

MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
June 6, 2001

&

INVESTMENT ADVISORY
COUNCIL MEETING
June 5, 2001

AGENDA
STATE BOARD OF INVESTMENT MEETING
Wednesday, June 6, 2001
9:00 A.M. -Room 125
State Capitol - Saint Paul

- | | |
|--|------------|
| | TAB |
| 1. Approval of Minutes of March 8, 2001 | |
| 2. Report from the Executive Director (H. Bicker) | |
| A. Quarterly Investment Review
(January 1, 2001 – March 31, 2001) | A |
| B. Administrative Report | B |
| 1. Reports on budget and travel. | |
| 2. Legislative Update. | |
| 3. Litigation Update. | |
| 4. Reauthorization of the Proxy Voting Committee. | |
| 5. Authorization to form a Review Committee and issue RFP's
for consultant services. | |
| 6. Authorization to form a Review Committee and issue RFP's
for master custodian services. | |
| 7. Minnesota College Savings Plan. | |
| 8. Update on Tobacco Information. | |
| 3. Report from the SBI Administrative Committee (Carol Johnson) | C |
| 4. Reports from the Investment Advisory Council (Jan Yeomans) | |
| A. Stock and Bond Manager Committee | D |
| 1. Review of manager performance. | |
| 2. Review of Annual Custom Benchmark Evaluation. | |
| 3. Recommendation to terminate CIC Asset Management. | |
| 4. Recommendation to terminate Standish, Ayer & Wood. | |
| 5. Recommendation to offer a mid-cap option to the State's
457 Deferred Compensation. | |
| 6. Review of Invested Treasurer's Cash policy paper. | |
| 7. Review of Endowment Funds policy paper. | |
| B. Alternative Investment Committee | E |
| 1. Review of current strategy. | |
| 2. Investment for the Post Retirement Fund in a subordinated
debt and equity fund with a new private equity manager,
Levine Leichtman Capital Partners III, L.P. | |
| 3. Investment for the Post Retirement Fund in a mezzanine
real estate loan fund with a new real estate manager,
Heller Real Estate Partners II, L.P. | |

**Minutes
State Board of Investment
March 8, 2001**

The State Board of Investment (SBI) met at 10:00 A.M. Thursday, March 8, 2001 in Room 125 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 13, 2000 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, 2000 (Combined Funds 13.3% vs. Inflation 2.7%), exceeded the median fund (42nd percentile) and outperformed its composite index (Combined Funds 13.0% vs. Composite 12.5%) for the most recent five year period. He stated that the Basic Funds have exceeded its composite index (Basic Funds 13.6% vs. Composite 13.2%) over the last five years and reported that the Post Fund had outperformed its composite index over the last five years period (Post Fund 12.3% vs. Composite 11.6%).

Mr. Bicker reported that the Basic Funds' assets decreased 5.7% for the quarter ending December 31, 2000 due to negative net contributions and negative investment returns. He said that the asset mix is essentially on target and reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds -3.5% vs. Composite -3.8%) and for the year (Basic Funds -1.8% vs. Composite -1.9%).

Mr. Bicker reported that the market value of the Post Fund's assets decreased 3.1% for the quarter ending December 31, 2000. He said the Post Fund asset mix is also on target and that the Post Fund outperformed its composite index for the quarter (Post fund -4.2% vs. Composite -4.4%) and for the year (Post fund -3.8% vs. Composite -4.0%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks -10.4% vs. Wilshire 5000 Investable -10.5%) but underperformed for the year (Domestic Stocks -11.0% vs. Wilshire 5000 Investable -10.8%). He said that the International Stock manager group outperformed its composite index for the quarter (International Stocks -3.1% vs. Int'l Composite -3.9%), for the year (International Stocks -14.3% vs. Int'l Composite -16.1%) and over longer periods. Mr. Bicker stated that the bond segment matched its target for the quarter (Bonds 4.2% vs. Lehman Aggregate 4.2%) and outperformed for the year (Bonds 11.7% vs. Lehman Aggregate 11.6%). He concluded his report with the comment that as of December 31, 2000, the SBI was responsible for over \$50 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel.

Mr. Bicker reported that the SBI has received a "clean opinion" on its financial statements in its FY 2000 financial audit.

Mr. Bicker stated that the SBI has had budget hearings in both the Senate and the House and that staff will monitor a number of other bills that may impact the SBI. He noted that it is still very early in the legislative process and that staff will continue to provide members with weekly legislative updates.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of two class action lawsuits. Ms. Eller stated that in the Mercury Finance Corporation case, there have been two major settlements in the case, which are being appealed. She said one appeal has been settled and that the other appeal is in mediation. Ms. Eller stated that in the McKesson case, the California judge for the case has been re-assigned so all actions have been postponed. She said motions to dismiss are being argued in the Federal case on March 23, 2001.

Mr. Bicker reported that updated information in the SBI's tobacco holdings is also included in Tab B of the meeting materials. He noted that there are currently approximately 200,000 shares of tobacco related holdings.

SBI Administrative Committee Report

Ms. Johnson referred members to Tab C of the meeting materials and stated that the Committee had met during the quarter to discuss potential legislative items and to hear presentations from four Emerging Markets Managers concerning their interest in investing in Group III international markets. She reported that the Administrative Committee voted to authorize the use of Group III markets by the four managers (Alliance Capital, Capital International, Morgan Stanley and Schroders).

Stock and Bond Manager Committee Report

Ms. Yeomans referred members to Tab D of the meeting materials and she briefly updated members on the Emerging Markets Manager funding and the plan rebalancing. She reported that staff had developed a short list of potential candidates for the 457 Deferred Compensation Plan in case an existing mutual fund needed to be replaced.

Ms. Yeomans stated that the Committee is recommending that investment manager contracts be renewed with four of the existing international equity managers. She noted that the contracts are for a five year period but that they have an immediate termination clause. 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 assistance from SBI's legal counsel, to negotiate

and execute five year contract extensions with the following firms, subject to inclusion of a provision which provides for immediate termination: International Equity – Active Developed Markets: Marathon Asset Management; Scudder Kemper Investments; T. Rowe Price International, Inc. Passive Developed Markets: State Street Global Advisors.” Ms. Johnson seconded the motion. The motion passed.

Mr. Bicker noted that there has been some interest by the retirement systems to offer a mid-cap investment option for the 457 Deferred Compensation Plan. He said that the staff will be working on this over the course of the next few months.

Alternative Investment Committee Report

Ms. Yeomans referred members to Tab E of the meeting materials and reported that during the quarter, the four investments that had been pre-approved at the December Board meeting were given final approval, resulting in a total of \$450 million being invested with four managers.

Ms. Yeomans stated that the Committee is recommending that about one-half of the Basic Retirement Fund’s position (approximately \$125 million) in Equity Office Properties Trust common stock be transferred to the Post Retirement Fund. She explained that the position was acquired through the consolidation and initial public offering (IPO) of several real estate investment trusts that were originally part of the alternative investment program for the Basic Funds. She stated that the stock has both growth and income characteristics that make it an appropriate investment for the Post Fund also. Ms. Johnson 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 to execute a transfer of up to \$125 million of Equity Office Properties Trust (symbol: EOP) stock from the Basic Retirement Funds to the Post Retirement Fund.” Ms. Kiffmeyer seconded the motion. The motion passed.

Ms. Yeomans reported that the Committee is recommending the additional investment of \$1.5 million in an existing limited partnership, Crescendo IV, that has become available as a result of a rebalancing by another investor. Ms. Johnson 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 an additional investment of up to \$1.5 million in Crescendo IV, L.P. This will be allocated to the Basic Retirement Funds.

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 Ventures or Knelman Asset Management Group LLC 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 Ventures or Knelman Asset Management Group LLC or reduction or termination of the commitment.” Ms. Dutcher seconded the motion. The motion passed.

The meeting adjourned at 10:30 A.M.

Sincerely,

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

Howard J. Bicker
Executive Director

HJB:cao

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Tuesday, June 5, 2001
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 6, 2001**

- 2. Report from the Executive Director (H. Bicker)**
 - A. Quarterly Investment Review** **A**
(January 1, 2001 – March 31, 2001)
 - B. Administrative Report** **B**
 1. Reports on budget and travel.
 2. Legislative Update.
 3. Litigation Update.
 4. Reauthorization of the Proxy Voting Committee.
 5. Authorization to form a Review Committee and issue RFP's for consultant services.
 6. Authorization to form a Review Committee and issue RFP's for master custodian services.
 7. Minnesota College Savings Plan.
 8. Update on Tobacco Information.

- 3. Report from the SBI Administrative Committee** **C**

- 4. Reports from the Investment Advisory Council**
 - A. Stock and Bond Manager Committee (John Bohan)** **D**
 1. Review of manager performance.
 2. Review of Annual Custom Benchmark Evaluation.
 3. Recommendation to terminate CIC Asset Management.
 4. Recommendation to terminate Standish, Ayer & Wood.
 5. Recommendation to offer a mid-cap option to the State's 457 Deferred Compensation.
 6. Review of Invested Treasurer's Cash policy paper.
 7. Review of Endowment Funds policy paper.

 - B. Alternative Investment Committee (Ken Gudorf)** **E**
 1. Review of current strategy.
 2. Investment for the Post Retirement Fund in a subordinated debt and equity fund with a new private equity manager, Levine Leichtman Capital Partners III, L.P.
 3. Investment for the Post Retirement Fund in a mezzanine real estate loan fund with a new real estate manager, Heller Real Estate Partners II, L.P.

**Minutes
Investment Advisory Council
March 6, 2001**

MEMBERS PRESENT: Gary Austin; Dave Bergstrom; John Bohan; Doug Gorence; Ken Gudorf; Han Chin Liu; P. Jay Kiedrowski; Judy Mares; Daralyn Peifer; Mary Stanton; Mary Vanek; Elaine Voss; and Jan Yeomans.

MEMBERS ABSENT: Mike Troutman; Malcolm McDonald; Gary Norstrem; and Pam Wheelock.

SBI STAFF: Howard Bicker; Mansco Perry; Jim Heidelberg; Lois Buermann; Andy Christensen; Tammy Brusehaver-Derby; Stephanie Gleeson; Debbie Griebenow; John Griebenow; Jason Matz; Mike Menssen; Charlene Olson; and Carol Nelson.

OTHERS ATTENDING: Ann Posey, Richards & Tierney; Christie Eller, Jennifer Mohlenhoff; Dale Hanke, Jerry Irsfeld, REAM; Edward Rapp, Education Minnesota; Lee Wenzel, private citizen.

Ms. Yeomans called the meeting to order and the minutes of the December 5, 2000 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, 2000 (Combined Funds 13.3% vs. Inflation 2.7%), exceeded the median fund (42nd percentile) and outperformed its composite index (Combined Funds 13.0% vs. Composite 12.5%) for the most recent five year period. He stated that the Basic Funds have exceeded its composite index (Basic Funds 13.6% vs. Composite 13.2%) over the last five years and reported that the Post Fund had outperformed its composite index over the last five years period (Post Fund 12.3% vs. Composite 11.6%).

Mr. Bicker reported that the Basic Funds' assets decreased 5.7% for the quarter ending December 31, 2000 due to negative net contributions and negative investment returns. He said that the asset mix is essentially on target and reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds -3.5% vs. Composite -3.8%) and for the year (Basic Funds -1.8% vs. Composite -1.9%). In response to a question from Mr. Kiedrowski, Mr. Bicker stated that currently more money is being paid out from the Basics to the Post Fund for additional benefits than are being received in contributions.

Mr. Bicker reported that the market value of the Post Fund's assets decreased 3.1% for the quarter ending December 31, 2000. He said the Post Fund asset mix is also on target and that the Post Fund outperformed its composite index for the quarter (Post fund -4.2% vs. Composite -4.4%) and for the year (Post fund -3.8% vs. Composite -4.0%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks -10.4% vs. Wilshire 5000 Investable -10.5%) but underperformed for the year (Domestic Stocks -11.0% vs. Wilshire 5000 Investable -10.8%). He said that the International Stock manager group outperformed its composite index for the quarter (International Stocks -3.1% vs. Int'l Composite -3.9%), for the year (International Stocks -14.3% vs. Int'l Composite -16.1%) and over longer periods. Mr. Bicker stated that the bond segment matched its target for the quarter (Bonds 4.2% vs. Lehman Aggregate 4.2%) and outperformed for the year (Bonds 11.7% vs. Lehman Aggregate 11.6%). He concluded his report with the comment that as of December 31, 2000, the SBI was responsible for over \$50 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel.

Mr. Bicker reported that the SBI has received a "clean opinion" on its financial statements in its FY 2000 financial audit.

Mr. Bicker stated that the SBI has had budget hearings in both the Senate and the House and that staff will be monitoring a number of other bills that may impact the SBI. He stated that the Public Employees Retirement Association faces a funding issue and that the Minnesota State Retirement System has legislation pending regarding post retirement insurance for individuals. He noted that there also is legislation to renew the existence of the Investment Advisory Council. Mr. Bicker said that the legislation regarding increasing the amortization period for the Post Fund would probably be delayed until next year. He added that staff is also monitoring some legislation related to the tobacco settlement funds.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of two class action lawsuits. Ms. Eller stated that in the Mercury Finance Corporation case, there have been two major settlements in the case, which are being appealed. She said one appeal has been settled and that the other appeal is in mediation. Ms. Eller stated that in the McKesson case, the California judge for the case has been re-assigned so all actions have been postponed. She said that the federal case is also proceeding very slowly. Mr. Bicker stated that staff will be working with the Attorney Generals Office to develop a plan for evaluating various lead plaintiff requests.

Mr. Bicker reported that updated information in the SBI's tobacco holdings is also included in Tab B of the meeting materials. He said that there are currently approximately 200,000 shares of tobacco related holdings. He noted that according to the resolution divestiture is required by September 2001.

Stock and Bond Manager Committee Report

Mr. Bohan referred members to Tab D of the meeting materials and he reviewed the performance of the stock and bond managers. He updated members on the emerging markets manager funding and the plan rebalancing. He reported that staff had developed a short list of potential candidates for the 457 Deferred Compensation Plan in case an existing mutual fund needed to be replaced.

Mr. Bohan stated that the Committee is recommending that investment manager contracts be renewed with four of the existing international equity managers. He noted that the contracts are for a five-year period but that they have an immediate termination clause. Mr. Gudorf moved approval of the Committee's recommendation, as stated in the Committee Report. Ms. Voss seconded the motion. The motion passed.

Mr. Bicker noted that there is interest in adding a mid-cap investment option to the 457 plan and that staff will be working with MSRS over the next few months to establish this option.

In response to a question from Ms. Yeomans, Mr. Bicker stated that CIC Asset Management had been re-interviewed about six months ago. He said that at that time the staff still had confidence in the firm's ability. He said they are being monitored closely because of continued poor performance since the re-interview took place.

Alternative Investment Committee Report

Mr. Gudorf referred members to Tab E of the meeting materials and briefly reviewed the performance of the alternative investments. He reported that during the quarter, the four investments that had been pre-approved at the December Board meeting were given final approval, resulting in a total of \$450 million being invested with four managers.

Mr. Gudorf stated that the Committee is recommending that about one-half of the Basic Retirement Fund's position (approximately \$125 million) in Equity Office Properties Trust common stock be transferred to the Post Retirement Fund. He explained that the position was acquired through the consolidation and initial public offering (IPO) of several real estate investment trusts that were originally part of the alternative investment program for the Basic Funds. He stated that the stock has a good yield which makes it an appropriate investment for the Post Fund also.

Mr. Gudorf reported that the Committee is recommending the additional investment of \$1.5 million in an existing limited partnership, Crescendo IV, that has become available as a result of a rebalancing by another investor. Mr. Kiedrowski moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Liu seconded the motion.

In response to a question from Mr. Gorence, Mr. Bicker noted that the private equity returns are based on September 2000 numbers. He stated that he believes the SBI has an excellent private equity program. He said that venture capital returns were high last year

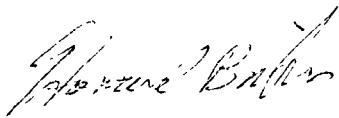
but have decreased significantly recently. He noted that the SBI has a lower level of venture capital due to size constraints.

In response to a question from Mr. Bergstrom, Mr. Bicker stated that he did not have total returns since June 30, 2000, but that they would not be positive. Mr. Bicker briefly discussed the PERA funding situation.

The motion made earlier by Mr. Kiedrowski regarding the Alternative Investment Committee's recommendations passed.

The meeting adjourned at 2:33 P.M.

Respectfully submitted,

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

Howard J. Bicker
Executive Director

Tab A

LONG TERM OBJECTIVES
Period Ending 3/31/2001

COMBINED FUNDS: \$36.8 Billion	Result	Compared to Objective
Provide Real Return (10 yr.)	11.4% (1)	8.7 percentage points above CPI
Provide returns that are 3-5 percentage points greater than inflation over the latest 10 year period.		
Exceed Composite Index (5 yr.)	10.6%	0.5 percentage point above composite index
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.		
Exceed Median Fund (5 yr.)	48th percentile (2)	above the median fund in TUCS
Provide returns that are ranked in the top half of universe of public and corporate plans over the latest 5 year period.		

BASIC RETIREMENT FUNDS: \$18.3 Billion	Result	Compared to Objective
Exceed Composite Index (5 Yr.)	11.2%	0.5 percentage point above target
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.		

POST RETIREMENT FUND: \$18.5 Billion	Result	Compared to Objective
Exceed Composite Index (5 Yr.)	10.0%	0.6 percentage point above target
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.		

(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, 2000

	Active (Basics)	Retired (Post)	Total (Combined)
Liability Measures			
1. Current and Future Benefit Obligation	\$23.9 billion	\$15.6 billion	\$39.5 billion
2. Accrued Liabilities	16.4	15.6	32.0
Asset Measures			
3. Current and Future Actuarial Value	\$24.1 billion	\$15.6 billion	\$39.7 billion
4. Current Actuarial Value	16.3	15.6	31.9
Funding Ratios			
Future Obligations vs. Future Assets (3 ÷ 1)	101%	100%	100%
Accrued Liabilities vs. Current Actuarial Value (4 ÷ 2)	99%	100%	100%*

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

Notes:

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

Actuarial Assumptions:

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

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

Full Funding Target Date: 2024, with a surplus of plan actuarial assets compared to accrued liabilities credited over a period through 2030.

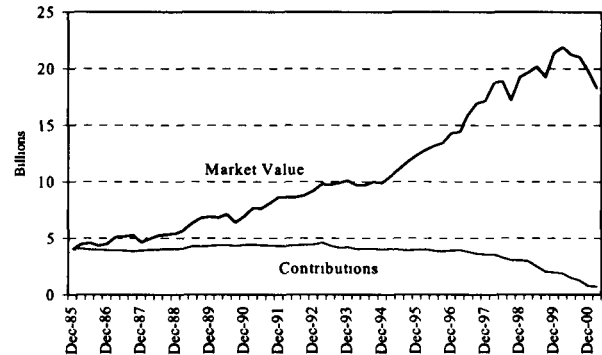
EXECUTIVE SUMMARY
Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds decreased 7.5% during the first quarter of 2001. Negative investment returns and contributions accounted for the decrease.

Asset Growth
During First Quarter 2001
(Millions)

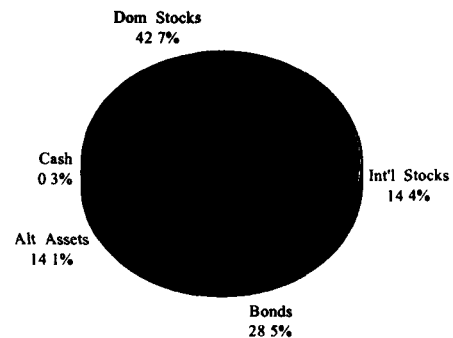
Beginning Value	\$ 19,807
Net Contributions	-66
Investment Return	-1,412
Ending Value	\$ 18,329



Asset Mix

The bond allocation increased this quarter due to positive returns. Both international stocks and domestic stocks decreased their allocations due to negative returns.

	Policy Targets	Actual Mix 3/31/2001	Actual Market Value (Millions)
Domestic Stocks	45.0%	42.7%	\$7,836
Int'l. Stocks	15.0	14.4	2,631
Bonds	24.0	28.5	5,222
Alternative Assets*	15.0	14.1	2,588
Unallocated Cash	1.0	0.3	52
	100.0%	100.0%	\$18,329

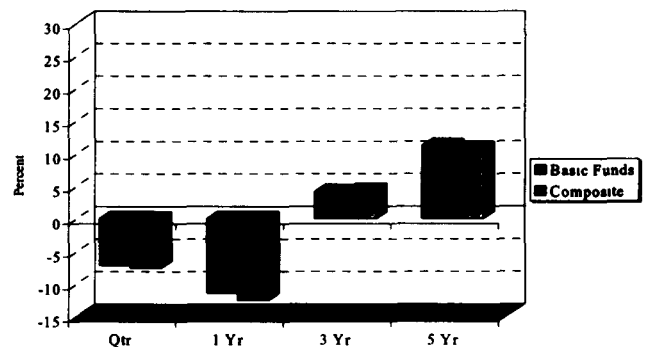


* Any uninvested allocation is held in domestic stocks

Fund Performance (Net of Fees)

The Basic Funds outperformed its composite market index for the quarter, one-year and five-year periods.

	Period Ending 3/31/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basics	-7.1%	-11.4%	4.1%	11.2%
Composite	-7.5	-12.5	4.3	10.7



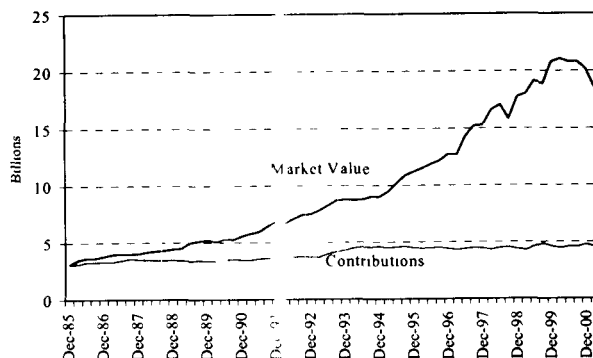
EXECUTIVE SUMMARY
 Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund decreased by 8.2% during the first quarter of 2001. Negative net contributions and investment returns accounted for the decrease.

**Asset Growth
 During First Quarter 2001
 (Millions)**

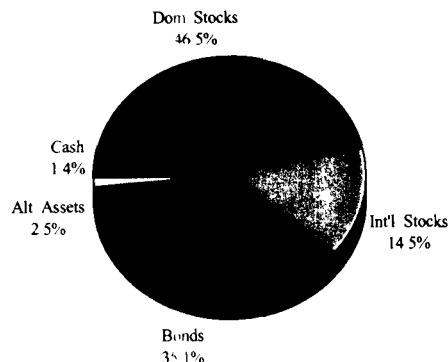
Beginning Value	\$20,153
Net Contributions	-236
Investment Return	-1,410
Ending Value	\$18,507



Asset Mix

Positive returns increased the bond allocation. The domestic stock allocation decreased over the quarter due to negative returns. Although international stocks had negative returns, rebalancing during the quarter raised its allocation.

	Policy Targets	Actual Mix 3/31/2001	Actual Market Value (Millions)
Domestic Stocks	50.0%	46.5%	\$8,607
Int'l Stocks	15.0	14.5	2,682
Bonds	27.0	35.1	6,497
Alternative Assets*	5.0	2.5	463
Unallocated Cash	3.0	1.4	258
	100.0%	100.0%	\$18,507

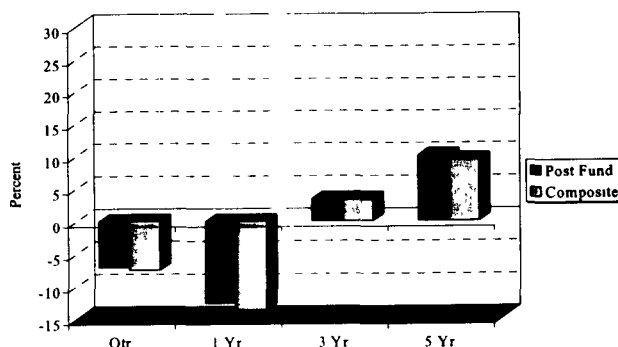


* Any uninvested allocation is held in bonds.

Fund Performance (Net of Fees)

The Post Fund outperformed its composite market index for the quarter, one-year and five-year periods. The Fund matched the composite for the three-year period.

	Period Ending 3/31/2001			
	Qtr	1 Yr	3 Yr	5 Yr
Post	-7.1%	-12.5%	3.3%	10.0%
Composite	-7.5	-13.7	3.3	9.4



EXECUTIVE SUMMARY

Stock and Bond Manager Performance (Net of Fees)

Domestic Stocks

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

	Period Ending 3/31/2001			
	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.
Dom. Stocks	-12.3%	-24.4%	0.9%	12.2%
Wilshire 5000 Investable*	-12.8	-25.3	1.2	12.1

* Restated to incorporate the Wilshire 5000 Investable Index beginning 7/1/99. From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments.

International Stocks

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

	Period Ending 3/31/2001			
	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.
Int'l. Stocks	-13.6%	-25.1%	-0.9%	4.1%
Composite Index*	-12.9	-27.0	-1.3	2.3

* 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 all periods, except the three year period where it matched the target.

	Period Ending 3/31/2001			
	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.
Bonds	3.3%	12.7%	6.9%	7.8%
Lehman Agg.	3.0	12.5	6.9	7.5

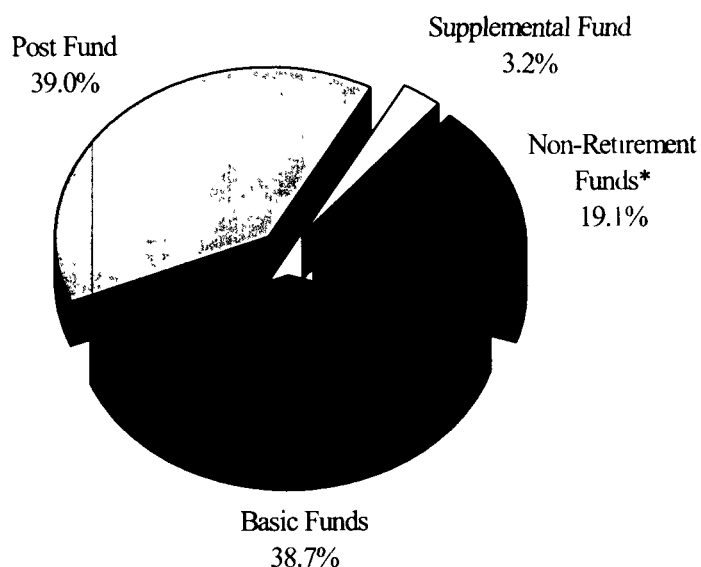
Wilshire 5000 Investable: The Wilshire 5000 Investable stock index reflects the performance of a broad range of publicly traded stocks of companies domiciled in the U.S. It does not include the smallest and least liquid securities in the W5000 that generally are not owned by large pension plans.

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 26 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



**3/31/2001
Market Value
(Billions)**

Retirement Funds	
Basic Retirement Funds	\$18.3
Post Retirement Fund	18.5
Supplemental Investment Fund	1.5
Non Retirement Funds*	
Assigned Risk Plan	0.3
Permanent School Fund	0.5
Environmental Trust Fund	0.3
Tobacco Prevention Fund	0.5
Medical Education Fund	0.3
State Cash Accounts	7.1
Total	\$47.3

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

First Quarter 2001
(January 1, 2001 - March 31, 2001)

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VARIOUS CAPITAL MARKET INDICES

Period Ending 3/31/2001

	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	-12.3%	-24.8%	1.7%	12.4%	13.7%
Dow Jones Industrials	-8.0	-8.0	5.7	14.1	15.6
S&P 500	-11.9	-21.7	3.0	14.2	14.4
Russell 2000	-6.5	-15.3	-0.9	7.8	11.8
Domestic Fixed Income					
Lehman Aggregate*	3.0	12.5	6.9	7.5	8.0
Lehman Gov't./Corp.	3.2	12.4	6.8	7.4	8.1
3 month U.S. Treasury Bills	1.3	6.0	5.3	5.3	4.9
International					
EAFE**	-13.7	-25.9	-0.6	3.4	5.9
Emerging Markets Free***	-5.5	-36.0	-8.4	-6.4	4.9
Salomon Non U.S. Gov't. Bond	-4.9	-6.3	1.0	1.0	6.7
Inflation Measure					
Consumer Price Index****	0.8	2.5	2.6	2.4	2.7

* 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, declined by 12.3% in the first quarter. During the period, companies warned about disappointing first quarter results and the Federal Reserve, in an attempt to jump start the economy, lowered interest rates on three occasions by a total of 150 basis points. Technology stocks continued to lead on the downside. The NASDAQ dropped another 25%, after losing 32% in the fourth quarter. Only two market sectors, Consumer Cyclical and Transportation, avoided the market turmoil with very modest gains. Value stocks outperformed growth stocks for the third straight quarter.

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

Large Value	-5.7
Small Value	-0.6
Large Growth	-23.1
Small Growth	-22.1

The Wilshire 5000 decreased by -24.8% for the year ending March 31, 2001.

DOMESTIC BONDS

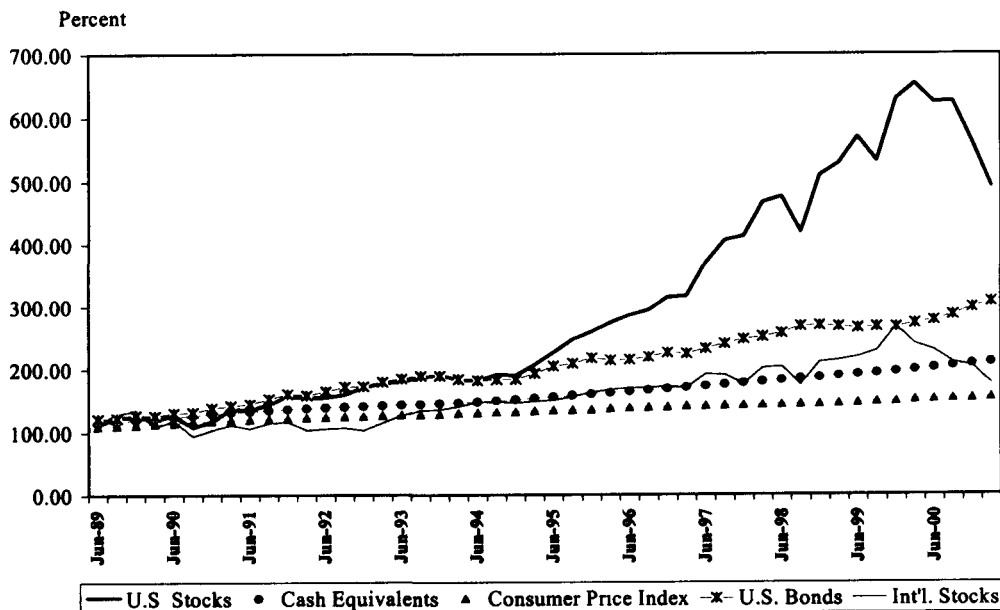
The bond market registered positive returns in the first quarter, outperforming equities over the quarter and past year. Treasury and Agency securities returned 2.5%, mostly from declining interest rates in the intermediate section of the curve. Long interest rates ended the quarter relatively unchanged. The credit sector, driven by narrowing yield spreads, outperformed Treasuries. Mortgage securities also outpaced Treasuries.

Overall, the Lehman Brothers Aggregate Bond Index returned 3.0% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	2.5%
Credit	4.3
Mortgages	2.7

The Lehman Aggregate returned 12.5% for the latest year.

PERFORMANCE OF CAPITAL MARKETS
Cumulative returns



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

FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, developed international stock markets (as measured by the EAFE-Free index) provided a return of -13.7% for the quarter. Performance of the five largest stock markets is shown below:

Japan	-8.4%
United Kingdom	-12.3
France	-17.2
Germany	-14.7
Switzerland	-17.6

The EAFE-Free index decreased by 25.9% during the last 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 72% 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 -5.5% for the quarter. The performance of the five largest stock markets in the index is shown below:

Taiwan	18.0%
Korea	2.5
Brazil	-9.9
Mexico	3.8
South Africa	-8.0

The Emerging Markets Free index decreased by 36.0% during the last year.

The Emerging Markets Free (EMF) index is compiled by MSCI and measures performance of 26 stock markets in Latin America, Asia, Africa and Eastern Europe. EMF includes only those securities foreign investors are allowed to hold. The markets listed above comprise about 55% of the value of the international markets in 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 \$153.9 billion for private equity limited partnerships of all types, from venture capital to buyouts in 2000. That represents a 58.2% increase from the upwardly revised 1999 total of \$97.3 billion. It was the seventh consecutive record year for fundraising.

RESOURCE FUNDS

During the first quarter of 2001, West Texas Intermediate crude oil averaged \$28.67 per barrel compared to an average price of \$31.89 per barrel during the fourth quarter of 2000. With the relatively high oil prices, oil companies may be considering boosting their budgets for oil and gas exploration and drilling.

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.

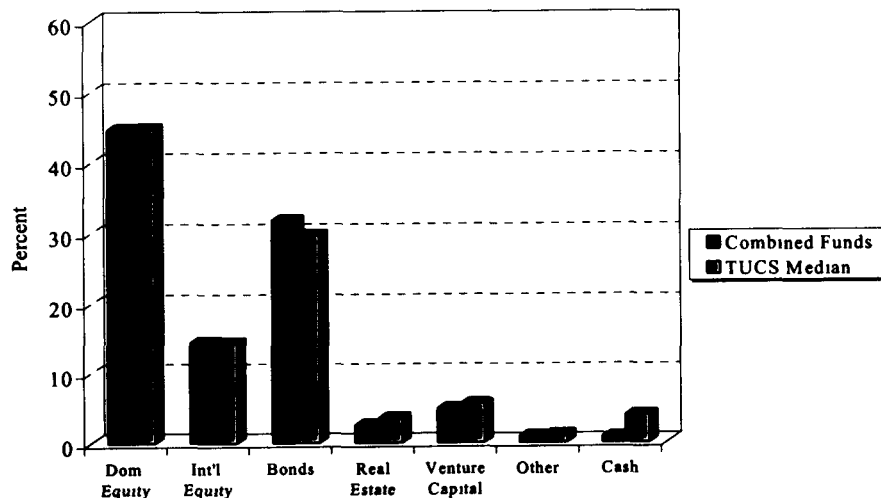
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over \$1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On March 31, 2001, the actual asset mix of the Combined Funds was:

	\$ Millions	%
Domestic Stocks	\$16,444	44.7%
International Stocks	5,313	14.4
Bonds	11,719	31.8
Alternative Assets	3,050	8.3
Unallocated Cash	310	0.8
Total	\$36,836	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	44.7%	14.4%	31.8%	2.5%	4.9%	0.9%	0.8%
Median Allocation in TUCS*	44.8	14.3	29.7	3.5	5.6	1.1	3.9

* Public and corporate plans over \$1 billion.

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

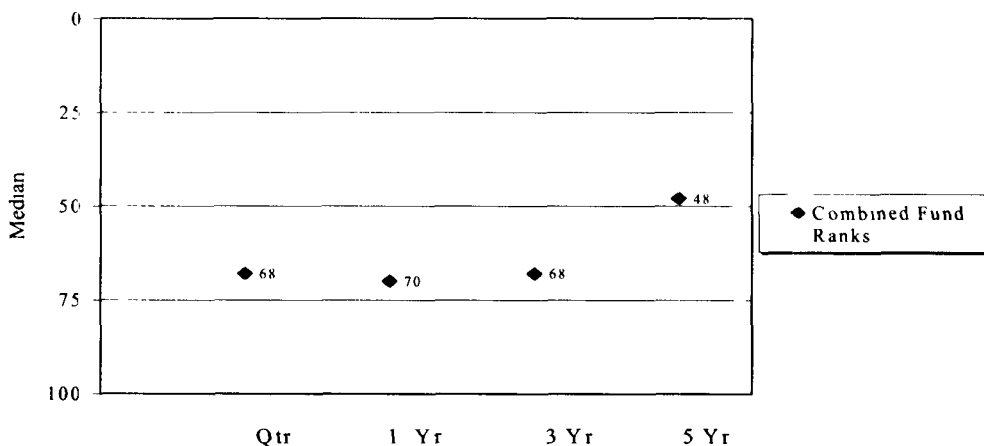
While the SBI is concerned with how its returns compare to other pension investors, universe comparisons should be used with great care. There are several reasons why such comparisons will provide an “apples to oranges” look at performance:

- **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).



Combined Funds	Period Ending 3/31/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Percentile Rank in TUCS*	68th	70th	68th	48th

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

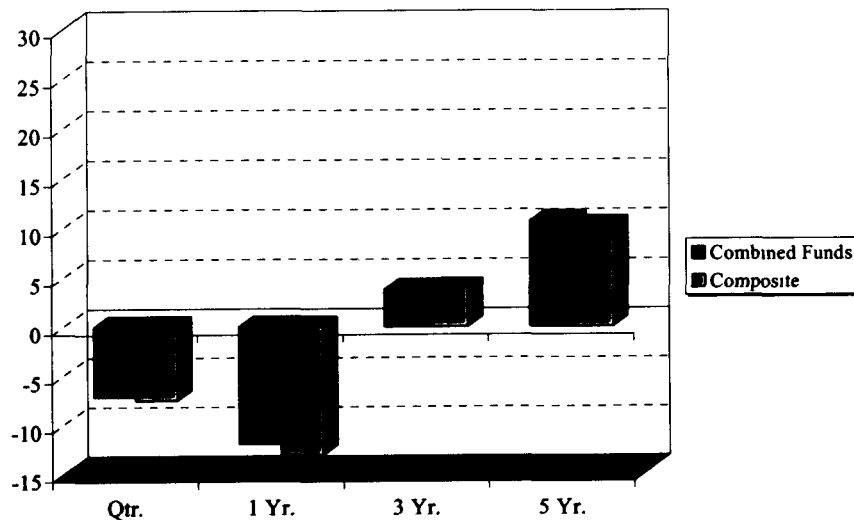
**COMBINED FUNDS
Performance Compared to Composite Index**

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* 1Q01
Domestic Stocks	Wilshire 5000 Investable	48.4%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	26.9*
Alternative Assets	Real Estate Funds	2.3*
	Private Equity Funds	4.7*
	Resource Funds	0.7*
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 3/31/2001

	Qtr.	1 Yr.	Annualized	
			3 Yr.	5 Yr.
Combined Funds**	-7.1%	-12.0%	3.7%	10.6%
Composite Index	-7.5	-13.1	3.8	10.1

**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

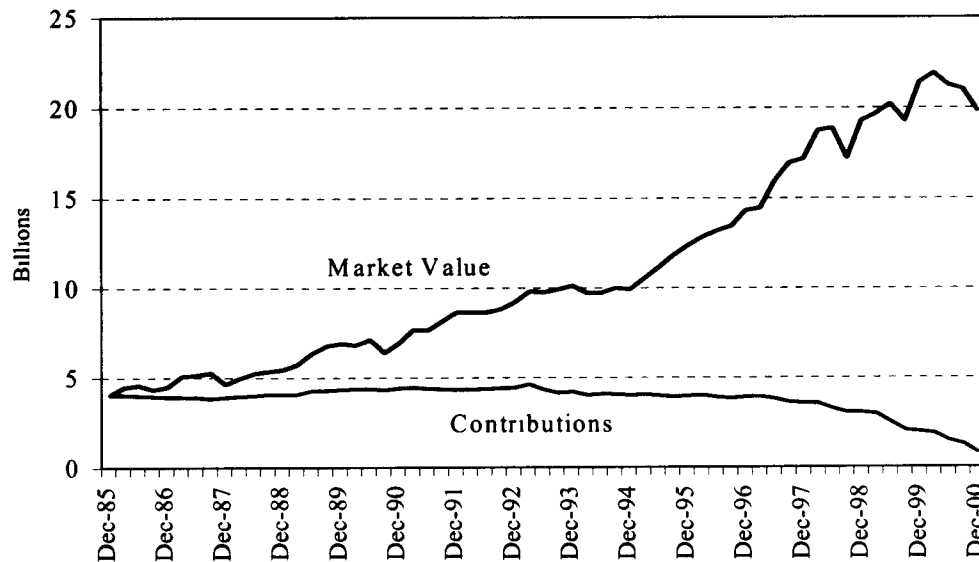
projected pension costs, the Basic Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

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 Funds decreased 7.5% during the first quarter of 2001. Negative net

contributions and investment returns accounted for the decrease.



