MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
September 5, 2001

&

INVESTMENT ADVISORY
COUNCIL MEETING
September 4, 2001

AGENDA
STATE BOARD OF INVESTMENT MEETING
Wednesday, September 5, 2001
9:00 A.M. - Room 125
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of June 6, 2001 and June 29, 2001	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (April 1, 2001 – June 30, 2001)	A
B. Administrative Report	B
1. Reports on budget and travel.	
2. Litigation Update.	
3. Update on Tobacco Information.	
3. Consultant Review Committee (John Manahan)	C
4. Deferred Compensation Review Committee (John Manahan)	D
5. Reports from the Investment Advisory Council (Jan Yeomans)	
A. Stock and Bond Manager Committee	E
1. Review of manager performance.	
2. Update on semi-passive manager tracking error target.	
3. Review of Lincoln Capital Management.	
4. Recommendation to promote New Amsterdam Partners to the Domestic Equity Program.	
5. Recommendation to adopt the Lifetime Fish & Wildlife Trust Fund policy paper.	
B. Alternative Investment Committee	F
1. Review of current strategy.	
2. Review meetings with existing alternative investment managers.	

NOT OFFICIAL DRAFT

Minutes
State Board of Investment
June 6, 2001

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, June 6, 2001 in Room 125 State Capitol, St. Paul, Minnesota. Governor Jesse Ventura; State Auditor Judith H. Dutcher; State Treasurer Carol C. Johnson; Secretary of State Mary Kiffmeyer and Attorney General Mike Hatch were present. The minutes of the March 8, 2001 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, 2001 (Combined Funds 11.4% vs. inflation 2.7%), exceeded the median fund (48th percentile) and outperformed its composite index (Combined Funds 10.6% vs. Composite 10.1%) for the most recent five year period. He stated that the Basic Funds have exceeded its composite index (Basic Funds 11.2% vs. Composite 10.7%) over the last five years and reported that the Post Fund has outperformed its composite index over the last five years period (Post Fund 10.0% vs. Composite 9.4%).

Mr. Bicker reported that the Basic Fund's assets decreased 7.5% for the quarter ending March 31, 2001 due to negative net contributions and negative investment returns. He said that the asset mix was rebalanced April 1, 2001 and reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds –7.1% vs. Composite –7.5%) and for the year (Basic Funds –11.4% vs. Composite –12.5%).

Mr. Bicker reported that the market value of the Post Fund's assets decreased 8.2% for the quarter ending March 31, 2001. He said the Post Fund asset mix was also rebalanced and that the Post Fund outperformed its composite index for the quarter (Post Fund –7.1% vs. Composite –7.5%) and for the year (Post Fund –12.5% vs. Composite –13.7%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks –12.3% vs. Wilshire 5000 Investable –12.8%) and for the year (Domestic Stocks –24.4% vs. Wilshire 5000 Investable –25.3%). He said that the International Stock manager group underperformed its composite index for the quarter (International Stocks –13.6% vs. Int'l Composite –12.9%), but outperformed for the year (International Stocks –25.1% vs. Int'l Composite –27.0%) and over longer periods. Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 3.3% vs. Lehman Aggregate 3.0%) and for the year (Bonds 12.7% vs. Lehman Aggregate 12.5%). He concluded his report with the comment that as of March 31, 2001, the SBI was responsible for over $47 billion in assets.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel.

Mr. Bicker briefly reviewed the legislative activity of interest to the SBI as outlined in Attachment C of the meeting materials and noted that all of the SBI's legislative activity is awaiting final action.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of three active litigation cases. She stated that in the Mercury case, a final hearing will take place this summer and a final distribution of over $70 million should take place during fall 2001. She reported that the McKesson case has been assigned to a new judge and that motions to dismiss will be scheduled late this summer. Ms. Eller stated that the SBI was just appointed lead plaintiff in a securities case against Broadcom.

Mr. Bicker stated that staff is requesting that the Board re-authorize the Proxy Voting Committee. Ms. Dutcher moved approval of the resolution, as stated in Attachment D of Tab B of the meeting materials. Ms. Johnson seconded the motion. The motion passed. (See **Attachment A**).

Mr. Bicker said that staff is recommending that a Review Committee be formed to issue a Request For Proposal (RFP) for consulting services. He noted that staff would like to proceed with this process slightly earlier than usual to allow transition time in case of a change in consultants and the upcoming SBI move to their new location. Ms. Johnson moved approval of the recommendation as stated in the Executive Director's Administrative Report, which reads: "The Executive Director recommends that the SBI authorize a Review Committee to evaluate the SBI's needs for consultant services through the RFP process. The Review Committee should be comprised of a designee of each Board member and at least two members of the IAC. The Review Committee should report its recommendations to the SBI by September 2001." Ms. Dutcher seconded the motion. The motion passed.

Mr. Bicker reported that staff is also recommending that an RFP be issued for master custodian services. Ms. Dutcher moved approval of the recommendation, as stated in the Executive Director's Administrative Report, which reads: "The Executive Director recommends that the SBI authorize a Review Committee to evaluate the SBI's needs for custodial services through the RFP process. The Review Committee should be comprised of a designee of each Board member and at least two members of the IAC. The Review Committee should report its recommendations to the SBI by June 2002." Ms. Kiffmeyer seconded the motion. The motion passed.

Mr. Bicker stated that the staff is recommending that the Board allow the SBI to negotiate any necessary amendments to the contracts for the Minnesota College Savings Plan to comply with recent IRS and legislative changes in law. Ms. Kiffmeyer moved approval of the recommendation, as stated in the Executive Director's Administrative Report, which reads: "Now, therefore, be it resolved that the Board authorize the executive director, with assistance from legal counsel, to negotiate and execute the contract and any necessary amendments to the contract with TIAA-CREF Tuition Financing, Inc., for the College Savings Plan." Ms. Johnson seconded the motion. The motion passed.

Mr. Bicker said that Tab B of the meeting materials also included the quarterly update on tobacco information.

SBI Administrative Committee Report

Ms. Johnson referred members to Tab C of the meeting materials and stated that the Committee is making several recommendations to the Board. She stated that the Committee is recommending approval of the Executive Director's Proposed Workplan for FY02 and she moved approval of the Committee's recommendation. Ms. Dutcher seconded the motion and suggested that all the recommendations be presented under one motion. Members agreed. Ms. Johnson continued by stating that the Committee is recommending approval of the SBI's FY02 Administrative Budget Plan and the Continuing Fiduciary Education Plan. She said that item 4 in the report is an information item that does not require Board approval regarding updates and changes made to the International Country Investing Guidelines.

Ms. Johnson stated that the Committee is also recommending a process to be used for the Executive Director's performance evaluation and a salary recommendation for the Executive Director. All the Committee's recommendations, as stated in the Committee Report read as follows: "The Committee recommends that the SBI approve the FY02 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY02.

The Committee recommends that the SBI approve the FY02 Administrative Budget Plan and that the Executive Director has the flexibility to reallocate funds between budget categories in the event budgeting needs change during the year.

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 FY01 performance evaluation: The evaluation will be completed prior to the September 2001 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY01. The SBI deputies/designees will develop an appropriate evaluation form for use by each member, which will reflect the categories in the Executive Director's position description and workplan. As the Chair of the Board, the Governor's representative (Department of Finance), will coordinate distribution and collection of the evaluation forms and will forward the completed forms to the Executive Director. Board members are encouraged to meet individually with the Executive Director to review their own evaluation.

The SBI Administrative Committee recommends that the SBI recommend to the Legislative Coordinating Commission (LCC) that the salary rate for the SBI Executive Director be 95% of the Governor's salary effective August 1, 2001. Further, the Committee recommends that the SBI delegate authority to the Chair of the SBI Administrative Committee to take all administrative steps necessary to implement this recommendation. This includes, but is not limited to, consulting with the Commissioners of Employee Relations, Finance and Administration as required in the law and transmitting the recommendation of the SBI to the LCC." The motion passed.

Stock and Bond Manager Committee Report

Ms. Yeomans referred members to Tab D of the meeting materials and stated that the Committee had reviewed manager performance for the quarter. She said the Committee reviewed the managers' custom benchmarks and that no changes are needed at this time.

Ms. Yeomans stated that the Committee is recommending the termination of CIC Asset Management, due to the equity manager's prolonged underperformance. Mr. Hatch moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI terminate CIC Asset Management from the Emerging Manager Program." Ms. Dutcher seconded the motion. The motion passed.

Ms. Yeomans said that the Committee is also recommending the termination of Standish, Ayer & Wood, a fixed income manager, due to both poor performance and organizational issues. Mr. Hatch moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI terminate Standish, Ayer & Wood from the Fixed Income Program." Ms. Johnson seconded the motion. The motion passed.

Ms. Yeomans reported that the Committee is recommending that the SBI offer a mid-cap investment option in the State's 457 Deferred Compensation Plan. Ms. Dutcher questioned the need to offer another investment option and noted her concerns about the costs and education of participants related to offering another investment option. Mr. Bicker stated that the costs are minimal and that staff does not intend to continue to expand the investment options on an on-going basis. He noted that participants who want additional investment options may have them through the "window option" where they can choose from approximately 400 different mutual funds. Ms. Yeomans stated that some studies have shown that offering eight or fewer investment options is optimum. Ms. Kiffmeyer stated that she believes a mid-cap option is an appropriate addition.

In response to questions from Mr. Hatch, Mr. Bicker stated that the state retirement system is responsible for the education and record keeping aspects of the plan and that the SBI is responsible for the investment options. In response to a comment from Mr. Hatch, Mr. Bicker said that the plan went through substantial changes in 1999 to eliminate concerns about the service providers and to provide additional cost savings to participants. He noted that a mid-cap option had previously been offered and that this change would allow participants to invest in an option that had been removed in the restructuring. Ms. Johnson moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Deferred Compensation Review Committee, in conjunction with MSRS, to establish a process for evaluating the addition of a mid-cap mutual fund and to determine the appropriate time for the option to be added to the State Deferred Compensation Plan." Ms. Dutcher seconded the motion. The motion passed.

Ms. Yeomans stated that the Committee reviewed the current maturity structure of the Invested Treasurer's Cash Fund. She said that based on the 2001 economic forecast and anticipated cash flows, the Committee is recommending that the fund maintain the current $1.5 billion allocation in one to three year maturity investments. In response to a question from Ms. Dutcher, Ms. Yeomans stated that the yield curve beyond 3 years does not produce as great a return as it does over shorter periods but the risk does increase over longer periods. 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 which states that the SBI continue to have an allocation of $1.5 billion of the Invested Treasurer's Cash Pool (ITC) invested in one to three year maturity investments." Governor Ventura seconded the motion. The motion passed.

Ms. Yeomans stated that the Committee had reviewed the investment objectives and asset allocations of the endowment funds and concluded that there have been no changes that require altering the management of the funds at this time. Ms. Kiffmeyer moved approval of the Committee's recommendation; as stated in the Committee Report, which reads: "The Committee recommends that the SBI adopt the attached policy paper which reaffirms the current investment objectives and asset allocation of each of the Trust Funds." Governor Ventura seconds the motion. The motion passed.

Alternative Investment Committee Report

Ms. Yeomans referred members to Tab E of the meeting materials and stated that the Committee is recommending two alternative investments for the Post Retirement Fund this quarter. She said that the first recommendation is with a real estate manager, Heller Real Estate Partners. Ms. Johnson moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $75 million or 20%, whichever is less, in Heller Real Estate Partners II, L.P. This commitment will be allocated to the Post Retirement Fund. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Heller Real Estate, Inc. upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Heller Real Estate, Inc. or reduction or termination of the commitment." Governor Ventura seconded the motion. The motion passed.

Ms. Yeomans reported that the second recommendation is to invest with a new private equity manager, Levine Leichtman Capital Partners. Ms.Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $75 million or 20%, whichever is less, in Levine Leichtman Capital Partners III, L.P. This commitment will be allocated to the Post Retirement Fund. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Levine Leichtman Capital Partners upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Levine Leichtman Capital Partners or reduction or termination of the commitment." Governor Ventura seconded the motion. The motion passed.

The meeting adjourned at 9:40 A.M.

Respectfully submitted,

Howard J. Bicker

Howard J. Bicker
Executive Director

RESOLUTION OF THE
MINNESOTA BOARD OF INVESTMENT
CONCERNING PROXY VOTING

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

WHEREAS, the SBI has previously established a Proxy Committee:

NOW THEREFORE, BE IT RESOLVED THAT:

1. To advise and assist the SBI in the implementation of proxy voting guidelines previously adopted by the Board the SBI hereby authorizes and reaffirms the establishment of the SBI Proxy Committee composed of a representative selected by each member of the SBI to be chaired by the designee of the Governor and convened as necessary in accord with the Guidelines.

2. The SBI further authorizes the SBI Proxy Committee to review the Guidelines periodically and report to the SBI as necessary.

3. The SBI further directs its staff to advise and assist the Proxy Committee in the implementation of this resolution and directs its Executive Director to obtain such consulting and reporting services as may be necessary.

4. This resolution shall take effect immediately.

Adopted this 6th day
of June, 2001

Governor Jesse Ventura
Chair, Minnesota State
Board of Investment

NOT OFFICIAL
DRAFT

Minutes
State Board of Investment
June 29, 2001

The State Board of Investment (SBI) held a special meeting at 2:00 P.M. Friday, June 29, 2001 in Room 125 State Capitol, St. Paul, Minnesota. Governor Jesse Ventura; State Auditor Judith H. Dutcher; State Treasurer Carol C. Johnson; and Secretary of State, Mary Kiffmeyer was present.

Governor Ventura called the meeting to order. Mr. Bicker stated that the purpose of the special meeting is to consider the approval of an inter-agency agreement between the SBI and the three statewide retirement systems which would allow the SBI to continue its operations and meet its fiduciary responsibilities in the event State government should shut down. Governor Ventura made a motion to approve the agreement. Ms. Kiffmeyer (See **Attachment A**) seconded the motion. The motion passed.

The meeting adjourned at 2:03 P.M.

Respectfully submitted,

Howard J. Bicker
Executive Director

STATE OF MINNESOTA

INTERAGENCY AGREEMENT

State Accounting Information:

Agency Minnesota State Board of Investment	Fiscal Year 2002	Vendor Number
Total Amount of Contract		Amount of Contract First FY:
Commodity Code:	Commodity Code:	Commodity Code.
Object Code:	Object Code.	Object Code
Amount.	Amount	Amount.

Accounting Distribution 1:	Accounting Distribution 2:	Accounting Distribution 3:
Fund 100	Fund.	Fund
Appr. OIB	Appr.	Appr
Org/Sub 0010	Org/Sub:	Org/Sub
Rept Catg	Rept Catg	Rept Catg
Amount	Amount.	Amount.

Processing Information: (Some entries may not apply.) Begin Date: _____
End Date: _____

Requisition: _____
Number/Date/Entry Initials

Solicitation: _____
Number/Date/Entry Initials

Contract: _____
Number/Date/Entry Initials

Order: _____
Number/Date/Signature
[Individual signing certifies that funds have been encumbered as required by Minn. Stat. §§ 16A.15 and 16C.05.]

WHEREAS, the Public Employees Retirement Association, by and through its Board of Trustees (PERA), the Teachers Retirement Association by and through its Board of Trustees (TRA); and the Minnesota State Retirement System, by and through its Board of Directors (MSRS) (hereinafter collectively referred to as "REQUESTING AGENCY") is empowered to enter into interagency agreements pursuant to Minn. Stat. § 471.59, subd. 10; and

WHEREAS, the State Board of Investment (SBI), (hereinafter "PROVIDING AGENCY") is empowered to enter into interagency agreements pursuant to Minn Stat. § 471.59, subd. 10, and

WHEREAS, in the discharge of their respective duties, the REQUESTING AGENCY and the PROVIDING AGENCY owe a fiduciary duty and are subject to the standard of care as set forth in Minn. Stat ch. 356(a) and Minn Stat § 11A 09, and

WHEREAS, the Public Employees Retirement Association, the Teachers Retirement Association and the Minnesota State Retirement System each have open and standing appropriations to pay the expenses of the system, and

WHEREAS, pursuant to Minn Stat § 11A 07, subd 5 the Executive Director of the PROVIDING AGENCY is directed to apportion the actual expenses of the PROVIDING AGENCY on an accrual basis among the several funds whose assets are invested by the SBI on the weighted averaged assets under management during each quarter which is to be calculated, billed and paid on a quarterly basis in accordance with procedures established by the Commissioner of Finance for interagency transfers and which amounts necessary to pay those charges are appropriated from the investment earnings of each fund,

WHEREAS, in the absence of a legislative appropriation from the General Fund to the State Board of Investment from the General Fund, the PROVIDING AGENCY cannot continue to provide investment management services to the REQUESTING AGENCY; and

WHEREAS, REQUESTING AGENCY is desirous to have the PROVIDING AGENCY continue to provide necessary investment management services without interruption to ensure continued operation consistent with its statutory fiduciary duty and standard of care, and

NOW, THEREFORE, it is agreed

I A PROVIDING AGENCY's DUTIES (Attach additional page if necessary which is incorporated by reference and made a part of this agreement),
PROVIDING AGENCY shall

Plan, direct, coordinate and execute all administrative investment functions *inter alia* as set forth in chapter 3A, chapter 11A, chapter 352, chapter 352B, chapter 352C, chapter 352D, chapter 352F, chapter 353, chapter 353A, chapter 353B, chapter 353D, chapter 353E, chapter 354, chapter 354B, chapter 354D, chapter 356, chapter 356A and chapter 490 Execute all administrative responsibilities and provide such information as is required by PROVIDING AGENCY in conformity with Minnesota statutes and of chapter 356A The PROVIDING AGENCY will keep detailed records and accounts and provide the REQUESTING AGENCY with a report of all charges provided under this AGREEMENT

B REQUESTING AGENCY's DUTIES: (Attach additional page if necessary which is incorporated by reference and made a part of this agreement),
REQUESTING AGENCY shall

Provide all information needed by and execute all administrative responsibilities as needed for the PROVIDING AGENCY to fulfill its duties pursuant to this AGREEMENT.

II CONSIDERATION AND TERMS OF PAYMENT

A CONSIDERATION The consideration for all services performed by the PROVIDING AGENCY pursuant to this Agreement shall be paid by the REQUESTING AGENCY pursuant to this Agreement, shall be no more than $214,917 00 per month and shall be paid as follows

The Executive Director of the SBI shall apportion actual expenses incurred by the SBI on an accrual basis among each of the several funds collectively referred to as the REQUESTING AGENCY based on the weighted average assets under management. The charge to each fund will be calculated, billed and paid or transferred to the Department of Finance, Administration and Employee Relations as necessary to meet payroll and other administrative obligations of the State Board of Investment until such time as legislative appropriations from the General Fund are made to the State Board of Investment for such purposes. The amounts necessary to pay the charges to the REQUESTING AGENCY are appropriated from the investment earnings of each fund payable from the accounts maintained for the State Board of Investment by the custodian banks for the State Board of Investment. At such time as the legislative General Fund appropriations to the State Board of Investment become available to the State Board of Investment for expenditure, the amount of charges, if any, advanced to the SBI to cover expenses of the State Board of Investment shall be credited to the General Fund as nondedicated receipts.

B. TERMS OF PAYMENT: Payment shall be made by the REQUESTING AGENCY promptly after the PROVIDING AGENCY has presented invoices to REQUESTING AGENCY.

III. TERM OF AGREEMENT: This Agreement shall be effective on July 1, 2001, **or upon the date that the final required signature is obtained by the REQUESTING AGENCY, pursuant to Minn. Stat. § 16C.05, subd. 2, whichever occurs later**, and shall remain in effect until final enactment of the Fiscal Year 2002-2003 Biennial Budget or until all obligations set forth in this Contract have been satisfactorily fulfilled or the Contract has been canceled, whichever occurs first.

IV. CANCELLATION: This Contract may be canceled by the REQUESTING AGENCY or PROVIDING AGENCY at any time, with or without cause, upon two (2) business days' written notice to the other party. In the event of such a cancellation, the PROVIDING AGENCY shall be entitled to payment, determined on a pro rata basis, for work or services satisfactorily performed.

V. AUTHORIZED REPRESENTATIVE: The REQUESTING AGENCY's Authorized Representatives for the purposes of administration of this Agreement are the Executive Directors of PERA, TRA, and MSRS. The PROVIDING AGENCY's Authorized Representative for the purposes of administration of this Agreement is the Executive Director of the State Board of Investment. Each Authorized Representative shall have final authority for acceptance of services of the other party and shall have responsibility to ensure that all payments due to the other party are made pursuant to the terms of this Agreement.

VI. ASSIGNMENT: Neither the PROVIDING AGENCY nor the REQUESTING AGENCY shall assign nor transfer any rights or obligations under this Agreement without prior written consent of the other party.

VII AMENDMENTS. Any amendments to this Agreement shall be in writing, and shall be executed by the parties who executed the original agreement or their successors in office.

IN WITNESS WHEREOF, the parties have caused this Contract to be duly executed intending to be bound thereby.

APPROVED

1. PROVIDING AGENCY:

Minnesota State Board of Investment By (authorized signature) Howard Bicker, Executive Director
Date

2. REQUESTING AGENCY:
Agency signatory certifies that funds have been encumbered as required by Minn. Stat. §§ 16A.15 and 16C.05.

Public Employees Retirement Association By (authorized signature). Mary Most Vanek, Executive Director
Date 6/29/01

Minnesota State Retirement System By (authorized signature) David Bergstrom, Executive Director
Date 6/29/01

Teachers Retirement Association By (authorized signature) Gary Austin, Executive Director
Date

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AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Tuesday, September 4, 2001
2:00 P.M. - SBI Conference Room
Room 10, Capitol Professional Office Building
590 Park Street, St. Paul, MN

	TAB
1. Approval of Minutes of June 5, 2001	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (April 1, 2001 – June 30, 2001)	**A**
B. Administrative Report	**B**
1. Reports on budget and travel.	
2. Litigation Update.	
3. Update on Tobacco Information.	
3. Consultant Review Committee	**C**
4. Deferred Compensation Review Committee	**D**
5. Reports from the Investment Advisory Council	
A. Stock and Bond Manager Committee (J. Bohan)	**E**
1. Review of manager performance.	
2. Update on semi-passive manager tracking error target.	
3. Review of Lincoln Capital Management.	
4. Recommendation to promote New Amsterdam Partners to the Domestic Equity Program.	
5. Recommendation to adopt the Lifetime Fish & Wildlife Trust Fund policy paper.	
B. Alternative Investment Committee (M. McDonald)	**F**
1. Review of current strategy.	
2. Review meetings with existing alternative investment managers.	

NOT OFFICIAL DRAFT

Minutes
Investment Advisory Council
June 5, 2001

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

Ms. Yeomans called the meeting to order and the minutes of the March 6, 2001 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, 2001 (Combined Funds 11.4% vs. Inflation 2.7%), exceeded the median fund (48th percentile) and outperformed its composite index (Combined Funds 10.6% vs. Composite 10.1%) for the most recent five year period. He stated that the Basic Funds have exceeded its composite index (Basic Funds 11.2% vs. Composite 10.7%) over the last five years and reported that the Post Fund had outperformed its composite index over the last five years period (Post Fund 10.0% vs. Composite 9.4%).

Mr. Bicker reported that the Basic Funds' assets decreased 7.5% for the quarter ending March 31, 2001 due to negative net contributions and negative investment returns. He said that the asset mix has been rebalanced and reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds –7.1% vs. Composite –7.5%) and for the year (Basic Funds –11.4% vs. Composite –12.5%).

Mr. Bicker reported that the market value of the Post Fund's assets decreased 8.2% for the quarter ending March 31, 2001. He said the Post Fund asset mix was also rebalanced and that the Post Fund outperformed its composite index for the quarter (Post Fund –7.1% vs. Composite –7.5%) and for the year (Post Fund –12.5% vs. Composite –13.7%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks –12.3% vs. Wilshire 5000 Investable –12.8%) and for the year (Domestic Stocks –24.4% vs. Wilshire 5000 Investable–25.3%). He said that the International Stock manager group underperformed its composite index for the quarter (International Stocks –13.6% vs. Int'l Composite –12.9%), but outperformed for the year (International Stocks –25.1% vs. Int'l Composite –27.0%) and over longer periods. Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 3.3% vs. Lehman Aggregate 3.0%) and for the year (Bonds 12.7% vs. Lehman Aggregate 12.5%). He concluded his report with the comment that as of March 31, 2001, the SBI was responsible for over $47 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B of the meting materials for the quarterly updates on budget and travel. Mr. Bicker briefly summarized the legislative items affecting the SBI as outlined in Attachment C of Tab B and he noted that all actions are waiting final action by the legislature. He briefly discussed the potential problems that would arise if the legislature doesn't pass a budget bill and if the state government shuts down.

Mr. Bicker briefly discussed several items that would be recommended to the Board. He stated that staff will ask the Board to re-authorize the Proxy Voting Committee.

Mr Bicker said that staff is recommending that a Review Committee be formed to issue a Request for Proposal (RFP) for consulting services. He noted that staff would like to proceed with this process slightly earlier than usual to allow transition time in case of a change in consultants and to accommodate the upcoming SBI move to their new location.

Mr. Bicker reported that staff is also recommending that an RFP be issued for master custodian services. He noted that this process is also being conducted early for the same reasons as stated above.

Mr. Bicker stated that the staff is recommending that the Board allow the SBI to negotiate any necessary amendments to the contracts for the Minnesota College Savings Plan to comply with recent IRS and legislative changes in law.

Mr. Bicker said that Tab B of the meeting materials also included the quarterly update on tobacco information. He noted that the Board's divestment resolution will be fully implemented by September 2001.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of three active litigation cases. She stated that in the Mercury case a final hearing will take place this summer. She noted that there is still an appeal which is currently in mediation and that a final distribution should be distributed toward the end of 2001. She reported that the McKesson case has been assigned to a new judge and that motions to dismiss will be scheduled late this summer. Ms. Eller stated that the SBI was just appointed lead plaintiff in a securities case against Broadcom.

SBI Administrative Committee Report

Mr. Bicker referred members to Tab C of the meeting materials and stated that the Committee will make several recommendations to the Board. He stated that the Committee is recommending approval of the Executive Director's Proposed Workplan for FY02, the SBI's FY02 Administrative Budget Plan and the Continuing Fiduciary Education Plan. He said that item four in the report is an information item regarding updates and changes made to the International Country Investing Guidelines.

Mr. Bicker stated that the Committee is also recommending a process to be used for the Executive Director's performance evaluation and a salary recommendation for the Executive Director. Mr. Kiedrowski made a motion that the IAC concur with the Committee's salary recommendation for the Executive Director and he noted the salary discrepancy from what is typical in the general market place. Mr. McDonald seconded the motion. The motion passed.

Stock and Bond Manager Committee Report

Mr. Bohan referred members to Tab D of the meeting materials and he briefly reviewed the managers' performance. Mr. Bohan stated that the Committee is recommending the termination of CIC Asset Management due to the equity manager's prolonged underperformance. He said that the Committee is also recommending the termination of Standish, Ayer & Wood, a fixed income manager, due to poor performance. Mr. Bergstrom moved approval of the Committee's recommendation, as stated in the Committee report. Mr. Gudorf seconded the motion. The motion passed.

Mr. Bohan reported that the Committee is recommending that the SBI offer a mid-cap investment option in the State's 457 Deferred Compensation Plan. Mr. Bergstrom stated that a mid-cap option was offered prior to the restructuring that took place in 1999 and that participants are requesting that such an option be offered again. Mr. Bohan noted that if this recommendation is approved, a search would take place for a mid-cap manager. Mr. Bergstrom moved approval of the Committees' recommendation, as stated in the meeting materials. Ms. Vanek seconded the motion. The motion passed.

Mr. Bohan stated that the Committee reviewed the current maturity structure of the Invested Treasurer's Cash Fund. He said that based on the 2001 economic forecast and anticipated cash flows, the Committee is recommending that the fund maintain the current $1.5 billion allocation in one to three year maturity investments. Mr. Gudorf moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. The motion passed.

Alternative Investment Committee Report

Mr. Gudorf referred member to Tab E of the meeting materials and stated that the Committee is recommending two alternative investments for the Post Retirement Fund this quarter. He said that the first recommendation is with a real estate manager, Heller Real Estate Partners. He reported that the second recommendation is to invest with a new private equity manager, Levine Leichtman Capital Partners. Mr. McDonald moved approval of both of the Committee's recommendations, as stated in the Committee Report. Mr. Austin seconded the motion. The motion passed.

The meeting adjourned at 2:40 P.M.

Respectfully submitted,

Howard J. Bicker

Howard J. Bicker
Executive Director

Tab A

LONG TERM OBJECTIVES
Period Ending 6/30/2001

COMBINED FUNDS: $38.0 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.	**11.8%** (1)	9.1 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.	**10.8%**	0.6 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.	**51st percentile** (2)	above the median fund in TUCS

BASIC RETIREMENT FUNDS: $18.6 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.	**11.2%**	0.5 percentage point above target

POST RETIREMENT FUND: $19.4 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.	**10.3%**	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.

SUMMARY OF ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
July 1, 2000

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

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

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

Actuarial Assumptions:

Salary Growth: 6.5%, resulting from a graded rate future increase assumption
Interest/Discount Rate: 8.5% Basics, 6.0% Post
Full Funding Target Date: 2024, with a surplus of plan actuarial assets compared to accrued liabilities credited over a period through 2030.

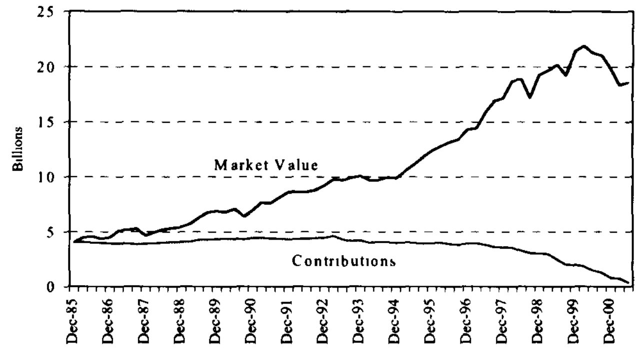
EXECUTIVE SUMMARY

Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds increased 1.3% during the second quarter of 2001. Positive investment returns accounted for the increase.

Asset Growth During Second Quarter 2001 (Millions)	
Beginning Value	$ 18,329
Net Contributions	-366
Investment Return	612
Ending Value	$ 18,575

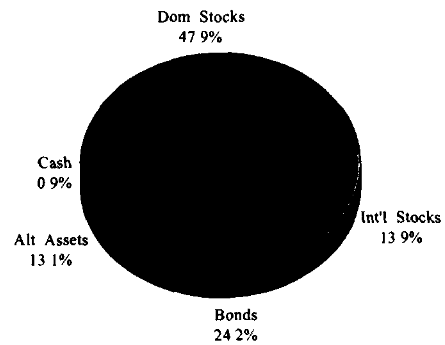


Asset Mix

The domestic stock allocation increased this quarter due to positive returns and a rebalancing of assets from bonds. The bond allocation decreased due to rebalancing of assets to domestic stock and cash.

	Policy Targets	Actual Mix 6/30/2001	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	47.9%	$8,893
Int'l. Stocks	**15.0**	13.9	2,583
Bonds	**24.0**	24.2	4,497
Alternative Assets*	**15.0**	13.1	2,427
Unallocated Cash	**1.0**	0.9	175
	100.0%	100.0%	$18,575

* Any uninvested allocation is held in domestic stocks

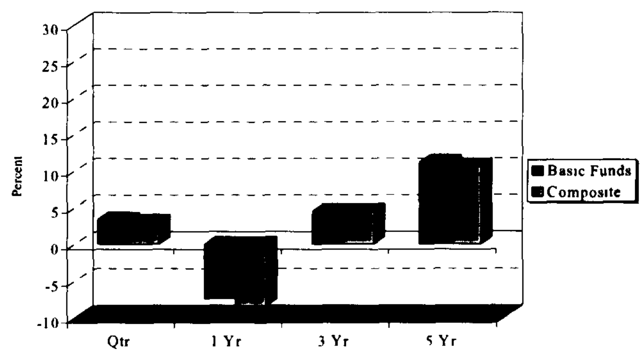


Fund Performance (Net of Fees)

The Basic Funds outperformed its composite market index for all periods, except for the three-year period where it matched the composite index.

Period Ending **6/30/2001**

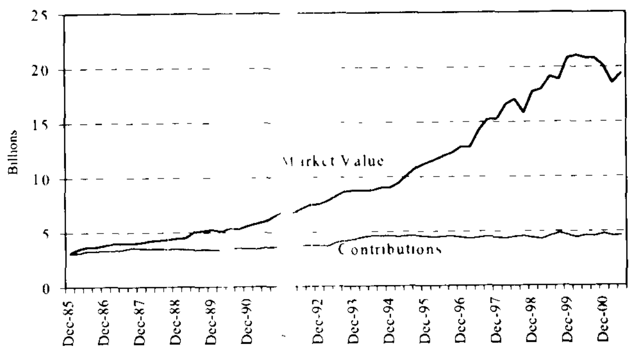
	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Basics	**3.3%**	**-7.4%**	**4.5%**	**11.2%**
Composite	3.0	-8.4	4.5	10.7



EXECUTIVE SUMMARY
Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased by 4 8% during the second quarter of 2001 Positive net contributions and investment returns accounted for the increase



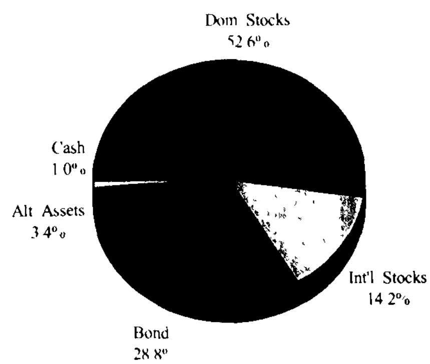
	Asset Growth During Second Quarter 2001 (Millions)
Beginning Value	$18,507
Net Contributions	91
Investment Return	799
Ending Value	$19,397

Asset Mix

The domestic stock allocation increased this quarter due to positive returns and a rebalancing of assets from bonds The bond allocation decreased due to rebalancing of assets to domestic stock and cash

	Policy Targets	Actual Mix 6/30/2001	Actual Market Value (Millions)
Domestic Stocks	**50.0%**	52 6%	$10,206
Int'l Stocks	**15.0**	14 2	2,760
Bonds	**27.0**	28 8	5,577
Alternative Assets*	**5.0**	3 4	656
Unallocated Cash	**3.0**	1 0	198
	100.0%	100 0%	$19,397

* Any uninvested allocation is held in bonds



Fund Performance (Net of Fees)

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

	Period Ending 6/30/2001			
		Annualized		
	Qtr	1 Yr	3 Yr	5 Yr
Post	**4.3%**	**-6.9%**	**4.2%**	**10.3%**
Composite	4 0	-8 0	4 2	9 7

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 also outperformed for the year.

	Period Ending 6/30/2001			
			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Dom. Stocks	**7.7%**	**-15.2%**	**2.7%**	**12.9%**
Wilshire 5000 Investable*	7.5	-15.8	3.0	12.7

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

International Stocks

The international stock manager group (active and passive combined) outperformed its target for all periods shown.

	Period Ending 6/30/2001			
			Annualized	
	Qtr.	1 Yr.	3 Yr	5 Yr.
Int'l. Stocks	**0.6%**	**-22.1%**	**-0.2%**	**3.5%**
Composite Index*	-0.5	-23.9	-0.7	1.9

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

Bonds

The bond manager group (active and semi-passive combined) outperformed its target for all periods, except the three year period where it matched the target.

	Period Ending 6/30/2001			
			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Bonds	**0.8%**	**11.8%**	**6.3%**	**7.9%**
Lehman Agg.	0.6	11.2	6 3	7 5

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

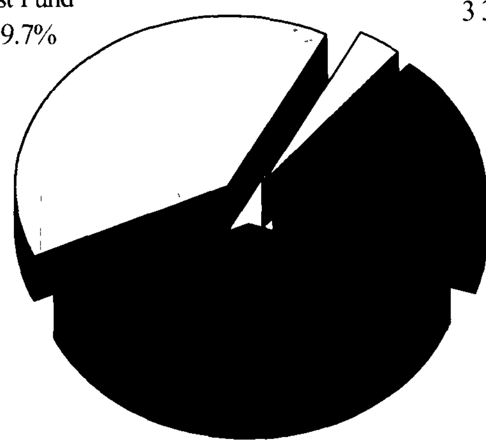
Lehman Aggregate: The Lehman Brothers Aggregate Bond Index reflects the performance of the broad bond market for investment grade (BAA or higher) bonds, U S. treasury and agency securities, and mortgage obligations with maturities greater than one year.

EAFE-Free: The Morgan Stanley Capital International (MSCI) index of 21 stock markets in Europe, Australasia and the Far East. EAFE-Free includes only those securities foreign investors are allowed to hold.

