12.3
Since Inception (10/92)	13 3	13.0

Recommendation

No action required

STATE STREET GLOBAL ADVISORS
Cumulative Tracking



RECORD TREASURY MANAGEMENT
Periods Ending March, 2000

Portfolio Manager: Neil Record | **Notional Portfolio Value: $707,696,651**

Investment Philosophy

Record Treasury avoids all forms of forecasting in its approach to currency management. Rather, the firm employs a systematic model which uses a form of dynamic hedging. The firm creates a portfolio of synthetic currency options using forward contracts. Like traditional options, Record's "in-house options" allow the client to participate in gains associated with foreign currency appreciation and avoid losses associated with foreign currency depreciation. As with all dynamic hedging programs, Record will tend to sell foreign currency as it weakens and buy as it strengthens.

The SBI has chosen to limit currency management to currencies that comprise 5% or more of the EAFE index: Japanese Yen, British Pound Sterling, Swiss Franc, and the Euro. Each currency is split into equal tranches that are monitored and managed independently. The strike rate for each tranche is set at 2% out-of-the money at the start date of each tranche. This requires a 2% strengthening of the US dollar to trigger a hedge for that tranche.

Staff Comments

At the December 8, 1999 meeting, the State Board of Investment concurred with the recommendation to terminate Record Treasury. All hedged currencies were unhedged on December 10, 1999. Record Treasury will remain under contract until all forward contracts expire over the next twelve months.

This currency program has impacted the international program with a net gain of $154 million.

Quantitative Evaluation

	Index Fund + Record	Index Fund(1)
Last Quarter	-0.2%	-0.2%
Last 1 Year	26.2	25.8
Last 2 Years	15.4	15.7
Last 3 Years	17.2	16.7
Last 4 Years	14.7	12.7
Last 5 Years	N/A	N/A
Since Inception (12/95)	15.2	13.4

Recommendations

No action required.

(1) Actual unhedged return of the entire EAFE-Free index fund managed by State Street Global Advisers. Includes return of underlying stock exposure, as reported by State Street Bank.

Tab G

COMMITTEE REPORT

DATE: May 30, 2000

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met on May 17, 2000 to review the following information and action items:

- Review of current strategy and allocation.
- Investment for the Basic Retirement Fund with an existing private equity manager, Goldman Sachs.
- Investment for the Basic Retirement Fund with an existing private equity manager, DLJ Merchant Banking.
- Investment for the Basic Retirement Fund with an existing private equity manager, Thoma Cressey.

The Board/IAC action is required on the last three items.

In addition to the May 17, 2000 Committee meeting, the Committee and Board Designees met on May 9, 2000 to consider and finalize approval on potential investments that had previously been pre-approved by the Board. All existing pre-approvals were finalized and approved at this meeting. The managers considered included: Welsh Carson ($125 million commitment for the Basic Retirement Funds), Merit Energy ($100 million commitment for the Post Retirement Fund) and Fox Paine ($50 million commitment for the Basic Retirement Funds).

INFORMATION ITEMS:

1) Review of Current Strategy.

To increase overall portfolio diversification, 15% of the Basic Retirement Funds and 5% of the Post Retirement Fund are allocated to alternative investments. Alternative investments include real estate, private equity and resource 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**).

Basic Funds

- 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. Currently, the SBI has an investment at market value of $745 million in eighteen commingled real estate funds and REITs.
- The private equity investment strategy 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. Currently, the SBI has an investment at market value of $1.245 billion in forty-five commingled private equity funds.
- The strategy for resource investment is to establish and maintain a portfolio of resource investment vehicles that are specifically designed for institutional investors to provide an inflation hedge and additional diversification. Individual resource investments will include proved producing oil and gas properties, royalties and other investments that are diversified geographically and by type. Currently, the SBI has an investment at market value of $169 million in twelve commingled oil and gas funds.

Post Fund

- The Post Fund assets allocated to alternative investments will be invested separately from the Basic Funds' alternative investments to assure that returns are accounted for appropriately. Since the Post Fund invests the retired employees' pension assets, an allocation to yield oriented alternative investments will be emphasized. The Basic Retirement Funds' invest the active employees' pension assets and have less concern regarding the current yield for their alternative investments. The SBI has an investment at market value of $344 million in twenty yield oriented funds for the Post Fund: five are in real estate, thirteen are in private equity and two are in resource funds.

ACTION ITEMS:

1) **Investment for the Basic Retirement Fund with an existing private equity manager, Goldman Sachs, in Goldman Sachs Capital Partners 2000.**

Goldman Sachs is seeking investors for a new $4.0 billion private equity fund, Goldman Sachs Capital Partners 2000. This Fund is the fourth private equity fund, of its type, managed by Goldman Sachs. The SBI has a $100 investment with GS Mezzanine Partners II, a mezzanine debt fund managed by Goldman Sachs. Goldman Sachs Capital Partners 2000 will focus, like prior funds, on assembling a diverse portfolio of private equity, telecommunications and technology investments.

