

MINNESOTA STATE BOARD  
OF INVESTMENT  
MEETING  
**December 10, 2002**

&

INVESTMENT ADVISORY  
COUNCIL MEETING  
**December 2, 2002**

**STATE BOARD OF INVESTMENT**

**AGENDA AND MINUTES**

**December 10, 2002**

**AGENDA**  
**STATE BOARD OF INVESTMENT MEETING**  
**Tuesday, December 10, 2002**  
**10:00 A.M. - Room 107**  
**State Capitol - Saint Paul**

- |   |            |
|---|------------|
|   | <b>TAB</b> |
| <b>1. Approval of Minutes of September 4, 2002</b>  |            |
| <b>2. Report from the Executive Director (Howard Bicker)</b>  | <b>A</b>   |
| A. Quarterly Investment Review<br>(July 1, 2002 – September 30, 2002)                               |            |
| B. Administrative Report  | <b>B</b>   |
| 1. Reports on budget and travel.  |            |
| 2. Post Retirement Benefit Increase for FY02.   |            |
| 3. Litigation Update.   |            |
| 4. Results of FY02 Audit.   |            |
| 5. Draft of FY02 Annual Report.   |            |
| 6. Tentative Meeting Dates for Calendar 2003.   |            |
| <b>3. Report from the SBI Administrative Committee (Carol Johnson)</b>                              | <b>C</b>   |
| 1. Review of SBI Biennial Budget Request.   |            |
| 2. Review of Potential SBI 2003 Legislative Session Issues.   |            |
| 3. Review of Executive Director's Salary.   |            |
| <b>4. Report from the Accounting System Review Committee (Peter Sausen)</b>                         | <b>D</b>   |
| <b>5. Reports from the Investment Advisory Council (Jan Yeomans)</b>                                | <b>E</b>   |
| <b>A. Stock and Bond Manager Committee</b>  |            |
| 1. Review of manager performance.   |            |
| 2. Recommendation to terminate Metropolitan West Asset<br>Management from the fixed income program. |            |
| <b>B. Alternative Investment Committee</b>  | <b>F</b>   |
| 1. Review of current strategy.  |            |
| 2. Review meeting with two of the SBI's existing managers.  |            |
| 3. Reconsideration of certain outstanding SBI alternative<br>investment approvals.                  |            |

# **STATE BOARD OF INVESTMENT**

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## **Minutes State Board of Investment September 4, 2002**

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, September 4, 2002 in Room 107 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 5, 2002 Board meeting were approved.

### **Executive Director's Report**

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded inflation over the ten year period ending June 30, 2002 (Combined Funds 9.4% vs. Inflation 2.5%), trailed the median fund (72nd percentile) due to the SBI's higher equity exposure and outperformed its composite index (Combined Funds 4.8% vs. Composite 4.5%) for the most recent five year period. He stated that the Basic Funds have exceeded its composite index (Basic Funds 5.0% vs. Composite 4.8%) over the last five years and reported that the Post Fund has outperformed its composite index over the last five years period (Post Fund 4.5% vs. Composite 4.2%).

Mr. Bicker reported that the Basic Fund's assets decreased 7.1% for the quarter ending June 30, 2002 due to negative investment returns and negative cash flow. He said that the asset mix is on target. He reported that the Basic Funds underperformed its composite index for the quarter (Basic Funds -6.1% vs. Composite -5.6%) and for the year (Basic Funds -8.2% vs. Composite -8.1%).

Mr. Bicker reported that the market value of the Post Fund's assets decreased 7.2% for the quarter ending June 30, 2002 due to negative investment returns and negative contributions. He said the Post Fund asset mix is on target and that the Post Fund underperformed its composite index for the quarter (Post Fund -6.6% vs. Composite -5.9%) and for the year (Post Fund -7.8% vs. Composite -7.4%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stocks -13.2% vs. Wilshire 5000 Investable -12.9%) and for the year (Domestic Stocks -18.0% vs. Wilshire 5000 Investable -17.3%). He said that the International Stock manager group outperformed its composite index for the quarter (International Stocks -2.0% vs. Int'l Composite -2.4%) and for the year (International Stocks -7.0% vs. Int'l Composite -8.7%). Mr. Bicker stated that the bond segment underperformed its target for the quarter (Bonds 2.8% vs. Lehman Aggregate 3.7%) and for the year (Bonds 8.2% vs. Lehman Aggregate 8.6%). He concluded his report with the comment that as of June 30, 2002, the SBI was responsible for over \$43 billion in assets.

### **Executive Director's Administrative Report**

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

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of the three active litigation cases. She stated that in the Mercury case, final settlement has been approved and that distribution should begin soon. She reported that discovery motions were argued for the McKesson case and that to date she has not heard a ruling from the judge on that hearing. She stated that two of the defendants have been charged criminally and that a stay of discovery is being sought. She said that in the Broadcom case discovery conferences are proceeding after the motions to dismiss were denied. Ms. Eller stated that the State has committed to initiating litigation against the issuers in WorldCom debt. She noted that several other funds have already initiated action and that the courts are determining whether these actions should be consolidated into the bankruptcy motion.

Mr. Bicker reported that staff is working on several projects that will be brought to the Board for approval over the next year. He said that an asset allocation review is in progress and that the state's Deferred Compensation Plan is being reconfigured. He said that staff will also conduct an educational roundtable meeting on corporate governance issues in November. In response to a comment from Ms. Kiffmeyer, Mr. Bicker clarified that the roundtable would be held after the November election in order for incoming Board members to attend.

### **Stock and Bond Manager Committee Report**

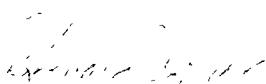
Ms. Yeomans referred members to Tab C of the meeting materials and noted that there are no recommendations from the Committee this quarter.

### **Alternative Investment Committee Report**

Ms. Yeomans referred members to Tab D of the meeting materials and stated that there are no recommendations from the Committee this quarter. She noted that the Committee will explore potential investment opportunities in smaller Minnesota venture capital and private equity funds.

The meeting adjourned at 9:45 A.M.

Respectfully submitted,



Howard J. Bicker  
Executive Director

**INVESTMENT ADVISORY COUNCIL**

**AGENDA AND MINUTES**

**December 2, 2002**

**AGENDA**  
**INVESTMENT ADVISORY COUNCIL MEETING**  
**Monday, December 2, 2002**  
**2:00 P.M. - Board Room – First Floor**  
**60 Empire Drive**  
**St. Paul, MN**

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|---|------------|
| <b>1. Approval of Minutes of September 3, 2002</b>  | <b>TAB</b> |
| <b>2. Report from the Executive Director (H. Bicker)</b>  | <b>A</b>   |
| A. Quarterly Investment Review<br>(July 1, 2002 – September 30, 2002)                               |            |
| B. Administrative Report  | <b>B</b>   |
| 1. Reports on budget and travel.  |            |
| 2. Post Retirement Benefit Increase for FY02.   |            |
| 3. Litigation Update.   |            |
| 4. Results of FY02 Audit.   |            |
| 5. Draft of FY02 Annual Report.   |            |
| 6. Tentative Meeting Dates for Calendar 2003.   |            |
| <b>3. Report from the SBI Administrative Committee</b>  | <b>C</b>   |
| 4. Review of SBI Biennial Budget Request.   |            |
| 5. Review of Potential SBI 2003 Legislative Session Issues.   |            |
| 6. Review of Executive Director's Salary.   |            |
| <b>4. Report from the Accounting System Review Committee</b>  | <b>D</b>   |
| <b>5. Reports from the Investment Advisory Council</b>  | <b>E</b>   |
| <b>A. Stock and Bond Manager Committee (J. Bohan)</b>   |            |
| 1. Review of manager performance.   |            |
| 2. Recommendation to terminate Metropolitan West Asset<br>Management from the fixed income program. |            |
| <b>B. Alternative Investment Committee (K. Gudorf)</b>  | <b>F</b>   |
| 1. Review of current strategy.  |            |
| 2. Review meeting with two of the SBI's existing managers.  |            |
| 3. Reconsideration of certain outstanding SBI alternative<br>investment approvals.                  |            |

# **STATE BOARD OF INVESTMENT**

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## **Minutes Investment Advisory Council September 3, 2002**

**MEMBERS PRESENT:** Gary Austin; Dave Bergstrom; Ken Gudorf; P. Jay Kiedrowski; Judy Mares; Malcolm McDonald; Gary Norstrom; Mary Stanton; Mike Troutman; Mary Vanek; Elaine Voss; Jan Yeomans.

**MEMBERS ABSENT:** John Bohan; Doug Gorence; Han Chin Liu; Daralyn Peifer; and Pam Wheelock.

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

**OTHERS ATTENDING:** Ann Posey, Richards & Tierney; Christie Eller; Dale Hanke, Robert Heimerl, Lloyd Belford, Ed Stuart, REAM; Ed Rapp, Education Minnesota; Conrad deFiebre, Star Tribune; and Eugene Edie, private citizen.

The minutes of the June 4, 2002 IAC meeting were approved.

### **Executive Director's Report**

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded inflation over the ten year period ending June 30, 2002 (Combined Funds 9.4% vs. Inflation 2.5%), outperformed its composite index (Combined Funds 4.8% vs. Composite 4.5%) for the most recent five year period and trailed the median fund (72nd percentile) due to the SBI's higher equity exposure. He stated that the Basic Funds have exceeded its composite index (Basic Funds 5.0% vs. Composite 4.8%) over the last five years and reported that the Post Fund has outperformed its composite index over the last five years period (Post Fund 4.5% vs. Composite 4.2%).

Mr. Bicker reported that the Basic Fund's assets decreased 7.1% for the quarter ending June 30, 2002 due to weak markets and negative contributions. He said that the asset mix is on target. He reported that the Basic Funds underperformed its composite index for the quarter (Basic Funds -6.1% vs. Composite -5.6%) and for the year (Basic Funds -8.2% vs. Composite -8.1%). In response to a question from Mr. Norstrom, Mr. Bicker said that the negative contributions are due to more people retiring.

Mr. Bicker reported that the market value of the Post Fund's assets decreased 7.2% for the quarter ending June 30, 2002 due to negative investment returns and negative contributions. He said the Post Fund asset mix is on target and that the Post Fund



underperformed its composite index for the quarter (Post Fund -6.6% vs. Composite -5.9%) and for the year (Post Fund -7.8% vs. Composite -7.4%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stocks -13.2% vs. Wilshire 5000 Investable 12.9%) and for the year (Domestic Stocks -18.0% vs. Wilshire 5000 Investable -17.3%). He said that the International Stock manager group outperformed its composite index for the quarter (International Stocks -2.0% vs. Int'l Composite -2.4%) and for the year (International Stocks -7.0% vs. Int'l Composite -8.7%). Mr. Bicker stated that the bond segment underperformed its target for the quarter (Bonds 2.8% vs. Lehman Aggregate 3.7%) and for the year (Bonds 8.2% vs. Lehman Aggregate 8.6%). He concluded his report with the comment that as of June 30, 2002, the SBI was responsible for over \$43 billion in assets.

### **Executive Director's Administrative Report**

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

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of the three active litigation cases. She stated that in the Mercury case, final settlement has been approved and that distribution should begin soon. She reported that motions to dismiss were argued for the McKesson case and that the State prevailed on that issue. She noted that the State did amend their motion with respect to the dismissal of some of the California statutory clause claims. She stated that two of the defendants have been charged criminally and that a stay of discovery is being sought. She said that in the Broadcom case discovery conferences are proceeding after the motions to dismiss were denied. Ms. Eller stated that the State has committed to initiating litigation against the issuers in WorldCom debt. She noted that several other funds have already initiated action and that the courts are determining whether these actions should be consolidated into the bankruptcy motion.

Mr. Bicker reported that staff is working on several projects that will be brought to the Board for approval over the next year. He noted that staff will be rebidding the accounting system. He said that an asset allocation review is in progress and that the state's Deferred Compensation Plan is being reconfigured. He stated that staff is working with MSRS regarding the potential availability of daily pricing for the accounts the SBI manages. He said that staff will also conduct an educational roundtable meeting on corporate governance issues in November. Mr. Bergstrom spoke briefly about the need, from MSRS' viewpoint, for daily pricing. He noted that the Deferred Compensation Plan is losing a lot of money to IRA's. He said that withdrawals are now much easier to do and that participants are unhappy having to wait up to a month to receive their funds when they can receive them immediately elsewhere.

In response to a question from Mr. Norstrom, Mr. Bicker stated that he is not participating in public discussions regarding companies moving offshore until the Board makes a formal policy regarding the issue and other corporate governance concerns.

### **Stock and Bond Manager Committee Report**

Mr. Troutman referred members to Tab C of the meeting materials and noted that there are no recommendations from the Committee this quarter. He briefly reviewed performance in general and Mr. Bicker commented on several equity and bond managers.

Ms. Yeomans cautioned Mr. Bicker and Mr. Bergstrom to take some precautions against participants being able to transfer money between US funds and international funds on a repeated daily or frequent basis. She noted it can create huge trading costs and impact the managers ability to invest the funds. Ms. Yeomans and Ms. Posey stated that a potential solution may be fair market pricing.

### **Alternative Investment Committee Report**

Mr. Gudorf referred members to Tab D of the meeting materials and stated that there are no recommendations from the Committee this quarter. Mr. McDonald and Mr. Bicker noted that the Committee will explore potential investment opportunities in smaller Minnesota venture capital and private equity funds. In response to questions from Ms. Mares, Mr. Bicker stated that the SBI will not be making direct investments and the types of funds will be more early stage venture capital funds. In response to questions from Mr. Troutman, Mr. Bicker clarified the target levels in alternative assets.

The meeting adjourned at 2:45 P.M.

Respectfully submitted,



Howard J. Bicker  
Executive Director

# Tab A

**LONG TERM OBJECTIVES**  
**Period Ending 9/30/2002**

<b>COMBINED FUNDS: \$29.9 Billion</b>	<b>Result</b>	<b>Compared to Objective</b>
<p><b>Provide Real Return (10 yr.)</b></p> <p>Provide returns that are 3-5 percentage points greater than inflation over the latest 10 year period.</p>	<b>7.9% (1)</b>	5.4 percentage points above CPI
<p><b>Exceed Composite Index (5 yr.)</b></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>	<b>1.1%</b>	0.1 percentage point above composite index
<p><b>Exceed Median Fund (5 yr.)</b></p> <p>Provide returns that are ranked in the top half of universe of public and corporate plans with over \$1 Billion in assets over the latest 5 year period.</p>	<b>73rd percentile (2)</b>	below the median fund in TUCS

<b>BASIC RETIREMENT FUNDS: \$14.9 Billion</b>	<b>Result</b>	<b>Compared to Objective</b>
<p><b>Exceed Composite Index (5 Yr.)</b></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>	<b>1.3%</b>	0.1 percentage point above target

<b>POST RETIREMENT FUND: \$15.0 Billion</b>	<b>Result</b>	<b>Compared to Objective</b>
<p><b>Exceed Composite Index (5 Yr.)</b></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>	<b>0.9%</b>	0.1 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, 2001

	Active (Basics)	Retired (Post)	Total (Combined)
<b>Liability Measures</b>			
1. Current and Future Benefit Obligation	\$25.0 billion	\$17.5 billion	\$42.5 billion
2. Accrued Liabilities	17.1	17.5	34.6
<b>Asset Measures</b>			
3. Current and Future Actuarial Value	\$25.8 billion	\$17.5 billion	\$43.3 billion
4. Current Actuarial Value	17.3	17.5	34.8
<b>Funding Ratios</b>			
Future Assets vs. Future Obligations (3 ÷ 1)	103%	100%	102%
Current Actuarial Value vs. Accrued Liabilities (4 ÷ 2)	101%	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: 2031

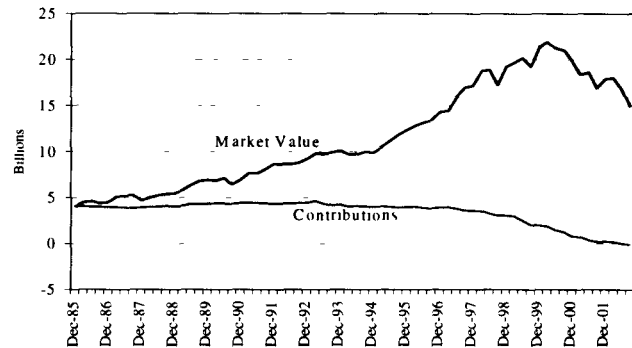
**EXECUTIVE SUMMARY**  
**Basic Retirement Funds (Net of Fees)**

**Asset Growth**

The market value of the Basic Funds decreased 11.1% during the third quarter of 2002. Negative investment returns and net contributions accounted for the decrease.

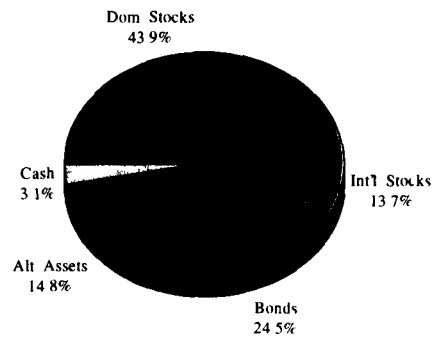
**Asset Growth**  
**During Third Quarter 2002**  
**(Millions)**

Beginning Value	\$ 16,741
Net Contributions	-119
Investment Return	-1,733
Ending Value	\$ 14,889



**Asset Mix**

During the quarter, funds were rebalanced from bonds and international equities to domestic equities, cash and alternative assets. The domestic stock allocation decreased due to negative returns, even with the rebalancing. The international stock allocation decreased due to negative returns and the rebalancing. The allocation to bonds decreased due to rebalancing to cash and domestic equities.



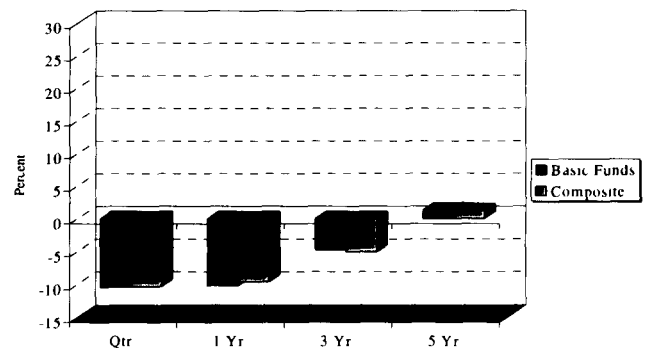
	Policy Targets	Actual Mix 9/30/2002	Actual Market Value (Millions)
Domestic Stocks	45.0%	43.9%	\$6,540
Int'l. Stocks	15.0	13.7	2,044
Bonds	24.0	24.5	3,644
Alternative Assets*	15.0	14.8	2,205
Unallocated Cash	1.0	3.1	456
	100.0%	100.0%	\$14,889

\* Any uninvested allocation is held in domestic stocks

**Fund Performance (Net of Fees)**

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

	Period Ending 9/30/2002			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basics	-10.4%	-10.1%	-4.8%	1.3%
Composite	-10.3	-9.6	-5.1	1.2



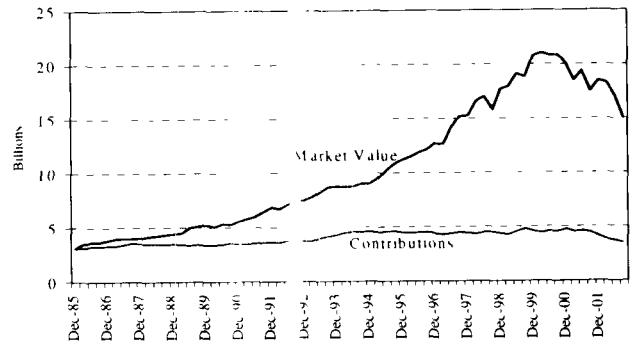
**EXECUTIVE SUMMARY**  
**Post Retirement Fund (Net of Fees)**

**Asset Growth**

The market value of the Post Fund decreased by 11.8% during the third quarter of 2002. Negative investment returns and net contributions accounted for the decrease.

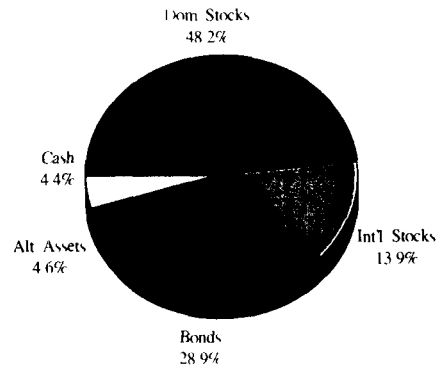
**Asset Growth**  
**During Third Quarter 2002**  
**(Millions)**

Beginning Value	\$16,995
Net Contributions	-173
Investment Return	-1,825
Ending Value	\$14,997



**Asset Mix**

During the quarter, funds were rebalanced from bonds and international equities to domestic equities, cash and alternative assets. The domestic stock allocation decreased due to negative returns, even with the rebalancing. The international stock allocation decreased due to negative returns and the rebalancing. The allocation to bonds decreased due to rebalancing to cash and domestic equities.



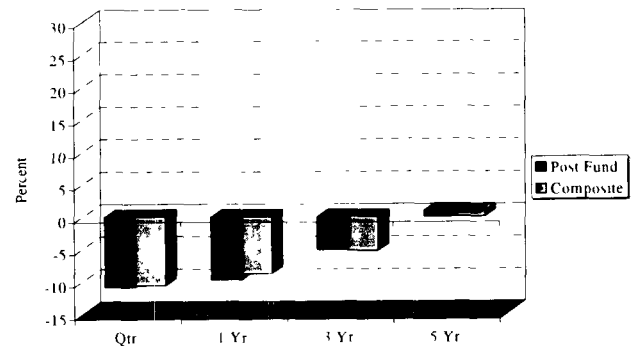
	Policy Targets	Actual Mix 9/30/2002	Actual Market Value (Millions)
Domestic Stocks	50.0%	48.2%	\$7,234
Int'l Stocks	15.0	13.9	2,090
Bonds	27.0	28.9	4,326
Alternative Assets*	5.0	4.6	685
Unallocated Cash	3.0	4.4	662
	100.0%	100.0%	\$14,997

\* Any uninvested allocation is held in bonds

**Fund Performance (Net of Fees)**

The Post Fund underperformed its composite market index for the quarter and one-year time periods and outperformed for all other time periods shown.

