

MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
December 13, 2000

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INVESTMENT ADVISORY
COUNCIL MEETING
December 5, 2000

AGENDA
STATE BOARD OF INVESTMENT MEETING
Wednesday, December 13, 2000
9:00 A.M. -Room 125
State Capitol - Saint Paul

- | | |
|--|---------------------------------|
| <p>1. Approval of Minutes of September 6, 2000</p> | TAB |
| <p>2. Report from the Executive Director (H. Bicker)</p> <p>A. Quarterly Investment Review
(July 1, 2000 – September 30, 2000)</p> <p>B. Administrative Report</p> <ol style="list-style-type: none">1. Reports on budget and travel2. Post Retirement Benefit Increase for FY003. Certificate of Deposit Program Update4. Litigation Update5. Results of FY00 Audit6. Draft of FY00 Annual Report7. Tentative Meeting Dates for Calendar 20018. Update on Tobacco Information | <p>A</p> <p>B</p> |
| <p>3. Emerging Markets Equity Search Committee (Peter Sausen)</p> | <p>C</p> |
| <p>4. Reports from the Investment Advisory Council (Jan Yeomans)</p> <p>A. Stock and Bond Manager Committee</p> <ol style="list-style-type: none">1. Review of manager performance2. Update on the emerging markets manager re-interview and search3. Annual review of investment manager guidelines4. Recommendation to renew investment management contracts <p>B. Alternative Investment Committee</p> <ol style="list-style-type: none">1. Review of current strategy2. Approval of one manager commitment for the Basic Retirement Funds:<ul style="list-style-type: none">• Citicorp Venture Capital Management (an existing private equity manager)3. Approval of four manager commitments for the Post Retirement Fund:<ul style="list-style-type: none">• TCW/Crescent Mezzanine III (an existing private equity manager)• Prudential Capital Group (a new private equity manager)• BlackRock Financial Management (a new real estate manager)• Capital Trust, Inc. (a new real estate manager)4. Pre-approval of follow-on investments with four existing alternative investment managers for the Basic Retirement Funds:<ul style="list-style-type: none">• KKR• Crescendo Ventures• BLUM Capital• First Reserve | <p>D</p> <p>E</p> |

**Minutes
State Board of Investment
September 6, 2000**

The State Board of Investment (SBI) met at 8:30 A.M. Wednesday, September 6, 2000 in Room 112 State Capitol, St. Paul, Minnesota. Governor Jesse Ventura; State Auditor Judith H. Dutcher; State Treasurer Carol C. Johnson; Secretary of State Mary Kiffmeyer and Attorney General Mike Hatch were present. (Note: The meeting started prior to the earlier published time of 9:00 A.M., therefore no formal actions were taken until 9:00 A.M.)

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded inflation over the ten year period ending June 30, 2000 (Combined Funds 13.4% vs. Inflation 2.9%), exceeded the median fund (30th percentile) and outperformed its composite index (Combined Funds 16.2% vs. Composite 15.7%) for the most recent five year period. He stated that the Basic Funds have exceeded its composite index (Basic Funds 16.8% vs. Composite 16.3%) over the last five years and reported that the Post Fund had outperformed its composite index over the last five years period (Post Fund 15.5% vs. Composite 14.9%). Mr. Bicker noted that the actuarial data included in Tab A should be updated in time for the December 2000 meeting.

Mr. Bicker reported that the Basic Funds' assets decreased 3.0% for the quarter ending June 30, 2000 due to both negative investment returns and negative net contributions. He said that the asset mix had been rebalanced and is now on target. He reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds -1.2% vs. Composite -1.5%) but slightly underperformed for the year (Basic Funds 10.5% vs. Composite 10.6%).

Mr. Bicker reported that the Post Fund's assets decreased 1.2% for the quarter ending June 30, 2000, also due to negative investment returns. He said that the Post Fund asset mix had also been rebalanced. He said that the Post Fund outperformed its composite index for the quarter (Post Fund -1.9% vs. Composite -2.3%) but slightly underperformed for the year (Post Fund 8.6% vs. Composite 8.7%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks -4.1% vs. Wilshire 5000 Investable -4.6%) but underperformed for the year (Domestic Stocks 8.2% vs. Wilshire 5000 Investable 8.6%). He said that the International Stock manager group outperformed its composite index for the quarter (International Stocks -3.3% vs. Int'l Composite -4.6%) and outperformed for the year (International Stocks 16.9% vs. Int'l Composite 16.4%) and over longer periods. Mr. Bicker stated that the bond segment underperformed its target for the quarter (Bonds 1.6% vs. Lehman Aggregate 1.7%) but outperformed the year (Bonds 4.7% vs. Lehman

Aggregate 4.6%). He concluded his report with the comment that as of June 30, 2000, the SBI was responsible for over \$53.2 billion in assets.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of the securities class action litigation concerning Mercury Finance Corporation and their Auditors, KPMG. She reported that the federal court approved the settlement in the class action and that an appeal has been filed regarding the allocation of the settlement amounts. She said that negotiations are underway between some of the various parties.

Ms. Eller stated that the State Board of Investment has also recently opted out of the federal securities class action litigation against McKesson and is filing an independent suit in California with Colorado and Utah. She noted that there are numerous parties and motions involved in this case.

Mr. Bicker updated members on the SBI's Certificate of Deposit program. He explained that the program has been in existence since 1980 and that recently, the FDIC has raised some issues regarding insurance coverage for deposits in the program. He stated that some changes to the program may be necessary and that he will update members at the December 2000 meeting.

Mr. Bicker stated that the SBI now has some new responsibilities regarding the 403(b) matching program for school districts. He said that during the 2000 Legislative session, the law requiring the SBI to maintain a list of qualified 403(b) providers for matching contributions was eliminated. He said that the new law requires the SBI to review the financial status and investment products of product providers who request the review and to provide the information to school districts who request it. He noted that to date, six providers have requested a review of their products.

Mr. Bicker reported that the Proxy Committee had approved a change to the Board's Proxy Voting Guidelines as stated in Tab B, Attachment C of the meeting materials. Mr. Bicker reported that updated information on the SBI's tobacco holdings is also included in Tab B of the meeting materials.

In response to questions from Mr. Hatch, Mr. Bicker explained the difference in the actuarial assumption rates required for rates of return between the Basic and Post. Ms. Dutcher offered to answer Mr. Hatch's questions regarding PERA's underfunded status at another time due to the complicated nature of the issues involved and he deferred his questions.

At this point in the meeting it was 9:00 A.M. Ms. Dutcher moved approval of the minutes of the June 7, 2000 Board meeting. Ms. Johnson seconded the motion. The motion passed.

Ms. Dutcher moved approval of the revised Proxy Voting Guidelines, as stated in Tab B, Attachment C. Ms. Johnson seconded the motion. The motion passed.

Stock and Bond Manager Committee Report

Ms. Yeomans referred members to Tab C of the meeting materials and updated members on the funding of the seven new investment firms hired for the Emerging Manager Program at the June 2000 Board meeting. She noted that the funding for these managers came from the termination of Compass Capital and Wilke/Thompson and from withdrawals from Alliance Capital and Barclays Global Investors as part of a rebalancing effort.

Ms. Yeomans reviewed the recent asset allocation change for the Tobacco Endowment Funds to 50 percent equity/50 percent fixed income. She said that the change had been implemented according to plan and that the next contribution of \$230 million is scheduled for deposit on January 2, 2001.

Ms. Yeomans reported that \$435 million of surplus assets had been removed from the Assigned Risk Plan. She noted that the remaining \$300 million in assets will continue to be invested 80 percent fixed income/20 percent equities, with GE Asset Management continuing to manage the equity portion and Voyageur Asset Management continuing to manage the bond portfolio.

Ms. Yeomans stated that the Committee is requesting authorization to form a search committee to conduct an emerging markets manager search. Ms. Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which states: "The Stock and Bond Manager Committee recommends that a search committee be formed to review potential emerging market managers for the SBI's International Equity Program." Mr. Hatch seconded the motion. The motion passed.

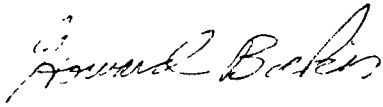
Alternative Investment Committee Report

Ms. Yeomans referred members to Tab D of the meeting materials and stated that the Committee is recommending an investment for the Basic Retirement Funds with an existing private equity manager, William Blair. She briefly described the fund and its investment strategy. Ms. Dutcher moved approval of the Committee's recommendation, as stated in the Committee Report, which states: "The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$50 million or 20%, whichever is less, in William Blair Capital Partners VII. This commitment will be allocated to the Basic Retirement Fund. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by William Blair upon this approval. Until a formal agreement is executed by the Executive Director

on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on William Blair or reduction or termination of the commitment." The motion passed.

The meeting adjourned at 9:07 A.M.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Howard J. Bicker".

Howard J. Bicker
Executive Director

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

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|--|------------|
| 1. Approval of Minutes of September 5, 2000 | TAB |
| 2. Report from the Executive Director (H. Bicker) | |
| A. Quarterly Investment Review
(July 1, 2000 – September 30, 2000) | A |
| B. Administrative Report | B |
| 1. Reports on budget and travel | |
| 2. Post Retirement Benefit Increase for FY00 | |
| 3. Certificate of Deposit Program Update | |
| 4. Litigation Update | |
| 5. Results of FY00 Audit | |
| 6. Draft of FY00 Annual Report | |
| 7. Tentative Meeting Dates for Calendar 2001 | |
| 8. Update on Tobacco Information | |
| 3. Emerging Markets Equity Search Committee (Peter Sausen) | C |
| 4. Reports from the Investment Advisory Council | |
| A. Stock and Bond Manager Committee (John Bohan) | D |
| 1. Review of manager performance | |
| 2. Update on the emerging markets manager re-interview
and search | |
| 3. Annual review of investment manager guidelines | |
| 4. Recommendation to renew investment management contracts | |
| B. Alternative Investment Committee (Ken Gudorf) | E |
| 1. Review of current strategy | |
| 2. Approval of one manager commitment for the Basic Retirement Funds: | |
| • Citicorp Venture Capital Management (an existing private
equity manager) | |
| 3. Approval of four manager commitments for the Post Retirement Fund: | |
| • TCW/Crescent Mezzanine III (an existing private equity manager) | |
| • Prudential Capital Group (a new private equity manager) | |
| • BlackRock Financial Management (a new real estate manager) | |
| • Capital Trust, Inc. (a new real estate manager) | |
| 4. Pre-approval of follow-on investments with four existing alternative
investment managers for the Basic Retirement Funds: | |
| • KKR | |
| • Crescendo Ventures | |
| • BLUM Capital | |
| • First Reserve | |

**Minutes
Investment Advisory Council
September 5, 2000**

MEMBERS PRESENT: Gary Austin; Doug Gorence; Ken Gudorf; P. Jay Kiedrowski; Judy Mares; Malcolm McDonald; Gary Norstrom; Mary Stanton; Mike Troutman; Mary Vanek; Elaine Voss; Pam Wheelock; and Jan Yeomans.

MEMBERS ABSENT: Dave Bergstrom; John Bohan; Daralyn Peifer; and Han Chin Liu

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

OTHERS ATTENDING: Ann Posey, Richards & Tierney; Christie Eller; Jake Manahan; Jennifer Mohlenhoff; Robert Schroeder; Robert Heimerl, Lloyd Belford, Dale Hanke, Susan Mills, REAM; John Moriarity, formerly on REAM Board; Bob Henderson, private citizen; Conrad deFiebre, Star Tribune; and Brian Bakst, Associated Press.

Ms. Yeomans called the meeting to order and the minutes of the June 6, 2000 meeting were approved. Mr. Bicker noted that the time and location of the September 6, 2000 Board meeting had changed to 8:30 A.M. in Room 112 at the State Capitol.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and noted that the actuarial data will be updated for the December 2000 meeting. He reported that the Combined Funds had exceeded inflation over the ten year period ending June 30, 2000 (Combined Funds 13.4% vs. Inflation 2.9%), exceeded the median fund (30th percentile) and outperformed its composite index (Combined Funds 16.2% vs. Composite 15.7%) for the most recent five year period. He stated that the Basic and Post Funds have each exceeded their composite index (Basic Funds 16.8% vs. Composite 16.5%) (Post Fund 15.5% vs. Composite 14.9%) over the last five years. Ms. Yeomans commended staff on the strong performance.

Mr. Bicker reported that the Basic Funds' assets decreased 3.0% for the quarter ending June 30, 2000 due to negative investment returns and negative net contributions. He said that the asset mix has been rebalanced and is on target. He said that the Basic Funds outperformed its composite index for the quarter (Basic Funds -1.2% vs. Composite -1.5%) but slightly underperformed for the year (Basic Funds 10.5% vs. Composite

10.6%). Mr. Bicker reported that the Post Fund's assets decreased 1.2% for the quarter ending June 30, 2000 due to negative investment returns. He said that the Post Fund asset mix is also on target. He said that the Post Fund outperformed its composite index for the quarter (Post Fund -1.9% vs. Composite -2.3%) and slightly underperformed for the year (Post Fund 8.6% vs. Composite 8.7%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks -4.1% vs. Wilshire 5000 Investable -4.6%). He said that the International Stock manager group outperformed its composite index for the quarter (International Stocks -3.3% vs. Int'l Composite -4.6%) and that the bond segment underperformed its target for the quarter (Bonds 1.6% vs. Lehman Aggregate 1.7%) but outperformed over longer periods. He concluded his report with the comment that as of June 30, 2000, the SBI was responsible for over \$53 billion in assets

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B for current budget and travel reports.

Ms. Eller updated members on two securities actions regarding Mercury Finance and McKesson. She stated that in the Mercury action, the judge had granted final settlement with respect to the auditing firm, KPMG. She said that the allocation of the settlement amounts is being appealed.

Ms. Eller stated that the State is filing an independent state suit with regard to McKesson. She noted that the state has filed 19 memorandums in response to various motions to dismiss. She said that it is hoped that the state suit will be a more favorable venue than the federal class action suit.

Mr. Bicker updated members on the SBI's Certificate of Deposit program. He explained that the program has been in existence since 1980 and that recently, the FDIC has raised some issues regarding insurance coverage for deposits in the program. He said that some changes to the program may be necessary and that he will update members at the December 2000 meeting.

Mr. Bicker stated that the SBI has new responsibilities regarding the 403(b) matching program for school districts. He said the 2000 Legislature passed a new law requiring the SBI to review the financial status and investment products of product providers who request the review and to provide the information to school districts who request it. He noted that to date, only six providers have requested a review of their products. In response to a question from Mr. Troutman, Mr. Bicker clarified that staff will only be providing descriptive and objective information and that no subjective analysis will be done by the SBI. In response to a question from Mr. Gorence, Mr. Bicker stated that so far, the SBI has received very few requests, but that it is unclear how much work these reviews could involve in the future.

Mr. Bicker stated that the Proxy Committee had approved a change to the Boards' Proxy Voting Guidelines as stated in Attachment C of that Tab B. He noted that the new Board has not formally approved the guidelines since they took office

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

In response to a question from Ms. Wheelock, Mr. Bicker stated that the IAC has not voted on recommendations made by the Proxy Committee in the past, but that the IAC could, if it wished to do so. Members agreed not to act on the recommendation.

Stock and Bond Manager Committee Report

Mr. Troutman referred members to Tab C of the meeting materials and briefly reviewed the manager performance. He updated members on the funding of the seven new emerging managers hired at the June 2000 Board meeting. He noted that the funding for these managers came from the termination of two managers and withdrawals from Alliance Capital and Barclays Global Investors as part of a rebalancing effort.

Mr. Troutman reviewed the recent asset allocation change for the Tobacco Endowment Funds to 50 percent equity/50 percent fixed income. Mr. Bicker reminded members of the inviolate nature of these funds and noted that the final language in the bill satisfied previous concerns raised by the Commissioner of Finance while still allowing for equities to be added to the Funds. In response to a question from Ms. Wheelock, Mr. Bicker said it is estimated that the expected rate of return for the funds under the new asset allocation will be around 2.5% per annum higher.

Mr. Troutman reported that the 2000 Legislature removed \$435 million of surplus assets from the Assigned Risk Plan. He stated that the remaining \$300 million in assets will continue to be invested 80 percent fixed income/20 percent equities, which leaves the two existing managers in place. Mr. Bicker noted that the Board had given staff the authority to terminate GE Asset Management if necessary, but that the firm was willing to continue managing the smaller portfolio. Ms. Wheelock noted that litigation had been filed against the State on this issue. Ms. Eller said that the State Board of Investment has not been named in the lawsuit.

Mr. Troutman stated that the Committee is requesting authorization to form a search committee to conduct an emerging markets manager search and he briefly reviewed the changes to the program that may be necessary due to having additional funds to manage and due to concerns that staff and the Committee have regarding two current managers, City of London and Genesis Asset Management. He noted that the roundtable on emerging markets which was held earlier in the day, gave the Committee good background information in preparation for the search. Mr. McDonald moved approval of the Committees' recommendation, as stated in the Committee Report. Mr. Gudorf seconded the motion. The motion passed. In response to a question from Mr. Bicker, members reaffirmed that the recent combining of the Domestic & International Committees is acceptable.

Alternative Investment Committee Report

Mr. Gudorf referred members to Tab D of the meeting materials and briefly reviewed an investment for the Basic Retirement Funds with an existing private equity manager, William Blair. Mr. Austin moved approval of the Committees' recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. In response to questions from Ms. Yeomans, Mr. Gudorf and John Griebenow (staff) reviewed the returns from previous funds. The motion passed.

The meeting adjourned at 2:30 P.M.

Respectfully submitted,



Howard J. Bicker
Executive Director

Tab A

LONG TERM OBJECTIVES

Period Ending 9/30/00

COMBINED FUNDS: \$41.8 Billion	Result	Compared to Objective
<p>Provide Real Return (10 yr.)</p> <p>Provide returns that are 3-5 percentage points greater than inflation over the latest 10 year period.</p>	14.5% (1)	11.8 percentage points above CPI
<p>Exceed Composite Index (5 yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the actual asset mix of the Combined Funds over the latest 5 year period.</p>	14.8%	0.4 percentage point above composite index
<p>Exceed Median Fund (5 yr.)</p> <p>Provide returns that are ranked in the top half of universe of public and corporate plans over the latest 5 year period.</p>	38th percentile (2)	above the median fund in TUCS

BASIC RETIREMENT FUNDS: \$21.0 Billion	Result	Compared to Objective
<p>Exceed Composite Index (5 Yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 5 year period.</p>	15.4%	0.3 percentage point above target

POST RETIREMENT FUND: \$20.8 Billion	Result	Compared to Objective
<p>Exceed Composite Index (5 Yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 5 year period.</p>	14.2%	0.5 percentage point above target

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

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

SUMMARY OF ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
July 1, 1999

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

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

Notes:

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

Actuarial Assumptions:

Salary Growth: 6.5%

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

Full Funding Target Date: 2020

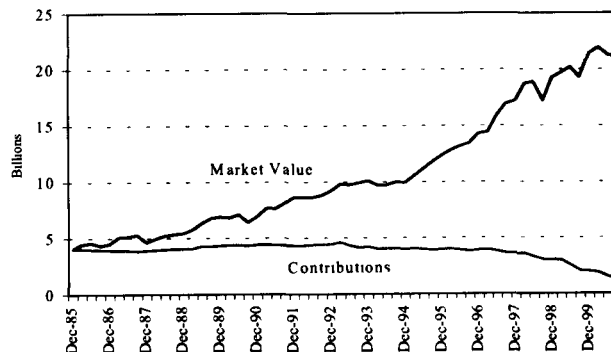
EXECUTIVE SUMMARY
Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds decreased 0.1% during the third quarter of 2000. Negative net contributions accounted for the decrease.

Asset Growth
During Second Quarter 2000
(Millions)

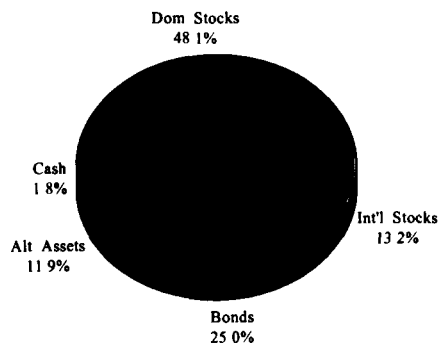
Beginning Value	\$ 21,229
Net Contributions	-217
Investment Return	2
Ending Value	\$ 21,014



Asset Mix

The domestic stock allocation decreased over the quarter despite a marginally positive return. The international stock allocation decreased over the quarter due to negative stock returns. Positive returns in bonds and alternative assets caused its allocations to rise over the quarter.

	Policy Targets	Actual Mix 9/30/00	Actual Market Value (Millions)
Domestic Stocks	45.0%	48.1%	\$10,099
Int'l. Stocks	15.0	13.2	2,773
Bonds	24.0	25.0	5,259
Alternative Assets*	15.0	11.9	2,504
Unallocated Cash	1.0	1.8	379
	100.0%	100.0%	\$21,014

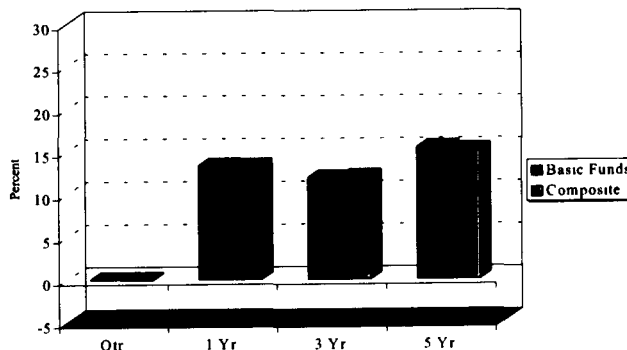


* Any uninvested allocation is held in domestic stocks

Fund Performance (Net of Fees)

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

	Period Ending 9/30/00			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basics	0.0%	13.3%	11.9%	15.4%
Composite	-0.1	13.3	12.0	15.1



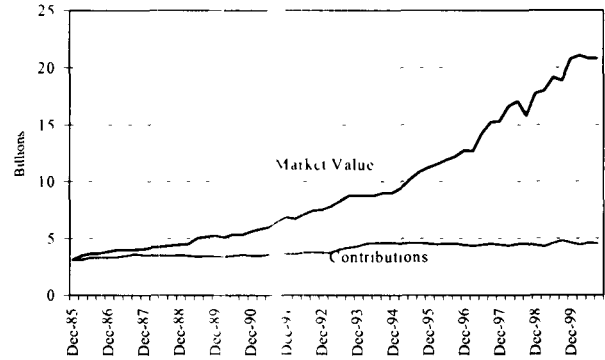
EXECUTIVE SUMMARY
Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund had no significant change during the third quarter of 2000. The positive investment return was offset by the negative net contributions.

Asset Growth
During Third Quarter 2000
(Millions)

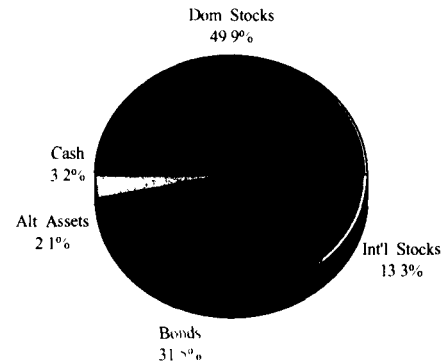
Beginning Value	\$20,794
Net Contributions	-43
Investment Return	55
Ending Value	\$20,806



Asset Mix

The domestic stock allocation decreased over the quarter despite a marginally positive return. The international stock allocation decreased over the quarter due to negative stock returns. Positive returns in bonds and alternative assets caused its allocations to rise over the quarter.

	Policy Targets	Actual Mix 9/30/00	Actual Market Value (Millions)
Domestic Stocks	50.0%	49.9%	\$10,388
Int'l Stocks	15.0	13.3	2,762
Bonds	27.0	31.5	6,547
Alternative Assets*	5.0	2.1	437
Unallocated Cash	3.0	3.2	672
	100.0%	100.0%	\$20,806



* Any uninvested allocation is held in bonds

Fund Performance (Net of Fees)

The Post Fund outperformed its composite market index for all periods except the three year period where it matched the index.

	Period Ending 9/30/00			
	Qtr	1 Yr	3 Yr.	5 Yr.
Post	0.3%	11.9%	11.0%	14.2%
Composite	0.0	11.6	11.0	13.7



EXECUTIVE SUMMARY

Stock and Bond Manager Performance (Net of Fees)

Domestic Stocks

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

	Period Ending 9/30/00			
	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.
Dom. Stocks	0.2%	15.8%	15.0%	20.1%
Wilshire 5000 Investable*	0.3	16.7	15.2	20.2

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

International Stocks

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

	Period Ending 9/30/00			
	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.
Int'l. Stocks	-7.5%	5.5%	6.1%	9.4%
Composite Index*	-8.6	2.8	5.8	7.5

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

Bonds

The bond manager group (active and semi-passive combined) outperformed its target for all periods other than the 3 year period where it matched.

	Period Ending 9/30/00			
	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.
Bonds	3.1%	7.2%	5.9%	6.8%
Lehman Agg.	3.0	7.0	5.9	6.5

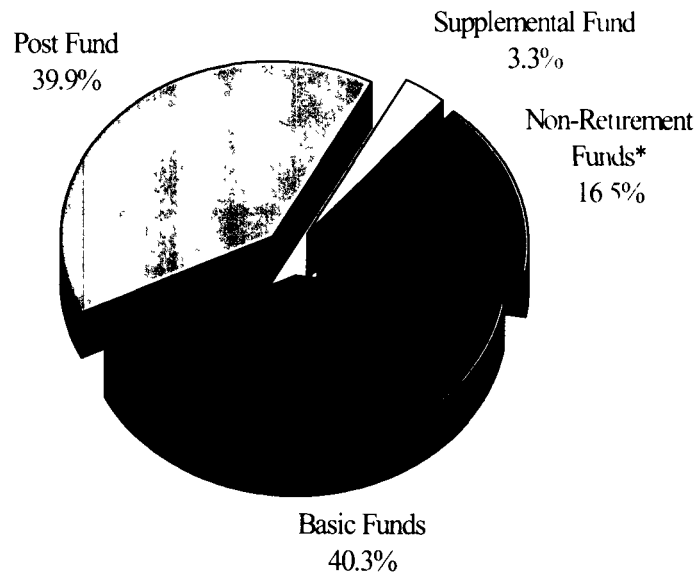
Wilshire 5000 Investable: The Wilshire 5000 Investable stock index reflects the performance of a broad range of publicly traded stocks of companies domiciled in the U.S. It does not include the smallest and least liquid securities in the W5000 that generally are not owned by large pension plans.

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

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

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

EXECUTIVE SUMMARY
 Funds Under Management



**9/30/00
 Market Value
 (Billions)**

Retirement Funds	
Basic Retirement Funds	\$21.0
Post Retirement Fund	20.8
Supplemental Investment Fund	1.7
Non Retirement Funds*	
Assigned Risk Plan	0.3
Permanent School Fund	0.6
Environmental Trust Fund	0.3
Tobacco Prevention Fund	0.4
Medical Education Fund	0.3
State Cash Accounts	6.7
Total	\$52.1

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Third Quarter 2000
(July 1, 2000 - September 30, 2000)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 9/30/00				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	0.2%	17.6%	15.5%	20.4%	19.3%
Dow Jones Industrials	2.3	4.6	12.1	19.5	18.6
S&P 500	-1.0	13.3	16.4	21.7	19.4
Russell 2000	1.1	23.4	6.0	12.4	16.9
Domestic Fixed Income					
Lehman Aggregate*	3.0	7.0	5.9	6.5	8.0
Lehman Gov't./Corp.	2.9	6.7	5.8	6.3	8.1
3 month U.S. Treasury Bills	1.5	5.8	5.2	5.3	4.9
International					
EAFE**	-8.1	3.2	7.4	8.6	9.6
Emerging Markets Free***	-13.0	0.4	-6.4	-1.7	9.5
Salomon Non U.S. Gov't. Bond	-4.5	-7.9	1.1	1.3	7.3
Inflation Measure					
Consumer Price Index****	0.7	3.5	2.5	2.5	2.7

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

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

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

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The stock market, as represented by the Wilshire 5000, narrowly advanced by 0.2% in the third quarter. Although the Federal Reserve left interest rates unchanged during the quarter, higher energy prices, a strong U.S. dollar and softer consumer demand caused concern over corporate earnings growth. Investors sought safety in companies with dependable earnings and reasonable valuations in Utilities, Financials, Health Care and Energy.

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

Large Value	8.3
Small Value	8.5
Large Growth	-6.4
Small Growth	-4.2

The Wilshire 5000 increased 17.6% for the year ending September 30, 2000.

DOMESTIC BONDS

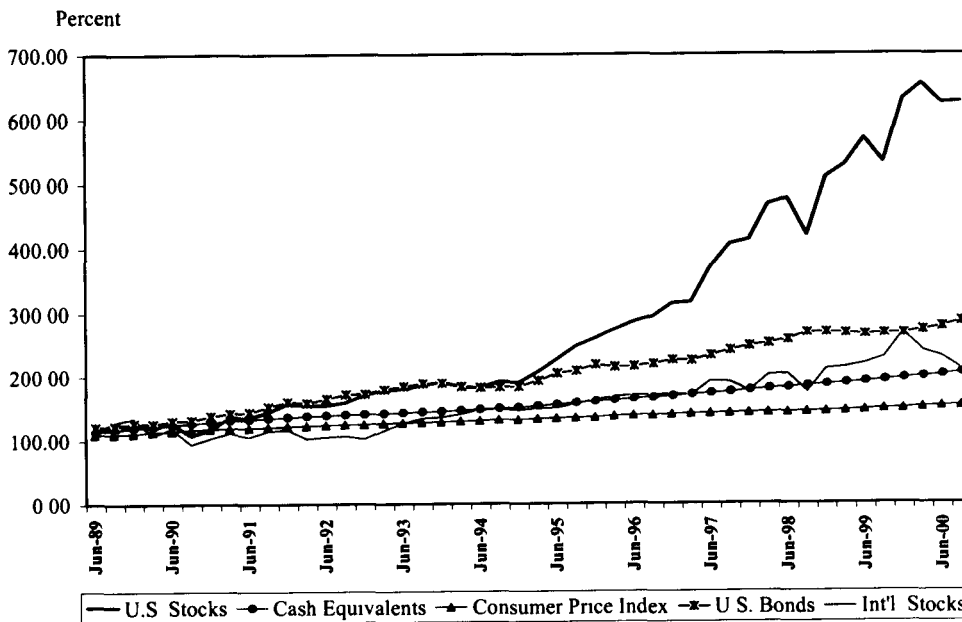
The bond market generated positive returns in the third quarter. The corporate and mortgage sectors of the Lehman aggregate outperformed Treasuries as spreads narrowed slightly in the non-Treasury sectors over the third quarter.

Overall, the Lehman Brothers Aggregate Bond Index returned 3.0% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	2.8%
Corporates	3.1
Mortgages	3.2

The Lehman Aggregate returned 7.0% for the latest year.

PERFORMANCE OF CAPITAL MARKETS
Cumulative returns



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

FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, international stock markets (as measured by the EAFE-Free index) provided a return of -8.1% for the quarter. Performance of the major markets is shown below.

Japan	-10.5%
United Kingdom	-1.0
France	-10.1
Germany	-9.9
Switzerland	-7.3

The EAFE-Free index increased by 3.2% during the latest year.

The EAFE-Free index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 20 markets located in Europe, Australasia and the Far East. EAFE-Free includes only those securities foreign investors are allowed to hold. The major markets listed above comprise about 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 -13% for the quarter. The performance of the five largest stock markets in the index is shown below.

Taiwan	-23.2%
Korea	-28.8
Brazil	-5.0
Mexico	-5.6
South Africa	2.4

The Emerging Markets Free index had a return of 0.4% for the 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 52% of the value of the index.

REAL ESTATE

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

PRIVATE EQUITY

U.S. private equity firms raised an unprecedented \$95.5 billion for private equity limited partnerships of all types, from venture capital to buyouts in 1999. That represents a 3.6% increase from the upwardly revised 1998 total of \$92.2 billion. It was the sixth consecutive record year for fundraising. So far, the year 2000 looks like another strong fundraising year with \$90.7 billion in commitments through the first three quarters of the year.

RESOURCE FUNDS

During the third quarter of 2000, West Texas Intermediate crude oil averaged \$31.58 per barrel compared to an average price of \$28.77 per barrel during the second quarter of 2000. With the relatively high oil prices, oil companies may be considering boosting their budgets for oil and gas exploration and drilling.

COMBINED FUNDS

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

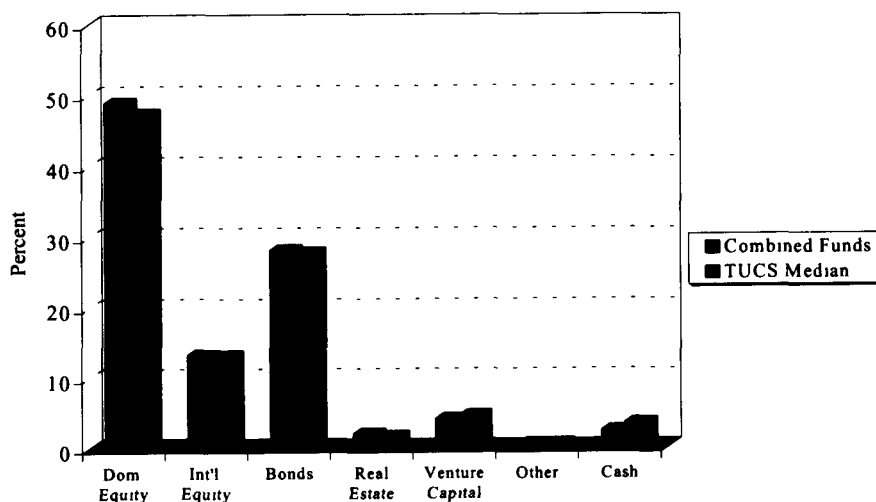
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over \$1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

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

	\$ Millions	%
Domestic Stocks	\$20,487	49.0%
International Stocks	5,535	13.3
Bonds	11,806	28.2
Alternative Assets	2,941	7.0
Unallocated Cash	1,050	2.5
Total	\$41,820	100.0%

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



	Dom. Equity	Int'l Equity	Bonds	Real Estate	Venture Capital	Other	Cash
Combined Funds	49.0%	13.3%	28.2%	2.1%	4.2%	0.7%	2.5%
Median Allocation in TUCS*	47.4	13.2	27.8	1.7	4.7	0.7	3.6

* Public and corporate plans over \$1 billion.

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

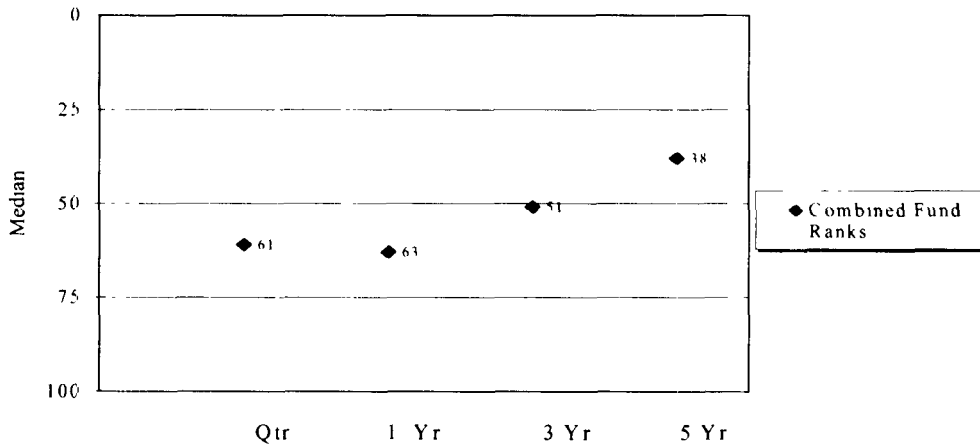
While the SBI is concerned with how its returns compare to other pension investors, universe comparisons should be used with great care. There are several reasons why such comparisons will provide an “apples to oranges” look at performance

- **Differing Allocations.** Asset allocation will have a dominant effect on return. The allocation to stocks among the funds in TUCS typically ranges from 20-90%, a very wide range for meaningful comparison. In addition, it appears that many funds do not include alternative asset holdings in their reports to TUCS. This further distorts comparisons among funds.
- **Differing Goals/Liabilities.** Each pension fund structures its portfolio to meet its own liabilities and risk tolerance. This will result in different choices on asset mix. Since asset mix will largely determine investment results, a universe ranking is not relevant to a discussion of how well a plan sponsor is meeting its long-term liabilities

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

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

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



Combined Funds Percentile Rank in TUCS*	Period Ending 9/30/00			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
	61st	63rd	51st	38th

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

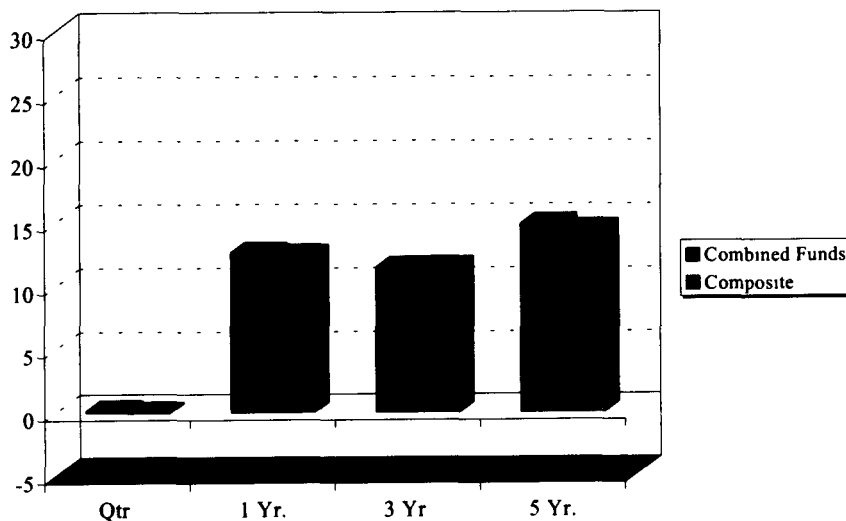
**COMBINED FUNDS
Performance Compared to Composite Index**

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* 3Q00
Domestic Stocks	Wilshire 5000 Investable	49.4%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	27.0*
Alternative Assets	Real Estate Funds	2.0*
	Private Equity Funds	4.0*
	Resource Funds	0.6*
Unallocated Cash	3 Month T-Bills	2.0
		100.0%

* Alternative asset, bond and domestic equity weights are reset in the composite at the start of each month to reflect the amount of unfunded commitments in alternative asset classes. The above Combined Funds Composite weighting was as of the beginning of the quarter.



	Period Ending 9/30/00			
	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.
Combined Funds**	0.1%	12.6%	11.5%	14.8%
Composite Index	-0.1	12.5	11.5	14.4

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

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BASIC RETIREMENT FUNDS

Investment Objectives

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

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

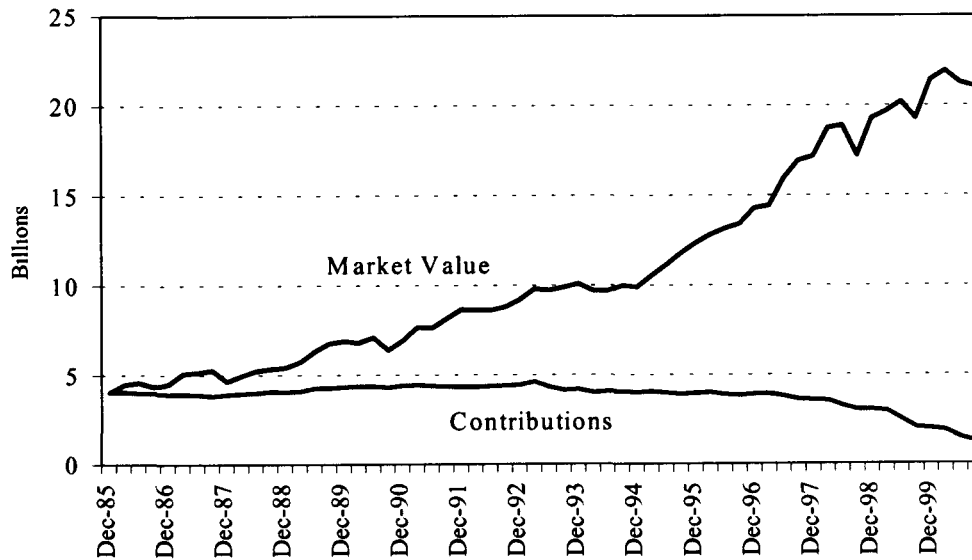
projected pension costs, the Basic Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

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

Asset Growth

The market value of the Basic Funds decreased 0.1% during the third quarter of 2000. Negative net

contributions accounted for the decrease.



	Last Five Years					Latest Qtr.		
	12/95	12/96	12/97	12/98	12/99	3/00	6/00	9/00
Beginning Value	\$9,890	\$12,338	\$14,275	\$17,146	\$19,244	\$21,365	\$21,885	\$21,229
Net Contributions	-29	-59	-337	-539	-1,065	-98	-397	-217
Investment Return	2,477	1,996	3,208	2,637	3,186	618	-259	2
Ending Value	\$12,338	\$14,275	\$17,146	\$19,244	\$21,365	\$21,885	\$21,229	\$21,014

BASIC RETIREMENT FUNDS
Asset Mix

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

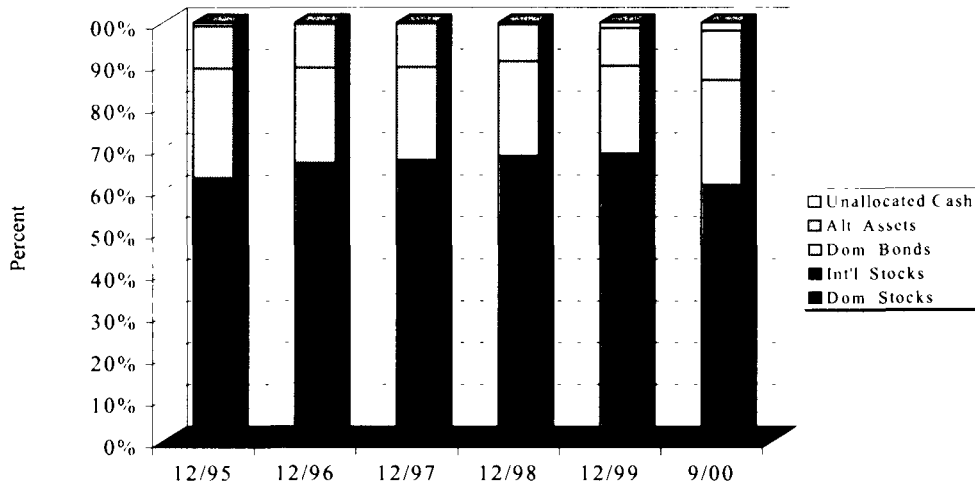
In October 1995, the Board revised its long term asset allocation targets for the Basic Funds, increasing international stocks from 10% to 15% and decreasing domestic stocks from 50% to 45%. The change was implemented over several quarters

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

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

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

The domestic stock allocation decreased over the quarter despite a marginally positive return. The international stock allocation decreased over the quarter due to negative stock returns. The positive returns in bonds caused its allocation to rise over the quarter



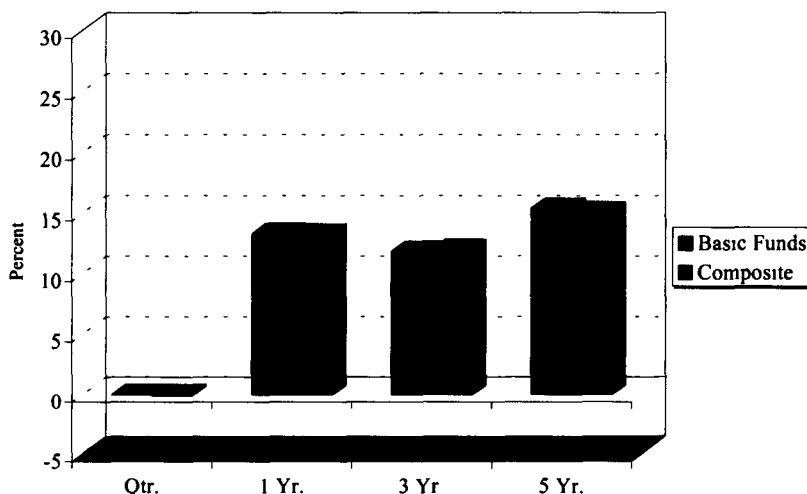
	Last Five Years					Latest Qtr.		
	12/95	12/96	12/97	12/98	12/99	3/00	6/00	9/00
Domestic Stocks	51.7%	52.0%	53.6%	53.8%	51.9%	51.0%	49.4%	48.1%
Int'l Stocks	11.3	14.5	13.6	14.4	16.8	14.8	14.3	13.2
Bonds	26.1	22.8	22.2	22.6	21.0	24.0	24.0	25.0
Real Estate	4.1	3.9	4.1	3.7	3.5	3.4	3.7	3.8
Private Equity	5.4	5.5	5.0	4.4	4.8	5.7	6.7	6.9
Resource Funds	0.7	1.0	1.4	0.7	0.8	0.9	0.9	1.2
Unallocated Cash	0.7	0.3	0.1	0.4	1.2	0.2	1.0	1.8
Total	100.0%	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* 3Q00
Domestic Stocks	45.0%	Wilshire 5000 Investable	48.7%*
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Real Estate Funds	3.6*
		Private Equity Funds	6.7*
		Resource Funds	1.0*
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 9/30/00

	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basic Funds**	0.0%	13.3%	11.9%	15.4%
Composite Index	-0.1	13.3	12.0	15.1

**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. Performance of the Basic Funds' alternative assets is on page 16.

POST RETIREMENT FUND

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

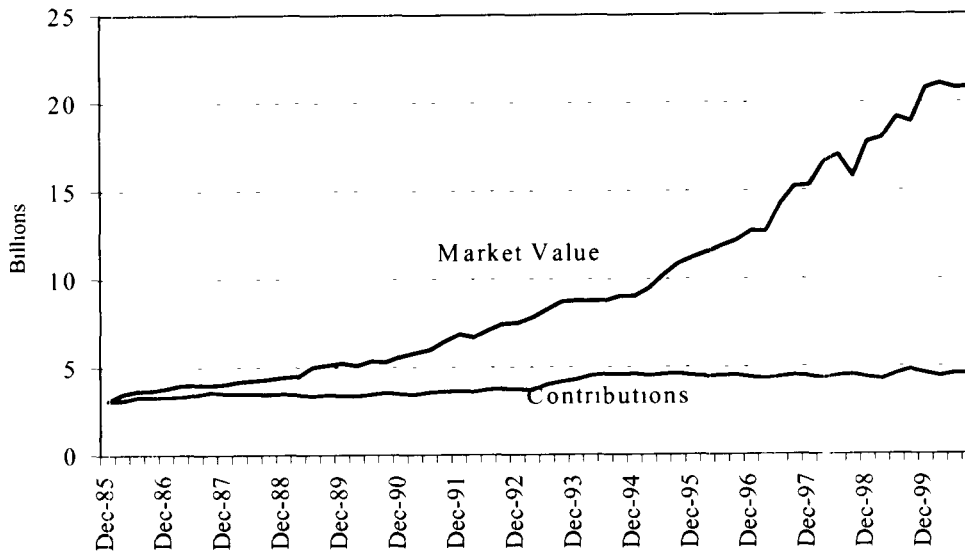
The post retirement benefit increase formula is based on the total return of the Fund. As a result, the Board maintains a long-term asset allocation strategy for the Post Fund which incorporates a substantial commitment to common stocks.

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

Asset Growth

The market value of the Post Retirement Fund had no significant change during the third quarter of 2000.

The positive investment return was offset by the negative net contributions.



	Last Five Years							Latest Qtr.
	In Millions							
	12/95	12/96	12/97	12/98	12/99	3/00	6/00	9/00
Beginning Value	\$9,001	\$11,216	\$12,705	\$15,273	\$17,743	\$20,768	\$21,044	\$20,794
Net Contributions	-102	-94	23	-45	211	-165	160	-43
Investment Return	2,317	1,583	2,545	2,515	2,814	441	-410	55
Ending Value	\$11,216	\$12,705	\$15,273	\$17,743	\$20,768	\$21,044	\$20,794	\$20,806

POST RETIREMENT FUND

Asset Mix

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

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

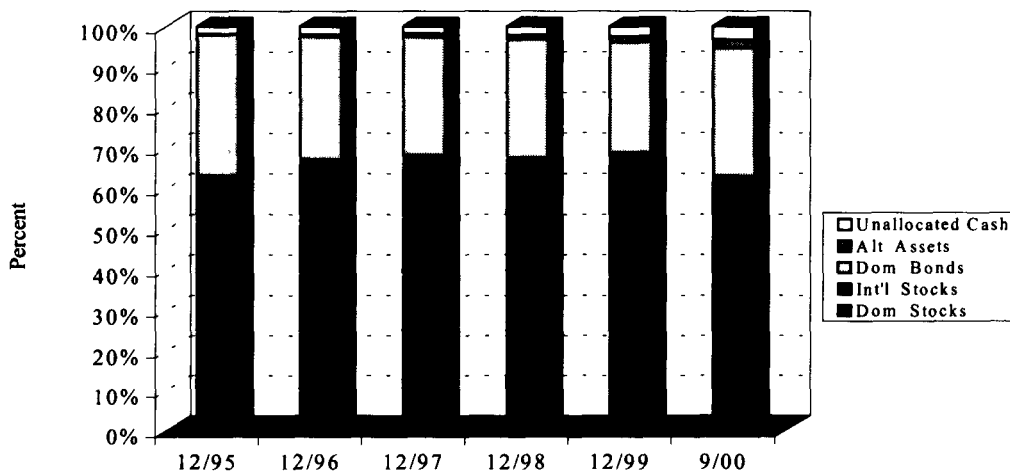
In October 1995, the Board revised its long term asset allocation targets for the Post Fund, increasing international stocks from 10% to 15% and decreasing bonds from 32% to 27%.