More information on Goldman Sachs Capital Partners 2000 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 $50 million or 20%, whichever is less, in Goldman Sachs Capital Partners 2000. This commitment will be allocated to the Basic Retirement Fund.

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

2) **Investment for the Basic Retirement Fund with an existing private equity manager, DLJ Merchant Banking, in DLJ Merchant Banking Partners III.**

DLJ Merchant Banking is seeking investors for a new $4.0 million private equity fund, DLJ Merchant Banking Partners III. This Fund is the third private equity fund, of its type, managed by DLJ Merchant Banking. The SBI has a $50 million investment with DLJ Investment Partners II, a mezzanine debt fund, and a potential $100 million investment with DLJ Strategic Partners, a secondary interests fund. DLJ Merchant Banking Partners III will focus, like prior funds, on assembling a diverse portfolio of private equity investments.

More information on DLJ Merchant Banking Partners III 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 $125 million or 20%, whichever is less, in DLJ Merchant Banking Partners III. This commitment will be allocated to the Basic Retirement Fund.

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

3) **Investment for the Basic Retirement Fund with an existing private equity manager, Thoma Cressey, in Thoma Cressey Fund VII.**

Thoma Cressey is seeking investors for a new $1.2 million private equity fund, Thoma Cressey Fund VII. This Fund is the second private equity fund managed by Thoma Cressey. The SBI has a $40 million investment in Thoma Cressey VI, the prior fund. Thoma Cressey Fund VII will focus, like the prior fund, on assembling a diverse portfolio of private equity investments in consolidating fragmented industries.

More information on Thoma Cressey Fund VII 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 $50 million or 20%, whichever is less, in Thoma Cressey Fund VII. This commitment will be allocated to the Basic Retirement Fund.

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

ATTACHMENT A

Minnesota State Board of Investment

Alternative Investments
Basic Retirement Funds
March 31, 2000

Market Value of Basic Retirement Funds	$21,885,487,338
Amount Available for Investment	**$1,122,963,089**

	Current Level	Target Level	Difference
Market Value	$2,159,860,012	$3,282,823,101	$1,122,963,089
MV +Unfunded*	$2,921,673,384	$4,377,097,468	$1,455,424,084

* Two funds, Crescendo IV and DLJ Strategic Partners, closed or will close after the 03/31/00 cutoff date and will increase unfunded commitments for private equity by $100 million each or $200 million total.

Asset Class	Market Value	Unfunded Commitment*	Total
Real Estate	$745,040,028	$26,967,456	$772,007,484
Private Equity	1,245,267,031	$644,480,577	$1,889,747,608
Resource	$169,552,953	$90,365,339	$259,918,292
Total	$2,159,860,012	$761,813,372	$2,921,673,384

Minnesota State Board of Investment

Alternative Investments

Post Retirement Funds

March 31, 2000

Market Value of Post Retirement Funds	$21,044,233,925
Amount Available for Investment	**$708,648,145**

	Current Level	Target Level	Difference
Market Value	$343,563,551	$1,052,211,696	$708,648,145
MV +Unfunded	$850,291,514	$2,104,423,393	$1,254,131,879

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$68,141,502	$12,884,878	$81,026,380
Private Equity	$226,643,990	$465,861,238	$692,505,228
Resource	$48,778,059	$27,981,847	$76,759,906
Total	$343,563,551	$506,727,963	$850,291,514

ATTACHMENT B

State of Minnesota
- Alternative Investments -

As of March 31, 2000

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate-Basic							
Aetna	42,376,529	42,376,529	129,935,160	0	0	7 08	17.92
AEW V	15,000,000	15,000,000	311,028	11,169,287	0	-2 85	12.29
Colony Capital							
Colony Investors II	40,000,000	38,682,764	13,899,610	26,032,528	1,317,236	1 67	5.00
Colony Investors III	100,000,000	87,205,379	81,820,712	7,110,867	12,794,621	0.09	2.25
Equity Office Properties Trust	140,388,854	140,388,854	214,711,856	35,276,674	0	15 76	8.34
First Asset Realty Fund	916,185	916,185	232,552	839,576	0	4.76	5.92
Heitman							
Heitman Advisory Fund I	20,000,000	20,000,000	2,310,122	20,075,782	0	1 45	15.64
Heitman Advisory Fund II	30,000,000	30,000,000	3,749,722	39,538,331	0	3.97	14.36
Heitman Advisory Fund III	20,000,000	20,000,000	109,239	22,174,237	0	1 32	13.19
Heitman Advisory Fund V	20,000,000	20,000,000	13,338,044	19,523,665	0	8.17	8.32
Lasalle Income Parking Fund	15,000,000	14,644,401	13,488,748	13,467,729	355,599	12.03	8.53
Lend Lease Real Estate Investments	40,000,000	40,000,000	118,287,290	1,680,021	0	6.43	18.47
RREEF USA Fund III	75,000,000	75,000,000	553,599	120,940,912	0	4.75	15.89
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	40,000,000	54,805,282	16,880,264	0	13 95	5.83
Realty Associates Fund IV	50,000,000	50,000,000	57,434,435	8,961,160	0	13.46	3.16
Realty Associates Fund V	50,000,000	37,500,000	37,910,250	1,064,903	12,500,000	N/A	0.85
TCW							
TCW Realty Fund III	40,000,000	40,000,000	367,644	48,390,849	0	2.05	14.66
TCW Realty Fund IV	30,000,000	30,000,000	1,767,332	27,223,733	0	-0 37	13.41
Fund in Liquidation (AEW III)	20,000,000	20,000,000	7,404	24,134,114	0	1 75	14.57
Real Estate - Basic Totals	788,681,568	761,714,112	745,040,028	444,484,632	26,967,456		
Real Estate-Post							
Colony Investors II	40,000,000	38,682,764	13,899,610	26,032,528	1,317,236	1.67	5.00
Westmark Realty Advisors							
Westmark Coml MTG Fund II	13,500,000	13,397,500	11,220,947	6,701,182	102,500	9.38	4.68
Westmark Coml MTG Fund III	21,500,000	21,275,052	20,025,908	5,094,091	224,948	6.97	3.33
Westmark Coml MTG Fund IV	14,300,000	14,300,000	13,495,326	1,490,970	0	4.09	2.25
Westmark Coml MTG Fund V	21,000,000	9,759,806	9,499,711	192,090	11,240,194	N/A	0.62
Real Estate - Post Totals	110,300,000	97,415,122	68,141,502	39,510,862	12,884,878		
Real Estate Totals	898,981,568	859,129,234	813,181,530	483,995,494	39,852,334		

