

MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
December 5, 2001

&

INVESTMENT ADVISORY
COUNCIL MEETING
December 4, 2001

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

- | | |
|---|------------|
| | TAB |
| 1. Approval of Minutes of September 5, 2001 | |
| 2. Report from the Executive Director (H. Bicker) | |
| A. Quarterly Investment Review
(July 1, 2001 – September 30, 2001) | A |
| B. Administrative Report | B |
| 1. Reports on budget and travel. | |
| 2. Post Retirement Benefit Increase for FY01. | |
| 3. Litigation Update. | |
| 4. Results of FY01 Audit. | |
| 5. Draft of FY01 Annual Report. | |
| 6. Tentative Meeting Dates for Calendar 2002. | |
| 7. Office Relocation. | |
| 3. Reports from the Investment Advisory Council (Jan Yeomans) | |
| A. Stock and Bond Manager Committee | C |
| 1. Review of manager performance. | |
| 2. Annual review of investment manager guidelines. | |
| 3. Update of the Domestic Equity short list. | |
| 4. Recommendation to renew investment manager contracts. | |
| B. Alternative Investment Committee | D |
| 1. Review of current strategy. | |
| 2. Review meetings with existing alternative investment managers. | |

STATE BOARD OF INVESTMENT

Minutes State Board of Investment September 5, 2001

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, September 5, 2001 in Room 125 State Capitol, St. Paul, Minnesota. Governor Jesse Ventura; State Auditor Judith H. Dutcher; State Treasurer Carol C. Johnson; Secretary of State Mary Kiffmeyer and Attorney General Mike Hatch were present. The minutes of the June 6, 2001 and June 29, 2001 Board meetings were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded inflation over the ten year period ending June 30, 2001 (Combined Funds 11.8% vs. inflation 2.7%), exceeded the median fund (51st percentile) and outperformed its composite index (Combined Funds 10.8% vs. Composite 10.2%) for the most recent five year period. He stated that the Basic Funds have exceeded its composite index (Basic Funds 11.2% vs. Composite 10.7%) over the last five years and reported that the Post Fund has outperformed its composite index over the last five years period (Post Fund 10.3% vs. Composite 9.7%).

Mr. Bicker reported that the Basic Fund's assets increased 1.3% for the quarter ending June 30, 2001 due to positive investment returns. He said that the asset mix was on target and he reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds 3.3% vs. Composite 3.0%) and for the year (Basic Funds -7.4% vs. Composite -8.4%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 4.8% for the quarter ending June 30, 2001. He said the Post Fund asset mix was also on target and the Post Fund outperformed its composite index for the quarter (Post Fund 4.3% vs. Composite 4.0%) and for the year (Post Fund -6.9% vs. Composite -8.0%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks 7.7% vs. Wilshire 5000 Investable 7.5%) and for the year (Domestic Stocks -15.2% vs. Wilshire 5000 Investable -15.8%). He said that the International Stock manager group outperformed its composite index for the quarter (International Stocks 0.6% vs. Int'l Composite -0.5%), and for the year (International Stocks -22.1% vs. Int'l Composite -23.9%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 0.8% vs. Lehman Aggregate 0.6%) and for the year (Bonds 11.8% vs. Lehman Aggregate 11.2%). He concluded his report with the comment that as of June 30, 2001, the SBI was responsible for over \$48 billion in assets.

Executive Director' Administrative Report

Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel.

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

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of three active litigation cases. She stated that in the Mercury case, a final distribution may be made by December 31, 2001. She reported that the McKesson case may have more delays since it has been reassigned and that motions to dismiss are scheduled in late October 2001. Ms. Eller stated that the SBI was recently appointed lead plaintiff in a securities case against Broadcom and that a consolidated complaint is scheduled to be filed on September 24, 2001.

Mr. Bicker reported that the SBI no longer holds any stock of companies that derive at least 15% of their revenues from tobacco products.

Consultant Review Committee Report

Mr. Manahan referred members to Tab C of the meeting materials and reported that the Committee had reviewed Request for Proposal (RFP) responses from four firms for consulting services. He said that based on the services the SBI requires from an investment management consultant, the Committee determined that continuing to have the services of a general consultant and a special projects consultant is desirable. He stated that the Committee is recommending that Richards & Tierney, Inc. be retained as the SBI's general consultant and that Pension Consulting Alliance be retained as the special projects consultant. Governor Ventura moved approval of the Committee's recommendation, as stated in the Committee Report, which reads "The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI's legal counsel, to negotiate and execute contracts with Richards & Tierney, Inc. for general consulting services and with Pension Consulting Alliance for special projects. Both contracts should cover the five year period beginning July 1, 2002 and will be subject to the standard termination provisions required by state statute." Ms. Kiffmeyer seconded the motion. The motion passed.

Deferred Compensation Review Committee Report

Mr. Manahan referred members to Tab D of the meeting materials and stated that during the quarter the Committee had been authorized to evaluate the addition of a mid-cap stock mutual fund for the State Deferred Compensation Plan. He said that the Committee had reviewed several mutual fund candidates and that the Committee is recommending the addition of the MAS Mid-Cap Value Fund. Ms. Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Deferred Compensation Review Committee recommends that the Board authorize the Executive Director, with assistance from legal counsel, to negotiate and execute a contract to retain MAS Mid-Cap Value Fund and to work with the Executive Director of the Minnesota State Retirement System to include the Fund in the list of investment options for the State Deferred Compensation Plan." Ms. Dutcher seconded the motion. The motion passed.

Stock and Bond Manager Committee Report

Ms. Yeomans referred members to Tab E of the meeting materials and stated that during the quarter staff had met with the semi-passive equity managers to discuss the appropriateness of their current tracking error target of 1.0% to 1.5%. She noted that recent market volatility had caused increased turnover and transaction costs. She said that staff will be increasing the target range for the tracking error to 1.0% to 2.0%.

Ms. Yeomans reported that staff and the Committee had reviewed Lincoln Capital Management as a result of their recent poor performance and organizational developments. She said that most of the underperformance was due to a significant technology exposure and she said that the firm has made changes to their investment team and decision-making structure which should address the SBI's concerns. She noted that no formal action is required at this time.

Ms. Yeomans stated that the Committee is recommending that New Amsterdam Partners be reclassified from an emerging manager to a domestic equity manager. She explained that the firm is a strong organization with a disciplined investment process and a track record of adding value to their custom benchmark. Governor Ventura moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that New Amsterdam Partners be transferred to the regular Domestic Equity Program from the Emerging Manager Program." Ms. Johnson seconded the motion. The motion passed.

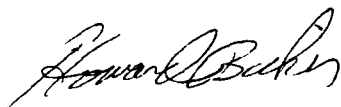
Ms. Yeomans stated that the Committee is recommending a 70% stock/ 28% bond/ 2% cash asset allocation for the Lifetime Fish & Wildlife Trust Fund. She noted that the return assumption for the fund is 8%. In response to a question from Mr. Hatch, Mr. Bicker said the return assumption for the retirement fund assets is 8.5%. Ms. Johnson moved approval of the Committee's recommendation, as stated in the Committee Report which reads: "The Committee recommends that the Board adopt the attached policy paper concerning the Lifetime Fish and Wildlife Trust Fund." Governor Ventura seconded the motion. The motion passed.

Alternative Investment Committee Report

Ms. Yeomans referred members to Tab F of the meeting materials and said that the Committee met with two existing investment managers during the quarter and that their performance was satisfactory. She stated that there are no recommendations from the Committee this quarter.

The meeting adjourned at 9:25 A.M.

Respectfully submitted,



Howard J. Bicker
Executive Director

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Tuesday, December 4, 2001
2:00 P.M. - Board Room – First Floor
60 Empire Drive
St. Paul, MN

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| 1. Approval of Minutes of September 4, 2001 | TAB |
| 2. Report from the Executive Director (H. Bicker) | |
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| 2. Post Retirement Benefit Increase for FY01. | |
| 3. Litigation Update. | |
| 4. Results of FY01 Audit. | |
| 5. Draft of FY01 Annual Report. | |
| 6. Tentative Meeting Dates for Calendar 2002. | |
| 7. Office Relocation. | |
| 3. Reports from the Investment Advisory Council | |
| A. Stock and Bond Manager Committee (John Bohan) | C |
| 1. Review of manager performance. | |
| 2. Annual review of investment manager guidelines. | |
| 3. Update of the Domestic Equity short list. | |
| 4. Recommendation to renew investment manager contracts. | |
| B. Alternative Investment Committee (Ken Gudorf) | D |
| 1. Review of current strategy. | |
| 2. Review meetings with existing alternative investment managers. | |

**Minutes
Investment Advisory Council
September 4, 2001**

MEMBERS PRESENT: Gary Austin; John Bohan; Han Chin Liu; Judy Mares; Malcolm McDonald; Mary Stanton; Mary Vanek; Elaine Voss; and Jan Yeomans.

MEMBERS ABSENT: Dave Bergstrom; Ken Gudorf; Doug Gorence; P. Jay Kiedrowski; Gary Norstrem; Daralyn Peifer; and Pam Wheelock.

SBI STAFF: Howard Bicker; Mansco Perry; Jim Heidelberg; Andy Christensen; Stephanie Gleeson; Debbie Griebenow; Jason Matz; Erol Sonderegger; Charlene Olson; and Carol Nelson.

OTHERS ATTENDING: Ann Posey, Richards & Tierney; Christie Eller; Jake Manahan; Dale Hanke, Robert Heimerl, Lloyd Belford, REAM; Edward Rapp, Education Minnesota; Christine Williamson, Pensions & Investments; Jack Hirschfeld, Office of the Legislative Auditor.

The minutes of the June 5, 2001 meeting were approved. Mr. Bicker reminded members that the December meeting will be held at the new building.

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, 2001 (Combined Funds 11.8% vs. inflation 2.7%), exceeded the median fund (51st percentile) and outperformed its composite index (Combined Funds 10.8% vs. Composite 10.2%) for the most recent five year period. He stated that the Basic Funds have exceeded its composite index (Basic Funds 11.2% vs. Composite 10.7%) over the last five years and reported that the Post Fund has outperformed its composite index over the last five years period (Post Fund 10.3% vs. Composite 9.7%).

Mr. Bicker reported that the Basic Fund's assets increased 1.3% for the quarter ending June 30, 2001 due to positive investment returns. He said that the asset mix was on target and he reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds 3.3% vs. Composite 3.0%) and for the year (Basic Funds -7.4% vs. Composite -8.4%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 4.8% for the quarter ending June 30, 2001. He said the Post Fund asset mix was also on target and the Post Fund outperformed its composite index for the quarter (Post Fund 4.3% vs. Composite 4.0%) and for the year (Post Fund -6.9% vs. Composite -8.0%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks 7.7% vs. Wilshire 5000 Investable 7.5%) and for the year (Domestic Stocks -15.2% vs. Wilshire 5000 Investable -15.8%). He said that the International Stock manager group outperformed its composite index for the quarter (International Stocks 0.6% vs. Int'l Composite -0.5%), and for the year (International Stocks -22.1% vs. Int'l Composite -23.9%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 0.8% vs. Lehman Aggregate 0.6%) and for the year (Bonds 11.8% vs. Lehman Aggregate 11.2%). He concluded his report with the comment that as of June 30, 2001, the SBI was responsible for over \$48 billion in assets.

Executive Director' Administrative Report

Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of three active litigation cases. She stated that in the Mercury case, a final distribution may be made by December 31, 2001. She reported that the McKesson case may have more delays since it has been reassigned and that motions to dismiss are scheduled in late October 2001. Ms. Eller stated that the SBI was recently appointed lead plaintiff in a securities case against Broadcom and that a consolidated complaint is scheduled to be filed on September 24, 2001.

Mr. Bicker reported that the SBI no longer holds any stock of companies that derive 15% of their revenues from tobacco products.

Consultant Review Committee Report

In response to a question from Ms. Yeomans, Mr. Bicker stated that the consultant and deferred compensation recommendations do not require IAC approval, but he briefly reviewed the information with the IAC. Mr. Bicker referred members to Tab C of the meeting materials and reported that the Committee had reviewed Request for Proposal (RFP) responses from four firms for consulting services. He said that based on the services the SBI requires from an investment management consultant, the Committee determined that continuing to have the services of a general consultant and a special projects consultant is desirable. He stated that the Committee is recommending that Richards & Tierney, Inc. be retained as the SBI's general consultant and that Pension Consulting Alliance be retained as the special projects consultant.

Deferred Compensation Review Committee Report

Mr. Bicker referred members to Tab D of the meeting materials and stated that during the quarter the Committee had been authorized to evaluate the addition of a mid-cap stock mutual fund for the State Deferred Compensation Plan. He said that the Committee had reviewed several mutual fund candidates and that the Committee is recommending the addition of the MAS Mid-Cap Value Fund. He noted that the addition would not be available to participants immediately due to the time needed to prepare information and educational materials.

Stock and Bond Manager Committee Report

Mr. Troutman referred members to Tab E of the meeting materials and stated that during the quarter staff had met with the semi-passive equity managers to discuss the appropriateness of the current tracking error target of 1.0% to 1.5%. He noted that recent market volatility has caused increased turnover and transaction costs and he said that staff will be increasing the target range for the tracking error to 1.0% to 2.0%.

Mr. Troutman reported that staff and the Committee had reviewed Lincoln Capital Management as a result of their recent poor performance and some organizational developments. He said that staff believes the firm has a sound investment process and that most of the underperformance was due to a significant technology exposure. He said that the firm has made changes to their investment team and decision-making structure which should address the SBI's concerns. He noted no formal action is required at this time.

Mr. Troutman stated that the Committee is recommending that New Amsterdam Partners be reclassified from an emerging manager to a domestic equity manager. He explained that the firm is a strong organization with a disciplined investment process and a track record of adding value to their custom benchmark and he moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. The motion passed. In response to a question from Mr. Bohan, Mr. Bicker stated that New Amsterdam will not be given any additional allocation at this time.

Mr. Troutman stated that the Committee is recommending a 70% stock/ 28% bond/ 2% cash asset allocation for the Lifetime Fish & Wildlife Trust Fund. He noted that the return assumption for the fund is 8%. Mr. McDonald moved approval of the Committee's recommendation, as stated in the Committee Report. Ms. Vanek seconded the motion. The motion passed. In response to a question from Mr. Bohan, Mr. Bicker said the current size of the fund is approximately \$500,000 and that he doesn't expect the fund to grow significantly.

Alternative Investment Committee Report

Mr. McDonald referred members to Tab F of the meeting materials and briefly reviewed the performance. He said that the Committee met with two existing investment managers during the quarter and he summarized the Committee's reviews and noted that their performance was satisfactory. He stated that there are no recommendations from the Committee this quarter.

The meeting adjourned at 2:33 P.M.

Respectfully submitted,



Howard J. Bicker
Executive Director

Tab A

LONG TERM OBJECTIVES

Period Ending 9/30/2001

COMBINED FUNDS: \$34.4 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>	10.0% (1)	7.3 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>	8.3%	0.7 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>	52nd percentile (2)	below the median fund in TUCS

BASIC RETIREMENT FUNDS: \$16.9 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>	8.7%	0.6 percentage point above target

POST RETIREMENT FUND: \$17.5 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>	7.8%	0.7 percentage point above target

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

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

SUMMARY OF ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
July 1, 2000

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

* Ratio most frequently used by the Legislature and Retirement Systems

Notes:

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

Actuarial Assumptions:

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

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

Full Funding Target Date: 2024, with a surplus of plan actuarial assets compared to accrued liabilities credited over a period through 2030.

EXECUTIVE SUMMARY

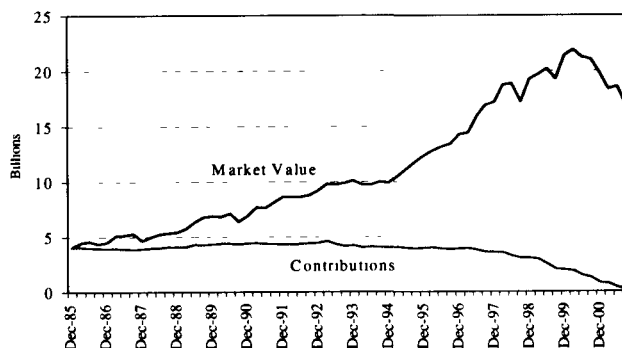
Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds decreased by 9.3% during the third quarter of 2001. Negative investment returns and net negative contributions accounted for the decrease.

Asset Growth During Third Quarter 2001 (Millions)

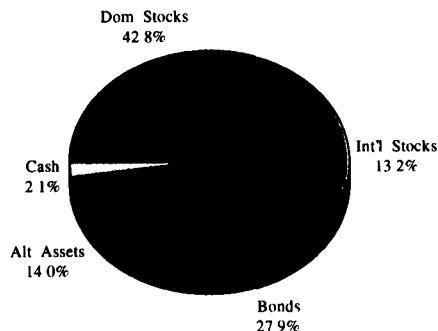
Beginning Value	\$ 18,575
Net Contributions	-173
Investment Return	-1,551
Ending Value	\$ 16,851



Asset Mix

The domestic stock allocation decreased this quarter due to negative returns. The bond allocation increased due to positive returns.

	Policy Targets	Actual Mix 9/30/2001	Actual Market Value (Millions)
Domestic Stocks	45.0%	42.8%	\$7,215
Int'l. Stocks	15.0	13.2	2,219
Bonds	24.0	27.9	4,708
Alternative Assets*	15.0	14.0	2,356
Unallocated Cash	1.0	2.1	353
	100.0%	100.0%	\$16,851

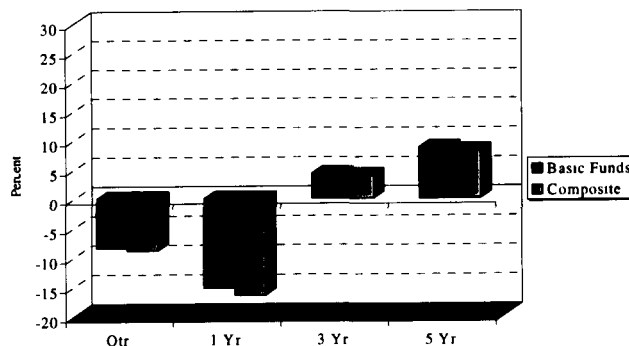


* Any uninvested allocation is held in domestic stocks

Fund Performance (Net of Fees)

The Basic Funds outperformed its composite market index for all periods shown.

	Period Ending 9/30/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basics	-8.4%	-15.2%	4.2%	8.7%
Composite	-8.8	-16.4	3.9	8.1



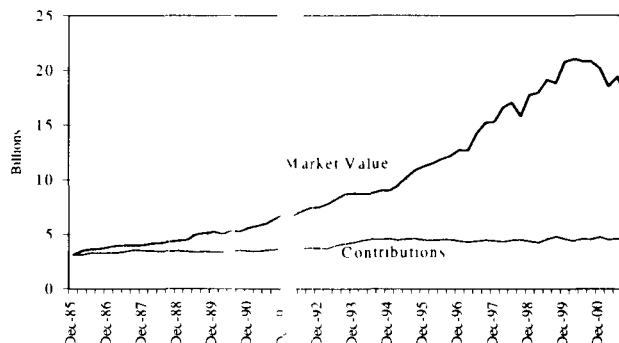
EXECUTIVE SUMMARY
Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund decreased by 9.8% during the third quarter of 2001. Negative investment returns and net negative contributions accounted for the decrease.

Asset Growth
During Third Quarter 2001
(Millions)

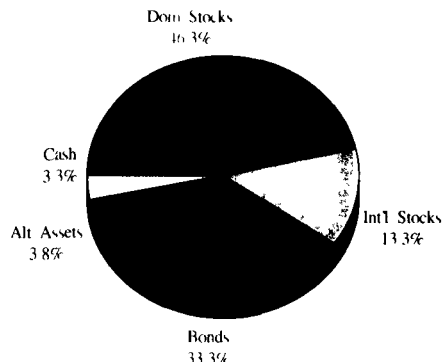
Beginning Value	\$19,397
Net Contributions	-165
Investment Return	-1,727
Ending Value	\$17,505



Asset Mix

The domestic stock allocation decreased this quarter due to negative returns. The bond allocation increased due to positive returns.

	Policy Targets	Actual Mix 9/30/2001	Actual Market Value (Millions)
Domestic Stocks	50.0%	46.3%	\$8,111
Int'l Stocks	15.0	13.3	2,324
Bonds	27.0	33.3	5,823
Alternative Assets*	5.0	3.8	662
Unallocated Cash	3.0	3.3	585
	100.0%	100.0%	\$17,505

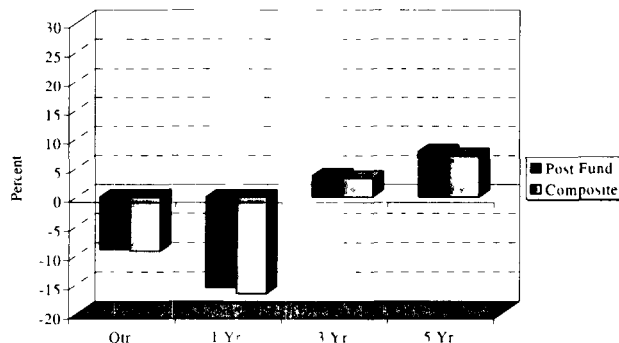


* Any uninvested allocation is held in bonds

Fund Performance (Net of Fees)

The Post Fund outperformed its composite index for all periods shown.

	Period Ending 9/30/2001			
	Qtr	1 Yr	3 Yr	5 Yr
Post	-9.0%	-15.5%	3.7%	7.8%
Composite	-9.3	-16.6	3.2	7.1



EXECUTIVE SUMMARY

Stock and Bond Manager Performance (Net of Fees)

Domestic Stocks

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

	Period Ending 9/30/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Dom. Stocks	-16.3%	-29.2%	1.1%	8.3%
Wilshire 5000 Investable*	-16.4	-29.8	1.3	8.2

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

International Stocks

The international stock manager group (active and passive combined) underperformed for the quarter and outperformed for the year.

	Period Ending 9/30/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Int'l. Stocks	-15.0%	-28.4%	-0.2%	0.2%
Composite Index*	-14.8	-29.0	-0.6	-1.3

* 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) slightly underperformed its target for the quarter and outperformed all other periods.

	Period Ending 9/30/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Bonds	4.5%	13.4%	6.7%	8.3%
Lehman Agg.	4.6	13.0	6.4	8.1

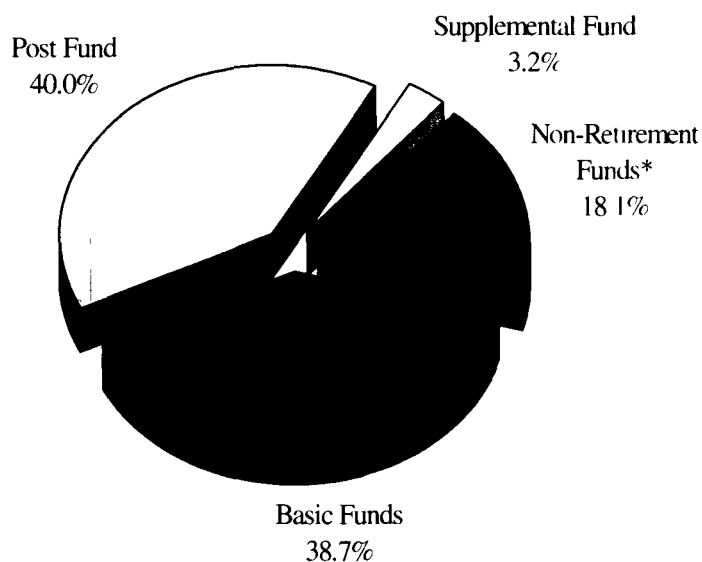
Wilshire 5000 Investable: The Wilshire 5000 Investable stock index reflects the performance of a broad range of publicly traded stocks of companies domiciled in the U.S. It does not include the smallest and least liquid securities in the W5000 that generally are not owned by large pension plans.

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

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

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

EXECUTIVE SUMMARY
 Funds Under Management



**9/30/2001
 Market Value
 (Billions)**

Retirement Funds	
Basic Retirement Funds	\$16.9
Post Retirement Fund	17.5
Supplemental Investment Fund	1.4
Non Retirement Funds*	
Assigned Risk Plan	0.3
Permanent School Fund	0.5
Environmental Trust Fund	0.3
Tobacco Prevention Fund	0.5
Medical Education Fund	0.3
State Cash Accounts	6.0
Total	\$43.7

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Third Quarter 2001
(July 1, 2001 - September 30, 2001)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 9/30/2001				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	-15.9%	-28.9%	2.0%	8.6%	11.9%
Dow Jones Industrials	-15.4	-15.5	5.8	10.4	13.9
S&P 500	-14.7	-26.6	2.0	10.2	12.7
Russell 2000	-20.8	-21.2	5.0	4.5	10.0
Domestic Fixed Income					
Lehman Aggregate*	4.6	13.0	6.4	8.1	7.8
Lehman Gov't./Corp.	4.8	13.2	5.9	8.0	7.8
3 month U.S. Treasury Bills	0.9	4.8	5.1	5.2	4.8
International					
EAFE**	-13.9	-28.7	-1.2	-0.2	3.9
Emerging Markets Free***	-21.6	-33.2	1.6	-10.2	2.0
Salomon Non U.S. Gov't. Bond	7.8	4.5	-0.8	1.3	6.3
Inflation Measure					
Consumer Price Index****	0.2	2.6	2.9	2.5	2.7

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

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

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

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The U.S. stock market, as represented by the Wilshire 5000, declined 15.9% in the third quarter. During the period, corporate profits continued to decline, exacerbated by the terrorist attacks. The Fed reacted to the weak economy by cutting interest rates 75 basis points during the quarter, quickly followed by another 50 basis point cut at the beginning of the fourth quarter. Defensive sectors such as consumer non-durables and healthcare outperformed the market in the quarter while technology was the worst performing sector. Growth stocks underperformed value and large stocks outperformed small during the quarter.

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

Large Value	-14.6%
Small Value	-17.0
Large Growth	-16.2
Small Growth	-27.4

The Wilshire 5000 declined 28.9% as measured by the Wilshire 5000 index for the twelve months ending September 30, 2001.

DOMESTIC BONDS

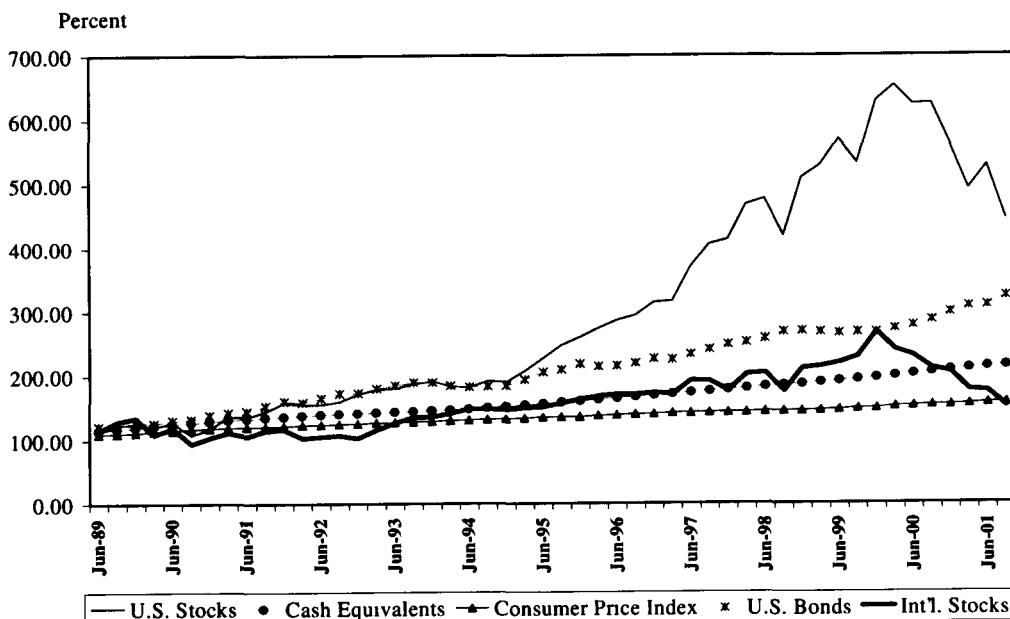
The bond market generated strong positive returns in the third quarter. Treasury and Agency securities rallied 5.5% during the quarter on a dramatic decline in interest rates, particularly in the short and intermediate portions of the yield curve. The yield curve steepened further during the quarter, with the spread between 2-year and 30-year yields reaching over 2.5%. Corporate and mortgage debt underperformed Treasuries as spreads generally widened.

Overall, the Lehman Brothers Aggregate Bond Index returned 4.6% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	5.5%
Credit	3.8
Mortgages	4.2

The Lehman Aggregate returned 13.0% for the year ending September 30, 2001.

PERFORMANCE OF CAPITAL MARKETS
Cumulative returns



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

FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, developed international stock markets (as measured by the EAFE-Free index) provided a return of -14.0% for the quarter. The quarterly performance of the five largest stock markets is shown below:

United Kingdom	-7.3%
Japan	-18.2
France	-14.3
Germany	-21.9
Switzerland	-5.7

The EAFE-Free index decreased by 28.5% during the last year.

The EAFE-Free index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 21 markets located in Europe, Australasia and the Far East. EAFE-Free includes only those securities foreign investors are allowed to hold. The major markets listed above comprise about 72% of the value of the international markets in the index.

EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of -21.6% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below:

Korea	-19.7%
Taiwan	-27.4
Mexico	-20.5
Brazil	-28.7
South Africa	-21.6

The Emerging Markets Free index decreased by 33.2% during the last year.

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

REAL ESTATE

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

PRIVATE EQUITY

U.S. private equity firms raised an unprecedented \$153.9 billion for private equity limited partnerships of all types, from venture capital to buyouts in 2000. That represents a 58.2% increase from the upwardly revised 1999 total of \$97.3 billion. It was the seventh consecutive record year for fundraising. Through the first three quarters of 2001, private equity firms have raised \$68.4 billion.

RESOURCE FUNDS

During the third quarter of 2001, West Texas Intermediate crude oil averaged \$26.60 per barrel compared to an average price of \$27.98 per barrel during the second quarter of 2001. Recently, oil prices have trended closer to \$22.00 per barrel, causing oil companies to re-evaluate their spending plans.

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.

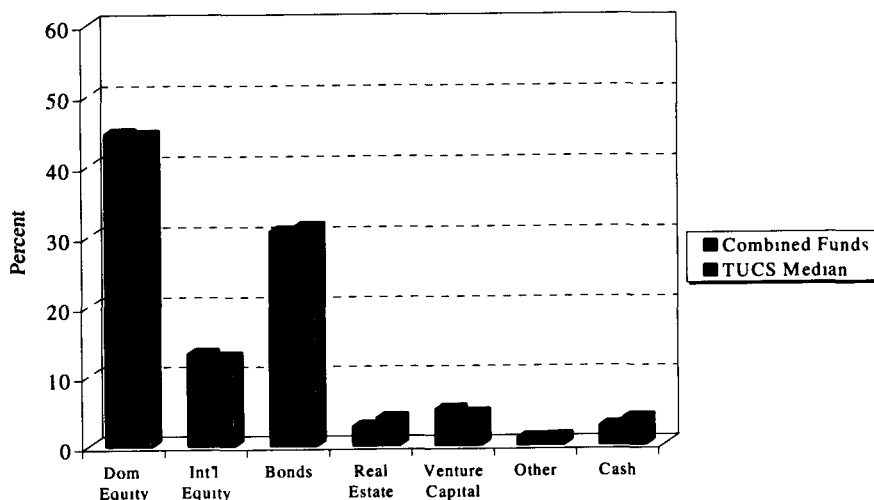
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over \$1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

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

	\$ Millions	%
Domestic Stocks	\$15,326	44.6%
International Stocks	4,543	13.2
Bonds	10,530	30.7
Alternative Assets	3,019	8.8
Unallocated Cash	938	2.7
Total	\$34,356	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	44.6%	13.2%	30.7%	2.7%	5.1%	1.0%	2.7%
Median Allocation in TUCS*	43.7	11.2	31.9	0.1	1.2	0.0	3.9

* Public and corporate plans over \$1 billion.

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

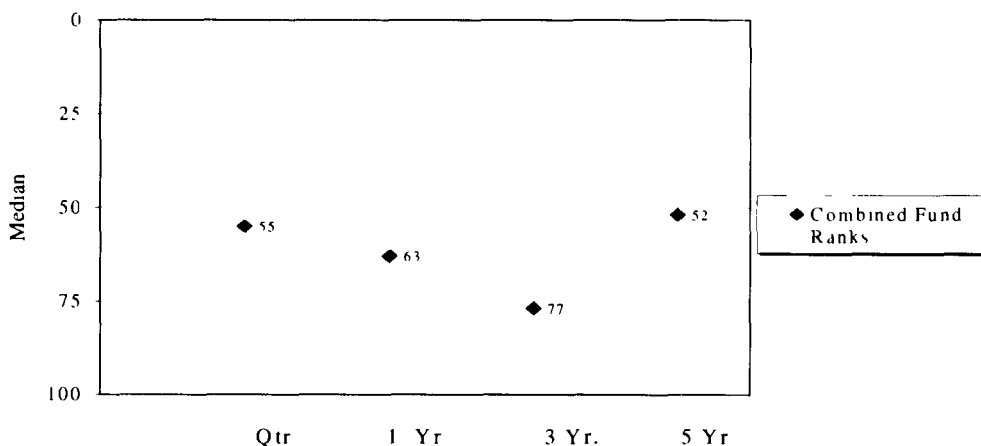
While the SBI is concerned with how its returns compare to other pension investors, universe comparisons should be used with great care. There are several reasons why such comparisons will provide an “apples to oranges” look at performance:

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

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

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

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



	Period Ending 9/30/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Combined Funds Percentile Rank in TUCS*	55th	63rd	77th	52nd

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

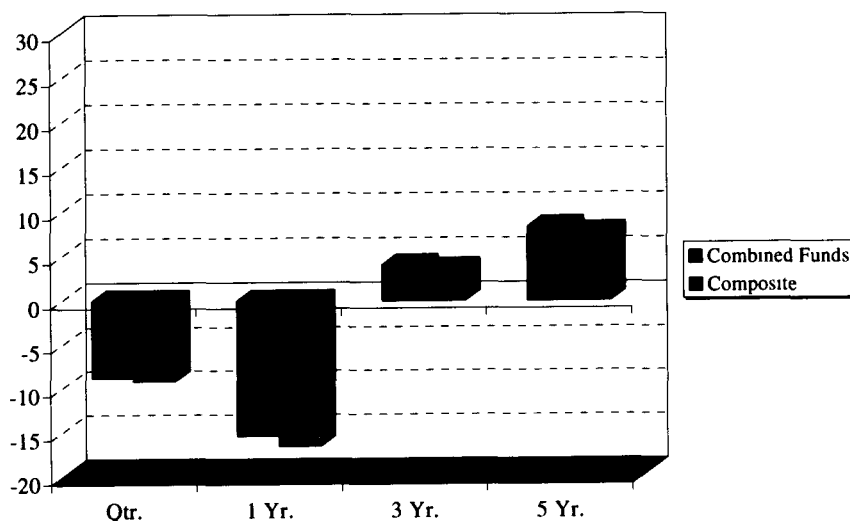
**COMBINED FUNDS
Performance Compared to Composite Index**

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* 3Q01
Domestic Stocks	Wilshire 5000 Investable	48.5%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	26.3*
Alternative Assets	Real Estate Funds	2.5*
	Private Equity Funds	4.7*
	Resource Funds	1.0*
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 9/30/2001

	Qtr.	1 Yr.	Annualized	
			3 Yr.	5 Yr.
Combined Funds**	-8.7%	-15.3%	4.0%	8.3%
Composite Index	-9.1	-16.5	3.6	7.6

**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

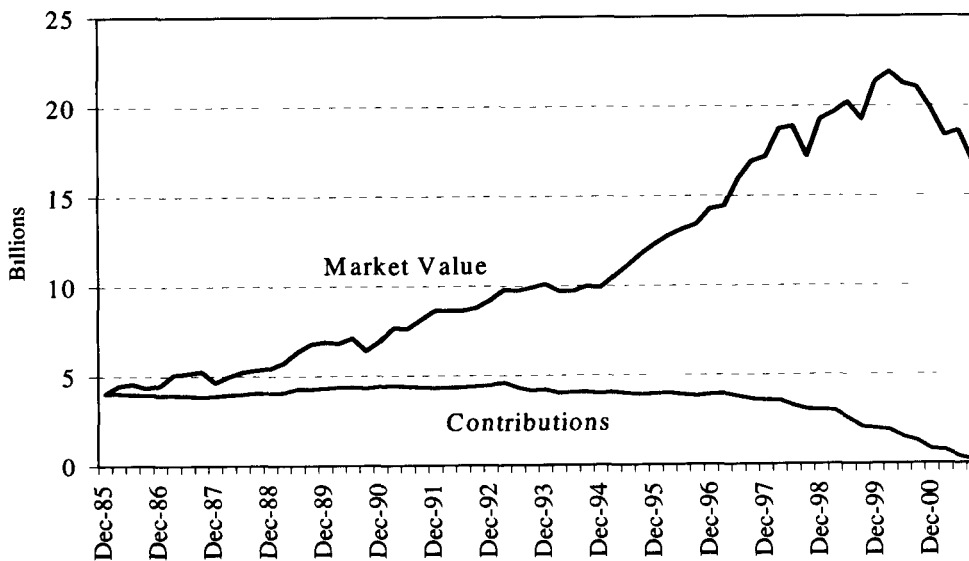
projected pension costs, the Basic Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

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 by 9.3% during the third quarter of 2001. Negative investment

returns and negative net contributions accounted for the decrease.



