

MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
September 3, 2003

&

INVESTMENT ADVISORY
COUNCIL MEETING
September 2, 2003

STATE BOARD OF INVESTMENT

AGENDA AND MINUTES

September 3, 2003

AGENDA
STATE BOARD OF INVESTMENT MEETING
Wednesday, September 3, 2003
9:00 A.M. - Room 125
State Capitol - Saint Paul

- | | |
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| A. Quarterly Investment Review
(April 1, 2003 – June 30, 2003) | |
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| 3. Board Voting Policy | |
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State Deferred Compensation Plan. | |
| 2. Recommendation to adopt daily pricing for all investment
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| A. Asset Allocation Committee | E |
| 1. Recommendations for the asset allocation policy targets
for the Basic and Post Retirement Funds. | |
| 2. Recommendations for the asset class targets and program
structures of the investment programs for the Basic and
Post Retirement Funds. | |
| 3. Discussion of the appropriateness of the 8.5% actuarial
rate of return. | |
| B. Stock and Bond Manager Committee | F |
| 1. Review of manager performance. | |
| 2. Performance recap of the Short-Term Corporate Portfolio
of the Invested Treasurers Cash Pool. | |
| 3. Review of American Express Asset Management for fixed
income mandate. | |
| 4. Discussion related to the recommendations from the Asset
Allocation Committee. | |
| 5. Recommendation to terminate Forstmann-Leff Asset
Management, LLC and Valenzuela Capital Partners, LLC. | |
| C. Alternative Investment Committee | G |
| 1. Review of current strategy. | |
| 2. Discussion related to the recommendations from the Asset
Allocation Committee. | |
| 3. Review meeting with one of the SBI's existing real estate
investment managers, Lend Lease. | |

**Minutes
State Board of Investment
June 4, 2003**

The State Board of Investment (SBI) met a 9:00 A.M. Wednesday, June 4, 2003 in Room 125 State Capitol, St. Paul, Minnesota. Governor Tim Pawlenty; State Auditor Pat Anderson Awada; Secretary of State Mary Kiffmeyer; and Attorney General Mike Hatch were present. The minutes of the March 5, 2003 Board meeting were approved. The Board members briefly discussed the format of the meeting minutes and Mr. Bicker stated that staff would meet with Board deputies to discuss any potential changes in the way the minutes are written.

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, 2003 (Combined Fund 7.3% vs. Inflation 2.5%), trailed the median fund (85th percentile) for the most recent five year period and slightly underperformed its composite index (Combined Funds -0.4% vs. Composite -0.3). He stated that the Basic Funds have slightly underperformed its composite index (Basic Funds -0.4% vs. Composite -0.3%) over the last five years and reported that the Post Fund has also underperformed its composite over the last five years period (Post Fund -0.5 vs. Composite -0.4%).

Mr. Bicker reported that the Basic Fund's assets decreased 2.0% for the quarter ending March 31, 2003 due mostly to weak markets. He said that the asset mix is on target. He reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds -1.8% vs. Composite -2.1%) and underperformed for the year (Basic Funds -14.0% vs. Composite -13.5%).

Mr. Bicker reported that the market value of the Post Fund's assets decreased 3.6% for the quarter ending March 31, 2003 due to negative contributions and negative investment returns. He said the Post Fund asset mix is on target and that the Post Fund outperformed its composite index for the quarter (Post Fund -1.9% vs. Composite -2.1%) and underperformed for the year (Post Fund -13.9% vs. Composite -13.0%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stock -2.6% vs. Wilshire 5000 Investable -2.9%) and underperformed it for the year (Domestic Stocks -24.7% vs. Wilshire 5000 Investable -24.4%). He said the International Stock manager group underperformed its composite index for the quarter (International Stocks -8.2% vs. Int'l Composite -8.0%) and for the year (International Stocks -22.9% vs. Int'l Composite -22.8%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 1.8% vs. Lehman Aggregate 1.4%) and underperformed its target for the year (Bonds 10.5% vs. Lehman Aggregate 11.7%). He concluded his report with the comment that as of March 31, 2003, the SBI was responsible for over \$39 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 distributed a memo to members updating the legislative activity of interest to the SBI (see **Attachment A**). He stated that the SBI's budget had passed and that the SBI had received a 10% budget cut.

Mr. Bicker reported that the Tobacco Endowment Funds have been liquidated as part of the State's budget resolution and that those funds will be transferred back to the State's General Fund. He stated that the legislative changes in professional/technical contracts had little impact on the SBI.

Mr. Bicker stated that legislation was passed giving greater flexibility to use portions of the Supplemental Investment Fund as investment options for the State's Deferred Compensation Plan.

Mr. Bicker said that the Investment Advisory Council (IAC) is one of a number of advisory councils that are covered by a general June 30, 2003 sunset provision. He said that legislation related to the IAC did not pass but that current statutory authority within Chapter 11A will allow the IAC to continue.

Mr. Bicker reported that a bill had been introduced to give the Minnesota State Colleges and Universities system (MnSCU) employees the option of having their current defined contribution plan or the Teachers Retirement Association (TRA) defined benefit plan. He said the bill was not heard.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She noted that the SBI is the plaintiff in four different securities actions. She stated that the case against McKesson HBOC is being brought in state court in California with pension plans from Colorado and Utah. She said that discovery is proceeding and that action on the SBI's case is proceeding more quickly than the class action in federal court. Ms. Eller reported that the Broadcom litigation is a class action being filed in California and that expert witnesses are being brought in. She said there have been favorable discovery rulings and that it is possible there could be a fall trial. Ms. Eller stated that the case involving WorldCom bonds is an action against the investment banks and not against the company. She said the action was filed in state court and that it has been moved to federal court in New York. She added that other pension funds have also filed similar actions and that they have been consolidated with the bankruptcy. She concluded her update by saying that the SBI is also involved in a class action against AOL Time Warner and that the SBI has been named lead plaintiff. She said that the case is in its early stages and that the amended complaint had been filed in the last month.

Mr. Bicker stated that he is recommending that the Board re-authorize the Proxy Voting Committee and approve the Proxy Voting Guidelines. Ms. Kiffmeyer moved approval of the Executive Director's recommendation, as stated in the Executive Director's Administrative Report, which reads: **"The Executive Director recommends that the SBI adopt the resolution in Attachment D which reauthorizes the Proxy Voting Committee and delegates proxy voting responsibilities according to established guidelines. The proxy voting guidelines are attached for Board review and approval."** Ms. Awada seconded the motion. The motion passed (see Attachment B). Mr. Bicker noted two technical changes that were included in a revised copy of the Proxy Voting Guidelines that Mr. Bicker distributed at the start of the meeting (see Attachment C).

Mr. Bicker said that he is requesting authority from the Board to form search and review committees when necessary. He noted that Board members will always have a designee on the committees and that this request simply expedites the Board's ability to react to various needs on an on-going basis. Mr. Hatch moved approval of the Executive Director's recommendation as stated in the Executive Director's Administrative Report, which reads: **"Staff recommends that the Board give the Executive Director authorization to assemble Review/Search Committees at his discretion."** The motion passed.

Administrative Committee Report

Mr. Sausen referred members to Tab C of the meeting materials and stated that the Committee is recommending approval of the Executive Director's workplan for FY04. Ms. Awada moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI approve the FY04 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY04."** Ms. Kiffmeyer seconded the motion. The motion passed.

Mr. Sausen reported that the Committee is recommending approval of the SBI's Administrative Budget Plan for the next biennium. Ms. Kiffmeyer moved approval of the Committees' recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI approve the FY04 Administrative Budget Plan, as presented to the Committee, and that the Executive Director has the flexibility to reallocate funds between budget categories recognizing that the final budget approved by the Legislature may be different and in the event budgeting needs change during the year."** Ms. Awada seconded the motion. The motion passed.

Mr. Sausen stated that the Committee is recommending approval of the Continuing Fiduciary Education Plan as outlined in the meeting materials. Mr. Hatch moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI adopt the attached Continuing Fiduciary Education Plan."** Ms. Awada seconded the motion. The motion passed.

Mr. Sausen said that the Committee is recommending approval of the process used to conduct the Executive Director's performance evaluation for FY03. 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 following process for the Executive Director's FY03 performance evaluation:**

- **The evaluation will be completed prior to the September 2003 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY03.**
- **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."**

Ms. Awada seconded the motion. The motion passed.

Mr. Sausen reported that staff had provided the Committee with a copy of the updated Disaster Recovery Plan and that staff will work with other tenants in the Retirement System's building to further update the plan.

Mr. Sausen reported that staff had informed the Committee that it planned to update the International Country Guidelines. He said that the Committee has requested staff to schedule a meeting prior to the September 2003 Board meeting to discuss whether there is a continued need for these guidelines.

IAC Membership Review Committee

Mr. Sausen referred members to Tab D of the meeting materials and stated that five members of the Investment Advisory Council (IAC) are seeking reappointment to the IAC. He said that one position is vacant due to the resignation of Jan Yeomans and that three applicants had been considered by the Committee to fill this position. Mr. Sausen stated that the Committee is recommending the reappointment of the five current members and the appointment of Kerry Brick to fill the vacant position. Ms. Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the Board reappoint the following as members of the Investment Advisory Council, with terms expiring in January 2007: John Bohan; Malcolm McDonald; Gary Norstrem; Daralyn Peifer; Michael Troutman. Additionally, the Committee recommends that the Board appoint Kerry Brick as a member of the Investment Advisory Council for a term expiring in January 2007."** Ms. Awada seconded the motion. The motion passed.

Asset Allocation Committee Report

Mr. Troutman referred members to Tab E of the meeting materials and reported that the Asset Allocation Committee had met during the quarter to review the long-term asset allocation strategy for the Basic Retirement Funds and the Post Retirement Fund. He discussed the importance of the asset allocation policy and the rationale for the proposed changes. He said that the Committee's first recommendation is to increase the allocation for alternative investments in the Basic Retirement Funds from 15% to 20%. He noted that the increase in this allocation to alternative investments would be funded by a corresponding decrease in the allocation to fixed income, which would decline from 25% to 20%. He said that the Committee is also recommending an increase in the allocation for alternative investments in the Post Retirement Fund from 5% to 12%, stating that the increase in this allocation to the Post Fund's alternative investments would be funded by a corresponding decrease in the domestic equity target from 50% to 45% and a decrease in the fixed income target from 27% to 25%.

Mr. Troutman stated that the Committee is recommending that the composition and risk exposure of the alternative investment portfolios of the Basic and Post Retirement Funds be identical. He said that to accomplish this recommendation, the current yield-oriented portfolio in the Post Fund and the equity-oriented portfolio from the Basics would be combined.

In response to questions from Mr. Hatch, Mr. Troutman reviewed the differences in investment time horizons between the Basics and the Post Funds and the risk tolerance levels of the funds.

Mr. Hatch voiced his concern about becoming too aggressive with the SBI's investment strategy in response to pressure to meet the required 8.5% return. He and Governor Pawlenty questioned the appropriateness of the return level given the market conditions over the last few years. Mr. Bicker stated that he believes that the proposals being recommended are appropriate to achieve an 8.5% return over longer periods of time, and he noted that the SBI has achieved a 10.5% annualized return over the last 22 years. He discussed the differences in the public and private markets for fixed income and equities and the benefits of pooling the assets of the Basic and Post Funds.

In response to further questions from Governor Pawlenty, Mr. Bicker and Mr. Troutman discussed required return levels at other public pension funds and Mr. Troutman stated that the IAC is comfortable with the proposed asset allocation changes. Mr. Hatch noted the responsibility of the Board to safeguard the state's investments, and he moved to defer taking action on the asset allocation portion of the Committee's recommendation until a later date. Ms. Awada seconded the motion and noted that she has questions and concerns about the international investments. In response to a question from Ms. Kiffmeyer, Mr. Bicker stated that, to date, the SBI has not been involved in any litigation regarding private equity investments. He noted that if a decision regarding the asset allocation changes is postponed until September 2003, that the two alternative investments being proposed this quarter would no longer be available for the SBI to

invest in. Members discussed the possibility of holding a special meeting. In response to a question from Ms. Awada, Mr. Bicker confirmed that discussion of international equities would occur at the September 2003 meeting. In response to a question from Governor Pawlenty, Mr. Bicker stated that the IAC would respond to the Board's request to render an opinion on the appropriateness of the 8.5% required rate of return.

Mr. Troutman referred members back to the Committee Report and stated that the Committee is recommending a change in the reporting of the returns and long term objectives for the Basic, Post and Combined Funds to better recognize the long-term nature of these funds. Mr. Bicker suggested that the Board consider approving the pooling concept for the Basic and Post Funds and the reporting change even though they wish to defer the asset allocation decision. The motion made earlier by Mr. Hatch to defer action on the asset allocation changes passed. Mr. Bicker noted that if pooling and reporting recommendations are approved, that there may be room in the existing allocation for the proposed investments with Goldman and Piper, depending on market moves. He said the remaining decisions could be made at the regularly scheduled September 2003 Board meeting.

Mr. Hatch moved approval of the remaining portions of the Committees' recommendation to pool the Basic and Post assets and change the reporting as stated in the Committee Report, which reads: **"The Committee recommends that the SBI adopt the proposal to combine the alternative investment portfolios and the proposed changes in reporting of returns and long-term objectives for the Basic Retirement Funds and the Post Retirement Fund."** Ms. Kiffmeyer seconded the motion. In response to a request from Ms. Awada, Mr. Hatch's motion was modified to also include three-year return information. The motion passed.

Stock and Bond Manager Committee Report

Mr. Troutman referred members to Tab F of the meeting materials and stated that there are no action items from the Committee at this time. He noted that the Committee had completed its annual review of the domestic equity benchmark quality analysis.

Alternative Investment Committee Report

Mr. Troutman referred members to Tab G of the meeting materials and stated that the Committee is recommending two new investments with two existing private equity managers, Goldman Sachs and Piper Jaffray. Ms. Kiffmeyer moved approval of both of the Committee's recommendations, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$75 million or 20%, whichever is less, in GS Mezzanine Partners III, L.P. This commitment is contingent upon changes to the asset allocation parameters for the Basic and Post Retirement Funds. These changes are expected to be recommended to the SBI for approval at its June 2003 meeting. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor**

its Executive Director have any liability for reliance by Goldman Sachs upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Goldman Sachs or reduction or termination of the commitment. The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$10 million or 20%, whichever is less, in Piper Jaffray Healthcare Fund IV, L.P. This commitment is contingent upon changes to the asset allocation parameters for the Basic and Post Retirement Funds. These changes are expected to be recommended to the SBI for approval at its June 2003 meeting. 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 Piper Jaffray 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 Piper Jaffray or reduction or termination of the commitment.” Ms. Awada seconded the motion. The motion passed.

In response to a question from Ms. Kiffmeyer, Mr. Bicker stated that the discussions regarding the proposed asset allocation changes had taken place at the Asset Allocation Committee meeting, at the other Committee meetings held during the quarter and at the June 2003 IAC meeting, and that Board deputies have been involved in the process. Ms. Awada confirmed that she has all the information she needs regarding her concerns with the international investments. Governor Pawlenty encouraged Ms. Awada to share any concerns she has with the Board prior to the September Board meeting.

The meeting adjourned at 10:35 A.M.

Respectfully submitted,



Howard J. Bicker
Executive Director

**Bills of Interest to the Minnesota State Board of Investment
2003 Legislative Session
Includes Action Through 6/1/03**

Description of Bill	HF/SF # and Author	Current Status
SBI Budget -In State Agency Appropriation Bill	S. S. HF 1 (Haas) S. S. SF 1 (Cohen)	1 st Special Session, Chapter 1 (Article 1, Section 8)
Using Tobacco Funds for Budget Purposes - In Omnibus Health & Human Services Approp. Bill	S. S. HF 6 (Bradley)	Passed House and Senate 5/29 (Article 7, section 89)
Changes in Professional/ Technical Contracts Requirements - In State Agency Approp. Bill	S. S. HF 1 (Haas)	1 st Special Session, Chapter 1 (Article 2, Sections 45-54)
State Deferred Compensation Plan Investment Flexibility -In pension bill	S. S. HF 22 (Betzold) S. S. SF 37 (Smith)	1 st Special Session, Chapter 12 (Article 2, Sections 1, 2)
Extending Sunset Provision for Advisory Council - IAC not sunsetted	S. S. SF 36 (Robling)	Not heard
Permitting MnSCU Members to Opt back into TRA	SF 286 (Huntley) SF 1157 (Pogemiller)	Not heard Not heard

**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 4th day
of June, 2003



Governor Tim Pawlenty
Chair, Minnesota State
Board of Investment

MINNESOTA STATE BOARD OF INVESTMENT

Proxy Voting Guidelines

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

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

**Overview
of the SBI**

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

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

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

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

Statutory Purpose

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

**Fiduciary
Responsibility**

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

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

**Voting
Process**

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

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

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

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

Corporate Governance Issues

**Routine
Matters**

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

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

Shareholder Rights

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

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

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

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

Executive Compensation

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

Buyouts

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

Special Cases

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

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

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

Social Responsibility Issues

Tobacco

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

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

**Northern
Ireland**

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

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

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

**Environmental
Protection/Awareness**

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

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

South Africa

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

**Other
Issues**

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

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

1 *Minnesota Statutes 2000 2002, Section 11A.01.*

2 *Minnesota Statutes 2000 2002, Section 356A.04, subdivision 1.*

3 *Minnesota Statutes 2000 2002, Section 11A.09, and Section 356A.04, subdivision 2.*

INVESTMENT ADVISORY COUNCIL

AGENDA AND MINUTES

September 2, 2003

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Tuesday, September 2, 2003
2:00 P.M. - Board Room – First Floor
60 Empire Drive
St. Paul, MN

- | | |
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**Minutes
Investment Advisory Council
June 3, 2003**

MEMBERS PRESENT: Gary Austin; John Bohan; Dave Bergstrom; Ken Gudorf; P. Jay Kiedrowski; Han Chin Liu; Malcolm McDonald; Dan McElroy; Gary Norstrem; Mary Stanton; Mike Troutman; Mary Vanek; Elaine Voss, and Judy Mares.

MEMBERS ABSENT: Doug Gorence; and Daralyn Peifer.

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

OTHERS ATTENDING: Ann Posey, Richards & Tierney; Christie Eller; Carla Heyl; Peter Sausen; Alberto Quintela; Robert Heimerl, Jerry Irsfeld, REAM; Ed Rapp, Education Minnesota; and Sven Wehrwein, Twin City Business Monthly Magazine. Ed Burek, Legislative Committee on Pensions and Retirement; Lloyd Erbaugh and Eugene Edie.

The minutes of the March 4, 2003 meeting were approved. Mr. Kiedrowski moved approval of Mr. Troutman to be Chair and Mr. McDonald to be Vice-Chair of the IAC. Ms. Mares seconded the motion. The motion passed.

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, 2003 (Combined Fund 7.3% vs. Inflation 2.5%), trailed the median fund (85th percentile) for the most recent five year period and slightly underperformed its composite index (Combined Funds -0.4% vs. Composite -0.3). He stated that the Basic Funds have slightly underperformed its composite index (Basic Funds -0.4% vs. Composite -0.3%) over the last five years and reported that the Post Fund has also underperformed its composite over the last five years period (Post Fund -0.5 vs. Composite -0.4%).

Mr. Bicker reported that the Basic Fund's assets decreased 2.0% for the quarter ending March 31, 2003 due mostly to weak markets. He said that the asset mix is on target. He reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds -1.8% vs. Composite -2.1%) and underperformed for the year (Basic Funds -14.0% vs. Composite -13.5%).

Mr. Bicker reported that the market value of the Post Fund's assets decreased 3.6% for the quarter ending March 31, 2003 due to negative contributions and negative investment

returns. He said the Post Fund asset mix is on target and that the Post Fund outperformed its composite index for the quarter (Post Fund -1.9% vs. Composite -2.1%) and underperformed for the year (Post Fund -13.9% vs. Composite -13.0%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stock -2.6% vs. Wilshire 5000 Investable -2.9%) and underperformed it for the year (Domestic Stocks -24.7% vs. Wilshire 5000 Investable -24.4%). He said the International Stock manager group underperformed its composite index for the quarter (International Stocks -8.2% vs. Int'l Composite -8.0%) and for the year (International Stocks -22.9% vs. Int'l Composite -22.8%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 1.8% vs. Lehman Aggregate 1.4%) and underperformed its target for the year (Bonds 10.5% vs. Lehman Aggregate 11.7%). He concluded his report with the comment that as of March 31, 2003, the SBI was responsible for over \$39 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel. He noted that the SBI will be asking for an exemption from the travel freeze to conduct due diligence and manager monitoring.

Mr. Bicker distributed a memo to members updating the legislative activity of interest to the SBI (see **Attachment A**). He stated that the SBI's budget had passed and that the SBI had received a 10% budget cut. Mr. Bicker reported that the Tobacco Endowment Funds have been liquidated as part of the State's budget resolution and that those funds will be transferred back to the State's General Fund. He stated that the legislative changes in professional/technical contracts had little impact on the SBI. Mr. Bicker stated that legislation was passed giving greater flexibility to use portions of the Supplemental Investment Fund as investment options for the State's Deferred Compensation Plan. He said that legislation related to the IAC's sunset provision was not heard but that current statutory authority within Chapter 11A will allow the IAC to continue. Mr. Bicker reported that a bill had been introduced to give the Minnesota State Colleges and Universities system (MnSCU) employees the option of having their current defined contribution plan or the Teachers Retirement Association (TRA) defined benefit plan. He said the bill was not heard.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She noted that the SBI is the plaintiff in four different securities actions. She stated that the case against McKesson HBOC is being brought in state court in California with pension plans from Colorado and Utah. She said that discovery is proceeding and that an initial settlement conference was not very productive. Ms. Eller reported that the Broadcom litigation is a class action and that expert witnesses are being brought in. She reported that the SBI is also involved in a class action against AOL Time Warner and that the SBI has been named lead plaintiff. She said that motion to lift the stay of discovery is now under consideration. Ms. Eller stated that the case involving WorldCom bonds is an action against the investment banks and not against the company. She said the action was filed in state court and that it has been moved to federal court in

New York. She added that other pension funds have also filed similar actions and that they have been consolidated with the bankruptcy.

Mr. Bicker stated that he is recommending that the Board re-authorize the Proxy Voting Committee and approve the Proxy Voting Guidelines. Mr. Bicker noted two technical changes that will be in the guidelines relating to the composition of the Proxy Committee now that the Treasurer's Office has been eliminated. In response to a question from Mr. Kiedrowski, Mr. Bicker stated that staff believe that the Securities and Exchange Commission (SEC) will be considering significant changes in the proxy voting process over the near term and that it may be more appropriate to wait until any changes are finalized and until the asset allocation work is completed to possibly consider potential involvement of the IAC in the proxy voting process.

Mr. Bicker said that he is requesting authority from the Board to form search and review committees when necessary. He noted that Board members will always have a designee on the committees and that this request simply expedites the Board's ability to react to various needs on an on-going basis. Mr. Gudorf moved approval of the Executive Director's recommendation as stated in the Executive Director's Administrative Report. Mr. Bergstrom seconded the motion. The motion passed. In response to a question from Mr. Troutman, Mr. Bicker stated that a manager search committee reports back to the Stock and Bond Committee. In response to a question from Mr. McDonald, Mr. Bicker stated that to his knowledge, the Board members have no opposition to this recommendation.

Administrative Committee Report

Mr. Sausen referred members to Tab C of the meeting materials and stated that the Committee will be recommending approval of the Executive Director's workplan for FY04 to the Board, along with approval of the SBI's Administrative Budget Plan for the next biennium.

Mr. Sausen stated that the Committee is recommending approval of the Continuing Fiduciary Education Plan as outlined in the meeting materials. He said that the Committee is recommending approval of the process used to conduct the Executive Director's performance evaluation for FY03.

Mr. Sausen reported that staff had provided the Committee with a copy of the updated Disaster Recovery Plan and that staff will work with other tenants in the Retirement System's building to further update the plan. He reported that staff had informed the Committee that it planned to update the International Country Guidelines. He said that the Committee has requested staff to schedule a meeting prior to the September 2003 Board meeting to discuss whether there is a continued need for these guidelines.

IAC Membership Review Committee

Mr. Sausen referred members to Tab D of the meeting materials and stated that five members of the Investment Advisory Council (IAC) are seeking reappointment to the IAC. He said that one position is vacant due to the resignation of Jan Yeomans and that

three applicants had been considered by the Committee to fill this position. Mr. Sausen stated that the Committee is recommending the reappointment of the five current members and the appointment of Kerry Brick to fill the vacant position. In response to a question from Mr. Kiedrowski, Mr. Bicker stated that the Board Deputies make up the IAC Membership Review Committee. He added that no action is needed by the IAC on this item.

Asset Allocation Committee Report

Mr. Troutman referred members to Tab E of the meeting materials and said that the Committee's first recommendation is to increase the allocation for alternative investments in the Basic Retirement Funds from 15% to 20%. He noted that the increase in this allocation to alternative investments would be funded by a corresponding decrease in the allocation to fixed income, which would decline from 25% to 20%. He said that the Committee is also recommending an increase in the allocation for alternative investments in the Post Retirement Fund from 5% to 12%, stating that the increase in this allocation to the Post Fund's alternative investments would be funded by a corresponding decrease in the domestic equity target from 50% to 45% and a decrease in the fixed income target from 27% to 25%.

Mr. Troutman stated that the Committee is recommending that the composition and risk exposure of the alternative investment portfolios of the Basic and Post Retirement Funds be identical. He said that to accomplish this recommendation, the current yield-oriented portfolio in the Post Fund and the equity-oriented portfolio from the Basics would be combined. Mr. Bicker briefly described the accounting procedure that staff would utilize to pool these assets. Mr. Bicker added that he expects it to take three to five years for the increased alternative asset allocation to be invested. In response to a question from Mr. Troutman, Mr. Gudorf said that he believes there will be appropriate investment opportunities to invest in over time and that there is no plan to rush the investment process. Mr. Troutman referred members back to the Committee Report and stated that the Committee is recommending a change in the reporting of the returns and long term objectives for the Basic, Post and Combined Funds to better recognize the long-term nature of these funds.

Mr. Bicker thanked the IAC and staff for their work and he reminded members of the June 24, 2003 Asset Allocation Committee meeting to discuss management/program structure. Ms. Posey clarified that even though the long-term objectives had been changed to reflect longer time periods, standard evaluation and analysis would continue to be presented as it currently is. Mr. Kiedrowski moved approval of the Committee's recommendation as stated in the Committee Report. Ms. Mares seconded the motion. The motion passed.

Stock and Bond Manager Committee Report

Mr. Bohan referred members to Tab F of the meeting materials and reviewed the performance of the stock and bond managers. He briefly discussed management changes that had occurred at three firms.

In response to a question from Commissioner McElroy, Mr. Bicker stated that staff monitors the percentage of SBI assets managed by managers and that the SBI prefers not to be more than 20% to 25% of total assets of an individual manager. In response to questions from Ms. Mares, Mr. Bicker stated that the June 24, 2003 meeting will address questions about management and program structure and weightings. Mr. Bicker reported that the Committee had completed its annual review of the domestic equity benchmark quality analysis.

Alternative Investment Committee Report

Mr. Troutman referred members to Tab G of the meeting materials and stated that the Committee is recommending two new investments with two existing private equity managers, Goldman Sachs and Piper Jaffray. In response to a question from Mr. Kiedrowski, Mr. Bicker and Mr. Gudorf discussed the returns of the previous Piper funds and the actions Piper has taken to strengthen their organization. Mr. McDonald moved approval of both of the Committee's recommendations, as stated in the Committee Report. Ms. Mares seconded the motion. The motion passed.

The meeting adjourned at 3:10 P.M.

Respectfully submitted,



Howard J. Bicker
Executive Director

Tab A

LONG TERM OBJECTIVES
Period Ending 6/30/2003

COMBINED FUNDS: \$33.2 Billion	Result	Compared to Objective
<p>Exceed Composite Index (10 Yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Combined Funds over the latest 10 year period.</p>	8.2% (1)	0.2 percentage point above target
<p>Provide Real Return (20 yr.)</p> <p>Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.</p>	10.1%	7.0 percentage points above CPI

BASIC RETIREMENT FUNDS: \$16.8 Billion	Result	Compared to Objective
<p>Exceed Composite Index (10 Yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 10 year period.</p>	8.4%	0.2 percentage point above target

POST RETIREMENT FUND: \$16.4 Billion	Result	Compared to Objective
<p>Exceed Composite Index (10 Yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 10 year period.</p>	8.0%	0.3 percentage point above target

(1) Performance is calculated net of fees.

SUMMARY OF ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans

July 1, 2002

	Active (Basics)	Retired (Post)	Total (Combined)
Liability Measures			
1. Current and Future Benefit Obligation	\$25.3 billion	\$18.4 billion	\$43.7 billion
2. Accrued Liabilities	18.4	18.4	36.8
Asset Measures			
3. Current and Future Actuarial Value	\$26.1 billion	\$18.4 billion	\$44.5 billion
4. Current Actuarial Value	17.6	18.4	36.1
Funding Ratios			
Future Assets vs. Future Obligations (3 ÷ 1)	103%	100%	102%
Current Actuarial Value vs. Accrued Liabilities (4 ÷ 2)	96%	100%	98%*

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

Notes:

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

Actuarial Assumptions:

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

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

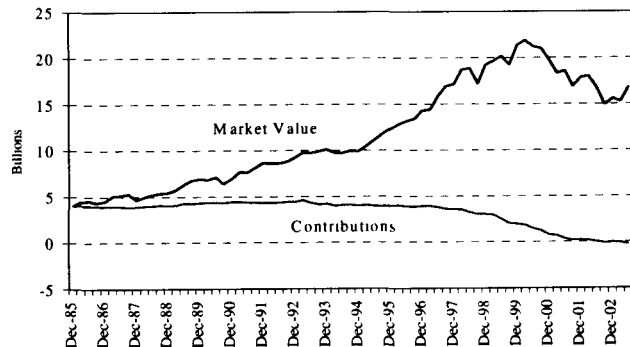
Full Funding Target Date: 2031

EXECUTIVE SUMMARY
Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds increased 10.0% during the second quarter of 2003. Positive investment returns accounted for the increase.

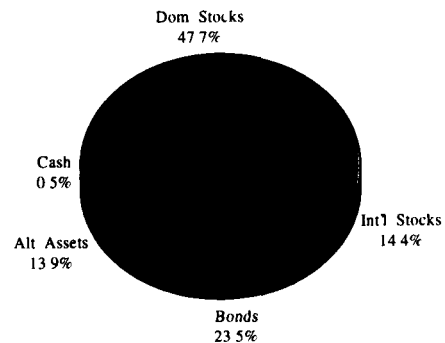
	Asset Growth During Second Quarter 2003 (Millions)
Beginning Value	\$ 15,257
Net Contributions	-201
Investment Return	1,725
Ending Value	\$ 16,781



Asset Mix

The domestic stock and international stock allocations increased over the quarter due to their relative outperformance versus other asset classes.

	Policy Targets	Actual Mix 6/30/2003	Actual Market Value (Millions)
Domestic Stocks	45.0%	47.7%	\$8,005
Int'l. Stocks	15.0	14.4	2,410
Bonds	24.0	23.5	3,945
Alternative Assets*	15.0	13.9	2,329
Unallocated Cash	1.0	0.5	92
	100.0%	100.0%	\$16,781

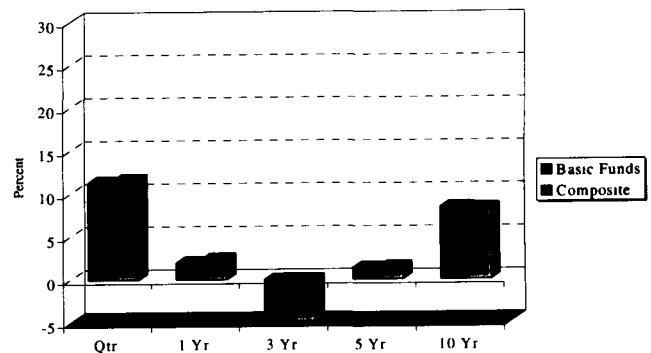


* Any uninvested allocation is held in domestic stocks

Fund Performance (Net of Fees)

The Basic Funds underperformed its composite market index for the quarter and underperformed for the one-year time period.

	Qtr.	Period Ending 6/30/2003			
		1 Yr.	3 Yr.	5 Yr.	10 Yr.
Basics	11.3%	1.9%	-4.6%	1.3%	8.4%
Composite	11.6	2.4	-4.9	1.4	8.2



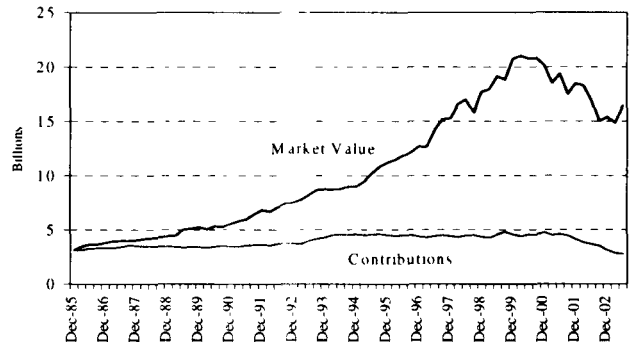
EXECUTIVE SUMMARY
Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased by 10.8% during the second quarter of 2003. Positive investment returns accounted for the increase.

Asset Growth
During Second Quarter 2003
(Millions)

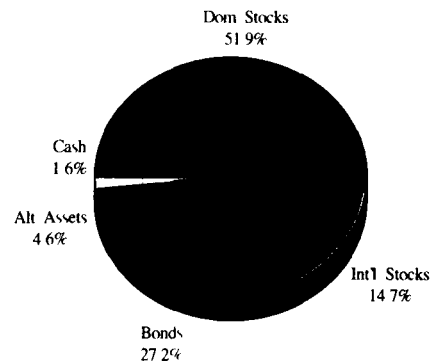
Beginning Value	\$14,853
Net Contributions	-95
Investment Return	1,700
Ending Value	\$16,458



Asset Mix

The domestic stock and international stock allocations increased over the quarter due to their relative outperformance versus other asset classes.

	Policy Targets	Actual Mix 6/30/2003	Actual Market Value (Millions)
Domestic Stocks	50.0%	51.9%	\$8,540
Int'l. Stocks	15.0	14.7	2,415
Bonds	27.0	27.2	4,468
Alternative Assets*	5.0	4.6	764
Unallocated Cash	3.0	1.6	271
	100.0%	100.0%	\$16,458

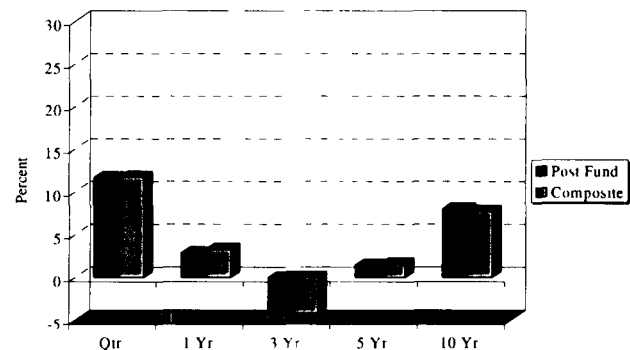


* Any uninvested allocation is held in bonds

Fund Performance (Net of Fees)

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

	Period Ending 6/30/2003				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Post	11.6%	2.8%	-4.1%	1.4%	8.0%
Composite	11.7	3.3	-4.2	1.6	7.7



EXECUTIVE SUMMARY

Stock and Bond Manager Performance (Net of Fees)

Domestic Stocks

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

	Period Ending 6/30/2003				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Dom. Stocks	15.8%	0.4%	-11.3%	-2.3%	9.0%
W5000 Investable*	16.1	0.8	-11.1	-1.9	9.2

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

International Stocks

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

	Period Ending 6/30/2003				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	19.1%	-6.2%	-12.1%	-2.8%	3.9%
Composite Index*	19.6	-5.4	-13.0	-3.3	2.5

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

Bonds

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

	Period Ending 6/30/2003				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	2.9%	10.7%	10.2%	7.6%	7.4%
Lehman Agg.	2.5	10.4	10.1	7.5	7.2

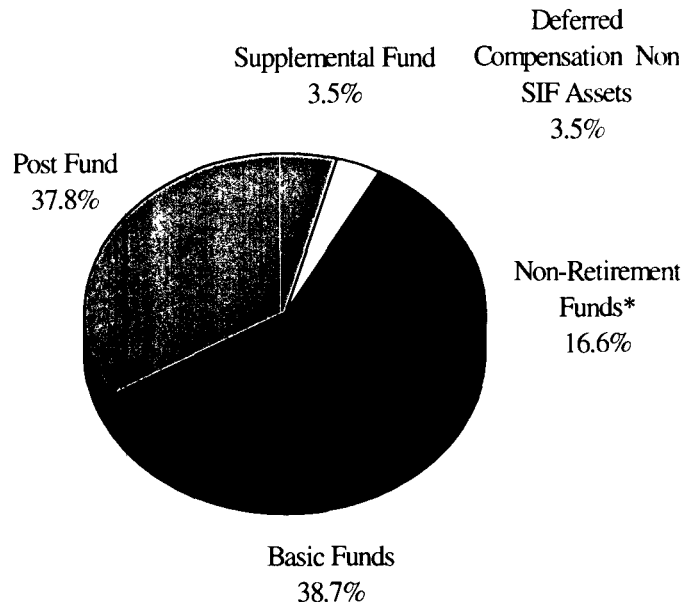
Wilshire 5000 Investable: The Wilshire 5000 Investable stock index reflects the performance of a broad range of publicly traded stocks of companies domiciled in the U.S. It does not include the smallest and least liquid securities in the W5000 that generally are not owned by large pension plans.

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



	6/30/2003 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	\$16.8
Post Retirement Fund	16.4
Supplemental Investment Fund	1.5
State Deferred Compensation Plan Non-SIF Assets	1.5
Non-Retirement Funds*	
Assigned Risk Plan	0.2
Permanent School Fund	0.5
Environmental Trust Fund	0.3
Tobacco Endowment Funds	0.1
Tobacco Prevention Fund	
Medical Education Fund	
Academic Health Center Fund	
State Cash Accounts	6.1
Total	\$43.4

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Second Quarter 2003
(April 1, 2003 - June 30, 2003)

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VARIOUS CAPITAL MARKET INDICES

Period Ending 6/30/2003

	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	16.5%	1.3%	-10.6%	-1.3%	9.5%
Dow Jones Industrials	13.0	-0.6	-3.1	1.9	12.1
S&P 500	15.4	0.3	-11.2	-1.6	10.0
Russell 2000	23.4	-1.6	-3.3	1.0	8.2
Domestic Fixed Income					
Lehman Aggregate*	2.5	10.4	10.1	7.5	7.2
Lehman Gov't./Corp.	3.5	13.1	10.8	7.8	7.4
3 month U.S. Treasury Bills	0.3	1.4	3.0	3.8	4.4
International					
EAFE**	19.3	-6.5	-13.5	-4.0	2.8
Emerging Markets Free***	23.4	7.0	-7.0	2.5	1.5
Salomon Non U.S. Gov't. Bond	4.2	17.9	8.1	6.3	6.3
Inflation Measure					
Consumer Price Index****	-0.3	2.1	2.1	2.4	2.4

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

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

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

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The US stock market, as measured by the Wilshire 5000, increased by 16.5% during the second quarter of 2003. Positive economic reports, the successful war in Iraq, and a \$350 billion tax package assisted in an upswing in consumer confidence. The Federal Reserve reduced its key interest rate target by 0.25 basis points to 1.0%, which also added to investors' positive sentiment. The strongest performance came from stocks related to homebuilding, steel and aluminum, electronic technology, and consumer services.

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

Large Value	19.8%
Small Value	26.7
Large Growth	11.8
Small Growth	21.3

The Wilshire 5000 increased by 1.3% for the year ending June 30, 2003.

DOMESTIC BONDS

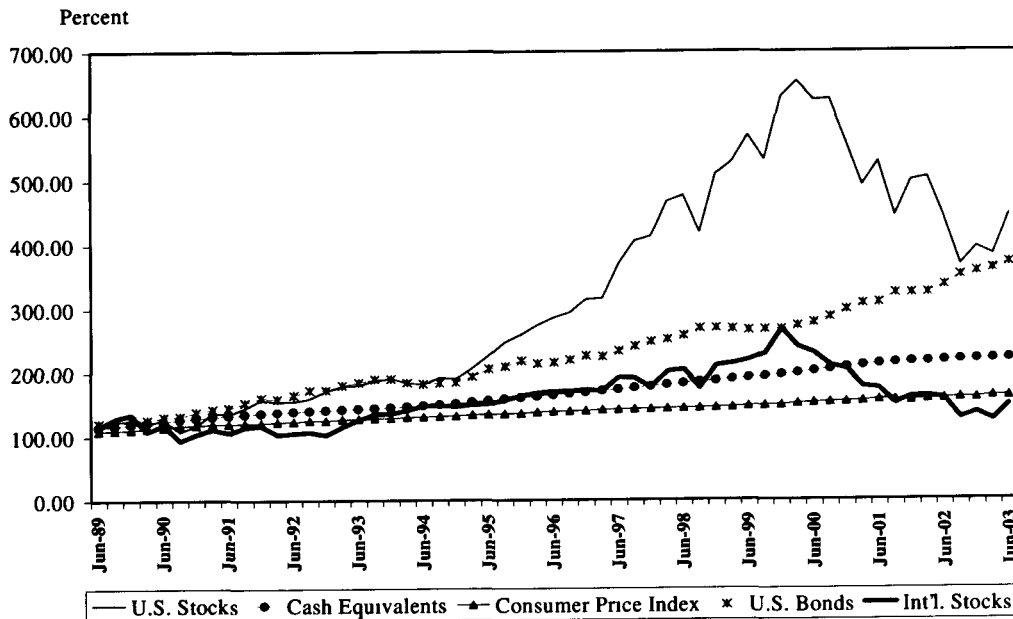
The bond market continued to perform strongly in the second quarter, adding 2.5% for the quarter and posting a gain of 10.4% for the 12 months ended June 30, 2003. Interest rates fell across the maturity curve during the quarter as investors responded to the Fed's signals that concerns over deflation would lead the central bank to keep monetary policy easy and rates low. The Fed's strongest *action* during the quarter was a 25 basis point cut in June to the Fed Funds target rate, a move which ultimately disappointed investors who had hoped for an aggressive cut more in keeping with the Fed's earlier rhetoric about the importance of guarding against deflation. Credit spreads extended their rally during the quarter, while Mortgages underperformed as both realized and expected future prepayment speeds rose significantly.

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

Treasury/Agency	2.5%
Credit	4.8
Mortgages	0.7

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 index) provided a return of 19.3% for the quarter. The quarterly performance of the five largest stock markets is shown below.

United Kingdom	18.2%
Japan	11.7
France	25.6
Switzerland	18.1
Germany	38.1

The EAFE index decreased by 6.5% during the last year.

The EAFE index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 21 markets located in Europe, Australasia and the Far East. 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 23.4% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below:

Korea	30.8%
Taiwan	15.4
South Africa	13.6
Mexico	22.7
Brazil	24.2

The Emerging Markets Free index increased by 7.0% during the last year.

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

REAL ESTATE

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

PRIVATE EQUITY

U.S. private equity firms raised \$55 billion for private equity limited partnerships of all types, from venture capital to buyouts in 2002. That represents a 52% decrease from the revised prior year total of \$114 billion. This is the second year of significant decreases in funds raised. The first half of 2003 has seen \$14 billion raised. This figure is 25% smaller than the \$19 billion raised in the first half of 2002.

RESOURCE FUNDS

During the second quarter of 2003, crude oil averaged \$28.91 per barrel, slightly higher than an average price of \$28.26 during the first quarter of 2003. The sustained high oil prices reflect the relative instability in the Middle East.

COMBINED FUNDS

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

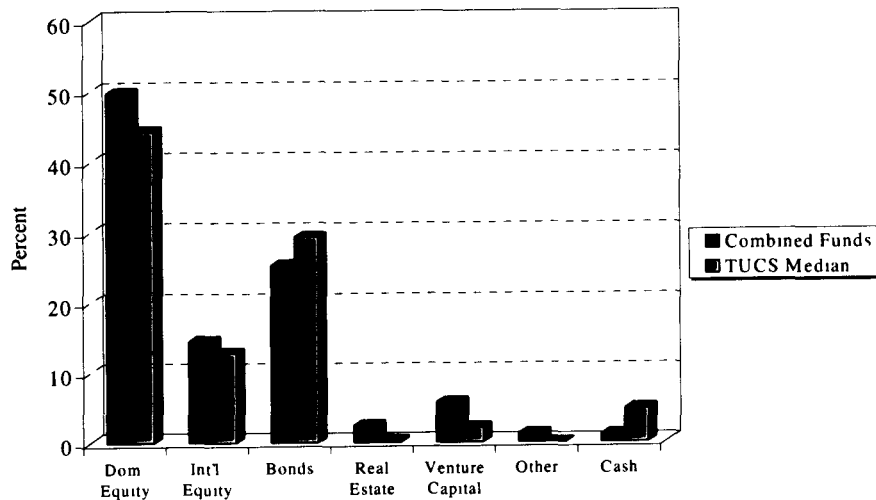
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over \$1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On June 30, 2003, the actual asset mix of the Combined Funds was:

	\$ Millions	%
Domestic Stocks	\$16,544	49.8%
International Stocks	4,824	14.5
Bonds	8,413	25.3
Alternative Assets	3,093	9.3
Unallocated Cash	364	1.1
Total	\$33,238	100.0%

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



	Dom. Equity	Int'l Equity	Bonds	Real Estate	Venture Capital	Other	Cash
Combined Funds	49.8%	14.5%	25.3%	2.4%	5.7%	1.2%	1.1%
Median Allocation in TUCS*	44.3	12.8	29.3	0.2	2.1	0.0	4.8

* Public and corporate plans over \$1 billion.

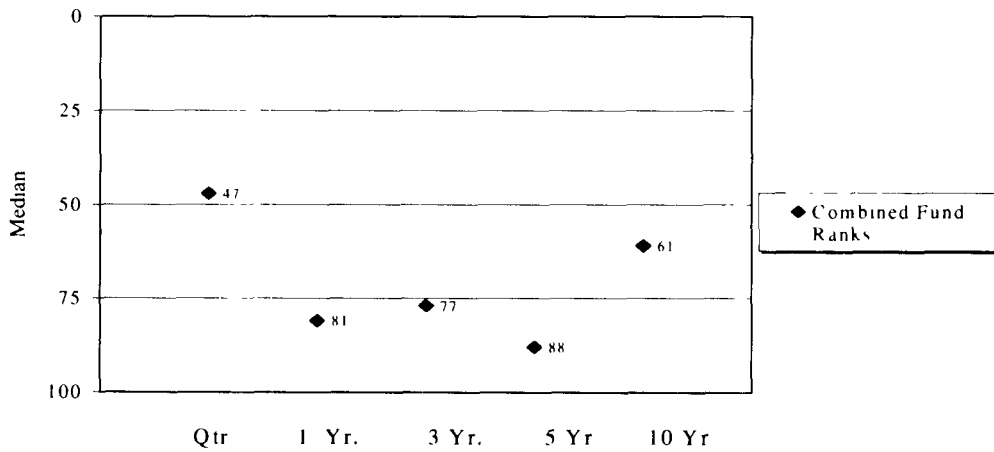
**COMBINED FUNDS
Performance Compared to Other Pension Funds**

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.



	Period Ending 6/30/2003				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds Percentile Rank in TUCS*	47th	81st	77th	88th	61st

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

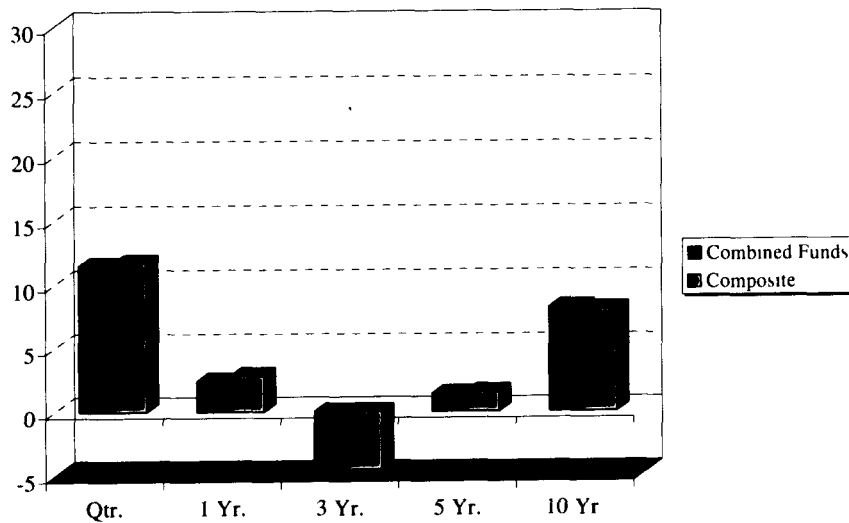
**COMBINED FUNDS
Performance Compared to Composite Index**

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* 2Q03
Domestic Stocks	Wilshire 5000 Investable	47.7%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	25.5*
Alternative Assets	Real Estate Funds	2.6*
	Private Equity Funds	6.0*
	Resource Funds	1.2*
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 6/30/2003

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds**	11.5%	2.4%	-4.4%	1.4%	8.2%
Composite Index	11.7	2.8	-4.5	1.5	8.0

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

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BASIC RETIREMENT FUNDS

Investment Objectives

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

Employee and employer contribution rates are specified in state law as a percentage of an employee's salary. The rates are set so that contributions plus expected investment earnings will cover the projected cost of promised pension benefits. In order to meet these

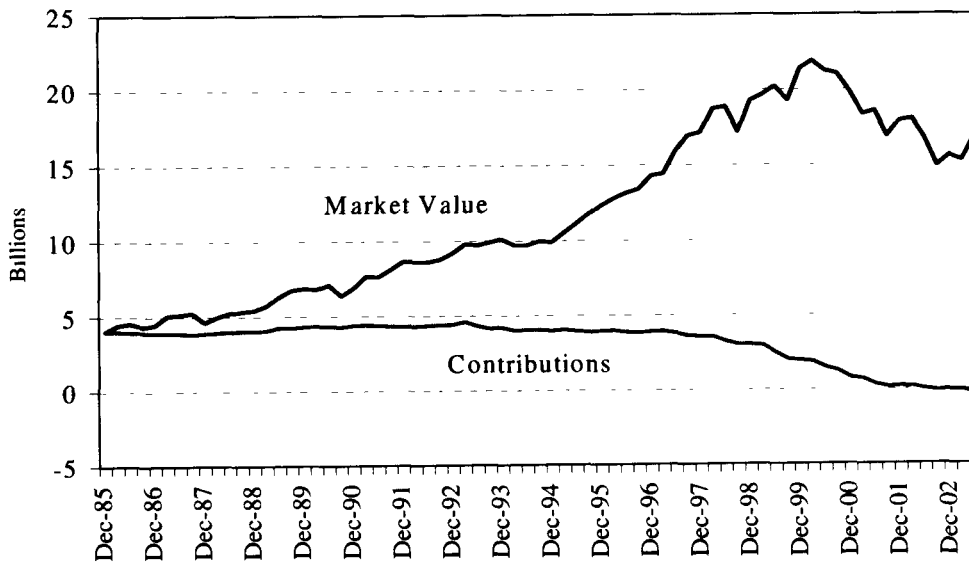
projected pension costs, the Basic Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

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

Asset Growth

The market value of the Basic Funds increased 10.0% during the second quarter of 2003. Positive investment

returns accounted for the increase.



	Last Five Years						Latest Qtr.
	In Millions						
	12/98	12/99	12/00	12/01	12/02	3/03	6/03
Beginning Value	\$17,146	\$19,244	\$21,365	\$19,807	\$17,874	\$15,561	\$15,257
Net Contributions	-539	-1,065	-1,186	-572	-247	-19	-201
Investment Return	2,637	3,186	-372	-1,361	-2,066	-285	1,725
Ending Value	\$19,244	\$21,365	\$19,807	\$17,874	\$15,561	\$15,257	\$16,781

BASIC RETIREMENT FUNDS

Asset Mix

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

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

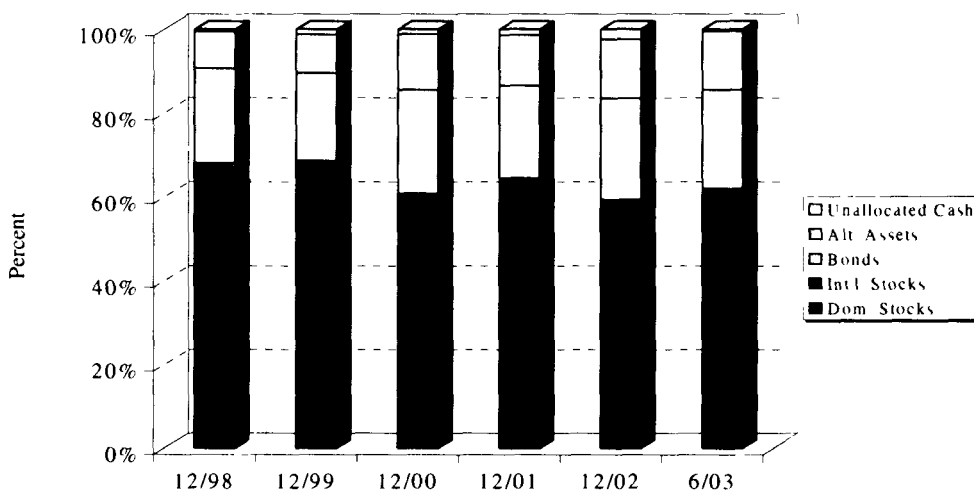
Domestic Stocks	45.0%
Int'l Stocks	15.0
Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

The domestic stock and international stock allocations increased over the quarter due to their relative outperformance versus other asset classes

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

Over the last year, the allocation to bonds decreased due to rebalancing, despite the positive returns. The allocation to domestic stocks increased due to rebalancing and the strong performance this quarter.

During the quarter, the allocation to domestic stocks and international stocks increased due to their outperformance versus other asset classes



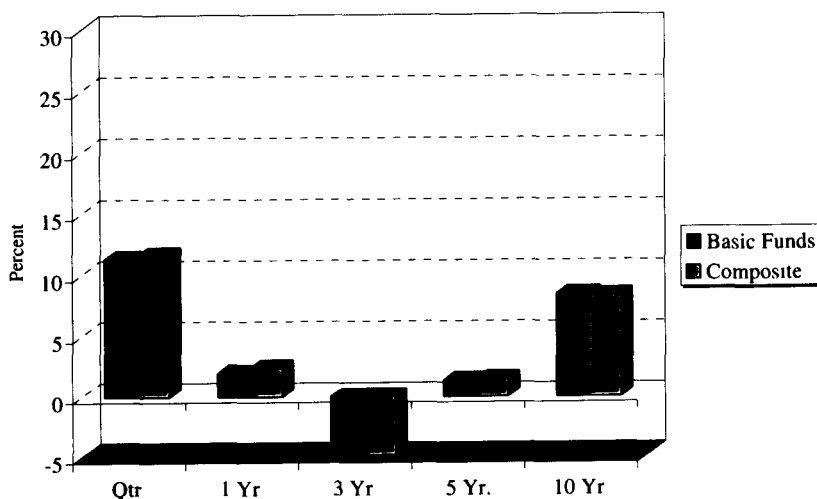
	Last Five Years					Latest Qtr.	
	12/98	12/99	12/00	12/01	12/02	3/03	6/03
Domestic Stocks	53.8%	51.9%	44.3%	49.5%	45.3%	45.0%	47.7%
Int'l. Stocks	14.4	16.8	16.6	15.0	14.1	13.4	14.4
Bonds	22.6	21.0	24.7	22.1	24.2	25.3	23.5
Real Estate	3.7	3.5	4.1	3.4	3.8	3.9	3.6
Private Equity	4.4	4.8	8.0	7.4	8.7	9.1	8.7
Resource Funds	0.7	0.8	1.2	1.3	1.6	1.7	1.6
Unallocated Cash	0.4	1.2	1.1	1.3	2.3	1.6	0.5
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* 2Q03
Domestic Stocks	45.0%	Wilshire 5000 Investable	45.4%*
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	9.1*
		Resource Funds	1.6*
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 6/30/2003

	Qtr.	1 Yr.	3 Yr.	Annualized	
				5 Yr.	10 Yr.
Basic Funds**	11.3%	1.9%	-4.6%	1.3%	8.4%
Composite Index	11.6	2.4	-4.9	1.4	8.2

**Returns are reported net of fees.

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

POST RETIREMENT FUND

The Post Retirement Investment Fund contains the pension assets of retired public employees covered by statewide retirement plans. Approximately 114,000 retirees receive monthly annuities from the assets of the Fund.

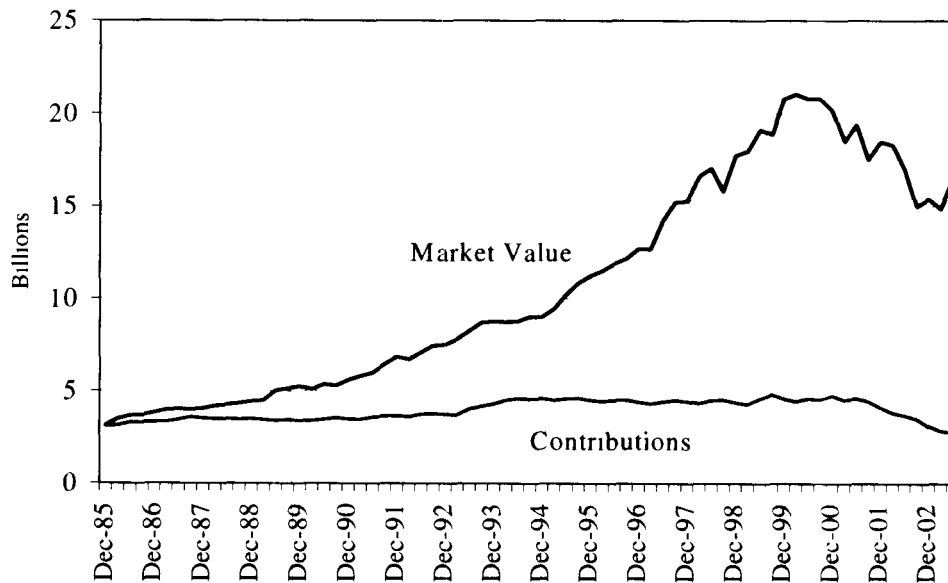
The post retirement benefit increase formula is based on the total return of the Fund. As a result, the Board maintains a long-term asset allocation strategy for the Post Fund which incorporates a substantial commitment to common stocks.

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

Asset Growth

The market value of the Post Fund increased by 10.8% during the second quarter of 2003.

Positive investment returns accounted for the increase.



	Last Five Years						Latest Qtr.
	In Millions						
	12/98	12/99	12/00	12/01	12/02	3/03	6/03
Beginning Value	\$15,273	17,743	\$20,768	\$20,153	\$18,475	\$15,403	\$14,853
Net Contributions	-45	211	167	-647	-1,000	-266	-95
Investment Return	2,515	2,814	-782	-1,031	-2,072	-284	1,700
Ending Value	\$17,743	20,768	\$20,153	\$18,475	\$15,403	\$14,853	\$16,458

POST RETIREMENT FUND

Asset Mix

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

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

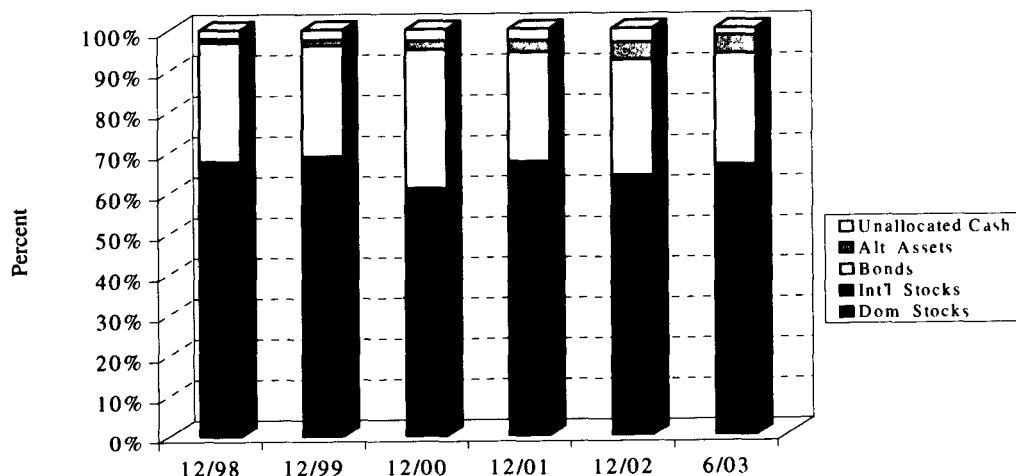
In October 1995, the Board revised its long term asset allocation targets for the Post Fund, increasing international stocks from 10% to 15% and decreasing bonds from 32% to 27%.

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

Over the last year, the allocation to bonds decreased due to rebalancing, despite the positive returns. The allocation to domestic stocks increased due to rebalancing and the strong performance this quarter.

The domestic stock and international stock allocations increased over the quarter due to their relative outperformance versus other asset classes.

