MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
June 2, 2004

&

INVESTMENT ADVISORY
COUNCIL MEETING
June 1, 2004

STATE BOARD OF INVESTMENT

AGENDA AND MINUTES

June 2, 2004

AGENDA
STATE BOARD OF INVESTMENT MEETING
Wednesday, June 2, 2004
9:00 A.M. - Room 125
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of March 3, 2004	
2. Report from the Executive Director (Howard Bicker)	**A**
A. Quarterly Investment Review (January 1, 2004 – March 31, 2004)	
B. Administrative Report	**B**
1. Reports on budget and travel.	
2. Legislative Update.	
3. Litigation Update.	
3. Report from the SBI Administrative Committee (Peter Sausen)	**C**
1. Review of Executive Director's proposed workplan for FY05.	
2. Review of budget plan for FY05.	
3. Review of Continuing Fiduciary Education Plan.	
4. Review of Executive Director's Evaluation Process.	
4. Report from the Deferred Compensation Plan Committee (Peter Sausen)	**D**
1. Renewal of contracts with T. Rowe Price, Fidelity and Janus for the Deferred Compensation Plan.	
5. Reports from the Investment Advisory Council (Mike Troutman)	
A. Stock and Bond Manager Committee	**E**
1. Review of manager performance.	
2. Annual review of investment manager guidelines.	
3. Annual review of manager benchmarks.	
4. Recommendation to terminate U.S. Bancorp Asset Management for a domestic equity mandate.	
5. Recommendation to terminate Schroders Investment Management North America for an international emerging market mandate.	
B. Alternative Investment Committee	**F**
1. Review of current strategy.	
2. Recommendation for new investments with two managers:	
• Affinity Capital	
• Gold Hill Venture Lending	

Minutes
State Board of Investment
March 3, 2004

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, December 3, 2003 in Room 125 State Capitol, St. Paul, Minnesota. Governor Tim Pawlenty; State Auditor Patricia Anderson; Secretary of State Mary Kiffmeyer; and Attorney General Mike Hatch were present. The minutes of the December 3, 2003 Board meeting were approved.

Executive Director's Report
Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded its Composite Index over the ten year period ending December 31, 2003 (Combined Fund 8.9% vs. Composite 8.8%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.8% vs. CPI 3.0%). He stated that the Basic Funds have slightly outperformed its composite index (Basic Funds 9.1% vs. Composite 9.0%) over the last ten years and reported that the Post Fund has also outperformed its composite over the last ten year period (Post Fund 8.7% vs. Composite 8.5%).

Mr. Bicker reported that the Basic Fund's assets increased 8.8% for the quarter ending December 31, 2003 due to positive investment returns. He said that the asset mix had been rebalanced during the quarter. He reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds 9.0% vs. Composite 8.8%) and for the year (Basic Funds 22.7% vs. Composite 22.4%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 7.3% for the quarter ending December 31, 2003 due to positive investment returns. He said the Post Fund asset mix had also been rebalanced and that the Post Fund outperformed its composite index for the quarter (Post Fund 9.3% vs. Composite 8.9%) and for the year (Post Fund 23.5% vs. Composite 22.8%).

Mr. Bicker reported that the domestic stock manager group slightly underperformed its target for the quarter (Domestic Stock 12.3% vs. Wilshire 5000 Investable 12.4%) and for the year (Domestic Stocks 31.0% vs. Wilshire 5000 Investable 31.2%). He said the International Stock manager group underperformed its composite index for the quarter (International Stocks 16.5% vs. Int'l Composite 17.1%) and for the year (International Stocks 38.2% vs. Int'l Composite 40.1%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 0.8% vs. Lehman Aggregate 0.3%) and for the year (Bonds 5.7% vs. Lehman Aggregate 4.1%). He concluded his report with the comment that as of December 31, 2003, the SBI was responsible for over $45 billion in assets.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel. He reported that the SBI had received a clean audit opinion from

the Legislative Auditor on its financial statements. Mr. Bicker distributed an update on legislative activity (see **Attachment A**) and stated that there are two legislative bills related to the State Board of Investment. He reported that the first bill would authorize the SBI to invest some retiree healthcare assets for the Metropolitan Council. Mr. Bicker stated that the SBI has non-pension investment vehicles available to the Met Council and that the SBI would have little additional costs or responsibilities associated with investing these assets. Mr. Bicker stated that the second piece of legislation involves the SBI's Certificate of Deposit (CD) program. He said the bill would initiate some new rating criteria and that staff will be having further discussions with the bill's author.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She stated that the State is currently involved in four securities cases. She said that the State's case against WorldCom was originally filed in Minnesota in State court, that it had been remanded to Federal court, and that a motion is currently being argued to remand it back to Minnesota. She added that once the remand decision is made, the State will need to decide whether to opt back into the federal case. Ms. Eller reported that in the AOL Time Warner case, the State is still waiting on the judge's decision regarding motions to dismiss. She stated that discovery is proceeding for the Broadcom case, that she anticipates the discovery cutoff will be July 1, 2004 and that she expects a trial in November 2004. Ms. Eller stated that the motion to reset a trial date in the McKesson case has been rescheduled until the end of March 2004. She said the State is hoping to get a trial date in 2005, ahead of the federal litigation.

Mr. Bicker stated that the SBI is required by law to approve record keeping contracts for the State Deferred Compensation Plan. Mr. Hatch moved approval of the request by the Minnesota State Retirement System to renew the contract with Great West/Minnesota Life as stated in Attachment D of Tab B of the meeting materials The motion passed.

Domestic Equity Large Capitalization Value Search Committee
Mr. Sausen referred members to Tab C of the meeting materials and stated that the Committee had conducted a search for large capitalization value managers. He said that six firms were interviewed and that the Committee was recommending that four firms be retained by the SBI. Ms. Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which reads **"The Domestic Equity Search Committee recommends that the following firms be retained for the Domestic Equity Program:**

<u>Large Capitalization Value Managers</u>	<u>Location of Investment Team</u>
Barrow, Hanley, Mewhinney & Strauss, Inc.	**Dallas, TX**
Lord Abbett & Co. LLC	**Jersey City, NJ**
LSV Asset Management	**Chicago, IL**
Systematic Financial Management, L.P.	**Teaneck, NJ**

and that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a contract with each firm." The motion passed.

IAC Membership Review Committee

Mr. Sausen referred members to Tab D of the meeting materials and stated that four current members of the Investment Advisory Council had reapplied for their positions. He added that no other applications had been received. Ms. Anderson moved approval of the Committee's recommendation to reappoint the four members, as stated in the Committee Report, which reads: **"The Committee recommends that the Board reappoint the following as members of the Investment Advisory Council, with terms expiring in January 2008: Douglas J. Gorence; Kenneth F. Gudorf; P. Jay Kiedrowski; and Judith Mares."** The motion passed.

Stock and Bond Manager Committee

Mr. Troutman referred members to Tab E of the meeting materials and briefly reviewed the performance of the stock and bond managers. He updated members on American Express's acquisition of Threadneedle Asset Management. He stated that staff and the Committee believe the acquisition will strengthen American Express's capabilities. He noted that members had already heard the update on the large cap value search. He also stated that the transition to daily pricing in the State's Deferred Compensation Plan was successful.

Alternative Investment Committee

Mr. Troutman referred members to Tab F of the meeting materials and stated that the Committee is recommending five new investments. Mr. Bicker added that all five are follow-on investments with existing managers. Mr. Troutman briefly reviewed each of the five investments and recommendations as outlined in the Committee Report. Ms. Kiffmeyer moved approval of all five of the Committee's recommendations as stated in the Committee Report, which read: **"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 TA Realty Associates Fund VII. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by TA Associates Realty upon this approval. Until 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 TA Associates Realty or reduction or termination of the commitment.**

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $50 million or 20%, whichever is less, in GHJM Marathon Fund V, L.P. Approval by the SBI of this potential commitment is not intended to be, and does

not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by GHJM 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 GHJM or reduction or termination of the commitment.

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $200 million or 20%, whichever is less, in Hellman & Friedman Capital Partners V. 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 Hellman & Friedman 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 Hellman & Friedman or reduction or termination of the commitment.

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $75 million or 20%, whichever is less, in Merit Mezzanine Fund IV, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Merit 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 Merit Capital Partners or reduction or termination of the commitment.

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $75 million or 20%, whichever is less, in Summit Subordinated Debt Fund III. 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 Summit 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 Summit Partners or reduction or termination of the commitment." The motion passed.

New Business
Governor Pawlenty stated that he had a resolution he would like to present to the Board (see **Attachment B**). He stated that the resolution deals with the affordability of prescription medicines and briefly reviewed his rationale for including the requirements outlined in the resolution. He said that he believes that the strategy of disproportionately pricing drugs for American consumers should be examined and that Pfizer should be asked to explain how these prices are going to be sustained in the intermediate and long term. He stated that he is mindful of the Board's fiduciary responsibilities, which is why the resolution does not call for divestment or sale of the stock. He asked for members' support and stated that he believes outside support may be gained from other states and public entities.

Mr. Hatch stated his support of the Governor's resolution and offered a friendly amendment to the resolution which added the words "any pharmaceutical company in which the SBI owns shares" in place of references to Pfizer specifically. A discussion followed with Mr. Hatch explaining his reasons for broadening the resolution and with other members and Mr. Bicker regarding how many companies should be included in the resolution. The members agreed to include six additional pharmaceutical companies in the language of the resolution.

Ms. Kiffmeyer stated that she appreciates the goals and efforts that the Governor's resolution addresses; however, she believes it is the Board's fiduciary responsibility to maximize the returns for all employees, both current retirees and active employees. She said she has concerns about the wording in the proposed resolution which gives a specific directive to the Proxy Committee, and she commented that it appears to be an issue the Attorney General's Office could pursue independently as it has done in other situations. She stated that she could not support the motion and the resolution language the way it is currently written.

Governor Pawlenty stated that he believes that given the current pressures on the drug industry by Congress, legislatures, and shareholders regarding their drug pricing structure, that companies should be accountable to explain what is fair and unfair and how they are planning to sustain this pricing structure. In response to a question from Ms. Kiffmeyer, Governor Pawlenty stated that individual managers do have the ability to sell the stocks of any company they invest in at any time. He said that he believes that there are also other factors to consider when evaluating these companies. Ms. Kiffmeyer stated that she believes she must exercise caution since it is pension money that is involved.

Mr. Hatch commented that he believes public pension funds do play an important role in assuring corporate responsibility. He noted that the Secretary of State's comments are important, but he believes that the resolution is appropriate and he restated his support of the resolution.

Ms. Anderson stated her support of the resolution and said that she believes the Board has a duty to encourage the drug companies to change their pricing structure so they are viable long term.

Mr. Bicker suggested that members consider removing the word "significant" from paragraph 2 on the last page of the resolution since it could be interpreted several ways. Governor Pawlenty agreed to the change in wording of the resolution. Governor Pawlenty opened the floor for others in the audience to address the issue.

Mr. Robert Bonine of the Minnesota Senior Federation addressed the members and distributed a statement and attachments to members (see **Attachment C**). He commended the Board for considering the proposed resolution at Pfizer. He said he believes it is imperative that Minnesotans be able to buy prescription drugs at their local pharmacies at the same prices enjoyed by Europeans and Canadians He stated that the Federation applauds Governor Pawlenty's actions, and he encouraged the Governor to attend Pfizer's annual meeting in April 2004. He also asked for the Board's support of a similar shareholder resolution at Pfizer regarding drug pricing brought forth by the Interfaith Center on Corporate Responsibility. He concluded by stating that if the drug companies do not begin to respond to these requests, the Federation would ask that the State of Minnesota consider divestment of the shares it owns of Pfizer

Mr. Kiffmeyer asked Mr. Bonine if he thought the Federation would continue its support of the SBI resolution should the stock value of the companies decrease. Mr. Bonine stated that he cannot speak for public employees; however, he noted that much of the advertising and research costs are paid by taxpayers and so it is important to look at these issues. Governor Pawlenty clarified that the goal of the resolution is to seek a rebalancing of world drug pricing in a way so that U.S. consumers are not so disproportionately impacted. Mr. Hatch added that the pharmaceutical industry negotiates price with many other countries but not the U.S. He said he believes that they should negotiate with the U.S. government as they do other countries so that there is more pricing uniformity. Ms. Kiffmeyer reiterated her concerns regarding the resolution but she commended the Governor regarding his ultimate goal. Mr. Bonine noted that the tobacco companies are now much more diversified as a result of the tobacco disputes. He stated that because of the amount of tax dollars are spent for Medicare and Medicaid, the impact of drug pricing to taxpayers is huge.

Ms. Anderson moved approval of the resolution with its amendments. The motion passed. (The approved resolution is attached as **Attachment D**.)

Mr Hatch distributed another resolution for the Board's consideration (see **Attachment E**). He said the resolution basically calls for the sale of stock, as soon as reasonably and prudently possible, if a company is found to be violating any antitrust laws. Ms. Kiffmeyer made a motion to table the issue in order to further consider the resolution. The motion passed. Governor Pawlenty also stated that he would like the opportunity to discuss the resolution further at a future meeting.

The meeting adjourned at 10:00 A.M.

Respectfully submitted,

Howard J. Bicker

Howard J. Bicker
Executive Director

Bills of Interest to the Minnesota State Board of Investment
2004 Legislative Session
Includes Action Through 3/01/04

Description of Bill	HF/SF # and Author	Current Status
Metropolitan Council -Authorized to invest with SBI	H.F. 1821 (Buesgens)	Passed Local Gov't Metro affairs 2/24; passed Gov't Op & Vet affairs 3/1, sent to floor
	S.F. 1915 (Wiger)	Passed State and Local Gov't Op's; sent to floor 2/18
CD Program -Additional purchases of CD's from community development banks	H. F. 2666 (Hornstein)	Referred to Gov't Op & Vet affairs

RESOLUTION OF THE MINNESOTA BOARD OF INVESTMENT AUTHORIZING A SHAREHOLDER PROXY RESOLUTION FOR PFIZER, INCORPORATED

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

WHEREAS, shareholder resolutions are a means for shareholders to direct a public corporation to take action vital to the long-term economic viability of the company and for the ultimate protection of the shareholders' interests; and

WHEREAS, the Board has established a State Board of Investment Proxy Committee (SBI Proxy Committee) to assist in the sponsorship, co-sponsorship and support of shareholder resolutions as directed by the Board; and

WHEREAS, as of February 27, 2004, the State Board of Investment (SBI) owned approximately 12.8 million shares of Pfizer Incorporated (Pfizer) with an approximate value of 476 million dollars; and

WHEREAS, as of February 27, 2004, SBI owned shares in other major pharmaceutical companies, including but not limited to, GlaxoSmithKline, Pharma and Merck.

WHEREAS, Pfizer's current business practices have resulted in a pricing structure that charges United States customers significantly higher prices for the same prescription medicines made available at significantly lower prices to other developed countries and world markets; and

WHEREAS, governmental agencies and individuals in the United States are demanding affordable drug prices and are taking actions to access lower priced products from other world markets; and

WHEREAS, according to published reports, Pfizer has cut supplies of its medicines to Canadian wholesalers and companies that it claims allowed its product to be sold to Americans seeking lower prices available in the Canadian market; and

WHEREAS, according to published reports, Pfizer's actions have resulted in threatened lawsuits by the Canadian wholesalers and companies involved, the Canadian

International Pharmacy Association and may to result in legal actions by the Canadian government and others; and

WHEREAS, the State of Minnesota is currently investigating a number of major pharmaceutical companies for potential illegal business practices; and

WHEREAS, Pfizer's business practices, pricing structure and unprecedented actions to limit supply of medicines in Canada may violate local, national and international laws and could result in large settlements, large awards of damages and potential punitive damages which would negatively impact the economic stability of the company and the value of shares; and

WHEREAS, the Board believes that Pfizer's current business practices are overly dependant upon the continuation of a pricing structure that places an unsustainable burden on United States consumers and governments; and

WHEREAS, the Board further believes that Pfizer's current business practices may not be sustainable in the long term, may unreasonably expose the company to potential liability, and may negatively impact the value of shares; and

WHEREAS, in light of its fiduciary duty, the Board considers it prudent to initiate a shareholder resolution to protect share value and reduce the potential exposure of its stock funds to risk.

NOW THEREFORE, be it resolved:

1. Board directs the SBI Proxy Committee to sponsor, co-sponsor or support shareholder resolutions for Pfizer that:

   a. Requires Pfizer to adopt polices to encourage promotion of the long term economic stability of the company and value of shares by implementing business practices and pricing structures that are not reliant on unsustainable and disproportionate pricing in the United States;

   b. Requires Pfizer to adopt policies to encourage promotion of the long term economic stability of the company and reduce the potential liability to legal claims by ceasing all actions that intentionally limit the availability of the company's products to Canadian wholesalers or pharmacies that allow purchase of products by non-Canadian residents: and

   c. Requires Pfizer to fully report to shareholders on all of the costs incurred by the company in relation to efforts to maintain the current pricing structures including, but not limited to, all lobbyist costs, legal costs, consulting fees, gift and promotion costs.

2. The Board directs the SBI Proxy Committee to review the corporate policies and business practices in other pharmaceutical companies in which the Board holds significant interests, including but not limited to, Merck, Pharma and GlaxoSmithKline, and, where feasible, sponsor, co-sponsor or support similar shareholder resolutions.

Adopted this 3rd day
of March, 2004

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Governor Tim Pawlenty
Chair, Minnesota State Board of Investment

ATTACHMENT C

Minnesota Senior Federation

To	The Minnesota Board of Investment
From:	The Minnesota Senior Federation, Robert Bonine
Date:	March 3, 2004
Re:	Support of Resolution regarding Pfizer, Incorporated

On behalf of the Minnesota Senior Federation I want to commend not only Governor Pawlenty but also the entire Minnesota Board of Investment for seriously considering the proposed corporate resolution regarding Pfizer Incorporated.

Pfizer has clearly indicated a willingness to put the health and safety of Americans at risk as they attempt to shut off the supply of their drugs to Minnesotans ordering their product from Canada. They seem determined, with other major international drug manufacturers, to bankrupt the American health care system. We as a country can no longer pay twice as much for prescriptions drugs as the rest of the industrialized world.

To quote an editorial called "Rethinking the Drug Business" (August 12, 2003), Business Week points out that in the United States " The weak pay the most and the Elderly are in open revolt... Political support and public tolerance for Big Pharma's model of protectionism and artificially high U.S. drug prices are eroding and that erosion of U.S. Trade barriers to reimportation will ultimately mean that drug makers will be unable to segment their pricing. Big Pharma, (including Pfizer), should start thinking about where it is going to get the profits it needs for the future."

A Merrill Lynch in a study in 1999 on Pharmaceuticals still holds relevance for the drug cost debate of 2004. Their in-depth report concluded: "Volume increases could overwhelm negative pricing impact. It is important to remember that a reduction in prescriptions drug prices, both with or without associated prescription benefit coverage, is likely to be associated with price elasticity and increased utilization (especially for Medicare recipients that currently have no drug coverage) On a worst case basis we believe the top-line impact could have negative 6% if all Medicare recipients has access todrugs at a 40% discount to the manufacturer's price."

It is imperative that Minnesotans be able to buy RX drugs at their local pharmacy at prices enjoyed by Europeans and Canadians. This is the epitome of fair trade. Forcing Minnesotans to purchase RX drugs in Canada and Mexico is bad for Minnesota pharmacies and small businesses and only worsens job losses, especially in greater Minnesota. For this reason the Federation strongly supports the Pharmaceutical Market Access Act as passed by the U.S. House (HR 2427) under the leadership on Congressman Gil Gutknecht and now before the Senate (S1781 and S2137) with the strong support of Senator Mark Dayton. We would ask the State of Minnesota to do likewise.

Pfizer's actions call for a strong response from not only the federal government but also state and local officials. We applaud Gov Pawlenty's actions and encourage him to attend Pfizer's 2004 annual meeting in St. Louis on April 22nd to speak to these issues through his support of a current stockholder resolution developed by The Interfaith Center on Corporate Responsibility. While not totally in conformity with the resolution before you, it speaks to many of the same points, and would underscore the need for Pfizer to take action, and to take action now. A copy of the Interfaith Center's resolution, which will be dealt with at the Pfizer annual meeting, is available for this Investment Board. We also ask the Board to vote in favor of this shareholder's resolution.

Finally we ask, that if Pfizer does not begin to respond to these requests, that the State of Minnesota seriously consider divesting itself of the 12.8 million shares of Pfizer owned by the people of this State through your investments.

Thank you for your consideration.

Robert Bonine,
Minnesota Senior Federation

MN S F Minnesota Senior Federation

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St. Paul, MN 55104
651-645-0261 or 877-645-0261
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Increasing Access to Pfizer Products

Whereas:

Access to pharmaceutical products is an essential component of adequate health care for all Americans;

In 2002 Pfizer stated: "over the past decade, after accounting for discounts to federal government buyers and Medicaid, Pfizer's annual price increase in the United States have averaged less than the annual rate of inflation as measured by the Consumer Price Index (CPI)." (*Improving Access to Innovative Medicines,* Pfizer Forum, 2002);

U.S. spending for prescription drugs was $140.6 billion in 2001, more than tripling since 1990. Such spending is projected to rise to $445.9 billion by 2012. (The Kaiser Family Foundation, *Prescription Drug Trends,* March 2003 and Health Affairs, *Health Spending Projections for 2002-2012,* 7 February 2003);

Price increases accounted for one-third of the increase in spending for prescription drugs in 2001 (*Prescription Drug Expenditures 2001,* National Institute of Health Care Management Research and Education Foundation, May 2002);

A report by Families USA, using data from the Pennsylvania Pharmaceutical Association Contract for the Elderly Program, found that on average, prices for the 50 most-prescribed drugs to the elderly rose nearly three-and-one-half times the rate of inflation from January 2002 to January 2003, compared to just under three times in the previous year. Pfizer products Lipitor, Norvasc, Celebrex, Xalatan, Zoloft and Glucotrol are among the top 50. (*Out of Bounds,* Families USA, 2003);

In 2002-03, the price increase of Lipitor (20mg) was 4.5 times the CPI; Celebrex 200 mg: 2.6 times the CPI, Norvasc 5 mg: twice the CPI, Xalatan: 3.3 times, the CPI: Zoloft 50 mmg: 2.8 times the CPI, Glucotrol XL 10 mg: 7.1 times the CPI (*Out of Bounds*);

These price increases are based on the average wholesale price, the price drug marketers suggest wholesalers charge pharmacies. People with no prescription drug coverage do not benefit from discounts negotiated by bulk purchasers of pharmaceuticals;

23% of Americans under 65 in 1996 and 38% of Medicare beneficiaries in 1999 had no prescription coverage. (Department of Health & Human Services, *Report to the President, Prescription Drug Coverage, Spending, Utilization, and Prices,* April 2000 and Health Affairs, *Trends in Medicare Supplemental Insurance and Prescription Drug Coverage, 1996-1999,* 27 February 2002).

Our company has instituted a prescription drug discount card, the Pfizer Share Card, which enrolls 355,000 low-income Medicare-eligible individuals with no prescription coverage. This is about 8.5 % of the 4.2 million eligible participants, and 2.8 % of the 12.9 million Medicare enrollees with no prescription coverage. (Pfizer, *Report To America,* June 2003 and Health Affairs, *Trends in Medicare Supplemental Insurance and Prescription Drug Coverage, 1996-1999,* 27 February 2002).

RESOLVED:

Shareholders request the Board of Directors report by September 2004 on measures our company is taking to contain the price increases of its most-prescribed drugs to levels equal to or below the annual rate of inflation.

SUPPORTING STATEMENT:

We believe enacting this proposal will help to align our company with its previously stated commitment on prescription drug price increases.

Allocation of Revenue Dollars in Thirteen Large Research-Based Pharmaceutical Companies 2002*

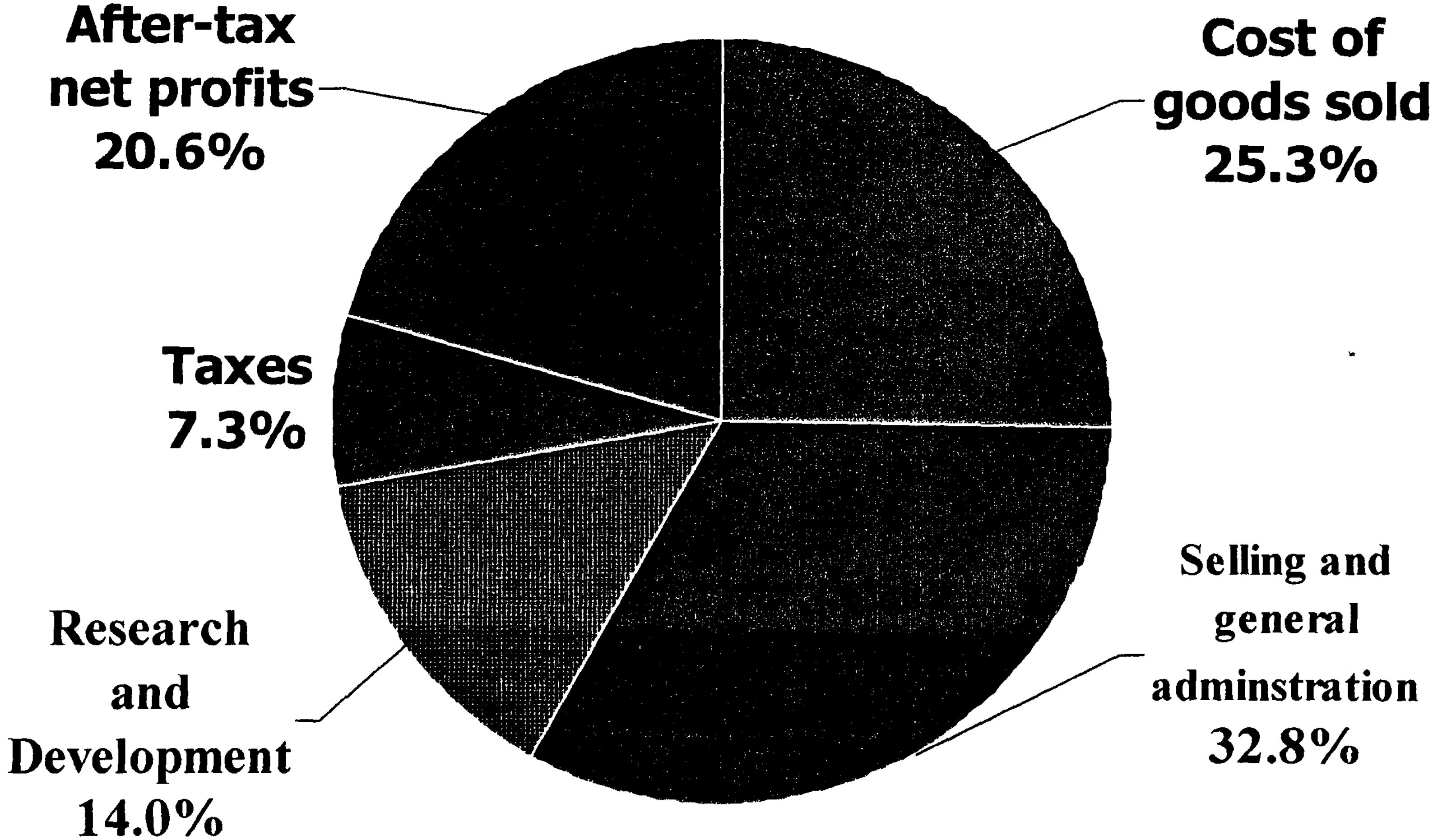


*Chart from Uwe Reinhardt's "An Information Infrastructure For The Pharmaceutical Market" in Health Affairs, Volume 23, Number 1

The tide is turning...

BusinessWeek

- The weak pay the most
- Elderly are in open revolt
- Political support and public tolerance for Big Pharma's model of protectionism and artificially high U.S. drug prices is eroding.
- That erosion of U.S. Trade barriers to reimportation will ultimately mean that drug makers will be unable to segment their pricing.
- Big Pharma should start thinking about where it is going to get the profits it needs for the future.

23 June 1999

Steven C. Tighe
First Vice President
(1) 212 449-0181

Gregory B. Gilbert
Assistant Vice President
(1) 212 449-6709

Pharmaceuticals

A Medicare Drug Benefit: May not be so Bad

Reason for Report: Industry Update

Industry

Investment Highlights:

- Investors still have vivid memories of declining prices and sub market multiples for drug stocks during the period of time in which President Clinton attempted to reform the entire U.S. healthcare system in the early 1990's. Therefore, the recent groundswell of legislative proposals aimed at providing improved pricing or a prescription drug benefit for Medicare beneficiaries has been met with some level of concern. The purpose of this report is to explore the potential impact that possible Medicare reform proposals might have. Our primary conclusions are:

  (1) We may not have resolution of this issue soon. President Clinton is set to unveil his proposal in the next few weeks. With elections coming up next year, Democrats may not want to resolve this issue before the onset of election campaigns. Therefore we may not see any laws passed until the elections are over.

  (2) We are not talking about reforming the entire healthcare system, as was proposed in 1992. The proposed reforms (Clinton's and others') are aimed at a subset of the population, namely the 39 million Americans that are eligible for Medicare coverage. Roughly 2/3 of the 39 million already have drug coverage of some sort. Therefore, we expect any legislation passed to be less onerous to the drug industry than what was proposed in 1992.

  (3) Volume increases could overwhelm negative pricing impact. It is important to remember that a reduction in prescription drug prices, both with or without associated prescription benefit coverage, is likely to be associated with price elasticity and increased utilization (especially for Medicare recipients that currently have no drug coverage).

  (4) On a worst case basis we believe the top-line impact could be negative 6% if all Medicare recipients had access to drugs at a 40% discount to the manufacturer's price. On a best case scenario the sales impact could be slightly positive.

  (5) Some companies are better positioned than others to weather this storm. In particular, Pharmacia & Upjohn (PNU;$55 9/16;B-3-2-7) has a very low level of domestic business exposure (26%) when compared to other U.S. major capitalization pharmaceutical companies. LLY (LLY;$67 1/16;A-2-2-7) has the highest domestic business exposure (60%).

Medicare – The Facts

The Medicare eligible include the elderly (65 and over), the disabled, and those with end-stage renal disease and comprise roughly 39 million individuals in the U.S. Not surprisingly, because the Medicare population is generally older and sicker than the rest of the population, the drug utilization of this group is multiples higher than broader averages. According to the Health Care Financing Administration (HCFA), elderly persons represent 12.4% of the population but account for a third of drug expenditures. Also, given the political clout this group, it is closely monitored by the politicians as well as the media.

While the Medicare program covers certain hospital and outpatient services, it does not include an outpatient drug benefit. With the technological revolution that is taking place in the development of safe and effective drug therapies, the absence of an outpatient prescription drug benefit is becoming a hindrance to providing comprehensive, effective treatment to certain components of this population.

According to the National Academy of Social Insurance, approximately two-thirds of the Medicare population have some form of prescription drug benefit. The remaining one-third or so have no outpatient drug coverage, presumably because they are unwilling or unable to purchase insurance or additional coverage. Bureau of the Census data indicate that in 1995, 10% of Medicare recipients were poor (annual income<$7,309 for a single person or <$9,212 for a couple) and 7% were near-poor (<$9,316 and <$14,618, respectively).

Medicare Recipients' Drug Coverage

	% Of Beneficiaries with Supplemental Insurance	% of Supplementaly Insured patients receiving a drug benefit	% of all Medicare Beneficiaries receiving a drug benefit
Employer Sponsored	33%	86%	28%
Medicaid	12	90	11
Medicare Risk HMO	7	95	7
Individually Purchased (Medigap)	29	29	8
All Other	3	89	3
Switched Coverage During the Year	8	80	6
No Supplemental Insurance	8	0	0
Total	100	N/A	65%

Source: National Academy of Social Insurance, "A Medicare Prescription Drug Benefit," Michael E. Gluck.

Price Impact

We have looked at a few different scenarios including what we believe to be a worst case impact on pricing for Medicare reforms. The three scenarios we outline are:

- **Price reductions for all Medicare beneficiaries to Federal Supply Schedule (FSS) levels (Scenario #1).** In this scenario we assume that Medicare recipients get a 40% discount from the manufacturers price (approximately the same price that the Veterans Association would pay). Therefore, Medicare beneficiaries without coverage would see a 40% reduction in price. The two-thirds that have coverage would see a 25% reduction, assuming that their coverage is providing them with a 15% discount currently. We would view this as the worst case scenario.
- **Price reductions for Medicare beneficiaries without coverage to FSS levels (Scenario #2).** In this scenario we assume that 40% price cuts would be provided for the 1/3 of the Medicare population that currently does not have coverage. We would assume that this would be according to some income or other criteria that would not result in switching for those patients that are currently receiving coverage.

- **Price reductions for Medicare beneficiaries equivalent to that seen by large customers (Scenario #3).** This scenario assumes that Medicare beneficiaries not currently receiving coverage would receive coverage from private providers and therefore see price reductions for the drugs they receive equivalent to what large pharmaceutical customers are seeing today. We estimate that large customer discounts run in the range of 15-20%.

Potential Pharma Sales Impact of a Medicare Drug Benefit

	Scenario #1	Scenario #2	Scenario #3
Company Pharmaceutical Sales	100%	100%	100%
U.S. Component of Total Sales	60%	60%	60%
% Exposed to Medicare	33%	33%	33%
Sales Reduction due to Price Reduction for 1/3 Not Receiving Prescription Drug Coverage	-2.64% (40% Reduction)	-2.64% (40% Reduction)	-0.99% (15% Reduction)
Sales Reduction due to Price Reduction for 2/3 with Prescription drug Coverage	-3.27% (25% reduction beyond assumed existing 15% discount)	0.00% (No benefit provided)	0.00% (No benefit provided)
Estimated Effect on Total Sales	-5.90%	-2.64%	-0.99%

Source: Merrill Lynch

As can be seen from the table above we estimate that the worst impact to an average company would be a negative 5.9% to the top-line. More reasonable scenarios cause a negative impact of 1-3%. **It is important to note, however, that these only consider the negative impact of price and do not consider that volumes are more than likely to go up.**

Volumes Go Up with Benefits

It is our belief that when you either cut drug prices, provide a prescription benefit, or both, then volumes will go up with increased drug utilization. This could potentially make what is perceived to be a negative situation a positive or less negative one. In a paper entitled "Inadequate Prescription-Drug Coverage for Medicare Enrollees – a Call to Action" published March 4th, 1999 in the *New England Journal of Medicine* the authors (Stephen B. Soumerai and Deniss Ross-Degnan) sight some interesting figures with regard to annual drug expenditures per individual as a function of whether or not a Medicare beneficiary lacks or has supplemental health care insurance. The following table summarizes the figures annual prescription drug spend per enrollee presented in that work.

Effect of Coverage Type on Drug Expenditures

Medicare Beneficiary Health Status	Medicare Fee-for-service Coverage only	Medicare plus individually purchased plan	Medicare plus employer sponsored plan
Excellent	$169	$243	$296
% Change		44%	75%
Fair	474	688	777
% Change		45%	64%
Poor Health	529	787	1033
% Change		49%	95%

Source: "Inadequate Prescription-Drug Coverage for Medicare Enrollees – A Call to Action," *New England Journal of Medicine*, March 4, 1999 p722-727.

What is noticeable is that as the level of drug expenditures increases with increasing coverage. While the supplemental coverage may not in all instances provide for a prescription drug benefit, those that do are likely to be providing the drugs under that coverage at lower prices than that obtained by fee-for-service only beneficiaries who are paying list price. This would suggest that the underlying volume and utilization increases dramatically when coverage is provided. Furthermore, the authors of the paper (cited above) point out that for low-income beneficiaries, annual drug expenditures increase as their coverage is supplemented.

Below is a table illustrating the components of U.S. pharmaceutical sales growth from 1987 through 1998. What is most interesting is the increasing volume component of sales growth during a period in which an increasing percentage of the population entered managed care. In that setting, drug prices are lower and the recipient is likely to have a benefit involving a small co-pay. In 1990, 26.1% of retail prescriptions were paid for by private managed care and 63.1% were paid for with cash, versus 64.9% and 24.7%, respectively in 1998.

Components of U.S. Pharmaceutical Sales Growth

Year	Price	Volume
1987	6.6%	8.9%
1988	8.5	3.0
1989	7.8	6.5
1990	8.4	6.1
1991	7.2	6.7
1992	5.9	3.0
1993	3.6	3.6
1994	1.8	4.8
1995	1.9	7.8
1996	1.6	10.1
1997	2.5	10.1
1998	3.2	12.7

Source: IMS

All of this points to the potential for volumes to increase if a prescription drug benefit is provided.

Medicare Reform May Not Be a Negative

The following scenarios are similar to those in the previous section. The major difference is that we have introduced volume increases into the equation since increasing coverage and/or lower prices lead to an increase in pharmaceutical utilization.

- **Price reductions for all Medicare beneficiaries to FSS levels (Scenario #4).** In this scenario we assume that Medicare recipients get a 40% discount from the manufacturers price. Therefore Medicare beneficiaries without coverage would see a 40% reduction in price. The two-thirds that have coverage would see a 25% reduction, assuming that their coverage is providing them with a 15% discount currently. For the one-third without coverage, we have assumed a 45% increase in volume. We estimated that the two-thirds with coverage would see a 10% increase in volume as a result of the lower price.
- **Price reductions for Medicare beneficiaries without coverage to FSS levels (Scenario #5).** In this scenario we assume that 40% price cuts would be provided for the 1/3 of the Medicare population that currently does not have coverage. Again, we estimated a 45% volume increase for these beneficiaries. We would assume that this would be according to some income or other criteria that would not result in switching for those patients that are currently receiving coverage. We would expect no volume or price impact in the two-thirds with coverage.
- **Price reductions for Medicare beneficiaries equivalent to that seen by large customers (Scenario #6).** This scenario assumes that Medicare beneficiaries not currently receiving coverage would receive coverage from private providers and therefore see price reductions for the drugs they receive

equivalent to what large pharmaceutical customers are seeing today. We estimate that large customer discounts run in the range of 15-20%. We assumed that volume would increase by 45% in the one-third of the population without coverage. We would expect no volume or price impact in the two-thirds with coverage.

Potential Pharma Sales Impact of a Medicare Drug Benefit

	Scenario #4	Scenario #5	Scenario #6
Company Pharmaceutical Sales	100%	100%	100%
U.S. Component of Total Sales	60%	60%	60%
% Exposed to Medicare	19.8%	19.8%	19.8%
Price and Volume Change for 1/3 Not Receiving Prescription Drug Coverage	5.68% (40% Price Discount+45% Volume Increase)	5.68% (40% Price Discount+45% Volume Increase)	8.05% (15% Price Discount+45% Volume Increase)
Price and Volume Change for 2/3 with Prescription drug Coverage	10.78% (25% discount beyond assumed existing 15% discount+10% volume increase)	13.07% (No discount or volume change)	13.07% (No discount or volume change)
Estimated Effect on Total Sales	-3.33%	-1.05%	+1.32%

Source: Merrill Lynch

Compared to the scenarios earlier in the report that did not consider the impact of volume changes, the above scenarios highlight the fact that increased utilization that should result from decreased prices can make the impact on sales less negative, or perhaps even positive.

Different Degrees of Exposure

Because a drug benefit for the Medicare population involves only pharmaceutical sales in the U.S., we have provided the U.S. pharmaceutical sales for the companies in our universe in the table below. The higher the percentage of total company sales represented by U.S. pharmaceutical sales, the higher the exposure to a drug benefit for the Medicare population. We should point out that these percentages alone do not predict true exposure to Medicare reform. If a company has a high percentage of U.S. pharmaceutical sales but its main products are not heavily used by patients over 65 years of age, that company's actual exposure may be relatively low. The converse may also be true for some companies.

Company Exposure to a Medicare Drug Benefit

Company	1998 U.S. Pharma Sales as a % of Total Company Sales / % of Pharma Sales
American Home Products	37% / 61%
Bristol-Myers Squibb	38% / 62%
Eli Lilly	60% / 64%
Merck	31% / 56%
Pfizer	55% / 67%
Pharmacia & Upjohn	26% / 37%
Schering-Plough	52% / 63%
Warner-Lambert	37% / 67%

Source: Merrill Lynch

Other Risks and Benefits

It must be realized that the analysis we have done is rather simplified, as we do not know the final form of Medicare reform that will be made into law. It is important to highlight other factors that may prove to be additional risks or benefits, including:

- **Potential phase-in of reforms.** Governmental programs are often phased in over time and are not implemented in one dramatic step. We could see a gradual increase in price discounts. Our scenarios have assumed a sudden one-time change in order to gauge the overall impact.
- **Prescription drug benefits may exceed budgets.** If the reforms include a prescription drug benefit and the financing for these benefits is not rock solid or well defined, there is a risk that a rise in drug utilization leads to drug coverage expenditures exceeding budgets. This could lead to further price reductions or additional regulation. This underscores the importance of the funding mechanisms for the various proposals being made.
- **Margin impact may be greater than top-line impact.** Given the high prices paid by Medicare recipients that currently pay out of pocket, this segment may be very (if not the most) profitable segment. This may amplify negative price effects. Gross margins, however, for a given product may improve with increasing volumes.

The Key Proposals

Some of the following proposals have been summarized from BNA's *Health Care Daily Report.*

Breaux/Thomas

The National Bipartisan Commission on the Future of Medicare, chaired by Sen. John Breaux (D-La.) and Rep. Bill Thomas (R-Calif.), failed in late March to achieve a supermajority of 11 votes needed to send reform recommendations to the president and Congress.

Under the premium support system proposed by the commission co-chairmen, Sen. John Breaux (D-La.) and Rep. Bill Thomas (R-Calif.), Medicare beneficiaries would select comprehensive health care coverage from either the government-run fee-for-service program or from a variety of private health plans, and would receive a federal contribution toward their premiums. The system seeks to blend government protections and market-based competition. The proposal would establish full coverage of outpatient prescription drugs to beneficiaries under 135 percent of the poverty level, which could total some 6 million recipients, according to Breaux. It would require that the government-run fee-for-service plan and all Medigap plans, which supplement Medicare, offer a "high option" plan that would provide prescription drug coverage.

The key points of disagreement of this plan seem to be where the poverty line should be drawn as well as how much, if any, of the program would be subsidized by the federal government. Apparently, time limitations prevented the committee from coming up with much detail for an actual drug benefit and how it might be funded.

Kennedy

The Access to Rx Medications in Medicare Act of 1999, proposed on April 20, 1999 by Sen. Edward M. Kennedy (D-Mass.) and others, proposes a program that would cover 80 percent of all costs for seniors with more than $200 in annual spending on prescription drugs. Beneficiaries also would be subject to a 20 percent coinsurance payment under the bill. Funding could come from increasing the federal tobacco tax, using part of the projected federal budget surplus, or through savings generated from less frequent hospitalizations that would occur if prescription drugs were more widely available.

Under the bill, Medicare would contract with companies offering prescription drugs through a competitive bidding process. The contracting entities could include pharmaceutical benefit management companies, health insurers, or networks of wholesale and retail pharmacies. The companies would be reimbursed on a regional or national basis and would be reimbursed based on the number of seniors enrolled. Current Medicare+Choice plans would continue providing drug coverage, and would have their Medicare payments adjusted to account for any additional costs associated with the bill. All 10 types of Medigap plans also would be required to provide drug coverage that exceeds that offered under the bill (currently, just three types of Medigap plans offer coverage).

Providers would be required to offer an adequate drug formulary and to provide such services as an appeals process, online drug utilization review, and 24-hour counseling for seniors. The bill also would attempt to increase the number of employers offering prescription drug coverage as part of their health care benefits package by providing a capitated payment geared to the number of retirees with drug coverage. The benefit would be offered under Part B of the Medicare program.

The key shortfall of the Kennedy proposal relates to how the program would be funded. In addition, the pharmaceutical industry would certainly point out that the bill relies on the federal government to control prices, access to care, scope of benefits, and quality of care.

Allen

Tom Allen (D-Maine) introduced Sept. 25, 1998 legislation called the Prescription Drug Fairness for Seniors Act of 1998 (H.R. 4627) that would allow senior citizens who are Medicare beneficiaries to purchase prescription drugs from participating pharmacies at substantially reduced prices. That would be achieved by allowing pharmacies that serve Medicare beneficiaries to purchase prescription drugs at the low prices available to federal agencies under the Federal Supply Schedule, which could reduce prices for seniors by 40 percent.

The limitations of this plan stem from the fact that while the Act would make medicines cheaper, it would not necessarily improve access to drugs for the uncovered Medicare population. Pharmacies would benefit from the system, but the pharmaceutical lobby would obviously object to the Act on the grounds that price controls would stymie innovation.

Clinton

President Clinton is expected to outline his proposal for a drug benefit shortly. Details of his plan have been sparse thus far, but some general comments have been made by his administration. A universal prescription drug benefit available under President Clinton's Medicare reform proposal would likely cost more than $25 a month for beneficiaries but would be below current market prices of around $90 a month for plans available on the market currently. The current Medicare premium is $45.50 per month but does not include drug coverage. An administration official indicated on June 7th that the president's prescription drug proposal would keep drug prices under control by hiring companies to be pharmacy benefit managers to buy drugs at discount and by guarding against unwarranted consumption of prescription drugs. The administration will seek to argue that its prescription drug benefit will save Medicare money because increased accessibility of medications would have the effect of keeping patients out of doctors' offices and hospitals.

The plan is expected to require health maintenance organizations to bid against one another for the ability to sign up Medicare beneficiaries. Federal officials would be able to seek the best prices for goods and services from suppliers to the Medicare program. Companies whose retirees are eligible for drug benefits would be able to allow them to pay for drug benefits under Medicare.

Many questions remain about the details of the plan and how the benefit would be funded. Part of the funding would presumably be provided by the cost savings that drugs provide by lowering the need for expensive health care services. In our opinion, this concept would be a hard sell for President Clinton, as managed care companies are struggling to keep costs under control despite the benefits that prescription drugs might offer. In fact, these same organizations have in some part blamed the rapid growth of their drug bill for their financial woes. Regardless of what the feasibility and popularity of Clinton's plan will be, we believe that the Democratic party will elect to save Medicare reform as it applies to a drug benefit as a major platform for the next presidential election. Therefore, we would not expect Clinton's plan to become reality in the next year.

**RESOLUTION OF THE
MINNESOTA STATE BOARD OF INVESTMENT
AUTHORIZING A SHAREHOLDER RESOLUTION
FOR PHARMACEUTICAL COMPANIES**

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

WHEREAS, shareholder resolutions are a means for shareholders to direct a public corporation to take action vital to the long-term economic viability of the company and for the ultimate protection of the shareholders' interests; and

WHEREAS, the Board has established a State Board of Investment Proxy Committee (SBI Proxy Committee) to assist in the sponsorship, co-sponsorship and support of shareholder resolutions as directed by the Board; and

WHEREAS, as of February 27, 2004, the State Board of Investment (SBI) owned approximately 12.8 million shares of Pfizer Incorporated (Pfizer) with an approximate value of 476 million dollars; and

WHEREAS, as of February 27, 2004, SBI owned shares in major pharmaceutical companies, including but not limited to, Pfizer, Astrazeneca, Wyeth, Eli Lilly, GlaxoSmithKline, Merck, and Bayer (the Companies); and

WHEREAS, current business practices of the pharmaceutical industry have resulted in a pricing structure that charges United States customers significantly higher prices for the same prescription medicines made available at significantly lower prices to other developed countries and world markets; and

WHEREAS, governmental agencies and individuals in the United States are demanding affordable drug prices and are taking actions to access lower priced products from other world markets; and

WHEREAS, according to published reports, Pfizer has cut supplies of its medicines to Canadian wholesalers and companies that it claims allowed its product to be sold to Americans seeking lower prices available in the Canadian market; and

WHEREAS, according to published reports, Pfizer's actions have resulted in threatened lawsuits by the Canadian wholesalers and companies involved, the Canadian International Pharmacy Association and may to result in legal actions by the Canadian government and others; and

WHEREAS, the State of Minnesota is currently investigating a number of major pharmaceutical companies for potential illegal business practices; and

WHEREAS, the Companies' business practices, pricing structure and unprecedented actions to limit supply of medicines in Canada may violate local, national and international laws and could result in large settlements, large awards of damages and potential punitive damages which would negatively impact the economic stability of the companies and the value of shares; and

WHEREAS, the Board believes that the Companies' current business practices are overly dependant upon the continuation of a pricing structure that places an unsustainable burden on United States consumers and governments; and

WHEREAS, the Board further believes that pharmaceutical industry current business practices may not be sustainable in the long term, may unreasonably expose the Companies to potential liability, and may negatively impact the value of shares; and

WHEREAS, in light of its fiduciary duty, the Board considers it prudent to initiate a shareholder resolution to protect share value and reduce the potential exposure of its stock funds to risk.

NOW THEREFORE, be it resolved:

1. Board directs the SBI Proxy Committee to sponsor, co-sponsor or support shareholder resolutions that:

    a. Require Pfizer, Astrazeneca, Wyeth, Eli Lilly, GlaxoSmithKline, Merck, and Bayer to adopt polices to encourage promotion of the long term economic stability of the company and value of shares by implementing business practices and pricing structures that are not reliant on unsustainable and disproportionate pricing in the United States;

    b. Require the Companies to adopt policies to encourage promotion of the long term economic stability of the company and reduce the potential liability to legal claims by ceasing all actions that intentionally limit the availability of the company's products to Canadian wholesalers or pharmacies that allow purchase of products by non-Canadian residents; and

    c. Require the Companies to fully report to shareholders on all of the costs incurred by the company in relation to efforts to maintain the current pricing structures including, but not limited to, all lobbyist costs, legal costs, consulting fees, gift and promotion costs.

2. The Board directs the SBI Proxy Committee to review the corporate policies and business practices in pharmaceutical companies in which the Board holds interests, and, where feasible, sponsor, co-sponsor or support similar shareholder resolutions.

Adopted this 3rd day
of March, 2004

Governor Tim Pawlenty
Chair, Minnesota State Board of Investment

RESOLUTION

WHEREAS, this country has been shocked by the illegal and irresponsible acts of corporate executives at corporations such as Worldcom, Tyco, Enron, Global Crossings and Imclone;

WHEREAS, corporate responsibility begins with shareholders who have the responsibility to elect members to the boards of directors that govern these corporations;

WHEREAS, public pension funds constitute one of the largest blocks of stockholders in the securities market;

WHEREAS, the Minnesota State Board of Investment ("SBI") owns stock in many pharmaceutical companies, including Pfizer, Eli Lilly, Astra Zeneca, GlaxoSmithKline, and Wyeth;

WHEREAS, these companies have threatened to boycott sales of prescription drugs to Canadian pharmaceutical distributors, wholesalers, and retailers if they sell the drugs to Americans;

WHEREAS, state and federal antitrust laws prohibit competitors from conspiring to boycott sales of products in order maintain prices;

WHEREAS, SBI is upholding the principles of corporate responsibility by not supporting corporations which engage in violations of the law;

NOW THEREFORE, BE IT RESOLVED that if any court determines that any pharmaceutical company has violated the law by participating in a boycott of Canadian pharmacies, the SBI shall sell the stock of that company as soon as reasonably and prudently possible.

BE IT FURTHER RESOLVED that the staff of the SBI are instructed to distribute this resolution to other state pension funds and encourage them to adopt similar resolutions.

AG: #999717-v1

INVESTMENT ADVISORY COUNCIL

AGENDA AND MINUTES

June 1, 2004

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Tuesday, June 1, 2004
2:00 P.M. - Board Room – First Floor
60 Empire Drive
St. Paul, MN

	TAB
1. Approval of Minutes of March 2, 2004	
2. Report from the Executive Director (Howard Bicker)	**A**
A. Quarterly Investment Review (January 1, 2004 – March 31, 2004)	
B. Administrative Report	**B**
1. Reports on budget and travel.	
2. Legislative Update.	
3. Litigation Update.	
3. Report from the SBI Administrative Committee (Peter Sausen)	**C**
1. Review of Executive Director's proposed workplan for FY05.	
2. Review of budget plan for FY05.	
3. Review of Continuing Fiduciary Education Plan.	
4. Review of Executive Director's Evaluation Process.	
4. Report from the Deferred Compensation Plan Committee (Peter Sausen)	**D**
1. Renewal of contracts with T. Rowe Price, Fidelity and Janus for the Deferred Compensation Plan.	
5. Reports from the Investment Advisory Council	
A. Stock and Bond Manager Committee (John Bohan)	**E**
1. Review of manager performance.	
2. Annual review of investment manager guidelines.	
3. Annual review of manager benchmarks.	
4. Recommendation to terminate U.S. Bancorp Asset Management for a domestic equity mandate.	
5. Recommendation to terminate Schroders Investment Management North America for an international emerging market mandate.	
B. Alternative Investment Committee (Ken Gudorf)	**F**
1. Review of current strategy.	
2. Recommendation for new investments with two managers:	
• Affinity Capital	
• Gold Hill Venture Lending	

Minutes
Investment Advisory Council
March 2, 2004

MEMBERS PRESENT:	Frank Ahrens; Gary Austin; Dave Bergstrom; John Bohan; Kerry Brick; Malcolm McDonald; Ken Gudorf; Daralyn Peifer; Mike Troutman; and Mary Vanek.
MEMBERS ABSENT:	Doug Gorence; Peggy Ingison; Heather Johnston; Hon. Ken Maas; Judy Mares; Gary Norstrem; and P. Jay Kiedrowski;
SBI STAFF:	Howard Bicker; Mansco Perry; Jim Heidelberg; Andy Christensen; Tammy Brusehaver-Derby; Stephanie Gleeson; Mike Menssen; Susan Sutton; John Griebenow; Debbie Griebenow; Carol Nelson; and Charlene Olson.
OTHERS ATTENDING:	Ann Posey, Richards & Tierney; Christie Eller; Carla Heyl; Alberto Quintela; Peter Sausen; Robert Heimerl, Jerry Irsfeld, Lloyd Belford, REAM; Ed Rapp, Education Minnesota.

The minutes of the December 2, 2003 Board meeting were approved.

Executive Director's Report
Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded its Composite Index over the ten year period ending December 31, 2003 (Combined Fund 8.9% vs. Composite 8.8%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.8% vs. CPI 3.0%). He stated that the Basic Funds have slightly outperformed its composite index (Basic Funds 9.1% vs. Composite 9.0%) over the last ten years and reported that the Post Fund has also outperformed its composite over the last ten year period (Post Fund 8.7% vs. Composite 8.5%).

Mr. Bicker reported that the Basic Fund's assets increased 8.8% for the quarter ending December 31, 2003 due to positive investment returns. He said that the asset mix had been rebalanced during the quarter. He reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds 9.0% vs. Composite 8.8%) and for the year (Basic Funds 22.7% vs. Composite 22.4%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 7.3% for the quarter ending December 31, 2003 due to positive investment returns. He said the

Post Fund asset mix had also been rebalanced and that the Post Fund outperformed its composite index for the quarter (Post Fund 9.3% vs. Composite 8.9%) and for the year (Post Fund 23.5% vs. Composite 22.8%).

Mr. Bicker reported that the domestic stock manager group slightly underperformed its target for the quarter (Domestic Stock 12.3% vs. Wilshire 5000 Investable 12.4%) and for the year (Domestic Stocks 31.0% vs. Wilshire 5000 Investable 31 2%). He said the International Stock manager group underperformed its composite index for the quarter (International Stocks 16.5% vs. Int'l Composite 17.1%) and for the year (International Stocks 38.2% vs. Int'l Composite 40.1%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 0.8% vs. Lehman Aggregate 0.3%) and for the year (Bonds 5.7% vs. Lehman Aggregate 4.1%). He concluded his report with the comment that as of December 31, 2003, the SBI was responsible for over $45 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel. He said that the SBI received a clean opinion from the Legislative Auditor on its financial statements. Mr. Bicker distributed an update on legislative activity (see **Attachment A**) and stated that there are two legislative bills related to the State Board of Investment. He reported that the first bill would authorize the SBI to invest some retiree healthcare assets for the Metropolitan Council. Mr. Bicker stated that the SBI has non-pension investment vehicles available to the Met Council and that the SBI would have little additional costs or responsibilities associated with investing these assets. Mr. Bicker stated that the second piece of legislation involves the SBI's Certificate of Deposit (CD) program. He said the bill would initiate some new rating criteria and that staff will be having further discussions with the bill's author.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She stated that the State is currently involved in four securities cases. Ms. Eller stated that the motion to reset a trial date in the McKesson case has been rescheduled until the end of March 2004. She said the State is hoping to get a trial date in 2005, ahead of the federal litigation. She stated that discovery is proceeding for the Broadcom case and that she anticipates the discovery cutoff will be July 1, 2004 and that she expects a trial in November 2004. Ms. Eller reported that in the AOL Time Warner case, the State is still waiting for the judge's decision regarding motions to dismiss. She said that the State's case against WorldCom was originally filed in Minnesota in State court, that it had been remanded to Federal court, and that a motion is currently being argued to remand it back to Minnesota. She added that once the remand decision is made, the State will need to decide whether to opt back into the federal case.

In response to a request from Mr. Troutman, Mr. Bicker briefly updated members regarding news media stories regarding pharmaceutical companies and the State Board of Investment. He said that the Governor has expressed an interest in initiating a shareholder resolution at Pfizer, and potentially a few other drug companies regarding the disparity of drug prices in the U.S. compared to Canada and some European countries.

He briefly discussed the time frame associated with any shareholder activity and the process of filing such a resolution. He said that to the best of his knowledge, the Governor's potential resolution does not include limitations on holdings or divestiture language. In response to a question from Mr. Bohan, Mr. Bicker stated that he believes the focus will be economic and fiduciary issues and concerns regarding the pricing structure utilized by various drug companies.

In response to a question from Mr. Gudorf, Mr. Sausen stated that the Proxy Committee has taken positions on various issues through the years and that they deal with new issues as they arise from year to year. He stated that the Committee would welcome any member who wished to attend. Mr. Troutman noted the importance of the wording of any potential shareholder resolution in order to avoid having it omitted by the SEC.

Domestic Equity Large Capitalization Value Search Committee
Mr. Sausen referred members to Tab C of the meeting materials and stated that the Committee had conducted a search for large capitalization value managers. He said that six firms were interviewed and that the Committee is recommending that the following four firms be retained by the SBI: Barrow, Hanley, Mewhinney & Strauss, Inc.; Lord Abbett and Co.; LSV Asset Management; and Systematic Financial Management. Mr. McDonald moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Gudorf seconded the motion. In response to a question from Ms. Peifer, Mr. Bicker stated that the managers were chosen based on their diversification in style and their capacity to accept additional funds at a later date. The motion passed.

IAC Membership Review Committee
Mr. Sausen referred members to Tab D of the meeting materials and stated that no action on the IAC appointments is required. Mr. Bergstrom, Ms. Vanek and Mr. Austin thanked the IAC members who served on the Committee.

Stock and Bond Manager Committee
Mr. Bohan referred members to Tab E of the meeting materials and noted that the transition to daily valued funds for the Deferred Compensation Plan went smoothly. Mr. Bergstrom thanked SBI staff for their assistance.

Mr. Bohan discussed the performance of the stock and bond managers. He updated members on American Express's acquisition of Threadneedle Asset Management and Mr. Bicker stated that staff believes the acquisition will strengthen their international capabilities.

Mr. Bohan noted that alleged inappropriate trading of mutual funds at some investment firms did not involve the SBI's portfolios.

In response to a question from Mr. Troutman, Mr. Bicker stated that staff will continue to monitor the staff and organizational changes at Schroders. He noted that the SBI had recently removed a large portion of SBI's assets with Schroder's as part of the rebalancing process due to concerns with the firm.

Mr. Bohan concluded his report by briefly summarizing the pricing changes for the Deferred Compensation Plan, and Mr. Bergstrom confirmed that the transition went very well.

Alternative Investment Committee
Mr. Gudorf referred members to Tab F of the meeting materials, and he briefly described the five investments the Committee is recommending with five existing managers: TA Associates Realty; Goldner Hawn Johnson & Morrison; Hellman and Friedman; Merit Capital Partners (formerly William Blair Mezzanine); and Summit Partners. In response to a question from Mr. Troutman, Mr. Gudorf stated that Merit Capital investment is a mezzanine debt fund while Summit Partners is a subordinated debt fund. Mr. McDonald moved approval of all five of the Committee's recommendations, as stated in the Committee Report. Mr. Austin seconded the motion. The motion passed.

The meeting adjourned at 2:55 p.m.

Respectfully submitted,

Howard J. Bicker
Executive Director

Bills of Interest to the Minnesota State Board of Investment
2004 Legislative Session
Includes Action Through 3/01/04

Description of Bill	HF/SF # and Author	Current Status
Metropolitan Council -Authorized to invest with SBI	H.F. 1821 (Buesgens)	Passed Local Gov't Metro affairs 2/24; passed Gov't Op & Vet affairs 3/1, sent to floor
	S.F. 1915 (Wiger)	Passed State and Local Gov't Op's; sent to floor 2/18
CD Program -Additional purchases of CD's from community development banks	H. F. 2666 (Hornstein)	Referred to Gov't Op & Vet affairs

Tab A

LONG TERM OBJECTIVES
Period Ending 3/31/2004

COMBINED FUNDS: $37.4 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.)	**9.5% (1)**	0.2 percentage point above target
Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Combined Funds over the latest 10 year period.		
Provide Real Return (20 yr.)	**11.1%**	8.0 percentage points above CPI
Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.		

BASIC RETIREMENT FUNDS: $19.0 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.)	**9.7%**	0.2 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 10 year period.		

POST RETIREMENT FUND: $18.4 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.)	**9.4%**	0.3 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 10 year period.		

(1) Performance is calculated net of fees.