Emerging Markets Free: The Morgan Stanley Capital International index of 26 markets in developing countries throughout the world. Emerging Markets Free includes only those securities foreign investors are allowed to hold

EXECUTIVE SUMMARY

Funds Under Management



	6/30/2001 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$18.6
Post Retirement Fund	19.4
Supplemental Investment Fund	1.6
Non Retirement Funds*	
Assigned Risk Plan	0.3
Permanent School Fund	0.5
Environmental Trust Fund	0.3
Tobacco Prevention Fund	0.6
Medical Education Fund	0.3
State Cash Accounts	7.3
Total	$48.9

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Second Quarter 2001
(April 1, 2001 - June 30, 2001)

Table of Contents

VARIOUS CAPITAL MARKET INDICES

	Period Ending 6/30/2001				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	7.5%	-15.3%	3.5%	13.1%	14.6%
Dow Jones Industrials	6.7	2.2	7.2	15.2	16.3
S&P 500	5.9	-14.8	3.9	14.5	15.1
Russell 2000	14.4	0.7	5.3	9.6	13.5
Domestic Fixed Income					
Lehman Aggregate*	0.6	11.2	6.3	7.5	7.9
Lehman Gov't./Corp.	0.3	11.1	6.0	7.4	7.9
3 month U.S. Treasury Bills	1.0	5.5	5.2	5.2	4.8
International					
EAFE**	-1.3	-23.8	-1.3	2.8	6.4
Emerging Markets Free***	3.9	-25.9	1.4	-6.4	4.8
Salomon Non U.S. Gov't. Bond	-2.0	-7.4	-0.2	0.5	6.6
Inflation Measure					
Consumer Price Index****	1.0	2.7	2.8	2.5	2.7

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

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

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

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The U.S. stock market, as represented by the Wilshire 5000, returned 7.5% in the second quarter. During the period, company earnings declined and the Fed continued to try to stimulate the economy, lowering interest rates on three occasions by a total of 125 basis points. This followed 150 basis points of easing in the first quarter. The rate of business spending continued to slow in the quarter, although consumer spending has held up, giving support to the economy. Tech stocks rebounded during the quarter with the NASDAQ returning 17% following a decline of 25% in the first quarter. Growth stocks outperformed value stocks for the first time in three quarters.

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

Large Value	8.4%
Small Value	5.3
Large Growth	19.5
Small Growth	11.1

The Wilshire 5000 decreased by –15.3% for the year ending June 30, 2001.

DOMESTIC BONDS

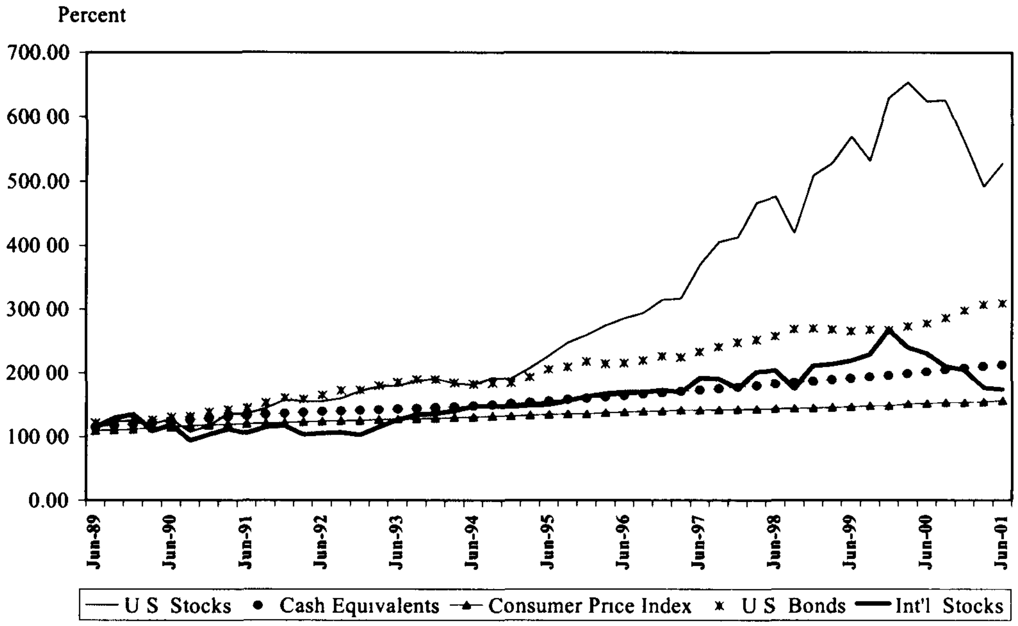
The bond market generated slightly positive returns in the second quarter. Treasury and Agency securities declined 0.2% during the quarter on negative returns in longer maturity Treasuries. The yield curve steepened during the quarter as short rates fell and intermediate and long rates increased. Corporate and mortgage debt outperformed Treasuries with returns of 1.1% and 1.0%, respectively.

Overall, the Lehman Brothers Aggregate Bond Index returned 0.6% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	-0.2%
Credit	1.1
Mortgages	1.0

The Lehman Aggregate returned 11.2% for the year ending June 30, 2001.

PERFORMANCE OF CAPITAL MARKETS
Cumulative returns



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

FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, developed international stock markets (as measured by the EAFE-Free index) provided a return of -1 0% for the quarter. Performance of the five largest stock markets is shown below.

Japan	0 2%
United Kingdom	-0.8
France	-1.9
Germany	-0.5
Switzerland	-3.0

The EAFE-Free index decreased by 23 6% during the last year

The EAFE-Free index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 21 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 3.9% for the quarter The performance of the five largest stock markets in the index is shown below:

Taiwan	-16.0%
Korea	15.7
Brazil	-1.8
Mexico	20 6
South Africa	14.0

The Emerging Markets Free index decreased by 25.9% during the last year

The Emerging Markets Free (EMF) index is compiled by MSCI and measures performance of 26 stock markets in Latin America, Asia, Africa and Eastern Europe. EMF includes only those securities foreign investors are allowed to hold The markets listed above comprise about 57% of the value of the international markets in the index

REAL ESTATE

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

PRIVATE EQUITY

U S. private equity firms raised an unprecedented $153.9 billion for private equity limited partnerships of all types, from venture capital to buyouts in 2000. That represents a 58.2% increase from the upwardly revised 1999 total of $97.3 billion. It was the seventh consecutive record year for fundraising. During the first half of 2001, fundraising is off 34% from the same period last year reflecting the turmoil in the venture capital and private equity makets

RESOURCE FUNDS

During the second quarter of 2001, West Texas Intermediate crude oil averaged $28.00 per barrel compared to an average price of $28 67 per barrel during the first quarter of 2001 With the relatively high oil prices, oil companies may be considering boosting their budgets for oil and gas exploration and drilling.

COMBINED FUNDS

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

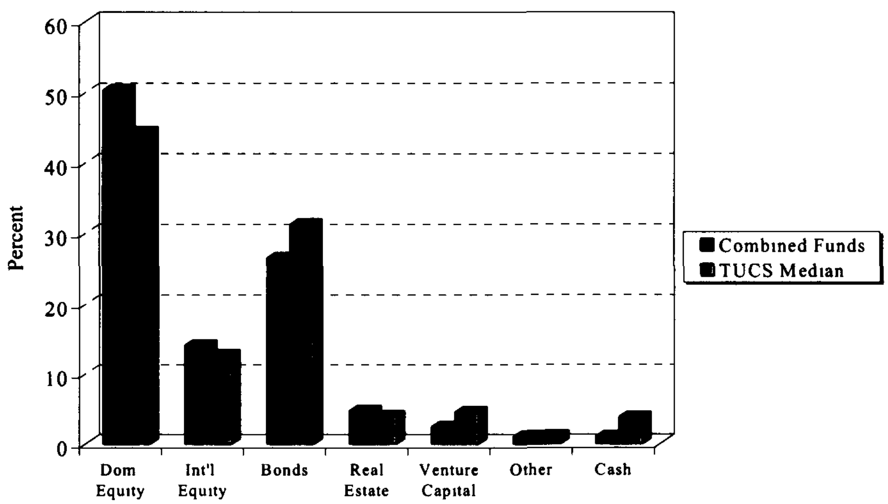
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On June 30, 2001, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$19,099	50.3%
International Stocks	5,343	14.1
Bonds	10,074	26.5
Alternative Assets	3,082	8.1
Unallocated Cash	373	1.0
Total	$37,971	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	**50.3%**	**14.1%**	**26.5%**	**4.7%**	**2.4%**	**1.0%**	**1.0%**
Median Allocation in TUCS*	44.4	12.7	31.3	3.9	4.5	1.1	3.8

* 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:

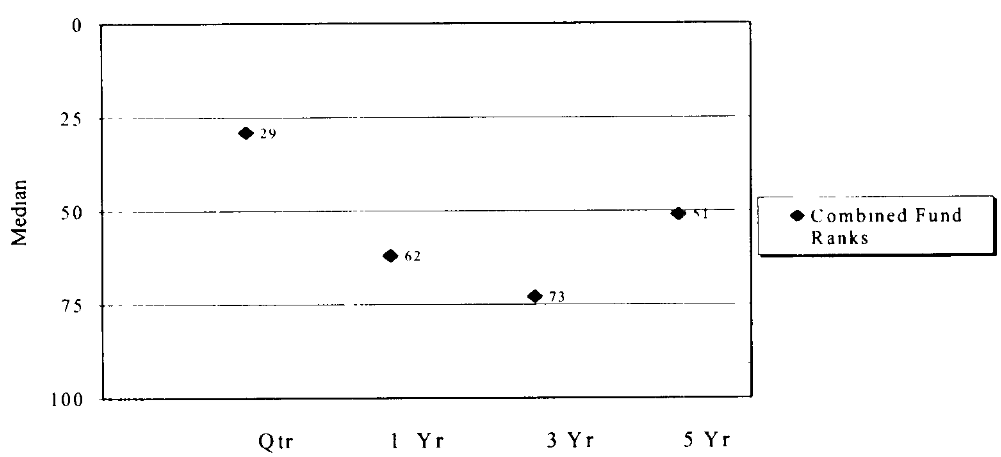
— **Differing Allocations.** Asset allocation will have a dominant effect on return The allocation to stocks among the funds in TUCS typically ranges from 20-90%, a very wide range for meaningful comparison. In addition, it appears that many funds do not include alternative asset holdings in their reports 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 6/30/2001			
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Combined Funds Percentile Rank in TUCS*	29th	62nd	73rd	51st

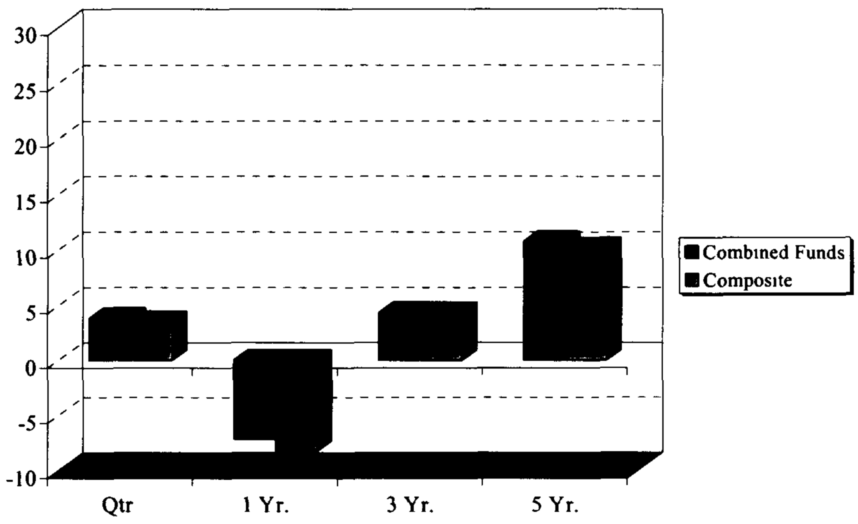
* Compared to public and corporate plans greater than $1 billion, gross of fees.

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* 2Q01
Domestic Stocks	Wilshire 5000 Investable	48.3%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	26.4*
Alternative Assets	Real Estate Funds	2.5*
	Private Equity Funds	4.9*
	Resource Funds	0.9*
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 6/30/2001

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Combined Funds**	3.8%	-7.1%	4.4%	10.8%
Composite Index	3.5	-8.2	4.4	10.2

**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

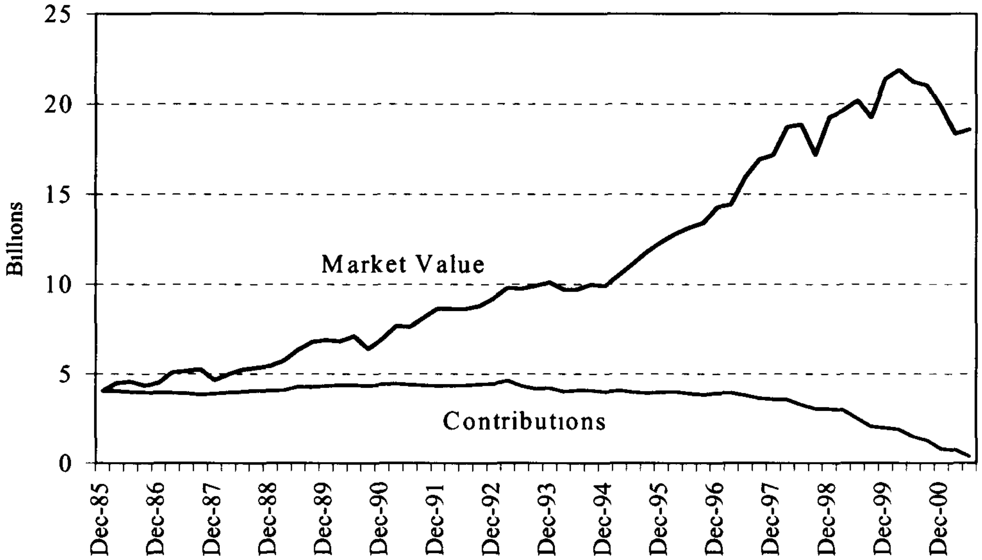
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately 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 increased 1.3% during the second quarter of 2001. Positive investment returns accounted for the increase.



Last Five Years
In Millions

	12/96	12/97	12/98	12/99	12/00	3/01	Latest Qtr. 6/01
Beginning Value	$12,338	$14,275	$17,146	$19,244	$21,365	$19,807	$18,329
Net Contributions	-59	-337	-539	-1,065	-1,186	-66	-366
Investment Return	1,996	3,208	2,637	3,186	-372	-1,412	612
Ending Value	$14,275	$17,146	$19,244	$21,365	$19,807	$18,329	$18,575

BASIC RETIREMENT FUNDS
Asset Mix

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

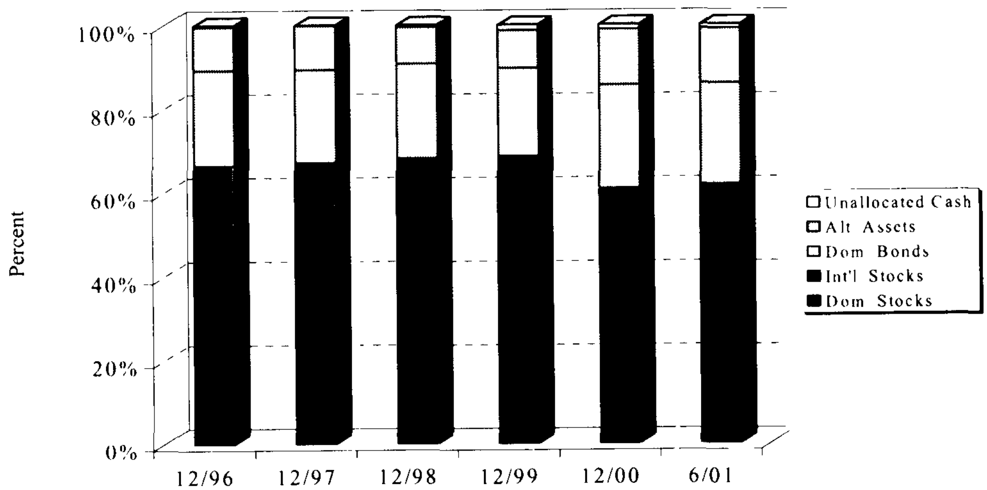
Domestic Stocks	45.0%
Int'l Stocks	15.0
Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

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

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

Over the last year, the allocation to bonds increased slightly due to positive returns even with the rebalancing of funds from bonds The domestic stock allocation decreased due to negative returns despite the rebalancing from bonds.

During the quarter, the bond allocation decreased due to rebalancing. The allocation to domestic stocks increased as a result of asset rebalancing.



	Last Five Years						Latest Qtr.
	12/96	**12/97**	**12/98**	**12/99**	**12/00**	**3/01**	**6/01**
Domestic Stocks	52.0%	53.6%	53.8%	51.9%	44.3%	42.7%	47.9%
Int'l Stocks	14.5	13.6	14.4	16.8	16.6	14.4	13.9
Bonds	22.8	22.2	22.6	21.0	24.7	28.5	24.2
Real Estate	3.9	4.1	3.7	3.5	4.1	4.5	3.9
Private Equity	5.5	5.0	4.4	4.8	8.0	8.2	7.6
Resource Funds	1.0	1.4	0.7	0.8	1.2	1.4	1.6
Unallocated Cash	0.3	0.1	0.4	1.2	1.1	0.3	0.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

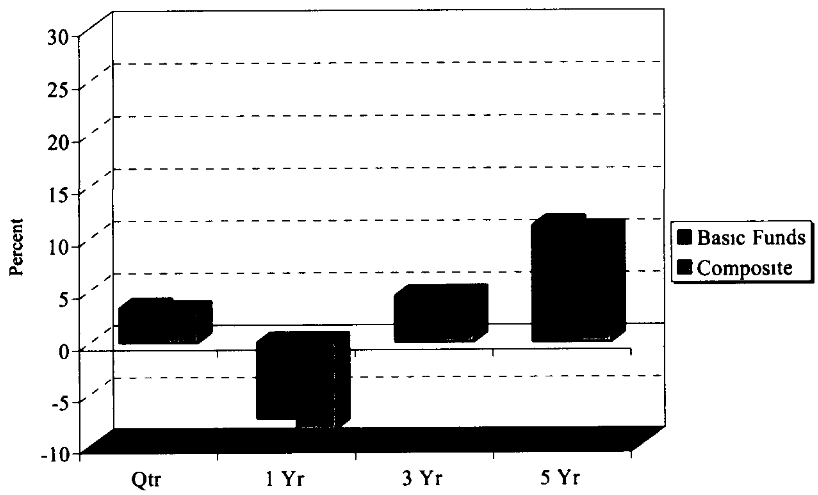
BASIC RETIREMENT FUNDS

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* 2Q01
Domestic Stocks	45.0%	Wilshire 5000 Investable	46.5%*
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Real Estate Funds	3.9*
		Private Equity Funds	8.2*
		Resource Funds	1.4*
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 6/30/2001

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Basic Funds**	**3.3%**	**-7.4%**	**4.5%**	**11.2%**
Composite Index	3.0	-8.4	4.5	10.7

**Returns are reported net of fees.

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

POST RETIREMENT FUND

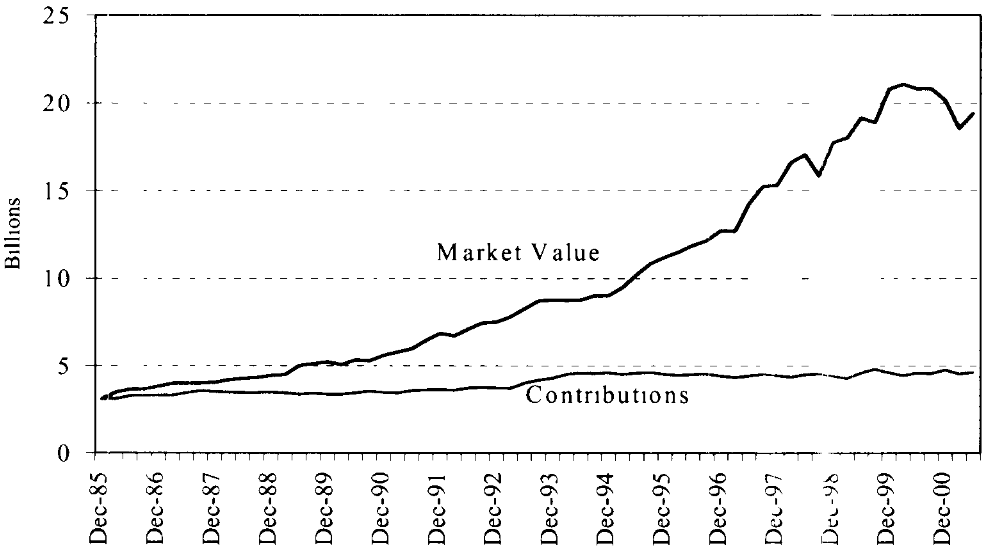
The Post Retirement Investment Fund contains the pension assets of retired public employees covered by statewide retirement plans. Approximately 95,000 retirees receive monthly annuities from the assets of the Fund.

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

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

Asset Growth

The market value of the Post Fund increased by 4.8% during the second quarter of 2001. Positive net contributions and investment returns accounted for the increase.



Last Five Years
In Millions

	12/96	12/97	12/98	12/99	12/00	3/01	Latest Qtr. 6/01
Beginning Value	$11,216	$12,705	$15,273	$17,743	$20,768	$20,153	$18,507
Net Contributions	-94	23	-45	211	167	-236	91
Investment Return	1,583	2,545	2,515	2,814	-782	-1,410	799
Ending Value	$12,705	$15,273	$17,743	$20,768	$20,153	$18,507	$19,397

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
	100.0%

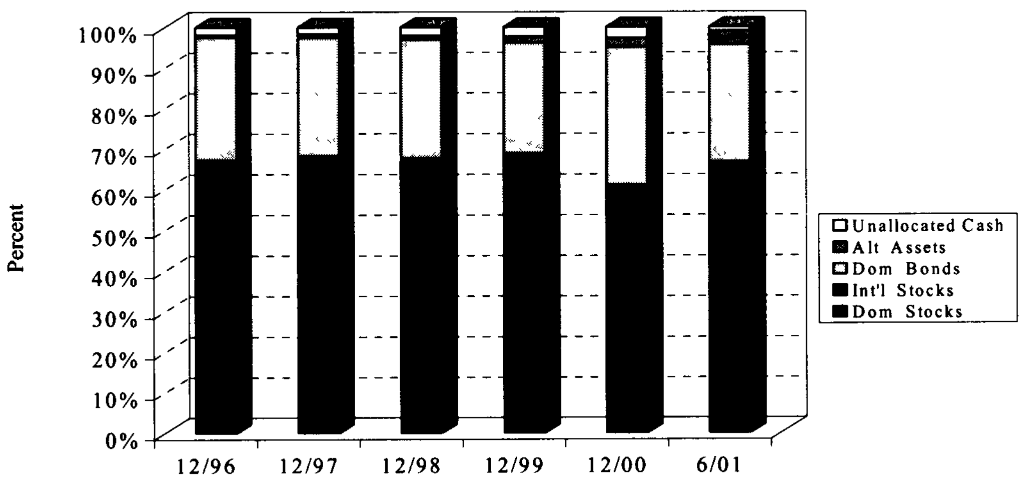
* Alternative assets include yield oriented investment vehicles. Any uninvested allocation is held in bonds.

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 domestic stocks and alternative assets increased due to rebalancing. The allocation to bonds and cash decreased also as a result of rebalancing.

The domestic stock allocation increased over the quarter due to rebalancing. This rebalancing resulted in a decreased allocation to bonds.



	Last Five years						Latest Qtr.
	12/96	12/97	12/98	12/99	12/00	3/01	6/01
Dom. Stocks	52.7%	54.7%	53.2	52.0%	47.5%	46.5%	52.6%
Int'l. Stocks	14.6	13.6	14.5	16.9	13.5	14.5	14.2
Bonds	30.2	29.1	29.2	27.2	34.0	35.1	28.8
Alt. Assets	0.6	0.9	1.1	1.5	2.3	2.5	3.4
Unallocated Cash	1.9	1.7	2.0	2.4	2.7	1.4	1.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

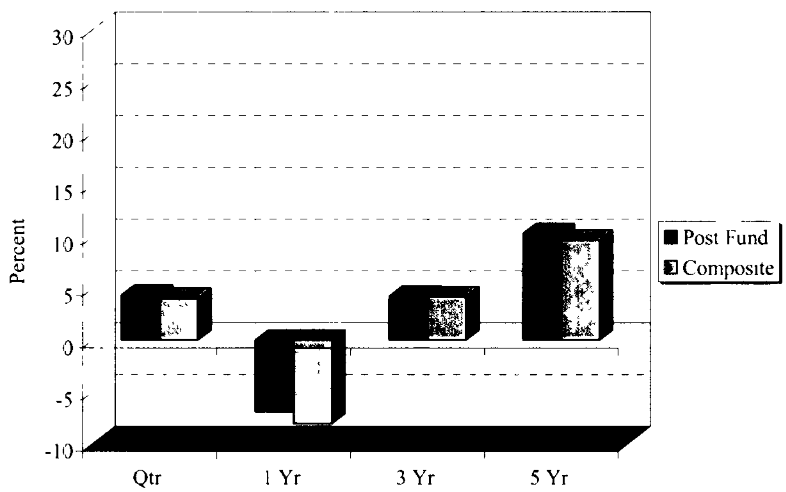
POST RETIREMENT FUND

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* 2Q01
Domestic Stocks	50.0%	Wilshire 5000 Investable	50.0%
Int'l Stocks	15.0	Int'l. Composite	15.0
Bonds	27.0	Lehman Aggregate	28.9*
Alternative Assets	5.0	Real Estate Funds	1.1*
		Private Equity Funds	1 7*
		Resource Funds	0.3*
Unallocated Cash	3.0	3 Month T-Bills	3 0
	100 0%		100.0%

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



Period Ending 6/30/2001

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Post Fund**	**4.3%**	**-6.9%**	**4.2%**	**10.3%**
Composite Index	4.0	-8.0	4.2	9.7

** Returns are reported net of fees.

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

STOCK AND BOND MANAGERS

Performance of Asset Pools (Net of Fees)

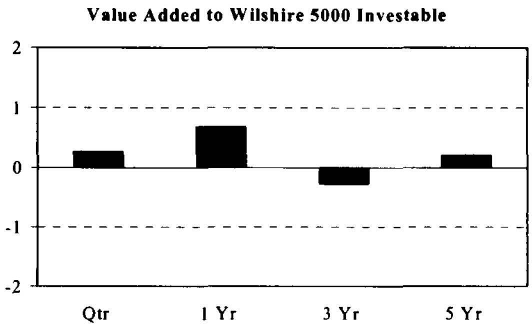
Domestic Stock Pool

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 6/30/2001

		Annualized		
	Qtr.	**1 Yr.**	**3 Yrs.**	**5 Yrs.**
Stock Pool	**7.7%**	**-15.2%**	**2.7%**	**12.9%**
W5000 Investable*	7.5	-15.8	3.0	12.7

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



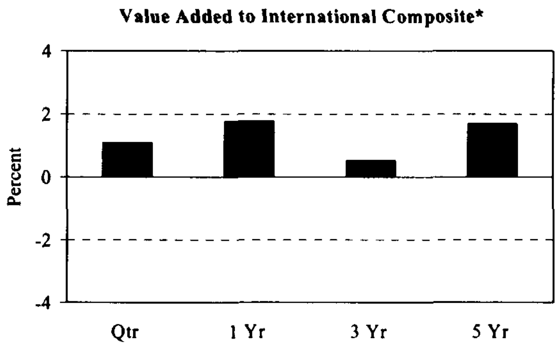
International Stock Pool

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 6/30/2001

		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yrs.**
Int'l. Pool	**0.6%**	**-22.1%**	**-0.2%**	**3.5%**
Composite Index*	-0.5	-23.9	-0.7	1.9

* 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.

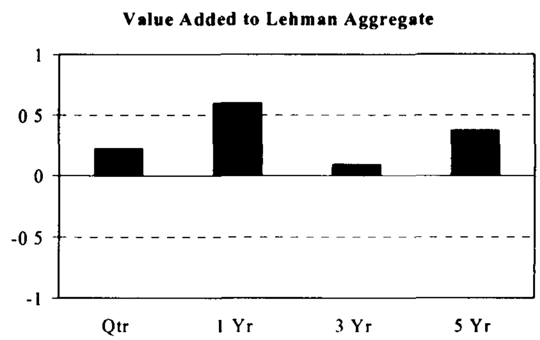


Bond Pool

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 6/30/2001

		Annualized		
	Qtr.	**1 Yr.**	**3 Yrs.**	**5 Yrs.**
Bond Pool	**0.8%**	**11.8%**	**6.3%**	**7.9%**
Lehman Agg.	0.6	11 2	6.3	7.5



ALTERNATIVE ASSET MANAGERS

Performance of Asset Pools
(Net of Fees)

Real Estate Pool (Basic Funds only)

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

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

Period Ending 6/30/2001	Qtr.	Yr.	Annualized 3 Yrs.	5 Yrs.
Real Estate	**2.9%**	**15.8%**	**10.5%**	**15.4%**
Inflation	1.0	2.7	2.8	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 6/30/2001	Qtr.	Yr.	Annualized 3 Yrs.	5 Yrs.
Private Equity	**-8.6%**	**-7.0%**	**10.0%**	**20.5%**

Resource Pool (Basic Funds only)

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

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

Period Ending 6/30/2001	Qtr.	Yr.	Annualized 3 Yrs.	5 Yrs.
Resource Funds	**5.3%**	**35.8%**	**7.1%**	**16.6%**

Yield Oriented Pool (Post Fund only)

Expectation: Yield oriented investments are expected to provide annualized returns at least 2% greater than historical public debt returns over the life of the investment This equates to an absolute return of 10-11% annualized.

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

Period Ending 6/30/2001	Qtr.	Yr.	Annualized 3 Yrs.	5 Yrs.
Yield Oriented	**4.7%**	**17.3%**	**15.5%**	**13.2%**

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, 2001 the market value of the entire Fund was $1.6 billion.

Investment Options

	6/30/2001 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$585
Growth Share Account – an actively managed, all common stock portfolio.	$264
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$363
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$40
Bond Market Account – an actively managed, all bond portfolio.	$132
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$93
Fixed Interest Account – a portfolio of guaranteed investment contracts (GIC's) and GIC type investments which offer a fixed rate of return for a specified period of time.	$90

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

INCOME SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

	Target	Actual
Stocks	60.0%	61.8%
Bonds	35.0	34.0
Unallocated Cash	5.0	4.2
	100.0%	100.0%

Period Ending 6/30/2001

	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.
Total Account	**4.5%**	**-5.6%**	**5.0%**	**11.3%**
Composite*	4.8	-5.6	4.9	11.0

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

GROWTH SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

Period Ending 6/30/2001

	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.
Total Account	**7.7%**	**-15.3%**	**2.2%**	**12.7%**
Composite*	7.5	-15.8	3.0	12.7

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

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

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

The Account is invested 100% in common stock.

Period Ending 6/30/2001

	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.
Total Account	**7.5%**	**-15.2%**	**3.8%**	**13.4%**
Wilshire 5000 Investable*	7.5	-15.8	3.3	12.9

* Wilshire 5000 through June 2000. Wilshire 5000 Investable thereafter.

INTERNATIONAL SHARE ACCOUNT

Investment Objective and Asset Mix

The investment objective of the International Share Account is to earn a high rate of return by investing in the stock of companies outside the U.S. At least one-third of the Account is "passively managed" and is designed to track the return of 21 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 6/30/2001

	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yrs.
Total Account	**0.7%**	**-22.0%**	**-0.1%**	**3.6%**
Composite*	-0.5	-23.9	-0.7	1.9

* 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 of the broad domestic bond market by investing in fixed income securities.

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

		Period Ending 6/30/2001		
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**0.8%**	**11.9%**	**6.4%**	**7.9%**
Lehman Agg.	0.6	11.2	6.3	7.5

MONEY MARKET ACCOUNT

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

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

		Period Ending 6/30/2001		
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**1.2%**	**6.2%**	**5.8%**	**5.7%**
3 month T-Bills	1.0	5.5	5.2	5.2

FIXED INTEREST ACCOUNT

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

Asset Mix
The assets in the Account are **invested primarily in stable value instruments** such as insurance company investment contracts, bank investment contracts, and security backed contracts. These instruments are issued by highly rated U.S. financial institutions, typically have maturities of 3-6 years and are rated "A" or better at the time of purchase. The interest rate credited will change, reflecting the blended interest rate available from all investments in the account including cash reserves which are maintained to provide liquidity. The Fixed Interest Benchmark in the 3 year Constant Maturity Treasury Bill +30 basis points.

		Period Ending 6/30/2001		
		Annualized		
				Since
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**1.5%**	**6.3%**	**6.3%**	**6.4%**
Benchmark*	1.2	5.4	5.7	5.9

* The Fixed Interest Benchmark is the 3 year Constant Maturity Treasury Bill +30 basis points.

ASSIGNED RISK PLAN

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

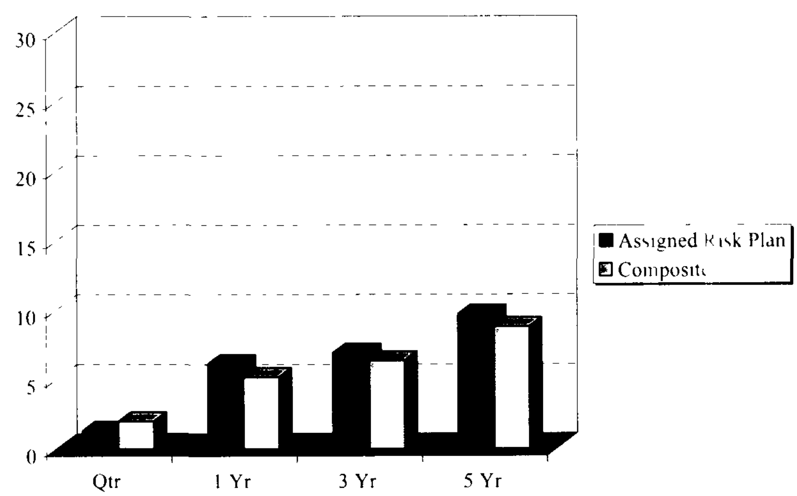
Asset Mix
The Assigned Risk Plan is invested in a portfolio of common stocks and bonds The actual asset mix will fluctuate in response to changes in the Plan's liability stream

	6/30/2001 Target	6/30/2001 Actual
Stocks	20 0%	19.3%
Bonds	80 0	80.7
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, 2001 the market value of the Assigned Risk Plan was $315 million



Period Ending 6/30/2001

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr.
Total Fund*	1 4%	6 2%	6.9%	9 7%
Composite	2.0	5 2	6.4	8 8
Equity Segment*	3.7	-5.9	7.6	16.6
Benchmark	5 9	-14 8	3 9	14 5
Bond Segment*	0.8	9 5	5.9	6.8
Benchmark	1 0	10 5	6.6	7.1

* Actual returns are calculated net of fees.

PERMANENT SCHOOL FUND

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

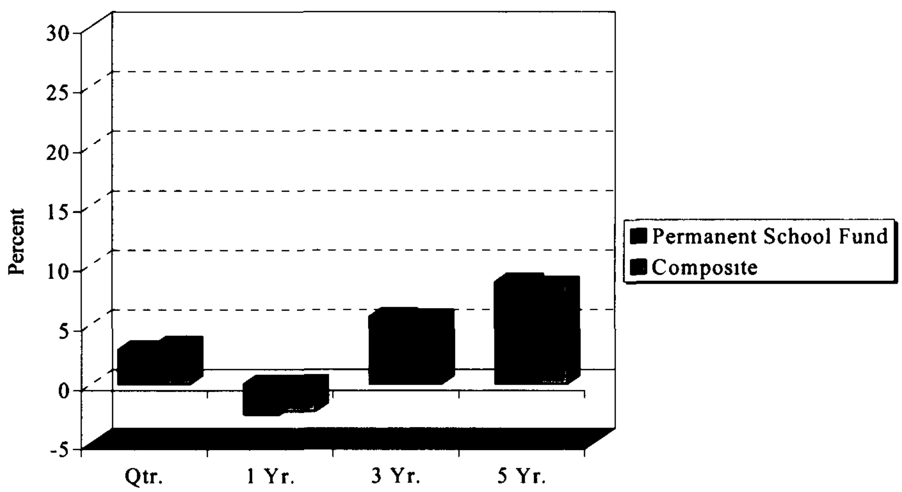
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income.

	6/30/2001 Target	6/30/2001 Actual
Stocks	50.0%	51.2%
Bond	48.0	47.2
Unallocated Cash	2.0	1.6
Total	100.0%	100.0%

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

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

Market Value
On June 30, 2001 the market value of the Permanent School Fund was $549 million.