State of Minnesota
- Alternative Investments -

As of March 31, 2000

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Venture Capital-Basic							
Allied	5,000,000	5,000,000	211,774	6,059,302	0	3.58	14.54
Bank Fund							
Banc Fund III	20,000,000	20,000,000	21,232,030	19,509,783	0	15.60	7.43
Banc Fund IV	25,000,000	25,000,000	22,984,950	5,747,439	0	5.53	4.12
Banc Fund V	48,000,000	21,600,000	18,057,362	15,419	26,400,000	-18.42	1.71
Blackstone Capital Partners II	50,000,000	49,068,876	30,951,551	59,282,609	931,124	42.33	6.35
Brinson Partners							
Brinson Partners I	5,000,000	5,000,000	428,167	8,732,616	0	10.70	11.89
Brinson Partners II	20,000,000	19,379,998	4,255,890	36,011,227	620,002	26.67	9.34
Churchill Capital Partners II	20,000,000	20,000,000	6,585,898	22,570,508	0	13.59	7.43
Contrarian Capital Fund II L.P.	37,000,000	37,000,000	35,593,161	12,446	0	-2.03	2.83
Coral Partners							
Coral Partners Fund I	7,011,923	7,011,923	7,422,869	6,111,237	0	8.40	13.78
Coral Partners Fund II	10,000,000	8,069,315	9,116,707	28,272,175	1,930,685	25.93	9.68
Coral Partners Fund IV	15,000,000	13,950,000	8,116,732	8,170,706	1,050,000	5.76	5.69
Coral Partners Fund V	15,000,000	7,535,815	8,090,496	152,481	7,464,185	11.32	1.79
Crescendo							
Crescendo II	15,000,000	14,994,773	33,293,686	2,851,552	5,227	59.50	3.24
Crescendo III	25,000,000	21,250,000	24,824,944	2,641,808	3,750,000	50.27	1.40
DSV Partners IV	10,000,000	10,000,000	2,561,790	23,281,784	0	8.70	14.97
First Century Partners III	10,000,000	10,000,000	3,232,216	14,103,791	0	9.23	15.29
Fox Paine Capital Fund	40,000,000	34,380,654	40,036,031	0	5,619,346	21.83	1.94
Golder,Thoma, Cressey, Rauner							
Golder, Thoma, Cressey Fund III	14,000,000	14,000,000	9,487,108	51,021,716	0	30.57	12.42
Golder, Thoma, Cressey & Rauner Fund IV	20,000,000	19,750,000	12,545,397	30,163,432	250,000	28.64	6.16
Golder, Thoma, Cressey & Rauner Fund V	30,000,000	28,800,000	36,208,567	5,888,702	1,200,000	19.57	3.75
GTCR - Golder Rauner							
GTCR - Golder Rauner Fund VI	90,000,000	62,587,778	72,552,608	21,549,338	27,412,222	65.85	1.75
GTCR - Golder Rauner Fund VII	175,000,000	5,265,103	5,265,103	0	169,734,897	N/A	0.16
Hellman & Friedman							
Hellman & Friedman Capital Partners III	40,000,000	32,432,434	17,751,156	42,415,907	7,567,566	35.61	5.53
Hellman & Friedman Capital Partners IV	150,000,000	32,801,541	32,801,541	0	117,198,459	N/A	0.25
Kohlberg Kravis Roberts							
KKR 1986 Fund	18,365,339	18,365,339	21,799,664	202,769,614	0	28.55	13.96
KKR 1987 Fund	145,950,000	145,373,652	210,389,918	254,572,955	576,348	11.82	12.35
KKR 1993 Fund	150,000,000	150,000,000	58,106,649	257,492,798	0	20.24	6.28
KKR 1996 Fund	200,000,000	154,832,675	146,009,369	31,198,923	45,167,325	8.93	3.58
GHJM Marathon Fund IV	40,000,000	5,390,000	5,366,128	0	34,610,000	N/A	0.96
Matrix							
Matrix Partners II	10,000,000	10,000,000	1,086,375	21,440,166	0	14.00	14.62
Matrix Partners III	10,000,000	10,000,000	1,766,881	74,927,244	0	75.10	9.90
Piper Jaffrey Healthcare							
Piper Jaffray Healthcare Fund II	10,000,000	8,400,000	7,264,876	658,415	1,600,000	-3.32	3.08
Piper Jaffray Healthcare Fund III	20,000,000	7,831,115	7,469,372	0	12,168,885	-10.40	1.19
RCBA Strategic Partners	50,000,000	40,566,981	45,028,254	72,120	9,433,019	13.42	1.27
Summit Partners							
Summit Ventures II, L.P	30,000,000	28,500,000	4,667,232	67,436,783	1,500,000	28.71	11.89
Summit Ventures V, L.P	25,000,000	15,625,000	19,028,992	1,204,772	9,375,000	27.65	2.00
T. Rowe Price	359,623,853	359,623,853	44,005,474	332,042,824	0	10.83	N/A
Thoma Cressey VI	35,000,000	18,900,000	18,272,274	0	16,100,000	-7.38	1.61
Vestar Capital Partners IV	55,000,000	1,183,713	1,183,713	4,281	53,816,287	N/A	0.29
Warburg Pincus							
Warburg, Pincus Equity Partners	100,000,000	41,000,000	39,544,993	2,200,013	59,000,000	2.16	1.76
Warburg, Pincus Ventures	50,000,000	50,000,000	62,777,530	130,156,760	0	51.14	5.25
Welsh, Carson, Anderson & Stowe VIII	100,000,000	70,000,000	87,693,480	0	30,000,000	34.55	1.69
Zell/ Chilmark	30,000,000	30,000,000	191,809	76,414,975	0	17.69	9.72
Fund in Liquidation (Summit I)	10,000,000	10,000,000	6,317	20,369,277	0	13.17	15.29
Venture Capital - Basic Totals	2,344,951,115	1,700,470,538	1,245,267,031	1,867,527,896	644,480,577		

