MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
September 7, 2005

&

INVESTMENT ADVISORY
COUNCIL MEETING
September 6, 2005

STATE BOARD OF INVESTMENT

AGENDA AND MINUTES

September 7, 2005

AGENDA
STATE BOARD OF INVESTMENT MEETING
Wednesday, September 7, 2005
9:00 A.M. - Room 123
State Capitol – St. Paul

	TAB
1. Approval of Minutes of June 8, 2005	
2. Report from the Executive Director (Howard Bicker)	**A**
A. Quarterly Investment Review (April 1, 2005 – June 30, 2005)	
B. Administrative Report	**B**
1. Reports on budget and travel	
2. Litigation Update	
3. Legislative Update	
3. Report from the SBI Administrative Committee (Peter Sausen)	**C**
1. Review of International Country Investing Guidelines Update	
2. Recommendation of SBI Compensation Plan	
4. Reports from the Investment Advisory Council (Mike Troutman)	
A. Stock and Bond Manager Committee	**D**
1. Review of manager performance	
2. Recommendation to authorize SBI Executive Director to renew investment manager contracts	
3. Review of manager Investment Guidelines	
B. Alternative Investment Committee	**E**
1. Review of current strategy	
2. Review of key terms and conditions for private equity fund investing	
3. Recommendation of new investments with three existing managers:	
• Thoma Cressey	
• Blackstone	
• Vestar	

Minutes
State Board of Investment
June 8, 2005

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, June 8, 2005 in Room 123 State Capitol, St. Paul, Minnesota. Governor Tim Pawlenty; State Auditor Patricia Anderson and Secretary of State Mary Kiffmeyer were present. The minutes of the March 2, 2005 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, 2005 (Combined Funds 9.6% vs. Composite 9.3%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.7% vs. CPI 3.0%). He stated that the Basic Funds have outperformed its composite index (Basic Funds 9.8% vs. Composite 9.5%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 9.4% vs. Composite 8.9%).

Mr. Bicker reported that the Basic Fund's assets decreased 0.6% for the quarter ending March 31, 2005 due to both negative contributions and negative investment returns. He said that the asset mix is essentially on target. He reported that the Basic Funds underperformed its composite index for the quarter (Basic Funds -0.3% vs. Composite -0.1%) but outperformed it for the year (Basic Funds 9.1% vs. Composite 9.0%).
Mr. Bicker reported that the market value of the Post Fund's assets decreased 2.3% for the quarter ending March 31, 2005, also due to negative contributions and negative investment returns. He said the Post Fund's asset mix is also on target. He stated that the Post Fund slightly underperformed its composite index for the quarter (Post Fund –0.4% vs. Composite –0.3%) and outperformed it for the year (Post Fund 8.2% vs. Composite 8.0%).

Mr. Bicker reported that the domestic stock manager group slightly underperformed its target for the quarter (Domestic Stock –2.3% vs. Domestic Equity Asset Class Target -2.2%) and matched it for the year (Domestic Stocks 7.1% vs. Domestic Equity Asset Class Target 7.1%). He said the International Stock manager group underperformed its composite index for the quarter (International Stocks 0.1% vs. International Equity Asset Class Target 0.2%) and for the year (International Stocks 14.8% vs. International Equity Asset Class Target 15.7%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds –0.4% vs. Fixed Income Asset Class Target –0.5%) and for the year (Bonds 1.9% vs. Fixed Income Asset Class Target 1.1%). He concluded his report with the comment that as of March 31, 2005, the SBI was responsible for over $48 billion in assets.

Executive Directors 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 pages 9 and 10 of Tab B in the meeting materials and updated members on legislative activity of interest to the SBI. He reported that the bill initiated by the SBI relating to data privacy for the alternative investment program passed into law. He said that a bill giving the SBI authority to make investments in Minnesota venture capital in the Environmental Trust Fund is currently pending in the Environment, Ag and Economic Development Conference Committee. He said a similar bill was proposed last year which involved using pension assets. Mr. Bicker stated that the Board's proposal to allow the SBI to have its own compensation plan passed in both the House and the Senate and was signed by the Governor into law. He said that the bill to change the SBI's budgetary process had not passed but that the SBI's previous budget allocation did pass. He added that there is still some interest in pursuing the budget proposal during the special session. Mr. Bicker reported that the bill to consolidate Minneapolis Teachers into the Teachers Retirement Association passed in the Senate but not in the House. He explained that the SBI's interest in that bill is related to protecting the integrity of the Post Fund and to make sure the process is in place for the SBI to absorb these assets. He said that a bill giving MnSCU some additional flexibility in selecting which SIF accounts to offer their participants did not pass. He said a bill allowing the SBI to invest county environmental trust funds passed in the Senate but not in the House. Mr. Bicker concluded his legislative update by stating that the bill placing a limitation on the Post Retirement Fund benefit increases did not receive a hearing in the Pension Commission and that it is likely that the Commission will look at it during the interim.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She said that the trial in the Broadcom case has been scheduled for September 13, 2005. She noted that the case has been assigned to a judge who is retiring soon, so she noted that it's possible that the trial will be rescheduled. She added that several motions are pending in the case and that discovery is essentially finished. Ms. Eller reported that several motions are also pending in the AOL case and that a special master has been appointed. She stated that the discovery deadline in the McKesson case is July 1, 2005 and that staff had completed several depositions in the case and will do a few more in the coming weeks. Ms. Eller concluded her litigation update by stating that there have been active settlement negotiations going on in the WorldCom case.

Mr. Bicker updated the Board on the status of the pharmaceutical company shareholder resolutions. He said that the SEC approved Wyeth's request to omit the proposal from their proxy materials. He stated that SBI staff attended the annual meetings of three other companies. He reported that the Board's resolution received 28 5% of the total votes cast at Pfizer and he noted that anything above 5% is considered strong support.

Mr. Bicker stated that staff is recommending that the Board approve the reauthorization of the Proxy Voting Committee. Ms. Kiffmeyer moved approval of Staff's recommendation, as stated in the Executive Director's Administrative Report, which reads: **"The Executive Director recommends that the SBI adopt the resolution in Attachment D which reauthorizes the Proxy Voting Committee and delegates proxy voting responsibilities according to established guidelines. The proxy voting guidelines are attached for Board review and approval."** The motion passed. The resolution is included as **Attachment A** and the guidelines are **Attachment B.**

Mr. Bicker said the legislature has authorized the SBI to work with MnSCU and the Historical Society to provide them with a defined contribution plan. He said that staff is recommending a one-year extension of the Historical Society's contracts to coincide with the timing of other changes taking place for the MnSCU plan. Ms. Anderson moved approval of staff's recommendation, as stated in the Executive Director's Administrative Report, which reads: **"Staff recommends that the Board approve a one-year extension of the Historical Society contract under similar terms and conditions."** The motion passed.

SBI Administrative Committee Report

Mr. Sausen referred members to Tab C of the meeting materials and stated that the Committee has five recommendations for the Board's consideration. He said that the Committee is recommending approval of the Executive Director's proposed workplan for FY06 and that the workplan be used as the basis for the Executive Director's performance evaluation for FY06. He stated that the Committee is recommending approval of the SBI's Budget Plan for FY06 and approval of the SBI's Continuing Fiduciary Education Plan. He said that the Committee's fourth recommendation is to develop an SBI Compensation Plan. He explained that the Legislature had approved the language for this plan, which would require the approval of the Board, review and comment by the Commissioner of Employee Relations, and final approval by the Legislative Coordinating Committee. He said the Committee is recommending that a subcommittee be established made up of the Chair and the Vice Chair of the IAC, and two retirement system directors. He noted that Board deputies have also been invited to be part of the subcommittee. He said that a compensation plan will be presented to the Board for its consideration at the September 2005 Board meeting. Mr. Troutman voiced the IAC's support of this process and noted the importance of this as a way to attract and retain staff in order to meet the SBI's fiduciary responsibilities. Mr. Sausen concluded his report by presenting the Committee's recommendation to approve the Executive Director's Evaluation Process. He briefly reviewed the proposed process, which is the same process that has been used since the late 1980's. Ms. Kiffmeyer moved approval of all five of the Committee's recommendations, as presented in the Committee Report, which reads: **"The committee recommends that the SBI approve the FY06 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY06.**

The Committee recommends that the SBI approve the FY06 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 establish a Compensation Plan Subcommittee to develop and present a compensation plan to the Board for its consideration at its September 2005 meeting.

The Committee recommends that the SBI adopt the following process for the Executive Director's FY05 performance evaluation:

- **The evaluation will be completed prior to the September 2005 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY05.**

- **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.

International Equity Active Developed Markets Manager Search Committee Report
Mr. Sausen referred members to Tab D of the meeting materials and stated that the committee had interviewed six prospective candidates and re-interviewed two existing managers. He said that Mr. Troutman would address the results of the two re-interviews later in the meeting. Mr. Sausen said that the Committee is recommending the following four managers for retention: Acadian, Fidelity, J. P. Morgan and McKinley. Ms. Anderson moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The International Equity Active Developed Markets Manager Search Committee recommends that the following firms be retained for the International Equity Program:**

Active Developed Markets Managers	**Location of Investment Team**
Acadian	**Boston, MA**
Fidelity (Int'l Growth)	**London, Tokyo, Hong Kong, Boston**
J. P. Morgan (EAFE Plus)	**London, England**
McKinley	**Anchorage, Alaska**

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

International Equity Enhanced Developed Markets Index Manager Search Committee Report

Mr. Sausen referred members to Tab E of the meeting materials and stated that the Committee had interviewed five candidates and is recommending three: AQR, Fidelity and SsgA. Ms. Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The International Equity Enhanced Developed Markets Index Manager Search Committee recommends that the following firms be retained for the International Equity Program:**

Active Developed Markets Managers	Location of Investment Team
AQR	Greenwich, CT
Fidelity (Int'l Select)	Boston, MA
SsgA (Int'l Alpha)	Boston, London, Paris, Sydney, Hong Kong and Tokyo

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

Stock and Bond Manager Committee Report

Mr. Troutman referred members to Tab F of the meeting materials and stated that at the request of the Stock and Bond Committee, American Express, who acquired Threadneedle Asset Management in 2003, was re-interviewed by the Search Committee. He said that the Search Committee had concluded that one year is an insufficient period of time over which to analyze their performance and that the Committee has requested that another review of the firm take place at the end of FY06.

Mr. Troutman stated that the Committee is recommending the renewal of contracts for the Emerging Markets managers. He said that the Committee is recommending the termination of Transamerica Investment Management from the Domestic Equity program due to the departure of key members of the portfolio management team. He noted that the Executive Director has already frozen the assets of the portfolio pending further action. Mr. Troutman reported that the Committee is recommending the termination of Britannic Asset Management and T. Rowe Price from the International Equity Program. He stated that Britannic (formerly Blairlogie Capital) had undergone several ownership changes and that T. Rowe Price had experienced significant organizational changes and change in the management approach of the SBI's portfolio. Mr. Troutman stated that the Committee's final recommendation is to authorize the SBI to utilize transition management services. He said the recommendation is to amend the contract with the SBI's custodian bank to include such services and to authorize the Executive Director to initiate a search for these services. Ms. Kiffmeyer moved approval of all four of the

Committee's recommendations, as stated in the Committee Report, which reads: **"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:**

<u>Emerging Markets Equity Managers</u>
Alliance Capital
Capital Guardian Trust
Morgan Stanley

The Committee recommends that the SBI terminate the relationship with Transamerica Investment Management, LLC for investment management services.

The Committee recommends that the SBI terminate its relationship with Britannic Asset Management and with T. Rowe Price International for investment management services in the International Equity Program.

The Committee recommends that the SBI authorize the Executive Director to negotiate and execute, with the assistance of legal counsel, an amendment to the SBI's existing custodial contract with State Street Bank and Trust Company to include transition management services. Additionally, the Committee recommends that the Executive Director be authorized to initiate a search for transition management services". The motion passed.

Alternative Investment Committee Report

Mr. Troutman referred members to Tab G of the meeting materials and briefly reviewed the performance of the alternative investments. He stated that the Committee had reviewed the manager involved in the public stock distribution process, T. Rowe Price, and had determined that the process and manager have performed well

Mr. Troutman stated that the Committee is recommending new investments with one new manager, Lehman Brothers, and two existing managers, Windjammer Capital and Warburg Pincus. Ms. Anderson moved approval 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 $100 million or 20%, whichever is less, in Lehman Brothers Real Estate 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 Lehman Brothers upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Lehman Brothers or reduction or termination of the commitment.**

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $75 million or 20%, whichever is less, in Windjammer Senior Equity Fund III, 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 Windjammer Capital upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Windjammer 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 $100 million or 20%, whichever is less, in Warburg Pincus Private Equity IX, 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 Warburg Pincus upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Warburg Pincus or reduction or termination of the commitment". The motion passed.

The meeting adjourned at 9:55 A.M.

Respectfully submitted,

Howard Bicker

Howard Bicker
Executive Director

RESOLUTION OF THE MINNESOTA BOARD OF INVESTMENT CONCERNING PROXY VOTING

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

WHEREAS, the SBI has previously established a Proxy Committee:

NOW THEREFORE, BE IT RESOLVED THAT:

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

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

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

4. This resolution shall take effect immediately.

Adopted this 8th day
of June, 2005

Governor Tim Pawlenty
Chair, Minnesota State
Board of Investment

Proxy Voting Guidelines

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

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

Overview of the SBI

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

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

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

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

Statutory Purpose

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

Fiduciary Responsibility

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

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

Voting Process

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

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

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

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

Corporate Governance Issues

Routine Matters

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

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

Shareholder Rights

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

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

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

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

Executive Compensation

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

Buyouts

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

Special Cases

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

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

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

Social Responsibility Issues

Tobacco

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

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

Northern Ireland

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

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

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

Environmental Protection/Awareness

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

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

South Africa

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

Other Issues

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

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

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

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

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

INVESTMENT ADVISORY COUNCIL

AGENDA AND MINUTES

September 6, 2005

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Tuesday, September 6, 2005
2:00 P.M. - Board Room – First Floor
60 Empire Drive, St. Paul, MN

	TAB
1. Approval of Minutes of June 7, 2005	
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2. Litigation Update	
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3. Report from the SBI Administrative Committee (Peter Sausen)	**C**
1. Review of International Country Investing Guidelines Update	
2. Recommendation of SBI Compensation Plan	
4. Reports from the Investment Advisory Council (John Bohan)	
A. Stock and Bond Manager Committee	**D**
1. Review of manager performance	
2. Recommendation to authorize SBI Executive Director to renew investment manager contracts	
3. Review of manager Investment Guidelines	
B. Alternative Investment Committee (Judy Mares)	**E**
1. Review of current strategy	
2. Review of key terms and conditions for private equity fund investing	
3. Recommendation of new investments with three existing managers: • Thoma Cressey • Blackstone • Vestar	

Minutes
Investment Advisory Council
June 7, 2005

MEMBERS PRESENT: Frank Ahrens; Gary Austin; Dave Bergstrom; Doug Gorence; Heather Johnston; P. Jay Kiedrowski; Hon. Ken Maas; Judy Mares; Malcolm McDonald; Gary Norstrem; Mike Troutman; and Mary Vanek.

MEMBERS ABSENT: Kerry Brick; John Bohan; Peggy Ingison; and Daralyn Peifer.

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

OTHERS ATTENDING: Ann Posey, Richards & Tierney; Christie Eller; Carla Heyl; Peter Sausen; Eugene Edie; Jerry Irsfeld, John Fisher, Susan Mills-Moriarty, and Bob Heimerl, REAM.

The minutes of the March 1, 2005 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, 2005 (Combined Funds 9.6% vs. Composite 9.3%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.7% vs. CPI 3.0%). He stated that the Basic Funds have outperformed its composite index (Basic Funds 9.8% vs. Composite 9.5%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 9.4% vs. Composite 8.9%).

Mr. Bicker reported that the Basic Fund's assets decreased 0.6% for the quarter ending March 31, 2005 due to both negative contributions and negative investment returns. He said that the asset mix is essentially on target. He reported that the Basic Funds underperformed its composite index for the quarter (Basic Funds -0.3% vs. Composite -0.1%) but outperformed it for the year (Basic Funds 9.1% vs. Composite 9.0%).

Mr. Bicker reported that the market value of the Post Fund's assets decreased 2.3% for the quarter ending March 31, 2005, also due to negative contributions and negative investment returns. He said the Post Fund's asset mix is also on target. He stated that the Post Fund slightly underperformed its composite index for the quarter (Post Fund –0.4% vs. Composite –0.3%) and outperformed it for the year (Post Fund 8.2% vs. Composite 8.0%).

Mr. Bicker reported that the domestic stock manager group slightly underperformed its target for the quarter (Domestic Stock –2.3% vs. Domestic Equity Asset Class Target -2.2%) and matched it for the year (Domestic Stocks 7.1% vs. Domestic Equity Asset Class Target 7.1%). He said the International Stock manager group underperformed its composite index for the quarter (International Stocks 0.1% vs. International Equity Asset Class Target 0.2%) and for the year (International Stocks 14.8% vs. International Equity Asset Class Target 15.7%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds –0.4% vs. Fixed Income Asset Class Target –0.5%) and for the year (Bonds 1.9% vs. Fixed Income Asset Class Target 1.1%). He concluded his report with the comment that as of March 31, 2005, the SBI was responsible for over $48 billion in assets.

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Mr. Bicker referred members to pages 9 and 10 of Tab B in the meeting materials and updated members on legislative activity of interest to the SBI. He reported that the bill initiated by the SBI relating to data privacy for the alternative investment program passed into law. He said that a bill giving the SBI authority to make investments in Minnesota venture capital in the Environmental Trust Fund is currently pending in the Environment, Ag and Economic Development Conference Committee. He said a similar bill was proposed last year which involved using pension assets. Mr. Bicker stated that the Board's proposal to allow the SBI to have its own compensation plan passed in both the House and the Senate and was signed by the Governor into law. He said that the bill to change the SBI's budgetary process had not passed but that the SBI's previous budget allocation did pass. He added that there is still some interest in pursuing this proposal during the special session. In response to questions from Mr. Kiedrowski and Mr. McDonald, Mr. Bicker stated that Senator Kiscaden was the author of the Senate version of the bill and that she is currently out of the country. Mr. Kiedrowski offered to speak with her regarding the issue when she returns. Mr. Bicker reported that the bill to consolidate Minneapolis Teachers into the Teachers Retirement Association passed in the Senate but not in the House. A brief discussion took place describing the measures that are being implemented to help the Fund become more fully funded. He explained that the SBI's interest in that bill is related to protecting the integrity of the Post Fund and to make sure the process is in place for the SBI to absorb these assets. He said that a bill giving MnSCU some additional flexibility in selecting which SIF accounts to offer their participants did not pass. He said a bill allowing the SBI to invest county environmental trust funds passed in the Senate but not in the House. Mr. Bicker concluded his legislative update by stating that the bill placing a limitation on the Post Retirement Fund benefit increases did not receive a hearing in the Pension Commission, and Ms. Vanek noted that it is possible that the Commission will look at it during the interim.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She said that the trial in the Broadcom case has been scheduled for

September 13, 2005. She noted that the case has been assigned to a judge who is retiring soon so she noted that it is possible that the trial will be rescheduled. She added that several motions are pending in the case and that one discovery motion was being heard today. Ms. Eller reported that several motions are also pending in the AOL case and that a special master has been appointed. She stated that the discovery deadline in the McKesson case is July 1, 2005 and that staff had completed some depositions in the case and will do a few more in the coming weeks. She said the overall class has reached settlement, so she said she hopes there will be settlement with some of the individual cases as well. Ms. Eller concluded her litigation update by stating that there have been active settlement negotiations occurring in the WorldCom case. In response to a question from Mr. McDonald, Ms. Eller stated that in the "opt-out" cases, we hope to receive a premium over what the general class receives. She further stated that the rationale for seeking lead plaintiff status is to bring an institutional investor perspective to the case.

Mr. Bicker updated the Board on the status of the pharmaceutical company shareholder resolutions. He reported that the Board's resolution received 28.5% of the total votes cast at Pfizer, roughly 14% at Eli Lilly, almost 25% at Merck, and he noted that anything above 5% is considered strong support.

Mr. Bicker noted that staff is recommending that the Board approve the reauthorization of the Proxy Voting Committee.

Mr. Bicker said the legislature has authorized the SBI to work with MnSCU and the Historical Society to provide them with a defined contribution plan. He said that staff is recommending a one-year extension of the Historical Society's contract to coincide with the timing of other changes taking place for the MnSCU plan. In response to a question from Mr. Troutman, Mr. Bicker stated that no action from the IAC is needed on these recommendations. In response to questions from Mr. McDonald, Mr. Bicker clarified the SBI's role with the Historical Society and the MnSCU plan.

SBI Administrative Committee Report

Mr. Sausen referred members to Tab C of the meeting materials and stated that the Committee has five recommendations for the Board's consideration. He said that the Committee is recommending approval of the Executive Director's proposed workplan for FY06 and that the workplan be used as the basis of the Executive Director's performance evaluation for FY06. He stated that the Committee is recommending approval of the SBI's Budget Plan for FY06 and approval of the SBI's Continuing Fiduciary Education Plan. He said that the Committee's fourth recommendation is to develop an SBI compensation plan. He explained that the Legislature had approved the language for this plan, which would require the approval of the Board, the Commissioner of Employee Relations and the Legislative Coordinating Committee. He said the Committee is recommending that a subcommittee be established made up of the Chair and the Vice Chair of the IAC, and two retirement system directors. He noted that Board deputies have also been invited to be part of the subcommittee. Mr. Troutman voiced his support of this process and noted the importance of continuing to try to get the SBI's budget process changed in order to better utilize the new compensation plan. In response to questions from Mr. Kiedrowski, Mr. Bicker discussed the advantages and disadvantages of utilizing carry-forward provisions. He also noted that the Legislative Advisory Commission has very little money available for requests. Mr. Kiedrowski and Mr. McDonald voiced their support of proceeding with the development of a compensation plan for the SBI as soon as possible. Mr. Sausen concluded his report by presenting the Committee's recommendation to approve the Executive Director's Evaluation Process. He briefly reviewed the proposed process, which is the same process that has been used since the late 1980's. In response to a question from Mr. Gorence, Mr. Bicker stated that the SBI staff has been reduced from 25 to 19 due to budget cuts.

Mr. Bicker noted that a major initiative in his workplan for FY06 is to review the IAC's governance policies and how to best utilize the talents and expertise of its members.

Mr. McDonald moved approval of the five recommendations of the Administrative Committee, as stated in the Committee Report. Mr. Kiedrowski seconded the motion. The motion passed.

International Equity Active Developed Markets Manager Search Committee Report
Mr. Sausen referred members to Tab D of the meeting materials and stated that the Committee had interviewed six prospective candidates and re-interviewed two existing managers. He said that more information on the results of the two re-interviews would be presented during the report from the Stock and Bond Manager Committee later in the meeting. Mr. Sausen said that the Committee is recommending the following four managers for retention: Acadian, Fidelity, J. P. Morgan and McKinley. Ms. Mares moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. The motion passed.

International Equity Enhanced Developed Markets Index Manager Search Committee Report
Mr. Sausen referred members to Tab E of the meeting materials and stated that the Committee had interviewed five candidates and is recommending three: AQR, Fidelity and SSgA. Mr. Norstrem moved approval of the Committee's recommendation, as stated in the Committee Report. Ms. Vanek seconded the motion. The motion passed. Mr. Sausen thanked the members who had served on both these committees.

Stock and Bond Manager Committee Report
Mr. Kiedrowski referred members to Tab F of the meeting materials and stated that American Express, who had acquired Threadneedle Asset Management in 2003, was re-interviewed by the Search Committee. He said that the Search Committee had concluded that one year is an insufficient period of time over which to analyze their performance and that the Committee has requested that another review of the firm take place at the end of FY06.

Mr. Kiedrowski stated that the Committee is recommending the renewal of contracts for the emerging markets managers (Alliance Capital, Capital Guardian Trust and Morgan Stanley) and he moved approval of the Committee's recommendation, as stated in the

Committee Report. Mr. McDonald seconded the motion. The motion passed. Mr. Bicker stated that staff is considering asking the Board for authority to renew these administrative manager contracts on an on-going basis without needing re-approval since all of the manager contracts have immediate termination clauses. He then asked for any comments. Several members voiced their support of requesting this authority from the Board.

Mr. Kiedrowski said that the Committee is recommending the termination of Transamerica Investment Management from the Domestic Equity program, and he moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. The motion passed. In response to a question from Ms. Johnston, Mr. Bicker stated that he had already removed their assets and that this motion is to formally terminate their contract. Mr. Kiedrowski reported that the Committee is recommending the termination of Britannic Asset Management and T. Rowe Price from the International Equity Program due to underperformance. Mr. Bicker noted that T. Rowe Price was the other manager that the Search Committee re-interviewed during the quarter and that these assets will be a source of funding for the new managers. Ms. Mares moved approval of the Committee's recommendation as stated in the Committee Report. Mr. McDonald seconded the motion. In response to a question from Mr. Gorence, Mr. Bicker stated that the international program's asset allocation has not been increased. The motion passed. Mr. Kiedrowski stated that the Committee's final recommendation is to authorize the SBI to utilize transition management services and amend the contract with the SBI's custodian bank to include such services. Mr. Kiedrowski moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. In response to questions from Ms. Posey, Mr. Perry clarified that the recommendation includes giving the SBI authority to begin a transition manager search if needed. The motion passed.

Alternative Investment Committee Report
Ms. Mares stated that Mr. Gudorf had resigned from the IAC and that she is the new Chair of the Committee. She referred members to Tab G of the meeting materials and noted that during the next quarter staff will be updating the Mercer study paper concerning terms and conditions of investment deals in the marketplace. She stated that the Committee had reviewed T. Rowe Price, the manager involved in the public stock distribution process and had determined that the process and manager have performed well.

Ms. Mares stated that the Committee is recommending new investments with one new manager, Lehman Brothers, and two existing managers, Windjammer Capital and Warburg Pincus. Ms. Mares moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. In response to questions from Mr.Gorence and Mr. Troutman, Mr. Bicker confirmed that return expectations have come down from what was expected ten years ago. He added that another difference is that many funds invest a portion of their funds overseas now. The motion passed.

A brief discussion followed on the China Roundtable that members had attended earlier in the day, and several members voiced positive comments about the presentation. Mr. Bicker thanked members again for their time and service on the IAC.
The meeting adjourned at 2:08 P.M.

Respectfully submitted,

Howard Bicker

Howard Bicker
Executive Director

Tab A

LONG TERM OBJECTIVES
Period Ending 6/30/2005

COMBINED FUNDS: $39.8 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.)	**9.1% (1)**	0.3 percentage point above target
Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Combined Funds over the latest 10 year period.		
Provide Real Return (20 yr.)	**10.5%**	7.5 percentage points above CPI
Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.		

BASIC RETIREMENT FUNDS: $20.4 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.)	**9.3%**	0.2 percentage point above target
Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 10 year period.		

POST RETIREMENT FUND: $19.4 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.)	**8.8%**	0.4 percentage point above target
Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 10 year period.		

(1) Performance is calculated net of fees.

SUMMARY OF ACTUARIAL VALUATIONS

All Eight Plans of MSRS, PERA and TRA Including Post Fund
July 1, 2004

	Active (Basics)	Retired (Post)	Total (Combined)
Liability Measures			
1. Current and Future Benefit Obligation	$32.5 billion	$22.5 billion	$55.0 billion
2. Accrued Liabilities	23.9	22.5	46.4
Asset Measures			
3. Current and Future Actuarial Value	$30.8 billion	$22.5 billion	$53.3 billion
4. Current Actuarial Value	20.4	22.5	42.9
Funding Ratios			
Future Assets vs. Future Obligations (3 ÷ 1)	95%	100%	97%
Current Actuarial Value vs. Accrued Liabilities (4 ÷ 2)	85%	100%	93%*

* 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 for Basics.

Actuarial Assumptions:

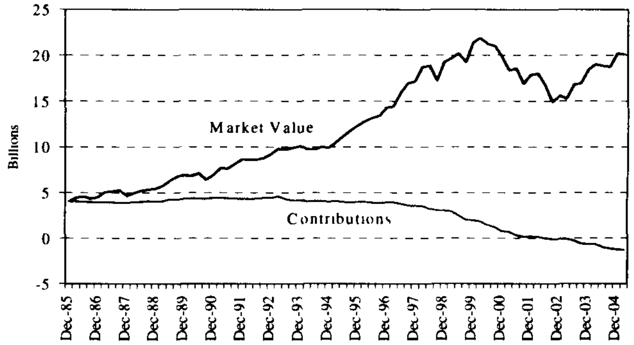
Salary Growth: 6.5%, resulting from a graded rate future increase assumption
Interest/Discount Rate: 8.5% Basics, 6.0% Post
Full Funding Target Date: 2031

EXECUTIVE SUMMARY

Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds increased 1.5% during the second quarter of 2005. Positive investment returns accounted for the increase.



Asset Growth During Second Quarter 2005 (Millions)

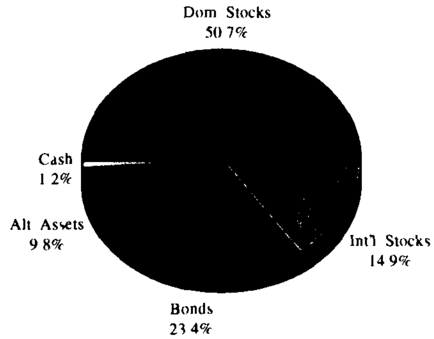
Beginning Value	$ 20,075
Net Contributions	-168
Investment Return	468
Ending Value	$ 20,375

Asset Mix

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

	Policy Targets	Actual Mix 6/30/2005	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	50.7%	$10,325
Int'l. Stocks	**15.0**	14.9	3,034
Bonds	**24.0**	23.4	4,778
Alternative Assets*	**15.0**	9.8	1,994
Unallocated Cash	**1.0**	1.2	244
	100.0%	100.0%	$20,375

* Any uninvested allocation is held in domestic stocks

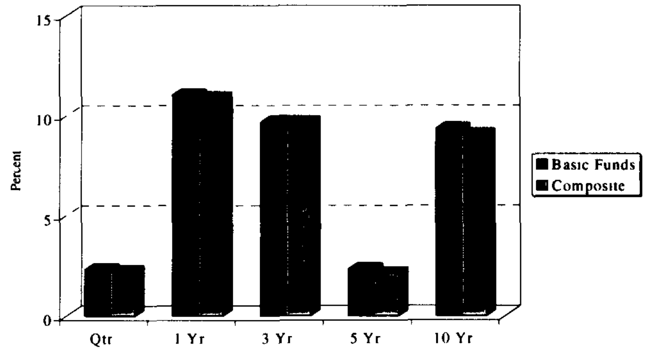


Fund Performance (Net of Fees)

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

Period Ending **6/30/2005**

	Qtr.	1 Yr.	3 Yr.	5 Yr	10 Yr.
		Annualized			
Basics	**2.3%**	**11.0%**	**9.7%**	**2.3%**	**9.3%**
Composite	2.2	10.9	9.7	2.1	9.1



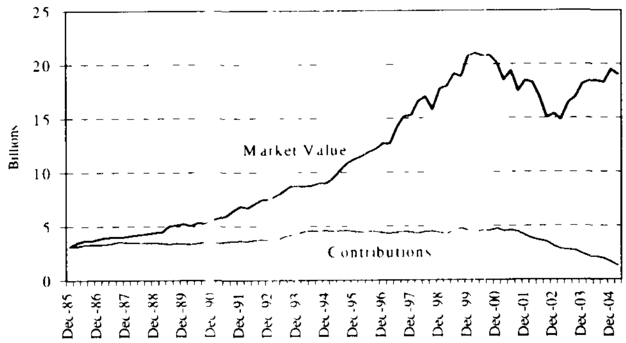
EXECUTIVE SUMMARY

Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased 1.9% during the second quarter of 2005. Positive investment returns accounted for the increase.

	Asset Growth During Second Quarter 2005 (Millions)
Beginning Value	$19,033
Net Contributions	-75
Investment Return	432
Ending Value	$19,390

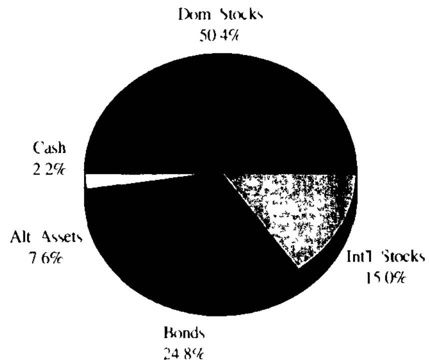


Asset Mix

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

	Policy Targets	Actual Mix 6/30/2005	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	50.4%	$9,767
Int'l Stocks	**15.0**	15.0	2,915
Bonds	**25.0**	24.8	4,800
Alternative Assets*	**12.0**	7.6	1,481
Unallocated Cash	**3.0**	2.2	427
	100.0%	100.0%	$19,390

* Any uninvested allocation is held in domestic stocks.

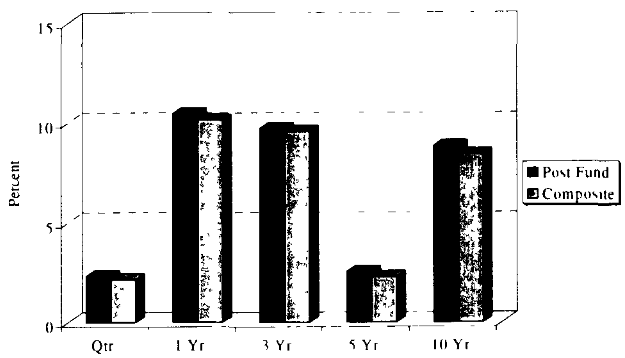


Fund Performance (Net of Fees)

The Post Fund exceeded its composite market index for the quarter and for the year.

Period Ending **6/30/2005**

	Qtr	1 Yr	3 Yr	5 Yr	10 Yr
			Annualized		
Post	**2.3%**	**10.5%**	**9.7%**	**2.5%**	**8.8%**
Composite	2.2	10.2	9.6	2.3	8.4



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

Domestic Stocks

The domestic stock manager group (active, semi-passive and passive combined) outperformed its target for the quarter and 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 6/30/2005

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr (Annualized)	10 Yr (Annualized)
Dom. Stocks	**2.6%**	**8.6%**	**9.5%**	**-1.8%**	**9.5%**
Asset Class Target*	2.2	8.1	9.5	-1.8	9.6

* 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) matched its target for the quarter.

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 6/30/2005

	Qtr.	1 Yr	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr (Annualized)
Int'l. Stocks	**-0.2%**	**15.7%**	**12.4%**	**0.6%**	**6.3%**
Asset Class Target*	-0.2	16.5	13.4	0.2	5.2

* 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 passive combined) matched its target for the quarter and outperformed for the year.

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

Period Ending 6/30/2005

	Qtr.	1 Yr	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Bonds	**3.0%**	**7.1%**	**6.3%**	**7.8%**	**7.2%**
Asset Class Target*	3.0	6.8	5.8	7.4	6.8

* 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

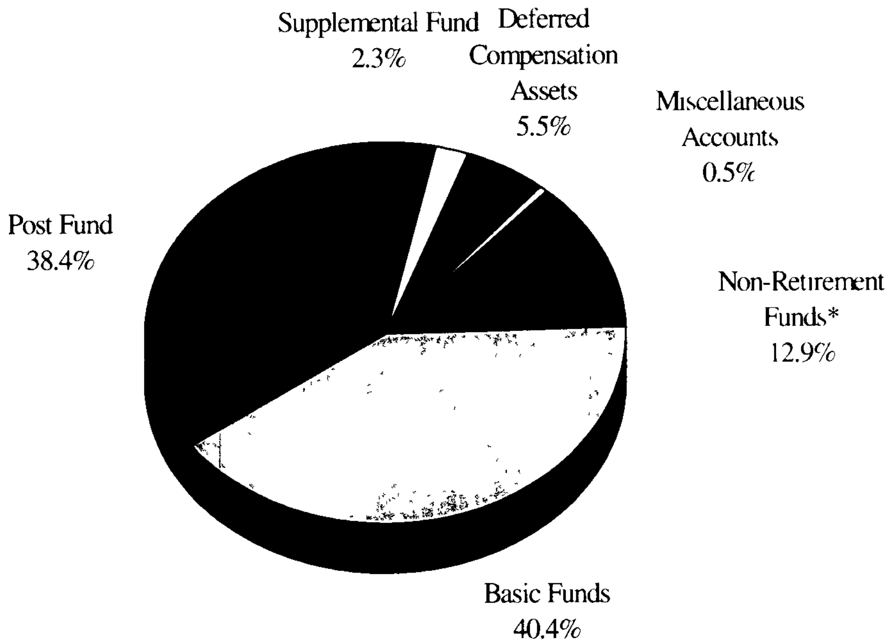
Alternative Investments

Period Ending 6/30/2005

	Qtr	1 Yr.	3 Yr. (Annualized)	5 Yr (Annualized)	10 Yr (Annualized)
Alternatives	**3.9%**	**27.2%**	**14.7%**	**9.3%**	**15.3%**

EXECUTIVE SUMMARY

Funds Under Management



	6/30/2005 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$20.4
Post Retirement Fund	19.4
Supplemental Investment Fund	1.1
State Deferred Compensation Plan Non-SIF Assets	2.8
Non-Retirement Funds*	
Assigned Risk Plan	0.3
Permanent School Fund	0.6
Environmental Trust Fund	0.4
State Cash Accounts	5.2
Miscellaneous Accounts	0.2
Total	$50.5

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Second Quarter 2005
(April 1, 2005 - June 30, 2005)

Table of Contents

VARIOUS CAPITAL MARKET INDICES

	Period Ending 6/30/2005				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Dow Jones Wilshire Composite	2.3%	8.2%	9.9%	-1.3%	10.0%
Dow Jones Industrials	-1.6	0.9	6.0	1.8	10.6
S&P 500	1.4	6.3	8.3	-2.4	9.9
Russell 3000 (broad market)	2.2	8.1	9.5	-1.4	10.1
Russell 1000 (large cap)	2.1	7.9	9.2	-1.9	10.2
Russell 2000 (small cap)	4.3	9.4	12.8	5.7	9.9
Domestic Fixed Income					
Lehman Aggregate (1)	3.0	6.8	5.8	7.4	6.8
Lehman Gov't./Corp.	3.4	7.3	6.4	7.7	6.9
3 month U.S. Treasury Bills	0.7	2.2	1.5	2.5	3.8
International					
EAFE (2)	-1.0	13.7	12.1	-0.5	5.2
Emerging Markets Free (3)	4.2	34.9	24.4	7.7	4.3
ACWI Free ex-U.S. (4)	0.0	17.0	14.1	0.8	5.8
World ex-U.S. (5)	-0.8	14.6	12.6	-0.3	5.6
Salomon Non U.S. Gov't. Bond	-2.7	7.7	11.0	7.9	4.8
Inflation Measure					
Consumer Price Index (6)	0.6	2.5	2.6	2.4	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 index, gained 2.2% during the second quarter of 2005. Despite worries regarding oil prices and inflation, the market rebounded in April; GDP growth and productivity growth were strong, and M&A activity remained robust. Small capitalization stocks outperformed large capitalization stocks, and growth stocks outperformed value stocks. The miscellaneous sector generated the largest total return within the Russell 3000 index, followed by health services. The process industries sector generated the lowest sector return.

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

Large Growth	Russell 1000 Growth	2.5%
Large Value	Russell 1000 Value	1.7%
Small Growth	Russell 2000 Growth	3.5%
Small Value	Russell 2000 Value	5.1%

The Russell 3000 returned 8.1% for the year ending June 30, 2005.

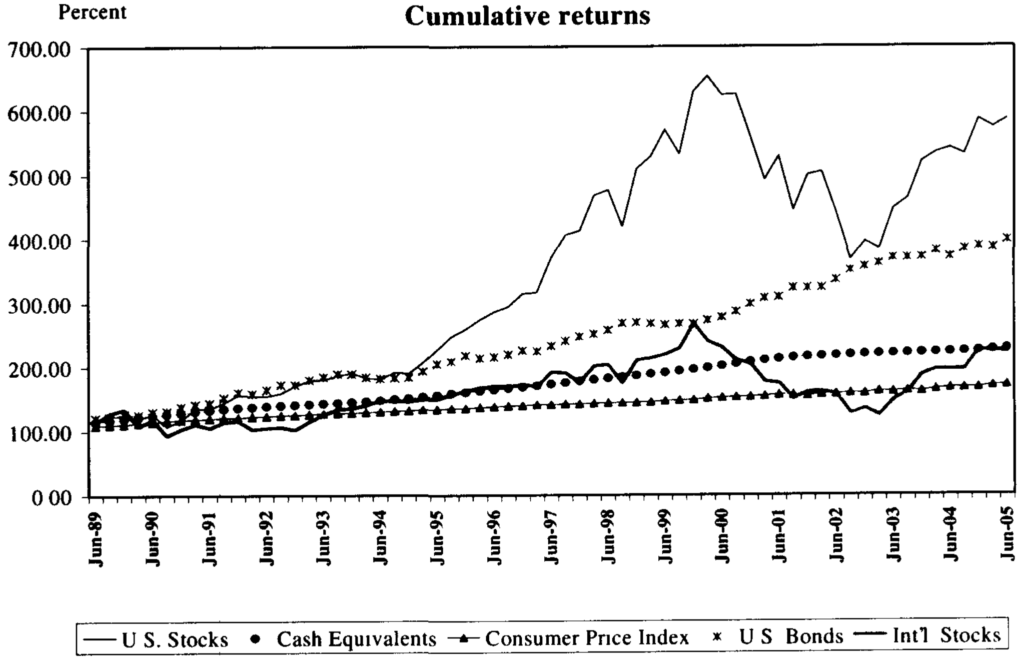
DOMESTIC BONDS

The bond market generated a return of 3.0% for the quarter and 6.8% for the year. Long-term yields declined during the second quarter as softness in global economic growth encouraged the perception among investors that the Federal Reserve may soon be satisfied that the interest rates have been "normalized". Yields trended lower despite the tightening and the yield curve flattened for the 7th consecutive quarter. The major event over the quarter was the downgrade of Ford and GM to below investment grade by Standards & Poor's, and their exit from the Lehman Aggregate Index.

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

Treasury/Agency	3.6%
Credit	2.8
Mortgages	2.3

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 -0.8% for the quarter. The quarterly performance of the six largest stock markets is shown below

United Kingdom	-0 4%
Japan	-3 6
France	-1 4
Switzerland	-1 0
Germany	-1 9
Canada	2.5

The World ex U.S. index increased by 14.6% 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 4 2% for the quarter The quarterly performance of the five largest stock markets in the index is shown below.

Korea	0.1%
Taiwan	5 9
South Africa	-0.1
Mexico	12 8
Brazil	7 4

The Emerging Markets Free index increased by 34 9% during the last year

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

REAL ESTATE

The first half of 2005 saw relative improvement in real estate market fundamentals. Supply remains in check and recovering demand is expected to contribute to continued improving fundamentals through the rest of 2005.

PRIVATE EQUITY

U S private equity firms raised $85 billion for private equity limited partnerships of all types, from venture capital to buyouts in 2004 This represents a 72% increase relative to the revised 2003 total of $49 billion 2005 looks to be a strong fund-raising year as the first two quarters have seen $68 million in funds raised

RESOURCE FUNDS

During the second quarter of 2005, crude oil averaged $53 25 per barrel, higher than an average price of $50.03 during the first quarter of 2005 The sustained high oil prices continue to 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.

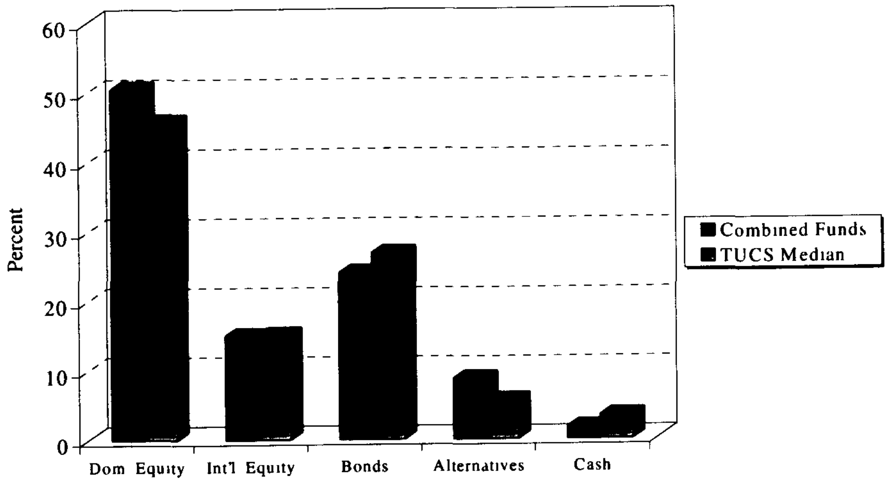
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On June 30, 2005, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$20,092	50.5%
International Stocks	5,948	15.0
Bonds	9,578	24.1
Alternative Assets	3,475	8.7
Unallocated Cash	672	1.7
Total	$39,765	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	**50.5%**	**15.0%**	**24.1%**	**8.7%**	**1.7%**
Median Allocation in TUCS*	45.8	15.1	26.9	5.6**	3.4

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

COMBINED FUNDS
Performance Compared to Other Pension Funds

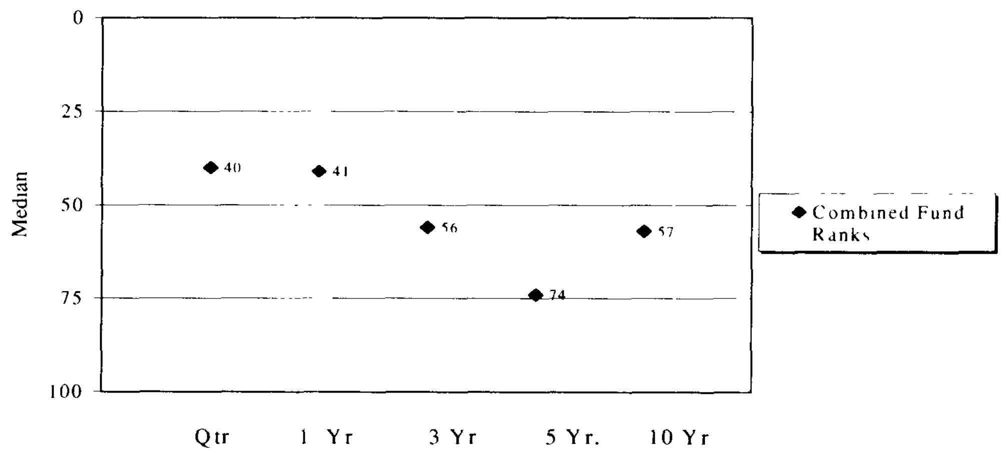
While the SBI is concerned with how its returns compare to other pension investors, universe comparisons should be used with great care. There are several reasons why such comparisons will provide an "apples to oranges" look at performance

— **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



	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
	Period Ending 6/30/2005				
Combined Funds Percentile Rank in TUCS*	40th	41st	56th	74th	57th

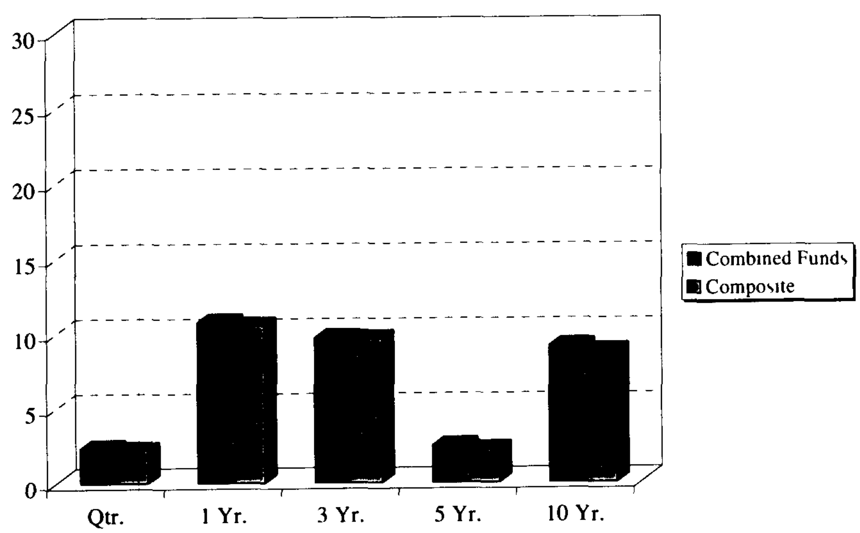
* Compared to public and corporate plans greater than $1 billion, gross of fees.

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* 1Q05
Domestic Stocks	Russell 3000	49.5%*
Int'l. Stocks	MSCI ACWI Free ex-U.S.	15.0
Bonds	Lehman Aggregate	24.5
Alternative Investments	Alternative Investments	9.0*
Unallocated Cash	3 Month T-Bills	2.0
		100.0%

* Alternative asset 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 6/30/2005

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
			Annualized		
Combined Funds**	**2.3%**	**10.7%**	**9.7%**	**2.4%**	**9.1%**
Composite Index	2.2	10.5	9.6	2.2	8.8

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

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BASIC RETIREMENT FUNDS

Investment Objectives

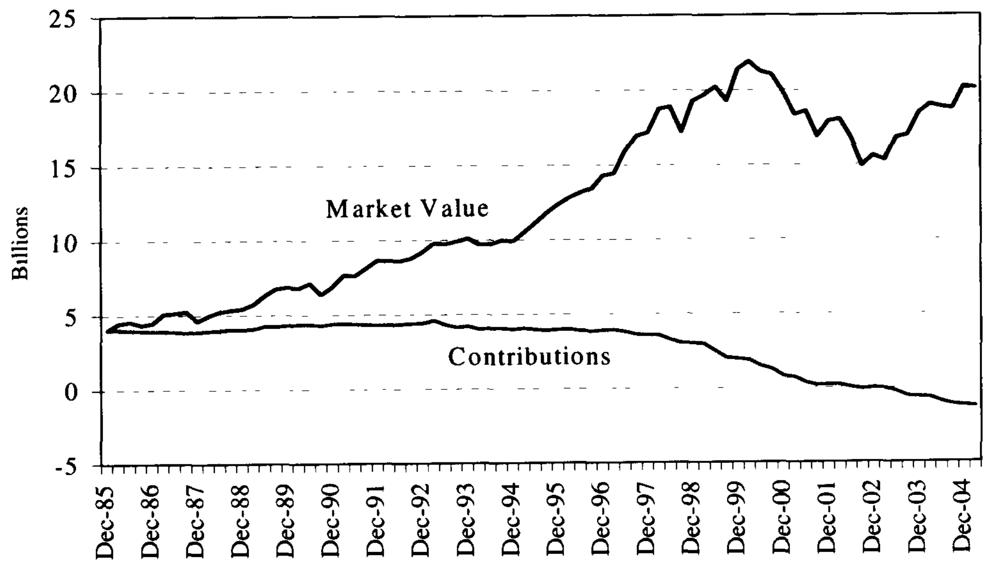
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately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

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

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

Asset Growth

The market value of the Basic Funds increased 1.5% during the second quarter of 2005. Positive investment returns accounted for the increase.



Last Five Years
In Millions

	12/00	12/01	12/02	12/03	12/04	3/05	Latest Qtr. 6/05
Beginning Value	$21,365	$19,807	$17,874	$15,561	$18,435	$20,201	$20,075
Net Contributions	-1,186	-572	-247	-592	-577	-75	-168
Investment Return	-372	-1,361	-2,066	3,466	2,343	-51	468
Ending Value	$19,807	$17,874	$15,561	$18,435	$20,201	$20,075	$20,375

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

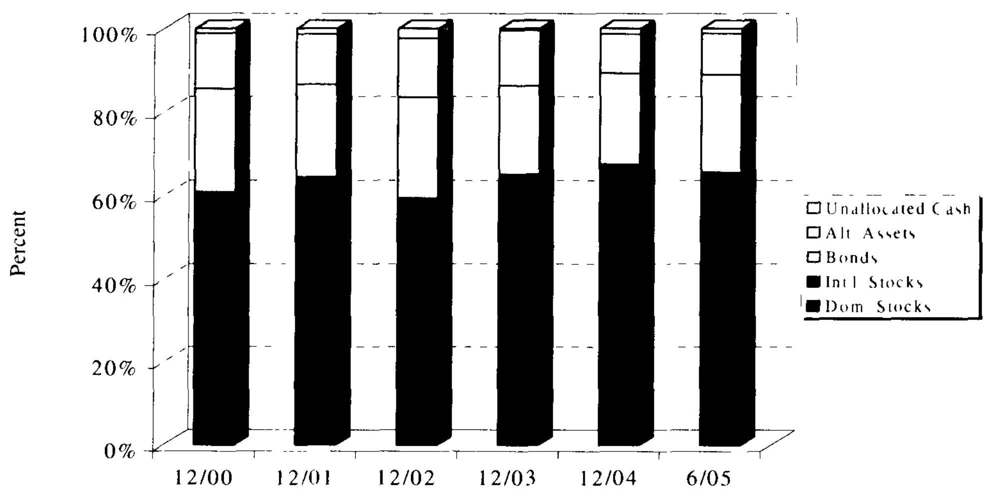
Domestic Stocks	45.0%
Int'l Stocks	15.0
Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

* 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 equities and fixed income increased due to positive returns. The allocation to international equities decreased due to rebalancing, despite positive returns.

During the quarter, the domestic equity allocation increased due to positive returns.



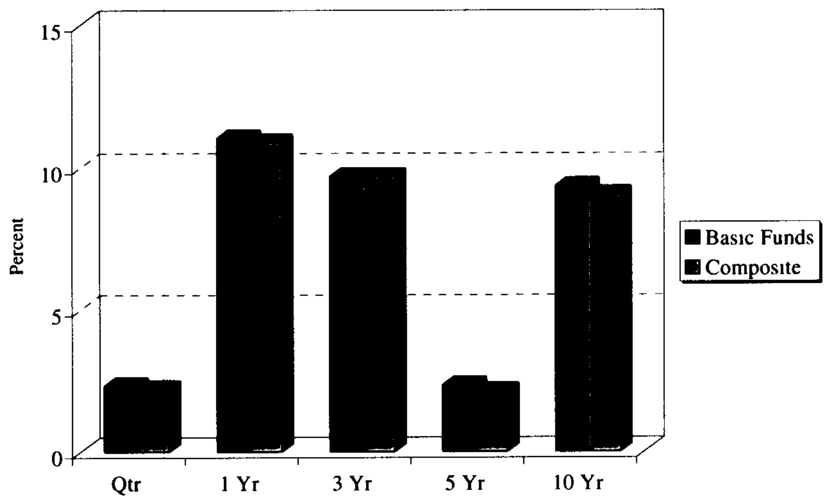
	Last Five Years						Latest Qtr.
	12/00	**12/01**	**12/02**	**12/03**	**12/04**	**3/05**	**6/05**
Domestic Stocks	44.3%	49.5%	45.3%	48.5%	50.9%	50.4%	50.7%
Int'l Stocks	16.6	15.0	14.1	16.6	16.6	15.1	14.9
Bonds	24.7	22.1	24.2	21.2	21.8	23.2	23.4
Alternative Assets	12.1	14.1	13.3	13.3	9.4	9.9	9.8
Unallocated Cash	1.1	1.3	2.3	0.4	1.3	1.4	1.2
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* 1Q05
Domestic Stocks	45.0%	Russell 3000	50.0%*
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	10.0*
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 6/30/2005

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Basic Funds**	**2.3%**	**11.0%**	**9.7%**	**2.3%**	**9.3%**
Composite Index	2.2	10.9	9.7	2.1	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.

POST RETIREMENT FUND

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

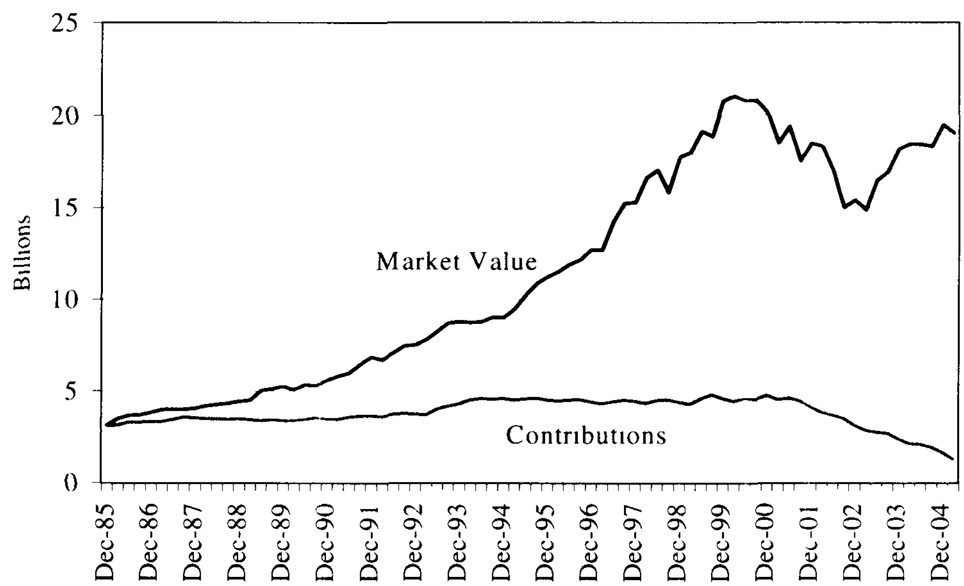
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis If the Post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

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

Asset Growth

The market value of the Post Fund increased 1 9% during the second quarter of 2005.