	Period Ending 6/30/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund (1) (2)	**2.9%**	**-2.6%**	**5.6%**	**8.5%**
Composite	3.3	-2.3	5.5	8.3
Equity Segment (1) (2)	**5.8**	**-14.7**	**4.1**	**N/A**
S&P 500	5.9	-14.8	3.9	N/A
Bond Segment (1)	**0.7**	**11.2**	**6.5**	**7.7**
Lehman Aggregate	0.6	11.2	6.3	7.5

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

ENVIRONMENTAL TRUST FUND

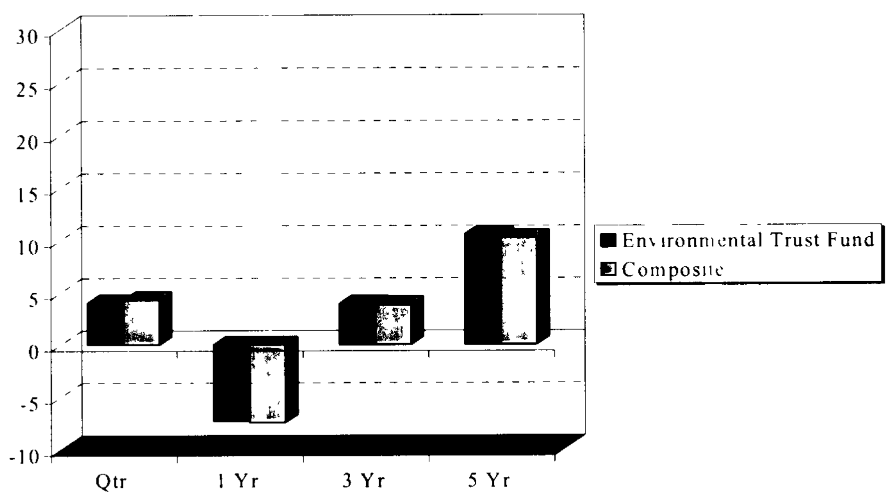
Investment Objective
The objective of the Environmental Trust Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending

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

	6/30/2001 Target	6/30/2001 Actual
Stocks	70.0%	70.8%
Bonds	28 0	28 5
Unallocated Cash	2.0	0.7
Total	100 0%	100.0%

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, 2001 the market value of the Environmental Trust Fund was $300 million



Period Ending 6/30/2001

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund*	4 0%	-7.3%	3.9%	10 6%
Composite	4 3	-7.4	3.8	10 2
Equity Segment*	5 8	-14.6	4 1	14.7
S&P 500	5 9	-14 8	3.9	14.5
Bond Segment*	0 7	11 2	6.5	8.0
Lehman Agg.	0 6	11.2	6 3	7 5

* Actual returns are calculated net of fees.

TOBACCO PREVENTION FUND

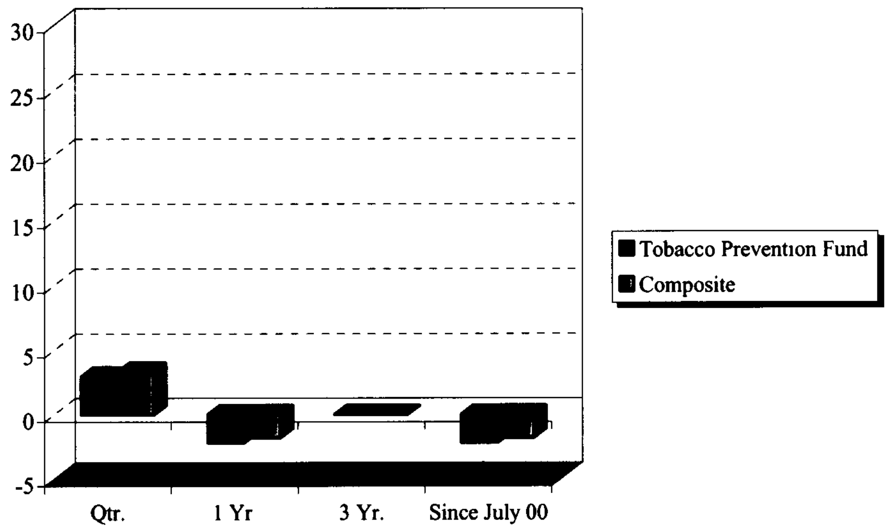
Investment Objectives
The investment objective of the Tobacco Prevention Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

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

Investment Management
SBI staff manages all assets of the Tobacco Prevention Fund.

Market Value
On June 30, 2001 the market value of the Tobacco Prevention Fund was $539 million.

	6/30/2001 Target	6/30/2001 Actual
Stocks	50.0%	50.3%
Bonds	50.0	49.4
Unallocated Cash	0.0	0.3
Total	100.0%	100.0%



Period Ending 6/30/2001

	Qtr.	1 Yr.	3 Yr.	Since 7/1/00
Total Fund*	2.9%	-2.2%	N/A	-2.2%
Composite	3.3	-1.8	N/A	-1.8
Equity Segment*	5.8	-14.6	N/A	-14.6
S&P 500	5.9	-14.8	N/A	-14.8
Bond Segment*	0.7	11.2	N/A	11.2
Lehman Agg.	0.6	11.2	N/A	11.2

* Actual returns are calculated net of fees.

MEDICAL EDUCATION FUND

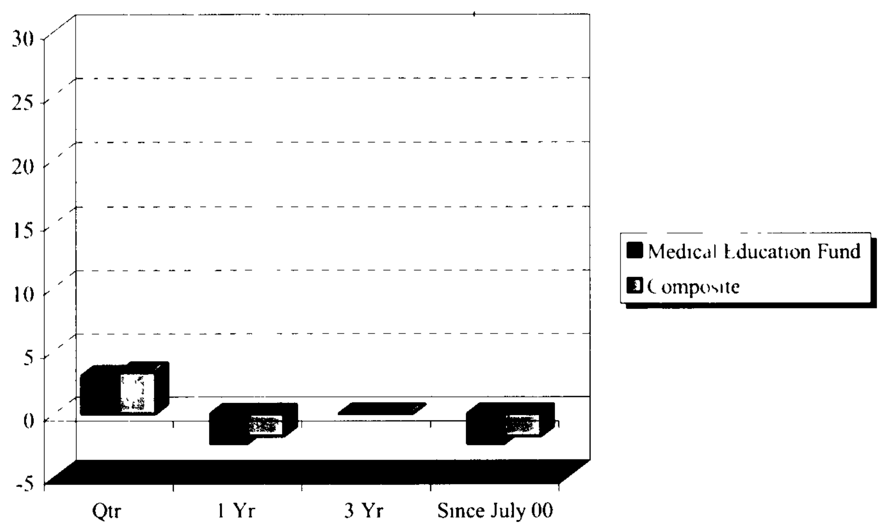
Investment Objectives
The investment objective of the Medical Education Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

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

	6/30/2001 Target	6/30/2001 Actual
Stocks	50 0%	50.9%
Bonds	50.0	48 8
Unallocated Cash	0.0	0 3
Total	100 0%	100 0%

Investment Management
SBI staff manages all assets of the Medical Education Fund

Market Value
On June 30, 2001 the market value of the Medical Education Fund was $3.35 million.



Period Ending 6/30/2001

	Qtr.	1 Yr.	3 Yr.	Since 7/1/00
Total Fund*	3 0%	-2 3%	N/A	-2.3%
Composite	3 3	-1 8	N/A	-1 8
Equity Segment*	5.8	-14.6	N/A	-14.6
S&P 500	5 9	-14.8	N/A	-14.8
Bond Segment*	0 7	11 2	N/A	11 2
Lehman Agg	0 6	11.2	N/A	11.2

* Actual returns are calculated net of fees.

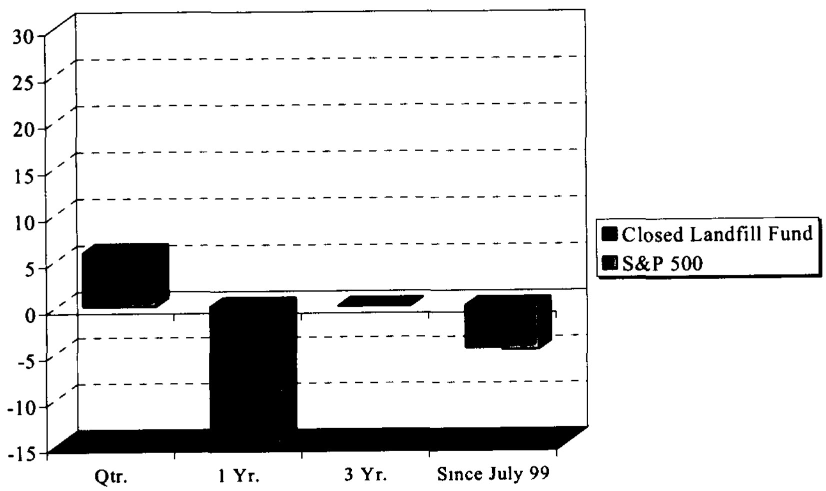
CLOSED LANDFILL INVESTMENT FUND

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

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

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

Market Value
On June 30, 2001, the market value of the Closed Landfill Investment Fund was $9.0 million.



Period Ending 6/30/2001

	Qtr.	1 Yr.	3 Yr.	Since 7/1/99
Total Fund (1)	**5.8%**	**-14.7%**	N/A	**-4.6%**
S&P 500 (2)	5.9	-14.8	N/A	-4.8

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

STATE CASH ACCOUNTS

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

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

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

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

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

Investment Objectives
Safety of Principal. To preserve capital.

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

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

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

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

Period Ending 6/30/2001

	Market Value (Millions)	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.
Treasurer's Cash Pool*	**$6,586**	1.2%	7.2%	6.1%	5.9%
Custom Benchmark**		1.1	6.2	5.4	5.4
Trust Fund Cash Pool*	**$65**	1.1	6.3	5.8	5.8
Custom Benchmark***		1.0	5.5	5.1	5.2
3 month T-Bills		1.0	5.5	5.2	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 $1.5 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, 2001 (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	66,133	0	1,700,388	0	3,370,271	968,796	948,239	7,053,827
	0.94%		24.11%		47.78%	13.73%	13.44%	100%
Public Employees Retirement Fund	44,388	0	1,086,230	0	2,145,138	627,142	573,060	4,475,958
	0.99%		24.27%		47.93%	14.01%	12.80%	100%
State Employees Retirement Fund	33,979	0	1,013,609	0	2,001,685	585,299	534,337	4,168,909
	0.82%		24.31%		48.01%	14.04%	12.82%	100%
Public Employees Police & Fire	19,053	81	563,337	0	1,113,486	324,436	301,217	2,321,610
	0.82%	0.00%	24.27%		47.96%	13.98%	12.97%	100%
Highway Patrol Retirement Fund	2,018	0	59,717	0	117,961	34,410	31,771	245,877
	0.82%		24.29%		47.98%	13.99%	12.92%	100%
Judges Retirement Fund	4197	0	5,861	0	11,575	3,385	3,090	28,108
	14.93%		20.85%		41.18%	12.04%	11.00%	100%
Correctional Employees Retirement	2,096	0	62,722	0	123,864	36,218	33,069	257,969
	0.81%		24.31%		48.02%	14.04%	12.82%	100%
Public Employees Correctional	3,359	0	4,653	0	9,189	2,687	2,458	22,346
	15.03%		20.82%		41.12%	12.03%	11.00%	100%
TOTAL BASIC FUNDS	175,223	81	4,496,517	0	8,893,169	2,582,373	2,427,241	18,574,604
	0.94%	0.00%	24.21%		47.88%	13.90%	13.07%	100%
POST RETIREMENT FUND	198,336	0	5,576,686	0	10,205,765	2,760,224	655,425	19,396,436
	1.02%		28.75%		52.62%	14.23%	3.38%	100%
TOTAL BASIC AND POST	373,559	81	10,073,203	0	19,098,934	5,342,597	3,082,666	37,971,040
	0.98%	0.00%	26.53%		50.30%	14.07%	8.12%	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	24,816 4.24%	198,540 33.96%	0	0	361,408 61.80%	0	0	584,764 100%
Growth Share Account	0	0	0	0	264,402 100.00%	0	0	264,402 100%
Money Market Account	26,610 100.00%	0	0	0	0	0	0	26,610 100%
Common Stock Index	0	0	0	0	363,089 100.00%	0	0	363,089 100%
Bond Market Account	0	0	132,476 100.00%	0	0	0	0	132,476 100%
International Share Account	0	0	0	0	0	39,802 100.00%	0	39,802 100%
Fixed Interest Account	6,798 7.58%	0	82,844 92 42%	0	0	0	0	89,642 100%
Money Market Deferred Comp	66,763 100.00%	0	0	0	0	0	0	66,763 100%
TOTAL SUPPLEMENTAL FUNDS	124,987 7.97%	198,540 12.66%	215,320 13.74%	0	988,899 63.09%	39,802 2.54%	0	1,567,548 100%
TOTAL RETIREMENT FUNDS	498,546 1.26%	198,621 0.50%	10,288,523 26.02%	0 0.00%	20,087,833 50.81%	5,382,399 13.61%	3,082,666 7.80%	39,538,588 100%

	Cash and Short Term Securities	Bond Internal	Bond External	Stock Internal	Stock External	External Int'l	Alternative Assets	Total
ASSIGNED RISK PLAN	21,047	234,058	0	0	59,805	0	0	314,910
	6.68%	74.33%			18.99%			100%
ENVIRONMENTAL FUND	1,942	85,390	0	212,322	0	0	0	299,654
	0.65%	28.50%		70.85%				100%
PERMANENT SCHOOL FUND	8,832	259,481	0	281,037	0	0	0	549,350
	1.61%	47.23%		51.16%				100%
TOBACCO SETTLEMENT POOL	2,781	429,634	0	441,469	0	0	0	873,884
	0.32%	49.16%		50.52%				100%
CLOSED LANDFILL INVESTMENT	10	0	0	9,016	0	0	0	9,026
	0.11%			99.89%				100%
TREASURERS CASH	6,471,359	0	0	0	0	0	0	6,471,359
	100.00%							100%
HOUSING FINANCE AGENCY	76,752	211,726	0	0	0	0	0	288,478
	26.61%	73.39%						100%
MINNESOTA DEBT SERVICE FUND	58,891	159,441	0	0	0	0	0	218,332
	26.97%	73.03%						100%
MISCELLANEOUS ACCOUNTS	109,428	218,775	0	31,006	0	0	0	359,209
	30.46%	60.91%		8.63%				100%
GRAND TOTAL	7,249,588	1,797,126	10,288,523	974,850	20,147,638	5,382,399	3,082,666	48,922,790
	14.82%	3.68%	21.03%	1.99%	41.18%	11.00%	6.30%	100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: August 28, 2001

TO: Members, State Board of Investment

FROM: Howard Bicker

1. Reports on Budget and Travel

A report on the SBI's administrative budget for the period ending July 31, 2001 is included as **Attachment A.**

A report on travel for the period from May 16, 2001 - August 15, 2001 is included as **Attachment B.**

2. Litigation Update

The SBI is involved in class action and securities litigation suits. SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on September 5, 2001.

3. 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 April 1, 2001 to June 30, 2001 shares in the SBI active stock portfolios decreased from 0.2 million shares to zero. The market value of these holdings decreased from approximately $5.1 million to zero. Tables showing the holdings for the SBI active and semi-passive managers are in **Attachment C.**

ATTACHMENT A

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

ITEM	FISCAL YEAR 2001 BUDGET	FISCAL YEAR 2001 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,884,000	$ 1,822,180
SEVERENCE PAYOFF	20,000	42,025
WORKERS COMPENSATION INSURANCE	1,000	833
MISCELLANEOUS PAYROLL	1,000	161
SUBTOTAL	**$ 1,906,000**	**$ 1,865,199**
STATE OPERATIONS		
RENTS & LEASES	130,000	132,636
REPAIRS/ALTERATIONS/MAINTENANCE	30,000	24,280
PRINTING & BINDING	20,000	14,164
PROFESSIONAL/TECHNICAL SERVICES	35,000	8,659
COMPUTER SYSTEMS SERVICES	0	12,918
COMMUNICATIONS	30,000	25,989
TRAVEL, IN-STATE	3,000	455
TRAVEL, OUT-STATE	65,000	57,390
SUPPLIES	50,000	56,708
EQUIPMENT	50,000	84,288
EMPLOYEE DEVELOPMENT	15,000	18,537
OTHER OPERATING COSTS	42,000	7,845
SUBTOTAL	**$ 470,000**	**$ 443,869**
TOTAL GENERAL FUND	**$ 2,376,000**	**$ 2,309,068**

ATTACHMENT B

STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel May 16, 2001 – August 15, 2001

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring Domestic Equity Managers: Brinson Partners, Lincoln Capital Mgmt. **Manager Monitoring International Manager:** Zurich Scudder Investments **Consultant:** Richards & Tierney	L. Buermann J. Matz	Chicago, IL 5/21-5/23	$2,540.26
Manager Monitoring Deferred Compensation Plan Managers: Fidelity Diversified International, T. Rowe Price Small Cap Stock **Manager Search Deferred Compensation Plan Managers:** Fidelity Asset Manager, Legg Mason Value Trust, Miller Anderson & Sherrerd, T. Rowe Price International, Vanguard	J. Heidelberg T. Brusehave-Derby	Boston, MA Baltimore, MD 5/30-6/1	$3,117.53
Conference: National Association of State Investment Professionals (NASIP)	L. Buermann M. Menssen	Albany, NY 6/10-6/12	$1,507.20

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring Deferred Compensation Plan Manager: Dodge & Cox **Manager Search Deferred Compensation Plan Manager:** Columbia Mgmt. **Conference:** Changing Markets and Changing Demographics: The Implications for Institutional Investing sponsored by: Institute For Fiduciary Education	J. Heidelberg	San Francisco, CA Portland, OR 6/24-6/28	$1,647.32
Conference: 2001 Legal Education Conference National Association of Public Pension Attorneys	C. Eller	San Diego, CA 6/26-6/29	$595.00
Manager Monitoring Emerging Markets Manager: Capital International, Inc. **Manager Monitoring Fixed Income Manager:** Morgan Stanley Dean Witter Investment Mgmt.	H. Bicker	Philadelphia, PA 6/27-6/28	$692.00
Manager Monitoring Fixed Income Manager: Western Asset Mgmt. **Manager Monitoring Alternative Investment Managers:** Crescendo Ventures, KKR, Warburg Pincus **Manager Monitoring International Emerging Markets Managers:** Alliance Capital Mgmt., Capital International **Manager Monitoring International Managers:** American Express Asset Mgmt. International, Brinson Partners, Inc., INVESCO, Marathon Asset Mgmt., T. Rowe Price International **Manager Search International Manager:** Diageo Pension Trust	H. Bicker	London, England 7/6-7/11	$3,622.80

Purpose	Name(s)	Destination and Date	Total Cost
Conference: Private Equity Summit sponsored by: Opal Financial Group	J. Griebenow	Big Sky, MT 7/8-7/11	$681.81
Conference: Risk Budgeting, Risk Management & Technology sponsored by: BlackRock Financial Management	M. Menssen	Aspen, CO 7/9-7/11	$574.50
Manager Monitoring Domestic Equity Managers: Cohen, Klingenstein & Marks, Forstmann Leff, GeoCapital Corp., J.P. Morgan Investment Mgmt., Oppenheimer Capital **Manager Monitoring Domestic Equity Emerging Managers:** Artemis Investment Mgmt., New Amsterdam Partners, Valenzuela Capital Partners	L. Buermann J. Matz	New York, NY 7/16-7/20	$4,660.65

ATTACHMENT C

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

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

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

International Stocks

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

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

SBI Active Stock Holdings
Tobacco Companies Identified by the IRRC
that derive at least fifteen percent of revenue from tobacco products
June 30, 2001

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

Company	Percent Revenue from Tobacco in 1997	SBI Shares 6/30/01	SBI Cost Value 6/30/01	SBI Market Value 6/30/01
N/A		0	0	0
Subtotal		**0**	**0**	**0**

International Stocks

Company	Percent Revenue from Tobacco in 1997	SBI Shares 12/31/00	SBI Cost Value 12/31/00	SBI Market Value 12/31/00
N/A		0	0	0
Subtotal		**0**	**0**	**0**
Total SBI Holdings		**0**	**0**	**0**

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.

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Tab C

COMMITTEE REPORT

DATE: August 28, 2001

TO: Members, State Board of Investment

FROM: Consultant Review Committee

The SBI retains consultants to provide independent advice to Board members and technical assistance to SBI staff on a variety of issues related to management of the assets under the SBI's control. Consultants are selected through a periodic Request for Proposal (RFP) process with review and recommendation by a Consultant Review Committee.

The members of the Consultant Review Committee are:

Peter Sausen	Governor's Representative
Christie Eller	Attorney General's Representative
Jake Manahan	Treasurer's Representative
Jennifer Mohlenhoff	Auditor's Representative
Bob Schroeder	Secretary of State's Representative
Gary Austin	IAC Representative
Doug Gorence	IAC Representative

Review Process

The Committee developed the RFP and criteria for evaluating responses. The range of task included in the RFP was very broad and consultants were encouraged to respond to any area of the RFP in which they have special expertise. The RFP stated that more than one consultant may be required to fulfill all the proposed duties. A copy of the RFP is included beginning on **page 5.**

The RFP was announced in the State Register on June 18, 2001 and sent to 16 firms. Four (4) firms responded by the July 13, 2001 deadline:

Dahab Associates
Mercer Consulting
Pension Consulting Alliance
Richards & Tierney, Inc.

All firms responded to all sections of the RFP and submitted total fee bids. Additionally, Mercer Consulting and Pension Consulting Alliance submitted fee bids for specified services.

After reviewing the services that the SBI requires from an investment management consultant, the Committee determined that continuing to have the services of a general consultant and a consultant for special projects is desirable.

The Committee concluded that the general consultant would provide a broad range of consulting and analytical services. The special projects consultant would address specific needs, as necessary. It is envisioned that the special projects consultant may be called upon to assist with assignments such as an asset allocation study, review of custodial services, or other project that may be required of the Board.

Conclusions

After reviewing the strengths of each responder in relation to the above needs, the Committee recommends the following:

- **Richards & Tierney, Inc.** (R&T) should be retained as the SBI's general consultant. R&T can provide general consulting on all asset classes and offer access to a range of sophisticated analytical tools that will assist the SBI in the on-going development and evaluation of its investment programs.

- **Pension Consulting Alliance** (PCA) should be retained as the SBI's special projects consultant. Through the expertise of its managing directors and its supplementary network of consulting specialists, the PCA is well positioned to respond to a variety of tasks as specific needs arise.

Richards & Tierney has served as the SBI's primary consultant since 1986. The firm was founded in 1984 and is wholly owned by five principles. The firm is located in Chicago, IL and currently has 24 pension fund clients.

The project team assigned to the SBI's account would be:

- Ann Posey, Principal (lead)
- Tom Richards, Principal (back up)
- 14 other professionals would perform work on the account relationship

Pension Consulting Alliance was founded in 1988 and is owned by two managing directors, Allan Emkin and Nori Gerardo Lietz. The firm's primary offices are in Encino, CA. PCA is a boutique pension consulting firm which contracts with specialized firms in several disciplines to provide technical research and databases. PCA focuses on consulting for large public plans. The firm has 27 clients, many of whom utilize PCA for work on specific asset classes. PCA has worked with the SBI since 1992.

Allan Emkin, Managing Director, would serve as the SBI's contact for all special project work.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI's legal counsel, to negotiate and execute contracts with Richards & Tierney, Inc. for general consulting services and with Pension Consulting Alliance for special projects. Both contracts should cover the five year period beginning July 1, 2002 and will be subject to the standard termination provisions required by state statute.

REQUEST FOR PROPOSAL (RFP)

REGARDING THE SELECTION OF A CONSULTANT OR CONSULTANTS TO ASSIST THE MINNESOTA STATE BOARD OF INVESTMENT (SBI) IN CARRYING OUT ITS FIDUCIARY RESPONSIBILITIES.

This RFP does not obligate the SBI to complete the project and the SBI reserves the right to cancel the solicitation if the SBI considers it to be in the best interest of the SBI.

I. INTRODUCTION

The Minnesota State Board of Investment (SBI) is charged with the investment of approximately $47.4 billion for the State of Minnesota and related constituents. Of this amount, nearly $38.3 billion represents retirement funds which the SBI invests on behalf of various State and local governmental employees.

The selected consultant(s) will report to the Board and its individual members. In carrying out its responsibilities, the consultant(s) will work closely with individual Board members and their staffs, the SBI's Executive Director and other SBI staff and members of the SBI's Investment Advisory Council.

The SBI has established performance objectives for each of the funds under its control. A brief description of each fund and its performance objectives is included as **Exhibit A**. In its efforts to meet or exceed these objectives, the SBI has sought and will continue to seek consultants' advice and recommendations in the design, development and implementation of its investment programs.

The primary advisory responsibilities of the consultant(s) selected through this RFP shall include, but are not limited to, the subjects of investment objectives and asset allocation, management structures, performance measurement and evaluation, risk management and analysis and other operational needs.

The SBI has retained the services of consulting firms since 1982. Currently, the firm of Richards & Tierney, Inc., Chicago IL serves as the SBI's primary consultant. Pension Consulting Alliance, Studio City, California serves as the SBI's consultant for special projects. The SBI has responsibility for deferred compensation investment activities. Watson Wyatt and Company of Bloomington, Minnesota has been retained as the deferred compensation consultant. This RFP does not include services for the deferred compensation program.

The SBI is issuing this RFP to comply with State law which requires all consultant contracts be rebid each five years, not out of dissatisfaction with the performance of the incumbent consultants. The SBI remains open to alternative approaches and encourages consulting organizations to respond to this RFP.

The SBI has requested a Consultant Review Committee to prepare and distribute a formal RFP to evaluate available consulting services. The Committee will review responses and will recommend one or more candidates to the SBI for approval. The SBI assumes that the process for evaluating and selecting a consultant or consultants will proceed expeditiously and will be completed by September 2001.

II. PURPOSE

The SBI utilizes qualified consultants to provide independent, objective and creative input in the process of fulfilling its fiduciary responsibility.

The consultant(s) employed by the SBI through this RFP will be expected to offer analysis, advice and recommendations with respect to one or more of the following:

- Investment Policies
- Investment Management Structures
- Manager Selection
- Performance Evaluation
- Risk Management and Analysis
- Operations and Resources
- Special Projects
- On-Site Consultation and Assistance

Detailed requirements are set forth in Section V of this RFP.

III. CONSULTANT RELATIONSHIP

The selected Consultant(s) will report to the Board. However, the Consultant(s) will bear the responsibility for maintaining direct communication with members of the Board and their staffs, the SBI's Executive Director and other SBI staff and members of the SBI's Investment Advisory Council.

The SBI recognizes that more than one consulting firm may be required to fulfill the duties described in Section V. The SBI's goal is to hire a consultant or consultants whose experience, whether broad-based or specialized, can best satisfy its needs.

Consultants are encouraged to respond to each of the duties cited in Section V in which they have special expertise.

IV. BACKGROUND REGARDING THE SBI

A. Legal Authorization

The SBI was created pursuant to Article XI, Section 8, of the Minnesota Constitution for the purpose of "administering and directing the investment of all state funds." Statutory provisions relating to fiduciary responsibility, portfolio composition, and the types of securities in which the SBI may legally invest are set forth in Minnesota Statutes Chapter 11A and 356A, copies of which are attached as **Exhibit B**.

B. Composition

By constitutional requirement, the SBI is composed of five (5) elected officials: Governor, State Auditor, State Treasurer, Secretary of State, and State Attorney General.

The Consultant Review Committee is composed of a designee of each member of the SBI and two (2) members of the SBI's Investment Advisory Council.

C. Investments and Managers

Currently, the SBI invests in domestic and international equities, fixed income, real estate, private equity and venture capital, resource funds (oil and gas), guaranteed investment contracts and derivative securities.

Less than 20% of the assets under the control of the SBI are managed internally. The remaining assets are managed by external money managers:

23 Domestic Equity (19 active, 3 semi-passive and 1 passive)
14 Foreign Equity (8 active, 1 passive, and 5 emerging markets)
9 Fixed Income (6 active and 3 semi-passive)
13 Real Estate
34 Private Equity and Venture Capital
5 Resource
1 Stable Asset/GIC
6 Deferred Compensation Mutual Funds

In addition, the SBI utilizes a master custodian to provide a variety of administrative and management functions.

D. Staffing and Support Services

The SBI has a staff of twenty-five (25) persons supervised by an Executive Director. This group manages the day-to-day investment responsibilities. The Executive Director reports investment developments to the SBI at its quarterly and special meetings. In order to carry out its duties effectively, the SBI staff maintains close contact with the Board members and their staffs, the State Legislature, the state-wide and local retirement systems with assets managed by the SBI, and the many firms providing various forms of investment services.

The SBI also receives investment assistance from its 17-member Investment Advisory Council (IAC), whose duties are set forth in Minnesota Statutes 11A.08. The IAC is composed of the State Commissioner of Finance, the Executive Directors of the three statewide retirement systems whose funds are invested by the SBI, a retiree representative, two active employee representatives and ten persons knowledgeable in general investment matters.

The IAC's duties are to advise the SBI on general investment policy matters and perform other advisory tasks as the SBI requests In order to function efficiently, the IAC is organized into three separate committees: Asset Allocation, Stock and Bond Managers, and Alternative Investments. The committees consider issues of interest to the Board that fall within their specific areas of responsibility. The committees meet as needed and report to the full IAC at the IAC's quarterly meetings.

The SBI has established an Administrative Committee to oversee the Executive Director's work plan and administrative budget. The Committee is comprised of each Board member (or his/her designee) as well as the chair and vice chair of the IAC.

The Proxy Committee establishes guidelines for voting shares held by the SBI. Proxies are voted by the SBI accordingly.

At times, the SBI may establish ad hoc committees to carry out specific tasks which it may assign.

Charts illustrating the SBI's functional organizational structure and decision-making process are included as **Exhibits C and D**.

E. Funds Invested by the SBI

The funds invested by the SBI are listed below, along with their March 31, 2001 market values.

	Market Value (Billions)
Basic Retirement Funds	$18.3
Post Retirement Fund	18.5
Supplemental Investment Fund	1.5
Assigned Risk Plan	0.3
Permanent School Fund	0.5
Environmental Trust Fund	0.3
Tobacco Prevention Fund	0.5
Medical Education Fund	0.3
State Cash Accounts	7.1
Total	$47.3

A brief description of each fund is included as **Exhibit A**.

V. DUTIES OF THE CONSULTANT(S)

The SBI has established performance objectives for each of the funds under its control (See **Exhibit A**). In its efforts to meet or exceed these objectives, the SBI has sought and will continue to seek consultants' advice and recommendations in the design, development and implementation of its investment programs.

The following list of duties represents the consultant(s) primary areas of responsibility. The SBI expects the consultant(s) selected through this RFP to provide independent, objective and creative input to its decision making process.

Most of the duties outlined in this section have been addressed by the SBI in the past or are being addressed now. However, during the contract period, the consultant(s) may be required to perform any or all of the following tasks:

A. Investment Policies:

1. An initial project for the consultant retained will be to prepare a comprehensive review or analysis of the investment policies established for the Basic Retirement Funds and Post Retirement Fund and recommend changes, if appropriate. The review should address investment objectives, asset allocation and management structure. Performance benchmarks or measures at each management level (total fund, asset class segment, individual manager) should be reviewed as well.

2. Conduct a similar review for other funds managed by the SBI, as requested.

3. Provide technical assistance in analyzing the investment characteristics of available asset classes and alternative asset mixes for each fund managed by the SBI.

4. Advise in the development of guidelines and procedures for rebalancing the asset mix of each fund and for evaluating the effectiveness of such procedures.

5. Assist in developing or updating a comprehensive written investment policy statement for each fund managed by the SBI.

B. Investment Management Structures:

1. Assist in developing an appropriate investment management structure for each fund and asset class which considers the role of passive versus active management, the range and mix of available management styles, as well as the number of managers hired.

2. Assist in developing criteria for evaluating the effectiveness of the current investment management structure for each fund and for altering the investment management structures under various market conditions.

3. Keep the SBI abreast of new developments in investment management techniques within each asset class and each fund as a whole. Analyze how these new techniques might enhance the SBI's investment program and how they might best be implemented.

C. Manager Selection:

1. Assist in designing and implementing manager selection processes.

2. Analyze the SBI's needs for particular managers within each asset class.

3. Assist in establishing appropriate qualitative and quantitative requirements for reviewing potential candidates.

4. Assist in screening prospective managers and recommending finalists which meet stated requirements.

D. Performance Evaluation:

1. Assist in developing of a composite index for each fund to measure total fund performance relative to its established target asset mix.

2. Analyze actual performance relative to the composite indices established for the Basic Retirement Funds, Post Retirement Fund and Combined (Basic and Post) Funds on an on-going basis.

3. Assist in analyzing the performance of other SBI funds, as requested.

4. Where appropriate, provide performance attribution for each manager in each asset class utilized in the Basic Retirement Funds and Post Retirement Fund. Provide an analysis of the individual and aggregate risk positions of the above managers on a periodic basis.

5. Assist in establishing appropriate performance benchmarks at the asset class and individual manager level in all asset classes.

6. Maintain customized benchmark portfolios for each domestic stock manager retained by the SBI.

7. Assist in evaluating manager performance and consistency relative to guidelines, standards, and desired characteristics.

8. Assist the SBI in continued implementation of performance-based fees. Currently, only domestic equity managers utilize performance-based fees.

E. Risk Management and Analysis

1. Assisting in developing and maintaining comprehensive risk measurement systems for each fund under SBI management.

2. Analyze the risk exposure of each fund under SBI management.

3. Assist the SBI to develop an agency wide risk analysis program.

F. Operations and Resources:

1. Review the Executive Director's annual work plan and recommend modifications, where appropriate.

2. Comment on the adequacy of the operational resources available to carry out the plan (e.g. budget, staffing, data processing systems).
   new technologies

3. Recommend new technologies which may be available to enhance the productivity of the operation.

G. Special Requests:

1. Prepare comprehensive analyses of specific issues designated by the SBI. These may include topics such as tobacco related investments, custodial relationships or data processing needs.

2. Present such analyses to the SBI and IAC when requested.

H. On-Site Consultation and Assistance:

1. Be available to attend all quarterly and special meetings of the SBI and the Investment Advisory Council (IAC). Generally, the IAC and SBI meet on consecutive days once each quarter.

   The consultant may be called upon to comment on specific items presented to the SBI for approval, to evaluate elements of the SBI's investment management programs, to review trends in the economy and capital markets.

2. Meet with each member of the SBI or their designee on a quarterly basis, or as requested, to discuss pertinent investment management issues.

3. Meet with SBI staff, as needed, to assure timely completion of the tasks set forth in this section.

VI. PREPARATION OF PROPOSAL

The consultant's response to this RFP shall be organized in the following manner. **Please observe the page limits shown for each section.** Please note that consultants will be evaluated, in part, on their ability to communicate clearly and succinctly. **Brevity will be appreciated and considered in the evaluation of the RFP responses.**

Executive Summary
Page Limit: One

Section 1: Consulting Services Provided
Page Limit: No more than 15

- A statement of the services the consultant is prepared to provide the SBI in order to respond to one or more of the duties delineated in Section V of this RFP. If necessary, provide a statement of any other tasks the consultant believes must be performed to completely meet the SBI's needs.

- The consultant's approach for providing services delineated in Section V of this RFP.

- A statement of any expected tasks or contributions by the State of Minnesota (including the members of the Board, the Consultant Review Committee, the SBI staff, any other State agencies or the IAC) necessary to provide documents or other data needed by the consultant to accomplish the work plan.

- Designation of a project manager and project team for the consulting relationship.

- After reviewing the SBI's annual report, provide a statement of your firm's philosophy relating to the SBI's investment management structure, including but not limited to the concept of the use of customized benchmark portfolios.

Section 2: Organization and Personnel
Page Limit: No more than 10

- A description of the organization which includes the following information:

  - Date business commenced.

  - Ownership structure.

  - Affiliation with other firms (i.e. parent companies, brokerage firms, investment banking firms or other entities).

  - Description of the firm's financial position and sources of revenue. Include a copy of the firm's most recent audited financial statements.

  - Description of any litigation pending against the firm.

  - Number of consulting relationships gained and lost in each of the following periods:

    - January - December 1998
    - January - December 1999
    - January - December 2000
    - January - June 2001

- Number and title of professional personnel gained and lost in the same periods.

- Brief description of the firm's growth plan and capacity to undertake this consulting relationship.

- A resume or biography of each professional staff person to be assigned to this consulting relationship, outlining their qualifications, previous experience in similar tasks or engagements and the relative contribution (in person-hours) of each.

Section 3: Computer Capability
Page Limit: No more than 4

- A description of the databases, software and hardware that will be used to support the delivery of investment consultant services.

- A description regarding how the databases and software will be accessed by SBI staff. Specify the hardware necessary to accomplish such access.

Section 4: Experience and References
Page Limit: No more than 7

- A presentation of the previous experience of the consultant with similar tasks or engagements.

- A list of all pension fund clients under contract as of June 2001.

- A list of at least three references. The references must be current public or private pension fund clients and should have accounts of similar size and complexity as those described in this RFP. The references shall include the name, title, organization, address and phone number of the responder's primary contact at the client organization.

