MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
September 6, 2000

&

INVESTMENT ADVISORY
COUNCIL MEETING
September 5, 2000

AGENDA
STATE BOARD OF INVESTMENT
MEETING
Wednesday, September 6, 2000
9:00 A.M. -Room 125
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of June 7, 2000	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (April 1, 2000 – June 30, 2000)	A
B. Administrative Report	B
1. Reports on budget and travel	
2. Litigation Update	
3. Certificate of Deposit Program Update	
4. New Responsibilities for SBI for School District 403(b) Match	
5. Update of Board Proxy Voting Guidelines	
6. Update on Tobacco Information	
3. Reports from the Investment Advisory Council (J. Yeomans)	
A. Stock and Bond Manager Committee	C
1. Review of manager performance	
2. Update of funding of Emerging Managers	
3. Status of Tobacco Endowment Funds	
4. Status of Assigned Risk Plan	
5. Authorization for Emerging Markets Manager Search	
B. Alternative Investment Committee	D
1. Review of current strategy	
2. Approval of a commitment with an existing private equity manager for the Basic Retirement Funds:	
• William Blair	

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Minutes
State Board of Investment
June 7, 2000

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, June 7, 2000 in Room 125 State Capitol, St. Paul, Minnesota. Governor Jesse Ventura; State Auditor Judith H. Dutcher; State Treasurer Carol C. Johnson; Secretary of State Mary Kiffmeyer and Attorney General Mike Hatch were present. The minutes of the March 8, 2000 Board meeting were approved.

Executive Director's Report
Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded inflation over the ten year period ending March 31, 2000 (Combined Funds 14.1% vs. Inflation 2.9%), exceeded the median fund (43rd percentile) and outperformed its composite index (Combined Funds 18.2% vs. Composite 17.8%) for the most recent five year period. He stated that the Basic Funds have exceeded its composite index (Basic Fund had outperformed its composite index) over the last five years and reported that the Post Fund had outperformed its composite index over the last five year period (Post Fund 17.6% vs. Composite 17.2%).

Mr. Bicker reported that the Basic Funds' assets increased 2.4% for the quarter ending March 31, 2000 due to positive investment returns, even though the funds had negative net contributions. He said that the asset mix had been rebalanced and is now on target. He reported that the Basic Funds underperformed its composite index for the quarter (Basic Funds 2.9% vs. Composite 3.5%) and for the year (Basic Funds 17.6% vs. Composite 18.6%).

Mr. Bicker reported that the Post Fund's assets increased 1.3% for the quarter ending March 31, 2000, also due to positive investment returns. He said that the Post Fund asset mix had also been rebalanced. He said that the Post Fund underperformed its composite index for the quarter (Post Fund 2.2% vs. Composite 2.7%) and for the year (Post Fund 16.1% vs. Composite 16.7%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stocks 3.3% vs. Wilshire 5000 3.8%) and for the year (Domestic Stocks 21.5% vs. Wilshire 5000 23.6%). He noted that more discussion of the asset class target would take place later in the meeting. He said that the International Stock manager group underperformed its composite index for the quarter (International Stocks –1.1% vs. Int'l Composite 0.2%) but outperformed for the year (International Stocks 28.3% vs. Int'l Composite 28.2%) and over longer periods. Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 2.3% vs. Lehman Aggregate 2.2%) and for the year (Bonds 2.0% vs. Lehman Aggregate 1.9%). He concluded his report with the comment that as of March 31, 2000, the SBI was responsible for over $53.6 billion in assets.

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

Mr. Bicker stated that the SBI had initiated a "housekeeping bill" this year, which passed, and that is mostly technical in nature. He said the bill clarifies several issues including the exchanges the SBI can trade on, the SBI's ability to invest in closed-end mutual funds and various structures for private equity funds. He said that the bill includes language that would remove the inviolate restriction, giving the SBI more investment flexibility for the tobacco endowment funds. He noted that the Board had already approved a position paper that would allow the tobacco endowment fund to be invested as a balanced portfolio of both stocks and bonds.

Mr. Bicker said that legislation had passed that relates to 403(b) annuities for teachers. He said that, currently, the SBI must approve vendors for the program. He said that the legislation eliminated the list of approved vendors and that the SBI is now responsible for reviewing the financial status and investment performance of any vendor who requests it. He stated that it is currently unclear how significant this review process might become and he said he would keep the Board informed.

Mr. Bicker reported that there was also legislation involving the Workers Compensation Assigned Risk Plan. He said that the fund currently has a $500-600 million surplus and that legislation was passed which mandates that all or a portion of the surplus be appropriated to be used for other purposes. He said that the SBI may need to terminate one of the investment managers and that staff will bring a recommendation to the Board at the September 2000 meeting.

Mr. Bicker stated that the SBI had supported a change to the Post Retirement Fund benefit increase calculation to increase the amortization period from five to ten years. He said that the issue has been laid over for interim study.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of the securities class action litigation concerning Mercury Finance Corporation and their Auditors, Peat Marwick. She reported that the arbitrator did allow claims of holders other than ours, which diminishes the amount for the class and that the arbitrator's decision has been appealed and we are waiting for that decision. She added that a settlement with Peat Marwick has been approved and so far very few entities have opted out of the settlement.

Ms. Eller stated that the State Board of Investment has also recently filed, along with Colorado and Utah, in a securities litigation suit against McKesson. In response to a question from Ms. Dutcher, Ms. Eller stated that it doesn't make much sense for plaintiffs to opt out of a settlement, which is why very few have opted out of the Mercury settlement.

Mr. Bicker stated that staff and the SBI's legal counsel have negotiated revised contract terms for the Minnesota College Savings Plan contract, with the Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF). He reminded members that the Board had originally approved the contract at its June 1999 meeting. Ms. Dutcher moved approval of the recommendation, as stated in the Executive Director's Administrative Report, which reads "Staff recommends that the Board adopt the following resolution: Now, therefore, be it resolved that the Board authorize the executive director, with assistance from legal counsel: (1) to execute a contract with TIAA-CREF Tuition Financing, Inc., in substantially the form presented to the SBI, with such changes or additions as the executive director or legal counsel shall deem necessary or advisable; (2) to negotiate and execute an amendment or amendments to the contract adding additional investment options to the Minnesota College Savings Plan; and (3) to prepare and execute such other documents as may be necessary for Program implementation." Ms. Johnson seconded the motion. The motion passed.

Mr. Bicker noted that updated information on the Board's tobacco holdings is also included in Tab B of the meeting materials.

Administrative Committee Report
Ms. Johnson referred members to Tab C of the meeting materials and reported that the Committee has five recommendations for consideration by the Board. Ms. Johnson moved approval of all five recommendations, as stated in the Committee Report, which reads: "The Committee recommends that the SBI approve the FY01 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY01.

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

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

The Committee recommends that the SBI adopt the following process for the Executive Director's FY00 performance evaluation: The evaluation will be completed prior to the September 2000 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY00. The SBI deputies/designees will develop an appropriate evaluation form for use by each member, which will reflect the categories in the Executive Director's position description and workplan. As the Chair of the Board, the Governor's representative (Department of Finance), will coordinate distribution and collection of the evaluation forms and will forward the completed forms to the Executive Director. Board members are encouraged to meet individually with the Executive Director to review their own evaluation.

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

Emerging Manager Search Committee Report
Mr. Bicker referred members to Tab D of the meeting materials and stated that in addition to the retention of several new emerging managers, the recommendation to the Board includes the termination of two existing managers and that the portfolio managed by Winslow Capital be transitioned from a large cap to a small cap mandate. Mr. Sausen reported on the search process for the additional managers and added that the recommendation includes a proposal to retain seven new managers for the program. Ms. Johnson moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Emerging Manager Program Search Committee and the IAC Domestic Manager Committee recommend that Compass Capital and Wilke/Thompson Capital be terminated and that Winslow Capital be transitioned from a large cap growth to a small cap growth mandate. The Search Committee also recommends that the following firms be retained as a part of the SBI's Emerging Manager Program: Artemis Investment Management, New York, NY; Berger/Bay Isle Financial, San Francisco, CA; Earnest Partners, Atlanta, GA; Holt-Smith & Yates Advisors, Madison, WI; Next Century Growth Investors, Minneapolis, MN; Peregrine Capital Management, Minneapolis, MN; Voyageur Asset-Chicago Equity Division, Chicago, IL." Ms. Kiffmeyer seconded the motion. The motion passed.

Domestic Manager Committee Report
Ms. Yeomans referred members to Tab E of the meeting materials and stated that the Committee is recommending a change to the domestic equity asset class target, as described in the position paper included in the meeting materials. She discussed the issues that make the Wilshire 5000 index is difficult to closely track and she stated that the IAC endorses the change to the Wilshire 5000 Investable index. Mr. Bicker distributed a revised recommendation to members (see **Attachment A**) that clarifies that the change from one index to the other will be footnoted. Ms. Yeomans added that the revised recommendation resolves one IAC member's concern about restating the fiscal year 2000 performance results.

In response to a question from Ms. Dutcher, Mr. Bicker stated that initial public offerings (IPO's) are a significant problem with using the current Wilshire 5000 index. He added that small illiquid stocks, REIT's and international stocks also add to the problem of tracking the index. He said that the revised figures, if approved, would be reflected in the September 2000 meeting materials.

Mr. Hatch stated that he had no objections to changing the asset class target, but that he believes it is still important to continue reporting the Wilshire 5000 returns along with the Wilshire 5000 Investable returns. In response to questions from Mr. Hatch, Mr. Bicker confirmed that other institutional investors are also dealing with these same asset class target issues and that the SBI's consultant and the index fund manager will institute the change at a cost of approximately one hundredth of one percent.

In response to a question from Ms. Kiffmeyer, Mr. Bicker stated that restating the fiscal year 2000 performance makes sense since much of the IPO activity took place during the fourth quarter of 1999 and that any underperformance was structurally caused and not investment related. Ms. Dutcher moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI adopt the attached policy paper establishing the W5000 Investable as the asset class target for the Domestic Equity Program effective July 1, 2000. The Committee, also, recommends that staff negotiate any contractual changes necessary to implement this new asset class target with the SBI's index fund provider. Staff is also directed to restate fiscal 2000 results to reflect the new asset class target." Mr. Hatch seconded the motion. The motion passed.

International Manager Committee Report
Ms. Yeomans referred members to Tab F of the meeting materials and noted that there are no action items from the Committee this quarter.

Alternative Investment Committee Report
Ms. Yeomans referred members to Tab G of the meeting materials and briefly updated members on the three alternative investments that the Board pre-approved at the March 2000 meeting which the Committee and Board Designees authorized finalized approval for during the quarter.

Ms. Yeomans reported that the Committee is proposing three new private equity investments for the Basic Retirement Funds with Goldman Sachs, DLJ Merchant Banking and Thoma Cressey and she briefly described each investment. Ms. Kiffmeyer moved approval of all three of the Committee's recommendations, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $50 million or 20%, whichever is less, in Goldman Sachs Capital Partners 2000. This commitment will be allocated to the Basic Retirement Fund. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Goldman Sachs upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Goldman Sachs or reduction or termination of the commitment. The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $125 million or 20%, whichever is less, in DLJ Merchant Banking Partners III. This commitment will be allocated to the Basic Retirement Fund. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by DLJ Merchant Banking upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on DLJ Merchant Banking or reduction or termination of the commitment. The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $50 million or 20%, whichever is less, in Thoma Cressey Fund VII. This commitment will be allocated to the Basic Retirement Fund. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Thoma Cressey upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Thoma Cressey or reduction or termination of the commitment." Ms. Dutcher seconded the motion. The motion passed.

Mr. Bicker noted a change in the SBI Committee structure and that in the future, the Domestic and International Committee will be combined into an External Manager Committee. He added that the Alternative Investment Committee will continue as a separate Committee.

The meeting adjourned at 9:50 A.M.

Respectfully submitted,

Howard J. Bicker
Executive Director

Revised recommendation for approval of Domestic Equity Asset Class Target Policy Paper (Tab E, page -5-)

RECOMMENDATION:

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

The Committee, also, recommends that staff negotiate any contractual changes necessary to implement this new asset class target with the SBI's index fund provider. Staff is also directed to use the W5000 Investable for fiscal year 2000 to reflect the new asset class target and the benchmark change should be footnoted.

AGENDA
INVESTMENT ADVISORY COUNCIL
MEETING
Tuesday, September 5, 2000
2:00 P.M. - SBI Conference Room
Room 10, Capitol Professional Office Building
590 Park Street, St. Paul, MN

	TAB
1. Approval of Minutes of June 6, 2000	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (April 1, 2000 – June 30, 2000)	**A**
B. Administrative Report	**B**
1. Reports on budget and travel	
2. Litigation Update	
3. Certificate of Deposit Program Update	
4. New Responsibilities for SBI for School District 403(b) Match	
5. Update of Board Proxy Voting Guidelines	
6. Update on Tobacco Information	
3. Reports from the Investment Advisory Council	
A. Stock and Bond Manager Committee (M. Troutman)	**C**
1. Review of manager performance	
2. Update of funding of Emerging Managers	
3. Status of Tobacco Endowment Funds	
4. Status of Assigned Risk Plan	
5. Authorization for Emerging Markets Manager Search	
B. Alternative Investment Committee (K. Gudorf)	**D**
1. Review of current strategy	
2. Approval of a commitment with an existing private equity manager for the Basic Retirement Funds:	
• William Blair	

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Minutes
Investment Advisory Council
June 6, 2000

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

Ms. Yeomans called the meeting to order and the minutes of the March 7, 2000 meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded inflation over the ten year period ending March 31, 2000 (Combined Funds 14.1% vs. Inflation 2.9%), exceeded the median fund (43rd percentile) and outperformed its composite index (Combined Funds 18.2% vs. Composite 17.8%) for the most recent five year period. He stated that the Basic and Post Funds have each exceeded their composite index (Basic Funds 18.6% vs. Composite 18.5%) over the last five years. (Post Fund 17.6% vs. Composite 17.2%).

Mr. Bicker reported that the Basic Funds' assets increased 2.4% for the quarter ending March 31, 2000 due to positive investment returns in spite of negative net contributions. He said that the asset mix has been rebalanced and is on target. He reminded members that the uninvested allocation for alternative investments is included in the domestic stock segment until it is needed. He said that the Basic Funds underperformed its composite index for the quarter (Basic Funds 2.9% vs. Composite 3.5%) and for the year (Basic Funds 17.6% vs. Composite 18.6%). He noted that more discussion on the asset class target would follow later in the meeting.

Mr. Bicker reported that the Post Fund's assets increased 1.3% for the quarter ending March 31, 2000 due to positive investment returns. He said that the Post Fund asset mix had also been rebalanced. He said that the Post Fund underperformed its composite index for the quarter (Post Fund 2.2% vs. Composite 2.7%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stocks 3.3% vs. Wilshire 5000 3.8%). He noted, that the stock segment's underperformance continues in large part to the "dotcom" phenomena occurring in high-tech stocks. He said that the International Stock manager group underperformed its composite index for the quarter (International Stocks -1.1% vs. Int'l Composite 0.2%) but outperformed for all other reporting periods. Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 2.3% vs. Lehman Aggregate 2.2%) and over longer periods. He concluded his report with the comment that as of March 31, 2000, the SBI was responsible for over $53.6 billion in assets.

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

Mr. Bicker stated that the SBI had initiated a legislative package this year that is mostly "housekeeping", or technical, in nature. He said that the bill includes language that would remove the inviolate restriction, giving the SBI more investment flexibility for the tobacco endowment funds.

Mr. Bicker stated that legislation had passed regarding the 403(b) annuities for teachers. He said that, currently, the SBI is responsible for selecting vendors for the program for the matching dollars portion of the program. He explained that the enacted legislation eliminates this list of vendors and makes the SBI responsible for reviewing the financial status and investment performance of any vendor who requests it. In response to a question from Ms. Posey, Mr. Bicker said that it is unclear how significant this review process may become and that he will keep members informed.

Mr. Bicker reported that legislation also passed involving the Workers Compensation Assigned Risk Plan. He stated that the fund currently has a $500-600 million surplus and that the legislation mandates that all or a portion of the surplus be appropriated to be used for other purposes. He reminded members that staff had previously obtained the Board's approval to terminate GE Investment Management, the current equity manager for the fund in order to raise the necessary cash.

Mr. Bicker said that the SBI had supported legislation that has been held over for interim study, which would increase the amortization period for the Post Retirement Fund from five to ten years. He noted that more effort will be needed next year to educate plan members, retirees, and legislators. In response to questions from Mr. Bohan, Mr. Bicker, Mr. Bergstrom and Ms. Vanek all stated that there are concerns from current employees and those close to retirement that need to be addressed. Mr. Bicker stressed the importance of the change in amortization to avoid problems in the future when performance is not as strong during weaker periods in the markets.

Ms. Eller updated members on two securities actions regarding Mercury Finance and McKesson. She stated that in the Mercury action, there has been a settlement with Mercury, but that we are awaiting the bankruptcy court to rule on the appeal of the arbitrator's decision. She said that the settlement with Peat Marwick has been approved and that so far, very few entities have opted out of the settlement.

Ms. Eller said that the SBI has also recently filed a new securities action, along with Colorado and Utah, against McKesson. It is believed that pension funds will have priority in California State court and that the case may move along faster than the Federal court class action.

Mr. Bicker stated that staff and the SBI's legal counsel have negotiated revised contract terms for the Mn. College Savings Plan Contract for the Board's consideration. He noted that the Board had previously approved the original terms of the contract.

Mr. Bicker reported that updated information on the SBI's tobacco holdings is also included in Tab B of the meeting materials.

Mr. Bicker stated that the structure of the IAC Committees will change to combine the Domestic and International Manager Committees in order to have more members involved through the joint committee and to utilize IAC members' time more effectively. He asked members to indicate their preference of serving on the External manager Committee or the Alternative Investment Committee. In response to questions from Mr. Kiedrowski and Ms. Posey, Mr. Bicker said that the Committee members will elect a new Chair and that the internally managed portfolios will also be covered by the External Manager Committee.

In response to questions and comments from Mr. Gorence, Mr. Bicker stated that staff prefers to have the Committees report back to the full IAC rather than creating an Executive Committee. He said he believes it gives all parties a good forum to discuss things and he noted the difficulty of scheduling Committee meetings whereas the IAC meeting dates are set a year in advance. He added that the full IAC has held several excellent discussions on various Committee issues over the years and he stressed the importance of that process.

Administrative Committee Report
Mr. McDonald referred members to Tab C of the meeting materials and stated that the Committee approved all five of the recommendations as stated in the Committee Report. He noted the SBI staff's pending move and the effect it will have on the SBI's budget in the future. In response to a question from Ms. Yeomans, members noted they would like the IAC to take formal action on the recommendations from the Committee. Mr. Gudorf made a motion to endorse the Committee's recommendations, as stated in the Committee Report. Mr. Bohan seconded the motion. The motion passed.

Emerging Manager Search Committee Report
Mr. Sausen referred members to Tab D of the meeting materials and briefly summarized the search process and he thanked the IAC members who served on the Search Committee. Mr. Kiedrowski stated that he will abstain on the vote to approve the Committee's recommendation since Peregrine Capital is part of Wells Fargo. Mr. Bicker clarified that the recommendation includes the termination of two existing managers and a change in investment mandate for another. Ms. Voss moved approval of the Committee's recommendation as stated in the Committee Report. Mr. Gudorf seconded the motion. In response to questions from Mr. Troutman, Mr. Bicker confirmed that all seven new managers would be funded with $50 million each and that Compass was terminated due to performance concerns while the concerns about Wilke/Thompson were both performance based and concern over significant loss of assets. The motion passed.

Domestic Manager Committee Report
Mr. Bohan referred members to Tab E of the meeting materials and reviewed the performance of the domestic stock and bond managers. He requested that during the quarter, staff and the Committee had re-interviewed Brinson Partners due to significant portfolio underperformance and recent organizational changes. He said that the Committee has been encouraged by the firm's recent performance, the commitment to their investment process and the leadership that still remains. He stated that the Committee is recommending that Brinson continue as a manager and he noted that they will continue to be closely monitored. Mr. Bicker added that Brinson's style of investing has been out of favor and that when market conditions change their performance should turn around. Mr. Bohan noted that Brinson's benchmark should be adjusted to reflect Brinson's strategy of not investing in the technology sector.

In response to questions from Mr. Kiedrowski, Ms. Posey explained the process employed to building Brinson's benchmark to reflect its investment process and SBI requirements. Mr. Bicker informed the Council that Richards & Tierney and staff will be meeting with all the domestic equity managers in July to review the benchmarking process.

Mr. Bohan briefly reviewed the status of the Tobacco Endowment Funds, the Assigned Risk Plan changes and the benchmark quality evaluation that took place during the quarter.

Mr. Bohan stated that the Committee is recommending a change to the domestic equity asset class target and he discussed the issues that are of concern in attempting to closely track the Wilshire 5000 index. He stated that the Committee is endorsing the recommendation to adopt the policy paper, which establishes the Wilshire 5000 Investable as the asset class target. He noted that the fiscal year 2000 results would be restated to reflect this new asset class target. Mr. Bicker stated that the change will eliminate the small uninvestable companies along with the initial public offerings (IPO's), the real estate investment trusts (REIT's) and other miscellaneous securities that make up the complete Wilshire 5000 index and which are difficult to invest in because the SBI, the benchmarks and completeness fund are adjusted on a quarterly basis and the Wilshire 5000 index changes constantly. Mr. Bohan referred members to page 33 of Tab E for a comparison of the two versions of the index. Ms. Posey added that the properties of a good benchmark are present in the Wilshire Investable, which are that it's known in advance of the period, it's investable and that it's consistent with how the program is put together. Mr. Bohan moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion.

Mr. Troutman stated that he is in favor of the change to the asset class target but that he has concerns about restating the performance for fiscal year 2000 and he proposed a friendly amendment to strike the last sentence of the Committee's recommendation. Mr. Bicker stated that he believes strongly that the performance should be restated. He reminded members that performance is reported on a five year basis and that it's referred to in budget and legislative hearings, etc. He said that since the change is the result of a structural problem, and not an investment problem, it is appropriate to restate the index return for the fiscal year. In response to questions from Mr. Kiedrowski, Ms. Eller noted that in similar situations in the past, changes had been footnoted. Ms. Posey stated that other clients of her firm have retroactively restated performance under similar circumstances. A lengthy discussion followed which resulted in the following wording being accepted as a friendly amendment to the motion: "The Committee recommends that the SBI adopt the attached policy paper establishing the W5000 Investable as the asset class target for the Domestic Equity Program effective July 1, 2000. The Committee, also, recommends that staff negotiate any contractual changes necessary to implement this new asset class target with the SBI's index fund provider. Staff is also directed to use the W5000 Investable for fiscal year 2000 to reflect the new asset class target and the benchmark change should be footnoted." The motion passed.

International Manager Committee Report
Mr. Kiedrowski referred members to Tab F of the meeting materials and stated that there are no action items from the Committee this quarter. Mr. Bohan suggested that at some point in the future, the Committee should revisit the use of a currency overlay program.

Alternative Investment Committee Report
Mr. Gudorf referred members to Tab G of the meeting materials and stated that during the quarter, the Committee and the Board Designees had also given final approval to the three investments the Board had pre-approved at the March 2000 Board meeting. He said the investments are with Welsh Carson and Anderson, Merit Energy and Fox Paine.

Mr. Gudorf stated that the Committee is recommending three new investments for the Basic Retirement Funds with the existing private equity managers of Goldman Sachs, DLJ Merchant Banking and Thomas Cressey and he briefly described each fund. Mr. Gorence moved approval of all three of the Committee's recommendations, as stated in the Committee Report. Mr. Norstrem seconded the motion. The motion passed.

The meeting adjourned at 3:45 P.M.

Respectfully submitted,

Howard J. Bicker
Executive Director

SUMMARY OF ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
July 1, 1999

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

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

Notes:
1. Present value of projected benefits that will be due to all current participants.
2. Liabilities attributed to past service calculated using entry age normal cost method.
3. Present value of future statutory contributions plus current actuarial value.
4. Same as required reserves for Post; Cost plus one-third of the difference between cost and market value for Basics.

Actuarial Assumptions:

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

LONG TERM OBJECTIVES
Period Ending 6/30/00

COMBINED FUNDS: $42.0 Billion	Result	Compared to Objective
Provide Real Return (10 yr.) Provide returns that are 3-5 percentage points greater than inflation over the latest 10 year period.	**13.4%** (1)	10.5 percentage points above CPI
Exceed Composite Index (5 yr.) Outperform a composite market index weighted in a manner that reflects the actual asset mix of the Combined Funds over the latest 5 year period.	**16.2%**	0 5 percentage point above composite index
Exceed Median Fund (5 yr.) Provide returns that are ranked in the top half of universe of public and corporate plans over the latest 5 year period.	**30th percentile** (2)	above the median fund in TUCS

BASIC RETIREMENT FUNDS: $21.2 Billion	Result	Compared to Objective
Exceed Composite Index (5 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 5 year period.	**16.8%**	0 3 percentage point above target

POST RETIREMENT FUND: $20.8 Billion	Result	Compared to Objective
Exceed Composite Index (5 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 5 year period.	**15.5%**	0 6 percentage point above target

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

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

Tab A

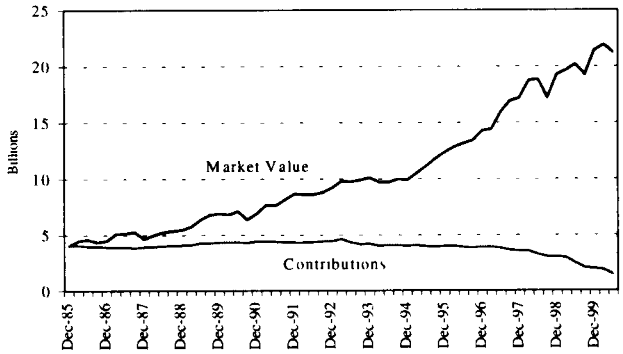
EXECUTIVE SUMMARY

Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds decreased 3.0% during the second quarter of 2000. Investment returns and net contributions were both negative for the quarter.

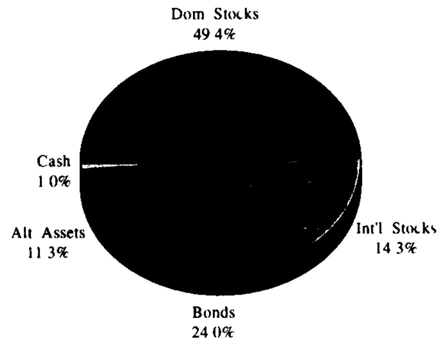
	Asset Growth During Second Quarter 2000 (Millions)
Beginning Value	$ 21,885
Net Contributions	-397
Investment Return	-260
Ending Value	$ 21,228



Asset Mix

The domestic and international stock allocation decreased over the quarter due to negative stock returns. The positive returns in bonds and alternative assets caused both allocations to rise over the quarter.

	Policy Targets	Actual Mix 6/30/00	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	49.4%	$10,494
Int'l. Stocks	**15.0**	14.3	3,040
Bonds	**24.0**	24.0	5,099
Alternative Assets*	**15.0**	11.3	2,397
Unallocated Cash	**1.0**	1.0	198
	100.0%	100.0%	$21,228

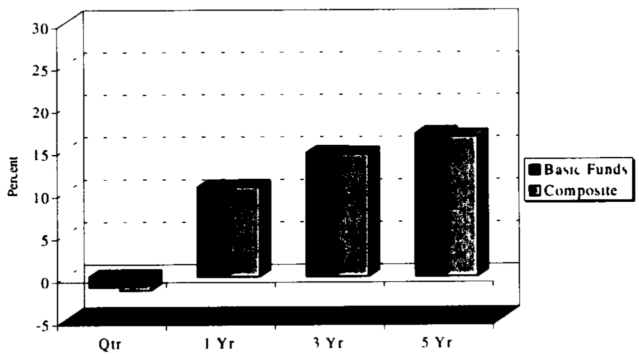


* Any uninvested allocation is held in domestic stocks

Fund Performance (Net of Fees)

The Basic Funds outperformed its composite market index for the quarter, the three-year period and five-year period. The fund slightly underperformed for the one-year period.

	Period Ending 6/30/00			
			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basics	**-1.2%**	**10.5%**	**14.6%**	**16.8%**
Composite	-1.5	10.6	14.4	16.5

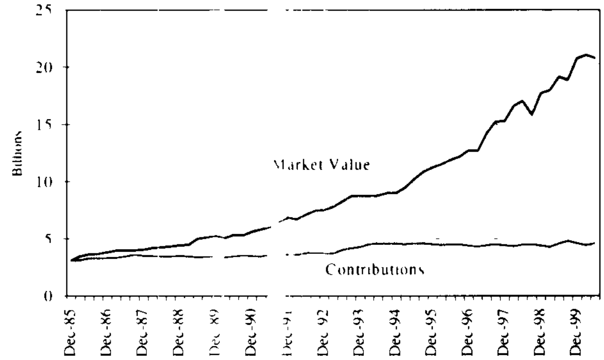


EXECUTIVE SUMMARY

Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund decreased 1.2% during the second quarter of 2000. The decrease was the result of negative investment returns. Net contributions were positive.



Asset Growth During Second Quarter 2000 (Millions)

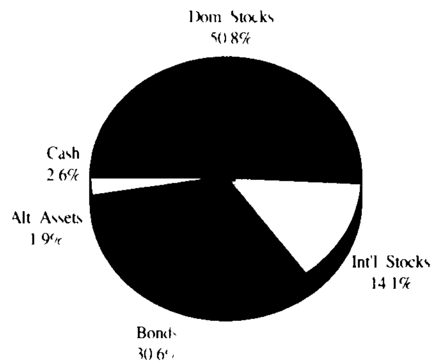
Beginning Value	$21,044
Net Contributions	160
Investment Return	-410
Ending Value	$20,794

Asset Mix

The domestic and international stock allocation decreased over the quarter due to negative stock returns. The positive returns in bonds and alternative assets caused both allocations to rise over the quarter.

	Policy Targets	Actual Mix 6/30/00	Actual Market Value (Millions)
Domestic Stocks	**50.0%**	50.8%	$10,570
Int'l Stocks	**15.0**	14.1	2,941
Bonds	**27.0**	30.6	6,357
Alternative Assets*	**5.0**	1.9	389
Unallocated Cash	**3.0**	2.6	537
	100.0%	100.0%	$20,794

* Any uninvested allocation is held in bonds.

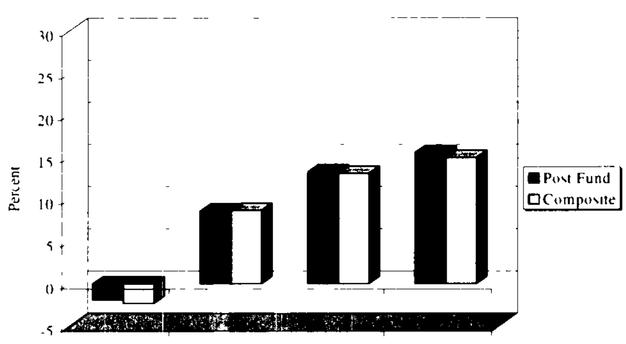


Fund Performance (Net of Fees)

The Post Fund outperformed its composite market index for all periods except the one year period where it trailed slightly.

Period Ending **6/30/00**

	Qtr	1 Yr	3 Yr (Annualized)	5 Yr (Annualized)
Post	**-1.9%**	**8.6%**	**13.3%**	**15.5%**
Composite	-2.3	8.7	13.1	14.9



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.

Period Ending 6/30/00	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Dom. Stocks	**-4.1%**	**8.2%**	**18.6%**	**22.2%**
Wilshire 5000 Investable*	-4.6	8.6	18.7	22.2

* Restated to incorporate the Wilshire 5000 Investable Index beginning 7/1/99. From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments. Prior to 11/1/93, the Wilshire 5000 was adjusted to reflect SBI mandated restrictions which included liquor and tobacco and American Home Products.

International Stocks

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

Period Ending 6/30/00	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Int'l. Stocks	**-3.3%**	**16.9%**	**8.9%**	**12.3%**
Composite Index*	-4.6	16.4	8.4	10.3

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

Bonds

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

Period Ending 6/30/00	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Bonds	**1.6%**	**4.7%**	**6.1%**	**6.6%**
Lehman Agg	1.7	4.6	6.0	6.3

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

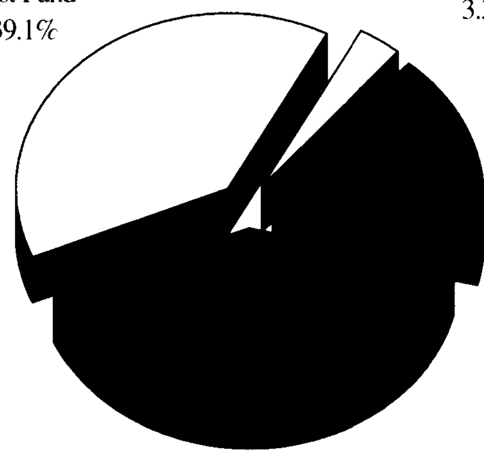
Lehman Aggregate: The Lehman Brothers Aggregate Bond Index reflects the performance of the broad bond market for investment grade (BAA or higher) bonds, U S. treasury and agency securities, and mortgage obligations with maturities greater than one year.

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

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

EXECUTIVE SUMMARY

Funds Under Management



	6/30/00 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$21.2
Post Retirement Fund	20.8
Supplemental Investment Fund	1.8
Non Retirement Funds*	
Assigned Risk Plan	0.8
Permanent School Fund	0.6
Environmental Trust Fund	0.3
Tobacco Prevention Fund	0.4
Medical Education Fund	0.3
State Cash Accounts	7.0
Total	$53.2

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Second Quarter 2000

(April 1, 2000 - June 30, 2000)

Table of Contents

VARIOUS CAPITAL MARKET INDICES

	Period Ending 6/30/00				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	-4.5%	9.5%	19.1%	22.5%	17.3%
Dow Jones Industrials	-4.0	-3.3	12.7	20.3	16.6
S&P 500	-2.7	7.2	19.7	23.8	17.8
Russell 2000	-3.8	14.3	10.6	14.3	13.6
Domestic Fixed Income					
Lehman Aggregate*	1.7	4.6	6.0	6.3	7.8
Lehman Gov't./Corp.	1.5	4.3	6.0	6.1	7.8
3 month U.S. Treasury Bills	1.4	5.4	5.1	5.2	5.0
International					
EAFE**	-4.0	17.2	10.2	11.3	8.0
Emerging Markets Free***	-10.2	9.5	-5.0	1.0	8.9
Salomon Non U.S. Gov't. Bond	-0.8	2.4	2.7	1.7	8.4
Inflation Measure					
Consumer Price Index****	0.7	3.7	2.4	2.5	2.9

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

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

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

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The stock market, as represented by the Wilshire 5000, declined by –4.5% in the second quarter. A correction occurred in the Technology sector in April and May due to investors' increasing concerns over valuation levels. Higher interest rates and fear of declining profits also caused a general decline in the stock markets.

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

Large Value	-5.5
Small Value	-0.5
Large Growth	-3.5
Small Growth	-3.4

The Wilshire 5000 increased 9.5% for the year ending June 30, 2000.