SUMMARY OF ACTUARIAL VALUATIONS

All Eight Plans of MSRS, PERA and TRA Including Post Fund
July 1, 2003

	Active (Basics)	Retired (Post)	Total (Combined)
Liability Measures			
1. Current and Future Benefit Obligation	$32.0 billion	$21.2 billion	$53.2 billion
2. Accrued Liabilities	22.9	21.2	44.1
Asset Measures			
3. Current and Future Actuarial Value	$30.8 billion	$21.2 billion	$52.0 billion
4. Current Actuarial Value	21.1	21.2	42.3
Funding Ratios			
Future Assets vs. Future Obligations (3 ÷ 1)	96%	100%	98%
Current Actuarial Value vs. Accrued Liabilities (4 ÷ 2)	92%	100%	96%*

* 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: 2031

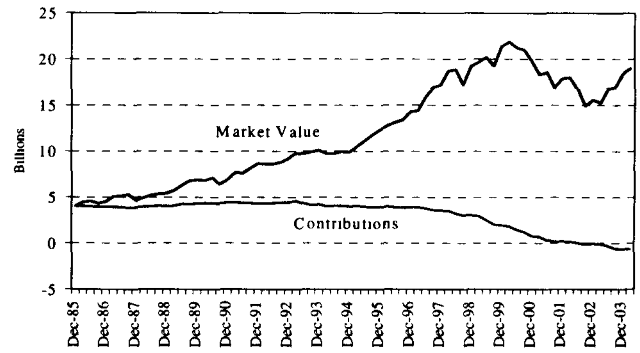
EXECUTIVE SUMMARY

Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds increased 3.1% during the first quarter of 2004. Positive investment returns accounted for the increase.

	Asset Growth During First Quarter 2004 (Millions)
Beginning Value	$ 18,435
Net Contributions	-32
Investment Return	604
Ending Value	$ 19,007

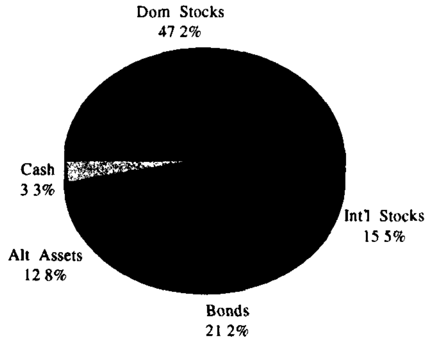


Asset Mix

The allocation to domestic stock and international stock decreased over the quarter due to rebalancing from both asset classes to cash.

	Policy Targets	Actual Mix 3/31/2004	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	47.2%	$8,981
Int'l. Stocks	**15.0**	15.5	2,941
Bonds	**24.0**	21.2	4,035
Alternative Assets*	**15.0**	12.8	2,433
Unallocated Cash	**1.0**	3.3	617
	100.0%	100.0%	$19,007

* Any uninvested allocation is held in domestic stocks

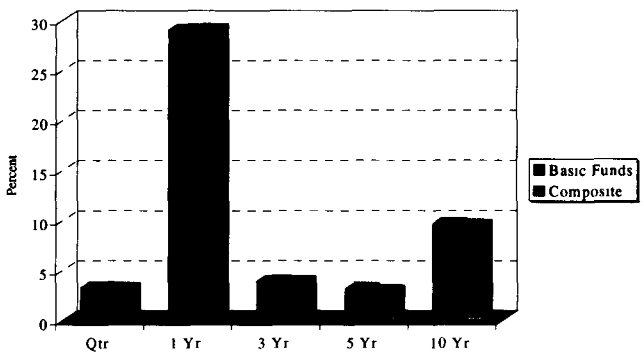


Fund Performance (Net of Fees)

The Basic Funds outperformed its composite market index for the quarter and matched the one-year return.

Period Ending **3/31/2004**

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Basics	**3.3%**	**29.1%**	**3.9%**	**3.2%**	**9.7%**
Composite	3.2	29.1	3.9	3.0	9.5

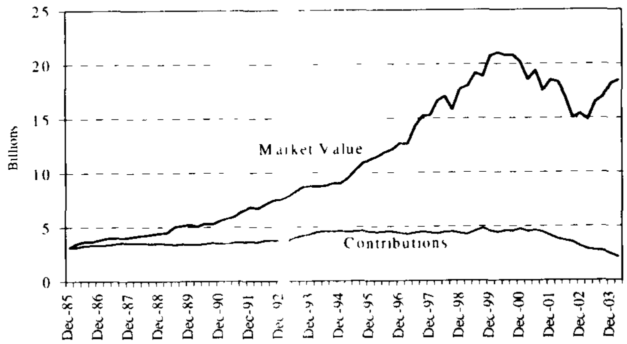


EXECUTIVE SUMMARY

Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased 1.5% during the first quarter of 2004. Positive investment returns accounted for the increase.



Asset Growth During First Quarter 2004 (Millions)

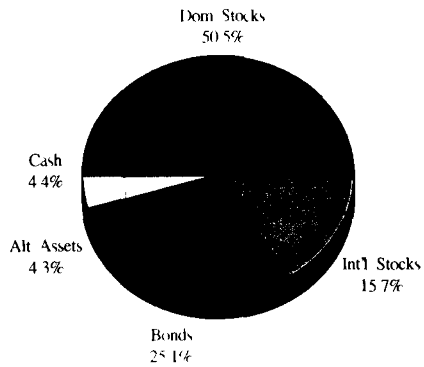
Beginning Value	$18,162
Net Contributions	-261
Investment Return	528
Ending Value	$18,429

Asset Mix

The allocation to domestic stock and international stock decreased over the quarter due to rebalancing from both asset classes to cash.

	Policy Targets	Actual Mix 3/31/2004	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	50.5%	$9,312
Int'l Stocks	**15.0**	15.7	2,892
Bonds	**25.0**	25.1	4,618
Alternative Assets*	**12.0**	4.3	796
Unallocated Cash	**3.0**	4.4	811
	100.0%	100.0%	$18,429

* Any uninvested allocation is held in domestic stocks

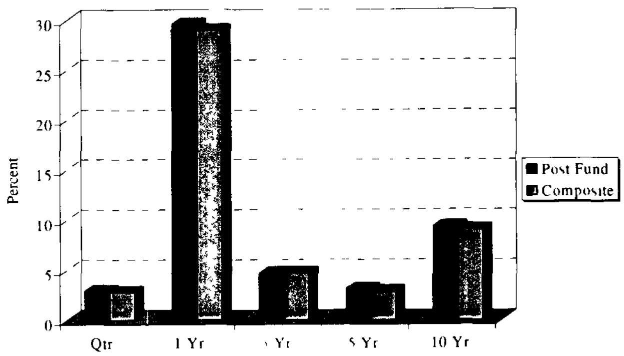


Fund Performance (Net of Fees)

The Post Fund outperformed its composite market index for the quarter and one-year time periods.

Period Ending **3/31/2004**

	Qtr	1 Yr.	3 Yr. (Annualized)	5 Yr	10 Yr
Post	**2.9%**	**29.6%**	**4.7%**	**3.1%**	**9.4%**
Composite	2.8	29.0	4.7	2.9	9.1



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 underperformed for the year.

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

Period Ending 3/31/2004

			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Dom. Stocks	**2.3%**	**37.7%**	**1.8%**	**-0.6%**	**10.7%**
Asset Class Target*	2.2	38.1	2.2	-0.5	10.9

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

International Stocks

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

MSCI ACWI Free ex U.S. (net): The Morgan Stanley Capital International All Country World Index is a free float-adjusted market capitalization Index that is designed to measure equity market performance in the global developed and emerging markets. There are 48 countries included in this index. It does not include the United States.

Period Ending 3/31/2004

			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	**4.6%**	**57.5%**	**5.1%**	**2.2%**	**5.5%**
Asset Class Target*	4.8	59.5	4.7	1.4	4.4

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

Bonds

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

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

Period Ending 3/31/2004

			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	**2.6%**	**6.6%**	**7.7%**	**7.5%**	**7.8%**
Asset Class Target*	2.7	5.4	7.4	7.3	7.5

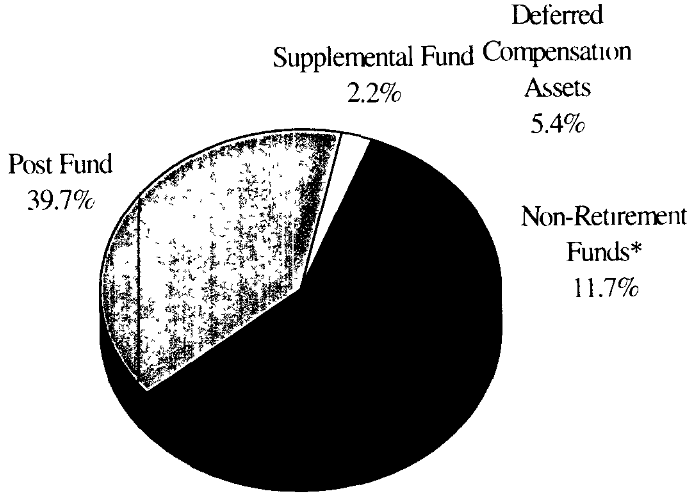
* The Fixed Income Asset Class Target is the Lehman Aggregate, effective 7/1/1994. Prior to 7/1/1994, the fixed income target was the Salomon BIG.

Alternative Investments

Period Ending 3/31/2004

			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	**6.6%**	**17.1%**	**2.7%**	**9.0%**	**12.7%**

EXECUTIVE SUMMARY
Funds Under Management



	3/31/2004 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$19.0
Post Retirement Fund	18.4
Supplemental Investment Fund	1.0
State Deferred Compensation Plan Non-SIF Assets	2.5
Non-Retirement Funds*	
Assigned Risk Plan	0.3
Permanent School Fund	0.6
Environmental Trust Fund	0.3
State Cash Accounts	4.2
Total	$46.3

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

First Quarter 2004
(January 1, 2004 - March 31, 2004)

Table of Contents

VARIOUS CAPITAL MARKET INDICES

	Period Ending 3/31/2004				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	2.6%	39.4%	2.8%	0.2%	11.3%
Dow Jones Industrials	-0.4	32.7	3.7	3.1	13.3
S&P 500	1.7	35.1	0.6	-1.2	11.7
Russell 3000 (broad market)	2.2	38.2	1.9	0.1	11.5
Russell 1000 (large cap)	1.9	36.4	1.3	-0.6	11.7
Russell 2000 (small cap)	6.3	63.8	10.9	9.7	10.4
Domestic Fixed Income					
Lehman Aggregate (1)	2.7	5.4	7.4	7.3	7.5
Lehman Gov't./Corp.	3.1	6.1	8.0	7.6	7.6
3 month U.S. Treasury Bills	0.2	1.0	1.8	3.3	4.2
International					
EAFE (2)	4.3	57.5	3.4	0.5	4.6
Emerging Markets Free (3)	9.7	82.2	18.5	10.1	2.1
ACWI Free ex-U.S. (4)	4.8	59.9	5.4	2.0	4.9
World ex-U.S. (5)	4.2	57.2	3.8	1.0	4.8
Salomon Non U.S. Gov't. Bond	1.6	16.1	14.2	6.6	6.7
Inflation Measure					
Consumer Price Index (6)	1.7	1.7	2.1	2.6	2.4

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

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

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

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

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

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The U.S. stock market, as measured by the Russell 3000, advanced by 2.2% during the first quarter of 2004. An economic recovery in the U.S. is underway, and corporations have reported very strong earnings. The market reacted favorably to the positive news. During the quarter, the stock of small companies outperformed larger companies, and value companies outperformed growth companies. The finance sector provided the greatest contribution to return within the Russell 3000, while the technology services sector was the largest detractor.

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

Large Growth	Russell 1000 Growth	0.8%
Large Value	Russell 1000 Value	3.0%
Small Growth	Russell 2000 Growth	5.6%
Small Value	Russell 2000 Value	6.9%

The Russell 3000 returned 38.2% for the year ending March 31, 2004.

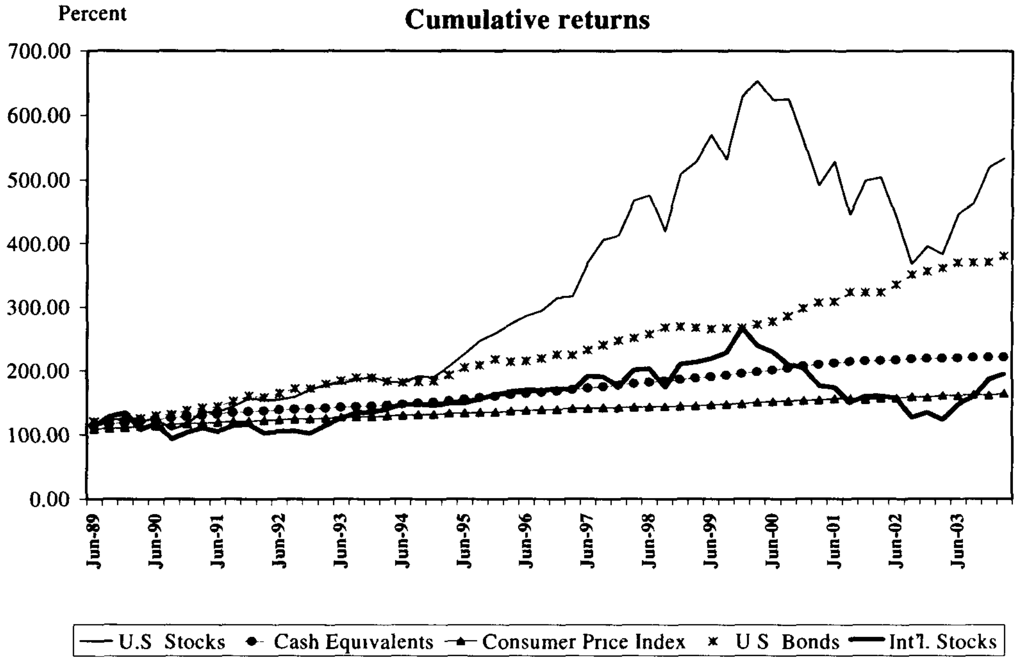
DOMESTIC BONDS

The bond market generated a positive return of 2.7% for the quarter and posted a gain of 5.4% for the year. The quarterly return was due to positive returns in all sectors of the index. Interest rates rallied during the first quarter as the economy failed to show significant signs of employment growth. The mortgage market continued to benefit from a persistently accommodative Fed, a steep yield curve, and large demand from banks that sought to replace lost yield in the markets due to weak loan demand. Treasury returns for the quarter were the highest since the fourth quarter of 2002 and the 10-year Treasury yield fell to the lowest level since July 2003. Investment grade corporates generated a small excess return for the quarter as March ended the 16-month streak of consecutive outperformance for the sector.

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

Treasury/Agency	2.9%
Credit	3.3
Mortgages	1.9

PERFORMANCE OF CAPITAL MARKETS
Cumulative returns



FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, developed international stock markets (as measured by the MSCI World ex U.S index) provided a return of 4 2% for the quarter. The quarterly performance of the six largest stock markets is shown below

United Kingdom	1 8%
Japan	15.1
France	-0.4
Switzerland	0 6
Germany	-4.5
Canada	2 7

The World ex U S index increased by 57 2% during the last year

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

EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of 9.7% for the quarter The quarterly performance of the five largest stock markets in the index is shown below

Korea	19 1%
Taiwan	10 2
South Africa	9 1
Mexico	19 9
Brazil	-0 4

The Emerging Markets Free index increased by 82.2% during the last year

The Emerging Markets Free (EMF) index is compiled by MSCI and measures performance of 26 stock markets in Latin America, Asia, Africa and Eastern Europe EMF includes only those securities foreign investors are allowed to hold The markets listed above comprise about 66% of the value of the international markets in the index

REAL ESTATE

The lackluster performance in both the national and regional economies has contributed to the continued deterioration in property market fundamentals In this real estate cycle, a significant decline in demand, rather than a gross excess supply as in past cycles, has been the culprit for rising vacancies and sublease space. Analysts look for a more restrained supply to lead to improving fundamentals towards the end of 2004 and into 2005.

PRIVATE EQUITY

U.S private equity firms raised $10 billion for private equity limited partnerships of all types, from venture capital to buyouts in the first quarter 2004, and $46 billion for 2003. The 2003 figure represents a 22% decrease from the revised prior year total of $59 billion 2003 was the third consecutive year to see a decrease in funds raised

RESOURCE FUNDS

During the first quarter of 2004, crude oil averaged $35 21 per barrel, slightly higher than an average price of $31 11 during the fourth quarter of 2003 The sustained high oil prices reflect the relative instability in the Middle East.

COMBINED FUNDS

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

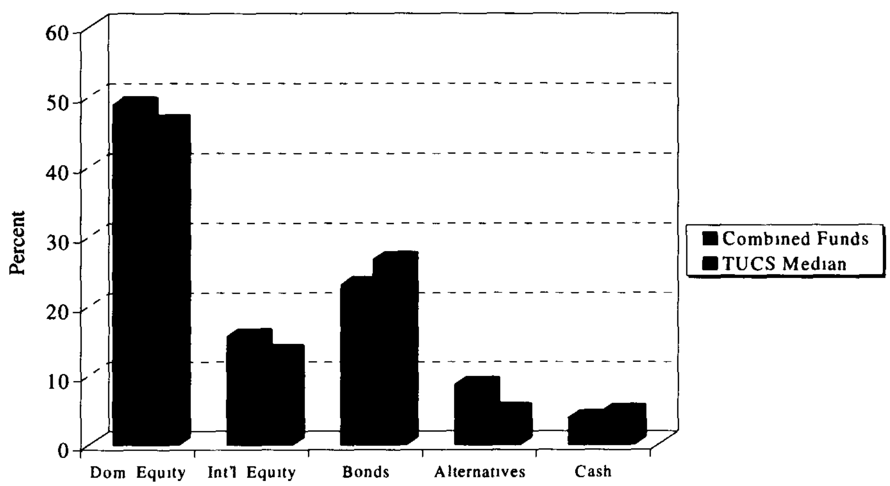
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On March 31, 2004, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$18,293	48.9%
International Stocks	5,833	15.6
Bonds	8,653	23.1
Alternative Assets	3,228	8.6
Unallocated Cash	1,429	3.8
Total	$37,436	100.0%

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



	Dom. Equity	Int'l Equity	Bonds	Alternatives	Cash
Combined Funds	**48.9%**	**15.6%**	**23.1%**	**8.6%**	**3.8%**
Median Allocation in TUCS*	46.3	13.3	26.7	4.9**	4.7

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

COMBINED FUNDS
Performance Compared to Other Pension Funds

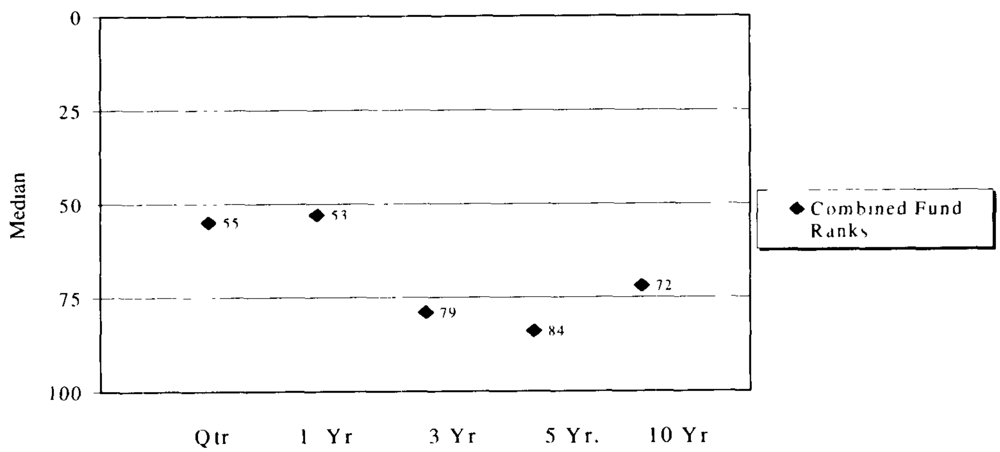
While the SBI is concerned with how its returns compare to other pension investors, universe comparisons should be used with great care There are several reasons why such comparisons will provide an "apples to oranges" look at performance:

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

— **Differing Goals/Liabilities.** Each pension fund structures its portfolio to meet its own liabilities and risk tolerance This will result in different choices on asset mix. Since asset mix will largely determine investment results, a universe ranking is not relevant to a discussion of how well a plan sponsor is meeting its long-term liabilities

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

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



Period Ending 3/31/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds Percentile Rank in TUCS*	55th	53rd	79th	84th	72nd

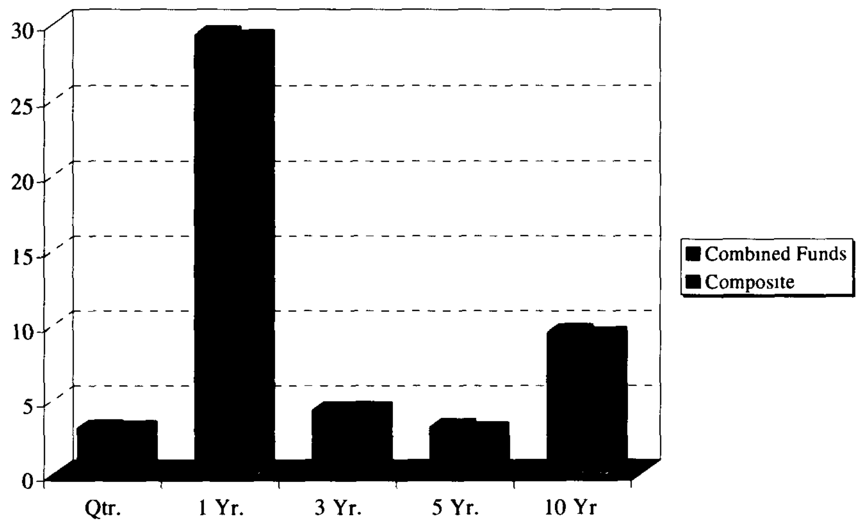
* Compared to public and corporate plans greater than $1 billion, gross of fees.

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* 1Q04
Domestic Stocks	Russell 3000	49.9%*
Int'l. Stocks	MSCI ACWI Free ex-U.S.	15.0
Bonds	Lehman Aggregate	24.5*
Alternative Investments	Alternative Investments	8.6*
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 3/31/2004				
				Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds**	**3.1%**	**29.3%**	**4.3%**	**3.2%**	**9.5%**
Composite Index	3.0	29.1	4.3	2.9	9.3

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

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BASIC RETIREMENT FUNDS
Investment Objectives

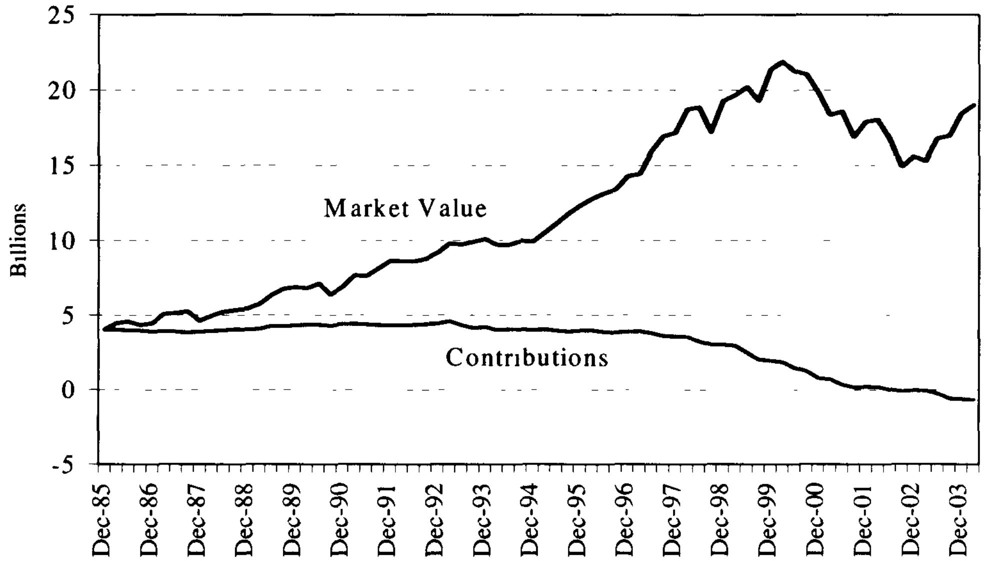
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately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

Employee and employer contribution rates are specified in state law as a percentage of an employee's salary. The rates are set so that contributions plus expected investment earnings will cover the projected cost of promised pension benefits. In order to meet these projected pension costs, the Basic Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

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

Asset Growth

The market value of the Basic Funds increased 3.1% during the first quarter of 2004. Positive investment returns accounted for the increase.



Last Five Years
In Millions

	12/99	12/00	12/01	12/02	12/03	Latest Qtr. 3/04
Beginning Value	$19,244	$21,365	$19,807	$17,874	$15,561	$18,435
Net Contributions	-1,065	-1,186	-572	-247	-592	-32
Investment Return	3,186	-372	-1,361	-2,066	3,466	604
Ending Value	$21,365	$19,807	$17,874	$15,561	$18,435	$19,007

BASIC RETIREMENT FUNDS
Asset Mix

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

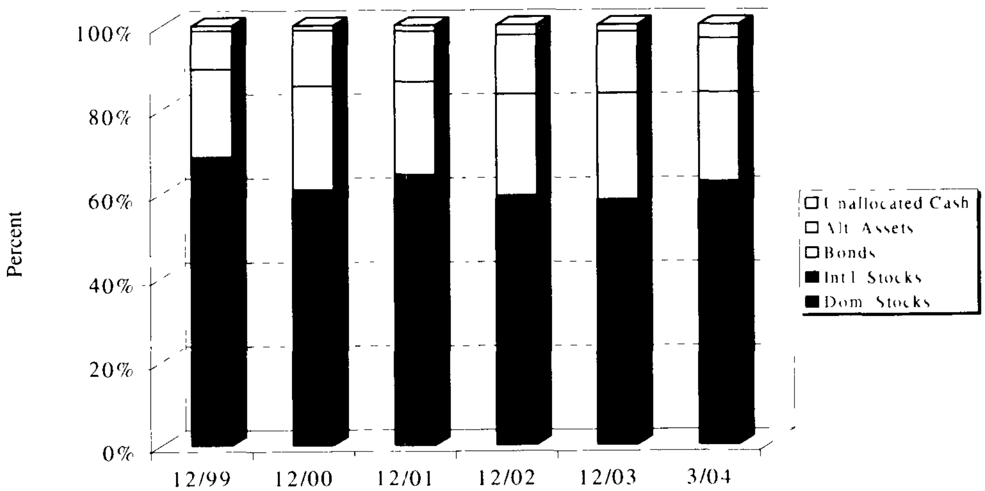
Domestic Stocks	45 0%
Int'l Stocks	15 0
Bonds	24 0
Alternative Assets*	15 0
Unallocated Cash	1 0

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

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

Over the last year, the allocation to domestic stock and international stock increased due to positive returns

During the quarter, the domestic stock and international stock allocations decreased due to rebalancing from both asset classes to cash



	Last Five Years					Latest Qtr.
	12/99	**12/00**	**12/01**	**12/02**	**12/03**	**3/04**
Domestic Stocks	51 9%	44 3%	49.5%	45 3%	48 5%	47.2%
Int'l. Stocks	16 8	16 6	15 0	14 1	16.6	15 5
Bonds	21 0	24 7	22 1	24 2	21 2	21 2
Alternative Assets	9 1	13 3	12.1	14.1	13.3	12.8
Unallocated Cash	1 2	1 1	1 3	2.3	0 4	3 3
Total	100 0%	100 0%	100 0%	100 0%	100 0%	100.0%

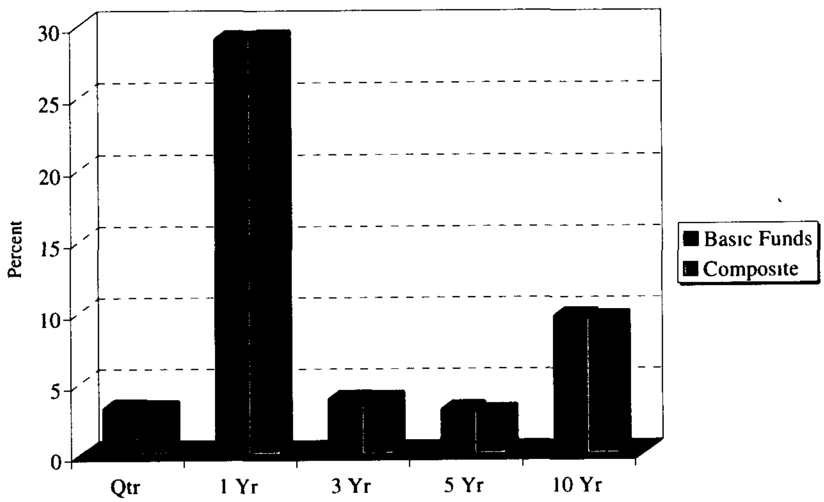
BASIC RETIREMENT FUNDS

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* 1Q04
Domestic Stocks	45.0%	Russell 3000	47.2%*
Int'l. Stocks	15.0	MSCI ACWI Free ex-U.S.	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Investments	15.0	Alternative Investments	12.8*
Unallocated Cash	1.0	3 Month T-Bills	1.0
	100.0%		100.0%

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



Period Ending 3/31/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Basic Funds**	**3.3%**	**29.1%**	**3.9%**	**3.2%**	**9.7%**
Composite Index	3.2	29.1	3.9	3.0	9.5

**Returns are reported net of fees.

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See 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 114,000 retirees receive monthly annuities from the assets of the Fund

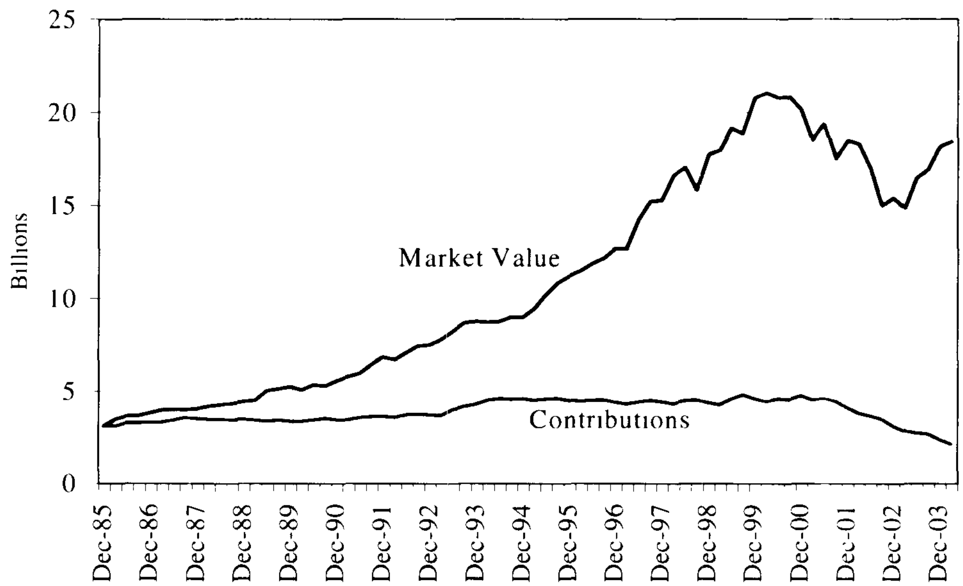
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis If the Post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

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

Asset Growth

The market value of the Post Fund increased by 1.5% during the first quarter of 2004

Positive investment returns accounted for the increase.



Last Five Years
In Millions

	12/99	12/00	12/01	12/02	12/03	Latest Qtr. 3/04
Beginning Value	17,743	$20,768	$20,153	$18,475	$15,403	$18,162
Net Contributions	211	167	-647	-1,000	-719	-261
Investment Return	2,814	-782	-1,031	-2,072	3,478	528
Ending Value	20,768	$20,153	$18,475	$15,403	$18,162	$18,429

POST RETIREMENT FUND
Asset Mix

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

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

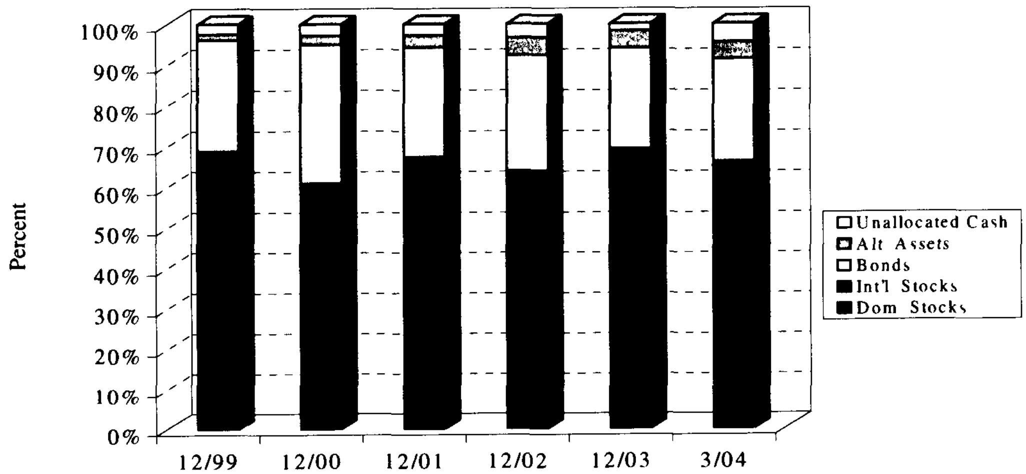
* Alternative assets include yield oriented investment vehicles. Any uninvested allocation is held in domestic stocks.

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 domestic stock and international stock increased due to positive returns.

During the quarter, the domestic stock and international stock allocation decreased due to rebalancing from both asset classes to cash.



	12/99	12/00	12/01	12/02	12/03	3/04
	Last Five years					Latest Qtr.
Dom. Stocks	52.0%	47.5%	52.4%	49.6%	52.7%	50.5%
Int'l. Stocks	16.9	13.5	15.1	14.4	16.7	15.7
Bonds	27.2	34.0	26.7	28.3	24.6	25.1
Alt. Assets	1.5	2.3	3.1	4.5	4.4	4.3
Unallocated Cash	2.4	2.7	2.7	3.2	1.6	4.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

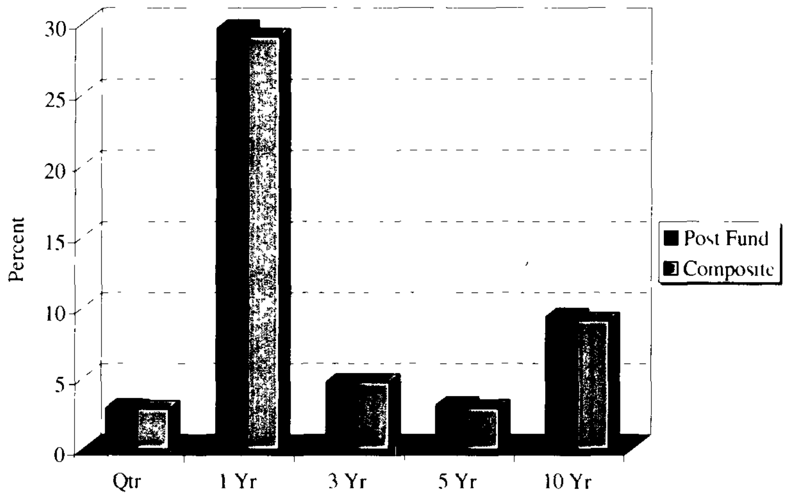
POST RETIREMENT FUND

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* 1Q04
Domestic Stocks	45.0%	Russell 3000	52.7%
Int'l. Stocks	15.0	MSCI ACWI Free ex-U.S.	15.0
Bonds	25.0	Lehman Aggregate	25.0*
Alternative Investments	12.0	Alternative Investments	4.3*
Unallocated Cash	3.0	3 Month T-Bills	3.0
	100.0%		100.0%

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



Period Ending 3/31/2004

	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
Post Fund**	**2.9%**	**29.6%**	**4.7%**	**3.1%**	**9.4%**
Composite Index	2.8	29.0	4.7	2.9	9.1

** Returns are reported net of fees

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

STOCK AND BOND MANAGERS

Performance of Asset Pools (Net of Fees)

Domestic Stocks

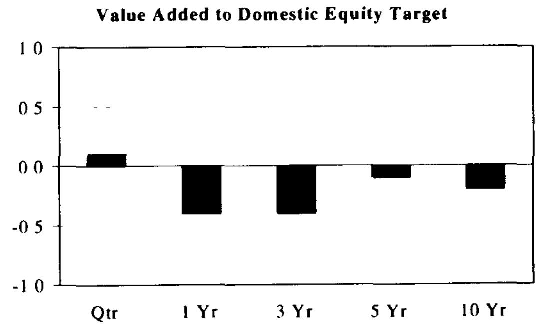
Target: Russell 3000

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

Period Ending 3/31/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Domestic Stocks	**2.3%**	**37.7%**	**1.8%**	**-0.6%**	**10.7%**
Asset Class Target*	2 2	38 1	2.2	-0.5	10.9

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



International Stocks

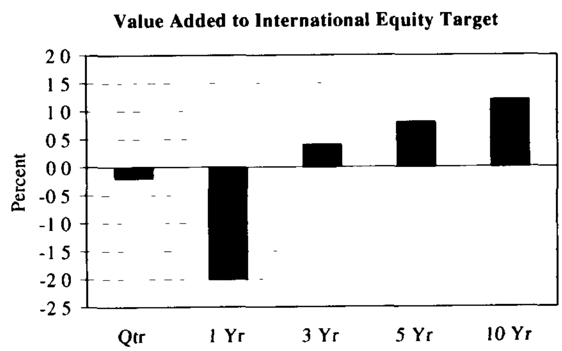
Target: MSCI ACWI Free ex U.S. (net)

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

Period Ending 3/31/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Int'l. Stocks	**4.6%**	**57.5%**	**5.1%**	**2.2%**	**5.5%**
Asset Class Target*	4.8	59.5	4.7	1.4	4.4

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



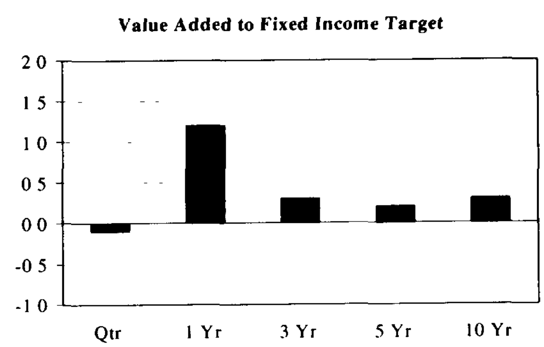
Bonds

Target: Lehman Brothers Aggregate Bond Index

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

Period Ending 3/31/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Bonds	**2.6%**	**6.6%**	**7.7%**	**7.5%**	**7.8%**
Asset Class Target	2.7	5 4	7 4	7 3	7.5



ALTERNATIVE INVESTMENTS
Performance of Asset Categories
(Net of Fees)

Alternative Investments

Expectation: The alternative investments are measured against themselves using actual portfolio returns

	Period Ending 3/31/2004				
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	6.6%	17.1%	2.7%	9.0%	12.7%
Inflation	1.7%	1.7%	2.1%	2.6%	2.4%

Real Estate Investments (Equity emphasis)

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

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

	Period Ending 3/31/2004				
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Real Estate	4.3%	14.0%	7.5%	9.2%	10.6%

Private Equity Investments (Equity emphasis)

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

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

	Period Ending 3/31/2004				
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Private Equity	8.4%	20.4%	-2.5%	7.3%	14.1%

Resource Investments (Equity emphasis)

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

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

	Period Ending 3/31/2004				
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Resource	9.3%	14.5%	4.1%	15.9%	11.9%

Yield Oriented Investments (Debt emphasis)

Expectation: Yield oriented investments are expected to exceed the rate of inflation by 5 5% annualized, over the life of the investment

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

	Period Ending 3/31/2004				
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Yield Oriented	4.4%	14.5%	9.6%	11.3%	N/A

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, 2004 the market value of the entire Fund was $1.0 billion.

Investment Options

	3/31/2004 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$467
Growth Share Account – an actively managed, all common stock portfolio.	$133
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$191
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$59
Bond Market Account – an actively managed, all bond portfolio.	$100
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$43
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.	$49

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

INCOME SHARE ACCOUNT

Investment Objective

The primary investment objective of the Income Share Account is similar to that of the Combined Funds. The Account seeks to maximize long-term real rates of return, while limiting short-run portfolio return volatility.

Asset Mix

The Income Share Account is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds act as a deflation hedge and provide portfolio diversification.

	Target	Actual
Stocks	60.0%	61.0%
Bonds	35.0	36.0
Unallocated Cash	5.0	3.0
	100.0%	100.0%

Period Ending 3/31/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**2.1%**	**23.6%**	**3.8%**	**2.7%**	**9.9%**
Benchmark*	2.3	24.0	4.4	2.9	9.8

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

GROWTH SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

Period Ending 3/31/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**2.4%**	**37.4%**	**1.6%**	**-1.0%**	**10.2%**
Benchmark*	2.2	38.1	2.2	-0.5	10.7

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

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

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

The Account is invested 100% in common stock.

Period Ending 3/31/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**2.2%**	**37.8%**	**2.0%**	**-0.1%**	**11.2%**
Benchmark*	2.2	38.1	2.2	-0.3	11.0

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

INTERNATIONAL SHARE ACCOUNT

Investment Objective and Asset Mix

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

Period Ending 3/31/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	Since 9/1/94 (Annualized)
Total Account	**4.6%**	**57.8%**	**5.2%**	**2.3%**	**4.9%**
Benchmark*	4.8	59.5	4.7	1.4	3.6

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

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

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

Period Ending 3/31/2004		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**2.6%**	**6.6%**	**7.8%**	**7.6%**	**7.8%**
Lehman Agg.	2.7	5.4	7.4	7.3	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 debt securities that pay interest rates that are competitive with those available in the money market.

Period Ending 3/31/2004		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**0.3%**	**1.3%**	**2.1%**	**3.7%**	**4.6%**
3 month T-Bills	0.2	1.0	1.8	3.3	4.2

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

FIXED INTEREST ACCOUNT

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

Period Ending 3/31/2004		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	Since 11/1/94
Total Account	**1.1%**	**4.5%**	**5.4%**	**5.8%**	**6.2%**
Benchmark*	0.6	2.6	3.2	4.3	5.2

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

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

DEFERRED COMPENSATION PLAN ACCOUNTS

DESCRIPTION

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

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

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

LARGE CAP EQUITY

Vanguard Institutional Index (passive)

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

Period Ending 3/31/2004		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Fund	**1.7%**	**35.1%**	**0.7%**	**N/A**
S&P 500	1.7	35 1	0.6	N/A

Janus Twenty (active)

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

Period Ending 3/31/2004		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Fund	**5.5%**	**33.0%**	**-1.9%**	**N/A**
S&P 500	1 7	35 1	0 6	N/A

Smith Barney Appreciation Y (active)

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

Period Ending 3/31/2004		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Fund	**2.1%**	**N/A**	**N/A**	**N/A**
S&P 500	1 7	N/A	N/A	N/A

MID CAP EQUITY

Vanguard Mid Cap Index (passive)

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

Period Ending 3/31/2004		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Fund	**4.7%**	**N/A**	**N/A**	**N/A**
MSCI US Mid-Cap 450	4 7	N/A	N/A	N/A

SMALL CAP EQUITY

T. Rowe Price Small Cap (active)

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

Period Ending 3/31/2004		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Fund	**4.8%**	**45.7%**	**11.6%**	**N/A**
Russell 2000	6 3	63 8	10.9	N/A

DEFERRED COMPENSATION PLAN ACCOUNTS

INTERNATIONAL EQUITY

Fidelity Diversified International (active)

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

	Period Ending 3/31/2004			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**6.7%**	**61.2%**	**10.7%**	**N/A**
MSCI EAFE	4.3	57.5	3.5	N/A

Vanguard Institutional Developed Markets (passive)

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

	Period Ending 3/31/2004			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**4.3%**	**N/A**	**N/A**	**N/A**
MSCI EAFE	4.3	N/A	N/A	N/A

BALANCED

Dodge & Cox Balanced Fund (active)

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

	Period Ending 3/31/2004			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**4.0%**	**N/A**	**N/A**	**N/A**
Benchmark	2.1	N/A	N/A	N/A

Vanguard Balanced Fund (passive)

- A fund that passively invests in a mix of domestic stocks and bonds. The fund is expected to track a weighted benchmark of 60% Wilshire 5000/40% Lehman Aggregate.

	Period Ending 3/31/2004			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**2.6%**	**N/A**	**N/A**	**NA**
Benchmark	2.6	N/A	N/A	N/A

FIXED INCOME

Dodge & Cox Income Fund (active)

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

	Period Ending 3/31/2004			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**1.9%**	**6.5%**	**8.3%**	**N/A**
Lehman Agg.	2.7	5.4	7.4	N/A

Vanguard Total Bond Market Fund (passive)

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

	Period Ending 3/31/2004			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**2.7%**	**N/A**	**N/A**	**N/A**
Lehman Agg.	2.7	N/A	N/A	N/A

Money Market Account

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

	Period Ending 3/31/2004			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**0.3%**	**1.3%**	**2.1%**	**N/A**
3-Mo. Treas.	0.2	1.0	1.8	N/A

DEFERRED COMPENSATION PLAN ACCOUNTS

FIXED INTEREST ACCOUNT

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

Period Ending 3/31/2004

		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr**
Fund	**1.1%**	**4.5%**	**5.4%**	**N/A**
Benchmark	0.6	2 6	3 2	N/A

FIXED FUND

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

Period Ending 3/31/2004

The quarterly blended rate is 5 1%

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.

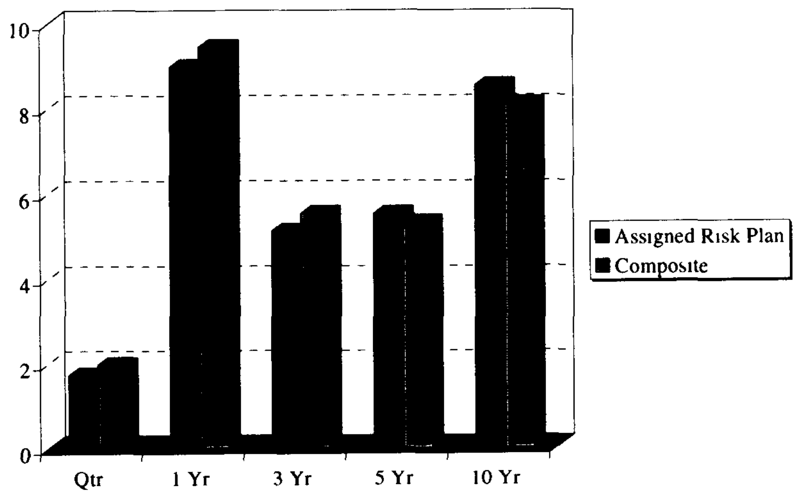
Asset Mix
The Assigned Risk Plan is invested in a portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	3/31/2004 Target	3/31/2004 Actual
Stocks	20.0%	24.4%
Bonds	80.0	75.6
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, 2004 the market value of the Assigned Risk Plan was $258 million.



Period Ending 3/31/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
			Annualized		
Total Fund*	1.7%	9.0%	5.1%	5.5%	8.5%
Composite	2.0	9.4	5.5	5.3	8.1
Equity Segment*	1.0	29.1	-0.3	0.8	12.4
Benchmark	1.7	35.1	0.6	-1.2	11.7
Bond Segment*	2.0	3.6	5.6	5.9	6.6
Benchmark	2.0	3.6	6.4	6.7	6.9

* 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

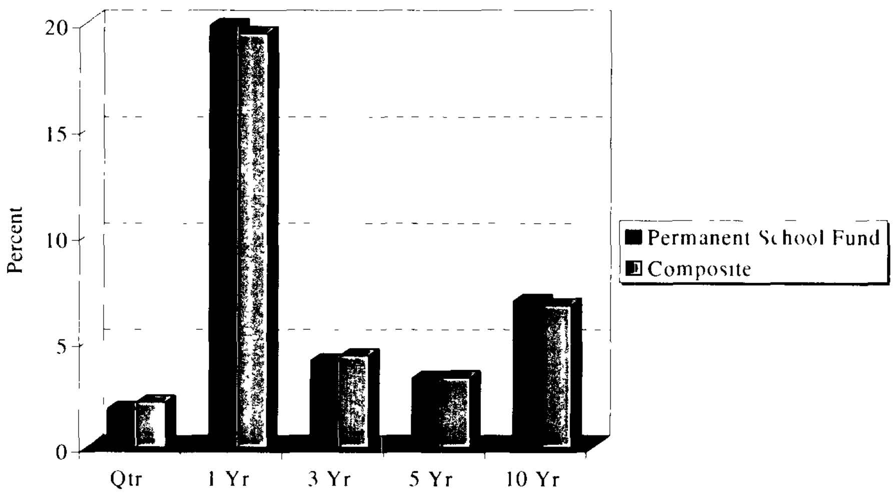
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income

	3/31/2004 Target	3/31/2004 Actual
Stocks	50 0%	53 4%
Bond	48.0	45.2
Unallocated Cash	2.0	1.4
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, 2004 the market value of the Permanent School Fund was $576 million



	Period Ending 3/31/2004				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund (1) (2)	1 8%	19 9%	4 1%	3.3%	6 9%
Composite	2 1	19 5	4 3	3.3	6.7
Equity Segment (1) (2)	1 7	35 1	0 7	-1 1	N/A
S&P 500	1 7	35 1	0 6	-1 2	N/A
Bond Segment (1)	2 0	5 8	7 4	7 4	7.9
Lehman Aggregate	2 7	5 4	7 4	7 3	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

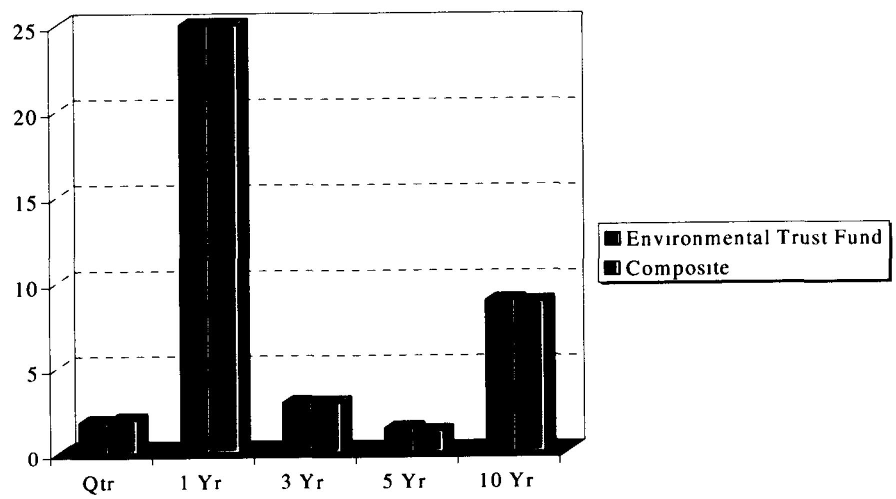
Investment Objective
The objective of the Environmental Trust Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

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, 2004 the market value of the Environmental Trust Fund was $337 million.

	3/31/2004 Target	3/31/2004 Actual
Stocks	70.0%	68.8%
Bonds	28.0	30.6
Unallocated Cash	2.0	0.6
Total	100.0%	100.0%



Period Ending 3/31/2004	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	1.8%	25.9%	2.9%	1.4%	8.9%
Composite	1.9	25.5	2.9	1.2	8.8
Equity Segment*	1.7	35.2	0.7	-1.1	11.7
S&P 500	1.7	35.1	0.6	-1.2	11.7
Bond Segment*	2.0	6.2	7.6	7.4	7.9
Lehman Agg.	2.7	5 4	7 4	7.3	7.5

* Actual returns are calculated net of fees.

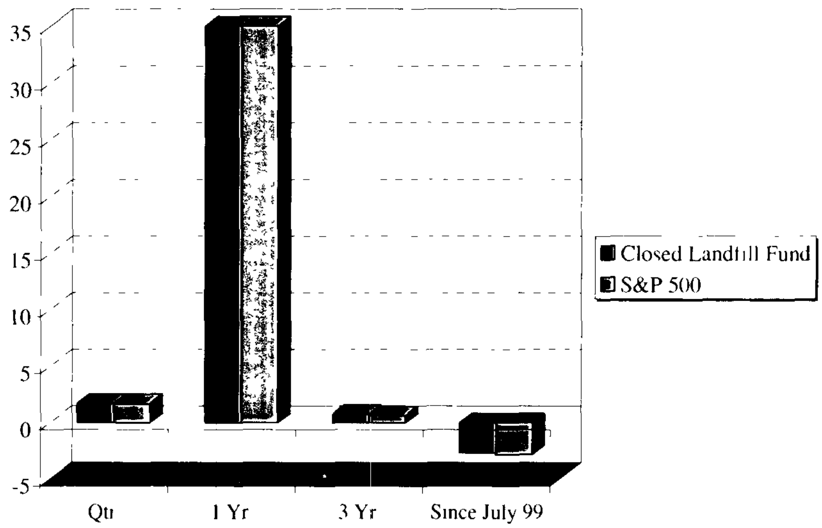
CLOSED LANDFILL INVESTMENT FUND

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

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

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

Market Value
On March 31, 2004, the market value of the Closed Landfill Investment Fund was $19 7 million



Period Ending 3/31/2004

	Qtr.	1 Yr.	3 Yr.	Since 7/1/99
Total Fund (1)	1 7%	35 2%	0 8%	-2 7%
S&P 500 (2)	1 7	35 1	0 6	-2 8

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

STATE CASH ACCOUNTS

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

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

1. Trust Fund Pool contains the temporary cash balances of certain trusts and retirement-related accounts.

2. Treasurer's Cash Pool contains the cash balances of special or dedicated accounts necessary for the operation of certain State agencies and non dedicated cash in the State Treasury.

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

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

Investment Objectives

Safety of Principal. To preserve capital.

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

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

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

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

Period Ending 3/31/2004

	Market Value (Millions)	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	10 Yr.
Treasurer's Cash Pool*	**$3,524**	**0.3%**	**1.2%**	**2.4%**	**4.0%**	**4.8%**
Custom Benchmark**		0.1	0.6	2.0	3.5	4.4
Trust Fund Cash Pool*	**$66**	**0.3**	**1.1**	**2.0**	**3.7**	**4.6**
Custom Benchmark***		0.1	0 6	1.5	3.0	4.2
3 month T-Bills		0.2	1.0	1.8	3.3	4.2

* Actual returns are calculated net of fees.

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

*** Beginning in January 1997, the Trust Fund Pool is measured against the 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, 2004 (in Thousands)

	Cash and Short term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	247,620	0	1,502,102	0	3,327,304	1,094,525	902,907	7,074,458
	3.50%		21.23%		47.03%	15.47%	12.77%	100%
Public Employees Retirement Fund	157,909	0	1,036,314	0	2,311,252	755,122	622,931	4,883,528
	3.23%		21.22%		47.33%	15.46%	12.76%	100%
State Employees Retirement Fund	125,037	0	883,841	0	1,974,162	643,943	537,467	4,164,450
	3.00%		21.22%		47.41%	15.46%	12.91%	100%
Public Employees Police & Fire	68,959	0	491,874	0	1,097,358	358,400	296,390	2,312,981
	2.98%		21.27%		47.44%	15.50%	12.81%	100%
Highway Patrol Retirement Fund	6,743	0	48,216	0	107,535	35,133	28,983	226,610
	2.98%		21.28%		47.45%	15.50%	12.79%	100%
Judges Retirement Fund	908	0	6,490	0	14,476	4,729	3,901	30,504
	2.98%		21.27%		47.46%	15.50%	12.79%	100%
Correctional Employees Retirement	7,295	0	52,168	0	116,346	38,013	31,358	245,180
	2.98%		21.28%		47.45%	15.50%	12.79%	100%
Public Employees Correctional	3,514	0	14,415	0	32,150	10,504	8,667	69,250
	5.07%		20.82%		46.43%	15.17%	12.51%	100%
TOTAL BASIC FUNDS	617,985	0	4,035,420	0	8,980,583	2,940,369	2,432,604	19,006,961
	3.25%		21.23%		47.25%	15.47%	12.80%	100%
POST RETIREMENT FUND	810,634	0	4,617,869	0	9,312,350	2,892,328	795,464	18,428,645
	4.40%		25.06%		50.53%	15.69%	4.32%	100%
TOTAL BASIC AND POST	1,428,619	0	8,653,289	0	18,292,933	5,832,697	3,228,068	37,435,606
	3.82%		23.12%		48.86%	15.58%	8.62%	100%

	Cash and Short term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
MINNESOTA SUPPLEMENTAL FUNDS:								
Income Share Account	14,127 3.02%	168,377 36.02%	0	0	285,022 60.96%	0	0	467,526 100%
Growth Share Account	0	0	0	0	133,167 100.00%	0	0	133,167 100%
Money Market Account	42,570 100.00%	0	0	0	0	0	0	42,570 100%
Common Stock Index	0	0	0	0	190,579 100.00%	0	0	190,579 100%
Bond Market Account	0	0	100,510 100.00%	0	0	0	0	100,510 100%
International Share Account	0	0	0	0	0	58,609 100.00%	0	58,609 100%
Fixed Interest Account	329 0.67%	0	48,442 99.33%	0	0	0	0	48,771 100%
TOTAL SUPPLEMENTAL FUNDS	57,026 5.47%	168,377 16.16%	148,952 14.30%	0	608,768 58.44%	58,609 5.63%	0	1,041,732 100%
MN DEFERRED COMP PLAN *	52,521 2.12%	0	1,038,508 41.94%	0	1,235,988 49.91%	149,318 6.03%	0	2,476,335 100%
TOTAL RETIREMENT FUNDS	1,538,166 3.76%	168,377 0.41%	9,840,749 24.03%	0	20,137,689 49.17%	6,040,624 14.75%	3,228,068 7.88%	40,953,673 100%

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

	Cash and Short Term Securities	Bond Internal	Bond External	Stock Internal	Stock External	External Int'l	Alternative Assets	Total
ASSIGNED RISK PLAN	2,208 0.86%	0	192,819 74.87%	0	62,523 24.27%	0	0	257,550 100%
ENVIRONMENTAL FUND	1,991 0.59%	103,244 30.63%	0	231,829 68.78%	0	0	0	337,064 100%
PERMANENT SCHOOL FUND	8,418 1.46%	259,881 45 15%	0	307,263 53.39%	0	0	0	575,562 100%
CLOSED LANDFILL INVESTMENT	26 0.13%	0	0	19,639 99.87%	0	0	0	19,665 100%
TREASURERS CASH	3,522,698 100.00%	0	0	0	0	0	0	3,522,698 100%
HOUSING FINANCE AGENCY	46,931 21.01%	176,447 78.99%	0	0	0	0	0	223,378 100%
MINNESOTA DEBT SERVICE FUND	5,844 2.55%	223,443 97.45%	0	0	0	0	0	229,287 100%
MISCELLANEOUS ACCOUNTS	86,461 39 71%	96,949 44.53%	0	34,322 15.76%	0	0	0	217,732 100%
TOTAL CASH AND NON-RETIREMENT	3,674,577 68.26%	859,964 15.98%	192,819 3.58%	593,053 11.02%	62,523 1.16%	0	0	5,382,936 100%
GRAND TOTAL	5,212,743 11.25%	1,028,341 2.22%	10,033,568 21.65%	593,053 1.28%	20,200,212 43.59%	6,040,624 13.04%	3,228,068 6.97%	46,336,609 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: May 25, 2004

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, 2004 is included as **Attachment A**.

A report on travel for the period from February 16, 2004 - May 15, 2004 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 2, 2004.

ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 2004 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO-DATE THROUGH MAY 14, 2004

ITEM	FISCAL YEAR 2004 BUDGET	FISCAL YEAR 2004 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,900,000	$ 1,471,698
SEVERENCE PAYOFF	22,000	38,414
WORKERS COMPENSATION INSURANCE	1,000	860
MISCELLANEOUS PAYROLL	2,000	148
SUBTOTAL	**$ 1,925,000**	**$ 1,511,120**
STATE OPERATIONS		
RENTS & LEASES	196,000	177,455
REPAIRS/ALTERATIONS/MAINTENANCE	15,000	11,100
PRINTING & BINDING	10,000	5,295
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	7,738
COMMUNICATIONS	20,000	15,966
TRAVEL, IN-STATE	3,000	213
TRAVEL, OUT-STATE	45,000	24,136
SUPPLIES	20,000	21,289
EQUIPMENT	0	0
EMPLOYEE DEVELOPMENT	15,000	710
OTHER OPERATING COSTS	15,000	7,060
SUBTOTAL	**$ 349,000**	**$ 270,962**
ORIGINAL BUDGET	**$ 2,274,000**	**$ 1,782,082**
BUDGET REDUCTION (UNALLOTMENT)	**$ 39,000**	
TOTAL GENERAL FUND	**$ 2,235,000**	**$ 1,782,082**

ATTACHMENT B

STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel February 16, 2004 – May 15, 2004

Purpose	Name(s)	Destination and Date	Total Cost
Conference: 2004 Money Market Expo sponsored by: I Money Net	S. Kuettle	Orlando, FL 3/16-3/19	$1,281.22
Conference: Alternative Investment XI – Honest Assessment and Open Discussion sponsored by: World Pension Forum	H. Bicker	Palm Beach, FL 2/22-2/25	$605.40
Manager Monitoring: **Domestic Equity Managers:** Barclays Global Investors; Hotchkis & Wiley **Manager Monitoring:** **Emerging Equity Managers:** Bay Isle Financial Corp; Zevenbergen Capital **Manager Search:** **Domestic Equity Managers:** TCW Group; Westridge Capital; Transamerica	L. Buermann S. Sutton	Seattle, WA Oakland, CA San Francisco, CA Los Angeles, CA 3/19-3/22	$3,071.93
Conference: Council of Institutional Investors Spring Meeting	J. Heidelberg	Washington, D.C. 3/24-3/26	$1,473.00

Purpose	Name(s)	Destination and Date	Total Cost
Conference: National Association of State Investment Professionals (NASIP) **Manager Monitoring:** **Domestic Equity Manager:** Barrow, Hanley, Mewhinney & Strauss, Inc. **Manager Search:** **Domestic Equity Manager:** Rutland Dickson Asset Mgmt.	L. Buermann	Austin, TX Dallas, TX 4/4-4/9	$982.19
Conference: National Association of State Investment Professionals (NASIP)	M. Menssen	Austin, TX 4/4-4/7	$1,008.70
Conference: KKR Annual Meeting	A. Christensen	Palm Springs, CA 4/24-4/27	$813.20
Conference: 2004 Public Funds Roundtable sponsored by: Institutional Investors Institute	H. Bicker	New Orleans, LA 4/28-4/30	$1,068.20
Manager Monitoring: **Fixed Income Managers:** Dodge & Cox; Western Asset Mgmt. **Manager Search:** **Fixed Income Managers:** BGI; Mellon; Payden & Rygel; PIMCO; Seneca	T. Brusehaver-Derby	San Francisco, CA Pasadena, CA Newport Beach, CA 5/3-5/5	$1,560.66

ATTACHMENT C

Bills of Interest to the Minnesota State Board of Investment
2004 Legislative Session
Includes Action Through 5/15/04

Description of Bill	HF/SF # and Author	Current Status
Metropolitan Council -Authorized to invest with SBI	**S.F. 1815 (Wiger)** Laws of Minnesota 2004, Chapter 175	Signed into law by Governor 5/11
Omnibus Pension bill -Minneapolis Teachers Funds invested by SBI	H.F. 1068	Amended and passed as SF 676 5/15 without Mpls. Teachers provision
	S.F. 676 (Betzold)	Passed Senate 5/15 without Mpls. Teachers provision
Investing in Biosciences -Additional investment in in MN. Biosciences and venture capital	H.F. 3061 (Osterman)	Data Privacy language only passed House 5/11
	S.F. 2894 (Kelley) **Did Not Pass**	Senate amended on to H.F. 2028
State Gov't Omnibus Finance Bill -SBI invests some Minneapolis Teachers assets -SBI biosciences data privacy	H.F. 2684 (Haas) Not companions	House passed 4/7
	H.F. 2028 **Did Not Pass**	Senate passed 4/7
Certificate of Deposit Program	H. F. 2666 (Hornstein)	On General Register
-Additional investment under repurchase agreement program	S.F. 2522 (Dibble) **Did Not Pass**	On General Orders

Tab C

COMMITTEE REPORT

DATE: May 25, 2004

TO: Members, State Board of Investment

FROM: SBI Administrative Committee

The Administrative Committee met on May 13, 2004 to consider the following agenda items:

- Review of Executive Director's proposed workplan for FY05.
- Review of budget plan for FY05.
- Review of Continuing Fiduciary Education Plan.
- Review of Executive Director's Evaluation Process.

Action is required by the SBI on these items.

1. Review of Executive Director's proposed workplan for FY05.

Mr. Bicker presented his proposed workplan for FY05. As in previous workplans, the FY05 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 2004 as part of the FY05 Management and Budget Plan document.

RECOMMENDATION:

The Committee recommends that the SBI approve the FY05 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY05.

2. **FY05 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 7** of this tab. Supporting information was sent to each Board member in May 2004 as part of the FY05 Management and Budget Plan.

RECOMMENDATION:

The Committee recommends that the SBI approve the FY04 Administrative Budget Plan, as presented to the Committee, and that the Executive Director has the flexibility to reallocate funds between budget categories if the Executive Director deems necessary.

3. **Review of Continuing Fiduciary Education Plan.**

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

RECOMMENDATION:

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

4. **Review of Executive Director's Evaluation Process.**

The Committee discussed the process that will be used by the Board to evaluate the Executive Director for FY04. The Committee members agreed that the performance reviews should be completed prior to the September 2004 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 FY04 performance evaluation:

- **The evaluation will be completed prior to the September 2004 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY04.**

- **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.**

ATTACHMENT A

STATE BOARD OF INVESTMENT
Executive Director's Proposed Workplan

FY05
(Categories A, B, C, D, E correspond to the position description)

	Projected Time Frame	Page
A. DEVELOPMENT OF INVESTMENT POLICIES		
1. Review of Transition Management Processes	Jul-Mar	C-5
2. Review of Public Stock Distribution of Alternative Investment Managers	Jul-Dec	C-6
3. Review of Deferred Compensation Plan MN Fixed Fund Option	Jul-Mar	C-7
4. Review Asset Allocation of Assigned Risk Plan	Jul-Jan	C-8
B. IMPLEMENTATION OF INVESTMENT POLICIES APPROVED BY THE SBI		
1. Meet or exceed the performance objectives	Ongoing	--
2. Conduct Investment Manager Compliance Reviews	Ongoing	C-9
3. Maintain External Investment Manager Short-lists	Ongoing	C-10
4. Investments with New/Existing Alternative Asset Managers	On-going	C-11
5. Respond to Potential Legislation Regarding the CD and Repo Programs	Jul-Sep	C-12
6. Review Large Cap Growth Domestic Equity Management	Jul-Dec	C-13
7. Review Semi-Passive Domestic Equity Management	Jul-Mar	C-14
8. Review Semi-Passive International Equity Management	Jul-Jun	C-15

C.	**REVIEW AND CONTROL OF INVESTMENT POLICIES**		
	1. Monitor and Evaluate Investment Manager Performance	On-going	--
	2. Annual Review of Investment Manager Guidelines	Mar-Jun	C-16
	3. Monitor Implementation of Northern Ireland Mandate	Aug-Mar	C-17
	4. Provide Staff Support to Proxy Committee for Proxy Voting and Shareholder Initiatives	Jul-May	C-18
	5. Update country guidelines	Oct-May	C-19
D.	**ADMINISTRATIVE AND MANAGEMENT OF STAFF OPERATIONS**		
	1. Coordinate Financial Audit by Legislative Auditor	Jul-Dec	C-20
	2. Prepare 2005 Legislative package	Sep-May	C-21
	3. Prepare FY06 Management and Budget Plan	Jan-Jun	C-22
	4. Prepare Biennial Budget Plan	Jul-May	C-23
	5. Update Disaster Recovery Plan	April	C-24
E.	**COMMUNICATION AND REPORTING**		
	1. Prepare reports on investment results	Qtly	--
	2. Prepare status reports	As requested	--
	3. Meet with SBI and IAC	Qtly	--
	4. Meet with Board's designees	Qtly	--
	5. Prepare FY 2004 Annual Report	Jul-Dec	C-25
	6. Prepare Annual SIF Investment Options Prospectus	Jul-Aug	C-26
	7. Coordinate Public Pension Plan Performance Reporting Disclosure	On-going	C-27
	8. Conduct Manager Round Tables	Periodic	C-28

ATTACHMENT B

Administrative Budget
FY 04 - 05 Budget Plan
Overview

The FY 04 – 05 budget request is based on budget procedures instituted by the Department of Finance. The SBI's original request was reduced by $241,000 in each of the two years. This reduction is the SBI's share of the cuts required to balance the budget for the next biennium. To offset this reduction State Agencies were allowed to carry forward unexpended balances from FY 03. The SBI carried forward $ 107,000 to the new biennium.

	FY04 Request	FY04 Budget	FY05 Request	FY05 Budget
Personal Services	$2,050,000	$1,850,000	$2,050,000	$1,850,000
Operating Expenses	358,000	317,000	358,000	317,000
Balance Forward		107,000		
	$2,408,000	**$2,235,000**	**$2,408,000**	**$2,167,000**

Personal Services: **86% of the budget**
Salaries, retirement, insurance, FICA, severance

Personnel costs during the biennium will increase approximately 2% each year of the biennium.

The SBI currently has two vacant Investment Analyst Positions that will not be filled for the duration of this budget cycle. If budgetary conditions improve for the next biennium these positions will be filled when funds are available.

Operating Expenses: **14% 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 reduced to meet the requirements of the budget balancing procedures.

STATE BOARD OF INVESTMENT
FISCAL YEAR 2005 BUDGET PLAN
GENERAL FUND SUMMARY

DESCRIPTION	FY 2002 ACTUAL	FY2003 ACTUAL	FY2004 PROJECTED	FY2005 BUDGET
PERSONAL SERVICES				
FULL TIME EMPLOYEES	$ 1,877,574	$ 1,965,879	$ 1,753,371	$ 1,825,000
PART TIME EMPLOYEES	-	-	-	-
SEVERENCE PAYOFF	24,339	231	38,414	20,000
WORKERS COMPENSATION INSURANCE	958	876	1,120	1,000
MISCELLANEOUS PAYROLL	5,189	-	250	4,000
SUBTOTAL	$ 1,908,060	$ 1,966,986	$ 1,793,155	$ 1,850,000
STATE OPERATIONS				
RENTS & LEASES	128,747	188,101	196,000	195,000
REPAIRS/ALTERATIONS/MAINTENANCE	16,286	15,870	13,000	15,000
PRINTING & BINDING	12.967	8,221	12,000	10,000
PROFESSIONAL/TECHNICAL SERVICES	-	-	-	-
COMPUTER SYSTEMS SERVICES	10,966	10,825	10,000	10,000
COMMUNICATIONS	25.442	19.899	20,000	20,000
TRAVEL, IN-STATE	1,009	261	3,000	2,000
TRAVEL, OUT-STATE	44,521	17,289	35,000	25,000
SUPPLIES	45,990	36,670	40,000	30,000
EQUIPMENT	2.201	-	-	-
EMPLOYEE DEVELOPMENT	11,259	8,641	15,000	5,000
OTHER OPERATING COSTS	31,754	8,149	13.000	5.000
SUBTOTAL	$ 331,142	$ 313,926	$ 357,000	$ 317,000
TOTAL GENERAL FUND	$ 2,239,202	$ 2,280,912	$ 2,150,155	$ 2,167,000
PERCENT INCREASE OVER PRIOR YEAR		1 9%	-5.7%	0.8%

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, 2004

1996 Minnesota Statutes

356A.13. CONTINUING FIDUCIARY EDUCATION.

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

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

Tab D

COMMITTEE REPORT

DATE: May 25, 2004

TO: Members, State Board of Investment

FROM: Deferred Compensation Review Committee

The Deferred Compensation Review Committee met on Thursday, May 13, 2004 to consider the following agenda item:

- Renewal of contracts with T. Rowe Price, Fidelity and Janus for the Deferred Compensation Plan

Action is required by the SBI on this item.

1. Recommendation to renew the Contracts with T. Rowe Price, Fidelity and Janus for the Deferred Compensation Plan.

The SBI retained six mutual funds for the State Deferred Compensation Plan (the Plan) beginning July 1, 1999. Since then, the SBI has replaced two funds and retained a group of funds to replace Supplemental Investment Fund accounts. The current fund options in the Plan are:

Active	**Passive**
Janus Twenty	Vanguard Institutional Index Plan
Smith Barney Appreciation Y	Vanguard Mid Capitalization Index
T. Rowe Price Small Cap Stock	Vanguard Balanced Index
Dodge & Cox Balanced	Vanguard Total Bond Market Index
Dodge & Cox Income	Vanguard Developed Markets Index
Fidelity Diversified International	

The Plan also includes the Supplemental Investment Fund Money Market and Fixed Interest Accounts; and the Minnesota Fixed Fund, a fixed return option invested by three insurance companies.

The contracts of three of the mutual funds expire June 30, 2004. The three funds are Janus Twenty, T. Rowe Price Small Cap Stock and Fidelity Diversified International. Staff recommends renewal of each of these contracts for a five year period.

RECOMMENDATION

The Deferred Compensation Review 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 mutual fund organizations, subject to inclusion of a provision which provides for immediate termination.

- **Janus Service Corporation:**
  Janus Twenty Fund

- **Fidelity Investments Institutional Services Company, Inc.:**
  Fidelity Diversified International Fund

- **T. Rowe Services, Inc.:**
  T. Rowe Price Small Cap Stock Fund

Tab E

COMMITTEE REPORT

DATE: May 25, 2004

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

FROM: Stock and Bond Manager Committee

The Stock and Bond Manager Committee met on Thursday, May 13, 2004 to consider the following agenda items:

- Review the manager performance for the period ending March 31, 2004.
- Annual review of investment manager guidelines.
- Annual review of manager benchmarks.
- Recommendation to terminate U.S. Bancorp Asset Management for a domestic equity mandate.
- Recommendation to terminate Schroders Investment Management North America for an international emerging market mandate.

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

INFORMATION ITEMS:

1. Review the manager performance for the period ending March 31, 2004.

- ***Domestic Equity Program***

For the period ending March 31, 2004, the **Domestic Equity Program** out-performed the asset class target* for the quarter and under-performed the target over all longer time periods.

Time period	Total Program	DE Asset Class Target*
Quarter	2.3%	2.2%
1 Year	37.7	38.1
3 Years	1.8	2.2
5 Years	-0.6	-0.5

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

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

- *Fixed Income Program*

For the period ending March 31, 2004, the **Fixed Income Program** under-performed the Lehman Aggregate for the quarter and out-performed this index over all longer time periods.

Time period	Total Program	Lehman Aggregate
Quarter	2.6%	2.7%
1 Year	6.6	5.4
3 Years	7.7	7.4
5 Years	7.5	7.3

The performance evaluation reports for the fixed income managers start on the **blue page A-85** of this Tab.

- *International Equity Program*

For the period ending March 31, 2004, the **International Equity Program** and the **equity managers** (excluding the currency overlay) under-performed the composite index over the quarter and the year and outperformed over the three and five-year time periods.

Time Period	Total* Program	Int'l Equity Asset Class Target**
Quarter	4.6	4.8
1 Year	57.5	59.5
3 Year	5.1	4.7
5 Year	2.2	1.4

Equity*** Mgrs. Only
4.6
57.5
5.1
2.1

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

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

*** Includes impact of terminated managers, but excludes impact of currency overlay

The performance evaluation reports for the international equity managers start on the **blue page A-97** of this Tab.

2. Annual review of investment manager guidelines.

The Minnesota State Board of Investment (SBI) has established guidelines that govern the investment actions of the investment managers. While these guidelines may be changed at any time, they are part of the formal contractual agreement between the manager and the SBI. The guidelines address issues such as return objectives, benchmarks, authorized investments, performance evaluation, communication, and reporting requirements. Staff reviews the guidelines at least annually for accuracy and completeness.

This year, there were revisions to the guidelines due to the Board approved changes to the manager benchmarks for the Domestic Equity and International Equity Programs, technical corrections, and clarification on various items.

The proposed revisions to the investment guidelines for all asset classes begin on **page 7**.

3. Annual review of manager benchmarks.

The SBI's Manager Continuation Policy requires staff to conduct an annual review of all active domestic stock manager benchmarks. In the past, the purpose of the review was to evaluate the custom benchmarks to determine whether each benchmark adequately reflected the active managers' unique investment style. In September 2003, the Board adopted a recommendation to change from custom benchmarks to published Russell style indexes for the active domestic equity managers. Therefore, the statistical analysis presented in previous years is no longer necessary or useful.

During the past year, Staff worked with each of the current active and emerging equity managers to determine the appropriate Russell style index for performance measurement purposes. As new managers are added to the Domestic Equity Program, they are evaluated to ensure that their style and investment process match the Russell style index they are measured against. Staff continues to monitor each manager's portfolio characteristics to ensure that they remain consistent with expectations.

A set of graphs is included beginning on **page 111** to illustrate the style and size exposure of each of the active, emerging, and semi-passive domestic equity managers. The charts show that while each manager has its own unique investment process resulting in a distinctive portfolio with different characteristics, our large growth managers' portfolios are located near the Russell 1000 Growth Index, the large value managers' portfolios are located near the Russell 1000 Value Index, etc. At this time, Staff is confident that the Russell style index being used to measure each manager is appropriate.

ACTION ITEMS:

1. **Recommendation to terminate U.S. Bancorp Asset Management for a domestic equity mandate.**

   Staff is recommending the termination of U.S. Bancorp Asset Management due to the loss of the firm's small capitalization (cap) team. The SBI hired U.S. Bancorp in December 2003 for Small Cap Growth, a product managed out of Milwaukee, WI. In March 2004, the team was asked to move to Minneapolis, U.S. Bancorp's headquarters. As a result, the team managing both the Small Cap Growth and Small Cap Core Equity products left U.S. Bancorp to start their own firm

   U.S. Bancorp assigned two other portfolio managers to oversee the two small cap products on an interim basis until a new small cap team could be retained. Staff met with the interim portfolio managers, and learned that U.S. Bancorp had lost all of their small cap investment professionals, that the interim portfolio managers would continue to manage their current product assignments as well as oversee the small cap portfolios, and that the interim team would not quickly get their arms around all 150 names in the SBI's portfolio. As a result, Staff determined that it would be in the best interest of the SBI to move the portfolio to one of the SBI's other small cap growth managers, and did so in early April.

   In late April, U.S. Bancorp announced that they had retained three small cap portfolio managers and would add several analysts. Going forward, U.S. Bancorp's small cap growth product will be different than the product approved by the Board when it retained U.S. Bancorp in December It is a different team of people in a new environment with a different investment philosophy and process. Therefore, the performance of this small cap growth product going forward is uncertain

   <u>RECOMMENDATION</u>

   The Committee recommends that the SBI terminate its relationship with U.S. Bancorp Asset Management for investment management services in the Domestic Equity Program.

2. Recommendation to terminate Schroders Investment Management North America for an international emerging markets mandate.

The Board hired Schroders in January 2001 as an emerging markets equity manager. Since that time, the firm has undergone numerous and ongoing changes both at the management and the investment team level, significant asset loss in the product in which the SBI is invested, and continued underperformance of the SBI's portfolio. Staff and the IAC believe that the combination of these factors is disruptive to the investment process and detrimental to the management of the SBI's portfolio.

RECOMMENDATION:

The Committee recommends that the SBI terminate its relationship with Schroders Investment Management North America for an international emerging markets equity mandate.

Investment Manager Guidelines

External Domestic Equity

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL ACTIVE DOMESTIC COMMON STOCK MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) external active domestic common stock managers will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark within a range of ___ to ___, (varies by Manager) where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARK

The benchmark is the Russell style index (varies by manager, e.g. large growth, small value, etc.) ~~beginning October 1, 2003~~. The Russell style index will be used to calculate the manager's performance based fee for periods after October 1, 2003. For periods prior to October 1, 2003, the custom benchmark will be used to calculate the performance based fee. ~~The Manager must also provide and maintain a customized benchmark portfolio, approved by the SBI, for the purpose of performance evaluation and risk measurement. The final custom benchmark must be delivered to Richards & Tierney in Chicago consistent with the quarterly rebalancing schedule provided by Richards & Tierney or SBI staff.~~ SBI reserves the right to change the benchmark upon prior written notification to Manager.

~~The benchmark portfolio provided by the Manager must satisfy the following characteristics:~~

~~(a) **Unambiguous**. The names and weights of securities comprising the benchmark are clearly delineated.~~

(b) ~~**Investable**. The option is available to forego active management and simply hold the benchmark portfolio.~~

(c) ~~**Measurable**. It is possible to readily calculate the benchmark's return on a monthly basis.~~

(d) ~~**Appropriate**. The benchmark is consistent with the Manager's investment style or biases.~~

(e) ~~**Reflective of current investment opinions**. The Manager has current investment opinions (be they positive, negative, or neutral) on the securities which make up the benchmark.~~

(f) ~~**Specified in advance**. The benchmark must be available prior to the start of an evaluation period.~~

3. LEVERAGE

The Manager may not leverage the account at any time.

~~3.~~ 4. ELIGIBLE INVESTMENTS

The Manager is restricted to trading common stocks, stock index futures, exchange traded funds, and the SBI STIF fund. The Manager may hold equity options, preferred stocks and warrants if received from underlying assets. The Manager must have the SBI's written approval to purchase ~~exchange traded funds~~, equity options, preferred stocks, ~~and~~ warrants and convertible issues. The investments of the Manager must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces, and/or be listed on an exchange regulated by an agency of the United States or Canadian national government. These include American Depository Receipts (ADR's) traded on such an exchange.

(c) The Manager may not purchase restricted stock, letter stock, or private placements.

(d) Debt securities, except cash equivalents, may not be purchased in the Account. Prior written consent is required to purchase convertible issues.

(e) Without prior written authorization from the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.

(f) The Manager shall not hold more than three (3) percent of the total outstanding shares of any corporation in the SBI's portfolio. If a holding should breach this level or the Manager desires to hold a larger position, the Manager must notify the SBI in writing for approval.

(g) Cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

~~(h) The Manager is expected to hold concentrated portfolios. Generally, this would be less than 45 securities for large cap portfolios and no more than 120 securities for mid to small cap portfolios. The Manager may request SBI approval to deviate from these guidelines.~~

~~(i)~~ (h) Stock options, if authorized, and stock index futures, purchased through a regulated exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter instruments are not permitted. All option and future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.

~~(j)~~ (i) The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.

~~4.~~ 5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

~~5.~~ 6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within ~~twelve (12)~~ ten (10) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, discuss all organizational changes affecting the management of the SBI's account, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

~~6.~~ 7. PROXY VOTING

The Manager may not vote proxies on behalf of the SBI's account unless specifically requested by the SBI to do so.

~~7.~~ 8. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that ~~SBI~~ SBI's liability, ~~for~~ including margin requirements, commissions and fees, is limited solely to funds of the SBI under the Manager's control and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers should be limited to the total market value of the SBI's assets ~~for~~ under the ~~Manager~~ Manager's control.

~~8.~~ 9. SEPARATE ACCOUNT AND DAILY PRICING

The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the prior written approval of the SBI.

~~9.~~ 10. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** - the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security between the Manager's records and State Street's, and any differences must be reconciled by the end of the month. ~~and~~ The reconciliation should also include the ~~an~~ identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no

later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI in the quarterly Manager Commentary whether or not ~~that~~ the Manager agrees with the Custodian's pricing for the quarter.

~~10.~~ 11. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~11.~~ 12. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

Revised· ~~September 2003~~ June 2004

Executive Director/
Assistant Executive Director

____

Date ____________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL EMERGING DOMESTIC COMMON STOCK MANAGERS

The investment actions of Minnesota State Board of Investment (SBI) external emerging domestic common stock managers will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark within a range of ~~7 to 10~~ ___ to ___ (varies by Manager), where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARK

The benchmark is the Russell style index (varies by manager, e.g. large growth, small value, etc.) ~~beginning October 1, 2003~~. The ~~Manager must also provide and maintain a customized benchmark (normal) portfolio, approved by the SBI, for the purpose of performance evaluation and risk measurement. The final custom benchmark must be delivered to Richards & Tierney in Chicago consistent with the quarterly rebalancing schedule provided by Richards & Tierney or SBI staff.~~ SBI reserves the right to change the benchmark upon prior written notification to Manager.

~~The benchmark portfolio provided by the Manager must satisfy the following characteristics:~~

~~(a) **Unambiguous**. The names and weights of securities comprising the benchmark are clearly delineated.~~

~~(b) **Investable**. The option is available to forego active management and simply hold the benchmark portfolio.~~

~~(c) **Measurable**. It is possible to readily calculate the benchmark's return on a monthly basis.~~

~~(d) **Appropriate**. The benchmark is consistent with the Manager's investment style or biases.~~

~~(e) **Reflective of current investment opinions**. The Manager has current investment opinions (be they positive, negative, or neutral) on the securities, which make up the benchmark.~~

~~(f) **Specified in advance**. The benchmark must be available prior to the start of an evaluation period.~~

3. LEVERAGE

The Manager may not leverage the account at any time.

~~3.~~ 4. ELIGIBLE INVESTMENTS

The Managers is restricted to trading common stocks, stock index futures, exchange traded funds, and the SBI STIF fund. The Manager may hold equity options, preferred stocks and warrants if received from underlying assets. The Manager must have the SBI's written approval to purchase exchange traded funds, equity options, preferred stocks, ~~and~~ warrants and convertible issues. The investments of the Manager must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces and/or be listed on an exchange regulated by an agency of the United States or Canadian national government. These include American Depository Receipts (ADR's) traded on-such an exchange.

(c) The Manager may not purchase restricted stock, letter stock, and private placements.

(d) Debt securities, except cash equivalents, may not be purchased in the Account. Prior written consent is required to purchase convertible issues.

(e) Without prior written authorization from the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.

(f) The Manager shall not hold more than three (3) percent of the total outstanding shares of any corporation in the SBI's portfolio. If a holding should breach this level or the Manager desires to hold a larger position, the Manager must notify the SBI in writing for approval.

(g) Cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

~~(h) The Manager is expected to hold concentrated portfolios. Generally, this would be less than 45 securities for large cap portfolios and no more than 120 securities for mid to small cap portfolios. The Manager may request SBI approval to deviate from these guidelines.~~

~~(i)~~ (h) Stock options, if authorized, and stock index futures, purchased through a regulated exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter instruments are not permitted. All option and future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.

~~(j)~~ (i) The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.

~~4.~~ 5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines established in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

~~5.~~ 6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy within ~~twelve (12)~~ ten (10) business days after quarter end. The Commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, discuss all organizational changes affecting the management of the SBI's account, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

~~6.~~ 7. PROXY VOTING

The Manager may not vote proxies on behalf of the SBI's account unless specifically requested by the SBI to do so.

~~7.~~ 8. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that ~~SBI~~ SBI's liability, ~~for~~ including margin requirements, commissions and fees, is limited solely to the total funds of the SBI under the Manager's control and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers should be limited to the total market value of the SBI's assets ~~for~~ under the ~~Manager~~ Manager's control.

~~8.~~ 9. SEPARATE ACCOUNT AND DAILY PRICING

The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis Commingled vehicles may not be held in the Account without the prior written approval of the SBI.

~~9.~~ 10. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached).

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security between the Manager's records and State Street's, and any differences must be reconciled by the end of the month. ~~and~~ The reconciliation should also include the ~~an~~ identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no

later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI in the quarterly Manager Commentary whether or not ~~that~~ the Manager agrees with the Custodian's pricing for the quarter.

~~10.~~ 11. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~11.~~ 12. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

Revised ~~September 2003~~ June 2004

Executive Director/
Assistant Executive Director

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Date ________________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL SEMI-PASSIVE DOMESTIC COMMON STOCK MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) external semi-passive domestic common stock managers will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark targeted at ~~1.0 to 2.0~~ no less than 1.0 and no more than 3.0, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARK INDEX

The benchmark is the Russell 1000 (R1000) Index beginning January 1, 2004. SBI reserves the right to change the benchmark upon prior notification to Manager.

3. LEVERAGE

The Manager may not leverage the account at any time.

~~3.~~ 4. ELIGIBLE INVESTMENTS

The Manager is restricted to trading common stocks, stock index futures, exchange traded funds, and the SBI STIF fund. The Manager may hold equity options, preferred stocks and warrants if received from underlying assets. The Manager must have the SBI's written approval to purchase ~~exchange traded funds~~, equity options, preferred stocks and warrants. The investments of the Manager must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces, and/or be listed on an exchange regulated by an agency of the United States or Canadian national government.

(c) The Manager may not purchase restricted stock, letter stock, or private placements.

(d) Debt securities, except cash equivalents, may not be purchased in the Account.

(e) Without prior written authorization from the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.

(f) The Manager shall not hold more than three (3) percent of the total outstanding shares of any corporation in the SBI's portfolio. If a holding should breach this level or the Manager desires to hold a larger position, the Manager must notify the SBI in writing for approval.

(g) Cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(h) Stock index futures, purchased through a regulated future exchange, may be used to equitize cash in the portfolio. Over-the-counter future instruments are not permitted. All future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.

(i) The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.

4. 5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. 6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis.

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within ~~twelve (12)~~ ten (10) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, discuss all organizational changes affecting the management of the SBI's account, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

~~6.~~ 7. PROXY VOTING

The Manager may not vote proxies on behalf of the SBI's account unless specifically requested by the SBI to do so.

~~7.~~ 8. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that ~~SBI~~ SBI's liability, ~~for~~ including margin requirements, commissions and fees, is limited solely to funds of the SBI under the Manager's control and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers should be limited to the total market value of the SBI's assets ~~for~~ under the ~~Manager~~ Manager's control.

~~8.~~ 9. SEPARATE ACCOUNT AND DAILY PRICING

The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the prior written approval of the SBI.

~~9.~~ 10. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security between the Manager's records and State Street's, and any differences must be reconciled by the end of the month. ~~and~~ The reconciliation should also include the ~~an~~ identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI in the quarterly Manager Commentary whether or not ~~that~~ the Manager agrees with the Custodian's pricing for the quarter.

~~10.~~ 11. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~11.~~ 12. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised. ~~January 2004~~ June 2004

Executive Director/
Assistant Executive Director

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Date ______________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL PASSIVE DOMESTIC COMMON STOCK MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) external passive domestic common stock manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in line with a predetermined benchmark provided to the Manager. The Manager is responsible for managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark of 0.60 or less, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio that tracks the return of the benchmark closely. Over time, the annual return shortfall relative to the benchmark, due to fees and trading expenses, should be no more than 0.10%.

2. BENCHMARK INDEX

The benchmark is the Russell 3000 (R3000) Index ~~beginning October 1, 2003~~. SBI reserves the right to change the benchmark upon notification to the Manager.

<u>3.</u> <u>LEVERAGE</u>

<u>The Manager may not leverage the account at any time.</u>

~~3.~~ <u>4.</u> ELIGIBLE INVESTMENTS

The Manager is restricted to trading common stocks that are in the benchmark index ~~as delivered from the benchmark builder~~, stock index futures, <u>exchange traded funds,</u> and the SBI STIF fund. The Manager may sell any securities removed from the target index over a reasonable period of time. The investments must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.

(c) Stock index futures, purchased through a regulated futures exchange, may be used to equitize cash in the portfolio. Over-the-counter future instruments are not permitted. All future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.

~~4.~~ 5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

~~5.~~ 6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within ~~twelve (12)~~ ten (10) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, discuss all organizational changes affecting the management of the SBI's account, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

~~6.~~ 7. PROXY VOTING

The Manager may not vote proxies on behalf of the SBI's account unless specifically requested by the SBI to do so.

~~7.~~ 8. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that ~~SBI~~ SBI's liability, ~~for~~ including margin requirements, commissions and fees, is limited solely to funds of the SBI under the Manager's control and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers should be limited to the total market value of the SBI's assets ~~for~~ under the ~~Manager~~ Manager's control.

~~8.~~ 9. SEPARATE ACCOUNT AND DAILY PRICING

The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the prior written approval of the SBI.

~~9.~~ 10. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security between the Manager's records and State Street's, and any differences must be reconciled by the end of the month. ~~and~~ The reconciliation should also include the ~~an~~ identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI in the quarterly Manager Commentary whether or not ~~that~~ the Manager agrees with the Custodian's pricing for the quarter.

~~10.~~ 11. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~11.~~ 12. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

Revised ~~September 2003~~ June 2004

Executive Director/
Assistant Executive Director

____

Date ____________________

Investment Manager Guidelines

International Equity

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
ACTIVE INTERNATIONAL DEVELOPED MARKETS EQUITY MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) active international developed markets equity managers will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVE

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark within a range of ~~7 to 10~~ ___ to ___ (varies by Manager), where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARK

The benchmark~~, beginning October 1, 2003,~~ is the Morgan Stanley Capital International (MSCI) World ex. U.S. Index, unhedged, with dividends net of tax withholdings. SBI reserves the right to change the benchmark upon notification to the Manager.

3. LEVERAGE

The Manager may not leverage the account at any time.

~~3.~~ 4. ELIGIBLE MARKETS

Subject to the constraints in #~~4~~ 5 below, the Manager is authorized to purchase common stocks only in the countries included in the ~~EAFE Free~~ MSCI World ex U.S. index ~~and in Canada~~. Manager may not purchase the shares of companies that are constituents of the MSCI Emerging Market Free (EMF) Index.

4. 5. ELIGIBLE INVESTMENTS

Subject to the constraints in ~~#3~~ 4 above, the Manager will be restricted to trading common stocks, preferred stocks, exchange traded funds, currency forwards and the SBI's STIF fund. The Manager may hold warrants, if received from underlying assets. The Manager must have the SBI's written approval to purchase ~~exchange traded funds,~~ warrants, open-end country funds and closed-end country or regional funds, stock index futures and options, ~~and~~ currency futures and options and convertible issues The investments of the Manager must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) U.S. cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(c) Private placements may not be purchased in the Account.

(d) Debt securities, except cash equivalents may not be purchased in the Account. Prior written consent of the SBI is required to purchase convertible securities.

(e) The Manager shall not hold more than three (3) percent of the total outstanding shares of any corporation in the SBI's portfolio. If a holding should breach this level or the Manager desire to hold a larger position, the Manager must notify the SBI in writing for approval.

(f) The stock of companies domiciled in the US shall not be held in the Account. However, with the SBI's prior written authorization, Manager may hold open-end and closed-end funds, which invest primarily in international securities.

(g) American Depository Receipts (ADR's)~~,~~ and Great Britain Depository Receipts (GDR's)~~, and securities issued by Canada or its provinces~~ may be held in the Account provided they are depository eligible and can be priced on a daily basis. Non-U.S. securities issued pursuant to Rule 144A may be purchased for the Account if, upon issuance, they will be publicly-traded securities in their local market(s) and can be priced on a daily basis.

(h) Upon written authorization by the SBI, stock options purchased through a governmentally regulated futures exchange and stock index futures~~,~~ approved by the Commodity Futures Trading Commission (CFTC) ~~purchased through a governmentally regulated futures exchange,~~ may be used to adjust the effective equity exposure of the portfolio. Over-the-counter instruments are not permitted. All future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents

(i) Currency forwards may be used to adjust the effective non-US currency exposure of the portfolio. Manager is permitted to hedge all or any portion of the non-US currency exposure back to the US dollar and may also attempt to add value from anticipated declines in the value of any non-US currency, through hedging out of one non-US currency into another non-US currency. The Manager is permitted to increase the exposure to any non-US currency of an eligible market beyond that established by the equity security holdings of the portfolio or that of the country allocation within the benchmark; provided, however, that the total currency exposure may not exceed the total market value of the portfolio. The Manager has no obligation to hedge currency risk and will not be required to do so.

(j) The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.

~~5.~~ 6. PERFORMANCE EVALUATION

Manager performance will be evaluated according to the qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

~~6.~~ 7. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within ~~twelve (12)~~ ten (10) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, discuss all organizational changes affecting the management of the SBI's Account, and affirm account reconciliation with the Custodial Bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation related to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

~~7.~~ 8. COUNTERPARTY BANKS

Each counterparty bank used by the Manager to execute currency transactions must have a credit rating of A1/P1 or better from each of the following rating organizations: S&P, Moody's and IBCA.

~~Any agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that SBI liability for settlement, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The Manager is responsible for monitoring both the long term and short term credit ratings of each counterparty bank and the Manager will notify the SBI of any downgrade in either rating promptly.~~

Any agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that SBI liability for settlement, commissions and fees is limited solely to funds of the SBI under Manager's control and does not constitute a general obligation of the State of Minnesota.

The Manager is responsible for monitoring the counterparty credit ratings of each counterparty bank and/or counterparty group, and the Manager will promptly notify the SBI of any counterparty rating downgrade below the A1/P1 level.

~~8.~~ 9. PROXY VOTING

The SBI retains the right to vote its proxies directly. Unless the SBI notifies the Manager that it is exercising this right, the Manager shall vote all proxies on behalf of the SBI according to guidelines provided to the Manager by the SBI. The Manager shall report annually on its voting practices with respect to the SBI portfolio. This report shall be received by the SBI within sixty (60) days following the fiscal year ending June 30. The SBI represents that such delegation of voting rights is consistent with applicable *Minnesota Statutes*. The SBI agrees to instruct the Custodian to forward all proxy materials to the Manager upon receipt. Manager shall not be liable with regard to voting of proxies in the event proxy materials are not received by the Manager in a timely manner.

~~9.~~ 10. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that ~~SBI~~ SBI's liability, ~~for~~ including margin requirements, commissions and fees, is limited solely to funds of the SBI under the Manager's control and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers should be limited to the total market value of the SBI's assets ~~for~~ under the ~~Manager~~ Manager's control.

~~10.~~ 11. SEPARATE ACCOUNT AND DAILY PRICING

The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank and its network of sub-custodians. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

~~11.~~ 12. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security ~~and~~ between, the Manager's records and State Street's, and any differences must be reconciled by the end of the month. ~~and~~ The reconciliation should also include the ~~an~~ identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI in the quarterly Manager Commentary whether or not ~~that~~ the Manager agrees with the Custodian's pricing for the quarter.

~~12.~~ 13. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~13.~~ 14. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised ~~September 2003~~ June 2004

Executive Director/
Assistant Executive Director

____

Date ____________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
PASSIVE INTERNATIONAL DEVELOPED MARKETS MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) Passive Fund Manager will be governed and evaluated by the following guidelines:

1. RETURN/TRACKING ERROR OBJECTIVE

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in line with a predetermined benchmark provided to the Manager. The Manager is responsible for managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark of 0.60 or less, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio that tracks the return of the benchmark closely. Over time, the annual return relative to the benchmark should be at least 0.10%.

2. BENCHMARK INDEX

The benchmark~~, beginning October 1, 2003,~~ is the Morgan Stanley Capital International (MSCI) World ex. U.S. Index, unhedged, with dividends net of tax withholdings. SBI reserves the right to change the benchmark upon notification to the Manager.

3. LEVERAGE

The Manager may not leverage the account at any time.

~~3.~~ 4. ELIGIBLE INVESTMENTS

The Manager is restricted to trading stocks in the benchmark index, Commodity Futures Trading Commission (CFTC) approved stock index futures, exchange traded funds, and the SBI's STIF fund subject to the following constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Section 11A.24.

(b) U.S. cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(c) CFTC approved stock index futures~~, purchased through a regulated futures exchange,~~ may be used to equitize cash in the portfolio Over-the-counter future instruments are not permitted. All future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.

~~4.~~ 5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines established by SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

~~5.~~ 6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within ~~twelve (12)~~ ten (10) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, discuss all organizational changes affecting the management of the SBI's Account, and affirm account reconciliation with the custodian.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation related to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

~~6.~~ 7. PROXY VOTING

The SBI retains the right to vote its proxies directly. Unless the SBI notifies the Manager that it is exercising this right, the Manager shall vote all proxies on behalf of the SBI according to guidelines provided to the Manager by the SBI. The Manager shall report annually on its voting practices with respect to the SBI portfolio. This report shall be received by the SBI within sixty (60) days following the fiscal year ending June 30. The SBI represents that such delegation of voting rights is consistent with applicable *Minnesota Statutes*. The SBI agrees to instruct the Custodian to forward all proxy materials to the Manager upon receipt. Manager shall not be liable with regard to voting of proxies in the event proxy materials are not received by the Manager in a timely manner.

The SBI reserves the right to review the proxies and, on a limited basis (not to exceed 6 times per year), may notify SSgA to have Institutional Shareholder Services (ISS) override the standing instructions with SBI's vote. Any override on a meeting in Japan will be sent to SSgA at least 9 business days before the meeting. We understand the custodian will handle any notice past this deadline on a "best efforts" basis. Notification of an override will be sent via fax with authorized signature to Maria Luce at 617-537-5279, and will be followed up with an email to (mdluce@statestreet.com) and cc the SSgA contacts, Andrew Letts (apletts@statestreet.com) and ~~Jim Thorsen (jethorsen@statestreet.com)~~ Mary Guy (mary_guy@ssga.com).

~~7.~~ 8. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that the ~~SBI~~ SBI's liability, ~~for~~ including margin requirements, commissions and fees, is limited solely to funds of the SBI under the Manager's control and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers should be limited to the total market value of the SBI's assets ~~for~~ under the ~~Manager~~ Manager's control.

~~8.~~ 9. SEPARATE ACCOUNT AND DAILY PRICING

The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank and its network of sub-custodians. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

~~9.~~ 10. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security between the Manager's records and State Street's, and any differences must be reconciled by the end of the month. ~~and~~ The reconciliation should also include the ~~an~~ identification of security price differences of 5% or

greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI in the quarterly Manager Commentary whether or not ~~that~~ the Manager agrees with the Custodian's pricing for the quarter.

~~10.~~ 11. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~11.~~ 12. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Date: ~~September 2003~~ June 2004

Executive Director/
Assistant Executive Director

____

Date ______________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNATIONAL EMERGING MARKETS EQUITY MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) international emerging markets equity managers will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVE

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark within a range of ~~8 to 12~~, ___ to ___ (varies by Manager) where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARK

The benchmark is the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) index~~. The benchmark is the EMF,~~ unhedged, with dividends net of tax withholdings. SBI reserves the right to change the benchmark upon notification to the Manager.

3. LEVERAGE

The Manager may not leverage the account at any time.

~~3.~~ 4. ELIGIBLE MARKETS

The Manager may not purchase the shares of companies that are constituents of MSCI ~~EAFE~~ World ex U.S. Index. Subject to the constraints in ~~#4~~ #5 below, the Manager is authorized to purchase securities in the following markets:

Group I. The Manager is not restricted regarding publicly traded securities of companies in the following markets:

Argentina	Czech Republic	Mauritius	Trinidad & Tobago
Barbados	Estonia	Mexico	Tunisia
Bermuda	Hungary	Panama	Uruguay
Bolivia	Jamaica	Papua New Guinea	
Botswana	Latvia	Poland	
Chile	Lithuania	Slovak Republic	
Costa Rica	Luxembourg	Slovenia	
Cyprus	Malawi	Taiwan	

Group II. The Manager may purchase publicly traded securities of companies in the following markets if the Manager believes it would be a breach of fiduciary responsibility not to do so. If the Manager chooses to invest in one or more of these markets, the Manager must notify the SBI in writing of its decision to do so.

Bangladesh	Israel	Nepal	Thailand
Brazil	Korea, Republic of	Nigeria	Turkey
Bulgaria	Kuwait	Peru	Venezuela
Colombia	Malaysia	Philippines	Vietnam
Ghana	Mauritania	Romania	Zambia
Guatemala	Mongolia	South Africa	Zimbabwe
India	Morocco	Sri Lanka	
Indonesia	Namibia	Swaziland	

Group III. The Manager may invest in publicly traded securities of companies in the following markets if the Manager believes it would be a breach of fiduciary responsibility not to do so. If the 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 reason(s) for the decision to do so.

Burma	Jordan	Russia
China	Kazakhstan	Saudi Arabia
Cote d'Ivoire	Kenya	Syria
Croatia	Lebanon	Turkmenistan
Dominican Republic	Liberia	Ukraine
Ecuador	Oman	United Arab Emerates
Egypt	Pakistan	Uzbekistan
Iran	Paraguay	

~~4.~~ 5. ELIGIBLE INVESTMENTS

Subject to the constraints in ~~#3~~ #4 above, the Manager will be restricted to trading common stocks, preferred stocks, closed-end funds, exchange traded funds, currency forwards and the SBI's STIF fund. The Manager may hold open-end funds that have been converted from closed-end funds held by the account. The Manager must have the SBI's written approval to purchase open-end funds, ~~exchange traded funds,~~ warrants, rights, equity futures and options, ~~and~~ currency futures and options, and convertible preferred stock. The investments of the Manager must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Section 11A.24.

(b) U.S. cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(c) Private placements~~, defined as those securities for which a public market does not exist,~~ may not be purchased.

(d) Debt securities, except cash equivalents may not be purchased.

(e) The stock of companies in, or open and closed-end funds investing principally in, any of the following countries shall not be held in the Account: U.S.; ~~Canada;~~ and all ~~EAFE~~ MSCI World ex U.S. markets unless the company/fund gets all or substantially all of its revenue from an emerging market country(ies) as set out in ~~#3~~ #4 above. Notwithstanding the foregoing sentence, Manager may hold closed-end funds (or open-end funds that have been converted from closed-end funds held by the Account), provided all or substantially all of the assets of such instruments or funds satisfy this constraint. The Manager may not at any time hold more than 3% of the assets of a Closed-end Fund unless it can be demonstrated that an SEC filing is not required when ownership exceeds 5%. In addition, Manager may purchase securities listed in Hong Kong to gain exposure to China.

(f) For emerging market countries outside the EMF benchmark, eligible securities shall not exceed 10% of the Account's market value in aggregate at the time of purchase.

(g) Depository Receipts may be held in the Account provided they are issued by an emerging market company, are depository eligible, and can be priced on a daily basis. Non-U.S. securities and Depository Receipts issued pursuant to Rule 144A may be purchased for the Account if, upon issuance, these securities (or their underlying shares in the case of Depository Receipts) will be publicly-traded securities in their local market(s) or another regulated market and can be priced on a daily basis.

(h) The Manager shall not hold more than three (3) percent of the total outstanding shares of any corporation in the Account at any time. If a holding should breach this level or the Manager desire to hold a larger position, the Manager must notify the SBI in writing for approval.

(i) Currency forwards may be used to adjust the effective non-U.S. country exposure of the Account from 0 to 100%. Hedging back to USD is permitted. Cross hedging is not permitted. The Manager has no obligation to hedge currency risk and will not be required to do so.

(j) The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.

~~5.~~ 6. PERFORMANCE EVALUATION

Manager performance will be evaluated according to the qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

~~6.~~ 7. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within ~~twelve (12)~~ ten (10) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, discuss all organizational changes affecting the management of the SBI's account, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will use reasonable efforts to promptly inform SBI staff and the SBI's custodian of any material legal claims available to SBI relating to any of the Assets in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

~~7.~~ 8. COUNTERPARTY BANKS

Each counterparty bank and/or counterparty group used by the Manager to execute currency transactions must have a counterparty credit rating of A1/P1 or better from each of the following rating organizations: S&P, Moody's and IBCA.

Any agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that SBI liability for settlement, commissions and fees is limited solely to funds of the SBI under Manager's control and does not constitute a general obligation of the State of Minnesota.

The Manager is responsible for monitoring the counterparty credit ratings of each counterparty bank and/or counterparty group, and the Manager will promptly notify the SBI of any counterparty rating downgrade below the A1/P1 level.

~~8.~~ 9. PROXY VOTING

The SBI retains the right to vote its proxies directly. Unless the SBI notifies the Manager that it is exercising this right with respect to all proxies, the Manager shall vote all proxies on behalf of the SBI according to guidelines provided to the Manager by the SBI. The Manager shall report annually on its voting practices with respect to the SBI portfolio. This report shall be received by the SBI within sixty (60) days following the fiscal year ending June 30. The SBI represents that such delegation of voting rights is consistent with applicable *Minnesota Statutes*. The SBI agrees to instruct the Custodian to forward all proxy materials to the Manager upon receipt. Manager shall not be liable with regard to voting of proxies in the event proxy materials are not received by the Manager in a timely manner.

~~9.~~ 10. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by a legal representative of the SBI before entering into the agreement. Any such agreement must provide that ~~SBI~~ SBI's liability, ~~for~~ including margin requirements, commissions and fees, is limited solely to funds of the SBI under the Manager's control and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers should be limited to the total market value of the SBI's assets ~~for~~ under the ~~Manager~~ Manager's control.

~~10.~~ 11. SEPARATE ACCOUNT AND DAILY PRICING

The SBI portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank and its network of sub-custodians. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles other than closed-end funds and open-end funds permitted under "Eligible Investments" above may not be held in the Account without the written approval of the SBI.

~~11.~~ 12. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21^{st} calendar day. The reconciliation will include a comparison of the number of shares for each security ~~and~~ between the Manager's records and State Street's, and any differences must be reconciled by the end of the month. ~~and~~ The reconciliation should also include the ~~an~~ identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23^{rd} calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** - the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4^{th} business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3^{rd} business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI in the quarterly Manager Commentary whether or not ~~that~~ the Manager agrees with the Custodian's pricing for the quarter.

~~12.~~ 13. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~13.~~ 14. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised: ~~March 2003~~ June 2004

Executive Director/
Assistant Executive Director

____

Date ____________________

Investment Manager Guidelines

External Fixed Income

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL ACTIVE FIXED INCOME MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) external active fixed income managers will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark not to exceed 2.5, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARK

The benchmark is the Lehman Brother's Aggregate Bond Index (Lehman Aggregate). The SBI reserves the right to change the benchmark upon notification to the Manager.

3. LEVERAGE

The Manager may not leverage the account at any time.

~~3.~~ 4. ELIGIBLE INVESTMENTS

The Manager may purchase fixed income instruments, ~~and~~ interest rate futures on U.S. Treasury securities~~.~~ and Eurodollar futures. With prior written SBI authorization, the Manager may purchase interest rate options on U.S. Treasury securities and options on Eurodollar futures. The investments must satisfy the following criteria:

(a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Manager may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the International Bank for Reconstruction and Development, the Inter- American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(b) The manager may invest in fixed income securities issued by any U.S. state or U.S. territory, or any municipality, political subdivision, agency or instrumentality thereof, provided that:

(1) such securities may not be purchased by the Manager directly from the issuer or the issuer's agent, such as an underwriter of underwriting syndicate. All purchases of securities under this subdivision must be transacted in the secondary market; and

(2) the principal and interest of such obligations shall be payable in United States dollars.

(c) The Manager may invest funds in fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof provided that:

(1) the principal and interest of such obligations shall be payable in United States dollars; and

(2) obligations shall be rated among the top four quality categories by a nationally recognized rating agency; and

(3) the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

With the SBI's prior written authorization, the Manager may invest up to 15 percent of the portfolio, measured on a market value or contribution to duration basis, whichever is less, in below investment grade corporate bonds rated among the top two below investment grade rating categories (BB or B) by a nationally-recognized rating agency, such as Moody's or Standard & Poors, provided that 1) participation is limited to 20 percent of a single offering; 2) participation is limited to 10 percent of an issuer's total outstanding obligations; 3) the manager shall not hold more than 2 percent of the market value of the portfolio in any one issuer, and 4) the total value of such instruments plus the value of any non-dollar investments allowed under

~~3.~~ 4. ~~(h)~~ (i) below not exceed 20 percent of the total portfolio, measured on a market value or contribution to duration basis, whichever is less.

(d) Mortgage-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

(e) Asset-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(f) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by a nationally recognized agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(g) The Manager may invest up to 5 percent of the market value of the portfolio in non-rated securities, which if rated by a nationally recognized rating agency would have a rating of BBB of better.

(h) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank. With prior written SBI authorization, the Manager may purchase and manage cash equivalent reserves outside of the SBI's STIF fund.

(i) With prior written authorization from SBI, the Manager may invest up to 15 percent of the portfolio, measured on a market value or contribution to duration basis, whichever is less, in non-dollar denominated bonds, provided that the total value of such instruments plus the value of any below investment grade corporate investments allowed under ~~3.~~ 4. ~~(b)~~ (c) above not exceed 20 percent of the total portfolio, measured on a market value or contribution to duration basis, whichever is less. Non-dollar denominated bonds purchased must be rated in the top four quality categories by a nationally-recognized rating agency, and the manager shall not hold more than 5 percent of the market value of the portfolio in any one issuer. The manager shall have discretion to hedge the portfolio's currency exposure, up to the amount invested in non-dollar bonds, using currency forwards, futures or options. ~~All currency transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.~~

(j) Interest rate options, ~~and~~ interest rate futures on U.S. Treasury securities and Eurodollar futures must be purchased through a governmentally regulated exchange. Over-the-counter instruments are not permitted. All options and future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents. The portfolio may not be leveraged in any way.

~~4.~~ 5. DURATION

The option-adjusted duration of the portfolio must be within +/- 2 years of the duration of the Lehman Brothers Aggregate Index.

~~5.~~ 6. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

~~6.~~ 7. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy within ~~twelve (12)~~ ten (10) business days after quarter end. The commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, discuss all organizational changes affecting the management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the portfolio. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

~~7.~~ 8. OPTIONS AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that ~~SBI~~ SBI's liability, ~~for~~ including margin requirements, commissions and fees, is limited solely to funds of the SBI under the Manager's control and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers should be limited to the total market value of the SBI's assets ~~for~~ under the ~~Manager~~ Manager's control.

~~8.~~ 9. SEPARATE ACCOUNT AND DAILY PRICING

The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced on a daily basis and accessible by the custodian. Commingled vehicles may not be held in the portfolio without the prior written approval of the SBI.

~~9.~~ 10. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security between the Manager's records and State Street's, and any differences must be reconciled by the end of the month. ~~and~~ The reconciliation should also include the ~~an~~ identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI in the quarterly Manager Commentary whether or not ~~that~~ the Manager agrees with the Custodian's pricing for the quarter.

~~10.~~ 11. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~11.~~ 12. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

Revised ~~September 2003~~ June 2004

Executive Director/
Assistant Executive Director

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Date ____________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL SEMI-PASSIVE FIXED INCOME MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) external semi-passive fixed income managers will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark not to exceed 0.5, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARK

The benchmark is the Lehman Brother's Aggregate Bond Index (Lehman Aggregate). The SBI reserves the right to change the benchmark upon notification to the Manager.

3. LEVERAGE

The Manager may not leverage the account at any time.

~~3.~~ 4. ELIGIBLE INVESTMENTS

The Manager may purchase fixed income instruments, interest rate futures on U.S. Treasury securities, and Eurodollar futures. With prior written SBI authorization, the Manager may purchase interest rate options on U.S. Treasury securities and options on Eurodollar futures. The investments must satisfy the following criteria:

(a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Manager may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the International Bank for Reconstruction and Development, the Inter- American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(b) The manager may invest in fixed income securities issued by any U.S. state or U.S. territory, or any municipality, political subdivision, agency or instrumentality thereof, provided that:

(1) such securities may not be purchased by the Manager directly from the issuer or the issuer's agent, such as an underwriter of underwriting syndicate. All purchases of securities under this subdivision must be transacted in the secondary market; and

(2) the principal and interest of such obligations shall be payable in United States dollars.

(c) The Manager may invest funds in fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof provided that:

(1) the principal and interest of such obligations of corporations shall be payable in United States dollars; and

(2) obligations shall be rated among the top four quality categories by a nationally recognized rating agency; and

(3) the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(d) Mortgage-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

(e) Asset-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(f) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by a nationally recognized agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(g) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank. With prior written SBI authorization, the Manager may purchase and manage cash equivalent reserves outside of the SBI's STIF fund.

(h) Interest rate options and interest rate futures on U.S. Treasury securities must be purchased through a governmentally regulated exchange. Over-the-counter instruments are not permitted. All options and future transactions must be entered into and maintained with a fully offsetting amount of cash or securities. The portfolio may not be leveraged in any way.

4. 5. INVESTMENT CONSTRAINTS

The investment parameters are based on contribution to duration. Contribution to duration is the sector percentage multiplied by the sector's duration of the Lehman Brothers Aggregate.

Sector Weighting Guidelines

Treasury/Agency Sector	+/- 50% of the ~~Lehman Brothers~~ Government sector contribution to duration~~.~~ of the Lehman Brothers Aggregate.
Mortgage Sector	+/- 50% of the ~~Lehman Brothers~~ Mortgage-Backed sector contribution to duration~~.~~ of the Lehman Brothers Aggregate.
Corporate Sector	+/- 50% of the Combined ~~Lehman Brothers~~ Corporate and Asset-Backed sectors contribution to duration. of the Lehman Brothers Aggregate.
Issues Outside the Index*	Maximum 10% of the Lehman Brothers Aggregate contribution to duration. These must be eligible securities as defined in ~~#3~~ #4 above.

* Issues collateralized by securities that are part of the index are not considered to be outside the index. For instance, CMO's collateralized by mortgages that are part of the index are not considered to be outside the index.

Corporate Credit Guidelines

AAA/AA +/- 75% of the combined ~~Lehman Brothers Corporate~~ AAA and AA sector contribution to duration of the Lehman Brothers Aggregate

A/BBB +/- 50% of the combined ~~Lehman Brothers Corporate~~ A and BBB sector contribution to duration of the Lehman Brothers Aggregate.

Duration Guidelines

The option-adjusted duration of the portfolio must be within +/- 0.2 years of the duration of the Lehman Brothers Aggregate Index.

~~5.~~ 6. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

~~6.~~ 7. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy within ~~twelve (12)~~ ten (10) business days of the end of each quarter. The commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, discuss all organizational changes affecting the management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the portfolio. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

~~7.~~ 8. OPTIONS AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that ~~SBI~~ SBI's liability, ~~for~~ including margin requirements, commissions and fees, is limited solely to funds of the SBI under the Manager's control and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers should be limited to the total market value of the SBI's assets ~~for~~ under the ~~Manager~~ Manager's control.

~~8.~~ 9. SEPARATE ACCOUNT AND DAILY PRICING

The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced on a daily basis and accessible by the custodian. Commingled vehicles may not be held in the portfolio without the prior written approval of the SBI.

~~9.~~ 10. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security between the Manager's records and State Street's, and any differences must be reconciled by the end of the month. ~~and~~ The reconciliation should also include the ~~an~~ identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI in the quarterly Manager Commentary whether or not ~~that~~ the Manager agrees with the Custodian's pricing for the quarter.

~~10.~~ 11. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violation of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~11.~~ 12. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

Revised ~~September 2003~~ June 2004

Executive Director/
Assistant Executive Director

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Date ________________________

Investment Manager Guidelines

Assigned Risk Plan

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
COMMON STOCK MANAGER

The investment actions of the Manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVE

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark within a range of 1 to 3, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARK

The benchmark is the S&P 500 (Standard & Poor's 500 Stock Index). SBI reserves the right to change the benchmark upon notification to the Manager.

3. LEVERAGE

The Manager may not leverage the account at any time.

~~3.~~ 4. ELIGIBLE INVESTMENTS

The Manager is restricted to trading common stocks, stock index futures, exchange traded funds and cash equivalents. The Manager may hold equity options, preferred stocks and warrants if received from underlying assets. The Manager must have the SBI's written approval to purchase ~~exchange traded funds,~~ equity options, preferred stocks and warrants. The Manager's investments must satisfy the following criteria and constraints.

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces and/or be listed on an exchange regulated by an agency of the United States or Canadian national government. These include American Depository Receipts (ADR's) traded on such an exchange.

(c) The Manager may not purchase restricted stock, letter stock, or private placements.

(d) Debt securities, except cash equivalents, may not be purchased in the Account.

(e) Without prior written authorization from SBI, Manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.

(f) The Manager shall not hold more than three (3) percent of the total outstanding shares of any corporation in the SBI's portfolio. If a holding should breach this level or the Manager desires to hold a larger position, the Manager must notify the SBI in writing for approval.

(g) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.

(h) Stock index futures, purchased through a regulated futures exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter instruments are not permitted. All futures transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.

(i) The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.

~~4.~~ 5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines established in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

~~5.~~ 6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within ~~twelve (12)~~ ten (10) business days after quarter end. The Commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, discuss all organizational changes affecting the management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the portfolio. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

~~6.~~ 7. PROXY VOTING

The Manager may not vote proxies on behalf of the SBI's account unless specifically requested by the SBI to do so.

~~7.~~ 8. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that ~~SBI~~ SBI's liability, ~~for~~ including margin requirements, commissions and fees, is limited solely to funds of the SBI under the Manager's control and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers should be limited to the total market value of the SBI's assets ~~for~~ under the ~~Manager~~ Manager's control.

~~8.~~ 9. SEPARATE ACCOUNT AND DAILY PRICING

The SBI's portfolio will be managed on as a separate account. All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the prior written approval of the SBI.

~~9.~~ 10. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security between the Manager's records and State Street's, and any differences must be reconciled by the end of the month. ~~and~~ The reconciliation should also include the ~~an~~ identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** - the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI in the quarterly Manager Commentary whether or not ~~that~~ the Manager agrees with the Custodian's pricing for the quarter.

~~10.~~ 11. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~11.~~ 12. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

Revised: ~~March 2003~~ June 2004

Executive Director/
Assistant Executive Director

____

Date ______________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
ASSIGNED RISK PLAN
BOND MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) Assigned Risk Plan Bond Manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVE

The Manager is expected to deliver cumulative returns in excess of the benchmark. Excess returns are expected to be 10 basis points net of fees over time on an annualized basis.

2. BENCHMARK

The benchmark portfolio for this Account is constructed to complement the liability stream out to ten years of the Assigned Risk Plan. The benchmark is composed using the following indexes:

10% 90 day T-Bill
25% Merrill 1-3 Government
15% Merrill 3-5 Government
25% Merrill 5-10 Government
25% Merrill Mortgage Master

Performance will be monitored and evaluated against this custom benchmark.

The SBI reserves the right to change the benchmark upon notification to the Manager.

3. LEVERAGE

The Manager may not leverage the account at any time.

~~3.~~ 4. ELIGIBLE INVESTMENTS

Fixed income investments must satisfy the following criteria and constraints:

(a) Government obligations of the U.S., its agencies, Canada, its provinces, or U.S. sponsored organizations must be payable in U.S. dollars and comply with the provisions of *Minnesota Statutes* (MS) 11A.24 subdivision 2.

(b) Other obligations not specified in (a) must meet the provisions of MS 11A.24 subdivision 4.

(c) All futures and options positions must be purchased through a regulated exchange and must be entered into and maintained with a fully offsetting amount of cash or cash equivalents. Over-the-counter instruments are not permitted.

(d) Manager is not constrained regarding:

(1) transactions turnover
(2) use of covered call options as hedging devices
(3) number of fixed income issues which must be held at any given point in time
(4) the use of fixed income index futures or options to adjust the effective total portfolio duration.

(e) The Manager may purchase cash equivalent reserves, as necessary, or they may be invested in the SBI's STIF fund, managed by its custodian bank.

~~4.~~ 5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to the qualitative and quantitative guidelines established in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

~~5.~~ 6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within ~~twelve (12)~~ ten (10) business days after the quarter-end. The commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, discuss all organizational changes affecting the management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and SBI's custodian of any litigation relating to any holding in the portfolio. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

~~6.~~ 7. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that ~~SBI~~ SBI's liability, ~~for~~ including margin requirements, commissions and fees, is limited solely to funds of the SBI under the Manager's control and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers should be limited to the total market value of the SBI's assets ~~for~~ under the ~~Manager~~ Manager's control.