Section 5: Fee Proposal
Page Limit: No more than 2

- Proposed fees shall be stated in one of the following alternatives:

  (1) Total fee to be charged and a list of the services to be provided.

  (2) Individual costs related to each service the consultant proposes to provide. (All proposed fees should be all inclusive. No additional charges such as travel will be accepted).

- A statement that the fee estimate is valid for a minimum of one hundred and twenty (120) days. This period may be extended by mutual agreement between a responder and the Consultant Review Committee.

Section 6 or Attachment: Affirmative Action Data Page
Page Limit: No more than 1

- Complete the State of Minnesota Affirmative Action Data Page that appears as **Exhibit E** on page 63 of this package.

Section 7 or Attachments: Report Formats
Page Limit: None Specified

- Sample reports or reporting formats that the consultant would intend to provide the SBI on a regular basis. Provide the production schedule and the required inputs.

- List the accounting conventions used in performance calculations. Describe the firm's ability to modify/adapt these conventions.

- A list of research reports or articles prepared by the consultant for use by its clients within the last three (3) years.

- One (1) sample report or article from the above list which relates to one or more of the following topics: market analysis, asset allocation or performance evaluation.

VII. SUBMISSION OF RESPONSE

The responder shall submit twenty (20) bound copies of its RFP response to the SBI at the following address:

Mansco Perry, III
Assistant Executive Director
Minnesota State Board of Investment
590 Park Street, Suite 200
St. Paul, MN 55103

(651) 296-3328
minn.sbi@state.mn.us

- **No proposal received after 2:00 P.M. Central Time on July 13, 2001 will be considered.**
- **One (1) copy of the response must be unbound and signed in ink by an authorized officer of the responding firm.**
- **Copy on disk or CD readable by Microsoft Word.**
- **Each copy of the response must be sealed in a mailing envelope or package with the responder's name and address clearly written on the outside. Please identify the unbound copy on the outside of its envelope as well.**

VIII. PROJECT TIMETABLE AND RELATED REQUIREMENTS

RFP Issued.	June 18, 2001
Consultants' proposals due.	July 13, 2001
NO PROPOSALS RECEIVED AFTER 2:00 P.M. CENTRAL TIME ON 7/13/01 WILL BE CONSIDERED.	
Proposals evaluated by the Consultant Review Committee.	July-August 2001*

The Consultant Review Committee may require that a consultant submitting a proposal make an oral presentation to the Committee during the evaluation process. In such event, the Committee shall notify the consultant of the time and location of same.

<u>Consultant selected by the SBI.</u>	September 2001*
<u>Contract completed and executed.</u>	July 1, 2002*

* Projected dates, subject to change.

IX. INFORMATION CONTACTS

The SBI's <u>exclusive</u> agents for purposes of responding to consultants' inquiries on RFP requirements are:

Howard Bicker
Executive Director

Mansco Perry, III
Assistant Executive Director

Minnesota State Board of Investment
590 Park Street, Suite 200
St. Paul, MN 55103
Telephone: (651) 296-3328
minn.sbi@state.mn.us

Other persons are not authorized to discuss RFP requirements with responders before the proposal submission deadline.

The SBI shall not be bound by and responders may not rely on information regarding RFP requirements obtained from non-authorized persons.

X. PROPOSAL SELECTION

A. Nature of Procurement.

This procurement is undertaken by the SBI pursuant to the provisions of Chapter 16C of Minnesota Statutes, a copy of which is attached as **Exhibit F**. As such, it is not governed by strict competitive bidding requirements frequently associated with the purchase of supplies and materials by the State and selection will not be based exclusively on the concept of lowest responsible bidder. The SBI reserves the right to waive minor informalities.

Accordingly, the SBI shall select the Consultant(s) whose proposal and oral presentation, if requested, demonstrate, in SBI's sole opinion, clear capability to best fulfill the purposes of the RFP in a cost effective manner. The SBI reserves the right to accept or reject proposals, in whole or in part, and to negotiate separately as necessary to serve the best interest of the State of Minnesota.

B. Selection Criteria.

The evaluation of proposals will be based on:

1. **The quality and completeness of the consultant's answer to Section V of the RFP as it relates to the prescribed duties.** The approach, methodology and techniques should be appropriately specific, logical and organized. The consultant must demonstrate the capability to gather the necessary information, develop fully supportable conclusions, and communicate findings and recommendations clearly and succinctly.

2. **The consultant's demonstrated knowledge and experience in investment consulting.** It is imperative that the consultant has been frequently and recently engaged in the field of investment consulting for large pension plan sponsors. In addition, knowledge and experience with respect to endowments, cash accounts, and insurance portfolios is desirable.

3. **The quality of staff to be assigned to fulfill this contract and available support.** The consultant must assign to this contract, in terms of numbers and quality, sufficient staff with experience in the fields of financial and investment analysis, data processing and systems support, and general pension fund management. The consultant should explain to the best of its ability to what extent back-up professional personnel are available to substitute for loss of professional personnel identified as necessary in the proposal.

4. **The quality of the data processing and analytical systems necessary to support the consulting services.** The consultant should demonstrate its ability to manage and maintain the computer software, hardware and databases referenced in its proposal. The consultant's commitment to upgrade existing systems and to introduce new applications which will enhance its ability to perform its duties also will be assessed.

5. **The consultant's demonstrated ability to communicate effectively.** The consultant's ability to effectively communicate with both technical and non-technical audiences will be evaluated.

6. **The consultant's demonstrated ability to manage the assignment effectively and assure the successful delivery of the services provided.** The plan for performing and managing the contract, including the framework within which the project team will function relative to the State, will be evaluated. The consultant should demonstrate its ability to manage and control its duties, including specification of the reporting mechanisms and inter-relationships between the consultant, the SBI and its staff, and outside vendors of the SBI.

XI. COST AND METHOD OF PAYMENT

- All costs relating to the proposal shall be explained in detail.
- Payment shall be made on a pro rata quarterly basis billed in arrears.
- The SBI reserves the right to reject a consultant's proposal on the basis of cost.

XII. PERIOD OF CONTRACT

The contract shall be for five (5) years commencing on or about July 1, 2002.

By Minnesota law, the contract may be canceled by the State Board of Investment, the Commissioner of Administration of the State of Minnesota, or the contractor at any time, with or without cause, upon thirty (30) day written notice to the other party.

XIII. PUBLIC STATUS OF PROPOSALS SUBMITTED

Pursuant to Minnesota law, all proposals submitted in response to this RFP shall become the property of the State of Minnesota. Such proposals shall also constitute public records and shall be available for viewing and reproduction by any person.

DATE: June 18, 2001

EXHIBIT A

SUMMARY OF FUNDS MANAGED BY THE SBI

(Please also see the enclosed SBI Annual Report for Fiscal Year 2000. The report will give a history of the SBI and detailed facts pertaining to the current management structure.)

COMBINED FUNDS

The Combined Funds represent the assets of both active and retired public employees who participate in the defined benefit plans of the major statewide public employee retirement plans. Active employee assets reside in the Basic Retirement Funds and retiree assets are held in the Post Retirement Fund. More information on the Basic and Post Funds are presented below.

Unlike most other public and corporate pension plans, the assets of active and retired employees are separated under statute and therefore managed and accounted for separately. 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 more meaningful comparison with other pension fund investors.

All assets of the Basic and Post Funds are managed externally using multiple managers.

Performance Objectives

The Board has established several long term investment objectives for the Combined Funds. Monitoring actual performance against these return objectives helps the Board to ensure that the Basic and Post Funds meet their respective long-term funding objectives:

- Provide Real Returns. Over a ten year period, the Combined Funds are expected to exceed inflation by 3-5 percentage points.
- Exceed Market Returns. Over a five year period, the Combined Funds are expected to outperform a composite of market indices weighted in a manner that reflects the asset mix of the Combined Funds.
- Exceed Median Fund Returns. Over a five year period, the Combined Funds are expected to outperform the return of the median fund in a representative universe of other public and corporate pension and trust funds with a balanced asset mix of stocks and bonds. The universe used by the SBI is the Master Trust portion of the Trust Universe Comparison Service (TUCS).

BASIC RETIREMENT FUNDS ($18.3 billion)

The Basic Retirement Funds contain the pension assets of the currently working participants in the major statewide public employee retirement plans:

Retirement System	**Plans**
Teachers Retirement	Teachers Retirement Plan
Public Employees Retirement	Public Employees Plan Police and Fire Plan Police and Fire Consolidation Plan
Minnesota State Retirement	State Employees Plan Highway Patrol Plan Judges Plan Correctional Employees Plan

The long term policy asset mix for the Basic Funds is:

Asset Class	**Allocation**		**Asset Class Target**
Equities		60%	
Domestic Stocks	45%		Wilshire 5000 Investable
International Stocks	15%		Composite of MSCI EAFE-Free and Emerging Markets Free
Alternative Assets		15%	
Private equity			Composite of SBI Funds
Real Estate			Composite of SBI Funds
Resources			Composite of SBI Funds
Fixed Income		25%	
Domestic Bonds	24%		Lehman Aggregate
Cash Equivalents	1%		91 Day T-Bills
Total		100%	

All assets of the Basic Funds are managed externally using multiple managers.

(References to the Wilshire 5000 Investable reflect a custom index used by the SBI as its U.S. domestic equity asset class target which is a derivative of the Wilshire 5000 Index).

POST RETIREMENT INVESTMENT FUND ($18.5 billion)

The Post Retirement Investment Fund includes the assets of retired public employees covered by the eight state-wide plans in the Basic Retirement Funds (described above) and the Legislative and Survivors Retirement Funds..

Under current statute, retirees receive an inflation based adjustment equal to 100% of inflation, up to a maximum of 2.5% specified in statute. The inflation component is granted regardless of investment performance. Retirees also receive an investment-based adjustment, provided net investment gains are above the amount needed to finance the Post Fund's actuarial assumption of 6% and the inflation adjustment.

The long term policy asset mix for the Post Fund Is:

Asset Class	**Allocation**		**Asset Class Target**
Equities		65%	
Domestic Stocks	50%		Wilshire 5000 Investable
International Stocks	15%		Composite of MSCI-EAFE-Free and Emerging Markets Free
Alternative Assets		5%	
Yield oriented			Composite of SBI Funds
Fixed Income		30%	
Domestic Bonds	27%		Lehman Aggregate
Cash Equivalents	3%		91 Day T-Bills
Total		100%	

All assets of the Post Fund are managed externally using multiple managers.

(References to the Wilshire 5000 Investable reflect a custom index used by the SBI as its U.S. domestic equity asset class target which is a derivative of the Wilshire 5000 Index).

SUPPLEMENTAL INVESTMENT FUND ($1.5 billion)

The Supplemental Investment Fund includes the assets of the state deferred compensation plan, supplemental benefit arrangements, various retirement programs for local police and firefighters, and the unclassified employees of the state. Participants have a choice among seven separate accounts with different investment emphases designed to meet a wide range of investor needs and objectives:

Account	**Assets Mix**	**Objective**
Income Share	Balanced - Stocks and Bonds	Exceed Composite Index: 60% Wilshire 5000 Investable/ 35% Lehman Aggregate/ 5% 91 Day T-Bills
Growth Share	All Stock - Active	Exceed Composite Index: 100% Wilshire 5000 Investable
Common Stock Index	All Stock - Passive	Track Wilshire 5000 Investable
International Share	All Stock - Active and Passive	Exceed Composite Index: 87% - EAFE-Free/ 13% Emerging Mkts-Free
Bond Market	All Bonds - Active	Exceed Lehman Aggregate
Money Market	All Short Term Debt	Exceed 91 Day T-Bills
Guaranteed Return	All 3 Year GIC's	Exceed 3 year Treasury Note rate at time of purchase

Nearly all assets in the Fund are managed externally using the same firms retained for the Basic Retirement Funds.

(References to the Wilshire 5000 Investable reflect a custom index used by the SBI as its U.S. domestic equity asset class target which is a derivative of the Wilshire 5000 Index).

PERMANENT SCHOOL FUND ($0.5 billion)

The Permanent School Fund is a trust established for the benefit of Minnesota public schools. Investment income is used to offset state school aid payments. The entire fund is managed internally.

Performance Objectives

The fund is invested in a balanced portfolio of common stocks and bonds. 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.

ENVIRONMENTAL TRUST FUND ($0.3 billion)

The Environmental Trust Fund was established to provide a long-term, consistent and stable source of funding for activities that protect and enhance the environment. The entire fund is managed internally.

Performance Objectives

The fund is invested in a balanced portfolio of common stocks and bonds. 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.

ASSIGNED RISK PLAN (0.3% billion)

The Minnesota Workers Compensation Assigned Risk Plan is the insurance company of last resort for companies unable to obtain insurance coverage from private issuers. The portfolio is managed externally by two managers with one focusing on the bond segment and the other managing the equity segment.

The plan has two investment objectives: to minimize the mismatch between assets and liabilities and to provide liquidity for the payment of on-going claims and operating expenses.

Performance Objectives

The Plan's assets are invested in a portfolio of bonds and common stocks. Its target asset mix and performance objective will fluctuate in response to changes in the Plan's liability stream. At present, the performance objective is to exceed a composite index weighted 20% in the S&P 500 and 80% in a customized bond index with a duration of approximately 3 years.

MEDICAL EDUCATION FUND ($0.3 billion)

The Medical Education Fund was established to distribute a portion of the 1998 tobacco litigation settlement proceeds to be used for medical education at the University of Minnesota Medical School.

Performance Objectives

The fund is invested in a balanced portfolio of common stocks and bonds. 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.

TOBACCO PREVENTION FUND ($0.5 billion)

The Tobacco Prevention Fund was established to distribute a portion of the 1998 tobacco litigation settlement proceeds to be used by the Commissioner of Health to fund public health initiatives.

Performance Objectives

The fund is invested in a balanced portfolio of common stocks and bonds. 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.

STATE CASH ACCOUNTS ($7.1 billion)

These accounts represent the cash balances in more than 400 separate accounts that flow through the Minnesota State Treasury. These accounts include the Trust Fund Pool (cash balances of internally managed retirement-related accounts and the Permanent School), the Treasurer's Cash Pool (cash balances of special or dedicated accounts of State agencies and the balance of the Invested Treasurer's Cash), bond proceeds, the debt reserve transfer, and small legally restricted cash accounts. All of these accounts are managed internally.

Performance Objectives

The Trust Fund Pool is measured solely against the IBC Donoghue All Taxable Money Fund Average.

The first $500 million of the Invested Treasurer's Cash Pool is measured against the Lehman Brother's 1 to 3 year Government Index. The balance is measured against the IBC Donoghue All Taxable Money Fund Average.

Tab D

COMMITTEE REPORT

DATE: August 28, 2001

TO: Members, State Board of Investment

FROM: Deferred Compensation Review Committee

SUBJECT: Mid-Cap Equity Option for State Deferred Compensation Plan

At its June 2001 meeting, the Board authorized the Deferred Compensation Review Committee to evaluate the addition of a mid-cap stock mutual fund to the State Deferred Compensation Plan. The Committee met August 13 to consider the issue.

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

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

The Committee reviewed materials prepared by staff concerning several potential mid-cap mutual fund candidates. The Committee also discussed the option of not adding an additional fund. The options considered were:

1. Dreyfus Mid-Cap Value
2. MAS Mid-Cap Value
3. One Group Mid-Cap Growth
4. T. Rowe Price Mid-Cap Growth
5. Dreyfus Mid-Cap Index
6. Vanguard Mid-Cap Index
7. Choose no mid-cap fund

After discussion, the Committee decided to recommend the MAS Mid-Cap Value Fund to the Board.

RECOMMENDATON:

The Deferred Compensation Review Committee recommends that the Board authorize the Executive Director, with assistance from legal counsel, to negotiate and execute a contract to retain MAS Mid-Cap Value Fund and to work with the Executive Director of the Minnesota State Retirement System to include the Fund in the list of investment options for the State Deferred Compensation Plan.

Tab E

COMMITTEE REPORT

DATE: August 28, 2001

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

FROM: Stock and Bond Manager Committee

The Stock and Bond Manager Committee met on August 22, 2001 to consider the following agenda items:

- Review the manager performance for the period ending June 30, 2001.
- Update on semi-passive manager tracking error target.
- Review of Lincoln Capital Management.
- Recommendation to promote New Amsterdam Partners to the Domestic Equity Program.
- Recommendation to adopt the Lifetime Fish & Wildlife Trust Fund policy paper.

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

INFORMATION ITEMS:

1. Review of manager performance for the period ending June 30, 2001.

- ***Domestic Equity Managers***

For the period ending June 30, 2001, the **Domestic Equity Manager Program** and the **current managers** out-performed the Wilshire 5000 Investable during the quarter, one and five-year time periods, but under-performed during the three-year time period.

Time period	Total Program	Wilshire 5000 Investable
Quarter	7.7%	7.5%
1 Year	-15.2	-15.8
3 Years	2.7	3.0
5 Years	12.9	12.7

Current Mgrs. Only	Aggregate Benchmark
7.7%	7.6%
-15.2	-15.8
4.3	4.4
14.5	13.8

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

- *Fixed Income Managers*

For the period ending June 30, 2001, the **Fixed Income Manager Program** outperformed the Lehman Aggregate for the quarter, one and five-year periods, and matched the index during the three-year time period. The **current managers** outperformed the aggregate benchmark over all time periods.

Time period	Total Program	Lehman Aggregate
Quarter	0.8%	0.6%
1 Year	11.8	11.2
3 Years	6.3	6.3
5 Years	7.9	7.5

Current Mgrs. Only	Aggregate Benchmark
0.8%	0.6%
11.9	11.2
6.4	6.3
7.9	7.5

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

- *International Equity Managers*

For the period ending June 30, 2001, the **International Equity Program** and the **equity managers** (excluding the currency overlay) outperformed the composite index over all time periods.

Time Period	Total Program	Composite Index*
Quarter	0.6	-0.5
1 Year	-22.1	-23.9
3 Year	-0.2	-0.7
5 Year	3.5	1.9

Equity Mgrs. Only
0.6
-22.1
0.0
2.8

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

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

2. **Update on semi-passive manager tracking error target.**

The semi-passive manager component of the Domestic Equity Program has been in place since January 1995. Since then, the goal of the program has been to track the Dynamic Completeness Fund (DCF) benchmark within a range of 1.0% to 1.5%.

Typically, semi-passive managers operate in a range from 0.75% to 3.0% tracking error.

As a result of market volatility during the past 12 months, the DCF benchmark experienced higher than usual turnover. To maintain the desired tracking level to the changing DCF benchmark, the semi-passive managers were forced to trade to keep the portfolio within the stated tracking error target range. The resulting transaction costs were driven by risk control as opposed to alpha oriented bets.

Staff met with each of the semi-passive managers to discuss this issue and determined that an increase in the stated tracking error target is warranted. Staff is recommending an increase in the target range for the tracking error to 1.0% to 2.0%. While this is a moderate change, it will reduce transaction costs by allowing the semi-passive managers a slightly increased tracking error range, and it will reduce the amount of trading purely due to benchmark turnover. Additionally, the modest increase in tracking error will provide slightly better expected returns for a semi-passive portfolio.

It is Staff's intent to implement this increased tracking error target range of 1.0% to 2.0% effective October 1, 2001.

3. **Review of Lincoln Capital Management.**

The Committee reviewed Lincoln Capital Management as a result of their recent performance and organizational developments. Lincoln has under performed their custom benchmark by 925 basis points over the past three quarters, a result of poor stock selection within the technology sector. As a large capitalization growth manager, technology has predominated Lincoln's benchmark during this recent three quarter period, ranging from 42% to 54% of total weight. Concurrently, this sector was extremely volatile and difficult to navigate. While Lincoln did underweight technology, they held significant positions in a number of technology related names. Attribution analysis shows that the aggregate performance of all non-technology sectors added 50-60 basis points of value to the portfolio in each of the last three quarters.

To address the performance issues, Lincoln restructured the investment team to broadened responsibilities and streamlined the decision-making structure. The firm also addressed compensation and ownership issues in order to retain its investment professionals, and remains strongly committed to their private ownership structure.

Staff believes that the steps Lincoln has taken will enable the firm to stabilize and focus its attention on producing favorable performance results. Dave Fowler remains our portfolio manager and the firm remains committed to their investment philosophy and process. While performance has suffered, staff has confidence that Lincoln can provide strong performance in the large cap growth area going forward, and therefore recommends continuing the asset management relationship with Lincoln Capital Management.

ACTION ITEMS:

4. **Recommendation to promote New Amsterdam Partners to the Domestic Equity Program.**

New Amsterdam Partners was hired by the SBI in April 1994 as an active manager in the Emerging Manager Program. Michelle Clayman formed New Amsterdam Partners in 1987 and remains chief investment officer. The investment staff includes two portfolio managers and two research analysts. Over the past five years assets have grown from $250 million to $1.2 billion and the firm now has 28 clients. New Amsterdam has handled this growth very well, adding additional investment staff and resources as necessary.

New Amsterdam is a mid-cap manager that believes investment opportunities ought to be evaluated by comparing expected investment returns. Their investment style is disciplined, quantitative investment management combined with a rigorous fundamental overlay. They believe that the disciplined use of their valuation techniques, in conjunction with sound financial analysis of companies, is the key to understanding and maximizing investment returns.

New Amsterdam has outperformed their custom benchmark by over 1% annualized since 1994. New Amsterdam is a strong organization with a disciplined investment process and a demonstrated track record of adding value to their custom benchmark. Therefore, Staff believes New Amsterdam would make a good addition to the Domestic Equity Program. The Committee concurred with Staff's recommendation.

RECOMMENDATION:

The Committee recommends that New Amsterdam Partners be transferred to the regular Domestic Equity Program from the Emerging Manager Program.

5. **Recommendation to adopt the Lifetime Fish & Wildlife Trust Fund policy paper.**

The Lifetime Fish and Wildlife Trust Fund was established by the 2000 Legislature to receive the proceeds from the sale of lifetime licenses for certain hunting and fishing activities. A long-term earnings assumption of eight percent (8%) was used to establish prices for the lifetime licenses. Since the Fund has a long-term growth objective with short-term spending needs, similar to the Environmental Trust Fund, the DNR recommended a 70 percent stock and 30 percent bond allocation for the

Fund. A policy paper describing the investment objectives and asset allocation for the Lifetime Fish and Wildlife Trust Fund is included on **page 7.**

RECOMMENDATION:

The Committee recommends that the Board adopt the attached policy paper concerning the Lifetime Fish and Wildlife Trust Fund.

DRAFT

LIFETIME FISH AND WILDLIFE

TRUST FUND

Staff Position Paper

August 2001

The State Board of Investment (SBI) is responsible for the investment management of the Lifetime Fish and Wildlife Trust Fund. The Fund is a nonretirement account that, by state law, must be invested separately from the retirement assets managed by the SBI.

This paper sets forth the statutory basis for the Fund and presents the investment objectives and rationale for an appropriate asset allocation. A letter from the Department of Natural Resources (DNR) discussing the legislative background and statutory requirements is attached as **Exhibit I**.

Purpose of the Fund
The 2000 Legislature passed a bill providing for the sale of lifetime licenses for certain hunting and fishing activities. Each year DNR is to transfer from the Fund to the game and fish fund an amount equal to the amount that would otherwise have been collected from annual license fees. The SBI is to invest the funds "to secure the maximum return consistent with the maintenance of the perpetuity of the fund." In short, the Legislature created a new endowment fund with a long term return objective and a short term spending need.

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

An endowment fund's tolerance for risk is determined largely by the trade-off between short-term and long-term objectives. In turn, the emphasis on short-term or long-term objectives is primarily a function of the importance of the endowment fund's spendable income stream to the sponsor's total revenue. When the spendable income stream is a relatively small percentage of total revenues, the risk tolerance of the sponsor will tend to be higher than in a situation in which the fund's spendable income stream is a large percentage of the sponsor's total revenue. In the latter case, the sponsor is likely to be more cautious since a protracted period of poor investment results could have a serious impact on the various projects that the endowment fund is expected to finance.

Investment Objective
The Fund's investment objectives are influenced by the long term earnings assumption that the Legislature used to support the pricing of the licenses and the requirement to transfer annually from the Fund an amount equal to the amount that otherwise would have collected from annual licenses.

The earnings assumption supporting the pricing of the license is eight percent. The annual amounts to be transferred out of the Fund are currently unknown. Over time, DNR will be better able to estimate these amounts.

Asset Allocation
The Fund has a long term growth objective, subject to short term spending needs.

Staff supports a DNR recommendation to establish a 70 percent stock and 30 percent fixed income allocation similar to that of the Environmental Trust Fund to best meet the eight percent long term growth objective of the Fund and to produce earnings to support annual withdrawals.

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

Recommendation
Staff recommends that the Fund be invested in a 70% stock / 28% bond / 2% cash allocation through the internally managed stock and bond pools.

EXHIBIT I

Minnesota Department of Natural Resources

OFFICE OF THE COMMISSIONER
500 Lafayette Road
St. Paul, Minnesota 55155-4037

August 17, 2001

Members of the State Board of Investment
590 Park St., Suite 200
St. Paul, MN 55103

Dear Board Members,

The 2000 Legislature passed a bill providing for the sale of lifetime licenses for certain hunting and fishing activities. The new lifetime licenses were available for sale to state residents beginning March 1, 2001 and will be available for sale to non-residents on March 1, 2002. Lifetime licenses can be purchased as a gift or for the purchaser. Proceeds from the sale of lifetime licenses are deposited to a new Lifetime Fish and Wildlife Trust Fund in the state treasury. Interest earnings are also credited to the trust fund.

M.S. Chapter 97A.4742, subdivision 2, states in part: "Money in the lifetime fish and wildlife trust fund shall be invested by the state investment board to secure the maximum return consistent with the maintenance of the perpetuity of the fund. The income received and accruing from investments of the fund shall be deposited in the lifetime fish and wildlife trust fund." In the six months following initial lifetime license sales, receipts deposited to the fund have earned interest as invested treasurer's cash (ITC) at an annual rate of slightly more than 4%. DNR staff has been in contact with staff from the State Board of Investment to initiate action as directed by statute for the investment and management of lifetime license funds.

On Thursday, August 9 the following people met to clarify legislative intent and to discuss approaches to managing the money in the Lifetime Fish and Wildlife Trust Fund.

Senator Pat Pariseau
Tim Edman, Senate Research
Kevin Voss, Senate Research
Howard Bicker, State Board of Investment
Jim Heidelberg, State Board of Investment
Lyle Mueller, DNR Financial Analysis and Reporting

Senator Pariseau, as one of the primary Senate authors of the bill, stated her desire to follow a long-term investment strategy for the fund. An investment plan could be developed similar to the approach taken to investing for the Environmental and Natural Resources Trust Fund. The characteristics of the two funds are similar but not identical. The Environmental Trust Fund also has a long investment time horizon with an emphasis on long term growth verses immediate and known income earnings. Assets in the Environmental Trust Fund are allocated 70% to equities (stocks, mutual funds) and 30% to fixed income (bonds and bond funds).

An annual investment return of 8% was one of the key planning assumptions related to the lifetime license. This earnings rate, together with assumptions on life expectancy and frequency of license use, was used to determine breakeven points and to establish the price of the lifetime license. The parties involved in the planning process knew achieving this level of return meant investing in the stock market. They also knew this approach carries an element of risk and uncertainty. The participants at the August 9th meeting also acknowledged that any investment in the current stock market would likely show a decrease in value. However, an investment strategy with a long-term view must be willing to risk downturns in the market if the objective is to seek greater interest returns than possible with fixed income investments.

Following consultation with the Senate bill author, Senate research staff and State Board of Investment staff, the Department of Natural Resources recommends the implementation of a specific investment plan for the Lifetime Fish and Wildlife Trust Fund The plan will identify the amount of available funds and allocate them as 70% equity investments and 30% fixed income instruments.

Thank you for your willingness to add this to the agenda of your September meeting. My staff is available to assist you and your staff in taking the next steps to develop an investment plan for the Lifetime Fish and Wildlife Trust Fund. Feel free to contact Peggy Adelmann, Administrator of the Office of Management and Budget Services at 651/296-8889 with your requests.

Sincerely,

Allen Garber

Allen Garber
Commissioner, Department of Natural Resources

Cc
Senator Roger Moe
Senator Pat Pariseau
Senator Jane Krentz
Senator Leonard Price
Senator Dennis Frederickson
Representative Steve Sviggum
Representative Mark Holsten
Representative Larry Howes
Representative Dennis Ozment
Tim Edman, Senate Research
Kevin Voss, Senate Research
Howard Bicker, State Board of Investment
Jim Heidelberg, State Board of Investment

STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

Second Quarter, 2001

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending June, 2001

	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												
Alliance Capital	5 8	6 3	-24 3	-22 0	7 8	5 6	21 7	16 7	18 9	14 0	$1,279 08	6 4%
Brinson Partners	7 6	5 5	14 6	-13 0	1 0	5 5	10 8	14 1	13 6	14 7	$688 62	3 4%
Cohen, Klingenstein & Marks	5 7	8 2	-14 4	-19 1	5 6	5 6	16 8	14 9	18 9	16 4	$592 09	2 9%
Forstmann-Leff	10 2	9 6	-14 4	14 9	12 5	13 9	19 6	16 7	15 3	13 9	$845 28	4.2%
Franklin Portfolio	9 6	7 6	2 9	-1 1	7 0	6 4	16 7	14 1	15 6	14 2	$681 66	3 4%
GeoCapital	7 2	17 1	-29 6	-11 1	-0 9	2 9	6 3	5 2	12 0	12 9	$591 92	2 9%
Lincoln	7 3	9 1	-42 8	-35 9	-5 4	-0 7	8 3	12 5	12 8	14 8	$632 62	3 1%
Oppenheimer	6 4	3 9	12 3	4 2	7 7	10 1	17 7	17 8	18 2	17 1	$941 94	4 7%
Emerging Managers (2)	12.3	13 4	-7 3	-0 3	7 4	12 5	15 4	17 8	16 8	18 5	$919 00	4 6%
Semi-Passive Managers												
Franklin Portfolio	7 2	6 8	-17 8	-19.8	-1 9	-0 7	10 9	11 1	15 0	15 3	$1,922 92	9.6%
JP Morgan	7 0	6 8	-15 8	-19 8	0 4	-0 7	11 9	11 1	16 0	15 3	$2,084 01	10 4%
Barclays Global Investors	7 9	6 8	-15 9	-19 8	0 0	-0 7	11 5	11 1	16 1	15 3	$2,484 31	12 4%
Passive Manager												
Barclays Global Investors	7 5	7 5	-15 2	-15 8	3 7	3 3	13 4	12 9	15 3	15 0	$6,424 28	32 0%
									Since 1/1/84			
Current Aggregate	7 7	7 6	-15 2	-15 8	4 3	4 4	14 5	13 8	15 8	13 4	$20,087 73	100 0%
Historical Aggregate (3)	**7.7**	**7.6**	**-15.2**	**-15.8**	**2.7**	**3.1**	**12.9**	**12.8**	**13.9**	**14.1**		
Wilshire 5000 Investable (4)		7 5		-15 8		3 0		12 7		14 1		
Wilshire 5000		7 5		-15 3		3 5		13 1		14 4		

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

ALLIANCE CAPITAL MANAGEMENT
Periods Ending June, 2001

Portfolio Manager: Jack Koltes | **Assets Under Management: $1,279,080,611**

Investment Philosophy

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

Staff Comments

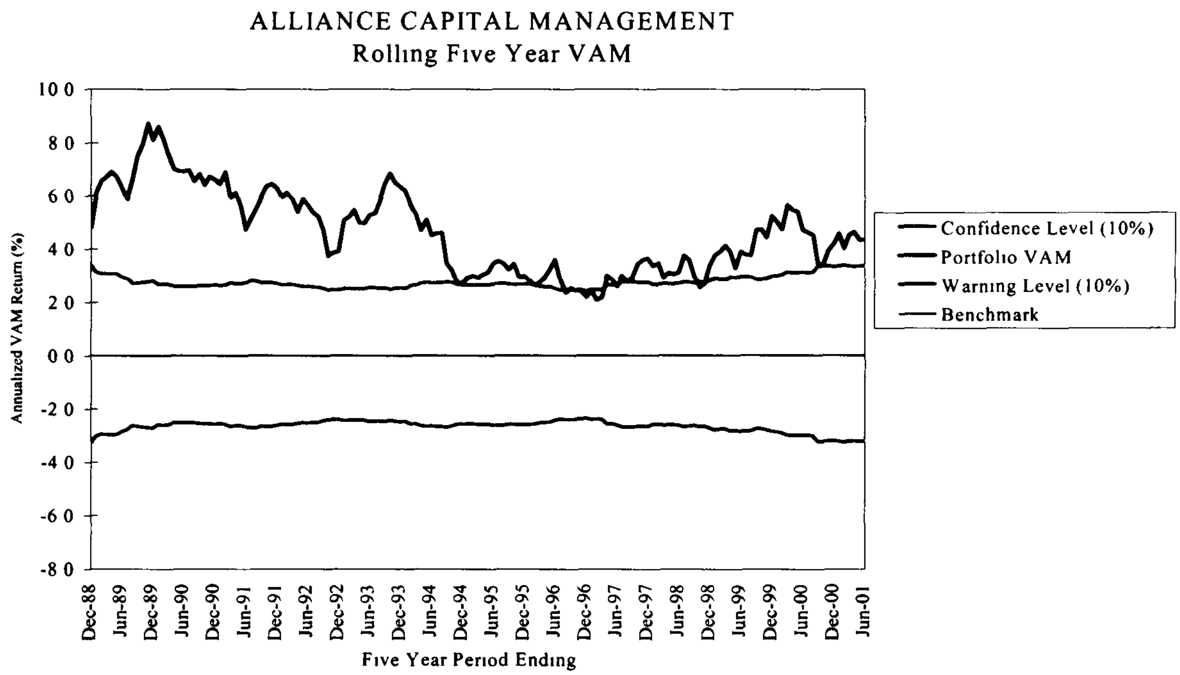
Staff visited Alliance at their Minneapolis office in July to review our portfolio and the firm's investment philosophy and process. The firm slightly underperformed over the quarter and past year. Alliance is positioning the portfolio cautiously, with an underweight in technology in favor of healthcare, financial, and consumer staples stocks. Performance relative to the benchmark over time has been good due to strong stock selection.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.8%	6.3%
Last 1 year	-24.3	-22.0
Last 2 years	-3.4	-5.1
Last 3 years	7.8	5.6
Last 4 years	17.2	12.5
Last 5 years	21.7	16.7
Since Inception (1/84)	18.9	14.0

Recommendation

No action required.



BRINSON PARTNERS
Periods Ending June, 2001

Portfolio Manager: John Leonard **Assets Under Management: $688,618,971**

Investment Philosophy

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

Staff Comments

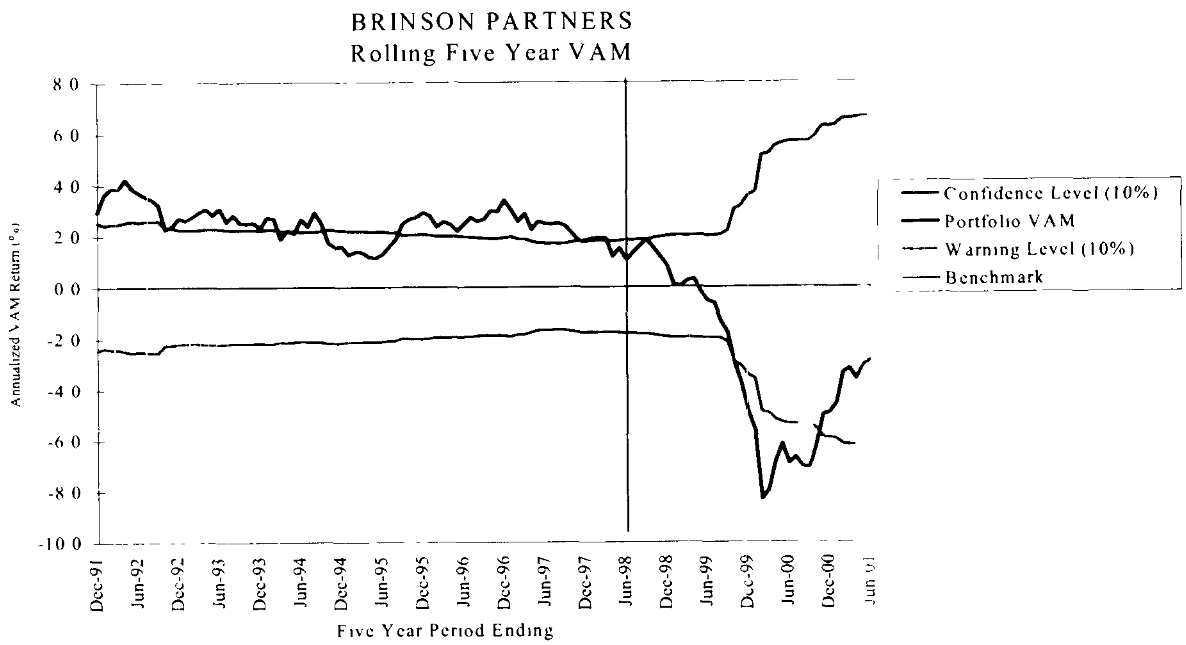
Staff visited Brinson in their Chicago office in May to review our portfolio and the firm's investment philosophy and process. Brinson beat their benchmark by a wide margin over the last year due to strong stock selection Lower than benchmark weightings in the technology, internet, and telecommunications sectors also added value over the past year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.6%	5 5%
Last 1 year	14.6	-13 0
Last 2 years	-4 8	-0.9
Last 3 years	1 0	5 5
Last 4 years	5.9	10 7
Last 5 years	10.8	14.1
Since Inception (7/93)	13.6	14.7

Recommendation

No action required.