	Last Five Years							Latest Qtr. 9/01
	In Millions							
	12/96	12/97	12/98	12/99	12/00	3/01	6/01	
Beginning Value	\$12,338	\$14,275	\$17,146	\$19,244	\$21,365	\$19,807	\$18,329	\$18,575
Net Contributions	-59	-337	-539	-1,065	-1,186	-66	-366	-173
Investment Return	1,996	3,208	2,637	3,186	-372	-1,412	612	-1,551
Ending Value	\$14,275	\$17,146	\$19,244	\$21,365	\$19,807	\$18,329	\$18,575	\$16,851

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.

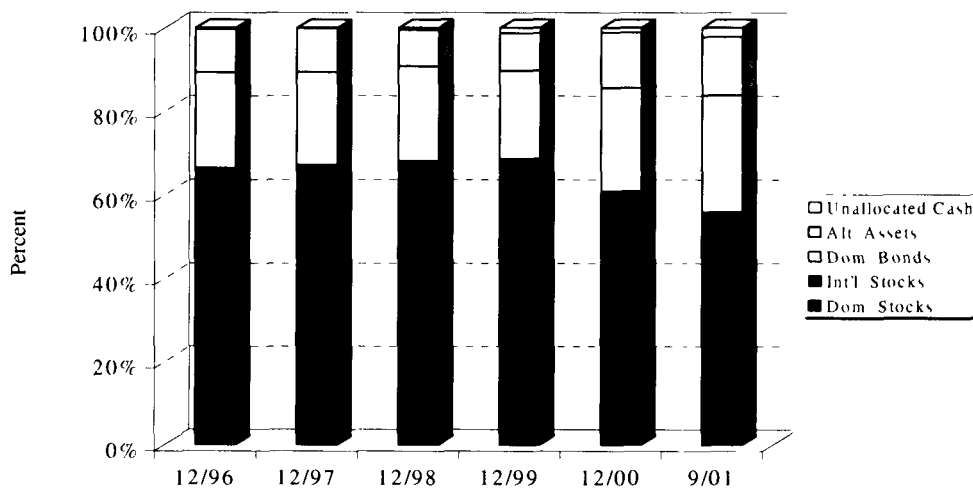
In October 1995, the Board revised its long term asset allocation targets for the Basic Funds, increasing international stocks from 10% to 15% and decreasing domestic stocks from 50% to 45%. The change was implemented over several quarters.

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 positive returns. The domestic stock allocation decreased due to negative returns.

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

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



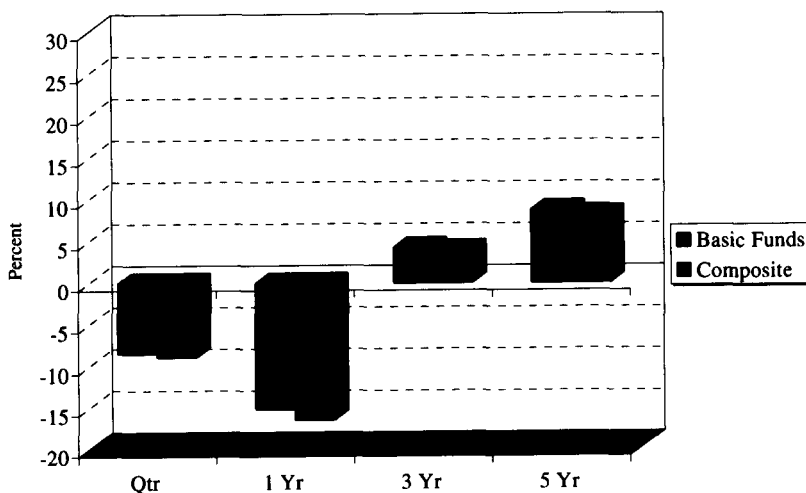
	Last Five Years							Latest Qtr.
	12/96	12/97	12/98	12/99	12/00	3/01	6/01	9/01
Domestic Stocks	52.0%	53.6%	53.8%	51.9%	44.3%	42.7%	47.9%	42.8%
Int'l. Stocks	14.5	13.6	14.4	16.8	16.6	14.4	13.9	13.2
Bonds	22.8	22.2	22.6	21.0	24.7	28.5	24.2	27.9
Real Estate	3.9	4.1	3.7	3.5	4.1	4.5	3.9	4.1
Private Equity	5.5	5.0	4.4	4.8	8.0	8.2	7.6	8.3
Resource Funds	1.0	1.4	0.7	0.8	1.2	1.4	1.6	1.6
Unallocated Cash	0.3	0.1	0.4	1.2	1.1	0.3	0.9	2.1
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* 3Q01
Domestic Stocks	45.0%	Wilshire 5000 Investable	47.0%*
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Real Estate Funds	3.9*
		Private Equity Funds	7.6*
		Resource Funds	1.5*
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 9/30/2001

	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basic Funds**	-8.4%	-15.2%	4.2%	8.7%
Composite Index	-8.8	-16.4	3.9	8.1

**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.

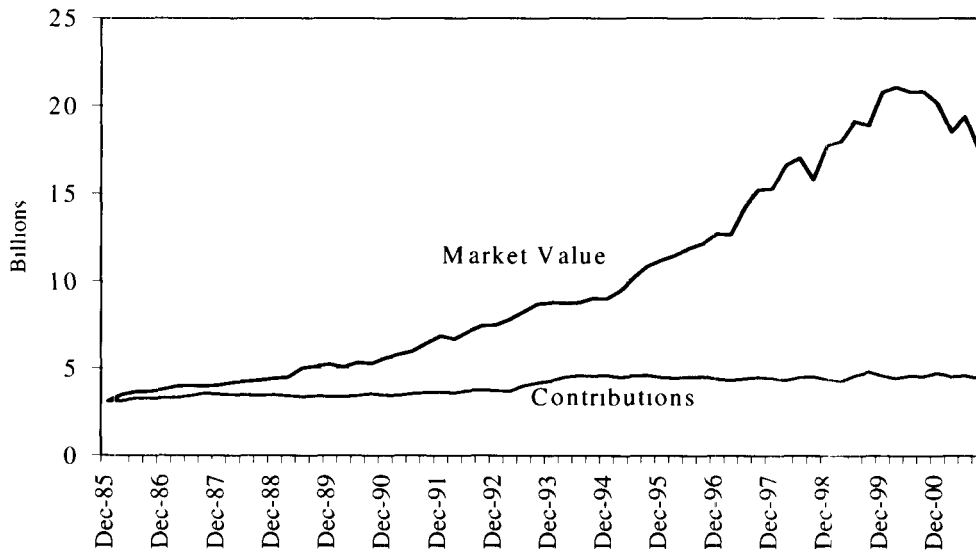
The post retirement benefit increase formula is based on the total return of the Fund. As a result, the Board maintains a long-term asset allocation strategy for the Post Fund which incorporates a substantial commitment to common stocks.

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 Fund decreased by 9.8% during the third quarter of 2001. Negative investment

returns and net negative contributions accounted for the decrease.



	Last Five Years							Latest Qtr.
	In Millions							
	12/96	12/97	12/98	12/99	12/00	3/01	6/01	9/01
Beginning Value	\$11,216	\$12,705	\$15,273	\$17,743	\$20,768	\$20,153	\$18,507	\$19,397
Net Contributions	-94	23	-45	211	167	-236	91	-165
Investment Return	1,583	2,545	2,515	2,814	-782	-1,410	799	-1,727
Ending Value	\$12,705	\$15,273	\$17,743	\$20,768	\$20,153	\$18,507	\$19,397	\$17,505

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.

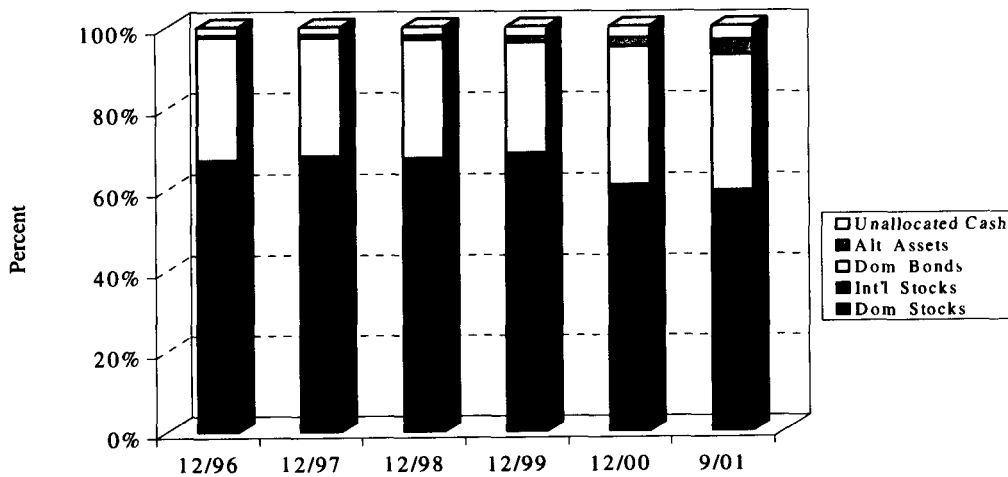
In October 1995, the Board revised its long term asset allocation targets for the Post Fund, increasing international stocks from 10% to 15% and decreasing bonds from 32% to 27%.

Over the last year, the allocation to bonds and alternative assets increased due to positive returns. The allocation to domestic stocks decreased due to negative returns.

The domestic stock allocation and international stock allocation decreased over the quarter due to negative returns. The bond allocation increased over the quarter due to positive returns.

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

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



	Last Five years						Latest Qtr.	
	12/96	12/97	12/98	12/99	12/00	3/01	6/01	9/01
Dom. Stocks	52.7%	54.7%	53.2	52.0%	47.5%	46.5%	52.6%	46.3%
Int'l. Stocks	14.6	13.6	14.5	16.9	13.5	14.5	14.2	13.3
Bonds	30.2	29.1	29.2	27.2	34.0	35.1	28.8	33.3
Alt. Assets	0.6	0.9	1.1	1.5	2.3	2.5	3.4	3.8
Unallocated Cash	1.9	1.7	2.0	2.4	2.7	1.4	1.0	3.3
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* 2Q01
Domestic Stocks	50.0%	Wilshire 5000 Investable	50.0%
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	27.0	Lehman Aggregate	28.6*
Alternative Assets	5.0	Real Estate Funds	1.1*
		Private Equity Funds	1.9*
		Resource Funds	0.4*
Unallocated Cash	3.0	3 Month T-Bills	3.0
	100.0%		100.0%

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



Period Ending 9/30/2001

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Post Fund**	-9.0%	-15.5%	3.7%	7.8%
Composite Index	-9.3	-16.6	3.2	7.1

** 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.

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

Domestic Stock Pool

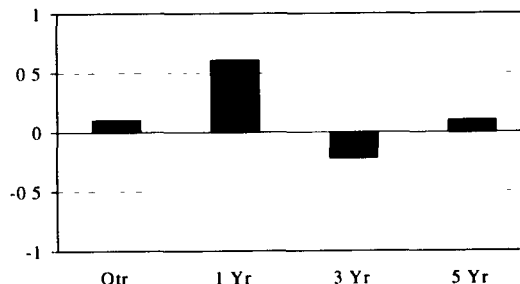
Target: Wilshire 5000 Investable

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 9/30/2001			
	Qtr.	1 Yr.	3 Yrs.	5 Yrs.
Stock Pool	-16.3%	-29.2%	1.1%	8.3%
W5000 Investable*	-16.4	-29.8	1.3	8.2

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

Value Added to Wilshire 5000 Investable



International Stock Pool

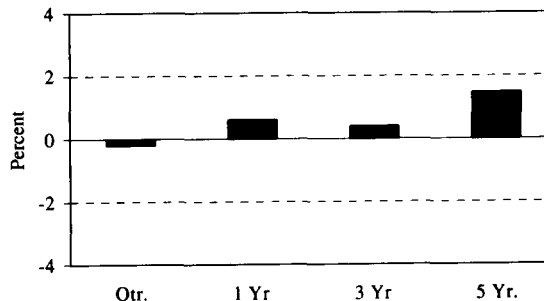
Target: Composite of EAFE-Free and Emerging Markets Free*

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 9/30/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yrs.
Int'l. Pool	-15.0%	-28.4%	-0.2%	0.2%
Composite Index*	-14.8	-29.0	-0.6	-1.3

* 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.

Value Added to International Composite*



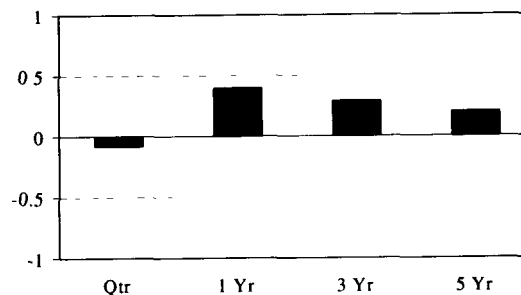
Bond Pool

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 9/30/2001			
	Qtr.	1 Yr.	3 Yrs.	5 Yrs.
Bond Pool	4.5%	13.4%	6.7%	8.3%
Lehman Agg.	4.6	13.0	6.4	8.1

Value Added to Lehman Aggregate



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 9/30/2001			
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Real Estate	2.1%	12.4%	12.0%	15.5%
Inflation	0.2	2.6	2.9	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 9/30/2001			
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Private Equity	2.9%	-3.4%	10.7%	19.8%

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 9/30/2001			
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Resource Funds	-5.4%	5.1%	8.1%	14.2%

Yield Oriented Pool (Post Fund only)

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

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

	Period Ending 9/30/2001			
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Yield Oriented	1.4%	9.7%	12.4%	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, 2001 the market value of the entire Fund was \$1.4 billion.

Investment Options

	9/30/2001 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	\$534
Growth Share Account – an actively managed, all common stock portfolio.	\$221
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	\$281
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	\$34
Bond Market Account – an actively managed, all bond portfolio.	\$120
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	\$96
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.	\$91

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%	56.7%
Bonds	35.0	38.9
Unallocated Cash	5.0	4.4
	100.0%	100.0%

Period Ending 9/30/2001

	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	-8.5%	-14.7%	4.0%	8.8%
Composite*	-8.5	-14.8	3.9	8.5

* 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 9/30/2001

	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	-16.4%	-29.3%	0.6%	8.1%
Composite*	-16.4	-29.8	1.3	8.2

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

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

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

The Account is invested 100% in common stock.

Period Ending 9/30/2001

	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	-16.3%	-29.3%	2.0%	8.8%
Wilshire 5000 Investable*	-16.4	29.8	1.6	8.4

* 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 U.S. At least one-third of the Account is "passively managed" and is designed to track the return of 21 markets included in the Morgan Stanley Capital International index of Europe, Australasia and the Far East (EAFE-Free). The remainder of the Account is "actively managed" by several international managers and emerging markets specialists who buy and sell stocks in an attempt to maximize market value.

Period Ending 9/30/2001

	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yrs.
Total Account	-14.9%	-28.3%	-0.1%	0.3%
Composite*	-14.8	29.0	-0.6	-1.3

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

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

Investment Objective

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

	Period Ending 9/30/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	4.5%	13.5%	6.7%	8.4%
Lehman Agg.	4.6	13.0	6.4	8.1

Asset Mix

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

MONEY MARKET ACCOUNT

Investment Objective

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

	Period Ending 9/30/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	0.9%	5.4%	5.6%	5.7%
3 month T-Bills	0.9	4.8	5.1	5.1

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 9/30/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	1.6%	6.3%	6.3%	6.4%
Benchmark*	1.0	4.8	5.6	5.8

Asset Mix

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

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

ASSIGNED RISK PLAN

Investment Objectives

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

Asset Mix

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

	9/30/2001 Target	9/30/2001 Actual
Stocks	20.0%	15.8%
Bonds	80.0	84.2
Total	100.0%	100.0%

Investment Management

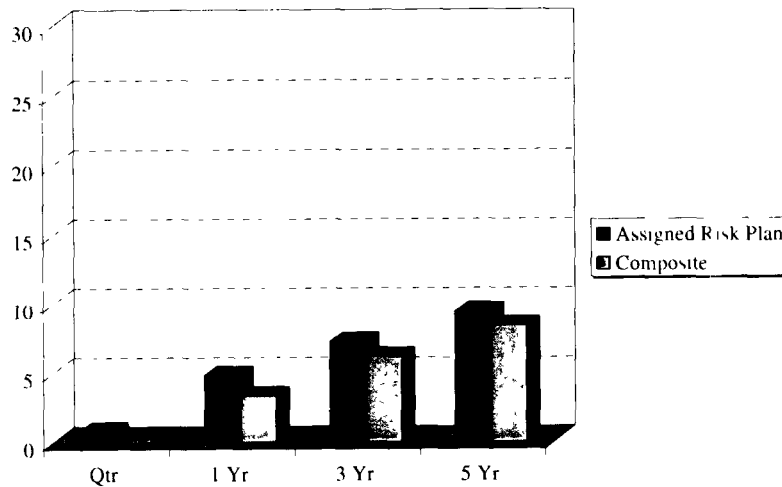
Voyageur Asset Management manages the bond segment of the Fund. GE Investment Management manages the equity segment.

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, 2001 the market value of the Assigned Risk Plan was \$337 million.



Period Ending 9/30/2001
Annualized

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund*	0.8%	4.8%	7.3%	9.5%
Composite	0.3	3.4	6.2	8.4
Equity Segment*	-12.4	-17.9	6.6	13.0
Benchmark	-14.7	-26.6	2.0	10.2
Bond Segment*	3.8	10.8	6.1	7.2
Benchmark	4.2	12.0	6.9	7.6

* 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.

	9/30/2001 Target	9/30/2001 Actual
Stocks	50.0%	46.3%
Bond	48.0	52.0
Unallocated Cash	2.0	1.7
Total	100.0%	100.0%

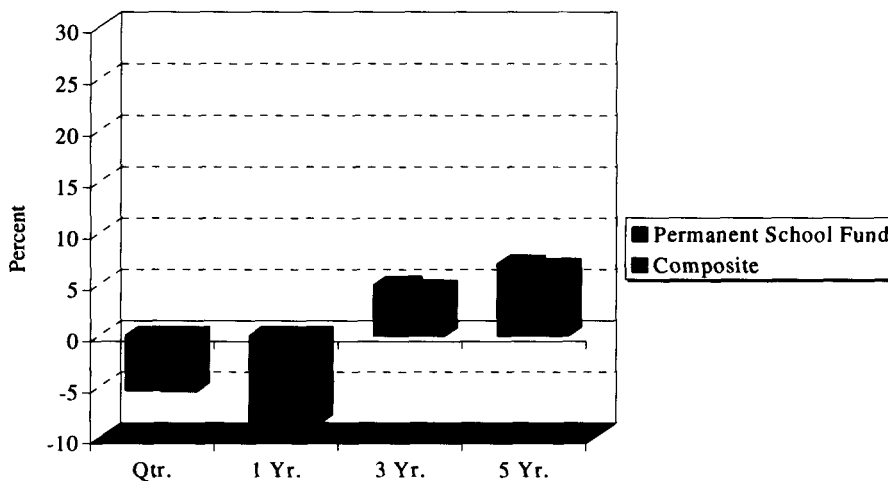
Prior to FY98, the Fund was invested entirely in fixed income securities in order to maximize current income. It is understood that the change in asset mix will reduce portfolio income in the short term, but will enhance the value of the fund, over time.

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, 2001 the market value of the Permanent School Fund was \$518 million.



	Period Ending 9/30/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund (1) (2)	-5.3%	-8.5%	4.9%	7.0%
Composite	-5.4	-8.5	4.6	6.7
Equity Segment (1) (2)	-14.7	-26.4	2.2	N/A
S&P 500	-14.7	-26.6	2.0	N/A
Bond Segment (1)	4.7	13.1	6.7	8.3
Lehman Aggregate	4.6	13.0	6.4	8.1

(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.

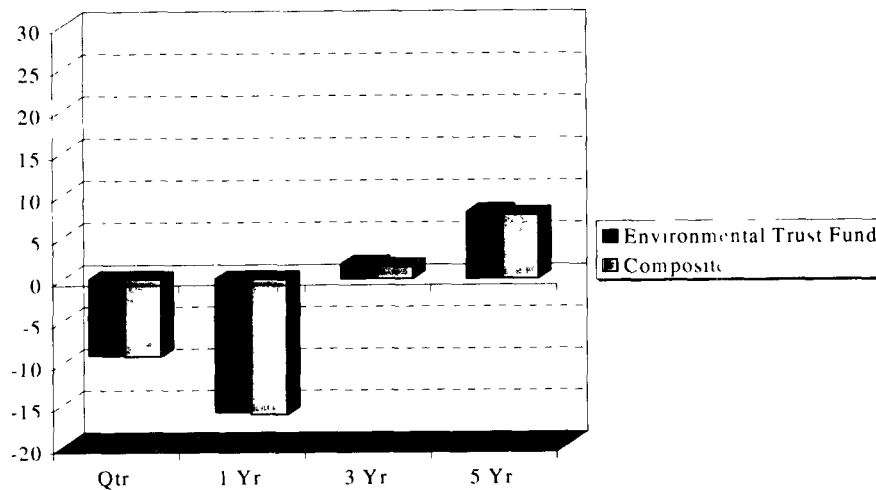
Investment Management

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, 2001 the market value of the Environmental Trust Fund was \$276 million

	9/30/2001 Target	9/30/2001 Actual
Stocks	70.0%	66.6%
Bonds	28.0	32.7
Unallocated Cash	2.0	0.7
Total	100.0%	100.0%



	Period Ending 9/30/2001			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund*	-9.1%	-15.9%	1.8%	7.9%
Composite	-9.2	-16.2	1.5	7.6
Equity Segment*	-14.7	-26.4	2.2	10.4
S&P 500	-14.7	-26.6	2.0	10.2
Bond Segment*	4.6	13.0	6.7	8.6
Lehman Agg.	4.6	13.0	6.4	8.1

* 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.

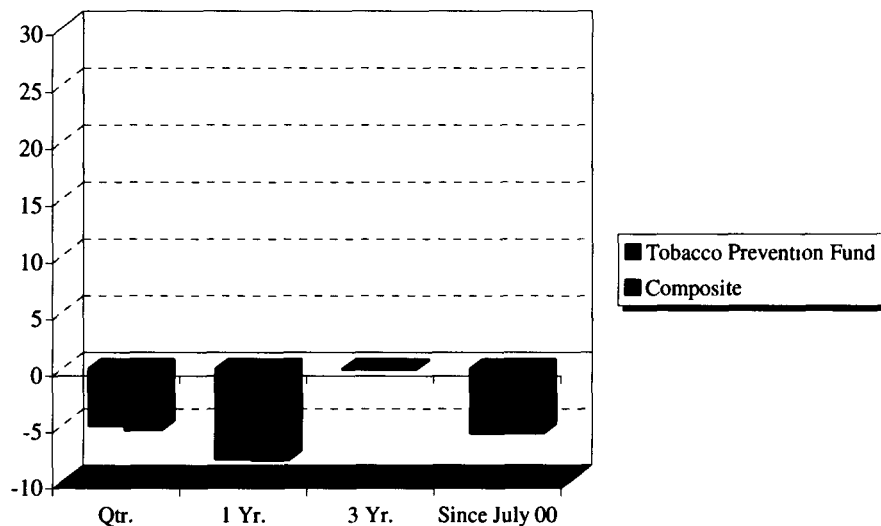
Investment Management

SBI staff manages all assets of the Tobacco Prevention Fund.

Market Value

On September 30, 2001 the market value of the Tobacco Prevention Fund was \$493 million.

	9/30/2001 Target	9/30/2001 Actual
Stocks	50.0%	44.6%
Bonds	50.0	55.0
Unallocated Cash	0.0	0.4
Total	100.0%	100.0%



Period Ending 9/30/2001

	Qtr.	1 Yr.	3 Yr.	Since 7/1/00
Total Fund*	-5.0%	-7.9%	N/A	-5.7%
Composite	-5.3	-8.0	N/A	-5.7
Equity Segment*	-14.7	-26.4	N/A	-22.4
S&P 500	-14.7	-26.6	N/A	-22.5
Bond Segment*	4.7	13.1	N/A	12.9
Lehman Agg.	4.6	13.0	N/A	12.9

* 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.

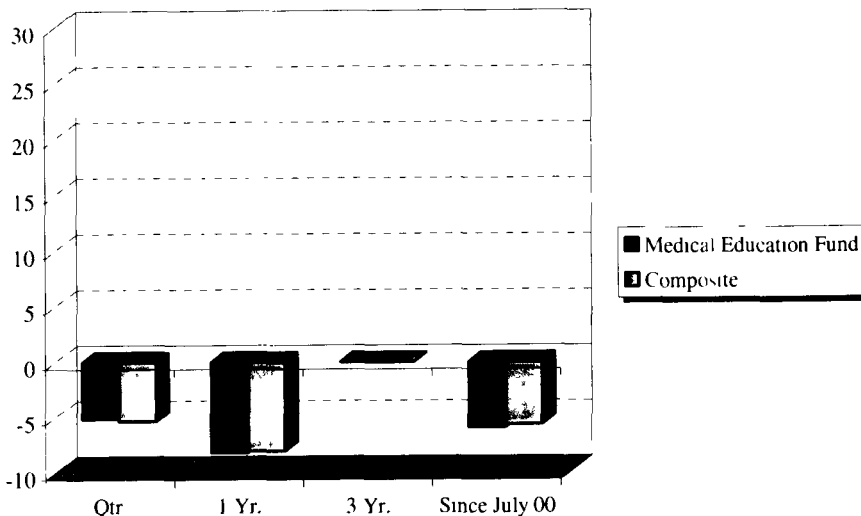
Investment Management

SBI staff manages all assets of the Medical Education Fund.

Market Value

On September 30, 2001 the market value of the Medical Education Fund was \$314 million.

	9/30/2001 Target	9/30/2001 Actual
Stocks	50.0%	45.2%
Bonds	50.0	54.5
Unallocated Cash	0.0	0.3
Total	100.0%	100.0%



Period Ending 9/30/2001

	Qtr.	1 Yr.	3 Yr.	Since 7/1/00
Total Fund*	-5.1%	-8.2%	N/A	-5.9%
Composite	-5.3	-8.0	N/A	-5.7
Equity Segment*	-14.7	-26.4	N/A	-22.4
S&P 500	-14.7	-26.6	N/A	-22.5
Bond Segment*	4.7	13.1	N/A	12.9
Lehman Agg	4.6	13.0	N/A	12.9

* 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

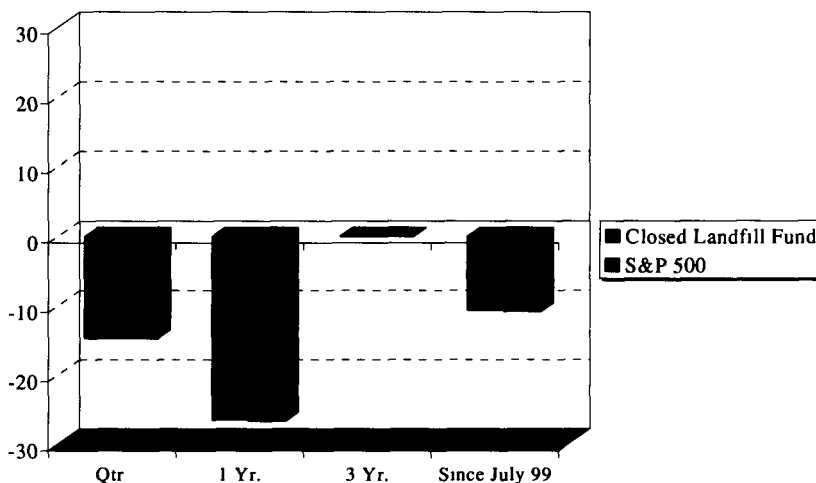
SBI staff manage all assets of the Closed Landfill Investment Fund. The assets are managed to passively track the performance of the S&P 500 index.

Market Value

On September 30, 2001, the market value of the Closed Landfill Investment Fund was \$12.0 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 9/30/2001
Qtr. 1 Yr. 3 Yr. Since 7/1/99

Total Fund (1)	-14.7%	-26.4%	N/A	-10.6%
S&P 500 (2)	-14.7	-26.6	N/A	-10.8

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

STATE CASH ACCOUNTS

Description

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

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

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

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

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

Investment Objectives

Safety of Principal. To preserve capital

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

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

Asset Mix

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

Investment Management

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

	Market Value (Millions)	Period Ending 9/30/2001			
		Qtr.	1 Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Treasurer's Cash Pool*	\$5,154	1.4%	6.6%	6.0%	5.9%
Custom Benchmark**		1.8	6.4	5.5	5.5
Trust Fund Cash Pool*	\$58	1.0	5.6	5.7	5.7
Custom Benchmark***		0.8	4.7	5.0	5.1
3 month T-Bills		0.9	4.8	5.1	5.1

* 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 \$2.0 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, 2001 (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	133,930 2.09%	0	1,786,014 27.94%	0	2,737,688 42.82%	841,926 13.17%	893,749 13.98%	6,393,307 100%
Public Employees Retirement Fund	85,404 2.09%	0	1,140,743 27.94%	0	1,748,345 42.82%	537,746 13.17%	570,868 13.98%	4,083,106 100%
State Employees Retirement Fund	79,140 2.09%	0	1,056,357 27.94%	0	1,619,011 42.82%	497,966 13.17%	528,585 13.98%	3,781,059 100%
Public Employees Police & Fire	44,081 2.10%	76 0.00%	588,144 27.93%	0	901,341 42.80%	277,088 13.16%	295,049 14.01%	2,105,779 100%
Highway Patrol Retirement Fund	4,464 2.10%	0	59,327 27.94%	0	90,927 42.82%	27,967 13.17%	29,667 13.97%	212,352 100%
Judges Retirement Fund	538 2.09%	0	7,191 27.94%	0	11,022 42.82%	3,390 13.17%	3,599 13.98%	25,740 100%
Correctional Employees Retirement	4,772 2.10%	0	63,442 27.94%	0	97,233 42.82%	29,907 13.17%	31,726 13.97%	227,080 100%
Public Employees Correctional	472 2.08%	0	6,344 27.94%	0	9,724 42.82%	2,991 13.17%	3,178 13.99%	22,709 100%
TOTAL BASIC FUNDS	352,801 2.09%	76 0.00%	4,707,562 27.94%	0	7,215,291 42.82%	2,218,981 13.17%	2,356,421 13.98%	16,851,132 100%
POST RETIREMENT FUND	584,800 3.34%	0	5,822,711 33.26%	0	8,110,632 46.33%	2,324,411 13.28%	662,409 3.79%	17,504,963 100%
TOTAL BASIC AND POST	937,601 2.73%	76 0.00%	10,530,273 30.65%	0	15,325,923 44.61%	4,543,392 13.22%	3,018,830 8.79%	34,356,095 100%

	Cash and Short term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
MINNESOTA SUPPLEMENTAL FUNDS:								
Income Share Account	23,309 4.37%	207,678 38.92%	0	0	302,552 56.71%	0	0	533,539 100%
Growth Share Account	0	0	0	0	220,718 100.00%	0	0	220,718 100%
Money Market Account	26,084 100.00%	0	0	0	0	0	0	26,084 100%
Common Stock Index	0	0	0	0	281,028 100.00%	0	0	281,028 100%
Bond Market Account	0	0	120,298 100.00%	0	0	0	0	120,298 100%
International Share Account	0	0	0	0	0	33,566 100.00%	0	33,566 100%
Fixed Interest Account	1,738 1.88%	0	90,894 98.12%	0	0	0	0	92,632 100%
Money Market Deferred Comp	69,777 100.00%	0	0	0	0	0	0	69,777 100%
TOTAL SUPPLEMENTAL FUNDS	120,908 8.78%	207,678 15.07%	211,192 15.33%	0	804,298 58.38%	33,566 2.44%	0	1,377,642 100%
TOTAL RETIREMENT FUNDS	1,058,509 2.96%	207,754 0.58%	10,741,465 30.06%	0	16,130,221 45.14%	4,576,958 12.81%	3,018,830 8.45%	35,733,737 100%

	Cash and Short Term Securities	Bond Internal	Bond External	Stock Internal	Stock External	External Int'l	Alternative Assets	Total
ASSIGNED RISK PLAN	9,638 2.86%	0	275,567 81.69%	0	52,124 15.45%	0	0	337,329 100%
ENVIRONMENTAL FUND	1,981 0.72%	89,985 32.66%	0	183,564 66.62%	0	0	0	275,530 100%
PERMANENT SCHOOL FUND	8,862 1.71%	269,353 51.97%	0	240,068 46.32%	0	0	0	518,283 100%
TOBACCO SETTLEMENT POOL	2,807 0.35%	442,558 54.83%	0	361,805 44.82%	0	0	0	807,170 100%
CLOSED LANDFILL INVESTMENT	16 0.13%	0	0	12,034 99.87%	0	0	0	12,050 100%
TREASURERS CASH	5,106,385 100.00%	0	0	0	0	0	0	5,106,385 100%
HOUSING FINANCE AGENCY	167,427 50.77%	162,327 49.23%	0	0	0	0	0	329,754 100%
MINNESOTA DEBT SERVICE FUND	60,686 27.04%	163,767 72.96%	0	0	0	0	0	224,453 100%
MISCELLANEOUS ACCOUNTS	142,647 41.47%	174,871 50.84%	0	26,447 7.69%	0	0	0	343,965 100%
GRAND TOTAL	6,558,958 15.00%	1,510,615 3.46%	11,017,032 25.22%	823,918 1.89%	16,182,345 37.04%	4,576,958 10.48%	3,018,830 6.91%	43,688,656 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: November 27, 2001

TO: Members, State Board of Investment

FROM: **Howard Bicker**

1. Reports on Budget and Travel

A report on the SBI's administrative budget for the fiscal year to date October 31, 2001 is included as **Attachment A**.

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

2. Post Retirement Benefit Increase for FY01

The Post Retirement benefit increase for FY01 will be 4.4935%. The increase will be payable to eligible retirees effective January 1, 2002.

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 FY 1999, the "inflation cap" is 2.5%. Following the benefit increases for the past ten years:

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%
2001	4.5%

* Benefit increase granted under old formula.

3. Litigation Update

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

4. Results of FY01 Audit

The Legislative Auditor is nearly finished with its financial audit of SBI operations for FY01. I should be able to provide a verbal report of the audit findings at the Board meeting on December 5, 2001.

5. Draft of FY01 Annual Report

A draft of the SBI's annual report for FY01 was sent to the Board members/designees and IAC members in late November. The final report will be distributed in January 2002.