~~7.~~ 8. SEPARATE ACCOUNT AND DAILY PRICING

The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced on a daily basis and accessible by the custodian. Commingled vehicles may not be held in the Account without the prior written approval of the SBI.

~~8.~~ 9. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security between the Manager's records and State Street's, and any differences must be reconciled by the end of the month. ~~and~~ The reconciliation should also include the ~~an~~ identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager_must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI in the quarterly Manager Commentary whether or not ~~that~~ the Manager agrees with the Custodian's pricing for the quarter.

~~9.~~ 10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~10.~~ 11. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Manager will be notified in advance of changes to the investment guidelines.

Revised ~~March 2003~~ June 2004

Executive Director/
Assistant Executive Director

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Date ____________________

Investment Manager Guidelines

Internal Investments

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL ACTIVE FIXED INCOME MANAGER
INCOME SHARE ACCOUNT

The investment actions of Minnesota State Board of Investment (SBI) internal active fixed income manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark not to exceed 2.0, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARK

The benchmark is the Lehman Brothers Aggregate Bond Index (Lehman Aggregate). SBI reserves the right to change the benchmark upon notification to the Manager.

3. LEVERAGE

The Manager may not leverage the account at any time.

3. 4. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The Manager may trade fixed income instruments, interest rate options and futures on U.S. Treasuries, and cash equivalents. The investments must satisfy the following criteria:

(a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Manager may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the states and their municipalities, political subdivisions, agencies or instrumentalities; (d) the International Bank for Reconstruction and Development, the Inter- American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(b) The Manager may invest funds in fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof provided that:

(1) the principal and interest of such obligations shall be payable in United States dollars; and

(2) obligations shall be rated among the top four quality categories by a nationally recognized rating agency; and

(3) the Manager may not hold more than 5% of the portfolio in one issuer.

The Manager may invest up to 10% of the portfolio measured on a market value or contribution to duration basis, which ever is less, in BB rated corporate bonds provided that 1) participation is limited to 20 percent of a single offering and 2) participation is limited to 10 percent of an issuer's total outstanding obligations.

(c) Mortgage-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

(d) Asset-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(e) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by a nationally recognized agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(f) The Manager may manage cash equivalent reserves or they may be invested in the SBI's STIF fund, managed by its custodian bank.

(g) Interest rate futures on U.S. treasury securities must be purchased through a regulated exchange. Over-the-counter instruments are not permitted. All future transactions must be entered into and maintained with a fully offsetting amount of cash or ~~cash equivalents~~ securities.

(h) The duration of the portfolio must stay within +/-1 year of the benchmark duration.

~~4.~~ 5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

~~5.~~ 6. COMMUNICATION

The Manager is expected to report monthly on returns and portfolio statistics to the Executive Director and Assistant Executive Director. In addition, Manager will meet with the Executive Director or Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy, within ~~twelve (12)~~ ten (10) business days of quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, and discuss all issues or events affecting the management of the SBI's account.

~~6.~~ 7. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that ~~SBI~~ SBI's liability, ~~for~~ including margin requirements, commissions and fees, is limited solely to funds of the SBI under the Manager's control and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers should be limited to the total market value of the SBI's assets ~~for~~ under the ~~Manager~~ Manager's control.

~~7.~~ 8. SEPARATE ACCOUNT AND DAILY PRICING

All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced on a daily basis and accessible by the custodian.

8. 9. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** - the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security between the Manager's records and State Street's, and any differences must be reconciled by the end of the month. ~~and~~ The reconciliation should also include the ~~an~~ identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** - the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI in the quarterly Manager Commentary whether or not ~~that~~ the Manager agrees with the Custodian's pricing for the quarter.

~~9.~~ 10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the Executive Director or Assistant Executive Director, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~10.~~ 11. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised: ~~March 2003~~ June 2004

Executive Director/
Assistant Executive Director

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Date ______________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL ACTIVE FIXED INCOME MANAGER
TRUST FUND POOL

The investment actions of Minnesota State Board of Investment (SBI) internal active fixed income manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark not to exceed 1.5, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARK

The benchmark is the Lehman Brothers Aggregate Bond Index (Lehman Aggregate). SBI reserves the right to change the benchmark upon notification to the Manager.

3. LEVERAGE

The Manager may not leverage the account at any time.

~~3.~~ 4. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The Manager may trade fixed income instruments, interest rate options and futures on U.S. Treasuries, and cash equivalents. The investments must satisfy the following criteria:

(a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Manager may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the states and their municipalities, political subdivisions, agencies or instrumentalities; (d) the International Bank for Reconstruction and Development, the Inter- American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(b) The Manager may invest funds in fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof provided that:

(1) the principal and interest of obligations shall be payable in United States dollars; and

(2) obligations shall be rated among the top four quality categories by a nationally recognized rating agency; and

(3) the Manager may not hold more than 5% of the portfolio in one issuer.

The Manager may invest up to 10% of the portfolio measured on a market value or contribution to duration basis, whichever is less, in BB rated corporate bonds provided that 1) participation is limited to 20 percent of a single offering and 2) participation is limited to 10 percent of an issuer's total outstanding obligations.

(c) Mortgage-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

(d) Asset-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(e) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by a nationally recognized agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(f) The Manager may manage cash equivalent reserves or they may be invested in the SBI's STIF fund, managed by its custodian bank.

(g) Interest rate futures on U.S. treasury securities must be purchased through a regulated exchange. Over-the-counter instruments are not permitted. All future transactions must be entered into and maintained with a fully offsetting amount of cash or ~~cash equivalents~~ securities.

(h) The duration of the portfolio must stay within +/-1 year of the benchmark duration.

~~4.~~ 5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

~~5.~~ 6. COMMUNICATION

The Manager is expected to report monthly on returns and portfolio statistics to the Executive Director and Assistant Executive Director. In addition, Manager will meet with the Executive Director or Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy, within ~~twelve (12)~~ ten (10) business days of quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, and discuss all issues or events affecting the management of the SBI's account.

~~6.~~ 7. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that ~~SBI~~ SBI's liability, ~~for~~ including margin requirements, commissions and fees, is limited solely to funds of the SBI under the Manager's control and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers should be limited to the total market value of the SBI's assets ~~for~~ under the ~~Manager~~ Manager's control.

~~7.~~ 8. SEPARATE ACCOUNT AND DAILY PRICING

All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced on a daily basis and accessible by the custodian.

~~8.~~ 9. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security between the Manager's and State Street's, and any differences must be reconciled by the end of the month. ~~and~~ The reconciliation should also include the ~~an~~ identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI in the quarterly Manager Commentary whether or not ~~that~~ the Manager agrees with the Custodian's pricing for the quarter.

~~9.~~ 10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI Executive Director and Assistant Executive Director, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~10.~~ 11. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised: ~~March 2003~~ June 2004

Executive Director/
Assistant Executive Director

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Date ____________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL PASSIVE DOMESTIC COMMON STOCK MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) internal passive domestic common stock manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in line with a predetermined benchmark provided to the Manager. The Manager is responsible for managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark of 0.20 or less, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio that tracks the return of the benchmark closely. Over time, the annual return shortfall relative to the benchmark, due to fees and trading expenses, should be no more than 0.10%.

2. BENCHMARK INDEX

The benchmark is the Standard & Poors 500 (S&P 500). SBI reserves the right to change the benchmark upon notification to the Manager.

3. LEVARAGE

The Manager may not leverage the account at any time.

~~3.~~ 4. ELIGIBLE INVESTMENTS

The Manager will be restricted to trading common stocks that are in the benchmark index, stock index futures, stock index exchange traded funds and the SBI STIF fund. The investments must satisfy the following criteria and constraints:

(a) Cash equivalent reserves shall be invested in a STIF fund designated by the SBI.

(b) Stock index futures, purchased through a regulated futures exchange, may be used to equitize cash in the portfolio. Over-the-counter future instruments are not permitted. All future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.

~~4.~~ 5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines established in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

~~5.~~ 6. COMMUNICATION

The Manager is expected to report monthly on returns and portfolio statistics to the Executive Director and Assistant Executive Director. In addition Manager will meet with the Executive Director or Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. The Manager is expected to report on the tracking of the portfolio relative to the benchmark.

The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within ~~twelve (12)~~ ten (10) business days of quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, and discuss all issues or events affecting the management of the SBI's account.

~~6.~~ 7. PROXY VOTING

The Manager may not vote proxies on behalf of the SBI's account unless specifically requested by the Executive Director or Assistant Executive Director to do so.

~~7.~~ 8. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. Any such agreement must provide that ~~SBI~~ SBI's liability, ~~for~~ including margin requirements, commissions and fees, is limited solely to funds of the SBI under the Manager's control and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers should be limited to the total market value of the SBI's assets ~~for~~ under the ~~Manager~~ Manager's control.

~~8.~~ 9. SEPARATE ACCOUNT AND DAILY PRICING

All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced on a daily basis and accessible by the custodian.

~~9.~~ 10. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security between the Manager's records and State Street's, and any differences must be reconciled by the end of the month. ~~and~~ The reconciliation should also include the ~~an~~ identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager_must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the

Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI in the quarterly Manager Commentary whether or not ~~that~~ the Manager agrees with the Custodian's pricing for the quarter.

~~10.~~ 11. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the Executive Director or Assistant Executive Director, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~11.~~ 12. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised ~~March 2003~~ June 2004

Executive Director/
Assistant Executive Director

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Date _______________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL SHORT-TERM CORPORATE FIXED-INCOME

The investment actions of the State Board of Investment (SBI) internal short-term corporate fixed-income manager will be governed and evaluated using the following guidelines:

1. RISK/RETURN OBJECTIVES

The primary objectives of the fund is to preserve capital, maintain a high degree of liquidity and within these constraints provide a high level of current income.

The portfolio is expected to deliver annualized returns that beat the benchmark over time.

2. BENCHMARKS

The benchmark is the Lehman 1-3 year Government Treasury Index. SBI reserves the right to change the benchmark upon notification to the Manager.

3. LEVERAGE

The Manager may not leverage the account at any time.

3. 4. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The investments must satisfy the following criteria:

(a) The Manager may invest funds in fixed income securities with one to three years remaining to maturity and issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any providence thereof provided that:

(1) the principal and interest of obligations of corporations incorporated or organized under the laws of the United States or any state, or the Dominion of Canada or any providence thereof shall be payable in United States dollars; and

(2) obligations shall be A+/A1 rated or better by two nationally recognized rating organizations.

(b) Yankee corporate bonds with one to three years remaining to maturity, encompassing those foreign-domiciled issuers who borrow U.S. dollars and pay in U.S. dollars, and A+/A1-rated or better, by two nationally recognized rating organizations.

(c) Euro-dollar corporate obligations with one to three years remaining to maturity denominated in U.S. dollars and are A+/A1-rated or better by two nationally recognized rating organizations.

(d) Up to 20% of the portfolio may be invested in U.S. dollar-denominated yankee or euro-dollar securities;

(e) Cash will be swept to the ITC fund.

(f) No one issuer may exceed 10% of the portfolio's total value.

4. 5. IMPLEMENTATION

(a) The Manager is required to limit capital realized net daily gains and losses to not more than 10% of the daily cash income distribution of the Invested Treasurer's Cash Pool unless prior permission of the Head of Short-Term Trading and either the SBI Executive Director or Assistant Executive Director has been received.

(b) Manager must have a clear description of a security before purchase. Manager must be able to certify daily the exact principal outstanding, the interest rate and the calculation method for each security.

(c) Portfolio duration will deviate no more than +/-.2 years from the benchmark.

5. 6. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

6. 7. COMMUNICATION

On a monthly basis the Manager will meet with the Short-Term Traders to discuss cash flows and other relevant issues. The Manager is expected to report monthly on returns and portfolio statistics to the Director and Assistant Director. In addition, Manager will meet with the Executive Director and Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

~~7.~~ 8. CUSTODY OF ASSETS

All assets will be held in custody by the State's custodial bank. All securities held in the portfolio must be capable of being priced by the custodian on a daily basis.

~~8.~~ 9. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the Executive Director or Assistant Executive Director, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~9.~~ 10. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised: ~~March 2003~~ June 2004

Executive Director/
Assistant Executive Director

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Date ______________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL POOLED CASH MANAGEMENT

The investment actions of the Minnesota State Board of Investment (SBI) internal pooled cash manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

The primary objectives of the funds are to preserve capital, maintain a high degree of liquidity and within these constraints provide a high level of current income.

The portfolios are expected to deliver annualized returns in excess of the benchmark return over time.

2. INVESTED TREASURER'S CASH FUND BENCHMARK

The major cash pool, the Invested Treasurer's Cash Fund, is evaluated against a blended benchmark. Currently that benchmark is composed of the Lehman 1-3 Year Government Bond Index (currently $0) and the balance of the portfolio will be measured against the IBC All Taxable Money Fund Average Index. SBI reserves the right to change the benchmark upon notification to the Manager. Other cash portfolios are difficult to evaluate due to their unique purposes and funding requirements.

3. LEVERAGE

The Manager may not leverage the account at any time.

~~3.~~ 4. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The Manager may hold only fixed income investments that meet the criteria in *Minnesota Statutes,* section 11A.24. References to quality categories of rating organizations do not include modifiers that may be used within categories. The investments must satisfy the following criteria and constraints listed below:

(a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Board may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the states and their municipalities, political subdivisions, agencies or instrumentalities; (d) the International Bank of Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(b) U.S. and Canadian corporate obligations, including private placements, must be payable in U.S. dollars and be rated in the top three long term debt quality categories by a nationally recognized statistical rating organization (NRSRO).

(c) Bankers acceptances and deposit notes of U.S. banks rated in the top three deposit quality categories by a NRSRO.

(d) Commercial paper, including asset backed commercial paper and rated private placement commercial paper, of U.S. corporations or their Canadian subsidiaries rated in the top commercial paper quality category by a NRSRO. The Manager shall not hold at time of purchase more than the lesser of 10 percent of the issuers total outstanding commercial paper or 5% of the market value of the portfolio in one issuer.

(e) Asset backed securities, including private placements, that are U.S. dollar denominated and rated in the top two long term debt quality categories by a NRSRO.

(f) Repurchase agreements must be backed by collateral meeting the requirements of *Minnesota Statutes,* section 11A.24 and:

1. With a dealer, the dealer must be a primary dealer recognized by the New York Federal Reserve Bank, and:

    (a) if done on a tri-party basis, the dealer must have short-term obligation ratings no lower than A2/P2.

    (b) if done on a hold in custody basis, the dealer must have short-term obligation ratings no lower than A1/P1 and have net excess regulatory capital of at least $200 million.

2. With a bank, the bank must have deposit ratings of A1/P1 and be among the largest one hundred banks as rated by deposits.

3. If collateral is delivered to the state's federal reserve account, the counterparty may be any federally regulated bank or dealer.

(g) Mortgage securities that are U.S. dollar denominated and rated in the top three categories by a NRSRO.

(h) International securities must be payable in U.S. dollars and must meet the same quality criteria as domestic securities.

(i) The Cash Pools may not hold a security that exceeds five years to its final legal maturity.

(j) The Cash Pools may not hold structured securities that are leveraged or tied to more than one index.

In aggregate, the investments must satisfy the following constraints:

(a) A portfolio must not be leveraged.

(b) Up to 20 percent of a portfolio may be invested in international securities.

(c) Up to 5 percent of a portfolio may exceed three years to maturity.

4. 5. COMMUNICATION

The Manager is expected to report monthly on returns and portfolio statistics to the Executive Director and Assistant Executive Director. In addition, Manager will meet with the Executive Director or Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

5. 6. SEPARATE ACCOUNT

The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank.

6. 7. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI Executive Director and Assistant Executive Director, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~7.~~ 8. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised: ~~March 2003~~ June 2004

Executive Director/
Assistant Executive Director

____

Date ______________________

Investment Manager Guidelines

Stable Asset Manager

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL STABLE ASSET MANAGER

The investment actions of State Board of Investment (SBI) external stable asset manager will be governed and evaluated using the following guidelines:

1. INVESTMENT OBJECTIVES

The Manager's portfolio is expected to:

- preserve principal
- provide adequate liquidity for inter-fund transfers and withdrawals
- achieve market returns over the benchmark while controlling investment return volatility within acceptable limits

The Manager is expected to deliver cumulative returns in excess of the returns of the benchmark, over time, net of fees and expenses.

2. BENCHMARKS

The Manager's portfolio is compared to the average yield of the rolling three-year Constant Maturity Treasury (CMT) security plus 45 basis points.

The Manager's portfolio will maintain a minimum average credit quality rating of AA for contract issues and AA- for securities underlying alternative investment contracts.

3. LEVERAGE

The Manager may not leverage the account at any time.

3. 4. ACCEPTABLE INVESTMENTS

The Manager may trade high quality fixed income securities, cash equivalents and investment contracts that have a stated maturity and that satisfy the following constraints and criteria:

(a) Guaranteed Investment Contracts/Bank Investment Contracts: Investment contracts issued by banks or insurance companies must be from a financial institution that has at the time of issuance a credit rating of at least AA- with Standard & Poor's or at least AA3 with Moody's, and the contract may have a maturity of no more than five years.

(b) Separate Account Contracts: Separate account contracts issued by insurance companies, in which the assets are held in a separate account of the issuer and are protected from other creditors of the company must be issued by an insurance company on the Manager's approved list at the time of issuance. The maturity of such contract may not exceed five years, and the underlying assets must satisfy the provisions of *Minnesota Statutes* 11A.24 and the criteria described elsewhere in this section.

(c) Security-Backed Investment Contracts: Security-backed investment contracts (wrappers) must provide benefit responsiveness, be issued by financial institutions or other corporations that are rated at least A+ and have an average maturity of no more than seven years. Fixed income securities purchased by the Manager which underlie these contracts must be rated AAA or better if a single security is used or must have an average portfolio rating of AA- or higher for multiple security portfolios. All securities must individually satisfy the provisions of Minnesota Statutes, section 11A.24 and the criteria outlined under "Acceptable Underlying Assets."

(d) Acceptable Underlying Assets of security-backed investment contracts are:

(1) Treasury Securities.
(2) Agency Obligations, including mortgage pass-through securities and mortgage-backed securities backed by U.S. agencies but not including interest-only, principal-only, or inverse floater instruments.
(3) Asset Backed Securities rated in the highest two rating categories.
(4) Other Fixed Income Securities must be rated A or better and be publicly traded, or AAA if used in a single security contract.

(e) Short-Term Investments with maturities no longer than twelve months must comply with the provisions of *Minnesota Statutes*, section 11A.24, subdivision 4.

(f) The Manager may hold units of the Wells Fargo Stable Return Fund for EBT (Stable Return Fund) up to a maximum of 25 percent of the portfolio. The Stable Return Fund should serve as a buffer fund to provide liquidity for participant withdrawals and contributions. Cash equivalents (short-term investments) should be minimal and should not exceed 3 percent of the portfolio.

(g) The Manager may not invest in evergreen investment contracts that have no fixed maturity nor in actively managed security-backed investment contracts that are actively managed by another manager.

~~4.~~ 5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines established in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

~~5.~~ 6. PORTFOLIO CONSIDERATIONS

(a) Credit, Risk and Diversification

The average quality of the instruments held in the portfolio will be at least AA. The average quality of securities underlying security-backed contracts will be at least AA-. The Manager will use its internal credit review process to determine acceptable contract issuers. No more than 7.5 percent of the portfolio may be invested with or guaranteed by any one financial institution measured on the basis of net principal exposure to the institution.

(b) Weighted Average Maturity

The weighted average maturity of the total portfolio must be at least 2 years and no more than 3.5 years.

(c) Legal Review

The Manager will perform any needed legal review of investment contracts as part of its investment product review.

~~6.~~ 7. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the Manager Continuation Policy, within ~~twelve (12)~~ ten (10) business days after quarter-end. The commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, discuss all organizational changes affecting the management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the portfolio. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

~~7.~~ 8. ACCOUNT RECONCILIATION

The SBI's custodian bank will set book values for portfolio investments and such values will be used to measure performance of the SBI's portfolio. The Manager will provide all information requested by the SBI's custodian bank and will transmit values for its Stable Return Fund. The Manager agrees to accept the values established by the custodian. The Manager will review the custodian's values on a monthly basis and report any differences or discrepancies to the custodian. The Manager may appeal to the SBI if the Manager and the custodian cannot arrive at mutually agreeable values. At the end of the each quarter, the Manager will report to the SBI that the Manager agrees with the custodian's values for the quarter.

~~8.~~ 9. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~9.~~ 10. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time to ensure that the Manager is in compliance with Minnesota statutes and SBI policy. The Manager will be notified in advance of changes to these guidelines.

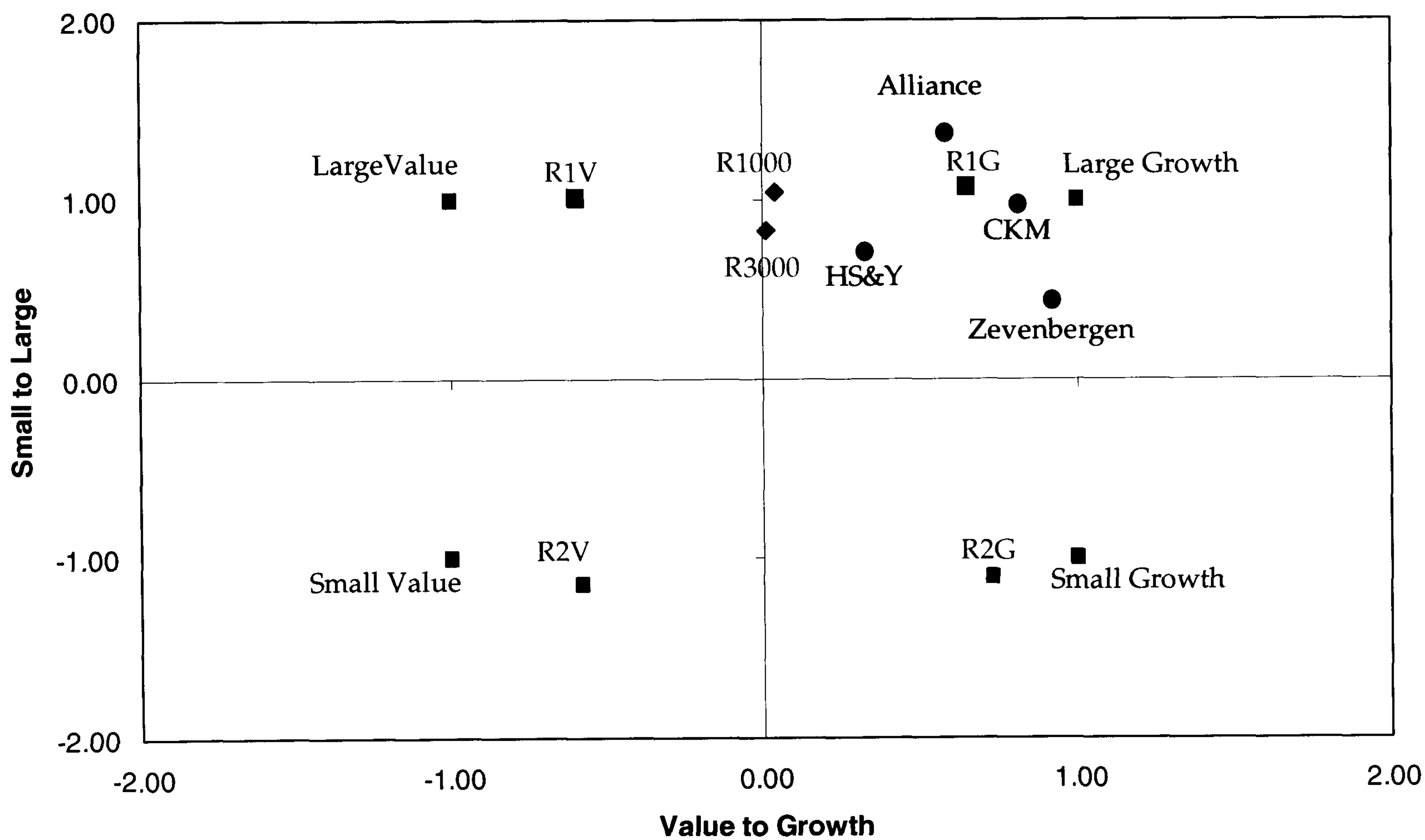
Revised ~~March 2003~~ June 2004

Executive Director/
Assistant Executive Director

____

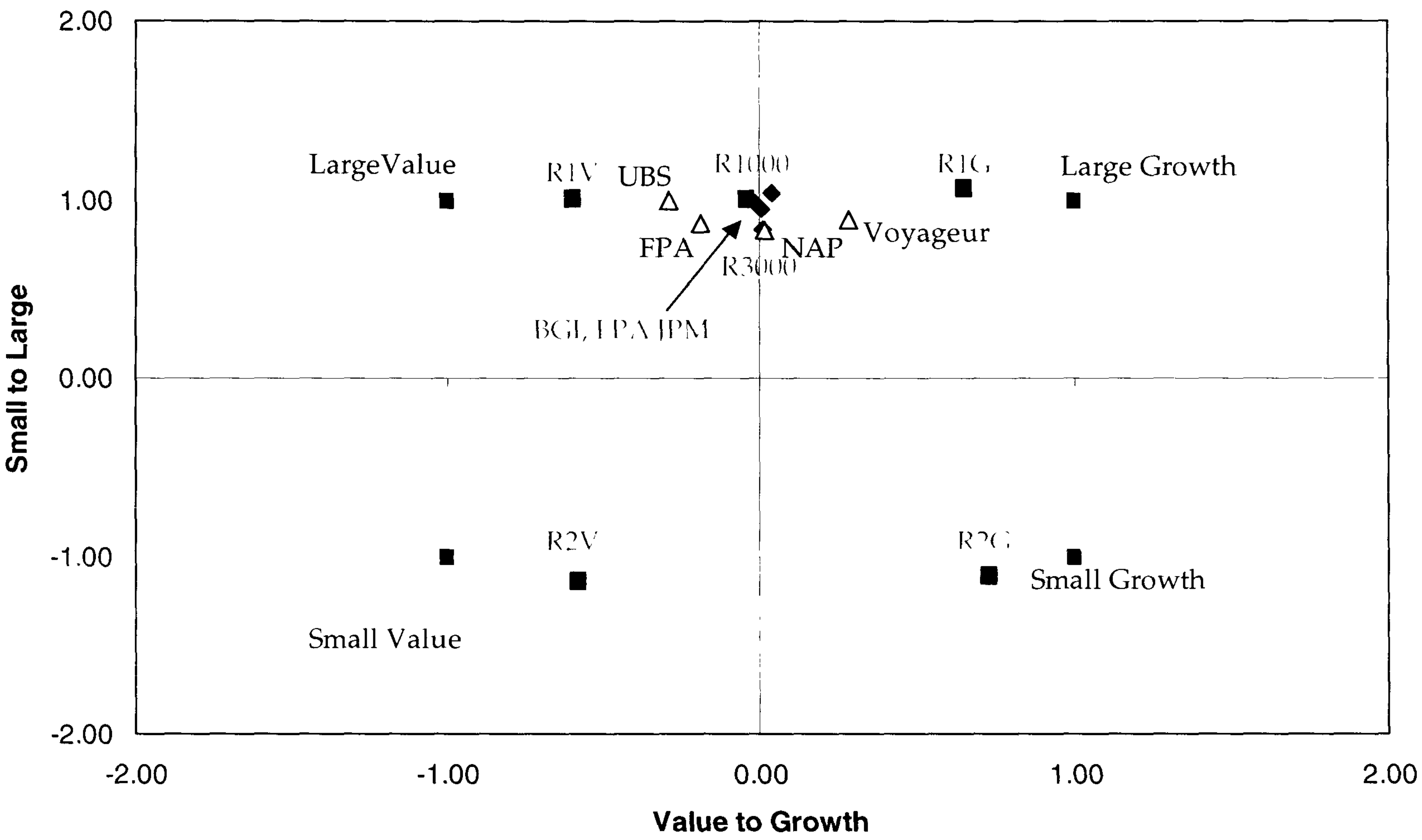
Date ______________________

MN SBI US Equity Active Managers
Large Growth Managers
Style Coordinates: March 2004



Richards & Tierney, Inc

MN SBI US Equity Active Managers
Large Cap Core Managers
Style Coordinates: March 2004

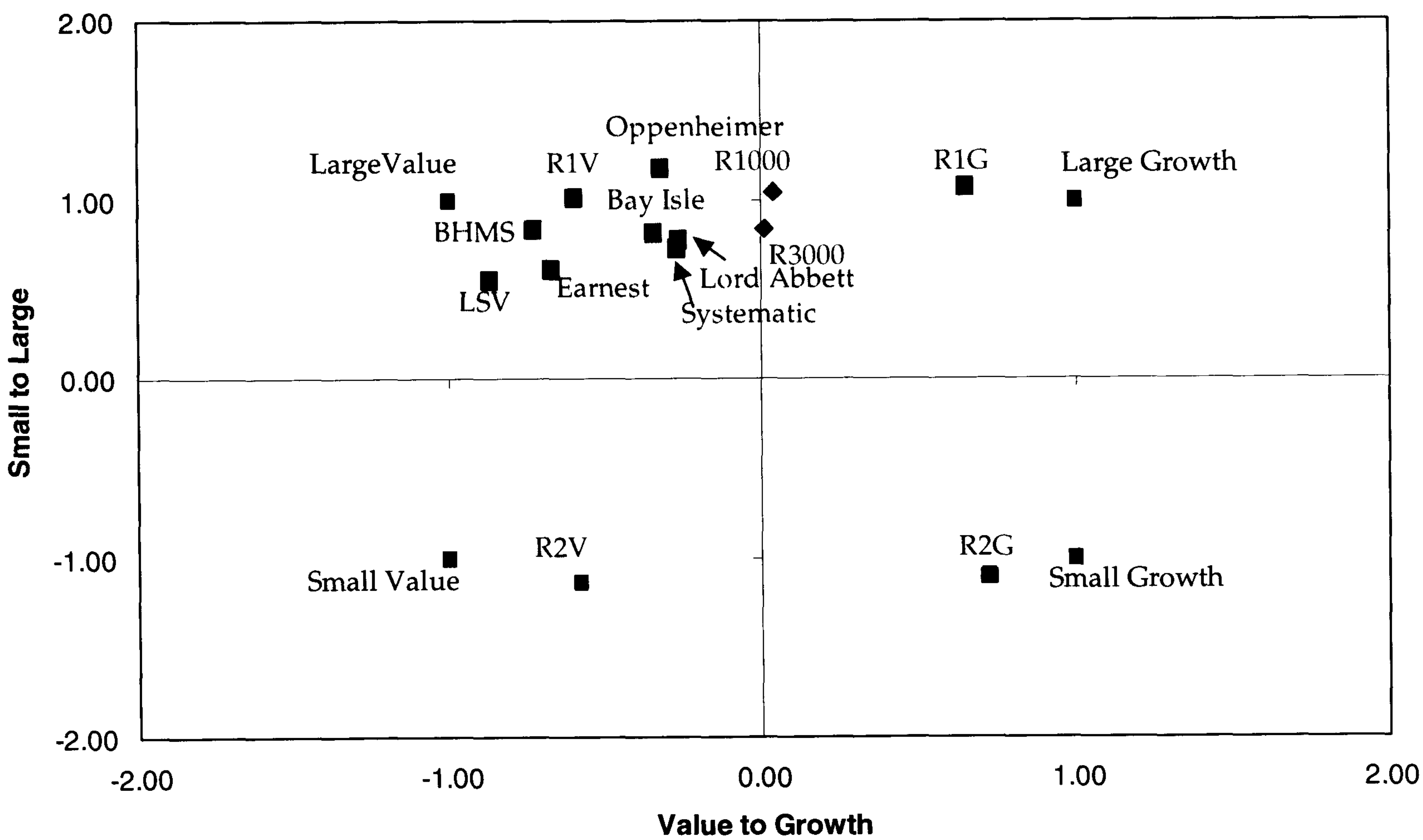


Richards & Tierney, Inc

MN SBI US Equity Active Managers

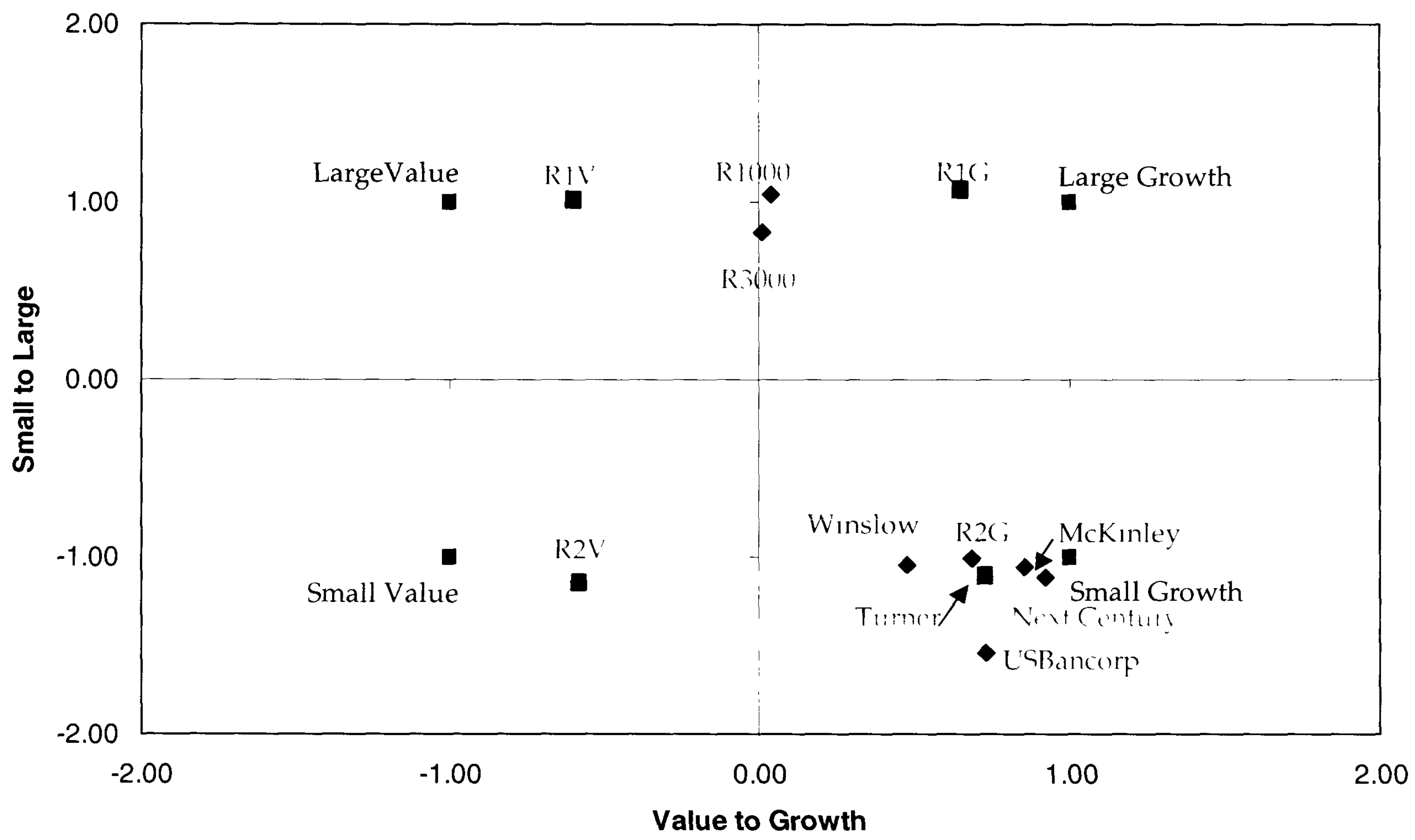
Large Value Managers

Style Coordinates: March 2004



Richards & Tierney, Inc

MN SBI US Equity Active Managers
Small Cap Growth Managers
Style Coordinates: March 2004

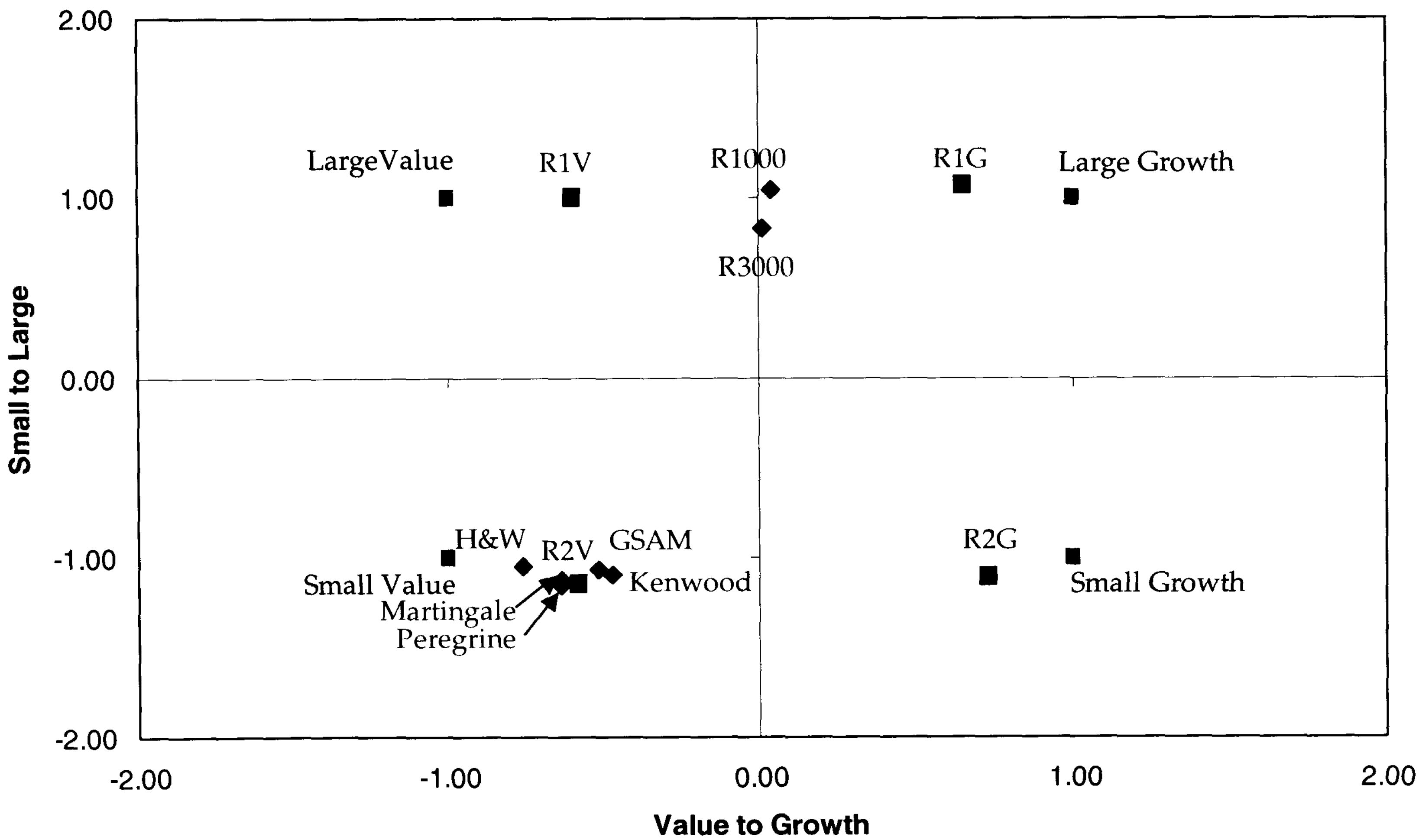


Richards & Tierney, Inc

MN SBI US Equity Active Managers

Small Cap Value Managers

Style Coordinates: March 2004



Richards & Tierney, Inc

STATE BOARD OF INVESTMENT

Domestic Equity Manager Evaluation Reports

First Quarter, 2004

Table of Contents

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending March, 2004
Versus Manager Benchmarks (1)

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception (2) Actual %	Since Inception (2) Bmk %	Market Value (in millions)	Pool %
ACTIVE MANAGERS												
Large Cap Core (R1000)												
Franklin Portfolio	2 4	1 9	43 2	43 4	0 8	4 7	3 4	3 7	12 1	12 0	$662 2	3 5%
New Amsterdam Partners	3 3	1 9	43 1	44 6	5 5	7 5	8 0	8 5	14 8	14 3	$395 0	2 1%
UBS Global	1 2	1 9	37 1	37 7	6 7	2 4	2 7	2 3	11 2	10 9	$711 8	3 8%
Voyageur-Chicago Equity	3 4	1 9	32 5	35 8	0 0	2 5			-3 8	-4 3	$44 0	0 2%
Aggregate	2 1	1 9										
Large Cap Growth (R1000 Growth)												
Alliance Capital	-0 1	0 8	23 5	31 9	-3 2	-1 0	-3 6	-2 7	15 2	11 4	$956 6	5 1%
Cohen, Klingenstein & Marks	2 2	0 8	44 6	40 6	-6 5	3 3	-5 7	0 5	10 5	11 9	$604 1	3 2%
Holt-Smith & Yates	1 2	0 8	31 0	37 1	0 1	6 7			-5 3	2 5	$41 3	0 2%
Zevenbergen Capital	2 4	0 8	49 1	33 9	-0 9	1 2	-7 3	3 7	10 4	13 5	$129 6	0 7%
Aggregate	0 9	0 8										
Large Cap Value (R1000 Value)												
Bay Isle Financial	2 2	3 0	35 7	41 6	-1 7	4 8			-1 8	3 7	$46 7	0 2%
Earnest Partners	4 2	3 0	41 2	51 3	5 4	14 6			1 4	14 1	$53 0	0 3%
Oppenheimer	1 6	3 0	37 3	42 0	3 1	1 1	4 3	3 5	13 5	12 4	$697 9	3 7%
Aggregate	2 2	3 0										
Small Cap Growth (R2000 Growth)												
McKinley Capital	7 3	5 6							7 3	5 6	$135 4	0 7%
Next Century Growth	0 1	5 6	56 1	60 7	2 2	10 6			-12 3	-3 9	$30 9	0 2%
Turner Investment Partners	3 5	5 6							3 5	5 6	$131 5	0 7%
US Bancorp Asset Mgmt	2 2	5 6							2 2	5 6	$48 8	0 3%
Winslow-Small Cap	2 1	5 6	47 7	67 1	6 9	11 6			-3 2	-0 1	$130 5	0 7%
Aggregate	3 7	5 6										
Small Cap Value (R2000 Value)												
AEAM/Kenwood	9 2	6 9							9 2	6 9	$45 7	0 2%
Goldman Sachs	4 1	6 9							4 1	6 9	$97 4	0 5%
Hotchkis & Wiley	11 6	6 9							11.6	6 9	$104 4	0 6%
Martingale Asset Mgmt	10 2	6 9							10 2	6 9	$103 0	0 5%
Peregrine Capital Mgmt	4 9	6 9	64 5	63 5	16 1	19 9			19.2	21 4	$150 4	0 8%
Aggregate	7 4	6 9										
Active Mgr. Aggregate	2 3	2 5										

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending March, 2004
Versus Manager Benchmarks (1)

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception (2) Actual %	Since Inception (2) Bmk %	Market Value (in millions)	Pool %
SEMI-PASSIVE MANAGERS												
Barclays Global Investors	2.5	1.9	35.9	35.0	4.0	2.8	-0.5	-2.0	11.6	10.7	$2,457.5	13.0%
Franklin Portfolio	2.4	1.9	35.1	35.0	2.3	2.8	-2.0	-2.0	10.3	10.7	$1,770.4	9.4%
JP Morgan	2.4	1.9	36.1	35.0	1.9	2.8	-1.9	-2.0	10.9	10.7	$2,086.5	11.0%
Semi-Passive Aggregate (R1000)	2.4	1.9	35.8	35.0	2.9	2.8	-1.4	-2.0	11.0	10.7		
PASSIVE MANAGER (R3000)												
Barclays Global Investors	2.2	2.2	37.8	38.1	2.0	2.2	-0.1	-0.3	10.1	9.9	$6,375.7	33.7%
									Since 1/1/84			
Historical Aggregate (3)	**2.3**	**2.2**	**37.7**	**38.3**	**1.8**	**2.9**	**-0.6**	**0.0**	**11.8**	**12.1**	$18,901.7	100.0% *
SBI DE Asset Class Target (4)		2.2		38.1		2.2		-0.5		12.0		
Russell 3000		2.2		38.2		1.9		0.1		12.5		
Wilshire 5000		2.6		39.4		2.8		0.2		12.4		
Russell 1000		1.9		36.4		1.3		-0.6		12.8		
Russell 2000		6.3		63.8		10.9		9.7		10.4		

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

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

(3) Includes the performance of terminated managers

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

* Total Market Value and Pool % includes $891.5 million in transition to large capitalization value managers, which is not shown separately above

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

	YTD 3/31/04		2003		2002		2001		2000		1999	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
ACTIVE MANAGERS												
Large Cap Core (R1000)												
Franklin Portfolio	2.4	1.9	32.9	36.9	-25.4	-19.8	-6.6	-5.4	-1.6	0.3	26.2	16.3
New Amsterdam Partners	3.3	1.9	34.2	37.1	-17.5	-22.2	-3.3	3.7	15.0	3.1	15.0	32.1
UBS Global	1.2	1.9	30.7	30.8	-14.7	-20.6	5.2	-11.0	3.6	-1.0	-8.5	21.6
Voyageur-Chicago Equity	3.4	1.9	23.2	28.9	-20.6	-20.7	-19.4	-12.0				
Aggregate	2.1	1.9										
Large Cap Growth (R1000 Growth)												
Alliance Capital	-0.1	0.8	22.4	26.3	-26.8	-24.0	-13.7	-15.3	-13.7	-11.4	38.0	30.3
Cohen, Klingenstein & Marks	2.2	0.8	41.2	39.3	-35.0	-23.8	-25.0	-11.2	-6.0	-12.1	24.8	28.6
Holt-Smith & Yates	1.2	0.8	22.1	31.3	-28.0	-19.0	-1.7	4.6				
Zevenbergen Capital	2.4	0.8	49.3	31.3	-36.2	-24.2	-29.0	-3.2	-38.2	-16.6	94.3	56.6
Aggregate	0.9	0.8										
Large Cap Value (R1000 Value)												
Bay Isle Financial	2.2	3.0	23.3	32.1	-26.1	-17.2	-1.6	-5.9				
Earnest Partners	4.2	3.0	32.0	41.8	-18.1	-11.6	-0.4	11.5				
Oppenheimer	1.6	3.0	28.9	31.4	-15.5	-20.7	-7.0	-9.5	11.2	10.3	10.7	14.9
Aggregate	2.2	3.0										
Small Cap Growth (R2000 Growth)												
McKinley Capital	7.3	5.6										
Next Century Growth	0.1	5.6	50.7	48.5	-33.3	-27.8	-22.8	-5.5				
Turner Investment Partners	3.5	5.6										
US Bancorp Asset Mgmt	2.2	5.6										
Winslow-Small Cap	2.1	5.6	37.6	51.3	-25.0	-26.7	-6.1	4.6				
Aggregate	3.7	5.6										
Small Cap Value (R2000 Value)												
AEAM/Kenwood	9.2	6.9										
Goldman Sachs	4.1	6.9										
Hotchkis & Wiley	11.6	6.9										
Martingale Asset Mgmt	10.2	6.9										
Peregrine Capital Mgmt	4.9	6.9	44.2	44.2	-8.1	-6.9	12.6	22.9				
Aggregate	7.4	6.9										
Active Mgr. Aggregate	2.3	2.5										

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

	YTD 3/31/04		2003		2002		2001		2000		1999	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
SEMI-PASSIVE MANAGERS												
Barclays Global Investors	2.5	1.9	30.0	28.5	-19.1	-19.7	-7.8	-9.7	-13.8	-16.3	14.1	16.3
Franklin Portfolio	2.4	1.9	26.9	28.5	-20.2	-19.7	-9.0	-9.7	-15.9	-16.3	12.9	16.3
JP Morgan	2.4	1.9	28.9	28.5	-21.8	-19.7	-8.7	-9.7	-13.6	-16.3	14.0	16.3
Semi-Passive Aggregate (R1000)	2.4	1.9	28.8	28.5	-20.3	-19.7	-8.5	-9.7	-14.4	-16.3	13.7	16.3
PASSIVE MANAGER (R3000)												
Barclays Global Investors	2.2	2.2	30.9	31.2	-21.4	-21.5	-11.8	-11.7	-9.8	-11.0	23.3	23.6
Historical Aggregate (2)	**2.3**	**2.2**	**31.0**	**31.4**	**-22.4**	**-21.1**	**-11.1**	**-9.9**	**-11.0**	**-10.7**	**21.0**	**21.3**
SBI DE Asset Class Target (3)		2.2		31.2		-21.5		-11.7		-10.8		22.2
Russell 3000		2.2		31.1		-21.5		-11.5		-7.5		20.9
Wilshire 5000		2.6		31.6		-20.9		-11.0		-10.9		23.6
Russell 1000		1.9		29.9		-21.7		-12.5		-7.8		20.9
Russell 2000		6.3		47.3		-20.5		2.5		-3.0		21.3

(1) Active and Emerging Manager benchmarks are Russell Style Indexes beginning 10/1/03, and were custom benchmarks prior to 10/1/03.
(2) Includes the performance of terminated managers
(3) The Domestic Equity Asset Class Target is the Russell 3000 Index effective 10/1/03
From 7/1/9 to 9/30/03, it was the Wilshire 5000 Investable Index.
From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments
Prior to 11/1/93, the Wilshire 5000 was adjusted to reflect SBI mandated restrictions, which included liquor and tobacco, American Home Products and South Africa.

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

COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending March, 2004
Performance versus Russell Style Benchmarks for All Periods

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
LARGE CAP										
Russell 1000 Core										
Franklin Portfolio	2.4	1.9	43.2	36.4	0.8	1.3	3.4	-0.6	12.1	11.9
New Amsterdam Partners (2)	3.3	1.9	43.1	44.0	5.5	7.5	8.0	7.4	14.8	12.6
UBS Global	1.2	1.9	37.1	36.4	6.7	1.3	2.7	-0.6	11.2	10.9
Voyageur-Chicago Equity	3.4	1.9	32.5	36.4	0.0	1.3			-3.8	-4.8
Aggregate	2.1	1.9								
Russell 1000 Growth										
Alliance Capital	-0.1	0.8	23.5	32.2	-3.2	-1.7	-3.6	-6.1	15.2	11.4
Cohen, Klingenstein & Marks	2.2	0.8	44.6	32.2	-6.5	-1.7	-5.7	-6.1	10.5	9.8
Holt-Smith & Yates	1.2	0.8	31.0	32.2	0.1	-1.7			-5.3	-14.4
Zevenbergen Capital	2.4	0.8	49.1	32.2	-0.9	-1.7	-7.3	-6.1	10.4	9.8
Aggregate	0.9	0.8								
Russell 1000 Value										
Bay Isle Financial	2.2	3.0	35.7	40.8	-1.7	4.3			-1.8	4.8
Earnest Partners	4.2	3.0	41.2	40.8	5.4	4.3			1.4	4.8
Oppenheimer	1.6	3.0	37.3	40.8	3.1	4.3	4.3	3.9	13.5	11.8
Aggregate	2.2	3.0								
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	7.3	5.6							7.3	5.6
Next Century Growth	0.1	5.6	56.1	63.2	2.2	5.4			-12.3	-7.0
Turner Investment Partners	3.5	5.6							3.5	5.6
US Bancorp Asset Mgmt	2.2	5.6							2.2	5.6
Winslow-Small Cap	2.1	5.6	47.7	63.2	6.9	5.4			-3.2	-7.0
Aggregate	3.7	5.6								
Russell 2000 Value										
AEAM/Kenwood	9.2	6.9							9.2	6.9
Goldman Sachs	4.1	6.9							4.1	6.9
Hotchkis & Wiley	11.6	6.9							11.6	6.9
Martingale Asset Mgmt	10.2	6.9							10.2	6.9
Peregrine Capital	4.9	6.9	64.5	64.5	16.1	16.0			19.2	17.5
Aggregate	7.4	6.9								

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

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

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

	YTD 3/31/04		2003		2002		2001		2000		1999	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
LARGE CAP												
Russell 1000 Core												
Franklin Portfolio	2.4	1.9	32.9	29.9	-25.4	-21.7	-6 6	-12.5	-1 6	-7.8	26.2	20 9
New Amsterdam Partners (2)	3.3	1.9	34.2	38 0	-17.5	-16 2	-3.3	-5.6	15.0	8.2	15.0	18.2
UBS Global	1.2	1.9	30.7	29.9	-14.7	-21.7	5.2	-12.5	3.6	-7.8	-8.5	20.9
Voyageur-Chicago Equity	3.4	1.9	23.2	29.9	-20 6	-21 7	-19.4	-12.5				
Aggregate	2.1	1.9										
Russell 1000 Growth												
Alliance Capital	-0.1	0.8	22.4	29.7	-26.8	-27.9	-13.7	-20.4	-13 7	-22.4	38.0	33.2
Cohen, Klingenstein & Marks	2.2	0.8	41.2	29.7	-35.0	-27.9	-25.0	-20.4	-6.0	-22.4	24.8	33.2
Holt-Smith & Yates	1.2	0.8	22.1	29.7	-28.0	-27.9	-1.7	-20.4				
Zevenbergen Capital	2.4	0.8	49.3	29.7	-36.2	-27.9	-29.0	-20 4	-38.2	-22.4	94.3	33.2
Aggregate	0.9	0.8										
Russell 1000 Value												
Bay Isle Financial	2.2	3.0	23.3	30.0	-26.1	-15.5	-1.6	-5.6				
Earnest Partners	4.2	3.0	32.0	30.0	-18.1	-15.5	-0.4	-5.6				
Oppenheimer	1.6	3.0	28.9	30.0	-15.5	-15.5	-7.0	-5.6	11.2	7 0	10.7	7 3
Aggregate	2.2	3.0										
SMALL CAP												
Russell 2000 Growth												
McKinley Capital	7.3	5.6										
Next Century Growth	0 1	5.6	50.7	48.5	-33.3	-30.3	-22.8	-9.2				
Turner Investment Partners	3.5	5 6										
US Bancorp Asset Mgmt.	2.2	5.6										
Winslow-Small Cap	2.1	5.6	37.6	48.5	-25.0	-30.3	-6.1	-9 2				
Aggregate	3.7	5.6										
Russell 2000 Value												
AEAM/Kenwood	9.2	6.9										
Goldman Sachs	4.1	6.9										
Hotchkis & Wiley	11.6	6.9										
Martingale Asset Mgmt.	10.2	6.9										
Peregrine Capital	4.9	6.9	44.2	46.0	-8.1	-11.4	12.6	14.0				
Aggregate	7.4	6.9										

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

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

Large Cap Core (R1000)

Large Cap Core (R1000)

Table of Contents

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 2004

Portfolio Manager: John Cone **Assets Under Management: $662,197,589**

Investment Philosophy – Active Style

Franklin believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns. Franklin builds a portfolio by using a series of more than 30 integrated computer models that value a universe of 3500 stocks. Their models rank each security based on fundamental momentum, relative value, future cash flow, and supplementary models A composite ranking then provides one ranked list of securities reflecting relative attractiveness. Stocks that fall below the median ranking are sold and proceeds are reinvested in stocks from the top deciles in the ranking system Franklin uses the BARRA E3 risk model to monitor the portfolio's systematic risk and industry weightings, relative to the selected benchmark, to achieve a residual risk of 4 0 to 4 5 percent for the active portfolio.

Staff Comments

Overall sector allocation proved beneficial during the quarter An overweight position in the outperforming consumer durables sector coupled with strong stock selection proved advantageous Strong stock selection among consumer services & finance names also contributed to returns. Franklin indicated that beta and cash effects aided performance, as did tilts toward value, momentum, and a slight tilt toward smaller cap stocks.

Franklin outperformed both the Russell 1000 and the blended Manager benchmark for the year Sector tilts within energy and health care were the most successful Strong stock selection among health technology, communications and retail trade names proved positive.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	2.4%	1.9%	1.9%
Last 1 year	43 2	36 4	43.4
Last 2 years	-1 0	1.5	4 4
Last 3 years	0 8	1 3	4.7
Last 4 years	-1 5	-5 4	0 9
Last 5 years	3 4	-0.6	3 7
Since Inception (4/89)	12 1	11 9	12.0

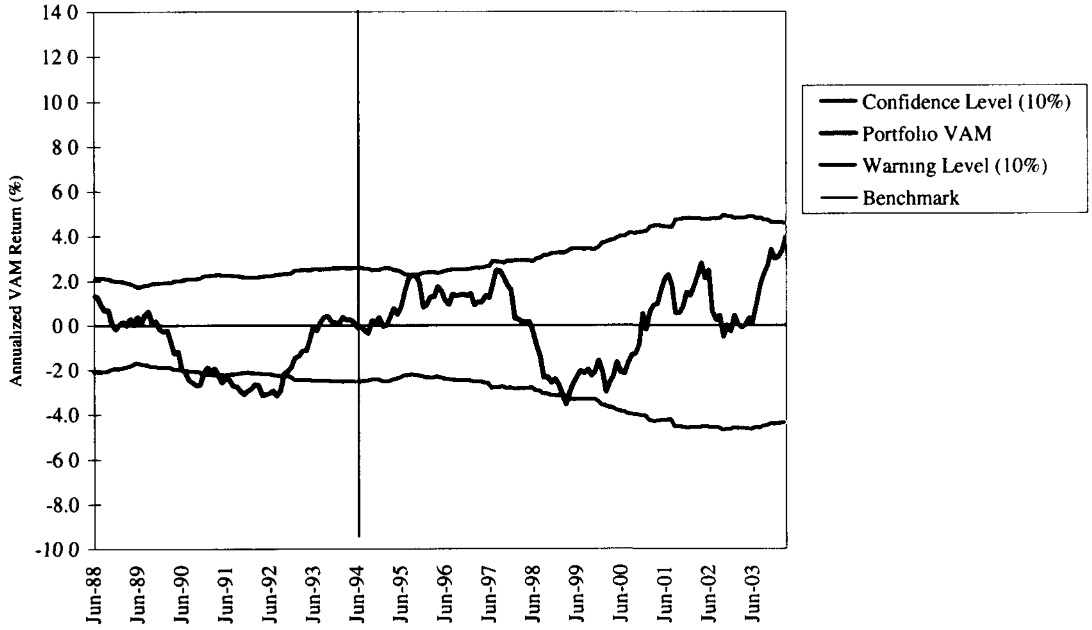
Calendar Year Returns

	Actual	Russell 1000 Core	Manager Benchmark
YTD 3/31/04	2 4%	1 9%	1 9%
2003	32 9	29.9	36 9
2002	-25.4	-21 7	-19.8
2001	-6 6	-12.5	-5.4
2000	-1.6	-7 8	0 3
1999	26 2	20 9	16.3

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 2004

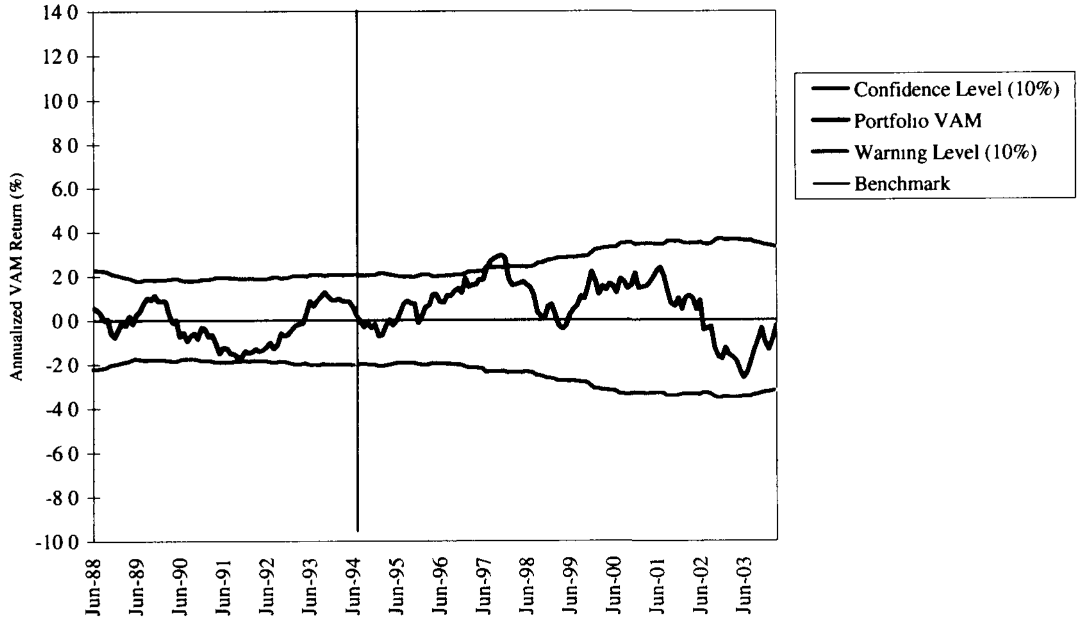
Portfolio Manager: John Cone **Assets Under Management: $662,197,589**

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



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

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



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

NEW AMSTERDAM PARTNERS
Periods Ending March, 2004

Portfolio Manager: Michelle Clayman **Assets Under Management: $394,975,451**

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

An overweight allocation to consumer durables coupled with strong stock selection contributed to performance Strong stock selection among finance and health technology names also added value. Individual holdings that outperformed included Becton Dickinson, Estee Lauder, and Pepsico.