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

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

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

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



	Last Five years					Latest Qtr.		
	12/95	12/96	12/97	12/98	12/99	3/00	6/00	9/00
Dom. Stocks	51.9%	52.7%	54.7	53.2%	52.0%	51.3%	50.8%	49.9%
Int'l. Stocks	11.4	14.6	13.6	14.5	16.9	14.7	14.1	13.3
Bonds	34.7	30.2	29.1	29.2	27.2	30.5	30.6	31.5
Alt. Assets	0.2	0.6	0.9	1.1	1.5	1.7	1.9	2.1
Unallocated Cash	1.8	1.9	1.7	2.0	2.4	1.8	2.6	3.2
Total	100.0%	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* 3Q00
Domestic Stocks	50.0%	Wilshire 5000 Investable	50.0%
Int'l Stocks	15.0	Int'l. Composite	15.0
Bonds	27.0	Lehman Aggregate	30.1*
Alternative Assets	5.0	Real Estate Funds	.4*
		Private Equity Funds	1.3*
		Resource Funds	0.2*
Unallocated Cash	3.0	3 Month T-Bills	3.0
	100.0%		100%

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

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



Period Ending 9/30/00

	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Post Fund**	0.3%	11.9%	11.0%	14.2%
Composite Index	0.0	11.6	11.0	13.7

** Returns are reported net of fees.

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

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

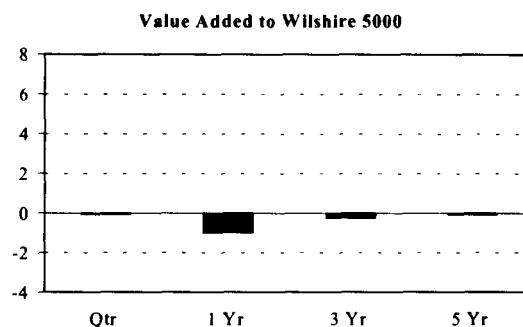
Domestic Stock Pool

Target: Wilshire 5000 Investable

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

	Period Ending 9/30/00			
	Qtr.	1 Yr.	3 Yrs.	5 Yrs.
Stock Pool	0.2%	15.8%	15.0%	20.1%
W5000 Investable*	0.3	16.7	15.2	20.2

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



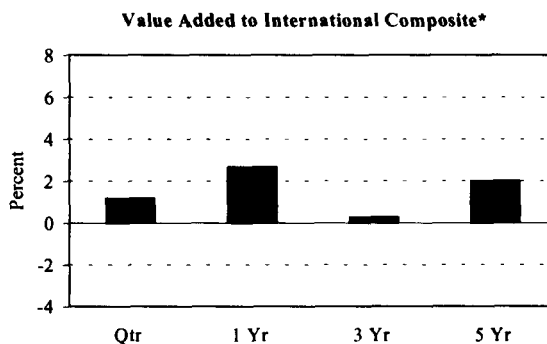
International Stock Pool

Target: Composite of EAFE-Free and Emerging Markets Free*

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

	Period Ending 9/30/00			
	Qtr.	1 Yr.	3 Yr.	5 Yrs.
Int'l. Pool	-7.5%	5.5%	6.1%	9.4%
Composite Index*	-8.6	2.8	5.8	7.5

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

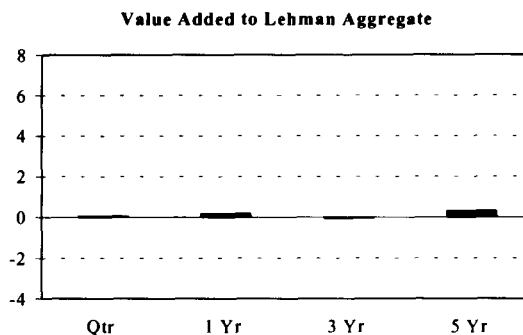


Bond Pool

Target: Lehman Brothers Aggregate Bond Index

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

	Period Ending 9/30/00			
	Qtr.	1 Yr.	3 Yrs.	5 Yrs.
Bond Pool	3.1%	7.2%	5.9%	6.8%
Lehman Agg.	3.0	7.0	5.9	6.5



ALTERNATIVE ASSET MANAGERS

Performance of Asset Pools
(Net of Fees)**Real Estate Pool (Basic Funds only)**

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

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

	Period Ending 9/30/00			
	Qtr.	Yr.	Annualized	
			3 Yrs.	5 Yrs.
Real Estate	5.3%	15.9%	15.6%	12.9%
Inflation	0.7	3.5	2.5	2.5

Private Equity Pool (Basic Funds only)

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

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

	Period Ending 9/30/00			
	Qtr.	Yr.	Annualized	
			3 Yrs.	5 Yrs.
Private Equity	-0.9%	32.5%	23.5%	28.6%

Resource Pool (Basic Funds only)

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

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

	Period Ending 9/30/00			
	Qtr.	Yr.	Annualized	
			3 Yrs.	5 Yrs.
Resource Funds	22.3%	43.7%	0.8%	16.7%

Yield Oriented Pool (Post Fund only)

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

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

	Period Ending 9/30/00			
	Qtr.	Yr.	Annualized	
			3 Yrs.	5 Yrs.
Yield Oriented	8.4%	19.6%	16.2%	13.4%

SUPPLEMENTAL INVESTMENT FUND

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

1. It functions as the investment manager for all assets of the Unclassified Employees Retirement Plan, Public Employees Defined Contribution Plan and Hennepin County Supplemental Retirement Plan.
2. It is one investment vehicle offered to employees as part of the state's Deferred Compensation Plan, the Individual Retirement Account Plan and College Supplemental Retirement Plan.
3. It serves as an external money manager for a portion of some local police and firefighter retirement plans.

A wide diversity of investment goals exists among the Fund's participants. In order to meet those needs, the Fund has been structured much like a "family of mutual funds." Participants may allocate their investments among one or more accounts that are appropriate for their needs, within the statutory requirements and rules established by the participating organizations. Participation in the Fund is accomplished through the purchase or sale of shares in each account.

The investment returns shown in this report are calculated using a time-weighted rate of return formula. They are net of investment management fees.

On September 30, 2000 the market value of the entire Fund was \$1.7 billion.

Investment Options

	9/30/00 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	\$634
Growth Share Account – an actively managed, all common stock portfolio.	\$318
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	\$428
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	\$47
Bond Market Account – an actively managed, all bond portfolio.	\$115
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	\$86
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.	\$87

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%	62.4%
Bonds	35.0	37.3
Unallocated Cash	5.0	0.3
	100.0%	100.0%

Period Ending 9/30/00

Annualized

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	1.3%	13.7%	12.1%	15.2%
Composite*	1.4	13.5	12.0	14.9

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

GROWTH SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

Period Ending 9/30/00

Annualized

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	0.2%	14.9%	14.5%	19.6%
Composite*	0.3	16.7	15.2	20.0

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

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

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

The Account is invested 100% in common stock

Period Ending 9/30/00

Annualized

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	0.4%	18.0%	16.0%	20.8%
Wilshire 5000 Investable*	0.3	17.6	15.5	20.4

* Wilshire 5000 through June 2000. Wilshire 5000 Investable thereafter

INTERNATIONAL SHARE ACCOUNT

Investment Objective and Asset Mix

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

Period Ending 9/30/00

Annualized

	Qtr.	1 Yr.	3 Yr.	5 Yrs.
Total Account	-7.5%	5.6%	6.2%	9.5%
Composite*	-8.6	2.8	5.8	7.5

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

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

Investment Objective

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

	Period Ending 9/30/00			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	3.1%	7.2%	5.9%	6.8%
Lehman Agg.	3.0	7.0	5.9	6.5

Asset Mix

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

MONEY MARKET ACCOUNT

Investment Objective

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

	Period Ending 9/30/00			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	1.7%	6.3%	5.8%	5.7%
3 month T-Bills	1.5	5.8	5.2	5.3

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 9/30/00			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	1.6%	6.2%	6.3%	6.4%

Asset Mix

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

ASSIGNED RISK PLAN

Investment Objectives

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

Asset Mix

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

	9/30/00 Target	9/30/00 Actual
Stocks	20.0%	20.1%
Bonds	80.0	79.9
Total	100.0%	100.0%

Investment Management

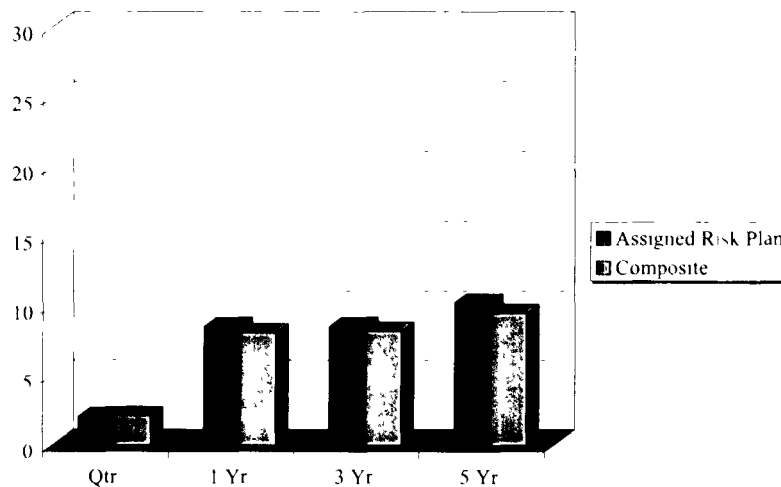
Voyageur Asset Management manages the bond segment of the Fund. GE Investment Management manages the equity segment

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 September 30, 2000 the market value of the Assigned Risk Plan was \$323 million. At the beginning of the quarter, \$435 million of the surplus was transferred out of the account



Period Ending 9/30/00

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund*	2.1%	8.5%	8.6%	10.3%
Composite	2.1	8.1	8.2	9.5
Equity Segment*	0.4	14.3	16.5	21.8
Benchmark	-1.0	13.3	16.4	21.7
Bond Segment*	2.5	5.8	5.6	6.2
Benchmark	2.8	6.6	5.9	6.4

* 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.

	9/30/00 Target	9/30/00 Actual
Stocks	50.0%	51.2%
Bond	48.0	47.2
Unallocated Cash	2.0	1.6
Total	100.0%	100.0%

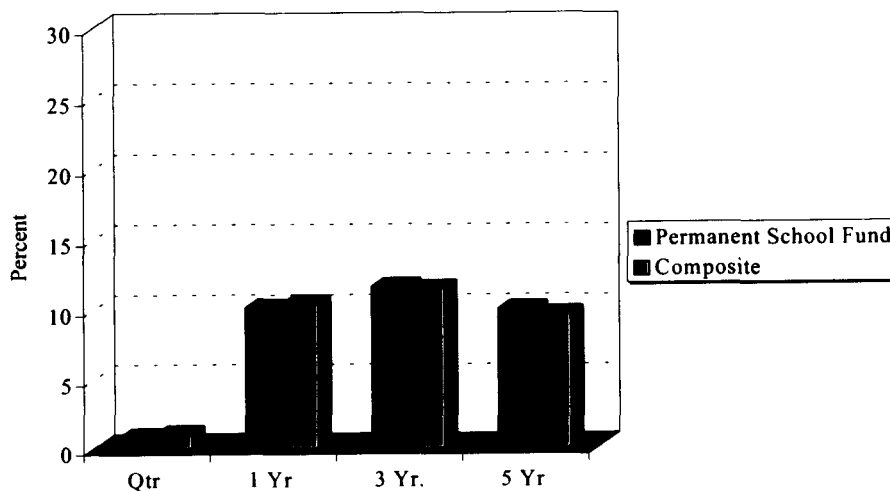
Prior to FY98, the Fund was invested entirely in fixed income securities in order to maximize current income. It is understood that the change in asset mix will reduce portfolio income in the short term, but will enhance the value of the fund, over time.

Investment Management

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

Market Value

On September 30, 2000 the market value of the Permanent School Fund was \$580 million.



	Period Ending 9/30/00			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund (1) (2)	0.8%	10.1%	11.6%	10.0%
Composite	1.1	10.4	11.5	9.6
Equity Segment (1) (2)	-1.0	13.3	16.5	N/A
S&P 500	-1.0	13.3	16.4	N/A
Bond Segment (1)	2.9	7.1	6.2	6.9
Lehman Aggregate	3.0	7.0	5.9	6.5

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

ENVIRONMENTAL TRUST FUND

Investment Objective

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

Asset Mix

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

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

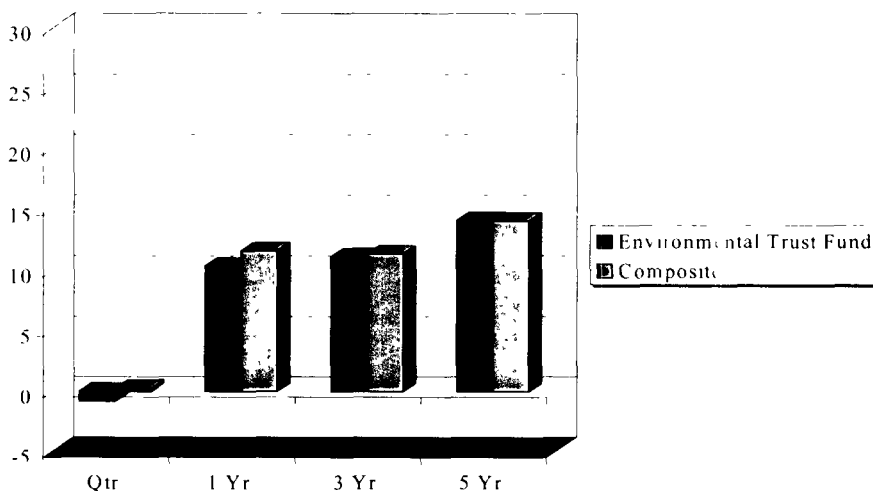
Investment Management

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 September 30, 2000 the market value of the Environmental Trust Fund was \$319 million.

	9/30/00 Target	9/30/00 Actual
Stocks	70.0%	69.2%
Bonds	28.0	30.2
Unallocated Cash	2.0	0.6
Total	100.0%	100.0%



	Period Ending 9/30/00			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund*	-0.8%	10.3%	11.1%	14.1%
Composite	0.2	11.6	11.4	14.1
Equity Segment*	-1.0	13.4	16.5	21.8
S&P 500	-1.0	13.3	16.4	21.7
Bond Segment*	2.9	7.1	6.2	7.0
Lehman Agg	3.0	7.0	5.9	6.5

* Actual returns are calculated net of fees.

TOBACCO PREVENTION FUND

Investment Objectives

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

Asset Mix

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

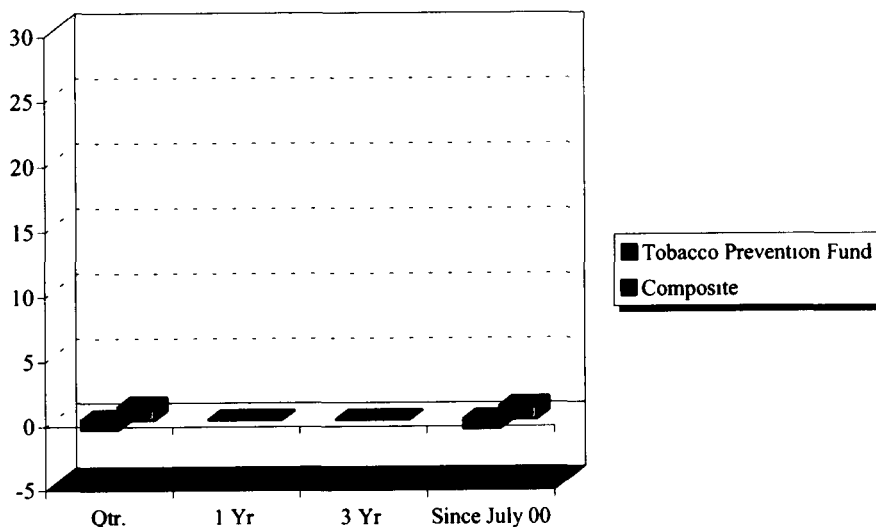
Investment Management

SBI staff manages all assets of the Tobacco Prevention Fund.

Market Value

On September 30, 2000 the market value of the Tobacco Prevention Fund was \$411.3 million.

	9/30/00 Target	9/30/00 Actual
Stocks	50.0%	50.9%
Bonds	50.0%	48.8%
Unallocated Cash	0.0%	0.3%
Total	100.0%	100.0%



	Period Ending 9/30/00			
	Qtr.	1 Yr.	3 Yr.	Since 7/1/00
Total Fund*	-0.7%	N/A	N/A	-0.7%
Composite	1.0	N/A	N/A	1.0
Equity Segment*	-1.0	N/A	N/A	-1.0
S&P 500	-1.0	N/A	N/A	-1.0
Bond Segment*	2.9	N/A	N/A	2.9
Lehman Agg.	3.0	N/A	N/A	3.0

* Actual returns are calculated net of fees.

MEDICAL EDUCATION FUND

Investment Objectives

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

Asset Mix

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

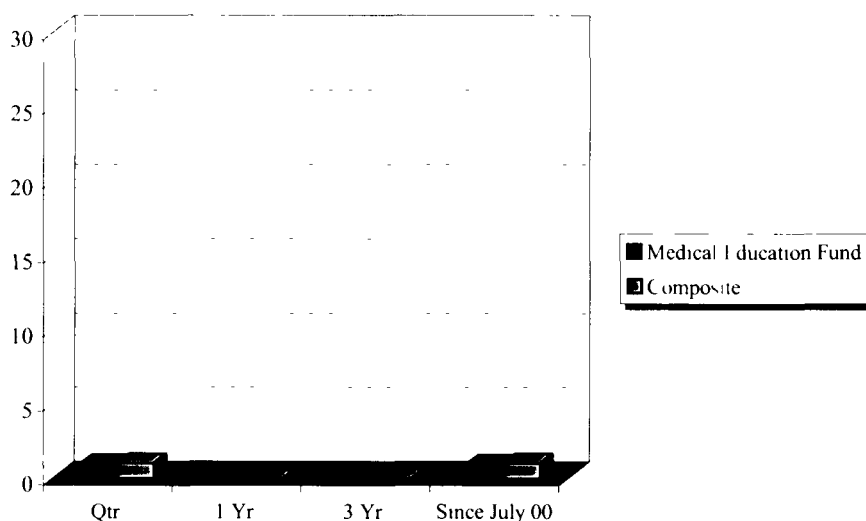
Investment Management

SBI staff manages all assets of the Medical Education Fund.

Market Value

On September 30, 2000 the market value of the Medical Education Fund was \$263.0 million.

	9/30/00 Target	9/30/00 Actual
Stocks	50.0%	50.9%
Bonds	50.0%	49.7%
Unallocated Cash	0.0%	0.3%
Total	100.0%	100.0%



Period Ending 9/30/00

	Qtr.	1 Yr.	3 Yr.	Since 7/1/00
Total Fund*	0.9%	N/A	N/A	0.9%
Composite	1.0	N/A	N/A	1.0
Equity Segment*	-1.0	N/A	N/A	-1.0
S&P 500	-1.0	N/A	N/A	-1.0
Bond Segment*	2.9	N/A	N/A	2.9
Lehman Agg	3.0	N/A	N/A	3.0

* Actual returns are calculated net of fees

CLOSED LANDFILL INVESTMENT FUND

Investment Objectives

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

Investment Management

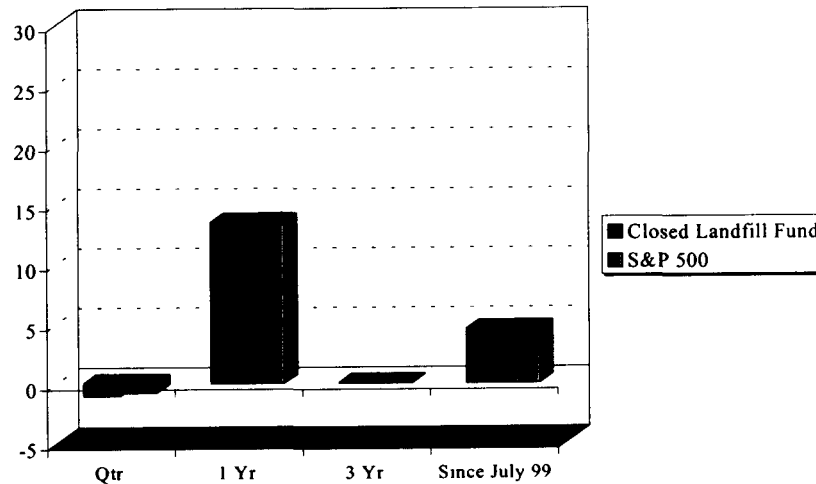
SBI staff manage all assets of the Closed Landfill Investment Fund. The assets are managed to passively track the performance of the S&P 500 index.

Market Value

On September 30, 2000, the market value of the Closed Landfill Investment Fund was \$10.5 million.

Asset Mix

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



	Period Ending 9/30/00			
	Qtr.	1 Yr.	3 Yr.	Since 7/1/99
Total Fund (1)	-1.0%	13.4%	N/A	4.5%
S&P 500 (2)	-1.0	13.3	N/A	4.3

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

STATE CASH ACCOUNTS

Description

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

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

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

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

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

Investment Objectives

Safety of Principal. To preserve capital.

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

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

Asset Mix

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

Investment Management

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

	Market Value (Millions)	Period Ending 9/30/00		Annualized	
		Qtr.	1 Yr.	3 Yr.	5 Yr.
Treasurer's Cash Pool*	\$5,596	1.9%	6.4%	5.8%	5.7%
Custom Benchmark**		1.7	5.8	5.2	5.4
Trust Fund Cash Pool*	\$43	1.8	6.4	5.8	5.7
Custom Benchmark***		1.5	5.6	5.1	5.3
3 month T-Bills		1.5	5.8	5.2	5.3

* Actual returns are calculated net of fees.

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

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

MINNESOTA STATE BOARD OF INVESTMENT

Composition of State Investment Portfolios By Type of Investment

Market Value September 30, 2000 (in Thousands)

	Cash and Short term Securities	Bonds		Stocks		External Int'l	Alternative Assets	Total
		Internal	External	Internal	External			
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	141,956 1.73%	0 25.04%	2,056,402 25.04%	0 48.10%	3,950,594 48.10%	1,084,511 13.20%	979,779 11.93%	8,213,242 100%
Public Employees Retirement Fund	87,517 1.75%	0 25.05%	1,254,781 25.05%	0 48.08%	2,408,657 48.08%	661,688 13.20%	597,015 11.92%	5,009,658 100%
State Employees Retirement Fund	80,961 1.75%	0 25.05%	1,161,796 25.05%	0 48.08%	2,229,471 48.08%	612,610 13.21%	552,159 11.91%	4,636,997 100%
Public Employees Police & Fire	44,379 1.74%	257 0.00%	639,758 25.03%	13 0.00%	1,228,688 48.08%	337,380 13.21%	304,997 11.94%	2,555,472 100%
Highway Patrol Retirement Fund	4,890 1.75%	0 25.05%	70,126 25.05%	0 48.08%	134,571 48.08%	36,977 13.21%	33,325 11.91%	279,889 100%
Judges Retirement Fund	455 1.75%	0 25.05%	6,526 25.05%	0 48.08%	12,523 48.08%	3,441 13.21%	3,101 11.91%	26,046 100%
Correctional Employees Retirement	4,865 1.75%	0 25.05%	69,830 25.05%	0 48.08%	134,003 48.08%	36,821 13.21%	33,189 11.91%	278,708 100%
Public Employees Correctional	13,519 100.00%	0 0.00%	0 0.00%	0 0.00%	0 0.00%	0 0.00%	0 0.00%	13,519 100%
TOTAL BASIC FUNDS	378,542 1.80%	257 0.00%	5,259,219 25.03%	13 0.00%	10,098,507 48.06%	2,773,428 13.20%	2,503,565 11.91%	21,013,531 100%
POST RETIREMENT FUND	671,922 3.23%	0 0.00%	6,546,336 31.46%	0 0.00%	10,388,527 49.93%	2,761,972 13.28%	437,039 2.10%	20,805,796 100%
TOTAL BASIC AND POST	1,050,464 2.51%	257 0.00%	11,805,555 28.23%	13 0.00%	20,487,034 48.99%	5,535,400 13.24%	2,940,604 7.03%	41,819,327 100%

	Cash and Short term Securities		Bonds		Stocks		External Int'l		Alternative Assets		Total
	Internal	External	Internal	External	Internal	External	Int'l	Assets	Assets		
MINNESOTA SUPPLEMENTAL FUNDS:											
Income Share Account	1,516	236,590	0	0	0	395,908	0	0	0	634,014	
	0.24%	37.32%				62.44%				100%	
Growth Share Account	0	0	0	0	0	318,558	0	0	0	318,558	
						100.00%				100%	
Money Market Account	25,415	0	0	0	0	0	0	0	0	25,415	
	100.00%									100%	
Common Stock Index	0	0	0	0	0	428,112	0	0	0	428,112	
						100.00%				100%	
Bond Market Account	0	0	0	114,964	0	0	0	0	0	114,964	
				100.00%						100%	
International Share Account	0	0	0	0	0	0	46,611	0	0	46,611	
							100.00%			100%	
Fixed Interest Account	1,618	0	0	85,432	0	0	0	0	0	87,050	
	1.86%			98.14%						100%	
Money Market Deferred Comp	60,201	0	0	0	0	0	0	0	0	60,201	
	100.00%									100%	
TOTAL SUPPLEMENTAL FUNDS											
	88,750	236,590	0	200,396	0	1,142,578	46,611	0	0	1,714,925	
	5.17%	13.80%		11.68%		66.63%	2.72%			100%	
TOTAL RETIREMENT FUNDS											
	1,139,214	236,847	13	12,005,951	13	21,629,612	5,582,011	2,940,604	43,534,252		
	2.62%	0.54%	0.00%	27.58%	0.00%	49.68%	12.82%	6.76%	100%		

	Cash and		Bond		Stock		External		Alternative Assets	Total
	Short Term Securities	Bond Internal	Bond External	Stock Internal	Stock External	Int'l				
ASSIGNED RISK PLAN	5,235 1.62%	0	254,104 78.77%	0	63,254 19.61%	0	0	0	0	322,593 100%
ENVIRONMENTAL FUND	1,965 0.62%	96,312 30.15%	0	221,211 69.23%	0	0	0	0	0	319,488 100%
PERMANENT SCHOOL FUND	9,008 1.55%	273,674 47.23%	0	296,828 51.22%	0	0	0	0	0	579,510 100%
TOBACCO SETTLEMENT POOL	2,257 0.33%	340,767 50.54%	0	331,255 49.13%	0	0	0	0	0	674,279 100%
CLOSED LANDFILL INVESTMENT	10 0.10%	0	0	10,455 99.90%	0	0	0	0	0	10,465 100%
TREASURERS CASH	5,604,689 100.00%	0	0	0	0	0	0	0	0	5,604,689 100%
HOUSING FINANCE AGENCY	32,006 9.69%	298,452 90.31%	0	0	0	0	0	0	0	330,458 100%
MINNESOTA DEBT SERVICE FUND	83,421 33.82%	163,252 66.18%	0	0	0	0	0	0	0	246,673 100%
MISCELLANEOUS ACCOUNTS	214,709 44.88%	228,637 47.79%	0	35,046 7.33%	0	0	0	0	0	478,392 100%
GRAND TOTAL	7,092,514 13.61%	1,637,941 3.15%	12,260,055 23.53%	894,808 1.72%	21,692,866 41.64%	5,582,011 10.71%	2,940,604 5.64%	52,100,799 100%		

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: November 28, 2000

TO: Members, State Board of Investment

FROM: **Howard Bicker**

1. Reports on Budget and Travel

A report on the SBI's administrative budget for the fiscal year to date October 31, 2000 is included as **Attachment A**.

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

2. Post Retirement Benefit Increase for FY00

The Post Retirement benefit increase for FY00 will be 9.5342%. The increase will be payable to eligible retirees effective January 1, 2001.

The benefit formula was revised by the 1992 Legislature. For FY 1993-1997 the "inflation cap" in the benefit increase formula was 3.5%. Beginning in FY 1999, the "inflation cap" is 2.5%. Following are benefit increases for the past ten years:

1991*	4.3%
1992*	4.6%
1993	6.0%
1994	4.0%
1995	6.4%
1996	8.0%
1997	10.1%
1998	9.8%
1999	11.1%
2000	9.5%

* Benefit increase granted under old formula.

3. Certificate of Deposit Program Update

As reported at the September 2000 meeting, the SBI has experienced difficulties with the State Certificate of Deposit program resulting from the failure of a bank participating in the program. The issues are of a structural nature related to FDIC insurance coverage of the program from an operational standpoint. The staff of the SBI with assistance from the Attorney General's Office will continue to address this matter and will report to the Board when all issues have been resolved.

4. Litigation Update

The SBI has been designated lead plaintiff in a class action suit against Mercury Finance Corporation. The SBI is also a party to a securities litigation suit against McKesson HBOC. SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on December 13, 2000.

5. Results of FY00 Audit

The Legislative Auditor is nearly finished with its financial audit of SBI operations for FY00. I should be able to provide a verbal report of the audit findings at the Board meeting on December 13th.

6. Draft of FY00 Annual Report

A draft of the SBI's annual report for FY00 was sent to Board members/designees and IAC members in late November. The final report will be distributed in January 2001.

7. Tentative Meeting Dates for Calendar 2001

The quarterly meetings of the IAC/SBI are normally held on the first consecutive Tuesday and Wednesday of March, June, September and December. The dates for the calendar 2001 are:

IAC	SBI
Tuesday, March 6, 2001	Wednesday, March 7, 2001
Tuesday, June 5, 2001	Wednesday, June 6, 2001
Tuesday, September 4, 2001	Wednesday, September 5, 2001
Tuesday, December 4, 2001	Wednesday, December 5, 2001

SBI staff will confirm the availability of Board members for the above dates over the next few weeks.

8. Update on Tobacco Information

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

From June 30, 2000 to September 30, 2000 shares in the SBI active stock portfolios were reduced by 1,181,500 shares, dropping from approximately 1.7 million shares to approximately 0.5 million shares. The market value of these holdings decreased from approximately \$39 million to approximately \$15 million. Tables showing the holdings for the SBI active and semi-passive managers are in **Attachment C**.

ATTACHMENT A

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

ITEM	FISCAL YEAR 2001 BUDGET	FISCAL YEAR 2001 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	\$ 1,884,000	\$ 487,382
SEVERENCE PAYOFF	20,000	14,886
WORKERS COMPENSATION INSURANCE	1,000	148
MISCELLANEOUS PAYROLL	1,000	0
SUBTOTAL	\$ 1,906,000	\$ 502,416
STATE OPERATIONS		
RENTS & LEASES	130,000	45,495
REPAIRS/ALTERATIONS/MAINTENANCE	30,000	6,574
PRINTING & BINDING	20,000	4,462
PROFESSIONAL/TECHNICAL SERVICES	35,000	2,907
COMPUTER SYSTEMS SERVICES	0	0
COMMUNICATIONS	30,000	5,994
TRAVEL, IN-STATE	3,000	238
TRAVEL, OUT-STATE	65,000	19,343
SUPPLIES	50,000	9,877
EQUIPMENT	50,000	227
EMPLOYEE DEVELOPMENT	15,000	5,124
OTHER OPERATING COSTS	42,000	1,885
SUBTOTAL	\$ 470,000	\$ 102,126
TOTAL GENERAL FUND	\$ 2,376,000	\$ 604,542

ATTACHMENT B

STATE BOARD OF INVESTMENT

**Travel Summary by Date
SBI Travel August 16, 2000 – November 15, 2000**

<u>Purpose</u>	<u>Name(s)</u>	<u>Destination and Date</u>	<u>Total Cost</u>
Manager Monitoring Deferred Compensation Plan Managers: Great West, Janus Manager Search Deferred Compensation Plan Managers: Invesco	J. Heidelberg T. Brusehaver	Denver, CO 8/30-8/31	\$907.88
Consultant: Richards & Tierney Master Custodian: State Street Bank & Trust Staff Conference: Franklin Portfolio Associates' Annual Client Conference 2000	M. Perry	Chicago, IL Boston, MA 9/11-9/17	\$1,799.91
Manager Monitoring Alternative Investment Managers: CB Richard Ellis, Colony, TCW Crescent Mezzanine	A. Christensen	Los Angeles, CA 9/20-9/22	\$740.18
Staff Conference: "Guns & Hoses" sponsored by Institute for International Research	H. Bicker	Las Vegas, NV 9/22-9/27	\$1,897.95

<u>Purpose</u>	<u>Name(s)</u>	<u>Destination and Date</u>	<u>Total Cost</u>
Manager Search Alternative Investment Managers: Blackrock-Carbon Capital, Capital Trust Mezzanine Partners, Citicorp Ventures Staff Conference: Institutional Limited Partners Association (ILPA) Annual Meeting	A. Christensen	New York, NY Montreal, Quebec 9/25-9/27	\$1,985.10
Manager Monitoring Domestic Equity Managers: Cohen, Klingenstein & Marks, Forstmann Leff Associates, Geo-Capital Corporation, J. P. Morgan Investment Mgmt., Oppenheimer Capital, Manager Monitoring Emerging Equity Managers: Artemis Investment Mgmt., New Amsterdam Partners, Valenzuela Capital Partners Staff Conference: "Exchange Traded Funds & Index Share Forum" sponsored by The Institute for International Research	L. Buermann S. Gleeson	New York, NY 9/25-9/29	\$4,850.47
Manager Monitoring Fixed Income Manager: Deutsche Asset Mgmt. Manager Search Fixed Income Managers: Alliance Capital Mgmt., J.P. Morgan Investment Mgmt., Salomon Smith Barney Asset Mgmt. Staff Conference: "Core-Plus Bond Management: Evolution or Revolution" sponsored by Association for Investment Management and Research (AIMR)	J. Matz	Washington, D.C. New York, NY 9/30-10/6	\$2,900.42

<u>Purpose</u>	<u>Name(s)</u>	<u>Destination and Date</u>	<u>Total Cost</u>
Staff Conference: "Reaching New Heights" sponsored by ADP Investor Communication Services	D. Griebenow	Denver, CO 10/2-10/4	\$908.68
Manager Monitoring Alternative Investment Managers: Banc Fund Annual Meeting, Equity Office Properties, GTCR Golder Rauner, Thoma Cressey Manager Search Alternative Investment Manager: Prudential Mezzanine	J. Griebenow A. Christensen	Chicago, IL 10/10-10/12	\$1,663.00
Staff Conference: NASIO 2000	H. Bicker M. Perry	Sioux Falls, SD 10/14-10/18	\$2,721.00
Manager Monitoring Fixed Income Managers: BlackRock Financial Mgmt., Deutsche Asset Mgmt., Goldman Sachs Asset Mgmt., Morgan Stanley Dean Witter Investment Mgmt., Standish Ayer & Wood Master Custodian: State Street Bank & Trust Accounting Service: Financial Controls	M. Menssen J. Matz	Boston, MA Philadelphia, PA New York, NY 10/15-10/22	\$1,496.50

ATTACHMENT C

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

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

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

International Stocks

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

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

*1998 data

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

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

Company	Percent Revenue from Tobacco in 1997	SBI Shares 9/30/00	SBI Cost Value 9/30/00	SBI Market Value 9/30/00
Philip Morris Cos., Inc.	46	514,800	14,922,464	15,154,425
Subtotal		514,800	\$14,922,464	\$15,154,425

International Stocks

Company	Percent Revenue from Tobacco in 1997	SBI Shares 9/30/00	SBI Cost Value 9/30/00	SBI Market Value 9/30/00
N/A		0	0	0
Subtotal		0	\$0	\$0
Total SBI Holdings		514,800	\$14,922,464	\$15,154,425

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

*1998 data

Tab C

COMMITTEE REPORT

DATE: November 28, 2000

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

FROM: **Emerging Markets Equity Search Committee**

On October 12-13, 2000, the Emerging Markets Equity Search Committee met to re-interview two current active emerging markets stock managers, City of London Investment Management Company Ltd. and Genesis Asset Management and to conduct a search for additional active emerging markets stock managers.

The members of the committee included:

<i>Name</i>	<i>Representing</i>
Peter Sausen, Chair	Governor Ventura
Christie Eller	State Attorney General Hatch
Jake Manahan	State Treasurer Johnson
Jennifer Mohlenhoff	State Auditor Dutcher
Bob Schroeder	Secretary of State Kiffmeyer
Dave Bergstrom	Investment Advisory Council
Judy Mares	Investment Advisory Council

The Committee voted to terminate *City of London* and *Genesis* for investment management services. Ongoing administrative difficulties were the largest factor in the decision on *City of London*. Since the assets are held in custody at Mellon Bank, timeliness of accounting and reporting have been a problem, and there has been recurring difficulty in getting information due to the pooled nature of the account.

With respect to *Genesis*, the Committee has been disappointed with the performance of Genesis and have concerns regarding its total portfolio risk control procedures relative to the benchmark. These concerns resulted in the Committee concluding that the SBI may be better served by utilizing the services of other investment managers going forward.

The Committee also interviewed six (6) prospective managers. Based on the interviews, questionnaire responses, and supporting information gathered by staff and the

SBI's consultants, the Committee recommends hiring the following four (4) new emerging market equity firms:

Alliance Capital Management L.P.
Capital International, Inc./Capital Guardian Trust Co.
Morgan Stanley Dean Witter Investment Management
Schroder Investment Management North America Inc.

Attached to this memo are brief summaries and performance information for each of these managers.

RECOMMENDATIONS:

The Committee recommends that City of London Investment Management Company Ltd. and Genesis Asset Management Limited be terminated for investment management services.

The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute contracts with the following firms for active emerging markets equity management services:

**Alliance Capital Management International
1 Mayfair Place
London W1X 6JJ, UK**

**Capital International, Inc./Capital Guardian Trust Co.
11100 Santa Monica Blvd., 15th Floor
Los Angeles, CA 90025-3384**

**Morgan Stanley Dean Witter Investment Management
1221 Avenue of the Americas
New York, NY 10020-1001**

**Schroder Investment Management North America Inc.
31 Gresham Street
London EC2V 7QA UK**

Alliance Capital Management L.P.

Approach: Alliance Capital employs a growth style of investment management. Their investment strategy emphasizes bottom-up, large capitalization stock selection. Country and industry exposures are a by-product of stock selection. Generally, they are fully invested.

Country selection/allocation: Alliance Capital defines emerging markets as developing countries that are undergoing dramatic economic, political, and social changes and which have the potential for rapid economic growth. Alliance restricts investments to countries included in either the Morgan Stanley Capital International Emerging Markets Free Index or the International Finance Corporation's Investible Index. Alliance leans toward larger, more developed markets in these indexes and the larger cap stocks within those markets. Regional allocations are set to be within +/- 10% of the benchmark weights and country allocations are constrained to +/- 5% of the global benchmark.

Stock selection: Alliance Capital's regional analysts form their lists of recommended stocks from their respective regional universes. These universes consist of roughly 100 stocks in Latin America, 200 in Asia and 250 in Europe, Middle East and Africa. Research analysts use a variety of valuation methodologies when evaluating the attractiveness of a business. Valuations are compared to regional peers in the context of their own estimates of growth rates, and they look for companies with the best combination of forward-looking growth and valuation attractiveness. EBITDA growth and EBITDA multiples are commonly used in these assessments. Discounted free cash flow models are used, when appropriate, to add an additional level of rigor to their assessments. EBITDA and free cash flow are useful measures for cross-border comparisons as distortions due to accounting practices are eliminated. Their analysts summarize their assessments in a rating for each stock from 1 to 3 with a rating of '1' for a buy, '2' for a hold and '3' for a sell. The three regional portfolio managers, with input from analysts, each construct a regional portfolio using the '1' rated stocks from their respective regions.

Alliance Capital Management L.P.

Statistics as of 6/30/00

Number of Portfolio Managers:	4
Number of Analysts:	26
Number of Traders:	7
Total Assets in all Emerging Markets products*:	\$ 3.24 billion
Assets in this Global Emerging Markets product:	\$ 1.18 billion
Number of Global Emerging Markets Accounts:	7 (3 separate accounts)
Two largest Global Emerging Market accounts:	\$364 m Sub-advisory \$229 m Sub-advisory
Smallest Global Emerging Market Account:	\$9 m Pension Fund
Portfolio Characteristics:	
Number of Countries in portfolio:	22
Number of Stocks in portfolio:	100-120
3 Yr. avg. turnover:	80%
Value Added:	90% bottom-up 10% regional allocations

*Includes regional products and the emerging markets assets within EAFE portfolios.

Investment Manager:		ALLIANCE CAPITAL MANAGEMENT					
Benchmark:		MORGAN STANLEY EMERGING MARKETS-FREE					
		---PORTFOLIO---		---BENCHMARK---		---VAM---	
		Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
92	Q1	17.80		20.48		-2.22	
	Q2	-1.58		-10.87		10.42	
	Q3	-6.08		-3.30		-2.88	
	Q4	7.93	17.52	7.28	11.40	0.61	5.49
93	Q1	3.00		5.55		-2.41	
	Q2	8.07		8.27		-0.18	
	Q3	10.56		15.38		-4.17	
	Q4	33.96	64.87	32.60	74.84	1.02	-5.70
94	Q1	-10.80		-9.04		-1.93	
	Q2	-5.53		-1.44		-4.15	
	Q3	22.19		20.76		1.19	
	Q4	-14.74	-12.21	-14.39	-7.32	-0.42	-5.28
95	Q1	-13.30		-12.37		-1.06	
	Q2	12.03		10.37		1.50	
	Q3	1.22		-0.64		1.87	
	Q4	-1.41	-3.07	-1.35	-5.20	-0.06	2.25
96	Q1	10.28		6.23		3.82	
	Q2	10.64		4.18		6.20	
	Q3	0.13		-3.62		3.89	
	Q4	0.31	22.55	-0.59	6.03	0.90	15.58
97	Q1	8.09		8.47		-0.35	
	Q2	7.26		8.56		-1.20	
	Q3	-4.96		-8.97		4.40	
	Q4	-16.86	-8.40	-17.52	-11.59	0.79	3.60
98	Q1	5.20		6.19		-0.94	
	Q2	-18.97		-23.60		6.05	
	Q3	-23.94		-22.01		-2.48	
	Q4	10.97	-28.06	17.99	-25.34	-5.95	-3.65
99	Q1	13.44		12.44		0.89	
	Q2	24.66		24.40		0.21	
	Q3	2.69		-5.15		8.27	
	Q4	50.33	118.31	25.44	66.41	19.84	31.19
2000	Q1	10.41		2.42		7.80	
	Q2	-13.58		-10.16		-3.80	
Latest:							
1 yr		47.29		9.47		34.55	
3 yr		5.79		-4.96		11.31	
5 yr		10.91		0.99		9.83	
Cum 9201-0006		12.75		7.40		4.99	
Std Dev		26.09		23.91		8.35	

Capital International, Inc./Capital Guardian Trust Co.

Approach: Capital Guardian's investment approach is value-oriented. Their basic, fundamental, bottom-up approach is blended with macroeconomic and political judgments on the outlook for economies, industries, currencies and markets. Research-driven, investment decisions are based on extensive field research and direct company contact. They look for companies whose future prospects are better than their current market valuations, and examine each potential and current investment from many different angles -- its management, financial strength, resources, products or services provided, environment in which it operates, and future stream of earnings and dividends, while carefully considering potential risks. Each commitment of capital must offer a return-on-investment that appears superior to both present and future investment alternatives.

Country selection/allocation: Capital Guardian's country allocation occurs as a result of finding individually attractive companies in each country. They begin the investment process with company analysis. After a company valuation is determined, each portfolio manager considers the impact of country, industry and currency factors. When a number of companies appear to be attractively priced and are in the same country they tend to build a sizeable position in that country. However, these individual company evaluations are continuously cross-checked against their assessment of the industry, the local markets, and the currency risk/opportunity. Country and market portfolio weightings are determined by individual portfolio managers, with the total account weighting reflecting the aggregate decisions of all of the portfolio managers actively managing the Fund.

Stock selection: In selecting equity securities, Capital Guardian begins with the individual company and an evaluation of its prospects regardless of industry, country or market index weightings; the portfolio is constructed stock-by-stock from the bottom up. They try to identify the difference between the underlying value of a company and the price of its securities in its home market. They evaluate investments in the same manner they would if buying whole companies rather than just stock certificates. In analyzing individual companies, emphasis is placed on looking at the future prospects for companies, and they try to determine where their view of the future differs from that of the market. In Capital Guardian's valuation approach to security selection, their analysts evaluate industry, company, management, and discretionary cash flow characteristics. The nine portfolio managers and the analysts team each select stocks to construct a general portfolio. These portfolios are combined to form the final client portfolio.

Capital International, Inc./Capital Guardian Trust Co.

Statistics as of 6/30/00

Number of Portfolio Managers:	9
Number of Analysts:	30
Number of Traders:	13
Total Assets in all Emerging Markets products*:	\$32.5 billion
Assets in this Global Emerging Markets product:	\$32.2 billion
Number of Global Emerging Markets Accounts:	13 (2 separate accounts)
Two largest Global Emerging Market Accounts:	\$382 m public pension n/a
Smallest Global Emerging Market Account:	\$215 m public pension
Portfolio Characteristics:	
Number of Countries in Portfolio:	38
Number of Stocks in Portfolio:	391
3 Yr. Avg. turnover:	31%
Value Added:	90% bottom-up 10% top-down

*Includes regional products and the emerging markets assets within EAFE portfolios.

Investment Manager: CAPITAL GUARDIAN TRUST COMPANY
Benchmark: MORGAN STANLEY EMERGING MARKETS-FREE

	—PORTFOLIO—		—BENCHMARK—		—VAM—	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
88 Q1	19.35		22.05		-2.21	
Q2	15.69		12.18		3.13	
Q3	5.06		0.99		4.03	
Q4	-2.12	41.98	1.56	40.43	-3.62	1.11
89 Q1	16.44		16.88		-0.38	
Q2	23.16		5.95		16.24	
Q3	21.72		22.80		-0.88	
Q4	11.29	94.26	8.48	64.96	2.59	17.76
90 Q1	-5.68		-7.18		1.61	
Q2	13.89		20.03		-5.12	
Q3	-16.73		-17.19		0.56	
Q4	1.68	-9.05	-3.05	-10.55	4.87	1.68
91 Q1	23.75		29.17		-4.20	
Q2	12.70		5.09		7.24	
Q3	1.95		3.28		-1.29	
Q4	14.91	63.37	14.05	59.91	0.75	2.16
92 Q1	20.18		20.48		-0.25	
Q2	-7.84		-10.87		3.39	
Q3	-0.54		-3.30		2.85	
Q4	1.98	12.33	7.28	11.40	-4.94	0.84
93 Q1	9.64		5.55		3.87	
Q2	9.31		8.27		0.96	
Q3	12.62		15.38		-2.39	
Q4	27.96	72.69	32.60	74.84	-3.50	-1.23
94 Q1	-2.05		-9.04		7.69	
Q2	-4.83		-1.44		-3.44	
Q3	24.01		20.76		2.69	
Q4	-14.82	-1.53	-14.39	-7.32	-0.51	6.24
95 Q1	-16.53		-12.37		-4.75	
Q2	12.03		10.37		1.51	
Q3	2.19		-0.64		2.85	
Q4	-2.88	-7.20	-1.35	-5.20	-1.55	-2.11
96 Q1	7.87		6.23		1.55	
Q2	7.86		4.18		3.53	
Q3	-2.25		-3.62		1.42	
Q4	2.33	16.37	-0.59	6.03	2.93	9.75
97 Q1	10.76		8.47		2.12	
Q2	16.61		8.56		7.41	
Q3	-1.10		-8.97		8.64	
Q4	-14.16	9.65	-17.52	-11.59	4.08	24.02
98 Q1	5.26		6.19		-0.87	
Q2	-18.95		-23.60		6.08	
Q3	-21.89		-22.01		0.15	
Q4	12.74	-24.87	17.99	-25.34	-4.45	0.62

	---PORTFOLIO---		---BENCHMARK---		---VAM---	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
99 Q1	13.35		12.44		0.82	
Q2	20.80		24.40		-2.89	
Q3	-3.01		-5.15		2.26	
Q4	33.96	77.91	25.44	66.41	6.79	6.91
2000 1Q	7.78		2.42		5.23	
2Q	-10.29		-10.16		-0.14	
Latest:						
1 yr		25.63		9.47		14.76
3 yr		3.14		-4.96		8.53
5 yr		10.35		0.99		9.27
Cum 8801-0006		22.09		15.53		5.58
Std Dev		21.81		24.18		9.67

Morgan Stanley Dean Witter Investment Management (MSDW)

Approach: MSDW combines top-down country allocation and bottom-up stock selection in order to produce superior performance over the medium to long term. Their macro-economic and stock selection analyses are qualitative as well as quantitative, concentrating on fundamentals. Their top-down analysis focuses on 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. They follow a top-down approach to country allocation and a bottom-up approach to stock selection.

Country selection/allocation: MSDW defines their investment universe as those countries defined by Morgan Stanley Capital International, International Finance Corporation, and the World Bank as emerging market countries. They regularly evaluate roughly 25 to 30 countries focusing on identifying markets with improving fundamentals and attractive valuations. They emphasize countries where macroeconomic, political and social trends are improving and where valuation and sentiment lag fundamental improvement. Country allocation is the primary responsibility of the global co-leaders, Robert Meyer and Andy Skov, working with the input of their regional specialists.

Stock selection: Stock analysis is performed by all 16 investment professionals (regional specialists, industry specialists and global co-heads). MSDW typically seeks companies with expected earnings-per-share growth of 15% - 25% over the next two to three years. The overall goal of their selection process is to identify stocks with attractive growth characteristics that sell below their intrinsic values. They emphasize companies with strong operating earnings/cash flow growth and undervalued franchise/assets. They then conduct fundamental research on this group of reasonably priced stocks with good growth characteristics to identify the most attractive securities. They examine each company's balance sheet, focusing on book value, leverage, and return on equity. In addition, their research includes a profit/loss analysis and a cash-flow assessment. This review focuses on revenue growth, profit-margin trends, net income, free cash flow, and earnings-per-share growth.

Morgan Stanley Dean Witter Investment Management (MSDW)

Statistics as of 6/30/00

Number of Portfolio Managers:	15
Number of Analysts:	Included in 15 above.
Number of Traders:	10
Total Assets in all Emerging Markets products*:	\$11.1 billion
Assets in this Global Emerging Markets product:	\$ 7.1 billion
Number of Global Emerging Markets Accounts:	14 (7 separate accounts)
Two largest Global Emerging Market Accounts:	\$377 m Corporate Pension \$310 m Insurance Co.
Smallest Global Emerging Market Account:	\$162 m Corporate Pension
Portfolio Characteristics:	
Number of Countries in portfolio:	21
Number of Stocks in portfolio:	233
3 Yr. avg. turnover:	107%
Value Added:	45% Bottom-up 10% Sector/Industry 45% Top-down

*Includes regional products and the emerging markets assets within EAFE portfolios.

Investment Manager: MORGAN STANLEY DEAN WITTER
Benchmark: MORGAN STANLEY EMERGING MARKETS-FREE

	—PORTFOLIO—		—BENCHMARK—		—VAM—	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
92 Q1	16.00		20.48		-3.71	
Q2	2.65		-10.87		15.16	
Q3	-2.60		-3.30		0.71	
Q4	0.59	16.66	7.28	11.40	-6.23	4.72
93 Q1	10.38		5.55		4.58	
Q2	11.45		8.27		2.94	
Q3	14.16		15.38		-1.06	
Q4	36.15	91.19	32.60	74.84	2.68	9.35
94 Q1	-3.65		-9.04		5.93	
Q2	-4.81		-1.44		-3.42	
Q3	19.56		20.76		-0.99	
Q4	-14.20	-5.91	-14.39	-7.32	0.22	1.52
95 Q1	-17.39		-12.37		-5.73	
Q2	11.15		10.37		0.71	
Q3	2.73		-0.64		3.39	
Q4	-6.86	-12.14	-1.35	-5.20	-5.58	-7.32
96 Q1	9.92		6.23		3.48	
Q2	9.48		4.18		5.09	
Q3	-4.29		-3.62		-0.69	
Q4	-1.57	13.38	-0.59	6.03	-0.98	6.93
97 Q1	9.76		8.47		1.19	
Q2	13.98		8.56		4.99	
Q3	-0.80		-8.97		8.97	
Q4	-20.24	-1.02	-17.52	-11.59	-3.30	11.95
98 Q1	8.89		6.19		2.54	
Q2	-20.27		-23.60		4.35	
Q3	-23.23		-22.01		-1.56	
Q4	15.26	-23.18	17.99	-25.34	-2.32	2.89
99 Q1	12.70		12.44		0.23	
Q2	25.39		24.40		0.80	
Q3	-4.70		-5.15		0.47	
Q4	52.38	105.19	25.44	66.41	21.47	23.31
2000 Q1	8.63		2.42		6.06	
Q2	-11.72		-10.16		-1.73	
Latest:						
1 yr		39.26		9.47		27.21
3 yr		6.15		-4.96		11.69
5 yr		10.17		0.99		9.10
Cum 9201-0006		14.36		7.40		6.48
Std Dev		24.64		23.91		8.67

Schroder Investment Management North America Inc.