6. Tentative Meeting Dates for Calendar 2002

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 2002 are:

IAC	SBI
Tuesday, March 5, 2002	Wednesday, March 6, 2002
Tuesday, June 4, 2002	Wednesday, June 5, 2002
Tuesday, September 3, 2002	Wednesday, September 4, 2002
Tuesday, December 3, 2002	Wednesday, December 4, 2002

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

7. Office Relocation

The SBI office is moving to the Retirement Systems Building on December 5, 2001. It is expected that the offices will be operational by December 10, 2001. The new address is:

**Minnesota State Board of Investment
60 Empire Drive
Suite 355
St. Paul, MN 55103-3555**

ATTACHMENT A

**STATE BOARD OF INVESTMENT
FISCAL YEAR 2002 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH OCTOBER 31, 2001**

ITEM	FISCAL YEAR 2002 BUDGET	FISCAL YEAR 2002 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	\$ 1,871,000	\$ 489,399
SEVERENCE PAYOFF	20,000	0
WORKERS COMPENSATION INSURANCE	1,000	158
MISCELLANEOUS PAYROLL	1,000	0
SUBTOTAL	\$ 1,893,000	\$ 489,557
STATE OPERATIONS		
RENTS & LEASES	130,000	44,539
REPAIRS/ALTERATIONS/MAINTENANCE	30,000	4,401
PRINTING & BINDING	20,000	324
PROFESSIONAL/TECHNICAL SERVICES	35,000	0
COMPUTER SYSTEMS SERVICES	13,000	1,151
COMMUNICATIONS	30,000	5,453
TRAVEL, IN-STATE	3,000	57
TRAVEL, OUT-STATE	65,000	14,094
SUPPLIES	50,000	4,894
EQUIPMENT	50,000	0
EMPLOYEE DEVELOPMENT	15,000	3,805
OTHER OPERATING COSTS	42,000	3,714
SUBTOTAL	\$ 483,000	\$ 82,432
TOTAL GENERAL FUND	\$ 2,376,000	\$ 571,989

ATTACHMENT B
STATE BOARD OF INVESTMENT

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

<u>Purpose</u>	<u>Name(s)</u>	<u>Destination and Date</u>	<u>Total Cost</u>
Conference: Institutional Limited Partners Association (ILPA)	A. Christensen	San Francisco, CA 9/6-9/7	\$1,182.75
Conference: Council of Institutional Investors Meeting	H. Bicker	Los Angeles, CA 9/9-9/14	\$2,465.06
Conference: Retired Educators Association of Minnesota (REAM) Annual Meeting	H. Bicker	Mankato, MN 9/25	\$57.31
Conference: National Association of State Investment Officers (NASIO)	H. Bicker M. Perry	Albuquerque, NM 10/19-10/24	\$3,809.54 4,672.46
Conference: Guns and Hoses 2001	H. Bicker	Las Vegas, NV 10/31-11/2	\$1,648.00
Manager Monitoring: Fixed Income Manager: Lincoln Capital Mgmt. Consultant Visit: Richards & Tierney	Mike Menssen Erol Sonderegger	Chicago, IL 11/5-11/6	\$2,706.40

**MINNESOTA
STATE
BOARD OF
INVESTMENT**



Board Members

Governor
Jesse Ventura

State Auditor
Judi Dutcher

State Treasurer
Carol C. Johnson

Secretary of State
Mary Kiffmeyer

Attorney General
Mike Hatch

Executive Director:

Howard J. Bicker

*Capitol Professional
Office Building
Suite 200
590 Park Street
St. Paul, MN 55103
(651) 296-3328
FAX (651) 296-9572
E-mail:
minn.sbi@state.mn.us
www.sbi.state.mn.us*

*An Equal Opportunity
Employer*

DATE: December 5, 2001

TO: Members, State Board of Investment

FROM: Howard Bicker *HJB*

SUBJECT: TIAA-CREF investment guideline modifications

The SBI's contract with Teachers Insurance and Annuity Association-College Retirement Equity Fund (TIAA-CREF) to provide investment and administrative services for the State's 529 College Savings Plan, calls for an annual review of the investment guidelines. TIAA-CREF has requested (letter attached) modest changes in the asset allocation guidelines for the Managed Allocation Option and the 100% Equity Option. Staff has reviewed the recommendations and approved the changes, which will be implemented in January 2002. This is provided to the Board as an informational item.



Teachers Insurance and Annuity Association
College Retirement Equities Fund

730 Third Avenue, New York, NY 10017-3206
212 490-9000 1 800 842-2733

Anthony R. Roberts
Director, Business Analysis
& Corporate Reporting
Tuition Financing
1 800 842-2733 Extension 4155
Fax: (212) 916-6144

November 19, 2001

Mr. Howard Bicker
Executive Director
Minnesota State Board of Investment
590 Park Street, Suite 200
St. Paul, MN 55103

Re: Minnesota College Savings Plan
2002 Asset Allocation Recommendation

Dear Mr. Bicker:

TIAA-CREF Tuition Financing, Inc. (TFI) has completed its 2002 asset allocation study for the Minnesota College Savings Plan. Based on the results of the asset allocation study, TFI recommends: increasing the equity exposure by five to ten percentage points in each age band except the third youngest age band, and changing the allocation percentages within the equity component of each age-based portfolio for the Managed Allocation Option.

In addition, TFI recommends further diversification of the equity component by adding the TIAA-CREF Institutional Equity Index and the Growth & Income Funds to the equity component of the Managed Allocation Option. While TFI recommends further diversification within the Managed Allocation Option, no further diversification is recommended for the 100% Equity Option. As supported by an efficient frontier analysis, the recommended split should be 80% domestic equities and 20% international equities. Among the domestic equities, the split should be as follows: 45% Equity Index, 20% Growth Equity and 35% Growth and Income.

The rationale for our recommendation is as follows:

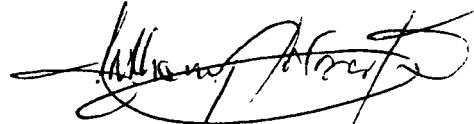
- It is our belief that by increasing the equity exposure, account owners would be compensated for assuming additional risk given the level of the projected increase in the expected return relative to the smaller increase in the annualized shortfall risk. Furthermore, it increases the probability of outpacing tuition inflation for all age bands. While this recommendation increases the annualized shortfall risk, it reduces the probability that a shortfall will occur. With respect to further equity diversification, we believe that it allows us to offset some of the risk due to the increase in equity exposure.

Mr. Howard Bicker
November 19, 2001
Page 2

- Our recommendation brings Minnesota's asset allocation percentages across each age-based portfolio more inline with other Section 529 programs.
- Empirical study indicates that over a long period of time a well diversified portfolio tends to achieve a given level of return with less volatility than a less diversified portfolio. Adding two additional equity funds will allow the program to achieve broader diversification and further diversify across portfolio managers.

The attached exhibits summarize the recommended changes for the Managed Allocation and the 100% Equity Options.

Sincerely,



Anthony R. Roberts
Director

Cc: Jim Heidelberg
Jack Rayburn
Michael Noone
Bruce Sheinhaus

Attachments

Exhibit 9

Minnesota College Savings Plan Managed Allocation

Current (2001) Asset Allocation

Beneficiary's Year of Birth	Investment Horizon (n years)	Growth Equity	Growth & Income	Equity Index	International Equity	Total Equities	Bond	Money Market Fund
2002-2003	21	75.0%	0.0%	0.0%	0%	75%	25%	0%
2000-2001	19	70.0%	0.0%	0.0%	0%	70%	30%	0%
1998-1999	17	65.0%	0.0%	0.0%	0%	65%	35%	0%
1996-1997	15	55.0%	0.0%	0.0%	0%	55%	45%	0%
1994-1995	13	45.0%	0.0%	0.0%	0%	45%	55%	0%
1992-1993	11	40.0%	0.0%	0.0%	0%	40%	60%	0%
1990-1991	9	35.0%	0.0%	0.0%	0%	35%	65%	0%
1988-1989	7	25.0%	0.0%	0.0%	0%	25%	70%	5%
1986-1987	5	15.0%	0.0%	0.0%	0%	15%	70%	15%
pre-1986	3	10.0%	0.0%	0.0%	0%	10%	40%	50%

Recommended 2002 Asset Allocation

Beneficiary's Year of Birth	Investment Horizon (n years)	Growth Equity	Growth & Income	Equity Index	International Equity	Total Equities	Bond	Money Market Fund
2002-2003	21	12.8%	22.4%	28.8%	16%	80%	20%	0%
2000-2001	19	12.0%	21.0%	27.0%	15%	75%	25%	0%
1998-1999	17	10.4%	18.2%	23.4%	13%	65%	35%	0%
1996-1997	15	9.6%	16.8%	21.6%	12%	60%	40%	0%
1994-1995	13	8.0%	14.0%	18.0%	10%	50%	50%	0%
1992-1993	11	7.2%	12.6%	16.2%	9%	45%	55%	0%
1990-1991	9	6.4%	11.2%	14.4%	8%	40%	60%	0%
1988-1989	7	4.8%	8.4%	10.8%	6%	30%	65%	5%
1986-1987	5	4.0%	7.0%	9.0%	5%	25%	45%	30%
pre-1986	3	2.4%	4.2%	5.4%	3%	15%	35%	50%

Difference in Recommended 2002 Asset Allocation vs. 2001 Asset Allocation

Beneficiary's Year of Birth	Investment Horizon (n years)	Growth Equity	Growth & Income	Equity Index	International Equity	Total Equities	Bond	Money Market Fund
2002-2003	21	-62.2%	22.4%	28.8%	16%	5%	-5%	0%
2000-2001	19	-58.0%	21.0%	27.0%	15%	5%	-5%	0%
1998-1999	17	-54.6%	18.2%	23.4%	13%	0%	0%	0%
1996-1997	15	-45.4%	16.8%	21.6%	12%	5%	-5%	0%
1994-1995	13	-37.0%	14.0%	18.0%	10%	5%	-5%	0%
1992-1993	11	-32.8%	12.6%	16.2%	9%	5%	-5%	0%
1990-1991	9	-28.6%	11.2%	14.4%	8%	5%	-5%	0%
1988-1989	7	-20.2%	8.4%	10.8%	6%	5%	-5%	0%
1986-1987	5	-11.0%	7.0%	9.0%	5%	10%	-25%	15%
pre-1986	3	-7.6%	4.2%	5.4%	3%	5%	-5%	0%

Exhibit 10

Minnesota College Savings Plan 100% Equity Option

Current (2001) Asset Allocation

<i>Growth & Income</i>	<i>International Equity</i>	<i>Total Equities</i>	<i>Bond</i>	<i>Money Market Fund</i>
80.0%	20%	100%	0%	0%

Recommended 2002 Asset Allocation

<i>Growth & Income</i>	<i>International Equity</i>	<i>Total Equities</i>	<i>Bond</i>	<i>Money Market Fund</i>
80.0%	20%	100%	0%	0%

Difference in Recommended 2002 Asset Allocation vs. 2001 Asset Allocation

<i>Growth & Income</i>	<i>International Equity</i>	<i>Total Equities</i>	<i>Bond</i>	<i>Money Market Fund</i>
0.0%	0%	0%	0%	0%

Tab C

COMMITTEE REPORT

DATE: November 27, 2001

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, 2001 to consider the following agenda items:

- Review the manager performance for the period ending September 30, 2001.
- Annual review of investment manager guidelines.
- Update of the Domestic Equity short list.
- Recommendation to renew investment manager 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, 2001.

- *Domestic Equity Managers*

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

Time period	Total Program	Wilshire 5000 Investable	Current Mgrs. Only	Aggregate Benchmark
Quarter	-16.3%	-16.4%	-16.3%	-16.1%
1 Year	-29.2	-29.8	-28.9	-29.7
3 Years	1.1	1.3	2.5	1.5
5 Years	8.3	8.2	10.0	8.6

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, 2001, the **Fixed Income Manager Program** and the **current managers** out-performed the Lehman Aggregate and Aggregate Benchmark, respectively, for the one, three and five-year periods, and under-performed during the quarter.

Time period	Total Program	Lehman Aggregate
Quarter	4.5%	4.6%
1 Year	13.4	13.0
3 Years	6.7	6.4
5 Years	8.3	8.1

Current Mgrs. Only	Aggregate Benchmark
4.5%	4.6%
13.5	13.0
6.7	6.4
8.4	8.1

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, 2001, the **International Equity Program** and the **equity managers** (excluding the currency overlay) outperformed the composite index over the one, three and five year time periods and under-performed during the quarter.

Time Period	Total Program	Composite Index*
Quarter	-15.0	-14.8
1 Year	-28.4	-29.0
3 Year	-0.2	-0.6
5 Year	0.2	-1.3

Equity Mgrs. Only
-15.0
-28.4
-0.2
-0.4

* 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. Annual review of investment manager guidelines.

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

Staff reviews the guidelines at least annually for accuracy and completeness. This year, the review resulted in changes that incorporate the MSCI Provisional Indices, (indices adjusted for float weighting) as the benchmark for the international and emerging markets managers. Additionally, staff clarified language covering the use of options and futures and requirements for account reconciliation.

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

3. Update of the Domestic Equity short list.

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

Potential Active Domestic Equity Managers

McKinley Capital Management, Inc.
Legg Mason Capital Management, Inc.
Pzena Investment Management, LLC.
Systematic Financial Management, L.P.
Provident Investment Counsel, Inc.
Turner Investment Partners, Inc.
Harris Associates L.P.
Mazama Capital Management, Inc.
Sit Investment Associates, Inc.

Summary level information on these firms begins on **page 105**, and detailed manager reports begin on **page 107**.

ACTION ITEM:

4. Recommendation to renew investment manager contracts.

The contracts of four (4) equity managers will expire on March 31, 2002. Currently, the standing of each of these managers is satisfactory. Staff recommends renewal of each of these contracts for a five-year period with an immediate termination clause. All other terms and conditions of the contracts are expected to remain unchanged. The investment firms include the following:

RECOMMENDATION:

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

Domesic Equity Managers

**Cohen, Klingenstein & Marks, Inc.
New Amsterdam Partners
Valenzuela Capital Partners, LLC
Zevenbergen Capital, Inc.**

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. RISK/RETURN OBJECTIVES

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) **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~~ 12.0.
- (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 active 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 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~~ trading 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 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.
- (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 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 this would be less than 45 securities for large cap portfolios and 60- no more than 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.~~ entered into and maintained with a fully offsetting amount of cash or cash equivalents.
- (j) 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.

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 business 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 by the 23rd calendar day (or the next business day if a weekend) 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. 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 2000 2001

Executive Director/
Assistant Executive Director

Date _____

Firm Representative

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. RISK/RETURN 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~~ 12.0.
- (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 active 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 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~~ trading 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 an exchanged regulated by an agency of the United States or Canadian national government. These include American Depository Receipts (ADR's) traded on-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 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 this would be less than 45 securities for large cap portfolios and no more than 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.~~ entered into and maintained with a fully offsetting amount of cash or cash equivalents.
- (j) 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.

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 business 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 by the 23rd calendar day (or next business day if a weekend)** 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. 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 ~~2000~~ 2001

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. RISK/RETURN 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 2.00.
- (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 active 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~~ trading 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 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 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~~; entered into and maintained with a fully offsetting amount of cash or cash equivalents.
- (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 2004.~~ 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 business 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 by the 23rd calendar day (or next business day if a weekend) 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.

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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: ~~October~~ December 2000 2001

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. RISK/RETURN 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 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~~ trading common stocks that are in the benchmark index as delivered from the benchmark builder, stock index futures, and the SBI STIF fund. The Manager may sell any securities removed from the target index over a reasonable period of time. The investments must satisfy the following criteria and constraints:

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

- (b) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.
- (c) Stock index futures, purchased through a regulated futures exchange, may be used to equitize cash in the portfolio. Over-the-counter future instruments are not permitted. All future transactions must be ~~done on a fully collateralized basis~~; entered into and maintained with a fully offsetting amount of cash or cash equivalents.

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 business 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 by the 23rd calendar day (or next business day if a weekend) 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. 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 ~~2000~~ 2001

Executive Director/
Assistant Executive Director

Date _____

Firm Representative

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. RISK/RETURN 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 active 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~~), The benchmark will be the Provisional EAFE (or its successor), unhedged, net of dividends, and 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~~ trading 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 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.~~ entered into and maintained with a fully offsetting amount of cash or cash equivalents.
- (i) Currency forwards may be used to adjust the effective non-US currency exposure of the portfolio, ~~from 0 to 100%.~~ Manager is permitted to hedge all or any portion of the non-US currency exposure back to the US dollar and may also attempt to add value from anticipated declines in the value of any

non-US currency, through hedging out of one non-US currency into another non-US currency. The Manager is permitted to increase the exposure to any non-US currency of an eligible market beyond that established by the equity security holdings of the portfolio or that of the country allocation within the benchmark; provided, however, that the total currency exposure may not exceed the total market value of the portfolio. Manager has no obligation to hedge currency risk and will not be required to do so.

- (j) 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 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

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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 ~~2000~~ 2001

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) 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). The benchmark will be the Provisional EAFE (or its successor), unhedged, net of dividends, and capitalization weighted. SBI reserves the right to change the benchmark upon notification to Manager.

3. ELIGIBLE INVESTMENTS

The Manager will be restricted to ~~holding~~ trading 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~~; entered into and maintained with a fully offsetting amount of cash or cash equivalents.

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 business 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 by the 23rd calendar day (or the next business day if a weekend)** 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. 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 2000~~ 2001

Executive Director/
Assistant Executive Director

Date _____

Firm Representative

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. RISK/RETURN OBJECTIVE

The Manager is expected to deliver cumulative returns in excess of a predetermined benchmark net of fees and expenses relative to the amount of active risk in their investment process. The following are understood to be targets for the Manager:

- (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 over a 3 to 5 year period~~ 4.0 to 12.0.
- (b) **Excess Return:** The Manager is expected to out-perform the benchmark consistently over a 3 to 5 year period. 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 active 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; . The benchmark will be the Provisional EMF (or its successor), unhedged, net of dividends and capitalization weighted; ~~gross of dividends~~. 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 in the following markets:

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

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

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

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

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

4. ELIGIBLE INVESTMENTS

Subject to the constraints in #3 above, the Manager will be restricted to purchasing trading common stocks, preferred stocks, closed-end funds, currency forwards and the SBI's STIF fund. The Manager may hold 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, rights, 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, defined as those securities for which a public market does not exist, may not be purchased.
- (d) Debt securities, except cash equivalents may not be purchased.
- (e) The stock of companies in, or open and closed-end funds investing principally in, any of the following countries shall not be held in the Account: U.S.; 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 to gain exposure to China.
- (f) For emerging market countries outside the EMF benchmark, eligible securities shall not exceed 10% of the Account's market value in aggregate at the time of purchase.
- (g) Depository Receipts may be held in the Account provided they are issued by an emerging market company, are depository eligible, and can be priced on a daily basis. Non-U.S. securities and Depository Receipts issued pursuant to Rule 144A may be purchased for the Account if, upon issuance, these securities (or their underlying shares in the case of Depository Receipts) will be publicly-traded securities in their local market(s) or another regulated market and can be priced on a daily basis.

- (h) The Manager shall not hold more than three (3) percent of the total outstanding shares of any corporation in the Account at any time. If a holding should breach this level or the Manager desire to hold a larger position, the Manager must notify the SBI.
- (i) Currency forwards may be used to adjust the effective non-U.S. country exposure of the Account from 0 to 100%. Hedging back to USD is permitted. Cross hedging is not permitted. The Manager has no obligation to hedge currency risk and will not be required to do so.
- (j) 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 their revenue from the manufacture of consumer tobacco products. If a new company should be added to the list, the Manager would have 90 days to divest that restricted company.

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 that 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 use reasonable efforts to promptly inform SBI staff and the SBI's custodian of any material legal claims available to SBI relating to any of the Assets 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 and/or counterparty group used by the Manager to execute currency transactions must have a counterparty 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 the counterparty credit ratings of each counterparty bank and/or counterparty group, and the Manager will promptly notify the SBI of any counterparty rating downgrade below the A1/P1 level.

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 with respect to all proxies, 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 in connection with the Account 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, and that 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 other than closed-end funds and open-end funds permitted under "Eligible Investments" above 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**, or for same day settlement trades **10:30 AM EST**. Any trades or affirmations that will not meet these deadlines should be submitted the following day. 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 business 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 by the 23rd calendar day (or the next business day if a weekend)** 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. 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: ~~February~~ December 2001

Executive Director/
Assistant Executive Director

Date _____

Firm Representative

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. RISK/RETURN OBJECTIVES

Risk Constraint

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

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.

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 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~~; entered into and maintained with a fully offsetting amount of cash or cash equivalents.
- (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 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 business 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 by the 23rd calendar day (or next business day if a weekend) 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. 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 2000 2001

Executive Director/
Assistant Executive Director

Date _____

Firm Representative

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. RISK/RETURN OBJECTIVES

Risk Constraint

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

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.

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 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 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.~~ entered into and maintained with a fully offsetting amount of cash or securities. 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 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 business 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 by the 23rd calendar day (or next business day if a weekend) 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. 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 ~~2000~~ 2001

Executive Director/
Assistant Executive Director

Firm Representative

Date _____

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. RISK/RETURN OBJECTIVES

The Manager is expected to deliver cumulative returns in excess of a predetermined benchmark provided to the Manager. 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) percentage points.
- (b) The actual portfolio will generate positive cumulative excess returns 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 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. ELIGIBLE INVESTMENTS

The Manager will be restricted to ~~purchasing~~ trading common stocks, stock index futures 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.

- (b) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces and/or be listed on an exchange regulated by an agency of the United States or Canadian national government. These include American Depository Receipts (ADR's) traded on 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 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 three (3) percent of the total outstanding shares of any corporation in the SBI's portfolio.
- (g) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.
- (h) Stock index futures, purchased through a regulated futures exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter instruments are not permitted. All futures transactions must be ~~done on a fully collateralized basis~~; entered into and maintained with a fully offsetting amount of cash or cash equivalents.
- (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.

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 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.

6. PROXY VOTING

The SBI is responsible for proxy voting.

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 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 business 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 by the 23rd calendar day (or next business day if a weekend)** 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. 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 2000 2001

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. RISK/RETURN OBJECTIVE

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

2. BENCHMARK

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

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

Performance will be monitored and evaluated against this custom benchmark.

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

3. 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 and must be entered into and maintained with a fully offsetting amount of cash or cash equivalents. Over-the-counter instruments are not permitted.
- (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.
- (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.

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. 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.

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

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 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.

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 business 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 by the 23rd calendar day (or next business day if a weekend) 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. 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. Manager will be notified in advance of changes to the investment guidelines.

Revised: ~~June~~ December 2001

Executive Director/
Assistant Executive Director

Firm Representative

Date _____

Date _____

Investment Manager Guidelines

Internal Investments

**INVESTMENT GUIDELINES
INTERNAL ACTIVE FIXED INCOME MANAGER
INCOME SHARE ACCOUNT**

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

1. RISK/RETURN OBJECTIVES

Risk Constraint

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

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.

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

- (a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Manager may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the states and their municipalities, political subdivisions, agencies or instrumentalities; (d) 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 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 futures on U.S. treasury securities must be purchased through a regulated exchange. Over-the-counter instruments are not permitted. All future transactions must be ~~done on a fully collateralized basis~~ entered into and maintained with a fully offsetting amount of cash or cash equivalents.
- (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 portfolio must be capable of being priced 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

business 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 by the 23rd calendar day (or the next business day if a weekend)** 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. 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 2000 2001

Executive Director/
Assistant Executive Director

Date _____

Firm Representative

Date _____

**INVESTMENT GUIDELINES
INTERNAL ACTIVE FIXED INCOME MANAGER
TRUST FUND POOL**

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

1. RISK/RETURN OBJECTIVES

Risk Constraint

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

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.

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

- (a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Manager may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the states and their municipalities, political subdivisions, agencies or instrumentalities; (d) 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 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 futures on U.S. treasury securities must be purchased through a regulated exchange. Over-the-counter instruments are not permitted. All future transactions must be ~~done on a fully collateralized basis~~ entered into and maintained with a fully offsetting amount of cash or cash equivalents.
- (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 portfolio must be capable of being priced 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 business 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 by the 23rd calendar day (or next business day if a weekend)** 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. 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 2000 2001

Executive Director/
Assistant Executive Director

Date _____

Firm Representative

Date _____

**MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL PASSIVE DOMESTIC COMMON STOCK MANAGER**

The investment actions of the Minnesota State Board of Investment (SBI) internal passive domestic common stock manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

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 0.20 or less.
- (b) Excess Return: The Manager is expected to slightly under perform the benchmark return overtime due to 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~~ trading 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) Cash equivalent reserves shall be invested in a STIF fund designated by the SBI.
- (b) Stock index futures, purchased through a regulated futures exchange, may be used to equitize cash in the portfolio. Over-the-counter future instruments are not permitted. All future transactions must be ~~done on a fully collateralized basis~~ entered into and maintained with a fully offsetting amount of cash or cash equivalents.

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 portfolio must be capable of being priced 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 business 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 by the 23rd calendar day (or next business day if a weekend)** 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. 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 ~~2000~~ 2001

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 fund is to preserve capital, maintain a high degree of liquidity and within these constraints provide a high level of current income.

The portfolio is expected to deliver annualized returns that beat the benchmark over time.

2. BENCHMARKS

The benchmark is the Lehman 1-3 year government treasury 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+/A1-rated or better, by 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+/A1-rated or better by 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 2000 2001

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**

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

1. INVESTMENT OBJECTIVES

The Manager's portfolio is expected to:

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

The Manager's ~~portfolio~~ is expected to ~~deliver annualized returns at least 30 basis points above~~ deliver cumulative returns in excess of the returns of the benchmark, over time, after fees net of fees and expenses.

2. BENCHMARKS

The Manager's portfolio is compared to the average yield of the rolling three-year Constant Maturity Treasury (CMT) security plus 30 basis points.

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

3. ACCEPTABLE INVESTMENTS

The Manager may ~~hold~~ trade 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.
- **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.

- 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 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.
- 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 security-backed investment contracts that are actively managed by another manager.

4. PERFORMANCE EVALUATION

Manager performance is evaluated in terms of excess returns of monthly portfolio returns, and the continuity of the Manager's organization relative to the portfolio.

5. PORTFOLIO CONSIDERATIONS

a. Credit, Risk and Diversification

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

b. Weighted Average Maturity

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

c. Legal Review

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

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" 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.

7. 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.

8. 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~~ 2001

Executive Director/
Assistant Executive Director

Firm Representative

Date _____

Date _____

Potential Manager Summary
Active Domestic Equity
As of June 2001

<u>Manager</u>	<u>Style</u>	<u>Custom Benchmark</u>	<u>Published Benchmark</u>	<u>Assets Under Management</u> (in \$ mil.)	<u>Assets In Product</u> (in \$ mil.)	<u># of Accts. In Product</u>	<u>Number Of Holdings</u>
McKinley	Lg Growth	Yes (internal)	R1000 Growth	3,611	1,192	34	40-70
Legg Mason	Lg Core	No (But would create)	S&P 500	5,367	4,962	40	30-45
P'zena	Lg Value	Yes (internal)	R1000 Value	1,988	1,707	105	35
Systematic	Lg Value	No (But would create)	R1000 Value	3,799	1,454	30	60-70
Provident	Mid Growth	No (But would create)	R Mid Growth	11,976	434	13	50-70
Turner	Mid Growth	No (But would create)	R Mid Growth	9,723	1,812	38	100-130
Harris	Mid Value	No (But would create)	R Mid Value	16,993	6,745	760	18-22
Mazama	Sm Growth	No (But would create)	R2000 Growth	1,027	1,013	28	75-95
Sit	Sm Growth	No (But would create)	R2000 Growth	8,300	435	10	65-75

SUMMARY OF MANAGER PERFORMANCE

Periods Ending September 2007	3 yr	1 yr	2 yr	3 yr	4 yr	5 yr	7 yr	S.I.	Inception date
McKINLEY	-22.7	-52.0	-15.9	-0.2	1.0	8.9		16.4	March, 1995
MCK RUSSELL 1000 GROWTH	(3.3)	(6.3)	2.2	3.1	0.9	2.4		5.2	March, 1995
LEGG MASON	-19.6	-20.1	-2.5	11.8	10.5	19.8	23.2	18.7	December, 1987
LEGG MASON SP500 BNMK	(5.0)	-26.6	-8.8	2.0	3.8	10.2	14.2	13.8	December, 1987
PZENA	-8.5	20.2	20.6	17.2	7.6	14.3		15.4	December, 1995
PZENA CUSTOM BENCHMARK	-17.6	-4.2	3.6	6.4	0.0	7.8		8.9	December, 1995
SYSTEMATIC FINANCIAL	9.1	24.4	17.0	10.8	7.6	6.5		6.5	
SYSTEMATIC RUSSELL 1000 VALUE	(3.1)	(0.7)	3.0	6.9	(0.5)	1.7	1.4	2.1	June, 1993
PROVIDENT MIDCAP GROWTH	-30.2	-52.4	4.1	16.7	11.8	12.4	15.2	16.6	December, 1986
PROVIDENT RUSSELL MIDCAP GROWTH BNMK	(2.4)	(0.6)	16.2	14.7	12.8	7.9	5.8	5.3	December, 1986
TURNER INVESTMENT PARTNERS	-31.9	-58.8	-9.5	14.7	11.3	17.3		19.8	July, 1996
TURNER RUSSELL MIDCAP GROWTH	(4.1)	(7.0)	2.6	12.7	12.2	12.8		6.7	July, 1996
HARRIS MIDCAP VALUE	-11.5	20.0	11.3	19.3	13.4	18.4	18.8	19.1	December, 1991
HARRIS RUS MIDCAP VALUE BNMK	-11.6	0.0	6.3	7.3	4.4	10.8	13.4	13.5	December, 1991
MAZAMA SMCAP GROWTH	-34.7	-40.3	-3.9	12.9	1.9	8.9	12.9	13.6	March, 1993
MAZAMA R2000 GROWTH BNMK	(6.6)	-42.6	-13.7	-0.4	-7.2	-1.8	4.1	4.9	March, 1993
SIT SMALL GROWTH	-24.8	-50.5	4.4	17.6	7.0	9.2	16.9	17.6	June, 1994
SIT SMALL GROWTH BNMK	(3.2)	(7.9)	18.2	18.0	14.2	11.0	12.8	12.4	June, 1994

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission: September 25, 2001

Firm's Name: McKinley Capital Management, Inc.

Name of Product: Large Cap Growth

Investment Style: Large Cap Growth

Investment Philosophy:

We believe that excess market returns can be achieved through the construction and management of a diversified, fundamentally sound portfolio of inefficiently priced securities whose earnings growth rates are accelerating above market expectations.

Investment Process:

Using proprietary quantitative models, we systematically search for and identify early signs of accelerating growth. Our initial universe consists of 9,000 publicly traded domestic stocks, including growth and value stocks from all capitalization categories. The primary model includes a linear regression model to identify common stocks that are inefficiently priced relative to the market while adjusting each security for standard deviation. The ratio of alpha to standard deviation (O/R) is the primary screening value; we use it to filter out all but the top 10% of stocks in our initial universe.

The remaining candidates then pass through liquidity and strength of earnings tests. The candidates are filtered and scrutinized for liquidity factors which include, but are not limited to: minimum market capitalization of \$100 million and buy-in positions not to exceed three times daily average stock volume. The result is approximately 400 stocks.

Our earnings test or model identifies securities with strong earnings acceleration. Positive earnings surprises are one of the strongest fuels of a security's price appreciation. We search for substantive reasons for continued growth in each stock by applying estimates of earnings growth models, earnings percent surprise, superior characteristics of earning revisions and comparisons of estimates for next year's earnings growth rates to the expected price/earnings ratio. For the Large Cap Growth product, our portfolio team selects securities with a minimum market capitalization of \$1 billion up to the largest market capitalization stock in the Russell 1000 Growth Index. The result is approximately 150-200 stocks.

In the final portfolio construction process, we examine a variety of qualitative factors, which could ultimately impact earnings. These include qualitative data, economic factors, street research overview, and specific industry themes. The final portfolio holds between 40-70 stocks, providing diversification and risk control by issue and sector.

Ownership:

100% employee owned. In 1998, the firm adopted and implemented an Incentive Stock Option ("ISO") program to facilitate future growth by attracting, retaining and rewarding selected employees. The ISO program provides a mechanism for employee ownership, succession planning and enhancement of the firm's overall compensation structure. While Robert B. Gillam is at present the sole shareholder, thirty-one professionals currently participate in the firm's ISO program. Collectively, these employees hold options to purchase approximately 15.5% of the firm's outstanding Class B common stock. The firm intends to continue the ISO program on an annual basis.

Firm's total assets under management:	\$3,610,646,819
Assets under management in this product:	\$1,191,706,362
Number of Accounts in this product:	34
Number of Portfolio Managers on this product:	7*
Number of Analysts on this product:	6**

*Investment decisions are made on a team basis. Each product is assigned to a specified member of the portfolio team – the lead manager – who also serves as a primary client contact. Within this team framework, the lead manager for each product bears ultimate responsibility for the portfolio. All investment decisions are subject to the oversight of Robert B. Gillam, CIO, who oversees implementation of the investment process on a firm-wide basis.

**Our quantitative research team plays an essential role in the portfolio management process. We do not carry out research in the traditional sense of site visits and meetings with company management. Instead, our dedicated quantitative research staff and systems support the portfolio team by providing them with meaningful investment data, linked and coordinated from a wide variety of sources.

Largest Accounts:**As of 6/30/01:**

Corporate	\$445,724,319
Public	\$239,401,254
Public	\$176,629,342
Corporate	\$86,237,775
Taft-Hartley	\$42,734,229

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission: September 25, 2001

Firm's Name: Legg Mason Capital Management, Inc.

Name of Product: Value Equity

Investment Style: Large Cap Core

Investment Philosophy:

We believe that the market reflects all available public information. We also believe that active management is able to add value to an index over time by distinguishing information which is reflected accurately from that which is distorted. Our investment philosophy is grounded in acquiring long-term ownership of fractional interests in companies where those interests are purchased at large discounts to our assessment of their intrinsic business value.

Investment Process:

LMCM's research process adopts a multi-variate, valuation-driven approach. Our research focuses on evaluating a company's intrinsic business value and its ability to generate return on capital above its cost of capital, thereby creating value for shareholders. Value creation is driven by the soundness of the business model and management's capabilities to execute. Important factors in understanding the business model include the company's position in its industry, pricing flexibility, ability to generate free cash flow, and return on invested capital, while management's capabilities can be assessed by the rationality of its capital allocation decisions, its ability to execute, and the alignment of management's interests with those of shareholders. Understanding these factors enables us to construct likely scenarios for the company's future financial performance and determine our best probability estimates for these scenarios. Based on our understanding of the company's business model and our probabilistic assessment on its future financial outcomes, we try to delineate the range of values for the underlying business, using a variety of valuation techniques, such as discounted cash flow, comparative analysis, private market, liquidation, and LBO analyses. Through this multi-variate approach, we establish the distribution of intrinsic business values under multiple future scenarios. Comparing the company's market price with our estimated range of intrinsic business values reveals the risk/reward potential offered by the company, which forms the basis of informed investment decision-making.

Ownership:

Legg Mason Capital Management, Inc. ("LMCM"), founded in 1982, is a wholly-owned investment management subsidiary of Legg Mason, Inc., a publicly traded company.

As of 6/30/01

Includes LCM institutional accounts and assets under management.*

Firm's total assets under management:	<u>\$5,367mm</u>
Assets under management in this product:	<u>\$4,962mm</u>
Number of Accounts in this product:	<u>40</u>
Number of Portfolio Managers on this product:	<u>2</u>
Number of Analysts on this product:	<u>13</u>

*Large cap account assets over \$25 million and small cap assets over \$5 million.

Largest Accounts:

(List the name and/or type and dollar amount of the firm's five largest tax-exempt institutional separate accounts for the product being considered.)

As of 6/30/01

Foreign Government	\$831mm
Massachusetts Pension Reserves	\$770mm
State Retirement and Pension System of MD	\$537mm
Raytheon Master Pension Trust	\$378mm
NCR Pension Trust	\$227mm

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission: September 25, 2001

Firm's Name: Pzena Investment Management, LLC

Name of Product: Pzena Value Service

Investment Style: Large Cap Value

Investment Philosophy:

Our investment philosophy is classic value. We define value as those stocks whose prices are low relative to their longer-term normal earnings power. We strongly believe in the concept of regression to the mean: that is companies whose returns are below par will take action to improve their situation and companies whose returns are high will attract competition. Consequently, a philosophy of buying those companies that sell at a low price relative to long-term estimates of earnings should be a successful one.