	Period Ending 9/30/2002			
	Qtr	1 Yr	3 Yr	5 Yr
Post	-10.9%	-9.7%	-5.1%	0.9%
Composite	-10.6	-8.8	-5.3	0.8



## EXECUTIVE SUMMARY

### Stock and Bond Manager Performance (Net of Fees)

#### Domestic Stocks

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

	Period Ending 9/30/2002			
	Qtr	1 Yr.	3 Yr.	5 Yr.
<b>Dom. Stocks</b>	<b>-17.2%</b>	<b>-18.8%</b>	<b>-12.7%</b>	<b>-2.7%</b>
Wilshire 5000 Investable*	-17.2	-18.2	-12.5	-2.6

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

#### International Stocks

The international stock manager group (active and passive combined) underperformed its target for the quarter and outperformed its target for all other time periods shown.

	Period Ending 9/30/2002			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Int'l. Stocks</b>	<b>-19.8%</b>	<b>-12.3%</b>	<b>-12.8%</b>	<b>-5.6%</b>
Composite Index*	-19.4	-13.6	-14.3	-6.2

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

#### Bonds

The bond manager group (active and passive combined) underperformed its target for the quarter.

	Period Ending 9/30/2002			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Bonds</b>	<b>3.6%</b>	<b>7.2%</b>	<b>9.2%</b>	<b>7.6%</b>
Lehman Agg.	4.6	8.6	9.5	7.8

**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.

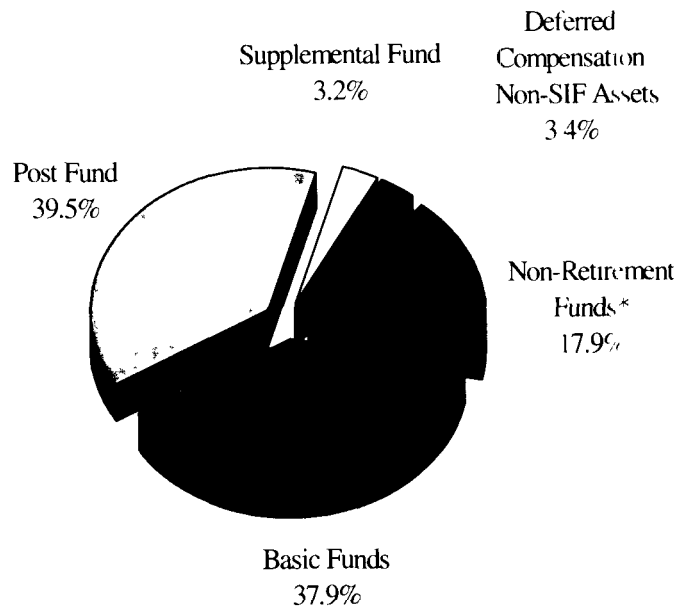
**Lehman Aggregate:** The Lehman Brothers Aggregate Bond Index reflects the performance of the broad bond market for investment grade (Baa or higher) bonds, U.S. treasury and agency securities, and mortgage obligations with maturities greater than one year.

**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



	<b>9/30/2002 Market Value (Billions)</b>
<b>Retirement Funds</b>	
Basic Retirement Funds	\$14.9
Post Retirement Fund	15.0
Supplemental Investment Fund	1.3
State Deferred Compensation Plan Non-SIF Assets	1.3
<b>Non-Retirement Funds*</b>	
Assigned Risk Plan	0.2
Permanent School Fund	0.5
Environmental Trust Fund	0.2
Tobacco Prevention Fund	0.4
Medical Education Fund	0.3
Academic Health Center Fund	0.2
State Cash Accounts	5.0
<b>Total</b>	<b>\$39.3</b>

# MINNESOTA STATE BOARD OF INVESTMENT

## QUARTERLY INVESTMENT REPORT

Third Quarter 2002  
(July 1, 2002 - September 30, 2002)

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## VARIOUS CAPITAL MARKET INDICES

Period Ending 9/30/2002

	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Domestic Equity</b>					
Wilshire 5000	-16.8%	-17.5%	-11.7%	-2.0%	8.7%
Dow Jones Industrials	-17.4	-12.5	-8.2	0.8	11.1
S&P 500	-17.3	-20.5	-12.9	-1.6	9.0
Russell 2000	-21.4	-9.3	-4.1	-3.2	8.0
<b>Domestic Fixed Income</b>					
Lehman Aggregate*	4.6	8.6	9.5	7.8	7.4
Lehman Gov't./Corp.	5.7	9.2	9.7	7.9	7.4
3 month U.S. Treasury Bills	0.4	1.8	4.1	4.5	4.5
<b>International</b>					
EAFE**	-19.7	-15.5	-14.6	-5.7	2.9
Emerging Markets Free***	-16.3	8.2	-10.1	-9.9	1.1
Salomon Non U.S. Gov't. Bond	2.8	10.5	2.1	3.6	5.1
<b>Inflation Measure</b>					
Consumer Price Index****	0.6	1.5	2.5	2.3	2.5

\* 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 US stock market, as represented by the Wilshire 5000, declined -16.8% during the third quarter. New lows were reached as investors worried about lower than expected profits, corporate governance and earnings quality, limited economic visibility, and the possibility of a war. No sector avoided negative returns for the quarter as healthcare and consumer staples stocks were the best performers with declines of -7.7% and -10.5%, respectively. Technology was the worst performing sector, declining -26%. Small value was the worst performing style for the third quarter, a reversal from the previous two quarters where it was the best performing style. In general, growth outperformed value and large stocks outperformed small in the third quarter.

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

Large Value	-18.7%
Small Value	-23.1
Large Growth	-14.4
Small Growth	-17.1

The Wilshire 5000 declined -17.5% for the year ending September 30, 2002.

DOMESTIC BONDS

The bond market posted a gain of 4.6% during the third quarter. Persistent concerns over the outlook for corporate profits and uncertainty over a confrontation with Iraq weighed on the equity markets during the quarter, and fueled a flight to bonds. As investors sought cover in Treasuries, interest rates declined significantly, with intermediate bond yields dropping over 100 basis points.

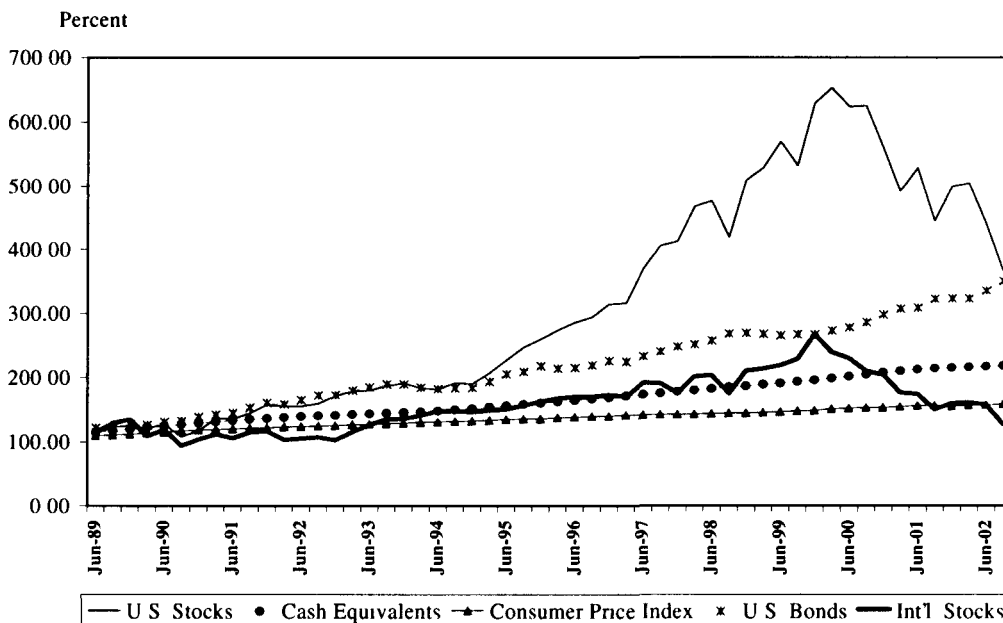
Higher quality corporate bonds generally participated in the rally as spreads widened only moderately. Lower quality Corporates continued to underperform the market. Mortgages underperformed as durations shortened appreciably, driven by the increased refinance incentive of still lower mortgage rates.

Overall, the Lehman Aggregate Bond index gained 4.6% during the third quarter. The sector returns for the Lehman Aggregate index were:

Treasury/Agency	6.7%
Credit	4.5
Mortgages	2.7

The Lehman Aggregate returned 8.6% for the year ending September 30, 2002.

PERFORMANCE OF CAPITAL MARKETS  
Cumulative returns



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

## FINANCIAL MARKETS REVIEW

### INTERNATIONAL STOCKS

In aggregate, developed international stock markets (as measured by the EAFE index) provided a return of -19.7% for the quarter. The quarterly performance of the five largest stock markets is shown below

United Kingdom	-17.3%
Japan	-12.1
France	-27.9
Switzerland	-17.9
Germany	-36.6

The EAFE index decreased by -15.5% during the last year

The EAFE index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 21 markets located in Europe, Australasia and the Far East. The major markets listed above comprise about 72% of the value of the international markets in the index

### EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of -16.4% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below.

Korea	-16.1%
Taiwan	-24.3
South Africa	-12.7
Mexico	-15.0
Brazil	-39.2

The Emerging Markets Free index increased by 7.9% during the last year

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

### REAL ESTATE

The lackluster performance in both the national and regional economies is contributing to the continued deterioration in property market fundamentals. In this real estate cycle, a significant decline in demand, rather than a gross excess supply as in past cycles, has been the culprit for rising vacancies and sublease space. Analysts expect more restrained supply to lead to improving fundamentals in 2003

### PRIVATE EQUITY

U.S. private equity firms raised \$10.3 billion for private equity limited partnerships of all types, from venture capital to buyouts in 2001. That represents a 40.8% decrease from the revised prior year total of \$17.4 billion and marks an end to seven consecutive years of increases in funds raised. The total raised through the first three quarters of 2002 was \$25.4 billion

### RESOURCE FUNDS

During the third quarter of 2002, West Texas Intermediate crude oil averaged \$28.25 per barrel, up from an average price of \$26.27 during the second quarter of 2002. The recent upward trend may reflect the relative instability in the Middle East

COMBINED FUNDS

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

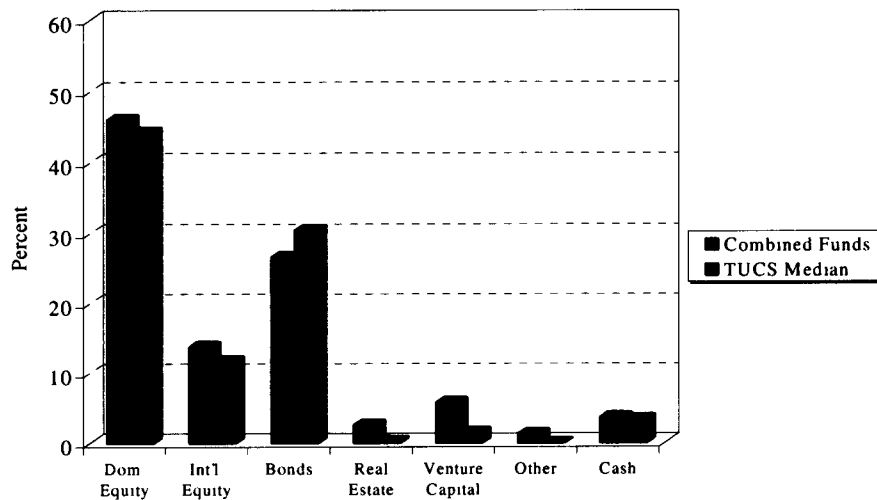
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over \$1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On September 30, 2002, the actual asset mix of the Combined Funds was:

	\$ Millions	%
Domestic Stocks	\$13,774	46.1%
International Stocks	4,134	13.8
Bonds	7,970	26.7
Alternative Assets	2,891	9.7
Unallocated Cash	1,118	3.7
<b>Total</b>	<b>\$29,887</b>	<b>100.0%</b>

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
<b>Combined Funds</b>	<b>46.1%</b>	<b>13.8%</b>	<b>26.7%</b>	<b>2.6%</b>	<b>5.8%</b>	<b>1.3%</b>	<b>3.7%</b>
Median Allocation in TUCS*	42.3	10.2	32.2	0.3	2.9	0.0	3.7

\* Public and corporate plans over \$1 billion.

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

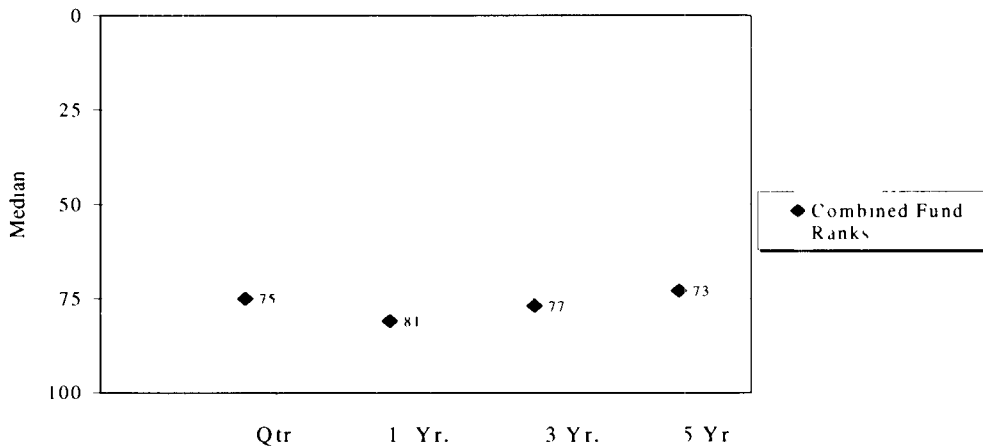
While the SBI is concerned with how its returns compare to other pension investors, universe comparisons should be used with great care. There are several reasons why such comparisons will provide an “apples to oranges” look at performance:

- **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 9/30/2002			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Combined Funds Percentile Rank in TUCS*	75th	81st	77th	73rd

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

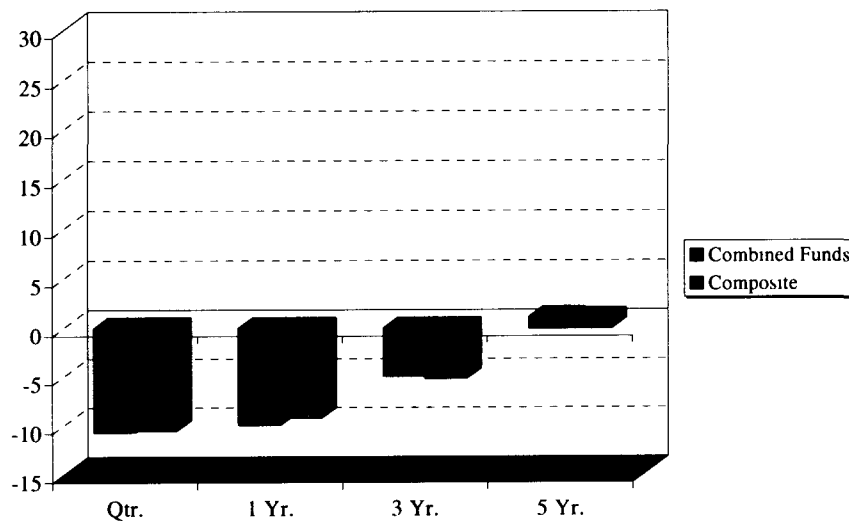
**COMBINED FUNDS**  
**Performance Compared to Composite Index**

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:

	<b>Market Index</b>	<b>Combined Funds Composite* 3Q02</b>
Domestic Stocks	Wilshire 5000 Investable	48.4%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	26.0*
Alternative Assets	Real Estate Funds	2.3*
	Private Equity Funds	5.1*
	Resource Funds	1.2*
Unallocated Cash	3 Month T-Bills	2.0
		100.0%

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



**Period Ending 9/30/2002**

	<b>Annualized</b>			
	<b>Qtr.</b>	<b>1 Yr.</b>	<b>3 Yr.</b>	<b>5 Yr.</b>
<b>Combined Funds**</b>	-10.6%	-9.9%	-4.9%	1.1%
<b>Composite Index</b>	-10.5	-9.2	-5.2	1.0

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



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## BASIC RETIREMENT FUNDS

### Investment Objectives

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

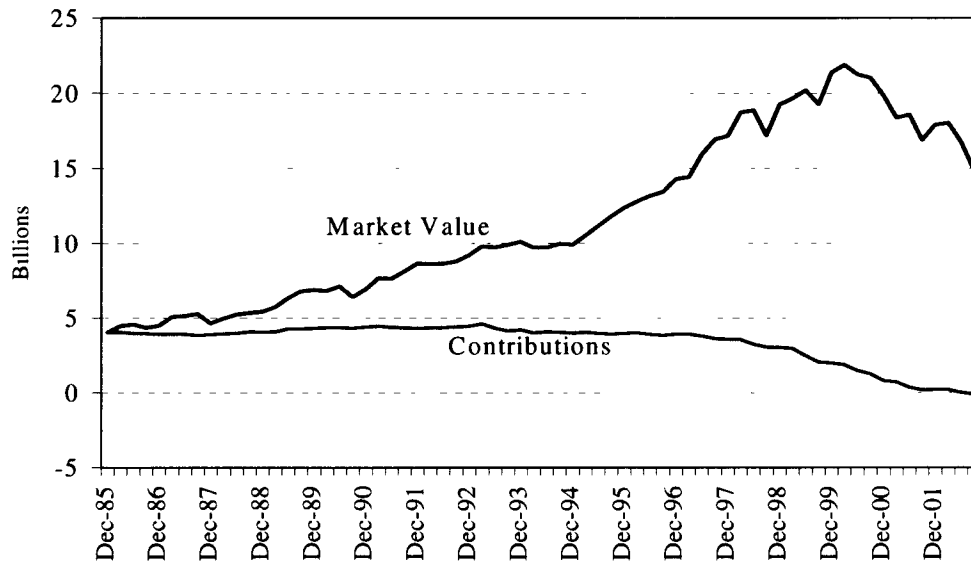
projected pension costs, the Basic Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

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 11.1% during the third quarter of 2002. Negative investment

returns and net contributions accounted for the decrease.



	Last Five Years							Latest Qtr.
	In Millions							
	12/97	12/98	12/99	12/00	12/01	3/02	6/02	9/02
Beginning Value	\$14,275	\$17,146	\$19,244	\$21,365	\$19,807	17,874	\$18,014	\$16,741
Net Contributions	-337	-539	-1,065	-1,186	-572	-14	-176	-119
Investment Return	3,208	2,637	3,186	-372	-1,361	154	-1,097	-1,733
Ending Value	\$17,146	\$19,244	\$21,365	\$19,807	\$17,874	\$18,014	\$16,741	\$14,889

**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.

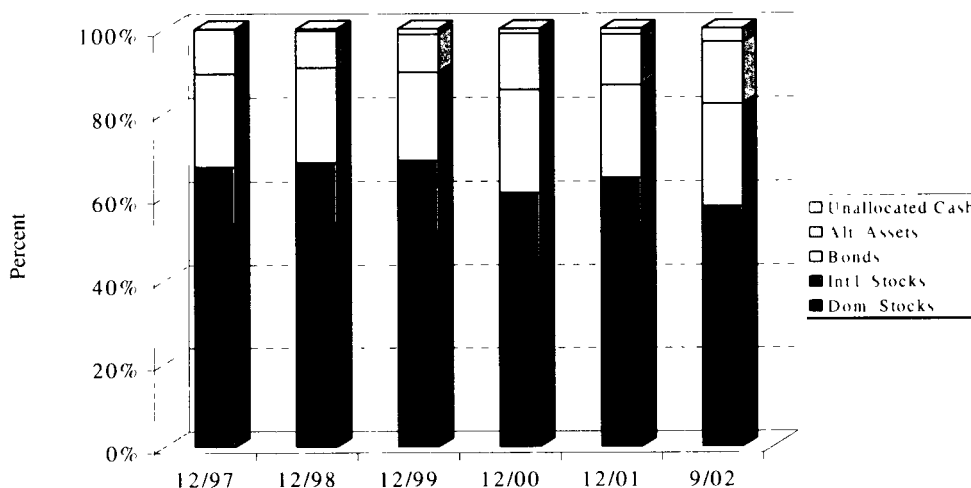
In October 1995, the Board revised its long term asset allocation targets for the Basic Funds, increasing international stocks from 10% to 15% and decreasing domestic stocks from 50% to 45%. The change was implemented over several quarters.

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 domestic stocks and international stocks increased due to rebalancing, despite negative returns. The bond allocation decreased due to rebalancing, although the returns were positive.

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

During the quarter, funds were rebalanced from bonds and international equities to domestic equities, cash and alternative assets. The domestic stock allocation decreased due to negative returns, even with the rebalancing. The international stock allocation decreased due to negative returns and the rebalancing. The allocation to bonds decreased due to rebalancing to cash and domestic equities.



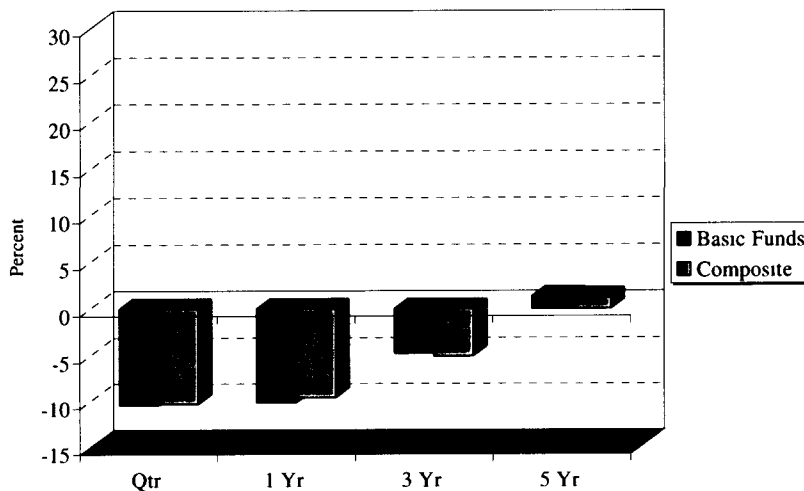
	Last Five Years					Latest Qtr.		
	12/97	12/98	12/99	12/00	12/01	3/02	6/02	9/02
Domestic Stocks	53.6%	53.8%	51.9%	44.3%	49.5%	49.6%	46.2%	43.9%
Int'l. Stocks	13.6	14.4	16.8	16.6	15.0	15.4	16.1	13.7
Bonds	22.2	22.6	21.0	24.7	22.1	22.1	24.2	24.5
Real Estate	4.1	3.7	3.5	4.1	3.4	3.4	3.6	3.9
Private Equity	5.0	4.4	4.8	8.0	7.4	7.4	8.0	9.1
Resource Funds	1.4	0.7	0.8	1.2	1.3	1.6	1.7	1.8
Unallocated Cash	0.1	0.4	1.2	1.1	1.3	0.5	0.2	3.1
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:

	<b>Basics Target</b>	<b>Market Index</b>	<b>Basics Composite* 3Q02</b>
Domestic Stocks	45.0%	Wilshire 5000 Investable	46.7%*
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Real Estate Funds	3.5*
		Private Equity Funds	8.1*
		Resource Funds	1.7*
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 9/30/2002

	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Basic Funds**</b>	<b>-10.4%</b>	<b>-10.1%</b>	<b>-4.8%</b>	<b>1.3%</b>
Composite Index	-10.3	-9.6	-5.1	1.2

\*\*Returns are reported net of fees.

