MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
September 8, 2004

&

INVESTMENT ADVISORY
COUNCIL MEETING
September 7, 2004

STATE BOARD OF INVESTMENT

AGENDA AND MINUTES

September 8, 2004

AGENDA
STATE BOARD OF INVESTMENT MEETING
Wednesday, September 8, 2004
9:00 A.M. - Room 123
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of June 2, 2004	
2. Report from the Executive Director (Howard Bicker)	**A**
A. Quarterly Investment Review (April 1, 2004 – June 30, 2004)	
B. Administrative Report	**B**
1. Reports on budget and travel	
2. Legislative Update	
3. Litigation Update	
4. Investment of Metropolitan Council Assets	
3. Reports from the Investment Advisory Council (Mike Troutman)	
A. Stock and Bond Manager Committee	**C**
1. Review of manager performance	
2. Update on the Fixed Income Program short list	
3. Review of Assigned Risk Plan asset allocation	
4. Recommendation to renew investment manager contracts	
B. Alternative Investment Committee	**D**
1. Review of current strategy	
2. Recommendation of an investment with an existing manager:	
• Prudential Capital	
4. Report from the Proxy Committee (Peter Sausen)	**E**
1. Recommendation regarding Pharmaceutical Shareholder Resolutions	

Minutes
State Board of Investment
June 2, 2004

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, June 2, 2004 in Room 112 State Capitol, St. Paul, Minnesota. Governor Tim Pawlenty; State Auditor Patricia Anderson; Secretary of State Mary Kiffmeyer; and Attorney General Mike Hatch were present. The minutes of the March 3, 2004 Board meeting were approved.

Executive Director's Report
Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded its Composite Index over the ten year period ending March 31, 2004 (Combined Fund 9.5% vs. Composite 9.3%), and had provided a real rate of return over the latest 20 year period (Combined Funds 11.1% vs. CPI 3.1%). He stated that the Basic Funds have slightly outperformed its composite index (Basic Funds 9.7% vs. Composite 9.5%) over the last ten years and reported that the Post Fund has also outperformed its composite over the last ten year period (Post Fund 9.4% vs. Composite 9.1%).

Mr. Bicker reported that the Basic Fund's assets increased 3.1% for the quarter ending March 31, 2004 due to positive investment returns. He said that the asset mix is essentially on target. He reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds 3.3% vs. Composite 3.2%) and matched it for the year (Basic Funds 29.1% vs. Composite 29.1%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 1.5% for the quarter ending March 31, 2004 due to positive investment returns. He said the Post Fund asset mix had also been rebalanced and was now on target. He stated that the Post Fund outperformed its composite index for the quarter (Post Fund 2.9% vs. Composite 2.8%) and for the year (Post Fund 29.6% vs. Composite 29.0%).

Mr. Bicker reported that the domestic stock manager group slightly outperformed its target for the quarter (Domestic Stock 2.3% vs. Domestic Equity Asset Class Target 2.2%) and underperformed for the year (Domestic Stocks 37.7% vs. Domestic Equity Asset Class Target 38.1%). He said the International Stock manager group underperformed its composite index for the quarter (International Stocks 4.6% vs. International Equity Asset Class Target 4.8%) and for the year (International Stocks 57.5% vs. International Equity Asset Class Target 59.5%). Mr. Bicker stated that the bond segment slightly underperformed its target for the quarter (Bonds 2.6% vs. Fixed Income Asset Class Target 2.7%) and outperformed for the year (Bonds 6.6% vs. Fixed Income Asset Class Target 5.4%). He reported that alternative investments returned 6.6% for the quarter. He concluded his report with the comment that as of March 31, 2004, the SBI was responsible for over $46 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 referred members to Attachment C of his report for an update on legislative activity and stated that a bill passed that would authorize the SBI to invest some retiree healthcare assets for the Metropolitan Council. He noted that none of the other legislative issues involving the SBI passed.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She stated that the State is currently involved in four securities cases. She said that in the State's case against WorldCom, the State had originally opted out of the class action and that now the Federal judge is giving the State and several other large pension funds an opportunity to opt back into the class. She noted that the State has approximately a month to decide. Ms. Eller reported that McKesson is the other securities litigation case from which the State has opted out. She said the Federal case is scheduled to begin in October 2004, with the State's trial set to start a month later. She noted that the State has been doing parallel discovery in this case. Ms. Eller said that the Broadcom case is a class action and that discovery is proceeding and that the final pre-trial is set for October 2004. She stated that SBI staff have been participating in depositions in that case. Ms. Eller stated that the AOL Time Warner case is proceeding since the motion to dismiss was unsuccessful. She noted that some claims against some of the officers were dismissed and that the State will need to decide if they wish to refile an amendment complaint against those officers. She said that discovery in that case is expected to begin soon.

SBI Administrative Committee Report
Mr. Sausen referred members to Tab C of the meeting materials and stated that the Committee met on May 13, 2004 to consider four agenda items. Mr. Sausen reported that the Committee reviewed the Executive Director's proposed workplan for FY05 and budget plan for FY05. He said the Committee also reviewed the Continuing Fiduciary Education Plan and reviewed the Executive Director's Evaluation Process. Ms. Anderson moved approval of all four of the Committee's recommendations, as stated in the Committee Report, which reads: "**The Committee recommends that the SBI approve the FY05 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY05. The Committee recommends that the SBI approve the FY04 Administrative Budget Plan, as presented to the Committee, and that the Executive Director has the flexibility to reallocate funds between budget categories if the Executive Director deems necessary. The Committee recommends that the SBI adopt the attached Continuing Fiduciary Education Plan. The Committee recommends that the SBI adopt the following process for the Executive Director's FY04 performance evaluation: The evaluation will be completed prior to the September 2004 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY04. The SBI deputies/designees will develop an appropriate evaluation form for use by each member, which will reflect the categories in the Executive Director's position description and workplan. As the Chair of the Board, the Governor's representative (Department of Finance), will**

coordinate distribution and collection of the evaluation forms and will forward the completed forms to the Executive Director. Board members are encouraged to meet individually with the Executive Director to review their own evaluation." The motion passed.

Deferred Compensation Review Committee

Mr. Sausen referred members to Tab D of the meeting materials and stated that the Committee is recommending the renewal of contracts with T. Rowe Price, Fidelity and Janus as mutual fund options for the Deferred Compensation Plan. Ms. Anderson moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Deferred Compensation Review Committee recommends that the SBI authorize the Executive Director, with assistance from SBI's legal counsel, to negotiate and execute five year contract extensions with the following mutual fund organizations, subject to inclusion of a provision which provides for immediate termination. Janus Service Corporation: Janus Twenty Fund; Fidelity Investments Institutional Services Company, Inc.: Fidelity Diversified International Fund; T. Rowe Services, Inc.: T. Rowe Price Small Cap Stock Fund."** The motion passed.

Stock and Bond Manager Committee Report

Mr. Troutman referred members to Tab E of the meeting materials and he briefly reviewed the manager performance for the period ending March 31, 2004. He stated that the Committee had reviewed the investment manager guidelines and the manager benchmarks, and he briefly discussed the SBI's recent move from customized benchmarks to using published Russell style indices.

Mr. Troutman stated that the Committee is recommending the termination of U.S. Bancorp Asset Management as a domestic manager due to a change in management shortly after the manager was retained in December 2003. In response to a question from Ms. Kiffmeyer, Mr. Bicker said that this is a manager for the retirement plans and not the Deferred Compensation Plan. Ms. Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI terminate its relationship with U.S. Bancorp Asset Management for investment management services in the Domestic Equity Program."** The motion passed.

Mr. Troutman reported that the Committee is also recommending the termination of Schroders Investment Management as an international emerging markets manager due to changes in management, loss of assets and continued underperformance. Mr. Hatch moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI terminate its relationship with Schroders Investment Management North America for an international emerging markets equity mandate."** The motion passed.

Alternative Investment Committee Report
Mr. Troutman referred members to Tab F of the meeting materials and stated that the Committee is recommending two new investments. He said the first recommendation is for an investment with a new venture capital manager, Affinity Capital. He said the second recommendation is for an investment with a new yield-oriented manager, Gold Hill Venture Lending. Ms. Anderson 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 $10 million or 20%, whichever is less, in Affinity Ventures IV, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Affinity Capital upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Affinity Capital or reduction or termination of the commitment.**

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $40 million or 20%, whichever is less, in Gold Hill Venture Lending 03, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Gold Hill Venture Lending upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Gold Hill Venture Lending or reduction or termination of the commitment." The motion passed.

Proxy Committee Report
Mr. Sausen referred members to the memo from the Proxy Committee that Mr. Bicker had distributed at the start of the meeting (see **Attachment A**). He briefly reviewed the three subject areas which were included in the resolution that was passed by the Board at its March 2004 meeting, and he described various limitations on submitting shareholder resolutions along with information regarding resolutions that have been recently submitted by other proponents. Mr. Sausen briefly discussed the Committee's recommendation, which is to have the Board approve the issues for potential shareholder resolutions, the intent of the wording of the proposed resolved clauses of the proposals and to approve the submission of any proposed resolutions only at domestic drug companies listed in the Board's March 3, 2004 resolution. He added that the Committee is also recommending that the Executive Director and legal counsel be given the flexibility to negotiate with other shareholder proponents. He noted that the Committee

expects to bring any final shareholder proposals to the Board for its consideration at its September 2004 meeting.

Governor Pawlenty shared his recent experience attending the Pfizer annual meeting and stated the importance of targeting this effort and finding one or two issues at one or two companies where the SBI would be able to gain significant shareholder support from other large institutional shareholders. He briefly discussed the resolutions that have already been submitted by other proponents, and he suggested that it might be appropriate for the SBI to consider a proposal regarding the access to drugs from Canada. He asked for comments from other members.

Mr. Hatch stated his support of these types of resolutions, however he stated his concern that the Board be cautious about spending too much time and resources on submitting shareholder resolutions. He noted the importance of keeping the Board's fiduciary responsibilities as the foremost priority. A brief discussion followed on the issues the Board has pursued in the past, such as the McBride Principles, South Africa and tobacco.

Governor Pawlenty stated that other proponents had already addressed the pricing and political contributions issues and he suggested the SBI pursue the Canadian access proposal at one or two companies and then re-evaluate the situation next year.

Mr. Bicker clarified that the pricing resolutions had met their hurdle rates for resubmission and he noted that it may be possible to build a bigger coalition around the pricing issue than the Canadian access issue. Mr. Bicker also clarified that the Committee's recommendation simply gives the SBI more flexibility and direction to discuss potential resolutions with other shareholders over the summer in order to determine proposal language and the potential for a coalition of support the various proposals might have. Ms. Anderson moved approval of the Committee's recommendation, as stated in Attachment A. Ms. Kiffmeyer stated that she believes the Board's focus should be their fiduciary responsibilities and she stated she would vote against the motion. The motion passed.

In response to comments from Mr. Hatch, Mr. Bicker stated that Staff would provide some background information on policies and procedures in place at other public and institutional investors regarding shareholder activism at a future Board meeting.

The meeting adjourned at 10:00 A.M.

Respectfully submitted,

Howard J. Bicker
Executive Director

Attachment A

MINNESOTA STATE BOARD OF INVESTMENT

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DATE: June 1, 2004

TO: Members, State Board of Investment

FROM: Proxy Committee

SUBJECT: **Recommendations regarding Pharmaceutical Shareholder Resolution(s)**

The Proxy Committee met on May 27, 2004 and June 1, 2004 to consider the following agenda item:

- To draft potential shareholder resolution language in response to the Board's Pharmaceutical Resolution adopted on March 3, 2004.

Action is required by the SBI on this item.

1. Recommendation to approve preliminary resolution language and the process of pursuing potential shareholder resolutions at domestic pharmaceutical companies covered by the Board's March 3, 2004 resolution.

At its March 3, 2004 meeting, the State Board of Investment adopted a resolution that directed the Proxy Committee to sponsor, co-sponsor or support shareholder resolutions at pharmaceutical companies. Attached is a copy of the Board's resolution for your review.

The Proxy Committee met to discuss potential resolution language and to review the shareholder resolution filing process.

The Board's resolution suggests that there may be three subject areas that the Proxy Committee could pursue through the shareholder resolution process.

- Access to drugs from Canada
- Pricing Structure
- Political Contributions

The Proxy Committee recommends that the Board proceed with resolutions related to access to drugs from Canada and pricing structure.

During the 2004 proxy season, there were no proposals on a company's ballot regarding access to drugs from Canada. Proposals regarding pricing were on the ballot at Pfizer, Wyeth and Eli Lilly. Proposals regarding political contributions were submitted to Pfizer and Merck. Staff and the Committee discussed the need to ask the Board for flexibility to proceed working with other proponents in sponsoring, or co-sponsoring new or existing shareholder proposals. Flexibility is needed due to the following limitations on filing shareholder resolutions: 1) only one proposal may be filed by a proponent at any company; 2) a representative must be present at the annual meeting to present it; and 3) existing resolutions filed have precedence over new proposals.

The Proxy Committee also approved the "resolved" language for three proposed shareholder resolutions covering the three issues listed above. The language for each proposal is as follows:

Access to Drugs from Canada
Resolved:
Shareholders request the Board of Directors to encourage promotion of the long term economic stability of the company and reduce the potential liability to legal claims by ceasing all actions that intentionally limit the availability of the company's products to Canadian wholesalers or pharmacies that allow purchase of products by non-Canadian residents.
Pricing Structure
Resolved:
Shareholders request the Board of Directors to adopt policies to encourage promotion of the long term economic stability of the company and value of shares by implementing business practices and pricing structures that are not reliant on unsustainable and disproportionate pricing in the United States.

Political Contributions
Resolved:
The shareholders request that the Company fully report on all costs incurred by the company in relation to efforts to maintain the current pricing structures including, but not limited to, all lobbyist costs, legal costs, consulting fees, gift and promotional costs for calendar year 2004.

The Proxy Committee noted that resolution language may need to be modified to be more of a "report" type resolution if it becomes clear that asking a company to adopt "business policies" may mean a greater chance of having the proposal excluded by the SEC.

The Proxy Committee also discussed the differences in the shareholder proposal filing procedures between domestic and international companies. Staff and the Proxy Committee are familiar with domestic filing procedures but noted that the SBI would likely need to hire outside counsel if the Board wished to pursue filing proposals at international companies. Because of the unfamiliarity of international filing requirements, the Committee approved the filing of potential proposals only at the companies listed in the Board's resolution that have domestic annual meetings. These companies are Pfizer, Wyeth, Eli Lilly, and Merck.

RECOMMENDATION
The Committee recommends that the SBI approve the following:

- **the issues for potential shareholder resolutions;**
- **the intent of the wording of the proposed resolved clauses for the proposals;**
- **the submission of proposals only at domestic drug companies listed in the Board's March 3, 2004 resolution.**

The Committee further recommends that the SBI authorize the Proxy Committee and the Executive Director, with assistance from the SBI legal counsel, to continue to work with other shareholder proponents regarding the sponsoring and/or co-sponsoring of shareholder proposals and to grant them the flexibility in negotiating with other proponents. The Committee expects to bring final shareholder proposals to the Board for its consideration at its September 2004 meeting.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOW THEREFORE, be it resolved:

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

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

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

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

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

Adopted this 3rd day
of March, 2004

Governor Tim Pawlenty
Chair, Minnesota State Board of Investment

INVESTMENT ADVISORY COUNCIL

AGENDA AND MINUTES

September 7, 2004

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Tuesday, September 7, 2004
2:00 P.M. - Board Room – First Floor
60 Empire Drive
St. Paul, MN

	TAB
1. Approval of Minutes of June 1, 2004	
2. Report from the Executive Director	**A**
A. Quarterly Investment Review (April 1, 2004 – June 30, 2004)	
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2. Legislative Update	
3. Litigation Update	
4. Investment of Metropolitan Council Assets	
3. Reports from the Investment Advisory Council	
A. Stock and Bond Manager Committee	**C**
1. Review of manager performance	
2. Update on the Fixed Income Program short list	
3. Review of Assigned Risk Plan asset allocation	
4. Recommendation to renew investment manager contracts	
B. Alternative Investment Committee (Ken Gudorf)	**D**
1. Review of current strategy	
2. Recommendation of an investment with an existing manager: • Prudential Capital	
4. Report from the Proxy Committee (Peter Sausen)	**E**
1. Recommendation regarding Pharmaceutical Shareholder Resolutions	

Minutes
Investment Advisory Council
June 1, 2004

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

The minutes of the March 2, 2004 IAC meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded its Composite Index over the ten year period ending March 31, 2004 (Combined Fund 9.5% vs. Composite 9.3%), and had provided a real rate of return over the latest 20 year period (Combined Funds 11.1% vs. CPI 3.1%). He stated that the Basic Funds have slightly outperformed its composite index (Basic Funds 9.7% vs. Composite 9.5%) over the last ten years and reported that the Post Fund has also outperformed its composite over the last ten year period (Post Fund 9.4% vs. Composite 9.1%).

Mr. Bicker reported that the Basic Fund's assets increased 3.1% for the quarter ending March 31, 2004 due to positive investment returns. He said that the asset mix is essentially on target. He reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds 3.3% vs. Composite 3.2%) and matched it for the year (Basic Funds 29.1% vs. Composite 29.1%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 1.5% for the quarter ending March 31, 2004 due to positive investment returns. He said the Post Fund asset mix had also been rebalanced and was now on target. He stated that the Post

Fund outperformed its composite index for the quarter (Post Fund 2.9% vs. Composite 2.8%) and for the year (Post Fund 29.6% vs. Composite 29.0%).

Mr. Bicker reported that the domestic stock manager group slightly outperformed its target for the quarter (Domestic Stock 2.3% vs. Domestic Equity Asset Class Target 2.2%) and underperformed for the year (Domestic Stocks 37.7% vs Domestic Equity Asset Class Target 38.1%). He said the International Stock manager group underperformed its composite index for the quarter (International Stocks 4.6% vs. International Equity Asset Class Target 4.8%) and for the year (International Stocks 57.5% vs. International Equity Asset Class Target 59.5%). Mr. Bicker stated that the bond segment slightly underperformed its target for the quarter (Bonds 2.6% vs. Fixed Income Asset Class Target 2.7%) and outperformed for the year (Bonds 6.6% vs. Fixed Income Asset Class Target 5.4%). He reported that alternative investments returned 6.6% for the quarter. He concluded his report with the comment that as of March 31, 2004, the SBI was responsible for over $46 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 referred members to Attachment C of his report for an update on legislative activity and stated that a bill passed that would authorize the SBI to invest some retiree healthcare assets for the Metropolitan Council. He briefly described other legislative items but noted that none of the other legislative issues involving the SBI had passed.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She stated that the State is currently involved in four securities cases. She said that in the State's case against WorldCom, the State had originally opted out of the class action and that now the Federal judge is giving the State and several other large pension funds an opportunity to opt back into the class. She said that discovery in that case is about to begin. Ms. Eller stated that the AOL Time Warner case is proceeding since the motion to dismiss was unsuccessful. She noted that some claims against some of the officers were dismissed and that the State will need to decide if they wish to refile an amended complaint against those officers. She said that discovery in that case is expected to begin soon. Ms. Eller said that the Broadcom case is a class action and that discovery is proceeding. She stated that SBI staff have been participating in depositions in the Broadcom case. Ms. Eller reported that the other securities litigation the State has opted out of involves McKesson. She said that she believes the case will go to trial early in 2005 and that the State is pursuing two strategies in this case.

Mr. Bicker introduced members to the newest member of the IAC, Peggy Ingison, Commissioner of Finance.

SBI Administrative Committee Report
Mr. Sausen referred members to Tab C of the meeting materials and stated that the Committee met on May 13, 2004 to consider four agenda items. Mr. Sausen reported that the Committee reviewed the Executive Director's proposed workplan for FY05 and

budget plan for FY05. He said the Committee also reviewed the Continuing Fiduciary Education Plan and reviewed the Executive Director's Evaluation Process.

In response to a question from Mr. Ahrens, Mr. Bicker stated that the SBI was not subject to the additional 3% budget reduction required of large state agencies. In response to comments from Mr. Ahrens and Mr. Kiedrowski, Mr. Troutman and Mr. McDonald stated that the Committee discussed the impact the continued budget shortfall is having on the SBI. Mr. McDonald added that members are continuing to consider ways in which the Executive Director could be exempt from the 95% salary cap.

Mr. Bicker briefly reviewed several new initiatives the SBI will be working on during FY05. He said staff will be reviewing policies regarding transition management and stock distribution policies. He stated that the SBI will also be reviewing the fixed fund option in the State's Deferred Compensation Plan and the asset allocation of the Assigned Risk Plan. He said that reviews of Large Cap Domestic Equity Management, Semi-Passive Domestic Equity Management and Semi-Passive International Equity Management will also be performed during FY05.

Mr. Bicker reminded members of the upcoming Energy Roundtable on June 8, 2004.

Deferred Compensation Review Committee

Mr. Sausen referred members to Tab D of the meeting materials and stated that the Committee is recommending the renewal of contracts with T. Rowe Price, Fidelity and Janus as mutual fund options for the Deferred Compensation Plan. Mr. Sausen stated that formal action from the IAC is not required, but he asked for input from the IAC. IAC members voiced their agreement with the Committee's recommendation to renew the contracts.

Mr. Bergstrom noted that the switch to daily pricing went smoothly and he noted how pleased MSRS was to be able to process emergency withdrawals so quickly during the MTC bus strike.

Mr. Kiedrowski noted that he wished to disclose an increased conflict of interest since Wells Fargo had announced plans to acquire the Strong Mutual Funds. Mr. Bohan noted that Strong has a 20% interest in one of the SBI's equity managers, Next Century Growth. Mr. Perry and Mr. Bicker noted that Next Century has indicated that they are attempting to sever their relationship with Strong.

Stock and Bond Manager Committee Report

Mr. Bohan referred members to Tab E of the meeting materials and he briefly reviewed the manager performance for the period ending March 31, 2004. He stated that the Committee had reviewed the investment manager guidelines and the manager benchmarks, and he briefly discussed the SBI's recent move from customized benchmarks to using published Russell style indices.

Mr. Bohan stated that the Committee is recommending the termination of U.S. Bancorp Asset Management as a domestic manager due to a change in management shortly after the manager was retained in December 2003. Mr. Bohan moved approval of the Committee's recommendation, as stated in the Committee Report. The motion passed.

Mr. Bohan reported that the Committee is also recommending the termination of Schroders Investment Management as an international emerging markets manager due to changes in management, loss of assets and continued underperformance. He moved approval of the Committee's recommendation, as stated in the Committee Report. The motion passed.

Alternative Investment Committee Report
Mr. Gudorf referred members to Tab F of the meeting materials and briefly reviewed the current asset allocation of the alternative investments and he stated that the Committee is recommending two new investments. He said the first recommendation is for an investment with a new venture capital manager, Affinity Capital. He said the second recommendation is for an investment with a new yield-oriented manager, Gold Hill Venture Lending. Mr. Gudorf moved approval of both of the Committee's recommendations, as stated in the Committee Report. The motion passed.

Proxy Committee Report
Mr. Bicker briefly reviewed the three subject areas which were included in the shareholder proposal resolution that was passed by the Board at its March 2004 meeting, and he described various limitations on submitting shareholder resolutions along with information regarding resolutions that have been recently submitted by other proponents. Mr. Bicker stated that the Proxy Committee is looking for further clarification in order for Staff and the Committee to proceed in negotiating with other shareholder proponents. Mr. Sausen noted that the Committee expects to bring any final shareholder proposals to the Board for its consideration at its September 2004 meeting.

The meeting adjourned at 3:00 P.M.

Respectfully submitted,

Howard J. Bicker

Howard J. Bicker
Executive Director

Tab A

LONG TERM OBJECTIVES
Period Ending 6/30/2004

COMBINED FUNDS: $37.2 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.) 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.	**9.6% (1)**	0.2 percentage point above target
Provide Real Return (20 yr.) Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.	**11.2%**	8.1 percentage points above CPI

BASIC RETIREMENT FUNDS: $18.8 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.) 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.	**9.8%**	0.2 percentage point above target

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

(1) Performance is calculated net of fees.

SUMMARY OF ACTUARIAL VALUATIONS

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

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

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

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

Actuarial Assumptions:

Salary Growth: 6.5%, resulting from a graded rate future increase assumption
Interest/Discount Rate: 8.5% Basics, 6.0% Post
Full Funding Target Date: 2031

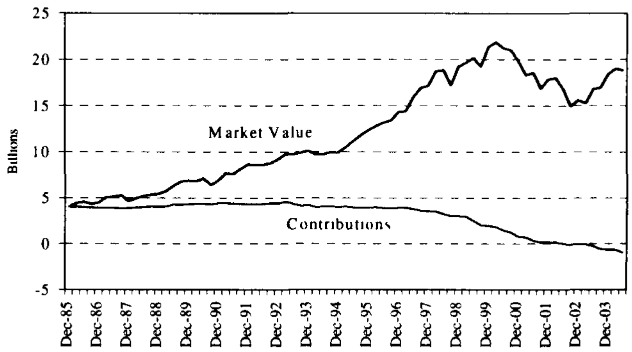
EXECUTIVE SUMMARY

Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds decreased 1.0% during the second quarter of 2004. Negative net contributions accounted for the decrease.

	Asset Growth During Second Quarter 2004 (Millions)
Beginning Value	$ 19,007
Net Contributions	-289
Investment Return	106
Ending Value	$ 18,824

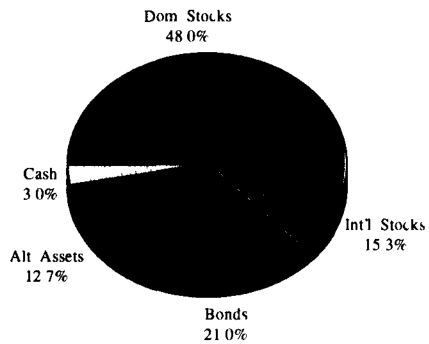


Asset Mix

The allocation to domestic stocks increased over the quarter due to positive returns.

	Policy Targets	Actual Mix 6/30/2004	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	48.0%	$9,035
Int'l. Stocks	**15.0**	15.3	2,870
Bonds	**24.0**	21.0	3,957
Alternative Assets*	**15.0**	12.7	2,400
Unallocated Cash	**1.0**	3.0	562
	100.0%	100.0%	$18,824

* Any uninvested allocation is held in domestic stocks

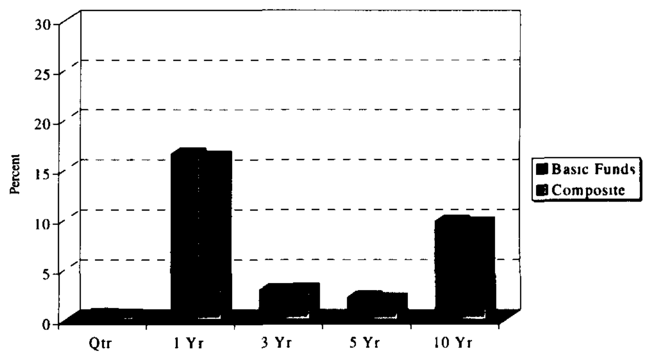


Fund Performance (Net of Fees)

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

Period Ending **6/30/2004**

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Basics	**0.6%**	**16.6%**	**3.0%**	**2.3%**	**9.8%**
Composite	0.5	16.3	3.0	2.1	9.6



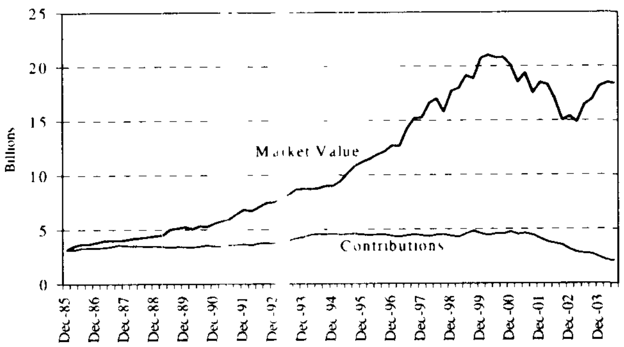
EXECUTIVE SUMMARY

Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund decreased 0.1% during the second quarter of 2004. Negative net contributions accounted for the slight decrease.

	Asset Growth During Second Quarter 2004 (Millions)
Beginning Value	$18,429
Net Contributions	-47
Investment Return	33
Ending Value	$18,415

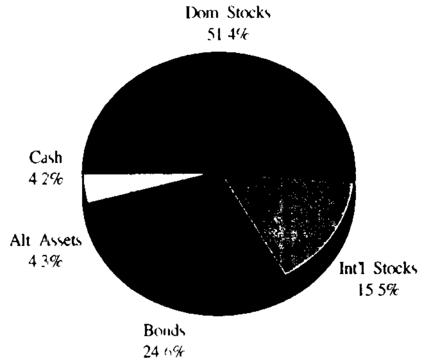


Asset Mix

The allocation to domestic stocks increased over the quarter due to positive returns. The allocation to bonds decreased due to negative returns.

	Policy Targets	Actual Mix 6/30/2004	Actual Market Value (Millions)
Domestic Stocks	45.0%	51.4%	$9,475
Int'l Stocks	15.0	15.5	2,846
Bonds	25.0	24.6	4,526
Alternative Assets*	12.0	4.3	785
Unallocated Cash	3.0	4.2	783
	100.0%	100.0%	$18,415

* Any uninvested allocation is held in domestic stocks.

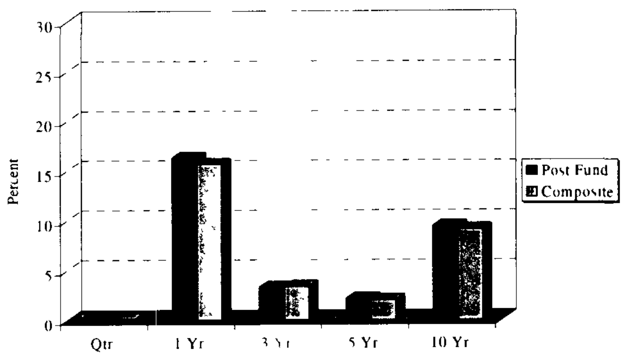


Fund Performance (Net of Fees)

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

Period Ending 6/30/2004

	Qtr	1 Yr	3 Yr	5 Yr	10 Yr.
		Annualized			
Post	**0.2%**	**16.3%**	**3.3%**	**2.2%**	**9.4%**
Composite	0.2	15.7	3.4	2.0	9.1



EXECUTIVE SUMMARY
Stock and Bond Manager Performance
(Net of Fees)

Domestic Stocks

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

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

Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Dom. Stocks	**1.2%**	**20.3%**	**-0.3%**	**-1.9%**	**10.9%**
Asset Class Target*	1.3	20.6	0.2	-1.7	11 2

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

International Stocks

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

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

Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Int'l. Stocks	**-1.0%**	**30.9%**	**4.5%**	**0.8%**	**5.0%**
Asset Class Target*	-0.9	32.1	4.5	0 2	3.7

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

Bonds

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

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

Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Bonds	**-2.0%**	**1.5%**	**6.7%**	**7.3%**	**7.7%**
Asset Class Target*	-2.4	0.3	6.4	6.9	7.4

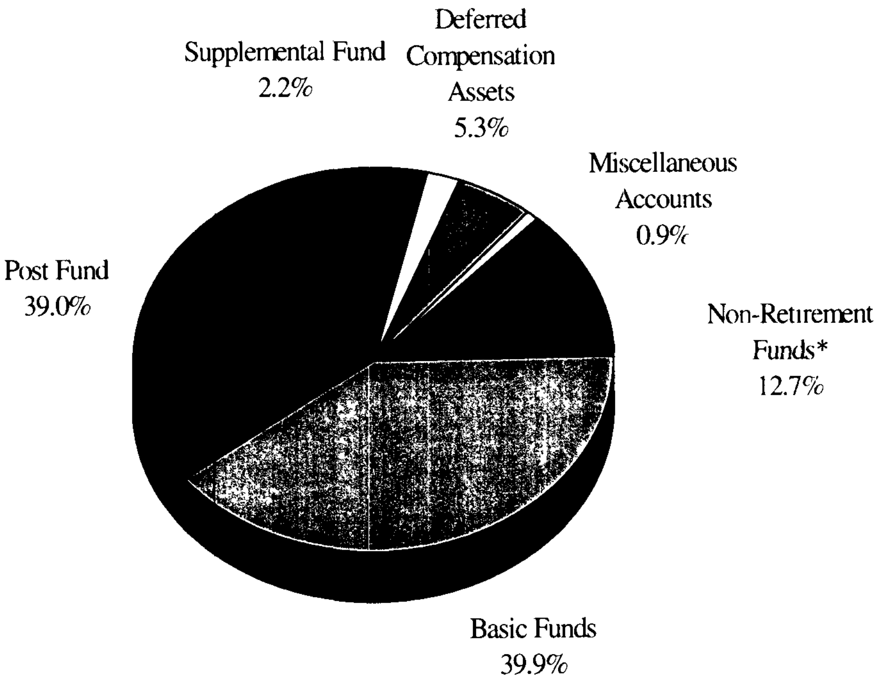
* The Fixed Income Asset Class Target is the Lehman Aggregate, effective 7/1/1994. Prior to 7/1/1994, the fixed income target was the Salomon BIG.

Alternative Investments

Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr (Annualized)	5 Yr (Annualized)	10 Yr. (Annualized)
Alternatives	**4.7%**	**16.6%**	**5.1%**	**9.2%**	**13.3%**

EXECUTIVE SUMMARY
Funds Under Management



	6/30/2004 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$18.8
Post Retirement Fund	18.4
Supplemental Investment Fund	1.0
State Deferred Compensation Plan Non-SIF Assets	2.5
Non-Retirement Funds*	
Assigned Risk Plan	0.3
Permanent School Fund	0.6
Environmental Trust Fund	0.3
State Cash Accounts	4.8
Miscellaneous Accounts	0.4
Total	$47.1

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Second Quarter 2004
(April 1, 2004 - June 30, 2004)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 6/30/2004				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	1.3%	21.2%	0.8%	-1.0%	11.5%
Dow Jones Industrials	1.3	18.7	1.9	0.9	13.4
S&P 500	1.7	19.1	-0.7	-2.2	11.8
Russell 3000 (broad market)	1.3	20.5	0.2	-1.1	11.7
Russell 1000 (large cap)	1.4	19.5	-0.3	-1.6	11.8
Russell 2000 (small cap)	0.5	33.4	6.2	6.6	10.9
Domestic Fixed Income					
Lehman Aggregate (1)	-2.4	0.3	6.4	6.9	7.4
Lehman Gov't./Corp.	-3.2	-0.7	6.7	7.1	7.4
3 month U.S. Treasury Bills	0.2	1.0	1.5	3.1	4.2
International					
EAFE (2)	0.2	32.4	3.9	0.1	4.1
Emerging Markets Free (3)	-9.6	33.5	13.1	3.3	1.2
ACWI Free ex-U.S. (4)	-0.7	32.5	5.2	1.0	4.4
World ex-U.S. (5)	0.1	32.0	4.1	0.4	4.4
Salomon Non U.S. Gov't. Bond	-3.4	7.6	13.7	6.8	6.1
Inflation Measure					
Consumer Price Index (6)	1.2	3.3	2.1	2.7	2.5

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

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

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

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

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

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The U.S. stock market, as measured by the Russell 3000, advanced by 1.3% during the second quarter of 2004. Several positive factors impacted the market during the quarter, including strong revenue and earnings reports, a high level of consumer confidence, and employment and wage gains. However, concerns regarding rising oil prices, geopolitical tension, looming interest rate increases, and fear that the economic recovery might fizzle combined to hold market returns down. During the quarter, the stock of large companies outperformed smaller companies, and growth companies outperformed value companies. The energy minerals sector provided the greatest contribution to return within the Russell 3000, while the finance sector was the largest detractor.

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

Large Growth	Russell 1000 Growth	1.9%
Large Value	Russell 1000 Value	0.9%
Small Growth	Russell 2000 Growth	0.1%
Small Value	Russell 2000 Value	0.8%

The Russell 3000 returned 20.5% for the year ending June 30, 2004.

DOMESTIC BONDS

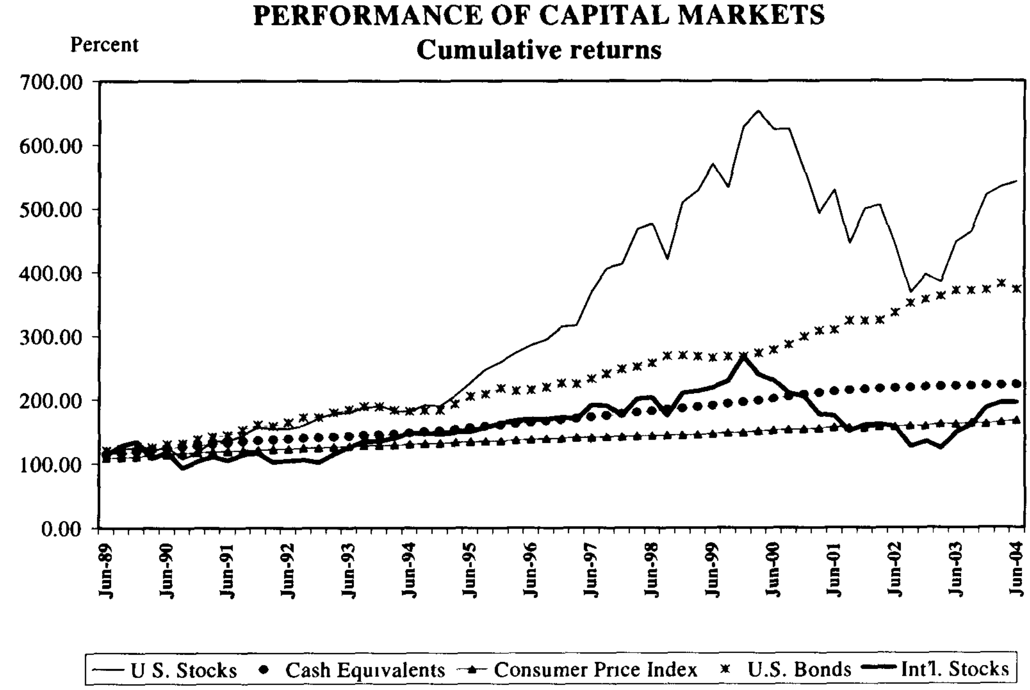
The bond market generated a negative return of 2.4% for the quarter and posted a gain of 0.3% for the year. All major sectors of the bond market delivered negative returns during the second quarter. The changes in yields over the quarter were purely driven by changed expectations with regard to the economy, inflation, and future Fed policy. Yields on fixed income securities rose significantly, pushing prices down as positive economic news increased investors' inflation expectations. The mortgage market outperformed the broader market but still had negative results. The Lehman Brothers Treasury Index declined by 3.2% in the second quarter, one of its worst quarterly performances ever. Investment grade corporates trailed comparable Treasuries slightly, as investment-grade credit spreads widened. In one of the most anticipated rate hikes in history, the FOMC met on June 30 and voted to increase the Federal Funds Target Rate by 25 basis points to 1.25%.

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

Treasury/Agency	-3.0%
Credit	-3.4
Mortgages	-1.1

PERFORMANCE OF CAPITAL MARKETS

Cumulative returns



FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, developed international stock markets (as measured by the MSCI World ex U.S index) provided a return of 0.1% for the quarter. The quarterly performance of the six largest stock markets is shown below

United Kingdom	1 5%
Japan	-3 8
France	3.5
Switzerland	2 1
Germany	3 7
Canada	-1 9

The World ex U S index increased by 32.0% during the last year.

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

EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of -9.6% for the quarter The quarterly performance of the five largest stock markets in the index is shown below·

Korea	-14.7%
Taiwan	-11.7
South Africa	-5.8
Mexico	-4.4
Brazil	-12 0

The Emerging Markets Free index increased by 33.5% 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 first half of 2004 has seen a deceleration in new construction and a corresponding increase in demand for commercial real estate, with leasing rates, though still moderate, beginning to pick up. Analysts look to the end of 2004 and into 2005 for these factors to lead to a potential recovery in real estate fundamentals.

PRIVATE EQUITY

U.S private equity firms raised $30 billion for private equity limited partnerships of all types, from venture capital to buyouts in the first two quarters of 2004 This represents a 117% increase in funds raised in the first two quarters of 2003 ($14 billion)

RESOURCE FUNDS

During the second quarter of 2004, crude oil averaged $38.24 per barrel, slightly higher than an average price of $35.21 during the first quarter of 2004 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.

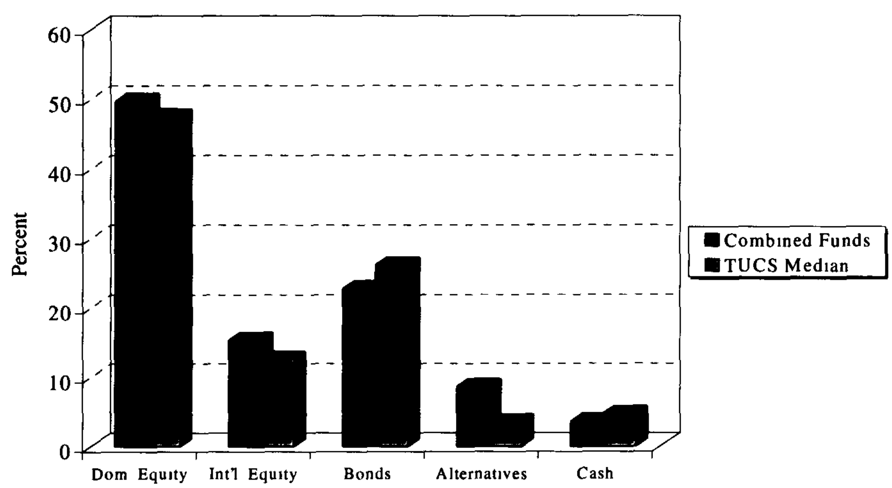
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On June 30, 2004, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$18,510	49.7%
International Stocks	5,717	15.3
Bonds	8,483	22.8
Alternative Assets	3,185	8.6
Unallocated Cash	1,344	3.6
Total	$37,239	100.0%

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



	Dom. Equity	Int'l Equity	Bonds	Alternatives	Cash
Combined Funds	**49.7%**	**15.3%**	**22.8%**	**8.6%**	**3.6%**
Median Allocation in TUCS*	47.5	12.6	26.2	5.8**	4.7

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

COMBINED FUNDS
Performance Compared to Other Pension Funds

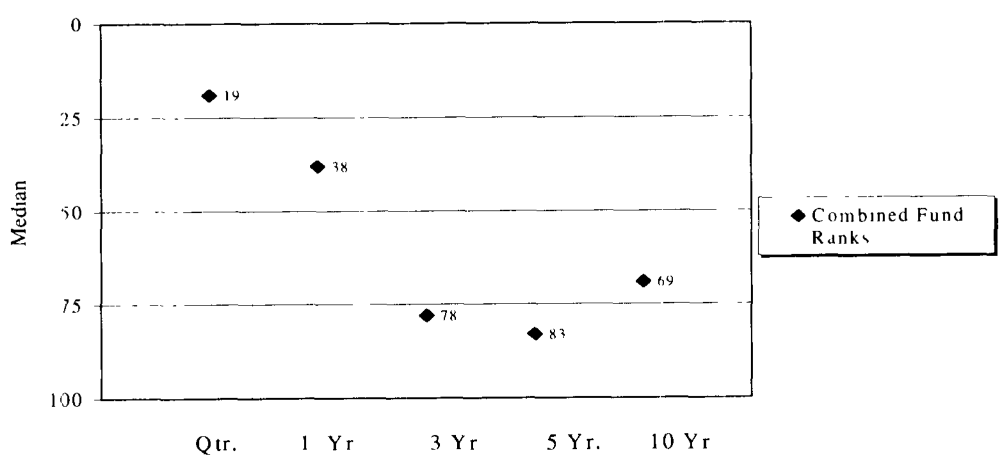
While the SBI is concerned with how its returns compare to other pension investors, universe comparisons should be used with great care There are several reasons why such comparisons will provide an "apples to oranges" look at performance·

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

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

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

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



	Period Ending 6/30/2004				
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Combined Funds Percentile Rank in TUCS*	19th	38th	78th	83rd	69th

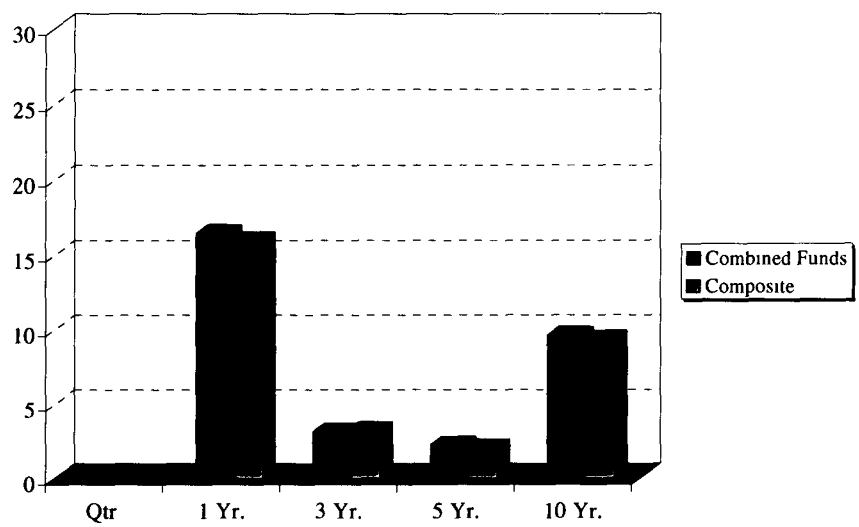
* Compared to public and corporate plans greater than $1 billion, gross of fees

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* 2Q04
Domestic Stocks	Russell 3000	50.0%*
Int'l. Stocks	MSCI ACWI Free ex-U.S.	15.0
Bonds	Lehman Aggregate	24.5*
Alternative Investments	Alternative Investments	8.5*
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 6/30/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Combined Funds**	**0.4%**	**16.5%**	**3.1%**	**2.2%**	**9.6%**
Composite Index	0.3	16.0	3.2	2.1	9.4

**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

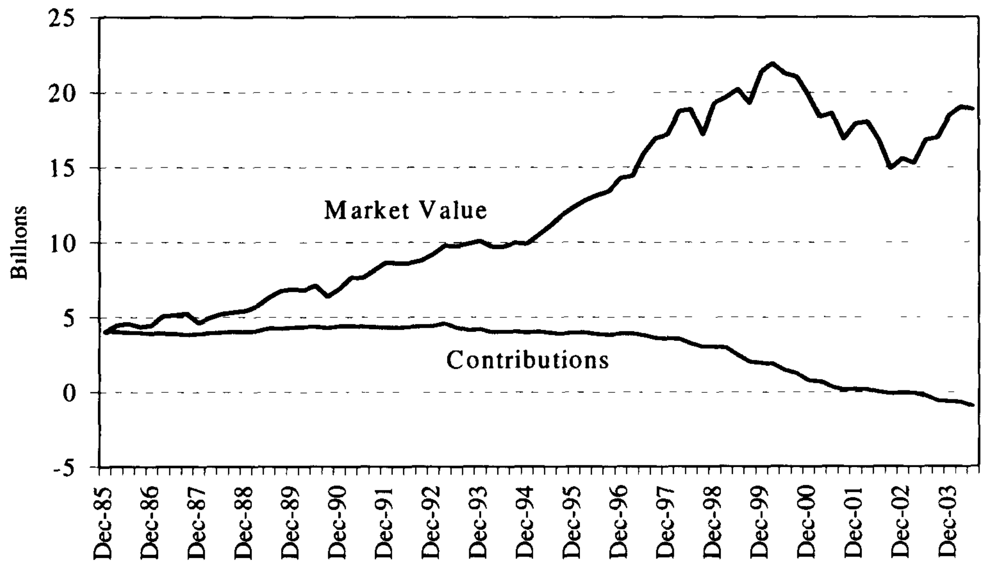
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately 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 decreased 1.0% during the second quarter of 2004. Negative net contributions accounted for the decrease.



Last Five Years
In Millions

	12/99	12/00	12/01	12/02	12/03	3/04	Latest Qtr. 6/04
Beginning Value	$19,244	$21,365	$19,807	$17,874	$15,561	$18,435	$19,007
Net Contributions	-1,065	-1,186	-572	-247	-592	-32	-289
Investment Return	3,186	-372	-1,361	-2,066	3,466	604	106
Ending Value	$21,365	$19,807	$17,874	$15,561	$18,435	$19,007	$18,824

BASIC RETIREMENT FUNDS
Asset Mix

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

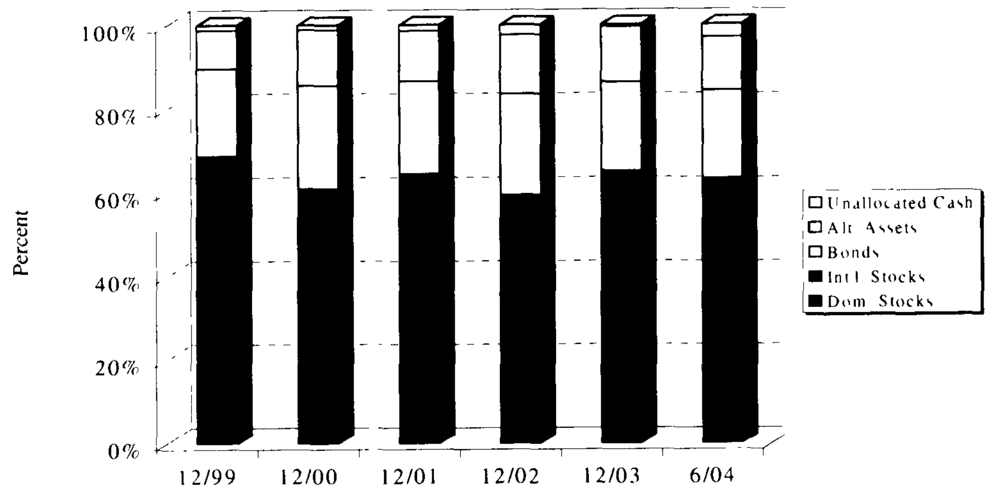
Domestic Stocks	45.0%
Int'l Stocks	15.0
Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

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

In October 2003, the Board provisionally revised its long term asset allocation targets for the Basic Funds, increasing the allocation for alternative investments from 15% to 20% and decreasing fixed income from 24% to 19%.