State of Minnesota
- Alternative Investments -

As of March 31, 2000

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Venture Capital-Post							
Citicorp Mezzanine Partners							
Citicorp Mezzanine II	40,000,000	40,000,000	32,492,640	20,621,951	0	16 75	5.25
Citicorp Mezzanine III	100,000,000	8,630,358	8,654,963	0	91,369,642	N/A	0.36
DLJ Investment Partners II	50,000,000	7,905,488	7,884,758	53,269	42,094,512	N/A	0.25
GS Mezzanine Partners II	100,000,000	9,000,000	9,000,000	0	91,000,000	0 00	N/A
GTCR Capital Partners	80,000,000	22,400,000	21,945,101	386,401	57,600,000	N/A	0.38
KB Mezzanine Partners Fund II	25,000,000	24,340,871	17,123,226	3,729,021	659,129	-8 17	4.50
Summit Partners							
Summit Sub. Debt Fund I	20,000,000	18,000,000	1,850,578	28,728,382	2,000,000	29 43	6.00
Summit Sub. Debt Fund II	45,000,000	22,500,000	27,481,074	18,501,523	22,500,000	52 28	2.66
T. Rowe Price	16,823,656	16,823,656	938,359	16,607,028	0	11 64	N/A
TCW/Crescent Mezzanine							
TCW Crescent Mezzanine Partner	40,000,000	40,000,000	27,006,550	18,952,985	0	7 35	4.00
TCW Crescent Mezzanine Partner II	100,000,000	65,130,045	61,034,740	5,924,576	34,869,955	4 66	1.35
William Blair Mezzanine III	60,000,000	11,232,000	11,232,000	0	48,768,000	0 00	0.25
Windjammer Mezzanine & Equity Fund II	75,000,000	0	0	0	75,000,000	N/A	0.25
Venture Capital - Post Totals	751,823,656	285,962,418	226,643,990	113,505,136	465,861,238		
Venture Capital Totals	3,096,774,771	1,986,432,956	1,471,911,021	1,981,033,032	1,110,341,815		