Positive investment returns and accounted for the increase



Last Five Years
In Millions

	12/00	12/01	12/02	12/03	12/04	3/05	Latest Qtr. 6/05
Beginning Value	$20,768	$20,153	$18,475	$15,403	$18,162	$19,480	$19,033
Net Contributions	167	-647	-1,000	-719	-749	-365	-75
Investment Return	-782	-1,031	-2,072	3,478	2,067	-82	432
Ending Value	$20,153	$18,475	$15,403	$18,162	$19,480	$19,033	$19,390

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%

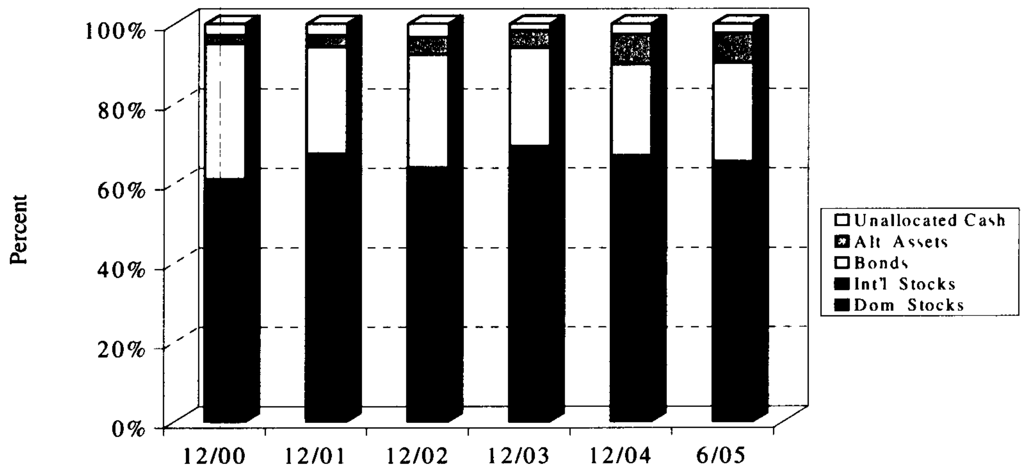
* Alternative assets include equity-oriented real estate, venture capital, resource, and yield-oriented funds. Any uninvested allocation is held in domestic stocks.

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 alternatives increased due to strong returns. The allocation to domestic equities decreased due to rebalancing.

During the quarter, the allocation to domestic equities increased due to positive returns.



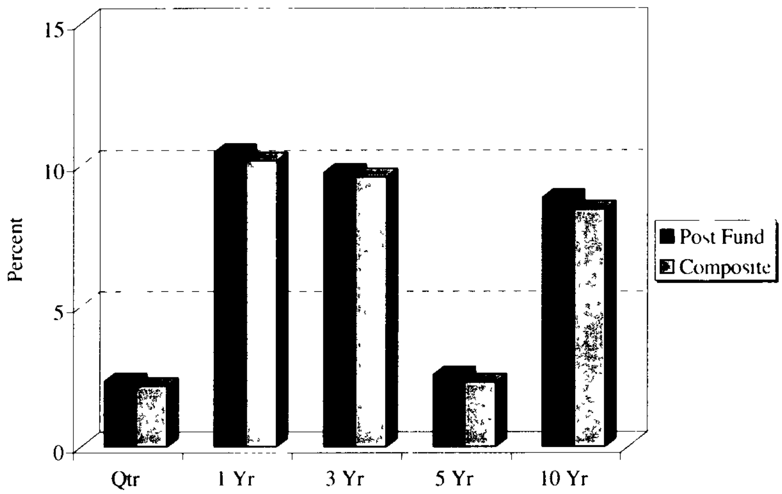
	Last Five years						Latest Qtr.
	12/00	**12/01**	**12/02**	**12/03**	**12/04**	**3/05**	**6/05**
Dom. Stocks	47.5%	52.4%	49.6%	52.7%	50.2%	49.9%	50.4%
Int'l. Stocks	13.5	15.1	14.4	16.7	16.8	15.3	15.0
Bonds	34.0	26.7	28.3	24.6	22.9	24.5	24.8
Alt. Assets	2.3	3.1	4.5	4.4	7.6	8.0	7.6
Unallocated Cash	2.7	2.7	3.2	1.6	2.5	2.3	2.2
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* 1Q05
Domestic Stocks	45.0%	Russell 3000	49 0%
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	8 0*
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 6/30/2005

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
			Annualized		
Post Fund**	**2.3%**	**10.5%**	**9.7%**	**2.5%**	**8.8%**
Composite Index	2.2	10 2	9 6	2.3	8 4

** 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

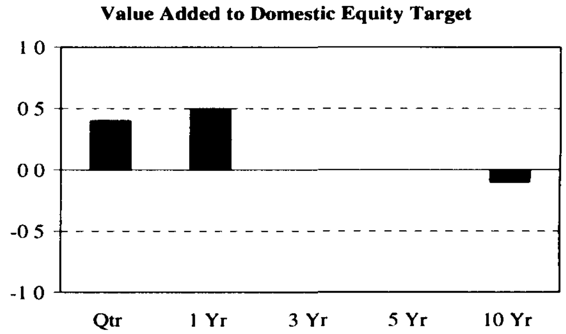
STOCK AND BOND MANAGERS

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 6/30/2005

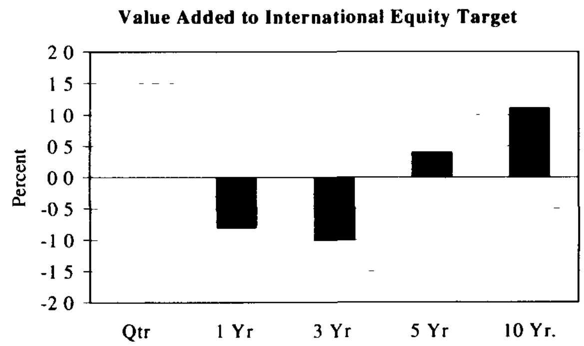
	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Stocks	**2.6%**	**8.6%**	**9.5%**	**-1.8%**	**9.5%**
Asset Class Target*	2.2	8.1	9.5	-1.8	9.6

* 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 6/30/2005

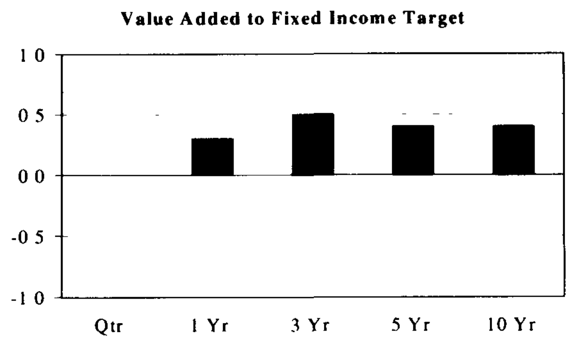
	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	**-0.2%**	**15.7%**	**12.4%**	**0.6%**	**6.3%**
Asset Class Target*	-0.2	16 5	13.4	0 2	5.2

* 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 6/30/2005

	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	**3.0%**	**7.1%**	**6.3%**	**7.8%**	**7.2%**
Asset Class Target	3.0	6.8	5 8	7.4	6.8

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 6/30/2005

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.	10 Yr.
Alternatives	3.9%	27.2%	14.7%	9.3%	15.3%
Inflation	0.6%	2.5%	2.6%	2.4%	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 6/30/2005

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.	10 Yr.
Real Estate	4.7%	18.9%	12.5%	11.2%	12.0%

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 6/30/2005

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.	10 Yr.
Private Equity	2.3%	30.3%	15.1%	5.5%	17.5%

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 6/30/2005

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.	10 Yr.
Resource	33.2%	97.2%	29.4%	23.3%	17.7%

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 6/30/2005

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.	10 Yr.
Yield Oriented	-0.3%	13.8%	12.1%	12.0%	13.0%

SUPPLEMENTAL INVESTMENT FUND

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

1. It functions as the investment manager for all assets of the Unclassified Employees Retirement Plan, Public Employees Defined Contribution Plan and Hennepin County Supplemental Retirement Plan.
2. It is one investment vehicle offered to employees as part of 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, 2005 the market value of the entire Fund was $1.1 billion.

Investment Options

	6/30/2005 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$495
Growth Share Account – an actively managed, all common stock portfolio.	$139
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$207
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$71
Bond Market Account – an actively managed, all bond portfolio.	$115
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$52
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.	$63

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%	63 1%
Bonds	35.0	35 8
Unallocated Cash	5 0	1 1
	100 0%	100 0%

Period Ending 6/30/2005

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Total Account	**2.4%**	**7.7%**	**8.2%**	**1.8%**	**8.8%**
Benchmark*	2 5	7 4	8 1	2 0	8.7

* 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 6/30/2005

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Total Account	**2.6%**	**8.7%**	**9.3%**	**-2.0%**	**9.2%**
Benchmark*	2 2	8 1	9 5	-1.8	9.5

* 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 6/30/2005

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Total Account	**2.3%**	**8.1%**	**9.5%**	**-1.7%**	**9.8%**
Benchmark*	2 2	8 1	9 5	-1 8	9.7

* 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 6/30/2005

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Total Account	**-0.2%**	**15.8%**	**12.5%**	**0.7%**	**6.4%**
Benchmark*	-0 2	16 5	13 4	0 2	5.2

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

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

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

	Period Ending 6/30/2005				
		Annualized			
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Total Account	**3.0%**	**7.1%**	**6.4%**	**7.8%**	**7.2%**
Lehman Agg.	3.0	6.8	5 8	7.4	6.8

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

MONEY MARKET ACCOUNT

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

	Period Ending 6/30/2005				
		Annualized			
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Total Account	**0.7%**	**2.3%**	**1.7%**	**2.8%**	**4.2%**
3 month T-Bills	0.7	2.2	1.5	2.5	3.8

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

FIXED INTEREST ACCOUNT

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

	Period Ending 6/30/2005				
		Annualized			
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Total Account	**1.0%**	**4.1%**	**4.5%**	**5.2%**	**5.9%**
Benchmark*	1.0	3.8	3.1	3.7	4.9

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

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

DEFERRED COMPENSATION PLAN ACCOUNTS

DESCRIPTION

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

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

The SBI also offers a money market option, a fixed interest option, and a fixed fund option All provide 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 6/30/2005

		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**1.4%**	**6.3%**	**8.3%**	**-2.3%**
S&P 500	1 4	6.3	8 3	-2 4

Janus Twenty (active)

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

Period Ending 6/30/2005

		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**6.4%**	**12.9%**	**12.1%**	**-9.5%**
S&P 500	1 4	6 3	8 3	-2.4

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 6/30/2005

		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**-0.5%**	**4.7%**	**N/A**	**8.3%**
S&P 500	1 4	6 3	N/A	9.7

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 6/30/2005

		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 1/1/04
Fund	**4.4%**	**18.5%**	**N/A**	**16.3%**
MSCI US Mid-Cap 450	4 3	18 3	N/A	16.2

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 6/30/2005

		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**2.5%**	**9.7%**	**11.2%**	**8.5%**
Russell 2000	4 3	9 4	12 8	5.7

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 6/30/2005				
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**0.4%**	**14.9%**	**14.6%**	**5.0%**
MSCI EAFE	-1.0	13.6	12.1	-0.5

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 6/30/2005				
		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**-1.2%**	**13.1%**	**N/A**	**16.9%**
MSCI EAFE	-1.0	13.6	N/A	16.9

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 6/30/2005				
		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 10/1/03
Fund	**1.1%**	**9.7%**	**N/A**	**14.0%**
Benchmark	2.0	6.6	N/A	9.3

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 6/30/2005				
		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**2.7%**	**7.9%**	**N/A**	**8.5%**
Benchmark	2.6	7.8	N/A	8.5

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 6/30/2005				
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**2.1%**	**5.6%**	**6.0%**	**7.9%**
Lehman Agg.	3.0	6.8	5.8	7.4

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 6/30/2005				
		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**3.0%**	**6.8%**	**N/A**	**5.0%**
Lehman Agg.	3.0	6.8	N/A	5.0

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 6/30/2005				
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**0.7%**	**2.3%**	**1.7%**	**2.8%**
3-Mo. Treas.	0.7	2.2	1.5	2.5

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 6/30/2005

			Annualized	
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Fund	**1.0%**	**4.1%**	**4.6%**	**5.2%**
Benchmark	1 0	3 8	3 1	3 7

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 6/30/2005

The quarterly blended rate is 4 63%

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.

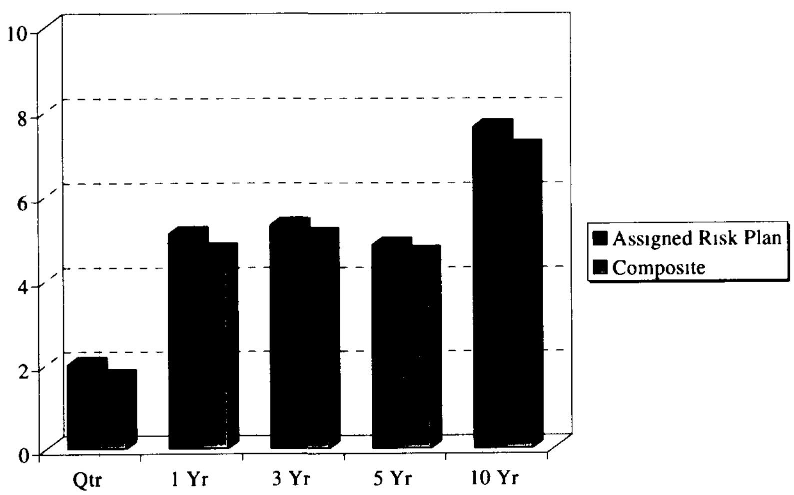
Asset Mix
The Assigned Risk Plan is invested in a portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	6/30/2005 Target	6/30/2005 Actual
Stocks	20.0%	22%
Bonds	80.0	78
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, 2005 the market value of the Assigned Risk Plan was $304 million.



Period Ending 6/30/2005

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Fund*	2.0%	5.1%	5.3%	4.8%	7.6%
Composite	1.7	4.7	5.1	4.6	7.1
Equity Segment*	0.9	5.2	6.2	-0.8	10.7
Benchmark	1.4	6.3	8.3	-2.4	9.9
Bond Segment*	2.3	5.1	4.3	5.8	5.9
Benchmark	2.4	4.9	4.3	6.3	6.2

* Actual returns are calculated net of fees.

PERMANENT SCHOOL FUND

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

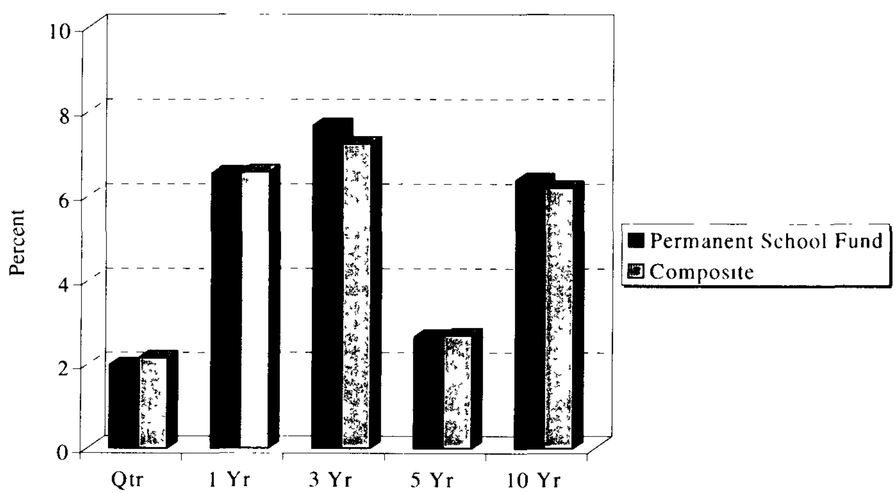
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income.

	6/30/2005 Target	6/30/2005 Actual
Stocks	50.0%	52 3%
Bond	48 0	46 3
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, 2005 the market value of the Permanent School Fund was $612 million



Period Ending 6/30/2005

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Total Fund (1) (2)	2 0%	6.5%	7 7%	2.7%	6 4%
Composite	2.2	6 6	7 2	2.7	6.2
Equity Segment (1) (2)	1.3	6.3	8 4	-2.3	N/A
S&P 500	1 4	6 3	8 3	-2.4	N/A
Bond Segment (1)	2.8	7.0	6 6	7.6	7.1
Lehman Aggregate	3.0	6.8	5 8	7 4	6 8

(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

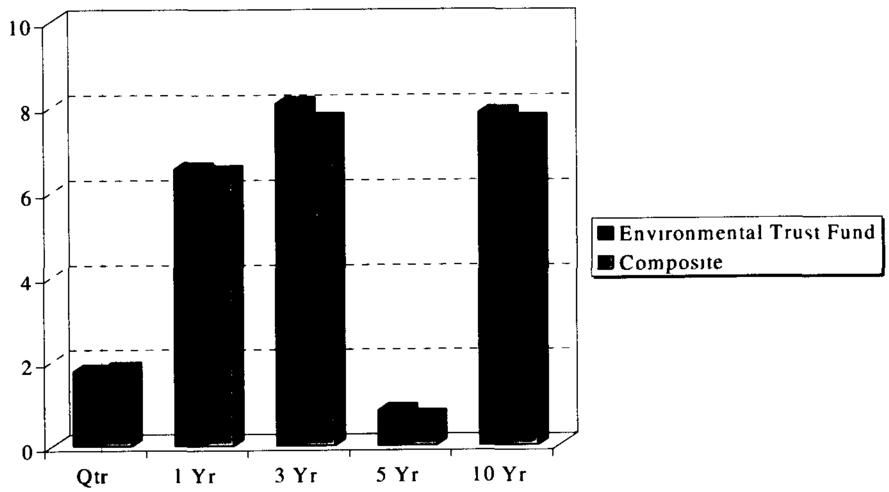
Investment Objective
The objective of the Environmental Trust Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

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, 2005 the market value of the Environmental Trust Fund was $377 million.

	6/30/2005 Target	6/30/2005 Actual
Stocks	70.0%	69.9%
Bonds	28.0	29.5
Unallocated Cash	2.0	0.6
Total	100.0%	100.0%



Period Ending 6/30/2005

	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	1.8%	6.5%	8.1%	0.8%	7.8%
Composite	1.8	6.5	7.7	0.7	7.7
Equity Segment*	1.3	6.3	8.5	-2.3	10.0
S&P 500	1.4	6.3	8.3	-2.4	9.9
Bond Segment*	2.8	7.0	6.7	7.7	7.2
Lehman Agg.	3.0	6.8	5.8	7.4	6.8

* Actual returns are calculated net of fees.

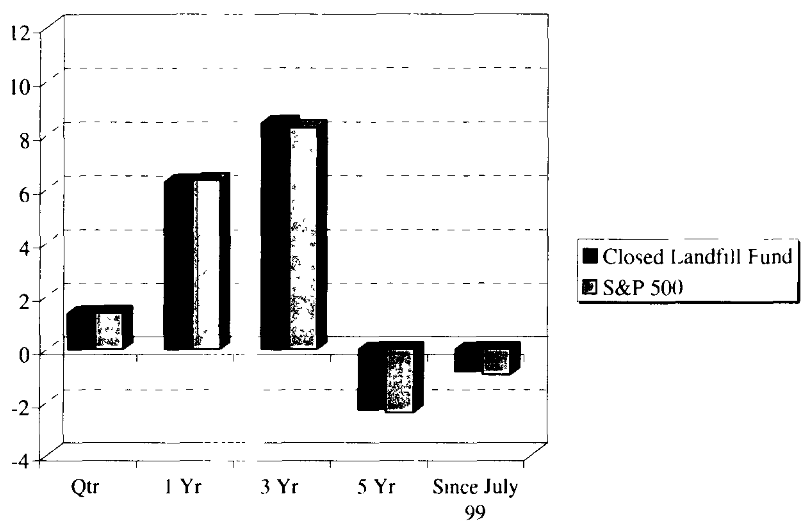
CLOSED LANDFILL INVESTMENT FUND

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

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, 2005, the market value of the Closed Landfill Investment Fund was $39 0 million



Period Ending 6/30/2005

	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	Since 7/1/1999
Total Fund (1)	1 3%	6 3%	8.5%	-2 3%	-0 8%
S&P 500 (2)	1.4	6 3	8.3	-2 4	-0.9

(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 6/30/2005

	Market Value (Millions)	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	10 Yr.
Treasurer's Cash Pool*	**$4,843**	**0.8%**	**2.3%**	**1.8%**	**3.1%**	**4.3%**
Custom Benchmark**		0.6	1.6	1.1	2.6	3.9
Trust Fund Cash Pool*	**$71**	**0.8**	**2.2**	**1.6**	**2.7**	**4.2**
Custom Benchmark***		0.6	1.6	1.0	2.1	3.7
3 month T-Bills		0.7	2.2	1.5	2.5	3.8

* 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, 2005 (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	88,742	0	1,703,690	0	3,691,828	1,084,833	728,444	7,297,537
	1.22%		23.35%		50.59%	14.86%	9.98%	100%
Public Employees Retirement Fund	63,275	0	1,262,538	0	2,722,893	799,898	517,344	5,365,948
	1.18%		23.53%		50.74%	14.91%	9.64%	100%
State Employees Retirement Fund	54,077	0	1,073,524	0	2,317,957	681,002	444,973	4,571,533
	1.18%		23.48%		50.71%	14.90%	9.73%	100%
Public Employees Police & Fire	29,580	0	586,344	0	1,265,232	371,699	241,416	2,494,271
	1.19%		23.51%		50.72%	14.90%	9.68%	100%
Highway Patrol Retirement Fund	2,912	0	58,483	0	126,123	37,051	23,971	248,540
	1.17%		23.53%		50.75%	14.91%	9.64%	100%
Judges Retirement Fund	515	0	10,690	0	23,053	6,772	4,397	45,427
	1.13%		23.53%		50.75%	14.91%	9.68%	100%
Correctional Employees Retirement	2,993	0	59,815	0	129,076	37,920	24,665	254,469
	1.18%		23.51%		50.72%	14.90%	9.69%	100%
Public Employees Correctional	2,121	0	22,497	0	48,517	14,253	9,217	96,605
	2.20%		23.29%		50.22%	14.75%	9.54%	100%
TOTAL BASIC FUNDS	244,215	0	4,777,581	0	10,324,679	3,033,428	1,994,427	20,374,330
	1.20%		23.45%		50.67%	14.89%	9.79%	100%
POST RETIREMENT FUND	427,711	0	4,799,864	0	9,766,897	2,914,791	1,480,909	19,390,172
	2.21%		24.75%		50.37%	15.03%	7.64%	100%
TOTAL BASIC AND POST	671,926	0	9,577,445	0	20,091,576	5,948,219	3,475,336	39,764,502
	1.69%		24.08%		50.53%	14.96%	8.74%	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	5,259 1.06%	177,229 35.81%	0	0	312,483 63.13%	0	0	494,971 100%
Growth Share Account	0	0	0	0	138,503 100.00%	0	0	138,503 100%
Money Market Account	51,879 100.00%	0	0	0	0	0	0	51,879 100%
Common Stock Index	0	0	0	0	207,506 100.00%	0	0	207,506 100%
Bond Market Account	0	0	114,858 100.00%	0	0	0	0	114,858 100%
International Share Account	0	0	0	0	0	70,629 100.00%	0	70,629 100%
Fixed Interest Account	1,587 2.52%	0	61,494 97.48%	0	0	0	0	63,081 100%
TOTAL SUPPLEMENTAL FUNDS	58,725 5.14%	177,229 15.53%	176,352 15.45%	0	658,492 57.69%	70,629 6.19%	0	1,141,427 100%
MN DEFERRED COMP PLAN *	49,701 1.79%	0	1,152,127 41.43%	0	1,389,054 49.96%	189,714 6.82%	0	2,780,596 100%
TOTAL RETIREMENT FUNDS	780,352 1.79%	177,229 0.41%	10,905,924 24.96%	0	22,139,122 50.68%	6,208,562 14.21%	3,475,336 7.95%	43,686,525 100%

* 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	26,103 8.57%	0	212,105 69.66%	0	66,289 21.77%	0	0	304,497 100%
ENVIRONMENTAL FUND	2,275 0.60%	111,213 29.46%	0	264,025 69.94%	0	0	0	377,513 100%
PERMANENT SCHOOL FUND	8,833 1.44%	283,242 46.28%	0	319,939 52.28%	0	0	0	612,014 100%
CLOSED LANDFILL INVESTMENT	71 0.18%	0	0	39,688 99.82%	0	0	0	39,759 100%
TREASURERS CASH	4,843,966 100.00%	0	0	0	0	0	0	4,843,966 100%
HOUSING FINANCE AGENCY	30,051 16.41%	153,033 83.59%	0	0	0	0	0	183,084 100%
MINNESOTA DEBT SERVICE FUND	0	205,223 100.00%	0	0	0	0	0	205,223 100%
MISCELLANEOUS ACCOUNTS	92,859 39.78%	101,889 43.65%	0	38,692 16.57%	0	0	0	233,440 100%
TOTAL CASH AND NON-RETIREMENT	5,004,158 73.60%	854,600 12.57%	212,105 3.12%	662,344 9.74%	66,289 0.97%	0	0	6,799,496 100%
GRAND TOTAL	5,784,510 11.46%	1,031,829 2.05%	11,118,029 22.02%	662,344 1.31%	22,205,411 43.98%	6,208,562 12.30%	3,475,336 6.88%	50,486,021 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: August 30, 2005

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 2005 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, 2005 - August 15, 2005 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 7, 2005.

3. Legislative Update

ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 2005 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR FINAL

ITEM	FISCAL YEAR 2005 BUDGET	FISCAL YEAR 2005 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,800,000	$ 1,703,189
SEVERENCE PAYOFF	37,000	0
WORKERS COMPENSATION INSURANCE	1,000	860
MISCELLANEOUS PAYROLL	2,000	0
SUBTOTAL	**$ 1,840,000**	**$ 1,704,049**
STATE OPERATIONS		
RENTS & LEASES	196,000	199,898
REPAIRS/ALTERATIONS/MAINTENANCE	15,000	7,484
PRINTING & BINDING	10,000	4,970
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	10,229
COMMUNICATIONS	20,000	20,641
TRAVEL, IN-STATE	1,000	441
TRAVEL, OUT-STATE	35,000	30,035
SUPPLIES	20,000	31,476
EQUIPMENT	0	23,509
EMPLOYEE DEVELOPMENT	10,000	10,245
OTHER OPERATING COSTS	10,000	5,556
SUBTOTAL	**$ 327,000**	**$ 344,484**
ORIGINAL BUDGET	**$ 2,167,000**	**$ 2,048,533**
BALANCE FORWARD FROM FY 2004	**$ 137,920**	
TOTAL GENERAL FUND	**$ 2,304,920**	**$ 2,048,533**

ATTACHMENT B

STATE BOARD OF INVESTMENT
FISCAL YEAR 2006 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH JULY 31, 2005

ITEM	FISCAL YEAR 2006 BUDGET	FISCAL YEAR 2006 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,800,000	$ 115,754
SEVERENCE PAYOFF	37,000	0
WORKERS COMPENSATION INSURANCE	1,000	0
MISCELLANEOUS PAYROLL	2,000	0
SUBTOTAL	**$ 1,840,000**	**$ 115,754**
STATE OPERATIONS		
RENTS & LEASES	196,000	17,038
REPAIRS/ALTERATIONS/MAINTENANCE	15,000	123
PRINTING & BINDING	10,000	0
PROFESSIONAL/TECHNICAL SERVICES	5,000	0
COMPUTER SYSTEMS SERVICES	10,000	0
COMMUNICATIONS	20,000	321
TRAVEL, IN-STATE	1,000	0
TRAVEL, OUT-STATE	25,000	0
SUPPLIES	20,000	0
EQUIPMENT	5,000	0
EMPLOYEE DEVELOPMENT	10,000	3,000
OTHER OPERATING COSTS	10,000	172
SUBTOTAL	**$ 327,000**	**$ 20,654**
ORIGINAL BUDGET	**$ 2,167,000**	**$ 136,408**
BALANCE FORWARD FROM FY 2005	**$ 256,387**	
TOTAL GENERAL FUND	**$ 2,423,387**	**$ 136,408**

ATTACHMENT C

STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel May 16, 2005 –August 15, 2005

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring: **International Managers:** Alliance Capital; American Express Asset Mgmt. Int'l.; Fidelity Mgmt. Trust Co.: J.P. Morgan Fleming Asset Mgmt.; Marathon Asset Mgmt.; State Street Global Advisors; UBS Global Asset Mgmt. **Manager Search:** **International Manager:** Record Treasury	M. Perry	London, England 6/8-6/17	$3,335.37
Other: Skadden, Arps, Slate, Meagher & Flom LLP (Deposition for McKesson HBOC, Inc.)	H. Bicker	San Francisco, CA 6/13-6/14	$1,580.29
Manager Monitoring: **Domestic Bond Manager:** Lehman Brothers Asset Mgmt. **Other:** Lehman Securities; Mesirow Financial; UBS Securities **Consultant:** Richards & Tierney	M. Menssen T. Brusehaver-Derby	Chicago, IL 8/9-8/10	$766.24

Tab C

COMMITTEE REPORT

DATE: August 30, 2005

TO: Members, State Board of Investment

FROM: Members, SBI Administrative Committee

The Administrative Committee met on August 16, 2005 to consider the following agenda items:

- **Review of International Country Investing Guidelines**
- **Recommendation of SBI Compensation Plan**

1. Review of International Country Investing Guidelines

In September 1992, the State Board of Investment (SBI) established an International Investing Guidelines Task Force. Its charge was to make recommendations to the SBI concerning issues related to human and worker rights with respect to the SBI International Equity Program. The guidelines recommended by the Task Force were adopted by the SBI in December 1992 and have been used in the implementation of the International Program since that date.

At the September 2003 SBI meeting, the guidelines were amended to require a review of only those countries found in the International Equity Program asset class target. Detailed reports are prepared for countries falling into the Group II and Group III categories. Reviews of the guidelines are conducted every four years or at the request of a Board Member.

The SBI has delegated the review of the country groupings to the SBI Administrative Committee. The last formal review occurred in May 2001. The current review has resulted in groupings of the asset class target countries on a developed markets and emerging markets basis.

In addition to the review of the country groupings, Staff proposed a change in the requirement for those managers who choose to invest in Group III countries to appear before the SBI Administrative Committee. As the guidelines have been revised to include only benchmark countries, if a country is classified as Group III country, the manager will likely need to invest there. Staff recommended and the Committee agreed that if a manager chooses to invest in a Group III market, the manager must notify SBI staff in writing of the decision to do so. Staff will inform the Committee of all managers that invest in any Group III market.

The policy guidelines are as follows:

In 1992, the International Investing Guidelines Task Force focused on information available from country reports compiled annually by the U.S. State Department. Based on that information, the Task Force recommended a policy framework that grouped countries into three broad categories. *It is important to underscore that the guidelines do not prohibit a manager from investing in the market of any country.* Rather, they may require either written notification or personal presentation from the manager:

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

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

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

The review process is as follows:

- Staff reviews *Country Reports on Human Rights for 2003*, prepared by the US Department of State (in accordance with Sections 116(d) and 502(b) of the Foreign Assistance Act of 1961, as amended), dated April 2004 against the worker and human rights issues that were highlighted by the Task Force in 1992. Staff designates countries "Group I, II or III" using the existing policy guidelines adopted by the Board.

- The SBI Administrative Committee reviews the country groupings. The groupings are reported to the Board as an information item in the SBI Administrative Committee Report since it is implementation of a policy that has already been adopted by the Board.

The only change to the country groupings involved moving Mexico from Group I to Group II. Following is a summary of the causes which prompted Mexico's revised grouping:

Mexico – A continued poor climate of domestic human rights remains a significant issue. The federal, state, and municipal governments have failed to achieve progress in this area, as noted in reports by several human rights organizations. Continued serious abuses include extrajudicial killings; disappearances; torture and other abuses; police corruption, impunity, and alleged involvement in narcotics-related abuses; arbitrary arrest and detention; lengthy pre-trial detention; lack of due process; and judicial inefficiency and corruption. In addition, there were credible reports of limits on freedom of association and workers' rights.

The Committee approved this change.

The current country groupings list is shown in **Attachment A** starting on **page 5**.

The previous country groupings are included in **Attachment B** starting on **page 7**.

Statistical data on international stock markets are provided in **Attachment C** starting on **page 9**.

Summary information on human rights and worker rights in each country appear in **Attachment D** and **Attachment E** starting on **pages 13 and 17**, respectively.

2. Recommendation of SBI Compensation Plan

Legislation was passed during the 2005 Legislative Session which authorizes the State Board of Investment to establish a compensation plan for its unclassified non represented employees, i.e., those unclassified employees whose position classification is not covered by a bargaining unit.

The legislation provides for the following process:

- The Board approves a compensation plan.
- The compensation plan is submitted to the Commissioner of Employee Relations for review and comment.

- The compensation plan is to be submitted to the Legislative Coordinatıng Committee for final approval.

At the June 8, 2005 SBI meeting, the Board authorized the establishment of a Compensation Plan Subcommittee. The Compensation Plan Subcommittee was charged with the responsibility of developing a compensation plan to be presented to the Board for its consideration at the September 2005 SBI meeting.

The Subcommittee has developed a Plan. Summary provisions of the Plan are as follows:

- The Plan outlines salary ranges and salary administration procedures for the Executive Director and other employees covered by the Plan.

- The Plan provides that other terms and conditions of employees covered by the Plan are to be covered by the State's Managerial Plan.

- The Plan defines the non-represented employee classifications available to the SBI that are covered by the Plan.

The Compensation Plan Subcommittee recommends that the Proposed Plan be approved by the State Board of Investment.

Enclosed is a copy of the proposed plan, the statutory language authorizing the plan, salary summary information used to develop the plan and an organization chart outlining investment staff classifications starting on **page 21** of this Tab.

RECOMMENDATION:

The Compensation Plan Subcommittee recommends that the SBI approve the Proposed Salary Administration Plan for the State Board of Investment and authorize the Executive Director to forward the Plan to the Commissioner of Employee Relations for his review and comment and to then forward the Plan, incorporating necessary technical and any other agreed upon changes from the commissioner, to the Legislative Coordinating Commission for final approval.

ATTACHMENT A

INTERNATIONAL INVESTING GUIDELINES
COUNTRY GROUPINGS
August 2005

Group I World ex US Countries	Group I EMF Countries	Group II EMF Countries	Group III EMF Countries
Australia	Argentina	Brazil	China
Austria	Chile	Colombia	Egypt
Belgium	Czech Republic	India	Jordan
Canada	Hungary	Indonesia	Pakistan
Denmark	Poland	Israel	Russia
Finland	Taiwan	Korea, Republic of	
France		Malaysia	
Germany		<u>Mexico</u>	
Greece		Morocco	
Hong Kong		Peru	
Ireland		Philippines	
Italy		South Africa	
Japan		Thailand	
Netherlands		Turkey	
New Zealand		Venezuela	
Norway			
Portugal			
Singapore			
Spain			
Sweden			
Switzerland			
United Kingdom			

Note: Underlining indicates a change in grouping from the May 2001 country groupings.

ATTACHMENT B

INTERNATIONAL INVESTING GUIDELINES
PRIOR COUNTRY GROUPINGS
May 2001

Group I EAFE Countries	Group I Non-EAFE Countries	Group II Non-EAFE Countries	Group III Non-EAFE Countries
Australia	Argentina	Bangladesh	Burma
Austria	Barbados	Brazil	China
Belgium	Bermuda	Bulgaria	Cote d'Ivoire
Denmark	Bolivia	Colombia	Croatia
Finland	Botswana	Ghana	Dominican Republic
France	Canada	Guatemala	Ecuador
Germany	Chile	India	Egypt
Hong Kong	Costa Rica	Indonesia	Iran
Ireland	Cyprus	Israel	Jordan
Italy	Czech Republic	Korea, Republic of	Kazakhstan
Japan	Estonia	Kuwait	Kenya
Netherlands	Greece	Malaysia	Lebanon
New Zealand	Hungary	Mauritania	Liberia
Norway	Jamaica	Mongolia	Oman
Portugal	Latvia	Morocco	Pakistan
Singapore	Lithuania	Namibia	Paraguay
Spain	Luxembourg	Nepal	Russia
Sweden	Malawi	Nigeria	Saudi Arabia
Switzerland	Mauritius	Peru	Syria
United Kingdom	Mexico	Philippines	Turkmenistan
Uruguay	Panama	Romania	Ukraine
	Papua New Guinea	South Africa	United Arab Emirates
	Poland	Sri Lanka	Uzbekistan
	Slovak Republic	Swaziland	
	Slovenia	Thailand	
	Taiwan	Turkey	
	Trinidad & Tobago	Venezuela	
	Tunisia	Vietnam	
	Uruguay	Zambia	
		Zimbabwe	

ATTACHMENT C

MSCI INDEX COUNTRIES BY GEOGRAPHIC REGION

	Europe	Pacific and Far East	Africa and Near East	Americas
World ex US Countries	Austria Belgium Denmark Finland France Germany Greece Ireland Italy Netherlands Norway Portugal Spain Sweden Switzerland United Kingdom	Australia Hong Kong Japan New Zealand Singapore		Canada
Emerging Markets Free Countries	Czech Republic Hungary Poland Russia	China India Indonesia Korea, Republic of Malaysia Pakistan Philippines Taiwan Thailand	Egypt Jordan Israel Morocco South Africa Turkey	Argentina Brazil Chile Columbia Mexico Peru Venezuela

ATTACHMENT C (cont.)
INTERNATIONAL STOCK MARKETS

RANKING BY MARKET CAPITALIZATION
(U.S. $ millions)
2004

Rank	Country
1	United States
2	Japan
3	United Kingdom
4	France
5	Germany
6	Canada
7	Spain
8	Hong Kong
9	Switzerland
10	Italy
11	Australia
12	Belgium
13	China
14	Netherlands
15	South Africa
16	Taiwan
17	Korea, Republic of
18	India
19	Sweden
20	Brazil

Rank	Country
21	Saudi Arabia
22	Russia
23	Malaysia
24	Finland
25	Mexico
26	Singapore
27	Denmark
28	Norway
29	Greece
30	Chile
31	Thailand
32	Ireland
33	Turkey
34	Israel
35	Austria
36	Portugal
37	Indonesia
38	Poland
39	Luxembourg
40	Iran

Source: Standard & Poor's, *Global Stock Markets Factbook 2005*

ATTACHMENT C (cont.)
DATA ON INTERNATIONAL STOCK MARKETS
MSCI WORLD EX U.S. INDEX COUNTRIES

	World Market Cap. 2004 ($ millions)	Global Rank by Market Cap. 2004	World Market Cap. Growth (%) 1997-2004	Number of Companies Listed 2004	Market Value as % of GNP 2003
Australia	776,403	11	162%	1,515	134%
Austria	85,815	35	140%	99	25%
Belgium*	768,377	12	461%	170	65%
Canada	1,177,518	6	107%	3,597	116%
Denmark	151,342	27	61%	178	67%
Finland	183,765	24	150%	134	121%
France	1,857,235	4	175%	701	122%
Germany	1,194,517	5	45%	660	52%
Greece	125,242	29	267%	340	73%
Hong Kong	861,463	8	108%	1,086	405%
Ireland	114,085	32	131%	53	79%
Italy	789,563	10	129%	269	64%
Japan	3,678,262	2	66%	3,220	84%
Netherlands	622,284	14	33%	177	115%
New Zealand	43,731	42	43%	158	53%
Norway	141,430	28	113%	148	48%
Portugal	73,404	36	88%	56	47%
Singapore	171,555	26	61%	489	162%
Spain	940,673	7	224%	3,272	104%
Sweden	376,781	19	38%	256	112%
Switzerland	825,849	9	44%	282	243%
United Kingdom	2,815,928	3	41%	2,486	146%

Source: Standard & Poor's, *Global Stock Markets Factbook 2005*

* The listing place of several Euronext securities changed to Brussels from Paris and Amsterdam in January 2004. The world market capitalization for Belgium in 2003 was 173,612 ($ million) and the number of companies listed was 152.

ATTACHMENT C (cont.)
DATA ON INTERNATIONAL STOCK MARKETS
MSCI EMERGING MARKETS FREE INDEX COUNTRIES

	World Market Cap 2004 ($ millions)	Global Rank by Market Cap 2004	World Market Cap Growth (%) 1997-2004	Number of Companies Listed 2004	Market Value as % of GNP 2003
Argentina	46,432	41	22%	104	28%
Brazil	330,347	20	29%	357	49%
Chile	117,065	30	62%	239	126%
China	639,765	13	210%	1,384	48%
Colombia	25,223	48	29%	114	18%
Czech Republic	30,863	44	141%	54	24%
Egypt	38,516	43	85%	792	29%
Hungary	28,711	47	92%	47	26%
India	387,851	18	202%	4,730	49%
Indonesia	73,251	37	152%	331	31%
Israel	95,505	34	111%	571	70%
Jordan	18,383	51	238%	192	112%
Korea, Republic of	428,649	17	831%	1,573	57%
Malaysia	190,011	23	103%	962	175%
Mexico	171,940	25	10%	152	19%
Morocco	25,064	49	106%	52	33%
Pakistan	29,002	45	164%	661	21%
Peru	20,115	50	14%	194	28%
Philippines	28,948	46	-8%	233	27%
Poland	71,102	38	486%	225	18%
Russia	267,957	22	109%	215	62%
South Africa	455,536	15	96%	403	213%
Taiwan	441,436	16	53%	697	NA
Thailand	115,400	31	390%	465	88%
Turkey	98,299	33	61%	296	35%
Venezuela	6,117	63	-58%	59	4%

Source: Standard & Poor's, *Global Stock Markets Factbook 2005*

ATTACHMENT D

HUMAN RIGHTS

ISSUES COVERED AND SOURCE DOCUMENTS USED

In the International Investing Guidelines Task Force directed SBI staff to gather information on the following human rights issues:

- freedom from political killing or disappearance
- freedom from torture
- right to fair public trial/due process
- freedom of speech and press
- right to vote/affect governmental change
- freedom from discrimination based on race, religion, sex, or social status

The information for all countries was compiled from the following source:

- *Country Reports on Human Rights for 2003*, prepared by the US Department of State (in accordance with Sections 116(d) and 502(b) of the Foreign Assistance Act of 1961, as amended), dated April 2004.

ATTACHMENT D (cont)

Summary of Human Rights Policies 2003
MSCI World ex U.S. Index Countries

	Freedom from Killing or Disappearance	Freedom from Torture	Right to a Fair Public Trial & Due Process	Freedom of Speech & Press	Right to Change Government:	Freedom From Discrimination
Australia	P	L/V	L	L	L	L
Austria	P	L/V	L	L/V	L	L
Belgium	P	L/V	L	L/V	L	L
Canada	P	L/V	L	L/X	L	L
Denmark	P	L	L	L	L	L/X
Finland	P	L	L	L	L	L
France	P	L/V	L/V	L/X	L	L/V
Germany	P	L/V	L	L/X	L	L/V
Greece	P/V	L/V	L/V	L/X	L	L/V
Hong Kong	P	L/V	L	L/V	X	L/V/X
Ireland	P	L/V	L/X	L	L	L/V
Italy	P	L/V	L/V	L/V	L	L/V
Japan	P	L/V	L	L	L	L/V
Netherlands	P	L/V	L	L	L	L
New Zealand	P	L/V	L	L	L	L/V
Norway	P	L	L	L	L	L
Portugal	P/V	L/V	L	L	L	L
Singapore	P	L/V	L/X	L/V	L	L
Spain	P	L/V	L	L/V	L	L/V
Sweden	P	L	L/V	L/X	L	L
Switzerland	P	L/V	L/V	L/V	L	L/X
U.K.	P/V	L/V	L/X	L/V	L	L/V

Key:
L = *Legally protected*
P = *Protected in practice*
V = *Violations have been alleged*
X = *Not legally protected for all*

ATTACHMENT D (cont)

Summary of Human Rights Policies 2003
MSCI Emerging Markets Free Index Countries

	Freedom from Killing or Disappearance	Freedom from Torture	Right to a Fair Public Trial & Due Process	Freedom of Speech & Press	Right to Change Government:	Freedom From Discrimination
Argentina	P/V	L/V	L/V	L/V	L	L
Brazil	P/V	L/V	L/V	L	L	L/V
Chile	P	L	L	L/V	L	L/V
China	V	L/V	L/V	L/X/V	X	L/V
Colombia	V	L/V	L/V	L/V	L/X	L/V
Czech Republic	P	L/V	L/V	L/X	L	L/V
Egypt	P/V	L/V	L/X/V	L/X/V	X	L/V
Hungary	P	L/V	L	L/V	L	L/V
India	V	L/V	L/V	L/X/V	L	L/V
Indonesia	V	L/V	L/E/V	L/V	L	X/E/V
Israel	P	L/V	L/V	L/X/V	L	L/E/V
Jordan	P	L/V	L/V	L/X/V	X	X/V
Republic of Korea	P	L/V	L/X	X	L	L/V
Malaysia	P/V	L/V	L/X/V	L/X/V	L/V	L/V
Mexico	P/V	L/V	L/V	L/V	L/V	L/V
Morocco	P/V	V	V	L/X	X	L/V
Pakistan	V	L/V	L/V	L/V	L/V	L/V
Peru	V	L/V	L/V	L/V	L	L/V
Philippines	V	L/V	L/V	L	L	L/E
Poland	P	L	L/V	L/X	L	L/V
Russia	V	L/V	L/V	L/V	L/V	L/V
South Africa	V	L/V	L/V	L/X	L	L/E
Taiwan	P	L	L/V	L	L	L/V
Thailand	V	L/V	L/V	L/X/V	L	L/V
Turkey	V	L/V	L/V	L/X/V	L/X	L/V
Venezuela	V	L/V	L/V	L/V	L/V	L/E/V

Key:
L = *Legally protected*
P = *Protected in practice*
V = *Violations have been alleged*
X = *Not legally protected for all*

ATTACHMENT E

WORKER RIGHTS

ISSUES COVERED AND SOURCE DOCUMENTS USED

In the International Investing Guidelines Task Force directed SBI staff to gather information on the following worker rights issues:

- Right of association, including the right to strike.
- Right to organize and bargain collectively, including prohibition of anti-union discrimination.
- Prohibition of forced or compulsory labor.
- Minimum age for the employment of children.
- Acceptable conditions of work. These include standards for minimum wage, maximum workweek, and occupational safety and health.

The information for all countries was compiled from the following source:

- *Country Reports on Human Rights for 2003*, prepared by the US Department of State (in accordance with Sections 116(d) and 502(b) of the Foreign Assistance Act of 1961, as amended), dated April 2004.

ATTACHMENT E (cont)

Summary of Worker Rights Laws 2003
MSCI World ex U.S. Index Countries

	Right to Associate	Right to Strike	Right to Organize/ Bargain	Prohibition of Forced Labor	Minimum Age for Work	Minimum Wage Law	Standard Workweek Law	Minimum Health/ Safety Law	Trafficking in Persons
Australia	L	L/X	L	P	X	L	L	L	L/V
Austria	L	P	L	L	L	P	L	L	L/V
Belgium	L	L/X	L	L/V	L	L	L	L	L/V
Canada	L/X	L/X	L	L	L	L	L	L	L/V
Denmark	L	L/X	L	L	L	P	P	L	L/V
Finland	L	L/X	L	L	L	P	L	L	L/V
France	L	L/X	L	L	L	L	L	L	V
Germany	L	L/X	L	L	L	P	L	L	L/V
Greece	L	L/X	L	L/V	L/V	L	L	L/E	L/V
Hong Kong	L	X	X	L/V	L	X	X	L/V	X/V
Ireland	L	L/X	L	L	L	L	L	L	L
Italy	L	L/X	L	L/V	L/V	P	L	L/E	L/V
Japan	L/X	L/X	L	L	L/V	L	L	L	L/V
Netherlands	L	L	L	L/V	L	L	L	L	L/V
New Zealand	L/X	L	L	L	L	L	L	L	L/V
Norway	L	L/X	L	L	L	P	L	L	L/V
Portugal	L	L/X	L	L	L/V	L	L	L	L/V
Singapore	L/X	L/X	P	L	L	P	L	L/V	L/V
Spain	L/X	L	L/X	L	L	L	L	L/E	L/V
Sweden	L	L	L	L	L	P	L	L	L/V
Switzerland	L	L/X	L	L	L	X	L	L	L/V
U.K.	L/X	L	L	L	L	L	L	L	L/V

Key:
L = *Legally protected*
P = *Protected in practice*
V = *Violations have been alleged*
E = *Weak or inadequate enforcement is cited*
X = *Not legally protected for all*

ATTACHMENT E (cont)

Summary of Worker Rights Laws 2003
MSCI Emerging Markets Free Index Countries

	Right to Associate	Right to Strike	Right to Organize / Bargain	Prohibition of Forced Labor	Minimum Age for Work	Minimum Wage Law	Standard Workweek Law	Minimum Health/ Safety Law	Trafficking in Persons
Argentina	L/X	L	L	L	L/V	L	L	L/E	L/V
Brazil	L/X	L/X	L	L/V	L/V	L	L	L/E/V	L/V
Chile	L/X	L	L	L	L/V	L	L	L	L/V
China	L/V	X	L/V	L/V	L/V	P	L/V	L/E/V	L/V
Colombia	L/V	L/X	L	L/V	L/V	L	L	L/V	L/V
Czech Republic	L	L/X	L	L/V	L	L	L	L/V	L/V
Egypt	P	L/X	L	L	L/V	L/V	L	L/E	P
Hungary	L	L/X	L	L	L	L	L	L/E	L/V
India	L	L/X	L	L/V	L/X/E/V	L/V	L	L/E	L/V
Indonesia	L	L/X	L	L/V	L/E/V	L/E	L	L/V	V
Israel	L	L	L	L	L	L	L	L/E	L/V
Jordan	X	X	L	L/X/V	L	L/V	L	L	X
Republic of Korea	L/X	L/X	L/X	L	L	L	L	L/E	V
Malaysia	L/X	L/X	L	L	L/V	X	L/X	L	V
Mexico	L	L/X	L	L/V	L/V	L	L	L/E/V	L/V
Morocco	L/X	L/X	L/X	L/V	L/E/V	L/E	L	X/E	V
Pakistan	L/X/V	L//X/V	L/X	L/E/V	L/E/V	L/X	L/X	L//E/X	L/V
Peru	L	L	L/X	L	L/V	L/X	L	L/E	L/V
Philippines	L/X	L	L	L/V	L	L/V	L	L	L/V
Poland	L	L/X	L	L/V	L	L/E/V	L	L/E/V	L/V
Russia	L	L/X/V	L/V	L/V	L/E	L/V	L	L/E/V	L/V
South Africa	L/X	L	L	L/V	L/V	X/V	L	L	V
Taiwan	L/X	L/X	L	L/V	L	L/E	L/E	L/E	L/V
Thailand	L/X/V	L/X	L/E	L/E/V	L/E/V	L/E/V	L/X	L/E	L/V
Turkey	L/X	L/X	L/X	L/X/V	L/V	L	L	L/E	L/V
Venezuela	L/V	L/X	L	L	L/V	L/X	L	L/X	L/V

Key:

L = *Legally protected*
P = *Protected in practice*
V = *Violations have been alleged*
E = *Weak or inadequate enforcement is cited*
X = *Not legally protected for all*

PROPOSED

SALARY ADMINISTRATION PLAN FOR THE MINNESOTA STATE BOARD OF INVESTMENT

1. **Purpose**

   The purpose of this Plan is to establish salary ranges and to define other salary policies that affect non-represented unclassified staff members of the Minnesota State Board of Investment (SBI or Board).

2. **Terms and Conditions other than Salary**

   Except as provided in this document regarding the salaries of the employees covered by this plan and pursuant to *Minnesota Statutes* sections 11A.04 (14), 11a.07, subdivision 4 (2), and 43A.18, subdivision 3b, the terms and conditions of employees covered by this Plan are covered by the terms and conditions of the compensation plan approved under M.S. section 43A.18, subdivision 3 (The Managerial Plan).

3. **Annual Base Salary**

   These salary ranges, and annual base salaries set within these ranges, are for the full fiscal year (July 1 - June 30) and shall not be added to or subtracted from to reflect fluctuations in the number of work days (260, 261 or 262) in a given year.

4. **Executive Director**

   The Board shall set the salary of the Executive Director within the range listed below. The salary range shall be subject to approval pursuant to Minnesota Statute §43A.18, Subdivision 3b. This salary range will remain in effect until changed.

Minimum	*Midpoint*	*Maximum*
$140,000	$167,500	$195,000

The Board shall review the performance of the Executive Director on an annual basis and may grant compensation adjustments as a result of each review

5. Non-represented Unclassified Employees

The Executive Director shall set the salaries of non-represented unclassified employees of the State Board of Investment within the ranges for the below listed classifications. The salary ranges shall be subject to approval pursuant to *Minnesota Statutes* §43A.18, Subdivision 3b. All below listed classifications are available to the State Board of Investment for ongoing management of the assets under its control.

The non-represented unclassified employee classifications are·

Assistant Executive Director	
Manager	- Private Equity Investments
	- Public Equity Investments
	- Long Term External Debt
	- Long Term Internal Debt
	- Short Term Debt
	- Public Programs and Governance
Portfolio Manager	- Domestic Equity
	- International Equity
	- Fixed Income
	- Internal Investments
	- Real Assets
	- Private Equity
	- Short Term Debt
	- Defined Contributions
Research Director	- Performance Analytics
	- Publications and Communications
Executive Aide	

6. Salary Ranges and Salary Administration for Non-represented Unclassified Employees

(a) Salary Ranges

The following ranges will remain in effect until changed.

Title	Minimum	Midpoint	Maximum
Asst. Exec. Director	$115,000	$150,000	$185,000
Managers	$90,000	$120,000	$150,000
Portfolio Managers	$80,000	$100,000	$120,000
Research Director	$55,000	$75,000	$95,000
Executive Aide	$43,000	$52,750	$62,600

(b) Annual Salary Administration

The Executive Director shall annually review the performance of the employees covered by this plan and may grant compensation adjustments as a result of each review. The aggregate amount of increases granted as a result of annual reviews shall be subject to the approval of the Board.

(c) Merit Increases

Up to four (4) percent of aggregate base salaries covered under this plan, with the exception of the Executive Director, may be used for merit increases on an annual basis. Merit increases may be granted any time during the fiscal year and may be provided for either as an increase to the base or as a lump sum at the discretion of the Executive Director. Merit increases shall not exceed 10% of the base salary of any employee. Such salary increases shall not result in a base salary above the maximum of the salary range to which the position is assigned.

7. General Salary Administration Policies

(a) Entry Appointment. The Executive Director may make entry appointments at salaries within the salary range at a level deemed appropriate by the Executive Director.

(b) Promotion. An individual promoted to a position with a higher salary range may be granted a salary increase as follows:

(1) Placement between the minimum and midpoint of the new salary range; or

(2) Up to a maximum of ten percent (10%) if the increase would place the employee above the midpoint of the new salary range.

The Executive Director may grant larger increases based on the employment conditions that may make such action necessary. With the exception of employees who are below the minimum of the new salary range, nothing in the above language should be interpreted as requiring that a salary increase be granted upon promotion.

(c) Lateral Transfer. An employee who transfers to another position in the same salary range shall not require a change in compensation.

(d) Movement to a lower salary range. An employee who voluntarily moves or is reassigned to a position in a lower salary range shall retain their current salary unless the employee's salary is above the maximum rate for the lower salary range. The Executive Director has the discretion to reduce an employee's salary to any rate in the lower salary range. The Executive Director has the discretion to permit an employee to retain their salary above the maximum for the lower range.

(e) Counters to External Offers of Employment. The Executive Director may adjust the salary of any employee who has an employment offer at a higher salary from an employer other than the state government of Minnesota.

(f) Review of Salary Range/Positions

(1) *Position Descriptions.* Position descriptions shall be reviewed by the Executive Director on a regular basis to determine if changes have occurred in the position or in the organizational structure. The Executive Director, as appropriate, shall approve revised or new position descriptions.

(2) *Review of Present Salary Range/Positions.* The Executive Director will assign positions to appropriate salary ranges. An employee or his/her supervisor may initiate a request for position re-evaluation or salary range assignment review at any time. The procedure for handling requests for reviews shall be as set forth by the Executive Director.

KEY: ~~stricken~~ = removed, old language. underscored = added, new language.

NOTE: If you cannot see a difference in the key above, you can change the display of stricken and underscored text.

Authors and Status ▪ List versions

S.F. No. 1598, as introduced - 84th Legislative Session (2005-2006) Posted on Mar 09, 2005

A bill for an act

relating to state government; regulating compensation plans of the State Board of Investment; amending Minnesota Statutes 2004, sections 11A.04; 11A.07, subdivision 4; 15A.0815, subdivision 2; 43A.18, by adding a subdivision.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 11A.04, is amended to read:

11A.04 [DUTIES AND POWERS.]

The state board shall:

(1) Act as trustees for each fund for which it invests or manages money in accordance with the standard of care set forth in section 11A.09 if state assets are involved and in accordance with chapter 356A if pension assets are involved.

(2) Formulate policies and procedures deemed necessary and appropriate to carry out its functions. Procedures adopted by the board must allow fund beneficiaries and members of the public to become informed of proposed board actions. Procedures and policies of the board are not subject to the Administrative Procedure Act.

(3) Employ an executive director as provided in section 11A.07.

(4) Employ investment advisors and consultants as it deems necessary.

(5) Prescribe policies concerning personal investments of all employees of the board to prevent conflicts of interest.

(6) Maintain a record of its proceedings.

(7) As it deems necessary, establish advisory committees subject to section 15.059 to assist the board in carrying out its duties.

(8) Not permit state funds to be used for the underwriting or direct purchase of municipal securities from the issuer or the issuer's agent.

(9) Direct the commissioner of finance to sell property other than money that has escheated to the state when the board determines that sale of the property is in the best interest of the state. Escheated property must be sold to the highest bidder in the manner and upon terms and conditions prescribed by the board.

(10) Undertake any other activities necessary to implement the duties and powers set forth in this section.

(11) Establish a formula or formulas to measure management performance and return on investment. Public pension funds in the state shall utilize the formula or formulas developed by the state board.