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

**POST RETIREMENT FUND**

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

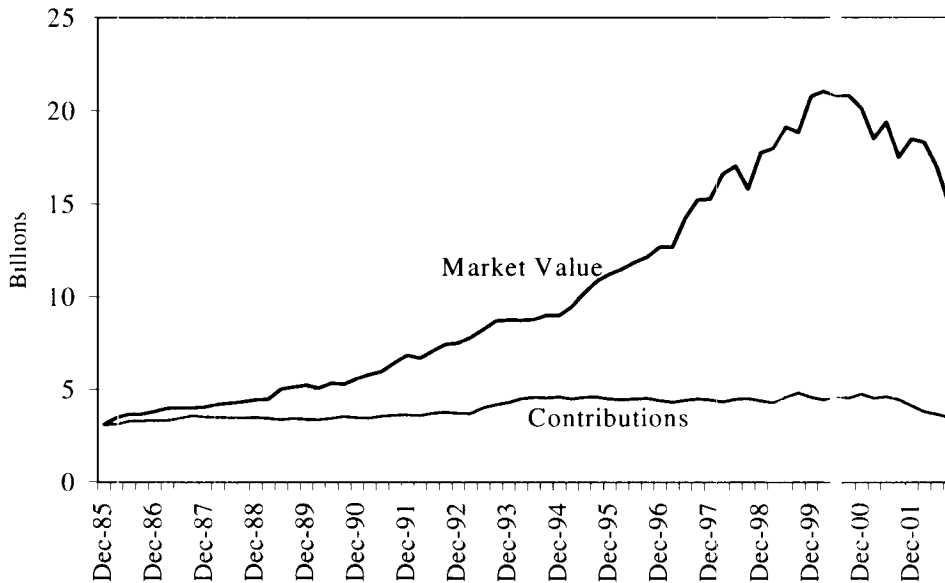
The post retirement benefit increase formula is based on the total return of the Fund. As a result, the Board maintains a long-term asset allocation strategy for the Post Fund which incorporates a substantial commitment to common stocks.

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 11.8% during the third quarter of 2002. Negative investment

returns and net contributions accounted for the decrease.



	Last Five Years							Latest Qtr.
	In Millions							
	12/97	12/98	12/99	12/00	12/01	3/02	6/02	9/02
Beginning Value	\$15,273	\$17,743	\$20,768	\$20,768	\$20,153	\$18,475	\$18,311	\$16,995
Net Contributions	-45	211	167	167	-647	-304	-134	-173
Investment Return	2,515	2,814	-782	-782	-1,031	141	-1,182	-1,825
Ending Value	\$17,743	\$20,768	\$20,153	\$20,153	\$18,475	\$18,311	\$16,995	\$14,997

**POST RETIREMENT FUND**

**Asset Mix**

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

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

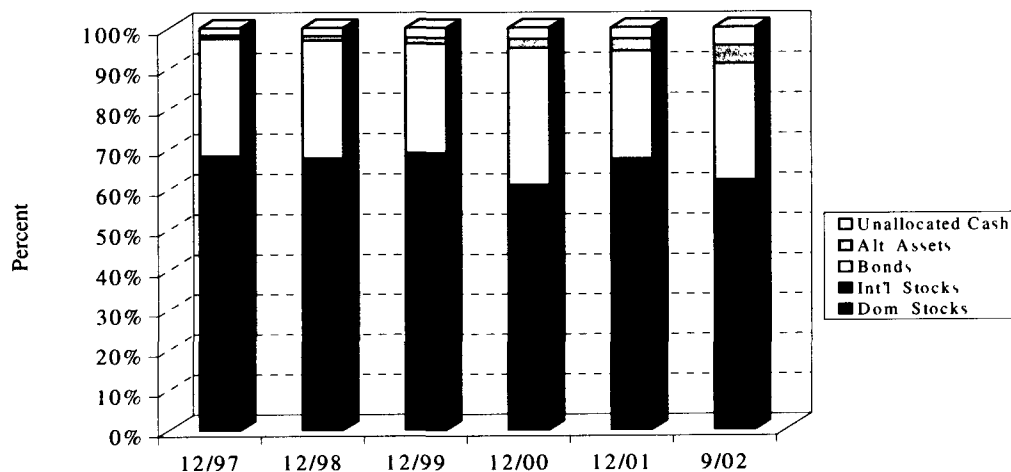
In October 1995, the Board revised its long term asset allocation targets for the Post Fund, increasing international stocks from 10% to 15% and decreasing bonds from 32% to 27%.

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

Over the last year, the allocation to domestic stocks and international stocks increased due to rebalancing, although the returns were negative. The bond allocation has decreased due to rebalancing, even with positive returns.

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

During the quarter, funds were rebalanced from bonds and international equities to domestic equities, cash and alternative assets. The domestic stock allocation decreased due to negative returns, even with the rebalancing. The international stock allocation decreased due to negative returns and the rebalancing. The allocation to bonds decreased due to rebalancing to cash and domestic equities.



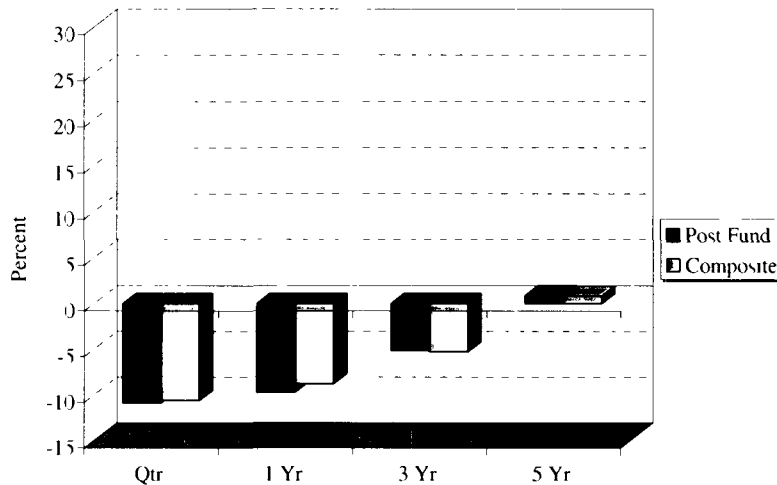
	Last Five years					Latest Qtr.		
	12/97	12/98	12/99	12/00	12/01	3/02	6/02	9/02
Dom. Stocks	54.7%	53.2	52.0%	47.5%	52.4%	52.9%	49.4%	48.2%
Int'l. Stocks	13.6	14.5	16.9	13.5	15.1	15.5	15.7	13.9
Bonds	29.1	29.2	27.2	34.0	26.7	26.8	30.0	28.9
Alt. Assets	0.9	1.1	1.5	2.3	3.1	3.1	4.0	4.6
Unallocated Cash	1.7	2.0	2.4	2.7	2.7	1.7	0.9	4.4
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* 3Q02
Domestic Stocks	50.0%	Wilshire 5000 Investable	50.0%
Int'l Stocks	15.0	Int'l. Composite	15.0
Bonds	27.0	Lehman Aggregate	28.0*
Alternative Assets	5.0	Real Estate Funds	1.1*
		Private Equity Funds	2.1*
		Resource Funds	0.8*
Unallocated Cash	3.0	3 Month T-Bills	3.0
	100.0%		100.0%

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



**Period Ending 9/30/2002**

	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.
<b>Post Fund**</b>	<b>-10.9%</b>	<b>-9.7%</b>	<b>-5.1%</b>	<b>0.9%</b>
Composite Index	-10.6	-8.8	-5.3	0.8

\*\* Returns are reported net of fees.

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

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

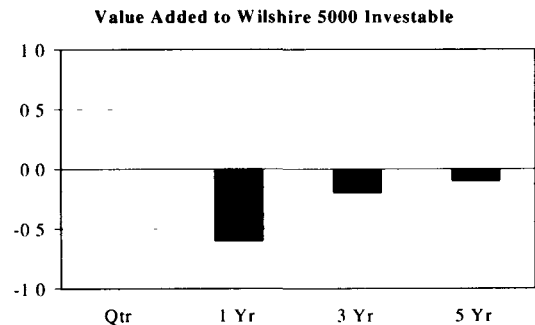
**Domestic Stocks**

**Target:** Wilshire 5000 Investable

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

	Period Ending 9/30/2002			
	Qtr.	1 Yr.	3 Yrs.	5 Yrs.
<b>Domestic Stocks</b>	<b>-17.2%</b>	<b>-18.8%</b>	<b>-12.7%</b>	<b>-2.7%</b>
W5000 Investable*	-17.2	-18.2	-12.5	-2.6

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



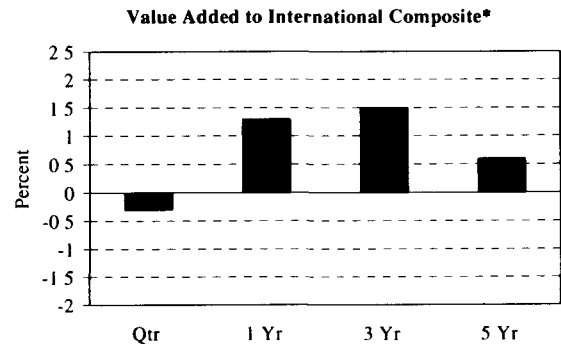
**International Stocks**

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

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

	Period Ending 9/30/2002			
	Qtr.	1 Yr.	3 Yrs.	5 Yrs.
<b>Int'l. Stocks</b>	<b>-19.8%</b>	<b>-12.3%</b>	<b>-12.8%</b>	<b>-5.6%</b>
Composite Index*	-19.4	-13.6	-14.3	-6.2

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

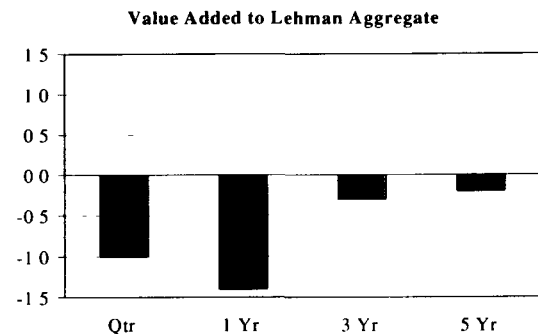


**Bonds**

**Target:** Lehman Brothers Aggregate Bond Index

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

	Period Ending 9/30/2002			
	Qtr.	1 Yr.	3 Yrs.	5 Yrs.
<b>Bonds</b>	<b>3.6%</b>	<b>7.2%</b>	<b>9.2%</b>	<b>7.6%</b>
Lehman Agg.	4.6	8.6	9.5	7.8





**ALTERNATIVE ASSET MANAGERS**  
**Performance of Asset Pools**  
**(Net of Fees)**

**Real Estate Pool (Basic Funds only)**

	Period Ending 9/30/2002			
	Qtr	Yr.	3 Yrs.	5 Yrs.
<b>Expectation:</b> Real estate investments are expected to exceed the rate of inflation by 3-5% annualized, over the life of the investment				
	Annualized			
	Qtr	Yr.	3 Yrs.	5 Yrs.
<b>Real Estate</b>	-0.5%	0.3%	9.3%	11.7%
<b>Inflation</b>	0.6	1.5	2.5	2.3

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.

**Private Equity Pool (Basic Funds only)**

	Period Ending 9/30/2002			
	Qtr.	Yr.	3 Yrs.	5 Yrs.
<b>Expectation:</b> 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				
	Annualized			
	Qtr.	Yr.	3 Yrs.	5 Yrs.
<b>Private Equity</b>	-2.4%	-12.5%	3.9%	9.8%

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.

**Resource Pool (Basic Funds only)**

	Period Ending 9/30/2002			
	Qtr	Yr.	3 Yrs.	5 Yrs.
<b>Expectation:</b> Resource investments (primarily oil and gas) are expected to exceed the rate of inflation by 3-5% annualized, over the life of the investment.				
	Annualized			
	Qtr	Yr.	3 Yrs.	5 Yrs.
<b>Resource Funds</b>	-0.7%	1.5%	15.3%	1.8%

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.

**Yield Oriented Pool (Post Fund only)**

	Period Ending 9/30/2002			
	Qtr	Yr.	3 Yrs.	5 Yrs.
<b>Expectation:</b> 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				
	Annualized			
	Qtr	Yr.	3 Yrs.	5 Yrs.
<b>Yield Oriented</b>	-1.6%	3.5%	10.8%	12.3%

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.

## 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, 2002 the market value of the entire Fund was \$1.3 billion.**

## Investment Options

	<b>9/30/2002 Market Value (In Millions)</b>
<b>Income Share Account</b> – a balanced portfolio utilizing both common stocks and bonds.	\$472
<b>Growth Share Account</b> – an actively managed, all common stock portfolio.	\$171
<b>Common Stock Index Account</b> – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	\$228
<b>International Share Account</b> – a portfolio of non U.S. stocks that incorporates both active and passive management.	\$36
<b>Bond Market Account</b> – an actively managed, all bond portfolio.	\$138
<b>Money Market Account</b> – a portfolio utilizing short-term, liquid debt securities.	\$100
<b>Fixed Interest Account</b> – 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.	\$109

## SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

## INCOME SHARE ACCOUNT

**Investment Objective**

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

**Asset Mix**

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

	Target	Actual
Stocks	60.0%	58.0%
Bonds	35.0	39.6
Unallocated Cash	5.0	2.4
	100.0%	100.0%

**Period Ending 9/30/2002**

	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Total Account</b>	<b>-9.1%</b>	<b>-9.4%</b>	<b>-4.2%</b>	<b>1.7%</b>
Composite*	-9.0	-8.1	-3.9	1.9

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

## GROWTH SHARE ACCOUNT

**Investment Objective**

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

**Asset Mix**

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

**Period Ending 9/30/2002**

	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Total Account</b>	<b>-17.2%</b>	<b>-19.1%</b>	<b>-13.0%</b>	<b>-3.0%</b>
Composite*	-17.2	18.2	-12.5	-2.6

\* 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 9/30/2002**

	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Total Account</b>	<b>-17.1%</b>	<b>-18.4%</b>	<b>-12.0%</b>	<b>-2.1%</b>
Wilshire 5000 Investable*	-17.2	18.2	-12.3	-2.4

\* 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 9/30/2002**

	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yrs.
<b>Total Account</b>	<b>-19.8%</b>	<b>-12.1%</b>	<b>-12.7%</b>	<b>-5.5%</b>
Composite*	-19.4	13.6	-14.3	-6.2

\* 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 9/30/2002			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Total Account</b>	<b>3.6%</b>	<b>7.3%</b>	<b>9.3%</b>	<b>7.6%</b>
Lehman Agg.	4.6	8.6	9.5	7.8

#### Asset Mix

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

### MONEY MARKET ACCOUNT

#### Investment Objective

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

	Period Ending 9/30/2002			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Total Account</b>	<b>0.5%</b>	<b>2.2%</b>	<b>4.6%</b>	<b>5.0%</b>
3 month T-Bills	0.4	1.8	4.1	4.5

#### 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 9/30/2002			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Total Account</b>	<b>1.4%</b>	<b>6.0%</b>	<b>6.2%</b>	<b>6.3%</b>
Benchmark*	0.7	3.6	5.0	5.2

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

#### Asset Mix

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

**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

	9/30/2002 Target	9/30/2002 Actual
Stocks	20.0%	13.6%
Bonds	80.0	86.4
Total	100.0%	100.0%

**Investment Management**

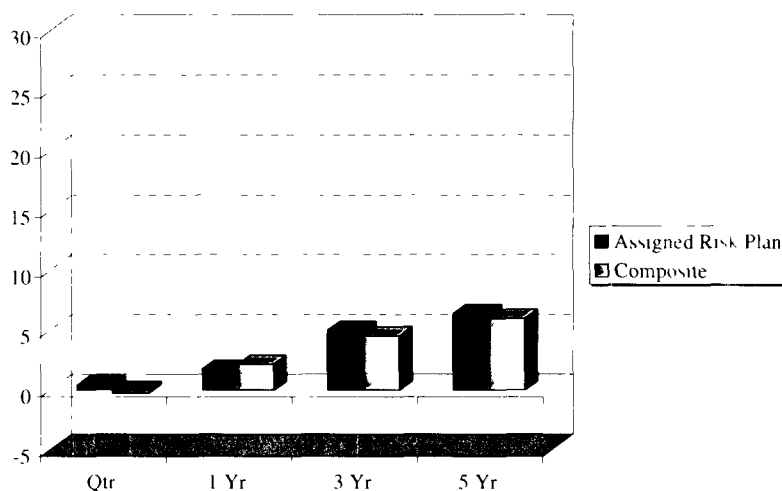
Voyageur Asset Management manages the bond segment of the Fund. GE Investment Management manages the equity segment

**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, 2002 the market value of the Assigned Risk Plan was \$222 million



**Period Ending 9/30/2002**

	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Total Fund*</b>	0.4%	1.8%	5.0%	6.4%
Composite	-0.3	2.2	4.5	6.0
<b>Equity Segment*</b>	-16.2	-18.5	-8.6	1.1
Benchmark	-17.3	-20.5	-12.9	-1.6
<b>Bond Segment*</b>	3.7	6.4	7.6	6.8
Benchmark	4.2	8.3	8.9	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.

	9/30/2002 Target	9/30/2002 Actual
Stocks	50.0%	47.7%
Bond	48.0	50.5
Unallocated Cash	2.0	1.8
Total	100.0%	100.0%

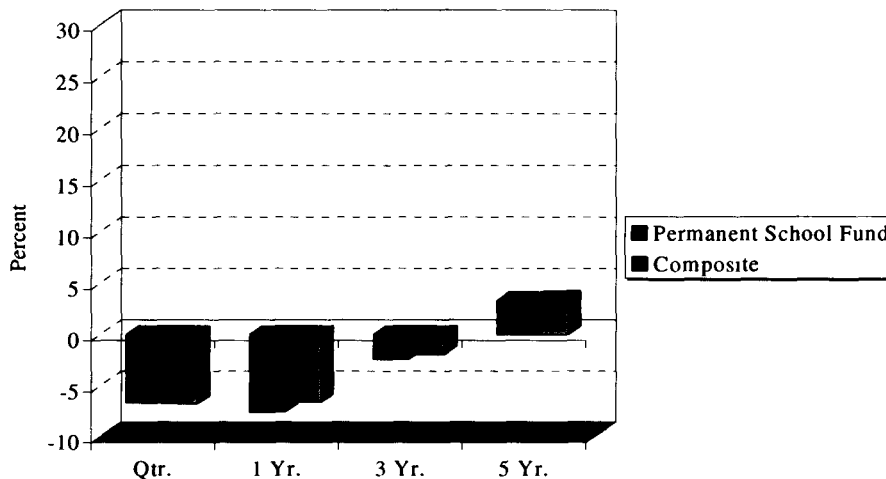
Prior to FY98, the Fund was invested entirely in fixed income securities in order to maximize current income. It is understood that the change in asset mix will reduce portfolio income in the short term, but will enhance the value of the fund, over time.

**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, 2002 the market value of the Permanent School Fund was \$470 million.



	Period Ending 9/30/2002			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Total Fund (1) (2)</b>	-6.7%	-7.6%	-2.4%	3.3%
Composite	-6.8	-6.6	-1.9	3.4
<b>Equity Segment (1) (2)</b>	-17.0	-20.4	-12.8	-1.5
S&P 500	-17.3	-20.5	-12.9	-1.6
<b>Bond Segment (1)</b>	4.4	6.8	9.0	7.7
Lehman Aggregate	4.6	8.6	9.5	7.8

(1) Actual returns are calculated net of fees.

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

ENVIRONMENTAL TRUST FUND

**Investment Objective**

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

**Asset Mix**

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

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

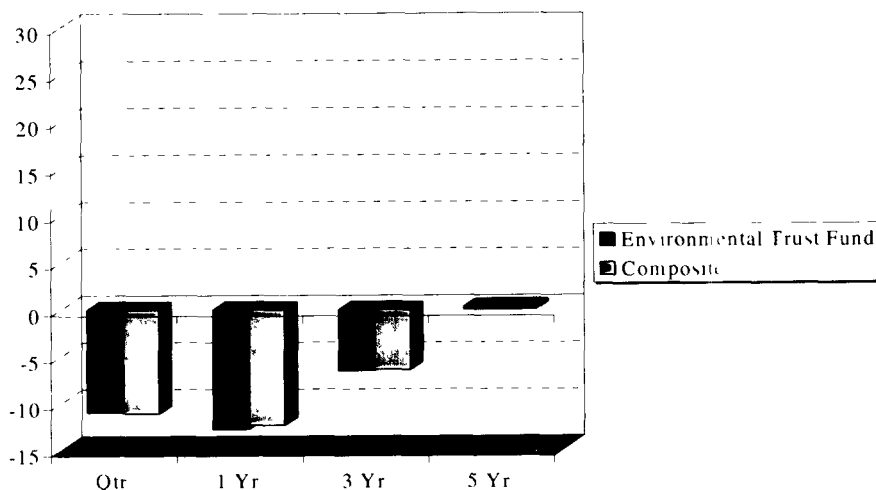
**Investment Management**

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

**Market Value**

On September 30, 2002 the market value of the Environmental Trust Fund was \$245 million

	9/30/2002 Target	9/30/2002 Actual
Stocks	70.0%	69.2%
Bonds	28.0	30.0
Unallocated Cash	2.0	0.8
Total	100.0%	100.0%



	Period Ending 9/30/2002			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Total Fund*</b>	-11.0%	-12.8%	-6.5%	0.3%
Composite	-11.1	-12.3	-6.4	0.3
<b>Equity Segment*</b>	-17.0	-20.4	-12.8	-1.5
S&P 500	-17.3	-20.5	-12.9	-1.6
<b>Bond Segment*</b>	4.4	6.8	9.0	7.7
Lehman Agg	4.6	8.6	9.5	7.8

\* 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.