Investment Process:

We follow a disciplined investment process to implement our classic value philosophy as described below:

- 1. Rank the 1000 largest U.S.-listed companies from cheapest to most expensive on the basis of price-to-normalized earnings.** At this screening stage, normalized earnings are those earnings one would expect naively if all that was known was the company's operating history and its industry membership. At the top of this screen are a list of companies that appear to be severely undervalued based on what their histories suggest they *should* be earning. Typically, these companies are at the top of this list because their current earnings are not at the level implied by their histories.
- 2. Focus the research efforts on companies in the most undervalued 20% of the universe.** Research priority is given to the cheapest stocks, those exhibiting a group or sector theme, and those offering portfolio diversification benefits. The decision whether to dedicate research resources to a security is made by Rich Pzena and John Goetz, who review current Wall Street research to make an initial judgment as to whether the causes of the under-valuation are likely to be temporary or permanent, and further, whether our research process is likely to enable us to "figure it out."
- 3. Perform rigorous, in-depth analysis culminating in a full-day, on-site meeting with senior company management.** Once we are committed to engaging in a research project on a company, our analysts are asked to approach each situation with the following question in mind, "*would we buy the entire business at the*

current price?” Given this perspective, our eight-person research team represents a mix of industry veterans and people who have either run a business themselves or consulted to businesses. Thus, our team’s experience and training is directly applicable to our approach to research. Our analysts spend their time gathering the information that will enable us to meet with company management from the position of full participants in their business, coming to discuss the strategic options available to them over the next several years. The result is meetings with senior management that tend to be insightful and mutually beneficial.

4. **Refine our earnings model and make a final investment decision.** Upon return from our company visit, we will use the information gathered to develop a final estimate of normalized earnings. At this stage of the process, normalized earnings is the earnings level we expect the company to be able to generate within the next five years given their industry position and our judgment as to management’s ability to successfully implement their strategic plans. If we decide to add the security to our portfolio, we expect our average holding period to be approximately three years.

5. **Continually monitor and evaluate each position, with at least one visit each year to each company.** Once a stock is added to our portfolio, we assess each new piece of information with the question, “*did we get it right?*” While the average holding period is approximately three years, the information available on a periodic basis gives us an ongoing scorecard to assess whether our expectations for a return to normal earnings are being met. Our sell discipline is ultimately guided by the same ranking system with which we originally screened the universe. In this way, we can avoid emotional inputs, and focus on the pure valuation level of each company.

Ownership:

65% employee owned
 35% outside (non-voting)

Firm’s total assets under management:	<u>\$1987.6 mil</u>
Assets under management in this product:	<u>\$1706.5 mil</u>
Number of Accounts in this product:	<u>105</u>
Number of Portfolio Managers on this product:	<u>2</u>
Number of Analysts on this product:	<u>6</u>

(as of 6/30/01)

Largest Accounts:

Confidential #1	ERISA	\$606.5 million
Confidential #2	ERISA	\$149.7 million
Confidential #3	ERISA	\$108.4 million
Confidential #4	Endowment	\$83.9 million
Confidential #5	Foundation	\$83.7 million

(as of 6/30/01)

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission: September 26, 2001

Firm's Name: Systematic Financial Management, L.P.

Name of Product: Large Cap Value – Earnings Surprise

Investment Style: Large Cap Value

Investment Philosophy:

Systematic Financial Management believes that superior long-term returns can be achieved through the construction and management of a diversified, fundamentally sound portfolio. Our process of investing in large capitalization stocks with a combination of low price/earnings ratios and positive earnings surprise as the catalyst for price appreciation has provided long term results that have consistently outperformed the benchmark. We do not buy companies simply because they are cheap based on traditional valuation methods. Many of these companies only get cheaper because there is no catalyst for price appreciation. Systematic's goal is to avoid "cheap" companies and to invest in "value" companies that have a confirmed catalyst for stock price appreciation. We believe a company's ability to generate earnings above Wall Street expectations coupled with our rigorous fundamental research to validate the strength, quality and sustainability of stronger earnings is the best tangible evidence to trigger stock price appreciation.

Investment Process:

The bottom-up process that follows our investment philosophy for the Large Cap Value – Earnings Surprise product starts with a quantitative screen of companies with market capitalization greater than \$3.0 billion. Those companies are then ranked by low forward P/E and positive earnings surprise in order to generate a focus list of approximately 150 stocks. From this 150 stock focus list, we conduct rigorous fundamental analysis that must confirm the stock's value and catalysts for appreciation. We focus on low P/E stocks of companies that exhibit strong and improving margins and operating cash flow in order to avoid stocks that had a positive earnings surprise simply because of accounting gimmicks. In order to validate the sustainability of the positive earnings surprise, the investment team examines historical financial statements, interviews company management and attends analysts meetings. Our team also evaluates the current business model in terms of management, products and competitors. From our analysis, we assess the relative value of the company based on our projected financial performance. Our process is designed to uncover well-managed, financially strong companies that have an excellent chance for continued positive earnings surprise and price appreciation.

Portfolio construction is bottom-up based on individual security selection. We select the most attractive investment opportunities that result from our in-depth fundamental analysis. Investment criteria include low forward P/E, improving margins, strong cash flow generation, strong business models, strong earnings generation as well as excellent potential for continued earnings surprises. Buy decisions are made by consensus among the investment team with lead responsibility coming from senior members Joe Joshi and Kevin McCreesh. A portfolio of our best ideas is constructed with 60 to 70 equally-weighted securities. As risk controls, we limit the portfolio to a maximum of 30% in any one sector and 5% in any individual stock. In addition we also remain within +/- 5% of the benchmark's sector weightings. Systematic employs a fully invested strategy; therefore, cash is typically 0-4% of the portfolio, with an absolute maximum of 10%.

Our sell discipline is the inverse of our selection methodology. We sell stocks when price appreciation causes P/E expansion to fair value. In addition, we will sell a position if there are other investment opportunities that are more attractive on a relative valuation (and expected return) basis. If our analysis leads us to anticipate downward estimate revisions or possible negative earnings surprise, we will also sell a stock. And finally, in the less likely event of a reported negative earnings surprise, we sell the position from our portfolio.

Ownership:

In 1995, Affiliated Managers Group, a holding company which invests in investment management firms, acquired a majority interest in Systematic Financial Management, LP. Currently, AMG owns 55% of the firm and the remaining 45% is owned by active senior employees of Systematic.

It is important to note that AMG is a passive financial partner of Systematic, and employees retain autonomous control of the investment philosophy & process and day-to-day management of the firm. In addition, AMG has agreed to recycle employee ownership. When an employee-owner retires, their ownership position will remain within Systematic and be redistributed to the next generation of professionals.

Firm's total assets under management:	<u>\$3,798.7 Million</u>
Assets under management in this product:	<u>\$1,454.1 Million</u>
Number of Accounts in this product:	<u>30 Institutional Accounts</u>
	<u>24 Broker/Dealer Relationships</u>
Number of Portfolio Managers on this product:	3
Number of Analysts on this product:	2

Largest Accounts:

(List the name and/or type and dollar amount of the firm's five largest tax-exempt institutional separate accounts for the product being considered.)

Taft-Hartley Client
\$425.7 Million

Public Client
\$199.0 Million

Corporate Client
\$107.5 Million

Corporate Client
\$70.6 Million

Corporate Client
\$124 Million

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission: September 26, 2001

Firm's Name: Provident Investment Counsel, Inc.

Name of Product: Mid Cap Growth Equity

Investment Style: Mid Cap Growth

Investment Philosophy:

Provident Investment Counsel's philosophy is predicated upon the strongly held conviction that sustainable revenue and earnings growth is the most important contributor to long-term stock appreciation. The conceptual foundation of our strategy is the premise that stock prices and earnings have a high correlation over time. We believe that, over time, capital markets reward companies that are above-average in their earnings growth and fundamental operating strength.

Investment Process:

RESEARCH

Our broad mid cap universe of approximately 1,000 securities consists of all growth stocks that are within the market cap range of the Russell Midcap Growth Index. We then apply a comprehensive screening process to identify companies with superior financial characteristics and strong revenue and earnings growth. This process narrows our focus universe to about 300 companies.

Our focused, fundamental research process is primarily based on the ideas of our in-house mid cap team of analysts and is supported by our large cap industry specialists. These specialists focus their expertise on specific industries and sectors covering the following key growth sectors: technology, telecom, healthcare, retail, consumer, industrial, and finance.

Our analysts study various industry publications (independent research company reports, periodicals, etc.) and company publications (10Ks, 10Qs, annual reports, prospectuses). Based on this information, our analysts conduct further in-depth research including discussions with company management and competitors. In addition to regular participation in conference calls, we meet with company management in our offices, at their facilities, and/or at conferences. Our firm has access to a large analyst network, which includes national as well as regional firms and smaller boutiques.

STOCK SELECTION

Our stock selection process seeks out companies which have at least one or more catalysts for growth. The catalysts may be identified as: new products, exploitation of demographic

trends, proprietary products, gaining market share, and/or a changing cost structure, in order to maintain or accelerate very strong revenue and/or earnings per share growth.

We search for companies operating in emerging and high growth sectors of the economy with the potential to become larger companies. These companies usually have significant management ownership, and well-thought-out management goals and growth plans supported by stringent controls, and a commitment to enhancing shareholder value. We also seek companies with a proven track record (generally two to three years) of superior revenue and earnings growth, strong pretax margins, low levels of debt, exceptional profitability, market share, high return on equity, high reinvestment rates, and attractive valuations relative to their industry, earnings growth and the market in general.

DECISION MAKING PROCESS

We employ a team approach to investment management. Our investment decision making process includes a formal weekly meeting where our mid cap team reviews our individual security holdings and weightings, our analysts' proposed new purchases and sales, sector weights, and performance attribution. This formal weekly meeting is often augmented with supplemental meetings to review important daily developments impacting the markets and to make timely buy and sell decisions. Additionally, members of our firm's mid cap and small cap teams meet every morning with the large cap analysts and portfolio managers to discuss current events.

Ownership:

Provident Investment Counsel is wholly owned by Old Mutual plc.

(Excludes sponsored program assets)	<i>As of 6/30/01</i>
Firm's total assets under management:	\$11,976 MM
Assets under management in this product:	\$434 MM
Number of Accounts in this product:	13
Number of Portfolio Managers on this product:	6
Number of Analysts on this product:	2

Largest Accounts:

(List the name and/or type and dollar amount of the firm's five largest tax-exempt institutional separate accounts for the product being considered.)

As of 6/30/01, the five largest tax-exempt separate accounts in our mid cap product are:

Public	\$175 mm
Corporate	\$87 mm
Foundation	\$34 mm
Foundation	\$29 mm
Union	\$17 mm

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission: September 25, 2001

Firm's Name: Turner Investment Partners, Inc.

Name of Product: Turner Midcap Growth Equity

Investment Style: Midcap Growth Equity

Investment Philosophy:

Our investment process is based on one philosophy: earnings expectations drive stock prices. We believe investing in companies with strong earnings prospects will pay off over time. As a result, security selection is our primary means of adding investment value. We apply the same investment process to all of our equity portfolios to provide clients with a uniform, consistent approach to investing in growth stocks.

Investment Process:

We take a team approach to investment management. Each member of our investment team has responsibility for analysis of, and purchase/sale recommendations for, stocks within a specific market sector. Some team members have additional responsibility as lead or back-up managers for our equity products. We believe the best investment decisions result from informed collaboration between the portfolio manager and a team of analysts. We expect our analysts to be experts in their sectors and rely on our portfolio managers to implement our proven investment disciplines.

While our primary focus is on fundamental analysis, we use a proprietary computer model to assess a universe of approximately 5000 companies of varying capitalizations based on multiple earnings growth and valuation factors. Once screened, companies are ranked from the first percentile (most attractive) to the 100th percentile (least attractive). Companies ranked in the top 35% qualify for further consideration. Current holdings that fall below the 50th percentile become candidates for sale.

We perform traditional research to better understand the critical elements driving earnings growth. Fundamental analysis helps us to determine if the companies we follow will exceed, meet, or fall short of Wall Street analysts' consensus earnings expectations. Our analysts meet with company management, talk to industry experts and competitors, and attend trade conferences in an effort to anticipate changes in the outlook for corporate earnings.

Technical analysis is used to evaluate trends in trading volume and price patterns for individual stocks. This helps our investment team to identify attractive entry and exit points. For example, money flow (accumulation or distribution) may act as a leading or

confirming indicator. Relative strength can provide an early alert and cause us to revisit fundamentals.

Ownership:

Turner is 100% owned by 36 staff members, including 31 who received equity ownership in the firm during the last three years. We will continue to distribute equity to those professionals who make significant contributions to the success of our business. Current principals of the firm are willing to further dilute their equity ownership stake in order to make these distributions possible.

Firm's total assets under management:	\$ 9,723.10
Assets under management in this product:	\$ 1,812.14
Number of Accounts in this product:	38
Number of Portfolio Managers on this product:	3
Number of Analysts on this product:	9
Largest Accounts:	

(List the name and/or type and dollar amount of the firm's five largest tax-exempt institutional separate accounts for the product being considered.)

SISTERS OF CHARITY OF LEAVENWORTH	CORPORATE	\$ 50,960,306
PENN MUTUAL LIFE INSURANCE COMPANY	ADVISORS/OTHER	\$ 51,356,889
NATIONAL ELECTRICAL BENEFIT FUND	TAFT-HARTLEY	\$ 61,672,749
PRINCIPAL GROUP	ADVISORS/OTHER	\$ 83,588,807
COLORADO PERA	PUBLIC	\$ 126,590,443

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission: September 26, 2001

Firm's Name: Harris Associates L.P.

Name of Product: Concentrated Value Equity

Investment Style: Mid Cap Value

Investment Philosophy:

We are value investors. We invest in companies that trade at a substantial discount to their true business value and are run by managers who think and act as owners. We believe that purchasing businesses below 60% of underlying value minimizes risk while providing substantial profit potential. We view every stock purchase we make as if we were buying a piece of a business, not just a stock certificate. We look for managers who seek to maximize the long-term value of a business for its owners: in other words, run efficient operations, focus on cash flow and allocate capital wisely.

We are patient investors. Over time, we believe the price of a stock will rise to reflect the underlying business value; in practice, we generally expect to hold a stock at least three years. We also build focused portfolios by keeping the list of approved securities fairly short -- sufficient for diversification, but concise enough so that our best ideas can make a meaningful impact on investment performance.

We believe concentrated portfolios increase our opportunity to deliver exceptional investment performance while providing adequate diversification. For this product, our portfolios are highly concentrated and typically contain approximately 20 securities.

Investment Process:

Initial Investment Universe

All publicly traded domestic equity securities with market capitalizations greater than \$1 billion.

Research

- Research ideas are generated internally (95%) with some reliance on external sources (5%).
- Harris utilizes a fundamental research process; all of our analysts are generalists.

Criteria Screens

- *Quantitative* screens focus on:
 - Cash flow - We believe that this variable best represents the true earning power of a firm over the long run.
 - Databases - We screen Compustat & Value Line using the ratio of total firm capitalization (market value of equity + net debt) divided by our definition of cash flow (earnings before interest, taxes & amortization).

- “New Low List” - These stocks may represent good value because of a temporary disappointment.
- *Qualitative* screens focus on:
 - Regulatory publications - Publications are reviewed for insider transactions given our view of the importance of management.
 - Pending corporate spin-offs - Information on pending corporate spin-offs and restructurings, as well as stock repurchase activity, may represent clues in our search for misunderstood (and therefore undervalued) securities.

Stock selection is driven by individual company fundamental characteristics. How secure is the current and expected financial position? What is the company’s competitive position? Do the company’s managers have a financial stake in the company, and do they act in the interests of shareholders to maximize the long-term value of a business? In the end, the answers to these and related questions define how we select stocks and construct attractive portfolios.

An important part of our approach is a thorough assessment of a company’s management team. Field visits and interviews are an integral part of our research process, as we have found over the years that investing in companies with proven, capable managers reduces risk and enhances the likelihood of strong investment returns. We prefer managements whose compensation and personal wealth are directly tied to the value of the business; we generally avoid companies where salaries are high and executive stock ownership is low

Approved List

Once an analyst identifies an attractive stock, the idea is brought to the weekly Stock Selection Group meeting. All of the firm’s investment professionals meet to discuss existing stocks, new ideas and general market issues. A new stock idea is presented, discussed and then voted upon by three of the firm’s most experienced investment professionals at this meeting.

Buy/Sell Discipline

For each of the stocks on our Approved List, buy and sell targets are established when the stock is first added to this list. These targets are determined by the analyst (and reviewed by the Pricing Committee) and are carefully and regularly reviewed to ensure they reflect current company fundamentals. We sell a stock for four reasons: when it achieves 90-100% of its fair value; when there is a significantly more attractive investment, when we detect a deterioration in the fundamentals of the company, and when we discern that management is no longer a steward of shareholder interests.

Portfolio managers select stocks for client portfolios from the Approved List: they may not purchase “sell” rated stocks nor sell “buy” rated stocks.

Ownership:

Harris Associates is 100% owned by CDC IXIS Asset Management North America L.P. Harris Associates has remained autonomous, retaining full control of investment decisions, investment philosophy and day-to-day operations. All key investment professionals have remained active participants in the firm’s operations.

Firm's total assets under management:	<u>\$16,993mm</u>
Assets under management in this product:	<u>\$6,745mm</u>
Number of Accounts in this product:	<u>760</u>
Number of Portfolio Managers on this product:	<u>10</u>
Number of Analysts on this product:	<u>9</u>

Largest Accounts:

(List the name and/or type and dollar amount of the firm's five largest tax-exempt institutional separate accounts for the product being considered.)

Concentrated Value Equity Strategy

	<u>Account Type</u>	<u>Asset Value</u> <u>(\$mm)</u>
#2149	Variable Annuity	235
#1628	Pension Fund	79
#1627	Endowment	71
#0087	Pension Fund	56
#2227	Endowment	46

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission: September 28, 2001

Firm's Name: Mazama Capital Management, Inc.

Name of Product: Small Cap Growth

Investment Style: Small Cap Growth

Investment Philosophy:

Mazama's philosophy is that our Small Cap Growth style provides exceptional returns by investing in a diversified portfolio of quality companies that have made recent investments in people, products, plants and/or services and that are now positioned to outperform current expectations. Buying these quality, timely companies at a good valuation relative to their expected ROE and EPS growth rates enhances the opportunity for attractive gains and minimizes the risk of downside price movements.

We believe that people are often the most important factor in determining a company's success. We watch key personnel changes and employee ownership and often interview new and former employees to give us an edge in evaluating a company. Understanding people is a critical part of our research process.

Our fundamental, bottom-up approach to security selection includes detailed analysis of company financials, ongoing discussion with company executives and key employees, and timely visits to evaluate company operations first hand. We compare notes between vendors, suppliers and competitors to properly determine a company's competency and rankings in their sector.

Investment Process:

We regularly screen over 3000 small companies with market caps under \$1.5 billion for desirable financial characteristics, producing a workable list of stocks that undergo further fundamental analysis. Additional investment ideas originate from a variety of industry contacts including Wall Street research firms, industry consultants, and our peers in the investment management business. Companies passing the initial screen, and other promising ideas brought to us by industry contacts, are added to our proprietary Price/Performance Model to undergo rigorous fundamental analysis. Of the 300-400 companies tracked on our Price/Performance Model, between 75 and 95 will become holdings in our portfolios.

Price Performance Model

The Mazama Price/Performance Model is the basis for the firm's "buy and sell" discipline. The Model has four main inputs that determine a company's ranking. There are two qualitative inputs and two primarily quantitative inputs. In terms of qualitative inputs, we assign a Quality Grade, which rates the management team and key personnel associated with each company, and a Timeliness Grade, which rates a company's ability to meet or exceed Wall Street earnings estimates. As quantitative inputs to our model, we input a ROE Grade, which is estimated ROE divided by forward P/E, and an Earnings Growth Grade, which is an estimated earnings growth rate divided by forward P/E. Each stock receives a score for the four categories above, which are added together for a final score. Seven or more points indicate a *BUY*, five to 6.9 points indicate a *HOLD*, and fewer than five points indicate a *SELL*. The Model is continuously updated, providing dynamic rankings of our portfolio stocks.

The Price/Performance Model score of each stock determines its weighting in the portfolio – the higher the score, the larger the position. The top scoring 25% of the names are over-weighted with 45-50% of the portfolio assets.

Sell decisions are driven by either a deterioration in fundamentals or a reduction in ranking due to price appreciation which is then reflected in a lower Price/Performance Model score. The Model is "live" (linked to real time price quotes during the trading day) and updated daily when new data is received. As stated above, a score trending downward below 7.0 will often be reduced. When the score of a particular stock drops to a 5.0 or below, the entire position is sold.

We generally limit exposure in any one security to no more than 6% of the portfolio assets. While our "bottom up" approach to stock selection primarily drives our sector weighting, we continue to look at sector weightings relative to the Russell 2000 Growth index and generally limit sector exposure to no more than 1000 basis point variance from weighting in the index.

Ownership:

Mazama is 93% employee owned with the investment team owning over 75% of the firm.

At 6/30/01:

Firm's total assets under management:	\$1027.0 million
Assets under management in this product:	\$1012.9 million
Number of Accounts in this product:	28
Number of Portfolio Managers on this product:	2
Number of Analysts on this product:	4*

***Portfolio managers also have research responsibilities.**

Largest Accounts:

(List the name and/or type and dollar amount of the firm's five largest tax-exempt institutional separate accounts for the product being considered.)

SEI Investments*	\$341.5 million
SEI Investments*	\$210.1 million
Daughters of Charity	\$54.1 million
Marin County	\$47.6 million
Northern Trust of CT	\$46.2 million

* Mazama is a sub-adviser to these two mutual funds. One of the Mutual Funds for which we sub-advise is held in both taxable and tax-exempt accounts. It is assumed that the majority of the fund is held in tax-exempt accounts and the exact percentage changes over time. This fund is managed in substantially the same strategy as our institutional tax-exempt accounts.

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission: September 25, 2001

Firm's Name: Sit Investment Associates, Inc.

Name of Product: Sit Small Cap Growth

Investment Style: Growth

Investment Philosophy:

Sit Investment Associates' investment philosophy targets growth-oriented opportunities. Generally, we look to invest in companies with the potential to increase earnings at a faster rate than the representative economy and market index.

- We believe that earnings growth is the primary determinant of superior long-term returns.
- We are opportunistic investors; we believe in high and consistent growth companies as well as conservative and cyclical growth companies.
- We manage our portfolios on an active basis, concentrating our investments in the best growth opportunities at the most reasonable valuation levels.

Investment Process:

Sit Investment Associates' investment philosophy targets growth-oriented opportunities. Generally, we invest in companies with the potential to increase earnings at a faster rate than the representative economy and market index. Our investment process is a fundamentally-based top-down (20-30%) and bottom-up (70-80%) research process using a team decision-making approach. The research team is comprised of domestic industry/sector specialists who provide stock recommendations in their respective sectors. Our holdings typically have the following attributes:

Consistent long-term earnings growth and In a growth industry. Small cap growth portfolio companies should demonstrate 5-year annual earnings growth of at least 20%.

Sustainable competitive advantages. A company should have a distinctive product or service, the ability to control pricing within its industry, and an innovative management team with a track record of success.

Financial strength. Apart from seeking high earnings per share growth, we look for companies with above-average return-on-equity, relatively low levels of debt, and positive cash flow.

For the small cap growth product, the investable universe is comprised of all companies with market capitalization's of between \$100 million and \$2.5 billion at the time of purchase and projected earnings growth rates of 20% and higher.

SIA employs a team management process for our growth equity products, including the use of model portfolios, meaning that all clients' portfolios are managed on a similar basis to the extent that guidelines permit. Gene Sit, Chief Investment Officer, presides over our Common Stock Committee meetings and acts as the team leader of the process.

All investment analyst/portfolio managers are members of the team and perform research on their assigned industry groups. They prepare written research reports and present them at the weekly Common Stock Committee meetings for consideration by all team members, who are chaired by Eugene C. Sit as Chief Investment Officer. Four of the team members have at least 15 years of experience at SIA and have somewhat greater influence on the deliberation process as a result of that experience. Mr. Sit has "veto" authority, but in practice exercises it rarely, meaning that the process is essentially collegial in nature.

We determine weightings of securities by ranking them into three tiers. Tier one issues must represent 3-5% of the portfolio, tier two position sizes are 2-2.5%, and tier three position sizes are 1-1.5%. These general weighting guidelines are refined in a model portfolio approach which also defines precise weightings for each stock held. The greater our conviction with a particular company, the greater the weight it will have in the portfolio. New additions to the portfolio will typically have weightings of between 1% and 2.5%.

Ownership:

Sit Investment Associates, Inc (SIA) is an employee-owned corporation. We currently have a total of approximately 80 employees, 21 of which are employee-shareholders and active employees own 82% of the firm (18% of the firm is owned by various individuals dating back to capital that was raised with the founding of the firm). Sit Investment Associates is controlled by the Sit family and the firm will not be sold. We have a well conceived and strong succession plan in place and our turnover rate among our investment professionals is very low.

Firm's total assets under management:	8.3 billion
Assets under management in this product:	\$435 million*
Number of Accounts in this product:	10
Number of Portfolio Managers on this product:	5
Number of Analysts on this product:	9

* Does not include an additional \$214 million in small/mid cap growth hybrid accounts

Largest Accounts:

(List the name and/or type and dollar amount of the firm's five largest tax-exempt institutional separate accounts for the product being considered.)

The five largest growth equity and small cap growth equity clients for the firm are shown below:

Small Cap Growth Product*	Assets (\$ in millions)
Los Angeles City ERS (LACERS)	139
The Mayo Foundation and Mayo Pension Plan	130
Arizona State Compensation Fund	33
University of Minnesota Endowment Fund	32
The Hearst Corporation	31

* includes small/mid growth hybrid accounts

STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

Third Quarter, 2001

**COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending September, 2001**

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
Alliance Capital	-15.7	-14.2	-31.7	-32.0	5.1	4.3	16.9	12.2	17.4	12.8	\$825.23	5.1%
Brinson Partners	-13.0	-15.7	-4.8	-29.6	0.1	4.4	7.0	9.5	11.3	11.9	\$598.99	3.7%
Cohen, Klingenstein & Marks	-24.6	-19.8	-35.9	-36.6	-0.2	2.8	8.9	9.0	13.8	12.5	\$446.71	2.8%
Forstmann-Leff	-24.5	-20.4	-31.4	-13.0	6.9	13.0	12.5	10.7	13.3	12.3	\$487.19	3.0%
Franklin Portfolio	-21.1	-18.1	-24.2	-21.9	5.5	4.3	10.5	9.0	13.1	12.1	\$538.04	3.3%
GeoCapital	-32.2	-31.4	-50.6	-39.9	-4.7	-0.6	-1.9	-2.1	8.1	9.0	\$401.39	2.5%
Lincoln	-20.5	-19.3	-54.3	-46.2	-9.6	-4.6	2.6	6.8	9.3	11.4	\$503.12	3.1%
Oppenheimer	-13.7	-17.2	-6.8	-17.9	8.3	7.5	13.0	12.6	15.5	13.9	\$640.14	4.0%
Emerging Managers (2)	-19.2	-19.7	-27.8	-21.5	5.1	10.7	9.5	12.1	12.9	14.5	\$679.12	4.2%
Semi-Passive Managers												
Barclays Global Investors	-12.6	-12.9	-27.7	-30.2	-0.8	-2.0	8.1	7.6	13.2	12.3	\$2,171.92	13.5%
Franklin Portfolio	-12.6	-12.9	-28.5	-30.2	-2.3	-2.0	7.5	7.6	12.1	12.3	\$1,681.40	10.4%
JP Morgan	-13.5	-12.9	-27.2	-30.2	-1.1	-2.0	8.3	7.6	12.9	12.3	\$1,801.83	11.2%
Passive Manager												
Barclays Global Investors	-16.3	-16.4	-29.3	-29.8	2.0	1.6	8.8	8.4	11.5	11.1	\$5,355.13	33.2%
Current Aggregate	-16.3	-16.1	-28.9	-29.7	2.5	1.5	10.0	8.6	14.4	11.9	\$16,130.22	100.0%
Historical Aggregate (3)	-16.3	-16.1	-29.2	-29.8	1.1	1.4	8.3	8.3	12.6	12.7		
Wilshire 5000 Investable (4)		-16.4		-29.8		1.3		8.2		12.7		
Wilshire 5000		-15.9		-28.9		2.0		8.6		13.0		

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

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

(3) Includes the performance of terminated managers

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

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

Prior to 11/1/93, the Wilshire 5000 was adjusted to reflect SBI mandated restrictions, which included liquor and tobacco, American Home Products and South Africa

ALLIANCE CAPITAL MANAGEMENT
Periods Ending September, 2001

Portfolio Manager: Jack Koltes

Assets Under Management: \$825,232,989

Investment Philosophy

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

Staff Comments

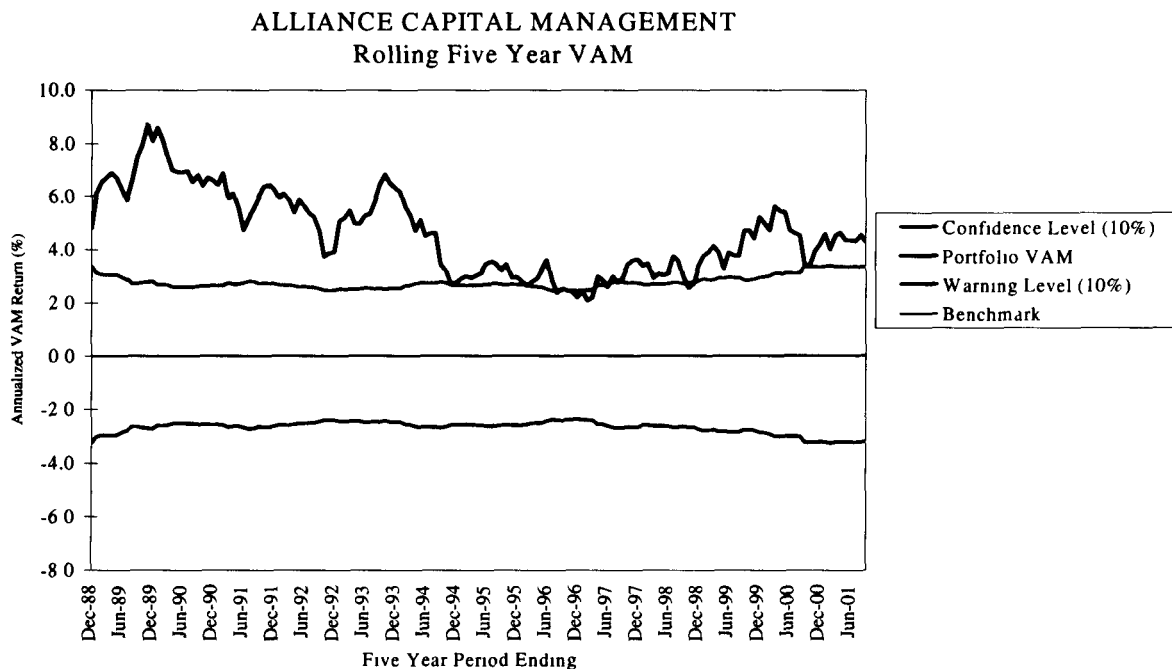
Alliance underperformed for the quarter but remains ahead of the benchmark for the past year. Alliance has positioned the portfolio defensively and looks to modestly add some more aggressive names on an individual basis as economic indicators and company prospects improve.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-15.7%	-14.2%
Last 1 year	-31.7	-32.0
Last 2 years	-9.8	-9.3
Last 3 years	5.1	4.3
Last 4 years	9.2	5.9
Last 5 years	16.9	12.2
Since Inception (1/84)	17.4	12.8

Recommendation

No action required.



BRINSON PARTNERS
Periods Ending September, 2001

Portfolio Manager: John Leonard

Assets Under Management: \$598,988,818

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.

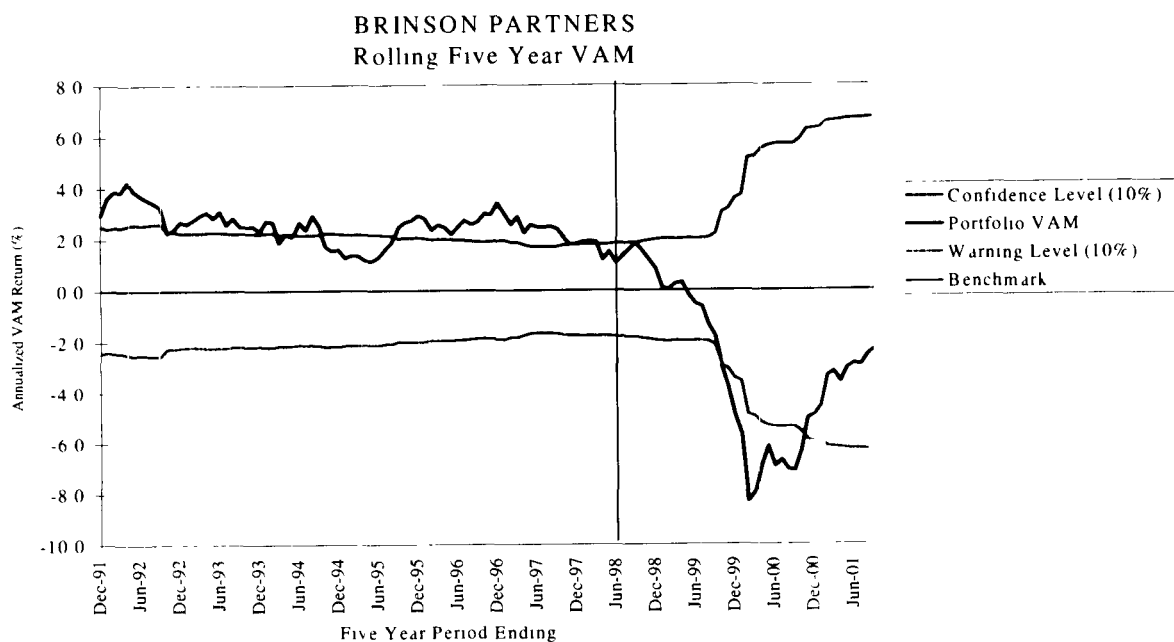
Staff Comments

Brinson outperformed for the quarter and the year. Brinson had positioned their portfolio defensively based upon their expectation for a weakening economy. This paid off during the third quarter, as they had no exposure to airlines, hotels, or restaurants. Over the past year, Brinson's outperformance was driven by positive stock selection across several sectors and a large underweight to technology.

Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	-13.0%	-15.7%	No action required
Last 1 year	-4.8	-29.6	
Last 2 years	-4.6	-5.4	
Last 3 years	0.1	4.4	
Last 4 years	0.2	3.1	
Last 5 years	7.0	9.5	
Since Inception (7/93)	11.3	11.9	

Recommendation



COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending September, 2001

Portfolio Manager: George Cohen

Assets Under Management: \$446,713,190

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

Cohen underperformed during the quarter on an overweight and poor stock selection within technology. The firm had increased its weighting in technology earlier this year believing valuations were attractive and that any pickup in the economy would greatly benefit the sector. They continue to hold these stocks and are watching the economy closely for any signs of change in consumer confidence and spending.

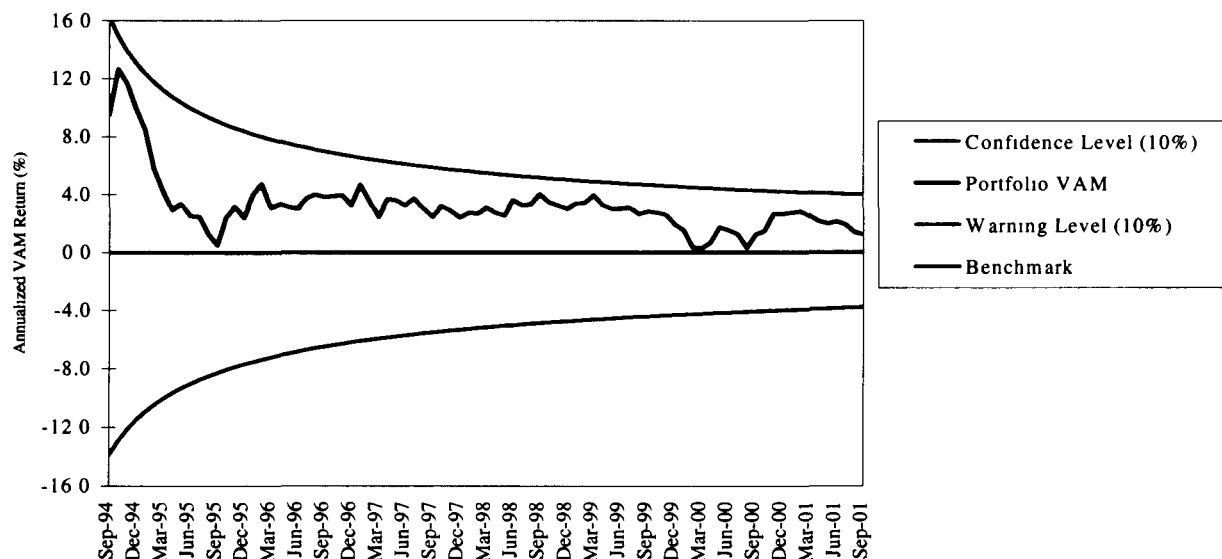
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-24.6%	-19.8%
Last 1 Year	-35.9	-36.6
Last 2 Years	-13.2	-10.3
Last 3 Years	-0.2	2.8
Last 4 Years	2.4	2.2
Last 5 Years	8.9	9.0
Since Inception (4/94)	13.8	12.5

Recommendation

No action required.