State of Minnesota
- Alternative Investments -

As of March 31, 2000

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Resource-Basic							
Apache	30,000,000	30,000,000	2,812,800	43,148,851	0	10 79	13 25
First Reserve							
First Reserve I	15,000,000	15,000,000	55,809	13,880,167	0	-0 59	18.50
First Reserve II	7,000,000	7,000,000	711,464	13,638,869	0	5 68	17.15
First Reserve V	16,800,000	16,800,000	7,094,055	44,004,188	0	16 50	9.92
First Reserve VII	40,000,000	40,000,000	35,020,982	7,411,411	0	3 51	3.75
First Reserve VIII	100,000,000	49,769,546	50,007,442	0	50,230,454	-0 86	1 92
Morgan Oil & Gas	15,000,000	15,000,000	3,671,978	20,906,987	0	6 83	11.60
Simmons							
Simmons - SCF Fund II	17,000,000	14,847,529	23,318,454	6,662,864	2,152,471	11 01	8.65
Simmons - SCF Fund III	25,000,000	19,612,587	27,829,083	10,226,217	5,387,414	20 65	4.75
Simmons - SCF Fund IV	50,000,000	17,405,000	18,417,761	0	32,595,000	-2 31	2.00
T. Rowe Price	608,962	608,962	613,125	163,184	0	33 14	N/A
Resource - Basic Totals	316,408,962	226,043,623	169,552,953	160,042,738	90,365,339		
Resource-Post							
Merit Energy Partners							
Merit Energy Partners B	24,000,000	22,549,305	24,131,422	3,034,142	1,450,695	10 51	3.75
Merit Energy Partners C	50,000,000	23,468,848	24,646,637	684,814	26,531,152	10 51	1 42
Resource - Post Totals	74,000,000	46,018,153	48,778,059	3,718,956	27,981,847		
Resource Totals	390,408,962	272,061,776	218,331,013	163,761,694	118,347,186		

ATTACHMENT C

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	GS Capital Partners 2000, L.P. (the "Partnership")
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$4 billion
Fund Manager:	GS Advisors 2000, L.L.C.
Manager Contact:	Rich Friedman GS Capital Partners 85 Broad Street, 19th Floor New York NY 10004 Phone: (212) 902-1000 Fax: (212) 902-3000

II. Organization and Staff

Goldman Sachs, a leading international investment banking firm with greater than 13,000 employees worldwide, is establishing GS Capital Partners 2000, L.P. The Partnership will be the successor to three GS Capital Partners funds - GSCP I, formed in 1992 with $1.0 billion of committed capital, GSCP II, formed in 1995 with $1.8 billion of committed capital, and GSCP III, formed in 1998 with $2.8 billion of committed capital.

The Principal Investment Area of Goldman Sachs' Merchant Banking Division (the "PIA"), which consists of over 100 investment professionals, is the focal point for the Firm's private equity investment activities and will evaluate, structure, and manage the Partnership's investments. The PIA effort is supplemented by Goldman Sachs' specialists in investment banking and research and the wealth of other resources available throughout the Firm.

All investment decisions are made by the Investment Committee of Goldman Sachs, which currently consists of 13 managing directors, one senior director and one advisory director of Goldman Sachs. The Investment Committee will not only consider new investment opportunities for the Partnership, but also will oversee the monitoring of Portfolio Companies, serve as a sounding board for team members, and make decisions with respect to exercising any rights on significant transactions involving Portfolio Companies.

III. Investment Strategy

The Partnership's objective is to achieve long-term capital gains through investments in equity and equity-related securities. The PIA will build GSCP 2000's portfolio by leveraging its experience as an investor, its global presence, and its proprietary access to investment opportunities. Goldman Sachs will continue its strategy of opportunistic investing with a focus on the following three types of investments:

Merchant Banking Investments. The PIA pursues opportunities to invest in companies with experienced management and leading market positions that may be in need of equity capital or are undervalued in the public markets. These opportunities fall into a broad range of industries and a variety of transaction types including: (i) management buyouts, (ii) strategic capital investments, (iii) leveraged build-ups, and (iv) recapitalizations.

Telecommunications/Broadband Investments. The PIA pursues opportunities to invest in high growth communications companies that benefit from the convergence of media, telecommunications, and high-speed data services and the increasing worldwide demand for these services. These opportunities fall into three general categories: (i) network infrastructure providers, (ii) service providers, and (iii) content providers. Historically, the PIA has been successful at identifying young, private telecommunications companies in promising sectors and providing capital and expertise to facilitate their growth into large, market-leading enterprises.

Technology Investments. The PIA pursues opportunities to invest in high growth technology companies where the General Partner perceives an attractive valuation relative to the company's growth opportunities and future value. These opportunities fall into two broad categories: (i) the Internet and related services and infrastructure (the "Internet Sector"), and (ii) computer and network-related hardware (the "Hardware Sector"). Within each of these technology sectors, the General Partner seeks to identify and invest in market leaders that possess a combination of outstanding management and sponsorship, superior and innovative technology, a sound vision, and strong perceived potential public market visibility.

The Partnership's investment objective is to achieve long-term capital gains through investments in equity and equity-related securities. The General Partner will seek to create a diversified global portfolio of equity investments.

The Partnership will seek to diversify by industry and transaction type and will not invest more than 15% of committed capital in the securities of any one company. In addition, the Partnership will not invest, directly or through another investment partnership, more than 30% of its committed capital in Asia and Latin America in the aggregate.

IV. *Investment Performance*

Previous fund performance as of March 31, 2000 for GS Capital Partners 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
GSCP I	1992	$1.0 billion	--	33%
GSCP II	1995	$1.8 billion	--	5%
GSCP III	1998	$2.8 billion	--	76%

Goldman Sachs currently manages two accounts for the SBI - a $100 million investment in GS Mezzanine Partners II, a mezzanine fund formed in 1999, and a $2.2 billion fixed income account.