DOMESTIC BONDS

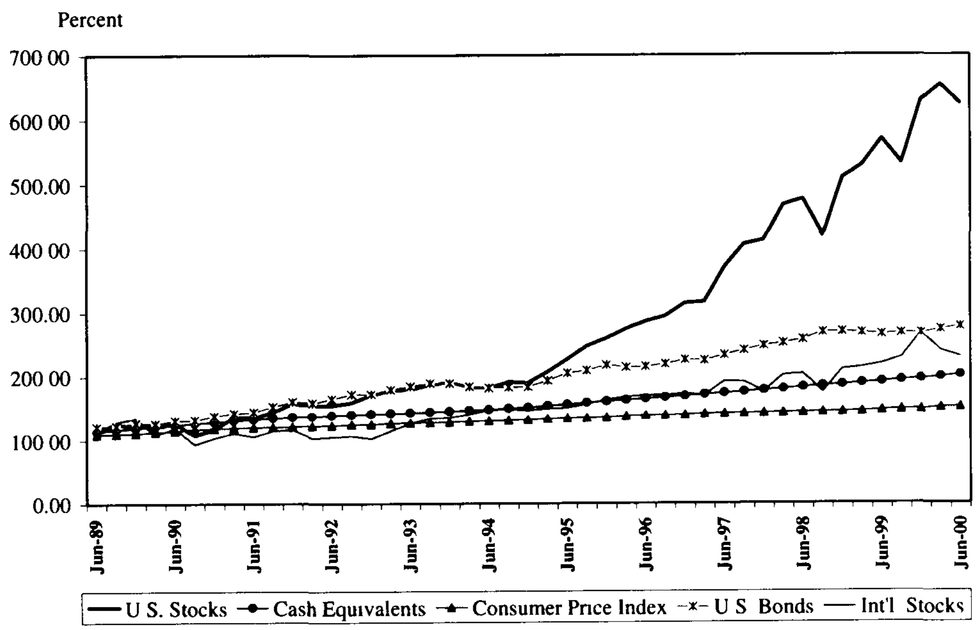
The bond market generated positive returns in the second quarter. The government and mortgage sectors of the Lehman aggregate outperformed the corporate sector The corporate sector was hurt as spreads widened in April and May on uncertainty regarding future Fed tightening, strong issuance, and credit fears

Overall, the Lehman Brothers Aggregate Bond Index returned 1.7% for the quarter The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	1.6%
Corporates	1 2
Mortgages	2.3

The Lehman Aggregate returned 4.6% for the latest year.

PERFORMANCE OF CAPITAL MARKETS
Cumulative returns



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

FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, international stock markets (as measured by the EAFE-Free index) provided a return of -4 0% for the quarter Performance of the major markets is shown below

Japan	-6 2%
United Kingdom	-6 6
Germany	-11 8
France	3.1
Switzerland	5 8

The EAFE-Free index increased by 17 1% during the latest year

The EAFE-Free index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 20 markets located in Europe, Australasia and the Far East EAFE-Free includes only those securities foreign investors are allowed to hold The major markets listed above comprise about 72% of the value of the international markets in the index

EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of -10 2% for the quarter The performance of the five largest stock markets in the index is shown below

Korea	-0.5%
Mexico	-10 4
Taiwan	-16 2
Brazil	-3.8
South Africa	-5 9

The Emerging Markets Free index had a return of 9 5% for the year

The Emerging Markets Free (EMF) index is compiled by MSCI and measures performance of 28 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 53% of the value of the index

REAL ESTATE

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

PRIVATE EQUITY

U S private equity firms raised an unprecedented $95 5 billion for private equity limited partnerships of all types, from venture capital to buyouts in 1999 That represents a 3 6% increase from the upwardly revised 1998 total of $92 2 billion. It was the sixth consecutive record year for fundraising So far, the year 2000 looks like another strong fundraising year with $69 7 billion in commitments through the first half of the year

RESOURCE FUNDS

During the second quarter of 2000, West Texas Intermediate crude oil averaged $28.77 per barrel compared to an average price of $28 82 per barrel during the first quarter of 2000 With the relatively high oil prices, oil companies continue to cautiously drill for oil and gas

COMBINED FUNDS

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

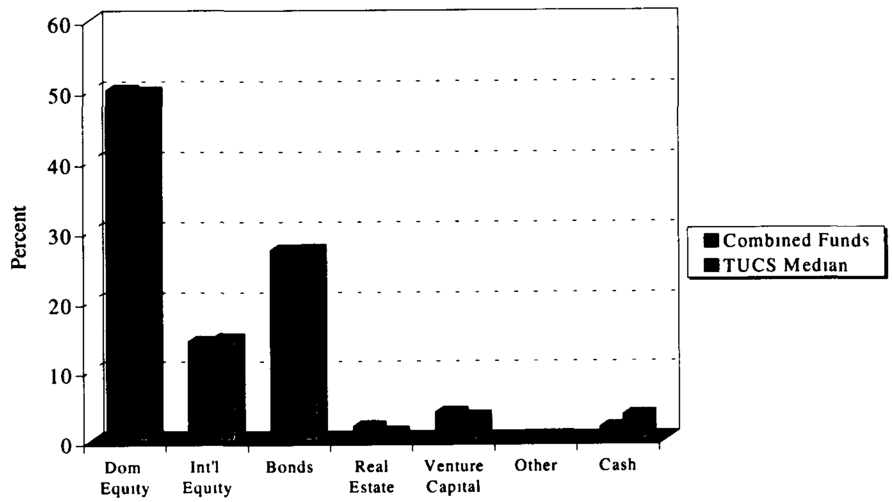
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On June 30, 2000, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$21,065	50.1%
International Stocks	5,981	14.2
Bonds	11,456	27.3
Alternative Assets	2,786	6.6
Unallocated Cash	735	1.8
Total	$42,023	100.0%

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



	Dom. Equity	Int'l Equity	Bonds	Real Estate	Venture Capital	Other	Cash
Combined Funds	50.1%	14.2%	27.3%	2.0%	4.0%	0.6%	1.8%
Median Allocation in TUCS*	49.8	14.6	27.4	1.2	3.4	0.6	3.6

* Public and corporate plans over $1 billion.

COMBINED FUNDS
Performance Compared to Other Pension Funds

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

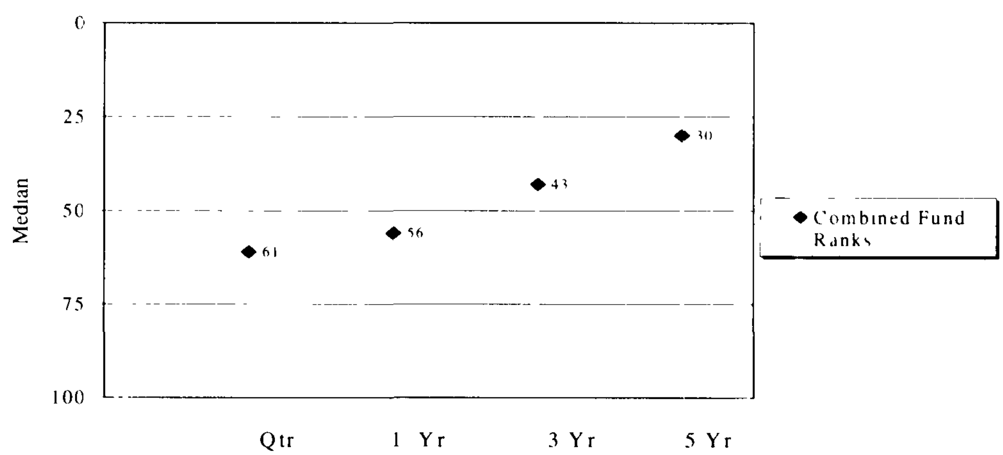
— **Differing Allocations.** Asset allocation will have a dominant effect on return The allocation to stocks among the funds in TUCS typically ranges from 20-90%, a very wide range for meaningful comparison In addition, it appears that many funds do not include alternative asset holdings in their reports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

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

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

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

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



	Period Ending 6/30/00			
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Combined Funds Percentile Rank in TUCS*	61st	56th	43rd	30th

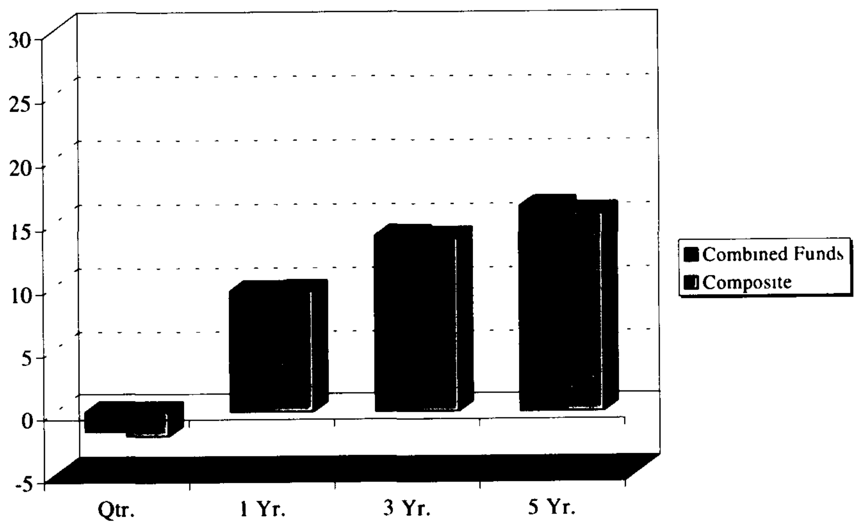
* Compared to public and corporate plans greater than $1 billion, gross of fees

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* 2Q00
Domestic Stocks	Wilshire 5000 Investable	50.0%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	27.1*
Alternative Assets	Real Estate Funds	1.9*
	Private Equity Funds	3.4*
	Resource Funds	0.6*
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 6/30/00

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Combined Funds**	-1.6%	9.6%	13.9%	16.2%
Composite Index	-1.9	9.7	13.8	15.7

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

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BASIC RETIREMENT FUNDS

Investment Objectives

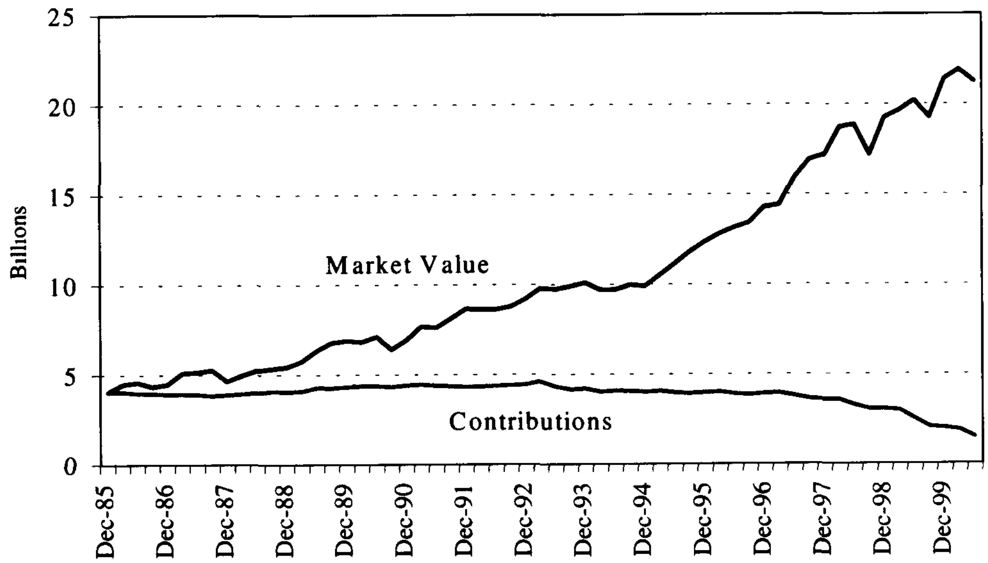
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately 300,000 public employees participate in the Basic Funds.

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

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

Asset Growth

The market value of the Basic Funds decreased 3.0% during the second quarter of 2000. Investment returns and net contributions were both negative for the quarter.



Last Five Years
In Millions

	12/95	12/96	12/97	12/98	12/99	3/00	Latest Qtr. 6/00
Beginning Value	$9,890	$12,338	$14,275	$17,146	$19,244	$21,365	$21,885
Net Contributions	-29	-59	-337	-539	-1,065	-98	-397
Investment Return	2,477	1,996	3,208	2,637	3,186	618	-260
Ending Value	$12,338	$14,275	$17,146	$19,244	$21,365	$21,885	$21,228

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

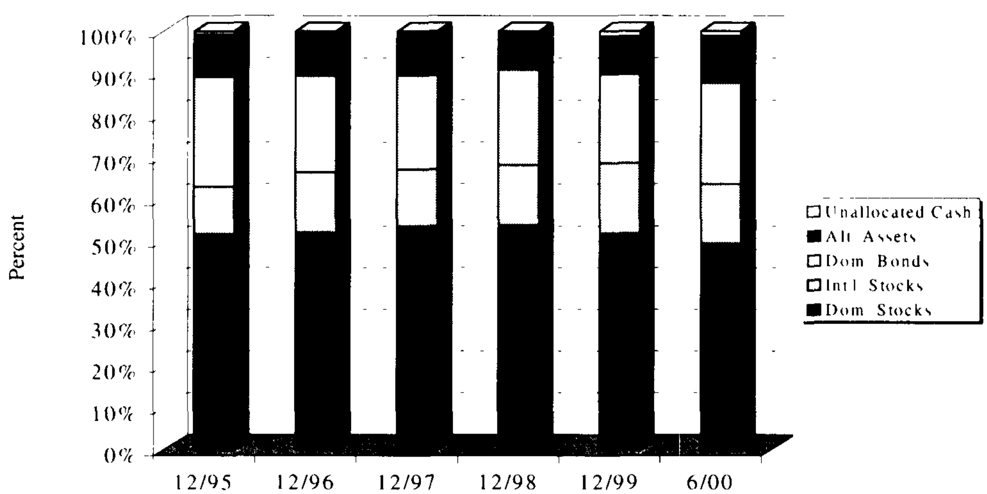
Domestic Stocks	49.4%
Int'l. Stocks	14 3
Bonds	24.0
Alternative Assets*	11 3
Unallocated Cash	1 0

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

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

Over the last year, the allocation to bonds increased due to a first quarter rebalancing from international and domestic equities and also due to outperformance The allocation to domestic equities and international equities declined as a result of the asset rebalancing Positive one-year returns in alternative assets increased the allocation.

The domestic and international stock allocation decreased over the quarter due to negative stock returns. The positive returns in alternative assets caused its allocation to rise over the quarter



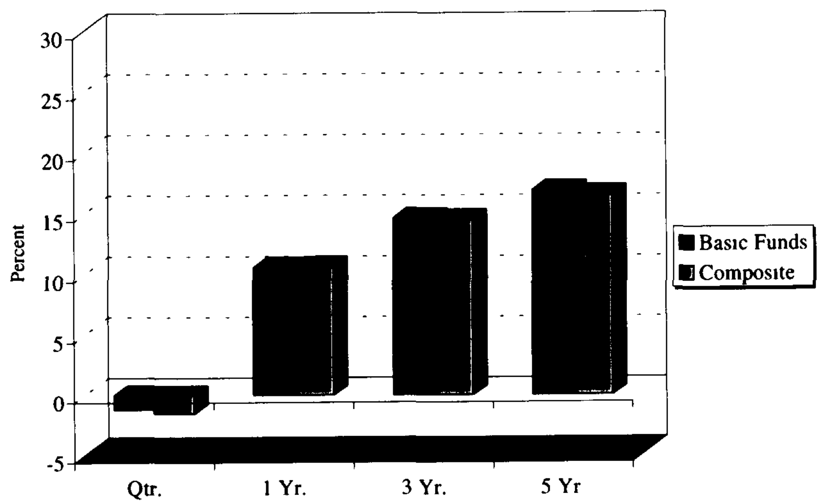
	Last Five Years						Latest Qtr.
	12/95	12/96	12/97	12/98	12/99	3/00	6/00
Domestic Stocks	51 7%	52.0%	53 6%	53.8%	51.9%	51 0%	49.4%
Int'l Stocks	11.3	14 5	13.6	14 4	16.8	14.8	14.3
Bonds	26.1	22 8	22.2	22.6	21 0	24 0	24.0
Real Estate	4.1	3 9	4 1	3.7	3.5	3 4	3 7
Private Equity	5 4	5 5	5 0	4.4	4.8	5 7	6 7
Resource Funds	0 7	1 0	1 4	0.7	0 8	0.9	0.9
Unallocated Cash	0.7	0 3	0.1	0 4	1 2	0.2	1 0
Total	100 0%	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* 2Q00
Domestic Stocks	45.0%	Wilshire 5000 Investable	50.0%*
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Real Estate Funds	3.4*
		Private Equity Funds	5.7*
		Resource Funds	0.9*
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 6/30/00

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Basic Funds**	**-1.2%**	**10.5%**	**14.6%**	**16.8%**
Composite Index	-1.5	10.6	14.4	16.5

**Returns are reported net of fees.

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See page15 for the performance of these asset pools. Performance of the Basic Funds' alternative assets is on page 16.

POST RETIREMENT FUND

The Post Retirement Investment Fund contains the pension assets of retired public employees covered by statewide retirement plans. Approximately 95,000 retirees receive monthly annuities from the assets of the Fund

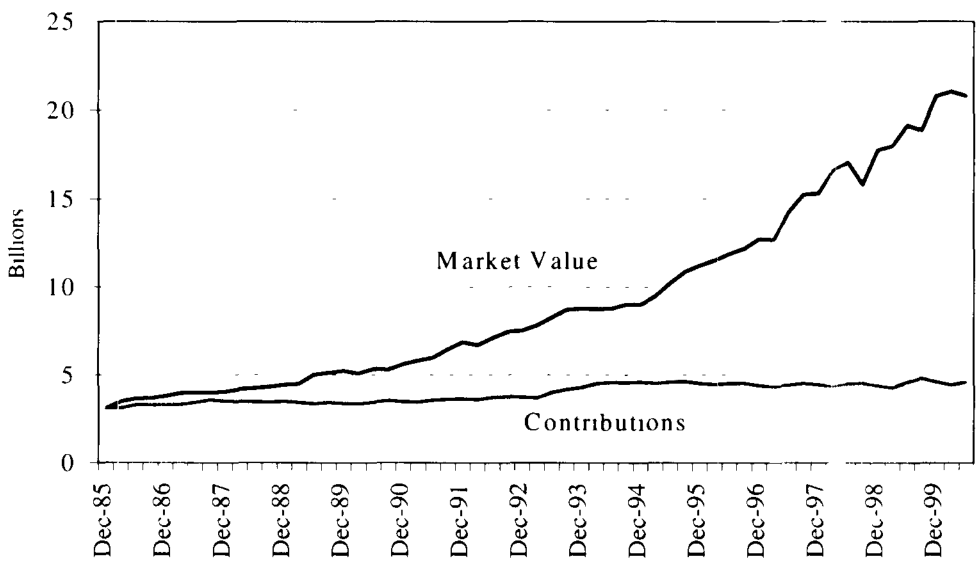
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis If the Post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

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

Asset Growth

The market value of the Post Retirement Fund decreased by 1 2% during the second quarter of 2000

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



Last Five Years
In Millions

	12/95	12/96	12/97	12/98	12/99	3/00	Latest Qtr. 6/00
Beginning Value	$9,001	$11,216	$12,705	$15,273	$17,743	$20,768	$21,044
Net Contributions	-102	-94	23	-45	211	-165	160
Investment Return	2,317	1,583	2,545	2,515	2,814	441	-410
Ending Value	$11,216	$12,705	$15,273	$17,743	$20,768	$21,044	$20,794

POST RETIREMENT FUND
Asset Mix

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

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

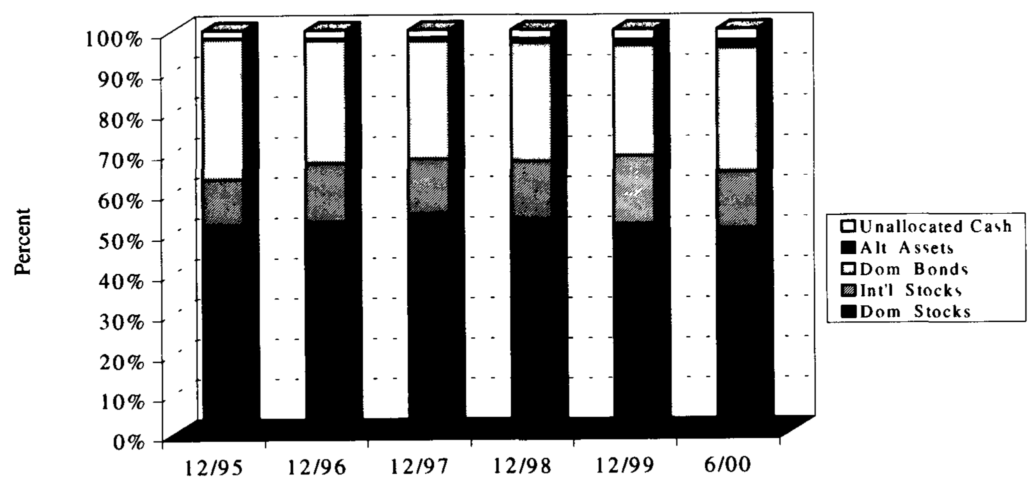
* Alternative assets include yield oriented investment vehicles. Any uninvested allocation is held in bonds.

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

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

Over the last year, the allocation to bonds increased due to a first quarter rebalancing from international and domestic equities. The allocation to domestic equities and international equities declined as a result of the asset rebalancing. Positive one-year returns in alternative assets increased the allocation.

The domestic and international stock allocation decreased over the quarter due to negative stock returns. The positive returns in bonds and alternative assets caused both allocations to rise over the quarter.



	Last Five years					Latest Qtr.	
	12/95	**12/96**	**12/97**	**12/98**	**12/99**	**3/00**	**6/00**
Dom. Stocks	51.9%	52.7%	54.7	53.2%	52.0%	51.3%	50.8%
Int'l. Stocks	11.4	14.6	13.6	14.5	16.9	14.7	14.1
Bonds	34.7	30.2	29.1	29.2	27.2	30.5	30.6
Alt. Assets	0.2	0.6	0.9	1.1	1.5	1.7	1.9
Unallocated Cash	1.8	1.9	1.7	2.0	2.4	1.8	2.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100 0%

POST RETIREMENT FUND

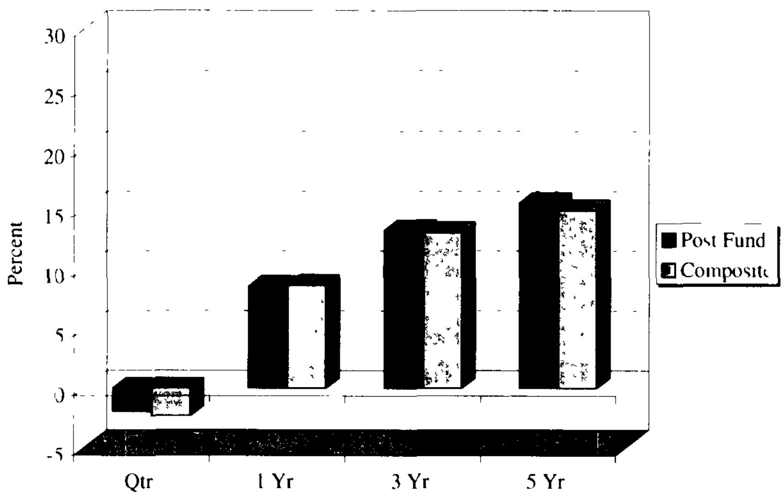
Total Fund Performance (Net of Fees)

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* 2Q00
Domestic Stocks	50.0%	Wilshire 5000 Investable	50.0%
Int'l Stocks	15.0	Int'l Composite	15.0
Bonds	27.0	Lehman Aggregate	30.5*
Alternative Assets	5.0	Real Estate Funds	4*
		Private Equity Funds	1.1*
		Resource Funds	0.2*
Unallocated Cash	3.0	3 Month T-Bills	3.0
	100.0%		100%

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

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



Period Ending 6/30/00

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Post Fund**	**-1.9%**	**8.6%**	**13.3%**	**15.5%**
Composite Index	-2.3	8.7	13.1	14.9

** Returns are reported net of fees.

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

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

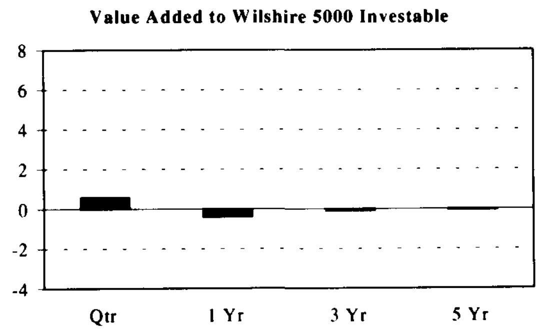
Domestic Stock Pool

Target: Wilshire 5000 Investable
Expectation: If one-third of the pool is actively managed, one-third is semi-passively managed, and one-third is passively managed, the entire pool is expected to exceed the target by +.18 - .40% annualized, over time.

Period Ending 6/30/00

			Annualized	
	Qtr.	**1 Yr.**	**3 Yrs.**	**5 Yrs.**
Stock Pool	**-4.1%**	**8.2%**	**18.6%**	**22.2%**
W5000 Investable*	-4.6	8.6	18.7	22.2

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



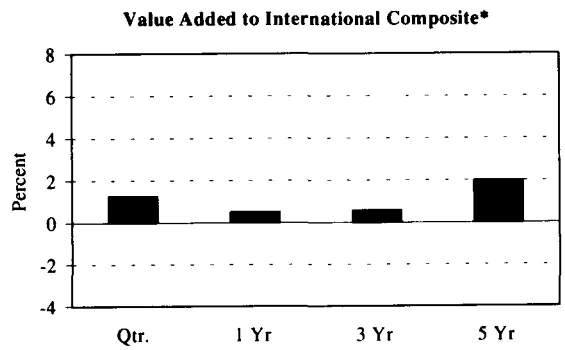
International Stock Pool

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

Period Ending 6/30/00

			Annualized	
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yrs.**
Int'l. Pool	**-3.3%**	**16.9%**	**8.9%**	**12.3%**
Composite Index*	-4.6	16.4	8.4	10.3

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

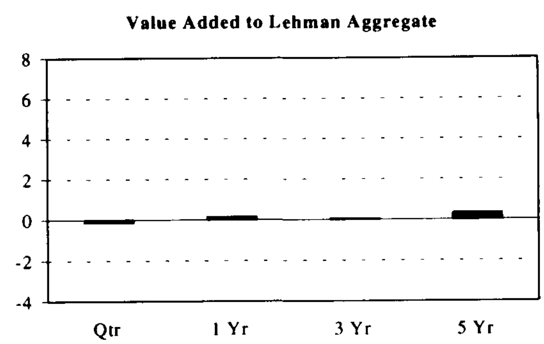


Bond Pool

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

Period Ending 6/30/00

			Annualized	
	Qtr.	**1 Yr.**	**3 Yrs.**	**5 Yrs.**
Bond Pool	**1.6%**	**4.7%**	**6.1%**	**6.6%**
Lehman Agg.	1.7	4.6	6.0	6.3



ALTERNATIVE ASSET MANAGERS

Performance of Asset Pools
(Net of Fees)

Real Estate Pool (Basic Funds only)

Expectation: Real estate investments are expected to exceed the rate of inflation by 3-5% annualized, over the life of the investment.

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

	Period Ending 6/30/00		Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Real Estate	**5.5%**	**9.2%**	**18.0%**	**12.9%**
Inflation	0.[illegible]	3.7	2.4	2.5

Private Equity Pool (Basic Funds only)

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

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

	Period Ending 6/30/00		Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Private Equity	**12.8%**	**43.1%**	**28.7%**	**30.9%**

Resource Pool (Basic Funds only)

Expectation: Resource investments (primarily oil and gas) are expected to exceed the rate of inflation by 3-5% annualized, over the life of the investment

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

	Period Ending 6/30/00		Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Resource Funds	**12.6%**	**27.8%**	**6.4%**	**12.3%**

Yield Oriented Pool (Post Fund only)

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

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

	Period Ending 6/30/00		Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Yield Oriented	**5.6%**	**13.8%**	**14.8%**	**13.3%**

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 June 30, 2000 the market value of the entire Fund was $1.8 billion.

Investment Options

	6/30/00 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$662
Growth Share Account – an actively managed, all common stock portfolio.	$334
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$428
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$51
Bond Market Account – an actively managed, all bond portfolio.	$112
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$87
Fixed Interest Account – an option utilizing guaranteed investment contracts (GIC's), which offer a fixed rate of return for a specified period of time.	$88

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

INCOME SHARE ACCOUNT

Investment Objective

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

Period Ending 6/30/00	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Account	**-1.9%**	**8.0%**	**14.3%**	**16.3%**
Composite*	-2 0	7 8	14.1	16.0

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

Asset Mix

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

	Target	Actual
Stocks	60 0%	61 4%
Bonds	35 0	35 1
Unallocated Cash	5 0	3.5
	100 0%	100 0%

GROWTH SHARE ACCOUNT

Investment Objective

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

Period Ending 6/30/00	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Account	**-4.1%**	**7.4%**	**18.2%**	**21.7%**
Composite*	-4 5	9 5	19.1	22 2

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

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

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

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

Period Ending 6/30/00	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Account	**-4.0%**	**9.9%**	**19.5%**	**22.7%**
Wilshire 5000	-4 5	9 5	19.1	22.5

The Account is invested 100% in common stock

INTERNATIONAL SHARE ACCOUNT

Investment Objective and Asset Mix

The investment objective of the International Share Account is to earn a high rate of return by investing in the stock of companies outside the U S At least one-third of the Account is "passively managed" and is designed to track the return of 20 markets included in the Morgan Stanley Capital International index of Europe, Australasia and the Far East (EAFE-Free) The remainder of the Account is "actively managed" by several international managers and emerging markets specialists who buy and sell stocks in an attempt to maximize market value

Period Ending 6/30/00	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yrs. (Annualized)
Total Account	**-3.3%**	**17.0%**	**9.0%**	**12.4%**
Composite*	-4 6	16 4	8.4	10.3

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

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

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

	Period Ending 6/30/00			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**1.6%**	**4.7%**	**6.1%**	**6.6%**
Lehman Agg.	1.7	4.6	6.0	6.3

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

MONEY MARKET ACCOUNT

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

	Period Ending 6/30/00			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**1.6%**	**5.9%**	**5.7%**	**5.7%**
3 month T-Bills	1.4	5.4	5.1	5.2

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

FIXED INTEREST ACCOUNT

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

	Period Ending 6/30/00			
		Annualized		
				Since
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	1.5%	6.2%	6.3%	6.5%

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

ASSIGNED RISK PLAN

Investment Objectives
The Assigned Risk Plan has two investment objectives: to minimize the mismatch between assets and liabilities and to provide sufficient liquidity for the payment of on-going claims and operating expenses

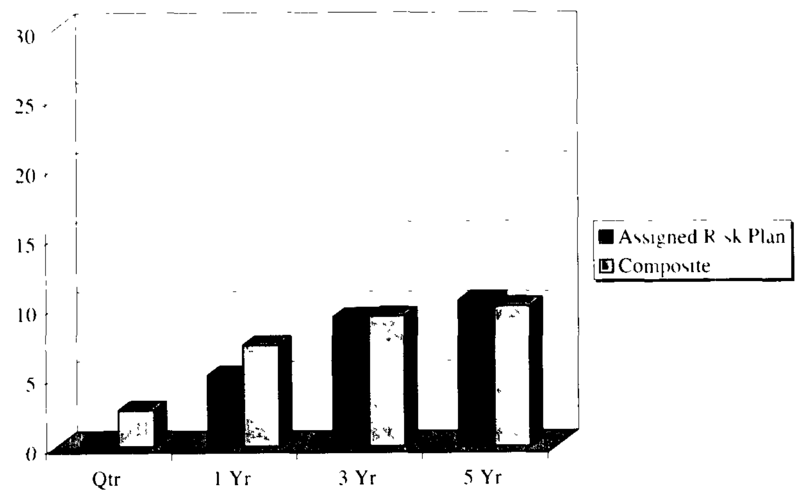
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds The actual asset mix will fluctuate in response to changes in the Plan's liability stream

	6/30/00 Target	6/30/00 Actual
Stocks	20 0%	32 4%
Bonds	80.0	67 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 June 30, 2000 the market value of the Assigned Risk Plan was $756 million



Period Ending 6/30/00

	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.
Total Fund*	0 4%	5 1%	9.3%	10 5%
Composite	0.9	5 5	8.7	9.7
Equity Segment*	-1.3	7 0	19.5	23.5
Benchmark	-2 7	7.2	19.7	23 8
Bond Segment*	1 2	4.2	5 6	6 0
Benchmark	1.7	4 8	5 8	6 2

* 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.

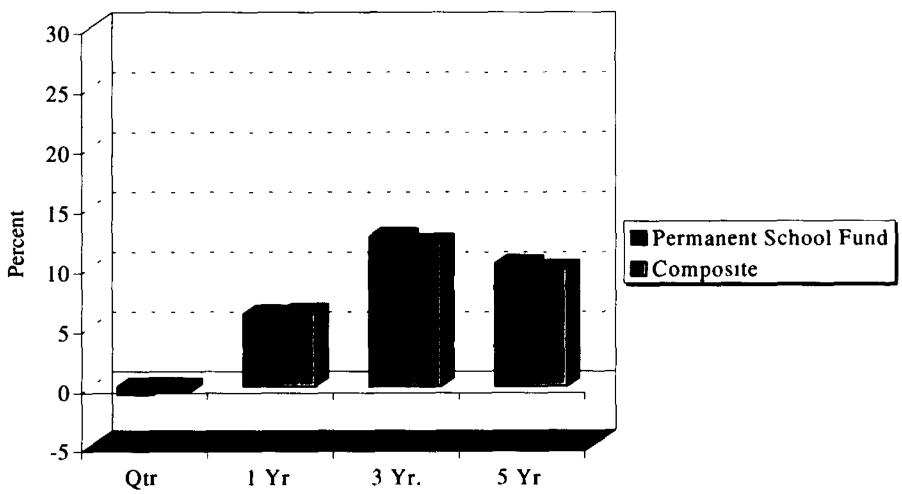
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income.

	6/30/00 Target	6/30/00 Actual
Stocks	50.0%	52.1%
Bond	48.0	46.4
Unallocated Cash	2.0	1.5
	100.0%	100.0%

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

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

Market Value
On June 30, 2000 the market value of the Permanent School Fund was $579 million.



	Period Ending 6/30/00			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund (1) (2)	**-0.7%**	**6.1%**	**12.5%**	**10.2%**
Composite	-0.5	6.2	12.1	9.8
Equity Segment (1) (2)	**-2.5**	**7.4**	**17.5**	**N/A**
S&P 500	-2.7	7.2	19.7	N/A
Bond Segment (1)	**1.4**	**4.7**	**6.3**	**6.7**
Lehman Aggregate	1.7	4.6	6.0	6.3

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

ENVIRONMENTAL TRUST FUND

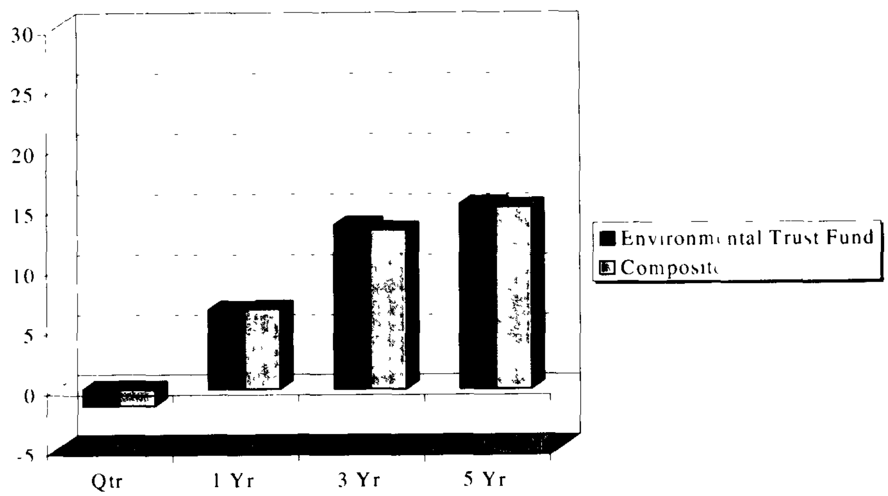
Investment Objective
The objective of the Environmental Trust Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

Asset Mix
The Environmental Trust Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds act as a deflation hedge and provide portfolio diversification. As of July 1, 1999, the asset allocation changed from 50% stocks/50% fixed income to 70% stocks /30% fixed income.