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

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending June, 2001

Portfolio Manager: George Cohen | **Assets Under Management: $592,086,830**

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

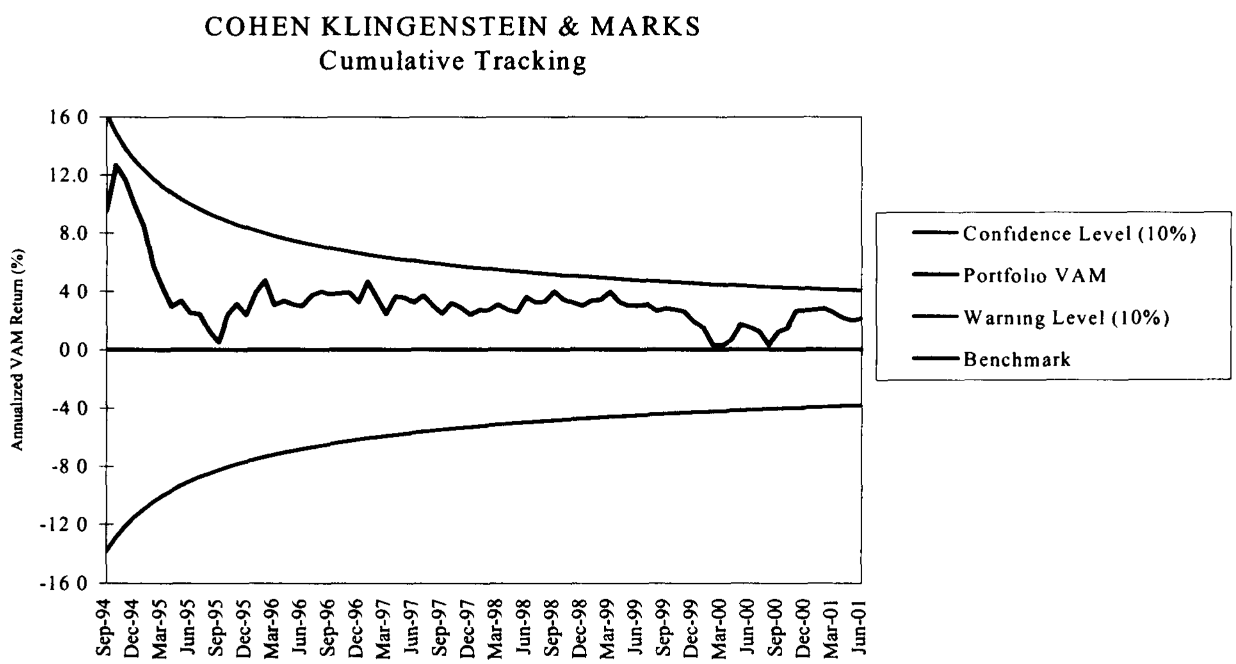
Staff visited CKM at their New York office in July to review our portfolio and the firm's investment philosophy and process. CKM underperformed during the quarter as a result of negative security selection in technology where they overweighted telecommunications stocks. However, CKM has posted strong relative performance over the past year and longer time periods.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.7%	8.2%
Last 1 Year	-14.4	-19.1
Last 2 Years	-3.4	-3.2
Last 3 Years	5.6	5.6
Last 4 Years	12.1	10.8
Last 5 Years	16.8	14.9
Since Inception (4/94)	18.9	16.4

Recommendation

No action required.



FORSTMANN-LEFF ASSOCIATES
Periods Ending June, 2001

Portfolio Manager: Bill Harnisch **Assets Under Management: $845,283,536**

Investment Philosophy

Forstmann-Leff is a classic example of a "rotational" manager. The firm focuses initially on sector weighting decisions. Based upon its macroeconomic outlook, the firm will move aggressively into and out of equity sectors over the course of a market cycle. The firm tends to purchase liquid, medium to large capitalization stocks.

Staff Comments

Staff visited Forstmann at their New York office in July to review our portfolio and the firm's investment philosophy and process. Forstmann underperformed over the last year primarily due to a large position in Best Buy, as the company adjusted earnings estimates downward in the last half of 2000. Holdings in Compaq and Dell also hurt performance due to a 50% price decline during the year.

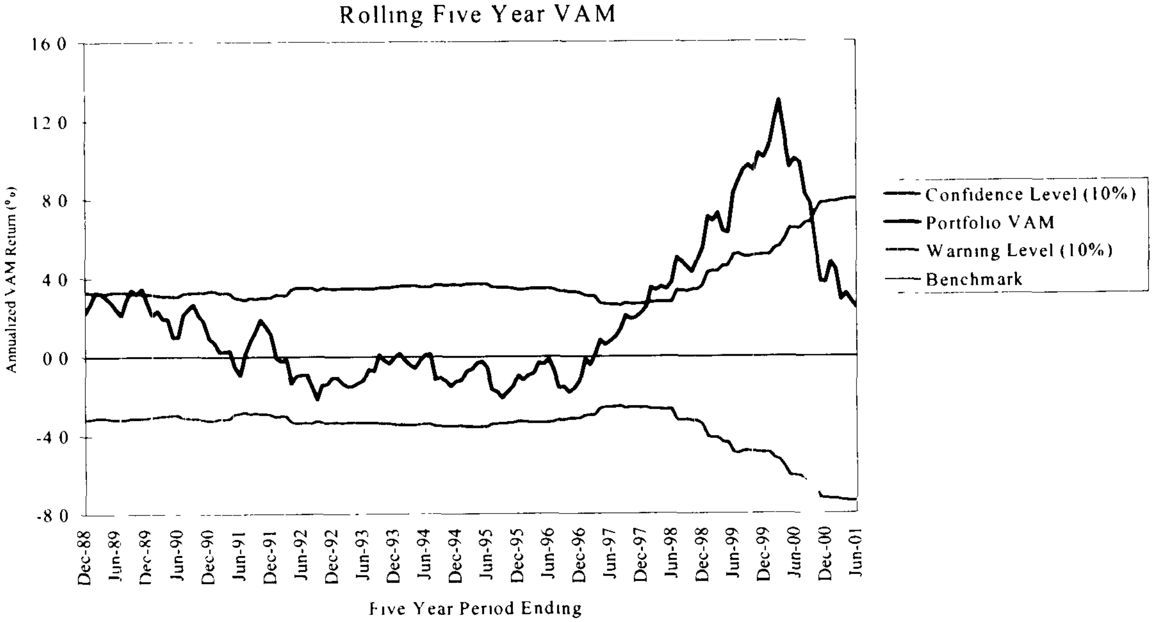
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.2%	9.6%
Last 1 year	-14.4	14.9
Last 2 years	-1.7	12.8
Last 3 years	12.5	13.9
Last 4 years	17.1	14.3
Last 5 years	19.6	16.7
Since Inception (1/84)	15.3	13.9

Recommendation

No action required

FORSTMANN-LEFF ASSOCIATES
Rolling Five Year VAM



FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2001

Portfolio Manager: John Cone | **Assets Under Management: $681,659,649**

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

Franklin outperformed over the past quarter and year. Over the past quarter, outperformance was driven by sector and stock selection. Over the past year, outperformance was largely driven by stock selection.

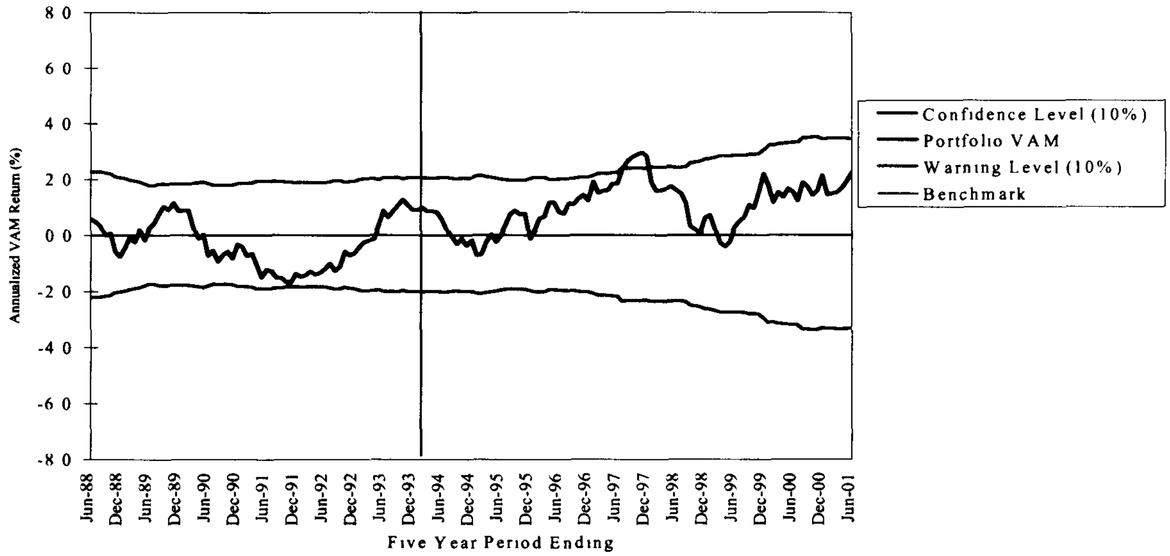
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.6%	7.6%
Last 1 year	2.9	-1.1
Last 2 years	5.7	0.9
Last 3 years	7.0	6.4
Last 4 years	13.2	11.3
Last 5 years	16.7	14.1
Since Inception (4/89)	15.6	14.2

Recommendation

No action required.

FRANKLIN PORTFOLIO ASSOCIATES - Active
Rolling Five Year VAM



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

GEOCAPITAL CORP.
Periods Ending June, 2001

Portfolio Manager: Barry Fingerhut **Assets Under Management: $591,923,724**

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

Staff visited Geo at their New York office in July to review our portfolio and the firm's investment philosophy and process Geo underperformed over the past quarter and year due to holdings within the technology and financial sectors that underperformed but are expected to rebound with improving business conditions in the fourth quarter or early 2002. Their software holdings had strong performance and continue to exhibit good growth

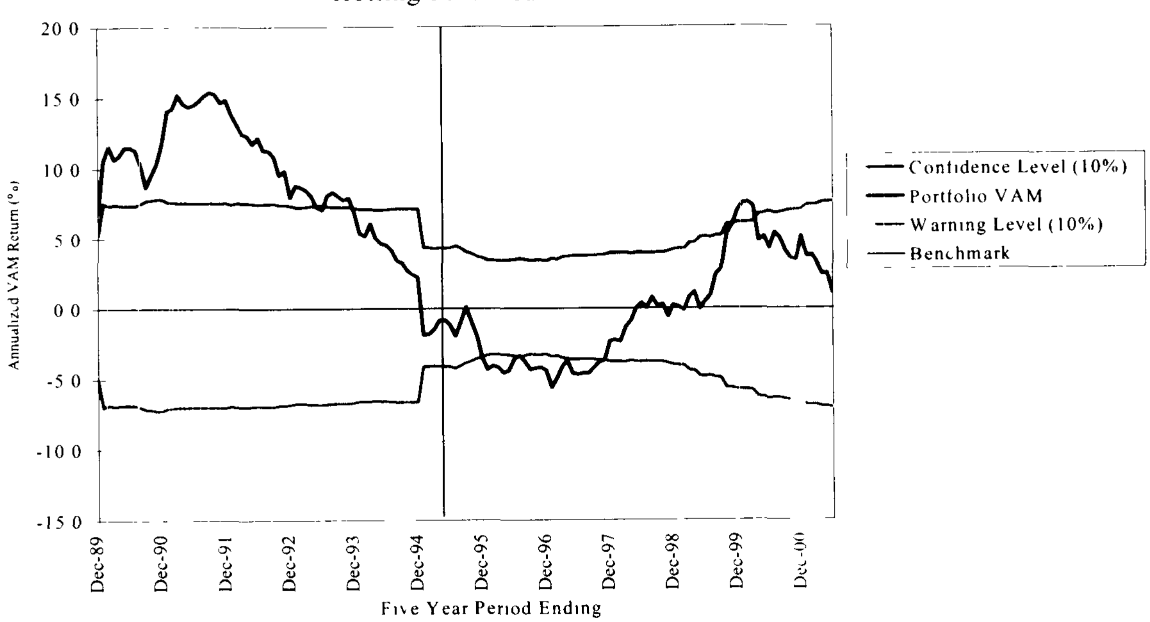
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7 2%	17 1%
Last 1 year	-29 6	-11 1
Last 2 years	-0.6	5.9
Last 3 years	-0 9	2 9
Last 4 years	5.6	5.1
Last 5 years	6.3	5 2
Since Inception (4/90)	12.0	12.9

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, 2001

Portfolio Manager: David Fowler **Assets Under Management: $632,619,937**

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

Staff visited Lincoln at their Chicago office during the quarter and met with Dave Fowler in our office in early August to discuss organizational, process, and performance issues. Lincoln's underperformance over the past year has largely been the result of poor stock selection within the technology sector. Palm, Sun Microsystems and Juniper Networks were among the holdings that hurt performance. Relative performance in other sectors as well as sector selection were positive for the quarter. Lincoln's recent poor performance has led to returns that lag the benchmark over all time periods.

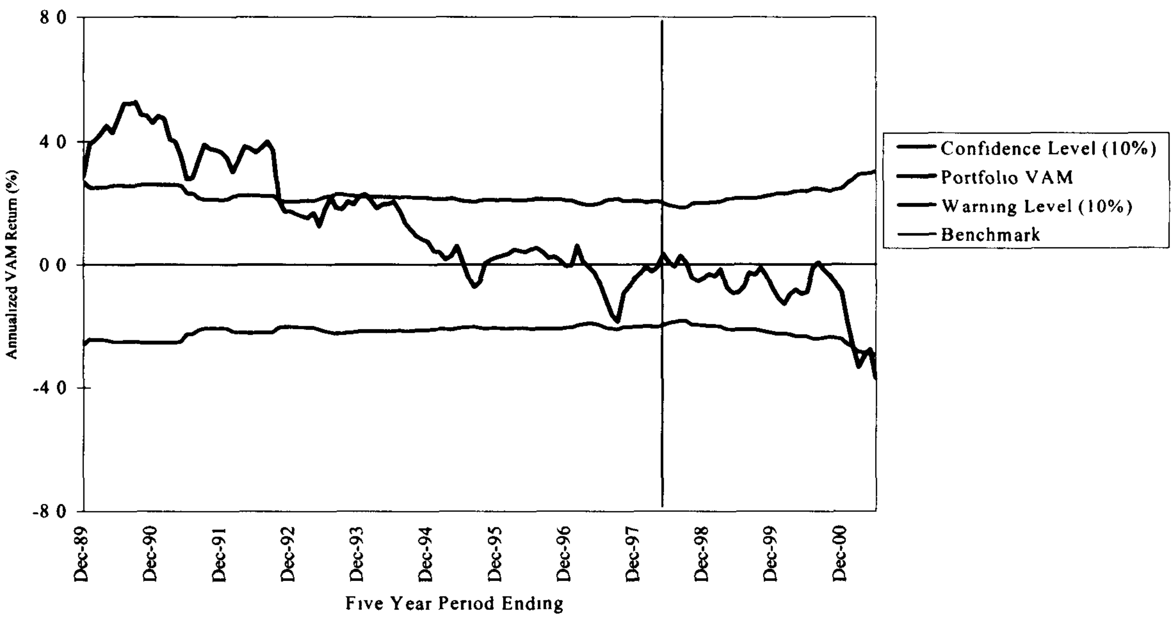
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.3%	9.1%
Last 1 year	-42.8	-35.9
Last 2 years	-17.6	-13.3
Last 3 years	-5.4	-0.7
Last 4 years	3.1	7.4
Last 5 years	8.3	12.5
Since Inception (7/93)	12.8	14.8

Recommendation

Staff is confident of Lincoln's ability to add value over long periods of time.

LINCOLN CAPITAL MANAGEMENT - Domestic Equity
Rolling Five Year VAM



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

OPPENHEIMER CAPITAL
Periods Ending June, 2001

Portfolio Manager: John Lindenthal | **Assets Under Management: $941,937,886**

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

Staff visited Oppenheimer at their New York office in July to review our portfolio and the firm's investment philosophy and process. Oppenheimer's portfolio outperformed for the quarter and the year on strong stock selection. During the quarter, strong picks in technology and consumer staples helped performance.

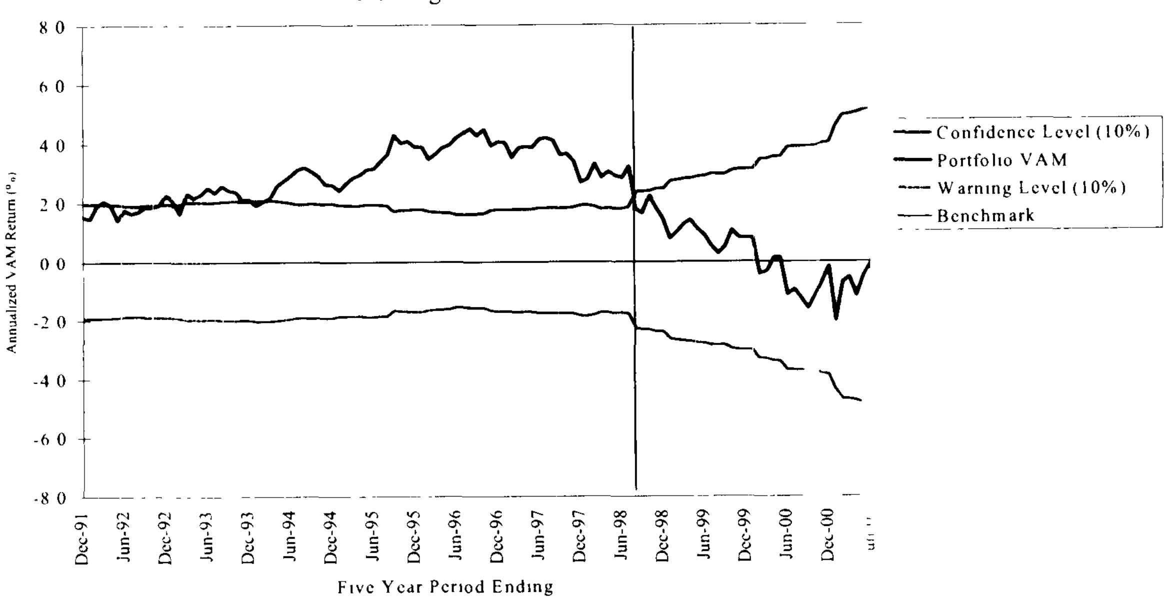
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.4%	3.9%
Last 1 year	12.3	4.2
Last 2 years	6.2	5.2
Last 3 years	7.7	10.1
Last 4 years	13.3	14.6
Last 5 years	17.7	17.8
Since Inception (7/93)	18.2	17.1

Recommendation

No action required

OPPENHEIMER CAPITAL
Rolling Five Year VAM



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2001

Portfolio Manager: John Cone — **Assets Under Management: $1,922,924,384**

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 outperformed during the quarter on returns from industry exposures and positive stock selection. Over the past year Franklin benefited from stock selection and exposures to risk and industry factors.

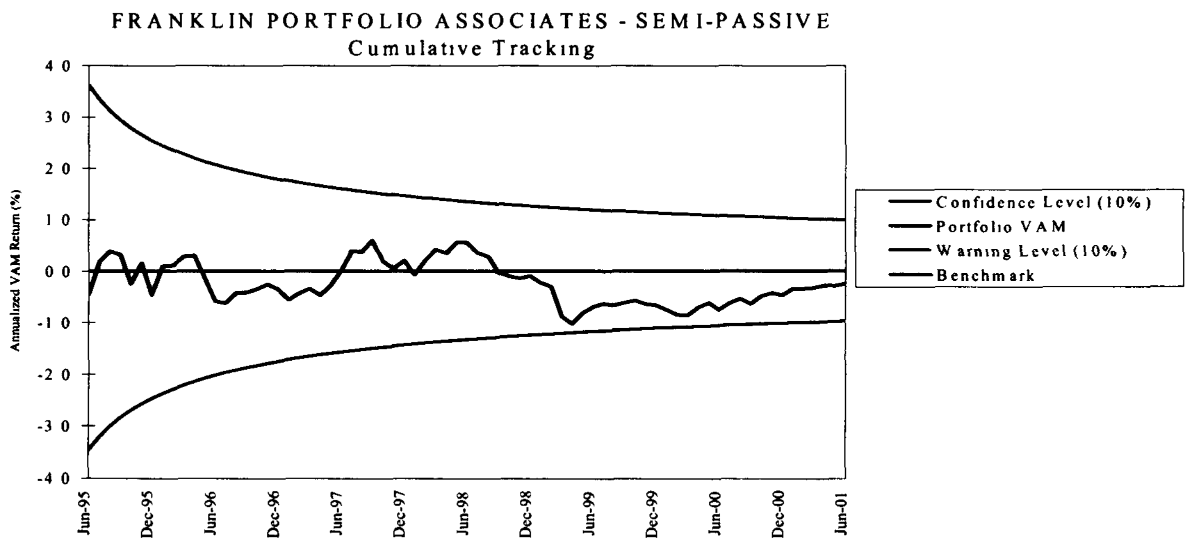
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	7.2%	6.8%
Last 1 year	-17.8	-19.8
Last 2 years	-8.6	-9.3
Last 3 years	-1.9	-0.7
Last 4 years	5.9	6.3
Last 5 years	10.9	11.1
Since Inception (1/95)	15.0	15.3

* Completeness Fund

Recommendation

No action required.



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

Portfolio Manager: Tim Devlin | **Assets Under Management: $2,084,011,403**

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 outperformed during the quarter and the year on strong stock selection. Over the last quarter stock selection was positive in eleven of nineteen sectors, with the largest gains coming from the services, utilities and finance sectors Over the past year, stock selection was positive in fifteen of nineteen sectors, lead by gains within the finance, service, and utilities sectors.

Quantitative Evaluation

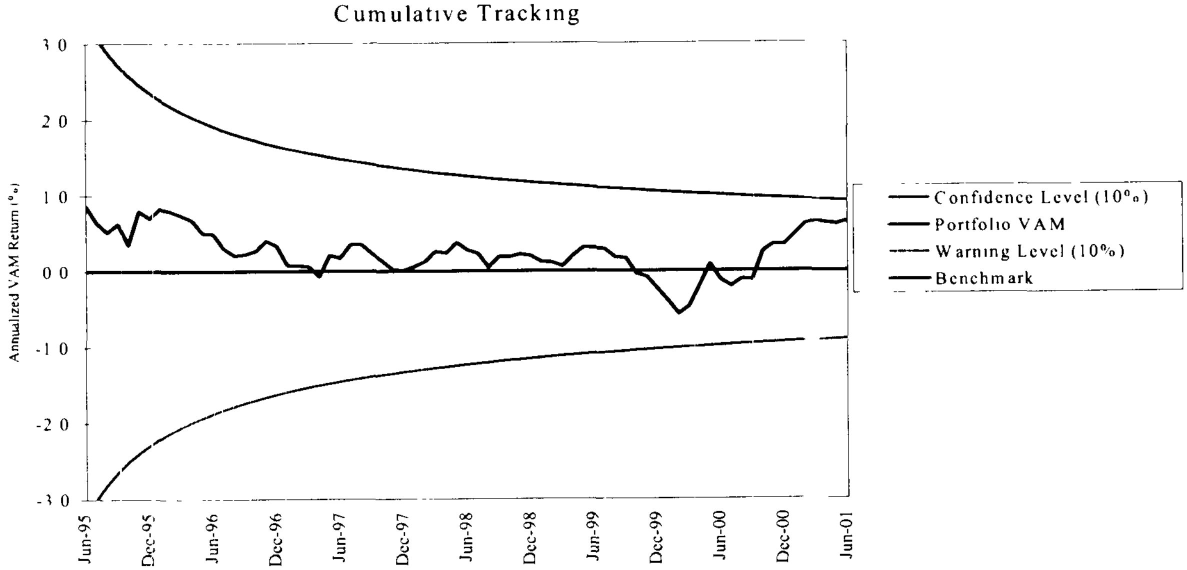
	Actual	Benchmark*
Last Quarter	7.0%	6.8%
Last 1 year	-15.8	-19.8
Last 2 years	-8 0	-9 3
Last 3 years	0.4	-0.7
Last 4 years	7 3	6 3
Last 5 years	11.9	11.1
Since Inception (1/95)	16.0	15.3

* Completeness Fund

Recommendation

No action required

JP MORGAN - SEMI-PASSIVE
Cumulative Tracking



BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2001

Portfolio Manager: Nancy Feldkircher | **Assets Under Management: $2,484,306,561**

Investment Philosophy
Semi-Passive

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

Staff Comments

BGI benefited from the valuation components of its model during the past quarter and year as earnings quality and relative valuation were a consistent source of outperfomance throughout the year.

Quantitative Evaluation

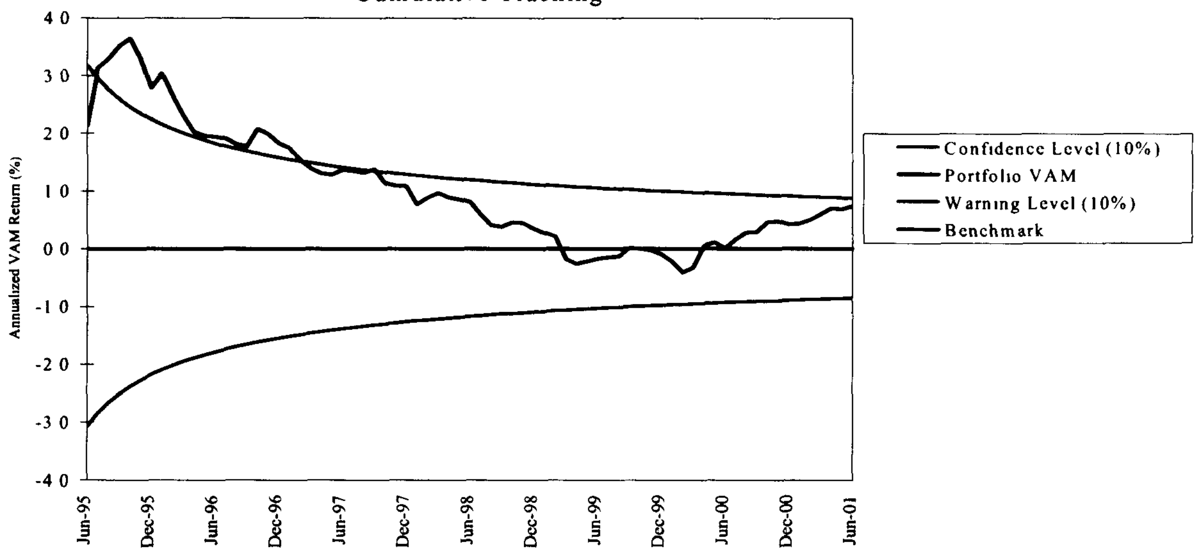
	Actual	Benchmark*
Last Quarter	7.9%	6.8%
Last 1 year	-15.9	-19.8
Last 2 years	-6.7	-9.3
Last 3 years	0.0	-0.7
Last 4 years	6.7	6.3
Last 5 years	11.5	11.1
Since Inception (1/95)	16.1	15.3

* Completeness Fund

Recommendation

No action required.

BARCLAYS GLOBAL INVESTORS - SEMI-PASSIVE
Cumulative Tracking



BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2001

Portfolio Manager: Amy Schioldager | **Assets Under Management: $6,424,277,209**

Investment Philosophy
Passive

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

Staff Comments

The portfolio tracked the benchmark during the quarter, but outperformed by 60 basis points for the year. While a passive manager is expected to closely track a benchmark over longer periods, their result is within expectations over a one-year time-frame

During the past year, the tracking error was caused by optimization techniques used to manage the portfolio without owning every name and by market volatility

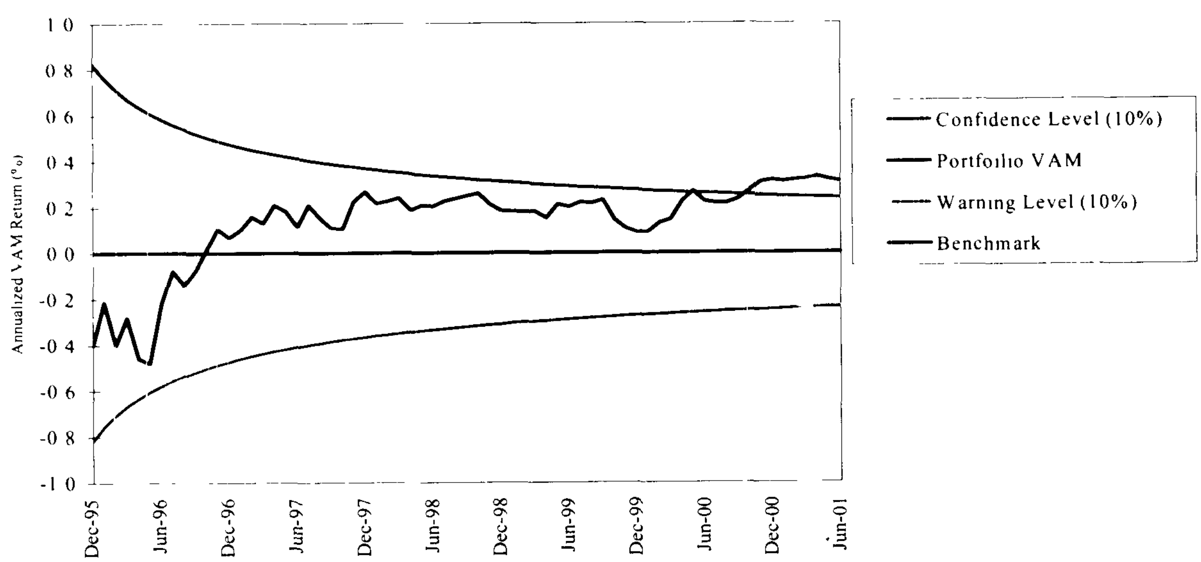
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.5%	7 5%
Last 1 year	-15.2	-15 8
Last 2 years	-3 5	-4 0
Last 3 years	3 7	3 3
Last 4 years	9 6	9 2
Last 5 years	13 4	12 9
Since Inception (7/95)	15 3	15.0

Recommendation

No action required

BARCLAYS GLOBAL INVESTORS - PASSIVE
Cumulative Tracking



STATE BOARD OF INVESTMENT

Emerging Stock Manager Evaluation Reports

Second Quarter, 2001

COMBINED RETIREMENT FUNDS
EMERGING EQUITY MANAGERS
Periods Ending June, 2001

	Quarter		1 Year		3 years		5 Years		Since Inception (1)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
Artemis	10.1	18.2	-20.0	1.9					-20.0	1.9	$40.25	4.4%
Bay Isle Financial	4.1	5.7	2.3	5.2					2.3	5.2	51.16	5.6%
CIC Asset	6.7	8.3	20.0	24.1	1.6	9.3	11.4	17.4	14.1	18.7	78.15	8.5%
Earnest Partners	9.2	12.9	-1.9	23.0					-1.9	23.0	49.36	5.4%
Holt-Smith & Yates	12.9	13.4	-8.2	2.3					-8.2	2.3	46.48	5.1%
New Amsterdam	9.7	13.4	6.2	3.1	12.7	13.8	21.6	18.8	19.8	18.7	165.90	18.1%
Next Century Growth	23.9	25.3	-29.1	-20.3					-29.1	-20.3	35.88	3.9%
Peregrine Capital	13.3	17.1	39.8	40.3					39.8	40.3	71.21	7.7%
Valenzuela Capital	4.2	6.7	9.3	15.1	0.9	5.4	12.6	12.5	14.2	14.5	78.67	8.6%
Voyageur-Chicago Equity	5.4	7.1	-8.7	-15.5					-8.7	-15.5	46.33	5.0%
Winslow-Small Cap	33.3	25.6	-3.5	-10.1					-3.5	-10.1	103.21	11.2%
Zevenbergen Capital	14.4	11.7	-43.1	-21.1	6.4	14.8	16.4	20.2	17.3	20.4	152.41	16.6%
											919.00	**100.0%**
									Since 4/1/94			
Current Aggregate	12.3	13.4	-7.3	-0.3	7.4	12.0	16.9	18.0	17.4	18.7		
Historical Aggregate (2)	**12.3**	**13.4**	**-7.3**	**-0.3**	**7.4**	**12.5**	**15.4**	**17.8**	**16.8**	**18.5**		

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

(2) Includes the performance of terminated managers.

ARTEMIS INVESTMENT MANAGEMENT, LLC
Periods Ending June, 2001

Portfolio Manager: Joyce Capuano **Assets Under Management: $40,251,395**

Investment Philosophy

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

Staff Comments

Staff visited Artemis at their New York office during the quarter to review our portfolio and the firm's investment philosophy and process. Artemis underperformed over the last quarter and year largely as a result of negative stock selection. During the quarter, all of the shortfall can be attributed to an overweight and stock selection in the health care sector. For the year, performance was hurt by timing with an overweight in technology during the sell-off and then an underweight in technology during the April rally.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.1%	18.2%
Last 1 Year	-20.0	1.9
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-20.0	1.9

Recommendation

No action required.

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

BAY ISLE FINANCIAL CORP.
Periods Ending June, 2001

Portfolio Manager: William Schaff **Assets Under Management: $51,164,964**

Investment Philosophy

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

Staff Comments

No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.1%	5.7%
Last 1 Year	2.3	5.2
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	2.3	5.2

Recommendation

No action required

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

EARNEST PARTNERS, LLC
Periods Ending June, 2001

Portfolio Manager: Paul Viera **Assets Under Management: $49,364,756**

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.2%	12.9%
Last 1 Year	-1.9	23.0
Last 2 Years	NA	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-1.9	23.0

Staff Comments

Earnest Partners underperformed during the past quarter and year due to negative stock selection. In addition, their bottom-up stock selection process resulted in an overweight in healthcare and an underweight in consumer cyclicals both of which hurt performance for the year.

Recommendation

No action required.

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

HOLT-SMITH & YATES ADVISORS

Periods Ending June, 2001

Portfolio Manager: Kristin Yates **Assets Under Management: $46,475,138**

Investment Philosophy

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

Staff Comments

Holt-Smith underperformed during the past year due to negative stock selection particularly in the consumer staples sector where Walgreens' performance was disappointing

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	12 9%	13.4%
Last 1 Year	-8 2	2.3
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-8 2	2.3

Recommendation

No action required

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

NEW AMSTERDAM PARTNERS
Periods Ending June, 2001

Portfolio Manager: Michelle Clayman **Assets Under Management: $165,903,495**

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

Staff visited New Amsterdam in their New York office in July to review our portfolio and the firm's investment philosophy and process. New Amsterdam underperformed during the quarter but has outperformed over the past year. In the quarter, NAP suffered from negative sector and stock selection with the portfolio outperforming in six of nineteen sectors. Over the past year NAP has benefited from positive sector and stock selection.

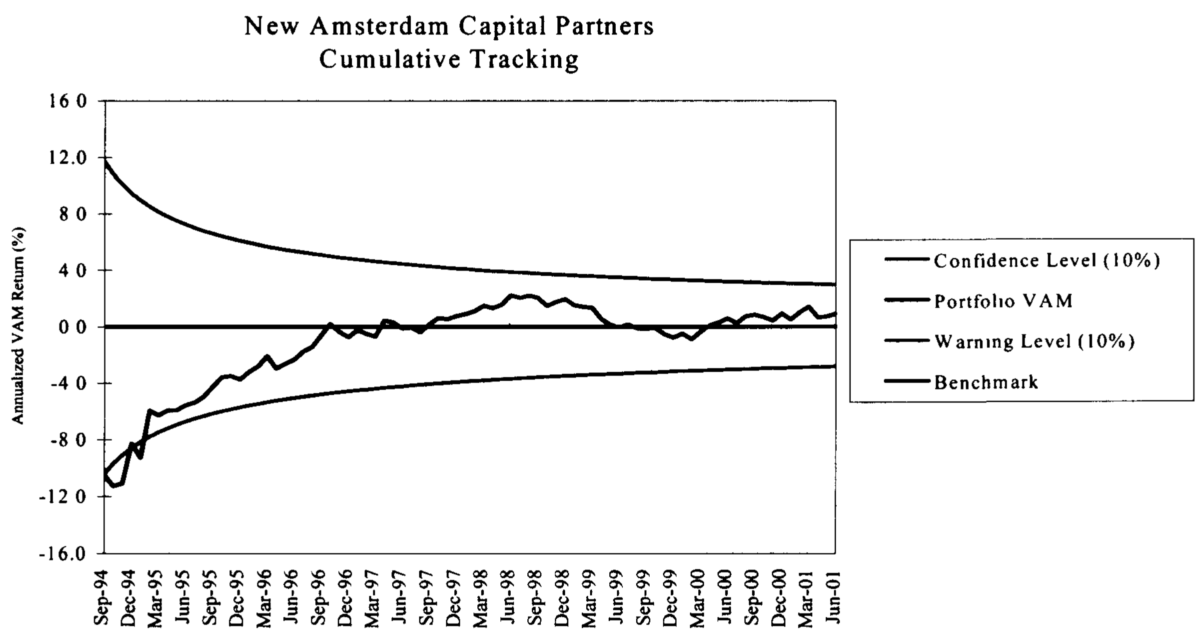
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	9.7%	13.4%
Last 1 Year	6.2	3.1
Last 2 Years	13.8	10.1
Last 3 Years	12.7	13.8
Last 4 Years	18.5	16.5
Last 5 Years	21.6	18.8
Since Inception (4/94)	19.8	18.7

* Custom benchmark since inception date.