Approach: Schroders' style focuses on identifying companies that can leverage the superior economic growth in emerging markets to generate above-average growth in earnings and cash flow. In addition to this focus on growth, their style aims to generate consistency of performance by taking multiple active positions in what are highly inefficient markets. They use a mix of top-down analysis and bottom-up stock selection, which varies according to the state of development of the market.

Country selection/allocation: Schroders' Emerging Markets Committee focuses their long-term view on choosing countries that will sustain predictable and above average growth. On a medium term, they run a model, which ranks countries using a variety of economic variables to assess their confidence in each country's ability to achieve such growth. In the short term their allocation decision is based on 12-month forecast returns. These are based on four inputs: (a) earnings growth and (b) dividend yield for the basket of stocks they own in each country, and (c) the expected currency and (d) valuation shift for each country. The projected returns are then combined into a global list and the countries are ranked in order of absolute return on a one-year view. Portfolio asset allocation is thus determined subject to their country limitations, the availability of attractive investment opportunities and their confidence in both the predictability and sustainability of growth over the long term and the robustness of the four components of the 12 month forecast returns.

Stock selection: Schroders begins with a \$250 million dollar market capitalization liquidity screen, then reduce it qualitatively to a universe of about 900 stocks which they follow in emerging markets. They seek companies capable of sustaining above-average earnings growth rate in countries with a sustainable above-average economic growth rate. They also require that such companies should have below-average volatility of earnings. These companies are usually characterized by (a) market leadership, (b) internal free cash flow capable of financing future growth, and (c) high quality management. Schroders also seeks positive earnings momentum and attach importance to the degree of earnings cyclicality. Of these fundamental factors, the single most important in emerging markets is the quality of management which they assess against five criteria: (i) interest in shareholder value; (ii) historic record of success; (iii) sound business practices; (iv) management of change; and (v) focused strategy.

Schroder Investment Management North America Inc.

Statistics as of 6/30/00

Number of Portfolio Managers:	10
Number of Analysts:	48
Number of Traders:	5
Total Assets in all Emerging Markets products*:	\$12.1 billion
Assets in this Global Emerging Markets product:	\$12.1 billion
Number of Global Emerging Markets Accounts:	34
Two largest Global Emerging Market accounts:	\$492 m Public Pension \$387 m Public Pension
Smallest Global Emerging Market Account:	\$ 4 m Fund of Funds
Portfolio Characteristics:	
Number of Countries in portfolio:	35
Number of Stocks in portfolio:	150-200
3 Yr. avg. turnover:	45%-50%
Value Added:	45% Bottom-up 55% Top-down

*Includes regional products and the emerging market assets within EAFE portfolios.

Investment Manager: SCHRODERS CAPITAL MGMT INTERNATIONAL
Benchmark: MORGAN STANLEY EMERGING MARKETS-FREE

	—PORTFOLIO—		—BENCHMARK—		—VAM—	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
92 Q1	23.72		20.48		2.69	
Q2	-8.00		-10.87		3.22	
Q3	-4.42		-3.30		-1.17	
Q4	3.30	12.38	7.28	11.40	-3.70	0.87
93 Q1	11.37		5.55		5.52	
Q2	8.70		8.27		0.40	
Q3	11.45		15.38		-3.41	
Q4	36.73	84.48	32.60	74.84	3.11	5.51
94 Q1	-6.66		-9.04		2.62	
Q2	-2.27		-1.44		-0.84	
Q3	19.29		20.76		-1.22	
Q4	-12.12	-4.37	-14.39	-7.32	2.65	3.18
95 Q1	-11.77		-12.37		0.68	
Q2	11.44		10.37		0.97	
Q3	0.46		-0.64		1.11	
Q4	-3.73	-4.91	-1.35	-5.20	-2.41	0.30
96 Q1	11.11		6.23		4.60	
Q2	8.09		4.18		3.75	
Q3	-4.00		-3.62		-0.39	
Q4	0.62	16.02	-0.59	6.03	1.22	9.43
97 Q1	9.41		8.47		0.86	
Q2	13.30		8.56		4.37	
Q3	-5.81		-8.97		3.47	
Q4	-17.30	-3.43	-17.52	-11.59	0.26	9.22
98 Q1	5.27		6.19		-0.87	
Q2	-20.53		-23.60		4.02	
Q3	-20.84		-22.01		1.49	
Q4	16.24	-23.02	17.99	-25.34	-1.48	3.10
99 Q1	10.74		12.44		-1.51	
Q2	24.54		24.40		0.12	
Q3	-4.92		-5.15		0.25	
Q4	31.30	72.19	25.44	66.41	4.67	3.47
2000 Q1	0.82		2.42		-1.57	
Q2	-11.67		-10.16		-1.67	
Latest:						
1 yr		11.18		9.47		1.56
3 yr		-2.76		-4.96		2.32
5 yr		5.04		0.99		4.02
Cum 9201-0006		11.35		7.40		3.68
Std Dev		23.38		23.91		5.21

Tab D

COMMITTEE REPORT

DATE: November 28, 2000

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

FROM: Stock and Bond Manager Committee

The Stock and Bond Manager Committee met on November 15, 2000 to consider the following agenda items:

- Review the manager performance for the period ending September 30, 2000.
- Update on the emerging markets manager re-interview and search.
- Annual review of investment manager guidelines.
- Recommendation to renew investment management contracts.

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

INFORMATION ITEMS:

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

- *Domestic Equity Managers*

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

Time period	Total Program	Wilshire 5000 Investable	Current Mgrs. Only	Aggregate Benchmark
Quarter	0.2%	0.3%	0.2%	0.6%
1 Year	15.8	16.7	16.4	18.3
3 Years	15.0	15.2	17.1	17.0
5 Years	20.1	20.2	21.9	21.4

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 September 30, 2000, the **Fixed Income Manager Program** out-performed the Lehman Aggregate for the quarter, one, and five year periods, and matched the index during the three year time period. The **current managers** outperformed the aggregate benchmark for the quarter, one, and five year periods and matched the index for the three year time period.

Time period	Total Program	Lehman Aggregate
Quarter	3.1%	3.0%
1 Year	7.2	7.0
3 Years	5.9	5.9
5 Years	6.8	6.5

Current Mgrs. Only	Aggregate Benchmark
3.1%	3.0%
7.2	7.0
5.9	5.9
6.7	6.5

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

- **International Equity Managers**

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

Time Period	Total Program	Composite Index*
Quarter	-7.5%	-8.6%
1 Year	5.5	2.8
3 Year	6.1	5.8
5 Year	9.4	7.5

Equity Mgrs. Only
-7.5%
5.4
6.0
8.7

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

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

2. Update on the emerging markets manager re-interview and search.

In October 2000, the Emerging Markets Search Committee met to re-interview two current active emerging markets stock managers: City of London Investment Management Company, Ltd. and Genesis Asset Management and to conduct a search for additional active emerging markets stock managers. The Search Committee recommendations were presented to the Stock and Bond Manager Committee for informational purposes.

The Search Committee is recommending the termination of both City of London, due to administrative problems, and Genesis due to performance and concern regarding the firm's risk control measures.

The Search Committee also interviewed six (6) new firms. Based on the interviews, questionnaire responses, and supporting information gathered by staff and the SBI's consultants, the Search Committee is recommending that four (4) firms be retained by the SBI at this time:

Alliance Capital Management L.P.	London, UK
Capital International, Inc./Capital Guardian Trust Co.	Los Angeles, CA
Morgan Stanley Dean Witter Investment Management	New York, NY
Schroder Investment Management North America Inc.	London, UK

The Stock and Bond Manager Committee concurred with the recommendations of the Search Committee which is presented in **Tab C**.

3. Annual review of investment manager guidelines.

The 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 items 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 review resulted in a change to reflect the statutory language enacted during the last legislative session, which allows managers to hold securities, listed on "an exchange regulated by an agency of the United States or Canadian national government."

Additionally, staff clarified reporting requirements with regard to 1) percentage of shares outstanding of any corporation in the SBI's portfolio; 2) potential litigation; and 3) securities pricing and account reconciliation.

The investment guidelines for all asset classes start on **page 5** of this Tab.

ACTION ITEMS:

4. Recommendation to renew investment management contracts.

The contracts of seventeen (17) equity and fixed income managers will expire on or before June 30, 2001. Currently, the standing of each of these managers is satisfactory. Staff recommends renewal of each of these contracts for a five-year period with an immediate termination clause. All other terms and conditions of the contracts are expected to remain unchanged.

RECOMMENDATION:

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

Domestic Equity – Active Managers

**Alliance Capital Management
Brinson Partners Inc.
Forstmann Leff Associates
Franklin Portfolio Associates Trust
GeoCapital Corporation
Lincoln Capital Management Co.
Oppenheimer Capital**

Fixed Income – Active Managers

**American Express Asset Management
Morgan Stanley Dean Witter
Standish Ayer Wood, Inc.
Western Asset Management**

Fixed Income – Semi-Passive Managers

**BlackRock Financial Management
Goldman Sachs Asset Management
Lincoln Capital Management Co.**

International Equity – Active Developed Manager

Brinson Partners Inc.

International Equity – Active Emerging Markets Manager

Montgomery Asset Management LP

Assigned Risk Plan – Fixed Income Manager

Voyageur Asset Management

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:

1. RETURN/RISK OBJECTIVES

~~An active manager~~ The Manager is expected to deliver cumulative returns in excess of the returns of a predetermined benchmark net of fees and expenses. The Manager's objective is to produce positive excess returns relative to the benchmark compared to the amount of active risk of their investment process.

~~(a)~~ (b) Excess Return: The Manager is expected to out-perform the benchmark consistently overtime. The Managers' goal is to achieve an information ratio of 0.20 or greater. The information ratio is the amount of excess return relative to the benchmark per unit of risk or the annualized excess return relative to the benchmark net of fees and expenses divided by the annual standard deviation of excess returns relative to the benchmark.

~~(a)~~ (b) Active Risk: Annualized standard deviation of excess returns relative to the benchmark is a measure of the variability or active risk of the Manager's investment process. It is expected that the Manager's annual standard deviation of excess returns relative to the benchmark will fall into a range of 4.0 to 10.0.

2. BENCHMARKS

Each manager must provide and maintain a customized benchmark (normal) portfolio, approved by the SBI, for the purpose of performance evaluation and risk measurement. The final custom benchmark must be delivered to Richards & Tierney in Chicago at a time which is consistent with the quarterly rebalancing schedule provided by Richards & Tierney or SBI staff. The benchmark portfolio provided by the Manager must satisfy the following characteristics:

- (a) **Unambiguous.** The names and weights of securities comprising the benchmark are clearly delineated.
- (b) **Investable.** The option is available to forego active management and simply hold the benchmark portfolio.

- (c) **Measurable.** It is possible to readily calculate the benchmark's return on a monthly basis.
- (d) **Appropriate.** The benchmark is consistent with the Manager's investment style or biases.
- (e) **Reflective of current investment opinions.** The Manager has current investment opinions (be they positive, negative, or neutral) on the securities which make up the benchmark.
- (f) **Specified in advance.** The benchmark must be available prior to the start of an evaluation period.

3. ELIGIBLE INVESTMENTS

The investment managers will be restricted to purchasing common stocks, stock index futures, and the SBI STIF fund. The Manager may hold equity options, preferred stocks and warrants if received from underlying assets. The Manager must have the SBI's written approval to purchase exchange traded funds, equity options, preferred stocks and warrants. The investments of each 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 the New York Stock Exchange (NYSE) or American Stock Exchange (ASE)~~ on an exchange regulated by an agency of the United States or Canadian national government. These include American Depository Receipts (ADR's) traded on ~~the NYSE or ASE, but exclude ADR's traded over the counter~~ such an exchange.
- (c) 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 the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.
- (f) The Manager shall not hold more than ~~five (5)~~ 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.

- (g) Cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.
- (h) Managers are expected to hold concentrated portfolios, generally, 30-40 securities for large cap portfolios and 60-120 securities for mid to small cap portfolios. The Manager may request SBI approval to deviate from these guidelines.
- (i) Stock options and stock index futures, purchased through a regulated exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter instruments are not permitted. All option and future transactions must be done on a fully collateralized basis.
- (j) With ~~regards~~ respect to tobacco related stocks, the account may not purchase shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. In addition, the Manager shall divest shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products by September 2001. The SBI will periodically provide the Manager with a list of companies that derive more than 15% of its revenue from the manufacture of consumer tobacco products.

4. 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.

5. 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 twelve (12) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight any organizational changes, which may impact management of the SBI's account, and affirm account reconciliation with the custodial bank.

- (c) 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.

6. PROXY VOTING

The SBI is responsible for proxy voting.

7. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI 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 for any individual SBI manager is limited to the total market value of the assets for that manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

Manager will manage the Account on a separate account basis. All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

9. ACCOUNT RECONCILIATION

The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile 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 received after these deadlines on the last business day will be reflected in the following month.

To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. Notification must be sent to ccfong@statestreet.com identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month-end.

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. ~~The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian.~~ If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must return these pricing requests by 5:00 PM EST on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

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. 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: December 1999 2000

Executive Director/
Assistant Executive Director

Firm Representative

Date _____

Date _____

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES EXTERNAL EMERGING DOMESTIC COMMON STOCK MANAGERS

The investment actions of State Board of Investment (SBI) external active domestic common stock managers will be governed and evaluated by the following guidelines:

1. RETURN/RISK OBJECTIVES

An active manager is expected to deliver cumulative returns in excess of the returns of a predetermined benchmark net of fees and expenses. The Manager's objective is to produce large positive excess returns relative to the benchmark compared to the amount of active risk of their investment process.

- (a) **Active Risk:** Annualized standard deviation of excess returns relative to the benchmark is a measure of the variability or active risk of the Manager's investment process. It is expected that the Manager's annual standard deviation of excess returns relative to the benchmark will fall into a range of 4.0 to 10.0.
- (b) **Excess Return:** The Manager is expected to out-perform the benchmark consistently overtime. The Managers' goal is to achieve an information ratio of 0.20 or greater. The information ratio is the amount of excess return relative to the benchmark per unit of risk or the annualized excess return relative to the benchmark net of fees and expenses divided by the annual standard deviation of excess returns relative to the benchmark.

2. BENCHMARKS

Each manager must provide and maintain a customized benchmark (normal) portfolio, approved by the SBI, for the purpose of performance evaluation and risk measurement. The final custom benchmark must be delivered to Richards & Tierney in Chicago no later than the eighth business day prior to the beginning of each quarter. The benchmark portfolio provided by the Manager must satisfy the following characteristics:

- (a) **Unambiguous.** The names and weights of securities comprising the benchmark are clearly delineated.
- (b) **Investable.** The option is available to forego active management and simply hold the benchmark portfolio.
- (c) **Measurable.** It is possible to readily calculate the benchmark's return on a monthly basis.

- (d) **Appropriate.** The benchmark is consistent with the Manager's investment style or biases.
- (e) **Reflective of current investment opinions.** The Manager has current investment opinions (be they positive, negative, or neutral) on the securities, which make up the benchmark.
- (f) **Specified in advance.** The benchmark must be available prior to the start of an evaluation period.

3. ELIGIBLE INVESTMENTS

The investment managers will be restricted to purchasing common stocks, stock index futures, and the SBI STIF fund. The Manager may hold equity options, preferred stocks and warrants if received from underlying assets. The Manager must have the SBI's written approval to purchase exchange traded funds, equity options, preferred stocks and warrants. The investments of each 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 ~~the New York Stock Exchange (NYSE) or American Stock Exchange (ASE)~~ an exchanged regulated by an agency of the United States or Canadian national government. These include American Depository Receipts (ADR's) traded on ~~the NYSE and the ASE, but exclude ADR's traded over the counter~~ such an exchange.
- (c) Manager may not purchase restricted stock, letter stock, and private placements.
- (d) Debt securities, except cash equivalents, may not be purchased in the Account.
- (e) Without prior written authorization from the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.
- (f) The Manager shall not hold more than ~~five (5)~~ 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.
- (g) Cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

- (h) Managers are expected to hold concentrated portfolios, generally, 30-40 securities for large cap portfolios and 60-120 securities for mid to small cap portfolios. The Manager may request SBI approval to deviate from these guidelines.
- (i) Stock options and stock index futures, purchased through a regulated exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter instruments are not permitted. All option and future transactions must be done on a fully collateralized basis.
- (j) With ~~regards~~ respect to tobacco related stocks, the account may not purchase shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. In addition, the Manager shall divest shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products by September 2001. The SBI will periodically provide the Manager with a list of companies that derive more than 15% of its revenue from the manufacture of consumer tobacco products.

4. 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.

5. 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 twelve (12) business days after quarter end. The Commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight any organizational changes, which may impact management of the SBI's account, and affirm account reconciliation with the custodial bank.

- (c) 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.

6. PROXY VOTING

The SBI is responsible for proxy voting.

7. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to the total funds of the SBI manager 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 for any individual SBI manager is limited to the total market value of the assets for that manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

Manager will manage the Account on a separate account basis. All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

9. ACCOUNT RECONCILIATION

The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile 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 received after these deadlines on the last business day will be reflected in the following month.

To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. Notification must be sent to ccfong@statestreet.com identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month-end.

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. ~~The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian.~~ If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must return these pricing requests by 5:00 PM EST on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

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. 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.

Date: December 1999 2000

Executive Director/
Assistant Executive Director

Firm Representative

Date _____

Date _____

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES EXTERNAL SEMI-PASSIVE DOMESTIC COMMON STOCK MANAGER

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:

1. RETURN/RISK OBJECTIVES

A semi passive manager is expected to deliver cumulative returns in excess of the returns of a predetermined benchmark net of fees and expenses. The Manager is expected to produce positive excess returns relative to the benchmark compared to the amount of active risk of their investment process.

- (a) **Active Risk:** Annualized standard deviation of excess returns relative to the benchmark is a measure of the variability or active risk of the Manager's investment process. It is expected that the Manager's annual standard deviation of excess returns relative to the benchmark will be greater than 1.0 but no more than 1.50.
- (b) **Excess Return:** The Manager is expected to out perform the benchmark consistently overtime. The Managers' goal is to achieve an information ratio of 0.10 or greater. The information ratio is the amount of excess return relative to the benchmark per unit of risk or the annualized excess return relative to the benchmark net of fees and expenses divided by the annual standard deviation of excess returns relative to the benchmark.

2. BENCHMARK INDEX

The benchmark will be a Dynamic Completeness Fund/customized benchmark furnished by the SBI. The Manager is expected to provide the SBI with periodic feedback in terms of the benchmark's composition, liquidity, names, and timing. SBI reserves the right to change the benchmark index upon prior notification to Manager.

3. ELIGIBLE INVESTMENTS

The investment managers will be restricted to purchasing common stocks, stock index futures, and the SBI STIF fund. The Manager may hold equity options, preferred stocks and warrants if received from underlying assets. The Manager must have the SBI's written approval to purchase exchange traded funds, equity options, preferred stocks and warrants. The investments of each 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 ~~the New York Stock Exchange (NYSE) or American Stock Exchange (ASE). These include American Depository Receipts (ADR's) traded on the NYSE or ASE, but exclude ADR's traded over the counter~~ an exchange regulated by an agency of the United States or Canadian national government.
- (c) 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 the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.
- (f) The Manager shall not hold more than ~~five (5)~~ 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.
- (g) Cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.
- (h) Stock index futures, purchased through a regulated future exchange, may be used to equitize cash in the portfolio. Over-the-counter future instruments are not permitted. All future transactions must be done on a fully collateralized basis.
- (i) With ~~regards~~ respect to tobacco related stocks, the account may not purchase shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. In addition, the Manager shall divest shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products by September 2001. The SBI will periodically provide the Manager with a list of companies that derive more than 15% of its revenue from the manufacture of consumer tobacco products.

4. 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.

5. 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 twelve (12) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight any organizational changes, which may impact management of the SBI's account, and affirm account reconciliation with the custodial bank.
- (c) 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.

6. PROXY VOTING

The SBI is responsible for proxy voting.

7. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI 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 for any individual SBI manager is limited to the total market value of the assets for that manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

Manager will manage the Account on a separate account basis. All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

9. ACCOUNT RECONCILIATION

The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile 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 received after these deadlines on the last business day will be reflected in the following month.

To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. Notification must be sent to ccfong@statestreet.com identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month-end.

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. ~~The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian.~~ If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must return these pricing requests by 5:00 PM EST on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

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. 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: December ~~1999~~ 2000

Executive Director/
Assistant Executive Director

Firm Representative

Date _____

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:

1. RETURN/RISK OBJECTIVES

A passive manager is expected to deliver cumulative returns in line with the returns of a predetermined benchmark. The Manager is expected to control the variability or risk of the actual returns relative to the benchmark returns.

- (a) Active Risk: Annualized standard deviation of excess returns relative to the benchmark is a measure of the variability or active risk of the Manager's investment process. It is expected that the passive manager's annual standard deviation of excess returns relative to the benchmark will be 0.60 or less.
- (b) Excess Return: The Manager is expected to slightly under perform the benchmark return overtime due to fees and trading expenses. Overtime, the annual return shortfall relative to the benchmark should be no more than 0.10%.

2. BENCHMARK INDEX

The benchmarks will be the Wilshire 5000 Investable as defined by the ~~attached asset class target policy paper~~ benchmark construction and maintenance rules in Appendix A. SBI reserves the right to change the benchmarks upon notification to manager.

3. ELIGIBLE INVESTMENTS

The investment manager will be restricted to holding common stocks that are in the benchmark index as delivered from the benchmark builder, stock index futures, and the SBI STIF fund. 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) Total SBI holdings in any one corporation shall not exceed five (5) percent of the total outstanding shares of that corporation. Individual investment manager holdings will be monitored by the SBI staff to assure compliance.~~

- (e) (b) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.
- (d) (c) 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 done on a fully collateralized basis.

4. 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.

5. 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 twelve (12) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight any organizational changes which may impact management of the SBI's account, and affirm account reconciliation with the custodial bank.
- (c) 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.

6. PROXY VOTING

The SBI is responsible for proxy voting.

7. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI 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 for any individual SBI manager is limited to the total market value of the assets for that manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

Manager will manage the Account on a separate account basis. All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

9. ACCOUNT RECONCILIATION

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To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. Notification must be sent to ccfong@statestreet.com identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month-end.

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. ~~The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian.~~ If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must return these pricing requests by 5:00 PM EST on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

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. 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: ~~May~~ December 2000

Executive Director/
Assistant Executive Director

Firm Representative

Date _____

Date _____

APPENDIX A

Wilshire 5000 Investable Benchmark Construction & Maintenance Rules

On behalf of the Minnesota State board of Investment (MN SBI), Richards & Tierney, Inc. will construct and maintain a custom Target portfolio (Target). This portfolio will be the MN SBI domestic equity asset category Target. It will be used as a performance comparison for MN SBI total domestic equity program and as the benchmark for the passive portfolio managed by BGI (Passive manager). The following outlines the process and procedures that R&T will use to construct and maintain the Target overtime:

Definition of Terms

Effective Date:	The month-end date for which the Target becomes effective for the performance interval
Selection Date:	Month-end date one month before the Effective Date
Build Date:	The date R&T constructs the Target (between Selection Date and Effective Date)
Delivery Date:	The date R&T delivers the revised Target based on Selection Date Shares and Holdings to Passive Manager. This date will be prior to the Effective Date
Refresh Date:	Denotes a re-constitution of the Target. Refresh periods are expected to occur each calendar quarter, but may occur at other month-end to accommodate specific needs of MN SBI

Target Construction Rules

- The Target will be constructed each calendar quarter and or at times consistent with planned and significant changes to MN SBI's domestic equity structure
- The Target will be based on the Wilshire 5000(W5000) Holdings and Shares Outstanding as of the Selection Date. R&T will adjust the W5000 Selection Date Holdings based on the following criteria
 - Eliminate stocks that are restricted by MN SBI
 - Eliminate stocks with market capitalization's less than the smallest stock in the 9th decile of the NYSE
 - Eliminate ADR's, REIT's, Dual Class Stocks, MLP's, Closed-end and Exchange Traded Funds, Unit Trusts, Preferred Stocks.
 - Eliminate stocks that trade less than 50% of prior month's trading days
 - Eliminate stocks with share price equal to or less than \$2.00

Rules to update the Target between Refresh periods

- Passive Manager will adjust the Target for all corporate actions since the Selection Date
- The objective of these rules is to minimize, where possible, trading by the Passive manager.
- The Rules are:
 - Selection Date Share amounts do not change throughout “Refresh period” unless there is a corporate action
 - Stock splits: Number of shares adjusted in Target on x-date
 - IPO’s: No new securities added unless already in Selection Date list
 - Share issuance and buy backs: No adjustments made until next Refresh Date
 - Spin-offs: if spun-off company not Target eligible - hold spun-off shares until subsequent month-end then sell at close price
 - Spin-offs: if spun-off company is Target eligible - hold spun-off shares until next Refresh
 - Takeovers for cash: hold cash until next subsequent month-end then reinvest in Target pro-rata
 - Takeovers for cash and shares: Target will be adjusted to reflect the average election backwards effective to x-date. This is an after-the-fact piece of information. BGI will have to make an election prior to knowledge of the average election. This is the same condition that exists with continuously updated published indices.(such as W5000 and R3000)
 - Takeovers for shares: Target shares are adjusted for the acquiring company, acquired company is deleted from Target on x-date of transition. Shares not Target eligible are handled per spin-off Rules.
 - Dividends and cash payments: accrued as non-interest bearing until month-end and then reinvested pro-rata (See Takeovers for cash)

These Rules will be used as the basis for monthly performance calculations for the Target.

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:

1. RETURN/RISK OBJECTIVE

An active manager is expected to deliver cumulative returns in excess of the returns of a predetermined benchmark net of fees and expenses. The Manager's objective is to produce large positive excess returns relative to the benchmark compared to the amount of active risk of their investment process.

(a) Active Risk: Annualized standard deviation of excess returns relative to the benchmark is a measure of the variability or active risk of the Manager's investment process. It is expected that the Manager's annual standard deviation of excess returns relative to the benchmark will fall into the range of 3.0 to 10.0.

(b) Excess Return: The Manager is expected to out-perform the benchmark consistently overtime. The Managers' goal is to achieve an information ratio of 0.20 or greater. The information ratio is the amount of excess return relative to the benchmark per unit of risk or the annualized excess return relative to the benchmark net of fees and expenses divided by the annual standard deviation of excess returns relative to the benchmark.

2. PERFORMANCE BENCHMARK

The performance benchmark for the portfolio will be the Morgan Stanley Capital International (MSCI) Index of Europe, Australasia and the Far East-Free (EAFE-Free), capitalization weighted. SBI reserves the right to change the benchmark upon notification to the Manager.

3. ELIGIBLE MARKETS

Subject to the constraints in #4 below, the Manager is authorized to purchase common stocks only in the countries included in the EAFE-Free index and in Canada. Manager may not purchase the shares of companies domiciled in emerging market countries.

4. ELIGIBLE INVESTMENTS

Subject to the constraints in #3 above, the Manager will be restricted to purchasing common stocks, preferred stocks, currency forwards and the SBI's STIF fund. The Manager may hold warrants, if received from underlying assets. The Manager must have the SBI's written approval to purchase exchange traded funds, warrants, open-end country funds and closed-end country or regional funds, stock index futures and options, and currency futures and options provided:

- (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 may not be purchased in the Account.
- (d) Debt securities, except cash equivalents may not be purchased in the Account.
- (e) The Manager shall not hold more than ~~five (5)~~ 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.
- (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.
- (g) American Depository Receipts (ADR's), Great Britain Depository Receipts (GDR's), and securities issued by Canada or its provinces may be held in the Account provided they are 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 and stock index futures, purchased through a governmentally regulated futures exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter instruments are not permitted. All future transactions must be done on a fully collateralized basis.
- (i) Currency forwards may be used to adjust the effective non-US currency exposure of the portfolio from 0 to 100%. Manager has no obligation to hedge currency risk and will not be required to do so.

- (j) With ~~regards~~ respect to tobacco related stocks, the account may not purchase shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. In addition, the Manager shall divest shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products by September 2001. The SBI will periodically provide the Manager with a list of companies that derive more than 15% of their revenue from the manufacture of consumer tobacco products.

5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to the 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. 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 twelve (12) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight any organizational changes which may impact management of the SBI's Account, and affirm account reconciliation with the Custodial Bank.
- (c) 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 related to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

7. COUNTERPARTY BANKS

Each counterparty bank used by the Manager to execute currency transactions must have a credit rating of A1/P1 or better from each of the following rating organizations: S&P, Moody's and IBCA.

Any agreement entered into must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must

provide that SBI liability for settlement, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The Manager is responsible for monitoring both the long term and short term credit ratings of each counterparty bank and the Manager will notify the SBI of any downgrade in either rating promptly.

8. 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 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.

9. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI 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 for any individual SBI manager is limited to the total market value of the assets for that manager.

10. SEPARATE ACCOUNT AND DAILY PRICING

Manager will manage the Account on a separate account basis. All assets will be held in custody by the SBI's custodian bank and its network of sub-custodians. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

11. ACCOUNT RECONCILIATION

The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile 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 received after these deadlines on the last business day will be reflected in the following month.

To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from

Insight or Global Quest as of the 21st calendar day of each month (or the closest day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. Notification must be sent to cfong@statestreet.com identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month-end.

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. ~~The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian.~~ If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must return these pricing requests by 5:00 PM EST on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

12. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way. 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.

13. 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: ~~May~~ December 2000

Executive Director/
Assistant Executive Director

Firm Representative

Date _____

Date _____

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES PASSIVE INTERNATIONAL DEVELOPED MARKETS MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) ~~EAFE-Free Index~~ Passive Fund Manager will be governed and evaluated by the following guidelines:

1. RETURN/TRACKING ERROR OBJECTIVE

A passive manager is expected to deliver cumulative returns in line with the returns of a predetermined benchmark. The Manager is expected to control the variability or risk of the actual returns relative to the benchmark returns.

- (a) **Active Risk:** Annualized standard deviation of excess returns relative to the benchmark is a measure of the variability or active risk of the Manager's investment process. It is expected that the passive manager's annual standard deviation of excess returns relative to the benchmark will be 0.60 or less.
- (b) **Excess Return:** The Manager is expected to closely match the benchmark return after fees and trading expenses. Overtime, the annual return relative to the benchmark should be 0.10%.

2. BENCHMARK INDEX

The benchmark index will be the Morgan Stanley Capital International (MSCI) Index of Europe, Australasia and the Far East Free (EAFE-Free). SBI reserves the right to change the benchmark upon notification to Manager.

3. ELIGIBLE INVESTMENTS

The Manager will be restricted to holding stocks in the benchmark index, stock index futures, 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) 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 done on a fully collateralized basis.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines established by 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.

5. 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 twelve (12) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight any organizational changes which may impact management of the SBI's Account, and affirm account reconciliation with the custodian.
- (c) 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 related to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

6. PROXY VOTING

The SBI is responsible for proxy voting. The SBI may delegate responsibility for proxy voting in certain countries to the Manager. If so, such delegation will be made in writing along with appropriate voting policy direction.

7. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that the SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI 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 for any individual SBI manager is limited to the total market value of the assets for that manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

Manager will manage the Account on a separate account basis. All assets will be held in custody by the SBI's custodian bank and its network of sub-custodians. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

9. ACCOUNT RECONCILIATION

The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile 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 received after these deadlines on the last business day will be reflected in the following month.

To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. Notification must be sent to ccfong@statestreet.com identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month-end.

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. ~~The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian.~~ If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must return these pricing requests by 5:00 PM EST on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

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. 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.

Date: December ~~1999~~ 2000

Executive Director/
Assistant Executive Director

Firm Representative

Date _____

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:

1. RETURN/RISK OBJECTIVE

An active manager is expected to deliver cumulative returns in excess of the returns of a predetermined benchmark net of fees and expenses. The Manager's objective is to produce large positive excess returns relative to the benchmark compared to the amount of active risk of their investment process.

- (a) **Active Risk:** Annualized standard deviation of excess returns relative to the benchmark is a measure of the variability or active risk of the Manager's investment process. It is expected that the Manager's annual standard deviation of excess returns relative to the benchmark will fall into the range of 6.0 to 10.0.
- (b) **Excess Return:** The Manager is expected to out-perform the benchmark consistently overtime. The Managers' goal is to achieve an information ratio of 0.20 or greater. The information ratio is the amount of excess return relative to the benchmark per unit of risk or the annualized excess return relative to the benchmark net of fees and expenses divided by the annual standard deviation of excess returns relative to the benchmark.

2. PERFORMANCE BENCHMARK

The performance benchmark for the Account will be the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) index, capitalization weighted. SBI reserves the right to change the benchmark upon notification to manager.

3. ELIGIBLE MARKETS

Subject to the constraints in #4 below and as otherwise provided in #6 below, the Manager is authorized to purchase securities in the following markets:

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

Barbados	Czech Republic	Mauritius
Canada	Estonia	Poland
Chile	Greece	Slovak Republic
Costa Rica	Hungary	Trinidad & Tobago
Cyprus	Luxembourg	Uruguay

Group II. The Manager may purchase publicly traded securities of companies domiciled 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.

Argentina	India	Mexico	Swaziland
Bolivia	Israel	Mongolia	Taiwan
Botswana	Jamaica	Namibia	Thailand
Brazil	Kazakhstan	Nepal	Tunisia
Bulgaria	Kenya	Panama	Turkey
Columbia	Korea, Republic of	Papua New Guinea	Ukraine
Cote d'Ivoire	Latvia	Philippines	Venezuela
Dominican Republic	Lithuania	Romania	Zambia
Ecuador	Malawi	South Africa	Zimbabwe
Ghana	Malaysia	Sri Lanka	

Group III. The Manager may invest in publicly traded securities of companies domiciled 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.

Bangladesh	Lebanon	Peru
China, Peoples Republic of	Liberia	Russia
Croatia	Mauritania	Saudi Arabia
Egypt	Morocco	Turkmenistan
Guatemala	Myanmar	United Arab Emirates (UAE)
Indonesia	Nigeria	Uzbekistan
Jordan	Oman	Vietnam
Kuwait	Pakistan	

4. ELIGIBLE INVESTMENTS

Subject to the constraints in #3 above, the Manager will be restricted to purchasing common stocks, preferred stocks, closed-end funds, currency forwards and the SBI's STIF fund. The Manager may hold ~~preferred stock and warrants, if received from underlying assets and~~ open-end funds that have been converted from closed-end funds held by the account. The Manager must have the SBI's written approval to purchase open-end funds, exchange traded funds, warrants, equity futures and options, and currency futures and options provided:

- (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 may not be purchased.
- (d) Debt securities, except cash equivalents may not be purchased.
- (e) The stock of companies domiciled in, or open and closed-end funds investing principally in, any of the following countries shall not be held in the account: U.S.; Canada; and all EAFE markets unless the company/fund gets all or substantially all of its revenue from an emerging market country(ies) as set out in #3 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. In addition, Manager may purchase securities listed in Hong Kong and Singapore only to gain exposure to Chinese companies.

- (f) The stock of companies domiciled in ~~developing~~ emerging countries outside the EMF benchmark shall not exceed 10% of the portfolio's market value in aggregate.
- (g) American Depository Receipts (ADR's) and Great Britain Depository Receipts (GDR's) may be held in the Account provided they are issued by a company domiciled in an emerging market, are 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) The Manager shall not hold more than ~~five (5)~~ three (3) percent of the total outstanding shares of any corporation ~~or closed end fund~~ 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.
- (i) Currency forwards may be used to adjust the effective non-U.S. currency exposure of the Account from 0 to 100%. Manager has no obligation to hedge currency risk and will not be required to do so.
- (j) With ~~regards~~ respect to tobacco related stocks, the account may not purchase shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. In addition, the Manager shall divest shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products by September 2001. The SBI will periodically provide the Manager with a list of companies that derive more than 15% of their revenue from the manufacture of consumer tobacco products.

5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to the 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. 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 twelve (12)

business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss future strategy, and highlight any organizational changes which may impact management of the SBI's account and affirm account reconciliation with the custodial bank.

- (c) 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 related to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

7. COUNTERPARTY BANKS

Each counterparty bank used by the Manager to execute currency transactions must have a credit rating of A1/P1 or better from each of the following rating organizations: S&P, Moody's and IBCA.

Any agreement entered into must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for settlement, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota.

The Manager is responsible for monitoring both the long term and short term credit ratings of each counterparty bank and the Manager will notify the SBI of any downgrade in either rating promptly.

8. 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 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.

9. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager must be reviewed and approved by a legal representative of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements,

commissions and fees is limited solely to funds of the SBI 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 for any individual SBI manager is limited to the total market value of the assets for that manager.

10. SEPARATE ACCOUNT AND DAILY PRICING

Manager will manage the Account on a separate account basis. All assets will be held in custody by the SBI's custodian bank and its network of sub-custodians. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

11. ACCOUNT RECONCILIATION

The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile 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 received after these deadlines on the last business day will be reflected in the following month.

To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. Notification must be sent to ccfong@statestreet.com identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month-end.

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. ~~The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian.~~ If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must return these pricing requests by 5:00 PM EST on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

12. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

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.

13. 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: December ~~1999~~ 2000

Executive Director/
Assistant Executive Director

Firm Representative

Date _____

Date _____

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:

1. RETURN OBJECTIVE AND RISK CONSTRAINT

Return Objective

The portfolio is expected to achieve annualized returns of 25 basis points above the benchmark, over rolling five-year periods, net of fees. The goal is to obtain an information ratio of 0.10 or greater over rolling five-year periods. The information ratio is the ratio of the portfolio's annualized excess return above the benchmark to the annualized standard deviation of the excess returns.

Risk Constraint

The portfolio's annualized standard deviation of excess returns should not exceed 2.50 percentage points over rolling five-year periods.

2. BENCHMARK

The designated benchmark is the Lehman Brother's Aggregate Bond Index (Lehman Aggregate). Performance will be monitored and evaluated against the Lehman Aggregate.

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

3. ELIGIBLE INVESTMENTS

The Manager may purchase fixed income instruments and interest rate futures on U.S. Treasury securities. With prior written SBI authorization, the Manager may purchase interest rate options on U.S. Treasury securities. 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) 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 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 ~~incorporated or organized under the laws of the Dominion of Canada or any province thereof~~ 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
 - (3) the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

With prior written SBI authorization, the Manager may purchase and invest up to 10% of the portfolio, measured on a market value or contribution to duration basis, whichever is less, in BB and B 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.

- (c) Mortgage-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency 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) Asset-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.
- (e) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by a nationally recognized agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.
- (f) 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 would have a rating of BBB or better.
- (g) 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) With prior written SBI authorization, the Manager may purchase and invest up to 10% of the portfolio, measured on a market value or contribution to duration basis, whichever is less, in non-dollar bonds. The Manager has discretion to hedge the currency exposure up to the 10% limit using currency forwards, futures or options. All currency transactions must be done on a fully collateralized basis.
- (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 future transactions must be done on a fully collateralized basis. The portfolio may not be leveraged in any way.

4. DURATION

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

5. 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. COMMUNICATION

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

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.

- (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 twelve (12) business days after quarter end. The commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight organizational changes that may impact management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.

- (c) 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.

7. OPTIONS AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI 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 for any individual SBI manager is limited to the total market value of the assets for that manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

The portfolio will be managed on a separate account basis. 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 ~~by the custodian~~ on a daily basis and accessible by the custodian. Commingled vehicles may not be held in the portfolio without the written approval of the SBI.

9. ACCOUNT RECONCILIATION

The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile 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 received after these deadlines on the last business day will be reflected in the following month.

To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. Notification must be sent to ccfong@statestreet.com identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month-end.

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. ~~The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian.~~ If State Street Bank is unable to get a price for a particular security,

price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must return these pricing requests by 5:00 PM EST on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

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. 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: December 1999 2000

Executive Director/
Assistant Executive Director

Firm Representative

Date _____

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 active fixed income managers will be governed and evaluated by the following guidelines:

1. RETURN/RISK OBJECTIVES

Return Objective

The portfolio is expected to achieve annualized returns of at least 10 basis points above the benchmark, over rolling five-year periods, net of fees. The goal is to obtain an information ratio of 0.20 or greater over rolling five-year periods. The information ratio is the ratio of the portfolio's annualized excess return above the benchmark to the annualized standard deviation of the excess returns.

Risk Constraint

The portfolio's annualized standard deviation of excess returns should not exceed 0.50 percentage points over rolling five-year periods.

2. BENCHMARK

The designated benchmark is the Lehman Brother's Aggregate Bond Index (Lehman Aggregate). Performance will be monitored and evaluated against the Lehman Aggregate.

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

3. ELIGIBLE INVESTMENTS

The Manager may purchase fixed income instruments, interest rate futures on U.S. Treasury securities. With prior written SBI authorization, the Manager may purchase interest rate options on U.S. Treasury securities. 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 ~~board~~ 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) 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 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 ~~incorporated or organized under the laws of the Dominion of Canada or any province thereof~~ 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
 - (3) the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.
- (c) Mortgage-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency 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) Asset-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.
- (e) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by a nationally recognized agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.
- (f) 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.
- (g) 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 future transactions must be done on a fully collateralized basis. The portfolio may not be leveraged in any way.

4. INVESTMENT CONSTRAINTS

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

Sector Weighting Guidelines

Treasury/Agency Sector	± 50% of the Lehman Brothers Government sector contribution to duration.
Mortgage Sector	± 50% of the Lehman Brothers Mortgage-Backed sector contribution to duration.
Corporate Sector	± 50% of the Combined Lehman Brothers Corporate and Asset-Backed sectors contribution to duration.
Issues Outside the Index*	Maximum 10% of the Lehman Brothers Aggregate contribution to duration. These must be eligible securities as defined in #3 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.

Corporate Credit Guidelines

AAA/AA ± 75% of the combined Lehman Brothers Corporate AAA and AA contribution to duration

A/BBB ± 50% of the combined Lehman Brothers Corporate A and BBB contribution to duration

Duration Guidelines

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

5. 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. 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 twelve (12) business days of the end of each quarter. The commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight organizational changes that may impact management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.
- (c) 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.

7. OPTIONS AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI 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 for any individual SBI manager is limited to the total market value of the assets for that manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

The portfolio will be managed on a separate account basis. 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 ~~by the custodian~~ on a daily basis and accessible by the custodian. Commingled vehicles may not be held in the portfolio without the written approval of the SBI.

9. ACCOUNT RECONCILIATION

The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile 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 received after these deadlines on the last business day will be reflected in the following month.

To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. Notification must be sent to ccfong@statestreet.com identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month-end.

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. ~~The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian.~~ If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must return these pricing requests by 5:00 PM EST on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

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. 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: December ~~1999~~ 2000

Executive Director/
Assistant Executive Director

Date _____

Firm Representative

Date _____

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 Plan Common Stock Manager will be governed and evaluated by the following guidelines:

1. RETURN/RISK RISK/RETURN OBJECTIVE AND RISK CONSTRAINT

The Manager is expected to deliver cumulative returns in excess of a predetermined benchmark ~~portfolio (see Benchmarks below)~~ provided to the Manager. Over time, the Manager will be expected to produce portfolios which differ from the Manager's benchmark portfolio in the following manner: The Manager is expected to achieve the following:

- (a) The actual portfolio will realize active risk (annualized residual standard deviation), relative to the benchmark, in excess of one (1) percent point but no more than three (3.0) percent percentage points.
- (b) The actual portfolio will generate positive cumulative excess returns ~~significant enough to compensate the SBI for the active risk assumed. Generally, the ratio of annualized excess return to active risk in (a) above should be 0.10 or greater.~~ over the benchmark over long periods of time. The goal is to obtain an information ratio of 0.10 or greater. The information ratio is the ratio of annualized excess return to active risk.

2. BENCHMARKS

~~The benchmark is the S&P 500.~~ The designated benchmark is the S&P 500 (Standard & Poor's 500 Stock Index). Performance will be monitored and evaluated against the S&P 500.

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

3. ACCOUNT RECONCILIATION

The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile 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 received after these deadlines on the last business day will be reflected in the following month.

To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. Notification must be sent to ccfong@statestreet.com identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month-end.

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. ~~The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian.~~ If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must return these pricing requests by 5:00 PM EST on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

4. 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.

5. ELIGIBLE INVESTMENTS

The Manager will be restricted to ~~holding~~ purchasing common stocks, stock index futures, options, bonds, and cash equivalents. The Manager may hold equity options, preferred stocks and warrants if received from underlying assets. The Manager must have the SBI's written approval to purchase exchange traded funds, equity options, preferred stocks and warrants. 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.
- ~~(a)~~ (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 ~~the New York Stock Exchange or American Stock Exchange~~ an exchange regulated by an agency of the United States or Canadian national government.

These include American Depository Receipts (ADR's) traded on such an exchange.

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

~~(b)~~ (f) Total SBI holdings in any one corporation shall not exceed five (5) percent of the total outstanding shares of that corporation. Individual Manager holdings will be monitored by the SBI staff to assure compliance. The Manager shall not hold more than three (3) percent of the total outstanding shares of any corporation in the SBI's portfolio.

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

~~(d)~~ Individual Manager holdings in convertible bonds shall not exceed five (5) percent of the total market value of the portfolio.

~~(g)~~

(h) Stock options and Stock index futures, purchased through a regulated futures exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter instruments are not permitted. All futures transactions must be done on a fully collateralized basis.

~~(e)~~

~~(g) Manager is not constrained regarding:~~

~~(1) transaction turnover.~~

~~(2) use of covered call options as hedging devices.~~

~~(3) liquidity requirements.~~

~~(4) number of individual equity issues which must be held at any given time.~~

~~(5) the percentage of assets held in cash reserves which must be held at any given time.~~

~~(3) the use of stock index futures to adjust the effective equity exposure of the portfolio from 0 to 100%. All commodity futures transactions must be done on a fully collateralized basis.~~

(i) With respect to tobacco-related stocks, the account may not purchase shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. In addition, the Manager shall divest shares of any company that obtains more than 15 percent of its

revenues from the manufacture of consumer tobacco products by September 2001. The SBI will periodically provide the Manager with a list of companies that derive more than 15% of its revenue from the manufacture of consumer tobacco products.

6. COMMUNICATION

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

- (a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process ~~at least annually~~ 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, ~~on a quarterly basis. (see #4 above)~~ within twelve (12) business days after quarter end. The Commentary will summarize performance results over the most recent quarter and year, discuss future strategy, and highlight any organizational changes which that may impact management of the SBI's account portfolio, and affirm account reconciliation with the custodial bank.
- (c) 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 ~~class action suits which arise as a result of the SBI's ownership of~~ litigation relating to any holding in the Account portfolio. The SBI reserves the right to initiate or participate in ~~such class actions~~ any litigation on its own behalf.

7. PROXY VOTING

The SBI is responsible for proxy voting.

8. COMMODITY OPTIONS AND FUTURES TRADING AGREEMENT

Any commodity options and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI 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 for any individual SBI manager is limited to the total market value of the assets for ~~the~~ that Manager.

9. SEPARATE ACCOUNT AND DAILY PRICING

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

10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

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. 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 1999~~ December 2000

Executive Director/
Assistant Executive Director

Firm Representative

Date _____

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:

1. RETURN/RISK OBJECTIVE

Manager is expected to deliver cumulative returns in excess of ~~a predetermined~~ the benchmark portfolio (see Benchmark below). Excess returns are expected to be 10 basis points net of fees over time on an annualized basis.

2. BENCHMARK

~~Manager must provide and maintain a customized benchmark (normal) portfolio, agreed upon by both the Manager and SBI, for the purpose of performance evaluation and risk measurement. The benchmark portfolio must satisfy the following characteristics:~~

- ~~(a) **Unambiguous.** The names and weights of securities comprising the benchmark are clearly delineated.~~
- ~~(b) **Investable.** The option is available to forego active management and simply hold the benchmark portfolio.~~
- ~~(c) **Measurable.** It is possible to readily calculate the benchmark's return on a monthly basis.~~
- ~~(d) **Appropriate.** The benchmark is consistent with Manager's investment style or biases.~~
- ~~(e) **Reflective of current investment opinions.** Manager has current investment opinions (be they positive, negative, or neutral) on the securities which make up the benchmark.~~
- ~~(f) **Specified in advance.** The benchmark must be available prior to the start of an evaluation period.~~

The benchmark portfolio for this Account ~~will be~~ is constructed to ~~complement~~ complement the liability stream out to ten years of the Assigned Risk Plan. ~~In meeting this objective, the Manager and SBI staff have agreed upon a~~ The benchmark portfolio consisting consists of the following indexes:

~~20% Merrill Lynch (ML) 1-3 Yr. Treasury, 33% ML 1-3 Yr Corporate,
3% ML 3-5 Yr. Treasury, 3% ML 3-5 Yr. Corporate,
10% ML 5-7 Yr. Treasury, 6% ML 5-7 Yr. Corporate
and 25% ML Mortgage Master~~

20% Lehman 1-3 Year Treasury
20% Lehman 1-3 Year Corporate
60% Lehman Aggregate

Performance will be monitored and evaluated against this custom benchmark.

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

3. ACCOUNT RECONCILIATION

The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile 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 received after these deadlines on the last business day will be reflected in the following month.

To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. Notification must be sent to ccfong@statestreet.com identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month-end.

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. ~~The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian. If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must return these pricing requests by 5:00 PM EST on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at~~

mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to the 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.

5. 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) U.S. and Canadian corporate obligations must be payable in U.S. dollars; be among the top four quality categories by a nationally recognized rating agency if the security is rated; or deemed to be in the top four quality categories equivalent if the security is not rated; and otherwise comply with all provisions of MS 11A.24 subdivision 3.
- (c) Other obligations not specified in (a) or (b) must meet the provisions of MS 11A.24 subdivision 4.
- (d) All futures and options positions must be fully collateralized and must be purchased through a regulated exchange. Over-the-counter instruments are not permitted.

~~(d)~~ (e) 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. ~~All futures and options positions must be fully collateralized and must be purchased through a regulated exchange. Over the counter instruments are not permitted.~~

~~(e)~~ (f) 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.

6. COMMUNICATION

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

- (a) Managers are expected to meet with 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 twelve (12) business days after the quarter-end. The commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight organizational changes that may impact management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.
- (c) 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 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.

7. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI 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 for any individual SBI manager is limited to the total market value of the assets for that manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

The portfolio will be managed on a separate account basis. 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 ~~by the custodian~~ on a daily basis and accessible by the custodian. Commingled vehicles may not be held in the Account without the written approval of the SBI.

9. COMPLIANCE WITH GUIDELINES

The Manager will certify, annually in writing, that they are in compliance with these Investment Guidelines. The Manager will notify the SBI if, at any time throughout the year, they are not in compliance with these guidelines.

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

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. Manager will be notified in advance of changes to the investment guidelines.