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

Market Value
On June 30, 2000 the market value of the Environmental Trust Fund was $315 million.

	6/30/00 Target	6/30/00 Actual
Stocks	70.0%	69.7%
Bonds	28.0	29.7
Unallocated Cash	2.0	0.6
	100.0%	100.0%



	Period Ending 6/30/00			
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Total Fund*	-1.4%	6.6%	13.7%	15.4%
Composite	-1.4	6.7	13.3	15.1
Equity Segment*	-2.5	7.4	19.9	23.9
S&P 500	-2.7	7.2	19.7	23.8
Bond Segment*	1.4	4.7	6.8	6.7
Lehman Agg	1.7	4.6	6.0	6.3

* Actual returns are calculated net of fees.

TOBACCO ENDOWMENT FUNDS

Investment Objectives

The investment objectives of the two Tobacco Endowment Funds, the Tobacco Prevention Fund (TPF) and the Medical Education Fund (MEF), are governed primarily by the constraints and goals for the Funds as established by statute. Annual earnings up to five percent of the market value of the Funds, measured each year at the beginning of the fiscal year for the Tobacco Prevention Fund and measured at the beginning of each quarter for the Medical Education Fund, may be distributed for expenditure. In addition, the principal of the Funds must remain inviolate. The distributions from the TPF are used by the Commissioner of Health to fund public health initiatives. The distributions from the TPF are used by the Commissioner of Health to fund public health initiatives. The distributions from the MEF are used for medical education at the University of Minnesota medical school. With a change in law enacted in the 2000 Legislative session, distributions in the future will be made up to five percent of the market value of the fund. The increased flexibility will allow a portion of the Funds to be invested in equities.

Asset Mix

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

Effective July 1, 2000, the two endowment funds will have an asset allocation of 50 percent equity and 50 percent fixed income.

Investment Management

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

Market Value

On June 30, 2000 the market value of the Tobacco Prevention Fund was $421.2 million and the market value of the Medical Education Fund was $263.9 million. These total market values include contributions of $135.3 million and $86.5 million received at the end of December 1999 to each fund, respectively.

Period Ending 6/30/00

Annualized Yield for the current quarter:	Tobacco Prevention Fund	6.30%
	Medical Education Fund	6.23%
Market Value of Funds as of the **beginning** of the current quarter (millions):	Tobacco Prevention Fund	$420.1
	Medical Education Fund	269.9

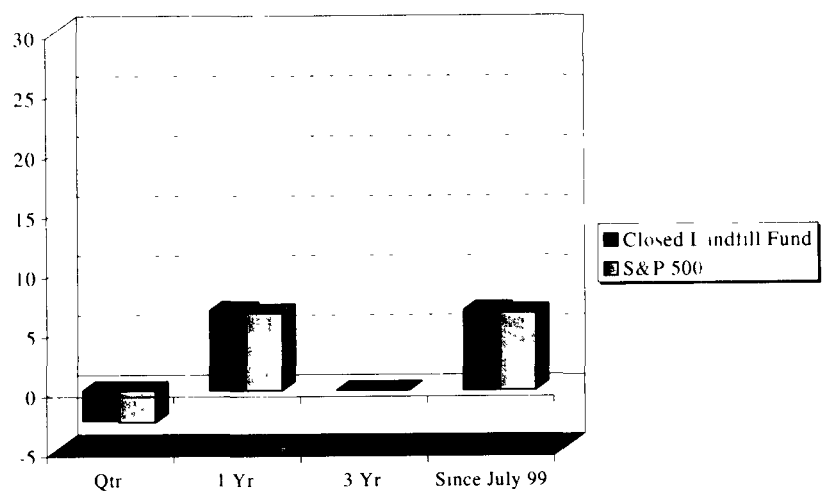
CLOSED LANDFILL INVESTMENT FUND

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 June 30, 2000, the market value of the Closed Landfill Investment Fund was $5.5 million.



	Period Ending 6/30/00			
	Qtr.	**1 Yr.**	**3 Yr.**	**Since 7/1/99**
Total Fund (1)	**-2.5%**	**6.7%**	N/A	**6.7%**
S&P 500 (2)	-2.7	6.5	N/A	6.5

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

STATE CASH ACCOUNTS

Description

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

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

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

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

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

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

Investment Objectives

Safety of Principal. To preserve capital.

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

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

Asset Mix

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

Investment Management

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

Period Ending 6/30/00

	Market Value (Millions)	Qtr.	1 Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Treasurer's Cash Pool*	**$5,655**	1.6%	6.0%	5.7%	5.6%
Custom Benchmark**		1.5	5.2	5.1	5.3
Trust Fund Cash Pool*	**$49**	1.6	5.9	5.7	5.7
Custom Benchmark***		1.4	5.2	5.0	5.3
3 month T-Bills		1.4	5.4	5.1	5.2

* Actual returns are calculated net of fees.

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

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

MINNESOTA STATE BOARD OF INVESTMENT
Composition of State Investment Portfolios By Type of Investment
Market Value June 30, 2000 (in Thousands)

	Cash and Short term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	74,303	0	1,974,469	0	4,118,411	1,187,729	962,239	8,317,151
	0.89%		23.74%		49.52%	14.28%	11.57%	100%
Public Employees Retirement Fund	44,273	0	1,220,500	0	2,490,777	723,833	560,032	5,039,415
	0.88%		24.22%		49.43%	14.36%	11.11%	100%
State Employees Retirement Fund	41,139	0	1,135,624	0	2,316,075	673,212	520,140	4,686,190
	0.88%		24.23%		49.42%	14.37%	11.10%	100%
Public Employees Police & Fire	22,992	318	622,893	13	1,276,426	370,411	288,766	2,581,819
	0.89%	0.00%	24.13%	0.00%	49.44%	14.35%	11.19%	100%
Highway Patrol Retirement Fund	2,522	0	69,571	0	141,888	41,243	31,865	287,089
	0.88%		24.23%		49.42%	14.37%	11.10%	100%
Judges Retirement Fund	229	0	6,310	0	12,869	3,741	2,890	26,039
	0.88%		24.23%		49.42%	14.37%	11.10%	100%
Correctional Employees Retirement	2,445	0	67,524	0	137,713	40,029	30,927	278,638
	0.88%		24.23%		49.42%	14.37%	11.10%	100%
Public Employees Correctional	9,934	0	0	0	0	0	0	9,934
	100.00%							100%
TOTAL BASIC FUNDS	197,837	318	5,096,891	13	10,494,159	3,040,198	2,396,859	21,226,275
	0.93%	0.00%	24.01%	0.00%	49.44%	14.33%	11.29%	100%
POST RETIREMENT FUND	536,865	0	6,353,509	0	10,570,447	2,941,188	388,780	20,790,789
	2.58%		30.56%		50.84%	14.15%	1.87%	100%
TOTAL BASIC AND POST	734,702	318	11,450,400	13	21,064,606	5,981,386	2,785,639	42,017,064
	1.75%	0.00%	27.25%	0.00%	50.13%	14.24%	6.63%	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	17,256 2.61%	242,790 36.70%	0	0	401,477 60.69%	0	0	661,523 100%
Growth Share Account	0	0	0	0	334,256 100.00%	0	0	334,256 100%
Money Market Account	27,056 100.00%	0	0	0	0	0	0	27,056 100%
Common Stock Index	0	0	0	0	428,161 100.00%	0	0	428,161 100%
Bond Market Account	0	0	112,268 100.00%	0	0	0	0	112,268 100%
International Share Account	0	0	0	0	0	50,837 100.00%	0	50,837 100%
Fixed Interest Account	1,102 1.26%	0	86,672 98.74%	0	0	0	0	87,774 100%
Money Market Deferred Comp	60,014 100.00%	0	0	0	0	0	0	60,014 100%
TOTAL SUPPLEMENTAL FUNDS	105,428 5.98%	242,790 13.78%	198,940 11.29%	0	1,163,894 66.06%	50,837 2.89%	0	1,761,889 100%
TOTAL RETIREMENT FUNDS	840,130 1.92%	243,108 0.56%	11,649,340 26.61%	13 0.00%	22,228,500 50.77%	6,032,223 13.78%	2,785,639 6.36%	43,778,953 100%

	Cash and Short Term Securities	Bond Internal	Bond External	Stock Internal	Stock External	External Int'l	Alternative Assets	Total
ASSIGNED RISK PLAN	259,287 34.28%	0	256,158 33.86%	0	241,033 31.86%	0	0	756,478 100%
ENVIRONMENTAL FUND	1,848 0.59%	93,389 29.66%	0	219,596 69.75%	0	0	0	314,833 100%
PERMANENT SCHOOL FUND	8,836 1.53%	268,472 46.35%	0	301,853 52.12%	0	0	0	579,161 100%
TOBACCO SETTLEMENT POOL	3,533 0.52%	681,777 99.48%	0	0	0	0	0	685,310 100%
CLOSED LANDFILL INVESTMENT	4 0.07%	0	0	5,471 99.93%	0	0	0	5,475 100%
TREASURERS CASH	6,209,814 100.00%	0	0	0	0	0	0	6,209,814 100%
HOUSING FINANCE AGENCY	28,082 10.39%	242,100 89.61%	0	0	0	0	0	270,182 100%
MINNESOTA DEBT SERVICE FUND	15,570 8.39%	170,098 91.61%	0	0	0	0	0	185,668 100%
MISCELLANEOUS ACCOUNTS	187,798 49.10%	159,293 41.64%	0	35,423 9.26%	0	0	0	382,514 100%
GRAND TOTAL	7,554,902 14.21%	1,858,237 3.49%	11,905,498 22.39%	562,356 1.06%	22,469,533 42.26%	6,032,223 11.35%	2,785,639 5.24%	53,168,388 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: August 29, 2000

TO: Members, State Board of Investment

FROM: Howard Bicker

1. Reports on Budget and Travel

A report on the SBI's administrative budget for the period ending July 31, 2000 is included as **Attachment A.**

A report on travel for the period from May 16, 2000 – August 15, 2000 is included as **Attachment B.**

2. Litigation Update

The SBI has been designated lead plaintiff in a class action suit against Mercury Finance Corporation. The SBI is also a party to a securities litigation suit against McKesson HBOC. SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on September 6, 2000.

3. Certificate of Deposit Program Update

Since 1980, the SBI has had a program in place to purchase CD's from Minnesota financial institutions. The SBI receives a market rate of return on these investments, using the average secondary CD rate quoted by the New York Federal Reserve Bank. The program provides a reliable source of capital to Minnesota financial institutions, regardless of size, many of which do not have access to the national CD market. The Board designed the program so that no single institution is favored in the allocation of assets.

Only the cash reserves of the retirement funds are used in the program. The SBI designed the program with the understanding that the Federal Deposit Insurance Corporation (FDIC) will insure up to $100,000 in each financial institution participating in the program for each retirement plan under the control of the SBI.

Therefore, as the SBI oversees the assets of 8 different plans, the maximum CD investment in any financial institution is $750,000. Staff believed that within these limits, all CD's purchased by the SBI are fully insured by the FDIC.

Over the past 20 years the SBI has had CD's in banks that have failed. In each situation the SBI CD's were paid. However, on July 14, 2000, the bank in Almelund, MN failed. It was purchased by an outside institution that choose not to retain the SBI CD's in its portfolio. Therefore, staff requested payment from the FDIC.

The FDIC has informed staff that in its opinion, the FDIC insurance coverage for the CD with the Town and Country Bank of Almelund will not fully cover the Board's investment. The amount not insured is in dispute, but is believed to be $100,000 to $200,000 (approximately .0004 of 1% of the SBI's retirement related assets).

Staff and legal counsel are working with FDIC staff to resolve the misunderstanding concerning the applicability of the FDIC insurance and to maximize the amount of funds returned to the SBI. The SBI may need to revise the program to reduce the risk of loss due to a reduced amount of FDIC insurance.

4. New Responsibilities for SBI for School District 403(b) Match

During the 2000 Legislative Session, the law requiring the SBI to maintain a list of qualified 403(b) providers for matching contributions was eliminated. The new law requires the SBI to review the financial status and investment products of product providers who request the review and to provide the information to parties who request it.

Under the new law, the state and the SBI have no responsibility to choose qualified companies, to rate companies, or to recommend companies as investment providers for the 403(b) market. If requested by an insurance company, mutual fund company, or similar company providing investments eligible under section 403(b) of the Internal Revenue Code, the SBI, in conjunction with the Department of Commerce, will process investment product information about the company

Aspects of the review include:

- The investment provider must request the SBI to review its "financial standing" and "the competitiveness of its investment options and returns, and the level of all charges and fees impacting those returns."
- The review is not a compilation of a list of acceptable product providers nor will the review rank one company compared to another.

- In reviewing companies under this section, the state board of investment must not be considered to be acting as a fiduciary or to be engaged in a fiduciary activity.

If requested to review and if we receive the necessary information to review, the SBI intends to have available for school districts company specific investment product information by the start of the 2000-2001 school year.

5. Update of Board Proxy Voting Guidelines

At its July 14, 2000 meeting, the Proxy Committee reviewed the Board's Proxy Voting Guidelines. The Committee approved a change to clarify language that reflects activity with respect to sponsoring, cosponsoring and voting shareholder resolutions concerning tobacco related issues.

This change is reflected in the Guidelines, which are included as **Attachment C**, originally adopted by the Board in September 1990.

RECOMMENDATION:

The Proxy Committee recommends the Board approve the revised Proxy Voting Guidelines.

6. Update on Tobacco Information

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

From March 31, 2000 to June 30, 2000 shares in the SBI active stock portfolios were reduced by 238,470 shares, dropping from approximately 1.9 million shares to approximately 1.7 million shares. The market value of these holdings increased from approximately $36 million to approximately $39 million. Tables showing the holdings for the SBI active and semi-passive managers are in **Attachment D.**

ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 2000 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR FINAL

ITEM	FISCAL YEAR 2000 BUDGET	FISCAL YEAR 2000 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,812,000	$ 1,704,758
SEVERENCE PAYOFF	30,000	227
WORKERS COMPENSATION INSURANCE	1,000	783
MISCELLANEOUS PAYROLL	1,000	0
SUBTOTAL	**$ 1,844,000**	**$ 1,705,768**
STATE OPERATIONS		
RENTS & LEASES	126,000	128,647
REPAIRS/ALTERATIONS/MAINTENANCE	30,000	19,083
PRINTING & BINDING	20,000	15,855
PROFESSIONAL/TECHNICAL SERVICES	35,000	1,990
COMPUTER SYSTEMS SERVICES	0	12,523
COMMUNICATIONS	30,000	30,046
TRAVEL, IN-STATE	3,000	679
TRAVEL, OUT-STATE	65,000	56,920
SUPPLIES	50,000	55,353
EQUIPMENT	50,000	54,714
EMPLOYEE DEVELOPMENT	15,000	21,135
OTHER OPERATING COSTS	42,000	4,227
SUBTOTAL	**$ 466,000**	**$ 401,172**
TOTAL GENERAL FUND	**$ 2,310,000**	**$ 2,106,940**

STATE BOARD OF INVESTMENT
FISCAL YEAR 2001 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH JULY 31, 2000

ITEM	FISCAL YEAR 2001 BUDGET	FISCAL YEAR 2001 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,884,000	$ 81,778
SEVERENCE PAYOFF	20,000	0
WORKERS COMPENSATION INSURANCE	1,000	0
MISCELLANEOUS PAYROLL	1,000	0
SUBTOTAL	**$ 1,906,000**	**$ 81,778**
STATE OPERATIONS		
RENTS & LEASES	130,000	22,041
REPAIRS/ALTERATIONS/MAINTENANCE	30,000	1,602
PRINTING & BINDING	20,000	0
PROFESSIONAL/TECHNICAL SERVICES	35,000	0
COMPUTER SYSTEMS SERVICES	0	0
COMMUNICATIONS	30,000	340
TRAVEL, IN-STATE	3,000	0
TRAVEL, OUT-STATE	65,000	0
SUPPLIES	50,000	210
EQUIPMENT	50,000	0
EMPLOYEE DEVELOPMENT	15,000	0
OTHER OPERATING COSTS	42,000	287
SUBTOTAL	**$ 470,000**	**$ 24,480**
TOTAL GENERAL FUND	**$ 2,376,000**	**$ 106,258**

ATTACHMENT B

STATE BOARD OF INVESTMENT

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

Purpose	Name(s)	Destination and Date	Total Cost
Miscellaneous: Meeting with active and retired PERA members	H. Bicker	Duluth, MN 6/12	$105.60
Manager Monitoring Domestic Equity Manager: Lincoln Capital **Manager Monitoring International Equity Manager:** Brinson Partners **Consultant** Richards & Tierney	L. Buermann C. Knutson S. Gleeson	Chicago, IL 6/19-6/20	$1,882.80
Staff Conference: "Market Makers" Sponsored by Institute For Fiduciary Education	H. Bicker	San Francisco, CA 6/24-6/28	$1,427.55
Board Member Travel: 2000 Legal Education Conference National Association of Public Pension Attorneys	C. Eller	New Orleans, LA 6/27-6/30	$2,291.12
Staff Conference: "Risk Forum" sponsored by Association for Investment Management and Research	M. Menssen	Chicago, IL 6/28	$234.00

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring International Equity Managers: American Express; Blairlogie Capital Mgmt., Brinson Partners, Inc., INVESCO Global Asset Mgmt., (NA) Inc., Rowe Price Fleming International, Inc., Marathon Asset Mgmt., Ltd., **Manager Monitoring Emerging Markets Managers:** City of London, Genesis Asset Managers Ltd., **Manager Monitoring Domestic Equity Manager:** Barclays Global Investors, Ltd. **Manager Monitoring Fixed Income Manager:** Western Asset **Manager Search Alternative Investment Manager:** William Blair Capital Partners VII	M. Perry	Edinburgh/ London 6/15-6/28	$4,512.11
Staff Conference: "Financial Analysts Seminar" sponsored by A.I.M.R.	A. Christensen	Chicago, IL 7/24-7/28	$3,124.00
Manager Monitoring Emerging Markets: Scudder Kemper Investments **Manager Search Emerging Markets Managers:** Alliance Capital, Global Asset Mgmt., J.P. Morgan, Lazard Asset Mgmt., Merrill Lynch/Mercury Asset Mgmt., Morgan Stanley Dean Witter, Paribas Asset Mgmt., Inc., Schroeder Capital Mgmt. Int'l.	L. Buermann C. Knutson	New York, NY 8/1-8/4	$3,183.51

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring **Fixed Income Manager:** Lincoln Capital Mgmt. **Consultant Visit:** Richards & Tierney, Inc.	H. Bicker 8/1-8/2	Chicago, IL	$528.17
Staff Conference: Independent Community Bankers of Minnesota Annual Conference	H. Bicker 8/4	Breezy Pt., MN	$287.51
Manager Search **Emerging Markets Manager:** Capital Guardian	H. Bicker 8/14-8/16	Baltimore, MD	$959.08

Proxy Voting Guidelines

The Minnesota State Board of Investment (SBI) has formulated proxy voting guidelines by which it casts votes on a wide range of corporate governance and social responsibility issues.

As a stockholder, the Board is entitled to participate in corporate annual meetings by casting its votes by proxy or through direct attendance at the meetings. The following guidelines constitute an effort by the SBI to manage and control its proxy voting.

Overview of the SBI

By the Minnesota Constitution, the Board is composed of the Governor, the State Auditor, the State Treasurer, the Secretary of State, and the Attorney General. The Board employs a professional staff to carry out its policies. The Board and staff are assisted by a seventeen member Investment Advisory Council.

The SBI invests the pension assets of the three statewide public employee retirement systems with approximately 320,000 members:

- Public Employees Retirement Association (PERA)
- Teachers Retirement Association (TRA)
- Minnesota State Retirement System (MSRS)

The SBI also invests the cash balances of state government funds and assets of several trust funds.

Statutory Purpose

According to statute , state assets are to be responsibly invested by the SBI to maximize the total rate of return without incurring undue risk.[1] Only a small portion of the SBI's equity holdings are in non-pension accounts. The focus, therefore, of the SBI's proxy voting activities is the extensive domestic and international equity holdings within the pension asset portfolios.

Fiduciary Responsibility

As fiduciaries of pension assets, members of the Board and the executive director owe a fiduciary duty to the members of the plans, to the taxpayers of the state and political subdivisions who help to finance the plans, and to the State of Minnesota.[2]

In addition to the general standard of fiduciary conduct, members of the Board, the executive director, the members of the Investment Advisory Council, staff, and members of Board committees must carry out their duties in accordance with the prudent person standard as articulated in statute.[3]

Voting Process

The Board recognizes its fiduciary responsibility to cast votes on proxy issues. The Board delegates proxy voting responsibilities to its Proxy Committee. Each Board member appoints one member to the Proxy Committee. The five member Committee meets only if it has a quorum and casts votes on proxy issues based on a majority vote of those present. In the unusual event that it reaches a tie vote or a quorum is not present, the Committee will cast a vote to abstain.

The Committee has formulated guidelines by which it casts votes on a wide range of corporate governance and social responsibility issues. These guidelines encompass both domestic and international proxy issues. Each year the Committee reviews existing guidelines and determines which issues it will review on a case-by-case basis. The Proxy Committee also reviews certain corporate governance issues pertaining to companies headquartered in Minnesota.

Domestic voting: The SBI directly votes shares held in non-pension accounts and shares held in domestic equity manager portfolios.

International voting: The SBI directly votes shares held in passive international equity manager portfolios. The SBI delegates to active international equity managers the voting of shares held in the managers' portfolios. The SBI believes that several factors affecting the voting of international proxies, including time constraints and lack of company specific information, support the conclusion that the SBI's active international equity managers can more efficiently and effectively vote the proxies in their portfolios.

Corporate Governance Issues

Routine Matters

In general, the SBI **supports** management on routine matters of corporate governance. These issues include:

- uncontested election of directors.
- selection of auditors and approval of financial statements.
- management proposals on non-executive compensation issues including savings plans and stock options.
- limits on director and officer liability or increases in director and officer indemnification permitted under the laws of the state of incorporation.

Shareholder Rights

In general, the SBI **opposes** proposals that would restrict shareholder ability to effect change. Such proposals include:

- instituting supermajority requirements to ratify certain or events.
- creating classified boards.
- barring shareholders from participating in the determination of the rules governing the board's actions, such as quorum requirements and the duties of directors.
- prohibiting or limiting shareholder action by written consent.
- granting certain stockholders superior voting rights over other stockholders.

In general, the SBI **supports** proposals that preserve shareholder rights to effect change. Such proposals include:

- having boards of directors comprised of a majority of independent directors.
- having compensation committees comprised entirely of independent directors.
- requiring shareholder approval of poison pill plans.
- repealing classified boards.
- adopting secret ballot of proxy votes.
- reinstating cumulative voting.
- adopting anti-greenmail provisions.

Executive Compensation

In general, the SBI **supports** efforts to have executive compensation linked to a company's long-term performance and to encourage full disclosure of compensation packages for principal executives. Accordingly, the SBI evaluates compensation packages on a case-by-case basis, including compensation agreements that are contingent upon corporate change in control.

Buyouts

In general, the SBI **supports** friendly takeovers and management buyouts.

Special Cases

The SBI evaluates the following proposals on a case-by-case basis:

- hostile takeovers.
- recapitalization plans.
- contested election of directors.

Notwithstanding the above, in general, the SBI reviews corporate governance issues if the company is incorporated or is headquartered in Minnesota.

Social Responsibility Issues

Tobacco

~~In general, the SBI **supports** resolutions to reduce youth access to tobacco products, to request companies to voluntarily comply with FDA regulations, to eliminate smoking in restaurants, and other related issues.~~

~~In addition to casting proxy votes, the SBI sponsors and co-sponsors tobacco resolutions on these subjects.~~

<u>The SBI supports shareholder resolutions that call for a company to reduce its involvement in liquor and tobacco productions, product marketing and other related lines of business in order to diversify its business in a manner that will reduce or eliminate potential liability to legal claims associates with liquor and tobacco that may negatively impact the value of the SBI's holdings.</u>

<u>In furtherance of this policy, the SBI has sponsored and co-sponsored shareholder resolutions to reduce youth access to tobacco products, to request companies to voluntarily comply with FDA regulations, and to eliminate smoking in restaurants; and other tobacco related issues.</u>

Northern Ireland

The SBI **supports** resolutions that call for the adoption of the MacBride Principles as a means to encourage equal employment opportunities in Northern Ireland.

The SBI **supports** resolutions that request companies to submit reports to shareholders concerning their labor practices or their sub-contractors' labor practices in Northern Ireland.

In addition to casting proxy votes, the SBI sponsors and cosponsors Northern Ireland resolutions as required by *Minnesota Statutes*, Section 11A.241.

Environmental Protection/Awareness

In general, the SBI **supports** resolutions that require a corporation to report or disclose to shareholders company efforts in the environmental arena.

In general, the SBI **supports** resolutions that request a corporation to report on progress toward achieving the objectives of the CERES Principles, an environmental code of conduct for corporations.

South Africa

In general, the SBI supports resolutions that promote the welfare of black employees and improve the quality of black life outside the work environment.

Other Issues

In general, the SBI **supports** proposals that require a company to report or disclose to shareholders company efforts concerning a variety of social responsibility issues. In the past, these reporting resolutions have included issues such as affirmative action programs, animal testing procedures, nuclear plan safety procedures and criteria used to evaluate military contract proposals.

In general, the SBI **opposes** proposals that require a company to institute a specific business action in response to such issues. As an example, the SBI voted against a shareholder proposal which would have required a utility to phase out operations of a nuclear power plant.

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1 *Minnesota Statutes* 1998, Section 11A.01.

2 *Minnesota Statute* 1998, Section 356A.04, subdivision 1.

3 *Minnesota Statutes* 1998, Section 11A.09, and Section 356A.04, subdivision 2.

ATTACHMENT D

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

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

Company	Percent Revenue from Tobacco in 1997	SBI Shares 3/31/00	SBI Cost Value 3/31/00	SBI Market Value 3/31/00
Philip Morris Cos., Inc.	46	1,504,770	39,308,145	31,788,266
Universal Corp.	74*	45,000	1,464,701	677,813
Subtotal		**1,549,770**	**$40,772,846**	**$32,466,079**

International Stocks

Company	Percent Revenue from Tobacco in 1997	SBI Shares 3/31/00	SBI Cost Value 3/31/00	SBI Market Value 3/31/00
Rembrandt Group Ltd.	>50	385,000	3,376,822	3,665,475
Subtotal		**385,000**	**$3,376,822**	**$3,411,744**
Total SBI Holdings		**1,934,770**	**$44,149,668**	**$35,877,823**

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

*1998 data

SBI Active Stock Holdings
Tobacco Companies Identified by the IRRC
that derive at least fifteen percent of revenue from tobacco products
June 30, 2000

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

Company	Percent Revenue from Tobacco in 1997	SBI Shares 6/30/00	SBI Cost Value 6/30/00	SBI Market Value 6/30/00
Philip Morris Cos., Inc.	46	1,344,600	35,667,619	35,715,938
Universal Corp.	74*	45,000	1,464,701	950,625
Subtotal		**1,389,600**	**$37,132,320**	**$36,666,5633**

International Stocks

Company	Percent Revenue from Tobacco in 1997	SBI Shares 6/30/00	SBI Cost Value 6/30/00	SBI Market Value 6/30/00
Rembrandt Group Ltd.	>50	306,700	2,690,055	2,963,056
Subtotal		**306,700**	**$2,690,055**	**$2,963,056**
Total SBI Holdings		**1,696,300**	**$39,822,376**	**$39,629,619**

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

*1998 data

Tab C

COMMITTEE REPORT

DATE: August 29, 2000

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

FROM: Stock and Bond Manager Committee

The Stock and Bond Manager Committee met on August 17, 2000 to consider the following agenda items:

- Review the manager performance for the period ending June 30, 2000.
- Update on funding of Emerging Managers.
- Status of Tobacco Endowment Funds.
- Status of Assigned Risk Plan.
- Authorization for Emerging Markets Manager Search.

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

INFORMATION ITEMS:

1. Review of manager performance for the period ending June 30, 2000.

- ***Domestic Equity Managers***

  For the period ending June 30, 2000, the **Domestic Equity Manager Program** out-performed the Wilshire 5000 Investable for the quarter, matched this index for the five year period and under-performed for the one and three year periods. The **current managers** out-performed the aggregate benchmark for the three, and five-year time periods and under-performed for the quarter and for the one-year periods.

Time period	Total Program	Wilshire 5000 Investable
Quarter	-4.1%	-4.6%
1 Year	8.2	8.6
3 Years	18.6	18.7
5 Years	22.2	22.2

Current Mgrs. Only	Aggregate Benchmark
-4.1%	-4.0%
8.1	8.7
19.7	19.0
23.3	22.5

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

- *Fixed Income Managers*

For the period ending June 30, 2000, the **Fixed Income Manager Program** out-performed the Lehman Aggregate for the one, three and five year periods, and under-performed during the quarter. The **current managers** outperformed the aggregate benchmark for the one, three and five year periods and under-performed for the quarter.

Time period	Total Program	Lehman Aggregate
Quarter	1.6%	1.7%
1 Year	4.7	4.6
3 Years	6.1	6.0
5 Years	6.6	6.3

Current Mgrs. Only	Aggregate Benchmark
1.6%	1.7%
4.7	4.6
6.1	6.0
6.6	6.3

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

- *International Stock Managers*

For the period ending June 30, 2000, the **International Equity Program** outperformed its composite index during all time periods. Performance of the **equity managers** (excluding the currency overlay) also outperformed during all time periods.

Time Period	Total Program	Composite Index*
Quarter	-3.3%	-4.6%
1 Year	16.9	16.4
3 Year	8.9	8.4
5 Year	12.3	10.3

Equity Mgrs. Only
-3.3%
17.1
8.5
11.5

* The international benchmark is EAFE-Free plus Emerging Markets Free. The weight fluctuates with market capitalization. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE-Free/13% Emerging Markets Free. On 5/1/96, the portfolio began transitioning from 100% EAFE-Free to the 12/31/96 fixed weights. Prior to 5/1/96, the benchmark was 100% EAFE-Free.

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

2. Update on funding of Emerging Managers.

The Minnesota State Board of Investment (SBI) hired seven new investment firms for the Emerging Manager Program at the June 7th Board Meeting. These firms were funded on July 3, 2000 at approximately $50 million each. They included:

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

The funding came from the termination of Compass Capital and Wilke/Thompson in the Emerging Manager Program and withdrawals from Alliance Capital and Barclays Global Investors as part of a rebalancing effort.

In July, Staff and the Board's consultant, Richards & Tierney, conducted two half-day sessions with all of the domestic equity managers to discuss custom benchmarks and the structure of the Domestic Equity Program. Individual meetings were also held with the new firms to answer any specific questions about how to construct their unique custom benchmark. Staff reported that most of the new firms are well on their way to creating a custom benchmark for the fourth quarter 2000.

3. Status of Tobacco Endowment Funds.

The asset allocation of the Tobacco Endowment Funds was changed to 50 percent equity/50 percent fixed income effective July 1 as provided for in the Tobacco Fund Investment Policy Paper approved by the Board in March.

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

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

With enactment of the new law, staff changed the asset allocation of the Funds to 50 percent equity/ 50 percent fixed income. One more contribution of approximately

$230 million is scheduled for deposit January 2, 2001, and will be invested accordingly.

4. Status of Assigned Risk Plan.

The 2000 Legislature removed $435 million of surplus assets from the Workers Compensation Assigned Risk Plan. (Laws of Minnesota 2000, Chapter 447, Section 24 removed $325 million of assets and required transfer of the total to the Workers Compensation Special Compensation Fund by July 10, 2000. Laws of Minnesota 2000, Chapter 490, Article 13, Section 19 removed $110 million from the Assigned Risk Plan and required transfer to the general fund on July 15, 2000. In addition, Laws of Minnesota 2000, Chapter 488, Article 13, Section 1 removes $15 million from the Plan and requires transfer to the Minnesota Comprehensive Health Association by January 15, 2001.)

The legislative actions leave approximately $300 million of assets in the Assigned Risk Plan. Staff discussed the results of the new actuarial report with Park Glen, the Plan administrator. The review of Plan liabilities suggests that it is appropriate to continue an asset allocation of 80 percent fixed income and 20 percent equities. The fixed income portfolio would fund Plan liabilities through the first ten years; and, the equity portfolio would fund Plan liabilities beyond ten years.

The changes result in GE Asset Management managing a portfolio of about $65 million and Voyageur Asset Management managing a portfolio of about $235. The assets transferred into the Special Compensation Fund are invested in the Invested Treasurer's Cash pool.

ACTION ITEMS:

5. Authorization for Emerging Markets Manager Search.

Authorization is requested to conduct an emerging market search for up to two investment firms to manage additional funds and to add diversification and flexibility to the Emerging Market Program.

Currently, the SBI has three emerging market firms responsible for about $590 million. An additional $100 million should be allocated to emerging markets due to recent changes in the indexes. These index changes increased the weight of the Emerging Market Free index relative to the EAFE index, and consequently there is a need to rebalance the program back to the target weights. At least one manager should be added to manage this additional $100 million.

In addition, the committee concurred with Staff's recommendation to re-interview City of London (COL) and possibly Genesis. Staff has experienced administrative difficulties with City of London for some time. Since the assets are held in custody at

Mellon Bank, timeliness of accounting and reporting have been a problem, and there has been difficulty in getting information due to the pooled nature of the account. While City of London has had good performance in the past, potential structural changes in the closed-end mutual fund market place could reduce the ability of the firm to add value going forward. After reviewing Genesis' past performance and investment process, a decision will be made by the Committee whether to include them in the re-interview process. If the recommendation for either firm is to terminate the relationship, a replacement should be selected during the search.

RECOMMENDATION:

The Stock and Bond Manager Committee recommends that a search committee be formed to review potential emerging market managers for the SBI's International Equity Program.

STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

Second Quarter, 2000

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending June, 2000

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	%
Active Managers												
Alliance Capital	-4.1	-3.5	23.2	15.6	35.6	27.0	34.1	28.1	22.2	16.6	$1,989.24	8.9%
Brinson Partners	3.7	-2.5	-20.8	12.8	3.2	19.9	13.8	22.2	13.5	19.3	$601.12	2.7%
Cohen, Klingenstein & Marks	-1.5	-8.9	9.0	15.9	22.7	23 1	26.0	24.5	25.3	23.4	$444.74	2.0%
Forstmann-Leff	-16.5	-2.9	12.9	10.7	30.0	14.2	30.4	18.6	17.4	13.9	$730.22	3.3%
Franklin Portfolio	-2.3	-1.9	8.6	2.9	16.9	15.7	21.1	19.2	16.8	15.7	$662.17	3.0%
GeoCapital	-16.3	-5.0	40.1	26.2	20.9	11 2	19.6	14.7	17.2	15.6	$536.74	2.4%
Lincoln	-1.3	-3.0	18.6	17.4	25.4	27.5	28.1	29.2	24.2	24.7	$1,105.13	5.0%
Oppenheimer	-2.5	-1.3	0.3	6.2	13.6	18.4	20.8	22.2	19.0	19.1	$838.54	3.8%
Emerging Managers (2)	-5.0	-2.8	13.7	18.8	20.8	21.7	22.2	23.0	21.1	21.9	$662.88	3.0%
Semi-Passive Managers (3)												
Franklin Portfolio	-3.9	-4.3	1.6	2.6	15.2	16.8	20.7	21.6	22.2	23.1	$2,338.16	10.5%
JP Morgan	-2.6	-4.3	0.5	2.6	16.4	16 8	21.4	21.6	23.0	23.1	$2,474.33	11.1%
Barclays Global Investors	-2.6	-4.3	3.5	2.6	15.5	16.8	21.4	21.6	23.1	23.1	$2,441.99	11.0%
Passive Manager (4)												
Barclays Global Investors	-4.1	-4.5	9.9	9.5	19.4	19.1	22.7	22.4	22.7	22.4	$7,403.24	33.3%
									Since 1/1/84			
Current Aggregate	-4.1	-4.0	8.1	8.7	19.7	19 0	23.3	22.5	17.9	15.4	$22,228.49	100.0%
Historical Aggregate (5)	**-4.1**	**-4.0**	**8.2**	**8.7**	**18.6**	**18.7**	**22.2**	**22.2**	**16.0**	**16.2**		
Wilshire 5000 Investable (6)		-4.6		8.6		18.7		22.2		16.2		
Wilshire 5000		-4.5		9.5		19.1		22.5		16.5		

(1) Since retention by the SBI. Time period varies for each manager.
(2) Aggregate of emerging manager group The benchmark reflects a composite of the individual manager customized benchmarks since inception of the program on 4/1/94.
(3) Semi-passive managers retained 1/95. All use completeness fund benchmark.
(4) Passive manager retained 7/95 to manage a Wilshire 5000 index fund through 6/30/00 and W5000 Investable thereafter.
(5) Includes the performance of terminated managers
(6) Restated to incorporate the Wilshire 5000 Investable Index beginning 7/1/99. From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments. Prior to 11/1/93, the Wilshire 5000 was adjusted to reflect SBI mandated restrictions which included liquor and tobacco, American Home Products and South Africa.