V. *General Partner's Investment*

The Goldman Sachs Group, Inc. ("GS Group"), together with its affiliates, subsidiaries and successors (collectively, "Goldman Sachs") and the Employee GSCP Fund will invest an aggregate of at least $1.0 billion in or alongside the Partnerships. Goldman Sachs will invest $1 million in each partnership for its general partnership interests in the Partnerships and will invest the balance of its contribution as a limited partner (the "GSLP").

The Employee GSCP Fund will make a small investment in the Partnerships as a limited partner and will invest the remainder of its capital commitments on a side-by-side basis with the Partnerships in proportion to their respective committed capital.

VI. *Takedown Schedule*

It is anticipated that the Commitments will generally be drawn down pro rata during the Commitment Period on an "as needed" basis. The General Partner will give 15 calendar days notice prior to each takedown of funds.

VII. *Fees*

The Investment Manager will be paid an annual management fee, which will be payable semi-annually in arrears by all Limited Partners except the GSLP and the Employee GSCP Fund. Each such Limited Partner will be charged an annual management fee of 1.5% on funded and called capital (reduced by the amount of capital contributions relating to harvested investments that has been returned to the Partners).

Goldman Sachs officers or employees may receive fees and options paid and granted to directors on the boards of directors of portfolio companies, and those fees and options are not required to be shared with the Partnerships. Goldman Sachs' policy is that the fees and options received by its officers and employees (but not its former officers or employees or the former limited partners of The Goldman Sachs Group, L.P.) must be paid to or held for the benefit of Goldman Sachs.

Goldman Sachs will absorb all expenses of organizing the Partnership and offering LP Interests. The Partnership will bear its ongoing expenses and will be responsible for out-of-pocket expenses related to the potential acquisition, acquisition, holding, and sale of investments. The Partnership will seek to be reimbursed by third parties for its expenses when possible.

VIII. Allocations and Distributions

The GSLP and the Employee GSCP Fund (collectively, the "holders of SLP interests") will receive an override (the "Override") if the Partnership achieves certain returns, such Override never to exceed 20% of total profits, based on the following formula. Net gain (the excess of short-term and long-term capital gains, cash flow from dividends and interest, and Commitment and Break-Up Fees over expenses and capital losses, computed by marking to market unrealized gains and losses) will be allocated to the General and Limited Partners (including the holders of SLP interests) in proportion to their capital contributions (subject to adjustment in the event of a default by any Limited Partner in making any capital contribution (a "Default")), until the Partners have achieved a return of 8% per annum on contributed capital less distributions on an annually compounded basis (the "Preferred Return"). Net gain in excess of the Preferred Return will be allocated 100% to the holders of SLP interests until they have, in the aggregate, achieved an override equal to 20% of aggregate net gain. Thereafter, any additional net gain will be allocated 20% to the holders of SLP interests and 80% to the General and Limited Partners (including the holders of SLP interests). Losses will be allocated in a manner designed appropriately to reverse, on a cumulative basis, allocations theretofore made. No Override will be allocated if the Preferred Return is not achieved. Unrealized gains and losses will be determined on the basis of the fair value of investments as determined by the Investment Committee. No independent appraisals will be obtained.

IX. Investment Period and Term

The Partnership will have a commitment period from the date of the closing of the Offering until September 30, 2005 (the "Commitment Period"). The term of the Partnership will be ten years, subject to the General Partner's right to liquidate the Partnership at any time and to extend the term for up to three successive one-year periods to permit an orderly liquidation of the Partnership. Upon request of the General Partner and approval of a majority in interest of the Limited Partners other than the GSLP, the term of the Partnership may be further extended.

ATTACHMENT D

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	DLJ Merchant Banking Partners III, L.P. (the "Fund" or "MBP III")
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$3.5 – $4.0 billion
Fund Manager:	DLJ Merchant Banking III, Inc. and DLJ Merchant Banking III, L.P. (collectively, the "General Partners")
Manager Contact:	Larry Schloss DLJ Merchant Banking Partners 277 Park Avenue New York, New York 10172 Phone: (212) 892-3639 Fax: (212) 892-7272

II. Organization and Staff

Merchant Banking Partners III, L.P. (the "Fund" or "MBP III") is being formed by the merchant banking group ("DLJMB") of Donaldson, Lufkin & Jenrette, Inc. ("DLJ"), a large investment banking firm, to seek significant capital appreciation through private equity and equity-related investments. The Fund will be the successor to DLJ Merchant Banking Partners I, L.P. ("MBP I"), which was formed in 1992 with $1 billion in committed capital and DLJ Merchant Banking Partners II ("MBP II"), which was formed in 1996 with $3 billion in committed capital.

The private equity team is comprised of an experienced group of over 50 dedicated investment professionals located in several offices around the world. In total, DLJ's merchant banking funds employ over 100 professionals worldwide. Also, DLJMB is able to leverage its resources by utilizing DLJ's 1000 investment bankers and research analysts with relevant expertise in evaluating investment opportunities.