(12) Except as otherwise provided in article XI, section 8, of the Constitution of the state of Minnesota, employ, at its discretion, qualified private firms to invest and manage the

assets of funds over which the state board has investment management responsibility. There is annually appropriated to the state board, from the assets of the funds for which the state board utilizes a private investment manager, sums sufficient to pay the costs of employing private firms. Each year, by January 15, the board shall report to the governor and legislature on the cost and the investment performance of each investment manager employed by the board.

(13) Adopt an investment policy statement that includes investment objectives, asset allocation, and the investment management structure for the retirement fund assets under its control. The statement may be revised at the discretion of the state board. The state board shall seek the advice of the council regarding its investment policy statement. Adoption of the statement is not subject to chapter 14.

(14) Adopt a compensation plan setting the terms and conditions of employment for unclassified board employees who are not covered by a collective bargaining agreement.

Sec. 2. Minnesota Statutes 2004, section 11A.07, subdivision 4, is amended to read:

Subd. 4. [DUTIES AND POWERS.] The director, at the direction of the state board, shall:

(1) plan, direct, coordinate, and execute administrative and investment functions in conformity with the policies and directives of the state board and the requirements of this chapter and of chapter 356A;

(2) employ professional and clerical staff as ~~is~~ necessary ~~within the complement limits established by the legislature~~. Employees whose primary responsibility is to invest or manage money or employees who hold positions designated as unclassified under section 43A.08, subdivision 1a, are in the unclassified service of the state. Other employees are in the classified service. Unclassified employees who are not covered by a collective bargaining agreement are employed under the terms and conditions of the compensation plan approved under section 43A.18, subdivision 3b;

(3) report to the state board on all operations under the director's control and supervision;

(4) maintain accurate and complete records of securities transactions and official activities;

(5) establish a policy relating to the purchase and sale of securities on the basis of competitive offerings or bids. The policy is subject to board approval;

(6) cause securities acquired to be kept in the custody of the commissioner of finance or other depositories consistent with chapter 356A, as the state board deems appropriate;

(7) prepare and file with the director of the Legislative Reference Library, by December 31 of each year, a report summarizing the activities of the state board, the council, and the director during the preceding fiscal year. The report must be prepared so as to provide the legislature and the people of the state with a clear, comprehensive summary of the portfolio composition, the transactions, the total annual rate of return, and the yield to the state treasury and to each of the funds whose assets are invested by the state board, and the recipients of business placed or commissions allocated among the various commercial banks, investment bankers, and brokerage organizations. The report must contain financial statements for funds managed by the board prepared in accordance with generally accepted accounting principles;

(8) require state officials from any department or agency to produce and provide access to any financial documents the state board deems necessary in the conduct of its investment

activities;

(9) receive and expend legislative appropriations;

(10) undertake any other activities necessary to implement the duties and powers set forth in this subdivision consistent with chapter 356A.

Sec. 3. Minnesota Statutes 2004, section 15A.0815, subdivision 2, is amended to read:

Subd. 2. [GROUP I SALARY LIMITS.] The salaries for positions in this subdivision may not exceed 95 percent of the salary of the governor:

Commissioner of administration;

Commissioner of agriculture;

Commissioner of education;

Commissioner of commerce;

Commissioner of corrections;

Commissioner of employee relations;

Commissioner of finance;

Commissioner of health;

Executive director, Higher Education Services Office;

Commissioner, Housing Finance Agency;

Commissioner of human rights;

Commissioner of human services;

~~Executive director, State Board of Investment;~~

Commissioner of labor and industry;

Commissioner of natural resources;

Director of Office of Strategic and Long-Range Planning;

Commissioner, Pollution Control Agency;

Commissioner of public safety;

Commissioner of revenue;

Commissioner of employment and economic development;

Commissioner of transportation; and

Commissioner of veterans affairs.

Sec. 4. Minnesota Statutes 2004, section 43A.18, is amended by adding a subdivision to read:

Subd. 3b. [STATE BOARD OF INVESTMENT PLAN.] Total compensation for unclassified positions not covered by a collective bargaining agreement under section 11A.04 in the State Board of Investment must be determined by the State Board of Investment. Before submitting a compensation plan to the legislature and the Legislative Coordinating Commission, the State Board of Investment must submit the plan to the commissioner of employee relations for review and comment. The commissioner must complete the review within 14 days of its receipt. Compensation plans established under this subdivision must be approved by the legislature and the Legislative Coordinating Commission under section 3.855, before becoming effective.

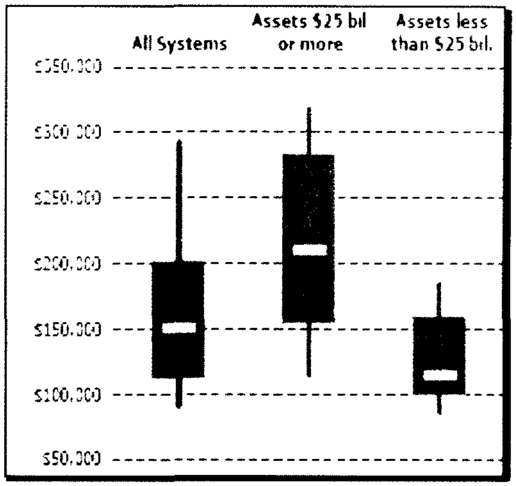
Sec. 5. [EFFECTIVE DATE.]

Sections 1 to 4 are effective July 1, 2005. An employee who is covered by a compensation plan or whose salary is established under Minnesota Statutes, section 15A.0815, on July 1, 2005, continues to be covered by the compensation plan or salary until the compensation plan adopted under Minnesota Statutes, section 43A.18, subdivision 3b, is first implemented.

Chief Investment Officer

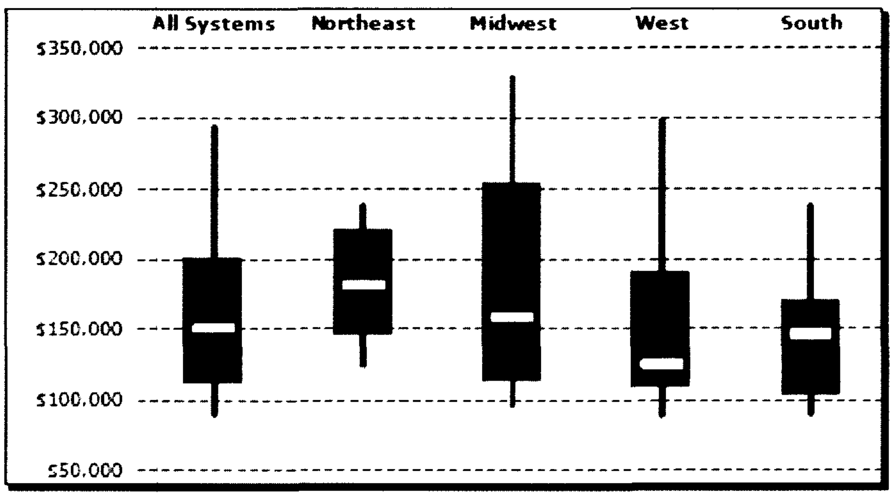
Chief Investment Officer
2004 Compensation
By System Assets

	All Systems	Assets $25 bil. or more	Assets less than $25 bil.
Average	$174,066	$229,321	$139,769
Number Responding	47	18	29
Top Decile (10th%)	$293,296	$318,110	$183,400
Top Quartile (25th%)	$201,500	$283,115	$158,730
Median (50th%)	$150,000	$210,000	$114,200
Bottom Quartile (75th%)	$110,780	$153,324	$98,280
Bottom Decile (90th%)	$89,626	$114,378	$85,763



Chief Investment Officer
2004 Compensation
By Region

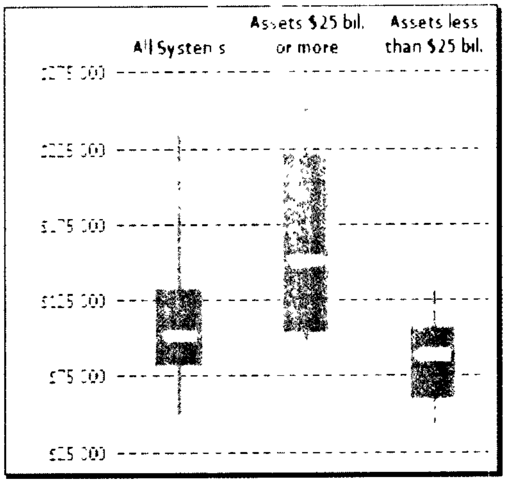
	All Systems	Northeast	Midwest	West	South
Average	$174,066	$181,121	$192,767	$180,010	$145,910
Number Responding	47	6	15	12	14
Top Decile (10th%)	$293,296	$238,507	$328,023	$298,459	$237,800
Top Quartile (25th%)	$201,500	$221,143	$253,910	$190,558	$170,411
Median (50th%)	$150,000	$180,974	$158,730	$124,434	$145,346
Bottom Quartile (75th%)	$110,780	$144,781	$111,743	$107,530	$101,930
Bottom Decile (90th%)	$89,626	$124,125	$95,940	$88,016	$89,206



Deputy Investment Officer

Deputy Investment Officer
2004 Compensation
By System Assets

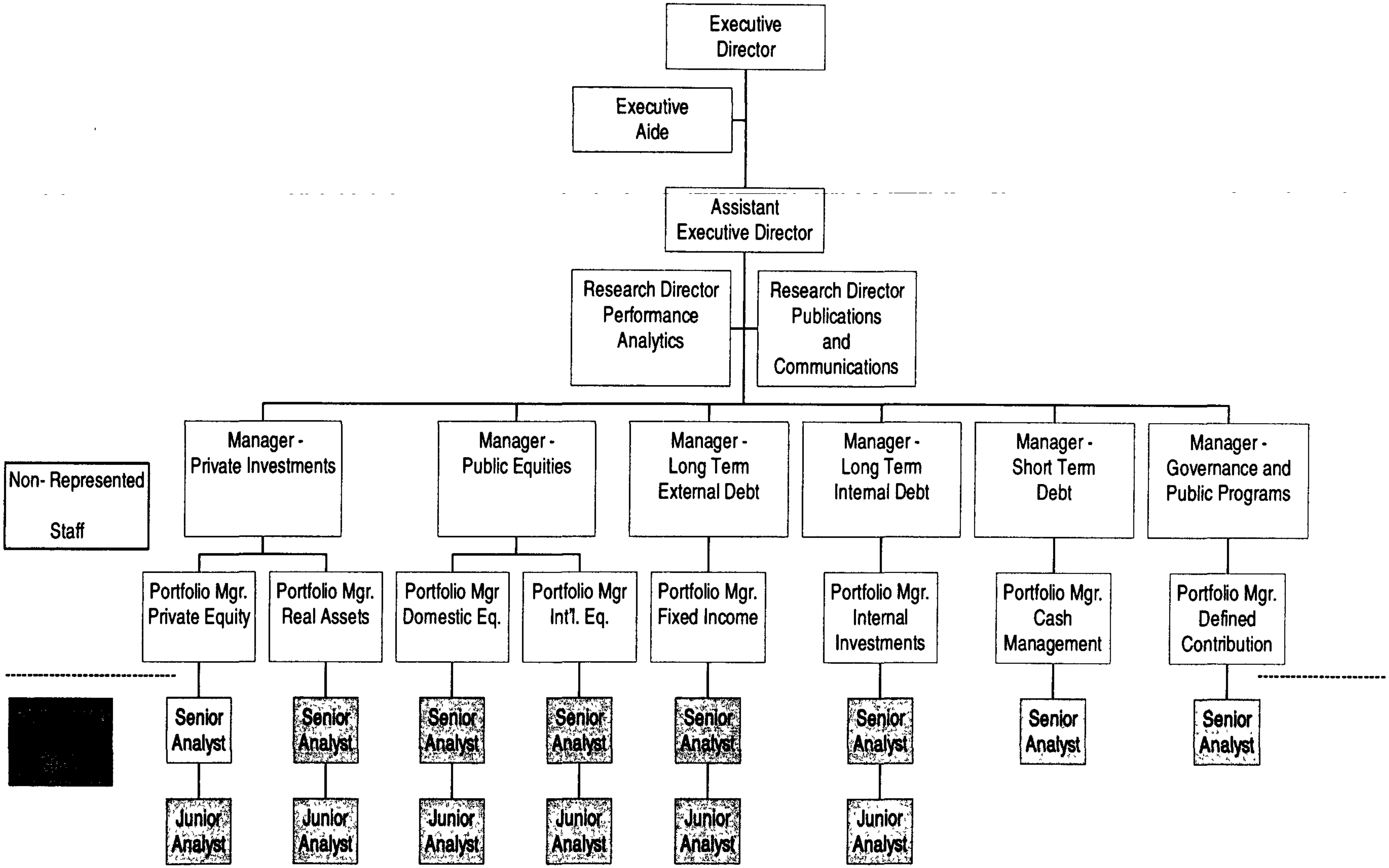
	All Systems	Assets $25 bil. or more	Assets less than $25 bil.
Average	$119,396	$163,135	$96,376
Number Responding	29	10	19
Top Decile (10th%)	$237,518	$255,000	$127,219
Top Quartile (25th%)	$134,064	$222,260	$108,166
Median (50th%)	$101,544	$151,290	$88,483
Bottom Quartile (75th%)	$81,500	$103,319	$59,059
Bottom Decile (90th%)	$50,986	$99,434	$44,255



Salary Summary
Statistical Comparison

		Median Salary	Average Salary	Median Top Of Range	Average Top Of Range
(Manager)	**Senior Investment Officer**	$ 125,653	$ 138,318	$ 155,134	$ 151,185
	Domestic Equity	$ 136,872	$ 144,261	$ 150,000	$ 154,249
	International Equity	$ 154,456	$ 161,854	$ 170,679	$ 168,983
	Fixed Income	$ 131,728	$ 138,946	$ 156,756	$ 151,339
	Real Estate	$ 129,003	$ 136,693	$ 155,878	$ 156,565
	Alternatives	$ 130,592	$ 135,732	$ 151,378	$ 147,439
(Portfolio Manager)	**Assistant Senior Investment Officer**	$ 96,846	$ 100,541	$ 110,950	$ 111,154
	Domestic Equity	$ 95,981	$ 100,417	$ 104,597	$ 112,936
	International Equity	$ 115,200	$ 109,896	$ 124,750	$ 137,518
	Fixed Income	$ 111,352	$ 109,821	$ 116,086	$ 115,912
	Real Estate	$ 96,780	$ 102,429	$ 110,171	$ 112,904
	Alternatives	$ 101,350	$ 96,176	$ 110,000	$ 107,043
	Investment Officer	$ 75,181	$ 79,308	$ 81,704	$ 93,620
	Domestic Equity	$ 72,546	$ 79,408	$ 81,723	$ 92,404
	International Equity	$ 68,112	$ 64,407	$ 77,433	$ 77,626
	Fixed Income	$ 75,061	$ 79,162	$ 85,400	$ 92,015
	Real Estate	$ 72,693	$ 76,023	$ 82,436	$ 85,738
	Alternatives	$ 68,190	$ 67,521	$ 73,580	$ 75,600
	Assistant Investment Officer	$ 52,645	$ 54,313	$ 55,154	$ 63,640
	Domestic Equity	$ 54,180	$ 55,321	$ 56,838	$ 65,335
	International Equity	$ 71,084	$ 67,192	$ 79,919	$ 81,000
	Fixed Income	$ 50,043	$ 52,237	$ 54,912	$ 62,503
	Real Estate	$ 56,895	$ 56,710	$ 58,500	$ 60,127
	Alternatives	$ 54,500	$ 51,383	$ 57,232	$ 53,155

SBI INVESTMENT STAFF (Non-Represented and Represented Employees)



Tab D

COMMITTEE REPORT

DATE: August 30, 2005

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

FROM: Stock and Bond Manager Committee

The Stock and Bond Manager Committee met on Wednesday, August 17, 2005 to consider the following agenda items:

- Review the manager performance for the period ending June 30, 2005.
- Recommendation to authorize SBI Executive Director to renew investment manager contracts.
- Review of manager Investment Guidelines.

Action is required by the SBI / IAC on the second and third items.

INFORMATION ITEMS:

1. **Review of manager performance for the period ending June 30, 2005.**

- ***Domestic Equity Managers***

For the period ending June 30, 2005, the **Domestic Equity Manager Program** outperformed the asset class target* for the quarter and for the year, and matched for the three and five year periods.

Time period	Total Program	DE Asset Class Target*
Quarter	2.6%	2.2%
1 Year	8.6	8.1
3 Years	9.5	9.5
5 Years	-1.8	-1.8

* The Domestic Equity 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 Managers***

For the period ending June 30, 2005, the **Fixed Income Manager Program** matched the Lehman Aggregate for the quarter and outperformed for all other time periods.

Time period	Total Program	Lehman Aggregate
Quarter	3.0%	3.0%
1 Year	7.1	6.8
3 Years	6.3	5.8
5 Years	7.8	7.4

The performance evaluation reports for the fixed income managers start on the **blue page A-101** of this Tab.

- ***International Equity Managers***

For the period ending June 30, 2005, the **International Equity Program** and the **equity managers** (excluding the currency overlay) matched the composite index for the quarter, underperformed for the year and three-year time periods, and outperformed over the five-year time period.

Time Period	Total* Program	Int'l Equity Asset Class Target**	Equity*** Mgrs. Only
Quarter	-0.2%	-0.2%	-0.2%
1 Year	15.7	16.5	15.7
3 Year	12.4	13.4	12.4
5 Year	0.6	0.2	0.6

* 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-113** of this Tab.

ACTION ITEMS:

2. Recommendation to authorize SBI Executive Director to renew investment manager contracts.

Investment manager contracts with the organizations that manage publicly traded securities, including mutual funds, for the SBI have an initial term of five years. Prior to the expiration of each contract, Staff requests authority from the Board to renew each contract for an additional five year period.

This contract renewal process is administrative. All SBI investment manager contracts contain an immediate termination clause. If the Board does not desire to retain a manager, the contract can be terminated at any time.

The SBI has in excess of fifty investment management contracts. In order to facilitate the contract administration process, Staff is requesting that the Board authorize the Executive Director to renew investment manager contracts without individual Board votes.

Changing the process is administrative and will not impair the manager review process in any manner. Each quarter, Staff presents the performance and organizational issues of the investment managers to the Board and the IAC. As managers are reviewed, issues which may prompt a manager's potential termination are discussed. This process will continue and will not be impacted by a change in the contract renewal process.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with the assistance of legal counsel, to renew investment management contracts of the publicly traded securities managers, including mutual fund managers, as the Executive Director deems appropriate.

3. Review of manager Investment Guidelines.

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

This year, the major change to the external manager guidelines was purely administrative. The external manager guidelines were separated into two parts. Generally, Part A of the external manager guidelines focuses on provisions which are specific to the manager group. Generally, Part B of the external manager guidelines includes provisions which are common to all the manager groups. In the proposed revisions to the guidelines which follow, Part A for each manager group is presented, while Part B is presented once.

Most of the revisions to the guidelines for all manager groups are either technical corrections or expanded clarifications on various items. These revisions include:

- Stating that the active risk and information ratio of manager portfolios shall be measured on a five-year rolling basis;

- clarification that the manager may hold securities that are received as a distribution from an existing holding, e.g., an equity manager who receives a bond as a distribution from a share of stock does not have to sell the bond;

- clarification that cash must be used to offset a futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position;

- stating the SBI's definition of leverage;

- clarification of the eligible markets and constraints for international equity managers as a result in a change in the country guidelines; and

- clarification of acceptable rating agencies for counterparty banks and fixed income securities.

The major substantive change to the guidelines was the introduction of more specific language pertaining to the use of certain derivative instruments by the external fixed income manager group. The new language clarifies the current practice and parameters of our fixed income managers. There is no change to the policy or restrictions currently in place.

The proposed revisions to the investment guidelines for all asset classes appear beginning on **page 5**.

RECOMMENDATION:

The Committee recommends that the SBI adopt the Investment Manager Guidelines which begin on page 5 of this tab.

2005 GUIDELINES

TABLE OF CONTENTS

Part A:

Investment Manager Guidelines

External Domestic Equity

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

The investment actions of the Minnesota State Board of Investment (SBI) external active domestic common stock managers will be governed and evaluated by the following guidelines, which are comprised of Parts A and B:

Part A

~~1.~~ A1. RISK/RETURN OBJECTIVES

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

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

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

(a) Over the most recent five-year period, the actual portfolio shall have a realized active risk level relative to the benchmark in the range of ______ to ______, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired. And,

(b) A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio. In addition, the current information ratio will be compared to the information ratio of the product at the time the Manager was hired.

~~2.~~ A2. BENCHMARK

The benchmark is the Total Return Russell style index (varies by manager, e.g. large growth, small value, etc.). The Total Return Russell style index will be used to calculate the manager's performance based fee for periods ~~after~~ beginning October 1, 2003. For periods prior to October 1, 2003, the custom benchmark will be used to calculate the performance based fee. SBI reserves the right to change the benchmark upon prior written notification to Manager.

~~4.~~ A3. ELIGIBLE INVESTMENTS

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

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

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

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

(d) Private placements, defined as those securities for which a public market does not exist or which will be subject to any known trading restrictions at any time during which the security is held in the SBI's portfolio, may not be purchased in the Account.

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

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

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

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

~~(h)~~ (i) Stock options, if authorized, and stock index futures, purchased through a regulated exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter derivative instruments are not permitted. All option and futures transactions must be entered into ~~and maintained~~ with a fully offsetting amount of cash or cash equivalents. The cash or cash equivalent position used to offset the futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position to ensure that a leveraged position, as defined in Part B4, does not occur.

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

~~7.~~ A4. PROXY VOTING

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

Revised: ~~June 2004~~ September 2005

Executive Director/
Assistant Executive Director

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Date ______________________

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

The investment actions of Minnesota State Board of Investment (SBI) external emerging domestic common stock managers will be governed and evaluated by the following guidelines, which are comprised of Parts A and B:

Part A

~~1.~~ A1. RISK/RETURN OBJECTIVES

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

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

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

(a) Over the most recent five-year period, the actual portfolio shall have a realized active risk level relative to the benchmark in the range of _____ to _____, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired. And,

(b) A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio. In addition, the current information ratio will be compared to the information ratio of the product at the time the Manager was hired.

~~2.~~ A2. BENCHMARK

The benchmark is the Total Return Russell style index (varies by manager, e.g. large growth, small value, etc.). The SBI reserves the right to change the benchmark upon prior written notification to Manager.

~~4.~~ A3. ELIGIBLE INVESTMENTS

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

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

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

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

(d) Private placements, defined as those securities for which a public market does not exist or which will be subject to any known trading restrictions at any time during which the security is held in the SBI's portfolio, may not be purchased in the Account.

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

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

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

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

(h) (i) Stock options, if authorized, and stock index futures, purchased through a regulated exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter derivative instruments are not permitted. All option and futures transactions must be entered into ~~and maintained~~ with a fully offsetting amount of cash or cash equivalents. The cash or cash equivalent position used to offset the futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position to ensure that a leveraged position, as defined in Part B4, does not occur.

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

~~7.~~ A4. PROXY VOTING

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

Revised: ~~June 2004~~ September 2005

Executive Director/
Assistant Executive Director

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Date ________________________

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

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

Part A

~~1.~~ A1. **RISK/RETURN OBJECTIVES**

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

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

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

(a) Over the most recent five-year period, the actual portfolio shall have a realized active risk level relative to the benchmark in the range of ______ to ______, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired. And,

(b) A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio. In addition, the current information ratio will be compared to the information ratio of the product at the time the Manager was hired.

~~2.~~ A2. BENCHMARK INDEX

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

~~4.~~ A3. ELIGIBLE INVESTMENTS

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

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

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

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

(d) Private placements, defined as those securities for which a public market does not exist or which will be subject to any known trading restrictions at any time during which the security is held in the SBI's portfolio, may not be purchased in the Account.

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

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

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

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

~~(h)~~ (i) Stock options, if authorized, and ~~Stock~~ stock index futures, purchased through a regulated ~~future~~ exchange, may be used to ~~equitize cash in~~ adjust the effective equity exposure of the portfolio. Over-the-counter derivative ~~future~~ instruments are not permitted. All option and futures transactions must be entered into ~~and maintained~~ with a fully offsetting amount of cash or cash equivalents. The cash or cash equivalent position used to offset the futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position to ensure that a leveraged position, as defined in Part B4, does not occur.

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

~~7.~~ A4. PROXY VOTING

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

Revised: ~~June 2004~~ September 2005

Executive Director/
Assistant Executive Director

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Date ____________________

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

The investment actions of the Minnesota State Board of Investment (SBI) external passive domestic common stock manager will be governed and evaluated by the following guidelines, which are comprised of Parts A and B:

Part A

~~1.~~ A1. RISK/RETURN OBJECTIVES

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

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

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

~~2.~~ A2. BENCHMARK INDEX

The benchmark is the Total Return Russell 3000 (R3000) Index. SBI reserves the right to change the benchmark upon notification to the Manager.

~~4.~~ A3. ELIGIBLE INVESTMENTS

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

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

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

(c) Stock index futures, purchased through a regulated futures exchange, may be used to equitize cash in the portfolio. Over-the-counter futures instruments are not permitted. All futures transactions must be entered into ~~and maintained~~ with a fully offsetting amount of cash or cash equivalents. The cash or cash equivalent position used to offset the futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position to ensure that a leveraged position, as defined in Part B4, does not occur.

~~7.~~ A4. PROXY VOTING

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

Revised ~~June 2004~~ September 2005

Executive Director/
Assistant Executive Director

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Date ______________________

Part A:

Investment Manager Guidelines

International Equity

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

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

Part A

~~1.~~ A1. RISK/RETURN OBJECTIVE

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

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

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

(a) Over the most recent five-year period, the actual portfolio shall have a realized active risk level relative to the benchmark in the range of _____ to _____, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired. And,

(b) A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio. In addition, the current information ratio will be compared to the information ratio of the product at the time the Manager was hired.

~~2.~~ A2. BENCHMARK

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

~~4.~~ A3. ELIGIBLE MARKETS

Subject to the constraints in #~~5~~ A4 below, the Manager is authorized to purchase ~~common stocks~~ eligible securities only in the countries ~~included in the MSCI World ex U.S. index. Manager may not purchase the shares of companies~~ that are not constituents of the MSCI Emerging Market Free (EMF) Index.

~~5.~~ A4. ELIGIBLE INVESTMENTS

Subject to the constraints in #4 A3 above, the Manager will be restricted to trading common stocks, preferred stocks, exchange traded funds, currency forwards and spot, Reits, stapled units and the SBI's STIF fund. ~~The Manager may hold warrants, if received from underlying assets.~~ The Manager may hold any security received as a distribution from an existing holding. The Manager must have the SBI's written approval to purchase warrants, open-end country funds and closed-end country or regional funds, stock index futures and options, currency futures and options, ~~and~~ convertible issues~~.~~ , and any security that is not specifically outlined in this guideline. The investments of the Manager must satisfy the following criteria and constraints:

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

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

(c) Private placements, defined as those securities for which a public market does not exist or which will be subject to any known trading restrictions at any time during which the security is held in the SBI's portfolio, may not be purchased in the Account.

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

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

(f) The stock of companies domiciled in the US shall not be held in the Account. However, with the SBI's prior written authorization, Manager may hold open-end and closed-end funds, which invest primarily in international securities. The Manager may purchase dually listed MSCI World ex US index securities that are listed on a U.S. exchange.

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

(h) Upon written authorization by the SBI, stock options purchased through a governmentally regulated futures exchange and stock index futures approved by the Commodity Futures Trading Commission (CFTC) may be used to adjust the effective equity exposure of the portfolio. Over-the-counter derivative instruments are not permitted. All futures transactions must be entered into ~~and maintained~~ with a fully offsetting amount of cash or cash equivalents. The cash or cash equivalent position used to offset the futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position to ensure that a leveraged position, as defined in Part B4, does not occur.

(i) For eligible market countries outside the MSCI World ex US index, eligible securities shall not exceed 10% of the Account's market value at the time of purchase.

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

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

~~8.~~ A5. COUNTERPARTY BANKS

Each counterparty bank used by the Manager to execute currency transactions must have a credit rating of A1/P1/F1 or better from ~~each~~ at least two of the following rating organizations: S&P, Moody's or Fitch/~~and~~ IBCA. Prior written authorization is required to execute current transactions with counterparty banks rated A1/P1/F1 or better by only one acceptable rating agency.

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

The Manager is responsible for monitoring the counterparty credit ratings of each counterparty bank and/or counterparty group, and the Manager will promptly notify the SBI of any counterparty rating downgrade below the A1/P1/F1 level.

~~9.~~ A6. PROXY VOTING

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

Revised: ~~June 2004~~ September 2005

Executive Director/
Assistant Executive Director

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Date ____________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
SEMI-PASSIVE INTERNATIONAL DEVELOPED MARKETS
EQUITY MANAGERS

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

Part A

~~1.~~ A1. RISK/RETURN OBJECTIVE

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

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

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

(a) Over the most recent five-year period, the actual portfolio shall have a realized active risk level relative to the benchmark in the range of ______ to ______, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired. And,

(b) A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio. In addition, the current information ratio will be compared to the information ratio of the product at the time the Manager was hired.

~~2.~~ A2. BENCHMARK

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

~~4.~~ A3. ELIGIBLE MARKETS

Subject to the constraints in ~~#5~~ A4 below, the Manager is authorized to purchase ~~common stocks~~ eligible securities only in the countries ~~included in the MSCI World ex U.S. index. Manager may not purchase the shares of companies~~ that are not constituents of the MSCI Emerging Market Free (EMF) Index.

~~5.~~ A4. ELIGIBLE INVESTMENTS

Subject to the constraints in #4 A3 above, the Manager will be restricted to trading common stocks, preferred stocks, exchange traded funds, currency forwards and spot, Reits, stapled units and the SBI's STIF fund. ~~The Manager may hold warrants, if received from underlying assets.~~ The Manager may hold any security received as a distribution from an existing holding. The Manager must have the SBI's written approval to purchase warrants, open-end country funds and closed-end country or regional funds, stock index futures and options, currency futures and options, ~~and~~ convertible issues~~.~~, and any security that is not specifically outlined in this guideline. The investments of the Manager must satisfy the following criteria and constraints:

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

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

(c) Private placements, defined as those securities for which a public market does not exist or which will be subject to any known trading restrictions at any time during which the security is held in the SBI's portfolio, may not be purchased in the Account.

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

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

(f) The stock of companies domiciled in the US shall not be held in the Account. However, with the SBI's prior written authorization, Manager may hold open-end and closed-end funds, which invest primarily in international securities. The Manager may purchase dually listed MSCI World ex US index securities that are listed on a U.S. exchange.

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

(h) Upon written authorization by the SBI, stock options purchased through a governmentally regulated futures exchange and stock index futures approved by the Commodity Futures Trading Commission (CFTC) may be used to adjust the effective equity exposure of the portfolio. Over-the-counter derivative instruments are not permitted. All futures transactions must be entered into ~~and maintained~~ with a fully offsetting amount of cash or cash equivalents. The cash or cash equivalent position used to offset the futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position to ensure that a leveraged position, as defined in Part B4, does not occur.

(i) For eligible market countries outside the MSCI World ex US index, eligible securities shall not exceed 10% of the Account's market value at the time of purchase.

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

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

~~8.~~ A5. COUNTERPARTY BANKS

Each counterparty bank used by the Manager to execute currency transactions must have a credit rating of A1/P1/F1 or better from ~~each~~ at least two of the following rating organizations: S&P, Moody's or Fitch/~~and~~ IBCA. Prior written authorization is required to execute current transactions with counterparty banks rated A1/P1/F1 or better by only one acceptable rating agency.

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

The Manager is responsible for monitoring the counterparty credit ratings of each counterparty bank and/or counterparty group, and the Manager will promptly notify the SBI of any counterparty rating downgrade below the A1/P1/F1 level.

~~9.~~ A6. PROXY VOTING

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

Revised: ~~*June 2004*~~ *September 2005*

Executive Director/
Assistant Executive Director

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Date _________________________

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

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

Part A

~~1.~~ A1. RETURN/TRACKING ERROR OBJECTIVE

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

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

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

~~2.~~ A2. BENCHMARK INDEX

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

~~4.~~ A3. ELIGIBLE INVESTMENTS

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

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

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

(c) CFTC approved stock index futures may be used to equitize cash in the portfolio. Over-the-counter futures instruments are not permitted. All future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents. The cash or cash equivalent position used to offset the futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position to ensure that a leveraged position, as defined in Part B4, does not occur.

~~7.~~ A4. PROXY VOTING

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

The SBI reserves the right to review the proxies and, on a limited basis (not to exceed 6 times per year), may notify SSgA to have Institutional Shareholder Services (ISS) override the standing instructions with SBI's vote. Any override on a meeting in Japan will be sent to SSgA at least 9 business days before the meeting. We understand the custodian will handle any notice past this deadline on a "best efforts" basis. Notification of an override will be sent via fax with authorized signature to Maria Luce at ~~617-537-5279~~ 617-664-9426, and will be followed up with an email to (mdluce@statestreet.com) and ~~cc~~ copy the SSgA contacts, Andrew Letts ~~(apletts@statestreet.com)~~ (andrew_letts@ssga.com) and Mary Guy (mary_guy@ssga.com).

Date: ~~June 2004~~ September 2005

Executive Director/
Assistant Executive Director

____

Date ____________________

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

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

~~1.~~ A1. RISK/RETURN OBJECTIVE

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

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

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

(a) Over the most recent five-year period, the actual portfolio shall have a realized active risk level relative to the benchmark in the range of ____ to ____, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired. And,

(b) A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio. In addition, the current information ratio will be compared to the information ratio of the product at the time the Manager was hired.

~~2.~~ A2. BENCHMARK

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

~~4.~~ A3. ELIGIBLE MARKETS

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

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

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

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

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

Group III. The Manager may invest in publicly traded securities of companies in the following markets if the Manager believes it would be a breach of fiduciary responsibility not to do so. ~~If the Manager chooses to invest in one or more of these markets, the Manager must appear at a meeting of the SBI Administrative Committee to present its reason(s) for the decision to do so.~~ If the Manager chooses to invest in one or more of these markets, the Manager must notify the SBI in writing of its decision to do so.

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

~~5.~~ A4. ELIGIBLE INVESTMENTS

Subject to the constraints in #4 A3 above, the Manager will be restricted to trading common stocks, preferred stocks, exchange traded funds, currency forwards and spot, Reits, stapled units and the SBI's STIF fund. ~~The Manager may hold warrants, if received from underlying assets.~~ The Manager may hold any security received as a distribution from an existing holding. The Manager must have the SBI's written approval to purchase warrants, open-end country funds and closed-end country or regional funds, stock index futures and options, currency futures and options, ~~and~~ convertible issues~~.~~ , and any security that is not specifically outlined in this guideline. The investments of the Manager must satisfy the following criteria and constraints:

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

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

(c) Private placements, defined as those securities for which a public market does not exist or which will be subject to any known trading restrictions at any time during which the security is held in the SBI's portfolio, may not be purchased.

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

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

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

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

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

(i) Currency forwards may be used to adjust the effective non-U.S. country exposure of the Account from 0 to 100%. Hedging back to USD or to the Euro is permitted. Cross hedging ~~is not permitted.~~ from one eligible market currency into another eligible market currency is permitted with written notification to Staff. The Manager has no obligation to hedge currency risk and will not be required to do so.

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

~~8.~~ A5. COUNTERPARTY BANKS

Each counterparty bank used by the Manager to execute currency transactions must have a credit rating of A1/P1/F1 or better from ~~each~~ at least two of the following rating organizations: S&P, Moody's or Fitch/~~and~~ IBCA. Prior written authorization is required to execute current transactions with counterparty banks rated A1/P1/F1 or better by only one acceptable rating agency.

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

The Manager is responsible for monitoring the counterparty credit ratings of each counterparty bank and/or counterparty group, and the Manager will promptly notify the SBI of any counterparty rating downgrade below the A1/P1/F1 level.

~~9.~~ A6. PROXY VOTING

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

Revised: ~~June 2004~~ September 2005

Executive Director/
Assistant Executive Director

____

Date ________________________

Part A:

Investment Manager Guidelines

External Fixed Income

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

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

Part A

~~1.~~ A1. RISK/RETURN OBJECTIVES

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

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

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

(a) Over the most recent five-year period, the actual portfolio shall have a realized active risk level relative to the benchmark in the range of [illegible] to [illegible], where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired. And,

(b) A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio. In addition, the current information ratio will be compared to the information ratio of the product at the time the Manager was hired.

~~2.~~ A2. BENCHMARK

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

~~4.~~ A3. ELIGIBLE INVESTMENTS

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

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

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

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

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

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

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

(2) obligations shall be rated among the top four quality categories by ~~a nationally recognized rating agency;~~ Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase; and

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

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

(d) Mortgage-backed securities purchased must be rated in the top four quality categories by ~~a nationally recognized rating agency~~ Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

(e) Asset-backed securities purchased must be rated in the top four quality categories by ~~a nationally recognized rating agency,~~ Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(f) For mortgage-backed securities and asset-backed securities, if the entity issues both direct and also as a servicer through a bankruptcy remote entity or trust, the manager is limited to 5% of the market value of the portfolio for direct issues, and 5% of the market value as a servicer; not to exceed a maximum of 10% of the market value of the portfolio in total in one issuer.

~~(f)~~ (g) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase ~~a nationally recognized agency,~~ and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

~~(g)~~ (h) The Manager may invest up to 5 percent of the market value of the portfolio in non-rated securities, which if rated by ~~a nationally recognized rating agency~~ Moody's, Standard & Poor's, or Fitch/IBCA would have a rating of BBB of better.

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

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

~~(j)~~ (k) Interest rate options, interest rate futures on U.S. Treasury securities and Eurodollar futures must be purchased or sold through a governmentally regulated exchange. Over-the-counter instruments are not permitted. All options and futures transactions must be entered into and maintained with a fully offsetting amount of collateral as defined in A4(b)(2) below ~~cash or securities~~. The portfolio may not be leveraged in any way.

~~5.~~ A4. ~~DURATION~~ INVESTMENT CONSTRAINTS

(a) Duration Guidelines

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

(b) Derivative Guidelines

(1) Restrictions

Total net notional exposure from all derivative contracts must be less than 50% of the manager's portfolio net asset value and the total net contribution to duration exposure due to all derivative contracts must be less than 50% of the Lehman Aggregate's index duration.

(2) Collateral Guidelines

All cash and cash equivalents, which is defined as:

(i) all investment grade securities with an effective duration and spread duration of one year or less.

(ii) All U.S. Treasury securities with an effective duration of three years or less.

(iii) Any U.S. Treasury security that will satisfy the delivery requirement for a derivative contract currently being held in the manager's SBI portfolio.

(3) Net Notional Liability Exposure

Total liability exposure due to derivative contracts will be calculated on a net notional value basis.

All futures contracts will use their current price to calculate the net notional value.

All net positions for puts and calls sold by the manager will have a notional value equal to the current notional value of the underlying contract. All net positions for puts and calls purchased by the manager will have a notional value of zero.

(4) Derivative Contracts subject to the Above Constraints

The following derivative contracts are subject to the above constraints:

1) Interest rate futures on U.S. Treasury securities and Eurodollar futures; 2) Interest rate options on U.S. Treasury futures and options on Eurodollar futures; and 3) All TBA mortgages.

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

~~7.~~ A5. ~~COMMUNICATION~~ REPORTING

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

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

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

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

The manager is expected to provide the SBI staff with a "Derivative Report" within ten (10) business days after month end. The report should show each derivative contract, the number of contracts, the total notional value for each contract, and the total contribution to duration for each contract. The report should also show which contracts offset each other to calculate the total net notional value of the portfolio. The SBI reserves the right to ask for a "Derivative Report" at any time during the month. The report should also show the portfolio assets that qualify as collateral, as defined in A4(b)(2), their duration, and their market value.

Revised: ~~June 2004~~ September 2005

Executive Director/
Assistant Executive Director

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Date ______________________

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

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

Part A:

~~1.~~ A1. RISK/RETURN OBJECTIVES

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

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

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

(a) Over the most recent five-year period, the actual portfolio shall have a realized active risk level relative to the benchmark in the range of [redacted] to [redacted], where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired. And,

(b) A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio. In addition, the current information ratio will be compared to the information ratio of the product at the time the Manager was hired.

~~2.~~ A2. BENCHMARK

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

~~4.~~ A3. ELIGIBLE INVESTMENTS

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

The Manager may purchase or sell fixed income instruments, interest rate derivative instruments which are defined as interest rate futures on U.S. Treasury securities, Eurodollar futures, and interest rate options on U.S. Treasury securities and Eurodollar futures. The investments must satisfy the following criteria:

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

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

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

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

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

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

(2) obligations shall be rated among the top four quality categories by ~~a nationally recognized rating agency;~~ <u>Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase;</u> and

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

<u>With the SBI's prior written authorization, the Manager may invest up to 5 percent of the portfolio, measured on a market value or contribution to duration basis, whichever is less, in below investment grade corporate bonds. At time of purchase, the bond must be rated B or higher by Moody's, Standard & Poor's, and Fitch/IBCA provided that 1) participation is limited to 20 percent of a single offering; 2) participation is limited to 10 percent of an issuer's total outstanding obligations; 3) the manager shall not hold more than 2 percent of the market value of the portfolio in any one issuer, and 4) the total value of such instruments plus the value of any non-dollar investments allowed under A3(j) below not exceed 10 percent of the total portfolio, measured on a market value or contribution to duration basis, whichever is less.</u>

(d) Mortgage-backed securities purchased must be rated in the top four quality categories by ~~a nationally recognized rating agency~~ <u>Moody's, Standard & Poor's or Fitch/IBCA at time of purchase</u> and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

(e) Asset-backed securities purchased must be rated in the top four quality categories by ~~a nationally recognized rating agency~~ Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(f) For mortgage-backed securities and asset-backed securities, if the entity issues both direct and also as a servicer through a bankruptcy remote entity or trust, the manager is limited to 5% of the market value of the portfolio for direct issues, and 5% of the market value as a servicer; not to exceed a maximum of 10% of the market value of the portfolio in total in one issuer.

~~(f)~~ (g) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by ~~a nationally recognized agency,~~ Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

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

~~(h)~~ (i) Interest rate options and interest rate futures on U.S. Treasury securities must be purchased through a governmentally regulated exchange. Over-the-counter instruments are not permitted. All options and futures transactions must be entered into and maintained with ~~a fully offsetting amount of cash or securities.~~ collateral as defined in A4(d)(2) below. The portfolio may not be leveraged in any way.

(j) With prior written authorization from SBI, the Manager may invest up to 5 percent of the portfolio, measured on a market value or contribution to duration basis, whichever is less, in non-dollar denominated bonds, provided that the total value of such instruments plus the value of any below investment grade corporate investments allowed under A3(c) above not exceed 10 percent of the total portfolio, measured on a market value or contribution to duration basis, whichever is less. Non-dollar denominated bonds purchased must be rated in the top four quality categories by Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase, and the manager shall not hold more than 2 percent of the market value of the portfolio in any one issuer. The manager shall have discretion to hedge the portfolio's currency exposure, up to the amount invested in non-dollar bonds, using currency forwards, futures or options.

~~5.~~ A4. INVESTMENT CONSTRAINTS

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

(a) Sector Weighting Guidelines

Treasury/Agency Sector	+/- 50% of the Government sector contribution to duration of the Lehman Brothers Aggregate.
Mortgage Sector	+/- 50% of the Mortgage-Backed sector sector contribution to duration of the Lehman Brothers Aggregate.
Corporate Sector	+/- 50% of the Combined Corporate and Asset-Backed sectors contribution to duration of the Lehman Brothers Aggregate.
Issues Outside the Index*	Maximum 10% of the Lehman Brothers Aggregate contribution to duration. These must be eligible securities as defined in #4 A3 above.

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

(b) Corporate Credit Guidelines

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

A/BBB +/- 50% of the combined A and BBB sector contribution to duration of the Lehman Brothers Aggregate.

(c) Duration Guidelines

(1) The option-adjusted duration of the portfolio must be within +/-0.2 years of the duration of the Lehman Brothers Aggregate Index.

(d) Derivative Guidelines

(1) Restrictions

Total net notional exposure from all derivative contracts must be less than 50% of the manager's portfolio net asset value and the total net contribution to duration exposure due to all derivative contracts must be less than 50% of the Lehman Aggregate's index duration.

(2) Collateral Guidelines

All cash and cash equivalents, which is defined as:

(i) all investment grade securities with an effective duration and spread duration of one year or less.

(ii) All U.S. Treasury securities with an effective duration of three years or less.

(iii) Any U.S. Treasury security that will satisfy the delivery requirement for a derivative contract currently being held in the manager's SBI portfolio.

(3) Net Notional Liability Exposure

Total liability exposure due to derivative contracts will be calculated on a net notional value basis.

All futures contracts will use their current price to calculate the net notional value.

All net positions for puts and calls sold by the manager will have a notional value equal to the current notional value of the underlying contract. All net positions for puts and calls purchased by the manager will have a notional value of zero.

(4) Derivative Contracts subject to the Above Constraints

The following derivative contracts are subject to the above constraints:

1) Interest rate futures on U.S. Treasury securities and Eurodollar futures; 2) Interest rate options on U.S. Treasury futures and options on Eurodollar futures; and 3) All TBA mortgages.

~~7.~~ A5. ~~COMMUNICATION~~ REPORTING

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

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

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

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

The manager is expected to provide the SBI staff with a "Derivative Report" within ten (10) business days after month end. The report should show each derivative contract, the number of contracts, the total notional value for each contract, and the total contribution to duration for each contract. The report should also show which contracts offset each other to calculate the total net notional value of the portfolio. The SBI reserves the right to ask for a "Derivative Report" at any time during the month. The report should also show the portfolio assets that qualify as collateral, as defined in A4(b)(2), their duration, and their market value.

Revised: ~~June 2004~~ September 2005

Executive Director/
Assistant Executive Director

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Date ________________________

Part A:

Investment Manager Guidelines

Assigned Risk Plan

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
ASSIGNED RISK PLAN COMMON STOCK MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) Assigned Risk Common Stock Manager will be governed and evaluated by the following guidelines which is comprised of Parts A and B:

Part A

~~1.~~ A1. RISK/RETURN OBJECTIVE

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

~~(a) An actual portfolio that has an active risk level relative to the benchmark within a range of 1 to 3, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,~~

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

(a) Over the most recent five-year period, the actual portfolio shall have a realized active risk level relative to the benchmark in the range of ______ to ______, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The level of active risk in the actual portfolio will be monitored on a five-year rolling period basis to ascertain the trend in active risk. In addition, the current active risk level will be compared to the active risk of the product at the time the manager was hired. And,

(b) A portfolio information ratio of 0.20 or greater over the most recent 5-year period, where the information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

The Manager must notify Staff and explain any deviation from this range.

The information ratio will also be monitored on a five-year rolling period basis to ascertain the trend in the information ratio. In addition, the current information ratio will be compared to the information ratio of the product at the time the Manager was hired.

~~2.~~ A2. BENCHMARK

The benchmark is the S&P 500 (Standard & Poor's 500 Stock Index). SBI reserves the right to change the benchmark upon notification to the Manager.

~~4.~~ A3. ELIGIBLE INVESTMENTS

The Manager is restricted to trading common stocks, stock index futures, exchange traded funds and cash equivalents. The Manager may hold ~~equity options, preferred stocks and warrants if received from underlying assets.~~ any security received as a distribution from an existing holding. The Manager must have the SBI's written approval to purchase equity options, preferred stocks, ~~and~~ warrants and convertible issues. The Manager's investments must satisfy the following criteria and constraints.

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

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

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

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

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

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

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

(h) Stock index futures, purchased through a regulated futures exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter <u>derivative</u> instruments are not permitted. All futures transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents. <u>The cash or cash equivalent position used to offset the futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position to ensure that a leveraged position, as defined in Part B4, does not occur.</u>

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

~~7.~~ <u>A4.</u> PROXY VOTING

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

Revised: ~~June 2004~~ <u>September 2005</u>

Executive Director/
Assistant Executive Director

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Date ____________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
ASSIGNED RISK PLAN BOND MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) Assigned Risk Plan Bond Manager will be governed and evaluated by the following guidelines which is comprised of Parts A and B:

Part A

~~1.~~ A1. RISK/RETURN OBJECTIVE

The Manager is expected to deliver cumulative returns in excess of the benchmark. Excess returns are expected to be 10 basis points net of fees over time on an annualized basis.

~~2.~~ A2. BENCHMARK

The benchmark portfolio for this Account is constructed to complement the liability stream out to ten years of the Assigned Risk Plan. The benchmark is composed using the following indexes:

10% 90 day T-Bill
25% Merrill 1-3 Government
15% Merrill 3-5 Government
25% Merrill 5-10 Government
25% Merrill Mortgage Master

Performance will be monitored and evaluated against this custom benchmark.

The SBI reserves the right to change the benchmark upon notification to the Manager.

~~4.~~ A3. ELIGIBLE INVESTMENTS

Fixed income investments must satisfy the following criteria and constraints:

(a) Government obligations of the U.S., its agencies, Canada, its provinces, or U.S. sponsored organizations must be payable in U.S. dollars and comply with the provisions of *Minnesota Statutes* (MS) 11A.24 subdivision 2.

(b) Other obligations not specified in (a) must meet the provisions of MS 11A.24 subdivision 4.

(c) All futures and options positions must be purchased through a regulated exchange and must be entered into and maintained with a fully offsetting amount of cash or cash equivalents. Over-the-counter derivative instruments are not permitted. The cash or cash equivalent position used to offset the futures position at the time of purchase, plus any mark to market adjustments, must be maintained over the life of the futures position to ensure that a leveraged position, as defined in Part B4, does not occur.

(d) Manager is not constrained regarding:

(1) transactions turnover
(2) use of covered call options as hedging devices
(3) number of fixed income issues which must be held at any given point in time
(4) the use of fixed income index futures or options to adjust the effective total portfolio duration.

(e) The Manager may purchase cash equivalent reserves, as necessary, or they may be invested in the SBI's STIF fund, managed by its custodian bank.

Revised ~~June 2004~~ September 2005

Executive Director/
Assistant Executive Director

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Date ____________________

PART B:

Investment Manager Guidelines

External Domestic Equity, International Equity, Fixed Income and Assigned Risk Plan Managers

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL DOMESTIC EQUITY, INTERNATIONAL EQUITY
AND FIXED INCOME MANAGERS

Part B:

B1. PERFORMANCE EVALUATION

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

B2. SEPARATE ACCOUNT AND DAILY PRICING

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

B3. OPTION AND FUTURES TRADING AGREEMENT

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

B4. LEVERAGE

The Manager may not leverage the account at any time. <u>Leverage exists when the market value of the assets in the portfolio exceeds the owner's (SBI) equity in the assets when viewing the portfolio at any time. Leverage is presumed to exist if the owner's equity is unable to satisfy all of the obligations existing in the portfolio.</u>

The Manager may not short individual securities. If futures are used in the account, subject to the constraints in # B3 above, leverage occurs when the total market value of securities held long plus the notional market value of derivatives held long minus the notional market value of derivatives held short is greater than 100% of the total market value of the portfolio. Net short effective exposure, via futures or securities, is not allowed.

B5. COMMUNICATION

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

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

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

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

B6. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

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

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

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

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. Net asset values are comprised of the total market value of the entire fund, plus all open trades and pending income. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

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

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

B7. COMPLIANCE WITH GUIDELINES

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

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

B8. FUTURE MODIFICATIONS

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

Revised September 2005

Executive Director/
Assistant Executive Director

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Investment Manager Guidelines

Stable Asset Manager

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL STABLE ASSET MANAGER

The investment actions of State Board of Investment (SBI) external stable asset manager will be governed and evaluated using the following guidelines:

1. INVESTMENT OBJECTIVES

The Manager's portfolio is expected to:

- preserve principal
- provide adequate liquidity for inter-fund transfers and withdrawals
- achieve market returns over the benchmark while controlling investment return volatility within acceptable limits

The Manager is expected to deliver cumulative returns in excess of the returns of the benchmark, over time, net of fees and expenses.

2. BENCHMARKS

The Manager's portfolio is compared to the average yield of the rolling three-year Constant Maturity Treasury (CMT) security plus 45 basis points.

The Manager's portfolio will maintain a minimum average credit quality rating of AA for contract issues and AA- for securities underlying alternative investment contracts.

3. LEVERAGE

The Manager may not leverage the account at any time. <u>Leverage exists when the market value of the assets in the portfolio exceeds the owner's (SBI) equity in the assets when viewing the portfolio at any time. Leverage is presumed to exist if the owner's equity is unable to satisfy all of the obligations existing in the portfolio.</u>

4. ACCEPTABLE INVESTMENTS

The Manager may trade high quality fixed income securities, cash equivalents and investment contracts that have a stated maturity and that satisfy the following constraints and criteria:

(a) Guaranteed Investment Contracts/Bank Investment Contracts: Investment contracts issued by banks or insurance companies must be from a financial institution that has at the time of issuance a credit rating of at least AA- with

Standard & Poor's or at least AA3 with Moody's, and the contract may have a maturity of no more than five years.

(b) Separate Account Contracts: Separate account contracts issued by insurance companies, in which the assets are held in a separate account of the issuer and are protected from other creditors of the company must be issued by an insurance company on the Manager's approved list at the time of issuance. The maturity of such contract may not exceed five years, and the underlying assets must satisfy the provisions of *Minnesota Statutes* 11A.24 and the criteria described elsewhere in this section.

(c) Security-Backed Investment Contracts: Security-backed investment contracts (wrappers) must provide benefit responsiveness, be issued by financial institutions or other corporations that are rated at least A+ and have an average maturity of no more than seven years. Fixed income securities purchased by the Manager which underlie these contracts must be rated AAA or better if a single security is used or must have an average portfolio rating of AA- or higher for multiple security portfolios. All securities must individually satisfy the provisions of Minnesota Statutes, section 11A.24 and the criteria outlined under "Acceptable Underlying Assets."

(d) Acceptable Underlying Assets of security-backed investment contracts are:

(1) Treasury Securities.
(2) Agency Obligations, including mortgage pass-through securities and mortgage-backed securities backed by U.S. agencies but not including interest-only, principal-only, or inverse floater instruments.
(3) Asset Backed Securities rated in the highest two rating categories.
(4) Other Fixed Income Securities must be rated A or better and be publicly traded, or AAA if used in a single security contract.

(e) Short-Term Investments with maturities no longer than twelve months must comply with the provisions of *Minnesota Statutes*, section 11A.24, subdivision 4.

(f) The Manager may hold units of the Wells Fargo Stable Return Fund for EBT (Stable Return Fund) up to a maximum of 25 percent of the portfolio. The Stable Return Fund should serve as a buffer fund to provide liquidity for participant withdrawals and contributions. Cash equivalents (short-term investments) should be minimal and should not exceed 3 percent of the portfolio.

(g) The Manager may not invest in evergreen investment contracts that have no fixed maturity nor in actively managed security-backed investment contracts that are actively managed by another manager.

5. PERFORMANCE EVALUATION

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

6. PORTFOLIO CONSIDERATIONS

(a) Credit, Risk and Diversification

The average quality of the instruments held in the portfolio will be at least AA. The average quality of securities underlying security-backed contracts will be at least AA-. The Manager will use its internal credit review process to determine acceptable contract issuers. No more than 7.5 percent of the portfolio may be invested with or guaranteed by any one financial institution measured on the basis of net principal exposure to the institution.

(b) Weighted Average Maturity

The weighted average maturity of the total portfolio must be at least 2 years and no more than 3.5 years.

(c) Legal Review

The Manager will perform any needed legal review of investment contracts as part of its investment product review.

7. COMMUNICATION

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

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

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

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

8. ACCOUNT RECONCILIATION

The SBI's custodian bank will set book values for portfolio investments and such values will be used to measure performance of the SBI's portfolio. The Manager will provide all information requested by the SBI's custodian bank and will transmit values for its Stable Return Fund. The Manager agrees to accept the values established by the custodian. The Manager will review the custodian's values on a monthly basis and report any differences or discrepancies to the custodian. The Manager may appeal to the SBI if the Manager and the custodian cannot arrive at mutually agreeable values. At the end of the each quarter, the Manager will report to the SBI that the Manager agrees with the custodian's values for the quarter.

9. COMPLIANCE WITH GUIDELINES

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

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

10. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time to ensure that the Manager is in compliance with Minnesota statutes and SBI policy. The Manager will be notified in advance of changes to these guidelines.

Revised ~~June 2004~~ September 2005

Executive Director/
Assistant Executive Director

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Date ____________________

Investment Manager Guidelines

Internal Investments
and
Short-Term

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL ACTIVE FIXED INCOME MANAGER
INCOME SHARE ACCOUNT

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

1. RISK/RETURN OBJECTIVES

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

(a) An actual portfolio that has an active risk level relative to the benchmark not to exceed 2.0, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

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

2. BENCHMARK

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

3. LEVERAGE

The Manager may not leverage the account at any time. Leverage exists when the market value of the assets in the portfolio exceeds the owner's (SBI) equity in the assets when viewing the portfolio at any time. Leverage is presumed to exist if the owner's equity is unable to satisfy all of the obligations existing in the portfolio.

4. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The Manager may ~~trade~~ purchase or sell fixed income instruments, interest rate options and futures on U.S. Treasuries, and cash equivalents. The investments must satisfy the following criteria:

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

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

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

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

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

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

(2) obligations shall be rated among the top four quality categories by ~~a nationally recognized rating agency; and~~ Moody's, Standard & Poor's or Fitch/IBCA at time of purchase and

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

The Manager may invest up to 10% of the portfolio measured on a market value or contribution to duration basis, which ever is less, in BB rated corporate bonds provided that 1) participation is limited to 20 percent of a single offering and 2) participation is limited to 10 percent of an issuer's total outstanding obligations~~.~~ and 3) the Manager shall not hold more than 2 percent of the market value of the portfolio in any one issuer.