Revised: December ~~1999~~ 2000

Executive Director/
Assistant Executive Director

Firm Representative

Date _____

Date _____

Investment Manager Guidelines

Internal Investments

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. RETURN OBJECTIVE AND RISK CONSTRAINT

Return Objective

The portfolio is expected to achieve annualized returns of at least 20 basis points above the benchmark, over rolling five-year periods, net of fees. The goal is to obtain an information ratio of 0.10 or greater over rolling five-year periods. The information ratio is the ratio of the portfolio's annualized excess return over the benchmark to the annualized standard deviation of the excess returns.

Risk Constraint

The portfolio's annualized standard deviation of excess returns will not exceed 2.0% over rolling five-year periods.

2. BENCHMARKS

The Manager's benchmark is used to evaluate performance and measure risk.

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. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The Manager may purchase 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 ~~issuer~~ Government. The obligations in which the ~~board~~ 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) 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 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 incorporated or organized under the laws of the Dominion of Canada or any province thereof~~ 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
 - (3) the Manager may not hold more than 5% 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.

- (c) Mortgage-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency 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) Asset-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.
- (e) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by a nationally recognized agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.
- (f) The Manager may manage cash equivalent reserves or they may be invested in the SBI's STIF fund, managed by its custodian bank.
- (g) ~~Interest rate options and~~ Interest rate futures on U.S. treasury securities must be purchased through a regulated exchange. Over-the-counter instruments are not permitted. All ~~options and~~ future transactions must be done on a fully collateralized basis.

(h) The duration of the portfolio must stay within +/-1 year of the benchmark duration.

4. 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.

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 Director/Assistant 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 twelve (12) business days of quarter-end. The Commentary will summarize performance results over the most recent quarter and year, future strategy, and highlight any organizational changes which may impact management of the SBI's account.

6. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI 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 for any individual SBI manager is limited to the total market value of the assets for that manager.

7. SEPARATE ACCOUNT AND DAILY PRICING

All assets will be held in custody by the SBI's custodian bank. All securities held in the ~~Account~~ portfolio must be capable of being priced ~~by the custodian~~ on a daily basis and accessible by the custodian.

8. ACCOUNT RECONCILIATION

The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile 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 received after these deadlines on the last business day will be reflected in the following month.

To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. Notification must be sent to ccfong@statestreet.com identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month-end.

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. ~~The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian.~~ If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must return these pricing requests by 5:00 PM EST on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

9. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

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: December ~~1999~~ 2000

Executive Director/
Assistant Executive Director

Date _____

Firm Representative

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. RETURN OBJECTIVE AND RISK CONSTRAINT

Return Objective

The portfolio is expected to achieve annualized returns of at least 15 basis points above the benchmark, over rolling five-year periods, net of fees. The goal is to obtain an information ratio of 0.10 or greater over rolling five-year periods. The information ratio is the ratio of the portfolio's annualized excess return over the benchmark to the annualized standard deviation of the excess returns.

Risk Constraint

The portfolio's annualized standard deviation of excess returns will not exceed 1.50% over rolling five-year periods.

2. BENCHMARKS

The Manager's benchmark is used to evaluate performance and measure risk.

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. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The Manager may purchase 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 issuer Government. The obligations in which the ~~board~~ 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) 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 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 obligations of corporations incorporated or organized under the laws of the Dominion of Canada or any province thereof shall be payable in~~ 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
 - (3) the Manager may not hold more than 5% 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, whichever 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.

- (c) Mortgage-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency 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) Asset-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.
- (e) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by a nationally recognized agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.
- (f) The Manager may manage cash equivalent reserves or they may be invested in the SBI's STIF fund, managed by its custodian bank.
- (g) ~~Interest rate options and~~ Interest rate futures on U.S. treasury securities must be purchased through a regulated exchange. Over-the-counter instruments are not permitted. All ~~options and~~ future transactions must be done on a fully collateralized basis.

- (h) The duration of the portfolio must stay within +/-1 year of the benchmark duration.

4. 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.

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 Director/Assistant 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 twelve (12) business days of quarter-end. The Commentary will summarize performance results over the most recent quarter and year and future strategy.

6. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI 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 for any individual SBI manager is limited to the total market value of the assets for that manager.

7. SEPARATE ACCOUNT AND DAILY PRICING

All assets will be held in custody by the SBI's custodian bank. All securities held in the ~~Account~~ portfolio must be capable of being priced ~~by the custodian~~ on a daily basis and accessible by the custodian.

8. ACCOUNT RECONCILIATION

The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile 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 received after these deadlines on the last business day will be reflected in the following month.

To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. **Notification must be sent to ccfong@statestreet.com** identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month-end.

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. ~~The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian.~~ If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must **return these pricing requests by 5:00 PM EST** on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

9. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

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: December ~~1999~~ 2000

Executive Director/
Assistant Executive Director

Firm Representative

Date _____

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. RETURN/RISK OBJECTIVES

A passive manager is expected to deliver cumulative returns in line with the returns of a predetermined benchmark. The Manager is expected to control the variability or risk of the actual returns relative to the benchmark returns.

- (c) Active Risk: Annualized standard deviation of excess returns relative to the benchmark is a measure of the variability or active risk of the Manager's investment process. It is expected that the passive manager's annual standard deviation of excess returns relative to the benchmark will be 0.20 or less.
- (b) Excess Return: The Manager is expected to slightly under perform the benchmark return overtime due to ~~fees and~~ trading expenses. Overtime, the annual return shortfall relative to the benchmark should be no more than 0.10%.

2. BENCHMARK INDEX

The benchmark is the S&P 500. SBI reserves the right to change the benchmark upon notification to the Manager.

3. ELIGIBLE INVESTMENTS

The Manager will be restricted to holding common stocks that are in the benchmark index, stock index futures, and the SBI STIF fund. The investments must satisfy the following criteria and constraints:

- ~~(a) Total SBI holdings in any one corporation shall not exceed five (5) percent of the total outstanding shares of that corporation. Individual investment manager holdings will be monitored by SBI staff to assure compliance.~~
- (b) (a) Cash equivalent reserves shall be invested in a STIF fund designated by the SBI.

- (e) (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 done on a fully collateralized basis.

4. 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.

5. COMMUNICATION

Manager will meet with the Executive Director/Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. 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 twelve (12) business days of quarter-end. The Commentary will summarize performance results over the most recent quarter and year, and discuss future strategy.

6. PROXY VOTING

The SBI is responsible for proxy voting.

7. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI 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 for any individual SBI manager is limited to the total market value of the assets for that manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

All assets will be held in custody by the SBI's custodian bank. All securities held in the Account portfolio must be capable of being priced ~~by the custodian~~ on a daily basis and accessible by the custodian.

9. ACCOUNT RECONCILIATION

The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile 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 received after these deadlines on the last business day will be reflected in the following month.

To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. Notification must be sent to ccfong@statestreet.com identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month-end.

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. ~~The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian.~~ If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must return these pricing requests by 5:00 PM EST on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

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. 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: December ~~1999~~ 2000

Executive Director/
Assistant Executive Director

Firm Representative

Date _____

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 funds ~~are~~ 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 indexes. SBI reserves the right to change the benchmark upon notification to the Manager.

3. 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.

(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 A+/A1-rated or better, by a two nationally recognized rating organizations.

- (c) Euro-dollar corporate obligations with one to three years remaining to maturity denominated in U.S. dollars and are A A+/A1-rated or better by a two nationally recognized rating organizations.
- (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

4. 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.

5. 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. COMMUNICATION

On a monthly basis the Manager will meet with the Short-Term Traders to discuss cash flows and other relevant issues. The Manager is expected to report monthly on returns and portfolio statistics to the Director/Assistant Director. In addition, Manager will meet with Director/Assistant 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.

7. 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.

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: December ~~1999~~ 2000

Executive Director/
Assistant Executive Director

Firm Representative

Date _____

Date _____

Investment Manager Guidelines

Stable Asset Manager

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL STABLE ASSET MANAGER INVESTMENT GUIDELINES

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

1. I 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's portfolio is expected to deliver annualized returns at least 30 basis points above the benchmark, over time, after fees. Excess returns should be commensurate with portfolio risk measured using annualized standard deviation.

2. H BENCHMARKS

~~The Manager's benchmark is used to evaluate performance and measure risk.~~

~~The Manager's portfolio is expected to deliver annualized returns at least 30 basis points above the benchmark, over time, after fees. Excess returns should be commensurate with portfolio risk measured using annualized standard deviation.~~

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

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

III. ACCEPTABLE INVESTMENTS

3. 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.

4. PERFORMANCE EVALUATION

~~The rate on each investment made will be compared to the most recent U.S. Treasury of similar maturity. These rates will be provided each quarter by the Manager. Manager performance is evaluated in terms of excess returns and standard deviation of monthly portfolio returns, and the continuity of the Manager's organization relative to the portfolio.~~

5. ACCEPTABLE INVESTMENTS

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

- 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.
- Security backed Investment Contracts, 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.
- ~~Alternative Investment Contracts, including those that provide benefit responsiveness as needed without reducing capital value (wrappers) issued by financial institutions or other corporations must be from a financial institution or corporation that is rated at least A+ or equivalent and have an average maturity of no more than seven years.~~
- ~~Fixed Income assets combined with an investment contract, issued by a financial institution, that contains provisions requiring that financial institution to provide benefit responsiveness as needed without reducing capital value must individually satisfy the provisions of *Minnesota Statutes* 11A.24 and the criteria described elsewhere in this section. The assets of an investment contract portfolio must have an average portfolio rating of at least AA-~~

- 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."
- Acceptable Underlying Assets of security-backed investment contracts ~~and alternative investment contracts~~ are:
 - Treasury Securities.
 - 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.
 - Asset Backed Securities rated in the highest two rating categories.
 - Other Fixed Income Securities must be rated A or better and be publicly traded, or AAA if used in a single security contract.
- ~~• Acceptable Underlying Assets of alternative investment contracts in which a single security is held in connection with a contract providing benefit responsiveness must be rated AAA or equivalent.~~
- Short-Term Investments with maturities no longer than twelve months must comply with the provisions of *Minnesota Statutes*, section 11A.24, subdivision 4.

The Manager may hold units of the Norwest Stable Return Fund up to a maximum of 25 percent of the portfolio. The Norwest 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.

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

6. PORTFOLIO CONSIDERATIONS

IV. 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 ~~and will maintain an approved investment list 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.

V. 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 ~~with short term investments included in the calculation.~~

VI. c. Legal Review

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

~~VII. Performance Evaluation~~

~~The rate of each investment made will be compared to the most recent U.S. Treasury of similar maturity. These rates will be provided each quarter by the Manager. Manager performance is evaluated in terms of excess returns and standard deviation of monthly portfolio returns, and the continuity of the Manager's organization relative to the portfolio.~~

7. VII COMMUNICATION

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

~~On at least an annual basis, the Manager will review the results of its investment decisions with staff. The Manager must review strategies and performance relative to the benchmark.~~

~~On a monthly written basis, the Manager will inform staff of account status, assets under management and relevant personnel and organizational changes.~~

~~The Manager will provide necessary information to SBI custodian.~~

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" on a quarterly basis. The commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight organizational changes that may impact management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.

c. 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. IX. 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.

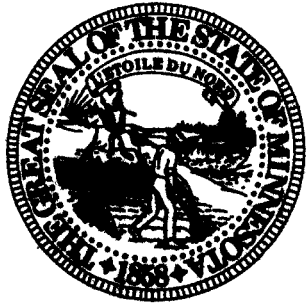
Revised: December 2000

Executive Director/
Assistant Executive Director

Firm Representative

Date _____

Date _____



STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

Third Quarter, 2000

**COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending September, 2000**

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
Alliance Capital	-6.5	-1.6	19.2	21.0	27.7	22.8	29.9	25.6	21.3	16.2	\$1,579.24	7.3%
Brinson Partners	4.7	4.2	-4.4	27.0	19	17.1	12.7	21.3	13.7	19.3	\$629.22	2.9%
Cohen, Klingenstein & Marks	0.8	2.4	17.7	26.8	19.7	19.9	24.8	23.0	24.4	22.9	\$448.30	2.1%
Forstmann-Leff	-5.8	5.2	12.5	26.6	20.8	11.4	26.9	17.7	16.7	14.0	\$687.67	3.2%
Franklin Portfolio	7.2	3.7	23.3	16.5	13.8	13.2	20.2	18.1	17.1	15.7	\$709.80	3.3%
GeoCapital	-3.3	1.5	33.9	34.2	14.3	6.6	16.1	11.5	16.4	15.3	\$518.99	2.4%
Lincoln	-0.4	-3.9	22.2	18.3	24.2	22.5	26.1	26.3	23.2	23.1	\$1,100.88	5.1%
Oppenheimer	3.9	5.1	15.8	21.5	12.1	17.2	19.6	21.6	19.0	19.2	\$871.54	4.0%
Emerging Managers (2)	3.8	2.0	27.8	30.6	18.3	18.3	21.2	21.5	20.9	21.3	\$903.10	4.2%
Semi-Passive Managers (3)												
Franklin Portfolio	0.5	0.1	9.6	10.4	11.8	13.9	18.7	19.7	21.2	22.0	\$2,350.23	10.9%
JP Morgan	0.0	0.1	8.7	10.4	13.3	13.9	19.4	19.7	21.9	22.0	\$2,475.08	11.4%
Barclays Global Investors	1.7	0.1	12.1	10.4	13.0	13.9	19.4	19.7	22.4	22.0	\$2,482.34	11.5%
Passive Manager (4)												
Barclays Global Investors	0.4	0.3	17.9	17.6	15.9	15.5	20.8	20.5	21.6	21.3	\$6,873.22	31.8%
Current Aggregate	0.2	0.6	16.4	18.3	17.1	17.0	21.9	21.4	17.7	15.3	\$21,629.62	100.0%
Historical Aggregate (5)	0.2	0.6	15.8	17.3	15.0	15.3	20.1	20.2	15.7	16.0		
Wilshire 5000 Investable (6)		0.3		16.7		15.2		20.2		16.0		
Wilshire 5000		0.2		17.6		15.5		20.4		16.2		

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

(2) Aggregate of emerging manager group. The benchmark reflects a composite of the individual manager customized benchmarks since inception of the program on 4/1/94.

(3) Semi-passive managers retained 1/95. All use completeness fund benchmark.

(4) Passive manager retained 7/95 to manage a Wilshire 5000 index fund. Mandate changed to Wilshire 5000 Investable as of 7/00

(5) Includes the performance of terminated managers.

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

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

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

which included liquor and tobacco, American Home Products and South Africa.

ALLIANCE CAPITAL MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: Jack Koltes

Assets Under Management: \$1,579,243,503

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

During a quarter when the market did not favor growth stocks, the SBI's portfolio under-performed relative to the custom benchmark due to holdings in tech, telecom, media & entertainment, and drugs. Technology and financial holdings contributed most to the more modest under-performance for the year. The portfolio remains focused on a concentrated list of high quality growth stocks.

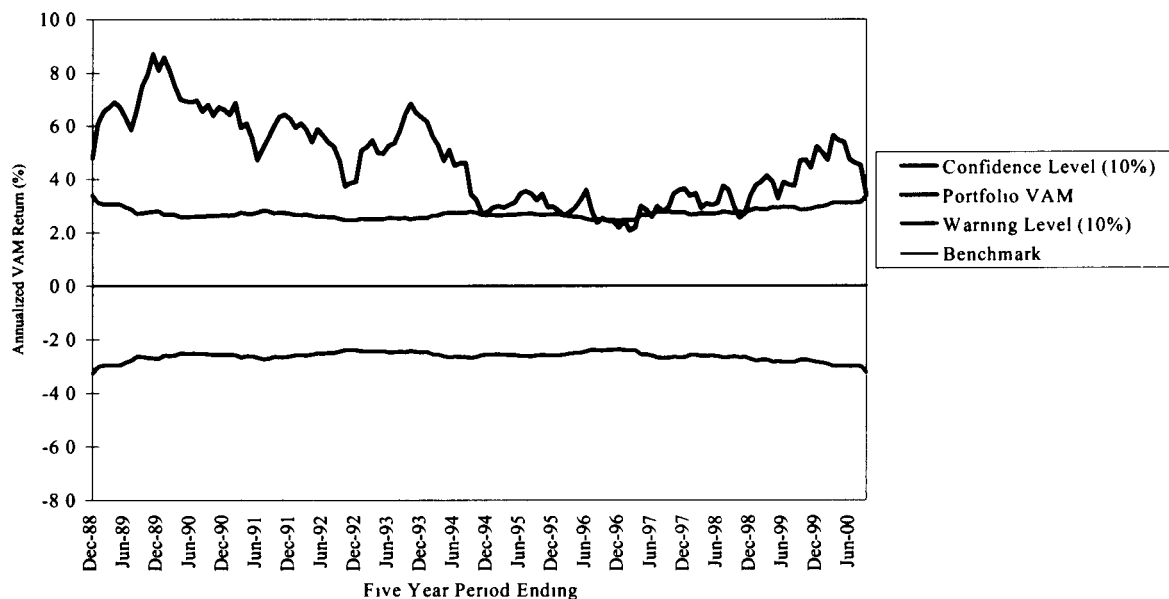
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-6.5%	-1.6%
Last 1 year	19.2	21.0
Last 2 years	30.3	29.1
Last 3 years	27.7	22.8
Last 4 years	33.8	27.1
Last 5 years	29.9	25.6
Since Inception (1/84)	21.3	16.2

Recommendation

No action required.

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year VAM



BRINSON PARTNERS
Periods Ending September, 2000

Portfolio Manager: John Leonard

Assets Under Management: \$629,219,640

Investment Philosophy

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

Staff Comments

Brinson was re-interviewed in May, and the firm was recommended for retention. Performance for the portfolio has exceeded the custom benchmark over the last two quarters.

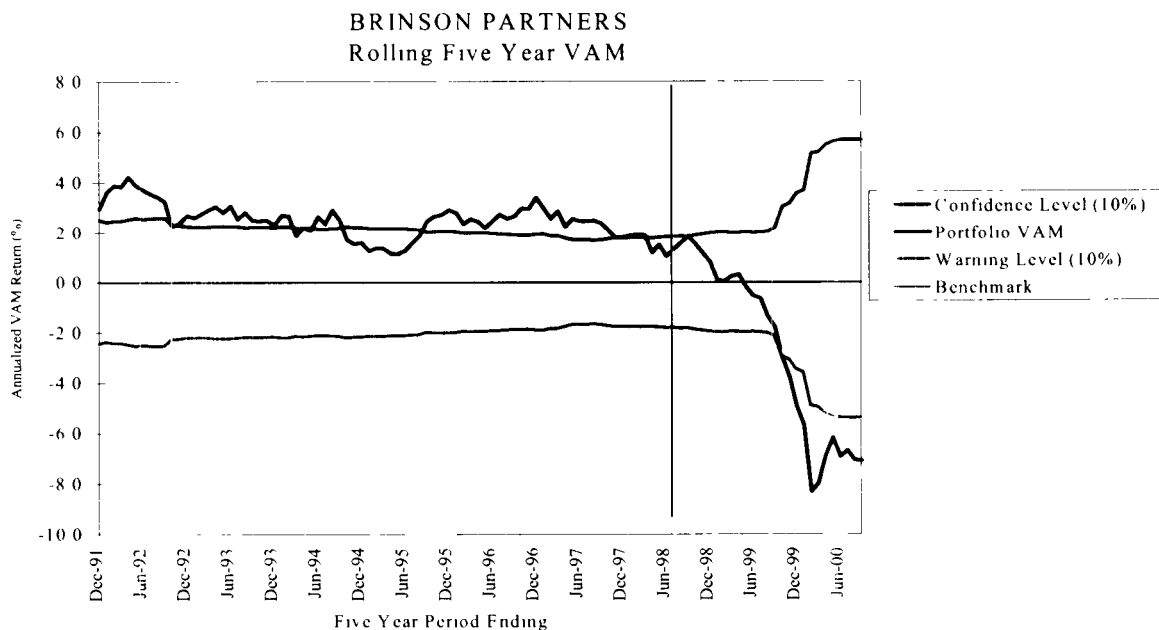
In July, UBS AG, the parent company of Brinson Partners, announced a merger agreement with PaineWebber. Brinson Partners is part of UBS Asset Management, while Paine Webber will be part of UBS Warburg, the investment banking division. Staff does not anticipate any negative impact of this merger on the SBI's portfolio.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.7%	4.2%
Last 1 year	-4.4	27.0
Last 2 years	2.7	27.2
Last 3 years	1.9	17.1
Last 4 years	10.2	22.3
Last 5 years	12.7	21.3
Since Inception (7/93)	13.7	19.3

Recommendation

No action required



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

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending September, 2000

Portfolio Manager: George Cohen

Assets Under Management: \$448,304,434

Investment Philosophy

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

Staff Comments

Staff visited CKM at their offices in NY during the quarter. The firm continues to grow in a controlled fashion as assets under management have increased to \$4 billion. The firm has hired administrative staff and one investment professional during the past year who is learning the process and integrating into the established investment philosophy. Performance for the quarter, was down relative to the benchmark due to poor stock selection. Whereas for the year, the portfolio suffered due to an underweighting in technology.

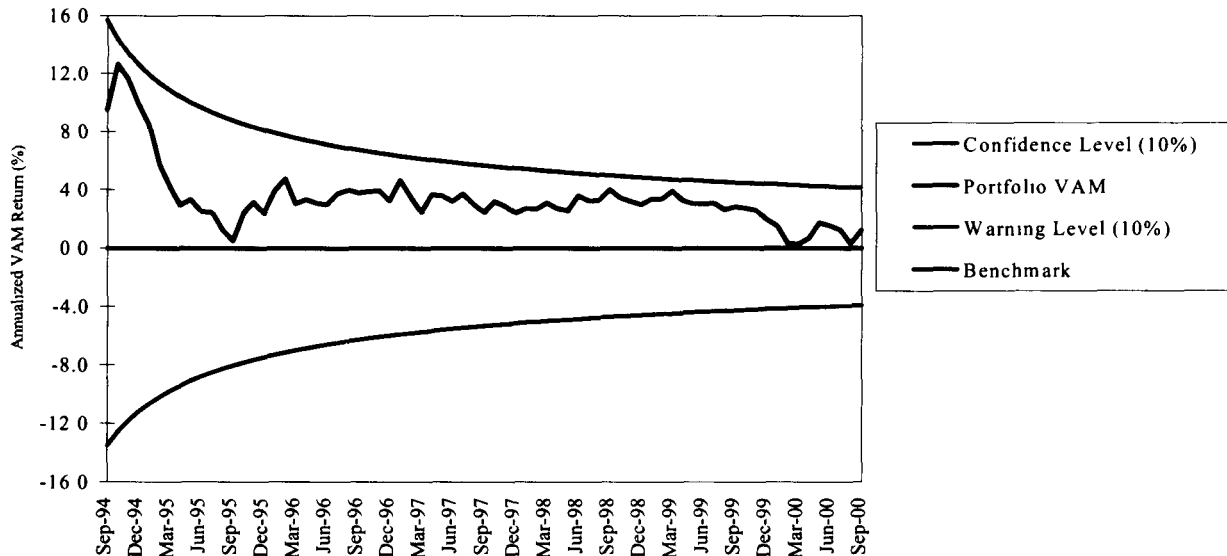
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.8%	2.4%
Last 1 Year	17.7	26.8
Last 2 Years	24.6	30.9
Last 3 Years	19.7	19.9
Last 4 Years	24.4	24.8
Last 5 Years	24.8	23.0
Since Inception (4/94)	24.4	22.9

Recommendation

No action required.

COHEN KLINGENSTEIN & MARKS
Cumulative Tracking



FORSTMANN-LEFF ASSOCIATES
Periods Ending September, 2000

Portfolio Manager: Bill Harnisch

Assets Under Management: \$687,667,178

Investment Philosophy

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

Staff Comments

Negative performance for the quarter relative to the benchmark was due primarily to significant overweights in the consumer cyclical and technology sectors. Two of the portfolio's largest holdings, in these sectors, together detracted approximately 5% from the quarter's performance. Forstmann believes that these holdings, while falling short for the quarter, are potential winners for the portfolio long-term. Staff visited with the firm at their offices in NY during the quarter. The investment process and organization are stable.

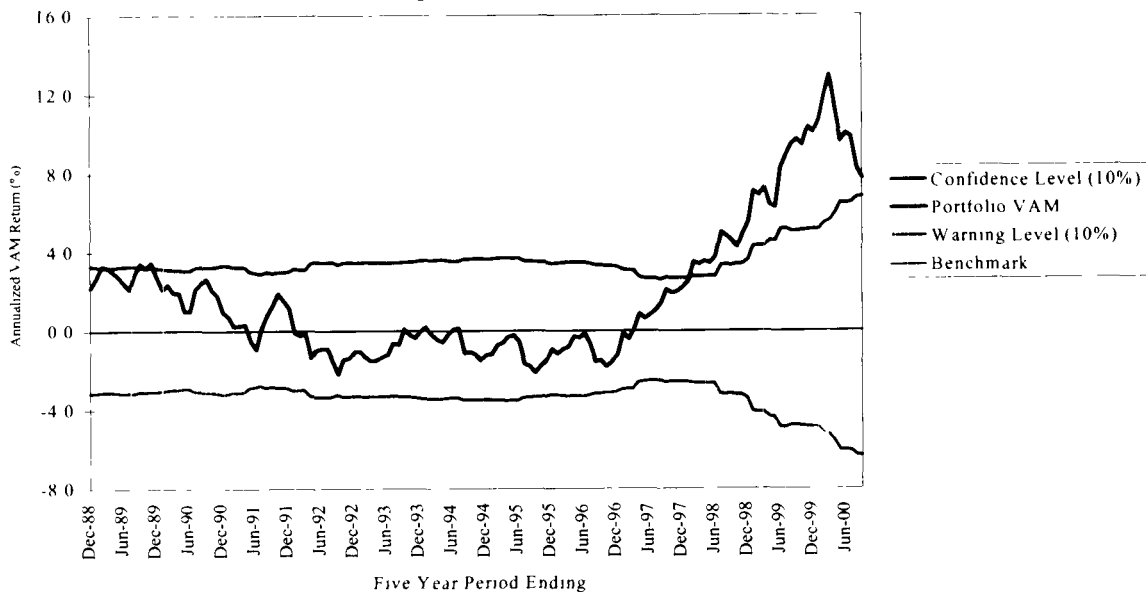
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-5.8%	5.2%
Last 1 year	12.5	26.6
Last 2 years	33.4	28.7
Last 3 years	20.8	11.4
Last 4 years	27.3	17.5
Last 5 years	26.9	17.7
Since Inception (1/84)	16.7	14.0

Recommendation

No action required

FORSTMANN-LEFF ASSOCIATES
Rolling Five Year VAM



FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 2000

Portfolio Manager: John Cone

Assets Under Management: \$709,804,464

Investment Philosophy

Active

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

Staff Comments

Performance for the quarter exceeded the benchmark due to risk and industry exposures. Boeing and AXA Financial contributed positively for the period. Strong stock selection, in particular Qualcomm, drove the significant out-performance for the year.

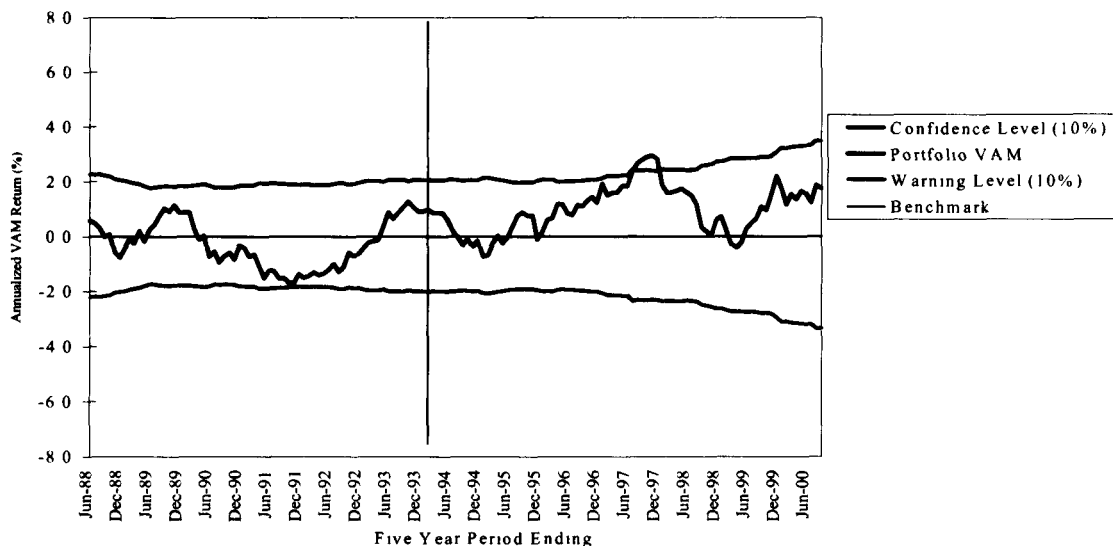
In August, Oliver Buckley joined Franklin as a Senior Vice President and Portfolio Manager. He was previously the Co-Director of Equity Research at INVESCO.

Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	7.2%	3.7%	No action required.
Last 1 year	23.3	16.5	
Last 2 years	24.5	20.6	
Last 3 years	13.8	13.2	
Last 4 years	21.4	18.5	
Last 5 years	20.2	18.1	
Since Inception (4/89)	17.1	15.7	

Recommendation

FRANKLIN PORTFOLIO ASSOCIATES - Active
Rolling Five Year VAM



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

GEOCAPITAL CORP.
Periods Ending September, 2000

Portfolio Manager: Barry Fingerhut

Assets Under Management: \$518,991,491

Investment Philosophy

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

Staff Comments

Investments in the portfolio are focused in two areas: special situations and growth companies. While the special situation holdings buoyed recent performance, the holdings in the growth area suffered relative to the benchmark. During the quarter, Staff visited GeoCap at their offices in NY. The organization and investment process are stable and Staff uncovered no areas of concern.

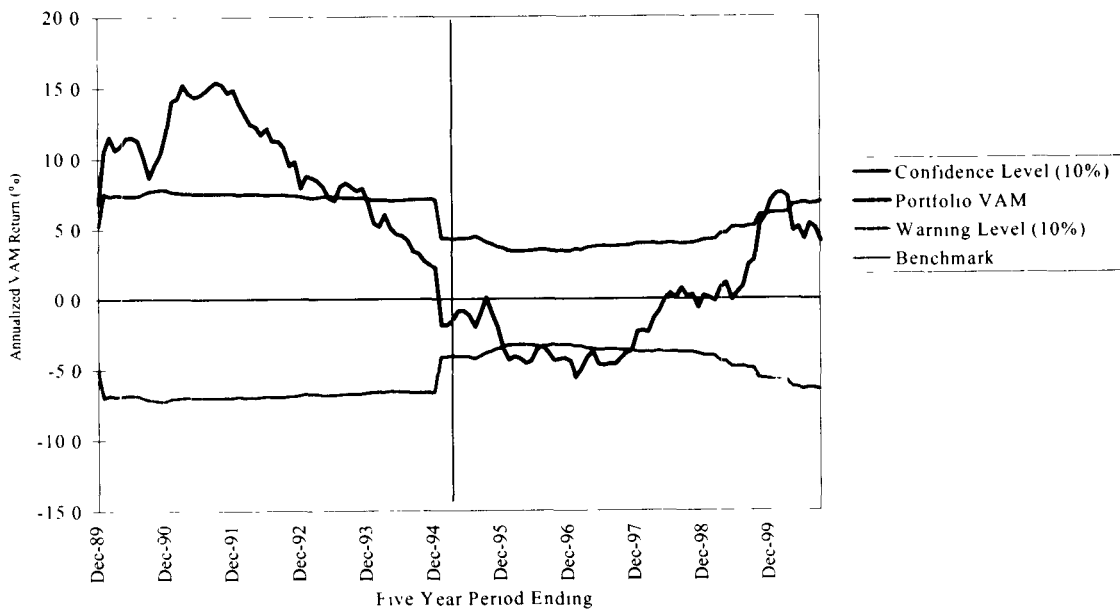
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-3.3%	1.5%
Last 1 year	33.9	34.2
Last 2 years	32.4	27.9
Last 3 years	14.3	6.6
Last 4 years	16.5	10.6
Last 5 years	16.1	11.5
Since Inception (4/90)	16.4	15.3

Recommendation

No action required

GEOCAPITAL CORP.
Rolling Five Year VAM



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

LINCOLN CAPITAL MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: David Fowler

Assets Under Management: \$1,100,876,634

Investment Philosophy

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

Staff Comments

Performance for the quarter was strong relative to the benchmark, due primarily to good stock selection within the technology sector. The portfolio was also helped during this period by holdings in retail and finance.

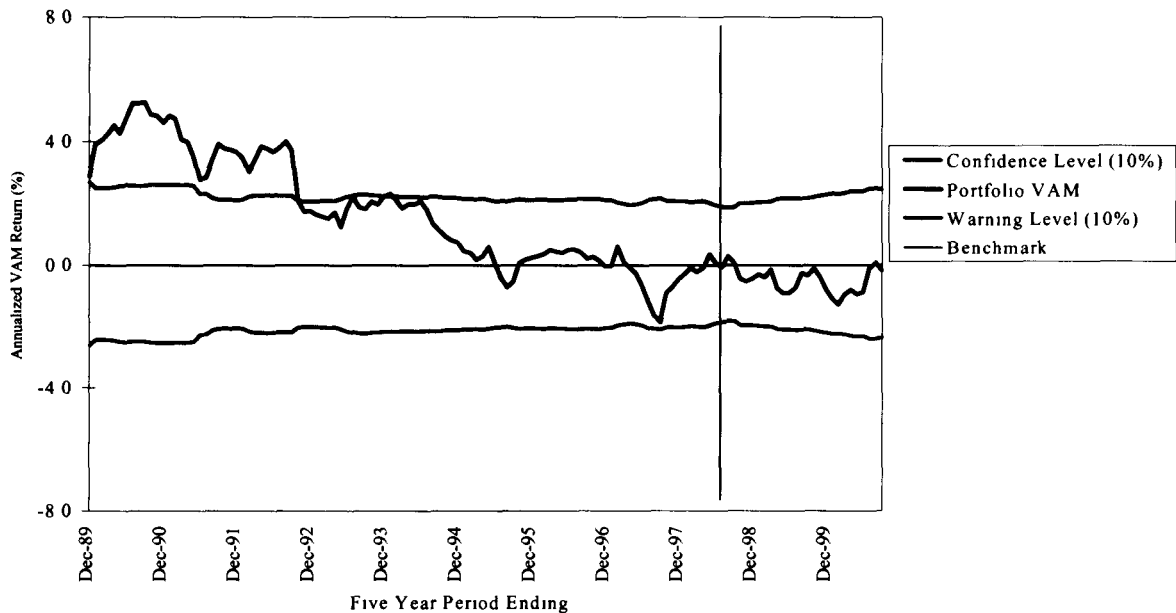
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.4%	-3.9%
Last 1 year	22.2	18.3
Last 2 years	27.2	27.0
Last 3 years	24.2	22.5
Last 4 years	25.6	26.8
Last 5 years	26.1	26.3
Since Inception (7/93)	23.2	23.1

Recommendation

No action required.

LINCOLN CAPITAL MANAGEMENT - Domestic Equity
Rolling Five Year VAM



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

OPPENHEIMER CAPITAL
Periods Ending September, 2000

Portfolio Manager: John Lindenthal

Assets Under Management: \$871,542,619

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

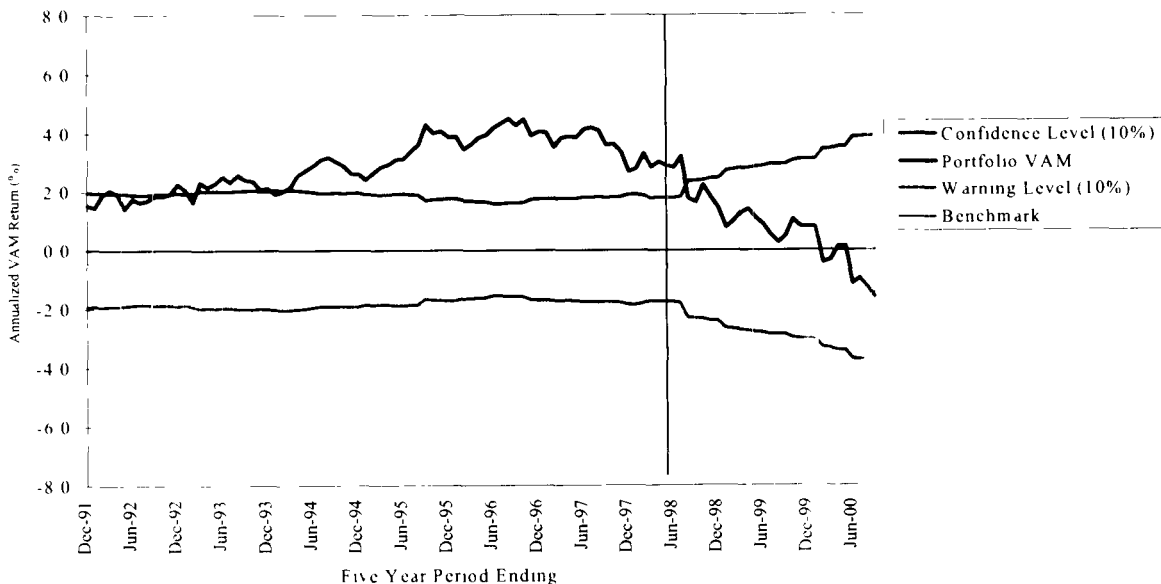
In May 2000, Allianz AG acquired a majority ownership of PIMCO Advisors, the parent company of Oppenheimer Capital. During the quarter, Allianz named its investment management entity Allianz PIMCO. There have been no changes to the investment structure of Oppenheimer. As the value investing division of Allianz PIMCO, it will continue its long tradition of value-style equity investment management. In September, Staff visited the firm in NY to discuss performance. The firm has had good performance from an overweighting in financial and insurance companies, but this has been offset by the continuing sell-off in technology and communication companies.

Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	3.9%	5.1%	No action required
Last 1 year	15.8	21.5	
Last 2 years	16.8	23.0	
Last 3 years	12.1	17.2	
Last 4 years	18.6	21.8	
Last 5 years	19.6	21.6	
Since Inception (7/93)	19.0	19.2	

Recommendation

OPPENHEIMER CAPITAL
Rolling Five Year VAM



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 2000

Portfolio Manager: John Cone

Assets Under Management: \$2,350,225,883

Investment Philosophy
Semi-Passive

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

Staff Comments

Performance over the quarter was positive due to risk and industry factor exposures. However, over the one year time period, negative returns from stock selection, caused the portfolio to trail the benchmark. The firm has recently added a senior member to the investment team, Oliver Buckley. While Franklin's investment process is the same for both their active and semi-passive strategies, the DCF portfolio has lagged the benchmark in the market conditions of the past year.

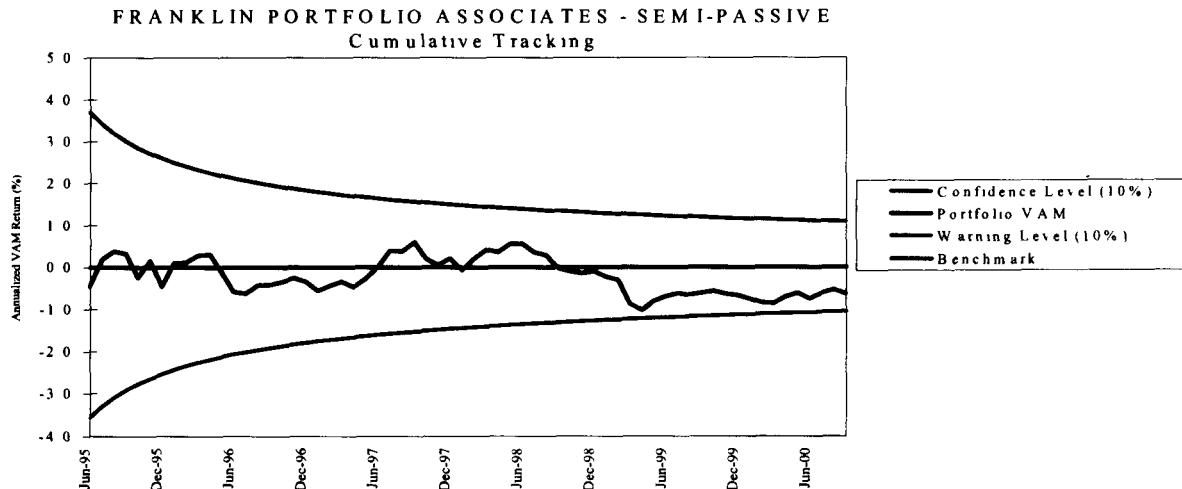
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	0.5%	0.1%
Last 1 year	9.6	10.4
Last 2 years	14.1	16.2
Last 3 years	11.8	13.9
Last 4 years	19.0	19.9
Last 5 years	18.7	19.7
Since Inception (1/95)	21.2	22.0

Recommendation

No action required.

* Completeness Fund



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

Portfolio Manager: Tim Devlin

Assets Under Management: \$2,475,080,958

Investment Philosophy
Semi-Passive

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

Staff Comments

In mid September, JP Morgan announced that it had agreed to merge with Chase Fleming Asset Management. JP Morgan Investment Management (JPMIM) will continue to manage institutional funds and there is little overlap with Chase in this business area. Staff spoke with the President of JPMIM who does not foresee a negative impact on the SBI's portfolio as a result of the transaction

During the quarter, Keith Banks, Head of U.S. Equity left the firm. Rick Nelson, who was head of the Structured Equity business globally, will replace him. Staff met with the firm at their offices in NY during the quarter and will monitor the transition plan and organizational changes.

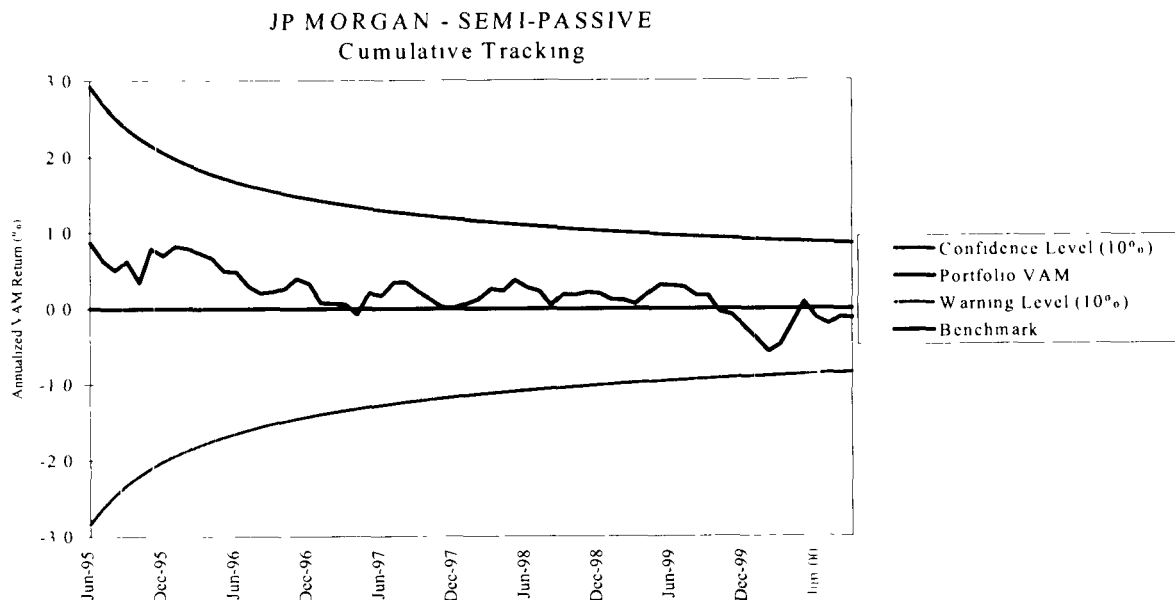
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	0.0%	0.1%
Last 1 year	8.7	10.4
Last 2 years	15.3	16.2
Last 3 years	13.3	13.9
Last 4 years	19.6	19.9
Last 5 years	19.4	19.7
Since Inception (1/95)	21.9	22.0

Recommendation

No action required

* Completeness Fund



BARCLAYS GLOBAL INVESTORS
Periods Ending September, 2000

Portfolio Manager: Nancy Feldkircher

Assets Under Management: \$2,482,338,714

Investment Philosophy
Semi-Passive

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

Staff Comments

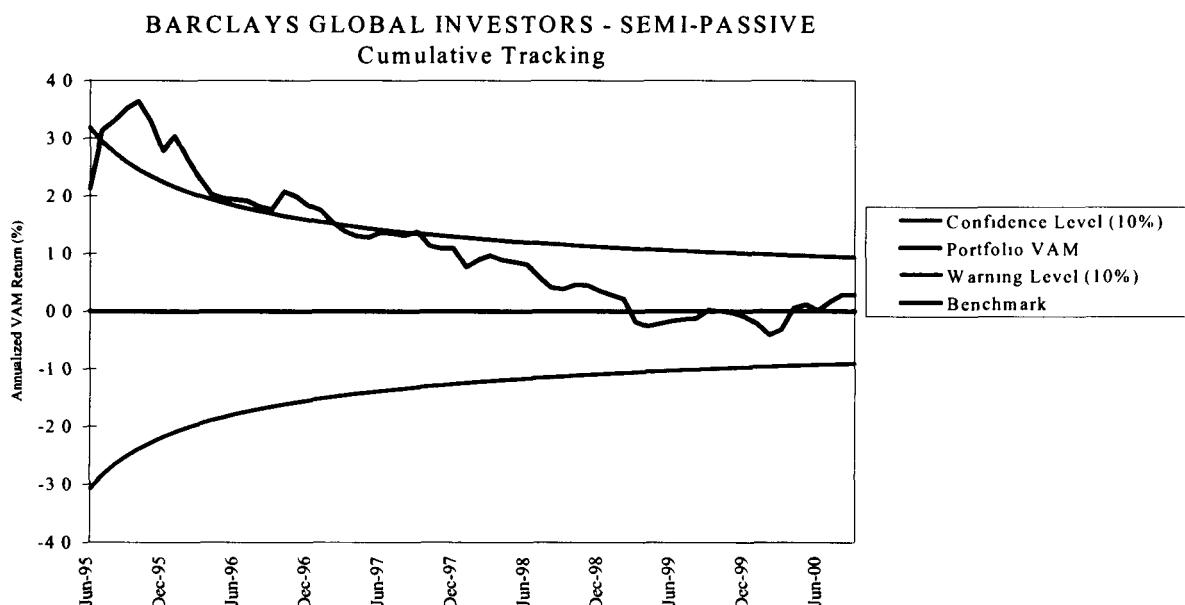
The SBI's portfolio had significant out-performance during the quarter relative to the Completeness Fund benchmark due primarily to valuation inputs and industry weights. The valuation inputs include both relative valuation and earnings quality measures and are one of the strategy's three core inputs. The strong performance for the year was due primarily to analyst criteria, another of the strategy's three core inputs, which exposes the portfolio to stocks with improving earnings expectations and avoids stocks with diminishing expectations.

Quantitative Evaluation

	Actual	Benchmark*	
Last Quarter	1.7%	0.1%	No action required.
Last 1 year	12.1	10.4	
Last 2 years	16.3	16.2	
Last 3 years	13.0	13.9	
Last 4 years	19.5	19.9	
Last 5 years	19.4	19.7	
Since Inception (1/95)	22.4	22.0	

Recommendation

* Completeness Fund



BARCLAYS GLOBAL INVESTORS
Periods Ending September, 2000

Portfolio Manager: Brad Pope

Assets Under Management: \$6,873,223,866

Investment Philosophy
Passive

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

Staff Comments

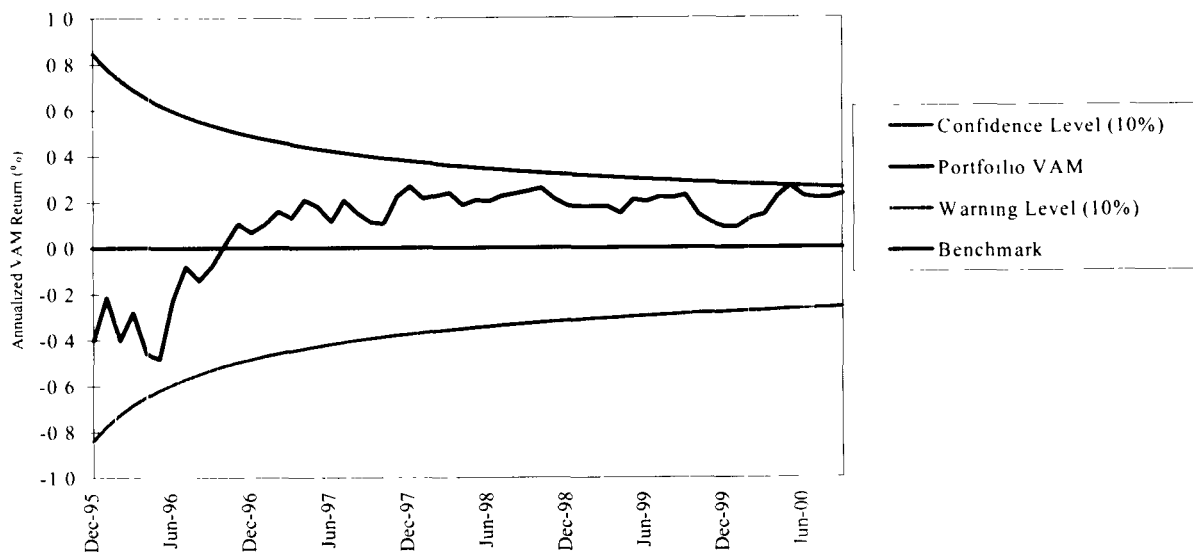
Following Board approval in June, Barclay's passive mandate transitioned from the Wilshire 5000 to the Wilshire 5000 Investable as of July 1, 2000. The Wilshire 5000 Investable adjusts the Wilshire 5000 for investability and liquidity constraints as well as SBI investment restrictions and is a quarterly buy-hold portfolio.

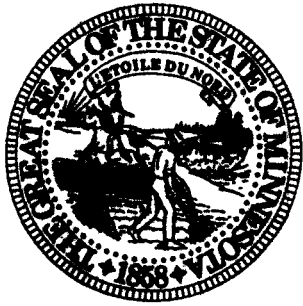
Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	0.4%	0.3%	No action required
Last 1 year	17.9	17.6	
Last 2 years	22.4	22.2	
Last 3 years	15.9	15.5	
Last 4 years	21.2	20.8	
Last 5 years	20.8	20.5	
Since Inception (7/95)	21.6	21.3	

Recommendation

BARCLAYS GLOBAL INVESTORS - PASSIVE
Cumulative Tracking





STATE BOARD OF INVESTMENT

Emerging Stock Manager Evaluation Reports

Third Quarter, 2000

**COMBINED RETIREMENT FUNDS
EMERGING EQUITY MANAGERS
Periods Ending September, 2000**

	Quarter		1 Year		3 years		5 Years		Since Inception (1)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
Artemis	-4.6	1.1							-4.6	1.1	\$48.02	5.3%
Bay Isle Financial	2.9	7.9							2.9	7.9	51.44	5.7%
CIC Asset	15.7	10.0	9.8	15.6	4.0	11.1	14.0	18.0	15.2	18.9	75.34	8.3%
Earnest Partners	-2.0	7.9							-2.0	7.9	49.33	5.5%
Holt-Smith & Yates	0.3	-0.8							0.3	-0.8	50.79	5.6%
New Amsterdam	7.7	5.7	40.9	32.4	20.8	18.9	24.8	21.9	22.6	21.6	112.59	12.5%
Next Century Growth	0.8	-2.9							0.8	-2.9	51.01	5.6%
Peregrine Capital	8.7	7.3							8.7	7.3	55.36	6.1%
Valenzuela Capital	3.5	6.5	20.9	19.3	1.9	5.1	14.6	13.6	15.0	14.9	74.49	8.2%
Voyageur-Chicago Equity	7.6	-5.4							7.6	-5.4	54.58	6.0%
Winslow-Small Cap	6.6	-4.0							6.6	-4.0	113.96	12.6%
Zevenbergen Capital	-0.7	-3.1	33.5	48.3	39.9	29.4	33.5	28.4	30.1	27.0	166.20	18.4%
											\$903.10	100.0%
									Since 4/1/94			
Current Aggregate	3.8	2.0	25.6	31.6	17.7	17.7	22.9	21.6	21.7	21.5		
Historical Aggregate (2)	3.8	2.0	27.8	30.6	18.3	18.3	21.2	21.5	20.9	21.3		

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

(2) Includes the performance of terminated managers.