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

During the quarter, the domestic stock allocation increased due to positive returns



	Last Five Years						Latest Qtr.
	12/99	**12/00**	**12/01**	**12/02**	**12/03**	**3/04**	**6/04**
Domestic Stocks	51.9%	44.3%	49.5%	45.3%	48.5%	47.2%	48.0%
Int'l. Stocks	16.8	16.6	15.0	14.1	16.6	15.5	15.3
Bonds	21.0	24.7	22.1	24.2	21.2	21.2	21.0
Alternative Assets	9.1	13.3	12.1	14.1	13.3	12.8	12.7
Unallocated Cash	1.2	1.1	1.3	2.3	0.4	3.3	3.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

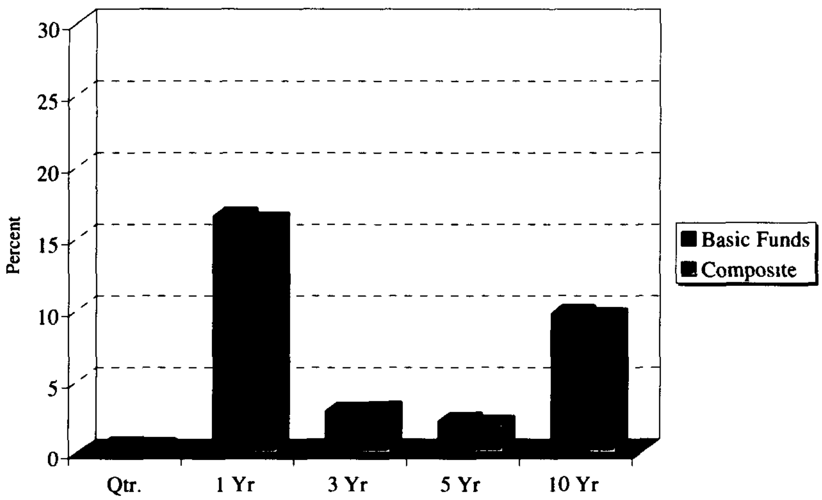
BASIC RETIREMENT FUNDS

Total Fund Performance (Net of Fees)

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

	Basics Target	Market Index	Basics Composite* 2Q04
Domestic Stocks	45.0%	Russell 3000	47.4%*
Int'l. Stocks	15.0	MSCI ACWI Free ex-U.S.	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Investments	15.0	Alternative Investments	12.6*
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 6/30/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
				Annualized	
Basic Funds**	**0.6%**	**16.6%**	**3.0%**	**2.3%**	**9.8%**
Composite Index	0.5	16.3	3.0	2.1	9.6

**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. Effective July 1, 2003, the Basic and Post Funds share the same alternative pool. Performance of the alternative assets is on page 16.

POST RETIREMENT FUND

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

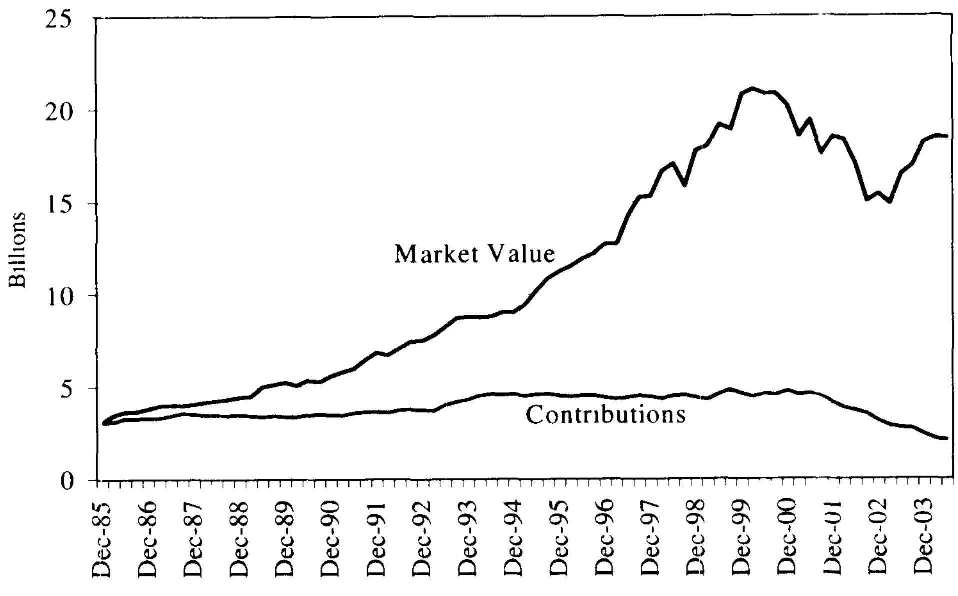
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis. If the Post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

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

Asset Growth

The market value of the Post Fund decreased 0.1% during the second quarter of 2004.

Negative net contributions accounted for the slight decrease.



Last Five Years
In Millions

	12/99	12/00	12/01	12/02	12/03	3/04	Latest Qtr. 6/04
Beginning Value	17,743	$20,768	$20,153	$18,475	$15,403	$18,162	$18,429
Net Contributions	211	167	-647	-1,000	-719	-261	-47
Investment Return	2,814	-782	-1,031	-2,072	3,478	528	33
Ending Value	20,768	$20,153	$18,475	$15,403	$18,162	$18,429	$18,415

POST RETIREMENT FUND
Asset Mix

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

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

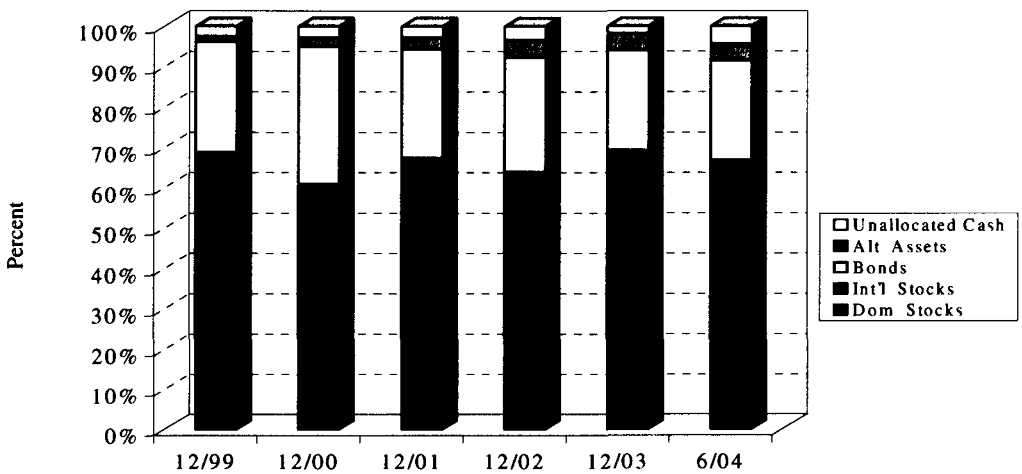
* Alternative assets include equity-oriented real estate, venture capital, resource, and yield-oriented funds. Any uninvested allocation is held in domestic stocks.

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

In October 2003, the Board revised its long term asset allocations for the Post Fund, increasing alternative investments from 5% to 12% and decreasing domestic equity from 50% to 45% and decreasing fixed income from 27% to 25%.

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

During the quarter, the allocation to domestic stocks increased over the quarter due to positive returns. The allocation to bonds decreased due to negative returns.



	Last Five years						Latest Qtr.
	12/99	**12/00**	**12/01**	**12/02**	**12/03**	**3/04**	**6/04**
Dom. Stocks	52.0%	47.5%	52.4%	49.6%	52.7%	50.5%	51.4%
Int'l. Stocks	16.9	13.5	15.1	14.4	16.7	15.7	15.5
Bonds	27.2	34.0	26.7	28.3	24.6	25.1	24.6
Alt. Assets	1.5	2.3	3.1	4.5	4.4	4.3	4.3
Unallocated Cash	2.4	2.7	2.7	3.2	1.6	4.4	4.2
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* 2Q04
Domestic Stocks	45.0%	Russell 3000	52.7%
Int'l. Stocks	15.0	MSCI ACWI Free ex-U.S.	15.0
Bonds	25.0	Lehman Aggregate	25.0*
Alternative Investments	12.0	Alternative Investments	4.3*
Unallocated Cash	3.0	3 Month T-Bills	3 0
	100.0%		100.0%

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

Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
				Annualized	
Post Fund**	**0.2%**	**16.3%**	**3.3%**	**2.2%**	**9.4%**
Composite Index	0.2	15.7	3.4	2.0	9 1

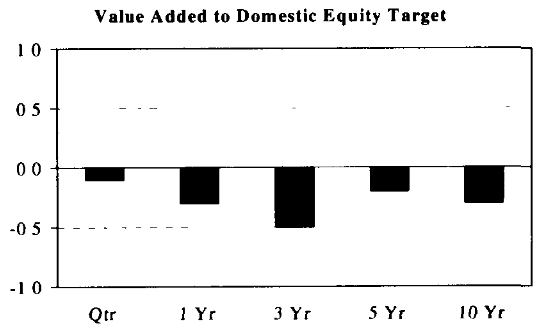
** Returns are reported net of fees

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See page 15 for the performance of these asset pools. Effective July 1, 2003, the Basic and Post Funds share the same alternative pool Performance of the alternative assets is on page 16.

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

Domestic Stocks

Target: Russell 3000
Expectation: If one-third of the pool is actively managed, one-third is semi-passively managed, and one-third is passively managed, the entire pool is expected to exceed the target by +.18 - .40% annualized, over time.



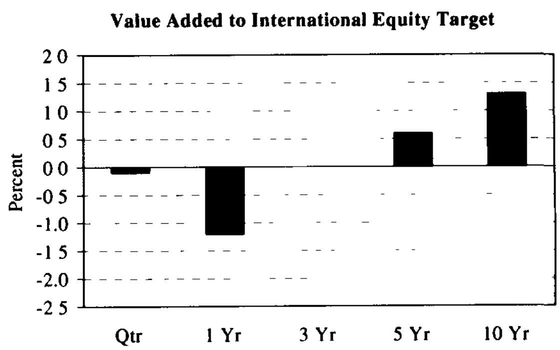
Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Domestic Stocks	**1.2%**	**20.3%**	**-0.3%**	**-1.9%**	**10.9%**
Asset Class Target*	1.3	20.6	0.2	-1.7	11.2

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

International Stocks

Target: MSCI ACWI Free ex U.S. (net)
Expectation: If at least one-third of the pool is managed actively and at least one-third is passively managed, the entire pool is expected to exceed the target by +.25%-.75% annualized, over time.



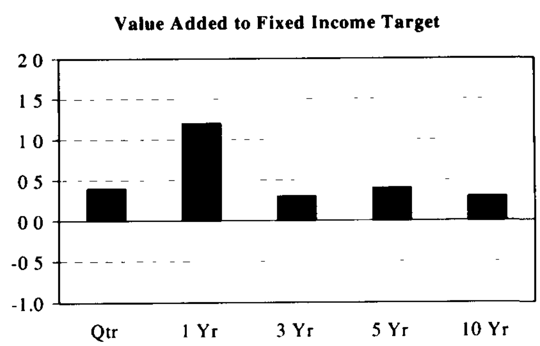
Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Int'l. Stocks	**-1.0%**	**30.9%**	**4.5%**	**0.8%**	**5.0%**
Asset Class Target*	-0.9	32.1	4.5	0 2	3.7

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

Bonds

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



Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Bonds	**-2.0%**	**1.5%**	**6.7%**	**7.3%**	**7.7%**
Asset Class Target	-2.4	0.3	6 4	6.9	7.4

ALTERNATIVE INVESTMENTS
Performance of Asset Categories
(Net of Fees)

Alternative Investments

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

Period Ending 6/30/2004	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Alternatives	4.7%	16.6%	5.1%	9.2%	13.3%
Inflation	1.2%	3.3%	2.1%	2.7%	2.5%

Real Estate Investments (Equity emphasis)

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

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

Period Ending 6/30/2004	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Real Estate	2.1%	11.8%	7.2%	9.3%	10.8%

Private Equity Investments (Equity emphasis)

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

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

Period Ending 6/30/2004	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Private Equity	6.7%	21.2%	2.6%	7.5%	15.2%

Resource Investments (Equity emphasis)

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

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

Period Ending 6/30/2004	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Resource	-1.0%	4.4%	2.0%	13.0%	11.4%

Yield Oriented Investments (Debt emphasis)

Expectation: Yield oriented investments are expected to exceed the rate of inflation by 5.5% annualized, over the life of the investment.

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

Period Ending 6/30/2004	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Yield Oriented	5.1%	16.3%	9.7%	12.0%	12.3%

SUPPLEMENTAL INVESTMENT FUND

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

1. It functions as the investment manager for all assets of the Unclassified Employees Retirement Plan, Public Employees Defined Contribution Plan and Hennepin County Supplemental Retirement Plan.
2. It is one investment vehicle offered to employees as part of Minnesota State Colleges and University's 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, 2004 the market value of the entire Fund was $1.0 billion.

Investment Options

	6/30/2004 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$467
Growth Share Account – an actively managed, all common stock portfolio.	$134
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$192
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$59
Bond Market Account – an actively managed, all bond portfolio.	$93
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$44
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.	$52

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

INCOME SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

	Target	Actual
Stocks	60.0%	61.9%
Bonds	35.0	35.4
Unallocated Cash	5.0	2.7
	100.0%	100.0%

Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**0.2%**	**12.7%**	**2.4%**	**1.8%**	**9.9%**
Benchmark*	-0.1	12.2	2.8	2.0	9.9

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

GROWTH SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**1.1%**	**20.2%**	**-0.6%**	**-2.2%**	**10.6%**
Benchmark*	1.3	20.6	0.2	-1.7	11.0

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

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

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

The Account is invested 100% in common stock.

Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**1.4%**	**20.5%**	**0.1%**	**-1.4%**	**11.4%**
Benchmark*	1.3	20.6	0.2	-1.5	11.3

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

INTERNATIONAL SHARE ACCOUNT

Investment Objective and Asset Mix

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

Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	Since 9/1/94 (Annualized)
Total Account	**-1.0%**	**31.0%**	**4.7%**	**0.9%**	**4.7%**
Benchmark*	-0.9	32.1	4.5	0.2	3.5

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

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

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

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

Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**-2.0%**	**1.5%**	**6.8%**	**7.4%**	**7.8%**
Lehman Agg.	-2.4	0.3	6.4	6.9	7.4

MONEY MARKET ACCOUNT

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

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

Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**0.3%**	**1.3%**	**1.9%**	**3.5%**	**4.5%**
3 month T-Bills	0.2	1 0	1.5	3.1	4.1

FIXED INTEREST ACCOUNT

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

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

Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	Since 11/1/94 (Annualized)
Total Account	**1.0%**	**4.4%**	**5.3%**	**5.7%**	**6.1%**
Benchmark*	0.9	2.9	3.1	4.2	5.1

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

DEFERRED COMPENSATION PLAN ACCOUNTS

DESCRIPTION

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

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

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

LARGE CAP EQUITY

Vanguard Institutional Index (passive)

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

Period Ending 6/30/2004		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**1.7%**	**19.1%**	**-0.7%**	**-2.1%**
S&P 500	1 7	19 1	-0 7	-2 2

Janus Twenty (active)

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

Period Ending 6/30/2004		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**3.6%**	**22.1%**	**-2.9%**	**-7.0%**
S&P 500	1 7	19 1	-0 7	-2 2

Smith Barney Appreciation Y (active)

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

Period Ending 6/30/2004		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**1.3%**	**N/A**	**N/A**	**8.4%**
S&P 500	1 7	N/A	N/A	8 9

MID CAP EQUITY

Vanguard Mid Cap Index (passive)

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

Period Ending 6/30/2004		Annualized		
Qtr.	1 Yr.	3 Yr.	5 Yr.	Since 1/1/04
Fund	**1.0%**	**N/A**	**N/A**	**5.8%**
MSCI US Mid-Cap 450	1 1	N/A	N/A	5 9

SMALL CAP EQUITY

T. Rowe Price Small Cap (active)

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

Period Ending 6/30/2004		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**2.3%**	**27.9%**	**7.4%**	**10.9%**
Russell 2000	0 5	33 4	6 2	6 6

DEFERRED COMPENSATION PLAN ACCOUNTS

INTERNATIONAL EQUITY

Fidelity Diversified International (active)

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

Period Ending 6/30/2004	Qtr.	1 Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Fund	**-1.8%**	**32.2%**	**9.1%**	**13.2%**
MSCI EAFE	0.2	32 4	3 9	12.7

Vanguard Institutional Developed Markets (passive)

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

Period Ending 6/30/2004	Qtr.	1 Yr.	Annualized 3 Yr.	Annualized Since 12/1/03
Fund	**0.6%**	**N/A**	**N/A**	**13.2%**
MSCI EAFE	0.2	N/A	N/A	12.7

BALANCED

Dodge & Cox Balanced Fund (active)

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

Period Ending 6/30/2004	Qtr.	1 Yr.	Annualized 3 Yr.	Annualized Since 10/1/03
Fund	**0.3%**	**N/A**	**N/A**	**14.6%**
Benchmark	0.0	N/A	N/A	9.6

Vanguard Balanced Fund (passive)

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

Period Ending 6/30/2004	Qtr.	1 Yr.	Annualized 3 Yr.	Annualized Since 12/1/03
Fund	**-0.2%**	**N/A**	**N/A**	**5.6%**
Benchmark	-0.2	N/A	N/A	5.6

FIXED INCOME

Dodge & Cox Income Fund (active)

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

Period Ending 6/30/2004	Qtr.	1 Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Fund	**-1.9%**	**1.6%**	**7.1%**	**7.6%**
Lehman Agg.	-2.4	0.3	6 4	6.9

Vanguard Total Bond Market Fund (passive)

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

Period Ending 6/30/2004	Qtr.	1 Yr.	Annualized 3 Yr.	Annualized Since 12/1/03
Fund	**-2.5%**	**N/A**	**N/A**	**1.1%**
Lehman Agg.	-2.4	N/A	N/A	1.2

Money Market Account

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

Period Ending 6/30/2004	Qtr.	1 Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Fund	**0.3%**	**1.3%**	**1.9%**	**3.5%**
3-Mo. Treas	0 2	1.0	1.5	3.1

DEFERRED COMPENSATION PLAN ACCOUNTS

FIXED INTEREST ACCOUNT

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

	Period Ending 6/30/2004			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**1.0%**	**4.4%**	**5.3%**	**5.7%**
Benchmark	0.9	2.9	3.1	4.2

FIXED FUND

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

Period Ending 6/30/2004

The quarterly blended rate is 4.9%.

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.

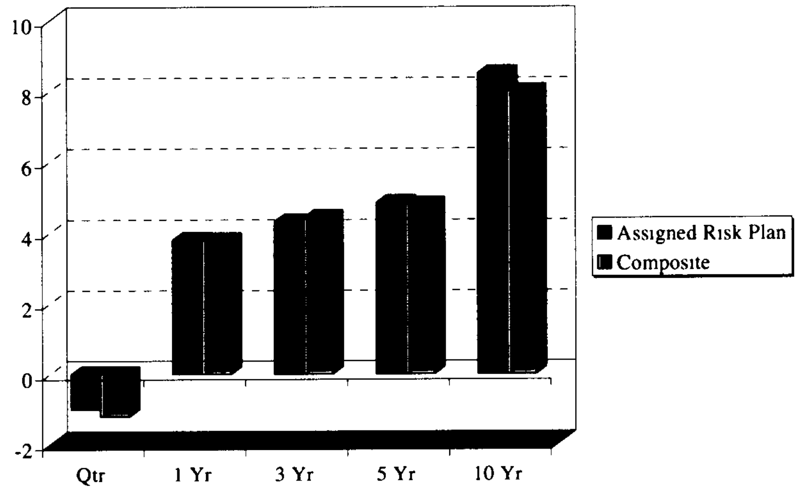
Asset Mix
The Assigned Risk Plan is invested in a portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	6/30/2004 Target	6/30/2004 Actual
Stocks	20.0%	24.2%
Bonds	80.0	75.8
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, 2004 the market value of the Assigned Risk Plan was $264 million.



Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Fund*	-1.0%	3.8%	4.3%	4.8%	8.5%
Composite	-1.2	3.8	4.4	4.8	8.0
Equity Segment*	1.3	14.6	-1.1	-0.5	12.7
Benchmark	1.7	19.1	-0.7	-2.2	11.8
Bond Segment*	-1.7	0.5	4.8	5.6	6.4
Benchmark	-1.9	0.2	5.4	6.3	6.7

* 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

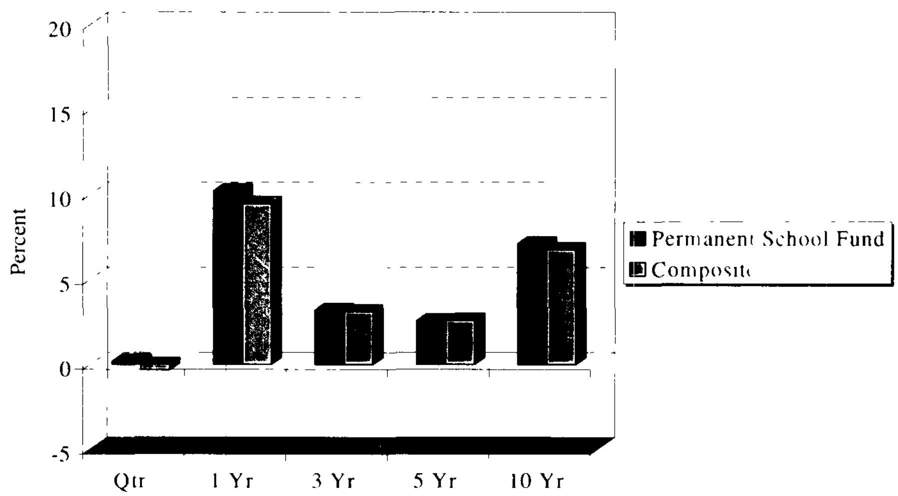
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income

	6/30/2004 Target	6/30/2004 Actual
Stocks	50 0%	53.9%
Bond	48 0	44 7
Unallocated Cash	2 0	1.4
Total	100 0%	100 0%

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

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

Market Value
On June 30, 2004 the market value of the Permanent School Fund was $578 million



Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Total Fund (1) (2)	0 2%	10.2%	3 2%	2 6%	7.1%
Composite	-0 3	9 5	3 1	2 6	6.8
Equity Segment (1) (2)	1.7	19 0	-0.7	-2 1	N/A
S&P 500	1 7	19.1	-0 7	-2 2	N/A
Bond Segment (1)	-1 7	1 1	6 6	7 1	7 9
Lehman Aggregate	-2 4	0 3	6 4	6 9	7 4

(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

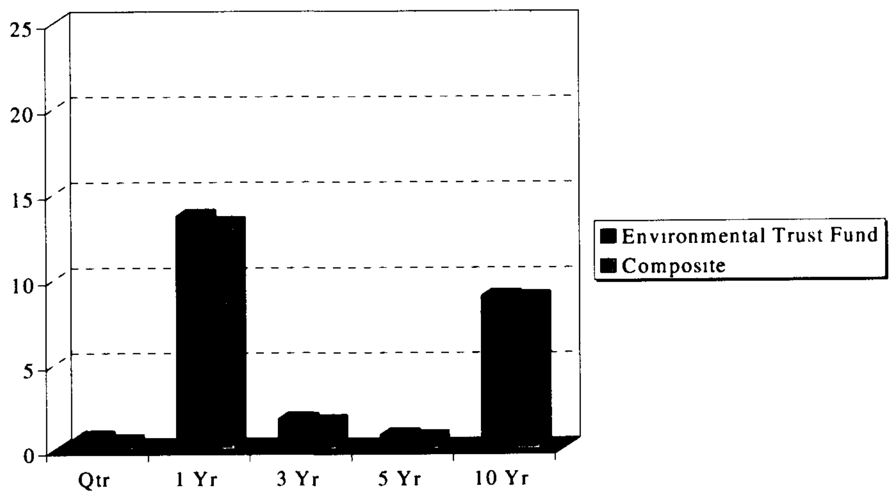
Investment Objective
The objective of the Environmental Trust Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

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, 2004 the market value of the Environmental Trust Fund was $342 million.

	6/30/2004 Target	6/30/2004 Actual
Stocks	70.0%	69.9%
Bonds	28.0	29.5
Unallocated Cash	2.0	0.6
Total	100.0%	100.0%



Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Fund*	0.7%	13.7%	1.8%	0.8%	9.0%
Composite	0.5	13.3	1.6	0.7	8.9
Equity Segment*	1.7	19.2	-0.6	-2.1	11.9
S&P 500	1.7	19.1	-0.7	-2.2	11.8
Bond Segment*	-1.7	1.5	6.7	7.2	7.8
Lehman Agg.	-2.4	0.3	6.4	6.9	7.4

* Actual returns are calculated net of fees.

CLOSED LANDFILL INVESTMENT FUND

Investment Objectives

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

Asset Mix

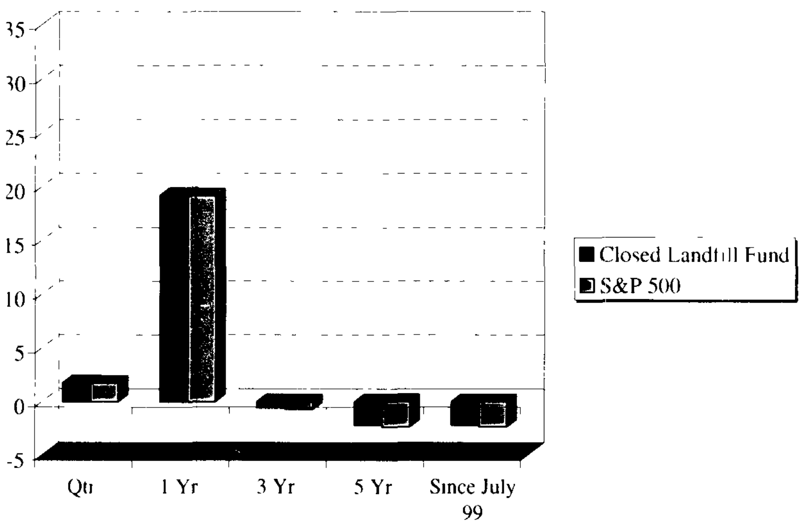
Effective July 1999, the Closed Landfill Investment Fund is invested entirely in common stock Given the long time horizon of this Fund and the lack of need for any short or mid-term withdrawals, this strategy will maximize the long-term gain of the Fund

Investment Management

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

Market Value

On June 30, 2004, the market value of the Closed Landfill Investment Fund was $20 0 million.



Period Ending 6/30/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Fund (1)	1 7%	19.2%	-0.6%	-2 2%
S&P 500 (2)	1 7	19 1	-0 7	-2.3

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

STATE CASH ACCOUNTS

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

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

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

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

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

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

Investment Objectives

Safety of Principal. To preserve capital.

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

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

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

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

Period Ending 6/30/2004

	Market Value (Millions)	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	10 Yr.
Treasurer's Cash Pool*	**$4,377**	**0.2%**	**1.1%**	**2.1%**	**3.8%**	**4.7%**
Custom Benchmark**		0.1	0.5	1.7	3.3	4.4
Trust Fund Cash Pool*	**$97**	**0.3**	**1.1**	**1.7**	**3.5**	**4.5**
Custom Benchmark***		0.1	0.5	1.2	2.8	4.1
3 month T-Bills		0.2	1.0	1.5	3.1	4.1

* Actual returns are calculated net of fees.

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

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

MINNESOTA STATE BOARD OF INVESTMENT
Composition of State Investment Portfolios By Type of Investment
Market Value June 30, 2004 (in Thousands)

	Cash and Short term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	206,522	0	1,438,134	0	3,297,778	1,045,216	895,285	6,882,935
	3.00%		20.89%		47.91%	15.19%	13.01%	100%
Public Employees Retirement Fund	143,386	0	1,037,787	0	2,362,134	751,727	616,936	4,911,970
	2.92%		21.13%		48.09%	15.30%	12.56%	100%
State Employees Retirement Fund	122,183	0	878,164	0	2,000,855	636,416	525,653	4,163,271
	2.93%		21.09%		48.06%	15.29%	12.63%	100%
Public Employees Police & Fire	67,455	0	483,667	0	1,102,311	350,565	290,023	2,294,021
	2.94%		21.09%		48.05%	15.28%	12.64%	100%
Highway Patrol Retirement Fund	6,648	0	45,354	0	104,160	32,994	28,604	217,760
	3.05%		20.83%		47.83%	15.15%	13.14%	100%
Judges Retirement Fund	4,895	0	6,484	0	14,756	4,696	3,850	34,681
	14.11%		18.70%		42.55%	13.54%	11.10%	100%
Correctional Employees Retirement	7,194	0	52,116	0	118,603	37,747	30,948	246,608
	2.92%		21.13%		48.09%	15.31%	12.55%	100%
Public Employees Correctional	3,099	0	15,238	0	34,678	11,037	9,052	73,104
	4.24%		20.84%		47.44%	15.10%	12.38%	100%
TOTAL BASIC FUNDS	561,382	0	3,956,944	0	9,035,275	2,870,398	2,400,351	18,824,350
	2.98%		21.02%		48.00%	15.25%	12.75%	100%
POST RETIREMENT FUND	782,480	0	4,526,060	0	9,474,836	2,846,460	784,918	18,414,754
	4.25%		24.58%		51.45%	15.46%	4.26%	100%
TOTAL BASIC AND POST	1,343,862	0	8,483,004	0	18,510,111	5,716,858	3,185,269	37,239,104
	3.61%		22.78%		49.71%	15.35%	8.55%	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	12,356 2.65%	165,353 35.43%	0	0	288,965 61.92%	0	0	466,674 100%
Growth Share Account	0	0	0	0	133,595 100.00%	0	0	133,595 100%
Money Market Account	43,787 100.00%	0	0	0	0	0	0	43,787 100%
Common Stock Index	0	0	0	0	191,838 100.00%	0	0	191,838 100%
Bond Market Account	0	0	93,421 100.00%	0	0	0	0	93,421 100%
International Share Account	0	0	0	0	0	58,880 100.00%	0	58,880 100%
Fixed Interest Account	621 1 19%	0	51,380 98.81%	0	0	0	0	52,001 100%
TOTAL SUPPLEMENTAL FUNDS	56,764 5.46%	165,353 15.90%	144,801 13.92%	0	614,398 59.06%	58,880 5 66%	0	1,040,196 100%
MN DEFERRED COMP PLAN *	51,791 2.06%	0	1,047,713 41.59%	0	1,269,172 50.38%	150,411 5.97%	0	2,519,087 100%
TOTAL RETIREMENT FUNDS	1,452,417 3.56%	165,353 0 40%	9,675,518 23 71%	0	20,393,681 49.99%	5,926,149 14 53%	3,185,269 7.81%	40,798,387 100%

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

	Cash and Short Term Securities	Bond Internal	Bond External	Stock Internal	Stock External	External Int'l	Alternative Assets	Total
ASSIGNED RISK PLAN	13,210 5 01%	0	187,540 71 19%	0	62,707 23 80%	0	0	263,457 100%
ENVIRONMENTAL FUND	2,039 0 60%	101,045 29 51%	0	239,273 69 89%	0	0	0	342,357 100%
PERMANENT SCHOOL FUND	8,514 1.47%	258,151 44 66%	0	311,353 53.87%	0	0	0	578,018 100%
CLOSED LANDFILL INVESTMENT	27 0 13%	0	0	19,980 99 87%	0	0	0	20,007 100%
TREASURERS CASH	4,377,684 100.00%	0	0	0	0	0	0	4,377,684 100%
HOUSING FINANCE AGENCY	26,020 13 14%	171,952 86 86%	0	0	0	0	0	197,972 100%
MINNESOTA DEBT SERVICE FUND	8,310 3 61%	221,687 96.39%	0	0	0	0	0	229,997 100%
MISCELLANEOUS ACCOUNTS	250,106 63.82%	106,658 27 22%	0	35,111 8 96%	0	0	0	391,875 100%
TOTAL CASH AND NON-RETIREMENT	4,685,910 73.20%	859,493 13.43%	187,540 2 93%	605,717 9.46%	62,707 0 98%	0	0	6,401,367 100%
GRAND TOTAL	6,138,327 13.00%	1,024,846 2 17%	9,863,058 20 90%	605,717 1 28%	20,456,388 43 34%	5,926,149 12 56%	3,185,269 6.75%	47,199,754 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: August 31, 2004

TO: Members, State Board of Investment

FROM: Howard Bicker

1. Reports on Budget and Travel

A report on the SBI's administrative budget for the Fiscal Year 2004 is included as **Attachment A**. A report on the SBI's administrative budget for the period ending July 31, 2005 is included as **Attachment B**.

A report on travel for the period from May 16, 2004 - August 15, 2004 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 8, 2004.

3. Investment of Metropolitan Council Assets

Laws of Minnesota 2004, Chapter 175 authorizes the SBI to invest certain assets of the Metropolitan Council designated as reserves for retiree healthcare costs. The SBI has been working with the Met Council Staff concerning the activities that will be required to implement the new law. The assets are non-retirement assets and, therefore, will be invested in the internally managed non-retirement trust pools. The Met Council plans to transfer the assets in the spring of 2005. Staff will report to the Board and IAC when additional information is available related to this transaction.

ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 2004 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR FINAL

ITEM	FISCAL YEAR 2004 BUDGET	FISCAL YEAR 2004 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,900,000	$ 1,747,375
SEVERENCE PAYOFF	22,000	38,414
WORKERS COMPENSATION INSURANCE	1,000	860
MISCELLANEOUS PAYROLL	2,000	148
SUBTOTAL	**$ 1,925,000**	**$ 1,786,797**
STATE OPERATIONS		
RENTS & LEASES	196,000	193,919
REPAIRS/ALTERATIONS/MAINTENANCE	15,000	14,527
PRINTING & BINDING	10,000	5,381
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	10,100
COMMUNICATIONS	20,000	19,903
TRAVEL, IN-STATE	3,000	253
TRAVEL, OUT-STATE	45,000	28,920
SUPPLIES	20,000	22,919
EQUIPMENT	0	0
EMPLOYEE DEVELOPMENT	15,000	6,780
OTHER OPERATING COSTS	15,000	7,703
SUBTOTAL	**$ 349,000**	**$ 310,405**
ORIGINAL BUDGET	**$ 2,274,000**	**$ 2,097,202**
BUDGET REDUCTION (UNALLOTMENT)	**$ 39,000**	
TOTAL GENERAL FUND	**$ 2,235,000**	**$ 2,097,202**

ATTACHMENT B

STATE BOARD OF INVESTMENT
FISCAL YEAR 2005 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH JULY 31, 2005

ITEM	FISCAL YEAR 2005 BUDGET	FISCAL YEAR 2005 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,800,000	$ 59,031
SEVERENCE PAYOFF	37,000	0
WORKERS COMPENSATION INSURANCE	1,000	0
MISCELLANEOUS PAYROLL	2,000	0
SUBTOTAL	**$ 1,840,000**	**$ 59,031**
STATE OPERATIONS		
RENTS & LEASES	196,000	16,463
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	0
TRAVEL, IN-STATE	1,000	0
TRAVEL, OUT-STATE	35,000	2,474
SUPPLIES	20,000	0
EQUIPMENT	0	0
EMPLOYEE DEVELOPMENT	10,000	0
OTHER OPERATING COSTS	10,000	0
SUBTOTAL	**$ 327,000**	**$ 18,937**
ORIGINAL BUDGET	**$ 2,167,000**	**$ 77,968**
BALANCE FORWARD FROM FY 2004	**$ 137,000**	
TOTAL GENERAL FUND	**$ 2,304,000**	**$ 77,968**

STATE BOARD OF INVESTMENT

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

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring: **Fixed Income Manager:** Lincoln Capital Fixed Income Mgmt. Company	H. Bicker	Chicago, IL 6/10-6/11	$560.07
Manager Monitoring: **Domestic Equity Managers:** LSV Asset Mgmt.; UBS Global Asset Mgmt.; Voyageur Asset Mgmt. **Manager Search:** **Domestic Equity Managers:** Holland Capital Mgmt.; Lotsoff Capital; LCG Managers; William Blair **Manager Monitoring:** **Short Term Brokers/Dealers:** J. P. Morgan; CSFB **Consultant:** Richards & Tierney	S. Sutton	Chicago, IL 6/15-6/17	$612.44
Manager Monitoring: **International Managers**: Alliance Capital; American Express Asset Mgmt. Int'l.; Britannic Asset Mgmt. Intl.; Capital International; INVESCO Global Asset Mgmt.; Marathon Asset Mgmt.; T. Rowe Price Int'l.; UBS Global Asset Mgmt.; **Manager Search:** **International Managers:** Fidelity; J. P. Morgan; Martin Currie; Newstar; Walter Scott	S. Gleeson	London, England Glasgow, Scotland Edinburgh, Scotland 6/25-7/5	$3,743.33
Meeting: South Dakota Board of Investment	H. Bicker	Sioux Falls, SD 7/15-7/16	$612.61

Purpose	Name(s)	Destination and Date	Total Cost
Consultant: Richards & Tierney	H. Bicker	Chicago, IL 7/22-7/23	$525.80
Conference: U.S. Equity Education Program sponsored by J.P. Morgan Fleming	M. Perry	Milwaukee, WI 7/26-7/27	$425.20
Meeting: Iron Range Resources Board	H. Bicker	Eveleth, MN 7/29-7/30	$195.02

Tab C

COMMITTEE REPORT

DATE: August 31, 2004

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

FROM: Stock and Bond Manager Committee

The Stock and Bond Manager Committee met on Thursday, August 19, 2004 to consider the following agenda items:

- Review the manager performance for the period ending June 30, 2004.
- Update of the Fixed Income Program short list.
- Review of Assigned Risk Plan asset allocation.
- Recommendation to renew investment manager contracts.

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

INFORMATION ITEMS:

1. Review the manager performance for the period ending June 30, 2004.

- ***Domestic Equity Program***

For the period ending June 30, 2004, the **Domestic Equity Program** under-performed the asset class target* over all time periods.

Time period	Total Program	DE Asset Class Target*
Quarter	1.2%	1.3%
1 Year	20.3	20.6
3 Years	-0.3	0.2
5 Years	-1.9	-1.7

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

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

- ***Fixed Income Program***

For the period ending June 30, 2004, the **Fixed Income Program** out-performed the Lehman Aggregate over all time periods.

Time period	Total Program	Lehman Aggregate
Quarter	-2.0%	-2.4%
1 Year	1.5	0.3
3 Years	6.7	6.4
5 Years	7.3	6.9

The performance evaluation reports for the fixed income managers start on the **blue page A-91** of this Tab.

- ***International Equity Program***

For the period ending June 30, 2004, the **International Equity Program** and the **equity managers** (excluding the currency overlay) under-performed the composite index over the quarter and the year, matched the index over the three-year time period, and outperformed over the five-year time period.

Time Period	Total* Program	Int'l Equity Asset Class Target**
Quarter	-1.0	-0.9
1 Year	30.9	32.1
3 Year	4.5	4.5
5 Year	0.8	0.2

Equity*** Mgrs. Only
-1.0
30.9
4.5
0.8

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

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

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

The performance evaluation reports for the international equity managers start on the **blue page A-103** of this Tab.

2. **Update of the Fixed Income Program short list.**

The SBI has established a Manager Monitoring Program to identify a short list of potential candidates intended to serve as the starting point for any manager search deemed necessary in the future. These firms are monitored on an ongoing basis to ensure that the SBI is familiar with the best investment managers in the industry. Up to ten firms may be identified for each asset class. The firms currently identified for the Fixed Income Program manager short list are shown below:

Potential Active Fixed Income Managers

Barclay's Global Investors (BGI)
Delaware Investment Advisers
Evergreen Investments
Fidelity Management Trust Company
Galliard Capital Management, Inc.
Pacific Investment Management Company, LLC (PIMCO)
Smith-Breeden Associates, Inc.

Potential Semi-Passive Fixed Income Managers

Barclay's Global Investors (BGI)
Prudential Investment Management, Inc.
Smith-Breeden Associates, Inc.

Summary level information on these firms begins on **page 5**, and detailed manager reports being on **page 7.**

ACTION ITEMS:

1. **Review of Assigned Risk Plan asset allocation.**

The SBI invests the assets of the Workers' Compensation Assigned Risk Plan, which is a non-profit, tax-exempt entity administered by the Department of Commerce. The SBI maintains an asset allocation for the Plan and periodically updates that allocation based on liability estimates provided by the Plan actuary. The SBI believes that due to the uncertainty of premium and liability cash flows, the Plan should be invested very conservatively. The ***bond*** segment is invested to fund the shorter-term liabilities (less than 10 years) and the common stock segment is invested to fund the longer-term liabilities. This structure creates a high fixed income allocation, which minimizes the possibility of a future fund deficit. The smaller ***stock*** exposure provides higher expected returns and hedges some of the inflation risk associated with the liability stream. Based upon the estimated liability payments as provided in the attachment, staff and the Committee conclude that the current allocation of 20% equities and 80% bonds is appropriate, and request the SBI reaffirm the allocation.

RECOMMENDATION:

The Stock and Bond Manager Committee recommends that the SBI reaffirm the long-term asset allocation of the Workers' Compensation Assigned Risk Plan of 20% equities and 80% fixed income.

2. **Recommendation to renew investment manager contracts.**

The contracts of five (5) managers will expire in the next few quarters. Currently, the standing of each of these managers is satisfactory. Staff recommends renewal of each of these contracts for a five-year period with an immediate termination clause. All other terms and conditions of the contracts are expected to remain unchanged. The investment firms include the following:

RECOMMENDATION

The Committee recommends that the SBI authorize the Executive Director, with the assistance from SBI's legal counsel, to negotiate and execute five year contract extensions with the following firms, subject to inclusion of a provision which provides for immediate termination:

Developed Market International Equity Managers
- **American Express Asset Management**
- **Britannic Asset Management International**
- **Invesco Global Asset Management**

Fixed Income Managers
- **Deutsche Asset Management**
- **Dodge & Cox Inc.**

SUMMARY OF MANAGER PERFORMANCE
ANNUALIZED RETURNS FOR PERIODS ENDING MARCH 31, 2004

Firm	1 yr.	2 yr.	3 yr.	4 yr.	5 yr.	7 yr.	10 yr.	since inception	inception date
Active									
Barclay's	5.96%	9.04%	8.01%	9.23%	n/a	n/a	n/a	9.38%	1/31/2000
Lehman Aggregate	5.40%	8 50%	7.44%	8.69%	7.29%	7.83%	7.54%	8.85%	
	0.56%	0.54%	0.57%	0.54%	n/a	n/a	n/a	0.53%	
Delaware Investments	7 74%	9.93%	8.51%	9.73%	8.08%	8.40%	8.02%	7 82%	1/1/1993
Lehman Aggregate	5.40%	8.50%	7 44%	8.69%	7.29%	7.83%	7.54%	7.28%	
	2.34%	1 43%	1.07%	1.04%	0.79%	0.57%	0.48%	0.54%	
Evergreen Investments	5.93%	8.97%	7.87%	9.20%	7 76%	8 34%	8.13%	8.22%	1/1/1975
Lehman Aggregate	5 40%	8.50%	7.44%	8.69%	7.29%	7.83%	7.54%	7 93%	
	0.53%	0 47%	0 43%	0.51%	0 47%	0 51%	0.59%	0.29%	
Fidelity	6.50%	9.56%	8.35%	9 42%	7.95%	8.35%	7.80%	8 76%	6/30/1988
Lehman Aggregate	5.40%	8.50%	7.44%	8.69%	7 29%	7.83%	7 54%	8.32%	
	1.10%	1.06%	0.91%	0.73%	0.66%	0.52%	0.26%	0 44%	
Galliard	7 51%	9.88%	8 40%	9.55%	8.04%	8.40%	n/a	7.90%	10/1/1995
Lehman Aggregate	5 40%	8.50%	7.44%	8.69%	7.29%	7 83%	7.54%	7.31%	
	2 11%	1.38%	0.96%	0.86%	0 75%	0.57%	n/a	0.59%	
PIMCO	6.66%	9.44%	8.83%	9.93%	8.45%	9.05%	8.66%	9 62%	6/30/1983
Lehman Aggregate	5.40%	8.50%	7 44%	8.69%	7.29%	7.83%	7.54%	8.28%	
	1 26%	0.94%	1 39%	1.24%	1 16%	1.22%	1 12%	1.34%	
Smith-Breeden	6.42%	9 21%	8.19%	9.60%	7.88%	8.38%	n/a	8.58%	10/1/1994
Lehman Aggregate	5.40%	8.50%	7.44%	8.69%	7.29%	7.83%	7 54%	8.00%	
	1.02%	0.71%	0.75%	0.91%	0.59%	0.55%	n/a	0 58%	
Semi-passive									
Barclay's	5 96%	9 04%	8 01%	9.23%	n/a	n/a	n/a	9 38%	1/31/2000
Lehman Aggregate	5 40%	8.50%	7 44%	8.69%	7 29%	7.83%	7.54%	8.85%	
	0 56%	0.54%	0.57%	0.54%	n/a	n/a	n/a	0 53%	
Prudential	5 59%	8.84%	7 72%	8.98%	7 56%	8 07%	7.74%	8 65%	1/1/1989
Lehman Aggregate	5 40%	8.50%	7 44%	8.69%	7.29%	7.83%	7.54%	8.41%	
	0.19%	0.34%	0.28%	0.29%	0.27%	0.24%	0.20%	0.24%	
Smith-Breeden	6.42%	9.21%	8.19%	9.60%	7.88%	8.38%	n/a	8.58%	10/1/1994
Lehman Aggregate	5.40%	8.50%	7.44%	8.69%	7.29%	7.83%	7.54%	8.00%	
	1.02%	0.71%	0.75%	0.91%	0.59%	0.55%	n/a	0.58%	

POTENTIAL MANAGER SUMMARY
ACTIVE CORE AND SEMI-PASSIVE FIXED INCOME
AS OF MARCH 31, 2004

Manager	Assets Under Management ($MM)	Prospective Product	inception date	Assets in Product	Total Accounts in Product	Largest separate acct. ($MM)	Target Value Added Sources	duration range v. benchmark	Number of holdings	tracking error
/E CORE MANAGERS										
Barclay's	$1,147,425	Core Active Bond	1/31/2000	$2,709	14	$1,269	50% security selection, 30% sector selection, 20% duration,	+/- 0 5 year	150-175	50-75
ware Investments	$107,800	Core Fixed Income	1/1/1993	$8,200	55	$592	60% security selection 30% duration 10% sector selection	+/- 25 years	200-300	50-75
green Investments	$248,246	Core Fixed Income	1/1/1975	$12,821	103	$563	60% industry/sector selection, 20% security selection, 15% duration, 5% yield curve	+/-10%	110	30-50
Fidelity	$86,751	Investment Grade Fixed Income	6/30/1988	$5,052	68	$1,641	60% security selection, 30% sector selection, 10% yield curve	+/- 15 bp	over 300	40-60
Galliard	$15,767	Controlled Income	10/1/1995	$6,196	32	$587	60% security selection, 25% sector allocation, 15% yield curve/duration	+/- 10%	125-200	50-75
PIMCO	$394,658	Total Return Full Authority	6/30/1983	$174,892	386	$2,071	60% security selection, 30% duration, 10% sector selection	+/- 1 5 years	50-70	100
Smith-Breeden	$13,421	Investment Grade Core	10/1/1994	$2,067	7	$1,034	60% security selection, 30% duration, 10% sector selection	+/- 0 5 year	150-200	50-70

Manager	Assets Under Management ($MM)	Prospective Product	inception date	Assets in Product	Total Accounts in Product	Largest separate acct. ($MM)	Target Value Added Sources	duration range v. benchmark	Number of holdings	tracking error
-PASSIVE CORE MANAGERS										
Barclay's	$1,147,425	Core Active Bond	1/31/2000	$2,709	14	$1,269	50% security selection, 30% sector selection, 20% duration,	+/- 0 5 year	150-175	50-75
Prudential	$152,791	Enhanced Index	1/1/1989	$6,209	32	$1,231	45% security selection, 45% sector selection, 10% yield curve	+/- 0 1 year	250-350	15-20
Smith-Breeden	$13,421	Investment Grade Core	10/1/1994	$2,067	7	$1,034	60% security selection, 30% duration, 10% sector selection	+/- 0 5 year	150-200	50-70

FIXED INCOME MANAGER FACT SHEET

Manager: **Barclays Global Investors N.A. (BGI)**

Name of Product: **CoreActive Bond Fund**

Investment Style: **CoreActive Bond is an investment grade "Core" strategy.**

Investment Philosophy:

BGI's active fixed income investment philosophy is Total Performance Management, the conscious and structured balancing of risk, return and cost in the delivery of investment results to our clients. We systematically exploit market inefficiencies that are validated by our research, ensure that risk relative to benchmark is adequately compensated, and integrate transaction cost forecasts into the portfolio construction process. This philosophy is utilized across all BGI active strategies, and has served our clients well for over twenty years.

Investment Process:

Working within the Total Performance Management framework, BGI's active fixed income approach combines the best of traditional investment insights with the use of modern quantitative investment techniques. As a result, we are able to capture market anomalies through yield curve positioning, sector allocation and security selection in a manner that minimizes cognitive errors and unintended outcomes while simultaneously delivering the highest return possible per unit of risk.

The section below discusses the sources of CoreActive Bond's expected excess returns versus the Lehman Aggregate Index. Specifically, we expect to generate 20% of excess returns from yield curve positioning, 30% of excess returns from sector allocation, and 50% of excess returns from security selection.

<u>Duration/Yield Curve:</u>
BGI research has shown that value can be added by managing the level and slope of the yield curve. First, duration positioning allows the portfolio to benefit from parallel shifts up or down in yields. Second, yield curve management positions the portfolio to benefit from steepening or flattening in the yield curve. Combined, these two factors explain over 95% of Treasury curve movements.

Three broad sets of factors are utilized in predicting these curve movements: Relative Value, Economic Environment and Market Sentiment Indicators. Portfolio managers evaluate information extracted from these components, who appraise the model signals and ensure factors affecting the market that cannot be quantified are taken into account before implementation. Finally, the expected returns are optimized subject to risk and transaction costs; positions are implemented utilizing 2-Year Treasury and 10-Year Treasury futures contracts to ensure minimal transaction costs.

<u>Sector Allocation</u>
The CoreActive Bond Strategy seeks to take active positions among the major sectors of the investment grade universe, exploiting the differential returns to add value. Sector allocation is applied to all of the main sectors across the term structure, but the decisions and positions can be classified into four broad categories: the expected return of mortgage backed securities (MBS) and high-quality bonds relative to Treasuries, low-quality bonds versus high-quality bonds, and finally shorter-maturity corporate bonds versus longer-dated corporate bonds. To evaluate expected returns, three broad categories of economic and market factors are employed: Relative Value, Economic Environment and Market Sentiment.

The four broad sector decisions are applied to various micro-sectors in the investment grade universe, across the quality spectrum and across the yield curve. Final positions are arrived at using a proprietary optimizer that maximizes the quantitatively generated returns net of transaction costs at the desired level of risk.

Security Selection

BGI's two-step approach to credit selection gives our portfolio managers insights into approximately 740 issuers that make up the Lehman Credit Index, while allowing them to focus their efforts on issuers that will generate the highest risk adjusted returns. We utilize an advanced proprietary model to facilitate the evaluation of hundreds of issuers on a daily basis, seeking factors of bond returns that are under- or overvalued by the market.

The security selection process starts with a daily screening of the Lehman Credit Index to identify issuers with the greatest potential for delivering excess returns. This process objectively evaluates expected returns, based on insights that are divided into three main categories: Relative Value, Financial Statement Information and Market Sentiment. The final scores combine these three signal types.

The second step of our credit-selection process is conducted by BGI's team of portfolio managers and credit analysts, who perform layers of qualitative analysis on each buy- and sell-ranked credit. Their analysis encompasses quality of management, industry developments, recent news, covenant protection, and market liquidity.

Ownership:

BGI is a limited purpose national banking association, and is a majority-owned indirect subsidiary of Barclays Bank PLC. Barclays PLC, a publicly listed holding company based in London, England, owns our parent, Barclays Bank PLC.

In April 2000, shareholders of Barclays PLC approved the implementation of a BGI stock option plan that enables senior management to receive minority shareholder ownership of up to 20% of BGI UK Holdings Ltd. The Plan's intention is to foster an ownership culture, and to attract and retain talented people. This program directly ties long-term incentive pay to the financial growth and success of the firm.