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



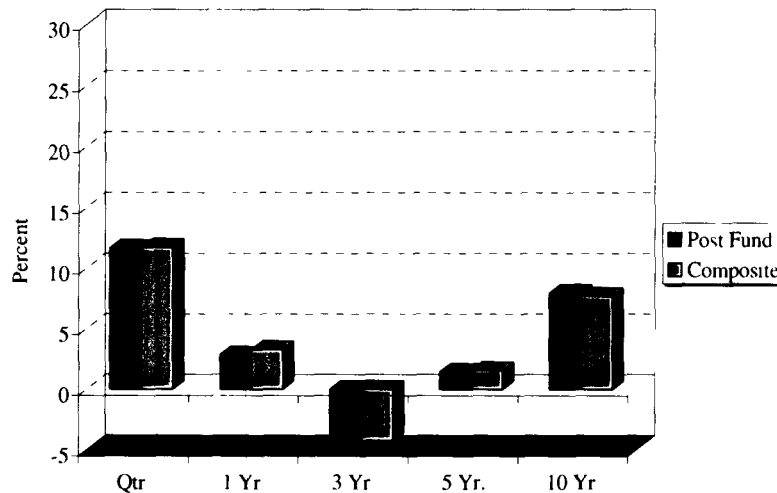
	Last Five years					Latest Qtr.	
	12/98	12/99	12/00	12/01	12/02	3/03	6/03
Dom. Stocks	53.2	52.0%	47.5%	52.4%	49.6%	50.1%	51.9%
Int'l. Stocks	14.5	16.9	13.5	15.1	14.4	13.5	14.7
Bonds	29.2	27.2	34.0	26.7	28.3	29.1	27.2
Alt. Assets	1.1	1.5	2.3	3.1	4.5	4.9	4.6
Unallocated Cash	2.0	2.4	2.7	2.7	3.2	2.5	1.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

POST RETIREMENT FUND
Total Fund Performance (Net of Fees)

The Post Fund's performance is evaluated relative to a composite of market indices. The composite is weighted in a manner that reflects the long-term asset allocation of the Fund:

Asset Class	Post Target	Market Index	Post Composite* 2Q03
Domestic Stocks	50.0%	Wilshire 5000 Investable	50.0%
Int'l Stocks	15.0	Int'l. Composite	15.0
Bonds	27.0	Lehman Aggregate	27.1*
Alternative Assets	5.0	Real Estate Funds	1.2*
		Private Equity Funds	2.9*
		Resource Funds	0.8*
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 6/30/2003

	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
Post Fund**	11.6%	2.8%	-4.1%	1.4%	8.0%
Composite Index	11.7	3.3	-4.2	1.6	7.7

** 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)

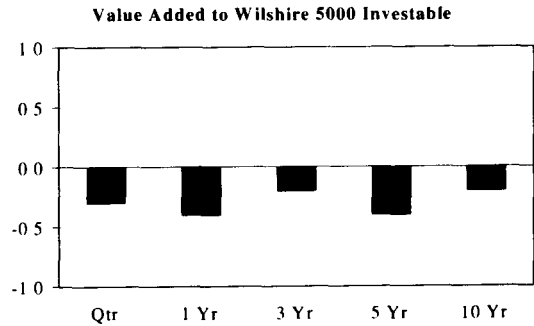
Domestic Stocks

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 6/30/2003				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Stocks	15.8%	0.4%	-11.3%	-2.3%	9.0%
W5000 Investable*	16.1	0.8	-11.1	-1.9	9.2

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



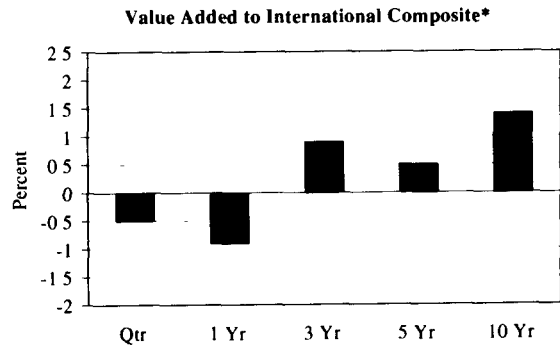
International Stocks

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 6/30/2003				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	19.1%	-6.2%	-12.1%	-2.8%	3.9%
Composite Index*	19.6	-5.4	-13.0	-3.3	2.5

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

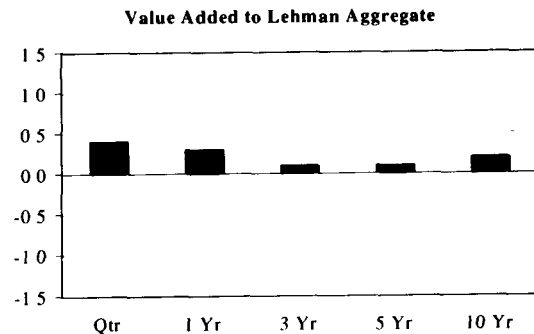


Bonds

Target: Lehman Brothers Aggregate Bond Index

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

	Period Ending 6/30/2003				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	2.9%	10.7%	10.2%	7.6%	7.4%
Lehman Agg.	2.5	10.4	10.1	7.5	7.2



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 6/30/2003				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Real Estate	4.2%	7.1%	8.5%	8.3%	9.5%
Inflation	-0.3	2.1	2.1	2.4	2.4

Private Equity Pool (Basic Funds only)

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

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

	Period Ending 6/30/2003				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Private Equity	6.0%	-3.5%	-6.0%	3.5%	14.2%

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 6/30/2003				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Resource Funds	8.6%	5.2%	11.4%	4.6%	11.5%

Yield Oriented Pool (Post Fund only)

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

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

	Period Ending 6/30/2003				
	Qtr.	Yr.	3 Yr.	5 Yr.	Since 3/1/94
Yield Oriented	3.4%	6.4%	10.0%	11.8%	11.0%

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, 2003 the market value of the entire Fund was \$1.5 billion.

Investment Options

	6/30/2003 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	\$569
Growth Share Account – an actively managed, all common stock portfolio.	\$199
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	\$282
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	\$49
Bond Market Account – an actively managed, all bond portfolio.	\$162
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	\$99
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.	\$135

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%	58.5%
Bonds	35.0	35.1
Unallocated Cash	5.0	6.4
	100.0%	100.0%

Period Ending 6/30/2003

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	9.9%	4.5%	-3.5%	2.0%	8.8%
Composite*	10.4	4.7	-3.0	2.3	8.7

* 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 6/30/2003

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	15.6%	0.1%	-11.5%	-2.7%	8.7%
Composite*	16.1	0.8	-11.1	-1.9	9.0

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

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

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

The Account is invested 100% in common stock.

Period Ending 6/30/2003

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	16.0%	0.8%	-11.0%	-1.5%	9.6%
Wilshire 5000 Investable*	16.1	0.8	-11.1	-1.7	9.3

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

INTERNATIONAL SHARE ACCOUNT

Investment Objective and Asset Mix

The investment objective of the International Share Account is to earn a high rate of return by investing in the stock of companies outside the U.S. At least one-third of the Account is "passively managed" and is designed to track the return of 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 6/30/2003

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	Since 9/1/94
Total Account	19.3%	-6.2%	-12.0%	-2.7%	2.1%
Composite*	19.6	-5.4	-13.0	-3.3	0.6

* 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.

Period Ending 6/30/2003

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	2.9%	10.7%	10.3%	7.6%	7.4%
Lehman Agg.	2.5	10.4	10.1	7.5	7.2

Asset Mix

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

MONEY MARKET ACCOUNT

Investment Objective

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

Period Ending 6/30/2003

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	0.3%	1.6%	3.4%	4.3%	4.8%
3 month T-Bills	0.3	1.4	3.0	3.8	4.4

Asset Mix

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

FIXED INTEREST ACCOUNT

Investment Objectives

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

Period Ending 6/30/2003

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	Since 11/1/94
Total Account	1.2%	5.2%	5.9%	6.1%	6.3%
Benchmark*	0.5	2.5	3.9	4.7	5.4

Asset Mix

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

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

	6/30/2003 Target	6/30/2003 Actual
Stocks	20.0%	24.3%
Bonds	80.0	75.7
Total	100.0%	100.0%

Investment Management

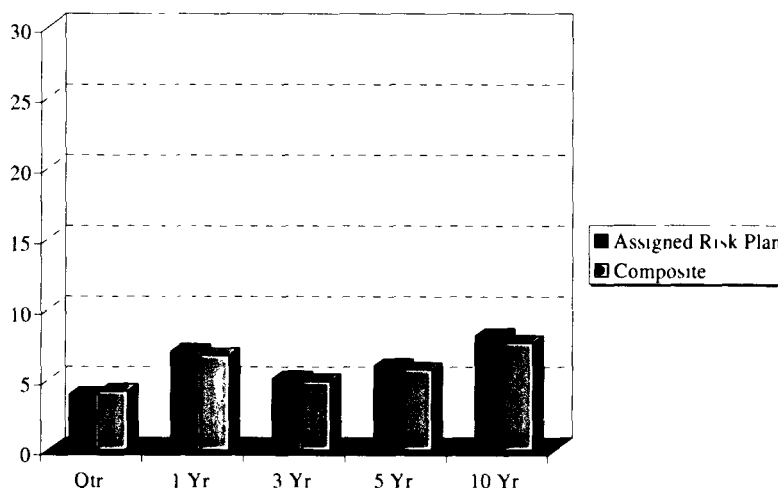
Voyageur Asset Management manages the bond segment of the Fund. GE Investment Management manages the equity segment.

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, 2003 the market value of the Assigned Risk Plan was \$229 million.



Period Ending 6/30/2003

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	4.0%	7.1%	5.1%	6.0%	8.1%
Composite	4.2	6.8	4.9	5.7	7.6
Equity Segment*	14.0	-0.8	-7.4	1.0	11.0
Benchmark	15.4	0.3	-11.2	-1.6	10.0
Bond Segment*	1.4	7.4	7.8	6.4	6.5
Benchmark	1.5	7.9	8.9	7.2	6.8

* 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.

	6/30/2003 Target	6/30/2003 Actual
Stocks	50.0%	51.5%
Bond	48.0	46.9
Unallocated Cash	2.0	1.6
Total	100.0%	100.0%

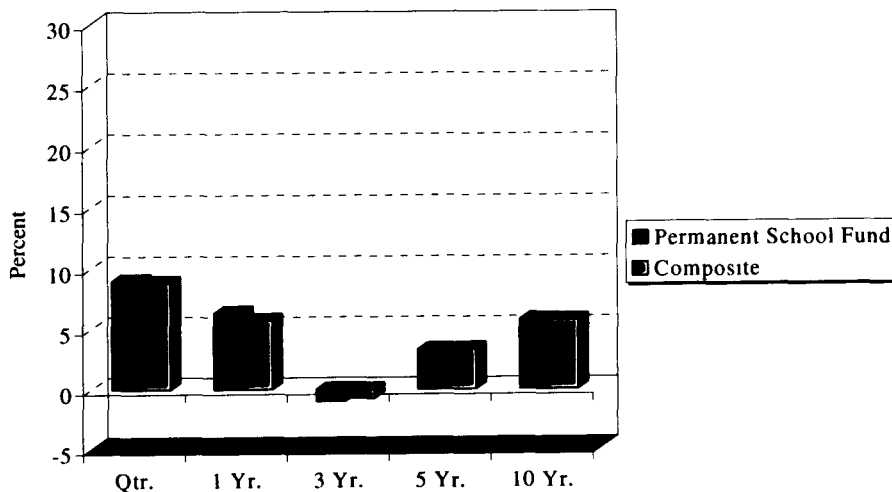
Prior to FY98, the Fund was invested entirely in fixed income securities in order to maximize current income. It is understood that the change in asset mix will reduce portfolio income in the short term, but will enhance the value of the fund, over time.

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, 2003 the market value of the Permanent School Fund was \$527 million.



Period Ending 6/30/2003
Qtr. 1 Yr. 3 Yr. 5 Yr. 10 Yr.

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund (1) (2)	9.0%	6.3%	-1.0%	3.3%	5.7%
Composite	8.8	5.7	-0.7	3.3	5.7
Equity Segment (1) (2)	15.4	0.7	-11.1	-1.5	N/A
S&P 500	15.4	0.3	-11.2	-1.6	N/A
Bond Segment (1)	2.9	11.9	10.0	7.6	7.5
Lehman Aggregate	2.5	10.4	10.1	7.5	7.2

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

ENVIRONMENTAL TRUST FUND

Investment Objective

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

Asset Mix

The Environmental Trust Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds act as a deflation hedge and provide portfolio diversification. As of July 1, 1999, the asset

allocation changed from 50% stocks/50% fixed income to 70% stocks /30% fixed income.

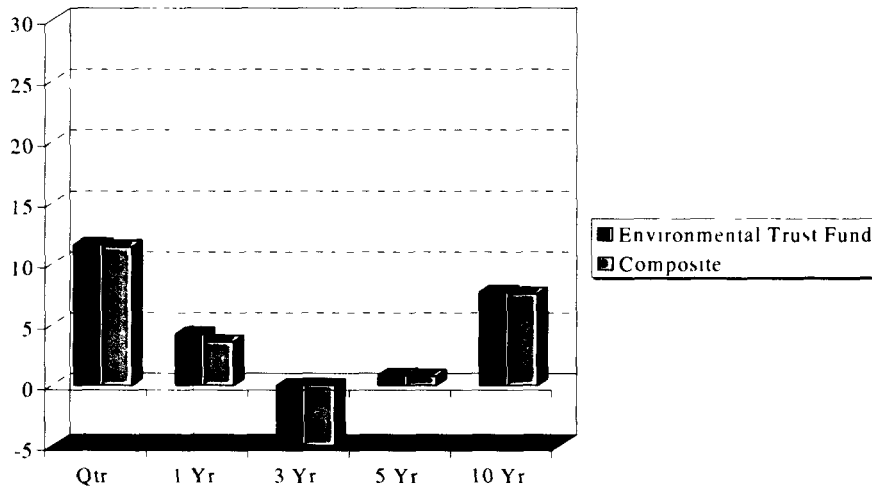
Investment Management

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

Market Value

On June 30, 2003 the market value of the Environmental Trust Fund was \$289 million

	6/30/2003 Target	6/30/2003 Actual
Stocks	70.0%	71.1%
Bonds	28.0	28.2
Unallocated Cash	2.0	0.7
Total	100.0%	100.0%



	Period Ending 6/30/2003				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	11.6%	4.2%	-4.9%	0.8%	7.6%
Composite	11.4	3.6	-5.0	0.7	7.5
Equity Segment*	15.4	0.7	-11.1	-1.5	10.2
S&P 500	15.4	0.3	-11.2	-1.6	10.0
Bond Segment*	2.9	11.9	10.0	7.6	7.6
Lehman Agg.	2.5	10.4	10.1	7.5	7.2

* 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

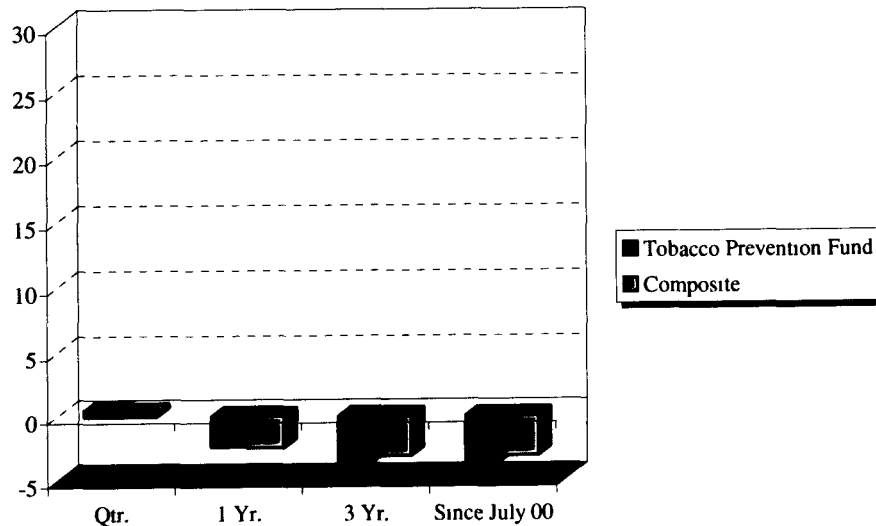
SBI staff manages all assets of the Tobacco Prevention Fund.

Market Value

On June 30, 2003 the market value of the Tobacco Prevention Fund was \$0.2 million.

The SBI liquidated the assets of the Tobacco Prevention Fund, the Medical Education Fund, and the Academic Health Center Account Fund in an orderly fashion over a several month period. Assets were transferred to the State's General Fund by July 1, 2003.

	6/30/2003 Target	6/30/2003 Actual
Stocks	50.0%	0.0%
Bonds	50.0	0.0
Unallocated Cash	0.0	100.0
Total	100.0%	100.0%



Period Ending 6/30/2003

	Qtr.	1 Yr.	3 Yr.	Since 7/1/00
Total Fund*	0.5%	-2.4%	-3.5%	-3.5%
Composite	0.3	-2.4	-3.1	-3.1

* Actual returns are calculated net of fees.

MEDICAL EDUCATION FUND

Investment Objectives

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

Asset Mix

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

Investment Management

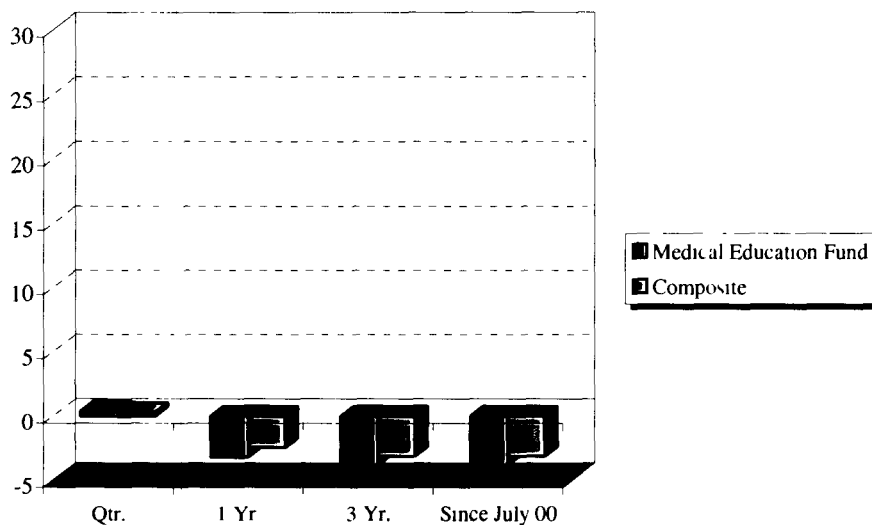
SBI staff manages all assets of the Medical Education Fund.

Market Value

On June 30, 2003 the market value of the Medical Education Fund was \$0.3 million.

The SBI liquidated the assets of the Tobacco Prevention Fund, the Medical Education Fund, and the Academic Health Center Account Fund in an orderly fashion over a several month period. Assets were transferred to the State's General Fund by July 1, 2003

	6/30/2003 Target	6/30/2003 Actual
Stocks	50.0%	0.0%
Bonds	50.0	0.0
Unallocated Cash	0.0	100.0
Total	100.0%	100.0%



Period Ending 6/30/2003

	Qtr.	1 Yr.	3 Yr.	Since 7/1/00
Total Fund*	0.4%	-3.2%	-3.8	-3.8%
Composite	0.3	-2.4	-3.1	-3.1

* Actual returns are calculated net of fees.

ACADEMIC HEALTH CENTER FUND

Investment Objectives

The investment objective of the Academic Health Center 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

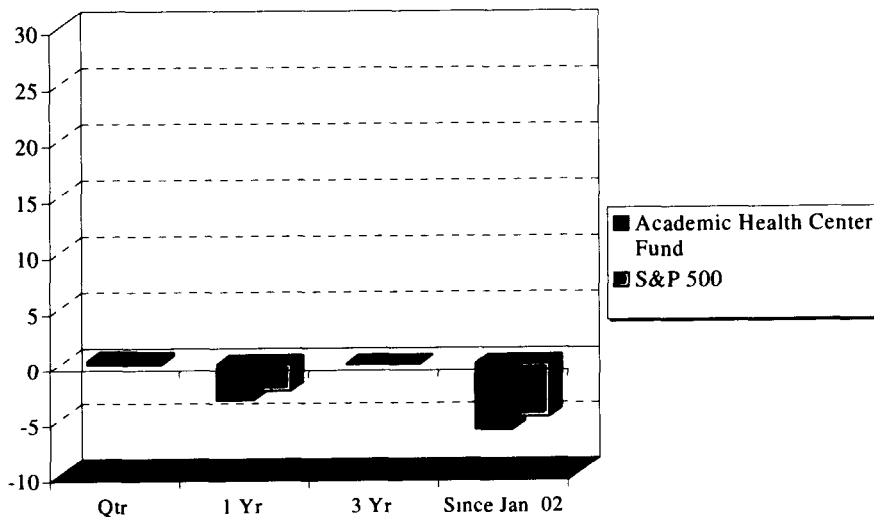
SBI staff manages all assets of the Academic Health Center Fund.

Market Value

On June 30, 2003 the market value of the Academic Health Center Fund was \$0.2 million.

The SBI liquidated the assets of the Tobacco Prevention Fund, the Medical Education Fund, and the Academic Health Center Account Fund in an orderly fashion over a several month period. Assets were transferred to the State's General Fund by July 1, 2003.

	6/30/2003 Target	6/30/2003 Actual
Stocks	50.0%	0.0%
Bonds	50.0	0.0
Unallocated Cash	0.0	100.0
Total	100.0%	100.0%



Period Ending 6/30/2003

	Qtr.	1 Yr.	3 Yr.	Since 1/1/02
Total Fund*	0.3%	-3.3	N/A	-6.0%
Composite	0.3	-2.4	N/A	-4.8

* Actual returns are calculated net of fees.

CLOSED LANDFILL INVESTMENT FUND

Investment Objectives

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

Investment Management

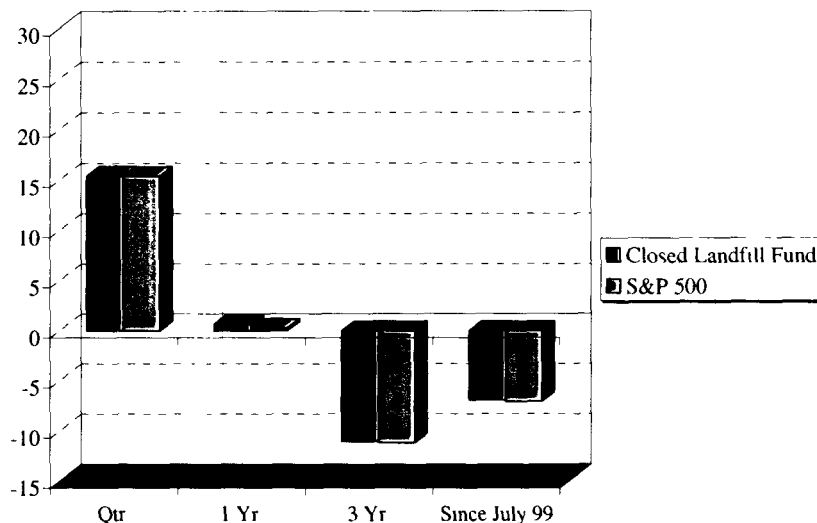
SBI staff manage all assets of the Closed Landfill Investment Fund. The assets are managed to passively track the performance of the S&P 500 index.

Market Value

On June 30, 2003, the market value of the Closed Landfill Investment Fund was \$16.8 million.

Asset Mix

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



Period Ending 6/30/2003
Qtr. 1 Yr. 3 Yr. Since 7/1/99

Total Fund (1)	15.4%	0.7%	-11.0%	-6.9%
S&P 500 (2)	15.4	0.3	-11.2	-7.1

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

STATE CASH ACCOUNTS

Description

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

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

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

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

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

Investment Objectives

Safety of Principal. To preserve capital.

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

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

Asset Mix

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

Investment Management

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

	Market Value (Millions)	Period Ending 6/30/2003				
		Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Treasurer's Cash Pool*	\$5,204	0.3%	1.9%	4.1%	4.6%	4.9%
Custom Benchmark**		0.2	1.3	3.6	4.1	4.6
Trust Fund Cash Pool*	\$49	0.3	1.5	3.5	4.3	4.8
Custom Benchmark***		0.2	1.0	2.8	3.6	4.4
3 month T-Bills		0.3	1.4	3.0	3.8	4.4

* 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 1-3 year Government Index and the IBC All Taxable Money Fund Index. The proportion of each component of the blended benchmark is adjusted periodically as the asset allocation of the Cash Pool is modified. From April 1993 through December 1996, the benchmark was 75% State Street Short Term Investment Fund/25% Lehman Brothers 1-3 Year Treasury Index.

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

MINNESOTA STATE BOARD OF INVESTMENT

Composition of State Investment Portfolios By Type of Investment

Market Value June 30, 2003 (in Thousands)

	Cash and Short term Securities	Bonds		Stocks		External Int'l	Alternative Assets	Total
		Internal	External	Internal	External			
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	35,213 0.57%	0	1,449,852 23.50%	0	2,930,391 47.51%	878,789 14.25%	874,366 14.17%	6,168,611 100%
Public Employees Retirement Fund	22,447 0.52%	0	1,004,999 23.51%	0	2,044,128 47.83%	616,764 14.43%	585,825 13.71%	4,274,163 100%
State Employees Retirement Fund	19,649 0.53%	0	877,491 23.51%	0	1,785,062 47.83%	538,691 14.44%	511,018 13.69%	3,731,911 100%
Public Employees Police & Fire	11,131 0.53%	0	494,455 23.51%	0	1,005,203 47.80%	303,118 14.41%	289,089 13.75%	2,102,996 100%
Highway Patrol Retirement Fund	1,083 0.53%	0	48,298 23.51%	0	98,252 47.83%	29,650 14.44%	28,127 13.69%	205,410 100%
Judges Retirement Fund	138 0.53%	0	6,183 23.51%	0	12,578 47.83%	3,796 14.44%	3,601 13.69%	26,296 100%
Correctional Employees Retirement	1,168 0.53%	0	51,992 23.51%	0	105,770 47.83%	31,919 14.44%	30,280 13.69%	221,129 100%
Public Employees Correctional	1,549 3.11%	0	11,407 22.90%	0	23,203 46.59%	7,002 14.06%	6,644 13.34%	49,805 100%
TOTAL BASIC FUNDS	92,378 0.55%	0	3,944,677 23.51%	0	8,004,587 47.70%	2,409,729 14.36%	2,328,950 13.88%	16,780,321 100%
POST RETIREMENT FUND	271,859 1.65%	0	4,467,673 27.15%	0	8,539,710 51.89%	2,414,763 14.67%	763,757 4.64%	16,457,762 100%
TOTAL BASIC AND POST	364,237 1.10%	0	8,412,350 25.31%	0	16,544,297 49.78%	4,824,492 14.51%	3,092,707 9.30%	33,238,083 100%

	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	36,402	199,680	0	0	0	0	0	0	332,930	0	0	0	0	0	0	569,012
	6.40%	35.09%							58.51%							100%
Growth Share Account	0	0	0	0	0	0	0	0	199,357	0	0	0	0	0	0	199,357
									100.00%							100%
Money Market Account	35,388	0	0	0	0	0	0	0	0	0	0	0	0	0	0	35,388
	100.00%															100%
Common Stock Index	0	0	0	0	0	0	0	0	281,673	0	0	0	0	0	0	281,673
									100.00%							100%
Bond Market Account	0	0	0	0	162,474	0	0	0	0	0	0	0	0	0	0	162,474
					100.00%											100%
International Share Account	0	0	0	0	0	0	0	0	0	49,331	0	49,331	0	0	0	49,331
										100.00%						100%
Fixed Interest Account	2,024	0	0	0	132,531	0	0	0	0	0	0	0	0	0	0	134,555
	1.50%				98.50%											100%
Money Market Deferred Comp	63,487	0	0	0	0	0	0	0	0	0	0	0	0	0	0	63,487
	100.00%															100%
TOTAL SUPPLEMENTAL FUNDS																
	137,301	199,680	0	0	295,005	0	0	0	813,960	49,331	0	49,331	0	0	0	1,495,277
	9.18%	13.35%			19.73%				54.44%	3.30%						100%
MN DEFERRED COMP PLAN *																
	0	0	0	0	750,541	0	0	0	714,976	83,708	0	83,708	0	0	0	1,549,225
					48.45%				46.15%	5.40%						100%
TOTAL RETIREMENT FUNDS																
	501,538	199,680	0	0	9,457,896	0	0	0	18,073,233	4,957,531	0	4,957,531	0	0	3,092,707	36,282,585
	1.38%	0.55%			26.07%			0.00%	49.81%	13.66%					8.53%	100%

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

	Cash and		Bond Internal	Bond External	Stock Internal	Stock External	External Int'l	Alternative Assets	Total
	Short Term Securities								
ASSIGNED RISK PLAN	5,972 2.61%	0	167,818 73.38%	0	0	54,909 24.01%	0	0	228,699 100%
ENVIRONMENTAL FUND	1,982 0.69%	81,296 28.16%	0	205,397 71.15%	0	0	0	0	288,675 100%
PERMANENT SCHOOL FUND	8,612 1.63%	247,363 46.92%	0	271,219 51.45%	0	0	0	0	527,194 100%
TOBACCO SETTLEMENT POOL	813 100.00%	0	0	0	0	0	0	0	813 100%
CLOSED LANDFILL INVESTMENT	26 0.15%	0	0	16,757 99.85%	0	0	0	0	16,783 100%
TREASURERS CASH	5,200,300 100.00%	0	0	0	0	0	0	0	5,200,300 100%
HOUSING FINANCE AGENCY	30,365 12.81%	206,758 87.19%	0	0	0	0	0	0	237,123 100%
MINNESOTA DEBT SERVICE FUND	79,980 26.06%	226,877 73.94%	0	0	0	0	0	0	306,857 100%
MISCELLANEOUS ACCOUNTS	270,729 67.80%	99,602 24.95%	0	28,947 7.25%	0	0	0	0	399,278 100%
GRAND TOTAL	6,100,317 14.03%	1,061,576 2.44%	9,625,714 22.13%	522,320 1.20%	18,128,142 41.69%	4,957,531 11.40%	3,092,707 7.11%	43,488,307 100%	

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: August 26, 2003

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 Fiscal Year 2003 is included as **Attachment A**. A report on the SBI's administrative budget for the period ending July 31, 2003 is included as **Attachment B**.

A report on travel for the period from May 16, 2003 - August 15, 2003 is included as **Attachment C**.

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 3, 2003.

3. Board Voting Policy

The Board requested that staff and legal counsel research whether or not seconds to motions are necessary at SBI meetings. It has been determined that seconds to motions are not required by applicable statute or rule and is not required by standard legislative parliamentary procedure. The Board may dispense with requiring seconds to motions if it so chooses. A resolution not to require seconds to motions has been prepared for the Board's consideration and appears as **Attachment D**.

ATTACHMENT A

**STATE BOARD OF INVESTMENT
FISCAL YEAR 2003 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR FINAL**

ITEM	FISCAL YEAR 2003 BUDGET	FISCAL YEAR 2003 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	\$ 2,023,035	\$ 1,965,879
SEVERENCE PAYOFF	22,000	231
WORKERS COMPENSATION INSURANCE	1,000	876
MISCELLANEOUS PAYROLL	2,000	0
SUBTOTAL	\$ 2,048,035	\$ 1,966,986
STATE OPERATIONS		
RENTS & LEASES	192,000	188,101
REPAIRS/ALTERATIONS/MAINTENANCE	15,000	15,870
PRINTING & BINDING	15,000	8,221
PROFESSIONAL/TECHNICAL SERVICES	10,000	0
COMPUTER SYSTEMS SERVICES	10,000	10,825
COMMUNICATIONS	20,000	18,968
TRAVEL, IN-STATE	3,000	261
TRAVEL, OUT-STATE	65,000	17,289
SUPPLIES	40,000	36,215
EQUIPMENT	20,000	0
EMPLOYEE DEVELOPMENT	15,000	8,641
OTHER OPERATING COSTS	25,000	8,149
SUBTOTAL	\$ 430,000	\$ 312,540
ORIGINAL BUDGET	\$ 2,478,035	\$ 2,279,526
BUDGET REDUCTION (UNALLOTMENT)	\$ 90,000	
TOTAL GENERAL FUND	\$ 2,388,035	\$ 2,279,526

ATTACHMENT B

**STATE BOARD OF INVESTMENT
FISCAL YEAR 2004 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO-DATE THROUGH JULY 31, 2003**

ITEM	FISCAL YEAR 2004 BUDGET	FISCAL YEAR 2004 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	\$ 1,900,000	\$ 75,460
SEVERENCE PAYOFF	22,000	148
WORKERS COMPENSATION INSURANCE	1,000	860
MISCELLANEOUS PAYROLL	2,000	0
SUBTOTAL	\$ 1,925,000	\$ 76,468
STATE OPERATIONS		
RENTS & LEASES	196,000	15,984
REPAIRS/ALTERATIONS/MAINTENANCE	15,000	0
PRINTING & BINDING	10,000	0
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	0
COMMUNICATIONS	20,000	127
TRAVEL, IN-STATE	3,000	0
TRAVEL, OUT-STATE	45,000	1,547
SUPPLIES	20,000	0
EQUIPMENT	0	0
EMPLOYEE DEVELOPMENT	15,000	0
OTHER OPERATING COSTS	15,000	76
SUBTOTAL	\$ 349,000	\$ 17,734
ORIGINAL BUDGET	\$ 2,274,000	\$ 94,202
BUDGET REDUCTION (UNALLOTMENT)	\$ 39,000	
TOTAL GENERAL FUND	\$ 2,235,000	\$ 94,202

ATTACHMENT C

STATE BOARD OF INVESTMENT

**Travel Summary by Date
SBI Travel May 16, 2003 – August 15, 2003**

<u>Purpose</u>	<u>Name(s)</u>	<u>Destination and Date</u>	<u>Total Cost</u>
Manager Monitoring: Alternative Investment Managers: Lend Lease; Summit Partners; TA Associates Realty; Master Custodian: State Street Bank & Trust	J. Griebenow	Boston, MA 7/22-7/24	\$1,037.50

ATTACHMENT D

**RESOLUTION OF THE
MINNESOTA STATE BOARD OF INVESTMENT
CONCERNING BOARD VOTING POLICY**

WHEREAS, each member of the State Board of Investment (the "Board") has an equal, individual, and independent right to propose to the Board what they think the Board should consider;

WHEREAS, requiring seconds to motions is not required by applicable statute or rule;

WHEREAS, requiring seconds is not required by standard legislative parliamentary procedure as contained in *Mason's Manual of Legislative Procedure*; and

WHEREAS, the Board finds there is good cause for dropping the use of seconds because of their lack of utility, convenience or necessity.

NOW, THEREFORE, BE IT RESOLVED that the State Board of Investment does not require seconds to motions and the presiding officer may not refuse to put a question because it is not seconded.

BE IT FURTHER RESOLVED that seconds may be ignored and the presiding officer may not refuse to put a question because it is not seconded unless a member requests that a second be required in which case the presiding officer may disregard a motion if no second is made.

Adopted this 3rd day
of September, 2003

Governor Tim Pawlenty
Chair, Minnesota State
Board of Investment

Tab C

COMMITTEE REPORT

DATE: August 26, 2003

TO: Members, State Board of Investment

FROM: Administrative Committee

SUBJECT: Report from the SBI Administrative Committee

The Administrative Committee met on August 11, 2003 to consider the following item:

- Review of the International Investing Guidelines.

Review of the International Investing Guidelines.

Mr. Bicker described the current International Investing Guidelines, which were adopted by the Board in December 1992. This policy requires the SBI Administrative Committee to review international countries regarding their human and worker rights records. The guidelines require countries to be categorized into three groups:

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

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

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

In the past, the Administrative Committee reviewed all developed international countries and a significant number of emerging market countries including many outside of the international asset class target in which the SBI's investment managers rarely invest. The result was a detailed report on over 100 countries and their categorization as a Group I, II, or III country.

Given that the International Country Guidelines do not prevent investment in any country, and that there is a significant amount of time required to prepare and review this broad list of countries, the Administrative Committee recommends that the policy be amended to require categorization of only countries found in the International Equity Program asset class target, and that detailed reports be done on countries that fall into Group II and III. In addition, the Committee recommends that the review of international countries be done every four years or at a Board Member's request.

RECOMMENDATION:

The SBI Administrative Committee recommends that the SBI approve an amendment to the International Investing Guidelines that requires a review of only those countries found in the International Equity Program asset class target, that detailed reports be prepared for countries falling into Group II and III, and that the review be conducted every four years or at a Board Member's request.

Tab D

COMMITTEE REPORT

DATE: August 26, 2003

TO: Members, State Board of Investment

FROM: **Deferred Compensation Review Committee**

The Deferred Compensation Review Committee met on Monday, August 18, 2003 to consider the following agenda items:

- Recommendation to replace INVESCO Total Return in the State Deferred Compensation Plan.
- Recommendation to adopt daily pricing for all investment options in the State Deferred Compensation Plan.

Action is required by the SBI on both items

1. Recommendation to replace INVESCO Total Return in the State Deferred Compensation Plan.

INVESCO Total Return Fund (Fund) was selected in 1998 to be the balanced investment option in the State Deferred Compensation Plan. The fund management, based in Atlanta, had performance difficulties in 1999 and 2000. In January 2001, INVESCO moved the management of the Total Return Fund to Denver as part of a consolidation of the company's mutual funds. The Denver team improved performance, but was unable to totally reverse the Fund's underperformance.

In May 2003, INVESCO announced that the Fund portfolio manager was leaving in July. In June 2003, INVESCO announced a company-wide top-down organizational restructuring in which it consolidated investment management offices across the U.S. and consolidated its INVESCO and AIM families of mutual funds. The Fund's investment management was moved to a team based in Louisville, Kentucky.

With two portfolio team changes and poor performance over the four years the Fund has been in the Plan, the Committee and staff recommend the termination of INVESCO Total Return Fund.

Because the Total Return Fund is the only mutual fund balanced fund offering in the Plan, a replacement mutual fund must be selected so that assets from the Total Return Fund can be transferred to a similar fund.

The Committee reviewed the attached information beginning on **page 5** relating to proposed replacements for INVESCO.

- American Century Balanced Institutional
- Dodge & Cox Balanced
- Fidelity Puritan
- Janus Aspen Balanced Institutional
- Vanguard Wellington

The Committee discussed these funds and recommended Dodge & Cox Balanced Fund.

RECOMMENDATION:

The Committee recommends that the SBI terminate the relationship with INVESCO Total Return Fund in the State Deferred Compensation Plan. The Committee further recommends that the SBI authorize the executive director, with assistance from legal counsel, to negotiate a contract with Dodge & Cox, Inc. in order to offer the Dodge & Cox Balanced Fund to participants in the State Deferred Compensation Plan at a date agreeable to Minnesota State Retirement System.

2. Recommendation to adopt daily pricing for all investment options in the State Deferred Compensation Plan.

The State Deferred Compensation Plan (the Plan) offers seven investment options from the Supplemental Investment Fund (SIF), seven mutual funds, a fixed option offering a blended quarterly yield and a mutual fund window through which a participant may access hundreds of mutual funds for an additional annual fee. Six of the seven SIF accounts are monthly valued. The SIF Money Market Account is daily valued to serve as the only money market option in the Plan. The mutual funds are daily valued.

The combination of monthly valued options of the SIF and the daily valued tier of mutual funds is confusing to participants, difficult and expensive for Plan recordkeeping and undermines the ability of Minnesota State Retirement System (MSRS) to offer a competitive plan to participants. The Committee discussed materials in which MSRS requested support from the SBI to switch to all daily valued investment options for the Plan. The Committee heard from Dave Bergstrom,

Executive Director of MSRS, who stated that MSRS and the SBI need to make the change in order to provide quality service to Plan participants and to offer the same level of services as other tax-deferred savings plans.

The Committee approved the move to daily priced options and the proposal to retain a set of low cost mutual funds to replace the monthly valued SIF accounts. The new set of options would be passively managed to the extent possible. The Committee reviewed information identifying potential replacements for the Growth Share Account, Income Share Account, Bond Market Account and International Share Account.

The Committee reviewed the attached information beginning on **page 19** relating to proposed replacements for the Growth Share Account:

Funds reviewed

American Century Growth Institutional
Fidelity Growth and Income
GE US Equity Y
Legg Mason Value Institutional
Smith Barney Appreciation Y

The Committee recommends the selection of Smith Barney Appreciation Y.

The Committee reviewed the attached information beginning on **page 33** relating to proposed replacements for the Income Share Account:

Funds reviewed

Dodge & Cox Balanced
Vanguard Balanced Index
Vanguard Wellington

The Committee recommends the selection of Vanguard Balanced Index Fund.

The Committee reviewed the attached information beginning on **page 43** relating to proposed replacements for the Bond Market Account:

Funds reviewed

Barclays Global Investors Bond Index
GE Institutional Income Investor
Vanguard Total Bond Market Index

The Committee recommends the selection of Vanguard Total Bond Market Index.

The Committee reviewed the attached information beginning on **page 51** relating to proposed replacements for the International Share Account:

Funds reviewed

Fidelity Spartan International Index
Vanguard Developed Markets Index
Vanguard Total International Stock Index

The Committee recommended the selection of Vanguard Developed Markets Index.

RECOMMENDATION:

The Committee recommends that the State Deferred Compensation Plan be converted so that all investments are daily priced. The Committee recommends that the Board replace the Growth Share Account, Income Share Account, Bond Market Account and International Share Account with low cost daily valued mutual funds. The Committee further recommends that the SBI retain the Money Market Account which is daily valued for the Plan, eliminate the Common Stock Index Account because the Plan will retain its existing passively managed equity mutual fund offering, and convert the Fixed Interest Account to a daily valued offering. The new active/passive structure will be implemented at a date agreeable to the SBI and the Minnesota State Retirement System.

The Committee further recommends that the Board authorize the executive director, with assistance from legal counsel, to negotiate contracts with the following companies for the mutual funds identified in order to offer these funds to participants of the State Deferred Compensation.

Smith Barney Group

Smith Barney Appreciation Y

The Vanguard Group, Inc.

**Vanguard Balanced Index
Vanguard Developed Markets Index
Vanguard Total Bond Market Index**

**POTENTIAL REPLACEMENT FUNDS
FOR THE
INVESCO TOTAL RETURN FUND**

- **American Century Balanced Institutional**
- **Dodge & Cox Balanced**
- **Fidelity Puritan**
- **Janus Aspen Balanced Institutional**
- **Vanguard Wellington**

BALANCED FUND DATA

Fund	Net Assets (MM)	Expense Ratio	Allocation Stock/Bond	Location	Manager Name	Fund Inception	Ticker
American Century Balanced Institutional	\$560*	0.70	57%/43%	Kansas City	Team	1988	ABINX
Dodge & Cox Balanced	7,885	0.53	66%/34%	San Francisco	Team	1931	DODBX
Fidelity Puritan	19,211	0.64	57%/43%	Boston	Stephen R. Peterson	1947	FPURX
Janus Aspen Balanced Institutional	3,260	0.67	45%/55%	Denver	Karen L. Reidy	1993	JABLX
Vanguard Wellington**	21,083	0.36	63%/37%	Valley Forge, PA	Paul D. Kaplan Edward P. Bousa	1929	VWELX

* This total includes assets under management for all share classes. The American Century Balanced Institutional share class has assets under management of \$17 million.

** The Admiral share class became available May 2001. There is a minimum investment of \$250,000 and an expense ratio of 0.26.

BALANCED FUND PERFORMANCE

Fund	Through 6/30/03					Calendar				
	YTD	1 Yr	3 Yr	5 Yr		1998	1999	2000	2001	2002
American Century Balanced Inst'l.*	9.85	6.02	-2.56	0.99		16.29	10.10	-2.66	-3.50	-9.33
Dodge & Cox Balanced	9.12	5.64	10.25	8.48		6.69	12.06	15.14	10.05	-2.94
Fidelity Puritan	8.76	3.79	2.05	2.94		16.59	2.86	7.77	-1.06	-7.91
Janus Aspen Balanced Inst'l.**	6.29	2.71	-2.75	6.07		34.29	26.76	-2.77	-4.66	-6.44
Vanguard Wellington	8.79	2.75	5.65	4.59		12.06	4.41	10.40	4.19	-6.90
Benchmark: S&P 500 60%/Lehman Agg 40%	8.66	4.85	-3.52	1.94		21.54	11.43	-3.34	-3.70	-9.82

* Return history includes the American Century Balanced Investor class prior to 2001. The American Century Balanced Institutional share class was established in May 2000.

** Current manager took over the fund January 1, 2000 and has shifted the equity portfolio away from aggressive growth stocks. Therefore, returns for years before 2000 are not indicative of current fund management.

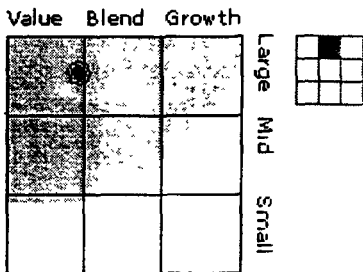
American Century Balanced Instl ABINX

[Snapshot] Analyst Report [Quote] Total Returns [Ratings & Risk] Portfolio [Nuts & Bolts]

Equity Investment Style

07-31-2003

Ownership Zone



● Fund centroid represents weighted average of domestic stock holdings
 Zone represents 75% of fund's domestic stock holdings

Valuations

	Stock Portfolio	Rel to S&P 500
Price/Prospective Earnings	13.84	0.79
Price/Book*	2.04	0.78
Price/Sales*	0.71	0.52
Price/Cash Flow*	3.03	0.45
Dividend Yield %*	1.61	0.92

Growth Rates

Long-Term Earnings Growth %	15.99	1.22
Historical Earnings Growth %	-1.41	-0.13
Book/Value Growth %	4.62	0.70
Sales Growth %	2.04	0.82
Cash-Flow Growth %	19.63	2.97

*Forward-looking based on historical data

Size

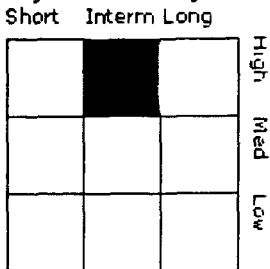
Geometric Average Cap \$Mil 21,344

Market Cap	Portfolio %	Investment Style History
Giant	41.82	2002
Large	20.04	2001
Medium	34.18	2000
Small	3.93	1999
Micro	0.01	1998

Fixed-Income Investment Style

03-31-2003

Style Summary



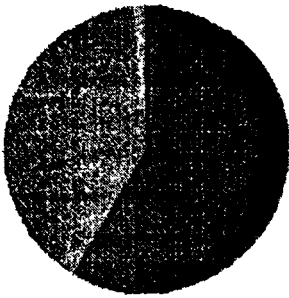
Bond Statistics

Average Effective Duration	4.09
Average Effective Maturity	5.92
Average Credit Quality	AA
Average Weighted Coupon	5.29

Bond Quality	Bond %	Investment Style History
U.S. Gov't	22.80	2002
AAA	45.10	2001
AA	4.40	
A	13.80	
BBB	12.20	
BB	1.70	
B	0.00	
Below B	0.00	
Not Rated	0.00	

Asset Allocation

03-31-2003



	Net Assets %
• Cash	1.44
• Stocks	56.99
* Bonds	39.96
* Other	1.57
Foreign (as a % of stocks)	2

Sector Weightings

03-31-2003

	% of Stocks	Rel to S&P 500
Information Economy	23.47	1.03
Software	4.83	0.84
Hardware	10.06	1.00
Media	3.29	0.99
Telecommunications	5.29	1.41
Service Economy	53.94	1.18
Healthcare Services	13.31	1.07
Consumer Services	12.33	1.48
Business Services	4.62	1.12
Financial Services	23.68	1.13
Manufacturing Economy	22.54	0.72
Consumer Goods	9.03	0.83
Industrial Materials	6.99	0.61
Energy	4.85	0.81
Utilities	1.67	0.56

Top 25 Holdings

03-31-2003


Total Number of Stock Holdings	172	Turnover %	108.00
Total Number of Bond Holdings	127	Yield %	2.11
% Assets in Top 10 Holdings	16.84		

Dodge & Cox Balanced DODBX

[Snapshot] Analyst Report Quote Total Returns Ratings & Risk Portfolio Nuts & Bolts

Equity Investment Style

07-31-2003

Ownership Zone 

Value Blend Growth



● Fund centroid represents weighted average of domestic stock holdings
 Zone represents 75% of fund's domestic stock holdings

Valuations

Stock Rel to Portfolio S&P 500

Price/Prospective Earnings	14.25	0.82
Price/Book*	1.78	0.68
Price/Sales*	0.80	0.59
Price/Cash Flow*	5.20	0.78
Dividend Yield %*	2.20	1.26

Growth Rates

Long-Term Earnings Growth %	14.16	1.08
Historical Earnings Growth %	2.74	0.26
Book/Value Growth %	1.11	0.17
Sales Growth %	-3.02	-1.21
Cash-Flow Growth %	-1.18	-0.18

*Forward-looking based on historical data

Size

Geometric Average Cap \$Mil 13,509

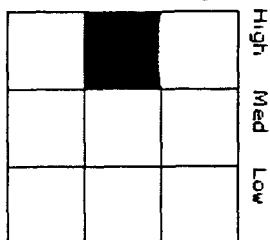
Market Cap	Portfolio %	Investment Style History
Giant	10.84	2002
Large	57.37	2001
Medium	30.97	2000
Small	0.81	1998
Micro	0.00	

Fixed-Income Investment Style

06-30-2003

Style Summary

Short Interm Long



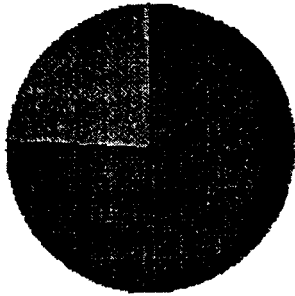
Bond Statistics

Average Effective Duration	3.70
Average Effective Maturity	7.00
Average Credit Quality	AA
Average Weighted Coupon	6.72

Bond Quality	Bond %	Investment Style History
U.S. Gov't	56.50	2002
AAA	0.60	2001
AA	0.30	2000
A	7.10	1999
BBB	28.30	1998
BB	4.20	
B	3.00	
Below B	0.00	
Not Rated	0.00	

Asset Allocation

06-30-2003



	Net Assets %
• Cash	10.12
• Stocks	65.72
• Bonds	23.52
• Other	0.61
Foreign	13
(as a % of stocks)	

Sector Weightings

06-30-2003

	% of Stocks	Rel to S&P 500
Information Economy	16.91	0.74
Software	0.94	0.16
Hardware	6.30	0.63
Media	5.99	1.79
Telecommunications	3.68	0.98
Service Economy	45.92	1.00
Healthcare Services	9.75	0.78
Consumer Services	8.87	1.06
Business Services	7.68	1.86
Financial Services	19.62	0.94
Manufacturing Economy	37.11	1.19
Consumer Goods	6.92	0.64
Industrial Materials	18.76	1.65
Energy	9.48	1.58
Utilities	1.95	0.65

Top 25 Holdings

06-30-2003


Total Number of Stock Holdings	82	Turnover %	21.00
Total Number of Bond Holdings	151	Yield %	2.79
% Assets in Top 10 Holdings	16.22		

Fidelity Puritan FPURX

[Snapshot] Analyst Report [Quote] Total Returns [Ratings & Risk] Portfolio [Nuts & Bolts]

Equity Investment Style

07-31-2003

Ownership Zone 

Value Blend Growth



● Fund centroid represents weighted average of domestic stock holdings
 Zone represents 75% of fund's domestic stock holdings

Valuations

Stock Portfolio Rel to S&P 500

Price/Prospective Earnings	14.65	0.84
Price/Book*	1.85	0.71
Price/Sales*	0.89	0.65
Price/Cash Flow*	4.39	0.66
Dividend Yield %*	2.32	1.33
Growth Rates		
Long-Term Earnings Growth %	12.52	0.95
Historical Earnings Growth %	4.78	0.45
Book/Value Growth %	7.01	1.06
Sales Growth %	8.14	3.27
Cash-Flow Growth %	9.07	1.37

*Forward-looking based on historical data

Size

Geometric Average Cap \$Mil 35,155

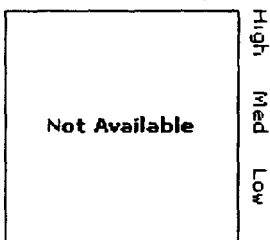
Market Cap	Portfolio %	Investment Style History
Giant	46.03	2002
Large	39.73	2001
Medium	12.95	2000
Small	1.25	1999
Micro	0.00	1998

Fixed-Income Investment Style

01-31-2003

Style Summary

Short Interm Long



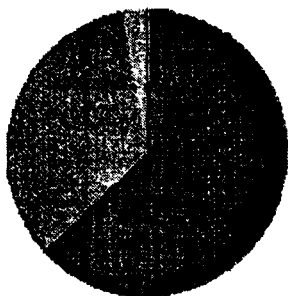
Bond Statistics

Average Effective Duration	---
Average Effective Maturity	---
Average Credit Quality	A
Average Weighted Coupon	4.57

Bond Quality	Bond %	Investment Style History
U.S. Gov't	0.00	
AAA	53.00	
AA	1.70	
A	11.00	
BBB	15.20	
BB	4.40	
B	8.80	
Below B	1.00	
Not Rated	4.90	

Asset Allocation

01-31-2003



	Net Assets %
• Cash	6.19
• Stocks	56.66
• Bonds	34.05
• Other	3.05
<hr/>	
Foreign	10
(as a % of stocks)	

Sector Weightings

01-31-2003

	% of Stocks	Rel to S&P 500
Information Economy	13.90	0.61
Software	0.84	0.15
Hardware	3.77	0.38
Media	4.32	1.29
Telecommunications	4.97	1.32
Service Economy	47.91	1.05
Healthcare Services	6.64	0.53
Consumer Services	5.49	0.66
Business Services	4.08	0.99
Financial Services	31.70	1.52
Manufacturing Economy	38.13	1.22
Consumer Goods	6.30	0.58
Industrial Materials	14.05	1.23
Energy	15.02	2.51
Utilities	2.76	0.92

Top 25 Holdings

01-31-2003


Total Number of Stock Holdings	208	Turnover %	79.00
Total Number of Bond Holdings	542	Yield %	2.77
% Assets in Top 10 Holdings	24.64		

Janus Aspen Balanced Instl JABLX

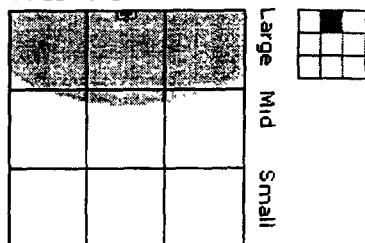
[Snapshot] Analyst Report [Quote] Total Returns [Ratings & Risk] Portfolio [Nuts & Bolts]

Equity Investment Style

06-30-2003

Ownership Zone 

Value Blend Growth



● Fund centroid represents weighted average of domestic stock holdings
 Zone represents 75% of fund's domestic stock holdings





Valuations

	Stock Portfolio	Rel to S&P 500
Price/Prospective Earnings	19.19	1.10
Price/Book*	2.46	0.95
Price/Sales*	1.68	1.24
Price/Cash Flow*	8.03	1.21
Dividend Yield %*	1.39	0.79
Growth Rates		
Long-Term Earnings Growth %	13.23	1.01
Historical Earnings Growth %	8.78	0.82
Book/Value Growth %	10.08	1.52
Sales Growth %	6.60	2.65
Cash-Flow Growth %	13.98	2.12

*Forward-looking based on historical data

Size

Geometric Average Cap \$Mil 45,774

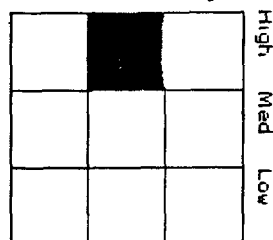
Market Cap	Portfolio %	Investment Style History
Giant	46.20	2002 
Large	48.94	2001 
Medium	4.85	2000 
Small	0.00	1999 
Micro	0.00	

Fixed-Income Investment Style

12-31-2002



Style Summary

Short Interm Long



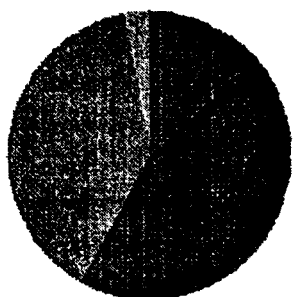
Bond Statistics

Average Effective Duration	4.00
Average Effective Maturity	5.90
Average Credit Quality	AA
Average Weighted Coupon	---

Bond Quality	Bond %	Investment Style History
U.S. Gov't	0.00	2002 
AAA	48.00	2001 
AA	10.00	
A	17.00	
BBB	22.00	
BB	3.00	
B	0.00	
Below B	0.00	
Not Rated	0.00	

Asset Allocation

12-31-2002



	Net Assets %
• Cash	13.11
• Stocks	44.57
• Bonds	39.43
• Other	2.85
Foreign (as a % of stocks)	8

Sector Weightings

12-31-2002

	% of Stocks	Rel to S&P 500
Information Economy	21.30	0.93
Software	5.15	0.90
Hardware	5.93	0.59
Media	8.89	2.66
Telecommunications	1.33	0.35
Service Economy	42.86	0.93
Healthcare Services	7.20	0.58
Consumer Services	5.65	0.68
Business Services	7.91	1.91
Financial Services	22.10	1.06
Manufacturing Economy	35.78	1.15
Consumer Goods	12.74	1.17
Industrial Materials	11.13	0.98
Energy	11.91	1.99
Utilities	0.00	0.00

Top 25 Holdings

12-31-2002

Total Number of Stock Holdings	69	Turnover %	94.00
Total Number of Bond Holdings	121	Yield %	2.56
% Assets in Top 10 Holdings	16.55		

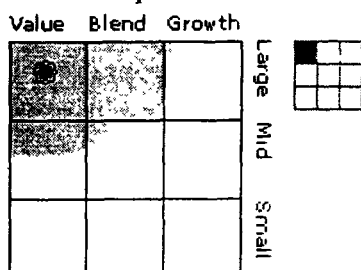
Vanguard Wellington VWELX

[Snapshot] Analyst Report [Quote] Total Returns [Ratings & Risk] Portfolio [Nuts & Bolts]

Equity Investment Style

05-31-2003

Ownership Zone



● Fund centroid represents weighted average of domestic stock holdings
 Zone represents 75% of fund's domestic stock holdings

Valuations

	Stock Portfolio	Rel to S&P 500
Price/Prospective Earnings	14.16	0.81
Price/Book*	1.75	0.67
Price/Sales*	0.90	0.66
Price/Cash Flow*	5.31	0.80
Dividend Yield %*	2.65	1.51
Growth Rates		
Long-Term Earnings Growth %	14.10	1.07
Historical Earnings Growth %	4.19	0.39
Book/Value Growth %	5.18	0.78
Sales Growth %	6.68	2.68
Cash-Flow Growth %	4.60	0.70

*Forward-looking based on historical data

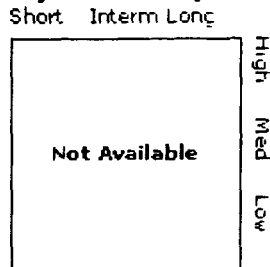
Size

Geometric Average Cap \$Mil 19,925

Market Cap	Portfolio %	Investment Style History
Giant	30.35	2002
Large	56.18	2001
Medium	13.45	2000
Small	0.00	1999
Micro	0.00	1998

Fixed-Income Investment Style

Style Summary



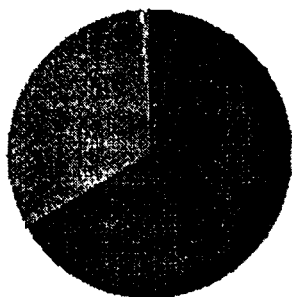
Bond Statistics

Average Effective Duration	---
Average Effective Maturity	---
Average Credit Quality	---
Average Weighted Coupon	---

Bond Quality	Bond %	Investment Style History
U.S. Gov't		2000
AAA		1998
AA		
A		
BBB		
BB		
B		
Below B		
Not Rated		

Asset Allocation

03-31-2003



	Net Assets %
• Cash	3.94
• Stocks	62.61
• Bonds	32.42
* Other	1.00
Foreign	17
(as a % of stocks)	

Sector Weightings

03-31-2003

	% of Stocks	Rel to S&P 500
Information Economy	13.78	0.60
Software	0.48	0.08
Hardware	6.91	0.69
Media	2.03	0.61
Telecommunications	4.36	1.16
Service Economy	40.45	0.88
Healthcare Services	9.19	0.74
Consumer Services	3.57	0.43
Business Services	10.20	2.46
Financial Services	17.49	0.84
Manufacturing Economy	45.72	1.46
Consumer Goods	7.58	0.70
Industrial Materials	18.15	1.59
Energy	12.83	2.14
Utilities	7.16	2.39

Top 25 Holdings

03-31-2003

Total Number of Stock Holdings	109	Turnover %	25.00
Total Number of Bond Holdings	852	Yield %	3.02
% Assets in Top 10 Holdings	12.84		

LARGE CAP EQUITY FUND OPTION

- **American Century Growth Institutional**
- **Fidelity Growth and Income**
- **GE US Equity Y**
- **Legg Mason Value Institutional**
- **Smith Barney Appreciation Y**

LARGE CAP EQUITY FUND DATA

Fund	Net Assets (MM)	Expense Ratio	Location	Manager Name	Manager Tenure	Fund Inception	Ticker
American Century Growth Ins	\$1047*	0.49	Kansas City, MO	Martin/Tyler/ Viaiana	6 years	1998	AMEIX
Fidelity Growth & Income	28,009	0.68	Boston, MA	Kaye, Steven	11 years	1985	FGRIX
GE US Equity Y	294**	0.62	Stamford, CT	Eugene Bolton**	10 years	1993	GEEDX
Legg Mason Value Inst	1,883	0.72	Baltimore, MD	William Miller	9 years	1994	LMNVX
Smith Barney Appreciation Y	2,741***	0.59	Stamford, CT	Cohen/Glasser	8 years	1996	SAPYX

* Total for all share classes. The Am Cent Growth Institutional share class has \$118M under management.

** Gene Bolton is retiring in 2004. Dave Carlson will assume portfolio responsibilities and is transitioning with Gene now.