The portfolio underperformed the Russell 1000 by 0 9 percentage points (ppt) for the year, and trailed the blended Manager benchmark by 1 5 ppt. For the year, overall sector allocation detracted from performance Weak overall stock selection compounded the negative impact

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell Index (1)	Manager Benchmark
Last Quarter	3 3%	1.9%	1.9%
Last 1 year	43.1	44 0	44.6
Last 2 years	6.1	6.3	2 9
Last 3 years	5 5	7.5	7 5
Last 4 years	3 7	2 3	2 0
Last 5 years	8 0	7 4	8.5
Since Inception (4/94)	14 8	12.6	14 3

Calendar Year Returns

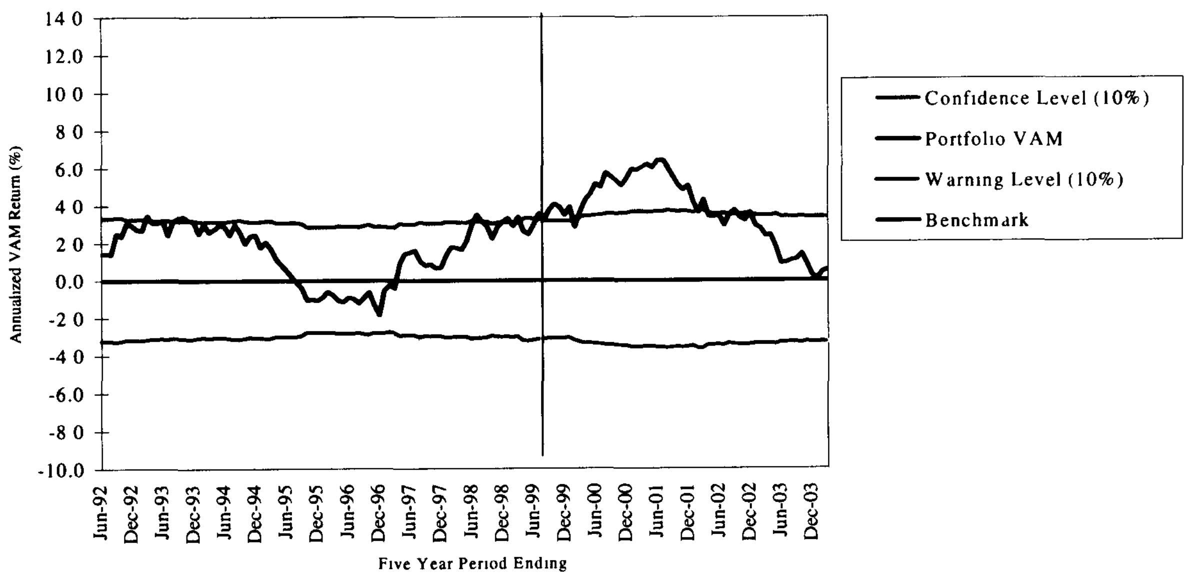
	Actual	Russell Index (1)	Manager Benchmark
YTD 3/31/04	3 3%	1 9%	1.9%
2003	34 2	38.0	37.1
2002	-17.5	-16 2	-22 2
2001	-3 3	-5.6	3 7
2000	15 0	8 2	3 1
1999	15 0	18 2	32 1

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

NEW AMSTERDAM PARTNERS
Periods Ending March, 2004

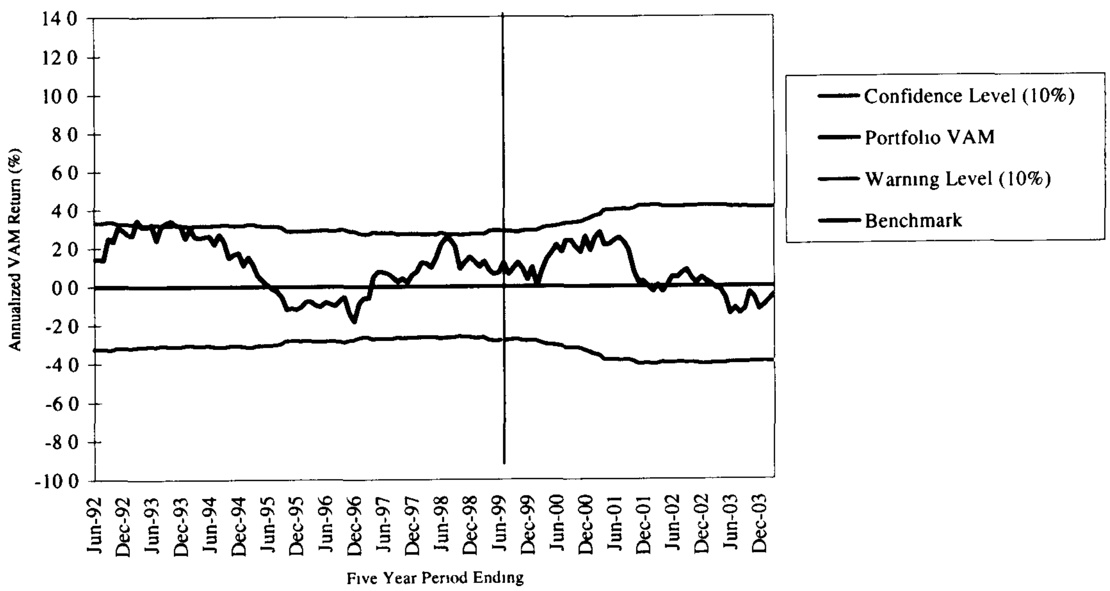
Portfolio Manager: Michelle Clayman **Assets Under Management: $394,975,451**

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



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

NEW AMSTERDAM PARTNERS
Rolling Five Year VAM vs. Manager Benchmark



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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending March, 2004

Portfolio Manager: John Leonard **Assets Under Management: $711,788,432**

Investment Philosophy

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

Staff Comments

The portfolio underperformed the Russell 1000 over the quarter by 75 basis points. This was due in part to negative stock selection within the communications, health technology, and consumer services sectors. Specific holdings that detracted from performance included Nextel, Wyeth, and Freddie Mac. The negative impact was partially offset by a tilt toward smaller sized companies, as well as exposure to companies with higher earnings yield.

The portfolio outperformed the Russell 1000 by 83 basis points for the year, but underperformed the blended Manager benchmark by 64 basis points. Stock selection negatively impacted the portfolio over the year, while industry allocation was positive.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	1.2%	1.9%	1.9%
Last 1 year	37.1	36.4	37.7
Last 2 years	4.7	1.5	2.2
Last 3 years	6.7	1.3	2.4
Last 4 years	7.6	-5.4	-3.6
Last 5 years	2.7	-0.6	2.3
Since Inception (7/93)	11.2	10.9	10.9

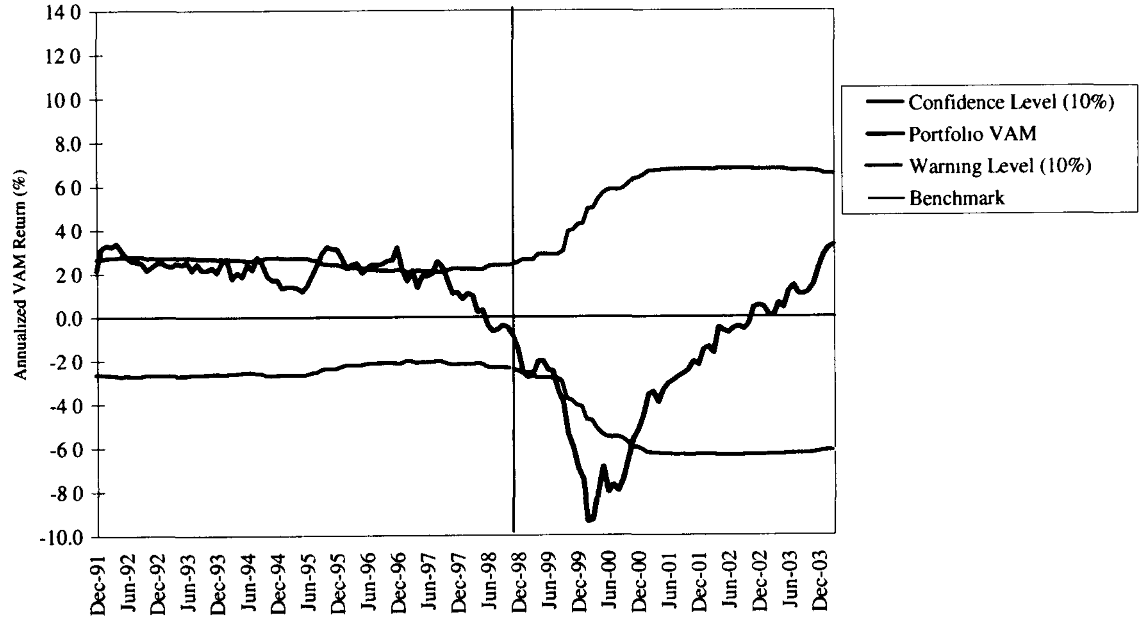
Calendar Year Returns

	Actual	Russell 1000 Core	Manager Benchmark
YTD 3/31/04	1.2%	1.9%	1.9%
2003	30.7	29.9	30.8
2002	-14.7	-21.7	-20.6
2001	5.2	-12.5	-11.0
2000	3.6	-7.8	-1.0
1999	-8.5	20.9	21.6

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending March, 2004

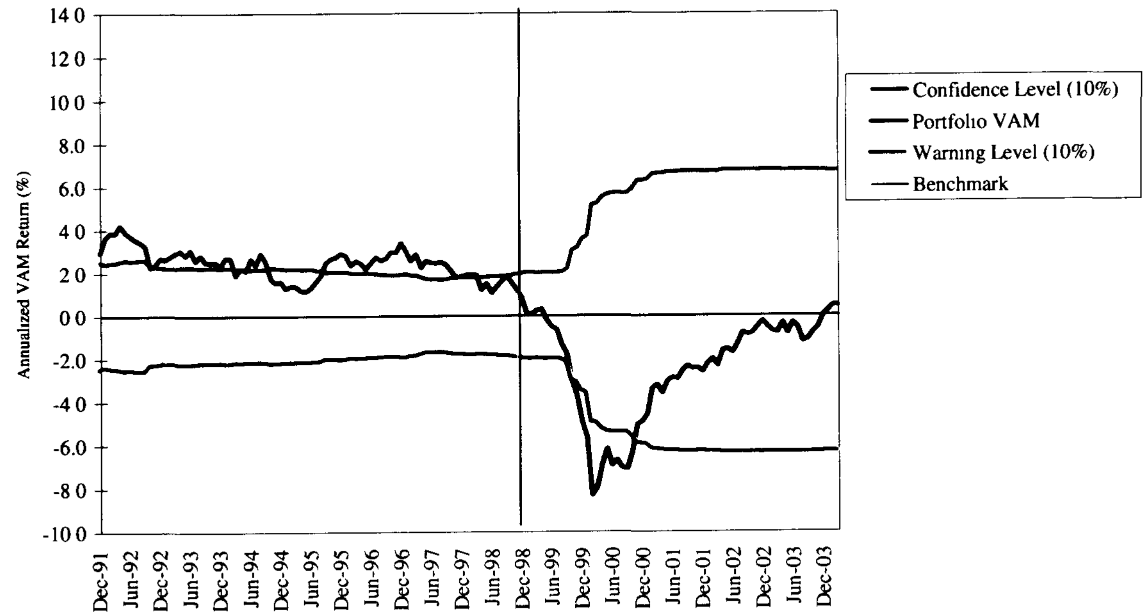
Portfolio Manager: John Leonard **Assets Under Management: $711,788,432**

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



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

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



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

VOYAGEUR ASSET MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Charles Henderson **Assets Under Management: $43,968,147**

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 outperformed the Russell 1000 by 1.5 percentage points (ppt) during the quarter. Overall stock selection was strong and outweighed the negative impact of overall sector allocation. Stock selection was particularly strong within consumer services. The portfolio's bias toward high quality stocks aided returns as these companies outperformed during the quarter

For the year, the portfolio underperformed the Russell 1000 by 3.9 ppt and the blended Manager benchmark by 3.3 ppt Overall stock selection was negative.. Stock selection was particularly weak within the health technology, finance, and retail trade sectors

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

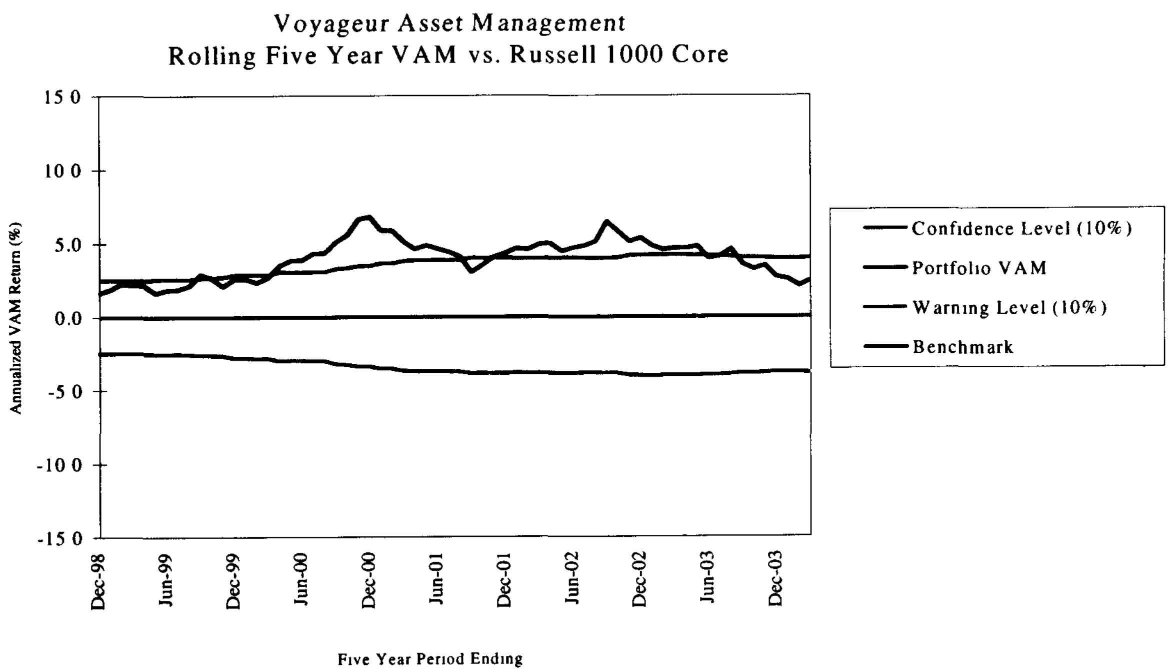
	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	3 4%	1 9%	1.9%
Last 1 year	32 5	36.4	35.8
Last 2 years	0 3	1.5	0 4
Last 3 years	0 0	1.3	2 5
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-3 8	-4 8	-4.3

Calendar Year Returns

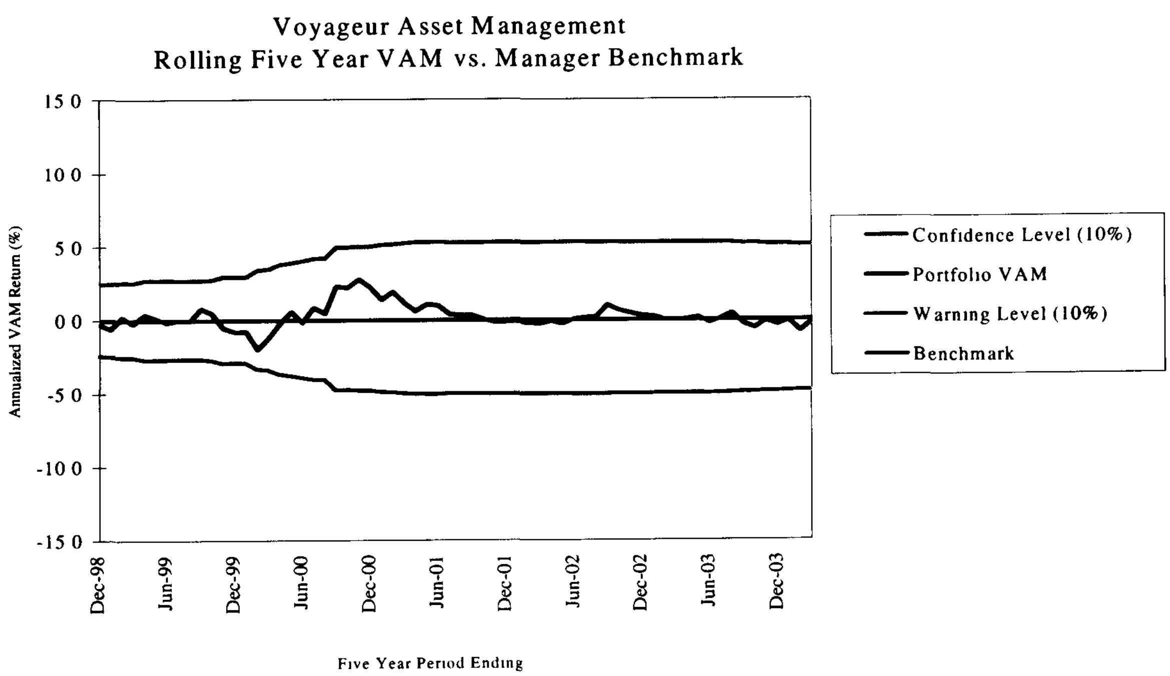
	Actual	Russell 1000 Core	Manager Benchmark
YTD 3/31/04	3 4%	1 9%	1.9%
2003	23 2	29.9	28.9
2002	-20.6	-21.7	-20 7
2001	-19 4	-12 5	-12.0
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

VOYAGEUR ASSET MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Charles Henderson **Assets Under Management: $43,968,147**



Note Shaded area includes performance prior to retention by the SBI



Note Shaded area includes performance prior to retention by the SBI

Large Cap Growth (R1000 Growth)

Large Cap Growth (R1000 Growth)

Table of Contents

ALLIANCE CAPITAL MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Jack Koltes | **Assets Under Management: $956,611,751**

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

Staff conducted a site visit and attended the morning research call and large cap growth team meetings. The investment process and portfolio performance were reviewed in detail. Staff met with the firm's CEO, who indicated that Alliance's role in the mutual fund scandal is being put to rest. The Florida state pension lawsuit remains an open item. Jim Reilly has assumed leadership of the growth teams in May 2003 and runs this operation out of Chicago. Alliance affirmed its intention to keep the Minneapolis office open.

The portfolio underperformed during the quarter and the year due in part to an overweight allocation and stock selection in the consumer discretionary sector.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

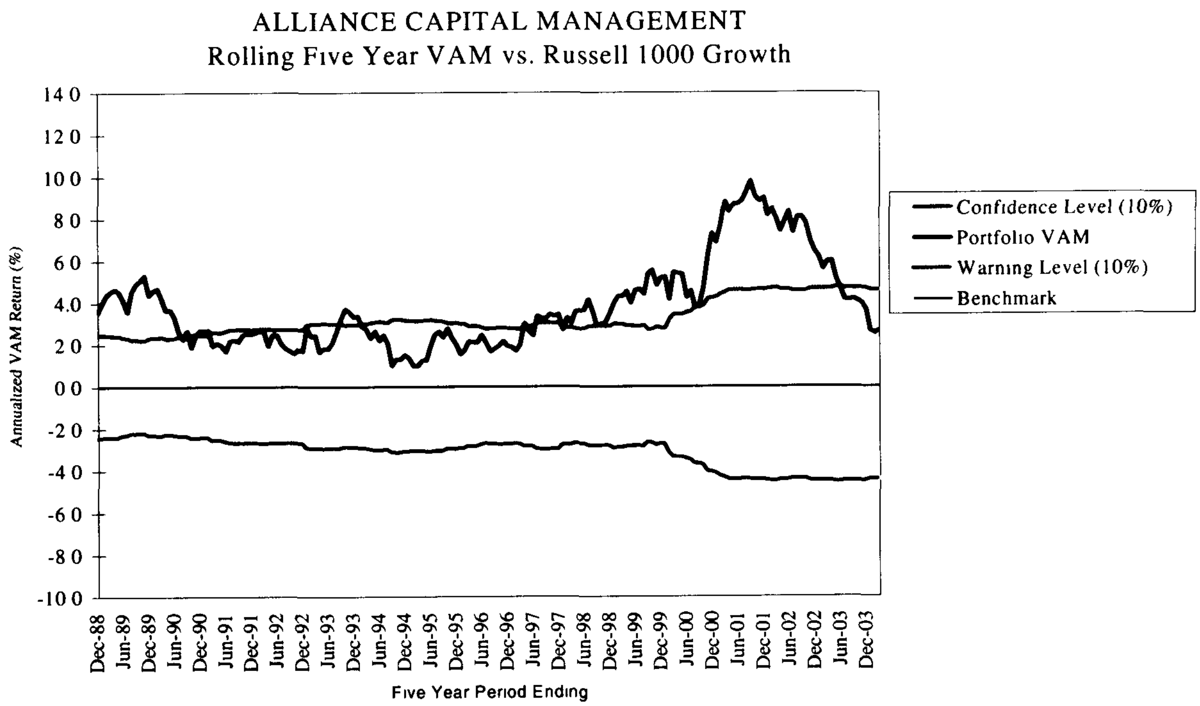
	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	-0.1%	0.8%	0.8%
Last 1 year	23.5	32.2	31.9
Last 2 years	-3.6	-1.6	-0.6
Last 3 years	-3.2	-1.7	-1.0
Last 4 years	-11.2	-14.1	-9.0
Last 5 years	-3.6	-6.1	-2.7
Since Inception (1/84)	15.2	11.4	11.4

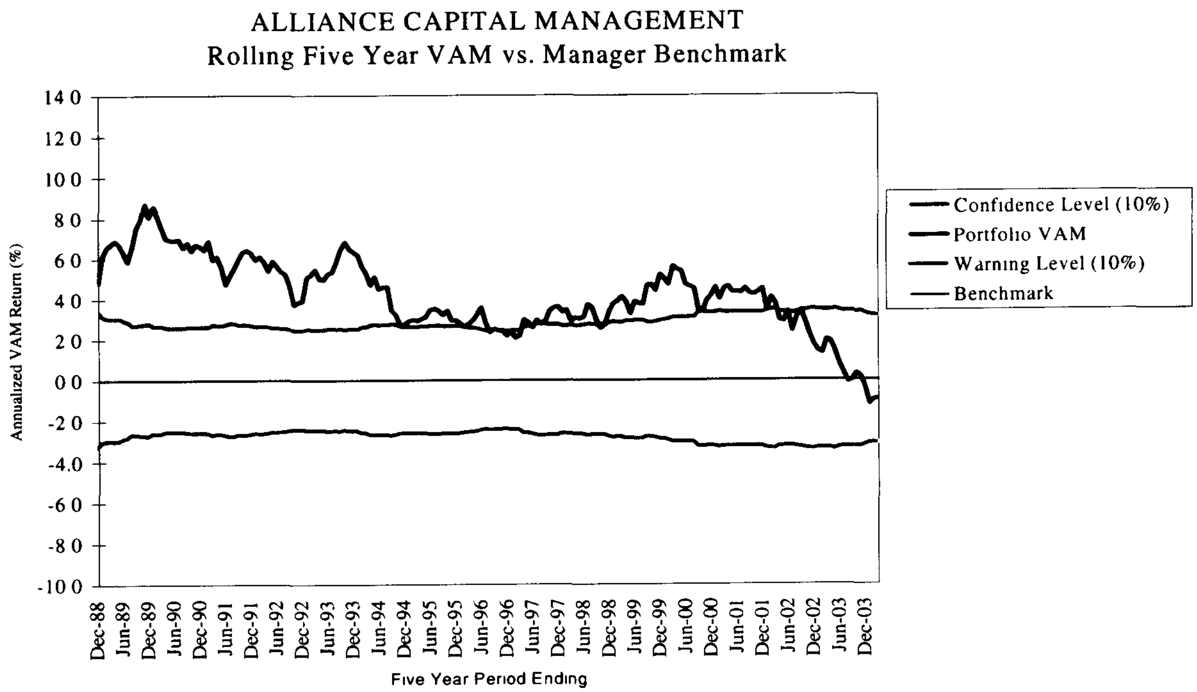
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
YTD 3/31/04	-0.1%	0.8%	0.8%
2003	22.4	29.7	26.3
2002	-26.8	-27.9	-24.0
2001	-13.7	-20.4	-15.3
2000	-13.7	-22.4	-11.4
1999	38.0	33.2	30.3

ALLIANCE CAPITAL MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Jack Koltes **Assets Under Management: $956,611,751**





COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending March, 2004

Portfolio Manager: George Cohen **Assets Under Management: $604,087,170**

Investment Philosophy

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

Staff Comments

The portfolio outperformed the Russell 1000 Growth index by 1 4 percentage points (ppt) during the quarter Overall strong stock selection outweighed the impact of overall negative sector allocation. Stock selection was particularly strong in technology services An overweight allocation to the finance sector coupled with strong stock selection contributed to performance

For the year, the portfolio outperformed the Russell 1000 Growth by 12.4 ppt Overweight allocations to electronic technology process industries, and consumer services contributed to performance; strong stock selection within each of these sectors enhanced the positive impact

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	2 2%	0 8%	0.8%
Last 1 year	44 6	32.2	40 6
Last 2 years	-1 2	-1 6	2 6
Last 3 years	-6 5	-1.7	3.3
Last 4 years	-10 1	-14 1	-6 9
Last 5 years	-5 7	-6 1	0.5
Since Inception (4/94)	10 5	9 8	11 9

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
YTD 3/31/04	2 2%	0 8%	0 8%
2003	41 2	29.7	39 3
2002	-35 0	-27.9	-23 8
2001	-25.0	-20 4	-11 2
2000	-6 0	-22 4	-12 1
1999	24.8	33 2	28 6

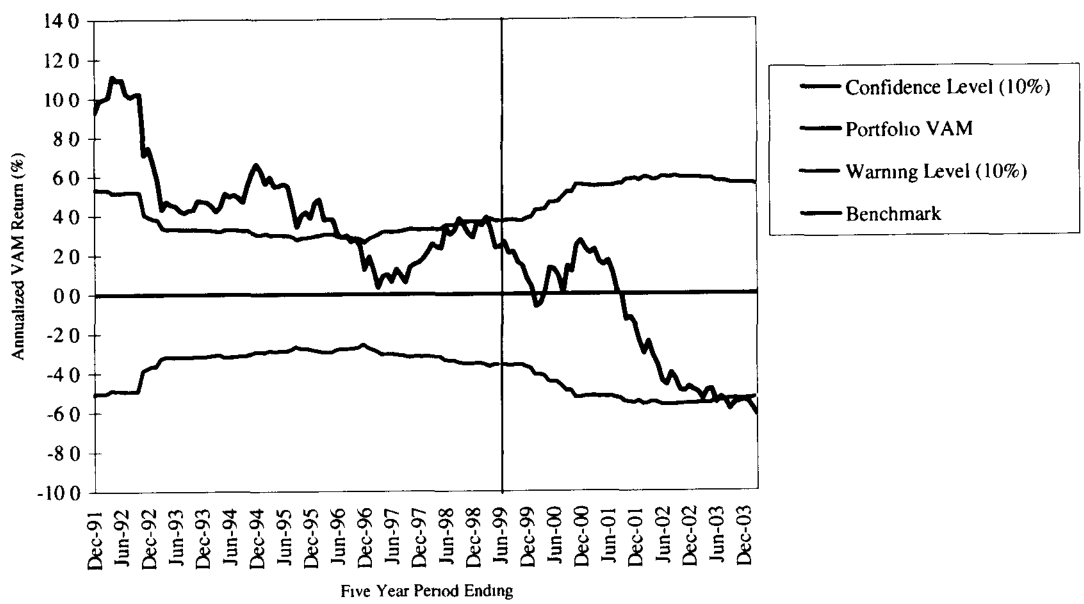
COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending March, 2004

Portfolio Manager: George Cohen **Assets Under Management: $604,087,170**

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

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

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



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

HOLT-SMITH & YATES ADVISORS
Periods Ending March, 2004

Portfolio Manager: Kristin Yates **Assets Under Management: $41,306,464**

Investment Philosophy

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

Staff Comments

The portfolio outperformed the Russell 1000 Growth index by 0.4 percentage points (ppt) during the quarter. Strong stock selection among finance names contributed to returns An overweight allocation to health services, coupled with strong stock selection, proved beneficial An overweight position in retail trade holdings contributed to performance

For the year, the portfolio underperformed the Russell 1000 Growth by 1 2 ppt and the blended Manager benchmark by 6 1 ppt Overall stock selection detracted from performance, particularly among finance and distribution services companies A large cash position detracted from performance.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	1.2%	0 8%	0 8%
Last 1 year	31.0	32 2	37 1
Last 2 years	-3 9	-1.6	1 4
Last 3 years	0 1	-1 7	6 7
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-5 3	-14.4	2.5

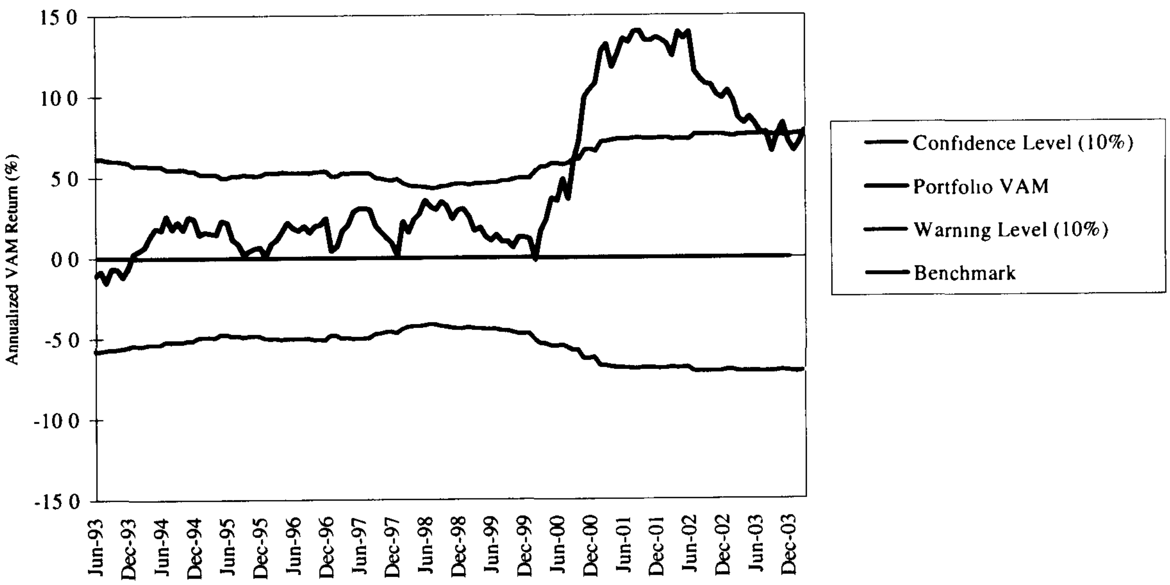
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
YTD 3/31/04	1 2%	0 8%	0 8%
2003	22.1	29 7	31.3
2002	-28.0	-27 9	-19.0
2001	-1 7	-20.4	4 6
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

HOLT-SMITH & YATES ADVISORS
Periods Ending March, 2004

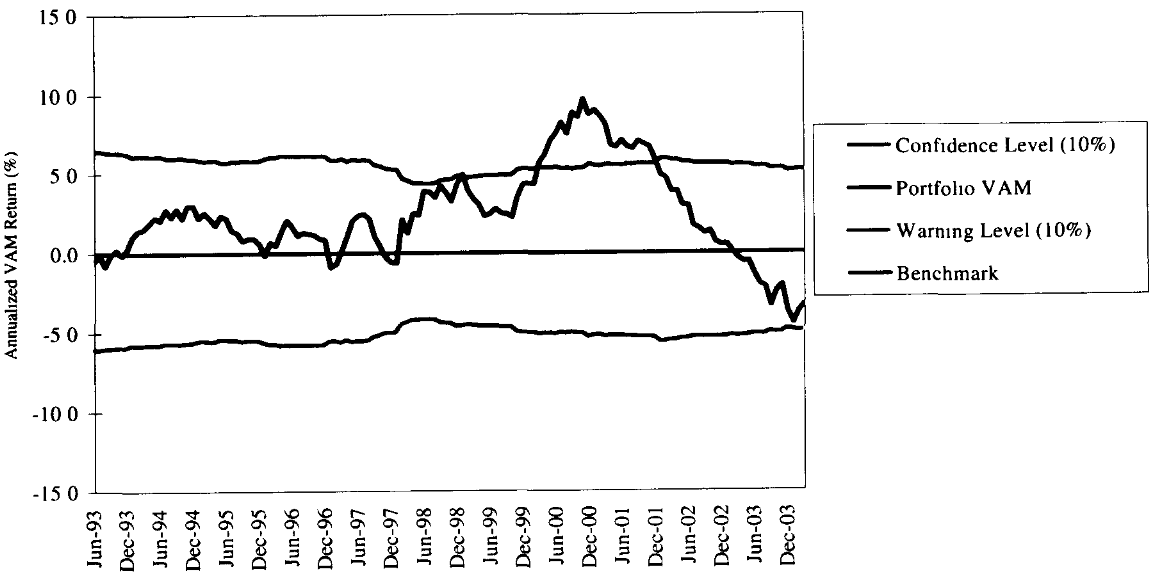
Portfolio Manager: Kristin Yates **Assets Under Management: $41,306,464**

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



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

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



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

ZEVENBERGEN CAPITAL INC.
Periods Ending March, 2004

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $129,566,727**

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

Staff conducted a site visit during the quarter, meeting with all three portfolio managers and the client services staff. The investment process was reviewed in detail. During February, the firm launched two mutual funds, incorporating the all-cap and small-mid cap strategies.

The portfolio outperformed the Russell 1000 Growth by 1.6 percentage points (ppt) during the quarter. Strong stock selection during the quarter, particularly in the technology services and health technology sectors, contributed to performance. For the year, the portfolio outperformed the Russell 1000 Growth by 16.9 ppt and the blended Manager benchmark by 15.2 ppt.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	2.4%	0.8%	0.8%
Last 1 year	49.1	32.2	33.9
Last 2 years	2.0	-1.6	0.9
Last 3 years	-0.9	-1.7	1.2
Last 4 years	-19.7	-14.1	-8.5
Last 5 years	-7.3	-6.1	3.7
Since Inception (4/94)	10.4	9.8	13.5

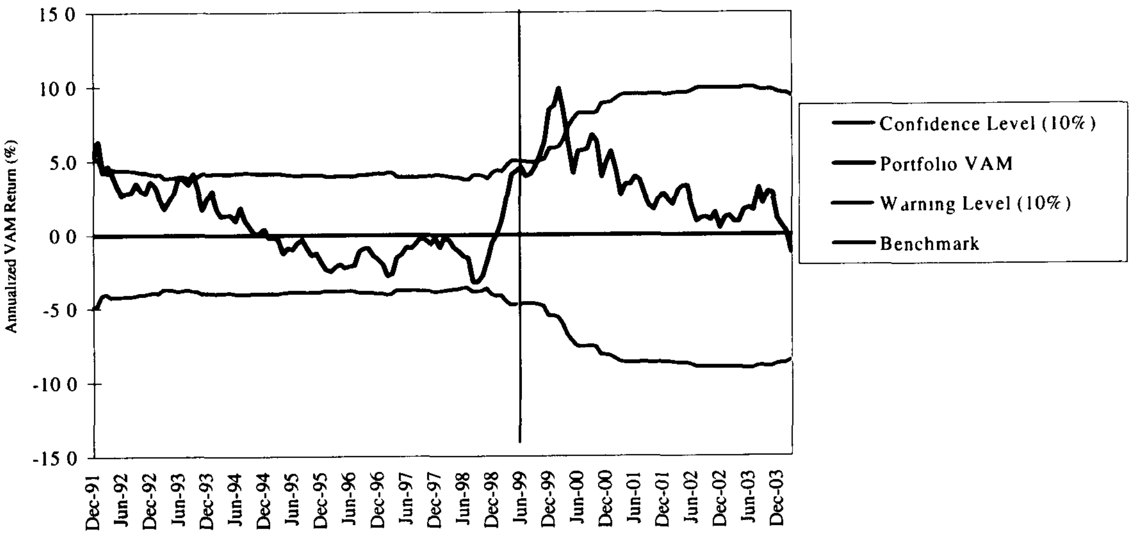
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
YTD 3/31/04	2.4%	0.8%	0.8%
2003	49.3	29.7	31.3
2002	-36.2	-27.9	-24.2
2001	-29.0	-20.4	-3.2
2000	-38.2	-22.4	-16.6
1999	94.3	33.2	56.6

ZEVENBERGEN CAPITAL INC.
Periods Ending March, 2004

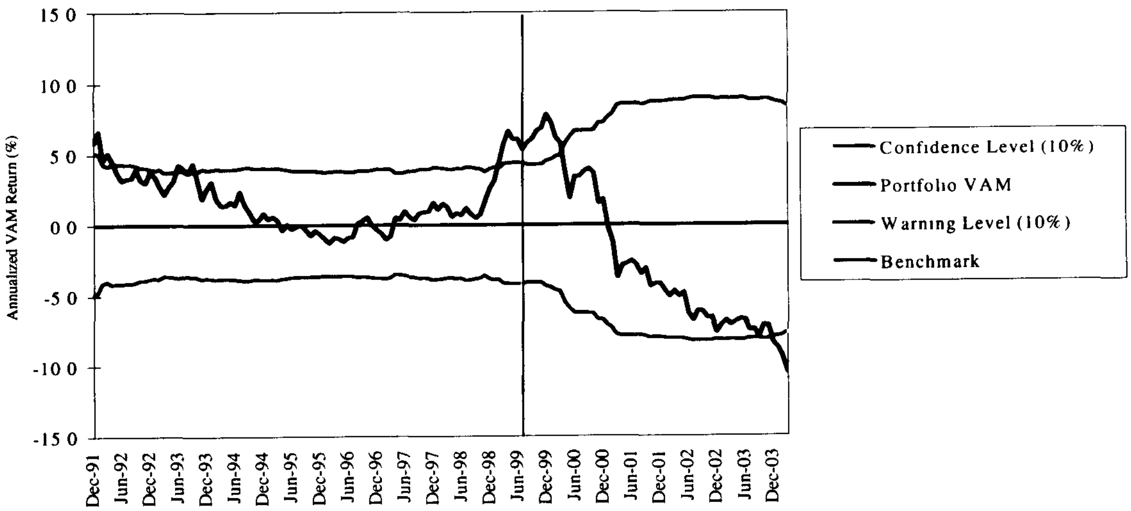
Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $129,566,727**

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



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

Zevenbergen Capital Management
Rolling Five Year VAM vs. Manager Benchmark



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

Large Cap Value (R1000) Value

Large Cap Value (R1000 Value)

Table of Contents

BAY ISLE FINANCIAL CORP.
Periods Ending March, 2004

Portfolio Manager: William Schaff | **Assets Under Management: $46,716,430**

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

Staff conducted a site visit, during which both portfolio managers addressed their performance.
Bay Isle manages a concentrated, deep value portfolio of companies that are misunderstood, turnaround situations, or suffering short-term concerns. These stocks did not perform well in 2002 when investors migrated to companies that offered more safety. It also did not work well in 2003 when an expanding economy lead investors to highly cyclical companies

Pending organizational changes include the divestiture of the high net worth business; assets under management will decrease from $1 2 billion to approximately $700 million This will allow the portfolio managers to focus on stock selection

Recommendation

Monitor closely to determine if investment process is still effective long term

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	2 2%	3 0%	3 0%
Last 1 year	35.7	40.8	41 6
Last 2 years	-4.5	4.3	4.3
Last 3 years	-1.7	4 3	4 8
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-1 8	4 8	3.7

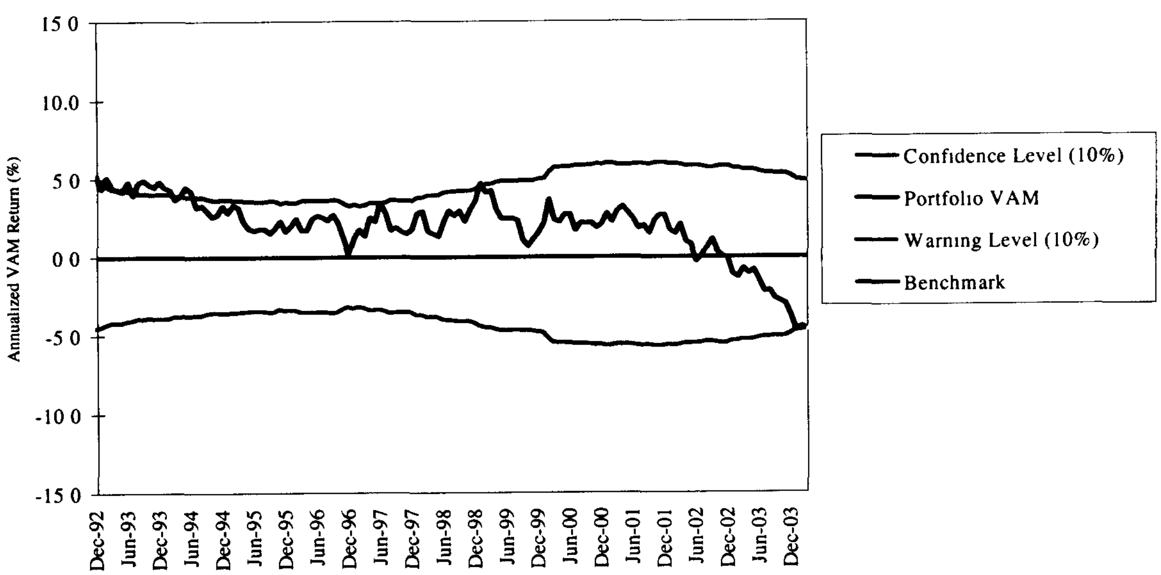
Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
YTD 3/31/04	2 2%	3 0%	3.0%
2003	23 3	30 0	32.1
2002	-26 1	-15 5	-17 2
2001	-1.6	-5 6	-5.9
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

BAY ISLE FINANCIAL CORP.
Periods Ending March, 2004

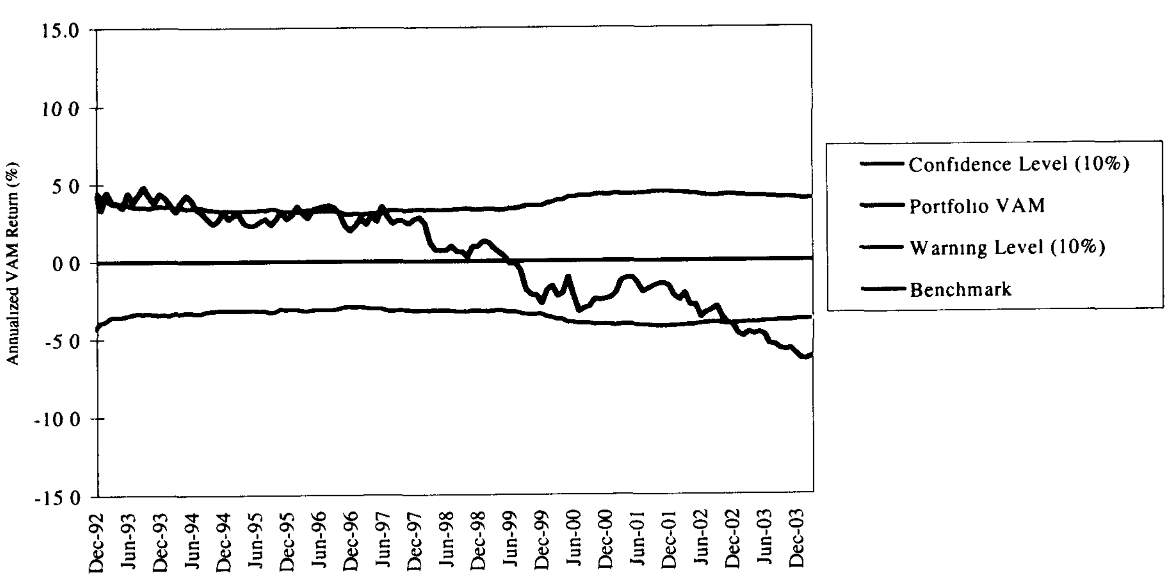
Portfolio Manager: William Schaff **Assets Under Management: $46,716,430**

Bay Isle Financial Management
Rolling Five Year VAM vs. Russell 1000 Value



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

Bay Isle Financial Management
Rolling Five Year VAM vs. Manager Benchmark



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

EARNEST PARTNERS, LLC
Periods Ending March, 2004

Portfolio Manager: Paul Viera | **Assets Under Management: $52,978,482**

Investment Philosophy

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

Staff Comments

The portfolio outperformed the Russell 1000 Value by 1 2 percentage points (ppt) during the quarter Overall strong stock selection outweighed the negative impact of overall sector allocation. Stock selection was particularly strong in the consumer sectors. Two research analysts departed the firm during the quarter, and two investment professionals were hired.

For the year, the portfolio outperformed the Russell 1000 Value by 0 4 ppt, but underperformed the blended Manager benchmark by 10.1 ppt. Weak stock selection within the finance, health technology, and communications sectors detracted from performance.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

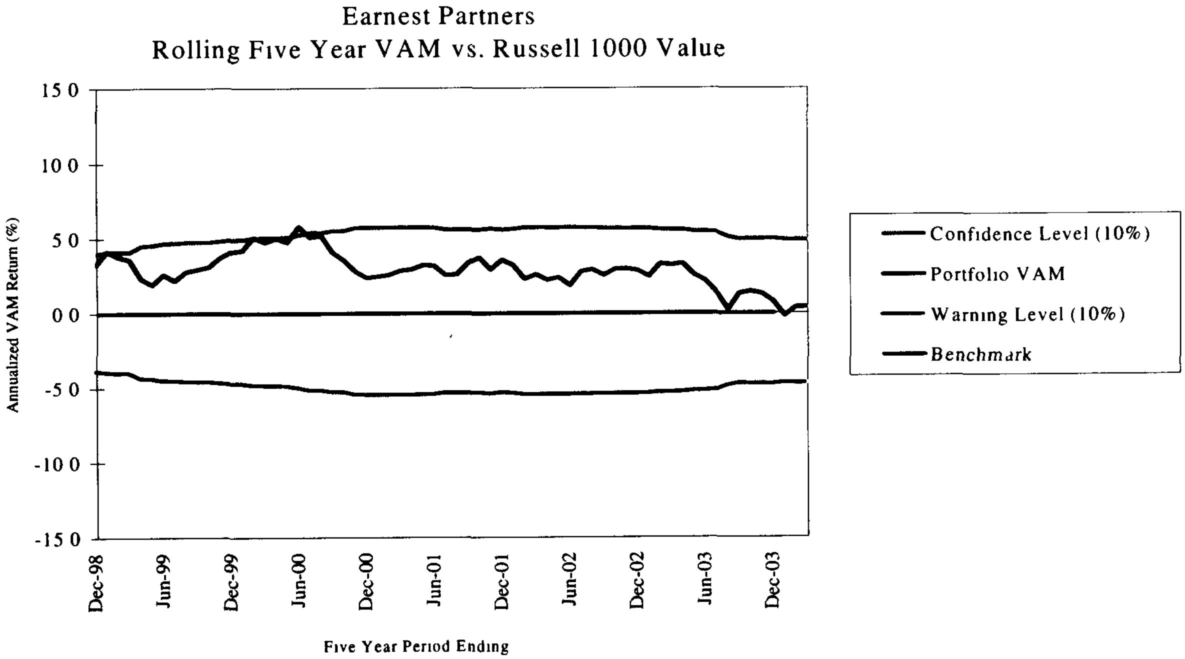
	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	4 2%	3.0%	3.0%
Last 1 year	41.2	40 8	51.3
Last 2 years	6 6	4 3	10.1
Last 3 years	5.4	4 3	14.6
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	1 4	4.8	14.1

Calendar Year Returns

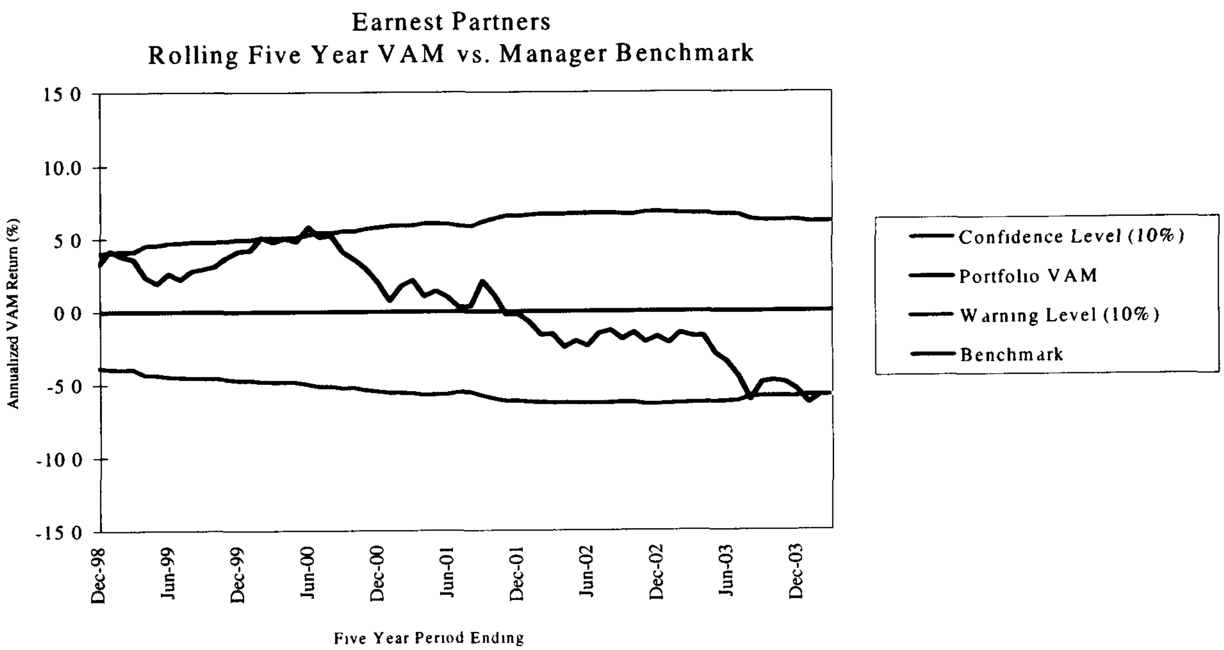
	Actual	Russell 1000 Value	Manager Benchmark
YTD 3/31/04	4 2%	3 0%	3 0%
2003	32 0	30.0	41 8
2002	-18 1	-15 5	-11.6
2001	-0 4	-5 6	11 5
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

EARNEST PARTNERS, LLC
Periods Ending March, 2004

Portfolio Manager: Paul Viera **Assets Under Management: $52,978,482**



Note Shaded area includes performance prior to retention by the SBI



Note Shaded area includes performance prior to retention by the SBI

OPPENHEIMER CAPITAL
Periods Ending March, 2004

Portfolio Manager: John Lindenthal **Assets Under Management: $697,926,466**

Investment Philosophy

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

Staff Comments

The portfolio underperformed the Russell 1000 Value by 1.4 percentage points (ppt) during the quarter Overall, sector allocation and stock selection both detracted from performance Stock selection was particularly weak in the retail trade and electronic technology sectors

For the year, the portfolio underperformed the Russell 1000 Value by 3 5 ppt and the blended Manager benchmark by 4.7 ppt Most of the underperformance was due to a large cash position Weak stock selection within the finance and consumer durables sectors also hindered returns.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	1 6%	3 0%	3.0%
Last 1 year	37 3	40 8	42.0
Last 2 years	4 9	4.3	2 3
Last 3 years	3 1	4 3	1.1
Last 4 years	3 1	3 3	0 5
Last 5 years	4.3	3.9	3 5
Since Inception (7/93)	13.5	11.8	12 4

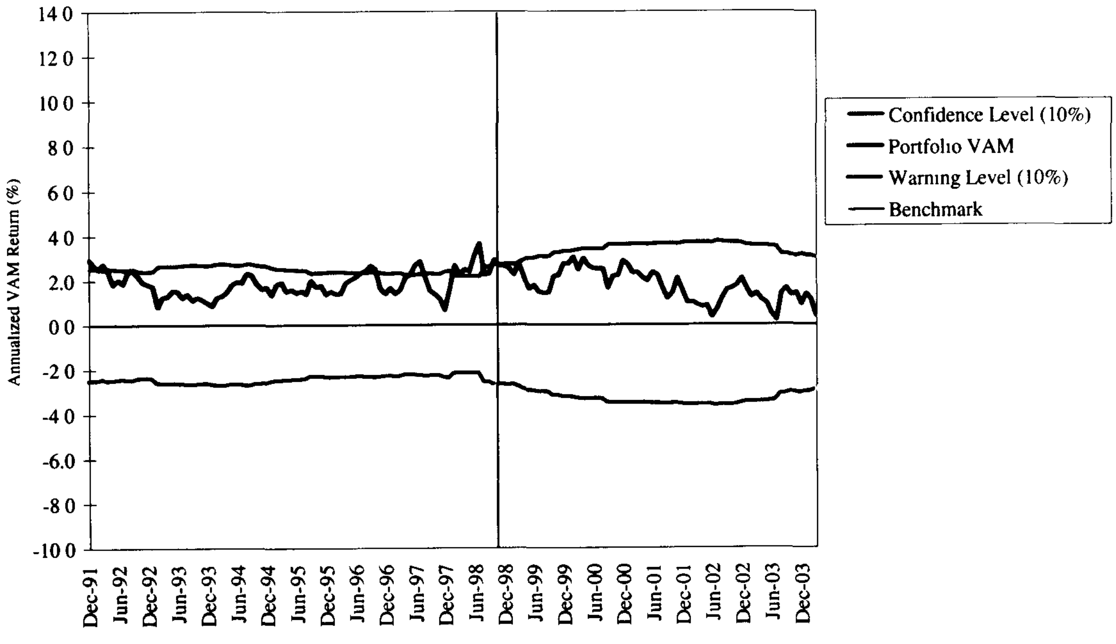
Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
YTD 3/31/04	1 6%	3 0%	3.0%
2003	28 9	30.0	31 4
2002	-15 5	-15 5	-20 7
2001	-7 0	-5 6	-9.5
2000	11 2	7 0	10 3
1999	10 7	7 3	14 9

OPPENHEIMER CAPITAL
Periods Ending March, 2004

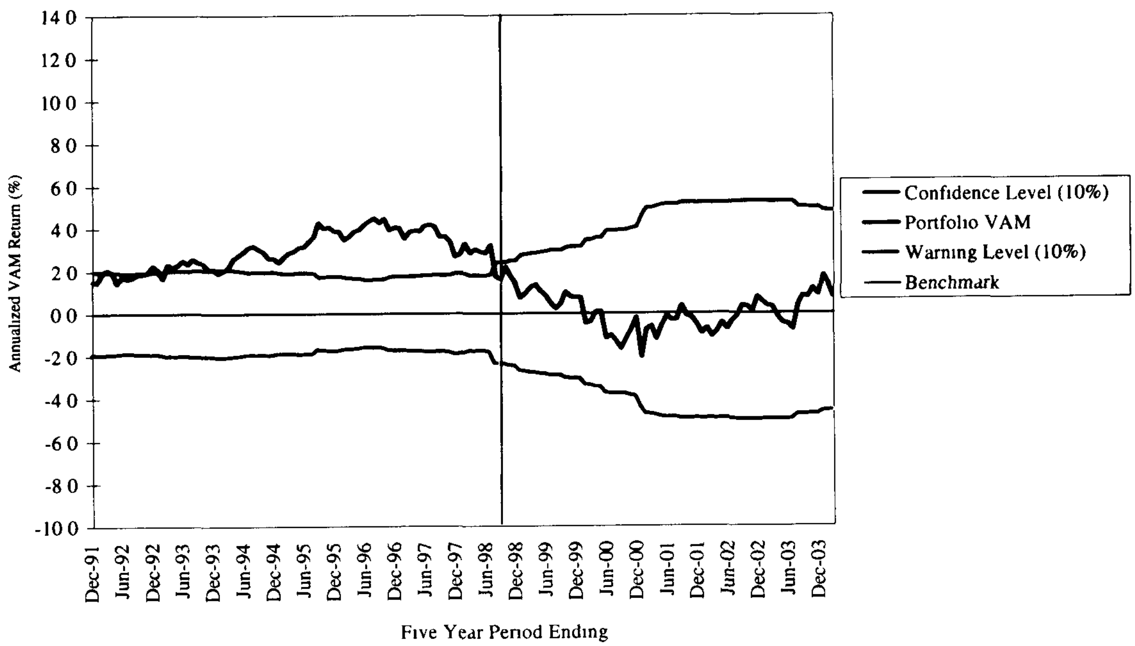
Portfolio Manager: John Lindenthal **Assets Under Management: $697,926,466**

OPPENHEIMER CAPITAL
Rolling Five Year VAM vs. Russell 1000 Value



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

OPPENHEIMER CAPITAL
Rolling Five Year VAM vs. Manager Benchmark



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

Small Cap Growth (R2000) Growth

Small Cap Growth (R2000 Growth)

Table of Contents

MCKINLEY CAPITAL MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $135,358,551**

Investment Philosophy

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

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

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	7 3%	5 6%	5.6%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	7 3	5 6	5 6

Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
YTD 3/31/04	7 3%	5 6%	5 6%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

Staff Comments

The portfolio outperformed the Russell 2000 Growth by 1.7 percentage points during the quarter Strong stock selection within the electronic technology and consumer services sectors positively impacted performance. An underweight allocation to technology services coupled with strong stock selection contributed to performance Individual holdings that contributed to performance included Sierra Wireless and Ask Jeeves

Recommendation

No action required

MCKINLEY CAPITAL MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $135,358,551**

VAM Graphs will be drawn for period ending 3/31/06.

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending March, 2004

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $30,906,477**

Investment Philosophy

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

Staff Comments

Staff conducted a site visit during the quarter. The investment process was reviewed in detail. The pending sale of Strong Capital Management, which owns 20% of Next Century Growth, has prompted organizational changes Specifically, trading is being brought in-house and is expected to be operating by the end of April One trader was hired. Back office services that were formerly purchased from Strong will now be handled internally Staff will monitor trading costs closely over the next few quarters to gauge the impact of the trading change. Both the small-mid cap and small cap products have closed.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

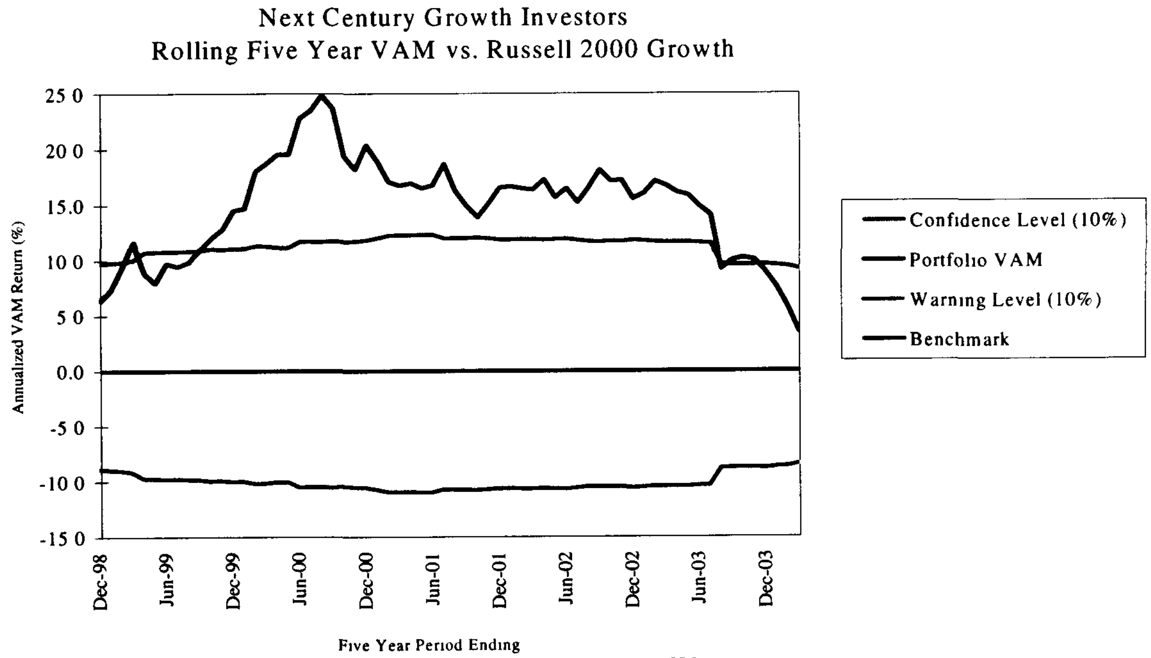
	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	0 1%	5 6%	5 6%
Last 1 year	56.1	63.2	60 7
Last 2 years	3 6	5 6	7.4
Last 3 years	2 2	5.4	10.6
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-12 3	-7 0	-3.9

Calendar Year Returns

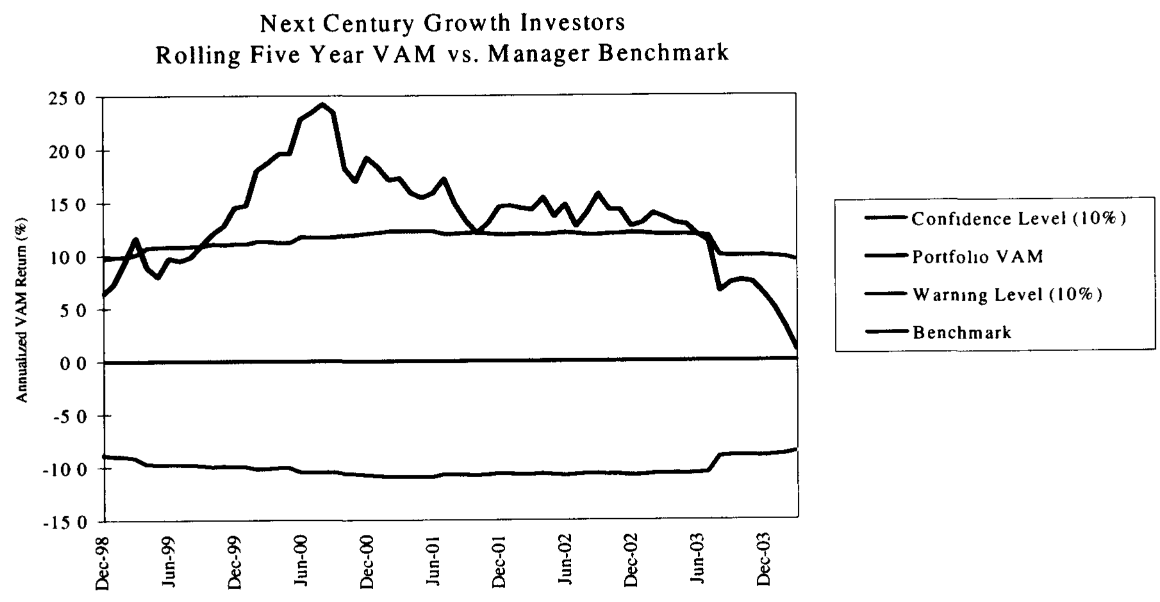
	Actual	Russell 2000 Growth	Manager Benchmark
YTD 3/31/04	0 1%	5 6%	5 6%
2003	50.7	48 5	48.5
2002	-33 3	-30 3	-27.8
2001	-22 8	-9.2	-5 5
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending March, 2004

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $30,906,477**



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



Note Shaded area includes performance prior to retention by the SBI

TURNER INVESTMENT PARTNERS
Periods Ending March, 2004

Portfolio Manager: William McVail | **Assets Under Management: $131,529,786**

Investment Philosophy

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

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

Staff Comments

The portfolio underperformed the Russell 2000 Growth due in part to an underweight allocation to electronic technology and overall weak stock selection

During the quarter the firm implemented a strategic plan to refocus on institutional growth equity Steve Kneeley vacated the President position as of 3/31/04, but will retain his equity ownership and Board seat Thomas Trala, CFO, assumed Kneeley's duties Part of the mutual fund operations were spun-off into a new firm, Constellation John Grady, former COO, left Turner to serve as President and CEO of Constellation

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	3 5%	5.6%	5 6%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	3.5	5 6	5 6

Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
YTD 3/31/04	3 5%	5 6%	5 6%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

TURNER INVESTMENT PARTNERS
Periods Ending March, 2004

Portfolio Manager: William McVail **Assets Under Management: $131,529,786**

VAM Graphs will be drawn for period ending 3/31/06.