Key information as of March 31, 2004:

Firm's total assets under management:	$1,147 billion
Assets under management in this product:	$2.7 billion
Number of Accounts in this product:	14
Largest Active Account:	$1.3 billion
Number of Portfolio Managers on this product:	20
Number of Analysts on this product:	18
Product inception date:	1/31/2000

FIXED INCOME MANAGER FACT SHEET

Manager: **Delaware Investment Advisers**

Name of Product: **Core Fixed Income**

Investment Style: **Active Core**

Investment Philosophy:

We believe that the fixed income markets are efficient with respect to interest-rate risk, but that bond markets regularly mis-price securities that are exposed to credit, prepayment, and liquidity risks. We further believe that focusing on security and sector selection within a duration-neutral portfolio is the most effective strategy to exploit these inefficiencies. Proprietary, bottom-up, fundamental research coupled with superior trading is the best technique to identify the relative value of the individual securities and market sectors. Utilizing this approach, we seek to construct client portfolios with attractive risk/reward characteristics relative to the benchmark and our peers.

Investment Process:

In our investment process, our portfolios are constructed bond-by-bond, and are essentially duration and term-structure neutral. After our fundamental research identifies a security as a "buy candidate", we review the objective of the security. Our portfolios are then constructed within four distinct segments:

- Stack Yield: Typically core holdings with longer term holding periods, these bonds offer a yield advantage. Position sizes are small to diversify risk. Target position sizes are 0.25% to 0.50%. Totals approximately 50%-70% of the portfolio.

- Best Ideas: Primarily expected ratings upgrade candidates and undervalued bonds, these securities represent what we believe to be the most attractive investment opportunities. Target position sizes are 0.50% to 1.50%. Totals approximately 10%-30% of the portfolio.

- Opportunistic: Bonds that are temporarily mis-priced in the market due to supply/demand imbalances, these securities have short-term holding periods, and are held in smaller position sizes. Totals 5%-10% of the portfolio.

- Treasuries Fill the Gaps: Government securities are used primarily to assist in matching the interest rate risk to the benchmark and to provide liquidity. These are generally underweight relative to the benchmark.

Risk Monitoring
Delaware defines risk at three levels. The three components of risk management are:

Broad Market – Interest rate, yield curve, credit and prepayment

Our investment process is primarily bottom-up, constructing the portfolios bond-by-bond. As such, our sector weightings are a result of our fundamental outlook. The portfolios are constructed duration and term structure neutral.

Duration Cells- Matrix sector versus duration measurement

Our portfolios will always be within +/-0.25 years effective duration of the relative benchmark. The focus of our process and the driver of our performance is in-depth fundamental research. As a result, we do not focus on yield curve management. We are duration and term structure neutral managers.

Expected Tracking Error – Quantifies benchmark relative risks

Over a three- to five-year time horizon, we aim to outperform the client's benchmark, typically the Lehman Brothers Aggregate, by 50-75 basis points per annum in our Core strategy. We strive to accomplish this alpha within a tracking error of 50 basis points in our Core strategy.

<u>Duration/Yield Curve</u>
We employ a technique of segregating the portfolios into a matrix of duration/sector buckets to manage and control interest rate and yield curve risks. We assess the effects of adding a security (and the offsetting security to be sold) to a particular sector/duration bucket. How the portfolio is structured versus the client's benchmark is a keen focus of this analysis.

As part of the portfolio construction process, Delaware stratifies the benchmark and the client's portfolios into duration "buckets" by sector. Specifically, Delaware analyzes portfolios in a matrix of duration ranges (i.e., 0-2 years, 2-4 years, 4-6 years, 6-8 years, 8-10 years, 10-12 years, and 12+ years) versus industry sectors (Treasuries, Agencies, Corporates, MBS, ABS, Other, etc.). Within each of the duration ranges, we seek to maintain total weightings similar to the benchmark, while we seek to add value through security and sector selection. This technique allows Delaware to exploit its security selection skills while managing the interest rate and yield curve risks of the portfolios relative to the benchmark.

<u>Sector Allocation</u>
Delaware emphasizes individual security selection to add value. A by-product of our security selection efforts is sector over/underweightings relative to the benchmark, which can also add value. Our sector ranges are generally within the following ranges relative to the benchmark:

	Minimum	**Maximum**
Government & Agencies	5%	50%
Mortgages	20%	60%
Asset-Backed	0%	25%
Corporates	10%	60%

<u>Security Selection</u>
To be eligible for purchase, securities must be available in a size large enough to be allocated across all or most of our portfolios in the strategy in a meaningful amount. Quality restrictions depend on client specific guidelines.

The selection discipline for identifying securities begins with Delaware's idea generation process. Ideas can be generated by any one of the over 60 investment professionals on staff, whether they work in Research, Trading or Portfolio Management. Delaware's traders are dedicated to specific sectors of the market and focus on supply/demand factors, historical value trends, new issue opportunities and dealer relationships to generate ideas. Research analysts discover new ideas through their company specific research, industry analysis, and overall credit trends. Portfolio Managers tend to generate ideas from broader perspectives on sector relative value, market risk factors and overall investment outlook. The culture of our fixed income team and the way they interact facilitates the swift capture of opportunity.

Every idea that is generated undergoes a review by our Research team, which incorporates quantitative, fundamental, and qualitative analysis. In-depth fundamental research is the cornerstone of our investment process. As such, we place great emphasis on the quality of our research efforts and employ significant human resources to the effort. Our analysts are responsible for providing in-depth research to build a comprehensive understanding of a particular security. Each of our research analysts is an expert in a manageable number of industries/sectors. The resources utilized and processes in place are described below and vary depending on whether we are analyzing Corporates or structured products (MBS, ABS, CMOs, etc.).

Within credit research, we seek to identify bonds that are undervalued by the marketplace, and therefore offer attractive yields and/or price appreciation potential. Research analysts focus largely on five major areas: industry factors, strength of management team, financial statements review, capital structure, and covenant structures.

Within structured products, we focus our research on identifying securities with mis-priced optionality to exploit undervalued convexity. Again, we employ significant human resources to execute our research. Research efforts are focused on security structure, security collateral and mortgage financing opportunities.

Ownership:

Delaware Investment Advisers (Delaware) is a wholly owned subsidiary of Lincoln National Corporation.

Senior management implemented a phantom equity program in 2001. Equity participation is awarded based on the increase in value of Delaware, and it is expected that employee ownership will be approximately 20% by 2005. The percentage of incentive compensation related to performance rises proportionally with the level of the employee. Those professionals not in the phantom equity program are eligible for restricted stock awards in Lincoln National Corporation stock.

Key information as of March 31, 2004:

Firm's total assets under management:	$107.8 billion
Assets under management in this product:	$8.2 billion*
Number of Accounts in this product:	55*
Largest Active Account:	$592 million

*includes Core and Core Plus accounts

Number of Portfolio Managers on this product:	3
Number of Analysts on this product:	18
Product inception date:	1/1/1993

FIXED INCOME MANAGER FACT SHEET

Manager: **Evergreen Investments**

Name of Product: **Tattersall Core Fixed Income**

Investment Style: **Enhanced Index**

Investment Philosophy:

We believe superior investment results are achieved over multi-year periods by following a conservative, risk-adverse, and quality-oriented style. A disciplined team approach utilizing duration/yield curve management, sector allocation and security selection provides opportunity for value-added performance and risk control.

Investment Process:

Tattersall Advisory Group (TAG) invests in domestic, investment-grade securities and all portfolios maintain a AA average minimum quality. The fixed income team utilizes a four-tool approach to investment management. The first two tools, a proprietary interest rate barometer and yield curve analysis, are used to identify interest rate trends and establish portfolio positions along the maturity spectrum. Duration within fixed income portfolios is limited to 90-110% of that of the benchmark.

The second two tools, sector valuation and unique opportunities, provide a means to identify and take advantage of market segments and specific issues that represent value. Sector specialists examine all investment-grade instruments searching for inefficiencies. The team emphasizes undervalued sectors and issues with strong risk/reward characteristics and avoids those where risk outweighs the reward. The use of unique opportunities enables the team to move beyond the traditional sectors and into less followed areas of the marketplace where inefficiencies provide opportunities to enhance returns without sacrificing credit quality.

This process, combined with Tattersall Advisory Group's risk controls, has enabled the Tattersall Advisory Group to provide consistently strong investment returns while minimizing risk.

<u>Duration/Yield Curve</u>
We use an interest rate "barometer" as a tool to identify general interest rate trends. The barometer integrates the analysis of seven economic and market indicators. Internal risk controls have been established to limit duration to a maximum range of 90% to 110% of the duration of the Lehman Aggregate Index, although duration typically falls within a range of 95% to 105%.

We use yield curve analysis to identify opportunities along the curve in positive, flat and inverted curve environments, employing three tools in this process. First, we assess Federal Reserve policy. Second, we evaluate historical relationships to determine relative value along the curve, and to predict the most probable shape the curve will take. Third, we use systems to evaluate duration-weighted yield spreads, unchanged horizon returns, roll analysis, spot rate curve analysis, implied future rate analysis and break-even analysis. These analytical processes help identify yield curve opportunities as well as measure the risk of each yield curve decision.

Sector Allocation
Our sector disciplines seek to identify and take advantage of opportunities representing value. Just as we use a discipline for anticipating the direction of interest rates and yield curve opportunities, we also use a systematic discipline in the valuation of sectors. We use five tools in this process:

- Historical yield spreads
- Credit analysis
- Market volatility assessment
- Call structure evaluation
- Supply/demand analysis

Security Selection
We use Treasuries to implement duration decisions as well as exploit yield curve opportunities. We also use them as temporary positions, when securities in another sector are sold for which there is currently no available opportunity deemed to be appropriate.

The mortgage screening process focuses primarily on government-guaranteed or sponsored securities. We use proprietary systems to evaluate the volatility of each security's average life, price history and relative value within the universe of mortgage securities. Credit quality, geographic location and other pertinent information on the underlying mortgage pools are also examined.

Our Corporate process consists of applying proprietary techniques to analyze historical yield relationships, evaluate credit risks, assess market volatility, evaluate call features and determine overall supply and demand. We base security selection on the use of historical spread relationships and sophisticated internal credit research to examine major trends and values within each industry. We take a fundamental approach to examine broad sector trends, industry trends and individual issuer trends by utilizing credit systems specific to the market's subsectors. We follow the 225 most liquid issuers in the Lehman Credit Index, which account for approximately 85% of the index's market value; this allows for efficient execution of investment and trading strategy.

Ownership:

Evergreen Investments is a wholly owned subsidiary and an asset management division of Wachovia Corporation. Tattersall Advisory Group is a wholly owned subsidiary of Wachovia Corporation that reports to Evergreen Investments.

Key information as of March 31, 2004:

Firm's total assets under management:	$248 billion
Assets under management in this product:	$12 8 billion
Number of Accounts in this product:	103
Largest Active Core account:	$563 million
Number of Portfolio Managers on this product:	7
Number of Analysts on this product:	11
Product inception date:	1/1 1975

FIXED INCOME MANAGER FACT SHEET

Manager: **Fidelity Management Trust Company (FMTC)**

Name of Product: **Investment Grade Fixed Income**

Investment Style: **Broad Market Duration**

Investment Philosophy:

Broad Market Duration portfolios are managed with an emphasis on broad-based research, which is used to leverage inefficiencies within fixed income markets. To do this, portfolio teams rely upon Fidelity's extensive team (40+) of research analysts to identify and capitalize on opportunities across multiple sectors. Indeed, the Broad Market Duration investment team's ability to consistently add value across most sectors of the fixed income markets, including corporates, MBS, ABS, CMBS and governments, is a prime factor in our approach and our success. Our process de-emphasizes broad-based economic and interest rate forecasting. As such, we seek to remain duration neutral relative to the benchmark index.

We believe our emphasis on a collaborative team environment has also been a large part of our success. While portfolio managers have ultimate decision-making authority in Broad Market Duration portfolios, day-to-day decision making takes place in a team context where information is shared amongst portfolio managers, analysts, and traders.

Our investment approach is characterized by:

- Commitment to diversification
- Exceptionally broad scale of investment research organization (40+ research analysts)
- Collaborative environment fostered by organizational structure
- Continuity of investment personnel
- Consistent investment approach
- Strict quantitative controls and risk management

Investment Process:

The Broad Market Duration investment process emphasizes security selection (60%), sector allocation (30%), and to a lesser extent, yield curve positioning (10%). We do not rely on active duration management within Broad Market Duration portfolios, but instead maintain duration within a very narrow band around that of the benchmark (+/- 0.15 year of the index.).
Following is more detail regarding the primary components of our process:

<u>Duration/Yield Curve</u>
On a daily basis, we model the portfolio's exposure along the yield curve and compare the output with the characteristics of the benchmark. We also maintain an internally generated model using principal components analysis that examines potential yield curve reshapings and their potential impact on portfolio returns. From this analysis, we pick securities that we find are undervalued, making sure that exposure is not too divergent from the benchmark.

<u>Sector Allocation</u>
The firm's approach to sector/industry diversification is to evaluate both the fundamental characteristics and the relative value of each sector to determine its appropriate weighting in the portfolio. We use a combination of fundamental and quantitative modeling. Our asset allocation model optimizes the sector allocation based on an expected alpha target, all while minimizing tracking

error. The model output forms the basis for team discussions and is combined with the fundamental sector analysis and bottom-up security selection evaluation outlined above. In general, we find that the best sector opportunities lie within the non-Treasury/Agency sectors like credit, mortgages, and asset-backed securities.

Security Selection

Issue selection within Broad Market Duration portfolios is driven by dedicated research groups organized by two primary tasks: credit assessment and quantitative analysis. However, all of Fidelity's investment-grade professionals, including portfolio managers, analysts and traders contribute to the issue selection process, and are located in a single, state-of-the-art trading room. This unique open floor plan facilitates optimal communication and provides for multiple inputs and unique perspectives from all aspects of the investment process. Final decisions are made by a lead portfolio manager but are driven by input from members of the team. Further, it is worth noting that investment-grade professionals have access to information and contacts generated by their colleagues within the larger Fidelity network, including 200+ high yield, equity and international analysts located worldwide.

Issue selection within Broad Market Duration portfolios incorporates a blend of judgments, including assessment of such factors as:

- quantitative portfolio characteristics
- fundamental characteristics of specific sectors and issuers
- appropriate pricing relationships between and within sectors
- structural changes taking place within the market
- supply and demand conditions
- liquidity conditions and overall market sentiment

Analysts rank issues high, medium, and low, forming a basis for broader discussions with portfolio managers and traders. Analysts discuss industry trends and traders offer real-time relative value metrics on common issuers. All issue selection decisions are made within set parameters for risk as measured through the quantitative modeling process. We purchase only investment-grade securities and generally overweight those debt issues where our research can add the most value: A and BBB.

Ownership:

FMTC is a wholly-owned subsidiary of FMR Corp., working very closely with Fidelity Management & Research Company (FMR Co.), the investment management division of Fidelity. FMR Corp. is fully owned by active employees (51%) and the founding Johnson family (49%). Fidelity's ownership has been consistent since its founding and no ownership changes are anticipated in the future. Private ownership has provided Fidelity with a stable platform to pursue long-term business goals.

Key information as of March 31, 2004:

Firm's total assets under management:	$86.8 billion
Assets under management in this product:	$ 5.1 billion
Number of Accounts in this product:	68
Largest Active Account:	$ 1.6 billion
Number of Portfolio Managers on this product:	3
Number of Analysts on this product:	45*
Product inception date:	6/30/1988

*In addition, the product is further supported by the larger Fidelity global research organization including 200+ high yield, equity and international analysts located worldwide.

FIXED INCOME MANAGER FACT SHEET

Manager: **Galliard Capital Management, Inc.**

Name of Product: **Controlled Income**

Investment Style: **Active Core**

Investment Philosophy:

At Galliard, we believe the appropriate role of fixed income investments is to control risk and deliver competitive total returns over a longer time horizon. As such, we actively manage fixed income portfolios within a structured risk management framework to assure portfolio risk characteristics and tracking error never deviate substantially from the selected benchmark. We add value primarily through sector emphasis and individual security selection utilizing a fundamental valuation process. Providing an above average yield is a major focus and a significant source of excess return. Positioning based on interest rate movements is minimized because it introduces unacceptable risk to achieving long-term portfolio objectives. Our goal is to deliver consistent, value added returns which we believe will result in superior longer term returns on both an absolute and risk adjusted basis.

Investment Process:

Our investment process begins with a thorough understanding of our client's unique investment objectives and needs. Portfolios are then tailored to achieve those objectives within specified guidelines utilizing a consistent investment approach. Portfolios are typically managed against an appropriate fixed income index or benchmark reflecting the client's time horizon and risk profile. Portfolios may also be constructed to fund a future obligation or liability stream as in the case of an insurance or other financial institution portfolio.

<u>Duration/Yield Curve</u>
Portfolios are primarily constructed using a fundamental/relative value process so overall portfolio durations are maintained within a fairly tight band around the benchmark duration (+/- 10%). Duration is generally shaded longer than the benchmark although we will position duration more defensively in highly uncertain interest rate environments like the present. Maturities are spread out over a period of years rather than concentrated or "barbelled" and we pay particular attention to security duration segments in the portfolio versus the benchmark.

<u>Sector Allocation</u>
Sector positioning is based on a combination of top down and bottom up factors. Portfolios are well diversified among non-US Treasury sectors including agency, corporate bonds, mortgage-backed and asset-backed securities. Within established strategic ranges, sector emphasis will be refined based on the macroeconomic environment, including business cycle and interest rate cycle influences. Various sub- sectors and/or industries are reviewed based on these same macro environmental factors, relative value measurements and supply/demand considerations to determine current strategy emphasis. Large concentrations in bonds with embedded option risk (i.e., mortgage pass through's) are typically underweighted in favor of more structured cash flows and non-callable issues. Positioning is also dependent on relative values of individual securities within sectors and other bottom-up factors.

Security Selection
Individual security selection utilizes a fundamental relative value analysis that calculates the "true economic value" of securities using the following steps:

1. Value cash flows from the term structure of interest rates
2. Value embedded options/prepayment risk (if applicable)
3. Value credit and/or structure risk component(s) (if applicable)
4. Value other factors which could adversely impact the security's liquidity or impede its efficient trading and pricing

Credit worthy securities with the highest expected returns are selected subject to supply and issuer diversification parameters.

Ownership:

Galliard is a wholly owned subsidiary of Wells Fargo & Company, one of the nation's premier financial services companies. The Managing Partners have an agreement with Wells Fargo to split Galliard's revenues. Consequently, they retain a significant stake in the long-term success of the firm and are bound contractually to it.

Key information as of March 31, 2004:

Firm's total assets under management:	$15.8 billion
Assets under management in this product:	$ 6.2 billion
Number of Accounts in this product:	32
Largest Account:	$587 million
Number of Portfolio Managers on this product:	5
Number of Analysts on this product:	5
Product inception date:	10/1/1995

FIXED INCOME MANAGER FACT SHEET

Manager: **Pacific Investment Management Company, LLC (PIMCO)**

Name of Product: **Total Return product**

Investment Style: **Core Plus Fixed Income**

Investment Philosophy:

Our Total Return philosophy is founded on the principle of diversification. We believe that no single strategy should dominate returns. By relying on multiple sources of value that arise from a diversified portfolio, we are able to generate a solid, consistent track record. Our investment process utilizes both "top-down" and "bottom-up" strategies. Top-down strategies focus on duration, yield curve positioning, volatility, and sector rotation. These strategies are deployed from a macro view of the portfolio driven by our secular outlook of the forces likely to influence the economy and financial markets over the next three to five years and our cyclical views of two- to four-quarter trends. Implementation in portfolios is effected by selecting securities that achieve the designated objectives. Bottom-up strategies drive our security selection process and facilitate the identification and analysis of undervalued securities. Here, we employ advanced proprietary analytics and expertise in all major fixed income sectors. By combining perspectives from both the portfolio and security levels, we have consistently added value over time within acceptable levels of portfolio risk.

Investment Process:

Our investment process starts with an annual Secular Forum at which PIMCO investment professionals from around the globe gather with industry experts for a 3-day discussion about the future of the global economy and financial markets. The goal of this Forum is to look beyond the current business cycle and determine how secular forces will play out over the next 3 to 5 years. Quarterly, we hold Economic Forums to evaluate growth and inflation over the next 6 to 9 months.

Following our Secular and Economic Forums, the PIMCO Investment Committee (IC), comprised of ten portfolio managers, develops key portfolio strategies. They consider both the "top-down" conclusions emanating from our Forum, as well as the "bottom-up" market intelligence provided by our teams of sector specialist portfolio managers. Through an iterative series of meetings, the IC defines a set of consistent strategies that are then implemented across our account base.

<u>Duration/Yield Curve</u>
In setting our duration target and constructing our portfolios, we focus on longer-term (three- to five-year) trends because we believe such secular considerations as demographics, political factors, and structural changes in the domestic and international economies exert powerful, sustained influences on interest rates. A secular outlook updated annually determines a general maturity/duration range for the portfolio in relation to the market. Shorter-term, cyclical economic considerations determine shifts within this range. Our duration will always be maintained in a moderate range (within 1.5 years, plus or minus, of the market as a whole) to ensure consistent opportunities for achieving above-market returns while limiting client exposure to sudden swings in the market.

PIMCO utilizes all parts of the yield curve, from 0 to over 30 years. The maturity structure of PIMCO's portfolios is actively managed to take advantage of our forecast for the changing shape of the yield curve.

The determination of the likely change in yield curve shape focuses our search for bonds either in the intermediate range of maturities (bullet strategy) or for a combination of short and long maturity bonds (barbell strategy). Once the yield curve strategy is set, bond sector analysis and relative valuations between all sectors is performed. Macroeconomic forecasts, structural segmentation effects, and historical spread comparisons are key inputs to this process. Individual bonds within the stressed sectors are reviewed for inclusion in the portfolios based on their anticipated performance, given PIMCO's interest rate and volatility forecast, and their credit worthiness, liquidity, and favorable execution.

Sector Allocation

Sector concentration targets are established by PIMCO's portfolio management group based on consideration of: volatility/convexity analysis, assessment of current and historical spread relationships, and forecast for the future economic climate as it impacts various sectors. Without violating prudent diversification standards, PIMCO is prepared to over- or under-weight sectors in order to add value.

	Over a Market Cycle	
	Maximum	Minimum
Govt. Treasury/Agency	70%	10%
Corporates	50%	5%
Mortgage Pass-Thrus	70%	15%
Non-Dollar (currency hedged)	30%	0%
High Yield	15%	0%
Emerging Markets	10%	0%
Convertibles	5%	0%
Cash Equivalents	30%	0%

Security Selection

Security selection is critical. Individual bonds that meet PIMCO's target structural or macro strategies (duration, convexity, sector concentration, yield curve exposure and credit risk) are considered for inclusion in portfolios based on their anticipated performance, given PIMCO's interest rate and volatility forecasts, their credit worthiness and liquidity. In-house research drives security selection. PIMCO has developed an extensive library of proprietary analytical tools for quantifying value in complex sectors and securities. PIMCO conducts rigorous in-house credit analysis on all corporate and non-agency mortgage holdings.

Ownership:

PIMCO is a Limited Liability Company that is a wholly owned subsidiary of Allianz Dresdner Asset Management of America L.P. In turn, as of April 1, 2004, Allianz Dresdner Asset Management is 93 percent owned by Allianz AG, with Pacific Life Insurance Company owning the remaining 7 percent.

Key information as of March 31, 2004:

Firm's total assets under management:	$394.7 billion
Assets under management in this product:	$174.9 billion
Number of Accounts in this product:	386
Largest Active Core account:	$2 1 billion
Number of Portfolio Managers on this product:	50
Number of Analysts on this product:	37
Product Inception Date:	6/30/1983

FIXED INCOME MANAGER FACT SHEET

Manager: **Smith Breeden Associates, Inc.**

Name of Product: **Investment Grade Core**

Investment Style: **Active Core**

Investment Philosophy:

Smith Breeden Associates, Inc. ("Smith Breeden") developed an investment philosophy that combines a disciplined, quantitative approach to understanding fixed income markets with 22 years of real market experience. The key tenets of this market-tested investment philosophy are:

I. A portfolio of fixed income securities with wide risk-adjusted spreads matched to the duration of the market produces a total return superior to the market return.

II. The incremental return available from security selection, based on careful relative-value analysis and proprietary research, is significantly greater and more consistent than the incremental return from predicting the direction of interest rates or other macro-economic factors.

III. Within core mandates, the spread sectors, i.e. corporate bonds, mortgage-backed securities ("MBS"), commercial MBS ("CMBS"), and asset-backed securities ("ABS"), offer consistently superior risk-adjusted returns to Treasury securities. The mortgage and corporate sectors also offer the greatest active management opportunity for adding value through security selection.

Investment Process:

The Smith Breeden investment approach combines the power of research with many years of market experience to produce portfolios that match and exceed client expectations. The overall process can be broken down into "top-down" and "bottom-up" strategies.

The firm's senior strategists establish "top-down" strategies for all client portfolios. This approach begins with research professionals providing input on current economic conditions and trends. Each specializing in a particular sector, these professionals report on technical conditions and also recommend security sectors for purchase or sale. Research supporting this decision-making includes a portfolio optimization model that examines sector risk and return and expected information ratios for alternative asset allocations.

After reviewing the model output and sector analysis, the Investment Management Group ("IMG") develops model portfolios for the firm's investment strategies. These model portfolios balance the various risk exposures, or factors, in the current market environment. As co-chairs of the IMG, Mr. Dektar and Dr. Kon oversee the IMG's activities and are responsible for final decisions regarding the model portfolios.

Smith Breeden's investment strategy also emphasizes "bottom-up" security selection. The firm's primary measure of a fixed income security's relative value is risk-adjusted spread to LIBOR. Smith Breeden portfolio managers select securities offering attractive risk-adjusted spreads and then carefully manage the interest rate risk relative to the client's benchmark.

The bottom-up security selection process is bolstered by several proprietary models, most notably our mortgage OAS model and corporate bond COAS model, developed and maintained by our firm's research team:

1. Mortgage valuation techniques that compute the risk-adjusted yield advantage ("Option-Adjusted Spread" or "OAS") of individual MBS over comparable Treasury securities Smith Breeden's OAS models integrate the firm's proprietary prepayment and interest rate process models.

2. Corporate bond valuation techniques that compute the risk-adjusted yield advantage in credit sensitive securities such as corporate bonds ("Credit Option Adjusted Spread" or "COAS"). Smith Breeden has pioneered this innovative approach that links equity market information for an issuer to the analysis of corporate bond yield spreads.

Smith Breeden recognizes that the quantitative research output is merely an investment tool, and our investment professionals carefully assess a variety of additional factors before investing. These factors include the supply and demand dynamics of a particular investment, credit risk, and liquidity risk.

Risk budgeting is a very important consideration in Smith Breeden's investment process. Few firms have the ability to examine portfolio factor risks with the precision made possible by Smith Breeden's analytic systems. Smith Breeden's risk management system is composed of two proprietary elements that work together to reinforce the portfolio design process: the Multi-Dimensional Risk Analysis ("MDRA") which estimates the portfolios exposure to key risk variables, and an Independent Attribution System ("IAS"), which double-checks actual risk exposures of the portfolio against the MDRA's estimates.

Smith Breeden works diligently with clients to understand their risk/return objectives. For clients that desire a higher or lower tracking error, we can accommodate such needs, using our extensive risk management tools in the portfolio construction process.

Duration/Yield Curve
Smith Breeden will minimize the duration risk of the portfolio relative to the Lehman Brothers Aggregate Index (or other client-designated core benchmark), and the effective duration of the portfolio will be maintained within a range defined as the index effective duration plus or minus 0.5 years with a target deviation of zero. On occasion, Smith Breeden will take modest yield curve positions. For example, when Smith Breeden's research indicates that there is a liquidity premium at the short end of the yield curve, our top-down strategy may include positions to take advantage of this liquidity premium.

Sector Allocation
The Investment Management Group ("IMG") establishes "top-down" strategies for all client portfolios. This approach begins with research professionals providing input on current economic conditions and trends. Each specializing in a particular sector, these professionals report on technical conditions and also recommend security sectors for purchase or sale. The firm has assigned responsibility for important strategic decisions to the following senior strategists:

Macro-economy:	Eugene Flood, Jr., Ph.D. and Campbell R. Harvey, Ph.D.
Yield curve:	Daniel C. Dektar
Asset Allocation:	Stanley J. Kon, Ph.D., and Timothy D. Rowe
Credit:	John B. Sprow
Collateral:	Daniel R. Adler

These strategists formulate the top-down portfolio strategy, and research supporting their decision-making includes a portfolio optimization model that examines sector risk and return and expected information ratios for alternative asset allocations. For each of the firm's investment strategies, the IMG develops a model portfolio, which balances the various risk exposures, or factors, in the current market environment. Smith Breeden model portfolios are presented in two ways. First, a sample portfolio is presented with allocations across the major asset classes including Treasury, agency, mortgage, corporate, ABS, and CMBS. Second, and perhaps more important, this sector allocation is also communicated as "factor" risk exposures. This factor-based asset allocation shows recommended exposures to major determinants of performance, such as duration, convexity, slope, spread duration, volatility, and mortgage prepayments. The factor-based framework is essential for measuring and managing the risk of securities that do not fit neatly into simple asset class allocations. A typical security breakdown of a core portfolio follows:

U.S. Government Securities: (0-30% of portfolio)
US Treasury Securities
GNMA MBS: Fixed and Adjustable Rate MBS
High Credit Quality Securities: (20-70% of portfolio)
Agency MBS: Fixed and Adjustable Rate MBS
Agency Debentures
CMO Bonds
Credit Sensitive Securities: (10-60% of portfolio)
Investment Grade Corporate Bonds (rated BBB or better)
Commercial Mortgage Backed Securities (rated BBB or better)
Asset-Backed Securities (rated BBB or better)
Private MBS Pass-through Securities (rated A or better)
Money Market Instruments

Security Selection
Smith Breeden's research group produces a daily report, the Daily Market Analysis ("DMA"), which provides a proprietary resource for our portfolio managers in the selection of individual securities. The DMA is a detailed relative value analysis of the most actively traded fixed income securities based on closing levels from the previous day. This analysis highlights the market sectors offering the most attractive returns based on the firm's research and proprietary models. During the trading day, the portfolio managers access Smith Breeden's pricing models for detailed analyses based on current market prices of individual investment opportunities. The primary determinant of relative value is the option-adjusted spread to Treasury or LIBOR. The portfolio manager selects securities offering attractive risk-adjusted yield spreads and builds a portfolio matching the model portfolio allocations.

Ownership: Smith Breeden is an independently owned corporation, whose senior professionals and directors own 95% of the firm's equity. The remaining 5% is owned by former employees.

Key information as of March 31, 2004:

Firm's total assets under management:	\$13.4 billion
Assets under management in this product:	\$ 2.1 billion
Number of Accounts in this product:	7
Largest Active Core Account:	\$ 1.0 billion
Number of Portfolio Managers on this product*:	13
Number of Analysts on this product:	11
Product inception date:	10/1/1994

*Smith Breeden manages investment grade fixed-income portfolios exclusively, and the entire professional staff contributes to the investment process that underlies the Investment Grade Core strategy.

FIXED INCOME MANAGER FACT SHEET

Manager: **Prudential Investment Management, Inc. (PIM)**

Name of Product: **Fixed Income Enhanced Index**

Investment Style: **Enhanced Index**

Investment Philosophy:

Prudential Fixed Income's investment philosophy for Enhanced Index portfolios is to construct highly diversified, benchmark-focused portfolios and implement risk exposures in areas where we have demonstrable expertise, such as research-based subsector and security selection, all within a risk-managed framework.

The Strategy takes a **duration and sector-neutral** approach while emphasizing **active subsector and security selection** across US Government, mortgage, CMBS, investment grade corporate, and asset-backed securities.

Investment Process:

Enhanced Index portfolios target 15-20 bps excess return over a broad market index, with similar tracking error. We implement a four-step investment process in seeking to achieve these objectives:

Step 1: Develop benchmark-focused portfolio strategy

Our approach is highly benchmark-oriented. In the US Government sector, our approach is to replicate the index with the most attractively valued securities. In mortgage sector, we use quantitative models to identify the combination of securities within the Index that optimize expected return. In the corporate sector, we use fundamental credit research to identify a small subset of subsectors and individual securities that offer value.

Step 2: Constrain sector, quality, duration, and yield curve deviations to minimize benchmark risk.

Our benchmark-focused approach in this Strategy means we seek to minimize tracking error of returns vs. benchmark to an annualized 15-20 bps. To do so, we tightly constrain sector, duration, and quality risk to benchmark, with only moderate yield curve exposure permitted. This provides index-like risk while permitting us to add excess return in select areas.

Step 3: Implement portfolio strategy through subsector and security selection

We then look to add alpha through subsector and security selection. All security selection is research-based:

- In the US Government market, a proprietary Gaussian 2+ Arbitrage-Free pricing construct is used to fit a benchmark yield curve, with those prices then matched against actual market prices to identify undervalued securities.

- In the mortgage and CMBS markets, proprietary option-adjusted spread analysis and implied prepayment models are used to assign daily "fitted prices" to every issue in the market. We compare these model-calculated prices to actual market prices to identify rich/undervalued securities.

- In the corporate bond and asset-backed securities markets, we use fundamental credit research to identify attractive securities. Our 11 investment grade analysts use a highly competitive research tool, a proprietary Corporate Bond Relative Value Matrix. The team of analyst/portfolio manager covering an industry evaluate all issuers in that industry on six criteria: creditworthiness, liquidity, relative value, six and 12-month spread volatility, equity volatility, and equity market performance. They assign a score from 5-1 to each criteria. The six scores are combined to derive a weighted average score, used to rank each issuer in an industry relative to all others. Currently, this Matrix ranks 375 issuers across 25 industry/subsectors. Portfolio managers/analysts make joint recommendations on each issuer.

Step 4: Monitor portfolio vs. benchmark

We measure two types of risk daily: 1) Systematic risk, measured by computing the Portfolio's tracking error versus benchmark from factors such as changes in interest rates, yield curve slope, and spread sector movements. 2) Residual risk, measured by analyzing portfolio exposures not measured by systematic risk calculations, such as industry and issuer exposure. Industry and security weightings are "stress tested" to assess their potential effect on portfolio performance. Portfolio risk exposures are reviewed daily by a separate risk management team. Risk issues are discussed with the portfolio managers and, when appropriate, raised to the Senior Investment Officer.

<u>Duration/Yield Curve:</u>
Our approach to duration management does not actively assume interest rate risk. We employ a duration-neutral approach.

Yield curve management is a minor contributor to excess return, expected to provide approximately 10% of our alpha. Yield curve views emphasize sectors of the curve that provide the best roll down.

<u>Sector Allocation</u>
Sector allocations (i.e , among US Government, mortgages, and corporate securities) are tightly constrained to benchmark and are not intended to contribute to excess return. Sector deviations result from decisions at the subsector and security selection levels.

Subsector ("industry") rotation is actively performed within the mortgage and corporate sectors. Mortgage subsector rotation is a quantitative process that uses proprietary desktop analytics and regression modeling to add incremental return by consistently capturing small price discrepancies. Corporate subsector/industry rotation is based on credit research and relative-value analysis employing our proprietary Corporate Bond Relative Value Matrix across 40 different corporate subsectors/industries

<u>Security Selection</u>
All security selection is research based. In the extremely liquid US Government market, security selection is done by using quantitative models to replicate the market using only the most attractively valued securities. In the mortgage sector, security selection is done by identifying a basket of issues that optimize expected return while replicating the overall characteristics of the market. In the corporate market, each issuer is ranked in our Corporate Bond Relative Value Matrix on six different criteria: creditworthiness, liquidity, relative value, six and 12-month spread volatility, equity volatility, and equity market performance. The portfolio manager/credit analyst teams then makes an "underweight", "neutral", or "overweight" recommendation for each issuer, including total issuer exposure and issue selection.

Ownership:

PIM is a wholly owned subsidiary of Prudential Asset Management Holding Company, which in turn is a subsidiary of Prudential Financial, Inc. As a public company, Prudential Financial is owned by its shareholders. Prudential Fixed Income is the primary public fixed income asset management unit of PIM and is responsible for the Strategy discussed in this proposal.

Key information as of March 31, 2004:

Firm's total assets under management:	$153 billion
Assets under management in this product:	$ 6.2 billion
Number of Accounts in this product:	32
Largest Active Account:	$ 1.2 billion
Number of Portfolio Managers on this product:	1 Senior Portfolio Mgr. 13 Sector Portfolio Managers
Number of Analysts on this product:	22
Product inception date:	1/1/1989

STATE BOARD OF INVESTMENT

Domestic Equity Manager Evaluation Reports

Second Quarter, 2004

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COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending June, 2004
Versus Manager Benchmarks (1)

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception (2) Actual %	Since Inception (2) Bmk %	Market Value (in millions)	Pool %
ACTIVE MANAGERS												
Large Cap Core (R1000)												
Franklin Portfolio	0 2	1 4	21 1	20 6	-2 2	2 7	0 9	1 9	11 9	11 9	$663 3	3 5%
New Amsterdam Partners	0 3	1 4	24 5	23 0	2 4	3 5	6 8	6 1	14 4	14 1	$396 1	2 1%
UBS Global	2 1	1 4	19 2	19 6	4 8	1 0	0 9	0 2	11 1	10 8	$726 8	3 8%
Voyageur-Chicago Equity	1 7	1 4	18 3	19 5	-1 2	0 6			-3 1	-3 7	$44 7	0 2%
Aggregate	1 0	1 4										
Large Cap Growth (R1000 Growth)												
Alliance Capital	1 1	1 9	11 9	17 3	-4 6	-2 4	-4 2	-3 4	15 1	11 4	$967 4	5 1%
Cohen, Klingenstein & Marks	-2 4	1 9	15 1	19 1	-8 9	1 3	-6 8	-0 5	10 0	11 8	$589 7	3 1%
Holt-Smith & Yates	2 0	1 9	14 3	19 6	-3 2	3 0			-4 5	2 8	$42 1	0 2%
Zevenbergen Capital	4 4	1 9	26 7	19 0	-3 9	-1 0	-8 3	1 9	10 6	13 4	$135 3	0 7%
Aggregate	0 2	1 9										
Large Cap Value (R1000 Value)												
Barrow, Hanley	2 7	0 9							2 7	0 9	$253 2	1 3%
Bay Isle Financial	1 6	0 9	18 0	22 1	-2 5	3 2			-1 3	3 7	$47 4	0 2%
Earnest Partners	1 7	0 9	23 9	25 1	3 0	10 4			1 7	13 4	$53 9	0 3%
Lord Abbett & Co	1 7	0 9							1 7	0 9	$250 8	1 3%
LSV Asset Mgmt	2 0	0 9							2 0	0 9	$255 7	1 3%
Oppenheimer	1 9	0 9	21 0	20 8	1 7	0 1	3 4	2 1	13 4	12 2	$711 3	3 7%
Systematic Financial Mgmt	1 2	0 9							1 2	0 9	$149 4	0 8%
Aggregate	1 9	0 9										
Small Cap Growth (R2000 Growth)												
McKinley Capital	-3 1	0 1							4 0	5 7	$176 8	0 9%
Next Century Growth	2 5	0 1	29 0	30 5	-4 1	2 6			-11 0	-3 6	$31 7	0 2%
Turner Investment Partners	1 1	0 1							4 6	5 7	$133 0	0 7%
Winslow-Small Cap	1 4	0 1	23 2	31 5	-2 4	3 5			-2 7	-0 1	$132 3	0 7%
Aggregate	-0 7	0 1										
Small Cap Value (R2000 Value)												
AEAM/Kenwood	1 3	0 8							10 6	7 8	$46 3	0 2%
Goldman Sachs	1 1	0 8							5 2	7 8	$98 4	0 5%
Hotchkis & Wiley	-0 5	0 8							11 0	7 8	$103 8	0 5%
Martingale Asset Mgmt	2 0	0 8							12 3	7 8	$105 1	0 5%
Peregrine Capital Mgmt	1 5	0 8	35 2	35 6	11 9	14 1			18 3	20 2	$152 8	0 8%
Aggregate	1 1	0 8										
Active Mgr. Aggregate	0 9	1 3										

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending June, 2004
Versus Manager Benchmarks (1)

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception (2) Actual %	Since Inception (2) Bmk %	Market Value (in millions)	Pool %
SEMI-PASSIVE MANAGERS												
Barclays Global Investors	1 2	1 4	20 2	19 5	1 8	1 1	-1 7	-3 2	11 4	10 6	$2,487 8	13 0%
Franklin Portfolio	1 3	1 4	19 1	19 5	0 4	1 1	-3 3	-3 2	10 2	10 6	$1,792 6	9 4%
JP Morgan	1 3	1 4	19 5	19 5	0 0	1 1	-3 3	-3 2	10 7	10 6	$2,112 9	11 0%
Semi-Passive Aggregate (R1000)	1 3	1 4	19 7	19 5	0 9	1 1	-2 7	-3 2	10 8	10 6		
PASSIVE MANAGER (R3000)												
Barclays Global Investors	1 4	1 3	20 5	20 6	0 0	0 2	-1 4	-1 5	10 0	9 8	$6,463 9	33 8%
									Since 1/1/84			
Historical Aggregate (3)	**1.2**	**1.3**	**20.3**	**20.5**	**-0.3**	**0.9**	**-1.9**	**-1.2**	**11.7**	**12.0**	$19,124 5	100 0% *
SBI DE Asset Class Target (4)		1 3		20 6		0 2		-1 7		11 9		
Russell 3000		1 3		20 5		0 2		-1 1		12 4		
Wilshire 5000		1 3		21 2		0 8		-1 0		12 3		
Russell 1000		1 4		19 5		-0 3		-1 6		12 7		
Russell 2000		0 5		33 4		6 2		6 6		10 3		

(1) Active and emerging manager benchmarks are Russell Style Indexes beginning 10/1/03, and were custom benchmarks prior to 10/1/03

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

(3) Includes the performance of terminated managers

(4) The Domestic Equity Asset Class Target is the Russell 3000 effective 10/1/03 From 7/1/99 to 9/30/03, it was the Wilshire 5000 Investable Index From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments Prior to 11/1/93, the Wilshire 5000 was adjusted to reflect SBI mandated restrictions, which included liquor and tobacco, American Home Products and South Africa

* Includes the performance and market value of U S Bancorp, who was terminated in June 2004

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Calendar Year Returns Versus
Manager Benchmarks (1)

	YTD 6/30/04		2003		2002		2001		2000		1999	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
ACTIVE MANAGERS												
Large Cap Core (R1000)												
Franklin Portfolio	2 6	3 3	32 9	36 9	-25 4	-19 8	-6 6	-5 4	-1 6	0 3	26 2	16 3
New Amsterdam Partners	3 5	3 3	34 2	37 1	-17 5	-22 2	-3 3	3 7	15 0	3 1	15 0	32 1
UBS Global	3 3	3 3	30 7	30 8	-14 7	-20 6	5 2	-11 0	3 6	-1 0	-8 5	21 6
Voyageur-Chicago Equity	5 2	3 3	23 2	28 9	-20 6	-20 7	-19 4	-12 0				
Aggregate	3 1	3 3										
Large Cap Growth (R1000 Growth)												
Alliance Capital	1 0	2 7	22 4	26 3	-26 8	-24 0	-13 7	-15 3	13 7	-11 4	38 0	30 3
Cohen, Klingenstein & Marks	-0 2	2 7	41 2	39 3	-35 0	-23 8	-25 0	-11 2	-6 0	-12 1	24 8	28 6
Holt-Smith & Yates	3 2	2 7	22 1	31 3	-28 0	-19 0	-1 7	4 6				
Zevenbergen Capital	7 0	2 7	49 3	31 3	-36 2	-24 2	-29 0	-3 2	38 2	-16 6	94 3	56 6
Aggregate	1 1	2 7										
Large Cap Value (R1000 Value)												
Barrow, Hanley*	2 7	0 9										
Bay Isle Financial	3 8	3 9	23 3	32 1	-26 1	-17 2	-1 6	-5 9				
Earnest Partners	6 0	3 9	32 0	41 8	-18 1	-11 6	-0 4	11 5				
Lord Abbett & Co *	1 7	0 9										
LSV Asset Mgmt *	2 0	0 9										
Oppenheimer	3 5	3 9	28 9	31 4	-15 5	-20 7	-7 0	-9 5	11 2	10 3	10 7	14 9
Systematic Financial Mgmt *	1 2	0 9										
Aggregate	4 1	3 9										
Small Cap Growth (R2000 Growth)												
McKinley Capital	4 0	5 7										
Next Century Growth	2 6	5 7	50 7	48 5	-33 3	-27 8	-22 8	-5 5				
Turner Investment Partners	4 6	5 7										
Winslow-Small Cap	3 5	5 7	37 6	51 3	-25 0	-26 7	-6 1	4 6				
Aggregate	3 0	5 7										
Small Cap Value (R2000 Value)												
AEAM/Kenwood	10 6	7 8										
Goldman Sachs	5 2	7 8										
Hotchkis & Wiley	11 0	7 8										
Martingale Asset Mgmt	12 3	7 8										
Peregrine Capital Mgmt	6 5	7 8	44 2	44 2	-8 1	-6 9	12 6	22 9				
Aggregate	8 6	7 8										
Active Mgr. Aggregate	3 2	3 8										

* YTD begins 4/04 when manager was funded

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Calendar Year Returns Versus
Manager Benchmarks (1)

	YTD 6/30/04		2003		2002		2001		2000		1999	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
SEMI-PASSIVE MANAGERS												
Barclays Global Investors	3 7	3 3	30 0	28 5	-19 1	-19 7	-7 8	-9 7	-13 8	-16 3	14 1	16 3
Franklin Portfolio	3 7	3 3	26.9	28 5	-20 2	-19 7	-9 0	-9 7	-15 9	-16 3	12 9	16 3
JP Morgan	3 7	3 3	28 9	28 5	-21 8	-19 7	-8 7	-9 7	-13 6	-16 3	14 0	16 3
Semi-Passive Aggregate (R1000)	3 7	3 3	28 8	28 5	-20 3	-19 7	-8 5	-9 7	-14 4	-16 3	13 7	16 3
PASSIVE MANAGER (R3000)												
Barclays Global Investors	3 6	3 6	30 9	31 2	-21 4	-21 5	-11 8	-11 7	-9 8	-11 0	23 3	23 6
Historical Aggregate (2)	**3.6**	**3.6**	**31.0**	**31.4**	**-22.4**	**-21.1**	**-11.1**	**-9.9**	**-11.0**	**-10.7**	**21.0**	**21.3** *
SBI DE Asset Class Target (3)		3 6		31 2		-21 5		-11 7		-10 8		22 2
Russell 3000		3 6		31 1		-21 5		-11 5		-7 5		20 9
Wilshire 5000		3 9		31 6		-20 9		-11 0		-10 9		23 6
Russell 1000		3 3		29 9		-21 7		-12 5		-7 8		20 9
Russell 2000		6 8		47 3		-20 5		2 5		-3 0		21 3

(1) Active and Emerging Manager benchmarks are Russell Style Indexes beginning 10/1/03, and were custom benchmarks prior to 10/1/03
(2) Includes the performance of terminated managers
(3) The Domestic Equity Asset Class Target is the Russell 3000 Index effective 10/1/03
From 7/1/9 to 9/30/03, it was the Wilshire 5000 Investable Index
From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments
Prior to 11/1/93, the Wilshire 5000 was adjusted to reflect SBI mandated restrictions, which included liquor and tobacco, American Home Products and South Africa

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

* Includes performance of U S Bancorp, who was terminated in June 2004

COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending June, 2004
Performance versus Russell Style Benchmarks for All Periods

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
LARGE CAP										
Russell 1000 Core										
Franklin Portfolio	0.2	1.4	21.1	19.5	-2.2	-0.3	0.9	-1.6	11.9	11.8
New Amsterdam Partners (2)	0.3	1.4	24.5	23.5	2.4	4.8	6.8	5.5	14.4	12.4
UBS Global	2.1	1.4	19.2	19.5	4.8	-0.3	0.9	-1.6	11.1	10.8
Voyageur-Chicago Equity	1.7	1.4	18.3	19.5	-1.2	-0.3			-3.1	-4.2
Aggregate	1.0	1.4								
Russell 1000 Growth										
Alliance Capital	1.1	1.9	11.9	17.9	-4.6	-3.7	-4.2	-6.5	15.1	11.4
Cohen, Klingenstein & Marks	-2.4	1.9	15.1	17.9	-8.9	-3.7	-6.8	-6.5	10.0	9.7
Holt-Smith & Yates	2.0	1.9	14.3	17.9	-3.2	-3.7			-4.5	-13.1
Zevenbergen Capital	4.4	1.9	26.7	17.9	-3.9	-3.7	-8.3	-6.5	10.6	9.7
Aggregate	0.2	1.9								
Russell 1000 Value										
Barrow, Hanley	2.7	0.9							2.7	0.9
Bay Isle Financial	1.6	0.9	18.0	21.1	-2.5	3.0			-1.3	4.8
Earnest Partners	1.7	0.9	23.9	21.1	3.0	3.0			1.7	4.8
Lord Abbett & Co	1.7	0.9							1.7	0.9
LSV Asset Mgmt	2.0	0.9							2.0	0.9
Oppenheimer	1.9	0.9	21.0	21.1	1.7	3.0	3.4	1.9	13.4	11.6
Systematic Financial Mgmt	1.2	0.9							1.2	0.9
Aggregate	1.9	0.9								
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	-3.1	0.1							4.0	5.7
Next Century Growth	2.5	0.1	29.0	31.5	-4.1	-0.2			-11.0	-6.6
Turner Investment Partners	1.1	0.1							4.6	5.7
Winslow-Small Cap	1.4	0.1	23.2	31.5	-2.4	-0.2			-2.7	-6.6
Aggregate	-0.7	0.1								
Russell 2000 Value										
AEAM/Kenwood	1.3	0.8							10.6	7.8
Goldman Sachs	1.1	0.8							5.2	7.8
Hotchkis & Wiley	-0.5	0.8							11.0	7.8
Martingale Asset Mgmt	2.0	0.8							12.3	7.8
Peregrine Capital	1.5	0.8	35.2	35.2	11.9	12.2			18.3	16.6
Aggregate	1.1	0.8								

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

(2) New Amsterdam Partners' published benchmark is the Russell 1000 core index beginning 10/1/03
Prior to that date it was the Russell Midcap Index.

COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Calendar Year Returns Versus (1)
Russell Style Benchmarks for All Periods

	YTD 6/30/04		2003		2002		2001		2000		1999	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
LARGE CAP												
Russell 1000 Core												
Franklin Portfolio	2 6	3 3	32 9	29 9	-25 4	-21 7	-6 6	-12 5	-1 6	-7 8	26 2	20 9
New Amsterdam Partners (2)	3 5	3 3	34 2	38 0	-17 5	-16 2	-3 3	-5 6	15 0	8 2	15 0	18 2
UBS Global	3 3	3 3	30 7	29 9	-14 7	-21 7	5 2	-12 5	3 6	-7 8	-8 5	20 9
Voyageur-Chicago Equity	5 2	3 3	23 2	29 9	-20 6	-21 7	-19 4	-12 5				
Aggregate	3 1	3 3										
Russell 1000 Growth												
Alliance Capital	1 0	2 7	22 4	29 7	-26 8	-27 9	-13 7	-20 4	-13 7	-22 4	38 0	33 2
Cohen, Klingenstein & Marks	-0 2	2 7	41 2	29 7	-35 0	-27 9	-25 0	-20 4	-6 0	-22 4	24 8	33 2
Holt-Smith & Yates	3.2	2 7	22 1	29 7	-28 0	-27 9	-1 7	-20 4				
Zevenbergen Capital	7 0	2 7	49 3	29 7	-36 2	-27 9	-29 0	-20 4	-38 2	-22 4	94 3	33 2
Aggregate	1 1	2 7										
Russell 1000 Value												
Barrow, Hanley (3)	2 7	0 9										
Bay Isle Financial	3.8	3 9	23.3	30 0	-26.1	-15.5	-1 6	-5.6				
Earnest Partners	6 0	3 9	32 0	30 0	-18 1	-15 5	-0.4	-5 6				
Lord Abbett & Co (3)	1 7	0 9										
LSV Asset Mgmt (3)	2 0	0 9										
Oppenheimer	3 5	3 9	28 9	30 0	-15 5	-15 5	-7 0	-5 6	11 2	7 0	10 7	7 3
Systematic Financial Mgmt (3)	1 2	0 9										
Aggregate	4 1	3 9										
SMALL CAP												
Russell 2000 Growth												
McKinley Capital	4 0	5 7										
Next Century Growth	2 6	5 7	50 7	48 5	-33 3	-30 3	-22 8	-9 2				
Turner Investment Partners	4 6	5 7										
Winslow-Small Cap	3 5	5 7	37 6	48 5	-25 0	-30 3	-6 1	-9 2				
Aggregate	3 0	5 7										
Russell 2000 Value												
AEAM/Kenwood	10 6	7 8										
Goldman Sachs	5 2	7 8										
Hotchkis & Wiley	11 0	7 8										
Martingale Asset Mgmt.	12 3	7 8										
Peregrine Capital	6 5	7 8	44 2	46 0	-8 1	-11 4	12 6	14 0				
Aggregate	8 6	7 8										

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

(2) New Amsterdam Partners' published benchmark is the Russell 1000 core index beginning 10/1/03 Prior to that date it was the Russell Midcap Index

(3) YTD begins 4/04 when manager was funded

Large Cap Core (R1000)

Large Cap Core (R1000)

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FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2004

Portfolio Manager: John Cone | **Assets Under Management: $663,253,888**

Investment Philosophy – Active Style

Franklin believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns. Franklin builds a portfolio by using a series of more than 30 integrated computer models that value a universe of 3500 stocks Their models rank each security based on fundamental momentum, relative value, future cash flow, and supplementary models A composite ranking then provides one ranked list of securities reflecting relative attractiveness. Stocks that fall below the median ranking are sold and proceeds are reinvested in stocks from the top deciles in the ranking system. Franklin uses the BARRA E3 risk model to monitor the portfolio's systematic risk and industry weightings, relative to the selected benchmark, to achieve a residual risk of 4 0 to 4 5 percent for the active portfolio

Staff Comments

The portfolio underperformed the Russell 1000 index by 1 2 percentage points (ppt) during the quarter. This was due largely to weak stock selection, particularly within the electronic technology, finance, and health services sectors

For the year, the portfolio outperformed the Russell 1000 index by 1 6 ppt and the blended manager benchmark by 0.5 ppt Risk factor exposures that contributed to performance included positive earnings yield, value and beta. Overweight allocations to the energy and consumer services sectors, as well as an underweight allocation to health care, proved beneficial.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	0 2%	1.4%	1 4%
Last 1 year	21.1	19 5	20 6
Last 2 years	6.0	9 8	12 6
Last 3 years	-2.2	-0 3	2.7
Last 4 years	-0 9	-4 2	1 7
Last 5 years	0.9	-1 6	1 9
Since Inception (4/89)	11 9	11.8	11.9

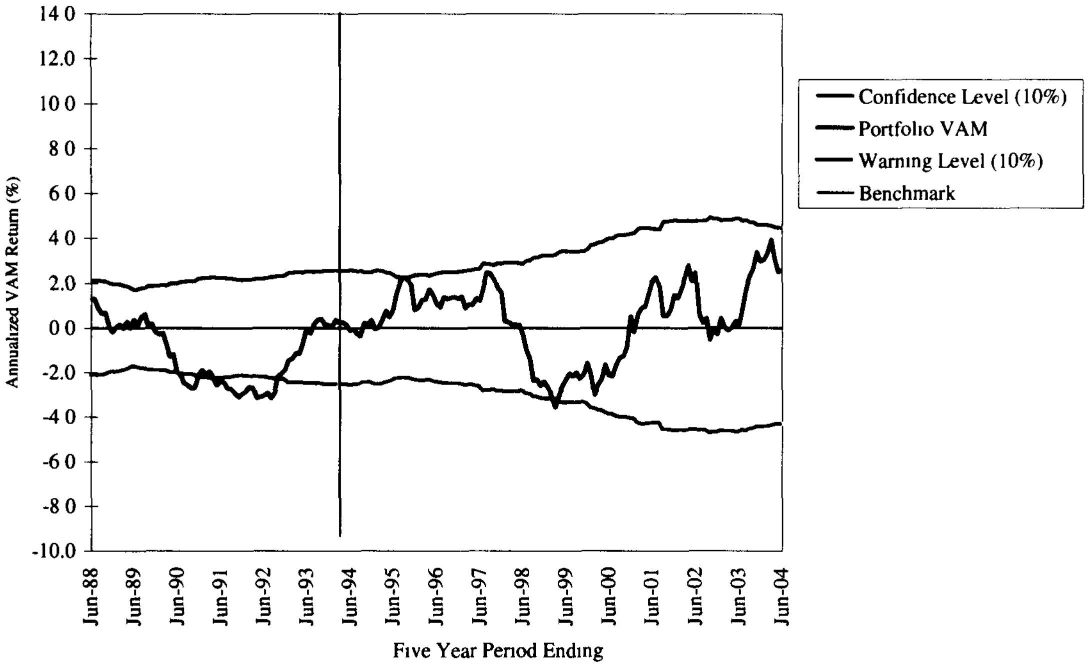
Calendar Year Returns

	Actual	Russell 1000 Core	Manager Benchmark
YTD 6/30/04	2 6%	3 3%	3 3%
2003	32 9	29.9	36.9
2002	-25 4	-21.7	-19.8
2001	-6 6	-12 5	-5.4
2000	-1 6	-7.8	0 3
1999	26 2	20 9	16.3

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2004

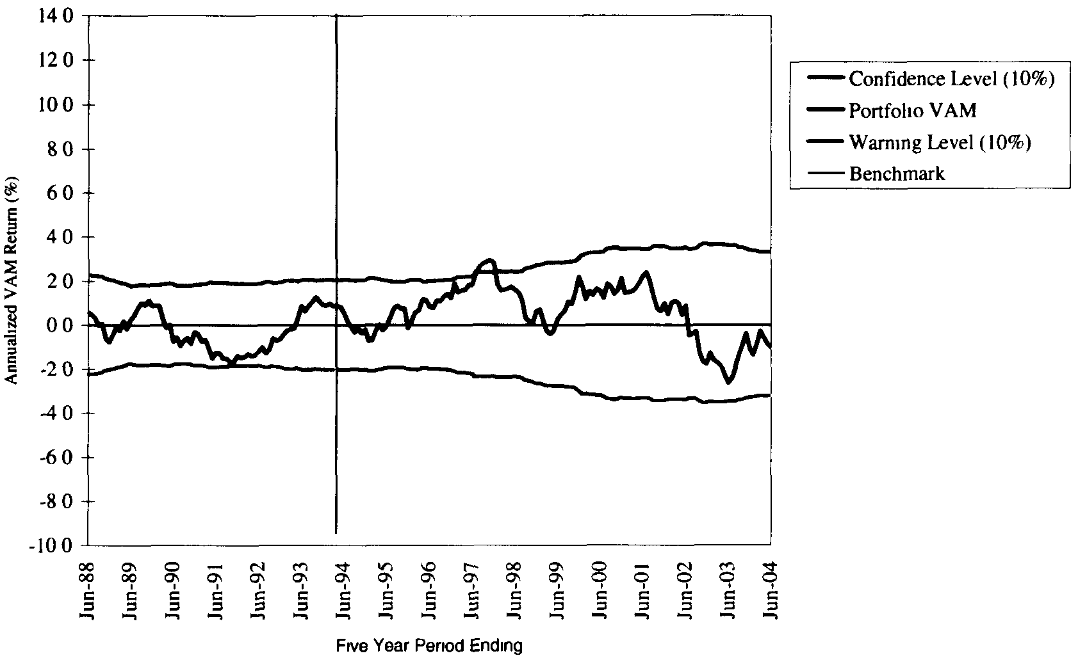
Portfolio Manager: John Cone **Assets Under Management: $663,253,888**

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



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

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



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

NEW AMSTERDAM PARTNERS
Periods Ending June, 2004

Portfolio Manager: Michelle Clayman | **Assets Under Management: $396,075,179**

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

The portfolio underperformed the Russell 1000 index by 1.1 percentage points (ppt) during the quarter. An overweight allocation to consumer durables, coupled with weak stock selection, hindered performance. Underweight allocations to the producer manufacturing and consumer services sectors, coupled with weak stock selection, detracted from performance.

For the year, the portfolio outperformed the Russell index by 1.0 ppt and the blended manager benchmark by 1.5 ppt. Positive stock selection overcame the negative impact of weak sector allocation relative to the blended manager benchmark.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell Index (1)	Manager Benchmark
Last Quarter	0.3%	1.4%	1.4%
Last 1 year	24.5	23.5	23.0
Last 2 years	11.5	12.6	11.0
Last 3 years	2.4	4.8	3.5
Last 4 years	3.3	3.8	3.4
Last 5 years	6.8	5.5	6.1
Since Inception (4/94)	14.4	12.4	14.1

Calendar Year Returns

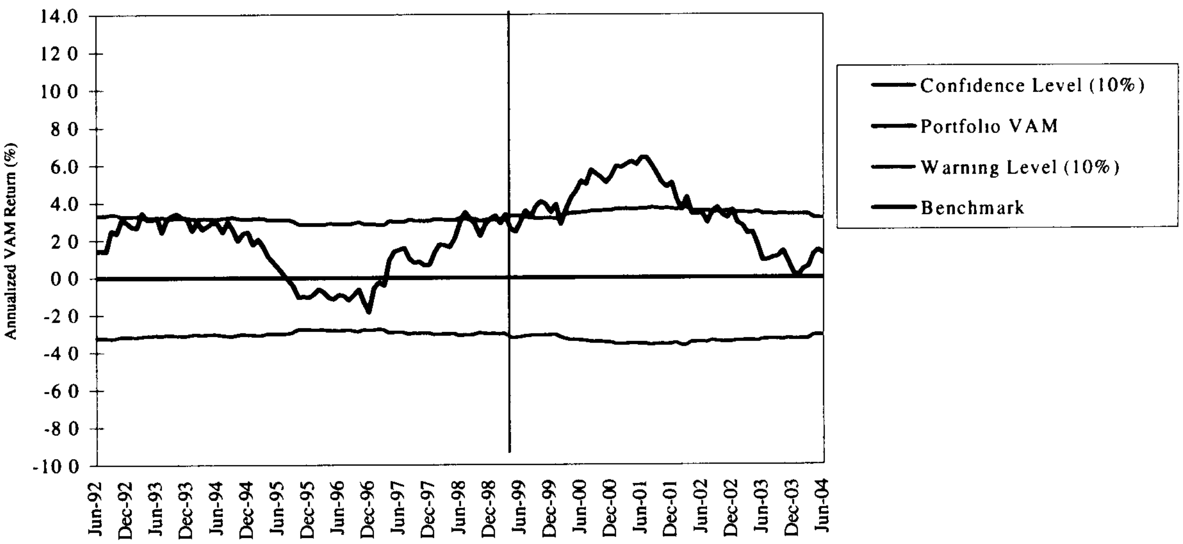
	Actual	Russell Index (1)	Manager Benchmark
YTD 6/30/04	3.5%	3.3%	3.3%
2003	34.2	38.0	37.1
2002	-17.5	-16.2	-22.2
2001	-3.3	-5.6	3.7
2000	15.0	8.2	3.1
1999	15.0	18.2	32.1

(1) New Amsterdam Partners' published benchmark is the Russell 1000 Core beginning 10/1/03. Prior to that date it was the Russell Midcap index.

NEW AMSTERDAM PARTNERS
Periods Ending June, 2004

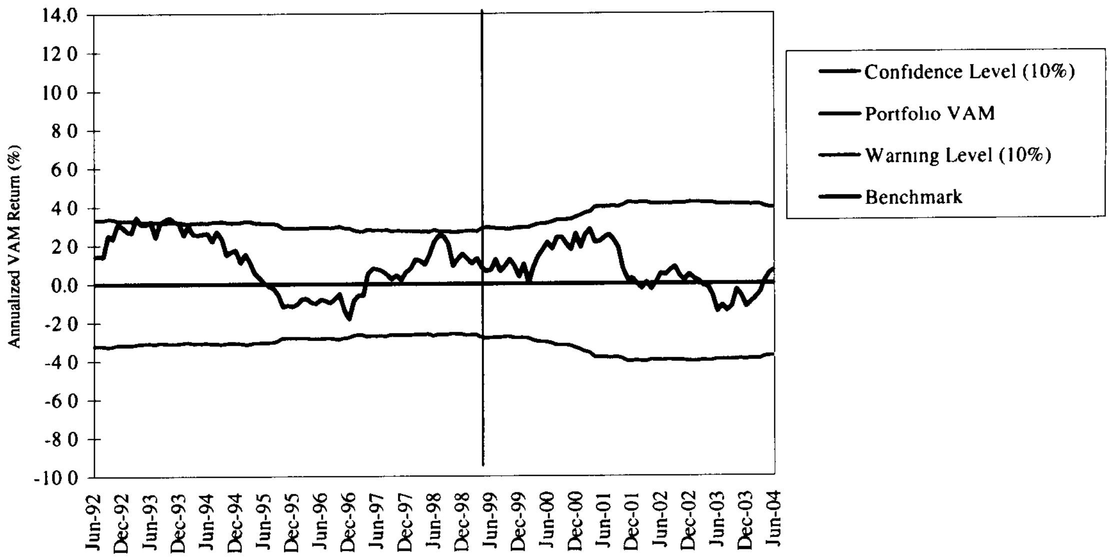
Portfolio Manager: Michelle Clayman **Assets Under Management: $396,075,179**

NEW AMSTERDAM PARTNERS
Rolling Five Year VAM vs. Russell Index (1)



Five Year Period Ending
Note Area to the left of vertical line includes performance prior to retention by the SBI

NEW AMSTERDAM PARTNERS
Rolling Five Year VAM vs. Manager Benchmark



Five Year Period Ending
Note Area to the left of vertical line includes performance prior to retention by the SBI

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending June, 2004

Portfolio Manager: John Leonard **Assets Under Management: $726,783,880**

Investment Philosophy

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

Staff Comments

The portfolio outperformed the Russell 1000 for the quarter by 0.7 percentage points (ppt), due largely to strong overall stock selection. For the year, the portfolio underperformed the Russell 1000 index by 0.3 ppt and the blended manager benchmark by 0.4 ppt. Overall stock selection was the primary detractor from performance for the twelve month period.

Staff conducted a site visit during the quarter. The firm has experienced strong inflows for the strategy but does not anticipate any capacity constraints. Research, investment, and trading processes were reviewed in detail.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

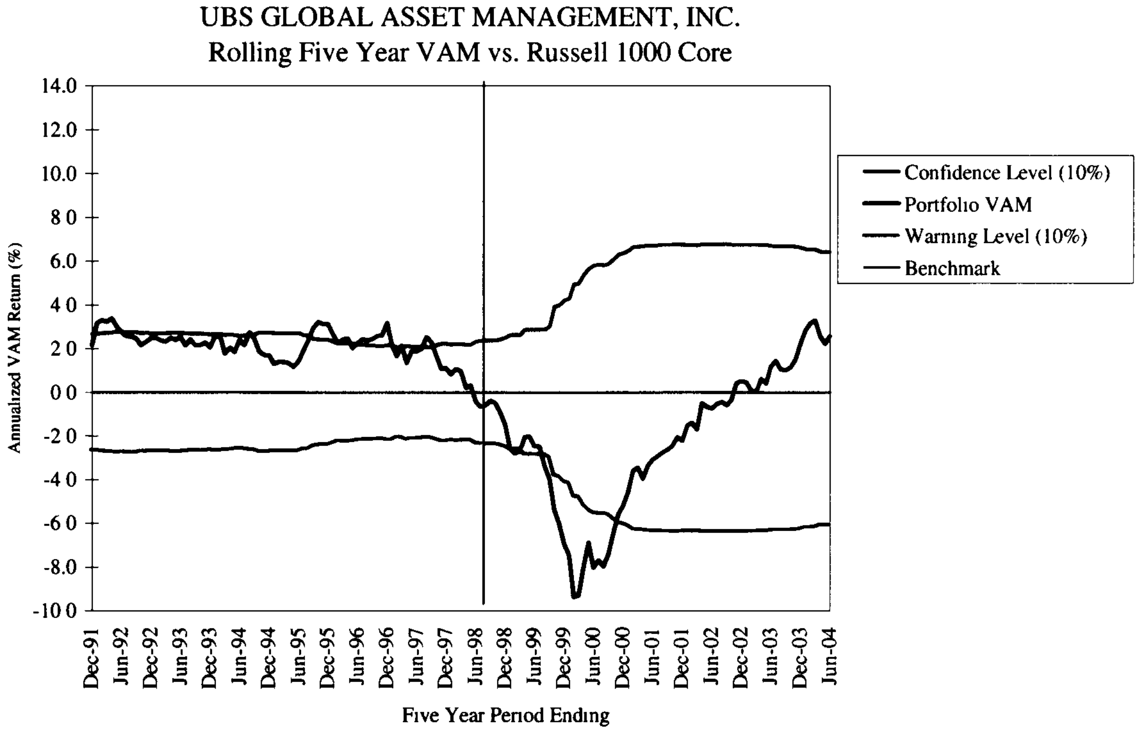
	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	2.1%	1.4%	1.4%
Last 1 year	19.2	19.5	19.6
Last 2 years	11.4	9.8	10.3
Last 3 years	4.8	-0.3	1.0
Last 4 years	7.2	-4.2	-2.7
Last 5 years	0.9	-1.6	0.2
Since Inception (7/93)	11.1	10.8	10.8

Calendar Year Returns

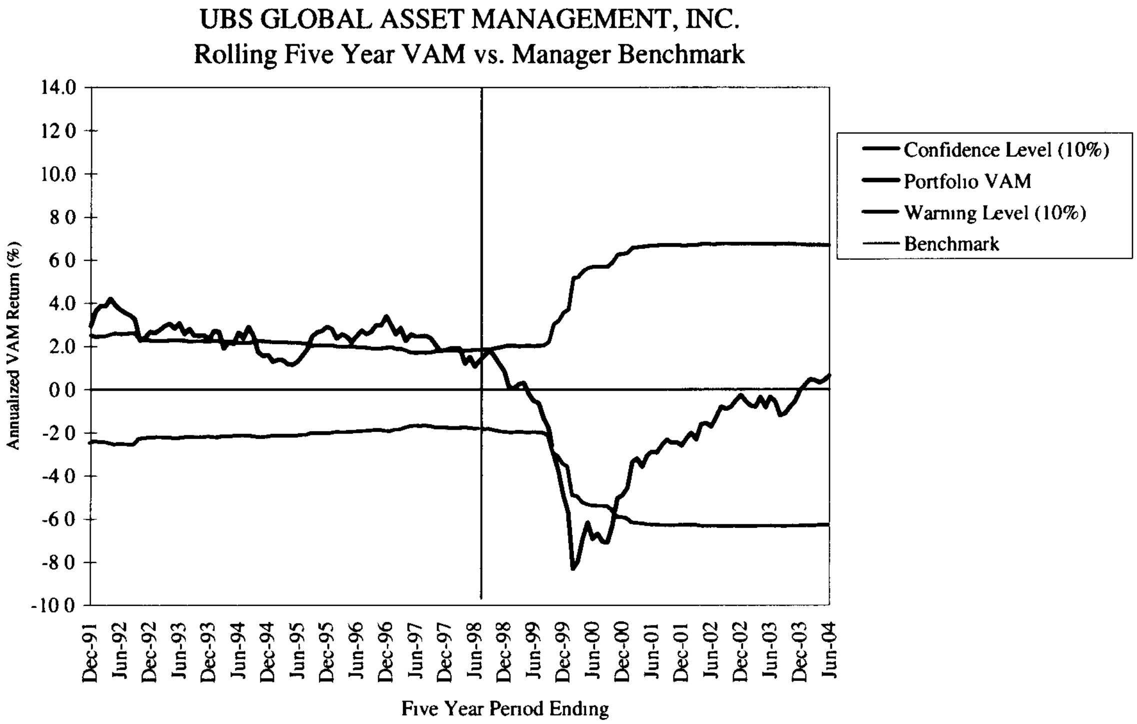
	Actual	Russell 1000 Core	Manager Benchmark
YTD 6/30/04	3.3%	3.3%	3.3%
2003	30.7	29.9	30.8
2002	-14.7	-21.7	-20.6
2001	5.2	-12.5	-11.0
2000	3.6	-7.8	-1.0
1999	-8.5	20.9	21.6

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending June, 2004

Portfolio Manager: John Leonard **Assets Under Management: $726,783,880**



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



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

VOYAGEUR ASSET MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Charles Henderson **Assets Under Management: $44,711,982**

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

Staff conducted a site visit during the quarter. Of note, the firm was awarded a large cap mandate valued at over $1 billion by a large public fund This portfolio will be funded effective 7/1/04 and will be managed relative to the S&P 500 index The firm plans to hire an additional analyst within the next year, and possibly another client service person. The firm intends to grow in the area of public fund sales

The research and investment processes were discussed at length. The firm remains committed to its research intensive strategy and investment style that emphasizes high quality growth

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

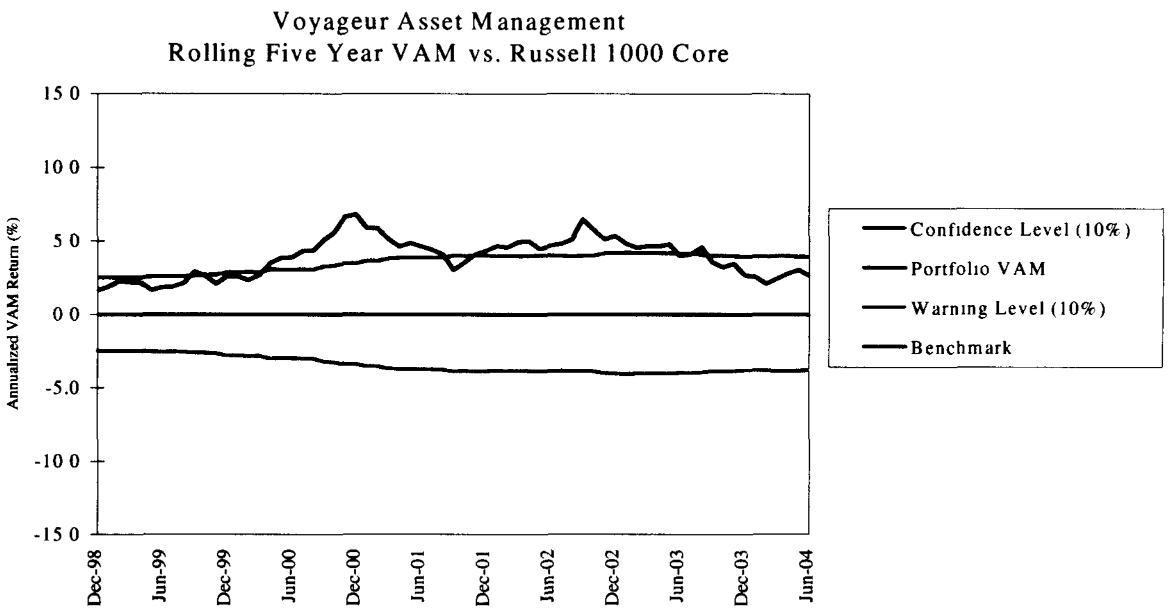
	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	1.7%	1 4%	1 4%
Last 1 year	18 3	19.5	19.5
Last 2 years	7 5	9.8	9 2
Last 3 years	-1 2	-0 3	0 6
Last 4 years	-3 1	-4 2	-3 7
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-3 1	-4 2	-3 7

Calendar Year Returns

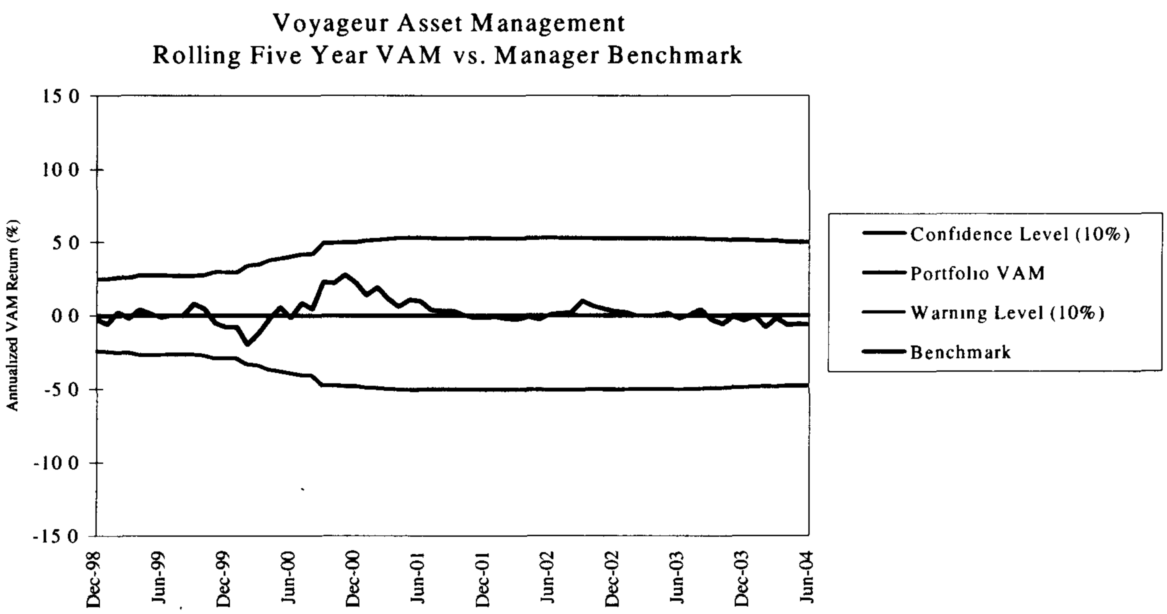
	Actual	Russell 1000 Core	Manager Benchmark
YTD 6/30/04	5 2%	3 3%	3.3%
2003	23 2	29 9	28 9
2002	-20 6	-21.7	-20 7
2001	-19 4	-12 5	-12 0
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

VOYAGEUR ASSET MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Charles Henderson **Assets Under Management: $44,711,982**



Five Year Period Ending
Note Shaded area includes performance prior to retention by the SBI



Five Year Period Ending
Note Shaded area includes performance prior to retention by the SBI

Large Cap Growth (R1000 Growth)

Large Cap Growth (R1000 Growth)

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ALLIANCE CAPITAL MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Jack Koltes | **Assets Under Management: $967,384,780**

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

The portfolio underperformed the Russell 1000 Growth Index by 0.8 percentage points (ppt) during the quarter. Overweight allocations to financials and retail trade, coupled with weak stock selection, proved detrimental. An underweight position in health care detracted from performance, weak stock selection exacerbated the negative impact.

For the year, the portfolio underperformed the Russell 1000 Growth Index by 6.0 ppt and the blended manager benchmark by 5.4 ppt. Poor stock selection within the consumer discretionary and health care sectors detracted from performance.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

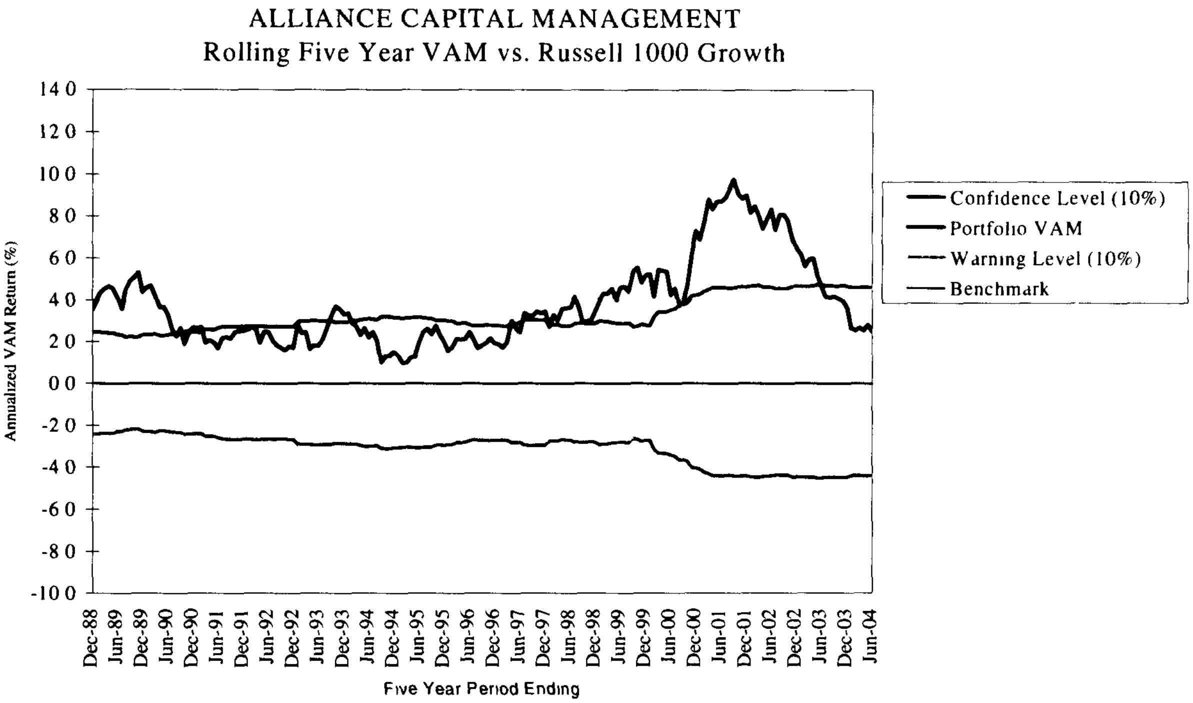
	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	1.1%	1.9%	1.9%
Last 1 year	11.9	17.9	17.3
Last 2 years	5.4	10.2	9.2
Last 3 years	-4.6	-3.7	-2.4
Last 4 years	-10.0	-13.1	-7.7
Last 5 years	-4.2	-6.5	-3.4
Since Inception (1/84)	15.1	11.4	11.4

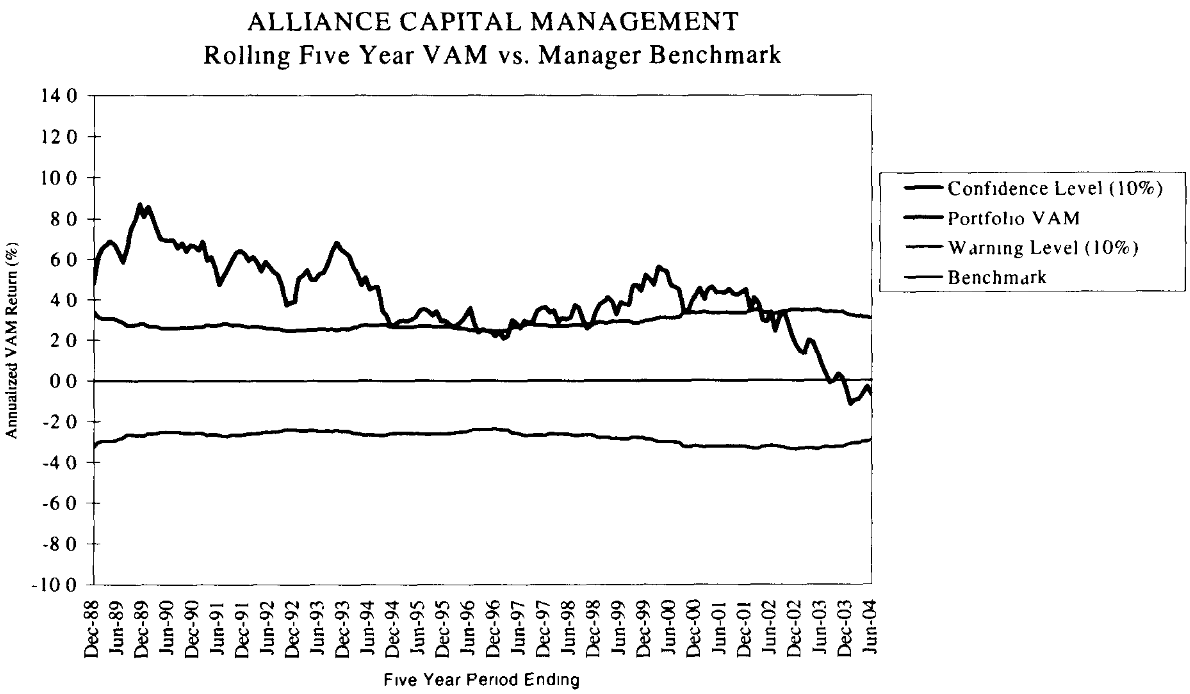
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
YTD 6/30/04	1.0%	2.7%	2.7%
2003	22.4	29.7	26.3
2002	-26.8	-27.9	-24.0
2001	-13.7	-20.4	-15.3
2000	-13.7	-22.4	-11.4
1999	38.0	33.2	30.3

ALLIANCE CAPITAL MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Jack Koltes | **Assets Under Management: $967,384,780**





COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending June, 2004

Portfolio Manager: George Cohen **Assets Under Management: $589,691,697**

Investment Philosophy

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

Staff Comments

The portfolio underperformed the Russell 1000 Growth index by 4.3 percentage points (ppt) over the quarter. Overall sector allocation decisions coupled with weak overall stock selection detracted from performance. Specifically, overweight allocations to electronic technology, finance, and consumer services, coupled with ineffective stock selection hindered returns.

For the year, the portfolio underperformed the Russell 1000 Growth index by 2.8 ppt and the blended manager benchmark by 4.0 ppt. Underperformance relative to the blended manager benchmark was due largely to weak stock selection.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	-2.4%	1.9%	1.9%
Last 1 year	15.1	17.9	19.1
Last 2 years	12.0	10.2	14.5
Last 3 years	-8.9	-3.7	1.3
Last 4 years	-10.3	-13.1	-4.2
Last 5 years	-6.8	-6.5	-0.5
Since Inception (4/94)	10.0	9.7	11.8

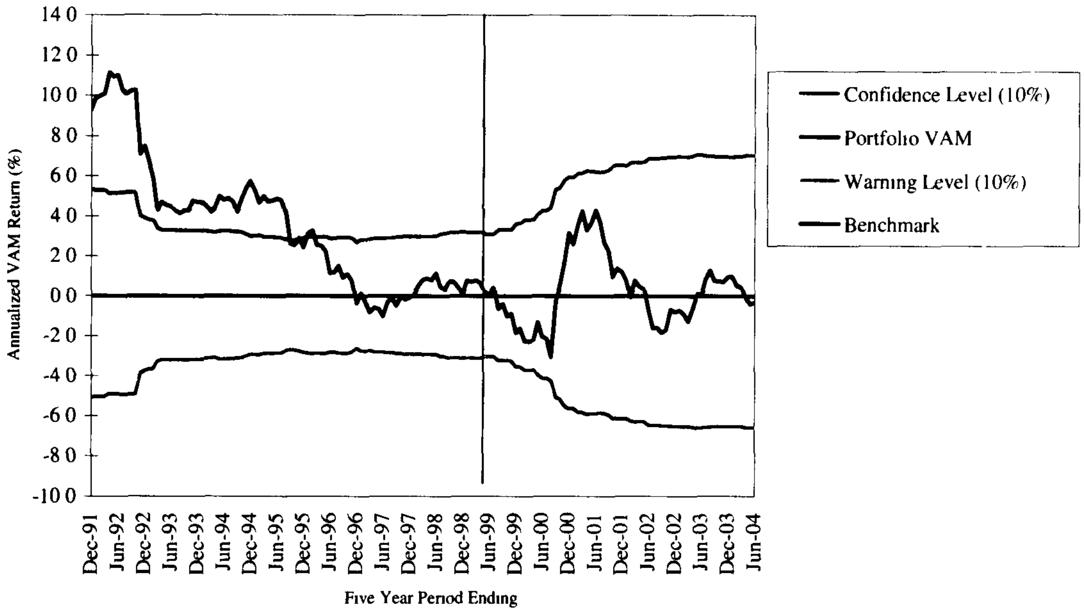
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
YTD 6/30/04	-0.2%	2.7%	2.7%
2003	41.2	29.7	39.3
2002	-35.0	-27.9	-23.8
2001	-25.0	-20.4	-11.2
2000	-6.0	-22.4	-12.1
1999	24.8	33.2	28.6

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending June, 2004

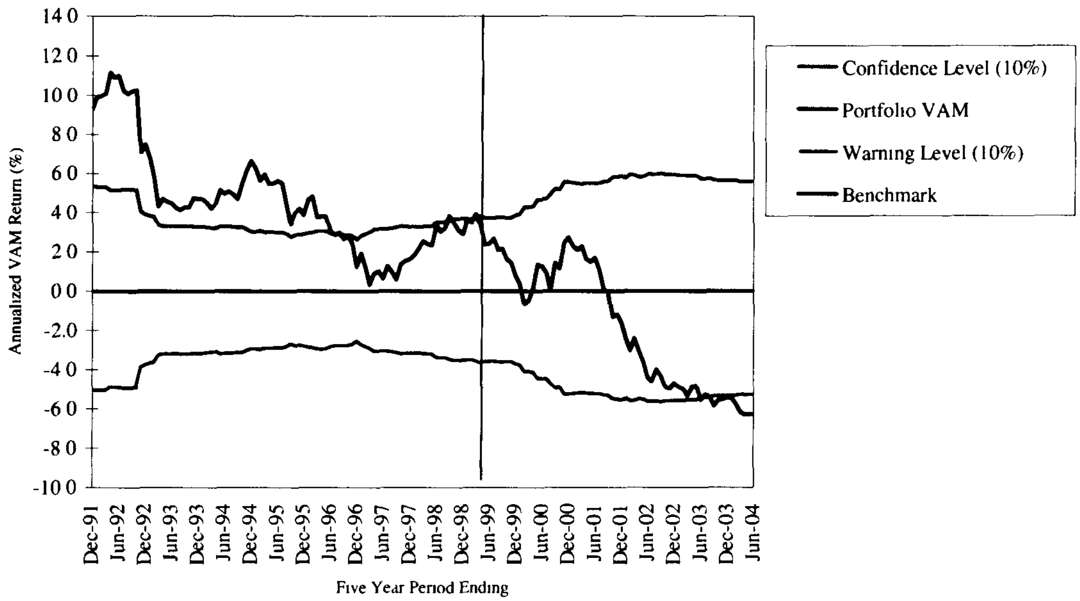
Portfolio Manager: George Cohen **Assets Under Management: $589,691,697**

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



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

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



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

HOLT-SMITH & YATES ADVISORS
Periods Ending June, 2004

Portfolio Manager: Kristin Yates | **Assets Under Management: $42,119,037**

Investment Philosophy

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

Staff Comments

The portfolio outperformed the Russell 1000 Growth index by 0.1 percentage point (ppt) during the quarter. Strong stock selection within the electronic technology, consumer services, and health services sectors contributed to performance.

For the year, the portfolio underperformed the Russell 1000 Growth index by 3.6 ppts and the blended manager benchmark by 5.3 ppt.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	2.0%	1.9%	1.9%
Last 1 year	14.3	17.9	19.6
Last 2 years	3.8	10.2	8.2
Last 3 years	-3.2	-3.7	3.0
Last 4 years	-4.5	-13.1	2.8
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-4.5	-13.1	2.8

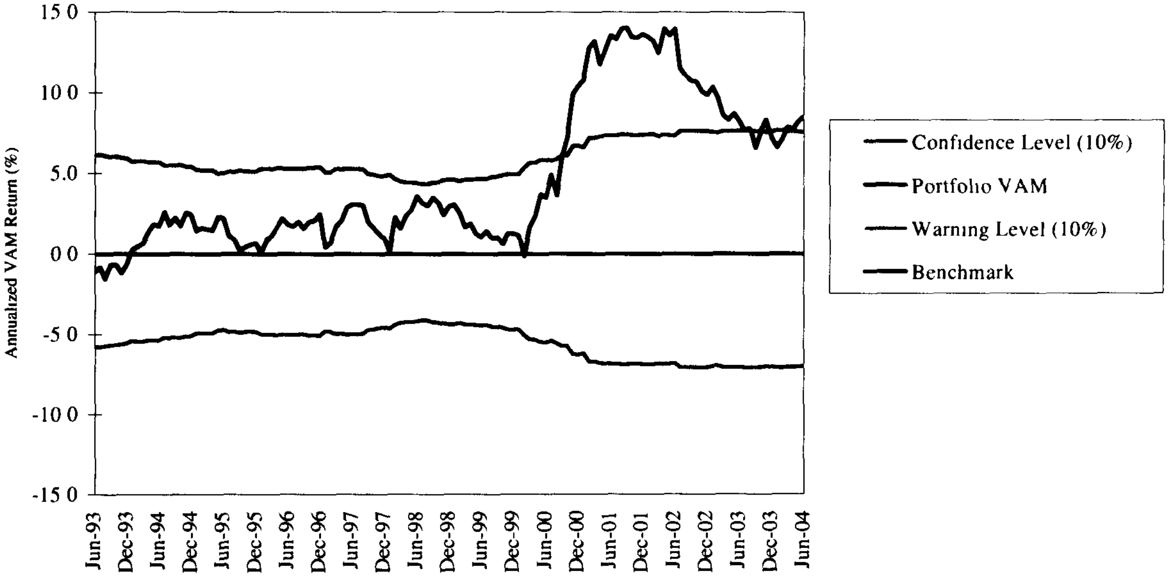
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
YTD 6/30/04	3.2%	2.7%	2.7%
2003	22.1	29.7	31.3
2002	-28.0	-27.9	-19.0
2001	-1.7	-20.4	4.6
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

HOLT-SMITH & YATES ADVISORS
Periods Ending June, 2004

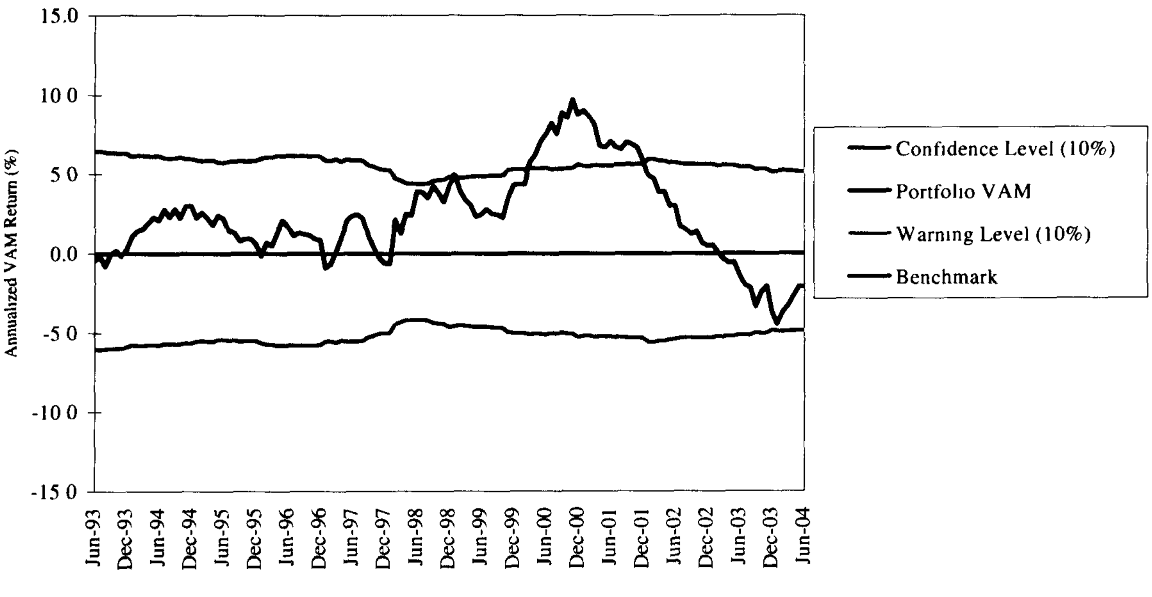
Portfolio Manager: Kristin Yates — **Assets Under Management: $42,119,037**

Holt-Smith & Yates
Rolling Five Year VAM vs. Russell 1000 Growth



Five Year Period Ending
Note Shaded area includes performance prior to retention by the SBI

Holt-Smith & Yates
Rolling Five Year VAM vs. Manager Benchmark



Five Year Period Ending
Note Shaded area includes performance prior to the retention by the SBI

ZEVENBERGEN CAPITAL INC.
Periods Ending June, 2004

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $135,324,912**

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 outperformed the Russell 1000 Growth index by 2 5 percentage points (ppt) during the quarter Overall, strong stock selection overcame the negative impact of weak sector allocation Stock selection was most notable within the consumer services, technology services, and consumer non-durables sectors.

For the year, the portfolio outperformed the Russell 1000 Growth index by 8 8 ppt and the blended manager benchmark by 7 7 ppt Stock selection within consumer electronics, commercial services, communications technology, and financial services provided the majority of the portfolio's aggregate gain.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	4 4%	1 9%	1.9%
Last 1 year	26 7	17 9	19.0
Last 2 years	17.7	10.2	10 9
Last 3 years	-3 9	-3 7	-1 0
Last 4 years	-15 7	-13 1	-7 1
Last 5 years	-8 3	-6 5	1.9
Since Inception (4/94)	10 6	9 7	13 4

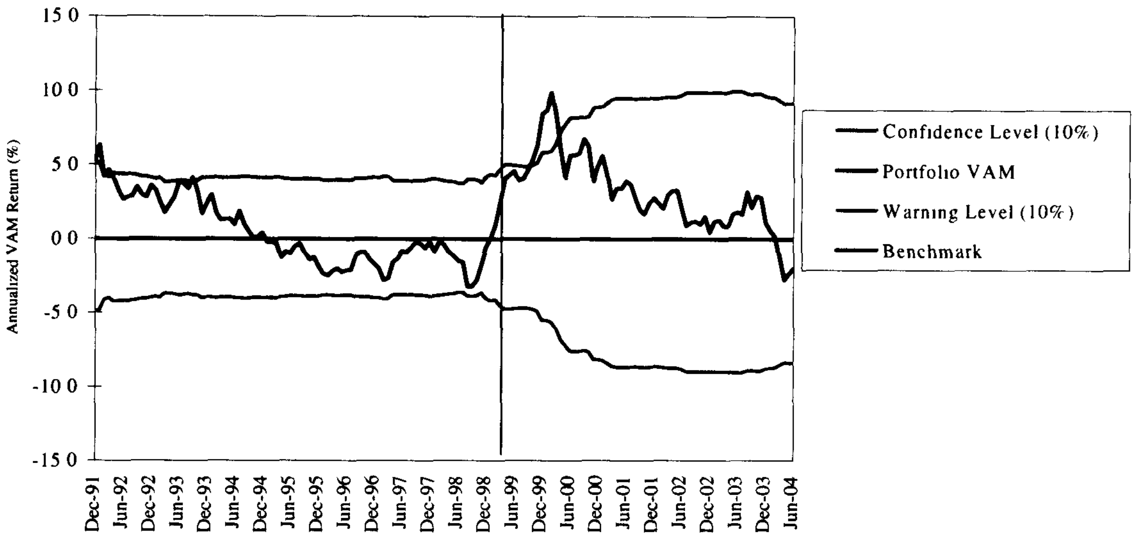
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
YTD 6/30/04	7 0%	2 7%	2.7%
2003	49 3	29 7	31 3
2002	-36 2	-27 9	-24 2
2001	-29 0	-20.4	-3.2
2000	-38 2	-22 4	-16 6
1999	94 3	33 2	56.6

ZEVENBERGEN CAPITAL INC.
Periods Ending June, 2004

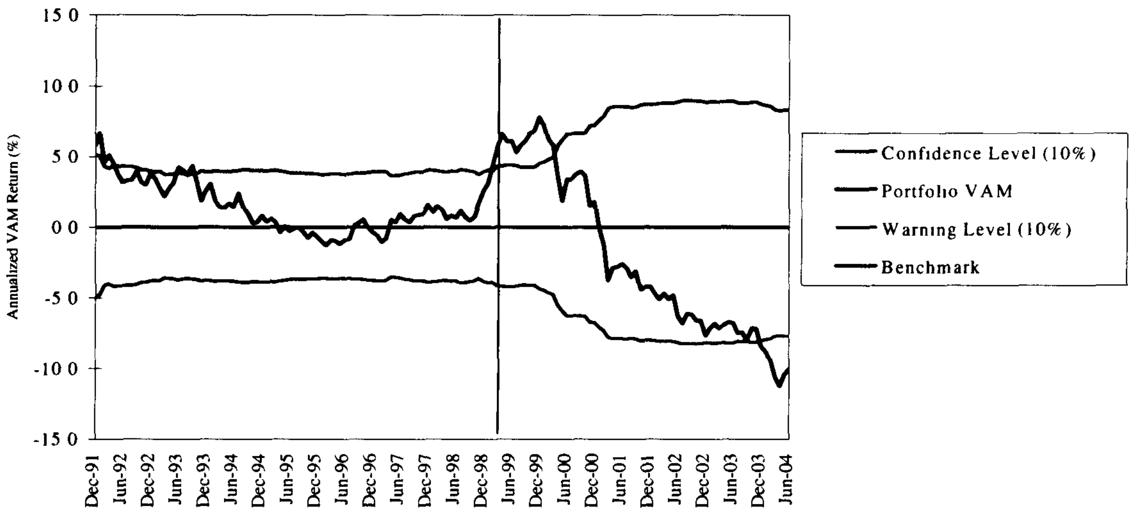
Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $135,324,912**

Zevenbergen Capital Management
Rolling Five Year VAM vs. Russell 1000 Growth



Five Year Period Ending
Note Area to the left of vertical line includes performance prior to retention by the SBI

Zevenbergen Capital Management
Rolling Five Year VAM vs. Manager Benchmark



Five Year Period Ending
Note Area to the left of vertical line includes performance prior to retention by the SBI

Large Cap Value (R1000) Value

Large Cap Value (R1000 Value)

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BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
Periods Ending June, 2004

Portfolio Manager: Tim Culler — **Assets Under Management: $253,196,172**

Investment Philosophy

The manager's approach is based on the underlying philosophy that markets are inefficient. Inefficiencies can best be exploited through adherence to a value-oriented investment process dedicated to the selection of securities on a bottom-up basis The team does not attempt to time the market or rotate in and out of broad market sectors

The manager remains fully invested with a defensive, conservative orientation based on the belief that superior returns can be achieved while taking below average risks This strategy is implemented by constructing portfolios of individual stocks that exhibit price/earnings and price/book ratios significantly *below* the market and dividend yields significantly *above* the market Risk control is achieved by limiting sector weights to 35% and industry weights to 15%. In periods of economic recovery and rising equity markets, profitability and earnings growth are rewarded by the expansion of price/earnings ratios and the generation of excess returns

Staff Comments

For the quarter, the portfolio outperformed the Russell 1000 Value index by 1 8 percentage points. Strong overall stock selection contributed to performance, and was particularly effective within the finance and electronic technology sectors An overweight allocation to the health technology sector also aided returns.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	2 7%	0.9%	0.9%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (4/04)	2 7	0.9	0.9

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
YTD 6/30/04*	2 7%	0 9%	0 9%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

* Note· YTD begins 4/04 when manager was funded

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
Periods Ending June, 2004

Portfolio Manager: Tim Culler **Assets Under Management: $253,196,172**

VAM Graphs will be drawn for period ending 6/30/06

BAY ISLE FINANCIAL CORP.
Periods Ending June, 2004

Portfolio Manager: William Schaff | **Assets Under Management: $47,442,203**

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

The sale of Bay Isle's private client business to First Republic was announced in July. The manager anticipates this transaction will close within the month of August. Once the divestiture is completed, the portfolio managers will be free to concentrate efforts on institutional only accounts.