*** Total for all share classes. The Smith Barney Appreciation Y share class has \$420M under management.

LARGE CAP EQUITY PERFORMANCE

Fund	Through 6/30/03					Calendar				
	YTD	1 Yr	3 Yr	5 Yr		1998	1999	2000	2001	2002
American Century Growth Ins	12.96	1.67	-10.42	-2.13		25.59	17.87	-10.77	-10.83	-20.14
Fidelity Growth & Income	7.93	-2.04	-7.95	-0.83		28.31	10.41	-1.98	-9.35	-18.08
GE US Equity Y	10.05	-0.57	-6.91	0.87		23.67	19.62	-0.19	-8.60	-19.39
Legg Mason Value Inst	22.43	20.08	-3.92	5.86		49.40	27.99	-6.24	-8.39	-18.06
Smith Barney Apprec Y	10.13	1.39	-3.69	2.10		20.93	15.40	1.07	-3.06	-16.69
Benchmark: S & P 500	11.76	0.25	-11.20	-1.61		28.57	21.04	-9.10	-11.88	-22.10

American Century Equity Growth Instl AMEIX

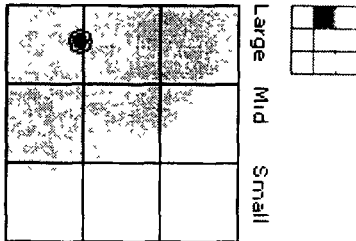
[Snapshot] Analyst Report [Quote] Total Returns [Ratings & Risk] [Portfolio] Nuts & Bolts

Equity Investment Style

07-31-2003

Ownership Zone

Value Blend Growth



● Fund centroid represents weighted average of domestic stock holdings
 Zone represents 75% of fund's domestic stock holdings

Valuations

	Stock Portfolio	Rel to S&P 500
Price/Prospective Earnings	13.97	0.80
Price/Book*	2.04	0.78
Price/Sales*	0.71	0.52
Price/Cash Flow*	3.04	0.46
Dividend Yield %*	1.60	0.91
Growth Rates		
Long-Term Earnings Growth %	16.00	1.22
Historical Earnings Growth %	10.93	1.02
Book/Value Growth %	4.66	0.70
Sales Growth %	2.02	0.81
Cash-Flow Growth %	19.32	2.93

*Forward-looking based on historical data

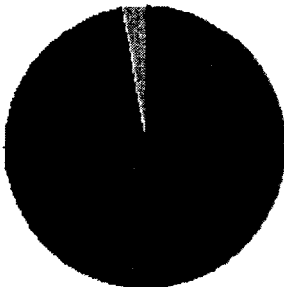
Size

Geometric Average Cap \$Mil 21.576

Market Cap	Portfolio %	Investment Style History
Giant	43.58	2002
Large	18.85	2001
Medium	35.72	2000
Small	1.81	1999
Micro	0.01	1998

Asset Allocation

03-31-2003













	Net Assets %
• Cash	0.25
• Stocks	96.79
• Bonds	0.00
• Other	2.94
Foreign (as a % of stocks)	2

Sector Weightings

03-31-2003

	% of Stocks	Rel to S&P 500
Information Economy	23.45	1.03
Software	4.90	0.85
Hardware	10.13	1.01
Media	3.38	1.01

	Telecommunications	5.04	1.34
	Service Economy	53.50	1.17
	Healthcare Services	13.41	1.08
	Consumer Services	12.22	1.46
	Business Services	4.72	1.14
	Financial Services	23.15	1.11
	Manufacturing Economy	22.99	0.74
	Consumer Goods	9.13	0.84
	Industrial Materials	7.29	0.64
	Energy	4.91	0.82
	Utilities	1.66	0.55

Top 25 Holdings

03-31-2003

Total Number of Stock Holdings	175	Turnover %	100.00
Total Number of Bond Holdings	0	Yield %	1.00
% Assets in Top 10 Holdings	24.49		

Fidelity Growth & Income FGRIX

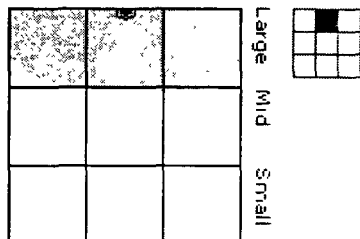
[Snapshot] Analyst Report [Quote] Total Returns [Ratings & Risk] [Portfolio] Nuts & Bolts

Equity Investment Style

07-31-2003

Ownership Zone

Value Blend Growth



● Fund centroid represents weighted average of domestic stock holdings
 Zone represents 75% of fund's domestic stock holdings

Valuations

	Stock Portfolio	Rel to S&P 500
Price/Prospective Earnings	16.95	0.97
Price/Book*	3.11	1.20
Price/Sales*	1.65	1.21
Price/Cash Flow*	6.78	1.02
Dividend Yield %*	1.81	1.03
Growth Rates		
Long-Term Earnings Growth %	14.43	1.10
Historical Earnings Growth %	13.06	1.22
Book/Value Growth %	9.76	1.47
Sales Growth %	7.53	3.02
Cash-Flow Growth %	13.96	2.12

*Forward-looking based on historical data

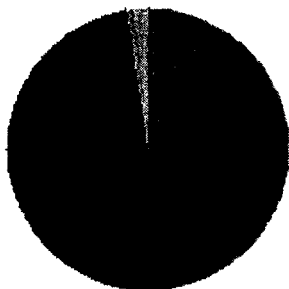
Size

Geometric Average Cap \$Mil 54,089

Market Cap	Portfolio %	Investment Style History
Giant	57.19	2002
Large	37.43	2001
Medium	5.03	2000
Small	0.32	1999
Micro	0.00	1998

Asset Allocation

01-31-2003













	Net Assets %
• Cash	8.96
• Stocks	88.52
• Bonds	0.44
• Other	2.05
Foreign	2
(as a % of stocks)	

Sector Weightings

01-31-2003

	% of Stocks	Rel to S&P 500
Information Economy	16.86	0.74
Software	4.05	0.70
Hardware	1.96	0.20
Media	4.82	1.44

	Telecommunications	6.03	1.60
	Service Economy	58.48	1.28
	Healthcare Services	22.02	1.77
	Consumer Services	7.30	0.87
	Business Services	3.52	0.85
	Financial Services	25.64	1.23
	Manufacturing Economy	24.60	0.79
	Consumer Goods	9.64	0.89
	Industrial Materials	9.34	0.82
	Energy	4.98	0.83
	Utilities	0.64	0.21

Top 25 Holdings

01-31-2003

Total Number of Stock Holdings	152	Turnover %	36.00
Total Number of Bond Holdings	3	Yield %	1.12
% Assets in Top 10 Holdings	30.84		

GE U.S. Equity Y GEEDX

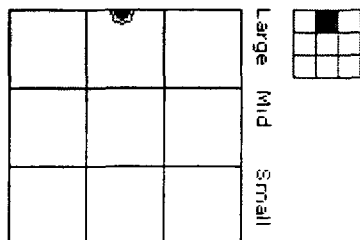
[Snapshot] Analyst Report Quote Total Returns Ratings & Risk Portfolio Nuts & Bolts

Equity Investment Style

07-31-2003

Ownership Zone

Value Blend Growth



Fund centroid represents weighted average of domestic stock holdings
 Zone represents 75% of fund's domestic stock holdings

Valuations

	Stock Portfolio	Rel to S&P 500
Price/Prospective Earnings	17.70	1.01
Price/Book*	2.42	0.93
Price/Sales*	1.44	1.06
Price/Cash Flow*	6.42	0.96
Dividend Yield %*	1.55	0.89

Growth Rates

Long-Term Earnings Growth %	15.36	1.17
Historical Earnings Growth %	6.95	0.65
Book/Value Growth %	9.92	1.50
Sales Growth %	7.73	3.10
Cash-Flow Growth %	14.49	2.20

*Forward-looking based on historical data

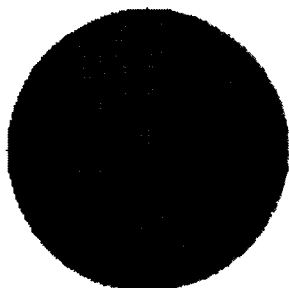
Size

Geometric Average Cap \$Mil 45,715

Market Cap	Portfolio %	Investment Style History
Giant	51.15	2002
Large	41.45	2001
Medium	6.83	2000
Small	0.55	1999
Micro	0.00	1998

Asset Allocation

01-31-2003



Net Assets %












• Cash	2.14
• Stocks	97.84
• Bonds	0.00
* Other	0.00

Foreign 3
 (as a % of stocks)

Sector Weightings

01-31-2003

	% of Stocks	Rel to S&P 500
Information Economy	20.72	0.91
Software	4.94	0.86
Hardware	6.75	0.67
Media	5.34	1.60

	Telecommunications	3.69	0.98
	Service Economy	52.20	1.14
	Healthcare Services	17.63	1.41
	Consumer Services	4.61	0.55
	Business Services	7.43	1.79
	Financial Services	22.53	1.08
	Manufacturing Economy	27.00	0.86
	Consumer Goods	6.88	0.63
	Industrial Materials	9.53	0.84
	Energy	8.52	1.42
	Utilities	2.07	0.69

Top 25 Holdings

01-31-2003

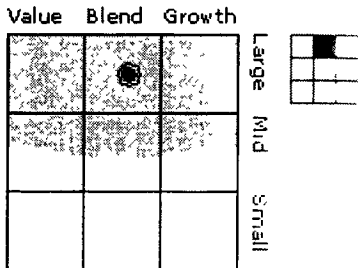
Total Number of Stock Holdings	133	Turnover %	41.00
Total Number of Bond Holdings	0	Yield %	1.03
% Assets in Top 10 Holdings	28.56		

Legg Mason Value Instl LMNVX

[Snapshot] Analyst Report [Quote] Total Returns [Ratings & Risk] [Portfolio] Nuts & Bolts

Equity Investment Style 07-31-2003

Ownership Zone



● Fund centroid represents weighted average of domestic stock holdings
 Zone represents 75% of fund's domestic stock holdings

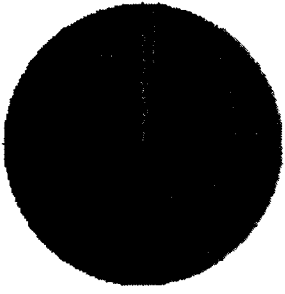
Valuations	Stock Portfolio	Rel to S&P 500
Price/Prospective Earnings	15.28	0.87
Price/Book*	1.08	0.42
Price/Sales*	0.78	0.57
Price/Cash Flow*	5.31	0.80
Dividend Yield %*	1.01	0.58
Growth Rates		
Long-Term Earnings Growth %	13.51	1.03
Historical Earnings Growth %	6.84	0.64
Book/Value Growth %	11.74	1.77
Sales Growth %	6.24	2.51
Cash-Flow Growth %	4.59	0.70

*Forward-looking based on historical data

Size
 Geometric Average Cap \$Mil 20,293

Market Cap	Portfolio %	Investment Style History
Giant	18.04	2002
Large	61.28	2001
Medium	20.66	2000
Small	0.00	1999
Micro	0.00	1998

Asset Allocation













06-30-2003

	Net Assets %
• Cash	1.39
• Stocks	98.60
• Bonds	0.00
• Other	0.00
Foreign	10
(as a % of stocks)	

Sector Weightings

06-30-2003

	% of Stocks	Rel to S&P 500
Information Economy	21.01	0.92
Software	1.85	0.32
Hardware	2.31	0.23
Media	5.59	1.67

	Telecommunications	11.26	2.99
	Service Economy	65.62	1.43
	Healthcare Services	15.13	1.21
	Consumer Services	17.50	2.10
	Business Services	7.87	1.90
	Financial Services	25.12	1.20
	Manufacturing Economy	13.31	0.43
	Consumer Goods	3.44	0.32
	Industrial Materials	6.73	0.59
	Energy	0.00	0.00
	Utilities	3.14	1.05

Top 25 Holdings		06-30-2003
Total Number of Stock Holdings	32	Turnover % 25.00
Total Number of Bond Holdings	0	Yield % 0.00
% Assets in Top 10 Holdings	49.44	

Smith Barney Appreciation Y SAPYX

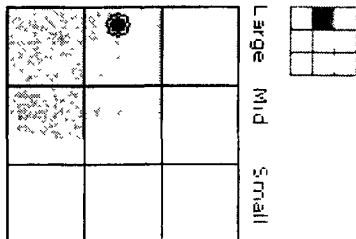
[Snapshot] Analyst Report [Quote] Total Returns [Ratings & Risk] Portfolio [Nuts & Bolts]

Equity Investment Style

07-31-2003

Ownership Zone

Value Blend Growth



● Fund centroid represents weighted average of domestic stock holdings
 Zone represents 75% of fund's domestic stock holdings

Valuations

	Stock Portfolio	Rel to S&P 500
Price/Prospective Earnings	19.08	1.09
Price/Book*	2.78	1.07
Price/Sales*	1.60	1.18
Price/Cash Flow*	9.82	1.47
Dividend Yield %*	1.60	0.91
Growth Rates		
Long-Term Earnings Growth %	14.85	1.13
Historical Earnings Growth %	3.86	0.36
Book/Value Growth %	4.59	0.69
Sales Growth %	1.73	0.69
Cash-Flow Growth %	6.54	0.99

*Forward-looking based on historical data

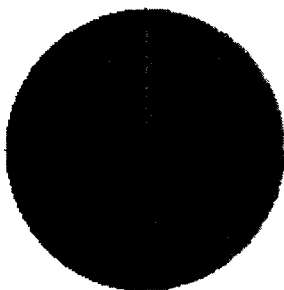
Size

Geometric Average Cap \$Mil 30,215

Market Cap	Portfolio %	Investment Style History
Giant	39.89	2002
Large	43.62	2001
Medium	13.82	2000
Small	1.75	1999
Micro	0.89	1998

Asset Allocation

06-30-2003













	Net Assets %
• Cash	12.70
• Stocks	87.29
• Bonds	0.00
• Other	0.00
Foreign (as a % of stocks)	8

Sector Weightings

06-30-2003

	% of Stocks	Rel to S&P 500
Information Economy	23.15	1.01
Software	4.42	0.77
Hardware	7.90	0.79
Media	9.05	2.71

	Telecommunications	1.78	0.47
	Service Economy	40.18	0.88
	Healthcare Services	10.43	0.84
	Consumer Services	5.61	0.67
	Business Services	4.61	1.11
	Financial Services	19.53	0.93
	Manufacturing Economy	36.61	1.17
	Consumer Goods	12.56	1.16
	Industrial Materials	14.21	1.25
	Energy	8.37	1.40
	Utilities	1.47	0.49

Top 25 Holdings

06-30-2003

Total Number of Stock Holdings	107	Turnover %	74.00
Total Number of Bond Holdings	0	Yield %	0.70
% Assets in Top 10 Holdings	28.17		

LOW COST BALANCED FUND OPTION

- **Dodge & Cox Balanced**
- **Vanguard Balanced Index**
- **Vanguard Wellington**

BALANCED FUND DATA

Fund	Net Assets (MM)	Expense Ratio	Allocation Stock/Bond	Location	Manager Name	Fund Inception	Ticker
Dodge & Cox Balanced	\$7,885	0.53	66%/34%	San Francisco	Team	1931	DODBX
Vanguard Balanced Index Fund	972	0.10	57%/43%	Valley Forge, PA	Mackinnon/ Sauter/ Alwine	1992	VBAIX
Vanguard Wellington	21,083	0.36	63%/37%	Valley Forge, PA	Paul D. Kaplan Edward P. Bousa	1929	VWELX

BALANCED FUND PERFORMANCE

Fund	Through 6/30/03					Calendar				
	YTD	1 Yr	3 Yr	5 Yr		1998	1999	2000	2001	2002
Dodge & Cox Balanced	9.12	5.64	10.25	8.48		6.69	12.06	15.14	10.05	-2.94
Vanguard Balanced Index Instl*	9.39	5.27	-2.43	2.58		17.85	13.61	-2.04	-2.90	-9.41
Vanguard Wellington	8.79	2.75	5.65	4.59		12.06	4.41	10.40	4.19	-6.90
Benchmark: S&P 500 60%/Lehman Agg 40%	8.66	4.85	-3.52	1.94		21.54	11.43	-3.34	-3.70	-9.82

* Return history includes the Vanguard Balanced Investor class prior to 2001. The Institutional share class was established in December 2000.

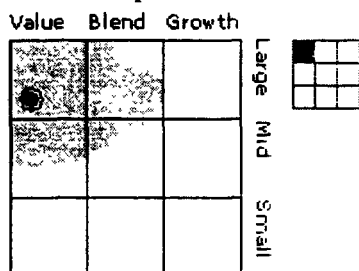
Dodge & Cox Balanced DDBX

[Snapshot] Analyst Report [Quote] Total Returns [Ratings & Risk] Portfolio [Nuts & Bolts]

Equity Investment Style

07-31-2003

Ownership Zone



● Fund centroid represents weighted average of domestic stock holdings
 Zone represents 75% of fund's domestic stock holdings

Valuations

	Stock Portfolio	Rel to S&P 500
Price/Prospective Earnings	14.25	0.82
Price/Book*	1.78	0.68
Price/Sales*	0.80	0.59
Price/Cash Flow*	5.20	0.78
Dividend Yield %*	2.20	1.26

Growth Rates

Long-Term Earnings Growth %	14.16	1.08
Historical Earnings Growth %	2.74	0.26
Book/Value Growth %	1.11	0.17
Sales Growth %	-3.02	-1.21
Cash-Flow Growth %	-1.18	-0.18

*Forward-looking based on historical data

Size

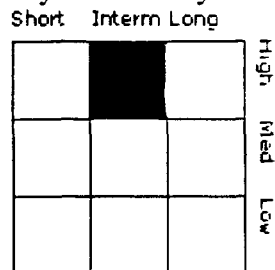
Geometric Average Cap \$Mil 13,509

Market Cap	Portfolio %	Investment Style History
Giant	10.84	2002
Large	57.37	2001
Medium	30.97	2000
Small	0.81	1999
Micro	0.00	1998

Fixed-Income Investment Style

06-30-2003

Style Summary



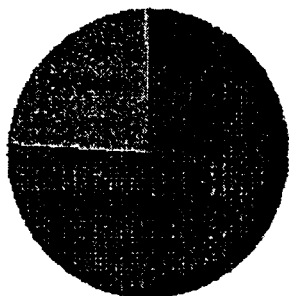
Bond Statistics

Average Effective Duration	3.70
Average Effective Maturity	7.00
Average Credit Quality	AA
Average Weighted Coupon	6.72

Bond Quality	Bond %	Investment Style History
U.S. Gov't	56.50	2002
AAA	0.60	2001
AA	0.30	2000
A	7.10	1999
BBB	28.30	1998
BB	4.20	
B	3.00	
Below B	0.00	
Not Rated	0.00	

Asset Allocation

06-30-2003



	Net Assets %
• Cash	10.12
• Stocks	65.72
• Bonds	23.52
• Other	0.61
Foreign	13
(as a % of stocks)	

Sector Weightings

06-30-2003

	% of Stocks	Rel to S&P 500
Information Economy	16.91	0.74
Software	0.94	0.16
Hardware	6.30	0.63
Media	5.99	1.79
Telecommunications	3.68	0.98
Service Economy	45.92	1.00
Healthcare Services	9.75	0.78
Consumer Services	8.87	1.06
Business Services	7.68	1.86
Financial Services	19.62	0.94
Manufacturing Economy	37.11	1.19
Consumer Goods	6.92	0.64
Industrial Materials	18.76	1.65
Energy	9.48	1.58
Utilities	1.95	0.65

Top 25 Holdings

06-30-2003

Total Number of Stock Holdings	82	Turnover %	21.00
Total Number of Bond Holdings	151	Yield %	2.79
% Assets in Top 10 Holdings	16.22		

Vanguard Balanced Index Instl VBAIX

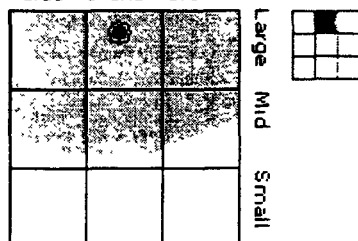
[Snapshot] Analyst Report [Quote] Total Returns [Ratings & Risk] Portfolio [Nuts & Bolts]

Equity Investment Style

05-31-2003

Ownership Zone

Value Blend Growth



● Fund centroid represents weighted average of domestic stock holdings
 Zone represents 75% of fund's domestic stock holdings

Valuations

	Stock Portfolio	Rel to S&P 500
Price/Prospective Earnings	16.26	0.93
Price/Book*	1.99	0.77
Price/Sales*	0.93	0.68
Price/Cash Flow*	5.24	0.79
Dividend Yield %*	1.85	1.06

Growth Rates

Long-Term Earnings Growth %	16.51	1.26
Historical Earnings Growth %	6.72	0.63
Book/Value Growth %	7.48	1.13
Sales Growth %	6.09	2.45
Cash-Flow Growth %	10.35	1.57

*Forward-looking based on historical data

Size

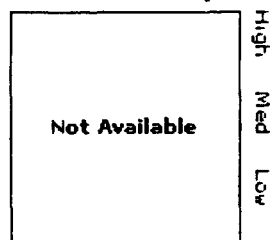
Geometric Average Cap \$Mil 29,514

Market Cap	Portfolio %	Investment Style History
Giant	43.01	2002
Large	28.82	2001
Medium	19.19	2000
Small	6.56	1999
Micro	2.40	1998

Fixed-Income Investment Style

Style Summary

Short Interm Long



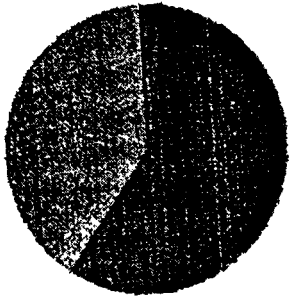
Bond Statistics

Average Effective Duration	---
Average Effective Maturity	---
Average Credit Quality	---
Average Weighted Coupon	---

Bond Quality	Bond %	Investment Style History
U.S. Gov't		2002
AAA		2001
AA		2000
A		1999
BBB		1998
BB		
B		
Below B		
Not Rated		

03-31-2003

Asset Allocation



	Net Assets %
• Cash	2.42
• Stocks	57.42
• Bonds	39.74
• Other	0.39
Foreign (as a % of stocks)	1

03-31-2003

Sector Weightings

- Information Economy**
- Software
- Hardware
- Media
- Telecommunications
- Service Economy**
- Healthcare Services
- Consumer Services
- Business Services
- Financial Services
- Manufacturing Economy**
- Consumer Goods
- Industrial Materials
- Energy
- Utilities

	% of Stocks	Rel to S&P 500
	21.37	0.93
	4.63	0.81
	8.75	0.87
	4.79	1.43
	3.20	0.85
	50.14	1.09
	14.31	1.15
	9.34	1.12
	4.84	1.17
	21.65	1.04
	28.43	0.91
	9.24	0.85
	10.15	0.89
	6.22	1.04
	2.82	0.94

03-31-2003

Top 25 Holdings

Total Number of Stock Holdings	3560	Turnover %	33.00
Total Number of Bond Holdings	1913	Yield %	3.01
% Assets in Top 10 Holdings	11.25		

Vanguard Wellington VWELX

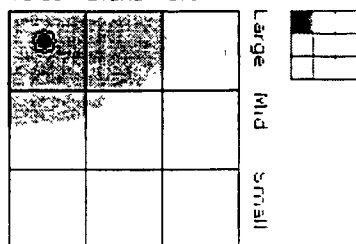
[Snapshot] Analyst Report [Quote] Total Returns [Ratings & Risk] Portfolio [Nuts & Bolts]

Equity Investment Style

05-31-2003

Ownership Zone

Value Blend Growth



● Fund centroid represents weighted average of domestic stock holdings
 Zone represents 75% of fund's domestic stock holdings

Valuations

	Stock Portfolio	Rel to S&P 500
Price/Prospective Earnings	14.16	0.81
Price/Book*	1.75	0.67
Price/Sales*	0.90	0.66
Price/Cash Flow*	5.31	0.80
Dividend Yield %*	2.65	1.51
Growth Rates		
Long-Term Earnings Growth %	14.10	1.07
Historical Earnings Growth %	4.19	0.39
Book/Value Growth %	5.18	0.78
Sales Growth %	6.68	2.68
Cash-Flow Growth %	4.60	0.70

*Forward-looking based on historical data

Size

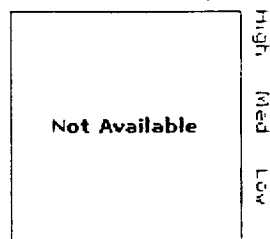
Geometric Average Cap \$Ml 19.925

Market Cap	Portfolio %	Investment Style History
Grant	30.35	2002
Large	56.18	2001
Medium	13.45	2000
Small	0.00	1999
Micro	0.00	1998

Fixed-Income Investment Style

Style Summary

Short Intern Long



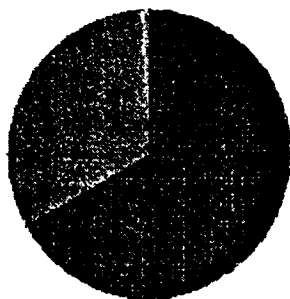
Bond Statistics

Average Effective Duration	---
Average Effective Maturity	---
Average Credit Quality	---
Average Weighted Coupon	---

Bond Quality	Bond %	Investment Style History
U.S. Gov't		2000
AAA		1998
AA		
A		
BBB		
BB		
B		
Below B		
Not Rated		

Asset Allocation

03-31-2003



	Net Assets %
• Cash	3.94
• Stocks	62.61
• Bonds	32.42
Other	1.00
Foreign	17
(as a % of stocks)	

Sector Weightings

03-31-2003

	% of Stocks	Rel to S&P 500
Information Economy	13.78	0.60
Software	0.48	0.08
Hardware	6.91	0.69
Media	2.03	0.61
Telecommunications	4.36	1.16
Service Economy	40.45	0.88
Healthcare Services	9.19	0.74
Consumer Services	3.57	0.43
Business Services	10.20	2.46
Financial Services	17.49	0.84
Manufacturing Economy	45.72	1.46
Consumer Goods	7.58	0.70
Industrial Materials	18.15	1.59
Energy	12.83	2.14
Utilities	7.16	2.39

Top 25 Holdings

03-31-2003

Total Number of Stock Holdings	109	Turnover %	25.00
Total Number of Bond Holdings	852	Yield %	3.02
% Assets in Top 10 Holdings	12.84		

LOW COST BOND FUND OPTION

- **Barclays Global Investors Bond Index**
- **GE Institutional Income Investor**
- **Vanguard Total Bond Market Index**

BOND FUND DATA

Fund	Net Assets (MM)	Expense Ratio	Location	Manager Name	Fund Inception	Ticker
Barclays Global Investors Bond Index	\$76	0.23	San Francisco, CA	Team	1993	WFBIX
GE Institutional Income	218	0.24	Stamford, CT	Robert A. MacDougall	1997	GFIIX
Vanguard Total Bond Market Index	17,874	0.22	Valley Forge, PA	Ian A. MacKinnon	1986	VBMFX

BOND FUND PERFORMANCE

Fund	Through 6/30/03					Calendar				
	YTD	1 Yr	3 Yr	5 Yr	1998	1999	2000	2001	2002	
Bartlays Global Investors Bond Index	3.92	10.41	10.17	7.27	9.34	-2.70	11.76	8.80	9.91	
GE Institutional Income	4.14	10.18	9.88	7.15	8.46	-1.30	11.29	7.76	10.17	
Vanguard Total Bond Market	3.90	9.35	9.34	7.09	8.58	-0.76	11.39	8.43	8.26	
Benchmark Lehman Aggregate	3.03	10.40	10.08	7.55	8.60	-0.82	11.63	8.44	10.25	

Barclays Global Investors Bond Index WFBIX

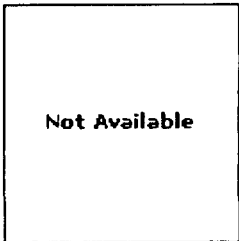
[Snapshot] Analyst Report [Quote] Total Returns [Ratings & Risk] Portfolio [Nuts & Bolts]

Fixed-Income Investment Style

06-30-2003

Style Summary

Short Interm Long



High
Med
Low

Bond Statistics

Average Effective Duration	---
Average Effective Maturity	---
Average Credit Quality	---
Average Weighted Coupon	6.06

Bond Quality

Bond %

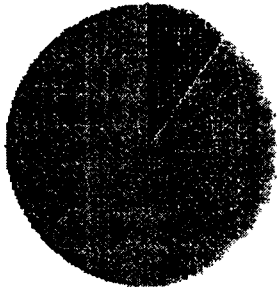
- U.S. Gov't
- AAA
- AA
- A
- BBB
- BB
- B
- Below B
- Not Rated

Investment Style History

2000	
1998	

Asset Allocation

06-30-2003



Net Assets %

- Cash 9.45
- Stocks 0.00
- Bonds 90.54
- Other 0.00
- Foreign 0.00
(as a % of stocks)

GE Instl Income Inv GFIIX

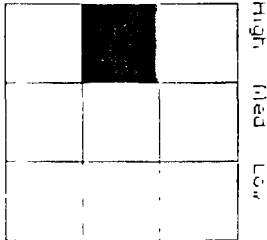
[Snapshot | Analyst Report | Quote | Total Returns | Ratings & Risk | Portfolio | Nuts & Bolts]

Fixed-Income Investment Style

06-30-2003

Style Summary

Short Interm Long



Bond Statistics

Average Effective Duration	4.30
Average Effective Maturity	6.99
Average Credit Quality	AA
Average Weighted Coupon	5.38

Bond Quality

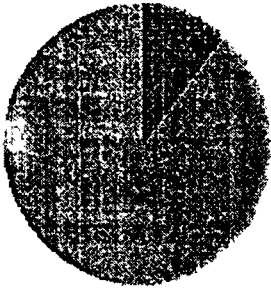
Bond Quality	Bond %
U.S Gov't	17.54
AAA	58.61
AA	5.59
A	9.43
BBB	8.68
BB	0.12
B	0.00
Below B	0.00
Not Rated	0.00

Investment Style History

2000	
1999	
1998	

Asset Allocation

06-30-2003



Net Assets %

- Cash 10.17
- Stocks 0.00
- Bonds 89.82
- Other 0.00
- Foreign 0.00

(as a % of stocks)

Top 25 Holdings

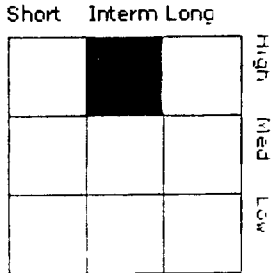
Vanguard Total Bond Market Index VBMFX

[Snapshot] Analyst Report [Quote] Total Returns [Ratings & Risk] Portfolio [Nuts & Bolts]

Fixed-Income Investment Style

03-31-2003

Style Summary



Bond Statistics

Average Effective Duration	3.79
Average Effective Maturity	---
Average Credit Quality	AA
Average Weighted Coupon	6.10

Bond Quality

U.S Gov't	62.00
AAA	7.90
AA	6.00
A	12.60
BBB	11.50
BB	0.00
B	0.00
Below B	0.00
Not Rated	0.00

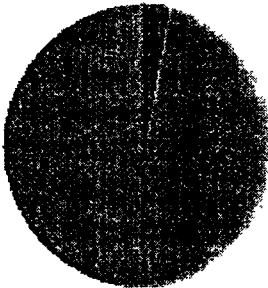
Bond %

Investment Style History

2002	
2001	
2000	
1999	
1998	

Asset Allocation

03-31-2003



Net Assets %

• Cash	2.84
• Stocks	0.00
• Bonds	97.02
• Other	0.12
Foreign	0.00
(as a % of stocks)	

Top 25 Holdings

03-31-

LOW COST INTERNATIONAL EQUITY FUND OPTION

- **Fidelity Spartan International Index**
- **Vanguard Developed Markets Index**
- **Vanguard Total International Stock Index**

INTERNATIONAL FUND DATA

Fund	Net Assets (MM)	Expense Ratio	Index	Location	Manager Name	Fund Inception	Ticker
Fidelity Spartan International Index	\$303	0.35	MSCI EAFE	Boston, MA	Team	1997	FSIIX
Vanguard Developed Markets Index	483	0.20	MSCI EAFE	Valley Forge, PA	George U. Sauter	2000	VDMIX
Vanguard Total International Stock Index	3611	0.33	MSCIEAFE + Emerging Markets	Valley Forge, PA	George U. Sauter	1996	VGTSX

INTERNATIONAL FUND PERFORMANCE

	Through 6/30/03					Calendar				
	YTD	1 Yr	3 Yr	5 Yr		1998	1999	2000	2001	2002
Fidelity Spartan International Index	9.99	-6.56	-13.60	-3.77		21.16	29.06	-14.90	-21.85	-15.99
Vanguard Developed Markets Index	9.58	-6.41	-13.72	--		--	--	--	-22.05	-15.70
Vanguard Total International Stock Index	10.10	-5.48	-13.04	-3.36		15.60	29.92	-15.61	-20.15	-15.08
Benchmark E/AFP	9.47	-6.46	-13.47	-3.98		20.09	26.72	-14.17	-21.59	-15.64

Fidelity Spartan International Index FSIIIX

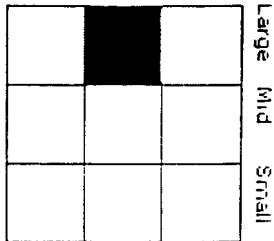
[Snapshot] Analyst Report [Quote] Total Returns [Ratings & Risk] Portfolio [Nuts & Bolts]

Equity Investment Style

07-31-2003

Style Summary

Value Blend Growth



Trailing Valuations

Stock Rel to Portfolio MSCI EAFE NDTR_D

Price Earnings	21.38	1.04
Price/Book	2.84	1.05
Price/Cash Flow	10.75	1.09

Size

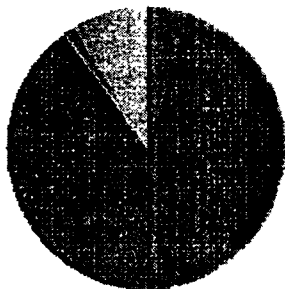
Geometric Average Cap \$Mil 19.788

Market Cap Portfolio Investment Style History

Market Cap	Portfolio %	Year	History
Giant	31.71	2002	█
Large	40.41	2001	█
Medium	24.91	2000	█
Small	2.86	1999	█
Micro	0.09	1998	█

Asset Allocation

02-28-2003



	Net Assets %
• Cash	4.61
• Stocks	85.05
• Bonds	1.24
• Other	9.07
Foreign	100
(as a % of stocks)	

International Exposure

Regional Exposure	% of Assets	Country Exposure	% of Assets
North America	0.05	United Kingdom	25.71
Central & Latin America-Emrg	0.14	Japan	22.45
United Kingdom	25.71	France	9.02
West Europe-ex UK	43.95	Switzerland	8.25
Emerging Europe	0.00	Germany	5.77
Africa	0.00	Netherlands	5.57
Japan	22.45	Australia	5.01
Australasia	5.21	Italy	4.06
Asia-4 Tigers-Emrg	2.45	Spain	3.65
Asia-ex 4 Tigers-Emrg	0.00	Sweden	2.09

Vanguard Developed Markets Index VDMIX

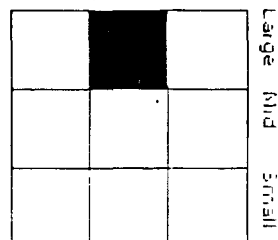
[Snapshot] Analyst Report [Quote] Total Returns [Ratings & Risk] Portfolio [Nuts & Bolts]

Equity Investment Style

05-31-2003

Style Summary

Value Blend Growth



Trailing Valuations

Stock Rel to
Portfolio MSCI
EAFE
NDTR_D

Price Earnings	19.21	0.93
Price/Book	2.62	0.97
Price/Cash Flow	10.64	1.08

Size

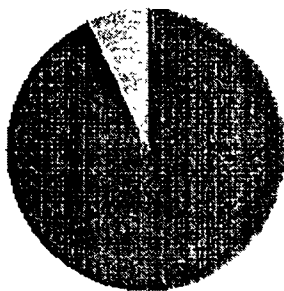
Geometric Average Cap \$Mil 18.261

Market Cap Portfolio Investment Style History

	%	2002	
Grant	25.70	2001	
Large	41.95	2000	
Medium	27.36		
Small	4.03		
Micro	0.93		

Asset Allocation

03-31-2003



Net Assets %

- Cash 0.43
- Stocks 92.42
- Bonds 0.03
- Other 7.08
- Foreign 100
(as a % of stocks)

International Exposure

Regional Exposure

North America	0.31
Central & Latin America-Emrg	0.89
United Kingdom	15.75
West Europe-ex UK	53.60
Emerging Europe	0.00
Africa	0.00
Japan	22.45
Australasia	4.52
Asia-4 Tigers-Emrg	2.44
Asia-ex 4 Tigers-Emrg	0.00

Country Exposure

Japan	22.45
United Kingdom	15.75
Sweden	13.56
Switzerland	8.73
France	6.80
Denmark	4.82
Germany	4.53
Netherlands	4.51
Australia	4.36
Norway	2.95

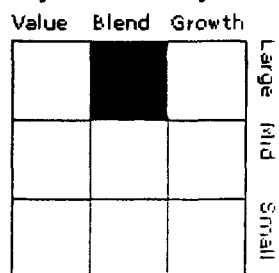
Vanguard Total Intl Stock Index VGTSX

[Snapshot] Analyst Report [Quote] Total Returns [Ratings & Risk] [Portfolio] Nuts & Bolts]

Equity Investment Style

05-31-2003

Style Summary



Trailing Valuations

Stock Portfolio	Rel to MSCI EAFE NDTR_D
Price Earnings	18.74 0.91
Price/Book	2.57 0.95
Price/Cash Flow	10.42 1.06

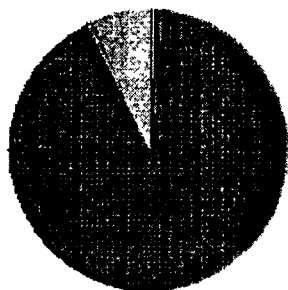
Size

Geometric Average Cap \$Mil 18.261

Market Cap	Portfolio %	Investment Style History
Giant	23.30	2002
Large	41.19	2001
Medium	29.07	2000
Small	5.23	1999
Micro	1.19	1998

Asset Allocation

03-31-2003



	Net Assets %
• Cash	1.22
• Stocks	91.29
• Bonds	0.26
• Other	7.19
Foreign (as a % of stocks)	100

International Exposure

Regional Exposure	% of Assets	Country Exposure	% of Assets
North America	0.38	Japan	20.35
Central & Latin America-Emrg	2.78	United Kingdom	14.94
United Kingdom	14.94	Sweden	12.30
West Europe-ex UK	48.60	Switzerland	7.91
Emerging Europe	0.36	France	6.16
Africa	0.97	Denmark	4.37
Japan	20.35	Germany	4.11
Australasia	4.10	Netherlands	4.09
Asia-4 Tigers-Emrg	6.11	Australia	3.96
Asia-ex 4 Tigers-Emrg	1.36	Norway	2.67

Tab E

COMMITTEE REPORT

DATE: August 26, 2003

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

FROM: **Asset Allocation Committee**

The Asset Allocation Committee met on June 24, 2003 to:

- review the status of and further consider the asset allocation policy recommendations presented to the of Board at the June 2003 SBI meeting;
- review the asset class targets and program structures of the investment programs for the Basic Retirement Funds and the Post Retirement Fund; and
- evaluate the appropriateness of the 8.5% actuarial rate of return.

Status of Asset Allocation Policy Recommendations

The Investment Advisory Council (IAC) requested that the Board take action on the following items at the June 2003 SBI meeting:

- new long-term asset allocation policy for the Basic and Post Retirement Funds;
- risk exposure and composition of the alternative investment portfolios for the Basic and Post Retirement Funds; and,
- changes for the reporting of returns and the long-term objectives for the Basic, Post and Combined Retirement Funds.

The Board approved the recommendations of the IAC as it pertained to the risk exposure and composition of the alternative investment portfolios for the Basic and Post Retirement Funds, and the changes for the reporting of returns and the long-term objectives for the Basic, Post and Combined Retirement Funds.

The Board tabled action regarding the new long-term asset allocation policy for the Basic and Post Retirement Funds until the September 2003 SBI meeting. The Board requested that the IAC reconsider its recommendation and report to the Board at the September 2003 meeting.

After discussing the rationale for its asset allocation policy decisions, the Committee reaffirmed its recommendations to increase the allocation targets for alternative investments from 15% to 20% in the Basic Retirement Funds and from 5% to 12% in the Post Retirement Fund.

In addition, the Committee recommended that the current allocation target for alternative investments in the Basic Retirement Funds stay at 15% until the proposed alternative investment allocation target of 12% is reached in the Post Retirement Fund. At that time, staff would notify the Board of the status of the respective alternative investment allocations before the proposed allocation target of 20% for the Basic Funds would be implemented.

RECOMMENDATION:

The Committee recommends that the SBI approve the following:

- **Increase the allocation for alternative investments in the Basic Retirement Funds from 15% to 20%. The increase in this allocation to alternative investments would be funded by a corresponding decrease in the allocation to fixed income, which would decline from 25% to 20%.**
- **Increase the allocation for alternative investments in the Post Retirement Fund from 5% to 12%. The increase in this allocation to the Post Fund's alternative investments would be funded by a corresponding decrease in the domestic equity target from 50% to 45% and a decrease in the fixed income target from 27% to 25%.**
- **The allocation to alternative investments not exceed the current target of 15% in the Basic Retirement Funds until the proposed target allocation of 12% for alternative investments in the Post Retirement Fund is reached. At that time, staff will notify the Board of the status of the respective alternative investment allocations before the allocation target for Basic Retirement Funds alternative investments would be raised from the current 15% level to the proposed 20% allocation.**

Further, the Committee recommends that the SBI adopt the position paper which begins on page 7 of this tab section as its policy statement regarding the asset allocation for the Basic and Post Retirement Funds.

Asset Class Target and Asset Class Structure

The Committee reviewed asset class targets and management structures of the investment programs for the Basic and Post Retirement Funds. The Retirement Funds participate in the same investment programs on a proportionate basis. The investment programs in which the funds are invested are Domestic Equity, International Equity, Fixed Income

and Alternative Investments. Each program has its own unique asset allocation target and structure. The review focused on the major components of the structure of each program, including the asset class targets, manager benchmarks, risk control, and the allocation of assets to active and passive management. A report which details the proposals begins on **page 27**.

Following are the recommendations included in the proposals:

Concerning asset class targets:

- The review recommends that the Lehman Aggregate index continue to be used as the asset class target for the Fixed Income Program.
- The review recommends that for purposes of composite fund performance evaluation the Alternative Investments continue to be measured against themselves using actual portfolio returns in the composite fund benchmark calculations.
- The review recommends that the SBI continue to use Morgan Stanley Capital International (MSCI) as its asset class target provider for the International Equity Program, and that the International Equity Program asset class target be changed to the MSCI All Country World Index Free ex. U.S. (net of taxes on dividends), thus adding Canada to the asset class target. It is further recommended that the asset class target remain unhedged.
- The review recommends that the SBI adopt the Russell 3000 as the asset class target for the Domestic Equity Program.

Concerning asset class structure:

- The review recommends that the Fixed Income Program continue to use a 50% active and 50% semi-passive management allocation, that the Program continue to use a core approach whereby the asset class target is used as the benchmark for all managers. It is further recommended that the Program's current opportunistic approach to the high yield and non-dollar sectors be re-affirmed.
- The review recommends that the current structure of the Alternative Investment Program be continued.
- The review recommends that the developed markets managers in the International Equity Program be measured against the MSCI World ex U.S. (net) index, and that the emerging markets managers continue to manage against the MSCI Emerging Market Free (net) index. The review further recommends that up to 10% of the International Equity Program be allocated to semi-passive management and at least 25% be allocated to passive management. In aggregate, at least 33% of the Program would be allocated to passive and semi-passive management and at least 33% of the Program will be actively managed.

- The review recommends that the Domestic Equity Program use published Russell sub-indices to measure and monitor the active domestic equity managers, that the semi-passive managers be measured against the Russell 1000, that the passive index fund use the Russell 3000, that misfit risk or style bias be controlled by allocating assets across active managers and reducing the reliance on the DCF, that the DCF be in place when necessary to correct residual style bias, and that custom benchmarks continue to be built where appropriate as an additional analytical tool to evaluate managers. Further, the review recommends the use of ranges in stating the allocation among active, semi-passive, and passive management for the Domestic Equity Program. The proposed ranges are as follows:

Active	25-40%
Semi-Passive	25-40%
Passive	25-40%

RECOMMENDATION:

The Committee recommends that the Board approve the following:

- **For the Fixed Income Program:**
 - continue to use the Lehman Aggregate Bond Index as the asset class target;
 - continue to use a 50% active and 50% semi-passive management allocation;
 - continue to use the asset class target as the benchmark for all managers; and
 - continue the current opportunistic approach to invest in high yield and non-dollar sectors.
- **For the Alternative Investment Program:**
 - continue to measure Alternative Investments against themselves using actual portfolio returns for composite fund performance evaluation; and
 - continue the current structure of investing in private equity, real estate, resource, and mezzanine investments.

- **For the International Equity Program:**
 - **continue to use Morgan Stanley Capital International as the asset class target provider;**
 - **change the asset class target to the MSCI All Country World Index Free ex. U.S. (net of taxes on dividends);**
 - **continue to measure the asset class target on an unhedged basis;**
 - **change the benchmark for developed markets managers to the MSCI World Index ex. U.S. (net of taxes on dividends);**
 - **continue to use the MSCI Emerging Market Free Index (net) as the benchmark for emerging markets managers;**
 - **allow up to 10% of the Program to be allocated to semi-passive management and at least 25% to be allocated to passive management with at least 33% of the Program being allocated, in aggregate, to passive and semi-passive management; and**
 - **continue to allocate at least 33% of the Program to active management.**

- **For the Domestic Equity Program:**
 - **change the asset class target to the Russell 3000 Index;**
 - **use published Russell sub-indices to measure and monitor the active domestic equity managers;**
 - **use the Russell 1000 to measure the semi-passive domestic equity managers;**
 - **use the Russell 3000 for the passive index fund;**
 - **control misfit risk or style bias by allocating assets across active managers and reducing reliance on the DCF,**
 - **use the DCF to correct residual style bias, when necessary;**
 - **continue to use custom benchmarks where appropriate as an additional analytical tool to evaluate managers; and**

- use ranges in stating the allocation among active, semi-passive, and passive management for the Domestic Equity Program. The proposed ranges are 25%-40% for active, 25%-40% for semi-passive, and 25%-40% for passive.

Further, the Committee recommends that the SBI adopt the position paper which begins on page 27 of this section regarding the asset class targets and asset class management structure for the investment programs of the Basic and Post Retirement Funds.

Actuarial Rate of Return

At the June 2003 SBI meeting, the Board requested that the IAC evaluate the appropriateness of the 8.5% actuarial rate of return. The Committee reviewed actuarial rate of return data for corporate and public pension plans of various sizes. The Committee concluded that the 8.5% assumption used by the Minnesota statewide pension systems is reasonable and in line with other pension systems, both public and corporate. Additionally, the Committee noted that their asset allocation recommendation would have been the same even if the actuarial rate assumption were lower than 8.5%. A table which illustrates actuarial rate of return data for corporate and public appears on **page 65.**

Asset Allocation Review

**Basic Retirement Funds
Post Retirement Fund
Combined Retirement Funds**

Minnesota State Board of Investment

September 2003

ASSET ALLOCATION REVIEW
Basic Retirement Funds
Post Retirement Fund
Combined Retirement Funds

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ASSET ALLOCATION REVIEW

Basic, Post and Combined Retirement Funds

Executive Summary

Long-term asset allocation policy is the core focus of the State Board of Investment (“the Board” or “SBI”) in the oversight of the assets under its charge. The asset allocation decision is the most significant determinant of an investment fund’s return and risk.

The asset allocation policy of the Basic and Post Retirement Funds are reviewed periodically. The most recent formal review of the Funds’ policy asset allocations occurred in 1995. The 1995 review resulted in the Board increasing its allocation to international equities from 10% to 15% in both the Basic and Post Funds. This was accomplished by reducing the domestic equity allocation in the Basic Funds from 50% to 45% and reducing the allocation to fixed income in the Post Fund from 35% to 30%.

The present review is prompted by the general discipline of a periodic review and the desire to determine the appropriateness of the SBI’s existing asset allocation policies given current expectations for capital market returns and volatility. While the asset allocation is most appropriately treated as a long-term guideline to achieve desired performance levels, it is prudent to review its status and make refinements given changing economic environments and advances in the capital markets. Over time, much of the change in the asset allocation of the Retirement Funds has come from the availability of an increasingly diversifiable array of investment products. Domestic common stocks, once the only available source of equity returns, are now just one of a variety of investable equity vehicles for pension funds. As do many major pension plan sponsors, the SBI now utilizes international stocks, private equity and venture capital, real estate, and resource investments in combination with domestic equities. This is expected to achieve higher long-term rates of return while experiencing lower rates of volatility than can be achieved by using domestic stocks alone. The lower volatility is due to the diversification benefits of owning a variety of investment vehicles, which perform

differently over time. Fixed income products have also expanded, giving the plan sponsor a broader base of investment opportunities from which to choose.

The balancing of long-term returns with appropriate levels of risk is the goal of a proper asset allocation policy. The current review results in recommendations that continue to refine the return and risk relationship for the Basic and Post Funds.

- The review recommends that the SBI increase its allocation for alternative investments in the Basic Retirement Funds from 15% to 20%. The increase in this allocation to alternative investments would be funded by a corresponding decrease in the fixed income target, which would decline from 25% to 20%.
- The review recommends that the SBI increase its allocation for alternative investments in the Post Retirement Fund from 5% to 12%. The increase in this allocation to the Post Fund's alternative investments would be funded by a corresponding decrease in the domestic equity target from 50% to 45% and a decrease in the fixed income target from 27% to 25%.
- The review recommends that the allocation to alternative investments not exceed the current target of 15% in the Basic Retirement Funds until the proposed target allocation of 12% for alternative investments in the Post Retirement Fund is reached. At that time, staff will notify the Board of the status of the respective alternative investment allocations before the allocation target for Basic Retirement Funds alternative investments would be raised from the current 15% level to the proposed 20% allocation.
- The review recommends that the make up and risk exposure of the alternative investments portion of the portfolio for the Basic and Post Retirement Funds be identical. To accomplish this recommendation, the current yield-oriented portfolio in the Post and the equity-oriented portfolio in the Basics would be pooled. This accounting treatment would prospectively allow the Basic and Post

Funds to have the same risk and return exposure. New alternative investments would be purchased for the pool and would be funded on a prorated share from the Basic and Post Funds.

- The review recommends that the SBI change the reporting of returns and the long-term objectives for the Basic, Post and Combined Retirement Funds. The recommended changes would extend the time periods over which the Funds' return objectives are evaluated:

Combined Retirement Funds:

1. Achieve Real Return over a twenty-year period; currently, over ten years.
2. Match or exceed Composite Index over a ten-year period; currently, over five years.
3. Transfer the Trust Universe Comparison Service (TUCS) comparison of performance from the Long Term Objectives Section of the Board Report to the Investment Report Section for the Combined Funds.

Basic Retirement Funds:

1. Match or exceed Composite Index over a ten-year period; currently, over five years.

Post Retirement Fund:

1. Match or exceed Composite Index over a ten-year period; currently, over five years.

Current Asset Allocation Policy

The current long-term asset allocation policy for the Basic and Post Funds are shown below. While the Board does not set a specific policy for the Combined Retirement Funds, the policy is derived using the market values of the two underlying funds. (Because market values fluctuate, the policy for the Combined Retirement Funds will not be constant.)

	Basics	Post	Combined*
Stocks	60.0%	65.0%	62.5%
Domestic	45.0	50.0	47.5
International	15.0	15.0	15.0
Alternative Assets**	<u>15.0</u>	<u>5.0</u>	<u>10.0</u>
Total Equity	75.0	70.0	72.5
Bonds	24.0	27.0	25.5
Cash	<u>1.0</u>	<u>3.0</u>	<u>2.0</u>
Total Fund	100.0%	100.0%	100.0%

*Based on 12/31/02 market values. Basics \$15.6 billion; Post \$15.4 billion

**Market value. Unfunded commitments plus market value may be up to 1.5 times market value.

Comparison to Other Pension Plans

The median allocations to stocks, bonds, and cash in the master trust portion of the Trust Universe Comparison Service (TUCS) are as follows:

Median Allocation*	Stocks**	Bonds**	Cash
all funds	56.9%	32.4%	3.8%
public only	54.8%	35.2%	3.9%
corporate only	58.1%	32.4%	4.0%

* Median allocation to each asset class as of 12/31/02. Will not add to 100%.

** Includes both domestic and international.

The data indicate that the asset allocation policy for the Basics and the Post have more stocks and less bonds than many plans included in the comparison universe.

Considerations in Determining Strategic Asset Allocation Policy

There are a number of factors to consider when determining an appropriate strategic asset allocation policy for an investment portfolio. The review considered the following factors in determining the asset allocation mix for the Basic and Post Funds:

- Fund Objective
- Time Horizon
- Return Objective
- Liquidity Needs
- Risk Tolerance
- Accounting Considerations

BASIC RETIREMENT FUNDS

- **Fund Objective:** The objective of the Basic Retirement Funds is to ensure that sufficient assets are available to pay promised benefits at the time of retirement.
- **Time Horizon:** The expected time horizon of the investment period is determined by the nature of the liabilities. Everything being equal, long-term liability streams afford the investor the opportunity to withstand short-term volatility in pursuit of higher returns. A shorter time horizon requires investors to take less equity risk. The Basic Retirement Funds consist of assets for active (working) employees. It has an investment horizon of 30 to 40 years.
- **Return Objective:** The stated return objective directly influences the asset allocation by focusing the decision on allocations to investment vehicles with sufficient expected return. The Basic Retirement Funds have a statutorily required rate of return of 8.5% which must be achieved over the long term in order to meet the Fund's investment and actuarial assumptions. The return objective has a significant influence on the plan's allocation to equity assets.
- **Liquidity Needs:** A plan's cash needs over the investment horizon must be considered in forming an effective asset allocation policy. Plans with higher liquidity needs should maintain a higher liquid cash balance than plans with

little need for cash. In addition, the liquidity impact due to allocations to non-marketable securities should be carefully considered. The Basic Funds have minimal liquidity needs, since transfers to fund retiree benefits from the Basic Funds to the Post Fund are accomplished with the transfer of assets via pool units, not cash.

- **Risk Tolerance:** Rather than a purely independent factor, risk tolerance is, in part, an outcome of the time horizon, return objective and liquidity decisions. For example, a 30-year time horizon combined with high return objectives and low liquidity needs allow for a high risk tolerance. This review recommends that the Basic Funds should have a high tolerance for risk. This decision is based upon the length of the investment horizon (30 to 40 years), low liquidity needs, and importantly, the aggressive return objective of 8.5% for the Funds. A higher risk tolerance suggests a greater emphasis on equity-type investments that offer higher absolute levels of return.
- **Accounting Considerations:** The retirement funds that make up the Basic Funds have statutorily required employer and employee contribution rates and assumed rates of return that will fully fund the plans by specific dates. (The dates range from 2020 to 2031.) Unlike corporate pension plans, the State has the ability to withstand short-term negative results without being required to make one-time cash contributions or make contribution rate changes. These factors further support the assertion that the Basic Funds have a high tolerance for investment risk, and therefore a high level of equity exposure is appropriate.

POST RETIREMENT FUND

- **Fund Objective:** The Post Retirement Fund's objective is to earn sufficient returns to ensure that assets are available to pay initially promised benefits as well as any increases granted for all participants in the Fund.

- **Time Horizon:** The Post Fund has an investment horizon of 15 to 20 years, which represents the length of time a typical beneficiary is expected to draw a benefit.
- **Return Objective:** The Post Fund's return objective is the sum of the actuarial assumed rate of return (6%) used in the Post Fund's funding calculation plus a promised inflation-based benefit adjustment of up to 2.5% per year.
- **Liquidity Needs:** The Post Fund makes monthly benefit payments to retirees, and therefore has specific liquidity needs. Based on historical cash flows of monthly annuity payments and ongoing funding for new retirees, the Post Fund experiences net outflows of approximately \$500 million over a six-month period, or about 3% of the fund. The review recommends that the Post continue to allocate 3% of its assets to cash and 25% to fixed income securities, which in combination will be an appropriate source of liquidity for the Post Fund.
- **Risk Tolerance:** This review recommends the Post Fund, like the Basic Funds, should have a high tolerance for risk. This decision is based upon the length of the investment horizon, 15 to 20 years, moderate liquidity needs, and importantly, the aggressive return objective of 8.5% for the Fund. This objective suggests that a commensurate level of investment risk must be accepted in order to achieve the required return over the long term. To accomplish this goal the Post Fund should have a high level of equity exposure. In addition, the Post Fund should have a higher level of liquidity than the Basic Funds.
- **Accounting Considerations:** In the Post Fund, sufficient assets (discounted at the 6% return assumption) are transferred from the Basic Funds to the Post

Fund to support the initially promised benefit. An inflation increase of up to 2.5% is granted annually. If returns exceed the 6% return assumption and the inflation component, an investment based increase may be granted. If investment performance does not meet the return assumption and the inflation component, an unfunded liability occurs in the Post Fund. No investment component benefit increase will be granted until the unfunded liability is recovered. The need for the Post Fund to fund the initially promised benefits and to fund benefit increases support the assertion that the Post Fund has a high tolerance for investment risk. Therefore, a high level of equity exposure is appropriate.

Assumptions and Simulations

With the above considerations in mind, several asset mix simulations were run for the Basic and Post Funds that utilize various combinations of assets.

The expected return, standard deviation and correlation assumptions used in the simulations are in **Attachment A**. The figures in Attachment A take into consideration long-term historical returns, data from consultants and long-term capital market assumptions from a number of investment management organizations (shown in **Attachment B**.) The assumptions used by the SBI in its 1995 asset allocation review are included for reference.

The results of the simulations for the Basic Funds, Post Fund and Combined Retirement Funds are shown in **Attachments C, D and E**.

Recommended Proposal

After reviewing the results of the simulations, the review recommends that the Board adopt the specific policies for the Basic and Post Funds that follow:

Asset Allocation Policy — Proposal

	Basics Current	Basics Proposed	Post Current	Post Proposed
Equity	60.0%	60.0%	65.0%	60.0%
Domestic	45.0	45.0	50.0	45.0
International-unhgd.	13.5	13.5	13.5	13.5
Emerging Markets	1.5	1.5	1.5	1.5
Altern. Assets*	15.0%	20.0%	5.0%	12.0%
Private Equity	10.0	10.0	—	6.0
Real Assets	5.0	5.0	—	3.0
Yield Oriented	—	5.0	5.0	3.0
Total Equity	75.0%	80.0%	70.0%	72.0%
Fixed Income	25.0%	20.0%	30.0%	28.0%
Domestic Bonds	24.0	19.0	27.0	25.0
Cash Equivalents	1.0	1.0	3.0	3.0
Total	100.0%	100.0%	100.0%	100.0%
Annual Expected Return (Nominal)	8.88%	8.98%	8.35%	8.60%
High Return**	33.22	33.74	31.33	31.74
Low Return**	-15.46	-15.78	-14.63	-14.54
Annual Expected Risk/Stand. Dev.	±12.17	±12.38	±11.49	±11.57

* Market value. Unfunded commitments plus market value may be up to 1.5 times market value.

** Annual range of expected returns within plus or minus one standard deviation. Approximately 95% of annual returns can be expected to fall within this range.

The proposed changes raise the expected return in the Basic Funds by an estimated 10 basis points (see Attachment C) and by an estimated 25 basis points in the Post Fund (see Attachment D), with a modest increase in risk.

Performance Reporting

This review recommends that performance reporting for the Funds should more closely reflect the long-term nature of the Funds' investment objectives and time horizon. The current performance evaluation period for the Basic and Post Retirement Funds is five years, while the Combined Retirement Funds are evaluated over a ten-year period. The objectives of these funds is to meet the long-term needs of public employees and therefore, focusing on long-term results is more important than focusing on short-term results. In 1995, a major factor in recommending the five-year and ten-year reporting period was the relatively short period over which data was available. Performance data for the Basics dates back to 1980. However, the time series for the Basic Funds' composite index began in 1984. Data for the Post Fund, as it exists today, dates back to 1993. With the passage of time and the availability of more performance data, this review now recommends that the time periods be extended over which the Funds' return objectives are evaluated. The recommended changes detailed below are consistent with the Funds' long-term investment objectives and time horizon.

Combined Retirement Funds:

1. Achieve Real Return over a twenty-year period; currently, over ten years.
2. Match or Exceed Composite Index over a ten-year period; currently, over five years.

Basic Retirement Funds:

1. Match or Exceed Composite Index over a ten-year period; currently, over five years.

Post Retirement Fund:

1. Match or Exceed Composite Index over a ten-year period; currently, over five years.

The review also recommends that the comparison of the Combined Retirement Funds to the Trust Universe Comparison Service (TUCS) be shifted from the long-term objectives section of the quarterly report to the investment reporting section. Any comparison of fund performance to a universe of other plans has inherent problems. Plans within the TUCS universe have varying levels of investment flexibility, different assumed rates of return, and different asset / liability issues which lead to different asset allocation policies. As a result, the Combined Retirement Funds' ranking in the universe will be based upon factors relating to the Funds' design and funded status, and not solely upon relative performance.

Attachment A

Assumptions Used in Simulations

Asset Class	Return/Risk		
	Real* Return	Nominal** Return	Risk/ Std. Dev.
Equity			
Domestic	6.25	9.25	17.00
International-unhedged	6.25	9.25	19.00
International-hedged	6.05	9.05***	17.00
Emerging markets	8.50	11.50	25.00
Alternative Assets			
Private equity	10.00	13.00	30.00
Real assets	5.00	8.00	12.00
Yield oriented	5.50	8.50	13.00
Fixed Income			
Domestic bonds	3.50	6.50	7.00
Non dollar bonds-unhedged	3.50	6.50	8.00
Non dollar bonds-hedged	3.30	6.30***	7.00
High Yield	4.50	7.50	10.00
Cash equivalents	1.00	4.00	2.00
Inflation		3.00	

- * Real return = nominal return - inflation.
- ** Nominal return is the long-term (20+ years) expected return.
- *** Unhedged return less assumed hedging cost of 20 b.p.