Each investment made by MBP III must be approved by the seven member Investment Committee. The Investment Committee members collectively have nearly 100 years of experience as principals. The management of DLJMB's activities has been exceptionally stable throughout its history, and the members of the Investment Committee have all worked together at DLJ for ten years or more.

III. Investment Strategy

As part of a leading international investment bank, DLJMB benefits from a very broad and often proprietary flow of investment opportunities that are generated directly by DLJ's large network of professionals as well as by DLJMB employees. The group's investment experience, combined with its access to DLJ's financial and intellectual resources, enables DLJMB to evaluate, structure and execute almost any type of private equity transaction. In both MBP I and MBP II, investments ranged from build-ups to traditional leveraged transactions to growth capital for private and public businesses. In addition, DLJMB has expanded its international investment activities, particularly in Latin America and Europe, and will benefit from DLJ's continuing international growth

The Partners employ a flexible yet highly disciplined investment approach and are not limited to investing in any industry, geographic region, type of security or particular investment strategy. DLJMB typically takes a lead investor role, and has led the majority of investments in MBP II and MBP I. Historically, approximately 75% of DLJMB's investments have been in common equity, including attractive co-investment opportunities alongside strong equity sponsors. DLJMB also crafts senior equity investments designed to rapidly return capital and produce excellent risk-adjusted returns.

Individual investments by the Fund are expected to range between $20 million and $350 million. The Fund may invest in common or preferred stock, debt or any other securities if such securities meet the investment criteria established by the General Partners.

Merchant Banking Investments will involve a variety of transactions, including leveraged and unleveraged acquisitions, recapitalizations, restructurings, workouts, expansion financings and similar situations deemed by the General Partners to present appropriate investment opportunities for the Fund. The Fund will generally seek to achieve an overall IRR of 30%.

IV. Investment Performance

Previous fund performance as of February 25, 2000 for DLJ Merchant Banking Partners 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
DLJ MBP I	1992	$1 billion	--	62%
DLJ MBP II	1996	$3 billion	--	34%

The SBI has invested $50 million in DLJ Investment Partners II, a mezzanine fund formed in 1999, and has a pending investment of $100 million in DLJ Strategic Partners, a secondary interests fund.

V. General Partner's Investment

DLJ and its employees will commit to provide 15% of the Fund's capital, up to $750 million

VI. Takedown Schedule

As needed, upon at least seven days notice.

VII. Fees

Each Limited Partner will pay an annual management fee, payable semi-annually in advance to the Managing General Partner management fee will be equal to 1.5% per annum of such Limited Partner's Commitment, effective upon the Initial Closing. After the Commitment Period, the base amount upon which the management fee is to be calculated will equal the amount of funded Commitments, reduced by distributions constituting returns of capital not subject to reinvestment.

Certain income constituting Special Income (as defined below) could be realized by the Fund, the Managing General Partner or any employee of any General Partner in connection with the Fund's investment activities. "Special Income" includes, among other things, commitment, break-up, "topping" or similar income realized with respect to any Merchant Banking Investment or proposed Merchant Banking Investment. Special Income realized by the Partnership distributed solely to the Managing General Partner. "Special Income" will be first applied to unreimbursed out-of-pocket expenses related to that transaction, and 50% of any excess after payment of such expenses will be used to reduce the management fee paid by the Limited Partners. DLJMB does not intend to charge fees to portfolio companies. However, Donaldson, Lufkin & Jenrette Securities Corporation or affiliated entities may earn customary investment banking fees and other advisory fees in which the Fund will not participate.

VIII. Allocations and Distributions

Each Partner's percentage (based upon its capital contribution for any investment divided by all Partners' capital contributions for that investment) of the proceeds received by the Partnership from an investment in any portfolio company (which of expenses, as well as any dividends or interest income earned on that investment) will be distributed in the following order of priority:

(i) 100% to such Partner until such Partner has received distributions equal to its original invested capital in that portfolio company;

(ii) 100% to such Partner to make up for such Partner's aggregate realized losses to the extent not returned in previous distributions;

(iii) 100% to such Partner to provide an 8% compound annual rate of return on such Partner's capital contributions with respect to the investment giving rise to the proceeds Return");

(iv) 100% to the General Partners until the General Partners have received in the aggregate 20% of the total amount distributed pursuant to clause (iii) and this clause (iv) with respect to the subject investment; and

(v) 80% to pursuant to clause (iv), the "Carried Interest").

All dividend and interest income as well as net capital gains or losses derived from the disposition of investments by the Partnership will be allocated among the Partners in a manner consistent with the distribution provisions outlined above.

IX. Investment Period and Term

The term of the Partnership will be ten years from the final closing, but may be extended at the discretion of the Managing General Partner for up to three additional one-year periods.