For the quarter, the portfolio outperformed the Russell 1000 Value index by 0.7 percentage points (ppt). Strong stock selection in technology services aided performance. An underweight position in the finance sector supported returns. For the year, the portfolio underperformed the Russell 1000 Value index by 3.1 ppt, and the blended manager benchmark by 4.1 ppt.

Recommendation

Continue to monitor closely.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	1.6%	0.9%	0.9%
Last 1 year	18.0	21.1	22.1
Last 2 years	3.2	9.5	10.4
Last 3 years	-2.5	3.0	3.2
Last 4 years	-1.3	4.8	3.7
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-1.3	4.8	3.7

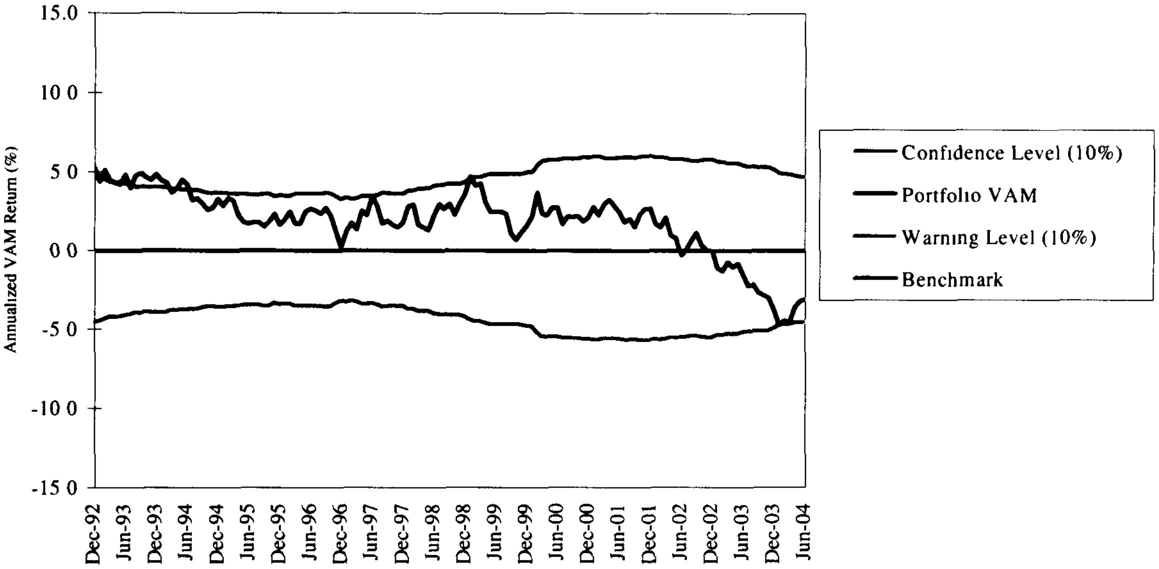
Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
YTD 6/30/04	3.8%	3.9%	3.9%
2003	23.3	30.0	32.1
2002	-26.1	-15.5	-17.2
2001	-1.6	-5.6	-5.9
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

BAY ISLE FINANCIAL CORP.
Periods Ending June, 2004

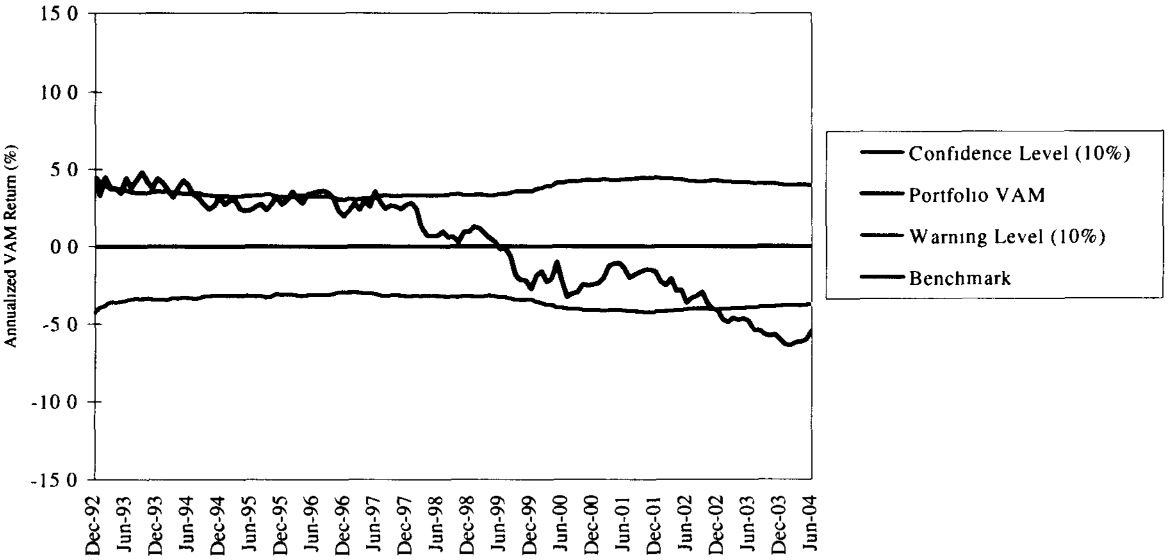
Portfolio Manager: William Schaff **Assets Under Management: $47,442,203**

Bay Isle Financial Management
Rolling Five Year VAM vs. Russell 1000 Value



Five Year Period Ending
Note Shaded area includes performance prior to retention by the SBI

Bay Isle Financial Management
Rolling Five Year VAM vs. Manager Benchmark



Five Year Period Ending
Note Shaded area includes performance prior to retention by the SBI

EARNEST PARTNERS, LLC
Periods Ending June, 2004

Portfolio Manager: Paul Viera | **Assets Under Management: $53,879,414**

Investment Philosophy

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

Staff Comments

The portfolio outperformed the Russell 1000 Value index by 0 8 percentage points (ppt) during the quarter. Strong stock selection within the finance sector contributed to performance. Overweight allocations to energy minerals and health technology sectors coupled with strong stock selection aided returns

For the year, the portfolio outperformed the Russell 1000 Value index by 2 8 ppt, but underperformed the blended manager benchmark by 1.2 ppt. The manager cited weakness among health care holdings as the primary detractor from performance relative to the blended manager benchmark.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

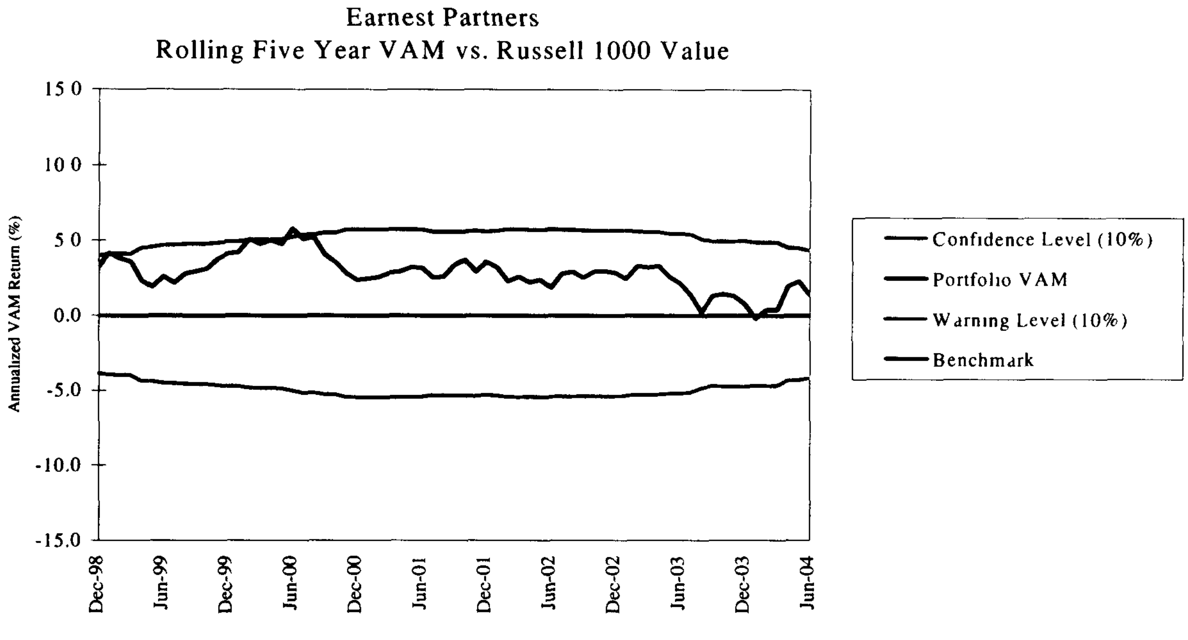
	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	1 7%	0.9%	0 9%
Last 1 year	23.9	21 1	25 1
Last 2 years	12.6	9 5	15 3
Last 3 years	3.0	3 0	10 4
Last 4 years	1 7	4.8	13.4
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	1 7	4 8	13 4

Calendar Year Returns

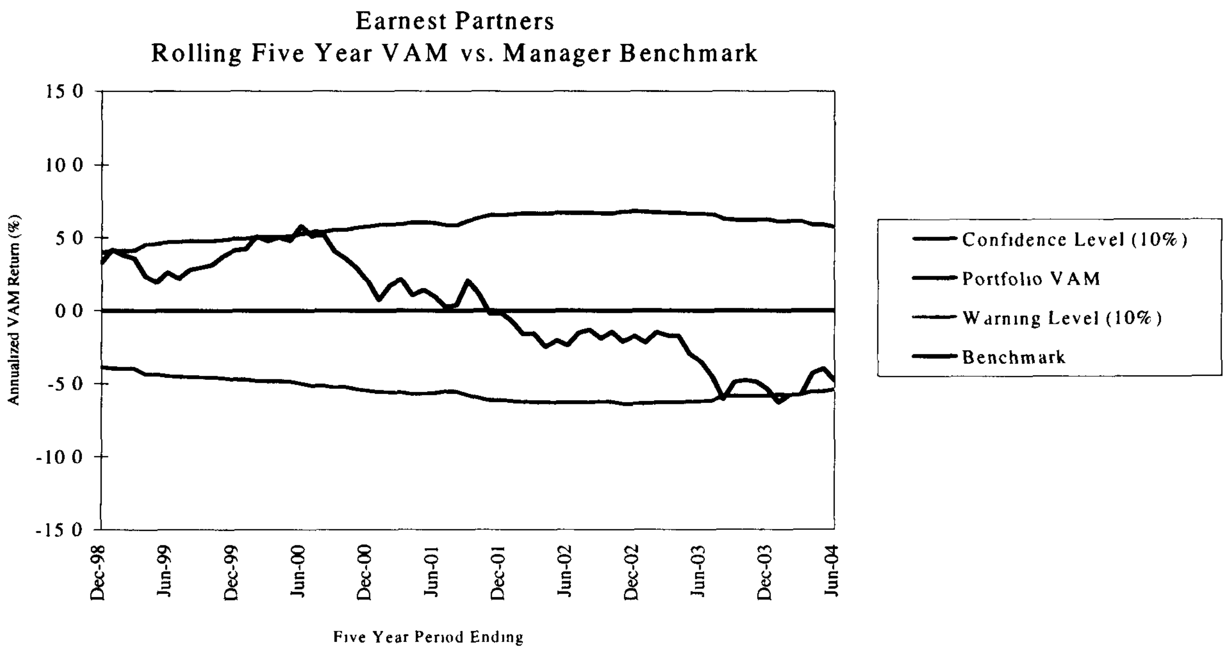
	Actual	Russell 1000 Value	Manager Benchmark
YTD 6/30/04	6 0%	3 9%	3.9%
2003	32 0	30 0	41 8
2002	-18 1	-15 5	-11 6
2001	-0 4	-5 6	11 5
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

EARNEST PARTNERS, LLC
Periods Ending June, 2004

Portfolio Manager: Paul Viera **Assets Under Management: $53,879,414**



Note Shaded area includes performance prior to retention by the SBI



Note Shaded area includes performance prior to retention by the SBI

LORD ABBETT & CO. LLC
Periods Ending June, 2004

Portfolio Manager: Eli Saltzmann — **Assets Under Management: $250,775,179**

Investment Philosophy

Utilizing a value-based, disciplined investment process that employs both informed judgment and quantitative analysis, Lord Abbett seeks to invest in companies with improving business fundamentals that are attractively valued This process is implemented via a traditional fundamental active stock selection approach.

As a value manager, Lord Abbett believes that the market systematically misprices stocks By coupling valuation criteria with thorough research of corporate and industry fundamentals, informed judgments can be made about where the market would price these stocks at fair value The portfolio is constructed to exploit pricing discrepancies where it is perceived that. 1) these price differences will be closed over a reasonable period of time, or 2) there may be a catalyst for price appreciation. This process is implemented while maintaining sensitivity to both benchmark and macro-economic risk exposures

Staff Comments

For the quarter, the portfolio outperformed the Russell 1000 Value index by 0 8 percentage points Overall sector allocation decisions contributed to performance and outweighed the negative impact of weak overall stock selection Overweight allocations to the producer manufacturing and process industry sectors, coupled with effective stock selection contributed to performance An underweight position in the finance sector aided performance

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	1 7%	0 9%	0.9%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (4/04)	1 7	0 9	0.9

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
YTD 6/30/04	1 7%	0 9%	0 9%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

* Note YTD begins 4/04 when manager was funded.

LORD ABBETT & CO. LLC
Periods Ending June, 2004

Portfolio Manager: Eli Saltzmann **Assets Under Management: $250,775,179**

VAM Graphs will be drawn for period ending 6/30/06

LSV ASSET MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Josef Lakonishok | **Assets Under Management: $255,711,300**

Investment Philosophy

The fundamental premise on which LSV's investment philosophy is based is that superior long-term results can be achieved by systematically exploiting the judgmental biases and behavioral weaknesses that influence the decisions of many investors These include the tendency to extrapolate the past too far into the future, wrongly equating a good company with a good investment irrespective of price, ignoring statistical evidence and developing a "mindset" about a company.

The strategy's primary emphasis is the use of quantitative techniques to select individual securities in what would be considered a bottom-up approach Value factors and security selection dominate sector/industry factors as explanatory variables of performance. The competitive strength of this strategy is that it avoids introducing to the process any judgmental biases and behavioral weaknesses that often influence investment decisions

Staff Comments

Staff conducted a site visit during the quarter. The investment model and process were discussed and demonstrated in detail The large cap value product closed to new investors effective 6/30/04. Essentially all of the firm's domestic value products are or will be closed by the end of 2004

For the quarter, the portfolio outperformed the Russell 1000 Value by 1 1 percentage points Strong stock selection within the utilities and finance sectors contributed to performance An overweight allocation to energy minerals coupled with effective stock selection aided returns

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	2 0%	0 9%	0.9%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (4/04)	2 0	0 9	0 9

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
YTD 6/30/04	2 0%	0.9%	0 9%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

* Note. YTD begins 4/04 when manager was funded

LSV ASSET MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Josef Lakonishok **Assets Under Management: $255,711,300**

VAM Graphs will be drawn for period ending 6/30/06

OPPENHEIMER CAPITAL
Periods Ending June, 2004

Portfolio Manager: John Lindenthal **Assets Under Management: $711,302,342**

Investment Philosophy

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

Staff Comments

The portfolio outperformed the Russell 1000 Value by 1.0 percentage point (ppt) during the quarter. An underweight allocation to finance coupled with strong stock selection aided returns Good stock selection within technology services also contributed to performance, and an overweight allocation to the outperforming retail trade sector supported returns.

For the year. the portfolio underperformed the Russell 1000 Value by 0 1 ppt. and outperformed the blended manager benchmark by 0 2 ppt Performance relative to the blended manager benchmark was driven primarily by strong stock selection within the financial sector.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	1 9%	0.9%	0.9%
Last 1 year	21 0	21.1	20 8
Last 2 years	11 2	9 5	9 3
Last 3 years	1 7	3 0	0.1
Last 4 years	4 2	4.8	1.1
Last 5 years	3.4	1 9	2.1
Since Inception (7/93)	13 4	11.6	12 2

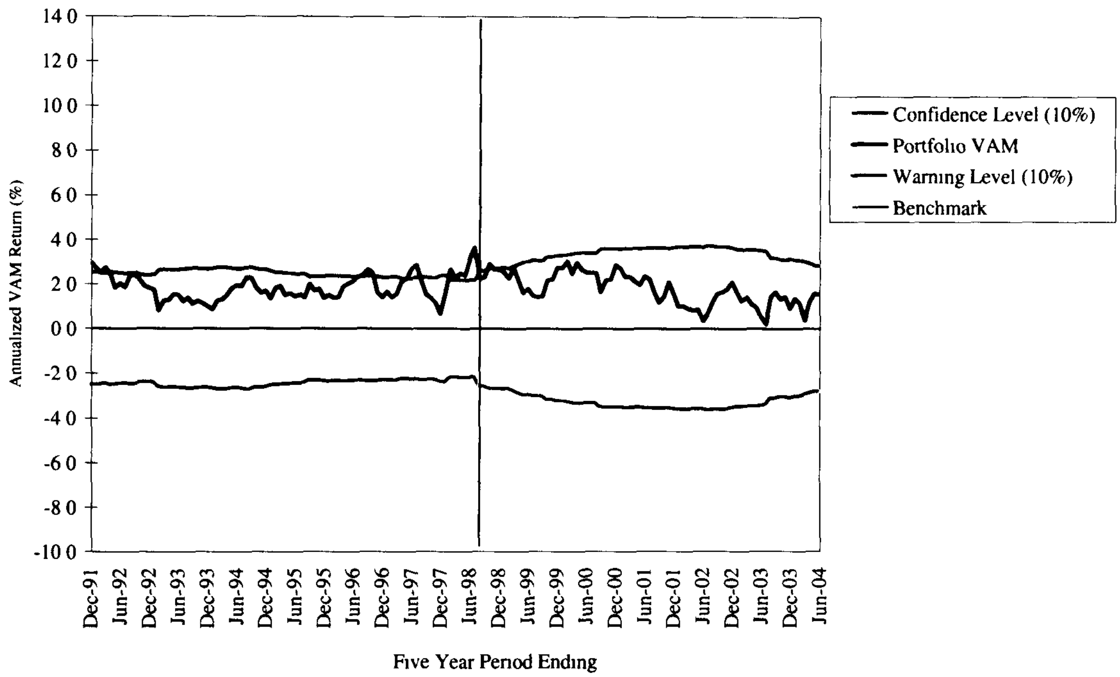
Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
YTD 6/30/04	3.5%	3 9%	3.9%
2003	28 9	30 0	31 4
2002	-15 5	-15 5	-20 7
2001	-7 0	-5 6	-9 5
2000	11 2	7 0	10.3
1999	10 7	7 3	14.9

OPPENHEIMER CAPITAL
Periods Ending June, 2004

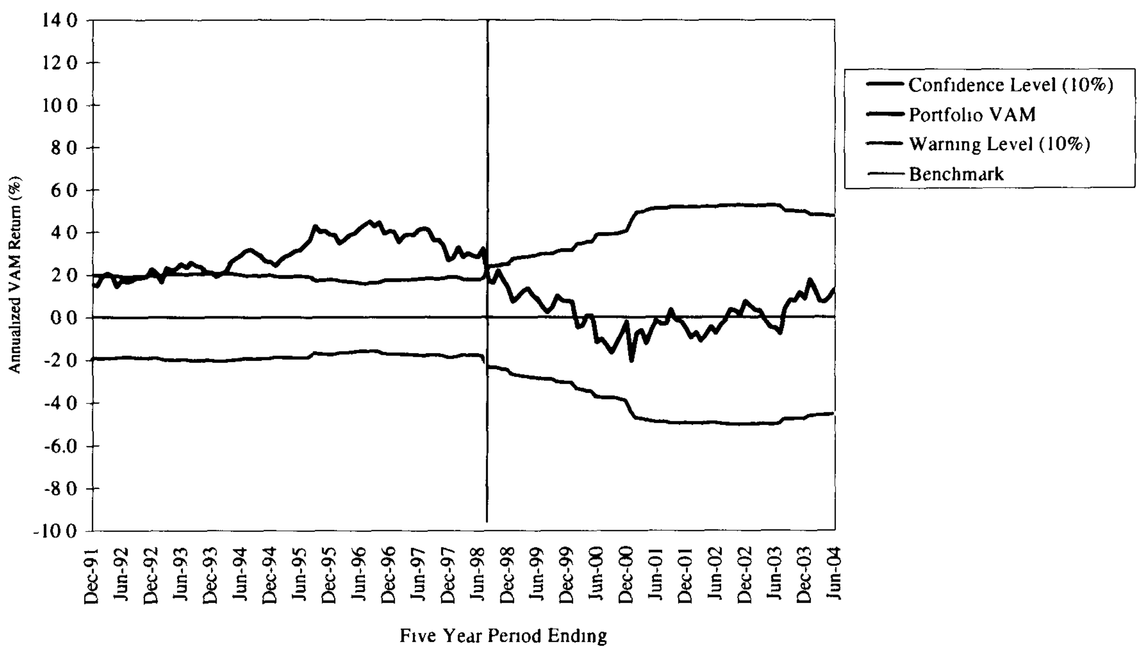
Portfolio Manager: John Lindenthal **Assets Under Management: $711,302,342**

OPPENHEIMER CAPITAL
Rolling Five Year VAM vs. Russell 1000 Value



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

OPPENHEIMER CAPITAL
Rolling Five Year VAM vs. Manager Benchmark



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

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending June, 2004

Portfolio Manager: Kevin McCreesh | **Assets Under Management: $149,390,012**

Investment Philosophy

Systematic's investment strategy favors companies with low forward P/E multiples and a positive earnings catalyst Cash flow is analyzed to confirm earnings and to avoid companies that may have employed accounting gimmicks to report earnings in excess of Wall Street expectations The investment strategy attempts to avoid stocks in the "value trap" by focusing only on companies with confirmed fundamental improvement as evidenced by a genuine positive earnings surprise.

The investment process begins with quantitative screening that ranks the universe based on 1) low forward P/E, and 2) a positive earnings catalyst, which is determined by a proprietary 16-factor model that is designed to be predictive of future positive earnings surprises The screening process generates a research focus list of 150 companies, sorted by sector, upon which rigorous fundamental analysis is conducted to confirm each stock's value and catalysts for appreciation

Staff Comments

For the quarter, the portfolio outperformed the Russell 1000 Value index by 0 3 percentage points Overweight allocations to the retail trade and consumer durables sectors, coupled with strong stock selection contributed to performance An underweight position in utilities and effective stock selection supported returns

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	1 2%	0 9%	0.9%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (4/04)	1 2	0 9	0.9

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
YTD 6/30/04	1.2%	0 9%	0.9%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

* Note YTD begins 4/04 when manager was funded.

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending June, 2004

Portfolio Manager: Kevin McCreesh **Assets Under Management: $149,390,012**

VAM Graphs will be drawn for period ending 6/30/06

Small Cap Growth (R2000) Growth

Small Cap Growth (R2000 Growth)

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MCKINLEY CAPITAL MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $176,845,898**

Investment Philosophy

The team believes that excess market returns can be achieved through the construction and management of a diversified, fundamentally sound portfolio of inefficiently priced securities whose earnings growth rates are accelerating above market expectations Using proprietary quantitative models, the team systematically searches for and identifies early signs of accelerating growth The initial universe consists of growth and value stocks from all capitalization categories

The primary model includes a linear regression model to identify common stocks that are inefficiently priced relative to the market while adjusting each security for standard deviation. The ratio of alpha to standard deviation is the primary screening value and is used to filter out all but the top 10% of stocks in our initial universe The remaining candidates are tested for liquidity and strength of earnings In the final portfolio construction process, qualitative aspects are examined, including economic factors, Wall Street research, and specific industry themes

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	-3.1%	0 1%	0 1%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	4 0	5.7	5.7

Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
YTD 6/30/04	4.0%	5.7%	5 7%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

Staff Comments

The portfolio underperformed the Russell 2000 Growth portfolio by 3.2 percentage points during the quarter Weak stock selection within the electronic technology, technology services, and retail trade sectors detracted from performance.

Recommendation

No action required

MCKINLEY CAPITAL MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $176,845,898**

VAM Graphs will be drawn for period ending 3/31/06.

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending June, 2004

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $31,684,657**

Investment Philosophy

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

Staff Comments

As of April 15, 2004, the manager began conducting all trading, trade compliance, settlement and portfolio administration functions internally The issue of the 20% ownership stake currently held by Strong Capital Management will be resolved in the near future There are three options. 1) repurchase by Next Century Growth, 2) assumption by Wells Fargo through its purchase of Strong Capital Management, or 3) sale to an independent third party.

For the quarter, the portfolio outperformed the Russell 2000 Growth by 2 4 percentage points. Overweight allocations to health services, energy minerals, and transportation, coupled with strong stock selection contributed to performance

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	2 5%	0.1%	0 1%
Last 1 year	29 0	31 5	30 5
Last 2 years	13 5	15.1	18 0
Last 3 years	-4 1	-0 2	2.6
Last 4 years	-11 0	-6 6	-3.6
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-11 0	-6 6	-3.6

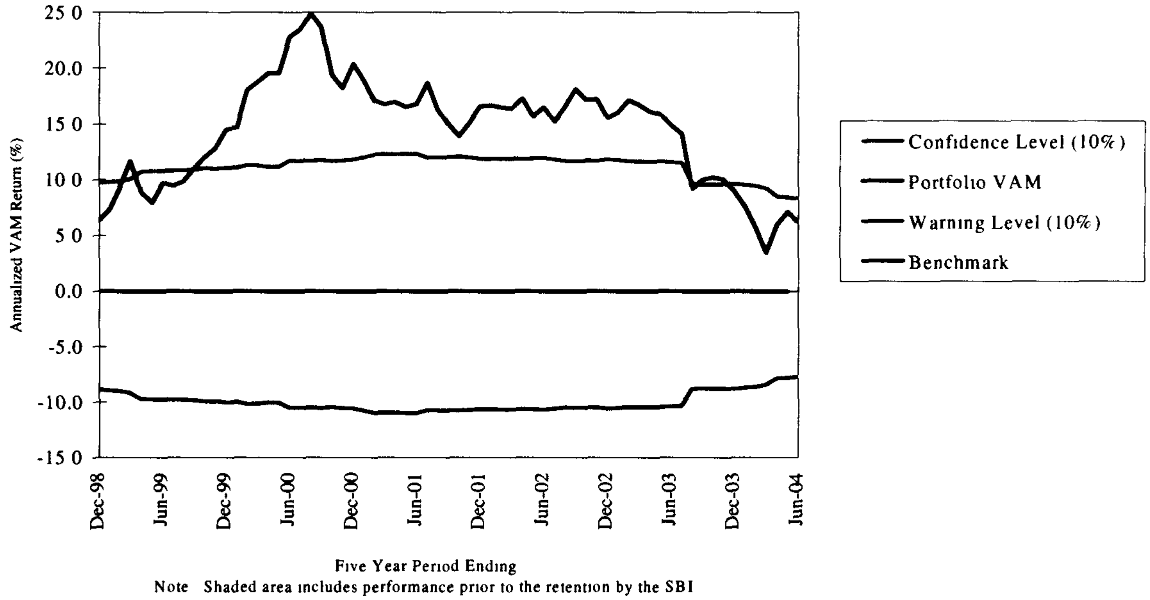
Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
YTD 6/30/04	2 6%	5 7%	5 7%
2003	50 7	48.5	48.5
2002	-33 3	-30 3	-27.8
2001	-22 8	-9.2	-5 5
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

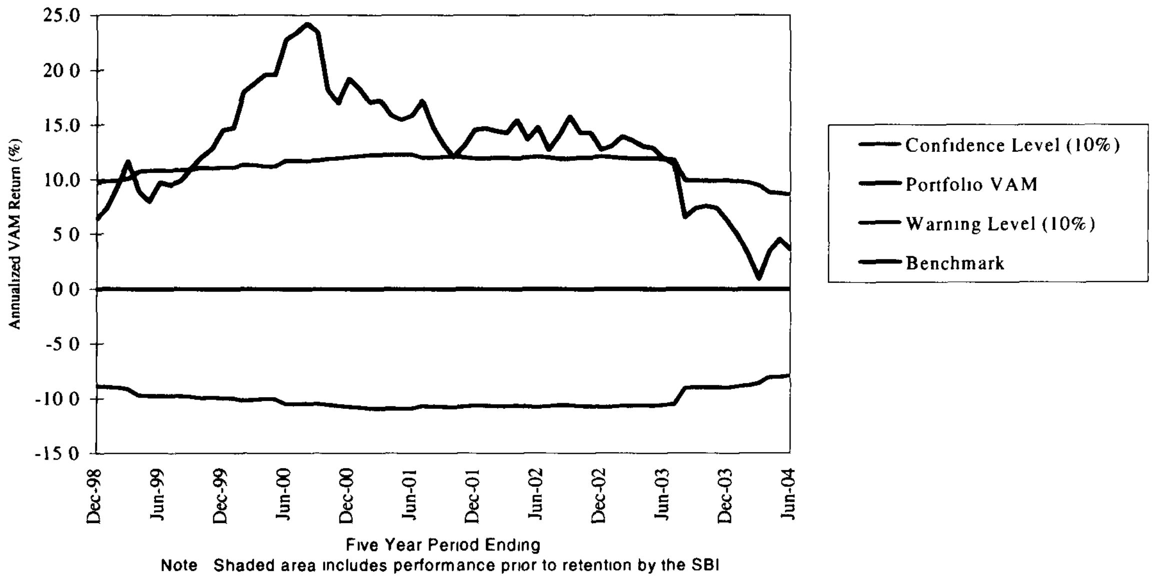
NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending June, 2004

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $31,684,657**

Next Century Growth Investors
Rolling Five Year VAM vs. Russell 2000 Growth



Next Century Growth Investors
Rolling Five Year VAM vs. Manager Benchmark



TURNER INVESTMENT PARTNERS
Periods Ending June, 2004

Portfolio Manager: William McVail **Assets Under Management: $132,958,353**

Investment Philosophy

The team's investment philosophy is based on the belief that earnings expectations drive stock prices. The team adds value primarily through stock selection and pursues a bottom-up strategy Ideal candidates for investment are growth companies that have above average earnings prospects, reasonable valuations, favorable trading volume, and price patterns. Each security is subjected to three separate evaluation criteria· fundamental analysis (80%), quantitative screening (10%), and technical analysis (10%).

Proprietary computer models enable the team to assess the universe based on multiple earnings growth and valuation factors. The factors are specific to each economic sector Fundamental analysis is the heart of the stock selection process and helps the team determine if a company will exceed, meet or fall short of consensus earnings expectations Technical analysis is used to evaluate trends in trading volume and price patterns for individual stocks as the team searches for attractive entry and exit points

Staff Comments

The portfolio outperformed the Russell 2000 Growth index by 1.0 percentage point during the quarter due to strong overall stock selection.

Implementation of the 'Back to Basics" strategy is nearing completion; the goal of this strategy is to refocus the firm on institutional growth equity The firm is entertaining the possibility of adding long/short portfolios to compliment its current growth portfolios, but no concrete plans are in place at this time.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	1 1%	0.1%	0.1%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	4 6	5 7	5.7

Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
YTD 6/30/04	4 6%	5.7%	5 7%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

TURNER INVESTMENT PARTNERS
Periods Ending June, 2004

Portfolio Manager: William McVail **Assets Under Management: $132,958,353**

VAM Graphs will be drawn for period ending 3/31/06.

WINSLOW CAPITAL MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Joseph Docter **Assets Under Management: $132,289,007**

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 outperformed the Russell 2000 Growth index by 1.3 percentage points (ppt) during the quarter. Strong stock selection, particularly within the electronic technology, health technology, and technology services sectors contributed to performance.

For the year, the portfolio underperformed the Russell 2000 Growth index by 8.3 ppt and the blended manager benchmark by 8.3 ppt Weak stock selection within the industrials and consumer discretionary sectors detracted from performance

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

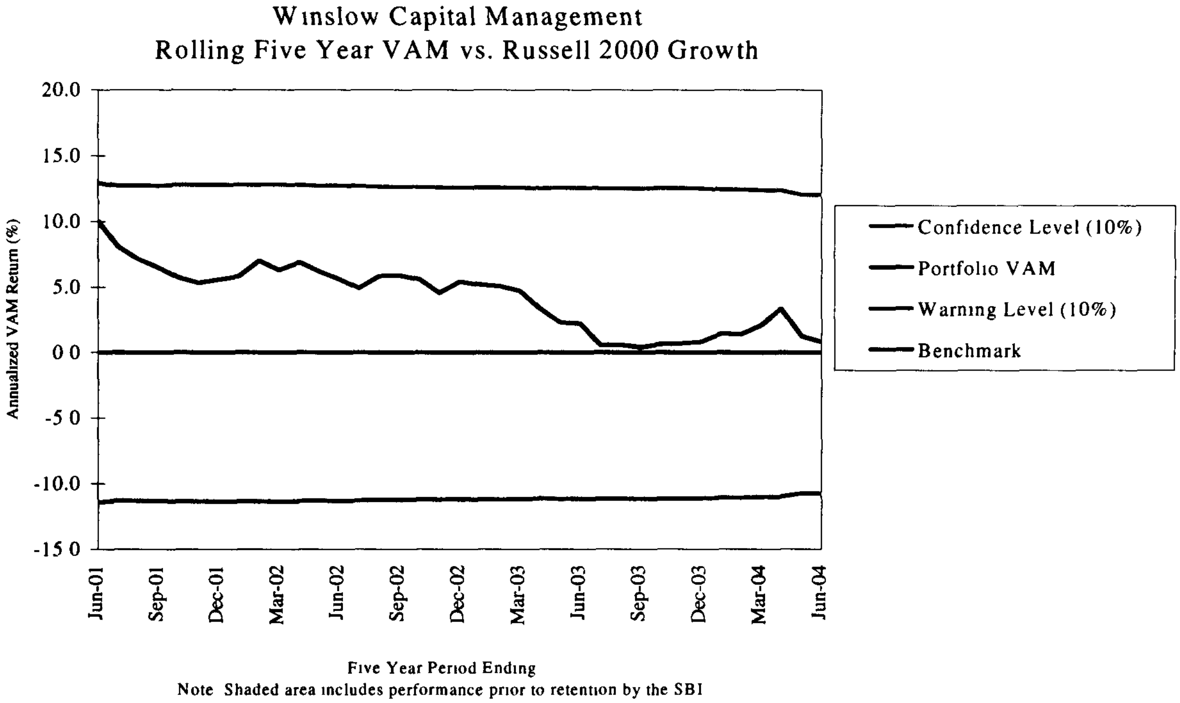
	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	1.4%	0.1%	0.1%
Last 1 year	23.2	31.5	31.5
Last 2 years	13.5	15.1	15.9
Last 3 years	-2.4	-0.2	3.5
Last 4 years	-2.7	-6.6	-0.1
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-2.7	-6.6	-0.1

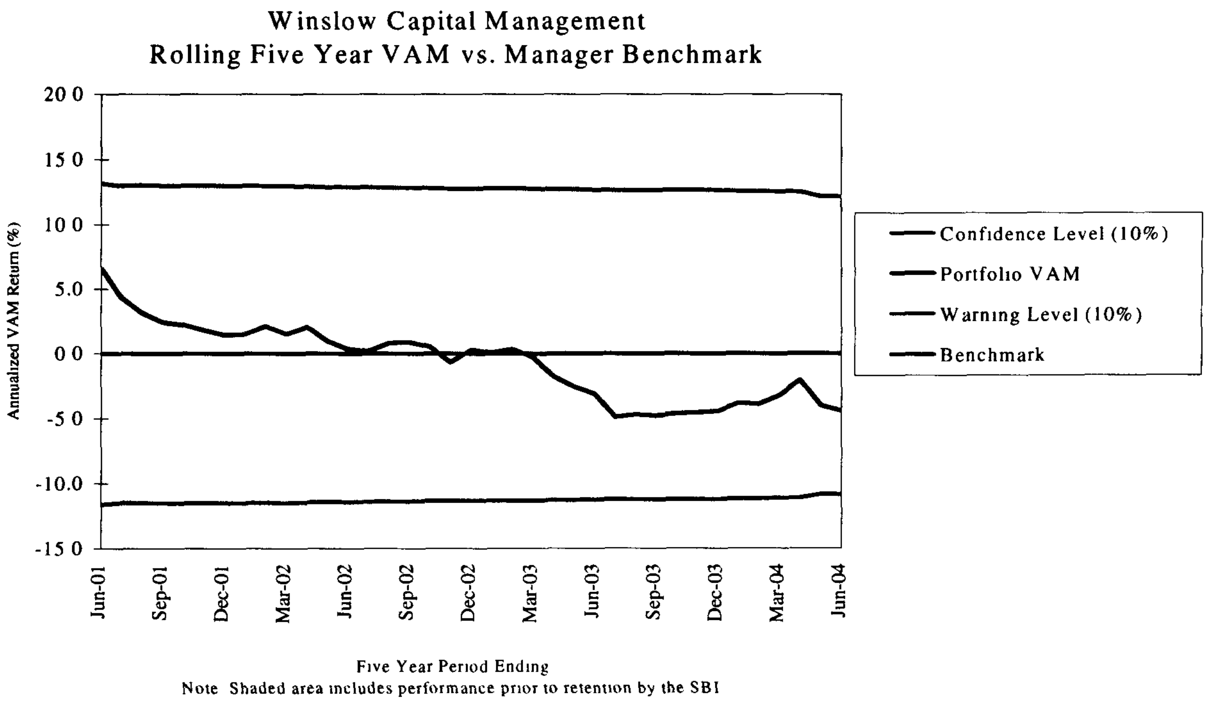
Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
YTD 6/30/04	3.5%	5.7%	5.7%
2003	37.6	48.5	51.3
2002	-25.0	-30.3	-26.7
2001	-6.1	-9.2	4.6
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

WINSLOW CAPITAL MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Joseph Docter **Assets Under Management: $132,289,007**





Small Cap Value (R2000 Value)

Small Cap Value (R2000 Value)

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KENWOOD CAPITAL MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Jacob Hurwitz and Kent Kelley **Assets Under Management: $46,308,936**

Investment Philosophy

The portfolio management team relies primarily on quantitative appraisal, fundamental analysis supplements the model-based stock selection discipline. The goal is to systematically tilt client portfolios toward stocks that offer a superior return-to-risk tradeoff. In order to achieve consistency of performance, risk management is integrated into all aspects of the investment process Risk is monitored at the security, sector, and portfolio level

The centerpiece of the stock selection process is a quantitative model that ranks stocks based upon potential excess return Key elements of the model include assessments of valuation, earnings, and market reaction Models are created for twelve sectors using sector-specific criteria Qualitative analysis assesses liquidity, litigation/regulatory risk, and event risk The team focuses on bottom up stock selection within a sector neutral framework.

Staff Comments

The portfolio outperformed the Russell 2000 Value index by 0.5 percentage points during the quarter. Strong stock selection within the health technology and transportation sectors contributed to performance. An underweight allocation to the finance sector added value.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	1 3%	0 8%	0.8%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	10 6	7.8	7 8

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
YTD 6/30/04	10 6%	7.8%	7 8%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

KENWOOD CAPITAL MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Jacob Hurwitz and Kent Kelley   Assets Under Management: $46,308,936

VAM Graphs will be drawn for period ending 3/31/06.

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Chip Otness **Assets Under Management: $98,439,610**

Investment Philosophy

The firm's value equity philosophy is based on the belief that all successful investing begins with fundamental stock selection that should thoughtfully weigh a stock's price and prospects. A company's prospective ability to generate high cash flow returns on capital will strongly influence investment success. The team follows a strong valuation discipline to purchase well-positioned, cash generating businesses run by shareholder-oriented management teams

Through extensive proprietary research, the team confirms that a candidate company's long-term competitive advantage and earnings power are intact The team seeks to purchase a stock at a price that encompasses a healthy margin of safety The investment process involves three steps. 1) prioritizing research, 2) analyzing fundamentals, and 3) portfolio construction. The independent Risk and Performance Analytics Group (RPAG) monitors daily portfolio management risk, adherence to client guidelines and general portfolio strategy

Staff Comments

The portfolio outperformed the Russell 2000 Value index by 0 3 percentage points during the quarter. The manager cited strong stock selection across multiple sectors as the primary contributor to performance.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	1 1%	0.8%	0 8%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	5.2	7.8	7.8

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
YTD 6/30/04	5 2%	7 8%	7 8%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Chip Otness **Assets Under Management: $98,439,610**

VAM Graphs will be drawn for period ending 3/31/06.

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Jim Miles and David Green **Assets Under Management: $103,843,633**

Investment Philosophy

The firm seeks to exploit mis-priced securities in the small cap market by investing in "undiscovered" or "out of favor" companies. The team invests in stocks where the present value of the company's future cash flows exceeds the current market price This approach exploits equity market inefficiencies created by irrational investor behavior and lack of Wall Street research coverage of smaller capitalization stocks. The team employs a disciplined, bottom-up investment process that emphasizes internally generated fundamental research

The investment process begins with a quantitative screen based on market capitalization, trading liquidity and enterprise value/normalized EBIT, supplemented with ideas generated from the investment team Internal research is then utilized to identify the most attractive valuation opportunities within this value universe. The primary focus of the research analyst is to determine a company's "normal" earnings power, which is the basis for security valuation.

Staff Comments

For the quarter, the portfolio underperformed the Russell 2000 Value index by 1 3 percentage points Weak stock selection within the producer industries and consumer durables sectors detracted from performance An overweight position in technology services coupled with ineffective stock selection pressured returns.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	-0 5%	0.8%	0 8%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	11 0	7 8	7.8

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
YTD 6/30/04	11 0%	7 8%	7 8%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Jim Miles and David Green **Assets Under Management: $103,843,633**

VAM Graphs will be drawn for period ending 3/31/06.

MARTINGALE ASSET MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: William Jacques **Assets Under Management: $105,068,076**

Investment Philosophy

Martingale's investment process seeks to exploit the long-term link between undervalued company fundamentals and current market prices to achieve superior investment returns Martingale has a long history of employing sound quantitative methods

The valuation process is comprised of well-researched valuation indicators that have stood the test of time, with improvements made only after careful evaluation, testing and analysis. Multiple characteristics of quality, value and momentum are examined. The quality of company management is assessed by reviewing commitment to R&D, accounting practices with regard to earnings and cash flow from operations, and the ability to manage inventory

The average holding period of a stock is typically one year Every holding is approached as an investment in the business, with the intention of holding it until either objectives are reached, or it becomes apparent that there are better opportunities in other stocks.

Staff Comments

For the quarter, the portfolio outperformed the Russell 2000 Value index by 1.2 percentage points. Overall strong stock selection contributed to performance, and was particularly effective within the consumer non-durables and industrial services sectors An overweight allocation to transportation coupled with strong stock selection aided performance

The firm hired James Eysenbach, CFA. He will spend approximately half his time on portfolio construction and optimization for all client accounts, and the other half on market and model research.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	2 0%	0 8%	0 8%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	12 3	7 8	7 8

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
YTD 6/30/04	12 3%	7 8%	7.8%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

MARTINGALE ASSET MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: William Jacques **Assets Under Management: $105,068,076**

VAM Graphs will be drawn for period ending 3/31/06.

PEREGRINE CAPITAL MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $152,750,270**

Investment Philosophy

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

Staff Comments

The portfolio outperformed the Russell 2000 Value index by 0.7 percentage points (ppt) during the quarter. An overweight allocation to the health services sector coupled with strong stock selection contributed to performance Underweight positions in finance and health technology added value, strong stock selection enhanced the positive impact.

For the year, the portfolio matched the return of the Russell 2000 Value index, but underperformed the blended manager benchmark by 0.4 ppt. Weakness among technology holdings detracted from performance

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	1 5%	0.8%	0 8%
Last 1 year	35 2	35.2	35.6
Last 2 years	12 2	14 0	15.7
Last 3 years	11.9	12.2	14.1
Last 4 years	18 3	16.6	20.2
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	18 3	16 6	20.2

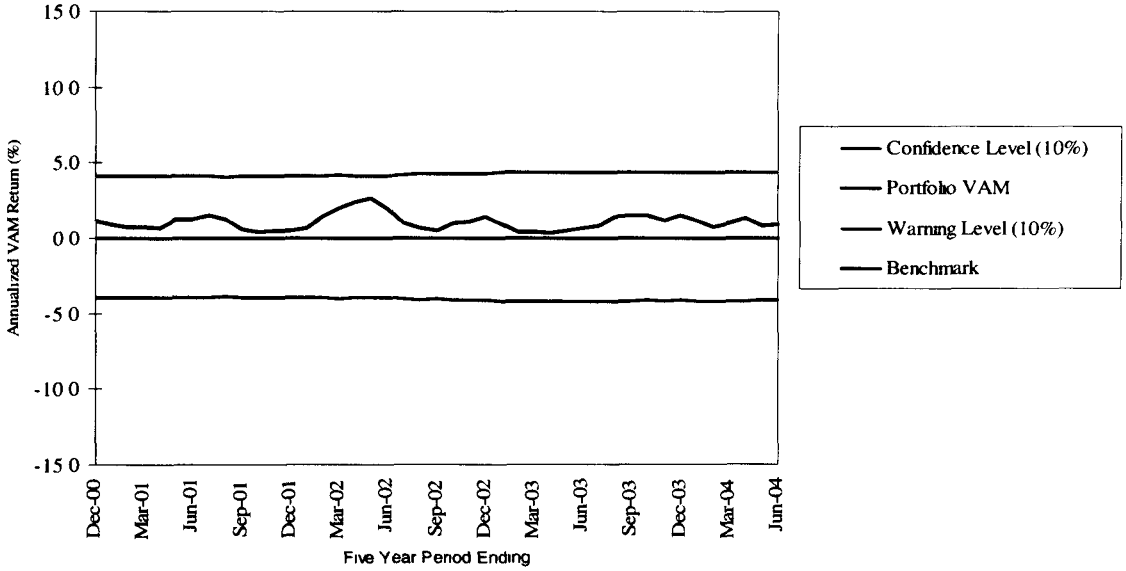
Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
YTD 6/30/04	6 5%	7.8%	7.8%
2003	44 2	46.0	44.2
2002	-8 1	-11.4	-6.9
2001	12.6	14.0	22.9
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

PEREGRINE CAPITAL MANAGEMENT
Periods Ending March, 2004

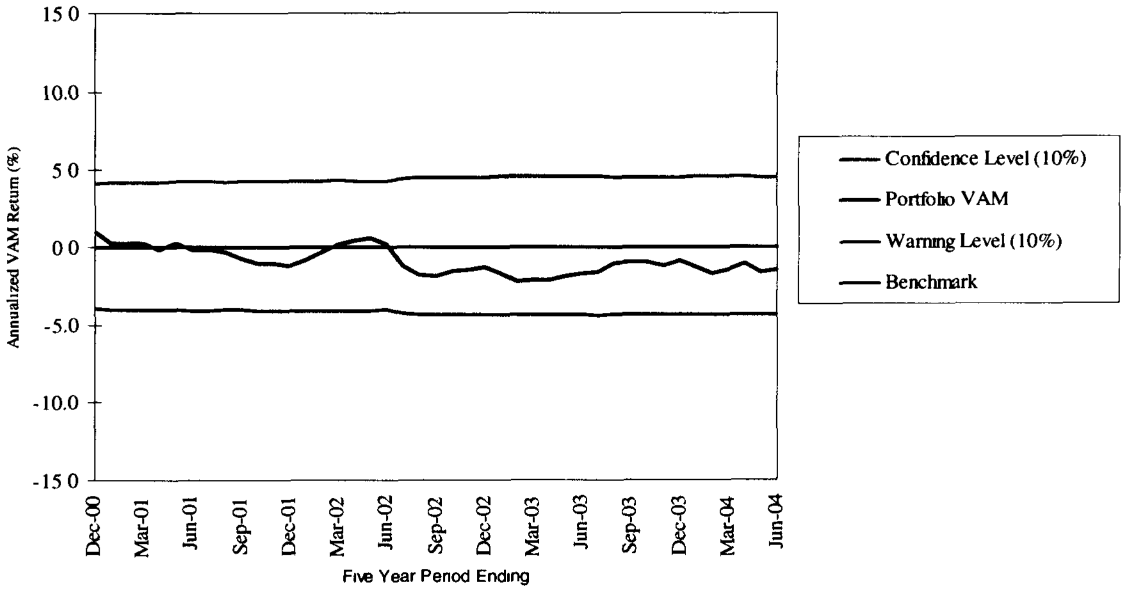
Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $152,750,270**

Peregrine Capital Management
Rolling Five Year VAM vs. Russell 2000 Value



Note Shaded area includes performance prior to retention by the SBI

Peregrine Capital Management
Rolling Five Year VAM vs. Manager Benchmark



Note Shaded area includes performance prior to retention by the SBI

Semi-Passive and Passive

Semi-Passive and Passive

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BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2004

Portfolio Manager: Rhonda Vitanye **Assets Under Management: $2,487,844,015**

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

The portfolio underperformed the Russell 1000 index by 0.2 percentage points (ppt) during the quarter Weak stock selection within the electronic technology, finance, and consumer services sectors negatively impacted performance.

For the year, the portfolio outperformed the blended manager benchmark by 0 7 ppt. During this period the manager's relative valuation and earnings quality investment themes were the primary contributors to performance

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	1 2%	1 4%
Last 1 year	20 2	19 5
Last 2 years	10 7	9.5
Last 3 years	1 8	1 1
Last 4 years	-2 9	-4.6
Last 5 years	-1 7	-3.2
Since Inception (1/95)	11 4	10.6

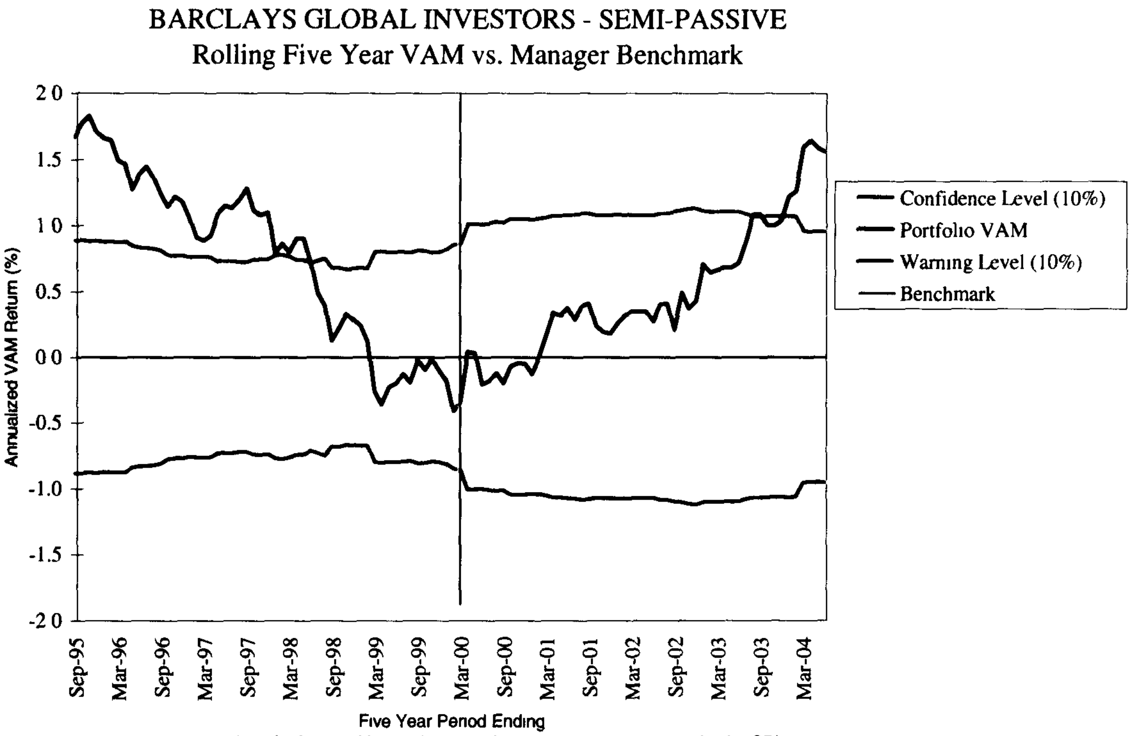
Calendar Year Returns

	Actual	Manager Benchmark*
YTD 6/30/04	3 7%	3 3%
2003	30 0	28 5
2002	-19 1	-19 7
2001	-7.8	-9.7
2000	-13 8	-16 3
1999	14 1	16 3

* Completeness Fund until 12/1/03; Russell 1000 beginning 1/1/04

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2004

Portfolio Manager: Rhonda Vitanye **Assets Under Management: $2,487,844,015**



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2004

Portfolio Manager: John Cone **Assets Under Management: $1,792,574,070**

Investment Philosophy – Semi-Passive Style

Franklin believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns Franklin builds a portfolio by using a series of more than 30 integrated computer models that value a universe of 3500 stocks Their models rank each security based on fundamental momentum, relative value, future cash flow, and supplementary models A composite ranking then provides one ranked list of securities reflecting their relative attractiveness Stocks that fall below the median ranking are sold, and proceeds are reinvested in stocks from the top deciles in the ranking system. They use the BARRA risk model to monitor the portfolio's systematic risk and industry weightings relative to the selected benchmark. For this semi-passive mandate, they seek to achieve a residual risk of 1 5% or less. The firm remains fully invested at all times.