	Last Five Years					Latest Qtr.
	In Millions					
	12/96	12/97	12/98	12/99	12/00	3/01
Beginning Value	\$12,338	\$14,275	\$17,146	\$19,244	\$21,365	\$19,807
Net Contributions	-59	-337	-539	-1,065	-1,186	-66
Investment Return	1,996	3,208	2,637	3,186	-372	-1,412
Ending Value	\$14,275	\$17,146	\$19,244	\$21,365	\$19,807	\$18,329

BASIC RETIREMENT FUNDS

Asset Mix

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

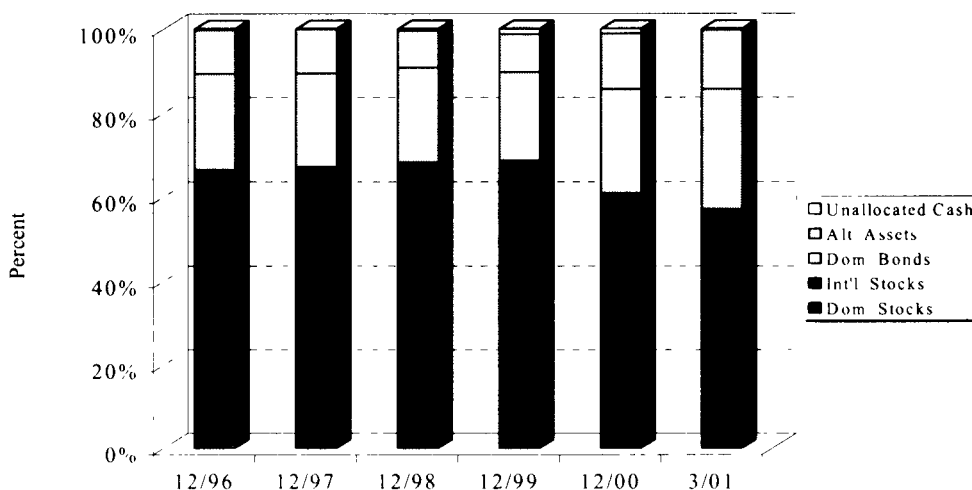
In October 1995, the Board revised its long term asset allocation targets for the Basic Funds, increasing international stocks from 10% to 15% and decreasing domestic stocks from 50% to 45%. The change was implemented over several quarters.

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

Over the last year, the allocation to bonds increased due to positive returns. The domestic stock allocation and international stock allocation decreased due to negative returns.

During the quarter, the bond allocation increased due to positive returns. Both international stocks and domestic stocks decreased their allocations due to negative returns.

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



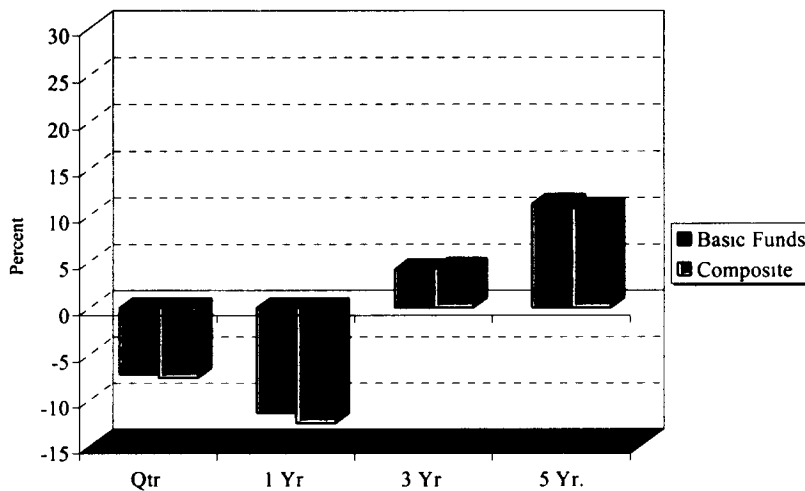
	Last Five Years					Latest Qtr.
	12/96	12/97	12/98	12/99	12/00	3/01
Domestic Stocks	52.0%	53.6%	53.8%	51.9%	44.3%	42.7%
Int'l Stocks	14.5	13.6	14.4	16.8	16.6	14.4
Bonds	22.8	22.2	22.6	21.0	24.7	28.5
Real Estate	3.9	4.1	3.7	3.5	4.1	8.2
Private Equity	5.5	5.0	4.4	4.8	8.0	4.5
Resource Funds	1.0	1.4	0.7	0.8	1.2	1.4
Unallocated Cash	0.3	0.1	0.4	1.2	1.1	0.3
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* 1Q01
Domestic Stocks	45.0%	Wilshire 5000 Investable	46.7%*
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Real Estate Funds	4.1*
		Private Equity Funds	8.0*
		Resource Funds	1.2*
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 3/31/2001

	Qtr.	1 Yr.	Annualized	
			3 Yr.	5 Yr.
Basic Funds**	-7.1%	-11.4%	4.1%	11.2%
Composite Index	-7.5	-12.5	4.3	10.7

**Returns are reported net of fees.

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See page 15 for the performance of these asset pools. 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.

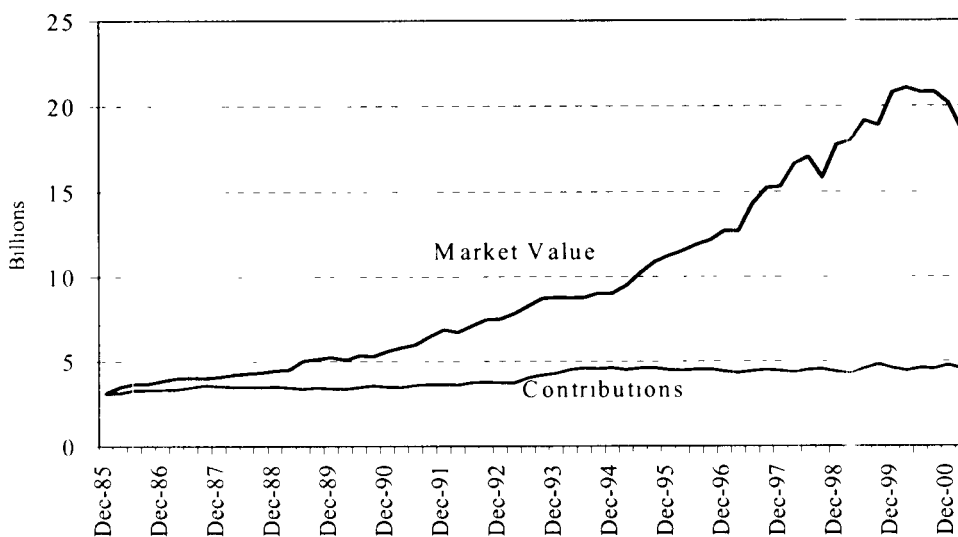
The post retirement benefit increase formula is based on the total return of the fund. As a result, the Board maintains a long-term asset allocation strategy for the Post Fund which incorporates a substantial commitment to common stocks.

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

Asset Growth

The market value of the Post Retirement Fund decreased by 8.2% during the first quarter of 2001. Negative net

contributions and investment returns accounted for the decrease.



	Last Five Years					Latest Qtr.
	In Millions					
	12/96	12/97	12/98	12/99	12/00	3/01
Beginning Value	\$11,216	\$12,705	\$15,273	\$17,743	\$20,768	\$20,153
Net Contributions	-94	23	-45	211	167	-236
Investment Return	1,583	2,545	2,515	2,814	-782	-1,410
Ending Value	\$12,705	\$15,273	\$17,743	\$20,768	\$20,153	\$18,507

POST RETIREMENT FUND
Asset Mix

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

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

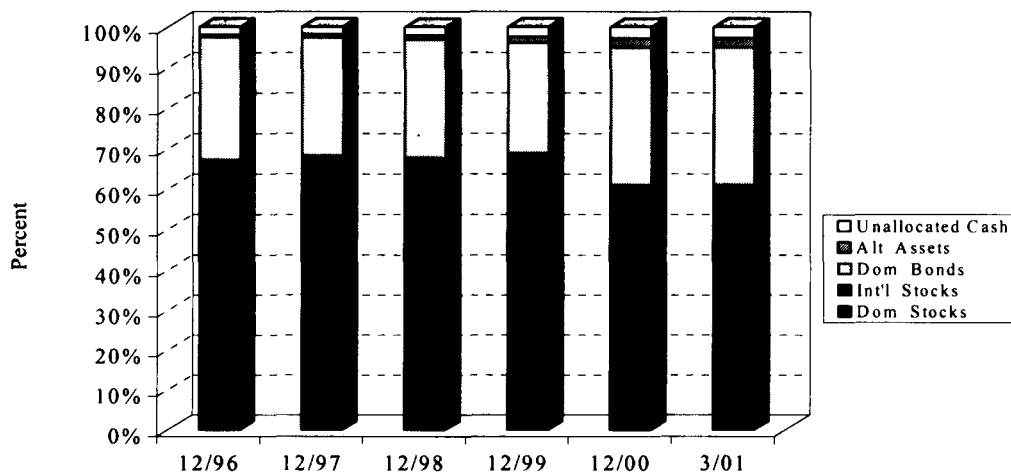
In October 1995, the Board revised its long term asset allocation targets for the Post Fund, increasing international stocks from 10% to 15% and decreasing bonds from 32% to 27%.

Over the last year, the allocation to bonds increased due to positive returns. The allocation to domestic stocks and international stocks declined due to negative returns. Some of the decrease was offset by rebalancing from bonds and cash to domestic stock and international stock during the year.

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

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

Positive returns increased the bond allocation over the quarter. The domestic stock allocation decreased due to negative returns. Although international stocks had negative returns, rebalancing during the quarter raised its allocation.



	Last Five years				Latest Qtr.	
	12/96	12/97	12/98	12/99	12/00	3/01
Dom. Stocks	52.7%	54.7%	53.2	52.0%	47.5%	46.5%
Int'l. Stocks	14.6	13.6	14.5	16.9	13.5	14.5
Bonds	30.2	29.1	29.2	27.2	34.0	35.1
Alt. Assets	0.6	0.9	1.1	1.5	2.3	2.5
Unallocated Cash	1.9	1.7	2.0	2.4	2.7	1.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

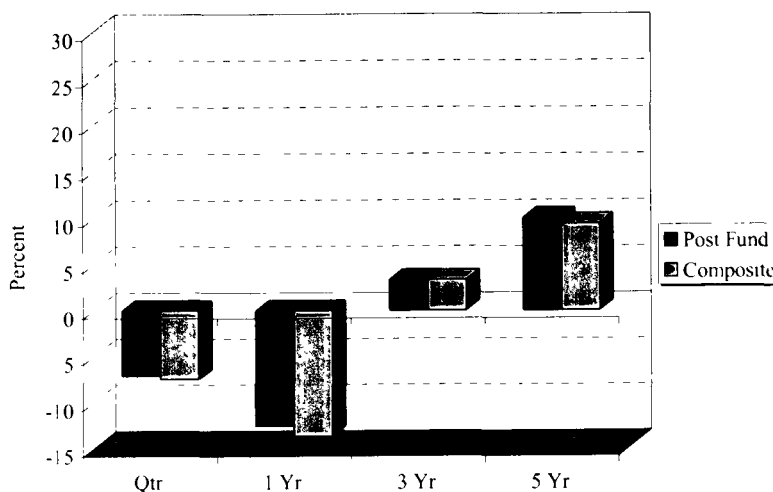
POST RETIREMENT FUND
Total Fund Performance (Net of Fees)

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* 1Q01
Domestic Stocks	50.0%	Wilshire 5000 Investable	50.0%
Int'l Stocks	15.0	Int'l Composite	15.0
Bonds	27.0	Lehman Aggregate	29.8*
Alternative Assets	5.0	Real Estate Funds	0.4*
		Private Equity Funds	1.5*
		Resource Funds	0.3*
Unallocated Cash	3.0	3 Month T-Bills	3.0
	100.0%		100.0%

*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.



Period Ending 3/31/2001

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Post Fund**	-7.1%	-12.5%	3.3%	10.0%
Composite Index	-7.5	-13.7	3.3	9.4

** Returns are reported net of fees.

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See page 15 for the performance of these asset pools.

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

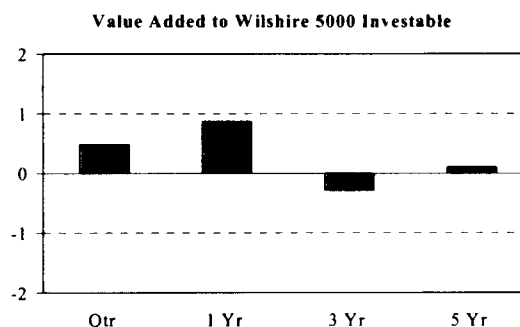
Domestic Stock Pool

Target: Wilshire 5000 Investable

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 3/31/2001			
		Annualized		
	Qtr.	1 Yr.	3 Yrs.	5 Yrs.
Stock Pool	-12.3%	-24.4%	0.9%	12.2%
W5000 Investable*	-12.8	-25.3	1.2	12.1

* Restated to incorporate the Wilshire 5000 Investable Index beginning 7/1/99. W5000 prior to 7/1/99.



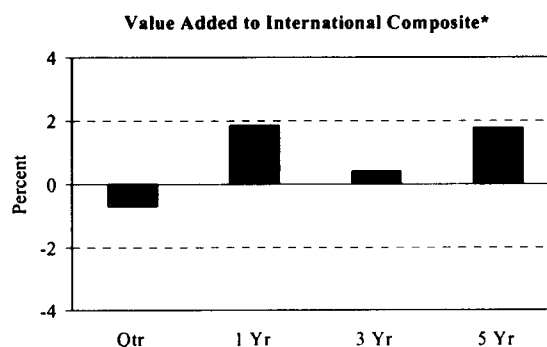
International Stock Pool

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 3/31/2001			
		Annualized		
	Qtr.	1 Yr.	3 Yrs.	5 Yrs.
Int'l. Pool	-13.6%	-25.1%	-0.9%	4.1%
Composite Index*	-12.9	-27.0	-1.3	2.3

* 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.

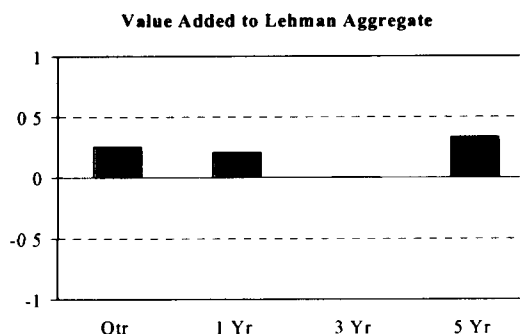


Bond Pool

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 3/31/2001			
		Annualized		
	Qtr.	1 Yr.	3 Yrs.	5 Yrs.
Bond Pool	3.3%	12.7%	6.9%	7.8%
Lehman Agg.	3.0	12.5	6.9	7.5



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 3/31/2001			
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Real Estate	2.5%	18.7%	10.1%	15.3%
Inflation	0.8	2.5	2.6	2.4

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 3/31/2001			
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Private Equity	-6.1%	14.8%	21.3%	25.5%

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 3/31/2001			
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Resource Funds	5.8%	45.3%	3.3%	17.5%

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

	Period Ending 3/31/2001			
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Yield Oriented	0.1%	18.3%	13.7%	12.4%

SUPPLEMENTAL INVESTMENT FUND

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

1. It functions as the investment manager for all assets of the Unclassified Employees Retirement Plan, Public Employees Defined Contribution Plan and Hennepin County Supplemental Retirement Plan.
2. It is one investment vehicle offered to employees as part of 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, 2001 the market value of the entire Fund was \$1.5 billion.

Investment Options

	3/31/2001 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	\$564
Growth Share Account – an actively managed, all common stock portfolio.	\$248
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	\$338
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	\$40
Bond Market Account – an actively managed, all bond portfolio.	\$128
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	\$95
Fixed Interest Account – a portfolio of guaranteed investment contracts (GIC's) and GIC type investments which offer a fixed rate of return for a specified period of time.	\$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%	55.9%
Bonds	35.0	38.3
Unallocated Cash	5.0	5.8
	100.0%	100.0%

Period Ending 3/31/2001

	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	-6.3%	-11.4%	4.2%	11.0%
Composite*	-6.6	11.7	4.0	10.6

* 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 3/31/2001

	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	-12.1%	-24.5%	0.4%	11.9%
Composite*	-12.8	25.3	1.2	12.0

* 95% Wilshire 5000/5% T-Bills Composite through October 1996. 100% Wilshire 5000 from November 1996 to June 1999. 100% Wilshire 5000 Investable since July 1999

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 Investable, a broad-based equity market indicator

The Account is invested 100% in common stock.

Period Ending 3/31/2001

	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	-12.7%	-24.3%	1.9%	12.8%
Wilshire 5000 Investable*	-12.8	25.2	1.5	12.3

* Wilshire 5000 through June 2000. Wilshire 5000 Investable thereafter

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 3/31/2001

	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yrs.
Total Account	-13.6%	-25.1%	-0.8%	4.1%
Composite*	-12.9	27.0	-1.3	2.3

* 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 3/31/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	3.3%	12.8%	6.9%	7.8%
Lehman Agg.	3.0	12.5	6.9	7.5

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 3/31/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	1.5%	6.6%	5.9%	5.8%
3 month T-Bills	1.3	6.0	5.3	5.3

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 3/31/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	1.5%	6.3%	6.3%	6.4%

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 portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream

	3/31/2001 Target	3/31/2001 Actual
Stocks	20.0%	18.8%
Bonds	80.0	81.2
Total	100.0%	100.0%

Investment Management

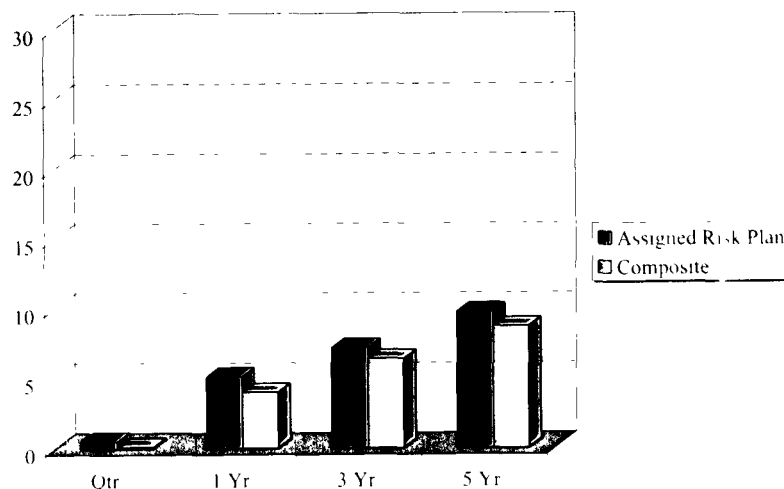
Voyageur Asset Management manages the bond segment of the Fund. GE Investment Management manages the equity segment

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, 2001 the market value of the Assigned Risk Plan was \$312 million



Period Ending 3/31/2001

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund*	0.5%	5.1%	7.2%	9.8%
Composite	0.1	4.0	6.4	8.7
Equity Segment*	-8.0	-10.4	7.3	16.6
Benchmark	-11.9	-21.7	3.0	14.2
Bond Segment*	2.7	9.9	6.3	6.8
Benchmark	3.2	11.3	6.9	7.1

* Actual returns are calculated net of fees

PERMANENT SCHOOL FUND

Investment Objectives

The investment objective of the Permanent School Fund is to produce a growing level of spendable income, within the constraints of maintaining adequate portfolio quality and liquidity. The income from the portfolio is used to offset expenditures on school aid payments to local school districts.

Asset Mix

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

	3/31/2001 Target	3/31/2001 Actual
Stocks	50.0%	45.3%
Bond	48.0	53.1
Unallocated Cash	2.0	1.6
Total	100.0%	100.0%

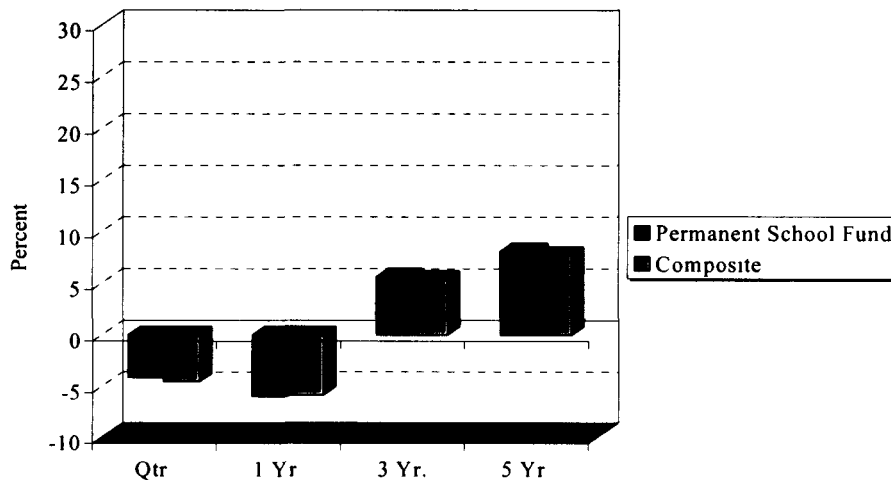
Prior to FY98, the Fund was invested entirely in fixed income securities in order to maximize current income. It is understood that the change in asset mix will reduce portfolio income in the short term, but will enhance the value of the fund, over time.

Investment Management

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

Market Value

On March 31, 2001 the market value of the Permanent School Fund was \$536 million.



	Period Ending 3/31/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund (1) (2)	-4.1%	-6.0%	5.6%	8.1%
Composite	-4.5	-5.8	5.4	7.7
Equity Segment (1) (2)	-11.7	-21.4	3.2	N/A
S&P 500	-11.9	-21.7	3.0	N/A
Bond Segment (1)	3.2	12.0	7.1	7.7
Lehman Aggregate	3.0	12.5	6.9	7.5

(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

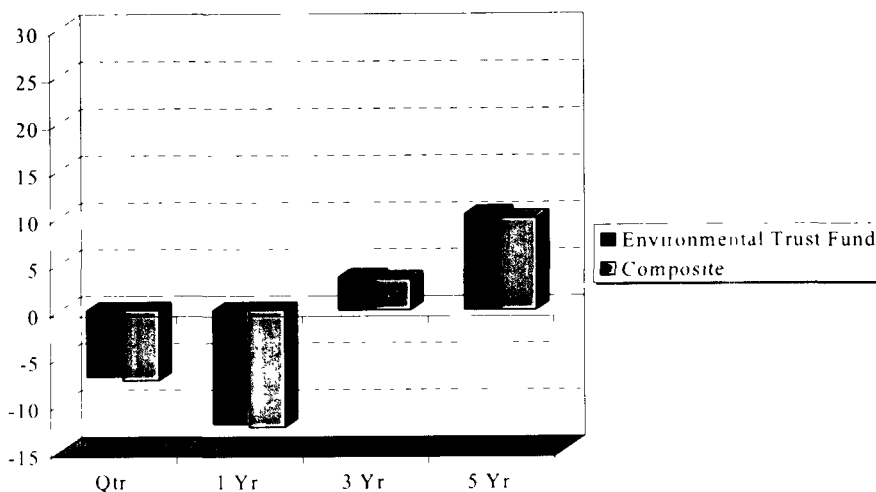
Investment Management

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, 2001 the market value of the Environmental Trust Fund was \$286 million.

	3/31/2001 Target	3/31/2001 Actual
Stocks	70.0%	65.7%
Bonds	28.0	33.6
Unallocated Cash	2.0	0.7
Total	100.0%	100.0%



	Period Ending 3/31/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund*	-7.1%	-12.1%	3.6%	10.2%
Composite	-7.5	-12.5	3.3	9.8
Equity Segment*	-11.6	-21.4	3.3	14.4
S&P 500	-11.9	-21.7	3.0	14.2
Bond Segment*	3.2	12.0	7.1	8.0
Lehman Agg.	3.0	12.5	6.9	7.5

* Actual returns are calculated net of fees.

TOBACCO PREVENTION FUND

Investment Objectives

The investment objective of the Tobacco Prevention 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 Fund is invested in a balanced portfolio of stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds act as a deflation hedge and provide portfolio diversification.

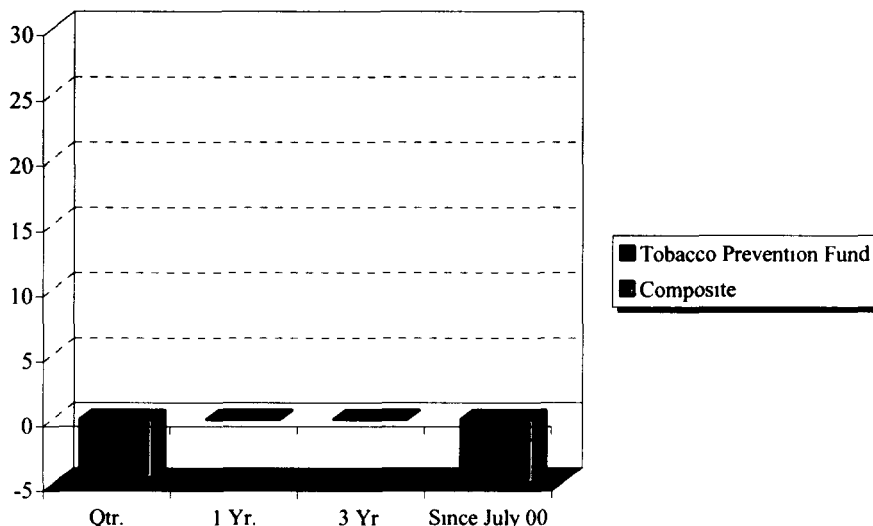
Investment Management

SBI staff manages all assets of the Tobacco Prevention Fund.

Market Value

On March 31, 2001 the market value of the Tobacco Prevention Fund was \$516 million.

	3/31/2001 Target	3/31/2001 Actual
Stocks	50.0%	53.8%
Bonds	50.0	45.9
Unallocated Cash	0.0	0.3
Total	100.0%	100.0%



Period Ending 3/31/2001

	Qtr.	1 Yr.	3 Yr.	Since 7/1/00
Total Fund*	-4.2%	N/A	N/A	-4.9%
Composite	-4.5	N/A	N/A	-4.9
Equity Segment*	-11.6	N/A	N/A	-19.3
S&P 500	-11.9	N/A	N/A	-19.5
Bond Segment*	3.2	N/A	N/A	10.5
Lehman Agg.	3.0	N/A	N/A	10.6

* Actual returns are calculated net of fees.

MEDICAL EDUCATION FUND

Investment Objectives

The investment objective of the Medical Education 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 Fund is invested in a balanced portfolio of stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds act as a deflation hedge and provide portfolio diversification.

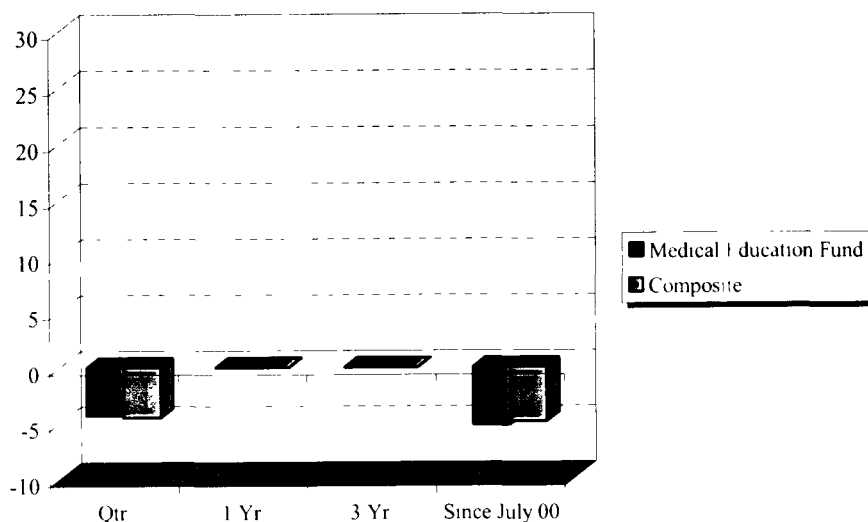
Investment Management

SBI staff manages all assets of the Medical Education Fund.

Market Value

On March 31, 2001 the market value of the Medical Education Fund was \$323 million.

	3/31/2001 Target	3/31/2001 Actual
Stocks	50.0%	46.4%
Bonds	50.0	53.3
Unallocated Cash	0.0	0.3
Total	100.0%	100.0%



Period Ending 3/31/2001

	Qtr.	1 Yr.	3 Yr.	Since 7/1/00
Total Fund*	-4.3%	N/A	N/A	-5.2%
Composite	-4.5	N/A	N/A	-4.9
Equity Segment*	-11.6	N/A	N/A	-19.3
S&P 500	-11.9	N/A	N/A	-19.5
Bond Segment*	3.2	N/A	N/A	10.5
Lehman Agg	3.0	N/A	N/A	9.9

* Actual returns are calculated net of fees.

CLOSED LANDFILL INVESTMENT FUND

Investment Objectives

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

Investment Management

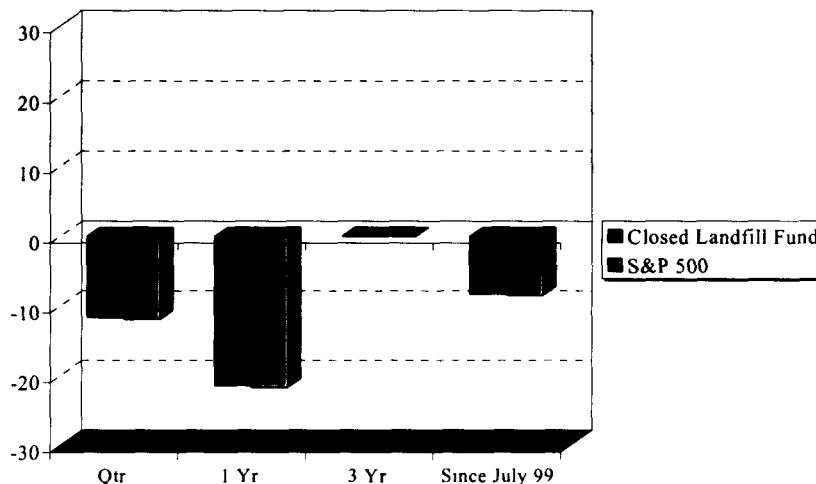
SBI staff manage all assets of the Closed Landfill Investment Fund. The assets are managed to passively track the performance of the S&P 500 index.

Market Value

On March 31, 2001, the market value of the Closed Landfill Investment Fund was \$8.5 million.

Asset Mix

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



Period Ending 3/31/2001
Qtr. 1 Yr. 3 Yr. Since 7/1/99

Total Fund (1)	-11.6%	-21.4%	N/A	-8.2%
S&P 500 (2)	-11.9	-21.7	N/A	-8.5

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

STATE CASH ACCOUNTS

Description

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

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

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

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

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

Investment Objectives

Safety of Principal. To preserve capital.

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

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

Asset Mix

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

Investment Management

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

	Market Value (Millions)	Period Ending 3/31/2001		Annualized	
		Qtr.	1 Yr.	3 Yr.	5 Yr.
Treasurer's Cash Pool*	\$6,369	1.8%	7.6%	6.1%	5.9%
Custom Benchmark**		1.6	6.6	5.4	5.4
Trust Fund Cash Pool*	\$48	1.5	6.8	5.9	5.8
Custom Benchmark***		1.3	5.9	5.2	5.3
3 month T-Bills		1.3	6.0	5.3	5.3

* 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, 2001 (in Thousands)

Cash and

	Short term Securities	Bonds		Stocks		External Int'l	Alternative Assets	Total
		Internal	External	Internal	External			
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	27,981 0.39%	0	2,038,007 28.46%	0	3,058,381 42.72%	1,027,145 14.35%	1,008,468 14.08%	7,159,982 100%
Public Employees Retirement Fund	8,936 0.21%	0	1,234,005 28.52%	0	1,851,824 42.79%	621,933 14.37%	610,618 14.11%	4,327,316 100%
State Employees Retirement Fund	8,373 0.21%	0	1,150,042 28.50%	0	1,725,935 42.77%	579,009 14.35%	572,127 14.17%	4,035,486 100%
Public Employees Police & Fire	4,628 0.20%	81 0.00%	648,460 28.51%	0	973,151 42.78%	326,645 14.36%	321,761 14.15%	2,274,726 100%
Highway Patrol Retirement Fund	495 0.21%	0	68,415 28.52%	0	102,668 42.79%	34,481 14.37%	33,854 14.11%	239,913 100%
Judges Retirement Fund	48 0.21%	0	6,655 28.52%	0	9,986 42.79%	3,354 14.37%	3,293 14.11%	23,336 100%
Correctional Employees Retirement	515 0.21%	0	71,210 28.52%	0	106,862 42.79%	35,890 14.37%	35,237 14.11%	249,714 100%
Public Employees Correctional	1,135 6.13%	0	4,969 26.82%	0	7,457 40.25%	2,505 13.52%	2,460 13.28%	18,526 100%
TOTAL BASIC FUNDS	52,111 0.28%	81 0.00%	5,221,763 28.49%	0	7,836,264 42.75%	2,630,962 14.36%	2,587,818 14.12%	18,328,999 100%
POST RETIREMENT FUND	257,960 1.40%	0	6,496,260 35.10%	0	8,607,515 46.51%	2,681,931 14.49%	462,591 2.50%	18,506,257 100%
TOTAL BASIC AND POST	310,071 0.84%	81 0.00%	11,718,023 31.81%	0	16,443,779 44.64%	5,312,893 14.43%	3,050,409 8.28%	36,835,256 100%

	Cash and		Bonds	Bonds	Stocks	Stocks	External	External	Alternative	Total
	Short term	Securities								
MINNESOTA SUPPLEMENTAL FUNDS:										
Income Share Account	32,618	216,231	0	0	0	0	315,116	0	0	563,965
	5.78%	38.34%					55.88%			100%
Growth Share Account	0	0	0	0	0	0	248,289	0	0	248,289
							100.00%			100%
Money Market Account	26,375	0	0	0	0	0	0	0	0	26,375
	100.00%									100%
Common Stock Index	0	0	0	0	0	0	337,790	0	0	337,790
							100.00%			100%
Bond Market Account	0	0	127,703	0	0	0	0	0	0	127,703
			100.00%							100%
International Share Account	0	0	0	0	0	0	39,654	0	0	39,654
							100.00%			100%
Fixed Interest Account	2,686	0	84,866	0	0	0	0	0	0	87,552
	3.07%		96.93%							100%
Money Market Deferred Comp	68,169	0	0	0	0	0	0	0	0	68,169
	100.00%									100%
TOTAL SUPPLEMENTAL FUNDS										
	129,848	216,231	212,569	0	0	0	901,195	39,654	0	1,499,497
	8.66%	14.42%	14.18%				60.10%	2.64%		100%
TOTAL RETIREMENT FUNDS										
	439,919	216,312	11,930,592	0	0	0	17,344,974	5,352,547	3,050,409	38,334,753
	1.15%	0.56%	31.12%				45.25%	13.96%	7.96%	100%

	Cash and Short Term Securities		Bond Internal		Bond External		Stock Internal		Stock External		External Int'l		Alternative Assets		Total	
ASSIGNED RISK PLAN	4,419	1.42%	249,449	80.00%	0	0	0	0	57,937	18.58%	0	0	0	0	311,805	100%
ENVIRONMENTAL FUND	1,979	0.69%	96,293	33.64%	0	0	187,968	65.67%	0	0	0	0	0	0	286,240	100%
PERMANENT SCHOOL FUND	8,932	1.66%	284,638	53.07%	0	0	242,805	45.27%	0	0	0	0	0	0	536,375	100%
TOBACCO SETTLEMENT POOL	2,822	0.34%	450,313	53.63%	0	0	386,449	46.03%	0	0	0	0	0	0	839,584	100%
CLOSED LANDFILL INVESTMENT	11	0.13%	0	0	0	0	8,517	99.87%	0	0	0	0	0	0	8,528	100%
TREASURERS CASH	6,086,454	100.00%	0	0	0	0	0	0	0	0	0	0	0	6,086,454	100%	
HOUSING FINANCE AGENCY	87,521	27.42%	231,657	72.58%	0	0	0	0	0	0	0	0	0	319,178	100%	
MINNESOTA DEBT SERVICE FUND	113,086	40.75%	164,420	59.25%	0	0	0	0	0	0	0	0	0	277,506	100%	
MISCELLANEOUS ACCOUNTS	139,092	35.31%	226,293	57.44%	0	0	28,550	7.25%	0	0	0	0	0	393,935	100%	
GRAND TOTAL	6,884,235	14.53%	1,919,375	4.05%	11,930,592	25.17%	854,289	1.80%	17,402,911	36.72%	5,352,547	11.29%	3,050,409	6.44%	47,394,358	100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: May 29, 2001

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, 2001 is included as **Attachment A**.

A report on travel for the period from February 16, 2001 - May 15, 2001 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 is involved in class action and securities litigation suits. SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on June 6, 2001.

4. Reauthorization of the Proxy Voting Committee

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

Peter Sausen, Chair	Governor's designee
Jennifer Mohlenhoff	State Auditor's designee
John Manahan	State Treasurer's designee
Robert Schroeder	Secretary of State's designee
Ken Peterson	Attorney General's designee

According to statute, advisory committees of this nature must be re-authorized every two years (the last reauthorization was in June 1999). A resolution to accomplish this is in **Attachment D**.

5. Authorization to form a Review Committee and issue RFP's for consultant services.

The contracts with the SBI's consultants (currently, Richards & Tierney and Pension Consulting Alliance) will expire on June 30, 2002. In order to proceed with an orderly review of available services, the Board needs to authorize a Review Committee to proceed with the request for proposal (RFP) process at this time.

RECOMMENDATION:

The Executive Director recommends that the SBI authorize a Review Committee to evaluate the SBI's needs for consultant services through the RFP process. The Review Committee should be comprised of a designee of each Board member and at least two members of the IAC. The Review Committee should report its recommendations to the SBI by September 2001.

6. Authorization to form a Review Committee and issue RFP's for master custodian services.

The contract with the SBI's master custodian (currently, State Street Bank and Trust) will expire on April 30, 2003. In order to proceed with an orderly review of available services, the Board needs to authorize a Review Committee to proceed with the request for proposal (RFP) process at this time.

RECOMMENDATION:

The Executive Director recommends that the SBI authorize a Review Committee to evaluate the SBI's needs for custodial services through the RFP process. The Review Committee should be comprised of a designee of each Board member and at least two members of the IAC. The Review Committee should report its recommendations to the SBI by June 2002.

7. Minnesota College Savings Plan

At its June 2000 meeting, the Board approved a recommendation for the executive director and legal counsel to negotiate necessary changes to the contract with TIAA-CREF Tuition Financing, Inc., for the Minnesota College Savings Plan, which is intended to be a qualified savings plan under the provisions of section 529 of the Internal Revenue Code. To date, the contract has not been executed because the Higher Education Services Office (HESO)(which by statute is responsible for the administration of the program) was unable to promulgate administrative rules and legislation was needed to proceed with administration of the program.

Legislation during the current session is seeking to confirm that a trust is established and to enact as law what had been proposed as rules by which the Plan would be administered. The legislation also reflects certain new section 529 program guidance from the IRS. If the legislation passes in its present form, there will need to be minor changes made in the form of the contract previously approved.

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, to negotiate and execute the contract and any necessary amendments to the contract with TIAA-CREF Tuition Financing, Inc., for the College Savings Plan.

8. 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 January 1, 2001 to March 31, 2001 shares in the SBI active stock portfolios remained steady at approximately 0.2 million shares. The market value of these holdings decreased from approximately \$9.5 million to approximately \$5.1 million. Tables showing the holdings for the SBI active and semi-passive managers are in **Attachment E**.