~~(c)~~ (d) Mortgage-backed securities purchased must be rated in the top four quality categories by ~~a nationally recognized rating agency~~ Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

~~(d)~~ (e) Asset-backed securities purchased must be rated in the top four quality categories by ~~a nationally recognized rating agency,~~ Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(f) For mortgage-backed securities and asset-backed securities, if the entity issues both direct and also as a servicer through a bankruptcy remote entity or trust, the manager is limited to 5% of the market value of the portfolio for direct issues, and 5% of the market value as a servicer; not to exceed a maximum of 10% of the market value of the portfolio in total in one issuer.

~~(e)~~ (g) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by ~~a nationally recognized agency,~~ Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

~~(f)~~ (h) The Manager may manage cash equivalent reserves or they may be invested in the SBI's STIF fund, managed by its custodian bank.

~~(h) The duration of the portfolio must stay within +/-1 year of the benchmark duration.~~

~~(g)~~ (i) Interest rate futures on U.S. treasury securities must be purchased or sold through a governmentally regulated exchange. Over-the-counter instruments are not permitted. All options and future transactions must be entered into and maintained with a fully offsetting amount of ~~cash or securities~~ collateral as defined in 5(b)(2) below. The portfolio may not be leveraged in any way.

5. INVESTMENT CONSTRAINTS

(a) Duration Guidelines

(1) The option-adjusted duration of the portfolio must be within +/- 1 years of the duration of the Lehman Brothers Aggregate Index.

(b) Derivative Guidelines

(1) Restrictions

Total net notional exposure from all derivative contracts must be less than 50% of the manager's portfolio net asset value and the total net contribution to duration exposure due to all derivative contracts must be less than 50% of the Lehman Aggregate's index duration.

(2) Collateral Guidelines

All cash and cash equivalents, which is defined as:

(i) all investment grade securities with an effective duration and spread duration of one year or less.

(ii) All U.S. Treasury securities with an effective duration of three years or less.

(iii) Any U.S. Treasury security that will satisfy the delivery requirement for a derivative contract currently being held in the manager's SBI portfolio.

(3) Net Notional Liability Exposure

Total liability exposure due to derivative contracts will be calculated on a net notional value basis.

All futures contracts will use their current price to calculate the net notional value.

All net positions for puts and calls sold by the manager will have a notional value equal to the current notional value of the underlying contract. All net positions for puts and calls purchased by the manager will have a notional value of zero.

(4) Derivative Contracts subject to the Above Constraints

The following derivative contracts are subject to the above constraints:

1) Interest rate futures on U.S. Treasury securities 2) Interest rate options on U.S. Treasury futures and 3) All TBA mortgages.

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

~~5.~~ 6. PERFORMANCE EVALUATION

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

~~6.~~ 7. COMMUNICATION

The Manager is expected to report monthly on returns and portfolio statistics to the Executive Director and Assistant Executive Director. In addition, Manager will meet with the Executive Director or Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy, within ten (10) business days of quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, and discuss all issues or events affecting the management of the SBI's account.

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

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

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

All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced on a daily basis and accessible by the custodian.

~~9.~~ 10. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

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

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

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. Net asset values are comprised of the total market value of the entire fund, plus all open trades and pending income. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

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

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

~~10.~~ 11. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the Executive Director or Assistant Executive Director, in writing, if the Manager becomes aware of any violations of these guidelines.

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

~~11.~~ 12. FUTURE MODIFICATIONS

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

Revised: ~~June 2004~~ September 2005

Executive Director/
Assistant Executive Director

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Date ______________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL ACTIVE FIXED INCOME MANAGER
TRUST FUND POOL

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

1. RISK/RETURN OBJECTIVES

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

(a) An actual portfolio that has an active risk level relative to the benchmark not to exceed 1.5, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

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

2. BENCHMARK

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

3. LEVERAGE

The Manager may not leverage the account at any time. Leverage exists when the market value of the assets in the portfolio exceeds the owner's (SBI) equity in the assets when viewing the portfolio at any time. Leverage is presumed to exist if the owner's equity is unable to satisfy all of the obligations existing in the portfolio.

4. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The Manager may ~~trade~~ purchase or sell fixed income instruments, interest rate options and futures on U.S. Treasuries, and cash equivalents. The investments must satisfy the following criteria:

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

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

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

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

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

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

(2) obligations shall be rated among the top four quality categories by ~~a nationally recognized rating agency; and~~ Moody's, Standard & Poor's or Fitch/IBCA at time of purchase and

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

The Manager may invest up to 10% of the portfolio measured on a market value or contribution to duration basis, which ever is less, in BB rated corporate bonds provided that 1) participation is limited to 20 percent of a single offering and 2) participation is limited to 10 percent of an issuer's total outstanding obligations~~.~~ and 3) the Manager shall not hold more than 2 percent of the market value of the portfolio in any one issuer.

~~(c)~~ (d) Mortgage-backed securities purchased must be rated in the top four quality categories by ~~a nationally recognized rating agency~~ Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

~~(d)~~ (e) Asset-backed securities purchased must be rated in the top four quality categories by ~~a nationally recognized rating agency,~~ Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(f) For mortgage-backed securities and asset-backed securities, if the entity issues both direct and also as a servicer through a bankruptcy remote entity or trust, the manager is limited to 5% of the market value of the portfolio for direct issues, and 5% of the market value as a servicer; not to exceed a maximum of 10% of the market value of the portfolio in total in one issuer.

~~(e)~~ (g) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by ~~a nationally recognized agency,~~ Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

~~(f)~~ (h) The Manager may manage cash equivalent reserves or they may be invested in the SBI's STIF fund, managed by its custodian bank.

~~(h) The duration of the portfolio must stay within +/-1 year of the benchmark duration.~~

~~(g)~~ (i) Interest rate futures on U.S. treasury securities must be purchased or sold through a governmentally regulated exchange. Over-the-counter instruments are not permitted. All options and future transactions must be entered into and maintained with a fully offsetting amount of ~~cash or securities~~ collateral as defined in 5(b)(2) below. The portfolio may not be leveraged in any way.

5. INVESTMENT CONSTRAINTS

(a) Duration Guidelines

(1) The option-adjusted duration of the portfolio must be within +/- 1 years of the duration of the Lehman Brothers Aggregate Index.

(b) Derivative Guidelines

(1) Restrictions

Total net notional exposure from all derivative contracts must be less than 50% of the manager's portfolio net asset value and the total net contribution to duration exposure due to all derivative contracts must be less than 50% of the Lehman Aggregate's index duration.

(2) Collateral Guidelines

All cash and cash equivalents, which is defined as:

(i) all investment grade securities with an effective duration and spread duration of one year or less.

(ii) All U.S. Treasury securities with an effective duration of three years or less.

(iii) Any U.S. Treasury security that will satisfy the delivery requirement for a derivative contract currently being held in the manager's SBI portfolio.

(3) Net Notional Liability Exposure

Total liability exposure due to derivative contracts will be calculated on a net notional value basis.

All futures contracts will use their current price to calculate the net notional value.

All net positions for puts and calls sold by the manager will have a notional value equal to the current notional value of the underlying contract. All net positions for puts and calls purchased by the manager will have a notional value of zero.

(4) Derivative Contracts subject to the Above Constraints

The following derivative contracts are subject to the above constraints:

1) Interest rate futures on U.S. Treasury securities 2) Interest rate options on U.S. Treasury futures; and 3) All TBA mortgages.

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

~~5.~~ 6. PERFORMANCE EVALUATION

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

~~6.~~ 7. COMMUNICATION

The Manager is expected to report monthly on returns and portfolio statistics to the Executive Director and Assistant Executive Director. In addition, Manager will meet with the Executive Director or Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy, within ten (10) business days of quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, and discuss all issues or events affecting the management of the SBI's account.

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

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

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

All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced on a daily basis and accessible by the custodian.

~~9.~~ 10. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

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

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

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. Net asset values are comprised of the total market value of the entire fund, plus all open trades and pending income. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

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

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

~~10.~~ 11. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the Executive Director or Assistant Executive Director, in writing, if the Manager becomes aware of any violations of these guidelines.

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

~~11.~~ 12. FUTURE MODIFICATIONS

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

Revised: ~~June 2004~~ September 2005

Executive Director/
Assistant Executive Director

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Date ______________________

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

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

1. RISK/RETURN OBJECTIVES

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

(a) An actual portfolio that has an active risk level relative to the benchmark of 0.20 or less, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

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

2. BENCHMARK INDEX

The benchmark is the Standard & Poors 500 (S&P 500). SBI reserves the right to change the benchmark upon notification to the Manager.

3. LEVERAGE

The Manager may not leverage the account at any time. <u>Leverage exists when the market value of the assets in the portfolio exceeds the owner's (SBI) equity in the assets when viewing the portfolio at any time. Leverage is presumed to exist if the owner's equity is unable to satisfy all of the obligations existing in the portfolio.</u>

4. ELIGIBLE INVESTMENTS

The Manager will be restricted to trading common stocks that are in the benchmark index, stock index futures, stock index exchange traded funds and the SBI STIF fund. The investments must satisfy the following criteria and constraints:

(a) Cash equivalent reserves shall be invested in a STIF fund designated by the SBI.

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

5. PERFORMANCE EVALUATION

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

6. COMMUNICATION

The Manager is expected to report monthly on returns and portfolio statistics to the Executive Director and Assistant Executive Director. In addition Manager will meet with the Executive Director or Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. The Manager is expected to report on the tracking of the portfolio relative to the benchmark.

The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within ten (10) business days of quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss current investment strategy, and discuss all issues or events affecting the management of the SBI's account.

7. PROXY VOTING

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

8. OPTION AND FUTURES TRADING AGREEMENT

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

9. SEPARATE ACCOUNT AND DAILY PRICING

All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced on a daily basis and accessible by the custodian.

10. ACCOUNT RECONCILIATION

The Manager shall assist in account reconciliation as follows:

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

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

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end. <u>Net asset values are comprised of the total market value of the fund, plus all open trades and pending income.</u>

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

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

11. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the Executive Director or Assistant Executive Director, in writing, if the Manager becomes aware of any violations of these guidelines.

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

12. FUTURE MODIFICATIONS

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

Revised: ~~June 2004~~ September 2005

Executive Director/
Assistant Executive Director

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Date ______________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL SHORT-TERM CORPORATE FIXED-INCOME

The investment actions of the State Board of Investment (SBI) internal short-term corporate fixed-income manager will be governed and evaluated using the following guidelines:

1. RISK/RETURN OBJECTIVES

The primary objectives of the fund is to preserve capital, maintain a high degree of liquidity and within these constraints provide a high level of current income.

The portfolio is expected to deliver annualized returns that beat the benchmark over time.

2. BENCHMARKS

The benchmark is the Lehman 1-3 year Government Treasury Index. SBI reserves the right to change the benchmark upon notification to the Manager.

3. LEVERAGE

The Manager may not leverage the account at any time. Leverage exists when the market value of the assets in the portfolio exceeds the owner's (SBI) equity in the assets when viewing the portfolio at any time. Leverage is presumed to exist if the owner's equity is unable to satisfy all of the obligations existing in the portfolio.

4. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The investments must satisfy the following criteria:

(a) The Manager may invest funds in fixed income securities with one to three years remaining to maturity and issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any providence thereof provided that:

(1) the principal and interest of obligations of corporations incorporated or organized under the laws of the United States or any state, or the Dominion of Canada or any providence thereof shall be payable in United States dollars; and

(2) obligations shall be A+/A1 rated or better by ~~two nationally recognized rating organizations.~~ Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase.

(b) Yankee corporate bonds with one to three years remaining to maturity, encompassing those foreign-domiciled issuers who borrow U.S. dollars and pay in U.S. dollars, and A+/A1-rated or better, by ~~two nationally recognized rating organizations.~~ Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase.

(c) Euro-dollar corporate obligations with one to three years remaining to maturity denominated in U.S. dollars and are A+/A1-rated or better by ~~two nationally recognized rating organizations.~~ Moody's, Standard & Poor's, or Fitch/IBCA at time of purchase.

(d) Up to 20% of the portfolio may be invested in U.S. dollar-denominated yankee or euro-dollar securities;

(e) Cash will be swept to the ITC fund.

(f) No one issuer may exceed 10% of the portfolio's total value.

5. IMPLEMENTATION

(a) The Manager is required to limit capital realized net daily gains and losses to not more than 10% of the daily cash income distribution of the Invested Treasurer's Cash Pool unless prior permission of the Head of Short-Term Trading and either the SBI Executive Director or Assistant Executive Director has been received.

(b) Manager must have a clear description of a security before purchase. Manager must be able to certify daily the exact principal outstanding, the interest rate and the calculation method for each security.

(c) Portfolio duration will deviate no more than +/-.2 years from the benchmark.

6. PERFORMANCE EVALUATION

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

7. COMMUNICATION

On a monthly basis the Manager will meet with the Short-Term ~~Traders~~ Manager to discuss cash flows and other relevant issues. The Manager is expected to report monthly on returns and portfolio statistics to the Director and Assistant Director. In addition, Manager will meet with the Executive Director and Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

8. CUSTODY OF ASSETS

All assets will be held in custody by the State's custodial bank. All securities held in the portfolio must be capable of being priced ~~by the custodian on a daily basis~~. on a daily basis and accessible by the custodian.

9. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the Executive Director or Assistant Executive Director, in writing, if the Manager becomes aware of any violations of these guidelines.

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

10. FUTURE MODIFICATIONS

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

Revised: ~~June 2004~~ September 2005

Executive Director/
Assistant Executive Director

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Date ______________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL POOLED CASH MANAGEMENT

The investment actions of the Minnesota State Board of Investment (SBI) internal pooled cash manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

The primary objectives of the funds are to preserve capital, maintain a high degree of liquidity and within these constraints provide a high level of current income.

The portfolios are expected to deliver annualized returns in excess of the benchmark return over time.

2. INVESTED TREASURER'S CASH FUND BENCHMARK

The major cash pool, the Invested Treasurer's Cash Fund, is evaluated against a blended benchmark. Currently that benchmark is composed of the Lehman 1-3 Year Government Bond Index (currently $0) and the balance of the portfolio will be measured against the IBC All Taxable Money Fund Average Index. SBI reserves the right to change the benchmark upon notification to the Manager. Other cash portfolios are difficult to evaluate due to their unique purposes and funding requirements.

3. LEVERAGE

The Manager may not leverage the account at any time. <u>Leverage exists when the market value of the assets in the portfolio exceeds the owner's (SBI) equity in the assets when viewing the portfolio at any time. Leverage is presumed to exist if the owner's equity is unable to satisfy all of the obligations existing in the portfolio.</u>

4. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The Manager may hold only fixed income investments that meet the criteria in *Minnesota Statutes,* section 11A.24. References to quality categories of rating organizations do not include modifiers that may be used within categories. The investments must satisfy the following criteria and constraints listed below:

(a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Board may invest under this subdivision include guaranteed or insured issues of (a) the United

States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; ~~(c) the states and their municipalities, political subdivisions, agencies or instrumentalities;~~ ~~(d)~~ (c) the International Bank of Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars~~.~~

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

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

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

~~(b)~~ (c) U.S. and Canadian corporate obligations, including private placements, must be payable in U.S. dollars and be rated in the top three long term debt quality categories by ~~a nationally recognized statistical rating organization (NRSRO).~~ Moody's, Standard & Poor's or Fitch/IBCA at time of purchase.

~~(c)~~ (d) Bankers acceptances and deposit notes of U.S. banks rated in the top three deposit quality categories by ~~a NRSRO.~~ Moody's, Standard & Poor's or Fitch/IBCA at time of purchase.

~~(d)~~ (e) Commercial paper, including asset backed commercial paper and rated private placement commercial paper, of U.S. corporations or their Canadian subsidiaries rated in the top commercial paper quality category by ~~a NRSRO.~~ Moody's, Standard & Poor's or Fitch/IBCA at time of purchase. The Manager shall not hold at time of purchase more than the lesser of 10 percent of the issuers total outstanding commercial paper or 5% of the market value of the portfolio in one issuer.

~~(e)~~ (f) Asset backed securities, including private placements, that are U.S. dollar denominated and rated in the top two long term debt quality categories by ~~a NRSRO.~~ Moody's, Standard & Poor's or Fitch/IBCA at time of purchase.

~~(f)~~ (g) Repurchase agreements must be backed by collateral meeting the requirements of *Minnesota Statutes,* section 11A.24 and:

(1) With a dealer, the dealer must be a primary dealer recognized by the New York Federal Reserve Bank, and:

(a) if done on a tri-party basis, the dealer must have short-term obligation ratings no lower than A2/P2.

(b) if done on a hold in custody basis, the dealer must have short-term obligation ratings no lower than A1/P1 and have net excess regulatory capital of at least $200 million.

(2) With a bank, the bank must have deposit ratings of A1/P1 and be among the largest one hundred banks as rated by deposits.

(3) If collateral is delivered to the state's federal reserve account, the counterparty may be any federally regulated bank or dealer.

~~(g)~~ (h) Mortgage securities that are U.S. dollar denominated and rated in the top three categories by ~~a NRSRO.~~ Moody's, Standard & Poor's or Fitch/IBCA at time of purchase.

~~(h)~~ (i) International securities must be payable in U.S. dollars and must meet the same quality criteria as domestic securities.

~~(i)~~ (j) The Cash Pools may not hold a security that exceeds five years to its final legal maturity.

~~(j)~~ (k) The Cash Pools may not hold structured securities that are leveraged or tied to more than one index.

In aggregate, the investments must satisfy the following constraints:

(a) A portfolio must not be leveraged.

(b) Up to 20 percent of a portfolio may be invested in international securities.

(c) Up to 5 percent of a portfolio may exceed three years to maturity.

5. COMMUNICATION

The Manager is expected to report monthly on returns and portfolio statistics to the Executive Director and Assistant Executive Director. In addition, Manager will meet with the Executive Director or Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

6. SEPARATE ACCOUNT

The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank.

7. COMPLIANCE WITH GUIDELINES

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

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

8. FUTURE MODIFICATIONS

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

Revised: ~~June 2004~~ September 2005

Executive Director/
Assistant Executive Director

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Date ________________________

STATE BOARD OF INVESTMENT

Domestic Equity Manager Evaluation Reports

Second Quarter, 2005

Table of Contents

COMBINED RETIREMENT FUNDS
DOMESTIC EQUITY PERFORMANCE SUMMARY
Periods Ending June, 2005

	Quarter		1 Year		3 Years		5 Years	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	2.5	2.1	11.7	7.9				
Russell 1000 Growth Aggregate	4.1	2.5	3.3	1.7				
Russell 1000 Value Aggregate	2.1	1.7	11.6	14.1				
Russell 2000 Growth Aggregate	4.9	3.5	4.1	4.3				
Russell 2000 Value Aggregate	5.0	5.1	17.9	14.4				
Active Manager Aggregate	3.2	2.4	9.3	8.1				
Semi-Passive Aggregate	2.1	2.1	8.0	7.9				
Passive Manager (BGI)	2.3	2.2	8.1	8.1				
Domestic Equity Program Aggregate	2.6		8.6					
SBI DE Asset Class Target		2.2		8.1				
Russell 3000 Index		2.2		8.1				

	2004		2003		2002		2001		2000	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	14.5	11.4								
Russell 1000 Growth Aggregate	6.1	6.3								
Russell 1000 Value Aggregate	14.3	16.5								
Russell 2000 Growth Aggregate	9.7	14.3								
Russell 2000 Value Aggregate	25.0	22.2								
Active Manager Aggregate	12.5	12.3								
Semi-Passive Aggregate	11.7	11.4								
Passive Manager (BGI)	12.0	11.9								
Historical Aggregate	12.2									
SBI DE Asset Class Target		11.9								
Russell 3000 Index		11.9								

COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending June, 2005
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	1.3	2.1	12.1	7.9	8.0	9.2	1.6	-1.9	11.9	11.5
New Amsterdam Partners (2)	2.8	2.1	13.6	7.9	12.2	11.0	5.3	4.6	14.3	12.0
UBS Global	3.6	2.1	10.9	7.9	11.3	9.2	7.9	-1.9	11.1	10.5
Voyageur-Chicago Equity	1.0	2.1	1.8	7.9	5.5	9.2	-2.2	-1.9	-2.2	-1.9
Aggregate	2.5	2.1	11.7	7.9						
Russell 1000 Growth										
Alliance Capital	5.6	2.5	4.0	1.7	4.9	7.3	-7.3	-10.4	14.6	10.9
Cohen, Klingenstein & Marks	2.5	2.5	3.8	1.7	9.2	7.3	-7.7	-10.4	9.4	9.0
Holt-Smith & Yates	4.8	2.5	5.4	1.7	4.3	7.3	-2.6	-10.4	-2.6	-10.4
INTECH	2.1	2.5							0.2	-1.7
Jacobs Levy	2.9	2.5							-1.6	-1.7
Lazard Asset Mgmt.	1.6	2.5							-2.7	-1.7
Sands Capital	8.0	2.5							-2.1	-1.7
Winslow-Large Cap	5.3	2.5							0.1	-1.7
Zevenbergen Capital	3.7	2.5	1.9	1.7	12.2	7.3	-12.4	-10.4	9.8	9.0
Aggregate	4.1	2.5	3.3	1.7						
Russell 1000 Value										
Barrow, Hanley	4.2	1.7	19.4	14.1					17.7	11.9
Earnest Partners	4.7	1.7	20.8	14.1	15.3	11.0	5.3	6.6	5.3	6.6
Lord Abbett & Co	-0.3	1.7	5.9	14.1					6.1	11.9
LSV Asset Mgmt	4.3	1.7	18.9	14.1					16.7	11.9
Oppenheimer	1.0	1.7	6.8	14.1	9.7	11.0	4.7	6.6	12.8	11.8
Systematic Financial Mgmt	1.9	1.7	14.1	14.1					12.2	11.9
Aggregate	2.1	1.7	11.6	14.1						
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	3.2	3.5	1.8	4.3					3.8	6.7
Next Century Growth	10.4	3.5	13.4	4.3	13.5	11.4	-6.6	-4.5	-6.6	-4.5
Turner Investment Partners	3.9	3.5	3.1	4.3					5.1	6.7
Winslow-Small Cap	6.8	3.5	6.1	4.3	11.0	11.4	-1.0	-4.5	-1.0	-4.5
Aggregate	4.9	3.5	4.1	4.3						
Russell 2000 Value										
AEAM/Kenwood	3.3	5.1	13.6	14.4					16.4	15.0
Goldman Sachs	3.4	5.1	11.9	14.4					11.5	15.0
Hotchkis & Wiley	4.2	5.1	18.5	14.4					20.1	15.0
Martingale Asset Mgmt	5.8	5.1	20.6	14.4					22.5	15.0
Peregrine Capital	6.4	5.1	20.8	14.4	15.0	14.2	18.8	16.1	18.8	16.1
Aggregate	5.0	5.1	17.9	14.4						
Active Mgr. Aggregate (3)	3.2	2.4	9.3	8.1						

(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.

(3) The Active Manager Aggregate Benchmark is the aggregate of the weighted average of the active manager benchmarks and is not the Russell 3000

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

	2004 Actual %	2004 Bmk %	2003 Actual %	2003 Bmk %	2002 Actual %	2002 Bmk %	2001 Actual %	2001 Bmk %	2000 Actual %	2000 Bmk %
LARGE CAP										
Russell 1000 Core										
Franklin Portfolio	15.7	11.4	32.9	29 9	-25 4	-21.7	-6.6	-12 5	-1.6	-7.8
New Amsterdam Partners (2)	14.8	11 4	34.2	38 0	-17 5	-16.2	-3.3	-5.6	15 0	8 2
UBS Global	13.4	11 4	30.7	29.9	-14.7	-21.7	5.2	-12.5	3 6	-7.8
Voyageur-Chicago Equity	10.6	11 4	23 2	29.9	-20 6	-21.7	-19 4	-12.5		
Aggregate	14 5	11.4								
Russell 1000 Growth										
Alliance Capital	5.7	6.3	22.4	29.7	-26 8	-27.9	-13.7	-20.4	-13.7	-22 4
Cohen, Klingenstein & Marks	6.1	6.3	41.2	29.7	-35 0	-27 9	-25.0	-20.4	-6.0	-22.4
Holt-Smith & Yates	7 3	6.3	22.1	29.7	-28.0	-27 9	-1 7	-20.4		
INTECH (1)										
Jacobs Levy (1)										
Lazard Asset Mgmt. (1)										
Sands Capital (1)										
Winslow-Large Cap (1)										
Zevenbergen Capital	13.1	6.3	49.3	29.7	-36 2	-27.9	-29.0	-20 4	-38.2	-22 4
Aggregate	6 1	6.3								
Russell 1000 Value										
Barrow, Hanley (1)										
Earnest Partners	18.9	16.5	32.0	30.0	-18 1	-15 5	-0.4	-5.6		
Lord Abbett & Co. (1)										
LSV Asset Mgmt. (1)										
Oppenheimer	12.0	16 5	28.9	30.0	-15.5	-15 5	-7 0	-5.6	11 2	7 0
Systematic Financial Mgmt. (1)										
Aggregate	14.3	16 5								
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	12.2	14.3								
Next Century Growth	6.4	14.3	50.7	48 5	-33 3	-30.3	-22 8	-9 2		
Turner Investment Partners	11 6	14 3								
Winslow-Small Cap	8 9	14.3	37 6	48 5	-25.0	-30 3	-6 1	-9 2		
Aggregate	9.7	14.3								
Russell 2000 Value										
AEAM/Kenwood	25.8	22 2								
Goldman Sachs	19.9	22.2								
Hotchkis & Wiley	27 1	22 2								
Martingale Asset Mgmt.	30.8	22.2								
Peregrine Capital	23 6	22 2	44.2	46.0	-8.1	-11.4	12.6	14.0		
Aggregate	25.0	22 2								
Active Mgr. Aggregate (3)	12 5	12 3								

(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) The Active Manager Aggregate Benchmark is the aggregate of the weighted average of the active manager benchmarks and is not the Russell 3000

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending June, 2005
Versus Manager Benchmarks

	Quarter		1 Year		3 Years		5 Years		Since Inception (2)		Market	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	%
ACTIVE MANAGERS												
Large Cap Core (R1000)												
Franklin Portfolio	1 3	2 1	12 1	7 9	8 0	11 0	1 6	2 9	11.9	11 6	$743 7	3 6%
New Amsterdam Partners	2 8	2 1	13 6	7 9	12.2	9.9	5 3	4 3	14.3	13 5	$449 8	2 2%
UBS Global	3 6	2 1	10.9	7 9	11 3	9 5	7 9	-0 6	11.1	10 6	$805 7	3 9%
Voyageur-Chicago Equity	1 0	2 1	1 8	7 9	5 5	8 7	-2 2	-1 5	-2 2	-1 5	$45 5	0.2%
Aggregate	2 5	2 1	11 7	7 9								
Large Cap Growth (R1000 Growth)												
Alliance Capital	5 6	2 5	4 0	1 7	4 9	6 7	-7 3	-5 9	14.6	10 9	$460 4	2 2%
Cohen, Klingenstein & Marks	2 5	2 5	3 8	1.7	9 2	10 1	-7 7	-3 1	9 4	10 9	$414 4	2.0%
Holt-Smith & Yates	4.8	2 5	5 4	1 7	4 3	6 0	-2 6	2 6	-2 6	2 6	$79 1	0 4%
INTECH	2 1	2 5							0 2	-1 7	$279 4	1.3%
Jacobs Levy	2 9	2 5							-1.6	-1 7	$116 1	0.6%
Lazard Asset Mgmt	1 6	2 5							-2 7	-1 7	$25 3	0 1%
Sands Capital	8 0	2 5							-2.1	-1 7	$194 8	0 9%
Winslow-Large Cap	5 3	2 5							0 1	-1 7	$26 0	0 1%
Zevenbergen Capital	3 7	2 5	1 9	1 7	12 2	7 8	-12 4	-5 4	9 8	12 3	$202 7	1.0%
Aggregate	4 1	2 5	3 3	1 7								
Large Cap Value (R1000 Value)												
Barrow, Hanley	4 2	1 7	19 4	14 1					17 7	11 9	$302 4	1.5%
Earnest Partners	4 7	1 7	20 8	14 1	15.3	14.9	5 3	13 5	5 3	13 5	$65 1	0.3%
Lord Abbett & Co	-0 3	1 7	5 9	14.1					6.1	11 9	$265 5	1.3%
LSV Asset Mgmt	4 3	1 7	18 9	14 1					16 7	11.9	$357 4	1.7%
Oppenheimer	1 0	1 7	6 8	14 1	9 7	10 8	4 7	3 6	12 8	12 4	$759 7	3 7%
Systematic Financial Mgmt	1 9	1 7	14 1	14 1					12 2	11 9	$170 5	0.8%
Aggregate	2 1	1 7	11 6	14 1								
Small Cap Growth (R2000 Growth)												
McKinley Capital	3.2	3.5	1 8	4.3					3 8	6.7	$179 9	0.9%
Next Century Growth	10 4	3 5	13 4	4 3	13 5	13 2	-6.6	-2 1	-6 6	-2 1	$35 9	0.2%
Turner Investment Partners	3 9	3 5	3 1	4.3					5 1	6 7	$137 0	0.7%
Winslow-Small Cap	6 8	3 5	6 1	4 3	11 0	11 9	-1.0	0 8	-1 0	0 8	$140 4	0 7%
Aggregate	4 9	3 5	4.1	4 3								
Small Cap Value (R2000 Value)												
AEAM/Kenwood	3 3	5.1	13 6	14 4					16 4	15 0	$52 6	0 3%
Goldman Sachs	3 4	5 1	11.9	14 4					11 5	15 0	$110 2	0.5%
Hotchkis & Wiley	4 2	5 1	18.5	14 4					20.1	15 0	$123 1	0.6%
Martingale Asset Mgmt	5 8	5 1	20 6	14 4					22 5	15 0	$126 7	0.6%
Peregrine Capital Mgmt	6 4	5 1	20.8	14 4	15.0	15 3	18.8	19 0	18 8	19 0	$184 6	0 9%
Aggregate	5 0	5 1	17 9	14 4								
Active Mgr. Aggregate (1)	3 2	2 4	9 3	8.1								

(1) The Active Manager Aggregate Benchmark is the aggregate of the weighted average of the active manager benchmarks and is not the Russell 3000.

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

	2004		2003		2002		2001		2000	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
ACTIVE MANAGERS										
Large Cap Core (R1000)										
Franklin Portfolio	15.7	11.4	32.9	36.9	-25.4	-19.8	-6.6	-5.4	-1.6	0.3
New Amsterdam Partners	14.8	11.4	34.2	37.1	-17.5	-22.2	-3.3	3.7	15.0	3.1
UBS Global	13.4	11.4	30.7	30.8	-14.7	-20.6	5.2	-11.0	3.6	-1.0
Voyageur-Chicago Equity	10.6	11.4	23.2	28.9	-20.6	-20.7	-19.4	-12.0		
Aggregate	14.5	11.4								
Large Cap Growth (R1000 Growth)										
Alliance Capital	5.7	6.3	22.4	26.3	-26.8	-24.0	-13.7	-15.3	-13.7	-11.4
Cohen, Klingenstein & Marks	6.1	6.3	41.2	39.3	-35.0	-23.8	-25.0	-11.2	-6.0	-12.1
Holt-Smith & Yates	7.3	6.3	22.1	31.3	-28.0	-19.0	-1.7	4.6		
INTECH (1)										
Jacobs Levy (1)										
Lazard Asset Mgmt. (1)										
Sands Capital (1)										
Winslow-Large Cap (1)										
Zevenbergen Capital	13.1	6.3	49.3	31.3	-36.2	-24.2	-29.0	-3.2	-38.2	-16.6
Aggregate	6.1	6.3								
Large Cap Value (R1000 Value)										
Barrow, Hanley (1)										
Earnest Partners	18.9	16.5	32.0	41.8	-18.1	-11.6	-0.4	11.5		
Lord Abbett & Co. (1)										
LSV Asset Mgmt. (1)										
Oppenheimer	12.0	16.5	28.9	31.4	-15.5	-20.7	-7.0	-9.5	11.2	10.3
Systematic Financial Mgmt. (1)										
Aggregate	14.3	16.5								
Small Cap Growth (R2000 Growth)										
McKinley Capital	12.2	14.3								
Next Century Growth	6.4	14.3	50.7	48.5	-33.3	-27.8	-22.8	-5.5		
Turner Investment Partners	11.6	14.3								
Winslow-Small Cap	8.9	14.3	37.6	51.3	-25.0	-26.7	-6.1	4.6		
Aggregate	9.7	14.3								
Small Cap Value (R2000 Value)										
AEAM/Kenwood	25.8	22.2								
Goldman Sachs	19.9	22.2								
Hotchkis & Wiley	27.1	22.2								
Martingale Asset Mgmt.	30.8	22.2								
Peregrine Capital Mgmt	23.6	22.2	44.2	44.2	-8.1	-6.9	12.6	22.9		
Aggregate	25.0	22.2								
Active Mgr. Aggregate (2)	12.5	12.3								

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

(2) The Active Manager Aggregate Benchmark is the aggregate of the weighted average of the active manager benchmarks and is not the Russell 3000.

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending June, 2005
Versus Manager Benchmarks (1)

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception (2) Actual %	Since Inception (2) Bmk %	Market Value (in millions)	Pool %
SEMI-PASSIVE MANAGERS												
Barclays Global Investors	2.4	2.1	8.6	7.9	10.0	8.9	-0.7	-2.2	11.1	10.3	$2,702.2	13.0%
Franklin Portfolio	1.7	2.1	7.9	7.9	8.3	8.9	-2.1	-2.2	9.9	10.3	$1,934.3	9.3%
JP Morgan	2.1	2.1	7.4	7.9	8.5	8.9	-2.0	-2.2	10.4	10.3	$2,269.5	10.9%
Semi-Passive Aggregate (R1000)	2.1	2.1	8.0	7.9	9.1	8.9	-1.5	-2.2	10.5	10.3		
PASSIVE MANAGER (R3000)												
Barclays Global Investors	2.3	2.2	8.1	8.1	9.5	9.5	-1.7	-1.8	9.8	9.6	$6,990.0	33.7%
									Since 1/1/84			
Historical Aggregate (3)	**2.6**	**2.2**	**8.6**	**8.0**	**9.5**	**9.7**	**-1.8**	**-1.4**	**11.6**	**11.8**	$20,750.1	100.0%
SBI DE Asset Class Target (4)		2.2		8.1		9.5		-1.8		11.7		
Russell 3000		2.2		8.1		9.5		-1.4		12.2		
Wilshire 5000		2.3		8.2		9.9		-1.3		12.1		
Russell 1000		2.1		7.9		9.2		-1.9		12.4		
Russell 2000		4.3		9.4		12.8		5.7		10.2		

(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

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

	2004		2003		2002		2001		2000	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
SEMI-PASSIVE MANAGERS										
Barclays Global Investors	11.7	11.4	30.0	28.5	-19.1	-19.7	-7.8	-9.7	-13.8	-16.3
Franklin Portfolio	11.7	11.4	26.9	28.5	-20.2	-19.7	-9.0	-9.7	-15.9	-16.3
JP Morgan	11.7	11.4	28.9	28.5	-21.8	-19.7	-8.7	-9.7	-13.6	-16.3
Semi-Passive Aggregate (R1000)	11.7	11.4	28.8	28.5	-20.3	-19.7	-8.5	-9.7	-14.4	-16.3
PASSIVE MANAGER (R3000)										
Barclays Global Investors	12.0	11.9	30.9	31.2	-21.4	-21.5	-11.8	-11.7	-9.8	-11.0
Historical Aggregate (2)	**12.2**	**11.9**	**31.0**	**31.4**	**-22.4**	**-21.1**	**-11.1**	**-9.9**	**-11.0**	**-10.7**
SBI DE Asset Class Target (3)		11.9		31.2		-21.5		-11.7		-10.8
Russell 3000		11.9		31.1		-21.5		-11.5		-7.5
Wilshire 5000		12.5		31.6		-20.9		-11.0		-10.9
Russell 1000		11.4		29.9		-21.7		-12.5		-7.8
Russell 2000		18.3		47.3		-20.5		2.5		-3.0

(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 7/1/99 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

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

Large Cap Core (R1000)

Large Cap Core (R1000)

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FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2005

Portfolio Manager: John Cone | **Assets Under Management: $743,683,935**

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 during the quarter by 0.8 percentage point (ppt). Strong overall sector allocation decisions were not enough to mitigate the negative impact of weak overall stock selection. For the year, the portfolio outperformed the Russell 1000 index by 4.2 ppts. Strong stock selection contributed to performance and was particularly effective within the retail trade and health technology sectors.

Staff conducted a site visit during the quarter. Philosophy and process were discussed in detail. The research process for model modifications and new factors was reviewed, and the rebalancing process was demonstrated.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

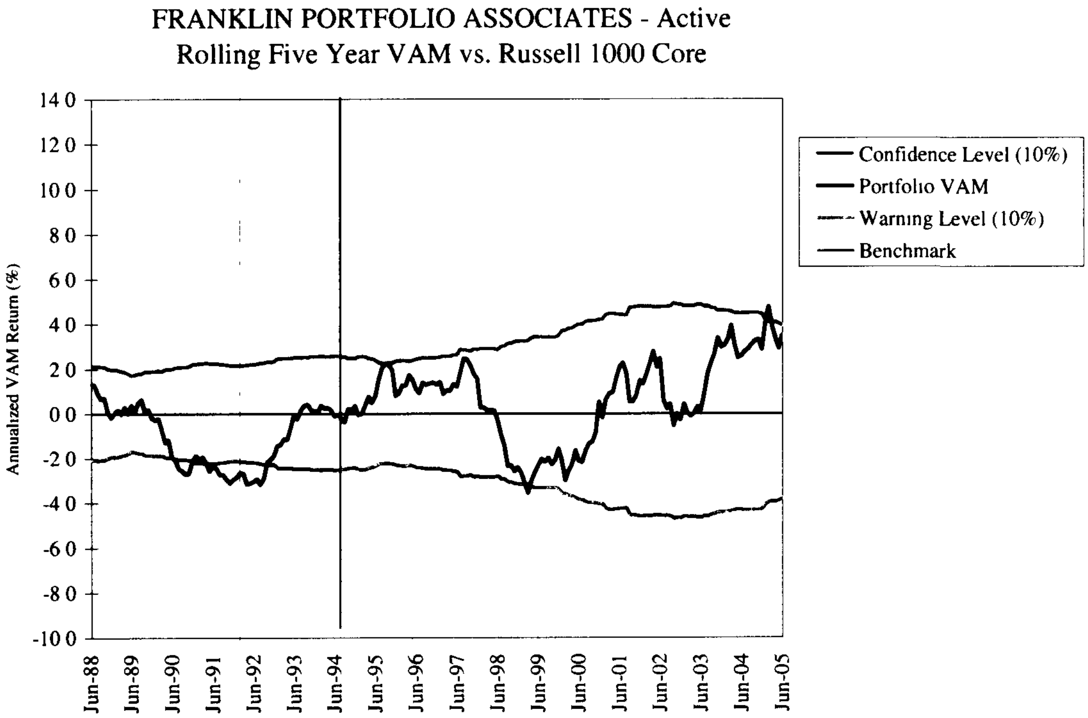
	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	1.3%	2.1%	2.1%
Last 1 year	12.1	7.9	7.9
Last 2 years	16.5	13.6	14.1
Last 3 years	8.0	9.2	11.0
Last 4 years	1.2	1.7	3.9
Last 5 years	1.6	-1.9	2.9
Since Inception (4/89)	11.9	11.5	11.6

Calendar Year Returns

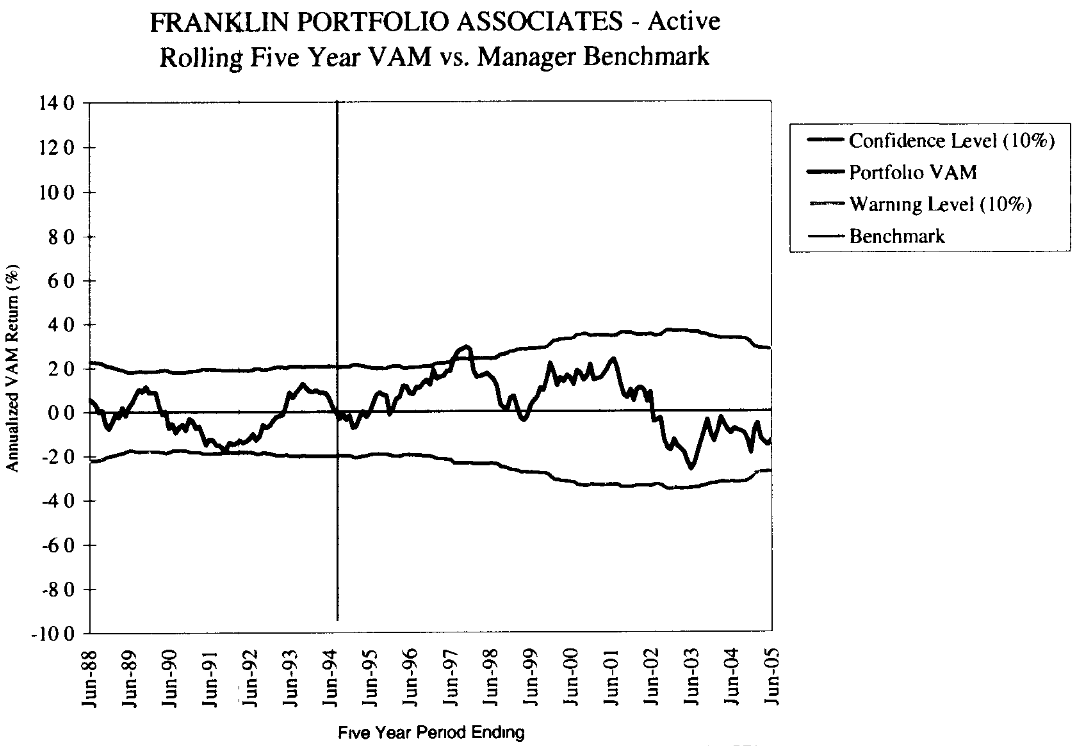
	Actual	Russell 1000 Core	Manager Benchmark
2004	15.7%	11.4%	11.4%
2003	32.9	29.9	36.9
2002	-25.4	-21.7	-19.8
2001	-6.6	-12.5	-5.4
2001	-1.6	-7.8	0.3

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2005

Portfolio Manager: John Cone **Assets Under Management: $743,683,935**



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

NEW AMSTERDAM PARTNERS
Periods Ending June, 2005

Portfolio Manager: Michelle Clayman **Assets Under Management: $449,751,522**

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 outperformed the Russell 1000 index by 0 7 percentage point (ppt) during the quarter Strong stock selection aided returns and was particularly effective within the finance, energy minerals, and producer manufacturing sectors

For the year, the portfolio outperformed the Russell 1000 index by 5 7 ppts Strong stock selection drove returns, particularly within the finance sector An underweight allocation to health technology coupled with strong stock selection proved beneficial An overweight position in consumer durables contributed to performance, strong stock selection enhanced the positive impact.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell Index (1)	Manager Benchmark
Last Quarter	2.8%	2 1%	2.1%
Last 1 year	13.6	7 9	7 9
Last 2 years	18.9	15 4	15.2
Last 3 years	12 2	11 0	9 9
Last 4 years	5 1	5.6	4 6
Last 5 years	5 3	4 6	4 3
Since Inception (4/94)	14 3	12 0	13.5

Calendar Year Returns

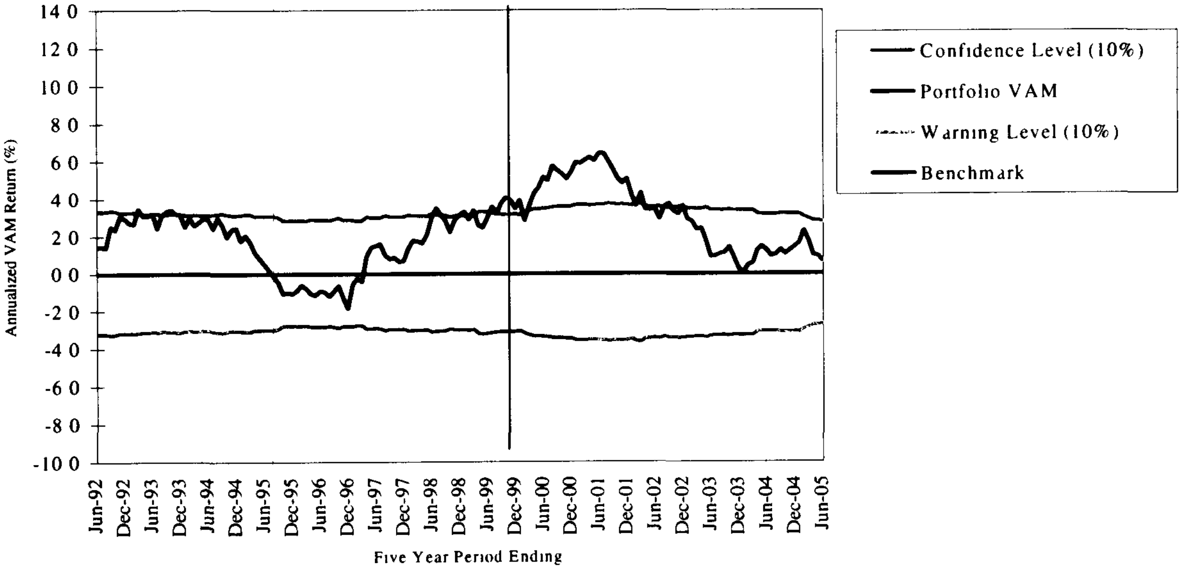
	Actual	Russell Index (1)	Manager Benchmark
2004	14 8%	11.4%	11.4%
2003	34 2	38 0	37 1
2002	-17 5	-16 2	-22 2
2001	-3 3	-5.6	3 7
2000	15 0	8 2	3 1

(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, 2005

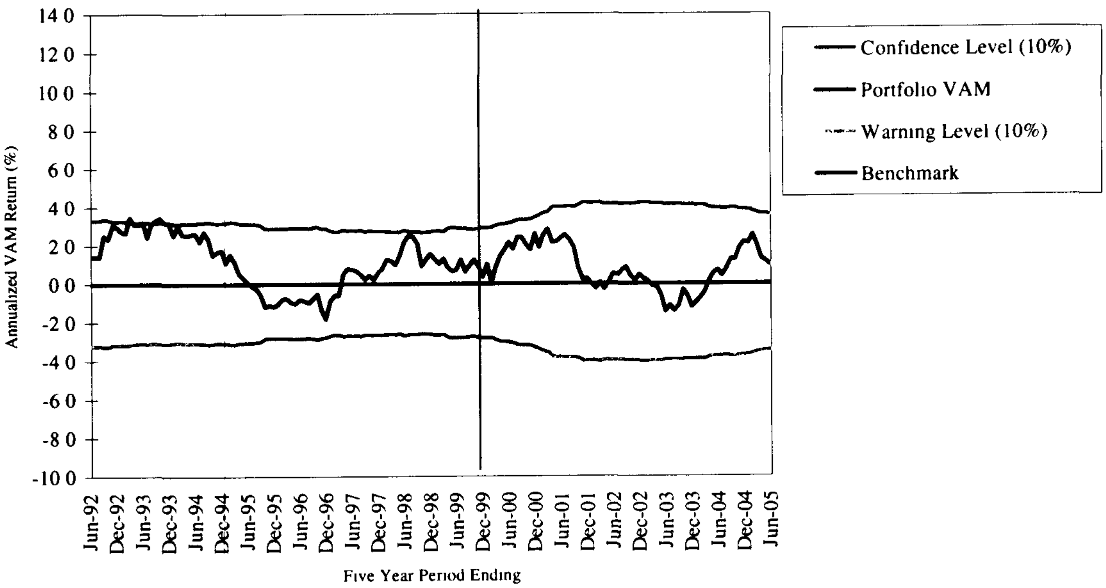
Portfolio Manager: Michelle Clayman **Assets Under Management: $449,751,522**

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



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

NEW AMSTERDAM PARTNERS
Rolling Five Year VAM vs. Manager Benchmark



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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending June, 2005

Portfolio Manager: John Leonard **Assets Under Management: $805,745,667**

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 index for the quarter by 1.5 percentage points (ppts). Strong stock selection contributed to performance, and was particularly notable within the energy minerals and technology services sectors. Sector allocation decisions were effective overall and aided returns.

For the year, the portfolio outperformed the Russell 1000 index by 3.0 ppts. Strong stock selection drove returns, particularly within the electronic technology and health technology sectors. An overweight allocation to health services proved beneficial; strong stock selection enhanced the positive impact.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

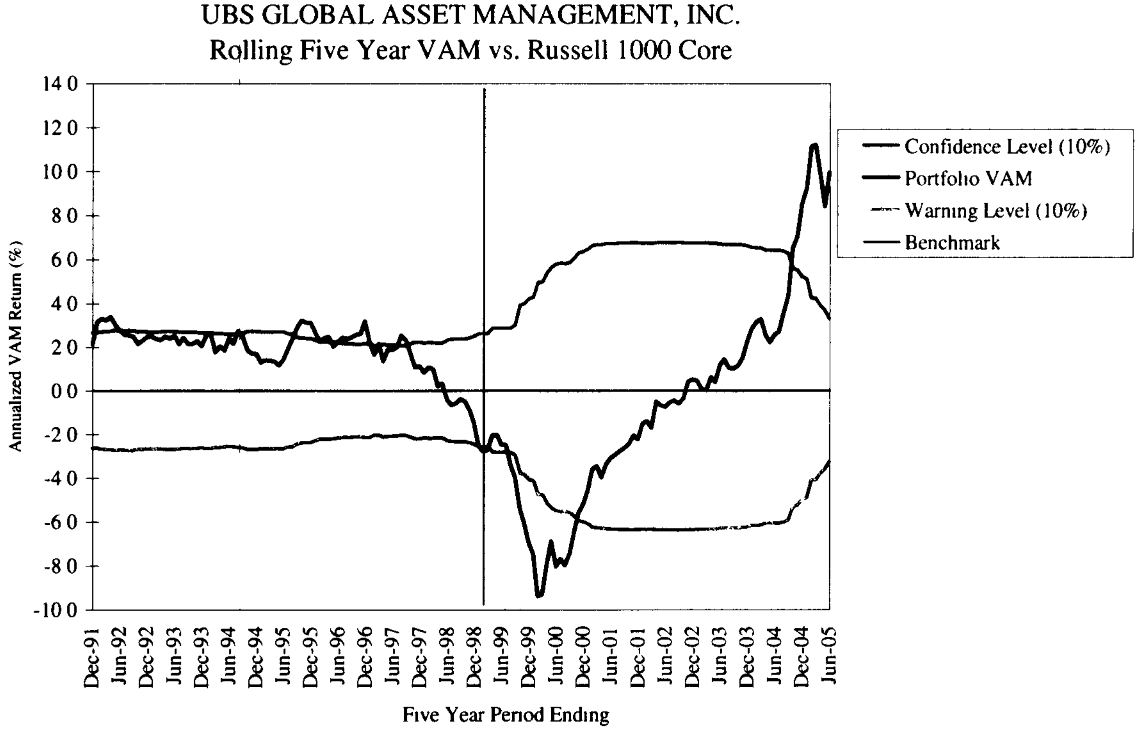
	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	3.6%	2.1%	2.1%
Last 1 year	10.9	7.9	7.9
Last 2 years	15.0	13.6	13.6
Last 3 years	11.3	9.2	9.5
Last 4 years	6.3	1.7	2.7
Last 5 years	7.9	-1.9	-0.6
Since Inception (7/93)	11.1	10.5	10.6

Calendar Year Returns

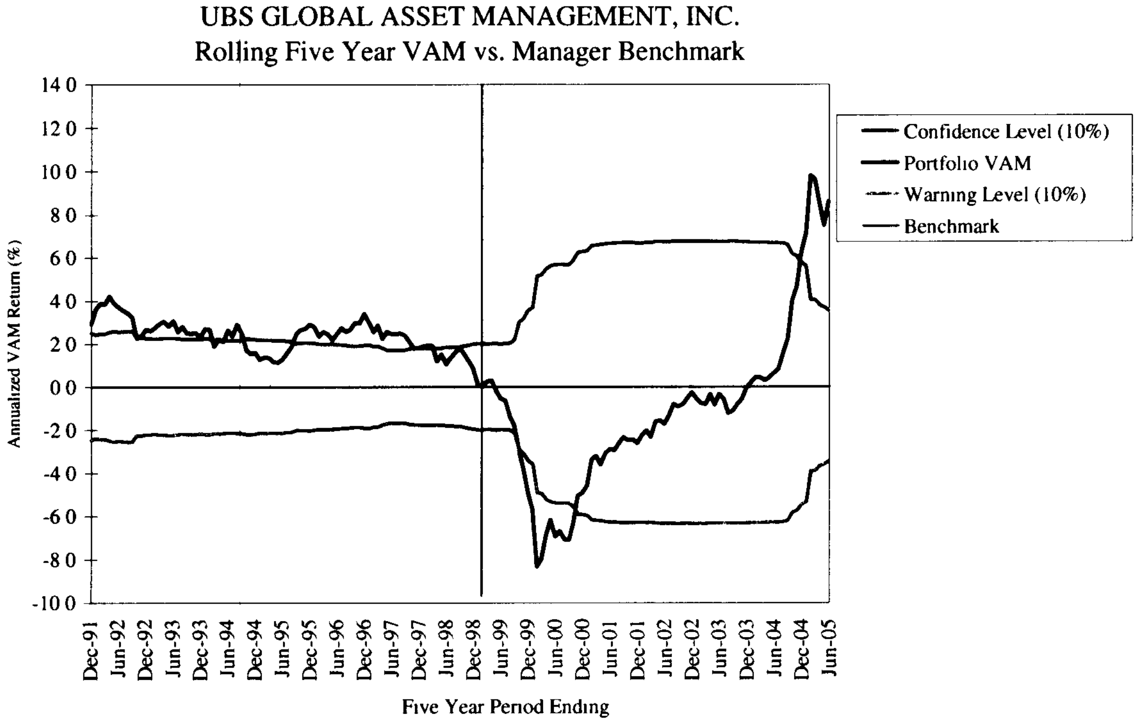
	Actual	Russell 1000 Core	Manager Benchmark
2004	13.4%	11.4%	11.4%
2003	30.7	29.9	30.8
2002	-14.7	-21.7	-20.6
2001	5.2	-12.5	-11.0
2000	3.6	-7.8	-1.0

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending June, 2005

Portfolio Manager: John Leonard **Assets Under Management: $805,745,667**



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, 2005

Portfolio Manager: Charles Henderson | **Assets Under Management: $45,495,459**

Investment Philosophy

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

Staff Comments

The portfolio underperformed the Russell 1000 Index by 1 1 percentage points (ppts) during the quarter. An underweight allocation to finance coupled with weak stock selection detracted from performance An overweight position in producer manufacturing hindered returns; weak stock selection punctuated the negative impact

For the year, the portfolio underperformed the Russell 1000 Index by 6 1 ppts Overweight positions in distribution services and consumer services coupled with weak stock selection proved detrimental Ineffective stock selection within the finance sector detracted from performance

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

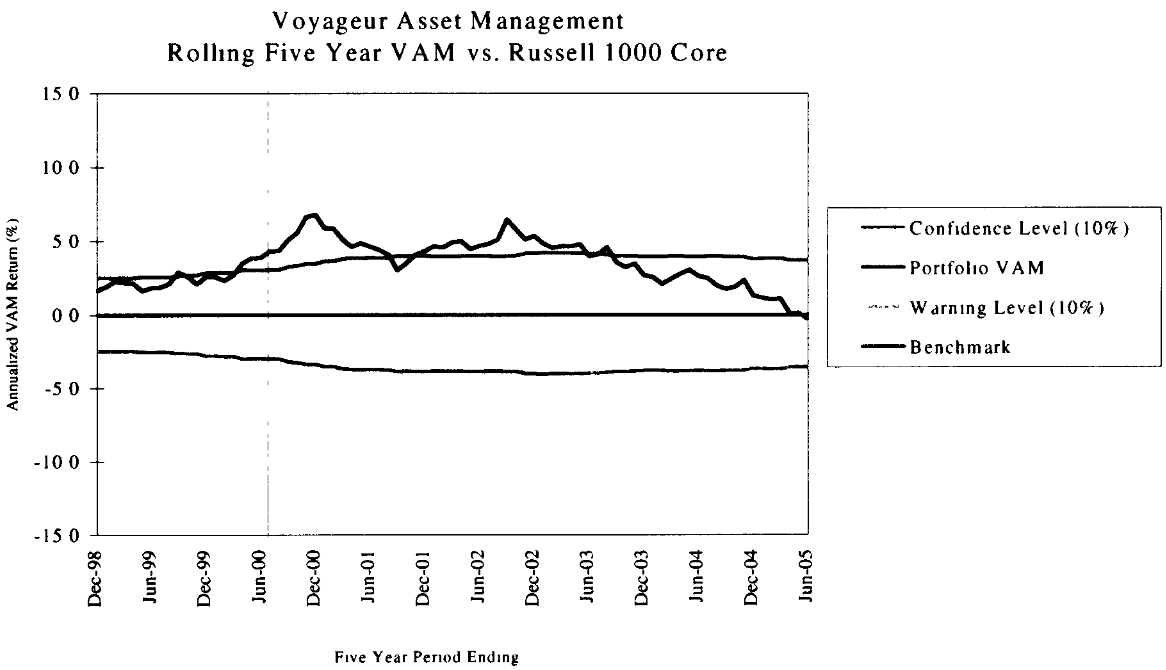
	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	1 0%	2 1%	2.1%
Last 1 year	1.8	7 9	7 9
Last 2 years	9.7	13.6	13 6
Last 3 years	5.5	9.2	8.7
Last 4 years	-0.5	1.7	2.4
Last 5 years	-2 2	-1 9	-1 5
Since Inception (7/00)	-2 2	-1 9	-1 5