Correlation Matrix

	1	2	3	4	5	6	7	8	9	10	11	12
1 US stocks	1.00											
2 Intl.-unhed.	.60	1.00										
3 Intl.-hed.	.70	.80	1.00									
4 Emerg. mkts.	.55	.50	.50	1.00								
5 Priv. equity	.50	.20	.40	.10	1.00							
6 Real assets	.40	.25	.30	.30	.30	1.00						
7 Yield oriented	.45	.30	.35	.00	.40	.15	1.00					
8 US bonds	.30	.20	.25	-.10	.15	.20	.50	1.00				
9 Non US-un.	.10	.40	.25	-.20	.00	.10	.05	.60	1.00			
10 Non US-hed.	.25	.20	.30	-.10	.10	.15	.15	.75	.50	1.00		
11 Cash equiv.	-.10	-.10	.00	.00	.00	.15	.10	.10	-.10	.10	1.00	
12 High yield	.50	.35	.40	.30	.30	.25	.60	.40	.00	.25	.00	1.00

**ATTACHMENT B
COMPARATIVE DATA**

Long Term Expected Real Returns

	SBI 2003 Study	SBI-1995*	PCA	UBS	JP Morgan	Wilshire	Goldman Sachs	Ibottson
Equities								
Domestic	6.25	6.50	6.50	6.01	5.25	5.75	6.10	6.89
International-unhedged	6.25	6.50	6.50	N/A	5.25	5.75	5.80	6.79
Emerging Markets	8.50	9.50	N/A	10.05	6.00	5.75	6.80	-1.45
Alternative Assets								
Private Equity	10.00	9.50	10.50	10.31	6.95	8.75	8.90	N/A
Real Assets	5.00	4.50	5.00	5.60	4.45	4.50	3.50	8.92
Yield Oriented	5.50	5.50	N/A	N/A	N/A	N/A	N/A	N/A
Fixed Income								
Domestic Bonds	3.50	3.50	2.50	3.78	4.85	3.00	2.30	6.01
Non-dollar Bonds-unhedged	3.50	3.50	2.40	N/A	N/A	2.75	N/A	7.37
Cash Equivalents	1.00	1.00	1.50	2.45	2.00	1.00	N/A	0.68
Inflation								
		4.50	2.50	2.25	2.25	2.25	2.00	3.10

Standard Deviations

	SBI 2003 Study	SBI-1995*	PCA	UBS	JP Morgan	Wilshire	Goldman Sachs	Ibottson
Equities								
Domestic	17.00	17.00	20.00	15.00	15.40	17.00	15.90	21.91
International-unhedged	19.00	19.00	20.00	N/A	17.40	20.00	17.40	18.89
Emerging Markets	25.00	23.00	N/A	25.00	24.60	27.00	25.30	25.75
Alternative Assets								
Private Equity	30.00	23.00	35.00	32.60	30.00	32.00	29.00	N/A
Real Assets	12.00	12.00	14.00	10.60	7.60	14.00	9.30	16.89
Yield Oriented	13.00	13.00	N/A	N/A	N/A	N/A	N/A	N/A
Fixed Income								
Domestic Bonds	7.00	8.50	9.00	4.60	3.80	7.00	4.50	6.66
Non-dollar Bonds-unhedged	8.00	12.00	10.00	N/A	N/A	13.00	N/A	11.60
Cash Equivalents	2.00	3.00	1.50	0.50	0.30	3.00	N/A	0.90

* SBI-1995 reflects the data used in the previous asset allocation study conducted in July 1995. PCS, UBS, JP Morgan, Wilshire and Goldman Sachs reflects the data currently used by those organizations. Ibottson reflects longest available observed historical data.

PCA = Pension Consulting Alliance UBS = UBS PaineWebber Asset Management

Attachment C

Asset Mix Simulations - Basic Funds

	Current Policy	Option 1 Recommended	Option 2	Option 3
Equity	60.0%	60.0%	55.0%	55.0%
Domestic	45.0	45.0	40.0	40.0
International Unhedged	13.5	13.5	13.5	13.5
Emerging Markets	1.5	1.5	1.5	1.5
Alternative Assets	15.0	20.0	20.0	25.0
Private Equity	10.0	10.0	15.0	15.0
Real Assets	5.0	5.0	5.0	5.0
Yield Oriented	—	5.0	—	5.0
Fixed Income	25.0	20.0	25.0	20.0
Domestic Bonds	24.0	19.0	24.0	19.0
Cash Equivalents	1.0	1.0	1.0	1.0
Expected Return*	8.88	8.98	9.07	9.17
Standard Deviation	±12.17	±12.38	±12.39	±12.60
Sharpe Ratio**	0.40	0.40	0.41	0.41
Return change from current		+0.10	+0.19	+0.29
Risk change from current		+0.21	+0.22	+0.43

* Nominal return (Real return + expected inflation of 3%)

** Sharpe ratio, developed by William Sharpe, is a universal measure of reward per unit of risk, calculated as the return of an asset in excess of that of the risk-free asset divided by the standard deviation of the returns of the asset. Return of risk-free asset assumed to be 1%, consistent with the assumed real return for cash equivalents.

Changes from Current Policy

Option 1 -increase yield oriented 5%
 -decrease bonds 5%

Option 2 -increase private equity 5%
 -decrease domestic equity 5%

Option 3 -increase private equity 5%; increase yield oriented 5%
 -decrease domestic equity 5%; decrease bonds 5%

Attachment D

Asset Mix Simulations - Post Fund

	Current Policy	Option 1	Option 2	Option 3 Recommended
Equity	65.0%	60.0%	65.0%	60.0%
Domestic	50.0	45.0	50.0	45.0
International Unhedged	13.5	13.5	13.5	13.5
Emerging Markets	1.5	1.5	1.5	1.5
Alternative Assets	5.0	10.0	10.0	12.0
Private Equity	—	5.0	5.0	6.0
Real Assets	—	—	—	3.0
Yield Oriented	5.0	5.0	5.0	3.0
Fixed Income	30.0	30.0	25.0	28.0
Domestic Bonds	27.0	27.0	22.0	25.0
Cash Equivalents	3.0	3.0	3.0	3.0
Expected Return*	8.35	8.53	8.67	8.60
Standard Deviation	±11.49	±11.45	±12.11	±11.57
Sharpe Ratio**	0.38	0.40	0.39	0.40
Return change from current		+0.18	+0.32	+0.25
Risk change from current		-0.04	+0.62	+0.08

* Nominal return (Real return + expected inflation of 3%)

** Sharpe ratio, developed by William Sharpe, is a universal measure of reward per unit of risk, calculated as the return of an asset in excess of that of the risk-free asset divided by the standard deviation of the returns of the asset. Return of risk-free asset assumed to be 1%, consistent with the assumed real return for cash equivalents.

Changes from Current Policy

- Option 1 -increase private equity 5%
 -decrease domestic equity 5%

- Option 2 -increase private equity 5%
 -decrease bonds 5%

- Option 3 -increase private equity 5%; increase real assets 2%
 -decrease domestic equity 5%; decrease bonds 2%

Attachment E

Asset Mix Simulations - Combined Retirement Funds

	Current Policy	Proposed*	Median State Fund**
Equity	62.5%	60.0%	57.6%
Domestic	47.5	45.0	44.9
International Unhedged	13.5	13.5	13.0
Emerging Markets	1.5	1.5	1.4
Alternative Assets	10.0	16.0	5.8
Private Equity	5.0	8.0	3.3
Real Assets	2.5	4.0	2.7
Yield Oriented	2.5	4.0	N/A
Fixed Income	27.5	24.0	36.6
Domestic Bonds	25.5	22.0	32.7
Cash Equivalents	2.0	2.0	2.0
Expected Return (Nom.)	8.61	8.79	8.37
Standard Deviation	±11.76	±11.93	±11.04
Return change from current		+0.18	-0.24
Risk change from current		+0.17	-0.72

Combined Retirement Funds Policy is calculated assuming the Basic and Post Funds are equal in size.

* Combination of Basics Proposed (Option 1) and Post Proposed (Option 3).

** Source: Greenwich Associates Market Dynamics Report. Median fund data normalized to total 100%. Assumed 2% cash allocation. Allocation to emerging market equities assumed as a pro-rata share of the international equity allocation based on the market capitalization weight of emerging markets.

Asset Class Target & Asset Class Structure Review

**Basic Retirement Funds
Post Retirement Fund
Combined Funds**

Minnesota State Board of Investment

September 2003

ASSET CLASS TARGET & ASSET CLASS STRUCTURE REVIEW

Basic Retirement Funds Post Retirement Fund Combined Funds

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ASSET CLASS TARGET & ASSET CLASS STRUCTURE REVIEW

Basic, Post and Combined Retirement Funds

EXECUTIVE SUMMARY

The purpose of this paper is to review the asset class targets and management structures of the investment programs for the Basic and Post Retirement Funds (the Retirement Funds). The current review has been performed in conjunction with an asset allocation review. The Retirement Funds participate in the same investment programs on a proportionate basis. The investment programs in which the Retirement Funds invest are Domestic Equity, International Equity, Fixed Income and Alternative Investments. Each program has its own unique asset allocation target and structure. The Domestic Equity, International Equity, and Fixed Income Programs have each undergone significant reviews within the past five years. The intent of this paper is to focus on the major components of the structure of each program, including the asset class targets, manager benchmarks, risk control, and the allocation of assets to passive and active management.

The current review results in the following recommendations for the Basic and Post Retirement Funds:

- The review recommends that the Lehman Aggregate index continue to be used as the asset class target for the Fixed Income Program.
- The review recommends that for purposes of composite fund performance evaluation the Alternative Investments continue to be measured against themselves using actual portfolio returns in the composite fund benchmark calculations.

- The review recommends that the SBI continue to use Morgan Stanley Capital International (MSCI) as its asset class target provider for the International Equity Program, and that the International Equity Program asset class target be changed to the MSCI All Country World Index Free ex. U.S. net of taxes on dividends, thus adding Canada to the asset class target. It is further recommended that the asset class target remain unhedged.
- The review recommends that the SBI adopt the Russell 3000 as the asset class target for the Domestic Equity Program.
- The review recommends that the Fixed Income Program continue to use a 50% active and 50% semi-passive management allocation, that the Program continue to use a core approach whereby the asset class target is used as the benchmark for all managers. It is further recommended that the Program's current opportunistic approach to the Plus sectors be re-affirmed.
- The review recommends that the current structure of the Alternative Investment Program be continued.
- The review recommends that the developed markets managers in the International Equity Program be measured against the MSCI World ex U.S. (net) index, and that the emerging markets managers continue to manage against the MSCI Emerging Market Free (net) index. The review further recommends that up to 10% of the International Equity Program be allocated to semi-passive management and at least 25% be allocated to passive management. In aggregate, at least 33% of the Program would be allocated to passive and semi-passive management and at least 33% of the Program will be actively managed.

- The review recommends that the Domestic Equity Program use published Russell sub-indices to measure and monitor the active domestic equity managers, that the semi-passive managers be measured against the Russell 1000, that the passive index fund use the Russell 3000, that misfit risk or style bias be controlled by allocating assets across active managers and reducing the reliance on the DCF, that the DCF be in place when necessary to correct residual style bias, and that custom benchmarks continue to be built where appropriate as an additional analytical tool to evaluate managers. Further, the review recommends the use of ranges in stating the allocation among active, semi-passive, and passive management for the Domestic Equity Program. The proposed ranges are as follows:

Active	25-40%
Semi-Passive	25-40%
Passive	25-40%

ASSET CLASS TARGETS

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

- It should represent a broad range of investment opportunities available in the marketplace to institutional investors, such as the SBI.
- It should reflect the constraints an institutional investor experiences in the market place.
- It should embody the plan's return objectives and risk tolerance for a particular asset class.
- It should provide a measurable performance standard with which to evaluate the results for that asset class.

Fixed Income

Currently, the asset class target for the Fixed Income Program is the Lehman Aggregate Bond Index ("Lehman Aggregate"). The Lehman Aggregate is a broad market index comprised of bonds representing all major sectors of the public domestic investment grade fixed income market weighted by market capitalization of total eligible issuance. The Lehman Aggregate includes U.S. Treasury, agency, corporate, mortgage, asset-backed, commercial mortgage-backed and taxable municipal securities, as well as a limited amount of dollar-denominated debt of foreign entities.

The Lehman Aggregate is part of the Lehman Brothers family of fixed income indices and is widely used by market participants as a benchmark for domestic core fixed income management. Other index families available include Citigroup (formerly Salomon), Merrill Lynch and J.P. Morgan. While these index families have similar construction rules and sector compositions, they are less widely used by market participants. Therefore, staff concentrated its review on the Lehman Brothers family of indices. Staff reviewed a range of possible alternative benchmarks within the Lehman index family for use as the Program's asset class target:

- Government Index
- Government/Credit Index
- U.S. Universal Index
- Long Government/Credit Index

Each of the benchmarks staff reviewed has varying attributes, such as sector weightings, average maturity and overall interest rate and spread risks. Below is a sampling of information on the general characteristics of each of the Lehman benchmarks that were considered followed by their key statistics:

General Benchmark Characteristics:

Lehman Aggregate – a broad market index comprised of all major sectors of the domestic investment grade fixed income market weighted by market capitalization of total eligible issuance. Includes U.S. Treasuries and agencies, corporates, mortgages,

asset-backed and commercial mortgage-backed and a limited amount of dollar-denominated debt of foreign entities.

Lehman Government/Credit Index – a subset of the Lehman Aggregate index that includes only U.S. Treasuries and Agencies, investment grade corporates and some dollar-denominated debt of foreign entities.

Lehman Government Index – a further subset of the Lehman Aggregate index that contains only U.S. Treasuries and agencies.

Lehman U.S. Universal Index – a broad market index that includes all the sectors of the Lehman Aggregate plus a market-capitalization weighted representation of domestic high yield and dollar-denominated emerging market debt (EMD).

Lehman Long Government/Credit Index – a variation on the Government/Credit index that focuses on longer maturity securities within the U.S. Treasury, agency and credit sectors. This index represents the most viable choice for benchmarking a long duration strategy.

Key Index Statistics

Selected Data as Of 2/28/03	Lehman Aggregate	Lehman Gov/Credit	Lehman Government	Lehman US Universal	Lehman Long Govt/Credit
Sector Weights (% \$MV):					
Treasury	21.7	35.4	62.6	19.2	48.1
Agency	12.9	21.1	37.4	11.4	10.2
Mortgage	34.9			30.9	
IG Credit	26.6	43.5		28.2	41.7
ABS/CMBS	3.9			3.8	
HY Credit				4.6	
EMD				1.9	
Duration	3.79	5.47	5.26	3.89	11.07
Convexity	-.11	.58	.55	-.06	1.83
OAS	57	71	10	107	77
10YR Return	7.28	7.35	7.26	7.26	8.72
10YR Std Deviation	3.69	4.19	4.20	3.60	7.41
10YR Sharpe Ratio	.73	.66	.64	.74	.55
Correlation w/R3000	.22	.21	.16	.26	.23

Staff assessed target quality based on the index ability to meet the following objectives:

- **Total Return** – has the benchmark achieved risk-efficient returns that are representative of the opportunity set available to managers
- **Equity Diversification** – how good is the benchmark at providing diversification in times when equities are performing poorly?
- **Deflation Hedge** – if the economy experiences a deflationary period, how will the benchmark perform?
- **Appropriate Risk Profile** – how appropriate is the relative risk of the benchmark?

Staff concluded that the Lehman Aggregate compares favorably to the alternatives for the following reasons:

- Sector diversification and spread sector exposure provide an opportunity to add alpha and a history of favorable risk-adjusted returns;
- Overall high credit quality provides good equity diversification characteristics;
- Absolute risk level of the index is within the range of expectations for a core fixed income strategy.

The IAC and Staff recommend that the Lehman Aggregate index continue to be used as the asset class target for the Fixed Income Program.

Alternative Investments

Alternative investments are included in the Retirement Funds' portfolios to provide high real returns relative to other asset classes. The SBI invests in a variety of alternative investment categories, which typically have been private equity, real estate, resources, and mezzanine debt.

Asset class targets that are currently available do not satisfy the basic criteria of investability and do not reflect the SBI's investment opportunities due to the illiquidity and non-publically priced nature of underlying investments. Despite significant research on the part of plan sponsors, third party consultants and financial institutions to develop asset class targets for alternative investments, no viable solutions have been found.

Recognizing the nature of non-marketable investments included in the Alternative Investment Program, the IAC and Staff recommend for purposes of composite fund performance evaluation to continue to measure Alternative Investments “against themselves”. The actual portfolio returns will be used in composite fund benchmark return calculations.

International Equity

The asset class target for the International Equity Program is the Morgan Stanley Capital International (MSCI) EAFE Free + MSCI EMF net of taxes on dividends. EAFE stands for Europe, Australia, and the Far East, while EMF stands for Emerging Markets Free. The “Free” term indicates that the index does not include the stock of companies that foreign investors are restricted from owning. MSCI has made improvements by float adjusting constituent companies of its Standard indices (non-Free), such that there is no longer a difference between MSCI’s Free and Standard indices. Since the prior return history of these indices has been different over certain time periods, MSCI will continue to maintain both the Free and Standard indices.

The following review of the International Equity Program asset class target focuses on:

- The index provider.
- The addition of Canada to the asset class target.
- Whether the asset class target should remain un-hedged.

Alternative Index Providers

The review focused primarily on a comparison between Citigroup Global Equity Indices (formerly Salomon Smith Barney) and MSCI. While Citigroup indices are generally thought by investment managers to have a solid construction methodology, the vast majority of plan sponsors use MSCI indices. Therefore, international equity investment managers establish their performance track records against MSCI indices.

Other international equity index providers do not currently offer significantly better alternatives to MSCI indices. Dow Jones Global (DJ Global) assesses stock inclusion by region, not by individual country. As a result, more stocks are included from the larger markets in each region than from the smaller markets. The Financial Times Stock Exchange (FTSE) indices use a sector classification system that is significantly different than the Global Industry Classification System (GICS), which is the norm of other index providers. Standard & Poors Global (S&P Global) limits the number of stocks for inclusion and only includes large capitalization companies.

Recently, MSCI made changes to their construction methodology in order to improve the investibility (float-weighting) and industry coverage of their indices. This has reduced many of the differences between MSCI and Citigroup indices. MSCI defines the free float of a security as the proportion of shares outstanding that are deemed to be available for purchase in the public equity markets by international investors. Whereas MSCI previously included a company in an index at its full market capitalization, the weight is now adjusted to reflect actual restrictions on foreign ownership, as well as the holdings of

strategic investors such as governments, corporations, controlling shareholders and management. MSCI also increased the coverage of each industry group within a country from 60% of total market capitalization to 85% of free float adjusted market capitalization. As a result, MSCI indices represent the constraints that an institutional investor experiences in the market place and also have broader representation of the range of non-U.S. equity investment opportunities available to an institutional investor.

While construction rules for MSCI indices are printed, constituent companies are still subjectively selected by Committee. In contrast, Citigroup indices have a purely objective and rules-based construction methodology. The strongest advantage of MSCI indices is their length of performance history and historical valuations data. MSCI has the longest history in P/E's, dividend yields, P/BV, P/Sales and P/CE, all at country, regional and sector levels. The developed market's history is from 1970, and the emerging markets history, from 1988. This amount of valuation data offers managers and plan sponsors advantages for portfolio analysis.

It should be noted that Citigroup currently has a highly regarded methodology for constructing value and growth style benchmarks. However, on May 31, 2003, MSCI began using an enhanced methodology to construct their style indices. Citigroup uses four variables to measure value, and three for growth. MSCI now uses three variables for value and five for growth. Currently the SBI does not use style benchmarks in the Program.

Add Canada to the asset class target?

The SBI International Equity Program's asset class target, MSCI's EAFE Free+EMF (net) index, does not include Canada. Canadian equities are not represented in any equity benchmark in the SBI Combined Funds. The SBI's active developed markets managers and U.S. managers are permitted to buy Canadian equities. However, there is no policy exposure to Canada in the International Equity Program. While Canada is dominated by three sectors (*Financials, Energy, and Materials represent 68% of MSCI's Canada index, 37%, 17%, and 14% respectively*), Canada represents 6.0% of the investment opportunity set outside of the U.S. (*percentage of Canada in MSCI All Country World Index ex. U.S. as of 06/30/03*). The market capitalization of Canada is a significant part of the investment universe of developed markets outside of the United States.

Canada has a relatively high correlation with U.S. stocks. However, MSCI's World ex. U.S. index, which includes the countries in EAFE plus Canada, has only a slightly higher correlation with MSCI's U.S. index than does EAFE (*MSCI World ex U.S. to MSCI U.S., Correlation=0.672 vs. MSCI EAFE to MSCI U.S., Correlation=0.656, Time Period: 1991-2002*). The International Equity Program is already exposed to this slight reduction in diversification benefits (through increased correlation to U.S. equities) as a result of its current Canadian holdings.

The SBI's developed markets active managers have research coverage in Canada and most have Canadian holdings. These managers have said that they would not have to change the way they are managing the SBI's portfolio or change many holdings if their

benchmark moved to an index which included Canada. The estimated cost to add Canada to the developed markets passive portfolio is estimated at a one-time transaction cost of four basis points assuming roughly two weeks to transition the portfolio and a reasonable amount of available crossing opportunities. If Canada were to be added to the passive portfolio in conjunction with an asset rebalance, the cost would be minimized.

Hedged or un-hedged asset class target?

Currently, the International Equity Program's asset class target is 100% un-hedged, which means that none of the underlying currency exposure in the index is hedged back to the U.S. dollar. While this allows the Program to enjoy the full diversification benefits of investing in international equities over the long term, it may also contribute to greater return volatility due to fluctuating currency exchange rates in the short term.

An analysis was done comparing different levels of hedging for the SBI's International Equity Program. The asset allocation of the SBI's Combined Funds (as of 6/30/01) and 2002 capital market assumptions provided by J. P. Morgan were used for the asset class's volatility, correlation, and return assumptions. Eleven distinct portfolios ranging from 0% EAFE hedged to 100% EAFE hedged were evaluated. For each of these eleven portfolios, the current allocations for all other asset classes remained unchanged. The portfolio with the highest Sharpe Ratio allocated 100% of the total international equity allocation to an un-hedged EAFE benchmark. The Sharpe Ratio measures return per unit of risk, calculated as the return of an asset in excess of that of the riskless asset divided by the standard deviation of the returns of the asset.

The IAC and Staff recommend that the SBI continue to use Morgan Stanley Capital International as its asset class target provider for the International Equity Program, and that the International Equity Program asset class target be changed to the MSCI All Country World Index Free ex. U. S. net of taxes on dividends, thus adding Canada to the asset class target. The IAC and Staff further recommend that the asset class target remain unhedged.

Domestic Equity

The current asset class target for the Domestic Equity Program is the Wilshire 5000 Investable. The SBI adopted the Wilshire 5000 Investable in June 2000. The move to the Wilshire 5000 Investable was an attempt to create an institutionally investable benchmark. The Wilshire 5000 is a published index, which is composed of all the publicly traded stocks in the United States. While the Wilshire 5000 is a broad-based index, it presents some difficulties for large institutional investors such as the SBI. The Wilshire 5000 Investable is constructed by adjusting the published Wilshire 5000 Index as follows:

- Removing stocks which have SBI-imposed restrictions (currently, tobacco stocks);
- Eliminating small illiquid companies (as represented by those stocks whose capitalization and trading volume would preclude investment consideration by institutions with assets as large as the SBI's).

- Eliminating American Depository Receipts, Real Estate Investment Trusts, Dual Class Stocks, Master Limited Partnerships, Closed-end Funds, Exchange Traded Funds, Unit Trusts and Preferred Stock.

These adjustments reduce the number of names in the index from approximately 6000 stocks to approximately 2600 stocks.

While the use of the Wilshire 5000 Investable resolved some issues for the SBI, it remains unique and the SBI is the only investor using the Wilshire 5000 Investable. Since it is a custom index, it is often cumbersome to analyze in a timely manner. Staff reviewed several alternatives for a target. The S&P 500 contains 500 of the largest companies but is not sufficiently broad to serve as a universe for a large institutional investor. The S&P 1500 is relatively new, having been created in 1995. Few plan sponsors use it, and it is also not sufficiently broad. The Dow Jones U.S. Total Market index is a broad index that can meet large plan sponsor needs. However, it is not well known or accepted by plan sponsors.

The Russell 3000 (R3000) is a domestic equity target used by a number of large institutional investors. It is composed of the largest 3000 companies in the U.S. The index is float weighted based on Russell's proprietary definition of float, and represents approximately 98% of the investable U.S. equity market.

The makeup of the Russell 3000 is similar to the Wilshire 5000 Investable in that it is comprised of a substantial number of the largest U. S. publicly traded stocks while excluding the smallest and least liquid names. Long-term return patterns and expectations as well as sector and risk characteristics of these two broad indices is very similar. Unlike the Wilshire 5000 Investable, the Russell 3000 is created and published by an independent third party. Whereas the SBI is the only plan measured against the Wilshire 5000 investable, the Russell 3000 is a common asset class target among large pension plans.

Russell data is transparent, readily available, and can be easily incorporated into the SBI's evaluation and monitoring tools, which can result in more efficient use of resources. This facilitates monitoring of the Program and individual managers for relative stock positions, industry weightings, risk level, and style exposure.

One of the attractive features of the R3000 is that Russell offers a family of style indices that can be structured to add up to the R3000. These style indices can be used as manager benchmarks thus allowing a plan sponsor to measure the performance of investment managers against components of the asset class target. A plan sponsor can also allocate assets to styles in the same proportion as they are represented in the target, thereby controlling misfit risk.

After review, the IAC and Staff believe that the R3000 accomplishes in a published index what the SBI has attempted to capture with the W5000 Investable custom index.

Therefore, the IAC and Staff recommend that the SBI adopt the Russell 3000 as the asset class target for the Domestic Equity Program.

ASSET CLASS STRUCTURE

The IAC and Staff reviewed the major components of the management structure of each asset class. Specifically, the IAC and Staff reviewed manager benchmarks, the allocation between active and passive management, risk levels and control, and specific issues pertinent to the respective asset classes.

Fixed Income

Active and Passive Management

The Fixed Income Program's active risk level is managed by setting an allocation among active- and passive-type management styles, and by controlling the degree of active risk to the managers' investment guidelines. The Fixed Income Program is currently allocated evenly to active management and semi-passive, or risk-controlled active management. Passive management is not currently employed in the program, although the product is widely available from a number of well-established fixed income managers. As part of its review of the Fixed Income Program, the IAC and Staff reviewed the effectiveness of the current allocation relative to a range of different allocation options. Staff also reviewed passive management as a possible alternative style.

Since July 1988, the Program has employed active and semi-passive management. The Program has added 20 basis points of excess return per year with 60 basis points of tracking error. The results of each style are presented in Figure 1.

Figure 1. SBI bond program results through 12/31/02.

Style (program inception)	Excess Return Objective	Maximum Tracking Error	Actual Excess Return	Actual Tracking Error
Active (7/84)	25 bps	250 bps	38 bps	118 bps
Semi-Passive (7/88)	10 bps	50 bps	14 bps	40 bps
Total Program (7/88)			25 bps	60 bps

There are structural inefficiencies within the bond market that can be exploited by active managers. These inefficiencies include the over-the-counter nature of trading, a diversity of investment objectives among market participants, and the sheer number of unique investment vehicles available to investors.

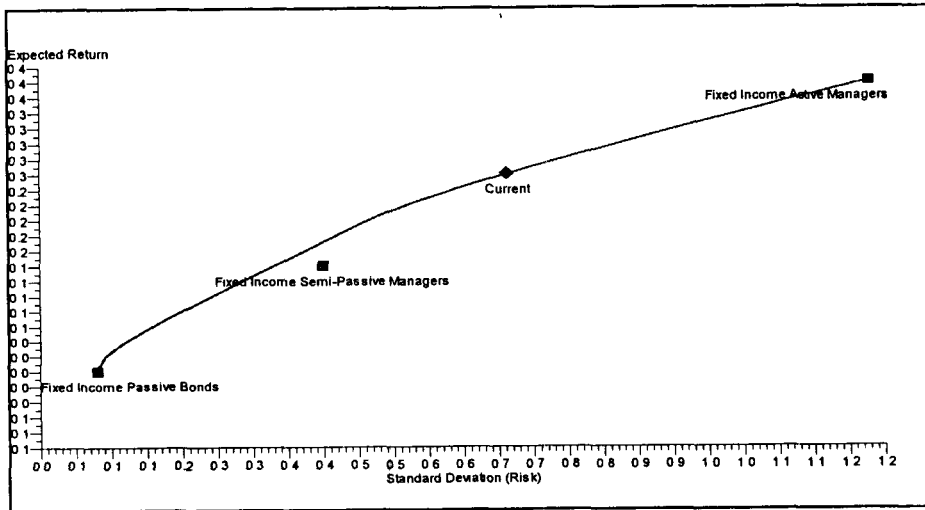
Staff reviewed the composite performance of passive core bond strategies from several investment managers to develop an accurate proxy for the return-risk profile available in modern passive management. Staff's analysis concluded that passive fixed income management could be expected to generate alpha to cover fees with very low incremental risk. However, given the success of risk-controlled styles in consistently adding value with low tracking error, Staff continues to favor these strategies over pure passive management. It is reasonable to expect that the bond market's structural inefficiencies will persist and provide opportunity for the continued relative outperformance of the semi-passive style compared to a pure passive approach.

To formally evaluate the current allocation against a range of alternatives, an efficient frontier of possible allocations among active, semi-passive and passive investment styles was developed based on actual program return data and staff's model of the risk-reward

profile of passive management. The range of possible allocations is represented graphically in Figure 3.

Figure 3a-b. Analysis of possible allocations among investment styles

3a: Efficient Frontier



3b: Return, Risk and Correlation Inputs

Style	Excess Return	Standard Deviation	Correlation w/ Active	Correlation w/ Semi-Passive	Correlation w/ Passive
Active	35 bps	120 bps	1.00	N/A	N/A
Semi-Passive	15 bps	40 bps	.20	1.00	N/A
Passive	0 bps	8 bps	.10	.15	1.00

The Program’s current allocation lies along the efficient frontier of available allocation options, meaning the 50%-50% allocation is risk efficient. Program risk can be increased (decreased) by allocating more (less) to active management; however, any changes will come with an offsetting change in return. Staff believes the current allocation provides an efficient return profile with an appropriate risk level. **The IAC and Staff recommend that the allocation between active and passive management be maintained at 50% active and 50% semi-passive.**

Manager Benchmarks and Specialty Assignments

Currently, all managers in the Fixed Income Program have the same benchmark, the Lehman Aggregate index. The Program has no “specialty” mandates, such as mortgage-only, or government/credit only. Investment managers in the Program have been selected for their capabilities as domestic core bond managers.

An alternative approach would be to incorporate a range of specialty assignments within the Fixed Income Program. Collectively, the individual specialty mandates would approximate the program’s asset class target. The main argument in favor of this approach is the idea that hiring the best managers in each sector could improve overall returns. Staff would not recommend the specialist approach in favor of the current core approach for three key reasons:

- The Sector Decision
- Industry Standard
- Risk Control

The Sector Decision

Investment grade fixed income assets across sectors have fundamentally similar investment characteristics. Sector rotation, a strategy whereby investment decisions are based purely on the appraisal of sectors relative to one another, is a major source of excess returns for active bond managers. If specialty mandates were used, the SBI would, through the course of allocating assets among specialty managers, effectively assume responsibility for the sector decision. This would reduce or eliminate the

managers' ability to use sector rotation as a tool to generate excess returns. In contrast, the current approach insures that managers have the full ability to use sector rotation against a broad, multi-sector benchmark.

Industry Standard

Core and core-plus styles of active management are the preferred investment approach amongst plan sponsors, and the leading style of management offered by the investment management community. While there are managers who offer specialty products, the majority of fixed income investment managers are structured to offer competitive products in the core and core-plus categories that essentially bring together a team of specialist sector teams under one strategy.

Risk Control

Under the current structure, each manager's benchmark is, by definition, the same as the Asset Class Target. Therefore, there is no misfit risk from the combined manager benchmarks relative to the asset class target. Any risk is a function purely of each manager's active bets, i.e. active risk. In contrast, under a system of specialty mandates, misfit risk would need to be explicitly controlled through active monitoring and periodic rebalancing. The time and expense of such a system would be a material drawback to the specialty approach.

The IAC and staff recommend the continued use of a core approach whereby the Program's asset class target is used as the benchmark for all managers.

Use of the Plus Sectors of the Market

In 2002, Staff conducted a review of the Plus sectors of the fixed income market (high yield, non-dollar, and emerging market debt), and re-affirmed a tactical approach to investing in certain sectors within the bond program. The IAC and the Board approved the proposal, which refers to an “opportunistic approach”. The key findings of the review are listed below:

- U.S. High Yield, Non-dollar investment grade and Emerging Markets Debt (EMD) have sufficient size, liquidity and differentiation;
- U.S. High Yield and EMD have higher correlation with U.S. Equities, reducing the equity hedge benefit;
- EMD has equity-like volatility and has a relatively short track record (roughly 12 years);
- Non-dollar investment grade bonds offer some degree of diversification and uncorrelated return opportunities relative to the U.S. market, but no sustained return advantage is seen;
- Although volatile, the U.S. high yield market is increasingly differentiated in terms of risk;
- Attractive high yield investment opportunities do exist on an issue-by-issue basis and can represent an attractive opportunity for core managers with strong credit capabilities.

In 2002, the SBI approved the expansion of the then-existing tactical investment strategy for U.S. high yield and non-dollar sectors of the bond market. The approach expanded tactical limits for selected existing active and semi-passive managers, subject to review of each manager's capabilities in the extended sectors. Approved active managers are allowed to invest up to 15% in U.S. below investment grade bonds, and up to 15% in non-dollar fixed income, subject to a combined maximum of 20% of the manager's assets. Additionally, approved semi-passive managers are allowed to invest up to 5% in U.S. below investment grade and up to 5% in non-dollar fixed income. Currently, two active managers have the expanded authority. At this time no semi-passive managers have the expanded authority.

The use of U.S. Treasury Inflation Protected Securities (TIPS) was also reviewed during the asset allocation study. There is no recommendation for a specific allocation to TIPS in the program, although managers remain free to invest in the securities as an active bet.

The IAC and Staff recommend that the Program's current opportunistic approach to the Plus sectors be re-affirmed.

Alternative Investments

The current structure of the Alternative Investments Program is derived from the SBI's statutory authority. *Minnesota Statutes* authorize investments through a range of commingled vehicles such as limited partnerships, collective funds and private placements. There must be at least four other participants in the commingled vehicle and

the SBI's participation may not exceed 20%. The SBI may not accept general liability. The SBI structures its program by selecting investment managers who make specific investment decisions as general partners of commingled vehicles.

The SBI alternative pool invests in a variety of alternative investment categories, including private equity (which includes leveraged buyouts and venture capital), mezzanine debt, real estate, and resources. At its June 2003 SBI meeting, the Board approved a recommendation to commingle the alternative investment portfolios of the Basic and Post Retirement Funds into a single pool. This accounting treatment prospectively allows the Basic and Post Funds to own units of the pool and to have the same risk and return exposure. This structure mirrors that of the Domestic Equity, International Equity, and Fixed Income pools. New alternative investments will be purchased for the commingled pool.

The IAC and Staff recommend that the current structure of the Alternative Investment Program be continued.

International Equity

Manager Benchmarks

Currently, all but one of the developed markets managers in the International Equity Program are measured and evaluated against the MSCI EAFE Free (net) index. One active developed markets manager has a custom benchmark. The emerging markets

managers in the Program are measured against the MSCI Emerging Markets Free (net) index.

The IAC and Staff recommend that developed markets managers (both active and passive) be measured against the MSCI World ex U.S. (net) index. This index adds Canada to the MSCI EAFE Free (net) index. The one developed markets manager that is currently being measured against a custom benchmark would also be measured against the MSCI World ex U.S. (net) index. **The IAC and staff also recommend that the emerging markets managers continue to manage against the MSCI Emerging Markets Free (net) index.** The combination of the MSCI World ex U.S. index (net) and the MSCI Emerging Markets Free (net) index make up the MSCI All Country World ex U. S. (net) index that has been recommended as the asset class target for International Equity Program.

Allocation to Active, Semi-Passive, and Passive

Using historical risk and returns, an optimization study completed for the International Equity Program demonstrated that the addition of semi-passive management created the opportunity to yield incremental return while modestly lowering overall risk. Prior considerations of adding semi-passive management to the International Equity Program were forestalled primarily because there was an insufficient number of managers offering products with sufficient assets under management. Over the past five years a number of managers have entered the semi-passive market place. These managers now have track records with sufficient assets under management to make semi-passive management a

viable alternative for the SBI. The Board has been successful with semi-passive management in both its equity and bond programs.

The current risk allocation scheme for the International Equity Program requires that at least 33% of the Program be passively managed, and at least 33% of the Program be actively managed. There is no allocation to semi-passive management. **The IAC and Staff recommend that up to 10% of the International Equity Program be allocated to semi-passive management and at least 25% be allocated to passive management. In aggregate, at least 33% of the Program would be allocated to passive and semi-passive management at least 33% of the Program will be actively managed.**

Domestic Equity

Manager Benchmarks

Currently, individual active domestic equity manager performance is measured relative to custom benchmarks designed to reflect a manager's area of expertise, research universe, and investment style. Benchmarks are used to measure the relative performance of active managers and to control any misfit or style bias risk in the program.

Custom benchmarks were put in place by the SBI in the late 1980's prior to the introduction of published style benchmarks. Custom benchmarks were intended to provide a better measure of the managers' performance than a broad market index such as the S&P 500 or W5000 index, and were a necessity to determine and control misfit. The

managers were given the option of building the custom benchmark themselves or having a consultant construct it for them.

Despite the advantages, the SBI has encountered practical problems with custom benchmarks including a lack of investment manager ownership, understanding, and acceptance. The entire program is based on the assumption that appropriate custom benchmarks are in place. Without the clear focus of managers to maintain appropriate custom benchmarks, the ability of a DCF benchmark to correct misfit risk is undermined, and the Domestic Equity Program's results may be adversely affected.

Regular monitoring of custom benchmarks is required to ensure that they remain an adequate reflection of a manager's style. Because of benchmark complexity, significant periods of time can pass before problems can be found and corrected. This can lead to inappropriate conclusions related to managers' performance.

Over the years published style indices have become more popular. A large majority of plan sponsors have adopted these style indices for the use in measuring and comparing active manager performance. The published style indices have become a common communication tool for potential and existing clients. Since the majority of active managers' business is tied to published benchmarks, managers have become familiar with the constituent companies and construction of published benchmarks. Managers communicate active bets, sector weights and other portfolio characteristics against published indices.

The IAC and Staff believe evaluating all its active managers against the published style indices that are currently available, such as the Russell U.S. Equity Indices, is appropriate. Using published indices will allow the SBI's monitoring and evaluation of managers, with published index data readily available to be linked into the SBI's portfolio monitoring systems.

If the R3000 Index were used as the asset class target for the Domestic Equity Program, as discussed in the previous section, subsets of the Russell 3000 Index would be used as active manager benchmarks. Russell divides the R3000 into sub-indices along market capitalization lines in three style categories: growth, value and core. The following chart shows some of the published sub-indices that are available for use as active manager benchmarks.

	Value	Core	Growth
Large Cap	R1000 Value	R1000 Core	R1000 Growth
Largest 200	RTop 200 Value	RTop 200 Core	RTop 200 Growth
Next 800	RMidcap Value	RMidcap Core	RMidcap Growth
Small/Mid Cap	R2500 Value	R2500 Core	R2500 Growth
Small Cap	R2000 Value	R2000 Core	R2000 Growth
Broad Market	R3000 Value	R3000 Core	R3000 Growth

The semi-passive managers' benchmark is currently the Dynamic Completeness Fund (DCF) benchmark. The IAC and Staff propose that the semi-passive managers be given the R1000 as a benchmark. However, in the process of controlling the overall program's misfit risk, one or more semi-passive manager may be assigned a DCF benchmark. It is the intention of Staff to recommend the hiring of active managers for the small cap portion of the market (R2000) leaving the DCF to be focused on the R1000. There will be transition periods, the first of which will be approximately six months, as the manager structure is altered and the DCF benchmark naturally adjusts toward the R1000 index. Future transitions will also occur as managers are hired and assets are reallocated among the managers.

The IAC and Staff recommend that the Domestic Equity Program use published R3000 sub-indices to measure and monitor the active domestic equity managers, that the semi-passive managers be measured against the R1000, that the DCF be in place when necessary to correct residual style bias, that the passive index fund use the R3000, and that custom benchmarks continue to be built where appropriate as an additional analytical tool to evaluate managers.

Allocation to Active, Semi-Passive, and Passive

The current allocation to active, semi-passive, and passive management is as follows:

<u>Current:</u>	
Active	33%
Semi-Passive	33%
Passive	33%

The current allocation provides an expected return of 18 to 40 basis points over the asset class target, and tracking error of 1.1 to 1.5% relative to the asset class target, which is similar to other large plan sponsors.

The establishment of a single number rather than a range for a subset of an asset class can be restrictive in that it may add cost when rebalancing the asset class or when managers are added or deleted from the program. The addition of some flexibility without significantly changing the expected return or tracking error of the asset class would aid staff in the daily operation of the plan.

The IAC and Staff recommend the use of ranges in stating the allocation among active, semi-passive, and passive. The proposed ranges are as follows:

Active	25-40%
Semi-Passive	25-40%
Passive	25-40%

The proposed ranges allow flexibility during rebalancing and manager hiring and termination. These ranges maintain similar risk return expectations over the asset class target at 16 to 46 basis points of expected return and 1.1 to 1.5% tracking error.

Misfit Risk Control

The SBI currently uses a Dynamic Completeness Fund (DCF) to control misfit risk. This tool has been used by the SBI since October 1990. Its purpose is to reduce any style bias or misfit in the Domestic Equity Program relative to the asset class target so as to minimize any unintended size or style bets in the Program.

The DCF benchmark is constructed by comparing the weight of each stock in the combined custom benchmark of all active managers to the weight of that stock in the asset class target. The process is designed to neutralize over or under benchmark weighted stock exposures with an offsetting weight in the DCF benchmark. This DCF process has controlled the overall program's misfit risk.

The process was originally implemented passively from 1990 through 1994. With the introduction of semi-passive investment processes, the DCF benchmark assignment was

given to three semi-passive managers in January 1995. The semi-passive managers in aggregate have provided value-added results consistent with the stated objectives and have controlled the active risk level of their portfolios within stated limits.

The SBI's inability to legally short securities to offset "overweights" in the active manager benchmarks creates inaccuracy in the DCF benchmark. Problems with manager ownership, construction, and maintenance of appropriate custom benchmarks also cause problems in building the correct DCF benchmark. There is also a significant use of staff resources required to monitor and evaluate the Program that includes a DCF.

The IAC and Staff recommend controlling misfit risk or style bias by allocating assets across active managers and reducing the reliance on the DCF. This method minimizes misfit by allocating assets across the active managers so the policy (benchmark) weight reflect the size and style characteristics of the asset class target. To the extent that there is residual misfit risk remaining beyond an acceptable level, the DCF will be employed to reduce it. As was recommended previously, the semi-passive managers (DCF managers) will use only R1000 stocks to reduce misfit in the Domestic Equity Program.

Actuarial Earnings Rate of Return on Plan Assets

Total Funds (1,064) (1,032)

	Mean		Under 7.0%	7.0- 7.4%	7.5- 7.9%	8.0- 8.5%	8.6- 9.1%	9.2- 9.7%	9.8- 10.5%	Over 10.5%	No Answer/ Uncertain
	2001	2002									
Corporate Funds	8.9%	8.9%	1%	2%	4%	20%	21%	22%	8%	0%	23%
Over \$5 billion	9.1	9.0	1	1	6	16	19	30	13	0	14
\$1,001-5,000 million	9.0	8.9	2	1	5	20	23	29	7	*	12
\$501-1,000 million	8.7	8.9	1	2	2	20	17	16	9	0	33
\$500 million and under	8.8	8.8	1	3	2	21	22	15	5	0	32
Public Funds	8.3%	8.0%	2%	4%	13%	55%	6%	1%	0%	0%	18%
State	8.3	8.0	2	6	14	47	6	1	0	0	23
Municipal	8.2	8.1	1	3	14	62	5	1	1	0	14
Over \$5 billion	8.3	8.0	3	3	12	57	6	1	0	0	19
\$1,001-5,000 million	8.2	8.1	0	3	16	52	9	0	0	0	20
\$501-1,000 million	8.4	8.0	2	4	14	59	4	0	2	0	14
\$500 million and under	8.2	7.9	2	9	11	55	2	2	0	0	19
Total Funds	8.8%	8.6%	1%	2%	5%	24%	13%	12%	4%	0%	38%

Note: Means exclude "None."

Tab F

COMMITTEE REPORT

DATE: August 26, 2003

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

FROM: **Stock and Bond Manager Committee**

The Stock and Bond Manager Committee met on Thursday, August 14, 2003 to consider the following agenda items:

- Review the manager performance for the period ending June 30, 2003.
- Performance recap of the Short-Term Corporate Portfolio of the Invested Treasurers Cash Pool.
- Review of American Express Asset Management for fixed income mandate.
- Discussion related to the recommendations from the Asset Allocation Committee.
- Recommendation to terminate Forstmann-Leff Asset Management, LLC and Valenzuela Capital Partners, LLC.

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

INFORMATION ITEMS:

1. Review of manager performance for the period ending June 30, 2003.

- *Domestic Equity Managers*

For the period ending June 30, 2003, the **Domestic Equity Manager Program** under-performed the Wilshire 5000 Investable during all time periods. The **current managers** also under-performed the Aggregate Benchmark during all time periods.

Time period	Total Program	Wilshire 5000 Investable	Current Mgrs. Only	Aggregate Benchmark
Quarter	15.8%	16.1%	15.8%	16.3%
1 Year	0.4	0.8	0.4	1.5
3 Years	-11.3	-11.1	-11.2	-10.4
5 Years	-2.3	-1.9	-1.3	-1.2

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, 2003, the **Fixed Income Manager Program** outperformed the Lehman Aggregate over all time periods. The **current managers** also outperformed the Aggregate Benchmark over all time periods.

Time period	Total Program	Lehman Aggregate	Current Mgrs. Only	Aggregate Benchmark
Quarter	2.9%	2.5%	2.9%	2.5%
1 Year	10.7	10.4	11.0	10.4
3 Years	10.2	10.1	10.4	10.1
5 Years	7.6	7.5	7.7	7.5

The performance evaluation reports for the fixed income managers start on the **blue page A-55** of this Tab.

- **International Equity Managers**

For the period ending June 30, 2003, the **International Equity Program** and the **equity managers** (excluding the currency overlay) under-performed the composite index over the quarter and the year and outperformed over the three and five-year time periods.

Time Period	Total* Program	Composite Index**	Equity*** Mgrs. Only
Quarter	19.1	19.6	19.1
1 Year	-6.2	-5.4	-6.2
3 Year	-12.1	-13.0	-12.1
5 Year	-2.8	-3.3	-2.7

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

** 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.

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

The performance evaluation reports for the international equity managers start on the **blue page A-67** of this Tab.

2. Performance recap of the Short-Term Corporate Portfolio of the Invested Treasurer's Cash Pool.

Staff presented an update on the liquidation of the Short Term Corporate Portfolio of the Invested Treasurer's Cash Pool ("ITC"). The liquidation of the portfolio was necessitated by the State's use of cash reserves and the resulting need for greater liquidity in the ITC. The Short-Term Corporate portfolio was completely liquidated by June 30, 2003. All positions were sold at a gain, and the liquidation had no adverse impact on the ITC. During the nearly 5-year period that the portfolio was invested (April 1998 to December 2002), the short-corporate strategy added an average of 53 basis points per year over the portfolio's benchmark, the Lehman 1-3 Year Government Index. Staff recommended that the strategy be re-implemented once the balance and liquidity situation of the ITC improve to again support such a strategy.

3. Review of American Express Asset Management for fixed income mandate.

Staff prepared and presented background information on American Express Asset Management, a manager in the SBI's Fixed Income Program. The firm was hired by the SBI in July 1993. Since inception, performance has been good. However, during calendar year 2002, the portfolio underperformed the Lehman Aggregate benchmark by 448 basis points. The effect of 2002's underperformance caused annualized and since inception returns to fall below the benchmark.

American Express Asset Management made a presentation to the Committee during which they discussed the significant organizational and investment process changes they have made to ensure that performance improves and that portfolio risk is better controlled. The Committee responded favorably to the presentation, and is prepared to continue the investment management relationship with American at this time, but will continue to monitor performance closely over the near term.

4. Discussion related to the recommendations from the Asset Allocation Committee.

The Committee discussed the Asset Class Target & Asset Class Structure Review Paper on **page 27 of Tab E**. There was a review of the major proposals in the paper including the asset class targets, manager benchmarks, risk control, and the allocation of assets to passive and active management for each asset class. After a discussion, the Committee supported the recommendations of the Asset Allocation Committee as presented in the Asset Class Target & Asset Class Structure Review Paper.

ACTION ITEMS:

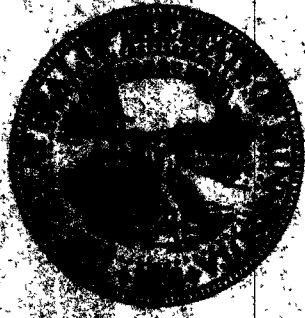
1. Recommendation to terminate Forstmann-Leff Asset Management, LLC and Valenzuela Capital Partners, LLC.

The Stock and Bond Manager Committee is recommending the termination of two of the Domestic Equity managers. The first is **Forstmann-Leff Asset Management, LLC** where a change in the portfolio management team has caused concern that the SBI's portfolio might be adversely affected. The second is **Valenzuela Capital Partners, LLC**. Valenzuela has provided disappointing performance over the past five years. Since inception, the manager trails the custom benchmark by 175 basis points. Relative to the published Russell Midcap Value Index, the portfolio has outperformed only 30% of the time over the past five years. In addition, the firm has also suffered substantial analyst turnover and loss of clients.

The assets of both managers would be used to rebalance the Retirement Plans back to target.

RECOMMENDATION:

The Committee recommends that the SBI terminate its relationship with Forstmann-Leff Asset Management, LLC and Valenzuela Capital Partners, LLC for investment management services in the Domestic Equity Program.



STATE BOARD OF INVESTMENT

Domestic Equity Manager Evaluation Reports

Second Quarter, 2003

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**COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending June, 2003
Versus Custom Benchmarks**

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
Alliance Capital	11.6	14.7	-0.7	1.7	-16.3	-14.8	-0.6	-1.4	15.3	11.1	\$864.9	5.0%
Cohen, Klingenstein & Marks	22.6	20.4	8.9	10.2	-17.5	-10.9	-5.0	0.6	9.4	11.0	\$512.2	3.0%
Forstmann-Leff	16.1	20.0	-7.5	4.4	-17.5	0.8	-1.4	5.6	11.2	11.8	\$505.5	2.9%
Franklin Portfolio	18.5	20.6	-7.1	5.1	-7.3	-3.9	-1.1	1.6	11.3	11.3	\$632.0	3.6%
GeoCapital	22.4	24.8	10.6	14.3	-19.6	-8.5	-6.4	-1.2	7.7	9.6	\$271.3	1.6%
Lincoln	8.2	14.1	-2.0	4.2	-24.8	-20.1	-8.8	-4.8	6.9	9.1	\$469.9	2.7%
New Amsterdam Partners	15.3	19.2	-0.1	0.1	-2.9	-2.4	4.3	5.8	13.4	13.1	\$318.2	1.8%
Oppenheimer	15.7	18.6	2.3	-1.2	-0.8	-4.7	1.6	2.1	12.7	11.4	\$753.8	4.3%
UBS Global	17.4	16.8	4.2	1.6	3.5	-9.1	-0.1	0.3	10.4	10.0	\$777.3	4.5%
Emerging Managers												
Artemis	17.1	25.0	-7.6	-0.1	-10.8	-1.0			-10.8	-1.0	\$35.8	0.2%
Bay Isle Financial	16.8	17.0	-9.7	-0.2	-7.0	-1.8			-7.0	-1.8	\$40.2	0.2%
Earnest Partners	15.9	22.0	2.3	6.2	-4.8	9.8			-4.8	9.8	\$43.5	0.3%
Holt-Smith & Yates	16.9	16.9	-5.7	-2.0	-10.0	-2.2			-10.0	-2.2	\$36.9	0.2%
Next Century Growth	24.1	23.2	-0.1	6.6	-21.4	-12.9			-21.4	-12.9	\$24.6	0.1%
Peregrine Capital	23.5	21.5	-6.9	-1.3	13.2	15.4			13.2	15.4	\$132.1	0.8%
Valenzuela Capital	14.7	16.0	-9.1	-2.7	-1.7	4.6	-1.0	3.3	9.3	11.1	\$68.4	0.4%
Voyageur-Chicago Equity	13.8	15.3	-2.4	-0.3	-9.4	-10.4			-9.4	-10.4	\$37.8	0.2%
Winslow-Small Cap	21.6	27.1	4.6	2.1	-10.0	-8.9			-10.0	-8.9	\$128.1	0.7%
Zevenbergen Capital	22.9	14.7	9.3	3.4	-26.4	-14.5	-3.3	3.7	9.0	12.8	\$106.8	0.6%
Semi-Passive Managers												
Barclays Global Investors	14.5	14.5	1.9	0.2	-9.6	-11.5	-2.6	-3.3	10.4	9.6	\$2,402.1	13.8%
Franklin Portfolio	14.9	14.5	-1.1	0.2	-11.3	-11.5	-4.3	-3.3	9.2	9.6	\$1,505.4	8.7%
JP Morgan	15.3	14.5	-0.4	0.2	-11.0	-11.5	-3.3	-3.3	9.7	9.6	\$2,101.0	12.1%
Passive Manager												
Barclays Global Investors	15.9	16.1	0.8	0.8	-11.0	-11.1	-1.5	-1.7	8.7	8.5	\$5,590.4	32.2%
Since 1/1/84												
Current Aggregate	15.8	16.3	0.4	1.5	-11.2	-10.4	-1.3	-1.2	12.9	10.9	\$17,358.3	100.0%
Historical Aggregate (2)	15.8	16.3	0.4	1.5	-11.3	-10.5	-2.3	-1.4	11.3	11.6		
Wilshire 5000 Investable (3)	16.1		0.8		-11.1		-1.9		11.5			
Wilshire 5000	16.5		1.3		-10.6		-1.3		11.8			

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

(2) Includes the performance of terminated managers.

(3) 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.

COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending June, 2003
Performance versus Published Style Benchmarks

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market Value (in millions)	Active Pool %
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk		
	%	%	%	%	%	%	%	%	%	%		
LARGE CAP												
Russell 1000 Core												
Forstmann-Leff	16.1	15.7	-7.5	1.0	-17.5	-11.0	-1.4	-1.2	11.2	12.3	\$505.5	8.8%
Franklin Portfolio	18.5	15.7	-7.1	1.0	-7.3	-11.0	-1.1	-1.2	11.3	11.3	\$632.0	11.0%
Holt-Smith & Yates	16.9	15.7	-5.7	1.0	-10.0	-11.0			-10.0	-11.0	\$36.9	0.6%
New Amsterdam Partners	15.3	15.7	-0.1	1.0	-2.9	-11.0	4.3	-1.2	13.4	10.7	\$318.2	5.5%
UBS Global	17.4	15.7	4.2	1.0	3.5	-11.0	-0.1	-1.2	10.4	9.9	\$777.3	13.5%
Voyageur-Chicago Equity	13.8	15.7	-2.4	1.0	-9.4	-11.0			-9.4	-11.0	\$37.8	0.7%
Russell 1000 Growth												
Alliance Capital	11.6	14.3	-0.7	2.9	-16.3	-21.5	-0.6	-5.0	15.3	11.1	\$864.9	15.0%
Cohen, Klingenstein & Marks	22.6	14.3	8.9	2.9	-17.5	-21.5	-5.0	-5.0	9.4	8.9	\$512.2	8.9%
Lincoln	8.2	14.3	-2.0	2.9	-24.8	-21.5	-8.8	-5.0	6.9	8.3	\$469.9	8.2%
Zevenbergen Capital	22.9	14.3	9.3	2.9	-26.4	-21.5	-3.3	-5.0	9.0	8.9	\$106.8	1.9%
Russell 1000 Value												
Bay Isle Financial	16.8	17.3	-9.7	-1.0	-7.0	-0.2			-7.0	-0.2	\$40.2	0.7%
Earnest Partners	15.9	17.3	2.3	-1.0	-4.8	-0.2			-4.8	-0.2	\$43.5	0.8%
Oppenheimer	15.7	17.3	2.3	-1.0	-0.8	-0.2	1.6	1.1	12.7	10.7	\$753.8	13.1%
Valenzuela Capital	14.7	17.3	-9.1	-1.0	-1.7	-0.2	-2.3	1.1	9.3	11.5	\$68.4	1.2%
SMALL CAP												
Russell 2000 Core												
Artemis	17.1	23.4	-7.6	-1.6	-10.8	-3.3			-10.8	-3.3	\$35.8	0.6%
Russell 2000 Growth												
GeoCapital	22.4	24.1	10.6	0.7	-19.6	-16.7	-6.4	-4.2	7.7	5.9	\$271.3	4.7%
Next Century Growth	24.1	24.1	-0.1	0.7	-21.4	-16.7			-21.4	-16.7	\$24.6	0.4%
Winslow-Small Cap	21.6	24.1	4.6	0.7	-10.0	-16.7			-10.0	-16.7	\$128.1	2.2%
Russell 2000 Value												
Peregrine Capital	23.5	22.7	-6.9	-3.8	13.2	10.9			13.2	10.9	\$132.1	2.3%
Since 1/184												
Russell 3000	16.2		0.8		-10.5		-1.1		12.0			
Historical Aggregate (2)	15.8		0.4		-11.3		-2.3		11.3			

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

(2) Includes the performance of terminated managers

**COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Calendar Year Returns Versus
Custom Benchmarks**

	YTD 6/30/03		2002		2001		2000		1999		1998	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Active Managers												
Alliance Capital	10.5	10.6	-26.8	-24.0	-13.7	-15.3	-13.7	-11.4	38.0	30.3	49.6	38.6
Cohen, Klingenstein & Marks	22.3	20.2	-35.0	-23.8	-25.0	-11.2	-6.0	-12.1	24.8	28.6	38.2	31.3
Forstmann-Leff	17.4	18.9	-36.0	-21.0	-10.3	-2.5	-12.3	18.1	38.3	20.5	30.3	9.7
Franklin Portfolio	12.6	17.2	-25.4	-19.8	-6.6	-5.4	-1.6	0.3	26.2	16.3	10.7	18.3
GeoCapital	25.2	20.6	-31.5	-23.2	-24.1	-1.8	-27.8	-13.0	59.8	25.9	6.9	-1.3
Lincoln	9.3	13.2	-26.3	-26.3	-30.4	-18.1	-22.4	-24.5	26.7	29.2	42.3	44.5
New Amsterdam Partners	11.6	15.2	-17.5	-22.2	-3.3	3.7	15.0	3.1	15.0	32.1	26.2	18.5
Oppenheimer	10.3	13.1	-15.5	-20.7	-7.0	-9.5	11.2	10.3	10.7	14.9	21.5	24.4
UBS Global	13.3	13.0	-14.7	-20.6	5.2	-11.0	3.6	-1.0	-8.5	21.6	17.3	18.8
Emerging Managers												
Artemis	10.6	19.2	-21.5	-20.5	5.8	11.9						
Bay Isle Financial	8.5	12.5	-26.1	-17.2	-1.6	-5.9						
Earnest Partners	13.0	17.8	-18.1	-11.6	-0.4	11.5						
Holt-Smith & Yates	10.3	12.8	-28.0	-19.0	-1.7	4.6						
Next Century Growth	19.9	20.2	-33.3	-27.8	-22.8	-5.5						
Peregrine Capital	13.5	14.6	-8.1	-6.9	12.6	22.9						
Valenzuela Capital	12.9	11.8	-17.6	-11.2	-7.7	4.5	18.9	14.9	-6.7	3.7	-0.2	2.6
Voyageur-Chicago Equity	9.5	11.5	-20.6	-20.7	-19.4	-12.0						
Winslow-Small Cap	15.6	21.5	-25.0	-26.7	-6.1	4.6						
Zevenbergen Capital	26.1	13.4	-36.2	-24.2	-29.0	-3.2	-38.2	-16.6	94.3	56.6	54.5	30.7
Semi-Passive Managers												
Franklin Portfolio	10.5	11.1	-20.2	-19.7	-9.0	-9.7	-15.9	-16.3	12.9	16.3	22.4	23.7
JP Morgan	11.7	11.1	-21.8	-19.7	-8.7	-9.7	-13.6	-16.3	14.0	16.3	24.6	23.7
Barclays Global Investors	12.2	11.1	-19.1	-19.7	-7.8	-9.7	-13.8	-16.3	14.1	16.3	21.4	23.7
Passive Manager												
Barclays Global Investors	12.5	12.7	-21.4	-21.5	-11.8	-11.7	-9.8	-11.0	23.3	23.6	23.4	23.4
Current Aggregate	12.7	12.9	-22.4	-21.1	-10.9	-9.7	-10.5	-10.7	25.2	21.7	25.1	23.9
Historical Aggregate (1)	12.7	12.9	-22.4	-21.1	-11.1	-9.9	-11.0	-10.7	21.0	21.3	23.5	23.4
Wilshire 5000 Investable (2)	12.7		-21.5		-11.7		-10.8		22.2		23.4	
Wilshire 5000	12.9		-20.9		-11.0		-10.9		23.6		23.4	

(1) Includes the performance of terminated managers

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

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

Prior to 11/1/93, the Wilshire 5000 was adjusted to reflect SBI mandated restrictions.

which included liquor and tobacco American Home Products and South Africa

Includes full-year returns only Performance of managers hired during a calendar year are reported beginning with the following calendar year

**COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Calendar Year Returns Versus
Published Style Benchmarks**

	YTD 6/30/03		2002		2001		2000		1999		1998	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
LARGE CAP												
Russell 1000 Core												
Forstmann-Leff	17.4	12.3	-36.0	-21.7	-10.3	-12.5	-12.3	-7.8	38.3	20.9	30.3	27.0
Franklin Portfolio	12.6	12.3	-25.4	-21.7	-6.6	-12.5	-1.6	-7.8	26.2	20.9	10.7	27.0
Holt-Smith & Yates	10.3	12.3	-28.0	-21.7	-1.7	-12.5						
New Amsterdam Partners												
UBS Global	13.3	12.3	-14.7	-21.7	5.2	-12.5	3.6	-7.8	-8.5	20.9	17.3	27.0
Voyageur-Chicago Equity	9.5	12.3	-20.6	-21.7	-19.4	-12.5						
Russell 1000 Growth												
Alliance Capital	10.5	13.1	-26.8	-27.9	-13.7	-20.4	-13.7	-22.4	38.0	33.2	49.6	38.7
Cohen, Kligenstein & Marks	22.3	13.1	-35.0	-27.9	-25.0	-20.4	-6.0	-22.4	24.8	33.2	38.2	38.7
Lincoln	9.3	13.1	-26.3	-27.9	-30.4	-20.4	-22.4	-22.4	26.7	33.2	42.3	38.7
Zevenbergen Capital	26.1	13.1	-36.2	-27.9	-29.0	-20.4	-38.2	-22.4	94.3	33.2	54.5	38.7
Russell 1000 Value												
Bay Isle Financial	8.5	11.6	-26.1	-15.5	-1.6	-5.6						
Earnest Partners	13.0	11.6	-18.1	-15.5	-0.4	-5.6						
Oppenheimer	10.3	11.6	-15.5	-15.5	-7.0	-5.6	11.2	7.0	10.7	7.3	21.5	15.6
Valenzuela Capital	12.9	11.6	-17.6	-15.5	-7.7	-5.6	18.9	7.0	-6.7	7.3	-0.2	15.6
SMALL CAP												
Russell 2000 Core												
Artemis	10.6	17.9	-21.5	-20.5	5.8	2.5						
Russell 2000 Growth												
GeoCapital	25.2	19.3	-31.5	-30.3	-24.1	-9.2	-27.8	-22.4	59.8	43.1	6.9	1.2
Next Century Growth	19.9	19.3	-33.3	-30.3	-22.8	-9.2						
Winslow-Small Cap	15.6	19.3	-25.0	-30.3	-6.1	-9.2						
Russell 2000 Value												
Peregrine Capital	13.5	16.5	-8.1	-11.4	12.6	14.0						

Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

ALLIANCE CAPITAL MANAGEMENT
Periods Ending June, 2003

Portfolio Manager: Jack Koltes

Assets Under Management: \$864,891,326

Investment Philosophy

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

Staff Comments

Alliance underperformed during the quarter due to their holdings in the biotechnology and pharmaceutical industries and to their retail holding, Kohls, which underperformed other retail names.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 1000 Growth
Last Quarter	11.6%	14.7%	14.3%
Last 1 year	-0.7	1.7	2.9
Last 2 years	-12.0	-10.9	-13.0
Last 3 years	-16.3	-14.8	-21.5
Last 4 years	-7.8	-8.0	-11.7
Last 5 years	-0.6	-1.4	-5.0
Since Inception (1/84)	15.3	11.1	11.1

Calendar Year Returns

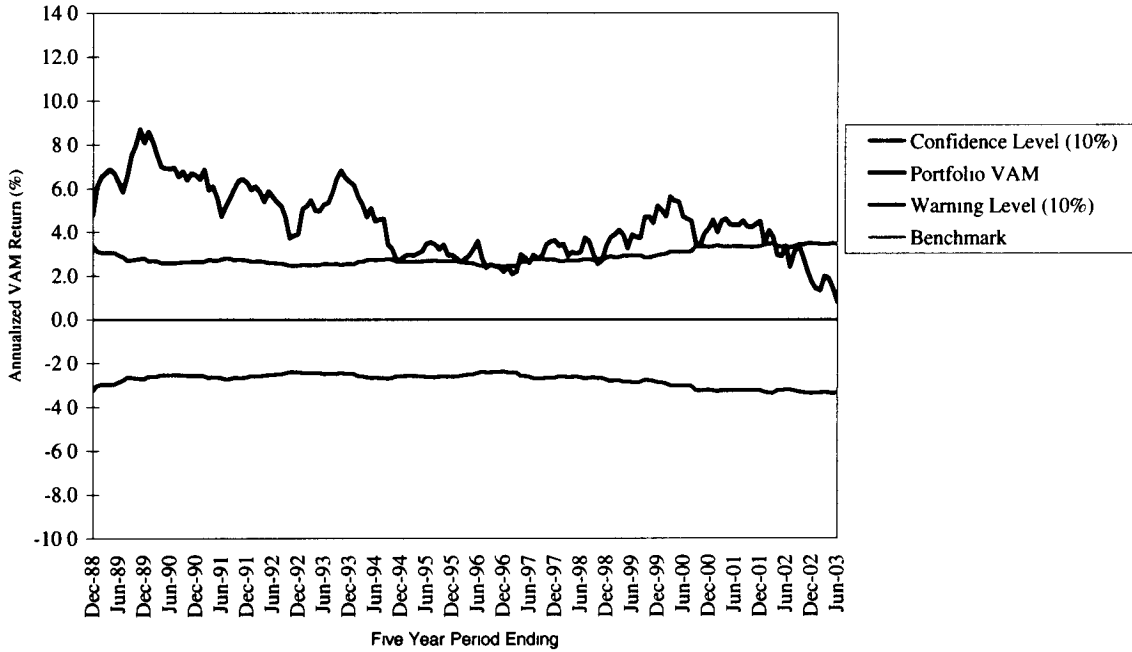
	Actual	Custom Benchmark	Russell 1000 Growth
YTD 6/30/2003	10.5%	10.6%	13.1%
2002	-26.8	-24.0	-27.9
2001	-13.7	-15.3	-20.4
2000	-13.7	-11.4	-22.4
1999	38.0	30.3	33.2
1998	49.6	38.6	38.7

ALLIANCE CAPITAL MANAGEMENT
Periods Ending June, 2003

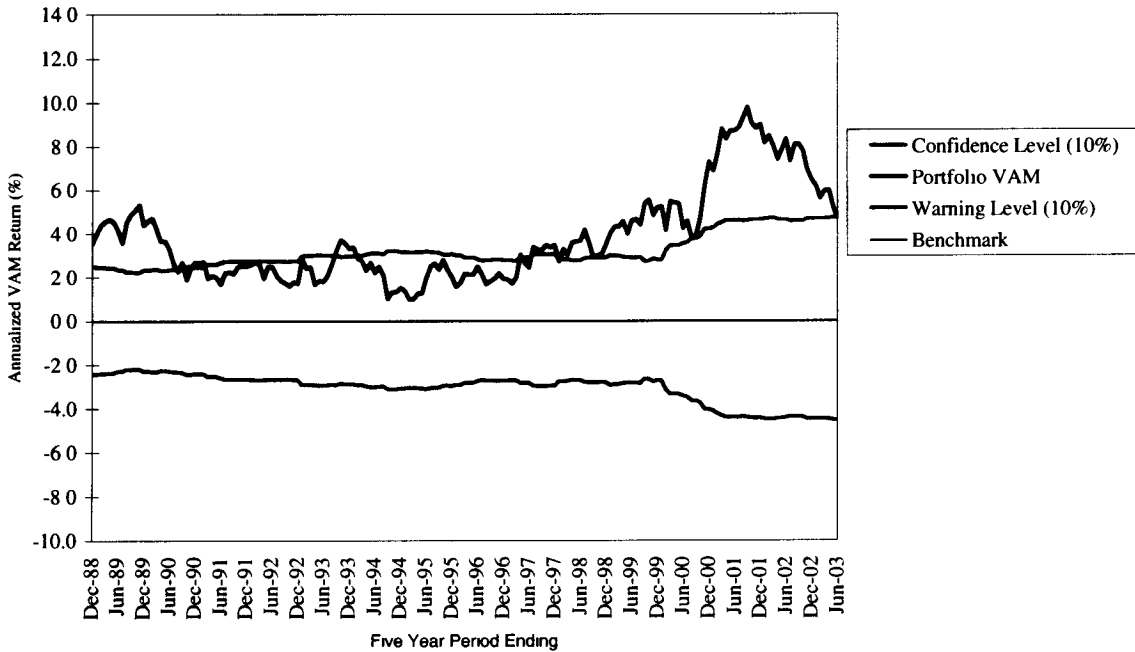
Portfolio Manager: Jack Koltes

Assets Under Management: \$864,891,326

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year VAM vs. Custom Benchmark



ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year VAM vs. Russell 1000 Growth



COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending June, 2003

Portfolio Manager: George Cohen

Assets Under Management: \$512,218,918

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

Cohan outperformed for the quarter due to a heavy weighting and good stock selection in technology and the consumer areas. Carnival Corp., EMC, and McDonalds were the largest positive contributors to performance. Longer-term returns lagged the benchmark as a result of an overweight to technology and telecommunication stocks during the past two years when those areas underperformed. The manager had positioned the portfolio for a faster economic recovery than we have experienced.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 1000 Growth
Last Quarter	22.6%	20.4%	14.3%
Last 1 year	8.9	10.2	2.9
Last 2 years	-19.0	-6.6	-13.0
Last 3 years	-17.5	-10.9	-21.5
Last 4 years	-11.6	-4.9	-11.7
Last 5 years	-5.0	0.6	-5.0
Since Inception (4/94)	9.4	11.0	8.9

Calendar Year Returns

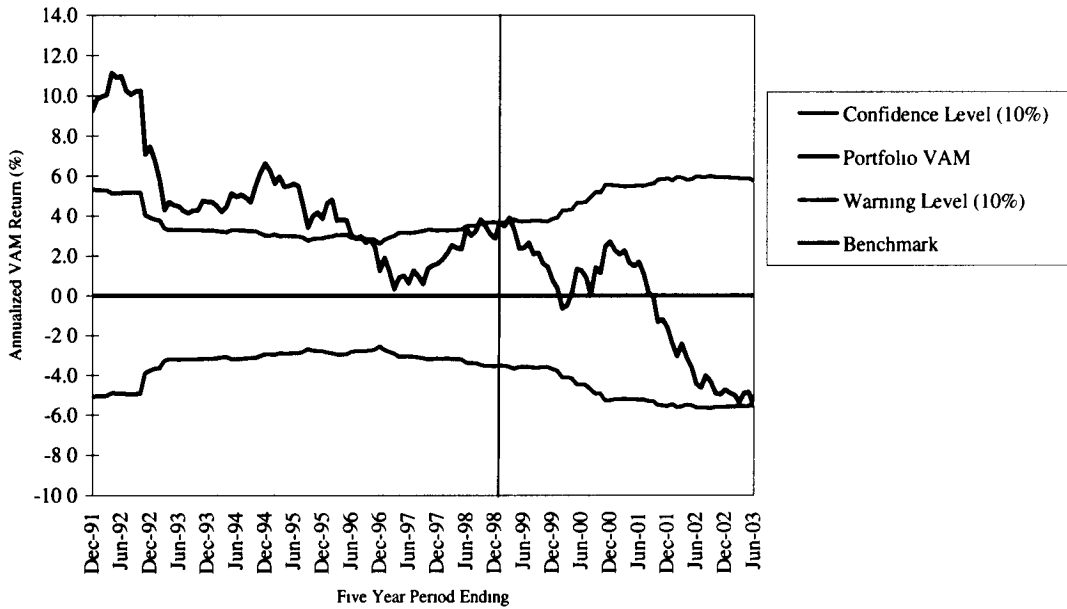
	Actual	Custom Benchmark	Russell 1000 Growth
YTD 6/30/2003	22.3%	20.2%	13.1%
2002	-35.0	-23.8	-27.9
2001	-25.0	-11.2	-20.4
2000	-6.0	-12.1	-22.4
1999	24.8	28.6	33.2
1998	38.2	31.3	38.7

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending June, 2003

Portfolio Manager: George Cohen

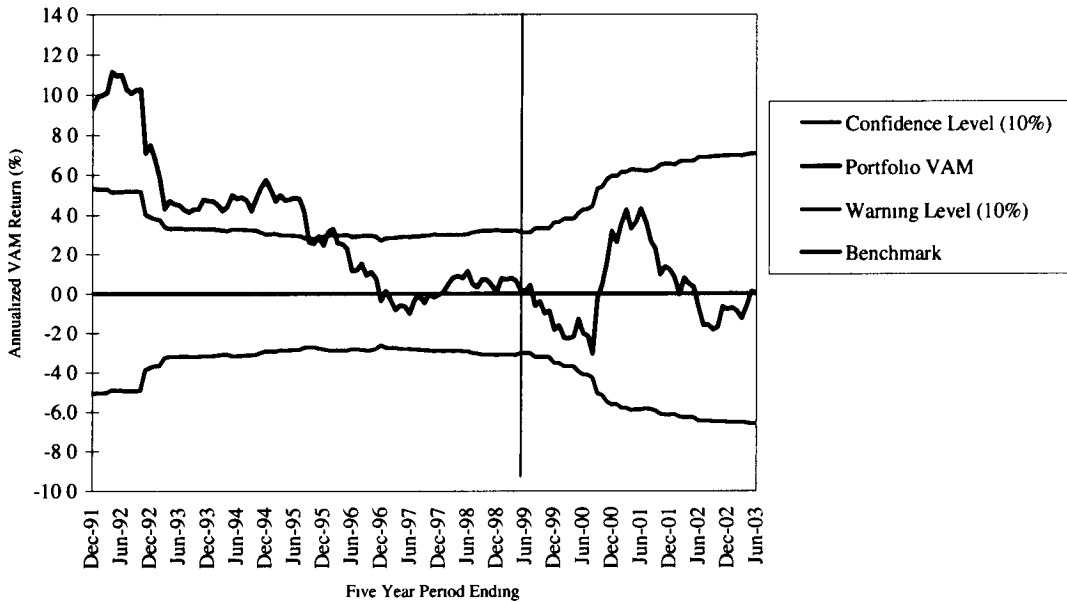
Assets Under Management: \$512,218,918

COHEN KLINGENSTEIN & MARKS
Rolling Five Year VAM vs. Custom Benchmark



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

COHEN KLINGENSTEIN & MARKS
Rolling Five Year VAM vs. Russell 1000 Growth



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

FORSTMANN-LEFF ASSOCIATES
Periods Ending June, 2003

Portfolio Manager: Bill Harnisch

Assets Under Management: \$505,544,168

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

During the quarter, Forstmann-Leff announced changes to their organization. Effective July 15, 2003, Bill Harnish became the Chairman of Forstmann-Leff. He has relinquished the position of President, CEO, and CIO. The position of President is being eliminated, and they plan to search for a new CEO with a marketing background. The new CIO is Tom Gavin, who has been a portfolio manager with the firm for the past twelve years. Mr. Harnish will continue to sit on the Investment Strategy Committee, however Staff expects him to spend less time on the SBI's portfolio.

Recommendation

Bill Harnish has been an integral part of the investment team and process for many years. Staff believes his changing role will have an adverse affect on the management of the SBI's portfolio, and recommends the IAC and Board consider termination of the relationship with Forstmann-Leff.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 1000 Core
Last Quarter	16.1%	20.0%	15.7%
Last 1 year	-7.5	4.4	1.0
Last 2 years	-19.1	-5.6	-9.0
Last 3 years	-17.5	0.8	-11.0
Last 4 years	-10.8	3.2	-6.3
Last 5 years	-1.4	5.6	-1.2
Since Inception (1/84)	11.2	11.8	12.3

Calendar Year Returns

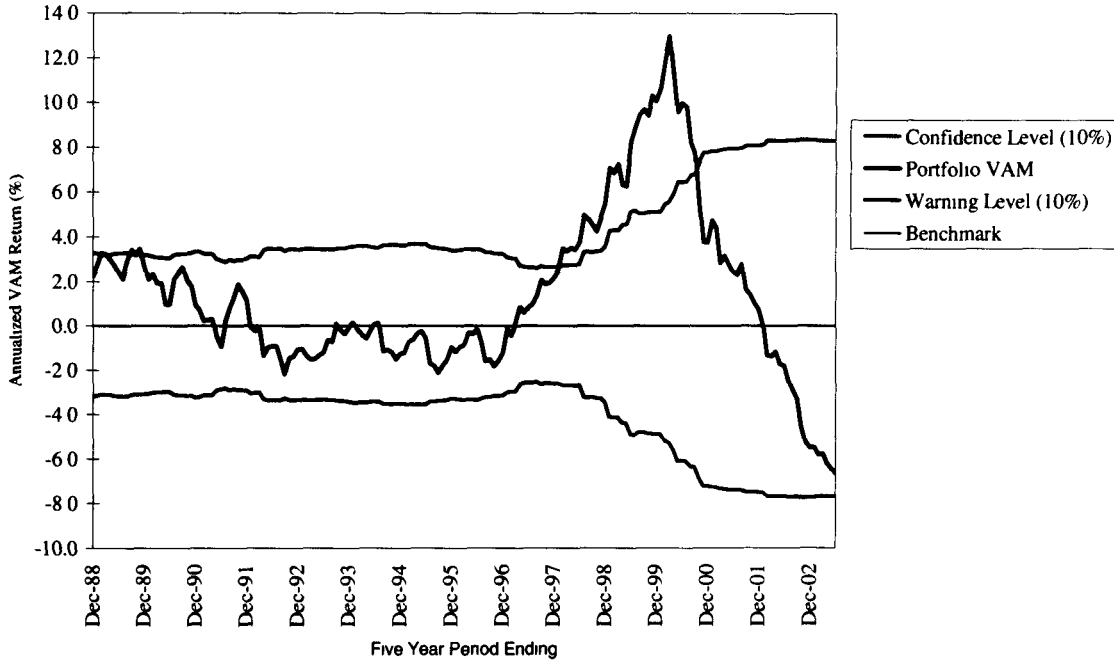
	Actual	Custom Benchmark	Russell 1000 Core
YTD 6/30/2003	17.4%	18.9%	12.3%
2002	-36.0	-21.0	-21.7
2001	-10.3	-2.5	-12.5
2000	-12.3	18.1	-7.8
1999	38.3	20.5	20.9
1998	30.3	9.7	27.0

FORSTMANN-LEFF ASSOCIATES
Periods Ending June, 2003

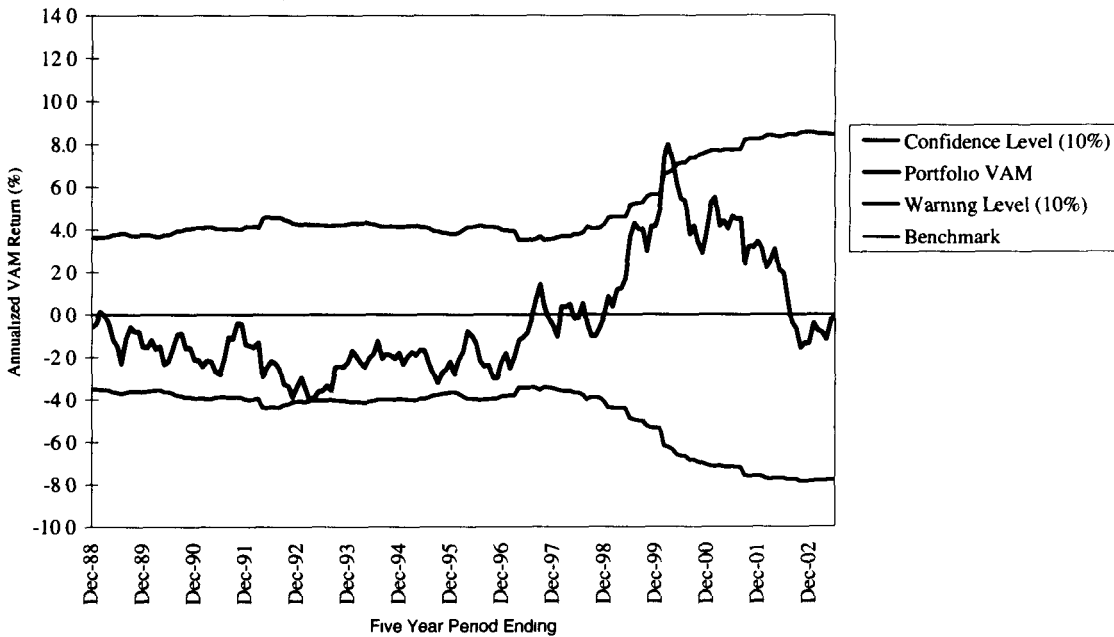
Portfolio Manager: Bill Harnisch

Assets Under Management: \$505,544,168

FORSTMANN-LEFF ASSOCIATES
Rolling Five Year VAM vs. Custom Benchmark



FORSTMANN-LEFF ASSOCIATES
Rolling Five Year VAM vs. Russell 1000 Core



FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2003

Portfolio Manager: John Cone

Assets Under Management: \$632,032,961

Investment Philosophy – Active Style

Franklin believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns. Franklin builds a portfolio by using a series of more than 30 integrated computer models that value a universe of 3500 stocks. Their models rank each security based on fundamental momentum, relative value, future cash flow, and supplementary models, 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

During the quarter, the portfolio underperformed the benchmark by 2.1% due to stock selection in the technology and finance sectors. The manager believes low price and low quality stocks had very strong returns relative to their higher quality holdings in the portfolio. Holdings such as Eastman Kodak, Qualcomm, Staples, and Freddie Mac hurt performance during the quarter. For the past year, their models' highest ranked stocks in the electronic technology and finance areas have performed poorly.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 1000 Core
Last Quarter	18.5%	20.6%	15.7%
Last 1 year	-7.1	5.1	1.0
Last 2 years	-12.1	-5.3	-9.0
Last 3 years	-7.3	-3.9	-11.0
Last 4 years	-3.6	-2.3	-6.3
Last 5 years	-1.1	1.6	-1.2
Since Inception (4/89)	11.3	11.3	11.3

Calendar Year Returns

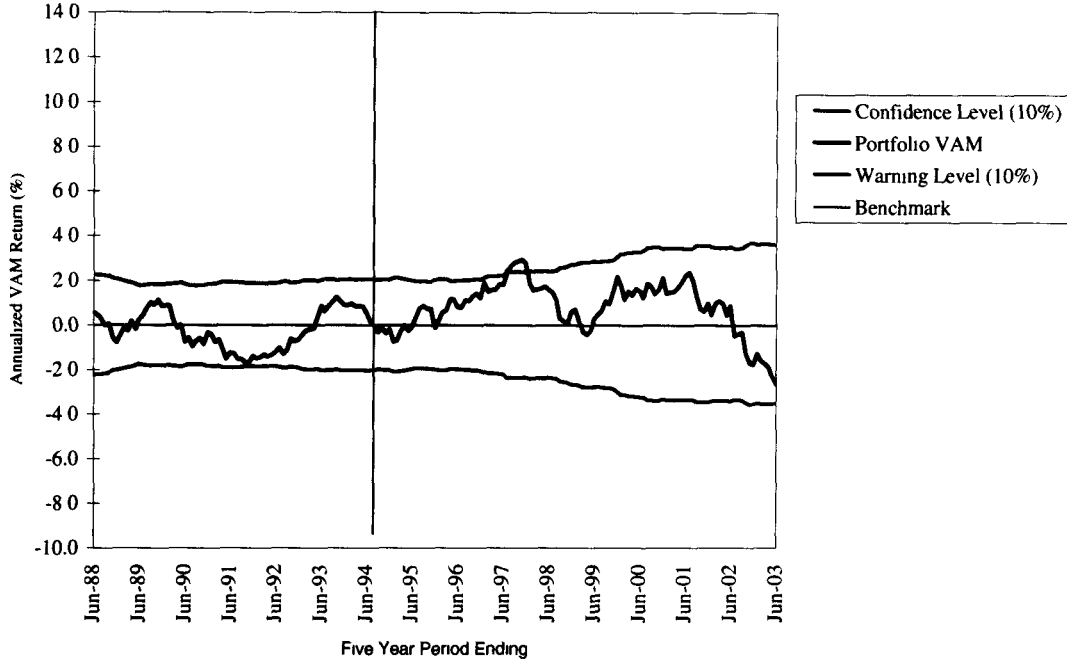
	Actual	Custom Benchmark	Russell 1000 Core
YTD 6/30/2003	12.6%	17.2%	12.3%
2002	-25.4	-19.8	-21.7
2001	-6.6	-5.4	-12.5
2000	-1.6	0.3	-7.8
1999	26.2	16.3	20.9
1998	10.7	18.3	27.0

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2003

Portfolio Manager: John Cone

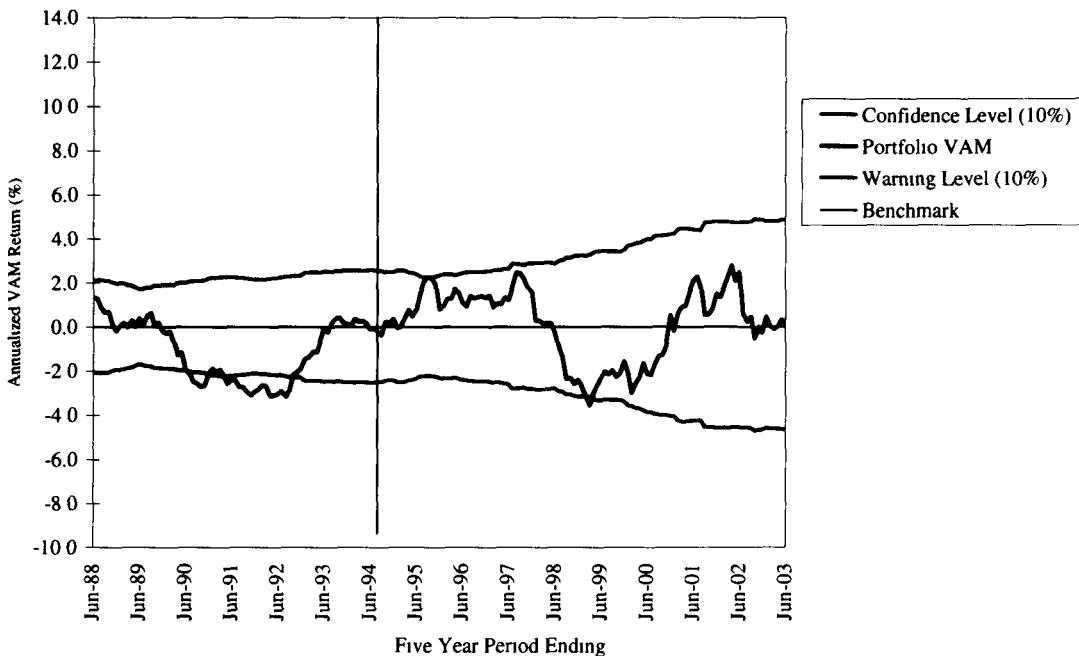
Assets Under Management: \$632,032,961

FRANKLIN PORTFOLIO ASSOCIATES - Active
Rolling Five Year VAM vs. Custom Benchmark



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

FRANKLIN PORTFOLIO ASSOCIATES - Active
Rolling Five Year VAM vs. Russell 1000 Core



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

GEOCAPITAL CORP.
Periods Ending June, 2003

Portfolio Manager: Barry Fingerhut

Assets Under Management: \$271,321,383

Investment Philosophy

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

Staff Comments

GeoCapital lagged the benchmark for the quarter by 2.4%. The largest detraction came from the lack of holdings in the biotechnology area, which had a return of 56% for the quarter. In addition, their cash position, averaging 3.8% of the portfolio, detracted about 1% from performance. Over the past year, GeoCapital trailed the custom benchmark by 3.7% primarily in the information technology and internet software industries.

Recommendation

Given concerns about long-term underperformance, staff recommends a formal review of the manager next quarter.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 2000 Growth
Last Quarter	22.4%	24.8%	24.1%
Last 1 year	10.6	14.3	0.7
Last 2 years	-14.0	-7.1	-13.1
Last 3 years	-19.6	-8.5	-16.7
Last 4 years	-7.6	-0.8	-7.2
Last 5 years	-6.4	-1.2	-4.2
Since Inception (4/90)	7.7	9.6	5.9

Calendar Year Returns

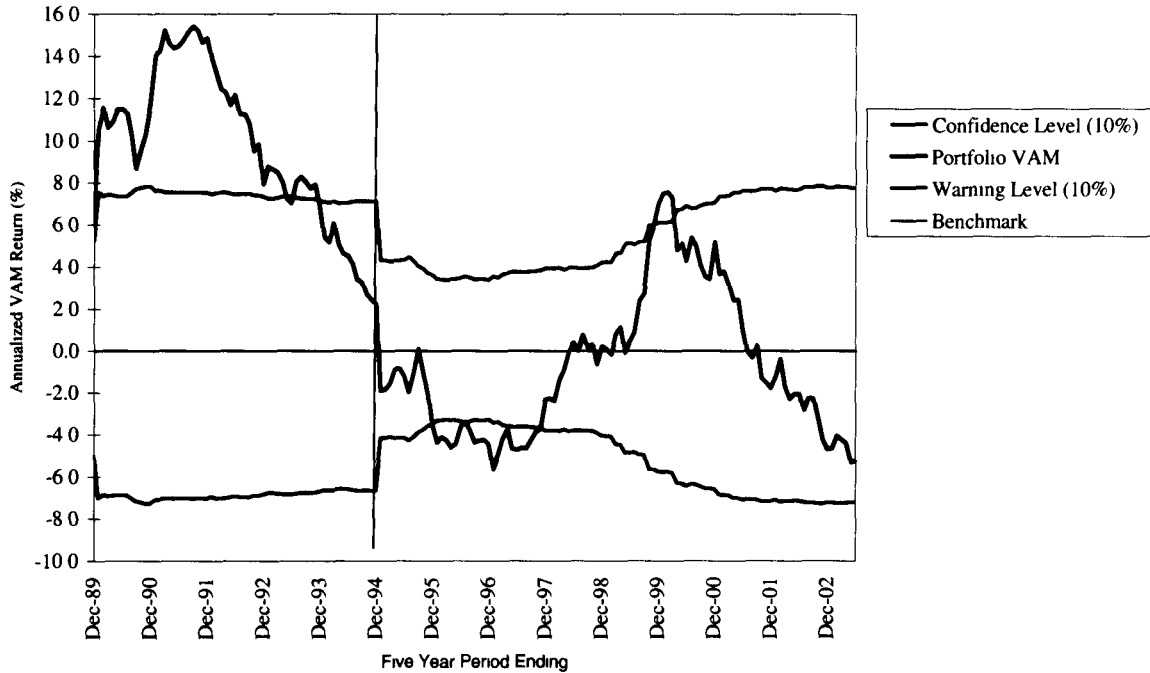
	Actual	Custom Benchmark	Russell 2000 Growth
YTD 6/30/2003	25.2%	20.6%	19.3%
2002	-31.5	-23.2	-30.3
2001	-24.1	-1.8	-9.2
2000	-27.8	-13.0	-22.4
1999	59.8	25.9	43.1
1998	6.9	-1.3	1.2

GEOCAPITAL CORP.
Periods Ending June, 2003

Portfolio Manager: Barry Fingerhut

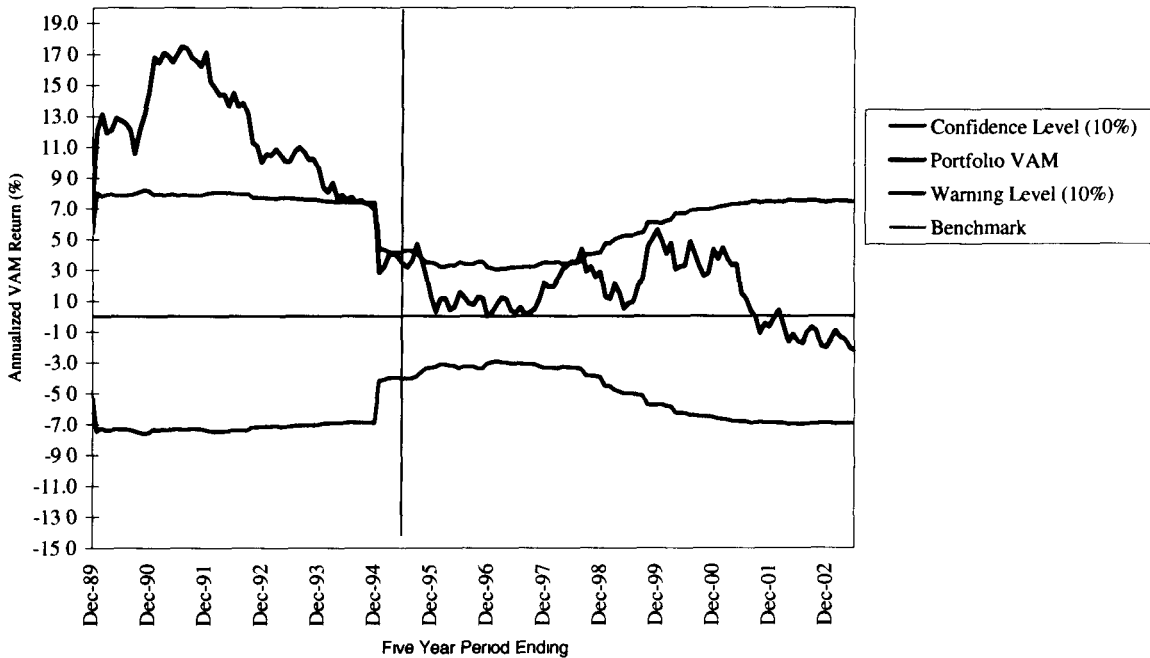
Assets Under Management: \$271,321,383

GEOCAPITAL CORP.
Rolling Five Year VAM vs. Custom Benchmark



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

GEOCAPITAL CORP.
Rolling Five Year VAM vs. Russell 2000 Growth



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

LINCOLN EQUITY MANAGEMENT, LLC
Periods Ending June, 2003

Portfolio Manager: David Fowler

Assets Under Management: \$469,892,131

Investment Philosophy

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

Staff Comments

Lincoln underperformed their benchmark by 5.9% for the quarter due to holdings in what they believe to be stable growth companies including: 3M, Danaher, Zimmer, Kohl's, Microsoft, and Maxim Integrated Products. For the year, they lagged by 5.8% due to companies held in the technology, healthcare, and retail areas.

Recommendation

Staff continues to monitor the firm closely, and recommends a formal review next quarter.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 1000 Growth
Last Quarter	8.2%	14.1%	14.3%
Last 1 year	-2.0	4.2	2.9
Last 2 years	-13.8	-10.7	-13.0
Last 3 years	-24.8	-20.1	-21.5
Last 4 years	-15.7	-12.0	-11.7
Last 5 years	-8.8	-4.8	-5.0
Since Inception (7/93)	6.9	9.1	8.3

Calendar Year Returns

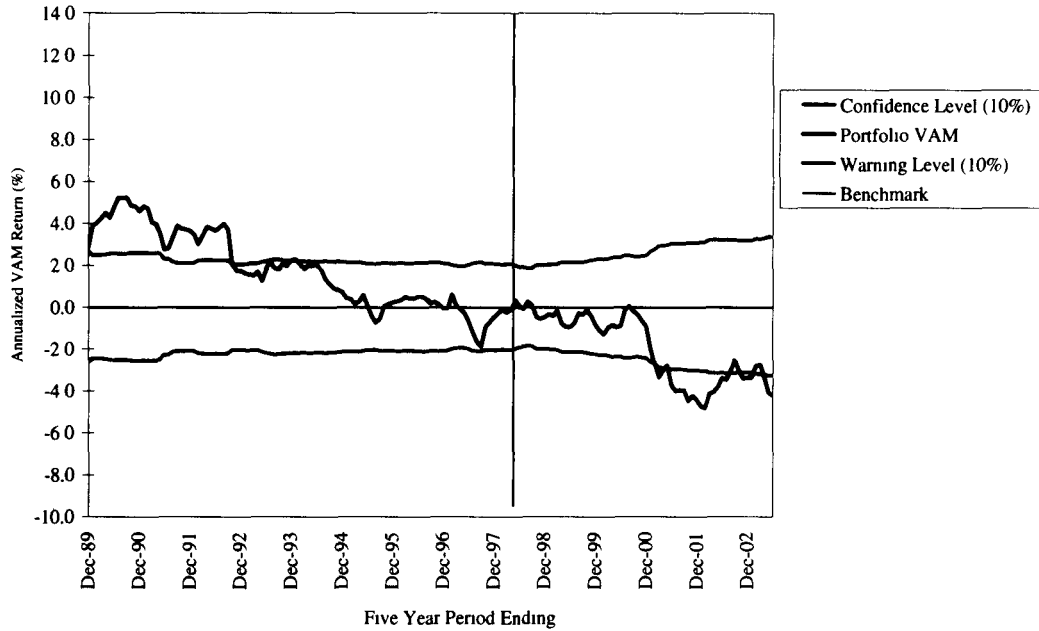
	Actual	Custom Benchmark	Russell 1000 Growth
YTD 6/30/2003	9.3%	13.2%	13.1%
2002	-26.3	-26.3	-27.9
2001	-30.4	-18.1	-20.4
2000	-22.4	-24.5	-22.4
1999	26.7	29.2	33.2
1998	42.3	44.5	38.7

LINCOLN EQUITY MANAGEMENT, LLC
Periods Ending June, 2003

Portfolio Manager: David Fowler

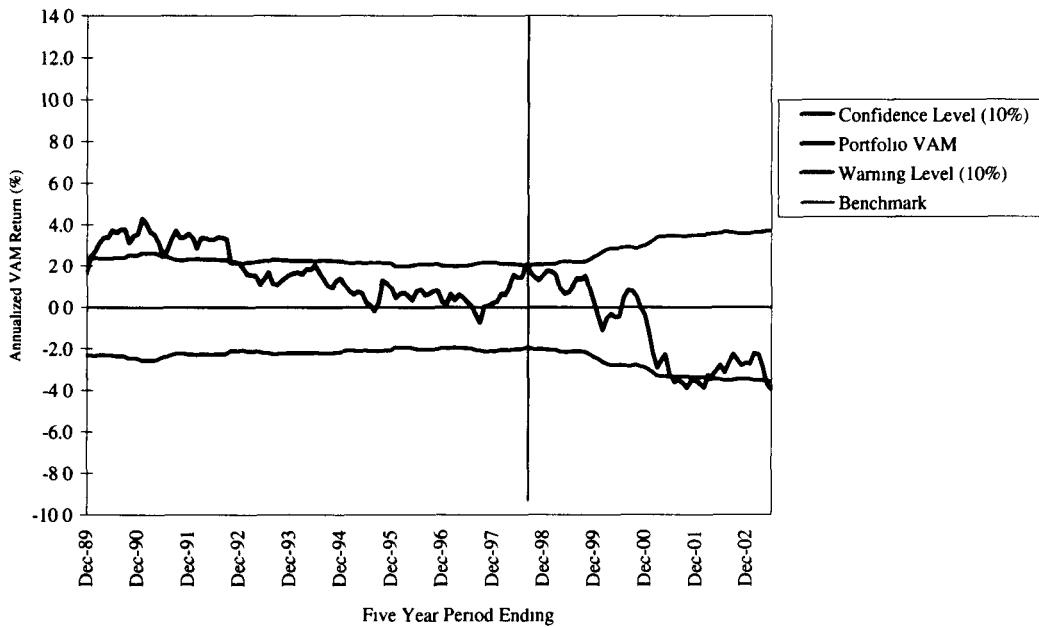
Assets Under Management: \$469,892,131

LINCOLN EQUITY MANAGEMENT - Domestic Equity
Rolling Five Year VAM vs. Custom Benchmark



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

LINCOLN EQUITY MANAGEMENT - Domestic Equity
Rolling Five Year VAM vs. Russell 1000 Growth



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

NEW AMSTERDAM PARTNERS
Periods Ending June, 2003

Portfolio Manager: Michelle Clayman

Assets Under Management: \$318,172,777

Investment Philosophy

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

Staff Comments

No comments at this time

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 1000 Core
Last Quarter	15.3%	19.2%	15.7%
Last 1 year	-0.1	0.1	1.0
Last 2 years	-7.1	-5.0	-9.0
Last 3 years	-2.9	-2.4	-11.0
Last 4 years	2.8	2.3	-6.3
Last 5 years	4.3	5.8	-1.2
Since Inception (4/94)	13.4	13.1	10.7

Calendar Year Returns

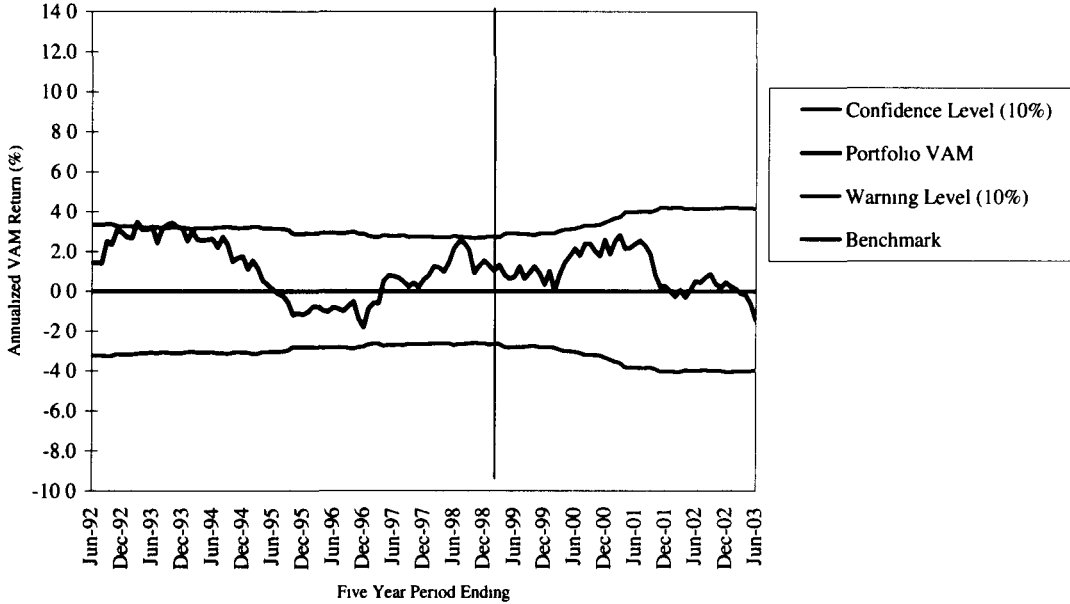
	Actual	Custom Benchmark	Russell 1000 Core
YTD 6/30/2003	11.6%	15.2%	12.3%
2002	-17.5	-22.2	-21.7
2001	-3.3	3.7	-12.5
2000	15.0	3.1	-7.8
1999	15.0	32.1	20.9
1998	26.2	18.5	27.0

NEW AMSTERDAM PARTNERS
Periods Ending June, 2003

Portfolio Manager: Michelle Clayman

Assets Under Management: \$318,172,777

NEW AMSTERDAM PARTNERS
Rolling Five Year VAM vs. Custom Benchmark



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

NEW AMSTERDAM PARTNERS
Rolling Five Year VAM vs. Russell 1000 Core



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

OPPENHEIMER CAPITAL
Periods Ending June, 2003

Portfolio Manager: John Lindenthal

Assets Under Management: \$753,826,223

Investment Philosophy

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

Staff Comments

No comments at this time

Recommendation

No action required

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 1000 Value
Last Quarter	15.7%	18.6%	17.3%
Last 1 year	2.3	-1.2	-1.0
Last 2 years	-6.8	-8.9	-5.1
Last 3 years	-0.8	-4.7	-0.2
Last 4 years	-0.5	-2.1	-2.4
Last 5 years	1.6	2.1	1.1
Since Inception (7/93)	12.7	11.4	10.7

Calendar Year Returns

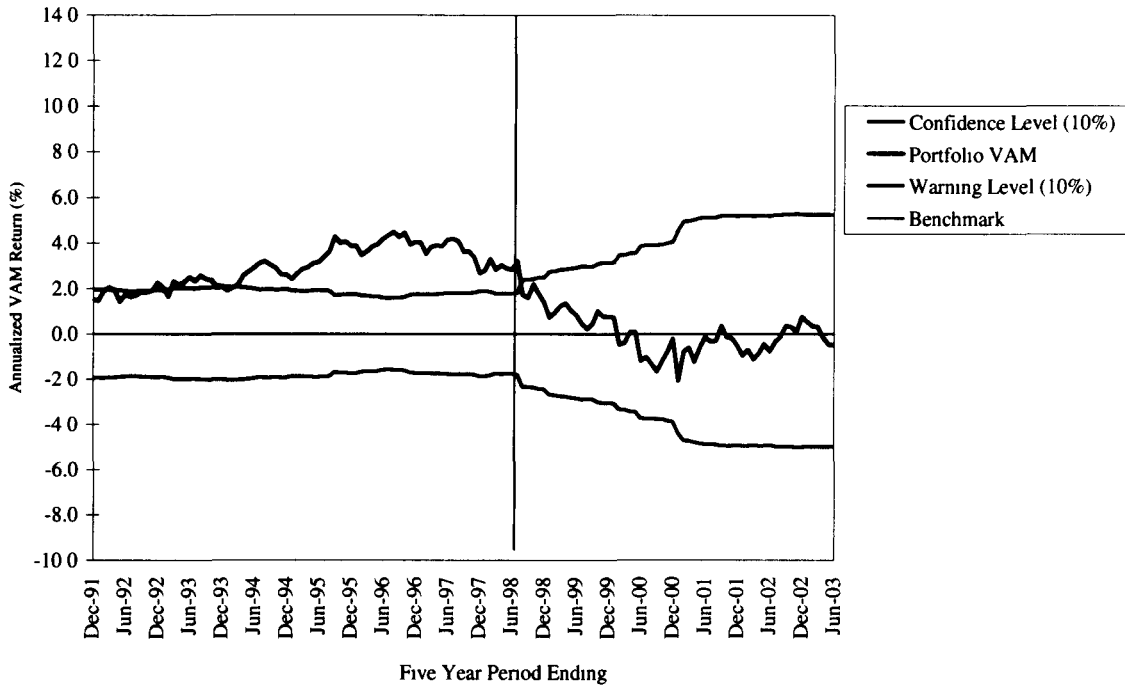
	Actual	Custom Benchmark	Russell 1000 Value
YTD 6/30/2003	10.3%	13.1%	11.6%
2002	-15.5	-20.7	-15.5
2001	-7.0	-9.5	-5.6
2000	11.2	10.3	7.0
1999	10.7	14.9	7.3
1998	21.5	24.4	15.6

OPPENHEIMER CAPITAL
Periods Ending June, 2003

Portfolio Manager: John Lindenthal

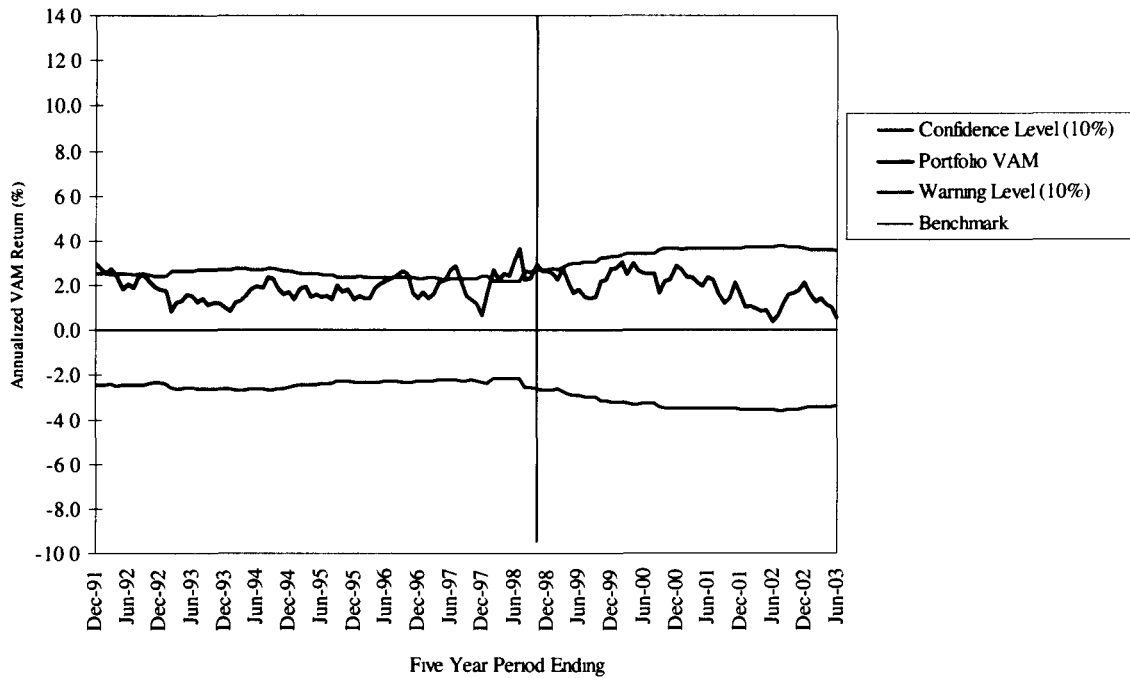
Assets Under Management: \$753,826,223

OPPENHEIMER CAPITAL
Rolling Five Year VAM vs. Custom Benchmark



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

OPPENHEIMER CAPITAL
Rolling Five Year VAM vs. Russell 1000 Value



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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending June, 2003

Portfolio Manager: John Leonard

Assets Under Management: \$777,324,593

Investment Philosophy

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

Staff Comments

UBS has announced that Jeff Diermeier, Global Chief Investment Officer, will retire later this year. He had been with UBS and Brinson Partners for 28 years. Brian Singer and Tom Madsen will assume his responsibilities. Brian Singer, Head of Asset Allocation, will become the regional CIO for the Americas assuming oversight of equity, bond, and cash management. Tom Madsen, Head of Global Equities will assume Mr. Diermeier's role as head of the investment committee. Staff does not expect an adverse impact to the SBI's portfolios.

Recommendation

No action required

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 1000 Core
Last Quarter	17.4%	16.8%	15.7%
Last 1 year	4.2	1.6	1.0
Last 2 years	-1.7	-7.2	-9.0
Last 3 years	3.5	-9.1	-11.0
Last 4 years	-3.2	-4.1	-6.3
Last 5 years	-0.1	0.3	-1.2
Since Inception (7/93)	10.4	10.0	9.9

Calendar Year Returns

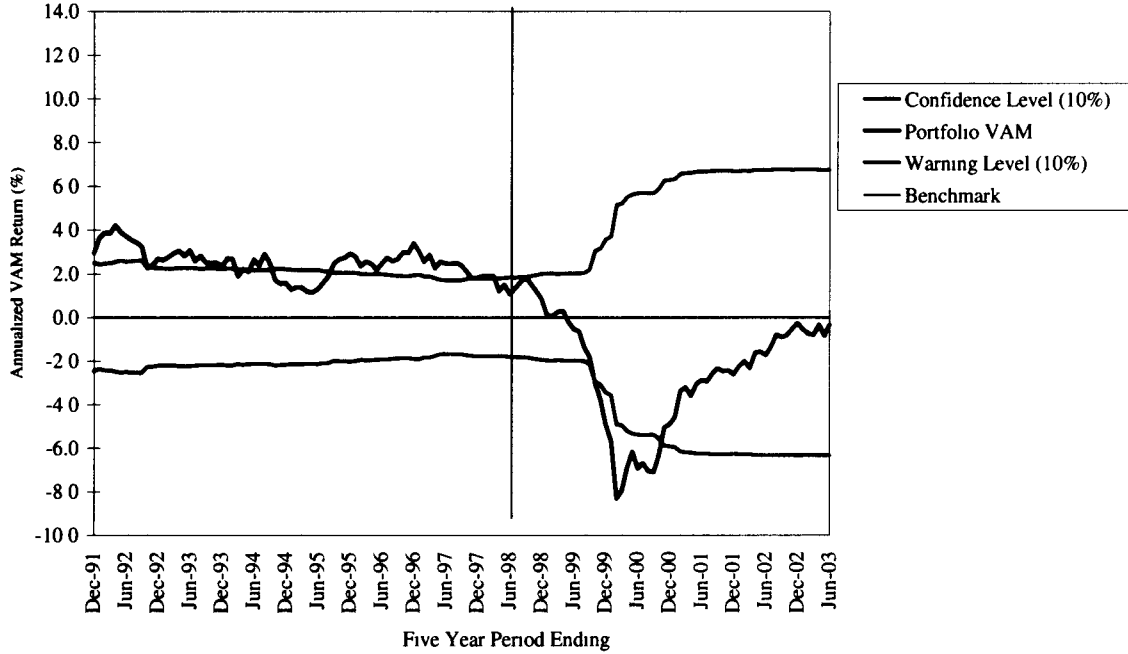
	Actual	Custom Benchmark	Russell 1000 Core
YTD 6/30/2003	13.3%	13.0%	12.3%
2002	-14.7	-20.6	-21.7
2001	5.2	-11.0	-12.5
2000	3.6	-1.0	-7.8
1999	-8.5	21.6	20.9
1998	17.3	18.8	27.0

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending June, 2003

Portfolio Manager: John Leonard

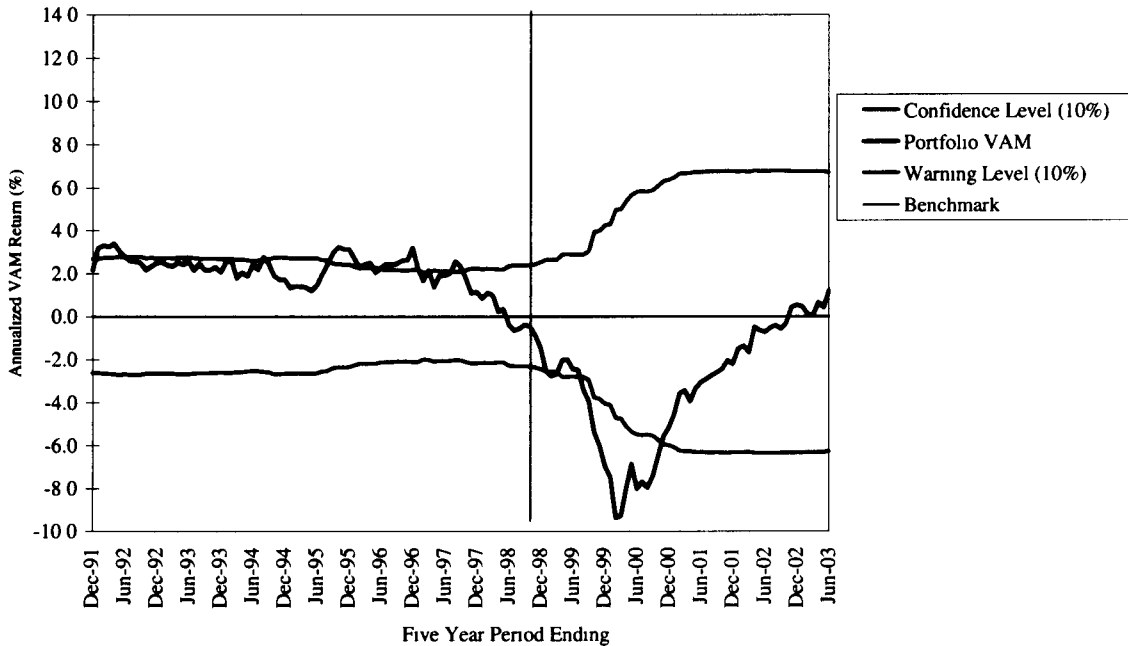
Assets Under Management: \$777,324,593

UBS GLOBAL ASSET MANAGEMENT, INC.
Rolling Five Year VAM vs. Custom Benchmark



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

UBS GLOBAL ASSET MANAGEMENT, INC.
Rolling Five Year VAM vs. Russell 1000 Core



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

ARTEMIS INVESTMENT MANAGEMENT, LLC
Periods Ending June, 2003

Portfolio Manager: Joyce Capuano

Assets Under Management: \$35,766,413

Investment Philosophy

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

Staff Comments

Artemis underperformed the quarterly benchmark by 7.9% primarily as a result of stock selection in the health care and producer durables sectors. A 4.7% cash position caused about 1.2% of the underperformance. Artemis believes that companies with favorable earnings growth prospects and attractive relative valuation, such as they own, have not participated to the same extent in this market rally as those of generally lower quality and less liquidity.

Artemis continues to add client accounts.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 2000 Core
Last Quarter	17.1%	25.0%	23.4%
Last 1 year	-7.6	-0.1	-1.6
Last 2 years	-5.7	-2.4	-5.2
Last 3 years	-10.8	-1.0	-3.3
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-10.8	-1.0	-3.3

Calendar Year Returns

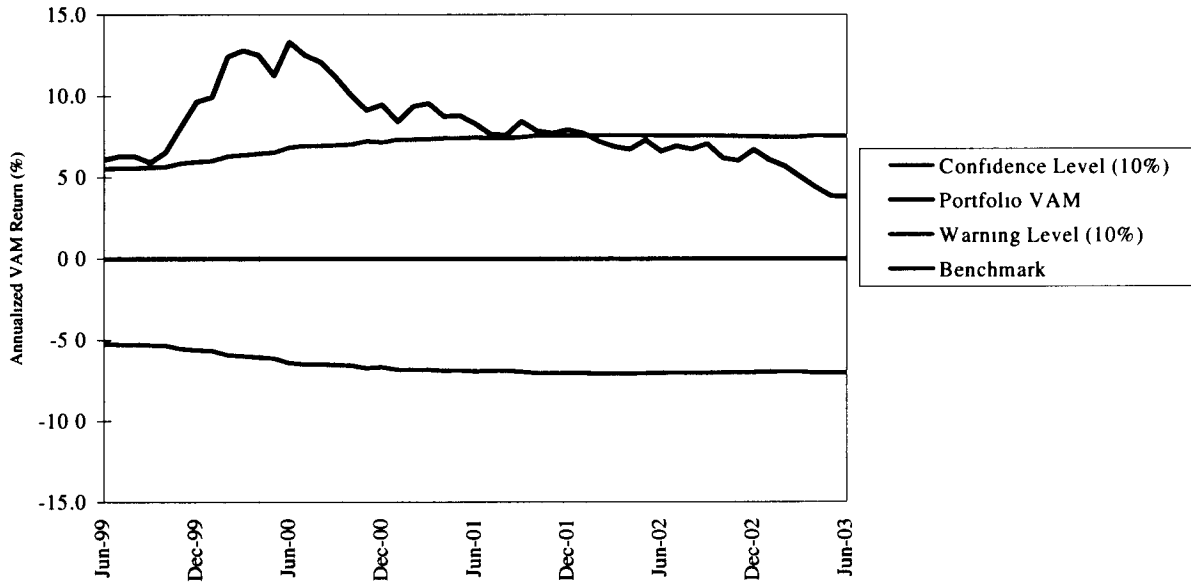
	Actual	Custom Benchmark	Russell 2000 Core
YTD 6/30/2003	10.6%	19.2%	17.9%
2002	-21.5	-20.5	-20.5
2001	5.8	11.9	2.5
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

ARTEMIS INVESTMENT MANAGEMENT, LLC
Periods Ending June, 2003

Portfolio Manager: Joyce Capuano

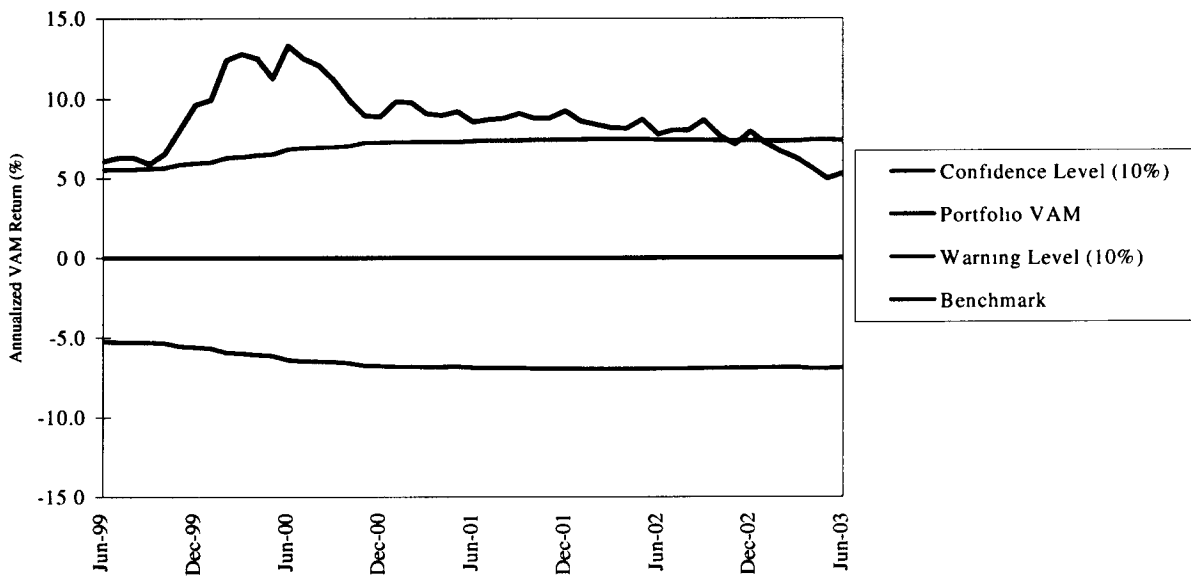
Assets Under Management: \$35,766,413

**Artemis Investment Management
Rolling Five Year VAM vs. Custom Benchmark**



Five Year Period Ending
Note: Shaded area includes performance prior to the retention by the SBI

**Artemis Investment Management
Rolling Five Year VAM vs. Russell 2000 Core**



Five Year Period Ending
Note: Shaded area includes performance prior to the retention by the SBI

BAY ISLE FINANCIAL CORP.
Periods Ending June, 2003

Portfolio Manager: William Schaff

Assets Under Management: \$40,221,614

Investment Philosophy

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

Staff Comments

Bay Isle matched its benchmark for the quarter with strong performance from manufacturing and consumer services areas offset by weak retail stock picks. For the year, the portfolio trailed the benchmark by 9.5% primarily caused by stocks in the finance and health technology area. Stocks such as Bank of NY, St. Paul Co, AIG, and Mellon underperformed in the finance sector, and Baxter Int'l, and Guidant Corp in the health technology sector caused the greatest negative performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 1000 Value
Last Quarter	16.8%	17.0%	17.3%
Last 1 year	-9.7	-0.2	-1.0
Last 2 years	-11.3	-5.1	-5.1
Last 3 years	-7.0	-1.8	-0.2
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-7.0	-1.8	-0.2

Calendar Year Returns

	Actual	Custom Benchmark	Russell 1000 Value
YTD 6/30/2003	8.5%	12.5%	11.6%
2002	-26.1	-17.2	-15.5
2001	-1.6	-5.9	-5.6
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

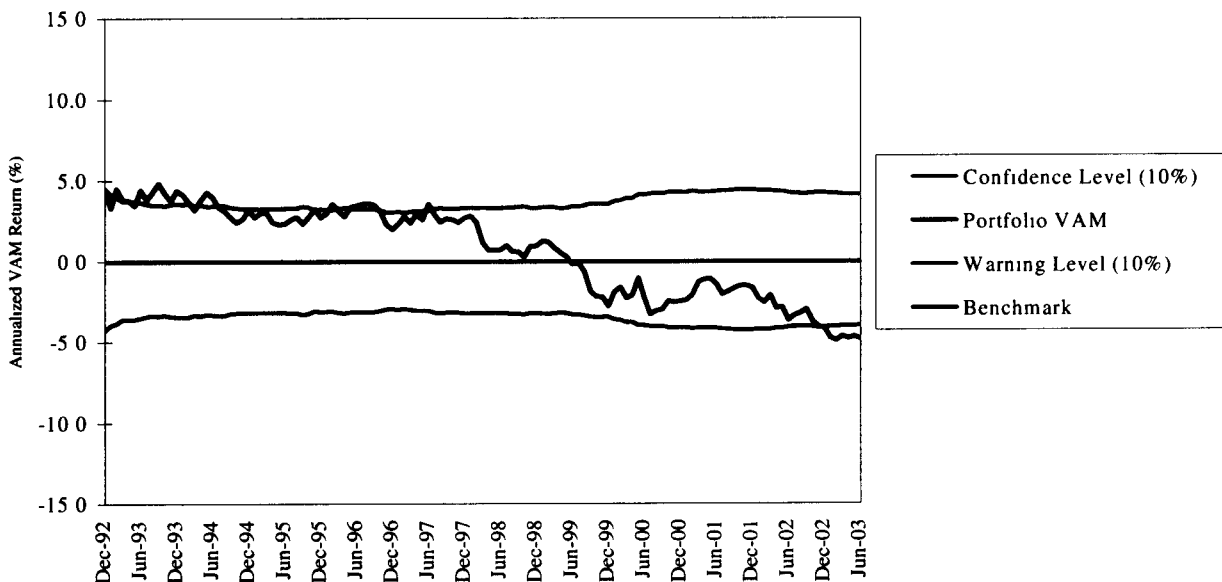
BAY ISLE FINANCIAL CORP.