Recommendation

No action required.



NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending June, 2001

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $35,877,478**

Investment Philosophy

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

Staff Comments

Next Century underperformed during the quarter and year. Over the quarter, an underweight in biotech stocks hurt performance, offset by an overweight in technology. Over the past year portfolio performance was hurt by an overweight in technology stocks.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	23.9%	25 3%
Last 1 Year	-29.1	-20 3
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-29 1	-20 3

Recommendation

No action required

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

PEREGRINE CAPITAL MANAGEMENT
Periods Ending June, 2001

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $71,205,453**

Investment Philosophy

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

Staff Comments

Peregrine underperformed during the second quarter due to negative stock selection. Peregrine held less microcap stocks relative to the benchmark during the quarter. These less liquid stocks benefited greatly from increased investor demand for small cap value stocks.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	13.3%	17.1%
Last 1 Year	39.8	40.3
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	39.8	40.3

Recommendation

No action required.

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

VALENZUELA CAPITAL MANAGEMENT
Periods Ending June, 2001

Portfolio Manager: Tom Valenzuela | **Assets Under Management: $78,669,375**

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

Staff visited Valenzuela at their New York office during the quarter to review our portfolio and the firm's investment philosophy and process. During the quarter, their underweight in technology and exposure to semiconductors caused them to lag their custom benchmark. For the year, relative performance was negative due to holdings in the telecommunications industry affected by overcapacity and questionable prospects for capital spending.

Quantitative Evaluation

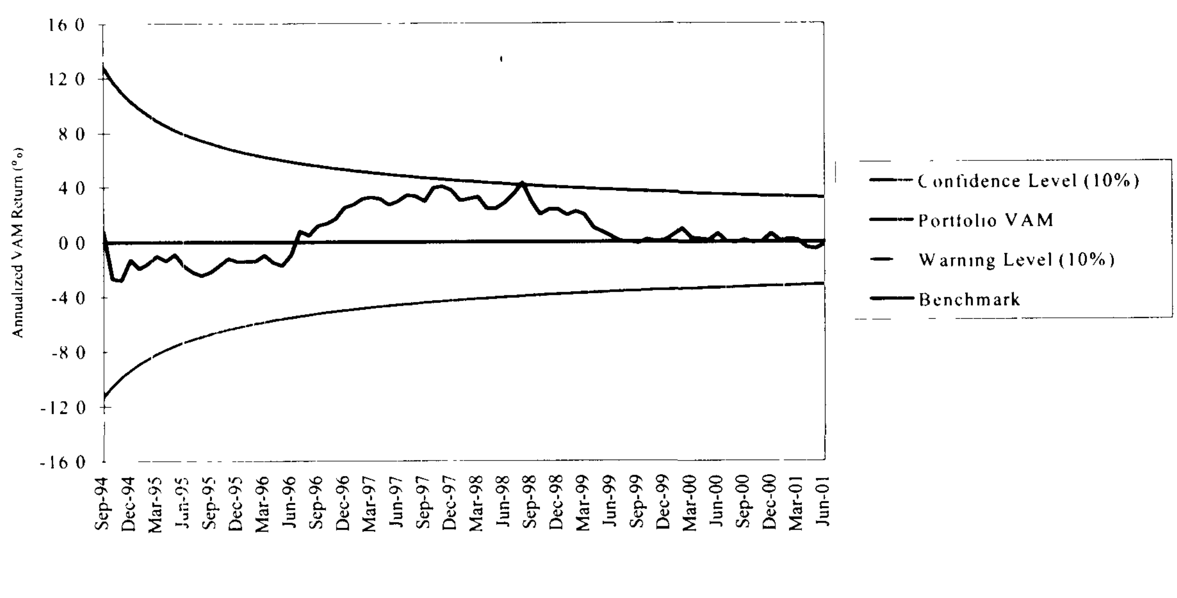
	Actual	Benchmark*
Last Quarter	4.2%	6.7%
Last 1 Year	9.3	15.1
Last 2 Years	5.1	6.9
Last 3 Years	0.9	5.4
Last 4 Years	6.2	9.1
Last 5 Years	12.6	12.5
Since Inception (4/94)	14.2	14.5

* Custom benchmark since inception date

Recommendation

No action required

Valenzuela Capital Partners
Cumulative Tracking



VOYAGEUR ASSET MANAGEMENT
Periods Ending June, 2001

Portfolio Manager: Charles Henderson | **Assets Under Management: $46,329,332**

Investment Philosophy

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

Staff Comments

No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.4%	7.1%
Last 1 Year	-8.7	-15.5
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-8.7	-15.5

Recommendation

No action required.

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

WINSLOW CAPITAL MANAGEMENT
Periods Ending June, 2001

Portfolio Manager: Joseph Docter **Assets Under Management: $103,209,504**

Investment Philosophy

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

Staff Comments

Staff visited Winslow's office in Minneapolis in July to discuss their philosophy, process, and the portfolio.

Winslow's outperformance for the quarter and the year was due to strong stock selection in technology, health care and consumer cyclical stocks

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	33 3%	25 6%
Last 1 Year	-3.5	-10.1
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-3 5	-10.1

Recommendation

No action required

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

ZEVENBERGEN CAPITAL INC.
Periods Ending June, 2001

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $152,408,159**

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 outperformed during the quarter due to strong stock selection within healthcare and technology. Over the past year, holdings in telecommunications, fiber and wireless service companies caused under performance. Zevenbergen has restructured the portfolio emphasizing quality growth, immediate earnings visibility, high recurring revenue, and leading industry positions as well as the ability to outperform during economic recoveries.

Quantitative Evaluation

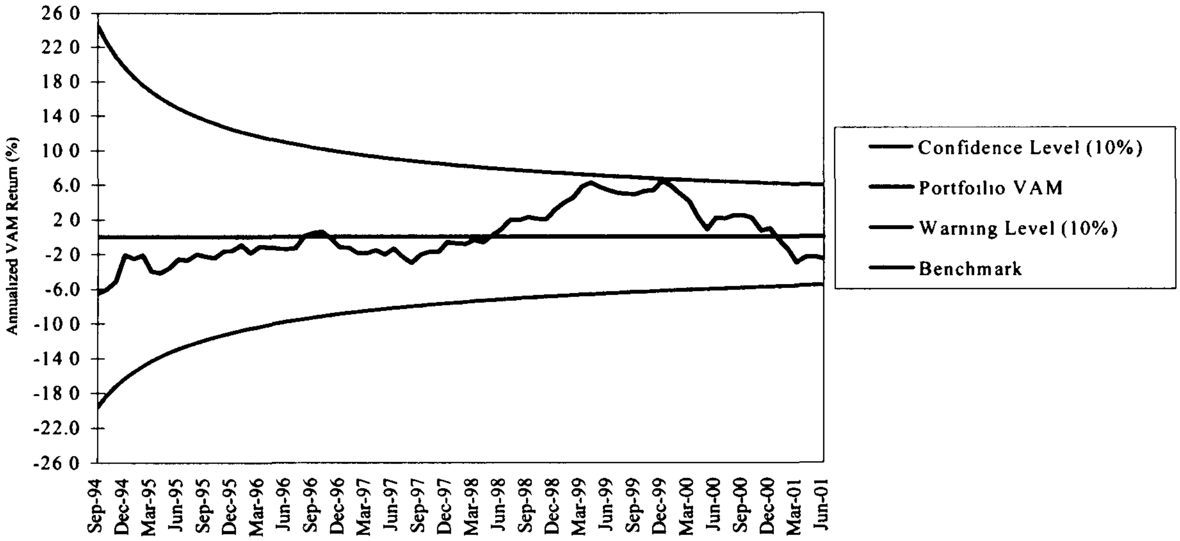
	Actual	Benchmark*
Last Quarter	14.4%	11.7%
Last 1 Year	-43.1	-21.1
Last 2 Years	-14.6	7.7
Last 3 Years	6.4	14.8
Last 4 Years	14.1	18.4
Last 5 Years	16.4	20.2
Since Inception (4/94)	17.3	20.4

* Custom benchmark since inception date.

Recommendation

No action required.

Zevenbergen Capital Management
Cumulative Tracking



STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Second Quarter, 2001

COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending June, 2001

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	Pool %
Active Managers												
American Express (AMG)	0.6	0.6	11.1	11.2	6.3	6.3	7.7	7.5	6.8	6.7	$864.52	8.5%
Deutsche	0.6	0.6	11.8	11.2					11.2	10.8	$701.22	6 9%
Dodge & Cox	1.2	0.6	12.9	11.2					11.9	10.8	$702.35	6.9%
Metropolitan West	2.4	0.6	13.8	11.2					11.0	10.8	$289.95	2.8%
Morgan Stanley	1.2	0.6	12.8	11.2	6.4	6.3	8.0	7.5	10.4	10.1	$1,102.14	10.8%
Western	1.1	0.6	12.8	11.2	6.8	6.3	8.8	7.5	11.2	10.0	$1,470.20	14.4%
Semi-Passive Managers												
BlackRock	0.4	0 6	11 1	11.2	6.6	6.3	7 9	7.5	7.6	7.2	1,710.75	16.8%
Goldman	0 7	0.6	11.4	11.2	6.2	6.3	7.6	7.5	6.9	6.7	1,677 56	16.4%
Lincoln	0.6	0.6	11.5	11.2	6.3	6.3	7.6	7.5	8.5	8 4	1,687.46	16 5%
											$10,206.16	**100.0%**
									Since 7/1/84			
Current Aggregate	0.8	0.6	11.9	11.2	6.4	6.3	7.9	7.5	10.6	10.0		
Historical Aggregate (2)	**0.8**	**0.6**	**11.8**	**11.2**	**6.3**	**6.3**	**7.9**	**7.5**	**10.0**	**9.9**		
Lehman Aggregate (3)		0.6		11.2		6.3		7.5		9.7		

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

AMERICAN EXPRESS ASSET MANAGEMENT
Periods Ending June, 2001

Portfolio Manager: Jim Snyder | **Assets Under Management: $864,518,704**

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

Recently American Express has reported write downs in their high yield holdings. These write downs occurred in the insurance side of their operation and have no relationship to our portfolio.

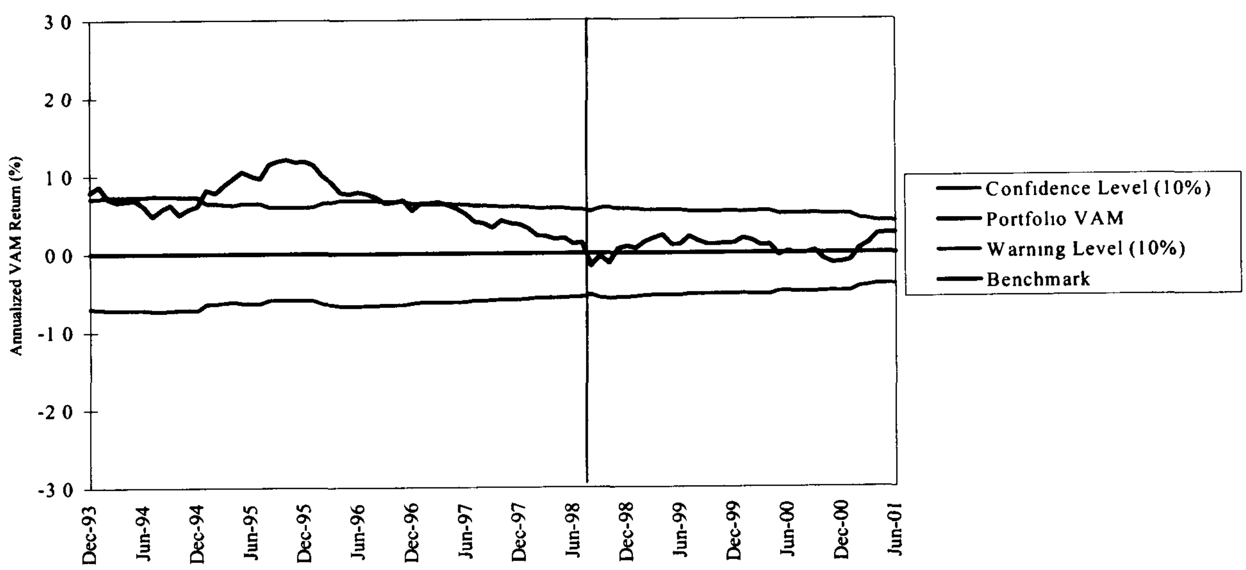
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.6%	0.6%
Last 1 year	11.1	11.2
Last 2 years	7.9	7.8
Last 3 years	6.3	6.3
Last 4 years	7.5	7.3
Last 5 years	7.7	7.5
Since Inception (7/93)	6.8	6.7

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, 2001

Portfolio Manager: Warren Davis **Assets Under Management: $701,219,497**

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	0 6%	0.6%
Last 1 year	11 8	11.2
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	11 2	10 8

Recommendations

No action required

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

DODGE & COX INVESTMENT MANAGERS
Periods Ending June, 2001

Portfolio Manager: Dana Emery **Assets Under Management: $702,354,037**

Investment Philosophy

Dodge & Cox manages a high quality, diversified portfolio of securities that are selected through fundamental analysis. The firm believes that by combining fundamental research with a long-term investment horizon it is possible to uncover inefficiencies in market sectors and individual securities. The firm combines this fundamental research with a disciplined program of risk analysis. To seek superior returns over the long-term, Dodge & Cox emphasizes sector and security selection, strives to build portfolios that have a higher yield than the broad bond market, and analyzes portfolio and individual security risk. Dodge & Cox was retained by the SBI in February 2000.

Staff Comments

Staff visited Dodge & Cox in their San Francisco office during the quarter to review the portfolio and the firm's investment philosophy and process. Dodge & Cox outperformed over the quarter due to their significant overweight in corporate bonds as well as strong security selection within the sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.2%	0.6%
Last 1 year	12.9	11.2
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	11.9	10.8

Recommendations

No action required.

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

METROPOLITAN WEST ASSET MANAGEMENT
Periods Ending June, 2001

Portfolio Manager: Tad Rivelle | **Assets Under Management: $289,953,177**

Investment Philosophy

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

Staff Comments

Staff visited MetWest in their Los Angeles office during the quarter to review the portfolio and the firm's investment philosophy and process MetWest significantly outperformed during the quarter from an overweight in the corporate sector and significant price increases in their Finova and Conseco holdings

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2 4%	0.6%
Last 1 year	13 8	11.2
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	11 0	10 8

Recommendations

No action required

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

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending June, 2001

Portfolio Manager: Tom Bennett | **Assets Under Management: $1,102,139,488**

Investment Philosophy

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

Staff Comments

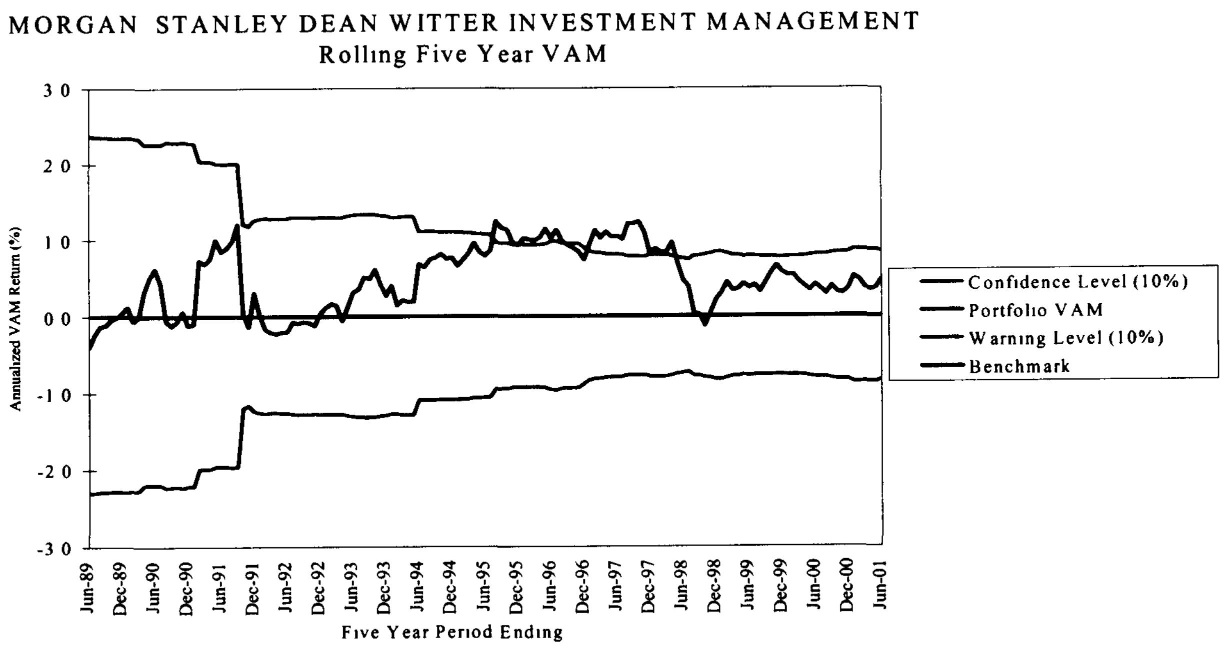
Morgan Stanley's outperformance during the quarter was the result of their overweight in the corporate and mortgage sectors as well as the shorter duration of their portfolio relative to the benchmark, which helped as long rates rose. Over the past year an overweight in agency and corporate debt and a modest underweighting in the mortgage sector lead to outperformance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.2%	0.6%
Last 1 year	12.8	11.2
Last 2 years	8.6	7.8
Last 3 years	6.4	6.3
Last 4 years	7.3	7.3
Last 5 years	8.0	7.5
Since Inception (7/84)	10.4	10.1

Recommendations

No action required.



WESTERN ASSET MANAGEMENT
Periods Ending June, 2001

Portfolio Manager: Ken Leech | **Assets Under Management: $1,470,202,167**

Investment Philosophy

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

Staff Comments

Staff visited Western in their Pasadena office during the quarter to review the portfolio and the firm's investment philosophy and process. Western's outperformance over the past year was driven by their longer than benchmark duration and overweight in the credit sector.

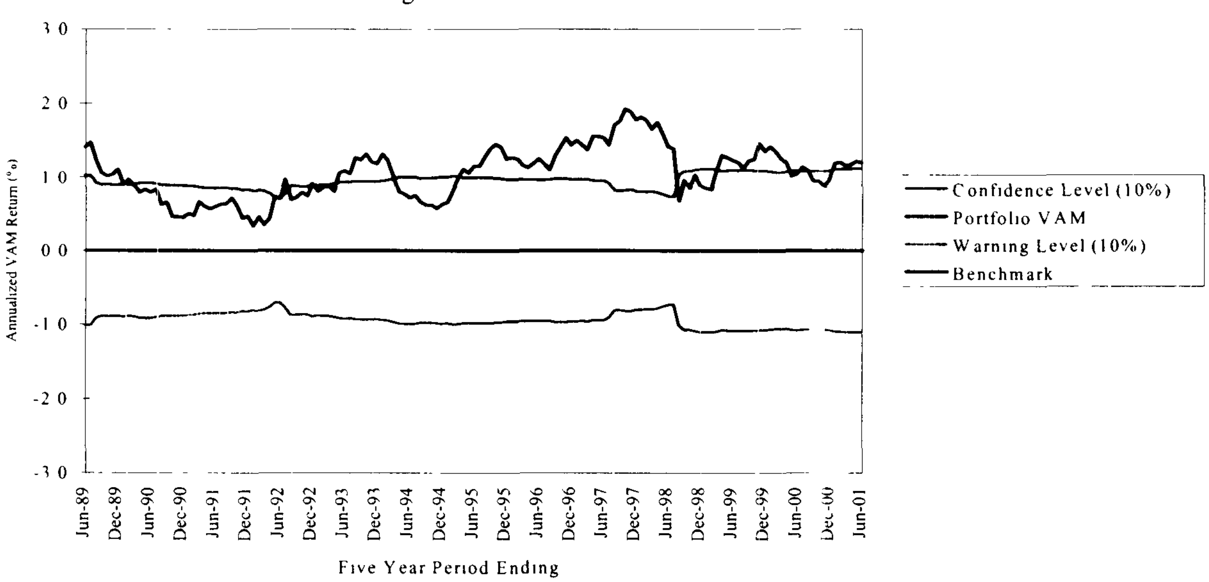
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1 1%	0 6%
Last 1 year	12 8	11 2
Last 2 years	9.1	7.8
Last 3 years	6.8	6.3
Last 4 years	8.2	7.3
Last 5 years	8.8	7 5
Since Inception (7/84)	11 2	10 0

Recommendations

No action required

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM



BLACKROCK FINANCIAL MANAGEMENT
Periods Ending June, 2001

Portfolio Manager: Keith Anderson **Assets Under Management: $1,710,748,711**

Investment Philosophy

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

Staff Comments

BlackRock slightly underperformed during the quarter due to their underweight in the corporate sector.

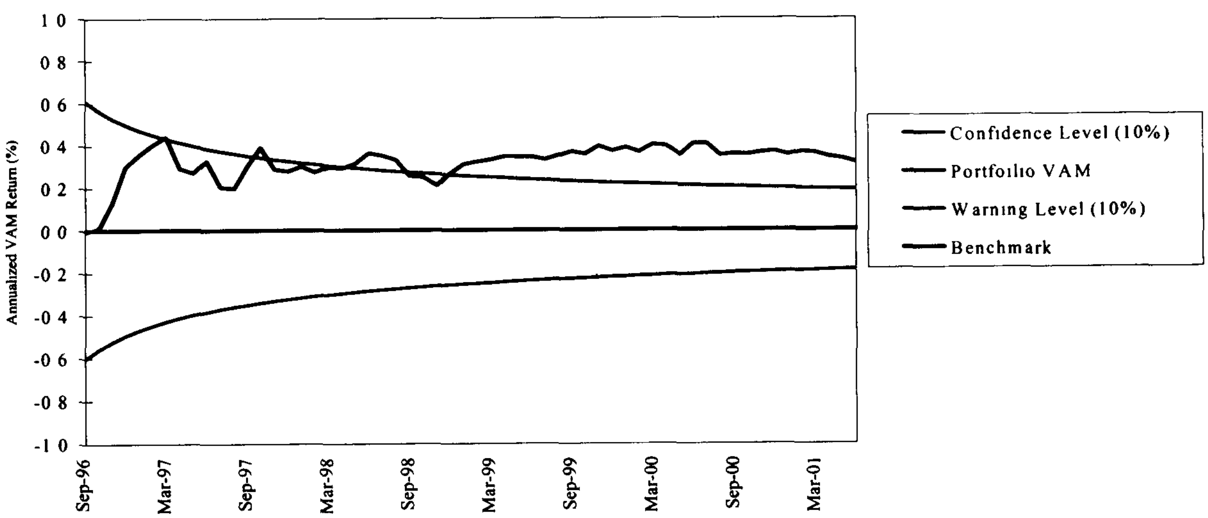
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.4%	0.6%
Last 1 year	11.1	11.2
Last 2 years	8.1	7.8
Last 3 years	6.6	6.3
Last 4 years	7.6	7.3
Last 5 years	7.9	7.5
Since Inception (4/96)	7.6	7.2

Recommendation

No action required.

BLACKROCK FINANCIAL MANAGEMENT
Cumulative Tracking



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2001

Portfolio Manager: Jonathon Beinner | **Assets Under Management: $1,677,563,192**

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

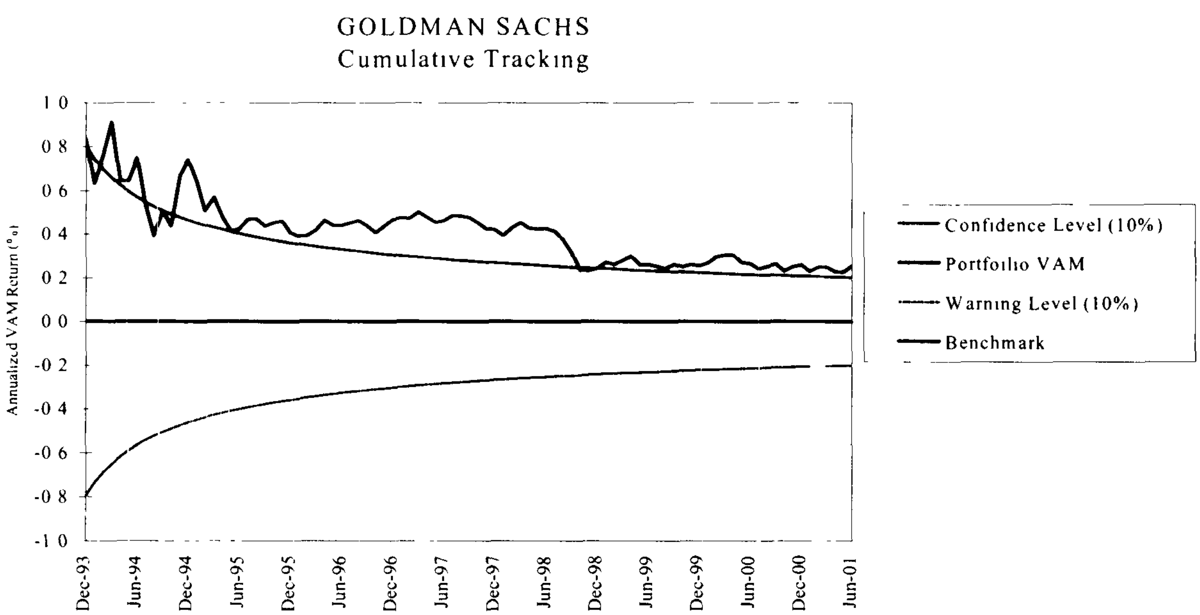
Goldman modestly outperformed during the quarter primarily due to their overweight in the corporate sector. Over the past year the portfolio has benefited from positive security selection in the mortgage sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0 7%	0 6%
Last 1 year	11.4	11.2
Last 2 years	8 1	7.8
Last 3 years	6 2	6 3
Last 4 years	7 4	7.3
Last 5 years	7 6	7 5
Since Inception (7/93)	6 9	6 7

Recommendations

No action required



LINCOLN CAPITAL MANAGEMENT
Periods Ending June, 2001

Portfolio Manager: Andrew Johnson | **Assets Under Management: $1,687,461,582**

Investment Philosophy

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

Staff Comments

Lincoln outperformed during the past year due to an overweight in short duration asset-backed securities.

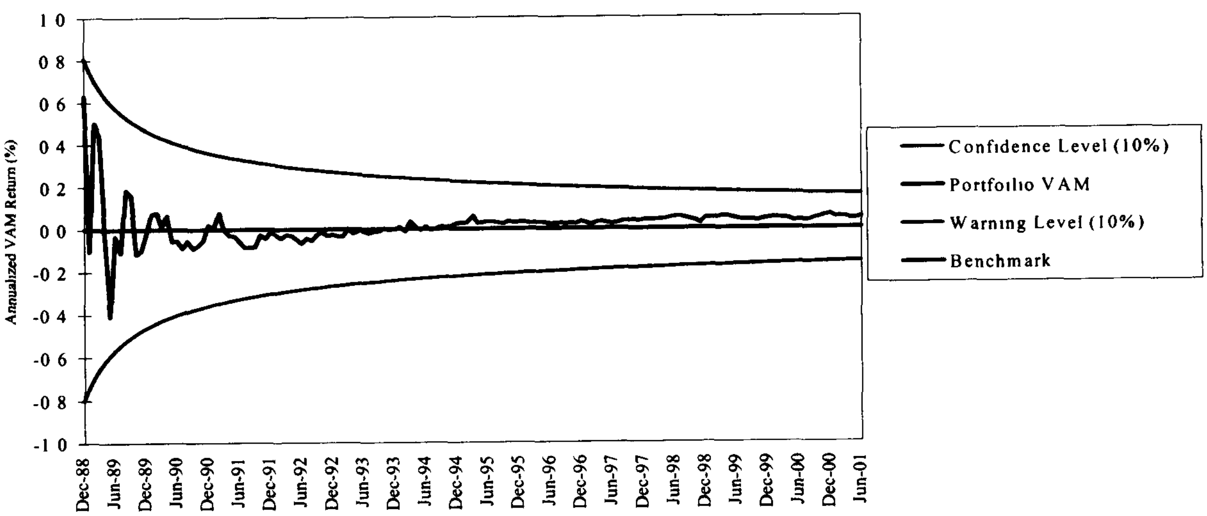
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.6%	0.6%
Last 1 year	11.5	11.2
Last 2 years	7.9	7.8
Last 3 years	6.3	6.3
Last 4 years	7.4	7.3
Last 5 years	7.6	7.5
Since Inception (7/88)	8.5	8.4

Recommendations

No action required.

LINCOLN CAPITAL MANAGEMENT - Fixed Income
Cumulative Tracking



STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Second Quarter, 2001

COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending June, 2001

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market Value (in millions)	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		%
Active EAFE												
American Express	-1.5	-1.0	-30.9	-23.6					-26.5	-18.4	$281.17	5.2%
Blairlogie	-2.6	-1.0	-27.1	-23.6					-21.4	-18.4	157.16	2.9%
Brinson	2.0	-1.0	-12.4	-23.6	4.5	-1.3	7.3	2.8	9.0	6.7	607.15	11.3%
Invesco	1.5	-1.0	-13.2	-23.6					-7.4	-18.4	456.09	8.5%
Marathon	3.6	1.3	-11.1	-20.1	5.9	-0.4	5.0	1.8	7.4	4.1	447.55	8.3%
Montgomery	1.2	-1.0	-30.8	-23.6					-30.0	-18.4	272.49	5.1%
T. Rowe Price	-1.9	-1.0	-26.2	-23.6	-0.4	-1.3	4.0	2.8	6.3	4.6	414.69	7.7%
Zurich Scudder	-1.8	-1.0	-27.9	-23.6	-1.6	-1.3	4.5	2.8	6.8	4.6	418.48	7.8%
Active Emerging Markets												
Alliance Capital	4.9	3.9							-16.3	-13.7	111.46	2.1%
Capital International	9.0	3.9							-15.6	-13.7	112.73	2.1%
Montgomery	5.9	3.9	-25.4	-25.9	0.3	1.4	-5.8	-6.4	-5.3	-6.2	118.61	2.2%
Morgan Stanley	6.8	3.9							-15.0	-13.7	104.88	1.9%
Schroder	3.9	3.9							-15.6	-13.7	113.93	2.1%
Passive EAFE												
State Street	-0.9	-1.0	-23.7	-23.6	-0.9	-1.3	3.1	2.8	7.5	7.2	1,766.01	32.8%
									Since 10/1/92			
Equity Only (2) (4)	0.6	-0.5	-22.1	-23.9	0.0	-0.7	2.8	1.9	7.5	6.6	5,382.40	100.0%
Total Program (3) (4)	**0.6**	**-0.5**	**-22.1**	**-23.9**	**-0.2**	**-0.7**	**3.5**	**1.9**	**8.0**	**6.6**	**$5,382.40**	

(1) Since retention by the SBI. Time period varies for each manager.
(2) Equity managers only. Includes impact of terminated managers.
(3) Includes impact of currency overlay on the passive EAFE portfolio from 12/1/95-10/31/00.
(4) The international benchmark is EAFE-Free plus Emerging Markets Free (EMF). The weighting of each index fluctuates with market capitalization. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE-Free/13% Emerging Markets Free. On 5/1/96, the portfolio began transitioning from 100% EAFE to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

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

Portfolio Manager: Mark Fawcett **Assets Under Management: $281,174,864**

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	-1.5%	-1.0%
Last 1 year	-30.9	-23.6
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)	-26.5	-18.4

Recommendations

No action required.

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

BLAIRLOGIE CAPITAL MANAGEMENT
Periods Ending June, 2001

Portfolio Manager: James Smith **Assets Under Management: $157,156,209**

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

The portfolio's return shortfall for the quarter was due to stock selection in Japan and a tech-driven sell-off in global markets, particularly in large-cap names. The decision to buy into attractively priced financials was premature and hurt the portfolio during the period

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2 6%	-1.0%
Last 1 year	-27 1	-23.6
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)	-21 4	-18.4

Recommendations

No action required.

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

BRINSON PARTNERS
Periods Ending June, 2001

Portfolio Manager: Thomas Madsen **Assets Under Management: $607,152,754**

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

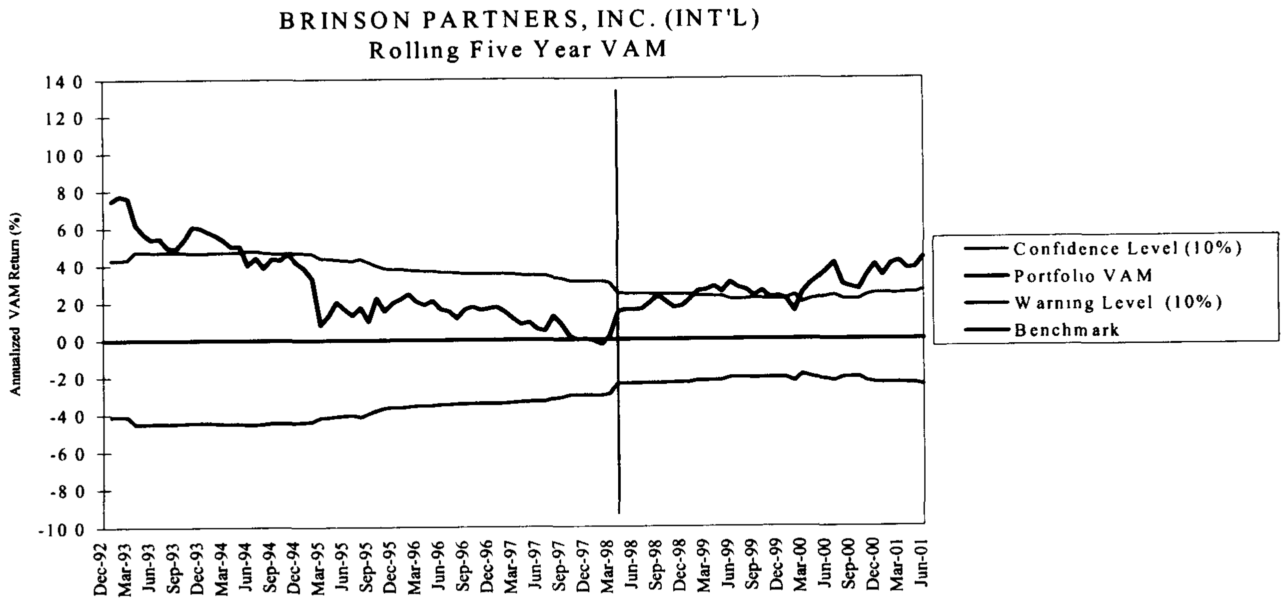
The portfolio has out-performed in all time periods, most recently due to strong stock selection in defensive, value-oriented companies. Strong stock selection in Australia along with strong industry returns overall helped performance. The portfolio was overweight materials, food & beverage, and utilities stocks and under-weight telecom companies during the quarter, which caused the portfolio to outperform the benchmark.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.0%	-1.0%
Last 1 year	-12.4	-23.6
Last 2 years	2.3	-5.4
Last 3 years	4.5	-1.3
Last 4 years	4.7	0.5
Last 5 years	7.3	2.8
Since Inception (4/93)	9.0	6.7

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, 2001

Portfolio Manager: Erik Granade **Assets Under Management: $456,088,788**

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

The portfolio's out-performance during the quarter was due to strong relative stock selection, especially in Australia, the UK, the Netherlands, Spain and Switzerland. Holdings in consumer staples, financials, and technology added value

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1 5%	-1.0%
Last 1 year	-13 2	-23 6
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)	-7 4	-18 4

Recommendations

No action required.