ARTEMIS INVESTMENT MANAGEMENT, LLC
Periods Ending September, 2000

Portfolio Manager: Joyce Capuano

Assets Under Management: \$48,017,770

Investment Philosophy

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

Staff Comments

Artemis Investment Management was funded at the beginning of July 2000. The Russell 2000 was used as the temporary benchmark for the period. Recent performance trailed this benchmark due to an under-weighting in financials, one of the best performing sectors, and an over-weighting in the lagging producer durables and utilities sectors. Staff had an opportunity to visit the firm in NY during the quarter. The investment team and process are sound. The custom benchmark will be in place as of October 2000.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.6%	1.1%
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 (7/00)	-4.6	1.1

Recommendation

No action required.

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

BAY ISLE FINANCIAL CORP.
Periods Ending September, 2000

Portfolio Manager: William Schaff

Assets Under Management: \$51,435,937

Investment Philosophy

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

Staff Comments

Bay Isle Financial was funded at the beginning of July 2000. Performance for the quarter lagged the temporary Russell 1000 Value benchmark due primarily to the portfolio's under-weighting in Utilities. The custom benchmark will be in place as of October 2000.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.9%	7.9%
Last 1 Year	N/A	N/A
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	2.9	7.9

Recommendation

No action required

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

CIC ASSET MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: Jorge Castro

Assets Under Management: \$75,336,229

Investment Philosophy

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

Staff Comments

Performance for the quarter was strong relative to the custom benchmark due to holdings in Energy, Utilities, and Financials, which were over-weighted.

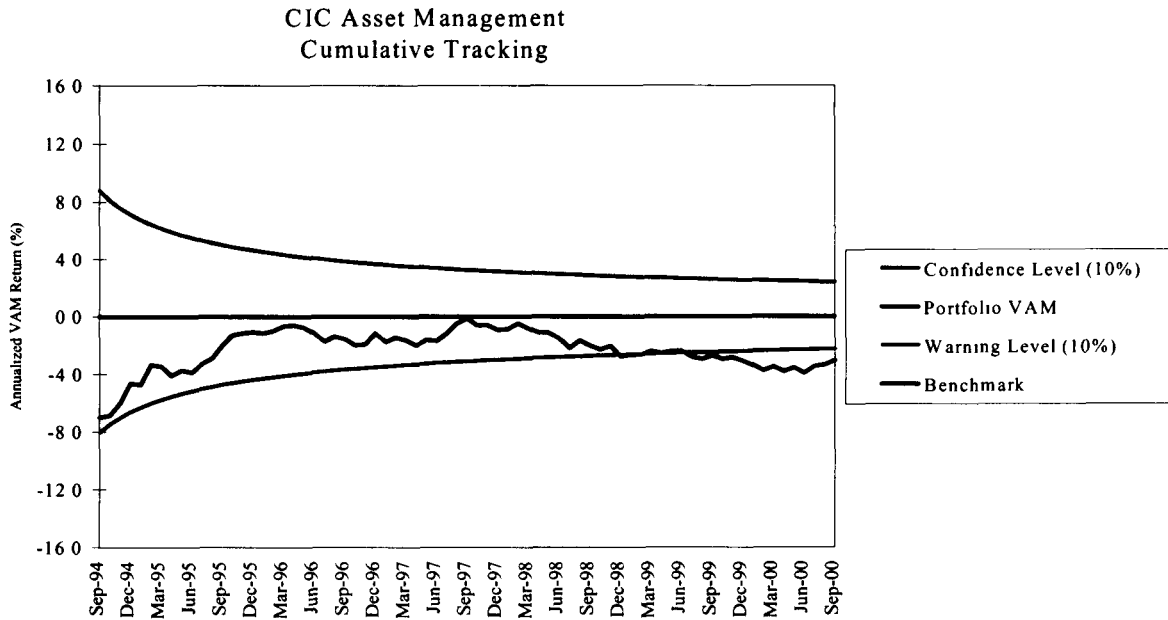
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	15.7%	10.0%
Last 1 Year	9.8	15.6
Last 2 Years	10.1	16.3
Last 3 Years	4.0	11.1
Last 4 Years	12.8	17.5
Last 5 Years	14.0	18.0
Since Inception (4/94)	15.2	18.9

Recommendation

No action required.

* Custom benchmark since inception date.



EARNEST PARTNERS, LLC
Periods Ending September, 2000

Portfolio Manager: Paul Viera

Assets Under Management: \$49,325,242

Investment Philosophy

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

Staff Comments

Earnest Partners was funded at the beginning of July 2000. Their performance was measured against the Russell 1000 Value index for the quarter and they will be measured against a custom benchmark as of October 2000. During the quarter, they structured the portfolio for their long-term custom benchmark. Recent performance lagged the temporary benchmark due primarily to the portfolio's over-weighting in technology.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.0%	7.9%
Last 1 Year	N/A	N/A
Last 2 Years	NA	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-2.0	7.9

Recommendation

No action required

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

HOLT-SMITH & YATES ADVISORS
Periods Ending September, 2000

Portfolio Manager: Kristin Yates

Assets Under Management: \$50,789,517

Investment Philosophy

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

Staff Comments

Holt-Smith & Yates (HSY) was funded at the beginning of July 2000. The temporary benchmark was the S&P 500, against which performance was positive for the period due to holdings in Financials. A custom benchmark will be in place as of October 2000.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.3%	-0.8%
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 (7/00)	0.3	-0.8

Recommendation

No action required.

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

NEW AMSTERDAM PARTNERS
Periods Ending September, 2000

Portfolio Manager: Michelle Clayman

Assets Under Management: \$112,586,719

Investment Philosophy

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

Staff Comments

Staff visited New Amsterdam Partners at their offices in NY during the quarter. The process continues to add value, most recently due to over-weighting and strong stock selection in Health Services, Utilities and Finance. The investment process and organization are stable.

Quantitative Evaluation

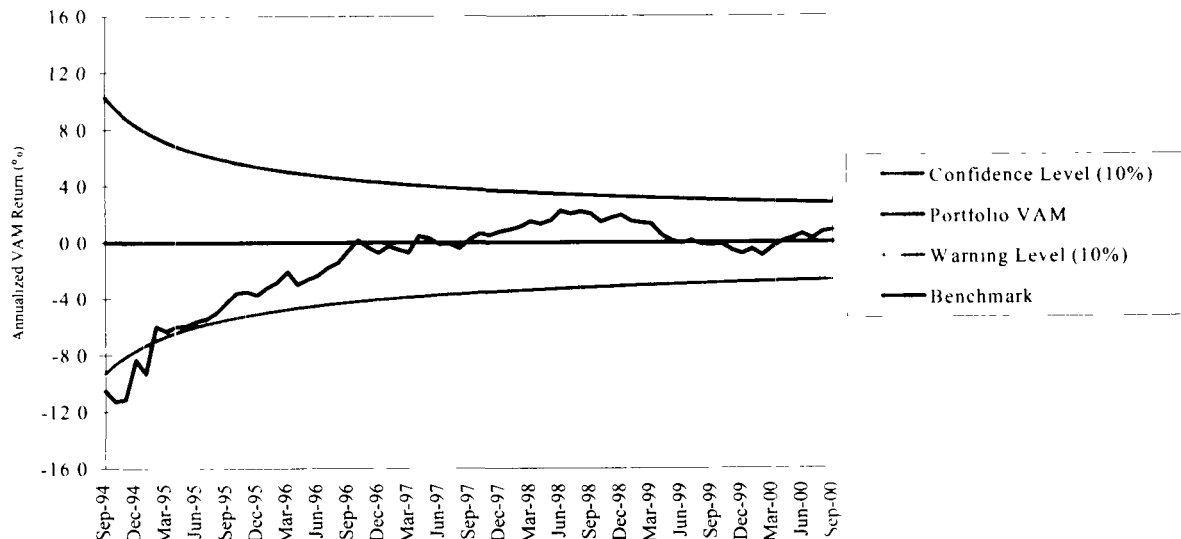
	Actual	Benchmark*
Last Quarter	7.7%	5.7%
Last 1 Year	40.9	32.4
Last 2 Years	30.6	33.1
Last 3 Years	20.8	18.9
Last 4 Years	26.0	23.9
Last 5 Years	24.8	21.9
Since Inception (4/94)	22.6	21.6

Recommendation

No action require

* Custom benchmark since inception date

**New Amsterdam Capital Partners
 Cumulative Tracking**



NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending September, 2000

Portfolio Manager: Thomas Press and Don Longlet

Assets Under Management: \$51,014,232

Investment Philosophy

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

Staff Comments

Next Century Growth (NCG) was funded at the beginning of July 2000. Performance during the quarter was strong relative to the temporary Russell MidCap benchmark due to over-weights in Consumer Services and in Energy.

NCG added a third member to the portfolio management team during the period. Bob Scott, who has seven years of investment experience, previously worked with Investment Advisors, Inc (IAI) in their small cap growth and mid cap growth products. These products have been managed in much the same style as employed at NCG.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.8%	-2.9%
Last 1 Year	N/A	N/A
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	0.8	-2.9

Recommendation

No action required.

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

PEREGRINE CAPITAL MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: Doug Pugh and Tasso Coin

Assets Under Management: \$55,358,249

Investment Philosophy

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

Staff Comments

Peregrine Capital Management was funded in July 2000. Performance for the period was positive relative to the temporary Russell 2000 Value benchmark, due to holdings in producer durables, financials, and utilities. A custom benchmark will be in place beginning October 2000.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.7%	7.3%
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 (7/00)	8.7	7.3

Recommendation

No action required

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

VALENZUELA CAPITAL MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: Tom Valenzuela

Assets Under Management: \$74,491,855

Investment Philosophy

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

Staff Comments

Recent performance trailed the custom benchmark due to three holdings as well as stock selection overall in the technology sector. Staff visited the firm in NY during the quarter. They have added a new analyst, and have reassigned an existing team member to cover the departure of the tech analyst. Five investment people cover the Mid Cap product in which the SBI is invested. The investment process remains sound.

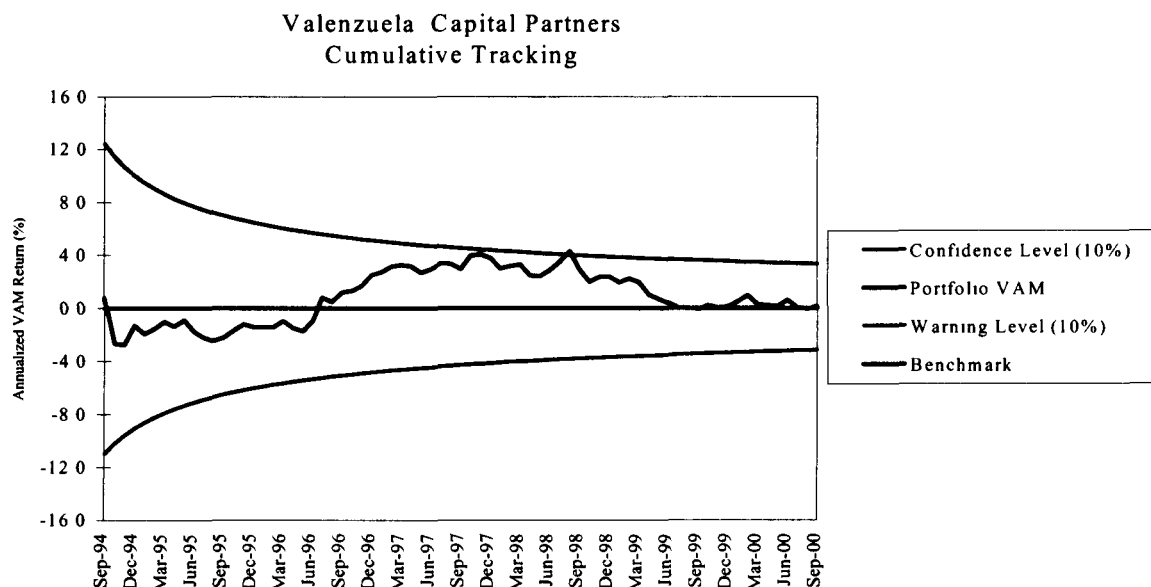
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	3.5%	6.5%
Last 1 Year	20.9	19.3
Last 2 Years	10.5	17.4
Last 3 Years	1.9	5.1
Last 4 Years	12.3	12.9
Last 5 Years	14.6	13.6
Since Inception (4/94)	15.0	14.9

Recommendation

No action required.

* Custom benchmark since inception date.



VOYAGEUR ASSET MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: Charles Henderson

Assets Under Management: \$54,582,966

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

Voyageur was funded in July 2000. The temporary benchmark for the portfolio was the Russell 1000 Growth Performance relative to this benchmark was very strong during the quarter due to an underweight position in technology as well as strong stock selection within this sector. An over-weight position in Financials further strengthened performance. Voyageur will have a custom benchmark in place as of October 2000.

In October, Voyageur announced that they will be acquired by Dai Rauscher. The portfolio team will remain in place. Staff will monitor the ownership change, but at present believe that there will be no change to the SBI portfolio.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.6%	-5.4%
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 (7/00)	7.6	-5.4

Recommendation

No action required.

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

WINSLOW CAPITAL MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: Joseph Docter

Assets Under Management: \$113,960,061

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

Following Board approval, the SBI's portfolio with Winslow Capital transitioned from a Large Cap to a Small Cap mandate as of July 1, 2000. The portfolio was benchmarked temporarily during the quarter against the Russell 2000 Growth index and will use a custom benchmark as of October 2000. Recent performance was very positive due to strong stock selection in health care, retail, education, and technology (despite a downturn for tech stocks).

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.6%	-4.0%
Last 1 Year	N/A	N/A
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	6.6	-4.0

Recommendation

No action required.

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

ZEVENBERGEN CAPITAL INC.
Periods Ending September, 2000

Portfolio Manager: Nancy Zevenbergen

Assets Under Management: \$166,197,906

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

No comments at this time

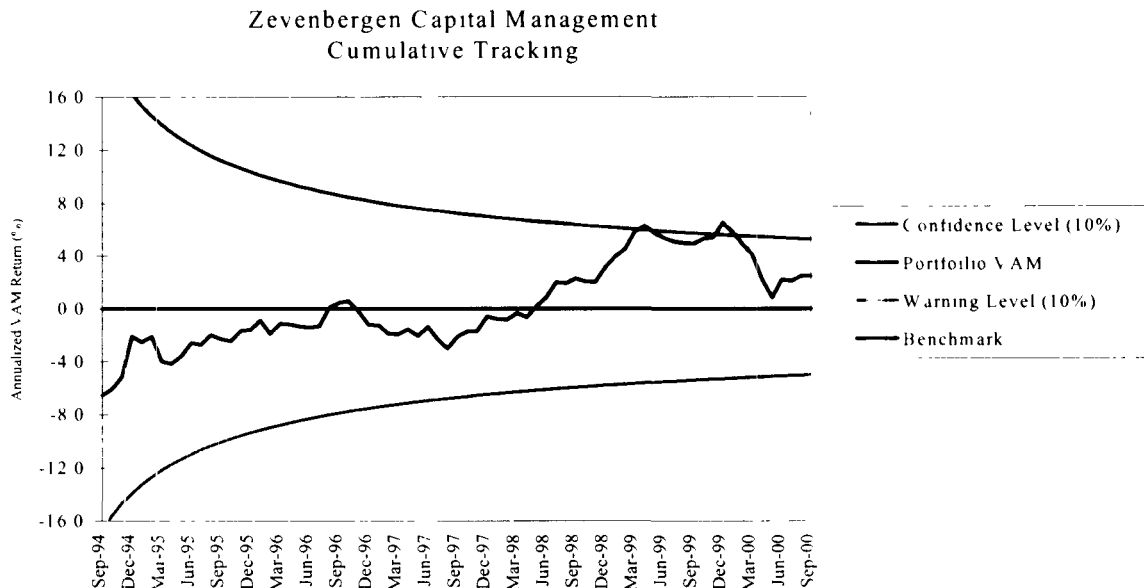
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-0.7%	-3.1%
Last 1 Year	33.5	48.3
Last 2 Years	52.6	48.2
Last 3 Years	39.9	29.4
Last 4 Years	36.1	31.2
Last 5 Years	33.5	28.4
Since Inception (4/94)	30.1	27.0

Recommendation

No action required

* Custom benchmark since inception date.





STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Third Quarter, 2000

**COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending September, 2000**

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
American Express (AMG)	3.2	3.0	7.6	7.0	6.2	5.9	6.6	6.5	6.4	6.3	\$795.77	6.7%
Deutsche	3.0	3.0							6.1	6.2	\$646.10	5.4%
Dodge & Cox	3.2	3.0							6.2	6.2	\$642.11	5.4%
Metropolitan West	2.7	3.0							3.7	6.2	\$261.62	2.2%
Morgan Stanley	3.3	3.0	7.2	7.0	5.3	5.9	6.9	6.5	10.3	10.0	\$1,202.09	10.1%
Standish	3.0	3.0	6.2	7.0	4.7	5.9	6.2	6.5	5.9	6.2	\$653.29	5.5%
Western	2.9	3.0	7.6	7.0	6.3	5.9	7.5	6.5	11.2	10.0	\$1,532.94	12.9%
Semi-Passive Managers												
BlackRock	2.9	3.0	7.3	7.0	6.3	5.9			7.0	6.6	2,127.50	17.8%
Goldman	3.1	3.0	7.3	7.0	5.9	5.9	6.7	6.5	6.5	6.2	2,049.87	17.2%
Lincoln	3.1	3.0	7.1	7.0	6.0	5.9	6.5	6.5	8.3	8.3	2,009.60	16.9%
											\$11,920.90	100.0%
									Since 7/1/84			
Current Aggregate	3.1	3.0	7.2	7.0	5.9	5.9	6.7	6.5	10.4	10.0		
Historical Aggregate (2)	3.1	3.0	7.2	7.0	5.9	5.9	6.8	6.5	10.0	9.9		
Lehman Aggregate (3)		3.0		7.0		5.9		6.5		9.6		

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

(2) Includes performance of terminated managers.

(3) Prior to July 1994, this index reflects the Salomon BIG.

AMERICAN EXPRESS ASSET MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: Jim Snyder

Assets Under Management: \$795,773,422

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

Staff visited American Express in their Minneapolis office during the quarter to review the portfolio and performance. In addition, staff addressed American Express inability to provide accurate attribution analysis of their excess returns.

American Express said they understand staff's concern and would work on a plan to address the problem.

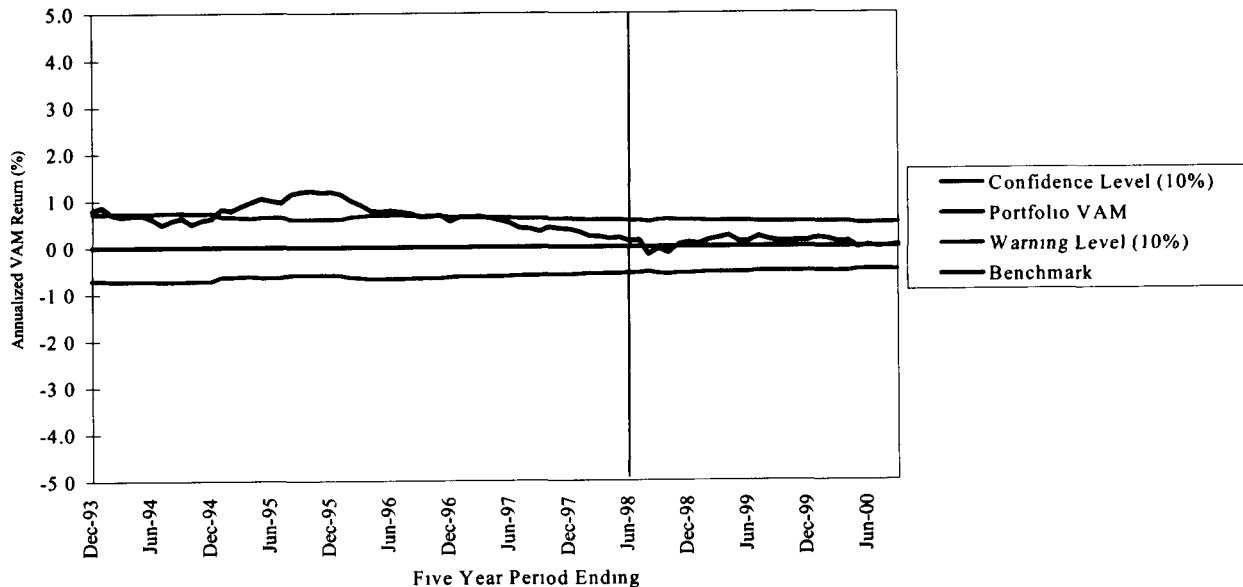
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.2%	3.0%
Last 1 year	7.6	7.0
Last 2 years	3.4	3.2
Last 3 years	6.2	5.9
Last 4 years	7.2	6.9
Last 5 years	6.6	6.5
Since Inception (7/93)	6.4	6.3

Recommendations

No action required.

AMERICAN EXPRESS ASSET MANAGEMENT - Fixed Income
Rolling Five Year VAM



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

DEUTSCHE ASSET MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: Warren Davis

Assets Under Management: \$646,098,735

Investment Philosophy

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

Staff Comments

Staff visited Deutsche in their Philadelphia office in early October to review the portfolio, performance, and their investment philosophy. In addition, staff reviewed research that Deutsche had done, at staff request, in regards to restructuring the fixed income asset class. Staff also spoke with Deutsche's high yield and emerging markets portfolio managers to review their investment philosophy.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.0%	3.0%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	6.1	6.2

Recommendations

No action required

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

DODGE & COX INVESTMENT MANAGERS
Periods Ending September, 2000

Portfolio Manager: Dana Emery

Assets Under Management: \$642,113,992

Investment Philosophy

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

Staff Comments

No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.2%	3.0%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	6.2	6.2

Recommendations

No action required.

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

METROPOLITAN WEST ASSET MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: Tad Rivelle

Assets Under Management: \$261,618,958

Investment Philosophy

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

Staff Comments

Metropolitan West's performance is significantly below the benchmark since inception. As mentioned in the second quarter commentary, Metropolitan West's portfolio has been hurt by their positions in Conseco and Finova. The firm is constructive on both situations and believes the bonds will recover as Conseco and Finova sell assets and implement a turnaround.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.7%	3.0%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	3.7	6.2

Recommendations

No action required

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

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: Tom Bennett

Assets Under Management: \$1,202,087,078

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

Staff visited Morgan Stanley in their West Conshohocken, PA office in early October to review the portfolio and performance. In addition, staff reviewed research that Morgan Stanley had done, at staff request, in regards to restructuring the fixed income asset class.

Staff also discussed with Morgan Stanley the extensive research they have done on identifying and measuring risks within fixed income portfolios.

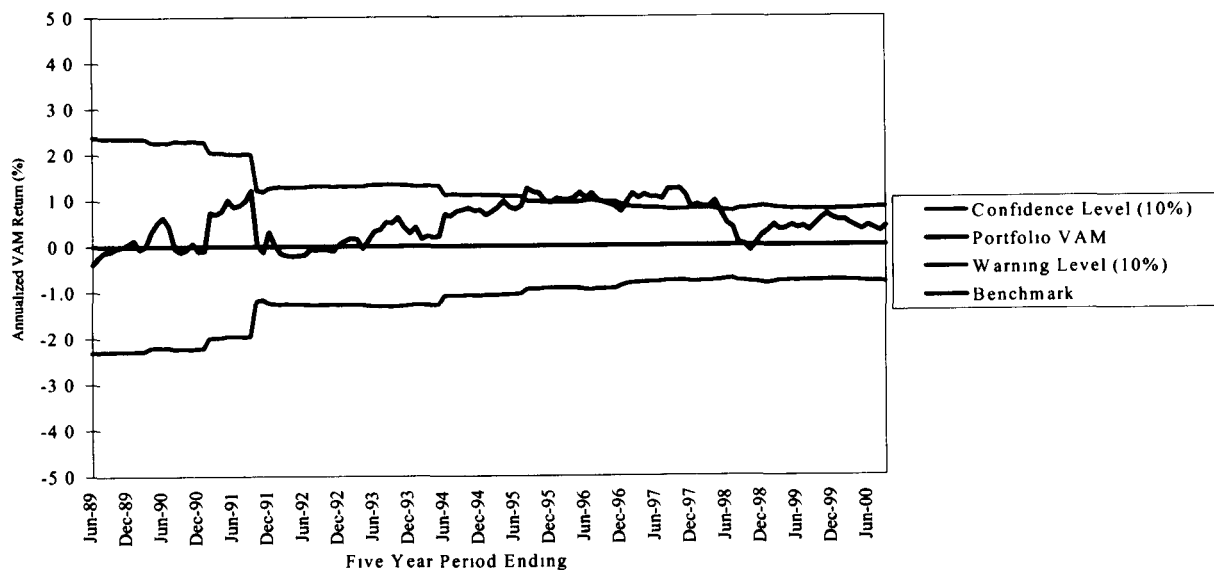
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.3%	3.0%
Last 1 year	7.2	7.0
Last 2 years	3.6	3.2
Last 3 years	5.3	5.9
Last 4 years	6.9	6.9
Last 5 years	6.9	6.5
Since Inception (7/84)	10.3	10.0

Recommendations

No action required.

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Rolling Five Year VAM



STANDISH, AYER & WOOD
Periods Ending September, 2000

Portfolio Manager: Austin Smith

Assets Under Management: \$653,292,215

Investment Philosophy

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

Staff Comments

Staff visited Standish in their Boston office in early October to review the portfolio and performance. In addition, staff reviewed research that Standish had done, at staff request, in regards to restructuring the fixed income asset class.

Staff also met Richard Wood, the firm's new president. Richard has been with Standish for eighteen years, most recently as the head of international fixed income.

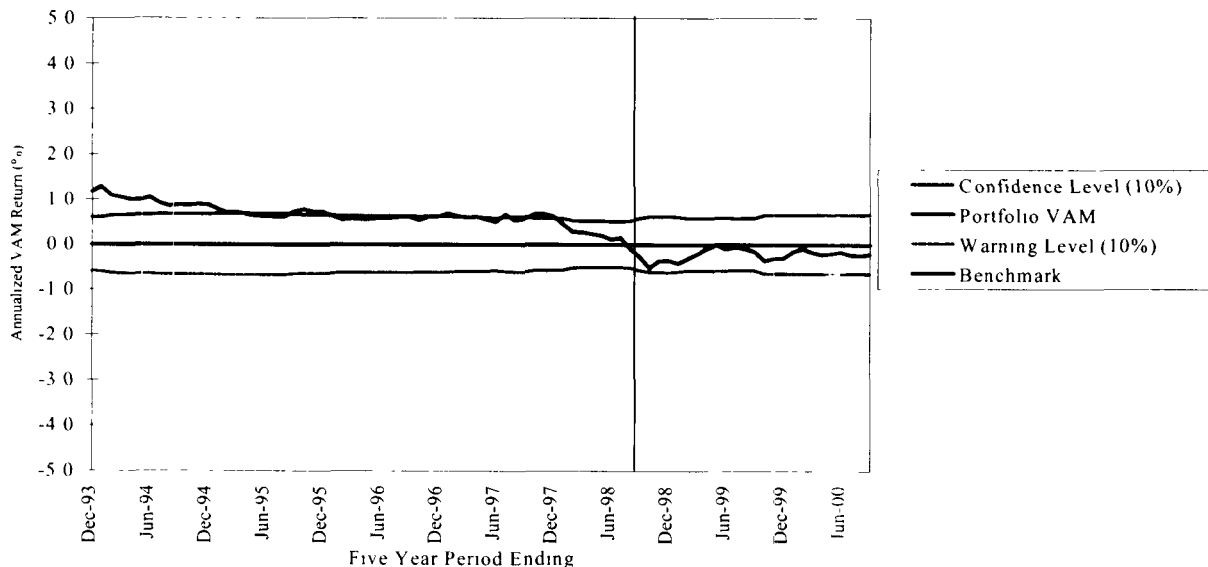
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.0%	3.0%
Last 1 year	6.2	7.0
Last 2 years	2.6	3.2
Last 3 years	4.7	5.9
Last 4 years	6.3	6.9
Last 5 years	6.2	6.5
Since Inception (7/93)	5.9	6.2

Recommendations

No action required

STANDISH, AYER & WOOD
Rolling Five Year VAM



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

WESTERN ASSET MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: Ken Leech

Assets Under Management: \$1,532,943,815

Investment Philosophy

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

Staff Comments

No comments at this time.

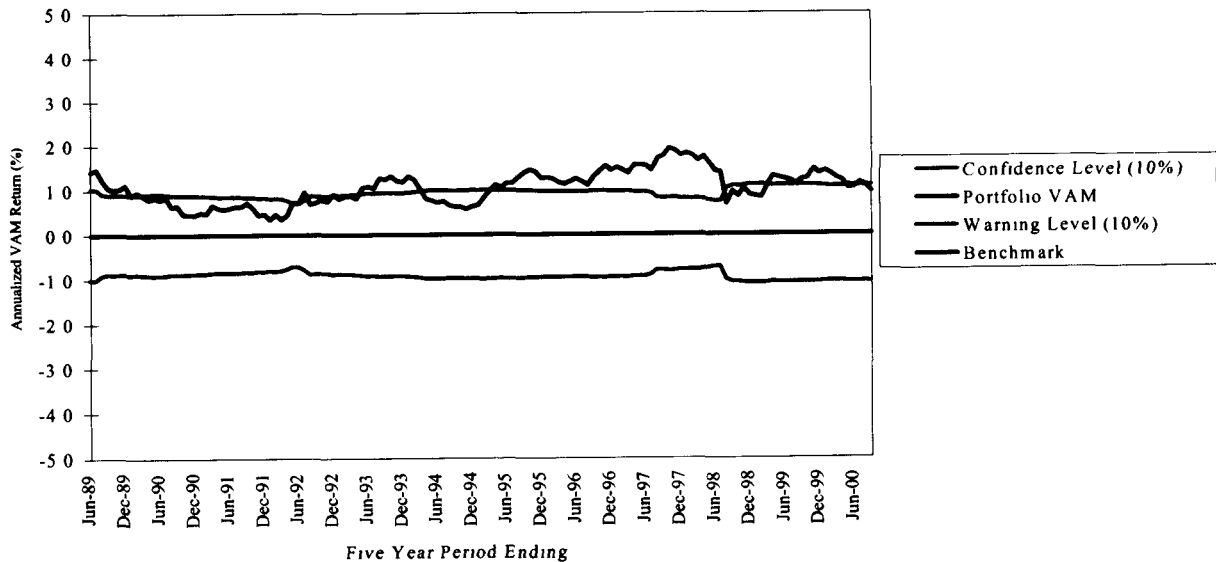
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.9%	3.0%
Last 1 year	7.6	7.0
Last 2 years	3.8	3.2
Last 3 years	6.3	5.9
Last 4 years	7.9	6.9
Last 5 years	7.5	6.5
Since Inception (7/84)	11.2	10.0

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM



BLACKROCK FINANCIAL MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: Keith Anderson

Assets Under Management: \$2,127,503,529

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

Staff visited BlackRock in their New York office in early October to review the portfolio and performance. In addition, staff reviewed research that BlackRock had done, at staff request, in regards to restructuring the fixed income asset class.

Staff also discussed with BlackRock the relative merits of various risk management practices for larger pension funds.

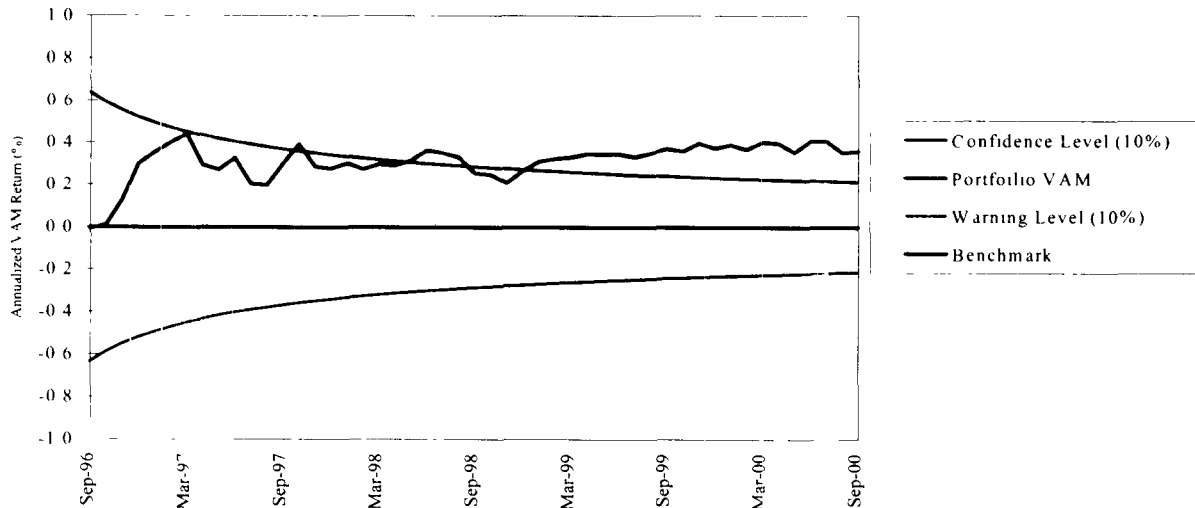
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.9%	3.0%
Last 1 year	7.3	7.0
Last 2 years	3.7	3.2
Last 3 years	6.3	5.9
Last 4 years	7.3	6.9
Last 5 years	N/A	N/A
Since Inception (4/96)	7.0	6.6

Recommendation

No action required

BLACKROCK FINANCIAL MANAGEMENT
Cumulative Tracking



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: Sharmin Mossavar Rahmani

Assets Under Management: \$2,049,869,497

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

Staff visited Goldman Sachs in their New York office in early October to review the portfolio and performance. In addition, staff reviewed research that Goldman had done, at staff request, in regards to restructuring the fixed income asset class.

Staff also discussed with Goldman the relative merits of various risk management practices for larger pension funds.

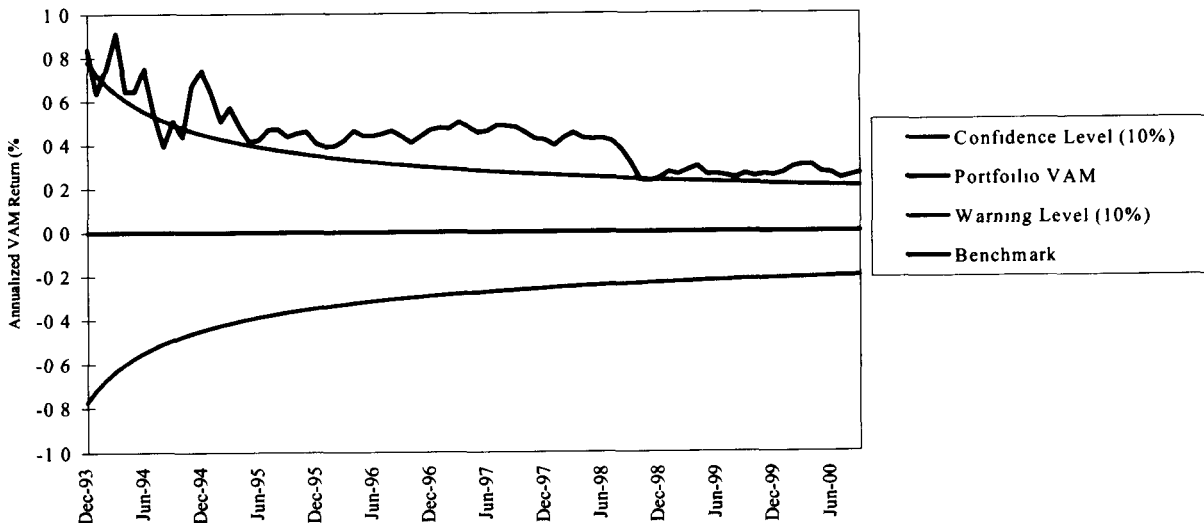
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.1%	3.0%
Last 1 year	7.3	7.0
Last 2 years	3.4	3.2
Last 3 years	5.9	5.9
Last 4 years	7.0	6.9
Last 5 years	6.7	6.5
Since Inception (7/93)	6.5	6.2

Recommendations

No action required.

GOLDMAN SACHS
Cumulative Tracking



LINCOLN CAPITAL MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: Andrew Johnson

Assets Under Management: \$2,009,595,730

Investment Philosophy

Staff Comments

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

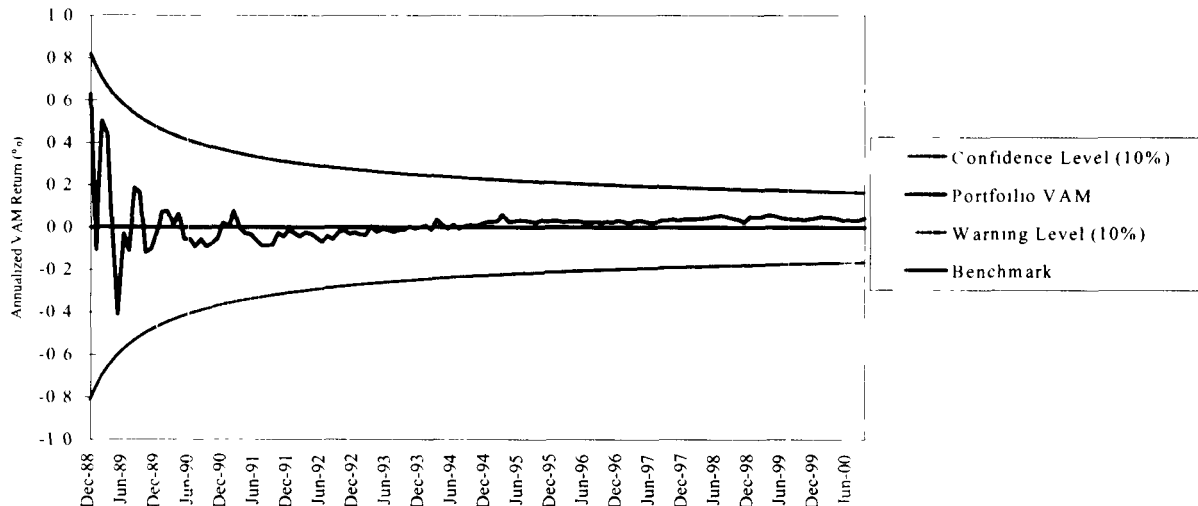
No comments at this time

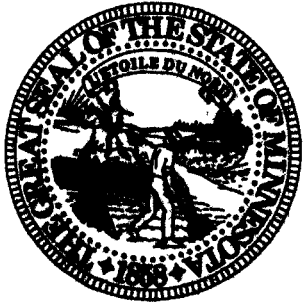
Quantitative Evaluation

Recommendations

	Actual	Benchmark	
Last Quarter	3.1%	3.0%	No action required
Last 1 year	7.1	7.0	
Last 2 years	3.3	3.2	
Last 3 years	6.0	5.9	
Last 4 years	7.0	6.9	
Last 5 years	6.5	6.5	
Since Inception (7/88)	8.3	8.3	

**LINCOLN CAPITAL MANAGEMENT - Fixed Income
 Cumulative Tracking**





STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Third Quarter, 2000

**COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending September, 2000**

	Quarter		1 Year		3 years		5 Years		Since Inception		Market Value (in millions)	Equity Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active EAFE												
American Express (6)	-6.0	-8.1							-9.8	-8.3	\$271.05	4.9%
Blairlogie (6)	-8.0	-8.1							-8.3	-8.3	91.95	1.6%
Brinson (1)	-6.7	-8.1	8.9	3.2	8.9	7.3	11.5	8.5	10.9	10.1	647.21	11.6%
Invesco (6)	-5.8	-8.1							-2.1	-8.3	391.07	7.0%
Marathon (2)	-5.2	-6.2	7.7	3.7	8.3	6.8	8.9	7.3	9.2	7.0	477.26	8.6%
Montgomery (6)	-4.9	-8.1							-14.6	-8.3	260.57	4.7%
Scudder (2)	-9.3	-8.1	6.4	3.2	8.3	7.3	12.3	8.5	11.2	7.9	526.56	9.4%
T. Rowe Price (2)	-7.3	-8.1	12.5	3.2	9.0	7.3	11.5	8.5	10.6	7.9	520.64	9.3%
Active Emerging Markets												
City of London (3)	-4.1	-13.0	5.5	0.4	-6.1	-6.4			0.8	-2.7	68.73	1.2%
Genesis (4)	-9.5	-13.0	4.0	0.4	-12.0	-6.4			-4.0	-3.8	220.90	4.0%
Montgomery (4)	-11.0	-13.0	15.4	0.4	-9.1	-6.4			-2.4	-3.8	242.42	4.3%
Passive EAFE												
State Street (5)	-8.1	-8.1	3.5	3.2	7.7	7.3	8.9	8.5	10.7	10.4	1,863.41	33.4%
									Since 10/1/92			
Equity Only*	-7.5	-8.6	5.4	2.8	6.0	5.8	8.7	7.5	10.6	9.7	5,581.77	100.0%
Total Program**	-7.5	-8.6	5.5	2.8	6.1	5.8	9.4	7.5	11.1	9.7	\$5,582.01	

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

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

(1) Fully active since 10/1/99. Active country/passive stock from inception to 9/30/99. Retained April 1, 1993.

(2) Retained November 1, 1993. Marathon's performance is measured against a custom benchmark since inception.

(3) Retained November 1, 1996.

(4) Retained May 1, 1996.

(5) Retained October 1, 1992.

(6) Retained February 1, 2000

Impact of Currency Overlay Program

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

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

Portfolio Manager: Peter Lamaison

Assets Under Management: \$271,051,966

Investment Philosophy

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

Staff Comments

On September 4th, Mark Fawcett was appointed to succeed Peter Lamaison as Chief Investment Officer. Peter Lamaison, who had reassumed the role of Chief Investment Officer in 1997, has worked closely with colleagues on the Senior Portfolio Management team to identify a successor from within AEAMI. Mark will report directly to Peter, who intends to continue as Chief Executive for at least the next three years. Mark has been Head of the Japanese Equities team and a key contributor to the global allocation process.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-6.0%	-8.1%
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)	-9.8	-8.3

Recommendations

No action required.

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

BLAIRLOGIE CAPITAL MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: James Smith

Assets Under Management: \$91,950,877

Investment Philosophy

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

Staff Comments

Blairlogie has been evaluating various means to enhance their current processes and increase value added. As a result, the firm has provided additional incentives for portfolio managers to add value through stock selection. Blairlogie is also developing a model to aid in a top down analysis of sectors.

During the quarter, Blairlogie lost one portfolio manager and has hired two.

On October 18th, Blairlogie's parent company, Alleghany Asset Management, announced an agreement to be acquired by ABN AMRO, a leading international banking group in the Netherlands. Blairlogie is evaluating how this may impact them and will keep the SBI apprised.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-8.0%	-8.1%
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)	-8.3	-8.3

Recommendations

No action required

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

BRINSON PARTNERS
Periods Ending September, 2000

Portfolio Manager: Thomas Madsen

Assets Under Management: \$647,209,447

Investment Philosophy

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

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

Staff Comments

No comments at this time.

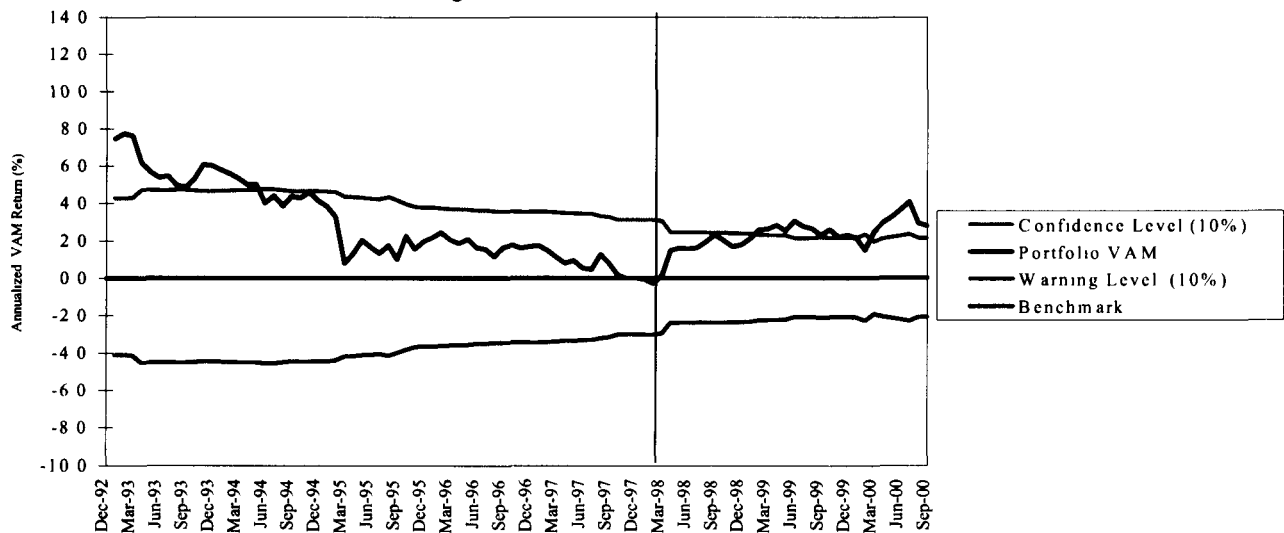
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-6.7%	-8.1%
Last 1 year	8.9	3.2
Last 2 years	18.1	16.2
Last 3 years	8.9	7.3
Last 4 years	10.8	8.5
Last 5 years	11.5	8.5
Since Inception (4/93)	10.9	10.1

Recommendations

No action required.

BRINSON PARTNERS, INC. (INT'L)
Rolling Five Year VAM



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

INVESCO GLOBAL ASSET MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: John Rogers

Assets Under Management: \$391,067,656

Investment Philosophy

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

Staff Comments

No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-5.8%	-8.1%
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	-8.3

Recommendations

No action required.

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

MARATHON ASSET MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: William Arah

Assets Under Management: \$477,261,144

Investment Philosophy

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

Staff Comments

No comments at this time.

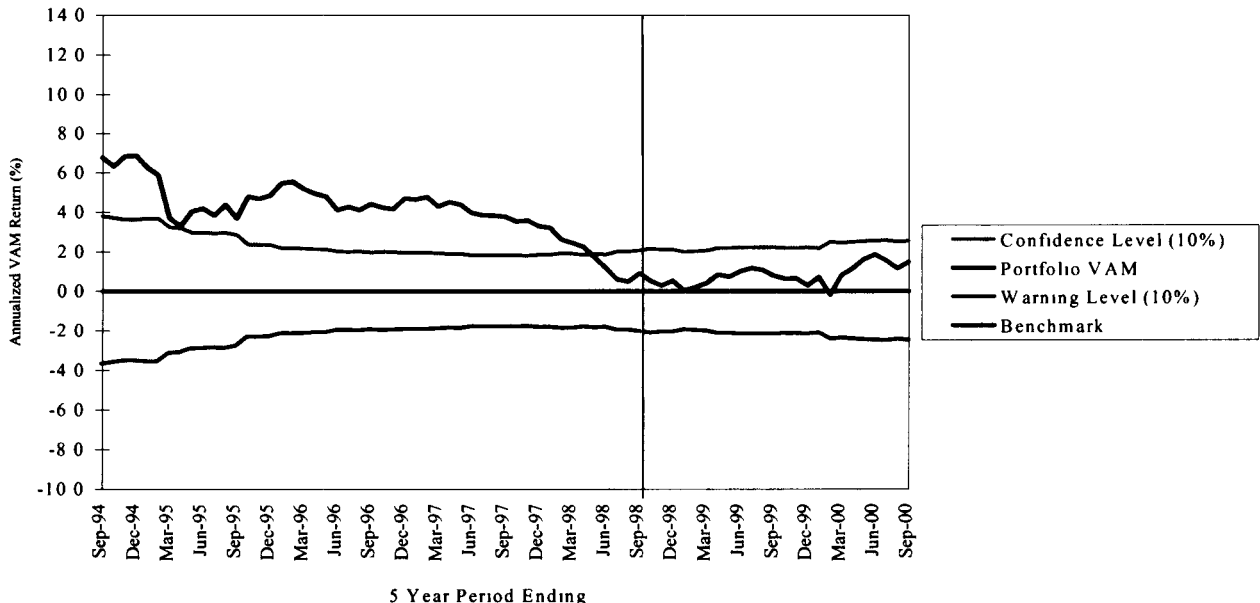
Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	-5.2%	-6.2%
Last 1 year	7.7	3.7
Last 2 years	22.5	16.7
Last 3 years	8.3	6.8
Last 4 years	8.4	6.8
Last 5 years	8.9	7.3
Since Inception (11/93)	9.2	7.0

Recommendations

No action required.

MARATHON ASSET MANAGEMENT
Rolling Five Rolling VAM



5 Year Period Ending

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

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

Portfolio Manager: John Boich

Assets Under Management: \$260,571,201

Investment Philosophy

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

Staff Comments

No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.9%	-8.1%
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)	-14.6	-8.3

Recommendations

No action required.

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

SCUDDER KEMPER INVESTMENTS
Periods Ending September, 2000

Portfolio Manager: Theresa Gusman

Assets Under Management: \$526,562,696

Investment Philosophy

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

Staff Comments

The portfolio underperformed by 120 basis points for the quarter due primarily to an overweight position in information technology (IT) stocks, which sustained heavy losses in September. As a result, Scudder has continued to trim its exposure to IT.

William E. Higgins will join Scudder's International Team in early October as a portfolio manager working with lead portfolio manager, Theresa Gusman. He has eleven years of experience, and comes from Prudential Investments where he spent nine years as an international equity portfolio manager. During the last three years, he led the European Equity Product Team.