ATTACHMENT E

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Thoma Cressey Fund VII, L.P.
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$1,200 million
Fund Manager:	Thoma Cressey Equity Partners Sears Tower, 44th Floor Chicago, IL 60606 Phone: (312) 777-4444 Fax: (312)777-4445
Manager Contact:	Carl Thoma

II. Organization & Staff

Thoma Cressey Equity Partners ("TC/EP"), formed in early 1998, is one of two successors to Golder, Thoma, Cressey, Rauner, Inc., the current name of the firm originally established in 1980 by Bryan Cressey, Stanley Golder and Carl Thoma when they left First Chicago Corporation's venture capital group.

From 1980-1996, Golder, Thoma, Cressey, Rauner, Inc. raised in excess of $1.2 billion in equity capital for five investment funds. In late 1997, the principals of Golder, Thoma, Cressey, Rauner, Inc. began to consider the timing, size, management and ownership of a new fund. After extensive discussion, it was decided that they would raise two separate new funds through two separate new firms. Thoma Cressey Fund VI, a $450 million fund, was established in early 1998.

Three of the partners of GTCR, Carl Thoma, Bryan Cressey and Lee Mitchell, along with Robert Manning Jr. and William Liebeck, both of whom had prior ties to GTCR, established TC/EP. David Mayer, also a former member of the GTCR investment staff, and Orlando Bravo joined the new firm shortly after its founding.

The partners of TC VII and other investment professionals employed by TC/EP make up the TC/EP investment staff, which currently consists of 14 persons, including the seven partners, two principals and five associates. They anticipate the addition of other qualified personnel at the principal and associate levels and the promotion of successful principals to partner status during the investment life of Fund VII.

TC/EP maintains offices in Chicago, Denver (headed by Robert Manning) and San Francisco (headed by William Liebeck).

III. Investment Strategy

TC/EP will invest primarily in consolidating fragmented industries in partnership with experienced CEOs to build leading companies through acquisition and internal growth.

The industry consolidation strategy is both an investment process and a means to create additional value. As applied by TC/EP, it first involves identifying under-valued and fragmented industry sectors, experienced CEO partners from these sectors, and less competitive transactions. This leads to the acquisition of strong "platform" companies, to be managed by the CEO partners, from which additional acquisitions can be made and the benefits of business combinations can be captured. The result should be larger, more profitable companies that are leaders in their industries and, consequently, valued highly in the public or private market.

IV. Investment Performance

Previous fund performance as of March 31, 2000 for GTCR and Thoma Cressey 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
Golder Thoma Cressey Fund III	1987	$235 million	$14 million	30.6%
Golder Thoma Cressey Fund IV	1994	$312 million	$20 million	28.6%
GTCR Fund V	1996	$521 million	$30 million	19.6%
Thoma Cressey Fund VI	1998	$450 million	$35 million	-7.4%*

* Because this fund is early in its investment period, investments are held at cost minus start-up fees There have been two third-party transactions that would cause a significant increase in the IRR if the underlying investments were marked to market to reflect the valuations in these transactions.

V. General Partner's Investment

The partners of TC/EP will invest approximately $20 million in Fund VII.

VI. Takedown Schedule

Capital contributions by the Limited Partners will be payable when called by TC/EP.

VII. Fees

Fund VII will pay to the General Partner an annual management fee equal to 1.50% of committed capital in year one, 1.75% in year two and 2% in years three through seven. During years eight through ten, the management fee will decrease 10% per year from the prior year's level.

Fund VII will pay organizational expenses of up to $600,000.

VIII. Allocations & Distributions

Income, gains, losses and expenses will generally be allocated 80% to the accounts of all partners in proportion to their capital contributions and 20% to the account of the General Partner, except that short-term interest will be allocated according to capital accounts.

Distributions of cash or securities will be at the discretion of the General Partner. It is anticipated, however, that net ordinary income will be distributed at least annually, that net investment gains realized in cash during the first six years will be distributed periodically and that the full net cash proceeds from dispositions of investments after the first six years will be distributed periodically. Ordinary income (net of Fund VII expenses) will be distributed in proportion to the allocations set forth above.

Proceeds from the sale of securities will be distributed (a) prior to the time that the Limited Partners have received distributions equal to their capital contributions, in proportion to the allocations set forth above, except that the General Partner will not be entitled to receive any such distribution (other than to pay taxes) unless the Limited Partners' fair value capital accounts (plus amounts previously distributed to Limited Partners) are at least 120% of the Limited Partners' capital contributions, and (b) after the Limited Partners have received distributions equal to their capital contributions, or if the Limited Partners' fair market capital accounts are at least 120% of the Limited Partners' capital contributions, in proportion to capital accounts. Distribution of securities will, in general, be in proportion to the allocations set forth above. In no event will the General Partner receive a distribution that would reduce its capital account below zero (other than to pay taxes).

The General Partner reserves the right during the first six years of Fund VII to call back from each Limited Partner, in proportion to such Limited Partner's interest in Fund VII, a portion of previously distributed principal, not to exceed 10% of total Fund commitments, to be used to fulfill commitments to portfolio companies.

IX. Investment Period and Term

Fund VII will have a ten-year initial term. The General Partner will have the option to extend the Fund for up to three additional one-year terms to permit orderly dissolution, subject to veto by a vote of a majority of the Limited Partners.