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

MARATHON ASSET MANAGEMENT
Periods Ending June, 2001

Portfolio Manager: William Arah **Assets Under Management: $447,547,375**

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

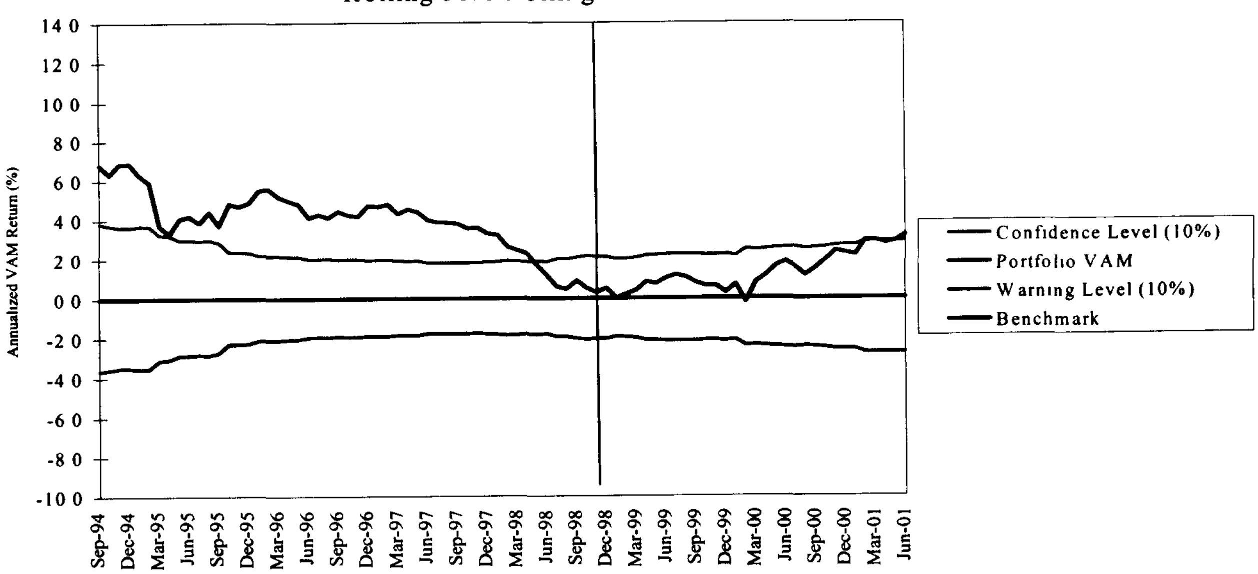
The recent out-performance was due to strong stock selection across all regions. The portfolio profited in particular this quarter from its mid-cap bias and from its underweight in technology and in telecommunications.

Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	3.6%	1.3%
Last 1 year	-11.1	-20.1
Last 2 years	2.6	-3.9
Last 3 years	5.9	-0.4
Last 4 years	3.9	0.2
Last 5 years	5.0	1.8
Since Inception (11/93)	7.4	4.1

Recommendations

No action required.



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

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

Portfolio Manager: Oscar Castro | **Assets Under Management: $272,488,644**

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

Holdings in the consumer and healthcare sectors contributed positively to the portfolio's out-performance during the quarter. Automotive company holdings performed well, as did software holdings in the technology sector.

In May, Montgomery announced that Oscar Castro, Sr. Portfolio Manager will lead Montgomery's Global & International products and that John Boich, Sr Portfolio Manager and co-manager of the SBI's portfolio, will be leaving the firm. Staff does not believe this change will have an adverse effect on the management of the SBI's portfolio.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.2%	-1.0%
Last 1 year	-30.8	-23 6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-30 0	-18.4

Recommendations

No action required

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

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

Portfolio Manager: David Warren | **Assets Under Management: $414,689,866**

Investment Philosophy

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

Staff Comments

Growth stocks were out of favor during the period. Over-weighting technology and under-weighting automobiles, materials and utilities detracted from performance. The portfolio also declined due to holdings in Japan and an under-weight to Australia.

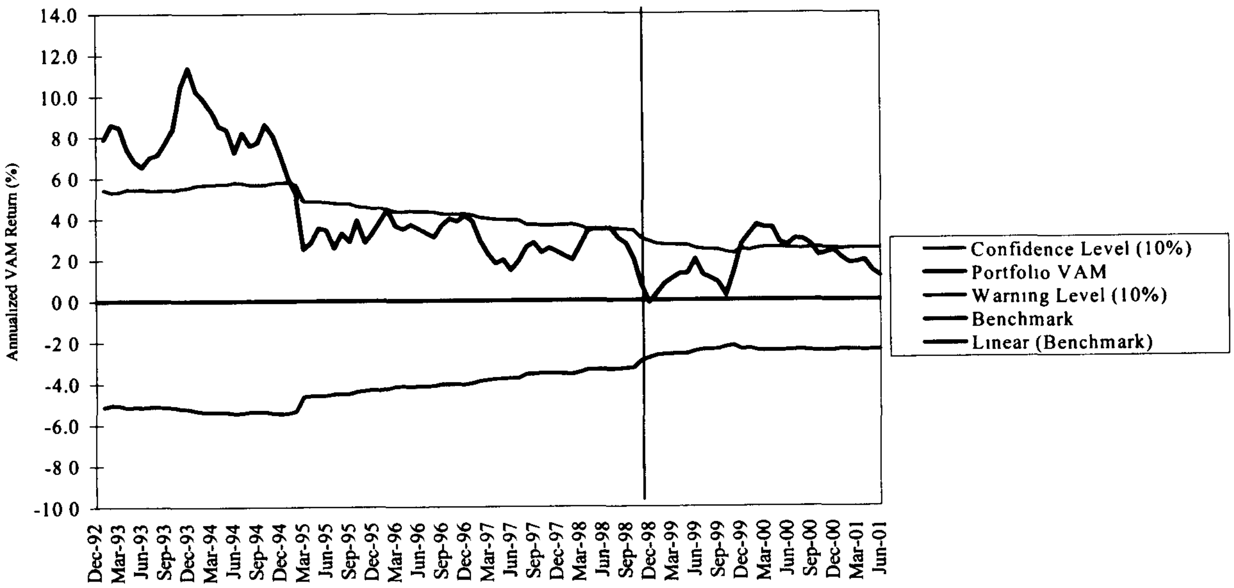
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.9%	-1.0%
Last 1 year	-26.2	-23.6
Last 2 years	-3.7	-5.4
Last 3 years	-0.4	-1.3
Last 4 years	0.7	0.5
Last 5 years	4.0	2.8
Since Inception (11/93)	6.3	4.6

Recommendations

No action required.

T. ROWE PRICE INTERNATIONAL
Rolling Five Year VAM



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

ZURICH SCUDDER INVESTMENTS
Periods Ending June, 2001

Portfolio Manager: Theresa Gusman **Assets Under Management: $418,481,424**

Investment Philosophy

Zurich 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 Zurich Scudder's research universe. Using their own internal research, the firm seeks companies with potential for earnings and dividend growth, strong or improving balance sheets, superior management, conservative accounting practices and dominant position in growing industries.

Staff Comments

No comments at this time

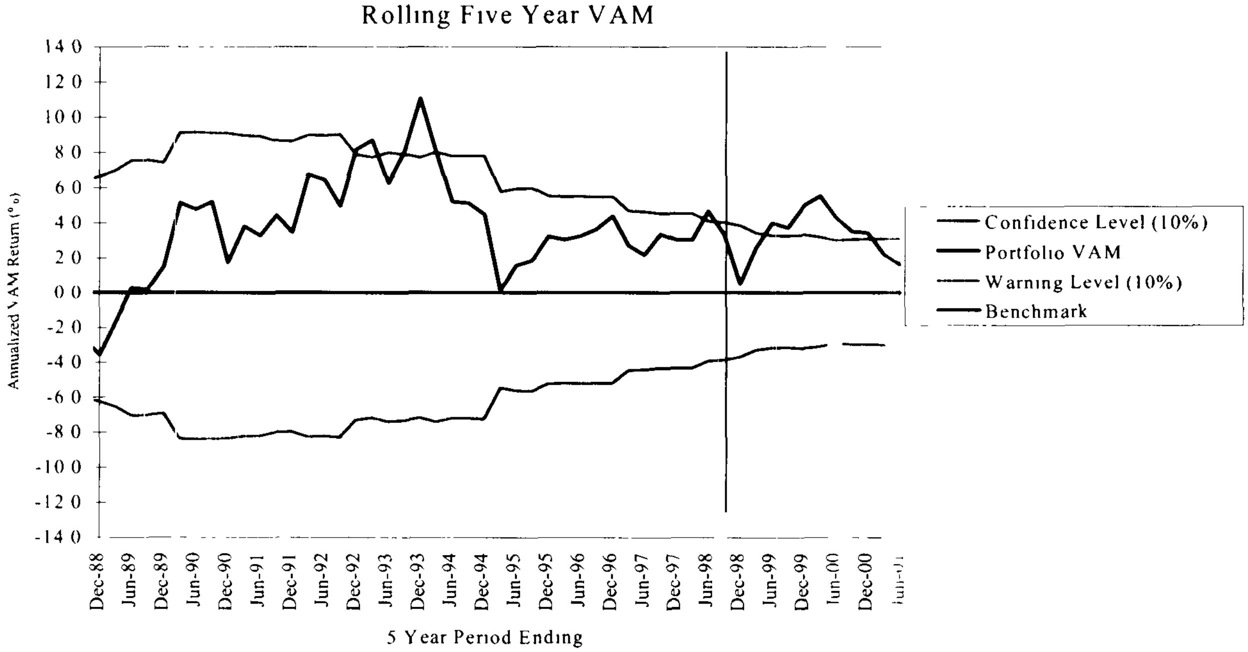
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1 8%	-1.0%
Last 1 year	-27 9	-23 6
Last 2 years	-5 6	-5.4
Last 3 years	-1 6	-1 3
Last 4 years	0 7	0 5
Last 5 years	4 5	2.8
Since Inception (11/93)	6 8	4.6

Recommendations

No action required.

ZURICH SCUDDER INVESTMENTS
Rolling Five Year VAM



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

ALLIANCE CAPITAL MANAGEMENT INTERNATIONAL
Periods Ending June, 2001

Portfolio Manager: Edward Baker **Assets Under Management: $111,459,187**

Investment Philosophy

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

Staff Comments

No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.9	3.9
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	-16.3	-13.7

Recommendations

No action required.

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

CAPITAL INTERNATIONAL, INC.
Periods Ending June, 2001

Portfolio Manager: Shaw Wagner **Assets Under Management: $112,726,875**

Investment Philosophy

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

Staff Comments

The SBI's portfolio significantly out-paced the benchmark during the quarter due to strong performance from Mexican telecom holdings and a significant overweight in Turkey, which bounced back during the period.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.0	3.9
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	-15.6	-13.7

Recommendations

No action required

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

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

Portfolio Manager: Josephine Jimenez **Assets Under Management: $118,607,148**

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

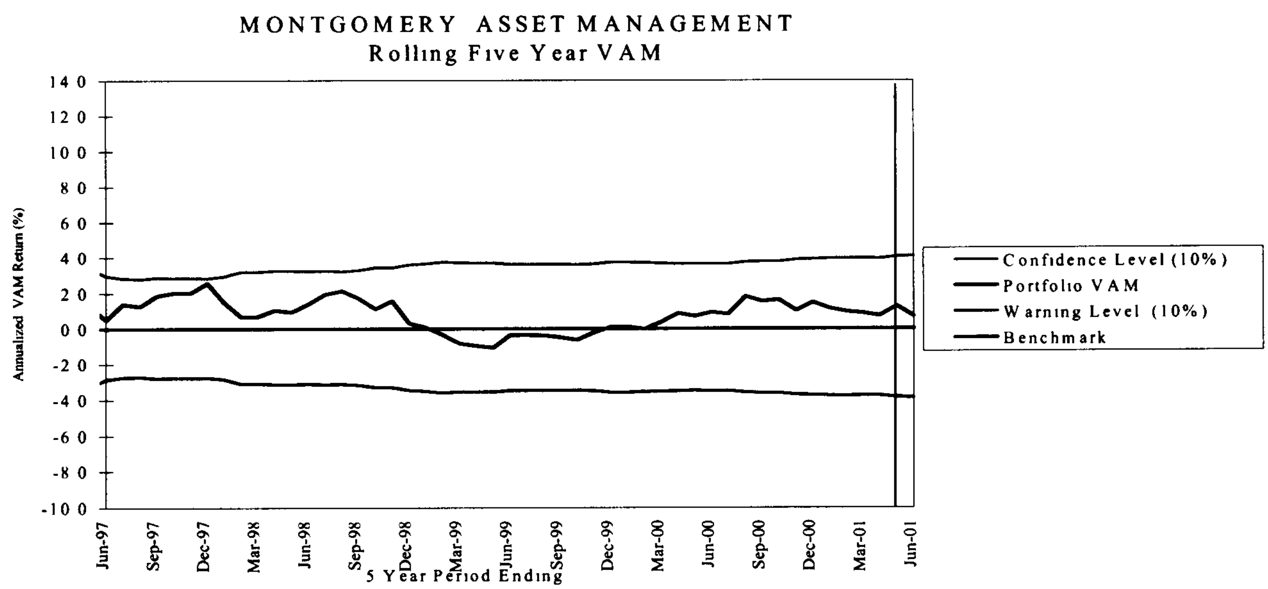
The portfolio benefited during the period from over-weighting Mexico and under-weighting Malaysia and Taiwan, which was the weakest performer among large-cap emerging markets.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.9%	3.9%
Last 1 year	-25.4	-25.9
Last 2 years	-5.1	-10.0
Last 3 years	0.3	1.4
Last 4 years	-11.7	-10.7
Last 5 years	-5.8	-6.4
Since Inception (5/96)	-5.3	-6.2

Recommendations

No action required.



Note Shaded area includes performance prior to managing SBI account

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending June, 2001

Portfolio Manager: Robert Meyer **Assets Under Management: $104,879,907**

Investment Philosophy

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

Staff Comments

Stock selection in Taiwan, Brazil, and Mexico added positively to relative performance. On a country allocation basis, an underweight stance in Malaysia and Taiwan along with an overweight position in South Korea contributed to the portfolio's out-performance during the recent period.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6 8%	3.9%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	-15.0	-13.7

Recommendations

No action required

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

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

Portfolio Manager: Mark Bridgeman **Assets Under Management: $113,931,004**

Investment Philosophy

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

Staff Comments

No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.9	3.9
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	-15.6	-13.7

Recommendations

No action required.

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

STATE STREET GLOBAL ADVISORS
Periods Ending June, 2001

Portfolio Manager: Lynn Blake | **Assets Under Management: $1,766,007,141**

Investment Philosophy

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

Staff Comments

No comments at this time

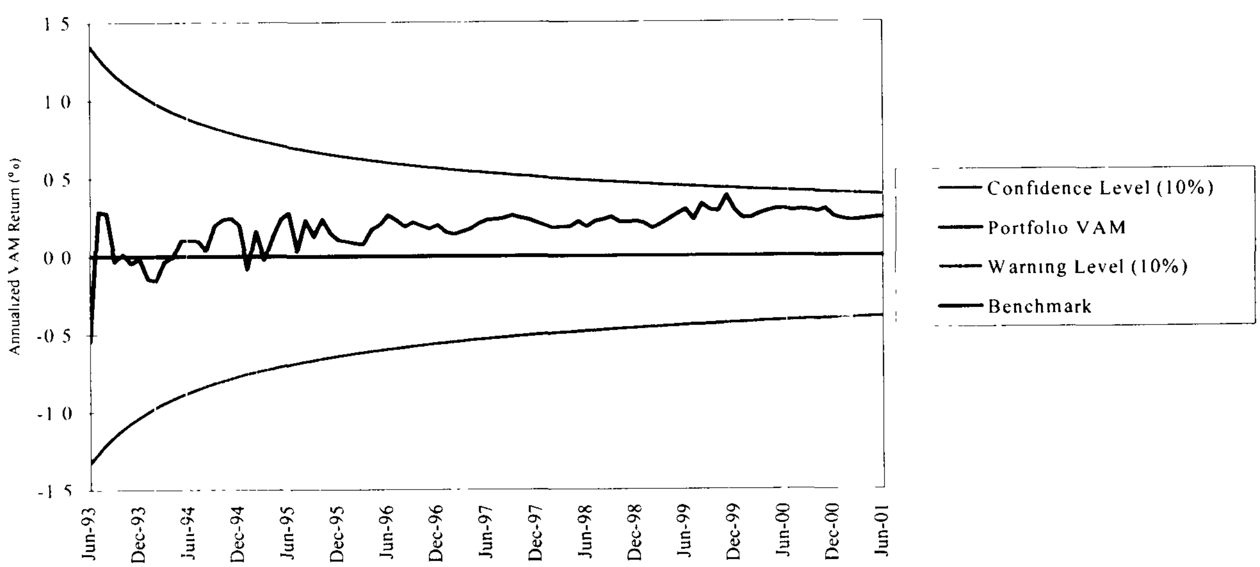
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0 9%	-1.0%
Last 1 year	-23 7	-23.6
Last 2 years	-5.3	-5.4
Last 3 years	-0 9	-1.3
Last 4 years	0.7	0.5
Last 5 years	3 1	2 8
Since Inception (10/92)	7 5	7.2

Recommendation

No action required

STATE STREET GLOBAL ADVISORS
Cumulative Tracking



STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Second Quarter, 2001

NON - RETIREMENT MANAGERS
Periods Ending June, 2001

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market Value
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	($ millions)
GE Investment Management (S&P 500 Index)*	3 7	5 9	-5 9	-14.8	7 6	3 9	16 6	14 5	19 8	18 3	$60 83
Voyageur Asset Management (60% Lehman Aggregate/ 40% Lehman 1-3 U S. Gov/Credit)*(2)	0.8	1.0	9.5	10 5	5 9	6.6	6 8	7.1	7.4	7.4	254.08
Galliard Capital Management (3 yr. Constant Maturity Treasury + 30 bp)	1 5	1 2	6.3	5.4	6.3	5 7	6.4	5 9	6.5	6 1	89 64
Internal Stock Pool (S&P 500 Index)*	5 8	5 9	-14 6	-14.8	4 1	3 9	14 6	14 5	15 6	15 5	974 85
Internal Bond Pool - Income Share (Lehman Aggregate)*(3)	0 7	0 6	11.4	11.2	6 4	6 3	7.8	7 5	8 6	8.3	198 54
Internal Bond Pool - Trust (Lehman Aggregate)*	0.7	0.6	11.2	11.2	6.5	6 3	7 7	7 5	8.3	7 8	800 35

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

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

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

Portfolio Manager: Gene Bolton **Assets Under Management: $60,829,897**

Investment Philosophy
Assigned Risk Plan

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

Staff Comments

GE trailed the benchmark for the second quarter due to the portfolio's underweight in consumer cyclical holdings, an overweight in the energy sector and underperformance in the technology sector. For the year, the primary driver of relative outperformance is the strategy's underweight in the technology sector.

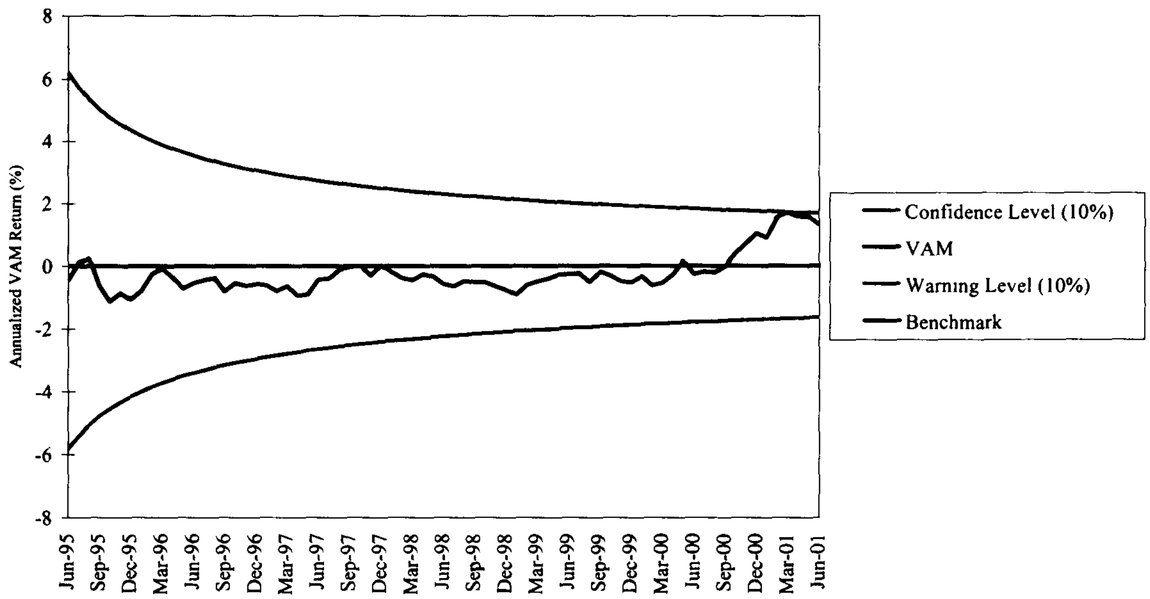
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.7%	5.9%
Last 1 year	-5.9	-14.8
Last 2 years	0.3	-4.4
Last 3 years	7.6	3.9
Last 4 years	12.6	9.9
Last 5 years	16.6	14.5
Since Inception (1/95)	19.8	18.3

Recommendation

No recommendation at this time.

GE INVESTMENT MANAGEMENT
Cumulative Tracking



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

Portfolio Manager: Tom McGlinch **Assets Under Management: $254,075,664**

Investment Philosophy
Assigned Risk Plan

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

Staff Comments

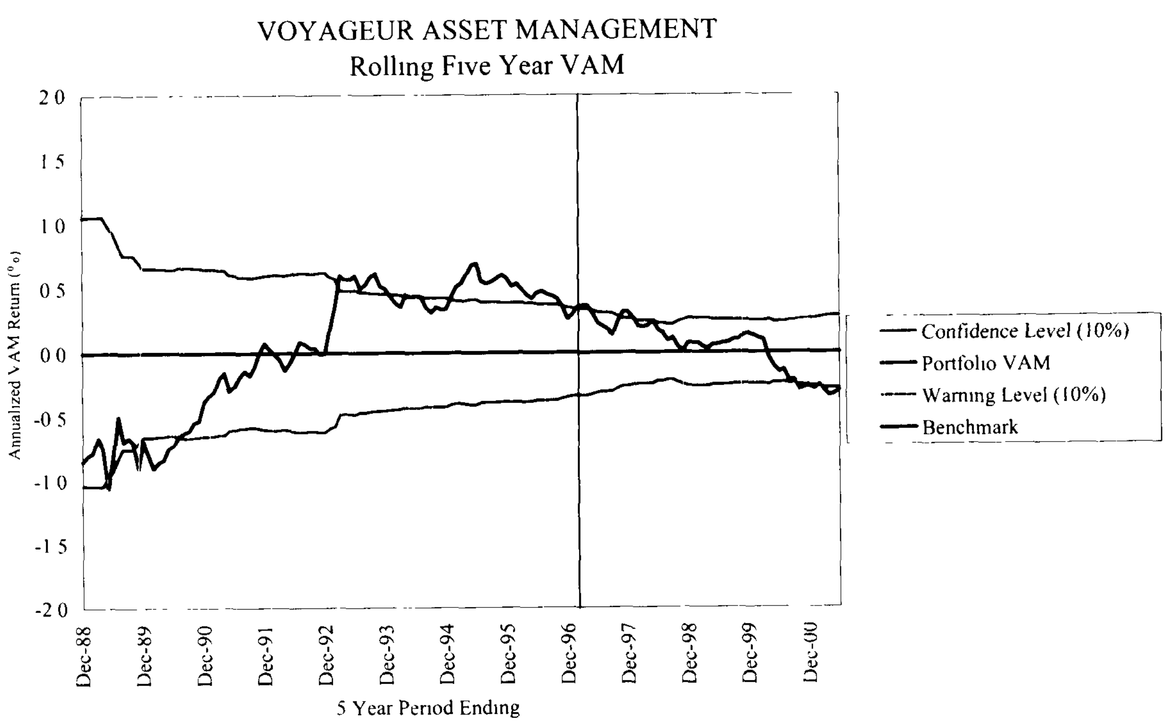
Voyageur slightly trailed the quarterly benchmark. The portfolio's overweight to the mortgage sector hurt performance as short and intermediate term treasury and corporate bonds outperformed mortgages during the quarter. The one-year return reflects the negative impact of the credit downgrades of Comdisco and Finova.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.8%	1.0%
Last 1 year	9.5	10.5
Last 2 years	6 8	7.6
Last 3 years	5 9	6.6
Last 4 years	6 6	7 0
Last 5 years	6.8	7.1
Since Inception (7/91)	7.4	7 4

Recommendation

No action required



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

GALLIARD CAPITAL MANAGEMENT
Periods Ending June, 2001

Portfolio Manager: Karl Tourville **Assets Under Management: $89,642,116**

Investment Philosophy

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

Staff Comments

No comments at this time.

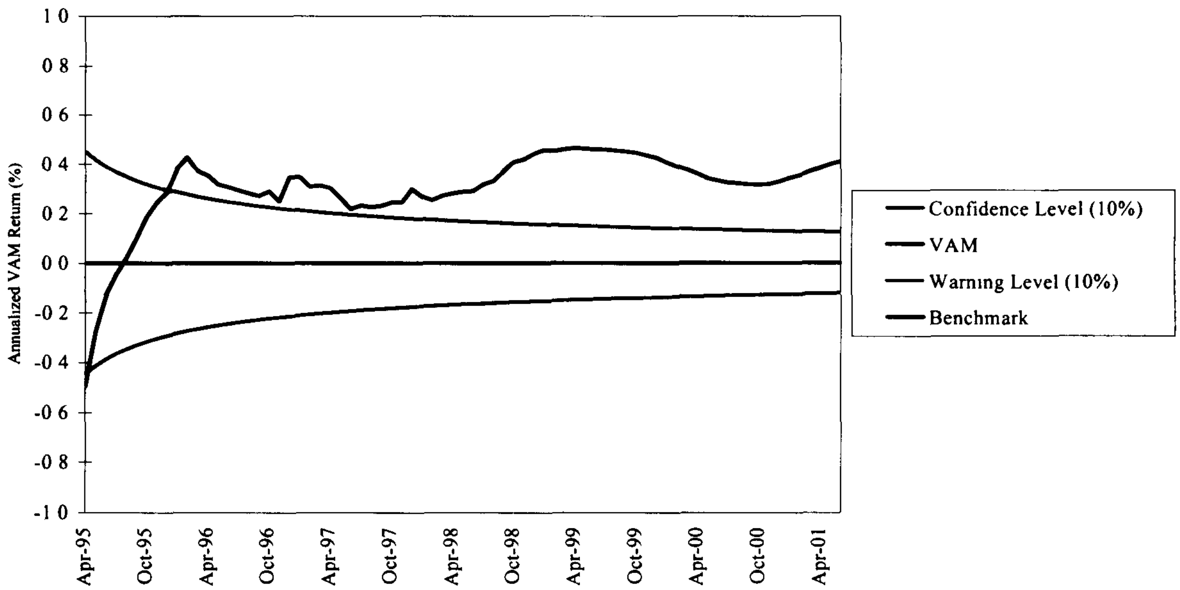
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.5%	1.2%
Last 1 year	6.3	5.4
Last 2 years	6.3	6.0
Last 3 years	6.3	5.7
Last 4 years	6.3	5.8
Last 5 years	6.4	5.9
Since Inception (11/94)	6.5	6.1

Recommendation

No action required.

GALLIARD CAPITAL MANAGEMENT
Cumulative Tracking



INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending June, 2001

Portfolio Manager: Mike Menssen **Assets Under Management: $974,849,226**

Investment Philosophy
Environmental Trust Fund
Permanent School Fund
Tobacco Endowment Funds

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

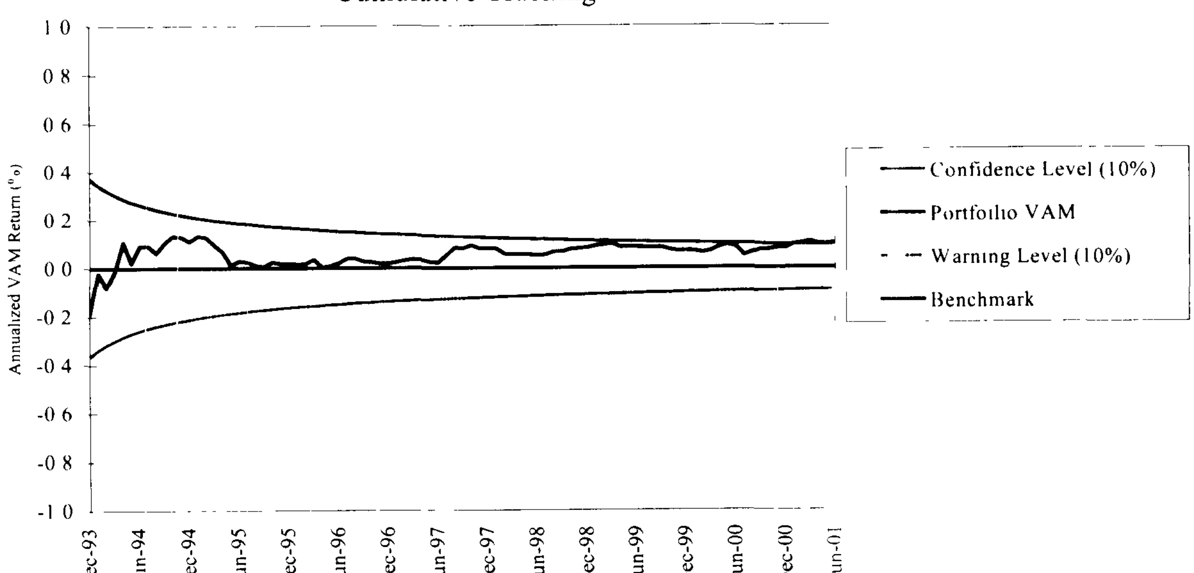
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.8%	5.9%
Last 1 year	-14.6	-14 8
Last 2 years	-4 3	-4.4
Last 3 years	4.1	3.9
Last 4 years	10.1	9.9
Last 5 years	14.6	14 5
Since Inception (7/93)	15 6	15.5

Recommendation

No action required.

INTERNAL STOCK POOL
Trust/Non-Retirement Assets
Cumulative Tracking



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

Portfolio Manager: Mike Menssen **Assets Under Management: $198,540,131**

Investment Philosophy
Income Share Account

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

Staff Comments

No comments at this time.

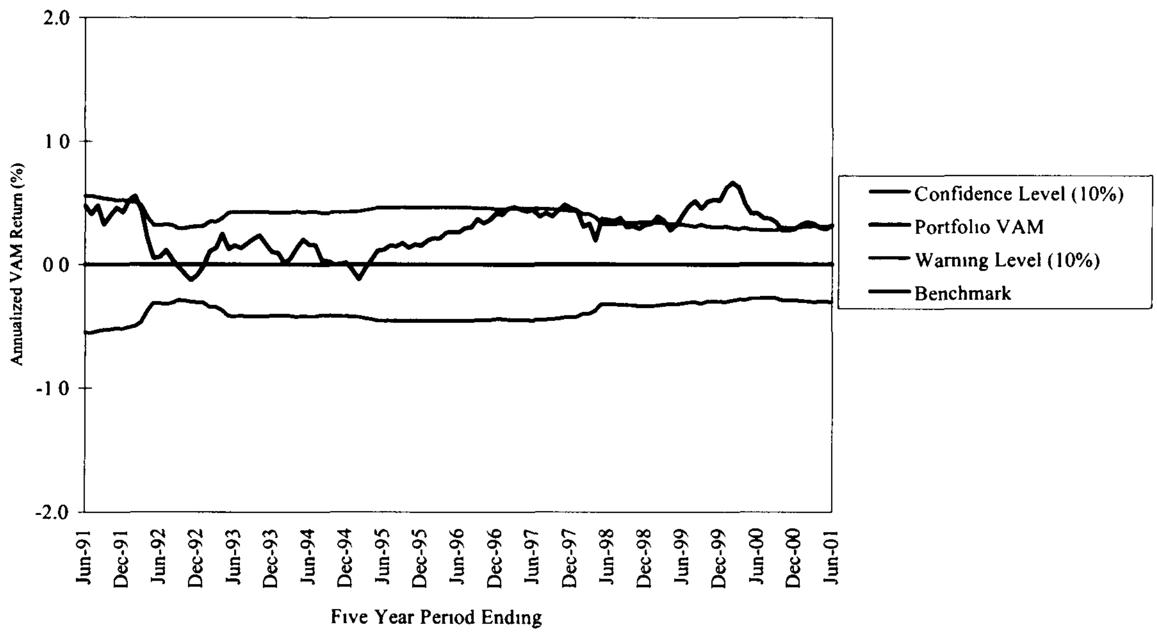
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.7%	0.6%
Last 1 year	11.4	11.2
Last 2 years	7.9	7.8
Last 3 years	6.4	6.3
Last 4 years	7.6	7.3
Last 5 years	7.8	7.5
Since Inception (7/86)	8.6	8.3

Recommendation

No action required.

INTERNAL BOND POOL - INCOME SHARE ACCOUNT
Rolling Five Year VAM



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

Portfolio Manager: Mike Menssen | **Assets Under Management: $800,345,996**

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

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

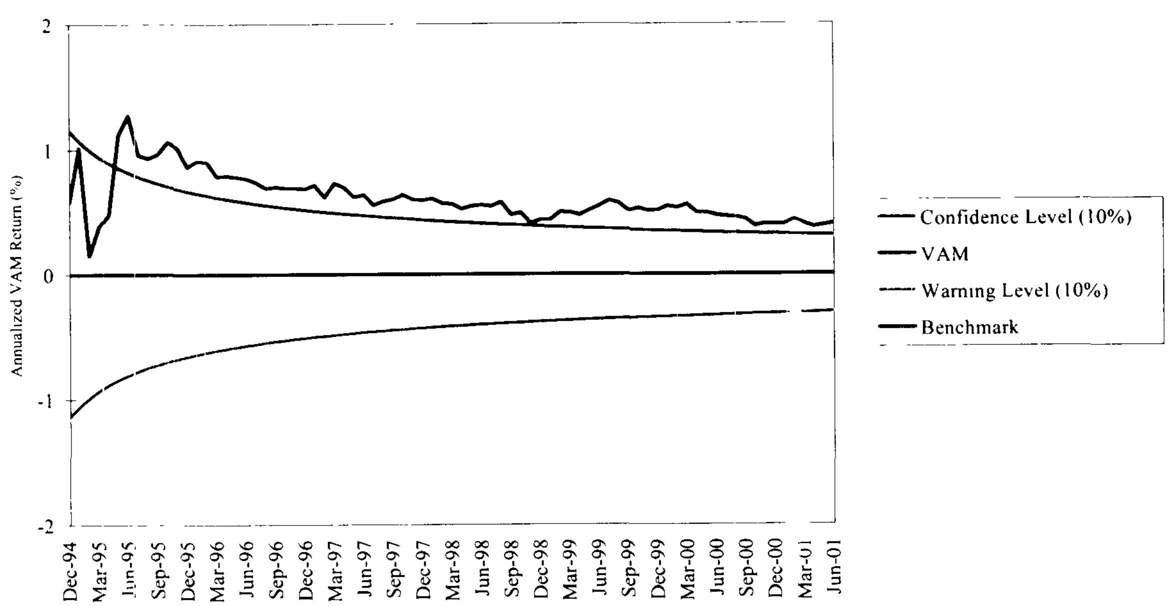
	Actual	Benchmark
Last Quarter	0.7%	0.6%
Last 1 year	11.2	11.2
Last 2 years	7.9	7.8
Last 3 years	6 5	6 3
Last 4 years	7.5	7 3
Last 5 years	7.7	7.5
Since Inception (7/94)*	8.3	7.8

Recommendation

No action required

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

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



STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

Second Quarter, 2001

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

457 Mutual Funds	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Retention by SBI* %	Since Retention by SBI* %	State's Participation In Fund ($ millions)
Large Cap Equity:											
Janus Twenty (S&P 500)**	6.7	5.9	-41.2	-14 8	4.6	3.9	17.7	14.5	-12.7	-4.4	274 46
Small Cap Equity:											
T. Rowe Price Small-Cap Equity (Russell 2000)**	14.8	14.4	10.7	0 7	9.3	5.3	13.3	9.6	16.3	7.3	251.23
Equity Index:											
Vanguard Institutional Index (S&P 500)**	5.9	5.9	-14.7	-14.8	4 0	3 9	14.6	14.5	-4.3	-4.4	187.42
Balanced:											
INVESCO Total Return (60% S&P 500/40% Lehman Gov-Corp)**	4.4	3.8	2.1	-7.1	-0 1	4.4	8 0	11.5	-5.3	-0.5	89 43
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)**	1.3	0.6	12.6	11.2	6 3	6.3	7.7	7.5	8.2	7.8	31 41
International:											
Fidelity Diversified International (MSCI EAFE-Free)**	2.5	-1.3	-14.4	-23.8	6 9	-1.4	11.8	2.8	6 4	-5.6	78.31

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

*The mutual fund managers were retained by the SBI in July 1999.
**Benchmarks for the Funds are notated in parentheses below the Fund names.