COHEN KLINGENSTEIN & MARKS
Cumulative Tracking



FORSTMANN-LEFF ASSOCIATES
Periods Ending September, 2001

Portfolio Manager: Bill Harnisch

Assets Under Management: \$487,192,528

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

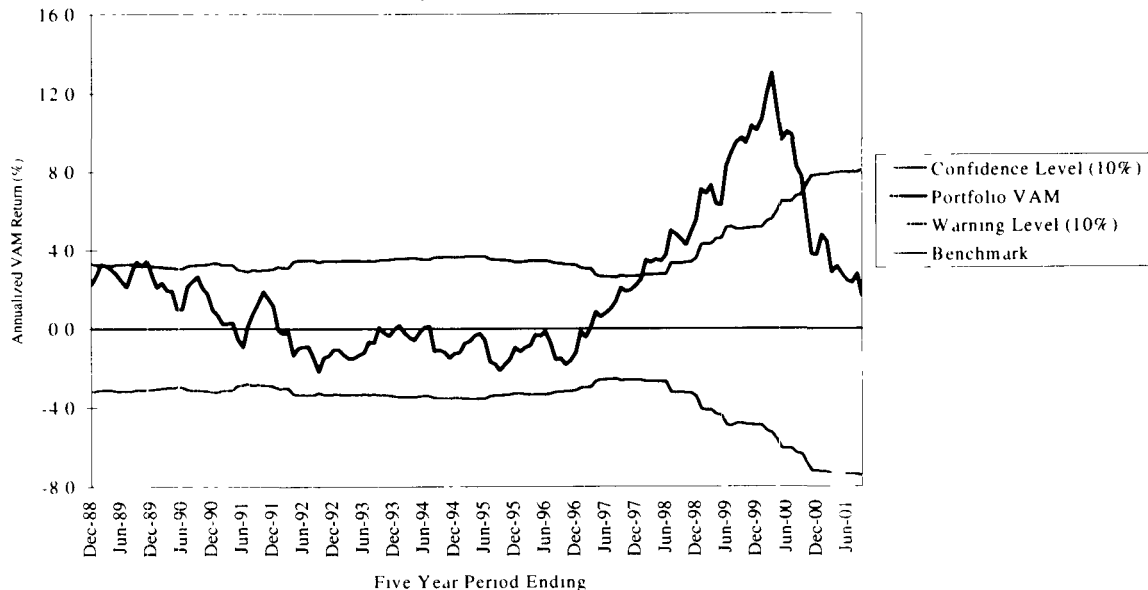
Forstmann underperformed for both the quarter and the year. While stock selection was modestly positive, sector allocations more than offset this. During the quarter Forstmann's two largest positions, Best Buy and Symbol Technologies, performed poorly hurting relative performance.

Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	-24.5%	-20.4%	No action required
Last 1 year	-31.4	-13.0	
Last 2 years	-12.1	4.9	
Last 3 years	6.9	13.0	
Last 4 years	4.9	4.8	
Last 5 years	12.5	10.7	
Since Inception (1/84)	13.3	12.3	

Recommendation

FORSTMANN-LEFF ASSOCIATES
Rolling Five Year VAM



FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 2001

Portfolio Manager: John Cone

Assets Under Management: \$538,041,093

Investment Philosophy

Active

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

Staff Comments

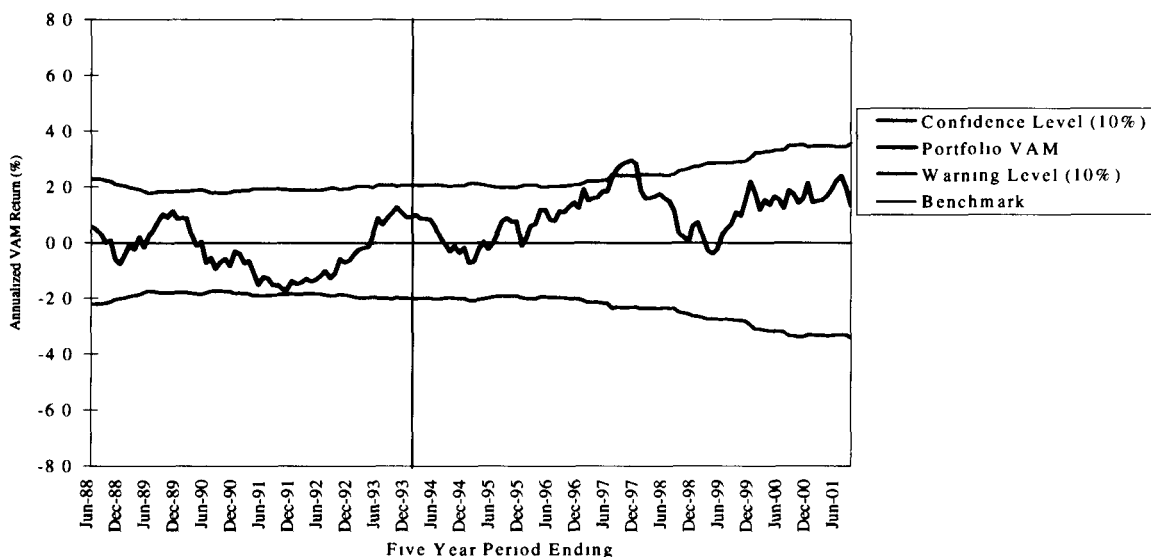
Franklin underperformed for the quarter on negative stock selection in finance, technology, and commercial services. Over the past year, a combination of risk factor exposures and sector and stock selection caused the firm's underperformance.

Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	-21.1%	-18.1%	No action required.
Last 1 year	-24.2	-21.9	
Last 2 years	-3.3	-4.6	
Last 3 years	5.5	4.3	
Last 4 years	2.8	3.2	
Last 5 years	10.5	9.0	
Since Inception (4/89)	13.1	12.1	

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, 2001

Portfolio Manager: Barry Fingerhut

Assets Under Management: \$401,388,021

Investment Philosophy

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

Staff Comments

GeoCapital underperformed for the quarter and the year. Over both periods negative stock selection caused the underperformance. Over the past year poor selection in the technology sector accounted for most of the shortfall to the benchmark.

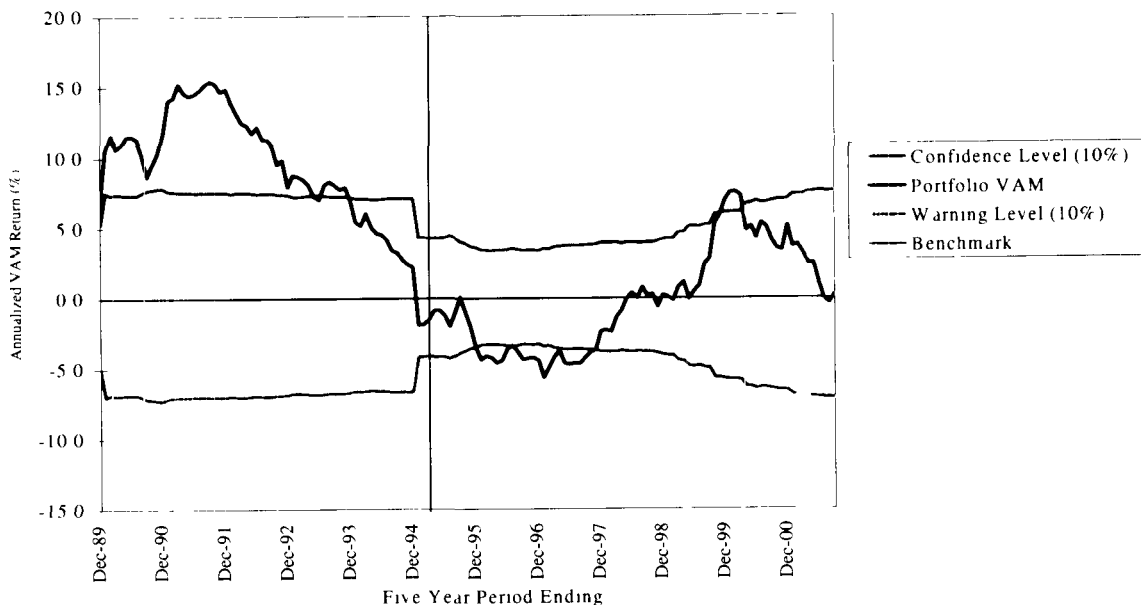
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-32.2%	-31.4%
Last 1 year	-50.6	-39.9
Last 2 years	-18.7	-10.2
Last 3 years	-4.7	-0.6
Last 4 years	-7.3	-7.7
Last 5 years	-1.9	-2.1
Since Inception (4/90)	8.1	9.0

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, 2001

Portfolio Manager: David Fowler

Assets Under Management: \$503,124,932

Investment Philosophy

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

Staff Comments

Lincoln lagged the benchmark over the past quarter and year. During the quarter, sector allocations were modestly positive but were offset by negative stock selection, concentrated in the retail sector. Stock selection was positive in consumer non-durables, healthcare and communications. Technology stock selection caused the shortfall to the benchmark over the past year.

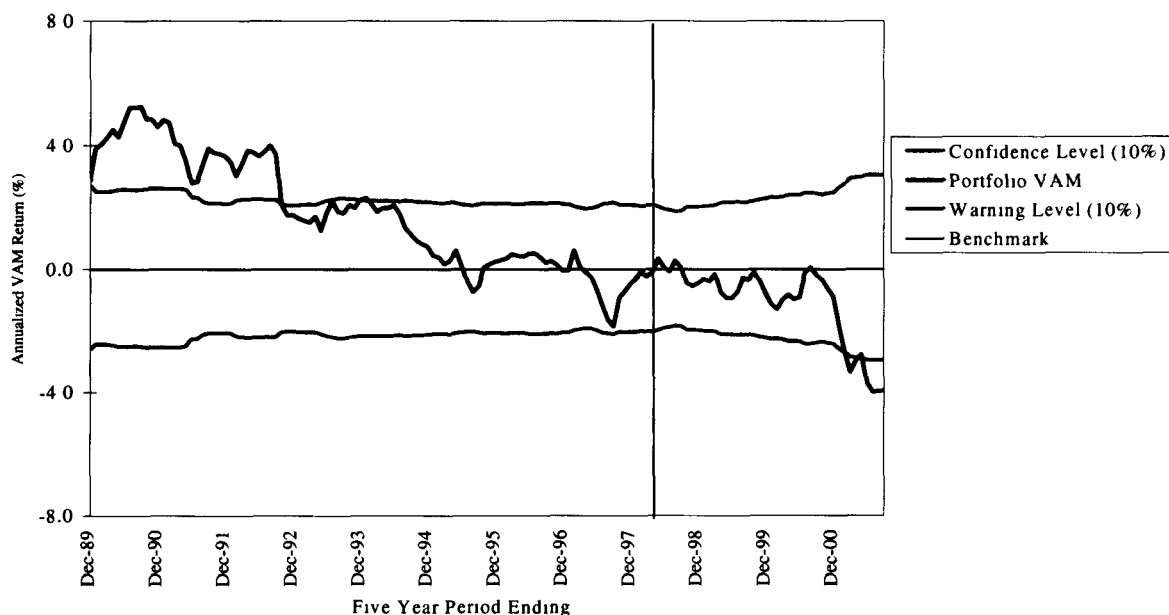
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-20.5%	-19.3%
Last 1 year	-54.3	-46.2
Last 2 years	-25.3	-20.2
Last 3 years	-9.6	-4.6
Last 4 years	-3.3	-0.3
Last 5 years	2.6	6.8
Since Inception (7/93)	9.3	11.4

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, 2001

Portfolio Manager: John Lindenthal

Assets Under Management: \$640,141,180

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

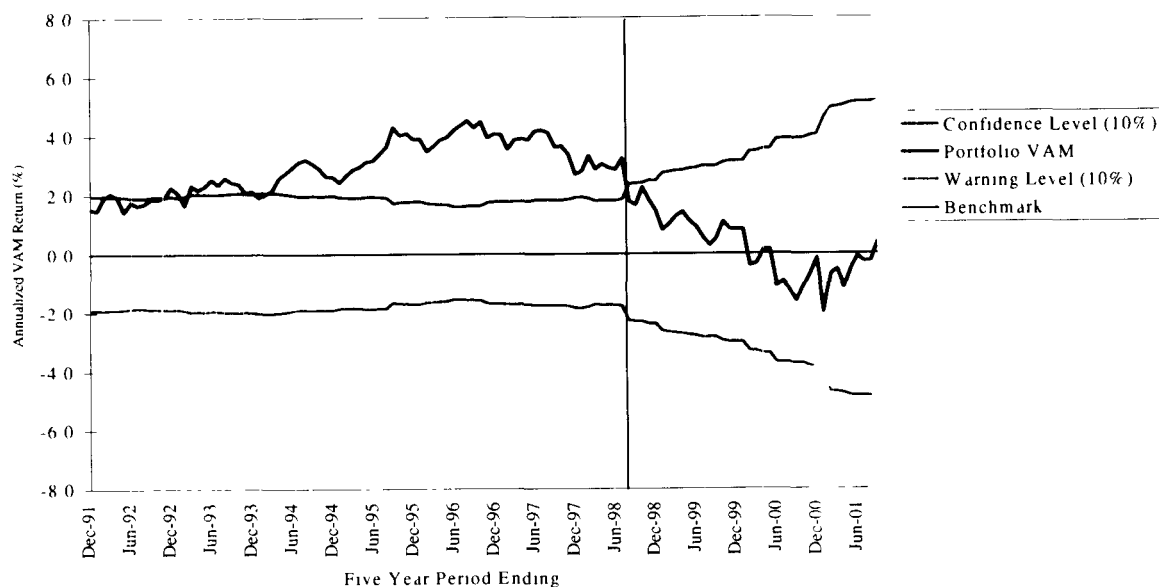
Oppenheimer beat their benchmark over the past year and quarter. During the past quarter a significant underweight in technology was the largest contributor to the outperformance, though stock selection in the sector was mildly negative. Positive stock selection and sector weightings in Finance and Telecommunications also contributed during the quarter. Over the past year, the significant underweight and positive stock selection in technology led to significant outperformance.

Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	-13.7%	-17.2%	No action required
Last 1 year	-6.8	-17.9	
Last 2 years	3.9	-0.1	
Last 3 years	8.3	7.5	
Last 4 years	7.1	7.2	
Last 5 years	13.0	12.6	
Since Inception (7/93)	15.5	13.9	

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, 2001

Portfolio Manager: John Cone

Assets Under Management: \$1,681,398,788

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

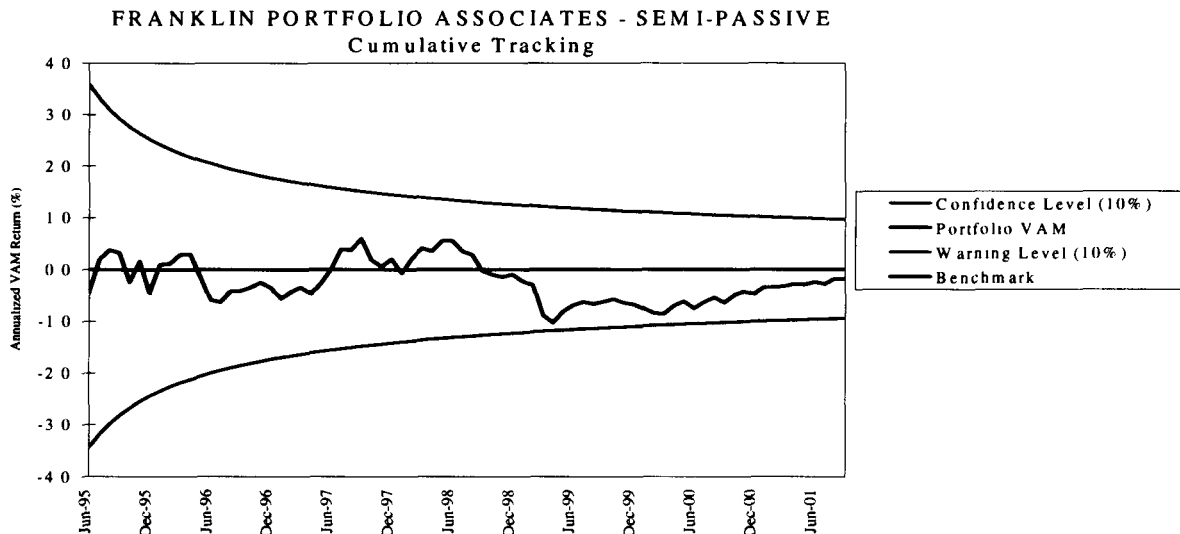
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark*	
Last Quarter	-12.6%	-12.9%	No action required.
Last 1 year	-28.5	-30.2	
Last 2 years	-11.5	-12.2	
Last 3 years	-2.3	-2.0	
Last 4 years	0.0	0.8	
Last 5 years	7.5	7.6	
Since Inception (1/95)	12.1	12.3	

Recommendation

* Completeness Fund



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

Portfolio Manager: Tim Devlin

Assets Under Management: \$1,801,832,426

Investment Philosophy
Semi-Passive

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

Staff Comments

J.P. Morgan narrowly underperformed in the third quarter but is well ahead of the benchmark over the past year due to positive stock selection in 14 of 19 economic sectors.

Quantitative Evaluation

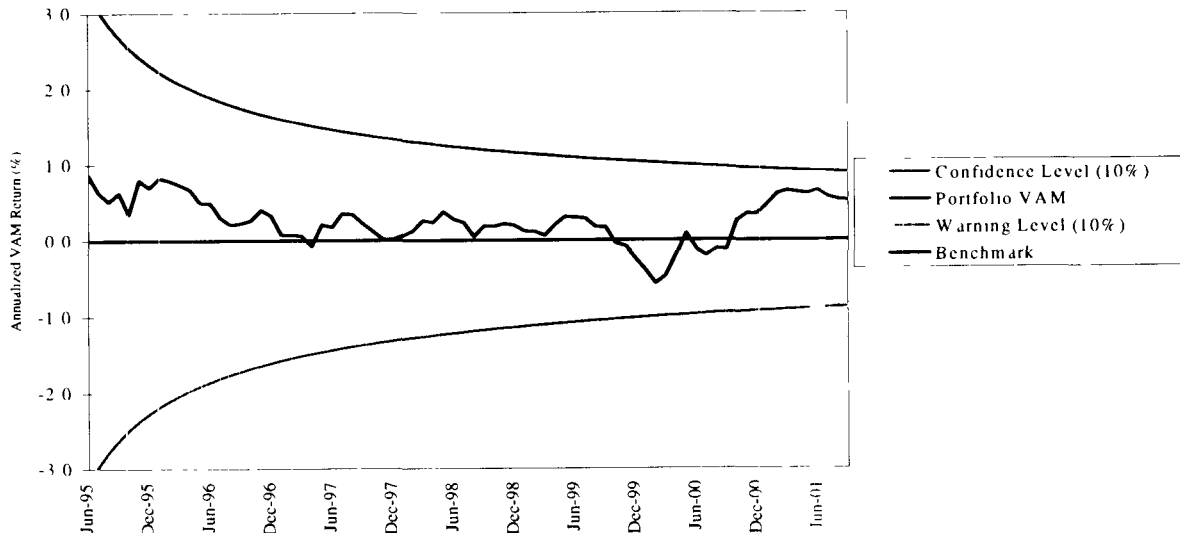
	Actual	Benchmark*
Last Quarter	-13.5%	-12.9%
Last 1 year	-27.2	-30.2
Last 2 years	-11.0	-12.2
Last 3 years	-1.1	-2.0
Last 4 years	1.5	0.8
Last 5 years	8.3	7.6
Since Inception (1/95)	12.9	12.3

Recommendation

No action required.

* Completeness Fund

JP MORGAN - SEMI-PASSIVE
Cumulative Tracking



BARCLAYS GLOBAL INVESTORS
Periods Ending September, 2001

Portfolio Manager: Nancy Feldkircher

Assets Under Management: \$2,171,916,536

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

Barclays beat their benchmark over the past year and quarter. Over both time periods relative valuation and earnings quality were the most significant contributors to this outperformance.

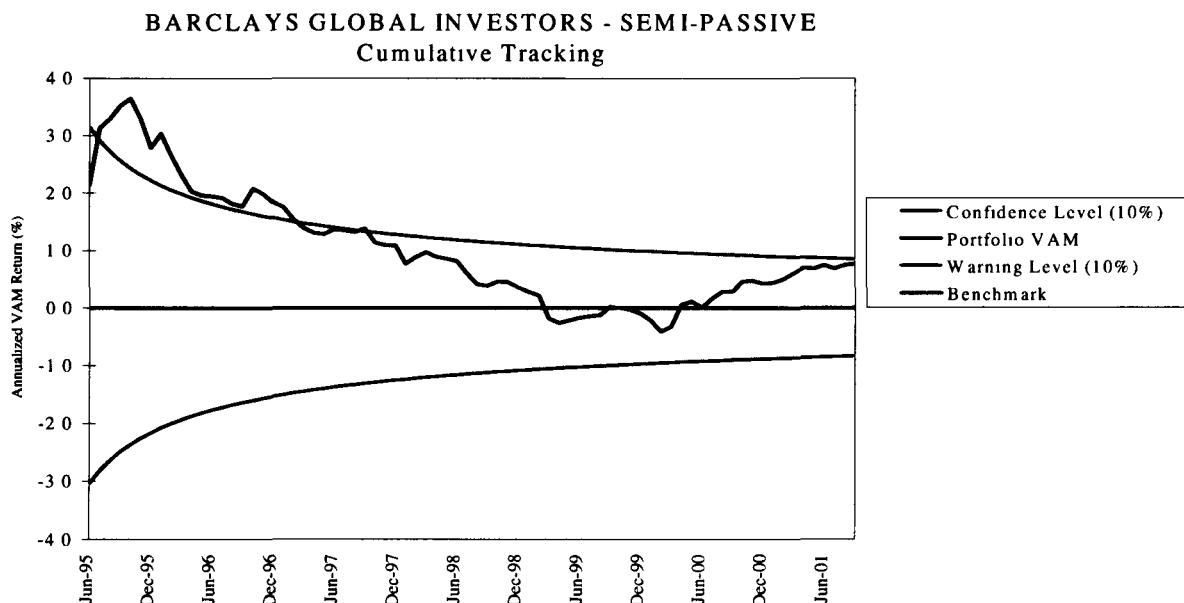
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-12.6%	-12.9%
Last 1 year	-27.7	-30.2
Last 2 years	-10.0	-12.2
Last 3 years	-0.8	-2.0
Last 4 years	1.1	0.8
Last 5 years	8.1	7.6
Since Inception (1/95)	13.2	12.3

Recommendation

No action required.

* Completeness Fund



BARCLAYS GLOBAL INVESTORS
Periods Ending September, 2001

Portfolio Manager: Amy Schioldager

Assets Under Management: \$5,355,129,457

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

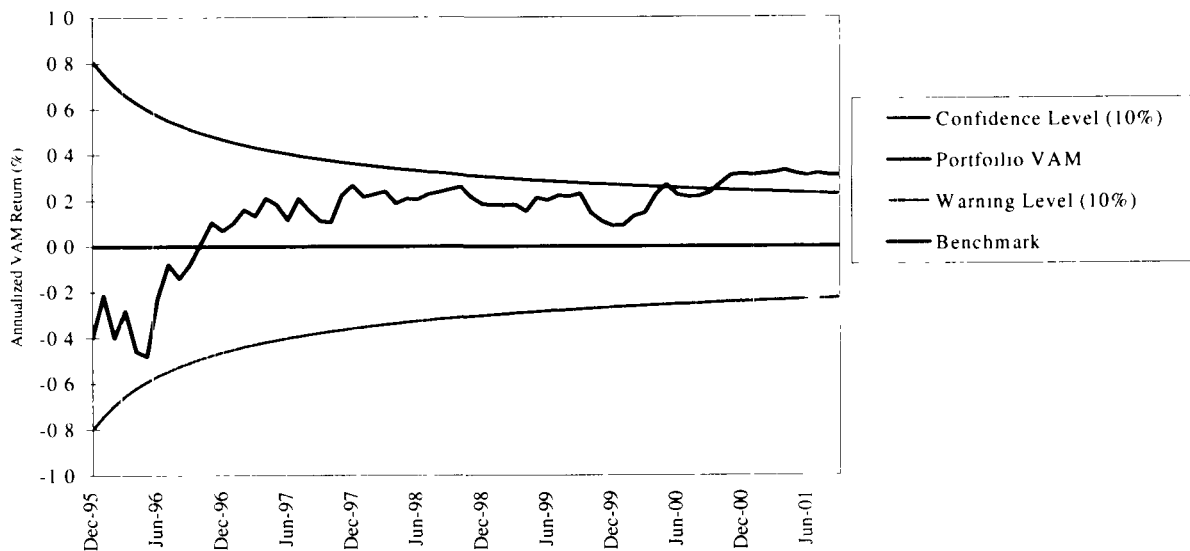
No comments at this time

Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	-16.3%	-16.4%	No action required
Last 1 year	-29.3	-29.8	
Last 2 years	-8.7	-9.1	
Last 3 years	2.0	1.6	
Last 4 years	2.4	2.0	
Last 5 years	8.8	8.4	
Since Inception (7/95)	11.5	11.1	

Recommendation

BARCLAYS GLOBAL INVESTORS - PASSIVE
Cumulative Tracking



STATE BOARD OF INVESTMENT

Emerging Stock Manager Evaluation Reports

Third Quarter, 2001

ARTEMIS INVESTMENT MANAGEMENT, LLC
Periods Ending September, 2001

Portfolio Manager: Joyce Capuano

Assets Under Management: \$34,398,320

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 beat their benchmark during the quarter due to strong stock selection in the healthcare and process sectors. Over longer periods, Artemis trails the benchmark because of poor performance in the fourth quarter of 2000 as the firm entered into many technology and telecom stocks as they cheapened, only to see them fall further.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-14.5%	-19.4%
Last 1 Year	-28.4	-18.8
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)	-26.2	-14.6

Recommendation

No action required.

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

BAY ISLE FINANCIAL CORP.
Periods Ending September, 2001

Portfolio Manager: William Schaff

Assets Under Management: \$44,702,680

Investment Philosophy

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

Staff Comments

No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-12.6%	-13.6%
Last 1 Year	-13.1	-15.7
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)	-8.6	-7.4

Recommendation

No action required

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

EARNEST PARTNERS, LLC
Periods Ending September, 2001

Portfolio Manager: Paul Viera

Assets Under Management: \$44,872,019

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 outperformed during the past quarter due to positive stock selection in technology, healthcare, and consumer services. Over the past year, negative stock selection caused the shortfall to the benchmark.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-9.1%	-14.9%
Last 1 Year	-9.0	-2.9
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-8.8	3.7

Recommendation

No action required.

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

HOLT-SMITH & YATES ADVISORS
Periods Ending September, 2001

Portfolio Manager: Kristin Yates

Assets Under Management: \$38,839,255

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 outperformed during the quarter on positive stock selection, especially within technology. Over the past year, negative stock selection across a number of sectors caused Holt-Smith to underperform their benchmark.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-16.4%	-17.9%
Last 1 Year	-23.5	-15.3
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-19.1	-13.0

Recommendation

No action required

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

NEW AMSTERDAM PARTNERS
Periods Ending September, 2001

Portfolio Manager: Michelle Clayman

Assets Under Management: \$135,503,624

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

New Amsterdam was promoted during the quarter and is included in the regular domestic equity program as of the beginning of the fourth quarter. The firm outperformed over the past quarter and year as a result of overweighting defensive sectors such as consumer non-durables, health services and utilities. Postive sector selection was slightly offset by negative stock selection.

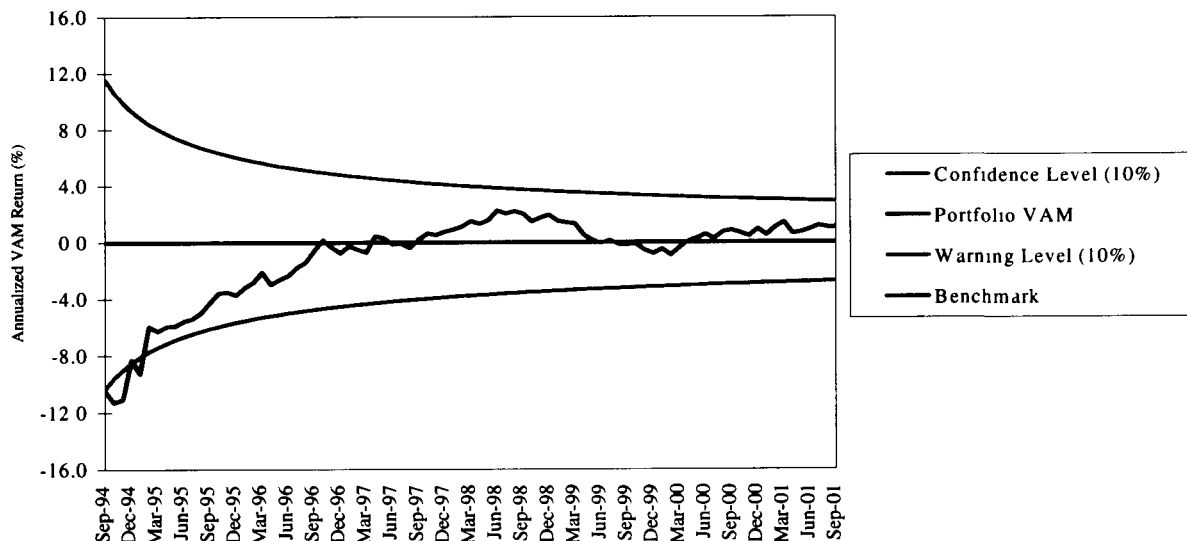
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-18.3%	-19.4%
Last 1 Year	-19.4	-21.4
Last 2 Years	6.5	2.0
Last 3 Years	11.2	11.7
Last 4 Years	9.2	7.2
Last 5 Years	15.2	13.1
Since Inception (4/94)	15.9	14.7

Recommendation

No action required.

**New Amsterdam Capital Partners
 Cumulative Tracking**



NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending September, 2001

Portfolio Manager: Thomas Press and Don Longlet

Assets Under Management: \$24,062,562

Investment Philosophy

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

Staff Comments

Next Century underperformed the past quarter and year due to both negative stock and sector selection. The firm had positioned the portfolio aggressively based upon their expectation for a resumption of economic growth. This aggressive stance resulted in significant underperformance as economic uncertainty increased. Next Century's increased uncertainty over the timing of economic recovery led the firm to reduce its overweight in technology, which accounted for over half the shortfall to the benchmark in the quarter. The firm has also added to many positions where they believe valuations had fallen more than warranted.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-32.9%	-25.3%
Last 1 Year	-52.8	-38.6
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-44.8	-33.9

Recommendation

No action required

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

PEREGRINE CAPITAL MANAGEMENT
Periods Ending September, 2001

Portfolio Manager: Doug Pugh and Tasso Coin

Assets Under Management: \$61,302,111

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 narrowly underperformed during the quarter as their positions in airlines, airfreight carriers, deep cyclicals, and retailers performed poorly.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-13.9%	-13.6%
Last 1 Year	10.7	12.9
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	16.0	16.6

Recommendation

No action required.

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

VALENZUELA CAPITAL MANAGEMENT
Periods Ending September, 2001

Portfolio Manager: Tom Valenzuela

Assets Under Management: \$69,000,258

Investment Philosophy

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

Staff Comments

Valenzuela outperformed for the quarter and the year due to overweights in the consumer staples and healthcare sectors. The portfolio also benefited from strong stock selection in the financial services sector.

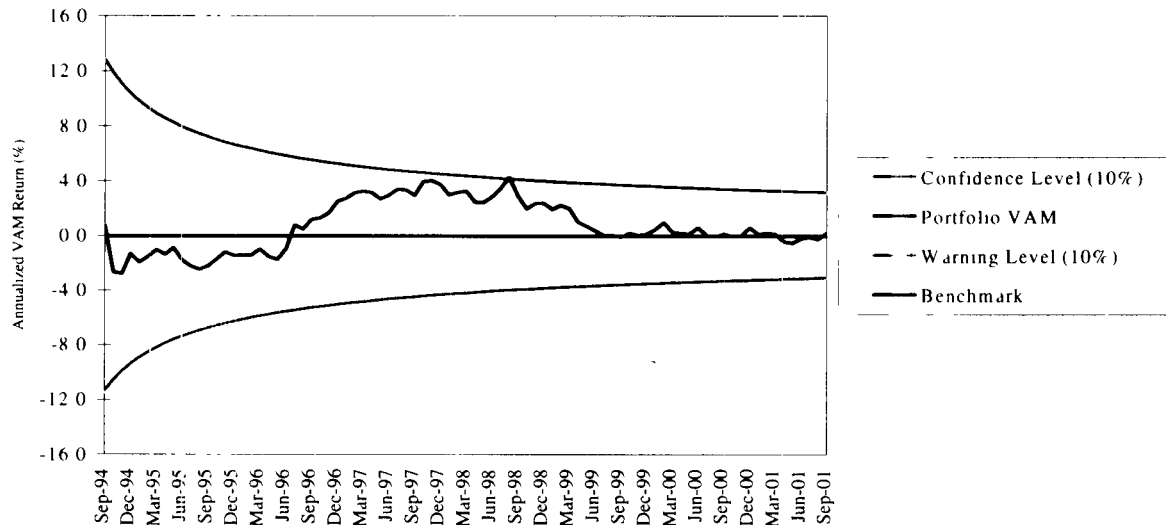
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-12.3%	-14.9%
Last 1 Year	-7.4	-8.1
Last 2 Years	5.8	4.7
Last 3 Years	4.2	8.2
Last 4 Years	-0.5	1.7
Last 5 Years	8.0	8.3
Since Inception (4/94)	11.8	11.5

Recommendation

No action required.

**Valenzuela Capital Partners
 Cumulative Tracking**



VOYAGEUR ASSET MANAGEMENT
Periods Ending September, 2001

Portfolio Manager: Charles Henderson

Assets Under Management: \$37,679,647

Investment Philosophy

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

Staff Comments

No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-18.7%	-18.7%
Last 1 Year	-31.0	-27.5
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-21.2	-26.0

Recommendation

No action required.

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

WINSLOW CAPITAL MANAGEMENT

Periods Ending September, 2001

Portfolio Manager: Joseph Docter

Assets Under Management: \$71,739,482

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

Winslow underperformed for both the quarter and the year. In both periods results were hurt by poor stock selection within technology and healthcare.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-30.5%	-25.5%
Last 1 Year	-37.0	-30.3
Last 2 Years	N/A	N/A
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-27.3	-27.5

Recommendation

No action required

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

ZEVENBERGEN CAPITAL INC.
Periods Ending September, 2001

Portfolio Manager: Nancy Zevenbergen

Assets Under Management: \$117,021,975

Investment Philosophy

Zevenbergen is an equity growth manager. The investment philosophy is based on the belief that earnings drive stock prices while quality provides capital protection. Hence, portfolios are constructed with companies showing above-average earnings growth prospects and strong financial characteristics. They consider diversification for company size, expected growth rates and industry weightings to be important risk control factors. Zevenbergen uses a bottom-up fundamental approach to security analysis. Research efforts focus on finding companies with superior products or services showing consistent profitability. Attractive buy candidates are reviewed for sufficient liquidity and potential diversification. The firm emphasizes that they are not market timers.

Staff Comments

Zevenbergen outperformed for the quarter on an underweight in technology and positive stock selection. Over the past year, the firm's underperformance was incurred when the economic slowdown first began in 4Q00 and 1Q01. During this period the firm was underweight defensive sectors such as consumer staples and pharmaceuticals, which investors sought out as economic uncertainty increased.