Staff Comments

The portfolio underperformed with Russell 1000 index by 0 1 percentage points (ppt) during the quarter. Weak stock selection within the retail trade and electronic technology sectors detracted from performance An underweight allocation to the outperforming energy minerals sector represented a missed opportunity

For the year, the portfolio underperformed the blended manager benchmark by 0.4 ppt. Overall stock selection was the primary detractor from performance. An overweight allocation to telecommunications and an underweight position in basic materials negatively impacted returns.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	1.3%	1.4%
Last 1 year	19 1	19 5
Last 2 years	8 5	9.5
Last 3 years	0.4	1.1
Last 4 years	-4 5	-4 6
Last 5 years	-3.3	-3 2
Since Inception (1/95)	10 2	10 6

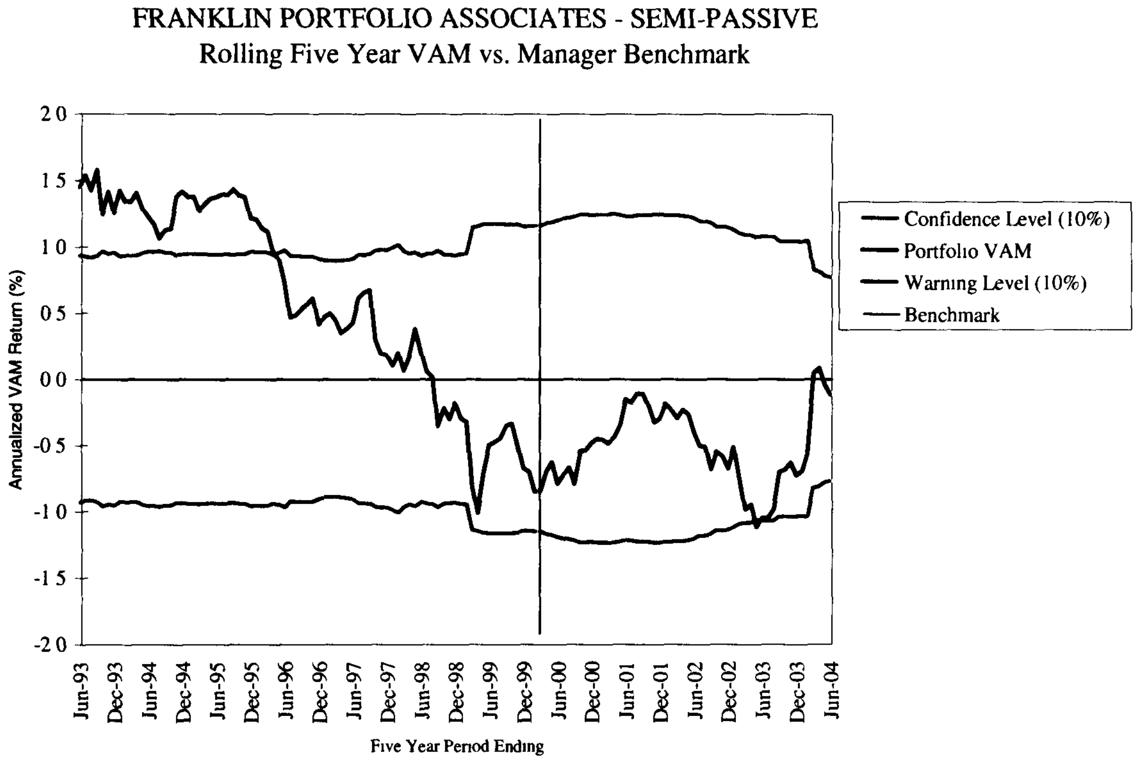
Calendar Year Returns

	Actual	Manager Benchmark*
YTD 6/30/04	3 7%	3.3%
2003	26 9	28 5
2002	-20 2	-19 7
2001	-9 0	-9.7
2000	-15 9	-16.3
1999	12 9	16 3

* Completeness Fund until 12/1/03, Russell 1000 beginning 1/1/04.

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2004

Portfolio Manager: John Cone **Assets Under Management: $1,792,574,070**



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, 2004

Portfolio Manager: Tim Devlin | **Assets Under Management: $2,112,928,715**

Investment Philosophy – Semi-Passive Style

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

Staff Comments

The portfolio underperformed the Russell 1000 index by 0.1 percentage points (ppt) during the quarter. Weak stock selection within the health technology, consumer durables, and retail trade sectors detracted from performance For the year, the portfolio matched the blended manager benchmark

The merger of JP Morgan and Bank One closed on 7/1/2004, and the core of Bank One's domestic equity management will be combined with JP Morgan in New York. Per our portfolio manager, the semi-passive team will be unaffected by this reorganization. JP Morgan may retain a small number of Bank One analysts if they are determined to be good candidates

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	1.3%	1 4%
Last 1 year	19.5	19.5
Last 2 years	9 1	9.5
Last 3 years	0 0	1.1
Last 4 years	-4 2	-4.6
Last 5 years	-3 3	-3.2
Since Inception (1/95)	10 7	10 6

Calendar Year Returns

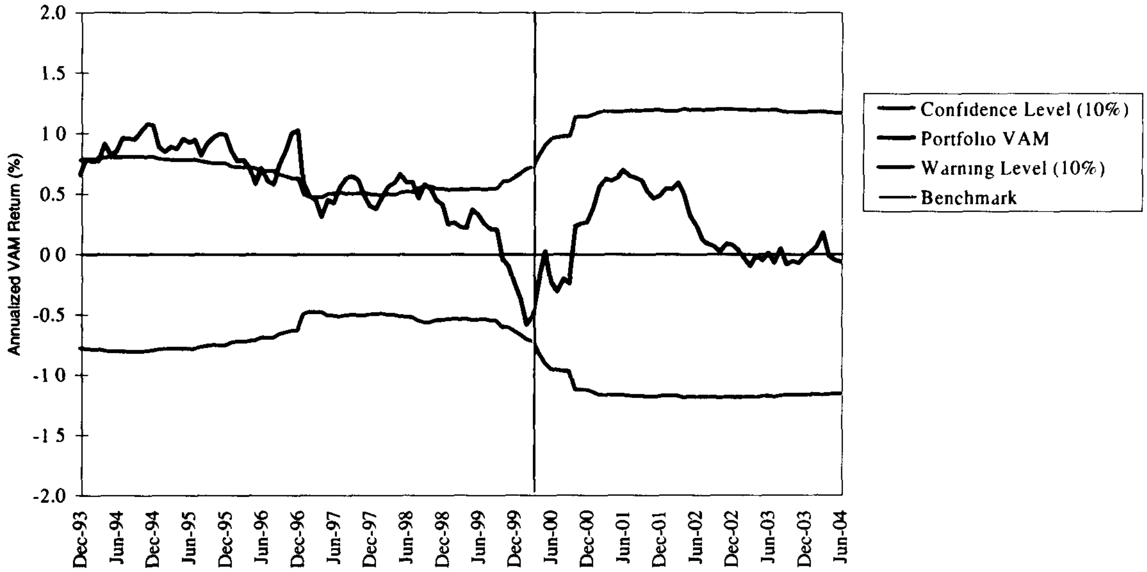
	Actual	Manager Benchmark*
YTD 6/30/04	3 7%	3 3%
2003	28 9	28 5
2002	-21 8	-19 7
2001	-8.7	-9 7
2000	-13 6	-16.3
1999	14 0	16 3

* Completeness Fund until 12/1/03; Russell 1000 beginning 1/1/04

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending June, 2004

Portfolio Manager: Tim Devlin **Assets Under Management: $2,112,928,715**

JP MORGAN - SEMI-PASSIVE
Rolling Five Year VAM vs. Manager Benchmark



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

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2004

Portfolio Manager: Amy Schioldager | **Assets Under Management: $6,463,941,250**

Investment Philosophy – Passive Style

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

Staff Comments

The portfolio outperformed the Russell 3000 index by 0.1 percentage points (ppt) during the quarter. The strength of large cap stocks relative to small cap stocks proved beneficial for the portfolio. For the year, the portfolio underperformed the blended manager benchmark by 0.1 ppt.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	1.4%	1.3%
Last 1 year	20.5	20.6
Last 2 years	10.2	10.3
Last 3 years	0.0	0.2
Last 4 years	-4.0	-4.1
Last 5 years	-1.4	-1.5
Since Inception (7/95)	10.0	9.8

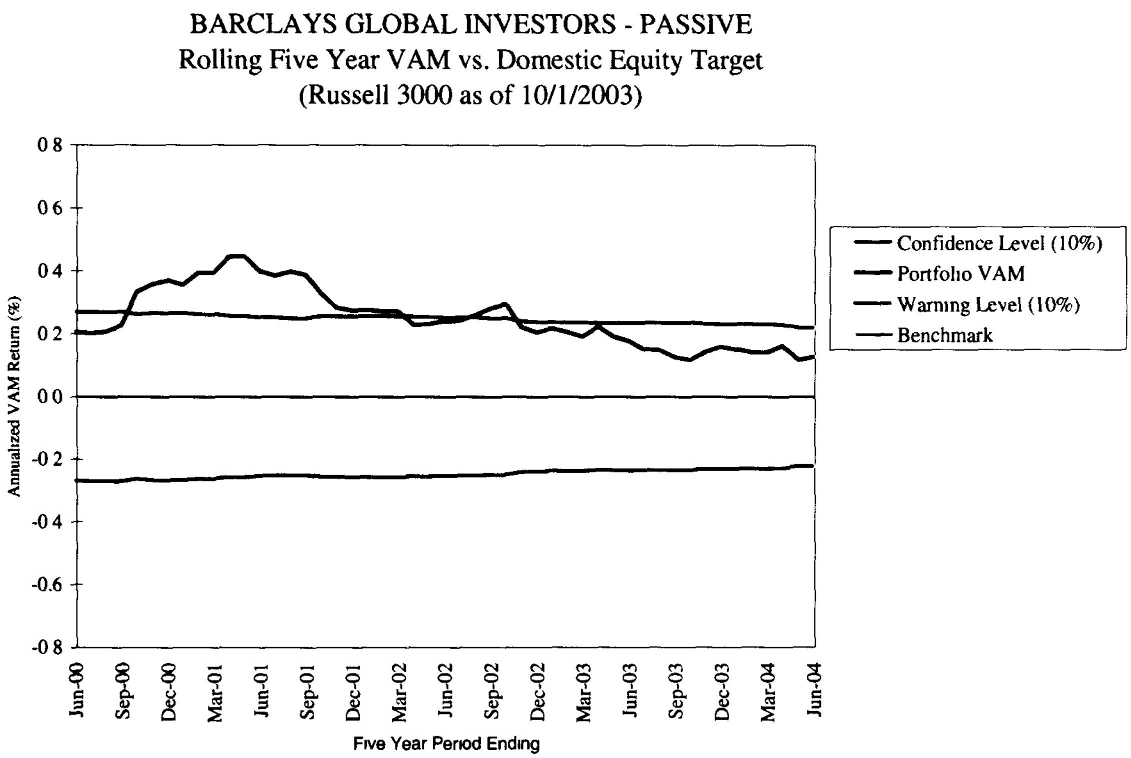
Calendar Year Returns

	Actual	Manager Benchmark*
YTD 6/30/04	3.6%	3.6%
2003	30.9	31.2
2002	-21.4	-21.5
2001	-11.8	-11.7
2000	-9.8	-11.0
1999	23.3	23.6

* Domestic Equity Target (Russell 3000 Index as of 10/1/03).

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2004

Portfolio Manager: Amy Schioldager **Assets Under Management: $6,463,941,250**



STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Second Quarter, 2004

COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending June, 2004

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	%
Active Managers												
American Express (AMG)	-2.3	-2.4	0.5	0.3	5.1	6.4	6.2	6.9	6.3	6.6	$783.6	9 1%
Deutsche	-2.4	-2.4	1.0	0 3	7.0	6.4			8 3	7.7	$635 1	7.4%
Dodge & Cox	-2.1	-2 4	2.0	0 3	7.9	6.4			9.1	7 7	$797 7	9.3%
Morgan Stanley	-1.1	-2.4	2.6	0 3	6.5	6 4	7.3	6 9	9.8	9.5	$761.4	8.9%
Western	-1.4	-2.4	3.8	0 3	8.4	6.4	8.7	6 9	10.8	9.5	$1,278 2	14 9%
Semi-Passive Managers												
BlackRock	-2 2	-2.4	0 5	0 3	6.6	6 4	7.2	6.9	7.2	6 9	$1,445 0	16 8%
Goldman	-2.1	-2.4	1.5	0.3	6.8	6.4	7 3	6.9	6 9	6 6	$1,432.3	16 7%
Lincoln	-2.4	-2.4	0.6	0.3	6 6	6.4	7 1	6.9	8 1	8.0	$1,443.2	16.8%
											$8,576.6	**100.0%**
									Since 7/1/84			
Historical Aggregate (2)	**-2.0**	**-2.4**	**1.5**	**0.3**	**6.7**	**6.4**	**7.3**	**6.9**	**9.6**	**9.4**		
Lehman Aggregate (3)		-2.4		0 3		6 4		6.9		9 5		

(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, 2004

Portfolio Manager: Colin Lundgren | **Assets Under Management: $783,582,144**

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 the benchmark for the quarter the year. The performance for both periods was helped by the short duration position and a curve flattening bias. The allocation to high yield also contributed to the outperformance for both periods.

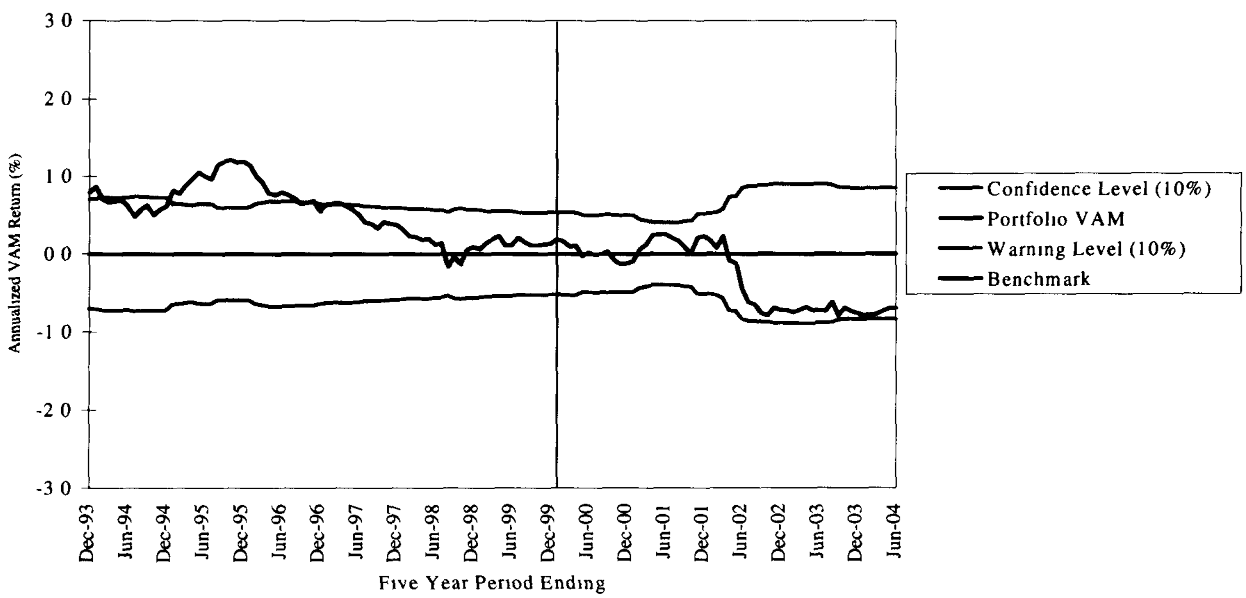
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.3%	-2.4%
Last 1 year	0.5	0.3
Last 2 years	4.9	5.2
Last 3 years	5.1	6.4
Last 4 years	6.6	7.6
Last 5 years	6.2	6.9
Since Inception (7/93)	6.3	6.6

Recommendations

No action required.

AMERICAN EXPRESS ASSET MANAGEMENT - FIXED INCOME
Rolling Five Year VAM



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

DEUTSCHE ASSET MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Warren Davis | **Assets Under Management: $635,118,009**

Investment Philosophy

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

Staff Comments

Deutsche Asset matched the quarterly benchmark and outperformed for the year. The one-year outperformance was primarily due to the overweight position in asset backed securities. A significant overweight to Commercial Mortgage-Backed securities also helped performance.

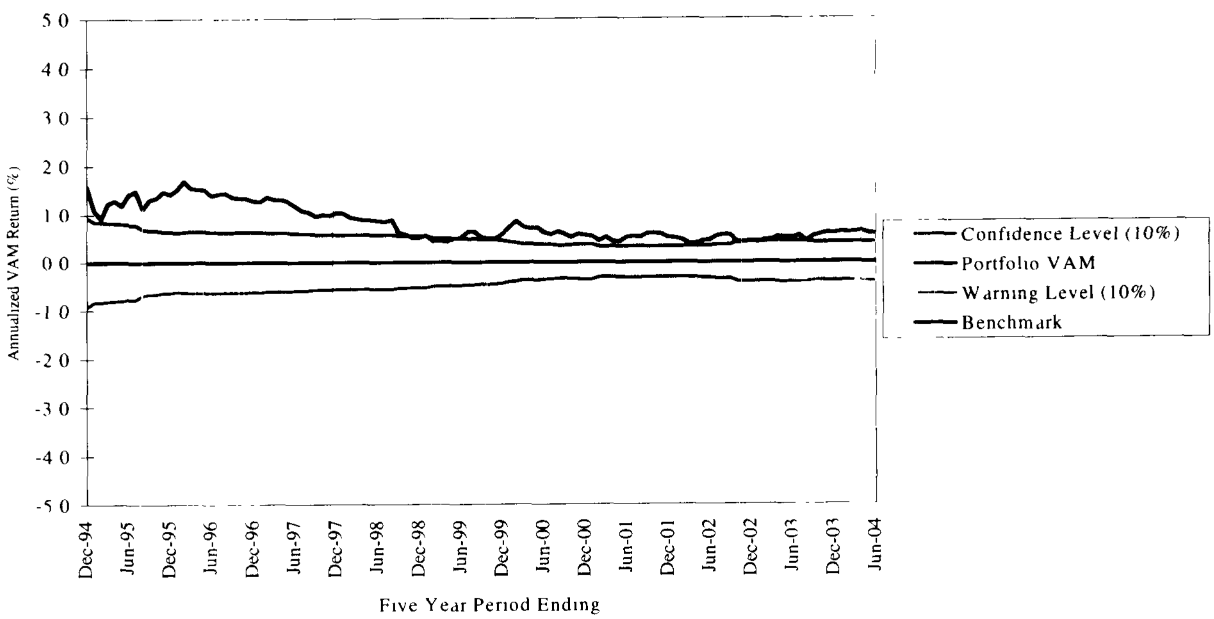
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.4%	-2.4%
Last 1 year	1.0	0.3
Last 2 years	6.0	5.2
Last 3 years	7.0	6.4
Last 4 years	8.2	7.6
Last 5 years	N/A	N/A
Since Inception (2/00)	8.3	7.7

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, 2004

Portfolio Manager: Dana Emery **Assets Under Management: $797,698,514**

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 outperformed the quarterly and one-year benchmark. The portfolio's shorter than benchmark duration contributed strongly to the quarterly return, and enhanced the one-year return. Also a large overweight to corporates significantly contributed to the one year performance.

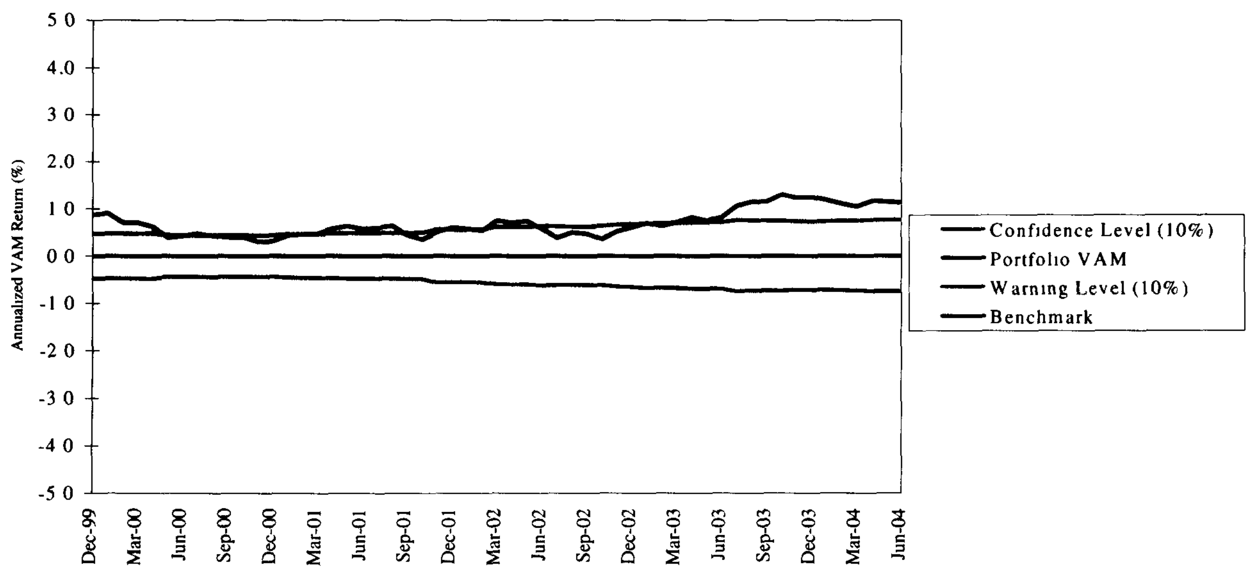
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.1%	-2.4%
Last 1 year	2.0	0.3
Last 2 years	7.2	5.2
Last 3 years	7.9	6.4
Last 4 years	9.1	7.6
Last 5 years	N/A	N/A
Since Inception (2/00)	9.1	7.7

Recommendations

No action required.

DODGE & COX INVESTMENT MANAGERS
Rolling Five Year VAM



Five Year Period Ending
Note Shaded area includes performance prior to the retention by the SBI

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: David Horowitz | **Assets Under Management: $761,362,509**

Investment Philosophy

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

Staff Comments

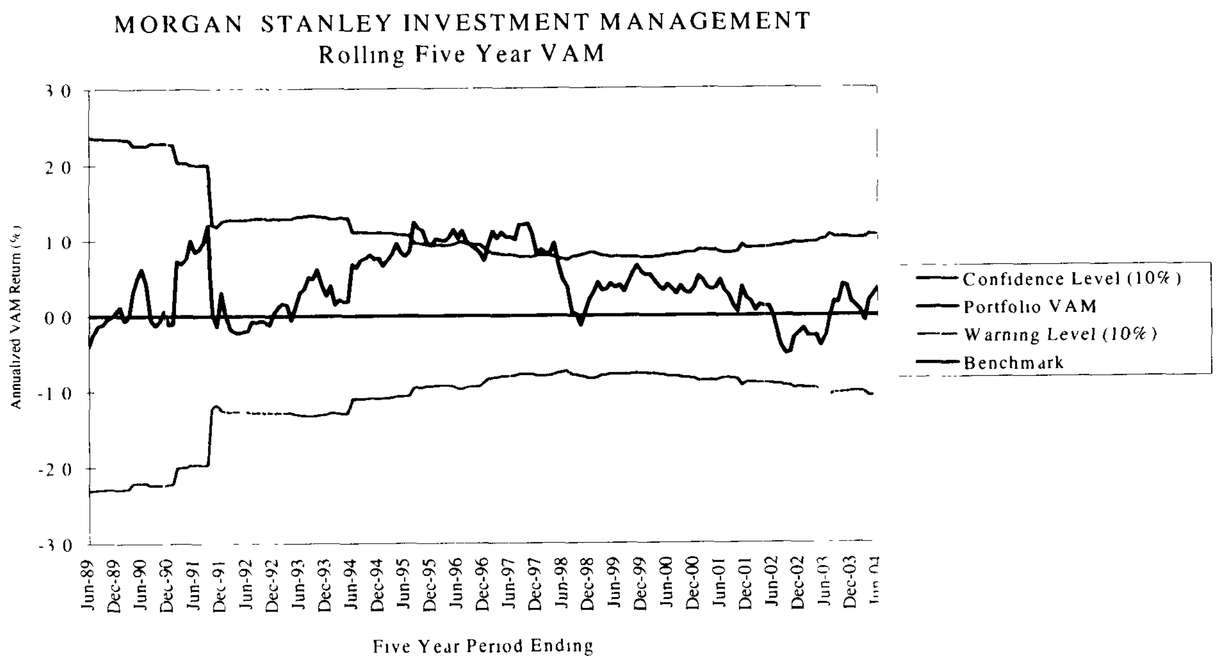
Morgan Stanley's quarterly outperformance was due to their shorter than benchmark duration bet. For the year, the portfolio outperformed due to their short duration bet, and their corporate and mortgage security selections

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.1%	-2.4%
Last 1 year	2.6	0.3
Last 2 years	5.3	5.2
Last 3 years	6.5	6.4
Last 4 years	8.0	7.6
Last 5 years	7.3	6.9
Since Inception (7/84)	9.8	9.5

Recommendations

No action required



WESTERN ASSET MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Ken Leech **Assets Under Management: $1,278,218,228**

Investment Philosophy

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

Staff Comments

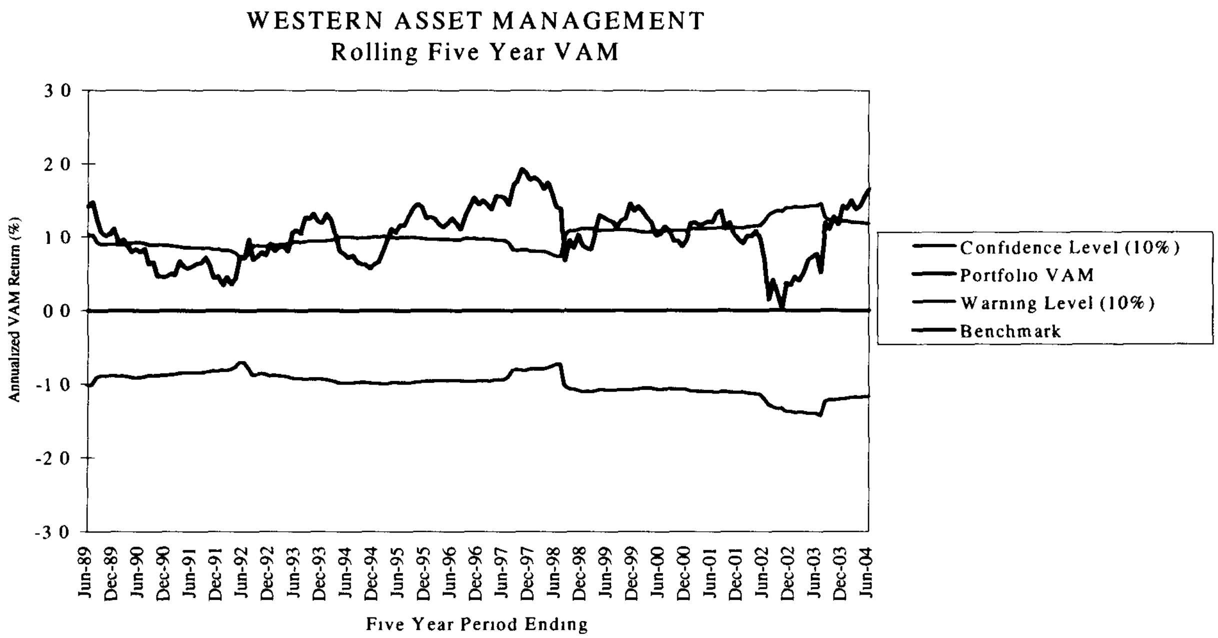
Several of the portfolio strategies helped Western outperform the quarterly and one-year benchmark. The primary contributer to the quarterly performance was a barbell curve exposure that benefited from the interest rate curve flattening during the quarter. The high-yield exposure and a slight overweight to the mortgage-backed sector also contributed to the quarterly outperformance. The one-year return was helped by the allocation to TIPS, high yield and investment grade bonds.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.4%	-2.4%
Last 1 year	3.8	0.3
Last 2 years	8.3	5.2
Last 3 years	8.4	6.4
Last 4 years	9.5	7.6
Last 5 years	8.7	6.9
Since Inception (7/84)	10.8	9.5

Recommendations

No action required.



BLACKROCK, INC.
Periods Ending June, 2004

Portfolio Manager: Keith Anderson **Assets Under Management: $1,445,032,622**

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

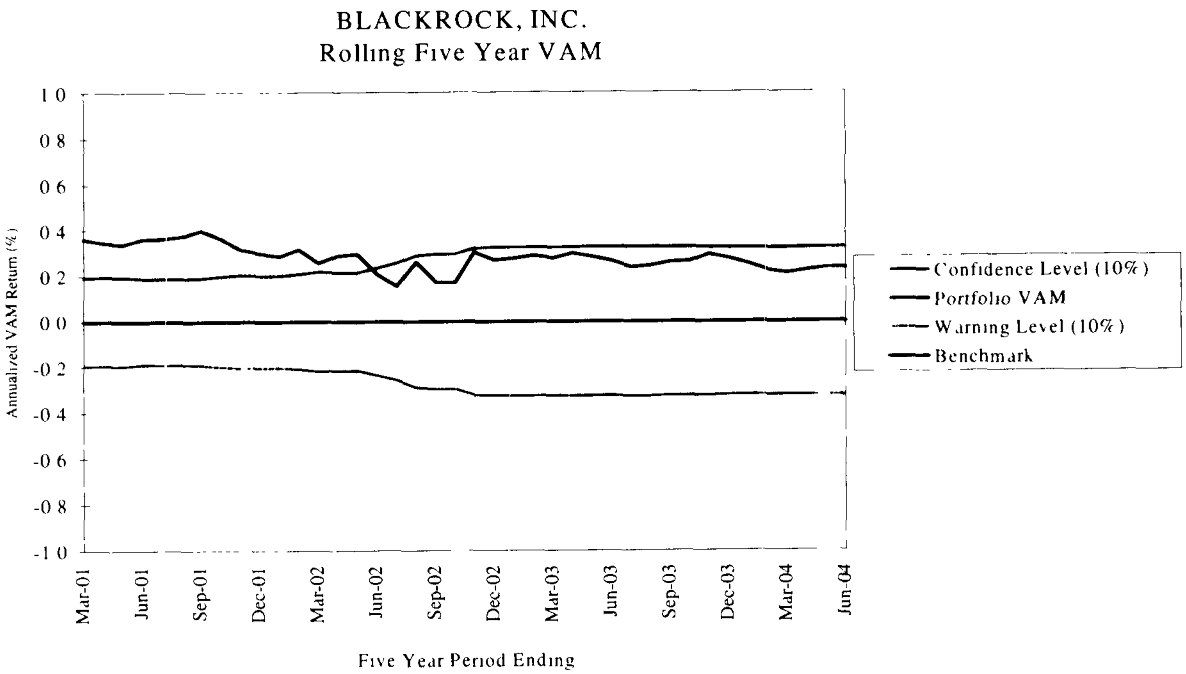
BlackRock outperformed for the quarter and the one-year periods The portfolio was helped by its short duration positioning and a yield curve flattening bias The one-year return continues to benefit from the short duration positioning

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2 2%	-2 4%
Last 1 year	0 5	0 3
Last 2 years	5.7	5.2
Last 3 years	6.6	6.4
Last 4 years	7.7	7.6
Last 5 years	7.2	6.9
Since Inception (4/96)	7 2	6 9

Recommendation

No action required



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Jonathon Beinner **Assets Under Management: $1,432,338,414**

Investment Philosophy

Goldman manages an enhanced index portfolio closely tracking the Lehman Aggregate. Goldman's process can be viewed as active management within a very risk-controlled framework. The firm relies primarily on sector allocation and security selection strategies to generate incremental return. To a lesser degree, term structure strategies are also implemented. Goldman combines long-term strategic investment tilts with short-term tactical trading opportunities. Strategic tilts are based on fundamental and quantitative sector research and seek to optimize the long-term risk/return profile of portfolios. Tactical trades between sectors and securities within sectors are implemented to take advantage of short-term market anomalies. Goldman was retained by the SBI in July 1993.

Staff Comments

For the quarter and year, security selection in the corporate and mortgage sectors contributed to their outperformance.

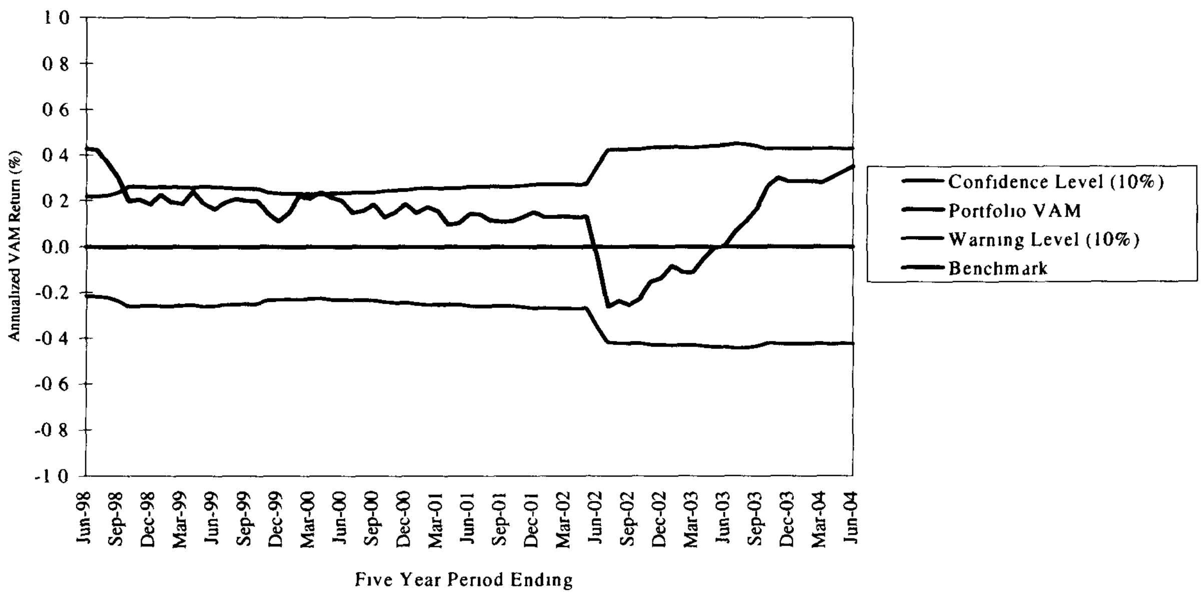
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.1%	-2.4%
Last 1 year	1.5	0.3
Last 2 years	6.2	5.2
Last 3 years	6.8	6.4
Last 4 years	7.9	7.6
Last 5 years	7.3	6.9
Since Inception (7/93)	6.9	6.6

Recommendations

No action required.

GOLDMAN SACHS ASSET MANAGEMENT
Rolling Five Year VAM



LINCOLN CAPITAL FIXED INCOME MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Andrew Johnson | **Assets Under Management: $1,443,222,274**

Investment Philosophy

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

Staff Comments

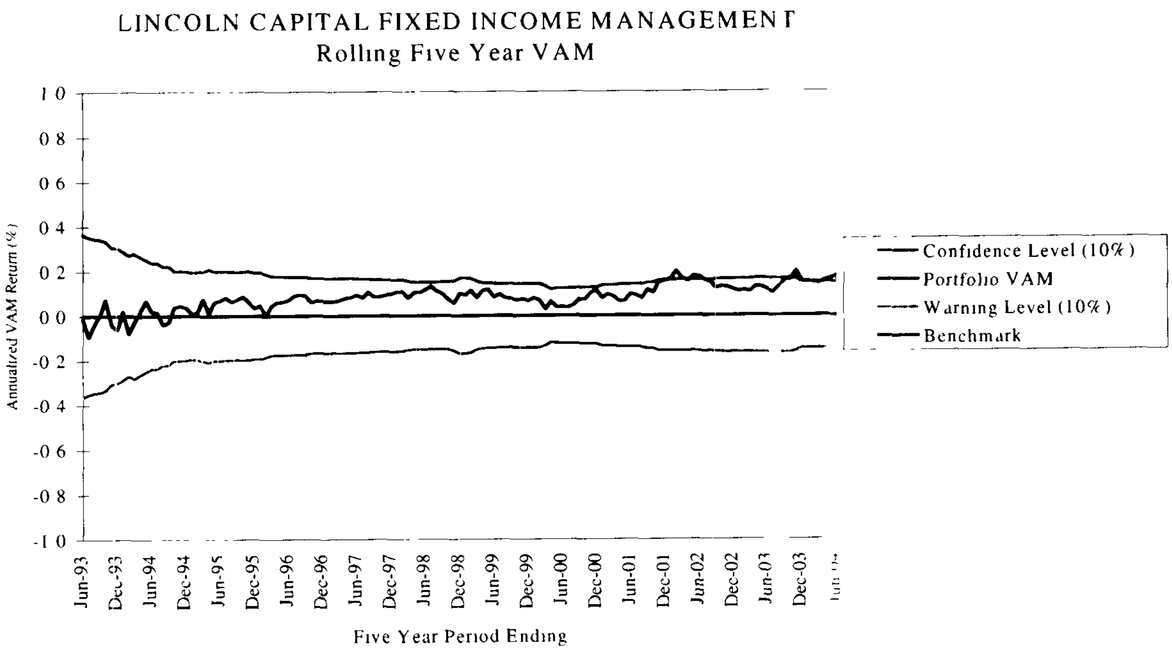
Lincoln matched the benchmark for the quarter. The one-year return was helped by security selection in the corporate and asset backed sectors

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.4%	-2.4%
Last 1 year	0.6	0 3
Last 2 years	5.4	5.2
Last 3 years	6 6	6.4
Last 4 years	7.8	7.6
Last 5 years	7 1	6 9
Since Inception (7/88)	8.1	8.0

Recommendations

No action required



STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Second Quarter, 2004

COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending June, 2004

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since (1) Inception Actual %	Since (1) Inception Bmk %	Market Value (in millions)	Pool %
Active Developed Markets (2)												
American Express	-1 0	0 1	24 8	32 0	0 4	3 8			-8 8	-3 6	$515 8	8 9%
Britannic (Blairlogie)	-0 7	0 1	30 3	32 0	3 5	3 8			-4 9	-3 6	$337 7	5 8%
Invesco	2 9	0 1	31 2	32 0	5 2	3 8			1 1	-3 6	$497 5	8 6%
Marathon (3)	0 0	0 1	41 2	35 3	9 9	7 8	6 9	2 9	8 1	5 1	$572 2	9 9%
T Rowe Price	-1 4	0 1	21 6	32 0	0 5	3 8	-1 2	0 0	4 7	4 4	$534 3	9 3%
UBS Global	0 5	0 1	28 7	32 0	4 0	3 8	3 3	0 0	7 7	5 9	$509 7	8 8%
Active Emerging Markets												
Alliance Capital	-9 0	-9 6	34 0	33 1	14 5	13 6			7 0	7 2	$183 8	3 2%
Capital International	-11 9	-9 6	28 7	33 1	8 3	13 6			2 1	7 2	$154 2	2 7%
Morgan Stanley	-12 1	-9 6	33 4	33.1	13 9	13.6			6 9	7.2	$184 2	3 2%
Passive Developed Markets (2)												
State Street	0 2	0 1	32 1	32 0	4 1	3 8	0 2	0 0	6.6	6 3	$2,286 2	39 6%
									Since 10/1/92			
Equity Only (4) (6)	-1 0	-0 9	30 9	32 1	4 5	4 5	0 8	0 2	6 7	6 1	$5,775 7	100 0% *
Total Program (5) (6)	**-1.0**	**-0.9**	**30.9**	**32.1**	**4.5**	**4.5**	**0.8**	**0.2**	**7.1**	**6.1**	**$5,775.7**	
SBI Int'l Equity Target (6)		-0 9		32 1		4 5		0 2		6 1		
MSCI ACWI Free ex U S (7)		-0 9		32 0		4 9		0 7		6 6		
MSCI World ex U S (net)		0.1		31 9		4 1		0 4		6 6		
MSCI EAFE Free (net)		0 2		32 4		3 9		0 1		6 3		
MSCI Emerging Markets Free (8)		-9 6		33 1		12 8		3 1		5 5		

(1) Since retention by the SBI Time period varies for each manager
(2) Since 10/1/03, the Active and Passive Developed Markets managers benchmark is MSCI World ex U S (net) Prior to that date, it was MSCI EAFE Free (net) From 10/1/01 to 5/31/02 the benchmark was the Provisional MSCI EAFE Free (net)
(3) As of 10/1/03, Marathon's benchmark is MSCI World ex U S (net) Through 9/30/03 Marathon was measured against a custom composite benchmark 55% Citigroup EMI EPAC and 45% Citigroup PMI EPAC
(4) Equity managers only Includes impact of terminated managers
(5) Includes impact of currency overlay on the passive EAFE portfolio from 12/1/95-10/31/00
(6) Since 10/1/03, the International Equity asset class target is MSCI ACWI Free ex U S (net) From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) plus Emerging MarketsFree (net), and from 7/1/99 to 12/31/00 the target was MSCI EAFE Free (net) plus Emerging Markets Free (gross) From 7/1/99 to 9/30/03, the weighting of each index fluctuated with market capitalization From 10/1/01 to 5/31/02 all international benchmarks being reported were the MSCI Provisional indices From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE Free (net)/13% Emerging Markets Free (gross) On 5/1/96, the portfolio began transitioning from 100% EAFE Free (net) to the 12/31/96 fixed weights 100% EAFE Free (net) prior to 5/1/96
(7) MSCI ACWI Free ex U S (gross) through 12/31/00 MSCI ACWI Free ex U S (net) thereafter
(8) MSCI Emerging Markets Free (gross) through 12/31/00 MSCI Emerging Markets Free (net) thereafter

* Includes the performance and market value of Schroders, who was terminated in June 2004

AMERICAN EXPRESS ASSET MANAGEMENT INTERNATIONAL, INC.
Periods Ending June, 2004

Portfolio Manager: Alex Lyle and Ed Gaunt **Assets Under Management: $515,842,005**

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

American Express under performed for the quarter due to an overweight in technology, the worst performing sector in the benchmark, and to an underweight in healthcare and consumer staples where performance in the benchmark was good. For the year, the portfolio was hurt by their cash position as equity markets rose strongly, and stock selection made a negative net contribution.

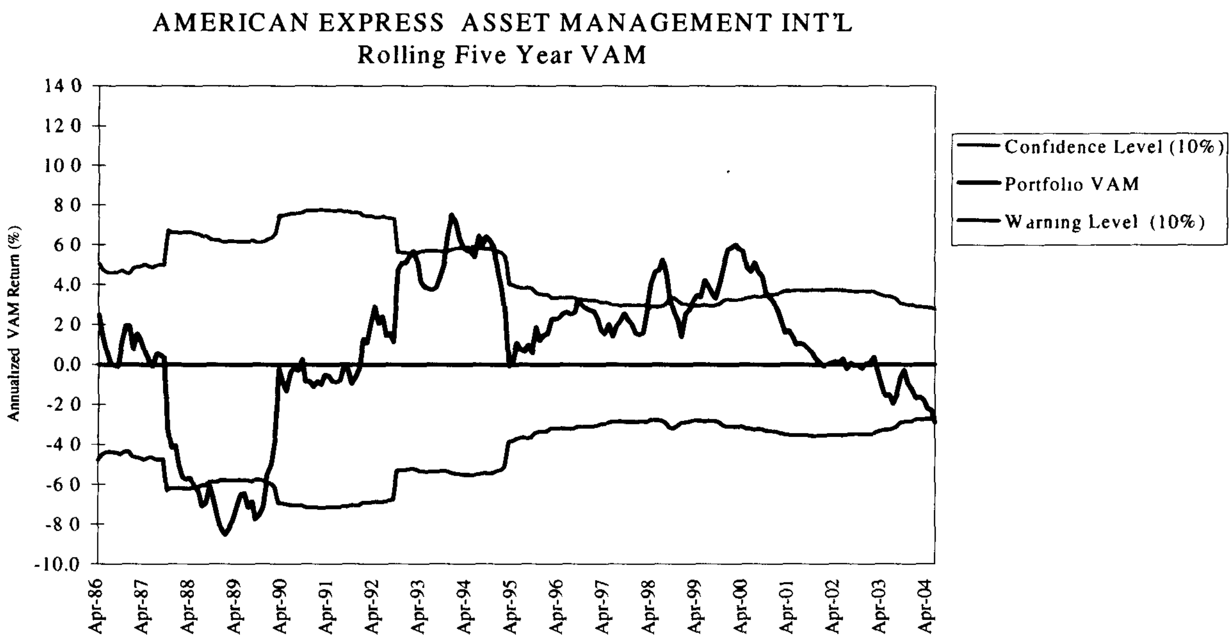
Staff met with American Express in London and reviewed the Threadneedle organization, including compliance, trading, research, regional investment teams, and management. There has been a seamless transfer of the investment management role from the prior American Express team.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.0%	0.1%
Last 1 year	24.8	32.0
Last 2 years	6.4	11.1
Last 3 years	0.4	3.8
Last 4 years	-8.6	-3.8
Last 5 years	N/A	N/A
Since Inception (3/00)	-8.8	-3.6

Recommendations

No action required.



Note: Shaded area includes performance prior to managing SBI account

BRITANNIC ASSET MANAGEMENT (Blairlogie)
Periods Ending June, 2004

Portfolio Manager: James Smith **Assets Under Management: $337,654,413**

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

For the quarter, Britannic trailed the benchmark due to stock selection in Europe, Japan and the UK. Market allocation and currency impact were positive. For the year, stock selection detracted from performance.

Staff met with the firm in their office and discussed both the regional analysts' research process and the recent change in CEO of the firm. Gavin Stewart, formerly COO, replaced Leslie McIntosh as CEO of Britannic Asset Management in May 2004. The Board felt that Gavin's background in product development better suited their goal of growing the investment organization

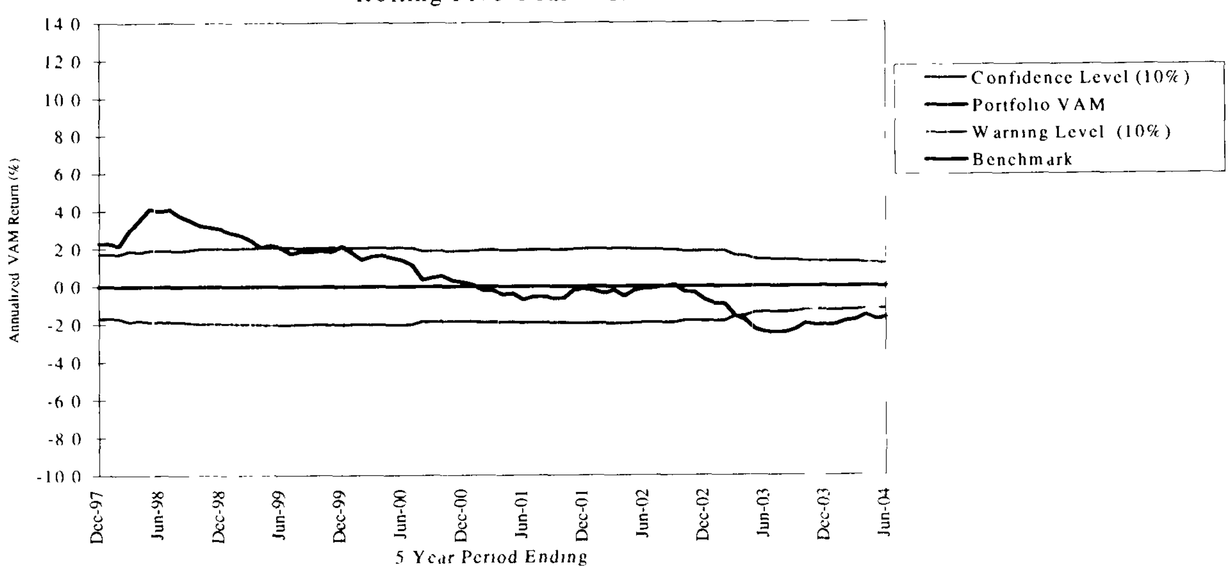
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0 7%	0 1%
Last 1 year	30.3	32.0
Last 2 years	9.8	11.1
Last 3 years	3.5	3.8
Last 4 years	-5 2	-3 8
Last 5 years	N/A	N/A
Since Inception (3/00)	-4 9	-3 6

Recommendations

Staff continues to monitor the firm closely due to performance concerns.