Periods Ending June, 2003

Portfolio Manager: William Schaff

Assets Under Management: \$40,221,614

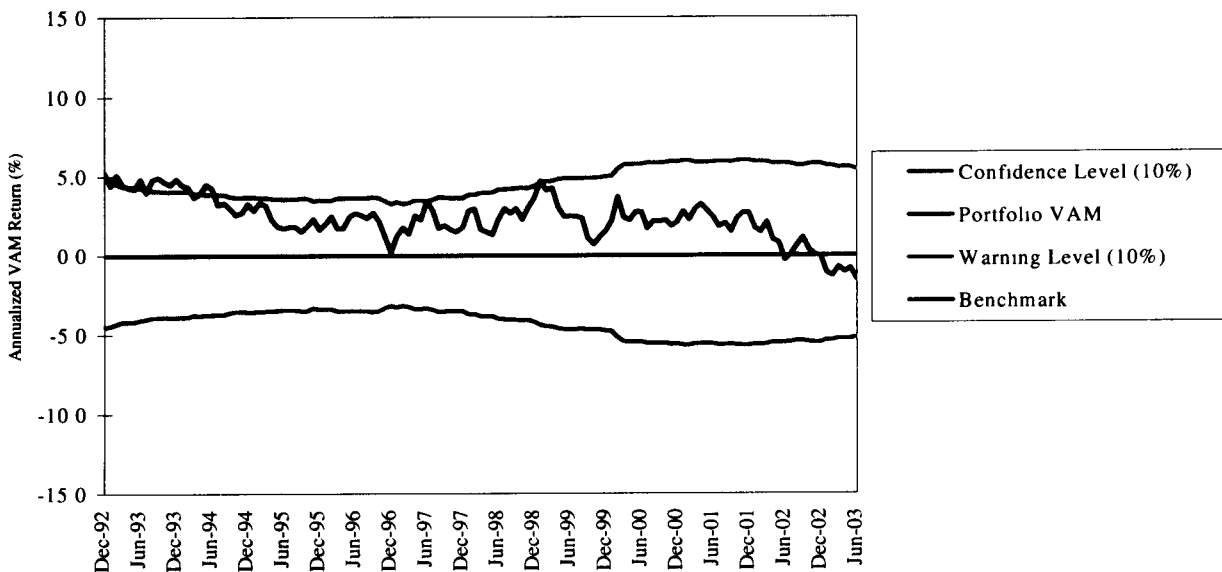
**Bay Isle Financial Management
Rolling Five Year VAM vs. Custom Benchmark**



Five Year Period Ending

Note Shaded area includes performance prior to retention by the SBI

**Bay Isle Financial Management
Rolling Five Year VAM vs. Russell 1000 Value**



Five Year Period Ending

Note Shaded area includes performance prior to retention by the SBI

EARNEST PARTNERS, LLC
Periods Ending June, 2003

Portfolio Manager: Paul Viera

Assets Under Management: \$43,479,817

Investment Philosophy

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

Staff Comments

Earnest Partners lagged the benchmark by 6.1% during the quarter. As a result of their bottom-up stock selection process, Earnest Partners held a substantial overweight in finance and in energy stocks both of which performed poorly during the quarter. An underweight in electronic technology also caused some of the performance shortfall. For the year, the portfolio trailed the benchmark by 3.9% primarily in the health technology area where their stock picks in pharmaceuticals and specialty medical companies hurt their performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 1000 Value
Last Quarter	15.9%	22.0%	17.3%
Last 1 year	2.3	6.2	-1.0
Last 2 years	-6.1	3.7	-5.1
Last 3 years	-4.8	9.8	-0.2
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-4.8	9.8	-0.2

Calendar Year Returns

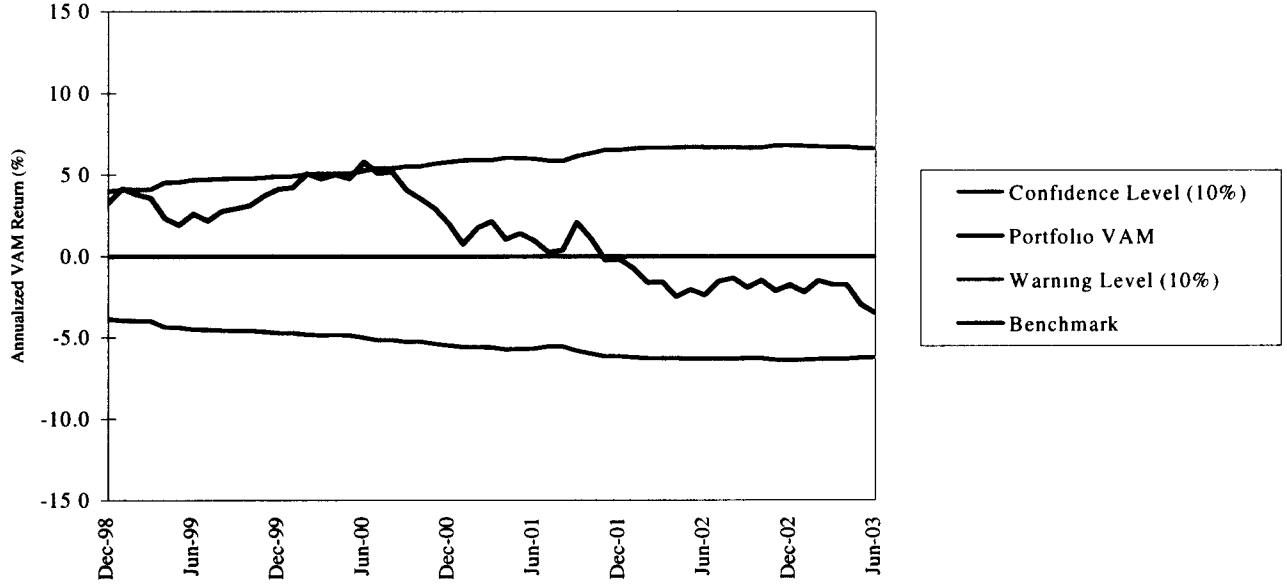
	Actual	Custom Benchmark	Russell 1000 Value
YTD 6/30/2003	13.0%	17.8%	11.6%
2002	-18.1	-11.6	-15.5
2001	-0.4	11.5	-5.6
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

EARNEST PARTNERS, LLC
Periods Ending June, 2003

Portfolio Manager: Paul Viera

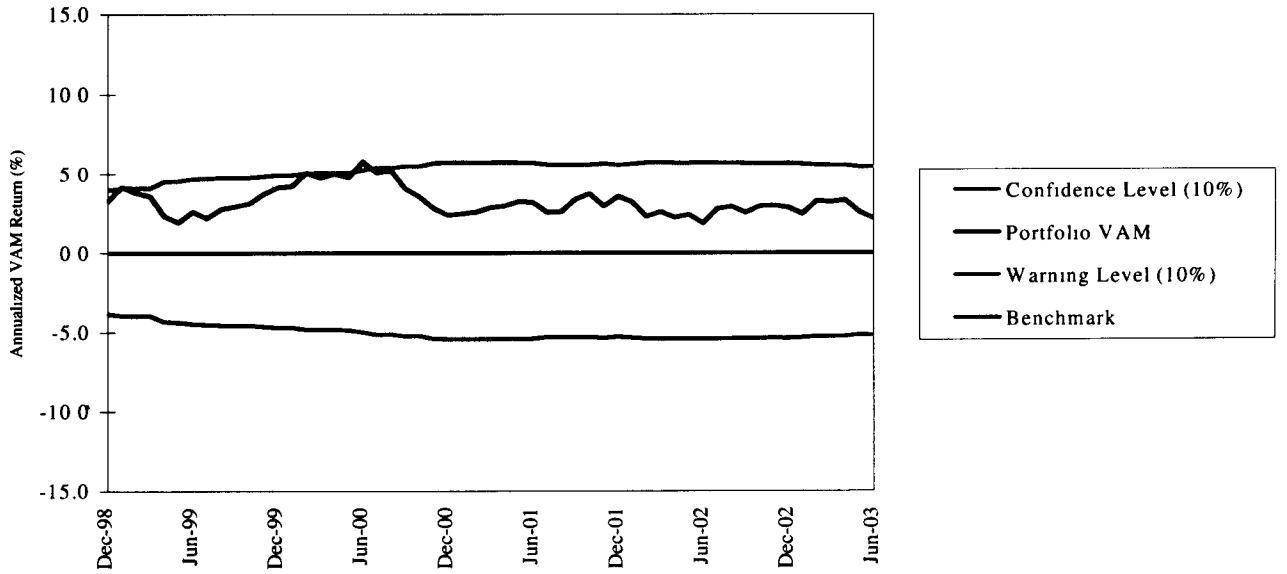
Assets Under Management: \$43,479,817

Earnest Partners
Rolling Five Year VAM vs. Custom Benchmark



Five Year Period Ending
 Note: Shaded area includes performance prior to retention by the SBI

Earnest Partners
Rolling Five Year VAM vs. Russell 1000 Value



Five Year Period Ending
 Note: Shaded area includes performance prior to retention by the SBI

HOLT-SMITH & YATES ADVISORS
Periods Ending June, 2003

Portfolio Manager: Kristin Yates

Assets Under Management: \$36,863,835

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

No comments at this time

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 1000 Core
Last Quarter	16.9%	16.9%	15.7%
Last 1 year	-5.7	-2.0	1.0
Last 2 years	-10.9	-4.4	-9.0
Last 3 years	-10.0	-2.2	-11.0
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-10.0	-2.2	-11.0

Calendar Year Returns

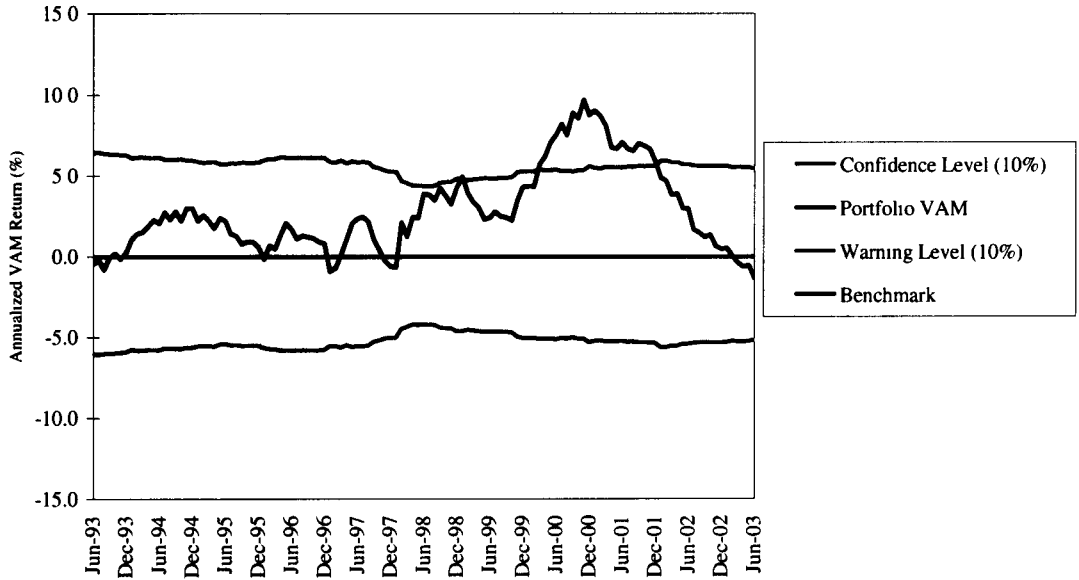
	Actual	Custom Benchmark	Russell 1000 Core
YTD 6/30/2003	10.3%	12.8%	12.3%
2002	-28.0	-19.0	-21.7
2001	-1.7	4.6	-12.5
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

HOLT-SMITH & YATES ADVISORS
Periods Ending June, 2003

Portfolio Manager: Kristin Yates

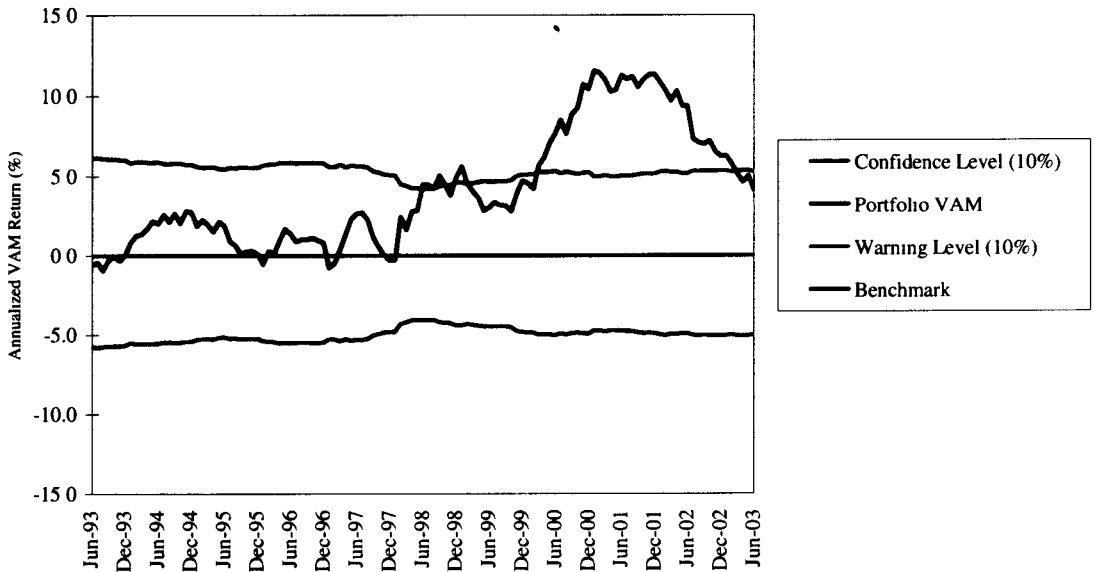
Assets Under Management: \$36,863,835

Holt-Smith & Yates
Rolling Five Year VAM vs. Custom Benchmark



Five Year Period Ending
 Note Shaded area includes performance prior to the retention by the SBI

Holt-Smith & Yates
Rolling Five Year VAM vs. Russell 1000 Core



Five Year Period Ending
 Note Shaded area includes performance prior to retention by the SBI

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending June, 2003

Portfolio Manager: Thomas Press and Don Longlet

Assets Under Management: \$24,567,620

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

No comments at this time

Recommendation

No action required

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 2000 Growth
Last Quarter	24.1%	23.2%	24.1%
Last 1 year	-0.1	6.6	0.7
Last 2 years	-17.2	-9.0	-13.1
Last 3 years	-21.4	-12.9	-16.7
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-21.4	-12.9	-16.7

Calendar Year Returns

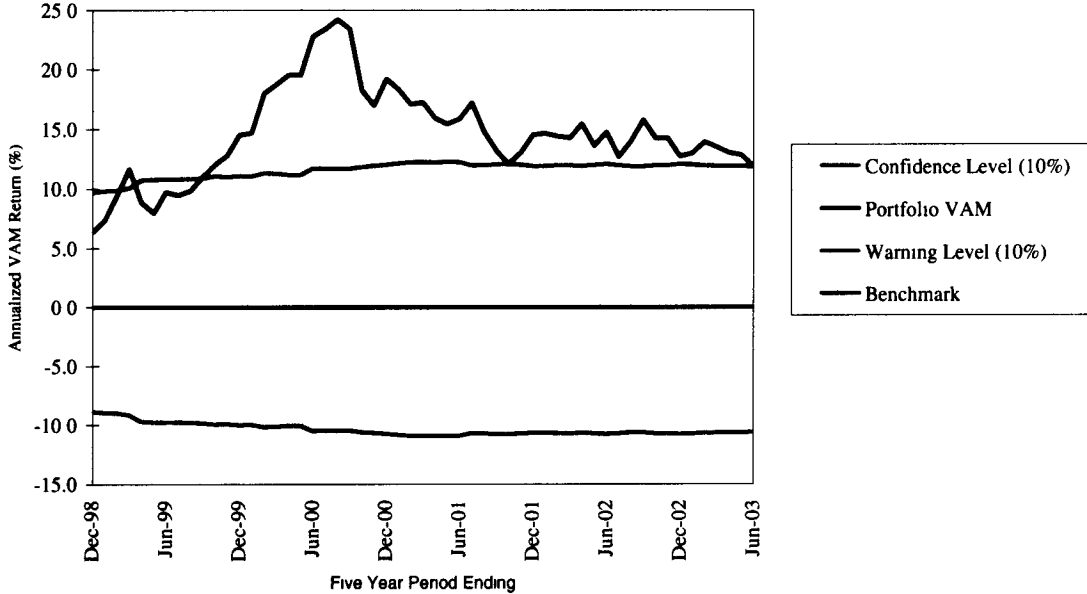
	Actual	Custom Benchmark	Russell 2000 Growth
YTD 6/30/2003	19.9%	20.2%	19.3%
2002	-33.3	-27.8	-30.3
2001	-22.8	-5.5	-9.2
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending June, 2003

Portfolio Manager: Thomas Press and Don Longlet

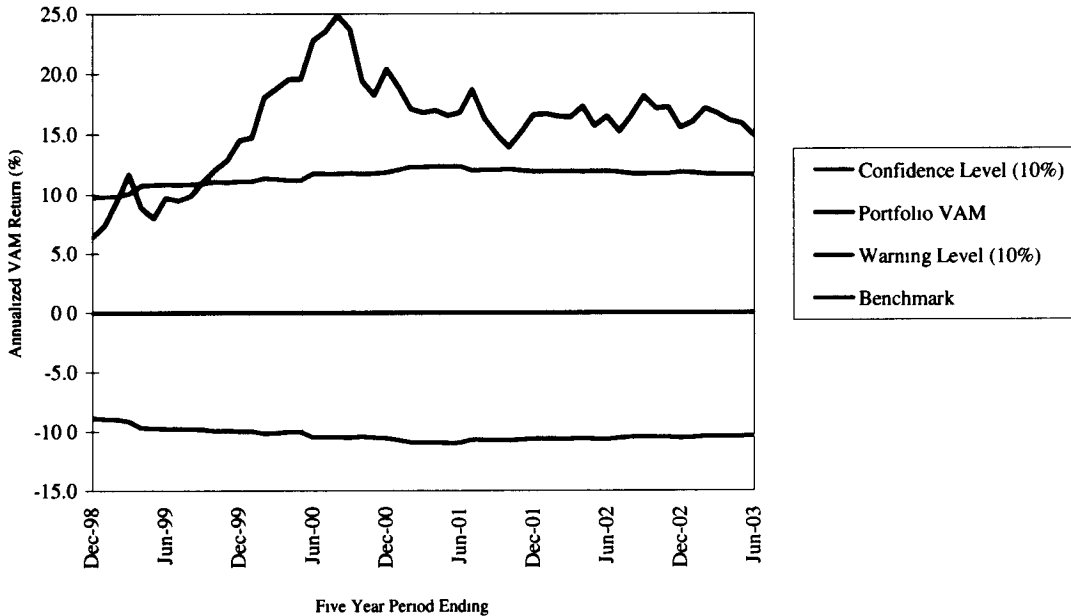
Assets Under Management: \$24,567,620

Next Century Growth Investors
Rolling Five Year VAM vs. Custom Benchmark



Note Shaded area includes performance prior to retention by the SBI.

Next Century Growth Investors
Rolling Five Year VAM vs. Russell 2000 Growth



Note Shaded area includes performance prior to the retention by the SBI

PEREGRINE CAPITAL MANAGEMENT
Periods Ending June, 2003

Portfolio Manager: Doug Pugh and Tasso Coin

Assets Under Management: \$132,146,942

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

No comments at this time

Recommendation

No action required

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 2000 Value
Last Quarter	23.5%	21.5%	22.7%
Last 1 year	-6.9	-1.3	-3.8
Last 2 years	1.8	4.6	2.2
Last 3 years	13.2	15.4	10.9
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	13.2	15.4	10.9

Calendar Year Returns

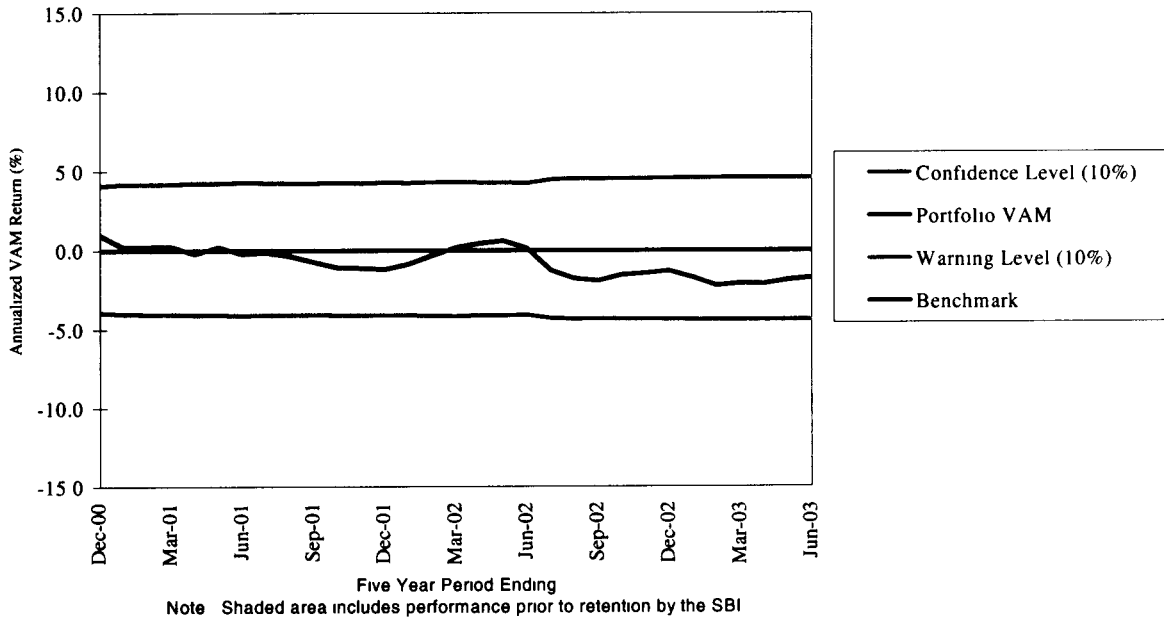
	Actual	Custom Benchmark	Russell 2000 Value
YTD 6/30/2003	13.5%	14.6%	16.5%
2002	-8.1	-6.9	-11.4
2001	12.6	22.9	14.0
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

PEREGRINE CAPITAL MANAGEMENT
Periods Ending June, 2003

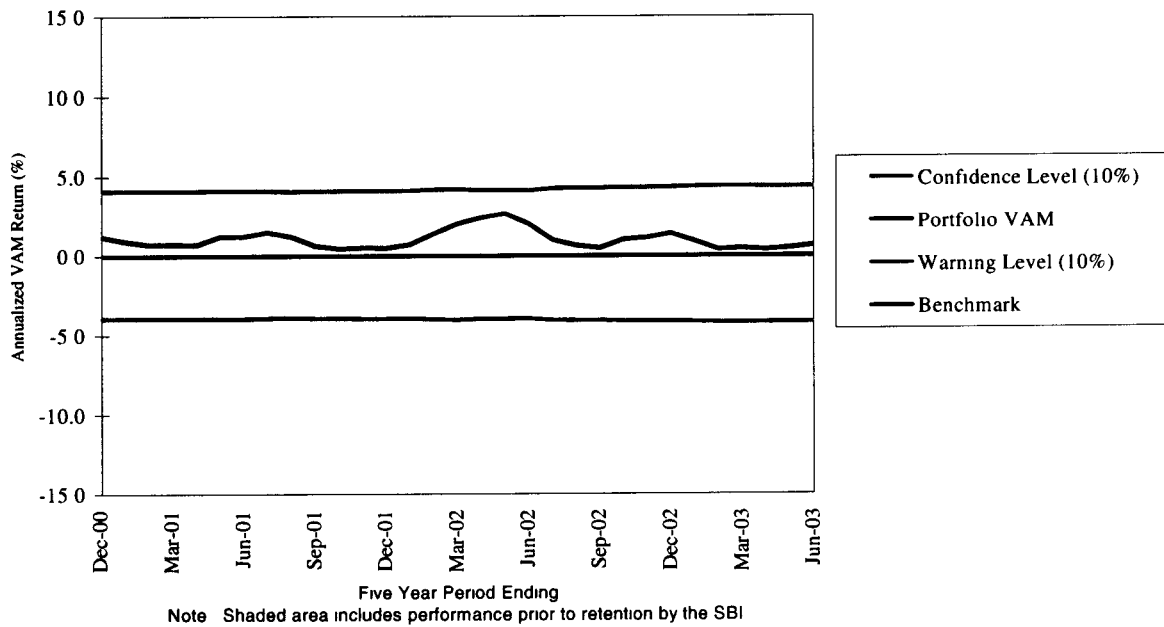
Portfolio Manager: Doug Pugh and Tasso Coin

Assets Under Management: \$132,146,942

Peregrine Capital Management
Rolling Five Year VAM vs. Custom Benchmark



Peregrine Capital Management
Rolling Five Year VAM vs. Russell 2000 Value



VALENZUELA CAPITAL MANAGEMENT
Periods Ending June, 2003

Portfolio Manager: Tom Valenzuela

Assets Under Management: \$68,417,774

Investment Philosophy

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

Staff Comments

Valenzuela has acquired the large cap value product of CIC/HCM Asset Management and have added a portfolio manager to head up that product team. They expect no change to the team managing the SBI's portfolio.

Recommendation

Over the past year, Valenzuela's 5-year rolling VAM has been below the lower warning limit primarily due to poor stock selection. As a result of unsatisfactory performance, organizational turnover, asset losses, and a desire by Staff to streamline the Domestic Equity Program into large and small cap managers, Staff recommends that the SBI terminate the relationship with Valenzuela.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 1000 Value
Last Quarter	14.7%	16.0%	17.3%
Last 1 year	-9.1	-2.7	-1.0
Last 2 years	-6.7	-0.2	-5.1
Last 3 years	-1.7	4.6	-0.2
Last 4 years	-1.0	3.3	-2.4
Last 5 years	-2.3	3.1	1.1
Since Inception (4/94)	9.3	11.1	11.5

Calendar Year Returns

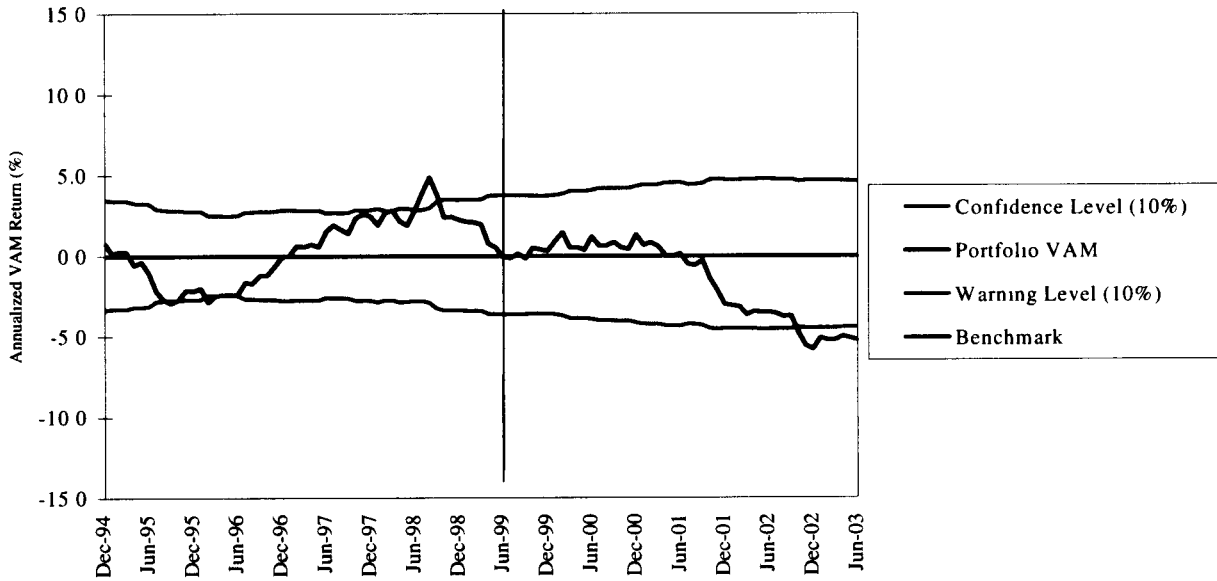
	Actual	Custom Benchmark	Russell 1000 Value
YTD 6/30/2003	12.9%	11.8%	11.6%
2002	-17.6	-11.2	-15.5
2001	-7.7	4.5	-5.6
2000	18.9	14.9	7.0
1999	-6.7	3.7	7.3
1998	-0.2	2.6	15.6

VALENZUELA CAPITAL MANAGEMENT
Periods Ending June, 2003

Portfolio Manager: Tom Valenzuela

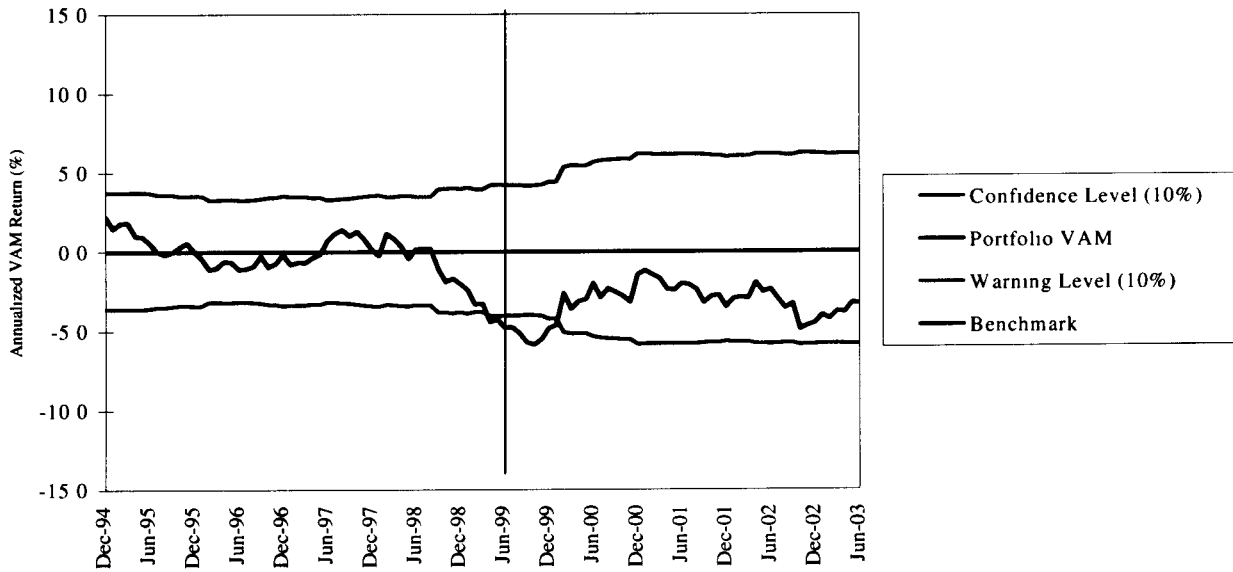
Assets Under Management: \$68,417,774

Valenzuela Capital Partners
Rolling Five Year VAM vs. Custom Benchmark



Five Year Period Ending
 Note Area to the left of vertical line includes performance prior to retention by the SBI

Valenzuela Capital Partners
Rolling Five Year VAM vs. Russell 1000 Value



Five Year Period Ending
 Note Area to the left of vertical line includes performance prior to retention by the SBI

VOYAGEUR ASSET MANAGEMENT
Periods Ending June, 2003

Portfolio Manager: Charles Henderson

Assets Under Management: \$37,782,004

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

Recommendation

No action required

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 1000 Core
Last Quarter	13.8%	15.3%	15.7%
Last 1 year	-2.4	-0.3	1.0
Last 2 years	-9.7	-7.7	-9.0
Last 3 years	-9.4	-10.4	-11.0
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-9.4	-10.4	-11.0

Calendar Year Returns

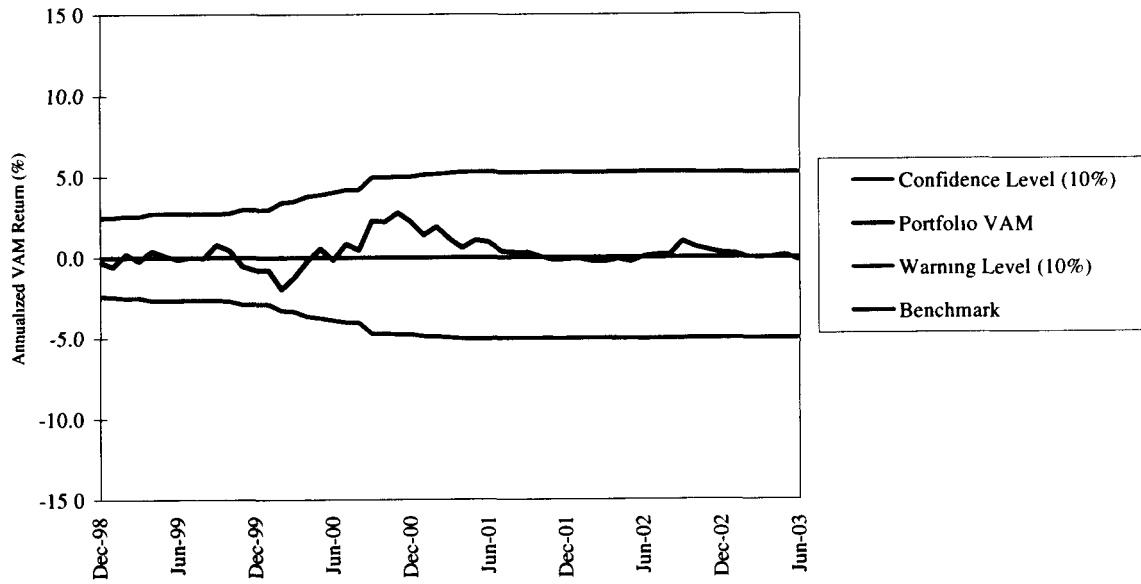
	Actual	Custom Benchmark	Russell 1000 Core
YTD 6/30/2003	9.5%	11.5%	12.3%
2002	-20.6	-20.7	-21.7
2001	-19.4	-12.0	-12.5
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

VOYAGEUR ASSET MANAGEMENT
Periods Ending June, 2003

Portfolio Manager: Charles Henderson

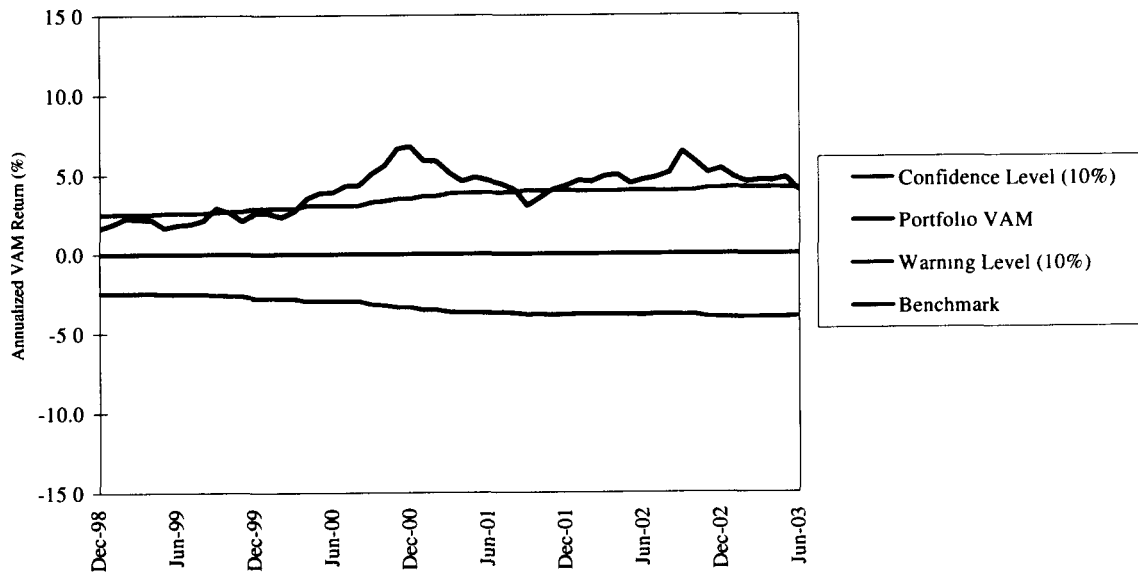
Assets Under Management: \$37,782,004

Voyageur Asset Management
Rolling Five Year VAM vs. Custom Benchmark



Five Year Period Ending
 Note: Shaded area includes performance prior to retention by the SBI

Voyageur Asset Management
Rolling Five Year VAM vs. Russell 1000 Core



Five Year Period Ending
 Note: Shaded area includes performance prior to retention by the SBI

WINSLOW CAPITAL MANAGEMENT
Periods Ending June, 2003

Portfolio Manager: Joseph Docter

Assets Under Management: \$128,106,184

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

The portfolio underperformed its custom benchmark by 5.5% for the quarter primarily in the health services sector where the steady growth names in the portfolio did not keep up with the returns of the smaller riskier healthcare names in the benchmark. Over the past year, the portfolio out performed by 2.5%. Consumer stock selection was strong particularly in the retail space.

Recommendation

No action required

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 2000 Growth
Last Quarter	21.6%	27.1%	24.1%
Last 1 year	4.6	2.1	0.7
Last 2 years	-13.1	-8.2	-13.1
Last 3 years	-10.0	-8.9	-16.7
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-10.0	-8.9	-16.7

Calendar Year Returns

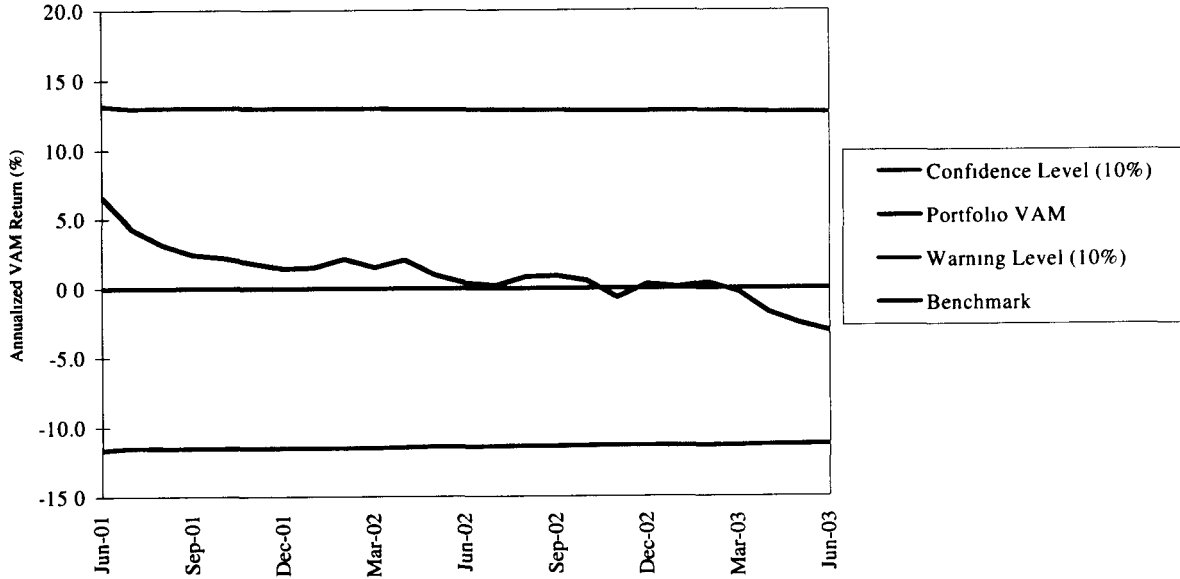
	Actual	Custom Benchmark	Russell 2000 Growth
YTD 6/30/2003	15.6%	21.5%	19.3%
2002	-25.0	-26.7	-30.3
2001	-6.1	4.6	-9.2
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

WINSLOW CAPITAL MANAGEMENT
Periods Ending June, 2003

Portfolio Manager: Joseph Docter

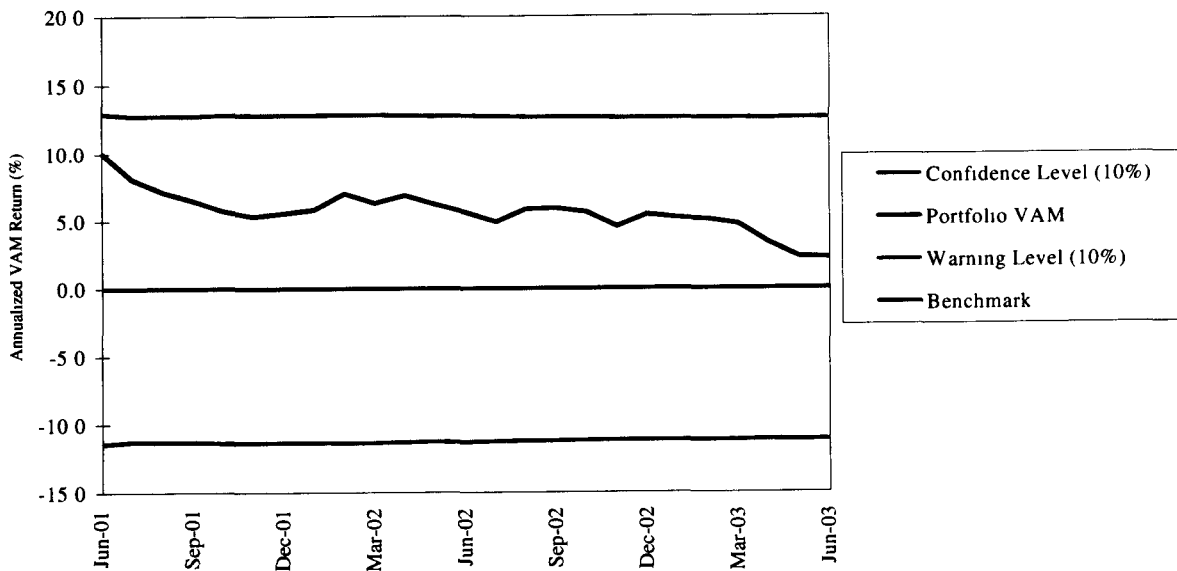
Assets Under Management: \$128,106,184

Winslow Capital Management
Rolling Five Year VAM vs. Custom Benchmark



Five Year Period Ending
 Note: Shaded area includes performance prior to retention by the SBI

Winslow Capital Management
Rolling Five Year VAM vs. Russell 2000 Growth



Five Year Period Ending
 Note: Shaded area includes performance prior to retention by the SBI

ZEVENBERGEN CAPITAL INC.
Periods Ending June, 2003

Portfolio Manager: Nancy Zevenbergen

Assets Under Management: \$106,804,277

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

The portfolio's outperformance, during the quarter, can primarily be attributed to stock selection within consumer, finance and technology sectors. Zevenbergen's process has led them to add small and mid cap stocks with better long-term growth prospects than larger counterparts. Stock selection over the past year has also been positive driven by consumer and Internet related holdings as well as commercial services and consumer electronics.

Recommendation

No action required

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark	Russell 1000 Growth
Last Quarter	22.9%	14.7%	14.3%
Last 1 year	9.3	3.4	2.9
Last 2 years	-16.3	-9.7	-13.0
Last 3 years	-26.4	-14.5	-21.5
Last 4 years	-15.4	-2.0	-11.7
Last 5 years	-3.3	3.7	-5.0
Since Inception (4/94)	9.0	12.8	8.9

Calendar Year Returns

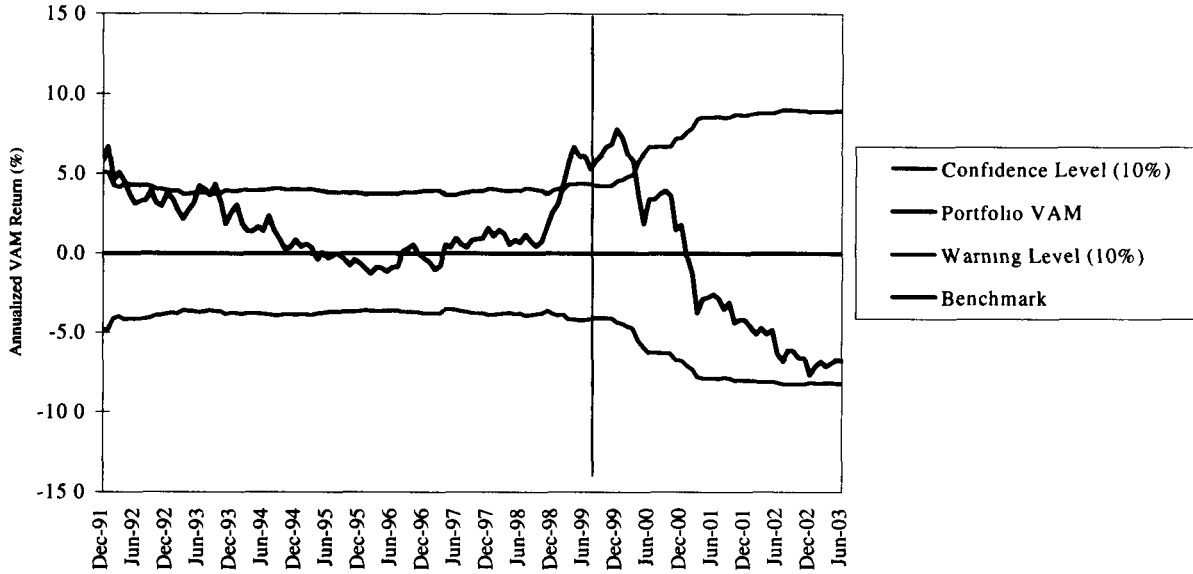
	Actual	Custom Benchmark	Russell 1000 Growth
YTD 6/30/2003	26.1%	13.4%	13.1%
2002	-36.2	-24.2	-27.9
2001	-29.0	-3.2	-20.4
2000	-38.2	-16.6	-22.4
1999	94.3	56.6	33.2
1998	54.5	30.7	38.7

ZEVENBERGEN CAPITAL INC.
Periods Ending June, 2003

Portfolio Manager: Nancy Zevenbergen

Assets Under Management: \$106,804,277

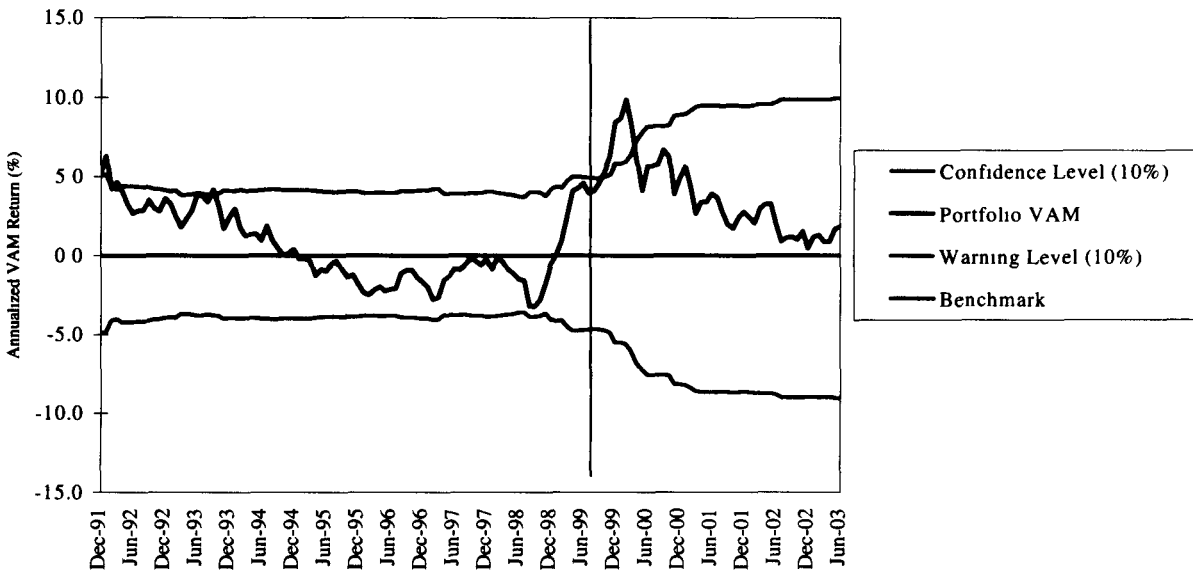
Zevenbergen Capital Management
Rolling Five Year VAM vs. Custom Benchmark



Five Year Period Ending

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

Zevenbergen Capital Management
Rolling Five Year VAM vs. Russell 1000 Growth



Five Year Period Ending

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

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2003

Portfolio Manager: Rhonda Vitanye

Assets Under Management: \$2,402,093,114

Investment Philosophy – Semi-Passive Style

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

Staff Comments

No comments at this time

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark*
Last Quarter	14.5%	14.5%
Last 1 year	1.9	0.2
Last 2 years	-6.3	-7.0
Last 3 years	-9.6	-11.5
Last 4 years	-6.5	-8.2
Last 5 years	-2.6	-3.3
Since Inception (1/84)	10.4	9.6

Calendar Year Returns

	Actual	Custom Benchmark*
YTD 6/30/2003	12.2%	11.1%
2002	-19.1	-19.7
2001	-7.8	-9.7
2000	-13.8	-16.3
1999	14.1	16.3
1998	21.4	23.7

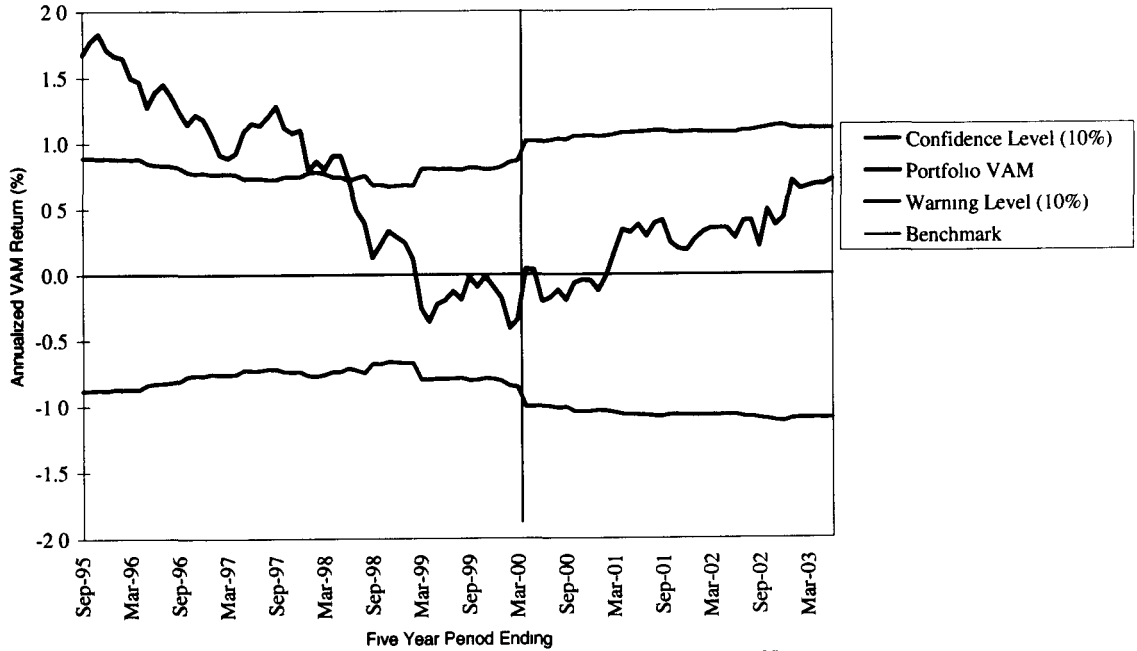
* Completeness Fund

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2003

Portfolio Manager: Rhonda Vitanye

Assets Under Management: \$2,402,093,114

BARCLAYS GLOBAL INVESTORS - SEMI-PASSIVE
Rolling Five Year VAM vs. Custom Benchmark (Completeness Fund)



FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2003

Portfolio Manager: John Cone

Assets Under Management: \$1,505,374,795

Investment Philosophy – Semi-Passive Style

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

Staff Comments

No comments at this time

Recommendation

No action required

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark*
Last Quarter	14.9%	14.5%
Last 1 year	-1.1	0.2
Last 2 years	-7.8	-7.0
Last 3 years	-11.3	-11.5
Last 4 years	-8.2	-8.2
Last 5 years	-4.3	-3.3
Since Inception (1/95)	9.2	9.6

Calendar Year Returns

	Actual	Custom Benchmark*
YTD 6/30/2003	10.5%	11.1%
2002	-20.2	-19.7
2001	-9.0	-9.7
2000	-15.9	-16.3
1999	12.9	16.3
1998	22.4	23.7

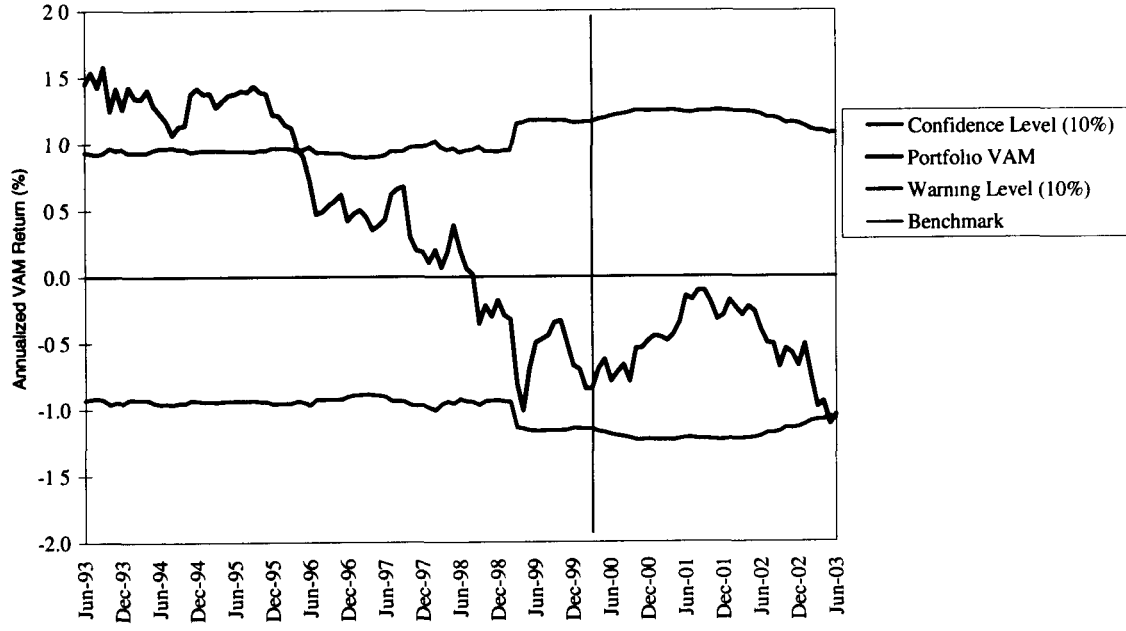
* Completeness Fund

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2003

Portfolio Manager: John Cone

Assets Under Management: \$1,505,374,795

FRANKLIN PORTFOLIO ASSOCIATES - SEMI-PASSIVE
Rolling Five Year VAM vs. Custom Benchmark (Completeness Fund)



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

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending June, 2003

Portfolio Manager: Tim Devlin

Assets Under Management: \$2,101,022,073

Investment Philosophy – Semi-Passive Style

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

Staff Comments

No comments at this time

Recommendation

No action required

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark*
Last Quarter	15.3%	14.5%
Last 1 year	-0.4	0.2
Last 2 years	-8.5	-7.0
Last 3 years	-11.0	-11.5
Last 4 years	-8.2	-8.2
Last 5 years	-3.3	-3.3
Since Inception (1/95)	9.7	9.6

Calendar Year Returns

	Actual	Custom Benchmark*
YTD 6/30/2003	11.7%	11.1%
2002	-21.8	-19.7
2001	-8.7	-9.7
2000	-13.6	-16.3
1999	14.0	16.3
1998	24.6	23.7

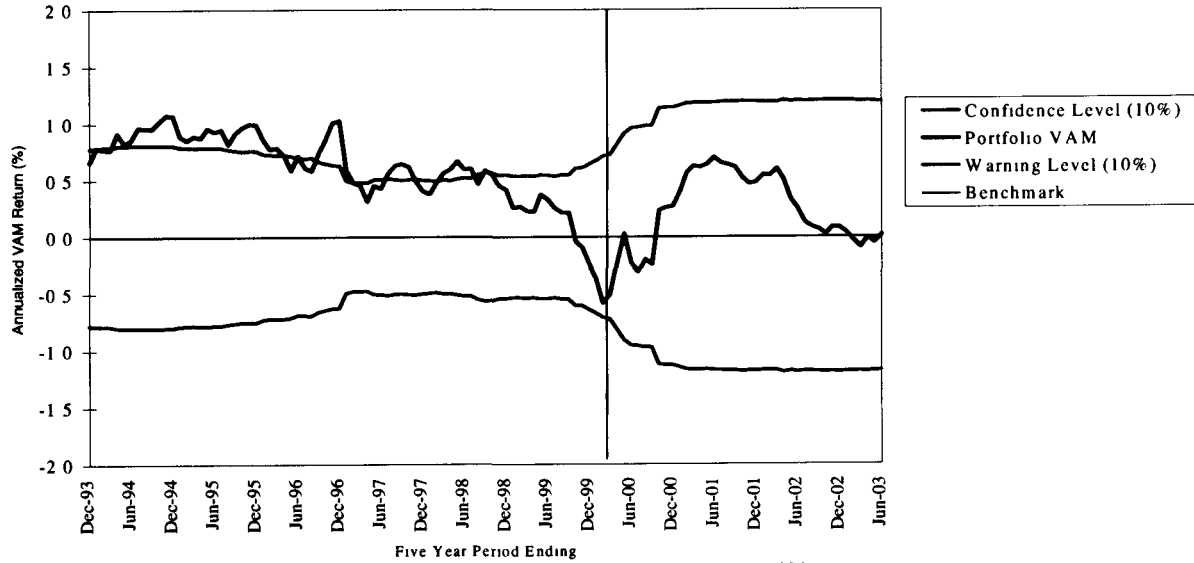
* Completeness Fund

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending June, 2003

Portfolio Manager: Tim Devlin

Assets Under Management: \$2,101,022,073

JP MORGAN - SEMI-PASSIVE
Rolling Five Year VAM vs. Custom Benchmark (Completeness Fund)



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

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2003

Portfolio Manager: Amy Schioldager

Assets Under Management: \$5,590,385,759

Investment Philosophy – Passive Style

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

No comments at this time

Recommendation

No action required

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Custom Benchmark*
Last Quarter	15.9%	16.1%
Last 1 year	0.8	0.8
Last 2 years	-8.9	-8.7
Last 3 years	-11.0	-11.1
Last 4 years	-6.2	-6.4
Last 5 years	-1.5	-1.7
Since Inception (7/95)	8.7	8.5

Calendar Year Returns

	Actual	Custom Benchmark*
YTD 6/30/2003	12.5%	12.7%
2002	-21.4	-21.5
2001	-11.8	-11.7
2000	-9.8	-11.0
1999	23.3	23.6
1998	23.4	23.4

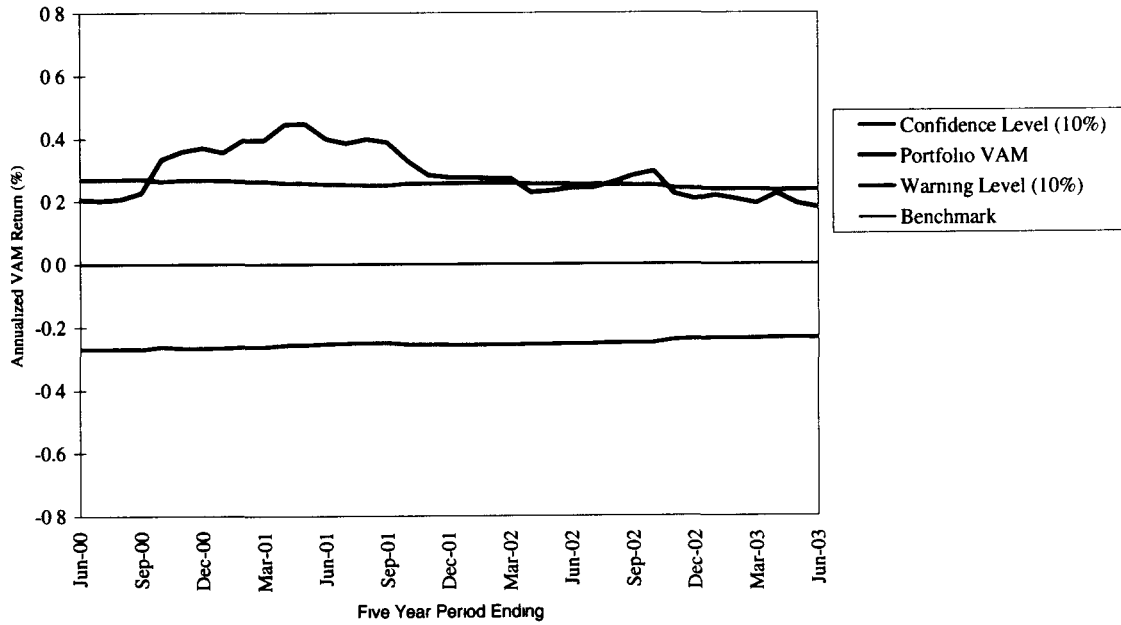
* Domestic Equity Target (Currently Wilshire 5000 Investable)

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2003

Portfolio Manager: Amy Schioldager

Assets Under Management: \$5,590,385,759

BARCLAYS GLOBAL INVESTORS - PASSIVE
Rolling Five Year VAM vs. Domestic Equity Target
(currently Wilshire 5000 Investable)





STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Second Quarter, 2003

**COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending June, 2003**

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
American Express (AMG)	2.6	2.5	9.5	10.4	8.7	10.1	6.8	7.5	6.9	7.3	\$779.5	9.1%
Deutsche	3.1	2.5	11.3	10.4	10.7	10.1			10.6	10.0	\$628.6	7.3%
Dodge & Cox	3.2	2.5	12.7	10.4	11.6	10.1			11.4	10.0	\$782.2	9.1%
Morgan Stanley	1.7	2.5	8.2	10.4	9.9	10.1	7.2	7.5	10.2	10.0	\$742.3	8.7%
Western	3.9	2.5	13.1	10.4	11.5	10.1	8.4	7.5	11.2	10.0	\$1,306.8	15.2%
Semi-Passive Managers												
BlackRock	2.7	2.5	11.2	10.4	10.2	10.1	7.8	7.5	8.2	7.9	\$1,489.5	17.4%
Goldman	3.1	2.5	11.0	10.4	10.2	10.1	7.5	7.5	7.5	7.2	\$1,411.1	16.5%
Lincoln	2.7	2.5	10.4	10.4	10.3	10.1	7.7	7.5	8.7	8.6	\$1,434.9	16.7%
											\$8,575.0	100.0%
									Since 7/1/84			
Current Aggregate	2.9	2.5	11.0	10.4	10.4	10.1	7.7	7.5	10.5	10.0		
Historical Aggregate (2)	2.9	2.5	10.7	10.4	10.2	10.1	7.6	7.5	10.0	9.9		
Lehman Aggregate (3)		2.5		10.4		10.1		7.5		10.0		

(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, 2003

Portfolio Manager: Colin Lundgren

Assets Under Management: \$779,506,161

Investment Philosophy

American Express manages portfolios using a top-down approach culminating with in-depth fundamental research and credit analysis. Five portfolio components are actively managed: duration, maturity structure, sector selection, industry emphasis, and security selection. Duration and maturity structure are determined by the firm's economic analysis and interest rate outlook. This analysis also identifies sectors and industries expected to produce the best risk adjusted return. In-depth fundamental research and credit analysis combined with proprietary valuation disciplines is used to identify attractive individual securities. American Express was retained by the SBI in July 1993.