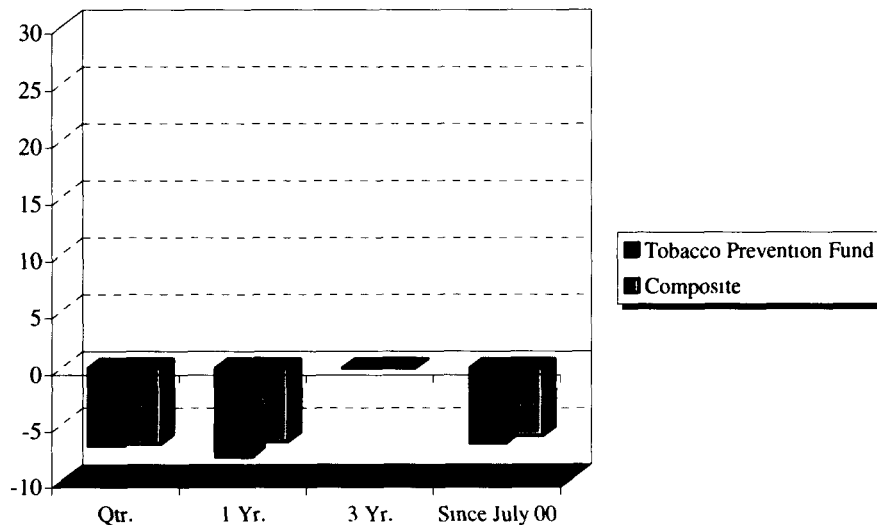
**Investment Management**

SBI staff manages all assets of the Tobacco Prevention Fund.

**Market Value**

On September 30, 2002 the market value of the Tobacco Prevention Fund was \$428 million.

	9/30/2002 Target	9/30/2002 Actual
Stocks	50.0%	50.9%
Bonds	50.0	48.8
Unallocated Cash	0.0	0.3
Total	100.0%	100.0%



**Period Ending 9/30/2002**

	Qtr.	1 Yr.	3 Yr.	Since 7/1/00
<b>Total Fund*</b>	-6.9%	-7.8%	N/A	-6.6%
Composite	-6.7	-6.5	N/A	-6.0
<b>Equity Segment*</b>	-17.0	-20.4	N/A	-21.5
S&P 500	-17.3	-20.5	N/A	-21.6
<b>Bond Segment*</b>	4.4	6.8	N/A	10.2
Lehman Agg.	4.6	8.6	N/A	11.0

\* Actual returns are calculated net of fees.



**MEDICAL EDUCATION FUND**

**Investment Objectives**

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

**Asset Mix**

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

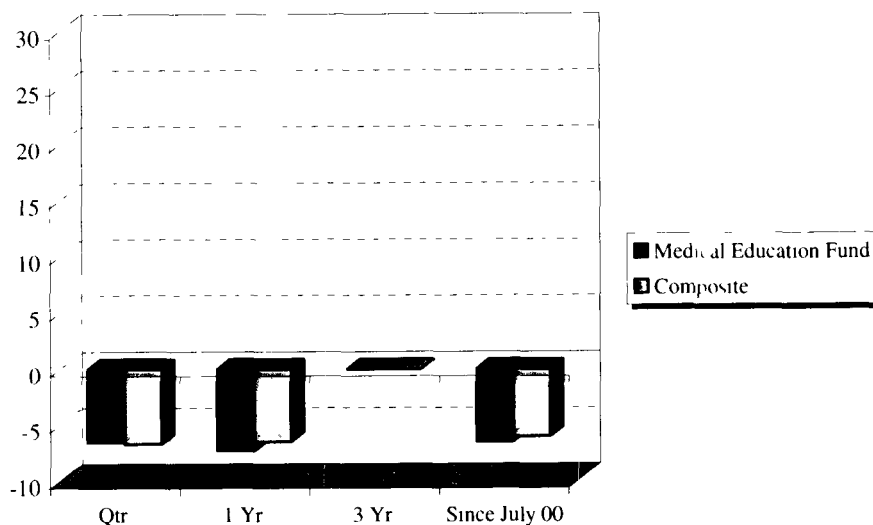
**Investment Management**

SBI staff manages all assets of the Medical Education Fund.

**Market Value**

On September 30, 2002 the market value of the Medical Education Fund was \$275 million

	9/30/2002 Target	9/30/2002 Actual
Stocks	50.0%	52.0%
Bonds	50.0	47.7
Unallocated Cash	0.0	0.3
Total	100.0%	100.0%



**Period Ending 9/30/2002**

	Qtr.	1 Yr.	3 Yr.	Since 7/1/00
<b>Total Fund*</b>	-6.5%	-7.3%	N/A	-6.5%
Composite	-6.7	-6.5	N/A	-6.0
<b>Equity Segment*</b>	-17.0	-20.4	N/A	-21.5
S&P 500	-17.3	-20.5	N/A	-21.6
<b>Bond Segment*</b>	4.4	6.8	N/A	10.2
Lehman Agg.	4.6	8.6	N/A	11.0

\* Actual returns are calculated net of fees.

**ACADEMIC HEALTH CENTER FUND**

**Investment Objectives**

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

**Asset Mix**

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

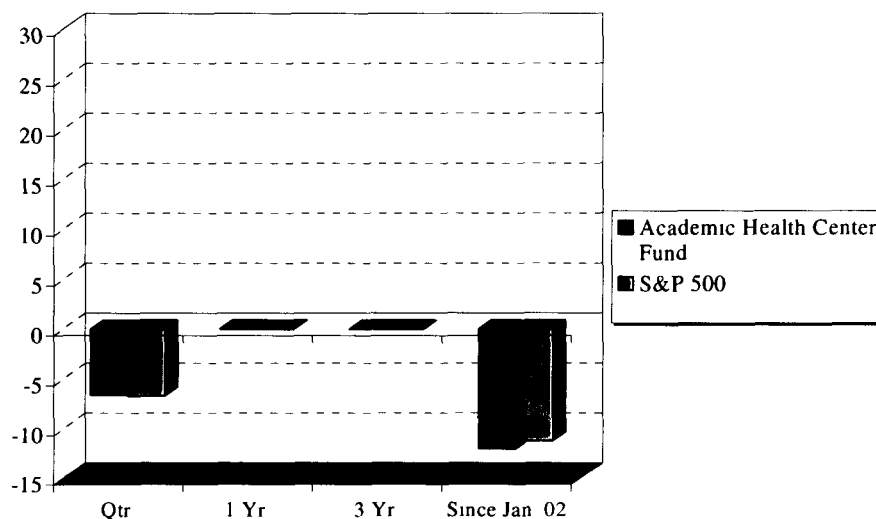
**Investment Management**

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

**Market Value**

On September 30, 2002 the market value of the Medical Education Fund was \$193 million.

	9/30/2002 Target	9/30/2002 Actual
Stocks	50.0%	47.9%
Bonds	50.0	51.8
Unallocated Cash	0.0	0.3
Total	100.0%	100.0%



**Period Ending 9/30/2002**

	Qtr.	1 Yr.	3 Yr.	Since 1/1/02
<b>Total Fund*</b>	-6.6%	N/A	N/A	-12.0%
Composite	-6.7	N/A	N/A	-11.2
<b>Equity Segment*</b>	-17.0	N/A	N/A	-27.9
S&P 500	-17.3	N/A	N/A	-28.2
<b>Bond Segment*</b>	4.4	N/A	N/A	6.3
Lehman Agg.	4.6	N/A	N/A	8.5

\* 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**

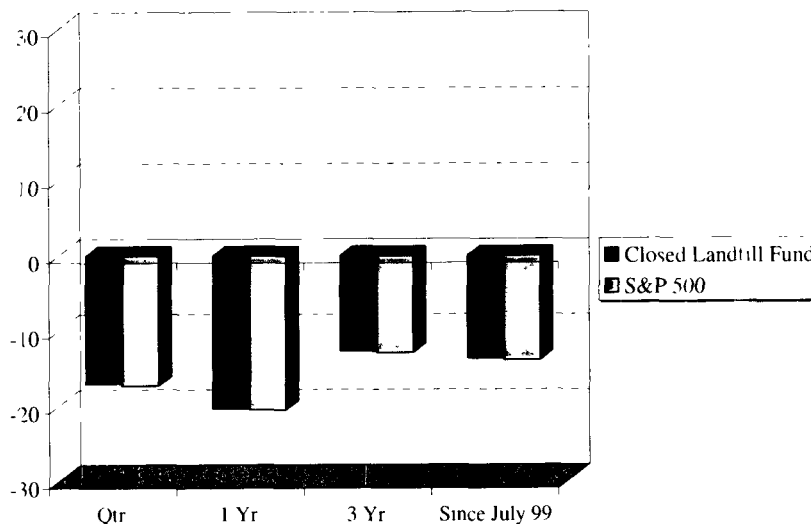
SBI staff manage all assets of the Closed Landfill Investment Fund. The assets are managed to passively track the performance of the S&P 500 index.

**Market Value**

On September 30, 2002, the market value of the Closed Landfill Investment Fund was \$13.8 million.

**Asset Mix**

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



	Period Ending 9/30/2002			
	Qtr.	1 Yr.	3 Yr.	Since 7/1/99
<b>Total Fund (1)</b>	-17.0%	-20.3%	-12.7%	-13.7%
<b>S&amp;P 500 (2)</b>	-17.3	-20.5	-12.9	-13.9

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

## STATE CASH ACCOUNTS

**Description**

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

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

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

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

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

**Investment Objectives**

**Safety of Principal.** To preserve capital.

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

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

**Asset Mix**

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

**Investment Management**

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

	Market Value (Millions)	Period Ending 9/30/2002			
		Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Treasurer's Cash Pool*</b>	<b>\$4,213</b>	<b>0.6%</b>	<b>2.4%</b>	<b>5.1%</b>	<b>5.3%</b>
Custom Benchmark**		0.6	2.0	4.7	4.8
<b>Trust Fund Cash Pool*</b>	<b>\$44</b>	<b>0.5</b>	<b>2.0</b>	<b>4.6</b>	<b>5.0</b>
Custom Benchmark***		0.3	1.5	3.9	4.3
3 month T-Bills		0.4	1.8	4.1	4.5

\* Actual returns are calculated net of fees.

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

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

**MINNESOTA STATE BOARD OF INVESTMENT**

**Composition of State Investment Portfolios By Type of Investment**

Market Value September 30, 2002 (in Thousands)

	Cash and Short term Securities	Bonds		Stocks		External Int'l	Alternative Assets	Total
		Internal	External	Internal	External			
<b>BASIC RETIREMENT FUNDS:</b>								
Teachers Retirement Fund	167,730 3.03%	0	1,354,047 24.48%	0	2,433,801 43.99%	760,196 13.74%	816,441 14.76%	5,532,215 100%
Public Employees Retirement Fund	112,927 3.05%	0	907,239 24.49%	0	1,628,288 43.95%	509,234 13.74%	547,458 14.77%	3,705,146 100%
State Employees Retirement Fund	102,725 3.09%	0	813,808 24.46%	0	1,457,288 43.80%	455,022 13.68%	498,025 14.97%	3,326,868 100%
Public Employees Police & Fire	57,136 3.05%	0	458,574 24.49%	13 0.00%	822,863 43.93%	257,306 13.74%	277,089 14.79%	1,872,981 100%
Highway Patrol Retirement Fund	5,808 3.05%	0	46,699 24.49%	0	83,825 43.95%	26,218 13.75%	28,157 14.76%	190,707 100%
Judges Retirement Fund	704 3.05%	0	5,661 24.49%	0	10,160 43.95%	3,178 13.75%	3,413 14.76%	23,116 100%
Correctional Employees Retirement	6,211 3.05%	0	49,937 24.49%	0	89,637 43.95%	28,036 13.75%	30,110 14.76%	203,931 100%
Public Employees Correctional	2,588 7.61%	0	7,935 23.33%	0	14,244 41.89%	4,455 13.10%	4,784 14.07%	34,006 100%
<b>TOTAL BASIC FUNDS</b>	<b>455,829 3.06%</b>	<b>0</b>	<b>3,643,900 24.47%</b>	<b>13 0.00%</b>	<b>6,540,106 43.93%</b>	<b>2,043,645 13.73%</b>	<b>2,205,477 14.81%</b>	<b>14,888,970 100%</b>
<b>POST RETIREMENT FUND</b>	<b>662,219 4.41%</b>	<b>0</b>	<b>4,326,204 28.85%</b>	<b>0</b>	<b>7,233,605 48.23%</b>	<b>2,090,423 13.94%</b>	<b>685,147 4.57%</b>	<b>14,997,598 100%</b>
<b>TOTAL BASIC AND POST</b>	<b>1,118,048 3.74%</b>	<b>0</b>	<b>7,970,104 26.67%</b>	<b>13 0.00%</b>	<b>13,773,711 46.09%</b>	<b>4,134,068 13.83%</b>	<b>2,890,624 9.67%</b>	<b>29,886,568 100%</b>

	Cash and Short term Securities		Bonds		Bonds		Stocks		Stocks		External Int'l		Alternative Assets		Total	
			Internal	External	Internal	External	Internal	External	Internal	External	Int'l		Assets			
<b>MINNESOTA SUPPLEMENTAL FUNDS:</b>																
Income Share Account	11,367	186,853	0	0	0	0	0	0	0	0	0	0	0	0	471,929	
	2.41%	39.59%						58.00%							100%	
Growth Share Account	0	0	0	0	0	0	0	171,413	0	0	0	0	0	0	171,413	
								100.00%							100%	
Money Market Account	30,004	0	0	0	0	0	0	0	0	0	0	0	0	0	30,004	
	100.00%														100%	
Common Stock Index	0	0	0	0	0	0	0	227,626	0	0	0	0	0	0	227,626	
								100.00%							100%	
Bond Market Account	0	0	0	137,598	0	0	0	0	0	0	0	0	0	0	137,598	
				100.00%											100%	
International Share Account	0	0	0	0	0	0	0	0	0	35,711	0	0	0	0	35,711	
										100.00%					100%	
Fixed Interest Account	1,464	0	0	107,645	0	0	0	0	0	0	0	0	0	0	109,109	
	1.34%			98.66%											100%	
Money Market Deferred Comp	69,519	0	0	0	0	0	0	0	0	0	0	0	0	0	69,519	
	100.00%														100%	
<b>TOTAL SUPPLEMENTAL FUNDS</b>																
	112,354	186,853	0	245,243	0	0	0	672,748	0	35,711	0	35,711	0	0	1,252,909	
	8.97%	14.91%		19.57%				53.69%		2.85%					100%	
<b>MN DEFERRED COMP PLAN *</b>																
	0	0	0	700,827	0	0	0	581,284	0	67,663	0	67,663	0	0	1,349,774	
				51.92%				43.07%		5.01%					100%	
<b>TOTAL RETIREMENT FUNDS</b>																
	1,230,402	186,853	8,916,174	8,916,174	13	15,027,743	4,237,442	2,890,624	32,489,251							
	3.79%	0.58%	27.44%	27.44%	0.00%	46.25%	13.04%	8.90%	8.90%							

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

	Cash and Short Term Securities		Bond		Bond		Stock		Stock		Alternative Assets		Total
			Internal	External	Internal	External	Internal	External	Int'l	External	Assets		
<b>ASSIGNED RISK PLAN</b>	22,513	10.15%	0	169,688	0	29,608	0	29,608	0	0	0	221,809	100%
				76.50%		13.35%							
<b>ENVIRONMENTAL FUND</b>	1,925	0.79%	73,480	0	169,123	0	169,123	0	0	0	0	244,528	100%
			30.05%		69.16%								
<b>PERMANENT SCHOOL FUND</b>	8,618	1.83%	237,388	0	223,899	0	223,899	0	0	0	0	469,905	100%
			50.52%		47.65%								
<b>TOBACCO SETTLEMENT POOL</b>	2,958	0.33%	460,887	0	432,618	0	432,618	0	0	0	0	896,463	100%
			51.41%		48.26%								
<b>CLOSED LANDFILL INVESTMENT</b>	23	0.17%	0	0	13,818	0	13,818	0	0	0	0	13,841	100%
					99.83%								
<b>TREASURERS CASH</b>	4,194,924	100.00%	0	0	0	0	0	0	0	0	0	4,194,924	100%
<b>HOUSING FINANCE AGENCY</b>	107,357	35.41%	195,841	0	0	0	0	0	0	0	0	303,198	100%
			64.59%										
<b>MINNESOTA DEBT SERVICE FUND</b>	58,144	24.51%	179,058	0	0	0	0	0	0	0	0	237,202	100%
			75.49%										
<b>MISCELLANEOUS ACCOUNTS</b>	90,388	35.42%	142,399	0	22,443	0	22,443	0	0	0	0	255,230	100%
			55.79%		8.79%								
<b>GRAND TOTAL</b>	5,717,252	14.54%	1,475,906	9,085,862	861,914	15,057,351	4,237,442	2,890,624	4,237,442	10.78%	7.35%	39,326,351	100%
			3.75%	23.10%	2.19%	38.29%	10.78%	7.35%					

# **Tab B**



# **EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT**

DATE: November 25, 2002

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 through October 31, 2002 is included as **Attachment A**.

A report on travel for the period from August 16, 2002 - November 15, 2002 is included as **Attachment B**.

## **2. Post Retirement Benefit Increase for FY02**

The Post Retirement benefit increase for FY02 will be .745%. The increase will be payable to eligible retirees effective January 1, 2003.

For FY 1993-1997 the "inflation cap" in the benefit increase formula was 3.5%. Beginning FY 1999, the "inflation cap" is 2.5%. The following shows the benefit increases for the past ten years:

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%
2002	0.7%

## **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 10, 2002.

#### **4. Results of FY02 Audit**

The Legislative Auditor is nearly finished with its financial audit of SBI operations for FY02. I should be able to provide a verbal report of the audit findings at the Board meeting on December 10, 2002.

#### **5. Draft of FY02 Annual Report**

A draft of the SBI's annual report for FY02 was sent to the Board members/designees and IAC members in late November. The final report will be distributed in January 2003.

#### **6. Tentative Meeting Dates for Calendar 2003**

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 2003 are:

<b>IAC</b>	<b>SBI</b>
<b>Tuesday, March 4, 2003</b>	<b>Wednesday, March 5, 2003</b>
<b>Tuesday, June 3, 2003</b>	<b>Wednesday, June 4, 2003</b>
<b>Tuesday, September 2, 2003</b>	<b>Wednesday, September 3, 2003</b>
<b>Tuesday, December 2, 2003</b>	<b>Wednesday, December 3, 2003</b>

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

**ATTACHMENT A**

**STATE BOARD OF INVESTMENT  
FISCAL YEAR 2003 ADMINISTRATIVE BUDGET REPORT  
GENERAL FUND APPROPRIATION  
FISCAL YEAR TO-DATE THROUGH OCTOBER 31, 2002**

<b>ITEM</b>	<b>FISCAL YEAR 2003 BUDGET</b>	<b>FISCAL YEAR 2003 EXPENDITURES</b>
<b>PERSONAL SERVICES</b>		
FULL TIME EMPLOYEES	\$ 2,023,035	\$ 578,936
SEVERENCE PAYOFF	22,000	0
WORKERS COMPENSATION INSURANCE	1,000	876
MISCELLANEOUS PAYROLL	2,000	0
<b>SUBTOTAL</b>	<b>\$ 2,048,035</b>	<b>\$ 579,812</b>
<b>STATE OPERATIONS</b>		
RENTS & LEASES	192,000	62,082
REPAIRS/ALTERATIONS/MAINTENANCE	15,000	5,610
PRINTING & BINDING	15,000	3,359
PROFESSIONAL/TECHNICAL SERVICES	10,000	0
COMPUTER SYSTEMS SERVICES	10,000	2,537
COMMUNICATIONS	20,000	4,283
TRAVEL, IN-STATE	3,000	79
TRAVEL, OUT-STATE	65,000	13,275
SUPPLIES	40,000	5,957
EQUIPMENT	20,000	0
EMPLOYEE DEVELOPMENT	15,000	3,292
OTHER OPERATING COSTS	25,000	2,243
<b>SUBTOTAL</b>	<b>\$ 430,000</b>	<b>\$ 102,717</b>
<b>TOTAL GENERAL FUND</b>	<b>\$ 2,478,035</b>	<b>\$ 682,529</b>

**ATTACHMENT B****STATE BOARD OF INVESTMENT****Travel Summary by Date  
SBI Travel August 16, 2002 – November 15, 2002**

<b><u>Purpose</u></b>	<b><u>Name(s)</u></b>	<b><u>Destination and Date</u></b>	<b><u>Total Cost</u></b>
<b>Miscellaneous:</b> Retired Educators Association of Minnesota	J. Heidelberg	Duluth, MN 9/17	\$79.95
<b>Manager Monitoring:</b> <b>International Managers:</b> American Express Asset Mgmt.; Britannic Asset Mgmt., Inc.; UBS Global Asset Mgmt.; Marathon Asset Mgmt; T. Rowe Price Intl.;	L. Buermann S. Gleeson	London, UK Glasgow, UK 9/17-9/26	\$6,002.11
<b>Manager Monitoring:</b> <b>Emerging Markets Managers:</b> Schroders; Alliance Capital; Capital Intl.			
<b>Manager Search:</b> <b>International Developed Markets Managers:</b> J. P. Morgan; Delaware Int'l; Fidelity;			
<b>International Currency Managers</b> Bank of NY; Record Currency Mgmt.			
<b>Conference:</b> ILPA Annual Meeting and Conference	A. Christensen	Toronto, Canada 9/18-9/20	\$1,721.00
<b>Conference:</b> Council of Institutional Investors' Conference on Corporate Governance	J. Heidelberg	New York, NY 9/22-9/25	\$1,476.06

<u>Purpose</u>	<u>Name(s)</u>	<u>Destination and Date</u>	<u>Total Cost</u>
<b>Manager Monitoring:</b> <b>Emerging Equity Manager:</b> Voyageur Asset Mgmt. <b>Manager Monitoring:</b> <b>Domestic Equity Manager:</b> Barclays Global Investors; Lincoln Capital Mgmt.; UBS Global Asset Mgmt. <b>Consultant Visit:</b> Richards & Tierney <b>Conference:</b> BGI Client Conference	J. Matz	Chicago, IL 9/25-9/27	\$677.30
<b>Conference:</b> NASIO Annual Conference	H. Bicker M. Perry	La Jolla CA 10/20-10/23	\$4,667.93
<b>Manager Monitoring:</b> <b>Deferred Compensation</b> <b>Plan Manager:</b> Great-West; Invesco; Janus	J. Heidelberg T. Brusehaver-Derby	Denver, CO 10/22-10/23	\$738.67
<b>Manager Monitoring:</b> <b>Emerging Equity Manager:</b> Earnest Partners <b>Conference:</b> Factset PMW User Conference	J. Matz	11/6-11 8 Atlanta GA	\$399.00
<b>Conference:</b> Investment Leadership Conference	M. Perry	11/10-11/12 Phoenix, AZ	\$487.00

# Tab C



**CAROL C. JOHNSON**  
Minnesota State Treasurer

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DATE: November 25, 2002

TO: Members, State Board of Investment

FROM: Carol C. Johnson, Chair  
Administrative Committee

**SUBJECT: Report from the SBI Administrative Committee**

The Administrative Committee met on November 14, 2002 to consider the following agenda:

- Review of SBI Biennial Budget Request.
- Review of Potential SBI 2003 Legislative Session Issues.
- Review of Executive Director's Salary.