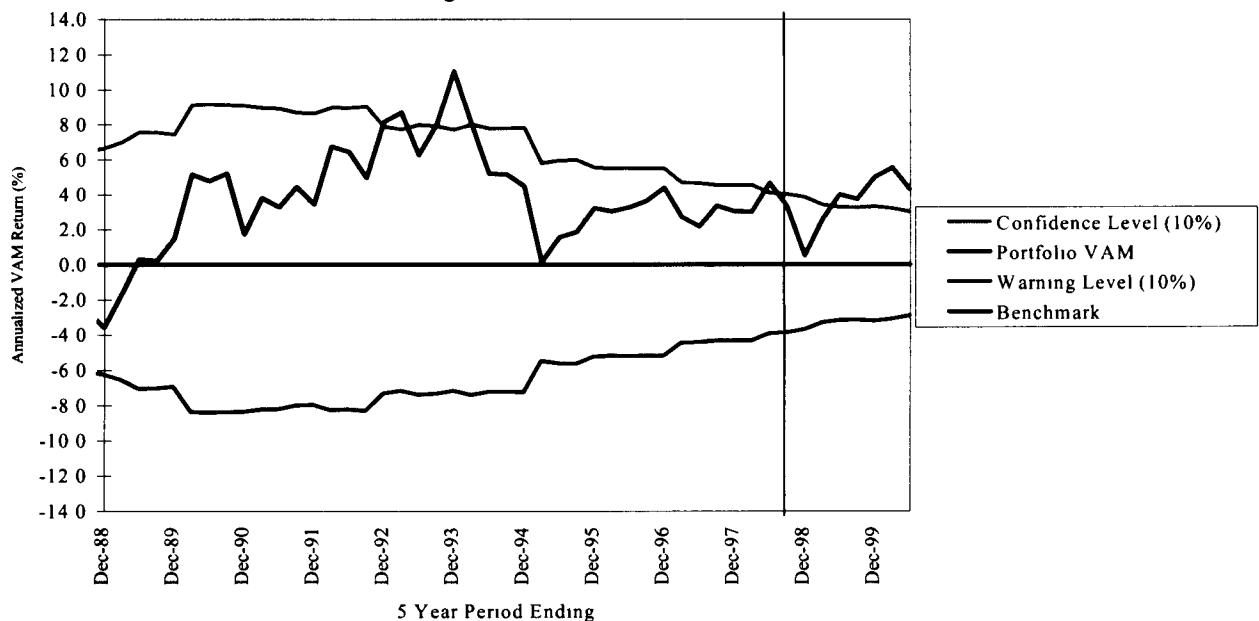
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-9.3%	-8.1%
Last 1 year	6.4	3.2
Last 2 years	19.2	16.2
Last 3 years	8.3	7.3
Last 4 years	11.7	8.5
Last 5 years	12.3	8.5
Since Inception (11/93)	11.2	7.9

Recommendations

No action required.

SCUDDER KEMPER INVESTMENTS
Rolling Five Year VAM



T. ROWE PRICE INTERNATIONAL, INC.
Periods Ending September, 2000

Portfolio Manager: David Warren

Assets Under Management: \$520,641,394

Investment Philosophy

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

Staff Comments

Following the completion of the purchase of the Fleming Group by Chase Manhattan Bank, T. Rowe Price purchased Robert Fleming's 50% share of Rowe Price-Fleming International. As of August 8th, Rowe Price Fleming International was renamed **T. Rowe Price International, Inc.** Staff does not anticipate any changes to the management of the portfolio as a result of this partial change in ownership.

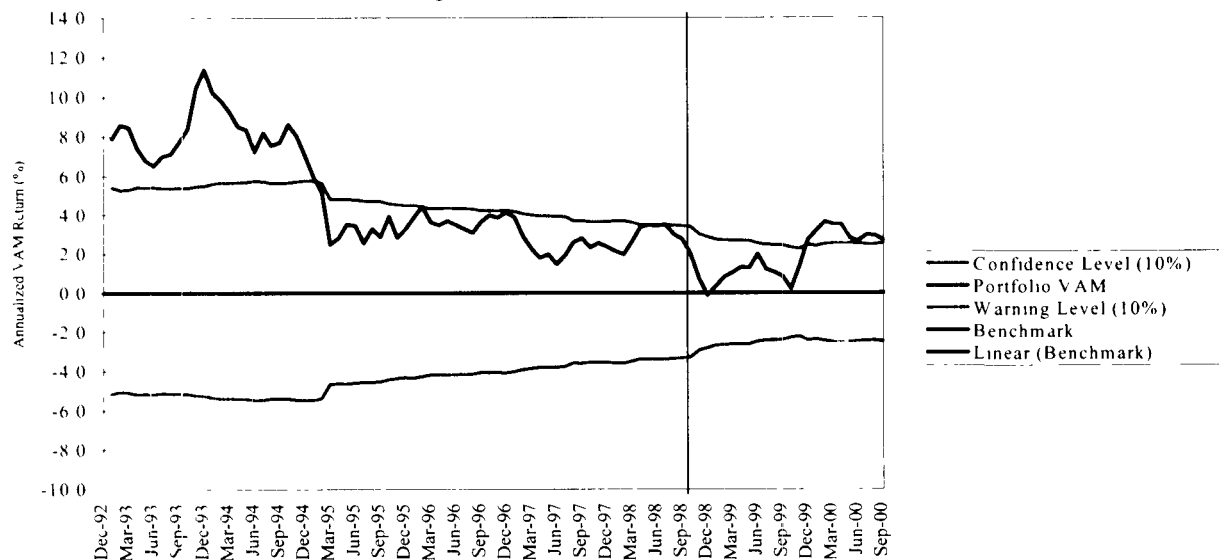
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-7.3%	-8.1%
Last 1 year	12.5	3.2
Last 2 years	19.6	16.2
Last 3 years	9.0	7.3
Last 4 years	11.0	8.5
Last 5 years	11.5	8.5
Since Inception (11/93)	10.6	7.9

Recommendations

No action required.

T. ROWE PRICE INTERNATIONAL
Rolling Five Year VAM



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

CITY OF LONDON
Periods Ending September, 2000

Portfolio Manager: Barry Olliff

Assets Under Management: \$68,725,590

Investment Philosophy

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

Staff Comments

During the quarter, the Emerging Markets Equity Program was reviewed. City of London was reinterviewed due to administrative issues and concerns regarding performance.

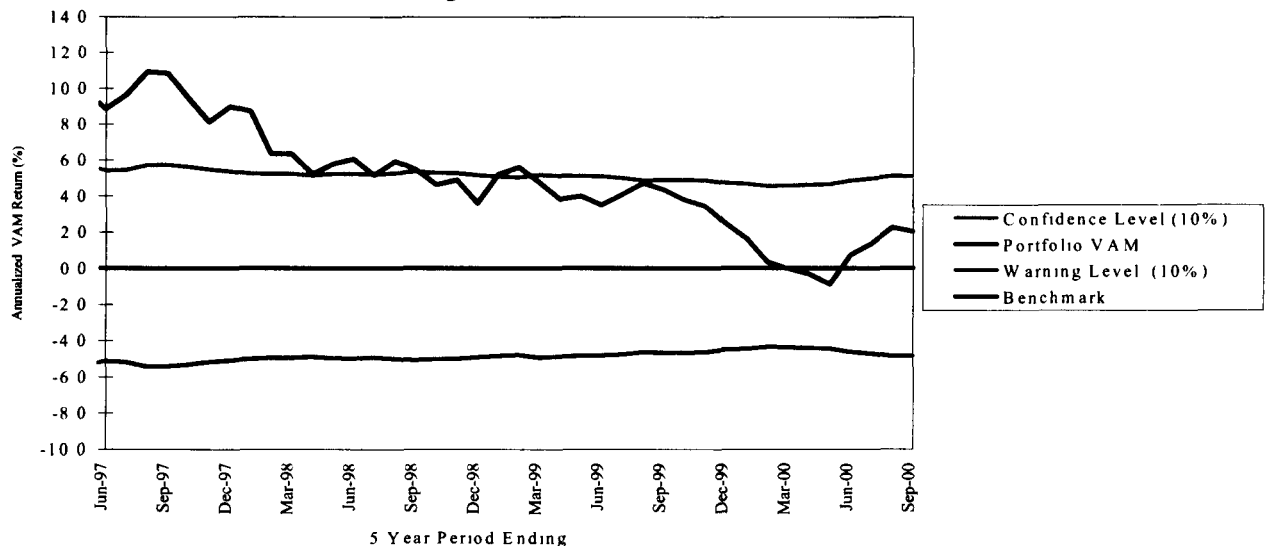
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.1%	-13.0%
Last 1 year	5.5	0.4
Last 2 years	23.9	25.4
Last 3 years	-6.1	-6.4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/96)	0.8	-2.7

Recommendations

Due to substantial administrative and accounting issues, committee recommends terminating the relationship with City of London.

CITY OF LONDON
Rolling Five Year VAM



Note: Shaded area includes performance prior to managing SBI account

GENESIS ASSET MANAGERS, LTD.
Periods Ending September, 2000

Portfolio Manager: Paul Greatbatch

Assets Under Management: \$220,897,545

Investment Philosophy

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

Staff Comments

During the quarter, the Emerging Markets Equity program was reviewed. Genesis was reinterviewed due to concerns regarding performance and issues related to its investment process.

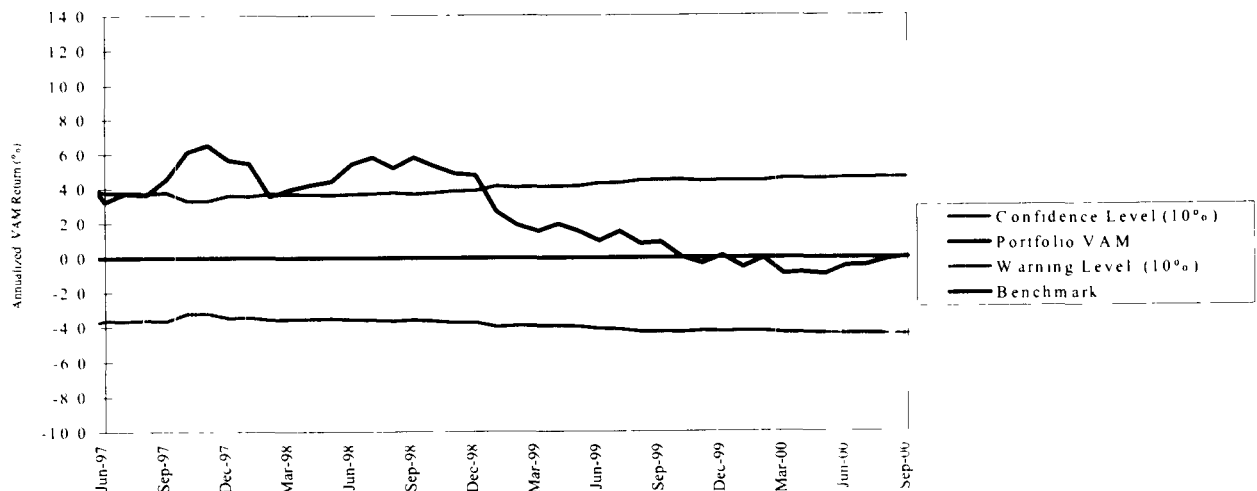
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-9.5%	-13.0%
Last 1 year	4.0	0.4
Last 2 years	14.7	25.4
Last 3 years	-12.0	-6.4
Last 4 years	-4.7	-3.3
Last 5 years	N/A	N/A
Since Inception (5/96)	-4.0	-3.8

Recommendations

Committee recommends terminating the relationship with Genesis due to a lack of confidence in their oversight of the portfolio

GENESIS ASSET MANAGERS
Rolling Five Year VAM



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

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

Portfolio Manager: Josephine Jimenez

Assets Under Management: \$242,424,291

Investment Philosophy

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

Staff Comments

No comments at this time.

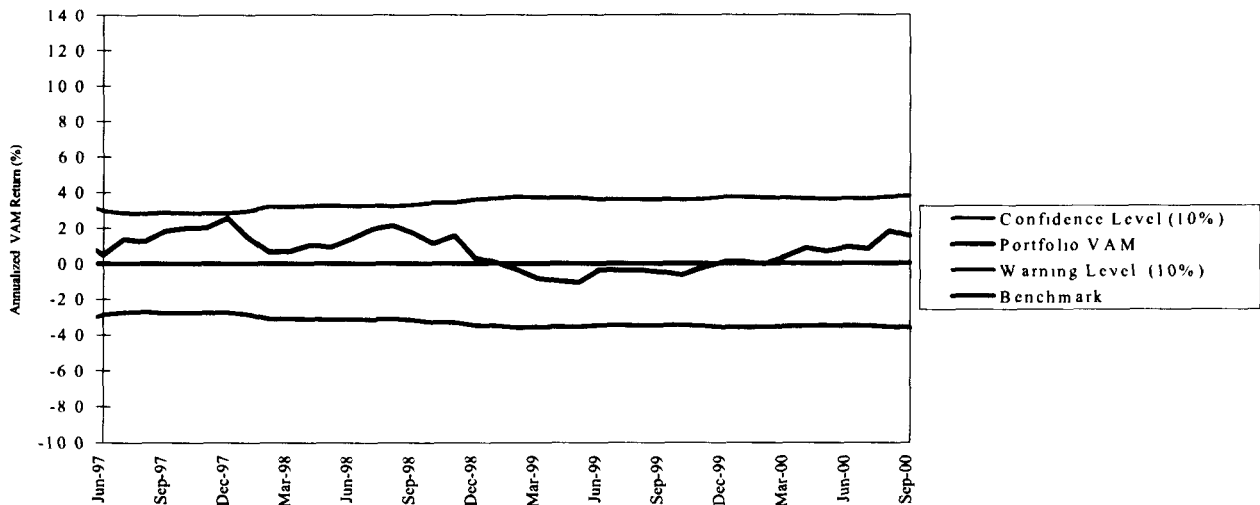
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-11.0%	-13.0%
Last 1 year	15.4	0.4
Last 2 years	25.0	25.4
Last 3 years	-9.1	-6.4
Last 4 years	-2.7	-3.3
Last 5 years	N/A	N/A
Since Inception (5/96)	-2.4	-3.8

Recommendations

No action required.

MONTGOMERY ASSET MANAGEMENT
Rolling Five Year VAM



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

STATE STREET GLOBAL ADVISORS
Periods Ending September, 2000

Portfolio Manager: Lynn Blake

Assets Under Management: \$1,863,407,703

Investment Philosophy

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

Staff Comments

No comments at this time

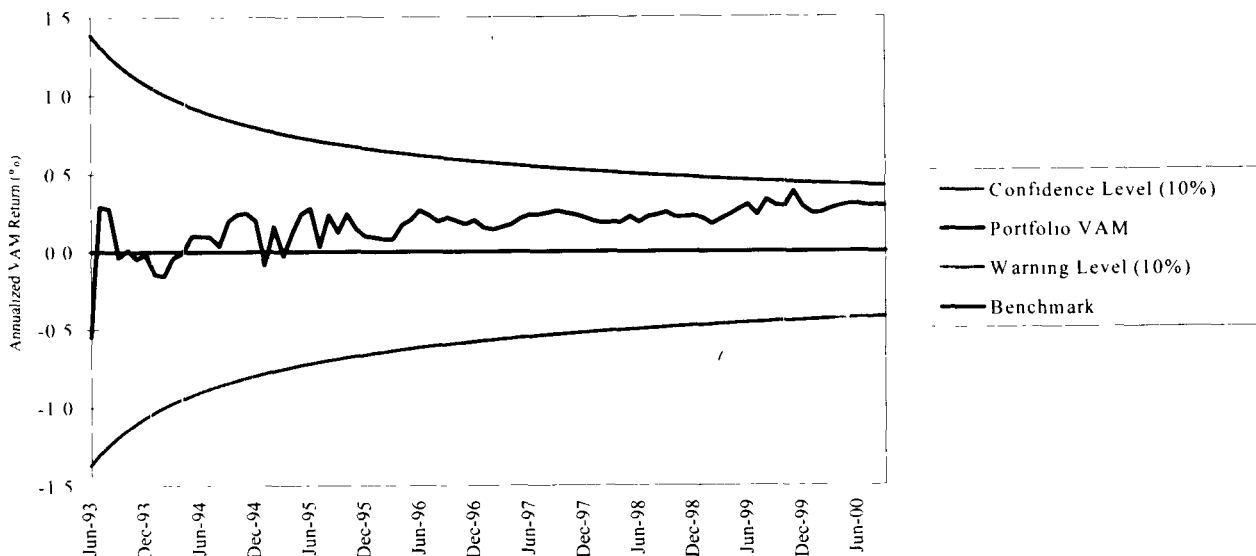
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-8.1%	-8.1%
Last 1 year	3.5	3.2
Last 2 years	16.6	16.2
Last 3 years	7.7	7.3
Last 4 years	8.9	8.5
Last 5 years	8.9	8.5
Since Inception (10/92)	10.7	10.4

Recommendation

No action required

STATE STREET GLOBAL ADVISORS
Cumulative Tracking



RECORD TREASURY MANAGEMENT
Periods Ending September, 2000

Portfolio Manager: Neil Record

Notional Portfolio Value: \$728,433,905

Investment Philosophy

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

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

Staff Comments

No comments at this time.

Quantitative Evaluation

	Index Fund + Record	Index Fund(1)
Last Quarter	-8.1%	-8.1%
Last 1 Year	3.6	3.5
Last 2 Years	16.5	16.6
Last 3 Years	8.0	7.7
Last 4 Years	10.5	8.9
Last 5 Years	N/A	N/A
Since Inception (12/95)	10.7	9.2

Recommendations

No action required.

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



STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Third Quarter, 2000

**COMBINED RETIREMENT FUNDS
NON - RETIREMENT MANAGERS
Periods Ending September, 2000**

	Quarter		1 Year		3 years		5 Years		Since Inception		Market Value (\$ millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	
GE Investment Management (1)	0.4	-1.0	14.2	13.3	16.4	16.4	21.8	21.7	24.1	24.1	\$64.96
Voyageur Asset Management (2)	2.5	2.8	5.8	6.6	5.6	5.9	6.2	6.4	7.3	7.1	257.63
Internal Stock Pool (3)	-1.0	-1.0	13.3	13.3	16.5	16.4	21.8	21.7	19.8	19.7	894.79
Internal Bond Pool - Income Share (4)	2.9	3.0	7.1	7.0	6.1	5.9	6.8	6.5	8.5	8.1	236.59
Internal Bond Pool - Trust (5)	2.9	3.0	7.1	7.0	6.2	5.9	6.8	6.5	8.0	7.5	734.79

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

**GE ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending September, 2000**

Portfolio Manager: Gene Bolton

Assets Under Management: \$64,958,698

**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

No comments at this time.

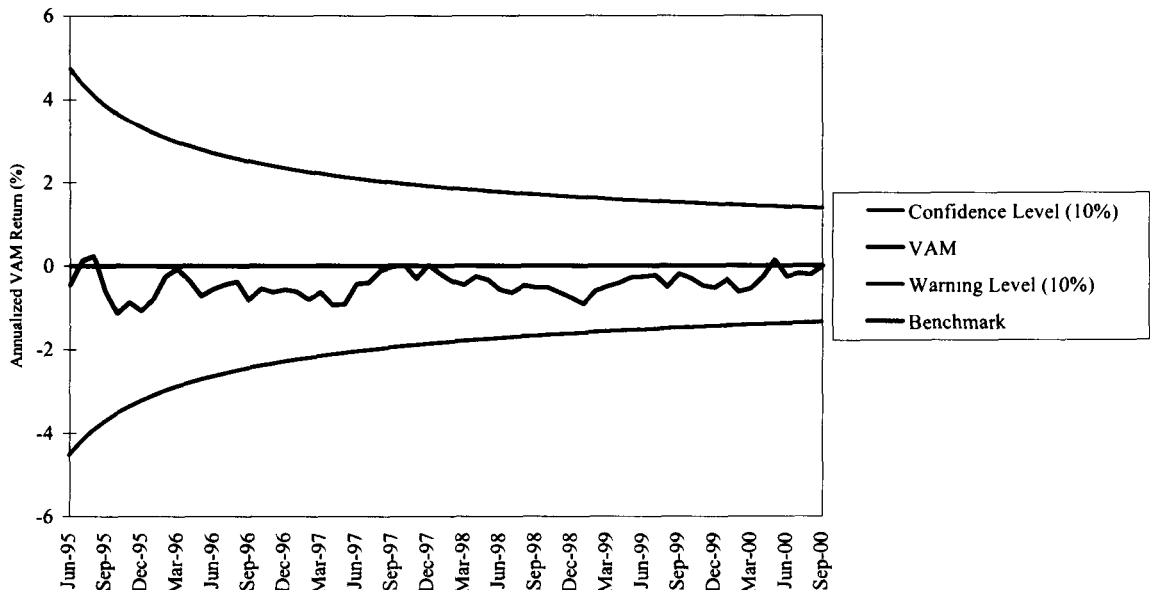
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.4%	-1.0%
Last 1 year	14.2	13.3
Last 2 years	21.4	20.3
Last 3 years	16.4	16.4
Last 4 years	22.4	22.0
Last 5 years	21.8	21.7
Since Inception (1/95)	24.1	24.1

Recommendation

No recommendation at this time.

**GE INVESTMENT MANAGEMENT
Cumulative Tracking**



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

Portfolio Manager: Melissa A. Uppgren

Assets Under Management: \$257,632,256

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

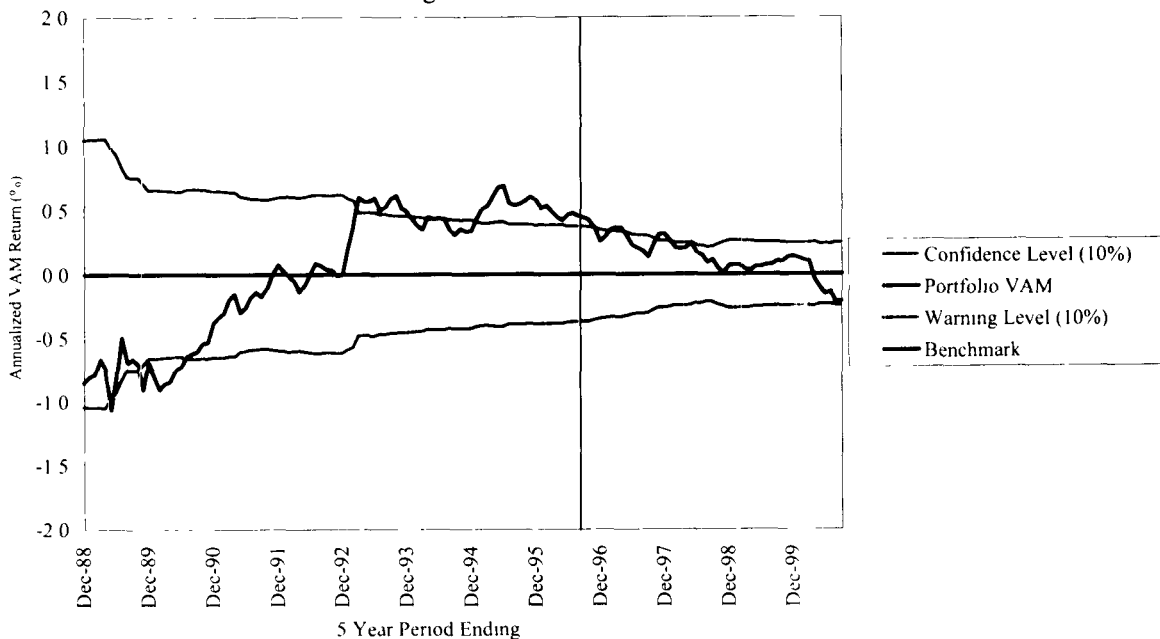
In October, Voyageur announced that they will be acquired by Daim Rauscher. The portfolio team will remain in place. Staff will monitor the ownership change, but at present believe that there will be no change to the SBI portfolio.

Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	2.5%	2.8%	No action required
Last 1 year	5.8	6.6	
Last 2 years	3.8	4.4	
Last 3 years	5.6	5.9	
Last 4 years	6.3	6.6	
Last 5 years	6.2	6.4	
Since Inception (7/91)	7.3	7.1	

Recommendation

VOYAGEUR ASSET MANAGEMENT
Rolling Five Year VAM



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

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

Portfolio Manager: Mike Messen

Assets Under Management: \$894,794,715

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

Staff Comments

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

No comments at this time.

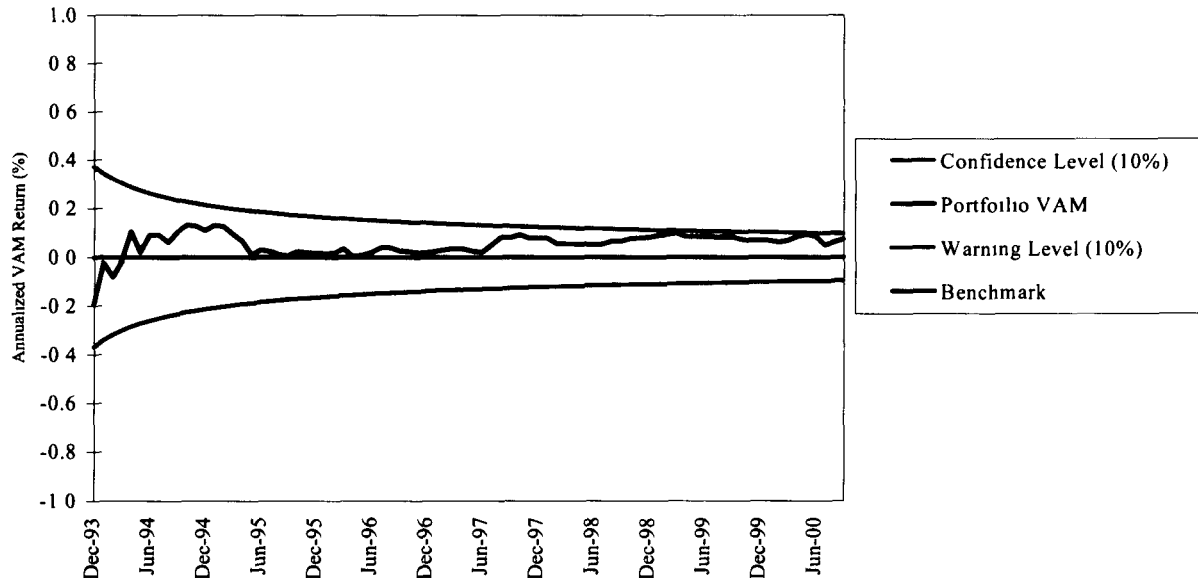
Quantitative Evaluation

Recommendation

	Actual	Benchmark
Last Quarter	-1.0%	-1.0%
Last 1 year	13.3	13.3
Last 2 years	20.4	20.3
Last 3 years	16.5	16.4
Last 4 years	22.2	22.0
Last 5 years	21.8	21.7
Since Inception (7/93)	19.8	19.7

No action required.

**INTERNAL STOCK POOL
Trust/Non-Retirement Assets
Cumulative Tracking**



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

Portfolio Manager: Mike Messen

Assets Under Management: \$236,590,954

Investment Philosophy
Income Share Account

Staff Comments

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

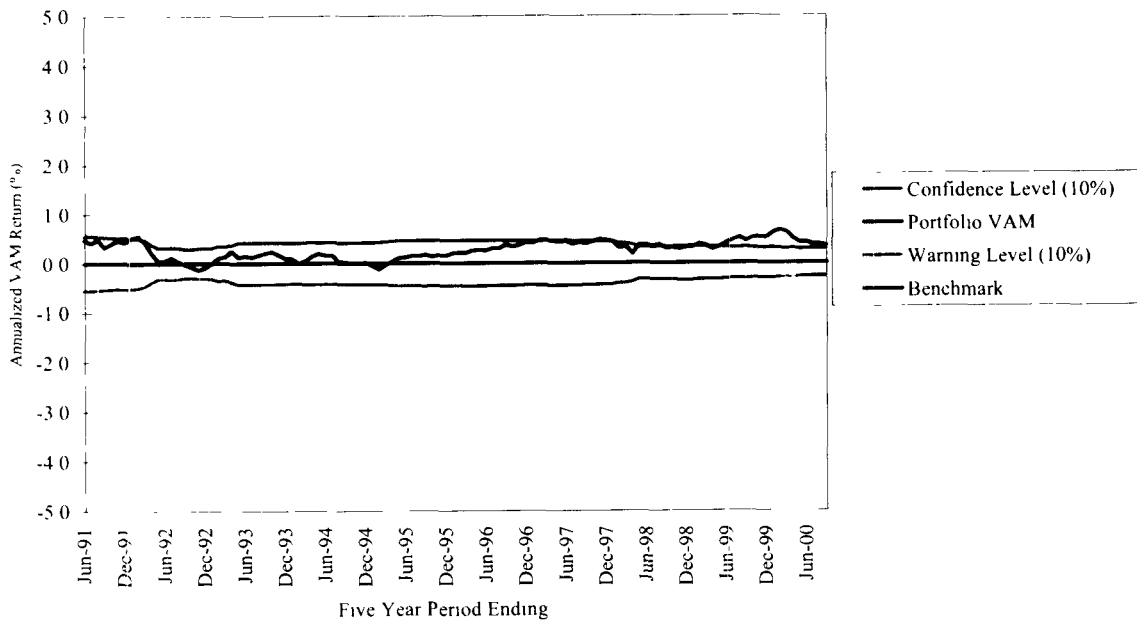
No comments at this time

Quantitative Evaluation

Recommendation

	Actual	Benchmark	
Last Quarter	2.9%	3.0%	No action required
Last 1 year	7.1	7.0	
Last 2 years	3.4	3.2	
Last 3 years	6.1	5.9	
Last 4 years	7.2	6.9	
Last 5 years	6.8	6.5	
Since Inception (7/86)	8.5	8.1	

INTERNAL BOND POOL - INCOME SHARE ACCOUNT
Rolling Five Year VAM



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

Portfolio Manager: Mike Messen

Assets Under Management: \$734,793,779

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

Staff Comments

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

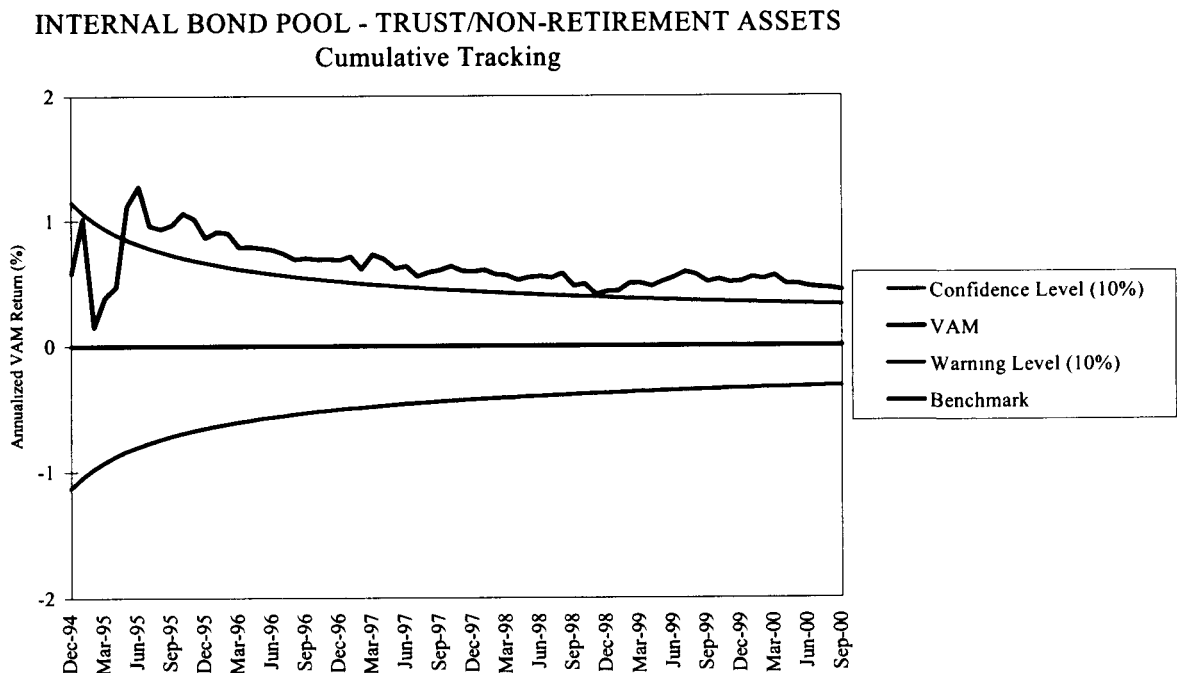
No comments at this time.

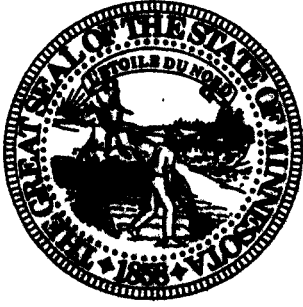
Quantitative Evaluation

Recommendation

	Actual	Benchmark	
Last Quarter	2.9%	3.0%	No action required.
Last 1 year	7.1	7.0	
Last 2 years	3.6	3.2	
Last 3 years	6.2	5.9	
Last 4 years	7.2	6.9	
Last 5 years	6.8	6.5	
Since Inception (7/94)*	8.0	7.5	

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





STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

Third Quarter, 2000

MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Periods Ending September, 2000

457 Mutual Funds	Quarter		1 Year		3 years		5 Years		Since Retention by SBI*		State's Participation In Fund (\$ millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	%	%	
Large Cap Equity:											
Janus Twenty (S&P 500)**	-2.1	-1.0	25.4	13.3	36.9	16.4	34.0	21.7	21.0	4.9	428.11
Small Cap Equity:											
T. Rowe Price Small-Cap Equity (Russell 2000)	5.0	1.1	31.6	23.4	9.5	6.0	16.0	12.4	22.0	12.3	226.84
Equity Index:											
Vanguard Institutional Index (S&P 500)	-0.9	-1.0	13.5	13.3	16.6	16.4	21.8	21.7	5.1	4.9	201.61
Balanced:											
INVESCO Total Return (60% S&P 500/40% Lehman Gov-Corp)	0.7	-1.9	-3.4	8.4	3.3	11.6	9.8	15.1	-9.3	3.6	85.49
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)	2.7	3.0	6.4	7.0	5.5	5.9	6.3	6.5	5.4	6.1	23.64
International:											
Fidelity Diversified International (MSCI EAFE-Free)	-3.2	-8.1	21.5	3.2	15.4	7.3	17.8	8.5	21.8	6.1	84.89

Numbers in black are returns since retention by SBI.

Numbers in blue include returns prior to retention by SBI.

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

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

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

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

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

Portfolio Manager: Scott W. Schoelzel

**State's Participation in Fund: \$428,110,361
Total Assets in Fund: \$33,208,175,093**

**Investment Philosophy
Janus Twenty**

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

Staff Comments

The concentration of the Janus Twenty Fund will periodically produce volatile returns, as the third quarter demonstrated. The one-year return remains ahead of the benchmark due to the significant technology outperformed in the 4th quarter of 1999 and 1st quarter of this year. Going forward, Janus expects volatility to persist in the coming months as investors wrestle with a potentially uncertain climate for corporate earnings.

Quantitative Evaluation

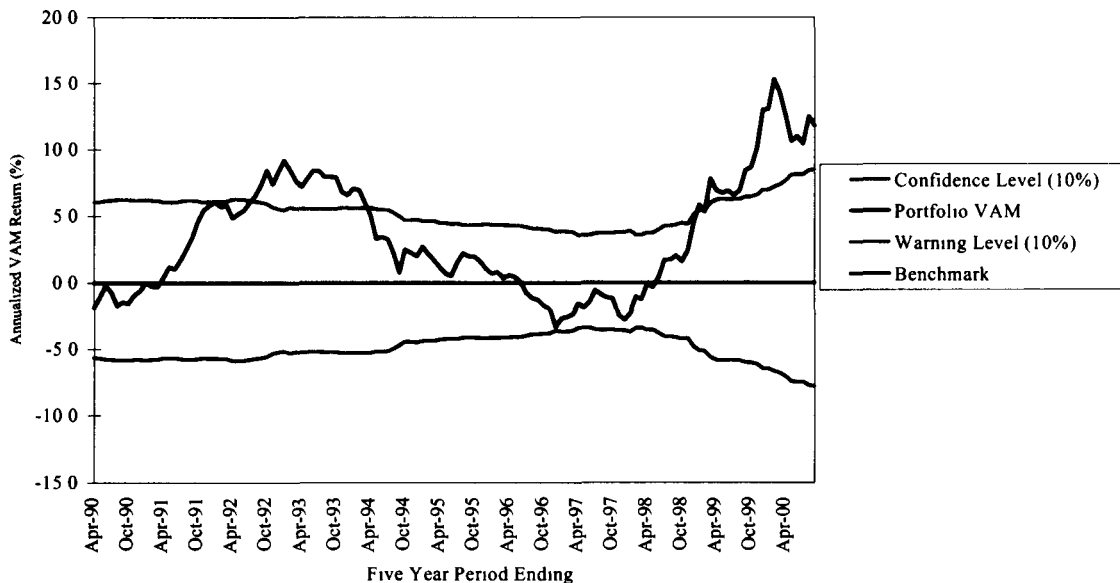
	Actual	Benchmark*
Last Quarter	-2.1%	-1.0%
Last 1 year	25.4	13.3
Last 2 years	39.2	20.3
Last 3 years	36.9	16.4
Last 4 years	37.3	22.1
Last 5 years	34.0	21.7
Since Retention by SBI (7/99)	21.0	5.1

Recommendation

No action required.

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

**LARGE CAP EQUITY - JANUS TWENTY
Rolling Five Year VAM**



Note Shaded area includes performance prior to managing SBI account

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

Portfolio Manager: Gregory A. McCrickard

**State's Participation in Fund: \$226,844,561
 Total Assets in Fund: \$2,293,282,000**

**Investment Philosophy
 T. Rowe Price Small Cap Equity Fund**

Staff Comments

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.

No comments at this time.

Quantitative Evaluation

Recommendation

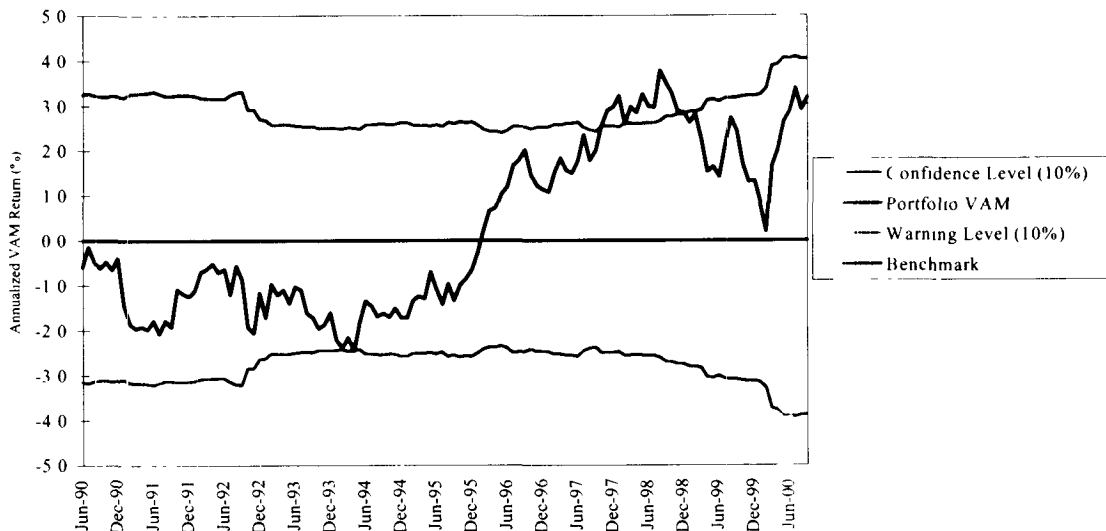
	Actual	Benchmark*	No action required
Last Quarter	5.0%	1.1%	
Last 1 year	31.6	23.4	
Last 2 years	23.9	21.2	
Last 3 years	9.5	6.0	
Last 4 years	14.4	12.2	
Last 5 years	16.0	12.4	
Since Retention by SBI (7/99)	22.0	12.3	

*Benchmark is the Russell 2000.

Numbers in black are returns since retention by SBI

Numbers in blue include returns prior to retention by SBI.

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



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

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

Portfolio Manager: George U. Sauter

**State's Participation in Fund: \$201,606,067
Total Assets in Fund: \$29,389,615,848**

**Investment Philosophy
Vanguard Institutional Index**

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

Staff Comments

No comments at this time.

Quantitative Evaluation

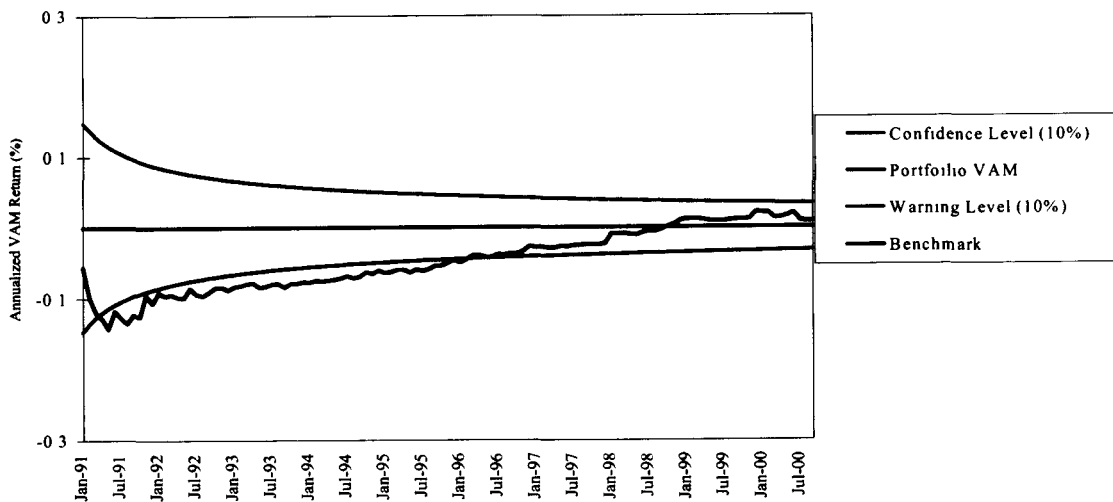
	Actual	Benchmark*
Last Quarter	-0.9%	-1.0%
Last 1 year	13.5	13.3
Last 2 years	20.5	20.3
Last 3 years	16.6	16.4
Last 4 years	22.2	22.1
Last 5 years	21.8	21.7
Since Retention by SBI (7/99)	5.1	5.1

Recommendation

No action required.

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

**EQUITY INDEX - VANGUARD INSTITUTIONAL INDEX
Cumulative Tracking**



Note: Shaded area includes performance prior to managing SBI account

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

Portfolio Manager: David Griffin

**State's Participation in Fund: \$85,490,408
Total Assets in Fund: \$2,002,150,000**

**Investment Philosophy
Invesco Total Return**

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

Staff Comments

INVESCO's third quarter outperformance was due to the overweight in financial stocks, which continued to enjoy strong performance. The relative underweight in technology has helped during the third quarter, but significant underperformance during the 4th quarter of 1999 and 1st quarter of 2000 continues to hinder results for the one-year period.

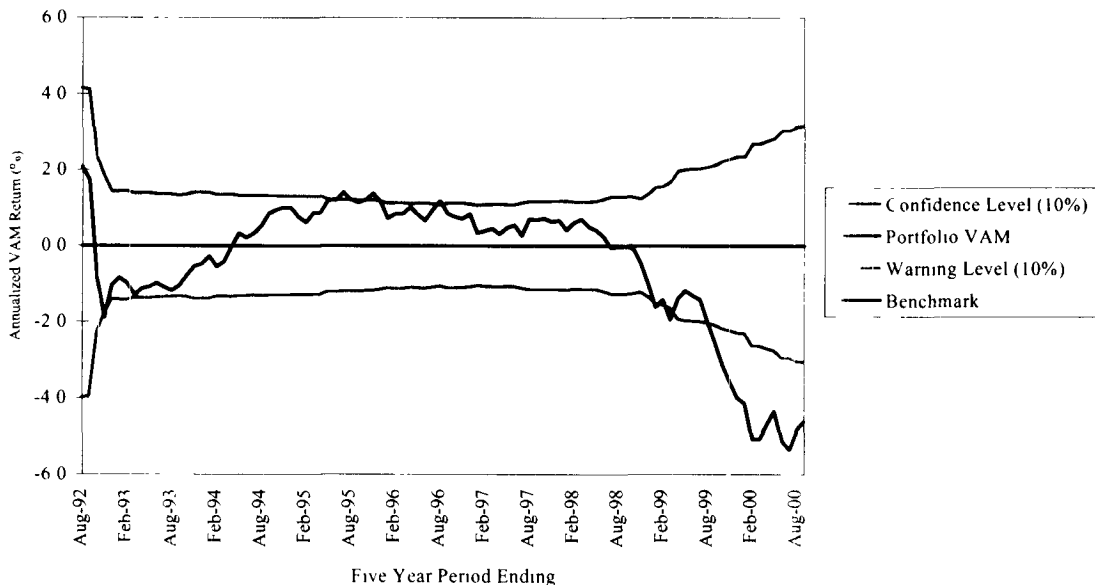
Quantitative Evaluation

	Actual	Benchmark*	
Last Quarter	0.7%	-1.9%	No action required
Last 1 year	-3.4	8.4	
Last 2 years	1.8	11.8	
Last 3 years	3.3	11.6	
Last 4 years	9.2	15.4	
Last 5 years	9.8	15.1	
Since Retention by SBI (7/99)	-9.3	3.6	

Recommendation

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

**BALANCED - INVESCO TOTAL RETURN
Rolling Five Year VAM**



Note: Shaded area includes performance prior to managing SBI account

**MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – DODGE & COX INCOME FUND
Periods Ending September, 2000**

Portfolio Manager: Dana Emery

**State's Participation in Fund: \$23,640,575
Total Assets in Fund: \$959,111,236**

**Investment Philosophy
Dodge & Cox Income Fund**

Staff Comments

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.

No comments at this time.

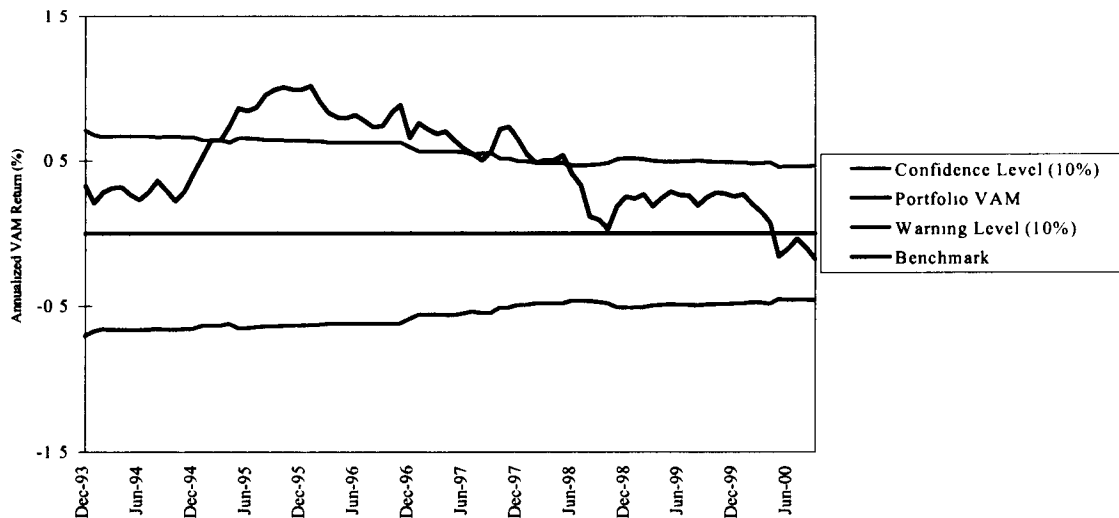
Quantitative Evaluation

Recommendation

	Actual	Benchmark*	
Last Quarter	2.7%	3.0%	No action required.
Last 1 year	6.4	7.0	
Last 2 years	3.1	3.2	
Last 3 years	5.5	5.9	
Last 4 years	6.7	6.9	
Last 5 years	6.3	6.5	
Since Retention By SBI (7/99)	5.4	6.1	

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

**BOND - DODGE & COX INCOME FUND
Rolling Five Year VAM**



Note Shaded area includes performance prior to managing SBI account

**MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending September, 2000**

Portfolio Manager: Gregory Fraser **State's Participation in Fund: \$84,890,737**
Total Assets in Fund: \$6,393,285,006

**Investment Philosophy
Fidelity Diversified International**

Staff Comments

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.

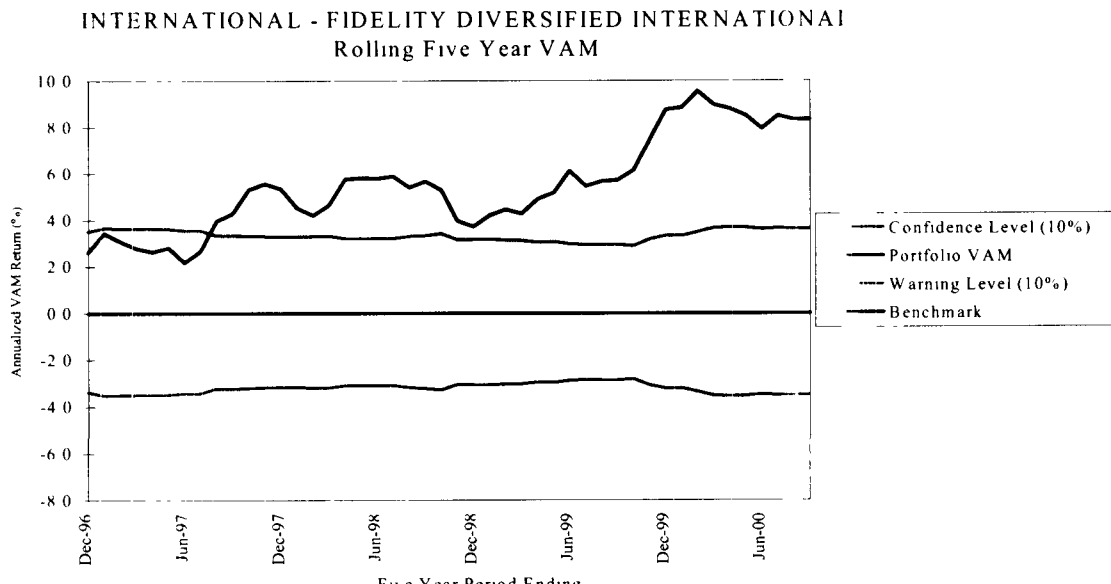
No comments at this time.

Quantitative Evaluation

Recommendation

	Actual	Benchmark*	
Last Quarter	-3.2%	-8.1%	No action required
Last 1 year	21.5	3.2	
Last 2 years	27.2	16.2	
Last 3 years	15.4	7.3	
Last 4 years	18.1	8.5	
Last 5 years	17.8	8.5	
Since Retention By SBI (7/99)	21.8	6.1	

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



**MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND**

Periods Ending September, 2000

Total Assets in MN Fixed Fund: \$106,357,819 *

***Includes \$10-12M in Liquidity Buffer Account**

Total Assets in 457 Plan: \$589,123,619 **

****Includes all assets in new and old fixed options**

Principal Life

Investment Philosophy

Ratings: Moody's Aa2
 S&P AA
 A.M. Best A+
 Duff & Phelps AA+

Assets in MN Fixed Fund: \$33,841,235

The manager invests in fixed income securities, commercial mortgages, mortgage-backed securities and residential whole loans, with lesser amounts invested in stock, cash equivalents and direct real estate. The manager relies upon in-house analysis and prefers investments that offer more call protection. The manager strongly prefers private placements to corporate bonds in the belief that private placements offer higher yields and superior protective covenants compared to public bonds. A portion of the fixed income portfolio is invested in US dollar-denominated foreign corporate bonds. Mortgage-backed bonds are actively managed to prices at or below par to reduce prepayment risk. Conservative underwriting standards, small loan sizes and an emphasis on industrial properties minimizes commercial loan risk.