Staff Comments

American Express outperformed for the quarter as the result of good issue selection within Corporates and Mortgages, as well as a moderate exposure to high yield bonds. For the full year, American Express underperformed the index largely as a result of issue selection within Corporate bonds. The timing of the portfolio's rotation into and out of the Corporate sector also detracted from performance over the year. During the quarter, American Express hired James C. Jackson as sector leader for the Liquid Assets sector team.

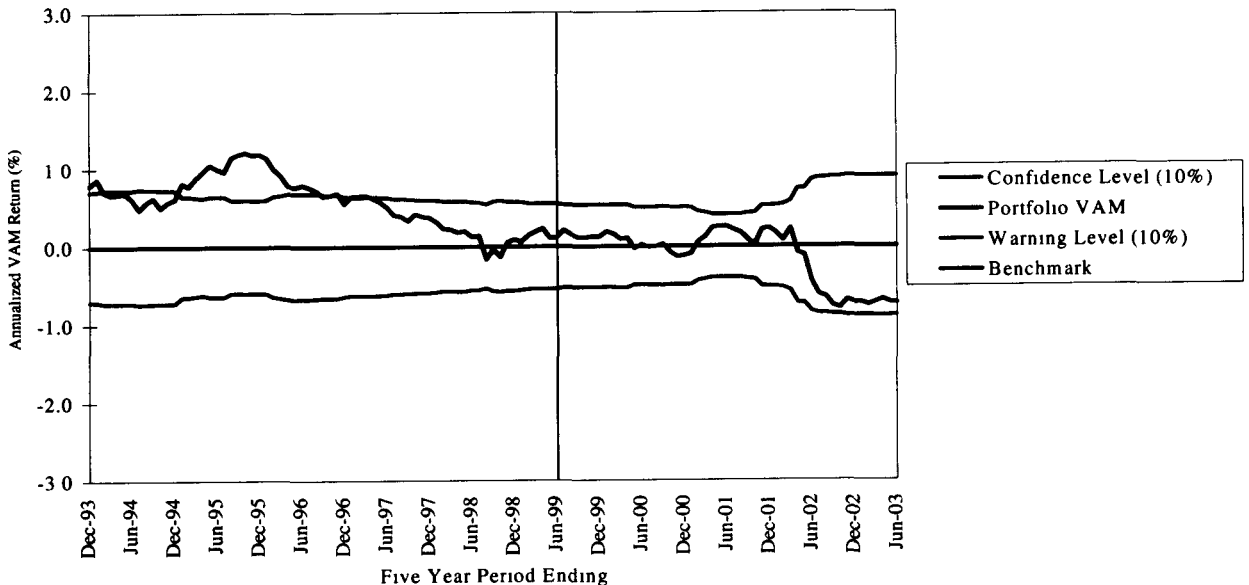
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.6%	2.5%
Last 1 year	9.5	10.4
Last 2 years	7.5	9.5
Last 3 years	8.7	10.1
Last 4 years	7.7	8.7
Last 5 years	6.8	7.5
Since Inception (7/93)	6.9	7.3

Recommendations

Staff has reviewed the organization structure and personnel over the past six months, and will continue to monitor the firm's execution on its plan to revitalize the fixed income organization. At the August meeting of the Stock and Bond Committee, two of the firm's senior leaders will present an update on the firm.

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, 2003

Portfolio Manager: Warren Davis

Assets Under Management: \$628,623,311

Investment Philosophy

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

Staff Comments

Deutsche Asset outperformed for the quarter as the portfolio's overweights to the ABS and Corporate sectors, at the expense of Governments and Mortgages, helped performance as these sectors outperformed. Issue selection was also strong within Corporates and Mortgages. Over the full year, Deutsche outperformed the benchmark as the result of spread sector overweights combined with effective issue selection. As always, the portfolio remained essentially duration-neutral to the benchmark during the year.

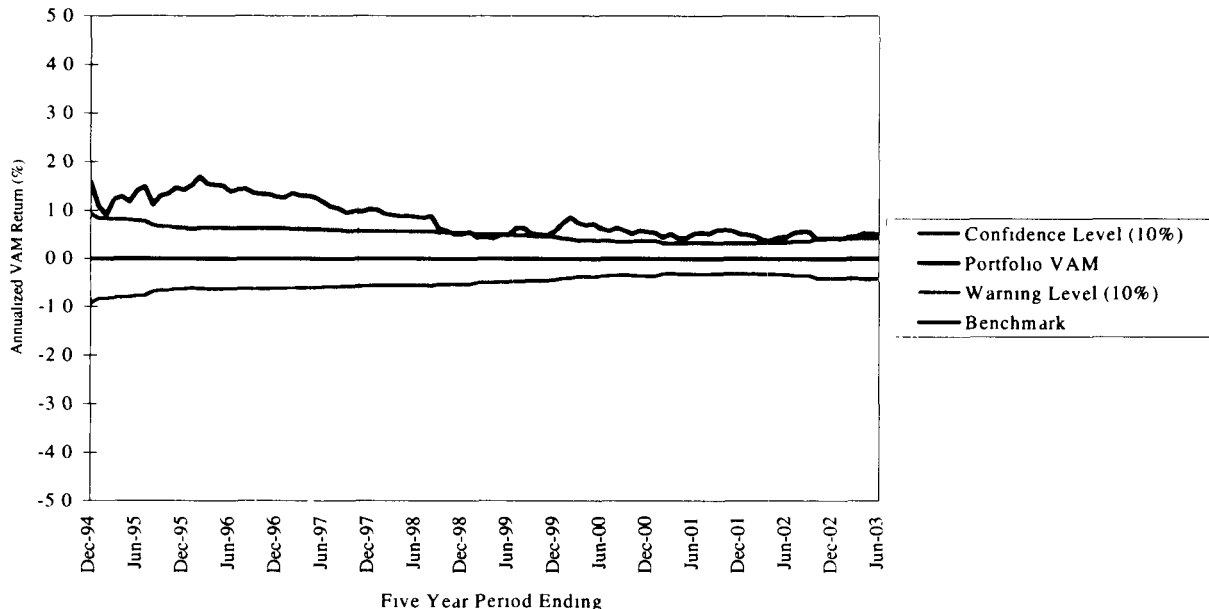
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.1%	2.5%
Last 1 year	11.3	10.4
Last 2 years	10.2	9.5
Last 3 years	10.7	10.1
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (2/00)	10.6	10.0

Recommendations

No action required

DEUTSCHE ASSET MANAGEMENT
Rolling Five Year VAM



Note: Shaded area includes performance prior to the retention by the SBI

DODGE & COX INVESTMENT MANAGERS
Periods Ending June, 2003

Portfolio Manager: Dana Emery

Assets Under Management: \$782,236,858

Investment Philosophy

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

Staff Comments

Dodge & Cox's outperformance for the quarter and full year was the result of continued strong issue selection against a backdrop of overweighting the spread sectors, particularly corporate bonds. Over the quarter, the portfolio's duration positioning was a modest negative.

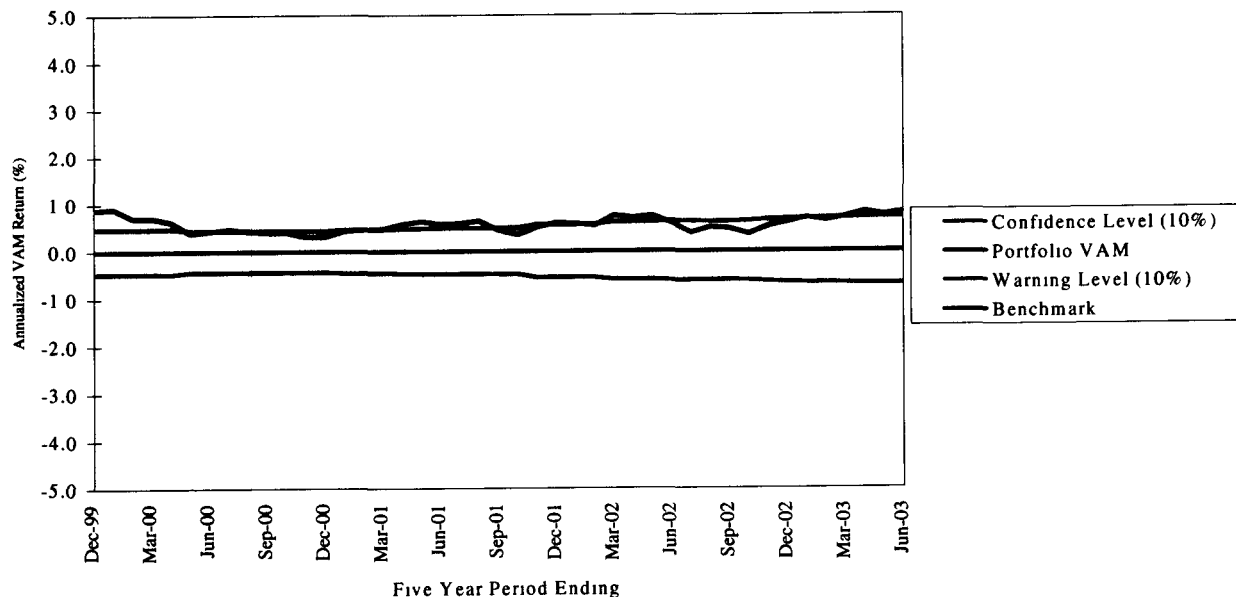
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.2%	2.5%
Last 1 year	12.7	10.4
Last 2 years	11.0	9.5
Last 3 years	11.6	10.1
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (2/00)	11.4	10.0

Recommendations

No action required.

DODGE & COX INVESTMENT MANAGERS
Rolling Five Year VAM



Note: Shaded area includes performance prior to the retention by the SBI

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending June, 2003

Portfolio Manager: David Horowitz

Assets Under Management: \$742,298,390

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

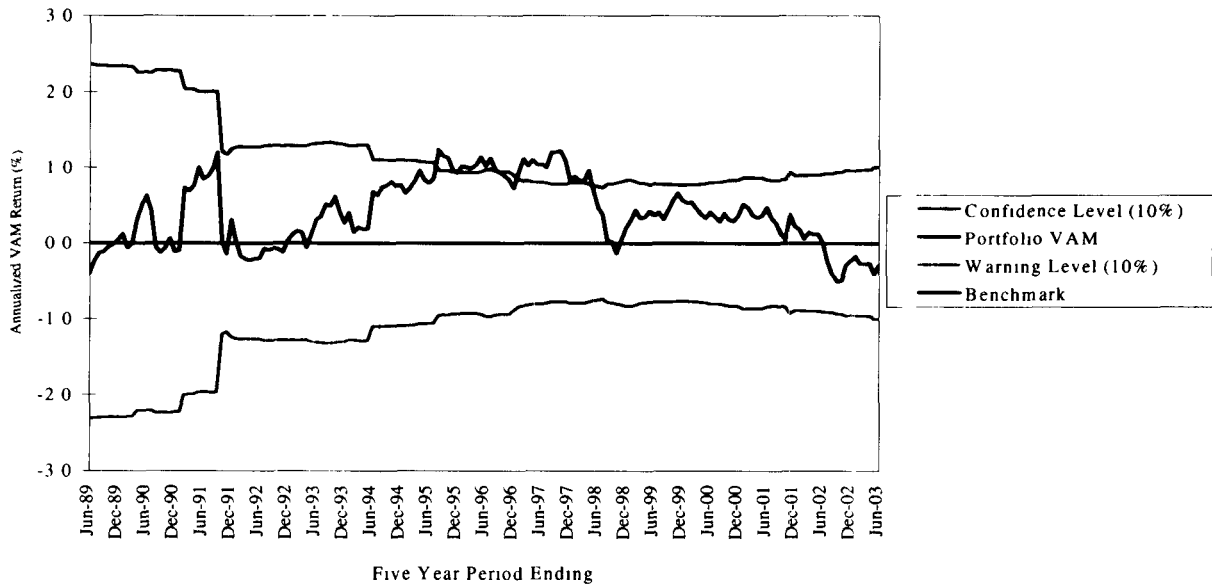
Morgan Stanley underperformed over the quarter as the portfolio's short duration position hurt performance as yields fell. Partially offsetting this effect was a positive contribution from the portfolio's overweight to Corporate bonds, including a small high yield exposure. For the full year, Morgan's underperformance was the result of poor issue selection in Corporates and Mortgages and a shorter than index duration position, which hurt relative performance as rates fell. An overweight to the Mortgage sector also hurt performance.

Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	1.7%	2.5%	No action required
Last 1 year	8.2	10.4	
Last 2 years	8.5	9.5	
Last 3 years	9.9	10.1	
Last 4 years	8.6	8.7	
Last 5 years	7.2	7.5	
Since Inception (7/84)	10.2	10.0	

Recommendations

MORGAN STANLEY INVESTMENT MANAGEMENT
Rolling Five Year VAM



WESTERN ASSET MANAGEMENT
Periods Ending June, 2003

Portfolio Manager: Ken Leech

Assets Under Management: \$1,306,808,686

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

Western outperformed during the quarter as several strategies in the portfolio performed well. First, the portfolio's overweight to Corporate bonds – in particular longer maturity, BBB-rated bonds – generated significant returns as spreads tightened and interest rates fell. The portfolio also benefited during the quarter from an exposure to high yield bonds and to Treasury inflation-protected bonds. Over the full year, overweights to the spread sectors and an overweight duration position for the first six months of the year added value over the benchmark.

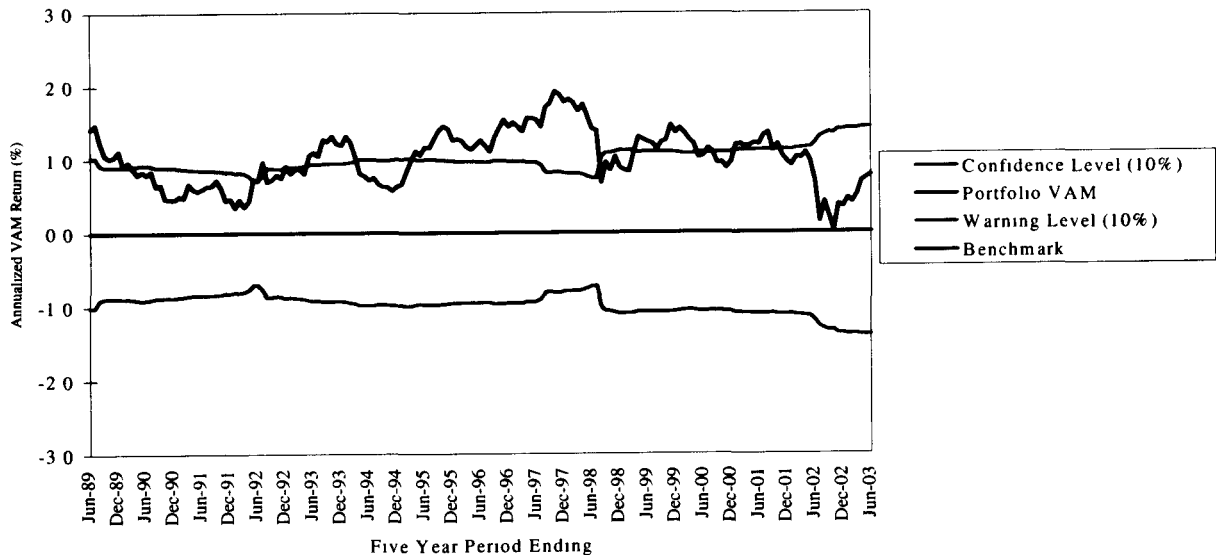
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.9%	2.5%
Last 1 year	13.1	10.4
Last 2 years	10.8	9.5
Last 3 years	11.5	10.1
Last 4 years	10.0	8.7
Last 5 years	8.4	7.5
Since Inception (7/84)	11.2	10.0

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM



BLACKROCK, INC.
Periods Ending June, 2003

Portfolio Manager: Keith Anderson

Assets Under Management: \$1,489,548,550

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 outperformed during the quarter as the result of positive issue selection in the Mortgage and Corporate sectors. Portfolio duration and sector weightings modestly hurt performance over the quarter. Over the full year, BlackRock's issue selection within the spread sectors, and active sector rotation between the Corporate, Mortgage and Government sectors contributed to the portfolio's performance.

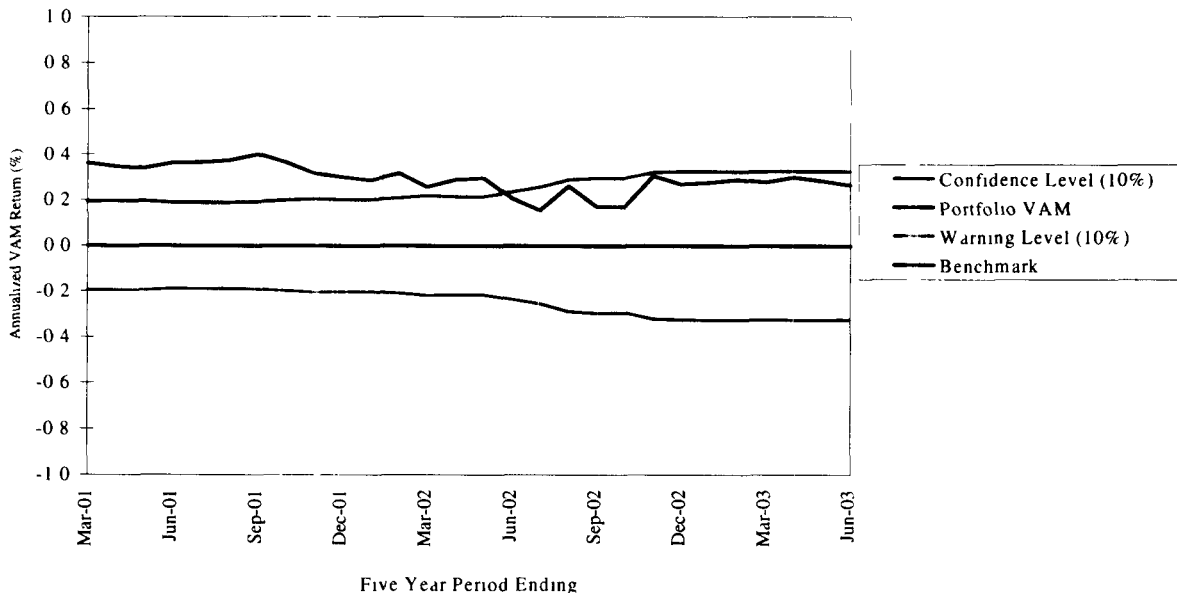
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.7%	2.5%
Last 1 year	11.2	10.4
Last 2 years	9.8	9.5
Last 3 years	10.2	10.1
Last 4 years	9.0	8.7
Last 5 years	7.8	7.5
Since Inception (4/96)	8.2	7.9

Recommendation

No action required.

BLACKROCK, INC.
Rolling Five Year VAM



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2003

Portfolio Manager: Jonathon Beinner

Assets Under Management: \$1,411,130,884

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 outperformed for the quarter and full year as the portfolio's overweight to Corporate bonds – in particular, the BBB-rated component of that sector – contributed meaningfully to returns. Performance was further helped by issue selection and positioning within the Mortgage sector, as well as an overall underweight to the Mortgage sector relative to the index. Staff met with Goldman at our St. Paul offices during the quarter regarding recent organization changes at the firm. At this time, Staff is satisfied that the organization has stabilized. Staff will continue to actively monitor the situation.

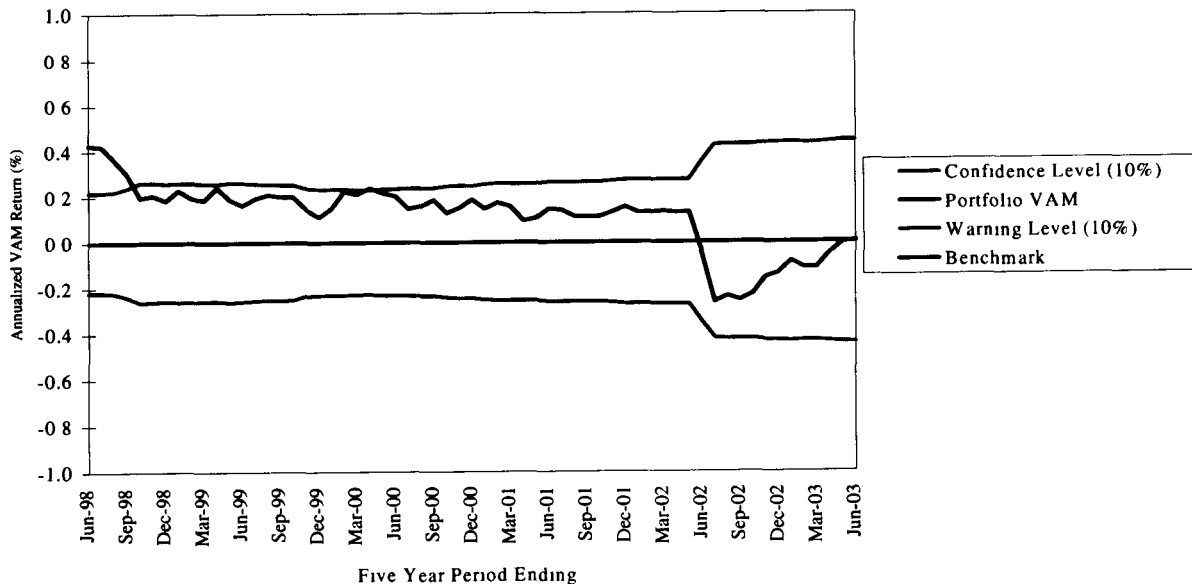
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.1%	2.5%
Last 1 year	11.0	10.4
Last 2 years	9.6	9.5
Last 3 years	10.2	10.1
Last 4 years	8.8	8.7
Last 5 years	7.5	7.5
Since Inception (7/93)	7.5	7.2

Recommendations

No action required.

GOLDMAN SACHS ASSET MANAGEMENT
Rolling Five Year VAM



LINCOLN CAPITAL FIXED INCOME MANAGEMENT
Periods Ending June, 2003

Portfolio Manager: Andrew Johnson

Assets Under Management: \$1,434,875,723

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

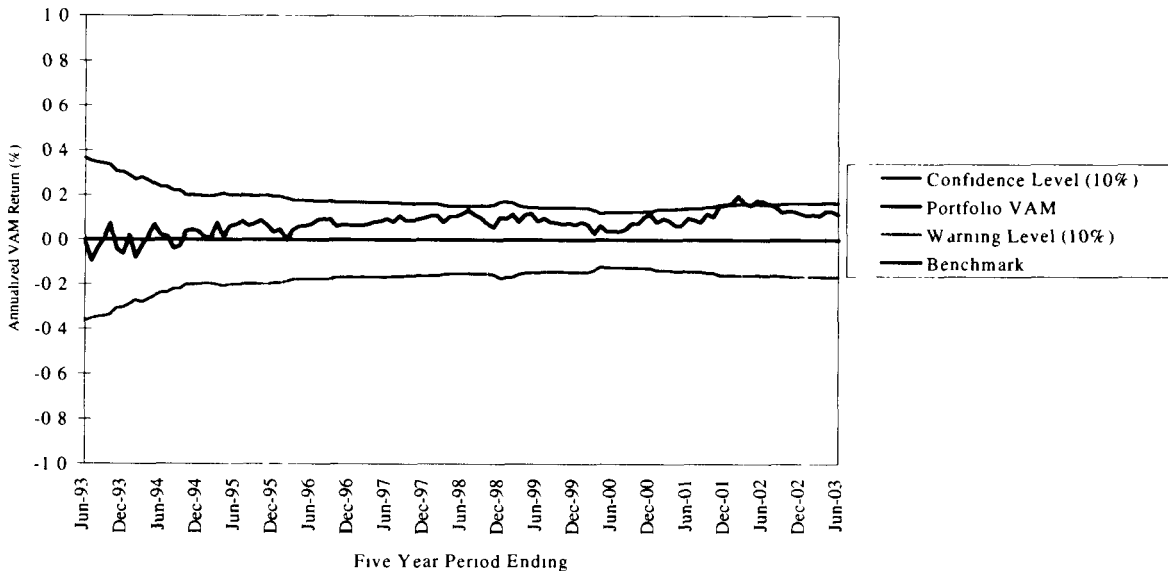
Lincoln outperformed the Lehman Aggregate index for the quarter as the result of good issue selection in the Corporate and Mortgage sectors. A modest sector underweight to Corporates detracted slightly from performance as that sector outperformed during the quarter. Over the full year, Lincoln matched the benchmark's performance as negative issue selection within the ABS sector was offset by positive issue selection in Corporates and Mortgages.

Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	2.7%	2.5%	No action required
Last 1 year	10.4	10.4	
Last 2 years	9.8	9.5	
Last 3 years	10.3	10.1	
Last 4 years	8.8	8.7	
Last 5 years	7.7	7.5	
Since Inception (7/88)	8.7	8.6	

Recommendations

LINCOLN CAPITAL FIXED INCOME MANAGEMENT
Rolling Five Year VAM





STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Second Quarter, 2003

**COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending June, 2003**

	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	17.6	19.3	-9.3	-6.5	-17.5	-13.5			-17.0	-12.3	\$413.4	8.5%
Britannic (Blairlogie)	19.0	19.3	-7.5	-6.5	-14.8	-13.5			-13.5	-12.3	\$259.0	5.3%
Invesco	17.5	19.3	-8.9	-6.5	-8.3	-13.5			-6.5	-12.3	\$504.4	10.3%
Marathon (5)	18.6	21.7	-6.3	-2.4	-5.8	-9.6	2.3	-1.8	5.1	2.4	\$527.5	10.8%
T. Rowe Price	18.4	19.3	-8.8	-6.5	-14.9	-13.5	-3.8	-4.0	3.1	1.9	\$439.3	9.0%
UBS Global	18.8	19.3	-8.0	-6.5	-8.5	-13.5	0.0	-4.0	5.8	3.7	\$531.0	10.9%
Active Emerging Markets												
Alliance Capital	24.7	23.3	9.0	6.7					-2.6	-2.0	\$124.9	2.6%
Capital International	23.0	23.3	5.3	6.7					-7.2	-2.0	\$111.4	2.3%
Morgan Stanley	23.9	23.3	4.6	6.7					-2.5	-2.0	\$116.0	2.4%
Schroders	22.9	23.3	4.1	6.7					-5.9	-2.0	\$116.3	2.4%
Passive EAFE												
State Street	19.4	19.3	-6.1	-6.5	-13.4	-13.5	-3.7	-4.0	4.5	4.2	\$1,730.4	35.5%
									Since 10/1/92			
Equity Only (2) (4)	19.1	19.6	-6.2	-5.4	-12.1	-13.0	-2.7	-3.3	4.7	3.9	\$4,873.8	100.0%
Total Program (3) (4)	19.1	19.6	-6.2	-5.4	-12.1	-13.0	-2.8	-3.3	5.1	3.9	\$4,873.8	
EAFE Free (net)		19.3		-6.5		-13.5		-4.0		4.2		
Emerging Markets Free (net)		23.3		6.7		-7.2		2.4		3.3		

(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) From October 1, 2001 to May 31, 2002 all international benchmarks being reported were the MSCI Provisional indices. The overall international benchmark is EAFE-Free plus Emerging Markets Free (net). 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 (net)/13% Emerging Markets Free (gross). On 5/1/96, the portfolio began transitioning from 100% EAFE Free (net) to the 12/31/96 fixed weights 100% EAFE-Free (net) prior to 5/1/96.

(5) Marathon is measured against a custom composite benchmark: 55% Citigroup EMI EPAC and 45% Citigroup PMI EPAC.

AMERICAN EXPRESS ASSET MANAGEMENT INTERNATIONAL, INC.
Periods Ending June, 2003

Portfolio Manager: Mark Burgess

Assets Under Management: \$413,431,480

Investment Philosophy

American Express Asset Management's (AEAM) process identifies investment themes which they feel will drive improved return on capital, and will provide attractive investment opportunities. AEAM's core international equity approach is a blend of top-down and bottom up styles with an emphasis on large cap growth stocks. They start the decision making process with the development of their geopolitical and macroeconomic outlook. The bottom-up stage of their process begins with real-time relative valuation comparisons of the stocks in their investable universe. The most attractively priced stocks then go through in depth fundamental analysis.

Staff Comments

A small cash position contributed to the portfolio's underperformance during the quarter. An underweight to Germany, which was the best performing market, was also a drag on performance. For the year, negative stock selection in Europe and Japan, particularly in the industrials sector contributed to underperformance.

In June, American Express announced an agreement to acquire Threadneedle Asset Management. Threadneedle is the second largest retail asset manager in the UK. Staff spoke with American Express to discuss these recent changes. The process and people of the two organizations will remain separate.

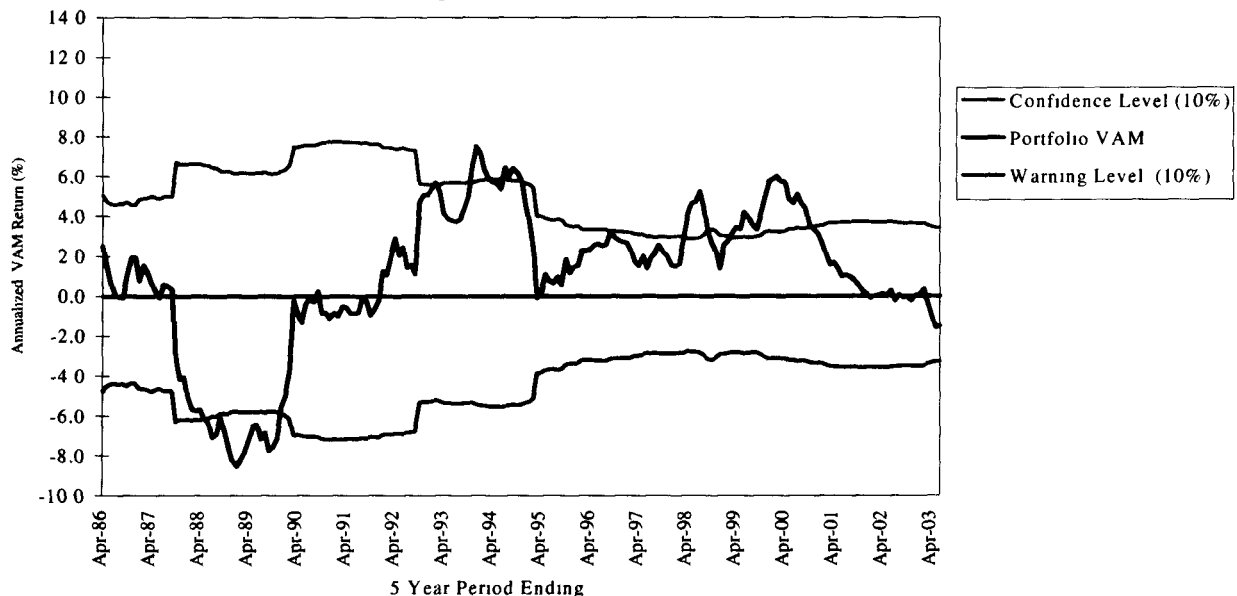
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	17.6%	19.3%
Last 1 year	-9.3	-6.5
Last 2 years	-10.0	-7.9
Last 3 years	-17.5	-13.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-17.0	-12.3

Recommendations

No action required.

AMERICAN EXPRESS ASSET MANAGEMENT INT'L
Rolling Five Year VAM



Note: Shaded area includes performance prior to managing SBI account

BRITANNIC ASSET MANAGEMENT (Blairlogie)
Periods Ending June, 2003

Portfolio Manager: James Smith

Assets Under Management: \$259,035,995

Investment Philosophy

Britannic's process incorporates a top-down model, with bottom-up stock selection. They seek to combine qualitative and quantitative judgment, but believe that objective, measurable facts must always be the starting point for making sound investment decisions. Britannic has developed country and sector models which analyze a broad-based collection of current and historical data. The models rank countries and sectors according to their overall score on variables which are grouped into five categories including Value, Macro, Earnings, Monetary and Technical. Regional analysts then select the best companies by region and sector based on fundamental analysis. The objective of the process is to add value over the benchmark consistently in any market environment while controlling risk and volatility. Britannic's portfolio is broadly diversified in developed markets both by country and by sector, and has a large-cap emphasis.

Staff Comments

Negative stock selection in Germany, the UK and France along with a small cash position were among the primary contributors to the portfolio's underperformance during the quarter.

Underperformance for the year came from stock selection and currency effect.

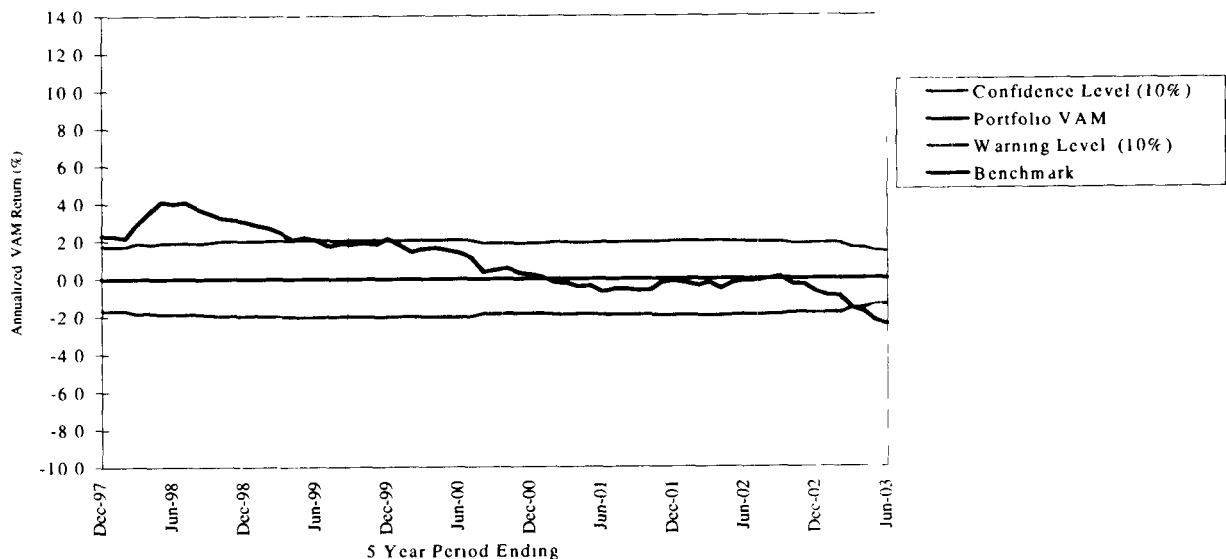
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	19.0%	19.3%
Last 1 year	-7.5	-6.5
Last 2 years	-7.8	-7.9
Last 3 years	-14.8	-13.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-13.5	-12.3

Recommendations

Staff is monitoring the firm due to performance concerns.

BRITANNIC ASSET MANAGEMENT
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

INVESCO GLOBAL ASSET MANAGEMENT
Periods Ending June, 2003

Portfolio Manager: Erik Granade

Assets Under Management: \$504,438,836

Investment Philosophy

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

Staff Comments

Stock selection in Japan significantly undermined the portfolio's performance this quarter, in addition to a small cash position and an underweight to Germany. Since the beginning of the year, Japanese companies have been liquidating blue chip holdings to return pension obligations to their government. This has created artificial selling pressure in the Japanese equity market.

For the year, an underweight to telecom stocks, one of the strongest developed market performers during the period, hurt the portfolio.

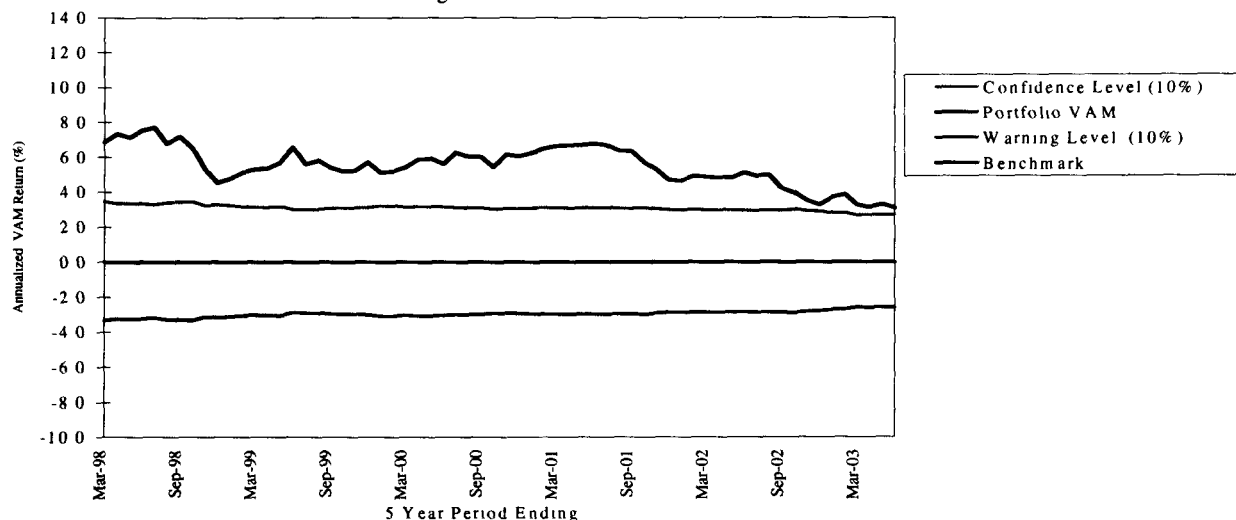
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	17.5%	19.3%
Last 1 year	-8.9	-6.5
Last 2 years	-5.8	-7.9
Last 3 years	-8.3	-13.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-6.5	-12.3

Recommendations

No action required.

INVESCO GLOBAL ASSET MANAGEMENT
Rolling Five Year VAM



Note: Shaded area includes performance prior to managing SBI account

MARATHON ASSET MANAGEMENT
Periods Ending June, 2003

Portfolio Manager: William Arah

Assets Under Management: \$527,462,580

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

While stock selection was positive overall, the portfolio underperformed during the quarter due to an underweight to Europe, an overweight to Japan and Singapore, and a small cash position. While the Asian region experienced positive returns, it did not keep pace with Europe's strong gains.

Stock selection in Europe was a negative contributor to performance over the one-year time period.

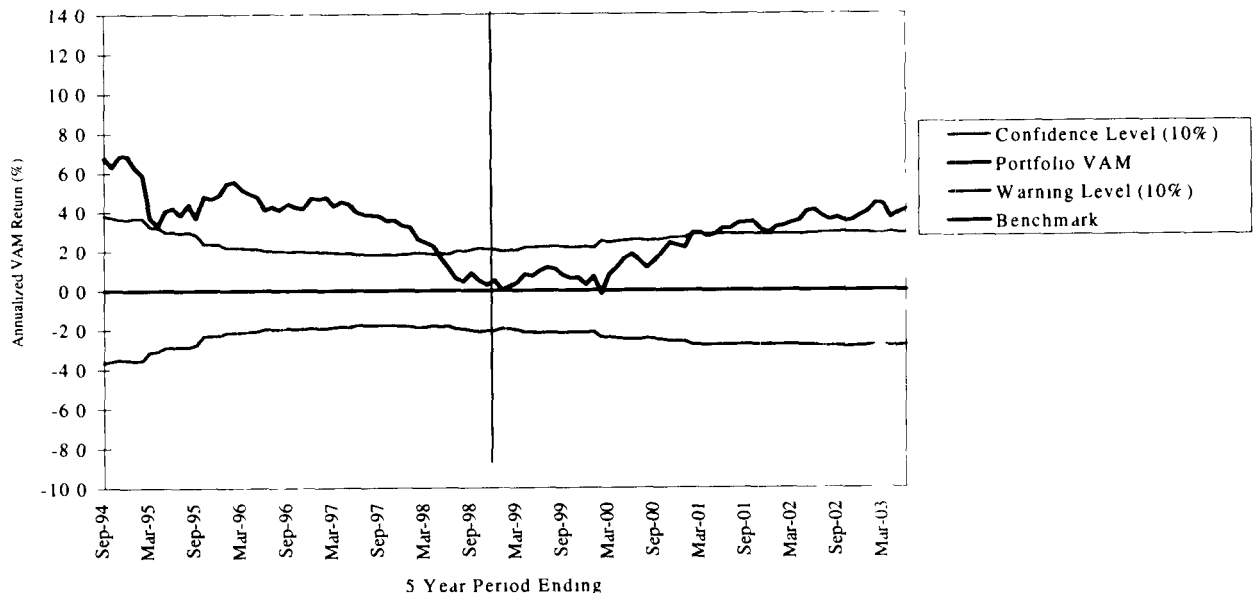
Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	18.6%	21.7%
Last 1 year	-6.3	-2.4
Last 2 years	-3.0	-3.8
Last 3 years	-5.8	-9.6
Last 4 years	-0.2	-3.9
Last 5 years	2.3	-1.8
Since Inception (11/93)	5.1	2.4

Recommendations

No action required.

MARATHON ASSET MANAGEMENT
Rolling Five Rolling VAM



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

T. ROWE PRICE INTERNATIONAL, INC.
Periods Ending June, 2003

Portfolio Manager: David Warren

Assets Under Management: \$439,322,616

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

Stock selection within Germany was strong, but the portfolio's significant underweight to this market and a small cash position were the primary negative contributors to performance over the quarter. Stock selection in Sweden and the UK also contributed negatively.

The portfolio underperformed for the year due to negative stock selection overall, in particular in the Swedish and Japanese markets. An underweight to Australia and an overweight to the Netherlands further detracted from performance.

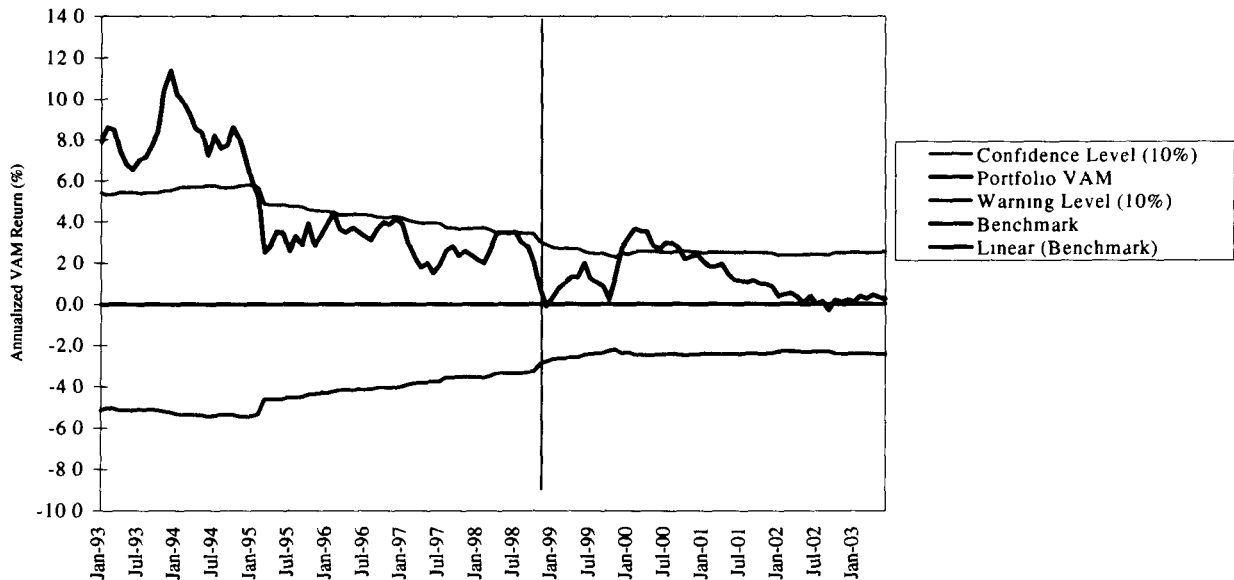
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	18.4%	19.3%
Last 1 year	-8.8	-6.5
Last 2 years	-8.6	-7.9
Last 3 years	-14.9	-13.5
Last 4 years	-6.2	-6.7
Last 5 years	-3.8	-4.0
Since Inception (11/93)	3.1	1.9

Recommendations

No action required.

T. ROWE PRICE INTERNATIONAL
Rolling Five Year VAM



5 Year Period Ending

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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending June, 2003

Portfolio Manager: Thomas Madsen

Assets Under Management: \$531,024,094

Investment Philosophy

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

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

Staff Comments

Staff met with UBS during the quarter at SBI offices to discuss recent portfolio performance. Negative stock selection in Japan and an underweight to Germany led to underperformance this quarter. Stock selection in Italy and Sweden also detracted from returns.

UBS has announced that Jeff Diermeier, Global Chief Investment Officer, will retire later this year. He had been with UBS and Brinson Partners for 28 years. Brian Singer and Tom Madsen will assume his responsibilities. Brian Singer, Head of Asset Allocation, will become the regional CIO for the Americas assuming oversight of equity, bond, and cash management. Tom Madsen, Head of Global Equities will assume Mr Diermeier's role as head of the investment committee. Staff does not expect an adverse impact to the SBI's portfolios.

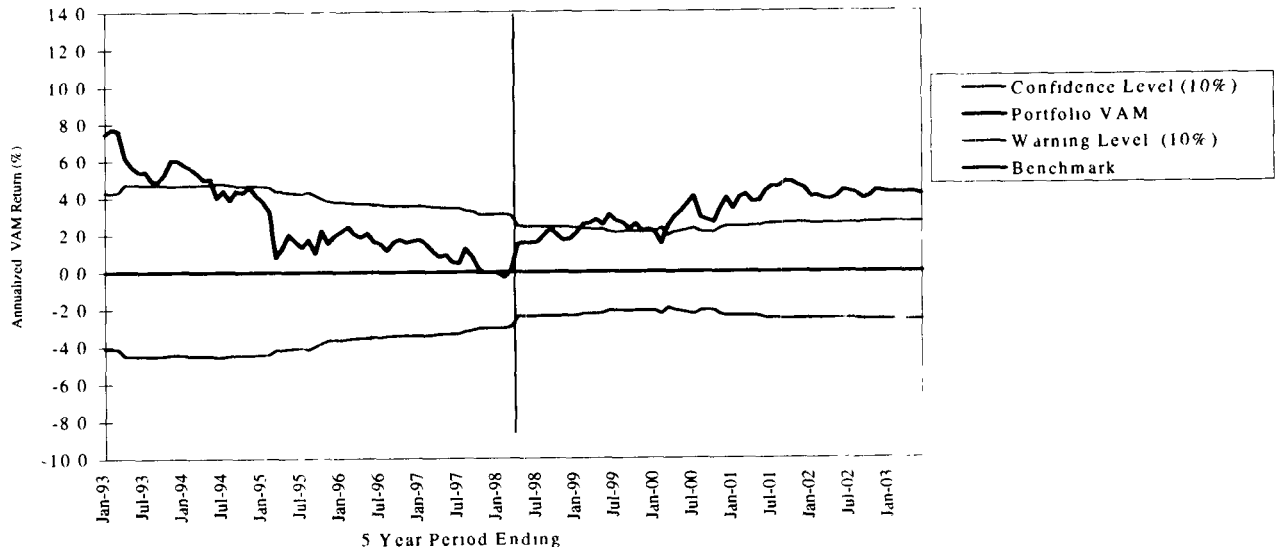
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	18.8%	19.3%
Last 1 year	-8.0	-6.5
Last 2 years	-6.5	-7.9
Last 3 years	-8.5	-13.5
Last 4 years	-2.2	-6.7
Last 5 years	0.0	-4.0
Since Inception (4/93)	5.8	3.7

Recommendations

No action required.

UBS GLOBAL ASSET MANAGEMENT, INC. (INT'L)
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, 2003

Portfolio Manager: Edward Baker

Assets Under Management: \$124,926,257

Investment Philosophy

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

Staff Comments

Stock selection in Taiwan, Korea, Malaysia and South Africa contributed to the portfolio's outperformance during the quarter. While country selection detracted modestly, stock selection was strong across most markets.

For the year, stock selection was again the primary contributor to outperformance. Country weighting decisions also added value. South African financials and Taiwanese technology names added particular value.

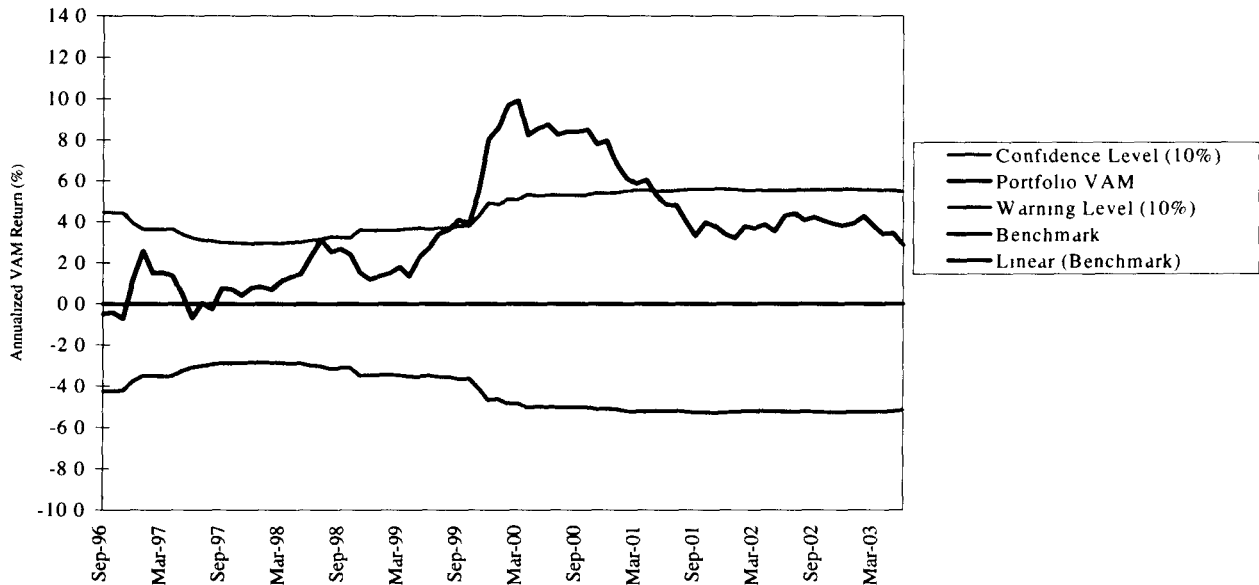
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	24.7	23.3
Last 1 year	9.0	6.7
Last 2 years	5.9	5.0
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)	-2.6	-2.0

Recommendations

No action required.

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year VAM



5 Year Period Ending

Note Shaded area includes performance prior to managing SBI account

CAPITAL INTERNATIONAL, INC.
Periods Ending June, 2003

Portfolio Manager: Victor Kohn

Assets Under Management: \$111,373,881

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 portfolio modestly underperformed during the quarter, primarily due to stock selection in India and Korea.

For the year, an underweight position and stock selection in South Africa along with security selection in Russia and China detracted from performance

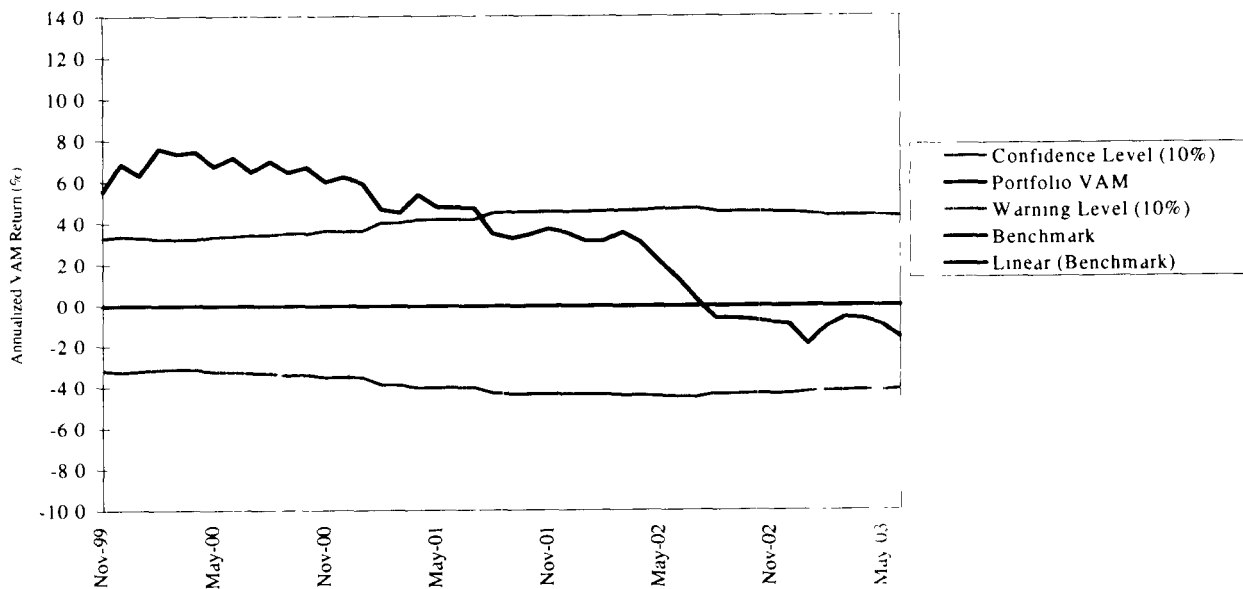
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	23.0	23.3
Last 1 year	5.3	6.7
Last 2 years	-0.6	5.0
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)	-7.2	-2.0

Recommendations

No action required

CAPITAL INTERNATIONAL, INC
Rolling Five Year VAM



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

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending June, 2003

Portfolio Manager: Narayan Ramachandran

Assets Under Management: \$116,039,022

Investment Philosophy

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

Staff Comments

The portfolio modestly outperformed during the quarter due to strong stock selection in Asia, in particular in South Korea, India and Taiwan. An overweight to Indonesia and Russia also added value.

For the year, country allocation and stock selection in Brazil, as well as stock selection in Russia and Turkey, detracted from performance.

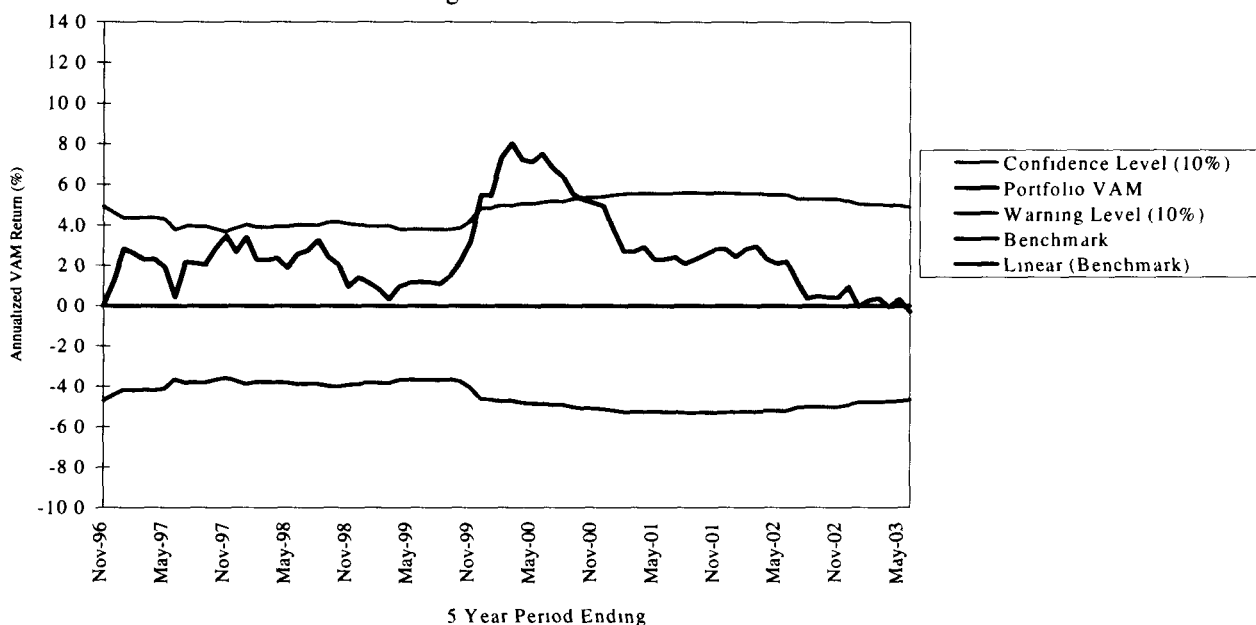
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	23.9%	23.3%
Last 1 year	4.6	6.7
Last 2 years	5.2	5.0
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)	-2.5	-2.0

Recommendations

No action required.

MORGAN STANLEY INVESTMENT MANAGEMENT
Rolling Five Year VAM



Note. Shaded area includes performance prior to the retention by the SBI

SCHRODERS INVESTMENT MANAGEMENT NORTH AMERICA INC.
Periods Ending June, 2003

Portfolio Manager: Peter Clark

Assets Under Management: \$116,329,453

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

Country weighting and stock selection decisions in India and China contributed to the portfolio's underperformance during the quarter.

For the year, an overweight to Korea, an underweight to Brazil, and stock selection in Taiwan detracted from returns

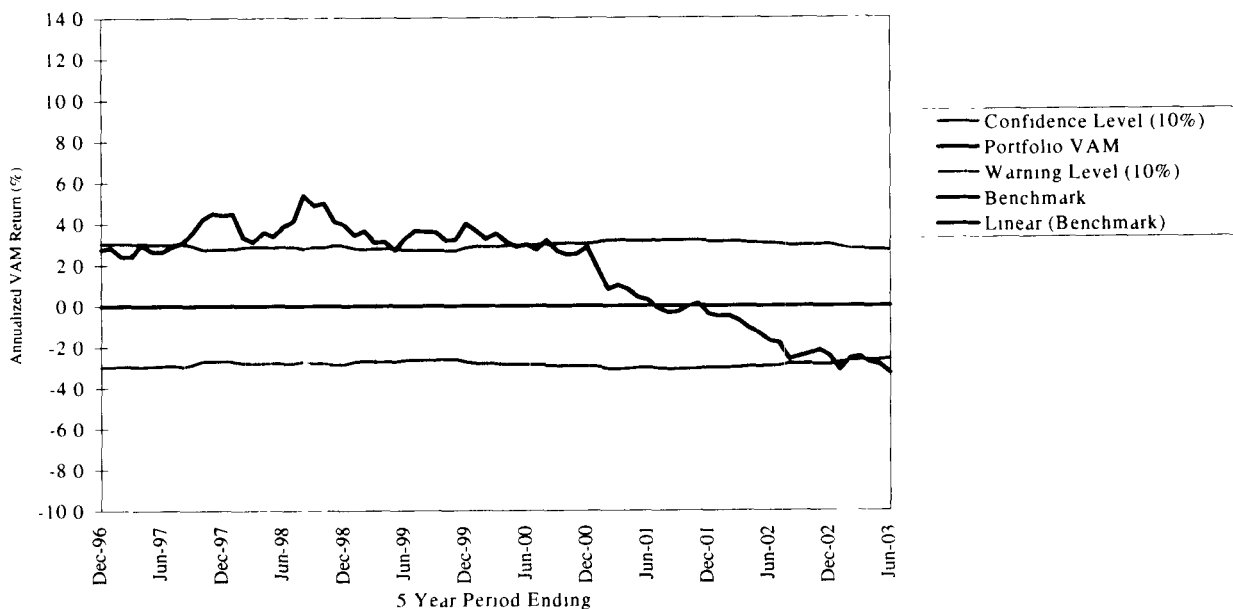
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	22.9	23.3
Last 1 year	4.1	6.7
Last 2 years	1.1	5.0
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)	-5.9	-2.0

Recommendations

Staff continues to closely monitor the firm due to organizational change and performance concerns.

SCHRODERS INVESTMENT MANAGEMENT
Rolling Five Year VAM



Note: Shaded area includes performance prior to the retention by the SBI

STATE STREET GLOBAL ADVISORS
Periods Ending June, 2003

Portfolio Manager: Lynn Blake

Assets Under Management: \$1,730,418,791

Investment Philosophy

State Street Global Advisors passively manages the portfolio against the Morgan Stanley Capital International (MSCI) index of 21 markets located in Europe, Australia and the Far East (EAFE). They buy only securities which are eligible for purchase by foreign investors, therefore they are benchmarked against the MSCI EAFE-Free (net) index. SSgA fully replicates the index whenever possible because it results in lower turnover, higher tracking accuracy and lower market impact costs. The MSCI EAFE-Free (net) index reinvests dividends assuming a withholding tax on dividends, according to the Luxembourg tax rate. Whereas the portfolio reinvests dividends using all available reclaims and tax credits available to a U.S. pension fund, which should result in modest positive tracking error, over time.