Calendar Year Returns

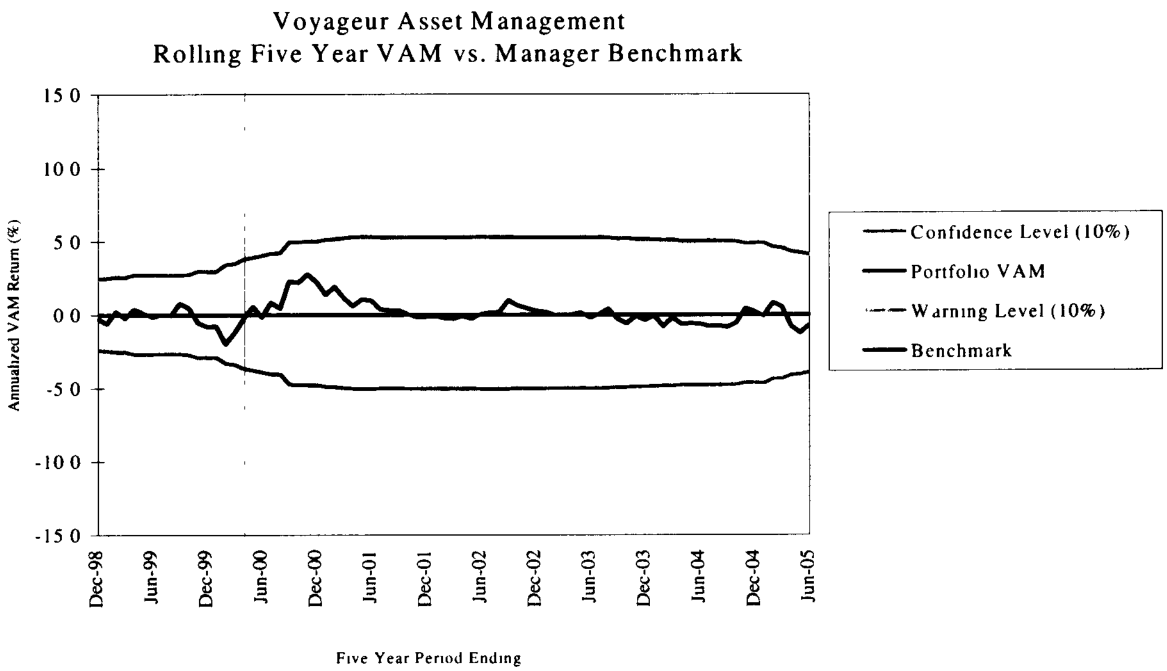
	Actual	Russell 1000 Core	Manager Benchmark
2004	10 6%	11 4%	11.4%
2003	23 2	29 9	28 9
2002	-20 6	-21 7	-20 7
2001	-19 4	-12 5	-12.0
2000	N/A	N/A	N/A

VOYAGEUR ASSET MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Charles Henderson **Assets Under Management: $45,495,459**



Note Shaded area includes performance prior to retention by the SBI



Note Shaded area includes performance prior to retention by the SBI

Large Cap Growth (R1000 Growth)

Large Cap Growth (R1000 Growth)

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ALLIANCE CAPITAL MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Jack Koltes **Assets Under Management: $460,376,532**

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 outperformed the Russell 1000 Growth Index by 3 1 percentage points (ppt) during the quarter. Overall strong stock selection contributed to performance and was particularly notable within the technology services and health technology sectors An overweight position in consumer durables coupled with strong stock selection aided returns

For the year, the portfolio outperformed the Russell 1000 Growth Index by 2 3 ppt Strong stock selection drove returns higher in this period, particularly within the technology services, health technology and retail trade sectors An overweight allocation to electronic technology coupled with strong stock selection proved beneficial.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

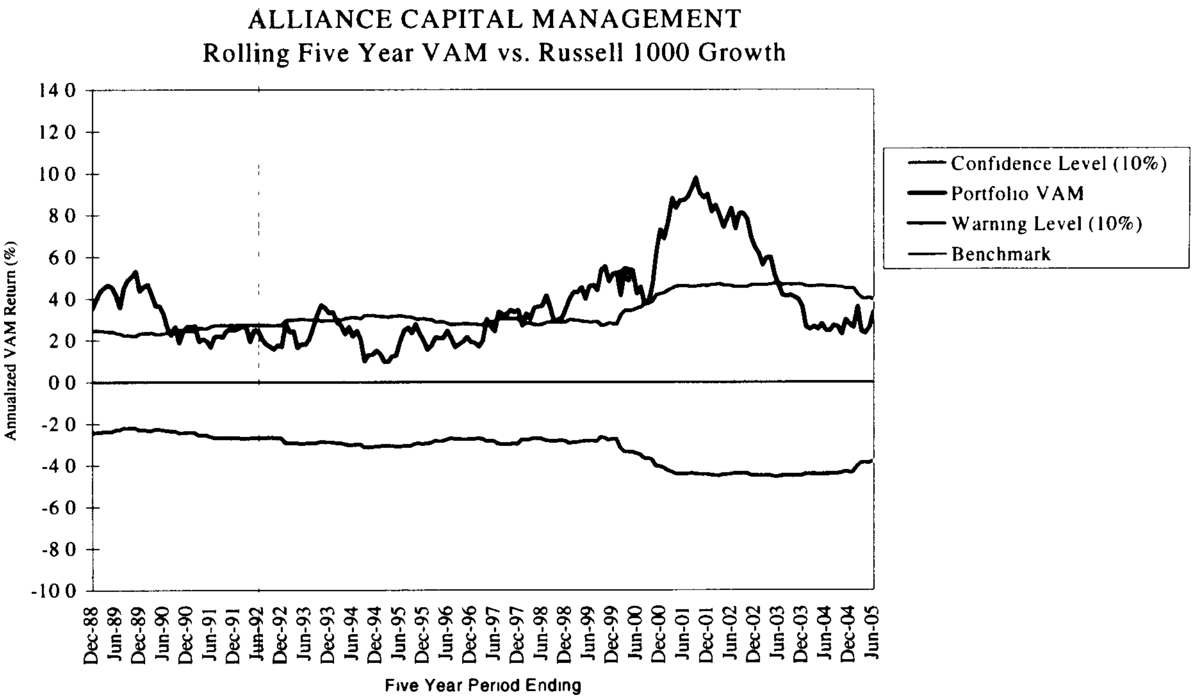
	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	5 6%	2 5%	2 5%
Last 1 year	4 0	1 7	1 7
Last 2 years	7.9	9 5	9.2
Last 3 years	4 9	7.3	6 7
Last 4 years	-2 5	-2 4	-1.4
Last 5 years	-7 3	-10.4	-5 9
Since Inception (1/84)	14.6	10 9	10 9

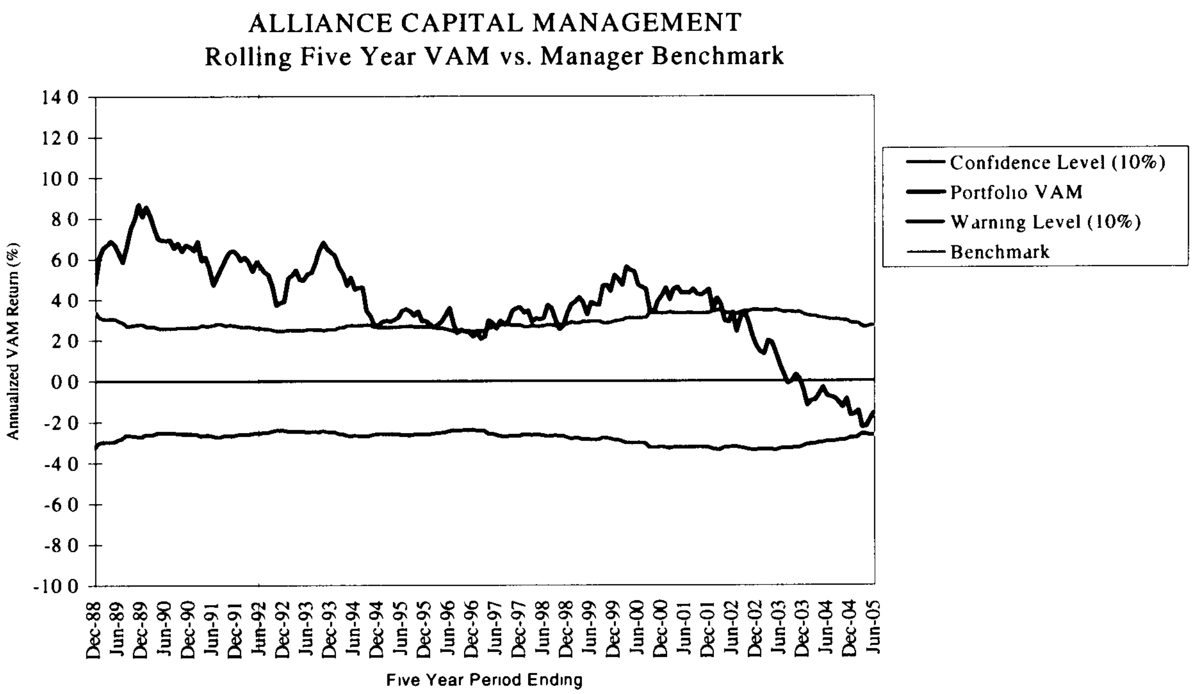
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2004	5 7%	6 3%	6 3%
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

ALLIANCE CAPITAL MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Jack Koltes **Assets Under Management: $460,376,532**





COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending June, 2005

Portfolio Manager: George Cohen **Assets Under Management: $414,361,185**

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 matched the Russell 1000 Growth index during the quarter Strong stock selection, particularly within the retail trade, health technology and consumer non-durables sectors, proved beneficial An overweight position in technology services coupled with weak stock selection detracted from performance

For the year, the portfolio outperformed the Russell 1000 Growth index by 2 1 percentage points. The portfolio benefited from strong overall stock selection Despite overweight allocations to the underperforming process industries and finance sectors, strong stock selection contributed to performance An underweight position in retail trade represented a missed opportunity, however, strong stock selection drove returns higher

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	2 5%	2 5%	2.5%
Last 1 year	3 8	1 7	1 7
Last 2 years	9 3	9 5	10 0
Last 3 years	9.2	7 3	10 1
Last 4 years	-5 9	-2.4	1.4
Last 5 years	-7.7	-10.4	-3.1
Since Inception (4/94)	9 4	9 0	10.9

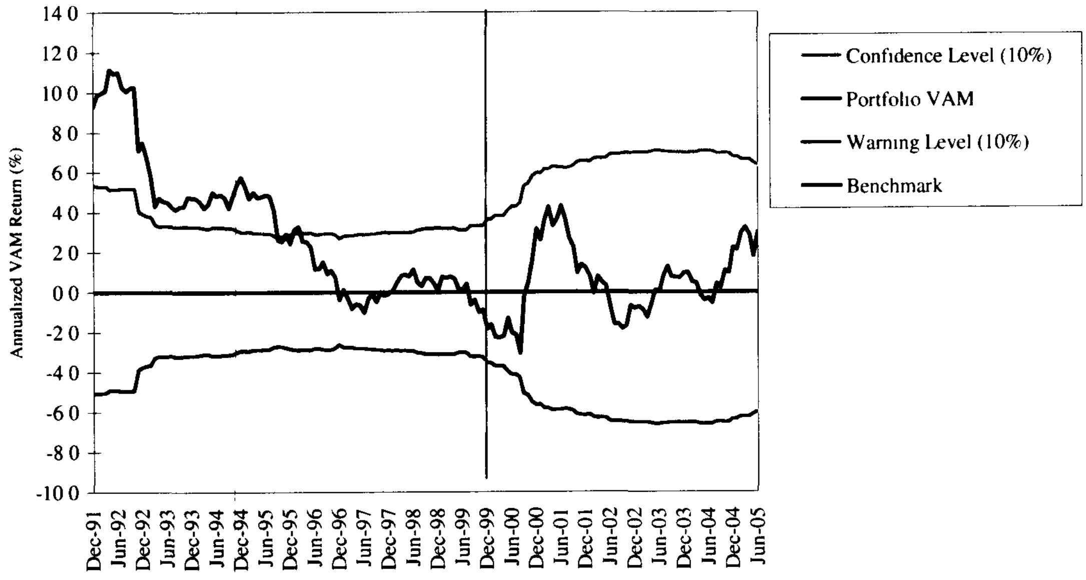
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2004	6.1%	6.3%	6.3%
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

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending June, 2005

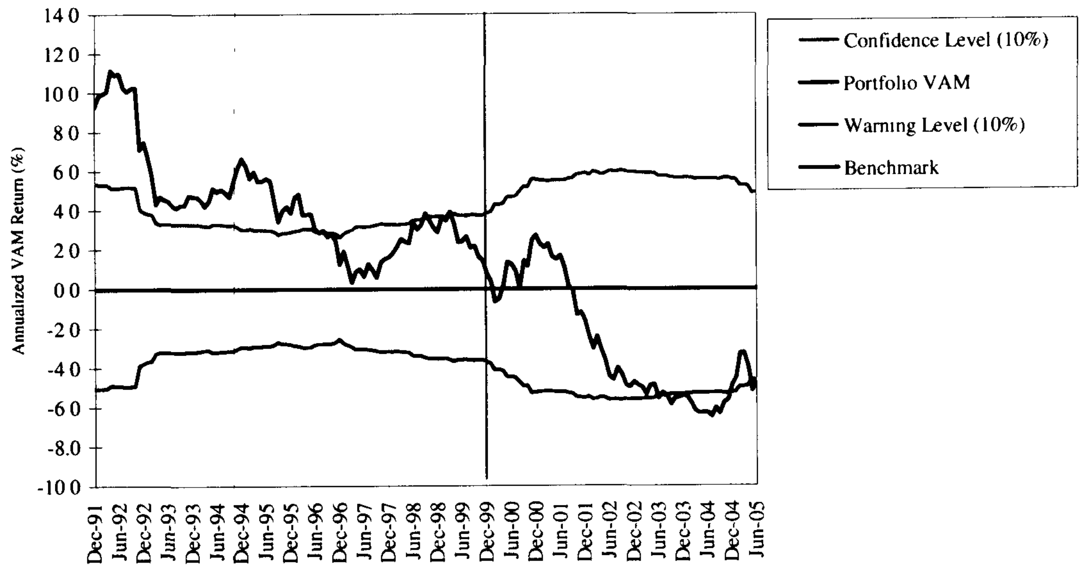
Portfolio Manager: George Cohen | **Assets Under Management: $414,361,185**

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, 2005

Portfolio Manager: Kristin Yates **Assets Under Management: $79,082,747**

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 2.3 percentage points (ppt) during the quarter. Strong stock selection within the retail trade sector contributed to performance. Despite an overweight position in the underperforming technology services sector, strong stock selection aided returns.

For the year, the portfolio outperformed the Russell 1000 Growth index by 3.7 ppts. An overweight allocation to retail trade coupled with strong stock selection proved beneficial. Strong stock selection within finance and technology services more than offset the negative impact of overweight positions in these underperforming sectors.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

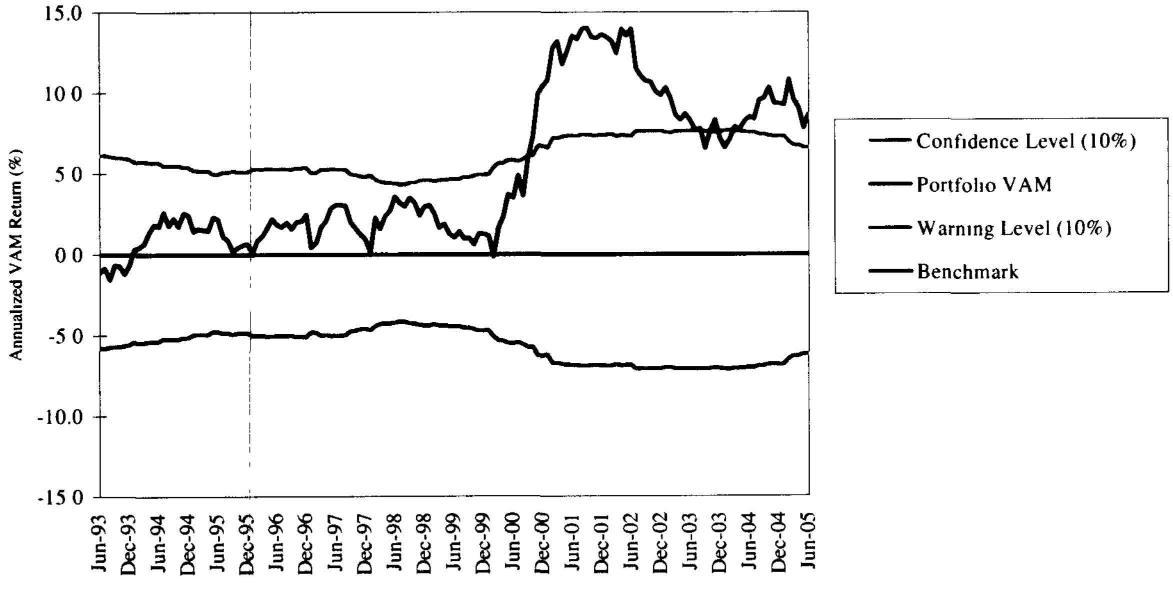
	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	4.8%	2.5%	2.5%
Last 1 year	5.4	1.7	1.7
Last 2 years	9.7	9.5	10.3
Last 3 years	4.3	7.3	6.0
Last 4 years	-1.1	-2.4	2.7
Last 5 years	-2.6	-10.4	2.6
Since Inception (7/00)	-2.6	-10.4	2.6

Calendar Year Returns

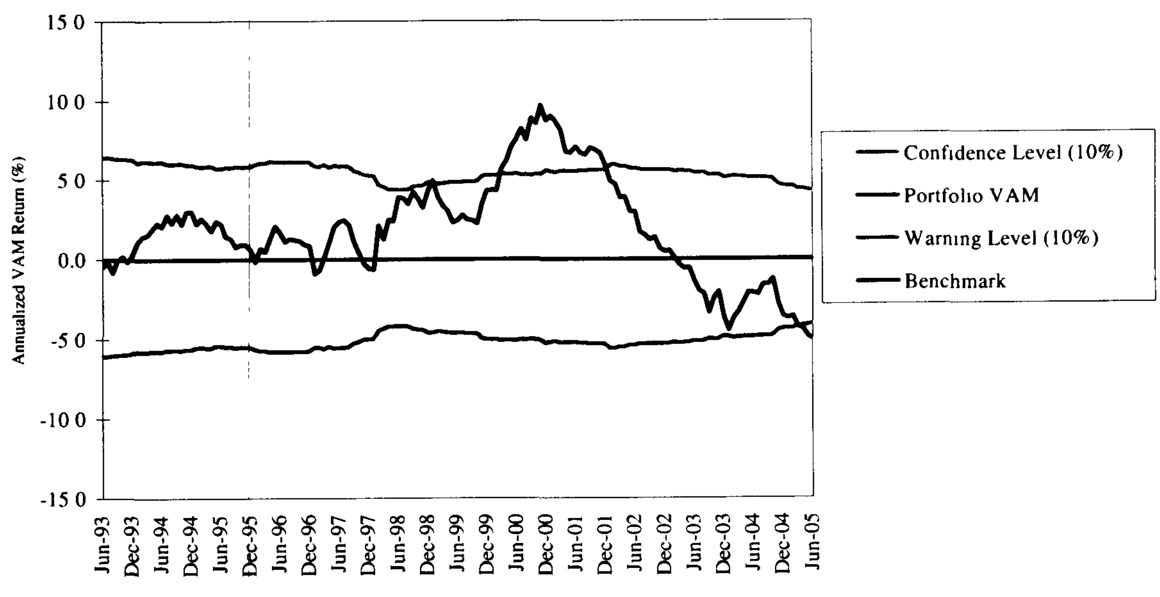
	Actual	Russell 1000 Growth	Manager Benchmark
2004	7.3%	6.3%	6.3%
2003	22.1	29.7	31.3
2002	-28.0	-27.9	-19.0
2001	-1.7	-20.4	4.6
2000	N/A	N/A	N/A

HOLT-SMITH & YATES ADVISORS
Periods Ending June, 2005

Portfolio Manager: Kristin Yates | **Assets Under Management: $79,082,747**



Note Shaded area includes performance prior to retention by the SBI



Note Shaded area includes performance prior to the retention by the SBI

INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)
Periods Ending June, 2005

Portfolio Manager: Robert Fernholz | **Assets Under Management: $ 279,449,509**

Investment Philosophy

Through the application of a proprietary mathematical process, the investment strategy is designed to determine more efficient weightings of the securities within the Russell 1000 Growth benchmark. No specific sector or security selection decisions based on fundamentals are required Risk parameters include 1) minimize absolute standard deviation or maximize information ratio, 2) security positions limited to lesser of 2 5% or 10 times maximum index security weight, and 3) beta equal to or less than benchmark beta. Target security positions are established using an optimization routine designed to build a portfolio that will outperform a passive benchmark over the long term Rebalancing to target proportions occurs every six (6) business days, and partial re-optimization occurs weekly

Staff Comments

The portfolio underperformed the Russell 1000 Growth index by 0 4 percentage point during the quarter. The use of volatility and correlation characteristics detracted from gross performance during the quarter, resulting in 0.85% of underperformance The strategy tends to overweight smaller capitalization stocks relative to the benchmark, this size effect contributed approximately 0.84% to gross performance during the quarter

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	2.1%	2 5%	2 5%
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 (1/05)	0.2	-1 7	-1.7

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2004	N/A	N/A	N/A
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

INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)
Periods Ending June, 2005

Portfolio Manager: Robert Fernholz **Assets Under Management: $279,449,509**

VAM Graphs will be drawn for period ending 3/31/07.

JACOBS LEVY EQUITY MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Bruce Jacobs and Ken Levy **Assets Under Management: $116,084,966**

Investment Philosophy

The strategy combines human insight and intuition, finance and behavioral theory, and state-of-the-art quantitative and statistical methods Security expected returns generated from numerous models become inputs for the firm's proprietary portfolio optimizer The optimizer is run daily with the objective of maximizing the information ratio, while ensuring proper diversification across market inefficiencies, securities, industries, and sectors. Extensive data scrubbing is conducted on a daily basis using both human and technology resources. Liquidity, trading costs, and investor guidelines are incorporated within the optimizing process.

Staff Comments

The portfolio outperformed the Russell 1000 Growth index by 0 4 percentage point during the quarter Strong overall stock selection proved beneficial. An overweight allocation to consumer durables coupled with strong stock selection aided returns. An underweight position in retail trade represented a missed opportunity, however, strong stock selection within the sector contributed to performance

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	2.9%	2 5%	2 5%
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 (1/05)	-1.6	-1.7	-1.7

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2004	N/A	N/A	N/A
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

JACOBS LEVY EQUITY MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Bruce Jacobs and Ken Levy **Assets Under Management: $116,084,966**

VAM Graphs will be drawn for period ending 3/31/07

LAZARD ASSET MANAGEMENT LLC
Periods Ending June, 2005

Portfolio Manager: Jim Tatera **Assets Under Management: $25,315,272**

Investment Philosophy

The strategy invests in companies exhibiting substantial growth opportunities, strong business models, solid management teams, and the probability for positive earnings surprises The approach emphasizes earnings growth as the fundamental driver of stock prices over time The process combines quantitative, qualitative and valuation criteria. The quantitative component addresses fundamentals and is focused on operating trends Qualitative analysis involves confirmation of company fundamentals through discussions with company contacts and related parties Valuation models focus on relative rankings of the fundamentals within the industry, the market overall and the company itself

Staff Comments

The portfolio underperformed the Russell 1000 Growth index by 0 9 percentage point during the quarter An overweight allocation to the consumer services sector coupled with weak stock selection proved detrimental Ineffective stock selection within the technology services and finance sectors detracted from performance.

During the quarter, Diane Gotham joined the portfolio management team

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	1 6%	2 5%	2.5%
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 (1/05)	-2 7	-1 7	-1 7

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2004	N/A	N/A	N/A
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

LAZARD ASSET MANAGEMENT LLC
Periods Ending June, 2005

Portfolio Manager: Jim Tatera **Assets Under Management: $25,315,272**

VAM Graphs will be drawn for period ending 3/31/07

SANDS CAPITAL MANAGEMENT, INC.
Periods Ending June, 2005

Portfolio Manager: Frank Sands, Sr. **Assets Under Management: $194,807,398**

Investment Philosophy

The manager invests in high-quality, seasoned and growing businesses Bottom-up, company-focused, long-term oriented research is the cornerstone of the investment process The strategy focuses on six (6) key investment criteria 1) sustainable above average earnings growth, 2) leadership position in a promising business space; 3) significant competitive advantages or unique business franchise; 4) management with a clear mission and value added focus; 5) financial strength, and 6) rational valuation relative to the overall market and the company's business prospects

Staff Comments

The portfolio outperformed the Russell 1000 Growth index by 5.5 percentage points during the quarter. Strong stock selection drove returns higher. An underweight allocation to technology services proved beneficial; strong stock selection enhanced the positive impact An overweight position in health technology coupled with effective stock selection contributed to performance

Staff conducted a site visit during the quarter Philosophy and process were reviewed Holdings were discussed in detail with members of the portfolio management team. The firm continues to increase staffing and is looking for a new location to better accommodate growth

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	8 0%	2 5%	2.5%
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 (1/05)	-2 1	-1.7	-1.7

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2004	N/A	N/A	N/A
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

SANDS CAPITAL MANAGEMENT, INC.
Periods Ending June, 2005

Portfolio Manager: Frank Sands, Sr. **Assets Under Management: $194,807,398**

VAM Graphs will be drawn for period ending 3/31/07

WINSLOW CAPITAL MANAGEMENT, INC.
Periods Ending June, 2005

Portfolio Manager: Clark Winslow **Assets Under Management: $26,008,526**

Investment Philosophy

The strategy identifies companies that can grow earnings above consensus expectations to build portfolios with forward weighted earnings growth in the range of 15-20% annually A quantitative screen is employed for factors such as revenue and earnings growth, return on invested capital, earnings consistency, earnings revisions, low financial leverage and high free cash flow rates relative to net income Resulting companies are subjected to a qualitative assessment within the context of industry sectors Detailed examination of income statements, cash flow and balance sheet projections is conducted, along with a judgment on the quality of management Attractively valued stocks are chosen based on P/E relative to the benchmark, sector peers, the company's sustainable future growth rate and return on invested capital Final portfolio construction includes diversification by economic sectors, earnings growth rates, price/earnings ratios and market capitalizations

Staff Comments

The portfolio outperformed the Russell 1000 Growth index by 2 8 percentage points during the quarter. Strong overall stock selection proved beneficial, and was particularly effective within the technology services and health technology sectors Overweight allocations to health services and retail trade coupled with strong stock selection contributed to performance.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	5 3%	2 5%	2 5%
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 (1/05)	0 1	-1 7	-1.7

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2004	N/A	N/A	N/A
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

WINSLOW CAPITAL MANAGEMENT, INC.
Periods Ending June, 2005

Portfolio Manager: Clark Winslow **Assets Under Management: $26,008,526**

VAM Graphs will be drawn for period ending 3/31/07

ZEVENBERGEN CAPITAL INC.
Periods Ending June, 2005

Portfolio Manager: Nancy Zevenbergen | **Assets Under Management: $202,676,946**

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 1 2 percentage points (ppt) during the quarter. Strong stock selection within technology services outweighed the negative impact of an overweight sector position Underweight allocations to retail trade and health technology proved beneficial; strong stock selection within the sectors contributed to performance

For the year, the portfolio outperformed the Russell 1000 Growth index by 0 2 ppt Strong stock selection within the technology services and finance sectors offset the negative effect of overweight allocations. An underweight position in consumer non-durables aided returns; strong stock selection enhanced the positive impact

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	3 7%	2.5%	2.5%
Last 1 year	1 9	1.7	1.7
Last 2 years	13.6	9 5	10 0
Last 3 years	12.2	7 3	7.8
Last 4 years	-2.5	-2 4	-0 3
Last 5 years	-12.4	-10 4	-5.4
Since Inception (4/94)	9.8	9 0	12.3

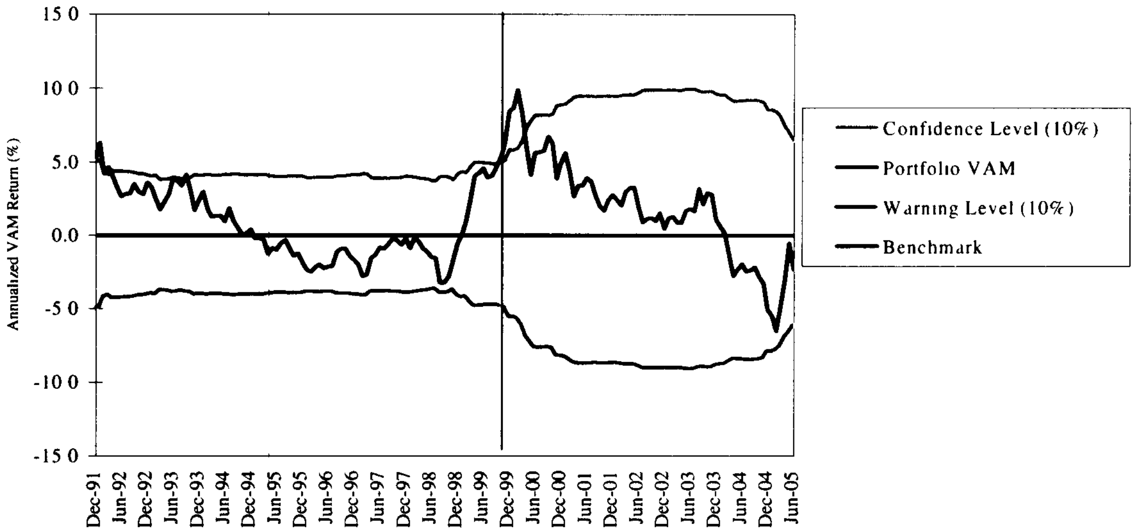
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2004	13 1%	6 3%	6 3%
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

ZEVENBERGEN CAPITAL INC.
Periods Ending June, 2005

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $202,676,946**

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, 2005

Portfolio Manager: Tim Culler **Assets Under Management: $302,374,321**

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

The portfolio outperformed the Russell 1000 Value index by 2 5 percentage points (ppt) during the quarter An underweight allocation to consumer services coupled with strong stock selection proved beneficial An overweight position in energy minerals aided returns, strong stock selection enhanced the positive impact

For the year, the portfolio outperformed the Russell 1000 Value index by 5 3 ppt An overweight allocation to health services aided returns. An overweight position in energy minerals coupled with strong stock selection contributed to performance. An underweight allocation to finance coupled with effective stock selection positively impacted returns

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	4 2%	1.7%	1.7%
Last 1 year	19 4	14 1	14 1
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)	17 7	11 9	11.9

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2004*	N/A	N/A	N/A
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

* Note Manager was funded 4/04 Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
Periods Ending June, 2005

Portfolio Manager: Tim Culler **Assets Under Management: $302,374,321**

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

EARNEST PARTNERS, LLC
Periods Ending June, 2005

Portfolio Manager: Paul Viera **Assets Under Management: $65,094,409**

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 3 0 percentage points (ppt) during the quarter Overweight allocations to electronic technology and consumer durables, coupled with strong stock selection, contributed to performance. Strong stock selection within energy minerals and consumer services overcame the negative impact of overweight positions in these underperforming sectors

For the year, the portfolio outperformed the Russell 1000 Value index by 6 7 ppt An overweight allocation to energy minerals coupled with effective stock selection contributed to performance. Strong stock selection within consumer services and consumer durables proved beneficial

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

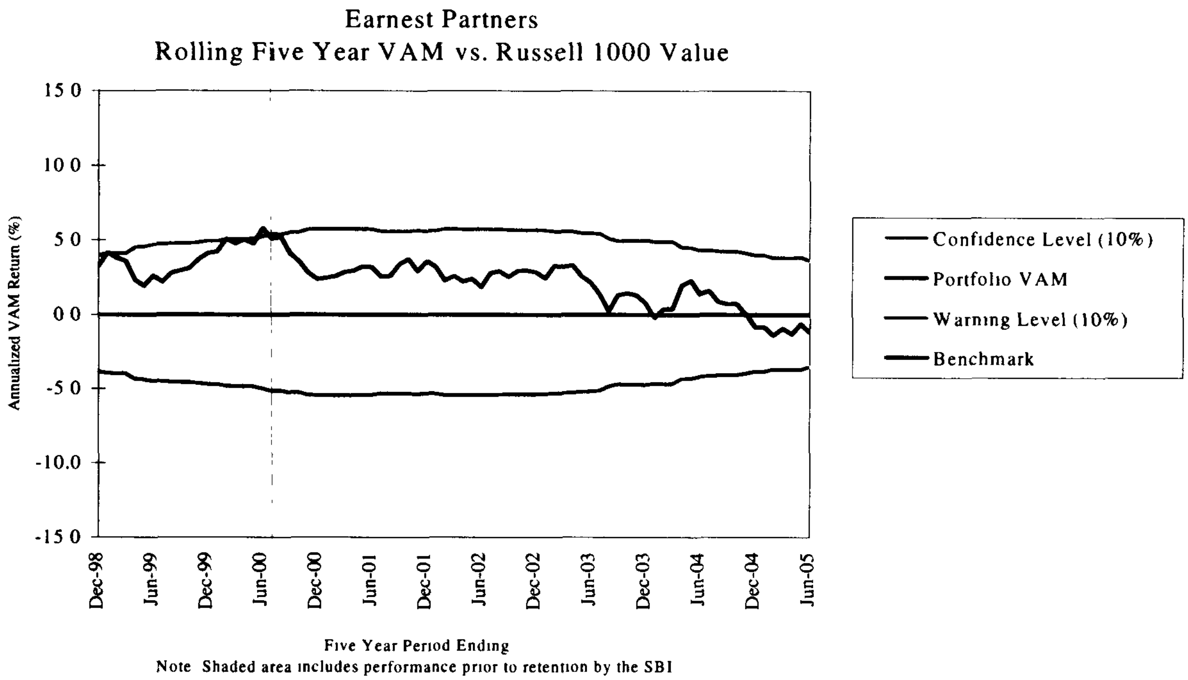
	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	4 7%	1 7%	1.7%
Last 1 year	20 8	14 1	14 1
Last 2 years	22 4	17 5	19.4
Last 3 years	15 3	11 0	14 9
Last 4 years	7.2	5.6	11.3
Last 5 years	5 3	6 6	13 5
Since Inception (7/00)	5 3	6.6	13.5

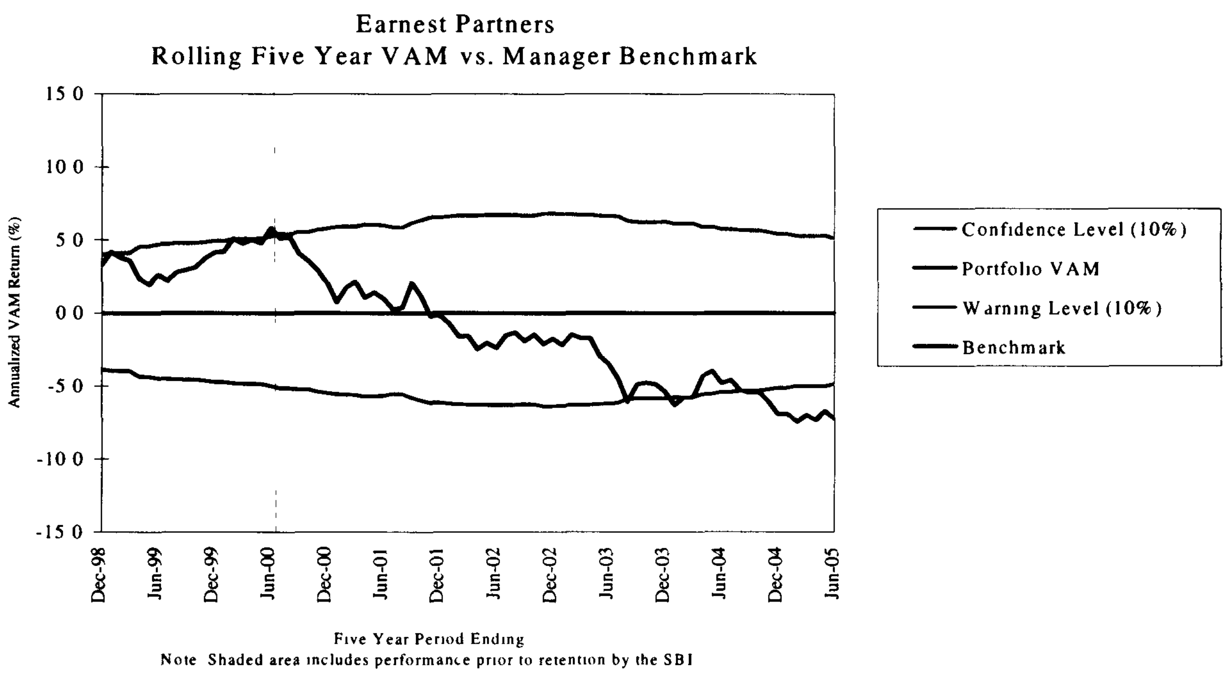
Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2004	18 9%	16.5%	16 5%
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

EARNEST PARTNERS, LLC
Periods Ending June, 2005

Portfolio Manager: Paul Viera **Assets Under Management: $65,094,409**





LORD ABBETT & CO. LLC
Periods Ending June, 2005

Portfolio Manager: Eli Saltzmann **Assets Under Management: $265,519,881**

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

The portfolio underperformed the Russell 1000 Value index by 2 0 percentage points (ppt) during the quarter Underweight allocations to finance and utilities coupled with weak stock selection detracted from performance An overweight position in process industries hindered returns, weak stock selection exacerbated the negative impact

For the year, the portfolio underperformed the Russell 1000 Value index by 8 2 ppt. Both overall sector allocation decisions and stock selection detracted from performance. Underweight positions in energy minerals and utilities represented missed opportunities, weak stock selection enhanced the negative affect.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	-0.3%	1 7%	1.7%
Last 1 year	5 9	14.1	14 1
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)	6 1	11 9	11 9

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2004*	N/A	N/A	N/A
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

* Note Manager was funded 4/04 Includes full-year returns only Performance of managers hired during a calendar year are reported beginning with the following calendar year

LORD ABBETT & CO. LLC
Periods Ending June, 2005

Portfolio Manager: Eli Saltzmann **Assets Under Management: $265,519,881**

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

LSV ASSET MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Josef Lakonishok | **Assets Under Management: $357,447,711**

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

The portfolio outperformed the Russell 1000 Value index by 2 6 percentage points (ppt) during the quarter Strong stock selection within energy minerals contributed to performance despite an overweight allocation to the underperforming sector. An overweight position in finance coupled with strong stock selection proved beneficial Underweight positions in consumer services and consumer non-durables coupled with effective stock selection aided returns

For the year, the portfolio outperformed the Russell 1000 Value index by 4 8 ppt Both overall sector allocation decisions and stock selection contributed to performance Overweight positions in the energy minerals, utilities, and finance sectors coupled with strong stock selection positively impacted returns.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	4.3%	1 7%	1.7%
Last 1 year	18.9	14 1	14 1
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)	16 7	11 9	11.9

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2004*	N/A	N/A	N/A
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

* Note Manager was funded 4/04 Includes full-year returns only Performance of managers hired during a calendar year are reported beginning with the following calendar year

LSV ASSET MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Josef Lakonishok **Assets Under Management: $357,447,711**

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

OPPENHEIMER CAPITAL
Periods Ending June, 2005

Portfolio Manager: John Lindenthal | **Assets Under Management: $759,664,551**

Investment Philosophy

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

Staff Comments

The portfolio underperformed the Russell 1000 Value index by 0 7 percentage point (ppt) during the quarter. Despite an overweight allocation to consumer durables, weak stock selection within the sector detracted from performance An overweight position in non-energy minerals coupled with ineffective stock selection hindered returns

For the year, the portfolio underperformed the Russell 1000 Value index by 7 3 ppts Both overall sector allocation decisions and stock selection detracted from performance An underweight position in energy minerals coupled with weak stock selection hindered returns Stock selection was particularly ineffective within the finance and producer manufacturing sectors

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

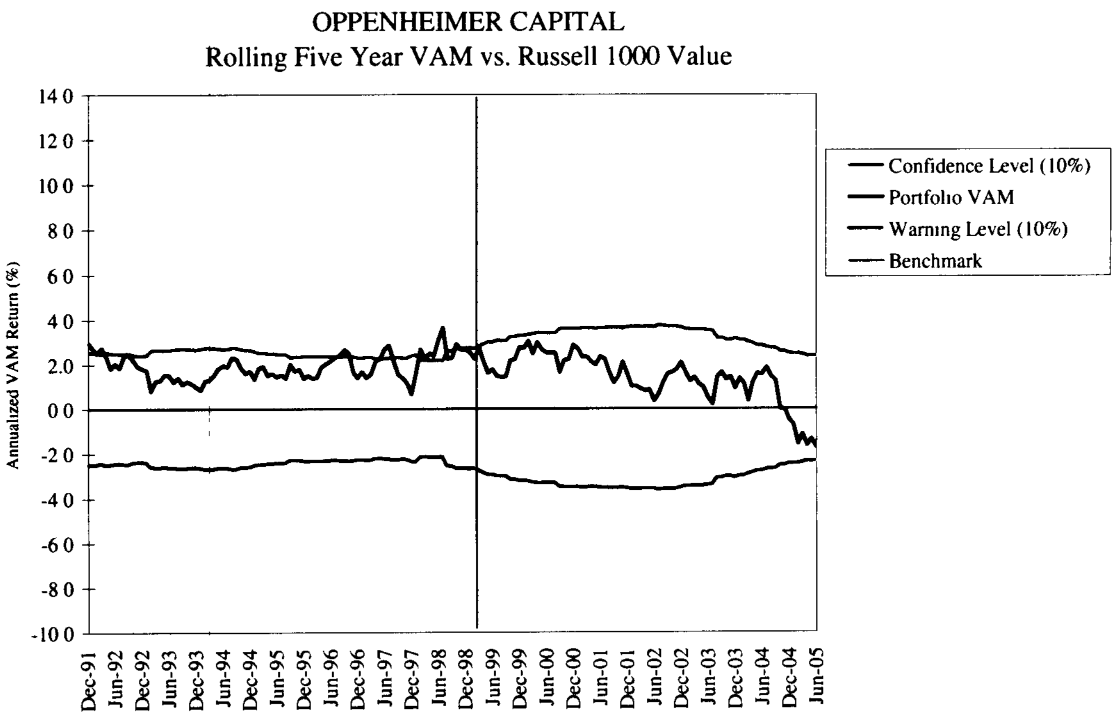
	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	1.0%	1 7%	1 7%
Last 1 year	6 8	14.1	14.1
Last 2 years	13 7	17 5	17 4
Last 3 years	9.7	11 0	10.8
Last 4 years	2 9	5 6	3 4
Last 5 years	4.7	6 6	3 6
Since Inception (7/93)	12 8	11.8	12 4

Calendar Year Returns

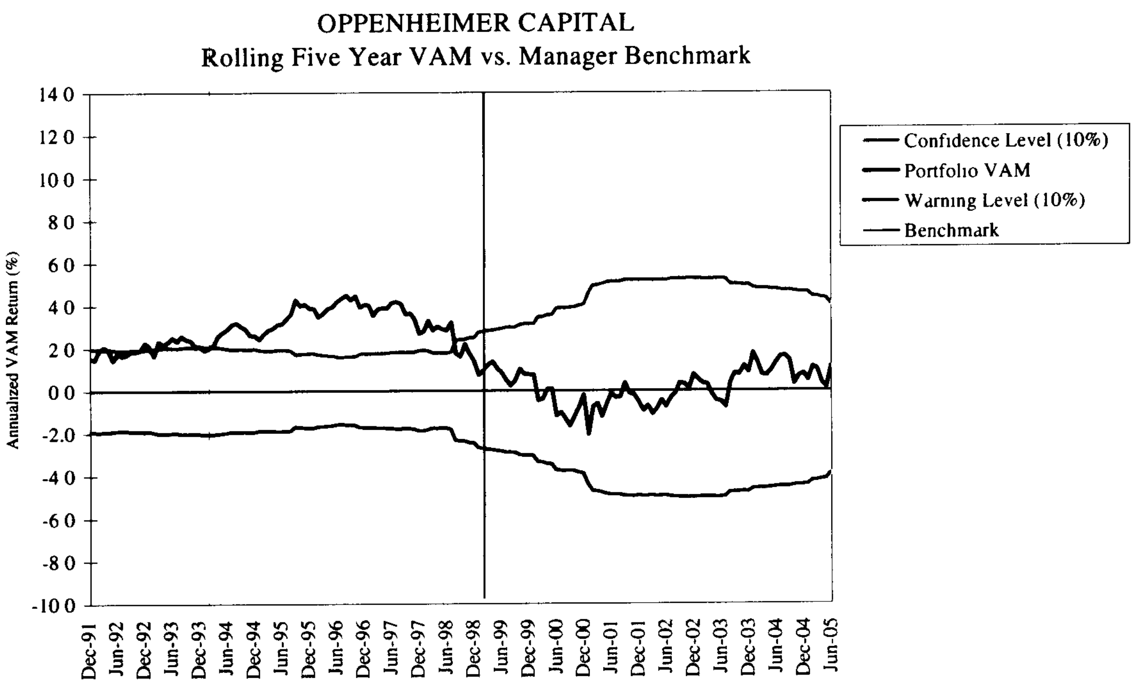
	Actual	Russell 1000 Value	Manager Benchmark
2004	12 0%	16.5%	16 5%
2003	28 9	30.0	31 4
2002	-15.5	-15 5	-20 7
2001	-7 0	-5.6	-9.5
2000	11.2	7 0	10 3

OPPENHEIMER CAPITAL
Periods Ending June, 2005

Portfolio Manager: John Lindenthal **Assets Under Management: $759,664,551**



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

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending June, 2005

Portfolio Manager: Kevin McCreesh | **Assets Under Management: $170,512,807**

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

The portfolio outperformed the Russell 1000 Value index by 0.2 percentage point (ppt) during the quarter. An underweight allocation to retail trade represented a missed opportunity, however, strong stock selection within the sector contributed to performance. The portfolio benefited from an underweight position in process industries coupled with strong stock selection.

For the year, the portfolio matched the Russell 1000 Value index return. An overweight position in electronic technology coupled with weak stock selection detracted from performance. Strong stock selection within consumer durables and retail trade contributed to returns.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	1.9%	1.7%	1.7%
Last 1 year	14.1	14.1	14.1
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)	12.2	11.9	11.9

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2004*	N/A	N/A	N/A
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

* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending June, 2005

Portfolio Manager: Kevin McCreesh **Assets Under Management: $170,512,807**

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, 2005

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $179,941,015**

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.

Staff Comments

The portfolio underperformed the Russell 2000 Growth index by 0 3 percentage point (ppt) during the quarter An underweight allocation to the finance sector represented a missed opportunity, weak stock selection enhanced the negative impact An overweight position in transportation coupled with weak stock selection detracted from performance.

For the year, the portfolio underperformed the Russell 2000 Growth index by 2 5 ppts Weak stock selection within the consumer durables sector hindered returns. Underweight positions in finance and energy minerals coupled with weak stock selection negatively impacted performance

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	3 2%	3 5%	3 5%
Last 1 year	1 8	4 3	4.3
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)	3 8	6.7	6.7

Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
2004	12 2%	14 3%	14.3%
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

MCKINLEY CAPITAL MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $179,941,015**

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

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending June, 2005

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $35,927,333**

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

The portfolio outperformed the Russell 2000 Growth index by 6.9 percentage points (ppt) during the quarter. Strong stock selection within the health technology sector significantly impacted returns. An overweight allocation to health services coupled with strong stock selection contributed to performance.

For the year, the portfolio outperformed the Russell 2000 Growth index by 9.1 ppt. Both overall sector allocation decisions and stock selection positively impacted returns. Stock selection was particularly effective within the electronic technology, producer manufacturing, and health technology sectors.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

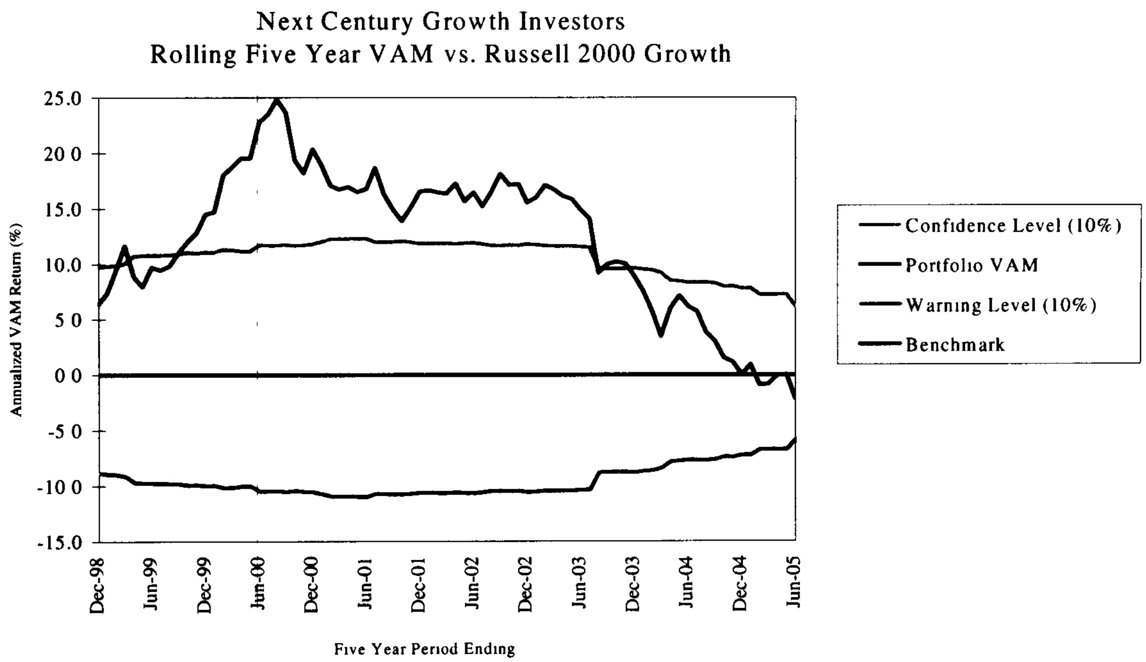
	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	10.4%	3.5%	3.5%
Last 1 year	13.4	4.3	4.3
Last 2 years	20.9	17.1	16.7
Last 3 years	13.5	11.4	13.2
Last 4 years	0.0	0.9	3.0
Last 5 years	-6.6	-4.5	-2.1
Since Inception (7/00)	-6.6	-4.5	-2.1

Calendar Year Returns

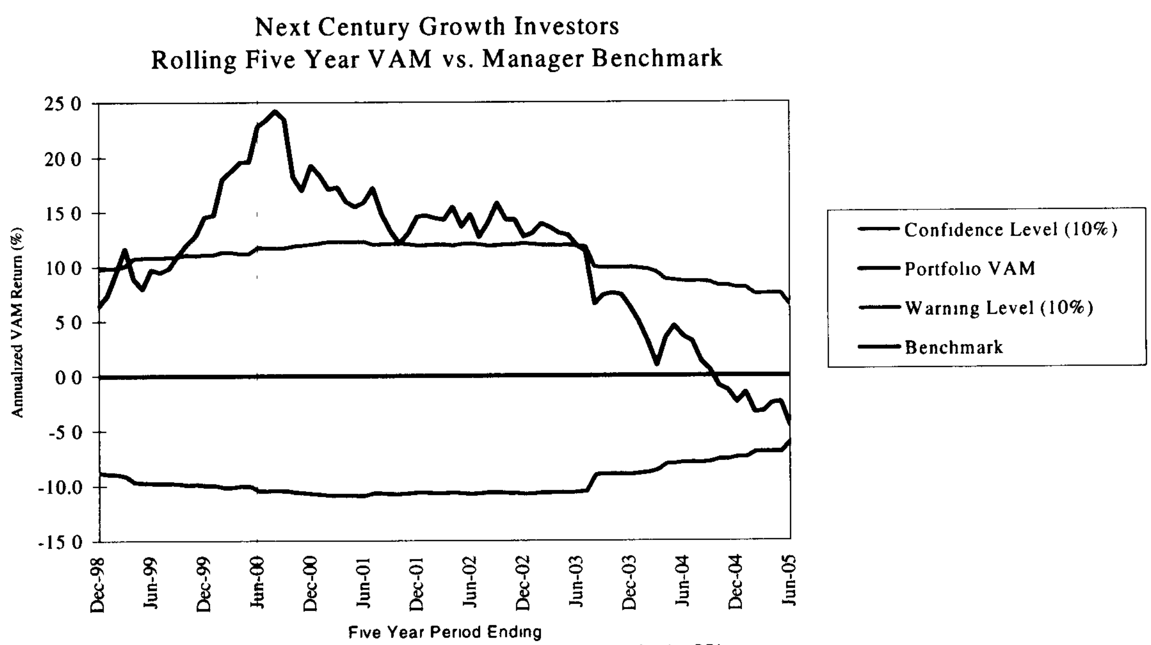
	Actual	Russell 2000 Growth	Manager Benchmark
2004	6.4%	14.3%	14.3%
2003	50.7	48.5	48.5
2002	-33.3	-30.3	-27.8
2001	-22.8	-9.2	-5.5
2000	N/A	N/A	N/A

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending June, 2005

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $35,927,333**



Note Shaded area includes performance prior to the retention by the SBI



Note Shaded area includes performance prior to retention by the SBI

TURNER INVESTMENT PARTNERS
Periods Ending June, 2005

Portfolio Manager: William McVail | **Assets Under Management: $137,014,866**

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 0.4 percentage point (ppt) during the quarter. An overweight allocation to communications coupled with strong stock selection contributed to performance. For the year, the portfolio underperformed the Russell 2000 Growth index by 1.2 ppts. Weak stock selection detracted from performance and was particularly ineffective within the consumer services and health technology sectors.

Staff conducted a site visit during the quarter and met with many members of the portfolio management team. Philosophy and process were reviewed in detail. Disaster recovery, compliance, and trading were discussed.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	3.9%	3.5%	3.5%
Last 1 year	3.1	4.3	4.3
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)	5.1	6.7	6.7

Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
2004	11.6%	14.3%	14.3%
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

TURNER INVESTMENT PARTNERS
Periods Ending June, 2005

Portfolio Manager: William McVail **Assets Under Management: $137,014,866**

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

WINSLOW CAPITAL MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Joseph Docter **Assets Under Management: $140,365,177**

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 3 3 percentage points (ppts) during the quarter Strong stock selection positively impacted performance and was particularly effective within the electronic technology and retail trade sectors. For the year, the portfolio underperformed the Russell 2000 Growth index by 1 8 ppts Overweight allocations to retail trade and commercial services coupled with strong stock selection contributed to performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

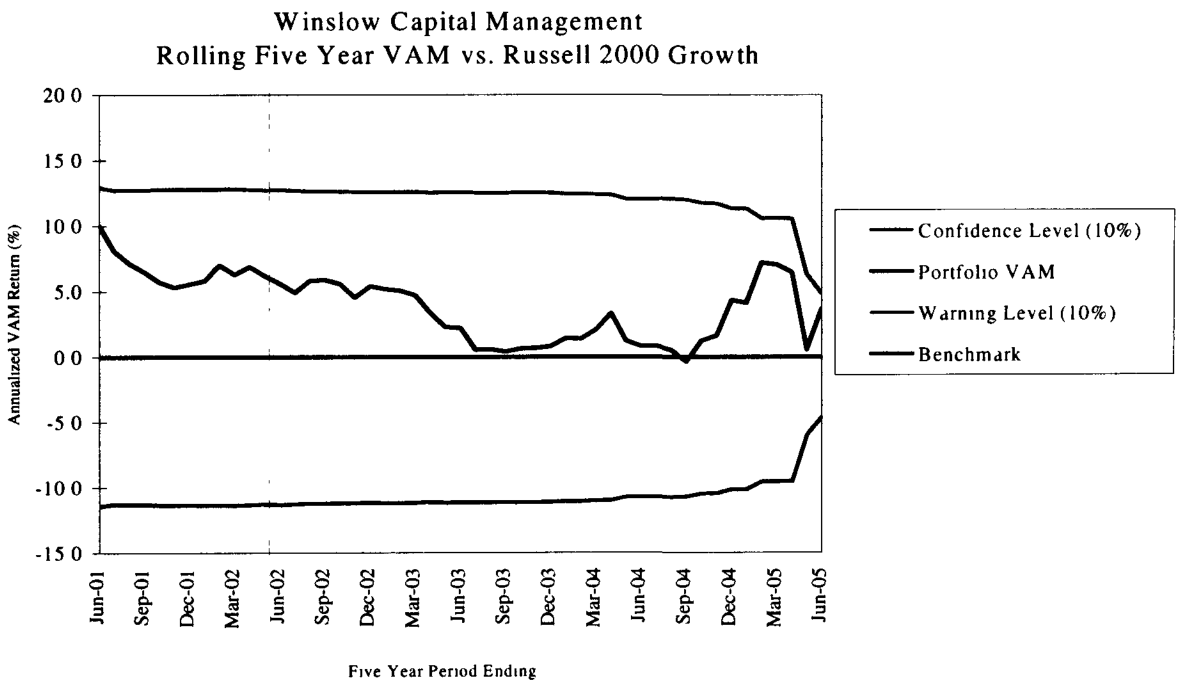
	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	6.8%	3.5%	3.5%
Last 1 year	6 1	4 3	4 3
Last 2 years	14 3	17.1	17 1
Last 3 years	11 0	11.4	11 9
Last 4 years	-0 3	0 9	3 7
Last 5 years	-1.0	-4 5	0.8
Since Inception (7/00)	-1.0	-4 5	0 8

Calendar Year Returns

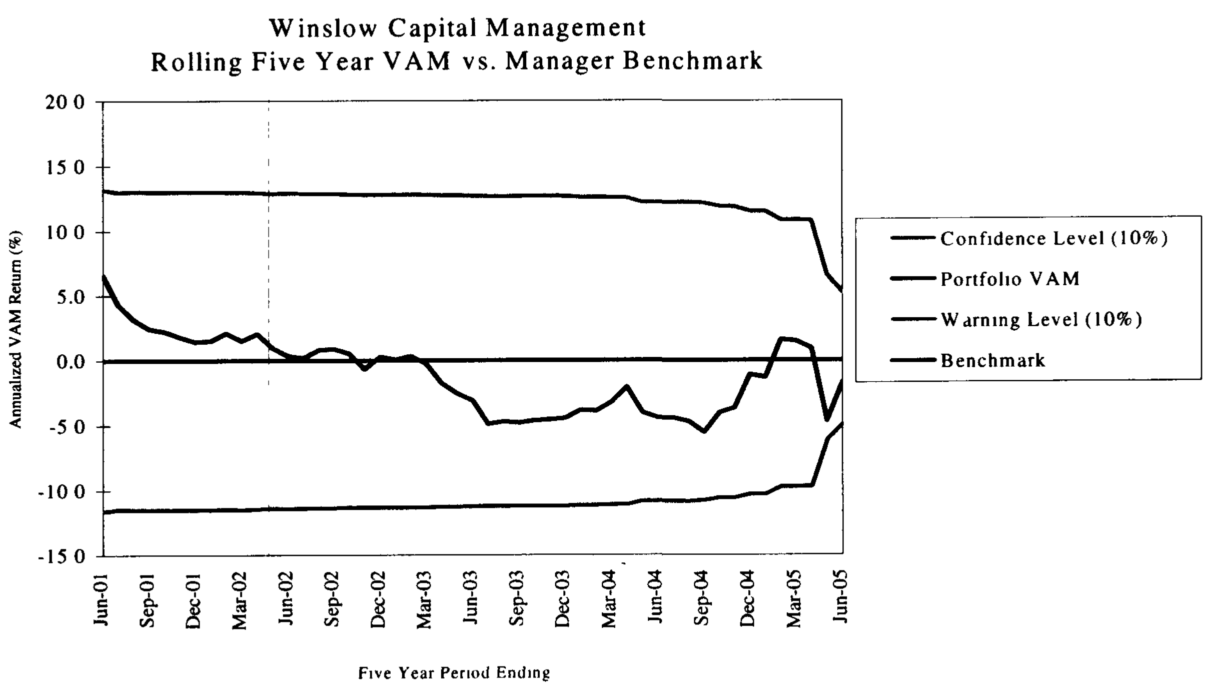
	Actual	Russell 2000 Growth	Manager Benchmark
2004	8.9%	14 3%	14 3%
2003	37 6	48 5	51.3
2002	-25.0	-30.3	-26.7
2001	-6.1	-9 2	4 6
2000	N/A	N/A	N/A

WINSLOW CAPITAL MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Joseph Docter **Assets Under Management: $140,365,177**



Note Shaded area includes performance prior to retention by the SBI



Note Shaded area includes performance prior to retention by the SBI

Small Cap Value (R2000 Value)

Small Cap Value (R2000 Value)

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KENWOOD CAPITAL MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Jacob Hurwitz and Kent Kelley **Assets Under Management: $52,627,326**

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 underperformed the Russell 2000 Value index by 1 8 percentage points (ppts) during the quarter Both overall sector allocation decisions and stock selection detracted from performance An underweight position in finance coupled with ineffective stock selection hindered returns. Weak stock selection within transportation and producer manufacturing negatively impacted performance.