ALLIANCE CAPITAL MANAGEMENT
Periods Ending June, 2000

Portfolio Manager: Jack Koltes **Assets Under Management: $1,989,241,349**

Investment Philosophy

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

Staff Comments

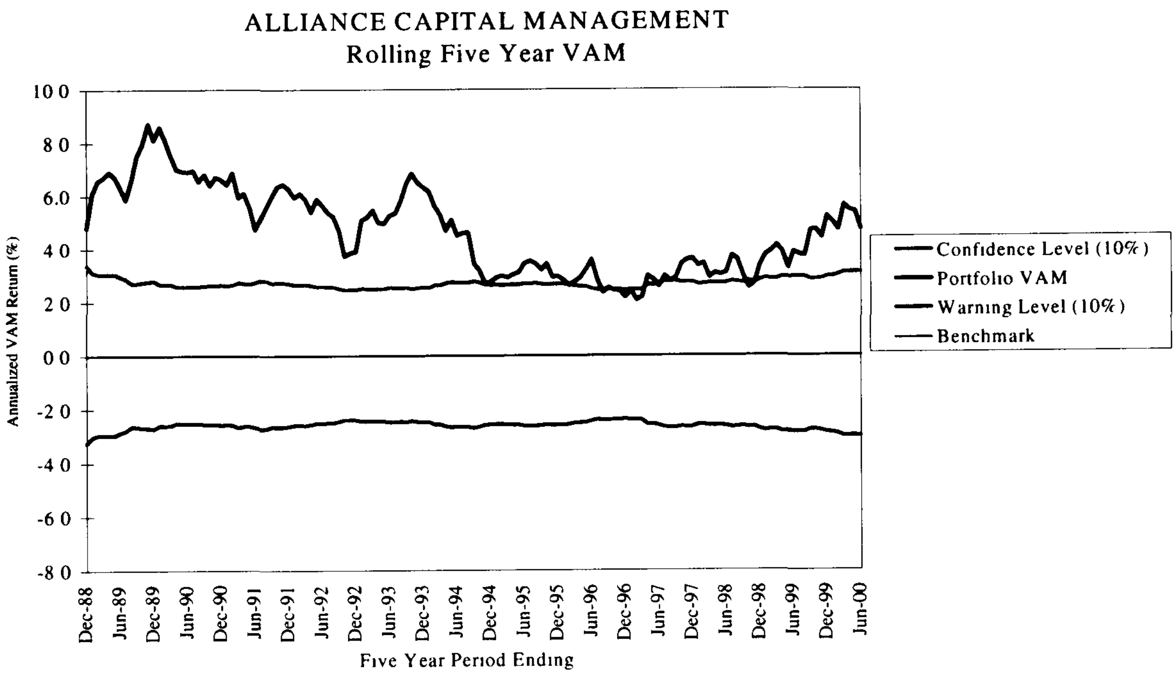
Alliance's portfolio narrowly underperformed during the quarter, but significantly outperformed in all other time periods. The return for the quarter was hurt by poor relative performance in retail and in communication services. In late June, Alliance announced that it will be acquiring Sanford C. Bernstein, a leading value-oriented equity investment manager. Staff does not anticipate any negative impact of this purchase on the SBI's portfolio.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.1%	-3.5%
Last 1 year	23.2	15.6
Last 2 years	28.6	22.8
Last 3 years	35.6	27.0
Last 4 years	37.1	29.0
Last 5 years	34.1	28.1
Since Inception (1/84)	22.2	16.6

Recommendation

No action required.



BRINSON PARTNERS
Periods Ending June, 2000

Portfolio Manager: John Leonard **Assets Under Management: $601,117,507**

Investment Philosophy

Brinson Partners uses a relative value approach to equity investing. They believe that the market price will ultimately reflect the present value of the cash flows the security will generate for the investor. They also believe both a macroeconomic theme approach and a bottom-up stock selection process can provide insight into finding opportunistic investments. Brinson uses their own discounted free cash flow model as their primary analytical tool for estimating the intrinsic value of a company.

Staff Comments

Brinson was re-interviewed in May, and the firm was recommended for retention. Brinson's performance for the quarter exceeded the custom benchmark, but has lagged significantly in all other time periods. Staff met with Brinson at their Chicago offices during the period. Brinson continues to feel that the portfolio is well positioned to benefit from a rotation toward a broader market and away from the narrow, momentum-driven market experienced for much of the past year and a half. Staff will continue to closely monitor the performance of the portfolio.

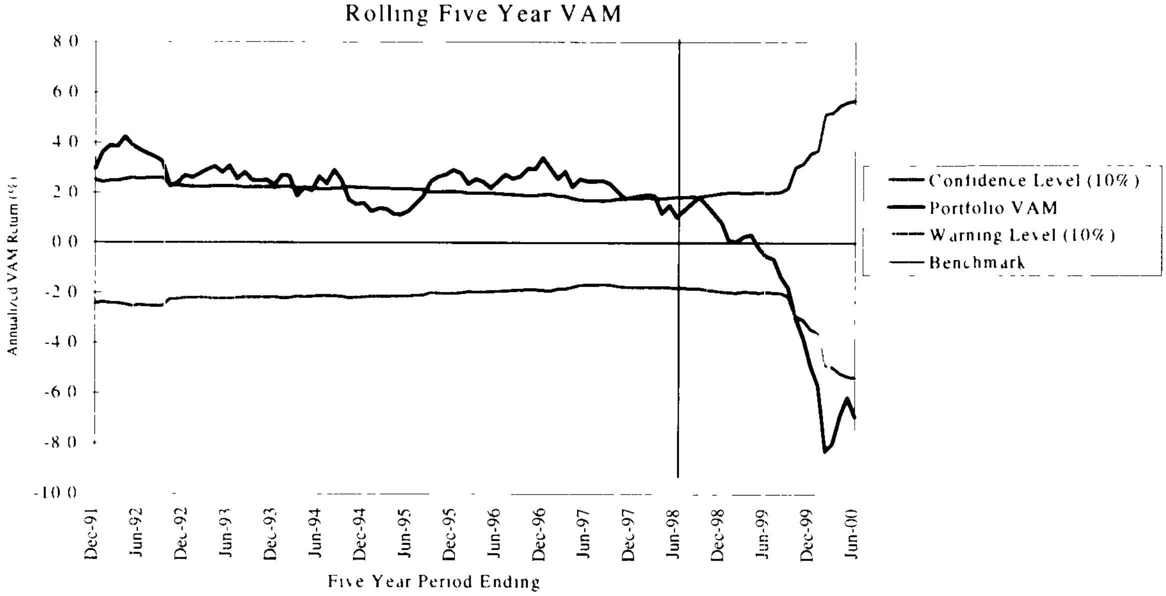
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.7%	-2.5%
Last 1 year	-20.8	12.8
Last 2 years	-5.1	16.2
Last 3 years	3.2	19.9
Last 4 years	9.9	22.1
Last 5 years	13.8	22.2
Since Inception (7/93)	13.5	19.3

Recommendation

No action required

BRINSON PARTNERS
Rolling Five Year VAM



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

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending June, 2000

Portfolio Manager: George Cohen | **Assets Under Management: $444,739,620**

Investment Philosophy

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

Staff Comments

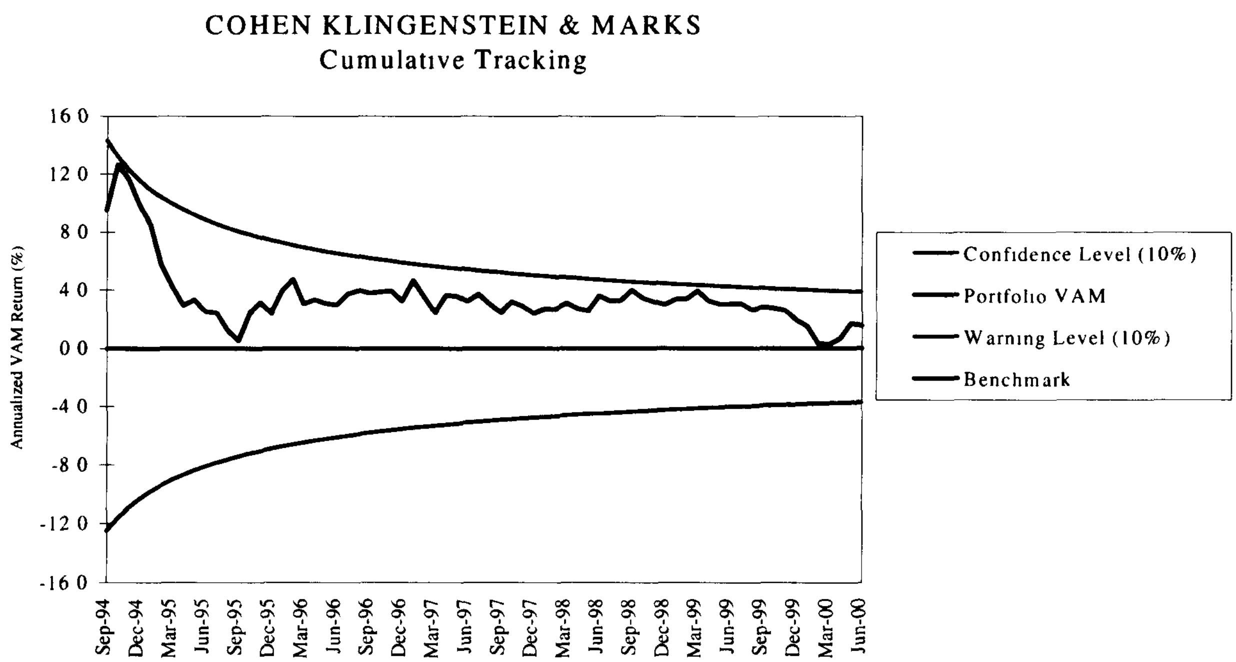
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.5%	-8.9%
Last 1 Year	9.0	15.9
Last 2 Years	17.4	20.7
Last 3 Years	22.7	23.1
Last 4 Years	26.3	25.4
Last 5 Years	26.0	24.5
Since Inception (4/94)	25.3	23.4

Recommendation

No action required.



FORSTMANN-LEFF ASSOCIATES
Periods Ending June, 2000

Portfolio Manager: Joel Leff — **Assets Under Management: $730,219,023**

Investment Philosophy

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

Staff Comments

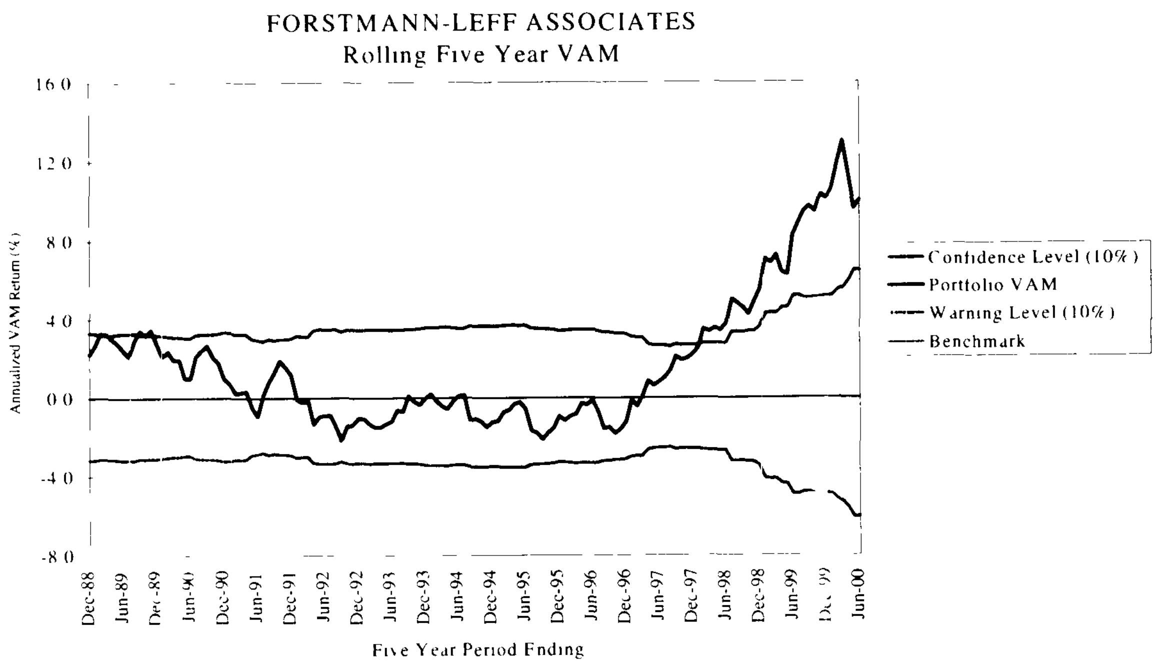
Forstmann-Leff underperformed during the quarter, but is ahead of their custom benchmark in all other time periods Overweights in the consumer cyclical, technology and basic materials sectors hurt performance during the recent period. The portfolio suffered most during April and May when valuation concerns in the market punished growth-style investing

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-16 5%	-2 9%
Last 1 year	12 9	10.7
Last 2 years	29 0	13 4
Last 3 years	30 0	14 2
Last 4 years	30 0	17 2
Last 5 years	30 4	18 6
Since Inception (1/84)	17 4	13 9

Recommendation

No action required



FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2000

Portfolio Manager: John Cone | **Assets Under Management: $662,165,261**

Investment Philosophy
Active

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

Staff Comments

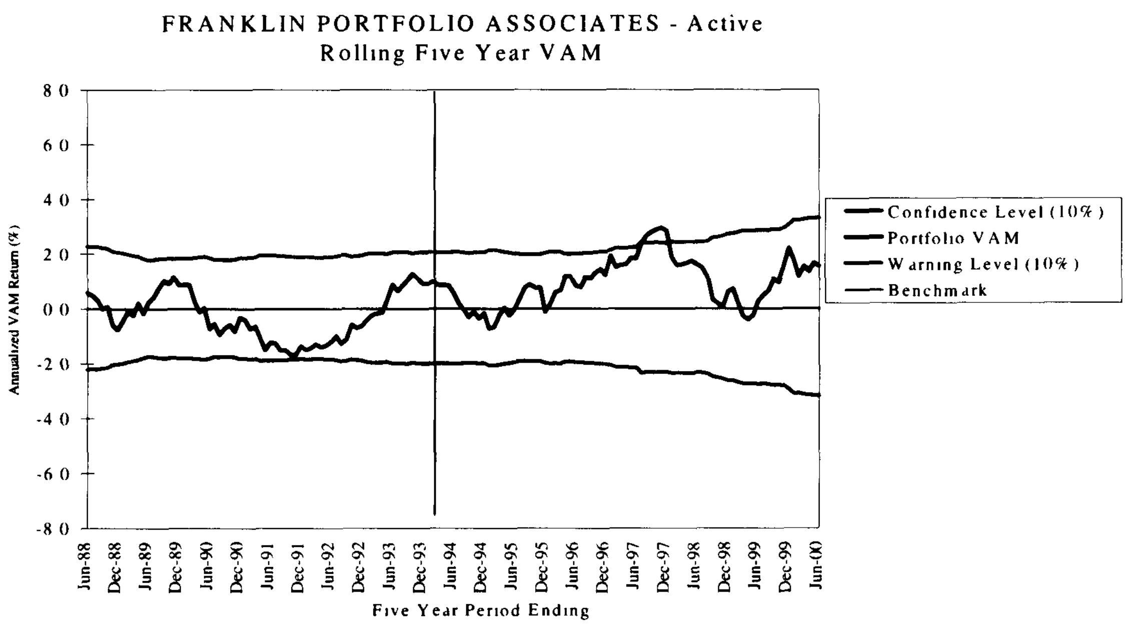
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.3%	-1.9%
Last 1 year	8.6	2.9
Last 2 years	9.0	10.4
Last 3 years	16.9	15.7
Last 4 years	20.4	18.3
Last 5 years	21.1	19.2
Since Inception (4/89)	16.8	15.7

Recommendation

No action required.



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

GEOCAPITAL CORP.
Periods Ending June, 2000

Portfolio Manager: Barry Fingerhut **Assets Under Management: $536,739,264**

Investment Philosophy

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

Staff Comments

Geocapital under-performed their custom benchmark for the quarter, but significantly out-performed for the year and longer time periods The portfolio suffered during the recent time period due to higher interest rates, leading to a sharp sell-off in smaller growth equities, and valuation concerns.

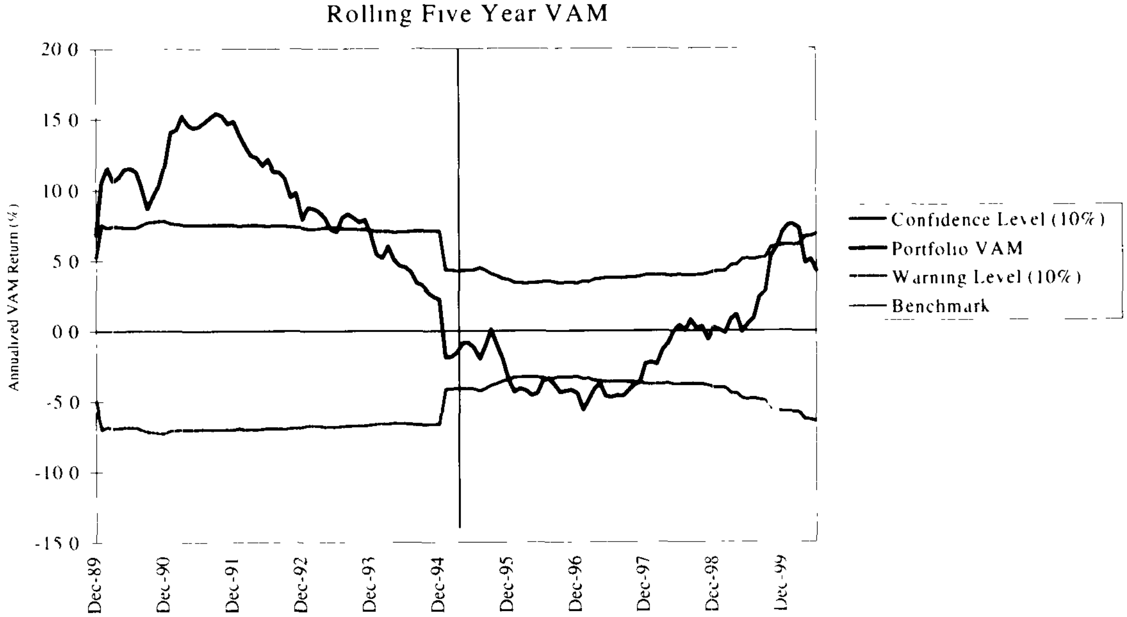
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-16 3%	-5 0%
Last 1 year	40 1	26 2
Last 2 years	17.5	10 7
Last 3 years	20 9	11 2
Last 4 years	17 9	9 8
Last 5 years	19 6	14 7
Since Inception (4/90)	17 2	15 6

Recommendation

No action required

GEOCAPITAL CORP
Rolling Five Year VAM



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

LINCOLN CAPITAL MANAGEMENT
Periods Ending June, 2000

Portfolio Manager: David Fowler **Assets Under Management: $1,105,126,295**

Investment Philosophy

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

Staff Comments

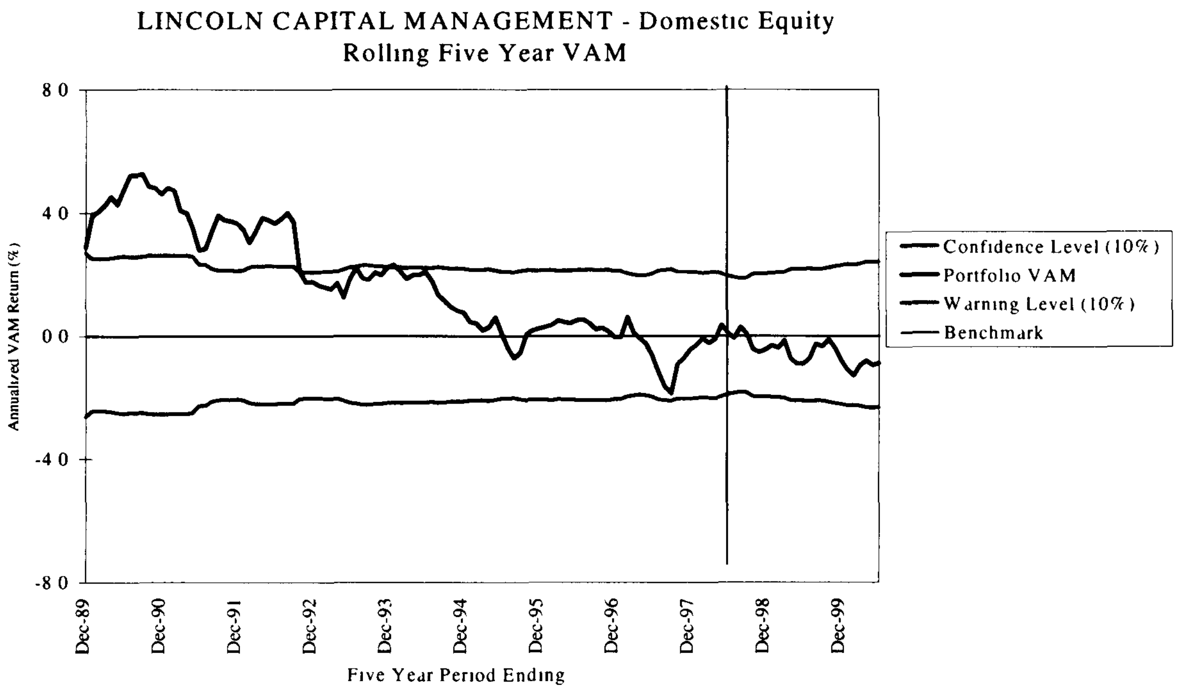
Lincoln's portfolio modestly outperformed for the quarter and year and narrowly underperformed in all other time periods. Stock selection in health care and finance represented the majority of the recent positive return. Staff visited with Lincoln at their offices in Chicago during the period. The firm continues to implement a transition plan for the corporate management of Lincoln. Recently, Parker Hall was named Chairman, Ken Meyer-CEO, Dave Fowler-President and Jill Eicher (Lincoln's COO) became a Managing Director. In addition, Ron Klotter was hired to join the equity team as a portfolio manager. The investment process is unchanged.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.3%	-3.0%
Last 1 year	18.6	17.4
Last 2 years	21.7	23.7
Last 3 years	25.4	27.5
Last 4 years	27.1	29.5
Last 5 years	28.1	29.2
Since Inception (7/93)	24.2	24.7

Recommendation

No action required.



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

OPPENHEIMER CAPITAL
Periods Ending June, 2000

Portfolio Manager: John Lindenthal **Assets Under Management: $838,535,756**

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

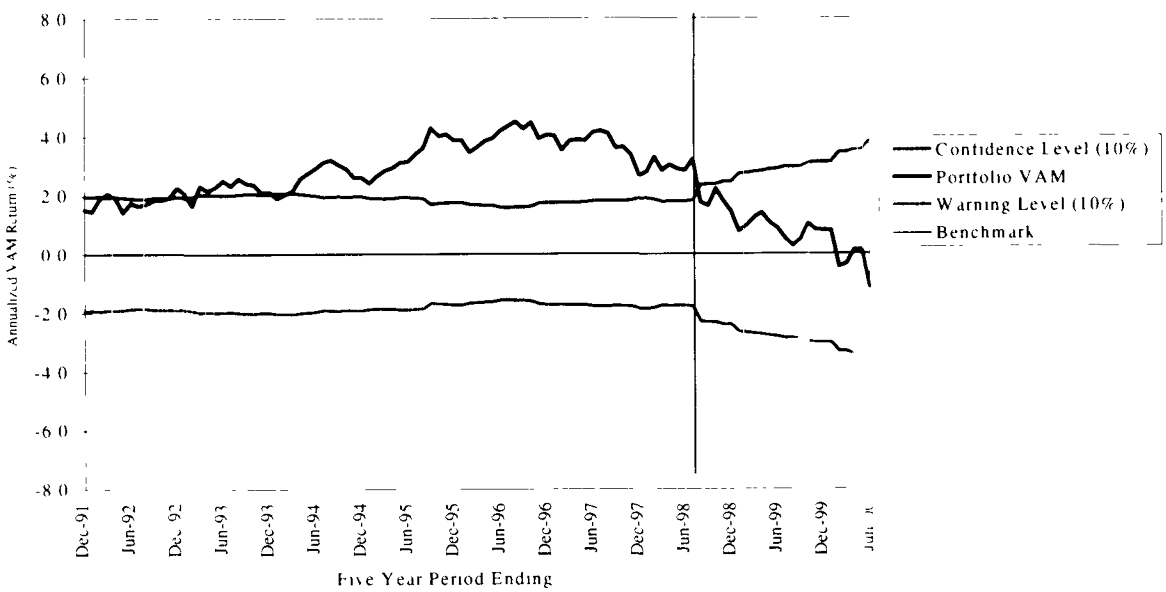
Oppenheimer has narrowly underperformed in all time periods. The portfolio was hurt in the recent period by an underweighting in the health care sector and by stock selection in the technology sector In May 2000, Allianz AG aquired a majority ownership of PIMCO advisors Allianz has indicated that it intends to maintain Oppenheimer as an independent operating unit. Oppenheimer does not expect any changes to personnel or to the investment process as a result of the transaction.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2 5%	-1 3%
Last 1 year	0 3	6.2
Last 2 years	5 4	13 2
Last 3 years	13 6	18 4
Last 4 years	19 1	21.5
Last 5 years	20 8	22 2
Since Inception (7/93)	19.0	19 1

Recommendation

No action required



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2000

Portfolio Manager: John Cone **Assets Under Management: $2,338,163,610**

Investment Philosophy
Semi-Passive

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

Staff Comments

Franklin's completeness fund portfolio outperformed for the quarter, but has underperformed in all other time periods. Recently, the portfolio was helped by positive returns from stock selection and from risk index factors. Over the year, performance was hurt by holdings in the Energy sector and by returns from size and earnings yield factors.

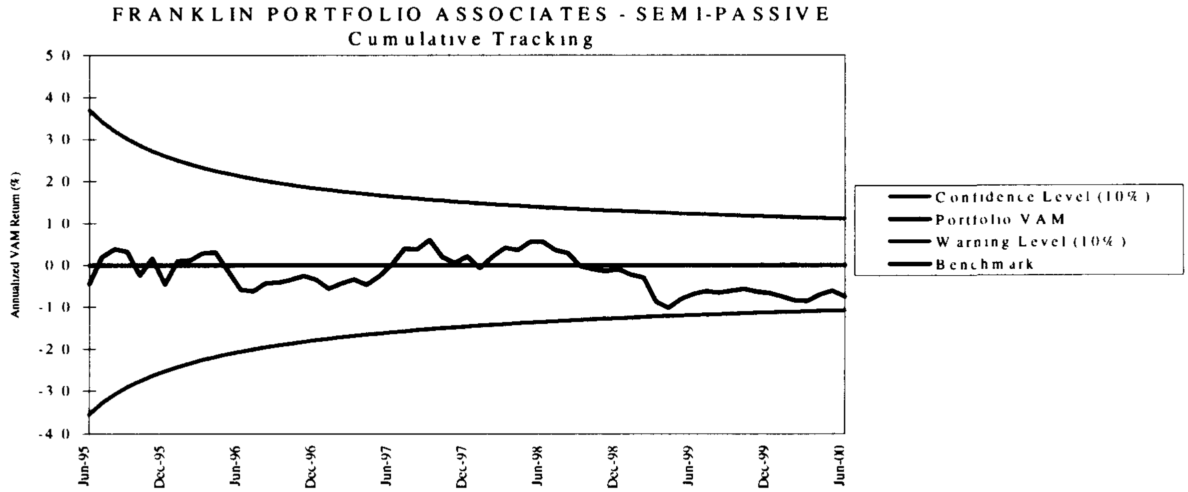
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-3.9%	-4.3%
Last 1 year	1.6	2.6
Last 2 years	7.2	10.5
Last 3 years	15.2	16.8
Last 4 years	19.6	20.6
Last 5 years	20.7	21.6
Since Inception (1/95)	22.2	23.1

* Completeness Fund

Recommendation

Franklin's performance has plotted below the benchmark line for more than twelve months and, therefore, in accordance with the Manager Continuation Policy, staff will conduct a review of the firm next quarter.



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

Portfolio Manager: Tim Devlin | **Assets Under Management: $2,474,334,983**

Investment Philosophy
Semi-Passive

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

Staff Comments

J.P. Morgan implemented two improvements to their process during the quarter. They remapped their industry sectors to better reflect the structural changes in the U.S. market given the dramatic growth in "New Economy" stocks. They also added an adjustment to their dividend discount model based on the relative degree of positive or negative consensus earnings revisions for each stock within its sector.

Quantitative Evaluation

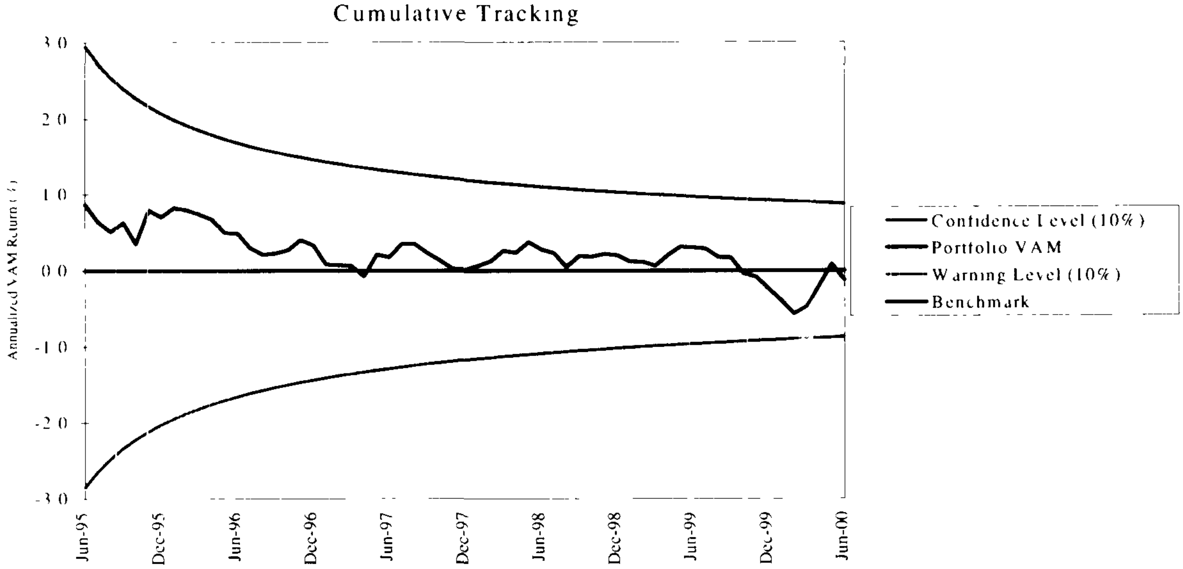
	Actual	Benchmark*
Last Quarter	-2.6%	-4.3%
Last 1 year	0.5	2.6
Last 2 years	9.6	10.5
Last 3 years	16.4	16.8
Last 4 years	20.1	20.6
Last 5 years	21.4	21.6
Since Inception (1/95)	23.0	23.1

* Completeness Fund

Recommendation

No action required

JP MORGAN - SEMI-PASSIVE
Cumulative Tracking



BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2000

Portfolio Manager: Nancy Feldkircher | **Assets Under Management: $2,441,990,864**

Investment Philosophy
Semi-Passive

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

Staff Comments

No comments at this time.

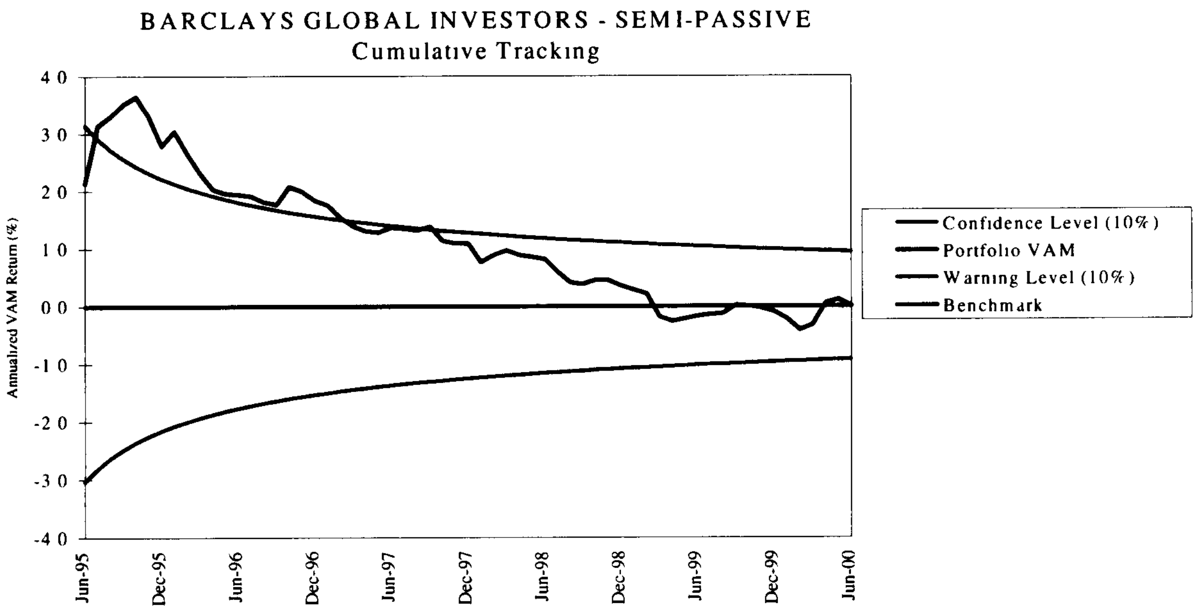
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-2.6%	-4.3%
Last 1 year	3.5	2.6
Last 2 years	9.0	10.5
Last 3 years	15.5	16.8
Last 4 years	19.7	20.6
Last 5 years	21.4	21.6
Since Inception (1/95)	23.1	23.1

* Completeness Fund

Recommendation

No action required.



BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2000

Portfolio Manager: Brad Pope | **Assets Under Management: $7,403,236,899**

Investment Philosophy
Passive

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

Staff Comments

No comments at this time

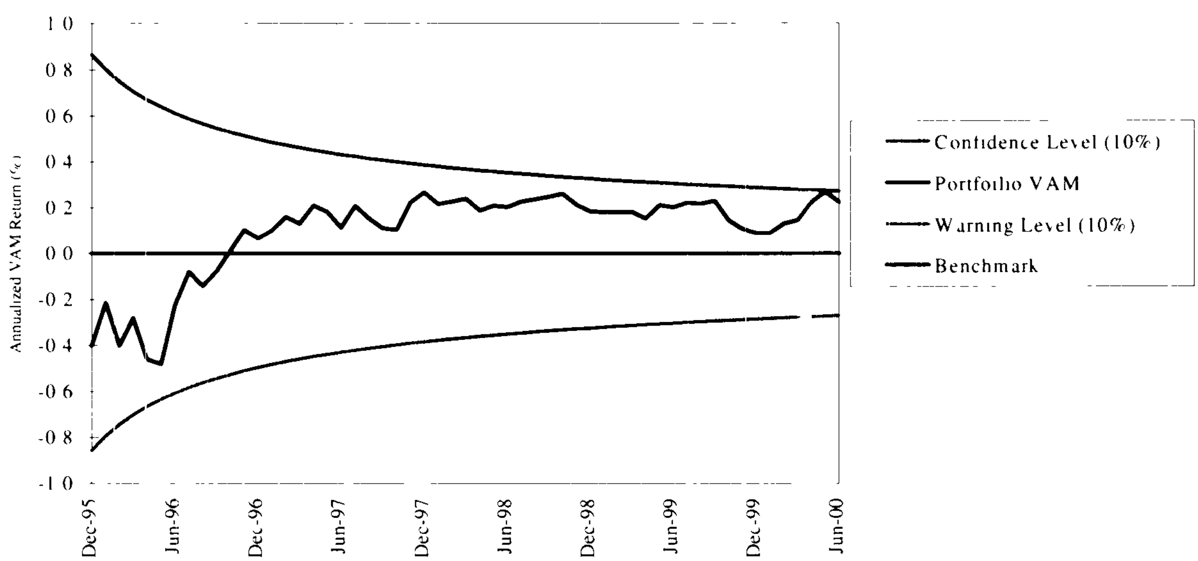
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.1%	-4 5%
Last 1 year	9.9	9 5
Last 2 years	14.7	14 4
Last 3 years	19.4	19 1
Last 4 years	22 0	21.5
Last 5 years	22.7	22.4
Since Inception (7/95)	22.7	22 4

Recommendation

No action required.

BARCLAYS GLOBAL INVESTORS - PASSIVE
Cumulative Tracking



STATE BOARD OF INVESTMENT

Emerging Stock Manager Evaluation Reports

Second Quarter, 2000

COMBINED RETIREMENT FUNDS
EMERGING EQUITY MANAGERS
Periods Ending June, 2000

	Quarter		1 Year		3 years		5 Years		Since Inception (1)		Market Value	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	(in millions)	%
Active Managers												
CIC Asset	-3.4	0.3	-17.1	-6.0	3.5	10.6	12.8	17.5	13.2	17.9	$65.13	9.8%
Compass Capital	-1.3	-0.8	-3.0	7.3	12.7	19.6	17.2	23.5	17.9	22.0	84.07	12.7%
New Amsterdam	1.6	-4.3	22.1	17.5	22.9	21.3	24.9	22.2	22.1	21.4	104.58	14.9%
Valenzuela Capital	0.8	-1.3	1.0	-0.7	5.2	7.2	15.4	14.1	15.0	14.4	71.95	11.5%
Wilke/Thompson	-8.3	-5.9	30.5	25.7	15.9	15.1	10.9	16.6	13.7	16.0	66.84	10.1%
Winslow Capital	-0.8	-2.9	29.6	27.6	24.9	29.8	22.5	27.9	21.8	26.1	102.91	15.5%
Zevenbergen Capital	-13.8	-4.0	28.3	47.2	44.0	35.5	35.9	31.4	31.7	28.9	167.41	25.3%
											$662.88	**100.0%**
									Since 4/1/94			
Current Aggregate	-5.0	-2.8	13.7	18.8	20.3	21.4	21.6	23.1	20.8	21.9		
Historical Aggregate (2)	**-5.0**	**-2.8**	**13.7**	**18.8**	**20.8**	**21.7**	**22.2**	**23.0**	**21.1**	**21.9**		

(1) Since retention by the SBI.

(2) Includes the performance of terminated managers.

CIC ASSET MANAGEMENT
Periods Ending June, 2000

Portfolio Manager: Jorge Castro **Assets Under Management: $65,131,697**

Investment Philosophy

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

Staff Comments

During 2Q00, CIC was re-interviewed by the Domestic Equity Committee. The Board, at its June 7th meeting, approved the Committee's recommendation to retain the firm. CIC has underperformed their custom benchmark in all time periods. While the portfolio was helped by a large exposure to energy stocks, recent underperformance was due to over-exposure to the financial and basic materials sectors. CIC believes that the portfolio will ultimately benefit from its' underweighting in tech and telecom which they believe to be overvalued.

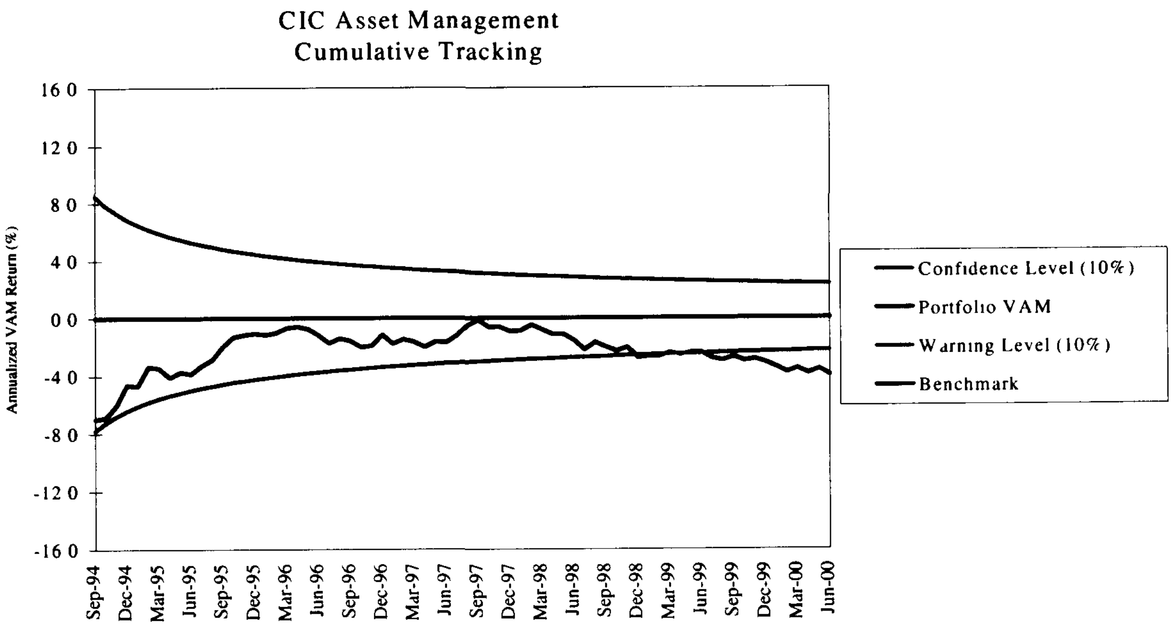
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-3.4%	0.3%
Last 1 Year	-17.1	-6.0
Last 2 Years	-6.6	2.6
Last 3 Years	3.5	10.6
Last 4 Years	9.4	15.8
Last 5 Years	12.8	17.5
Since Inception (4/94)	13.2	17.9

* Custom benchmark since inception date.

Recommendation

No action required.



NEW AMSTERDAM PARTNERS
Periods Ending June, 2000

Portfolio Manager: Michelle Clayman **Assets Under Management: $104,580,306**

Investment Philosophy

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

Staff Comments

No comments at this time

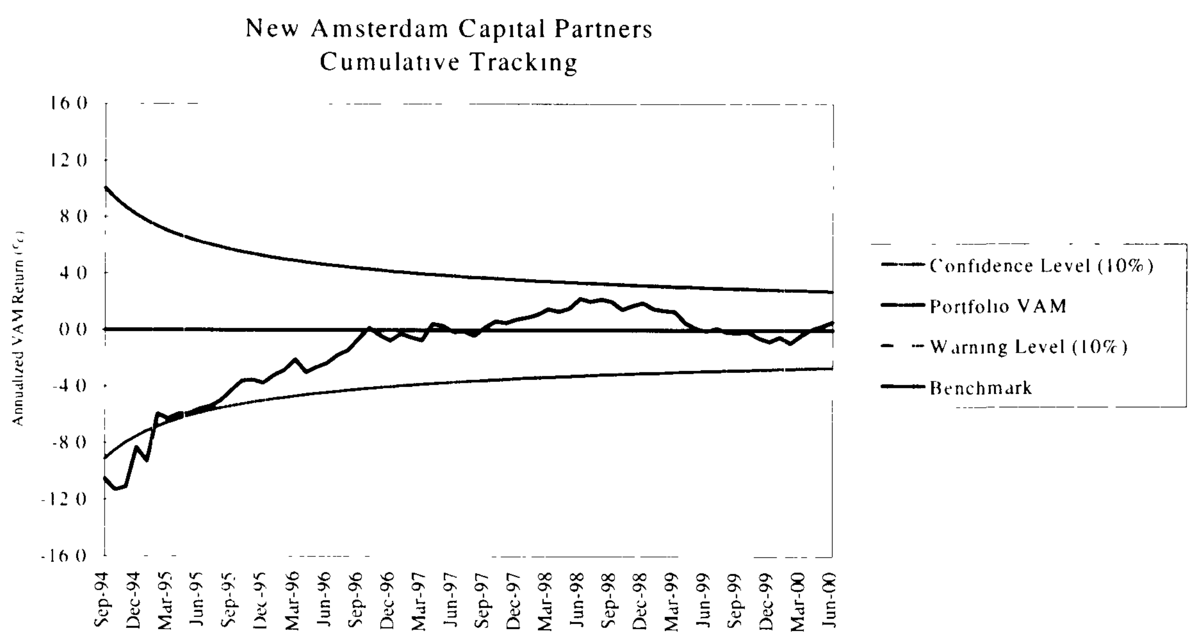
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1 6%	-4 3%
Last 1 Year	22 1	17.5
Last 2 Years	16 0	19.5
Last 3 Years	22.9	21.3
Last 4 Years	25 8	23 0
Last 5 Years	24.9	22 2
Since Inception (4/94)	22 1	21 4

* Custom benchmark since inception date.

Recommendation

No action required



VALENZUELA CAPITAL MANAGEMENT
Periods Ending June, 2000

Portfolio Manager: Tom Valenzuela — **Assets Under Management: $71,952,230**

Investment Philosophy

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

Staff Comments

No comments at this time.

Quantitative Evaluation

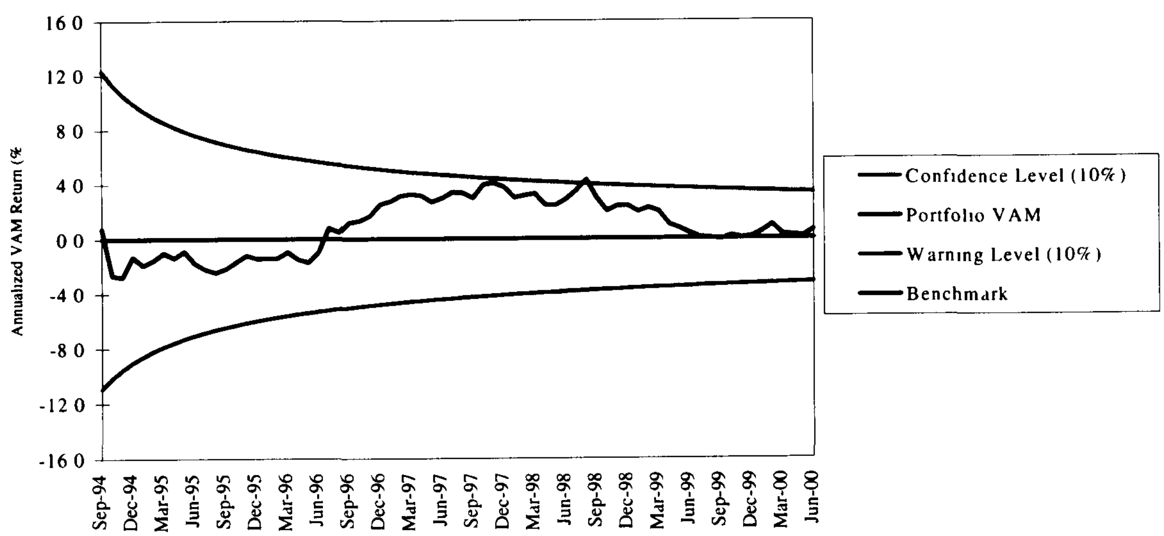
	Actual	Benchmark*
Last Quarter	0.8%	-1.3%
Last 1 Year	1.0	-0.7
Last 2 Years	-3.1	0.9
Last 3 Years	5.2	7.2
Last 4 Years	13.5	11.8
Last 5 Years	15.4	14.1
Since Inception (4/94)	15.0	14.4

* Custom benchmark since inception date.

Recommendation

No action required.

Valenzuela Capital Partners
Cumulative Tracking



ZEVENBERGEN CAPITAL INC
Periods Ending June, 2000

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $167,405,747**

Investment Philosophy

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

Staff Comments

Zevenbergen underperformed for the quarter and the year, but is ahead of their custom benchmark in all other time periods. Recent market conditions did not favor the portfolio. Fed increases, fears of increasing inflation and slowing corporate earnings led to a sell-off in high-growth, high P/E issues. While the portfolio was hardest hit by the decline in tech and telecom, Zevenbergen remains committed to these sectors.

Quantitative Evaluation

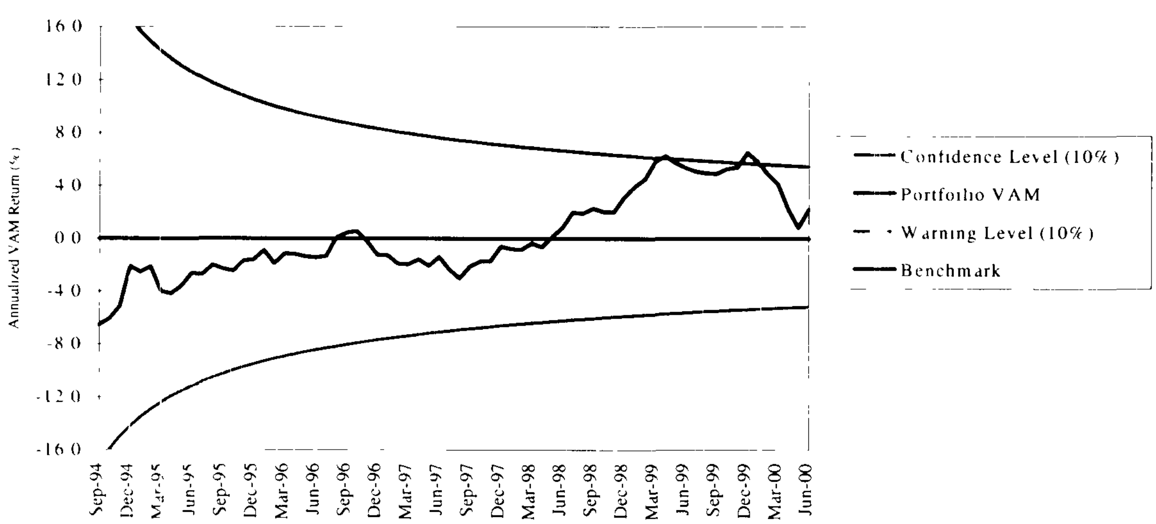
	Actual	Benchmark*
Last Quarter	-13.8%	-4.0%
Last 1 Year	28.3	47.2
Last 2 Years	45.6	38.5
Last 3 Years	44.0	35.5
Last 4 Years	39.2	33.5
Last 5 Years	35.9	31.4
Since Inception (4/94)	31.7	28.9

* Custom benchmark since inception date

Recommendation

No action required

Zevenbergen Capital Management
Cumulative Tracking



STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Second Quarter, 2000

COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending June, 2000

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market Value	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	(in millions)	%
Active Managers												
American Express (AMG)	2.0	1.7	4.8	4.6	6.3	6.0	6.3	6.3	6.2	6.1	$772.11	6.7%
Deutsche	1.5	1.7							4.5	4.3	$627.21	5.4%
Dodge & Cox	1.5	1.7							3.7	4.3	$622.33	5.4%
Metropolitan West	-0.1	1.7							1.9	4.3	$254.73	2.2%
Morgan Stanley	1.5	1.7	4.6	4.6	5.5	6.0	6.7	6.3	10.2	10.0	$1,163.63	10.1%
Standish	1.6	1.7	3.0	4.6	4.9	6.0	6.1	6.3	5.7	6.0	$634.09	5.5%
Western	1.6	1.7	5.6	4.6	6.7	6.0	7.4	6.3	11.2	9.9	$1,489.20	12.9%
Semi-Passive Managers												
BlackRock	1.9	1.7	5.2	4.6	6.5	6.0			6.7	6.3	2,067.73	17.9%
Goldman	1.5	1.7	4.9	4.6	6.0	6.0	6.5	6.3	6.3	6.0	1,983.06	17.2%
Lincoln	1.6	1.7	4.5	4.6	6.1	6.0	6.3	6.3	8.3	8.2	1,948.81	16.9%
											$11,562.90	**100.0%**
									Since 7/1/84			
Current Aggregate	1.6	1.7	4.7	4.6	6.1	6.0	6.6	6.3	10.4	9.9		
Historical Aggregate (2)	**1.6**	**1.7**	**4.7**	**4.6**	**6.1**	**6.0**	**6.6**	**6.3**	**10.0**	**9.9**		
Lehman Aggregate (3)		1.7		4.6		6.0		6.3		9.6		

(1) Since retention by the SBI. Time period varies for each manager.
(2) Includes performance of terminated managers.
(3) Prior to July 1994, this index reflects the Salomon BIG.

AMERCIAN EXPRESS ASSET MANAGEMENT
Periods Ending June, 2000

Portfolio Manager: Jim Snyder | **Assets Under Management: $772,110,956**

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 outperformed for the quarter and the year. During the quarter, American Express benefited from a large overweight in the mortgage sector, which was the best performing sector in the Lehman Aggregate.

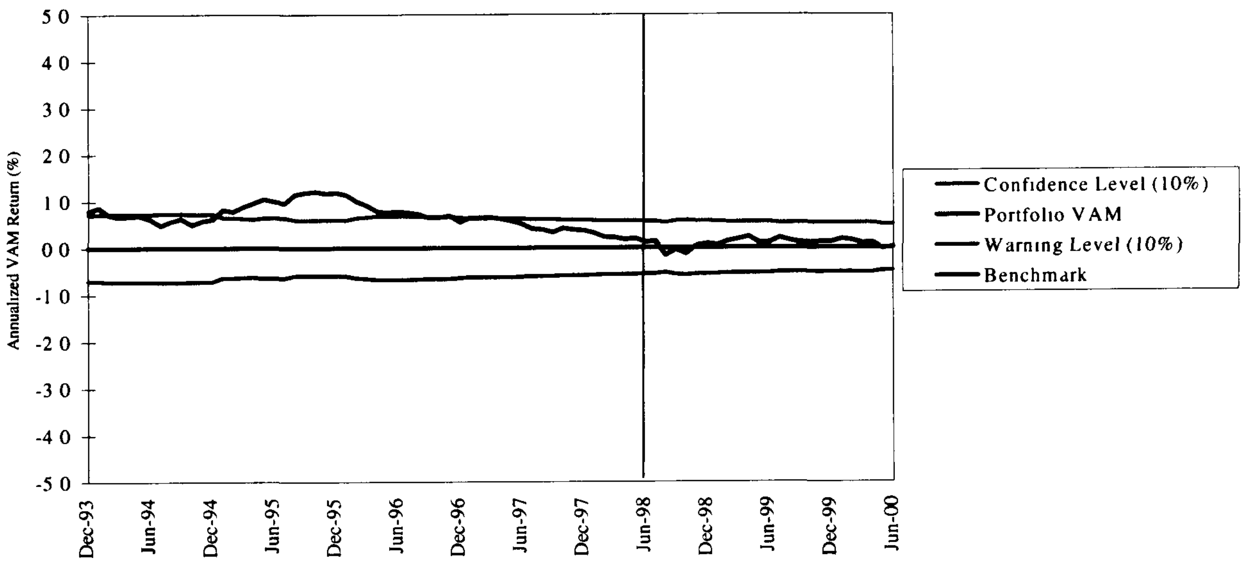
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.0%	1.7%
Last 1 year	4.8	4.6
Last 2 years	4.0	3.9
Last 3 years	6.3	6.0
Last 4 years	6.9	6.6
Last 5 years	6.3	6.3
Since Inception (7/93)	6.2	6.1

Recommendations

No action required.

AMERICAN EXPRESS ASSET MANAGEMENT - Fixed Income
Rolling Five Year VAM



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

DEUTSCHE ASSET MANAGEMENT
Periods Ending June, 2000

Portfolio Manager: Warren Davis **Assets Under Management: $627,208,439**

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

No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1 5%	1.7%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	3 0	3.1

Recommendations

No action required

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

DODGE & COX INVESTMENT MANAGERS
Periods Ending June, 2000

Portfolio Manager: Dana Emery **Assets Under Management: $622,325,173**

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

No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.5%	1.7%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	2.9	3.1

Recommendations

No action required.

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

METROPOLITAN WEST ASSET MANAGEMENT
Periods Ending June, 2000

Portfolio Manager: Tad Rivelle **Assets Under Management: $254,727,725**

Investment Philosophy

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

Staff Comments

Metropolitan West significantly underperformed during the quarter due to positions in two corporate issuers that declined significantly in price The firm held positions in Conseco and Finova, both finance companies, which declined in price on negative news and ratings downgrades. Both bonds have recovered from their lows and Metropolitan West continues to hold the issues

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.1%	1.7%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	1 0	3 1

Recommendations

No action required

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

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
(Formerly Miller, Anderson & Sherrerd)
Periods Ending June, 2000

Portfolio Manager: Tom Bennett **Assets Under Management: $1,163,630,864**

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

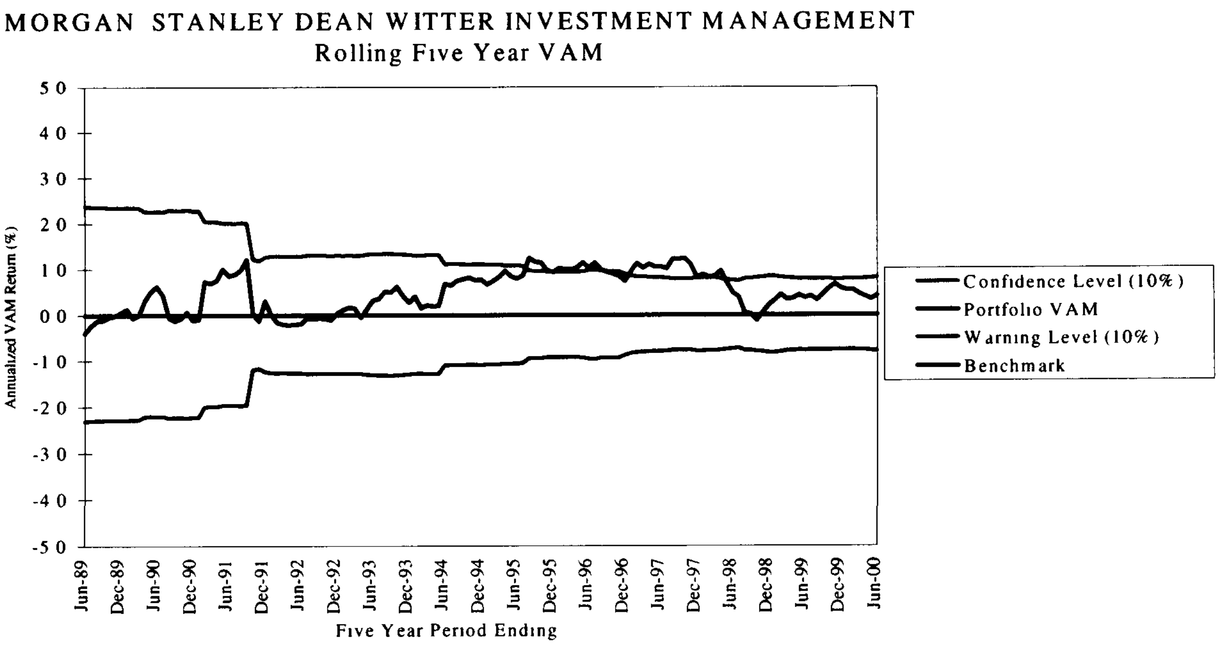
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.5%	1.7%
Last 1 year	4.6	4.6
Last 2 years	3.4	3.9
Last 3 years	5.5	6.0
Last 4 years	6.8	6.6
Last 5 years	6.7	6.3
Since Inception (7/84)	10.2	10.0

Recommendations

No action required.



STANDISH, AYER & WOOD
Periods Ending June, 2000

Portfolio Manager: Austin Smith **Assets Under Management: $634,094,983**

Investment Philosophy

Standish seeks to add consistent value to a bond portfolio by uncovering undervalued securities, and to a secondary degree through sector rotation Intensive research and credit analysis are the driving forces in finding undervalued issues U S. Treasury and agency issue holdings are minimized except during flights of quality but provide balance to portfolio quality, maturity distribution, and liquidity A conservative approach to interest rate anticipation is employed, therefore, portfolio risk is derived not so much from interest rate volatility as from the liquidity and credit risk of non-Treasury holdings, where the offset is higher yields and appreciation potential Standish was retained by the SBI in July 1993

Staff Comments

Standish slightly underperformed the benchmark during the second quarter due to a corporate sector overweight. Security selection within the corporate sector was also a mild negative Over longer time periods Standish remains below their benchmark. Performance over the past year was hurt significantly by security selection in the corporate sector.

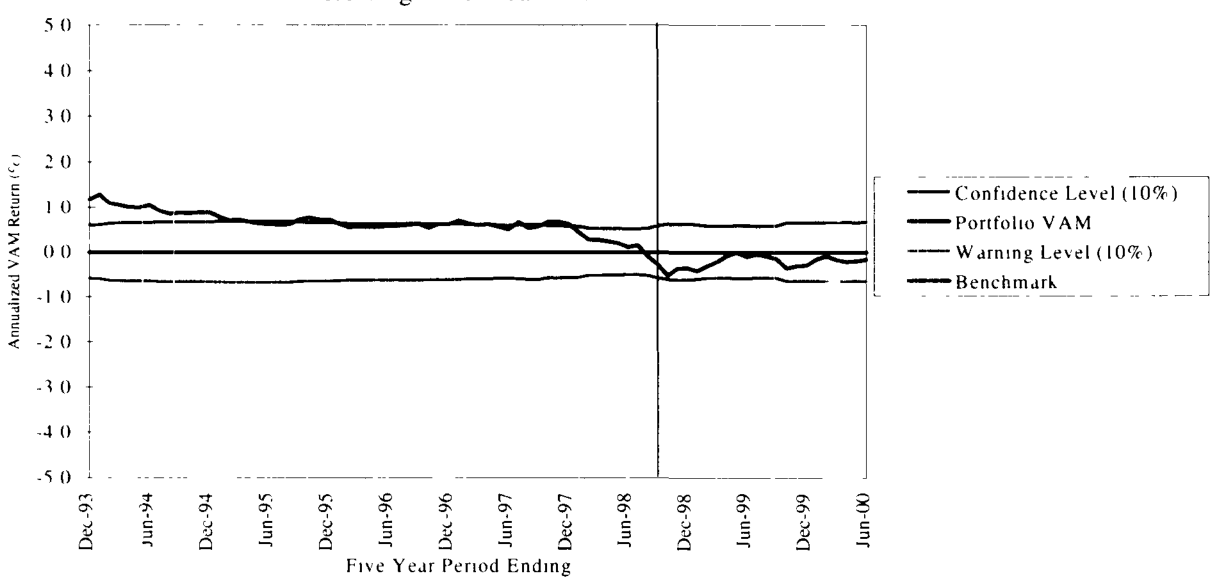
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.6%	1 7%
Last 1 year	3 0	4 6
Last 2 years	2.4	3 9
Last 3 years	4 9	6.0
Last 4 years	6 1	6 6
Last 5 years	6 1	6.3
Since Inception (7/93)	5 7	6 0

Recommendations

No action required

STANDISH, AYER & WOOD
Rolling Five Year VAM



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

WESTERN ASSET MANAGEMENT
Periods Ending June, 2000

Portfolio Manager: Ken Leech **Assets Under Management: $1,489,202,109**

Investment Philosophy

Western emphasizes the use of multiple strategies and active sector and issue selection, while constraining interest rate risk. Multiple strategies are proportioned so that results do not depend on one or two opportunities. This approach adds consistent value over time and can reduce volatility. Long term value investing is Western's fundamental approach. In making their sector decision, the firm seeks out the greatest long-term value by analyzing all fixed income market sectors and their economic expectations. Individual issues are identified based on relative credit strength, liquidity, issue structure, event risk, and market valuation. Western believes that successful interest rate forecasting is extremely difficult and consequently keeps portfolio duration within a narrow band around the benchmark. Western was retained by the SBI in July 1984

Staff Comments

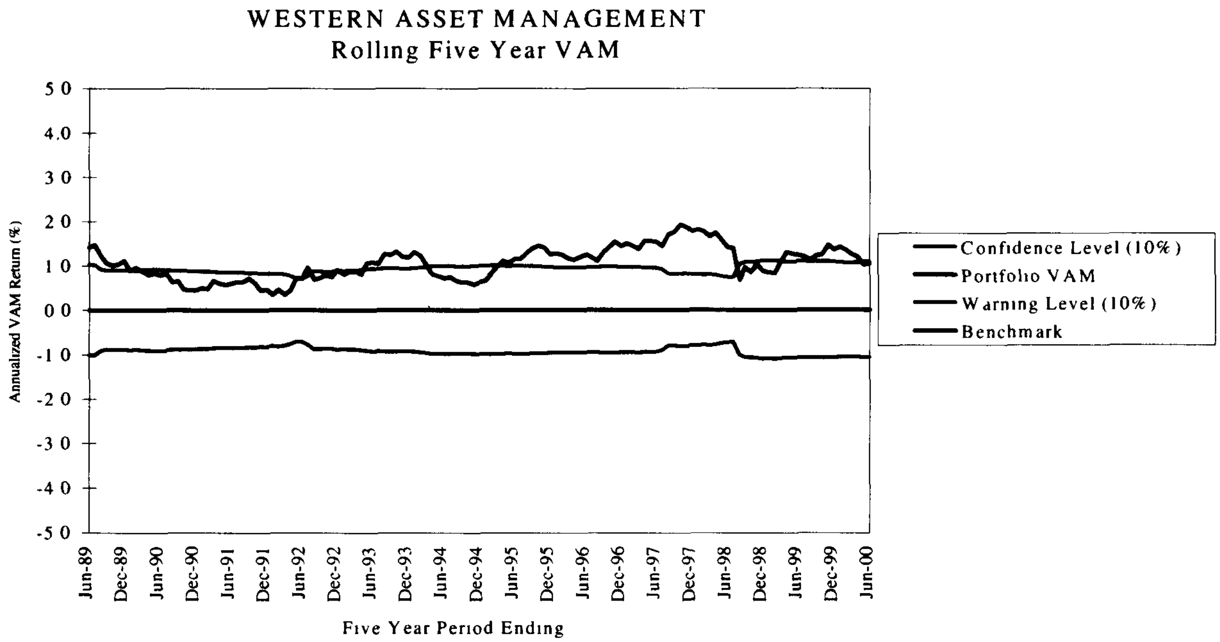
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.6%	1.7%
Last 1 year	5.6	4.6
Last 2 years	3.9	3.9
Last 3 years	6.7	6.0
Last 4 years	7.8	6.6
Last 5 years	7.4	6.3
Since Inception (7/84)	11.2	9.9

Recommendations

No action required.



BLACKROCK FINANCIAL MANAGEMENT
Periods Ending June, 2000

Portfolio Manager: Keith Anderson | **Assets Under Management: $2,067,731,829**

Investment Philosophy

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

Staff Comments

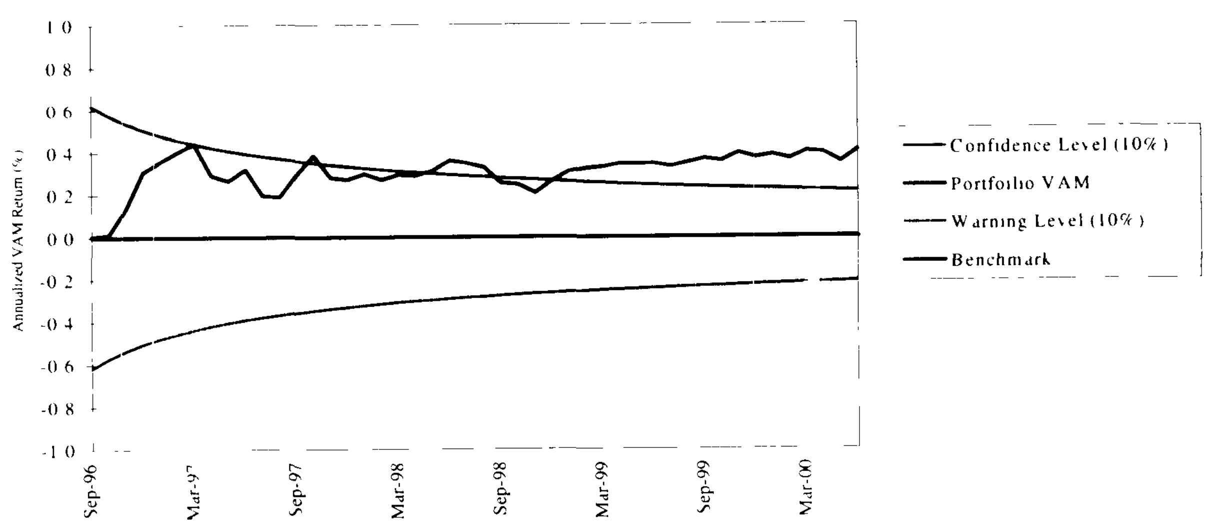
No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1 9%	1.7%
Last 1 year	5 2	4 6
Last 2 years	4 3	3.9
Last 3 years	6 5	6 0
Last 4 years	7 1	6.6
Last 5 years	N/A	N/A
Since Inception (4/96)	6.7	6 3

Recommendation

No action required



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2000

Portfolio Manager: Sharmin Mossavar Rahmani **Assets Under Management: $1,983,057,812**

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

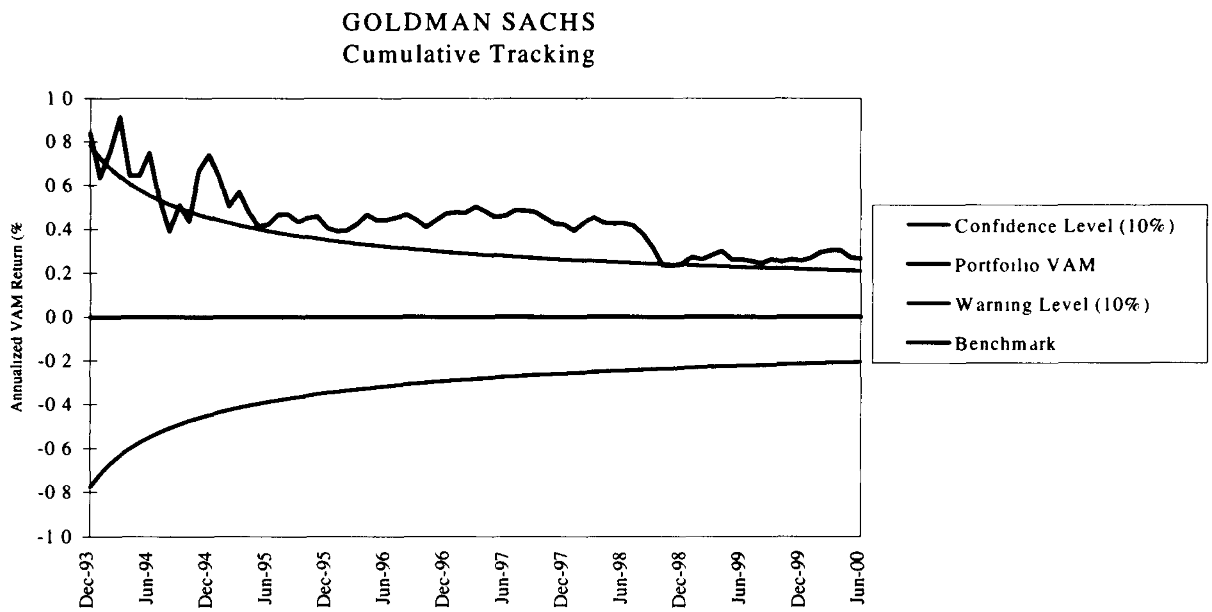
Goldman Sachs underperformed the benchmark during the quarter primarily due to poor security selection within the industrial subsector of the corporate market. Term structure strategies and overweight positions in asset-backed securities also had a mild negative effect on performance. The portfolio benefited from an overweight in the mortgage sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.5%	1.7%
Last 1 year	4.9	4.6
Last 2 years	3.7	3.9
Last 3 years	6.0	6.0
Last 4 years	6.7	6.6
Last 5 years	6.5	6.3
Since Inception (7/93)	6.3	6.0

Recommendations

No action required.