ATTACHMENT A

**STATE BOARD OF INVESTMENT
FISCAL YEAR 2001 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH APRIL 30, 2001**

ITEM	FISCAL YEAR 2001 BUDGET	FISCAL YEAR 2001 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	\$ 1,884,000	\$ 1,413,666
SEVERENCE PAYOFF	20,000	14,886
WORKERS COMPENSATION INSURANCE	1,000	600
MISCELLANEOUS PAYROLL	1,000	0
SUBTOTAL	\$ 1,906,000	\$ 1,429,152
STATE OPERATIONS		
RENTS & LEASES	130,000	110,716
REPAIRS/ALTERATIONS/MAINTENANCE	30,000	16,654
PRINTING & BINDING	20,000	13,570
PROFESSIONAL/TECHNICAL SERVICES	35,000	8,659
COMPUTER SYSTEMS SERVICES	0	9,011
COMMUNICATIONS	30,000	20,589
TRAVEL, IN-STATE	3,000	401
TRAVEL, OUT-STATE	65,000	45,934
SUPPLIES	50,000	33,280
EQUIPMENT	50,000	54,435
EMPLOYEE DEVELOPMENT	15,000	11,653
OTHER OPERATING COSTS	42,000	5,752
SUBTOTAL	\$ 470,000	\$ 330,654
TOTAL GENERAL FUND	\$ 2,376,000	\$ 1,759,806

ATTACHMENT B

STATE BOARD OF INVESTMENT

**Travel Summary by Date
SBI Travel February 16, 2001 – May 15, 2001**

<u>Purpose</u>	<u>Name(s)</u>	<u>Destination and Date</u>	<u>Total Cost</u>
Manager Monitoring Domestic Equity Managers: Barclays Global Investors, Manager Monitoring Domestic Equity Emerging Manager: Bay Isle Financial Corp., CIC Asset Mgmt. Zevenbergen Capital Manager Monitoring International Emerging Markets Manager: Capital International, Montgomery Asset Managers Manager Monitoring International Developed Markets Manager: Montgomery Asset Mgmt. Manager Search Domestic Equity Manager: Husic Capital Mgmt. Manager Search International Developed Markets Managers: Dresdner Asset Mgmt., Well Capital Mgmt.	L. Buermann S. Gleeson C. Knutson	Seattle, WA Los Angeles, CA San Francisco, CA 3/19-3/23	\$5,440.81
Manager Monitoring Fixed Income Manager: Dodge & Cox Investment Managers, Metropolitan West Asset Mgmt., Western Asset Mgmt., Manager Search Fixed Income Manager: Barclays Global Investors	M. Menssen	San Francisco, CA Los Angeles, CA 3/19-3/23	\$1,517.19

<u>Purpose</u>	<u>Name(s)</u>	<u>Destination and Date</u>	<u>Total Cost</u>
Manager Monitoring Alternative Investment Manager: T. Rowe Price Conference: Institutional Limited Partners Association (ILPA) Meeting	A. Christensen	Baltimore, MD Washington, D.C. 3/22-3/23	\$1,206.50
Conference: "Emerging Markets Forum" sponsored by Elkind Economics, Inc.	L. Buermann	Dallas, TX 4/2-4/3	\$1,247.65
Manager Monitoring Alternative Investment Manager: Golder, Thoma, Cressey, Rauner Annual Meeting	J. Griebenow	Chicago, IL 4/23-4/24	\$655.00
Manager Monitoring Alternative Investment Managers: Crescendo Annual Meeting, KKR Annual Meeting Manager Search Alternative Investment Managers: Levine Leichtman Capital Partners	A. Christensen	San Francisco, CA Los Angeles, CA 4/25-5/2	\$2,067.64
Manager Monitoring Domestic Equity Manager: Brinson Partners Conference: Brinson Client Conference	S. Gleeson	Phoenix, AZ 4/25-4/28	\$1,312.50
Conference: T. Rowe Price Client Conference	L. Buermann	Baltimore, MD 4/29-5/1	\$1,051.44

ATTACHMENT C

Bills of Interest to the Minnesota State Board of Investment 2001 Legislative Session Includes Action Through 5/22/01

Description of Bill	HF/SF # and Author	Current Status
Advisory Councils extended - IAC expiration reversed	HF 1869 (Anderson B.) Awaiting governor's signature	House amended and passed 5/17
	SF 1263 (Robertson)	Senate concurred with House amendments 5/18
<hr/>		
Omnibus Pension Bills - Health care reimbursement plan for state employees assets would be invested in SIF	HF 712 (Mares)	Amended into HF 218 5/3
- PERA Funding Bill	SF 451 (Pogemiller)	Senate passed
<hr/>		
State Agency Budget Bill	HF 218 (Krinkie)	In conference
	SF 2360 (Johnson, Doug)	In conference
<hr/>		
Tobacco Settlement Funds - Transfer from Tobacco Prevention Fund to Medical Education Fund	HF 2489 (Higher Ed Finance)	In conference
- Children's Health Care Safety Net Endowment Fund established	SF 1397 (Health and Human Services Finance)	In conference
<hr/>		
Creating a hightech seed capital fund	SF 501 (Cohen)	Amended onto SF 2360, State Depts. Bill
- SBI would receive new investment authority and appropriation	HF 2331 (McElroy)	Referred to Higher Ed Finance; no hearing by bill deadline
<hr/>		
Transferring State Treasurer's duties	SF 891 (Rest) (no house file)	4/24 Rereferred to State and Local Gov't Operations

ATTACHMENT D

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

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

WHEREAS, the SBI has previously established a Proxy Committee:

NOW THEREFORE, BE IT RESOLVED THAT:

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

Adopted this ____ day
of June, 2001

Governor Jesse Ventura
Chair, Minnesota State
Board of Investment

ATTACHMENT E

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

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

Company	Percent Revenue from Tobacco in 1997	SBI Shares 12/31/00	SBI Cost Value 12/31/00	SBI Market Value 12/31/00
Philip Morris Cos., Inc.	46	216,700	6,281,464	9,534,800
Subtotal		216,700	\$6,281,464	\$9,534,800

International Stocks

Company	Percent Revenue from Tobacco in 1997	SBI Shares 12/31/00	SBI Cost Value 12/31/00	SBI Market Value 12/31/00
N/A		0	0	0
Subtotal		0	0	0
Total SBI Holdings		216,700	\$6,281,464	\$9,534,800

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.

SBI Active Stock Holdings
Tobacco Companies Identified by the IRRC
that derive at least fifteen percent of revenue from tobacco products
March 31, 2001

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

Company	Percent Revenue from Tobacco in 1997	SBI Shares 3/31/01	SBI Cost Value 3/31/01	SBI Market Value 3/31/01
Philip Morris Cos., Inc.	46	88,200	2,556,646	4,185,090
Subtotal		88,200	\$2,556,646	\$4,185,090

International Stocks

Company	Percent Revenue from Tobacco in 1997	SBI Shares 3/31/01	SBI Cost Value 3/31/01	SBI Market Value 3/31/01
British American Tobacco	100	100,000	954,471	927,659
Subtotal	100	100,000	954,471	927,659
Total SBI Holdings		188,200	\$3,511,117	\$5,112,749

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.

Tab C



CAROL C. JOHNSON
Minnesota State Treasurer

DATE: May 29, 2001

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 15, 2001 to consider the following agenda items:

- Review of Executive Director's proposed workplan for FY02.
- Review of budget plan for FY02.
- Review of Continuing Fiduciary Education Plan.
- International Country Investing Guidelines Update.
- Review of Executive Director's Evaluation Process.
- Discussion of Executive Director's Salary.

1. Review of Executive Director's proposed workplan for FY02.

Mr. Bicker presented his proposed workplan for FY02. As in previous workplans, the FY02 plan follows the same category order found in the Executive Director's position description. The plan is a compilation of on-going responsibilities as well as the new initiatives the Executive Director will undertake during the next fiscal year.

A summary of the proposed plan is shown in **Attachment A** on **page 5** of this tab. Supporting information was sent to each Board member in May 2001 as part of the FY02 Management and Budget Plan document.

RECOMMENDATION:

The Committee recommends that the SBI approve the FY02 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY02.

2. FY02 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** on **page 9** of this tab. Supporting information was sent to each Board member in May 2001 as part of the FY02 Management and Budget Plan.

RECOMMENDATION:

The Committee recommends that the SBI approve the FY02 Administrative Budget Plan and that the Executive Director has 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** on **page 11** of this tab. Please note that the travel allocation policy for Board members and their designees is included in the plan.

RECOMMENDATION:

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

4. International Country Investing Guidelines Update

In September 1992, the State Board of Investment (SBI) established an International Investing Guidelines Task Force. Its charge was to make recommendations to the SBI concerning issues related to human and worker rights with respect to the SBI International Equity Program. The guidelines recommended by the Task Force were adopted by the SBI in December 1992 and have been used in the implementation of the International Program since that date.

The SBI has delegated periodic review of the country groupings to the SBI Administrative Committee. The last formal review was in August 1998. The current review has resulted in an updated version of the previous list of countries and the addition of several new countries in which international managers have indicated an investment interest.

The policy guidelines are outlined in **Attachment D** on **page 13** of this tab.

The review process as adopted by the Board at its June 1994 meeting is as follows:

- Staff reviews reports from the U.S. State Department against the worker and human rights issues that were highlighted by the Task Force in 1992. Staff designates countries "Group I, II or III" using the existing policy guidelines adopted by the Board.
- The SBI Administrative Committee reviews the country groupings. This includes any movement of countries between categories as well as categorizations of any new countries being added to the list. The groupings are reported to the Board as an information item in the SBI Administrative Committee Report since it is implementation of a policy that has already been adopted by the Board.
- Active international stock managers must provide written notification to the SBI of the manager's decision to invest in any "Group II" market(s).
- Active international managers must appear before a meeting of the SBI Administrative Committee to explain their decision to invest in one or more "Group III" markets. The Committee reports to the Board on the results of such meetings as information items.

The current country groupings, which include the updated changes and additions, are in **Attachment E** on **page 15** of this tab.

Explanations for the changes and additions to the country guidelines are included as **Attachment F** on **page 17** of this tab.

The Committee approved the changes and additions to the country guidelines as recommended by staff.

5. 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 FY01. The Committee members agreed that the performance reviews should be completed prior to the September 2001 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 FY01 performance evaluation:

- **The evaluation will be completed prior to the September 2001 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY01.**

- **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.**

6. Executive Director's Salary Review

In accordance with action approved by the SBI at its September 1997 meeting, the SBI Administrative Committee is authorized to review the Executive Director's salary no less than annually and report its recommendation to the SBI.

By law the Executive Director's compensation can equal up to 95% of the Governor's salary, or \$114,280. The Executive Director's salary was established at \$108,409 effective August 1, 2000, which is less than the 95% level of the Governor's salary as set by statute. The Committee reviewed the Executive Director's salary in relationship to his peer group around the nation. The Committee recommended that the Executive Director's salary be increased to the maximum allowed by statute.

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, 2001. 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**

FY02

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

	Projected Time Frame
A. DEVELOPMENT OF INVESTMENT POLICIES	
1. Review of Fixed Income Program Structure.	Jul. – Dec.
2. Review the Domestic Equity Program Structure.	Jul. – Dec.
3. Review the asset allocation for the Basic and Post Retirement Funds.	Jan. – Jun.
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 |

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 implementation of Northern Ireland mandate. | Aug. – Mar. |
| 4. Provide staff support to Proxy Committee for proxy voting and shareholder initiatives. | Jul. – May |

D. ADMINISTRATION AND MANAGEMENT OF STAFF OPERATIONS

- | | |
|--|-------------|
| 1. Conduct an Investment Consultant Search. | Jun.-Sep. |
| 2. Cooperate in all respects with the annual audit of SBI operations by the Legislative Auditor. | Jul. – Dec. |
| 3. Coordinate office space needs for SBI staff. | On-going |
| 4. Conduct a Custodial Services Search. | Jan.-Jun. |
| 5. Review of Security Custodian Services and Securities Lending for State Cash Accounts. | Apr.-Jun. |
| 6. Prepare and seek approval of the SBI's legislative proposals for 2002 Legislative Session, if needed. | On-going |
| 7. Prepare FY03 Management and Budget Plan. | Jul.-Jun. |

E. COMMUNICATION AND REPORTING

- | | |
|--|----------------------------|
| 1. Prepare reports on investment results. | Quarterly |
| 2. Prepare status reports on the Executive Director's FY02 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 2001 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
1-2 per year |

ATTACHMENT B

**Administrative Budget
FY 02 Budget Plan
Overview**

The FY02 budget plan is based on the SBI's FY02-03 Biennial Budget Request:

	FY02 Request	FY03 Request	Difference
Personal Services	\$2,020,000	\$2,105,000	\$ +85,000
Operating Expenses	457,000	430,000	-27,000
	\$2,477,000	\$2,535,000	\$ + 58,000

Personal Services: 82% of the budget
Salaries, retirement, insurance, FICA, severance

Personnel costs during the next biennium will not be known for certain until after the State negotiates new bargaining agreements with the unions representing its various employee groups. This information should be available next fall.

Operating Expenses: 18% 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 the same as the amount spent in FY 01.

**STATE BOARD OF INVESTMENT
FISCAL YEARS 2002 - 2003 BUDGET PLAN
GENERAL FUND SUMMARY**

DESCRIPTION	FY 1999 ACTUAL	FY 2000 ACTUAL	FY2001 PROJECTED	FY 2002 REQUEST	FY 2003 REQUEST
PERSONAL SERVICES					
FULL TIME EMPLOYEES	\$ 1,537,671	\$ 1,704,758	\$ 1,860,000	\$ 2,020,000	\$ 2,105,000
PART TIME EMPLOYEES	44,844	-	-	-	-
SEVERENCE PAYOFF	26,890	226	14,886	-	-
WORKERS COMPENSATION INSURANCE	1,106	854	800	-	-
MISCELLANEOUS PAYROLL	298	-	-	-	-
SUBTOTAL	\$ 1,610,809	\$ 1,705,838	\$ 1,875,686	\$ 2,020,000	\$ 2,105,000
STATE OPERATIONS					
RENTS & LEASES	120,100	128,647	136,967	188,000	192,000
REPAIRS/ALTERATIONS/MAINTENANCE	20,465	19,082	24,800	20,000	15,000
PRINTING & BINDING	18,024	15,544	16,130	15,000	15,000
PROFESSIONAL/TECHNICAL SERVICES	1,606	1,990	10,000	10,000	10,000
COMPUTER SYSTEMS SERVICES	6,143	12,523	14,000	11,000	10,000
COMMUNICATIONS	27,905	30,010	34,200	20,000	20,000
TRAVEL, IN-STATE	1,298	679	1,850	3,000	3,000
TRAVEL, OUT-STATE	44,176	51,557	61,600	65,000	65,000
SUPPLIES	47,489	54,597	47,100	50,000	40,000
EQUIPMENT	187,690	54,714	55,000	30,000	20,000
EMPLOYEE DEVELOPMENT	16,769	21,135	19,575	15,000	15,000
OTHER OPERATING COSTS	41,964	4,228	26,192	30,000	25,000
SUBTOTAL	\$ 533,629	\$ 394,706	\$ 447,414	\$ 457,000	\$ 430,000
TOTAL GENERAL FUND	\$ 2,144,438	\$ 2,100,544	\$ 2,323,100	\$ 2,477,000	\$ 2,535,000
PERCENT INCREASE OVER PRIOR YEAR		-2.0%	10.6%	6.6%	2.3%

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 1-2 round tables will be held each year.

5. Travel Allocation

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

Date: May, 2001

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.

ATTACHMENT D

POLICY GUIDELINES

In 1992, the International Investing Guidelines Task Force focused on information available from country reports compiled annually by the U.S. State Department. Based on that information, the Task Force recommended a policy framework that grouped countries into three broad categories. *It is important to underscore that the guidelines do not prohibit a manager from investing in the market of any country.* Rather, they may require either written notification or personal presentation from the manager:

Group I: According to the U.S. State Department reports, these countries have legal protections or practices that generally respect internationally recognized worker and human rights. As a result, there is little concern that economic and social disruptions may occur that would have an adverse effect on financial markets. *No additional notification or presentation is required* regarding a manager's decision to invest in the market of any of these countries.

Group II: These countries have legal protections for worker and human rights but violations of these rights have been cited in the U.S. State Department reports. Because violations of legally protected rights continue to occur in these countries, there is some concern that economic and social disruptions may occur that could have an adverse effect on their financial markets. If a manager chooses to invest in one or more of these markets, the manager *must notify SBI staff in writing* of the decision to do so.

Group III: According to U.S. State Department reports, these countries appear to lack basic protections for worker and human rights and do not appear to be making adequate progress in establishing a legal structure to address these issues. As a result, the potential for economic, social and political unrest exists that could adversely affect the stability of the financial markets within these countries. If a manager chooses to invest in one or more of these markets, the manager *must appear at a meeting of the SBI administrative Committee to present its reasons for the decision* to do so.

ATTACHMENT E

INTERNATIONAL INVESTMENT GUIDELINES PROPOSED COUNTRY GROUPINGS May 2001

<u>GROUP I</u>	<u>GROUP I</u>	<u>GROUP II</u>	<u>GROUP III</u>
EAFE	Non-EAFE	Non-EAFE	Non-EAFE
Countries	Countries	Countries	Countries
Australia	Argentina	Argentina	Bangladesh
Austria	Barbados	Bangladesh	Burma
Belgium	Bermuda*	Bolivia	China
Denmark	Bolivia	Botswana	Cote d'Ivoire
Finland	Botswana	Brazil	Croatia
France	Canada	Bulgaria	Dominican Republic
Germany	Chile	Colombia	Ecuador
Hong Kong	Costa Rica	Cote d'Ivoire	Egypt
Ireland	Cyprus	Dominican Republic	Guatemala
Italy	Czech Republic	Ecuador	Indonesia
Japan	Estonia	Ghana	Iran*
Netherlands	Greece	Guatemala	Jordan
New Zealand	Hungary	Hong Kong	Kazakhstan
Norway	Jamaica	India	Kenya
Portugal	Latvia	Indonesia	Kuwait
Singapore	Lithuania	Israel	Lebanon
Spain	Luxembourg	Jamaica	Liberia
Sweden	Malawi	Kazakhstan	Mauritania
Switzerland	Mauritius	Kenya	Morocco
United Kingdom	Mexico	Korea, Republic of	Nigeria
	Panama	Kuwait	Oman
	Papua New Guinea	Latvia	Pakistan
	Poland	Lithuania	Paraguay
	Slovak Republic	Malawi	Peru
	Slovenia	Malaysia	Russia
	Taiwan	Mauritania	Saudi Arabia
	Trinidad & Tobago	Mexico	Syria*
	Tunisia	Mongolia	Turkmenistan
	Uruguay	Morocco	Ukraine
		Namibia	United Arab Emerates
		Nepal	Uzbekistan
		Nigeria	Vietnam
		Panama	
		Papua New Guinea	
		Peru	
		Philippines	
		Romania	
		South Africa	
		Sri Lanka	
		Swaziland	
		Taiwan	
		Thailand	
		Tunisia	
		Turkey	
		Ukraine	
		Venezuela	
		Vietnam	
		Zambia	
		Zimbabwe	

* Indicates a country tht was not previously part of the Country Guidelines.

Bold font indicates the country is included in the MSCI EAF or EMF indices.

ATTACHMENT F

PROPOSED CHANGES TO THE COUNTRY GROUPINGS

Changes causing movement from Group II to Group I:

Argentina – Progress has been made in the area of human rights. The authorities have investigated, put on trial, and convicted police officers in the cases of killings and torture. Progress has also been made with respect to discrimination against women and disabled persons.

Bolivia – The government's human rights record has improved. A law signed in 1999 makes sexual harassment a civil crime resulting in greater protection for women. In 1999, the government also codified protections against child labor and violence against children.

Botswana – Recent laws enacted in 1996 and 1998 take a step toward equalizing a husband's and a wife's legal control over property. Women are increasingly exercising their rights, and are finding access to the white-collar job market.

Hong Kong – The government has begun enforcing a 1995 law banning discrimination based on sex and disability. In 1997, bills were passed that allow free association with overseas trade unions, greatly expanded the collective bargaining powers of workers, and permitted union activity on company premises and time. The freedoms of speech and media are less restrictive.

Jamaica – There have been improvements in freedom of speech and press, as well as in the rights of women and the disabled.

Latvia – In October 1998, amendments to the Constitution were passed granting constitutional protections to fundamental human rights. There are improvements in freedom of speech and in protections from discrimination.

Lithuania – The government is making progress at bringing police corruption and abuse under control. During the year, an equal rights law was passed and an office setup to oversee the implementation and investigation of any violations.

Malawi – The country held its second democratic presidential and parliamentary elections, and independent observers concluded that the election was free and substantially fair.

Mexico – Improvements are evident in the ability of the citizens to change their government. Judicial reforms have begun to address problems of corruption, inefficiency, and disregard of the law.

Panama – The recent passage of laws will further protect human rights. These include laws and guidelines on the use of force and deadly force by the police, prohibition on instigation or tolerance of torture, reforms in the prison system, increased ability to establish unions, collective bargaining, and arbitration.

Papua New Guinea – There have been improvements in police mistreatment and abuse of citizens. Union membership is high and collective bargaining is a common practice.

Taiwan – Important amendments to the Code of Criminal Procedure guarantee the rights of accused. Restrictions on freedom of association were eliminated in April 1999.

Tunisia – Amendments to the Penal Code improved human rights of those detained by the police. The Government also took strong measures to reduce official discrimination, including adding equal opportunity for women as a standard.

Changes causing movement from Group II to Group III:

Cote d'Ivoire – A military coup in December 1999 put the National Committee for Public Salvation (CNSP) in power. The CNSP seizure of power led to a number of abuses. CNSP forces and others were responsible for numerous robberies, carjacking, widespread looting, and acts of intimidation.

Dominican Republic – The country has experienced increased occurrences of violations related to extrajudicial killings/disappearances, forced labor, as well as weak or exclusionary enforcement of protections ensuring freedom from discrimination, health and safety, the right of association, and the right to strike.

Ecuador - Violations occurred related to freedom of speech and the press, forced labor, health and safety, the right of association, and the right to strike.

Kazakhstan – In 1999, the government severely limited the rights of citizens to change their government, and there were additional violations related to child labor, minimum health and safety laws, and the right of association.

Kenya – Security forces committed an increased number of extrajudicial killings, torture, use of excessive force, rape, and abuse. The country experienced additional violations related to forced labor and child labor; minimum health and safety laws, as well as weak or exclusionary enforcement of laws protecting the rights of citizens to change their government, associate and strike.

Ukraine – Increased occurrence of violations related to extrajudicial killings/disappearances, discrimination, forced labor and child labor; and weak or exclusionary enforcement of laws protecting the right of association, the right to strike, the right to organize and bargain collectively, and dispute resolution.

Changes causing movement from Group III to Group II:

Bangladesh – Improvements have been made to freedom from killings and torture. Police and party members are being put on trial for politically motivated murders. In addition, a 1995 agreement has eliminated about 95% of child labor in the export garment sector.

Guatemala – There has been a dramatic decline in extrajudicial killings and an increase in the training and number of police in the country. Evidence suggests that the public is less afraid and more willing to bring complaints against the National Civilian Police when necessary.

Indonesia – Significant progress was made in 1999 to transition from an authoritarian regime to a more pluralistic, representative democracy. The political system was revamped to provide for separation of powers. In June 1999, the country held its first free and fair election in 43 years. Throughout the year, there was improvement in the institutionalization of human rights protections, and investigations and trials of military officers for abuses.

Kuwait – During the year, there were improvements to freedom of speech and press, as several court cases effectively weakened these laws by striking down punitive sentences.

Mauritania – The government's human rights record showed some improvement in a few areas, and reports of police abuse decreased during the year.

Morocco – King Hassan II's appointment of an opposition coalition government for the first time in 1998 marked a significant step toward increased democratization. The Government continued to improve its record in several areas including greater independence and impartiality in the judicial system, freedom of peaceful assembly, and easing media censorship.

Nigeria – A new 1999 Constitution includes protections guaranteeing a fair trial and due process, freedom of speech and press, freedom from discrimination, (although violations do still exist in some of these areas).

Peru – Improvements include a) judicial reforms in administrative, technical and organizational areas, b) legislation to protect women against discrimination, and c) an amendment to the Criminal Code to provide greater protection to victims of sexual violence.

Vietnam – The Government allowed citizens somewhat greater freedom of expression and assembly. The trend toward reduced government interference in the daily lives of most citizens continued, and the government made efforts to combat the problems of trafficking of women.

Proposed Additions to the Country Guidelines

Managers were asked to review the list for countries they might consider investing in, but weren't currently listed. Staff reviewed each additional country based upon the same U.S. State Department country reports that were used to update the existing list of countries. These additions are as follows:

Additions to Group I:

Bermuda

Additions to Group III:

Iran

Syria

Tab D

COMMITTEE REPORT

DATE: May 29, 2001

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

FROM: Stock and Bond Manager Committee

The Stock and Bond Manager Committee met on May 14, 2001 to consider the following agenda items:

- Review the manager performance for the period ending March 31, 2001.
- Review of Annual Custom Benchmark Evaluation.
- Recommendation to terminate CIC Asset Management.
- Recommendation to terminate Standish, Ayer & Wood.
- Recommendation to offer a mid-cap option in the State's 457 Deferred Compensation Plan.
- Review of Invested Treasurers Cash policy paper.
- Review of Endowment Funds policy paper.

Action is required by the SBI / IAC on the last five items.

INFORMATION ITEMS:

1. Review of manager performance for the period ending March 31, 2001.

- *Domestic Equity Managers*

For the period ending March 31, 2001, the **Domestic Equity Manager Program** out-performed the Wilshire 5000 Investable during the quarter, one and five-year time periods, but under-performed during the three-year time period. The **current managers** out-performed the aggregate benchmark over all time periods.

Time period	Total Program	Wilshire 5000 Investable	Current Mgrs. Only	Aggregate Benchmark
Quarter	-12.3%	-12.8%	-12.3%	-12.4%
1 Year	-24.4	-25.3	-24.4	-24.9
3 Years	0.9	1.2	2.6	2.5
5 Years	12.2	12.1	13.8	13.1

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

- **Fixed Income Managers**

For the period ending March 31, 2001, the **Fixed Income Manager Program** and the **current managers** out-performed the Lehman Aggregate for the quarter, one and five-year periods, and matched the index during the three-year time period

Time period	Total Program	Lehman Aggregate
Quarter	3.3%	3.0%
1 Year	12.7	12.5
3 Years	6.9	6.9
5 Years	7.8	7.5

Current Mgrs. Only	Aggregate Benchmark
3.3%	3.0%
12.7	12.5
6.9	6.9
7.8	7.5

The performance evaluation reports for the fixed income managers start on the **blue page A-33** of this Tab.

- **International Equity Managers**

For the period ending March 31, 2001, the **International Equity Program** and the **equity managers** (excluding the currency overlay) outperformed its composite index over the one, three and five-year time periods and under-performed over the quarter.

Time Period	Total Program	Composite Index*
Quarter	-13.6%	-12.9%
1 Year	-25.1	-27.0
3 Year	-0.9	-1.3
5 Year	4.1	2.3

Equity Mgrs. Only
-13.6%
-25.1
-0.8
3.3

* The international benchmark is EAFE-Free plus Emerging Markets Free. 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-Free to the 12/31/96 fixed weights. Prior to 5/1/96, the benchmark was 100% EAFE-Free.

The performance evaluation reports for the international equity managers start on the **blue page A-47** of this Tab.

2. Review of Annual Custom Benchmark Evaluation.

In accordance with the SBI's Manager Continuation Policy, staff reviews 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.

This year's evaluation indicates that overall, the custom benchmarks for the active domestic stock managers are satisfactory and continue to exhibit characteristics that are reflective of the investment style of each manager. Staff will continue to monitor and discuss the benchmark and their construction process with each manager throughout the year. A summary of the benchmark quality evaluation and a description of the benchmark quality measures are included beginning on page 7 of this tab.

ACTION ITEMS:

3. Recommendation to terminate CIC Asset Management.

Hired in April 1994, CIC Asset Management (CIC) uses a large capitalization value investment process. During the past seven years, CIC has had difficulty outperforming their custom benchmark with this investment process. Since inception, CIC's portfolio returned 13.6% versus 18.1% for their custom benchmark.

CIC was re-interviewed in May 2000 by the Domestic Manager Committee, and was retained with the expectation that they might perform well in a market environment where value stocks outperformed growth stocks. While we have experienced such a market environment, CIC continued to under perform their custom benchmark, during the past year, with a return of 8.7% versus the benchmark of 15.0%. The Committee and staff do not have confidence in CIC's ability to add value to their benchmark.

RECOMMENDATION:

The Committee recommends that the SBI terminate CIC Asset Management from the Emerging Manager Program.

4. Recommendation to terminate Standish, Ayer & Wood.

Standish Ayer was hired in July 1993 because of its significant credit expertise and above average security selection. Over the past three years, the firm's performance has suffered due to poor security selection. Staff has met with Standish several times over this period and have been told of the firm's plans for streamlining operations and increased individual accountability for investment performance. Despite these plans, Standish has been unable to sustain improved performance. Additionally, Standish put itself up for sale in January 2001 and a sale to Mellon Financial was announced in April. As a result of its disappointing performance and organizational issues, staff has had continuing concerns regarding Standish's ability to consistently add value going forward.

At the end of the first quarter of 2001 there was a need to rebalance \$1.4 billion from fixed income to equities. As part of this rebalancing, Staff instructed Standish to liquidate its portfolio, which was approximately \$700 million. The assets were liquidated and the cash was transferred to the Domestic Equity Program on April 2, 2001. At this time, there are no assets in the Standish account.

RECOMMENDATION:

The Committee recommends that the SBI terminate Standish, Ayer & Wood from the Fixed Income Program.

5. Recommendation to offer a mid-cap option in the State's 457 Deferred Compensation Plan.

The Minnesota State Retirement System (MSRS) has requested that the SBI consider adding a mid-cap stock fund to the State Deferred Compensation Plan's list of investment options. The Plan's education/communication provider, National Benefit/Ochs, has reported that they have received many requests from participants to add a mid-cap equity option. Currently, the 457 Deferred Compensation Plan offers six asset classes that have been in place since July 1999. The mutual fund options in the 457 Deferred Compensation Plan are as follows:

Asset Class	Current Manager
Large Cap Equity-concentrated portfolio	Janus Twenty
S&P 500 Index Equity	Vanguard Institutional Plus
Small Cap Equity	T. Rowe Price Small Cap Stock
Balanced	INVESCO Total Return
Bond-core	Dodge & Cox Income
International Equity	Fidelity Diversified International

RECOMMENDATION:

The Committee recommends that the SBI authorize the Deferred Compensation Review Committee, in conjunction with MSRS, to establish a process for evaluating the addition of a mid-cap mutual fund and to determine the appropriate time for this option to be added to the State Deferred Compensation Plan.

6. Review of Invested Treasurers Cash policy paper.

In 1996, the Board approved a policy paper setting forth the benchmark for the internally managed Invested Treasurer's Cash Pool (ITC). The policy recommends periodic review of the maturity structure of the pool to reflect changes in cash flow which have been caused by changes in Minnesota's economic environment and/or revised legislation mandates.

Staff and the Committee have reviewed the structure of cash flows impacting the ITC Pool and also the February 2001 Economic Forecast prepared by the Minnesota Department of Finance. Based on this analysis, the attached policy paper, which starts on **page 17**, recommends that the SBI continue to have an allocation of \$1.5 billion of the ITC in one to three year maturity investments.

RECOMMENDATION:

The Committee recommends that the SBI adopt the attached policy paper which states that the SBI continue to have an allocation of \$1.5 billion of the Invested Treasurer's Cash Pool (ITC) invested in one to three year maturity investments.

7. Review of Endowment Funds policy paper.

The SBI has the responsibility for the investment management of several trust funds. Due to constitutional and statutory mandates, these funds have differing accounting requirements and spending targets. As a result of these differences, the funds have independent investment objectives and asset allocations. Periodically, staff reviews each fund to determine if its investment objectives and asset allocation continue to be appropriate. Staff has prepared a position paper that reviews the investment management of the following trust funds:

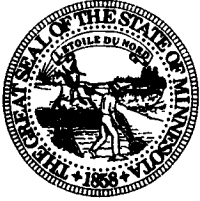
- Permanent School Fund
- Environmental Trust Fund
- Medical Education Endowment Fund
- Tobacco Prevention Fund
- Closed Landfill Investment Fund

The paper, which begins on **page 27**, concludes that there have been no changes that require altering the management of the funds.

RECOMMENDATION:

The Committee recommends that the SBI adopt the attached policy paper which reaffirms the current investment objectives and asset allocation of each of the Trust Funds.

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Capitol Professional
Office Building
Suite 200
590 Park Street
St. Paul, MN 55103
(651) 296-3328
FAX (651) 296-9572
E-mail:
minn.sbi@state.mn.us
www.sbi.state.mn.us

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DATE: May 7, 2001

TO: Members, Stock and Bond Manager Committee

FROM: Lois Buermann *LB*
Stephanie Gleeson *SMG*

SUBJECT: Annual Custom Benchmark Evaluation

In accordance with the SBI's Manager Continuation Policy, staff reviews 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 2000. A glossary of terms is also included for your reference.

The evaluation indicates that the custom benchmarks exhibit characteristics that are reflective of the investment style of each manager. In several instances, the turnover in the benchmark was high. This is a result of the significant volatility seen in the markets during the year, and is not cause for concern. While the benchmarks of Brinson Partners and Cohen, Klingenstein & Marks are acceptable, the risk reduction and correlation analysis characteristics of their benchmarks showed deterioration during the period. Staff reviewed the issue with each manager, and believes that their benchmark construction processes are reasonable. Due to recent large active bets in the actual portfolios, the active risk and correlation statistics did not fall within the recommended guidelines; however, this situation may represent a short-term aberration. For the eight new Emerging Managers, a longer period of data is required before a complete evaluation can be done.

The custom benchmarks for the active domestic stock managers are satisfactory and continue to exhibit characteristics that are reflective of the investment style of each manager. Staff will continue to monitor and discuss the benchmark and their construction process with the each manager throughout the year.

BENCHMARK QUALITY EVALUATION

For Period Ending
December 2000

	General Guidelines	Alliance Capital	Brinson Partners	Cohen, Klingenstein & Marks	Forstmann-Leff	Franklin Portfolio
Benchmark Provider	NA	Manager	R&T	Mngr 5/94-6/98 R&T 7/98-10/00 Mngr 11/00-12/00	R&T	Manager
Benchmark Evaluation Period		1/86 - 12/00	8/93 - 12/00	5/94 - 12/00	1/86 - 12/00	5/89 - 12/00
Benchmark Coverage (Recent)	≥ 80%	87%	99%	85%	95%	95%
Positive Active Positions (Recent)	Near 100%	95%	100%	100%	100%	100%
Turnover (Recent semi-annual)	< 30%	29%	18%	45%	43%	18%
Active Risk		6.33	8.64	7.44	9.64	6.12
Annualized Std. Dev. of VAM - Portfolio vs. S&P500	Larger #	4.91	8.84	8.54	8.76	4.64
- Portfolio vs. Bnmk	Smaller #	22%	-2%	-15%	10%	32%
Risk Reduction	% Change					
Correlation Analysis		0.636	0.220	0.308	0.462	0.652
Portfolio vs S&P500 correlation to Bnmk vs S&P500	> 0.500	-0.110	-0.301	-0.560	-0.220	0.035
Portfolio vs Bnmk correlation to Bnmk vs S&P500	-0.2 to 0.2					
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

BENCHMARK QUALITY EVALUATION

For Period Ending
December 2000

	GeoCapital Corporation	Lincoln Capital	Oppenheimer Capital
Benchmark Provider	Barra 5/90-6/91 R&T 7/91-12/00	R&T	Barra 8/93-6/00 R&T 7/00-12/00
Benchmark Evaluation Period	5/90 - 12/00	8/93 - 12/00	8/93 - 12/00
Benchmark Coverage (Recent)	83%	93%	85%
Positive Active Positions (Recent)	98%	98%	98%
Turnover (Recent semi-annual)	34%	20%	25%
Active Risk			
Annualized Std. Dev. of VAM - Portfolio vs. S&P500	17.43	7.43	7.15
- Portfolio vs. Bnmk	9.64	3.83	5.83
Risk Reduction	45%	49%	19%
Correlation Analysis			
Portfolio vs S&P500 correlation to Bnmk vs S&P500	0.836	0.857	0.590
Portfolio vs Bnmk correlation to Bnmk vs S&P500	-0.127	-0.007	0.140
Relative Style Coordinate Analysis (Portfolio located closer to bnmk than S&P500?)	Yes	Yes	Yes
Risk Characteristics (B/P, E/P, Growth, Etc.) (Portfolio similar to bnmk over time?)	Yes	Yes	Yes
Economic Sector Weights (Portfolio similar to bnmk over time?)	Yes	Yes	No

BENCHMARK QUALITY EVALUATION

For Period Ending
December 2000

	General Guidelines	CIC Asset	New Amsterdam Partners	Valenzuela Capital	Zevenbergen Capital
Benchmark Provider	NA	Barra 5/94-6/98 R&T 7/98-12/00	R&T	R&T	Manager
Benchmark Evaluation Period		5/94 - 12/00	5/94 - 12/00	5/94 - 12/00	5/94 - 12/00
Benchmark Coverage (Recent)	≥ 80%	98%	100%	94%	84%
Positive Active Positions (Recent)	Near 100%	100%	100%	100%	100%
Turnover (Recent semi-annual)	< 30%	22%	28%	27%	48%
Active Risk					
Annualized Std. Dev. of VAM - Portfolio vs. S&P500	Larger #	10.36	7.05	9.54	17.77
- Portfolio vs. Bnmk	Smaller #	4.59	5.45	6.53	10.67
Risk Reduction	% Change	56%	23%	32%	40%
Correlation Analysis					
Portfolio vs S&P500 correlation to Bnmk vs S&P500	> 0.500	0.902	0.669	0.742	0.813
Portfolio vs Bnmk correlation to Bnmk vs S&P500	-0.2 to 0.2	0.224	-0.276	-0.202	0.247
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

BENCHMARK QUALITY EVALUATION

For Period Ending
December 2000

General Guidelines	Artemis Partners	Bay Isle Financial	Earnest Partners	Holt-Smith & Yates
Benchmark Provider	FR2 8/00-9/00 Mngr 10/00-12/00	FR1V 8/00-9/00 R&T 10/00-12/00	FR1V 8/00-9/00 Mngr 10/00-12/00	S&P500 8/00-9/00 Mngr 10/00-12/00
Benchmark Evaluation Period	10/00-12/00	10/00-12/00	10/00-12/00	10/00-12/00
Benchmark Coverage (Recent)	NA	NA	NA	NA
Positive Active Positions (Recent)	NA	NA	NA	NA
Turnover (Recent semi-annual)	NA	NA	NA	NA
Active Risk	NA	NA	NA	NA
Annualized Std. Dev. of VAM - Portfolio vs S&P500 - Portfolio vs. Bnmk	NA	NA	NA	NA
Risk Reduction	NA	NA	NA	NA
Correlation Analysis	NA	NA	NA	NA
Portfolio vs S&P500 correlation to Bnmk vs S&P500	> 0.500	NA	NA	NA
Portfolio vs Bnmk correlation to Bnmk vs S&P500	-0.2 to 0.2	NA	NA	NA
Relative Style Coordinate Analysis (Portfolio located closer to bnmk than S&P500?)	Yes	Yes	No	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

BENCHMARK QUALITY EVALUATION

For Period Ending
December 2000

General Guidelines	Next Century Growth	Peregrine Capital	Voyageur-Chicago Equity	Winslow Capital-Small Cap
Benchmark Provider	FR25G 8/00-9/00 Mngr 10/00-12/00	FR2V 8/00-9/00 Mngr 10/00-12/00	FR1G 8/00-9/00 Mngr 10/00-12/00	FR2G 7/00-9/00 R&T 10/00-12/00
Benchmark Evaluation Period	10/00-12/00	10/00-12/00	10/00-12/00	10/00-12/00
Benchmark Coverage (Recent)	NA	NA	NA	NA
Positive Active Positions (Recent)	NA	NA	NA	NA
Turnover (Recent semi-annual)	NA	NA	NA	NA
Active Risk	NA	NA	NA	NA
Annualized Std. Dev. of VAM - Portfolio vs. S&P500	NA	NA	NA	NA
- Portfolio vs. Bnmk	NA	NA	NA	NA
Risk Reduction	NA	NA	NA	NA
Correlation Analysis	NA	NA	NA	NA
Portfolio vs S&P500 correlation to Bnmk vs S&P500	NA	NA	NA	NA
Portfolio vs Bnmk correlation to Bnmk vs S&P500	NA	NA	NA	NA
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

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.

DRAFT

**INVESTED TREASURER'S
CASH POOL**

Staff Position Paper

May 2001

INVESTED TREASURER'S CASH POOL

In December 1996, the Board approved a staff position paper that recommended technical changes to the performance benchmark for the Invested Treasurer's Cash Pool (ITC), and recommended periodic reviews of the allocation of a fixed dollar amount of cash to a longer maturity portion of the Fund. This paper provides that review.

Background

The State Board of Investment (SBI) manages a money market like short-term fund called the Invested Treasurer's Cash Pool. The fund is used as a pooled investment vehicle for about 525 state accounts, providing daily earnings and liquidity for each participant. Performance of the Fund is measured against a blended benchmark which consists of a fixed dollar amount measured against the Lehman Brother's 1 to 3 year U.S. Government Bond Index and the balance of the Fund against the iMoney Net Money Fund Index. The fixed dollar allocation has been periodically reviewed and changed as the fund balance and the economy have changed. Previous allocations were:

10/96 - \$600 million

1/98 - \$850 million

10/98 - \$1,500 million

Fund Analysis

The ITC, as of March 2001, has a balance of \$6.2 billion (see Appendix I). For the purpose of determining the appropriate portion of the ITC that can be invested in longer

maturities, the fund should be divided into three components. The first component is the State General Fund, now at \$2.7 billion, which represents 44 percent of ITC; the second component is accounts other than the General Fund that have balances greater than \$10 million, currently composed of 31 accounts totaling \$3.4 billion or 55 percent of ITC; and the final component is the remaining accounts that total only \$.1 billion or 1 percent of ITC.