For the year, the portfolio underperformed the Russell 2000 Value index by 0 8 ppt Weak stock selection within the transportation sector detracted from performance. An underweight position in industrial services represented a missed opportunity, ineffective stock selection enhanced the negative impact.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	3 3%	5 1%	5 1%
Last 1 year	13 6	14 4	14 4
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)	16 4	15 0	15.0

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2004	25 8%	22.2%	22 2%
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

KENWOOD CAPITAL MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Jacob Hurwitz and Kent Kelley   Assets Under Management: $52,627,326

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

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Chip Otness | **Assets Under Management: $110,189,208**

Investment Philosophy

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

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

Staff Comments

The portfolio underperformed the Russell 2000 Value index by 1 7 percentage points (ppt) during the quarter Weak stock selection detracted from performance and was particularly ineffective within the electronic technology, industrial services, and consumer non-durables sectors

For the year, the portfolio underperformed the Russell 2000 Value index by 2.5 ppt Overall stock selection hindered returns, particularly within the retail trade, process industries, industrial services, and consumer non-durables sectors

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	3.4%	5 1%	5.1%
Last 1 year	11 9	14 4	14 4
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 5	15 0	15.0

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2004	19.9%	22 2%	22 2%
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

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Chip Otness   Assets Under Management: $110,189,208

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

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Jim Miles and David Green **Assets Under Management: $123,053,565**

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 0 9 percentage point (ppt) Strong overall stock selection was not enough to offset the impact of weak sector allocation decisions. An underweight position in finance represented a missed opportunity; ineffective stock selection enhanced the negative impact

For the year, the portfolio outperformed the Russell 2000 Value index by 4 1 ppts Despite overweight allocations to consumer durables and process industries, strong stock selection within these sectors contributed to performance An underweight position in electronic technology coupled with strong stock selection contributed to performance

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	4.2%	5 1%	5.1%
Last 1 year	18 5	14 4	14 4
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)	20.1	15 0	15 0

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2004	27.1%	22 2%	22 2%
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

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Jim Miles and David Green **Assets Under Management: $123,053,565**

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

MARTINGALE ASSET MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: William Jacques **Assets Under Management: $126,749,877**

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 0 7 percentage point (ppt) Strong stock selection led returns higher and was particularly effective within the finance, electronic technology, and non-energy minerals sectors. For the year, the portfolio outperformed the Russell 2000 Value index by 6 2 ppts Underweight positions within finance and electronic technology proved beneficial; strong stock selection enhanced the positive impact

Staff conducted a site visit during the quarter Philosophy, process, and performance were reviewed in detail Research regarding factors used in the model was discussed, as well as trading methods

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	5.8%	5.1%	5 1%
Last 1 year	20 6	14 4	14 4
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)	22 5	15.0	15 0

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2004	30.8%	22 2%	22 2%
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

MARTINGALE ASSET MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: William Jacques **Assets Under Management: $126,749,877**

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

PEREGRINE CAPITAL MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $184,585,016**

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 1 3 percentage points (ppt) during the quarter An underweight allocation to producer manufacturing coupled with strong stock selection contributed to performance Strong stock selection within finance aided returns despite an underweight position in the outperforming sector

For the year, the portfolio outperformed the Russell 2000 Value index by 6 4 ppt Strong stock selection contributed to performance and was particularly notable within the electronic technology, producer manufacturing, finance, and consumer non-durables sectors. Takeover activity within the health care area proved beneficial.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

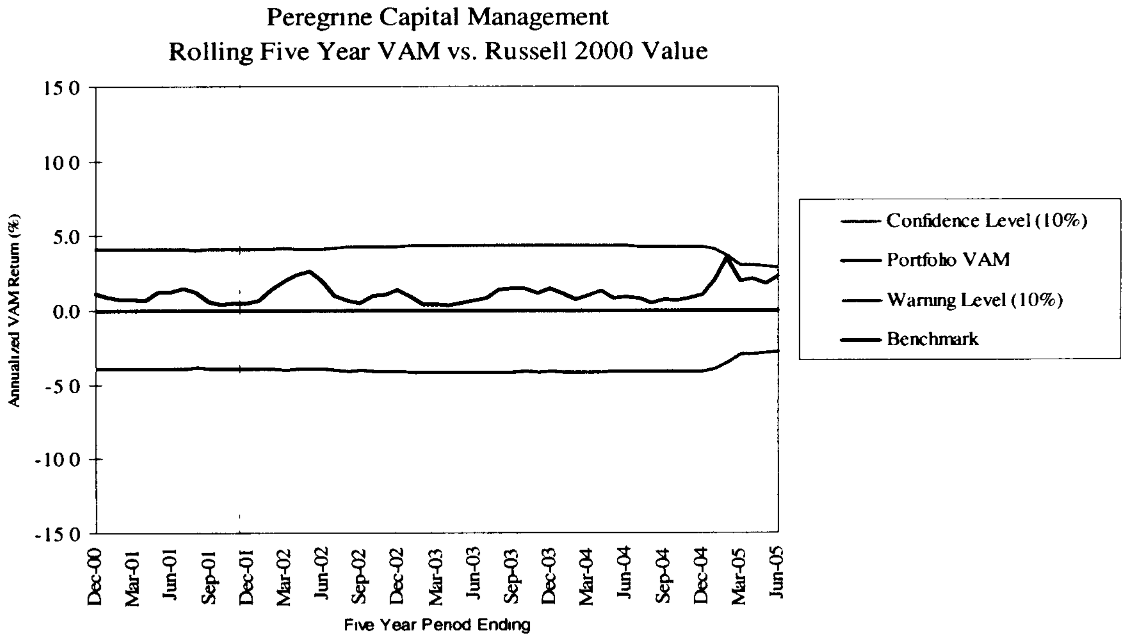
	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	6 4%	5 1%	5 1%
Last 1 year	20 8	14.4	14.4
Last 2 years	27.8	24 3	24 6
Last 3 years	15 0	14 2	15 3
Last 4 years	14 1	12.7	14.2
Last 5 years	18.8	16 1	19 0
Since Inception (7/00)	18 8	16 1	19.0

Calendar Year Returns

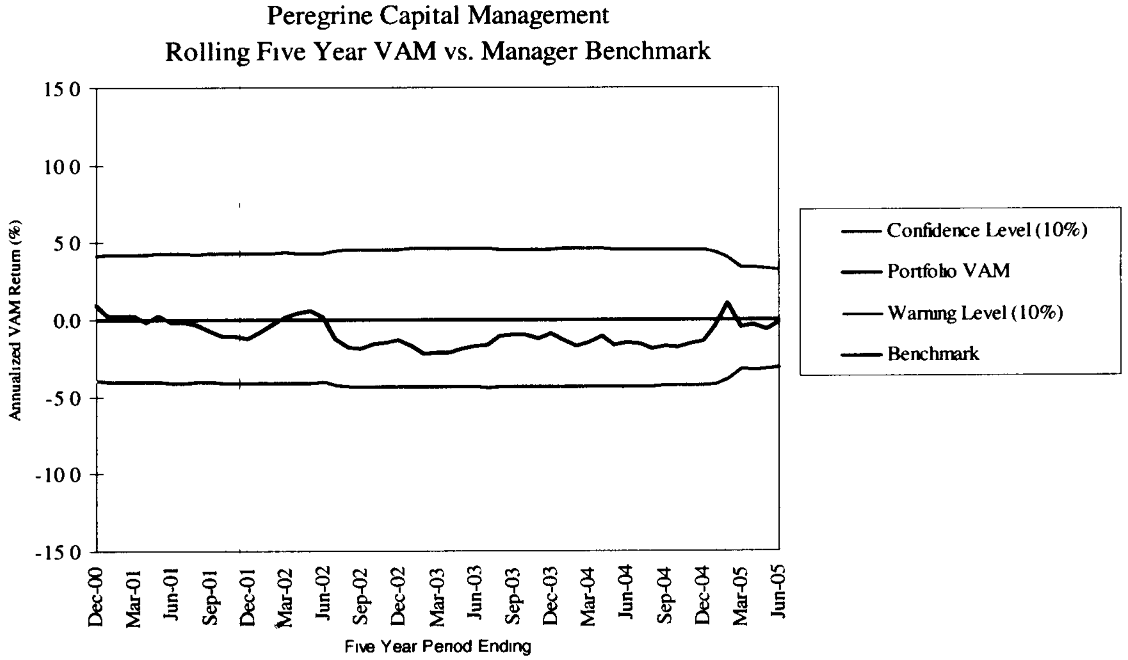
	Actual	Russell 2000 Value	Manager Benchmark
2004	23 6%	22 2%	22.2%
2003	44 2	46.0	44 2
2002	-8 1	-11 4	-6.9
2001	12 6	14 0	22 9
2000	N/A	N/A	N/A

PEREGRINE CAPITAL MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $184,585,016**



Note Shaded area includes performance prior to retention by the SBI



Note Shaded area includes performance prior to retention by the SBI

Semi-Passive and Passive

Semi-Passive and Passive

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BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2005

Portfolio Manager: Rhonda Vitanye | **Assets Under Management: $2,702,199,685**

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 outperformed the Russell 1000 index by 0 3 percentage point (ppt) during the quarter Strong stock selection contributed to performance, and was particularly effective within the technology services and energy minerals sectors The earnings quality investment theme contributed to performance, as did the sentiment and relative valuation themes

For the year, the portfolio outperformed the Russell 1000 index by 0.7 ppt An overweight position in energy minerals coupled with strong stock selection contributed to performance Strong stock selection within the technology services and consumer durables sectors aided returns Relative valuation was the most successful investment theme, while the earnings quality and sentiment themes also added value

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	2.4%	2 1%
Last 1 year	8.6	7 9
Last 2 years	14.3	13 6
Last 3 years	10 0	8 9
Last 4 years	3 5	2.8
Last 5 years	-0.7	-2 2
Since Inception (1/95)	11 1	10.3

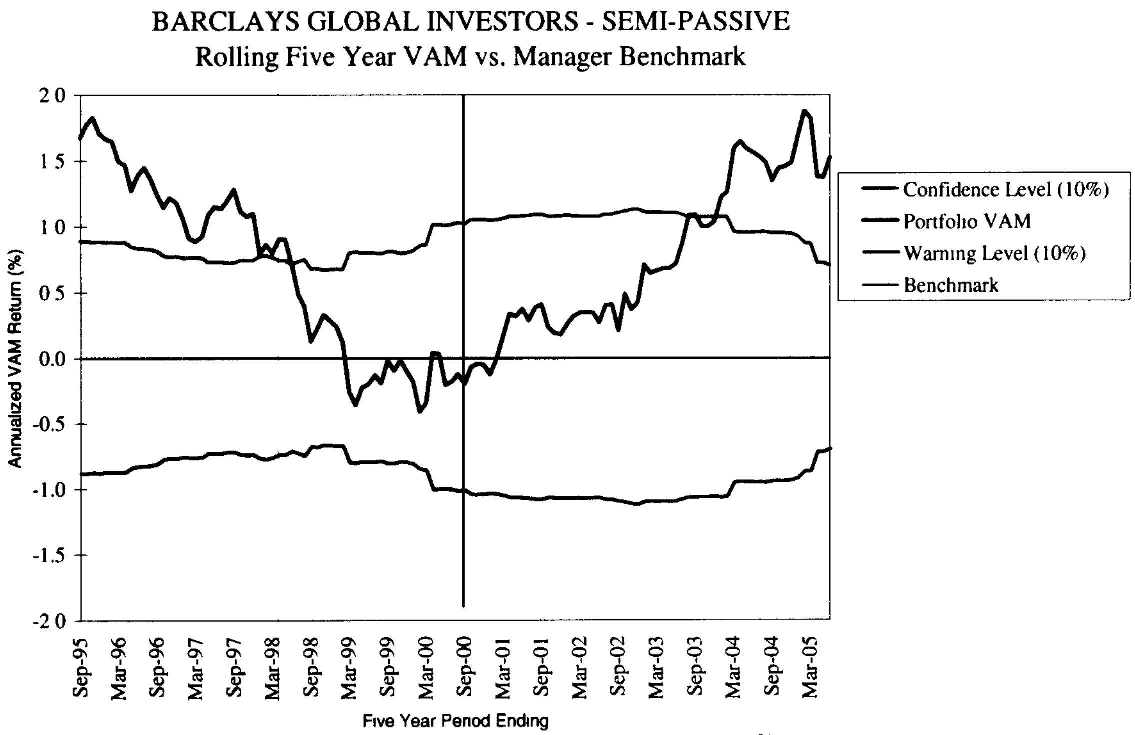
Calendar Year Returns

	Actual	Manager Benchmark*
2004	11.7%	11 4%
2003	30 0	28 5
2002	-19 1	-19.7
2001	-7.8	-9.7
2000	-13 8	-16 3

* Completeness Fund until 12/31/03, Russell 1000 beginning 1/1/04.

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2005

Portfolio Manager: Rhonda Vitanye **Assets Under Management: $2,702,199,685**



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2005

Portfolio Manager: John Cone | **Assets Under Management: $1,934,302,349**

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 the Russell 1000 index by 0.4 percentage point (ppt) during the quarter. An underweight allocation to finance coupled with weak stock selection proved detrimental. For the year, the portfolio matched the Russell 1000 index. Strong stock selection within consumer durables and health technology aided returns. Weak stock selection within consumer non-durables detracted from performance.

Staff conducted a site visit during the quarter. Philosophy and process were discussed in detail. The research process for model modifications and new factors was reviewed, and the rebalancing process was demonstrated.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	1.7%	2.1%
Last 1 year	7.9	7.9
Last 2 years	13.4	13.6
Last 3 years	8.3	8.9
Last 4 years	2.2	2.8
Last 5 years	-2.1	-2.2
Since Inception (1/95)	9.9	10.3

Calendar Year Returns

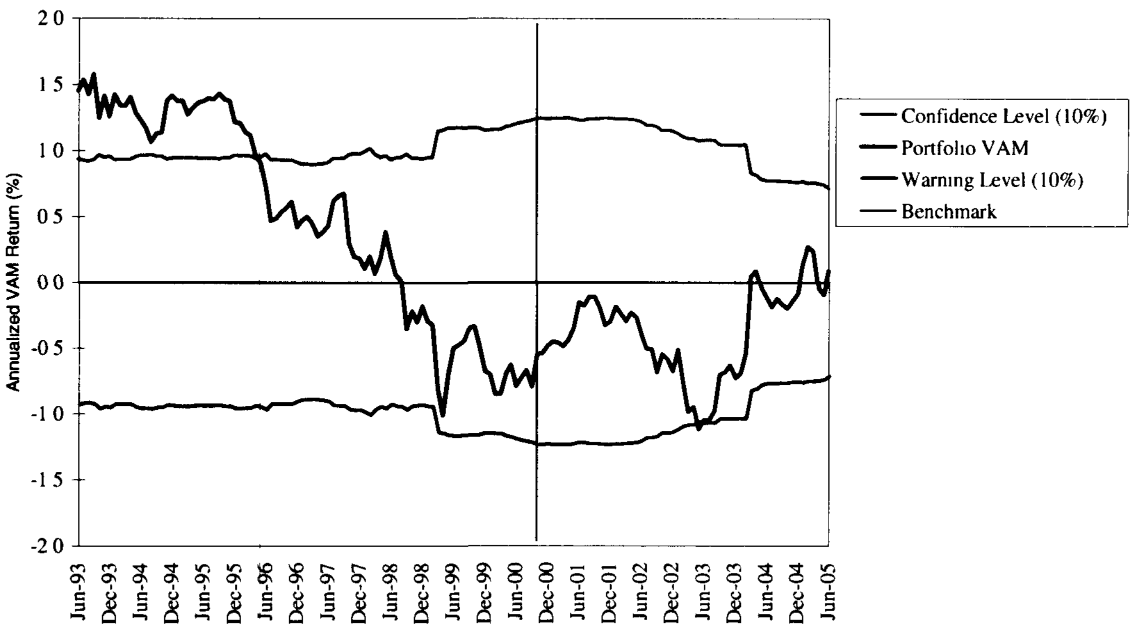
	Actual	Manager Benchmark*
2004	11.7%	11.4%
2003	26.9	28.5
2002	-20.2	-19.7
2001	-9.0	-9.7
2000	-15.9	-16.3

* Completeness Fund until 12/31/03, Russell 1000 beginning 1/1/04

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 2005

Portfolio Manager: John Cone **Assets Under Management: $1,934,302,349**

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



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

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending June, 2005

Portfolio Manager: Tim Devlin | **Assets Under Management: $2,269,492,098**

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 matched the Russell 1000 index during the quarter. Strong overall stock selection contributed to performance and was particularly notable within the consumer non-durables and process industries sectors An underweight position in health technology represented a missed opportunity, weak stock selection enhanced the negative impact

For the year, the portfolio underperformed the Russell 1000 index by 0 5 percentage point An underweight allocation to health technology coupled with weak stock selection proved detrimental An overweight position in consumer non-durables coupled with weak stock selection detracted from performance

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	2.1%	2.1%
Last 1 year	7 4	7 9
Last 2 years	13.3	13.6
Last 3 years	8 5	8 9
Last 4 years	1.8	2.8
Last 5 years	-2 0	-2 2
Since Inception (1/95)	10 4	10.3

Calendar Year Returns

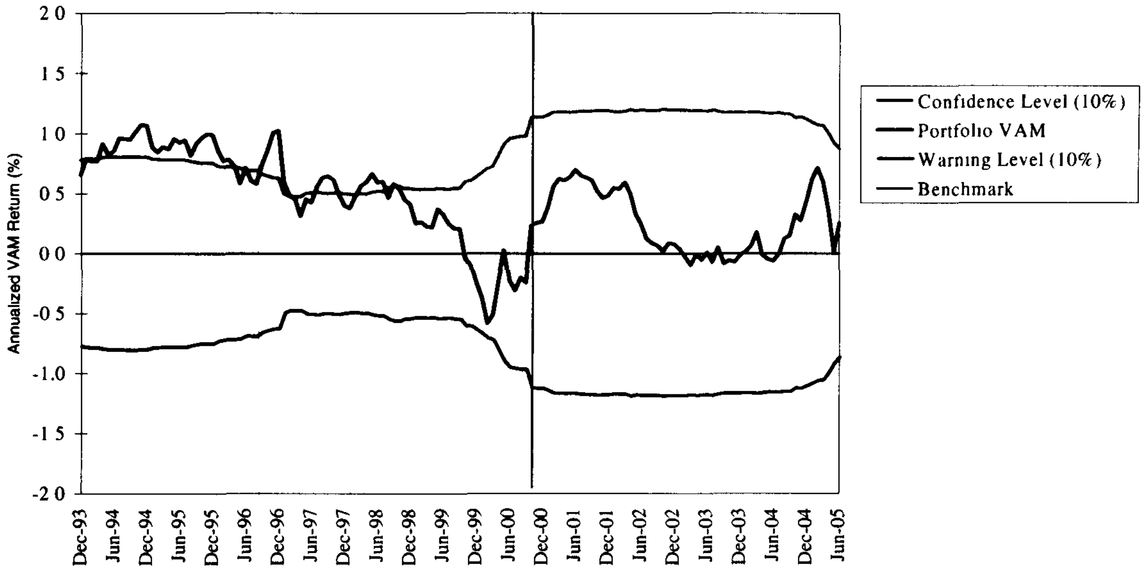
	Actual	Manager Benchmark*
2004	11.7%	11 4%
2003	28 9	28 5
2002	-21.8	-19.7
2001	-8 7	-9.7
2000	-13.6	-16.3

* Completeness Fund until 12/31/03, Russell 1000 beginning 1/1/04

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending June, 2005

Portfolio Manager: Tim Devlin **Assets Under Management: $2,269,492,098**

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, 2005

Portfolio Manager: Amy Schioldager | **Assets Under Management: $6,989,995,405**

Investment Philosophy – Passive Style

Barclays Global Investors seeks to minimize 1) tracking error, 2) transaction costs, and 3) investment and operational risks. The portfolio is passively managed against the asset class target using a proprietary optimization process that integrates a transaction cost model. The resulting portfolio closely matches the characteristics of the benchmark with less exposure to illiquid stocks

Staff Comments

The portfolio outperformed the Russell 3000 index by 0.1 percentage point during the quarter This was due in part to portfolio optimization and security misweights The portfolio is generally underweight small-cap and micro-cap stocks due to liquidity and transaction cost concerns. For the year, the portfolio matched the Russell 3000 index

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	2.3%	2.2%
Last 1 year	8.1	8 1
Last 2 years	14.2	14 1
Last 3 years	9.5	9.5
Last 4 years	2 0	2.1
Last 5 years	-1.7	-1.8
Since Inception (7/95)	9.8	9.6

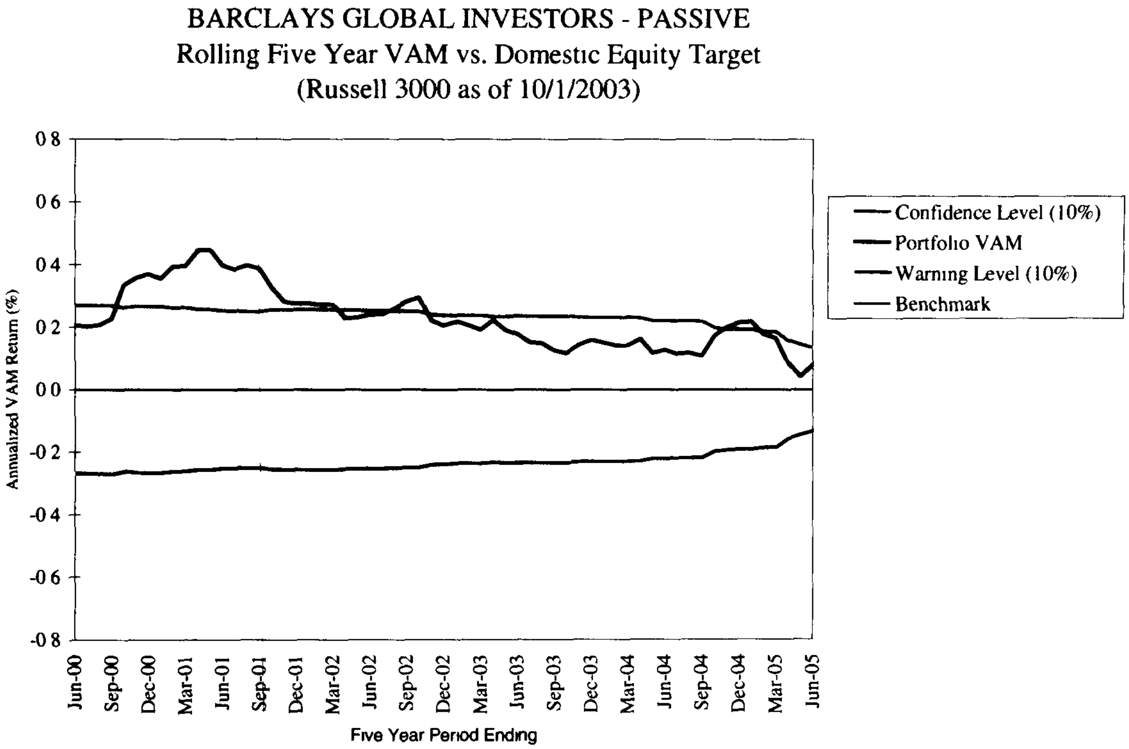
Calendar Year Returns

	Actual	Manager Benchmark*
2004	12.0%	11.9%
2003	30 9	31.2
2002	-21.4	-21.5
2001	-11 8	-11.7
2000	-9.8	-11.0

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

BARCLAYS GLOBAL INVESTORS
Periods Ending June, 2005

Portfolio Manager: Amy Schioldager **Assets Under Management: $6,989,995,405**



STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Second Quarter, 2005

COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending June, 2005

	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)	2.7	3.0	7.1	6.8	5.6	5.8	6.7	7.4	6.4	6.6	$839.4	8.7%
Deutsche	3.1	3.0	7.5	6.8	6.5	5.8	8.1	7.4	8.1	7.5	$886.9	9.2%
Dodge & Cox	2.3	3.0	6.1	6.8	6.8	5.8	8.5	7.4	8.6	7.5	$897.1	9.3%
Morgan Stanley	3.0	3.0	6.9	6.8	5.9	5.8	7.8	7.4	9.6	9.4	$844.9	8.7%
Western	3.2	3.0	7.6	6.8	8.1	5.8	9.1	7.4	10.7	9.3	$1,375.3	14.2%
Semi-Passive Managers												
BlackRock	3.0	3.0	6.9	6.8	6.1	5.8	7.5	7.4	7.2	6.9	$1,616.3	16.7%
Goldman	3.1	3.0	7.2	6.8	6.5	5.8	7.8	7.4	6.9	6.6	$1,617.2	16.7%
Lehman (Lincoln)	3.1	3.0	7.0	6.8	5.9	5.8	7.6	7.4	8.1	8.0	$1,615.3	16.7%
											$9,692.5	**100.0%**
									Since 7/1/84			
Historical Aggregate (2)	**3.0**	**3.0**	**7.1**	**6.8**	**6.3**	**5.8**	**7.8**	**7.4**	**9.5**	**9.3**		
Lehman Aggregate (3)		3.0		6.8		5.8		7.4		9.4		

(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, 2005

Portfolio Manager: Colin Lundgren | **Assets Under Management: $839,377,549**

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 underperformed the benchmark for the quarter and outperformed for the year. The quarterly performance was hurt by its short duration position. The one-year outperformance was due to security selection, especially in credit, their allocation to high yield corporate bonds, and allocation to non-dollar bonds.

American Express spun-off American Express Asset Management Group, Inc. to shareholders effective August 1, 2005. The new name for the asset management division is RiverSource Investments.

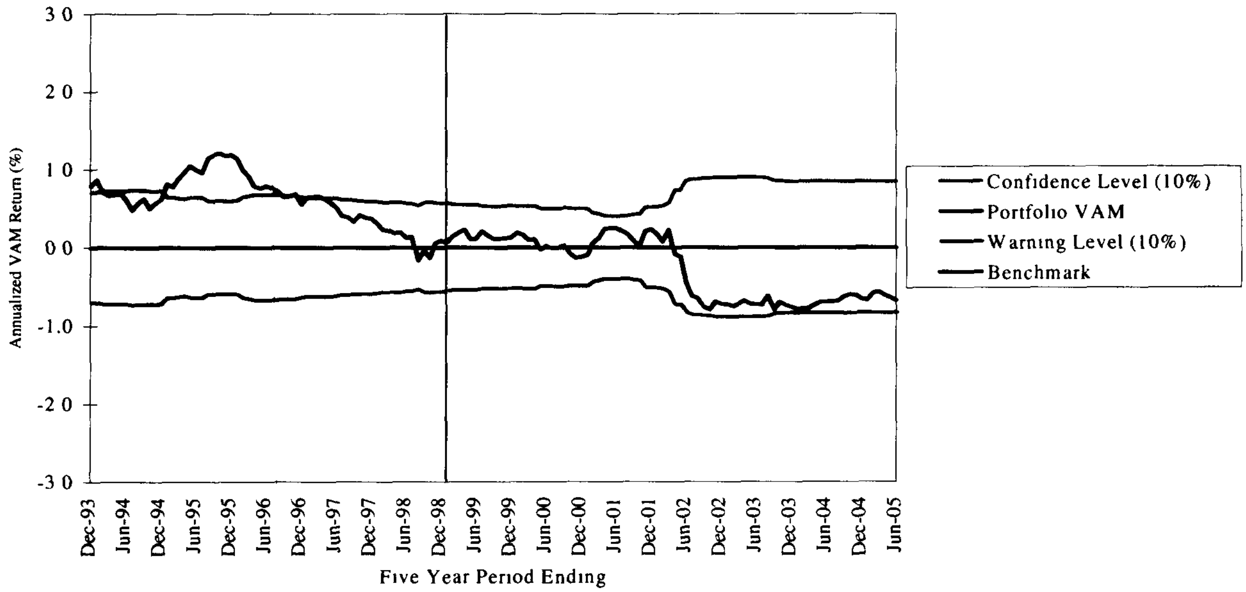
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.7%	3.0%
Last 1 year	7.1	6.8
Last 2 years	3.8	3.5
Last 3 years	5.6	5.8
Last 4 years	5.6	6.5
Last 5 years	6.7	7.4
Since Inception (7/93)	6.4	6.6

Recommendations

No action required.

AMERICAN EXPRESS ASSET MANAGEMENT - FIXED INCOME
Rolling Five Year VAM



Five Year Period Ending

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

DEUTSCHE ASSET MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Warren Davis **Assets Under Management: $886,888,419**

Investment Philosophy

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

Staff Comments

Deutsche Asset's outperformance for the quarter and the year was primarily due to the overweight position and issue selection in the mortgage-backed and asset-backed sectors

On July 7th, Deutsche signed an agreement with Aberdeen Asset Management to sell Deutsche's UK-based institutional equity, fixed income, global equity, multi-asset and DWS Retail business, including the Philadelphia-based Active Fixed Income Business The sale is expected to close third quarter of this year

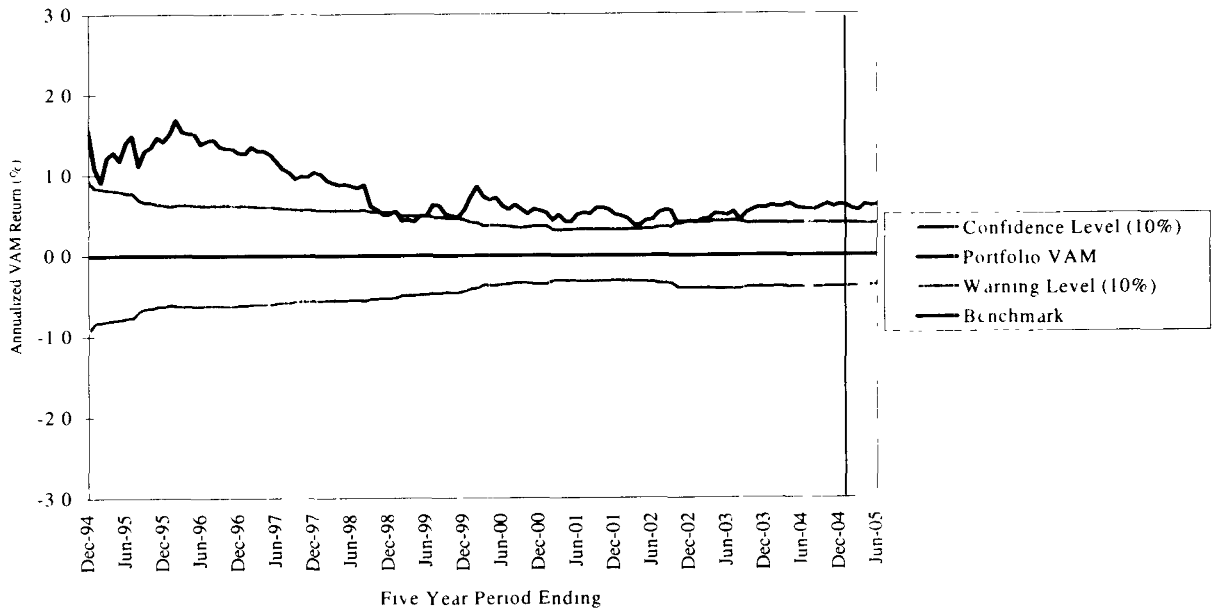
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3 1%	3.0%
Last 1 year	7 5	6 8
Last 2 years	4 2	3.5
Last 3 years	6.5	5 8
Last 4 years	7.1	6.5
Last 5 years	8 1	7 4
Since Inception (2/00)	8.1	7.5

Recommendations

No action required

DEUTSCHE ASSET MANAGEMENT
Rolling Five Year VAM



Five Year Period Ending

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

DODGE & COX INVESTMENT MANAGERS
Periods Ending June, 2005

Portfolio Manager: Dana Emery | **Assets Under Management: $897,149,549**

Investment Philosophy

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

Staff Comments

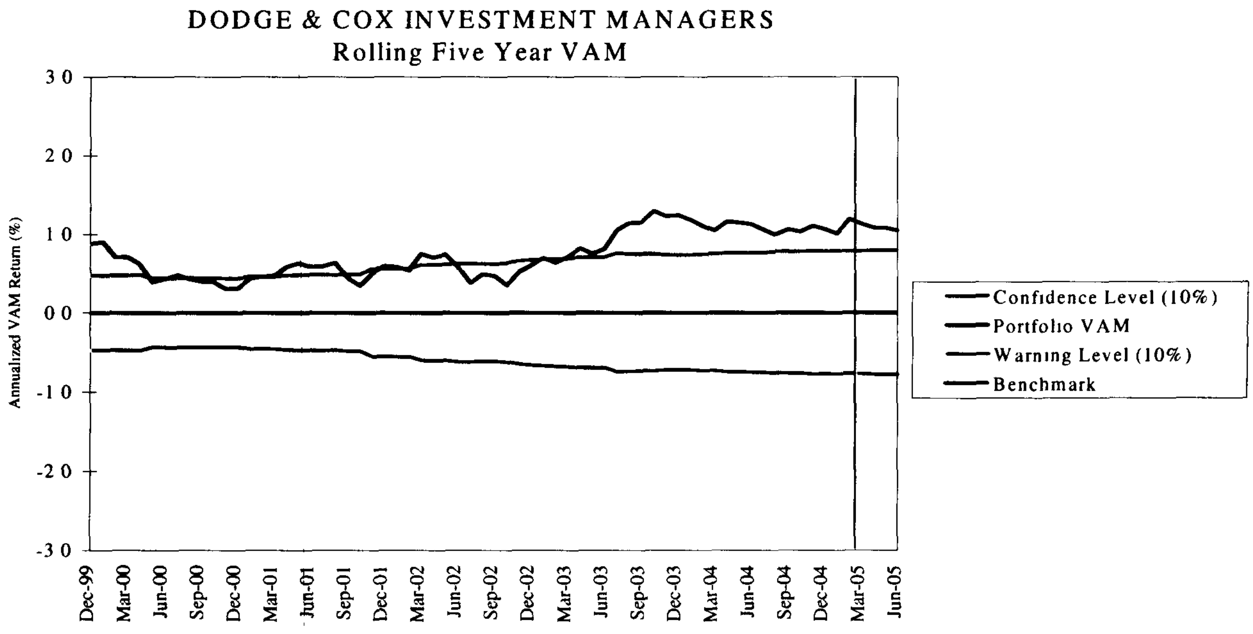
Dodge & Cox trailed the quarterly benchmark. The quarterly performance was hurt by the portfolio's shorter than benchmark duration position. Over the year, the outperformance was helped by an overweight and security selection within the corporate sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.3%	3.0%
Last 1 year	6.1	6.8
Last 2 years	4.0	3.5
Last 3 years	6.8	5.8
Last 4 years	7.5	6.5
Last 5 years	8.5	7.4
Since Inception (2/00)	8.6	7.5

Recommendations

No action required.



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

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: David Horowitz **Assets Under Management: $844,904,816**

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

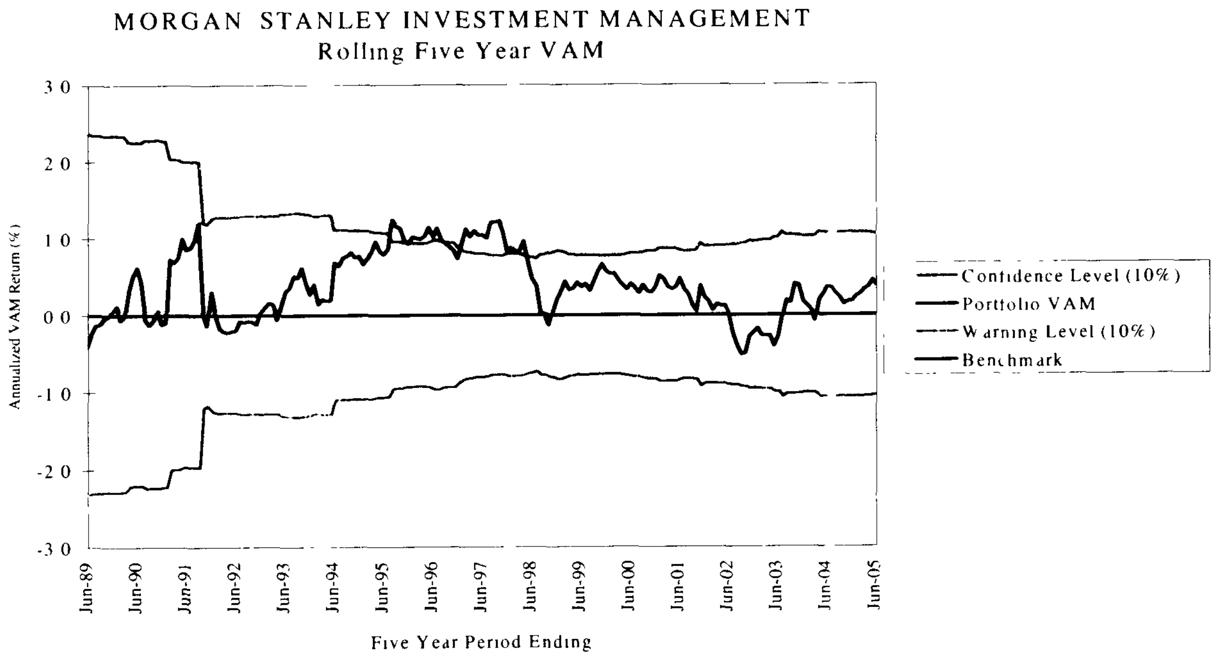
Morgan Stanley matched the benchmark for the quarter and outperformed for the year For the year, the portfolio benefited from their corporate security selections, as well as their yield-curve flattening strategy.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3 0%	3 0%
Last 1 year	6.9	6 8
Last 2 years	4 7	3 5
Last 3 years	5.9	5.8
Last 4 years	6 6	6 5
Last 5 years	7.8	7.4
Since Inception (7/84)	9 6	9.4

Recommendations

No action required



WESTERN ASSET MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Ken Leech **Assets Under Management: $1,375,274,742**

Investment Philosophy

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

Staff Comments

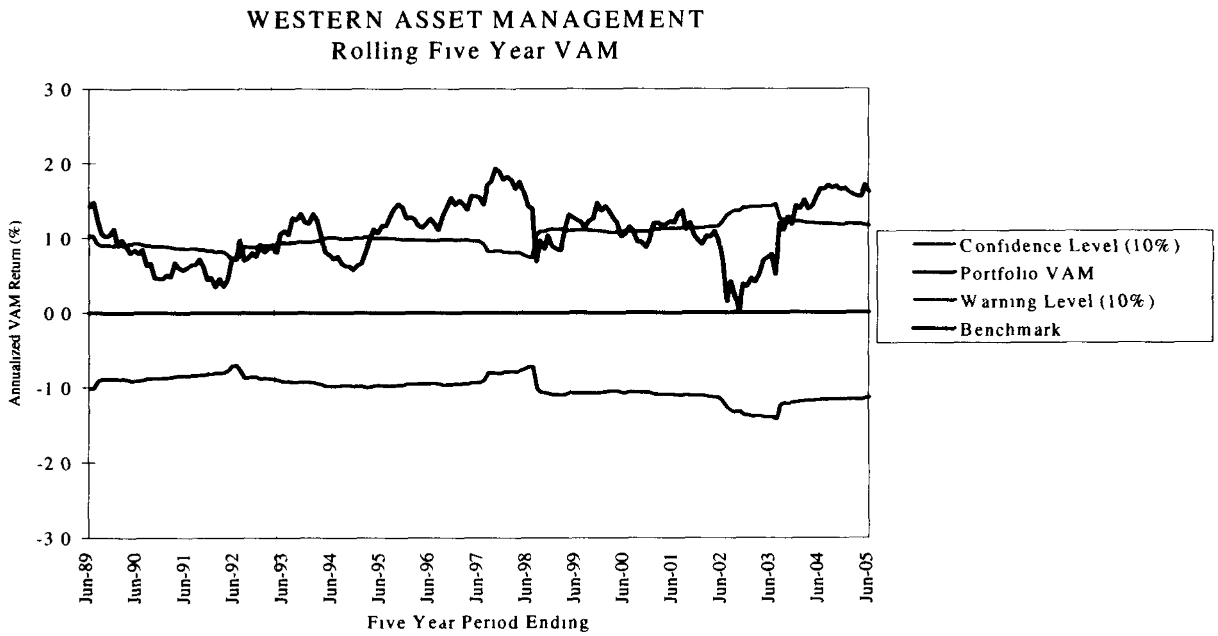
Western exceeded the quarterly and one-year benchmark due to their sector bets. A modest exposure to high-yield and non-dollar sectors helped performance over both periods. The one-year outperformance was also helped by an overweight to the credit sector, especially BBB-rated issues.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.2%	3.0%
Last 1 year	7.6	6.8
Last 2 years	5.7	3.5
Last 3 years	8.1	5.8
Last 4 years	8.2	6.5
Last 5 years	9.1	7.4
Since Inception (7/84)	10.7	9.3

Recommendations

No action required.



BLACKROCK, INC.
Periods Ending June, 2005

Portfolio Manager: Keith Anderson | **Assets Under Management: $1,616,299,472**

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 matched the quarterly benchmark and outperformed for the year The yield-flattening bias helped the one-year performance

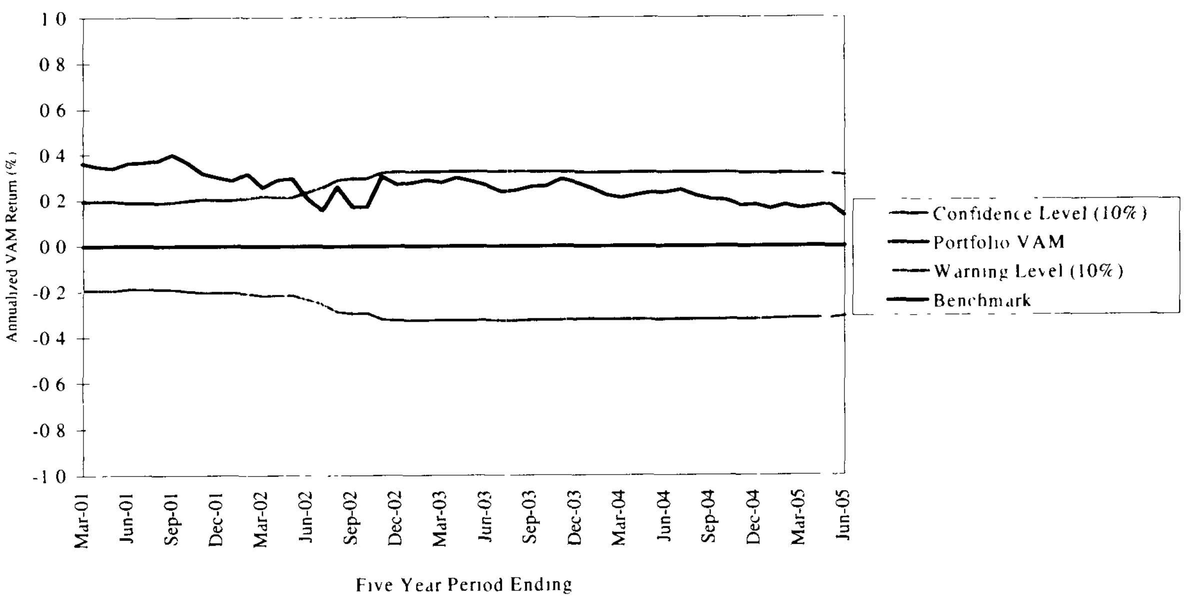
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3 0%	3.0%
Last 1 year	6.9	6.8
Last 2 years	3 6	3 5
Last 3 years	6 1	5 8
Last 4 years	6 7	6.5
Last 5 years	7.5	7.4
Since Inception (4/96)	7 2	6.9

Recommendation

No action required

BLACKROCK, INC.
Rolling Five Year VAM



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Jonathon Beinner **Assets Under Management: $1,617,232,602**

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

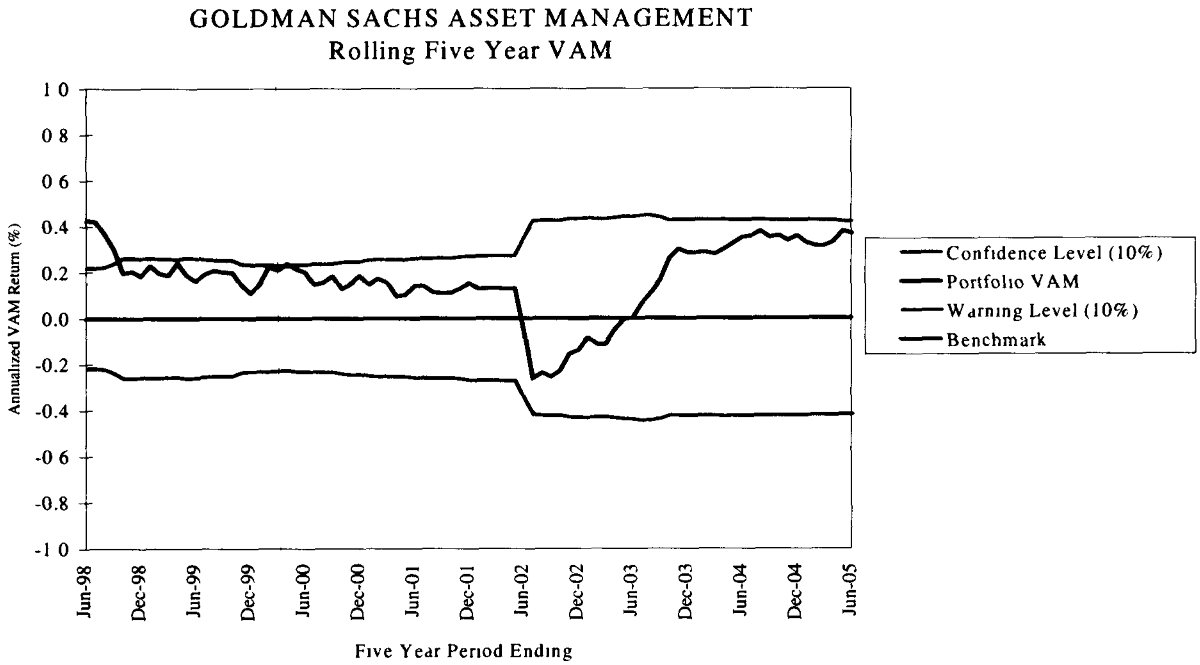
For the quarter and the year, Goldman exceeded their benchmark. The quarterly performance was helped by mortgage security selection and an underweight to corporates. The one-year outperformance was helped by an overweight to the mortgage sector and security selection.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.1%	3.0%
Last 1 year	7.2	6.8
Last 2 years	4.3	3.5
Last 3 years	6.5	5.8
Last 4 years	6.9	6.5
Last 5 years	7.8	7.4
Since Inception (7/93)	6.9	6.6

Recommendations

No action required.



LEHMAN BROTHERS ASSET MANAGEMENT (Lincoln)
Periods Ending June, 2005

Portfolio Manager: Andrew Johnson | **Assets Under Management: $1,615,328,437**

Investment Philosophy

Lehman manages an enhanced index portfolio closely tracking the Lehman Aggregate Lehman'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. Lehman 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 Lehman (formerly Lincoln) was retained by the SBI in July 1988

Staff Comments

Lehman outperformed the benchmark for the quarter and for the year The quarterly performance was helped by an underweight to the mortgage sector and security selection in spread sectors. The one-year return was helped by an overweight and security selection in the corporate sector.

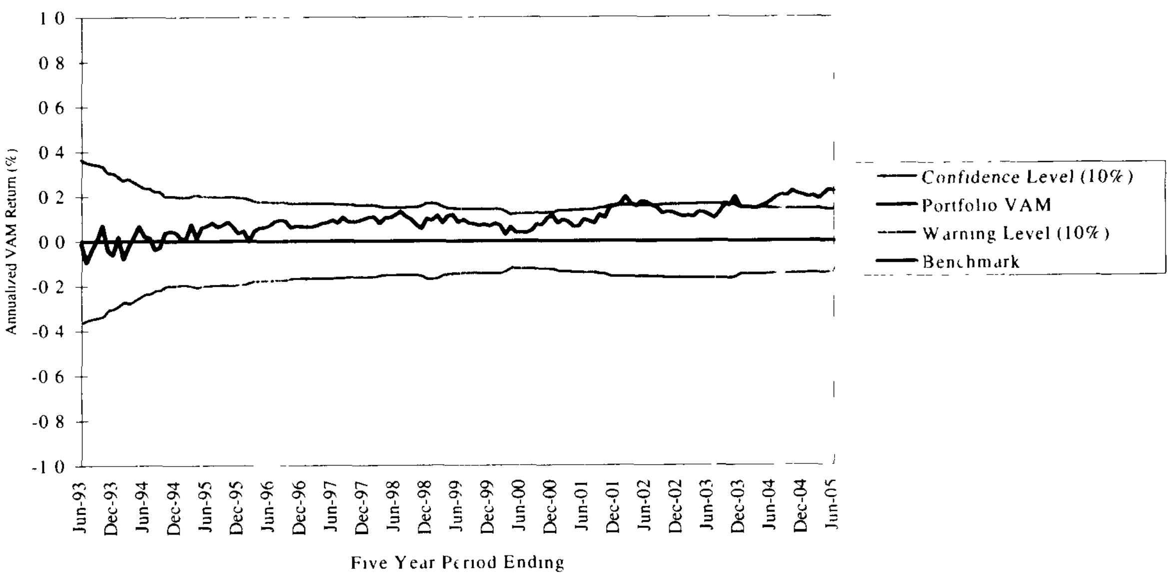
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3 1%	3 0%
Last 1 year	7.0	6.8
Last 2 years	3 7	3.5
Last 3 years	5 9	5.8
Last 4 years	6.7	6.5
Last 5 years	7 6	7.4
Since Inception (7/88)	8.1	8 0

Recommendations

No action required

LEHMAN BROTHERS ASSET MANAGEMENT
Rolling Five Year VAM



STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Second Quarter, 2005

COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending June, 2005

	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	-0.8	12 7	14 6	8 5	12 3	-4.6	-0 4	-5.1	-0.4	$258 6	4.3%
Britannic (Blairlogie)*	-2.1	-2.4							-2 1	-0.7	$1.5	0.0%
Invesco	-1.8	-0 8	12 0	14 6	10.2	12 3	2 5	-0 4	3 1	-0 4	$455.2	7.6%
Marathon (3)	-0.3	-0.8	17.6	14 6	15 9	14 8	6.8	2 8	8.9	5.9	$673.0	11 2%
T. Rowe Price*	-2 2	-2.4							5.1	5.1	$9.7	0 2%
UBS Global	-1 2	-0 8	13 3	14.6	10.3	12.3	2 2	-0 4	8.1	6 6	$475 4	7.9%
Active Emerging Markets												
Alliance Capital	4.4	4.1	34 9	34.4	25.4	24.0			12 7	12.8	$247.9	4 1%
Capital International	6.2	4 1	32 9	34.4	21 7	24.0			8.4	12 8	$205.1	3 4%
Morgan Stanley	3 7	4.1	34.6	34 4	23.4	24.0			12 6	12 8	$248 0	4 1%
Passive Developed Markets (2)												
State Street	-0 7	-0.8	14.7	14 6	12.5	12 3	-0.3	-0 4	7.2	7.0	$1,844 9	30.7%
									Since 10/1/92			
Equity Only (4) (6)	-0.2	-0.2	15.7	16.5	12 4	13.4	0.6	0.2	7.4	6 9	$6,019.0	100 0%
Total Program (5) (6)	**-0.2**	**-0.2**	**15.7**	**16.5**	**12.4**	**13.4**	**0.6**	**0.2**	**7.7**	**6.9**	**$6,019.0**	
SBI Int'l Equity Target (6)		-0 2		16.5		13 4		0 2		6 9		
MSCI ACWI Free ex. U S. (7)		-0.2		16 5		13 6		0 4		7.3		
MSCI World ex U.S (net)		-0 8		14 6		12 6		-0 3		7.2		
MSCI EAFE Free (net)		-1 0		13 6		12 1		-0 5		6 9		
MSCI Emergıng Markets Free (8)		4 1		34 4		24.0		7.4		7 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 Markets Free (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

* Britannic and T. Rowe Price were terminated on June 8, 2005. The quarter and since inception returns for both managers are through May 31, 2005

AMERICAN EXPRESS ASSET MANAGEMENT INTERNATIONAL, INC.
Periods Ending June, 2005

Portfolio Manager: Alex Lyle and Ed Gaunt **Assets Under Management: $258,640,958**

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

The portfolio underperformed during the quarter and the year, primarily due to stock selection in Japan, the United Kingdom and Belgium. The portfolio's underweight to Australia and Canada, two resource rich markets, also detracted from returns over both periods.

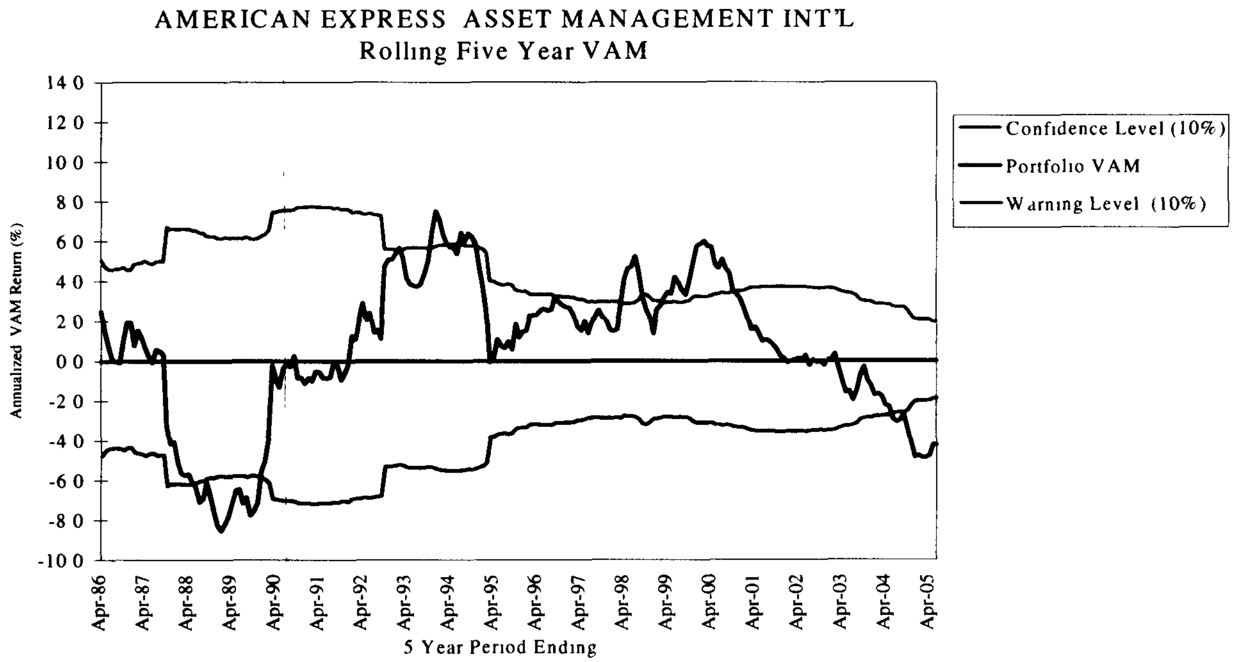
American Express spun-off American Express Asset Management Group, Inc. to shareholders effective August 1, 2005. The new name for the asset management division is RiverSource Investments.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.0%	-0.8%
Last 1 year	12.7	14.6
Last 2 years	18.6	23.0
Last 3 years	8.5	12.3
Last 4 years	3.3	6.4
Last 5 years	-4.6	-0.4
Since Inception (3/00)	-5.1	-0.4

Recommendations

No action required.