US BANCORP ASSET MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Barry Randall, David Lettenberger Assets Under Management: $48,768,262

Investment Philosophy

The Small Cap Growth style is designed to uncover the inherent inefficiencies in small cap space The bottom-up approach concentrates on company management expertise, growth prospects, competitive advantages, financial condition and attractiveness of valuation The process is continuously overlaid with a top-down assessment of current and anticipated economic conditions and the subsequent impact on various industries

The team looks for fundamentally superior growth companies that are attractively priced at purchase and have market caps less than $1 billion. Companies that display compelling fundamentals become candidates for valuation analysis. Absolute and relative valuation metrics is computed on each of the surviving companies.

Staff Comments

During the quarter the small cap management team and all of its dedicated research analysts left US Bancorp Asset Management The portfolio was assigned to an interim portfolio management team. Staff met with the interim team to assess the level of resources available to manage our portfolio, and believes many of the names in the SBI portfolio lack adequate research coverage At the end of April, three portfolio managers with a different investment process were brought in to manage small core and growth stocks

Recommendation

Staff is recommending the termination of the relationship with US Bancorp Asset Management.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	2.2%	5 6%	5.6%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	2.2	5 6	5 6

Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
YTD 3/31/04	2 2%	5 6%	5 6%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

US BANCORP ASSET MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Barry Randall, David Lettenberger   Assets Under Management: $48,768,262

VAM Graphs will be drawn for period ending 3/31/06.

WINSLOW CAPITAL MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Joseph Docter | **Assets Under Management: $130,465,586**

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

Staff conducted a site visit The investment process was reviewed in detail with both portfolio managers Three clients were lost during the last 13 months due to merger & acquisition activity among clients and changes in mandate This small cap growth product remains closed with approximately $630 million in assets Trading costs continue to be favorable. The firm employs one trader, who will assume a research role as well.

Performance was disappointing in 2003. Winslow's process is to invest in small companies that are consistent growers This worked well in 2000-2002, but didn't work in 2003

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

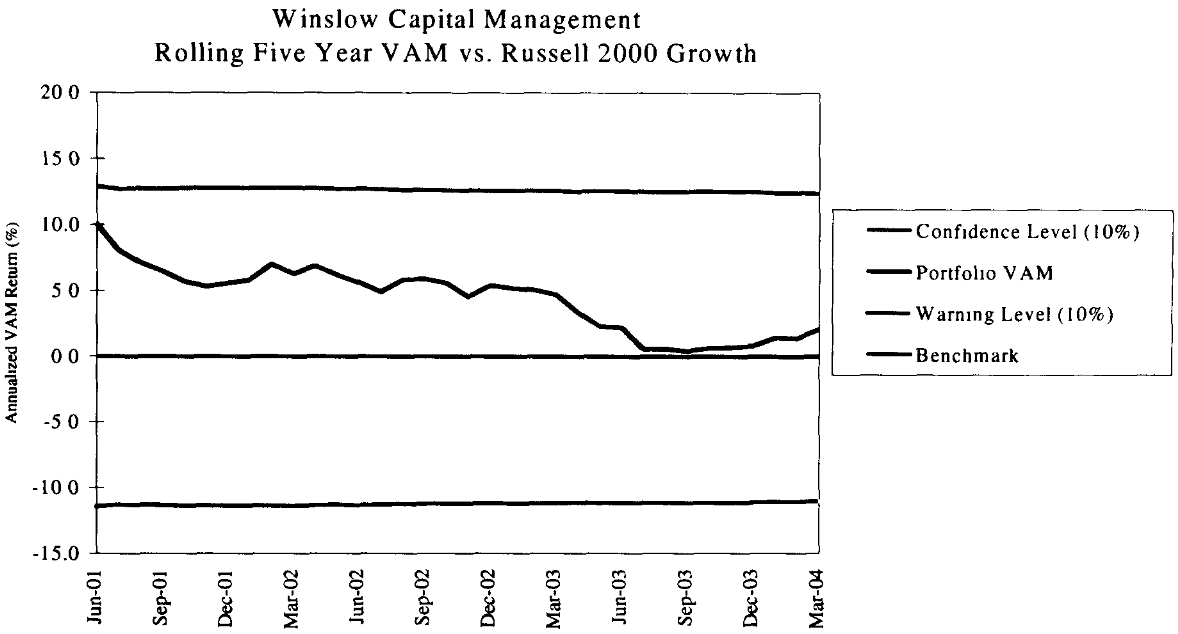
	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	2.1%	5.6%	5 6%
Last 1 year	47 7	63.2	67.1
Last 2 years	2 4	5 6	7.6
Last 3 years	6 9	5.4	11 6
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-3 2	-7 0	-0.1

Calendar Year Returns

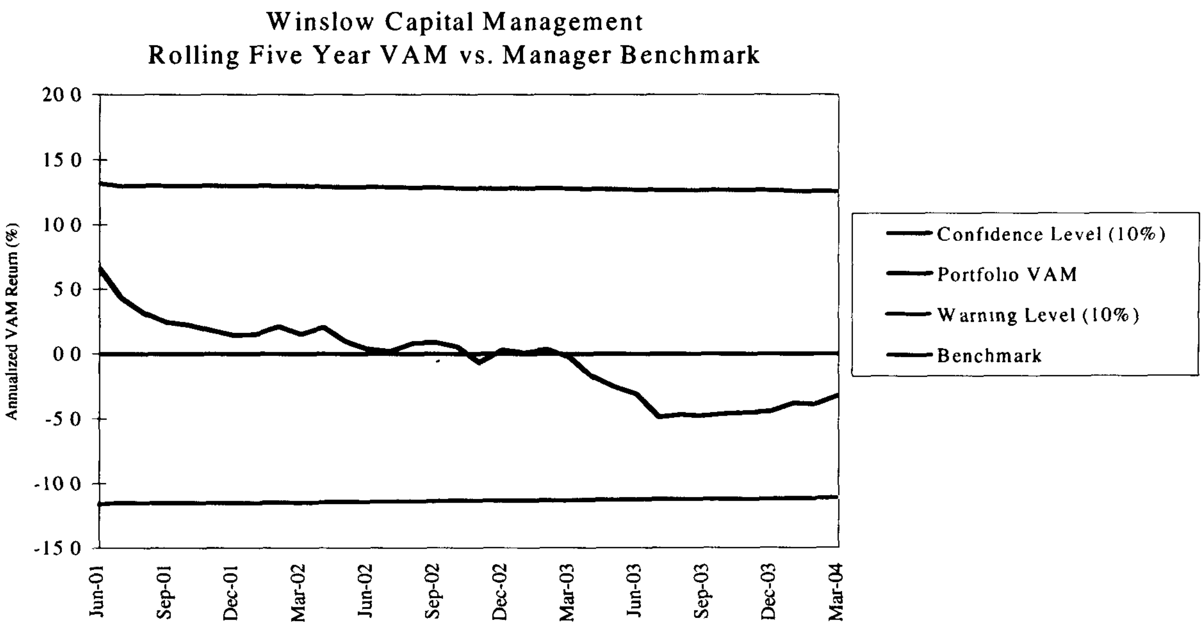
	Actual	Russell 2000 Growth	Manager Benchmark
YTD 3/31/04	2 1%	5 6%	5 6%
2003	37.6	48.5	51.3
2002	-25 0	-30.3	-26 7
2001	-6 1	-9 2	4 6
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

WINSLOW CAPITAL MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Joseph Docter **Assets Under Management: $130,465,586**



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



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

Small Cap Value (R2000 Value)

Small Cap Value (R2000 Value)

Table of Contents

KENWOOD CAPITAL MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Jacob Hurwitz and Kent Kelley **Assets Under Management: $45,733,819**

Investment Philosophy

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

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

Staff Comments

Staff conducted a site visit and met with all four portfolio managers The investment process was reviewed in detail, including the quantitative models used The firm plans to grow its institutional assets. The group continues to expand, with plans to hire two additional analysts and extend the office space an additional 1000 square feet There has been strong interest in the mid cap area, and the firm may launch a mid cap product in 2005 The firm currently has a small cap growth pilot funded by American Express but not offered publicly

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	9 2%	6 9%	6 9%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	9.2	6.9	6 9

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
YTD 3/31/04	9 2%	6.9%	6 9%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

KENWOOD CAPITAL MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Jacob Hurwitz and Kent Kelley Assets Under Management: $45,733,819

VAM Graphs will be drawn for period ending 3/31/06.

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Chip Otness — **Assets Under Management: $97,357,037**

Investment Philosophy

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

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

Staff Comments

The portfolio underperformed the Russell 2000 Value by 2 8 percentage points during the quarter. Weak stock selection in the finance, utilities, and energy minerals sectors detracted from performance The portfolio follows a quality orientation. Quality names were out of favor at the beginning of the quarter, as more speculative names drove the index This trend reversed in March and the portfolio outperformed.

Eric Schwartz replaced Philip Murphy, who retired, as co-head of the Investment Management Division in January. Gary Black, Chief Investment Officer for the collective active equity teams, left the firm.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	4 1%	6.9%	6.9%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	4.1	6 9	6 9

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
YTD 3/31/04	4 1%	6.9%	6.9%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Chip Otness | Assets Under Management: $97,357,037

VAM Graphs will be drawn for period ending 3/31/06.

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Jim Miles and David Green **Assets Under Management: $104,377,228**

Investment Philosophy

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

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

Staff Comments

Staff conducted a site visit, meeting with both portfolio managers, the CEO, heads of research and technology, and research analysts Both the investment process and research process were reviewed in detail The managers indicated that the research staff is becoming more seasoned and the firm is realizing increased efficiencies in the research process The firm plans to add an additional research analyst in 2004, and the intensive hiring process was reviewed The firm makes use of extensive technology resources, which are a legacy from the firm's days as a subsidiary of Merrill Lynch

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	11 6%	6 9%	6.9%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	11 6	6.9	6 9

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
YTD 3/31/04	11 6%	6 9%	6.9%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Jim Miles and David Green **Assets Under Management: $104,377,228**

VAM Graphs will be drawn for period ending 3/31/06.

MARTINGALE ASSET MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: William Jacques | **Assets Under Management: $103,047,887**

Investment Philosophy

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

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

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

Staff Comments

The portfolio outperformed the Russell 2000 Value by 3.3 percentage points during the quarter. Stock selection was strong overall, and outweighed the negative impact of overall sector allocation. Stock selection was particularly strong within the industrial services, non-energy minerals, and consumer services sectors.

During the quarter, the firm hired an individual in the systems and information technology area.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	10 2%	6 9%	6.9%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	10 2	6.9	6 9

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
YTD 3/31/04	10 2%	6.9%	6.9%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

MARTINGALE ASSET MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: William Jacques | **Assets Under Management: $103,047,887**

VAM Graphs will be drawn for period ending 3/31/06.

PERIGRINE CAPITAL MANAGEMENT

Periods Ending March, 2004

Portfolio Manager: Doug Pugh and Tasso Coin | **Assets Under Management: $150,444,021**

Investment Philosophy

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

Staff Comments

Staff conducted a site visit and met with the portfolio managers, the dedicated research analyst, and SBI's client service representative. The investment process was reviewed in detail. The product will be closed upon reaching 25 client relationships, and the firm currently manages 14 client relationships. Three client accounts were gained in 2003, no client accounts have been lost since inception. The firm has instituted a paperless trading system. During 2003, the firm hired a Chief Compliance Officer, Dave Lind.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

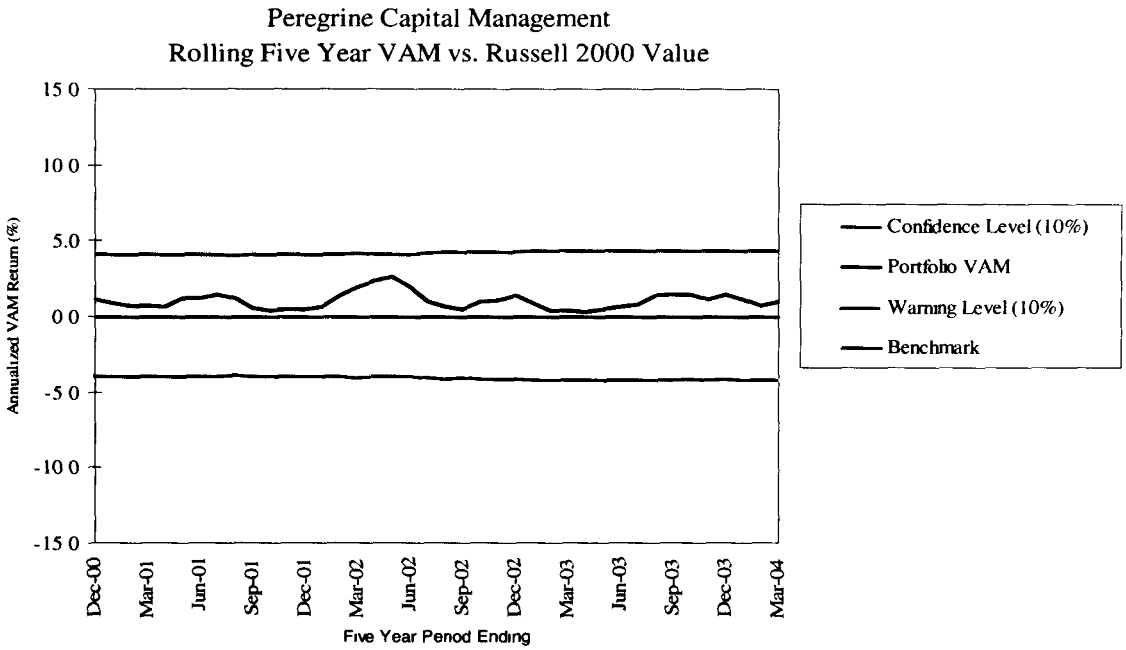
	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	4.9%	6.9%	6.9%
Last 1 year	64.5	64.5	63.5
Last 2 years	9.7	12.3	14.1
Last 3 years	16.1	16.0	19.9
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	19.2	17.5	21.4

Calendar Year Returns

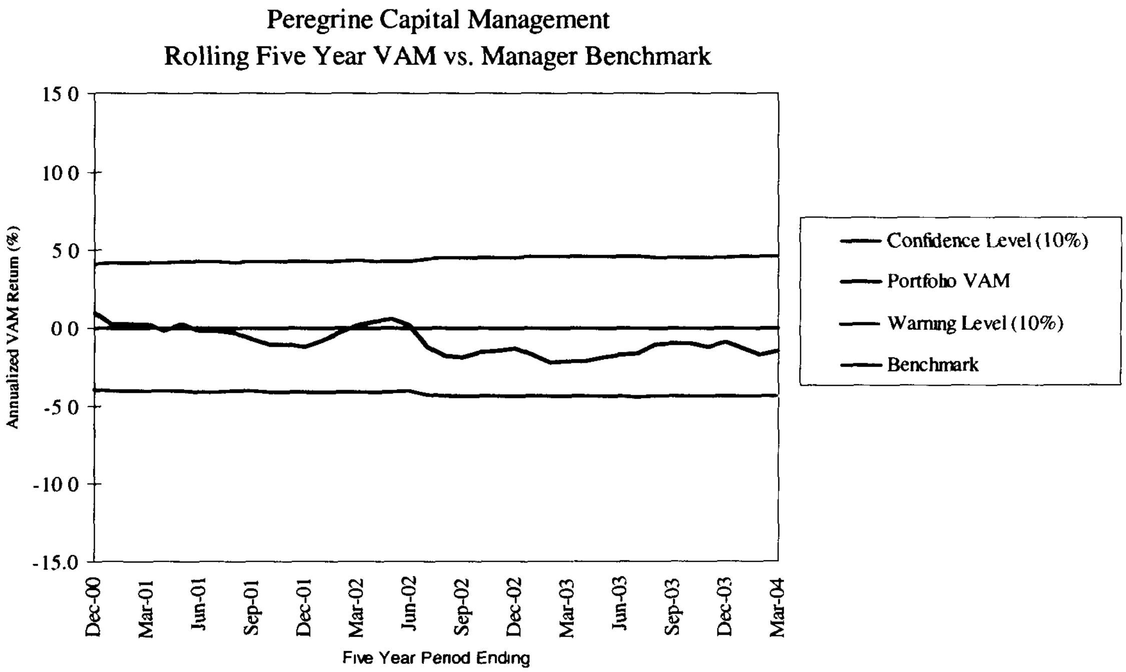
	Actual	Russell 2000 Value	Manager Benchmark
YTD 3/31/04	4.9%	6.9%	6.9%
2003	44.2	46.0	44.2
2002	-8.1	-11.4	-6.9
2001	12.6	14.0	22.9
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

PEREGRINE CAPITAL MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $150,444,021**



Note Shaded area includes performance prior to retention by the SBI



Note Shaded area includes performance prior to retention by the SBI

Semi-Passive and Passive

Semi-Passive and Passive

Table of Contents

BARCLAYS GLOBAL INVESTORS
Periods Ending March, 2004

Portfolio Manager: Rhonda Vitanye | **Assets Under Management: $2,457,470,002**

Investment Philosophy – Semi-Passive Style

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

Staff Comments

Staff conducted a site visit, meeting with several senior executives and investment professionals Barclays gained $100 billion in assets during 2003. The exchange traded fund business continues to grow, and plans to grow its fixed income business. Several products are closed, including small cap, extended market, and some market-neutral strategies The firm continues to add human resources, and hired four senior investment professionals during the last year. Trading efficiencies continue to be a major focus for BGI and a research group is dedicated to this area. Staff toured the trading desk and received a demonstration of the trading software used

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	2.5%	1.9%
Last 1 year	35.9	35.0
Last 2 years	3.4	2.3
Last 3 years	4.0	2.8
Last 4 years	-3.9	-6.0
Last 5 years	-0.5	-2.0
Since Inception (1/95)	11.6	10.7

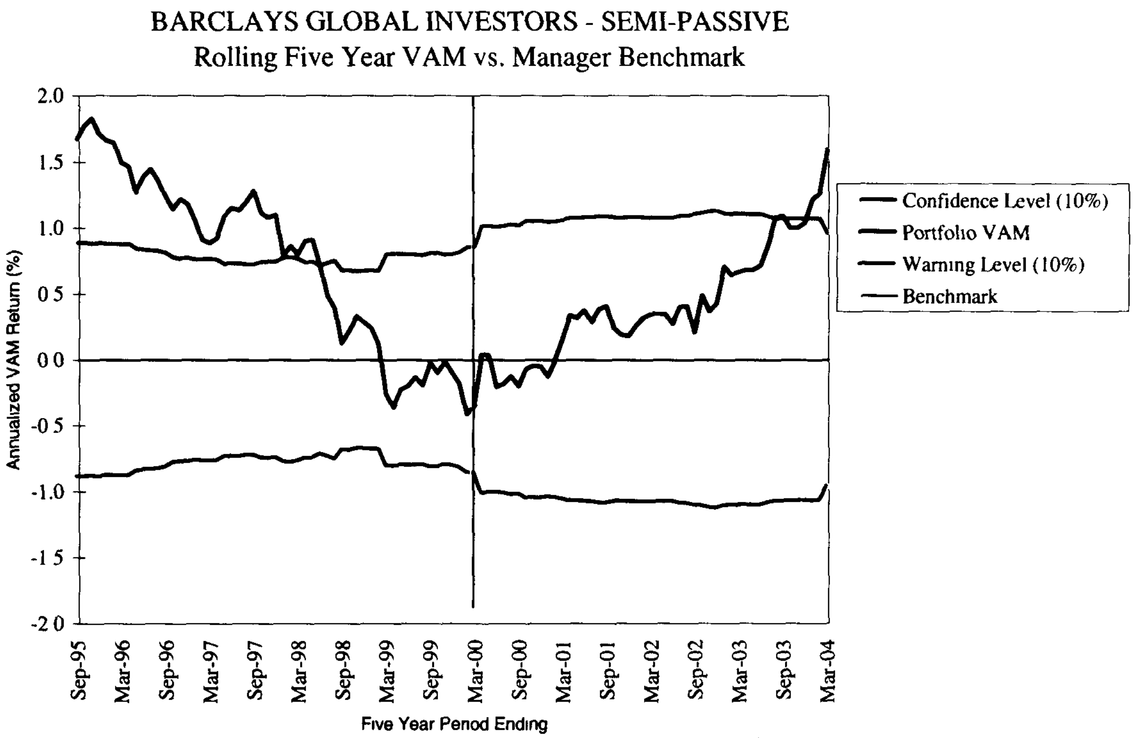
Calendar Year Returns

	Actual	Manager Benchmark*
YTD 3/31/04	2.5%	1.9%
2003	30.0	28.5
2002	-19.1	-19.7
2001	-7.8	-9.7
2000	-13.8	-16.3
1999	14.1	16.3

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

BARCLAYS GLOBAL INVESTORS
Periods Ending March, 2004

Portfolio Manager: Rhonda Vitanye | **Assets Under Management: $2,457,470,002**



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 2004

Portfolio Manager: John Cone | **Assets Under Management: $1,770,396,448**

Investment Philosophy – Semi-Passive Style

Franklin believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns. Franklin builds a portfolio by using a series of more than 30 integrated computer models that value a universe of 3500 stocks Their models rank each security based on fundamental momentum, relative value, future cash flow, and supplementary models A composite ranking then provides one ranked list of securities reflecting their relative attractiveness. Stocks that fall below the median ranking are sold, and proceeds are reinvested in stocks from the top deciles in the ranking system. They use the BARRA risk model to monitor the portfolio's systematic risk and industry weightings relative to the selected benchmark. For this semi-passive mandate, they seek to achieve a residual risk of 1 5% or less. The firm remains fully invested at all times.

Staff Comments

The portfolio outperformed the Russell 1000 by 0.5 percentage points (ppt) during the quarter. Overall stock selection positively impacted performance. Stock selection was particularly strong within the finance, consumer durables, consumer services, and retail trade sectors The portfolio tilts toward value and momentum factors contributed to performance.

For the year, the portfolio outperformed the blended Manager benchmark by 0 1 ppt. Exposure to various factors proved beneficial, including higher earnings yield, volatility, beta, and cash effects.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	2 4%	1 9%
Last 1 year	35 1	35.0
Last 2 years	1 6	2.3
Last 3 years	2 3	2.8
Last 4 years	-5 7	-6.0
Last 5 years	-2 0	-2 0
Since Inception (1/95)	10 3	10 7

Calendar Year Returns

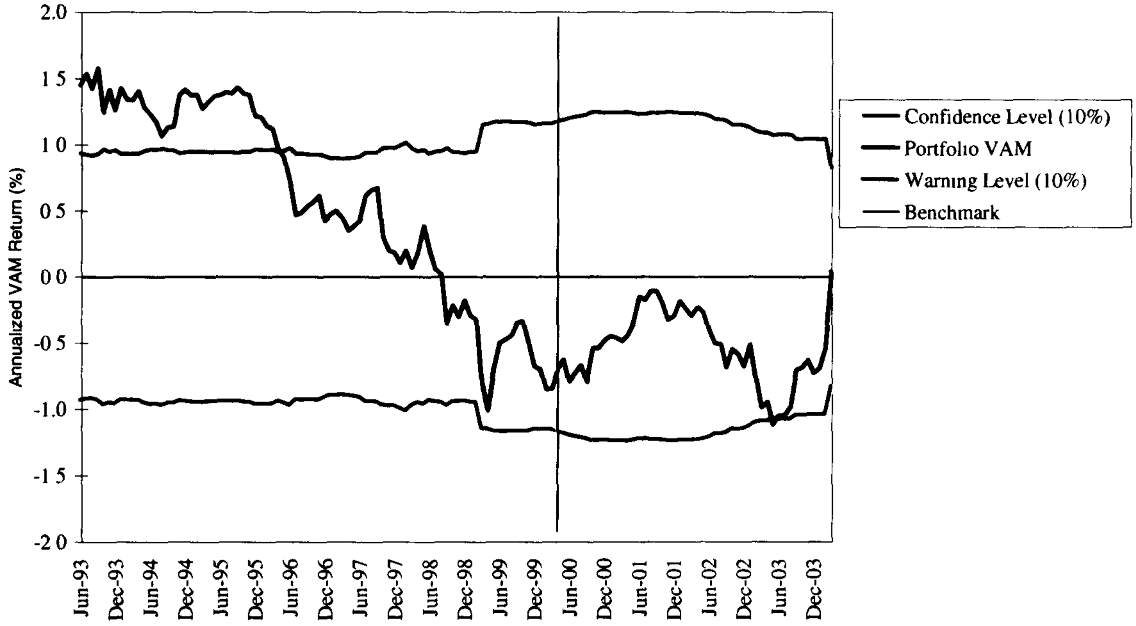
	Actual	Manager Benchmark*
YTD 3/1/04	2 4%	1 9%
2003	26 9	28 5
2002	-20.2	-19 7
2001	-9 0	-9.7
2000	-15 9	-16 3
1999	12 9	16 3

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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 2004

Portfolio Manager: John Cone **Assets Under Management: $1,770,396,448**

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



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

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending March, 2004

Portfolio Manager: Tim Devlin **Assets Under Management: $2,086,502,680**

Investment Philosophy – Semi-Passive Style

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

Staff Comments

The portfolio outperformed the Russell 1000 by 0 5 percentage points (ppt) during the quarter Strong stock selection, particularly within the health technology, health services, and retail trade sectors, contributed to performance A basic materials analyst left the team during the quarter, and his companies were reassigned to existing analysts In January, JP Morgan agreed to acquire Bank One in a deal scheduled to close in July.

For the year, the portfolio outperformed the blended Manager benchmark by 1 1 ppt. Stock selection contributed to performance and was particularly strong in the finance, producer manufacturing, and health technology sectors

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	2 4%	1.9%
Last 1 year	36 1	35.0
Last 2 years	1 3	2.3
Last 3 years	1 9	2.8
Last 4 years	-5 1	-6 0
Last 5 years	-1 9	-2 0
Since Inception (1/95)	10 9	10 7

Calendar Year Returns

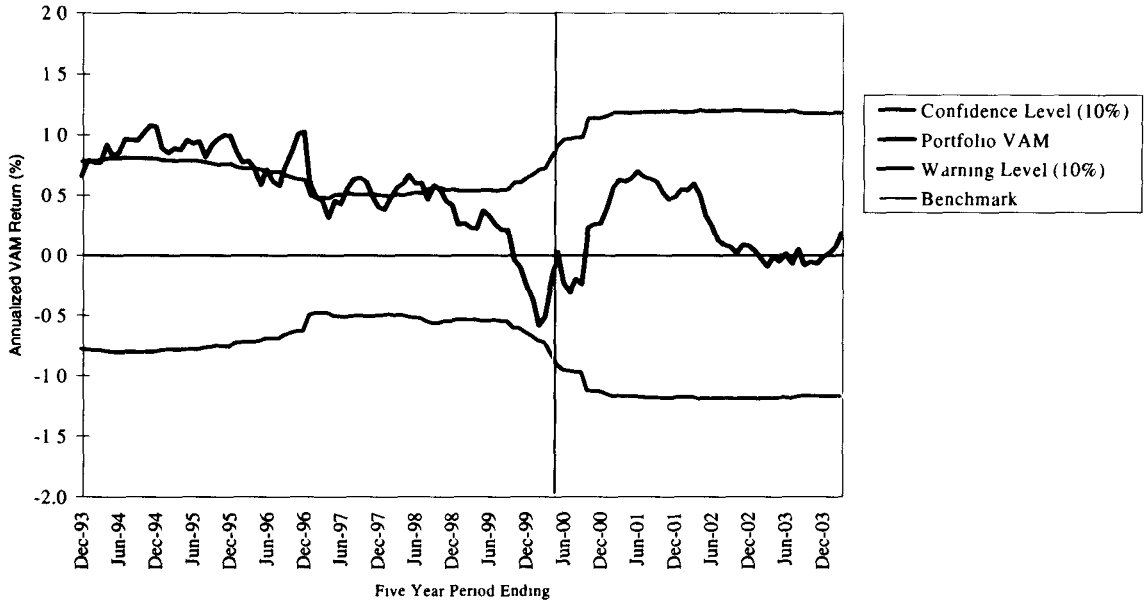
	Actual	Manager Benchmark*
YTD 3/31/04	2 4%	1 9%
2003	28 9	28.5
2002	-21 8	-19.7
2001	-8 7	-9 7
2000	-13 6	-16 3
1999	14 0	16.3

* Completeness Fund until 12/1/03, Russell 1000 beginning 1/1/04

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending March, 2004

Portfolio Manager: Tim Devlin **Assets Under Management: $2,086,502,680**

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



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

BARCLAYS GLOBAL INVESTORS
Periods Ending March, 2004

Portfolio Manager: Amy Schioldager | **Assets Under Management: $6,375,718,070**

Investment Philosophy – Passive Style

Barclays Global Investors passively manages the portfolio against the asset class target 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

Staff conducted a site visit, meeting with several senior executives and investment professionals. Barclays gained $100 billion in assets during 2003. The exchange traded fund business continues to grow, and BGI plans to grow its fixed income business. Several products are closed, including small cap, extended market, and some market-neutral strategies. The firm continues to add human resources, and hired four senior investment professionals during the last year. Trading efficiencies continue to be a major focus for BGI and a research group is dedicated to this area.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	2.2%	2.2%
Last 1 year	37.8	38.1
Last 2 years	2.1	2.2
Last 3 years	2.0	2.2
Last 4 years	-5.3	-5.5
Last 5 years	-0.1	-0.3
Since Inception (7/95)	10.1	9.9

Calendar Year Returns

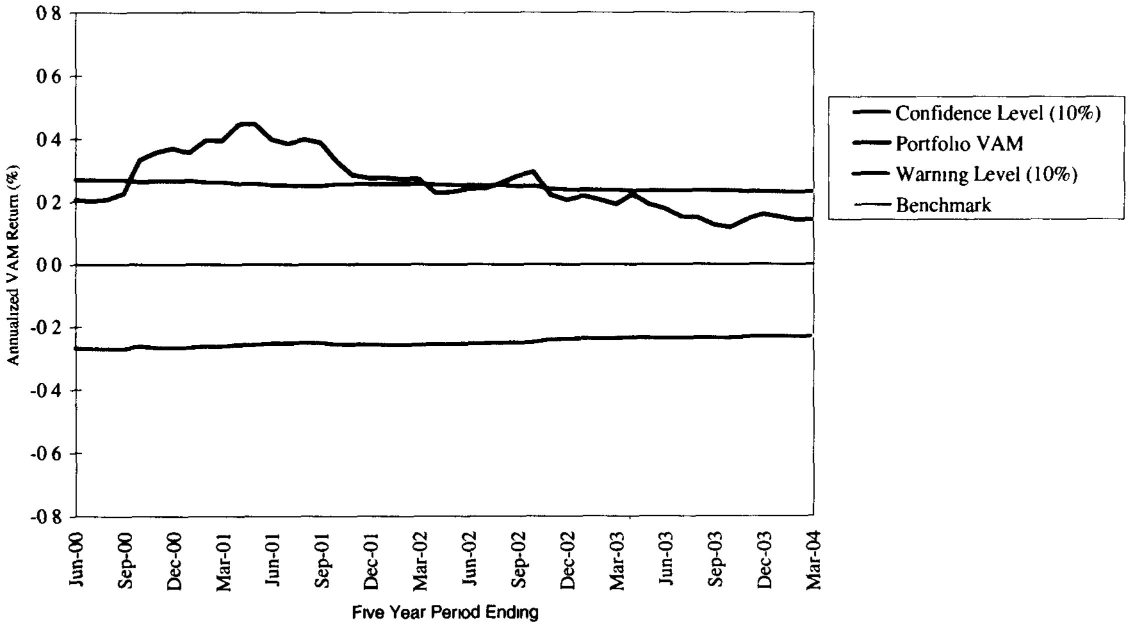
	Actual	Manager Benchmark*
YTD 3/31/04	2.2%	2.2%
2003	30.9	31.2
2002	-21.4	-21.5
2001	-11.8	-11.7
2000	-9.8	-11.0
1999	23.3	23.6

* Domestic Equity Target (Russell 3000 Index as of 10/1/03).

BARCLAYS GLOBAL INVESTORS
Periods Ending March, 2004

Portfolio Manager: Amy Schioldager **Assets Under Management: $6,375,718,070**

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



STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

First Quarter, 2004

COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending March, 2004

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	Pool %
Active Managers												
American Express (AMG)	2.7	2.7	5.6	5.4	6.1	7 4	6.5	7 3	6 7	7 0	$802.3	9.2%
Deutsche	3.0	2.7	6.8	5.4	8 1	7 4			9 5	8.9	$650.7	7 4%
Dodge & Cox	2.1	2 7	7 4	5 4	9.1	7 4			10.3	8.9	$814.4	9.3%
Morgan Stanley	1.9	2 7	5.5	5.4	7 3	7 4	7.2	7 3	10 0	9.8	$769.8	8.8%
Western	2.9	2.7	9.4	5.4	9.3	7 4	8 8	7.3	11.0	9.7	$1,296.6	14 8%
Semi-Passive Managers												
BlackRock	2.6	2.7	5.5	5.4	7.5	7.4	7.5	7.3	7.7	7.5	$1,477 5	16.9%
Goldman	2 9	2 7	6 9	5.4	7 8	7.4	7.6	7.3	7.3	7.0	$1,463 6	16.7%
Lincoln	2.7	2.7	5.8	5 4	7.7	7 4	7.4	7 3	8 4	8.4	$1,478.7	16.9%
											$8,753.7	**100.0%**
									Since 7/1/84			
Historical Aggregate (2)	**2.6**	**2.7**	**6.6**	**5.4**	**7.7**	**7.4**	**7.5**	**7.3**	**9.8**	**9.7**		
Lehman Aggregate (3)		2 7		5.4		7.4		7 3		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, 2004

Portfolio Manager: Colin Lundgren **Assets Under Management: $802,326,468**

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

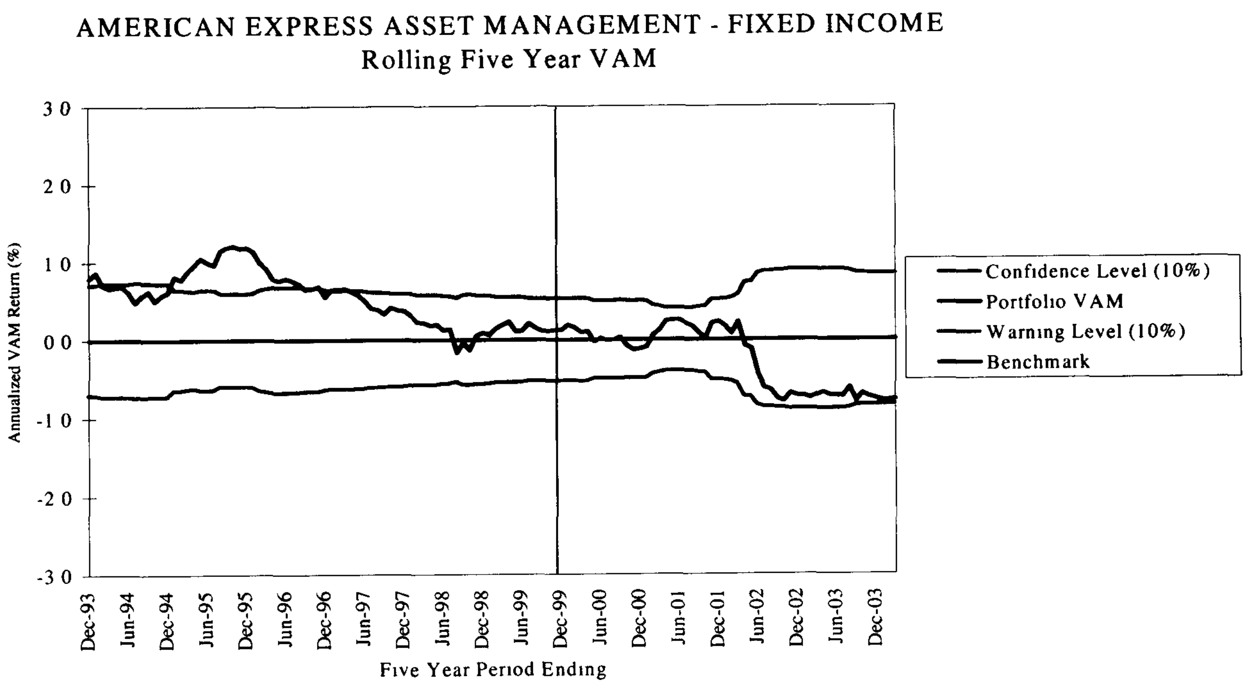
American Express matched the benchmark for the quarter and outperformed for the year. The quarterly performance was helped by an increased allocation to high yield, the higher quality emphasis in their holdings, and credit selection. The one-year outperformance was due to issue selection in investment grade corporates and by their allocation to high yield corporate bonds.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.7%	2.7%
Last 1 year	5.6	5.4
Last 2 years	6.2	8.5
Last 3 years	6.1	7.4
Last 4 years	7.7	8.7
Last 5 years	6.5	7.3
Since Inception (7/93)	6.7	7.0

Recommendations

No action required.



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

DEUTSCHE ASSET MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Warren Davis | **Assets Under Management: $650,672,647**

Investment Philosophy

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

Staff Comments

Deutsche Asset's outperformance for the first quarter and the year was primarily due to the overweight position in asset backed securities. A significant overweight to commercial mortgage-backed securities also helped performance.

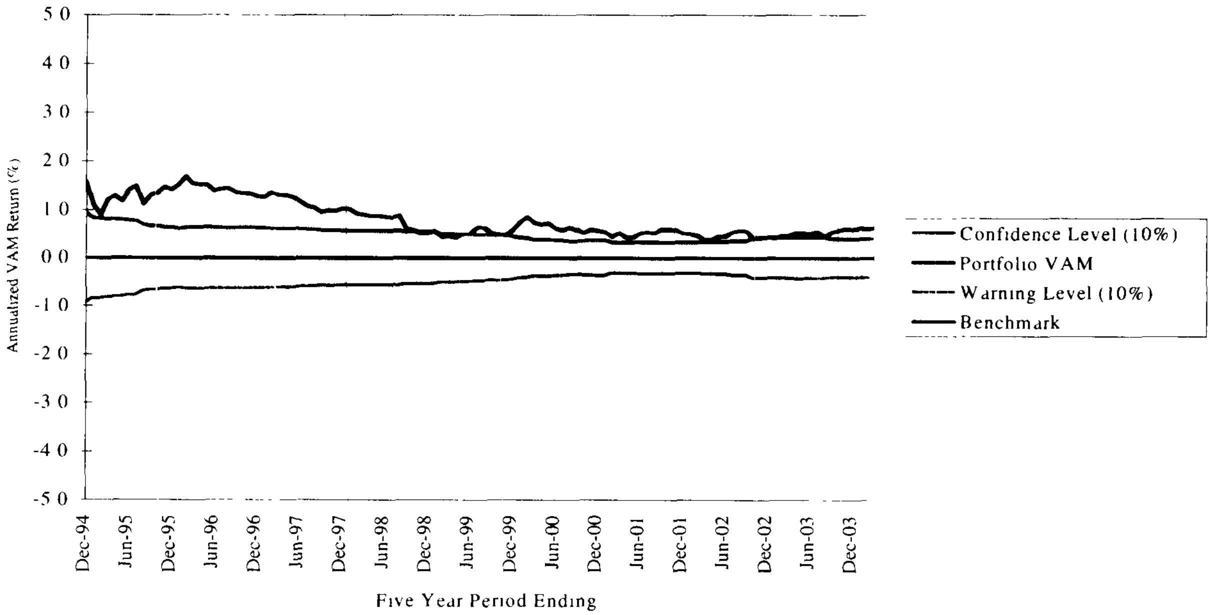
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.0%	2.7%
Last 1 year	6.8	5.4
Last 2 years	9.5	8.5
Last 3 years	8.1	7.4
Last 4 years	9.3	8.7
Last 5 years	N/A	N/A
Since Inception (2/00)	9.5	8.9

Recommendations

No action required

DEUTSCHE ASSET MANAGEMENT
Rolling Five Year VAM



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

DODGE & COX INVESTMENT MANAGERS
Periods Ending March, 2004

Portfolio Manager: Dana Emery **Assets Under Management: $814,445,338**

Investment Philosophy

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

Staff Comments

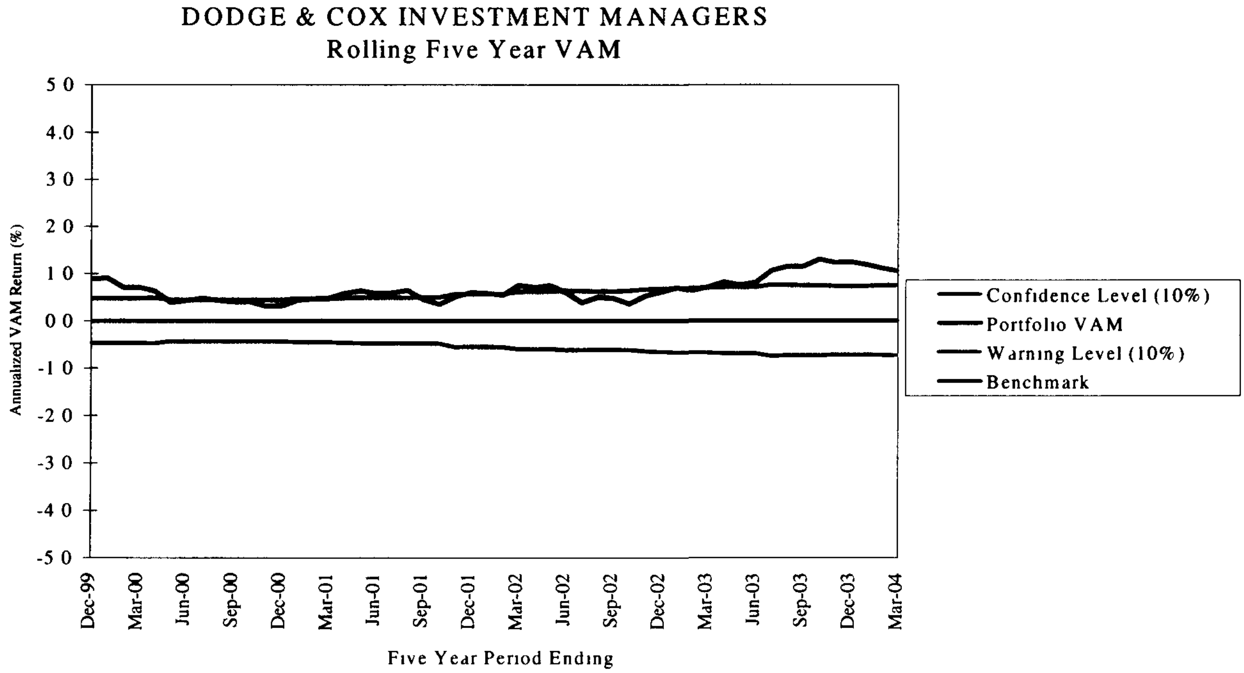
Dodge & Cox trailed the quarterly benchmark. The quarterly performance was hurt by security selection in the corporate sector. The portfolio's shorter than benchmark duration detracted from quarterly returns as interest rates declined. Over the year, the duration position has benefited the portfolio.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.1%	2.7%
Last 1 year	7.4	5.4
Last 2 years	9.9	8.5
Last 3 years	9.1	7.4
Last 4 years	10.1	8.7
Last 5 years	N/A	N/A
Since Inception (2/00)	10.3	8.9

Recommendations

No action required.



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

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: David Horowitz | **Assets Under Management: $769,810,951**

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's quarterly underperformance was due to their shorter than benchmark duration bet. For the year, the portfolio outperformed due to their corporate overweight, and their corporate and mortgage security selections

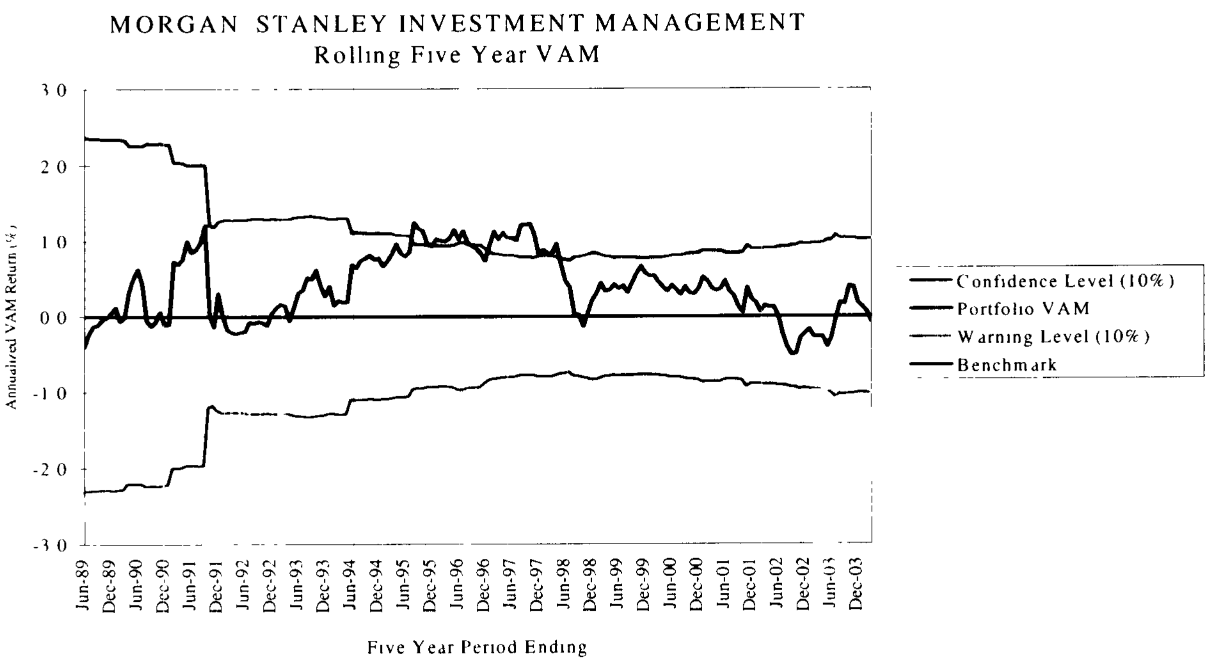
At the end of February, Tom Bennett and Steve Esser retired from Morgan Stanley. David Horowitz was selected in February as Steve Esser's successor to run the investment grade corporate group. As mentioned last quarter, Tom Bennet's administrative duties have been assigned to Raj Dupta

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1 9%	2.7%
Last 1 year	5.5	5.4
Last 2 years	7.5	8.5
Last 3 years	7.3	7.4
Last 4 years	8 7	8.7
Last 5 years	7.2	7.3
Since Inception (7/84)	10 0	9.8

Recommendations

No action required



WESTERN ASSET MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Ken Leech **Assets Under Management: $1,296,629,956**

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

Several of the portfolio strategies helped Western outperform the quarterly and one-year benchmark. A moderate exposure to TIPS contributed to the quarterly outperformance. The outperformance for both periods also benefited from moderate exposure to high yield bonds and a slight overweight exposure to investment grade credit.

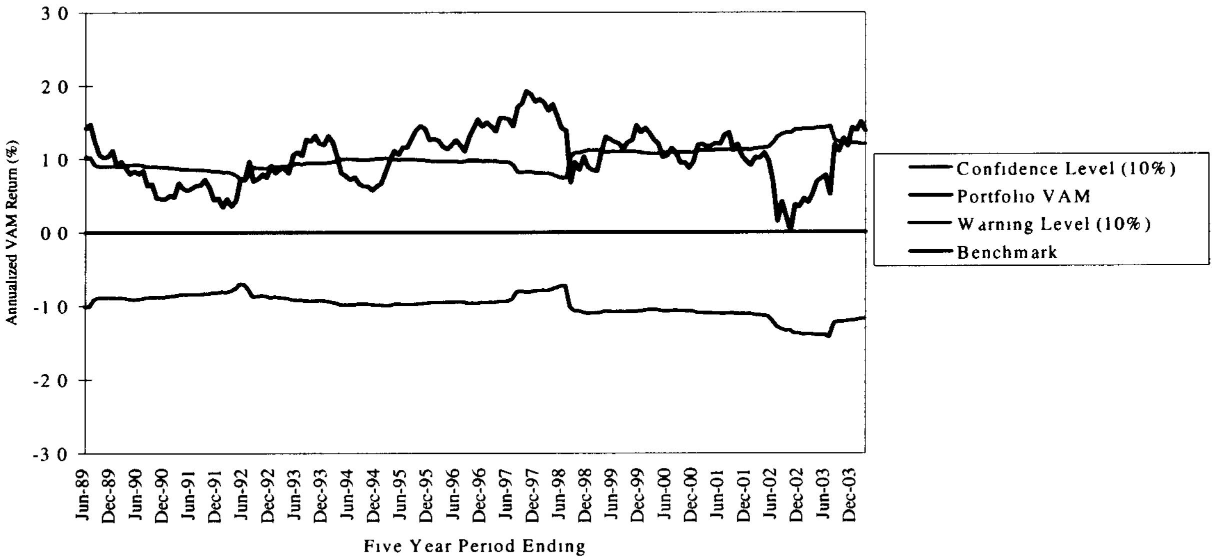
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.9%	2.7%
Last 1 year	9.4	5.4
Last 2 years	10.6	8.5
Last 3 years	9.3	7.4
Last 4 years	10.3	8.7
Last 5 years	8.8	7.3
Since Inception (7/84)	11.0	9.7

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM



BLACKROCK, INC.
Periods Ending March, 2004

Portfolio Manager: Keith Anderson | **Assets Under Management: $1,477,542,782**

Investment Philosophy

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

Staff Comments

BlackRock slightly trailed the quarterly benchmark due to their short duration positioning and an underweight to the mortgage sector. The one-year return continues to benefit from the short duration positioning.

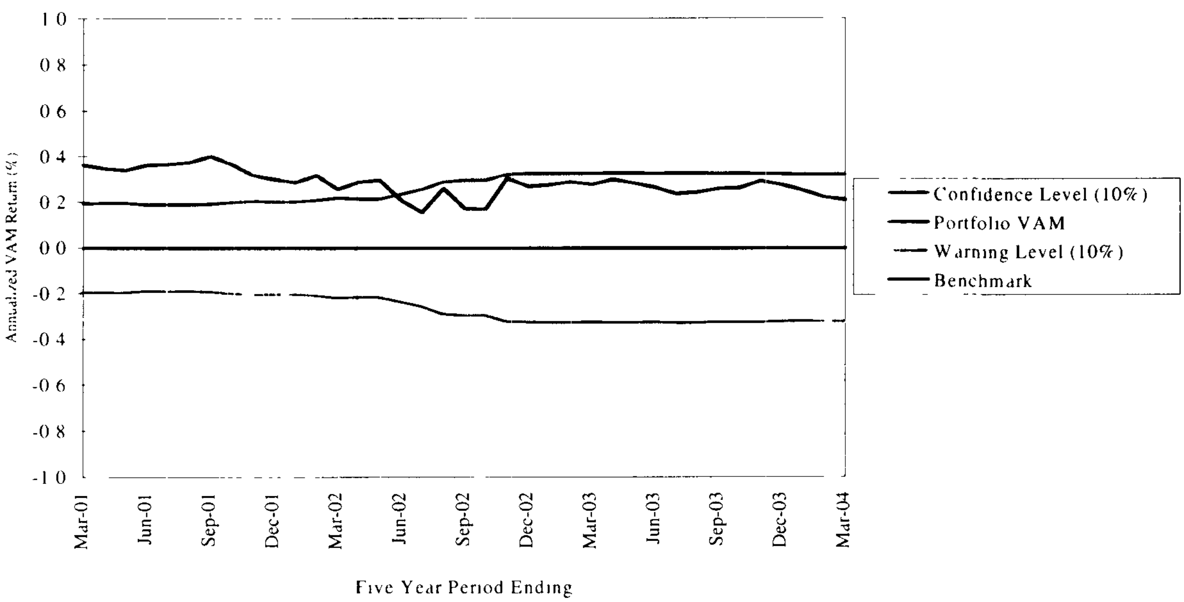
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.6%	2.7%
Last 1 year	5.5	5.4
Last 2 years	8.7	8.5
Last 3 years	7.5	7.4
Last 4 years	8.8	8.7
Last 5 years	7.5	7.3
Since Inception (4/96)	7.7	7.5

Recommendation

No action required

BLACKROCK, INC.
Rolling Five Year VAM



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Jonathon Beinner **Assets Under Management: $1,463,565,120**

Investment Philosophy

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

Staff Comments

For the quarter and year, security selection in the corporate and mortgage sectors contributed to their outperformance.

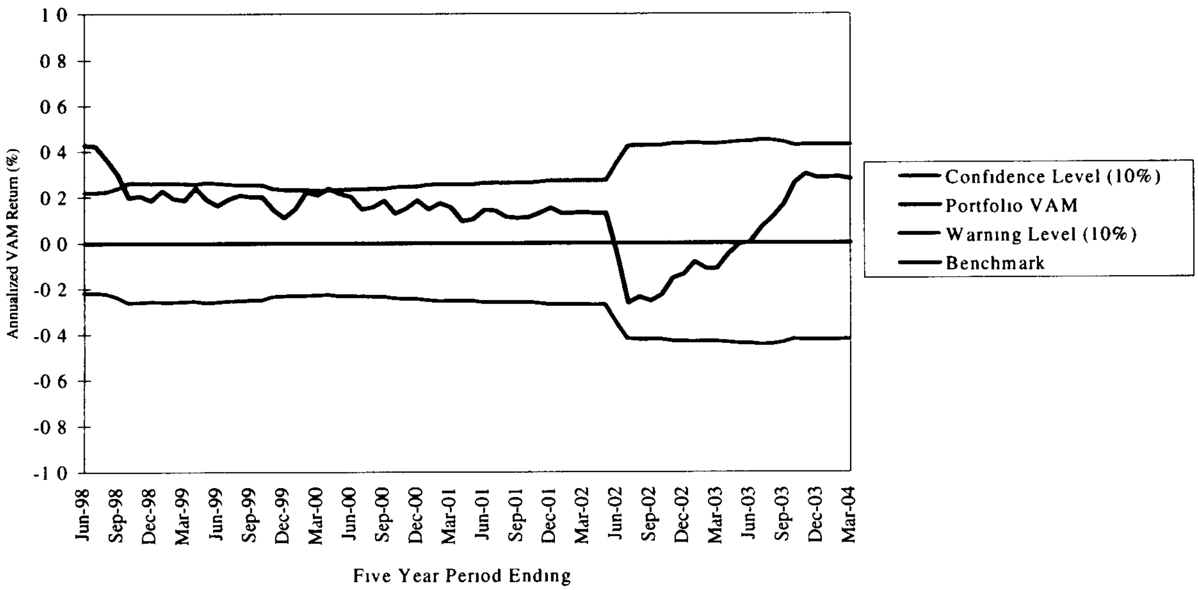
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.9%	2.7%
Last 1 year	6.9	5.4
Last 2 years	8.7	8.5
Last 3 years	7.8	7.4
Last 4 years	8.9	8.7
Last 5 years	7.6	7.3
Since Inception (7/93)	7.3	7.0

Recommendations

No action required.

GOLDMAN SACHS ASSET MANAGEMENT
Rolling Five Year VAM



LINCOLN CAPITAL FIXED INCOME MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Andrew Johnson **Assets Under Management: $1,478,675,908**

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

Lincoln matched the benchmark for the quarter. The one-year return was helped by security selection in the corporate and mortgage sectors

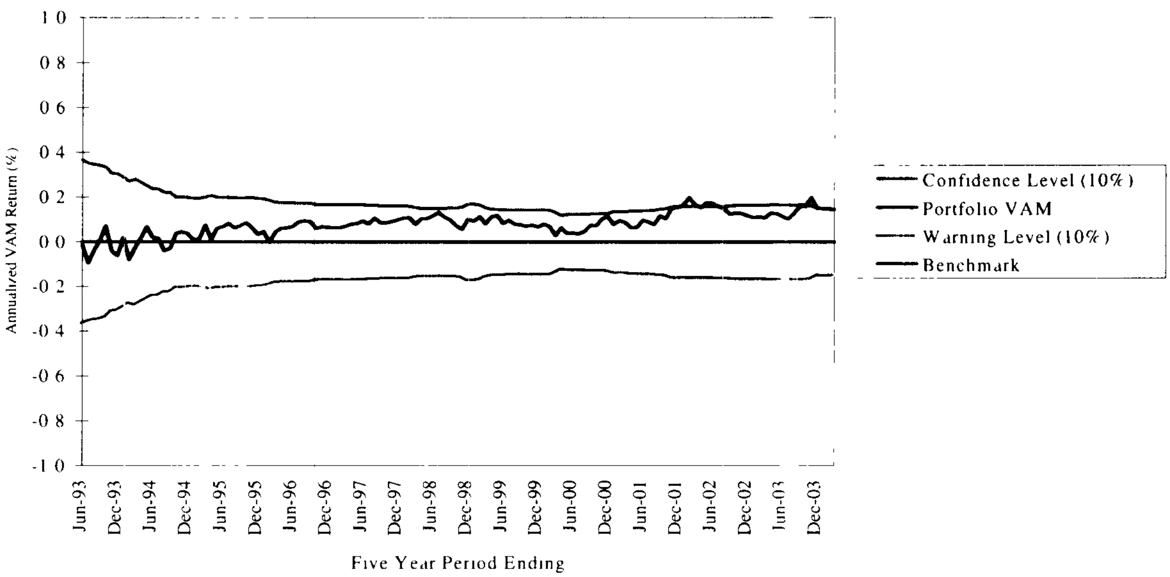
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.7%	2.7%
Last 1 year	5.8	5.4
Last 2 years	8 6	8.5
Last 3 years	7.7	7.4
Last 4 years	8.9	8.7
Last 5 years	7 4	7 3
Since Inception (7/88)	8.4	8.4

Recommendations

No action required.