The General Fund component is the most volatile part of the ITC, having in the last four years fluctuated from under \$1 billion to over \$4 billion, and having experienced months with outflows greater than \$1.5 billion. Given its volatility, it is appropriate that the majority of this component continue to be invested in short-term, money market instruments, maturing in one year or less.

The second component of the ITC, the 31 funds with balances greater than \$10 million in the fund, appears to have more stable cash flows. The cash flow analyst of the Minnesota Department of Finance has identified 16 of these 31 funds (see Appendix II) that collectively have shown, over the last several years, a relatively stable balance of about \$1.5 billion. All of these funds are “expendable” funds, but tend to be engaged in longer-term projects, such as transportation or economic development, or provide a reserve for expenditures such as healthcare. These fund balances do not appear to be as quickly impacted significantly on an annual basis by changes in the economic environment or governmental policy.

Currently, one fund in this group, the Workers' Compensation Special Payment Fund, is experiencing a one-time "bulge" of \$300 million due to a payment from the Assigned Risk Plan. The expectation is that this cash will be used over the next two years.

Economic Considerations

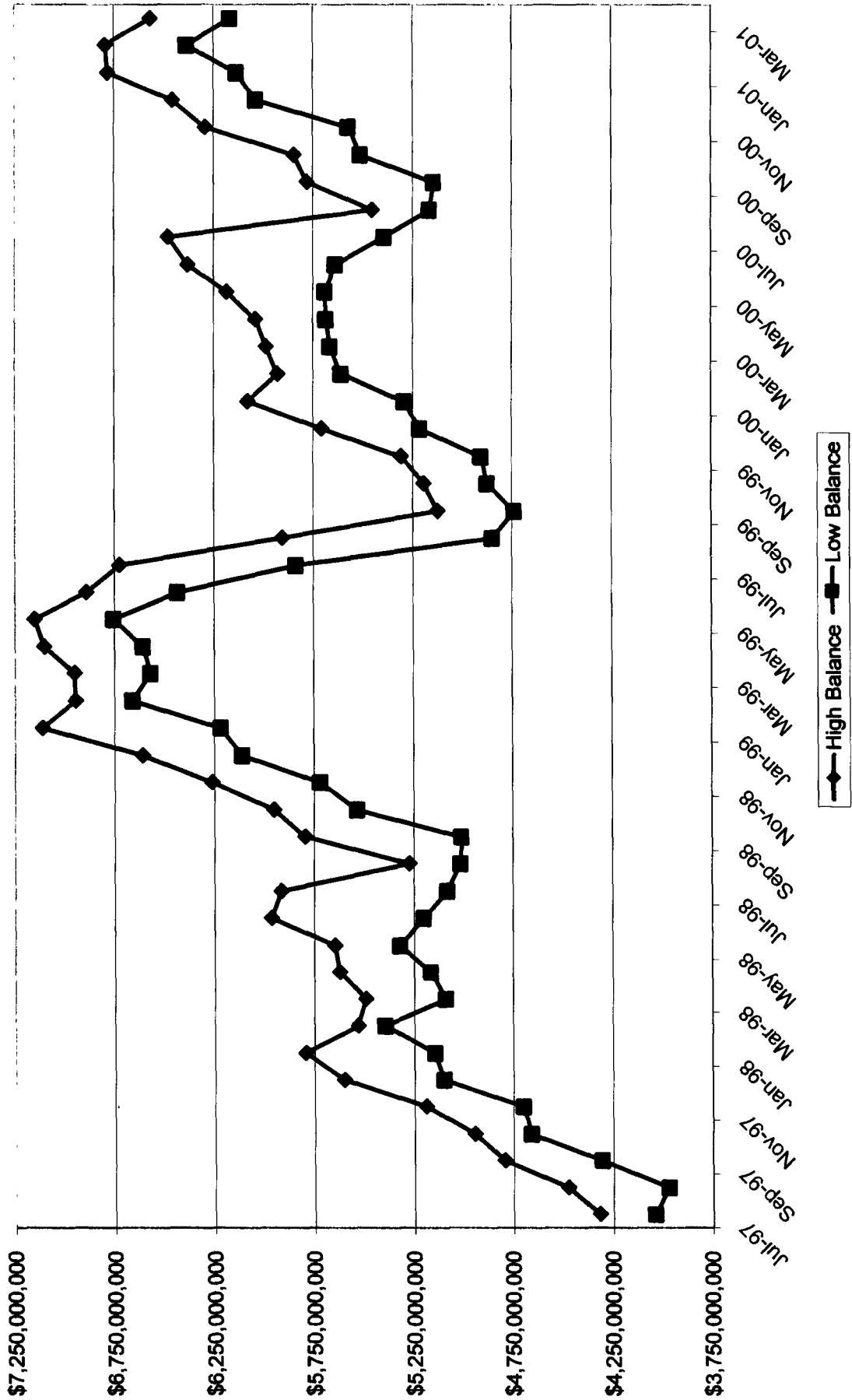
The February 2001 Forecast by the Minnesota Department of Finance anticipates an economic slowdown lasting until late summer 2001. This slowdown is "sufficient to cause state revenues to drop through the entire forecast horizon" (2001-2005). The expectation of a slow down, as opposed to a recession, does not justify at this time a change in the investment policy for the ITC. Staff will continue to monitor the market and economic conditions for their impact on ITC balances.

Recommendation

Staff recommends that the SBI continue an allocation of \$1.5 billion of the ITC to 1 to 3 year maturity investments.

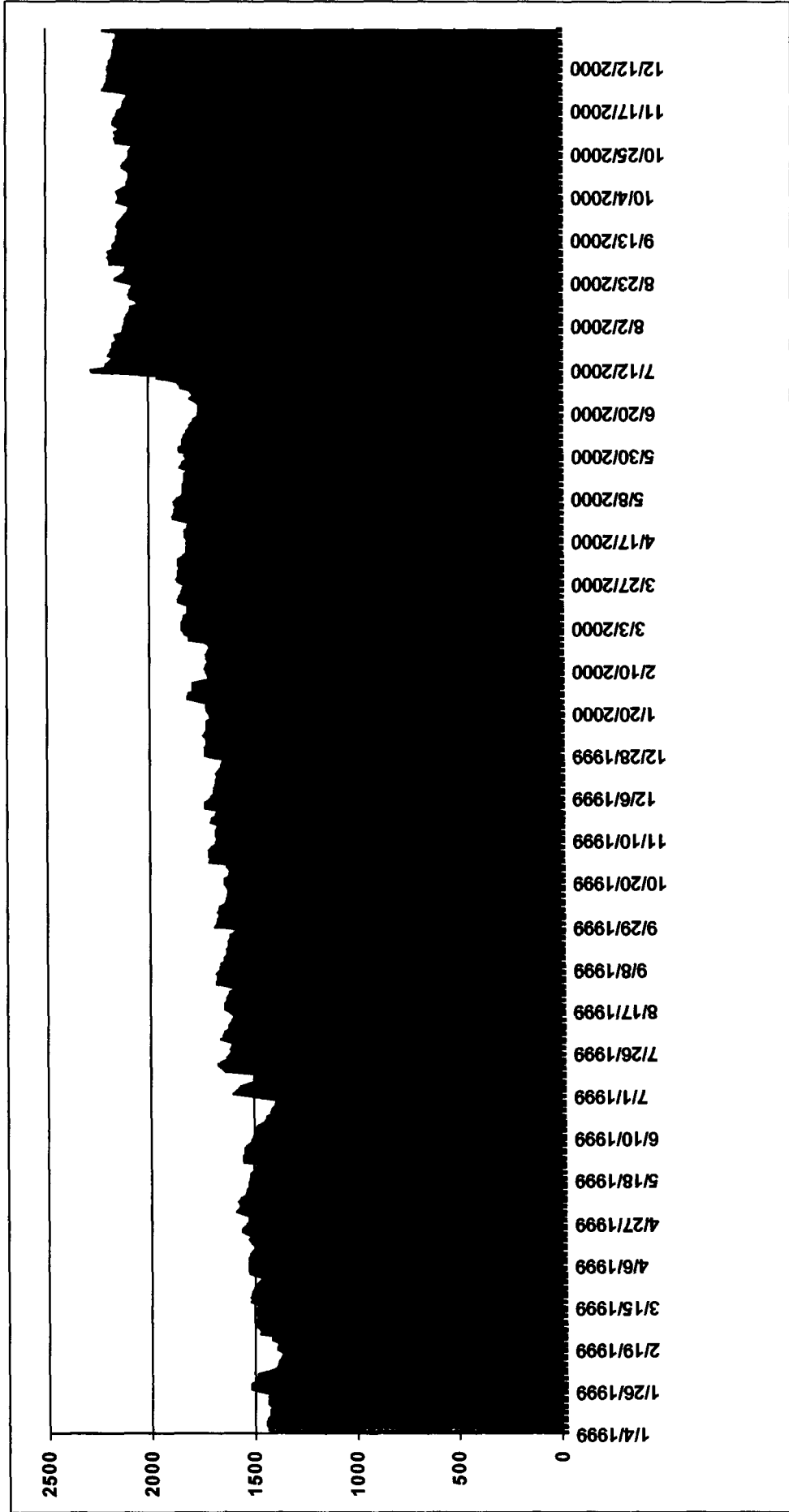
APPENDIX I

ITC Fund Monthly High and Low Balances



STATE OF MINNESOTA

SUMMARY - SELECT FUNDS CASH BALANCE



INCLUDES FUNDS 150, 190, 200, 220, 240, 250, 260, 270, 320, 330, 350, 370, 450, 550, 580, 805

DRAFT

**STATE TRUST FUNDS
INVESTMENT MANAGEMENT**

Staff Position Paper

May 2001

The State Board of Investment (SBI) is responsible for the investment management of several trust funds. These trust funds have differing accounting requirements and spending targets that derive from differing constitutional and statutory provisions. As a result of these differing legal bases, the trust funds have differing investment objectives and asset allocations. These trust funds are:

- Permanent School Fund (PSF)
- Environment and Natural Resources Trust Fund (Environmental Trust Fund or ETF)
- Medical Education Endowment Fund (Medical Education Fund)
- Tobacco Use Prevention and Local Public Health Endowment Fund (Tobacco Prevention Fund)
- Closed Landfill Investment Fund

Each of the trust funds is a nonretirement account that, by state law, must be invested separately from the retirement assets managed by the SBI.

This paper sets forth the constitutional and statutory basis for each trust fund, discusses the unique accounting requirements and spending targets for each and presents the investment objectives and rationale for the asset allocation for each.

Endowment Fund Investment Objectives

To the extent possible, the SBI treats these trust funds as endowment funds with the overriding need to balance a short-term need for income with the long term need for growth in principal. Any endowment fund encounters certain short-term versus long-term investment trade-offs. In the short-term, there is a demand for maximum current spendable income. This short-term objective can usually best be met by holding investments in lower risk, fixed income securities. Conversely, in the long-term, there is a demand for a growing stream of real, that is inflation adjusted, spendable income. This long-term objective can usually best be met by holdings investments in higher risk equity securities. Unfortunately, the two investment objectives tend to be mutually incompatible. Maximum current spendable income achieved through fixed income investments will sharply limit long-term growth in a fund's principal and, hence, the spendable income that the fund could generate in the future. On the other hand, a growing stream of real spendable income achieved through equity investment usually results in a lower and more volatile stream of current spendable income.

An endowment fund's tolerance for risk is determined largely by the trade off between short-term and long-term objectives. In turn, the emphasis on short-term or long-term objectives is primarily a function of the importance of the endowment fund's spendable income stream to the sponsor's total revenue. When the spendable income stream is a relatively small percentage of total revenues, the risk tolerance of the sponsor will tend to be higher than in a situation in which the fund's spendable income stream is a large percentage of the sponsor's total revenue. In the latter case, the sponsor is likely to be

more cautious since a protracted period of poor investment results could have a serious impact on the various projects that the endowment fund is expected to finance.

Permanent School Fund

The Permanent School Fund (PSF) was created in 1858 under Article XI, Section 8 of the Minnesota State Constitution. The PSF was designed to serve as a long-term source of revenue for public schools. Technically, the PSF is composed of two parts:

- **Lands:** As part of the process of Minnesota becoming a state, the federal government granted to Minnesota two sections of each township for the support of schools. The most productive and valuable land was sold in the nineteenth and early part of the twentieth century and proceeds put into the Fund. Other lands were added to the remaining tracts which are primarily in the northern part of the state. The Department of Natural Resources (DNR) currently manages about 2.5 million acres of land and retains the mineral rights on another 1 million acres for the Fund. Most of the land is part of state forests, wildlife management areas, scientific and natural areas, state parks, riverways, and water access sites.
- **Principal:** The lands generate income in the form of land sales, mining royalties, timber sales and lakeshore and other leases. The income from these sources, net of DNR costs, is used to purchase financial securities, which make up the second part of the Permanent School Fund. It is this second part of the PSF, the principal as represented by the PSF's financial investments, that is managed by the SBI.

In conjunction with the PSF is the School Endowment Fund. Income generated by the financial investments in the PSF principal is transferred to the School Endowment Fund and is then available for educational spending. Funds are taken from this account twice a year to offset school aid payments. Because of the short-term nature of this account, the School Endowment Fund is invested in short-term cash equivalents.

Current Accounting Restrictions

As prescribed by the State Constitution, the principal of the PSF must remain undiminished in perpetuity. The offset to school aids can be financed only out of the PSF's dividend and interest income. None of the PSF's principal may be reduced to finance the offset.

Any combined realized losses on fixed income and equity securities are first subtracted from any realized gains. Net realized gains or losses are then amortized over a ten year period in equal installments. Net gains are used to offset net losses over the ten year amortization period. If any portion of the gain is not needed to offset losses, it is added to the principal of the PSF. If the amortized realized losses are greater than realized gains, the difference must be recovered from the PSF's interest and dividend income in equal installments over the ten year amortization period.

Investment Objective

As a result of these restrictive accounting requirements, the impact of investment strategies for the PSF on current spendable income is of primary concern. Investing in equities may generate significant realized losses in any given year, and equities typically generate a lower income stream than fixed income.

Accordingly, prior to fiscal year 1998, the PSF was invested entirely in fixed income securities for more than a decade. While this asset allocation maximized current income, it limited the long-term growth of the Fund and caused the income stream to lose value in inflation adjusted terms. A more appropriate investment objective for the Fund is to produce a growing level of spending income within the constraints of maintaining adequate portfolio quality and liquidity needed to make the periodic withdrawals to offset school aid payments.

To meet this objective, a proposal to introduce equities to the Fund's asset mix was discussed by staff with affected parties for a number of years. Since this modification would reduce short-term income and have budgetary implications for the State, the consent of the executive and legislative branches was necessary. After a number of unsuccessful attempts, the proposal was favorably received by the Legislature and the administration and incorporated into the K-12 education finance bill during the 1997 session. As a result, the Fund allocation was shifted to a 50% stock/48% fixed income/2% cash allocation during July 1997.

Management Structure

The stock segment of the Fund is invested in the internally managed index fund designed to match the performance of the S&P 500. The bond segment is invested in the internally managed bond fund that is actively managed to add incremental value through sector, security and yield curve decision. The bond segment uses the Lehman Aggregate Index as its performance target. These investment vehicles offer low costs while providing market returns.

Recommendation

There have been no legislative changes governing the Permanent School Fund since 1997. Therefore, staff recommends that the Fund continue to be invested in a 50% stock/48% bond/2% cash allocation through the internally managed stock and bond pools.

Environmental Trust Fund

The Environmental Trust Fund was established by a constitutional amendment adopted in 1988 to provide a long-term, consistent, and stable source of funding for activities that protect and enhance the environment. In 1990, a constitutional amendment to Article XI, Section 14 was approved that mandates that 40 percent of the net proceeds from the state lottery be credited to the Fund until the year 2001. This mandate was extended through

the year 2025 following the approval of another constitutional amendment in 1998, which also eliminated certain restrictive accounting provisions. The Legislature may spend up to 5.5% of the Fund's total market value a year. By statute, the State Board of Investment invests the assets of the Fund.

Investment Objective

The Environmental Trust Fund's investment objective is to produce a growing level of income, within the constraints of maintaining adequate portfolio quality and liquidity.

The Fund's initial investment objectives were influenced by the restrictive accounting provisions which governed the investment of the fund's assets. These provisions were:

- The Fund's principal must remain inviolate.
- Any net realized capital gains must be added to the principal.
- If the Fund realizes net capital losses, those losses must be offset against interest and dividend income before such income can be distributed.
- All interest and dividend income must be distributed in the year in which it is earned.

Effective July 1999, the 1998 constitutional amendment eliminated the accounting restrictions on capital gains and losses and established an endowment policy which sets annual spending up to 5.5% of the Fund's total market value.

Asset Allocation

Before fiscal year 1994, the Fund was invested entirely in short-term instruments as part of the Invested Treasurer's Cash pool. By fiscal year 1995 the Fund had received sufficient contributions to warrant an investment policy that incorporated allocations to longer-term assets such as stocks and bonds.

For fiscal years 1995 through 1999, the SBI maintained a targeted allocation of 50% domestic common stocks and 50% fixed income.

After the 1998 constitutional amendment was adopted, SBI staff worked with the Legislative Commission on Minnesota Resources to establish an asset allocation policy that is consistent with the Commission's goals for spending and growth of the Fund.

The SBI approved a 70% stock and 30% fixed income asset allocation which was implemented July 1, 1999. The allocation positions the Fund for the best long-term growth potential while meeting the objective of the Fund to produce a growing level of spending.

Management Structure

The stock segment of the Fund is invested in the internally managed index fund designed to match the performance of the S&P 500. The bond segment is invested in the internally managed bond fund that is actively managed to add incremental value through sector, security and yield curve decision. The bond segment uses the Lehman Aggregate Index as its performance target.

Recommendation

There have been no changes in the Fund structure or spending needs to suggest a change in allocation targets or management of the Fund. Therefore, staff recommends that the Fund continue to be invested in a 70% stock/28% bond/2% cash allocation through the internally managed stock and bond pools.

Tobacco Endowment Funds

The Medical Education Endowment Fund and Tobacco Use Prevention and Local Public Health Endowment Fund are discussed together as the Tobacco Endowment Funds. The two endowment funds were created by 1999 legislation. The endowment funds are funded from the proceeds of the State's tobacco lawsuit according to the payment schedule stipulated in the settlement with the State. The funding comes from the first four of six "one time-payments". These payments have been received and total about \$903 million.

The Medical Education Endowment Fund receives 39 percent of the proceeds. Up to five percent of the market value of the endowment fund is distributed annually to the University of Minnesota Board of Regents and to the Commissioner of Health. The allocations to the University are used to help pay the costs of operating its medical school. The allocations to the Commissioner of Health are used to fund other medical education expenses. By law, all earnings of the Medical Education Endowment Fund must be credited to the Fund.

The second endowment fund is the Tobacco Use Prevention and Local Public Health Endowment Fund, which receives 61 percent of the proceeds. Up to five percent of the market value of the endowment fund is distributed to the Commissioner of Health and may be used to reduce tobacco use among the youth of the State and for other public health initiatives. All earnings of this endowment fund must be credited to the Fund.

Both the Medical Education Endowment Fund and the Tobacco Use Prevention and Local Public Health Endowment Fund will expire on June 30, 2015. Upon expiration, the remaining balance of the endowment funds must be returned to the general fund.

Investment Objectives

The Medical Education Endowment Fund and the Tobacco Use Prevention and Local Public Health Endowment Fund are invested by the SBI. The Funds have the following three goals:

- 1) To grow the principal of the fund in real terms over the long run.
- 2) To provide a rate of return consistent with the risk-return relationship of the fund.
- 3) To assure to the extent possible that the level of the annual distributions from the Funds have low volatility.

Asset Allocation

To accomplish these goals, the endowment funds have been invested in an asset allocation mix of 50 percent domestic equities and 50 percent domestic bonds. To achieve the first two goals, equities must be included in the asset mix to generate positive real returns. To accomplish the third goal, fixed income securities are included to maintain the overall portfolio volatility at a reasonable level.

Management Structure

The Tobacco Endowment Funds' assets are invested in the internally managed S&P 500 index and fixed income pools. These investment vehicles offer low costs while providing market returns.

Recommendation

Staff recommends that the Medical Education Fund and Tobacco Use Prevention and Local Public Health Endowment Fund continue to be invested using an asset allocation of 50% domestic equities and 50% domestic fixed income in the internally managed stock and bond funds.

Closed Landfill Investment Fund

The Closed Landfill Investment Fund is a trust fund created by the Legislature to invest moneys to pay for the long-term costs of maintaining the integrity of landfills in Minnesota once they are closed.

Investment Objective

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 Pollution Control Agency to pay for the long-term costs of maintaining the integrity of landfills in Minnesota once they are closed. By statute, the fund will receive an

appropriation of \$5.1 million at the beginning of fiscal years 2000, 2001, 2002 and 2003. However, by statute, the assets of the Fund are unavailable for expenditure until after fiscal year 2020.

Asset Allocation

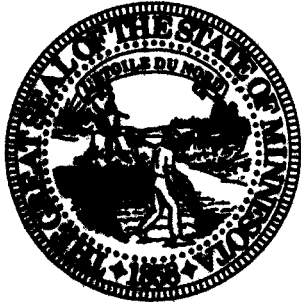
Since July 1999, the Closed Landfill Investment Fund has been invested entirely in common stock. Given the long time horizon of this Fund and the lack of need for any short or mid-term withdrawals, this strategy will maximize the long-term gain of the Fund.

Investment Management

SBI staff manages all assets of the Fund in the internally managed index pool designed to match the performance of the S&P 500 index.

Recommendation

Until the Legislature makes a change in the purposes of the Fund, such as allowing withdrawals for expenditures, Staff recommends the Fund continue to be managed entirely in equities in the internally managed S&P 500 index pool.



STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

First Quarter, 2001

**COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending March, 2001**

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
Alliance Capital	-14.9	-15.5	-31.4	-29.2	8.7	5.1	21.4	16.2	18.8	13.8	\$1,209.16	7.0%
Brinson Partners	-2.2	-12.2	10.4	-19.6	-2.0	3.6	9.9	13.5	13.0	14.4	\$640.09	3.7%
Cohen, Klingenstein & Marks	-14.1	-13.9	-20.2	-31.8	5.4	3.6	16.3	13.7	18.7	15.8	\$359.98	2.1%
Forstmann-Leff	-6.6	-6.2	-35.1	1.7	8.7	9.6	18.6	15.3	14.9	13.5	\$567.37	3.3%
Franklin Portfolio	-7.4	-7.7	-8.2	-9.8	5.0	4.1	14.8	13.1	15.1	13.9	\$622.03	3.6%
GeoCapital	-17.9	-10.0	-45.0	-27.9	-4.1	-4.4	6.4	3.1	11.6	11.6	\$352.83	2.0%
Lincoln	-29.6	-21.3	-47.4	-43.0	-5.1	-1.7	8.3	12.0	12.2	14.0	\$589.31	3.4%
Oppenheimer	-6.2	-5.9	3.0	-1.0	6.7	9.5	17.0	17.6	17.9	17.1	\$885.40	5.1%
Emerging Managers (2)	-12.3	-7.2	-21.5	-14.6	4.0	8.0	13.6	15.9	15.5	17.1	\$718.46	4.1%
Semi-Passive Managers												
Franklin Portfolio	-12.0	-12.7	-26.3	-28.1	-3.4	-2.3	10.0	10.5	14.3	14.7	\$1,792.96	10.3%
JP Morgan	-11.0	-12.7	-23.3	-28.1	-1.2	-2.3	11.2	10.5	15.5	14.7	\$1,948.40	11.2%
Barclays Global Investors	-11.7	-12.7	-24.1	-28.1	-2.1	-2.3	10.7	10.5	15.4	14.7	\$1,901.99	11.0%
Passive Manager												
Barclays Global Investors	-12.7	-12.8	-24.3	-25.2	1.9	1.5	12.7	12.3	14.6	14.2	\$5,756.98	33.2%
Current Aggregate	-12.3	-12.4	-24.4	-24.9	2.6	2.5	13.8	13.1	15.5	13.1	\$17,344.97	100.0%
Historical Aggregate (3)	-12.3	-12.4	-24.4	-24.9	0.9	1.1	12.2	12.1	13.6	13.8		
Wilshire 5000 Investable (4)		-12.8		-25.3		1.2		12.1		13.8		
Wilshire 5000		-12.3		-24.7		1.7		12.4		14.1		

(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) Includes the performance of terminated managers.

(4) Restated to incorporate the Wilshire 5000 Investable Index beginning 7/1/99.

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

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

ALLIANCE CAPITAL MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: Jack Koltes

Assets Under Management: \$1,209,164,603

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

Alliance narrowly outperformed the benchmark for the quarter. They are continuing to position the portfolio defensively in financial services, consumer staples and healthcare until they see indications that earnings growth will re-emerge.

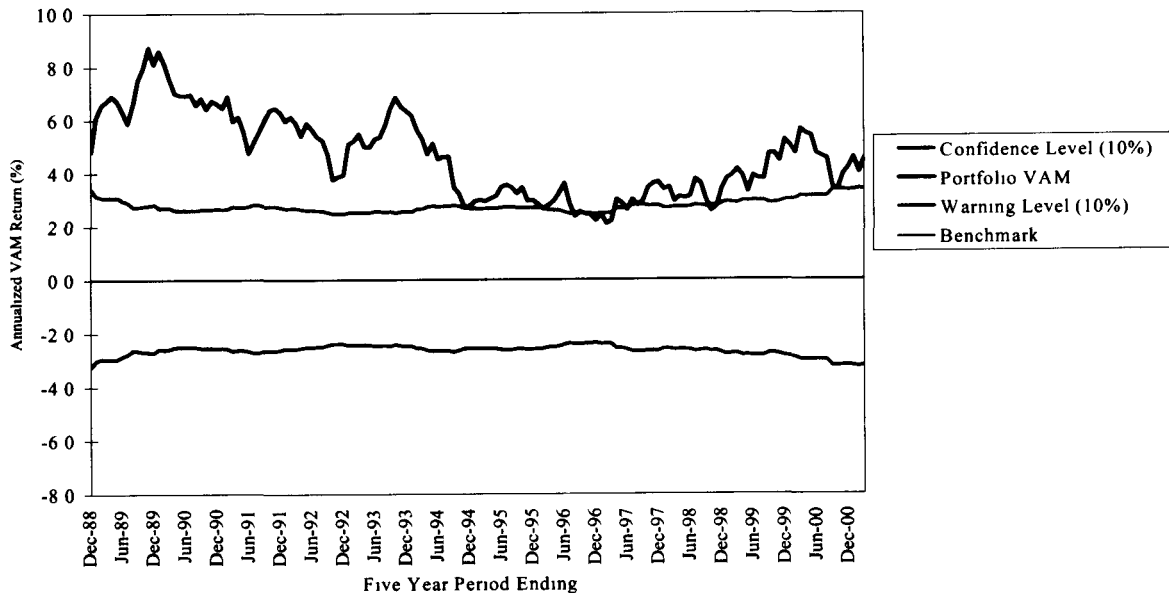
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-14.9%	-15.5%
Last 1 year	-31.4	-29.2
Last 2 years	-4.2	-5.2
Last 3 years	8.7	5.1
Last 4 years	21.4	15.7
Last 5 years	21.4	16.2
Since Inception (1/84)	18.8	13.8

Recommendation

No action required.

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year VAM



BRINSON PARTNERS
Periods Ending March, 2001

Portfolio Manager: John Leonard

Assets Under Management: \$640,089,619

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 focus on a bottom-up stock selection process to 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.

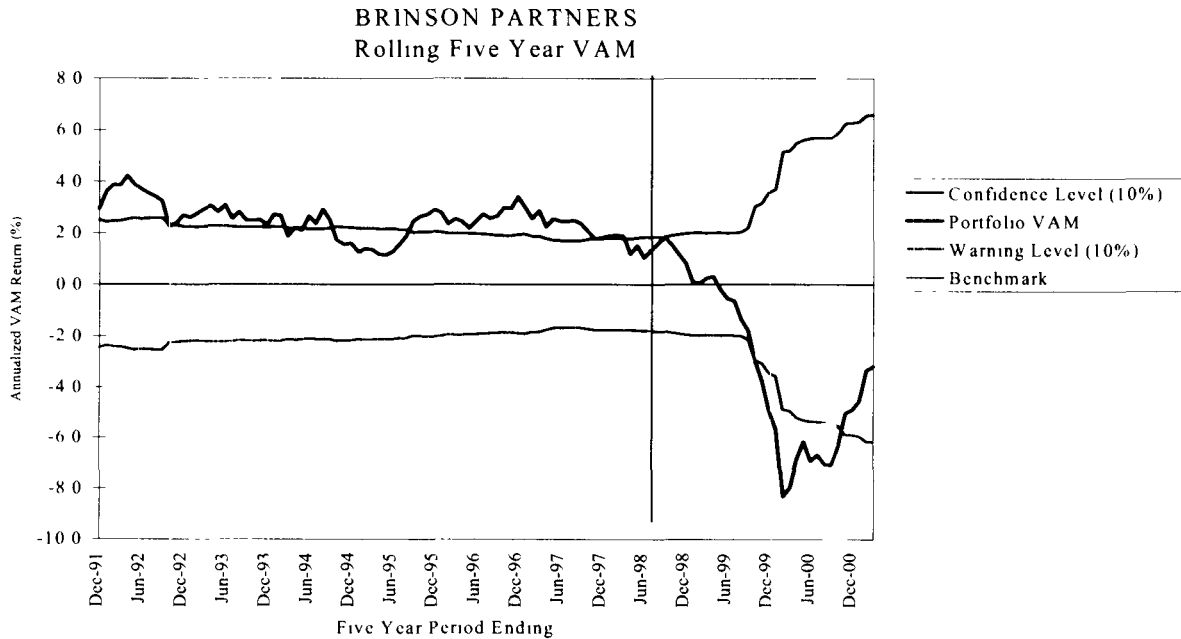
Staff Comments

Brinson's portfolio was well positioned and significantly outperformed its benchmark during this bleak period for equities. The largest contribution to performance came from the significant underweight to the largest and most over-valued stocks in the market. The portfolio also benefited from the overweight to stocks with high earnings yields, as investors retreated from stocks with diminishing or non-existent earnings support.

Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	-2.2%	-12.2%	No action required
Last 1 year	10.4	-19.6	
Last 2 years	-2.9	2.1	
Last 3 years	-2.0	3.6	
Last 4 years	7.9	13.2	
Last 5 years	9.9	13.5	
Since Inception (7/93)	13.0	14.4	

Recommendation



COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending March, 2001

Portfolio Manager: George Cohen

Assets Under Management: \$359,981,535

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

Due to the poor environment in equities, the portfolio declined and very narrowly under-performed the benchmark. On average, the portfolio's weighting in tech was in line with that of the benchmark and largely accounted for the similar performance. There was a shift in the portfolio's weighting in tech during the period from underweight to overweight, funded by the sale of healthcare stocks.

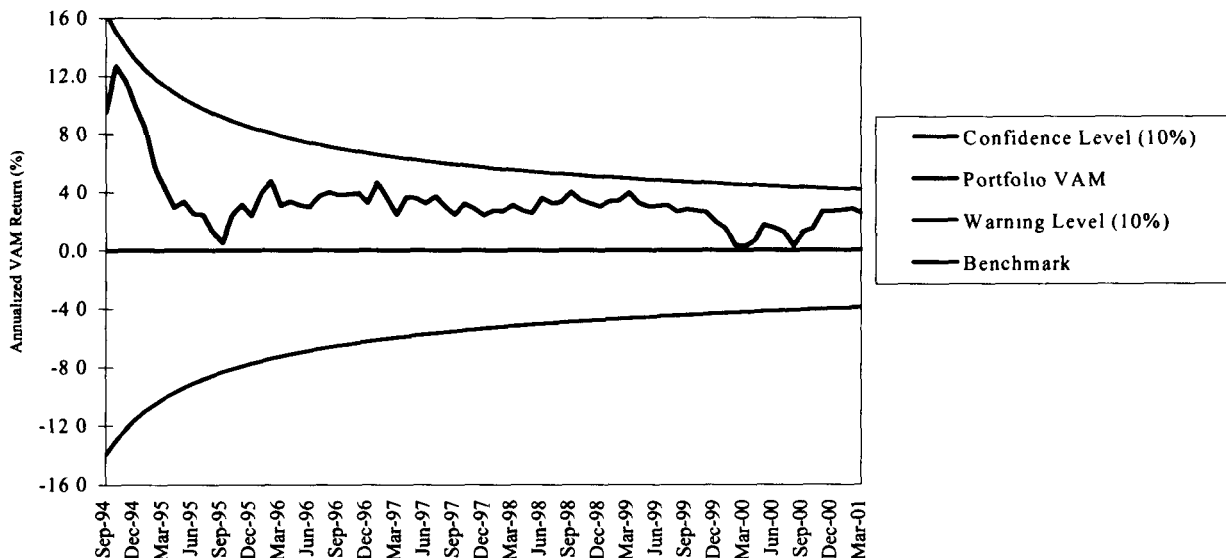
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-14.1%	-13.9%
Last 1 Year	-20.2	-31.8
Last 2 Years	-4.5	-3.6
Last 3 Years	5.4	3.6
Last 4 Years	15.7	12.8
Last 5 Years	16.3	13.7
Since Inception (4/94)	18.7	15.8

Recommendation

No action required.

COHEN KLINGENSTEIN & MARKS
Cumulative Tracking



FORSTMANN-LEFF ASSOCIATES
Periods Ending March, 2001

Portfolio Manager: Bill Harnisch

Assets Under Management: \$567,366,945

Investment Philosophy

Forstmann-Leff is a classic example of a "rotational" manager. The firm focuses initially on 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.

Staff Comments

The portfolio narrowly under-performed the benchmark during the period, due primarily to the general weakness across technology names, which affected most holdings. The portfolio was helped however, by strong stock selection in consumer cyclicals, specifically Best Buy, which performed well during the quarter, but significantly detracted from performance over the one-year time period.

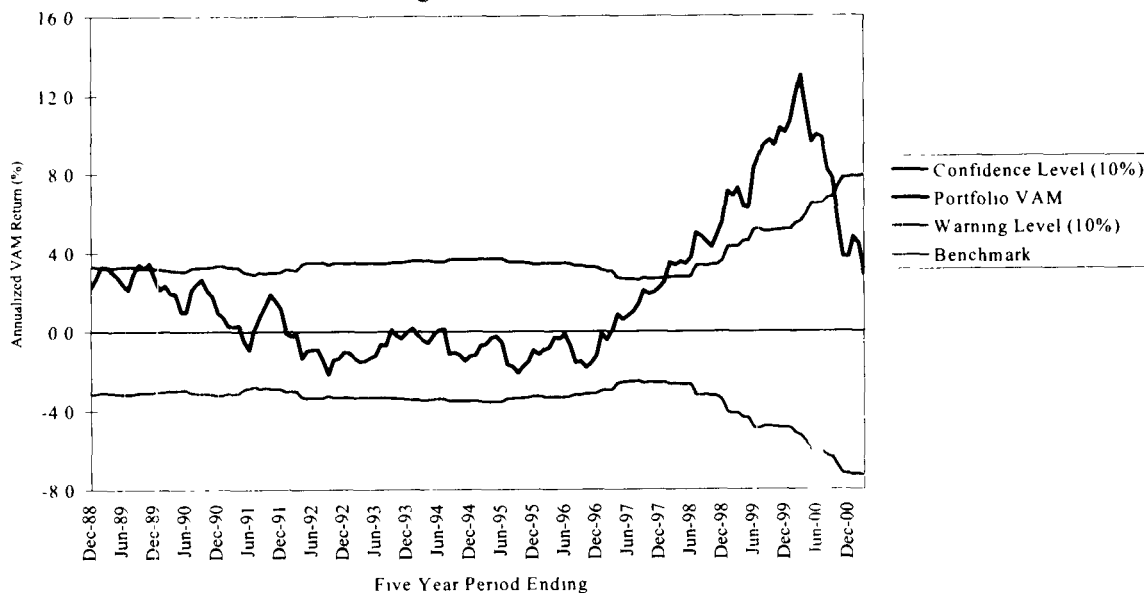
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-6.6%	-6.2%
Last 1 year	-35.1	1.7
Last 2 years	0.7	14.0
Last 3 years	8.7	9.6
Last 4 years	18.6	16.2
Last 5 years	18.6	15.3
Since Inception (1/84)	14.9	13.5

Recommendation

No action required.

FORSTMANN-LEFF ASSOCIATES
Rolling Five Year VAM



FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 2001

Portfolio Manager: John Cone

Assets Under Management: \$622,032,122

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

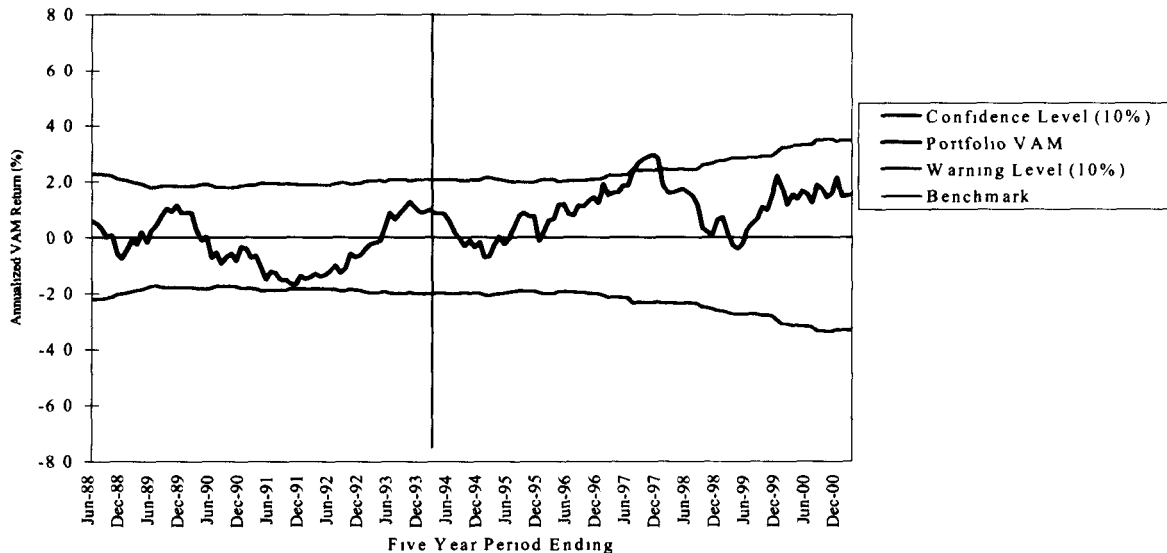
The portfolio's out-performance for the quarter and the year was helped largely by the portfolio's over-exposure to stocks with high earnings yields. Franklin constructs and maintains a portfolio with the highest valuation ranking, as determined by their multiple factor stock valuation system. The portfolio's exposure to common factors, such as earnings yield, is a fall-out of the stock selection process.

Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	-7.4%	-7.7%	No action required.
Last 1 year	-8.2	-9.8	
Last 2 years	7.4	2.1	
Last 3 years	5.0	4.1	
Last 4 years	15.0	13.2	
Last 5 years	14.8	13.1	
Since Inception (4/89)	15.1	13.9	

Recommendation

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, 2001

Portfolio Manager: Barry Fingerhut

Assets Under Management: \$352,833,314

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

The economic downturn during the first quarter led to tightened capital budgets, especially in the information technology (IT) sector. The significant rotation out of the software, IT, and communications sectors of the market significantly impacted the portfolio during the quarter. Lower returns in tech, consumer non-durables, and financials accounted for the portfolio's under-performance during the period. Geo has moved out of positions where they have seen fundamental deterioration or have lost confidence in management's abilities to weather this storm. The portfolio was helped by its exposure to the energy sector (energy services, coal) and the medical products sector and continues to increase the exposure to special situations securities.