Note Shaded area includes performance prior to managing SBI account

BRITANNIC ASSET MANAGEMENT (Blairlogie)
Periods Ending June, 2005

Portfolio Manager: James Smith **Assets Under Management: $1,462,962**

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

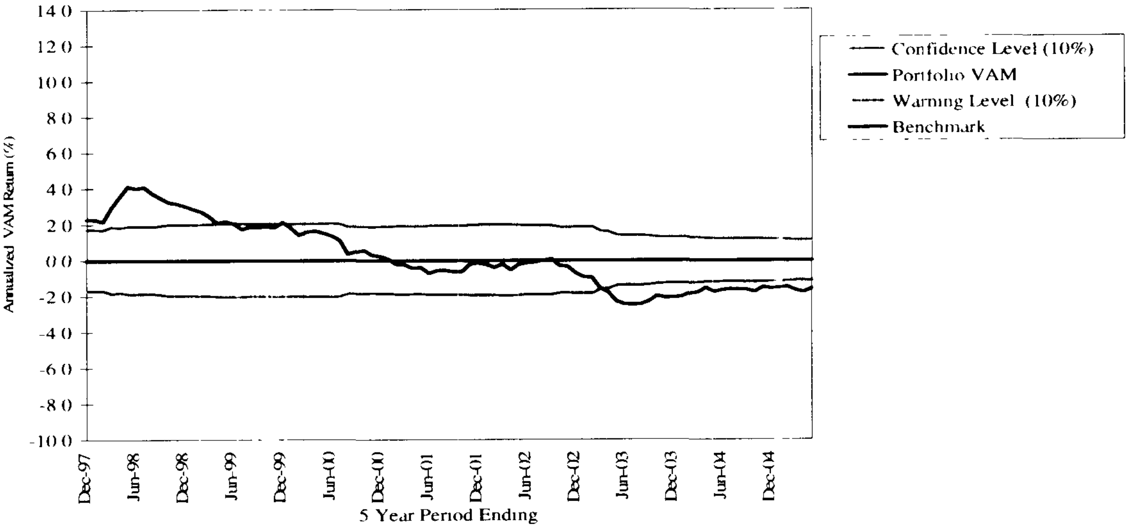
Britannic was terminated on June 8, 2005. The quarter and since inception returns for this manager are through May 31, 2005

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2 1%	-2 4%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-2 1	-0 7

Recommendations

BRITANNIC ASSET MANAGEMENT
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

INVESCO GLOBAL ASSET MANAGMENT
Periods Ending June, 2005

Portfolio Manager: Erik Granade **Assets Under Management: $455,169,570**

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

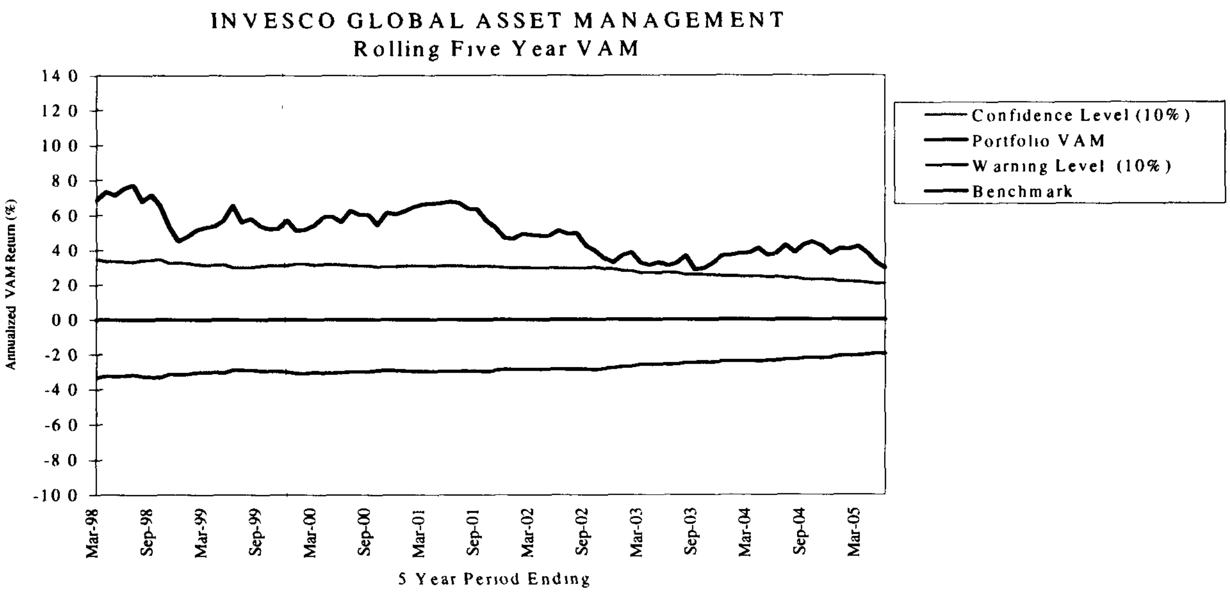
Over both the quarter and the year, stock selection in Japan as well as the portfolio's underweight to Australia and Canada detracted significantly from performance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.8%	-0.8%
Last 1 year	12.0	14.6
Last 2 years	21.2	23.0
Last 3 years	10.2	12.3
Last 4 years	6.9	6.4
Last 5 years	2.5	-0.4
Since Inception (3/00)	3.1	-0.4

Recommendations

No action required.



Note Shaded area includes performance prior to managing SBI account

MARATHON ASSET MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: William Arah **Assets Under Management: $672,973,744**

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

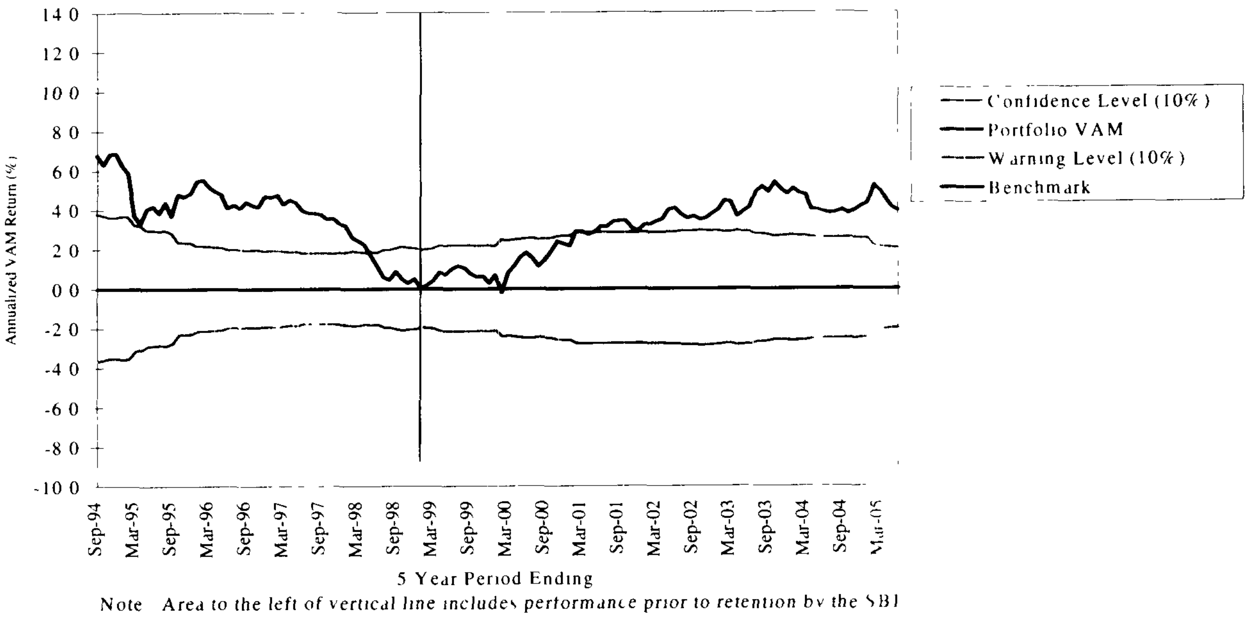
The portfolio outperformed significantly over the quarter and the year, primarily due to strong stock selection. The portfolio's overweight position in Hong Kong and stock selection in the financials, industrials and consumer discretionary sectors were significant contributors over both periods

Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	-0.3%	-0 8%
Last 1 year	17 6	14 6
Last 2 years	28.9	24 5
Last 3 years	15.9	14 8
Last 4 years	11 8	9 4
Last 5 years	6.8	2 8
Since Inception (11/93)	8 9	5 9

Recommendations

No action required



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

T. ROWE PRICE INTERNATIONAL, INC.
Periods Ending June, 2005

Portfolio Manager: Mark Bickford-Smith | **Assets Under Management: $9,660,003**

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.

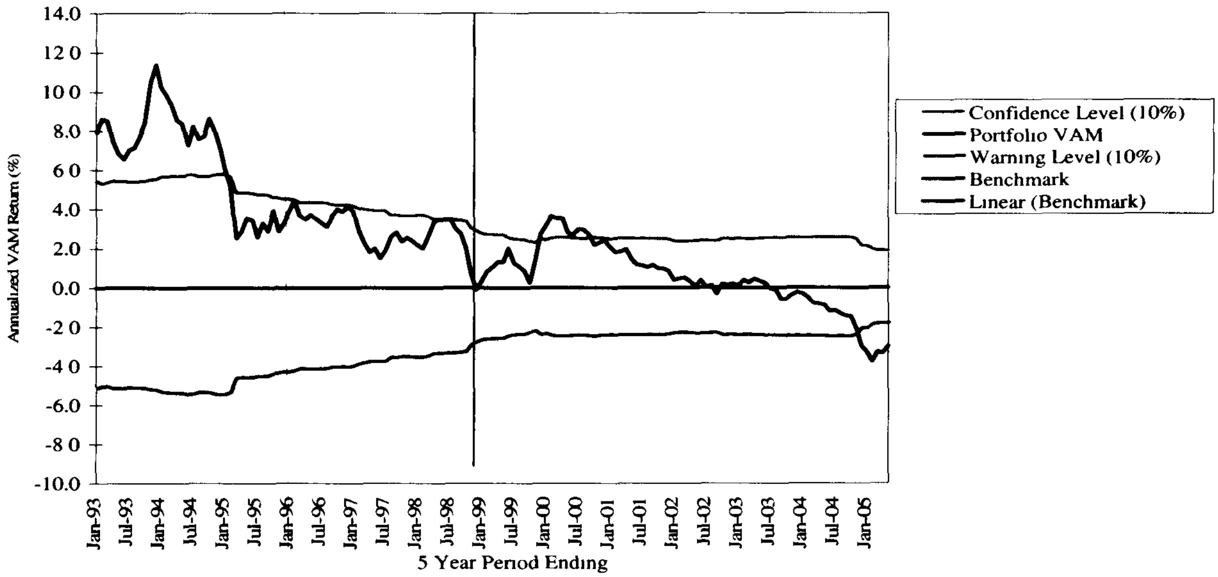
Staff Comments

The International Equity Search Committee re-interviewed T. Rowe Price on April 28, 2005. The Search Committee's recommendation to terminate T. Rowe Price was reaffirmed by the Stock and Bond Manager Committee. The manager was terminated on June 8, 2005. The quarter and since inception returns are through May 31, 2005.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.2%	-2.4%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	5.1	5.1

Recommendations



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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending June, 2005

Portfolio Manager: Thomas Madsen **Assets Under Management: $475,351,715**

Investment Philosophy

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

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

Staff Comments

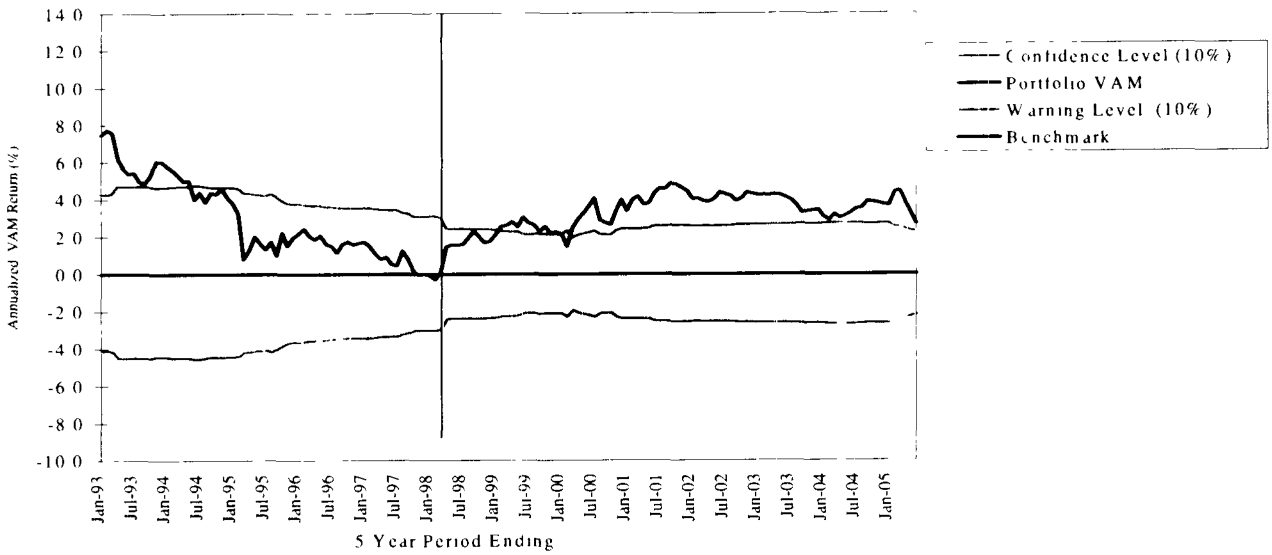
The portfolio underperformed over the quarter and the year primarily due to stock selection in the Netherlands and the portfolio's underweight position in Canada and Australia Stock selection in the consumer discretionary and energy sectors also detracted from returns over both periods.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.2%	-0.8%
Last 1 year	13 3	14.6
Last 2 years	20 8	23.0
Last 3 years	10 3	12.3
Last 4 years	6 3	6.4
Last 5 years	2 2	-0.4
Since Inception (4/93)	8.1	6 6

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, 2005

Portfolio Manager: Edward Baker **Assets Under Management: $247,903,442**

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

The portfolio's outperformance during the quarter and the year was primarily due to strong stock selection, particularly in Taiwan, Brazil and Israel. Performance for the year was also helped by stock selection in South Africa.

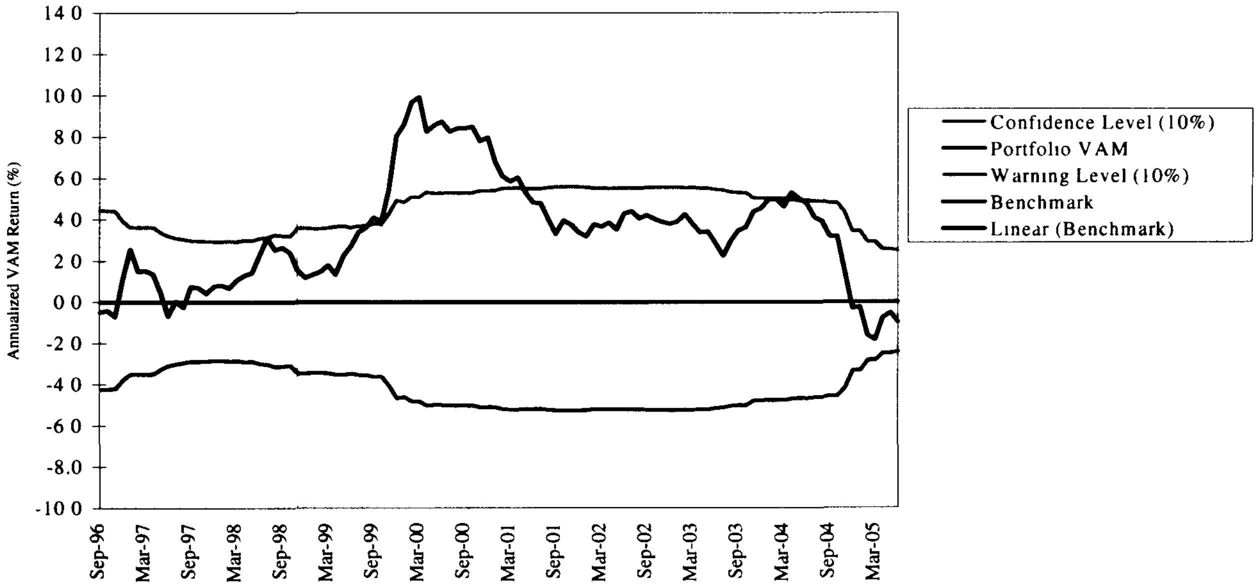
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.4	4.1
Last 1 year	34.9	34.4
Last 2 years	34.5	33.8
Last 3 years	25.4	24.0
Last 4 years	19.3	18.5
Last 5 years	N/A	N/A
Since Inception (3/01)	12.7	12.8

Recommendations

No action required.

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

CAPITAL INTERNATIONAL, INC.
Periods Ending June, 2005

Portfolio Manager: Victor Kohn **Assets Under Management: $205,060,250**

Investment Philosophy

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

Staff Comments

The portfolio outperformed significantly during the quarter, despite an underweight to the energy sector, a top performer Strong stock selection overall, particularly in South Africa, Taiwan and Brazil as well as in the materials, financials and consumer staples sectors contributed significantly to performance.

For the year, stock selection in Russia and South Africa detracted from the portfolio's return.

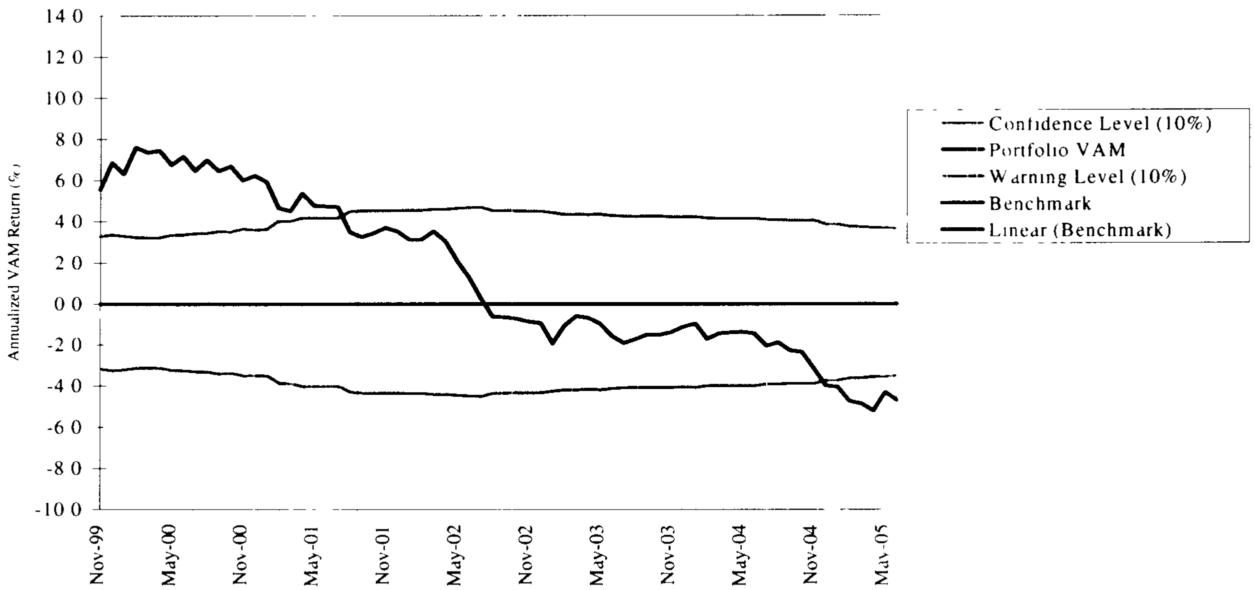
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.2	4 1
Last 1 year	32.9	34.4
Last 2 years	30.8	33 8
Last 3 years	21.7	24 0
Last 4 years	14.0	18.5
Last 5 years	N/A	N/A
Since Inception (3/01)	8.4	12.8

Recommendations

Staff is closely monitoring the firm due to performance concerns.

CAPITAL INTERNATIONAL, INC.
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Narayan Ramachandran **Assets Under Management: $247,971,886**

Investment Philosophy

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

Staff Comments

The portfolio underperformed during the quarter primarily due to stock selection, particularly in Thailand, South Africa, and China and in the telecom sector.

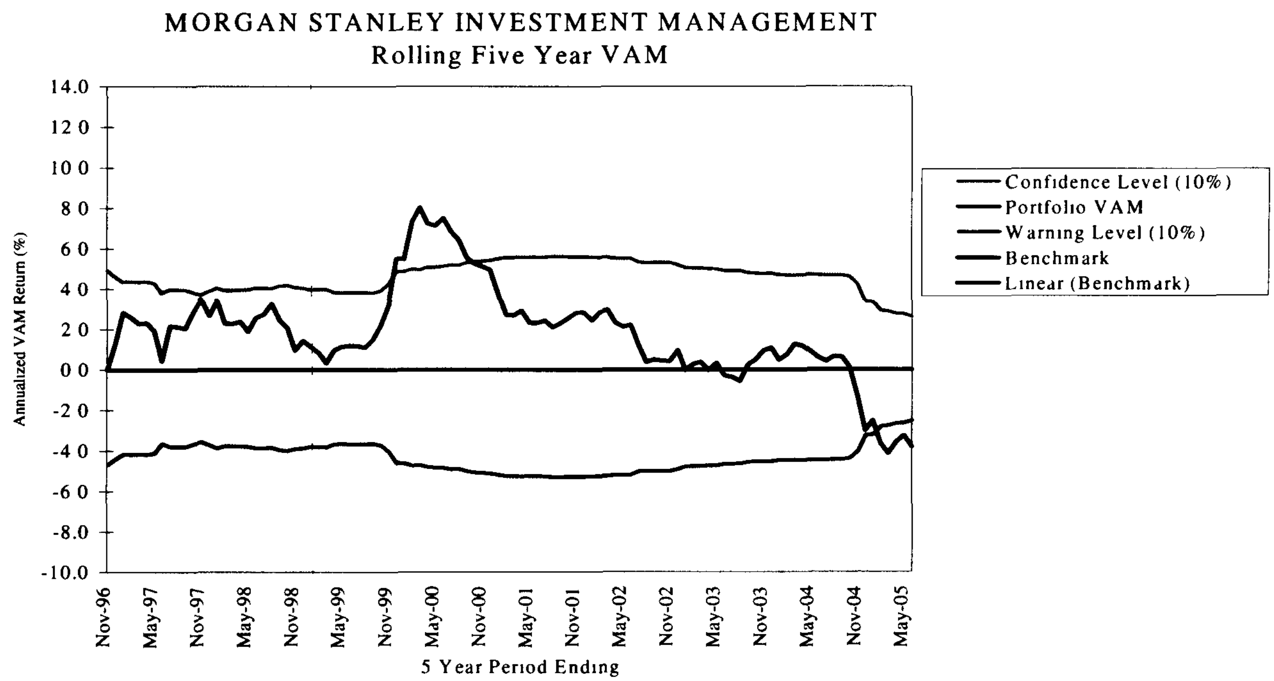
For the year, the portfolio's overweight position in Egypt, Turkey and Mexico along with stock selection in Taiwan added significant value.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.7%	4.1%
Last 1 year	34.6	34.4
Last 2 years	34.0	33.8
Last 3 years	23.4	24.0
Last 4 years	18.7	18.5
Last 5 years	N/A	N/A
Since Inception (3/01)	12.6	12.8

Recommendations

No action required.



Note Shaded area includes performance prior to the retention by the SBI

STATE STREET GLOBAL ADVISORS
Periods Ending June, 2005

Portfolio Manager: Lynn Blake **Assets Under Management: $1,844,930,277**

Investment Philosophy

State Street Global Advisors passively manages the portfolio against the Morgan Stanley Capital International (MSCI) index of 21 markets located in Europe, Australia and the Far East (EAFE) They buy only securities which are eligible for purchase by foreign investors, therefore they are benchmarked against the MSCI EAFE-Free (net) index SSgA fully replicates the index whenever possible because it results in lower turnover, higher tracking accuracy and lower market impact costs The MSCI EAFE-Free (net) index reinvests dividends assuming a withholding tax on dividends, according to the Luxembourg tax rate. Whereas the portfolio reinvests dividends using all available reclaims and tax credits available to a U.S pension fund, which should result in modest positive tracking error, over time.

Staff Comments

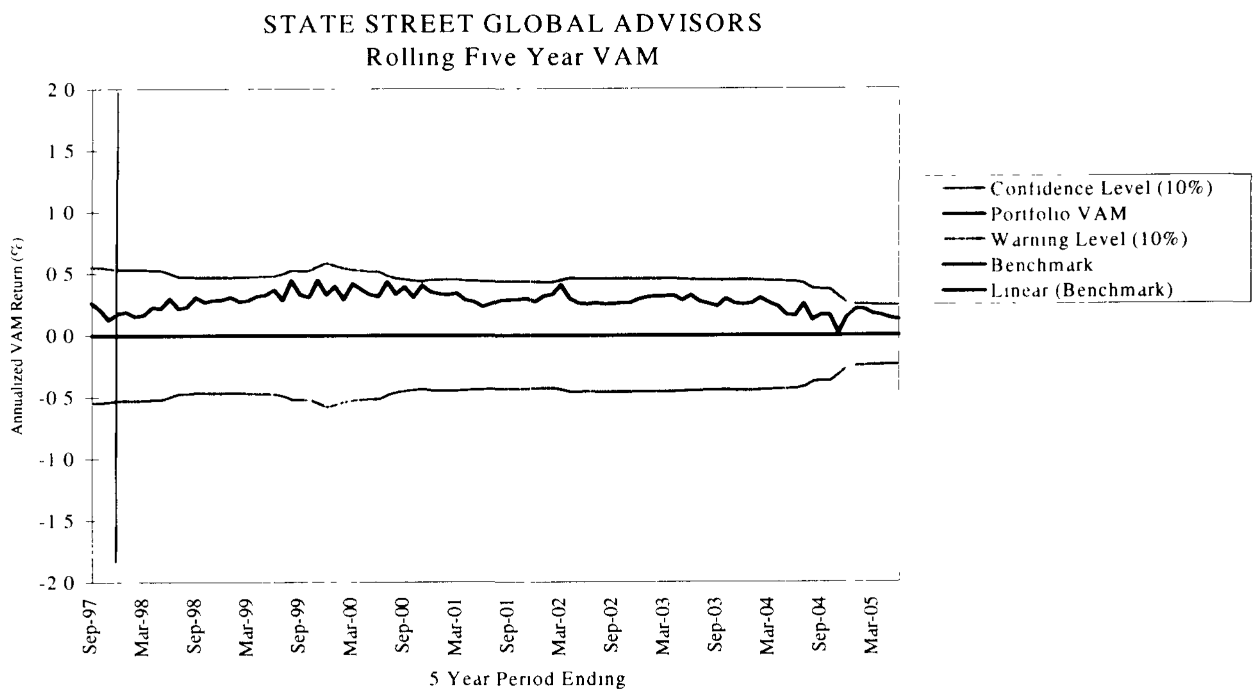
The portfolio's positive tracking error for the quarter and the year is within expectation

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0 7%	-0.8%
Last 1 year	14.7	14 6
Last 2 years	23 1	23.0
Last 3 years	12.5	12.3
Last 4 years	6.6	6.4
Last 5 years	-0.3	-0 4
Since Inception (10/92)	7 2	7.0

Recommendation

No action required



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, 2005

NON - RETIREMENT MANAGERS
Periods Ending June, 2005

	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)
GE Asset Management (S&P 500 Index)*	0.9	1.4	5.2	6.3	6.2	8.3	-0.8	-2.4	12.1	11.4	$66.9
Voyageur Asset Management (Custom Benchmark)*	2.3	2.4	5.1	4.9	4.3	4.3	5.8	6.3	6.7	6.7	$237.5
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	1.0	1.0	4.1	3.8	4.5	3.1	5.2	3.7	5.9	5.0	$175.2
Internal Stock Pool (S&P 500 Index)*	1.3	1.4	6.3	6.3	8.4	8.3	-2.3	-2.4	10.5	10.5	$662.3
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	2.7	3.0	7.2	6.8	6.7	5.8	7.5	7.4	8.2	7.9	$177.2
Internal Bond Pool - Trust (Lehman Aggregate)*	2.8	3.0	7.0	6.8	6.7	5.8	7.7	7.4	7.7	7.3	$429.0

* Benchmarks for the Funds are noted 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, 2005

Portfolio Manager: Dave Carlson **Assets Under Management: $66,949,637**

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 and the year. An overweight to consumer staples and security selection in the Telecom Services and Consumer Discretionary sectors detracted from performance. The one-year underperformance was impacted by stock selection in the financials, consumer staples and information technology sectors.

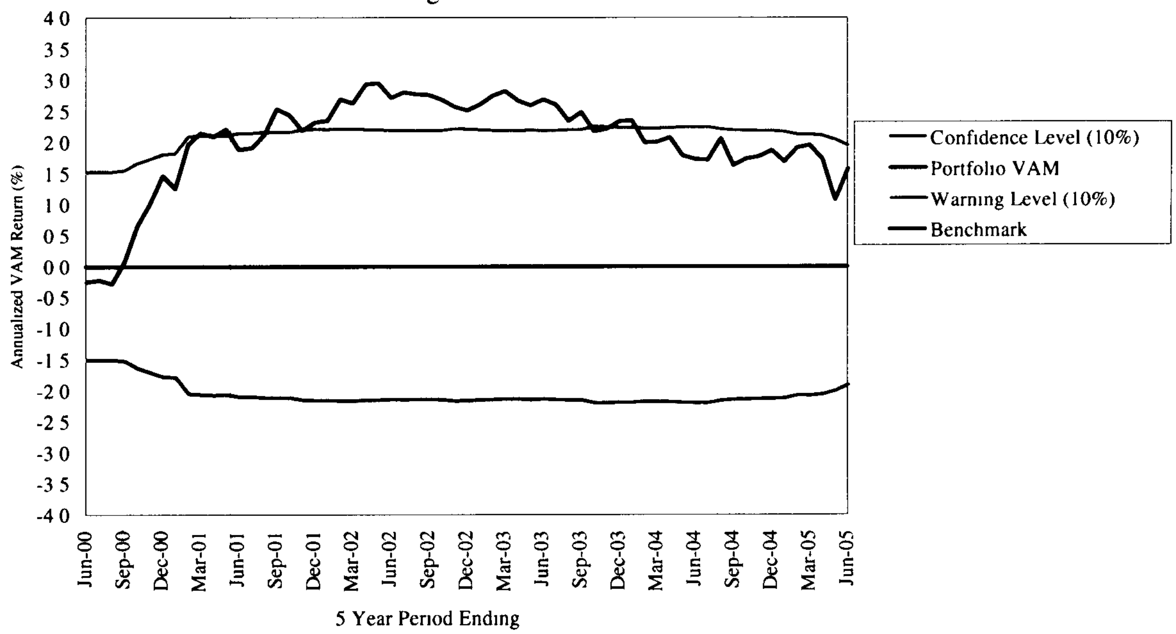
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.9%	1.4%
Last 1 year	5.2	6.3
Last 2 years	9.8	12.5
Last 3 years	6.2	8.3
Last 4 years	0.5	1.0
Last 5 years	-0.8	-2.4
Since Inception (1/95)	12.1	11.4

Recommendation

No recommendation at this time.

GE ASSET MANAGEMENT
Rolling Five Year VAM



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending June, 2005

Portfolio Manager: Tom McGlinch **Assets Under Management: $237,547,601**

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 trailed the benchmark for the quarter and outperformed for the year The quarterly performance was impacted by a slight underweight in mortgage-backed securities and a slight underweight in longer duration securities The one-year return was helped by the portfolio's strategy to increase the exposure to high-quality, high yielding investments

Quantitative Evaluation

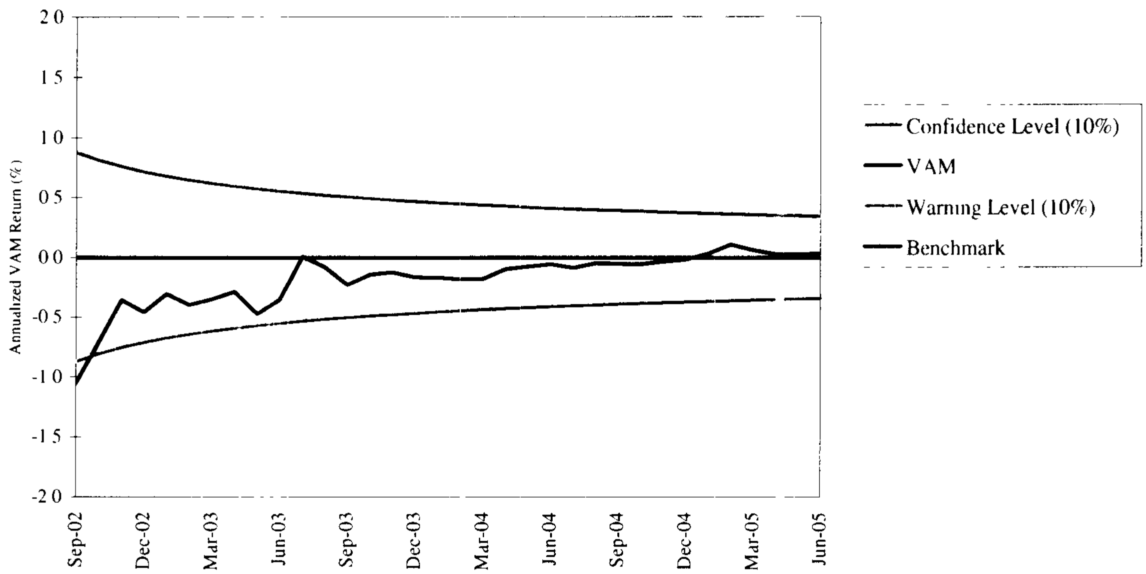
	Actual	Benchmark*
Last Quarter	2 3%	2 4%
Last 1 year	5 1	4 9
Last 2 years	2 8	2 5
Last 3 years	4 3	4 3
Last 4 years	4 8	5.3
Last 5 years	5 8	6.3
Since Inception (7/91)	6 7	6.7

*Custom benchmark since inception date.

Recommendation

No action required

VOYAGEUR ASSET MANAGEMENT
Cumulative VAM



GALLIARD CAPITAL MANAGEMENT
Periods Ending June, 2005

Portfolio Manager: Karl Tourville **Assets Under Management: $175,227,001**

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.

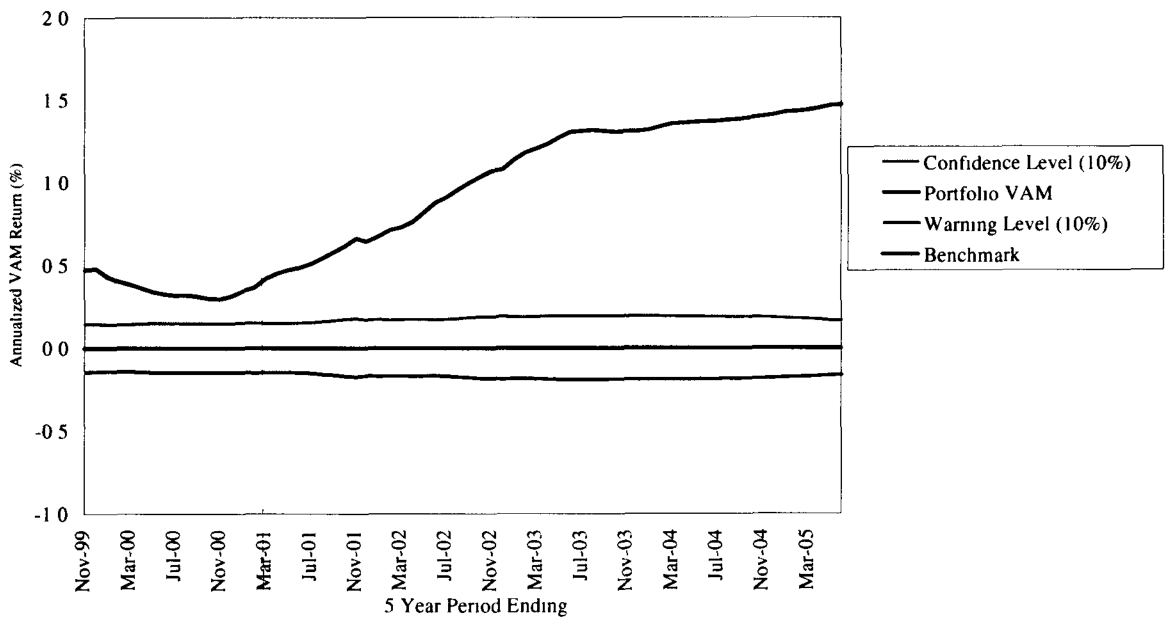
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.0%	1.0%
Last 1 year	4.1	3.8
Last 2 years	4.2	3.4
Last 3 years	4.5	3.1
Last 4 years	5.0	3.3
Last 5 years	5.2	3.7
Since Inception (11/94)	5.9	5.0

Recommendation

No action required.

GALLIARD CAPITAL MANAGEMENT
Rolling Five Year VAM



INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending June, 2005

Portfolio Manager: Mike Menssen **Assets Under Management: $662,344,423**

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

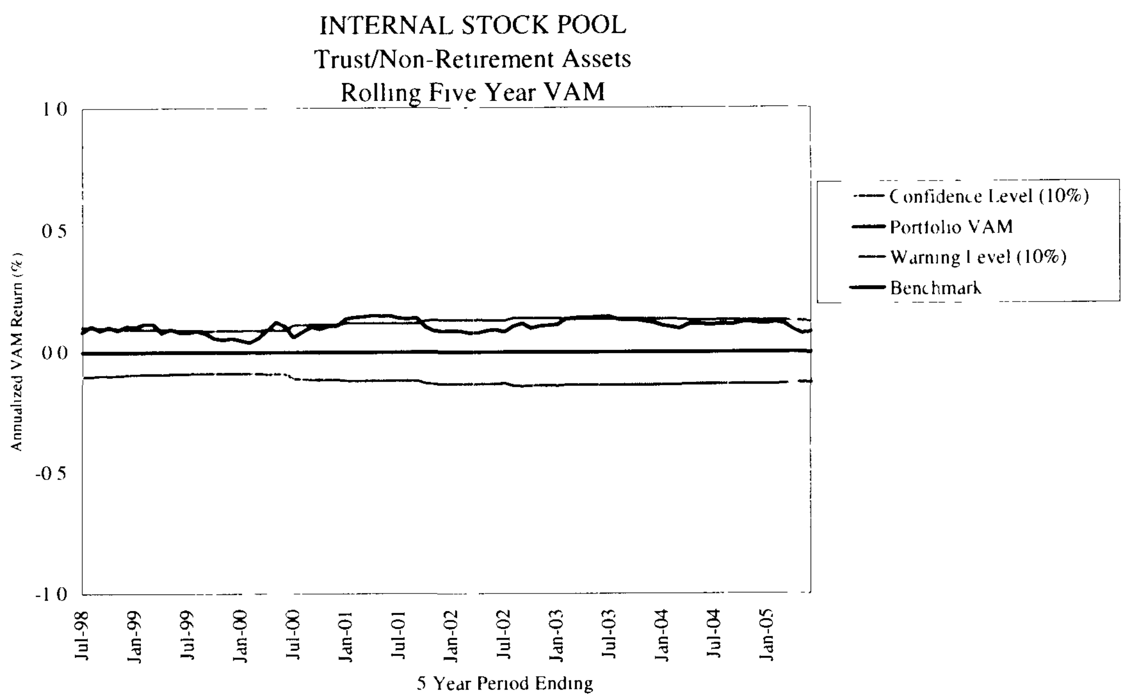
The portfolio slightly trailed the quarterly benchmark and matched for the year

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1 3%	1.4%
Last 1 year	6 3	6 3
Last 2 years	12 6	12 5
Last 3 years	8 4	8 3
Last 4 years	1 1	1 0
Last 5 years	-2 3	-2 4
Since Inception (7/93)	10 5	10.5

Recommendation

No action required



INTERNAL BOND POOL - Income Share Account
Periods Ending June, 2005

Portfolio Manager: Mike Menssen **Assets Under Management: $177,228,947**

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

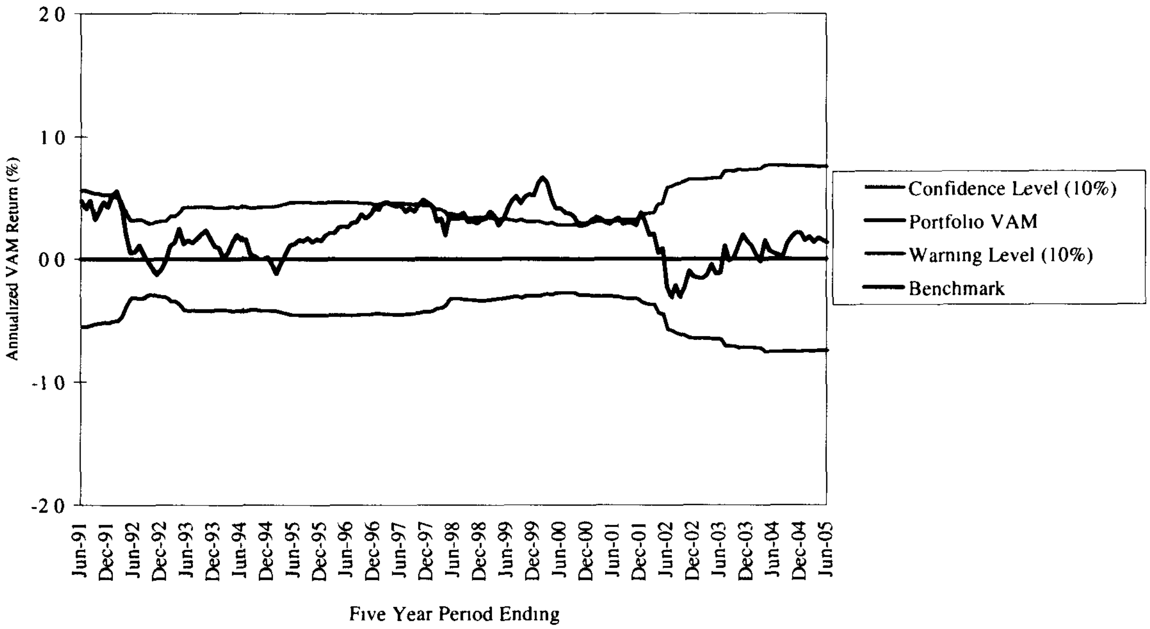
The internal bond pools trailed the quarterly benchmark and outperformed for the year. The quarterly return lagged due to a short duration position. Performance for the year was helped by an overweight to corporates, especially in the BBB portion, and a slight overweight to mortgages.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.7%	3.0%
Last 1 year	7.2	6.8
Last 2 years	4.3	3.5
Last 3 years	6.7	5.8
Last 4 years	6.6	6.5
Last 5 years	7.5	7 4
Since Inception (7/86)	8.2	7.9

Recommendation

No action required.



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending June, 2005

Portfolio Manager: Mike Menssen | **Assets Under Management: $428,963,623**

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 pools trailed the quarterly benchmark and outperformed for the year. The quarterly return lagged due to a short duration position. Performance for the year was helped by an overweight to corporates, especially in the BBB portion, and a slight overweight to mortgages.

Quantitative Evaluation

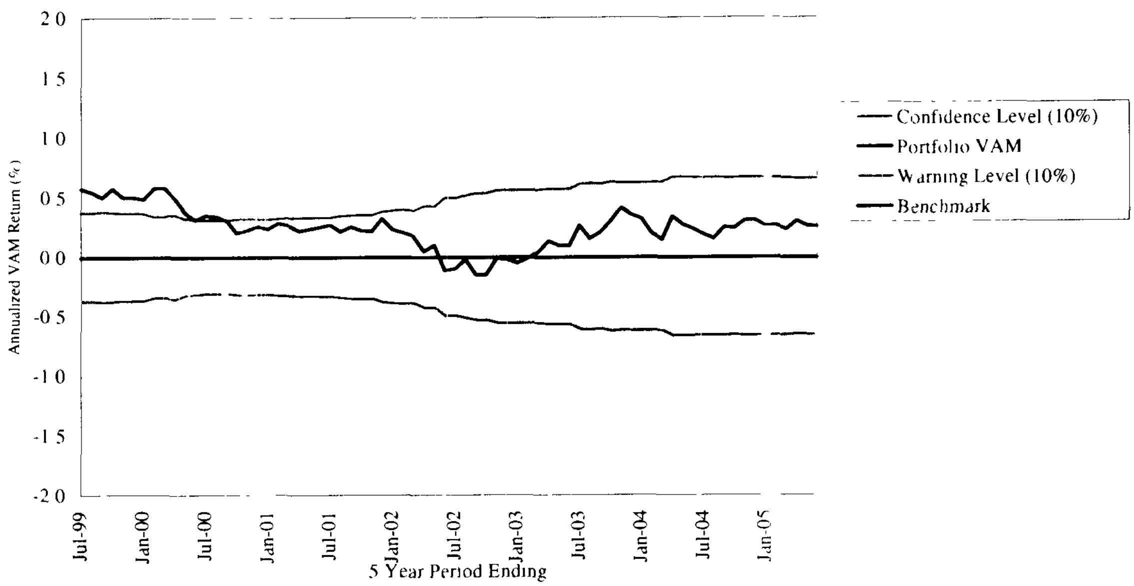
	Actual	Benchmark
Last Quarter	2.8%	3.0%
Last 1 year	7.0	6.8
Last 2 years	4.2	3.5
Last 3 years	6.7	5.8
Last 4 years	6.8	6.5
Last 5 years	7.7	7.4
Since Inception (7/94)*	7.7	7.3

* Date started managing the pool against the Lehman Aggregate.

Recommendation

No action required

INTERNAL BOND POOL - TRUST/NON-RETIREMENT ASSETS
Rolling Five Year VAM



STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

Second Quarter, 2005

MN STATE 457 DEFERRED COMPENSATION PLAN

MUTUAL FUND MANAGERS

Periods Ending June, 2005

457 Mutual Funds	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since Retention by SBI * %	Since Retention by SBI * %	State's Participation In Fund ($ millions)
Large Cap Equity:											
Janus Twenty (S&P 500)	6.4	1.4	12.9	6.3	12.1	8.3	-9.5	-2.4	-3.9	-0.8	$298.4
Smith Barney Appr Y (S&P 500)	-0.5	1.4	4.7	6.3	7.6	8.3	1.9	-2.4	8.3	9.7	$111.2
Vanguard Institutional Index Plus (S&P 500)	1.4	1.4	6.3	6.3	8.3	8.3	-2.3	-2.4	-0.8	-0.8	$401.4
Mid Cap Equity:											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	4.4	4.3	18.5	18.3	14.2	14.0	9.2	9.0	16.3	16.2	$67.3
Small Cap Equity:											
T. Rowe Price Small-Cap Stock (Russell 2000)	2.5	4.3	9.7	9.4	11.2	12.8	8.5	5.7	10.7	7.1	$347.7
Balanced:											
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	1.1	2.0	9.7	6.6	11.3	7.6	11.8	1.8	14.0	9.3	$198.2
Vanguard Balanced Index Inst. Fund (60% Wilshire 5000, 40% Lehman Agg)	2.7	2.6	7.9	7.8	8.5	8.5			8.5	8.5	$164.4
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)	2.1	3.0	5.6	6.8	6.0	5.8	7.9	7.4	7.2	6.9	$78.5
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	3.0	3.0	6.8	6.8	5.5	5.8	7.1	7.4	5.0	5.0	$47.1
International:											
Fidelity Diversified International (MSCI EAFE-Free)	0.4	-1.0	14.9	13.6	14.6	12.1	5.0	-0.5	9.1	2.2	$159.8
Vanguard Inst Dev. Mkts. Index (MSCI EAFE)	-1.2	-1.0	13.1	13.6	12.1	12.1			16.9	16.9	$29.9

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***:	4.6
Bid Rates for current quarter:	
Great West Life	4.6
Minnesota Life	4.4
Principal Life	4.7

***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, 2005

		State's Participation in Fund:	**$298,424,502**
Portfolio Manager:	**Scott W. Schoelzel**	**Total Assets in Fund:**	**$9,399,815,101**

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 for the quarter and outperformed the one-year benchmark. The quarterly performance was helped by stock selection, specifically Genetech and UnitedHealth Group.

Quantitative Evaluation

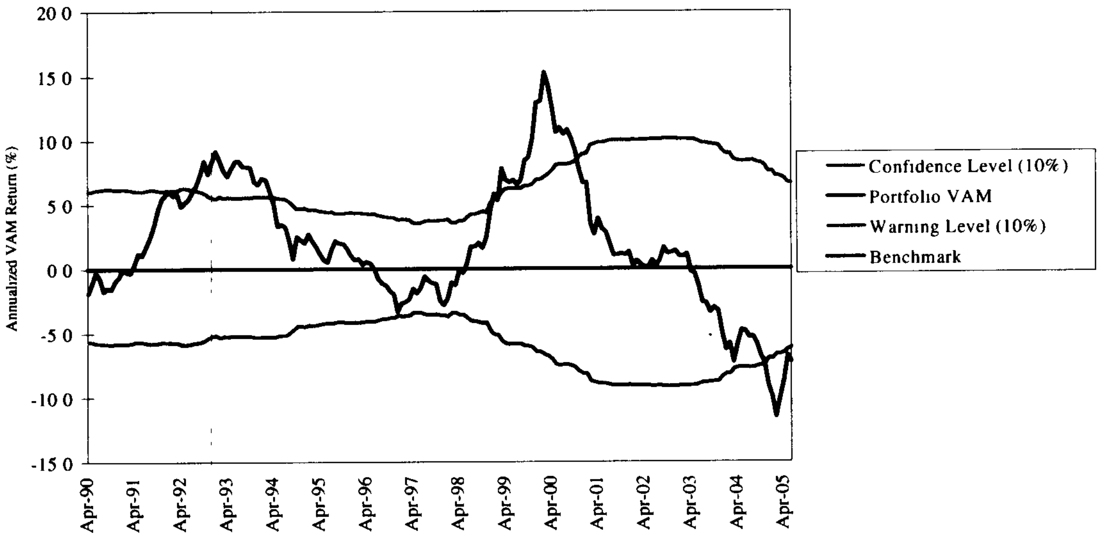
	Actual	Benchmark*
Last Quarter	6.4%	1.4%
Last 1 year	12.9	6.3
Last 2 years	17.4	12.5
Last 3 years	12.1	8.3
Last 4 years	0.8	1.0
Last 5 years	-9.5	-2.4
Since Retention by SBI (7/99)	-3.9	-0.8

*Benchmark is the S&P 500.

Recommendation

No action required.

LARGE CAP EQUITY - JANUS TWENTY
Rolling Five Year VAM



Five Year Period Ending
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, 2005

State's Participation in Fund: $111,172,392
Portfolio Manager: Scott Glasser **Total Assets in Fund: $5,885,982,448**

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 lagged the quarterly benchmark. Stock selection in the Industrials and Financial sectors, along with an overweight to Industrials and Materials hurt performance for the quarter. The one-year return was hurt by stock selection in the Health Care and Industrials sectors.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-0.5%	1.4%
Last 1 year	4.7	6.3
Last 2 years	10.9	12.5
Last 3 years	7.6	8.3
Last 4 years	2.2	1.0
Last 5 years	1.9	-2.4
Since Retention by SBI (12/03)	8.3	9.7

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

Recommendation

No action required

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, 2005

State's Participation in Fund: $401,375,203

Portfolio Manager: George U. Sauter | **Total Assets in Fund: $14,040,731,057**

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

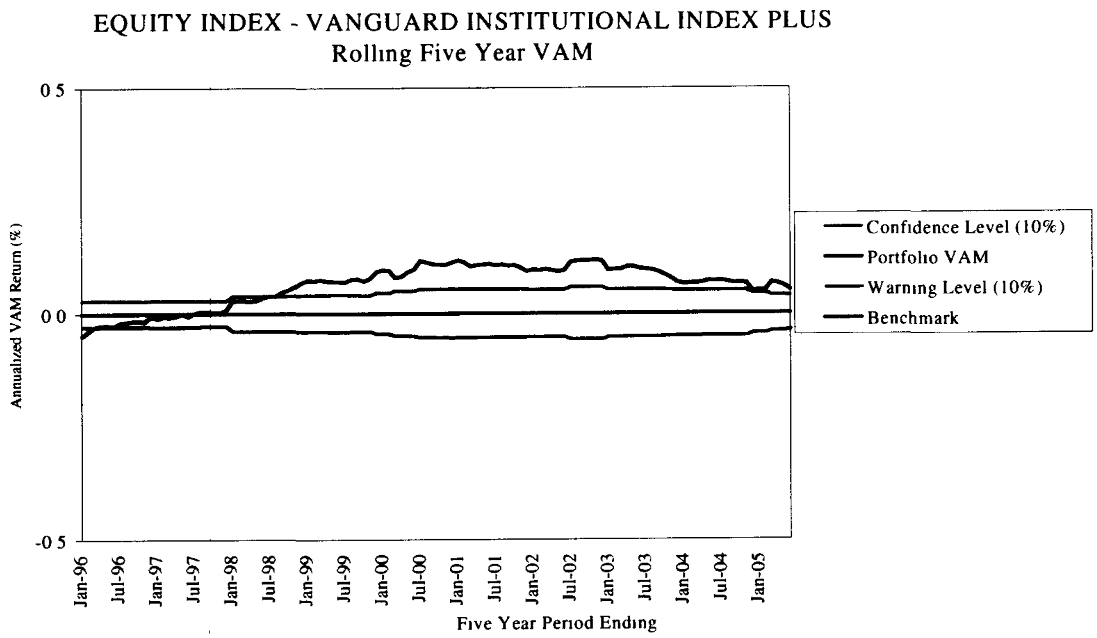
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.4%	1.4%
Last 1 year	6.3	6.3
Last 2 years	12.5	12.5
Last 3 years	8.3	8.3
Last 4 years	1.1	1.0
Last 5 years	-2.3	-2.4
Since Retention by SBI (7/99)	-0.8	-0.8

*Benchmark is the S&P 500.

Recommendation

No action required.



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, 2005

		State's Participation in Fund:	**$67,259,188**
Portfolio Manager:	**George U. Sauter**	**Total Assets in Fund:**	**$2,130,874,992**

Investment Philosophy
Vanguard Mid-Cap Index

The fund employs a "passive management"- or indexing- investment approach designed to track the performance of the MSCI® US Mid Cap 450 Index, a broadly diversified index of stocks of medium-size U.S companies The fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting within the index.

Staff Comments

No comment at this time

Quantitative Evaluation

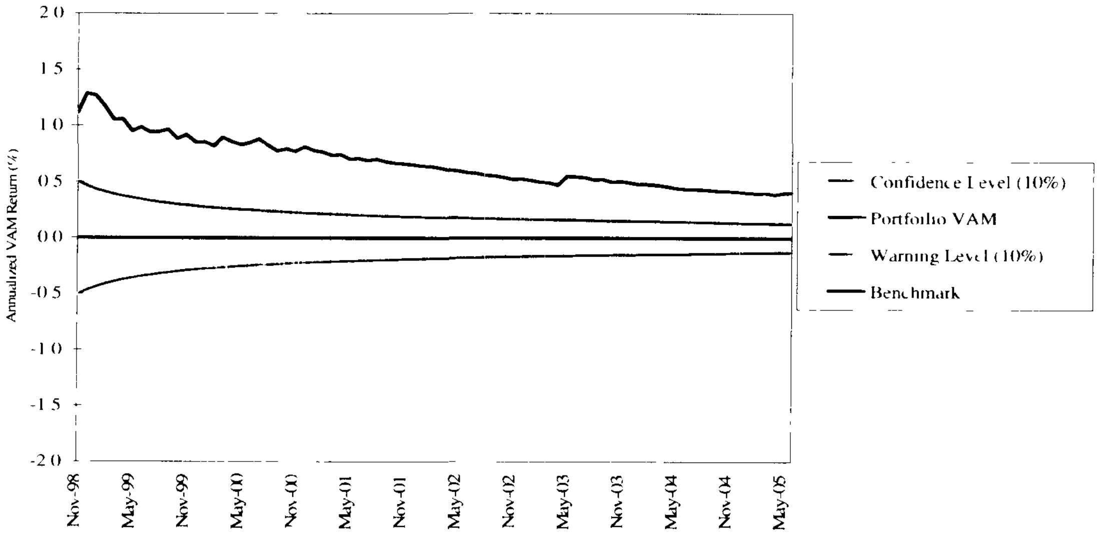
	Actual	Benchmark*
Last Quarter	4.4%	4 3%
Last 1 year	18.5	18 3
Last 2 years	23 1	23 0
Last 3 years	14 2	14 0
Last 4 years	9 2	9 0
Last 5 years	9 2	9 0
Since Retention by SBI (1/04)	16 3	16 2

*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, 2005

Portfolio Manager: Gregory A. McCrickard	**State's Participation in Fund:** 347,697,422
	Total Assets in Fund: 6,861,158,848

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 trailed the quarterly benchmark and outperformed the one-year benchmark. Poor stock selection in the industrials and consumer discretionary sectors hampered returns. The one-year return was helped by the strategy's stock selection and overweight in health care, and stock selection in information technology.