LINCOLN CAPITAL MANAGEMENT
Periods Ending June, 2000

Portfolio Manager: Andrew Johnson **Assets Under Management: $1,948,812,796**

Investment Philosophy

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

Staff Comments

No comments at this time

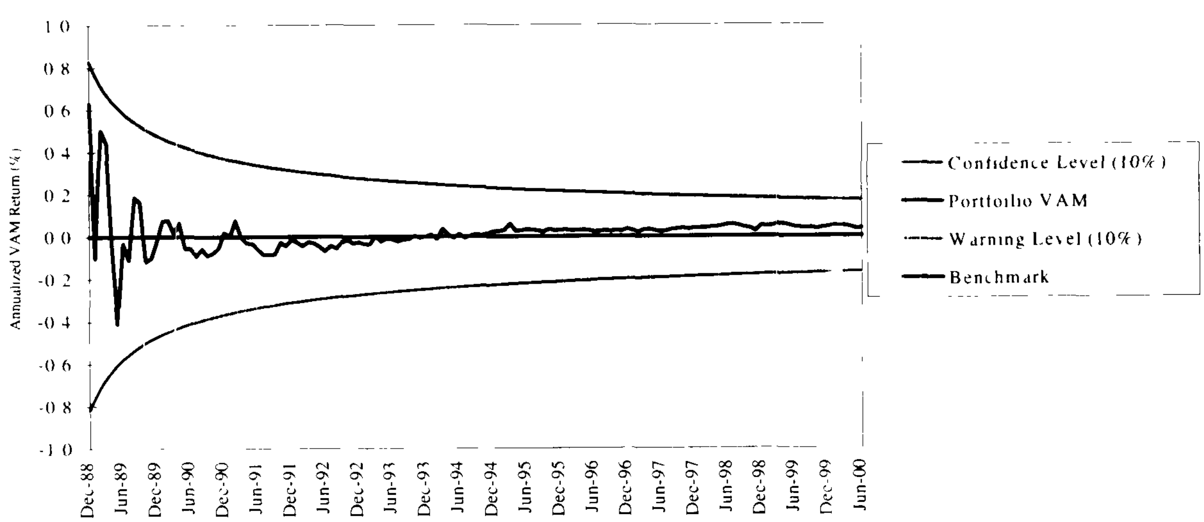
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1 6%	1 7%
Last 1 year	4.5	4 6
Last 2 years	3 8	3 9
Last 3 years	6 1	6 0
Last 4 years	6 6	6 6
Last 5 years	6 3	6 3
Since Inception (7/88)	8 3	8.2

Recommendations

No action required

LINCOLN CAPITAL MANAGEMENT - Fixed Income
Cumulative Tracking



STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Second Quarter, 2000

COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending June, 2000

	Quarter		1 Year		3 years		5 Years		Since Inception		Market	Equity
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	Pool %
Active EAFE												
American Express (6)	-7.3	-4.0							-4.0	-0.2	$288.40	4.8%
Blairlogie (6)	-4.8	-4.0							-0.4	-0.2	99.91	1.7%
Brinson (1)	4.3	-4.0	19.5	17.1	11.2	10.1	15.3	11.3	12.4	11.7	693.48	11.5%
Invesco (6)	1.0	-4.0							4.0	-0.2	415.29	6.9%
Marathon (2)	2.7	-2.6	18.4	15.6	9.5	8.1	11.6	9.6	10.5	8.3	503.62	8.3%
Montgomery (6)	-10.8	-4.0							-10.2	-0.2	274.08	4.5%
Rowe Price (2)	-4.1	-4.0	25.7	17.1	11.7	10.1	14.2	11.3	12.3	9.6	561.63	9.3%
Scudder (2)	-4.5	-4.0	23.5	17.1	12.5	10.1	16.0	11.3	13.3	9.6	580.50	9.6%
Active Emerging Markets												
City of London (3)	-9.4	-10.2	2.0	9.5	-4.4	-5.0			2.0	0.9	71.64	1.2%
Genesis (4)	-8.2	-10.2	8.5	9.5	-9.3	-5.0			-2.0	-0.7	244.18	4.0%
Montgomery (4)	-8.3	-10.2	20.7	9.5	-6.6	-5.0			0.2	-0.7	272.45	4.5%
Passive EAFE												
State Street (5)	-3.7	-4.0	17.5	17.1	10.5	10.1	11.6	11.3	12.3	12.0	2,027.09	33.6%
									Since 10/1/92			
Equity Only*	-3.3	-4.6	17.1	16.4	8.5	8.4	11.5	10.3	12.1	11.4	6,032.28	100.0%
Total Program**	**-3.3**	**-4.6**	**16.9**	**16.4**	**8.9**	**8.4**	**12.3**	**10.3**	**12.6**	**11.4**	**$6,032.25**	

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

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

(1) Fully active since 10/1/99. Active country/passive stock from inception to 9/30/99. Retained April 1, 1993.
(2) Retained November 1, 1993. Marathon's performance is measured against a custom benchmark since inception.
(3) Retained November 1, 1996.
(4) Retained May 1, 1996.
(5) Retained October 1, 1992.
(6) Retained February 1, 2000

Impact of Currency Overlay Program

Cumulative Dollar Value Added (Since inception, December 1, 1995)	$154,066,206

AMERICAN EXPRESS ASSET MANAGEMENT INTERNATIONAL, INC.
Periods Ending June, 2000

Portfolio Manager: Peter Lamaison | **Assets Under Management: $288,401,842**

Investment Philosophy

American Express Asset Management's (AEAM) objective is to identify inefficiencies in market value at the regional, country and stock level. Their investment process concentrates on identifying non-consensus views that they can exploit. AEAM's core international equity approach is a blend of top-down and bottom up styles with an emphasis on large cap growth stocks. They start the decision making process with the development of their geopolitical and macroeconomic outlook. The bottom-up stage of their process begins with real-time relative valuation comparisons of the stocks in their investable universe. The most attractively priced stocks then go through in depth fundamental analysis.

Staff Comments

No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-7.3%	-4.0%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (03/00)	-4.0	-0.2

Recommendations

No action required.

VAM Graph will be drawn for period ending 03/31/2002.

BLAIRLOGIE CAPITAL MANAGEMENT
Periods Ending June, 2000

Portfolio Manager: James Smith | **Assets Under Management: $99,907,560**

Investment Philosophy

Blairlogie has developed a model that ranks countries based on a collection of current and historical data Their quantitative analysis is enhanced with significant qualitative assessments to evaluate things a model cannot review They continuously strive for the optimum combination of quantitative and judgmental inputs but believe that objective, measurable facts must always be the starting point for making sound investment decisions. Blairlogie is primarily top-down, but incorporates bottom-up stock selection Their process is based upon an underlying objective of producing premium returns above their benchmark consistently in any market environment while consciously controlling risk and limiting volatility Blairlogie's portfolio is broadly diversified in international markets both by country and stock

Staff Comments

No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4 8%	-4 0%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (03/00)	-0 4	-0.2

Recommendations

No action required

VAM Graph will be drawn for period ending 03/31/2002.

BRINSON PARTNERS
Periods Ending June, 2000

Portfolio Manager: Thomas Madsen | **Assets Under Management: $693,483,571**

Investment Philosophy

Brinson is a fundamental, long-term, value-oriented investor. Brinson uses a proprietary valuation model to rank the relative attractiveness of individual markets based on fundamental considerations. Inputs include forecasts for growth, inflation rates, risk premiums and foreign exchange movements. Quantitative tools are used to monitor and control portfolio risk, while qualitative judgments from the firm's professionals are used to determine final allocations. Brinson establishes an allocation range around the target index to define the limits of their exposure to individual countries and to assure diversification.

Brinson utilizes currency equilibrium bands to determine which currencies are over or under valued. The firm will hedge to control the potential risk for real losses from currency depreciation.

Staff Comments

Brinson outperformed the benchmark in both the quarter and the trailing twelve-month periods. Price corrections in Telecommunication, Media and Technology companies combined with an upswing of more value-driven names contributed to the Portfolio's outperformance.

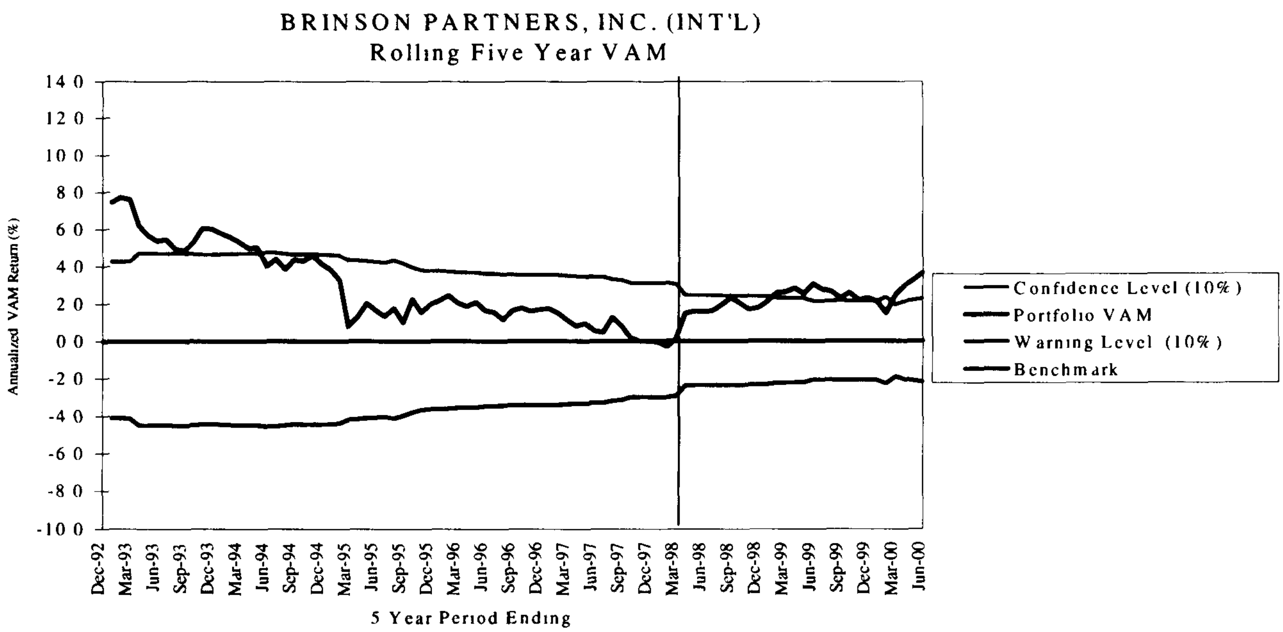
Staff continues to monitor the firm's business and organizational issues. During the most recent quarter, Brinson Partners lost eleven non-U.S. Equity clients with $3.2 Billion in assets or about 1.5% of their institutional assets

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.3%	-4.0%
Last 1 year	19.5	17.1
Last 2 years	14.2	12.2
Last 3 years	11.2	10.1
Last 4 years	12.9	10.8
Last 5 years	15.3	11.3
Since Inception (4/93)	12.4	11.7

Recommendations

No action required.



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

INVESCO GLOBAL ASSET MANAGMENT
Periods Ending June, 2000

Portfolio Manager: John Rogers **Assets Under Management: $415,291,691**

Investment Philosophy

INVESCO believes they can add value by identifying and investing in companies whose share price does not reflect the proven and sustainable growth of the company's earnings and assets They also believe that a systematic process that identifies mis-valued companies, combined with a consistently applied portfolio design process, can control the predictability and consistency of returns Portfolios are constructed on a bottom-up basis; they select individual companies rather than countries, themes, or industry groups This is the first of four cornerstones of their investment approach Secondly, they conduct financial analysis on a broad universe of non-U S companies whose key financial data is adjusted to be comparable across borders and currencies Third, Invesco believes that using local investment professionals enhances fundamental company research. Finally, they manage risk and assure broad diversification relative to clients' benchmarks through a statistics-based portfolio construction approach rather than resorting to country or industry constraints

Staff Comments

No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1 0%	-4 0%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (03/00)	4 0	-0 2

Recommendations

No action required

VAM Graph will be drawn for period ending 03/31/2002.

MARATHON ASSET MANAGEMENT
Periods Ending June, 2000

Portfolio Manager: William Arah **Assets Under Management: $503,618,322**

Investment Philosophy

Marathon uses a blend of flexible, qualitative disciplines to construct portfolios which exhibit a value bias. Style and emphasis will vary over time and by market, depending on Marathon's perception of lowest risk opportunity. Since they believe that competition determines profitability, Marathon is attracted to industries where the level of competition is declining and they will hold a sector position as long as the level of competition does not increase. At the stock level, Marathon tracks a company's competitive position versus the attractiveness of their products or services and attempts to determine whether the company is following an appropriate reinvestment strategy for their current competitive position.

Staff Comments

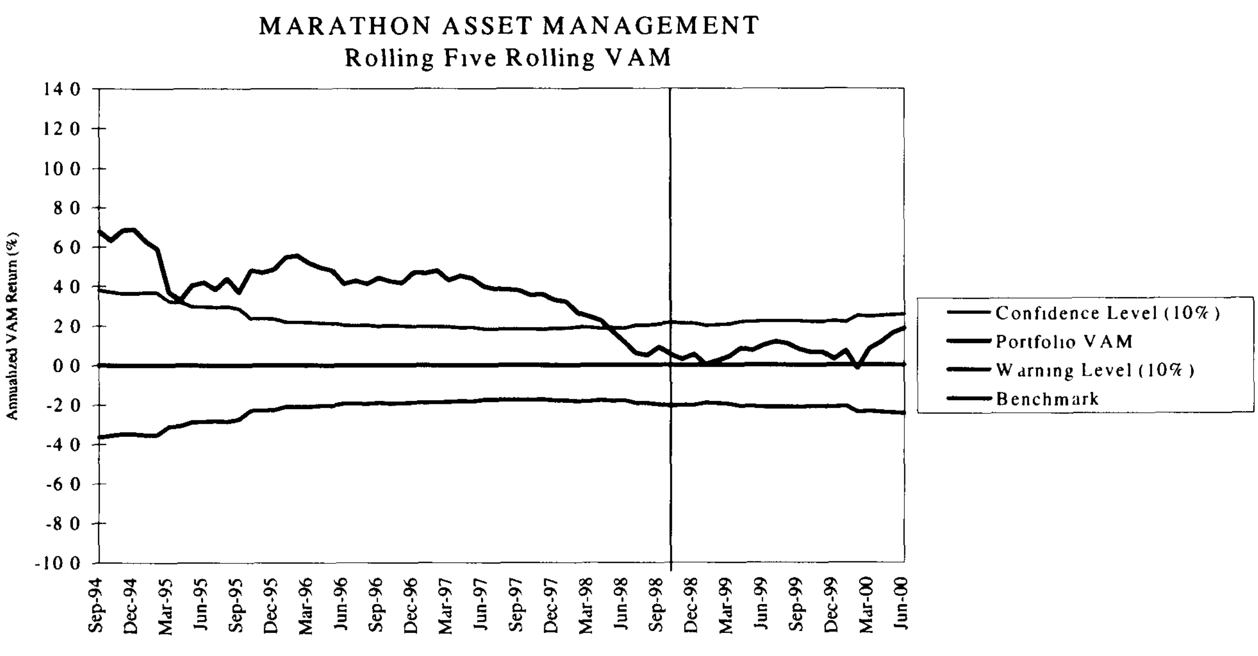
No comments at this time.

Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	2.7%	-2.6%
Last 1 year	18.4	15.6
Last 2 years	15.6	11.3
Last 3 years	9.5	8.1
Last 4 years	9.5	8.2
Last 5 years	11.6	9.6
Since Inception (11/93)	10.5	8.3

Recommendations

No action required.



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

MONTGOMERY ASSET MANAGEMENT, LLC (EAFE)
Periods Ending June, 2000

Portfolio Manager: John Boich **Assets Under Management: $274,075,816**

Investment Philosophy

Montgomery manages a developed markets portfolio for the SBI, in addition to an emerging portfolio. Montgomery believes that a consistent process, centered on accountability, sector specialization and primary, original research provides a sustainable edge in international equity investing. Their international equity investing combines thorough sector and country research with a disciplined bottom-up stock selection process to identify securities with long-term projected earnings growth, attractive valuation versus applicable peers, positive business momentum and the potential to achieve minimum required returns

Staff Comments

Although Montgomery's strategy of being overweight in the technology, media, and telecommunications sectors contributed positively to first quarter performance, this turned around dramatically during the second quarter, when these sectors were hit hard by volatility, causing significant underperformance Despite the current volatility, Montgomery remains confident about the future prospects for the portfolio's holdings, and will continue to concentrate the Fund's investments in companies with good long-term fundamentals, strong management, proven business models and minimum outstanding financing needs

The global research team hired three new analysts for the Global Infrastructure group, the Global Communications group and the newly created Global Health Care group

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-10 8%	-4 0%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (03/00)	-10 2	-0 2

Recommendations

No action required

VAM Graph will be drawn for period ending 03/31/2002.

ROWE PRICE-FLEMING INTERNATIONAL, INC.
Periods Ending June, 2000

Portfolio Manager: David Warren | **Assets Under Management: $561,634,609**

Investment Philosophy

Rowe Price-Fleming (RPF) believes that world stock markets are segmented. The firm attempts to add value by identifying and exploiting the resulting pricing inefficiencies. In addition, they believe that growth is frequently under priced in the world markets. RPF establishes its economic outlook based largely on interest rate trends and earnings momentum. The portfolio management team then assesses the country, industry and currency profile for the portfolio. Within this framework, stock selection is the responsibility of regional portfolio managers. Stocks are selected using fundamental analysis that emphasizes companies with above-market earnings growth at reasonable valuations. Information derived from the stock selection process is a key factor in country allocation as well.

Staff Comments

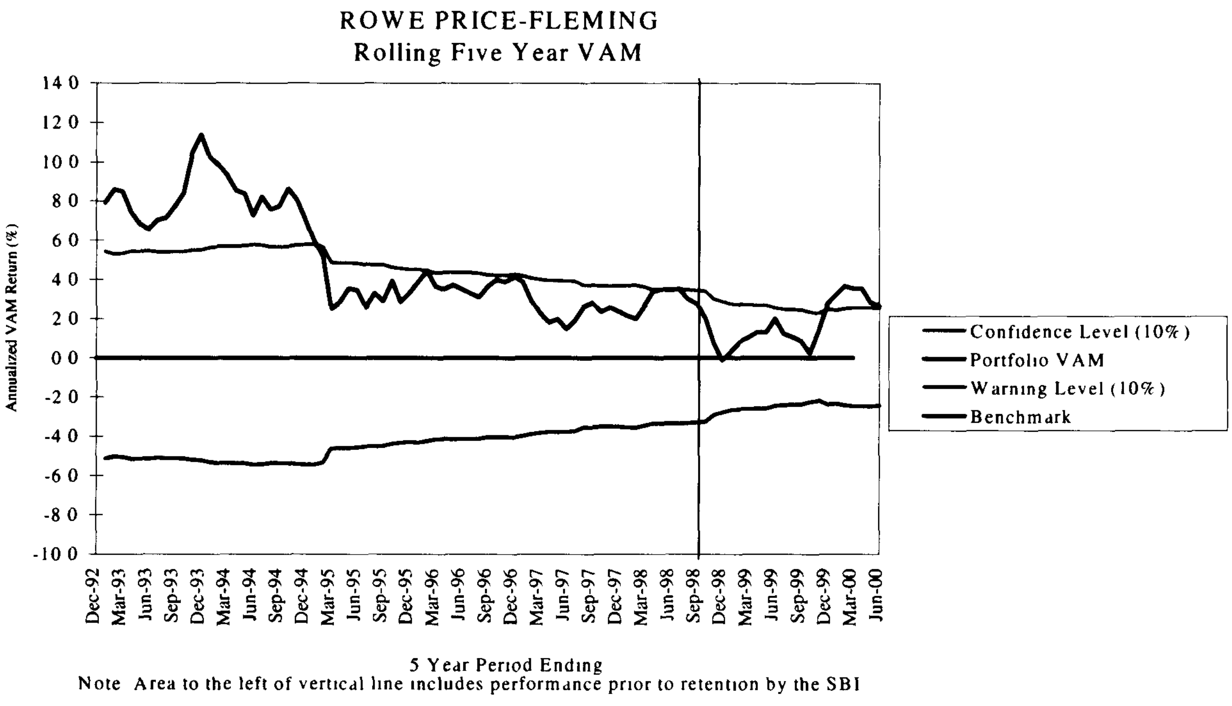
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.1%	-4.0%
Last 1 year	25.7	17.1
Last 2 years	15.7	12.2
Last 3 years	11.7	10.1
Last 4 years	13.3	10.8
Last 5 years	14.2	11.3
Since Inception (11/93)	12.3	9.6

Recommendations

No action required.



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

SCUDDER KEMPER INVESTMENTS
Periods Ending June, 2000

Portfolio Manager: Theresa Gusman **Assets Under Management: $580,504,261**

Investment Philosophy

Scudder believes that successful international investing requires knowledge of each country's economy, political environment and financial market obtained through continuous and thorough research of individual markets and securities The investment process focuses on three areas: country analysis, global themes and unique situations Ideas from all three areas are integrated into Scudder's research universe Using their own internal research, the firm seeks companies with potential for earnings and dividend growth, strong or improving balance sheets, superior management, conservative accounting practices and dominant position in growing industries

Staff Comments

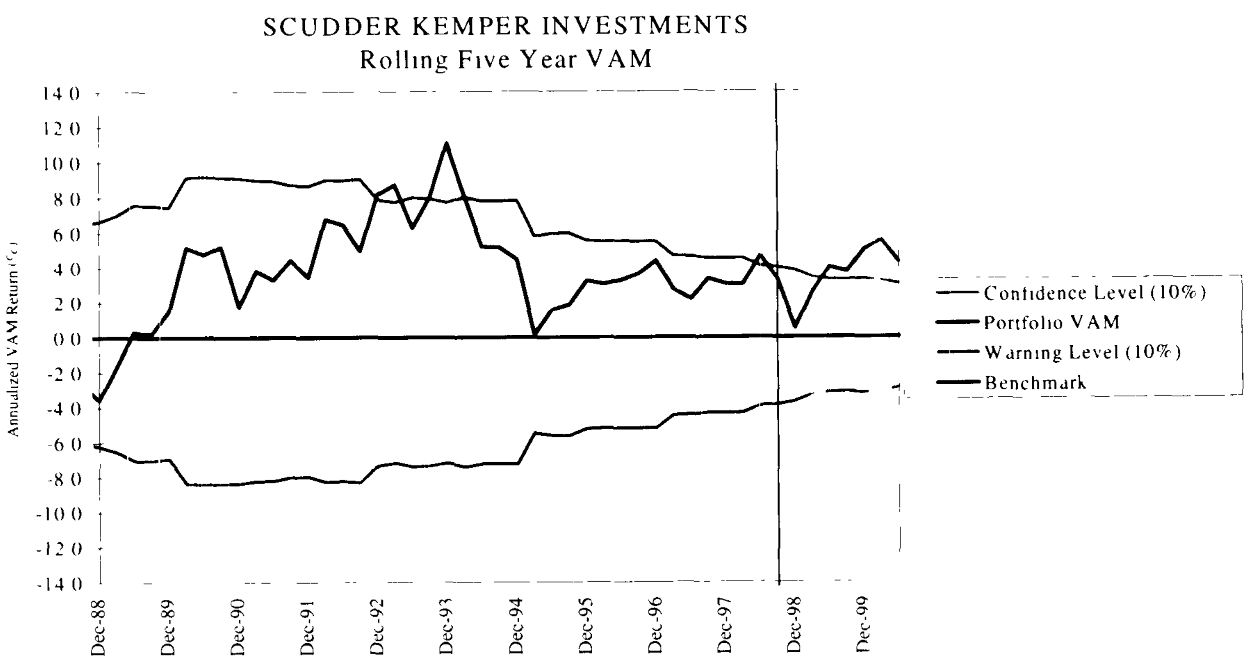
Staff met with Scudder on August 3rd to discuss recent organizational changes, the investment process and performance The meeting confirmed that Scudder retains a staff of about thirty experienced professionals and that these regional specialists are used by the SBI's portfolio manager to make investment decisions The investment process is team-based and is consistently applied across all regional products, which affords continuity While performance has been good long-term, Scudder experienced modest underperformance in May due to a sharp drop in prices of technology and telecommunication stocks Staff found no major problems at Scudder and believe they can continue to provide the SBI with good long term performance

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4 5%	-4 0%
Last 1 year	23 5	17.1
Last 2 years	15 0	12 2
Last 3 years	12.5	10 1
Last 4 years	14 7	10.8
Last 5 years	16 0	11 3
Since Inception (11/93)	13 3	9 6

Recommendations

No action required



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

CITY OF LONDON
Periods Ending June, 2000

Portfolio Manager: Barry Olliff **Assets Under Management: $71,640,646**

Investment Philosophy

City of London is an emerging markets specialist. The firm invests in closed-end country and regional funds to enhance performance when discounts to net asset value (NAV) narrow and to assure broad diversification within markets. They perform two levels of analysis. The first level is to compile macro-economic data for each country in their universe. Countries are ranked nominally according to the relative strength of their fundamentals and the expected upward potential of their stock markets. The second level is research on closed-end country and regional funds which use analyzed funds for corporate activity, liquidation dates, liquidity and discounts to NAV. They also analyze the quality and expertise of the closed-end fund managers. Countries are then re-ranked according to the relative pricing and discounts to NAV of country specific funds.

Staff Comments

No comments at this time.

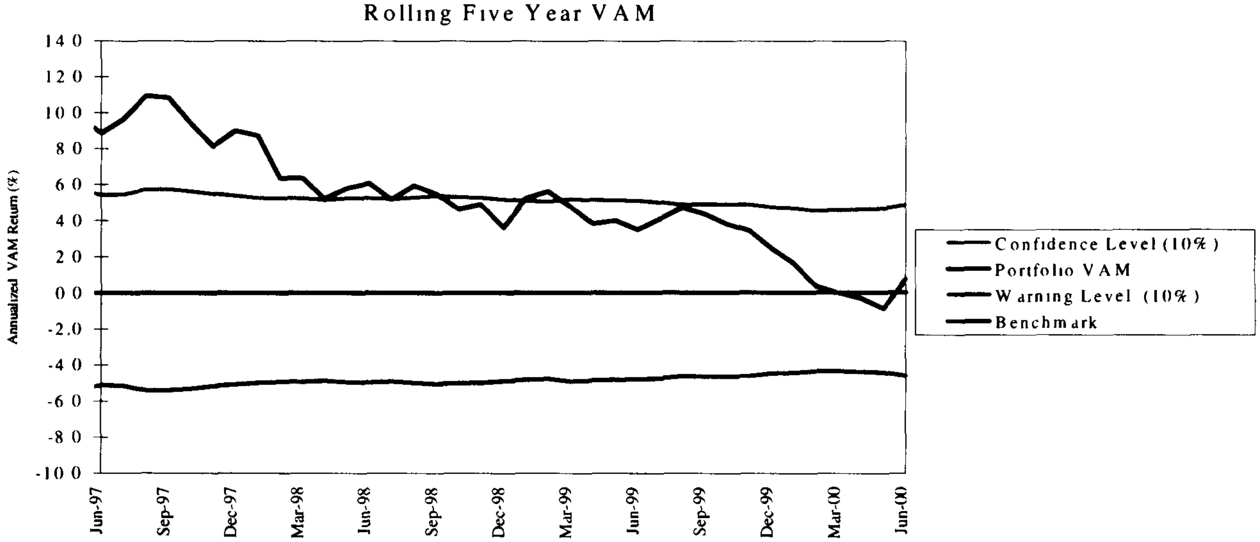
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-9.4%	-10.2%
Last 1 year	2.0	9.5
Last 2 years	11.3	18.7
Last 3 years	-4.4	-5.0
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/96)	2.0	0.9

Recommendations

No action required.

CITY OF LONDON
Rolling Five Year VAM



5 Year Period Ending

Note Shaded area includes performance prior to managing SBI account

GENESIS ASSET MANAGERS, LTD.
Periods Ending June, 2000

Portfolio Manager: Paul Greatbatch — **Assets Under Management: $244,182,185**

Investment Philosophy

Genesis is an emerging markets specialist. The firm believes that the critical factor for successful investment performance in emerging markets is stock selection. They also believe that structural changes in emerging markets will continue to create both winners and losers in the corporate sector. Finally, they believe that following index stocks will not necessarily expose an investor to the highest returns since those stocks are typically concentrated in large capitalization companies that have already attained a certain level of recognition. They identify those countries in which structural change will most likely generate growth opportunities for business and/or where the environment is supportive of a flourishing private sector. Stock selection is based on Genesis' estimate of the value of the company's future real earnings stream over five years relative to its current price. The portfolio consists of the most undervalued stocks across all markets with emphasis on growth with value.

Staff Comments

No comments at this time

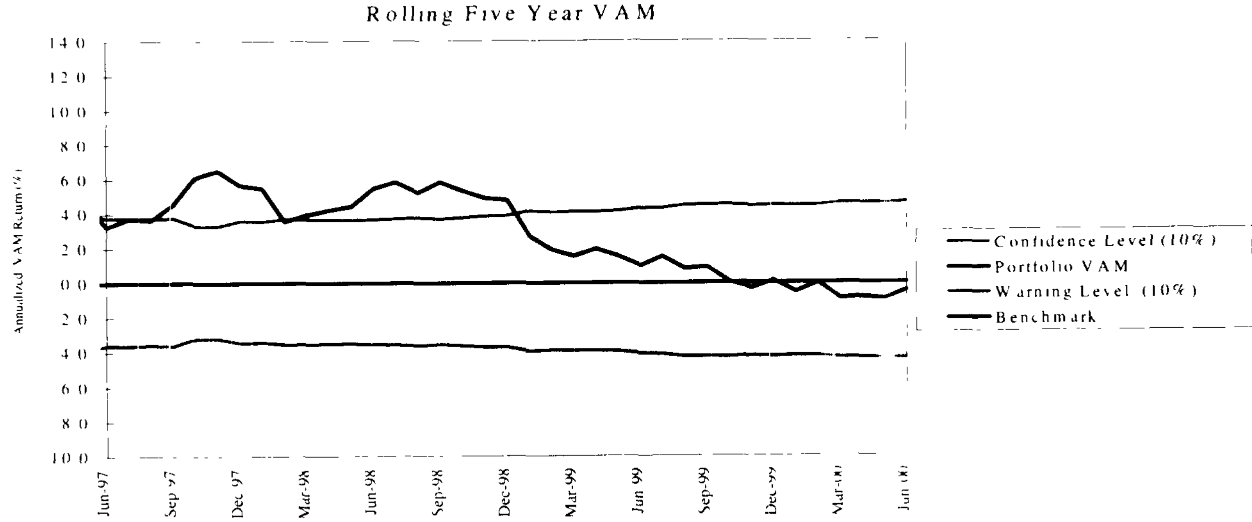
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-8.2%	-10.2%
Last 1 year	8.5	9.5
Last 2 years	6.8	18.7
Last 3 years	-9.3	-5.0
Last 4 years	-2.4	-0.8
Last 5 years	N/A	N/A
Since Inception (5/96)	-2.0	-0.7

Recommendations

No action required

GENESIS ASSET MANAGERS
Rolling Five Year VAM



Note: Shaded area includes performance prior to managing SBI account

MONTGOMERY ASSET MANAGEMENT, LLC (EMF)
Periods Ending June, 2000

Portfolio Manager: Josephine Jimenez | **Assets Under Management: $272,445,593**

Investment Philosophy

Montgomery is an emerging markets specialist. The firm combines quantitative investment techniques and fundamental stock selection to take advantage of market inefficiencies and low correlations within the emerging markets. Their top-down analysis begins with a quantitative approach which evaluates historical volatility and correlations between markets. The model identifies attractive countries which are then qualitatively analyzed for "event risk" which the model cannot take into account. Fundamental analysis is used to evaluate the financial condition, quality of management, and competitive position of each stock. Stocks will come from two tiers. Tier 1 will be 60-100 blue chip stocks. Tier 2 will be 100-150 smaller cap stocks with substantial growth potential. Characteristics of selected stocks may include low PE's to internal growth rates, above average earnings growth potential or undervalued/hidden assets.

Staff Comments

No comments at this time.

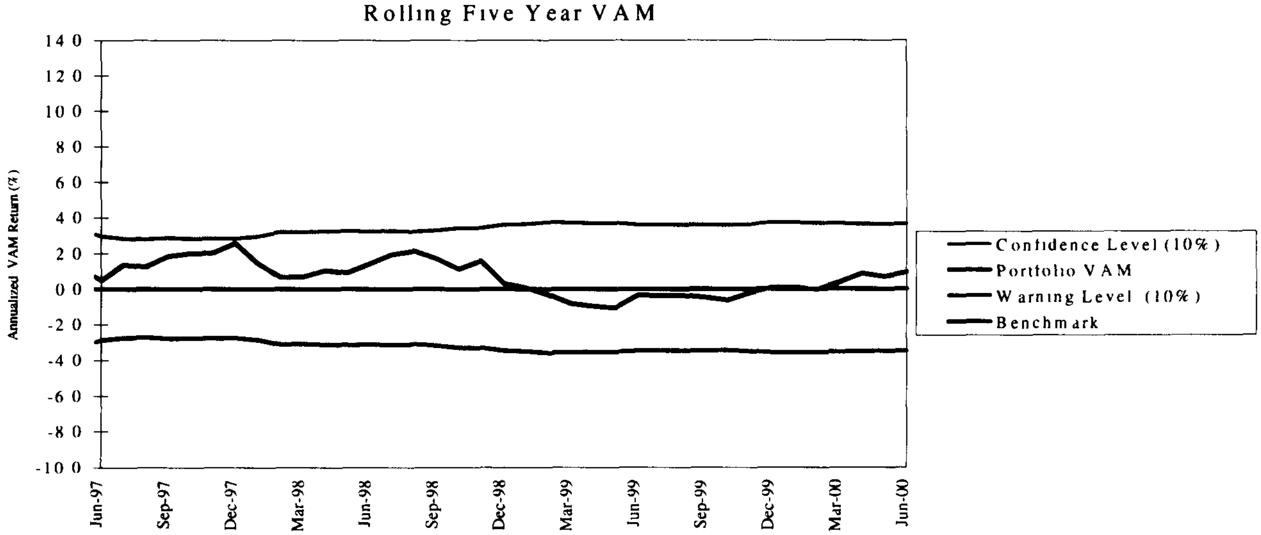
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-8.3%	-10.2%
Last 1 year	20.7	9.5
Last 2 years	16.3	18.7
Last 3 years	-6.6	-5.0
Last 4 years	-0.2	-0.8
Last 5 years	N/A	N/A
Since Inception (5/96)	0.2	-0.7

Recommendations

No action required.