**1. Review of SBI Biennial Budget Request.**

As a state agency, the SBI's administrative budget is part of the State's biennial budget process and will be presented to the 2003 Legislature as part of the Governor's proposed budget.

A draft of the SBI's biennial budget document is attached for your review. It has been prepared in accordance with Department of Finance guidelines.

The General Fund appropriation is \$2,408,000 each year which is a "no change" base level of funding. Please note that approximately 90% of the SBI's General Fund appropriation is billed back to the statewide retirement funds and non-General Fund cash accounts. The General Fund appropriation not recovered by the bill-back provision represents the portion of the SBI's budget that is associated with the investment of the General Fund portion of the Invested Treasurer's Cash Fund.

**RECOMMENDATION:**

**The SBI Administrative Committee recommends that the SBI approve the FY2004-2005 budget request which begins on page 5 and authorize the Executive Director to seek its approval during the 2003 Legislative Session.**

## **2. Review of Potential SBI 2003 Legislative Session Issues.**

Staff is considering certain technical and administrative changes for the Supplemental Investment Fund (SIF) and the State 457 Deferred Compensation Plan that may require technical amendments to applicable statutes. At this time it is not clear which legislative changes, if any, need to be made. Any necessary modifications will be developed with the assistance of legal counsel as staff works through administrative issues needed to implement daily pricing for SIF accounts. Staff will report back to the Board at its March 2003 meeting on the language that is introduced.

The boards of the three statewide retirement systems intend to have a bill introduced to grant them the authority to set salaries of the retirement fund directors within limits established by the legislature. We have been asked if the SBI would like to be included in this legislative proposal.

### **RECOMMENDATION:**

**The SBI Administrative Committee recommends that the SBI authorize staff to request legislation be introduced to implement any technical changes to statutes that may be needed to establish daily pricing for funds participating in the State's 457 Deferred Compensation Plan.**

**In addition, the Administrative Committee recommends that the SBI authorize staff to work with the statewide retirement systems boards to prepare a legislative proposal to include the SBI in a bill seeking to grant the respective retirement boards and the SBI the authority to set salaries for their respective directors within limits established by the Legislature.**

## **3. Review of Executive Director's Salary.**

In accordance with action approved by the SBI at its September 1997 meeting, the SBI Administrative Committee is authorized to review the Executive Director's salary no less than annually and report its recommendation to the SBI

By law the Executive Director's compensation can equal up to 95% of the Governor's salary, or \$114,280. The Executive Director's current salary is \$110,560 which is less than the 95% level of the Governor's salary as set by statute. The Committee reviewed the Executive Director's salary in relationship to his peer group around the nation. The Committee recommended that the Executive Director's salary be increased to the maximum allowed by statute.

### **RECOMMENDATION:**

**The SBI Administrative Committee recommends that the SBI recommend to the Legislative Coordinating Commission (LCC) that the salary rate for the SBI Executive Director be 95% of the Governor's salary effective July 1, 2002. Further, the Committee recommends that the SBI delegate authority to the**



**Chair of the SBI Administrative Committee to take all administrative steps necessary to implement this recommendation. This includes, but is not limited to, consulting with the Commissioners of Employee Relations, Finance and Administration as required in the law and transmitting the recommendation of the SBI to the LCC.**

### Agency Purpose

The State Board of Investment (SBI) develops and implements investment policies and strategies for the state's retirement funds, trust funds, and cash accounts. The statutory mission of the SBI is "to establish standards which will insure that state and pension assets...will be responsibly invested to maximize the total rate of return without incurring undue risk." (M.S. Section 11A.01).

### Core Functions

All activities of the board are governed by M.S. Chapter 11A and Chapter 356A. To meet the goals established therein, the SBI must:

- ◆ establish and periodically update the investment objectives, asset allocation, and investment management structure for each of the funds;
- ◆ seek and retain superior money managers to manage the assets of each fund;
- ◆ monitor and evaluate investment performance to insure investment objectives are met;
- ◆ assess developments in the broad financial markets and evaluate their potential impact on operations and policies; and
- ◆ communicate its investment policies to clients and constituents

The board retains an executive director, an internal investment management staff, and external investment managers to execute its policies. In performing its duties, the board is assisted by the Investment Advisory Council (IAC), which is composed of 17 persons with investment and retirement fund expertise. With assistance from the IAC, SBI staff:

- ◆ recommends strategic planning alternatives to the board and council and executes board decisions,
- ◆ provides internal management for the Permanent School Fund, Environmental Trust Fund, Tobacco Settlement Pool, and State Cash accounts;
- ◆ monitors the performance of all external managers retained by the board, and
- ◆ reviews prospective investment vehicles for legislative consideration.

### Operations

Investment activity is divided into two major areas; externally managed and internally managed funds. Each concentration requires different strategies and investment vehicles.

#### Externally Managed Funds

- ⇒ *The Basic Retirement Funds* invest the contributions of public employees and employers during the employees' years of public service. Approximately 256,000 employees in eight statewide retirement funds are in the Basic Funds. The goal is to act as a fiduciary, investing contributions to provide sufficient funds to finance promised benefits at retirement.
- ⇒ *The Post Retirement Fund* contains the assets of over 82,000 retired employees covered by the eight statewide retirement plans. Upon retirement, assets sufficient to finance fixed monthly annuities for the life of the retiree are transferred from the Basic Funds to the Post Fund. The SBI invests these assets to generate returns to maintain promised benefits and to generate additional returns that will provide benefit increases to retired public employees.
- ⇒ *The Supplemental Investment Fund* is a multi-purpose investment program that offers a range of investment options to state and local employees. It serves a wide range of participants and investment goals, and is, therefore, structured much like a family of mutual funds.
- ⇒ *The Assigned Risk Plan* is administered by the Department of Commerce to provide workers compensation insurance to companies unable to obtain private insurance. The goal is to match the projected liability stream while also maintaining adequate liquidity.

### At A Glance

The SBI, composed of five constitutional officers, provides investment management for the Basic Retirement Funds, Post Retirement Fund, Permanent School Fund, Environmental Trust Fund, Assigned Risk Plan, Tobacco Settlement Pool, Supplemental Investment Fund, Invested Treasurer's Cash, and approximately 50 other state cash accounts. On 6-30-01, assets managed by the board totaled \$49.0 billion.

The majority of the board's activity relates to investment of retirement funds (82%). Clients are the current and retired members of the three statewide retirement systems (PERA, TRA, MSRS). For cash accounts, the board's largest clients are the State Treasurer and the Department of Finance.

**Internally Managed Funds**

- ⇒ *The Permanent School Fund* is created by the Minnesota State Constitution and designated as a source of revenue for public schools. Income from the fund's assets is used to offset state school aid payments. The Permanent School Fund is invested in a balanced portfolio of common stocks and bonds.
- ⇒ *The Environmental Trust Fund* is created by the State Constitution and designed as a source of revenue for funding environmental projects. Currently the fund is invested in a portfolio with 70% common stocks and 30% fixed income
- ⇒ *The Tobacco Prevention Fund and the Medical Education Fund* are governed by the constraints and goals for the funds as established by statute. Annual earnings up to 5% of the market value of the funds may be distributed for expenditure. Effective 7-1-00, the two endowment funds have an asset allocation of 50% equity and 50% fixed income securities.
- ⇒ *The Closed Landfill Investment Fund* was created to provide the Pollution Control Agency with funds to pay the long-term costs of maintaining the integrity of landfills in Minnesota once they have been closed. The assets of the fund are unavailable for expenditure until after FY 2020. The Closed Landfill Investment Fund is invested entirely in common stock.
- ⇒ *State Cash Accounts* represent the cash balances in more than 400 individual accounts that flow through the Minnesota State Treasury. These accounts range in size from \$5,000 to over \$400 million, and are invested by SBI staff through two commingled short-term investment pools. The objectives of these pooled funds are to preserve capital, to provide a high level of current income, and to meet the cash needs of state government without the forced sale of securities at a loss.

**Key Measures**

Statutes establish investment goals for the Basic and Post Retirement funds. In addition, the board has set more exacting standards for investment returns. Performance has generally exceeded both statutory requirements and the board's investment performance targets at the total fund level. Below, returns for the investment of retirement funds are presented net of management fees and investment expenses.

**Summary of Investment Results for Retirement Funds**

Period Ending	6/30/01	Millions	Annualized 1Year (%)	3Years (%)	Annualized 5Years (%)
Basic Funds:		\$18,575	-7.4	4.5	11.2
Market composite			-8.4	4.5	10.7
Post Fund:		\$19,396	-6.9	4.2	10.3
Market composite			-8.0	4.2	9.7
Benefit increase			11.1	10.3	9.8

**Budget**

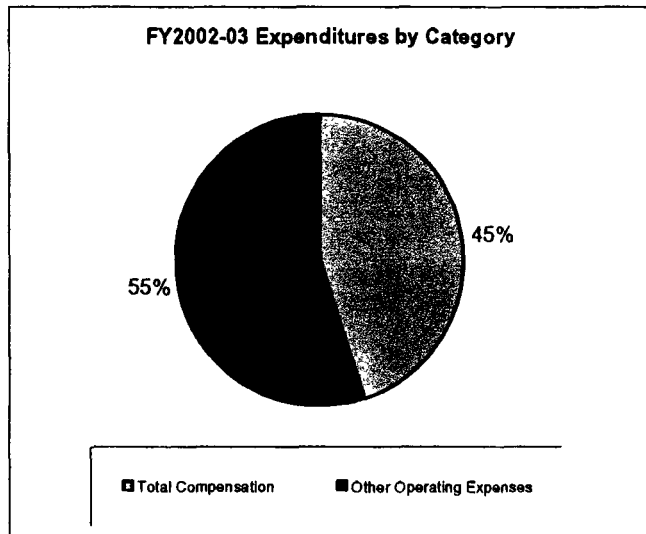
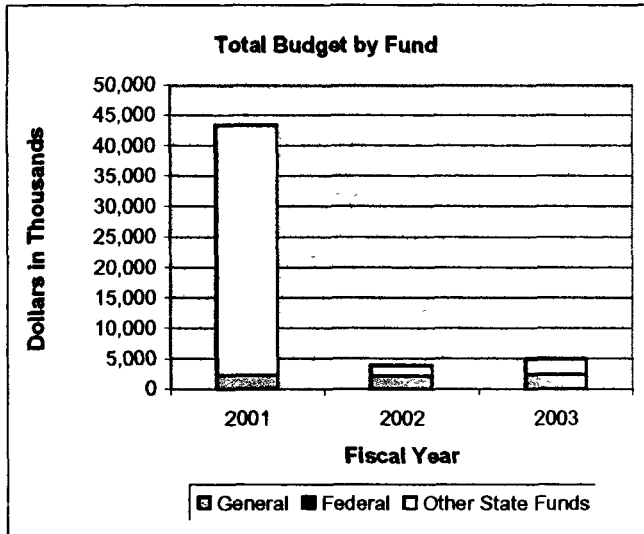
By statute, the SBI charges the statewide retirement funds and non-general fund cash accounts for approximately 90% of its General Fund appropriation. These receipts are deposited in the General Fund as non-dedicated revenue. The General Fund appropriation not recovered by the bill-back provision (approximately 10%) represents the portion of the SBI's budget that is associated with the investment of the General Fund portion of the Invested Treasurer's Cash Fund.

**Contact**

State Board of Investment  
60 Empire Drive, Suite 355  
Saint Paul, Minnesota 55103-3555

<http://www.sbi.state.mn.us>

Howard Bicker, Executive Director  
Phone (651) 296-3328  
Fax: (651) 296-9572



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Budgeted FY2003	Biennium FY2002-03
<b>Expenditures by Fund</b>				
General	2,353	2,239	2,478	4,717
Supplmntl Invest Invest Index	20	15	25	40
Supplemental Invest Suppl Bond	5	7	10	17
Supplemental Invest Invest Gic	110	114	100	214
Supplmntl Invest Moneymarket	4	5	5	10
Supplemental Investment Income	28	28	100	128
Supplemental Investment Growth	10	12	100	112
Post Retirement Investment	931	894	1,000	1,894
Invest Ext Money Managers#1	8,289	0	0	0
Invest Ext Money Managers #2	31,601	556	1,000	1,556
Supplemental Intl Equity	2	2	100	102
<b>Total</b>	<b>43,353</b>	<b>3,872</b>	<b>4,918</b>	<b>8,790</b>

<b>Expenditures by Category</b>	Actual FY2001	Actual FY2002	Budgeted FY2003	Biennium FY2002-03
Total Compensation	1,865	1,908	2,048	3,956
Other Operating Expenses	41,488	1,964	2,870	4,834
<b>Total</b>	<b>43,353</b>	<b>3,872</b>	<b>4,918</b>	<b>8,790</b>

<b>Expenditures by Program</b>	Actual FY2001	Actual FY2002	Budgeted FY2003	Biennium FY2002-03
Investment Of Funds	2,353	2,239	2,478	4,717
Refunds/Retire Funds	41,000	1,633	2,440	4,073
<b>Total</b>	<b>43,353</b>	<b>3,872</b>	<b>4,918</b>	<b>8,790</b>

# INVESTMENT BOARD

# Fiscal Report

<i>Dollars in Thousands</i>				
Revenue by Type and Fund	Actual FY2001	Actual FY2002	Budgeted FY2003	Biennium FY2002-03
<b>Non Dedicated</b>				
General	2,271	2,250	2,300	4,550
Closed Landfill Investment	0	1	0	1
Supplmntl Invest Invest Index	648	329	25	354
Supplemental Invest Suppl Bond	42	619	10	629
Supplemental Invest Invest Gic	1,159	324	100	424
Tobacco Medical Ed Endowment	13,133	19,107	17,000	36,107
Tobacco Use Prevent Endowment	14,034	19,922	17,000	36,922
Supplmntl Invest Moneymarket	3,113	3,266	5	3,271
Supplemental Investment Income	4,386	3,056	100	3,156
Supplemental Investment Growth	2,551	1,027	100	1,127
Post Retirement Investment	1,905,538	2,085,244	1,000	2,086,244
Invest Ext Money Managers#1	10,928	0	0	0
Invest Ext Money Managers #2	45,376	556	1,000	1,556
Supplemental Intl Equity	413	569	100	669
Permanent School	27,969	25,967	30,000	55,967
Subtotal Non Dedicated	2,031,561	2,162,237	68,740	2,230,977
<b>Total Revenue</b>	<b>4,060,851</b>	<b>4,322,224</b>	<b>135,180</b>	<b>4,457,404</b>

<b>Full-Time Equivalents (FTE)</b>	<b>23.5</b>	<b>23.2</b>	<b>23.2</b>
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Date : 10/30/02 12:42pm

State of Minnesota - Department of Finance  
 Biennial Budget System - Reconciliation Report (Seq/Fund Level)

Sequence : 632 - INVESTMENT BOARD  
 Fund : 100 - GENERAL

Line Items	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007
BALANCE FORWARD IN	203	0	238	0	0	0	0
OPEN APPROPRIATIONS	0	0	0	0	0	0	0
DIRECT, OMNIBUS	2,376	2,477	2,535	2,408	2,408	2,408	2,408
DIRECT, SPECIAL	0	0	0	0	0	0	0
DEFICIENCY/SUPPLEMENT	0	0	0	0	0	0	0
BAL. FORWARD OUT	0	<238>	0	0	0	0	0
CANCELLATIONS	<226>	0	0	0	0	0	0
REDUCTIONS	0	0	<127>	0	0	0	0
LAC	0	0	0	0	0	0	0
SALARY SUPPLEMENT	0	0	0	0	0	0	0
TRANSFERS IN	0	0	0	0	0	0	0
TRANSFERS OUT	0	0	<168>	0	0	0	0
DEDICATED RECEIPTS	0	0	0	0	0	0	0
BASE ADJUSTMENTS	0	0	0	0	0	0	0
DED REVENUE CHANGE	0	0	0	0	0	0	0
DED EXPENSE CHANGE (*)	0	0	0	0	0	0	0
DIRECT/OPEN EXP CHANGE	0	0	0	0	0	0	0
EXPENDITURES	2,353	2,239	2,478	2,408	2,408	2,408	2,408
Variance	0	0	0	0	0	2,408	2,408

Sequence : 632 - INVESTMENT BOARD  
 Fund : 460 - SPPLMNTL INVSTMNT INVSTMNT IND

Line Items	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007
BALANCE FORWARD IN	0	0	0	0	0	0	0
OPEN APPROPRIATIONS	20	15	25	25	25	25	25
DIRECT, OMNIBUS	0	0	0	0	0	0	0
DIRECT, SPECIAL	0	0	0	0	0	0	0
DEFICIENCY/SUPPLEMENT	0	0	0	0	0	0	0
BAL. FORWARD OUT	0	0	0	0	0	0	0
CANCELLATIONS	0	0	0	0	0	0	0
REDUCTIONS	0	0	0	0	0	0	0
LAC	0	0	0	0	0	0	0
SALARY SUPPLEMENT	0	0	0	0	0	0	0
TRANSFERS IN	0	0	0	0	0	0	0
TRANSFERS OUT	0	0	0	0	0	0	0
DEDICATED RECEIPTS	0	0	0	0	0	0	0
BASE ADJUSTMENTS	0	0	0	0	0	0	0
DED REVENUE CHANGE	0	0	0	0	0	0	0
DED EXPENSE CHANGE (*)	0	0	0	0	0	0	0
DIRECT/OPEN EXP CHANGE	0	0	0	0	0	0	0
EXPENDITURES	20	15	25	25	25	25	25
Variance	0	0	0	0	0	25	25

Date 10/30/02 12.42pm

State of Minnesota - Department of Finance  
Biennial Budget System - Reconciliation Report (Seq/Fund Level)

Sequence : 632 - INVESTMENT BOARD  
Fund : 470 - SPPLMNTL INVSTMNT SUPPL BOND

Line Items	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Agency Req 2006	Agency Req 2007
BALANCE FORWARD IN	0	0	0	0	0	0	0
OPEN APPROPRIATIONS	5	7	10	10	10	10	10
DIRECT, OMNIBUS	0	0	0	0	0	0	0
DIRECT, SPECIAL	0	0	0	0	0	0	0
DEFICIENCY/SUPPLEMENT	0	0	0	0	0	0	0
BAL. FORWARD OUT	0	0	0	0	0	0	0
CANCELLATIONS	0	0	0	0	0	0	0
REDUCTIONS	0	0	0	0	0	0	0
LAC	0	0	0	0	0	0	0
SALARY SUPPLEMENT	0	0	0	0	0	0	0
TRANSFERS IN	0	0	0	0	0	0	0
TRANSFERS OUT	0	0	0	0	0	0	0
DEDICATED RECEIPTS	0	0	0	0	0	0	0
BASE ADJUSTMENTS	0	0	0	0	0	0	0
DED REVENUE CHANGE	0	0	0	0	0	0	0
DED EXPENSE CHANGE (*)	0	0	0	0	0	0	0
DIRECT/OPEN EXP CHANGE	0	0	0	0	0	0	0
EXPENDITURES	5	7	10	10	10	10	10
Variance	0	0	0	0	0	0	0

Sequence : 632 - INVESTMENT BOARD  
Fund : 480 - SPPLMNTL INVSTMNT INVEST GIC

Line Items	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Agency Req 2006	Agency Req 2007
BALANCE FORWARD IN	0	0	0	0	0	0	0
OPEN APPROPRIATIONS	110	114	100	100	100	100	100
DIRECT, OMNIBUS	0	0	0	0	0	0	0
DIRECT, SPECIAL	0	0	0	0	0	0	0
DEFICIENCY/SUPPLEMENT	0	0	0	0	0	0	0
BAL. FORWARD OUT	0	0	0	0	0	0	0
CANCELLATIONS	0	0	0	0	0	0	0
REDUCTIONS	0	0	0	0	0	0	0
LAC	0	0	0	0	0	0	0
SALARY SUPPLEMENT	0	0	0	0	0	0	0
TRANSFERS IN	0	0	0	0	0	0	0
TRANSFERS OUT	0	0	0	0	0	0	0
DEDICATED RECEIPTS	0	0	0	0	0	0	0
BASE ADJUSTMENTS	0	0	0	0	0	0	0
DED REVENUE CHANGE	0	0	0	0	0	0	0
DED EXPENSE CHANGE (*)	0	0	0	0	0	0	0
DIRECT/OPEN EXP CHANGE	0	0	0	0	0	0	0
EXPENDITURES	110	114	100	100	100	100	100
Variance	0	0	0	0	0	0	0

Date : 10/30/02 12:42pm

State of Minnesota - Department of Finance  
Biennial Budget System - Reconciliation Report (Seq/Fund Level)