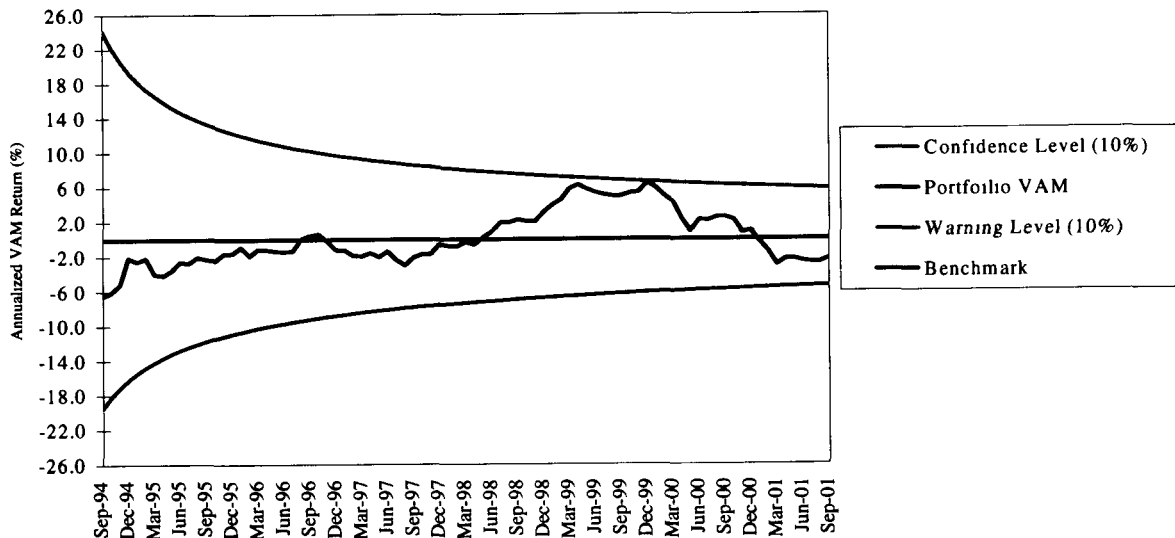
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-23.2%	-24.5%
Last 1 Year	-56.0	-38.6
Last 2 Years	-23.4	-4.6
Last 3 Years	0.8	10.5
Last 4 Years	4.8	7.4
Last 5 Years	8.6	12.7
Since Inception (4/94)	12.6	15.3

Recommendation

No action required.

**Zevenbergen Capital Management
 Cumulative Tracking**



**STATE BOARD
OF INVESTMENT**

**Bond
Manager
Evaluation
Reports**

Third Quarter, 2001

**COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending September, 2001**

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
American Express (AMG)	4.0	4.6	12.0	13.0	6.2	6.4	8.1	8.1	7.1	7.1	\$880.81	8.3%
Deutsche	5.2	4.6	14.1	13.0					12.8	12.2	\$737.40	6.9%
Dodge & Cox	4.2	4.6	13.9	13.0					12.8	12.2	\$731.55	6.9%
Metropolitan West	2.8	4.6	13.9	13.0					11.1	12.2	\$298.08	2.8%
Morgan Stanley	3.9	4.6	13.4	13.0	6.8	6.4	8.2	8.1	10.4	10.2	\$1,144.71	10.7%
Western	4.8	4.6	14.9	13.0	7.3	6.4	9.3	8.1	11.4	10.1	\$1,540.54	14.5%
Semi-Passive Managers												
BlackRock	5.0	4.6	13.4	13.0	6.9	6.4	8.5	8.1	8.2	7.8	1,796.24	16.9%
Goldman	4.5	4.6	13.0	13.0	6.5	6.4	8.2	8.1	7.3	7.0	1,753.72	16.5%
Lincoln	4.7	4.6	13.2	13.0	6.5	6.4	8.2	8.1	8.7	8.6	1,767.33	16.6%
											\$10,650.37	100.0%
									Since 7/1/84			
Current Aggregate	4.5	4.6	13.5	13.0	6.7	6.4	8.4	8.1	10.7	10.2		
Historical Aggregate (2)	4.5	4.6	13.4	13.0	6.7	6.4	8.3	8.1	10.1	10.1		
Lehman Aggregate (3)		4.6		13.0		6.4		8.1		9.8		

(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, 2001

Portfolio Manager: Jim Snyder

Assets Under Management: \$880,809,414

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 offices during the quarter to review the portfolio and discuss the firm's investment philosophy and process for the benefit of new staff. American Express underperformed over the quarter due to the portfolio's defensive duration position and an overweight to the corporate bond sector. The portfolio's allocation to high yield securities also detracted from performance as high yield spreads underperformed the broader market.

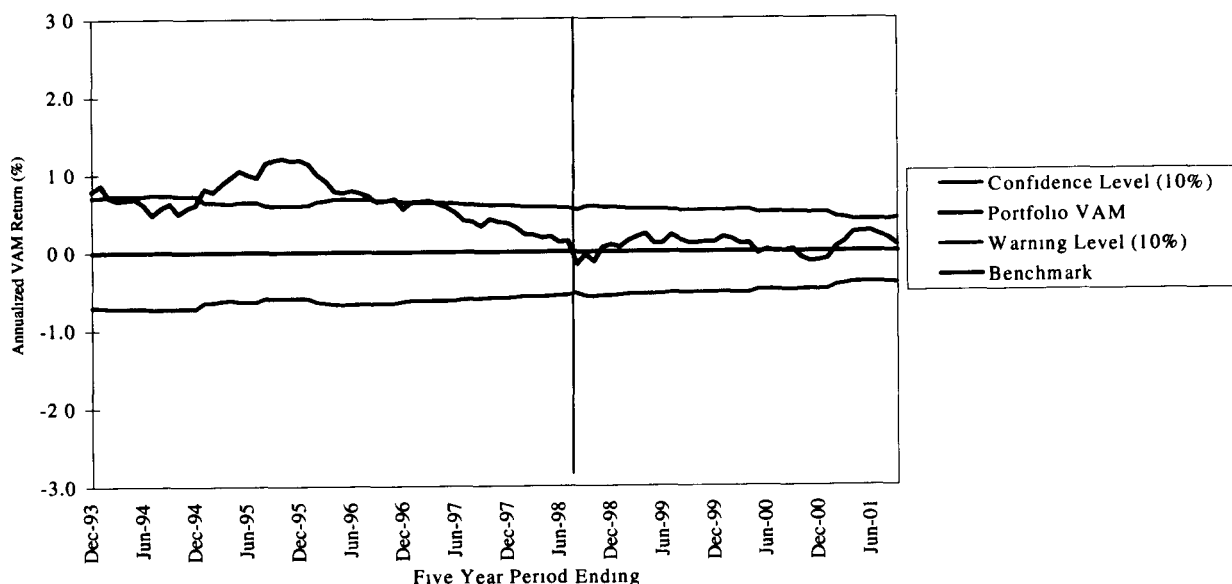
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.0%	4.6%
Last 1 year	12.0	13.0
Last 2 years	9.7	9.9
Last 3 years	6.2	6.4
Last 4 years	7.6	7.6
Last 5 years	8.1	8.1
Since Inception (7/93)	7.1	7.1

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, 2001

Portfolio Manager: Warren Davis

Assets Under Management: \$737,395,501

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 value added is derived primarily from individual security selection. Portfolio managers and analysts research bonds within their sector of expertise and construct portfolios from the bottom-up, bond by bond. Sector weightings are a byproduct of the bottom-up security selection. Deutsche was retained by the SBI in February 2000.

Staff Comments

Deutsche announced its planned acquisition of Zurich Scudder Investments during the quarter. Staff has discussed the merger with Deutsche and believes that the purchase will not materially affect the fixed income operation and the management of the SBI portfolio. Staff will continue to monitor the transaction going forward.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.2%	4.6%
Last 1 year	14.1	13.0
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)	12.8	12.2

Recommendations

No action required

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

DODGE & COX INVESTMENT MANAGERS
Periods Ending September, 2001

Portfolio Manager: Dana Emery

Assets Under Management: \$731,545,193

Investment Philosophy

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

Staff Comments

Dodge & Cox's outperformance over the year was the result of a significant overweight to the corporate sector and strong security selection within the corporate and mortgage sectors. For the quarter, the corporate overweight detracted from performance, as did a defensive duration position.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.2%	4.6%
Last 1 year	13.9	13.0
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)	12.8	12.2

Recommendations

No action required.

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

METROPOLITAN WEST ASSET MANAGEMENT
Periods Ending September, 2001

Portfolio Manager: Tad Rivelle

Assets Under Management: \$298,083,389

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

MetWest's underperformance during the quarter was the result of their significant overweight to corporate bonds, particularly in the Finance sector. Two holdings – Finova and Consecro – experienced significant price deterioration over the quarter.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.8%	4.6%
Last 1 year	13.9	13.0
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	11.1	12.2

Recommendations

No action required

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

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending September, 2001

Portfolio Manager: Tom Bennett

Assets Under Management: \$1,144,707,766

Investment Philosophy

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

Staff Comments

Morgan Stanley's underperformance over the quarter was the result of a defensive duration position relative to the benchmark and an overweight to the corporate sector. Over the past year, overweights in the agency and corporate sectors led to outperformance.

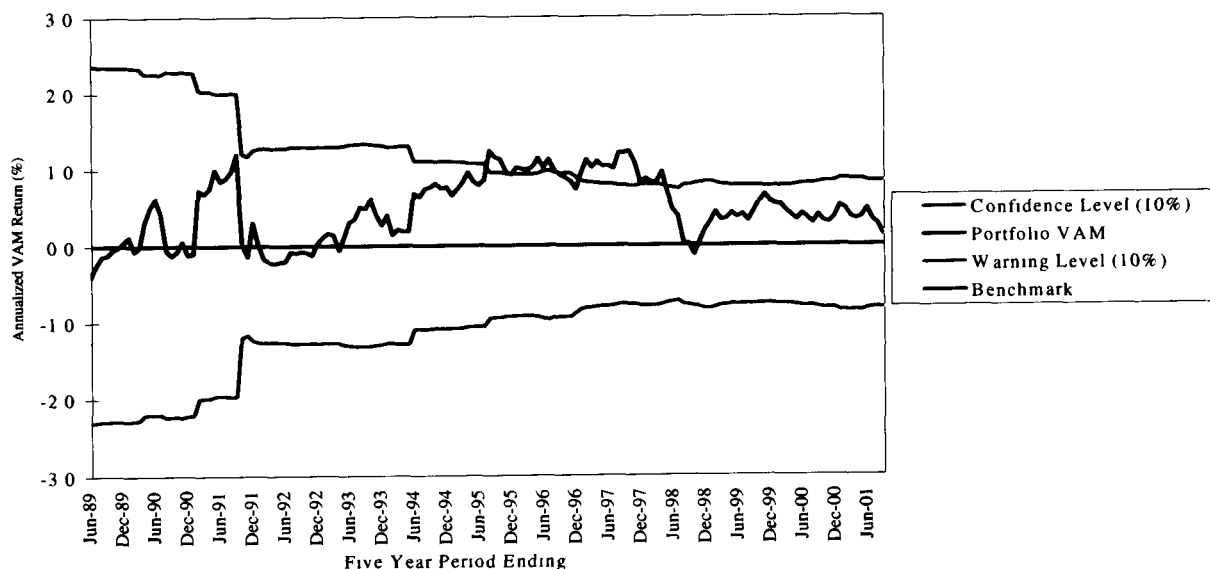
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.9%	4.6%
Last 1 year	13.4	13.0
Last 2 years	10.2	9.9
Last 3 years	6.8	6.4
Last 4 years	7.2	7.6
Last 5 years	8.2	8.1
Since Inception (7/84)	10.4	10.2

Recommendations

No action required.

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Rolling Five Year VAM



WESTERN ASSET MANAGEMENT
Periods Ending September, 2001

Portfolio Manager: Ken Leech

Assets Under Management: \$1,540,542,153

Investment Philosophy

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

Staff Comments

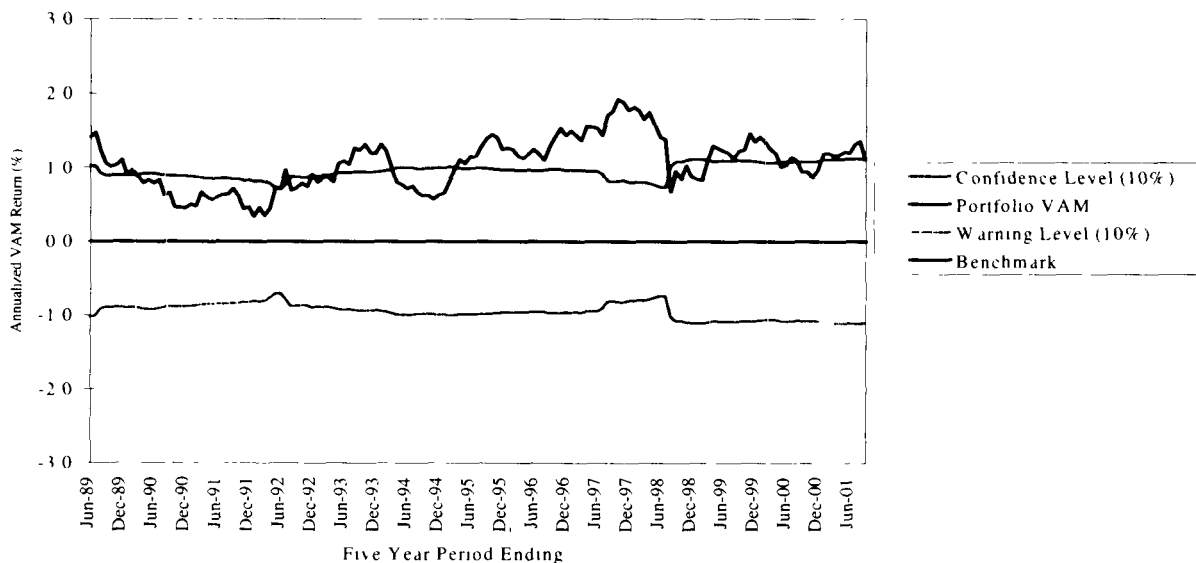
Staff met with Western Asset in our St. Paul offices during the quarter to review the portfolio and discuss the firm's investment philosophy and process for the benefit of new staff. Western's outperformance over the past year was the result of overweights in the mortgage and corporate sectors, a longer duration relative to the benchmark and a tactical allocation to Treasury Inflation-Protected Securities (TIPS).

Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	4.8%	4.6%	No action required
Last 1 year	14.9	13.0	
Last 2 years	11.2	9.9	
Last 3 years	7.3	6.4	
Last 4 years	8.4	7.6	
Last 5 years	9.3	8.1	
Since Inception (7/84)	11.4	10.1	

Recommendations

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM



BLACKROCK FINANCIAL MANAGEMENT
Periods Ending September, 2001

Portfolio Manager: Keith Anderson

Assets Under Management: \$1,796,244,373

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 met with Blackrock in our St. Paul offices during the quarter to review the portfolio and discuss the firm's investment philosophy and process for the benefit of new staff. Blackrock outperformed the index over the quarter due to its corporate sector underweight, an overweight to commercial mortgage securities (CMBS) and a long duration bias relative to the index.

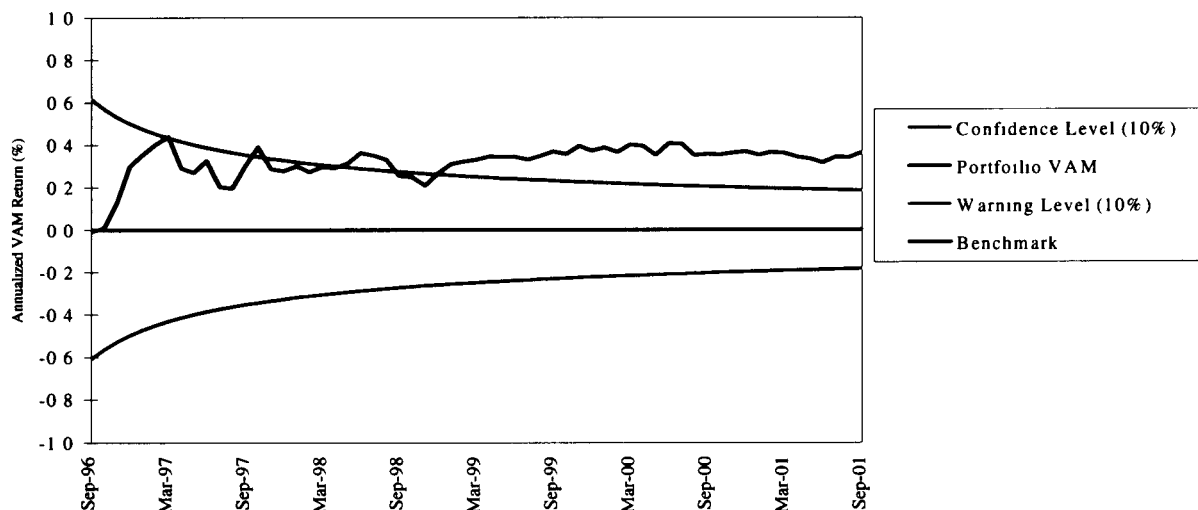
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.0%	4.6%
Last 1 year	13.4	13.0
Last 2 years	10.3	9.9
Last 3 years	6.9	6.4
Last 4 years	8.1	7.6
Last 5 years	8.5	8.1
Since Inception (4/96)	8.2	7.8

Recommendation

No action required.

BLACKROCK FINANCIAL MANAGEMENT
Cumulative Tracking



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending September, 2001

Portfolio Manager: Jonathon Beinrer

Assets Under Management: \$1,753,717,427

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 met with Goldman Sachs in our St. Paul offices during the quarter to review the portfolio and discuss the firm's investment philosophy and process for the benefit of new staff. For the quarter, Goldman Sachs' performance was hurt by a shorter duration position relative to the index. An overweight to the corporate sector also led to underperformance.

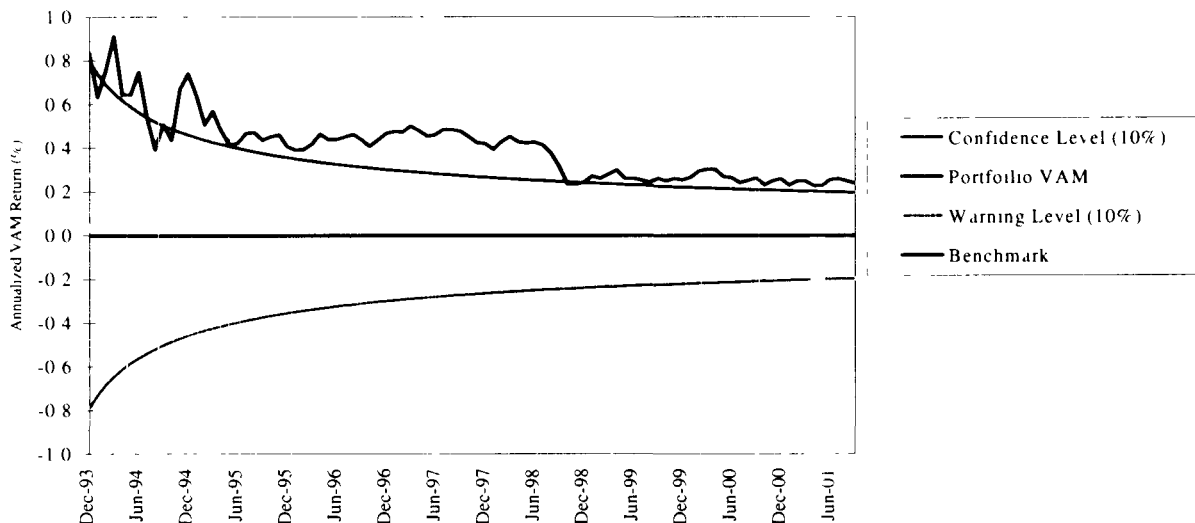
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.5%	4.6%
Last 1 year	13.0	13.0
Last 2 years	10.1	9.9
Last 3 years	6.5	6.4
Last 4 years	7.6	7.6
Last 5 years	8.2	8.1
Since Inception (7/93)	7.3	7.0

Recommendations

No action required

GOLDMAN SACHS
Cumulative Tracking



LINCOLN CAPITAL MANAGEMENT
Periods Ending September, 2001

Portfolio Manager: Andrew Johnson

Assets Under Management: \$1,767,328,357

Investment Philosophy

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

Staff Comments

Staff met with Lincoln in our St. Paul offices during the quarter to review the portfolio and discuss the firm's investment philosophy and process for the benefit of new staff. Lincoln added value over the quarter and year through a bias to higher quality within the corporate sector and through an overweight allocation to asset-backed securities.

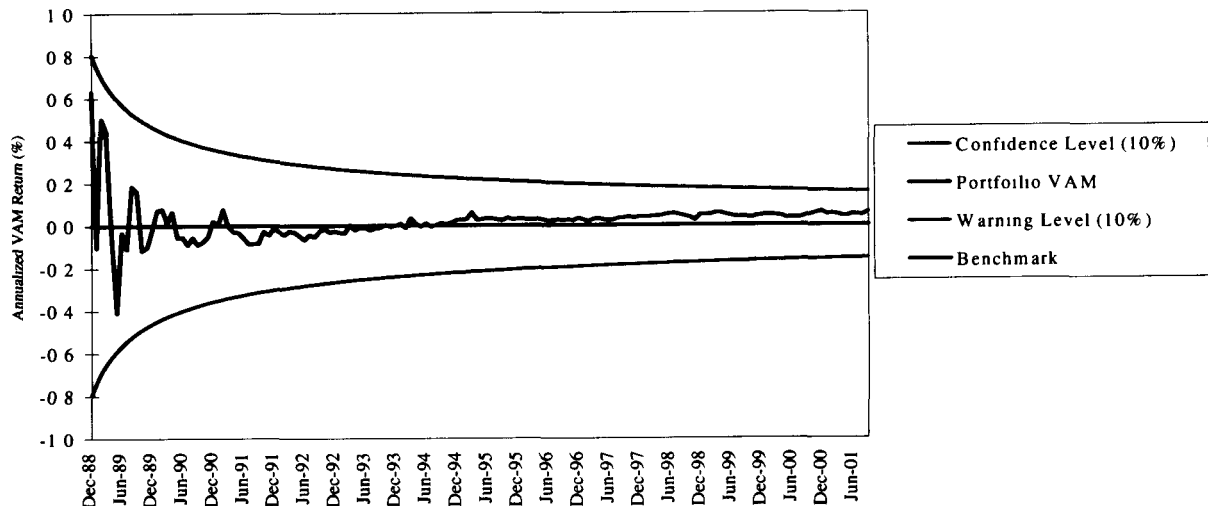
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.7%	4.6%
Last 1 year	13.2	13.0
Last 2 years	10.1	9.9
Last 3 years	6.5	6.4
Last 4 years	7.8	7.6
Last 5 years	8.2	8.1
Since Inception (7/88)	8.7	8.6

Recommendations

No action required.

LINCOLN CAPITAL MANAGEMENT - Fixed Income
Cumulative Tracking



**STATE BOARD
OF INVESTMENT**

**International
Manager
Evaluation
Reports**

Third Quarter, 2001

**COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending September, 2001**

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active EAFE												
American Express	-14.9	-14.0	-37.4	-28.5					-30.3	-23.4	\$239.39	5.2%
Blairlogie	-14.5	-14.0	-32.3	-28.5					-26.0	-23.4	134.45	2.9%
Brinson	-11.3	-14.0	-16.8	-28.5	5.0	-1.2	4.6	-0.2	7.2	4.6	538.25	11.8%
Invesco	-13.6	-14.0	-20.3	-28.5					-14.5	-23.4	394.13	8.6%
Marathon	-13.9	-14.7	-19.3	-27.4	6.6	-0.4	2.2	-1.2	5.1	1.9	385.32	8.4%
Montgomery	-18.7	-14.0	-40.9	-28.5					-35.1	-23.4	221.40	4.8%
T. Rowe Price	-13.4	-14.0	-31.0	-28.5	-0.4	-1.2	0.9	-0.2	4.2	2.5	359.05	7.8%
Zurich Scudder	-14.0	-14.0	-31.6	-28.5	-1.0	-1.2	1.2	-0.2	4.6	2.5	360.06	7.9%
Active Emerging Markets												
Alliance Capital	-24.5	-21.7							-36.8	-32.4	84.08	1.8%
Capital International	-27.5	-21.7							-38.8	-32.4	81.74	1.8%
Montgomery	-23.5	-21.7	-35.9	-33.3	0.1	1.6	-10.5	-10.2	-9.7	-10.1	90.69	2.0%
Morgan Stanley	-22.5	-21.7							-34.2	-32.4	81.23	1.8%
Schroders	-24.5	-21.7							-36.2	-32.4	86.03	1.9%
Passive EAFE												
State Street	-13.9	-14.0	-28.6	-28.5	-0.9	-1.2	0.1	-0.2	5.5	5.2	1,521.13	33.2%
Since 10/1/92												
Equity Only (2) (4)	-15.0	-14.8	-28.4	-29.0	-0.2	-0.6	-0.4	-1.3	5.4	4.6	4,576.96	100.0%
Total Program (3) (4)	-15.0	-14.8	-28.4	-29.0	-0.2	-0.6	0.2	-1.3	5.8	4.6	\$4,576.96	

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

(2) Equity managers only. Includes impact of terminated managers.

(3) Includes impact of currency overlay on the passive EAFE portfolio from 12/1/95-10/31/00

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

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

Portfolio Manager: Mark Fawcett

Assets Under Management: \$239,390,757

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

Staff met with AEAM at SBI offices during the quarter to review performance. The portfolio's underweight to defensive sectors in Europe such as utilities, healthcare and consumer staples, was a drag on recent performance. Holdings in the Japanese materials sector also detracted from performance.

Mark Burgess joined AEAM as Deputy CIO during the period. His duties will be to oversee research and ensure that the investment philosophy is implemented consistently across all regional and international portfolios. He will work alongside Mark Fawcett, who remains CIO.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-14.9%	-14.0%
Last 1 year	-37.4	-28.5
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-30.3	-23.4

Recommendations

No action required.

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

BLAIRLOGIE CAPITAL MANAGEMENT
Periods Ending September, 2001

Portfolio Manager: James Smith

Assets Under Management: \$134,446,413

Investment Philosophy

Blairlogie is primarily a top-down manager, but incorporates bottom-up stock selection. They seek to combine qualitative and quantitative judgment, but believe that objective, measurable facts must always be the starting point for making sound investment decisions. Blairlogie has developed country and sector models which analyze a broad-based collection of current and historical data. The models rank countries and sectors according to their overall score on variables which are grouped into five categories including Value, Macro, Earnings, Monetary and Technical. Regional analysts then select the best companies based on fundamental analysis. The objective of the process is to add value over the benchmark consistently in any market environment while controlling risk and volatility. Blairlogie's portfolio is broadly diversified in developed markets both by country and by sector, and has a large-cap emphasis.

Staff Comments

Staff met with Blairlogie at SBI offices twice during the quarter to discuss Blairlogie's upcoming merger with Britannic Asset Management (BAM), a UK-based investment manager. By mutual consent, on August 28th, ABN Amro sold its majority holding in Blairlogie to BAM. Blairlogie will serve as BAM's international development platform and will move operations to Glasgow shortly after the close, which is expected by mid-November. The SBI's portfolio will continue to be managed by James Smith using his proprietary top-down country and sector models, while benefiting from BAM's larger staff of fundamental analysts for bottom-up stock selection. SBI staff will continue to monitor the progress of the integration.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-14.5%	-14.0%
Last 1 year	-32.3	-28.5
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-26.0	-23.4

Recommendations

No action required.

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

BRINSON PARTNERS
Periods Ending September, 2001

Portfolio Manager: Thomas Madsen

Assets Under Management: \$538,246,439

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

Staff met with Brinson at SBI offices during the quarter to review performance. The portfolio has added significant value over the benchmark in recent periods. The portfolio has been underweight economically sensitive and technology sectors that have underperformed, opting instead for stocks in the consumer staples, healthcare, and utilities sectors that have performed well. An overweight to Canada and to Australia, along with an underweight to Japan also added value.

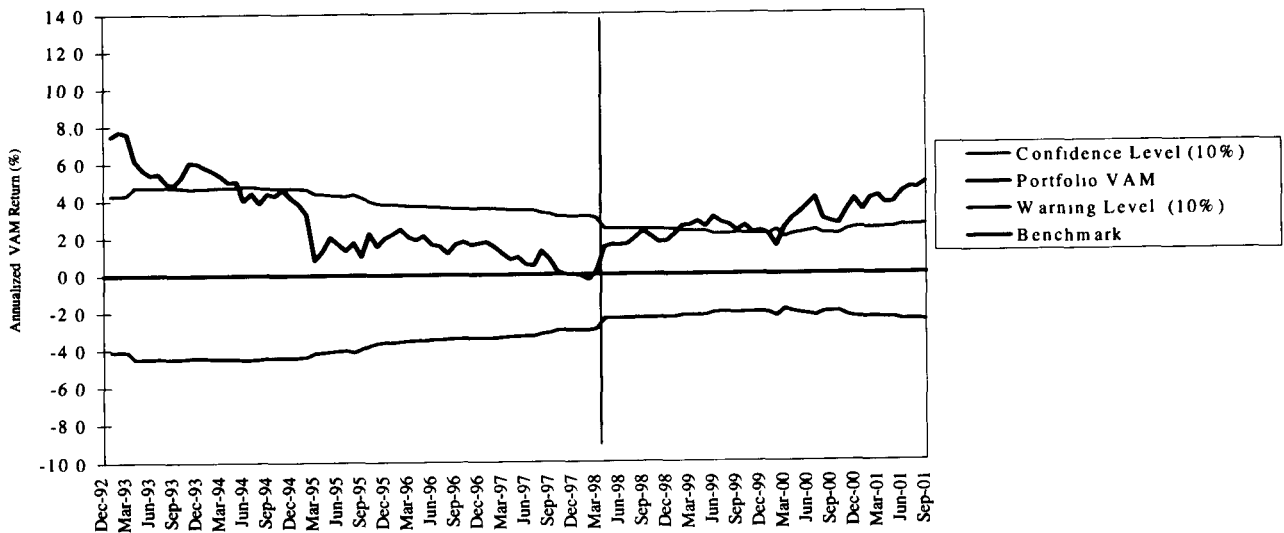
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-11.3%	-14.0%
Last 1 year	-16.8	-28.5
Last 2 years	-4.9	-14.1
Last 3 years	5.0	-1.2
Last 4 years	1.8	-3.0
Last 5 years	4.6	-0.2
Since Inception (4/93)	7.2	4.6

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, 2001

Portfolio Manager: Erik Granade

Assets Under Management: \$394,134,397

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

Staff met with the portfolio manager at SBI offices to discuss the investment process and performance. Value has been added during the quarter due to an overweight to the UK and an underweight to Germany. Performance also benefited from overweighting defensive sectors, including energy, consumer staples, and utilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-13.6%	-14.0%
Last 1 year	-20.3	-28.5
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-14.5	-23.4

Recommendations

No action required

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

MARATHON ASSET MANAGEMENT
Periods Ending September, 2001

Portfolio Manager: William Arah

Assets Under Management: \$385,317,297

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

Stock selection, particularly in Asia, continued to add value during the quarter. The portfolio also benefited from its value bias, as the market favored defensive sectors.

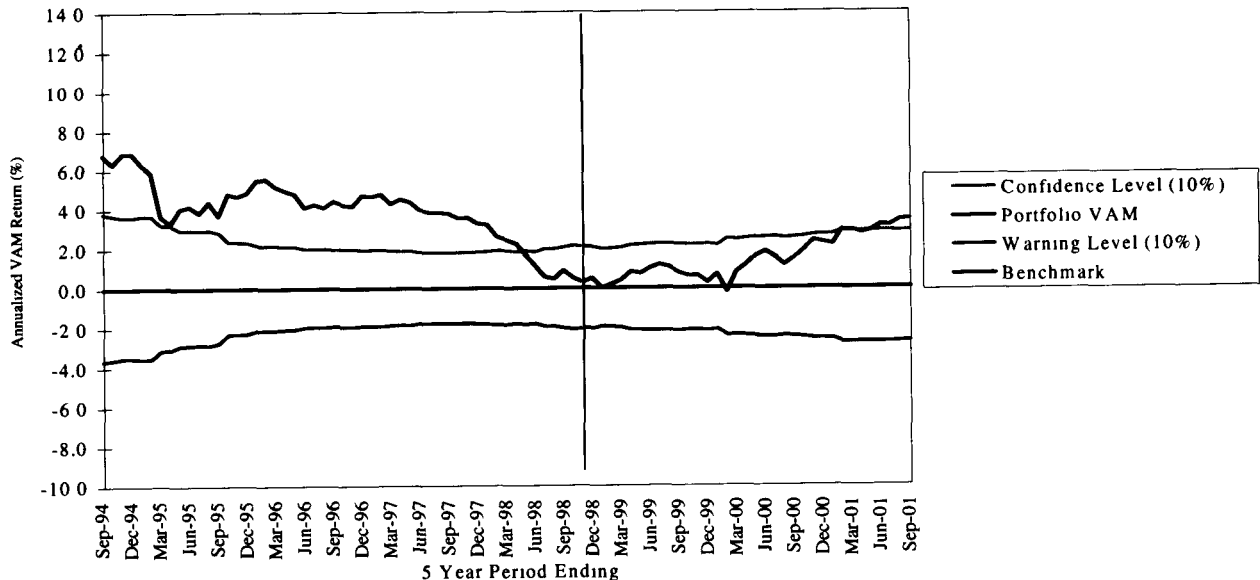
Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	-13.9%	-14.7%
Last 1 year	-19.3	-27.4
Last 2 years	-6.8	-13.2
Last 3 years	6.6	-0.4
Last 4 years	0.6	-3.0
Last 5 years	2.2	-1.2
Since Inception (11/93)	5.1	1.9

Recommendations

No action required.

MARATHON ASSET MANAGEMENT
Rolling Five Rolling VAM



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

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

Portfolio Manager: Oscar Castro

Assets Under Management: \$221,398,491

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

Montgomery's EAFE portfolio underperformed during the quarter due to positions in the technology, capital goods, and healthcare sectors which also detracted from the one year return. The portfolio was hurt by an overweight to technology and by its software holdings, as well as by the decline of alternative energy companies in the capital goods sector and a UK-based pharmaceutical holding. During the year an underweight in energy and an overweight in media in the 2Q01 detracted from performance.

In October, Montgomery announced that it will be laying off seven of twenty analysts on the EAFE team in an effort to streamline processes and reduce cost structure given the level of assets under management in the product. This is part of an overall reduction in staff throughout the organization.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-18.7%	-14.0%
Last 1 year	-40.9	-28.5
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-35.1	-23.4

Recommendations

No action required at present.

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

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

Portfolio Manager: David Warren

Assets Under Management: \$359,053,785

Investment Philosophy

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

Staff Comments

Staff met with the portfolio manager at SBI offices to discuss the investment process and performance. The portfolio benefited modestly during the recent quarter from underweighting Japan and Germany and overweighting the UK, which led the EAFE index. Sector strategies also helped performance, by overweighting pharmaceuticals and energy, and underweighting capital goods.