BRITANNIC ASSET MANAGEMENT
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

INVESCO GLOBAL ASSET MANAGMENT
Periods Ending June, 2004

Portfolio Manager: Erik Granade **Assets Under Management: $497,480,677**

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

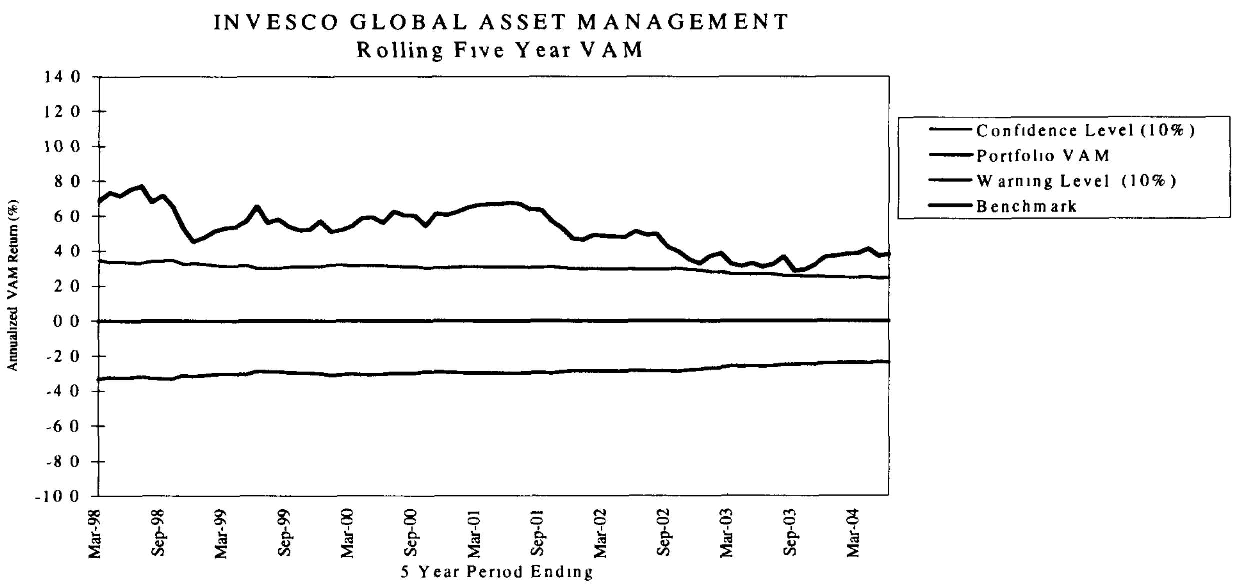
Stock selection across the UK, Europe, and Japan contributed positively to portfolio performance in the quarter. For the year, stock selection was very good in the energy, consumer staples, and industrial sectors.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.9%	0.1%
Last 1 year	31.2	32.0
Last 2 years	9.4	11.1
Last 3 years	5.2	3.8
Last 4 years	0.3	-3.8
Last 5 years	N/A	N/A
Since Inception (3/00)	1.1	-3.6

Recommendations

No action required.



Note Shaded area includes performance prior to managing SBI account

MARATHON ASSET MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: William Arah **Assets Under Management: $572,162,614**

Investment Philosophy

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

Staff Comments

The slight underperformance during the quarter can be partially attributed to an underweight to Europe and an over weight to Hong Kong. Stock selection was positive. For the year, stock selection in all regions resulted in good relative performance

Staff met with the firm in their office and discussed their current views on markets and the portfolio's positioning. Marathon remains bullish on Asia due to economic and cyclical recovery, and in Japan, due to continued structural change They also remain biased to small mid cap stocks where they feel there is more investment opportunity, as large competitors focus on the large cap area of the market.

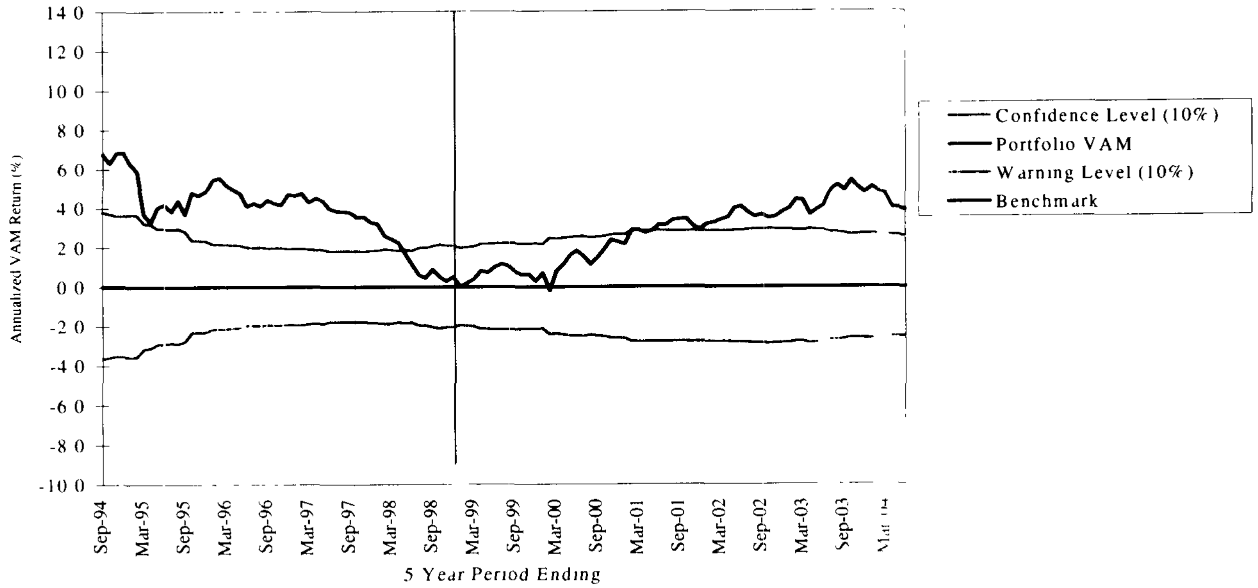
Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	0 0%	0 1%
Last 1 year	41.2	35.3
Last 2 years	15.1	14.9
Last 3 years	9 9	7.8
Last 4 years	4.2	0.0
Last 5 years	6 9	2 9
Since Inception (11/93)	8 1	5.1

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, 2004

Portfolio Manager: Mark Bickford-Smith | **Assets Under Management: $534,287,278**

Investment Philosophy

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

Staff Comments

The portfolio under performed for the quarter due primarily to stocks in Japan, the U.K., and Sweden. Japanese banks detracted from performance as did an over weight in the information technology sector. Industrial stocks performed poorly due to rising oil prices. For the year, stock selection in financials, health care, and telecom stocks were major sources of under performance.

Staff met with the T. Rowe Price team in London and reviewed their return to a single team structure, which they feel will address any problems with communication and execution lag that adversely impacted performance in the past. They feel they are now operating more efficiently and have built up an analyst base.

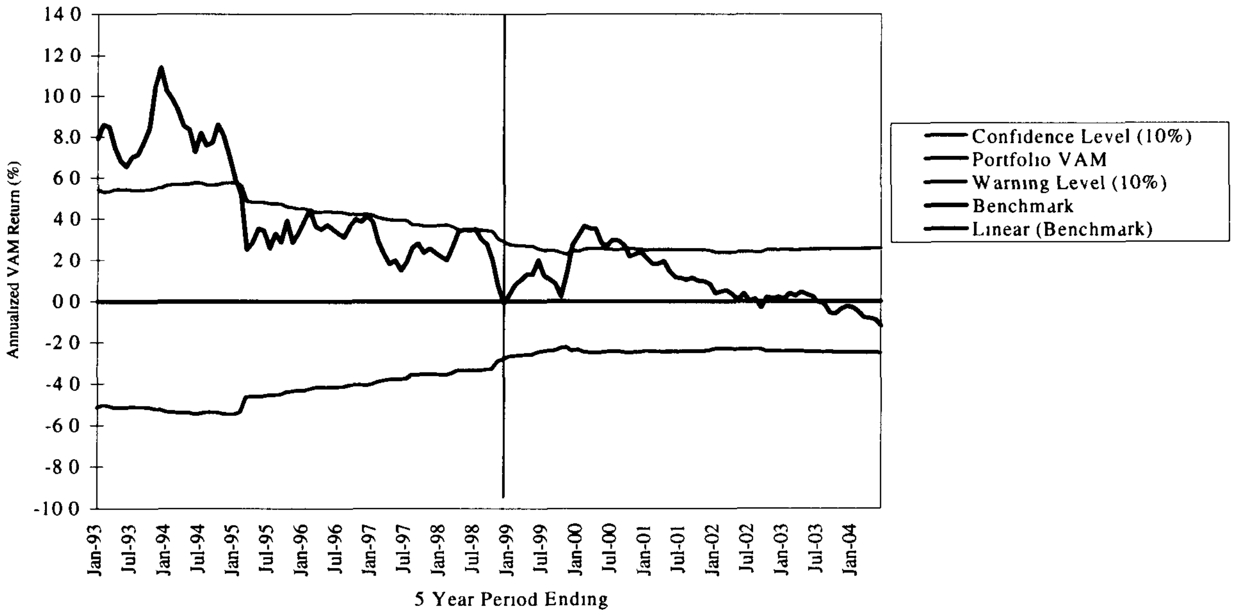
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.4%	0.1%
Last 1 year	21.6	32.0
Last 2 years	5.3	11.1
Last 3 years	0.5	3.8
Last 4 years	-6.9	-3.8
Last 5 years	-1.2	0.0
Since Inception (11/93)	4.7	4.4

Recommendations

No action required.

T. ROWE PRICE INTERNATIONAL
Rolling Five Year VAM



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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending June, 2004

Portfolio Manager: Thomas Madsen **Assets Under Management: $509,734,760**

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

During the quarter, over weighting consumer staple and oil companies relative to the benchmark contributed to the portfolio's outperformance. For the year, the portfolio under performed the benchmark due to stock selection within the bank and media industries. Exposure in pharmaceuticals, health care and capital good sectors hurt performance, as did weak stock selection in Japan.

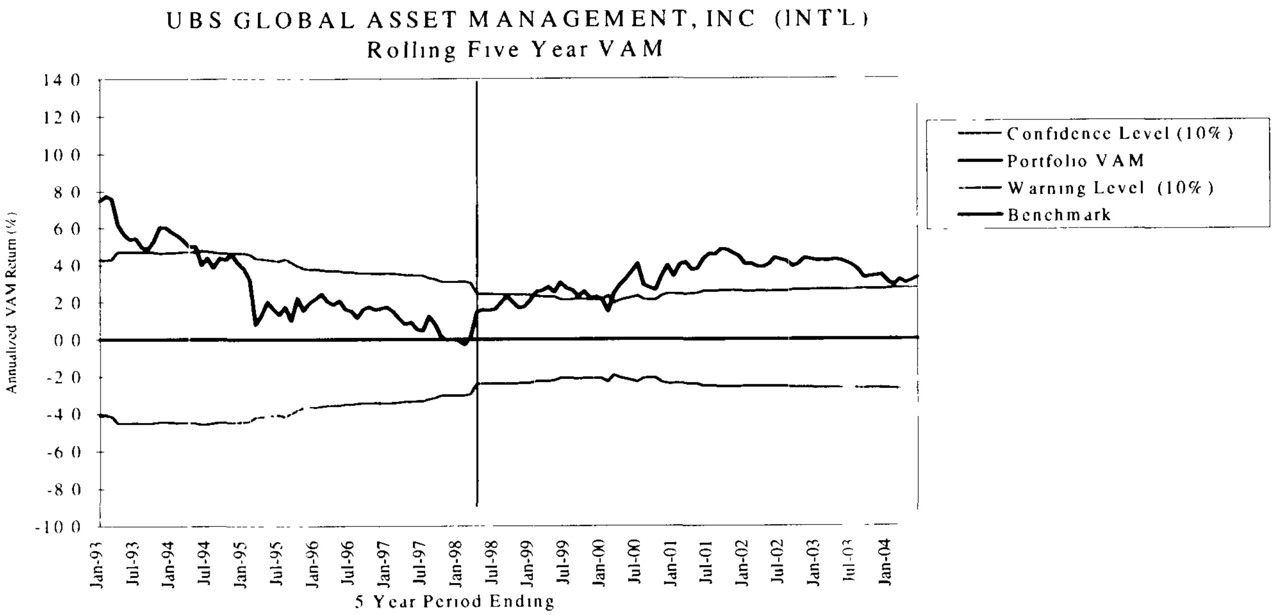
Staff met with the UBS team in London and discussed currency strategy, foreign exchange trading, and portfolio performance. There are fewer currency bets currently in the portfolio, as misvaluations between currencies have decreased

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0 5%	0.1%
Last 1 year	28.7	32.0
Last 2 years	8 8	11.1
Last 3 years	4 0	3 8
Last 4 years	-0 4	-3 8
Last 5 years	3 3	0 0
Since Inception (4/93)	7 7	5.9

Recommendations

No action required



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

ALLIANCE CAPITAL MANAGEMENT INTERNATIONAL
Periods Ending June, 2004

Portfolio Manager: Edward Baker **Assets Under Management: $183,765,277**

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, particularly in Asia, contributed to good performance during the quarter. An Indian regional bank and software out-sourcing firm were strong performers. A new position in China Telecom and holdings in Thailand contributed positively. For the year, Alliance beat the benchmark with good selection in India, Brazil, and Russia. South African and Egyptian telecommunication firms were also big contributors.

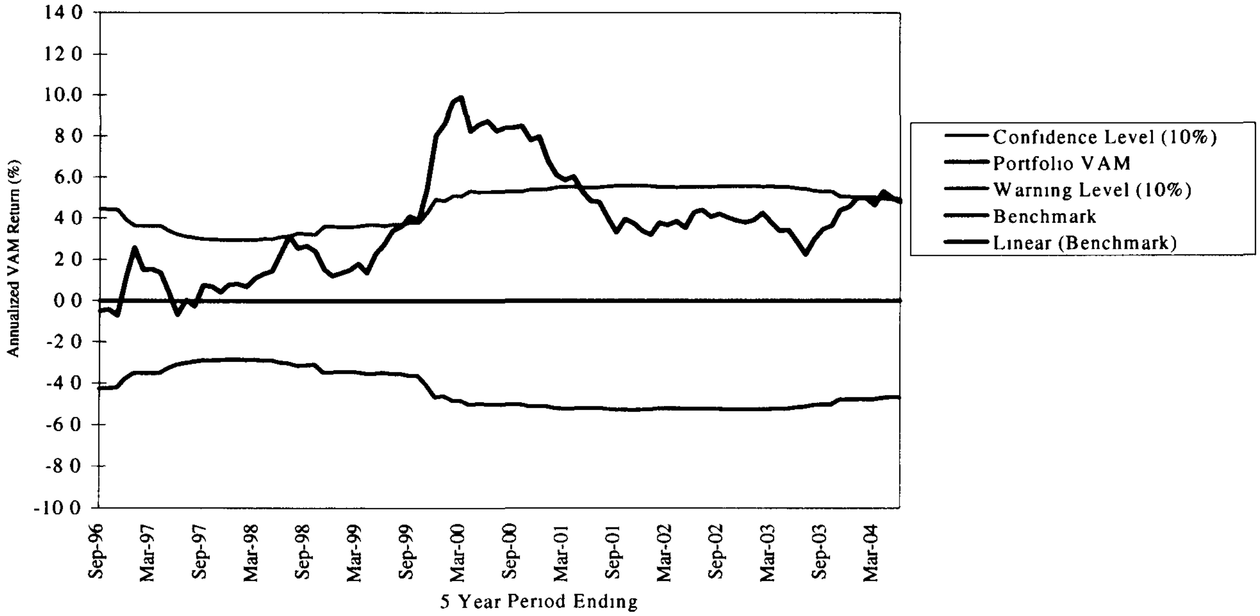
Staff met with Alliance in London and reviewed their compliance system and analyst research process. The portfolio remains overweight financials, telecoms, and healthcare, which are a play on growing consumer demand. The firm lost one financials analyst and will replace this person.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-9.0	-9.6
Last 1 year	34.0	33.1
Last 2 years	20.9	19.2
Last 3 years	14.5	13.6
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	7.0	7.2

Recommendations

No action required.



Note Shaded area includes performance prior to managing SBI account

CAPITAL INTERNATIONAL, INC.
Periods Ending June, 2004

Portfolio Manager: Victor Kohn **Assets Under Management: $154,244,454**

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

Capital's bottom up stock picking strategy under performed for the quarter and year For the quarter, financial stocks detracted most from performance, and Russia's oil company, Yukos, was the worst performing name. For the year, consumer staples and financial stocks hurt performance most

Staff met with two of the multiple portfolio managers in London to discuss portfolio performance and the organization. Capital believes that Asia will continue to gain in market share in the emerging markets, and is adding analyst resources accordingly.

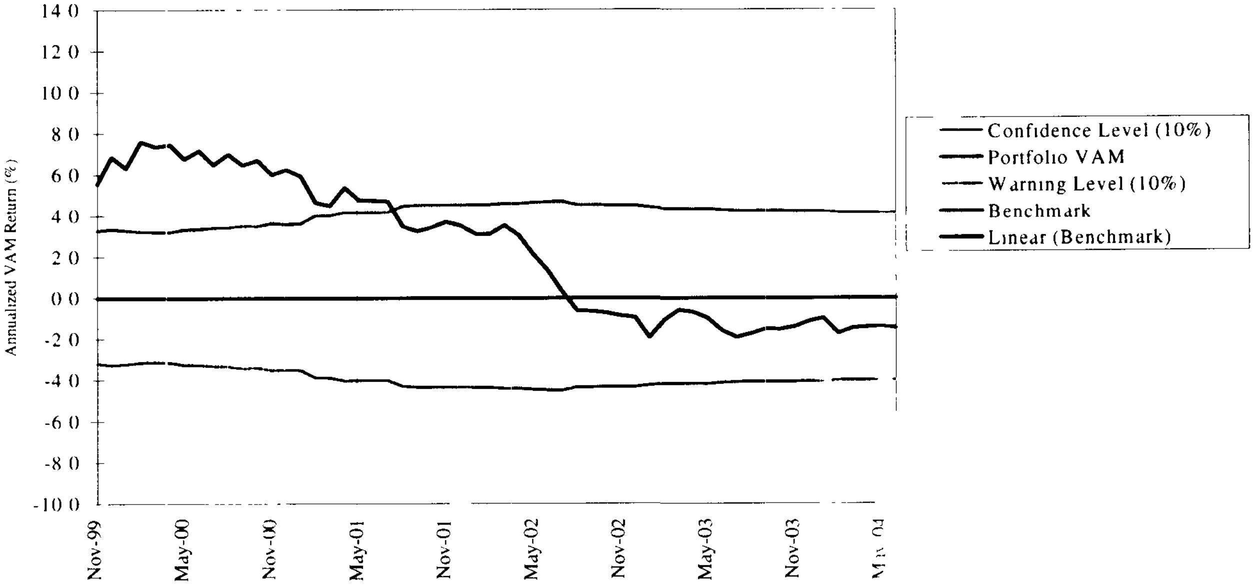
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-11.9	-9.6
Last 1 year	28.7	33.1
Last 2 years	16 4	19 2
Last 3 years	8 3	13 6
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	2 1	7.2

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, 2004

Portfolio Manager: Narayan Ramachandran **Assets Under Management: $184,209,374**

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

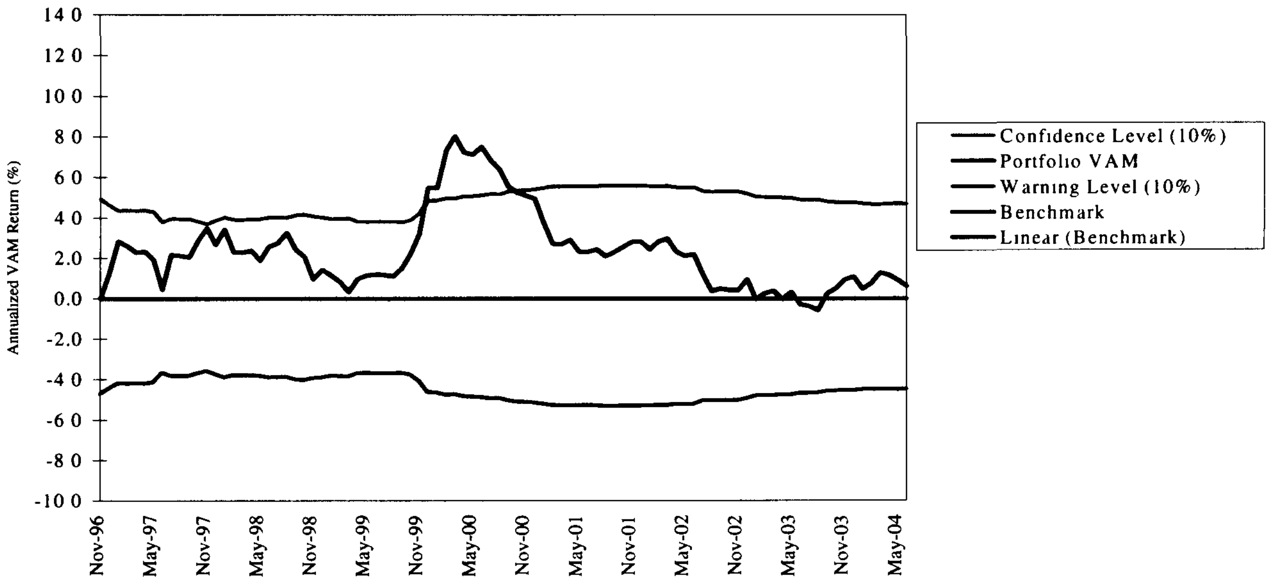
For the quarter, the portfolio holdings in Taiwan, South Korea and India gave back gains under a severe market sell-off. Overweight positions in Turkey and Russia added to overall declines. For the year, stock selection in Russia, India, Turkey, South Africa, and Mexico added value over the benchmark.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-12.1%	-9.6%
Last 1 year	33.4	33.1
Last 2 years	18.1	19.2
Last 3 years	13.9	13.6
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	6.9	7.2

Recommendations

No action required.



Note Shaded area includes performance prior to the retention by the SBI

STATE STREET GLOBAL ADVISORS
Periods Ending June, 2004

Portfolio Manager: Lynn Blake | **Assets Under Management: $2,286,151,363**

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 passive portfolio out performed the benchmark by 0.1% during the quarter and for the year Most of the positive tracking error is due to higher dividend income received in the portfolio relative to the net return of the benchmark

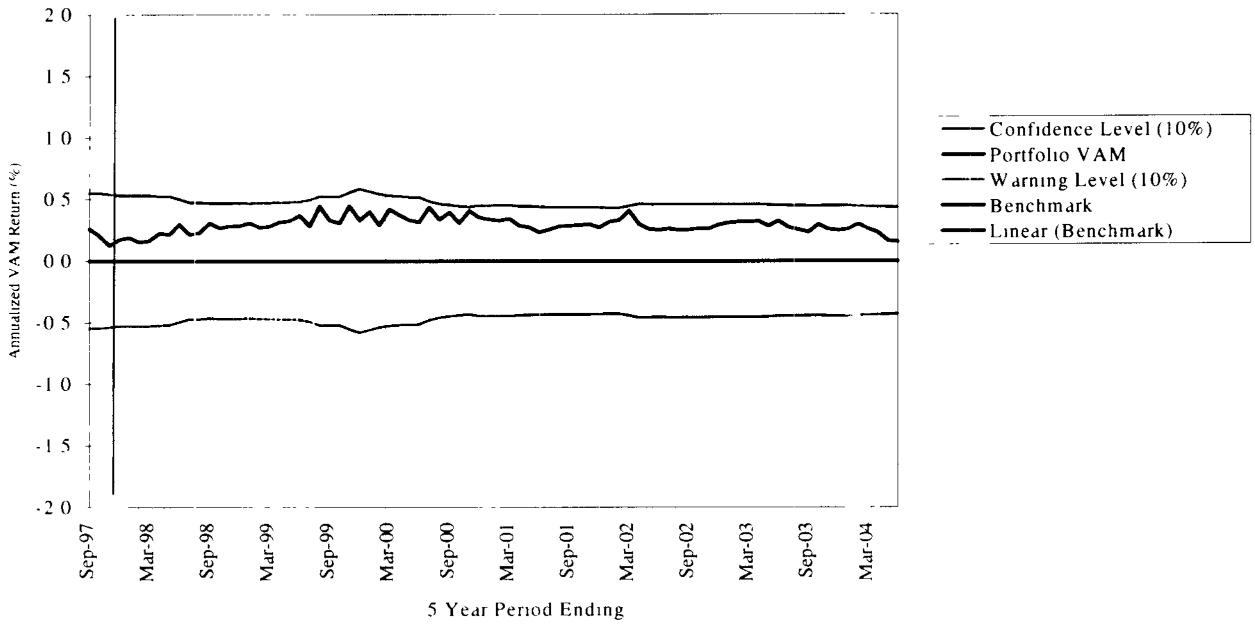
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.2%	0.1%
Last 1 year	32 1	32.0
Last 2 years	11 4	11.1
Last 3 years	4 1	3.8
Last 4 years	-3.7	-3.8
Last 5 years	0.2	0.0
Since Inception (10/92)	6.6	6.3

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, 2004

NON - RETIREMENT MANAGERS
Periods Ending June, 2004

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	(in millions)
GE Investment Management (S&P 500 Index)*	1 3	1 7	14 6	19.1	-1 1	-0 7	-0.5	-2 2	12 8	11 9	$63 6
Voyageur Asset Management (Custom Benchmark)*	-1 7	-1.9	0 5	0.2	4 8	5 4	5 6	6 3	6 8	6 9	$199 8
Galliard Capital Management (3 yr Constant Maturity Treasury + 45 bp)*	1 0	0 9	4 4	2 9	5.3	3 1	5 7	4 2	6 1	5 1	$153 3
Internal Stock Pool (S&P 500 Index)*	1 7	1 7	19 2	19 1	-0.6	-0 7	-2 1	-2 2	10 9	10 8	$605 7
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	-1 8	-2 4	1.6	0 3	6 4	6 4	7 0	6 9	8 3	7 9	$165 4
Internal Bond Pool - Trust (Lehman Aggregate)*	-1 7	-2 4	1 5	0 3	6 7	6.4	7.2	6 9	7 8	7 4	$391 8

* 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, 2004

Portfolio Manager: Dave Carlson — **Assets Under Management: $63,611,823**

Investment Philosophy
Assigned Risk Plan

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

Staff Comments

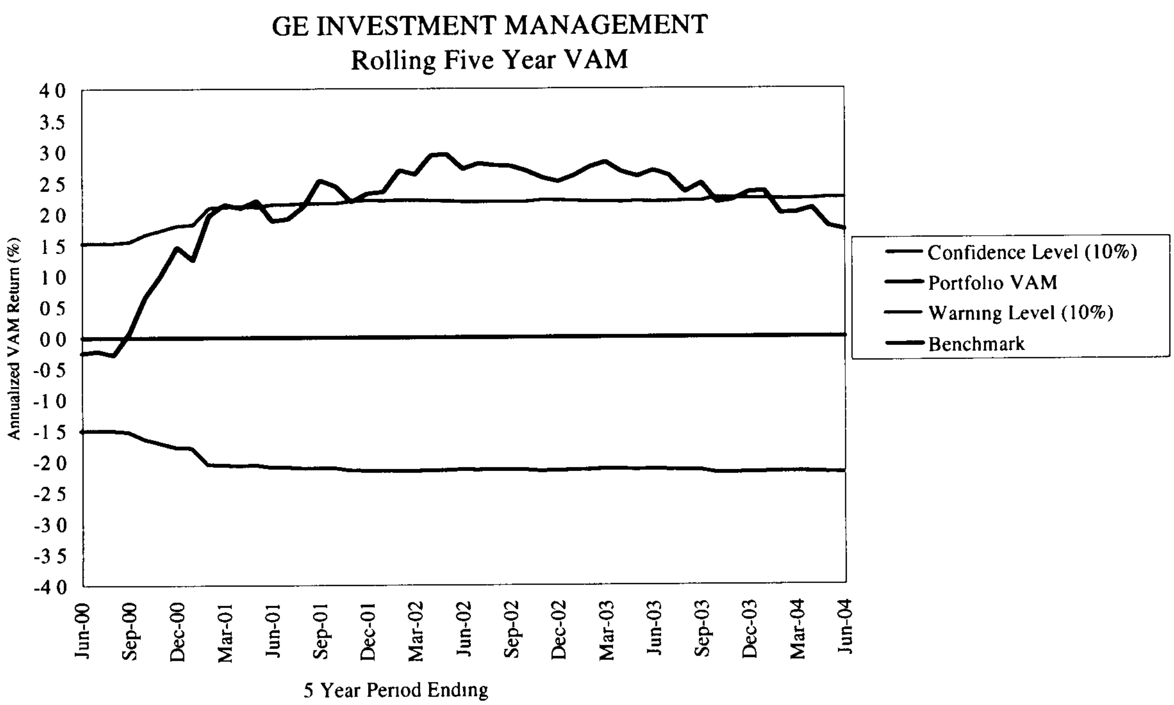
GE trailed the benchmark for the quarter, primarily due to underperformance in the Consumer Discretionary and Materials sectors.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.3%	1.7%
Last 1 year	14.6	19.1
Last 2 years	6.6	9.3
Last 3 years	-1.1	-0.7
Last 4 years	-2.3	-4.4
Last 5 years	-0.5	-2.2
Since Inception (1/95)	12.8	11.9

Recommendation

No recommendation at this time.



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending June, 2004

Portfolio Manager: Tom McGlinch **Assets Under Management: $199,843,180**

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 outperformed the benchmark for the quarter and the year The returns for both periods were helped by the portfolio duration being shorter than the benchmark

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-1.7%	-1.9%
Last 1 year	0 5	0.2
Last 2 years	3 9	4.0
Last 3 years	4.8	5 4
Last 4 years	5 9	6 6
Last 5 years	5 6	6.3
Since Inception (7/91)	6.8	6.9

*Custom benchmark since inception date.

Recommendation

No action required

VAM will be drawn for period ending 6/30/05.

GALLIARD CAPITAL MANAGEMENT
Periods Ending June, 2004

Portfolio Manager: Karl Tourville **Assets Under Management: $153,285,989**

Investment Philosophy

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

Staff Comments

No comments at this time.

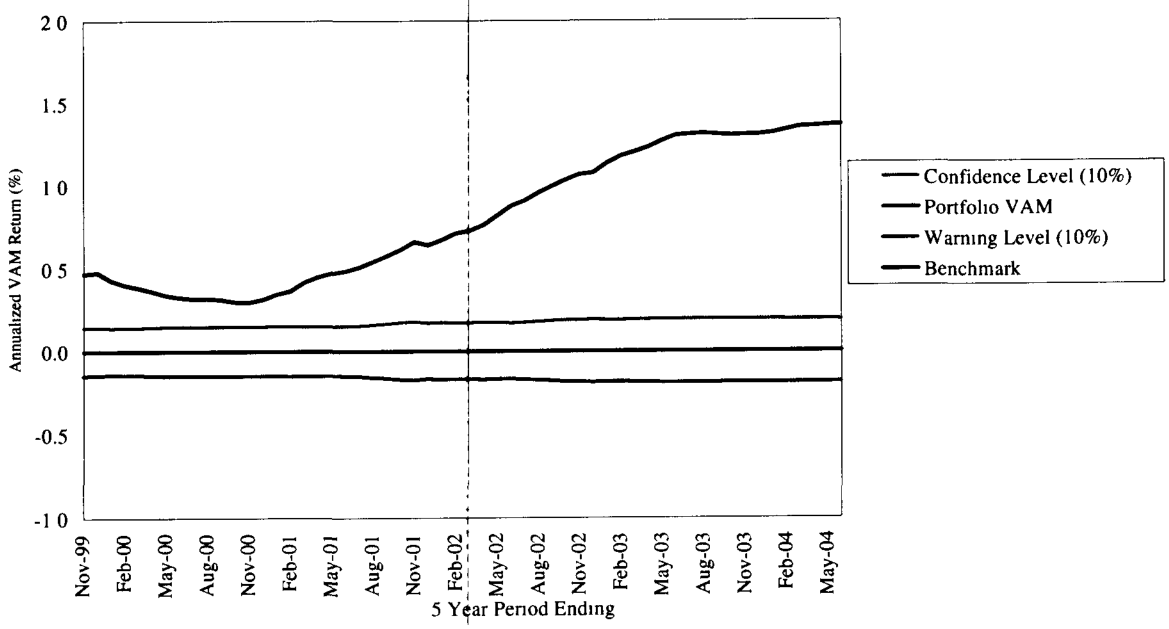
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.0%	0.9%
Last 1 year	4.4	2.9
Last 2 years	4.8	2.7
Last 3 years	5.3	3.1
Last 4 years	5.5	3.7
Last 5 years	5.7	4.2
Since Inception (11/94)	6.1	5.1

Recommendation

No action required.

Galliard Capital Management
Rolling Five Year VAM



INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending June, 2004

Portfolio Manager: Mike Menssen | **Assets Under Management: $605,714,437**

Investment Philosophy
Environmental Trust Fund
Permanent School Fund

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

Staff Comments

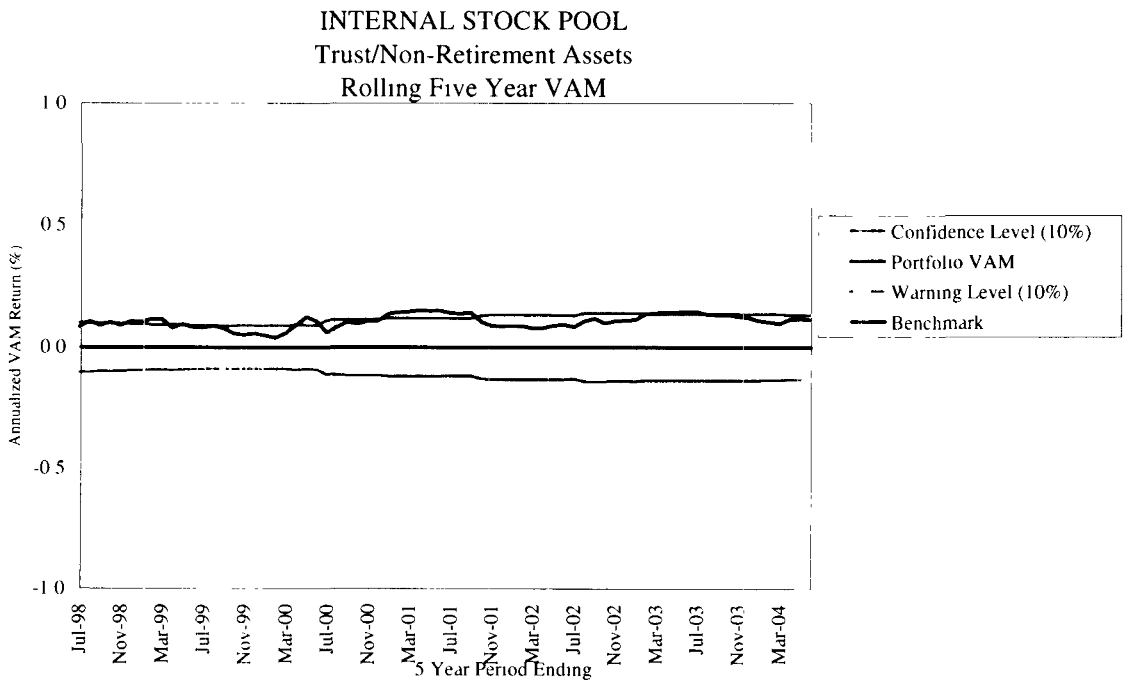
The portfolio matched the quarterly benchmark and had positive tracking error for the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.7%	1.7%
Last 1 year	19 2	19.1
Last 2 years	9 6	9.3
Last 3 years	-0 6	-0.7
Last 4 years	-4 3	-4.4
Last 5 years	-2.1	-2 2
Since Inception (7/93)	10.9	10 8

Recommendation

No action required



INTERNAL BOND POOL - Income Share Account
Periods Ending June, 2004

Portfolio Manager: Mike Menssen | **Assets Under Management: $165,353,848**

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 benchmark. The portfolio was helped by a shorter than benchmark duration and an overweight in the BBB portion of the corporate sector.

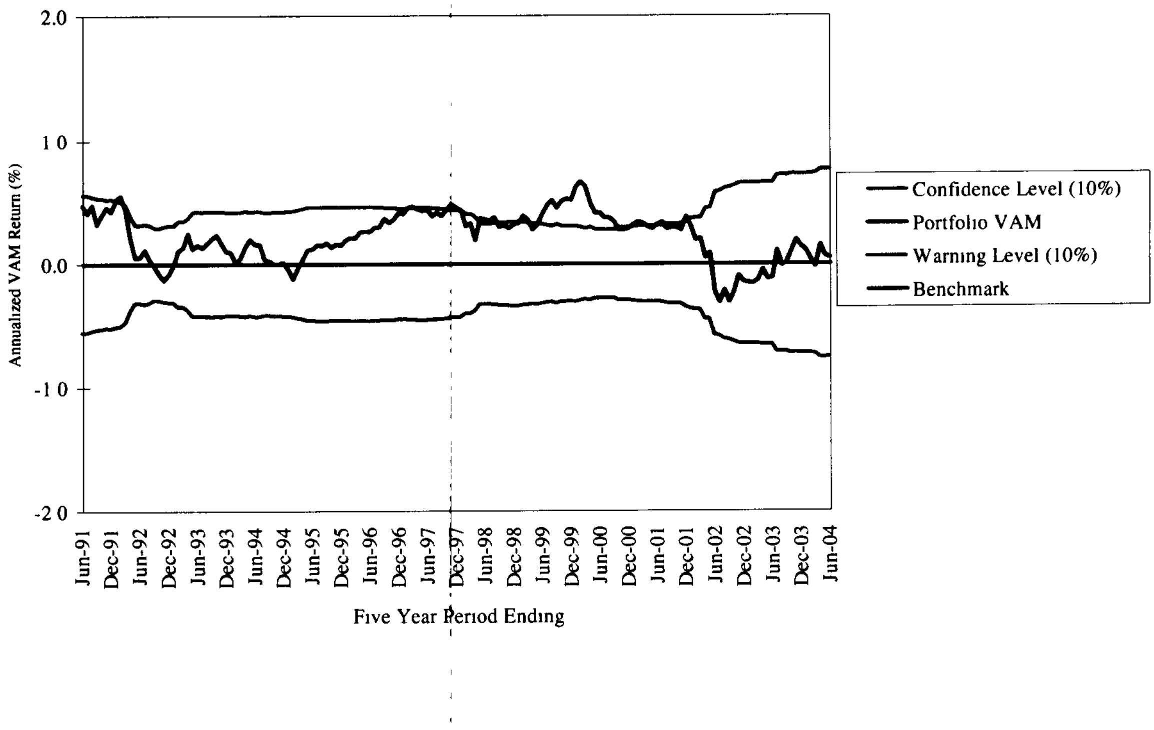
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.8%	-2.4%
Last 1 year	1.6	0.3
Last 2 years	6.4	5.2
Last 3 years	6.4	6.4
Last 4 years	7.6	7.6
Last 5 years	7.0	6.9
Since Inception (7/86)	8.3	7.9

Recommendation

No action required.

INTERNAL BOND POOL - INCOME SHARE ACCOUNT
Rolling Five Year VAM



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending June, 2004

Portfolio Manager: Mike Menssen | **Assets Under Management: $391,802,638**

Investment Philosophy
Environmental Trust Fund
Permanent School Trust Fund

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

Staff Comments

The internal bond pool outperformed the quarterly benchmark. The portfolio was helped by a shorter than benchmark duration and an overweight in the BBB portion of the corporate sector

Quantitative Evaluation

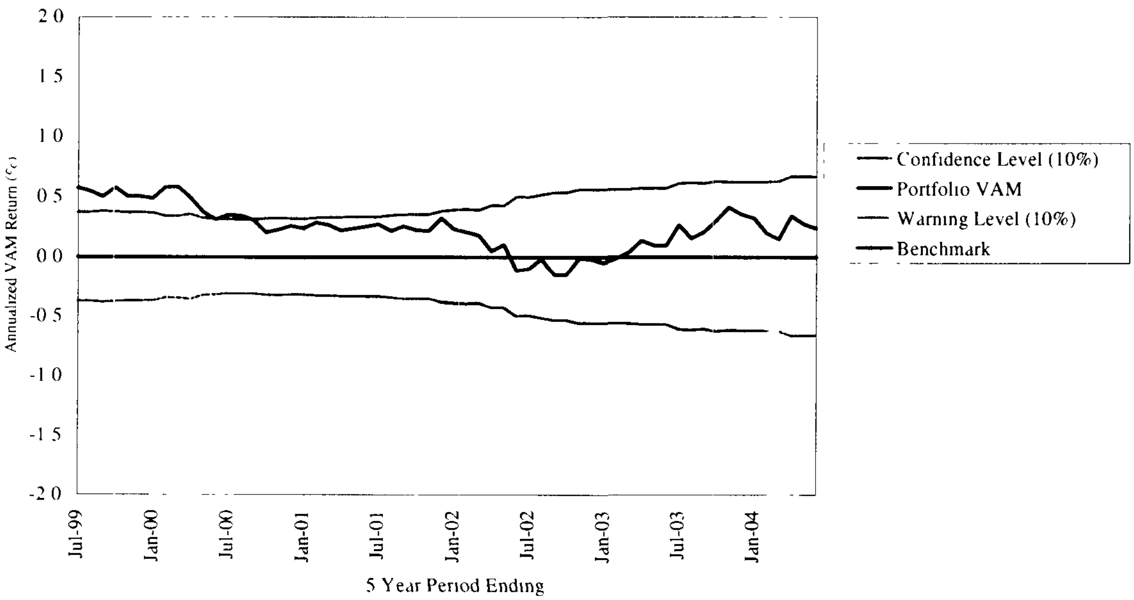
	Actual	Benchmark
Last Quarter	-1 7%	-2.4%
Last 1 year	1.5	0.3
Last 2 years	6.6	5.2
Last 3 years	6.7	6.4
Last 4 years	7.8	7.6
Last 5 years	7.2	6 9
Since Inception (7/94)*	7 8	7.4

Recommendation

No action required

* 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, 2004

MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Periods Ending June, 2004

457 Mutual Funds	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since Retention by SBI * %	Since Retention by SBI * %	State's Participation In Fund ($ millions)
Large Cap Equity:											
Janus Twenty (S&P 500)	3.6	1.7	22.1	19.1	-2.9	-0.7	-7.0	-2.2	-7.0	-2.2	$260.6
Smith Barney Appr Y (S&P 500)	1.3	1.7	17.5	19.1	1.4	-0.7	1.9	-2.2	8.4	8.9	$109.2
Vanguard Institutional Index Plus (S&P 500)	1.7	1.7	19.1	19.1	-0.7	-0.7	-2.1	-2.2	-2.1	-2.2	$387.2
Mid Cap Equity:											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	1.0	1.1	27.8	27.9	6.2	6.0	9.1	8.7	5.8	5.9	$37.4
Small Cap Equity:											
T. Rowe Price Small-Cap Stock (Russell 2000)	2.3	0.5	27.9	33.4	7.4	6.2	10.9	6.6	10.9	6.6	$325.1
Balanced:											
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	0.3	0.0	19.0	11.4	8.9	2.5	9.6	1.8	14.6	9.6	$149.5
Vanguard Balanced Index Inst. Fund (60% Wilshire 5000, 40% Lehman Agg)	-0.2	-0.2	12.4	12.5	3.2	3.4			5.6	5.6	$160.6
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)	-1.9	-2.4	1.6	0.3	7.1	6.4	7.6	6.9	7.6	6.9	$72.3
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	-2.5	-2.4	0.4	0.3	5.6	6.4	6.6	6.9	1.1	1.2	$42.8
International:											
Fidelity Diversified International (MSCI EAFE-Free)	-1.8	0.2	32.2	32.4	9.1	3.9	8.0	0.1	8.0	0.1	$129.6
Vanguard Inst. Dev. Mtks. Index Fund (MSCI EAFE)	0.6	0.2	32.8	32.4	4.0	3.9			13.2	12.7	$20.8

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

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

Benchmarks for the Funds are noted in parentheses below the Fund names.

* Vanguard Mid-Cap Index Fund retained January 2004; Smith Barney, Vanguard Inst. Dev. Mkt., Vanguard Balanced, Vanguard Total Bond Mkt. retained December 2003; Dodge & Cox Balanced Fund retained in October 2003; all others, July 1999.

Fixed Fund:	%
Blended Yield Rate for current quarter***:	4.9
Bid Rates for current quarter:	
Great West Life	2.9
Minnesota Life	3.0
Principal Life	3.3

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

MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – JANUS TWENTY
Periods Ending June, 2004

State's Participation in Fund: $260,607,026
Portfolio Manager: Scott W. Schoelzel **Total Assets in Fund: $9,434,800,000**

Investment Philosophy
Janus Twenty

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

Staff Comments

Janus outperformed the quarterly and one-year benchmark. The portfolio was helped by stock selection, specifically Yahoo! And eBay.

Quantitative Evaluation

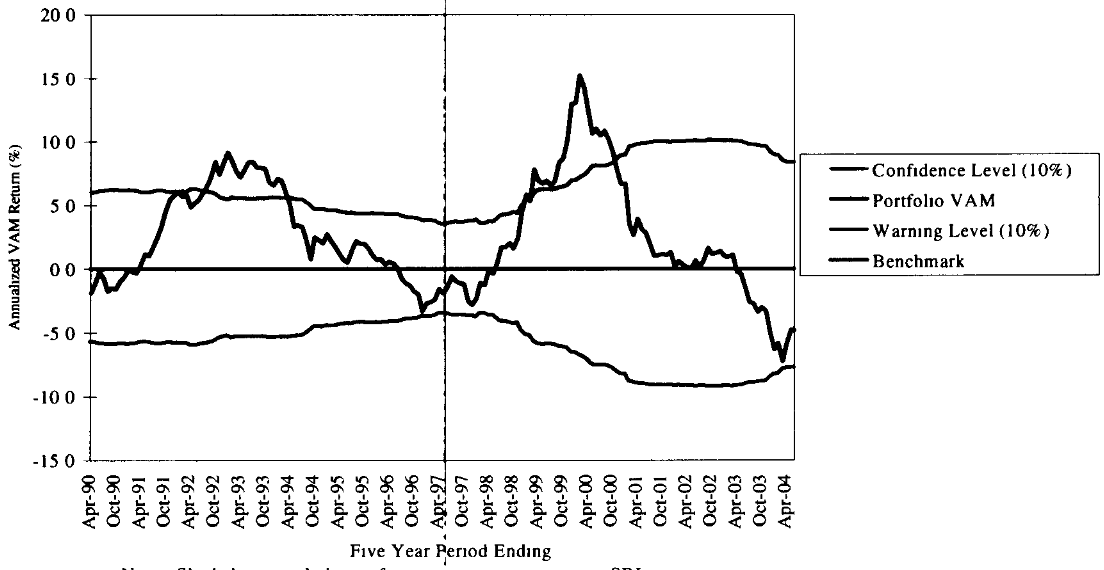
	Actual	Benchmark*
Last Quarter	3.6%	1.7%
Last 1 year	22.1	19.1
Last 2 years	11.8	9.3
Last 3 years	-2.9	-0.7
Last 4 years	-14.3	-4.4
Last 5 years	-7.0	-2.2
Since Retention by SBI (7/99)	-7.0	-2.2

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

Recommendation

No action required.

LARGE CAP EQUITY - JANUS TWENTY
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – SMITH BARNEY APPRECIATION Y
Periods Ending June, 2004

		State's Participation in Fund:	**$109,179,418**
Portfolio Manager:	**Hersh Coen**	**Total Assets in Fund:**	**$5,600,000,000**

Investment Philosophy
Smith Barney Appreciation Y

The Fund invests in U S growth and value stocks, primarily blue-chip companies that are dominant in their industries Investments are selected from among a core base of stocks with a strong financial history, recognized industry leadership, and effective management teams that strive to earn consistent returns for shareholders The portfolio manager looks for companies that he believes are undervalued with the belief that a catalyst will occur to unlock these values.

Staff Comments

Smith Barney underperformed the quarterly and one-year benchmark. During the quarter, securities not owned by the fund in the Energy and Information Technology sectors detracted from performance. For the year, the portfolio's cash position hurt performance

Quantitative Evaluation

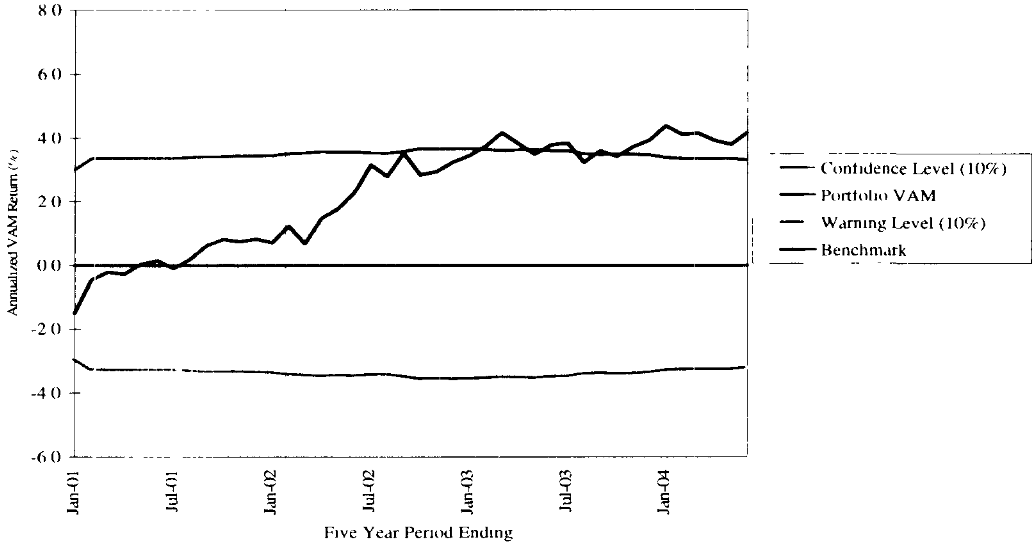
	Actual	Benchmark*
Last Quarter	1.3%	1.7%
Last 1 year	17.5	19.1
Last 2 years	9.1	9.3
Last 3 years	1.4	-0.7
Last 4 years	1.2	-4.4
Last 5 years	1.9	-2.2
Since Retention by SBI (12/03)	8.4	8.9

*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.

Recommendation

No action required

LARGE CAP EQUITY - SMITH BARNEY APPRECIATION Y
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
EQUITY INDEX – VANGUARD INSTITUTIONAL INDEX PLUS
Periods Ending June, 2004

Portfolio Manager: George U. Sauter	**State's Participation in Fund: $387,177,313**
	Total Assets in Fund: $11,869,000,000

Investment Philosophy
Vanguard Institutional Index

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

Staff Comments

No comment at this time.

Quantitative Evaluation

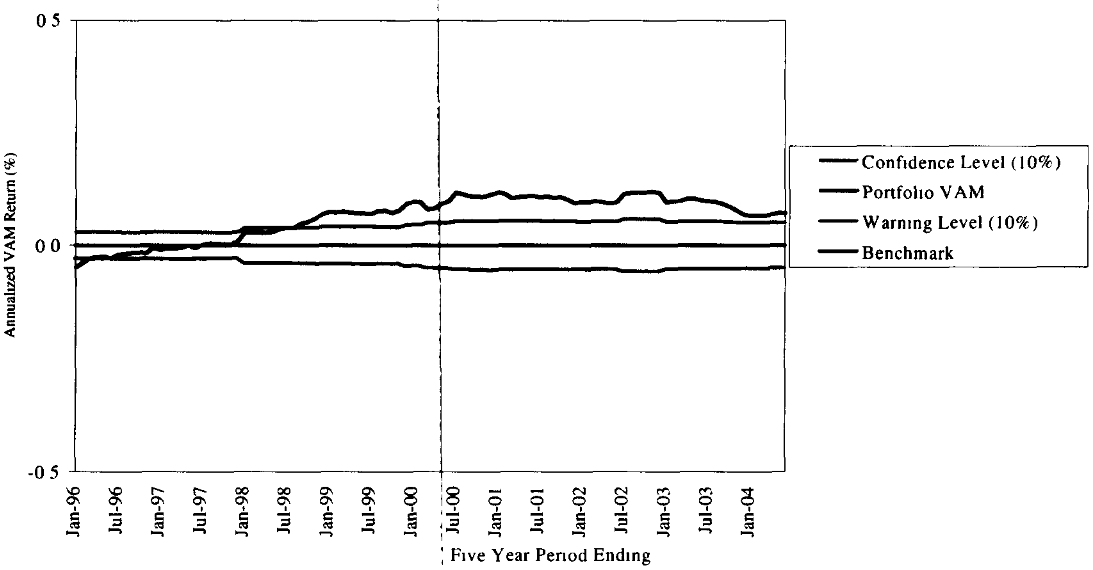
	Actual	Benchmark*
Last Quarter	1.7%	1.7%
Last 1 year	19.1	19.1
Last 2 years	9.4	9.3
Last 3 years	-0.7	-0.7
Last 4 years	-4.4	-4.4
Last 5 years	-2.1	-2.2
Since Retention by SBI (7/99)	-2.1	-2.2

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

Recommendation

No action required.