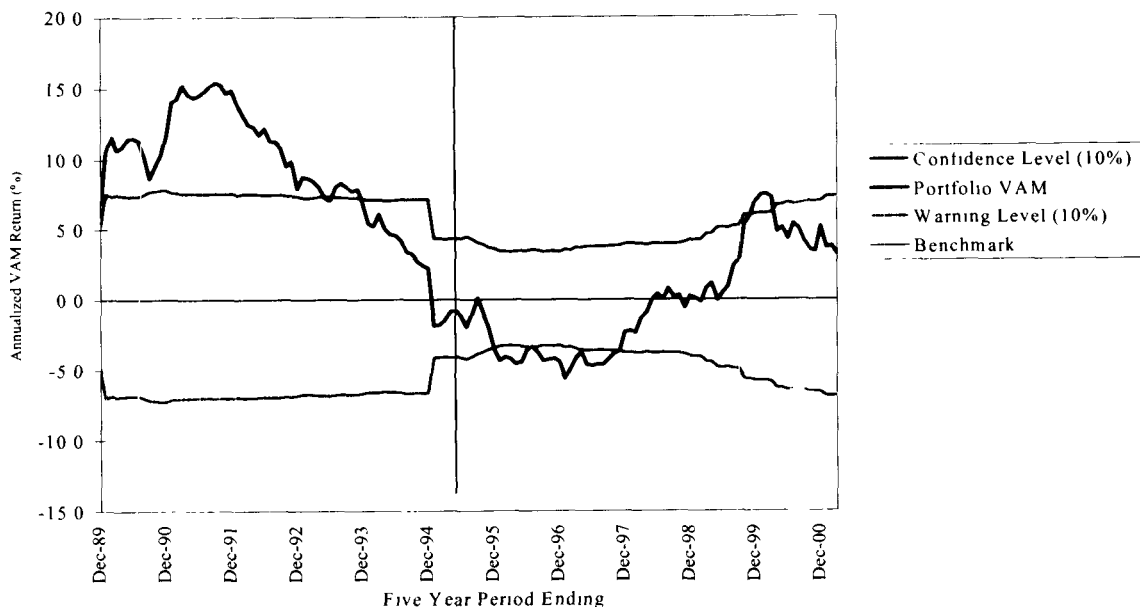
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-17.9%	-10.0%
Last 1 year	-45.0	-27.9
Last 2 years	-0.7	3.5
Last 3 years	-4.1	-4.4
Last 4 years	7.6	5.4
Last 5 years	6.4	3.1
Since Inception (4/90)	11.6	11.6

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, 2001

Portfolio Manager: David Fowler

Assets Under Management: \$589,311,722

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

While benefiting from holdings in biotech, media, and energy, the portfolio under-performed due to high P/E holdings in the technology sector, which suffered during the period. Within technology, returns were notably weaker for the communications equipment, computers and storage companies they held. Lincoln continues to hold these companies believing that long-term, these are very attractive high growth areas within technology. Staff will meet with the firm to address performance issues.

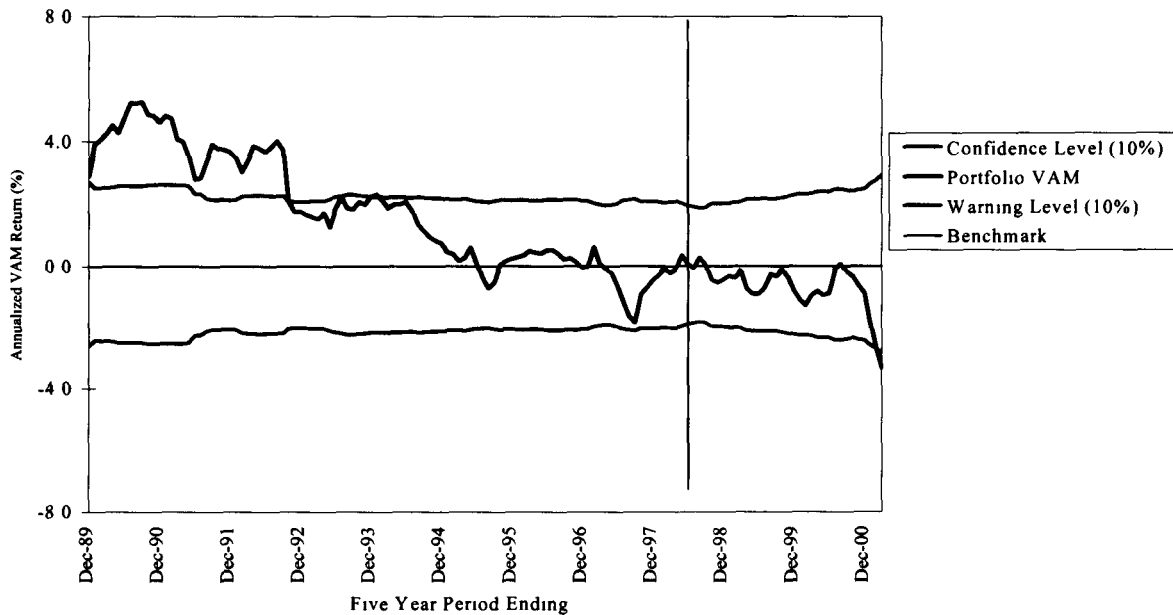
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-29.6%	-21.3%
Last 1 year	-47.4	-43.0
Last 2 years	-20.0	-15.2
Last 3 years	-5.1	-1.7
Last 4 years	5.6	10.2
Last 5 years	8.3	12.0
Since Inception (7/93)	12.2	14.0

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, 2001

Portfolio Manager: John Lindenthal

Assets Under Management: \$885,399,528

Investment Philosophy

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

Staff Comments

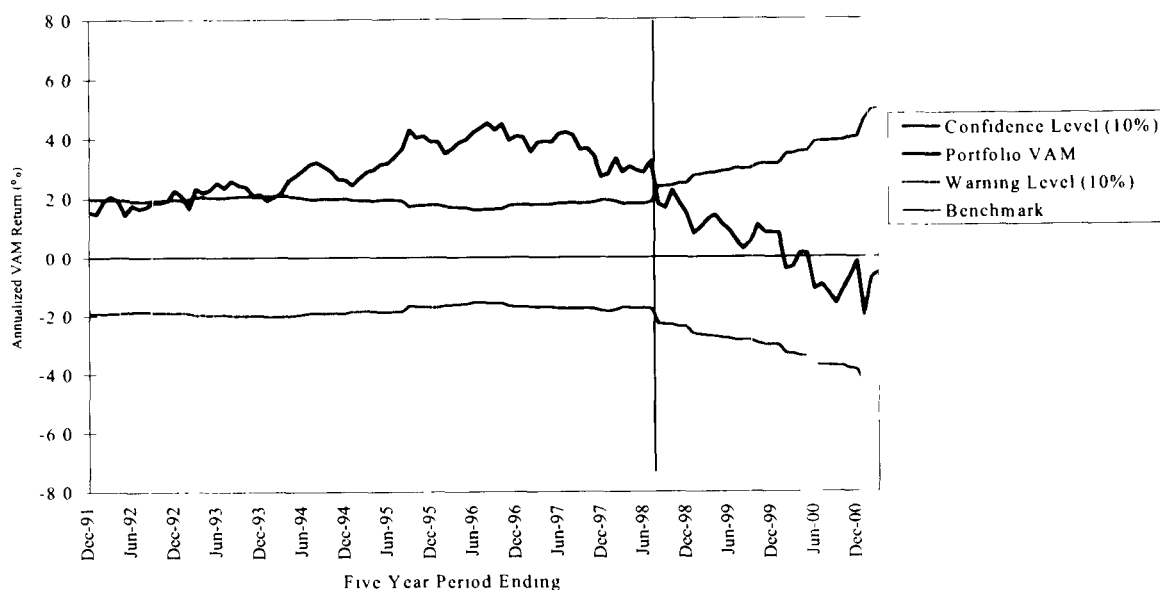
The portfolio narrowly under-performed during the period due to a communications holding which declined in sympathy as other companies announced poor results. The over-weighting in financials hurt performance during the quarter, but accounted for the out-performance over the one-year time period.

Quantitative Evaluation

	Actual	Benchmark	No action required
Last Quarter	-6.2%	-5.9%	
Last 1 year	3.0	-1.0	
Last 2 years	6.0	7.2	
Last 3 years	6.7	9.5	
Last 4 years	16.0	17.9	
Last 5 years	17.0	17.6	
Since Inception (7/93)	17.9	17.1	

Recommendation

OPPENHEIMER CAPITAL
Rolling Five Year VAM



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 2001

Portfolio Manager: John Cone

Assets Under Management: \$1,792,956,727

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

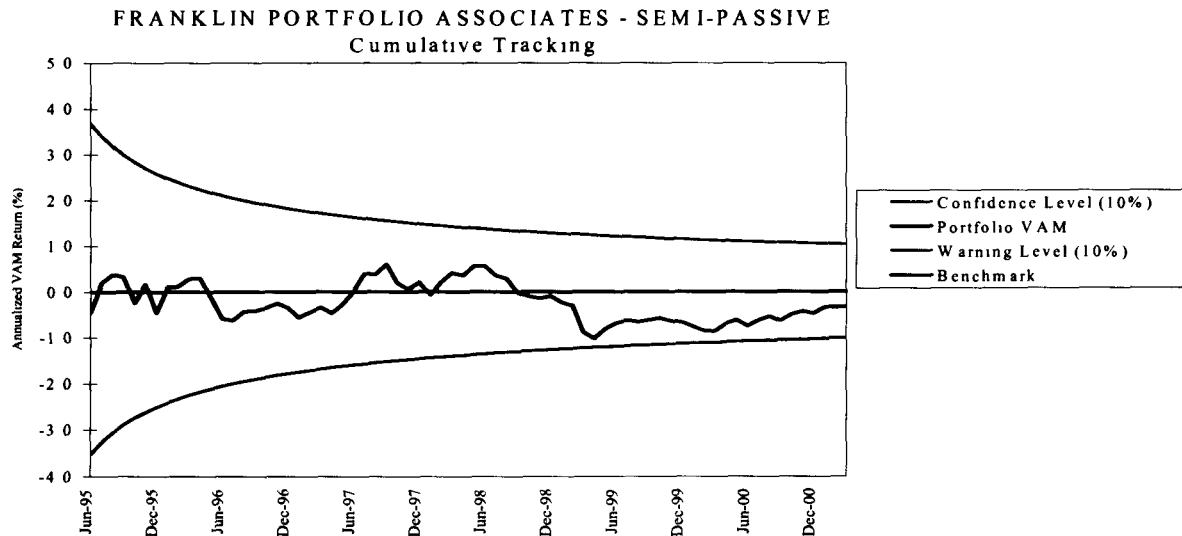
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark*	No action required.
Last Quarter	-12.0%	-12.7%	
Last 1 year	-26.3	-28.1	
Last 2 years	-8.1	-8.9	
Last 3 years	-3.4	-2.3	
Last 4 years	8.2	8.6	
Last 5 years	10.0	10.5	
Since Inception (1/95)	14.3	14.7	

Recommendation

* Completeness Fund



J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending March, 2001

Portfolio Manager: Tim Devlin

Assets Under Management: \$1,948,400,288

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

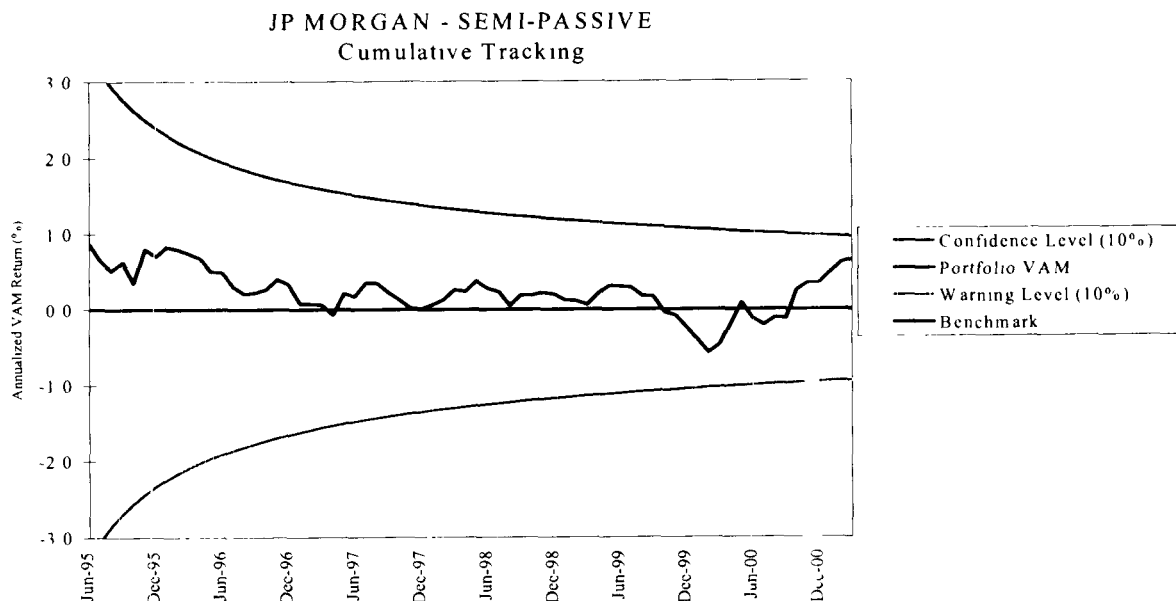
The portfolio had strong positive performance during the period. While remaining sector and factor neutral, the strategy generated favorable stock selection in 16 out of 19 sectors. This was lead by gains within the consumer cyclical, semiconductor, and health services & system sectors during the quarter and within the insurance, finance, and consumer staple sectors during the year.

Quantitative Evaluation

	Actual	Benchmark*	No action required
Last Quarter	-11.0%	-12.7%	
Last 1 year	-23.3	-28.1	
Last 2 years	-7.2	-8.9	
Last 3 years	-1.2	-2.3	
Last 4 years	9.7	8.6	
Last 5 years	11.2	10.5	
Since Inception (1/95)	15.5	14.7	

Recommendation

* Completeness Fund



BARCLAYS GLOBAL INVESTORS
Periods Ending March, 2001

Portfolio Manager: Nancy Feldkircher

Assets Under Management: \$1,901,985,893

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

BGI's portfolio performed positively against the Completeness Fund benchmark during the period. Returns to the valuation criteria of the strategy's Core Alpha Model were particularly strong as both relative valuation and earnings quality components added significant alpha. Investors continued to pay more attention to earnings multiples and sustainability in the first quarter. Staff visited with BGI at their offices during the period and uncovered no areas of concern. Diane Misra has joined BGI as an investment strategist within the Alpha Strategies Group.

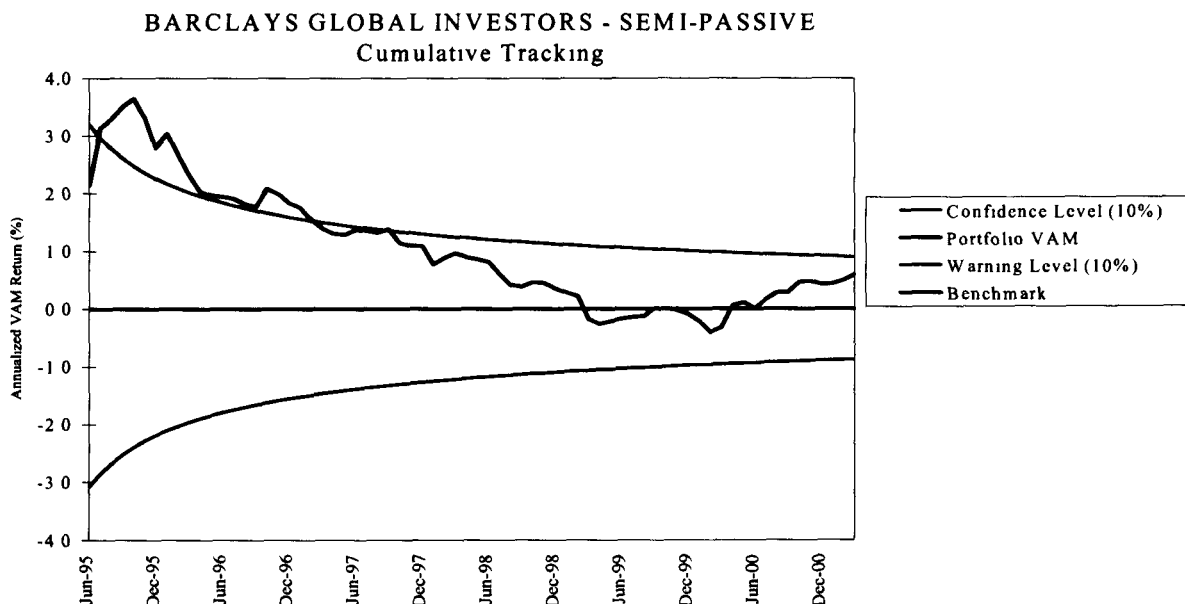
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-11.7%	-12.7%
Last 1 year	-24.1	-28.1
Last 2 years	-6.8	-8.9
Last 3 years	-2.1	-2.3
Last 4 years	8.8	8.6
Last 5 years	10.7	10.5
Since Inception (1/95)	15.4	14.7

Recommendation

No action required.

* Completeness Fund



BARCLAYS GLOBAL INVESTORS
Periods Ending March, 2001

Portfolio Manager: Brad Pope

Assets Under Management: \$5,756,983,724

Investment Philosophy

Passive

Barclays Global Investors passively manages the portfolio against the Wilshire 5000 Investable by minimizing tracking error and trading costs, and maximizing control over all investment and operational risks. Their strategy is to invest across the broad market while excluding smaller, illiquid securities from the investment universe. An optimized approach is taken to security selection. The optimizer weighs the cost of a trade against its contribution to expected tracking error to determine which trades should be executed.

Staff Comments

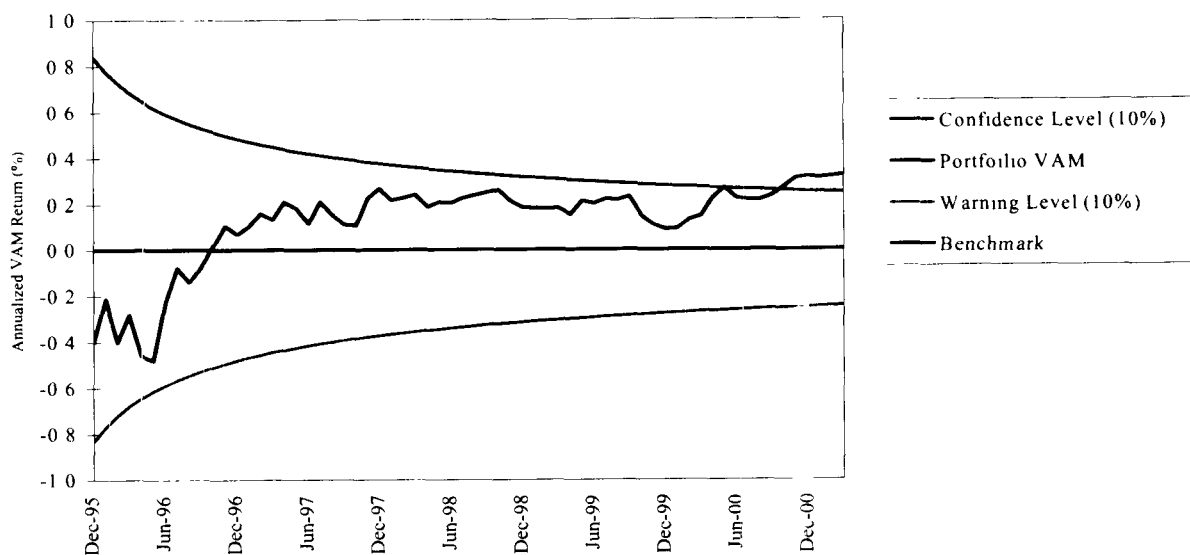
The portfolio incurred 11 basis points of positive tracking error during the period which is consistent with the risk tolerance of the portfolio. Staff visited with BGI at their offices during the period and uncovered no areas of concern. BGI informed Staff that Brad Pope will be transitioning shortly into a new role at BGI and Amy Scholdager, Head of the US Equities Group, will become the PM for the SBI's passive account.

Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	-12.7%	-12.8%	No action required
Last 1 year	-24.3	-25.2	
Last 2 years	-3.3	-3.8	
Last 3 years	1.9	1.5	
Last 4 years	11.9	11.5	
Last 5 years	12.7	12.3	
Since Inception (7/95)	14.6	14.2	

Recommendation

BARCLAYS GLOBAL INVESTORS - PASSIVE
Cumulative Tracking





STATE BOARD OF INVESTMENT

Emerging Stock Manager Evaluation Reports

First Quarter, 2001

**COMBINED RETIREMENT FUNDS
EMERGING EQUITY MANAGERS
Periods Ending March, 2001**

	Quarter		1 Year		3 years		5 Years		Since Inception (1)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
Artemis	-6.1	-6.0							-27.4	-13.8	\$36.55	5.8%
Bay Isle Financial	-3.5	-7.9							-1.7	-0.4	49.17	7.8%
CIC Asset	-6.7	-3.7	8.7	15.0	-1.4	6.8	10.3	16.1	13.6	18.1	73.26	11.6%
Earnest Partners	-4.1	-4.4							-10.2	8.9	45.22	7.1%
Holt-Smith & Yates	-12.7	-7.7							-18.7	-9.8	41.17	6.5%
New Amsterdam	-5.9	-9.2	-1.7	-12.9	10.3	8.9	19.6	16.3	19.0	17.3	101.23	16.0%
Next Century Growth	-27.2	-20.9							-42.8	-36.4	28.97	4.6%
Peregrine Capital	0.0	2.3							23.4	19.9	62.84	9.9%
Valenzuela Capital	-5.3	-2.4	5.8	6.4	-1.9	2.1	12.3	11.7	14.1	13.9	75.48	11.9%
Voyageur-Chicago Equity	-18.5	-14.9							-13.4	-21.2	43.94	6.9%
Winslow-Small Cap	-19.1	-11.9							-27.6	-28.5	77.43	12.2%
Zevenbergen Capital	-28.8	-6.1	-57.2	-32.3	4.2	11.4	14.5	19.0	15.7	19.3	83.20	13.1%
											632.74	100.0%
									Since 4/1/94			
Current Aggregate	-12.3	-7.2	-23.9	-15.6	3.6	7.3	14.9	15.9	16.2	17.3		
Historical Aggregate (2)	-12.3	-7.2	-21.5	-14.6	4.0	8.0	13.6	15.9	15.5	17.1		

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

(2) Includes the performance of terminated managers.

ARTEMIS INVESTMENT MANAGEMENT, LLC
Periods Ending March, 2001

Portfolio Manager: Joyce Capuano

Assets Under Management: \$36,552,163

Investment Philosophy

Artemis believes that excess rates of return above benchmark indices are derived from investments in companies that initiate and embrace change in their businesses. They want to identify those small cap companies that they believe (1) have catalysts that can accelerate future earnings and cash flow growth rates; and (2) are attractively valued relative to their respective peer groups. In order to implement their investment philosophy, they use relative value analysis, which is a bottom-up, stock picking approach driven by fundamental research and frequent meetings with company managements. The portfolio is diversified in terms of growth rates and opportunities for exposure in all economic sectors.

Staff Comments

Artemis very narrowly under-performed their custom benchmark due to poor stock selection and over-weighting in healthcare and holdings in utilities. An under-weight in technology along with stock selection in consumer discretionary, materials and processing, and in transportation helped performance during the period.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-6.1%	-6.0%
Last 1 Year	N/A	N/A
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-27.4	-13.8

Recommendation

No action required.

VAM Graph will be drawn for period ending 6/30/02.

BAY ISLE FINANCIAL CORP.
Periods Ending March, 2001

Portfolio Manager: William Schaff

Assets Under Management: \$49,171,923

Investment Philosophy

Bay Isle Financial believes that companies with strong fundamentals and management will outperform and that these companies can be found at a discount to fair value. To capitalize on these ideas, they perform rigorous fundamental analysis on cash flow growth and balance sheet strength and evaluate a company's business, major competitors and management strength. Bay Isle closely monitors risk levels relative to the benchmark and the portfolio is diversified across most industry sectors.

Staff Comments

Bay Isle outperformed during the quarter due to strong stock selection. The top performing holdings came from industrials and financials, and also included a tech company that produces anti-virus software. Bay Isle was able to avoid holding companies that announced significant business difficulties during the quarter. Staff visited the firm at their offices in San Francisco, and uncovered no areas of concern.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-3.5%	-7.9%
Last 1 Year	N/A	N/A
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-1.7	-0.4

Recommendation

No action required

VAM Graph will be drawn for period ending 6/30/02.

CIC ASSET MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: Jorge Castro

Assets Under Management: \$73,264,992

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's portfolio under-performed during the quarter due to an over-weight position in financials which declined. Performance for the year suffered due to an under-weight in basic materials and in consumer cyclicals. Staff met with CIC during the period and expressed concern at their strategy's continued inability to add value over the custom benchmark.

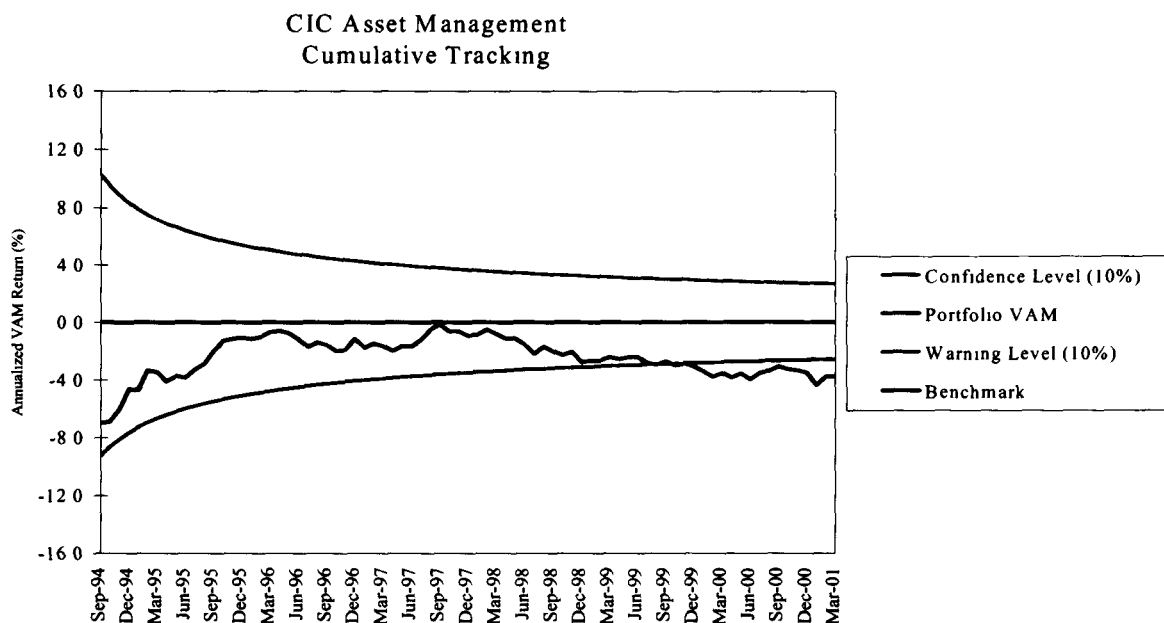
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-6.7%	-3.7%
Last 1 Year	8.7	15.0
Last 2 Years	2.1	9.9
Last 3 Years	-1.4	6.8
Last 4 Years	9.3	15.6
Last 5 Years	10.3	16.1
Since Inception (4/94)	13.6	18.1

Recommendation

CIC was re-interviewed in May 2000. Since then their performance has not improved. Because CIC has not grown its assets and continues to have performance problems, staff does not view it as a viable firm for future placement in the large active manager program. Therefore, staff is recommending CIC be terminated from the Emerging Manager Program.

* Custom benchmark since inception date.



EARNEST PARTNERS, LLC
Periods Ending March, 2001

Portfolio Manager: Paul Viera

Assets Under Management: \$45,221,322

Investment Philosophy

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

Staff Comments

The portfolio was narrowly ahead of the benchmark during the quarter due to strong stock selection in capital goods and basic materials. While Earnest Partners is a bottoms-up equity manager and does not follow a top-down sector selection methodology, the portfolio also benefited from being under-weight technology.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.1%	-4.4%
Last 1 Year	N/A	N/A
Last 2 Years	NA	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-10.2	8.9

Recommendation

No action required

VAM Graph will be drawn for period ending 6/30/02.

HOLT-SMITH & YATES ADVISORS
Periods Ending March, 2001

Portfolio Manager: Kristin Yates

Assets Under Management: \$41,173,117

Investment Philosophy

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

Staff Comments

Holt-Smith & Yates underperformed their custom benchmark during the period. While the portfolio benefited from holdings in healthcare, financials and consumer staples, performance suffered due to stock selection in technology, capital goods and consumer cyclicals.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-12.7%	-7.7%
Last 1 Year	N/A	N/A
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-18.7	-9.8

Recommendation

No action required.

VAM Graph will be drawn for period ending 6/30/02.

NEW AMSTERDAM PARTNERS
Periods Ending March, 2001

Portfolio Manager: Michelle Clayman

Assets Under Management: \$101,226,535

Investment Philosophy

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

Staff Comments

New Amsterdam Partners added value over the benchmark during the quarter primarily due to an overweight position in consumer durables and utilities. Performance was also helped by good stock selection in consumer non-durables and energy and from underweighting the technology sector.

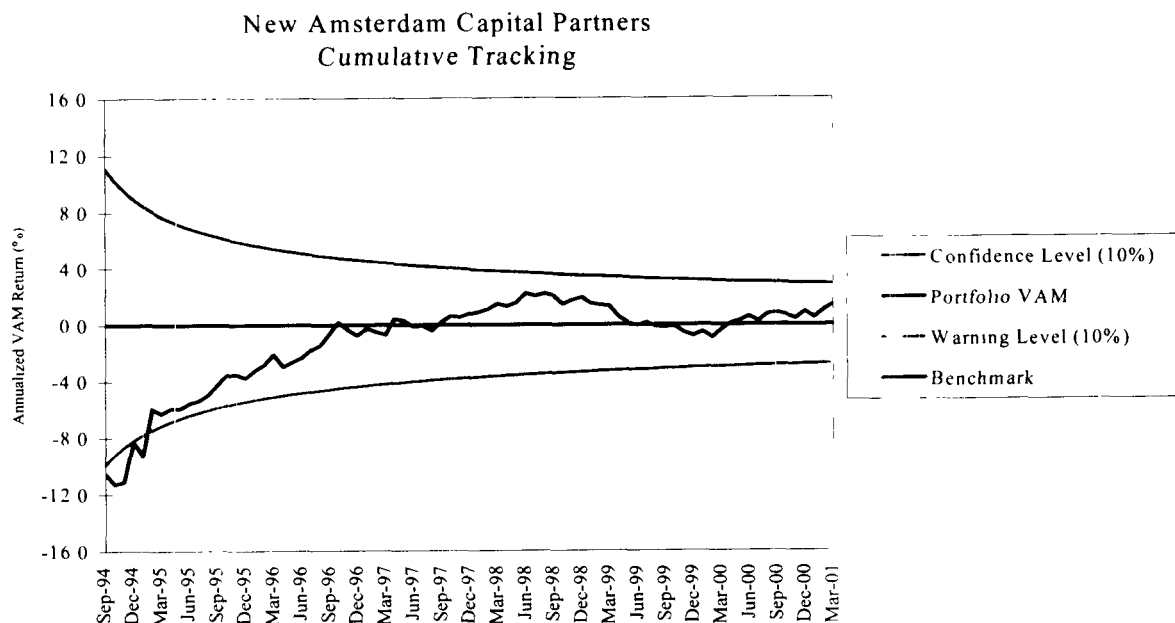
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-5.9%	-9.2%
Last 1 Year	-1.7	-12.9
Last 2 Years	11.9	10.1
Last 3 Years	10.3	8.9
Last 4 Years	20.8	17.3
Last 5 Years	19.6	16.3
Since Inception (4/94)	19.0	17.3

Recommendation

No action require

* Custom benchmark since inception date.



NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending March, 2001

Portfolio Manager: Thomas Press and Don Longlet

Assets Under Management: \$28,968,456

Investment Philosophy

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

Staff Comments

Next Century Growth under-performed during the period, primarily in January and February, as a result of the portfolio's over-weighting in technology. Two medical products companies also detracted from performance due to unexpected delays in product approval by the FDA. Other areas of the portfolio such as retail, restaurants and oil services added value.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-27.2%	-20.9%
Last 1 Year	N/A	N/A
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-42.8	-36.4

Recommendation

No action required.

VAM Graph will be drawn for period ending 6/30/02.

PEREGRINE CAPITAL MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: Doug Pugh and Tasso Coin

Assets Under Management: \$62,840,323

Investment Philosophy

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

Staff Comments

Small Cap Value was the only area of the equity market that had positive returns during the period. However, Peregrine's return of 0.02% slightly lagged the custom benchmark. Despite strong returns from consumer discretionary and energy stocks, transportation holdings detracted from performance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.0%	2.3%
Last 1 Year	N/A	N/A
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	23.4	19.9

Recommendation

No action required

Vam Graph will be drawn for period ending 6/30/02.

VALENZUELA CAPITAL MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: Tom Valenzuela

Assets Under Management: \$75,478,155

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

Valenzuela under-performed the benchmark during the period. Despite good performance in basic materials and from an under-weighted position in technology, the portfolio was hurt by financial services (asset managers) and healthcare holdings. These two areas added value to the portfolio over the one-year time frame. Valenzuela Partners added two experienced analysts, Jim Hasso and Lynn Hambright, to their team during the period.

Quantitative Evaluation

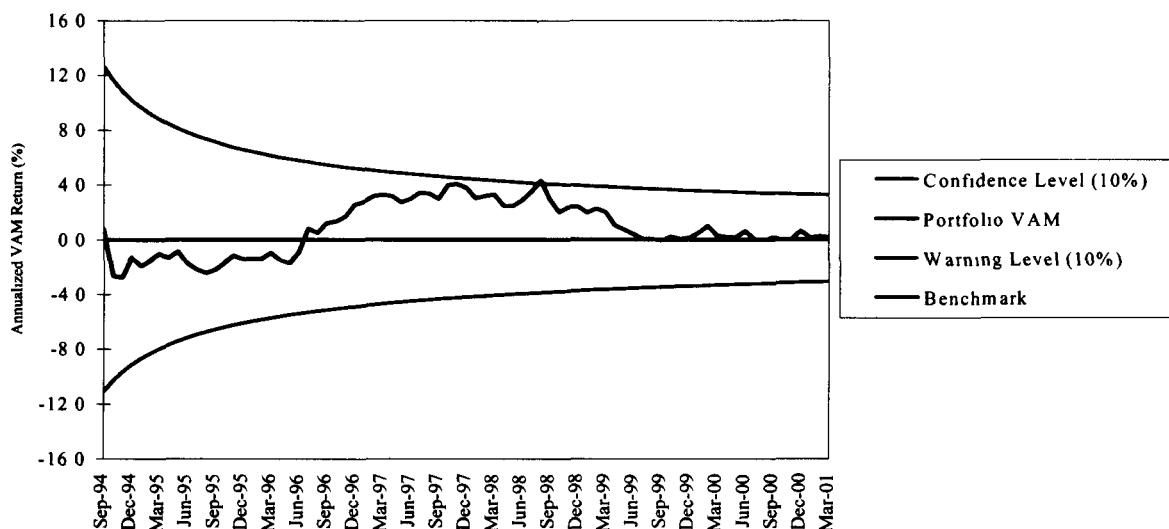
	Actual	Benchmark*
Last Quarter	-5.3%	-2.4%
Last 1 Year	5.8	6.4
Last 2 Years	4.8	9.5
Last 3 Years	-1.9	2.1
Last 4 Years	9.0	11.4
Last 5 Years	12.3	11.7
Since Inception (4/94)	14.1	13.9

Recommendation

No action required.

* Custom benchmark since inception date.

Valenzuela Capital Partners
 Cumulative Tracking



VOYAGEUR ASSET MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: Charles Henderson

Assets Under Management: \$43,936,961

Investment Philosophy

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

Staff Comments

The portfolio under-performed during the period due primarily to financial holdings which did not add value over the benchmark. Poor stock selection in healthcare and industrials was offset by over-weighting these sectors. Stock selection has been strong over the since inception period and together with an under-weight position in technology led to out-performance during that time period.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-18.5%	-14.9%
Last 1 Year	N/A	N/A
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-13.4	-21.2

Recommendation

No action required

VAM Graph will be drawn for period ending 6/30/02.

WINSLOW CAPITAL MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: Joseph Docter

Assets Under Management: \$77,425,581

Investment Philosophy

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

Staff Comments

Winslow under-performed due to the poor performance of several technology holdings and the portfolio's underweight to the transportation sector, which advanced during the period. Staff met with Winslow during the period and uncovered no areas of concern.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-19.1%	-11.9%
Last 1 Year	N/A	N/A
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-27.6	-28.5

Recommendation

No action required.

Vam Graph will be drawn for period ending 6/30/02.

ZEVENBERGEN CAPITAL INC.
Periods Ending March, 2001

Portfolio Manager: Nancy Zevenbergen

Assets Under Management: \$83,200,951

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

During a difficult period for growth managers, Zevenbergen's portfolio under-performed. Relative to the custom benchmark technology holdings and an under-weighting in consumer staples detracted most from performance. The portfolio's lack of exposure to defensive sectors including energy, consumer staples and large pharmaceuticals were the main contributors to the under-performance over the one-year period. Zevenbergen believes that these sectors are cyclical in nature and do not offer the same opportunity for long-term appreciation as technology and telecommunications. Staff visited Zevenbergen at their offices during the quarter and discussed how the portfolio is positioned for economic recovery.

Quantitative Evaluation

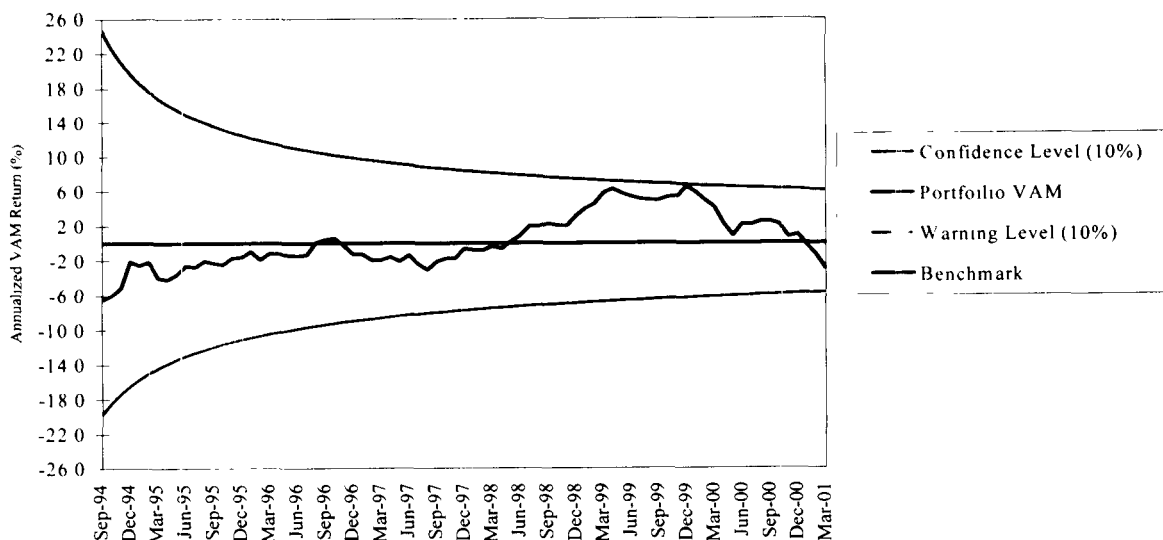
	Actual	Benchmark*
Last Quarter	-28.8%	-6.1%
Last 1 Year	-57.2	-32.3
Last 2 Years	-16.1	7.5
Last 3 Years	4.2	11.4
Last 4 Years	15.6	20.2
Last 5 Years	14.5	19.0
Since Inception (4/94)	15.7	19.3

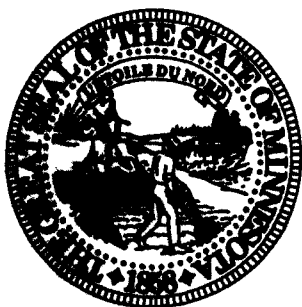
Recommendation

No action required

* Custom benchmark since inception date.

**Zevenbergen Capital Management
 Cumulative Tracking**





STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

First Quarter, 2001

**COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending March, 2001**

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
American Express (AMG)	2.7	3.0	12.7	12.5	7.0	6.9	7.6	7.5	6.9	6.8	\$856.05	7.2%
Deutsche	3.3	3.0	12.8	12.5					13.2	12.9	\$696.82	5.9%
Dodge & Cox	3.7	3.0	13.1	12.5					13.6	12.9	\$694.00	5.9%
Metropolitan West	5.1	3.0	11.1	12.5					11.3	12.9	\$283.26	2.4%
Morgan Stanley	3.9	3.0	13.1	12.5	6.6	6.9	7.9	7.5	10.4	10.2	\$1,089.36	9.2%
Standish	2.8	3.0	12.1	12.5	5.7	6.9	7.1	7.5	6.5	6.8	\$699.60	5.9%
Western	4.0	3.0	13.4	12.5	7.2	6.9	8.7	7.5	11.4	10.1	\$1,454.39	12.3%
Semi-Passive Managers												
BlackRock	3.1	3.0	12.8	12.5	7.3	6.9	7.9	7.5	7.9	7.5	2,078.68	17.5%
Goldman	3.0	3.0	12.4	12.5	6.8	6.9	7.6	7.5	7.1	6.8	1,991.41	16.8%
Lincoln	2.9	3.0	12.6	12.5	7.0	6.9	7.6	7.5	8.6	8.6	2,002.86	16.9%
											\$11,846.44	100.0%
									Since 7/1/84			
Current Aggregate	3.3	3.0	12.7	12.5	6.9	6.9	7.8	7.5	10.6	10.1		
Historical Aggregate (2)	3.3	3.0	12.7	12.5	6.9	6.9	7.8	7.5	10.1	10.1		
Lehman Aggregate (3)		3.0		12.5		6.9		7.5		9.8		

(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.