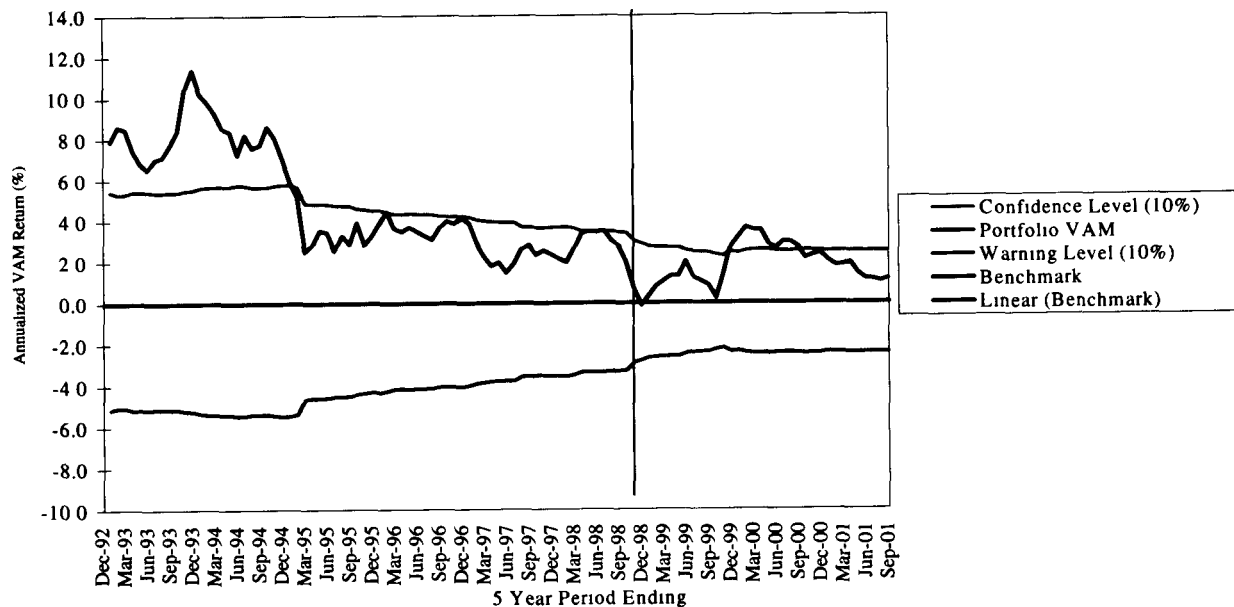
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-13.4%	-14.0%
Last 1 year	-31.0	-28.5
Last 2 years	-11.9	-14.1
Last 3 years	-0.4	-1.2
Last 4 years	-2.8	-3.0
Last 5 years	0.9	-0.2
Since Inception (11/93)	4.2	2.5

Recommendations

No action required.

T. ROWE PRICE INTERNATIONAL
Rolling Five Year VAM



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

ZURICH SCUDDER INVESTMENTS
Periods Ending September, 2001

Portfolio Manager: Theresa Gusman

Assets Under Management: \$360,060,117

Investment Philosophy

Zurich Scudder believes that successful international investing requires knowledge of each country's economy, political environment and financial market obtained through continuous and thorough research of individual markets and securities. The investment process focuses on three areas: country analysis, global themes and unique situations. Ideas from all three areas are integrated into Zurich Scudder's research universe. Using their own internal research, the firm seeks companies with potential for earnings and dividend growth, strong or improving balance sheets, superior management, conservative accounting practices and dominant position in growing industries.

Staff Comments

Zurich Scudder announced that they will be sold by their parent company, Zurich Financial, to Deutsche Asset Management. Staff spoke with the CIO's of both Deutsche and Scudder regarding this upcoming transaction and its potential impact on the SBI's portfolio. While final details have not yet been decided, the two organizations feel that Scudder's investment process will remain intact and will be enhanced by the large team of fundamental analysts at Deutsche. In addition, Fed Truscott, CIO for North America, left the firm during the period. Farhan Sharaff, currently Global CIO, will assume his duties. Staff will continue to monitor the organization closely.

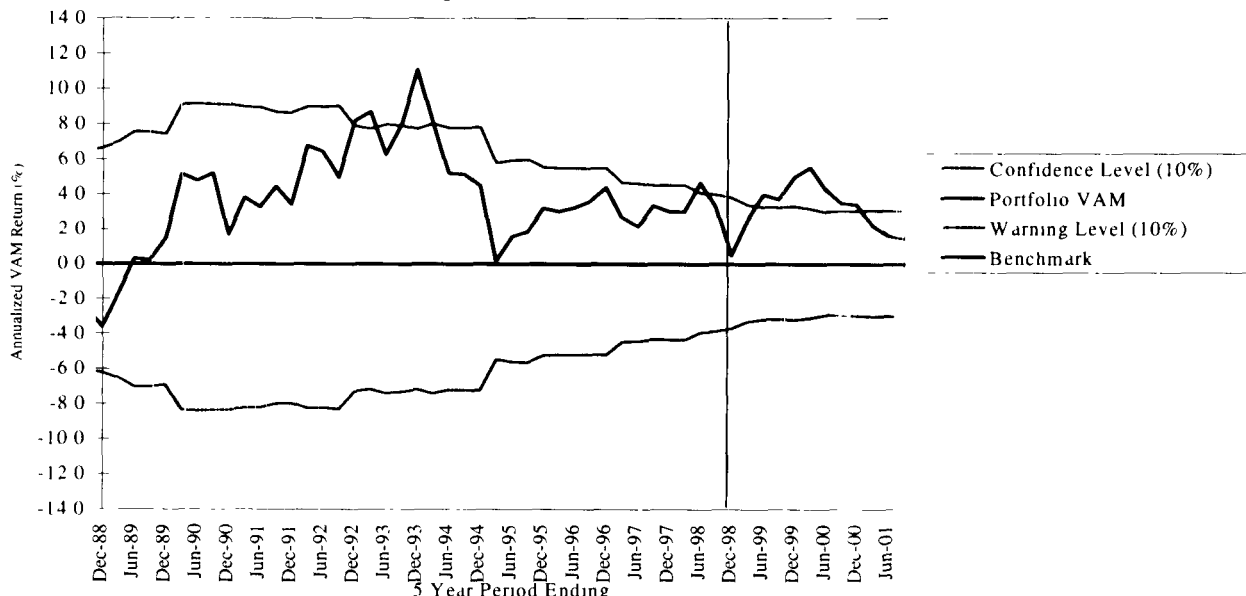
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-14.0%	-14.0%
Last 1 year	-31.6	-28.5
Last 2 years	-14.7	-14.1
Last 3 years	-1.0	-1.2
Last 4 years	-3.4	-3.0
Last 5 years	1.2	-0.2
Since Inception (11/93)	4.6	2.5

Recommendations

No action required

ZURICH SCUDDER INVESTMENTS
Rolling Five Year VAM



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

ALLIANCE CAPITAL MANAGEMENT INTERNATIONAL
Periods Ending September, 2001

Portfolio Manager: Edward Baker

Assets Under Management: \$84,076,942

Investment Philosophy

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

Staff Comments

No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-24.5	-21.7
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	-36.8	-32.4

Recommendations

No action required.

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

CAPITAL INTERNATIONAL, INC.
Periods Ending September, 2001

Portfolio Manager: Shaw Wagner

Assets Under Management: \$81,744,420

Investment Philosophy

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

Staff Comments

The portfolio underperformed the benchmark during the quarter due to an overweight in technology especially due to several large holdings in this sector. Portfolio managers had increased positions in some of these companies prematurely, believing that the end of the prolonged period of tech weakness was in sight. Brazilian bank holdings also hurt recent performance, due to the country's weaker currency.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-27.5	-21.7
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	-38.8	-32.4

Recommendations

No action required

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

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

Portfolio Manager: Josephine Jimenez

Assets Under Management: \$90,692,295

Investment Philosophy

Montgomery believes that successful investing in the emerging markets is best achieved through a combination of creative, independent research within a disciplined investment framework designed to anticipate and control market-specific risk. The firm's team of emerging market's specialists focus on rigorous, fundamental analysis at both the country and stock level to identify strong, rapidly growing companies whose growth rates are not fully reflected in their prices. Excess return is generated through the firm's research effort and captured through effective portfolio construction and risk management processes, employing both quantitative tools and qualitative insights. Quantitative work emphasizes risk management tools designed to construct portfolios of 80-120 securities prudently diversified across countries and sectors. The investment process is designed to achieve excess returns with equal or lower absolute risk than the MSCI Emerging Markets Free Index.

Staff Comments

In October, Montgomery announced that it will be laying off one out of the six analysts on the EMF team. This is part of an overall reduction in staff throughout the organization, in an effort to reduce the cost structure given the level of assets under management.

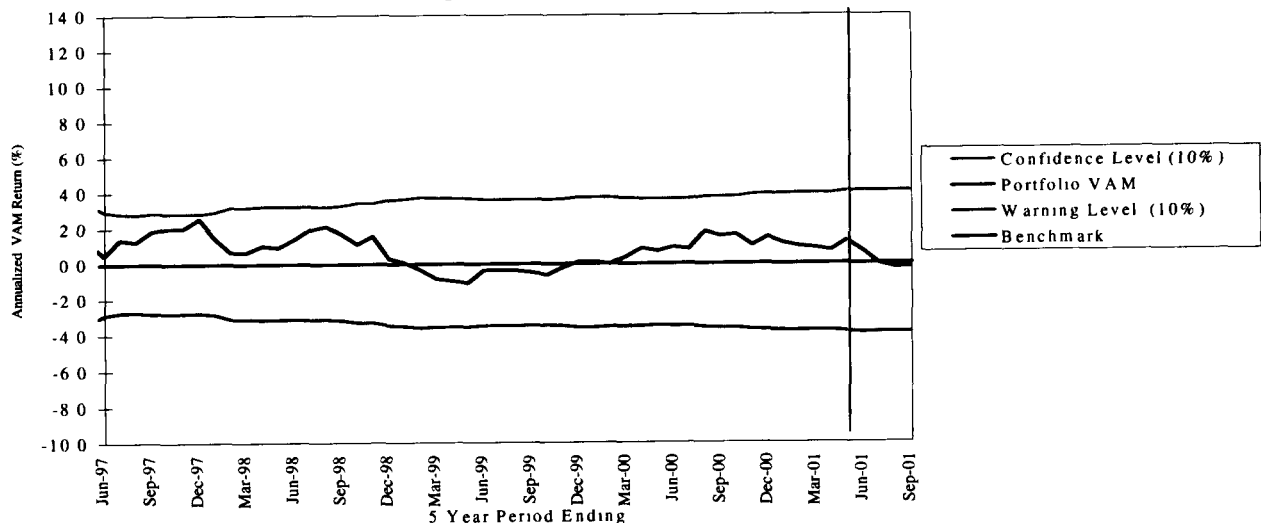
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-23.5%	-21.7%
Last 1 year	-35.9	-33.3
Last 2 years	-14.0	-18.2
Last 3 years	0.1	1.6
Last 4 years	-16.7	-14.0
Last 5 years	-10.5	-10.2
Since Inception (5/96)	-9.7	-10.1

Recommendations

No action required at present.

MONTGOMERY ASSET MANAGEMENT
Rolling Five Year VAM



Note. Shaded area includes performance prior to managing SBI account

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending September, 2001

Portfolio Manager: Robert Meyer

Assets Under Management: \$81,233,783

Investment Philosophy

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

Staff Comments

No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-22.5%	-21.7%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	-34.2	-32.4

Recommendations

No action required

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

SCHRODERS INVESTMENT MANAGEMENT NORTH AMERICA INC.
Periods Ending September, 2001

Portfolio Manager: Mark Bridgeman

Assets Under Management: \$86,027,605

Investment Philosophy

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

Staff Comments

Performance during the quarter declined relative to the benchmark due to negative stock selection in Korea and Taiwan. The portfolio was prematurely positioned for an improvement in global economic conditions, however large overweight positions in technology stocks declined due to the continued slowdown in global tech demand.

Stefan Bottcher, a portfolio manager for Emerging Markets Europe, left the firm during the period. Gabor Sitanyi and Leila Kardouche, Europe/Middle East/Africa regional portfolio managers, have assumed his responsibilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-24.5	-21.7
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	-36.2	-32.4

Recommendations

No action required.

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

STATE STREET GLOBAL ADVISORS
Periods Ending September, 2001

Portfolio Manager: Lynn Blake

Assets Under Management: \$1,521,127,032

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

The portfolio incurred positive tracking error in September due to stock mis-weights, which resulted from moving to the new benchmark. SBI staff instructed SSGA to manage to the MSCI Provisional Index effective October 1, 2001 ahead of MSCI's enhancements on November 30, 2001 and May 31, 2002. SSGA began transitioning the portfolio to the MSCI Provisional index in mid-September in order to maximize crossing and minimize transaction costs. In order to keep tracking error minimal, futures were used to maintain country exposures similar to the Standard EAFE benchmark throughout the month, however stock mis-weights led to outperformance.

Nick Lopardo, CEO of SSGA retired in August and was replaced by Tim Harbert, Executive VP, who was appointed Chairman and CEO of SSGA.

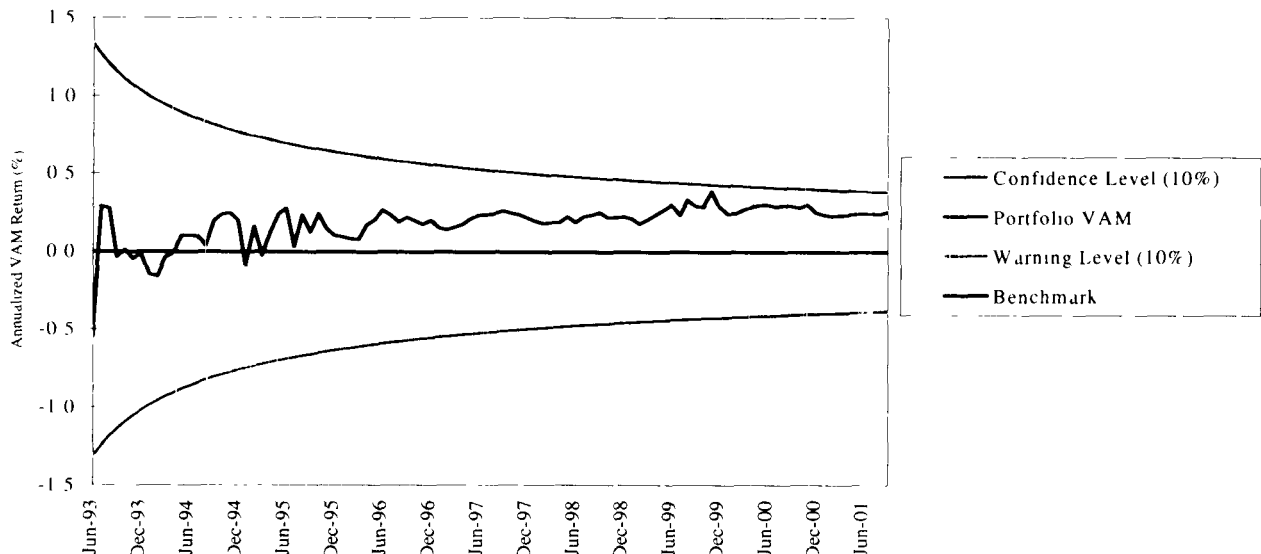
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-13.9%	-14.0%
Last 1 year	-28.6	-28.5
Last 2 years	-14.0	-14.1
Last 3 years	-0.9	-1.2
Last 4 years	-2.8	-3.0
Last 5 years	0.1	-0.2
Since Inception (10/92)	5.5	5.2

Recommendation

No action required

STATE STREET GLOBAL ADVISORS
Cumulative Tracking



**STATE BOARD
OF INVESTMENT**

**Non-Retirement
Manager
Evaluation
Reports**

Third Quarter, 2001

NON - RETIREMENT MANAGERS
Periods Ending September, 2001

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market Value (\$ millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	
GE Investment Management (S&P 500 Index)*	-12.4	-14.7	-17.9	-26.6	6.6	2.0	13.0	10.2	16.7	14.8	\$53.27
Voyageur Asset Management (Custom Benchmark)	3.8	4.3	10.8	12.1	6.1	6.9	7.2	7.6	7.6	7.6	284.06
Galliard Capital Management (3 yr. Constant Maturity Treasury + 30 bp)	1.6	1.0	6.3	4.8	6.3	5.6	6.4	5.8	6.5	6.0	91.43
Internal Stock Pool (S&P 500 Index)*	-14.7	-14.7	-26.4	-26.6	2.2	2.0	10.4	10.2	12.9	12.8	823.92
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	4.6	4.6	13.2	13.0	6.5	6.4	8.4	8.1	8.8	8.4	207.68
Internal Bond Pool - Trust (Lehman Aggregate)*	4.7	4.6	13.1	13.0	6.7	6.4	8.3	8.1	8.6	8.2	828.95

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

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

(2) Prior to July 1994, the benchmark was the Salomon BIG.

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

Portfolio Manager: Gene Bolton

Assets Under Management: \$53,269,586

Investment Philosophy
Assigned Risk Plan

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

Staff Comments

GE outperformed the benchmark for the quarter and the year. Quarterly performance was helped by an underweight in technology and an overweight in the consumer stable sector. GE outperformed the one-year benchmark primarily due to the underweight in technology.

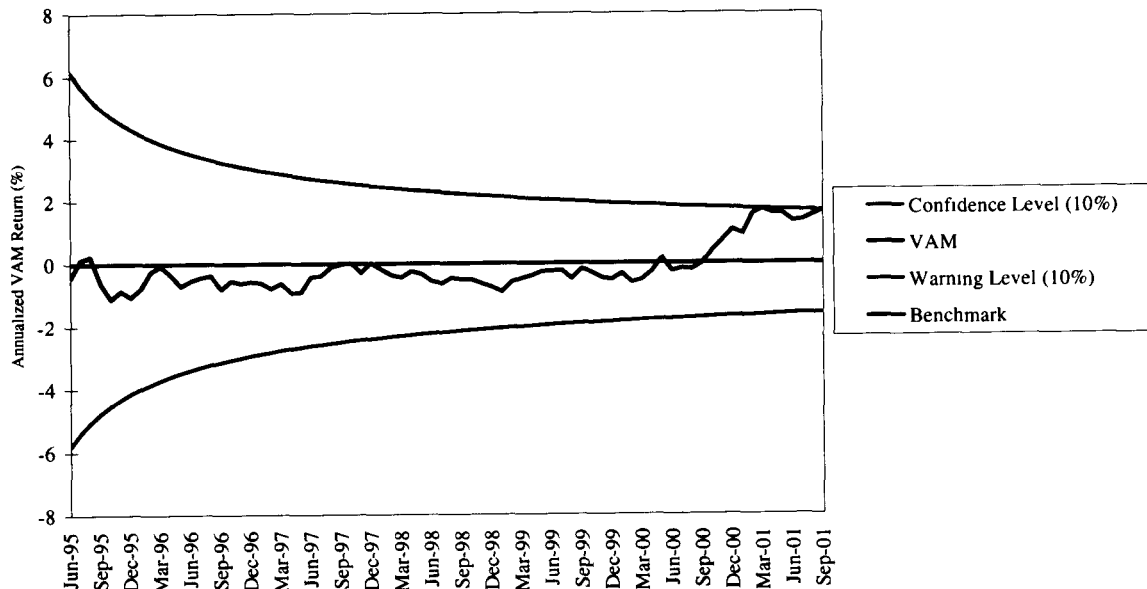
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-12.4%	-14.7%
Last 1 year	-17.9	-26.6
Last 2 years	-3.2	-8.8
Last 3 years	6.6	2.0
Last 4 years	6.7	3.7
Last 5 years	13.0	10.2
Since Inception (1/95)	16.7	14.8

Recommendation

No recommendation at this time.

GE INVESTMENT MANAGEMENT
Cumulative Tracking



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

Portfolio Manager: Tom McGlinch

Assets Under Management: \$284,057,611

Investment Philosophy
Assigned Risk Plan

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

Staff Comments

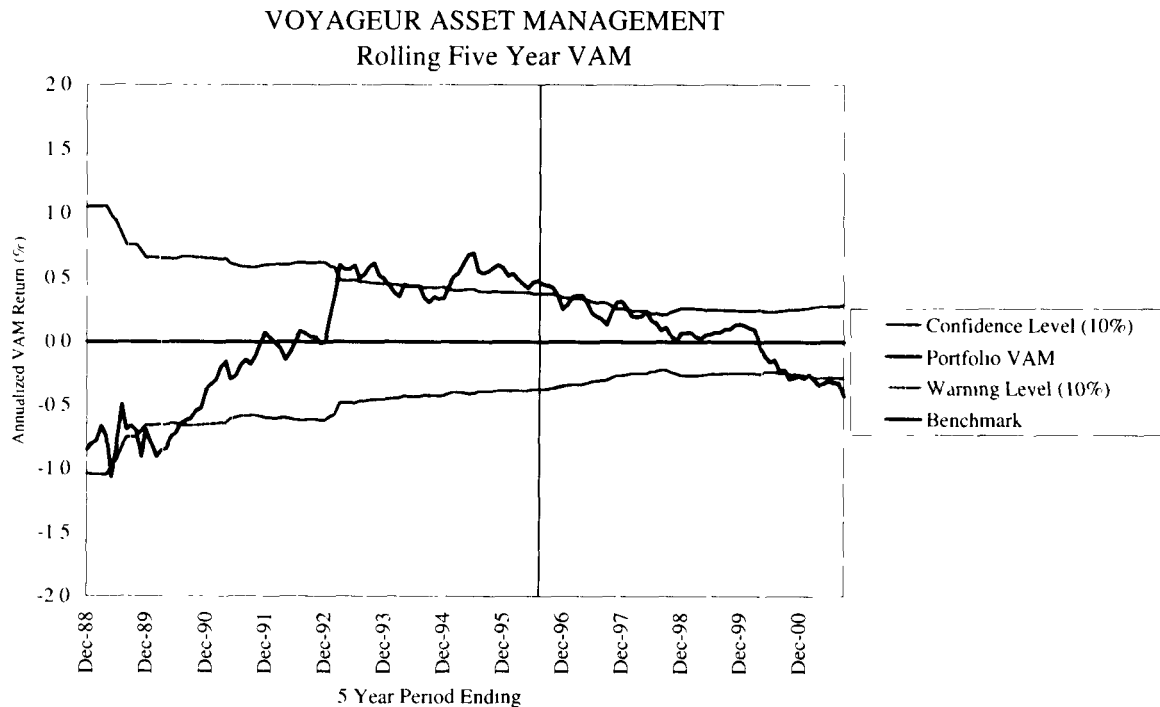
Voyageur trailed the quarterly benchmark. The portfolio was hurt by the decision to overweight corporate bonds and a resulting underweight to U.S. Treasuries. The one-year underperformance continues to be negatively affected by the credit downgrades of Finova (Oct. '00) and Comdisco (Feb. '01).

Quantitative Evaluation

	Actual	Benchmark*	
Last Quarter	3.8%	4.3%	No action required
Last 1 year	10.8	12.1	
Last 2 years	8.3	9.3	
Last 3 years	6.1	6.9	
Last 4 years	6.8	7.4	
Last 5 years	7.2	7.6	
Since Inception (7/91)	7.6	7.6	

Recommendation

*Custom benchmark since inception date.



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

GALLIARD CAPITAL MANAGEMENT
Periods Ending September, 2001

Portfolio Manager: Karl Tourville

Assets Under Management: \$91,430,557

Investment Philosophy

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

Staff Comments

No comments at this time.

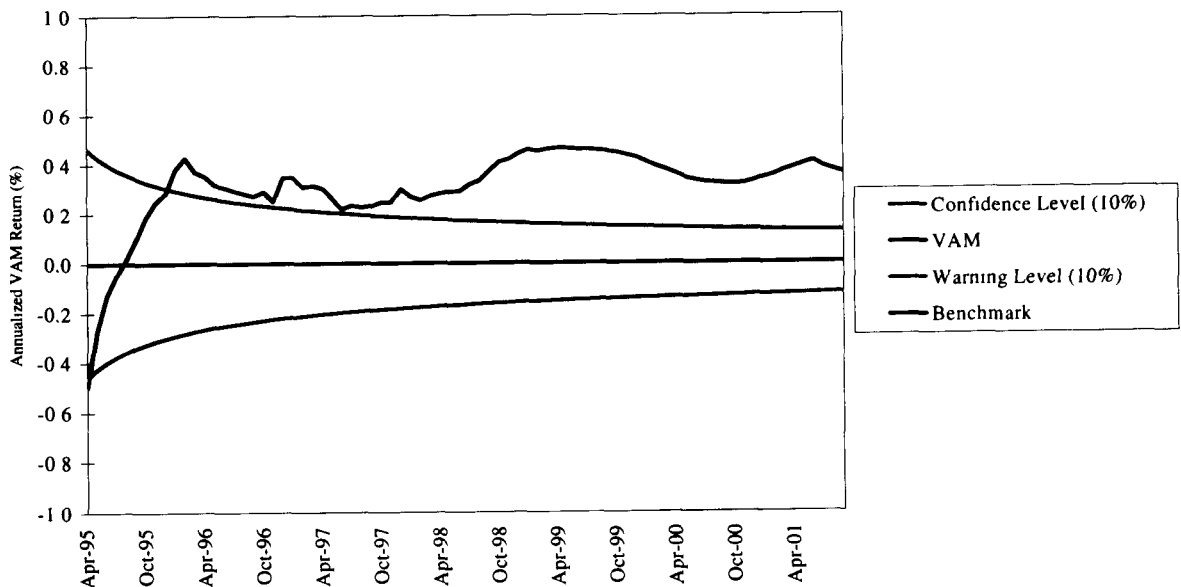
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.6%	1.0%
Last 1 year	6.3	4.8
Last 2 years	6.3	5.7
Last 3 years	6.3	5.6
Last 4 years	6.3	5.6
Last 5 years	6.4	5.8
Since Inception (11/94)	6.5	6.0

Recommendation

No action required.

**Galliard Capital Management
 Cumulative Tracking**



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

Portfolio Manager: Mike Messen

Assets Under Management: \$823,918,492

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.

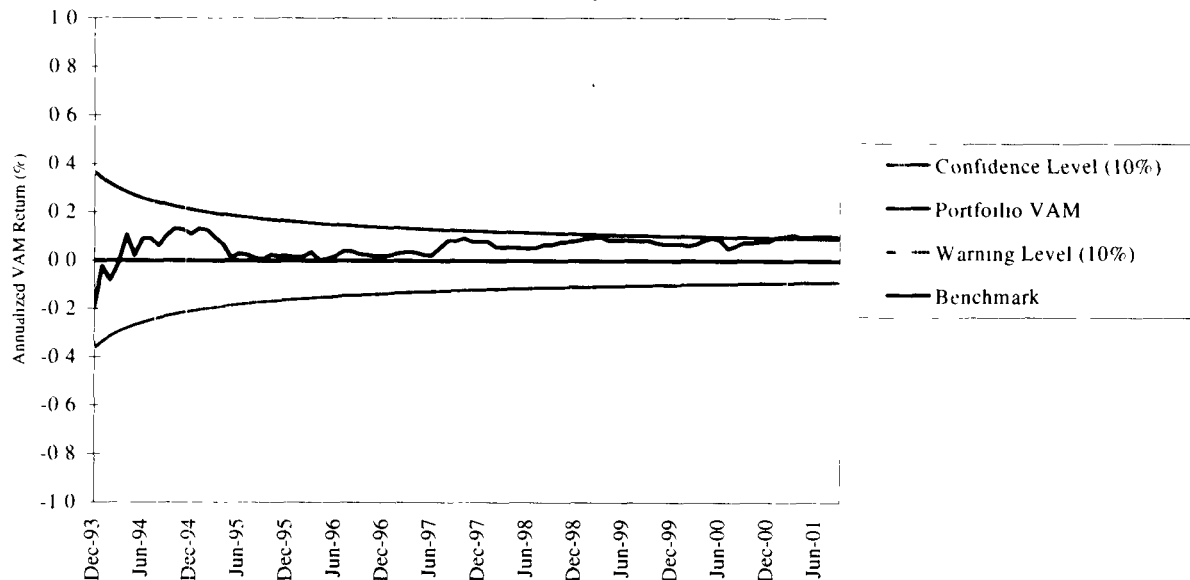
No comments at this time

Quantitative Evaluation

Recommendation

	Actual	Benchmark	
Last Quarter	-14.7%	-14.7%	No action required
Last 1 year	-26.4	-26.6	
Last 2 years	-8.7	-8.8	
Last 3 years	2.2	2.0	
Last 4 years	3.9	3.7	
Last 5 years	10.4	10.2	
Since Inception (7/93)	12.9	12.8	

INTERNAL STOCK POOL
Trust/Non-Retirement Assets
Cumulative Tracking



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

Portfolio Manager: Mike Messen

Assets Under Management: \$207,679,072

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.

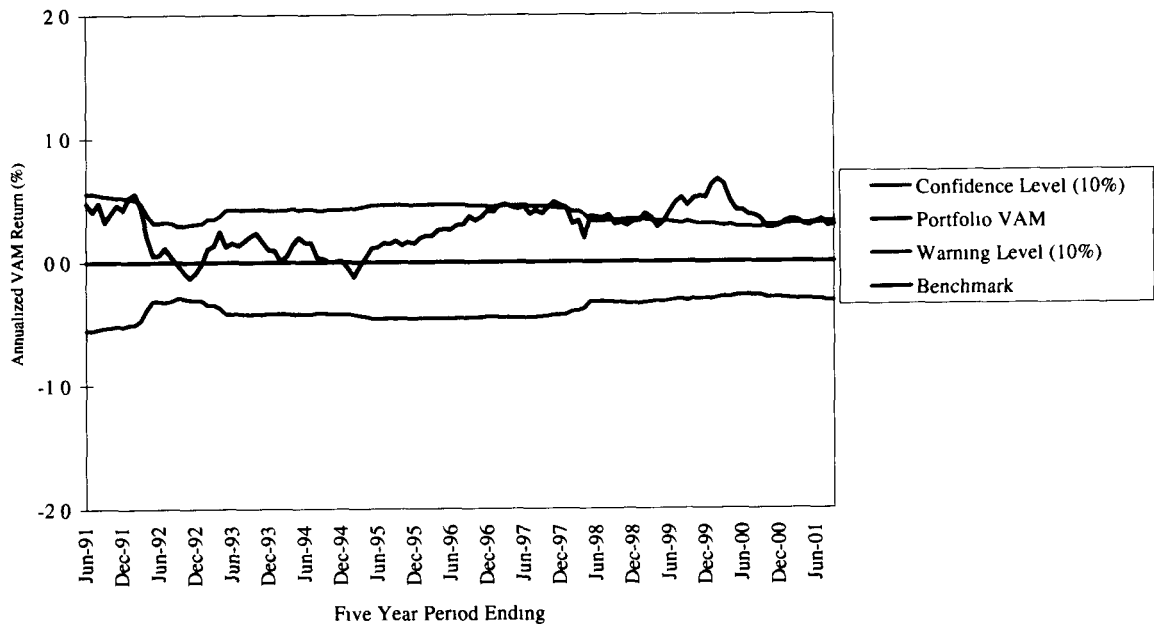
Quantitative Evaluation

Recommendation

	Actual	Benchmark
Last Quarter	4.6%	4.6%
Last 1 year	13.2	13.0
Last 2 years	10.1	9.9
Last 3 years	6.5	6.4
Last 4 years	7.8	7.6
Last 5 years	8.4	8.1
Since Inception (7/86)	8.8	8.4

No action required.

INTERNAL BOND POOL - INCOME SHARE ACCOUNT
Rolling Five Year VAM



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

Portfolio Manager: Mike Messen

Assets Under Management: \$828,946,230

**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.

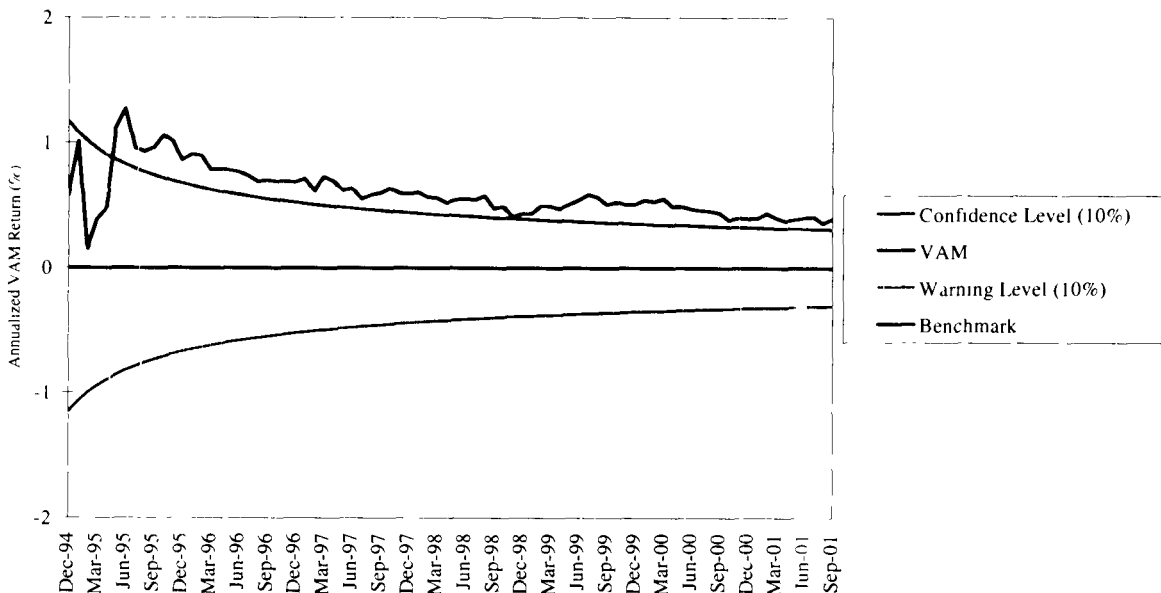
Quantitative Evaluation

Recommendation

	Actual	Benchmark	
Last Quarter	4.7%	4.6%	No action required
Last 1 year	13.1	13.0	
Last 2 years	10.0	9.9	
Last 3 years	6.7	6.4	
Last 4 years	7.9	7.6	
Last 5 years	8.3	8.1	
Since Inception (7/94)*	8.6	8.2	

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

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



**STATE BOARD
OF INVESTMENT**

**Deferred
Compensation Plan
Evaluation
Reports**

Third Quarter, 2001

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

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)**	-19.7	-14.7	-51.8	-26.6	-2.2	2.0	11.4	10.2	-19.6	-10.5	222.57
Small Cap Equity:											
T. Rowe Price Small-Cap Equity (Russell 2000)**	-14.7	-20.8	-10.1	-21.1	11.3	5.0	9.0	4.6	6.5	-4.0	217.34
Equity Index:											
Vanguard Institutional Index (S&P 500)**	-14.7	-14.7	-26.6	-26.6	2.1	2.0	10.3	10.2	-10.4	-10.5	161.63
Balanced:											
INVESCO Total Return (60% S&P 500/40% Lehman Gov-Corp)**	-7.4	-7.3	-6.2	-12.2	-0.9	3.1	5.9	9.3	-7.9	-3.8	84.26
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)**	4.3	4.6	14.2	13.0	6.7	6.4	8.1	8.1	9.3	9.1	37.02
International:											
Fidelity Diversified International (MSCI EAFE-Free)**	-12.0	-13.9	-22.2	-28.7	8.0	-1.3	8.6	-0.2	-0.2	-11.1	69.30

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***:	6.2
Bid Rates for current quarter:	
Great West Life	6.6
Minnesota Life	6.8
Principal Life	6.8

***The Blended Yield Rate for the current quarter includes the return on the existing portfolio assets and also the Liquidity Buffer Account (money market). The Bid Rates for the current quarter determine the allocation of new cash flow.