Sequence : 632 - INVESTMENT BOARD  
Fund : 610 - MISCELLANEOUS AGENCY

Line Items	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Agency Req 2005	Agency Req 2006	Agency Req 2007
BALANCE FORWARD IN	283	283	283	0	0	0	0
OPEN APPROPRIATIONS	0	0	0	0	0	0	0
DIRECT, OMNIBUS	0	0	0	0	0	0	0
DIRECT, SPECIAL	0	0	0	0	0	0	0
DEFICIENCY/SUPPLEMENT	0	0	0	0	0	0	0
BAL. FORWARD OUT	<283>	<283>	0	0	0	0	0
CANCELLATIONS	0	0	0	0	0	0	0
REDUCTIONS	0	0	0	0	0	0	0
LAC	0	0	0	0	0	0	0
SALARY SUPPLEMENT	0	0	0	0	0	0	0
TRANSFERS IN	0	0	0	0	0	0	0
TRANSFERS OUT	0	0	<283>	0	0	0	0
DEDICATED RECEIPTS	0	0	0	0	0	0	0
BASE ADJUSTMENTS	0	0	0	0	0	0	0
DED REVENUE CHANGE	0	0	0	0	0	0	0
DED EXPENSE CHANGE (*)	0	0	0	0	0	0	0
DIRECT/OPEN EXP CHANGE	0	0	0	0	0	0	0
EXPENDITURES	0	0	0	0	0	0	0
Variance	0	0	0	0	0	0	0

Sequence : 632 - INVESTMENT BOARD  
Fund : 620 - SPPLMNTL INVSTMNT MONEY MARKET

Line Items	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Agency Req 2005	Agency Req 2006	Agency Req 2007
BALANCE FORWARD IN	0	0	0	0	0	0	0
OPEN APPROPRIATIONS	4	5	5	5	5	5	5
DIRECT, OMNIBUS	0	0	0	0	0	0	0
DIRECT, SPECIAL	0	0	0	0	0	0	0
DEFICIENCY/SUPPLEMENT	0	0	0	0	0	0	0
BAL. FORWARD OUT	0	0	0	0	0	0	0
CANCELLATIONS	0	0	0	0	0	0	0
REDUCTIONS	0	0	0	0	0	0	0
LAC	0	0	0	0	0	0	0
SALARY SUPPLEMENT	0	0	0	0	0	0	0
TRANSFERS IN	0	0	0	0	0	0	0
TRANSFERS OUT	0	0	0	0	0	0	0
DEDICATED RECEIPTS	0	0	0	0	0	0	0
BASE ADJUSTMENTS	0	0	0	0	0	0	0
DED REVENUE CHANGE	0	0	0	0	0	0	0
DED EXPENSE CHANGE (*)	0	0	0	0	0	0	0
DIRECT/OPEN EXP CHANGE	4	5	5	5	5	5	5
EXPENDITURES	4	5	5	5	5	5	5
Variance	0	0	0	0	0	0	0



State of Minnesota - Department of Finance  
 Biennial Budget System - Reconciliation Report (Seq/Fund Level)

Sequence : 632 - INVESTMENT BOARD  
 Fund : 650 - SUPPLEMENTAL INVESTMENT INCOME

Line Items	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Agency Req 2006	Agency Req 2007
BALANCE FORWARD IN	0	0	0	0	0	0	0
OPEN APPROPRIATIONS	28	28	100	100	100	100	100
DIRECT, OMNIBUS	0	0	0	0	0	0	0
DIRECT, SPECIAL	0	0	0	0	0	0	0
DEFICIENCY/SUPPLEMENT	0	0	0	0	0	0	0
BAL. FORWARD OUT	0	0	0	0	0	0	0
CANCELLATIONS	0	0	0	0	0	0	0
REDUCTIONS	0	0	0	0	0	0	0
LAC	0	0	0	0	0	0	0
SALARY SUPPLEMENT	0	0	0	0	0	0	0
TRANSFERS IN	0	0	0	0	0	0	0
TRANSFERS OUT	0	0	0	0	0	0	0
DEDICATED RECEIPTS	0	0	0	0	0	0	0
BASE ADJUSTMENTS	0	0	0	0	0	0	0
DED REVENUE CHANGE	0	0	0	0	0	0	0
DED EXPENSE CHANGE (*)	0	0	0	0	0	0	0
DIRECT/OPEN EXP CHANGE	28	28	100	100	100	100	100
EXPENDITURES	28	28	100	100	100	100	100
Variance	0	0	0	0	0	0	0

Sequence : 632 - INVESTMENT BOARD  
 Fund : 660 - SUPPLEMENTAL INVESTMENT GROWTH

Line Items	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Agency Req 2006	Agency Req 2007
BALANCE FORWARD IN	0	0	0	0	0	0	0
OPEN APPROPRIATIONS	10	12	100	100	100	100	100
DIRECT, OMNIBUS	0	0	0	0	0	0	0
DIRECT, SPECIAL	0	0	0	0	0	0	0
DEFICIENCY/SUPPLEMENT	0	0	0	0	0	0	0
BAL. FORWARD OUT	0	0	0	0	0	0	0
CANCELLATIONS	0	0	0	0	0	0	0
REDUCTIONS	0	0	0	0	0	0	0
LAC	0	0	0	0	0	0	0
SALARY SUPPLEMENT	0	0	0	0	0	0	0
TRANSFERS IN	0	0	0	0	0	0	0
TRANSFERS OUT	0	0	0	0	0	0	0
DEDICATED RECEIPTS	0	0	0	0	0	0	0
BASE ADJUSTMENTS	0	0	0	0	0	0	0
DED REVENUE CHANGE	0	0	0	0	0	0	0
DED EXPENSE CHANGE (*)	0	0	0	0	0	0	0
DIRECT/OPEN EXP CHANGE	10	12	100	100	100	100	100
EXPENDITURES	10	12	100	100	100	100	100
Variance	0	0	0	0	0	0	0

State of Minnesota - Department of Finance  
 Biennial Budget System - Reconciliation Report (Seq/Fund Level)

Sequence : 632 - INVESTMENT BOARD  
 Fund : 670 - POST RETIREMENT INVESTMENT

Line Items	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Agency Req 2004	Agency Req 2005	Agency Req 2006	Agency Req 2007
BALANCE FORWARD IN	0	0	0	0	0	0	0
OPEN APPROPRIATIONS	931	894	1,000	1,000	1,000	1,000	1,000
DIRECT, OMNIBUS	0	0	0	0	0	0	0
DIRECT, SPECIAL	0	0	0	0	0	0	0
DEFICIENCY/SUPPLEMENT	0	0	0	0	0	0	0
BAL. FORWARD OUT	0	0	0	0	0	0	0
CANCELLATIONS	0	0	0	0	0	0	0
REDUCTIONS	0	0	0	0	0	0	0
LAC	0	0	0	0	0	0	0
SALARY SUPPLEMENT	0	0	0	0	0	0	0
TRANSFERS IN	0	0	0	0	0	0	0
TRANSFERS OUT	0	0	0	0	0	0	0
DEDICATED RECEIPTS	0	0	0	0	0	0	0
BASE ADJUSTMENTS	0	0	0	0	0	0	0
DED REVENUE CHANGE	0	0	0	0	0	0	0
DED EXPENSE CHANGE (*)	0	0	0	0	0	0	0
DIRECT/OPEN EXP CHANGE	0	0	0	0	0	0	0
EXPENDITURES	931	894	1,000	1,000	1,000	1,000	1,000
Variance	0	0	0	0	0	0	0

Sequence : 632 - INVESTMENT BOARD  
 Fund : 790 - INVEST EXT MONEY MANAGERS

Line Items	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Agency Req 2004	Agency Req 2005	Agency Req 2006	Agency Req 2007
BALANCE FORWARD IN	0	0	0	0	0	0	0
OPEN APPROPRIATIONS	8,289	0	0	0	0	0	0
DIRECT, OMNIBUS	0	0	0	0	0	0	0
DIRECT, SPECIAL	0	0	0	0	0	0	0
DEFICIENCY/SUPPLEMENT	0	0	0	0	0	0	0
BAL. FORWARD OUT	0	0	0	0	0	0	0
CANCELLATIONS	0	0	0	0	0	0	0
REDUCTIONS	0	0	0	0	0	0	0
LAC	0	0	0	0	0	0	0
SALARY SUPPLEMENT	0	0	0	0	0	0	0
TRANSFERS IN	0	0	0	0	0	0	0
TRANSFERS OUT	0	0	0	0	0	0	0
DEDICATED RECEIPTS	0	0	0	0	0	0	0
BASE ADJUSTMENTS	0	0	0	0	0	0	0
DED REVENUE CHANGE	0	0	0	0	0	0	0
DED EXPENSE CHANGE (*)	0	0	0	0	0	0	0
DIRECT/OPEN EXP CHANGE	0	0	0	0	0	0	0
EXPENDITURES	8,289	0	0	0	0	0	0
Variance	0	0	0	0	0	0	0

State of Minnesota - Department of Finance  
 Biennial Budget System - Reconciliation Report (Seq/Fund Level)

Sequence : 632 - INVESTMENT BOARD  
 Fund : 810 - INVEST EXT MONEY MANAGERS

Line Items	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007
BALANCE FORWARD IN	0	0	0	0	0	0	0
OPEN APPROPRIATIONS	31,601	556	1,000	1,000	1,000	1,000	1,000
DIRECT, OMNIBUS	0	0	0	0	0	0	0
DIRECT, SPECIAL	0	0	0	0	0	0	0
DEFICIENCY/SUPPLEMENT	0	0	0	0	0	0	0
BAL. FORWARD OUT	0	0	0	0	0	0	0
CANCELLATIONS	0	0	0	0	0	0	0
REDUCTIONS	0	0	0	0	0	0	0
LAC	0	0	0	0	0	0	0
SALARY SUPPLEMENT	0	0	0	0	0	0	0
TRANSFERS IN	0	0	0	0	0	0	0
TRANSFERS OUT	0	0	0	0	0	0	0
DEDICATED RECEIPTS	0	0	0	0	0	0	0
BASE ADJUSTMENTS	0	0	0	0	0	0	0
DED REVENUE CHANGE	0	0	0	0	0	0	0
DED EXPENSE CHANGE (*)	0	0	0	0	0	0	0
DIRECT/OPEN EXP CHANGE	0	0	0	0	0	0	0
EXPENDITURES	31,601	556	1,000	1,000	1,000	1,000	1,000
Variance	0	0	0	0	0	0	0

Sequence : 632 - INVESTMENT BOARD  
 Fund : 830 - SUPPLEMENTAL INTL EQUITY

Line Items	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007
BALANCE FORWARD IN	0	0	0	0	0	0	0
OPEN APPROPRIATIONS	2	2	100	100	100	100	100
DIRECT, OMNIBUS	0	0	0	0	0	0	0
DIRECT, SPECIAL	0	0	0	0	0	0	0
DEFICIENCY/SUPPLEMENT	0	0	0	0	0	0	0
BAL. FORWARD OUT	0	0	0	0	0	0	0
CANCELLATIONS	0	0	0	0	0	0	0
REDUCTIONS	0	0	0	0	0	0	0
LAC	0	0	0	0	0	0	0
SALARY SUPPLEMENT	0	0	0	0	0	0	0
TRANSFERS IN	0	0	0	0	0	0	0
TRANSFERS OUT	0	0	0	0	0	0	0
DEDICATED RECEIPTS	0	0	0	0	0	0	0
BASE ADJUSTMENTS	0	0	0	0	0	0	0
DED REVENUE CHANGE	0	0	0	0	0	0	0
DED EXPENSE CHANGE (*)	0	0	0	0	0	0	0
DIRECT/OPEN EXP CHANGE	0	0	0	0	0	0	0
EXPENDITURES	2	2	100	100	100	100	100
Variance	0	0	0	0	0	0	0

# **Tab D**

## COMMITTEE REPORT

---

DATE: November 25, 2002

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

FROM: **Accounting System Review Committee**

The SBI's contract with Financial Controls System for accounting services expires on June 30, 2003. It is the SBI's practice to review the contract through a request for proposal (RFP) on at least a five-year basis.

At its June 4, 2002 meeting the State Board of Investment authorized an Accounting System Review Committee and directed staff to send out Requests For Proposals (RFP's). The RFP was announced in the State Register on September 3, 2002. RFP's were sent to the three known providers in this industry:

Financial Controls System	Chadds Ford, PA
QED Information Systems	Marlton, NJ
Princeton Financial	Princeton, NJ

The Committee received two responses (Princeton Financial did not respond). The responses were evaluated by the Committee for the vendor's adherence to the RFP requirements, the perceived ability of the vendor to meet the needs of the SBI for these services over the next five years, and the cost of the services proposed by the vendor.

### CONCLUSION:

Based on its review of the RFP responses, the Committee concluded that Financial Controls System should remain the SBI's accounting vendor.

- **Services.** The Committee believes that Financial Controls will continue to provide "state of the art" accounting services. The quality of its product and services equals or exceeds that of the other respondent.
- **Fees.** On a gross fee basis, Financial Controls fee proposal was the lowest that included all the services required by the SBI.

**RECOMMENDATION:**

**Based on the results of the RFP, the Committee unanimously recommends that the Board authorize the Executive Director, with the assistance of SBI counsel, to negotiate and execute a contract with Financial Controls System, Chadds Ford PA, for accounting services for a five year period ending April 30, 2008.**

**Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligation on the State Board of Investment and neither the State of Minnesota, the State Board of Investment or its Executive Director have any liability for reliance by Financial Controls System upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Financial Controls System or reduction or termination of the commitment.**

# **Tab E**

## COMMITTEE REPORT

---

DATE: November 25, 2002

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

FROM: **Stock and Bond Manager Committee**

The Stock and Bond Manager Committee met on Wednesday, November 13, 2002 to consider the following agenda items:

- Review the manager performance for the period ending September 30, 2002.
- Recommendation to terminate Metropolitan West Asset Management from the fixed income program.

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

### INFORMATION ITEMS:

#### 1. Review of manager performance for the period ending September 30, 2002.

- *Domestic Equity Managers*

For the period ending September 30, 2002, the **Domestic Equity Manager Program** matched the Wilshire 5000 Investable for the quarter and under-performed over longer time periods. The **current managers** out-performed the Aggregate Benchmark during the quarter and for the five-year time period, but under-performed during the one and three-year time periods.

Time period	Total Program	Wilshire 5000 Investable	Current Mgrs. Only	Aggregate Benchmark
Quarter	-17.2%	-17.2%	-17.2%	-17.3%
1 Year	-18.8	-18.2	-18.8	-17.2
3 Years	-12.7	-12.5	-12.4	-11.8
5 Years	-2.7	-2.6	-1.5	-2.0

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, 2002, the **Fixed Income Manager Program** under-performed the Lehman Aggregate over all time periods. The **current managers** also under-performed the Aggregate Benchmark over all time periods.

Time period	Total Program	Lehman Aggregate	Current Mgrs. Only	Aggregate Benchmark
Quarter	3.6%	4.6%	3.6%	4.6%
1 Year	7.2	8.6	7.2	8.6
3 Years	9.2	9.5	9.3	9.5
5 Years	7.6	7.8	7.7	7.8

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, 2002, the **International Equity Program** and the **equity managers** (excluding the currency overlay) under performed during the quarter, but outperformed the composite index over longer time periods.

Time Period	Total* Program	Composite Index**	Equity*** Mgrs. Only
Quarter	-19.8	-19.4	-19.8
1 Year	-12.3	-13.6	-12.3
3 Year	-12.8	-14.3	-12.9
5 Year	-5.6	-6.2	-5.7

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

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

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

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

**ACTION ITEM:**

**2. Recommendation to terminate Metropolitan West Asset Management from the Fixed Income Program.**

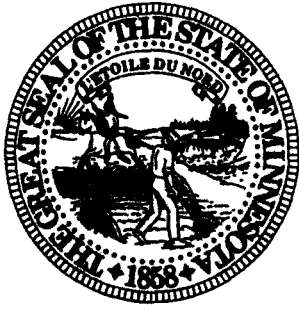
Metropolitan West Asset Management (MetWest) has been a core active manager in the Bond Program since February 2000. The manager has consistently emphasized credit risk as the primary tool for adding value. The manager's value-oriented style has led to significant positions in issues it believes are undervalued.

Over the last 15 months, MetWest has underperformed its benchmark by 1270 basis points. Issue selection in the corporate sector account for most of the underperformance. MetWest continues to stand behind their value-oriented style, and believes that many of their impaired holdings will ultimately recover.

MetWest's performance results are a result of its aggressive, value-oriented style. The Committee, in agreement with Staff, believes the firm's style will continue to result in a level of performance volatility that is not compatible with the SBI's fixed income program.

**RECOMMENDATION:**

**The Committee recommends that the SBI terminate the relationship with Metropolitan West Asset Management for investment management services in the Fixed Income Program.**



# STATE BOARD OF INVESTMENT

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## Stock Manager Evaluation Reports

Third Quarter, 2002

**COMBINED RETIREMENT FUNDS  
DOMESTIC STOCK MANAGERS  
Periods Ending September, 2002**

	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 %		
<b>Active Managers</b>												
Alliance Capital	-12.7	-15.1	-19.1	-22.9	-13.0	-14.0	2.8	-0.6	15.1	10.5	\$760.7	5.3%
Cohen, Klingenstein & Marks	-19.0	-18.0	-35.3	-18.9	-21.3	-13.3	-6.6	-2.4	6.5	8.2	\$380.9	2.6%
Forstmann-Leff	-21.2	-18.1	-26.1	-12.3	-17.0	-1.1	-2.2	1.1	10.7	10.8	\$430.9	3.0%
Franklin Portfolio	-19.6	-18.7	-15.2	-15.3	-7.5	-8.3	-1.1	-0.8	10.7	9.8	\$547.2	3.8%
GeoCapital	-19.5	-18.0	-20.7	-9.7	-19.4	-10.1	-10.2	-8.1	5.4	7.3	\$307.0	2.1%
Lincoln	-16.7	-15.8	-20.6	-20.2	-23.7	-20.2	-7.0	-4.6	5.6	7.4	\$399.3	2.8%
New Amsterdam Partners	-16.3	-18.7	-11.5	-9.1	0.1	-1.8	4.7	3.8	12.3	11.6	\$266.4	1.8%
Oppenheimer	-15.1	-19.7	-16.5	-18.5	-3.4	-6.7	1.9	1.5	11.5	9.9	\$625.7	4.3%
UBS Global	-16.3	-17.4	-10.8	-16.9	-6.7	-9.4	-2.1	-1.2	8.6	8.4	\$624.1	4.3%
<b>Emerging Managers (2)</b>	-20.0	-18.9	-16.7	-7.8	-8.4	-2.1	-0.1	3.5	8.9	12.0	\$532.7	3.7%
<b>Semi-Passive Managers</b>												
Barclays Global Investors	-16.7	-16.8	-17.9	-17.6	-12.7	-14.1	-3.0	-3.2	8.6	7.9	\$1,963.1	13.6%
Franklin Portfolio	-16.6	-16.8	-18.1	-17.6	-13.7	-14.1	-3.9	-3.2	7.7	7.9	\$1,269.2	8.8%
JP Morgan	-17.4	-16.8	-19.7	-17.6	-14.0	-14.1	-3.2	-3.2	8.1	7.9	\$1,743.2	12.1%
<b>Passive Manager</b>												
Barclays Global Investors	-17.1	-17.2	-18.4	-18.2	-12.1	-12.3	-2.1	-2.4	6.7	6.5	\$4,596.0	31.8%
<b>Since 1/1/84</b>												
Current Aggregate	-17.2	-17.3	-18.8	-17.2	-12.4	-11.8	-1.5	-2.0	12.3	10.1	\$14,446.5	100.0%
Historical Aggregate (3)	-17.2	-17.3	-18.8	-17.2	-12.7	-12.0	-2.7	-2.3	10.6	10.9		
Wilshire 5000 Investable (4)		-17.2		-18.2		-12.5		-2.6		10.8		
Wilshire 5000		-16.8		-17.5		-11.7		-2.0		11.2		

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

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

(3) 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, 2002**

**Portfolio Manager: Jack Koltes**

**Assets Under Management: \$760,713,375**

**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**

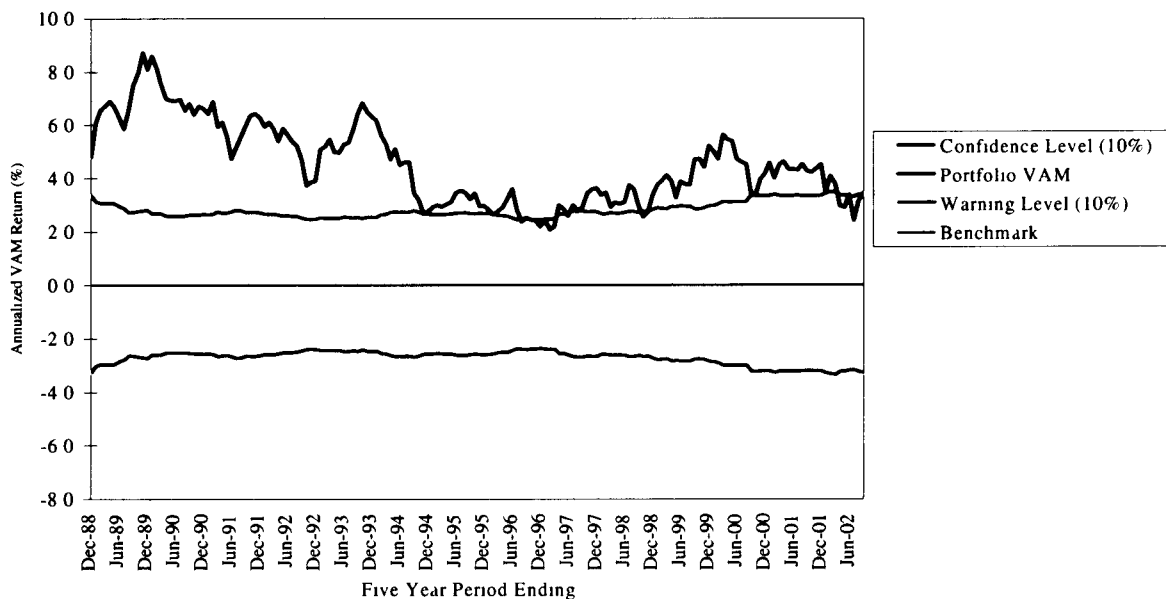
Alliance performed well during the past quarter on strong stock selection in the consumer discretionary and consumer staples sectors. An underweight to technology and telecommunications also contributed to quarterly results. Over the past year Alliance outperformed on strong stock selection in healthcare, financials, and technology. Alliance's portfolio is currently positioned with a balance of cyclical and steady growth stocks.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>	
Last Quarter	-12.7%	-15.1%	No action required.
Last 1 year	-19.1	-22.9	
Last 2 years	-25.7	-27.6	
Last 3 years	-13.0	-14.0	
Last 4 years	-1.6	-3.3	
Last 5 years	2.8	-0.6	
Since Inception (1/84)	15.1	10.5	

**Recommendation**

**ALLIANCE CAPITAL MANAGEMENT**  
**Rolling Five Year VAM**



**COHEN KLINGENSTEIN & MARKS INCORPORATED**  
**Periods Ending September, 2002**

**Portfolio Manager: George Cohen**

**Assets Under Management: \$380,947,058**

**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 lagged the benchmark during the quarter on poor stock selection in the consumer discretionary, industrial, and technology sectors as well as a large overweight to technology. These results were offset partially by strong stock selection in telecommunications where Cohen held a position in Nextel. The firm has significantly lagged the benchmark over the past year, primarily as a result of a large WorldCom position, which has since been sold, and poor stock selection and a large overweight in the technology sector.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-19.0%	-18.0%
Last 1 Year	-35.3	-18.9
Last 2 Years	-35.6	-28.3
Last 3 Years	-21.3	-13.3
Last 4 Years	-10.4	-3.1
Last 5 Years	-6.6	-2.4
Since Inception (4/94)	6.5	8.2

**Recommendation**

No action required

**COHEN KLINGENSTEIN & MARKS**  
**Rolling Five Year VAM**



**FORSTMANN-LEFF ASSOCIATES**  
**Periods Ending September, 2002**

**Portfolio Manager: Bill Harnisch**

**Assets Under Management: \$430,884,613**

**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**

Staff met recently with Bill Harnisch, our portfolio manager, in our St. Paul office to discuss Forstmann's recent performance and review our portfolio. Forstmann lagged the benchmark during the quarter due to a mix of negative stock selection and sector allocations. Positive stock selection in industrials and utilities was more than offset by weak results across most other sectors, healthcare in particular, where a position in HealthSouth performed poorly. The past year's poor relative performance was driven by poor stock selection in healthcare and consumer discretionary, where a position in AOL Time Warner detracted.