Minnesota Life

Investment Philosophy

Ratings: Moody's Aa2
 S&P AA+
 A.M. Best A++
 Duff & Phelps AA+

Assets in MN Fixed Fund: \$30,824,828

Assets in Prior MN 457 Plan: \$207,039,914

Total Assets: \$237,864,742

Investment decisions support an asset/liability match for the company's many product lines. A conservative investment philosophy uses a number of active and passive investment strategies to manage general account assets and cash flow. Assets are primarily invested in a widely diversified portfolio of high quality fixed income investments that includes public and private corporate bonds, commercial mortgages, residential mortgage securities and other structured investment products, providing safety of principal and stable, predictable cash flow to meet liabilities and to invest in and produce consistent results in all phases of the economic cycle.

Great West Life

Investment Philosophy

Ratings: Moody's Aa2
 S&P AA+
 A.M. Best A++
 Duff & Phelps AAA

Assets in MN Fixed Fund: \$29,310,346

Assets in Prior MN 457 Plan: \$275,725,886

Total Assets: \$305,036,231

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 September, 2000**

Current Quarter

Dollar Amount of Bid: \$18,000,000

Blended Rate: 6.32%

Bid Rates:

Principal Life 7.12%

Minnesota Life 7.10%

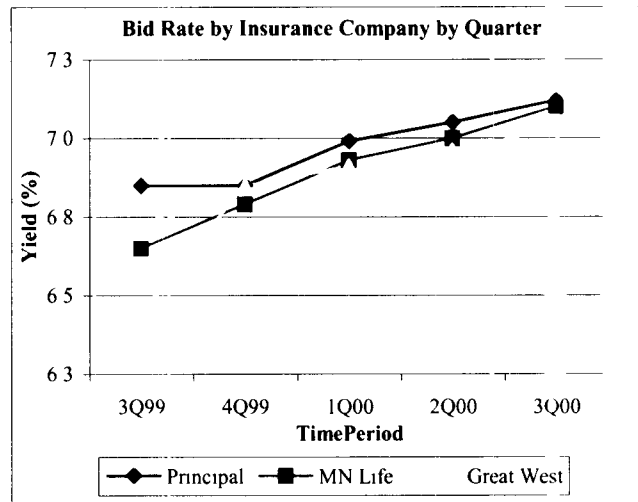
Great West Life 7.03%

Dollar Amount in existing

Minnesota Life portfolio: \$207,039,914

Rate on existing

Minnesota Life portfolio: 5.98 %



Staff Comments on Bid Rates

The spread in the bid rates by the three insurance companies on the new inflow of dollars into the MN Fixed Fund in the third quarter increased slightly from last quarter. The overall bid rates also increased from the prior quarter.

Percentage Allocation of Dollars by Quarter

Staff Comments

	4Q99	1Q00	2Q00	3Q00
Principal Life	33.3%	33.3%	33.3%	33.3%
Minnesota Life	33.3%	33.3%	33.3%	33.3%
Great West Life	33.3%	33.3%	33.3%	33.3%

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

Tab E

COMMITTEE REPORT

DATE: November 28, 2000

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met on November 20, 2000 to review the following information and action items:

- Review of current strategy.
- Investment for the Basic Retirement Fund with an existing private equity manager, Citicorp Venture Capital (CVC) Management LLC.
- Investment for the Post Retirement Fund with an existing private equity manager, TCW/Crescent Mezzanine III, LLC.
- Investment for the Post Retirement Fund with a new private equity manager, Prudential Capital Group, LP.
- Investment for the Post Retirement Fund with a new real estate manager, BlackRock Financial Management (Carbon Capital).
- Investment for the Post Retirement Fund with a new real estate manager, Capital Trust, Inc.
- Pre-approval, subject to final approval from a Committee comprised of the Alternative Investment Committee and a designee of each Board member, of follow-on investments with three existing private equity managers (KKR, Crescendo and BLUM) and one existing resource manager (First Reserve), for the Basic Retirement Fund.

The Board/IAC action is required on the last six items.

INFORMATION ITEMS:

1) Review of Current Strategy.

To increase overall portfolio diversification, 15% of the Basic Retirement Funds and 5% of the Post Retirement Fund are allocated to alternative investments. Alternative investments include real estate, private equity and resource investments where Minnesota State Board of Investment (SBI) participation is limited to commingled funds or other pooled vehicles. Charts summarizing the Board's current commitments are attached (see **Attachments A and B**).

Basic Funds

- The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified Real Estate Investment Trusts (REITs), open-end commingled funds and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified, more focused (specialty) commingled funds and REITs. Currently, the SBI has an investment at market value of \$799 million in eighteen commingled real estate funds and REITs.
- The private equity investment strategy is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location. Currently, the SBI has an investment at market value of \$1.4 billion in forty-five commingled private equity funds.
- The strategy for resource investment is to establish and maintain a portfolio of resource investment vehicles that are specifically designed for institutional investors to provide an inflation hedge and additional diversification. Individual resource investments will include proved producing oil and gas properties, royalties and other investments that are diversified geographically and by type. Currently, the SBI has an investment at market value of \$221 million in twelve commingled oil and gas funds.

Post Fund

- The Post Fund assets allocated to alternative investments will be invested separately from the Basic Funds' alternative investments to assure that returns are accounted for appropriately. Since the Post Fund invests the retired employees' pension assets, an allocation to yield oriented alternative investments will be emphasized. The Basic Retirement Funds' invest the active employees' pension assets and have less concern regarding the current yield for their alternative

investments. The SBI has an investment at market value of \$436 million in twenty yield oriented funds for the Post Fund.

ACTION ITEMS:

- 1) Investment for the Basic Retirement Fund with an existing private equity manager, Citicorp Venture Capital (CVC) Management, in Citicorp Venture Capital Equity Partners, L.P.**

CVC Management is seeking investors for a new \$3 billion private equity fund, Citicorp Venture Capital Equity Partners, L.P. This Fund is the first private equity fund managed by CVC Management. Prior to this fund, CVC Management invested only for its own account. Citicorp Venture Capital Equity Partners, L.P. will focus, like in prior investments for its own account, on assembling a diverse portfolio of venture capital and private equity investments.

More information on Citicorp Venture Capital Equity Partners, L.P. is included as **Attachment C**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million or 20%, whichever is less, in Citicorp Venture Capital Equity Partners, L.P. This commitment will be allocated to the Basic Retirement Fund.

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by CVC Management upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on CVC Management or reduction or termination of the commitment.

- 2) Investment for the Post Retirement Fund with a new real estate manager, Capital Trust, Inc., in CT Mezzanine Partners II, L.P.**

Capital Trust, Inc. is seeking investors for a new \$500 million private equity fund, CT Mezzanine Partners II, L.P. This fund, like the prior fund, will specialize in real estate mezzanine investments.

More information on CT Mezzanine Partners II, 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 CT Mezzanine Partners II, L.P. This commitment will be allocated to the Post Retirement Fund.

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Capital Trust, Inc. upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Capital Trust, Inc. or reduction or termination of the commitment.

- 3) Investment for the Post Retirement Fund with a new real estate manager, BlackRock Financial Management, in Carbon Capital.**

BlackRock Financial Management is seeking investors for a new \$250 million real estate fund, Carbon Capital. This Fund is the first real estate mezzanine fund managed by BlackRock Financial Management. Prior to this fund, BlackRock Financial Management invested only for its own and other affiliate accounts. This fund, like for other managed accounts, will specialize in real estate mezzanine investments.

More information on Carbon Capital 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 \$50 million or 20%, whichever is less, in Carbon Capital. This commitment will be allocated to the Post Retirement Fund.

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by BlackRock Financial Management, Inc. upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on BlackRock Financial Management, Inc. or reduction or termination of the commitment.

- 4) **Investment for the Post Retirement Fund with an existing private equity manager, TCW Crescent Mezzanine, in TCW/ Crescent Mezzanine Partners III, L.P.**

TCW Crescent Mezzanine is seeking investors for a new \$800 million private equity fund, TCW/ Crescent Mezzanine Partners III, L.P. This fund, like the prior funds, will specialize in mezzanine investments.

More information on TCW/ Crescent Mezzanine Partners III, L.P. is included as **Attachment F**.

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 TCW/ Crescent Mezzanine Partners III, L.P. This commitment will be allocated to the Post Retirement Fund.

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by TCW Crescent Mezzanine upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on TCW Crescent Mezzanine or reduction or termination of the commitment.

- 5) **Investment for the Post Retirement Fund with a new private equity manager, Prudential Capital Group, in Prudential Capital Partners, L.P.**

Prudential Capital Group is seeking investors for a new \$500 million private equity fund, Prudential Capital Partners, L.P. This fund, like the prior fund, will specialize in mezzanine investments.

More information on Prudential Capital Partners, L.P. is included as **Attachment G**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million or 20%, whichever is less, in Prudential Capital Partners, L.P. This commitment will be allocated to the Post Retirement Fund.

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Prudential Capital Group upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Prudential Capital Group or reduction or termination of the commitment.

- 6) Pre-approval, subject to final approval from a Committee comprised of the Alternative Investment Committee and a designee of each Board member, of follow-on investments with three existing private equity managers (KKR, Crescendo and BLUM) and one existing resource manager (First Reserve), for the Basic Retirement Fund.

Staff and a Committee comprised of the Alternative Investment Committee and a designee of each Board member want the flexibility to review and execute investments with these existing managers potentially before the next quarterly SBI meeting in March 2001.

More information on the fund offerings for KKR, Crescendo, BLUM and First Reserve are included as Attachment H, I, J and K.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with final approval from the Committee, which will be comprised of members of the IAC Alternative Investment Committee and a designee of each Board member, and assistance from the SBI's legal counsel, to negotiate and execute commitments of:

- \$200 million or 20%, whichever is less, additional investment for the Basic Retirement Fund with KKR, in KKR Millennium Fund.
- \$100 million or 20%, whichever is less, additional investment for the Basic Retirement Fund with Crescendo, in Crescendo V.
- \$50 million or 20%, whichever is less, additional investment for the Basic Retirement Fund with BLUM, in BLUM Strategic Partners II.
- \$100 million or 20%, whichever is less, additional investment for the Basic Retirement Fund with First Reserve, in First Reserve IX.

Approval by the SBI of these potential commitments 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 KKR, Crescendo, BLUM and First Reserve upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on KKR, Crescendo, BLUM and First Reserve or reduction or termination of the commitments.

ATTACHMENT A

Minnesota State Board of Investment

Alternative Investments

Basic Retirement Funds

September 30, 2000

Market Value of Basic Retirement Funds	\$21,013,727,270
Amount Available for Investment	\$730,354,937

	Current Level	Target Level	Difference
Market Value	\$2,421,704,154	\$3,152,059,091	\$730,354,937
MV +Unfunded	\$3,447,328,595	\$4,202,745,454	\$755,416,859

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	\$799,360,991	\$22,617,456	\$821,978,447
Private Equity	\$1,401,152,092	\$921,131,793	\$2,322,283,885
Resource	\$221,191,071	\$81,875,192	\$303,066,263
Total	\$2,421,704,154	\$1,025,624,441	\$3,447,328,595

Minnesota State Board of Investment
Alternative Investments
Post Retirement Funds
September 30, 2000

Market Value of Post Retirement Funds	\$20,806,041,080
Amount Available for Investment	\$604,482,704

	Current Level	Target Level	Difference
Market Value	\$435,819,350	\$1,040,302,054	\$604,482,704
MV +Unfunded	\$946,596,907	\$2,080,604,108	\$1,134,007,201

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	\$76,076,370	\$5,239,097	\$81,315,467
Private Equity	\$304,657,791	\$371,470,544	\$676,128,335
Resource	\$55,085,189	\$134,067,916	\$189,153,105
Total	\$435,819,350	\$510,777,557	\$946,596,907

ATTACHMENT B

State of Minnesota
- Alternative Investments -

As of September 30, 2000

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<u>Real Estate-Basic</u>							
Aetna	42,376,529	42,376,529	138,604,598	0	0	7.27	18.42
AEW V	15,000,000	15,000,000	337,357	11,169,287	0	-2.82	12.79
Colony Capital							
Colony Investors II	40,000,000	38,682,764	14,236,696	26,218,128	1,317,236	2.10	5.50
Colony Investors III	100,000,000	89,055,379	75,441,767	14,968,455	10,944,621	-0.50	2.75
Equity Office Properties Trust	140,388,854	140,388,854	264,870,126	35,276,674	0	18.57	8.85
First Asset Realty Fund	916,185	916,185	119,074	962,130	0	4.89	6.42
Heitman							
Heitman Advisory Fund I	20,000,000	20,000,000	2,275,233	20,190,280	0	1.49	16.14
Heitman Advisory Fund II	30,000,000	30,000,000	3,405,953	39,714,766	0	3.92	14.86
Heitman Advisory Fund III	20,000,000	20,000,000	75,050	22,174,237	0	1.31	13.69
Heitman Advisory Fund V	20,000,000	20,000,000	12,251,636	20,246,642	0	8.33	8.82
Lasalle Income Parking Fund	15,000,000	14,644,401	9,776,639	13,829,610	355,599	9.46	9.03
Land Lease Real Estate Investments	40,000,000	40,000,000	124,060,566	2,197,102	0	6.53	18.97
RREEF USA Fund III	75,000,000	75,000,000	490,809	121,039,987	0	4.75	16.39
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	40,000,000	52,933,471	20,877,360	0	13.54	6.33
Realty Associates Fund IV	50,000,000	50,000,000	57,966,181	10,958,185	0	12.77	3.66
Realty Associates Fund V Corporation	50,000,000	40,000,000	40,611,000	2,410,643	10,000,000	7.57	1.35
TCW							
TCW Realty Fund III	40,000,000	40,000,000	85,619	48,650,849	0	2.05	15.16
TCW Realty Fund IV	30,000,000	30,000,000	1,811,421	27,223,733	0	-0.35	13.91
Fund in Liquidation (AEW III)	<u>20,000,000</u>	<u>20,000,000</u>	<u>7,796</u>	<u>24,134,114</u>	0	1.75	15.07
Real Estate - Basic Totals	788,681,568	766,064,112	799,360,991	462,242,183	22,617,456		
<u>Real Estate-Post</u>							
Colony Capital	40,000,000	38,682,764	14,236,696	26,218,128	1,317,236	2.10	5.50
Westmark Realty Advisors							
Westmark Coml MTG Fund II	13,500,000	13,397,500	11,063,807	7,327,534	102,500	9.30	5.18
Westmark Coml MTG Fund III	21,500,000	21,275,052	19,995,163	6,067,967	224,948	7.34	3.83
Westmark Coml MTG Fund IV	14,300,000	14,300,000	13,531,735	2,111,136	0	5.59	2.75
Westmark Coml MTG Fund V	<u>21,000,000</u>	<u>17,405,586</u>	<u>17,248,969</u>	<u>791,186</u>	<u>3,594,414</u>	8.25	1.17
Real Estate - Post Totals	110,300,000	105,060,903	76,076,370	42,515,952	5,239,097		
Real Estate Totals	898,981,568	871,125,015	875,437,361	504,758,135	27,856,553		

State of Minnesota
- Alternative Investments -

As of September 30, 2000

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Private Equity-Basic							
Bank Fund							
<i>Banc Fund III</i>	20,000,000	20,000,000	13,012,574	26,935,520	0	14 60	7 93
<i>Banc Fund IV</i>	25,000,000	25,000,000	20,992,325	6,531,028	0	3 30	4 62
<i>Banc Fund V</i>	48,000,000	26,400,000	20,964,821	527,419	21,600,000	-16 15	2 21
Blackstone Capital Partners II	50,000,000	50,000,000	32,960,867	59,282,609	0	40 46	6 86
Brinson Partners							
<i>Bnnson Partners I</i>	5,000,000	5,000,000	606,080	9,052,616	0	11 42	12 39
<i>Bnnson Partners II</i>	20,000,000	19,379,998	4,207,811	36,011,227	620,002	26 45	9 84
Churchill Capital Partners II	20,000,000	20,000,000	4,874,733	22,750,245	0	11 71	7 93
Contrarian Capital Fund II	37,000,000	37,000,000	35,015,896	12,446	0	-2 28	3 33
Coral Partners							
<i>Coral Partners Fund I</i>	7,011,923	7,011,923	2,662,398	6,111,237	0	3 18	14 28
<i>Coral Partners Fund II</i>	10,000,000	8,069,315	7,616,570	28,272,175	1,930,685	24 89	10 18
<i>Coral Partners Fund IV</i>	15,000,000	15,000,000	15,666,209	9,641,107	0	17 99	6 20
<i>Coral Partners Fund V</i>	15,000,000	10,535,815	13,640,797	152,481	4,464,185	28 64	2 29
Crescendo							
<i>Crescendo II</i>	15,000,000	14,994,773	11,877,213	20,341,812	5,227	46 85	3 75
<i>Crescendo III</i>	25,000,000	22,500,000	31,095,262	141,808	2,500,000	34 42	1 90
<i>Crescendo IV</i>	100,000,000	32,541,174	32,015,048	0	67,458,826	-3 09	0 56
DLJ Merchant Banking Partners III	125,000,000	11,517,457	11,517,457	0	113,482,543	-6 13	0 00
DSV Partners IV	10,000,000	10,000,000	988,361	27,382,838	0	9 47	15 47
First Century Partners III	10,000,000	10,000,000	3,158,334	14,103,791	0	9 09	15 79
Fox Paine Capital Fund							
<i>Fox Paine Capital Fund</i>	40,000,000	34,380,654	37,963,668	0	5,619,346	7 49	2 44
<i>Fox Paine Capital Fund II</i>	50,000,000	782,544	782,544	0	49,217,456	0 00	0 25
Golder, Thoma, Cressey, Rauner							
<i>Golder, Thoma, Cressey Fund III</i>	14,000,000	14,000,000	5,228,414	55,261,712	0	30 45	12 92
<i>Golder, Thoma, Cressey & Rauner Fund IV</i>	20,000,000	19,750,000	11,786,659	33,351,637	250,000	29 17	6 66
<i>Golder, Thoma, Cressey & Rauner Fund V</i>	30,000,000	30,000,000	36,535,156	8,285,224	0	17 80	4 25
GTCR Golder Rauner							
<i>GTCR VI</i>	90,000,000	75,637,778	55,815,620	49,263,209	14,362,222	39 37	2 25
<i>GTCR Fund VII</i>	175,000,000	43,327,603	42,222,316	0	131,672,397	N/A	0 67
GS Capital Partners 2000	50,000,000	1,167,807	1,167,807	0	48,832,193	N/A	0 08
Hellman & Friedman							
<i>Hellman & Friedman Capital Partners III</i>	40,000,000	32,432,434	21,285,835	46,134,127	7,567,566	38 37	6 03
<i>Hellman & Friedman Capital Partners IV</i>	150,000,000	32,031,564	10,740,714	34,136,841	117,968,436	N/A	0 75
Kohlberg Kravis Roberts							
<i>KKR 1986 Fund</i>	18,365,339	18,365,339	11,698,318	202,769,632	0	28 20	14 46
<i>KKR 1987 Fund</i>	145,950,000	145,373,652	213,233,706	255,536,256	576,348	11 63	12 85
<i>KKR 1993 Fund</i>	150,000,000	150,000,000	69,288,472	260,983,048	0	21 08	6 78
<i>KKR 1996 Fund</i>	200,000,000	169,629,675	161,824,887	48,664,662	30,370,325	12 95	4 08
GHJM Marathon Fund IV	40,000,000	14,870,000	14,740,914	0	25,130,000	-13 09	1 46
Piper Jaffrey Healthcare							
<i>Piper Jaffray Healthcare Fund II</i>	10,000,000	8,900,000	8,233,616	658,415	1,100,000	-0 04	3 58
<i>Piper Jaffray Healthcare Fund III</i>	20,000,000	10,231,115	9,622,139	197,173	9,768,885	-6 42	1 69
RCBA Strategic Partners	50,000,000	45,750,400	41,529,816	9,150,072	4,249,600	9 23	1 77
Summit Partners							
<i>Summit Ventures II</i>	30,000,000	28,500,000	2,643,774	70,684,540	1,500,000	28 81	12 39
<i>Summit Ventures V</i>	25,000,000	17,500,000	20,761,255	3,753,281	7,500,000	27 40	2 50
T. Rowe Price	458,151,770	458,151,770	31,465,897	470,610,761	0	18 88	N/A
Thoma Cressey							
<i>Thoma Cressey Fund VI</i>	35,000,000	25,900,000	34,958,370	0	9,100,000	43 11	2 11
<i>Thoma Cressey Fund VII</i>	50,000,000	0	0	0	50,000,000	N/A	0 10
Vestar Capital Partners IV	55,000,000	4,964,449	4,997,547	4,281	50,035,551	N/A	0 79
Warburg Pincus							
<i>Warburg, Pincus Equity Partners</i>	100,000,000	68,000,000	66,834,432	5,570,038	32,000,000	7 54	2 26
<i>Warburg, Pincus Ventures</i>	50,000,000	50,000,000	82,126,179	153,407,919	0	56 31	5 75
Welsh, Carson, Anderson & Stowe							
<i>WCAS Fund VIII</i>	100,000,000	89,000,000	116,631,474	0	11,000,000	28 59	2 19
<i>WCAS Fund IX</i>	125,000,000	23,750,000	23,750,000	0	101,250,000	N/A	0 26
Funds in Liquidation (Matrix II & III, Summit I, Zell/Chilmark)	65,000,000	65,000,000	409,813	222,005,058	0	N/A	N/A
Private Equity - Basic Totals	2,943,479,032	2,022,347,239	1,401,152,092	2,197,678,244	921,131,793		

State of Minnesota
- Alternative Investments -

As of September 30, 2000

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<u>Private Equity-Post</u>							
Citicorp Mezzanine							
<i>Citicorp Mezzanine II</i>	40,000,000	40,000,000	29,911,138	24,250,916	0	15.47	5 75
<i>Citicorp Mezzanine III</i>	100,000,000	22,197,828	22,572,239	165,924	77,802,172	N/A	0 91
DLJ Investment Partners II	50,000,000	18,893,037	18,738,351	53,269	31,106,963	N/A	0 75
GS Mezzanine Partners II	100,000,000	12,000,000	12,659,100	0	88,000,000	N/A	0 58
GTCR Capital Partners	80,000,000	47,600,000	47,940,578	1,773,337	32,400,000	N/A	0 88
KB Mezzanine Partners Fund II	25,000,000	24,999,999	21,726,407	3,729,021	1	0 44	5 00
Summit Partners							
<i>Summit Sub. Debt Fund I</i>	20,000,000	18,000,000	824,974	30,380,469	2,000,000	30 84	6 50
<i>Summit Sub Debt Fund II</i>	45,000,000	22,500,000	12,154,728	53,853,952	22,500,000	70 95	3 16
T. Rowe Price	52,990,378	52,990,378	5,215,403	50,468,724	0	27 24	N/A
TCW/Crescent Mezzanine							
<i>TCW Crescent Mezzanine Partners</i>	40,000,000	39,488,566	26,680,906	19,892,788	511,434	7.93	4 50
<i>TCW Crescent Mezzanine Partners II</i>	100,000,000	87,727,286	84,357,110	11,875,328	12,272,714	11.85	1.85
William Blair Mezzanine III	60,000,000	21,831,600	21,876,857	0	38,168,400	N/A	0 75
Windjammer Mezzanine & Equity Fund II	<u>66,708,861</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>66,708,861</u>	N/A	0 50
Private Equity - Post Totals	779,699,239	408,228,695	304,657,791	196,443,728	371,470,544		
Private Equity Totals	3,723,178,271	2,430,575,934	1,705,809,883	2,394,121,972	1,292,602,337		

**State of Minnesota
- Alternative Investments -**

As of September 30, 2000

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<u>Resource-Basic</u>							
Apache Corp	30,000,000	30,000,000	3,991,410	43,609,553	0	11 16	13 75
First Reserve							
First Reserve I	15,000,000	15,000,000	1,142,534	14,375,857	0	0 18	19 00
First Reserve II	7,000,000	7,000,000	1,523,752	14,708,388	0	6 54	17 65
First Reserve VII	40,000,000	40,000,000	45,396,389	16,696,014	0	21 35	4 25
First Reserve VIII	100,000,000	56,259,693	78,753,161	4,532,020	43,740,307	38 12	2 42
Morgan Oil & Gas	15,000,000	15,000,000	3,758,588	20,906,987	0	6 82	12 10
Simmons							
Simmons - SCF Fund II	17,000,000	14,847,529	30,399,401	6,662,864	2,152,471	13 87	9 15
Simmons - SCF Fund III	25,000,000	19,612,587	33,263,121	10,226,217	5,387,414	22 77	5 25
Simmons - SCF Fund IV	50,000,000	19,405,000	22,250,802	0	30,595,000	4 25	2 50
T. Rowe Price	608,962	608,962	246,875	395,571	0	11 01	N/A
Fund in Liquidation (First Reserve V)	<u>16,800,000</u>	<u>16,800,000</u>	<u>465,040</u>	<u>50,261,377</u>	0	16 31	10 42
Resource - Basic Totals	316,408,962	234,533,770	221,191,071	182,374,847	81,875,192		
<u>Resource-Post</u>							
Merit Energy Partners							
Merit Energy Partners B L P	24,000,000	20,179,685	26,256,779	3,034,142	3,820,315	15 67	4 25
Merit Energy Partners C	50,000,000	19,752,399	28,828,410	684,814	30,247,601	32 14	1 92
Merit Energy Partners D	<u>100,000,000</u>	0	0	0	<u>100,000,000</u>	N/A	N/A
Resource - Post Totals	174,000,000	39,932,084	55,085,189	3,718,956	134,067,916		
Resource Totals	490,408,962	274,465,854	276,276,259	186,093,803	215,943,108		

ATTACHMENT C

PRIVATE EQUITY MANAGER SUMMARY PROFILE – BASIC FUND

I. Background Data

Name of Fund:	Citicorp Venture Capital Equity Partners, L.P.
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	\$3 billion
Fund Manager:	CVC Management LLC
Manager Contact:	David Thomas 399 Park Ave., 14 th Floor New York NY 10043 (212) 559-1125

II. Organization and Staff

Citicorp Venture Capital, Ltd. (together with certain affiliates, "CVC") is forming Citicorp Venture Capital Equity Partners, L.P. (the "Fund" or the "Partnership") to make private equity investments in a diversified, global portfolio of companies. The CVC team of 16 professionals (the "CVC Investment Professionals") has over 150 years of collective investment experience, and half of the CVC team has worked together at CVC for over a decade.

CVC was established in 1968 as an affiliate of Citicorp. From its inception, the firm focused on partnering with exceptional management teams to acquire significant equity positions in quality businesses. William Comfort became Chairman of CVC in 1979 and shortly thereafter recruited David Thomas. Thomas McWilliams, Michael Delaney and Paul Schorr joined the firm in 1983, 1989 and 1996, respectively. These five senior partners, along with Marc Weill, the Chief Executive Officer of Citigroup Investments, Inc. and the Chairman of Travelers Asset Management International Corporation, L.L.C., will comprise the investment committee of the Fund (the "Investment Committee").

III. Investment Strategy

Citicorp Venture Capital Equity Partners, L.P. is expected to make private equity investments in a diversified, global portfolio of companies. Investments will be predominantly control positions in companies located primarily in the United States and Western Europe.

CVC's investment approach is centered around the principle of capitalizing on change in industries and businesses. CVC concentrates on industries and businesses facing pressure to change, such as non-core divisions of large corporations and family businesses facing succession issues. CVC implements its investment approach through the following specific strategies:

- **Industry Specialization.** CVC identifies industries undergoing fundamental change and seeks to capitalize on that change to build value. The firm has developed industry expertise in several sectors, including technology and telecommunications, automotive supply, semiconductors, basic industries/chemicals, outsourced business-to-business (“B2B”) industrial services, and certain branded consumer products. CVC believes that the technology and telecommunications sector is an area of significant opportunity and plans to focus on this sector increasingly through the Fund.

- **Direct Sourcing.** The CVC Investment Professionals are constantly engaged in deal sourcing on a global basis. In many cases, the CVC Investment Professionals identify and approach companies to propose transaction opportunities long before an actual transaction occurs. In this way, CVC is able to create its own transaction opportunities or be positioned as the buyer of choice when a business is sold.

- **Corporate Partnering.** Large corporations focusing on “core competencies” frequently divest non-core businesses and outsource non-strategic production processes. CVC approaches such corporations directly with creatively structured transactions, often offering an opportunity for the sellers to divest non-core businesses, obtain favorable tax and accounting treatment, receive cash, and participate in the upside of the new enterprise through equity ownership. In this manner, CVC creates attractive transactions, many of which include favorable supply arrangements with selling corporations.

- **Buy-and-Build.** CVC employs a “buy-and-build” strategy to create value in portfolio companies. CVC transactions typically have capital structures which permit acquisitions and management incentives which encourage growth. CVC portfolio companies are often strategic buyers of other businesses, and a majority of these companies have made add-on acquisitions.

- **Creating Value through Globalization.** CVC grows its portfolio companies by, among other things, expanding a company’s customer base and distribution network, focusing on core businesses and outsourcing processes that are “non-core”, and obtaining or maximizing technologies that allow a company to operate more efficiently and improve service to its customers. CVC portfolio companies pursue these objectives globally, frequently partnering with or investing in non-U.S. companies in order to compete more effectively in global markets. With the repeal of certain regulatory restrictions limiting CVC’s ability to commit capital overseas CVC believes that its global activities will increase significantly.

IV. Investment Performance

Previous fund performance as of June 30, 2000 for Citicorp Venture Capital 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
CVC investments	1990	\$1.4 billion	--	30.8%*

* This figure represents the IRR for Citicorp's previous investments since 1990 net of proposed management fees for the new fund.

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

Citigroup, Inc. ("Citigroup") and/or its affiliates will commit a minimum of \$1.5 billion to the Partnership; provided, that Citigroup and/or its affiliates may, at their option, increase or decrease their commitment to equal 50% of the aggregate commitments of the Partnership.

The General Partner will make a commitment of 0.2% of the aggregate commitments to the Partnership. The CVC Investment Professionals, employees of the Manager and their respective affiliates (collectively, the "CVC Investors") will, directly or indirectly through the Manager in its capacity as a Limited Partner, make additional aggregate commitments to the Partnership such that the direct and indirect aggregate commitments of the CVC Investors and the General Partner equal at least \$100 million.

VI. Takedown Schedule

Each Partner's commitment will be payable in US Dollars when called on 10 business days advance notice by the General Partner (or such shorter notice as may be determined by the General Partner, but in no event less than 5 business days) to make investments and to meet anticipated Partnership expenses.

VII. Fees

Unless waived by the Manager as described below, for the period from the initial closing date until the earlier of (i) the date on which the Commitment Period expires or (ii) the date on which the General Partner closes another fund with a similar objective to the Partnership, the Partnership will pay the Manager an annual management fee equal to 1.5% per annum multiplied by aggregate capital commitments as determined for the applicable period, payable in advance semi-annually and prorated in the event of any partial year. Thereafter, the Partnership will pay the Manager an annual management fee equal to 0.75% per annum

multiplied by the sum of (i) aggregate unreturned capital contributions with respect to outstanding investments and (ii) aggregate commitments available for follow-on investments, payable in advance semi-annually until termination of the Partnership and prorated in the event of any partial year. The annual management fee payable by the Partnership to the Manager shall be referred to as the "Management Fee". The Manager reserves the right to waive all or a portion of any installment of the Management Fee, which shall (i) reduce later capital contributions of the Manager, in its capacity as a Limited Partner and (ii) correspondingly, increase later capital contributions of other Limited Partners.

The Management Fee payable by the Partnership to the Manager will be reduced (in the manner described in the next paragraph) by 50% of the Partnership's *pro rata* share of all Portfolio Company Fees (as defined below), net of unreimbursed expenses, received by the General Partner or the Manager ("Offset Fees"). All Offset Fees received by the General Partner or the Manager will reduce the Management Fee for the six-month period immediately following the semi-annual period of receipt and, if the amount of such Offset Fees exceeds the Management Fee for such six-month period, each subsequent six-month period until all Offset Fees have been so applied.

"Portfolio Company Fees" means closing fees, commitment fees, monitoring fees, director's fees, break-up fees, consulting fees, managing fees or any other similar fees received by the General Partner or the Manager from a portfolio company or a prospective portfolio company.

The Partnership will pay (or reimburse the General Partner for) up to a maximum of \$2.0 million for out-of-pocket expenses incurred in connection with organizing and raising capital for the Partnership. The Partnership will not pay any placement fees.

VIII. Allocations and Distributions

Current income of the Partnership received in cash, net of Partnership expenses, shall be distributed at least semi-annually, and cash proceeds generated from the disposition of Partnership investments generally will be distributed to Partners as soon as practicable after receipt thereof by the Partnership, but in any event within 90 days after such receipt; *provided*, that in each case, the General Partner may retain amounts in the Partnership which it deems prudent for reserves to meet future expenses or liabilities of the Partnership.

The General Partner will use its reasonable best efforts to make all distributions in cash; *provided*, that prior to the liquidation of the Partnership, the General Partner may distribute publicly traded securities if the General Partner determines that it is in the best interests of the Partnership to do so. In connection with any such distribution in kind, each Limited Partner will have the option to receive net proceeds from the disposition of such securities in lieu of such securities. Upon liquidation of the Partnership, distributions also may consist of restricted securities or other assets. Subject to discussions below regarding tax distributions and certain

investments following a waiver of a Management Fee installment, distributions of cash and securities attributable to any portfolio company investment will be made to the Partners in proportion to their capital contributions with respect to such portfolio company investment, and distributions of cash and securities attributable to other sources will be made to the Partners in proportion to their respective commitments (collectively, the "Preliminary Distributions"). Except as provided below, each Partner's (other than the General Partner's and the CVC Investors') Preliminary Distributions shall be divided between that Partner and the General Partner in the following priority and manner:

First, 100% to the Partner until it has received distributions equal in value to the sum of the capital contributions previously made by the Partner to fund (i) portfolio company investments that were either sold, distributed in kind or written down (to the extent thereof) prior to the date of distribution and (ii) expenses or liabilities of the Partnership as set forth in Operating Expenses above, including Management Fees, to the extent allocated to such portfolio company investments;

Second, 100% to the Partner until it has received distributions (other than distributions made to such Partner pursuant to paragraph *First* above) equal in value to a return of 8.0% per annum (compounded annually) on the amounts described in paragraph *First* above, from the relevant drawdown due dates (or, if later, the date of the applicable contributions) to the date of distribution;

Third, 100% to the General Partner, until the General Partner has received, in its capacity as such, distributions equal in value to 20% of the aggregate amount theretofore distributed (or to be simultaneously distributed) to the General Partner pursuant to this paragraph *Third* and to the Partner pursuant to paragraph *Second* above; and

Fourth, thereafter, 80% to the Partner and 20% to the General Partner.

Notwithstanding the foregoing, the Partnership will make tax liability distributions to its Partners in respect of gain and other income from portfolio company investments based on the manner in which such gain and other income was allocated to the Partners, as provided in the Partnership Agreement. Any tax liability distribution to a Partner will be treated as an advance against distributions otherwise payable to such Partner.

Notwithstanding the foregoing, if and to the extent the Manager has waived any portion of a Management Fee installment and such waived installment has reduced the capital contribution the Manager otherwise would have made with respect to a portfolio company investment, as described in Management Fee above, then upon disposition of a portfolio company investment the Partnership generally will, in connection with distributing the proceeds from such disposition to the Partners, distribute profits to the Manager in an amount equal to the sum of (i) the waived portion of the Management Fee installment, (ii) the waived portion of the Management Fee attributable to previously disposed of or written down portfolio

company investments, to the extent not previously distributed under the preceding clause (i), and (iii) any additional profits the Partnership would have distributed to the Manager had the Manager invested the waived amount as a capital contribution.

IX. Investment Period and Term

The Partners' commitments to provide funds will expire on the earlier of (i) the fifth anniversary of the Partnership's final closing or (ii) the date on which all of the Partnership's committed funds have been invested or used to pay Partnership expenses (the "Commitment Period").

The Partnership's term will be ten years from the final closing date, subject to extension by the General Partner at its discretion for up to three additional one-year terms in order to permit orderly liquidation and dissolution of the Partnership's investments.

ATTACHMENT D

REAL ESTATE MANAGER SUMMARY PROFILE – POST FUND

I. Background Data

Name of Fund:	CT Mezzanine Partners II, L.P.
Type of Fund:	Real Estate Limited Partnership
Total Fund Size:	\$500 million - \$1 billion
Fund Manager:	Capital Trust, Inc.
Manager Contact:	John Klopp 410 Park Avenue, 14 th Floor New York, NY 10022 (212) 655-0255

II. Organization and Staff

CT Mezzanine Partners II, LP (the “Fund”) has been formed to make mezzanine debt and other high yield investments in commercial real estate assets and operating companies located primarily in the United States. The Fund is being sponsored by Capital Trust, Inc. (“Capital Trust” or “CT”) and Citigroup Investments Inc. (“Citigroup Investments”, and together with CT, the “Sponsors”). Capital Trust is a publicly traded (NYSE:CT) investment management and finance company specializing in mezzanine and other high yield commercial real estate investments. Citigroup Investments is an affiliate of Citigroup Inc. (NYSE:C), a global financial services institution (“Citigroup”). A wholly owned subsidiary of Capital Trust will act as investment manager of the Fund and all major business decisions will be subject to approval by the Fund’s investment committee (the “Investment Committee”), comprised of two representatives from each of Capital Trust and Citigroup Investments

Since its inception in 1997, Capital Trust believes it has established itself as a leader in the field of commercial real estate finance, having closed \$1.3 billion of mezzanine and other high yield investments. The Sponsors believe that Capital Trust has one of the deepest and most experienced investment management teams in the sector. Led by John R. Klopp (CEO), Stephen D. Plavin (COO) and Edward L. Shugrue III (CFO), Capital Trust’s professionals combine extensive real estate experience and capital markets expertise with a broad network of relationships to originate, underwrite, structure, close and manage high yield investments. This team is augmented by Capital Trust’s Board of Directors, which includes some prominent and experienced real estate investors: Sam Zell (Chairman), Craig Hatkoff (Vice Chairman), Steven Roth (CEO of Vornado Realty Trust) and Tom Dobrowski (Managing Director of General Motors Investment Management Co.).

Citigroup Investments manages over \$137 billion of assets, including a \$7 billion real estate and mortgage investment portfolio. Citigroup Investments’ real estate

division (“Citigroup Real Estate”) is staffed with 110 investment professionals located in New York, London, Chicago, San Francisco, Fresno, Memphis and Hartford and has completed 176 transactions representing \$1.7 billion of capital during 1999 and made over \$400 million of high yield real estate investments for its own account over the last two years.

III. Investment Strategy

The Fund intends to build a diversified portfolio of mezzanine/high yield investments in which the borrower/operator typically maintains an equity position of 15% to 20% of the total capital structure, thereby providing downside protection. The Fund intends to originate primarily floating rate assets and to optimize returns by leveraging its portfolio at a target debt-to-equity ratio of 2:1.

The Fund’s investment strategy will be founded on the following principles:

- **Strategic Capital Allocation.** Capital Trust has a track record of identifying and investing ahead of market trends by carefully monitoring multiple market sectors in various asset classes and allocating its capital accordingly.
- **Disciplined Underwriting.** To date, Capital Trust has experienced no delinquencies beyond 30 days on its \$1.3 billion of investments and all of its investments have been profitable. Drawing on its in-depth knowledge of debt structuring and equity underwriting, CT selects from a pipeline of the best mezzanine and related financial assets in the sector.
- **Aggressive Asset Management.** Capital Trust’s integrated platform provides hands-on expertise at all phases of the investment cycle: selection, underwriting, structuring, due diligence, loan servicing, performance monitoring and realization. In the event that an asset diverges from plan, CT is ready to analyze the problem, devise a restructuring or workout plan and implement resolutions.
- **Multiple Exit Strategies.** Capital Trust underwrites and structures investments to provide multiple, clear and realistic exit alternatives. As a result, over one-third of the assets that CT has originated since 1997 have been successfully realized. These realized investments were, on average, outstanding for less than half of their contractual lives, which enhanced CT’s IRRs due to the acceleration of exit fees and the collection of prepayment premiums.

IV. Investment Performance

Previous fund performance as of June 30, 2000 for Capital Trust 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
Capital Trust Previous Portfolio	1997	\$1.1 billion	--	19%*

* This figure represents the IRR for Capital Trust's previous investments net of proposed Fund II management fees and expenses, using Fund II's proposed leverage ratio of 2:1. The unleveraged Net IRR is 11%.

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

Certain affiliates of Citigroup Investments (together with Citigroup Investments, collectively, the "Citigroup Investments Parties") will make Capital Commitments to the Fund as limited partners in the Fund (the "Limited Partners", and with the General Partner, the "Partners") in an aggregate amount (including any capital contribution made to the General Partner) equal to one dollar for every three dollars committed to the Fund by third party investors (excluding Capital Commitments made by the Capital Trust Parties (as herein defined)), up to a maximum of \$250 million.

Certain subsidiaries of Capital Trust (together with Capital Trust, collectively, the "Capital Trust Parties") will make Capital Commitments to the Fund as Limited Partners in an aggregate amount (including any capital contribution made to the General Partner) equal to one dollar for every four dollars committed to the Fund by the Citigroup Investments Parties, up to a maximum of \$62.5 million.

The General Partner will make Capital Contributions to the Fund in an aggregate amount equal to not less than 1.0% of all Capital Commitments.

VI. Takedown Schedule

Capital Commitments are expected to be drawn as needed during the Investment Period, upon not less than ten (10) days' prior written notice to the Limited Partners from the General Partner.

VII. Fees

The Fund has entered into a management agreement with the General Partner pursuant to which the Fund will pay to the General Partner quarterly in advance a fee (the "General Partner Management Fee") equal to 1.5% per annum of (i) during the Investment Period, aggregate Capital Commitments (regardless of whether such Capital Commitments have or have not been drawn); and (ii) after the Investment Period, the aggregate amount of Capital Contributions to the Fund, excluding Capital Contributions attributable to investments which have been sold, written off or repaid.

The Fund will bear all of its organizational and offering expenses, including printing, legal and accounting expenses, up to a maximum of \$1.5 million. Organizational and offering expenses in excess of this amount, if any, will be borne by the General Partner.

Any origination fees received by the Manager, any of the Capital Trust Parties or any of the Citigroup Investments Parties in connection with an Investment by the Fund shall be for the account of the Fund and shall be promptly paid over to the Fund upon such party's receipt thereof. Any breakup fees received by the Manager, the Fund or the General Partner in connection with proposed investments that are not consummated will first be applied to reimburse the General Partner and the Manager for any operating expenses incurred in connection with such proposed investments, and the balance, if any, will be paid to the Fund.

VIII. Allocations and Distributions

Net Distributable Cash from Operations and Net Distributable Cash from Capital Events (each as defined in the Partnership Agreement) shall be, at the discretion of the General Partner (subject to the approval of the Investment Committee), either distributed to the Partners, or, during the Investment Period, reinvested in Investments, or, after the expiration of the Investment Period, reinvested in Investments in which the Fund had entered into binding commitments to make Investments prior to the termination of the Investment Period or in follow-on Investments. Distributions of Net Distributable Cash from Operations and Net Distributable Cash from Capital Events shall be paid in the following order of priority:

First, to the Partners pro rata based upon the amount of their respective Capital Contributions, until each Partner has received an amount equal to a return of 10% per annum on its respective Capital Contributions, less distributions under the second paragraph hereof (the "Preferred Return");

Second, to the Partners pro rata based on the amount of their respective Capital Contributions, until each Partner has received an amount equal to its respective Capital Contributions;

Third, 20% to the Partners, pro rata based on the amount of their respective Capital Contributions, and the remaining 80% to the General Partner until the General Partner has received a cumulative distribution equal to 20% of the sum of the distributions made to the Partners under this paragraph and under the first paragraph hereof; and

Fourth, 80% to the Partners, pro rata based on the amount of their respective Capital Contributions, and the remaining 20% to the General Partner. The amounts distributed to the General Partner under the third and fourth paragraphs hereof are referred to herein as the “General Partner Incentive Allocation”.

The Partnership will attempt to make distributions no less than quarterly and in amounts at least equal to the tax liability incurred by the Partners assuming that each Partner is subject to the maximum marginal United States federal income tax rate.

IX. Investment Period and Term

The Fund will terminate on the sixth anniversary of the date of the Initial Closing, which period may be extended by the General Partner, in its sole discretion, for up to two successive one-year periods.

The Partners will be required to contribute capital (the “Capital Contributions”) to the Fund up to the amount of their Capital Commitments during the period from the date of the Initial Closing until the earlier of: (i) the second anniversary of the date of the Initial Closing and (ii) the date on which all Capital Commitments have been drawn (the “Investment Period”). At the end of the Investment Period, all Limited Partners will be released from any further obligation with respect to their unfunded Capital Commitments except to the extent necessary to (i) pay General Partner Management Fees (as herein defined) and operating expenses and organizational expenses, (ii) fund investments which are subject to binding commitments entered into prior to the end of the Investment Period and (iii) fund necessary reserves.

The Fund will not make any new Investments after the expiration of the Investment Period other than Investments subject to binding commitments entered into prior to the end of the Investment Period. However, the Fund may continue to make follow-on Investments (i.e., redevelopment and other improvements to the Fund’s then-existing Investments and expenditures in order to preserve or enhance the value of such Investments).

ATTACHMENT E

REAL ESTATE MANAGER SUMMARY PROFILE – POST FUND

I. *Background Data*

<i>Name of Fund:</i>	Carbon Capital
<i>Type of Fund:</i>	Real Estate Investment Trust
<i>Total Fund Size:</i>	\$250 million
<i>Fund Manager:</i>	BlackRock Financial Management
<i>Manager Contact:</i>	Hugh Frater 345 Park Avenue New York NY 10154 (212) 754-5535

II. *Organization and Staff*

BlackRock Financial Management (the "Fund Manager"), a wholly owned subsidiary of BlackRock, Inc. ("BlackRock"), which is a 70% owned indirect subsidiary of the PNC Financial Services Group, Inc. ("PNC"), is forming Carbon Capital, LLC (the "Fund") to invest in (i) mezzanine debt, and (ii) preferred equity investments which will be backed by income producing property, real estate related assets or real estate companies, primarily in the United States. The Fund will benefit from BlackRock's position as a market leader in fixed income and high-yield asset management as well as PNC's position as a national leader in commercial real estate origination and loan servicing.

The activities of the Fund will be directed by the Investment Management Team, led by Hugh R. Frater and Richard Shea, with oversight by the Investment Committee including Laurence D. Fink, Chairman of the Investment Committee and Chairman of BlackRock, and Ralph L. Schlosstein, President of BlackRock as well as Messrs. Christopher A. Milner, Mark S. Warner, Daniel P. Sefcik and Alexander K. Zabik.

In the course of conducting its business, the Fund will benefit from the expertise of the Fund Manager and from the vast real estate resources and origination capability of PNC with over 75 dedicated real estate relationship managers, 35 correspondent relationships and 2,500 borrower relationships including the majority of the top 50 REITS and real estate funds. On a combined basis, BlackRock and PNC operate a full service real estate organization managing over \$17 billion of real estate related investments, performing market research on each major region and property segment, credit research on each major REIT borrower and CMBS issuer and originating permanent and construction credit on a nationwide basis. Additionally, the Investment Management Team will have access to the full resources of the broader BlackRock organization. These resources include BlackRock's equity research for evaluating operating companies, BlackRock's high-yield and bank loan

teams for advice on recapitalization or restructuring transactions, and full access to BlackRock's substantial network of strategic relationships as a \$173 billion asset investment manager.

BlackRock manages approximately \$173 billion in fixed income, equity, liquidity and alternative investment product assets for institutional and individual investors worldwide, including a \$2.1 billion fixed income account for the SBI. BlackRock manages a total of \$94 billion in fixed income securities, of which approximately \$38 billion are mortgage securities including \$8.6 billion of CMBS/Multifamily securities and mortgage loans and of which \$17 billion are corporate debt securities including \$1.9 billion in the high-yield sector. BlackRock is one of the largest independent managers of assets for insurance companies, managing over \$25 billion in investments, including \$1 billion of CMBS, for this income-oriented client base.

III. Investment Strategy

The Fund's investments will be comprised primarily of mezzanine loans secured by, and preferred equity investments in, commercial property assets. Additionally, the Fund may invest in (i) public and private real estate companies, (ii) debt investments in construction or repositioning opportunities, and (iii) selected floating rate subordinated CMBS.

The Fund Manager will make investment decisions based on thorough analysis of three fundamental factors:

- strong sponsorship
- sound real estate fundamentals
- positive pricing and structuring elements

The Fund Manager anticipates that mezzanine investments will comprise the majority of the Fund's investments. Any such investment may be structured as follows:

- (i) a subordinate interest in a loan evidenced by senior interests and a subordinate interest, secured by a single mortgage lien encumbering the borrower's real property,
- (ii) a subordinate interest in a structure similar to that described in clause (i) above, but which permits the splitting of the mortgage so that the resulting split mortgage securing the subordinate interest may be foreclosed independent of, but subject to, the senior split mortgage,
- (iii) a subordinate interest secured by a second mortgage lien, subject to a senior note and first mortgage lien originated simultaneously,
- (iv) "true" mezzanine financing consisting of a loan secured by a pledge of equity interests in a borrower, which loan is subordinate to a mortgage loan made simultaneously to such borrower, and
- (v) preferred equity interests in an entity which is the borrower under any of the foregoing structures.

IV. Investment Performance

Previous fund performance as of June 30, 2000 for BlackRock Financial Management 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
BlackRock Financial Management's Previous Investments	1998	\$244 million	--	13.2%

BlackRock manages a \$2.1 billion fixed income account for the SBI.

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

The General Partner is expected to invest \$10 million.

VI. Takedown Schedule

Capital Commitments will be drawn down as needed with a minimum of ten business days' prior notice.

VII. Fees

As compensation for its services as Manager, the Manger will receive a Base fee of 1.25% per annum on the aggregate amount of Capital Commitments which are either outstanding or currently invested. The Management Fee shall be calculated and paid quarterly in arrears commencing on the date of the Initial Closing and shall be prorated for any partial period.

The Manager will be entitled to receive an origination fee on loans funded of no more than 1% of total invested capital. This origination fee will be payable only if sufficient origination fees are payable to the Company by or on behalf of the borrower (after payment of broker fees, if any) with respect to the particular investment. Origination fees in excess of 1% will be retained by the Company.

The Company will pay or reimburse the Manager up to \$500,000 for the expenses, obligations or other liabilities incurred or paid by he Manger and its affiliates in establishing the Fund, or performing the obligations of the Manager to the Fund or otherwise providing services to or for the benefit of the Fund, excluding rent, overhead expenses, taxes measured by net income and salaries and other compensation expense in respect of the employees of the Manager and its affiliates.

VIII. Allocations and Distributions

All operating income after expenses, management fee and appropriate reserves will be distributed quarterly as follows:

1. 100% to investors until a 9% annual return compounded quarterly;
2. 80% to investors / 20% to Fund Manager until investors receive a 15% annual return compounded quarterly;
3. 65% to investors / 35% to Fund Manager thereafter.