EQUITY INDEX - VANGUARD INSTITUTIONAL INDEX PLUS
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
MID CAP EQUITY – VANGUARD MID-CAP INDEX
Periods Ending June, 2004

Portfolio Manager: George U. Sauter

State's Participation in Fund: $37,431,722
Total Assets in Fund: $1,492,000,000

Investment Philosophy
Vanguard Mid-Cap Index

The fund employs a "passive management"- or indexing- investment approach designed to track the performance of the MSCI® US Mid Cap 450 Index, a broadly diversified index of stocks of medium-size U.S. companies. The fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting within the index

Staff Comments

No comment at this time

Quantitative Evaluation

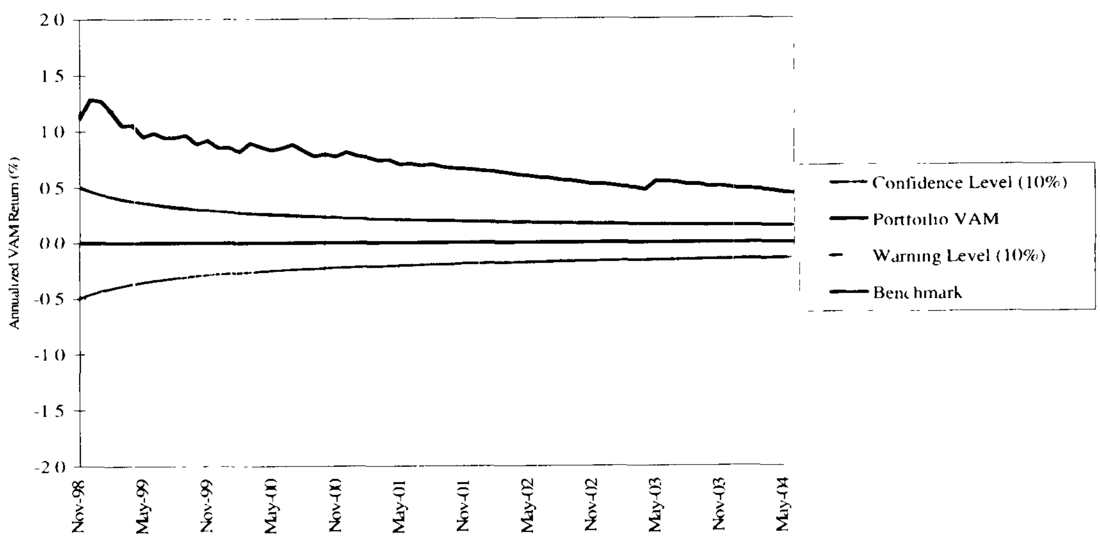
	Actual	Benchmark*
Last Quarter	1.0%	1.1%
Last 1 year	27.8	27.9
Last 2 years	12.0	11.9
Last 3 years	6.2	6.0
Last 4 years	7.0	6.7
Last 5 years	9.1	8.7
Since Retention by SBI (1/04)	5.8	5.9

*Benchmark is the MSCI US Mid Cap 450.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required

MID-CAP EQUITY - VANGUARD MID-CAP INDEX
Cumulative 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, 2004

	State's Participation in Fund:	**$325,130,347**
Portfolio Manager: Gregory A. McCrickard	**Total Assets in Fund:**	**$5,886,050,000**

Investment Philosophy
T. Rowe Price Small Cap Equity Fund

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

Staff Comments

T. Rowe-Price outperformed the quarterly benchmark due to stock selection in the Energy sector. The strategy's health care exposure was the biggest detractor to the one-year underperformance.

Quantitative Evaluation

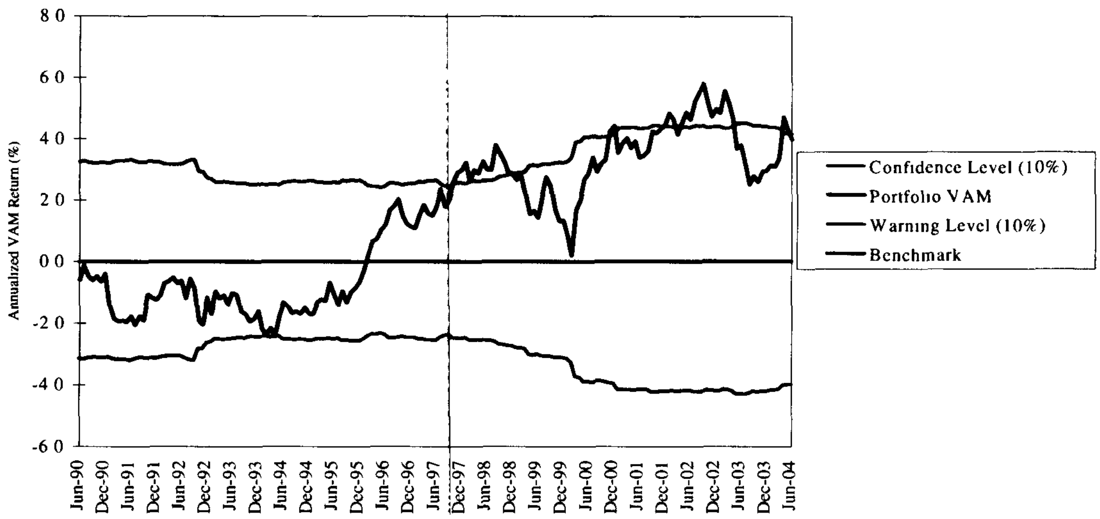
	Actual	Benchmark*
Last Quarter	2.3%	0.5%
Last 1 year	27.9	33.4
Last 2 years	11.9	14.5
Last 3 years	7.4	6.2
Last 4 years	8.2	4.8
Last 5 years	10.9	6.6
Since Retention by SBI (7/99)	10.9	6.6

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

Recommendation

No action required.

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



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

STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – DODGE & COX BALANCED FUND
Periods Ending June, 2004

State's Participation in Fund: $149,451,523
Portfolio Manager: John Gunn **Total Assets in Fund: $17,262,796,069**

Investment Philosophy
Dodge & Cox Balanced Fund

The Fund seeks regular income, conservation of principal and an opportunity for long-term growth of principal and income The Fund invests in a diversified portfolio of common stocks preferred stocks and fixed income securities

Staff Comments

Dodge & Cox outperformed the quarterly benchmark due to the fixed income portfolio exceeding its benchmark The portfolio's shorter effective duration contributed to the outperformance. The equity portion of the fund slightly underperformed its benchmark due to stock selection.

Quantitative Evaluation

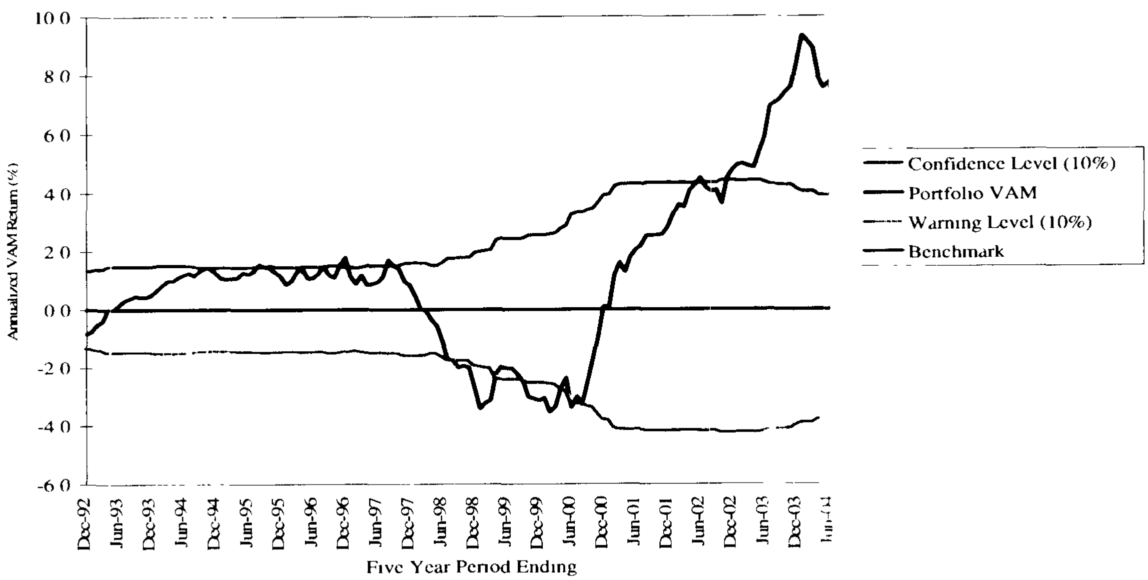
	Actual	Benchmark*
Last Quarter	0.3%	0.0%
Last 1 year	19.0	11.4
Last 2 years	12.1	8.1
Last 3 years	8.9	2.5
Last 4 years	12.4	0.6
Last 5 years	9.6	1.8
Since Retention By SBI (10/03)	14.6	9.6

*Benchmark is 60% S&P 500, 40% Lehman Aggregate.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required

BALANCED - DODGE & COX BALANCED FUND
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – VANGUARD BALANCED INDEX INSTITUTIONAL FUND
Periods Ending June, 2004

State's Participation in Fund: $160,564,890
Portfolio Manager: George U. Sauter **Total Assets in Fund: $1,414,000,000**

Investment Philosophy
Vanguard Balanced Index Fund

The fund's assets are divided between stocks and bonds, with an average of 60% of its assets in stocks and 40% in bonds. The fund's stock segment attempts to track the performance of the Wilshire 5000 Total Market Index, an unmanaged index that covers all regularly traded U.S. stocks. The fund's bond segment attempts to track the performance of the Lehman Brothers Aggregate Bond Index, an unmanaged index that covers virtually all taxable fixed-income securities.

Staff Comments

No comment at this time.

Quantitative Evaluation

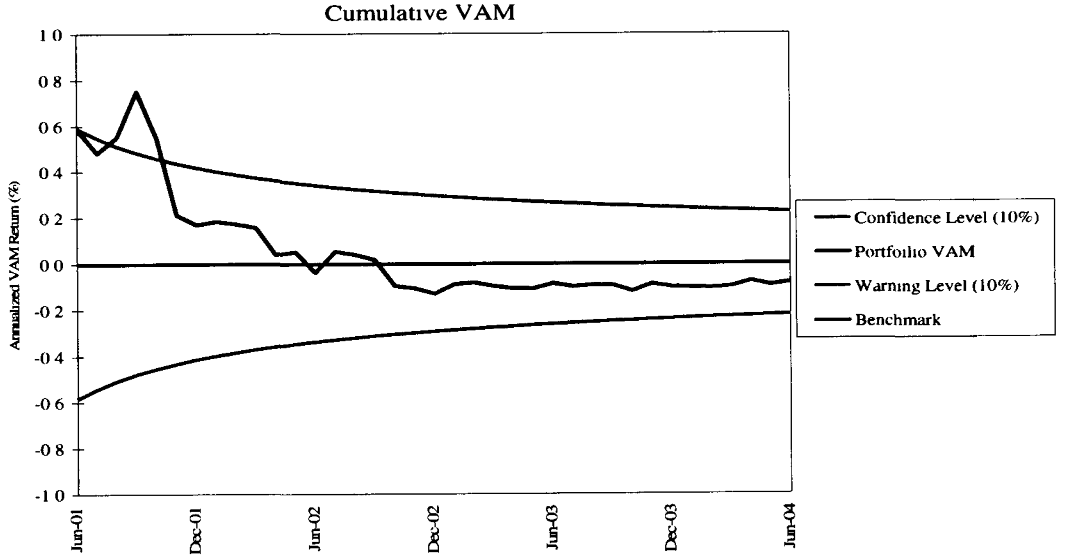
	Actual	Benchmark*
Last Quarter	-0.2%	-0.2%
Last 1 year	12.4	12 5
Last 2 years	8.8	8.9
Last 3 years	3.2	3.4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Retention by SBI (12/03)	5.6	5.6

*Benchmark is 60% Wilshire, 40% Lehman Aggregate.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.

BALANCED - VANGUARD BALANCED INDEX
Cumulative VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – DODGE & COX INCOME FUND
Periods Ending June, 2004

State's Participation in Fund: **$72,251,898**

Portfolio Manager: Dana Emery **Total Assets in Fund:** **$6,628,994,961**

Investment Philosophy
Dodge & Cox Income Fund

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

Staff Comments

Dodge & Cox outperformed the quarterly and one-year benchmark Both periods were helped by the portfolio's shorter than benchmark duration. The quarterly outperformance was also helped by the portfolio's overweight in mortgage-backed securities.

Quantitative Evaluation

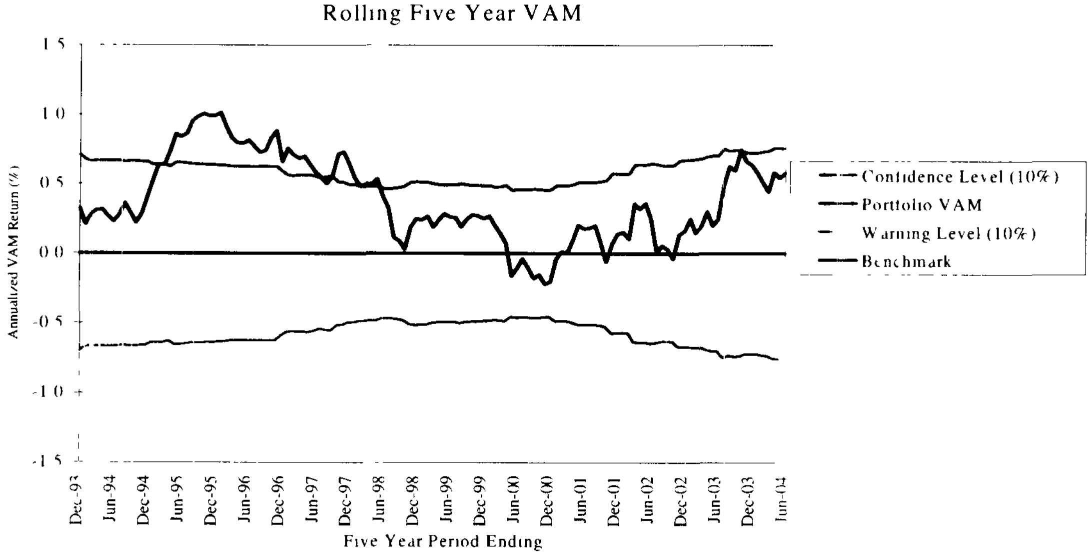
	Actual	Benchmark*
Last Quarter	-1.9%	-2.4%
Last 1 year	1.6	0.3
Last 2 years	6.1	5.2
Last 3 years	7.1	6.4
Last 4 years	8.5	7.6
Last 5 years	7.6	6.9
Since Retention By SBI (10/03)	7.6	6.9

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

Recommendation

No action required

BOND - DODGE & COX INCOME FUND
Rolling Five Year VAM



MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – VANGUARD TOTAL BOND MARKET INDEX INSTITUTIONAL
Periods Ending June, 2004

	State's Participation in Fund:	**$42,779,099**
Portfolio Manager: Robert Auwaerter	**Total Assets in Fund:**	**$6,995,000,000**

Investment Philosophy
Vanguard Total Bond Market Index Institutional

The fund attempts to track the performance of the Lehman Brothers Aggregate Bond Index, which is a widely recognized measure of the entire taxable U.S. bond market. The index consists of more than 5,000 U.S. Treasury, federal agency, mortgage-backed, and investment-grade corporate securities. Because it is not practical or cost-effective to own every security in the index, the fund invests in a large sampling that matches key characteristics of the index (such as market-sector weightings, coupon interest rates, credit quality, and maturity). To boost returns, the fund holds a higher percentage than the index in short-term, investment-grade corporate bonds and a lower percentage in short-term Treasury securities.

Staff Comments

No comment at this time.

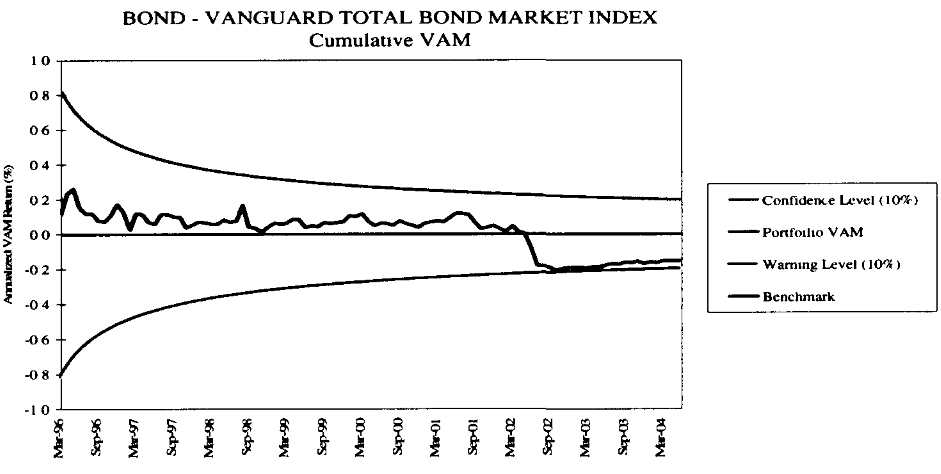
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-2.5%	-2.4%
Last 1 year	0.4	0.3
Last 2 years	4.8	5.2
Last 3 years	5.6	6.4
Last 4 years	7.1	7.6
Last 5 years	6.6	6.9
Since Retention by SBI (12/03)	1.1	1.2

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

Recommendation

No action required.



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending June, 2004

State's Participation in Fund: $129,649,536

Portfolio Manager: William Bower | **Total Assets in Fund: $17,728,630,000**

Investment Philosophy
Fidelity Diversified International

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

Staff Comments

Fidelity trailed the quarterly and one-year benchmark due to stock selection in the materials and energy sector. The quarterly return was also hurt by stock selection in the financial sector.

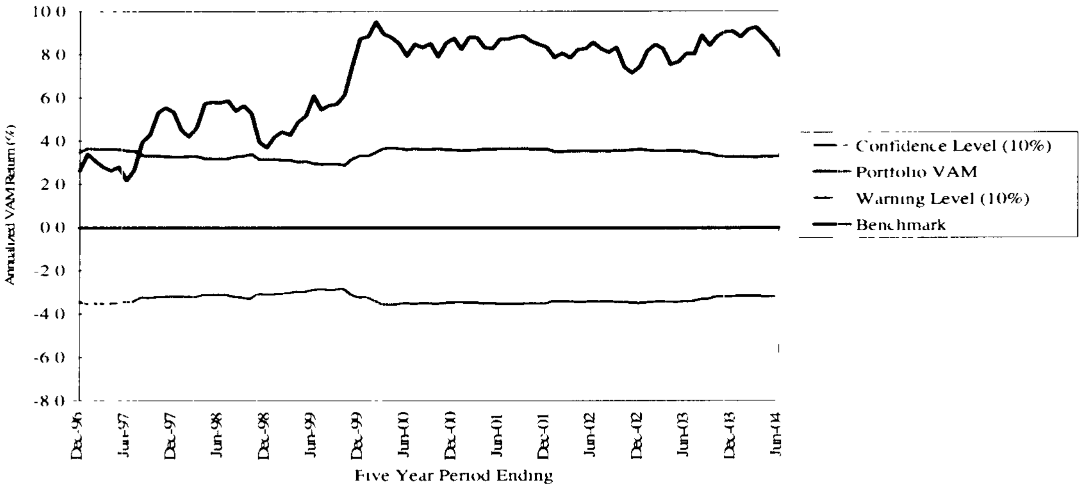
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-1.8%	0.2%
Last 1 year	32 2	32.4
Last 2 years	14.5	11.3
Last 3 years	9 1	3.9
Last 4 years	2.7	-3 8
Last 5 years	8 0	0.1
Since Retention By SBI (7/99)	8 0	0.1

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

Recommendation

No action required.



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – VANGUARD INSTITUTIONAL DEVELOPED MARKET INDEX
Periods Ending June, 2004

		State's Participation in Fund:	**$20,761,139**
Portfolio Manager:	**George U. Sauter**	**Total Assets in Fund:**	**$958,000,000**

Investment Philosophy
Vanguard Institutional Developed Market Index

The fund seeks to track the performance of the MSCI EAFE Index by passively investing in two other Vanguard funds—the European Stock Index Fund and the Pacific Stock Index Fund. The combination of the two underlying index funds, in turn, seeks to track the investment results of the Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East (EAFE) Index. The MSCI EAFE Index includes approximately 1,000 common stocks of companies located in Europe, Australia, Asia, and the Far East.

Staff Comments

No comment at this time.

Quantitative Evaluation

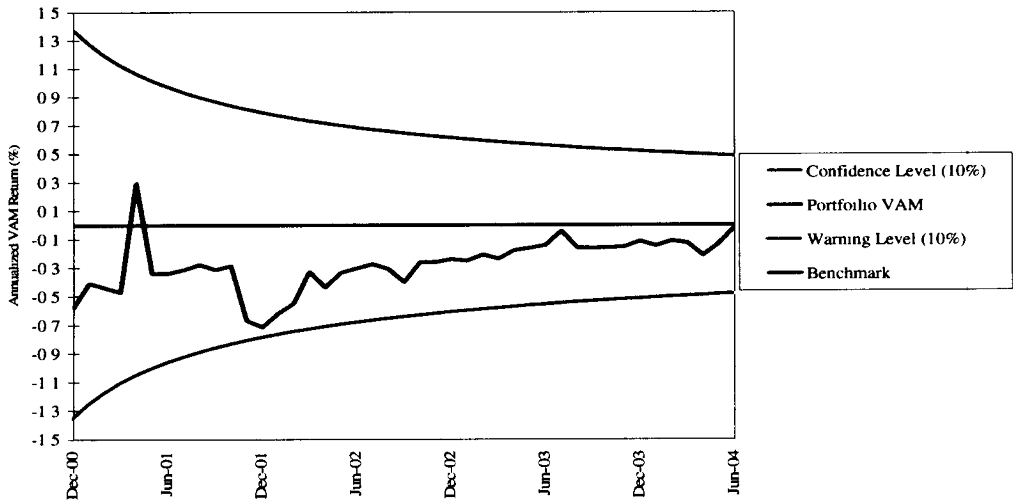
	Actual	Benchmark*
Last Quarter	0.6%	0.2%
Last 1 year	32.8	32.4
Last 2 years	11.6	11 3
Last 3 years	4.0	3.9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Retention by SBI (12/03)	13.2	12.7

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

Recommendation

No action required.

INTERNATIONAL - VANGUARD DEVELOPED MARKET INDEX
Cumulative VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending June, 2004

Total Assets in MN Fixed Fund: $579,009,429 *
*Includes $14-18M in Liquidity Buffer Account

Total Assets in 457 Plan: $671,034,849 **
**Includes all assets in new and old fixed options

Principal Life

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

Assets in MN Fixed Fund: $244,949,969

Investment Philosophy

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

Minnesota Life

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

Assets in MN Fixed Fund: $165,480,511

Assets in Prior MN 457 Plan: $15,942,014

Total Assets: $181,422,525

Investment Philosophy

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

Great-West Life

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

Assets in MN Fixed Fund: $187,032,363

Assets in Prior MN 457 Plan: $76,083,405

Total Assets: $263,115,768

Investment Philosophy

The Company observes strict asset/liability matching guidelines to ensure that the investment portfolio will meet the cash flow and income requirements of its liabilities. The manager invests in public and privately placed corporate bonds, government and international bonds, common stocks, mortgage loans, real estate, redeemable preferred stocks and short-term investments To reduce portfolio risk, the manager invests primarily in investment grade fixed maturities rated by third party rating agencies or by the manager if private placements Mortgage loans reflect a broadly diversified portfolio of commercial and industrial mortgages subject to strict underwriting criteria

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending June, 2004

<u>Current Quarter</u>

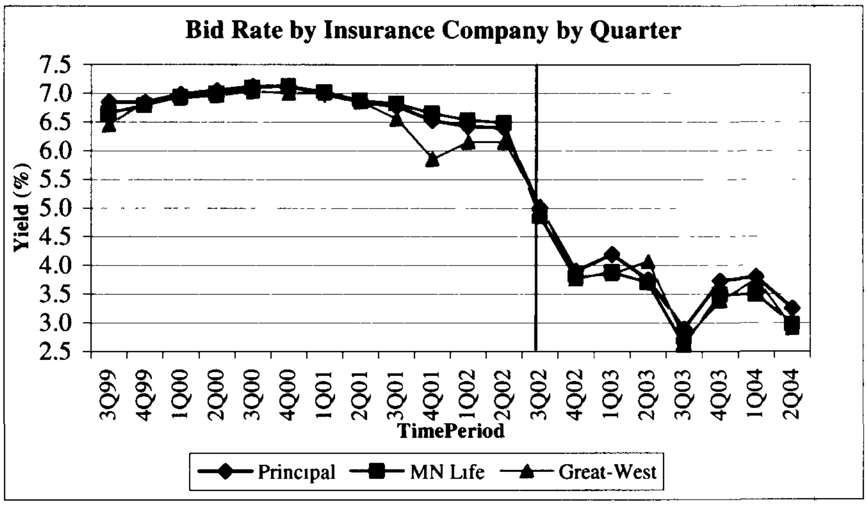
Dollar Amount of Bid: $21,000,000 **Blended Rate: 4.90%**

Bid Rates:

Principal Life	3.25%	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	2.97%	
Great-West Life	2.90%	

Dollar Amount in existing Minnesota Life portfolio: $15,942,014

Rate on existing Minnesota Life portfolio: 5.92 %



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.

	3Q03	4Q03	1Q04	2Q04
Principal Life	75.0%	75.0%	50.0%	100%
Minnesota Life	0.0%	25.0%	0.0%	0.0%
Great-West Life	25.0%	0.0%	50.0%	0.0%

Staff Comments

For the second quarter Principal received 100% of the bid dollars.

Tab D

COMMITTEE REPORT

DATE: August 31, 2004

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

FROM: Alternative Investment Committee

The Alternative Investment Committee met on August 19, 2004 to review the following information and action agenda items:

- Review of current strategy
- Investment with an existing manager, Prudential Capital.

Board/IAC action is required on the last item.

INFORMATION ITEMS:

1) Review of Current Strategy.

To increase overall portfolio diversification, 15% of the Basic Retirement Funds and 12% of the Post Retirement Fund are allocated to alternative investments. Alternative investments include real estate, private equity, resource, and yield-oriented investments where Minnesota State Board of Investment (SBI) participation is limited to commingled funds or other pooled vehicles. Charts summarizing the Board's current commitments are attached (see **Attachments A and B**).

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

- The private equity investment strategy, which includes leveraged buyouts and venture capital, is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location.

- The strategy for resource investments is to establish and maintain a portfolio of resource investment vehicles that provide an inflation hedge and additional diversification. Resource investments will include oil and gas investments, energy service industry investments and other investments that are diversified geographically and by type.

- The strategy for yield-oriented investments will target funds that typically provide a current return and may have an equity component such as subordinated debt or mezzanine investments. Yield-oriented investments will provide diversification by including investments in the private equity, resource and real estate categories.

ACTION ITEMS:

1) Investment with an existing yield-oriented manager, Prudential Capital Group, in Prudential Capital Partners II, L.P.

Prudential Capital is seeking investors for a new $600 million yield-oriented fund. This fund is a successor to a prior yield-oriented fund managed by Prudential Capital in which the SBI has a $100 million investment. Like the prior fund, this fund will seek to earn attractive returns through a diversified portfolio of middle market mezzanine and private equity investments.

More information on Prudential Capital Partners II, L.P.. is included as **Attachment C**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in Prudential Capital Partners II, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Prudential Capital upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Prudential Capital or reduction or termination of the commitment.

ATTACHMENT A

Minnesota State Board of Investment

Pooled Alternative Investments
Combined Retirement Funds
June 30, 2004

Basic Retirement Funds Market Value	$18,824,422,628
Post Retirement Fund Market Value	$18,414,837,116
Amount Available for Investment	**$1,913,861,496**

	Current Level	Target Level	Difference
Market Value (MV)	$3,119,582,352	$5,033,443,848	$1,913,861,496
MV +Unfunded	$4,922,794,554	$7,550,165,772	$2,627,371,219

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	$1,463,066,517	$1,015,713,743	$2,478,780,260
Real Estate	$663,377,285	$80,873,271	$744,250,556
Resource	$216,510,997	$135,833,879	$352,344,876
Yield-Oriented	$776,627,553	$570,791,309	$1,347,418,862
Total	$3,119,582,352	$1,803,212,202	$4,922,794,554

ATTACHMENT B

Minnesota State Board of Investment

- Alternative Investments -

As of June 30, 2004

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment		Period Years
Real Estate							
Colony Capital							
Colony Investors II	80,000,000	78,482,328	2,653,808	85,660,600	1,517,672	4.21	9.25
Colony Investors III	100,000,000	100,000,000	39,745,894	106,392,673	0	12.47	6.50
Equity Office Properties Trust	258,062,214	258,062,214	107,222,268	361,302,222	0	15.04	12.59
Heitman							
Heitman Advisory Fund II	30,000,000	30,000,000	58,117	43,528,725	0	3.98	18.61
Heitman Advisory Fund V	20,000,000	20,000,000	1,174,290	34,551,904	0	8.63	12.57
Lasalle Income Parking Fund	15,000,000	14,644,401	2,562,943	29,308,651	355,599	12.48	12.78
Morgan Stanley (Lend Lease)	40,000,000	40,000,000	162,652,483	6,763,958	0	6.70	22.72
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	40,000,000	26,774,326	59,249,787	0	11.78	10.08
Realty Associates Fund IV	50,000,000	50,000,000	42,758,736	47,075,864	0	11.85	7.41
Realty Associates Fund V	50,000,000	50,000,000	53,220,886	16,889,124	0	9.28	5.10
Realty Associates Fund VI	50,000,000	46,000,000	43,480,755	5,504,937	4,000,000	9.16	2.01
Realty Associates Fund VII	75,000,000	0	0	0	75,000,000	N/A	0.00
UBS Realty	42,376,529	42,376,529	181,072,780	0	0	7.23	22.17
Real Estate Total	850,438,743	769,565,472	663,377,285	796,228,445	80,873,271		
Resource							
Apache Corp III	30,000,000	30,000,000	8,666,430	49,062,949	0	12.44	17.50
First Reserve							
First Reserve I	15,000,000	15,000,000	70,197	14,552,526	0	-0.24	22.75
First Reserve II	7,000,000	7,000,000	112,781	14,879,948	0	5.97	21.40
First Reserve V	16,800,000	16,800,000	193,019	50,261,377	0	16.22	14.17
First Reserve VII	40,000,000	40,000,000	19,144,875	38,363,802	0	9.64	8.00
First Reserve VIII	100,000,000	100,000,000	63,183,397	79,598,008	0	10.32	6.17
First Reserve IX	100,000,000	74,546,247	55,722,774	24,254,579	25,453,753	4.23	3.23
First Reserve X	100,000,000	0	0	0	100,000,000	N/A	0.00
Simmons							
Simmons - SCF Fund II	17,000,000	14,706,629	2,981,999	30,582,945	2,293,371	9.91	12.90
Simmons - SCF Fund III	25,000,000	23,380,337	20,487,685	41,456,407	1,619,663	18.71	9.00
Simmons - SCF Fund IV	50,000,000	43,532,907	36,500,840	28,288,530	6,467,093	10.02	6.25
T. Rowe Price	24,389,015	24,389,015	9,447,000	12,669,410	0	-5.83	N/A
Resource Total	525,189,015	389,355,135	216,510,997	383,970,481	135,833,879		
Yield-Oriented							
Carbon Capital	50,000,000	46,184,308	46,673,131	5,424,244	3,815,692	14.70	2.13
CT Mezzanine Partners	100,000,000	36,804,097	11,348,995	36,222,440	63,195,903	16.04	2.77
Churchill Capital Partners II	20,000,000	19,977,338	2,168,642	25,349,872	22,662	10.28	11.67
Citicorp Mezzanine							
Citicorp Mezzanine Partners	40,000,000	40,000,000	10,663,431	44,235,919	0	10.37	9.50
Citicorp Mezzanine Partners III	100,000,000	66,814,483	54,581,292	30,931,336	33,185,517	14.47	4.66
DLJ Investment Partners II	50,000,000	16,077,926	7,792,342	16,628,262	33,922,074	9.82	4.50
GS Mezzanine Partners							
GS Mezzanine Partners II	100,000,000	90,054,587	66,375,680	40,288,518	9,945,413	9.24	4.33
GS Mezzanine Partners III	75,000,000	6,455,083	6,833,319	0	68,544,917	N/A	0.97
GTCR Capital Partners	80,000,000	69,589,422	47,744,213	36,640,672	10,410,578	6.78	4.63
GMAC Institutional Advisors							
Institutional Commercial Mortgage Fd II	13,500,000	13,397,500	4,499,583	17,015,984	102,500	9.72	8.93
Institutional Commercial Mortgage Fd III	21,500,000	21,275,052	16,960,774	15,818,626	224,948	8.29	7.58
Institutional Commercial Mortgage Fd IV	14,300,000	14,300,000	11,290,803	9,254,137	0	8.20	6.50
Institutional Commercial Mortgage Fd V	37,200,000	37,200,000	35,978,626	12,439,914	0	8.48	4.91
KB Mezzanine Partners Fund II	25,000,000	24,999,999	4,118,492	7,151,873	1	-18.78	8.75
Merit Energy Partners							
Merit Energy Partners B	24,000,000	24,000,000	40,294,174	18,991,708	0	19.36	8.00
Merit Energy Partners C	50,000,000	49,999,999	83,466,587	9,726,816	1	21.90	5.67
Merit Energy Partners D	88,000,000	75,405,710	88,457,206	4,301,741	12,594,290	14.69	3.10
Merit Energy Partners E	100,000,000	0	0	0	100,000,000	N/A	0.00
Merit Capital Partners (fka William Blair)							
William Blair Mezzanine Fund III	60,000,000	49,101,600	38,896,695	21,632,400	10,898,400	7.99	4.50
Merit Mezzanine Fund IV	75,000,000	0	0	0	75,000,000	N/A	0.00
Prudential Capital Partners	100,000,000	70,188,446	58,166,703	20,112,925	29,811,554	6.72	3.20
Summit Partners							
Summit Sub. Debt Fund I	20,000,000	18,000,000	79,394	31,406,578	2,000,000	30.57	10.25
Summit Sub. Debt Fund II	45,000,000	40,275,000	19,886,217	64,244,247	4,725,000	57.94	6.91
Summit Sub. Debt Fund III	45,000,000	4,275,000	4,275,000	0	40,725,000	N/A	0.37
T. Rowe Price	52,990,378	52,990,378	151,600	51,844,812	0	-11.27	N/A
TCW/Crescent Mezzanine							
TCW/Crescent Mezzanine Partners	40,000,000	37,130,039	12,244,700	47,057,158	2,869,961	15.83	8.25
TCW/Crescent Mezzanine Partners II	100,000,000	87,479,046	32,154,399	88,175,160	12,520,954	11.75	5.60
TCW/Crescent Mezzanine Partners III	75,000,000	49,930,726	40,582,143	23,532,853	25,069,274	19.42	3.25
Windjammer Mezz. & Equity Fund II	66,708,861	35,502,192	30,943,414	11,395,561	31,206,669	8.49	4.25
Yield-Oriented Total	1,668,199,239	1,097,407,931	776,627,553	689,823,755	570,791,309		

Minnesota State Board of Investment
- Alternative Investments -

As of June 30, 2004

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<u>Private Equity</u>							
Bank Fund							
Banc Fund IV	25,000,000	25,000,000	2,467,589	54,302,882	0	15 86	8 37
Banc Fund V	48,000,000	48,000,000	68,213,904	13,927,432	0	15 02	5 96
Blackstone Capital Partners							
Blackstone Capital Partners II	50,000,000	47,271,190	5,289,172	94,456,397	2,728,810	34 60	10 60
Blackstone Capital Partners IV	70,000,000	23,547,926	24,552,081	3,663,515	46,452,074	33 64	1 97
BLUM Capital Partners							
Blum Strategic Partners I	50,000,000	48,772,544	36,827,266	30,576,242	1,227,456	5 04	5 52
Blum Strategic Partners II	50,000,000	40,097,307	33,629,406	7,225,704	9,902,693	1 30	2 95
Brinson Partners							
Brinson Partners I	5,000,000	3,800,000	270,078	9,190,116	1,200,000	13 26	16 14
Brinson Partners II	20,000,000	20,000,000	530,706	37,502,515	0	24 13	13 59
Citigroup Venture Capital Equity	100,000,000	41,802,358	33,574,017	19,559,814	58,197,642	14 22	2 55
Contrarian Capital Fund II	37,000,000	33,244,395	29,039,806	14 787,732	3,755,605	4 57	7 08
Coral Partners							
Coral Partners Fund II	10,000,000	8,069,315	397,523	36 553,687	1 930,685	24 92	13 93
Coral Partners Fund IV	15,000,000	15,000,000	4,816,613	11 107,747	0	1 51	9 94
Coral Partners Fund V	15,000,000	14,625,000	5,835,978	320,688	375 000	-19 65	6 04
Crescendo							
Crescendo II	15,000,000	15,000,000	1,840,565	20,347,039	0	22 53	7 49
Crescendo III	25,000,000	25,000,000	3,259,983	8,084,795	0	-27 25	5 65
Crescendo IV	101,500,000	78,662,500	23,106,315	4,018,614	22,837 500	-30 92	4 31
DLJ/CSFB							
DLJ Merchant Banking Partners III	125,000,000	86,601,735	55,176,521	51 636,394	38,398,265	6 71	3 75
DLJ Strategic Partners	100,000,000	72,088,180	51,010,274	55,358,124	27,911,820	23 98	3 44
CSFB Strategic Partners II	100,000,000	42,877,871	39,772,268	20 460,608	57,122,129	N/A	0 95
DSV Partners IV	10,000,000	10,000,000	1,261,952	27 596,934	0	9 49	19 22
First Century Partners III	10,000,000	10,000,000	427,578	15 098,689	0	7 72	19 54
Fox Paine Capital Fund							
Fox Paine Capital Fund	40,000,000	40,000,000	30,746,525	5,976,096	0	-1 85	6 19
Fox Paine Capital Fund II	50,000,000	29,397,582	26,382,151	4 903,712	20 602,418	4 91	4 00
Golder,Thoma, Cressey, Rauner							
Golder, Thoma, Cressey Fund III	14,000,000	14,000,000	171,500	78 123,015	0	30 87	16 67
Golder, Thoma, Cressey & Rauner Fund IV	20,000,000	20,000,000	210,514	41 020,323	0	24 87	10 41
Golder, Thoma, Cressey & Rauner Fund V	30,000,000	30,000,000	19,224,038	25 769,093	0	9 05	8 00
GTCR Golder Rauner							
GTCR VI	90,000,000	89,137,778	33,016,679	68 918,378	862,222	5 50	6 00
GTCR Fund VII	175,000,000	128,953,125	106,880,459	46 277,594	46,046,875	7 90	4 39
GS Capital Partners 2000	50,000,000	35,501,935	25,365,367	14 196,904	14 498,065	5 48	3 83
GHJM Marathon Fund IV	40,000,000	33,481,000	9,571,512	29 521,800	6,519,000	2 77	5 21
Hellman & Friedman							
Hellman & Friedman Capital Partners III	40,000,000	32,113,684	3,932 222	61 708,498	7,886,316	33 75	9 78
Hellman & Friedman Capital Partners IV	150,000,000	104,607,748	83,997,413	36,659,565	45,392,252	10 58	4 50
Hellman & Friedman Capital Partners V	160,000,000	0	0		160,000,000	N/A	0 00
Kohlberg Kravis Roberts							
KKR 1986 Fund	18,365,339	18,365,339	13,371,454	204 170,691	0	28 05	18 21
KKR 1987 Fund	145,950,000	145,373,652	25,928,826	369,744,344	576,348	8 70	16 60
KKR 1993 Fund	150,000,000	150,000,000	23,013,254	274,042,358	0	16 26	10 53
KKR 1996 Fund	200,000,000	200,000,000	110,818,506	222,995 059	0	13 06	7 83
KKR Millennium Fund	200,000,000	49,017,000	46,043,000	3,002,736	150,983,000	-15 12	1 56
Matrix Partners III	20,000,000	20,000,000	318,459	124 355,47[illegible]	0	30 31	18 87
Piper Jaffray Healthcare							
Piper Jaffray Healthcare Fund II	10,000,000	10,000,000	5,782,378	1 648,41[illegible]	0	-5 98	7 33
Piper Jaffray Healthcare Fund III	20,000,000	19,000,002	9,745,919	2 494,84[illegible]	999,998	-13 00	5 44
Piper Jaffray Healthcare Fund IV	7,700 000	3,256,543	2,919,722	4,89[illegible]	4 443,457	N/A	0 76
Silver Lake Partners II	100,000,000	0	0		100,000,000	N/A	0 00
Summit Partners							
Summit Ventures I	10,000,000	10,000,000	10,894	20,369,277	0	13 17	19 53
Summit Ventures II	30,000,000	28,500,000	192,048	74 422,009	1 500,000	28 82	16 13
Summit Ventures V	25,000,000	22,875,000	7,097,258	14,239,092	2 125,000	-2 37	6 25
T Rowe Price	581,483,691	581,483,691	50,438,511	556,657,239	0	8 15	N/A
Thoma Cressey							
Thoma Cressey Fund VI	35,000,000	33,915,000	20 165,137	7,881,275	1 085,000	-4 84	5 86
Thoma Cressey Fund VII	50,000,000	21,730,000	19,265,056	7 185,086	28,270,000	13 78	3 85
Thomas, McNerney & Partners	30,000,000	6,600,000	5 387,771	0	23 400 000	-20 98	1 65
Vestar Capital Partners IV	55,000,000	33,665,887	27,186,589	11,923,114	21,334,113	7 84	4 54
Warburg Pincus							
Warburg, Pincus Ventures	50,000,000	50,000,000	49,676 656	190,549,5[illegible]1	0	49 56	9 50
Warburg Pincus Equity Partners	100,000,000	100,000,000	59,677 687	58,396 949	0	5 17	6 01
Warburg Pincus Private Equity VIII	100,000,000	53,000,000	50,587,046	4 451,150	47,000,000	2 60	2 21
Welsh, Carson, Anderson & Stowe							
Welsh, Carson, Anderson & Stowe VIII	100,000,000	99,000,000	76,901,237	1,873,243	1,000,000	-4 90	5 94
Welsh, Carson, Anderson & Stowe IX	125,000,000	78,750,000	63,587,958	23,866,265	46,250,000	5 08	4 01
William Blair Capital Partners	50,000,000	37,100,000	33,955,738	0	12 900 000	-6 68	3 31
Zell/ Chilmark	30,000,000	30,000,000	197,436	76,414,975	0	17 67	13 97
Private Equity Total	4,083,999,030	3,068,285,287	1,463,066,517	3,199,538,664	1,015 713,743		

ATTACHMENT C

YIELD-ORIENTED MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Prudential Capital Partners II, L.P. ("Fund II")
Type of Fund:	Mezzanine Debt
Total Fund Size:	$600 million
Fund Manager:	Prudential Investment Management, Inc.
Manager Contact:	Mark Hoffmeister, CFA Two Prudential Plaza, Ste. 5600 Chicago IL 60601 (312) 540-4215

II. Organization and Staff

Fund II will be managed by five of Prudential Capital Group's ("PCG") most experienced mezzanine investors, including all four principals of Fund I: Jeff Dickson, Matt Chanin, Allen Weaver and Mark Hoffmeister. Mr. Dickson will be Managing Principal of the Fund, a role he currently holds in Fund I. He will be joined by Mr. Hoffmeister and Charles King (formerly the head of PCG's New York office) as principals solely dedicated to the activities of Fund I and Fund II. Mr. Chanin, head of PIM's Private Fixed Income operations, and Mr. Weaver, head of PCG, will continue to serve as principals dedicating substantial time to Fund II as well as to Fund I. All of these five principals (the "Principals") have broad private market investment experience, including mezzanine and private equity. They have been responsible for the design and implementation of PCG's mezzanine investment strategy since 1995, and have developed strong mezzanine investment networks. The Principals have a combined 109 years of private market investment experience.

PCG, which has an investment staff of 120, is the largest manager of private fixed income securities in the United States, with over $39 billion of private debt and equity investments in almost 1,000 companies (*as of April 30, 2004*). PCG's domestic operations are conducted through a corporate office in Newark, New Jersey and five regional offices, in Atlanta, Chicago, Dallas, New York and San Francisco. This unique nationwide regional office network is key to PCG's successful middle market mezzanine investment strategy. PCG's regional focus and national scope allow it to develop strong local relationships and maintain access to proprietary deal flow nationwide.

III. Investment Strategy

Consistent with the focused strategy of both the Legacy Portfolio and Fund I, Fund II will pursue an investment strategy concentrated on North American middle market mezzanine investments, which takes full advantage of PCG's scale, regional office network and middle market experience. Deal flow will be sourced through PCG's direct prospect calling efforts and financing relationships with almost 1,000 companies, and through strong equity fund relationships. PCG's regional deal teams are organized by geography and thoroughly cover the middle market companies, agents and equity funds in their respective territories. Deal flow that is generated through this network is often proprietary and not widely shopped.

To assess the attractiveness of a deal, Fund II will follow the same investment criteria employed by the Legacy Portfolio and Fund I since 1995. Emphasis will be placed on companies with strong value added businesses in narrowly defined market sectors. PCG also looks for strong management teams with demonstrated track records and significant personal economic stakes in their companies' success. PCG performs thorough due diligence on each investment, utilizing its network of contacts to understand and analyze the particular industry, company and management team. After closing an investment, PCG continues to work actively with its portfolio company by maintaining an ongoing dialogue with management and through board membership and/or observer rights.

IV. Investment Performance

Previous fund performance as of June 30, 2004 for Prudential and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Prudential Capital Partners	2001	$619 million	$100 million	7.5%
Prudential Legacy Portfolio	1995	$525 million	--	11.7%

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

V. General Partner's Investment

The Prudential Insurance Company of America ("Prudential Insurance") and its retirement plan will collectively contribute one-third of the Capital Commitments (up to $200 million).

VI. Takedown Schedule

Capital Commitments generally will be drawn down by the Fund pro rata from the Partners as needed to make investments and to pay Fund liabilities and expenses with not less than seven days' prior written notice.

VII. Fees

Through the end of the Investment Period, the General Partner will receive an annual management fee (the "Management Fee") equal to 1.50% of Capital Commitments. Thereafter, the Management Fee will be 1% of funded Capital Commitments outstanding. The Management Fee is subject to reduction as provided below.

Payments of the Management Fee will reduce unfunded Capital Commitments, but such reductions will be restored to the extent that the Limited Partners receive distributions from the Fund as described above under "Reinvestment".

The Management Fee is payable semi-annually in advance from drawdowns of the Limited Partners' unfunded Capital Commitments.

The General Partner or its affiliates may charge portfolio companies transaction fees, monitoring fees, break-up fees and other similar advisory fees. An amount equal to 80% of all such fees paid by portfolio companies that are received by the General Partner or any of its affiliates, net of any related expenses, will be applied to reduce the Management Fee otherwise payable. All such fees will be allocated between the Fund and any related co-investing entities on the basis of capital committed by each to the relevant investment. Management Fee reductions will be carried forward if necessary.

The Fund will bear all legal, accounting, filing and other organizational and offering expenses (other than placement fees) incurred in the formation of the Fund and the offering of the Interests up to a maximum of $1.25 million. Any expenses in excess of this amount, and all placement fees, will be paid by the Fund, but borne by the General Partner through a 100% offset against the Management Fee.

VIII. Allocations and Distributions

Net proceeds attributable to the disposition of a portfolio investment (including distributions in kind of portfolio investments) will be distributed to all Partners participating in such investment. Each such Partner's proportionate share thereof will be distributed in the following order of priority (to the extent not previously distributed):

(a) Return of Realized Capital and Costs: First, 100% to such Partner until the cumulative distributions to such Partner equal the aggregate of the following:

(i) the capital contributions to the Fund of such Partner used to acquire all realized investments, plus such Partner's proportionate share of any net write-downs of unrealized investments, as of that time; and

(ii) such Partner's proportionate share of all organizational expenses and other Fund expenses allocated to the investments included in subparagraph (i) above;

(b) Preferred Return: Second, 100% to such Partner until the cumulative distributions to such Partner of net proceeds and current income in respect of portfolio investments described in paragraph (a) above equal an internal rate of return of 8% per annum, compounded annually, on the amounts included in paragraph (a) above (the "Preferred Return");

(c) Catch-Up: Third, 100% to the General Partner until the General Partner has received 20% of the excess of the cumulative distributions made to such Partner and to the General Partner over the amounts included in paragraph (a) above; and

(d) 80/20 Split: Thereafter, 80% to such Partner and 20% to the General Partner.

IX. Investment Period and Term

The Fund may draw down Capital Commitments from the Partners to make investments at any time during the period from the Initial Closing through the fifth anniversary of the final Closing (the "Investment Period").

The term of the Fund will be ten years, subject to three consecutive additional one-year extensions as determined by the General Partner to allow for the orderly liquidation of the Fund's investments.

Tab E

COMMITTEE REPORT

DATE: August 31, 2004

TO: Members, State Board of Investment

FROM: Proxy Voting Committee

The Proxy Voting Committee met on Wednesday, August 18 and Thursday, August 19 to consider the following agenda item:

- Review draft language of potential resolutions for submission to pharmaceutical companies.

Action is required by the SBI on this item.

At its June 2, 2004 meeting, the Board approved a recommendation from the Proxy Voting Committee to have the Committee review the issue of submitting shareholder resolutions to domestic pharmaceutical companies listed in the Board's March 3, 2004 resolution and to have the Committee report back to the Board at the September meeting.

Staff shared information it received from a number of organizations. The consensus from these organizations is that report-type resolutions garner more acceptance.

The Committee concluded that a resolution concerning access to drugs from Canada written so as to request the target company to prepare a report would be the preferred alternative with the strongest possibility of gaining acceptance from institutional investors and other shareholders. The Committee also concluded that the Board submit the resolution to all four domestic companies listed in its March 3 resolution. A copy of the proposed resolution is attached.

RECOMMENDATION:

The Proxy Voting Committee recommends that the Board adopt the language of the attached resolution and authorize the executive director with assistance from legal counsel to submit this resolution to Eli Lilly and Company; Merck & Co., Inc.; Pfizer Inc. and Wyeth for inclusion in their 2005 proxy statements.

PROPOSED RESOLUTION

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

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

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

WHEREAS, according to published reports, the company's actions have resulted in lawsuits and threatened lawsuits; and

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

Resolved:

Shareholders request the Board of Directors to prepare a report on the effects on the long-term economic stability of the company and on the risks of liability to legal claims that arise from the company's policy of limiting the availability of the company's products to Canadian wholesalers or pharmacies that allow purchase of its products by U.S. residents. The report should be prepared at reasonable cost and omitting proprietary information.