AMERICAN EXPRESS ASSET MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: Jim Snyder

Assets Under Management: \$856,050,357

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

No comments at this time.

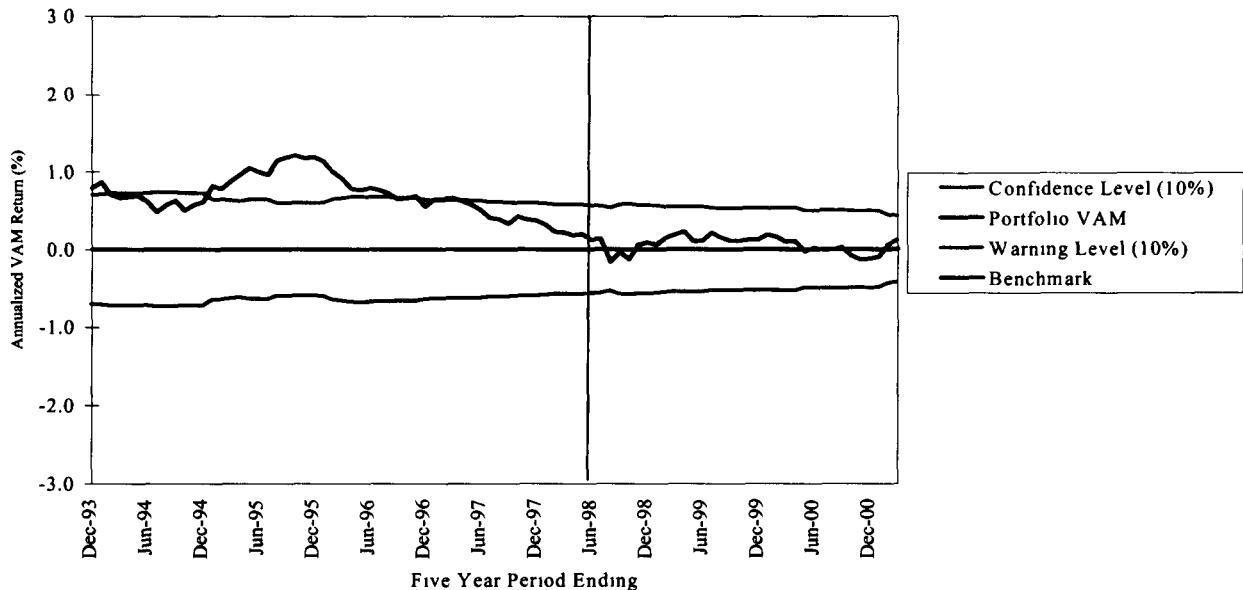
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.7%	3.0%
Last 1 year	12.7	12.5
Last 2 years	7.0	7.1
Last 3 years	7.0	6.9
Last 4 years	8.3	8.1
Last 5 years	7.6	7.5
Since Inception (7/93)	6.9	6.8

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

DEUTSCHE ASSET MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: Warren Davis

Assets Under Management: \$696,819,713

Investment Philosophy

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

Staff Comments

Deutsche outperformed for the quarter and year benefiting from an overweight in the credit sector and their positions in long finance paper, which performed exceptionally well over the quarter.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.3%	3.0%
Last 1 year	12.8	12.5
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	13.2	12.9

Recommendations

No action required.

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

DODGE & COX INVESTMENT MANAGERS
Periods Ending March, 2001

Portfolio Manager: Dana Emery

Assets Under Management: \$694,001,997

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

Staff visited Dodge & Cox at their office in San Francisco during the quarter to review the portfolio and the organization. Dodge & Cox outperformed the benchmark over the quarter and the year benefiting from their overweight position in corporates as well as strong security selection within the sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.7%	3.0%
Last 1 year	13.1	12.5
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	13.6	12.9

Recommendations

No action required.

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

METROPOLITAN WEST ASSET MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: Tad Rivelle

Assets Under Management: \$283,256,478

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

Staff visited Met West in their Los Angeles office to review the portfolio and organization. Metropolitan West's strong performance reflects the price recovery in their Finova holdings during the quarter which benefited from an infusion of \$6 billion in capital by Berkshire Hathaway who took over Finova.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.1%	3.0%
Last 1 year	11.1	12.5
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	11.3	12.9

Recommendations

No action required

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

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: Tom Bennett

Assets Under Management: \$1,089,355,265

Investment Philosophy

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

Staff Comments

Morgan Stanley beat the benchmark over the past quarter and year benefiting from their significant overweight in the credit sector.

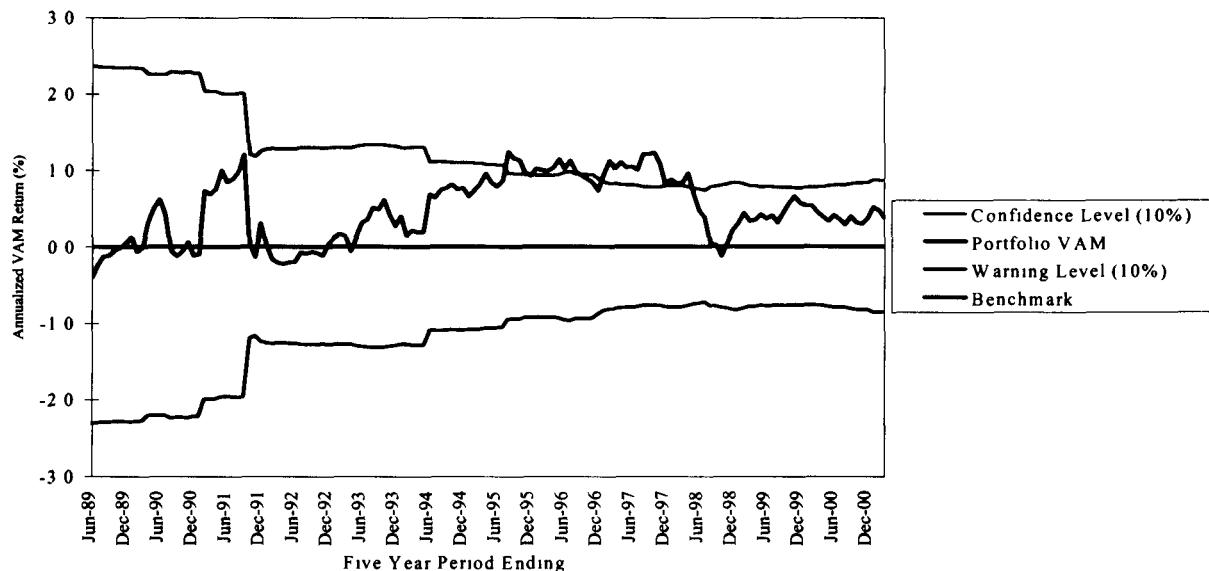
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.9%	3.0%
Last 1 year	13.1	12.5
Last 2 years	7.1	7.1
Last 3 years	6.6	6.9
Last 4 years	8.0	8.1
Last 5 years	7.9	7.5
Since Inception (7/84)	10.4	10.2

Recommendations

No action required.

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Rolling Five Year VAM



STANDISH, AYER & WOOD
Periods Ending March, 2001

Portfolio Manager: Austin Smith

Assets Under Management: \$699,604,586

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

Staff instructed Standish to liquidate the portfolio during the quarter as the SBI needed to rebalance \$1.4 billion from fixed income to equities. As of April 1, 2001, no SBI assets are being managed by Standish.

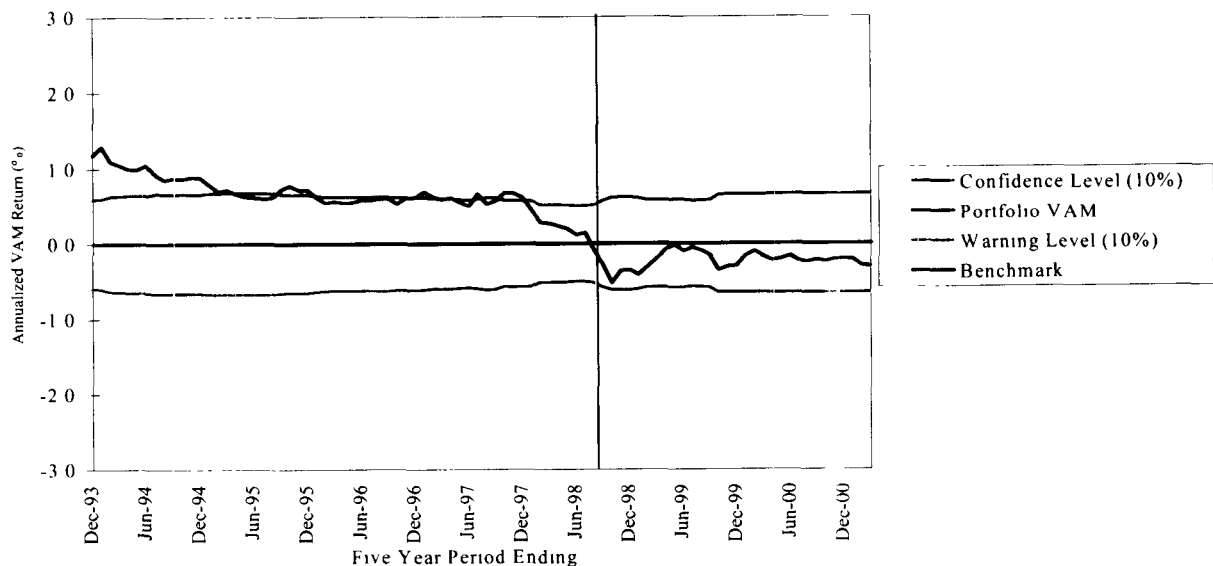
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.8%	3.0%
Last 1 year	12.1	12.5
Last 2 years	6.3	7.1
Last 3 years	5.7	6.9
Last 4 years	7.3	8.1
Last 5 years	7.1	7.5
Since Inception (7/93)	6.5	6.8

Recommendations

Staff recommends that the firm's contract be terminated.

STANDISH, AYER & WOOD
Rolling Five Year VAM



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

WESTERN ASSET MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: Ken Leech

Assets Under Management: \$1,454,391,434

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

Staff visited Western in their Pasadena office to review the portfolio and organization. Western beat the benchmark over the past quarter and year benefiting from their overweight in the credit sector.

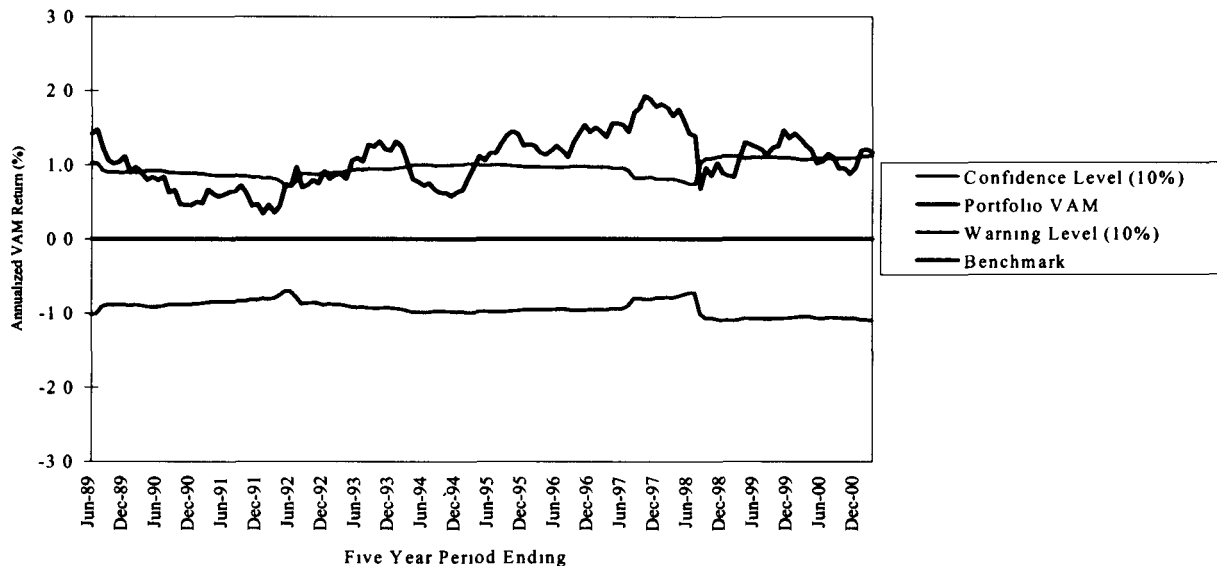
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.0%	3.0%
Last 1 year	13.4	12.5
Last 2 years	7.9	7.1
Last 3 years	7.2	6.9
Last 4 years	9.1	8.1
Last 5 years	8.7	7.5
Since Inception (7/84)	11.4	10.1

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM



BLACKROCK FINANCIAL MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: Keith Anderson

Assets Under Management: \$2,078,682,237

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

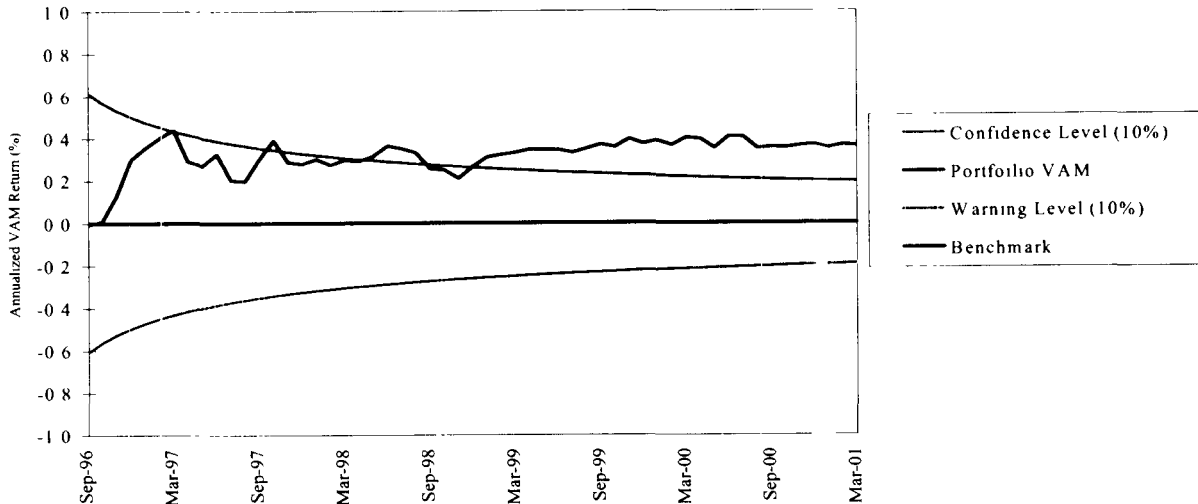
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.1%	3.0%
Last 1 year	12.8	12.5
Last 2 years	7.5	7.1
Last 3 years	7.3	6.9
Last 4 years	8.5	8.1
Last 5 years	7.9	7.5
Since Inception (4/96)	7.9	7.5

Recommendation

No action required.

BLACKROCK FINANCIAL MANAGEMENT
Cumulative Tracking



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: Jonathon Beinrer

Assets Under Management: \$1,991,411,112

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

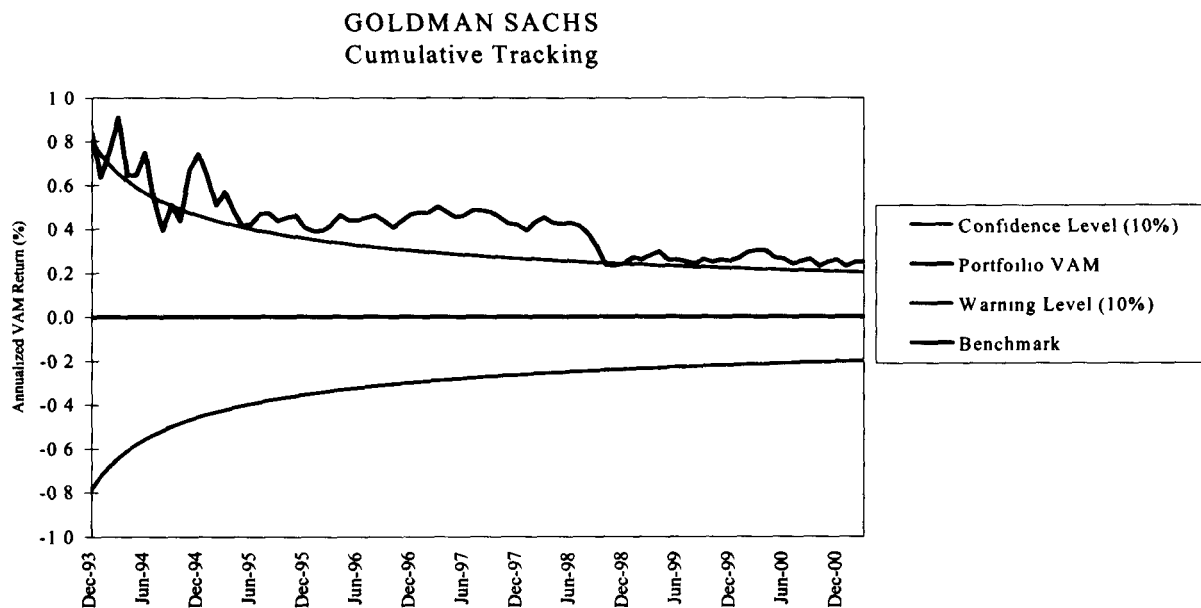
Sharmin Mossavar-Rahmani is no longer chief investment officer of fixed income and our portfolio manager. She is taking a new role within Goldman as CIO of private wealth management. Jonathon Beinrer, currently co-head of U.S. fixed income and the SBI's portfolio management contact, is now CIO of fixed income and the SBI's portfolio manager. James Clark and Chris Sullivan are now co-heads of U.S. fixed income. James Clark is currently head of the mortgage and asset-backed team and will retain that role as well assuming investment responsibility for U.S. fixed income. Chris Sullivan recently joined Goldman and will focus on client communication and product management. Jonathon Beinrer and Chris Sullivan are planning a trip to the SBI to introduce Chris.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.0%	3.0%
Last 1 year	12.4	12.5
Last 2 years	7.2	7.1
Last 3 years	6.8	6.9
Last 4 years	8.1	8.1
Last 5 years	7.6	7.5
Since Inception (7/93)	7.1	6.8

Recommendations

Staff met with Jonathon Beinrer and James Clark in our last meeting with Goldman in New York. Currently staff has no concerns with the changes and believes there will be no impact on the management of the portfolio.



LINCOLN CAPITAL MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: Andrew Johnson

Assets Under Management: \$2,002,863,327

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

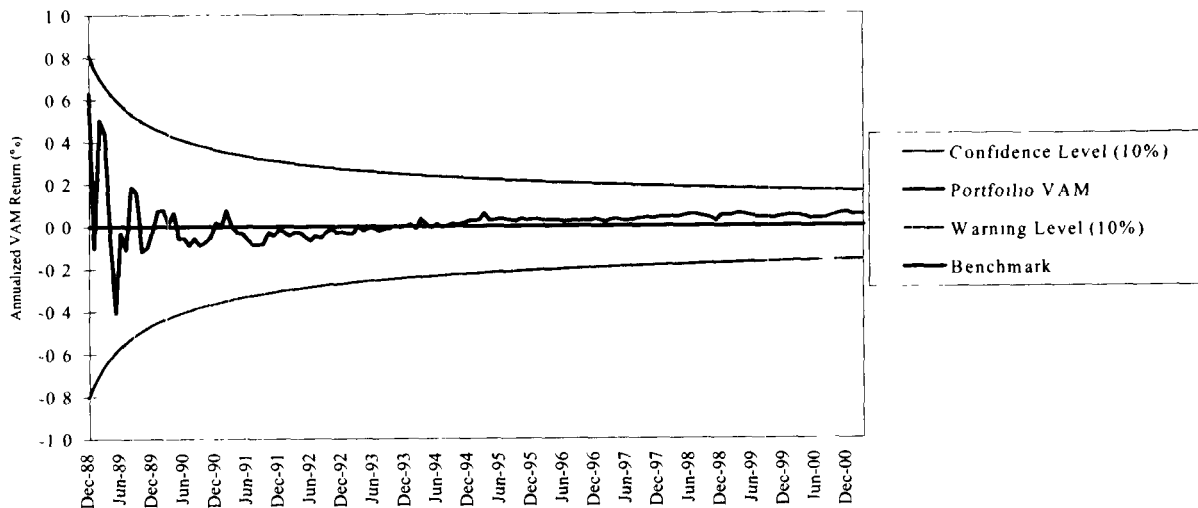
Quantitative Evaluation

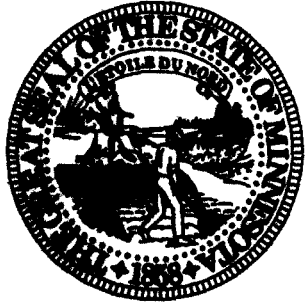
	Actual	Benchmark
Last Quarter	2.9%	3.0%
Last 1 year	12.6	12.5
Last 2 years	7.1	7.1
Last 3 years	7.0	6.9
Last 4 years	8.2	8.1
Last 5 years	7.6	7.5
Since Inception (7/88)	8.6	8.6

Recommendations

No action required.

LINCOLN CAPITAL MANAGEMENT - Fixed Income
Cumulative Tracking





STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

First Quarter, 2001

**COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending March, 2001**

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk		
	%	%	%	%	%	%	%	%	%	%		
Active EAFE												
American Express	-19.1	-13.7	-34.9	-25.9					-30.5	-21.4	\$285.58	5.3%
Blairlogie	-15.2	-13.7	-28.8	-25.9					-23.8	-21.4	161.31	3.0%
Brinson	-12.6	-13.7	-10.5	-25.9	4.2	-0.6	7.7	3.4	9.1	7.1	595.12	11.1%
Invesco	-8.8	-13.7	-13.7	-25.9					-10.3	-21.4	449.17	8.4%
Marathon	-9.3	-12.3	-11.9	-23.2	4.1	-1.0	5.2	2.3	7.1	4.0	432.08	8.1%
Montgomery	-21.0	-13.7	-39.0	-25.9					-36.2	-21.4	269.37	5.0%
T. Rowe Price	-14.4	-13.7	-27.8	-25.9	0.4	-0.6	5.2	3.4	6.8	4.9	422.78	7.9%
Zurich Scudder	-15.9	-13.7	-29.9	-25.9	0.0	-0.6	5.6	3.4	7.3	4.9	426.04	8.0%
Active Emerging Markets												
Alliance Capital									-20.2	-16.9	106.22	2.0%
Capital International									-22.6	-16.9	103.40	1.9%
Montgomery	-8.0	-5.5	-35.4	-36.0	-9.6	-8.4			-6.7	-7.2	111.98	2.1%
Morgan Stanley									-20.5	-16.9	98.17	1.8%
Schroder									-18.7	-16.9	109.68	2.0%
Passive EAFE												
State Street	-13.8	-13.7	-25.9	-25.9	-0.3	-0.6	3.7	3.4	7.8	7.5	1,781.53	33.3%
Since 10/1/92												
Equity Only (2) (4)	-13.6	-12.9	-25.1	-27.0	-0.8	-1.3	3.3	2.3	7.7	6.9	5,352.55	100.0%
Total Program (3) (4)	-13.6	-12.9	-25.1	-27.0	-0.9	-1.3	4.1	2.3	8.1	6.9	\$5,352.55	

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

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

(3) Includes impact of currency overlay.

(4) 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 transition from 100% EAFE to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

AMERICAN EXPRESS ASSET MANAGEMENT INTERNATIONAL, INC.
Periods Ending March, 2001

Portfolio Manager: Mark Fawcett

Assets Under Management: \$285,578,147

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

The portfolio was hurt by stock selection in each region. Sector strategies contributed negatively in information technology and consumer staples. An underweight in Japan also hurt performance, as Japan outperformed EAFE in February and March.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-19.1%	-13.7%
Last 1 year	-34.9	-25.9
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-30.5	-21.4

Recommendations

No action required.

VAM Graph will be drawn for period ending 3/31/2002.

BLAIRLOGIE CAPITAL MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: James Smith

Assets Under Management: \$161,311,122

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

No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-15.2%	-13.7%
Last 1 year	-28.8	-25.9
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-23.8	-21.4

Recommendations

No action required.

VAM Graph will be drawn for period ending 3/31/2002.

BRINSON PARTNERS
Periods Ending March, 2001

Portfolio Manager: Thomas Madsen

Assets Under Management: \$595,116,387

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

No comments at this time.

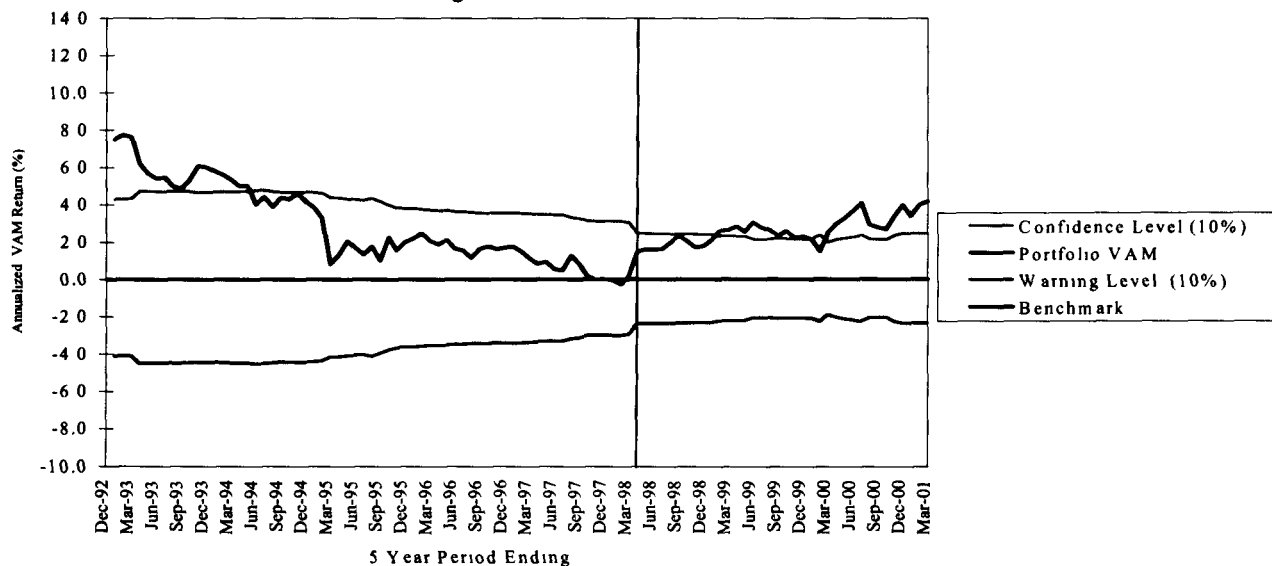
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-12.6%	-13.7%
Last 1 year	-10.5	-25.9
Last 2 years	2.5	-3.8
Last 3 years	4.2	-0.6
Last 4 years	7.4	3.9
Last 5 years	7.7	3.4
Since Inception (4/93)	9.1	7.1

Recommendations

No action required.

BRINSON PARTNERS, INC. (INT'L)
Rolling Five Year VAM



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

INVESCO GLOBAL ASSET MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: Erik Granade

Assets Under Management: \$449,172,190

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

No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-8.8%	-13.7%
Last 1 year	-13.7	-25.9
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-10.3	-21.4

Recommendations

No action required.

VAM Graph will be drawn for period ending 3/31/2002.

MARATHON ASSET MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: William Arah

Assets Under Management: \$432,084,839

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.

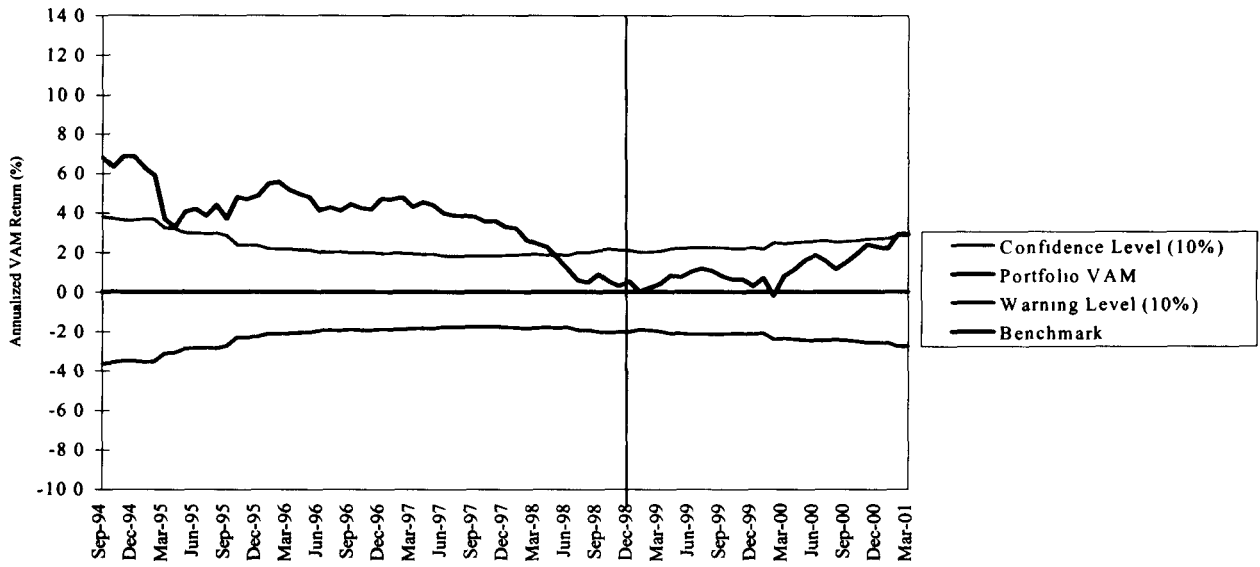
Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	-9.3%	-12.3%
Last 1 year	-11.9	-23.2
Last 2 years	5.5	-2.0
Last 3 years	4.1	-1.0
Last 4 years	5.6	2.4
Last 5 years	5.2	2.3
Since Inception (11/93)	7.1	4.0

Recommendations

No action required.

MARATHON ASSET MANAGEMENT
Rolling Five Rolling VAM



5 Year Period Ending

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

MONTGOMERY ASSET MANAGEMENT, LLC (EAFE)
Periods Ending March, 2001

Portfolio Manager: John Boich

Assets Under Management: \$269,374,905

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

Staff visited Montgomery at their San Francisco office in March to review the portfolio and the organization. A technology overweight was the dominant contributor to the portfolio's underperformance during the quarter. They have reduced the telecom sector, and while software is weak, they continue to hold an overweight there. Their healthcare stock picks did well, but they were slightly underweight the sector. The team remains unchanged.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-21.0%	-13.7%
Last 1 year	-39.0	-25.9
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-36.2	-21.4

Recommendations

No action required

VAM Graph will be drawn for period ending 3/31/2002.

T. ROWE PRICE INTERNATIONAL, INC.
Periods Ending March, 2001

Portfolio Manager: David Warren

Assets Under Management: \$422,776,214

Investment Philosophy

T. Rowe Price 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. T. Rowe Price 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.

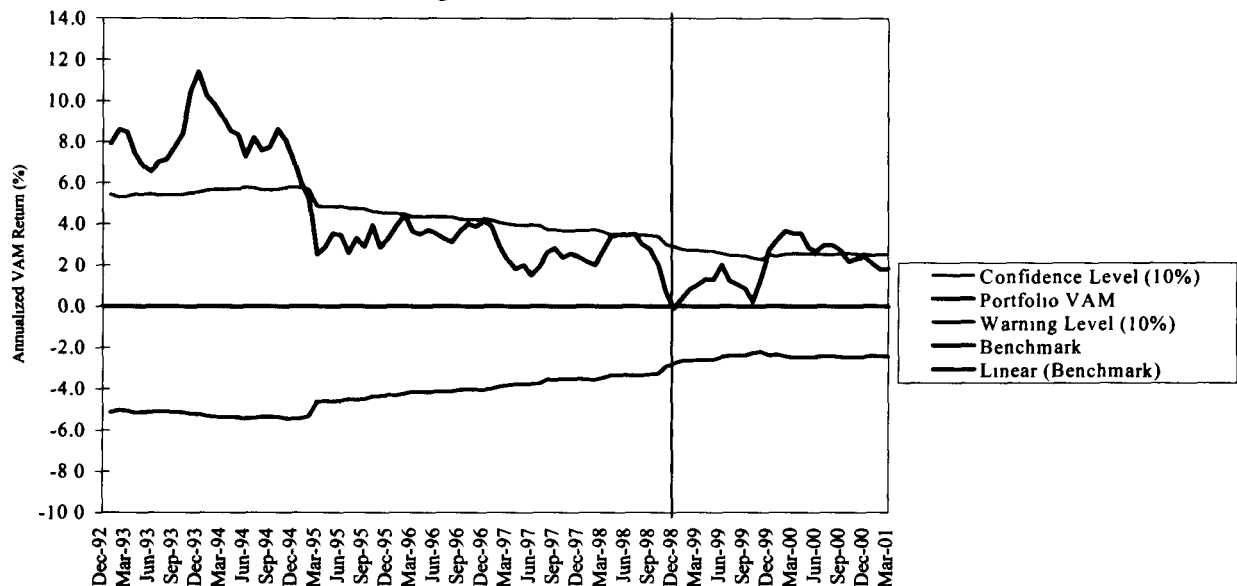
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-14.4%	-13.7%
Last 1 year	-27.8	-25.9
Last 2 years	-1.3	-3.8
Last 3 years	0.4	-0.6
Last 4 years	4.1	3.9
Last 5 years	5.2	3.4
Since Inception (11/93)	6.8	4.9

Recommendations

No action required.

T. ROWE PRICE INTERNATIONAL
Rolling Five Year VAM



5 Year Period Ending

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

ZURICH SCUDDER INVESTMENTS
Periods Ending March, 2001

Portfolio Manager: Theresa Gusman

Assets Under Management: \$426,038,217

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

No comments at this time

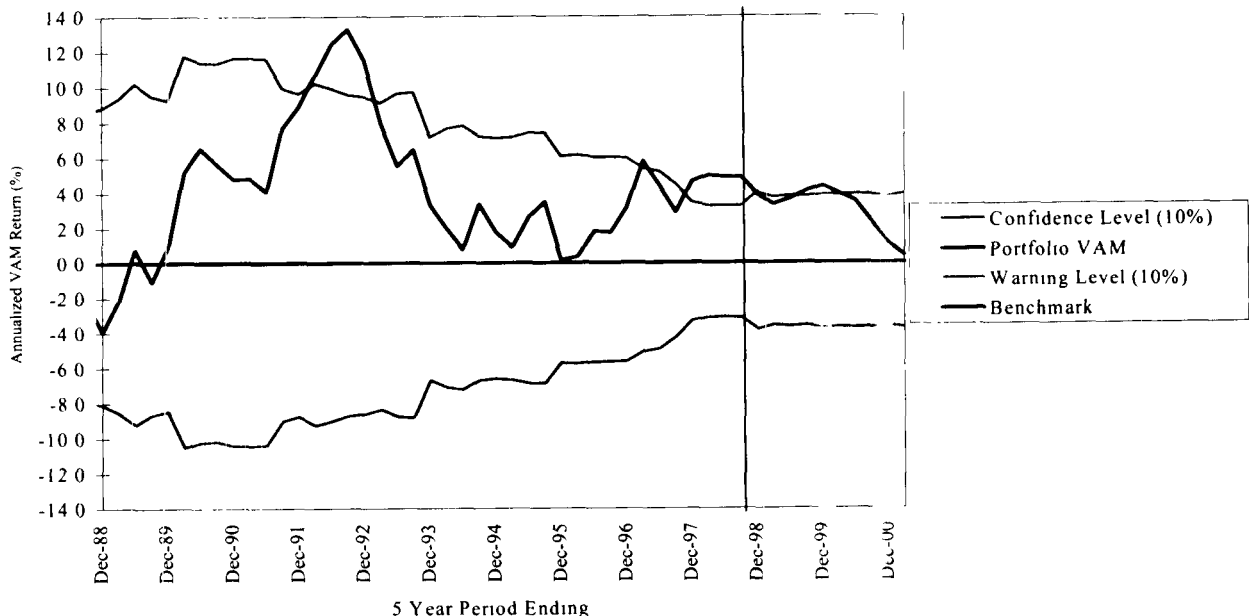
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-15.9%	-13.7%
Last 1 year	-29.9	-25.9
Last 2 years	-2.0	-3.8
Last 3 years	0.0	-0.6
Last 4 years	4.3	3.9
Last 5 years	5.6	3.4
Since Inception (11/93)	7.3	4.9

Recommendations

No action required

ZURICH SCUDDER INVESTMENTS
Rolling Five Year VAM



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

ALLIANCE CAPITAL MANAGEMENT INTERNATIONAL
Periods Ending March, 2001

Portfolio Manager: Edward Baker

Assets Under Management: \$106,221,812

Investment Philosophy

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

Staff Comments

Performance suffered due to telecommunication stocks in China, Korea, Brazil, and elsewhere. They continue to emphasize telecom stocks in the portfolio, and believe that their stocks have been hurt by the global sentiment towards the sector. They feel that the problems telecommunication stocks have in the developed markets do not apply to telecommunications stocks in the emerging markets, and expect valuations to rebound.

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 (3/01)	-20.2	-16.9

Recommendations

No action required.

VAM Graph will be drawn for period ending 3/31/2003.

CAPITAL INTERNATIONAL, INC.
Periods Ending March, 2001

Portfolio Manager: Shaw Wagner

Assets Under Management: \$103,403,951

Investment Philosophy

Capital International's philosophy is value-oriented, as they focus on identifying the difference between the underlying value of a company and the price of its securities in its home market. Capital International's basic, fundamental, bottom-up approach is blended with macroeconomic and political judgments on the outlook for economies, industries, currencies and markets. The team of portfolio managers and analysts each select stocks for the portfolio based on extensive field research and direct company contact.

Staff Comments

Staff met with Capital Int'l at their Los Angeles office to review the organization and the portfolio. There are no organizational concerns.

An overweight position in Turkey hurt performance due to the devaluation that occurred in February. In addition, the portfolio has continued to hold significant positions in telecommunication stocks, as they believe that the underlying growth expectations for wireless and data transmission applications are still strong. However, in the short term, these holdings have caused underperformance relative to the EMF index.

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 (3/01)	-22.6	-16.9

Recommendations

No action required

VAM Graph will be drawn for period ending 3/31/2003.

MONTGOMERY ASSET MANAGEMENT, LLC (EMF)
Periods Ending March, 2001

Portfolio Manager: Josephine Jimenez

Assets Under Management: \$111,978,526

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

Staff met with Montgomery at their San Francisco office in March to discuss the organization and portfolio. There have been no changes to the organization. The portfolio holds 81 stocks with more than 40% in telecommunications and technology stocks.

Montgomery went to an underweight in Turkey in early February avoiding the devaluation. Other shifts in country weightings also added value, but these were not enough to overcome the negative returns of the technology sector during February and March when Montgomery was moving back to an overweight position.

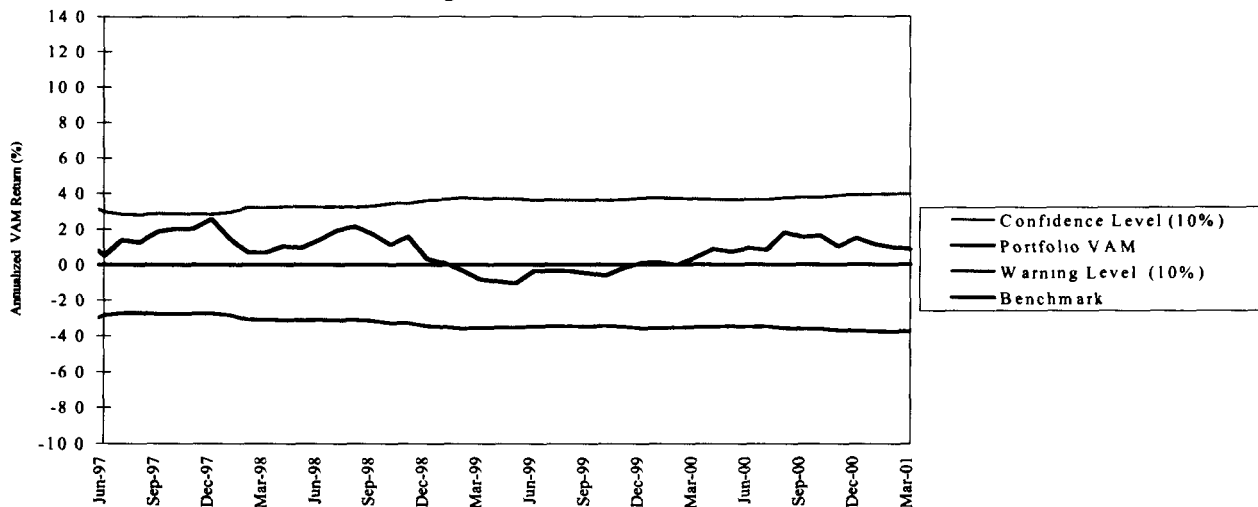
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-8.0%	-5.5%
Last 1 year	-35.4	-36.0
Last 2 years	3.2	-1.5
Last 3 years	-9.6	-8.4
Last 4 years	-10.4	-9.7
Last 5 years	N/A	N/A
Since Inception (5/96)	-6.7	-7.2

Recommendations

No action required.