MONTGOMERY ASSET MANAGEMENT
Rolling Five Year VAM



5 Year Period Ending
Note Shaded area includes performance prior to managing SBI account

STATE STREET GLOBAL ADVISORS
Periods Ending June, 2000

Portfolio Manager: Lynn Blake **Assets Under Management: $2,027,092,979**

Investment Philosophy

State Street Global Advisors passively manages the portfolio against the Morgan Stanley Capital International (MSCI) index of 20 markets located in Europe, Australia and the Far East (EAFE) They buy only securities which are eligible for purchase by foreign investors, therefore they are benchmarked against the MSCI EAFE-Free index SSgA fully replicates the index whenever possible because it results in lower turnover, higher tracking accuracy and lower market impact costs The MSCI EAFE-Free reinvests dividends at the Belgian tax rate The portfolio reinvests dividends at the lower U S tax rate, which should result in modest positive tracking error, over time.

Staff Comments

No comments at this time

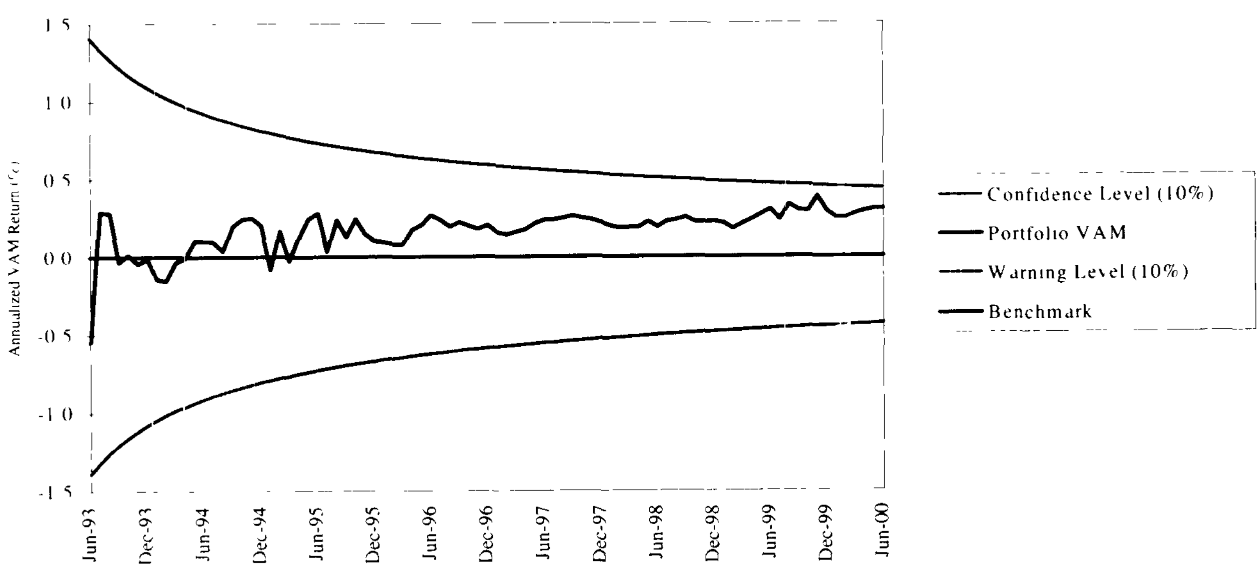
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-3 7%	-4 0%
Last 1 year	17 5	17 1
Last 2 years	12 9	12 2
Last 3 years	10 5	10.1
Last 4 years	11 1	10.8
Last 5 years	11.6	11.3
Since Inception (10/92)	12 3	12 0

Recommendation

No action required

STATE STREET GLOBAL ADVISORS
Cumulative Tracking



RECORD TREASURY MANAGEMENT
Periods Ending June, 2000

Portfolio Manager: Neil Record **Notional Portfolio Value: $721,693,809**

Investment Philosophy

Record Treasury avoids all forms of forecasting in its approach to currency management. Rather, the firm employs a systematic model which uses a form of dynamic hedging. The firm creates a portfolio of synthetic currency options using forward contracts. Like traditional options, Record's "in-house options" allow the client to participate in gains associated with foreign currency appreciation and avoid losses associated with foreign currency depreciation. As with all dynamic hedging programs, Record will tend to sell foreign currency as it weakens and buy as it strengthens.

The SBI has chosen to limit currency management to currencies that comprise 5% or more of the EAFE index: Japanese Yen, British Pound Sterling, Swiss Franc, and the Euro. Each currency is split into equal tranches that are monitored and managed independently. The strike rate for each tranche is set at 2% out-of-the money at the start date of each tranche. This requires a 2% strengthening of the US dollar to trigger a hedge for that tranche.

Staff Comments

At the December 8, 1999 meeting, the State Board of Investment concurred with the recommendation to terminate Record Treasury. All hedged currencies were unhedged on December 10, 1999. Record Treasury will remain under contract until all forward contracts expire over the next twelve months.

This currency program has impacted the international program with a net gain of $154 million

Quantitative Evaluation

	Index Fund + Record	**Index Fund(1)**
Last Quarter	-3.7%	-3.7%
Last 1 Year	17.0	17.5
Last 2 Years	12.5	12.9
Last 3 Years	11.3	10.5
Last 4 Years	13.0	11.1
Last 5 Years	N/A	N/A
Since Inception (12/95)	13.4	11.7

Recommendations

No action required.

(1) Actual unhedged return of the entire EAFE-Free index fund managed by State Street Global Advisers Includes return of underlying stock exposure, as reported by State Street Bank.

STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Second Quarter, 2000

COMBINED RETIREMENT FUNDS
NON - RETIREMENT MANAGERS
Periods Ending June, 2000

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception Actual %	Since Inception Bmk %	Market Value ($ millions)
GE Investment Management (1)	-1.3	-2.7	7.0	7.2	19.5	19.7	23.5	23.8	25.2	25.6	$244.85
Voyageur Asset Management (2)	1.2	1.7	4.2	4.8	5.6	5.8	6.0	6.2	7.2	7.0	511.62
Internal Stock Pool (3)	-2.5	-2.7	7.3	7.2	19.9	19.7	23.9	23.8	20.7	20.6	562.34
Internal Bond Pool - Income Share (4)	1.4	1.7	4.5	4.6	6.3	6.0	6.7	6.3	8.5	8.1	242.79
Internal Bond Pool - Trust (5)	1.4	1.7	4.7	4.6	6.4	6.0	6.6	6.3	7.8	7.3	385.23

(1) GE Investment Management was retained by the SBI in January 1995.
The benchmark is the S&P 500 Index.
(2) Voyageur Asset Management was retained by the SBI in July 1991.
The benchmark is a custom index.
(3) The Internal Stock Pool was initiated in July 1993.
The benchmark is the S&P 500 Index.
(4) The Income Share Account was initiated in July 1986.
The benchmark is the Lehman Aggregate.
Prior to July 1994, this index reflects the Salomon BIG.
(5) The Trust Account was initiated in July 1994.
The benchmark is the Lehman Aggregate.

Periods Ending June, 2000

Tobacco Settlement Funds: Tobacco Prevention Fund
Medical Education Fund

Annualized Yield for the current Quarter:	Tobacco Prevention Fund	6.30%
	Medical Education Fund	6.23%
Market Value of Funds as of the beginning of the current quarter (millions):	Tobacco Prevention Fund	$420.1
	Medical Education Fund	$270.0

GE ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending June, 2000

Portfolio Manager: Gene Bolton | **Assets Under Management: $244,847,930**

Investment Philosophy
Assigned Risk Plan

GE's Multi-Style Equity program attempts to outperform the S&P 500 consistently while controlling overall portfolio risk through a multiple manager approach. Three portfolio managers with value or growth orientations are supported by a team of analysts. The three portfolios are combined to create a well diversified equity portfolio while maintaining low relative volatility and a style-neutral position between growth and value. All GE managers focus on stock selection from a bottom-up perspective.

Staff Comments

The GE semi-passive portfolio outperformed for the quarter relative to the S&P 500 benchmark. The outperformance was due to the portfolio's underweight position and solid stock selection in the technology sector, despite the negative price return for the sector.

For the one-year period, the portfolio slightly underperformed. An underweight position in the technology sector precluded outperformance relative to the benchmark.

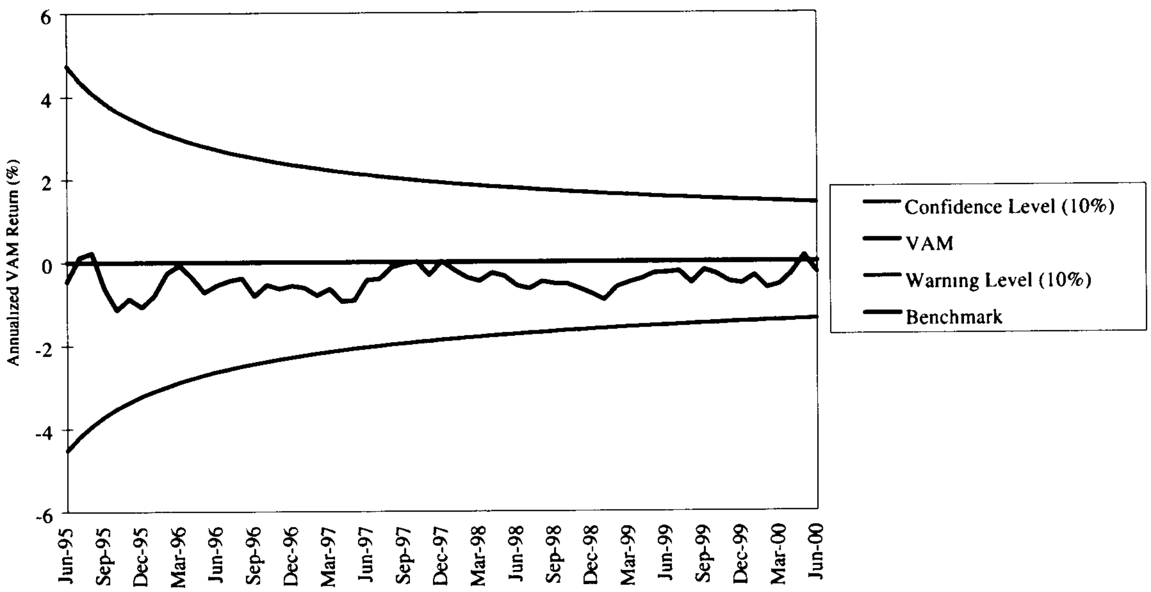
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.3%	-2.7%
Last 1 year	7.0	7.2
Last 2 years	15.0	14.7
Last 3 years	19.5	19.7
Last 4 years	23.1	23.3
Last 5 years	23.5	23.8
Since Inception (1/95)	25.2	25.6

Recommendation

No recommendation at this time.

GE INVESTMENT MANAGEMENT
Cumulative Tracking



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending June, 2000

Portfolio Manager: Melissa A. Uppgren **Assets Under Management: $511,623,508**

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 was asked to raise $255 million during the last two weeks of June for withdrawal As securities were sold over the last five trading sessions, the portfolio missed the market's appreciation of roughly 15 bps, the main detraction to performance for the quarter

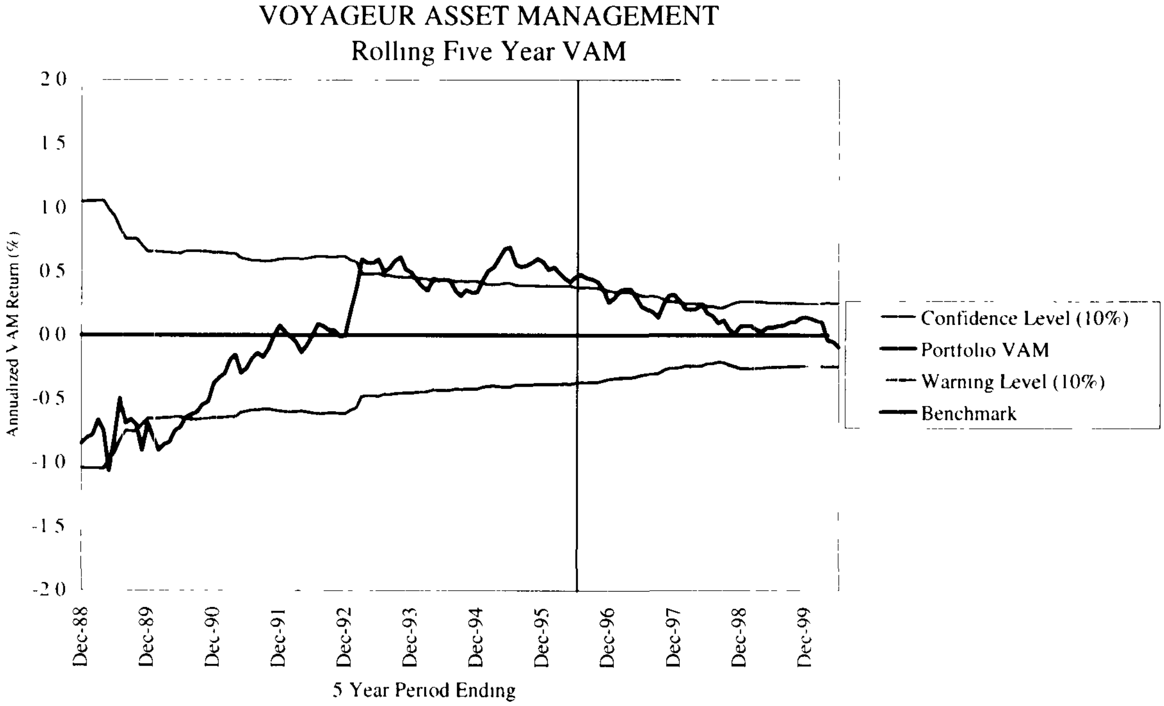
Voyageur's one-year return also lagged the benchmark. Over this period, the portfolio was adversely affected by a significant position in non-Treasury, higher yielding securities During this time, all securities except Treasuries faltered

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1 2%	1.7%
Last 1 year	4.2	4 8
Last 2 years	4.2	4.7
Last 3 years	5.6	5.8
Last 4 years	6 2	6.3
Last 5 years	6.0	6 2
Since Inception (7/91)	7 2	7 0

Recommendation

No action required



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

INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending June, 2000

Portfolio Manager: Mike Menssen **Assets Under Management: $562,343,135**

Investment Philosophy
Environmental Trust Fund
Permanent School Fund

The current manager assumed responsibility for the account in December 1996. The Internal Equity Pool is managed to closely track the S&P 500 Index. The strategy replicates the S&P 500 by owning all of the names in the index at weightings similar to those of the index. The optimization model's estimate of tracking error with this strategy is approximately 10 basis points per year.

Staff Comments

No comments at this time.

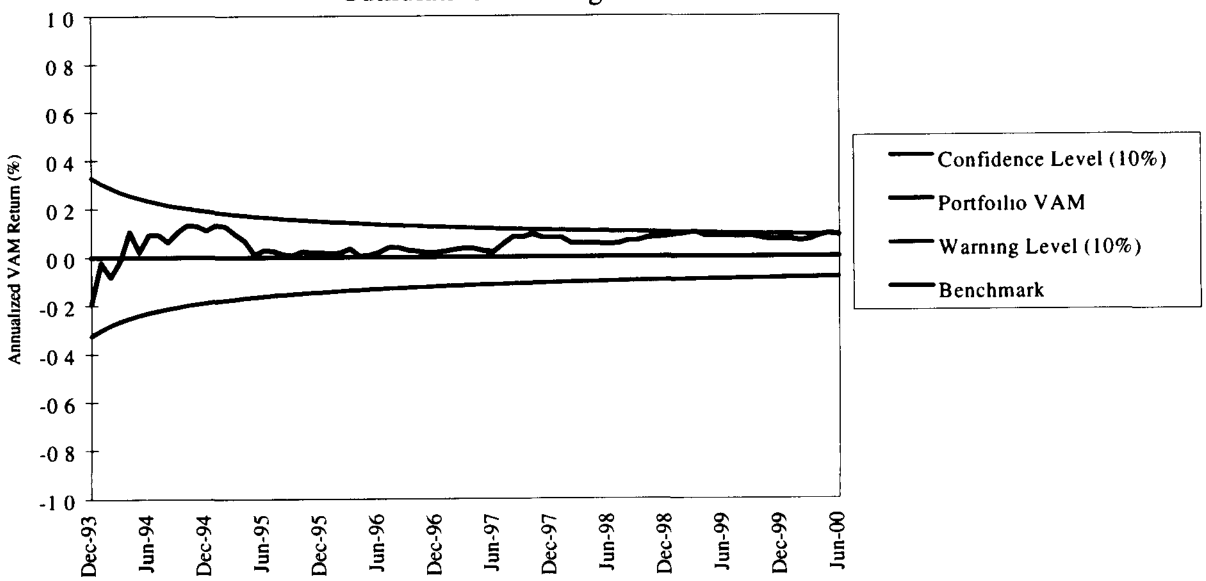
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.5%	-2.7%
Last 1 year	7.3	7.2
Last 2 years	14.9	14.7
Last 3 years	19.9	19.7
Last 4 years	23.4	23.3
Last 5 years	23.9	23.8
Since Inception (7/93)	20.7	20.6

Recommendation

No action required.

INTERNAL STOCK POOL
Trust/Non-Retirement Assets
Cumulative Tracking



INTERNAL BOND POOL - Income Share Account
Periods Ending June, 2000

Portfolio Manager: Mike Menssen **Assets Under Management: $242,790,611**

Investment Philosophy
Income Share Account

The current manager assumed responsibility for this portfolio in December 1996 The investment approach emphasizes sector and security selection The approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings The portfolio duration remains close to the benchmark duration but may be shortened or lengthened depending on changes in the economic outlook.

Staff Comments

The Internal Bond Pool - income share account underperformed the quarterly benchmark due to an overweight in long treasury bonds and BBB corporate bonds.

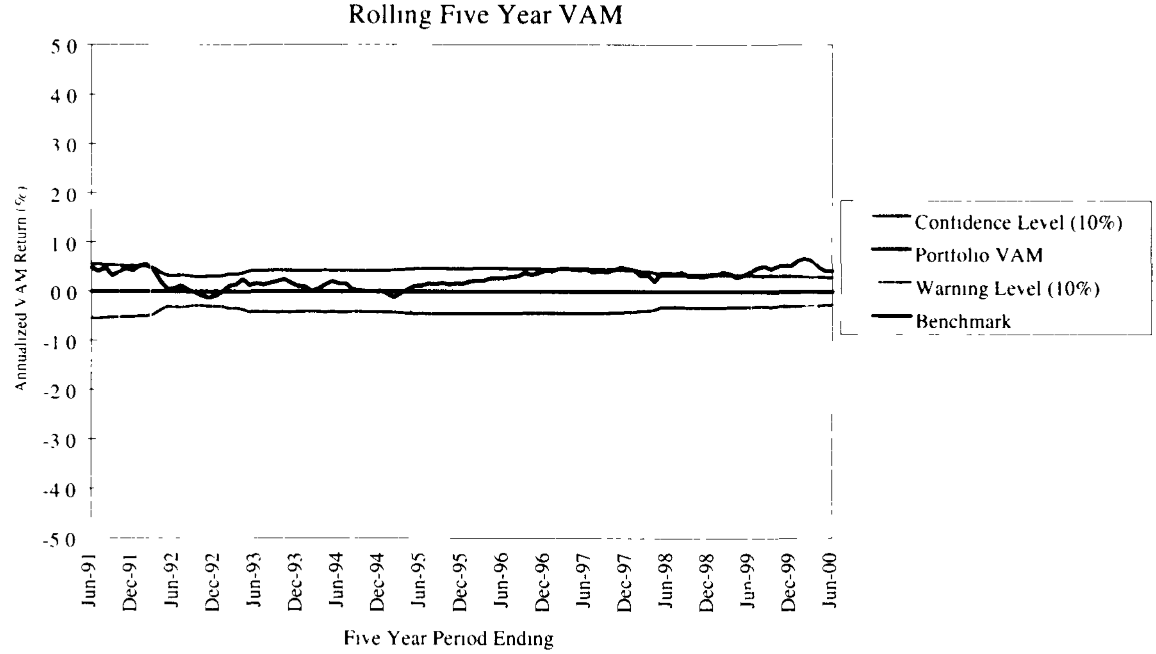
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.4%	1.7%
Last 1 year	4.5	4.6
Last 2 years	4.0	3.9
Last 3 years	6.3	6.0
Last 4 years	6.9	6.6
Last 5 years	6.7	6.3
Since Inception (7/86)	8.5	8.1

Recommendation

No action required

INTERNAL BOND POOL - INCOME SHARE ACCOUNT
Rolling Five Year VAM



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending June, 2000

Portfolio Manager: Mike Menssen **Assets Under Management: $385,229,845**

Investment Philosophy
Environmental Trust Fund
and Permanent School Trust Fund

The current manager assumed responsibility for the portfolio in December 1996. The internal bond portfolio's investment approach emphasizes sector and security selection. The approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings. The portfolio duration remains close to the benchmark duration but may be shortened or lengthened depending on changes in the economic outlook.

Staff Comments

No comments at this time.

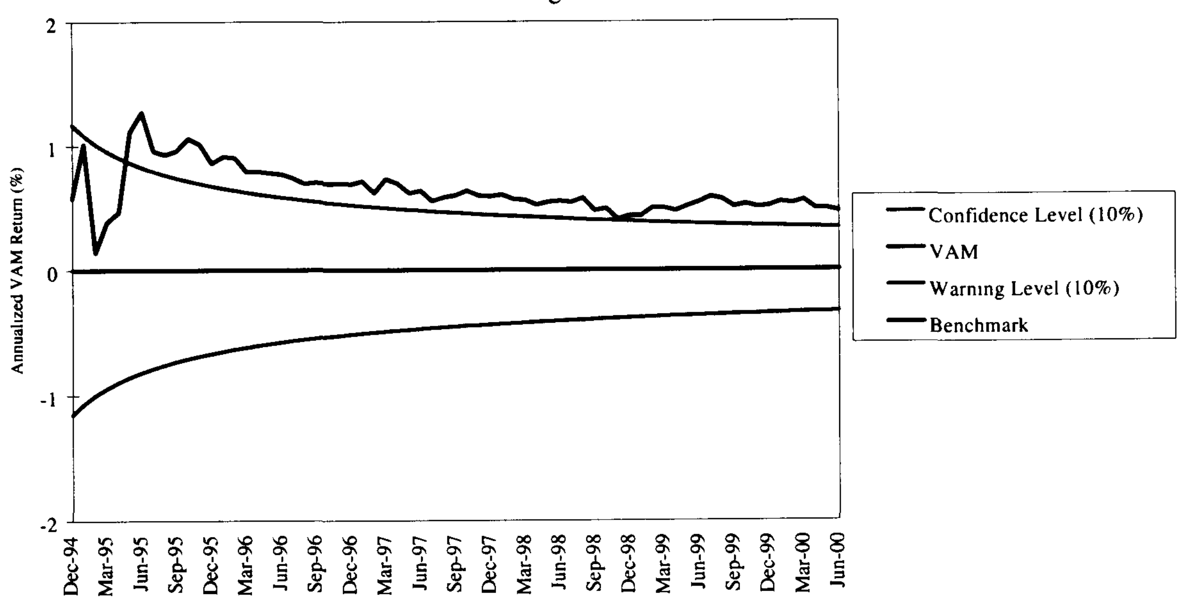
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.4%	1.7%
Last 1 year	4.7	4.6
Last 2 years	4.2	3.9
Last 3 years	6.4	6.0
Last 4 years	6.9	6.6
Last 5 years	6.6	6.3
Since Inception (7/94)*	7.8	7.3

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

Recommendation

No action required.



STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

Second Quarter, 2000

MN STATE 457 DEFERRED COMPENSATION PLAN

MUTUAL FUND MANAGERS

Periods Ending June, 2000

457 Mutual Funds	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Retention by SBI* %	Since Retention by SBI* %	State's Participation In Fund ($ millions)
Large Cap Equity:											
Janus Twenty	-12.3	-2.7	29.6	7.2	42.1	19.7	37.4	23.8	29 6	7.2	425.95
(S&P 500)**											
Small Cap Equity:											
T. Rowe Price Small-Cap Equity	1.8	-3.8	22 2	14 3	12 5	10.6	17 6	14 3	22.2	14.3	213.17
(Russell 2000)											
Equity Index:											
Vanguard Institutional Index	-2.6	-2.7	7.4	7.2	19.8	19.7	23 9	23.8	7 4	7 2	199 33
(S&P 500)											
Balanced:											
INVESCO Total Return	-1.7	-1.0	-12.1	6.5	5.3	14.5	10 8	16.8	-12.1	6.5	86.71
(60% S&P 500/40% Lehman Gov-Corp)											
Bond:											
Dodge & Cox Income Fund	1.3	1.7	4.0	4.6	5.9	6.0	6 1	6.3	4.0	4.6	22.52
(Lehman Aggregate)											
International:											
Fidelity Diversified International	-4.0	-4.0	32.2	17.1	18.0	10.1	20 1	11.3	32.2	17.1	85.23
(MSCI EAFE-Free)											

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

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

*The mutual fund managers were retained by the SBI in July 1999.

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

Fixed Fund:	%
Blended Yield Rate for current quarter***.	6.3
Bid Rates for current quarter:	
Great West Life	7 0
Minnesota Life	7.0
Principal Life	7.1

***The Blended Yield Rate for the current quarter includes the return on the existing porfolio assets and also the Liquidity Buffer Account (money market) The Bid Rates for the current quarter are for the new cash flow only.

MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – JANUS TWENTY
Periods Ending June, 2000

State's Participation in Fund: $425,945,025
Portfolio Manager: Scott W. Schoelzel **Total Assets in Fund: $34,274,249,023**

Investment Philosophy
Janus Twenty

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

Staff Comments

The Janus Twenty Fund underperformed the quarterly benchmark due to the decline in tech shares. As interest rates rose during the quarter, investor's reconsidered the price they were willing to pay for corporate earnings. The fund's tech position contributed to the significant one-year outperformance.

Quantitative Evaluation

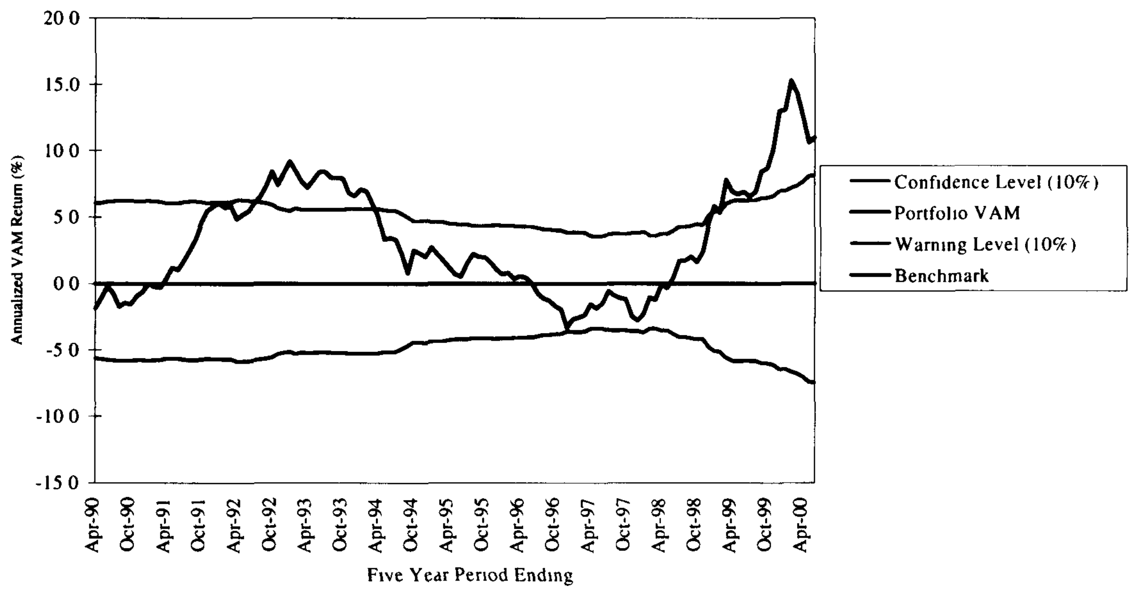
	Actual	Benchmark*
Last Quarter	-12.3%	-2.7%
Last 1 year	29.6	7.2
Last 2 years	39.6	14 7
Last 3 years	42.1	19.7
Last 4 years	40 0	23 3
Last 5 years	37 4	23 8
Since Retention by SBI (7/99)	29.6	7.2

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

Recommendation

No action required.

LARGE CAP EQUITY - JANUS TWENTY
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP EQUITY FUND
Periods Ending June, 2000

State's Participation in Fund: $213,167,927
Portfolio Manager: Gregory A. McCrickard **Total Assets in Fund: $2,047,030,811**

Investment Philosophy
T. Rowe Price Small Cap Equity Fund

The strategy of this fund is to invest primarily in stocks of small to medium-sized companies that are believed to offer either superior earnings growth or appear undervalued The fund normally invests at least 80% of assets in equities traded in the U.S over-the-counter market. The manager does not favor making big bets on any particular sector or any particular stock. The fund's combination of growth and value stocks offers investors relatively more stable performance compared to other small cap stock funds

Staff Comments

The small cap fund's quarterly return exceeded the benchmark due to the strong relative performance of small-cap value stocks (which the portfolio emphasizes), as well as gains in selected technology and biotech stocks.

Quantitative Evaluation

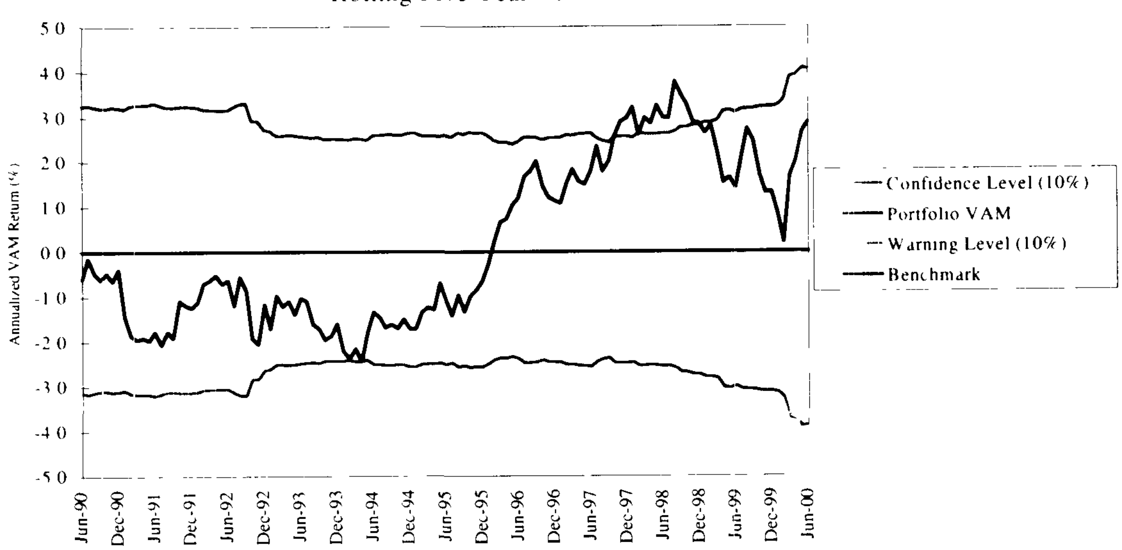
	Actual	Benchmark*
Last Quarter	1 8%	-3 8%
Last 1 year	22.2	14 3
Last 2 years	8 6	7 7
Last 3 years	12 5	10 6
Last 4 years	14 0	12 0
Last 5 years	17 6	14 3
Since Retention by SBI (7/99)	22.2	14 3

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

Recommendation

No action required

SMALL CAP EQUITY - T ROWE PRICE SMALL CAP EQUITY FUND
Rolling Five Year VAM



Five Year Period Ending
Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
EQUITY INDEX – VANGUARD INSTITUTIONAL INDEX
Periods Ending June, 2000

State's Participation in Fund: $199,327,131
Portfolio Manager: George U. Sauter **Total Assets in Fund: $29,644,343,581**

Investment Philosophy
Vanguard Institutional Index

This fund attempts to provide investment results, before fund expenses, that parallel the performance of the Standard & Poor's 500 Index. The fund invests in all 500 stocks listed in the S&P 500 index in approximately the same proportions as they are represented in the index. The managers have tracked the S&P 500's performance with a high degree of accuracy. The fund may use futures and options for temporary purposes, but generally remains fully invested in common stock.

Staff Comments

No comments at this time

Quantitative Evaluation

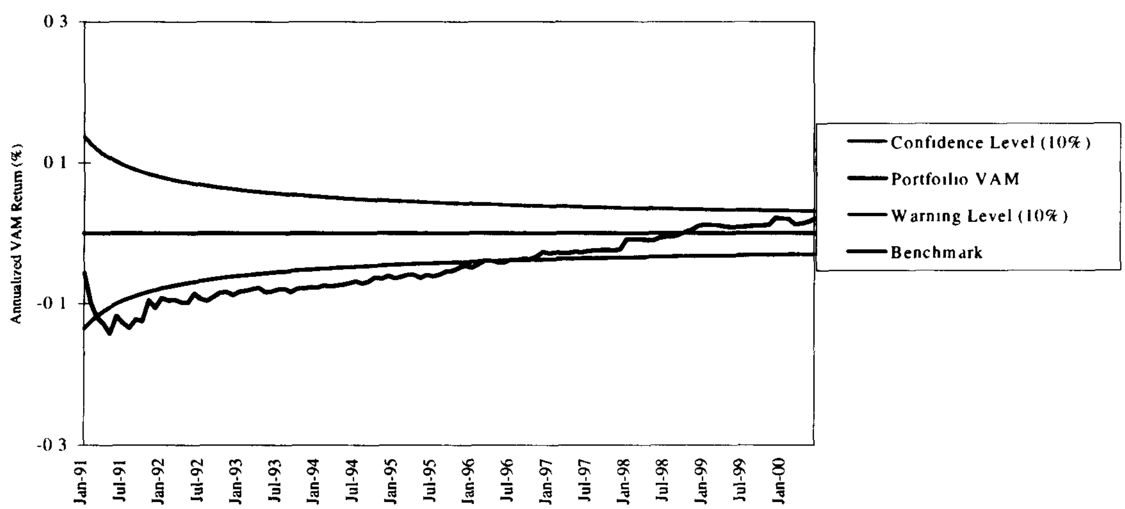
	Actual	Benchmark*
Last Quarter	-2.6%	-2.7%
Last 1 year	7.4	7.2
Last 2 years	14.9	14.7
Last 3 years	19.8	19.7
Last 4 years	23.4	23.3
Last 5 years	23.9	23 8
Since Retention by SBI (7/99)	7.4	7.2

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

Recommendation

No action required.

EQUITY INDEX - VANGUARD INSTITUTIONAL INDEX
Cumulative Tracking



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – INVESCO TOTAL RETURN
Periods Ending June, 2000

	State's Participation in Fund:	**$86,711,818**
Portfolio Manager: Edward Mitchell, Jr.	**Total Assets in Fund:**	**$2,198,500,000**

Investment Philosophy
Invesco Total Return

This fund is designed for investors who want to invest in a mix of stocks and bonds in the same fund. The fund seeks both capital appreciation and current income The managers start from a 60% stock / 40% bond asset allocation and adjusts the mix based on the expected risks and returns of each asset class The fund invests in mid- to large-cap value stocks and in high quality bonds with the bond portfolio having a duration somewhat less than the bond market as a whole

Staff Comments

Invesco total return slightly underperformed the quarterly benchmark Asset allocation was a negative contributor to relative performance due to the fund's overweight equity position and the negative returns experienced in the equity markets. However, the fund's equity holdings outperformed the equities in the S&P 500 largely due to its positions in the tech sector The fund's underweight to the technology sector (12 4% v. 28.1%) hurt one-year performance due to its 45% return for the period.