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

Portfolio Manager: Scott W. Schoelzel

**State's Participation in Fund: \$222,570,573
Total Assets in Fund: \$14,362,700,000**

**Investment Philosophy
Janus Twenty**

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

Staff Comments

Janus underperformed the quarterly benchmark. Performance was hurt by the slowing economy and sharp price declines in holdings, such as AOL Time Warner and General Electric. The one-year return continues to significantly lag the benchmark due to the telecommunication holdings

Quantitative Evaluation

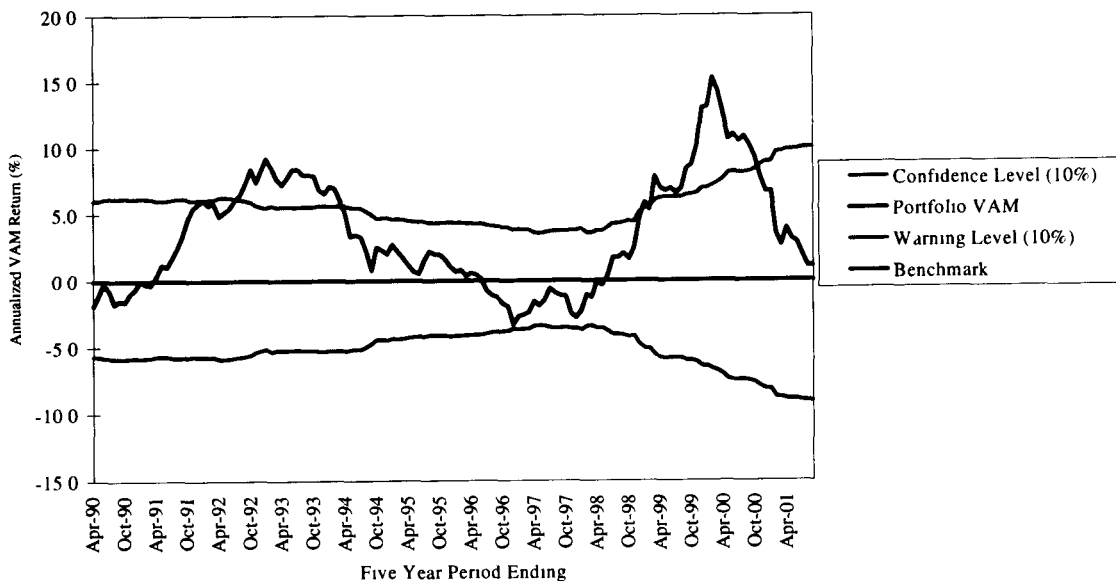
	Actual	Benchmark*
Last Quarter	-19.7%	-14.7%
Last 1 year	-51.8	-26.6
Last 2 years	-22.2	-8.8
Last 3 years	-2.2	2.0
Last 4 years	5.5	3.7
Last 5 years	11.4	10.2
Since Retention by SBI (7/99)	-19.6	-10.5

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, 2001**

Portfolio Manager: Gregory A. McCrickard

**State's Participation in Fund: \$217,341,144
 Total Assets in Fund: \$2,511,150,476**

**Investment Philosophy
 T. Rowe Price Small Cap Equity Fund**

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

Staff Comments

T. Rowe Price was helped this quarter by emphasizing value, underweighting technology, and strong stock selection in the tech sector. The one-year outperformance was due to stock selection, particularly in the information technology and health care sectors

Quantitative Evaluation

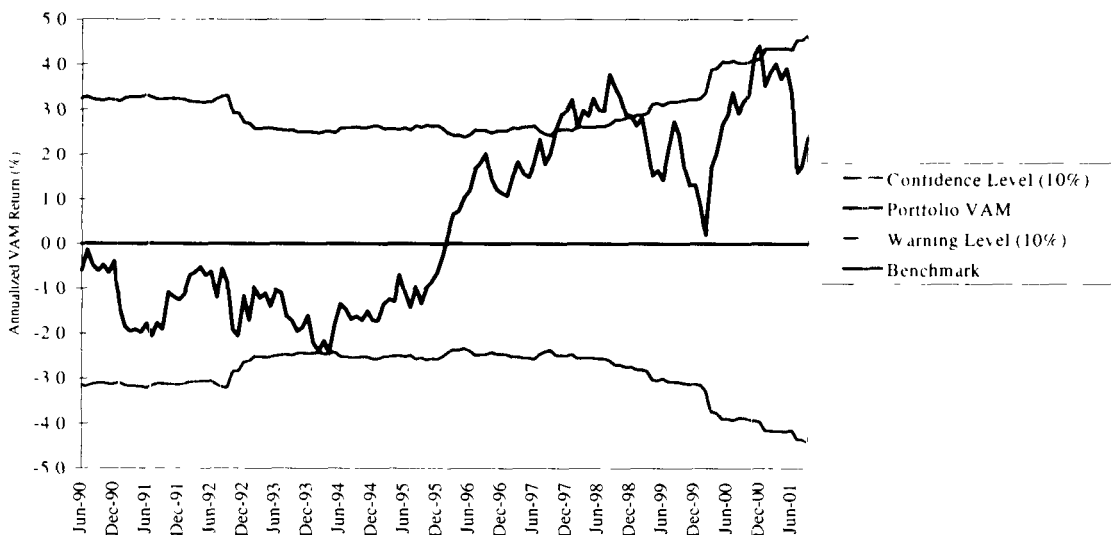
	Actual	Benchmark*
Last Quarter	-14.7%	-20.8%
Last 1 year	-10.1	-21.1
Last 2 years	8.7	-1.4
Last 3 years	11.3	5.0
Last 4 years	4.2	-1.6
Last 5 years	9.0	4.6
Since Retention by SBI (7/99)	6.5	-4.0

Recommendation

No action required

*Benchmark is the Russell 2000.
 Numbers in black are returns since retention by SBI.
 Numbers in blue include returns prior to retention by SBI

**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 PLUS
Periods Ending September, 2001**

Portfolio Manager: George U. Sauter

**State's Participation in Fund: \$161,625,267
Total Assets in Fund: \$9,572,904,048**

**Investment Philosophy
Vanguard Institutional Index**

Staff Comments

This fund attempts to provide investment results, before fund expenses, that parallel the performance of the Standard & Poor's 500 Index. The fund invests in all 500 stocks listed in the S&P 500 index in approximately the same proportions as they are represented in the index. The managers have tracked the S&P 500's performance with a high degree of accuracy. The fund may use futures and options for temporary purposes, but generally remains fully invested in common stock.

No comments at this time.

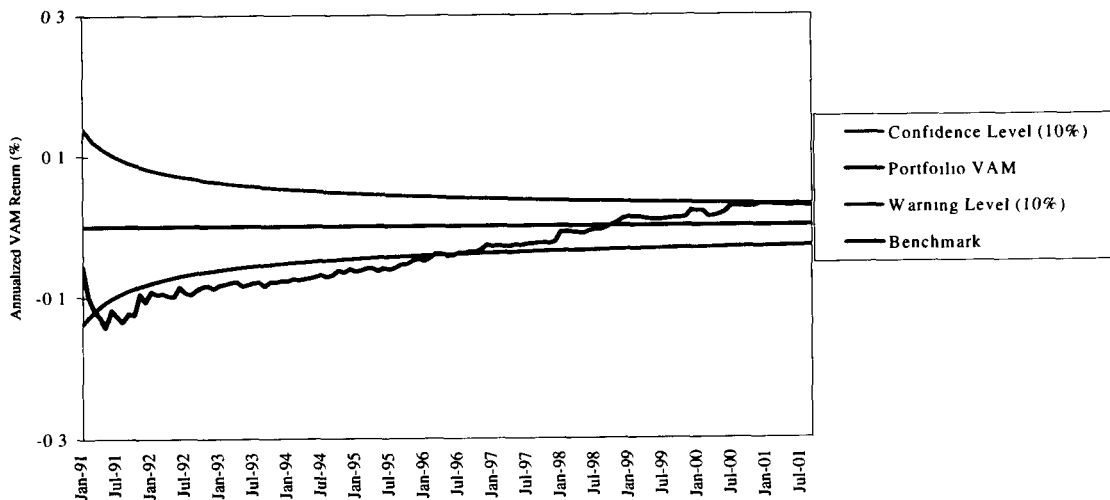
Quantitative Evaluation

Recommendation

	Actual	Benchmark*	
Last Quarter	-14.7%	-14.7%	No action required.
Last 1 year	-26.6	-26.6	
Last 2 years	-8.7	-8.8	
Last 3 years	2.1	2.0	
Last 4 years	3.9	3.7	
Last 5 years	10.3	10.2	
Since Retention by SBI (7/99)	-10.4	-10.5	

*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, 2001**

Portfolio Manager: Charlie Mayer

**State's Participation in Fund: \$84,261,274
Total Assets in Fund: \$1,256,860,000**

**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 slightly underperformed its benchmark for the quarter. The overweight to stocks, which have been hit hard this quarter, worked against the fund and caused it to underperform its benchmark. Throughout the course of the year, the underweight position in technology, the worst performing sector, significantly helped the one-year performance.

Quantitative Evaluation

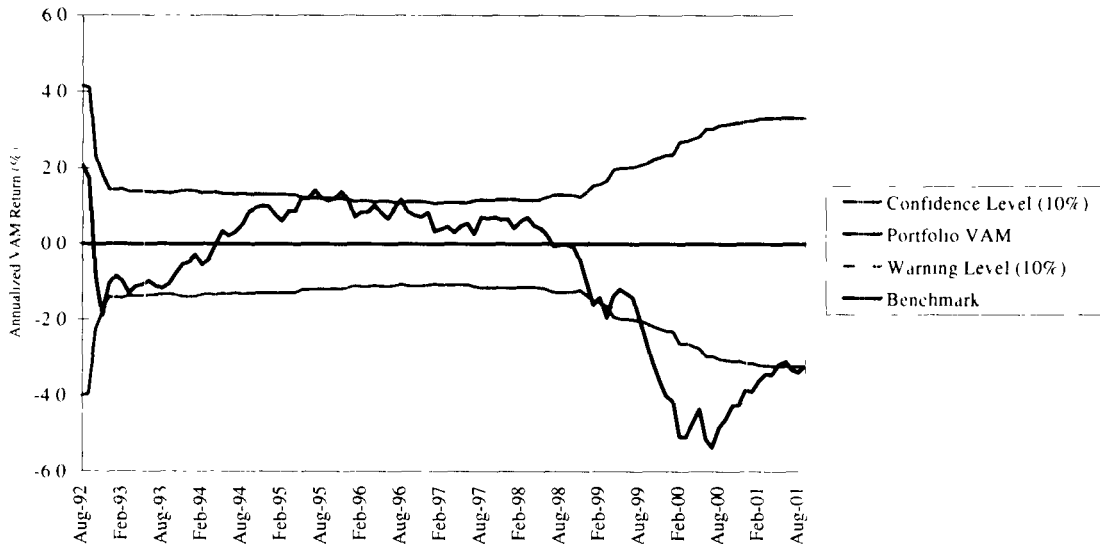
	Actual	Benchmark*
Last Quarter	-7.4%	-7.3%
Last 1 year	-6.2	-12.2
Last 2 years	-4.8	-2.5
Last 3 years	-0.9	3.1
Last 4 years	0.8	5.1
Last 5 years	5.9	9.3
Since Retention by SBI (7/99)	-7.9	-3.8

Recommendation

No action required

*Benchmark is the 60% S&P 500/ 40% Lehman Gov-Corp.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

**BALANCED - INVESCO TOTAL RETURN
Rolling Five Year VAM**



Five Year Period Ending
Note: Shaded area includes performance prior to managing SBI account

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

Portfolio Manager: Dana Emery

**State's Participation in Fund: \$37,023,797
Total Assets in Fund: \$1,385,171,138**

**Investment Philosophy
Dodge & Cox Income Fund**

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

Staff Comments

Dodge and Cox trailed the benchmark this quarter due to their significant overweight of the underperforming corporate sector. The portfolio also had a below benchmark duration, which had a negative effect due to its lower exposure to interest rate changes as the interest rates declined over the quarter.

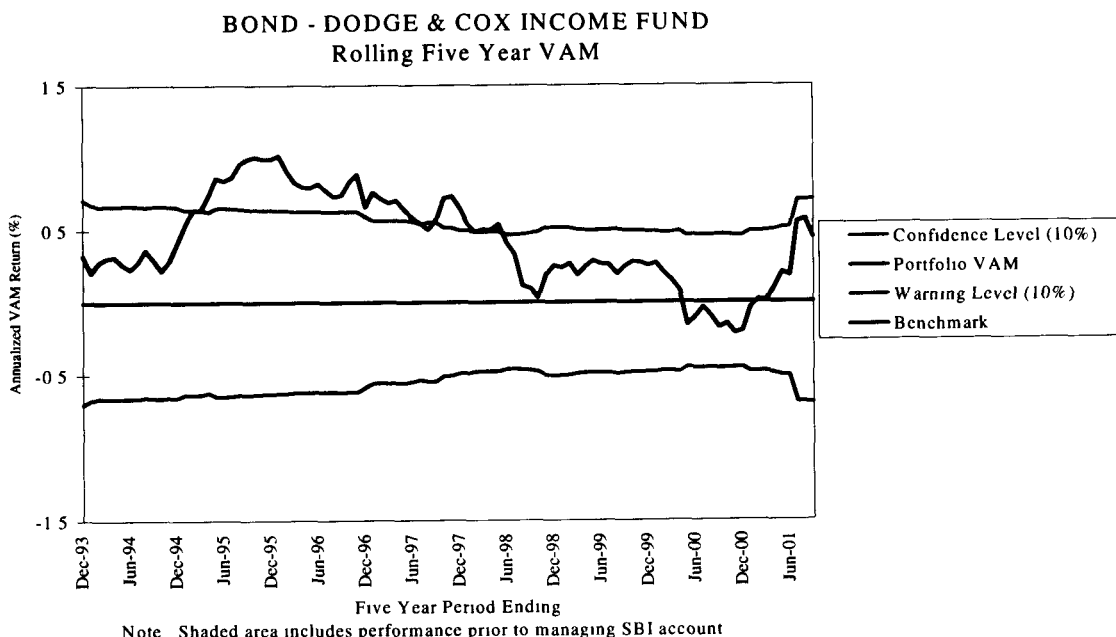
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	4.3%	4.6%
Last 1 year	14.2	13.0
Last 2 years	10.2	9.9
Last 3 years	6.7	6.4
Last 4 years	7.6	7.6
Last 5 years	8.1	8.1
Since Retention		
By SBI	9.3	9.1
(7/99)		

Recommendation

No action required.

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



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

Portfolio Manager: William Bower

**State's Participation in Fund: \$69,303,908
Total Assets in Fund: \$5,593,414,984**

**Investment Philosophy
Fidelity Diversified International**

The goal of this fund is capital appreciation by investing in securities of companies located outside of the United States. While the fund invests primarily in stocks, it may also invest in bonds. Most investments are made in companies that have a market capitalization of \$100 million or more and which are located in developed countries. To select the securities, the fund utilizes a rigorous computer-aided quantitative analysis supplemented by relevant economic and regulatory factors. The manager rarely invests in currency to protect the account from exchange fluctuations.

Staff Comments

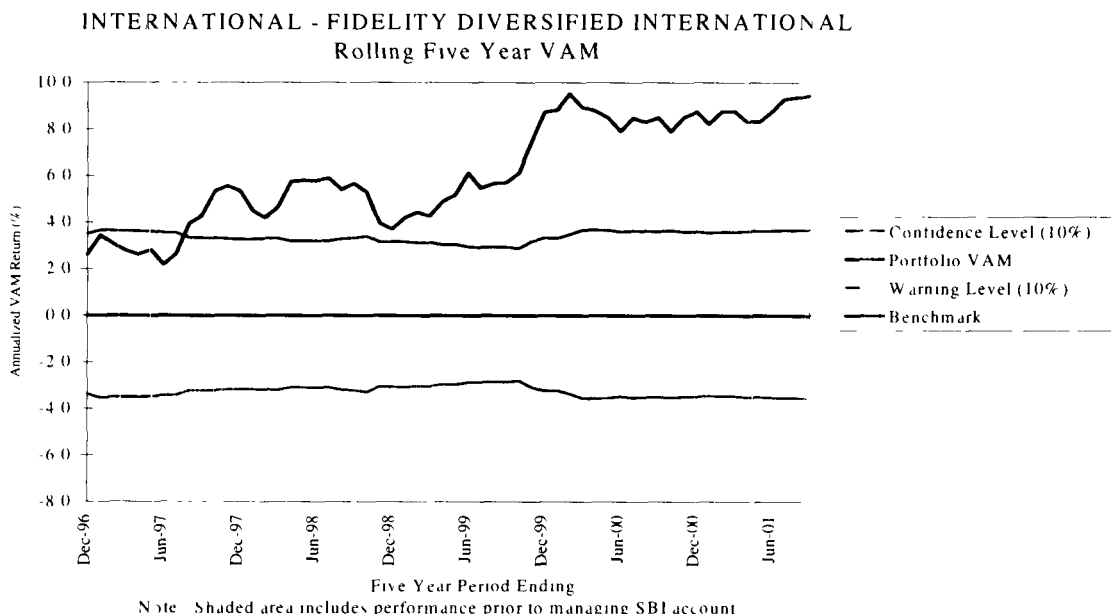
Fidelity's quarterly performance was helped by favorable stock selection in the industrial and materials sectors. For the year, the relative outperformance was mainly due to favorable stock selection in the financial sector.

Quantitative Evaluation

	Actual	Benchmark*	
Last Quarter	-12.0%	-13.9%	No action required
Last 1 year	-22.2	-28.7	
Last 2 years	-2.8	-14.2	
Last 3 years	8.0	-1.3	
Last 4 years	4.6	-3.1	
Last 5 years	8.6	-0.2	
Since Retention By SBI (7/99)	-0.2	-12.0	

Recommendation

*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, 2001**

Total Assets in MN Fixed Fund: \$215,829,138 *
*Includes \$10-25M in Liquidity Buffer Account

Total Assets in 457 Plan: \$600,379,405 **
**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: \$68,354,911

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: \$65,141,701

Assets in Prior MN 457 Plan: \$164,581,890

Total Assets: \$229,723,591

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: \$58,707,202

Assets in Prior MN 457 Plan: \$219,968,377

Total Assets: \$278,675,579

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, 2001**

Current Quarter

Dollar Amount of Bid: \$17,900,000

Blended Rate: 6.17%

Bid Rates:

Principal Life 6.77%

Minnesota Life 6.82%

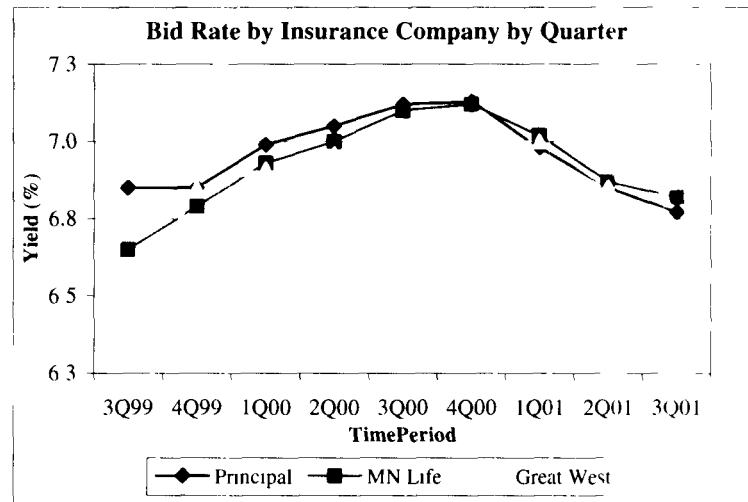
Great West Life 6.55%

Dollar Amount in existing

Minnesota Life portfolio: \$164,581,890

Rate on existing

Minnesota Life portfolio: 5.97%



Staff Comments on Bid Rates

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

Staff Comments

	4Q00	1Q01	2Q01	3Q01
Principal Life	35.0%	33.3%	33.3%	40.0%
Minnesota Life	35.0%	33.3%	33.3%	40.0%
Great West Life	30.0%	33.3%	33.3%	20.0%

For the third quarter Great West Life had a lower percentage allocation of bid dollars since their bid rate was more than 20 basis points less than the top bid. The top two bids were within 10 basis points of each other.

Tab D

COMMITTEE REPORT

DATE: November 27, 2001

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

FROM: **Alternative Investment Committee**

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

- Review of current strategy.
- Review meetings with two of the SBI's existing alternative investment managers to discuss investment performance and current market conditions.
 - William Macaulay of First Reserve Corporation
 - Matt Barger of Hellman & Friedman LLC.

No Board/IAC action is required.

INFORMATION ITEMS:

1) Review of Current Strategy.

To increase overall portfolio diversification, 15% of the Basic Retirement Funds and 5% of the Post Retirement Fund are allocated to alternative investments. Alternative investments include real estate, private equity and resource investments where Minnesota State Board of Investment (SBI) participation is limited to commingled funds or other pooled vehicles. Charts summarizing the Board's current commitments are attached (see **Attachments A and B**).

Basic Funds

- The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified Real Estate Investment Trusts (REITs), open-end commingled funds and closed-end commingled funds. The

remaining portion of the portfolio can include investments in less diversified, more focused (specialty) commingled funds and REITs.

- The private equity investment strategy is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location.
- The strategy for resource investment is to establish and maintain a portfolio of resource investment vehicles that are specifically designed for institutional investors to provide an inflation hedge and additional diversification. Individual resource investments will include proved producing oil and gas properties, royalties and other investments that are diversified geographically and by type.

Post Fund

- The Post Fund assets allocated to alternative investments will be invested separately from the Basic Funds' alternative investments to assure that returns are accounted for appropriately. Since the Post Fund invests the retired employees' pension assets, an allocation to yield oriented alternative investments will be emphasized. The Basic Retirement Funds' invest the active employees' pension assets and have less concern regarding the current yield for their alternative investments.

2) Review meetings with two of the SBI's existing managers.

The Committee and Staff met with one of the SBI's existing private equity managers, Matt Barger of Hellman & Friedman LLC, and one of the SBI's existing resource managers, William Macaulay of First Reserve Corporation. Both managers provided the Committee and Staff with information regarding the current investment environment and current performance of the SBI's investments with them. The Committee and Staff are satisfied with the performance of these managers.

ATTACHMENT A

Minnesota State Board of Investment

Alternative Investments

Basic Retirement Funds

September 30, 2001

Market Value of Basic Retirement Funds	\$16,851,047,896
Amount Available for Investment	\$0

	Current Level	Target Level	Difference
Market Value	\$2,332,316,447	\$2,527,657,184	\$195,340,738
MV +Unfunded	\$3,537,412,994	\$3,370,209,579	(\$167,203,415)

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	\$689,264,338	\$12,235,056	\$701,499,394
Private Equity	\$1,375,538,378	\$1,071,494,415	\$2,447,032,793
Resource	\$267,513,731	\$121,367,076	\$388,880,807
Total	\$2,332,316,447	\$1,205,096,547	\$3,537,412,994

Minnesota State Board of Investment
Alternative Investments
Post Retirement Funds
September 30, 2001

Market Value of Post Retirement Funds	\$17,504,857,301
Amount Available for Investment	\$214,583,964

	Current Level	Target Level	Difference
Market Value	\$660,658,901	\$875,242,865	\$214,583,964
MV +Unfunded	\$1,327,658,003	\$1,750,485,730	\$422,827,727

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	\$241,448,435	\$91,167,542	\$332,615,977
Private Equity	\$335,444,181	\$466,936,414	\$802,380,595
Resource	\$83,766,286	\$108,895,145	\$192,661,431
Total	\$660,658,901	\$666,999,101	\$1,327,658,003

ATTACHMENT B

State of Minnesota
- Alternative Investments -

As of September 30, 2001

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<u>Real Estate-Basic</u>							
AEW V	15,000,000	15,000,000	389,236	11,169,287	0	-2.71	13 79
Colony Capital							
Colony Investors II	40,000,000	38,985,164	12,070,395	34,873,801	1,014,836	7 08	6 50
Colony Investors III	100,000,000	95,635,379	62,167,320	57,798,231	4,364,621	11.23	3 75
Equity Office Properties Trust	140,388,854	140,388,854	136,585,150	153,657,143	0	19 62	9 85
First Asset Realty Fund	916,185	916,185	16,478	1,083,054	0	5 20	7 42
Heltman							
Heltman Advisory Fund I	20,000,000	20,000,000	384,890	22,262,571	0	1 59	17 14
Heltman Advisory Fund II	30,000,000	30,000,000	3,354,007	40,131,247	0	4 12	15 86
Heltman Advisory Fund III	20,000,000	20,000,000	78,352	22,174,237	0	1 37	14 69
Heltman Advisory Fund V	20,000,000	20,000,000	8,257,462	23,245,559	0	8 13	9 82
Lasalle Income Parking Fund	15,000,000	14,644,401	9,776,642	18,017,963	355,599	11 62	10 03
Land Lease Real Estate Investments	40,000,000	40,000,000	137,905,700	3,318,891	0	6 77	19 97
RREEF USA Fund III	75,000,000	75,000,000	669,286	121,039,987	0	4 76	17 39
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	40,000,000	56,205,934	25,727,043	0	13 83	7 33
Realty Associates Fund IV	50,000,000	50,000,000	62,163,432	15,470,431	0	13 41	4 66
Realty Associates Fund V	50,000,000	43,500,000	45,188,450	5,409,105	6,500,000	8 76	2 35
TCW Realty Fund IV	30,000,000	30,000,000	90,603	29,033,933	0	-0 31	14 91
UBS Realty	42,376,529	42,376,529	153,953,209	0	0	7 48	19 42
Funds in Liquidation (AEW III)	20,000,000	20,000,000	7,792	24,133,975	0		
Real Estate-Basic Totals	748,681,568	736,446,512	689,264,338	608,546,460	12,235,056		
<u>Real Estate-Post</u>							
CT Mezzanine Partners II	100,000,000	15,600,000	15,600,000	214,829	84,400,000	N/A	0 02
Colony Capital	40,000,000	38,985,164	12,070,395	34,873,801	1,014,836	7 08	6 50
Equity Office Properties Trust	117,673,360	117,673,360	136,585,150	0	0	N/A	0 50
GMAC Institutional Advisors							
Institutional Coml MTG Fund II	13,500,000	13,397,500	10,700,747	8,774,418	102,500	9 55	6 18
Institutional Coml MTG Fund III	21,500,000	21,275,052	20,554,527	8,025,756	224,948	8 72	4 83
Institutional Coml MTG Fund IV	14,300,000	14,300,000	14,069,304	3,311,517	0	8 09	3 75
Institutional Coml MTG Fund V	37,200,000	31,774,741	31,868,311	3,126,160	5,425,259	10 04	2 17
Real Estate-Post Totals	344,173,360	253,005,818	241,448,435	58,326,481	91,167,542		
Real Estate Totals	1,092,854,928	989,452,330	930,712,772	666,872,940	103,402,598		

State of Minnesota
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Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<u>Venture Capital-Basic</u>							
Bank Fund							
Banc Fund III	20,000,000	20,000,000	45,798	49,344,453	0	17.89	8.93
Banc Fund IV	25,000,000	25,000,000	26,279,475	9,464,375	0	9.87	5.62
Banc Fund V	48,000,000	38,400,000	39,977,088	2,216,366	9,600,000	5.78	3.21
Blackstone Capital Partners II	50,000,000	47,271,190	29,619,173	59,592,686	2,728,810	36.61	7.85
Blum Strategic Partners							
RCBA Strategic Partners	50,000,000	50,000,000	51,483,190	18,218,123	0	16.30	2.77
BLUM Strategic Partners II	50,000,000	8,087,500	8,087,500	0	41,912,500	N/A	0.20
Brinson Partners							
Brinson Partners I	5,000,000	5,000,000	367,736	9,147,616	0	11.14	13.39
Brinson Partners II	20,000,000	19,579,998	2,015,562	37,613,214	420,002	25.95	10.84
Churchill Capital Partners II	20,000,000	20,000,000	5,600,371	22,912,200	0	12.22	8.93
Contrarian Capital Fund II	37,000,000	37,000,000	35,161,664	12,446	0	-1.49	4.33
Coral Partners							
Coral Partners Fund I	7,011,923	7,011,923	370,629	6,429,665	0	-0.49	15.28
Coral Partners Fund II	10,000,000	8,069,315	1,296,067	36,117,047	1,930,685	25.26	11.18
Coral Partners Fund IV	15,000,000	15,000,000	7,747,647	10,744,034	0	6.54	7.20
Coral Partners Fund V	15,000,000	13,500,000	11,712,768	152,481	1,500,000	-7.74	3.29
Crescendo							
Crescendo II	15,000,000	15,000,000	14,633,977	20,347,034	0	43.74	4.74
Crescendo III	25,000,000	25,000,000	20,463,661	8,084,795	0	8.34	2.90
Crescendo IV	101,500,000	58,255,047	48,287,201	185,114	43,244,953	-15.46	1.56
DLJ							
DLJ Merchant Banking Partners III	125,000,000	27,273,059	20,839,192	7,425,600	97,726,941	-4.29	1.00
DLJ Strategic Partners	100,000,000	21,811,946	20,968,786	3,063,096	78,188,054	N/A	0.70
DSV Partners IV	10,000,000	10,000,000	1,256,172	27,596,934	0	9.56	16.47
First Century Partners III	10,000,000	10,000,000	3,026,652	14,103,791	0	8.85	16.79
Fox Paine Capital Fund							
Fox Paine Capital Fund	40,000,000	34,911,291	44,065,939	0	5,088,709	11.18	3.44
Fox Paine Capital Fund II	50,000,000	1,702,162	595,520	0	48,297,838	-79.22	1.25
Golder, Thoma, Cressey, Rauner							
Golder, Thoma, Cressey Fund III	14,000,000	14,000,000	4,794,520	55,444,382	0	30.31	13.92
Golder, Thoma, Cressey & Rauner Fund IV	20,000,000	20,000,000	4,816,838	33,351,637	0	24.10	7.66
Golder, Thoma, Cressey & Rauner Fund V	30,000,000	30,000,000	32,173,246	8,841,111	0	10.31	5.25
GS Capital Partners 2000	50,000,000	7,765,914	7,294,282	0	42,234,086	-9.47	1.08
GTCR Golder Rauner							
GTCR Fund VI	90,000,000	89,137,778	46,790,232	49,263,209	862,222	6.41	3.25
GTCR Fund VII	175,000,000	73,733,853	58,157,773	33,875,156	101,266,147	27.82	1.65
GHJM Marathon Fund IV	40,000,000	27,670,000	27,663,553	0	12,330,000	-4.80	2.46
Hellman & Friedman							
Hellman & Friedman Capital Partners III	40,000,000	32,432,434	9,158,510	53,748,357	7,567,566	34.26	7.03
Hellman & Friedman Capital Partners IV	150,000,000	51,008,564	29,951,240	34,136,841	98,991,436	58.02	1.75
Kohlberg Kravis Roberts							
KKR 1986 Fund	18,365,339	18,365,339	8,029,294	202,769,685	0	28.10	15.46
KKR 1987 Fund	145,950,000	145,373,652	116,855,857	329,366,405	576,348	10.70	13.85
KKR 1993 Fund	150,000,000	150,000,000	53,566,600	260,983,114	0	18.85	7.78
KKR 1996 Fund	200,000,000	189,429,598	196,138,591	68,647,648	10,570,402	15.12	5.08
KKR Millenium Fund	200,000,000	0	0	0	200,000,000	N/A	0.35
Piper Jaffray Healthcare							
Piper Jaffray Healthcare Fund II	10,000,000	9,500,000	8,955,167	658,415	500,000	0.41	4.58
Piper Jaffray Healthcare Fund III	20,000,000	16,031,115	13,851,957	197,173	3,968,885	-10.45	2.69
Summit Partners							
Summit Ventures II	30,000,000	28,500,000	1,966,950	71,715,485	1,500,000	28.79	13.39
Summit Ventures V	25,000,000	19,375,000	15,709,826	5,862,443	5,625,000	5.72	3.50
T. Rowe Price	511,535,804	511,535,804	9,130,735	500,671,458	0	0.57	N/A
Thoma Cressey							
Thoma Cressey Fund VI	35,000,000	32,375,000	31,903,722	581,378	2,625,000	-0.48	3.11
Thoma Cressey Fund VII	50,000,000	4,000,000	2,140,004	0	46,000,000	-33.96	1.10
Vestar Capital Partners IV	55,000,000	11,161,169	10,571,669	369,185	43,838,831	-10.19	1.79
Warburg Pincus							
Warburg, Pincus Equity Partners	100,000,000	90,000,000	97,518,801	8,661,738	10,000,000	11.61	3.26
Warburg, Pincus Ventures	50,000,000	50,000,000	80,762,119	173,316,143	0	54.75	6.75
Weish, Carson, Anderson & Stowe							
WCAS VIII	100,000,000	93,000,000	89,237,685	0	7,000,000	-2.07	3.19
WCAS IX	125,000,000	25,000,000	17,322,800	0	100,000,000	-27.27	1.26
William Blair Capital Partners VII	50,000,000	4,600,000	4,441,755	0	45,400,000	-6.00	0.56
Funds in Liquidation (Matrix II, Matrix III, Summit I & Zell/Chilmark)	60,000,000	60,000,000	2,732,886	216,870,720	0	N/A	N/A
Venture Capital-Basic Totals	3,393,363,066	2,321,868,651	1,375,538,378	2,452,102,758	1,071,494,415		

State of Minnesota
- Alternative Investments -

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Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<i>Venture Capital-Post</i>							
Citicorp Mezzanine							
<i>Citicorp Mezzanine II</i>	40,000,000	40,000,000	24,614,426	29,281,504	0	12.52	6.75
<i>Citicorp Mezzanine III</i>	100,000,000	31,396,113	32,882,342	1,875,481	68,603,887	10.84	1.91
DLJ Investment Partners II	50,000,000	21,245,206	22,011,238	435,005	28,754,794	3.50	1.75
GS Mezzanine Partners II	100,000,000	14,000,000	10,883,824	0	86,000,000	-17.61	1.58
GTCR Capital Partners	80,000,000	59,377,336	51,042,480	10,870,991	20,622,664	3.23	1.88
KB Mezzanine Partners Fund II	25,000,000	24,999,999	14,847,762	7,151,873	1	-4.49	6.00
Prudential Capital Partners	100,000,000	17,202,011	12,754,706	980,833	82,797,989	N/A	0.45
Summit Partners							
<i>Summit Sub. Debt Fund I</i>	20,000,000	18,000,000	893,351	30,380,469	2,000,000	30.70	7.50
<i>Summit Sub. Debt Fund II</i>	45,000,000	27,000,000	16,706,796	54,701,223	18,000,000	65.88	4.16
T. Rowe Price	52,990,378	52,990,378	265,400	51,840,522	0	-10.55	N/A
TCW/Crescent Mezzanine							
<i>TCW/Crescent Mezzanine Partners</i>	40,000,000	39,851,211	24,757,751	22,512,379	148,789	7.29	5.50
<i>TCW/Crescent Mezzanine Partners II</i>	100,000,000	98,209,910	79,401,536	37,764,675	1,790,090	12.05	2.85
<i>TCW/Crescent Mezzanine Partners III</i>	75,000,000	186,301	181,813	4,488	74,813,699	N/A	0.50
William Blair Mezzanine III	60,000,000	30,501,600	31,301,169	740,400	29,498,400	4.56	1.75
Windjammer Mezzanine & Equity Fund II	66,708,861	12,802,760	12,899,587	240,000	53,906,101	-19.98	1.50
 <i>Venture Capital-Post Totals</i>	 954,699,239	 487,762,825	 335,444,181	 248,779,844	 466,936,414		
 <i>Venture Capital Totals</i>	 4,348,062,305	 2,809,631,477	 1,710,982,559	 2,700,882,602	 1,538,430,829		

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Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<u>Resource-Basic</u>							
Apache Corp III	30,000,000	30,000,000	15,702,300	45,651,220	0	13.44	14.75
First Reserve							
<i>First Reserve I</i>	15,000,000	15,000,000	521,000	14,375,857	0	-0.11	20.00
<i>First Reserve II</i>	7,000,000	7,000,000	900,000	14,708,388	0	6.24	18.65
<i>First Reserve V</i>	16,800,000	16,800,000	201,306	50,261,377	0	16.24	11.42
<i>First Reserve VII</i>	40,000,000	40,000,000	27,474,002	27,100,697	0	11.89	5.25
<i>First Reserve VIII</i>	100,000,000	94,686,751	109,159,978	18,834,780	5,313,249	22.10	3.42
<i>First Reserve IX</i>	100,000,000	10,218,978	10,224,997	0	89,781,022	N/A	0.48
Morgan Oil & Gas	15,000,000	15,000,000	3,996,698	20,906,987	0	7.01	13.10
Simmons							
<i>Simmons - SCF Fund II</i>	17,000,000	14,847,529	20,053,041	14,389,926	2,152,471	11.32	10.15
<i>Simmons - SCF Fund III</i>	25,000,000	22,021,139	37,595,297	14,712,078	2,978,862	21.86	6.25
<i>Simmons - SCF Fund IV</i>	50,000,000	28,858,528	37,092,612	990,908	21,141,472	10.22	3.50
T. Rowe Price	17,396,296	17,396,296	4,592,500	5,504,102	0	-77.18	N/A
Resource-Basic Totals	433,196,296	311,829,220	267,513,731	227,436,319	121,367,075		
<u>Resource-Post</u>							
Merit Energy Partners							
<i>Merit Energy Partners B</i>	24,000,000	24,000,000	37,259,402	4,300,623	0	19.08	5.25
<i>Merit Energy Partners C</i>	50,000,000	24,904,855	42,277,652	2,030,966	25,095,145	31.93	2.92
<i>Merit Energy Partners D</i>	88,000,000	4,200,000	4,229,233	0	83,800,000	N/A	0.35
Resource-Post Totals	162,000,000	53,104,855	83,766,286	6,331,589	108,895,145		
Resource Totals	595,196,296	364,934,075	351,280,017	233,767,908	230,262,220		