Staff Comments

The portfolio incurred positive tracking error over the quarter and the year. For the year, the tracking error exceeded the range of expectation due to cash held as equity markets declined, trading strategies on index changes which added value, and the basis risk of futures held in the account.

Staff met with the portfolio manager during the quarter to discuss recent organizational changes. In July, SSgA announced that they had offered a voluntary separation option to employees. Eight percent of SSgA's staff have accepted this option, including three portfolio managers. None of the departing staff were involved with the management of the SBI's account. These changes are not expected to have an adverse effect on the SBI's portfolio.

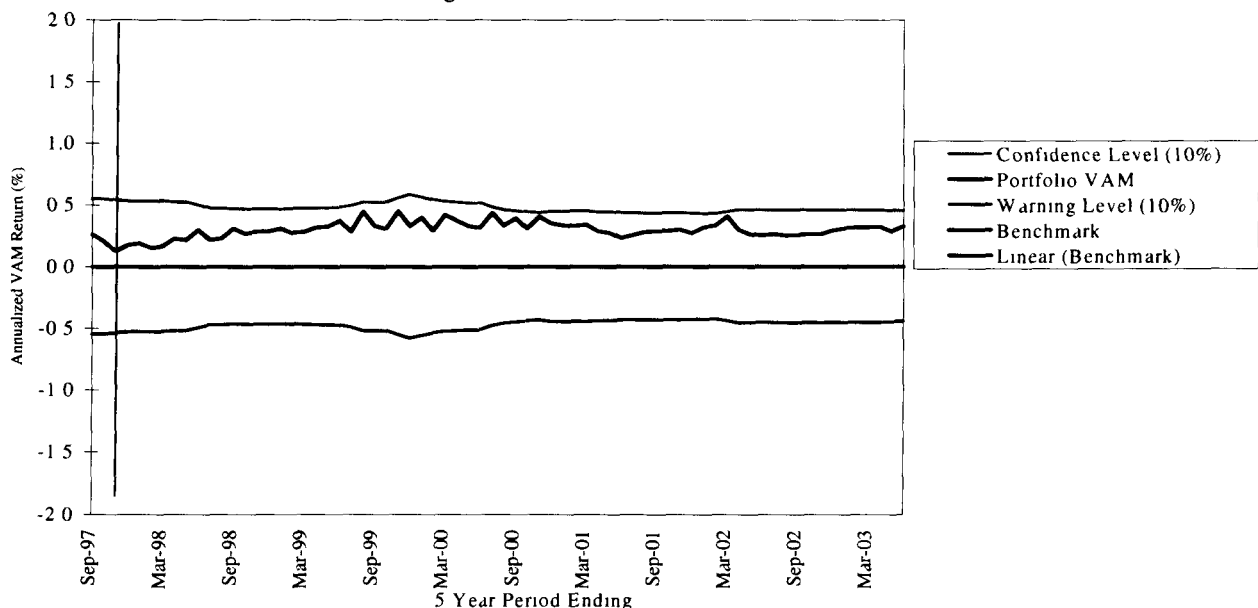
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	19.4%	19.3%
Last 1 year	-6.1	-6.5
Last 2 years	-7.7	-7.9
Last 3 years	-13.4	-13.5
Last 4 years	-6.5	-6.7
Last 5 years	-3.7	-4.0
Since Inception (10/92)	4.5	4.2

Recommendation

No action required.

STATE STREET GLOBAL ADVISORS
Rolling Five Year VAM



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



STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Second Quarter, 2003

NON - RETIREMENT MANAGERS
Periods Ending June, 2003

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	
GE Investment Management (S&P 500 Index)*	14.0	15.4	-0.8	0.3	-7.4	-11.2	1.0	-1.6	12.6	11.1	\$55.6
Voyageur Asset Management (Custom Benchmark)*	1.4	1.5	7.4	7.9	7.8	8.9	6.4	7.2	7.4	7.5	\$173.2
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	1.2	0.5	5.2	2.5	5.9	3.9	6.1	4.7	6.3	5.4	\$134.6
Internal Stock Pool (S&P 500 Index)*	15.4	15.4	0.7	0.3	-11.1	-11.2	-1.5	-1.6	10.2	10.0	\$522.3
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	2.7	2.5	11.5	10.4	9.7	10.1	7.4	7.5	8.7	8.4	\$199.7
Internal Bond Pool - Trust (Lehman Aggregate)*	2.9	2.5	11.9	10.4	10.0	10.1	7.6	7.5	8.5	8.2	\$359.1

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

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

(2) Prior to July 1994, the benchmark was the Salomon BIG

GE ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending June, 2003

Portfolio Manager: Gene Bolton

Assets Under Management: \$55,559,058

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 underperformed the benchmark for the quarter due to stock selection. The portfolio trailed the one-year benchmark due to stock selection across several sectors.

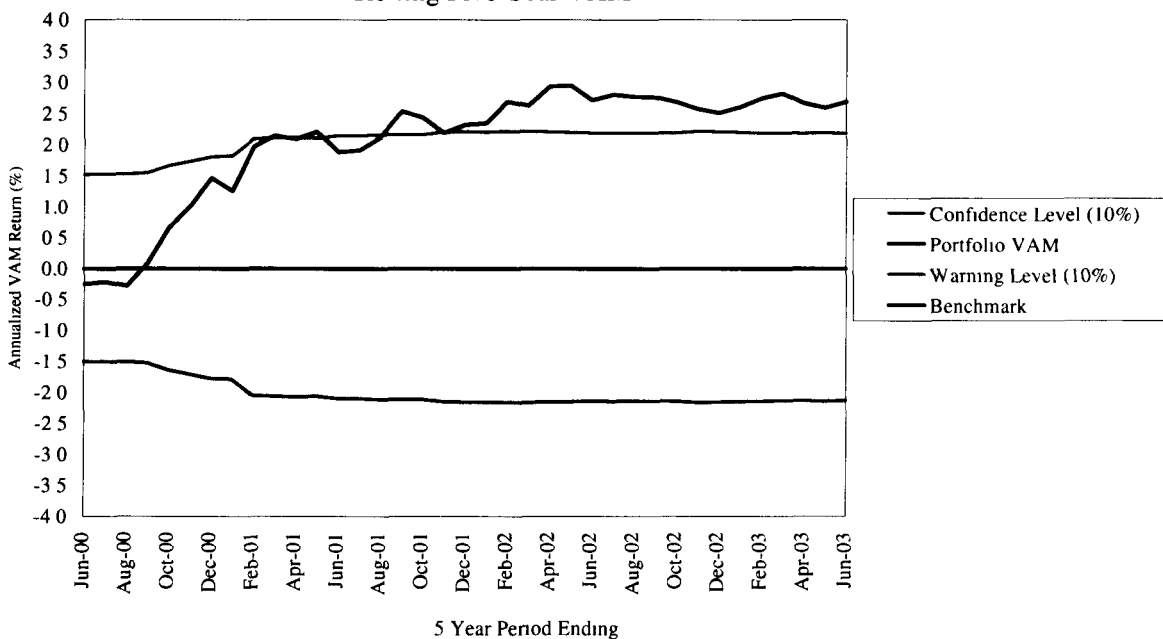
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	14.0%	15.4%
Last 1 year	-0.8	0.3
Last 2 years	-8.1	-9.3
Last 3 years	-7.4	-11.2
Last 4 years	-4.0	-6.9
Last 5 years	1.0	-1.6
Since Inception (1/95)	12.6	11.1

Recommendation

No recommendation at this time.

GE INVESTMENT MANAGEMENT
Rolling Five Year VAM



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending June, 2003

Portfolio Manager: Tom McGlinch

Assets Under Management: \$173,153,716

Investment Philosophy
Assigned Risk Plan

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

Staff Comments

Voyageur was hurt during the quarter and the year by its shorter duration relative to the benchmark.

Quantitative Evaluation

Recommendation

	Actual	Benchmark*	
Last Quarter	1.4%	1.5%	No action required
Last 1 year	7.4	7.9	
Last 2 years	7.0	8.1	
Last 3 years	7.8	8.9	
Last 4 years	6.9	7.8	
Last 5 years	6.4	7.2	
Since Inception (7/91)	7.4	7.5	

*Custom benchmark since inception date

VAM Graph will be drawn for period ending 3/31/04.

GALLIARD CAPITAL MANAGEMENT
Periods Ending June, 2003

Portfolio Manager: Karl Tourville

Assets Under Management: \$134,555,863

Investment Philosophy

Staff Comments

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.

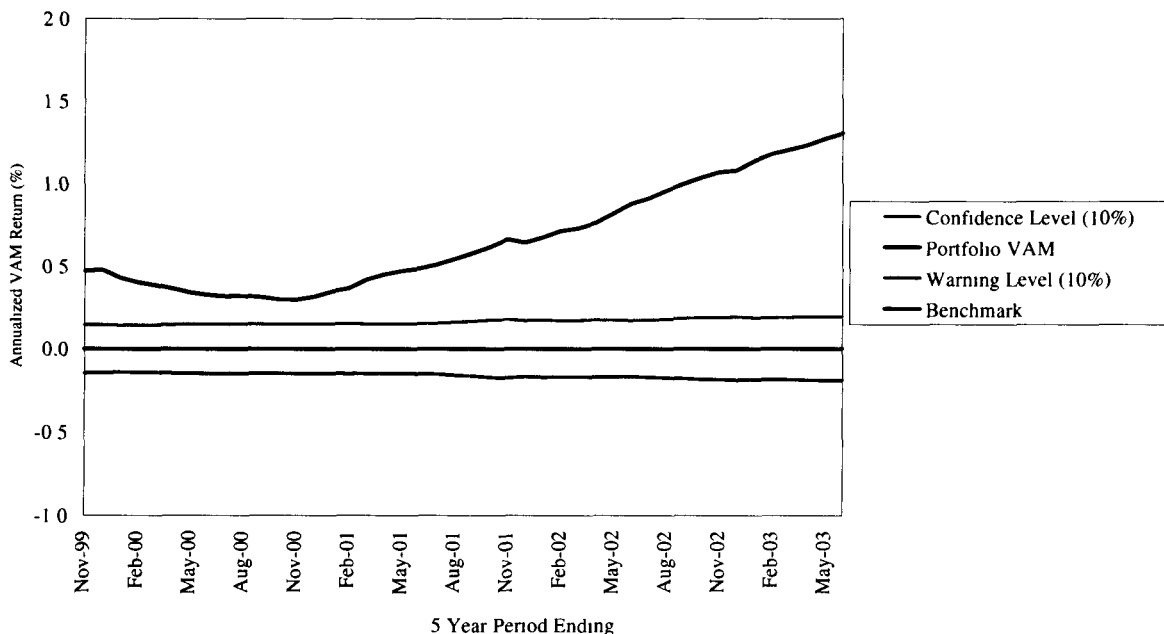
No comments at this time.

Quantitative Evaluation

Recommendation

	Actual	Benchmark	
Last Quarter	1.2%	0.5%	No action required.
Last 1 year	5.2	2.5	
Last 2 years	5.7	3.2	
Last 3 years	5.9	3.9	
Last 4 years	6.0	4.6	
Last 5 years	6.1	4.7	
Since Inception (11/94)	6.3	5.4	

Galliard Capital Management
Rolling Five Year VAM



INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending June, 2003

Portfolio Manager: Mike Menssen

Assets Under Management: \$522,320,182

Investment Philosophy
Environmental Trust Fund
Permanent School Fund

Staff Comments

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.

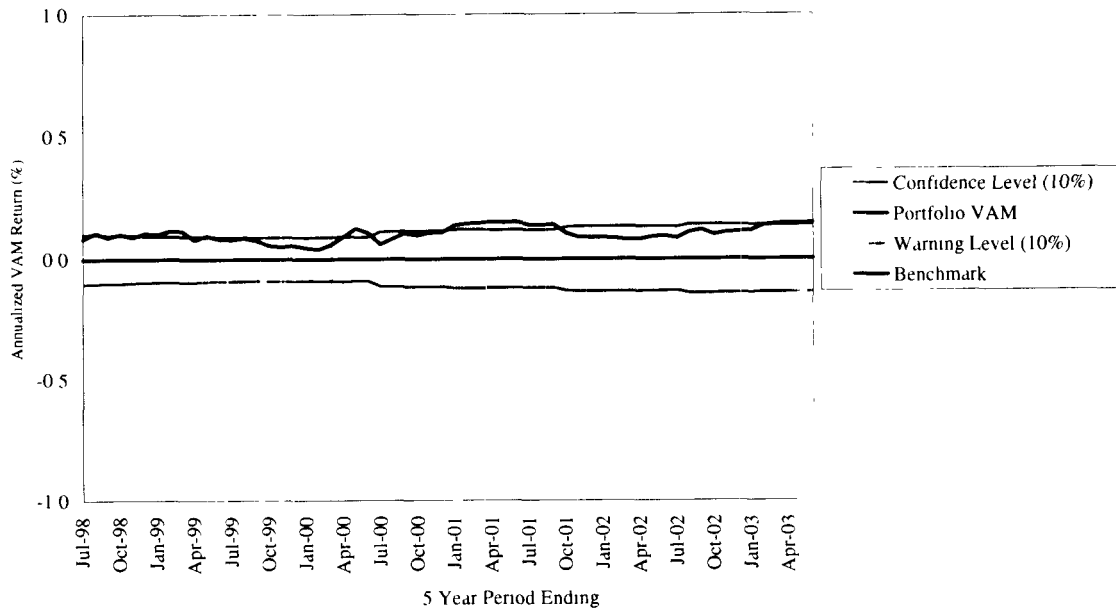
The portfolio matched the index for the quarter and outperformed for the year. The positive tracking error for the one-year period was due to the timing of the high volume of trading in the index.

Quantitative Evaluation

Recommendation

	Actual	Benchmark	
Last Quarter	15.4%	15.4%	No action required
Last 1 year	0.7	0.3	
Last 2 years	-9.2	-9.3	
Last 3 years	-11.1	-11.2	
Last 4 years	-6.8	-6.9	
Last 5 years	-1.5	-1.6	
Since Inception (7/93)	10.2	10.0	

INTERNAL STOCK POOL
Trust/Non-Retirement Assets
Rolling Five Year VAM



INTERNAL BOND POOL - Income Share Account
Periods Ending June, 2003

Portfolio Manager: Mike Messen

Assets Under Management: \$199,681,029

Investment Philosophy
Income Share Account

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

Staff Comments

The internal bond pool outperformed the quarterly and one-year benchmark. The outperformance was primarily due to an overweight in the corporate sector.

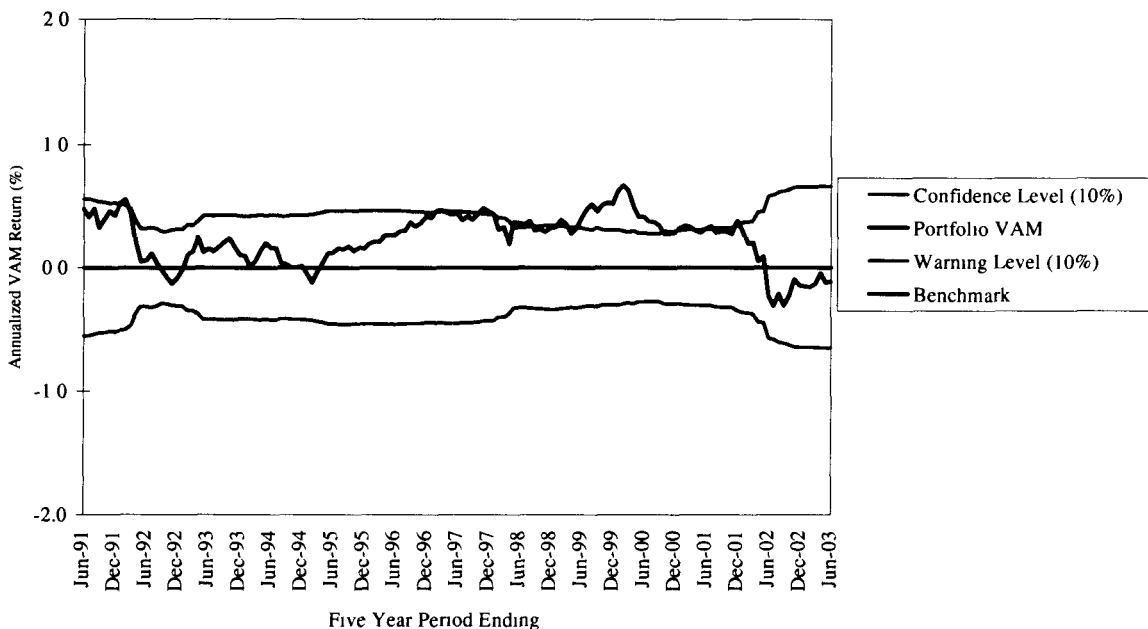
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.7%	2.5%
Last 1 year	11.5	10.4
Last 2 years	8.9	9.5
Last 3 years	9.7	10.1
Last 4 years	8.4	8.7
Last 5 years	7.4	7.5
Since Inception (7/86)	8.7	8.4

Recommendation

No action required.

INTERNAL BOND POOL - INCOME SHARE ACCOUNT
Rolling Five Year VAM



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending June, 2003

Portfolio Manager: Mike Messen

Assets Under Management: \$359,106,815

Investment Philosophy
Environmental Trust Fund
Permanent School Trust Fund

Staff Comments

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

The internal bond pool outperformed the quarterly and one-year benchmark. The outperformance was primarily due to an overweight in the corporate sector.

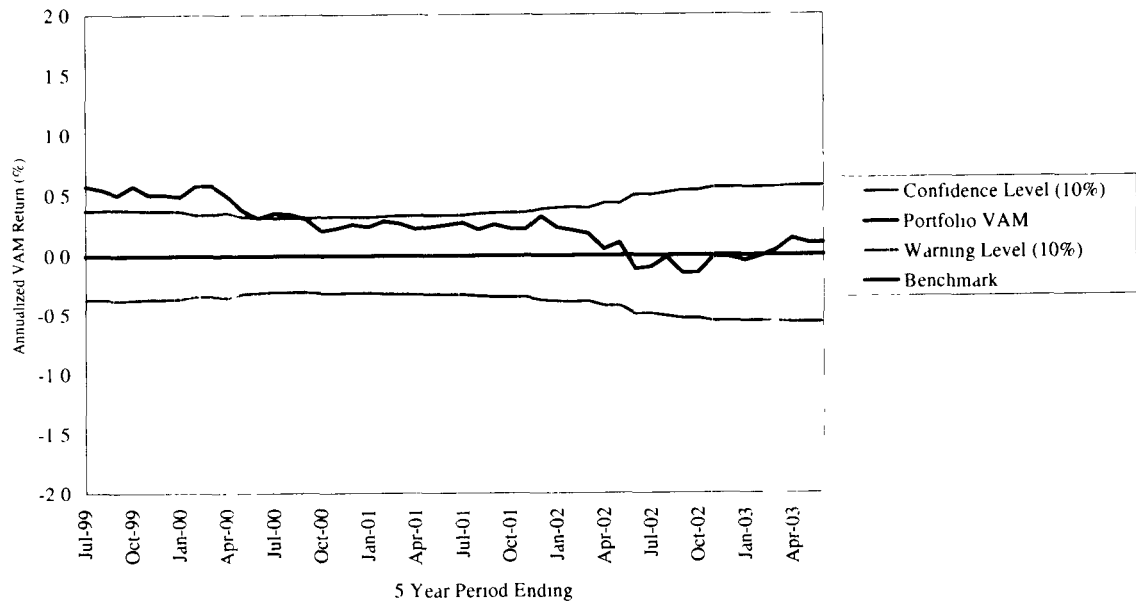
Quantitative Evaluation

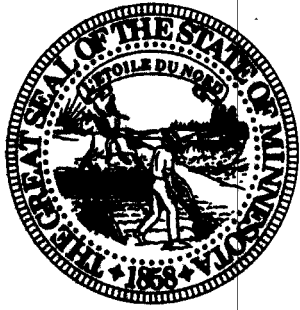
Recommendation

	Actual	Benchmark	
Last Quarter	2.9%	2.5%	No action required
Last 1 year	11.9	10.4	
Last 2 years	9.5	9.5	
Last 3 years	10.0	10.1	
Last 4 years	8.7	8.7	
Last 5 years	7.6	7.5	
Since Inception (7/94)*	8.5	8.2	

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

INTERNAL BOND POOL - TRUST/NON-RETIREMENT ASSETS
Rolling Five Year VAM





STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

Second Quarter, 2003

MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Periods Ending June, 2003

457 Mutual Funds	Quarter		1 Year		3 Years		5 Years		Since Retention		State's Participation In Fund (\$ millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	by SBI* %	%	
Large Cap Equity:											
Janus Twenty (S&P 500)**	12.9	15.4	2.3	0.3	-23.9	-11.2	-3.0	-1.6	-13.1	-6.9	\$221.0
Mid Cap Equity:											
Morgan Stanley Mid-Cap Value Instl. (S&P Mid-Cap 400)	23.1	17.7	0.0	-0.6	-5.3	1.5	2.7	7.6	-11.4	-2.5	\$12.16
Small Cap Equity:											
T Rowe Price Small-Cap Stock (Russell 2000)**	16.6	23.4	-2.0	-1.6	2.3	-3.3	4.8	1.0	7.0	0.9	\$250.3
Equity Index:											
Vanguard Institutional Index Plus (S&P 500)**	15.4	15.4	0.4	0.3	-11.1	-11.2	-1.5	-1.6	-6.8	-6.9	\$172.5
Balanced:											
INVESCO Total Return (60% S&P 500/40% Lehman Gov-Corp)**	11.1	10.1	0.3	4.8	-1.8	-3.5	-1.6	1.9	-4.5	-1.1	\$86.9
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)**	2.8	2.5	10.9	10.4	10.9	10.1	7.8	7.5	9.1	8.7	\$78.6
International:											
Fidelity Diversified International (MSCI EAFE-Free)**	19.7	19.3	-0.9	-6.5	-5.6	-13.5	3.8	-4.0	2.7	-6.7	\$83.7

Numbers in black are returns since retention by SBI.

Numbers in blue include returns prior to retention by SBI.

*Morgan Stanley was retained in January 2002; all others, July 1999.

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

Fixed Fund:	%
Blended Yield Rate for current quarter***:	5.3
Bid Rates for current quarter:	
Great West Life	4.1
Minnesota Life	3.7
Principal Life	3.8

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

**MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – JANUS TWENTY
Periods Ending June, 2003**

Portfolio Manager: Scott W. Schoelzel

**State's Participation in Fund: \$221,008,541
Total Assets in Fund: \$1,004,010,000**

**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 underperformed the quarterly benchmark. An underweight position in the materials sector and stock selection negatively impacted the Fund's performance for the quarter.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	12.9%	15.4%
Last 1 year	2.3	0.3
Last 2 years	-13.4	-9.3
Last 3 years	-23.9	-11.2
Last 4 years	-13.1	-6.9
Last 5 years	-3.0	-1.6
Since Retention by SBI (7/99)	-13.1	-6.9

Recommendation

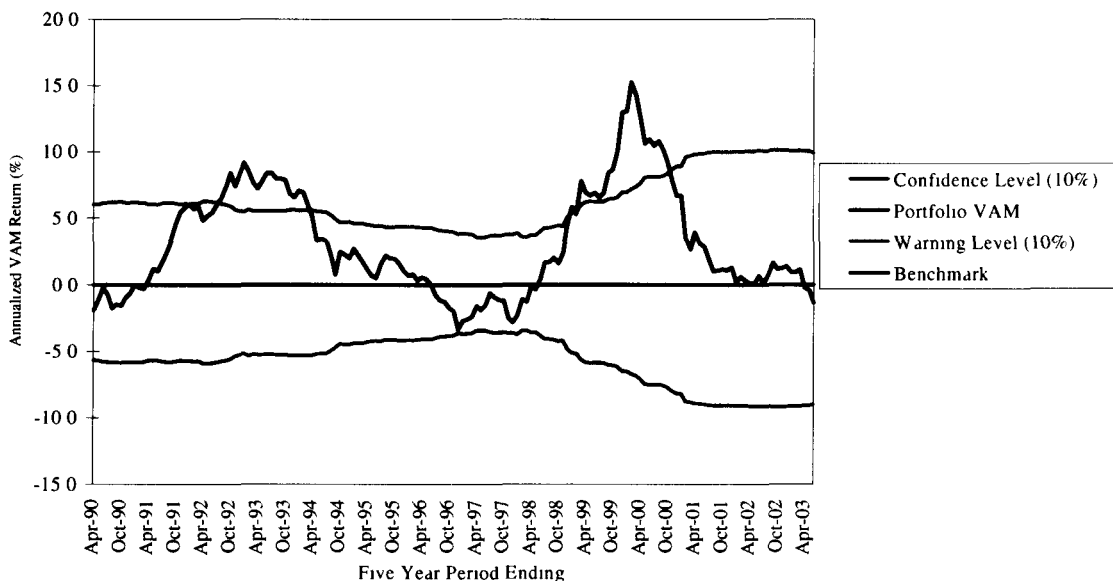
No action required

*Benchmark is the S&P 500.

Numbers in black are returns since retention by SBI.

Numbers in blue include returns prior to retention by SBI.

**LARGE CAP EQUITY - JANUS TWENTY
Rolling Five Year VAM**



Note Shaded area includes performance prior to managing SBI account

**MN STATE 457 DEFERRED COMPENSATION PLAN
MORGAN STANLEY MID-CAP VALUE INSTITUTIONAL
Periods Ending June, 2003**

Portfolio Manager: William Gerlach

**State's Participation in Fund: \$12,156,139
Total Assets in Fund: \$625,121,695**

**Investment Philosophy
Morgan Stanley Mid-Cap Value Institutional**

The investment objective of this fund is capital growth. The strategy is to produce a portfolio that focuses on medium-sized companies that are viewed as undervalued. The fund normally invests in all economic sectors of the market and distinguishes itself through a value-driven approach to security selection, which combines quantitative and fundamental elements. Economic sector weights are normally kept within 5 percentage points of those of the S&P MidCap 400 Index. The fund focuses on companies with market capitalizations from \$500 million to \$5 billion.

Staff Comments

Morgan Stanley outperformed the benchmark for the quarter and one-year periods. The performance was driven by stock selection, which was strong across several sectors.

Quantitative Evaluation

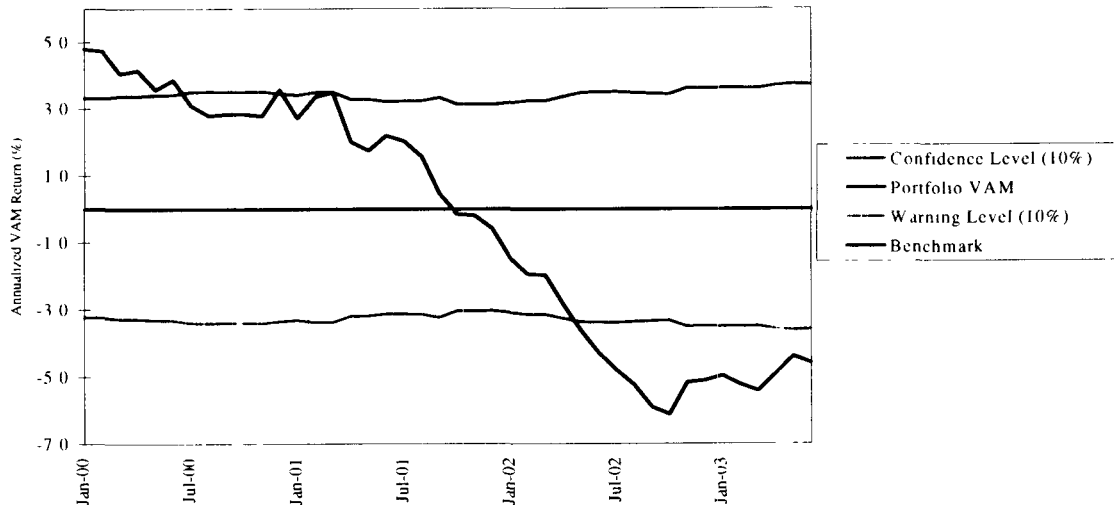
	Actual	Benchmark*
Last Quarter	23.1%	17.7%
Last 1 year	0.0	-0.6
Last 2 years	-10.7	-2.5
Last 3 years	5.3	1.5
Last 4 years	-1.2	5.4
Last 5 years	2.7	7.6
Since Retention By SBI (1/02)	-11.4	-2.5

Recommendation

No action required

*Benchmark is the S&P Midcap 400.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

**MID CAP EQUITY - MORGAN STANLEY
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 STOCK FUND
Periods Ending June, 2003**

Portfolio Manager: Gregory A. McCrickard

**State's Participation in Fund: \$250,258,628
Total Assets in Fund: \$4,049,060,000**

**Investment Philosophy
T. Rowe Price Small Cap Equity Fund**

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

Staff Comments

Stock selection aided results for the period, while the impact of sector weightings was negative.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	16.6%	23.4%
Last 1 year	-2.0	-1.6
Last 2 years	-1.6	-5.2
Last 3 years	2.3	-3.3
Last 4 years	7.0	0.9
Last 5 years	4.8	1.0
Since Retention by SBI (7/99)	7.0	0.9

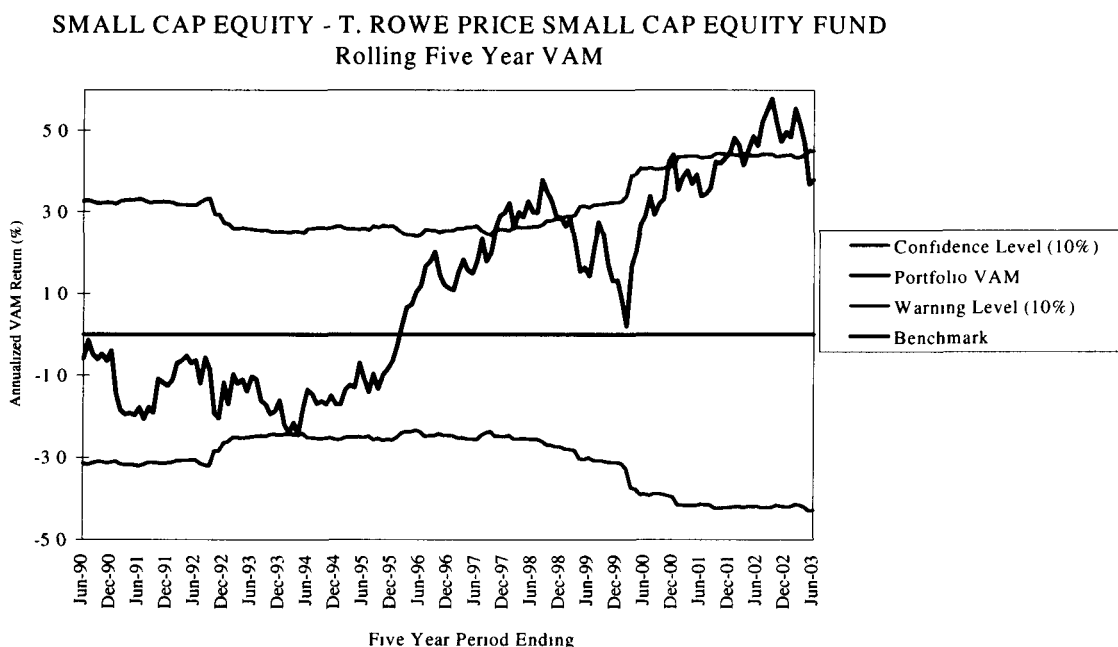
Recommendation

No action required.

*Benchmark is the Russell 2000.

Numbers in black are returns since retention by SBI.

Numbers in blue include returns prior to retention by SBI.



**MN STATE 457 DEFERRED COMPENSATION PLAN
EQUITY INDEX – VANGUARD INSTITUTIONAL INDEX PLUS
Periods Ending June, 2003**

Portfolio Manager: George U. Sauter

**State's Participation in Fund: \$172,466,391
Total Assets in Fund: \$8,370,301,000**

**Investment Philosophy
Vanguard Institutional Index**

Staff Comments

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.

No comment at this time

Quantitative Evaluation

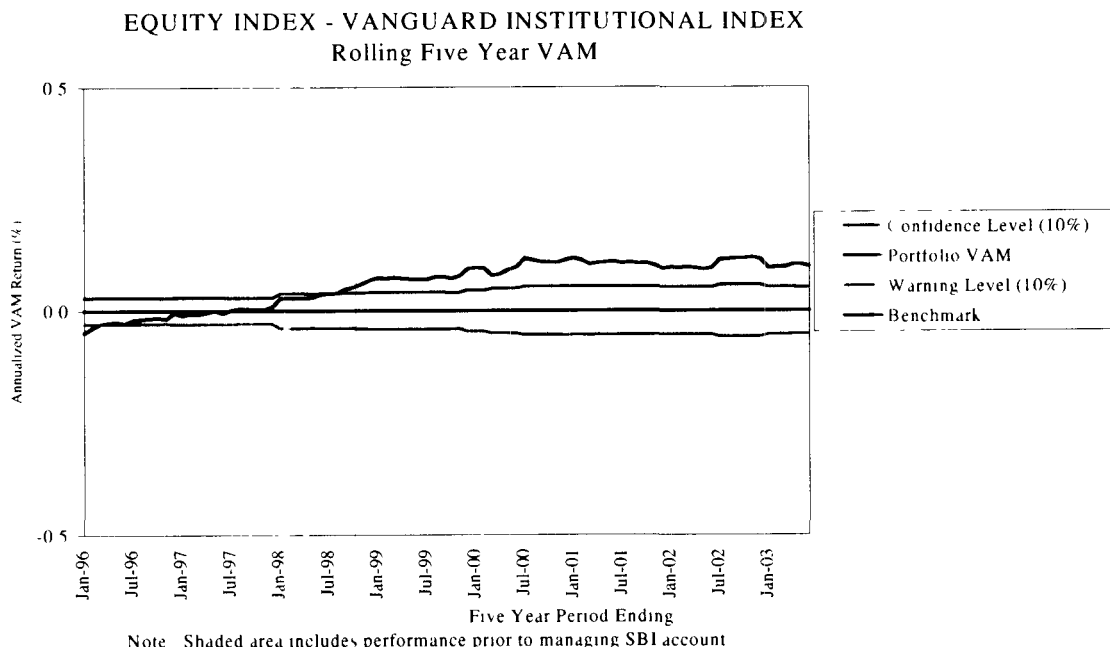
Recommendation

	Actual	Benchmark*	No action required
Last Quarter	15.4%	15.4%	
Last 1 year	0.4	0.3	
Last 2 years	-9.3	-9.3	
Last 3 years	-11.1	-11.2	
Last 4 years	-6.8	-6.9	
Last 5 years	-1.5	-1.6	
Since Retention by SBI (7/99)	-6.8	-6.9	

*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.



**MN STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – INVESCO TOTAL RETURN
Periods Ending June, 2003**

Portfolio Manager: Charlie Mayer

**State's Participation in Fund: \$86,942,739
Total Assets in Fund: \$814,140,000**

**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 benchmark. The fund was helped by strong stock selection within the consumer discretionary sector

Staff continues to closely monitor the fund.

Quantitative Evaluation

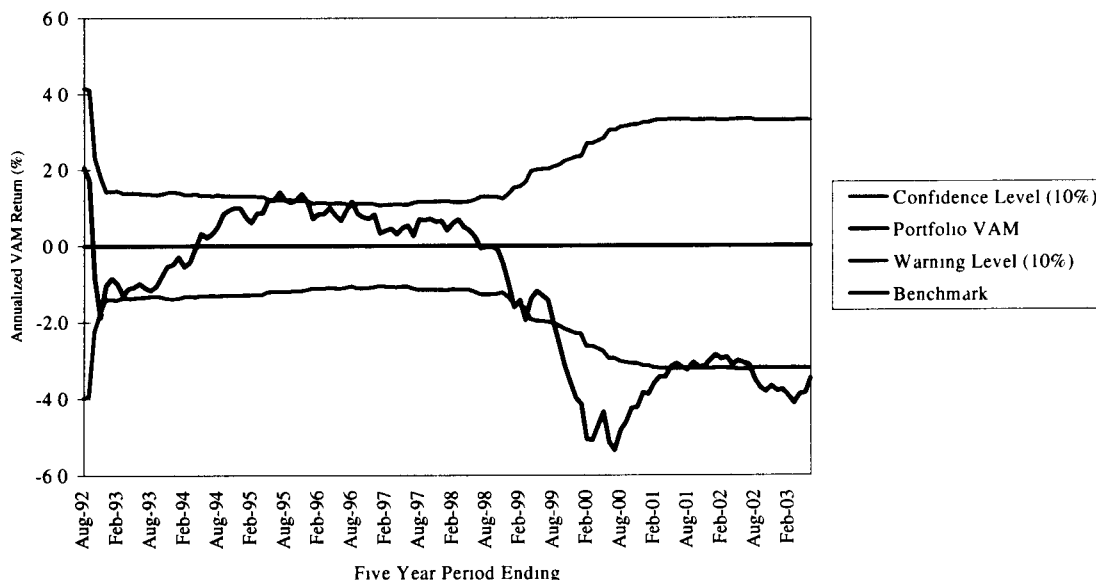
	Actual	Benchmark*
Last Quarter	11.1%	10.1%
Last 1 year	0.3	4.8
Last 2 years	-3.8	-1.7
Last 3 years	-1.8	-3.5
Last 4 years	-4.5	-1.1
Last 5 years	-1.6	1.9
Since Retention by SBI (7/99)	-4.5	-1.1

Recommendation

No action required.

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

**BALANCED - INVESCO TOTAL RETURN
Rolling Five Year VAM**



Note Shaded area includes performance prior to managing SBI account

**MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – DODGE & COX INCOME FUND
Periods Ending June, 2003**

Portfolio Manager: Dana Emery

**State's Participation in Fund: \$78,552,508
Total Assets in Fund: \$4,855,478,202**

**Investment Philosophy
Dodge & Cox Income Fund**

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

Staff Comments

Dodge and Cox outperformed the benchmark for the quarter. The return was due to an overweight in the corporate sector.

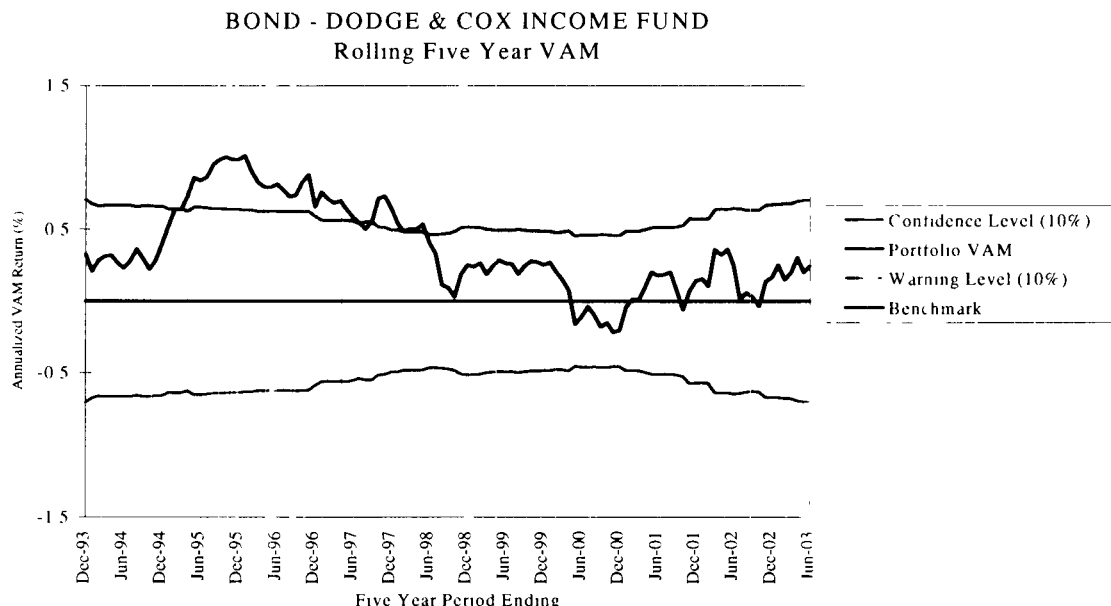
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	2.8%	2.5%
Last 1 year	10.9	10.4
Last 2 years	10.1	9.5
Last 3 years	10.9	10.1
Last 4 years	9.1	8.7
Last 5 years	7.8	7.5
Since Retention By SBI (7/99)	9.1	8.7

Recommendation

No action required.

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



Note: Shaded area includes performance prior to managing SBI account

**MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending June, 2003**

Portfolio Manager: William Bower

**State's Participation in Fund: \$83,707,737
Total Assets in Fund: \$9,046,065,156**

**Investment Philosophy
Fidelity Diversified International**

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

Staff Comments

Fidelity outperformed the quarterly benchmark due to stock selection in the consumer discretionary sector. The one-year relative outperformance was due to favorable stock selection in the financial sector.

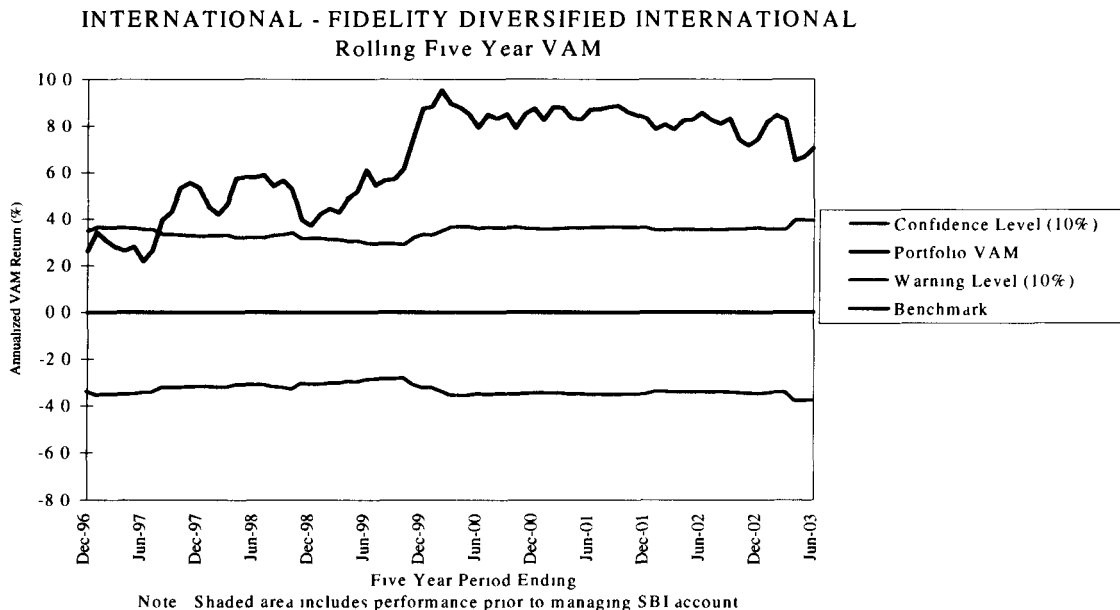
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	19.7%	19.3%
Last 1 year	-0.9	-6.5
Last 2 years	-0.9	-7.9
Last 3 years	-5.6	-13.5
Last 4 years	2.7	-6.7
Last 5 years	3.8	-4.0
Since Retention By SBI (7/99)	2.7	-6.7

Recommendation

No action required.

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



**MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending June, 2003**

Total Assets in MN Fixed Fund: \$451,137,872 *

*Includes \$14-18M in Liquidity Buffer Account

Total Assets in 457 Plan: \$644,132,593 **

**Includes all assets in new and old fixed options

Principal Life

Investment Philosophy

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

Assets in MN Fixed Fund: \$104,786,296

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

Minnesota Life

Investment Philosophy

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

Assets in MN Fixed Fund: \$117,054,065

Assets in Prior MN 457 Plan: \$75,920,897

Total Assets: \$192,974,961

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

Great-West Life

Investment Philosophy

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

Assets in MN Fixed Fund: \$83,133,938

Assets in Prior MN 457 Plan: \$117,073,824

Total Assets: \$200,207,761

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, 2003**

Current Quarter

Dollar Amount of Bid: \$27,900,000

Blended Rate: 5.34%

Bid Rates:

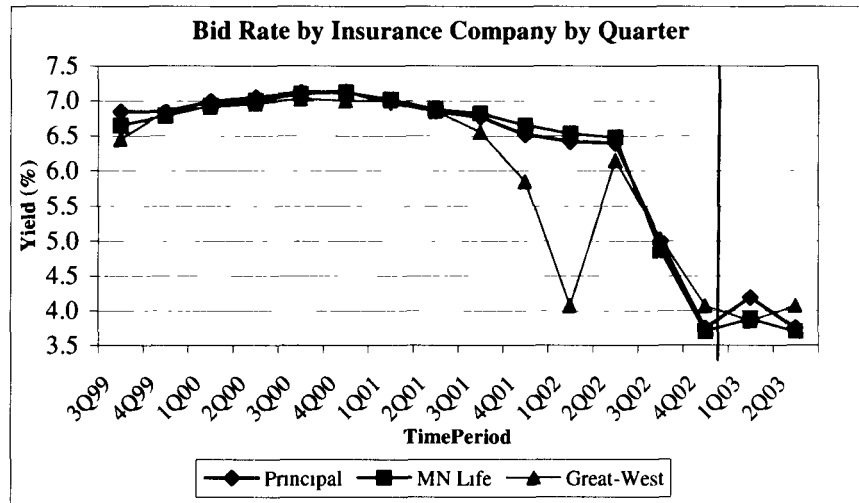
Principal Life	3.75%	Contracts were renewed in June 2002. Bid rates are now effective for five years on <u>new</u> cashflows. The bid rate bands were narrowed to 8 b.p. from 10 b.p. and additional scenarios were added. All changes were effective for 3Q 2002 bids.
Minnesota Life	3.70%	
Great-West Life	4.07%	

Dollar Amount in existing

Minnesota Life portfolio: \$75,920,897

Rate on existing

Minnesota Life portfolio: 5.34 %



Staff Comments on Bid Rates

The line on the graph indicates when the contracts were renewed and the bid rates for the new cash flows became effective for five year periods. Prior to that, the bids were effective for a quarter for the total portfolio.

Staff Comments

	3Q02	4Q02	1Q03	2Q03	
Principal Life	40.0%	40.0%	100.0%	0.0%	For the second quarter, Great West received all of the bid dollars since their bid was 25 b.p. higher than Minnesota Life's bid and Principal's bid.
Minnesota Life	30.0%	30.0%	0.0%	0.0%	
Great-West Life	30.0%	30.0%	0.0%	100.0%	

Tab G

COMMITTEE REPORT

DATE: August 26, 2003

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met on August 14, 2003 to review the following agenda items:

- Review of current strategy
- Discussion related to recommendations from the Asset Allocation Committee
- Review meeting with one of the SBI's existing real estate investment managers, Lend Lease, to discuss investment performance, current market conditions and certain changes to the fund in which the SBI has an investment.

No Board/IAC action is required.

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 and Post 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.
- The strategy for yield oriented investments is to establish and maintain a broadly diversified portfolio which emphasizes investments that are structured more like fixed income securities and/or emphasize current yield yet may provide an opportunity to participate in the appreciation of the underlying assets.

2) Discussion related to recommendations from the Asset Allocation Committee

The Committee discussed the Asset Class Target and Asset Class Structure Review Paper on **page 27 of Tab E**. The Committee supported the recommendations of the Asset Allocation Committee as presented in the paper. There was an update regarding the pooling of alternative investments for the Basic and Post Retirement Funds.

3) Review meetings with one of the SBI's existing managers.

The Committee and Staff met with a representative of Lend Lease Prime Property Fund, one of the SBI's existing real estate managers. The manager provided the Committee and Staff with information regarding current fund performance, the current investment environment, structural changes to the fund and management changes as they apply to the SBI's investment in Lend Lease Prime Property Fund. The Committee and Staff are satisfied with the performance of the manager. In addition, the Committee and Staff believe the suggested changes, which include a sale of investment manager ownership from Lend Lease to Morgan Stanley and the conversion of the fund into a Real Estate Investment Trust (REIT), are beneficial to the fund and its investment participants.

ATTACHMENT A

Minnesota State Board of Investment
Pooled Alternative Investments
Combined Retirement Funds
June 30, 2003

Basic Retirement Funds Market Value	\$16,699,403,989
Post Retirement Fund Market Value	\$16,118,523,808
 Amount Available for Investment	 \$269,427,746

	Current Level	Target Level	Difference
Market Value (MV)	\$3,041,409,043	\$3,310,836,789	\$269,427,746
MV +Unfunded	\$4,531,014,174	\$4,966,255,183	\$435,241,009

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	\$1,436,615,339	\$952,644,892	\$2,389,260,231
Real Estate	\$652,486,650	\$37,373,271	\$689,859,921
Resource	\$263,126,297	\$68,594,231	\$331,720,528
Yield-Oriented	\$689,180,756	\$430,992,738	\$1,120,173,493
Total	\$3,041,409,043	\$1,489,605,131	\$4,531,014,174

ATTACHMENT B

Minnesota State Board of Investment - Alternative Investments -

As of June 30, 2003

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<u>Real Estate</u>							
Colony Capital							
<i>Colony Investors II</i>	80,000,000	78,482,328	5,183,197	80,815,800	1,517,672	3 43	8 25
<i>Colony Investors III</i>	100,000,000	100,000,000	51,939,903	74,399,470	0	9 30	5 49
Equity Office Properties Trust	140,388,854	140,388,854	106,486,809	235,885,922	0	15 60	11 59
Heitman Fund V	20,000,000	20,000,000	1,227,577	34,169,068	0	8 56	11 57
Lasalle Income Parking Fund	15,000,000	14,644,401	5,988,698	22,527,110	355,599	11 34	11 78
Lend Lease Real Estate Investments	40,000,000	40,000,000	147,178,711	5,466,266	0	6 52	21 72
T.A. Associates Realty							
<i>Realty Associates Fund III</i>	40,000,000	40,000,000	41,774,652	42,758,626	0	12 19	9 08
<i>Realty Associates Fund IV</i>	50,000,000	50,000,000	54,809,748	30,763,375	0	12 12	6 41
<i>Realty Associates Fund V</i>	50,000,000	50,000,000	52,837,536	12,528,452	0	9 26	4 10
<i>Realty Associates Fund VI</i>	50,000,000	14,500,000	14,678,698	270,723	35,500,000	7 83	1 00
UBS Realty	42,376,529	42,376,529	170,061,896	0	0	7 33	21 17
Funds in Liquidation (Heitman I, II, & III, RREEF III)	180,916,185	180,916,185	319,227	260,282,429	0	N/A	N/A
Real Estate Total	926,354,928	888,981,657	652,486,650	917,540,802	37,373,271		
<u>Resource</u>							
Apache Corp III	30,000,000	30,000,000	6,517,110	47,778,615	0	12 11	16 50
First Reserve							
<i>First Reserve VII</i>	40,000,000	40,000,000	26,896,986	30,397,909	0	10 60	7 00
<i>First Reserve VIII</i>	100,000,000	100,000,000	112,736,014	37,339,203	0	14 37	5 17
<i>First Reserve IX</i>	100,000,000	47,018,976	46,038,019	0	52,981,024	-1 59	2 22
Simmons							
<i>Simmons - SCF Fund II</i>	17,000,000	14,706,629	5,067,795	29,659,989	2,293,371	10 47	11 90
<i>Simmons - SCF Fund III</i>	25,000,000	23,301,636	27,804,707	31,885,410	1,698,364	19 56	8 00
<i>Simmons - SCF Fund IV</i>	50,000,000	38,378,528	30,748,500	24,311,714	11,621,472	9 32	5 25
T. Rowe Price	21,888,430	21,888,430	6,924,000	9,913,909	0	-19 33	N/A
Funds in Liquidation (First Reserve I, II & V)	53,800,000	53,800,000	393,166	104,708,362	0	N/A	N/A
Resource Total	437,688,430	369,094,199	263,126,297	315,995,112	68,594,231		
<u>Yield-Oriented</u>							
Carbon Capital	50,000,000	17,563,726	17,774,495	1,576,719	32,436,274	12 99	1 13
CT Mezzanine Partners	100,000,000	37,844,363	26,347,673	19,653,025	62,155,637	17 89	1 77
Churchill Capital Partners II	20,000,000	20,000,000	3,578,620	23,582,927	0	10 17	10 67
Citicorp Mezzanine							
<i>Citicorp Mezzanine Partners</i>	40,000,000	40,000,000	10,850,686	43,995,879	0	10 88	8 50
<i>Citicorp Mezzanine III</i>	100,000,000	36,372,850	24,112,019	24,137,059	63,627,150	13 79	3 66
DLJ Investment Partners II	50,000,000	17,603,393	16,875,307	7,787,024	32,396,607	9 67	3 49
GMAC Institutional Advisors							
<i>Institutional Commercial Mortgage Fund II</i>	13,500,000	13,397,500	4,676,369	16,442,551	102,500	9 77	7 93
<i>Institutional Commercial Mortgage Fund III</i>	21,500,000	21,275,052	19,573,178	11,914,853	224,948	8 48	6 58
<i>Institutional Commercial Mortgage Fund IV</i>	14,300,000	14,300,000	13,323,457	6,209,672	0	8 29	5 50
<i>Institutional Commercial Mortgage Fund V</i>	37,200,000	37,200,000	36,421,635	9,252,802	0	8 85	3 91
GS Mezzanine Partners II	100,000,000	91,429,405	82,954,422	11,517,309	8,570,595	3 24	3 33
GTCR Capital Partners	80,000,000	69,589,422	51,523,608	26,717,424	10,410,578	5 28	3 63
KB Mezzanine Partners Fund II	25,000,000	24,999,999	5,326,133	7,151,873	1	-18 15	7 75
Merit Energy Partners							
<i>Merit Energy Partners B</i>	24,000,000	24,000,000	29,765,321	17,405,297	0	16 69	7 00
<i>Merit Energy Partners C</i>	50,000,000	38,582,111	61,226,638	6,455,320	11,417,889	22 13	4 67
<i>Merit Energy Partners D</i>	88,000,000	51,667,581	54,836,910	1,477,056	36,332,419	10 50	2 10
Prudential Capital Partners	100,000,000	47,382,965	45,735,791	5,314,076	52,617,035	5 25	2 20
Summit Partners							
<i>Summit Sub Debt Fund I</i>	20,000,000	18,000,000	396,794	30,985,377	2,000,000	30 55	9 25
<i>Summit Sub Debt Fund II</i>	45,000,000	29,250,000	15,057,467	57,201,346	15,750,000	59 94	5 91
T. Rowe Price	52,990,378	52,990,378	140,400	51,844,812	0	-11 79	N/A
TCW/Crescent Mezzanine							
<i>TCW/Crescent Mezzanine Partners</i>	40,000,000	36,756,265	14,516,757	39,521,001	3,243,735	14 41	7 24
<i>TCW/Crescent Mezzanine Partners II</i>	100,000,000	87,479,046	38,620,966	74,109,716	12,520,954	10 54	4 60
<i>TCW/Crescent Mezzanine Partners III</i>	75,000,000	38,321,636	42,343,732	4,538,288	36,678,364	22 71	2 25
William Blair Mezz. Fund III	60,000,000	43,161,600	42,594,428	4,160,400	16,838,400	3 67	3 49
Windjammer Mezz. & Equity Fund II	66,708,861	33,039,209	30,607,952	2,741,730	33,669,653	0 68	3 24
Yield-Oriented Total	1,373,199,239	942,206,501	689,180,756	505,693,537	430,992,738		

**Minnesota State Board of Investment
- Alternative Investments -**

As of June 30, 2003

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<u>Private Equity</u>							
Bank Fund							
<i>Banc Fund IV</i>	25,000,000	25,000,000	31,140,998	17,165,839	0	13.71	7.37
<i>Banc Fund V</i>	48,000,000	48,000,000	60,920,208	7,221,818	0	12.60	4.96
Blackstone Capital Partners							
<i>Blackstone Capital Partners II</i>	50,000,000	47,271,190	22,008,000	74,882,052	2,728,810	34.80	9.60
<i>Blackstone Capital Partners IV</i>	70,000,000	4,637,068	4,636,998	205	65,362,932	N/A	0.97
BLUM Capital Partners							
<i>Blum Strategic Partners I</i>	50,000,000	49,635,460	40,057,945	21,190,374	364,540	5.23	4.52
<i>Blum Strategic Partners II</i>	50,000,000	25,367,132	20,158,822	947,344	24,632,868	-13.69	1.95
Citigroup Venture Capital Equity Partners	100,000,000	31,662,507	36,837,522	247,808	68,337,493	11.95	1.55
Contrarian Capital Fund II	37,000,000	33,244,395	30,222,487	7,400,089	3,755,605	2.28	6.08
Coral Partners							
<i>Coral Partners Fund II</i>	10,000,000	8,069,315	557,711	36,355,746	1,930,685	24.95	12.93
<i>Coral Partners Fund IV</i>	15,000,000	15,000,000	5,545,470	10,744,034	0	2.24	8.94
<i>Coral Partners Fund V</i>	15,000,000	14,250,000	7,673,806	152,481	750,000	-17.41	5.03
Crescendo							
<i>Crescendo II</i>	15,000,000	15,000,000	2,360,367	20,347,039	0	23.80	6.49
<i>Crescendo III</i>	25,000,000	25,000,000	3,848,450	8,084,795	0	-29.83	4.65
<i>Crescendo IV</i>	101,500,000	73,587,500	23,452,704	292,567	27,912,500	-41.56	3.30
DLJ							
<i>DLJ Merchant Banking Partners III</i>	125,000,000	66,944,162	63,885,356	10,162,686	58,055,838	1.09	2.75
<i>DLJ Strategic Partners</i>	100,000,000	67,709,628	59,397,403	16,953,433	32,290,372	9.86	2.44
DSV Partners IV	10,000,000	10,000,000	1,262,211	27,596,934	0	9.51	18.22
First Century Partners III	10,000,000	10,000,000	1,124,312	14,955,832	0	8.08	18.54
Fox Paine Capital Fund							
<i>Fox Paine Capital Fund</i>	40,000,000	40,000,000	40,661,720	0	0	0.45	5.19
<i>Fox Paine Capital Fund II</i>	50,000,000	11,177,538	7,918,391	0	38,822,462	-24.53	3.00
Golder, Thoma, Cressey, Rauner							
<i>Golder, Thoma, Cressey Fund III</i>	14,000,000	14,000,000	4,362,194	55,950,902	0	30.14	15.67
<i>Golder, Thoma, Cressey & Rauner Fund V</i>	30,000,000	30,000,000	21,929,037	20,622,458	0	8.62	7.00
GTCR Golder Rauner							
<i>GTCR VI</i>	90,000,000	89,137,778	39,914,838	49,263,209	862,222	0.02	5.00
<i>GTCR Fund VII</i>	175,000,000	122,718,750	99,130,879	34,299,153	52,281,250	5.47	3.39
GS Capital Partners 2000	50,000,000	27,447,328	25,589,144	0	22,552,672	-5.18	2.83
GHJM Marathon Fund IV	40,000,000	31,333,000	22,152,001	10,640,000	8,667,000	-1.48	4.21
Hellman & Friedman							
<i>Hellman & Friedman Capital Partners III</i>	40,000,000	32,113,684	6,789,785	56,770,065	7,886,316	33.59	8.78
<i>Hellman & Friedman Capital Partners IV</i>	150,000,000	76,813,639	53,028,643	36,659,565	73,186,361	15.04	3.49
Kohlberg Kravis Roberts							
<i>KKR 1986 Fund</i>	18,365,339	18,365,339	13,336,700	202,833,867	0	28.07	17.21
<i>KKR 1987 Fund</i>	145,950,000	145,373,652	63,604,889	333,688,629	576,348	8.85	15.60
<i>KKR 1993 Fund</i>	150,000,000	150,000,000	34,128,531	261,374,656	0	16.43	9.52
<i>KKR 1996 Fund</i>	200,000,000	200,000,000	168,873,037	114,232,367	0	9.86	6.83
<i>KKR Millenium Fund</i>	200,000,000	10,862,000	10,862,000	0	189,138,000	N/A	0.56
Piper Jaffray Healthcare							
<i>Piper Jaffray Healthcare Fund II</i>	10,000,000	9,900,000	7,109,716	1,648,415	100,000	-2.91	6.33
<i>Piper Jaffray Healthcare Fund III</i>	20,000,000	18,400,002	11,277,948	1,894,843	1,599,998	-12.76	4.44
Summit Ventures V	25,000,000	21,375,000	10,274,764	9,481,364	3,625,000	-2.99	5.25
T Rowe Price	537,716,060	537,716,060	31,262,411	514,401,073	0	3.65	N/A
Thoma Cressey							
<i>Thoma Cressey Fund VI</i>	35,000,000	33,915,000	22,517,808	2,948,483	1,085,000	-9.01	4.86
<i>Thoma Cressey Fund VII</i>	50,000,000	11,000,000	11,211,552	0	39,000,000	1.43	2.84
Thomas, McNerney & Partners	30,000,000	2,250,000	1,591,421	0	27,750,000	N/A	0.65
Vestor Capital Partners IV	55,000,000	20,059,380	19,620,982	12,830	34,940,620	-1.06	3.54
Warburg Pincus							
<i>Warburg, Pincus Equity Partners</i>	100,000,000	100,000,000	72,201,736	28,281,675	0	0.18	5.01
<i>Warburg, Pincus Ventures</i>	50,000,000	50,000,000	51,910,484	185,250,249	0	50.29	8.50
<i>Warburg Pincus Private Equity VIII</i>	100,000,000	26,000,000	23,679,497	3,440,000	74,000,000	2.62	1.21
Welsh, Carson, Anderson & Stowe							
<i>Welsh, Carson, Anderson & Stowe VIII</i>	100,000,000	99,000,000	63,348,615	0	1,000,000	-11.94	4.93
<i>Welsh, Carson, Anderson & Stowe IX</i>	125,000,000	67,500,000	62,234,325	0	57,500,000	-5.24	3.01
William Blair Capital Partners	50,000,000	20,750,000	18,794,416	0	29,250,000	-8.82	2.31
Funds in Liquidation (Adams Street I & II, Matrix III, GTCR IV, Summit I & II, and Zell/Chimark)							
	142,011,923	139,311,923	2,207,104	389,422,265	2,700,000	N/A	N/A
Private Equity Total	3,679,543,322	2,726,898,430	1,436,615,339	2,587,817,144	952,644,892		