LINCOLN CAPITAL FIXED INCOME MANAGEMENT
Rolling Five Year VAM



STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

First Quarter, 2004

COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending March, 2004

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since (1) Inception Actual %	Since (1) Inception Bmk %	Market Value (in millions)	Pool %
Active Developed Markets (2)												
American Express	3.5	4.2	48.3	57.3	0.2	3.4			-9.1	-3.8	$521.3	8.8%
Britannic (Blairlogie)	4.2	4.2	56.3	57.3	2.8	3.4			-5.0	-3.8	$340.1	5.8%
Invesco	3.3	4.2	49.7	57.3	4.7	3.4			0.5	-3.8	$483.3	8.2%
Marathon (3)	7.4	4.2	67.5	64.5	11.3	8.2	8.9	4.0	8.3	5.2	$572.4	9.7%
T Rowe Price	1.3	4.2	46.1	57.3	0.4	3.4	-0.3	0.5	4.9	4.5	$542.1	9.2%
UBS Global	3.7	4.2	52.2	57.3	4.6	3.4	3.7	0.5	7.8	6.1	$507.4	8.6%
Active Emerging Markets												
Alliance Capital	10.8	9.6	83.6	81.7	20.1	19.1			10.8	11.3	$184.0	3.1%
Capital International	9.9	9.6	79.7	81.7	16.3	19.1			6.4	11.3	$162.7	2.8%
Morgan Stanley	10.5	9.6	88.1	81.7	21.5	19.1			11.9	11.3	$176.2	3.0%
Schroders	6.3	9.6	80.5	81.7	15.9	19.1			7.8	11.3	$121.0	2.1%
Passive Developed Markets (2)												
State Street	4.2	4.2	57.3	57.3	3.7	3.4	0.8	0.5	6.7	6.5	$2,280.7	38.7%
									Since 10/1/92			
Equity Only (4) (6)	4.6	4.8	57.5	59.5	5.1	4.7	2.1	1.4	7.0	6.3	$5,891.3	100.0%
Total Program (5) (6)	**4.6**	**4.8**	**57.5**	**59.5**	**5.1**	**4.7**	**2.2**	**1.4**	**7.3**	**6.3**	**$5,891.3**	
SBI Int'l Equity Target (6)		4.8		59.5		4.7		1.4		6.3		
MSCI ACWI Free ex. U S (7)		4.8		59.3		5.1		1.8		6.8		
MSCI World ex U S. (net)		4.2		57.2		3.8		1.0		6.7		
MSCI EAFE Free (net)		4.3		57.5		3.4		0.5		6.5		
MSCI Emerging Markets Free (8)		9.6		81.7		18.2		9.9		6.6		

(1) Since retention by the SBI Time period varies for each manager
(2) Since 10/1/03, the Active and Passive Developed Markets managers benchmark is MSCI World ex U S. (net) Prior to that date, it was MSCI EAFE Free (net) From 10/1/01 to 5/31/02 the benchmark was the Provisional MSCI EAFE Free (net)
(3) As of 10/1/03, Marathon's benchmark is MSCI World ex U S (net) Through 9/30/03 Marathon was measured against a custom composite benchmark: 55% Citigroup EMI EPAC and 45% Citigroup PMI EPAC
(4) Equity managers only Includes impact of terminated managers.
(5) Includes impact of currency overlay on the passive EAFE portfolio from 12/1/95-10/31/00
(6) Since 10/1/03, the International Equity asset class target is MSCI ACWI Free ex U S (net) From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) plus Emerging MarketsFree (net), and from 7/1/99 to 12/31/00 the target was MSCI EAFE Free (net) plus Emerging Markets Free (gross) From 7/1/99 to 9/30/03, the weighting of each index fluctuated with market capitalization. From 10/1/01 to 5/31/02 all international benchmarks being reported were the MSCI Provisional indices. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE Free (net)/13% Emerging Markets Free (gross) On 5/1/96, the portfolio began transitioning from 100% EAFE Free (net) to the 12/31/96 fixed weights 100% EAFE Free (net) prior to 5/1/96
(7) MSCI ACWI Free ex U S. (gross) through 12/31/00 MSCI ACWI Free ex U.S (net) thereafter
(8) MSCI Emerging Markets Free (gross) through 12/31/00 MSCI Emerging Markets Free (net) thereafter

AMERICAN EXPRESS ASSET MANAGEMENT INTERNATIONAL, INC.
Periods Ending March, 2004

Portfolio Manager: Alex Lyle and Ed Gaunt **Assets Under Management: $521,306,035**

Investment Philosophy

American Express Asset Management's (AEAM) process identifies investment themes which they feel will drive improved return on capital, and will provide attractive investment opportunities. 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

Stock selection and country weighting decisions detracted equally from performance during the quarter. The portfolio's overweight to Europe and stock selection in Japan were the primary negative contributors.

The underperformance for the year was due to negative stock selection across several European markets as well as Japan.

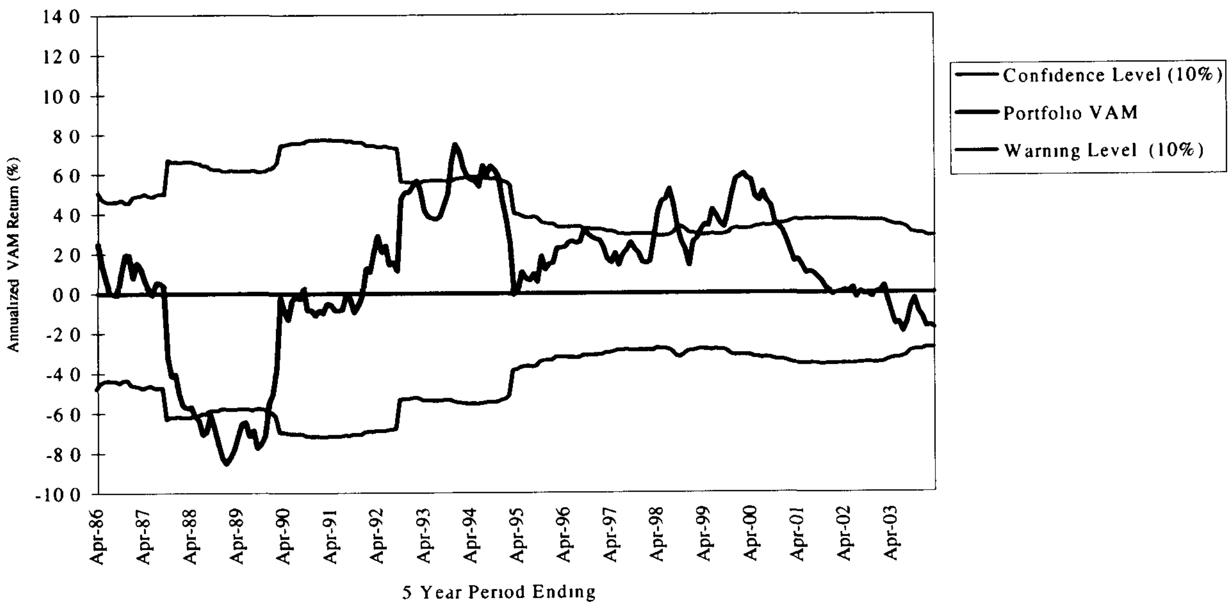
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.5%	4.2%
Last 1 year	48.3	57.3
Last 2 years	6.5	10.0
Last 3 years	0.2	3.4
Last 4 years	-10.0	-4.8
Last 5 years	N/A	N/A
Since Inception (3/00)	-9.1	-3.8

Recommendations

Staff is closely monitoring the firm due to organizational change and performance concerns.

AMERICAN EXPRESS ASSET MANAGEMENT INT'L
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

BRITANNIC ASSET MANAGEMENT (Blairlogie)
Periods Ending March, 2004

Portfolio Manager: James Smith **Assets Under Management: $340,124,186**

Investment Philosophy

Britannic's process incorporates a top-down model, with bottom-up stock selection They seek to combine qualitative and quantitative judgment, but believe that objective, measurable facts must always be the starting point for making sound investment decisions. Britannic has developed country and sector models which analyze a broad-based collection of current and historical data. The models rank countries and sectors according to their overall score on variables which are grouped into five categories including Value, Macro, Earnings, Monetary and Technical Regional analysts then select the best companies by region and sector based on fundamental analysis The objective of the process is to add value over the benchmark consistently in any market environment while controlling risk and volatility. Britannic's portfolio is broadly diversified in developed markets both by country and by sector, and has a large-cap emphasis.

Staff Comments

The portfolio matched the benchmark for the quarter. Strong stock selection in Japan, Sweden and Canada was offset by an overweight position in Europe

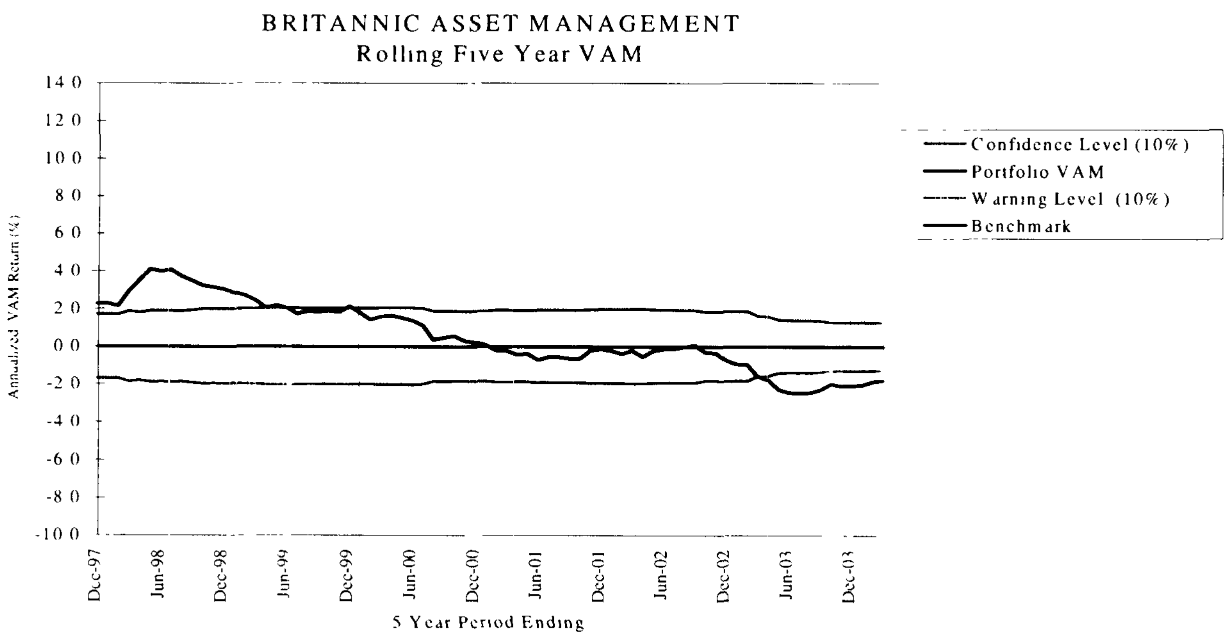
For the year, the small amount of cash held in the portfolio was the most significant negative contributor as equity markets rose significantly

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4 2%	4 2%
Last 1 year	56 3	57.3
Last 2 years	8 6	10.0
Last 3 years	2.8	3 4
Last 4 years	-6 2	-4 8
Last 5 years	N/A	N/A
Since Inception (3/00)	-5.0	-3.8

Recommendations

Staff is monitoring the firm due to performance concerns.



Note Shaded area includes performance prior to managing SBI account

INVESCO GLOBAL ASSET MANAGMENT
Periods Ending March, 2004

Portfolio Manager: Erik Granade **Assets Under Management: $483,325,107**

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

Stock selection in the financials, materials, and utilities sectors detracted from the portfolio's performance during the quarter.

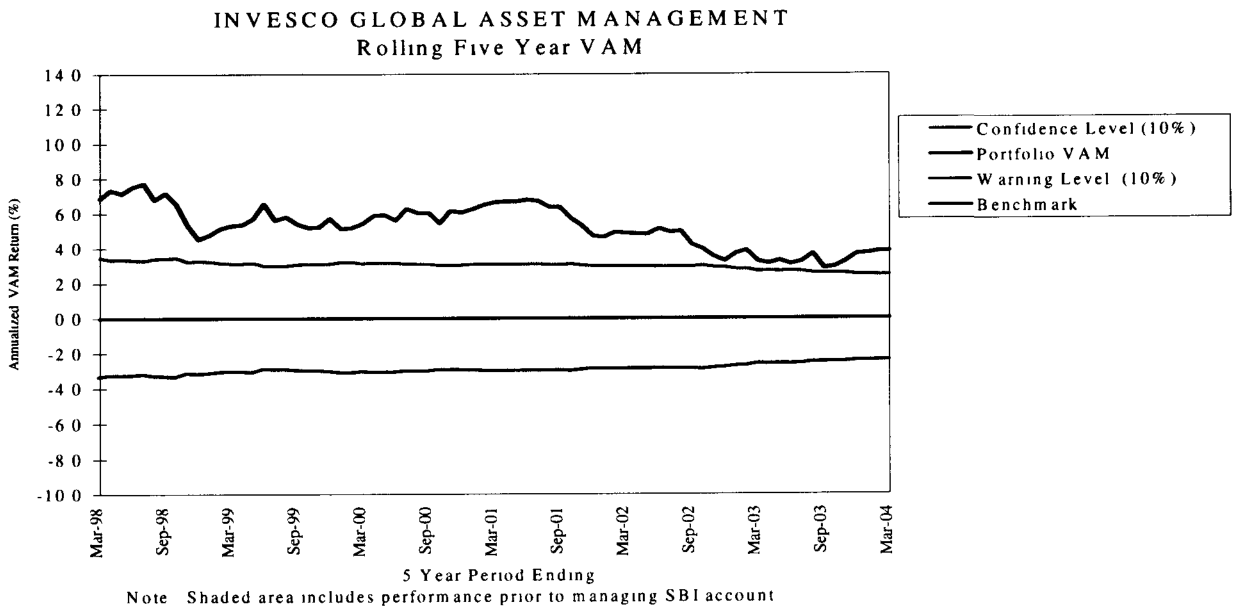
Stock selection in Japan was the most negative contributor during the year. The portfolio held globally oriented Japanese companies, while the market favored cyclically sensitive domestic names.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.3%	4.2%
Last 1 year	49.7	57.3
Last 2 years	8.6	10.0
Last 3 years	4.7	3.4
Last 4 years	-0.2	-4.8
Last 5 years	N/A	N/A
Since Inception (3/00)	0.5	-3.8

Recommendations

No action required.



Note Shaded area includes performance prior to managing SBI account

MARATHON ASSET MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: William Arah | **Assets Under Management: $572,381,426**

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

Both stock selection and country weighting decisions added significant value over the quarter Stock selection in Japan and in the United Kingdom was the most additive.

Over the year, the portfolio's emphasis on cyclical recovery stocks and a bias toward small and mid capitalization companies contributed significantly to performance

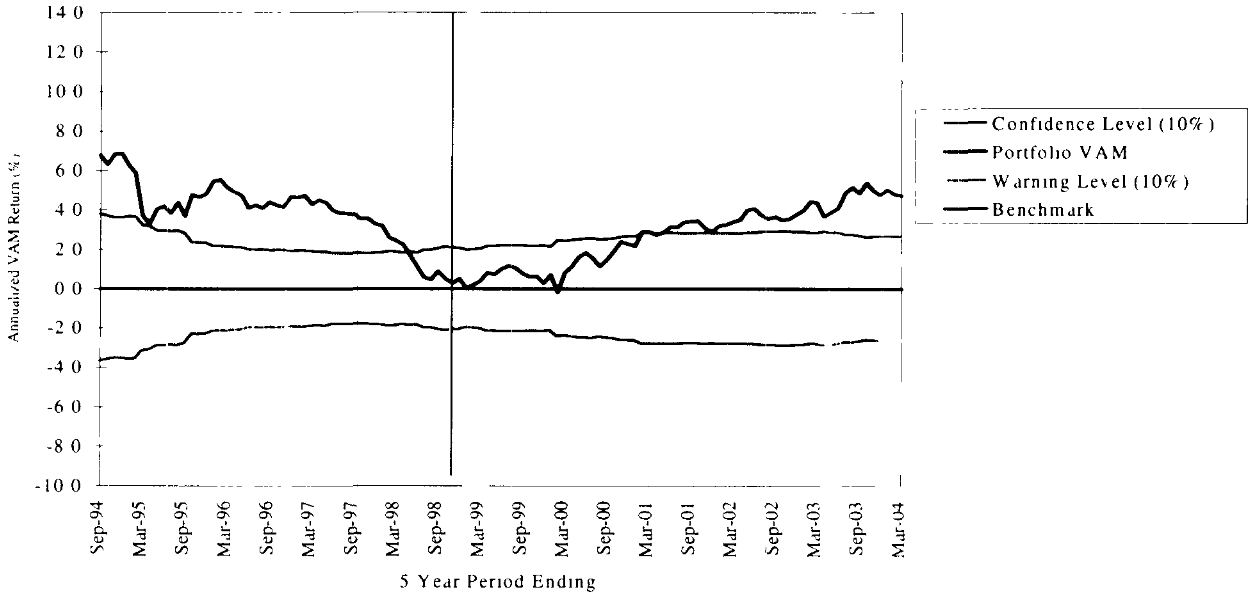
Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	7.4%	4.2%
Last 1 year	67.5	64.5
Last 2 years	17.1	15.0
Last 3 years	11.3	8.2
Last 4 years	5.0	-0.7
Last 5 years	8.9	4.0
Since Inception (11/93)	8.3	5.2

Recommendations

No action required

MARATHON ASSET MANAGEMENT
Rolling Five Rolling VAM



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

T. ROWE PRICE INTERNATIONAL, INC.
Periods Ending March, 2004

Portfolio Manager: David Warren **Assets Under Management: $542,124,885**

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

The portfolio underperformed during the quarter due to poor stock selection in the UK, France, and Japan. Pharmaceutical and bank holdings also detracted significantly.

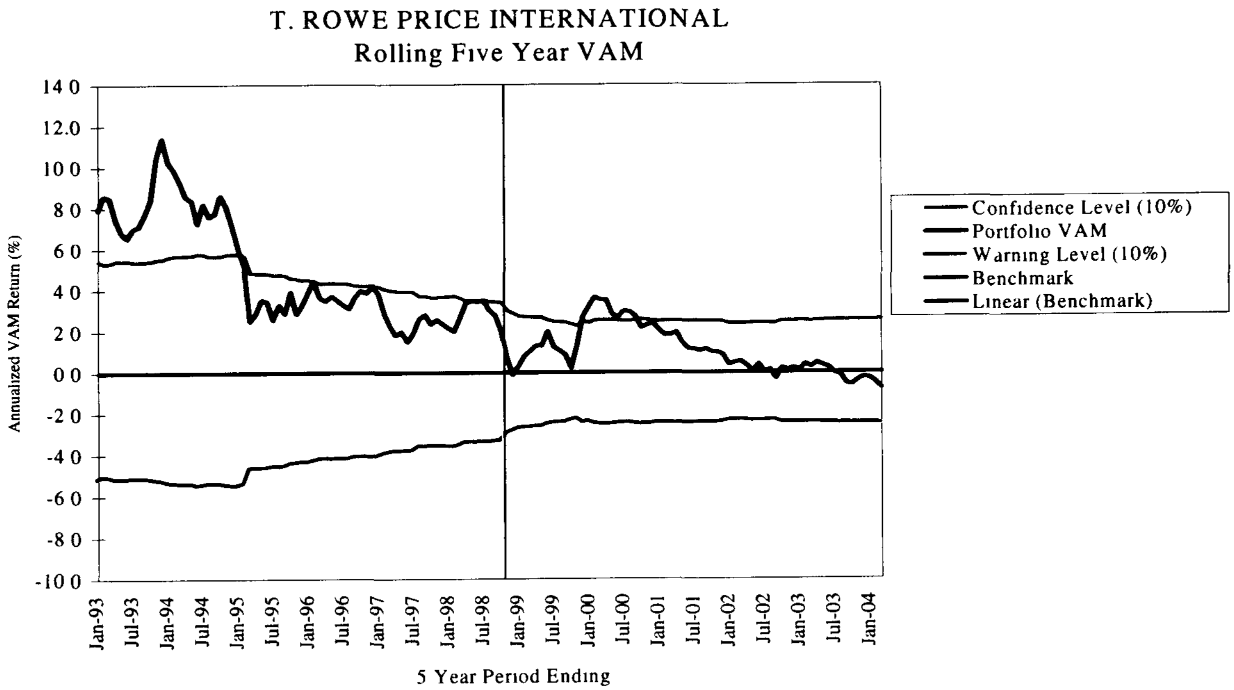
Underperformance for the year was due to both country weighting and stock selection decisions. Stock selection in Japan and the United Kingdom, the two largest countries in the benchmark, was particularly negative.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.3%	4.2%
Last 1 year	46.1	57.3
Last 2 years	4.4	10.0
Last 3 years	0.4	3.4
Last 4 years	-7.6	-4.8
Last 5 years	-0.3	0.5
Since Inception (11/93)	4.9	4.5

Recommendations

No action required.



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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending March, 2004

Portfolio Manager: Thomas Madsen **Assets Under Management: $507,409,031**

Investment Philosophy

UBS is a fundamental, long-term, value-oriented investor UBS 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. UBS establishes an allocation range around the target index to define the limits of their exposure to individual countries and to assure diversification

UBS 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

The portfolio's underperformance during the quarter and the year was due to negative stock selection, primarily in Japan

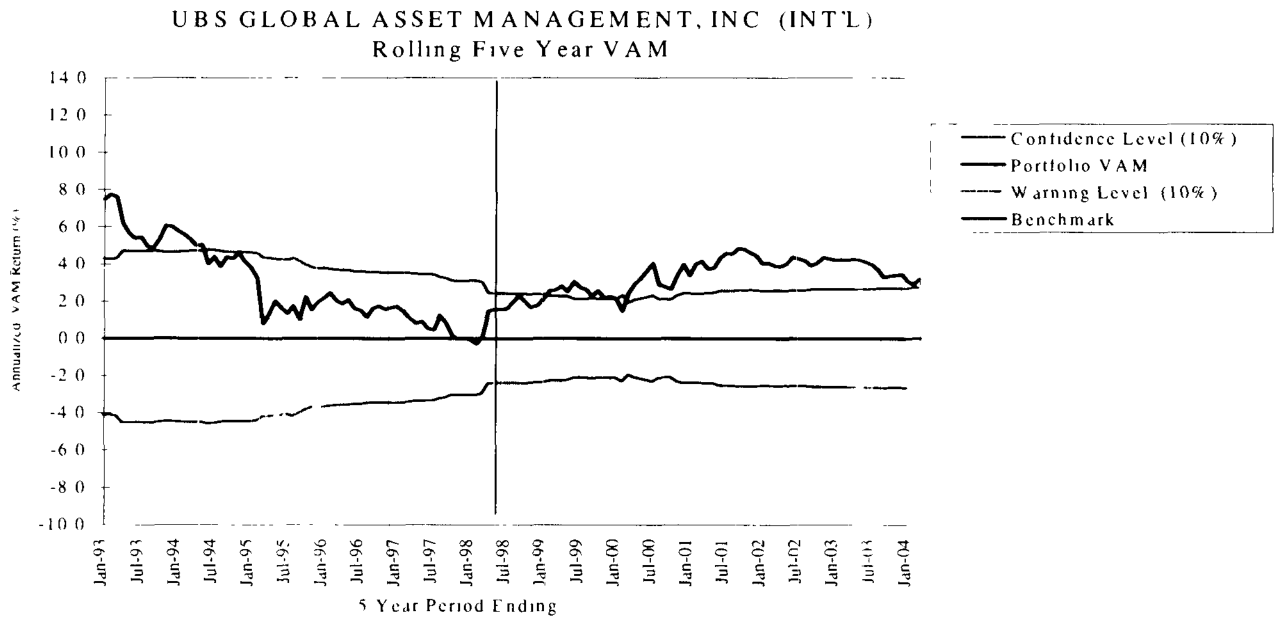
UBS announced in April that Kai Sotorp, formerly Head of Asia, will replace Brian Storms as the Head of UBS Global Asset Management, Americas This is a business role, and the change should not effect the investment process or personnel.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3 7%	4.2%
Last 1 year	52.2	57 3
Last 2 years	8 6	10 0
Last 3 years	4 6	3.4
Last 4 years	0.6	-4 8
Last 5 years	3 7	0 5
Since Inception (4/93)	7 8	6.1

Recommendations

No action required



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

ALLIANCE CAPITAL MANAGEMENT INTERNATIONAL
Periods Ending March, 2004

Portfolio Manager: Edward Baker | **Assets Under Management: $184,046,024**

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

Stock selection in Russian oils and South African materials stocks contributed positively during the quarter. The portfolio also benefited from being underweight China and Thailand.

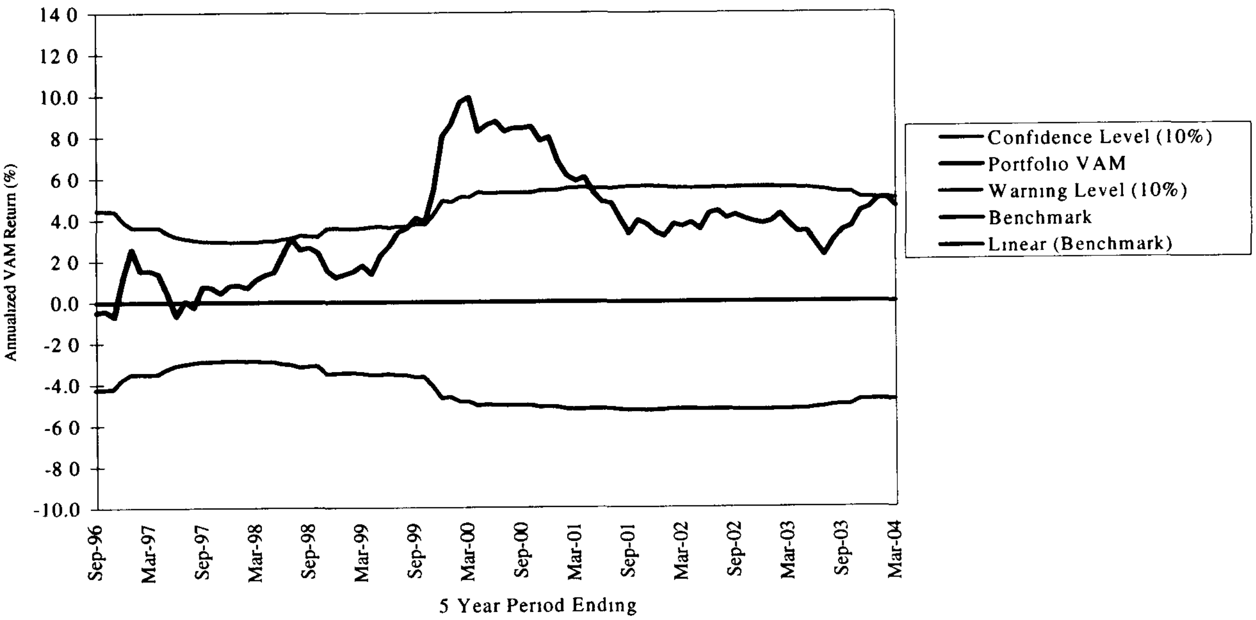
During the year, stock selection in Asia, particularly in Korea and India, contributed significantly to performance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.8	9.6
Last 1 year	83.6	81.7
Last 2 years	22.6	20.4
Last 3 years	20.1	19.1
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	10.8	11.3

Recommendations

No action required.



Note Shaded area includes performance prior to managing SBI account

CAPITAL INTERNATIONAL, INC.
Periods Ending March, 2004

Portfolio Manager: Victor Kohn | **Assets Under Management: $162,734,779**

Investment Philosophy

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

Staff Comments

Stock selection in Mexico and an underweight position in China were positive contributors to performance during the quarter. While for the year, stock selection in Korea and in South Africa contributed negatively

Capital announced in March that one of the nine portfolio managers in the multi-manager system will transition out of the emerging markets team to focus on private equity

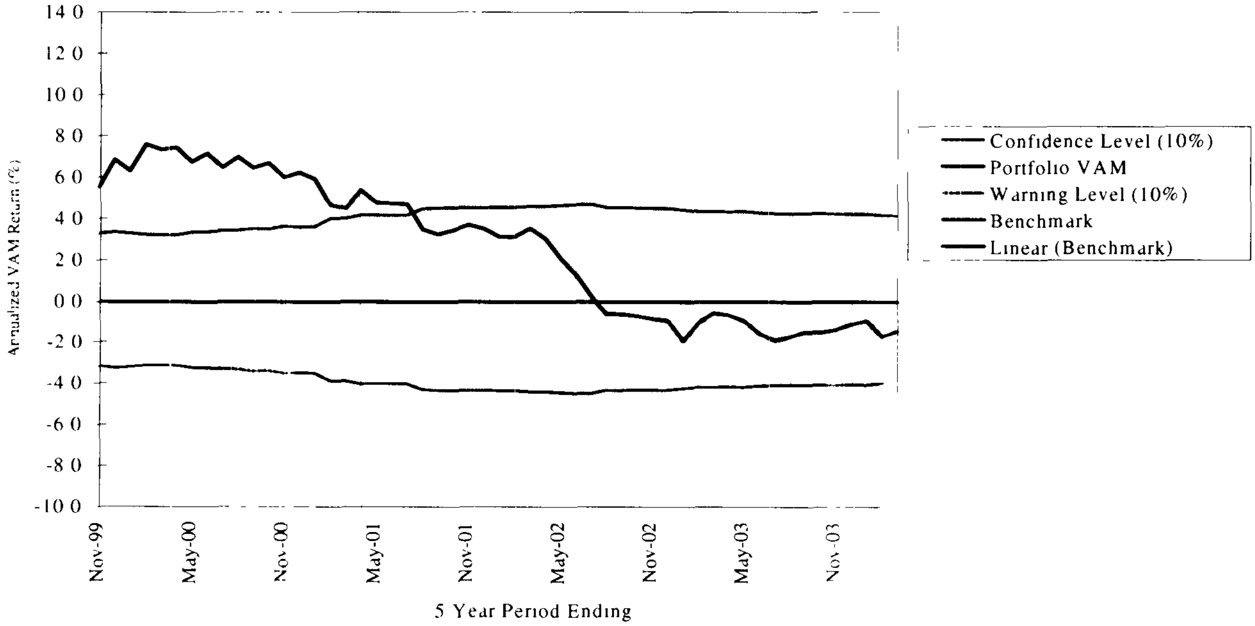
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9 9	9 6
Last 1 year	79.7	81 7
Last 2 years	15.6	20 4
Last 3 years	16.3	19 1
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	6 4	11.3

Recommendations

No action required

CAPITAL INTERNATIONAL, INC.
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Narayan Ramachandran **Assets Under Management: $176,167,754**

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

The portfolio gained from both stock selection and country weighting decisions. An underweight position in China, and stock selection in Taiwan and Turkey, contributed positively.

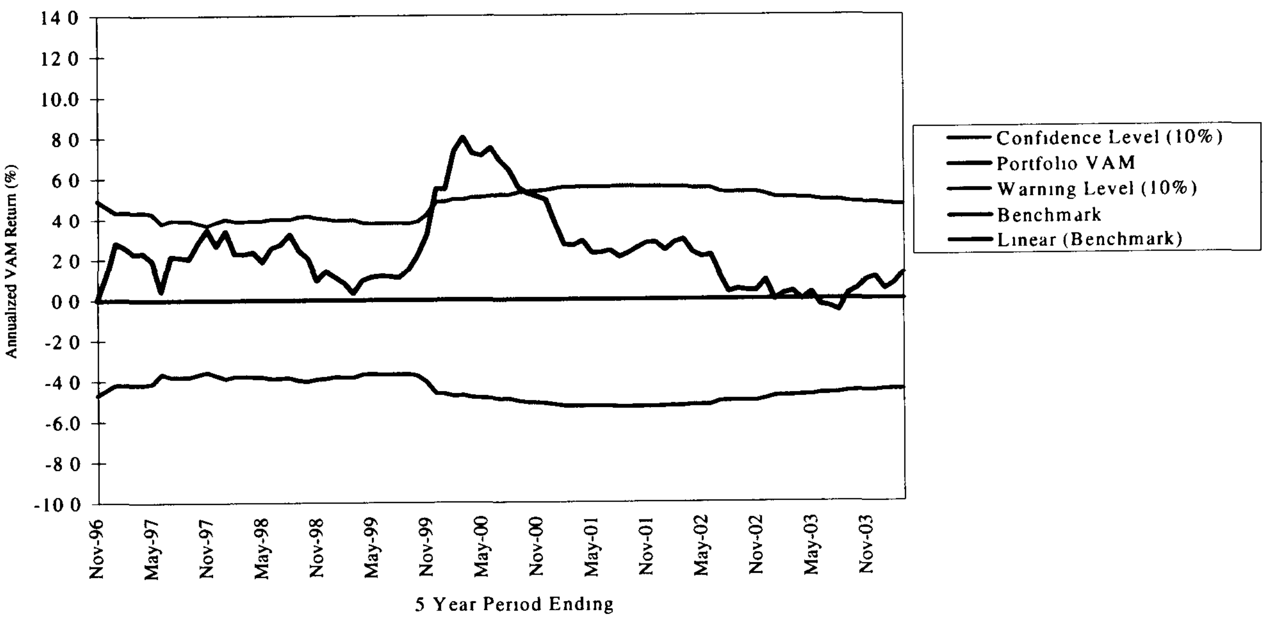
For the year, stock selection in Taiwan, Korea and Russia, and overweight to Indonesia added value.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.5%	9.6%
Last 1 year	88.1	81.7
Last 2 years	21.5	20.4
Last 3 years	21.5	19.1
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	11.9	11.3

Recommendations

No action required.



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

SCHRODERS INVESTMENT MANAGEMENT NORTH AMERICA INC.
Periods Ending March, 2004

Portfolio Manager: Peter Clark **Assets Under Management: $121,016,194**

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

The portfolio's overweight position in Brazil, along with negative stock selection in Asia detracted from performance for the quarter and the year.

During the quarter, Schroders announced that the regional portfolio manager for Eastern Europe, the Middle East and Africa would be leaving the team, and the SBI's two client service representatives resigned

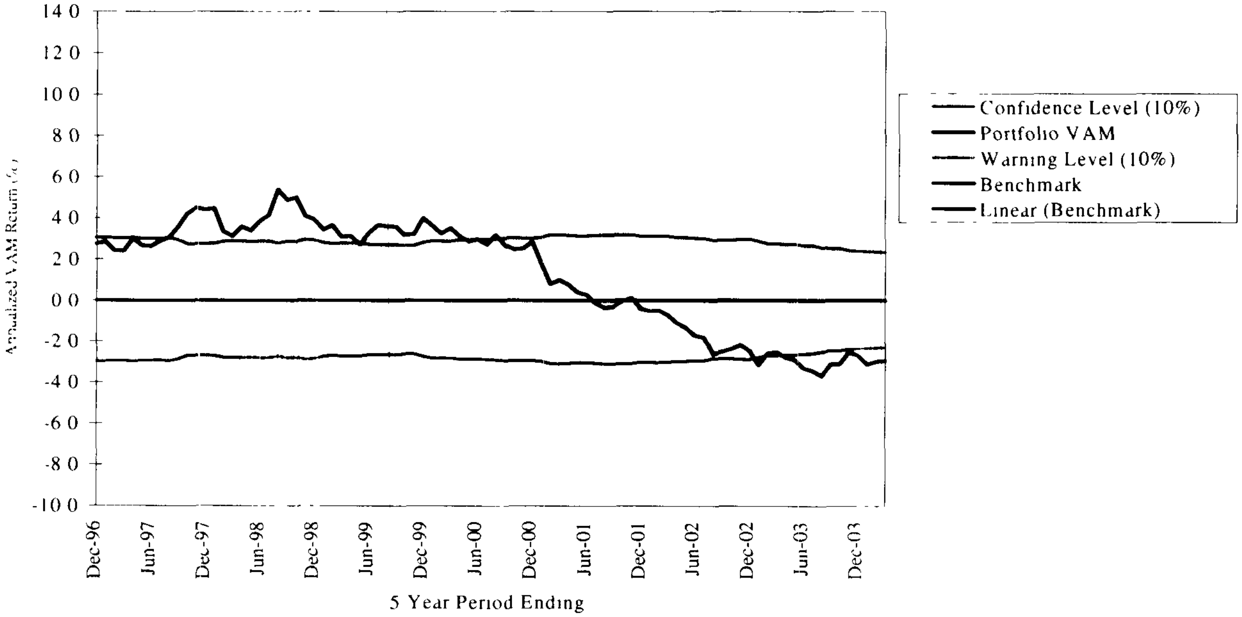
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6 3	9.6
Last 1 year	80 5	81.7
Last 2 years	18 2	20.4
Last 3 years	15 9	19.1
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	7.8	11.3

Recommendations

Staff recommends termination

SCHRODERS INVESTMENT MANAGEMENT
Rolling Five Year VAM



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

STATE STREET GLOBAL ADVISORS
Periods Ending March, 2004

Portfolio Manager: Lynn Blake **Assets Under Management: $2,280,662,649**

Investment Philosophy

State Street Global Advisors passively manages the portfolio against the Morgan Stanley Capital International (MSCI) index of 21 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 (net) 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 (net) index reinvests dividends assuming a withholding tax on dividends, according to the Luxembourg tax rate. Whereas the portfolio reinvests dividends using all available reclaims and tax credits available to a U.S. pension fund, which should result in modest positive tracking error, over time.

Staff Comments

The portfolio closely tracked the index both for the quarter and the year Performance is within expectation for the recent time periods.

SSgA announced in March that Peter Leahy was named Chief Operating Officer. He will be replaced by Paul Brakke as the Head of the Global Structured Products Group.

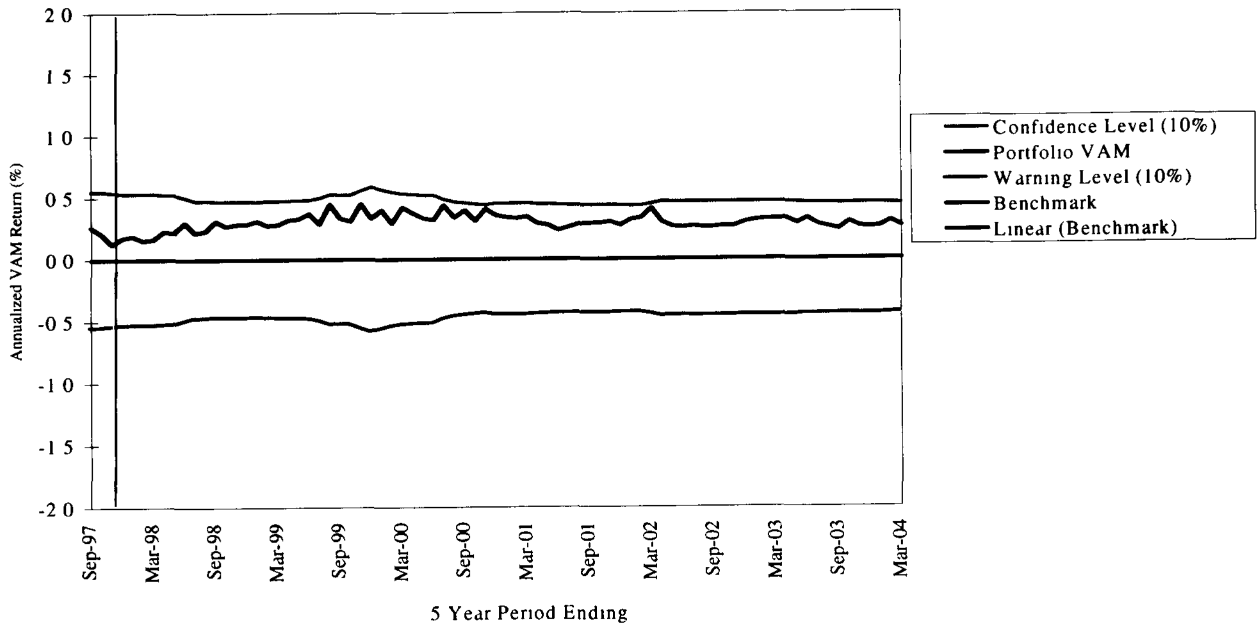
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.2%	4.2%
Last 1 year	57.3	57.3
Last 2 years	10.0	10.0
Last 3 years	3.7	3.4
Last 4 years	-4.7	-4.8
Last 5 years	0.8	0.5
Since Inception (10/92)	6.7	6.5

Recommendation

No action required.

STATE STREET GLOBAL ADVISORS
Rolling Five Year VAM



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

STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

First Quarter, 2004

NON - RETIREMENT MANAGERS
Periods Ending March, 2004

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	(in millions)
GE Investment Management (S&P 500 Index)*	1 0	1 7	29 1	35 1	-0 3	0 6	0 8	-1 2	13 0	12 1	$62.9
Voyageur Asset Management (Custom Benchmark)*	2 0	2 0	3 6	3 6	5 6	6 4	5 9	6 7	7 1	7 2	$194 7
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	1 1	0 6	4.5	2 6	5 4	3 2	5 8	4 3	6 2	5 2	$147 6
Internal Stock Pool (S&P 500 Index)*	1 7	1.7	35 2	35 1	0 7	0 6	-1 1	-1 2	11 0	10.9	$593 1
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	2 0	2.7	6 3	5 4	7 3	7 4	7 3	7 3	8 5	8 2	$168 4
Internal Bond Pool - Trust (Lehman Aggregate)*	2 0	2 7	6 2	5 4	7 6	7 4	7 4	7 3	8 2	7 9	$395 0

* 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 July 1994, the benchmark was the Salomon BIG

GE ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending March, 2004

Portfolio Manager: Dave Carlson | **Assets Under Management: $62,884,440**

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

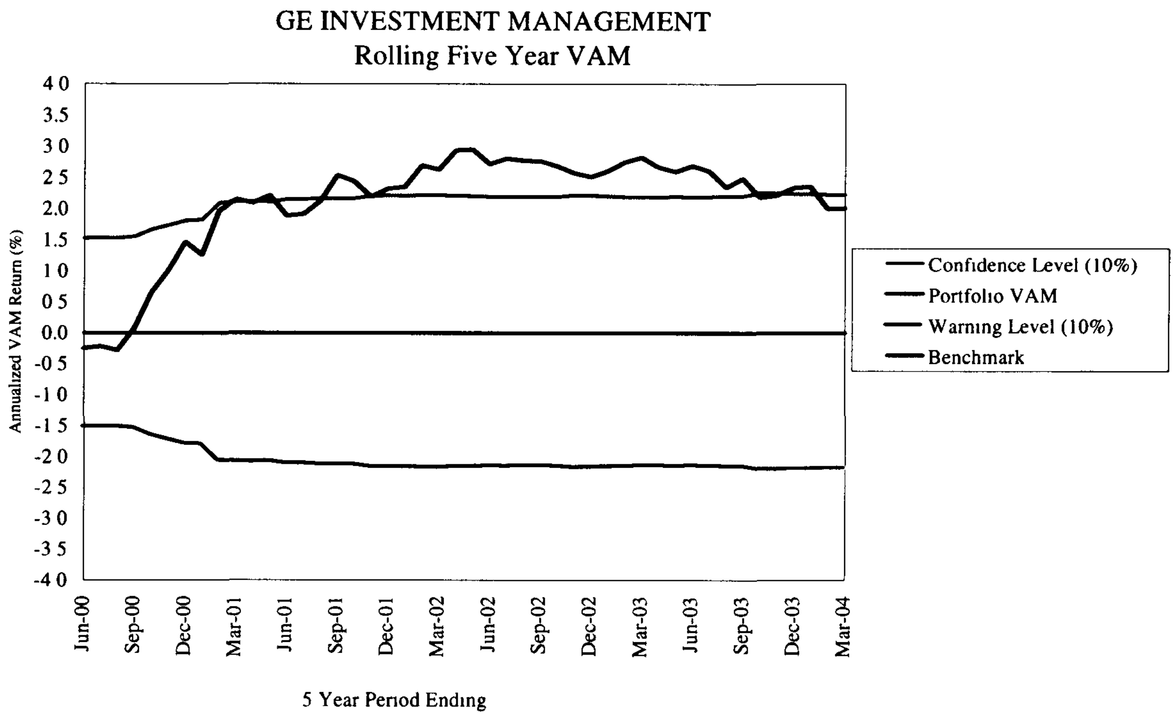
GE trailed the benchmark for the quarter, primarily due to stock selection in the information technology, telecommunication services and consumer discretionary sectors.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.0%	1.7%
Last 1 year	29.1	35.1
Last 2 years	-1.0	0.8
Last 3 years	-0.3	0.6
Last 4 years	-2.9	-5.5
Last 5 years	0.8	-1.2
Since Inception (1/95)	13.0	12.1

Recommendation

No recommendation at this time.



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending March, 2004

Portfolio Manager: Tom McGlinch **Assets Under Management: $194,665,128**

Investment Philosophy
Assigned Risk Plan

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

Staff Comments

Voyageur matched the benchmark for the quarter and the year. The returns for both periods were helped by the portfolio duration being shorter than the benchmark.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	2.0%	2.0%
Last 1 year	3.6	3.6
Last 2 years	6.7	6.8
Last 3 years	5.6	6.4
Last 4 years	6.7	7.6
Last 5 years	5.9	6.7
Since Inception (7/91)	7.1	7.2

*Custom benchmark since inception date

Recommendation

No action required

VAM will be drawn for period ending 6/30/05.

GALLIARD CAPITAL MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Karl Tourville **Assets Under Management: $147,564,313**

Investment Philosophy

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

Staff Comments

No comments at this time.

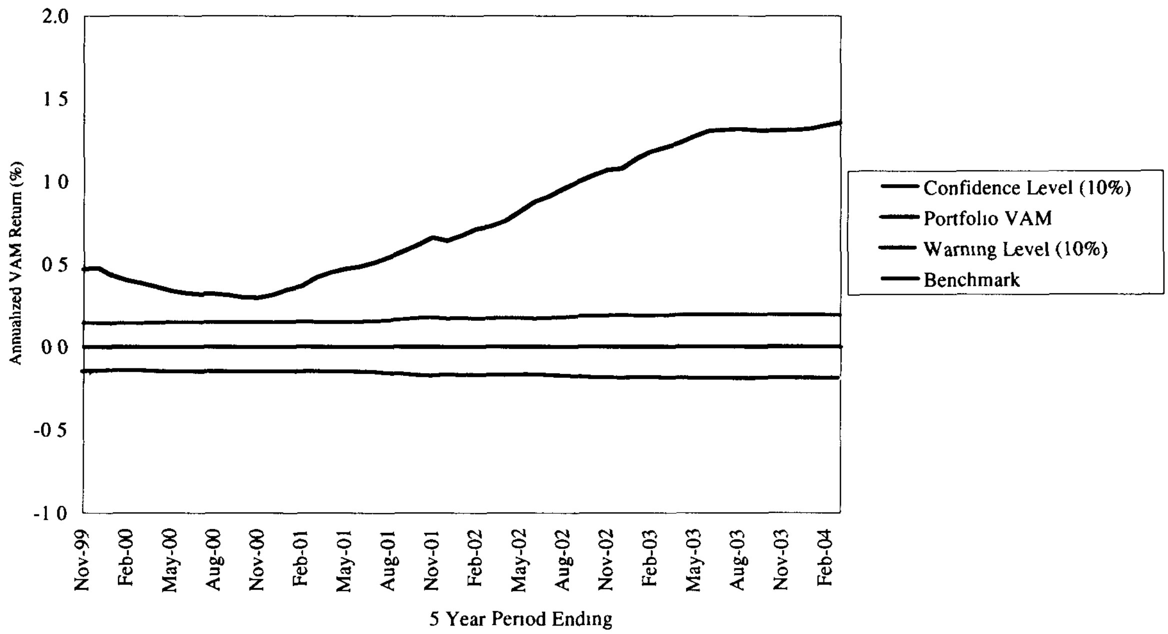
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.1%	0.6%
Last 1 year	4.5	2.6
Last 2 years	5.0	2.7
Last 3 years	5.4	3.2
Last 4 years	5.6	3.9
Last 5 years	5.8	4.3
Since Inception (11/94)	6.2	5.2

Recommendation

No action required.

Galliard Capital Management
Rolling Five Year VAM



INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending March, 2004

Portfolio Manager: Mike Menssen | **Assets Under Management: $593,052,002**

Investment Philosophy
Environmental Trust Fund
Permanent School Fund

The Internal Equity Pool is managed to closely track the S&P 500 Index. The strategy replicates the S&P 500 by owning all of the names in the index at weightings similar to those of the index. The optimization model's estimate of tracking error with this strategy is approximately 10 basis points per year.

Staff Comments

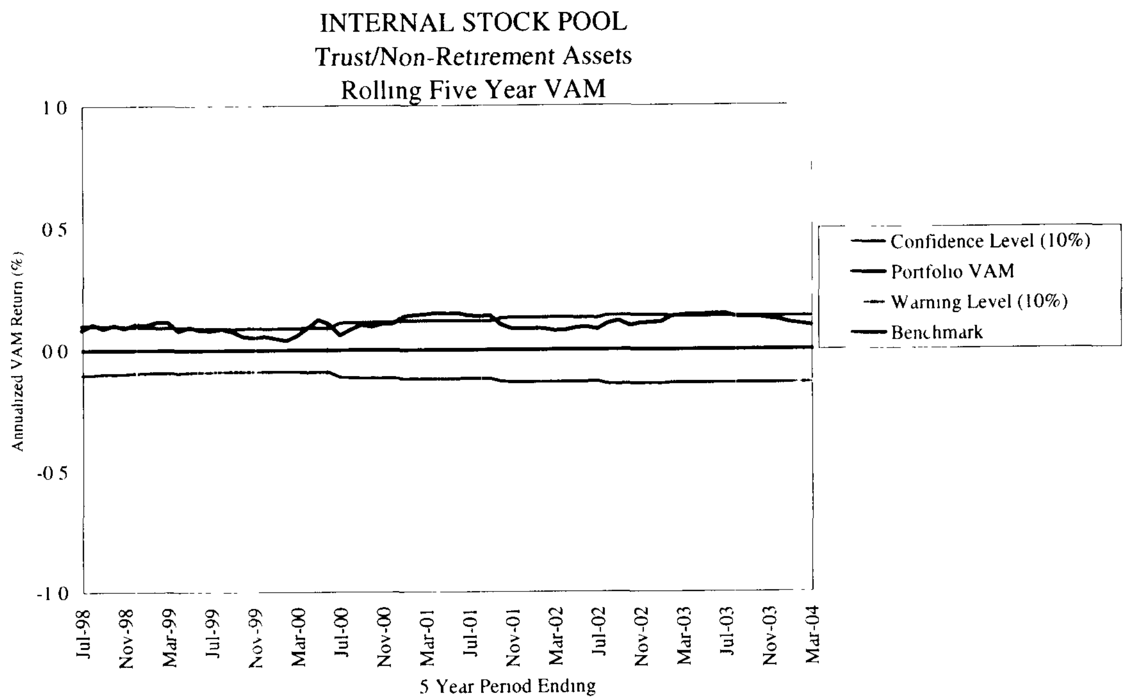
The portfolio matched the quarterly benchmark and had positive tracking error for the year

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.7%	1.7%
Last 1 year	35.2	35.1
Last 2 years	1 1	0.8
Last 3 years	0.7	0.6
Last 4 years	-5.3	-5.5
Last 5 years	-1.1	-1.2
Since Inception (7/93)	11 0	10.9

Recommendation

No action required



INTERNAL BOND POOL - Income Share Account
Periods Ending March, 2004

Portfolio Manager: Mike Menssen **Assets Under Management: $168,377,864**

Investment Philosophy
Income Share Account

The investment approach emphasizes sector and security selection. The approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings. The portfolio duration remains close to the benchmark duration but may be shortened or lengthened depending on changes in the economic outlook.

Staff Comments

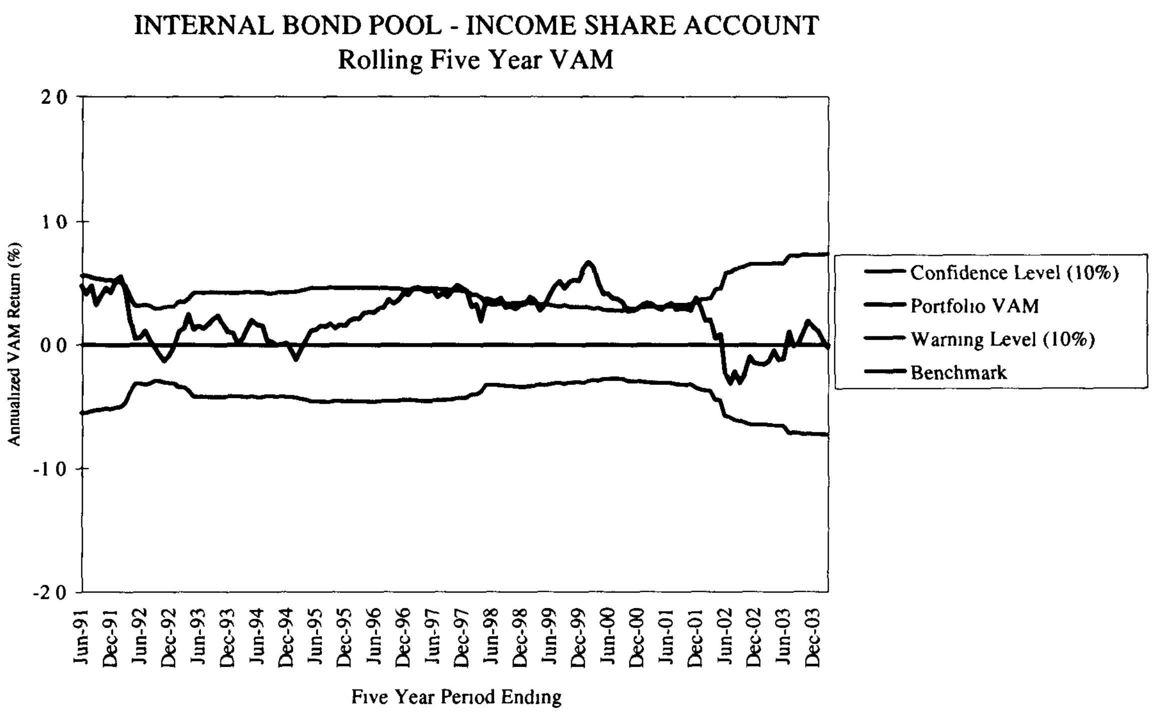
The internal bond pool underperformed the quarterly benchmark. The portfolio trailed the benchmark due to a shorter than benchmark duration and an overweight in the BBB portion of the corporate sector. The one-year outerperformance was helped by the overweight in the BBB portion of the corporate sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.0%	2.7%
Last 1 year	6.3	5.4
Last 2 years	8.2	8.5
Last 3 years	7.3	7.4
Last 4 years	8.5	8.7
Last 5 years	7.3	7.3
Since Inception (7/86)	8.5	8.2

Recommendation

No action required.



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending March, 2004

Portfolio Manager: Mike Menssen **Assets Under Management: $395,008,056**

Investment Philosophy
Environmental Trust Fund
Permanent School Trust Fund

The internal bond portfolio's investment approach emphasizes sector and security selection The approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings The portfolio duration remains close to the benchmark duration but may be shortened or lengthened depending on changes in the economic outlook

Staff Comments

The internal bond pool underperformed the quarterly benchmark The portfolio trailed the benchmark due to a shorter than benchmark duration and an overweight in the BBB portion of the corporate sector. The one-year outerperformance was helped by the overweight in the BBB portion of the corporate sector.

Quantitative Evaluation

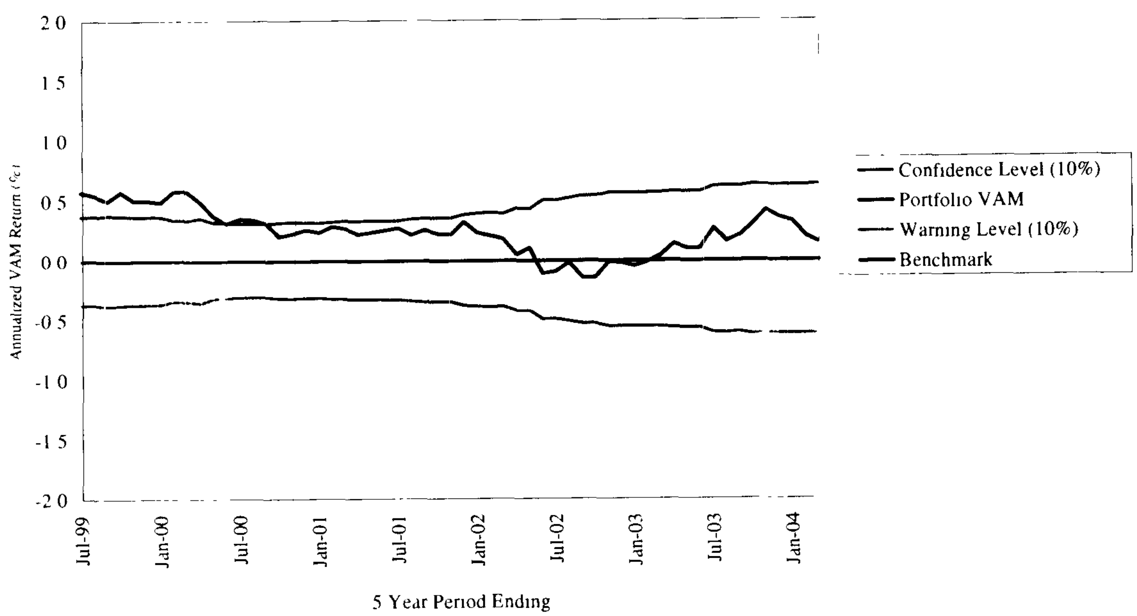
	Actual	Benchmark
Last Quarter	2 0%	2.7%
Last 1 year	6 2	5.4
Last 2 years	8 6	8 5
Last 3 years	7.6	7 4
Last 4 years	8.7	8.7
Last 5 years	7 4	7.3
Since Inception (7/94)*	8 2	7.9

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

Recommendation

No action required

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



STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

First Quarter, 2004

MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Periods Ending March, 2004

457 Mutual Funds	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since Retention by SBI * %	Since Retention by SBI * %	State's Participation In Fund ($ millions)
Large Cap Equity:											
Janus Twenty (S&P 500)	5.5	1.7	33 0	35.1	-1.9	0 6	-8 4	-1.2	-8 0	-2 7	$248 7
Smith Barney Appr Y (S&P 500)	2.1	1 7	30.2	35.1	3.2	0.6	2.9	-1.2	7.0	7 0	$107 6
Vanguard Institutional Index Plus (S&P 500)	1.7	1 7	35 1	35.1	0.7	0.6	-1.1	-1.2	-2.6	-2 7	$381.6
Mid Cap Equity:											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	4.7	4.7	47.2	46.7	10.4	10.1	11 8	11.4	4 7	4.7	$33 5
Small Cap Equity:											
T. Rowe Price Small-Cap Stock (Russell 2000)	4.8	6 3	45.7	63.8	11.6	10.9	13.4	9.7	10.9	6 9	$318 0
Balanced:											
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	4.0	2.1	33.3	22.6	10.7	3.8	11.7	2.5	14 3	9 6	$141.7
Vanguard Balanced Index Inst. Fund (60% Wilshire 5000, 40% Lehman Agg)	2.6	2.6	24.8	24.9	4.8	5.1			5.7	5.8	$162.7
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)	1 9	2.7	6.5	5.4	8.3	7.4	7.8	7.3	8 4	7.9	$74 6
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	2.7	2.7	5.6	5.4	6.8	7.4	7.0	7.3	3.7	3.7	$44.9
International:											
Fidelity Diversified International (MSCI EAFE-Free)	6.7	4.3	61.2	57.5	10.7	3 5	9.8	0.5	8.9	0 0	$129 3
Vanguard Inst. Dev. Mtks. Index Fund (MSCI EAFE)	4.3	4.3	57.8	57.5	3.4	3.4			12.5	12.5	$20.0

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

Numbers in blue include returns prior to retention by SBI.

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

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

Fixed Fund:	%
Blended Yield Rate for current quarter***:	5.1
Bid Rates for current quarter:	
Great West Life	3.8
Minnesota Life	3 5
Principal Life	3 8

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

MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY - JANUS TWENTY
Periods Ending March, 2004

State's Participation in Fund: $248,650,369
Portfolio Manager: Scott W. Schoelzel **Total Assets in Fund: $9,467,100,000**

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 outperformed the quarterly benchmark. The portfolio was helped by stock selection, specifically.

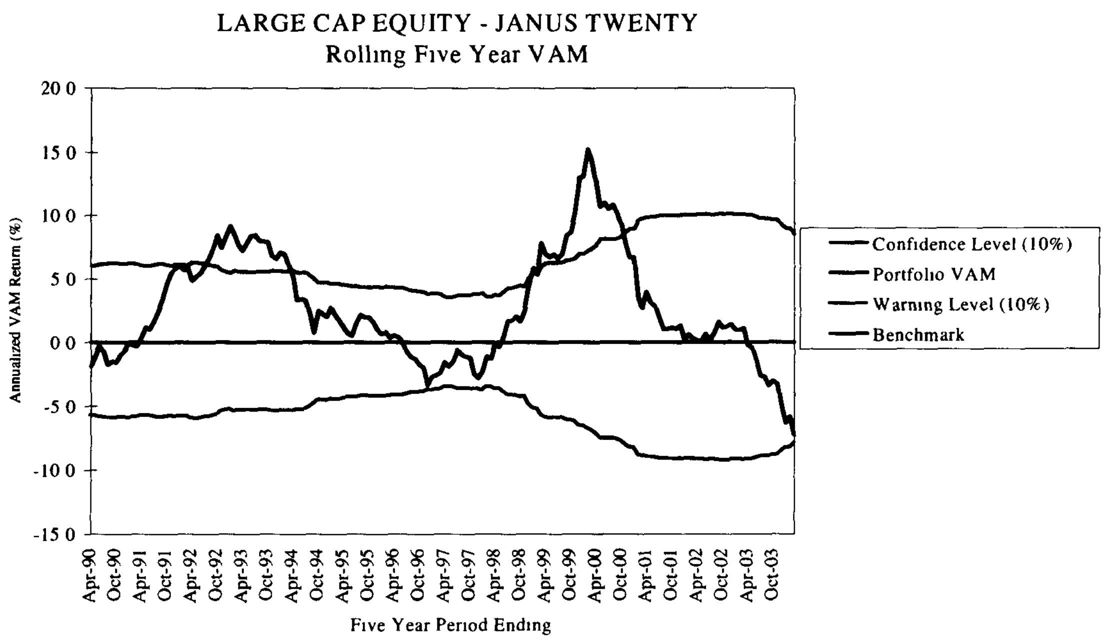
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	5.5%	1.7%
Last 1 year	33.0	35.1
Last 2 years	3.2	0.8
Last 3 years	-1.9	0.6
Last 4 years	-17.8	-5.5
Last 5 years	-8.4	-1.2
Since Retention by SBI (7/99)	-8.0	-2.7

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

Recommendation

No action required.