Fixed Fund:	%
Blended Yield Rate for current quarter***:	6.4
Bid Rates for current quarter:	
Great West Life	6 9
Minnesota Life	6.9
Principal Life	6.9

***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 determine the allocation of new cash flow.

MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – JANUS TWENTY
Periods Ending June, 2001

State's Participation in Fund: $274,460,069

Portfolio Manager: Scott W. Schoelzel | **Total Assets in Fund: $18,696,000,000**

Investment Philosophy
Janus Twenty

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

Staff Comments

Janus Twenty outperformed the quarterly benchmark. The media holdings and a portion of the technology holdings helped the quarterly return. The one-year return continues to lag the S&P 500 benchmark due primarily to the technology and telecommunication holdings.

Quantitative Evaluation

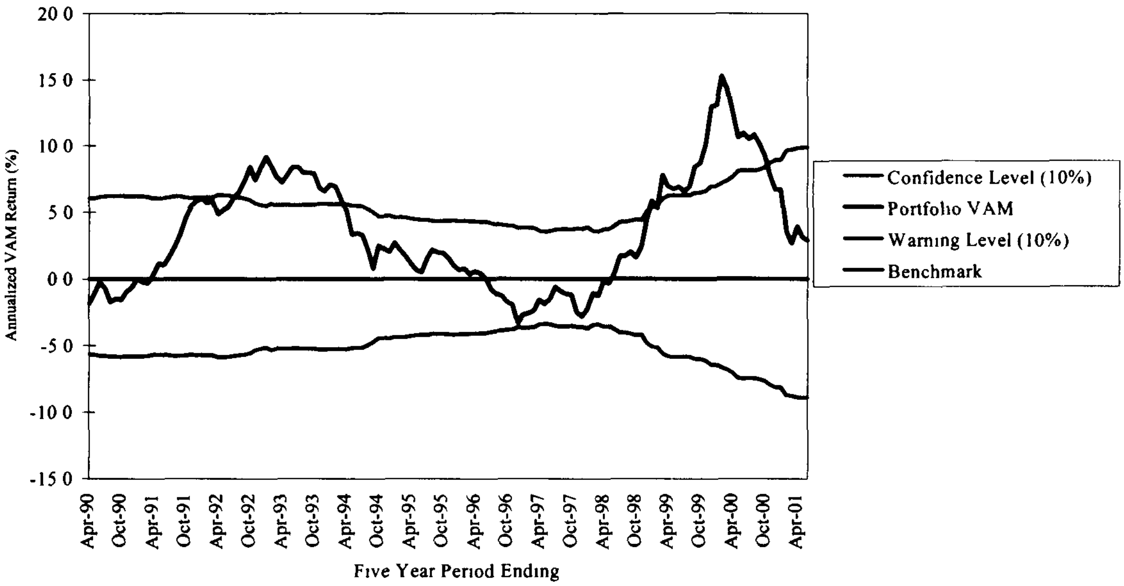
	Actual	Benchmark*
Last Quarter	6.7%	5.9%
Last 1 year	-41.2	-14.8
Last 2 years	-12 7	-4.4
Last 3 years	4.6	3 9
Last 4 years	13.9	9.9
Last 5 years	17 7	14.5
Since Retention by SBI (7/99)	-12.7	-4.4

*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, 2001

State's Participation in Fund: $251,234,332

Portfolio Manager: Gregory A. McCrickard **Total Assets in Fund: $2,831,835,607**

Investment Philosophy
T. Rowe Price Small Cap Equity Fund

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

Staff Comments

T Rowe-Price was helped this quarter by the strong performance of their holdings in the health care, technology, industrial, and consumer cyclical sectors Stock selection was the big performance driver for the one-year period The biggest outperformance came in information technology, industrials and health care

Staff met with T Rowe-Price at their Baltimore office in May to review the portfolio and organization. There are no organizational concerns.

Quantitative Evaluation

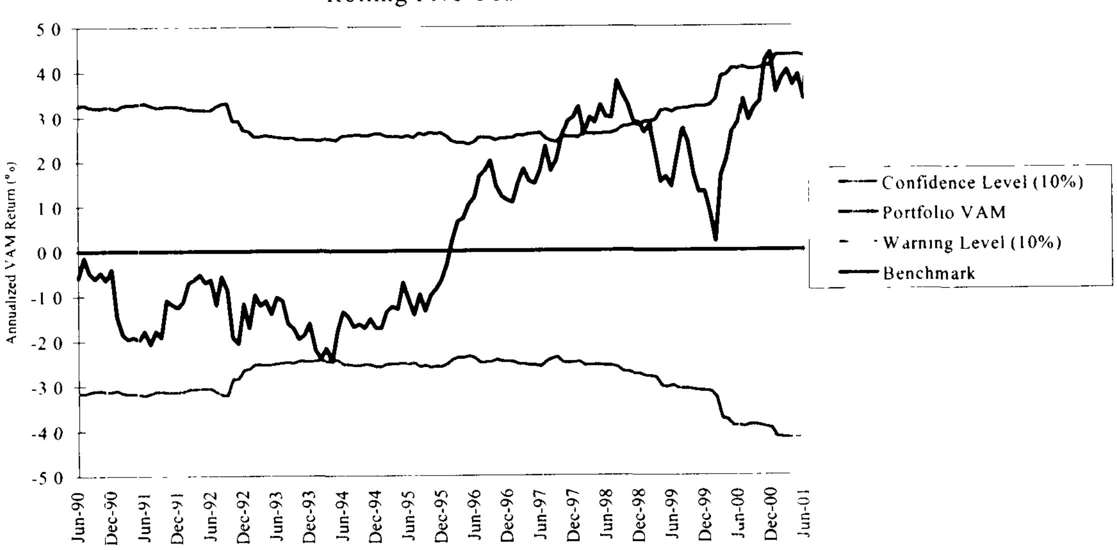
	Actual	Benchmark*
Last Quarter	14 8%	14 4%
Last 1 year	10 7	0.7
Last 2 years	16 3	7 3
Last 3 years	9 3	5 3
Last 4 years	12 1	8 0
Last 5 years	13 3	9 6
Since Retention by SBI (7/99)	16 3	7 3

*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



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
EQUITY INDEX – VANGUARD INSTITUTIONAL INDEX PLUS
Periods Ending June, 2001

State's Participation in Fund: $187,423,146

Portfolio Manager: George U. Sauter — **Total Assets in Fund: $11,620,225,209**

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

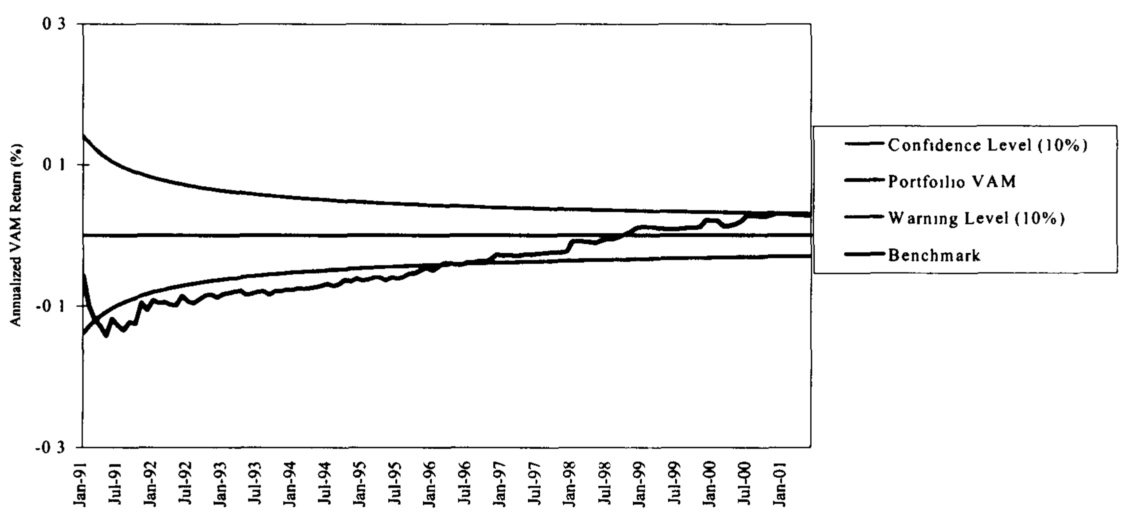
	Actual	Benchmark*
Last Quarter	5.9%	5.9%
Last 1 year	-14.7	-14.8
Last 2 years	-4 3	-4 4
Last 3 years	4 0	3.9
Last 4 years	10.0	9.9
Last 5 years	14.6	14.5
Since Retention by SBI (7/99)	-4.3	-4.4

*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, 2001

State's Participation in Fund: $89,432,461
Portfolio Manager: Charlie Mayer **Total Assets in Fund: $1,428,800,000**

Investment Philosophy
Invesco Total Return

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

Staff Comments

INVESCO outperformed the quarterly and one-year benchmark. The strong performance from the financial services stocks contributed to the outperformance for both time periods.

Quantitative Evaluation

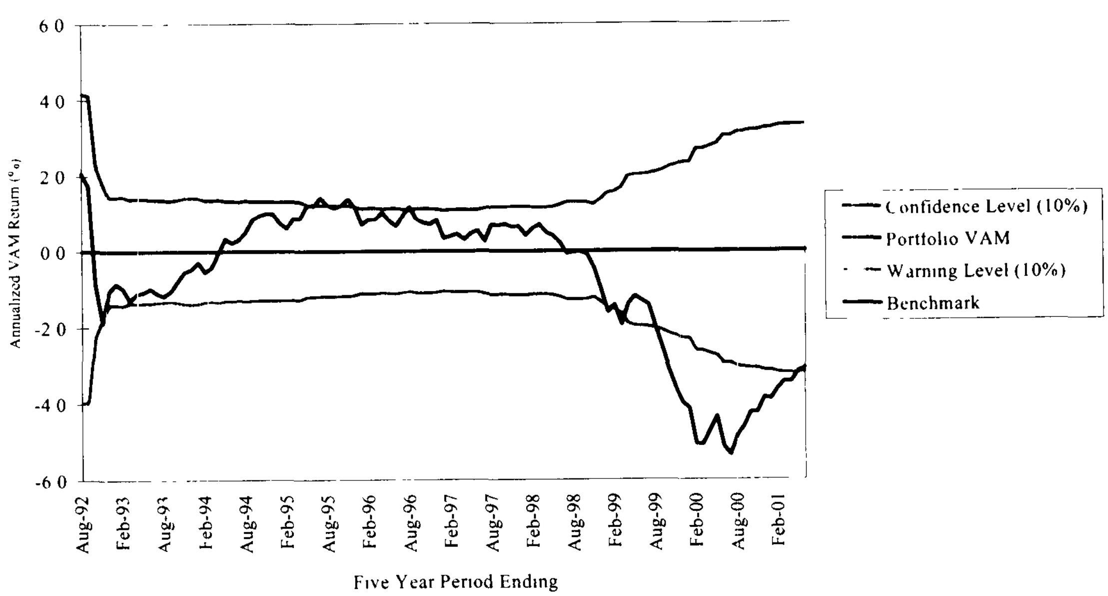
	Actual	Benchmark*
Last Quarter	4.4%	3.8%
Last 1 year	2.1	-7.1
Last 2 years	-5.3	-0.5
Last 3 years	-0.1	4.4
Last 4 years	4.5	8.7
Last 5 years	8.0	11.5
Since Retention by SBI (7/99)	-5.3	-0.5

*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



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – DODGE & COX INCOME FUND
Periods Ending June, 2001

State's Participation in Fund: $31,408,672

Portfolio Manager: Dana Emery | **Total Assets in Fund: $1,236,266,978**

Investment Philosophy
Dodge & Cox Income Fund

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

Staff Comments

Dodge & Cox continued to benefit from their overweight of the corporate sector. The strong relative performance of corporate securities contributed to the quarterly outperformance.

Quantitative Evaluation

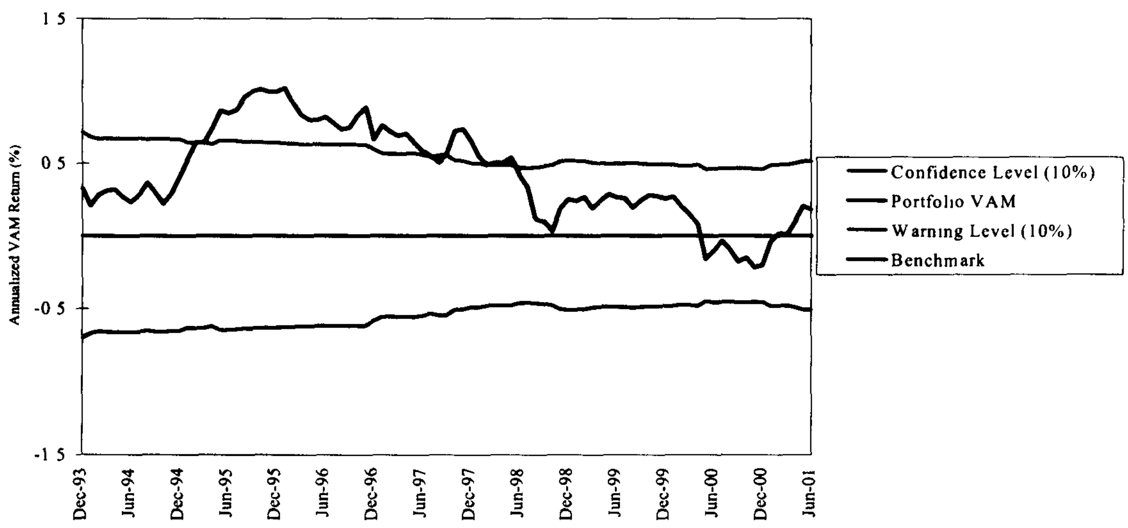
	Actual	Benchmark*
Last Quarter	1.3%	0.6%
Last 1 year	12.6	11.2
Last 2 years	8.2	7 8
Last 3 years	6.3	6.3
Last 4 years	7 5	7 3
Last 5 years	7.7	7.5
Since Retention By SBI (7/99)	8.2	7.8

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

Recommendation

No action required.

BOND - DODGE & COX INCOME FUND
Rolling Five Year VAM



Note. Shaded area includes performance prior to managing SBI account

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

State's Participation in Fund: $78,311,702
Portfolio Manager: William Bower **Total Assets in Fund: $6,342,054,466**

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

Staff met the new portfolio manager, William Bower, at their offices in May The transition appears to have gone smoothly and staff will continue to closely monitor the fund.

Fidelity's quarterly outperformance was aided by favorable stock selection, particularly in the financial sector For the year, the return benefited from stock selection and a well-timed reduction in its exposure to the deteriorating telephone service and telecom equipment manufacturing sectors

Quantitative Evaluation

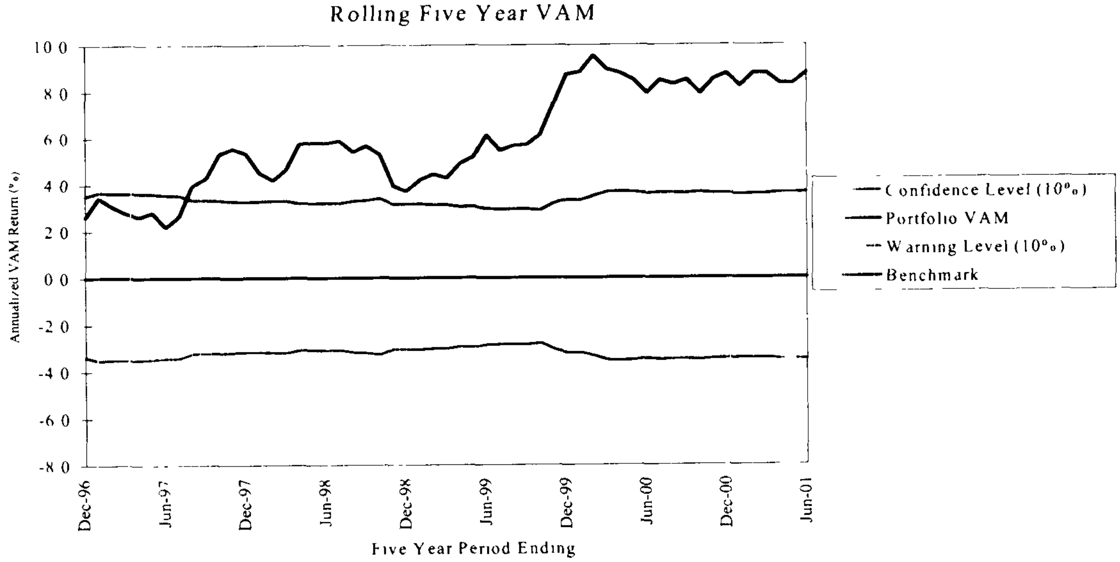
	Actual	Benchmark*
Last Quarter	2.5%	-1.3%
Last 1 year	-14.4	-23.8
Last 2 years	6.4	-5.6
Last 3 years	6.9	-1.4
Last 4 years	8.9	0.4
Last 5 years	11.8	2.8
Since Retention By SBI (7/99)	6.4	-5.6

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

Recommendation

No action required

INTERNATIONAL - FIDELITY DIVERSIFIED INTERNATIONAL
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

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

Total Assets in MN Fixed Fund: $186,261,760 *
*Includes $10-15M in Liquidity Buffer Account

Total Assets in 457 Plan: $593,351,159 **
**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: $60,078,118

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:	$56,909,984
Assets in Prior MN 457 Plan:	$175,669,344
Total Assets:	$232,579,328

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:	$54,197,724
Assets in Prior MN 457 Plan:	$231,420,056
Total Assets:	$285,617,780

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, 2001

Current Quarter

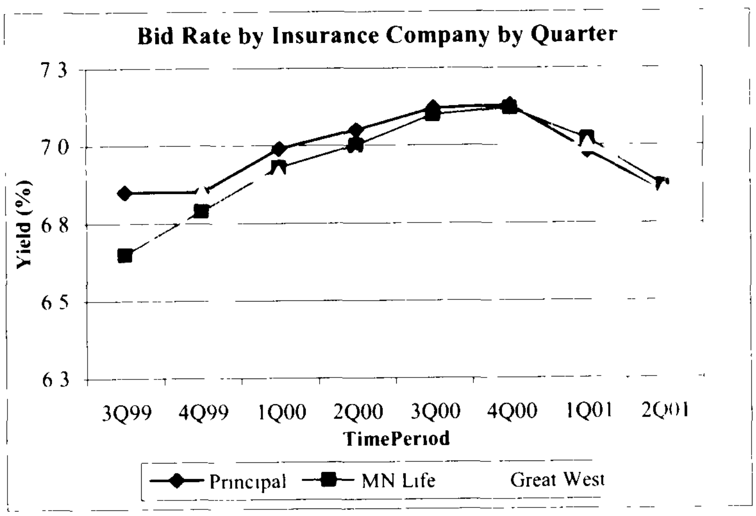
Dollar Amount of Bid: $20,800,000 **Blended Rate: 6.41%**

Bid Rates:

Principal Life	6.85%
Minnesota Life	6.87%
Great West Life	6.85%

Dollar Amount in existing Minnesota Life portfolio: $175,669,344

Rate on existing Minnesota Life portfolio: 5.97 %



Staff Comments on Bid Rates

The spread in the bid rates by the three insurance companies on the new inflow of dollars into the MN Fixed Fund in the first quarter decreased from last quarter The overall bid rates decreased from the prior quarter

Staff Comments

	3Q00	4Q00	1Q01	2Q01
Principal Life	33 3%	35 0%	33 3%	33 3%
Minnesota Life	33 3%	35 0%	33.3%	33.3%
Great West Life	33 3%	30 0%	33.3%	33 3%

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

Tab F

COMMITTEE REPORT

DATE: August 28, 2001

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met on August 15, 2001 with the following information agenda items:

- Review of current strategy.
- Review meetings with two of the SBI's existing alternative investment managers to discuss investment performance and current market conditions.
  - David Donnini of GTCR Golder Rauner, LLC.
  - Mike Ruane of TA Realty.

No Board/IAC action is required.

INFORMATION ITEMS:

1) Review of Current Strategy.

To increase overall portfolio diversification, 15% of the Basic Retirement Funds and 5% of the Post Retirement Fund are allocated to alternative investments. Alternative investments include real estate, private equity and resource investments where Minnesota State Board of Investment (SBI) participation is limited to commingled funds or other pooled vehicles. Charts summarizing the Board's current commitments are attached (see **Attachments A and B**).

Basic Funds

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

- The private equity investment strategy is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location.

- The strategy for resource investment is to establish and maintain a portfolio of resource investment vehicles that are specifically designed for institutional investors to provide an inflation hedge and additional diversification. Individual resource investments will include proved producing oil and gas properties, royalties and other investments that are diversified geographically and by type.

Post Fund

- The Post Fund assets allocated to alternative investments will be invested separately from the Basic Funds' alternative investments to assure that returns are accounted for appropriately. Since the Post Fund invests the retired employees' pension assets, an allocation to yield oriented alternative investments will be emphasized. The Basic Retirement Funds' invest the active employees' pension assets and have less concern regarding the current yield for their alternative investments.

2) Review meetings with two of the SBI's existing managers.

The Committee and Staff met with one of the SBI's existing private equity managers, David Donnini of GTCR Golder Rauner and one of the SBI's existing real estate managers, Mike Ruane of TA Realty. Both managers provided the Committee and Staff with information regarding the current investment environment and current performance of the SBI's investments with them. The Committee and Staff are satisfied with the performance of these managers.

ATTACHMENT A

Minnesota State Board of Investment

Alternative Investments
Basic Retirement Funds
June 30, 2001

Market Value of Basic Retirement Funds	$18,574,768,934
Amount Available for Investment	**$72,096,747**

	Current Level	Target Level	Difference
Market Value	$2,405,867,648	$2,786,215,340	$380,347,692
MV +Unfunded	$3,642,857,040	$3,714,953,787	$72,096,747

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$720,597,394	$12,235,056	$732,832,450
Private Equity	$1,402,110,425	$1,103,697,261	$2,505,807,686
Resource	$283,159,829	$121,057,075	$404,216,904
Total	$2,405,867,648	$1,236,989,392	$3,642,857,040

Minnesota State Board of Investment

Alternative Investments
Post Retirement Funds
June 30, 2001

Market Value of Post Retirement Funds	$19,396,648.203
Amount Available for Investment	**$315,858,108**

	Current Level	Target Level	Difference
Market Value	$653,974,302	$969,832,410	$315,858,108
MV +Unfunded	$1,338,787,467	$1,939,664,820	$600,877,353

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$217,941,075	$112,353,036	$330,294,111
Private Equity	$361,191,939	$461,476,314	$822,668,253
Resource	$74,841,288	$110,983,815	$185,825,103
Total	$653,974,302	$684,813,165	$1,338,787,467

ATTACHMENT B

State of Minnesota
- Alternative Investments -

As of June 30, 2001

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate-Basic							
AEW V	15,000,000	15,000,000	382,939	11,169,287	0	-2 72	13.54
Colony Capital							
Colony Investors II	40,000,000	38,985,164	12,329,302	34,653,001	1,014,836	7 27	6 25
Colony Investors III	100,000,000	95,635,379	102,547,547	19,392,332	4,364,621	12 99	3.50
Equity Office Properties Trust	140,388,854	140,388,854	132,928,871	153,657,143	0	19 45	9.59
First Asset Realty Fund	916,185	916,185	121,640	965,751	0	4.93	7.17
Heitman							
Heitman Advisory Fund I	20,000,000	20,000,000	2,170,050	20,190,280	0	1 45	16 89
Heitman Advisory Fund II	30,000,000	30,000,000	3,402,746	39,955,289	0	4 10	15 61
Heitman Advisory Fund III	20,000,000	20,000,000	77,805	22,174,237	0	1.37	14.44
Heitman Advisory Fund V	20,000,000	20,000,000	8,207,725	23,245,559	0	8 18	9.57
Lasalle Income Parking Fund	15,000,000	14,644,401	8,056,634	17,748,656	355,599	10 59	9.78
Lend Lease Real Estate Investments	40,000,000	40,000,000	134,866,106	3,029,884	0	6 74	19.72
RREEF USA Fund III	75,000,000	75,000,000	527,179	121,039,987	0	4.75	17.14
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	40,000,000	55,964,315	24,798,191	0	13 98	7.08
Realty Associates Fund IV	50,000,000	50,000,000	61,950,384	14,335,289	0	13 67	4 41
Realty Associates Fund V	50,000,000	43,500,000	45,174,186	4,621,226	6,500,000	8 96	2 10
TCW Realty Fund IV	30,000,000	30,000,000	88,812	28,945,133	0	-0 35	14 66
UBS Realty	42,376,529	42,376,529	151,793,427	0	0	7 50	19 17
Fund in Liquidation (AEW III)	20,000,000	20,000,000	7,727	24,133,975	0		
Real Estate-Basic Totals	748,681,568	736,446,512	720,597,394	564,055,222	12,235,056		
Real Estate-Post							
CT Mezzanine Partners II	100,000,000	0	0	0	100,000,000	N/A	0 00
Colony Capital	40,000,000	38,985,164	12,329,302	34,653,001	1,014,836	7 27	6 25
Equity Office Properties Trust	117,673,360	117,673,360	132,928,871	0	0	12 96	0 24
GMAC Institutional Advisors							
Institutional Coml MTG Fund II	13,500,000	13,397,500	10,894,995	8,527,979	102,500	9 82	5 93
Institutional Coml MTG Fund III	21,500,000	21,275,052	20,880,930	7,582,136	224,948	9 11	4 58
Institutional Coml MTG Fund IV	14,300,000	14,300,000	14,273,673	3,040,913	0	8 70	3 50
Institutional Coml MTG Fund V	37,200,000	26,189,247	26,633,304	2,410,493	11,010,753	11 37	1.91
Real Estate-Post Totals	344,173,360	231,820,324	217,941,075	56,214,522	112,353,036		
Real Estate Totals	1,092,854,928	968,266,836	938,538,469	620,269,744	124,588,092		

State of Minnesota
- Alternative Investments -

As of June 30, 2001

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Venture Capital-Basic							
Bank Fund							
Banc Fund III	20,000,000	20,000,000	2,541,216	43,688 725	0	16 80	8 68
Banc Fund IV	25,000,000	25,000,000	24,106,900	8,669 827	0	7 86	5 37
Banc Fund V	48,000,000	36,000,000	33,908,724	1,680,076	12,000,000	-0 76	2 96
Blackstone Capital Partners II	50,000,000	47,271,190	25,787,790	56,298,390	2,728,810	34 88	7 60
BLUM Capital Partners							
RCBA Strategic Partners	50,000,000	49,302,291	44,847,220	17,284 861	697,709	14 44	2 52
BLUM Strategic Partners II	50,000,000	0	0	0	50,000,000	N/A	0 00
Brinson Partners							
Brinson Partners I	5,000,000	5,000,000	371,792	9,147 616	0	11 16	13 14
Brinson Partners II	20,000,000	19,579,998	2,555,249	37,109 218	420,002	26 00	10 59
Churchill Capital Partners II	20,000,000	20,000,000	5,459,357	22,860 596	0	12 20	8 67
Contrarian Capital Fund II	37,000,000	37,000,000	34,751,953	12 446	0	-1 98	4 08
Coral Partners							
Coral Partners Fund I	7,011,923	7,011,923	631,613	6,429,665	0	0 11	15 03
Coral Partners Fund II	10,000,000	8,069,315	1,520,093	36,117,047	1,930,685	25 35	10 93
Coral Partners Fund IV	15,000,000	15,000,000	15,974,323	10,744,034	0	17 36	6 94
Coral Partners Fund V	15,000,000	12,750,000	16,592,193	152,481	2,250,000	18 71	3 04
Crescendo							
Crescendo II	15,000,000	15,000,000	14,986,575	20,347,039	0	45 81	4 49
Crescendo III	25,000,000	25,000,000	25,200,277	8,084,795	0	20 70	2 65
Crescendo IV	101,500,000	58,255,047	51,091,540	185,114	43,244,953	-14 04	1 31
DLJ							
DLJ Merchant Banking Partners III	125,000,000	36,663,891	36,989,980	0	88,336,109	N/A	0 75
DLJ Strategic Partners	100,000,000	18,907,565	18,630,452	2,693,099	81,092,435	13 18	0 44
DSV Partners IV	10,000,000	10,000,000	1,470,608	27,382,838	0	9 56	16 22
First Century Partners III	10,000,000	10,000,000	3,015,784	14,103,791	0	8 88	16 54
Fox Paine Capital Fund							
Fox Paine Capital Fund	40,000,000	34,380,654	35,510,024	0	5,619,346	1 03	3 19
Fox Paine Capital Fund II	50,000,000	782,544	324,808	0	49,217,456	N/A	1 00
Golder,Thoma, Cressey, Rauner							
Golder, Thoma, Cressey Fund III	14,000,000	14,000,000	4,707,159	55,444,382	0	30 33	13 67
Golder, Thoma, Cressey & Rauner Fund IV	20,000,000	20,000,000	6,209,193	33,351 637	0	25 05	7 41
Golder, Thoma, Cressey & Rauner Fund V	30,000,000	30,000,000	29,153,835	8,285,224	0	7 78	5 00
GS Capital Partners 2000	50,000,000	6,014,204	5,455,430	0	43,985,796	N/A	0 83
GTCR Golder Rauner							
GTCR Fund VI	90,000,000	88,237,778	68,687,335	49,263,209	1,762,222	26 79	3 00
GTCR Fund VII	175,000,000	73,733,853	71,458,952	0	101,266,147	-4 05	1 39
GHJM Marathon Fund IV	40,000,000	26,670,000	26,808,844	0	13,330,000	-5 63	2 21
Hellman & Friedman							
Hellman & Friedman Capital Partners III	40,000,000	32,432,434	9,366,326	53,748,357	7,567,566	34 69	6 78
Hellman & Friedman Capital Partners IV	150,000,000	49,750,564	29,083,464	34,136,841	100,249,436	74 69	1 49
Kohlberg Kravis Roberts							
KKR 1986 Fund	18,365,339	18,365,339	8,812,993	202,769,685	0	28 13	15 21
KKR 1987 Fund	145,950,000	145,373,652	147,726,940	299,805,528	576,348	10 82	13 60
KKR 1993 Fund	150,000,000	150,000,000	49,733,709	260,983,114	0	18 71	7 53
KKR 1996 Fund	200,000,000	178,955,598	171,911,207	50,692,985	21,044,402	9 62	4 83
KKR Millennium Fund	200,000,000	0	0	0	200,000,000	N/A	0 10
Piper Jaffray Healthcare							
Piper Jaffray Healthcare Fund II	10,000,000	9,500,000	9,178,370	658,415	500,000	1 32	4 33
Piper Jaffray Healthcare Fund III	20,000,000	14,831,115	13,508,580	197,173	5,168,885	-7 46	2 44
Summit Partners							
Summit Ventures II	30,000,000	28,500,000	2,331,890	71,715,485	1,500,000	28 83	13 13
Summit Ventures V	25,000,000	19,000,000	15,963,277	5,399,939	6,000,000	6 77	3 25
T. Rowe Price	509,936,036	509,936,036	19,513,000	499,836,356	0	6 80	N/A
Thoma Cressey							
Thoma Cressey Fund VI	35,000,000	31,150,000	34,476,072	0	3,850,000	6 85	2 86
Thoma Cressey Fund VII	50,000,000	5,500,000	5,500,000	0	44,500,000	N/A	0 85
Vestar Capital Partners IV	55,000,000	11,291,046	10,859,826	369,185	43,708,954	-9 44	1 54
Warburg Pincus							
Warburg, Pincus Equity Partners	100,000,000	84,000,000	85,175,719	6,627,738	16,000,000	6 82	3 01
Warburg, Pincus Ventures	50,000,000	50,000,000	76,356,195	173,316,143	0	55 14	6 50
Welsh, Carson, Anderson & Stowe							
WCAS VIII	100,000,000	93,000,000	81,282,930	0	7,000,000	-7 57	2 93
WCAS IX	125,000,000	23,750,000	17,223,239	0	101,250,000	-27 68	1 01
William Blair Capital Partners VII	50,000,000	3,100,000	3,100,000	0	46,900,000	0 00	0 31
Funds in Liquidation (Matrix II, Matrix III, Summit I, & Zell/Chilmark)	60,000,000	60,000,000	2,257,468	216,870,720	0	N/A	N/A
Venture Capital-Basic Totals	3,391,763,298	2,288,066,037	1,402,110,425	2,346,463,774	1,103,697,261		

State of Minnesota
- Alternative Investments -

As of June 30, 2001

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Venture Capital-Post							
Citicorp Mezzanine							
Citicorp Mezzanine II	40,000,000	40,000,000	26,331,348	26,919,245	0	12 61	6.50
Citicorp Mezzanine III	100,000,000	31,396,113	32,864,792	1,332,532	68,603,887	12 08	1 66
DLJ Investment Partners II	50,000,000	19,810,705	20,003,706	53,269	30,189,295	1.64	1.49
GS Mezzanine Partners II	100,000,000	14,000,000	12,007,128	0	86,000,000	-13 59	1 33
GTCR Capital Partners	80,000,000	65,600,000	68,145,149	5,420,589	14,400,000	12 22	1.63
KB Mezzanine Partners Fund II	25,000,000	24,999,999	16,789,396	6,755,857	1	-2 39	5 75
Prudential Capital Partners	100,000,000	19,847,304	19,847,304	0	80,152,696	N/A	0 20
Summit Partners							
Summit Sub. Debt Fund I	20,000,000	18,000,000	865,882	30,380,469	2,000,000	30 72	7 25
Summit Sub. Debt Fund II	45,000,000	27,000,000	14,220,670	54,701,223	18,000,000	65 55	3 91
T. Rowe Price	52,990,378	52,990,378	522,260	51,840,522	0	-7 25	N/A
TCW/Crescent Mezzanine							
TCW/Crescent Mezzanine Partners	40,000,000	39,488,566	25,844,995	20,595,353	511,434	7 27	5 25
TCW/Crescent Mezzanine Partners II	100,000,000	100,000,000	82,937,566	32,267,561	0	11 00	2 60
TCW/Crescent Mezzanine Partners III	75,000,000	0	0	0	75,000,000	N/A	0 25
William Blair Mezzanine III	60,000,000	27,501,600	27,916,242	450,000	32,498,400	3 28	1 49
Windjammer Mezzanine & Equity Fund II	66,708,861	12,588,260	12,895,502	240,000	54,120,601	-20 46	1 25
Venture Capital-Post Totals	954,699,239	493,222,925	361,191,939	230,956,620	461,476,314		
Venture Capital Totals	4,346,462,537	2,781,288,962	1,763,302,364	2,577,420,394	1,565,173,575		

State of Minnesota
- Alternative Investments -

As of June 30, 2001

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Resource-Basic							
Apache Corp III	30,000,000	30,000,000	16,708,800	45,152,010	0	13 58	14 50
First Reserve							
First Reserve I	15,000,000	15,000,000	904,000	14,375,857	0	0 07	19 75
First Reserve II	7,000,000	7,000,000	1,299,000	14,708,388	0	6 42	18 40
First Reserve V	16,800,000	16,800,000	149,000	50,261,377	0	16 23	11 16
First Reserve VII	40,000,000	40,000,000	35,595,987	27,100,697	0	17 91	5 00
First Reserve VIII	100,000,000	94,686,751	105,857,709	18,834,780	5,313,249	23 60	3 17
First Reserve IX	100,000,000	10,218,978	10,218,978	0	89,781,022	N/A	0 22
Morgan Oil & Gas	15,000,000	15,000,000	3,952,028	20,906,987	0	7 02	12 85
Simmons							
Simmons - SCF Fund II	17,000,000	14,847,529	21,504,847	14,389,926	2,152,471	12 20	9 90
Simmons - SCF Fund III	25,000,000	22,021,139	42,415,495	14,712,078	2,978,862	25 88	6 00
Simmons - SCF Fund IV	50,000,000	29,168,528	36,223,986	740,908	20,831,472	10 18	3 25
T. Rowe Price	17,396,296	17,396,296	8,330,000	5,504,102	0	-59 51	N/A
Resource-Basic Totals	433,196,296	312,139,220	283,159,829	226,687,109	121,057,075		
Resource-Post							
Merit Energy Partners							
Ment Energy Partners B	24,000,000	21,911,330	30,045,233	4,300,623	2,088,670	16 25	5 00
Ment Energy Partners C	50,000,000	24,904,855	40,596,055	2,030,966	25,095,145	33 84	2 67
Ment Energy Partners D	88,000,000	4,200,000	4,200,000	0	83,800,000	0 00	0 10
Resource-Post Totals	162,000,000	51,016,185	74,841,288	6,331,589	110,983,815		
Resource Totals	595,196,296	363,155,405	358,001,117	233,018,698	232,040,890		