Quantitative Evaluation

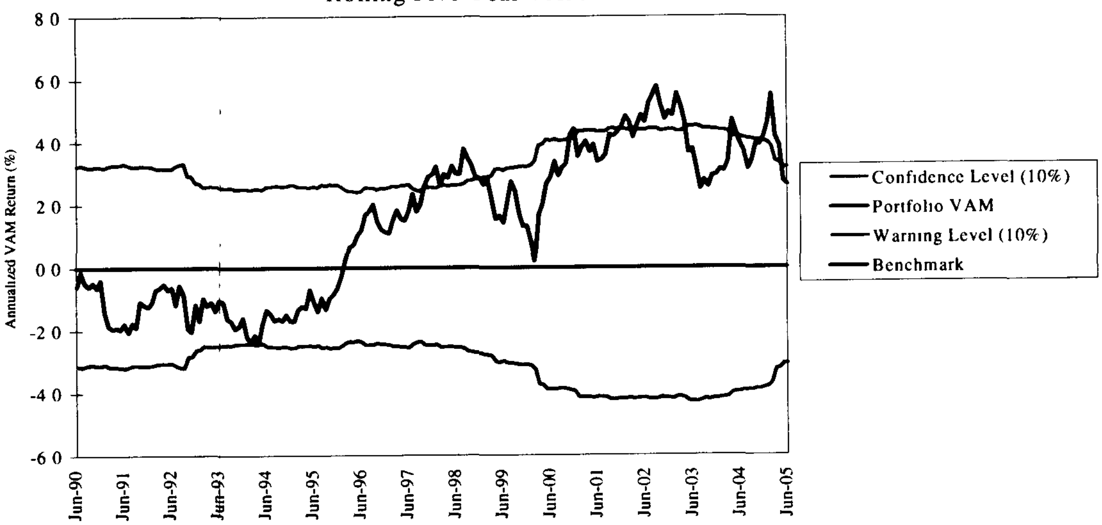
	Actual	Benchmark*
Last Quarter	2.5%	4.3%
Last 1 year	9.7	9.4
Last 2 years	18.5	20.8
Last 3 years	11.2	12.8
Last 4 years	8.0	7.0
Last 5 years	8.5	5.7
Since Retention by SBI (7/99)	10.7	7.1

*Benchmark is the Russell 2000.

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, 2005

State's Participation in Fund: **$198,239,070**

Portfolio Manager: John Gunn **Total Assets in Fund:** **$22,489,962,317**

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 underperformed the quarterly benchmark due to the equity portfolio and fixed income portfolio trailing their respective benchmarks The equity portfolio was hurt by security selection and an overweight in the Consumer Discretionary sector. The fixed income portfolio was negatively impacted by its shorter than benchmark duration

Quantitative Evaluation

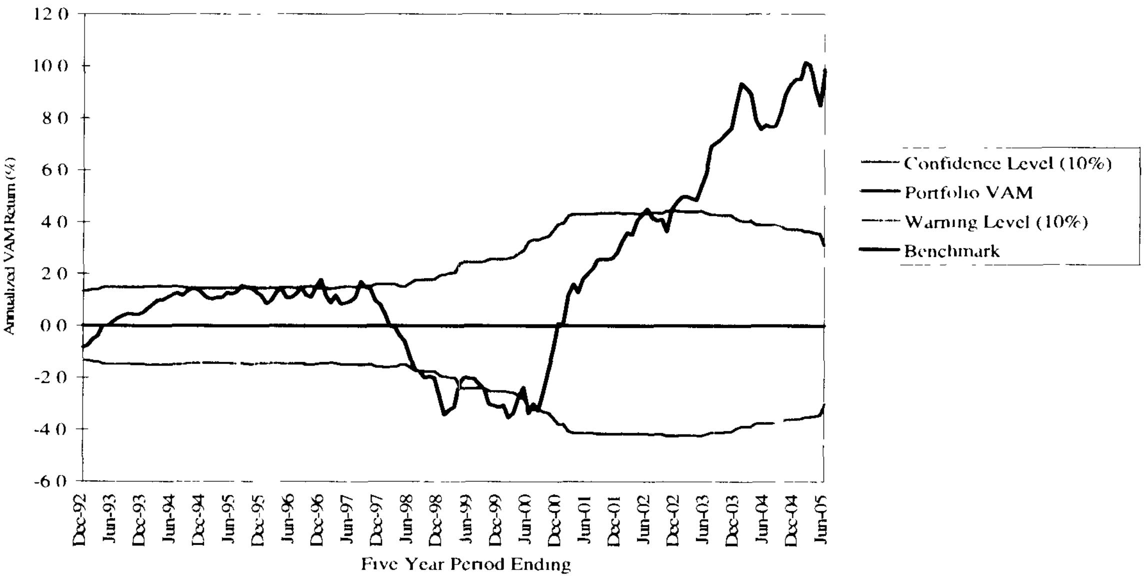
	Actual	Benchmark*
Last Quarter	1.1%	2 0%
Last 1 year	9 7	6 6
Last 2 years	14 2	9 0
Last 3 years	11 3	7 6
Last 4 years	9 1	3 5
Last 5 years	11 8	1 8
Since Retention By SBI (10/03)	14.0	9 3

*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, 2005

State's Participation in Fund:	**$164,372,555**
Total Assets in Fund:	**$1,846,658,473**

Portfolio Manager: George U. Sauter

Investment Philosophy
Vanguard Balanced Index Fund

The fund's assets are divided between stocks and bonds, with an average of 60% of its assets in stocks and 40% in bonds. The fund's stock segment attempts to track the performance of the Wilshire 5000 Total Market Index, an unmanaged index that covers all regularly traded U.S. stocks. The fund's bond segment attempts to track the performance of the Lehman Brothers Aggregate Bond Index, an unmanaged index that covers virtually all taxable fixed-income securities.

Staff Comments

No comment at this time.

Quantitative Evaluation

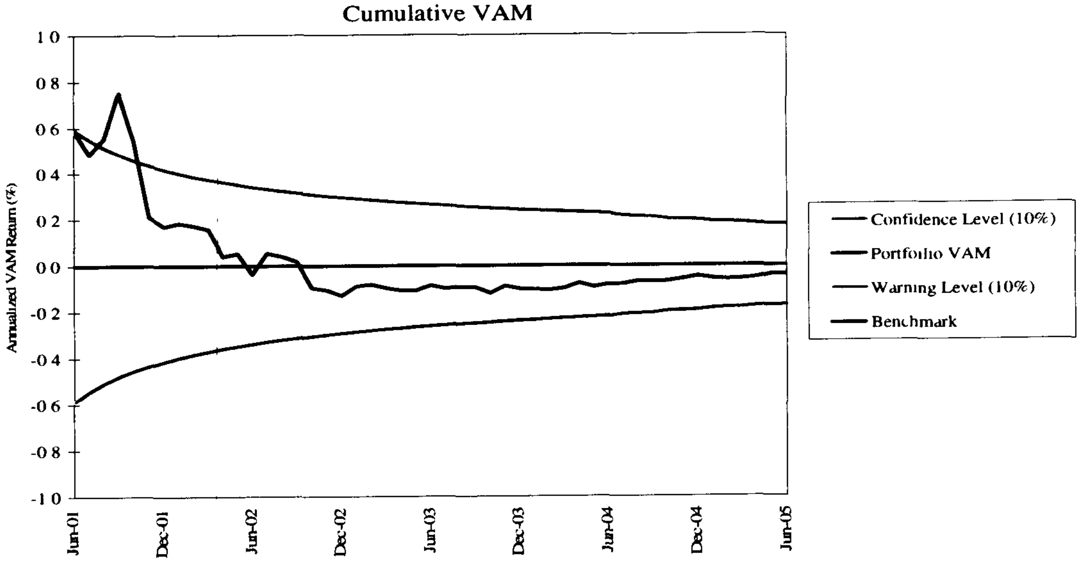
	Actual	Benchmark*
Last Quarter	2.7%	2.6%
Last 1 year	7.9	7.8
Last 2 years	10.1	10.1
Last 3 years	8.5	8.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Retention by SBI (12/03)	8.5	8.5

*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, 2005

State's Participation in Fund:	**$78,534,452**
Total Assets in Fund:	**$8,967,139,564**

Portfolio Manager: Dana Emery

Investment Philosophy
Dodge & Cox Income Fund

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

Staff Comments

Dodge & Cox trailed the quarterly benchmark The fund's shorter than benchmark duration along with their positioning along the yield curve hurt performance

Quantitative Evaluation

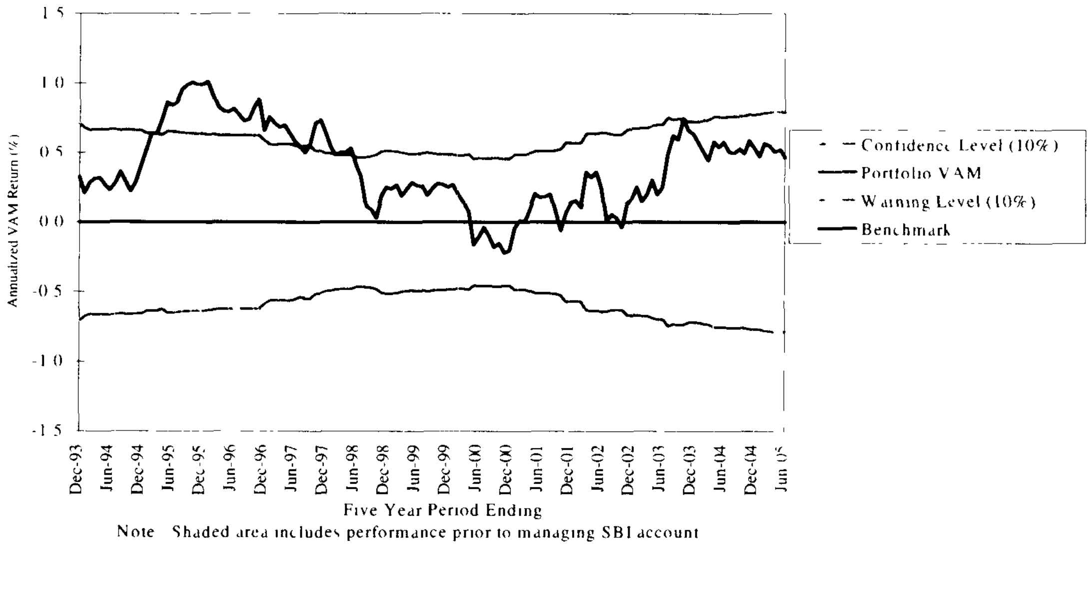
	Actual	Benchmark*
Last Quarter	2 1%	3 0%
Last 1 year	5 6	6.8
Last 2 years	3 6	3 5
Last 3 years	6 0	5.8
Last 4 years	6 8	6.5
Last 5 years	7 9	7 4
Since Retention By SBI (10/03)	7.2	6 9

*Benchmark is the Lehman Aggregate

Recommendation

No action required

BOND - DODGE & COX INCOME FUND
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – VANGUARD TOTAL BOND MARKET INDEX INSTITUTIONAL
Periods Ending June, 2005

	State's Participation in Fund:	**$47,052,132**
Portfolio Manager: Robert Auwaerter	**Total Assets in Fund:**	**$8,294,140,594**

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.

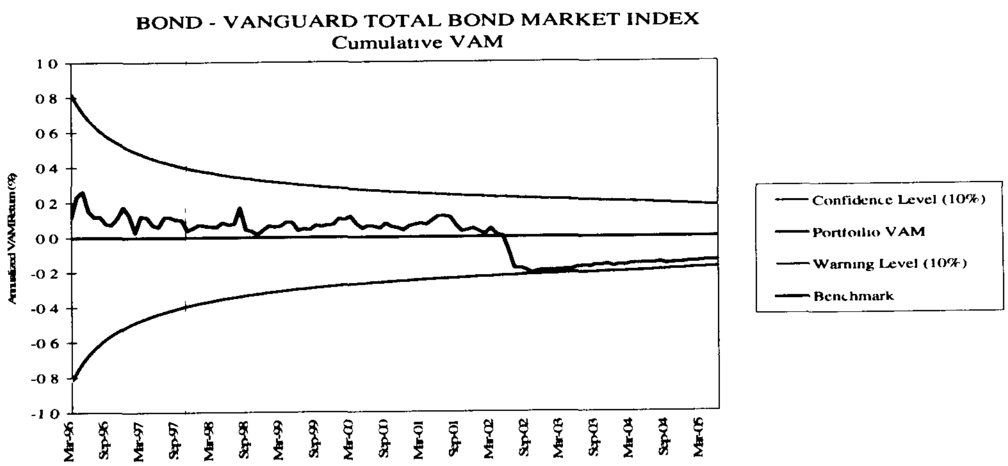
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	3.0%	3.0%
Last 1 year	6.8	6.8
Last 2 years	3.5	3.5
Last 3 years	5.5	5.8
Last 4 years	5.9	6.5
Last 5 years	7.1	7.4
Since Retention by SBI (12/03)	5.0	5.0

*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, 2005

	State's Participation in Fund: $159,809,130
Portfolio Manager: William Bower	**Total Assets in Fund: $26,251,210,000**

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 outperformed the quarterly benchmark due to stock selection in the financials sector. The one-year return was helped by stock selection in the consumer discretionary and information technology sectors.

Quantitative Evaluation

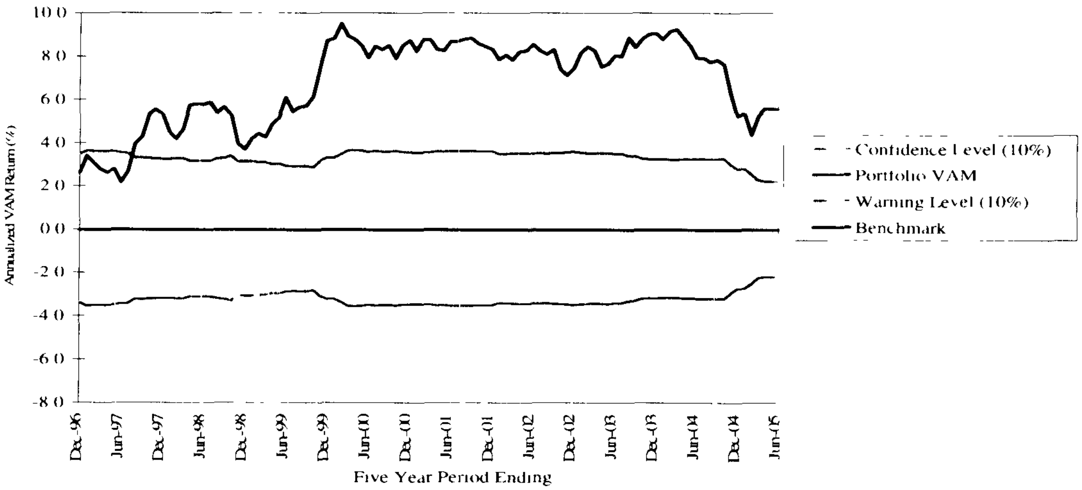
	Actual	Benchmark*
Last Quarter	0.4%	-1.0%
Last 1 year	14.9	13.6
Last 2 years	23.2	22.7
Last 3 years	14.6	12.1
Last 4 years	10.5	6.3
Last 5 years	5.0	-0.5
Since Retention By SBI (7/99)	9.1	2.2

*Benchmark is the MSCI EAFE-Free

Recommendation

No action required

INTERNATIONAL - FIDELITY DIVERSIFIED INTERNATIONAL
Rolling Five Year VAM



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – VANGUARD INSTITUTIONAL DEVELOPED MARKETS INDEX
Periods Ending June, 2005

	State's Participation in Fund:	**$29,904,550**
Portfolio Manager: George U. Sauter	**Total Assets in Fund:**	**$1,417,986,754**

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

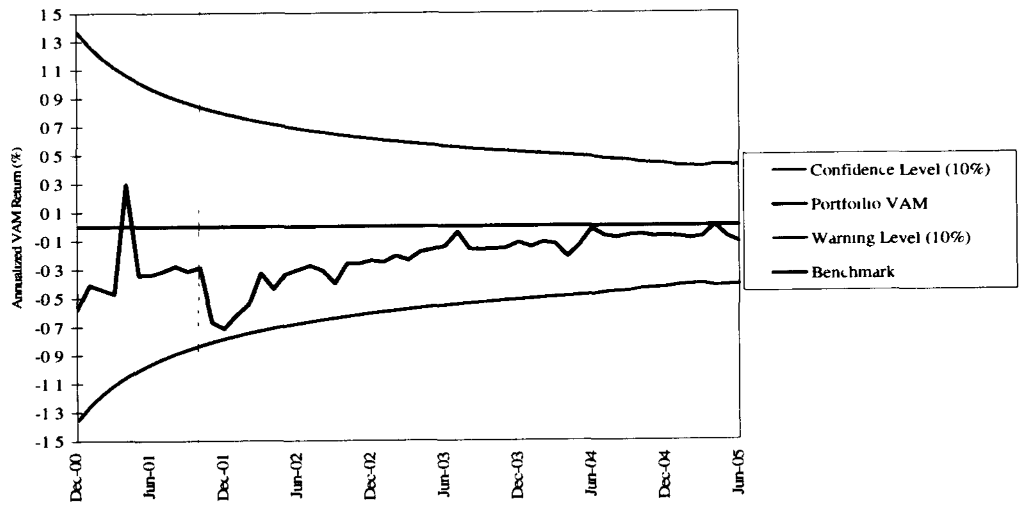
	Actual	Benchmark*
Last Quarter	-1.2%	-1.0%
Last 1 year	13.1	13.6
Last 2 years	22 6	22.7
Last 3 years	12 1	12.1
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Retention by SBI (12/03)	16.9	16.9

*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, 2005

Total Assets in MN Fixed Fund: $687,318,965 *
*Includes $14-18M in Liquidity Buffer Account

Total Assets in 457 Plan: $714,908,874 **
**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: $299,214,948

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: $148,432,214

Assets in Prior MN 457 Plan: $0

Total Assets: $148,432,214

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: $218,237,571

Assets in Prior MN 457 Plan: $27,589,909

Total Assets: $245,827,480

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.

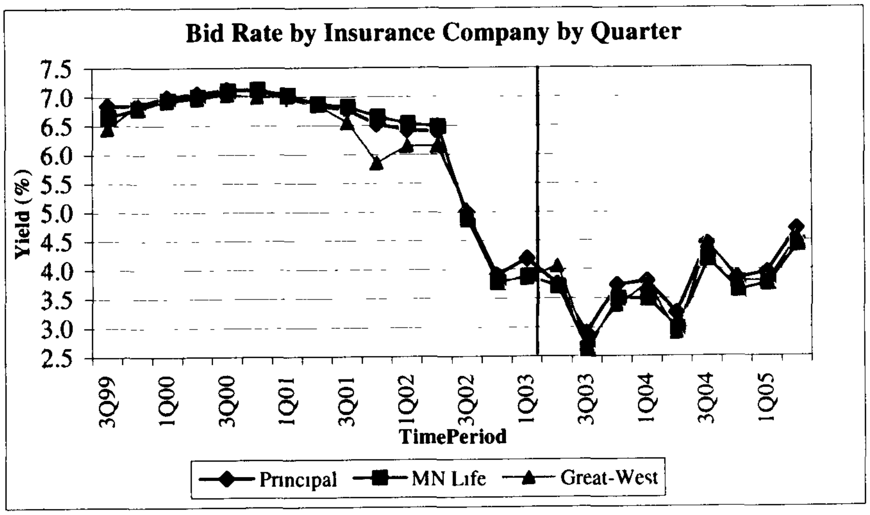
MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending June, 2005

Current Quarter

Dollar Amount of Bid: $35,400,000 **Blended Rate: 4.63%**

Bid Rates:

Principal Life	4.70%	Contracts were renewed in June 2002. Under these contracts, bid rates are effective for five years on the quarterly cash flows, the bid rate bands were narrowed to 8 b.p. from 10 b.p., and additional bid scenarios were added. All changes were effective for 3Q 2002 bids. The separate portfolio managed by Minnesota Life (previously referred to as the "existing portfolio") no longer exits. All assets of that portfolio matured in June 2004 and have been rolled into the Fixed Fund.
Minnesota Life	4.42%	
Great-West Life	4.55%	



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

	3Q04	4Q04	1Q05	2Q05	Staff Comments
Principal Life	50.0%	40.0%	50.0%	60.0%	Principal received 60% of the second quarter bid dollars, and Great West received 40%.
Minnesota Life	0.0%	20.0%	20.0%	0.0%	
Great-West Life	50.0%	40.0%	30.0%	40.0%	

Tab E

COMMITTEE REPORT

DATE: August 30, 2005

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

FROM: Alternative Investment Committee

The Alternative Investment Committee met on August 17, 2005 to review the following information and action agenda items:

- Review of current strategy.
- Review of key terms and conditions for private equity fund investing.
- New investments with three existing managers, Thoma Cressey, Blackstone and Vestar.

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.

2) Review of key terms and conditions for private equity fund investing.

In 1995, a group of nine state public funds commissioned William M. Mercer, Incorporated (Mercer), a leading global consulting firm, to direct a study on contractual issues and investment practices. Mercer was asked to survey leading Limited Partners (LP's) and General Partners (GP's) and provide ideas to help private equity investors develop practices to improve the alignment of interests between LP's and GP's. Over the years since the Mercer study, limited partners have made some improvements to the terms and conditions governing private equity limited partnership investments. In particular, limited partners have improved their sharing ratio for any investment transaction fees, induced general partners to invest more of their own money into the fund and insisted on the routine establishment of limited partner advisory boards.

ACTION ITEMS:

1) Investment with an existing private equity manager, Thoma Cressey, in Thoma Cressey Fund VIII, L.P.

Thoma Cressey is seeking investors for a new $700 million private equity fund. This fund is a successor to two prior private equity funds managed by Thoma Cressey and five predecessor funds managed, in a large part, by the principals of Thoma Cressey. The SBI has an aggregate investment of $85 million in the two prior Thoma Cressey funds and an aggregate investment of $64 million in three of the five predecessor funds. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments.

More information on Thoma Cressey Fund VIII, 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 $75 million or 20%, whichever is less, in Thoma Cressey Fund VIII, 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 Thoma Cressey upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Thoma Cressey or reduction or termination of the commitment.

2) **Investment with an existing private equity manager, Blackstone, in Blackstone Capital Partners V, L.P.**

Blackstone is seeking investors for a new $12.5 billion private equity fund. This fund is a successor to five prior private equity funds managed by Blackstone. The SBI invested an aggregate of $120 million in two of the prior funds. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments.

More information on Blackstone Capital Partners V, L.P., is included as **Attachment D**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in Blackstone Capital Partners V, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Blackstone upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Blackstone or reduction or termination of the commitment.

3) **Investment with an existing private equity manager, Vestar, in Vestar Capital Partners V, L.P.**

Vestar is seeking investors for a new $3.5 billion private equity fund. This fund is a successor to four prior private equity funds managed by Vestar. The SBI has an investment of $55 million in the most recent prior fund. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments.

More information on Vestar Capital Partners V, L.P. is included as **Attachment E.**

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 $75 million or 20%, whichever is less, in Vestar Capital Partners V, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Vestar upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Vestar or reduction or termination of the commitment.

ATTACHMENT A

Minnesota State Board of Investment

Pooled Alternative Investments

Combined Retirement Funds

June 30, 2005

Basic Retirement Funds Market Value	$20,374,260,872
Post Retirement Fund Market Value	$19,390,141,286
Amount Available for Investment	**$1,992,048,131**

	Current Level	Target Level	Difference
Market Value (MV)	$3,390,907,954	$5,382,956,085	$1,992,048,131
MV +Unfunded	$5,632,941,082	$8,074,434,128	$2,441,493,046

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	$1,667,823,640	$1,329,586,842	$2,997,410,483
Real Estate	$695,050,675	$180,517,672	$875,568,347
Resource	$244,246,525	$80,643,879	$324,890,404
Yield-Oriented	$783,787,114	$651,284,735	$1,435,071,849
Total	$3,390,907,954	$2,242,033,128	$5,632,941,082

ATTACHMENT B

Minnesota State Board of Investment

- Alternative Investments -

As of June 30, 2005

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate							
Colony Capital							
Colony Investors II	80,000,000	78,482,328	312,048	88,273,673	1,517,672	4 3	10 2
Colony Investors III	100,000,000	100,000,000	29,023,000	128,382,457	0	13 6	7 5
CSFB Strategic Partners RE II	25,000,000	0	0	0	25,000,000	N/A	0 0
Equity Office Properties Trust	258,062,214	258,062,214	130,060,224	369,043,902	0	15 5	13 6
Heitman							
Heitman Advisory Fund II	30,000,000	30,000,000	56,870	43,528,725	0	4 0	19 6
Heitman Advisory Fund V	20,000,000	20,000,000	329,438	35,450,332	0	8 6	13 6
Lehman Brothers Real Estate Partners II	75,000,000	0	0	0	75,000,000	N/A	0 0
Morgan Stanley (Lend Lease)	46,526,622	46,526,622	188,041,519	13,290,580	0	7 1	23 7
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	40,000,000	13,496,355	70,896,045	0	11 3	11 1
Realty Associates Fund IV	50,000,000	50,000,000	26,370,163	70,259,691	0	12 3	8 4
Realty Associates Fund V	50,000,000	50,000,000	50,818,356	26,281,266	0	10 0	6 1
Realty Associates Fund VI	50,000,000	46,000,000	46,238,543	9,556,671	4,000,000	13 0	3 0
Realty Associates Fund VII	75,000,000	0	0	117,783	75,000,000	N/A	0 6
UBS Realty	42,376,529	42,376,529	210,304,158	0	0	7 7	23 2
Real Estate Total	**941,965,365**	**761,447,693**	**695,050,675**	**855,081,125**	**180,517,672**		
Resource							
Apache Corp III	30,000,000	30,000,000	8,829,600	50,662,478	0	12 5	18 5
First Reserve							
First Reserve I	15,000,000	15,000,000	26,361	14,552,526	0	-0 3	23 7
First Reserve II	7,000,000	7,000,000	60,906	14,879,948	0	5 9	22 4
First Reserve V	16,800,000	16,800,000	186,049	50,261,377	0	16 2	15 2
First Reserve VII	40,000,000	40,000,000	2,800,349	55,976,613	0	9 8	9 0
First Reserve VIII	100,000,000	100,000,000	39,370,871	114,793,832	0	11 3	7 2
First Reserve IX	100,000,000	97,978,017	115,501,360	101,209,314	2,021,983	43 1	4 2
First Reserve X	100,000,000	27,930,131	27,240,760	0	72,069,869	N/A	0 7
Simmons							
Simmons - SCF Fund II	17,000,000	14,706,629	999,999	30,582,945	2,293,371	9 2	13 9
Simmons - SCF Fund III	25,000,000	23,380,337	12,612,317	50,318,179	1,619,663	18 3	10 0
Simmons - SCF Fund IV	50,000,000	47,361,007	33,677,954	41,958,887	2,638,993	11.2	7 2
T. Rowe Price	32,471,891	32,471,891	2,940,000	49,491,500	N/A	27 6	N/A
Resource Total	**533,271,891**	**452,628,012**	**244,246,525**	**574,687,599**	**80,643,879**		

Minnesota State Board of Investment

- Alternative Investments -

As of June 30, 2005

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Yield-Oriented							
Carbon Capital	50,000,000	46,184,308	25,428,407	32,859,687	3,815,692	15 4	3 1
CT Mezzanine Partners	100,000,000	36,804,097	4,223,143	48,101,028	63,195,903	20 5	3 8
Citicorp Mezzanine							
Citicorp Mezzanine Partners	40,000,000	40,000,000	9,125,290	44,523,112	0	9 4	10 5
Citicorp Mezzanine Partners III	100,000,000	87,473,292	72,898,031	46,565,642	12,526,708	16 6	5 7
DLJ Investment Partners II	50,000,000	18,438,905	4,761,205	22,515,480	31,561,095	9 9	5 5
Gold Hill Venture Lending	40,000,000	14,000,000	13,635,048	278,010	26,000,000	N/A	0 8
GS Mezzanine Partners							
GS Mezzanine Partners II	100,000,000	88,090,509	54,128,517	51,691,598	11,909,491	7 3	5 3
GS Mezzanine Partners III	75,000,000	29,334,293	28,124,466	4,493,345	45,665,707	13 9	2 0
GTCR Capital Partners	80,000,000	69,589,422	42,931,217	49,261,786	10,410,578	8 3	5 6
GMAC Institutional Advisors							
Institutional Commercial Mortgage Fd II	13,500,000	13,397,500	2,997,971	18,755,871	102,500	9 7	9 9
Institutional Commercial Mortgage Fd III	21,500,000	21,275,052	12,331,403	21,808,899	224,948	8 4	8 6
Institutional Commercial Mortgage Fd IV	14,300,000	14,300,000	9,901,547	11,548,679	0	8 2	7 5
Institutional Commercial Mortgage Fd V	37,200,000	37,200,000	32,200,155	19,041,515	0	8 4	5 9
KB Mezzanine Partners Fund II	25,000,000	25,000,000	2,457,564	9,269,941	0	-16 0	9 7
Merit Capital Partners (fka William Blair)							
William Blair Mezzanine Fund III	60,000,000	55,521,600	40,932,564	30,446,400	4,478,400	8 7	5 5
Merit Mezzanine IV	75,000,000	3,375,000	3,082,280	0	71,625,000	N/A	0 5
Merit Energy Partners							
Merit Energy Partners B	24,000,000	24,000,000	28,882,348	32,407,421	0	18 2	9 0
Merit Energy Partners C	50,000,000	50,000,000	85,942,168	26,724,787	0	22 3	6 7
Merit Energy Partners D	88,000,000	84,555,902	104,993,105	9,486,541	3,444,098	14 3	4 1
Merit Energy Partners E	100,000,000	37,615,186	39,377,524	226,382	62,384,814	N/A	0 7
Merit Energy Partners F	100,000,000	0	0	0	100,000,000	N/A	0 0
Prudential Capital Partners							
Prudential Capital Partners I	100,000,000	91,488,041	51,392,521	54,420,076	8,511,959	7 8	4 2
Prudential Capital Partners II	100,000,000	2,608,091	2,608,091	0	97,391,909	N/A	0 0
Summit Partners							
Summit Sub Debt Fund I	20,000,000	18,000,000	78,057	31,406,578	2,000,000	30 6	11 2
Summit Sub Debt Fund II	45,000,000	40,275,000	11,659,679	73,518,125	4,725,000	56 9	7 9
Summit Sub Debt Fund III	45,000,000	9,225,000	9,349,122	0	35,775,000	2 2	1 4
T Rowe Price	53,340,603	53,340,603	431,822	51,844,812	N/A	-12 0	N/A
TCW/Crescent Mezzanine							
TCW/Crescent Mezzanine Partners	40,000,000	37,130,039	4,686,525	48,557,040	2,869,961	12 7	9 2
TCW/Crescent Mezzanine Partners II	100,000,000	87,479,046	15,152,849	110,498,524	12,520,954	12 0	6 6
TCW/Crescent Mezzanine Partners III	75,000,000	53,715,430	26,172,074	61,023,202	21,284,570	28 8	4 3
Windjammer Mezz & Equity Fund II	66,708,861	47,848,413	43,902,423	14,446,817	18,860,448	9 2	5 2
Yield-Oriented Total	**1,888,549,464**	**1,237,264,729**	**783,787,114**	**925,721,299**	**651,284,735**		

Minnesota State Board of Investment

- Alternative Investments -

As of June 30, 2005

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Private Equity							
Adams Street Partners (Brinson)							
Brinson Partners I	5,000,000	3,800,000	193,570	9,280,721	1,200,000	13 3	17 1
Brinson Partners II	20,000,000	20,000,000	243,787	37,754,513	0	24 1	14 6
Affinity Ventures	4,000,000	1,000,000	949,749	0	3,000,000	-6 3	1 0
Bank Fund							
Banc Fund V	48,000,000	48,000,000	62,968,704	26,919,802	0	14 6	7 0
Banc Fund VII	45,000,000	1,800,000	1,800,000	0	43,200,000	N/A	0 2
Blackstone Capital Partners							
Blackstone Capital Partners II	50,000,000	47,271,190	3,547,273	94,592,612	2,728,810	34 3	11 6
Blackstone Capital Partners IV	70,000,000	36,360,230	55,750,643	14,810,837	33,639,770	75 4	3 0
BLUM Capital Partners							
Blum Strategic Partners I	50,000,000	48,771,954	24,347,387	67,728,302	1,228,046	12 6	6 5
Blum Strategic Partners II	50,000,000	40,674,202	48,427,283	23,585,180	9,325,798	26 8	4 0
Blum Strategic Partners III	75,000,000	9,090,909	9,090,909	0	65,909,091	N/A	0 1
Chicago Growth Partners (William Blair)							
William Blair Capital Partners VII	50,000,000	39,550,000	39,088,233	3,857,339	10,450,000	3 8	4 3
Chicago Growth Partners VIII	50,000,000	0	0	0	50,000,000	N/A	0 0
Citigroup Venture Capital Equity	100,000,000	69,626,049	79,785,164	35,822,391	30,373,951	31 4	3 6
Contrarian Capital Fund II	37,000,000	33,244,395	20,024,347	25,869,197	3,755,605	4 9	8 1
Coral Partners							
Coral Partners Fund II	10,000,000	10,000,000	412,103	36,553,383	0	24 9	14 9
Coral Partners Fund IV	15,000,000	15,000,000	3,029,088	11,107,747	0	-1 6	10 9
Coral Partners Fund V	15,000,000	14,625,000	3,403,307	2,016,216	375,000	-19 3	7 0
Crescendo							
Crescendo II	15,000,000	15,000,000	1,042,686	20,347,039	0	21 3	8 5
Crescendo III	25,000,000	25,000,000	3,021,286	8,084,795	0	-24 4	6 7
Crescendo IV	101,500,000	93,887,500	33,986,978	4,018,614	7,612,500	-26 2	5 3
CSFB/DLJ							
CSFB Strategic Partners	100,000,000	80,083,771	51,762,381	75,592,671	19,916,229	24 8	4 4
CSFB Strategic Partners II	100,000,000	56,441,851	61,589,008	35,935,521	43,558,149	69 1	2.0
CSFB Strategic Partners III	100,000,000	0	0	0	100,000,000	N/A	0 0
CSFB Strategic Partners VC	25,000,000	0	0	0	25,000,000	N/A	0 0
DLJ Merchant Banking Partners III	125,000,000	108,129,922	63,423,856	82,479,921	16,870,078	11 1	4 8
DSV Partners IV	10,000,000	10,000,000	1,248,162	27,596,934	0	9 5	20 2
Elevation Partners	75,000,000	641,107	641,107	0	74,358,893	N/A	0 1
First Century Partners III	10,000,000	10,000,000	69,769	15,098,689	0	7 5	20 5
Fox Paine Capital Fund							
Fox Paine Capital Fund	40,000,000	40,000,000	35,833,256	10,620,505	0	2 8	7 2
Fox Paine Capital Fund II	50,000,000	37,246,462	28,905,397	31,909,501	12,753,538	29 7	5 0
Golder,Thoma, Cressey, Rauner							
Golder, Thoma, Cressey & Rauner Fund IV	20,000,000	20,000,000	145,973	41,020,323	0	24 8	11 4
Golder, Thoma, Cressey & Rauner Fund V	30,000,000	30,000,000	17,899,045	27,542,075	0	8 6	9 0
GTCR Golder Rauner							
GTCR Fund VI	90,000,000	89,137,778	31,987,163	68,918,378	862,222	4 6	7 0
GTCR Fund VII	175,000,000	148,531,249	99,791,928	124,281,068	26,468,751	16 2	5 4

Minnesota State Board of Investment

- Alternative Investments -

As of June 30, 2005

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Private Equity (cont)							
GS Capital Partners							
GS Capital Partners 2000	50,000,000	40,657,808	33,551,423	26,598,640	9,342,192	17 7	4 8
GS Capital Partners V	100,000,000	5,005,427	5,005,427	0	94,994,573	N/A	0 2
GHJM Marathon Fund							
GHJM Marathon Fund IV	40,000,000	38,481,000	14,251,292	31,354,631	1,519,000	3 6	6 2
GHJM Marathon Fund V	28,985,714	5,321,759	5,077,442	0	23,663,955	N/A	0 7
Hellman & Friedman							
Hellman & Friedman Capital Partners III	40,000,000	32,113,684	5,204,458	63,301,397	7,886,316	34 0	10 8
Hellman & Friedman Capital Partners IV	150,000,000	129,912,982	115,176,554	44,106,706	20,087,018	11 8	5 5
Hellman & Friedman Capital Partners V	160,000,000	12,113,861	11,284,764	0	147,886,139	N/A	0 6
Kohlberg Kravis Roberts							
KKR 1987 Fund	145,950,000	145,373,652	9,580,724	394,874,959	576,348	8 9	17 6
KKR 1993 Fund	150,000,000	150,000,000	4,193,398	306,694,216	0	16 9	11 5
KKR 1996 Fund	200,000,000	200,000,000	81,637,911	275,129,288	0	13 9	8 8
KKR Millennium Fund	200,000,000	91,516,424	103,045,352	14,443,813	108,483,576	19 5	2 6
Matrix Partners III	10,000,000	10,000,000	313,273	77,327,244	0	75 1	15 1
Sightline Healthcare							
Sightline Healthcare Fund II	10,000,000	10,000,000	4,584,107	3,596,002	0	-3 5	8 3
Sightline Healthcare Fund III	20,000,000	19,400,002	7,831,046	2,494,843	599,998	-15 3	6 4
Sightline Healthcare Fund IV	7,700,000	4,497,131	3,590,298	4,891	3,202,869	-20 1	1 8
Silver Lake Partners II	100,000,000	9,058,139	8,314,538	100,472	90,941,861	-7 0	1 0
Split Rock Partners	50,000,000	1,509,089	1,509,089	0	48,490,911	N/A	0 2
Summit Partners							
Summit Ventures II	30,000,000	28,500,000	98,786	74,524,292	1,500,000	28 8	17 1
Summit Ventures V	25,000,000	23,625,000	6,812,481	19,292,117	1,375,000	3 0	7 2
T. Rowe Price	615,713,451	615,713,451	75,826,953	576,004,626	N/A	9 2	N/A
Thoma Cressey							
Thoma Cressey Fund VI	35,000,000	33,915,000	17,862,584	7,881,225	1,085,000	-5 9	6 9
Thoma Cressey Fund VII	50,000,000	35,355,000	23,275,128	29,100,343	14,645,000	28 2	4 8
Thomas, McNerney & Partners	30,000,000	11,025,000	8,976,015	0	18,975,000	-14 9	2 7
Vestar Capital Partners IV	55,000,000	40,504,345	28,245,870	21,014,802	14,495,655	9 0	5 5
Warburg Pincus							
Warburg, Pincus Ventures	50,000,000	50,000,000	30,130,754	210,587 938	0	49 1	10 5
Warburg Pincus Equity Partners	100,000,000	100,000,000	49,795,368	72,553 645	0	5 5	7 0
Warburg Pincus Private Equity VIII	100,000,000	84,000,000	75,578,155	17,473 650	16,000,000	6 8	3 2
Warburg Pincus Private Equity IX	100,000,000	0	0	0	100,000,000	N/A	0 0
Welsh, Carson, Anderson & Stowe							
Welsh, Carson, Anderson & Stowe VIII	100,000,000	100,000,000	68,981,984	14,810 930	0	-3 3	6 9
Welsh, Carson, Anderson & Stowe IX	125,000,000	103,750,000	83,451,121	42,587 467	21,250,000	8 8	5 0
Zell/ Chilmark	30,000,000	30,000,000	227,803	76,414,975	0	17 7	15 0
Private Equity Total	**4,693,849,165**	**3,364,262,323**	**1,667,823,640**	**3,365,617,386**	**1,329,586,842**		

ATTACHMENT C

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Thoma Cressey Fund VIII, L.P.
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$700 million
Fund Manager:	Thoma Cressey Equity Partners Inc.
Manager Contact:	Lee Mitchell 9200 Sears Tower 233 South Wacker Drive Chicago, Illinois 60606 312-777-4450

II. Organization and Staff

Carl Thoma and Bryan Cressey have been engaged in the private equity business together since the 1970s and formed their first fund in 1980. Since 1980, Thoma, Cressey professionals have invested over $2 billion of private equity capital in 179 investments. In addition to Messrs. Thoma and Cressey, the firm employs an additional 18 investment professionals and 9 finance, IT and support personnel for a total staff of 29 people. The firm has offices in Chicago, Boston and San Francisco.

III. Investment Strategy

In the past, Thoma Cressey has pursued a consistent investment strategy of identifying high–potential sectors and partnering with top executives in those sectors to invest in businesses that can grow rapidly both organically and through acquisitions. This "buy and build" strategy has been refined over the years and adapted to meet the challenges of changing market environments. Fund VIII will continue to apply this investment strategy and make private equity investments in middle-market companies in the United States operating within industry segments that are fragmented, emerging, out-of-favor or undergoing change. The firm has applied this strategy in several sectors, including software and business services, healthcare, and branded products and services. Fund VIII is expected to build a portfolio of 15 to 20 platform companies, typically investing between $25 and $ 75 million over the life of each investment.

IV. *Investment Performance*

Previous fund performance as of March 31, 2005 for the SBI's investments with Thoma Cressey and predecessor funds is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Golder, Thoma Fund I	1980	$60 million		31%
Golder, Thoma, Cressey Fund II	1984	$100 million		18%
Golder, Thoma, Cressey Fund III	1987	$235 million	$14 million	31%
Golder, Thoma, Cressey, Rauner Fund IV	1992	$312 million	$20 million	25%
Golder, Thoma, Cressey, Rauner Fund V	1996	$520 million	$30 million	9%
Thoma Cressey Fund VI	1998	$450 million	$35 million	-6%
Thoma Cressey Fund VII	2001	$554 million	$50 million	28%

Previous frund investments may be relatively immature and therefore, returns may not be indicative of future results

V. *General Partner's Investment*

The general partner and the Thoma Cressey professionals will commit an aggregate of at least $40 million to the partnership

VI. *Takedown Schedule*

Capital will be called from the limited partners, as needed, with ten business days notice.

VII. *Fees*

An annual management fee (deducted in computing profits) equal to 2.0% of total commitments will be paid to the manager for the six years following the initial closing date. After the sixth anniversary of the initial closing date, the annual management fee will be reduced each year to 90% of the preceding years' fee. 100% of any transaction fees will be used to offset the management fee.

VIII. *Allocations and Distributions*

Profits will accrue 80% to the limited partners and 20% to the general partner, except for income derived from cash and cash equivalents (all of which will accrue to the limited partners).

IX. *Investment Period and Term*

The partnership will have an investment period of six years from the initial closing date. The partnership's term will be ten years from the initial closing date, subject to extension by the general partner (unless a majority of limited partners disapprove) for up to three years to permit orderly dissolution.

ATTACHMENT D

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Blackstone Capital Partners V
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$12.5 billion
Fund Manager:	The Blackstone Group
Manager Contact:	Kenneth C. Whitney 345 Park Ave. New York, NY 10154 phone: (212) 583-5316 e-mail: Whitney@blackstone.com

II. Organization and Staff

The Blackstone Group is a private merchant banking firm based in New York, with offices in London, Paris, Hamburg, Mumbai, Boston, Atlanta, and Los Angeles whose businesses, in addition to Corporate Private Equity Investing, include Real Estate Private Equity Investing, Mezzanine and Senior Secured Debt Investing, Corporate Advisory Services, Restructuring and Reorganization Advisory Services, Distressed Securities Investing and Marketable Alternative Asset Management. The firm was founded in 1985 by its current Senior Chairman, Peter G. Peterson (former Chairman and CEO of Lehman Brothers and a former U.S. Secretary of Commerce) and by its current Chairman and CEO, Stephen A. Schwarzman (former Chairman of Lehman Brothers' Mergers & Acquisitions Committee). Hamilton E. James serves as President, and J. Tomilson Hill serves as Vice Chairman.

The Blackstone Group has a distinguished record as both investor and advisor. Through its different investment businesses, Blackstone has raised committed capital of approximately $23 billion for discretionary private investment funds focused on alternative asset classes, in addition to managing approximately $9 billion in discretionary marketable alternative asset programs.

Blackstone currently has 53 professionals in the corporate private equity group, who collectively have approximately 262 years of experience in private equity investing at Blackstone. In addition to Blackstone's two Founding Members, there are 14 Senior Managing Directors in the corporate private equity group, with an average tenure at Blackstone of 10 years.

III. Investment Strategy

While Blackstone will continue to consider all manner and form of investing on an opportunistic basis, the firm will seek to rely on essentially the same core competencies that have underpinned its past success:

Large Cap Focus. Blackstone continues to believe that the larger end of the private equity market is less competitive than the overall private equity market. The number of funds that can invest $500 million of equity into any one investment is limited, and becomes even more limited as this amount increases. In addition, it has been Blackstone's experience that the market for large cap transactions continues to be the fastest growing segment of the buyout industry in terms of aggregate transaction value and overall number of potential targets. These favorable competitive dynamics, together with Blackstone's capabilities and organizational strengths, make large cap buyouts the most compelling opportunities for Blackstone's style of value-oriented investing from a risk/reward standpoint.

Corporate Partnerships. Corporate partnership transactions represent a signature form of private equity investing for Blackstone. As the economy continues to perform well and corporations return to the M&A market, Blackstone believes this strategy will become a more important part of the new investments that will be completed over the next several years. Teaming up with corporate partners enables Blackstone to compete effectively against other corporate bidders, benefit from anticipated synergies, and compensate for what are expected to be higher valuations. Blackstone has invested $5.4 billion of equity capital, or 51% of total corporate private equity capital invested by Blackstone since 1988 in 39 corporate partnership transactions.

Disciplined, Value-Oriented Investment Approach. Blackstone's analysis of any investment opportunity is underpinned by a rigorous and analytical focus on value. Blackstone defines value not in a strict fashion (i.e., there is no uniform EBITDA multiple threshold), but rather by focusing on (i) industry structure and prospects, (ii) company positioning, and (iii) valuation. By focusing on these issues, Blackstone believes it can set up investments that can achieve its expected returns with conservative assumptions about future growth and exit multiples, together with prudent capital structures.

Sector Expertise. Given the competitive nature of the private equity business, and with the significant size of both BCP III, raised in 1997, and BCP IV, raised in 2002, Blackstone made a conscious decision to focus its professionals along sectoral lines, covering the major industries of both the U.S. and European economies. Although opportunities arise in different sectors and at different times, the knowledge and contacts that are obtained by developing this industry expertise provide Blackstone with the insight both to move quickly in competitive situations and to recognize value in out-of-favor and under-appreciated industries.

Transatlantic Opportunities. Over the twelve-month period through the end of February 2005, Blackstone was the second largest investor in Europe (as determined by *Mergermarket*), and was named German private equity firm of the year in 2003 by *Financial News*. Blackstone believes the deal flow in Europe will remain active over the next several years, with European companies continuing to divest their non-core assets as they go through the kinds of restructurings that U.S. companies went through in the 1990s. In addition, Blackstone believes it is one of relatively few firms with an advantage in those transatlantic opportunities involving a U.S. owner of a European asset, a European owner of a U.S. asset, or an asset that has significant operations in both the United States and Europe, given its significant presence in both markets.

Operating Expertise. In 2004, Blackstone brought on James Quella, former Senior Operating Partner with DLJ Merchant Banking Partners–CSFB Private Equity to oversee its portfolio company monitoring and management program and to coordinate Blackstone's activities with the approximately 20 operating executives with whom Blackstone has established proprietary relationships In addition, in 2005, Blackstone brought on board Greg Beutler, a leading supply chain expert at General Electric, to oversee its portfolio company procurement program. The initial estimate of the potential annual savings from this portfolio procurement initiative is $100 million–$200 million across Blackstone's current companies, which Blackstone estimates could create incremental equity value in excess of $1 billion.

IV. Investment Performance

Previous fund performance as of March 31, 2005 for Blackstone and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Capital Commitments	SBI Investment	Net IRR from Inception
Blackstone Capital Partners I[(1)]	1987	$810 million	--	19%
Blackstone Capital Partners II	1993	$1.3 billion	$50 million	32%
Blackstone Capital Partners III	1997	$3.8 billion	--	14%
Blackstone Communications Partners I	2000	$2.0 billion	--	16%
Blackstone Capital Partners IV	2002	$6.45 billion	$70 million	82%

[(1)]The Net IRR for Blackstone Capital Partners I is as of July 26, 2004 which was the termination date for the fund.

Past performance is not necessarily indicative of future results

V. General Partner's Investment

Blackstone will make a Capital Commitment in an amount equal to $200 million, plus up to an additional 7.5% in each investment on a side-by-side basis (based on an annual election).

VI. Takedown Schedule

The General Partner will give at least ten days' written notice prior to any takedown of unused Capital Commitments, which, in the case of a takedown notice for an Investment, will include a brief description of the Investment and the business to which it relates. Funds will be taken down as needed *pro rata* based generally on unused Capital Commitments to make Investments, to pay Partnership Expenses (further defined within the PPM), to make additional contributions to existing Investments, to repay borrowings, or to satisfy guarantees or other obligations of the Partnership (further defined within the PPM).

VII. Fees

Blackstone expects to raise $12.5 billion for Fund V. $11 billion will constitute the Main Fund, and $1.5 billion will constitute the Supplemental Fund. Each limited partner will invest pro rata in both funds.

For the Main Fund (BCP V), management fees are payable quarterly in advance based on the following:

- During the Investment Period: 1.5% of the aggregate Capital Commitments up to $6.5 billion and 1.0% of the aggregate Capital Commitments above $6.5 billion (excluding those commitments of the GP and its affiliates);
- After the Investment Period: 0.75% of invested capital.

Management Fees will be reduced by:

- 100% of net breakup, topping, commitment, monitoring, director, and organizational fees up to the amount of Broken Deal Expenses;
- 80% of net breakup, topping, and commitment fees in excess of Broken Deal Expenses; and
- 50% of net monitoring, directors and organizational fees in excess of Broken Deal Expenses.

For the Supplemental Fund (BCP V-S), management fees will not be charged until capital for the first investment is drawn. Subsequently, they are payable quarterly in advance based on the following:

- During the Investment Period: 1.0% of invested capital;
- After the Investment Period: 0.75% of invested capital.

VIII. Allocations and Distributions

Upon disposition of an Investment (calculated separately for each Limited Partner):

- First, 100% to the Limited Partner until it has received a return of capital and Allocated Fees and Expenses for the Investment which has been disposed of, unrecouped losses on Investments previously disposed of, unrealized losses on Investments not disposed of, and a 8% compound annual return on capital contributions on investments disposed of;
- Second, 80% to the General Partner and 20% to the Limited Partner until the General Partner receives its 20% carried interest; and
- Thereafter, 80% to the Limited Partner and 20% to the General Partner.

Current Income is generally distributed as described above, except that distributions are made on an investment-by-investment basis and will not take into account a return of capital or any writedowns, but will take into account actual unrecouped losses from prior dispositions.

IX. Investment Period and Term

The Fund's Investment Period is six years, and the Fund's term is eleven years, subject to two one-year extensions if approved by the L.P. Advisory Committee.

ATTACHMENT E

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Vestar Capital Partners V, L.P. (the "Partnership")
Type of Fund:	Vestar Capital Partners, Inc. ("Vestar")
Total Fund Size:	Private Equity Limited Partnership
Fund Manager:	$3.5 billion of LP commitments
Manager Contact:	Dan O'Connell 245 Park Avenue, 41st Floor New York, NY 10167-4098 Phone: (212) 351-1600 Fax: (212) 808-4922 E-mail: doconnell@vestarcapital.com

II. Organization and Staff

Vestar Capital Partners ("Vestar"), a private equity investment firm that specializes in organizing and investing in management buyouts, is establishing Vestar Capital Partners V, L.P. (the "Partnership") to continue the investment strategy developed and successfully implemented by its principals since 1980.

Vestar was formed in April 1988 by former principals of First Boston's Management Buyout Group, including the Group's co-heads and founders. These principals were directly responsible for developing First Boston into a leading management buyout organizer and investor during the 1980s. Vestar's founding principals have worked together for over 20 years and, following their prior success at First Boston, have over the past 17 years built Vestar into one of the industry's most successful firms. Today, Vestar's team comprises over 40 professionals in five locations (New York, Denver, Boston, Paris and Milan) on two continents.

III. Investment Strategy

Vestar will pursue the same investment strategy that has been successfully employed by its principals in the past. The Vestar principals target middle-market companies in the $100 million to $3 billion valuation range, primarily focusing on corporate divisions or subsidiaries and public or privately held companies being sold or recapitalized. Vestar pursues transactions in which it believes it has developed or can develop a meaningful competitive edge, such as by working exclusively with the company's management or the control stockholder. Unless it has a distinct edge, Vestar generally does not participate as a buyer in the auction markets for corporate or sponsor-to-sponsor sales, focusing instead on privately negotiated transactions sourced through its broad and long-established network of business relationships.

In evaluating new investment opportunities, Vestar places a strong emphasis on the quality and commitment of the company's management team. The Vestar principals believe strongly in being a partner to management, and in motivating managers by having them invest in and own a significant equity stake in their company. Vestar's experience has been that the most successful opportunities are created by management teams who respond positively to having increased operating autonomy and meaningful equity ownership in their companies.

IV. Investment Performance

Previous net IRR performance as of March 31, 2005 for Vestar Capital Partners investment funds 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
Fund I	1988	$35 million		54%(1)
Fund II	1993	$260 million		58%
Fund III	1996	$803 million		5%
Fund IV	1999	$2,480 million	$55 million	11%

(1) As Vestar did not receive any general partner carried interest or management fees on or with respect to the Vestar I transactions, gross and net IRRs are the same

Previous Fund investments may be relatively immature and therefore, returns may not be indicative of future results

V. General Partner's Investment

The Principals will commit an aggregate of approximately $150 million to the Partnership and its investments.

VI. Takedown Schedule

Commitments are expected to be drawn down as needed, with not less than 10 business days' prior written notice.

VII. Fees

From the earlier of (i) the date when all of the Partnership's Commitments have been invested or used to pay expenses, and (ii) the sixth anniversary of the later of the final closing date and the date the General Partner notifies the Limited Partners that the Principals have commenced reviewing investment opportunities for the Partnership (the "Effective Date") until the end of the Commitment Period, the Partnership will pay the General Partner an annual management fee (the "Management Fee"), payable semi-annually in advance, equal to 1.5% of aggregate Commitments. After the Commitment Period, the Management Fee will equal 1.25% of (i) the aggregate Commitments taken down, less (ii) distributions constituting returns of capital and the aggregate amount of any permanent write-downs. The Management Fee for all Partners will commence as of the Effective Date.

Management Fees will be reduced by (i) 100% of any break-up fees received by the General Partner and/or the Management Agent and (ii) 80% of any monitoring or transaction fees paid by Partnership portfolio companies to the General Partner and/or the Management Agent. The Management Fee may be reduced by an amount determined by the General Partner. In the event of such a reduction, the amount of capital contributions the General Partner would otherwise be required to contribute to the Partnership will be reduced by an equivalent amount.

VIII. Allocations and Distributions

Net proceeds attributable to the disposition of investments in portfolio companies, as well as distributions of securities in kind, together with any dividends or interest income received with respect to investments in portfolio companies, generally will be distributed in the following order of priority:

a) first, 100% to all Partners in proportion to Commitments until the cumulative amount distributed in respect of investments then and previously disposed of equals the aggregate of the following:

> (i) the funded Commitments and deemed Commitments attributable to all realized investments plus the amount of write-down, if any, with respect to each unrealized investment written down as of that time;
>
> (ii) the funded Commitments and deemed Commitments attributable to all organizational expenses, Management Fees and other Partnership expenses paid to date and allocated to realized investments and unrealized investments to the extent they are written down as of that time; and
>
> (iii) a preferred return on amounts included in (i) and (ii) above at the rate of 8% per annum (not compounded) from the first day of the calendar month immediately succeeding the month in which such capital contribution was required to be paid to the Partnership (the "Preferred Return");

b) second, 100% to the General Partner until such time as the General Partner has received, as its carried interest, 20% of the sum of the distributed Preferred Return and distributions made pursuant to this paragraph (b); and

c) thereafter, 80% to all Partners in proportion to Commitments and 20% to the General Partner as carried interest.

A distribution relating to a partial disposition of an investment will be subject to the above formula, with the Preferred Return and the carried interest based pro rata on the original cost of, and the cumulative distributions made with respect to, the disposed portion of such investment.

All short-term interest income, including interest income and dividend payments on Bridge Financings (as defined below) during the first year, will be distributed 100% to the Partners ratably in proportion to their respective interests in the assets generating such income. Such amounts will not be considered in determining the General Partner's carried interest.

The Partnership will distribute: (i) all net interest and dividend income (other than original issue discount and payment-in-kind income) and short-term investment income from Partnership portfolio securities at least annually and (ii) the full net proceeds received in cash from investment dispositions within six months of such receipt, in each case subject to the availability of cash after paying Partnership expenses and setting aside appropriate reserves for reasonably anticipated liabilities and obligations of the Partnership.

Prior to the termination of the Partnership, distributions will be in cash or marketable securities. Upon termination of the Partnership, distributions may also include restricted securities or other assets of the Partnership

IX. Investment Period and Term

The Partnership will terminate on the tenth anniversary of the Effective Date, but may be extended for up to three consecutive one-year periods at the discretion of the General Partner with the consent of the Advisory Board to allow for an orderly dissolution and liquidation of the Partnership's investments.