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – SMITH BARNEY APPRECIATION Y
Periods Ending March, 2004

State's Participation in Fund:	**$107,621,888**
Total Assets in Fund:	**$5,517,400,000**

Portfolio Manager: Hersh Coen

Investment Philosophy
Smith Barney Appreciation Y

The Fund invests in U.S. growth and value stocks, primarily blue-chip companies that are dominant in their industries. Investments are selected from among a core base of stocks with a strong financial history, recognized industry leadership, and effective management teams that strive to earn consistent returns for shareholders. The portfolio manager looks for companies that he believes are undervalued with the belief that a catalyst will occur to unlock these values.

Staff Comments

No comment at this time

Quantitative Evaluation

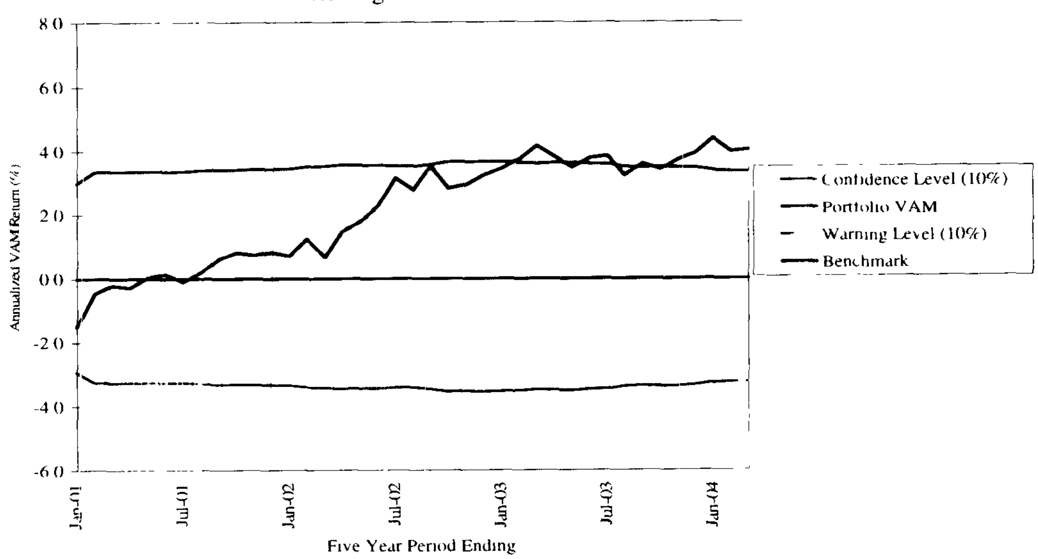
	Actual	Benchmark*
Last Quarter	2.1%	1.7%
Last 1 year	30.2	35.1
Last 2 years	3.1	0.8
Last 3 years	3.2	0.6
Last 4 years	0.6	-5.5
Last 5 years	2.9	-1.2
Since Retention by SBI (12/03)	7.0	7.0

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

Recommendation

No action required

LARGE CAP EQUITY - SMITH BARNEY APPRECIATION Y
Rolling Five Year VAM



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
EQUITY INDEX - VANGUARD INSTITUTIONAL INDEX PLUS
Periods Ending March, 2004

State's Participation in Fund: $381,638,509
Portfolio Manager: George U. Sauter | **Total Assets in Fund: $10,744,831,838**

Investment Philosophy
Vanguard Institutional Index

This fund attempts to provide investment results, before fund expenses, that parallel the performance of the Standard & Poor's 500 Index. The fund invests in all 500 stocks listed in the S&P 500 index in approximately the same proportions as they are represented in the index. The managers have tracked the S&P 500's performance with a high degree of accuracy. The fund may use futures and options for temporary purposes, but generally remains fully invested in common stock.

Staff Comments

No comment at this time.

Quantitative Evaluation

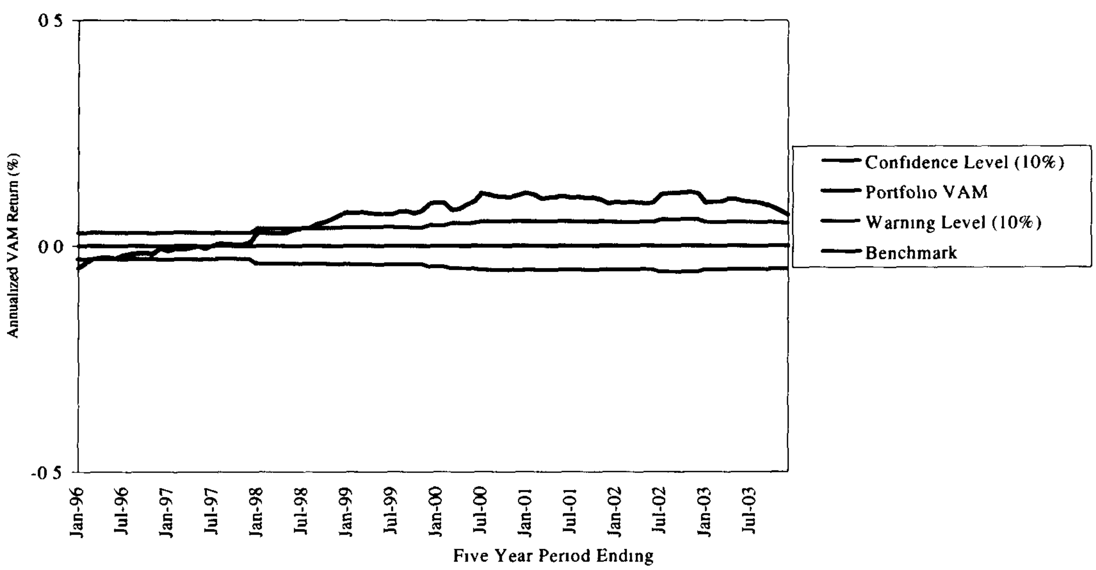
	Actual	Benchmark*
Last Quarter	1.7%	1.7%
Last 1 year	35.1	35.1
Last 2 years	0.9	0.8
Last 3 years	0.7	0.6
Last 4 years	-5.4	-5.5
Last 5 years	-1.1	-1 2
Since Retention by SBI (7/99)	-2.6	-2.7

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

Recommendation

No action required.

EQUITY INDEX - VANGUARD INSTITUTIONAL INDEX
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
MID CAP EQUITY – VANGUARD MID-CAP INDEX
Periods Ending March, 2004

State's Participation in Fund: $33,469,467
Total Assets in Fund: $1,320,108,863

Portfolio Manager: George U. Sauter

Investment Philosophy
Vanguard Mid-Cap Index

The fund employs a "passive management"- or indexing- investment approach designed to track the performance of the MSCI® US Mid Cap 450 Index, a broadly diversified index of stocks of medium-size U.S companies. The fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting within the index.

Staff Comments

No comment at this time.

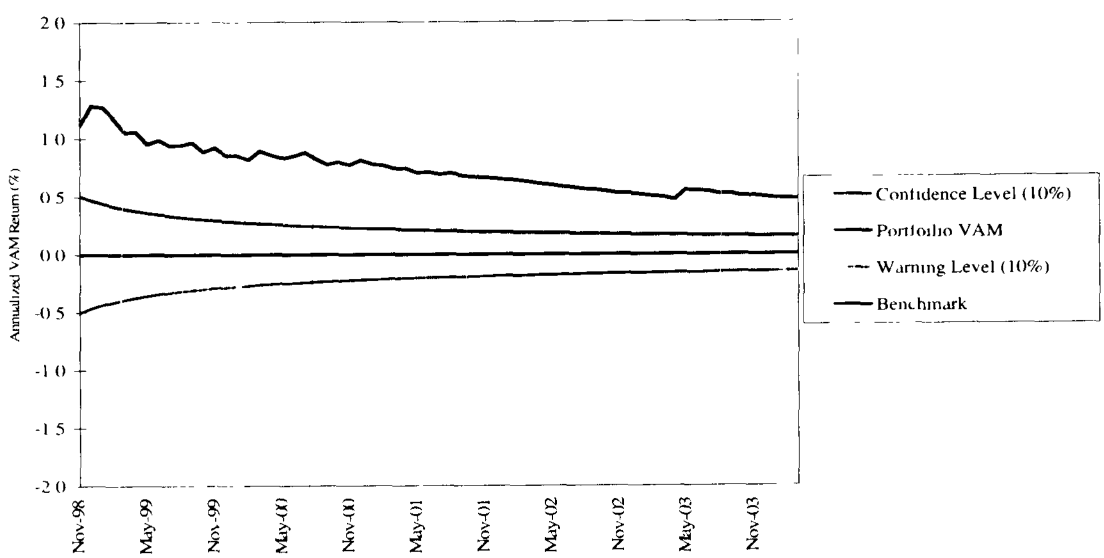
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	4.7%	4.7%
Last 1 year	47.2	46.7
Last 2 years	6.2	6.0
Last 3 years	10.4	10.1
Last 4 years	5.9	5.6
Last 5 years	11.8	11.4
Since Retention by SBI (1/04)	4.7	4.7

*Benchmark is the MSCI US Mid Cap 450.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP STOCK FUND
Periods Ending March, 2004

Portfolio Manager: Gregory A. McCrickard

State's Participation in Fund: $318,025,926
Total Assets in Fund: $5,685,516,000

Investment Philosophy
T. Rowe Price Small Cap Equity Fund

The strategy of this fund is to invest primarily in stocks of small to medium-sized companies that are believed to offer either superior earnings growth or appear undervalued. The fund normally invests at least 80% of assets in equities traded in the U.S over-the-counter market. The manager does not favor making big bets on any particular sector or any particular stock. The fund's combination of growth and value stocks offers investors relatively more stable performance compared to other small cap stock funds.

Staff Comments

T. Rowe-Price was hurt during the quarter by stock selection in the information technology sector.

Quantitative Evaluation

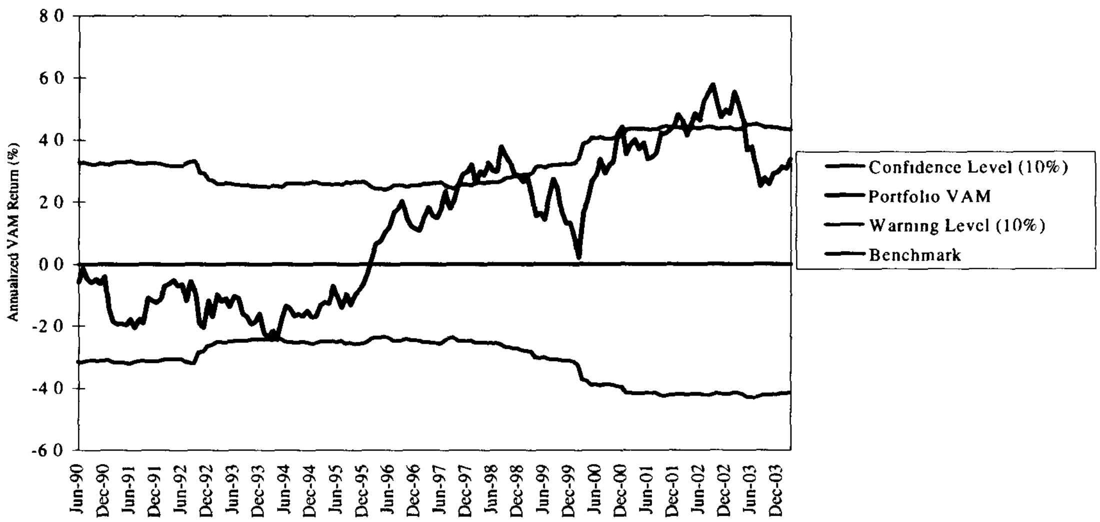
	Actual	Benchmark*
Last Quarter	4.8%	6.3%
Last 1 year	45.7	63.8
Last 2 years	6.9	9.4
Last 3 years	11.6	10.9
Last 4 years	8.1	3.7
Last 5 years	13.4	9.7
Since Retention by SBI (7/99)	10.9	6.9

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

Recommendation

No action required.

SMALL CAP EQUITY - T. ROWE PRICE SMALL CAP EQUITY FUND
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – DODGE & COX BALANCED FUND
Periods Ending March, 2004

State's Participation in Fund: $141,650,471

Portfolio Manager: John Gunn | **Total Assets in Fund: $15,770,693,681**

Investment Philosophy
Dodge & Cox Balanced Fund

The Fund seeks regular income, conservation of principal and an opportunity for long-term growth of principal and income The Fund invests in a diversified portfolio of common stocks preferred stocks and fixed income securities

Staff Comments

Dodge & Cox outperformed the quarterly benchmark due to the equity portfolio exceeding its benchmark. The equity portfolio was helped by stock selection across various sectors The fixed income portfolio trailed the quarterly benchmark due to its shorter duration.

Quantitative Evaluation

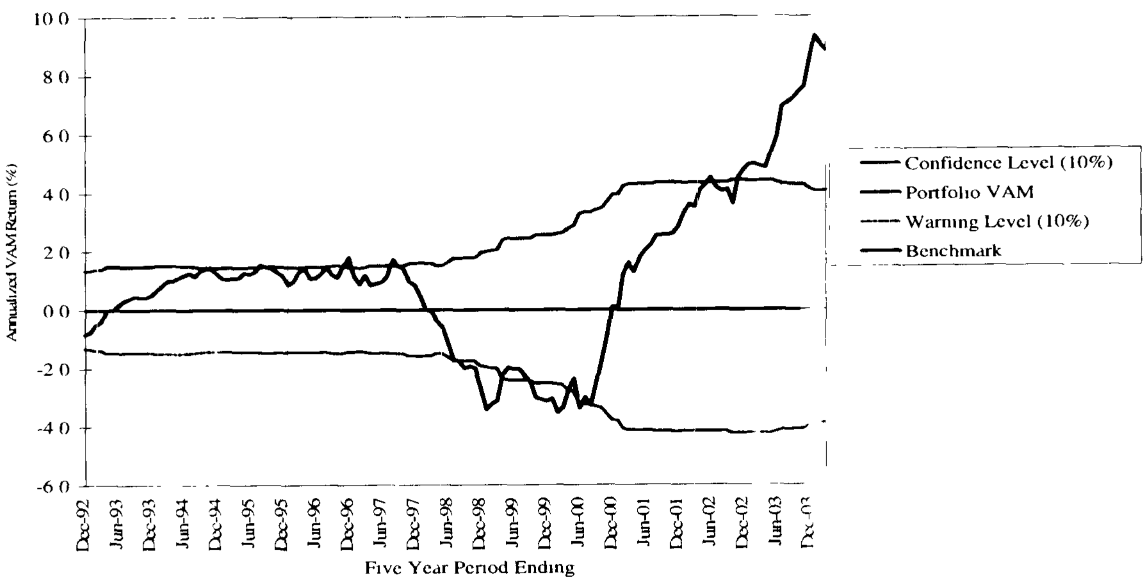
	Actual	Benchmark*
Last Quarter	4.0%	2.1%
Last 1 year	33.3	22.6
Last 2 years	10.3	4.3
Last 3 years	10.7	3.8
Last 4 years	12.0	0.4
Last 5 years	11.7	2.5
Since Retention By SBI (10/03)	14.3	9.6

*Benchmark is 60% S&P 500, 40% Lehman Aggregate.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required

BALANCED - DODGE & COX BALANCED FUND
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – VANGUARD BALANCED INDEX INSTITUTIONAL FUND
Periods Ending March, 2004

		State's Participation in Fund:	**$162,720,155**
Portfolio Manager:	**George U. Sauter**	**Total Assets in Fund:**	**$1,383,184,981**

Investment Philosophy
Vanguard Balanced Index Fund

The fund's assets are divided between stocks and bonds, with an average of 60% of its assets in stocks and 40% in bonds. The fund's stock segment attempts to track the performance of the Wilshire 5000 Total Market Index, an unmanaged index that covers all regularly traded U.S. stocks. The fund's bond segment attempts to track the performance of the Lehman Brothers Aggregate Bond Index, an unmanaged index that covers virtually all taxable fixed-income securities.

Staff Comments

No comment at this time.

Quantitative Evaluation

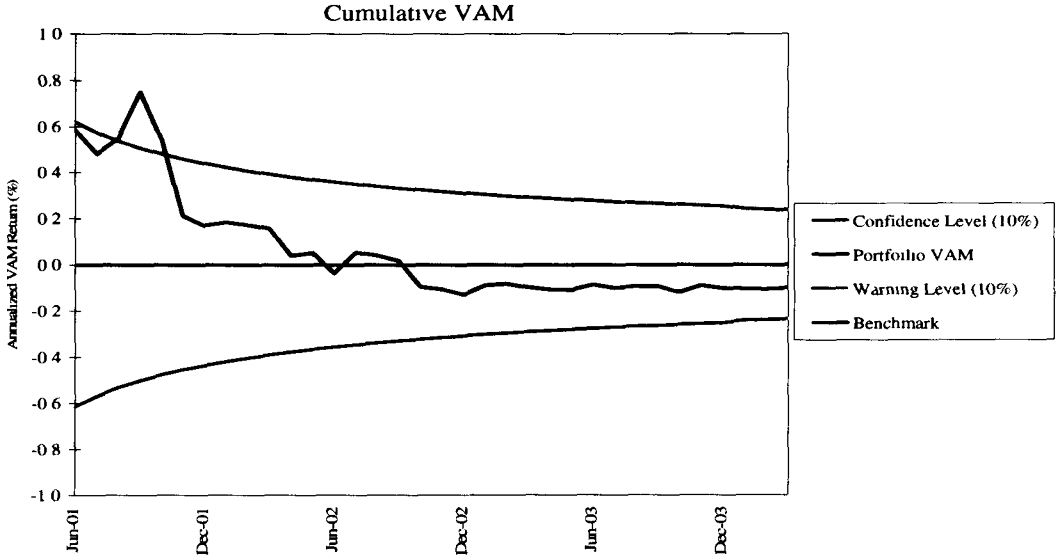
	Actual	**Benchmark***
Last Quarter	2.6%	2.6%
Last 1 year	24.8	24.9
Last 2 years	5.3	5.6
Last 3 years	4.8	5.1
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Retention by SBI (12/03)	5.7	5.8

*Benchmark is 60% Wilshire, 40% Lehman Aggregate.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.

BALANCED INDEX - VANGUARD BALANCED INDEX
Cumulative 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, 2004

State's Participation in Fund: **$74,582,786**
Portfolio Manager: Dana Emery **Total Assets in Fund:** **$6,367,528,865**

Investment Philosophy
Dodge & Cox Income Fund

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

Staff Comments

Dodge & Cox trailed the quarterly benchmark. The quarterly performance was hurt by security selection in the corporate sector The portfolio's shorter than benchmark duration detracted from quarterly returns as interest rates declined

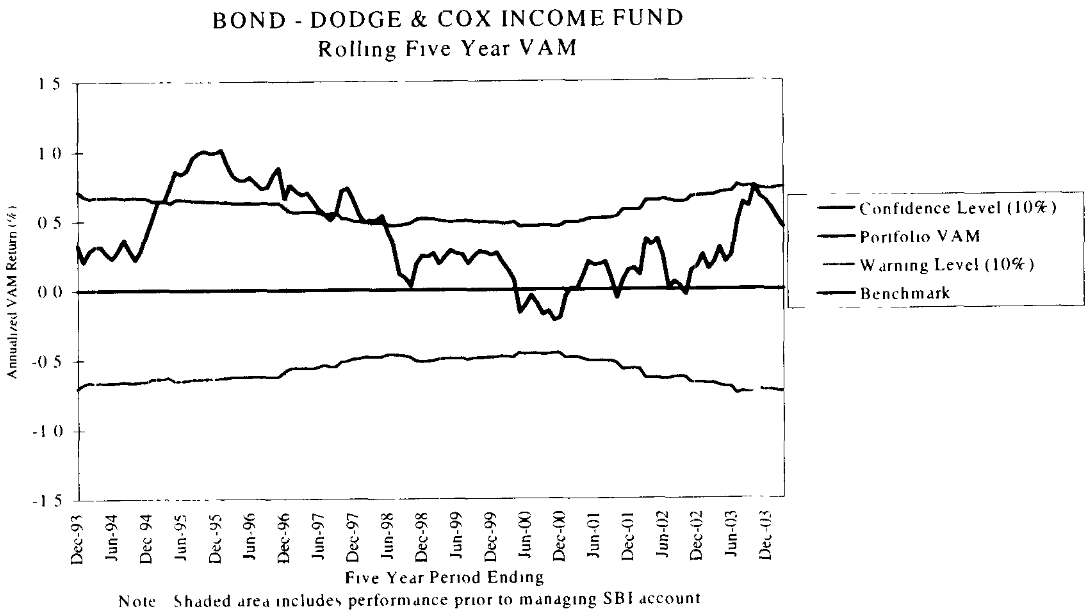
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.9%	2.7%
Last 1 year	6.5	5.4
Last 2 years	8.8	8.5
Last 3 years	8.3	7.4
Last 4 years	9.4	8 7
Last 5 years	7 8	7 3
Since Retention By SBI (10/03)	8 4	7.9

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

Recommendation

No action required



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – VANGUARD TOTAL BOND MARKET INDEX INSTITUTIONAL
Periods Ending March, 2004

	State's Participation in Fund:	**$44,915,512**
Portfolio Manager: Robert Auwaerter	**Total Assets in Fund:**	**$7,086,123,097**

Investment Philosophy
Vanguard Total Bond Market Index Institutional

The fund attempts to track the performance of the Lehman Brothers Aggregate Bond Index, which is a widely recognized measure of the entire taxable U.S. bond market. The index consists of more than 5,000 U.S. Treasury, federal agency, mortgage-backed, and investment-grade corporate securities. Because it is not practical or cost-effective to own every security in the index, the fund invests in a large sampling that matches key characteristics of the index (such as market-sector weightings, coupon interest rates, credit quality, and maturity). To boost returns, the fund holds a higher percentage than the index in short-term, investment-grade corporate bonds and a lower percentage in short-term Treasury securities.

Staff Comments

No comment at this time.

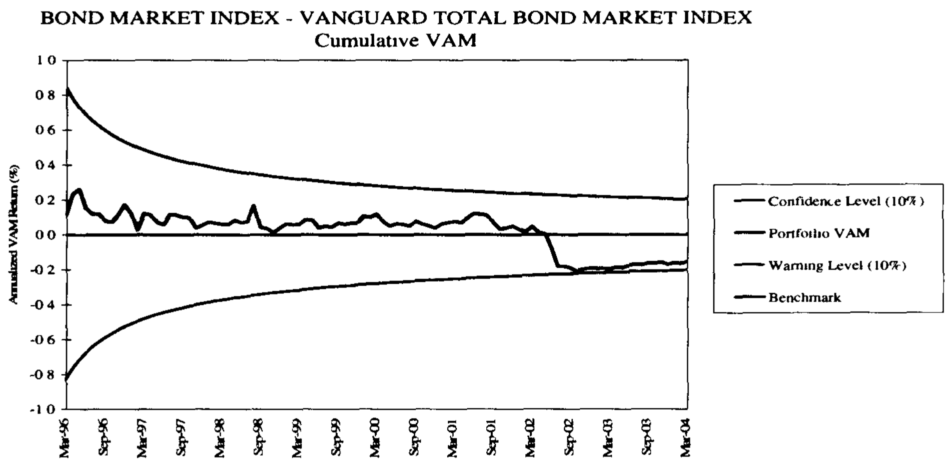
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	2.7%	2.7%
Last 1 year	5.6	5.4
Last 2 years	7.6	8.5
Last 3 years	6.8	7.4
Last 4 years	8.2	8.7
Last 5 years	7.0	7.3
Since Retention by SBI (12/03)	3.7	3.7

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

Recommendation

No action required.



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending March, 2004

State's Participation in Fund: $129,284,591

Portfolio Manager: William Bower **Total Assets in Fund: $16,760,100,000**

Investment Philosophy
Fidelity Diversified International

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

Staff Comments

Fidelity exceeded the quarterly and one-year benchmark due to stock selection in the energy sector. The quarterly return also benefited from stock selection in the financial sector. The one-year outperformance was helped by an overweight and stock selection in the consumer discretionary sector.

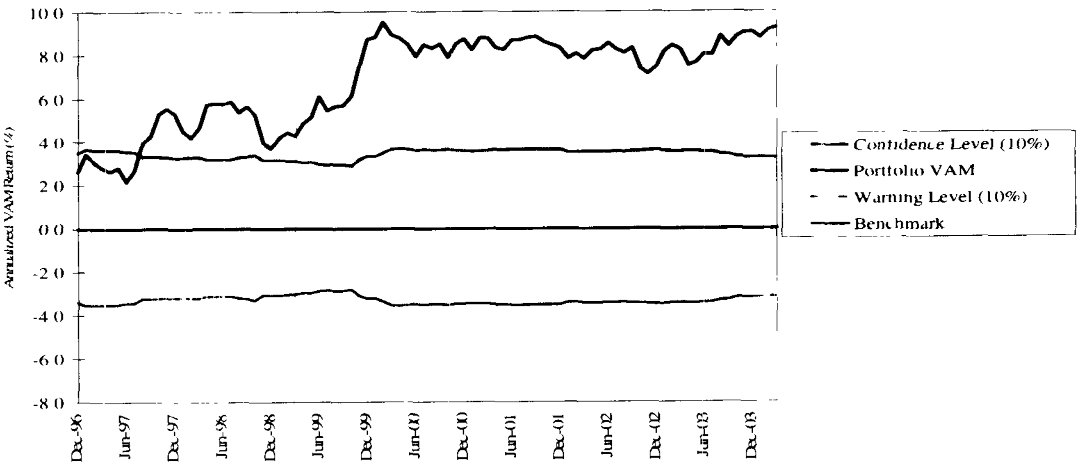
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	6.7%	4.3%
Last 1 year	61.2	57.5
Last 2 years	15.9	10.1
Last 3 years	10.7	3.5
Last 4 years	2.1	-4.8
Last 5 years	9.8	0.5
Since Retention By SBI (7/99)	8.9	0.0

*Benchmark is the MSCI EAFE-Free.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL - VANGUARD INSTITUTIONAL DEVELOPED MARKET INDEX
Periods Ending March, 2004

		State's Participation in Fund:	**$20,033,158**
Portfolio Manager:	**George U. Sauter**	**Total Assets in Fund:**	**$858,724,322**

Investment Philosophy
Vanguard Institutional Developed Market Index

The fund seeks to track the performance of the MSCI EAFE Index by passively investing in two other Vanguard funds—the European Stock Index Fund and the Pacific Stock Index Fund. The combination of the two underlying index funds, in turn, seeks to track the investment results of the Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East (EAFE) Index. The MSCI EAFE Index includes approximately 1,000 common stocks of companies located in Europe, Australia, Asia, and the Far East.

Staff Comments

No comment at this time.

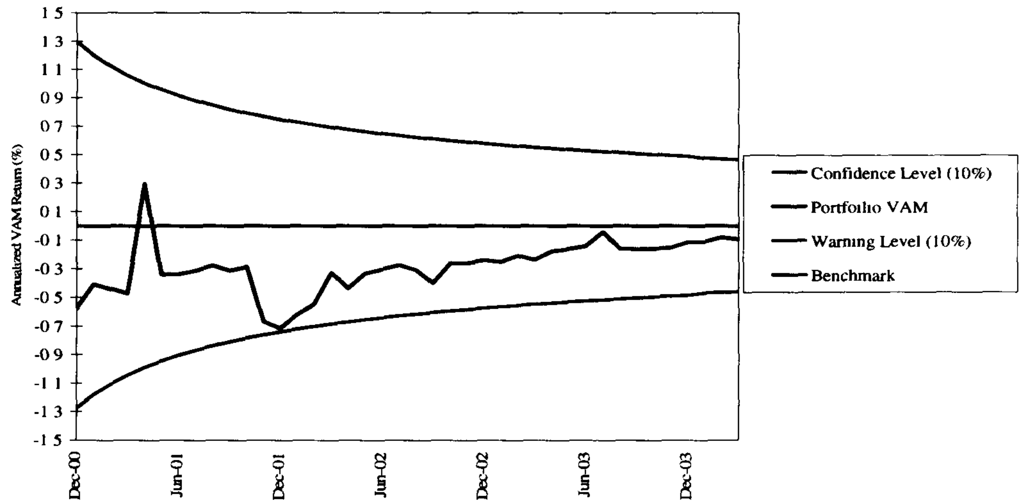
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	4.3%	4.3%
Last 1 year	57.8	57 5
Last 2 years	10.0	10.0
Last 3 years	3.4	3.4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Retention by SBI (12/03)	12.5	12.5

*Benchmark is the MSCI EAFE International
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending March, 2004

Total Assets in MN Fixed Fund: $543,812,275 *
*Includes $14-18M in Liquidity Buffer Account

Total Assets in 457 Plan: $662,426,978 **
**Includes all assets in new and old fixed options

Principal Life

Ratings:		
	Moody's	Aa2
	S&P	AA
	A M. Best	A+
	Duff & Phelps	AA+
Assets in MN Fixed Fund:		$222,063,286

Investment Philosophy

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

Minnesota Life

Ratings:		
	Moody's	Aa2
	S&P	AA
	A.M. Best	A++
	Duff & Phelps	AA+
Assets in MN Fixed Fund:		$179,384,906
Assets in Prior MN 457 Plan:		$31,785,589
Total Assets:		$211,170,495

Investment Philosophy

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

Great-West Life

Ratings:		
	Moody's	Aa2
	S&P	AA+
	A.M. Best	A++
	Duff & Phelps	AAA
Assets in MN Fixed Fund:		$177,089,900
Assets in Prior MN 457 Plan:		$86,829,114
Total Assets:		$263,919,014

Investment Philosophy

The Company observes strict asset/liability matching guidelines to ensure that the investment portfolio will meet the cash flow and income requirements of its liabilities. The manager invests in public and privately placed corporate bonds, government and international bonds, common stocks, mortgage loans, real estate, redeemable preferred stocks and short-term investments To reduce portfolio risk, the manager invests primarily in investment grade fixed maturities rated by third-party rating agencies or by the manager if private placements. Mortgage loans reflect a broadly diversified portfolio of commercial and industrial mortgages subject to strict underwriting criteria.

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending March, 2004

Current Quarter

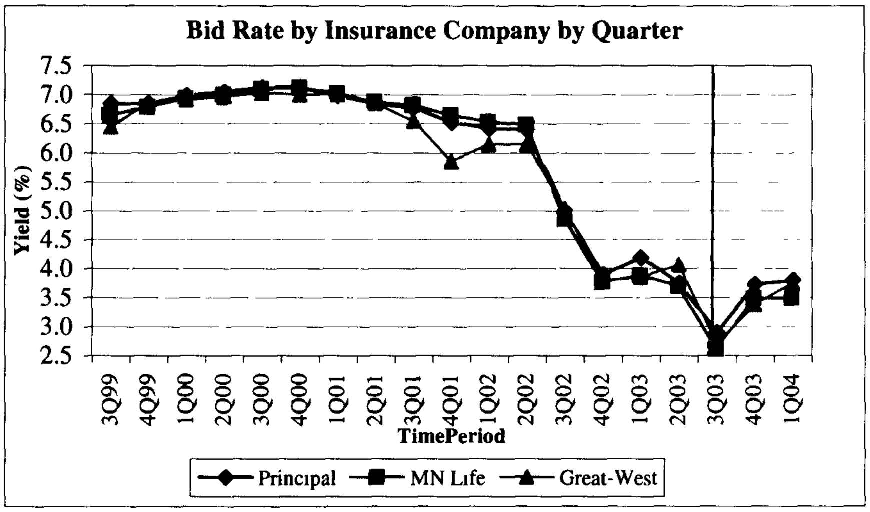
Dollar Amount of Bid: $13,650,000 **Blended Rate: 5.06%**

Bid Rates:

Principal Life	3.80%	Contracts were renewed in June 2002. Bid rates are now effective for five years on new cashflows. The bid rate bands were narrowed to 8 b p. from 10 b.p. and additional scenarios were added. All changes were effective for 3Q 2002 bids.
Minnesota Life	3.49%	
Great-West Life	3.75%	

Dollar Amount in existing Minnesota Life portfolio: $31,785,589

Rate on existing Minnesota Life portfolio: 5.00 %



Staff Comments on Bid Rates

The line on the graph indicates when the contracts were renewed and the bid rates for the new cash flows became effective for five year periods. Prior to that, the bids were effective for a quarter for the total portfolio.

	2Q03	3Q03	4Q03	1Q04
Principal Life	0.0%	75.0%	75.0%	50.0%
Minnesota Life	0.0%	0.0%	25.0%	0.0%
Great-West Life	100.0%	25.0%	0.0%	50.0%

Staff Comments

For the first quarter Principal received 50% of the bid dollars and Great West received 50%.

Tab F

COMMITTEE REPORT

DATE: May 25, 2004

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

FROM: Alternative Investment Committee

The Alternative Investment Committee met on May 13, 2004 to review the following information and action agenda items:

- Review of current strategy
- Investments with two new managers:
  1. Affinity Capital
  2. Gold Hill Venture Lending

Board/IAC action is required on the last item.

INFORMATION ITEMS:

1) Review of Current Strategy.

To increase overall portfolio diversification, 15% of the Basic Retirement Funds and 12% of the Post Retirement Fund are allocated to alternative investments. Alternative investments include real estate, private equity, resource, and yield-oriented investments where Minnesota State Board of Investment (SBI) participation is limited to commingled funds or other pooled vehicles. Charts summarizing the Board's current commitments are attached (see **Attachments A and B**).

- The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified Real Estate Investment Trusts (REITs), open-end commingled funds and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified, more focused (specialty) commingled funds and REITs.

- The private equity investment strategy, which includes leveraged buyouts and venture capital, is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location.

- The strategy for resource investments is to establish and maintain a portfolio of resource investment vehicles that provide an inflation hedge and additional diversification. Resource investments will include oil and gas investments, energy service industry investments and other investments that are diversified geographically and by type.

- The strategy for yield-oriented investments will target funds that typically provide a current return and may have an equity component such as subordinated debt or mezzanine investments. Yield-oriented investments will provide diversification by including investments in the private equity, resource and real estate categories.

ACTION ITEMS:

1) Investment with a new venture capital manager, Affinity Capital, in Affinity Ventures IV, L.P.

Affinity Capital is seeking investors for a new $75 million venture capital fund. This fund is a successor to other venture capital funds managed by Affinity Capital. This fund will seek to earn attractive returns through health care venture capital investments located in Minnesota and the Upper Midwest.

More information on Affinity Ventures IV, 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 $10 million or 20%, whichever is less, in Affinity Ventures IV, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Affinity Capital 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 Affinity Capital or reduction or termination of the commitment.

2) **Investment with a new yield-oriented manager, Gold Hill Venture Lending, in Gold Hill Venture Lending 03, L.P.**

Gold Hill Venture Lending is seeking investors for a new $200 million yield-oriented fund. This fund will seek to earn attractive returns through yield-oriented venture capital investments.

More information on Gold Hill Venture Lending 03, 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 $40 million or 20%, whichever is less, in Gold Hill Venture Lending 03, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Gold Hill Venture Lending 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 Gold Hill Venture Lending or reduction or termination of the commitment.

ATTACHMENT A

Minnesota State Board of Investment

Pooled Alternative Investments

Combined Retirement Funds

March 31, 2004

Basic Retirement Funds Market Value	$19,006,896,910
Post Retirement Fund Market Value	$18,428,571,361
Amount Available for Investment	**$1,907,750,459**

	Current Level	Target Level	Difference
Market Value (MV)	$3,154,712,640	$5,062,463,100	$1,907,750,459
MV +Unfunded	$4,774,964,968	$7,593,694,650	$2,818,729,681

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	$1,456,277,722	$948,922,642	$2,405,200,363
Real Estate	$676,150,489	$9,998,271	$686,148,760
Resource	$252,653,300	$137,561,151	$390,214,451
Yield-Oriented	$769,631,130	$523,770,264	$1,293,401,394
Total	$3,154,712,640	$1,620,252,328	$4,774,964,968

ATTACHMENT B

Minnesota State Board of Investment
- Alternative Investments -

As of March 31, 2004

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate							
Colony Capital							
Colony Investors II	80,000,000	78,482,328	2,951,406	84,470,200	1,517,672	3 91	9 00
Colony Investors III	100,000,000	100,000,000	57,409,702	86,277,673	0	12 29	6 25
Equity Office Properties Trust	258,062,214	258,062,214	113,763,988	359,366,802	0	15 35	12 34
Heitman							
Heitman Advisory Fund II	30,000,000	30,000,000	58,209	43,528,725	0	3 98	18 36
Heitman Advisory Fund V	20,000,000	20,000,000	1,162,541	34,471,906	0	8 61	12 32
Lasalle Income Parking Fund	15,000,000	14,644,401	3,562,419	28,197,193	355,599	12 47	12 53
Morgan Stanley (Lend Lease)	40,000,000	40,000,000	156,749,440	6,315,330	0	6 59	22 47
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	40,000,000	27,698,002	55,896,154	0	11 51	9 83
Realty Associates Fund IV	50,000,000	50,000,000	43,211,164	46,000,058	0	11 97	7 16
Realty Associates Fund V	50,000,000	50,000,000	53,161,301	15,768,002	0	9 28	4 85
Realty Associates Fund VI	50,000,000	41,875,000	38,891,540	4,562,252	8,125,000	6 93	1 76
UBS Realty	42,376,529	42,376,529	177,530,777	0	0	7 28	21 92
Real Estate Total	775,438,743	765,440,472	676,150,489	764,854,295	9,998,271		
Resource							
Apache Corp III	30,000,000	30,000,000	5,796,330	48,721,702	0	12 07	17 25
First Reserve							
First Reserve I	15,000,000	15,000,000	70,197	14,552,526	0	-0 24	22 50
First Reserve II	7,000,000	7,000,000	112,781	14,879,948	0	5 97	21 15
First Reserve V	16,800,000	16,800,000	193,958	50,261,377	0	16 22	13 92
First Reserve VII	40,000,000	40,000,000	24,043,986	32,624,672	0	9 49	7 75
First Reserve VIII	100,000,000	100,000,000	70,425,330	76,777,393	0	11 68	5 92
First Reserve IX	100,000,000	73,418,975	75,821,150	4,472,226	26,581,025	6 13	2 98
First Reserve X	100,000,000	0	0	0	100,000,000	N/A	0 00
Simmons							
Simmons - SCF Fund II	17,000,000	14,706,629	4,327,548	29,659,989	2,293,371	10 09	12 65
Simmons - SCF Fund III	25,000,000	23,380,337	27,210,468	36,328,255	1,619,663	19 52	8 75
Simmons - SCF Fund IV	50,000,000	42,932,907	36,167,552	27,248,433	7,067,093	10 14	6 00
T. Rowe Price	24,389,015	24,389,015	8,484,000	12,669,410	0	-9 20	N/A
Resource Total	525,189,015	387,627,863	252,653,300	348,195,932	137,561,151		
Yield-Oriented							
Carbon Capital	50,000,000	31,314,765	31,601,341	4,128,101	18,685,235	14 08	1 88
CT Mezzanine Partners	100,000,000	36,804,097	18,191,497	30,801,189	63,195,903	19 21	2 52
Churchill Capital Partners II	20,000,000	19,977,338	2,315,750	25,208,072	22,662	10 32	11 43
Citicorp Mezzanine							
Citicorp Mezzanine Partners	40,000,000	40,000,000	10,401,849	44,176,104	0	10 34	9 25
Citicorp Mezzanine Partners III	100,000,000	66,814,483	56,473,165	27,794,811	33,185,517	14 94	4 41
DLJ Investment Partners II	50,000,000	16,373,513	11,017,531	15,014,623	33,626,487	11 58	4 25
GS Mezzanine Partners							
GS Mezzanine Partners II	100,000,000	90,054,587	73,038,250	26,479,296	9,945,413	5 74	4 08
GS Mezzanine Partners III	75,000,000	6,455,083	6,642,848	0	68,544,917	N/A	0 72
GTCR Capital Partners	80,000,000	69,589,422	50,805,615	31,727,252	10,410,578	6 34	4 38
GMAC Institutional Advisors							
Institutional Commercial Mortgage Fd II	13,500,000	13,397,500	4,543,028	16,876,205	102 500	9 74	8 68
Institutional Commercial Mortgage Fd III	21,500,000	21,275,052	17,255,241	15,137,379	224,948	8 28	7 33
Institutional Commercial Mortgage Fd IV	14,300,000	14,300,000	12,416,338	7,828,025	0	8 15	6 25
Institutional Commercial Mortgage Fd V	37,200,000	37,200,000	35,896,152	11,616,542	0	8 38	4 67
KB Mezzanine Partners Fund II	25,000,000	24,999,999	4,116,304	7,151,873	1	-19 39	8 50
Merit Energy Partners							
Merit Energy Partners B	24,000,000	24,000,000	35,251,195	18,991,708	0	18 10	7 75
Merit Energy Partners C	50,000,000	49,999,999	75,096,573	9,726,816	1	20 08	5 42
Merit Energy Partners D	88,000,000	84,491,965	91,998,471	4,301,741	3,508,035	12 28	2 85
Merit Energy Partners E	100,000,000	0	0	0	100,000,000	N/A	0 00
Prudential Capital Partners	100,000,000	58,134,025	56,373,378	8,299,222	41,865,975	6 12	2 95
Summit Partners							
Summit Sub Debt Fund I	20,000,000	18,000,000	78,719	31,406,578	2,000,000	30 57	10 00
Summit Sub Debt Fund II	45,000,000	40,275 000	23,712,274	59,688,836	4,725,000	58 30	6 66
Summit Sub Debt Fund III	45,000,000	0	0	0	45,000,000	N/A	0 00
T. Rowe Price	52,990,378	52,990,378	162,800	51,844,812	0	-11 15	N/A
TCW/Crescent Mezzanine							
TCW/Crescent Mezzanine Partners	40,000,000	37,130,039	8,869,322	45,483,241	2,869,961	13 68	8 00
TCW/Crescent Mezzanine Partners II	100,000,000	87,479,046	33,728,715	82,915,401	12,520,954	10 92	5 35
TCW/Crescent Mezzanine Partners III	75,000,000	43,768,892	40,544,843	21,006,883	31,231,108	27 20	3 00
William Blair Mezz. Fund III	60,000,000	49,101,600	39,165,788	21,302,400	10,898,400	8 44	4 25
Windjammer Mezz & Equity Fund II	66,708,861	35,502,192	29,934,144	10,947,561	31,206,669	7 42	4 00
Yield-Oriented Total	1,593,199,239	1,069,428,975	769,631,130	629,854,670	523,770,264		

Minnesota State Board of Investment
- Alternative Investments -

As of March 31, 2004

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Private Equity							
Bank Fund							
Banc Fund IV	25,000,000	25,000,000	8,136,869	46 856,843	0	15 36	8 12
Banc Fund V	48,000,000	48,000,000	67,307,376	11 686,912	0	14 72	5 71
Blackstone Capital Partners							
Blackstone Capital Partners II	50,000,000	47,271,190	8,163,029	91 684,634	2 728 810	34 70	10 35
Blackstone Capital Partners IV	70,000 000	15,792,155	18,010,145	3 663,515	54,207,845	70 95	1 72
BLUM Capital Partners							
Blum Strategic Partners I	50,000,000	48,772,544	35,970,458	29 890,800	1,227,456	4 51	5 27
Blum Strategic Partners II	50,000,000	32,804,383	26,482,784	6 796,006	17 195,617	0 94	2 70
Brinson Partners							
Brinson Partners I	5,000,000	3,800,000	265,602	9 190,116	1,200,000	13 27	15 89
Brinson Partners II	20,000,000	20,000,000	760,876	37 286,51	0	24 14	13 34
Citigroup Venture Capital Equity	100,000 000	41,994,406	34,329,559	18 962,506	58,005,594	15 78	2 30
Contrarian Capital Fund II	37,000,000	33,244,395	30,717,013	12 940,821	3,755,605	4 63	6 83
Coral Partners							
Coral Partners Fund II	10,000,000	8 069,315	395,003	36,553,687	1,930,685	24 93	13 68
Coral Partners Fund IV	15,000,000	15,000,000	4 889,242	11 107,741	0	1 65	9 69
Coral Partners Fund V	15 000,000	14 625,000	6,131,648	320,688	375,000	-19 76	5 79
Crescendo							
Crescendo II	15 000,000	15 000,000	2 063,839	20,347,039	0	22 94	7 24
Crescendo III	25,000 000	25,000,000	4,519,897	8,084,795	0	-23 54	5 40
Crescendo IV	101,500 000	78,662,500	19,111 449	4,018,614	22 837,500	-38 00	4 06
DLJ							
DLJ Merchant Banking Partners III	125,000,000	83 595,825	81,460,621	15 916,691	41 404 175	4 15	3 50
DLJ Strategic Partners	100,000,000	70,798,409	53,315,597	47 491,127	29 201,591	23 05	3 20
DLJ/CSFB Strategic Partners II	100,000,000	36,651,426	27,598,304	11 722,48[illegible]	63 348 574	N/A	0 70
DSV Partners IV	10 000,000	10,000,000	1 262,128	27 596 934	0	9 50	18 97
First Century Partners III	10,000 000	10,000,000	541 112	15 098,689	0	7 79	19 29
Fox Paine Capital Fund							
Fox Paine Capital Fund	40 000 000	40 000,000	32 532,366	5,976,096	0	-0 86	5 94
Fox Paine Capital Fund II	50 000,000	28,203,727	25 554,547	4,903,71[illegible]	21 796 273	6 96	3 75
Golder,Thoma, Cressey, Rauner							
Golder, Thoma, Cressey Fund III	14,000,000	14,000,000	8,686,001	55 950,90[illegible]	0	30 30	16 42
Golder, Thoma, Cressey & Rauner Fund IV	20,000,000	20,000,000	210,514	41 020,3[illegible]	0	24 87	10 16
Golder, Thoma, Cressey & Rauner Fund V	30,000,000	30,000,000	19,349,740	25 769,093	0	9 31	7 75
GTCR Golder Rauner							
GTCR VI	90,000 000	89,137 778	28,815,713	68 918,3[illegible]8	862 222	3 95	5 75
GTCR Fund VII	175,000 000	124,031,250	104,192,358	34 299,153	50 968 750	5 35	4 15
GS Capital Partners 2000	50,000,000	33 403,850	31,267,694	2 993,504	16 596,150	0 92	3 58
GHJM Marathon Fund IV	40,000,000	33,481,000	9,830,159	29 521,800	6 519,000	3 08	4 96
Hellman & Friedman							
Hellman & Friedman Capital Partners III	40,000,000	32,113,684	2,963,678	61,708 498	7,886,316	33 60	9 53
Hellman & Friedman Capital Partners IV	150,000,000	103,482,748	81,902,603	36,659,565	46 517 252	11 34	4 25
Kohlberg Kravis Roberts							
KKR 1986 Fund	18,365,339	18,365,339	13,415,222	202,853,074	0	28 04	17 96
KKR 1987 Fund	145,950 000	145,373 652	50,356,067	345,591,206	576 348	8 72	16 35
KKR 1993 Fund	150 000,000	150,000,000	24 447,210	274,042,358	0	16 40	10 28
KKR 1996 Fund	200 000 000	200,000,000	127,644,328	197,921,747	0	12 67	7 58
KKR Millennium Fund	200,000 000	22,548,000	21,221,000	1,341,670	177,452 000	-22 81	1 31
Matrix Partners III	10,000 000	10,000,000	319,970	77,327,244	0	75 13	13 90
Piper Jaffray Healthcare							
Piper Jaffray Healthcare Fund II	10,000,000	10,000,000	5,933 499	1 648,415	0	-5 80	7 08
Piper Jaffray Healthcare Fund III	20,000,000	18,800,002	10,052,215	2 494,843	1 199 998	-12 59	5 19
Piper Jaffray Healthcare Fund IV	7,700 000	2,161,329	1,903 811	4,891	5 538,671	N/A	0 51
Silver Lake Partners II	100,000 000	0	0	0	100,000 000	N/A	0 00
Summit Partners							
Summit Ventures I	10 000 000	10,000,000	11,619	20 369,[illegible]7	0	13 17	19 29
Summit Ventures II	30,000,000	28 500,000	193 128	74 422 009	1 500 000	28 82	15 89
Summit Ventures V	25,000,000	22,875 000	10,000,628	11,422 412	2 125 000	-2 31	6 00
T Rowe Price	576 079,467	576,079 467	47,118 036	551,186,728	0	7 57	N/A
Thoma Cressey							
Thoma Cressey Fund VI	35 000,000	33,915,000	19,858 922	7,881 225	1 085,000	-5 36	5 61
Thoma Cressey Fund VII	50 000,000	18,250,000	22,669 508	1,243,656	31 750,000	18 55	3 60
Thomas, McNerney & Partners	30,000,000	5,400,000	4,373 195	0	24,600 000	-23 19	1 40
Vestar Capital Partners IV	55 000 000	33 068,790	19,975,111	10,483 232	21,931,210	-5 05	4 29
Warburg Pincus							
Warburg, Pincus Ventures	50 000,000	50,000,000	48,785 402	189 299 531	0	49 66	9 25
Warburg Pincus Equity Partners	100,000,000	100 000,000	60,910,627	52 989 775	0	4 22	5 76
Warburg Pincus Private Equity VIII	100,000,000	41,000,000	38,885 322	4 446 150	59,000,000	3 78	1 96
Welsh, Carson, Anderson & Stowe							
Welsh, Carson, Anderson & Stowe VIII	100,000,000	99 000,000	71,501,067	0	1,000,000	-7 31	5 69
Welsh, Carson, Anderson & Stowe IX	125,000,000	76,250,000	56,529,293	23,866 265	48,750,000	2 71	3 76
William Blair Capital Partners	50,000,000	26,150,000	23,236,419	0	23 850,000	-7 48	3 06
Zell/ Chilmark	30,000,000	30 000,000	198,194	76 414 975	0	17 67	13 72
Private Equity Total	3,908,594,806	2,959,672,164	1,456,277,722	2 962,188 871	948 922,642		

ATTACHMENT C

VENTURE CAPITAL MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Affinity Ventures IV, L.P. ("AV IV" or "The Fund")
Type of Fund:	Venture Capital
Total Fund Size:	$75 million
Fund Manager:	Affinity Capital
Manager Contact:	Edson W. Spencer Jr. 901 Marquette Avenue Minneapolis, MN 55402 ph: 612-252-9896 fax:: 612-252-9911

II. Organization and Staff

The Managing Partners of AV IV are Edson W. Spencer, Jr. and B. Kristine Johnson. Combined, the Managing Partners have over 46 years of experience with small and large operating companies and 15 years of experience in the venture capital business. Over 31 years of their combined experience have been in the health care industry.

In addition to the Managing Partners, Affinity Capital Management has an established team of 3 other professionals with tenure in various operating company and financial services roles. The team has a combined 18 years of experience in growth-oriented health care operating companies and a combined 30 years of experience in financial services, 13 of which is directly in venture capital investing.

AV IV will also have a network of up to ten (10) executives and venture capitalists as Advisors. These individuals will be available to assist in identifying investment opportunities, performing due diligence, serving on portfolio company Boards of Directors, and assisting portfolio companies from time to time in other ways. All Advisors are limited partners of AV IV and will be compensated for their role as an Advisor with a share of the General Partners' carried interest in the Fund.

III. Investment Strategy

The principal purpose of the Fund is to seek long-term capital appreciation for its partners principally through equity and equity-related investments in private companies (the "Portfolio Companies"). The Fund will invest exclusively in the health care industry, with a focus on companies in the medical device, health care service, health care information technology, and biotechnology sectors. AV IV will favor early stage investments but will also consider attractive development and growth stage financings. AV IV will lead and co-lead some financings but will frequently invest as part of an investment syndicate.

The Fund has applied to be licensed by the SBA as an SBIC in order to have access to up to twice the amount of the Fund's private capital in the form of preferred limited partnership interests ("Participating Securities") provided by SBA. Use of such Participating Securities will enable the Fund to have a larger pool of investor capital and also is intended to enhance returns to the investors. The Fund is seeking to raise up to $75 million from the combination of private investors and the SBA.

The SBA will become a preferred limited partner in the Fund through the issuance of Participating Securities. Participating Securities entitle the SBA to receive prioritized payments of approximately 200-220 basis points in excess of the interest rate on ten-year US Treasury Bonds, compounding annually. Prioritized payments are contingent upon and payable only to the extent of the Fund's cumulative realized net profits. Participating Securities also entitle the SBA to a modest participation (6-10%) in the Fund's net profits. The SBA and underwriters also will receive commitment and other fees totaling 3.5% (1% upon commitment by SBA and 2.5% when drawn by the Fund). The SBA has no recourse back to Private Limited Partners for any amount beyond the amount of their commitment to the Fund.

IV. Investment Performance

Previous fund performance as of December 31, 2003 for Affinity Capital Management is shown below:

Fund	Inception Date	Total Commitments	SBI Investment	Net IRR from Inception
Affinity Ventures III	2000	$75 million	--	-56%*
Affinity Ventures II	1997	$11 million	--	7%
PSF Healthcare Fund	1993	$4 million	--	12%

* This return is net to Limited Partners assuming full liquidation of fund assets on 12/31/03 and after priority payments to the SBA to pay off the SBA leverage in full. The net fund level return, treating SBA capital the same as private Limited Partner capital without priority payments to the SBA, would be -13%.

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

V. General Partner's Investment

The Managing Partners, Edson W. Spencer, Jr. and B. Kristine Johnson, have committed to invest approximately $2 million in the Fund as Private Limited Partners.

VI. Takedown Schedule

Capital calls will be made when necessary to fund investments and pay expenses of the Fund. No more than one-third of committed capital may be called in any one year. The General Partner will give at least twenty days' prior notice of capital calls.

VII. Fees

For the first five years following the date on which the Fund receives its SBIC license, the Fund will pay the Investment Adviser/Manager an annual fee up to 2.5% of three times (because the Fund expects to use two "tiers" of SBA Participating Securities) the Fund's committed Private Capital. After this initial time period, the Fund will pay up to 2.5% of the sum of the Fund's Private Capital and outstanding SBA Participating Securities. Prior to receiving its SBIC license, the management fee will be up to 2.5% times the Fund's Private Capital.

VIII. Allocations and Distributions

Generally, net gains will be allocated eighty percent (80%) among the Private Limited Partners in proportion to their capital contributions and twenty percent (20%) to the General Partner. Net losses will first offset net gains allocated to the Private Partners; then net losses will be allocated among the Private Limited Partners in proportion to their capital contributions until their capital accounts are zero.

Cash distributions and in-kind distributions of securities of portfolio companies will be made first solely to the Private Limited Partners until each Private Limited Partner has been distributed an aggregate amount equal to its capital contributions. Thereafter, distributions will be made 80% to the Private Limited Partners and 20% to the General Partner. The distributions of the Fund's profits are net of distributions to SBA.

IX. Investment Period and Term

AV IV's term will extend for the later of ten (10) years or two (2) years following repayment of SBA Capital. The General Partner may extend the term of the Fund for up to two successive two-year periods.

ATTACHMENT D

YIELD-ORIENTED MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Gold Hill Venture Lending 03, L.P. ("The Fund")
Type of Fund:	Venture Debt
Total Fund Size:	$200 million
Fund Manager:	Gold Hill Venture Lending Partners03, LLC
Manager Contact:	Dave Fischer One Newton Executive Park, Ste. 306 Newton MA 02462 ph: 617-630-4141 dfischer@ghvl.com

II. Organization and Staff

The Gold Hill Venture Lending Partners - David Fischer, Sean Lynden, Frank Tower and Tim Waterson - reside in the two geographic areas with the highest concentration of venture capital investment in the U.S. Mr. Fischer and Mr. Tower are located in Boston, Massachusetts. Mr. Lynden and Mr. Waterson are located in Santa Clara, California.

The Partners have over 60 years of collective experience in sourcing deals, identifying the best loan opportunities, underwriting, structuring, negotiating, closing and monitoring loans to early-stage, venture-backed technology and life science companies. The Partners have cultivated strong and deep relationships with venture capitalists and have gained significant knowledge and skills for carefully underwriting financing risk across market cycles. During their careers they have been involved in the origination and management of over $1 billion of venture loans. Each Partner had been with Silicon Valley Bank ("SVB" or "The Sponsor") for at least eight years prior to launching the Fund. Collectively, they have 40 years of experience managing many of the business areas of the Sponsor.

In addition to their own substantial experience, relationships, resources and deal flow, the Partners have the full support of Silicon Valley Bank. The Sponsor will provide the Fund with a proprietary deal flow, access to a vast database of information accumulated over the past 20 years and is financially motivated to establish this Fund. Because the Sponsor's business model has limits on its capacity to provide financing to pre-revenue companies, it must routinely syndicate loan opportunities it generates with other lenders. By sharing its loan opportunities with the Fund, in which it has a limited partner interest, the Sponsor is increasing its returns instead of providing returns to another lender.

III. Investment Strategy

The Partners' objective is to achieve high total returns through a combination of interest generated from secured loans, gains on the sales of securities acquired upon the exercise of warrants, and through the disposition of direct equity investments. The Partners will have full responsibility and authority for the management of the Fund's activities including: actively working through their networks and within the Sponsor to source and identify high quality lending opportunities, conducting in-depth due diligence and analysis, preparing investment memoranda, structuring loan agreements, exercising warrants, identification of and due diligence on direct investments, and the overall monitoring of the portfolio.

Based on their strict lending disciplines, the Partners will select Portfolio Companies that they believe have the greatest potential for success in order to maximize the value of the warrants received in conjunction with the Fund's loans. The Partners will be looking for companies that are in uncrowded, high growth market segments and that, in addition to property and equipment, have proprietary technology as a significant asset.

The Partners recognize that, as lenders, they need to mitigate risk in order to preserve the base returns from loans. An investment in the Fund should provide Fund Investors with an attractive base return that has little correlation to the capital markets and is competitive with other high yielding investments This base return is expected to be leveraged by recycling principal payments. In addition, the warrants attached to the loans and a small number of direct investments will provide Fund Investors with equity exposure to a broad portfolio of the best early-stage technology companies being funded today.

The Partners believe that the Fund will be successful in producing superior returns for its investors due to a loan selection process based on the following principles:

- Leverage the Partners' relationships and access to the proprietary and enormous deal flow of the Sponsor to identify the highest potential opportunities;
- Lend to Portfolio Companies backed by the most experienced and successful venture capitalists;
- Lend to early-stage Portfolio Companies that have low financing risk just after their "A" or "B" round; and
- Lend to technology and life science companies in high growth market niches.

IV. Investment Performance

Previous fund performance as of June 30, 2003 for Gold Hill Venture Lending Partners is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
2000 Portfolio	2000	$333 million	--	9.0%*
1996 Portfolio	1996	$111 million	--	40.7%*

*These simulated fund performance figures represent all venture loans made by the four Gold Hill partners while they were with Silicon Valley Bank, net of the proposed fund's fees.

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 the Sponsor will commit a total of $25 million to the Fund.

VI. Takedown Schedule

Fund Investors will be required to deliver their capital commitment on an as-needed basis with at least 10 days notice.

VII. Fees

The Fund will pay a management fee (the "Management Fee") to Gold Hill Capital Management, Inc., a Delaware corporation (the "Management Company") at the rate of 2% per annum of the total committed Fund capital for the period from the date which aggregate subscriptions to the Fund first exceed $40 million through the seventh anniversary of such date, then 1-1/2 % per annum for the two subsequent years, and 1% thereafter. The Management Fee is payable quarterly in advance.

The normal operating expenses of the Fund will be paid by the Management Company from the Management Fee, including the salaries of Management Company employees (including the Partners), rent, communications, travel, consulting, other expenses incurred in investigating, evaluating or managing investments or investment opportunities including the cost of servicing and administering any loans made to Portfolio Companies, and any placement fees incurred during fund raising. The Fund will pay all other expenses including: (i) legal, accounting, audit and custodial fees and expenses; (ii) brokerage, brokerdealer, registration, qualification, depository and similar fees or commissions; (iii) transfer, capital and other taxes, duties and costs incurred in acquiring, holding, selling or otherwise disposing of Fund assets, including repossessed collateral for any loan; (iv) costs of investor meetings, financial statements and other reports; and (v) the costs of organizing the Fund, provided that such organizational costs will not exceed $500,000.

VIII. Allocations and Distributions

Distributions generally will be made to the Fund Investors on a cumulative basis in the following order and priority:

First, 100% to all Fund Investors in proportion to paid-in capital contributions until distributed proceeds from investments equal the following:

(i) The aggregate amount of capital contributions made to date; and

(ii) A preferred return on unreturned paid-in capital contributions, calculated like compound interest at the rate of 8% per annum from the date each contribution was made (the "Preferred Return");

Second, 100% to the General Partner until such time as the General Partner has received additional distributions (its "Carried Interest") equal to 20% of the sum of the distributed Preferred Return and distributions made pursuant to this paragraph Second; and

Third, thereafter, 80% to all Fund Investors in proportion to paid-in capital contributions and 20% to the General Partner as additional Carried Interest.

All short-term interest income from temporary investments will be distributed in proportion to paid-in capital contributions, and will not be taken into account in determining the General Partner's Carried Interest.

The Fund intends to make tax distributions to each Fund Investor in amounts intended to enable taxable Fund Investors to defray their income tax liability attributable to their participation in the Fund.

In addition, the General Partner will have an interest in distributions if the General Partner ceases to be the general partner; see the discussion below under the caption "Removal of General Partner."

IX. Investment Period and Term

The Fund will have a life of 10 years, which time period will commence upon the date which aggregate subscriptions to the Fund first exceed $40 million, subject to up to three one-year extensions in the sole discretion of the General Partner.

Until the earlier of (a) the fourth anniversary of the final closing of the Offering, and (b) the formation of a successor fund, the Fund will seek to reinvest the principal payment on loans, net of reserves and expenses, in new loans and equity securities. From the fourth through the sixth anniversaries of the final closing of the Offering, other than maintaining reserves to exercise rights to invest and to finance commitments entered into before such fourth anniversary, the Fund will distribute to the Fund Investors all proceeds attributable to principal and interest payments on loans and to sales of investments, net of reserves and expenses. Beginning on the sixth anniversary of the final closing of the Offering, the Fund will distribute to the Fund Investors all proceeds attributable to principal and interest payments on loans and to sales of investments, net of reserves and expenses.