All capital event cash flow after expenses, management fee and appropriate reserves will be distributed quarterly as follows:

1. 100% to investors until aggregate of funded capital commitments attributable to such investment are returned;
2. 100% to investors until a 9% annual return compounded quarterly;
3. 80% to investors / 20% to Fund Manager until investors receive a 15% annual return compounded quarterly;
4. 65% to investors / 35% to Fund Manager thereafter.

IX. Investment Period and Term

The period during which funds may be drawn down for investments (the "Commitment Period") will expire on the third anniversary of the date of the Initial Closing, provided however, that the Manager, upon approval by the holders of a majority of the capital commitments of the Fund, may extend the commitment period for up to one additional year.

The Fund Term will last five years from the date of the Initial Closing, unless extended by the Manager, in its sole discretion, for up to three additional one-year periods to facilitate orderly dissolution.

ATTACHMENT F

PRIVATE EQUITY MANAGER SUMMARY PROFILE – POST FUND

I. **Background Data**

Name of Fund:	TCW/Crescent Mezzanine Partners III, L.P.
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	\$850 million
Fund Manager:	TCW/Crescent Mezzanine III, L.L.C.
Manager Contact:	John Rocchio 11100 Santa Monica Blvd, Ste. 2000 Los Angeles, CA 90025 (310) 235-5905

II. **Organization and Staff**

TCW/Crescent Mezzanine Partners III is being organized to invest in mezzanine securities of profitable, middle market companies involved in leveraged transactions. The General Partner of the Partnership will be TCW/Crescent Mezzanine III, L.P., which will be managed by the five operating partners of the Partnership (the "Principals"), Jean-Marc Chapus, Timothy P. Costello, John C. Rocchio, Mark L. Attanasio and Robert D. Beyer. These individuals have extensive experience in leveraged investing and lending, having participated in these markets for their entire professional careers. As a group, these individuals have been responsible for sourcing, structuring and monitoring all of the mezzanine securities in the Predecessor Portfolio, Fund I and Fund II. They, together with the other investment professionals, will continue to pursue the collaborative approach they have consistently employed in managing the activities of the Partnership. The investment expertise of this group is enhanced by the relationship with The TCW Group, Inc.'s ("TCW") Leveraged Finance Group which provides the Partnership with distinct competitive advantages including a global presence and industry expertise.

III. **Investment Strategy**

The Partnership's primary activity will be to invest in privately negotiated mezzanine securities issued in connection with leveraged transactions. Mezzanine securities typically include subordinated debt or preferred stock with some form of equity participation in the form of warrants, common stock or limited partnership interests. In order to maintain maximum flexibility in structuring investments and to take advantage of changing markets, the Partnership may also pursue other related investments on a limited basis. These investments include convertible securities, senior equity investments, common stock and, when appropriate, liquid investments. In general, the Partnership will seek to create a diversified portfolio of investments with conservative industry and geographic concentrations. The General

Partner believes that substantial long-term returns and high current income can be created by investing in a diversified portfolio of mezzanine securities.

IV. Investment Performance

Previous fund performance as of June 30, 2000 for TCW Crescent Mezzanine 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
TCW Crescent Mezz. II	1998	\$810 million	\$100 million	11.9%
TCW Crescent Mezz. I	1996	\$482 million	\$40 million	7.9%
TCW Predecessor Portfolio	1991	\$219 million	--	17.6%

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

The General Partner's has committed to invest a minimum of 1% of total Fund commitments.

VI. Takedown Schedule

Each Investor will make capital contributions to the Partnership from time to time based on its overall commitment with not less than ten business days prior written notice.

VII. Fees

The Partnership will pay the General Partner an annual management fee, payable quarterly in advance (the "Management Fee"). To the extent the Partnership does not have sufficient cash to pay such Management Fee, each Investor shall contribute an amount equal to its pro rata share of the Management Fee, which contributed amounts shall be in addition to such Investor's capital commitment. The Management Fee will be (a) 1.75% per annum of the Investors' aggregate commitments during the Commitment Period and (b) 1.25% of net invested capital after the Commitment Period. At the end of the original ten-year term of the Partnership, the General Partner and the Investors will renegotiate the Management Fee, provided that in no event shall the Management Fee after such time exceed 1% of net invested capital. The Management Fee will be reduced by certain fees received by the General Partner from portfolio companies. Any reimbursement of the General Partner's and its members' out-of-pocket expenses by a portfolio company will not be offset against the Management Fee.

The Partnership will bear up to \$1,000,000 for expenses in connection with organizing and raising capital for the Partnership. The General Partner will pay all

of its ordinary administrative and overhead expenses including salaries, rent, equipment and administrative expenses incurred by the General Partner. The Partnership will pay all expenses attributable to the Partnership's activities, including the Management Fee; legal, auditing, insurance, consulting and accounting expenses including the overhead costs of personnel providing accounting services; expenses associated with the preparation of Partnership's financial statements, tax returns and K-1s; out-of-pocket expenses of transactions not consummated; and other expenses associated with the acquisition, holding and disposition of Partnership investments, including extraordinary expenses (such as litigation, if any). The General Partner anticipates that all expenses incurred in connection with a consummated transaction will be borne or reimbursed by the portfolio company.

VIII. Allocations and Distributions

Distributions of cash and securities will be made at the discretion of the General Partner except that the General Partner will distribute net portfolio income at least quarterly and net proceeds from dispositions of investments as soon as reasonably practicable after receipt. In all cases, distributions will be subject to the availability of cash after setting aside reasonable reserves for anticipated obligations of the Partnership or for permitted reinvestment. Except as described below, distributions of cash and non-cash proceeds from the disposition of investments will be made as follows:

(a) 100% to the Investors pro rata according to their commitments, until the Investors have received distributions equal to an 8% per annum compounded return on the unreturned contributed capital and allocated cost contribution for such investment (the "Preferred Return");

(b) 100% to the Investors pro rata according to their commitments, until the Investors have received distributions equal to their contributed capital and allocated cost contribution for such investment;

(c) 100% to the Investors pro rata according to their commitments until each Investor has received distributions equal to the sum of all losses on realized investments and unrealized losses on all other investments;

(d) 100% to the General Partner until the General Partner has received distributions, in respect of its carried interest, equal to 20% of the excess of all distributions to Investors over all amounts distributed pursuant to clauses (b) and (c) of this paragraph and the following paragraph; and

(e) 80% to the Investors pro rata according to their respective commitments and 20% to the General Partner in respect of its carried interest. The General Partner, at its discretion, may elect to waive distributions payable to the General Partner attributable to the carried interest and management fees for investments in the Partnership by affiliates of TCW.

Net portfolio income will be distributed to the Investors as follows:

- (a) 100% to the Investors pro rata according to their commitments, until the Investors have received distributions equal to their Preferred Return for such Investment;
- (b) 100% to the Investors pro rata according to their commitments, until the Investors have received distributions equal to their allocated cost contribution for such investment;
- (c) 100% to the Investors pro rata according to their commitments until each Investor has received distributions equal to the sum of all losses on realized investments and unrealized losses on all other investments;
- (d) 20% to the Investors pro rata according to their respective commitments, and 80% to the General Partner until the General Partner has received distributions equal to 20% of the excess of all distributions to Investors over all amounts distributed pursuant to clauses (b) and (c) of this paragraph and the immediately preceding paragraph; and
- (e) 80% to the Investors pro rata according to their respective commitments and 20% to the General Partner in respect of its carried interest.

IX. Investment Period and Term

The Investment Period will be through five years from the final closing date. The Partnership's term will be ten years from the initial closing date, subject to extension by the General Partner for up to three additional one-year periods to allow for an orderly liquidation of the Partnership's investments. The Partnership will be subject to early termination and dissolution under certain circumstances as provided in the Partnership Agreement.

ATTACHMENT G

PRIVATE EQUITY MANAGER SUMMARY PROFILE – POST FUND

I. Background Data

<i>Name of Fund:</i>	Prudential Capital Partners, L.P.
<i>Type of Fund:</i>	Private Equity Limited Partnership
<i>Total Fund Size:</i>	\$500 million
<i>Fund Manager:</i>	Prudential Capital Group, L.P.
<i>Manager Contact:</i>	Mark Hoffmeister Two Prudential Plaza, Ste. 5600 Chicago IL 60601-6716 (312) 540-4215

II. Organization and Staff

Prudential Capital Partners, L.P. (the "Fund") is being formed by Prudential Capital Group ("PCG"), a major investment unit of Prudential Insurance Company of America ("Prudential"), to provide investors with attractive returns through mezzanine and private equity investments with a specific focus on investments in middle market companies.

PCG is the largest manager of private fixed income securities in the United States, with \$32 billion of private debt and equity investments in more than 700 companies. Since 1995, PCG has invested \$468 million in 33 mezzanine and private equity transactions. PCG, which has an investment staff of 114, operates from a corporate office in Newark, New Jersey and five regional offices in Atlanta, Chicago, Dallas, New York and San Francisco. This unique nationwide regional office network is key to PCG's successful middle market mezzanine investment strategy. PCG's national scope and regional focus allow it to develop and maintain local relationships, to access proprietary deal flow, and to closely manage its portfolio to maximize returns.

The Fund will be managed by four of PCG's most experienced mezzanine investors. Matt Chanin and Allen Weaver are co-heads of PCG and have had broad private market investment experience including mezzanine and private equity. They have been responsible for the design and implementation of PCG's mezzanine investment strategy since 1995. Jeff Dickson and Mark Hoffmeister will be dedicated to the activities of the Fund and also have had broad private market investment experience at PCG, including managing deal teams and regional offices, and have developed strong mezzanine investment networks. Together these four individuals have a combined 62 years of private market investment experience.

III. Investment Strategy

The Fund will invest primarily in mezzanine securities. Such securities typically combine both debt and equity securities and include convertible debt, preferred stock and warrants. Mezzanine investments combine a current rate of return through scheduled interest payments with opportunities for significant capital appreciation through equity participation. The principal of these debt instruments is typically senior in rights and preference to both preferred and common equity, and benefits from covenants tied to the issuer's financial performance.

The Fund will focus on transactions with middle market companies generating annual revenues between \$20 million and \$200 million. The Fund's average investment is expected to be from \$15 - \$20 million. The portfolio of investments is expected to be broadly diversified with respect to industry, geography and type of financing. Investments will generally be made to facilitate the financing of recapitalizations, acquisitions and internal growth opportunities.

IV. Investment Performance

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

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Prudential Capital Group Previous Portfolio	1995	\$468 million	--	12.2%*

* This figure represents Prudential Capital Group's previous investments net of the proposed Fund's management fees and expenses.

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

The Prudential Insurance Company of America ("Prudential") will contribute an amount equal to one-third of the total fund size.

VI. Takedown Schedule

Each Partner's commitment will be payable in installments as called by the General Partner, with ten days' prior written notice, to meet anticipated Fund liabilities and expenses and to make investments

VII. Fees

The General Partner will receive an annual management fee (the "Management Fee") equal to 1.50% of committed capital, payable on a semi-annual basis, in advance, until the end of the Investment Period. Thereafter, the Management Fee will be reduced to 1% of actual invested capital. The Management Fee is included in, and not in addition to, each Limited Partner's capital commitment. The Management Fee is subject to reduction as provided below under "Transaction and Break-Up Fees" and "Organizational and Offering Expenses."

Limited Partners admitted to the Fund subsequent to the Initial Closing will pay the General Partner an amount equal to the Management Fee such Limited Partner would have paid to the General Partner had such Limited Partner been admitted at the Initial Closing, plus interest thereon at the prime rate plus 2% from the date of each applicable payment.

The General Partner or its affiliates may charge the Portfolio Companies transaction fees and break-up fees. An amount equal to 50% of all such fees that are received by the General Partner or any of its affiliates, less any related expenses and broken deal costs, will be applied to reduce the Management Fee otherwise payable. All such fees will be allocated between the Fund and any related co-investing entities on the basis of capital committed by each to the relevant investment. Management Fee reductions will be carried forward if necessary.

The Fund will bear all legal, accounting, filing and other organizational and offering expenses incurred in the formation of the Fund up to a maximum of \$750,000. Any expenses in excess of this amount will be paid by the Fund, but borne by the General Partner through a 100% offset against the Management Fee. The offering expenses will include all fees payable to Prudential Investment Management Services LLC in connection with its role as placement agent for the Fund.

VIII. Allocations and Distributions

Net proceeds attributable to the disposition of a portfolio investment (including distributions in kind of portfolio investments) will be distributed to all Partners participating in such investment. Each such Partner's proportionate share thereof will be distributed in the following order of priority (to the extent not previously distributed):

- (a) *Return of Realized Capital and Costs*: First, 100% to such Partner until the cumulative distributions to such Partner equal the aggregate of the following:
 - (i) the capital contributions to the Fund of such Partner used to acquire all realized investments, plus such Partner's proportionate share of any write-downs of unrealized investments, as of that time; and

- (ii) such Partner's proportionate share of all organizational expenses and other Fund expenses allocated to the investments included in subparagraph (i) above;
- (b) *Preferred Return*: Second, 100% to such Partner until the cumulative distributions to such Partner of net proceeds and current income in respect of portfolio investments described in paragraph (a) above equal an internal rate of return of 8% per annum, compounded annually, on the amounts included in paragraph (a) above (the "Preferential Return");
- (c) *Catch-Up*: Third, 100% to the General Partner until the General Partner has received 20% of the excess of the cumulative distributions made to such Partner and to the General Partner over the amounts included in paragraph (a) above; and
- (d) *80/20 Split*: Thereafter, 80% to such Partner and 20% to the General Partner.

Each Partner's proportionate share of dividends, interest and other current income with respect to a portfolio investment will be distributed first, to each Partner participating in such investment until the cumulative amount distributed to such Partner, together with such Partner's invested capital, is equal to an internal rate of return of 8% per annum, compounded annually, on such Partner's capital contributions; second, to such Partner to reflect such Partner's proportionate share of any unreturned realized losses and write-downs; and thereafter 20% to the General Partner and 80% to such Partner (distributions to the General Partner described in this sentence and in paragraphs (c) and (d) above being referred to collectively as the General Partner's "Carried Interest").

All distributions not directly attributable to a particular portfolio investment generally will be made to the Partners in proportion to their capital contributions to the investment giving rise to such distributions.

If the Fund disposes of only a portion of a portfolio investment, the portion sold shall be deemed a separate investment from the portion retained for purposes of distributing the proceeds of such disposition as outlined above

Notwithstanding the foregoing, the Fund intends to make tax distributions to the Partners in respect of gain and other income in accordance with the manner in which such gain and other income is allocated to the Partners. The General Partner may, however, elect to defer or reduce tax distributions with respect to any year.

Net cash proceeds from realizations and dividend and interest income attributable to portfolio investments made by the Fund generally will be distributed to the Partners at least quarterly, provided that the General Partner may cause the Fund to retain any amounts that the General Partner deems necessary to enable the Fund to defray current or reasonably anticipated future expenses and liabilities and to make follow-on investments in existing Portfolio Companies.

Distributions of marketable securities of any Portfolio Company generally will be made at the earliest date on which the General Partner believes it can no longer make a substantial contribution to that Portfolio Company (and thereby substantially enhance the return to the Fund on those securities). All distributions prior to the termination of the Fund will be made in cash or freely marketable securities. Upon termination of the Fund, distributions may also consist of restricted securities or other assets. The General Partner will be entitled to withhold from any distributions any required tax withholdings, which amounts will be treated as distributions for purposes of the calculations described above.

IX. Investment Period and Term

The investment period for the Fund (the "Investment Period") will commence on the date of the Initial Closing and continue until the fifth anniversary of the final closing date. After the end of the Investment Period, the Partners will be released from any further obligation with respect to their unfunded capital commitments, except that the Partners will be obligated to fund any remaining portions of their commitments throughout the term of the Fund to: (i) cover expenses, indemnification obligations and other obligations of the Fund; (ii) complete investments by the Fund in transactions which were in process as of the end of the Investment Period; and (iii) effect follow-on investments in Fund Portfolio Companies, occurring within 5 years of the original investments, in an aggregate amount of up to 15% of total capital commitments.

The term of the Fund will be 10 years, subject to extension at the discretion of the General Partner for no more than three one-year periods to permit an orderly termination and liquidation of the Fund's investments.

ATTACHMENT H

PRIVATE EQUITY MANAGER SUMMARY PROFILE – BASIC FUND

I. Background Data

<i>Name of Fund:</i>	Kohlberg Kravis Roberts (KKR) Millenium Fund
<i>Type of Fund:</i>	Private Equity Limited Partnership
<i>Total Fund Size:</i>	\$5+ billion
<i>Fund Manager:</i>	Kohlberg Kravis Roberts & Co.
<i>Manager Contact:</i>	Perry Golkin 9 West 57 th Street, Suite 4200 New York NY 10019 (212) 750-8300

II. Organization and Staff

Kohlberg Kravis Roberts & Co. (“KKR”), operating from offices in New York, Menlo Park and London, is one of the world’s oldest and most experienced private equity firms specializing in management buyouts. Founded in 1976 by Jerome Kohlberg, Henry R. Kravis and George R. Roberts, KKR seeks to provide its investors with long-term capital appreciation through the acquisition of companies and by making other selective equity and related investments. Typically, KKR utilizes debt to finance a significant portion of any acquisition, with a view to enhancing the rates of return received by its investor group. During the firm’s 24-year history and through varied business conditions, KKR’s objective has remained the same: invest large amounts of capital, over the long-term, to achieve high rates of return.

KKR has been the largest and most active participant in the buyout market since the mid-1970s. Through the KKR Funds, the firm has invested, on behalf of itself and its investors, in excess of \$15.5 billion of equity capital in more than 90 transactions. These investments have been made across a broad range of industries and through various economic cycles. The total financing raised by KKR (including the \$15.5 billion of equity) for these management buyouts and other investments exceeds \$100 billion. KKR is one of only a few private equity firms that specialize in larger transactions.

KKR’s team of professionals has unparalleled experience in the buyout field. Messrs. Kravis and Roberts each have more than 32 years of experience in the private equity industry, having pioneered the use of management buyouts in the late-1960s. They will continue to provide leadership to KKR and the Fund and to participate in all investment activities. The 11 principals of KKR have been with KKR for, on average, over 17 years. Only one of these principals has been at KKR less than 14 years. KKR is comprised of 154 people, including 11 principals, six directors and 34 other professionals who are responsible for the investment

transactions, the various KKR Funds and the myriad of accounting and tax matters relating to KKR, its principals and its investors.

III. Investment Strategy

In seeking out attractive investment opportunities, KKR employs a variety of strategies. Listed below are some of those strategies:

- Historically, KKR has focused on acquiring companies that are larger than those typically pursued by most other private equity funds. The Fund will similarly be interested in sizable transactions. One of the advantages of such a strategy is the high quality of the companies that can be acquired. The various KKR Funds have sought to own businesses with superior franchises and the highest caliber of management.
- At any one time, groups of KKR executives may be intensively scrutinizing 5-10 different industries. Such an approach has resulted in many of KKR's recent investments, including those in energy, financial institutions, healthcare, insurance, print publishing, supermarkets and telecommunications equipment and services.
- Due to KKR's extensive relationships in the business and financial community and its long-standing reputation as the leading firm in the buyout industry, KKR executives regularly are able to work with companies and managers on an exclusive basis to develop transactions for the KKR Funds. KKR also has an extensive network of relationships with businesses, banking and government leaders.
- KKR will selectively participate in auctions. While the auctions process does not represent KKR's preferred method of making investments, KKR believes that a disciplined approach to participating in auctions can provide attractive opportunities.
- KKR, in a number of situations, has successfully implemented a "build-up" strategy; *i.e.*, created a partnership with a management team and then assisted that management team in the acquisition of companies in its industry, an industry which KKR has determined to be an attractive one for investment.
- Finally, KKR will creatively pursue unique situations. For instance, in the investment which the KKR 1987 Fund made in the Bank of New England, KKR created a new security and forged a partnership between a commercial bank and a financial investor.

KKR expects to provide investors in the Fund with a well-diversified portfolio of investments and may hold minority investments and participate in joint ventures in certain situations.

Investments outside the United States and Canada will be made by the Fund side-by-side with KKR's European Fund (or any successor thereto), with 25% of the total equity available to KKR being allocated to the Fund, unless capital for any such investment is unavailable from the European Fund or its successor, in which case the Fund may make the entire investment. In any event, investments outside the United States and Canada will be limited to not more than 25% of the capital committed to the Fund.

IV. Investment Performance

Previous fund performance as of September 30, 2000 for the SBI's investments with KKR funds is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
KKR 1984 Fund	1984	\$1.0 billion	\$25 million	29%
KKR 1986 Fund	1986	\$.7 billion	\$18 million	28%
KKR 1987 Fund	1987	\$5.6 billion	\$146 million	12%
KKR 1993 Fund	1993	\$2.0 billion	\$150 million	21%
KKR 1996 Fund	1996	\$5.8 billion	\$200 million	13%

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

The founding partners, the other principals and the other executives of KKR will commit \$150 million to the Fund. A portion of this commitment may in effect be funded through a reduction in management fees.

VI. Takedown Schedule

Upon at least 10 business days prior written notice, capital contributions will be called from partners as needed to make investments and to pay management fees and expenses payable by the Fund.

VII. Fees

Until the earlier of the end of the Investment Period or the permanent reduction of unused capital commitments to \$150 million or less, the Limited Partners will make capital contributions to the Fund to enable the Fund to pay an annual management fee to KKR or an affiliate thereof in an amount equal to the sum of 1.5% of the first

\$3 billion of capital committed to the Fund by the Limited Partners (excluding any excess amount referred to in the next sentence), plus 0.75% of the next \$1 billion of such capital, plus 0.50% of all such capital in excess thereof (in each case, whether or not called), except that any such payment made prior to the Fund's initial investment will be paid directly to KKR or an affiliate thereof by the Limited Partners. A Limited Partner whose capital commitment exceeds \$975 million will not be charged a management fee with respect to such excess.

The first annual payment will be due one year after the last payment by the KKR 1996 Fund of management fees during its investment period, such annual payment being for the period from the commencement of the Investment Period through the first anniversary thereof. A Limited Partner admitted after such first payment will pay, promptly after its admission, a share of the management fee equal to the amount such Limited Partner would have paid if it had been admitted as of the date the most recent prior management fee was paid.

Commencing on the first anniversary of the payment of the last management fee paid during the Investment Period and thereafter until the end of the tenth year of the Fund, the management fee will be payable quarterly at an annual rate equal to 50% of the rate per annum payable during the Investment Period, which rate will be applied to the weighted average of the cost basis of invested capital of the Limited Partners during the most recently ended calendar quarter. Following the end of such ten year period, the quarterly management fee will be determined in the manner described in the preceding sentence, except that the rate will equal (i) two-thirds of the Initial Rate for the next four years and (ii) one-third of the Initial Rate for the remaining term of the Fund.

KKR may defer receipt of all or any portion of the management fee, and the deferred amount will be retained by the Fund. Any such deferred management fee will include an interest factor, which may also be deferred or be paid currently to KKR.

KKR may waive a portion of the management fee, and in lieu of the amount waived, KKR or an affiliate thereof will obtain a profits interest in all distributions arising from the investment of a corresponding amount.

Neither capital contributions made to the Fund for the purpose of paying management fees nor direct payments by the Limited Partners of management fees will reduce capital commitments.

If the net proceeds from an investment exceed the Limited Partners' cost of such investment and the other items recouped out of such proceeds, the Limited Partners will receive a distribution from the Fund (or a reduction of management fees payable during the remainder of the calendar year in which the proceeds are received) in an amount equal to the lesser of (i) 20% of the capital contributions made by the Limited Partners in order for the Fund to pay the management fees allocable to such investment and (ii) the amount by which the proceeds exceed the cost of such investment and the other items recouped out of such proceeds. To the extent

dispositions of prior investments did not result in a return or reduction of all 20% of such capital contributions to pay management fees, such amounts will be distributed to the Limited Partners or management fees will be reduced in connection with subsequent dispositions or upon termination of the Fund to the extent amounts are available for such distribution or reduction

The Fund will pay all legal, accounting and filing expenses incurred in connection with organizing and establishing the Fund and the General Partner and the marketing and offering of interests in the Fund. Limited Partners will receive a reduction in management fees equal to the amount of offering and organizational expenses in excess of \$2.5 million.

Each of the General Partner and its affiliates will be responsible for expenses in providing its services to the Fund, including overhead expenses, facilities expenses and compensation of their employees. In addition, the General Partner or any of its affiliates may elect to pay (subject to adjustment as described below) all or any portion of (i) expenses for transactions not completed, including amounts payable to third parties and all fees and expenses of lenders, investment banks and other financing sources in connection with arranging financing for transactions which are not consummated, and any deposits or downpayments which are forfeited in connection with unconsummated transactions, and (ii) other Fund expenses.

Except as noted above and to the extent that none of the General Partner or any of its affiliates has elected to pay such expenses, the Fund will pay Broken Deal Expenses and all expenses related to the operation of the Fund, including fees, costs and expenses directly related to the purchase, holding and sale of investments, expenses of any administrators, custodians, counsel and accountants, any insurance, indemnity or litigation expense, certain taxes, and any fees other governmental charges levied against the Fund. Out-of-pocket expenses associated with completed transactions are expected to be reimbursed by the seller or the portfolio company or capitalized as part of the acquisition price of the transaction.

Portfolio companies may pay KKR transaction fees and monitoring fees in connection with the purchase, monitoring or disposition of Fund investments, and KKR may be entitled to receive "break up" or similar fees in connection with unconsummated transactions. Such Other Fees will first be applied to reimburse KKR for its out-of-pocket expenses in connection with the transaction giving rise to such Other Fees, and 57.5% of the Fund's share of the balance, if any, net of any unrecovered Broken Deal Expenses and Fund expenses that the General Partner or any of its affiliates has elected to pay, will be credited against future management fees payable by the Fund. After such credits have eliminated all future management fees, the remaining amount of such credits up to the amount of management fees previously paid and not otherwise refunded will be refunded to the Fund for distribution to the Limited Partners to the extent of management fees previously paid, or credited to the extent of management fees payable, in connection with any other KKR-sponsored investment fund.

If more than one KKR-sponsored investment fund has an investment in the portfolio company paying transaction or monitoring fees, or if more than one KKR-sponsored investment fund would have participated in an unconsummated investment generating a break-up fee, then such fees will be allocated to such funds in proportion to their invested capital (or, in the case of an unconsummated investment, the level of capital that would have been invested).

VIII. Allocations and Distributions

Net proceeds from any investment by the Fund will be distributed to the Partners that participated in such investment in the following order of priority:

- a. for dispositions of securities of a portfolio company, first to all Partners in proportion to their participation in such investment until the proceeds equal the aggregate of (i) the cost basis and the amount of capital contributions from the Partners used to pay Fund expenses allocable to the securities so disposed of (that have not been recouped from prior distributions made after a writedown with respect to such securities, or otherwise recouped), (ii) the amount of realized losses on any Fund investment allocated to such Partners (that has not been previously recouped) and (iii) the "writedown amount" for securities of any portfolio company, and thereafter 80% to the Partners in proportion to their participation in such investment and 20% to the General Partner;
- b. for dividend and interest income (except as otherwise provided in paragraphs c. or d. below), first to all Partners in proportion to their participation in the investment until the proceeds equal (i) the amount of capital contributions from the Partners used to pay Fund expenses allocable to the investment that produced such dividend or interest income (that has not been previously recouped), (ii) the amount of realized losses on any Fund investment allocated to such Partners (that has not been previously recouped) and (iii) the "writedown amount" for securities of any portfolio company, and thereafter 80% to the Partners in proportion to their participation in such investment and 20% to the General Partner;
- c. for dividend and interest income with respect to Bridge Financings to all Partners in proportion to their participation in such Bridge Financing; and
- d. for interest income with respect to cash held short term prior to investment or distribution to all Partners in proportion to their interests in such cash.

The Fund may reinvest, rather than distribute, all or any portion of such cash proceeds, up to the recouped cost of the investment, in the portfolio company, but only if such reinvestment occurs within three years of the date of the initial investment in the portfolio company and (i) the reinvestment was contemplated in connection with the initial investment or (ii) the General Partner determines that such reinvestment is in the best interests of the Fund and the Fund is committed to make such reinvestment at the time of receipt of the cash proceeds.

The amount of capital contributions from the Partners used to pay Fund expenses will be restored to the Partners' unused commitments to the extent the Partners receive subsequent distributions, and will be available to be recalled for future investments during the Investment Period.

Upon liquidation of the Fund, the General Partner will recontribute to the Fund for distribution to the Limited Partners an amount equal to the lesser of (i) 20% of the sum of (a) the amount of realized losses on any Fund investment allocable to the Limited Partners, (b) capital contributions made by the Limited Partners to pay Fund expenses and (c) distributions of contributed capital used for investment that have been returned to the Fund by the Limited Partners, in each case to the extent not previously recoped, and (ii) the product of (x) the amount of distributions received by the General Partner pursuant to the 20% provisions of paragraphs a. and b. of "Distributions" above (less any such distributions received by the General Partner but thereafter returned to the Fund), calculated on an after-tax basis, and (y) a fraction the numerator of which is the aggregate capital contributions of all Partners.

IX. Investment Period and Term

The investment period for the Fund will commence on the later of the date on which all capital under the KKR 1996 Fund has been committed or the date designated by the General Partner as the initial closing of the Fund, and will continue until the earliest of (a) the date on which the aggregate capital commitments of the Partners to the Fund have been invested (and are not subject to restoration), (b) the sixth anniversary of the commencement of the Investment Period, (c) the date on which Limited Partners holding Interests representing 80% of the aggregate capital commitments of the Limited Partners to the Fund elect to terminate the Investment Period and (d) the date on which the General partner elects to terminate the Investment Period. At the end of the Investment Period, all Partners will be released from any further obligation to provide capital for investments, other than then pending investments.

The General Partner must sell or distribute the securities of each investment no later than the twelfth anniversary of the date such investment was made.

ATTACHMENT I

PRIVATE EQUITY MANAGER SUMMARY PROFILE – BASIC FUND

I. Background Data

Name of Fund:	Crescendo V, L.P.
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	\$750 million
Fund Manager:	Crescendo Venture Management, LLC
Manager Contact:	Jeff Tollefson 800 LaSalle Ave., Ste. 2250 Minneapolis, MN 55402 612-607-2800 David Spreng 480 Cowper Street, Ste. 300 Palo Alto, CA 94301 650-470-1200

II. Organization and Staff

The principal investment professionals of Crescendo (the "Principals"), namely R. David Spreng, Jeffrey R. Tollefson, Anthony S. Daffer, Lorraine S. Fox, Jeffrey J. Hinck, Roeland A. Boonstoppel, Richard Grogan-Crane and John A. Borchers, bring more than 50 years of combined experience in the venture capital industry and collectively manage the five prior Crescendo Funds. The Principals are complemented by thirty-one additional members of the Crescendo team, including eight professionals in the Research Group, three in the Portfolio Development Group, and nineteen members of the Operations Group, all of whom bring a rich and diverse set of skills and experiences to the Fund. They have initiated, negotiated, closed and managed numerous equity investments of the type targeted by the Fund. As a result of this experience, the Principals have developed a systematic investment process, from deal sourcing and due diligence through portfolio management, which they believe ensures sound decision making and enhanced value creation.

III. Investment Strategy

The Principals will implement an investment strategy and process which they have developed and practiced in prior portfolios. Highlights of this strategy are outlined below.

Invest In High Growth Markets

The Fund will seek investments in the high growth markets of communications and Internet infrastructure and services. These industries represent an attractive investment emphasis due to many factors, including: substantial and diverse market opportunities, worldwide sales potential, changing regulatory environments and technological innovation.

The Principals find certain segments of these industries especially appealing, particularly in the areas of communication infrastructure and services as well as Internet infrastructure. The Principals have substantial investment and professional knowledge and experience in these areas, which the Principals believe will establish the Fund as a preferred source of venture financing to entrepreneurs engaged in these industries.

Early-Stage Focus

A significant portion of the Fund's assets will be invested in early-stage companies that the Principals believe to possess substantial potential for capital appreciation. Early-stage opportunities often offer pre-money valuations which the Principals find more attractive than the pre-money valuations of companies which are more advanced, thereby allowing the Fund to gain a position of influence at a lower cost. Many of the early-stage companies in which the Fund will invest will be start-up companies created by Crescendo as part of its venture catalyst and accelerator programs.

Pursue International Opportunities

Because market opportunities exist on a worldwide basis in the target industries, the Fund will particularly seek companies that have product offerings that can be competitive and effectively distributed in multinational markets. The Principals' global perspective and relationship network gives them the ability to assist portfolio companies in identifying market opportunities and establishing corporate relationships in countries outside the United States. The Principals provide a network of contacts that can be extremely useful to portfolio companies pursuing multinational expansion opportunities.

In addition to helping domestic portfolio companies become global, the Principals will also look to directly invest Fund assets in early-stage technology and service companies operating outside of the United States. The Principals believe that the environment for international early-stage venture investing has never been better, especially in parts of Europe. While these regions are well-known for scientific and technological achievement, there has not always existed an environment conducive to taking these scientific and technological achievements and molding them into

successful business enterprises. Only recently have foreign governments recognized the importance of small venture-backed companies as key drivers of economic growth, and many governments have taken steps to reduce the regulatory and tax burdens imposed on small enterprises. As the cultural stigmas of entrepreneurship continue to fade in many countries, the Principals believe that the volume and quality of investment opportunities will only continue to grow. The Principals have spent considerable time researching the international venture capital market and building a network that will provide the Fund enhanced access to compelling non-U.S. investment opportunities. With an office and experienced investment professionals in London, the Principals believe Crescendo is well positioned to be a leader in Trans-Atlantic venture capital investing for years to come.

Leverage Unique Relationships

Over the course of their venture capital and professional careers, the Principals have developed strong personal and corporate relationships with many people and institutions that are capable of adding significant value to the Fund and its portfolio companies. This includes numerous entrepreneurs, industry executives, venture capital firms, corporate partners, angel investors, investment bankers and limited partners. The Principals intend to continue their practice of leveraging these relationships for purposes of sourcing and evaluating new investment opportunities, and for a multitude of other applications on behalf of the Fund.

Add Value to Portfolio Investments

The Principals will seek investments in companies where they will be able to exercise significant influence and guidance in helping the management team build the business. The Principals expect to maintain a close working relationship with a company's management, and to add value as needed with product and business strategy, management team development and financial planning. They also believe that their history of success in guiding portfolio companies in these areas will contribute to the enjoyment of a competitive advantage in marketing the Fund to potential portfolio companies.

Crescendo has created an in-house investment support team whose primary function is to accelerate the success of Crescendo portfolio companies. Crescendo has also partnered with external resources in the professional services field, such as executive recruiting, to gain additional traction in the value creation process.

Proactively Create New Companies

While the Principals will continue to be opportunistic in their approach to investment opportunities which present themselves to the Crescendo team, they will also be very proactive in the creation of new companies to address perceived unmet market needs in the communications and Internet infrastructure fields. The Principals believe that these creation initiatives have been, and will continue to be, a bountiful source of new investment opportunities from which the Fund can generate significant capital appreciation.

IV. Investment Performance

Fund performance as of September 30, 2000 for the SBI's investments with previous Crescendo funds, is shown below.

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Crescendo II	1997	\$86 million	\$15 million	49.9%
Crescendo III	1998	\$257 million	\$25 million	34.4%
Crescendo IV	2000	\$646 million	\$100 million	N/A

Previous Fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

The General Partner will not make a capital contribution to the Fund. Rather, the Management Fee will be reduced by an amount equal to 1% of the aggregate capital contributions made during the prior quarter.

Certain designees of the General Partner and its affiliates may form a separate investment fund (the "Executive Fund") which will invest in each investment on a pro rata and pari passu basis with the Fund. In addition, the General Partner may form one or more foreign funds ("Foreign Funds") having non-United States persons as investors. Any such Foreign Funds will invest in each investment on a pro rata and pari passu basis with the Fund. Finally, the General Partner and its employees and affiliates may directly or indirectly co-invest in each investment ("General Partner Co-Investments") on a pro rata (subject to adjustments and limitations) and pari passu basis with the Fund. Except with the approval of the Advisory Committee, the Executive Fund, the Foreign Funds, the General Partner Co-Investments, and the prior Crescendo Funds will be the sole means by which the General Partner and its affiliates or their executives will co-invest with the Fund. The total committed capital of the Executive Fund shall not exceed five percent (5%) of the Total Committed Capital of the Fund. The General Partner Co-Investments shall not, in aggregate, exceed five percent (5%) of the Total Committed Capital of the Fund. All funds described in this paragraph are referred to herein as the "Parallel Funds".

VI. Takedown Schedule

Each Investor will be required to make capital contributions from time to time when called by the General Partner upon at least 14 days notice, in order to fund investments and fees and expenses of the Fund.

VII. Fees

The Fund will bear all of its operating and other expenses, including but not limited to legal, auditing and accounting fees and expenses, as well as custodial fees, taxes, commissions, brokerage, investment banking fees and consulting fees. The Fund will pay the Management Company an annual management fee equal to 2.25% of committed capital, payable at the beginning of each quarter. Commencing June 30, 2007, the Management Fee will become equal to 2.25% of the cost basis of securities still held by the Fund at the beginning of its fiscal year. In the event the Fund makes any investment in another investment pool or partnership on which there is a carried interest or management fee, the General Partner and the Management Company will waive their carried interest and Management Fee, respectively, payable from the Fund with respect to such investments, to the extent necessary to avoid duplication of the payment of carried interest and management fees between the two funds.

The Fund will bear the costs and expenses incurred in connection with its organization and with the offering of Interests. Such amount shall not exceed \$750,000; any excess will be borne by the General Partner.

VIII. Allocations and Distributions

The Fund's net income and losses generally will be allocated each year (i) 20% to the General Partner and (ii) 80% first to the General Partner until it has been allocated an amount of Net Income equal to the cumulative amount by which that Management Fee has been reduced and then to all Partners as a group.

Annual cash distributions will be made to each partner to cover estimated income tax liabilities from Fund operations. Additionally, the General Partner (i) shall distribute any proceeds from the sale or exchange of securities of portfolio companies as soon as practicable following such sale or exchange (and in any event, except with Advisory Committee approval, within ninety (90) days after the receipt by the Fund of such proceeds) subject to the retention of such amounts as are necessary to pay Fund expenses (including Management Fee) and to make permitted reinvestments, and (ii) may, in its discretion, make additional distributions of cash and marketable securities. Any such distributions will be made in the following manner:

Prior to Payout (i.e., receipt by the Investors of distributions equal to their capital contributions), any distributions (other than tax distributions) will be made subject to the "Fair Value Test." The Fair Value Test means that the sum of the amount of cumulative distributions to the Investors, plus the amount of the Investors' fair value capital accounts, after giving effect to the proposed distribution, is equal to at least 125% of the Investors' capital contributions.

If the Fair Value Test is not satisfied, distributions (other than tax distributions) prior to Payout will be made to the partners of the Fund (including the General Partner) in proportion to their capital contributions.

If the Fair Value Test is satisfied, distributions (other than tax distributions) prior to Payout will be made, at the discretion of the General Partner, either (i) among the partners of the Fund in proportion to their capital contributions, or (ii) to the General Partner until the General Partner has received 20% of any net capital transaction gains of the Fund, and then among the partners of the Fund (including the General Partner) in proportion to their capital contributions.

After Payout, all distributions (other than tax distributions) will be made among the partners of the Fund in accordance with their Capital Account balances.

IX. Investment Period and Term

The Fund's term will continue for a period of ten years from the Fund's final closing, but may be extended for up to one year in the discretion of the General Partner and for additional periods with the approval of two-thirds of the Investors. Until the Fund has invested or reserved or committed for investment at least 75% of its investable capital, the General Partner will not close on any additional investment funds (other than the Parallel Funds) with investment objectives substantially the same as those of the Fund

ATTACHMENT J

PRIVATE EQUITY MANAGER SUMMARY PROFILE – BASIC FUND

I. Background Data

Name of Fund:	BLUM Strategic Partners II, L.P.
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	\$750 million
Fund Manager:	BLUM Capital
Manager Contact:	Richard Blum 909 Montgomery Street, Suite 400 San Francisco, Ca. 94133-4625 (415) 434-1111

II. Organization and Staff

BLUM Capital has 13 senior-level executives. These professionals—with prior backgrounds in investment banking, venture capital, private equity, investment research, public equity management, real estate, law and public accounting—have been instrumental in developing public and private investments, in a variety of industries, and successfully executing these investments.

The General Partner of the Partnership will be an affiliate of BLUM Capital that will be controlled by Richard C. Blum and N. Colin Lind.

The business backgrounds of BLUM Capital's two most senior executives are described below:

- Richard C. Blum, 64, Chairman, began his career with Sutro & Co., Inc., in 1958. Mr. Blum resigned from Sutro in 1975 to form the predecessor to BLUM Capital.
- N. Colin Lind, 44, Managing Partner, has been a partner of Richard Blum for the past 14 years. Prior to joining BLUM Capital in 1986, Mr. Lind was Vice President of R. H. Chappell Co., a private investment bank.

III. Investment Strategy

The investment strategy of the Partnership will be a continuation and enhancement of the strategy that has been successfully employed by RCBA Strategic Partners, L.P. and by BLUM Capital over the past 25 years. BLUM Capital has sought to uncover companies that it believes have fundamentally sound businesses, make meaningful investments in the companies at compelling valuations, build relationships with management, and implement strategies or extraordinary transactions to provide a superior return on invested capital. The Partnership expects to source its investments both through opportunities in the public and private markets and through the extensive network of personal contacts of its senior executives.

The foundation of BLUM Capital's investment strategy is a value-oriented approach that is research intensive and emphasizes preservation of capital. BLUM Capital seeks to invest in fundamentally "good businesses," which it defines as businesses that have the ability to generate meaningful returns on invested capital over an extended period of time. In identifying good businesses, BLUM Capital looks for the following attributes:

- Businesses that provide a demonstrable convenience to customers or a high value-added product or service.
- Businesses capable of withstanding industry turmoil or a period of mismanagement.
- Slowly evolving businesses with simple business models.
- Businesses with recurring revenue streams with no need to continually recreate demand.
- Businesses with a minimum of "uncontrollable" factors affecting their results.
- Businesses that do not have a concentrated customer base.
- Businesses that generate surplus cash flow after funding their growth.

BLUM Capital invests in a company only if it can do so at what it believes is a compelling valuation. When it acquires a stake in a publicly traded company, BLUM Capital seeks to buy into the company at a valuation at which a knowledgeable buyer could pay a substantial control premium and still be able to earn a return in excess of 25% per annum in a transaction after paying the premium. When it invests in a private company, BLUM Capital seeks a transaction where, through improving the company's operating strategies and financial restructuring, it

can target a return in excess of 30% per annum. BLUM Capital's method of uncovering a good business that it can buy at a compelling valuation is to focus on companies undergoing significant transition.

BLUM Capital considers itself a "relationship investor" in that its goal in an investment is to work with management to implement strategies that maximize shareholder value over time and close the value gap BLUM Capital perceives when it makes its initial investment. BLUM Capital will not pursue hostile transactions. In rare instances, however, it may be required to take steps to defend the value of its investment if it believes management is pursuing a course of action clearly detrimental to the interests of the company's shareholders.

The Partnership will target both strategic block investments and control transactions.

In its strategic block investment activities, the Partnership will target companies with market capitalizations in the range of \$100 million to \$1.5 billion and seek to acquire positions ranging in size (at acquisition cost) from \$50 to \$125 million. The Partnership may acquire such stakes through open market purchases, negotiated transactions, or a combination of both. In certain cases, the acquisition of a strategic block may lead to a control transaction; in other instances, the Partnership will dispose of its position in the company's stock in the public markets or other means once BLUM Capital believes the company's share price more fully reflects its potential value. In the absence of a control transaction, BLUM Capital generally views the value-creation process in a strategic block investment as a two-to-three year process.

In its control transactions, the Partnership will make investments in which it assumes a lead role in the strategic direction or restructuring of a company as the control investor, or as part of a group of investors with control. These types of investments are generally oriented to a medium to longer term value-creation and exit strategy. Control transactions will be effected in a number of different ways, including:

- (i) Acquiring control of a company subsequent to a strategic block investment, either through additional purchases of the company's stock in the public markets or in a negotiated transaction or both.
- (ii) Making a negotiated private investment in a publicly traded company.
- (iii) Acquiring control of a company that is not publicly traded in a negotiated transaction.

In general, where BLUM Capital contemplates a control investment in a company that is publicly traded, it does not consider taking the company private to be a critical element of its strategy. In fact, by repurchasing 25% of a company's outstanding shares in the open market at low valuations, while incurring only a

modest amount of leverage, a company can often produce investment returns equal to or greater than purchasing 100% of a company at a premium valuation and incurring substantial leverage. BLUM Capital will pursue a going-private strategy only when it considers that such a strategy is in the best interests of the Partnership and the company.

IV. Investment Performance

Previous fund performance as of September 30, 2000 for the SBI's investments with Blum funds is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
BLUM Strategic Partners I, L.P.	1998	\$639 million	\$50 million	9.23%

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

Equal to at least 3% of committed capital.

VI. Takedown Schedule

Commitments will be drawn down on a as-needed basis, with a minimum ten business days' prior notice

VII. Fees

During the Commitment Period, 1.5% of Total Commitments. After the Commitment Period, 1.25% of any unreturned Funded Commitments invested in Portfolio Companies.

The Management Fee will be reduced by (i) 100% of any transaction or monitoring fees paid by Portfolio Companies to the General Partner; and (ii) 100% of any break-up fees received by the General Partner, in each case net of certain unreimbursed expenses incurred by the General Partner.

The Partnership will bear up to \$1 million of organizational expenses but will not bear any placement fees.

VIII. Allocations and Distributions

Limited Partners will receive (i) a return of capital, fees and expenses and aggregate net losses from write-downs; (ii) an 8% preferred return (subject to a catch-up by the General Partner); and (iii) 80% of the distributions thereafter.

A portion of the after-tax distributions to which the General Partner would otherwise be entitled will be escrowed pending the future performance of the Partnership and will be subject to reallocation and distribution to the Partners following the termination of the Partnership.

IX. Investment Period and Term

Commitment period is five years from the final closing.

The term is ten years, subject to two consecutive one-year extensions at the discretion of the General Partner.

ATTACHMENT K

RESOURCE MANAGER SUMMARY PROFILE – BASIC FUND

I. Background Data

<i>Name of Fund:</i>	First Reserve Fund IX, L.P.
<i>Type of Fund:</i>	Resource Limited Partnership
<i>Total Fund Size:</i>	\$800 million
<i>Fund Manager:</i>	First Reserve Corporation
<i>Manager Contact:</i>	John Hill 411 West Putnam Avenue Greenwich, CT 06830 (203) 625-2507

II. Organization and Staff

First Reserve Corporation (“First Reserve” or the “Firm”) is forming First Reserve Fund IX, L.P. (“Fund IX” or the “Partnership”) to make privately negotiated equity and equity-related investments in a diversified portfolio of energy companies. Throughout its 20-year history, First Reserve has focused exclusively on the energy industry in order to capitalize on its broad base of specialized industry knowledge. In eight previous Funds, First Reserve has made investments in over 65 entities, more than 30 of which were platform companies for further acquisitions. First Reserve has also funded more than 140 add-on acquisitions for these portfolio companies. These investments span most sectors of the energy industry, including oilfield services, equipment manufacturing, technology development, marketing and distribution, exploration and production, transportation, hydrocarbon processing and coal production.

With the launch of Fund IX commemorating the Firm’s 20th anniversary, First Reserve is one of the oldest resource private equity firms in the country and among the first to recognize the advantages of specializing in a single industrial sector. The Firm, which has raised over \$1.5 billion in capital for investment in the energy industry, is managed by William E. Macaulay, Ben A. Guill and John A. Hill. Messrs. Macaulay and Hill have worked together as a team since 1983, and Mr. Guill, who joined First Reserve in 1998 as its President, has worked on First Reserve transactions since 1986. Other senior members of the investment team include Thomas R. Denison, Will Honeybourne and Jonathan S. Linker. With over 125 years of combined investment experience, these six individuals (the “Principals”) comprise the First Reserve investment team. The team is further strengthened by managers of portfolio companies who have worked with First Reserve on multiple investments, particularly in helping to build core companies.

III. Investment Strategy

Fund IX will pursue the same investment strategy the Principals employed to achieve the investment success of First Reserve's prior Equity Funds. The Firm's strategy for identifying initial and follow-on investments emphasizes a number of elements, including:

- (i) capitalizing on opportunities created by industry trends identified by an on-going, intensive industry research process;
- (ii) proactive generation of deals through First Reserve's extensive, proprietary network developed over the past 20 years;
- (iii) rigorous due diligence and the use of conservative pricing criteria and capital structures;
- (iv) diversification within the industry to enhance portfolio returns while minimizing risk;
- (v) the maximization of post-investment value creation by working closely with properly incentivized management teams; and
- (vi) the identification of multiple exit strategies and timely execution of the strategies which maximize the value of each investment. The typical holding period for First Reserve portfolio companies has been four to seven years, and it is anticipated that the holding period for Fund IX investments will also be in that range.

Fund IX will target investments of \$25 million to \$150 million in middle-market energy companies with enterprise values of \$50 million to \$1 billion as well as smaller investments in companies which can serve as core vehicles for building larger, more valuable companies. The companies will generally have proven management teams, significant growth potential, strong market positions and multiple exit opportunities. The investments will also be focused in companies in which First Reserve will have significant influence through the Fund's ownership position, board representation and the Firm's industry and strategic expertise.

IV. Investment Performance

Previous fund performance as of September 30, 2000 for the SBI's investments with First Reserve funds, is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
AmGo I	1981	\$144 million	\$15 million	0%
AmGo II	1983	\$36 million	\$7 million	7%
First Reserve SEA Fund	1988	\$63 million	\$12 million	13%
First Reserve Fund V	1990	\$84 million	\$17 million	16%
First Reserve Fund VII	1996	\$244 million	\$40 million	21%
First Reserve Fund VIII	1998	\$812 million	\$100 million	38%

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

The General Partner and its affiliates will make a cash commitment equal to 2% of total Commitments, up to a maximum of \$20 million.

VI. Takedown Schedule

Commitments are expected to be drawn down as needed during the Commitment Period, generally with not less than ten business days' prior written notice.

VII. Fees

The management fee will be, commencing on the date of the first investment, 2% of aggregate Commitments up to \$750 million and 1% of aggregate Commitments in excess of \$750 million during the Commitment Period, thereafter, reduced to the actual blended management fee percentage times funded Commitments.

After offsetting expenses associated with transactions, the Partnership's allocable share of transaction and break-up fees will be credited 50% against the management fee.

The Partnership's allocable share of Directors' and Advisory Fees will be credited 100% against the management fee.

The Partnership will bear up to \$2 million of organizational expenses.

VIII. Allocations and Distributions

In general, investors will receive distributions in the following order of priority:

- a return of all investment costs, net of management fees and other expenses attributable to realized investments and write-downs; plus
- an 8% preferred return on the above amounts;

After which distributions will be made:

- 80% to the General Partner and 20% to the Limited Partners in proportion to funded Commitments as a “catch-up” until the General Partner has received its 20% carried interest; and thereafter
- 80% to Limited Partners in proportion to funded Commitments and 20% to the General Partner.

IX. Investment Period and Term

Generally, the Commitment period will be five years from the closing date of the first investment.

The term will be ten years from date of initial investment, subject to two consecutive one-year extensions.