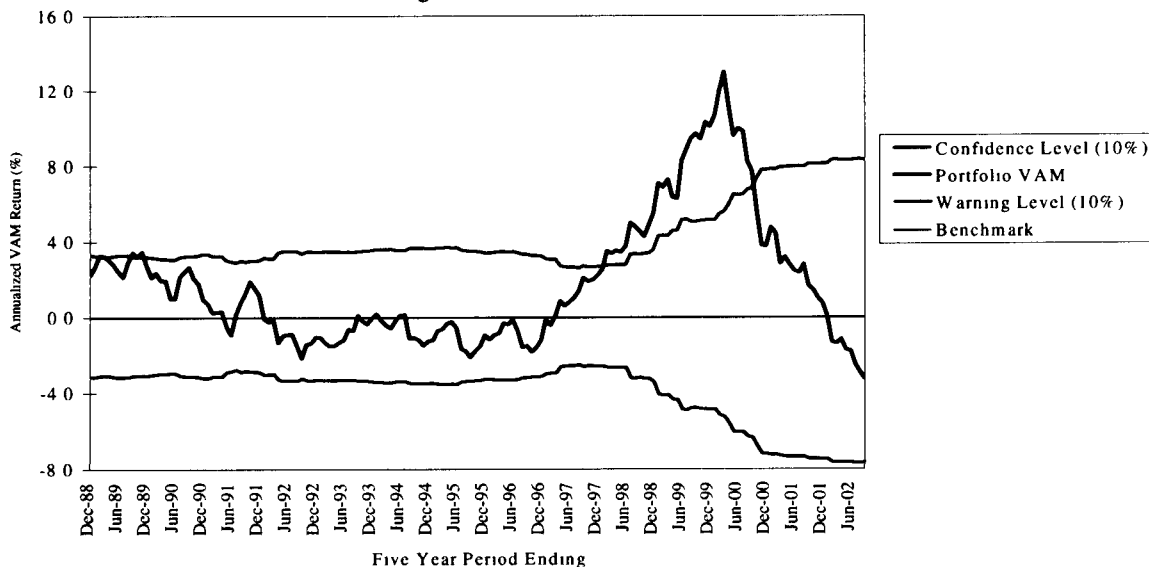
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-21.2%	-18.1%
Last 1 year	-26.1	-12.3
Last 2 years	-28.8	-12.6
Last 3 years	-17.0	-1.1
Last 4 years	-2.5	6.0
Last 5 years	-2.2	1.1
Since Inception (1/84)	10.7	10.8

**Recommendation**

No action required.

**FORSTMANN-LEFF ASSOCIATES**  
**Rolling Five Year VAM**



**FRANKLIN PORTFOLIO ASSOCIATES**  
**Periods Ending September, 2002**

**Portfolio Manager: John Cone**

**Assets Under Management: \$547,187,583**

**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**

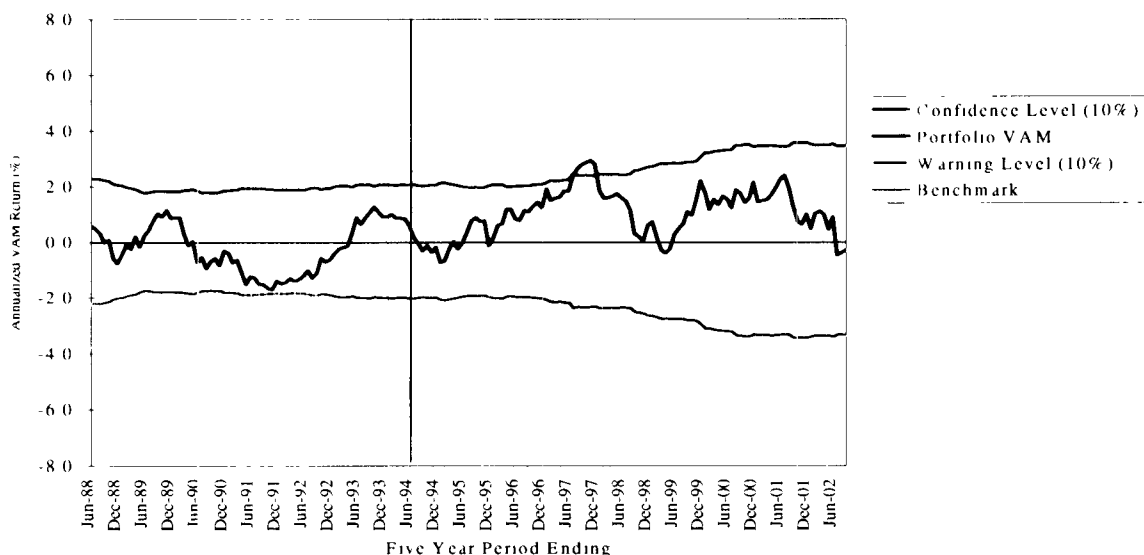
Franklin slightly lagged the benchmark during the quarter but has matched over the past year. Poor stock selection in financials, materials, and utilities, as well as an overweight in technology hurt results. Strong stock selection within consumer staples and healthcare offsetting these affects somewhat.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>	
Last Quarter	-19.6%	-18.7%	No action required
Last 1 year	-15.2	-15.3	
Last 2 years	-19.8	-18.7	
Last 3 years	-7.5	-8.3	
Last 4 years	-0.1	-1.0	
Last 5 years	-1.1	-0.8	
Since Inception (4/89)	10.7	9.8	

**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, 2002**

**Portfolio Manager: Barry Fingerhut**

**Assets Under Management: \$307,001,534**

**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 continues to trail the benchmark in the current environment, modestly lagging during the quarter on poor stock selection across several sectors, most notably financials. Over the past year, stock selection was poor in technology, consumer discretionary, and financials with positive selection in energy helping results.

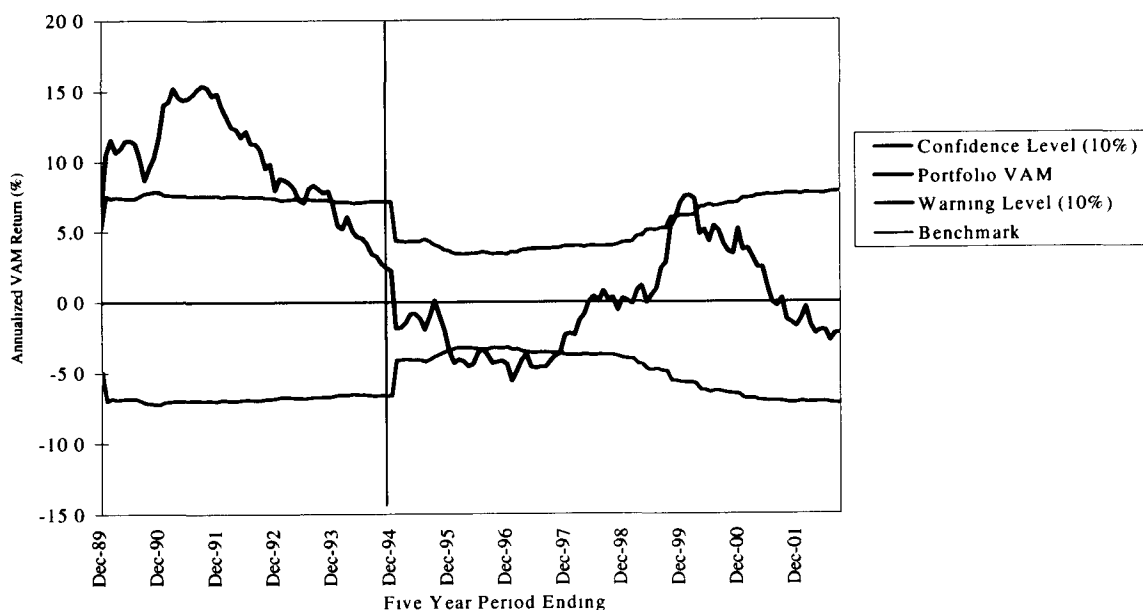
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-19.5%	-18.0%
Last 1 year	-20.7	-9.7
Last 2 years	-37.4	-26.4
Last 3 years	-19.4	-10.1
Last 4 years	-8.9	-2.9
Last 5 years	-10.2	-8.1
Since Inception (4/90)	5.4	7.3

**Recommendation**

No action required.

**GEOCAPITAL CORP.**  
**Rolling Five Year VAM**



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

**LINCOLN CAPITAL MANAGEMENT**  
**Periods Ending September, 2002**

**Portfolio Manager: David Fowler**

**Assets Under Management: \$399,318,345**

**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**

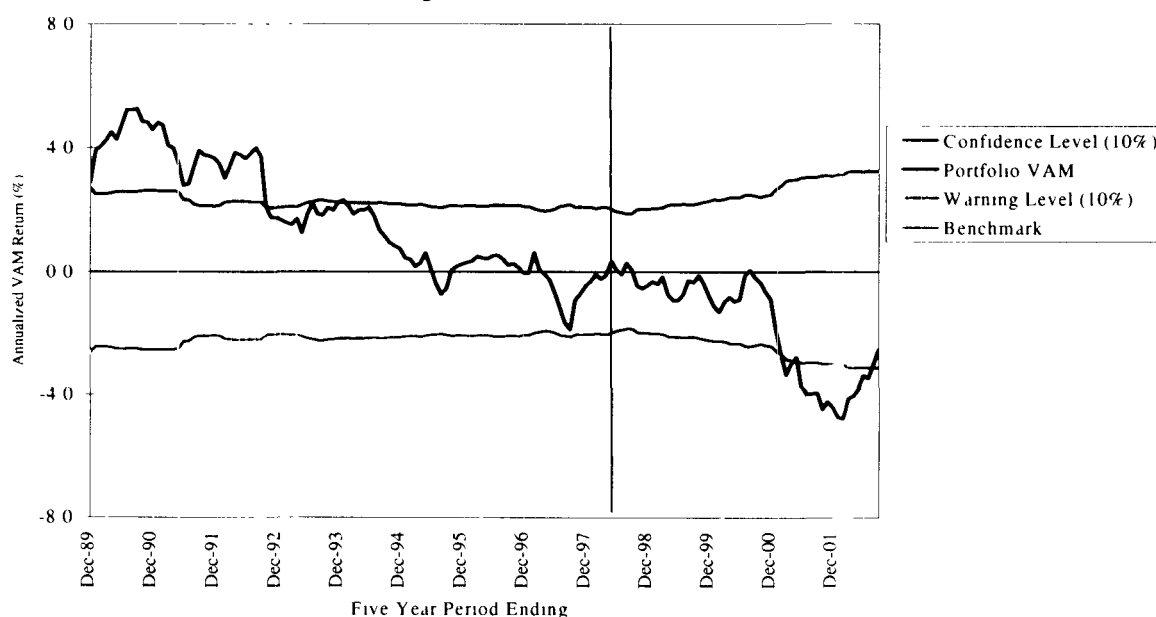
Staff met with Lincoln at their office in Chicago in September to discuss their investment performance and receive an update on the organization. The firm has modestly lagged over the past quarter and year. During the quarter, weak stock selection across a number of sectors, most notably healthcare was offset somewhat by strong stock selection and an underweight in the technology sector. As mentioned at our last Committee meeting, Lincoln continues to pursue a merger or sale of the firm.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>	
Last Quarter	-16.7%	-15.8%	No action required
Last 1 year	-20.6	-20.2	
Last 2 years	-39.8	-34.5	
Last 3 years	-23.7	-20.2	
Last 4 years	-12.5	-8.8	
Last 5 years	-7.0	-4.6	
Since Inception (7/93)	5.6	7.4	

**Recommendation**

**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

**NEW AMSTERDAM PARTNERS**  
**Periods Ending September, 2002**

**Portfolio Manager: Michelle Clayman**

**Assets Under Management: \$266,377,555**

**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 beat the index for the quarter but lagged over the past year. Positive stock selection in energy, financials, and technology helped performance but were offset somewhat by poor results in materials. Over the past year, stock selection was poor within technology, industrials, and consumer discretionary while positions in finance and energy added value. An overweight to the consumer discretionary sector also added value over the past year.

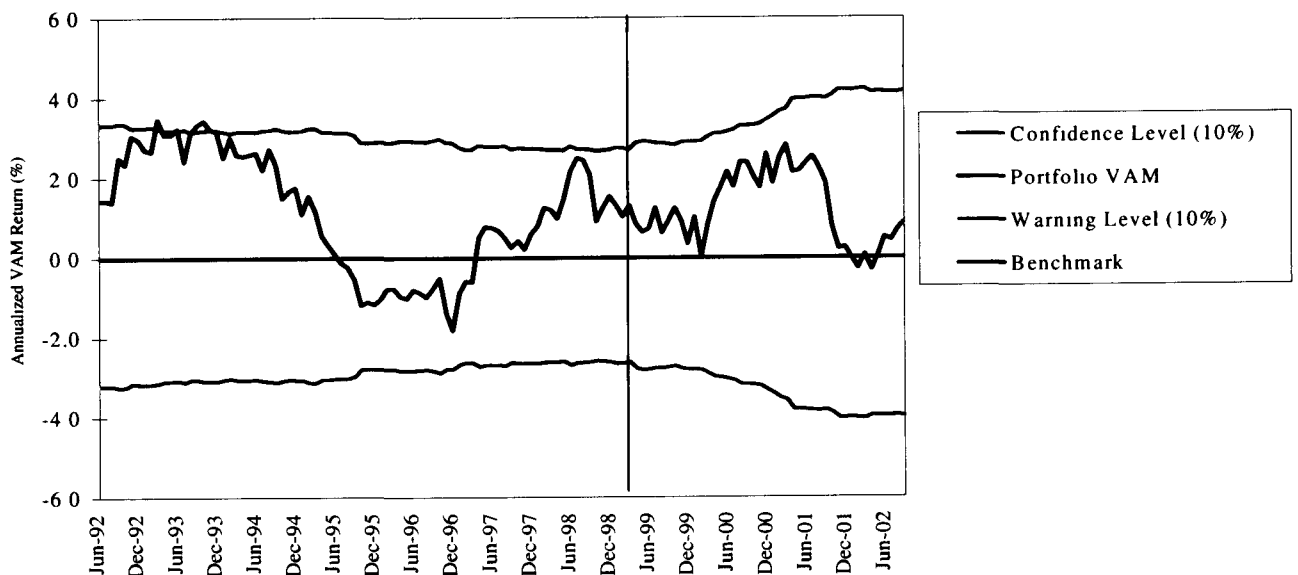
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-16.3%	-18.7%
Last 1 Year	-11.5	-9.1
Last 2 Years	-15.6	-15.4
Last 3 Years	0.1	-1.8
Last 4 Years	5.0	6.1
Last 5 Years	4.7	3.8
Since Inception (4/94)	12.3	11.6

**Recommendation**

No action required.

**NEW AMSTERDAM PARTNERS**  
**Rolling Five Year VAM**



**OPPENHEIMER CAPITAL**  
**Periods Ending September, 2002**

**Portfolio Manager: John Lindenthal**

**Assets Under Management: \$625,654,589**

**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**

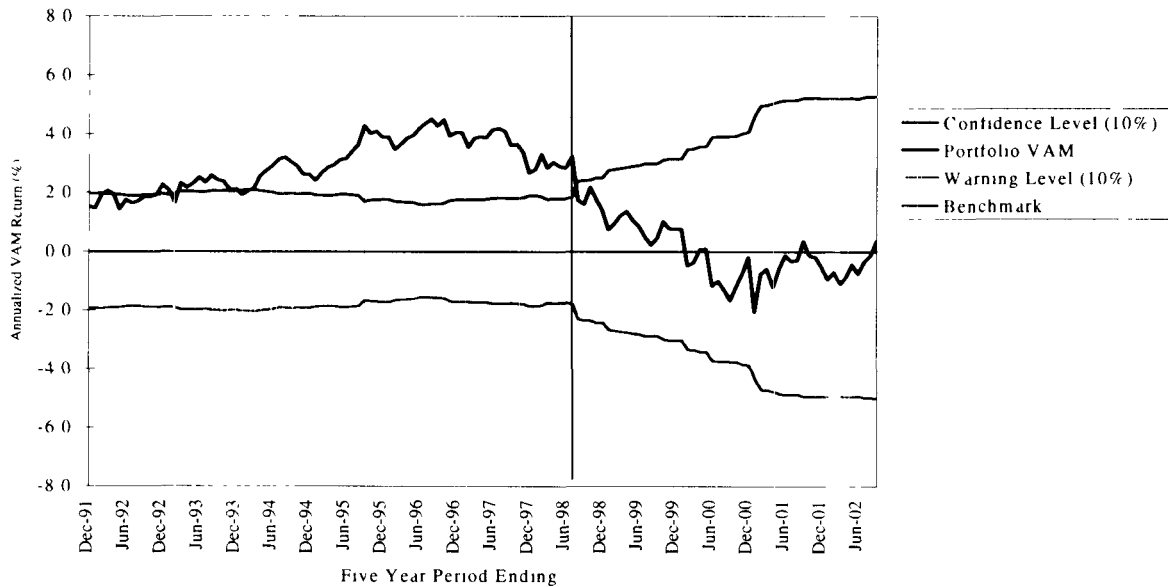
Oppenheimer performed well during the past quarter and year. Strong stock selection in financials and technology, as well as an underweight to the technology sector, and a higher than average cash position helped results over the quarter. Positive results over the past year were aided by strong stock selection and a substantial underweight in the technology sector.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>	
Last Quarter	-15.1%	-19.7%	No action required
Last 1 year	-16.5	-18.5	
Last 2 years	-11.7	-18.2	
Last 3 years	-3.4	-6.7	
Last 4 years	1.5	0.3	
Last 5 years	1.9	1.5	
Since Inception (7/93)	11.5	9.9	

**Recommendation**

**OPPENHEIMER CAPITAL**  
**Rolling Five Year VAM**



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

**UBS GLOBAL ASSET MANAGEMENT, INC.**  
**Periods Ending September, 2002**

**Portfolio Manager: John Leonard**

**Assets Under Management: \$624,119,166**

**Investment Philosophy**

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

**Staff Comments**

Staff visited UBS in their Chicago office in September to review our portfolio and recent performance. UBS has performed well in recent periods, recovering from a period of significant underperformance in 1998 and 1999. Positive results over the past quarter and year were due to a below market portfolio beta, common factor exposures, and industry allocations. Over the past quarter, stock selection was positive in utilities and telecommunications, where a position in Nextel performed very well. These positive results were slightly offset by poor stock selection in healthcare and financials.

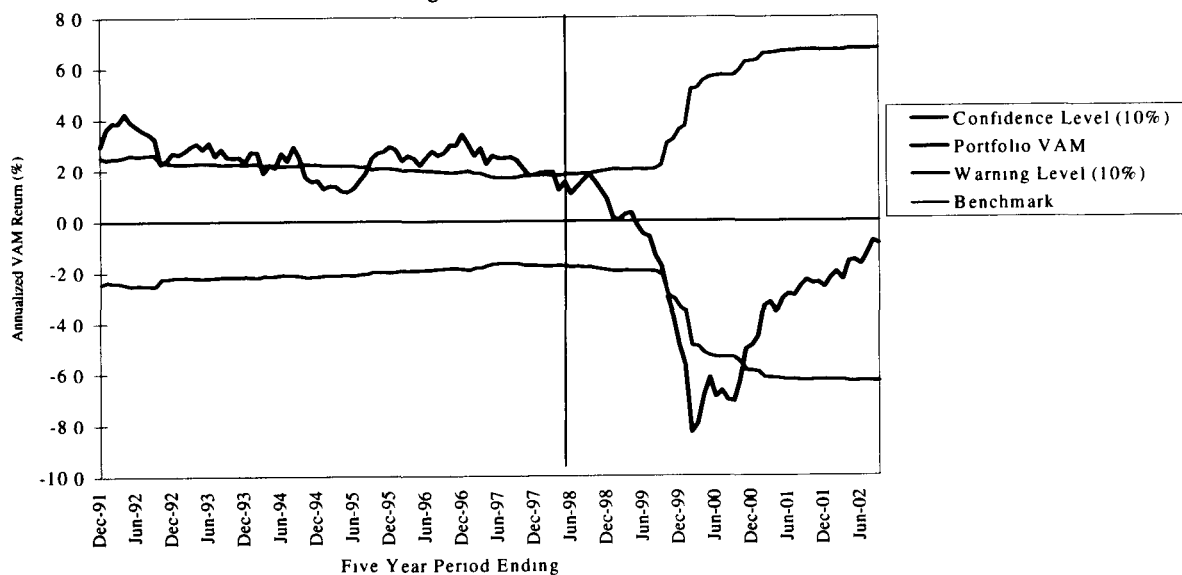
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-16.3%	-17.4%
Last 1 year	-10.8	-16.9
Last 2 years	-7.8	-23.5
Last 3 years	-6.7	-9.4
Last 4 years	-2.7	-1.4
Last 5 years	-2.1	-1.2
Since Inception (7/93)	8.6	8.4

**Recommendation**

No action required.