Quantitative Evaluation

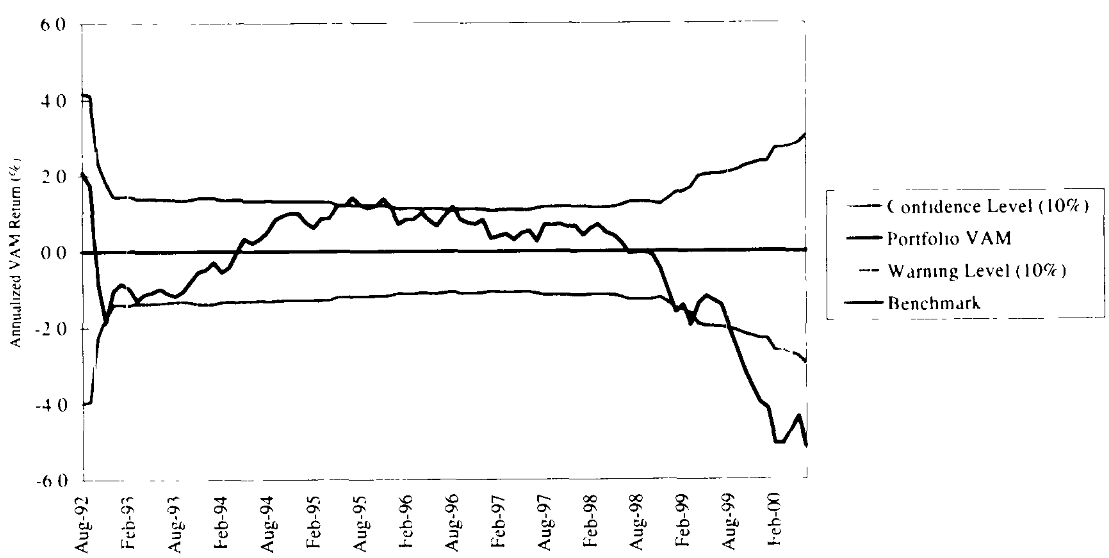
	Actual	Benchmark*
Last Quarter	-1.7%	-1.0%
Last 1 year	-12.1	6.5
Last 2 years	-1 2	10 7
Last 3 years	5 3	14 5
Last 4 years	9 6	16 7
Last 5 years	10 8	16 8
Since Retention by SBI (7/99)	-12 1	6.5

*Benchmark is the 60% S&P 500/ 40% Lehman Gov-Corp.
Numbers in black are returns since retention by SBI
Numbers in blue include returns prior to retention by SBI

Recommendation

No action required

BALANCED - INVESCO TOTAL RETURN
Rolling Five Year VAM



Five Year Period Ending
Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND - DODGE & COX INCOME FUND
Periods Ending June, 2000

State's Participation in Fund: $22,524,285
Portfolio Manager: Dana Emery **Total Assets in Fund: $924,168,001**

Investment Philosophy
Dodge & Cox Income Fund

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

Staff Comments

The Dodge & Cox Income Fund's overweight position in corporate securities, especially those of longer duration, detracted from quarterly performance. The corporate bond sector underperformed all other major sectors for the quarter. The Fund's moderate overweight position in mortgage-related securities, however, contributed positively to relative performance.

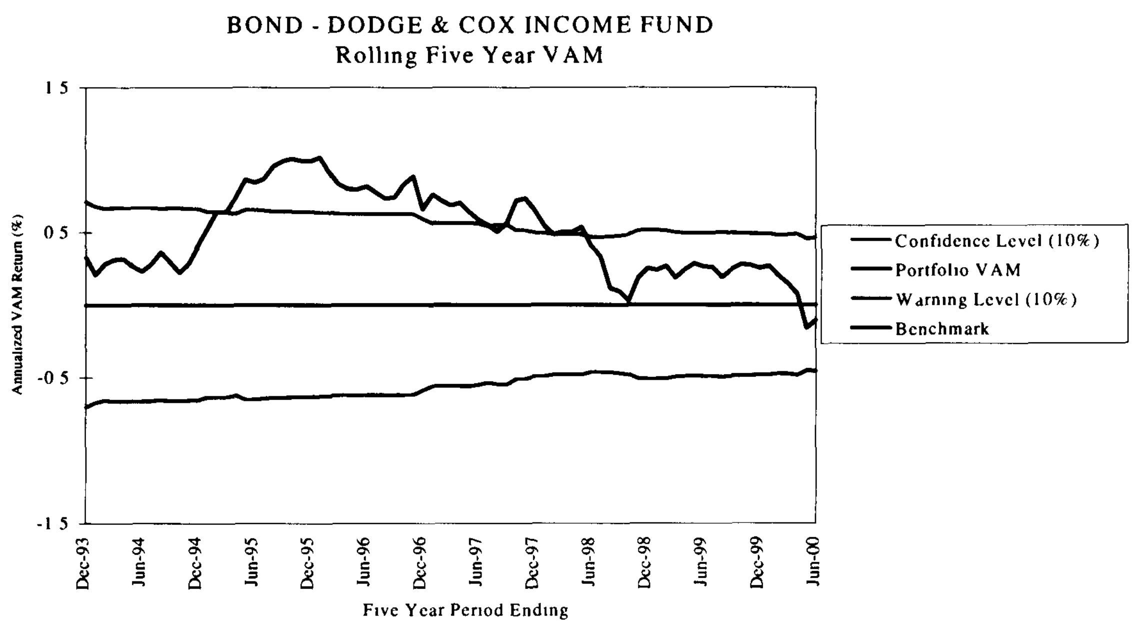
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.3%	1.7%
Last 1 year	4.0	4.6
Last 2 years	3 3	3.9
Last 3 years	5 9	6.0
Last 4 years	6 5	6.6
Last 5 years	6.1	6.3
Since Retention By SBI (7/99)	4.0	4.6

*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 June, 2000

Portfolio Manager: Gregory Fraser

State's Participation in Fund: $85,232,992
Total Assets in Fund: $6,081,268,592

Investment Philosophy
Fidelity Diversified International

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

Staff Comments

No comments at this time

Quantitative Evaluation

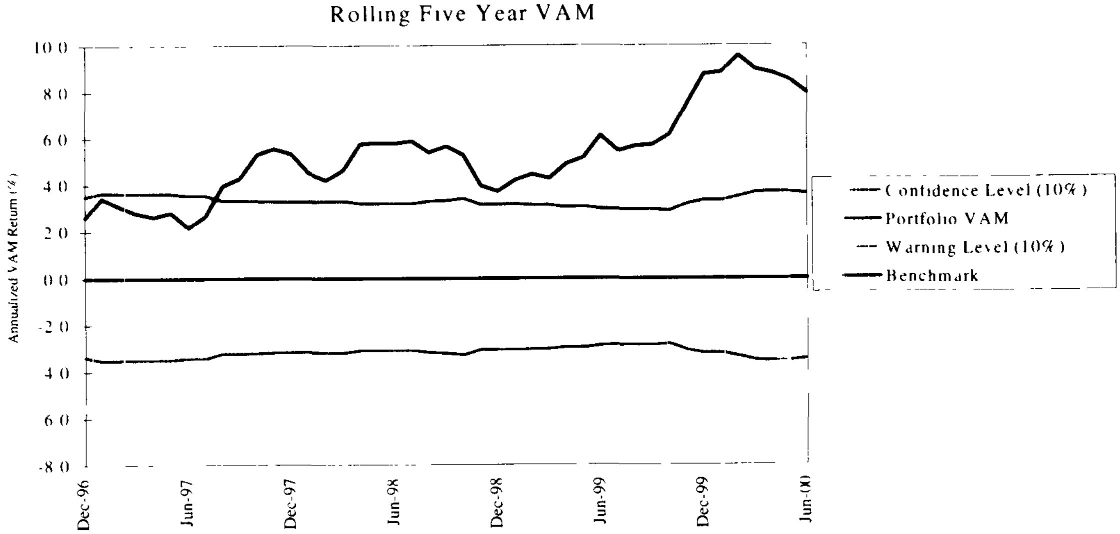
	Actual	Benchmark*
Last Quarter	-4.0%	-4 0%
Last 1 year	32 2	17 1
Last 2 years	19 5	12 2
Last 3 years	18 0	10 1
Last 4 years	19 5	10 8
Last 5 years	20 1	11 3
Since Retention By SBI (7/99)	32.2	17.1

*Benchmark is the MSCI EAFE-Free.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI

Recommendation

No action required

INTERNATIONAL - FIDELITY DIVERSIFIED INTERNATIONAL
Rolling Five Year VAM



Five Year Period Ending
Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending June, 2000

Total Assets in MN Fixed Fund: $81,936,075 *
*Includes $5-10M in Liquidity Buffer Account

Total Assets in 457 Plan: $588,456,974 **
**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: $25,884,711

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: $22,919,523

Assets in Prior MN 457 Plan: $216,783,188

Total Assets: $239,702,711

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: $21,437,686

Assets in Prior MN 457 Plan: $289,737,710

Total Assets: $311,175,396

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 June, 2000

Current Quarter

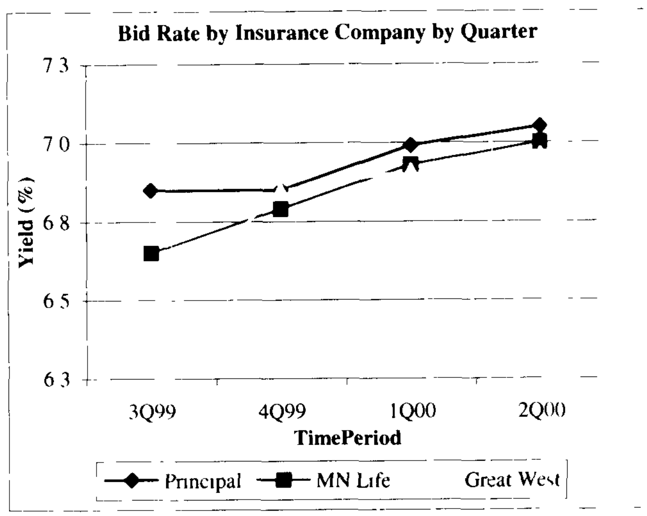
Dollar Amount of Bid: $8,600,000 **Blended Rate: 6.26%**

Bid Rates:

Principal Life	7 05%
Minnesota Life	7.00%
Great West Life	6 96%

Dollar Amount in existing Minnesota Life portfolio: $223,068,869

Rate on existing Minnesota Life portfolio: 6.05 %



Staff Comments on Bid Rates

The spread in the bid rates by the three insurance companies on the new inflow of dollars into the MN Fixed Fund in the second quarter remained narrow The overall bid rates increased slightly from those of the prior quarter

Please note that Duff & Phelps lowered Minnesota Life's rating to its second highest rating in March 2000 The rating change is not indicative of any deterioration of Minnesota Life's fundamentals.

Percentage Allocation of Dollars by Quarter

	3Q99	4Q99	1Q00	2Q00
Principal Life	50%	33 3%	33.3%	33.3%
Minnesota Life	30%	33.3%	33.3%	33.3%
Great West Life	20%	33 3%	33 3%	33.3%

Staff Comments

In the most recent quarter, the percentage allocation of the bid dollars to each insurance company was equal because all three companies' bid rates were within ten basis points of each other

Tab D

COMMITTEE REPORT

DATE: August 29, 2000

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met on August 17, 2000 to review the following information and action items:

- Review of current strategy and allocation.
- Investment for the Basic Retirement Funds with an existing private equity manager, William Blair.

The 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 5% of the Post Retirement Fund are allocated to alternative investments. Alternative investments include real estate, private equity and resource investments where Minnesota State Board of Investment (SBI) participation is limited to commingled funds or other pooled vehicles. Charts summarizing the Board's current commitments are attached (see **Attachments A and B**).

Basic Funds

- The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified Real Estate Investment Trusts (REITs), open-end commingled funds and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified, more focused (specialty) commingled funds and REITs. Currently, the SBI has an investment at market value of $772 million in eighteen commingled real estate funds and REITs.

- The private equity investment strategy is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location. Currently, the SBI has an investment at market value of $1.392 billion in forty-five commingled private equity funds.

- The strategy for resource investment is to establish and maintain a portfolio of resource investment vehicles that are specifically designed for institutional investors to provide an inflation hedge and additional diversification. Individual resource investments will include proved producing oil and gas properties, royalties and other investments that are diversified geographically and by type. Currently, the SBI has an investment at market value of $193 million in twelve commingled oil and gas funds.

Post Fund

- The Post Fund assets allocated to alternative investments will be invested separately from the Basic Funds' alternative investments to assure that returns are accounted for appropriately. Since the Post Fund invests the retired employees' pension assets, an allocation to yield oriented alternative investments will be emphasized. The Basic Retirement Funds' invest the active employees' pension assets and have less concern regarding the current yield for their alternative investments. The SBI has an investment at market value of $388 million in twenty yield oriented funds for the Post Fund: five are in real estate, thirteen are in private equity and two are in resource funds.

ACTION ITEMS:

1) **Investment for the Basic Retirement Fund with an existing private equity manager, William Blair, in William Blair Capital Partners VII.**

   William Blair is seeking investors for a new $400 million private equity fund, William Blair Capital Partners VII. This Fund is the seventh private equity fund, of its type, managed by William Blair. The SBI has a $60 million investment with William Blair Mezzanine Capital Partners III, a mezzanine debt fund also managed by William Blair. William Blair Capital Partners VII will focus, like prior funds, on assembling a diverse portfolio of private equity investments.

   More information on William Blair Capital Partners VII is included as **Attachment C**.

   RECOMMENDATION:

   The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $50 million or 20%, whichever is less, in William Blair Capital Partners VII. This commitment will be allocated to the Basic Retirement Fund.

   Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by William Blair 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 William Blair or reduction or termination of the commitment.

ATTACHMENT A

Minnesota State Board of Investment

Alternative Investments

Basic Retirement Funds

June 30, 2000

Market Value of Basic Retirement Funds	$21,228,899,857
Amount Available for Investment	**$827,358,849**

	Current Level	Target Level	Difference
Market Value	$2,356,976,130	$3,184,334,979	$827,358,849
MV +Unfunded	$3,307,409,521	$4,245,779,971	$938,370,451

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$772,511,414	$22,617,456	$795,128,870
Private Equity	$1,391,876,317	$840,652,567	$2,232,528,884
Resource	$192,588,400	$87,163,368	$279,751,767
Total	$2,356,976,130	$950,433,391	$3,307,409,521

Minnesota State Board of Investment

Alternative Investments

Post Retirement Funds

June 30, 2000

Market Value of Post Retirement Funds	$20,794,063,436
Amount Available for Investment	**$651,368,217**

	Current Level	Target Level	Difference
Market Value	$388,334,955	$1,039,703,172	$651,368,217
MV +Unfunded	$860,632,709	$2,079,406,344	$1,218,773,635

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$73,931,215	$8,032,594	$81,963,809
Private Equity	$265,625,680	$436,283,313	$701,908,993
Resource	$48,778,059	$27,981,847	$76,759,906
Total	$388,334,955	$472,297,754	$860,632,709

ATTACHMENT B

State of Minnesota
- Alternative Investments -

As of June 30, 2000

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate-Basic							
Aetna	42,376,529	42,376,529	138,604,598	0	0	7 38	18 17
AEW V	15,000,000	15,000,000	320,301	11,169,287	0	-2 84	12.54
Colony Capital							
Colony Investors II	40,000,000	38,682,764	14,064,894	26,218,128	1,317,236	1.99	5.25
Colony Investors III	100,000,000	89,055,379	80,888,442	9,885,063	10,944,621	-0 27	2.50
Equity Office Properties Trust	140,388,854	140,388,854	235,199,629	35,276,674	0	17.00	8.59
First Asset Realty Fund	916,185	916,185	216,586	960,344	0	7 15	6.17
Heitman							
Heitman Advisory Fund I	20,000,000	20,000,000	2,326,516	20,190,280	0	1 52	15 89
Heitman Advisory Fund II	30,000,000	30,000,000	3,817,368	39,623,598	0	4 00	14.61
Heitman Advisory Fund III	20,000,000	20,000,000	75,665	22,174,237	0	1.31	13.44
Heitman Advisory Fund V	20,000,000	20,000,000	13,224,936	19,655,836	0	8.06	8 57
Lasalle Income Parking Fund	15,000,000	14,644,401	8,803,211	13,829,610	355,599	8 55	8 78
Lend Lease Real Estate Investments	40,000,000	40,000,000	121,387,575	1,935,893	0	6 49	18.72
RREEF USA Fund III	75,000,000	75,000,000	490,809	121,039,987	0	4.75	16 14
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	40,000,000	52,963,939	19,975,514	0	13.79	6 08
Realty Associates Fund IV	50,000,000	50,000,000	57,824,782	9,959,615	0	13 17	3 41
Realty Associates Fund V Corporation	50,000,000	40,000,000	40,416,520	1,605,336	10,000,000	6 73	1 10
TCW							
TCW Realty Fund III	40,000,000	40,000,000	85,292	48,650,849	0	2 05	14.91
TCW Realty Fund IV	30,000,000	30,000,000	1,792,486	27,223,733	0	-0.36	13 66
Fund in Liquidation (AEW III)	20,000,000	20,000,000	7,865	24,134,114	0	1.75	14.82
Real Estate - Basic Totals	788,681,568	766,064,112	772,511,414	453,508,099	22,617,456		
Real Estate-Post							
Colony Capital	40,000,000	38,682,764	14,064,894	26,218,128	1,317,236	1 99	5.25
Westmark Realty Advisors							
Westmark Coml MTG Fund II	13,500,000	13,397,500	11,220,133	7,025,291	102,500	9.49	4.93
Westmark Coml MTG Fund III	21,500,000	21,275,052	20,287,223	5,581,014	224,948	7.65	3 58
Westmark Coml MTG Fund IV	14,300,000	14,300,000	13,741,098	1,801,298	0	6.06	2 50
Westmark Coml MTG Fund V	21,000,000	14,612,090	14,617,867	432,223	6,387,910	N/A	0 87
Real Estate - Post Totals	110,300,000	102,267,406	73,931,215	41,057,955	8,032,594		
Real Estate Totals	898,981,568	868,331,518	846,442,629	494,566,053	30,650,050		

State of Minnesota
- Alternative Investments -

As of June 30, 2000

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Venture Capital-Basic							
Allied	5,000,000	5,000,000	211,774	6,059,302	0	3 58	14 79
Bank Fund							
Banc Fund III	20,000,000	20,000,000	16,493,621	23,288,412	0	14 76	7 68
Banc Fund IV	25,000,000	25,000,000	21,641,300	5,747,439	0	3 35	4 37
Banc Fund V	48,000,000	24,000,000	19,189,368	15,419	24,000,000	-19 56	1 96
Blackstone Capital Partners II	50,000,000	49,068,876	31,954,388	59,282,609	931,124	41 58	6 60
Brinson Partners							
Brinson Partners I	5,000,000	5,000,000	816,313	8,732,616	0	11 29	12 14
Brinson Partners II	20,000,000	19,379,998	4,715,322	36,011,227	620,002	26 74	9 59
Churchill Capital Partners II	20,000,000	20,000,000	6,434,016	22,702,921	0	13 37	7 67
Contrarian Capital Fund II L.P.	37,000,000	37,000,000	35,171,761	12,446	0	-2 34	3 08
Coral Partners							
Coral Partners Fund I	7,011,923	7,011,923	4,653,788	6,111,237	0	5 72	14 03
Coral Partners Fund II	10,000,000	8,069,315	10,448,719	28,272,175	1,930,685	26 20	9 93
Coral Partners Fund IV	15,000,000	15,000,000	13,323,431	8,170,706	0	13 27	5 94
Coral Partners Fund V	15,000,000	8,285,815	9,704,555	152,481	6,714,185	18 70	2 04
Crescendo							
Crescendo II	15,000,000	14,994,773	33,293,686	2,851,552	5,227	52 53	3 49
Crescendo III	25,000,000	23,750,000	31,872,174	2,641,808	1,250,000	60 33	1 65
Crescendo IV	100,000,000	10,041,174	10,041,174	0	89,958,826	N/A	0 31
DSV Partners IV	10,000,000	10,000,000	3,560,252	24,640,722	0	9 44	15 22
First Century Partners III	10,000,000	10,000,000	3,243,628	14,103,791	0	9 19	15 54
Fox Paine Capital							
Fox Paine Fund I	40,000,000	34,380,654	39,779,998	0	5,619,346	15 03	2 19
Fox Paine Fund II	50,000,000	0	0	0	50,000,000	N/A	0 00
Golder,Thoma, Cressey, Rauner							
Golder, Thoma, Cressey Fund III	14,000,000	14,000,000	4,298,605	55,122,922	0	30 36	12 67
Golder, Thoma, Cressey & Rauner Fund IV	20,000,000	19,750,000	11,569,855	30,614,442	250,000	27 82	6 41
Golder, Thoma, Cressey & Rauner Fund V	30,000,000	30,000,000	33,331,217	8,285,224	0	15 77	4 00
GTCR Golder Rauner							
GTCR - Golder Rauner Fund VI	90,000,000	71,137,778	88,185,649	21,549,338	18,862,222	61 48	2 00
GTCR - Golder Rauner Fund VII	175,000,000	13,140,103	12,662,105	0	161,859,897	N/A	0 41
Hellman & Friedman							
Hellman & Friedman Capital Partners III	40,000,000	32,432,434	29,745,434	45,362,626	7,567,566	43 59	5 78
Hellman & Friedman Capital Partners IV	150,000,000	32,031,564	14,080,501	17,690,880	117,968,436	N/A	0 50
Kohlberg Kravis Roberts							
KKR 1986 Fund	18,365,339	18,365,339	15,064,726	202,769,623	0	28 32	14 21
KKR 1987 Fund	145,950,000	145,373,652	235,355,047	255,054,767	576,348	12 35	12 60
KKR 1993 Fund	150,000,000	150,000,000	71,476,376	260,983,040	0	21 59	6 53
KKR 1996 Fund	200,000,000	163,103,675	153,169,283	48,648,470	36,896,325	13 85	3 83
GHJM Marathon Fund IV	40,000,000	6,670,000	6,537,200	0	33,330,000	-18 68	1 21
Piper Jaffrey Healthcare							
Piper Jaffray Healthcare Fund II	10,000,000	8,700,000	7,507,205	658,415	1,300,000	-3 29	3 33
Piper Jaffray Healthcare Fund III	20,000,000	9,031,115	8,665,228	197,173	10,968,885	-4 87	1 44
RCBA Strategic Partners	50,000,000	40,566,981	35,428,283	9,150,072	9,433,019	9 12	1 52
Summit Partners							
Summit Ventures II, L P	30,000,000	28,500,000	2,140,486	70,684,540	1,500,000	28 77	12 13
Summit Ventures V, L P	25,000,000	15,625,000	18,726,296	1,204,772	9,375,000	20 93	2 25
T Rowe Price	394,950,072	394,950,072	51,464,695	366,548,618	0	13 12	N/A
Thoma Cressey VI	35,000,000	25,900,000	25,208,341	0	9,100,000	-4 89	1 86
Vestar Capital Partners IV, L.P.	55,000,000	2,364,525	2,521,199	4,281	52,635,475	N/A	0 54
Warburg Pincus							
Warburg, Pincus Equity Partners	100,000,000	48,000,000	46,714,772	5 200,013	52,000,000	8 66	2 01
Warburg, Pincus Ventures	50,000,000	50,000,000	100,433,406	132 199,410	0	56 52	5 50
Welsh, Carson, Anderson & Stowe VIII							
WCAS Fund VIII	100,000,000	89,000,000	120,847,404	0	11,000,000	43 81	1 94
WCAS Fund IX	125,000,000	0	0	0	125,000,000	N/A	0 00
Zell/ Chilmark L.P.	30,000,000	30,000,000	193,735	76 414,975	0	17 69	9 97
Funds in Liquidation (Matrix II, Matrix III, Summit I)	30,000,000	30,000,000	0	139,963,132	0	N/A	N/A
Venture Capital - Basic Totals	2,655,277,334	1,814,624,767	1,391,876,317	1,997 103,593	840,652,567		

State of Minnesota
- Alternative Investments -

As of June 30, 2000

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Venture Capital-Post							
Citicorp Mezzanine Partners							
Citicorp Mezzanine II	40,000,000	40,000,000	31,993,009	20,874,348	0	15 35	5 50
Citicorp Mezzanine III	100,000,000	9,678,962	9,793,784	0	90,321,038	N/A	0 66
DLJ Investment Partners II	50,000,000	17,675,976	17,351,805	53,269	32,324,024	N/A	0.50
GS Mezzanine Partners II	100,000,000	9,000,000	8,998,119	0	91,000,000	N/A	0.33
GTCR Capital Partners	80,000,000	30,800,000	30,535,212	1,154,665	49,200,000	N/A	0.63
KB Mezzanine Partners Fund II	25,000,000	24,999,999	21,479,853	3,729,021	1	0.00	4 75
Summit Partners							
Summit Sub Debt Fund I	20,000,000	18,000,000	2,449,711	28,728,382	2,000,000	30 93	6.25
Summit Sub Debt Fund II	45,000,000	22,500,000	35,423,747	18,501,523	22,500,000	58 75	2.91
T. Rowe Price	16,823,656	16,823,656	876,362	16,752,554	0	12 49	N/A
TCW/Crescent Mezzanine							
TCW Crescent Mezzanine Partner	40,000,000	39,488,566	28,199,010	18,608,031	511,434	8 26	4 25
TCW Crescent Mezzanine Partner II	100,000,000	65,130,045	65,373,069	5,924,576	34,869,955	11 38	1 60
William Blair Mezzanine III	60,000,000	13,152,000	13,152,000	0	46,848,000	N/A	0.50
Windjammer Mezzanine & Equity Fund II	66,708,861	0	0	0	66,708,861	N/A	0 25
Venture Capital - Post Totals	743,532,517	307,249,204	265,625,680	114,326,369	436,283,313		
Venture Capital Totals	3,398,809,851	2,121,873,971	1,657,501,997	2,111,429,962	1,276,935,880		

State of Minnesota
- Alternative Investments -

As of June 30, 2000

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Resource-Basic							
Apache Corp	30,000,000	30,000,000	2,812,800	43,331,626	0	10.82	13.50
First Reserve							
First Reserve II	7,000,000	7,000,000	289,038	14,061,295	0	5.85	17.40
First Reserve V	16,800,000	16,800,000	7,709,082	44,304,106	0	16.71	10.17
First Reserve VII	40,000,000	40,000,000	45,114,004	7,411,411	0	14.57	4.00
First Reserve VIII	100,000,000	52,971,517	59,690,963	0	47,028,483	12.19	2.17
Morgan Oil & Gas	15,000,000	15,000,000	3,720,608	20,906,987	0	6.83	11.85
Simmons							
Simmons - SCF Fund II	17,000,000	14,847,529	24,785,949	6,662,864	2,152,471	11.47	8.90
Simmons - SCF Fund III	25,000,000	19,612,587	28,889,110	10,226,217	5,387,414	20.25	5.00
Simmons - SCF Fund IV	50,000,000	17,405,000	19,161,571	0	32,595,000	0.96	2.25
T. Rowe Price	608,962	608,962	415,275	311,387	0	32.46	N/A
Fund in Liquidation (First Reserve I)	15,000,000	15,000,000	0	14,110,399	0	-0.42	18.75
Resource - Basic Totals	316,408,962	229,245,594	192,588,400	161,326,292	87,163,368		
Resource-Post							
Merit Energy Partners							
Merit Energy Partners B L P	24,000,000	22,549,305	24,131,422	3,034,142	1,450,695	9.38	4.00
Merit Energy Partners C	50,000,000	23,468,848	24,646,637	684,814	26,531,152	7.90	1.67
Resource - Post Totals	74,000,000	46,018,153	48,778,059	3,718,956	27,981,847		
Resource Totals	390,408,962	275,263,747	241,366,459	165,045,248	115,145,215		

ATTACHMENT C

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	William Blair Capital Partners VII, L.P. ("WBCP VII" or the "Fund")
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$400 – 500 million
Fund Manager:	William Blair Capital Management VII, L.L.C.
Manager Contact:	Bob Blank William Blair Capital Partners 222 W. Adams Street, Ste. 1300 Chicago, IL 60606 phone: (312) 364-8090 fax: (312) 236-1042 E-mail: rdb@wmblair.com

II. Organization and Staff

WBCP VII represents the seventh private equity fund established by William Blair & Company, L.L.C. ("William Blair"), a Chicago-based financial services firm offering investment banking, equity research, institutional and private brokerage, asset management and private capital to institutional, individual and issuing clients. William Blair Capital Partners ("WBCP") has raised and invested six previous private equity funds over the past 18 years which have combined committed capital of $670 million.

William Blair is a full service investment banking concern headquartered in Chicago, Illinois, with more than 900 employees. The firm has branch offices in San Francisco, New York, Hartford, London, Zurich, Tokyo, and Vaduz, Liechtenstein

All investment decisions will be made exclusively by WBCP's 13-member investment committee.

III. Investment Strategy

Consistent with past practice, the General Partner will continue to adhere to its successful investment philosophy which emphasizes proactive deal sourcing, analysis and active investment management. WBCP VII will seek to generate long-term capital gains for its limited partners. WBCP VII will seek investments in a broad spectrum of private companies at various stages of development. The following profiles typify WBCP's portfolio companies.

Early Growth: Industries of focus for WBCP VII's early stage growth investments will be business and communications technology (including telecommunications) and healthcare. WBCP VII does not intend to make seed or start-up investments.

Later Growth: This category represents the majority of the venture capital investments made by the fund managers over the last eighteen years. Later growth companies encompass a broad range of industries. These companies generally have complete management teams, are in growth industries, are market leaders or have a compelling advantage to take market share, and have modest or no leverage. This category also includes transactions in which a founder's stock is purchased.

Leveraged Buyouts and Recapitalizations: WBCP VII will seek to lead investments in mature, but growing businesses with EBITDA of at least $5 million. Returns will be generated by growth in operating earnings, strategic acquisitions, use of leverage and, in some cases, valuation multiple expansion.

Special Situations: Opportunities may arise or be developed in new investment areas. Past special situation investments include industry consolidations and investments as special limited partners in special purpose funds. Prospective special situation investment areas may also include private placements in public companies and creative off-balance sheet financing for entrepreneurial affiliates of public companies.

WBCP VII will target several industry segments which are experiencing long term growth supported by identifiable structural change. These industry segments are: business and communications technology, healthcare products and services, and business and consumer services. Over the past eighteen years, WBCP's managers have concentrated on these industry segments and developed substantial investment experience and strong investment results.

The Fund may not make cash investments in (a) any issuer, the board of directors of which opposes such investment, (b) any company or issuer as to which any existing William Blair fund has made an investment, except with the approval of the Advisory Board, (c) any partnership or other collective investment vehicle pursuant to which the Fund is subject to a management fee or carried interest, except to the extent the General Partner reduces the management fee or carried interest with respect to such investment in an amount or percentage equal to the amount or percentage of the management fee or carried interest to which the Fund is subject, (d) the securities of portfolio companies organized outside of the United States which aggregate more than 20% of the Fund's aggregate Commitments, (e) the securities of any one portfolio company (including guarantees of such portfolio company's obligations) which aggregate more than 15% of the Partners' aggregate Commitments, (f) publicly traded securities which aggregate more than 15% of the Fund's aggregate Commitments, (g) any entity whose primary purpose is the development of or speculation in real estate and (h) any entity whose primary purpose is the exploration for, or development of, oil or natural gas reserves. In addition, investments in any company organized outside the United States are subject to certain other restrictions set forth in the Agreement.

IV. Investment Performance

Previous fund performance as of June 30, 2000 for William Blair Capital Partners and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
WBCP VI	1998	$269.7 million	--	13.5%
WBCP V	1995	$182.1 million	--	39.4%
WBLCF	1988	$76.5 million	--	15.5%
Blair Investments	1984-1988	$10.1 million	--	75.0%
WBVP III	1988	$82.7 million	--	10.9%
WBVP II	1984	$28.2 million	--	14.6%
WBVP I	1982	$15.7 million	--	13.2%

William Blair currently manages a $60 million investment for the SBI in William Blair Mezzanine Capital Partners III, a mezzanine fund formed in 1999.

V. General Partner's Investment

The General Partner will commit approximately $35 million.

VI. Takedown Schedule

Each Partner's commitment will be payable when called by the General Partner upon at least 15 days notice to meet anticipated Fund expenses and to make investments.

VII. Fees

During the first six years after the Effective Date (the earlier of: (i) the date set forth in a written notice to the Limited Partners that the General Partner has determined that it will begin identifying and investigating new investment opportunities for the Fund or (ii) the one-year anniversary of the date of the Agreement), the Fund will pay the General Partner in advance on a quarterly basis an annual management fee equal to 2.00% of the aggregate Commitments (including Commitments accepted after the Initial Closing Date). During the seventh year after the Effective Date, the management fee will be 90% of the amount computed as set forth above; and during each succeeding year, the management fee will decline by an additional ten percentage points (i.e., 80% in the eighth year, 70% in the ninth year, etc.). Notwithstanding the foregoing, at such time as Unreturned Capital (i.e. capital contributions which have not been returned through distributions or permanently written down) is less than 40% of the aggregate capital contributions made since the inception of the Fund, the management fee shall be equal to 2.00% of Unreturned Capital as of the next succeeding anniversary of the Effective Date thereafter and as of each anniversary of the Effective Date thereafter.

All break-up fees and litigation proceeds from transactions not consummated, as well as commitment fees, closing fees, management fees and directors' fees from transactions consummated, will normally be applied to reimburse unreimbursed expenses. The management fee payable by the Fund for the next succeeding quarter will be reduced by such fees and/or proceeds less any amounts received by the General Partner to reimburse the General Partner for unreimbursed expenses otherwise allocable to the Fund. In the event that the amount of such net fees and/or proceeds in any quarter exceeds the management fee for the next succeeding quarter, such excess amount will reduce the management fee in each of the three succeeding quarters. All remaining fees and/or proceeds will be retained by the General Partner.

VIII. Allocations and Distributions

In general, "net profits" of the Fund (i.e., the excess of current income and realized investment gains over realized investment losses and Fund expenses) will be allocated in the following order: (a) 100% to the Partners pro rata according to their respective Commitments, but only to the extent that net losses previously have been allocated to the Partners pro rata according to their respective Commitments pursuant to clause (d) of the next paragraph; (b) 100% to the Partners pro rata according to their unallocated Preferred Returns (7%); (c) 100% to the General Partner until net profit allocated to the General Partner less net losses allocated to the General Partner pursuant to clause (b) of the following paragraph equal 20% of net profit allocated pursuant to clause (b) above and this clause (c) less net losses allocated pursuant to clauses (b) and (c) of the following paragraph and (d) 80% to the Partners pro rata according to their respective Commitments and 20% to the General Partner. Notwithstanding the foregoing, short-term investment income (e.g., Treasury bills, certificates of deposit, etc.) and organizational expenses will be allocated 100% to the Partners pro rata according to their respective Commitments.

In general, "net losses" of the Fund (i.e., the excess of realized investment losses and Fund expenses over current income and realized investment gains) will be allocated in the following order: (a) 80% to the Partners pro rata according to their respective Commitments and 20% to the General Partner, but only to the extent that net profits have previously been allocated to the Partners on an 80%-20% basis pursuant to clause (d) of the preceding paragraph; (b) 100% to the General Partner, but only to the extent that net profits previously have been allocated to the Partners pursuant to clause (c) of the preceding paragraph; (c) 100% to the Partners pro rata according to their respective allocated returns, but only to the extent that net profits have previously been allocated to the Partners pursuant to clause (b) of the preceding paragraph and (d) 100% to the Partners pro rata according to their respective Commitments. Notwithstanding the preceding sentence, if the foregoing allocation would result in a reduction of the General Partner's capital account below zero, any additional net losses (the "Excess Losses") will be allocated 100% to the Limited Partners pro rata according to their respective Commitments. Subsequent allocations of net profits will be made 100% to the Limited Partners until all Excess Losses have been recouped

IX. Investment Period and Term

The Fund term will be ten years from the Effective Date, subject to extension by the General Partner for up to three additional one year terms unless a majority of the Limited Partner interests object to any such extension.