MONTGOMERY ASSET MANAGEMENT
Rolling Five Year VAM



Note: Shaded area includes performance prior to managing SBI account

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending March, 2001

Portfolio Manager: Robert Meyer

Assets Under Management: \$98,168,195

Investment Philosophy

Morgan Stanley's style is core with a growth bias. They follow a top-down approach to country allocation and a bottom-up approach to stock selection. Morgan Stanley's macro-economic and stock selection analyses are qualitative as well as quantitative, concentrating on fundamentals. Their top-down analysis highlights countries with improving fundamentals and attractive valuations. Their bottom-up approach to stock selection focuses on purchasing companies with strong operating earnings potential at attractive valuations.

Staff Comments

Underperformance was primarily attributable to poor stock selection. Country allocation also detracted, as they held an overweight in South Korea, Brazil, and Israel, where markets fell 19.8%, 20.3%, and 30.6% respectively. With a two to four year time horizon, they have held their telecommunication stocks though the down turn over the past year. They maintain an overweight position in technology and telecommunication stocks, and have added where they see selective bargain opportunities specifically in the technology sector.

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 (3/01)	-20.5	-16.9

Recommendations

No action required.

VAM Graph will be drawn for period ending 3/31/2003.

SCHRODER INVESTMENT MANAGEMENT NORTH AMERICA INC.
Periods Ending March, 2001

Portfolio Manager: Mark Bridgeman

Assets Under Management: \$109,684,841

Investment Philosophy

Schroders believes in investing in growth at a reasonable price. They focus on identifying companies that can leverage the superior economic growth in emerging markets to generate above-average growth in earnings and cash flow. Their style aims to generate consistency of performance by taking multiple active positions in what are highly inefficient markets. Schroders uses a combination of top-down analysis and bottom-up stock selection, which varies with the state of development of the market.

Staff Comments

No comments at this time.

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 (3/01)	-18.7	-16.9

Recommendations

No action required.

VAM Graph will be drawn for period ending 3/31/2003.

STATE STREET GLOBAL ADVISORS
Periods Ending March, 2001

Portfolio Manager: Lynn Blake

Assets Under Management: \$1,781,534,672

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

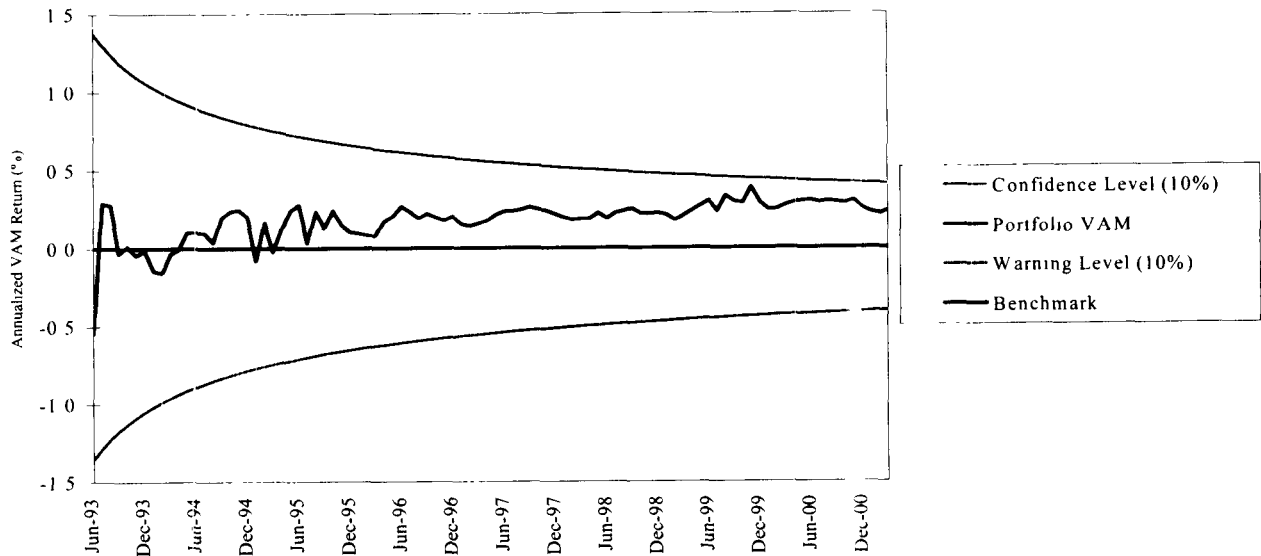
Quantitative Evaluation

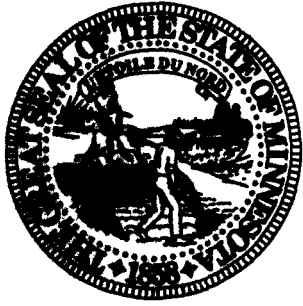
	Actual	Benchmark
Last Quarter	-13.8%	-13.7%
Last 1 year	-25.9	-25.9
Last 2 years	-3.5	-3.8
Last 3 years	-0.3	-0.6
Last 4 years	4.2	3.9
Last 5 years	3.7	3.4
Since Inception (10/92)	7.8	7.5

Recommendation

No action required.

STATE STREET GLOBAL ADVISORS
Cumulative Tracking





STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

First Quarter, 2001

**COMBINED RETIREMENT FUNDS
NON - RETIREMENT MANAGERS
Periods Ending March, 2001**

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market Value (\$ millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	
GE Investment Management (S&P 500 Index)*	-8.0	-11.9	-10.4	-21.7	7.3	3.0	16.6	14.2	20.0	18.0	\$58.72
Voyageur Asset Management (60% Lehman Aggregate/ 40% Lehman 1-3 U.S. Gov/Credit)*(2)	2.7	3.2	9.9	11.3	6.3	6.9	6.8	7.1	7.5	7.4	253.08
Internal Stock Pool (S&P 500 Index)*	-11.6	-11.9	-21.4	-21.7	3.2	3.0	14.3	14.2	15.3	15.2	854.29
Internal Bond Pool - Income Share (Lehman Aggregate)*(3)	3.4	3.0	12.1	12.5	7.1	6.9	7.8	7.5	8.7	8.4	216.23
Internal Bond Pool - Trust (Lehman Aggregate)*	3.2	3.0	12.0	12.5	7.1	6.9	7.8	7.5	8.5	8.0	856.67

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

- (1) Since retention by the SBI. Time period varies by manager.
- (2) Prior to January 2001, the benchmark was a custom benchmark.
- (3) Prior to July 1994, the benchmark was the Salomon BIG.

GE ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending March, 2001

Portfolio Manager: Gene Bolton

Assets Under Management: \$58,716,589

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

GE outperformed the benchmark for the first quarter primarily due to the portfolio's underweight in technology. For the year, the underweight in technology and better relative stock selection to the index contributed to the relative outperformance.

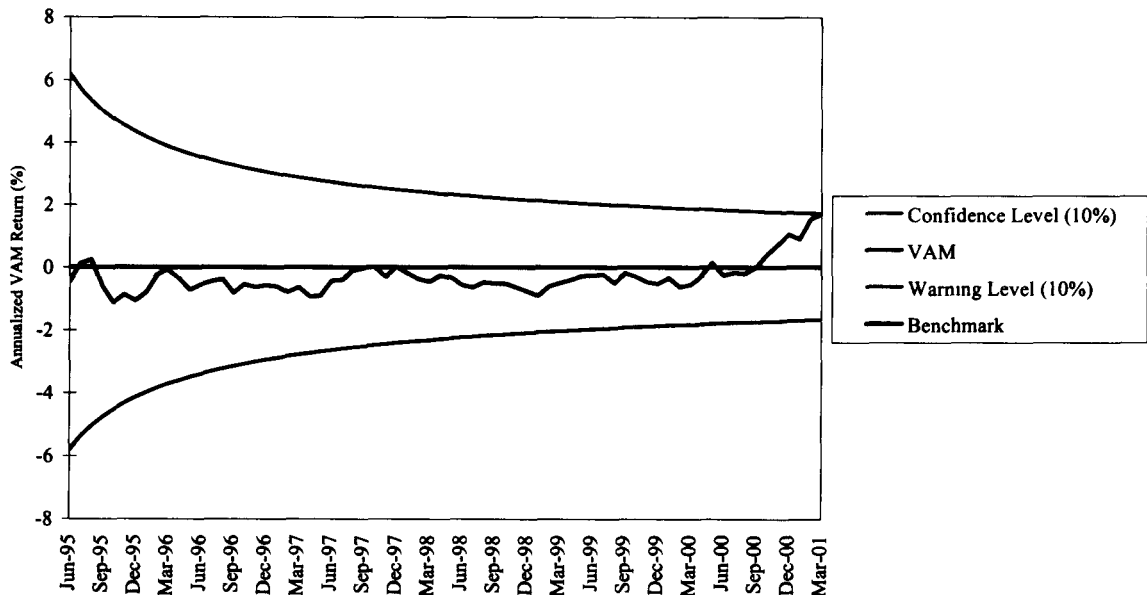
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-8.0%	-11.9%
Last 1 year	-10.4	-21.7
Last 2 years	2.4	-3.9
Last 3 years	7.3	3.0
Last 4 years	16.2	12.8
Last 5 years	16.6	14.2
Since Inception (1/95)	20.0	18.0

Recommendation

No recommendation at this time.

GE INVESTMENT MANAGEMENT
Cumulative Tracking



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending March, 2001

Portfolio Manager: Tom McGlinch

Assets Under Management: \$253,084,976

Investment Philosophy
Assigned Risk Plan

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

Staff Comments

Voyageur slightly trailed the quarterly benchmark. The new benchmark was effective January 1, 2001. As the portfolio shifted to the new benchmark, there were not enough long corporate positions prior to the January rally to keep pace with the benchmark. They trailed the one-year benchmark primarily due to losses from Finova. The portfolio was also negatively impacted by the underweight to the Treasury sector and Conesco holdings.

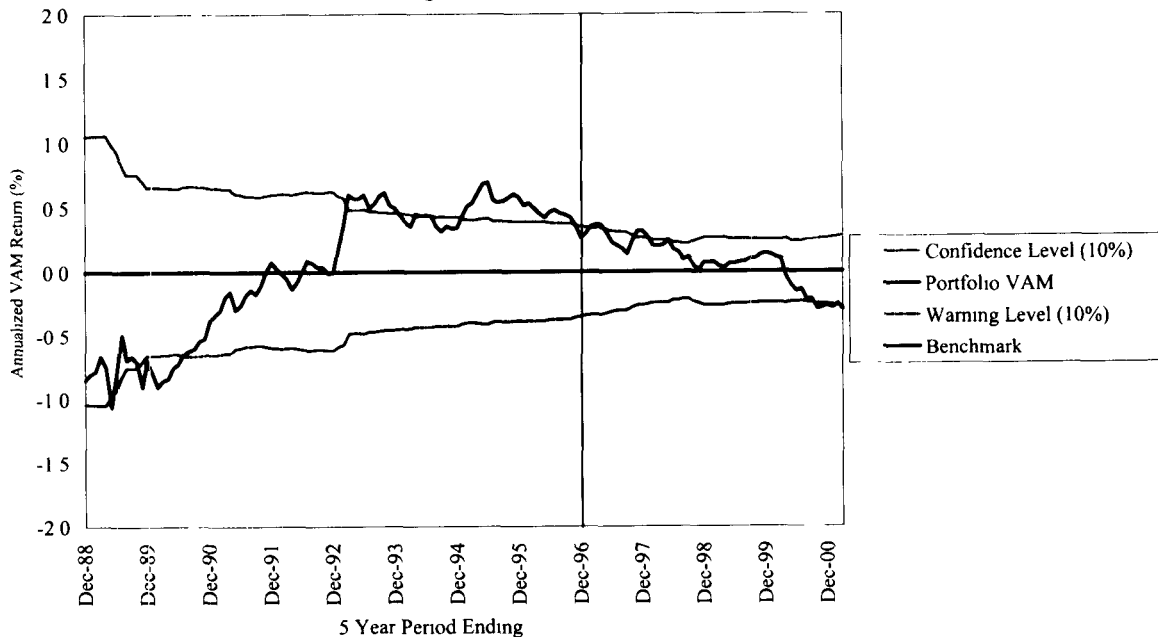
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.7%	3.2%
Last 1 year	9.9	11.3
Last 2 years	6.4	7.1
Last 3 years	6.3	6.9
Last 4 years	7.1	7.5
Last 5 years	6.8	7.1
Since Inception (7/91)	7.5	7.4

Recommendation

No action required.

VOYAGEUR ASSET MANAGEMENT
Rolling Five Year VAM



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, 2001

Portfolio Manager: Mike Messen

Assets Under Management: \$854,288,917

Investment Philosophy
Environmental Trust Fund
Permanent School Fund
Tobacco Endowment Funds

Staff Comments

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.

No comments at this time.

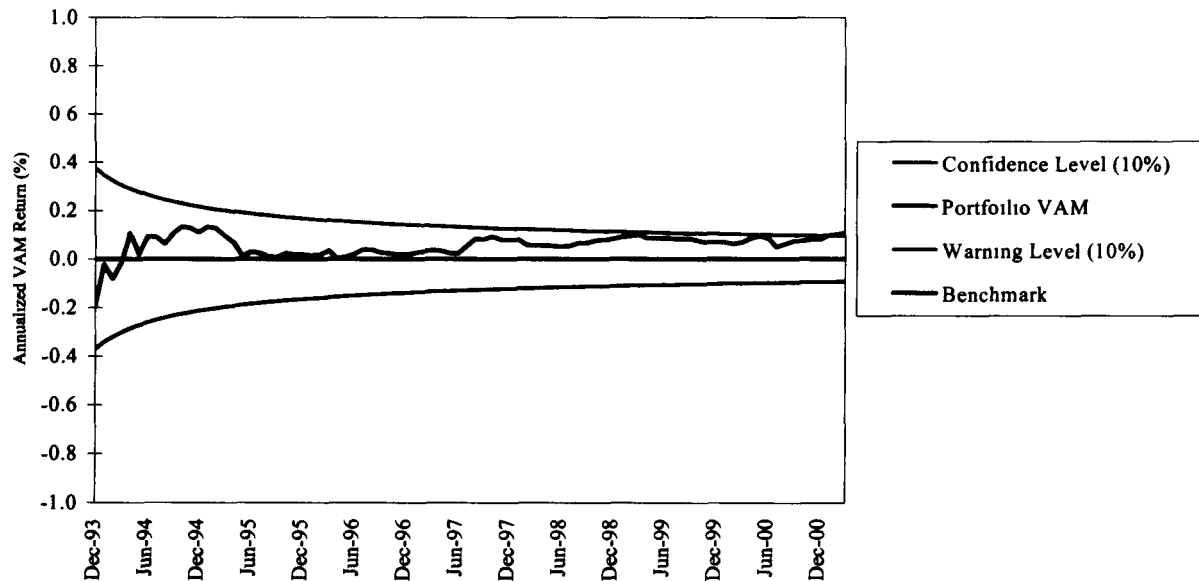
Quantitative Evaluation

Recommendation

	Actual	Benchmark
Last Quarter	-11.6%	-11.9%
Last 1 year	-21.4	-21.7
Last 2 years	-3.8	-3.9
Last 3 years	3.2	3.0
Last 4 years	13.0	12.8
Last 5 years	14.3	14.2
Since Inception (7/93)	15.3	15.2

No action required.

INTERNAL STOCK POOL
Trust/Non-Retirement Assets
Cumulative Tracking



INTERNAL BOND POOL - Income Share Account
Periods Ending March, 2001

Portfolio Manager: Mike Messen

Assets Under Management: \$216,230,591

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

The portfolio slightly outperformed the quarterly benchmark due to holding Owens Illinois, which reversed some of its losses from last quarter. The one-year underperformance was also due to holding Owens Illinois, and holding long treasury and BBB corporate bonds.

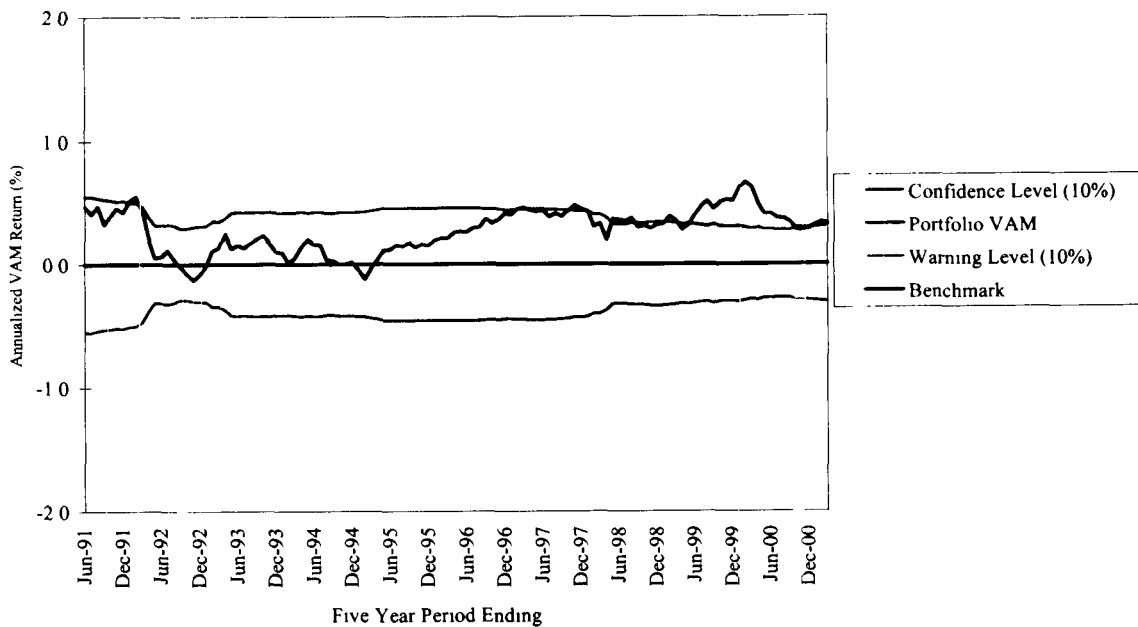
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.4%	3.0%
Last 1 year	12.1	12.5
Last 2 years	7.2	7.1
Last 3 years	7.1	6.9
Last 4 years	8.3	8.1
Last 5 years	7.8	7.5
Since Inception (7/86)	8.7	8.4

Recommendation

No action required.

INTERNAL BOND POOL - INCOME SHARE ACCOUNT
Rolling Five Year VAM



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending March, 2001

Portfolio Manager: Mike Messen

Assets Under Management: \$856,671,855

Investment Philosophy
Environmental Trust Fund
Permanent School Trust Fund
Tobacco Endowment Funds

Staff Comments

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.

The portfolio slightly outperformed the quarterly benchmark due to holding Owens Illinois, which reversed some of its losses from last quarter. The one-year underperformance was also due to holding Owens Illinois, and holding long treasury and BBB corporate bonds.

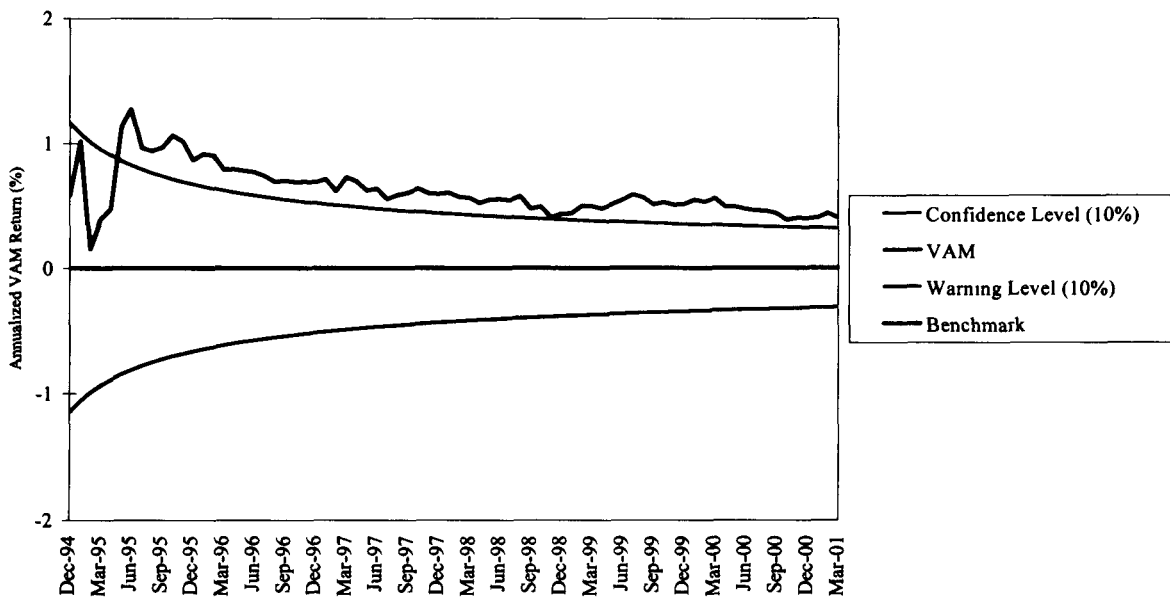
Quantitative Evaluation

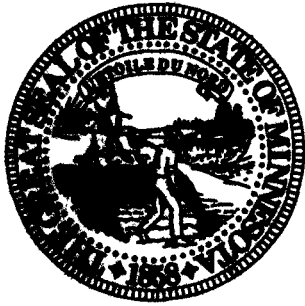
Recommendation

	Actual	Benchmark	No action required.
Last Quarter	3.2%	3.0%	
Last 1 year	12.0	12.5	
Last 2 years	7.3	7.1	
Last 3 years	7.1	6.9	
Last 4 years	8.3	8.1	
Last 5 years	7.8	7.5	
Since Inception (7/94)*	8.5	8.0	

* Date started managing the Permanent School Fund against the Lehman Aggregate.

INTERNAL BOND POOL - TRUST/NON-RETIREMENT ASSETS
Cumulative Tracking





STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

First Quarter, 2001

MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Periods Ending March, 2001

457 Mutual Funds	Quarter		1 Year		3 years		5 Years		Since Retention by SBI*		State's Participation
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	%	%	In Fund (\$ millions)
Large Cap Equity:											
Janus Twenty (S&P 500)**	-24.6	-11.9	-51.7	-21.7	7.1	3.0	17.2	14.2	-17.6	-8.1	247.60
Small Cap Equity:											
T. Rowe Price Small-Cap Equity (Russell 2000)**	-8.6	-6.5	-1.8	-15.3	3.1	-0.9	12.1	7.8	9.8	0.3	215.23
Equity Index:											
Vanguard Institutional Index (S&P 500)**	-11.9	-11.9	-21.5	-21.7	3.2	3.0	14.3	14.2	-8.0	-8.1	171.28
Balanced:											
INVESCO Total Return (60% S&P 500/40% Lehman Gov-Corp)**	-3.7	-6.0	-3.9	-11.4	-1.4	4.2	7.5	11.3	-8.3	-2.7	84.30
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)**	3.8	3.0	12.6	12.5	6.7	6.9	7.5	7.5	8.6	8.7	29.60
International:											
Fidelity Diversified International (MSCI EAFE-Free)**	-11.8	-13.7	-19.9	-25.9	6.9	-0.6	12.4	3.4	5.8	-5.6	75.05

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***:	6.4
Bid Rates for current quarter:	
Great West Life	7.0
Minnesota Life	7.0
Principal Life	7.0

***The Blended Yield Rate for the current quarter includes the return on the existing portfolio 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, 2001**

Portfolio Manager: Scott W. Schoelzel

**State's Participation in Fund: \$247,604,465
Total Assets in Fund: \$17,671,100,000**

**Investment Philosophy
Janus Twenty**

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

Staff Comments

Janus lagged the quarterly S&P 500 benchmark by a substantial margin and significantly trailed the one-year benchmark. Their technology and telecommunication holdings, in particular, hindered their quarterly and one-year return. Although the past year has been difficult, Janus remains committed to their strategy.

Quantitative Evaluation

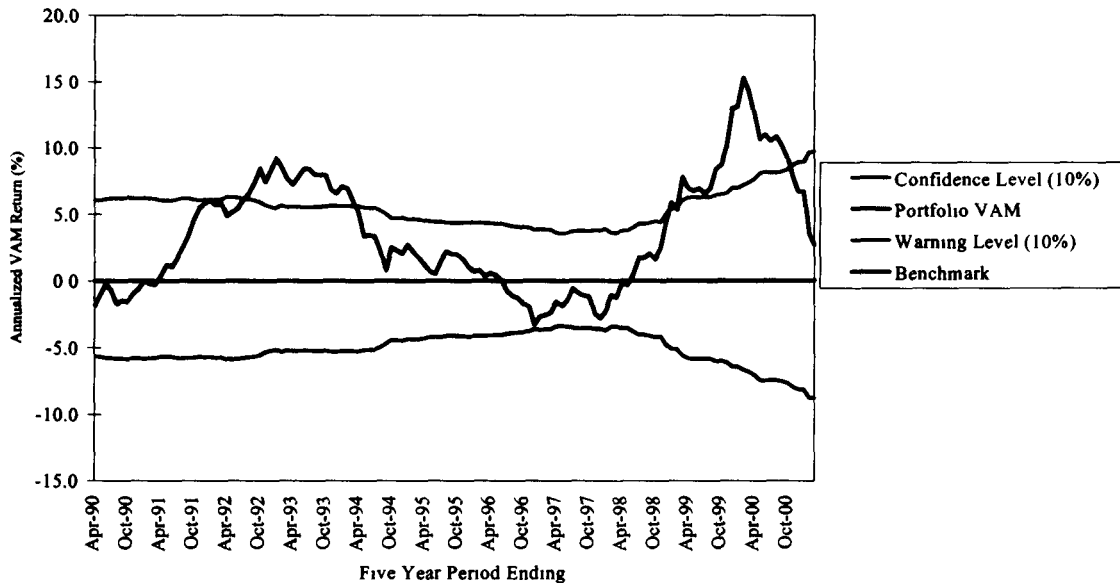
	Actual	Benchmark*
Last Quarter	-24.6%	-11.9%
Last 1 year	-51.7	-21.7
Last 2 years	-17.4	-3.9
Last 3 years	7.1	3.0
Last 4 years	16.8	12.8
Last 5 years	17.2	14.2
Since Retention by SBI (7/99)	-17.6	-8.1

Recommendation

No action required.

*Benchmark is the S&P 500.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

**LARGE CAP EQUITY - 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, 2001**

Portfolio Manager: Gregory A. McCrickard

**State's Participation in Fund: \$215,230,223
 Total Assets in Fund: \$2,325,302,538**

**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

Rowe-Price was hurt this quarter by their investments in the financial, consumer discretionary, and utilities sector. The one-year return continued to benefit from the previous strong stock selection in the financial sector. The technology stock selections aided results relative to the index

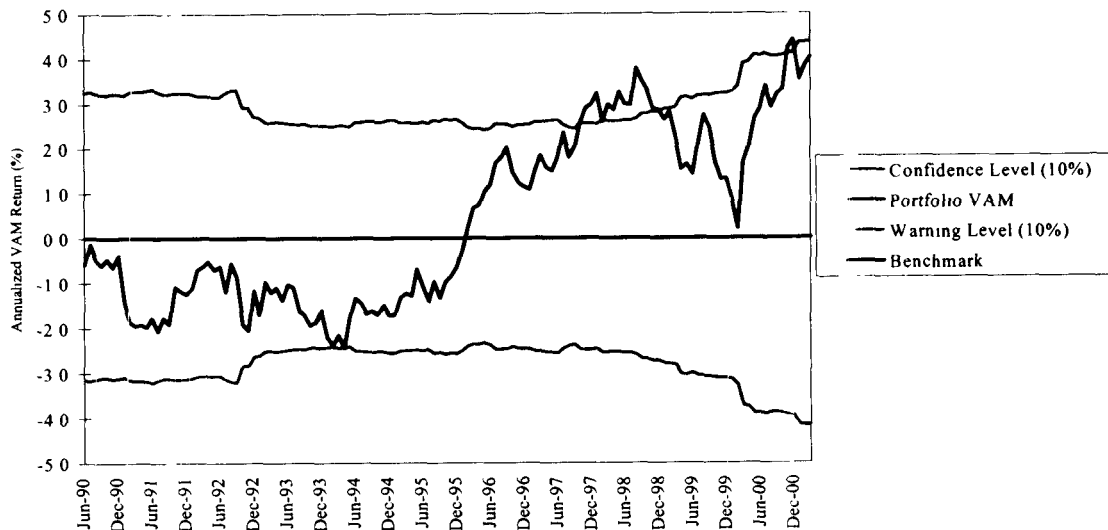
Quantitative Evaluation

	Actual	Benchmark*	No action required
Last Quarter	-8.6%	-6.5%	
Last 1 year	-1.8	-15.3	
Last 2 years	16.1	7.8	
Last 3 years	3.1	-0.9	
Last 4 years	12.2	8.4	
Last 5 years	12.1	7.8	
Since Retention by SBI (7/99)	9.8	0.3	

Recommendation

*Benchmark is the Russell 2000.
 Numbers in black are returns since retention by SBI.
 Numbers in blue include returns prior to retention by SBI.

**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 PLUS
Periods Ending March, 2001**

Portfolio Manager: George U. Sauter

**State's Participation in Fund: \$171,275,781
Total Assets in Fund: \$9,829,818,669**

**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

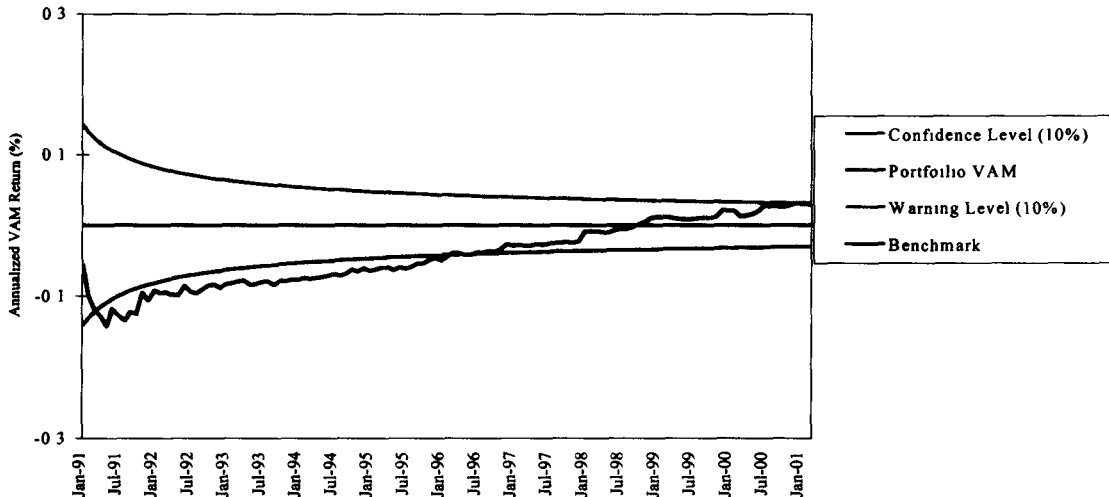
	Actual	Benchmark*
Last Quarter	-11.9%	-11.9%
Last 1 year	-21.5	-21.7
Last 2 years	-3.8	-3.9
Last 3 years	3.2	3.0
Last 4 years	12.9	12.8
Last 5 years	14.3	14.2
Since Retention by SBI (7/99)	-8.0	-8.1

Recommendation

No action required.

*Benchmark is the S&P 500.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

**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, 2001**

Portfolio Manager: Charlie Mayer

**State's Participation in Fund: \$84,298,201
Total Assets in Fund: \$1,543,700,000**

**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 outperformed the quarterly and one-year benchmark. The portfolio was helped by value coming back into favor and the strong bond returns.

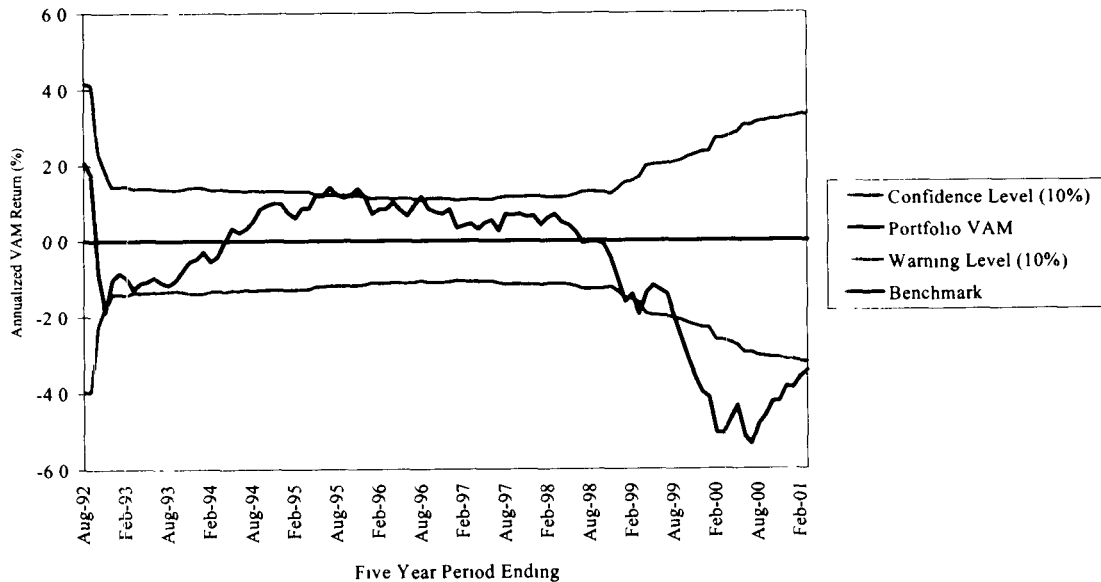
Quantitative Evaluation

	Actual	Benchmark*	No action required
Last Quarter	-3.7%	-6.0%	
Last 1 year	-3.9	-11.4	
Last 2 years	-3.5	-0.6	
Last 3 years	-1.4	4.2	
Last 4 years	6.3	10.7	
Last 5 years	7.5	11.3	
Since Retention by SBI (7/99)	-8.3	-2.7	

Recommendation

*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.

**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, 2001**

Portfolio Manager: Dana Emery

**State's Participation in Fund: \$29,603,655
Total Assets in Fund: \$1,226,679,114**

**Investment Philosophy
Dodge & Cox Income Fund**

The objective of this fund is a high and stable rate of current income with capital appreciation being a secondary consideration. This portfolio is invested primarily in intermediate term, investment-grade quality corporate and mortgage bonds and, to a lesser extent, government issues. While the fund invests primarily in the U. S. bond market, it may invest a small portion of assets in dollar-denominated foreign securities. The duration of the portfolio is kept near that of the bond market as a whole.

Staff Comments

Dodge and Cox continues to position the portfolio with a higher allocation to corporate securities. This contributed to the quarterly outperformance along with the corporate and mortgage holdings in the portfolio performing well relative to the corporate and mortgage components of the Lehman index.

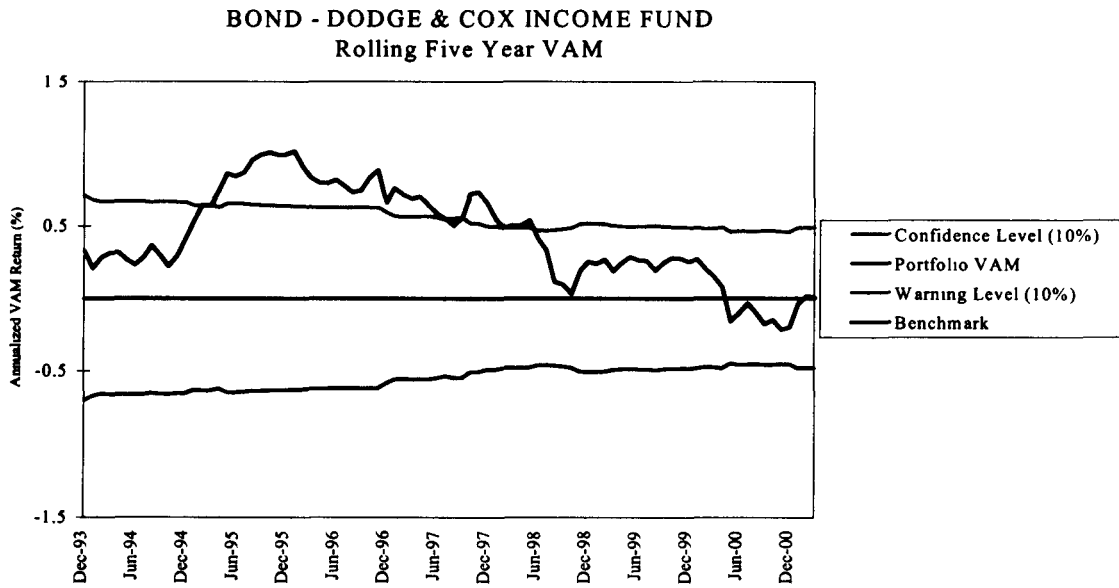
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	3.8%	3.0%
Last 1 year	12.6	12.5
Last 2 years	7.0	7.1
Last 3 years	6.7	6.9
Last 4 years	8.1	8.1
Last 5 years	7.5	7.5
Since Retention		
By SBI	8.6	8.7
(7/99)		

Recommendation

No action required.

*Benchmark is the Lehman Aggregate.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.



Note: Shaded area includes performance prior to managing SBI account

**MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending March, 2001**

Portfolio Manager: Gregory Fraser

**State's Participation in Fund: \$75,046,089
Total Assets in Fund: \$6,483,264,350**

**Investment Philosophy
Fidelity Diversified International**

The goal of this fund is capital appreciation by investing in securities of companies located outside of the United States. While the fund invests primarily in stocks, it may also invest in bonds. Most investments are made in companies that have a market capitalization of \$100 million or more and which are located in developed countries. To select the securities, the fund utilizes a rigorous computer-aided quantitative analysis supplemented by relevant economic and regulatory factors. The manager rarely invests in currency to protect the account from exchange fluctuations.

Staff Comments

Fidelity announced in April that Greg Fraser was leaving Fidelity to start his own firm. Greg's replacement is William Bower who was the portfolio manager for Fidelity's International Growth and Income Fund. Staff plans to visit Fidelity to discuss the changes.

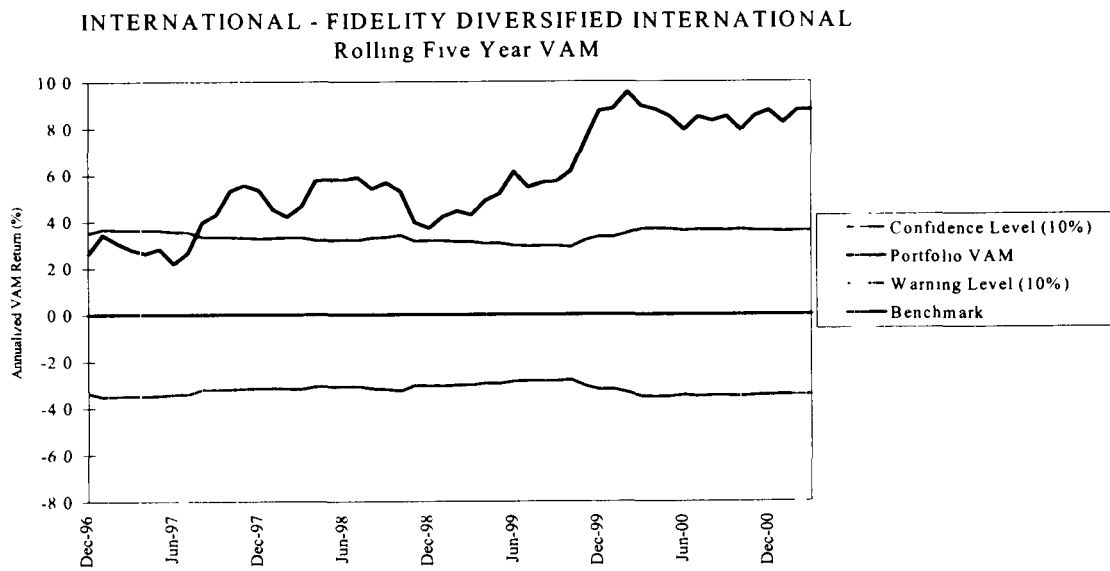
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-11.8%	-13.7%
Last 1 year	-19.9	-25.9
Last 2 years	8.6	-3.8
Last 3 years	6.9	-0.6
Last 4 years	11.3	3.9
Last 5 years	12.4	3.4
Since Retention By SBI (7/99)	5.8	-5.6

Recommendation

No action required

*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.



Note: Shaded area includes performance prior to managing SBI account

**MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending March, 2001**

Total Assets in MN Fixed Fund: \$157,608,632 *

***Includes \$10-12M in Liquidity Buffer Account**

Total Assets in 457 Plan: \$586,761,836 **

****Includes all assets in new and old fixed options**

Principal Life

Investment Philosophy

Ratings: Moody's Aa2
 S&P AA
 A.M. Best A+
 Duff & Phelps AA+

Assets in MN Fixed Fund: \$52,163,790

The manager invests in fixed income securities, commercial mortgages, mortgage-backed securities and residential whole loans, with lesser amounts invested in stock, cash equivalents and direct real estate. The manager relies upon in-house analysis and prefers investments that offer more call protection. The manager strongly prefers private placements to corporate bonds in the belief that private placements offer higher yields and superior protective covenants compared to public bonds. A portion of the fixed income portfolio is invested in US dollar-denominated foreign corporate bonds. Mortgage-backed bonds are actively managed to prices at or below par to reduce prepayment risk. Conservative underwriting standards, small loan sizes and an emphasis on industrial properties minimizes commercial loan risk.

Minnesota Life

Investment Philosophy

Ratings: Moody's Aa2
 S&P AA+
 A.M. Best A++
 Duff & Phelps AA+

Assets in MN Fixed Fund: \$49,044,213

Assets in Prior MN 457 Plan: \$186,489,161

Total Assets: \$235,533,374

Investment decisions support an asset/liability match for the company's many product lines. A conservative investment philosophy uses a number of active and passive investment strategies to manage general account assets and cash flow. Assets are primarily invested in a widely diversified portfolio of high quality fixed income investments that includes public and private corporate bonds, commercial mortgages, residential mortgage securities and other structured investment products, providing safety of principal and stable, predictable cash flow to meet liabilities and to invest in and produce consistent results in all phases of the economic cycle.

Great West Life

Investment Philosophy

Ratings: Moody's Aa2
 S&P AA+
 A.M. Best A++
 Duff & Phelps AAA

Assets in MN Fixed Fund: \$46,378,993

Assets in Prior MN 457 Plan: \$242,664,043

Total Assets: \$289,043,037

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, 2001**

Current Quarter

Dollar Amount of Bid: \$28,200,000

Blended Rate: 6.41%

Bid Rates:

Principal Life 6.98%

Minnesota Life 7.02%

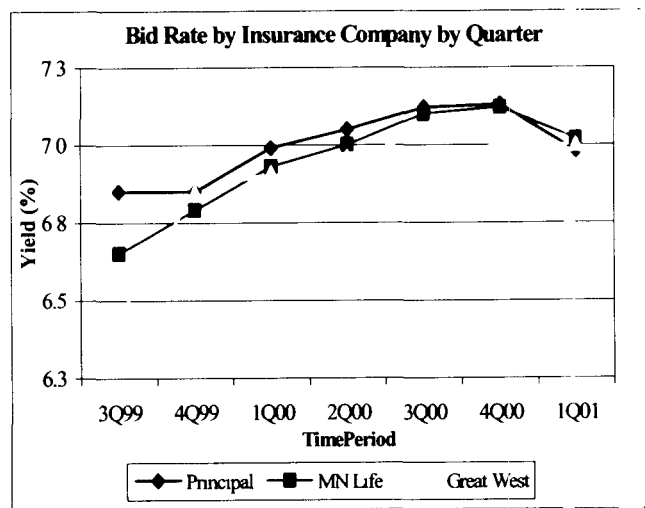
Great West Life 7.00%

Dollar Amount in existing

Minnesota Life portfolio: \$186,489,161

Rate on existing

Minnesota Life portfolio: 5.97 %



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 decreased from last quarter. The overall bid rates decreased from the prior quarter.

Percentage Allocation of Dollars by Quarter

	2Q00	3Q00	4Q00	1Q01
Principal Life	33.3%	33.3%	35.0%	33.3%
Minnesota Life	33.3%	33.3%	35.0%	33.3%
Great West Life	33.3%	33.3%	30.0%	33.3%

Staff Comments

For the first quarter, the percentage allocation of the bid dollars to each insurance company was equal since all three companies' bid rates were within ten basis points of each other

Tab E

COMMITTEE REPORT

DATE: May 29, 2001

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met on May 17, 2001 to review the following information and action items:

- Review of current strategy.
- Investment for the Post Retirement Fund with a new private equity manager, Levine Leichtman Capital Partners III, L.P.
- Investment for the Post Retirement Fund with a new real estate manager, Heller Real Estate Partners II, L.P.

The Board/IAC action is required on the last two items.

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.

- 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.
- 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.

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.

ACTION ITEMS:

- 1) **Investment for the Post Retirement Fund with a new real estate manager, Heller Real Estate, in Heller Real Estate Partners II, L.P.**

Heller Real Estate is seeking investors for a new \$500 million real estate fund, Heller Real Estate Partners II, L.P. This fund is the second real estate mezzanine fund managed by Heller Real Estate. This fund, like the prior fund, will specialize in real estate mezzanine investments.

More information on Heller Real Estate Partners II, L.P. 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 \$75 million or 20%, whichever is less, in Heller Real Estate Partners II, L.P. This commitment will be allocated to the Post 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 Heller Real Estate, Inc. 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 Heller Real Estate, Inc. or reduction or termination of the commitment.

- 2) Investment for the Post Retirement Fund with a new private equity manager, Levine Leichtman Capital Partners, in Levine Leichtman Capital Partners III, L.P.**

Levine Leichtman Capital Partners is seeking investors for a new \$800 million private equity fund, Levine Leichtman Capital Partners III, L.P. This fund, like their prior funds, will specialize in mezzanine investments.

More information on Levine Leichtman Capital Partners III, L.P. is included as **Attachment D.**

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$75 million or 20%, whichever is less, in Levine Leichtman Capital Partners III, L.P. This commitment will be allocated to the Post 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 Levine Leichtman Capital Partners 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 Levine Leichtman Capital Partners or reduction or termination of the commitment.

ATTACHMENT A

Minnesota State Board of Investment
Alternative Investments
Basic Retirement Funds
March 31, 2001

Market Value of Basic Retirement Funds \$18,329,310,052
Amount Available for Investment **\$239,992,477**

	Current Level	Target Level	Difference
Market Value	\$2,509,404,031	\$2,749,396,508	\$239,992,477
MV +Unfunded	\$3,490,698,469	\$3,665,862,010	\$175,163,541

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	\$829,498,697	\$15,735,056	\$845,233,753
Private Equity	\$1,435,136,488	\$905,108,344	\$2,340,244,832
Resource	\$244,768,846	\$60,451,039	\$305,219,884
Total	\$2,509,404,031	\$981,294,439	\$3,490,698,469

Minnesota State Board of Investment
Alternative Investments
Post Retirement Funds
March 31, 2001

Market Value of Post Retirement Funds	\$18,506,645,376
Amount Available for Investment	\$468,098,434

	Current Level	Target Level	Difference
Market Value	\$457,233,835	\$925,332,269	\$468,098,434
MV +Unfunded	\$1,006,471,303	\$1,850,664,538	\$844,193,235

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	\$82,744,555	\$14,450,781	\$97,195,336
Private Equity	\$309,911,178	\$404,352,820	\$714,263,998
Resource	\$64,578,102	\$130,433,867	\$195,011,969
Total	\$457,233,835	\$549,237,468	\$1,006,471,303

ATTACHMENT B

State of Minnesota
- Alternative Investments -

As of March 31, 2001

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<u>Real Estate-Basic</u>							
Aetna	42,376,529	42,376,529	150,458,643	0	0	7.56	18.92
AEW V	15,000,000	15,000,000	375,591	11,169,287	0	-2.77	13.29
Colony Capital							
<i>Colony Investors II</i>	40,000,000	38,985,164	11,855,700	34,653,001	1,014,836	7.06	6.00
<i>Colony Investors III</i>	100,000,000	95,635,379	107,059,863	14,968,455	4,364,621	12.91	3.25
Equity Office Properties Trust	140,388,854	140,388,854	239,129,078	35,983,783	0	18.93	9.34
First Asset Realty Fund	916,185	916,185	121,640	965,751	0	4.97	6.92
Heitman							
<i>Heitman Advisory Fund I</i>	20,000,000	20,000,000	2,310,122	20,190,280	0	1.49	16.64
<i>Heitman Advisory Fund II</i>	30,000,000	30,000,000	3,749,722	39,875,588	0	4.02	15.36
<i>Heitman Advisory Fund III</i>	20,000,000	20,000,000	139,876	22,174,237	0	1.34	14.19
<i>Heitman Advisory Fund V</i>	20,000,000	20,000,000	12,936,120	22,915,207	0	9.48	9.32
Lasalle Income Parking Fund	15,000,000	14,844,401	8,098,144	17,458,309	355,599	10.56	9.53
Lend Lease Real Estate Investments	40,000,000	40,000,000	132,805,374	2,745,560	0	6.74	19.47
RREEF USA Fund III	75,000,000	75,000,000	516,413	121,039,987	0	4.75	16.89
T.A. Associates Realty							
<i>Realty Associates Fund III</i>	40,000,000	40,000,000	56,783,151	23,590,387	0	14.34	6.83
<i>Realty Associates Fund IV</i>	50,000,000	50,000,000	61,733,941	13,200,226	0	13.96	4.16
<i>Realty Associates Fund V Corporation</i>	50,000,000	40,000,000	41,316,705	3,833,367	10,000,000	8.63	1.85
TCW							
<i>TCW Realty Fund III</i>	40,000,000	40,000,000	0	48,724,449	0	2.05	15.66
<i>TCW Realty Fund IV</i>	30,000,000	30,000,000	100,989	28,945,133	0	-0.34	14.41
Fund in Liquidation (AEW III)	20,000,000	20,000,000	7,626	24,134,114	0	1.75	15.57
Real Estate - Basic Totals	788,681,568	772,946,512	829,498,697	486,567,123	15,735,056		
<u>Real Estate-Post</u>							
Colony Capital	40,000,000	38,985,164	11,855,700	34,653,001	1,014,836	7.06	6.00
Westmark Realty Advisors							
<i>Westmark Coml MTG Fund II</i>	13,500,000	13,397,500	11,279,181	7,971,330	102,500	9.79	5.68
<i>Westmark Coml MTG Fund III</i>	21,500,000	21,275,052	20,822,462	7,092,269	224,948	8.79	4.33
<i>Westmark Coml MTG Fund IV</i>	14,300,000	14,300,000	14,114,446	2,746,751	0	8.11	3.25
<i>Westmark Coml MTG Fund V</i>	37,200,000	24,091,503	24,672,766	1,856,885	13,108,497	12.66	1.66
Real Estate - Post Totals	126,500,000	112,049,219	82,744,555	54,320,236	14,450,781		
Real Estate Totals	915,181,568	884,995,731	912,243,252	540,887,358	30,185,837		

State of Minnesota
- Alternative Investments -

As of March 31, 2001

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Venture Capital-Basic							
Bank Fund							
<i>Banc Fund III</i>	20,000,000	20,000,000	10,595,314	34,720,049	0	16.55	8.43
<i>Banc Fund IV</i>	25,000,000	25,000,000	23,883,225	7,899,075	0	7.34	5.12
<i>Banc Fund V</i>	48,000,000	33,600,000	31,639,440	1,289,399	14,400,000	-1.47	2.71
Blackstone Capital Partners II	50,000,000	47,271,190	27,217,383	56,298,390	2,728,810	36.22	7.35
Brinson Partners							
<i>Bnsson Partners I</i>	5,000,000	5,000,000	469,668	9,052,616	0	11.18	12.89
<i>Bnsson Partners II</i>	20,000,000	19,579,998	2,893,829	37,109,218	420,002	26.16	10.34
Churchill Capital Partners II	20,000,000	20,000,000	5,712,070	22,829,892	0	12.31	8.42
Contrarian Capital Fund II L.P.	37,000,000	37,000,000	32,426,804	12,446	0	-4.49	3.83
Coral Partners							
<i>Coral Partners Fund I</i>	7,011,923	7,011,923	1,122,590	6,429,665	0	1.12	14.78
<i>Coral Partners Fund II</i>	10,000,000	8,069,315	1,599,580	36,117,047	1,930,685	25.43	10.68
<i>Coral Partners Fund IV</i>	15,000,000	15,000,000	18,597,710	9,641,107	0	19.65	6.69
<i>Coral Partners Fund V</i>	15,000,000	12,000,000	15,988,364	152,481	3,000,000	23.01	2.79
Crescendo							
<i>Crescendo II</i>	15,000,000	14,994,773	17,064,068	20,341,812	5,227	50.39	4.24
<i>Crescendo III, L.P.</i>	25,000,000	25,000,000	42,055,749	8,084,795	0	62.88	2.40
<i>Crescendo IV</i>	100,000,000	57,500,000	56,414,343	0	42,500,000	-3.21	1.06
DLJ							
<i>DLJ Merchant Banking Partners III</i>	125,000,000	32,735,185	32,735,185	0	92,264,815	-4.44	0.50
<i>DLJ Strategic Partners, L.P.</i>	100,000,000	22,896,959	21,770,778	1,169,758	77,103,041	-3.30	N/A
DSV Partners IV	10,000,000	10,000,000	1,470,544	27,382,838	0	9.57	15.97
First Century Partners III	10,000,000	10,000,000	3,024,279	14,103,791	0	8.92	16.29
Fox Paine Capital Fund							
<i>Fox Paine Capital Fund</i>	40,000,000	34,380,654	63,528,710	0	5,619,346	41.87	2.94
<i>Fox Paine Capital Fund II</i>	50,000,000	782,544	213,327	0	49,217,456	-93.29	0.75
Golder, Thoma, Cressey, Rauner							
<i>Golder, Thoma, Cressey Fund III</i>	14,000,000	14,000,000	5,058,458	55,538,647	0	30.40	13.42
<i>Golder, Thoma, Cressey & Rauner Fund IV</i>	20,000,000	19,750,000	6,038,438	33,369,175	250,000	25.30	7.16
<i>Golder, Thoma, Cressey & Rauner Fund V</i>	30,000,000	30,000,000	29,857,298	8,285,224	0	9.03	4.75
GS Capital Partners 2000	50,000,000	4,554,446	3,966,012	0	45,445,554	-17.03	0.58
GTCR Golder Rauner							
<i>GTCR VI</i>	90,000,000	86,437,778	67,896,976	49,263,209	3,562,222	31.20	2.75
<i>GTCR Fund VII</i>	175,000,000	59,077,603	57,288,680	0	115,922,397	-4.64	N/A
Hellman & Friedman							
<i>Hellman & Friedman Capital Partners III</i>	40,000,000	32,432,434	9,812,069	53,467,107	7,567,566	35.13	6.53
<i>Hellman & Friedman Capital Partners IV</i>	150,000,000	33,364,564	13,115,414	34,136,841	116,635,436	95.08	1.25
Kohlberg Kravis Roberts							
<i>KKR 1986 Fund</i>	18,365,339	18,365,339	6,493,688	202,800,106	0	28.04	14.96
<i>KKR 1987 Fund</i>	145,950,000	145,373,652	160,171,094	301,894,213	576,348	11.20	13.35
<i>KKR 1993 Fund</i>	150,000,000	150,000,000	56,065,057	261,317,938	0	19.45	7.28
<i>KKR 1996 Fund</i>	200,000,000	186,879,675	190,760,669	50,230,953	13,120,325	13.14	4.58
GHJM Marathon Fund IV	40,000,000	15,170,000	15,155,664	0	24,830,000	-8.66	1.96
Piper Jaffrey Healthcare							
<i>Piper Jaffrey Healthcare Fund II</i>	10,000,000	9,200,000	9,162,185	658,415	800,000	2.64	4.08
<i>Piper Jaffrey Healthcare Fund III</i>	20,000,000	12,631,115	12,587,171	197,173	7,368,885	0.19	2.19
RCBA Strategic Partners, L.P.	50,000,000	49,302,291	49,720,650	11,713,309	697,709	15.51	2.27
Summit Partners							
<i>Summit Ventures II, L.P.</i>	30,000,000	28,500,000	2,555,816	70,684,540	1,500,000	28.77	12.88
<i>Summit Ventures V, L.P.</i>	25,000,000	18,750,000	19,123,753	4,812,999	6,250,000	15.81	3.00
T Rowe Price	507,775,774	507,775,774	16,164,228	497,580,856	0	4.52	N/A
Thoma Cressey							
<i>Thoma Cressey Fund VI, L.P.</i>	35,000,000	29,050,000	32,735,370	0	5,950,000	9.35	2.61
<i>Thoma Cressey Fund VII, L.P.</i>	50,000,000	5,500,000	5,500,000	0	44,500,000	0.00	0.60
Vestor Capital Partners IV, L.P.	55,000,000	8,045,257	7,679,207	369,185	46,954,743	-13.02	1.29
Warburg Pincus							
<i>Warburg, Pincus Equity Partners</i>	100,000,000	79,000,000	86,397,846	5,627,738	21,000,000	13.46	2.76
<i>Warburg, Pincus Ventures, L.P.</i>	50,000,000	50,000,000	96,367,998	173,297,293	0	58.02	6.25
Welsh, Carson, Anderson & Stowe							
<i>WCAS VIII</i>	100,000,000	93,000,000	110,357,520	0	7,000,000	12.10	2.69
<i>WCAS IX</i>	125,000,000	23,750,000	18,890,560	0	101,250,000	-20.67	0.76
William Blair Capital Partners VII	50,000,000	1,700,000	1,700,000	0	48,300,000	0.00	N/A
Funds in Liquidation (Matrix II, Matrix III, Summit I, & Zell/Chilmark)	60,000,000	60,000,000	1,988,681	215,945,756	0	N/A	N/A
Venture Capital - Basic Totals	3,138,103,036	2,229,432,470	1,503,033,464	2,323,825,056	908,670,566		

State of Minnesota
- Alternative Investments -

As of March 31, 2001

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<i>Venture Capital-Post</i>							
Citicorp Mezzanine							
<i>Citicorp Mezzanine II</i>	40,000,000	40,000,000	27,151,113	26,808,767	0	13.76	6.25
<i>Citicorp Mezzanine III</i>	100,000,000	22,197,828	23,153,955	588,514	77,802,172	8.88	1.41
DLJ Investment Partners II	50,000,000	18,749,788	18,808,749	94,284	31,250,212	1.06	1.25
GS Mezzanine Partners II	100,000,000	14,000,000	9,420,754	0	86,000,000	-39.89	1.08
GTCR Capital Partners	80,000,000	57,600,000	59,665,882	4,036,454	22,400,000	12.43	1.38
KB Mezzanine Partners Fund II	25,000,000	24,999,999	14,324,849	4,569,257	1	-10.84	5.50
Summit Partners							
<i>Summit Sub. Debt Fund I</i>	20,000,000	18,000,000	946,192	30,380,469	2,000,000	30.84	7.00
<i>Summit Sub. Debt Fund II</i>	45,000,000	27,000,000	16,294,799	54,701,223	18,000,000	68.37	3.66
T. Rowe Price	52,990,378	52,990,378	776,541	51,835,575	0	-4.31	N/A
TCW/Crescent Mezzanine							
<i>TCW/Crescent Mezzanine Partner</i>	40,000,000	39,488,566	26,105,591	20,800,326	511,434	7.36	5.00
<i>TCW/Crescent Mezzanine Partner II</i>	100,000,000	100,000,000	77,226,581	37,843,768	0	11.57	2.35
<i>TCW/Crescent Mezzanine Partners III</i>	75,000,000	0	0	0	75,000,000	0.00	0.00
William Blair Mezzanine III	60,000,000	26,031,600	26,747,912	450,000	33,968,400	5.93	1.25
Windjammer Mezzanine & Equity Fund II	66,708,861	9,288,260	9,288,260	0	57,420,601	N/A	1.00
Venture Capital - Post Totals	854,699,239	450,346,419	309,911,178	232,108,637	404,352,820		
Venture Capital Totals	3,992,802,275	2,679,778,889	1,812,944,642	2,555,933,693	1,313,023,386		

State of Minnesota
- Alternative Investments -

As of March 31, 2001

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<u>Resource-Basic</u>							
Apache Corp	30,000,000	30,000,000	3,683,490	44,555,575	0	11 26	14 25
First Reserve							
<i>First Reserve I</i>	15,000,000	15,000,000	991,000	14,375,857	0	0 11	19 50
<i>First Reserve II</i>	7,000,000	7,000,000	1,403,000	14,708,388	0	6 47	18 15
<i>First Reserve IV</i>	12,300,000	12,300,000	0	31,030,962	0	13 15	12 87
<i>First Reserve V</i>	16,800,000	16,800,000	149,000	50,261,377	0	16 23	10 92
<i>First Reserve VII</i>	40,000,000	40,000,000	38,124,319	27,100,697	0	20 55	4 75
<i>First Reserve VIII</i>	100,000,000	69,634,078	86,896,539	13,492,783	30,365,922	29 03	2 92
Morgan Oil & Gas	15,000,000	15,000,000	3,899,033	20,906,987	0	6 82	12 60
Simmons							
<i>Simmons - SCF Fund II</i>	17,000,000	14,847,529	26,352,179	8,960,071	2,152,471	12 26	9 65
<i>Simmons - SCF Fund III</i>	25,000,000	21,472,355	39,797,991	12,041,451	3,527,646	24 50	5 75
<i>Simmons - SCF Fund IV</i>	50,000,000	25,595,000	31,174,328	740,908	24,405,000	9 33	3 00
T. Rowe Price	17,396,296	17,396,296	12,297,965	3,724,922	0	-58 41	N/A
Resource - Basic Totals	345,496,296	285,045,257	244,768,846	241,899,978	60,451,039		
<u>Resource-Post</u>							
Merit Energy Partners							
<i>Ment Energy Partners B L P</i>	24,000,000	19,997,406	28,293,882	4,300,623	4,002,594	17 68	4 75
<i>Ment Energy Partners C</i>	50,000,000	23,568,727	36,284,220	2,030,966	26,431,273	33 47	2 42
<i>Ment Energy Partners D</i>	100,000,000	0	0	0	100,000,000	N/A	N/A
Resource - Post Totals	174,000,000	43,566,133	64,578,102	6,331,589	130,433,867		
Resource Totals	519,496,296	328,611,390	309,346,948	248,231,567	190,884,906		

ATTACHMENT C

REAL ESTATE MANAGER SUMMARY PROFILE – POST FUND

I. Background Data

Name of Fund:	Heller Real Estate Partners II, L.P.
Type of Fund:	Real Estate Limited Partnership
Total Fund Size:	\$300 million - \$500 million
Fund Manager:	Heller Real Estate II, Inc.
Manager Contact:	Dean Egerter 500 West Monroe Chicago, Illinois 60661 (312) 441-7000

II. Organization and Staff

Heller Real Estate Partners II, L.P. (the "Fund" or "HMF II") is being established with the objective of providing Investors with attractive risk-adjusted returns from investments in mezzanine real estate loans originated by Heller Real Estate Finance ("Heller Real Estate"), a division of Heller Financial, Inc. ("Heller"). The general partner ("GP") of the Fund shall be Heller Real Estate II, Inc., a Delaware corporation and a wholly-owned subsidiary of Heller.

Heller Financial, Inc. with its executive offices in Chicago, is a publicly traded (NYSE: HF) diversified commercial financial services company. Originally founded in 1919, Heller was purchased by a subsidiary of The Fuji Bank, Limited ("Fuji") in 1984. Fuji owned 100% of Heller's shares until May 1998 when Heller offered its common stock to the public through an initial public offering. Fuji currently holds approximately 77% of the voting interest and 52% of the economic interest in Heller. Fuji is part of a recent combination of Japanese financial institutions that resulted in the creation of the largest bank holding company in the world, The Mizuho Group.

Heller provides a broad array of financial products and services including real estate finance to mid-sized and small businesses in the United States and selected international markets.

Heller Real Estate is led by a by an eight-person senior management team that has substantial real estate experience drawn from a diverse array of functional experience including origination, credit, portfolio management, legal, and asset management. Key functional areas represented within the senior management team related to the mezzanine loan product include Domestic Origination, Syndications/Investor Relations, International Origination, Credit, and Portfolio Management each headed by a Managing Director. Overall, Heller Real Estate has 65 experienced real estate professionals dedicated to sourcing, underwriting, credit evaluation, and portfolio management of its mezzanine loans.

While headquartered in Chicago, Heller Real Estate strongly believes in a local market focus in both the origination and portfolio management functions and has established five key regional offices as well as three origination offices in major markets across the United States. Additionally, Heller Real Estate operates international offices in Toronto, Canada and Mexico City, Mexico.

III. Investment Strategy

The Fund will invest in yield-enhancement opportunities in transitioning commercial properties. Opportunities will include existing and to-be-developed properties in favored markets and property types. Heller Real Estate will work with preferred repeat borrowers as well as promising new borrowers. Investors can anticipate HMF II's investment portfolio to be diversified geographically and to have an average loan size of approximately \$4 million to \$5 million. The Fund will target an average annual unleveraged return of 21% for its Loan portfolio, before fees and expenses. All Loans will be realistically underwritten using Heller Real Estate's credit guidelines and will have loan structures designed to create alignment of interests between the borrower and Heller

Management believes that the current environment in the U.S.'s commercial property and capital markets presents a large and attractive opportunity for HMF II. In light of increasingly conservative industry underwriting standards, there continues to be strong borrower demand for mezzanine loan financing to fill the "gap" between traditional first mortgage financing and borrower equity.

While the mezzanine real estate loan product is not unique to Heller, Heller Real Estate believes that it occupies an attractive niche in this market because of its focus on small loans (i.e. not to exceed \$15 million on a single asset), its established local borrower and broker relationships and its proven national origination capabilities. Thus, Heller Real Estate can deliver to investors the benefits of both a large, diversified financial institution and a nimble, entrepreneurial group in touch with local market dynamics.

The focus on small loans is a critical component of the Mezzanine Program for a number of important reasons. First, the focus on the small mezzanine loan market minimizes competition from other institutional mezzanine investment vehicles that are currently concentrated on larger transactions. Second, small individual loan sizes allow Heller Real Estate to broadly diversify its portfolio, both in terms of geography and the types of property financed. Third, the short-term nature of the mezzanine loans and the liquidity provided by refinancing and sale exit options more readily available for small commercial properties can produce returns on an accelerated horizon.

IV. Investment Performance

Since the inception of the Mezzanine Program in 1992, over 355 transactions have been funded, totaling approximately \$1 billion in loan commitments.

Previous fund performance as of 3/31/2001 for Heller Real Estate is shown below. The SBI is considering its first investment with Heller Real Estate and has not invested with Heller Real Estate in the past.

Fund	Inception Date	Total Commitments	Net IRR from Inception
Heller Previous Portfolio (Pre 1995)	1992	\$131 million	16%*
Heller Previous Portfolio (1995-1998)	1995	\$520 million	18%*
Heller Mezzanine Fund I	1998	\$240 million	17%

* These figures represent the IRR for Heller's previous investments (pre Fund I) net of the estimated impact of proposed Fund II management fees, expenses, and carried interest. Heller Previous Portfolio (Pre 1995) is fully realized.

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

The GP or its Affiliates intend to invest an amount equal to 50% of the first \$300 million raised by the Fund. In the event that the aggregate commitments to the Fund (including Heller's commitment) exceed \$300 million, Heller's commitment shall be an amount greater than \$150 million but no less than 40% of the Fund's total capital.

VI. Takedown Schedule

Capital Commitments are expected to be drawn not more than once per month upon 10 business days notice.

VII. Fees

The GP will receive an annual management fee equal to 1.5% of total Commitments. Following the Commitment Period, the fee will be paid based on average unreturned Capital Contributions.

A \$25,000 origination fee payable to Heller by the Fund will be added to the purchase price of each Loan. In addition, a \$10,000 annual servicing fee will be charged to the Fund by Heller for each Loan.

In addition to the management, origination and servicing fees, the Investors will share pro rata in all reasonable expenses directly related to the operation of HMF II including but not limited to costs associated with the acquisition, ownership, financing and sale of foreclosed collateral.

HMF II will bear the cost for legal and other organizational expenses incurred in the formation of the Fund, which will be paid from Investors' capital. The fees of any placement agent for the Fund will be borne by the GP.

VIII. Allocations and Distributions

During the Commitment Period – proceeds from Loans, up to the portion thereof that represents a return of capital, may be reinvested in new Loans at the discretion of GP in lieu of a capital call. Subsequent to the Commitment Period; all proceeds will be distributed as described below. Subject to the reinvestment rights set forth above, all net cash flow for any Loan shall be distributed monthly to the Investors in the following order of priority:

First, 100% to the Investors including Heller (pro rata) until they have been paid a cumulative 10% annual compounded return on all amounts (“Capital Contributions”) contributed by Investors with respect to such Loan;

Second, 100% to all Investors including Heller (pro rata) until they have been paid all Capital Contributions attributable to such Loan;

Third, 100% to all Investors including Heller (pro rata) until they have been paid a 10% cumulative annual compounded return on all Capital Contributions;

Fourth, 100% to all Investors including Heller (pro rata) until they have been paid an amount equal to all Capital Contributions for Loans which have been repaid, but which did not fully repay Capital Contributions under “Second”;

Fifth, 50% to the Investors including Heller (pro rata) and 50% to Heller until the aggregate payments made in “First”), “Third”) and this paragraph “Fifth”) are in the ratio of 80% to Investors including Heller (pro rata) and 20% to the GP;

Thereafter, 80% to all Investors including Heller (pro rata) and 20% to the GP.

At the end of the term, the GP will be required to return its distributions to the Fund to the extent that Investors have not received a return of all Capital Contributions plus a 10% annual compounded return on such Capital Contributions, determined on an aggregate basis covering all transactions, but in no event shall the GP be required to return more than the cumulative distributions received by the GP pursuant to “Fifth”) & “Sixth”) above, less income taxes thereon.

IX. Investment Period and Term

The Commitment Period will expire four years from the initial closing. At that time, Investors will be released from any further obligations to fund unfunded Commitments except to the extent necessary to fund amounts held back at the time of initial Loan funding for Loans invested in prior to the expiration of the Commitment Period.

The initial term shall be nine years but the term may be extended at the discretion of the GP for up to two additional one-year periods to permit the orderly recovery or liquidation of assets. The average term for Loans is anticipated to be three years.

ATTACHMENT D

PRIVATE EQUITY MANAGER SUMMARY PROFILE – POST FUND

I. Background Data

Name of Fund:	Levine Leichtman Capital Partners III
Type of Fund:	Subordinated Debt & Equity
Total Fund Size:	\$800 million - \$1 billion
Fund Manager:	Levine Leichtman Capital Partners (LLCP)
Manager Contact:	Arthur Levine 335 North Maple Drive, Ste. 240 Beverly Hills, CA 90210 (310) 275-5335

II. Organization and Staff

Levine Leichtman Capital Partners III, L.P. (the "Partnership") is being formed by LLC California Equity Partners III, L.P. (the "General Partner") to continue its historically successful and highly differentiated strategy of making non-control, structured equity investments in entrepreneurially led middle-market companies located in the Western United States. Founded in 1984 by Lauren B. Leichtman and Arthur E. Levine (the "Principals"), Levine Leichtman Capital Partners, Inc. ("LLCP" or the "Firm") currently manages two private equity partnerships, Levine Leichtman Capital Partners, L.P. ("Fund I"), and Levine Leichtman Capital Partners II, L.P. ("Fund II", and together with Fund I, the "Prior Funds"), with a combined capital base in excess of \$450 million.

LLCP is currently managed by an experienced and cohesive team of 11 investment professionals, the senior members of which have worked together since 1996. LLCP's investment professionals work in three complimentary groups (Originations, Corporate Finance, and Administration) which are overseen by the Principals.

III. Investment Strategy

The principal components of LLCP's strategy are as follows:

Focus on Middle-Market Companies in the Western United States

LLCP targets for investment entrepreneurial middle-market companies in the Western United States. LLCP defines the middle market as businesses with a minimum of five years of operating history and annual revenues of \$50 million to \$750 million. Dun & Bradstreet estimates that the Western United States has approximately 9,600 companies in the middle-market segment with revenues

between \$50 million and \$750 million compared to approximately 36,300 companies of the same size for the entire United States. Additionally, Dun & Bradstreet estimates that the Western United States is creating companies of this size 31% faster than the rest of the country. LLCP believes that these factors will provide the Partnership with a large, growing and attractive set of investment opportunities. Moreover, LLCP believes that successful private equity investing in the middle market in the Western United States requires local market knowledge, presence and experience. The Principals and the Firm's partners have spent their professional careers in the Western United States and have developed extensive networks of entrepreneurs, executives and other professionals that have proven to be essential to LLCP's successful deal sourcing, due diligence and transaction execution.

Make Non-Control Investments in Entrepreneurially Led, Established and Growing Companies

The Partnership intends to continue LLCP's demonstrated successful strategy of making non-control investments with experienced entrepreneurs and entrepreneurial management teams, who hold controlling equity stakes in market leading companies. Unlike most other private equity firms, LLCP makes investments with entrepreneurs who are not interested in selling control of their businesses. Entrepreneurs who have founded and built established businesses continue to lead LLCP portfolio companies. LLCP considers a strong, experienced and entrepreneurial management team to be a critical factor for a successful investment. The Firm seeks high-caliber entrepreneurs, with a vision and passion for their businesses, and structures its investments such that the operating management teams retain significant and often controlling equity interests in their companies. LLCP believes that these entrepreneurially led companies, which have traditionally avoided the private equity market, provide excellent investment opportunities for the Partnership.

Utilize a Proprietary Structured Equity Investment Approach

Many entrepreneurs will not sell control of their businesses to a private equity group, but still require substantial equity capital for their ongoing business needs. LLCP has developed a unique proprietary deal flow which results from its structured equity investment approach. This approach uses a combination of financial instruments: subordinated notes, preferred stock and common stock. Entrepreneurs who are seeking less dilutive forms of capital than traditional private equity find this approach highly compelling. The benefits of this investment approach to entrepreneurs are that they retain equity control of their companies while receiving the support of LLCP as a financial sponsor. The benefit to LLCP is a structurally superior investment with substantial equity participation. LLCP mitigates its risk by investing senior in the capital structure to entrepreneurial equity.

Provide Value-Added Expertise to its Portfolio Companies

LLCP is integrally involved with its portfolio companies from the initial investment through full realization of its invested capital. The Firm adds value during the

investment period by offering the management team sophisticated financial and strategic advice, while respecting the autonomy of operating management. During the due diligence process, LLCP identifies and defines the critical success factors that drive the performance of each of its portfolio companies. During the document negotiation process, LLCP sets financial and operating covenants that measure the performance of each company's critical success factors. This allows the early detection and addressing of problems before they develop. LLCP monitors the critical success factors of its investments on a daily basis and meets with senior management of its portfolio companies monthly, in an operating committee environment, to discuss the respective companies strategic, financial and operating performance. In addition, members of the Firm serve on the boards of directors of a number of portfolio companies. LLCP makes significant contributions to the success of its portfolio companies and assists senior management in the following areas: strategic direction and planning, introductions to new business contacts, follow-on growth and acquisition capital, refinancings and recapitalizations, public offerings of debt and equity capital and realization of invested capital. LLCP's proactive assistance to its portfolio companies protects the Partnership's investments, while at the same time creating substantial returns for its investors.

Leverage Established Market Presence

LLCP believes that successful private equity investing in the middle market in the Western United States requires market knowledge, geographic presence and investment experience. Market knowledge and geographic presence allow LLCP to (i) quickly identify and capture investment opportunities and (ii) rapidly respond to the post-investment needs of its portfolio companies. The Principals and the Firm's partners have substantial private equity experience and have spent their professional careers in the Western United States. They have developed an extensive network of over 3,000 contacts with entrepreneurs, senior corporate executives, business brokers, investment bankers and other business professionals. This contact base has proven to be a significant competitive advantage for LLCP's successful deal sourcing, due diligence and post-investment monitoring.

Capitalize on the Lack of Any Significant Private Equity Competition

LLCP believes that it has no significant private equity competition. LLCP is not aware of any private equity firm that employs its investment strategy, including its Western United States middle market focus and its non-control, structured equity investment approach in entrepreneurially owned and managed companies. Historically, entrepreneurs of established companies have turned to the high yield debt and public equity markets and commercial banks to finance their long-term capital requirements. These traditional financing sources have become exceptionally difficult for middle-market companies to access. Regardless of the stage in the economic cycle, LLCP has consistently been successful in sourcing quality investment opportunities in companies owned and managed by entrepreneurs who do not want to sell control of their businesses. In an expanding economy, the opportunity for LLCP to provide growth and expansion capital increases significantly. Conversely, as the economy contracts, the need for LLCP's capital to accomplish restructurings and recapitalizations grows substantially. Since

most private equity investors require economic control, ILCP offers a more attractive investment alternative to entrepreneurs requiring capital to meet their business needs. LLCP does not foresee any change in the competitive landscape.

IV. Investment Performance

Previous fund performance as of 3/31/2001 for Levine Leichtman Capital Partners is shown below. The SBI is considering its first investment with LLCP and has not invested with LLCP in the past.

Fund	Inception Date	Total Commitments	Net IRR from Inception*
Levine Leichtman Previous Portfolio	1984	\$2 million	355.1%
LLCP I	1994	\$103 million	35.6%
LLCP II	1998	\$350 million	47.6%

* These figures represent the IRR for Levine Leichtman's previous investments net of the estimated impact of proposed Fund III management fees, expenses, and carried interest. Levine Leichtman Previous Portfolio (Pre 1994) is fully realized.

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

The General Partner and its affiliates will commit 2.0% of the aggregate commitments to the Partnership (\$16.0 million, assuming \$800 million of Capital Commitments). Such capital will be co-invested on a pro rata basis with the capital of the Limited Partners. The Limited Partners together with the General Partner will be the "Partners".

VI. Takedown Schedule

It is anticipated that Committed Capital will be drawn down pro-rata on an as-needed basis with a minimum of 10 business days' prior written notice.

VII. Fees

During the Commitment Period, the Limited Partners and the Partnership will pay an annual Management Fee of 1.5% of Capital Commitments, payable semi-annually in advance. Thereafter, the Management Fee will be 1.5% of invested capital until the termination of the Partnership. The General Partner or its designee will be responsible for all expenses incurred in connection with locating and consummating investments; expenses incurred for transactions not completed (net of break-up fees or other reimbursement from third parties, if any); other direct costs of making investments; and all other day-to-day expenses of the General Partner or its designee.

All fees will be payable to the General Partner or its designee with 50% being credited against future Management Fees payable by the Limited Partners.

The Partnership will pay all expenses related to its operations, including fees and expenses of custodians, outside counsel and accountants, insurance costs, and any taxes, fees or other governmental charges levied against the Partnership.

The Partnership will bear all offering and organizational expenses incurred in connection with the formation of the Partnership up to an amount equal to \$1,500,000. Organizational expenses in excess of this amount will be borne by the General Partner.

VIII. Allocations and Distributions

Net proceeds from the disposition of investments in portfolio companies and interest and dividend income attributable to the Partnership, will be distributed in the following order of priority:

(a) First, 100% to the Partners (in proportion to funded Capital Commitments) until each Partner shall have received from amounts then and previously distributed pursuant to this paragraph (a):

(i) each Partner's funded Capital Commitments with respect to all Portfolio Securities then and previously sold or disposed of; plus

(ii) such Partners' share of any realized losses on, or write-offs of, other investments as of the date of such distribution; and

(b) Second, 100% to the Partners (In proportion to funded Capital Commitments) until each Partner shall have received from amounts then and previously distributed pursuant to this paragraph (b), an amount equal to each Partner's Capital Contributions made in connection with the payment of Management Fees and Partnership Expenses; and

(c) Third, 80% to the Partners and 20% to the General Partner.

The Partnership will establish and maintain a capital account for each Partner, and distributions upon the liquidation of the Partnership will be made in accordance with the Partners' respective capital account balances. All items of income, gain, loss and deduction will be allocated to the Partners' capital accounts in a manner generally consistent with the distribution procedures outlined under "Distributions" above.

IX. Investment Period and Term

The Partnership will terminate 10 years from the Initial Closing, but may be extended by the General Partner for up to two consecutive one-year periods.