**UBS GLOBAL ASSET MANAGEMENT, INC.**  
**Rolling Five Year VAM**



Note Area to the left of vertical line includes performance prior to retention by the SB1

**BARCLAYS GLOBAL INVESTORS**  
**Periods Ending September, 2002**

**Portfolio Manager: Rhonda Vitanye**

**Assets Under Management: \$1,963,054,101**

**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**

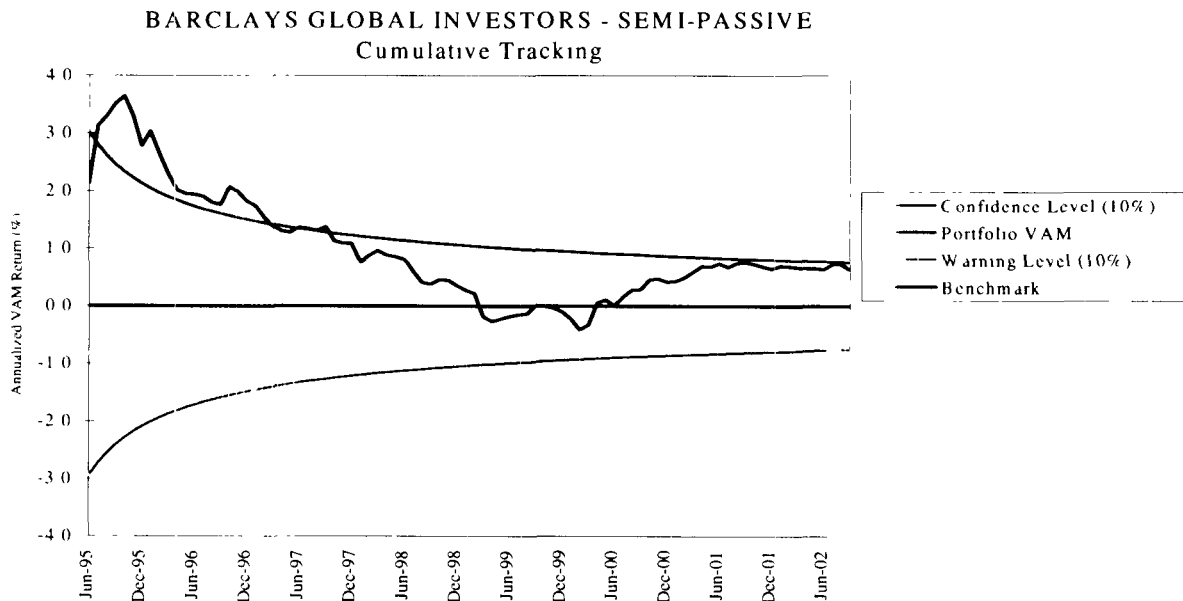
No comments at this time

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>	
Last Quarter	-16.7%	-16.8%	No action required
Last 1 year	-17.9	-17.6	
Last 2 years	-22.9	-24.2	
Last 3 years	-12.7	-14.1	
Last 4 years	-5.3	-6.1	
Last 5 years	-3.0	-3.2	
Since Inception (1/95)	8.6	7.9	

**Recommendation**

\* Completeness Fund



**FRANKLIN PORTFOLIO ASSOCIATES**  
**Periods Ending September, 2002**

**Portfolio Manager: John Cone**

**Assets Under Management: \$1,269,222,761**

**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.

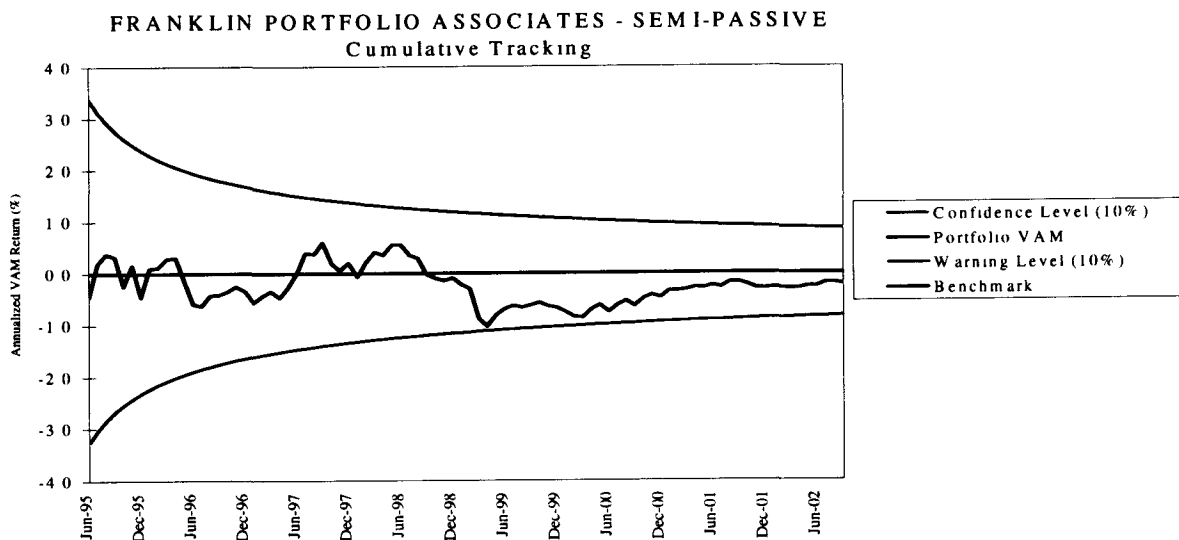
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	-16.6%	-16.8%
Last 1 year	-18.1	-17.6
Last 2 years	-23.4	-24.2
Last 3 years	-13.7	-14.1
Last 4 years	-6.5	-6.1
Last 5 years	-3.9	-3.2
Since Inception (1/95)	7.7	7.9

**Recommendation**

No action required.

\* Completeness Fund



**J.P. MORGAN INVESTMENT MANAGEMENT, INC.**  
**Periods Ending September, 2002**

**Portfolio Manager: Tim Devlin**

**Assets Under Management: \$1,743,237,288**

**Investment Philosophy**  
**Semi-Passive**

JP 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**

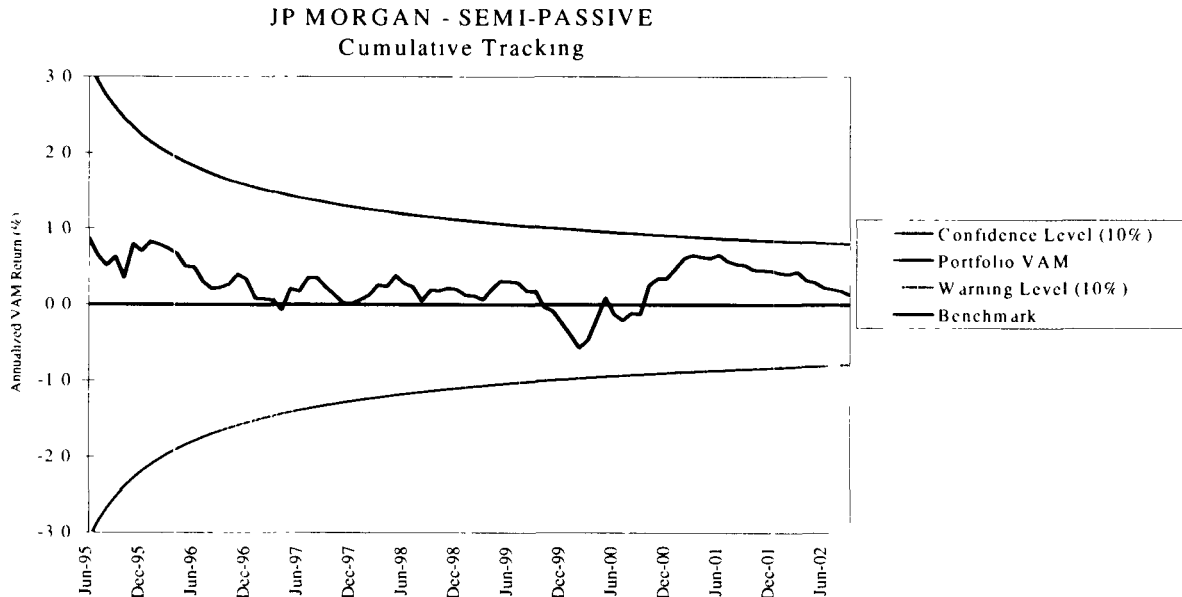
JP Morgan lagged the benchmark over the past quarter and year. During the quarter, poor stock selection in telecommunications and materials hurt results. Over the past year, stock selection has been negative as well mostly within industrials, telecommunications, and financials.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>	
Last Quarter	-17.4%	-16.8%	No action required
Last 1 year	-19.7	-17.6	
Last 2 years	-23.5	-24.2	
Last 3 years	-14.0	-14.1	
Last 4 years	-6.1	-6.1	
Last 5 years	-3.2	-3.2	
Since Inception (1/95)	8.1	7.9	

**Recommendation**

\* Completeness Fund





**BARCLAYS GLOBAL INVESTORS**  
**Periods Ending September, 2002**

**Portfolio Manager: Amy Schioldager**

**Assets Under Management: \$4,595,991,852**

**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**

Staff met recently with Amy Schioldager, our portfolio manager, at our office in St. Paul to discuss various issues related to the management of our passive account. The passive account slightly outperformed for the quarter and trailed the benchmark over the past year.

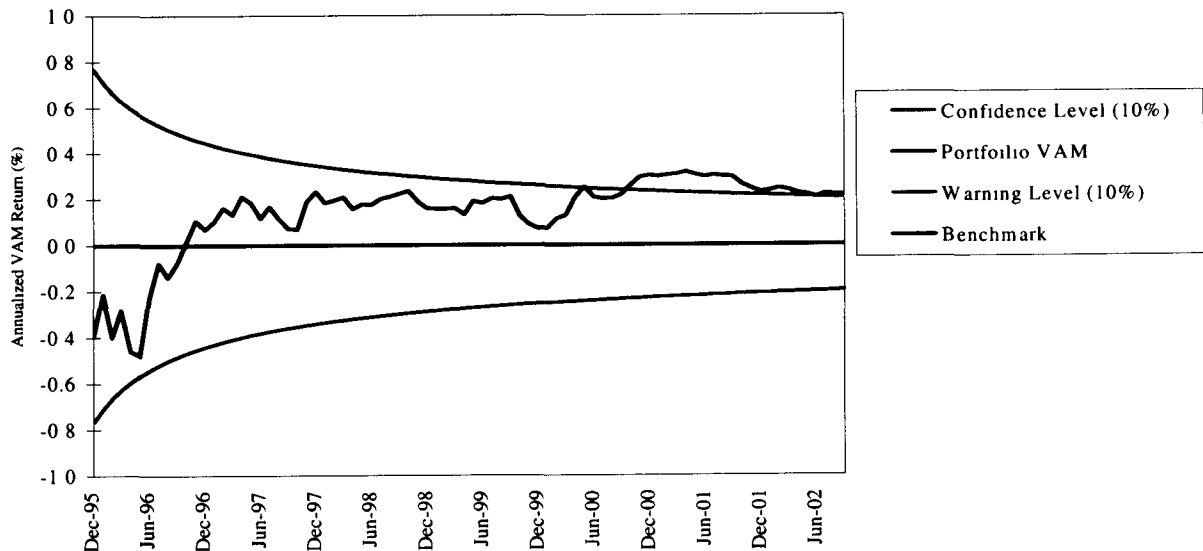
**Quantitative Evaluation**

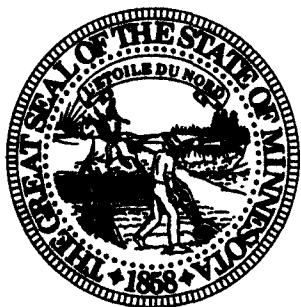
	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-17.1%	-17.2%
Last 1 year	-18.4	-18.2
Last 2 years	-24.0	-24.2
Last 3 years	-12.1	-12.3
Last 4 years	-3.6	-3.8
Last 5 years	-2.1	-2.4
Since Inception (7/95)	6.7	6.5

**Recommendation**

No action required.

**BARCLAYS GLOBAL INVESTORS - PASSIVE**  
**Cumulative Tracking**





# STATE BOARD OF INVESTMENT

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## Emerging Stock Manager Evaluation Reports

Third Quarter, 2002



**ARTEMIS INVESTMENT MANAGEMENT, LLC**  
**Periods Ending September, 2002**

**Portfolio Manager: Joyce Capuano**

**Assets Under Management: \$30,278,040**

**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 lagged the benchmark for the quarter and has trailed significantly over the past year. Negative stock selection in industrials, consumer staples, consumer discretionary, energy, and healthcare was only partially offset by positive selection in financials and technology. Poor results over the past year were primarily the result of poor stock selection within consumer names.

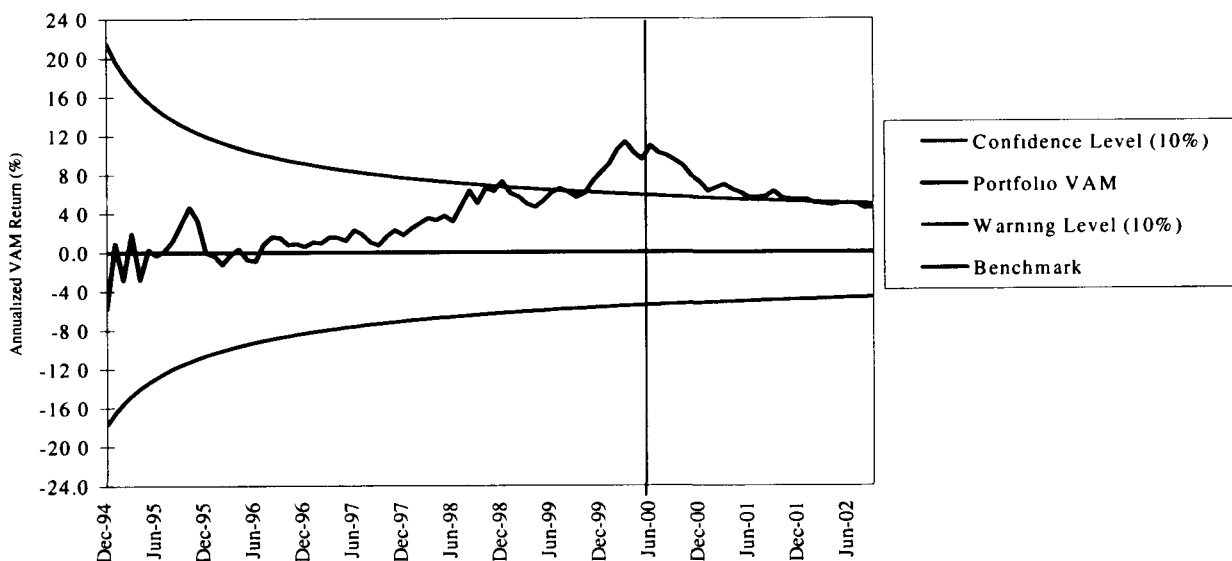
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-21.8%	-19.8%
Last 1 Year	-12.0	-5.1
Last 2 Years	-20.6	-12.2
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)	-20.2	-10.5

**Recommendation**

No action required.

**Artemis Investment Management  
 Cumulative Tracking**



## BAY ISLE FINANCIAL CORP.

Periods Ending September, 2002

**Portfolio Manager: William Schaff**

**Assets Under Management: \$35,971,880**

### 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

Janus Capital Management will likely succeed Berger Financial Group as Bay Isle's corporate parent in January 2003. This change will not affect Bay Isle's operations in any way. Bay Isle lagged the benchmark during the quarter on poor stock selection in healthcare, energy, and consumer staples. Bay Isle also underweight the consumer staples sector, which performed well. Over the past year, relative performance has been hurt by poor stock selection in consumer staples and financials.

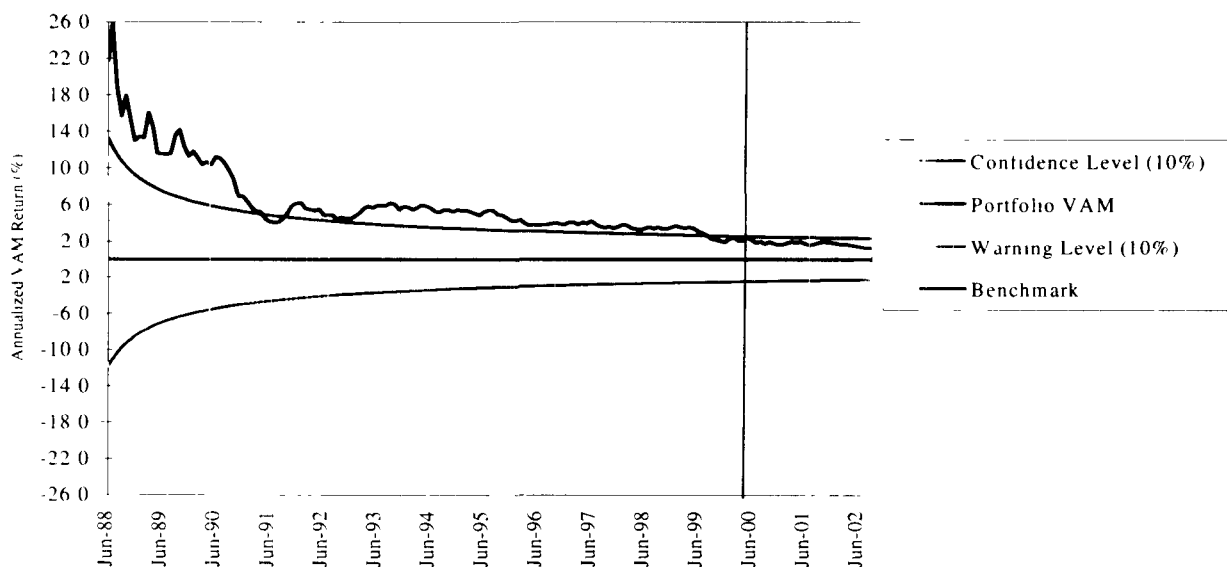
### Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-19.2%	-17.7%
Last 1 Year	-19.5	-14.0
Last 2 Years	-16.4	-14.9
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)	-13.6	-10.4

### Recommendation

No action required

Bay Isle Financial  
Cumulative Tracking



**EARNEST PARTNERS, LLC**  
**Periods Ending September, 2002**

**Portfolio Manager: Paul Viera**

**Assets Under Management: \$35,772,933**

**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 beat the index over the quarter but remains well behind for the past year. During the quarter, positive sector allocations contributed to results while stock selection was weak, especially in healthcare and telecommunications. Overweights in energy and financials helped results. Over the past year, performance was hurt primarily due to a mix of poor stock selection and sector allocations. In addition, the benchmark had a significantly lower average market capitalization, which hurt results as large cap generally underperformed the market over the past year. Earnest's benchmark construction process has since been modified to rectify this.

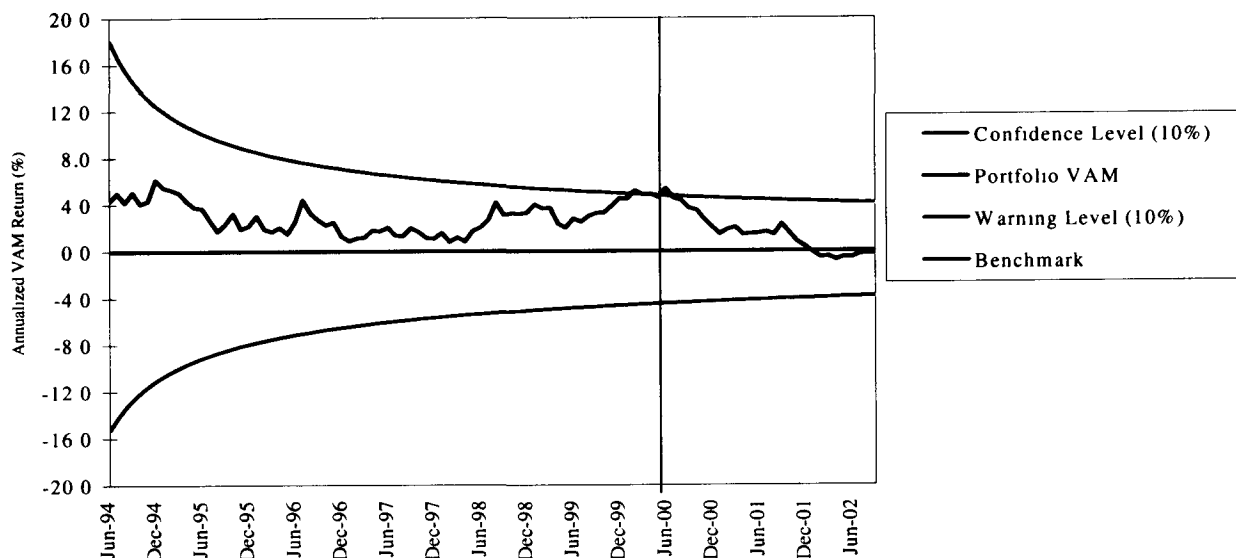
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-15.8%	-18.1%
Last 1 Year	-20.3	-2.6
Last 2 Years	-14.8	-2.8
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)	-14.1	0.8

**Recommendation**

No action required.

**EARNEST Partners  
 Cumulative Tracking**



**HOLT-SMITH & YATES ADVISORS**  
**Periods Ending September, 2002**

**Portfolio Manager: Kristin Yates**

**Assets Under Management: \$31,003,579**

**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 lagged during the quarter and is well behind the benchmark for the past year. During the quarter, very strong technology stock selection was not enough to offset poor selection in the consumer discretionary and industrial sectors. Over the past year, the benchmark had a significantly lower average market capitalization, which hurt results as large cap generally underperformed the market. Holt-Smith's benchmark construction process has since been modified to rectify this.

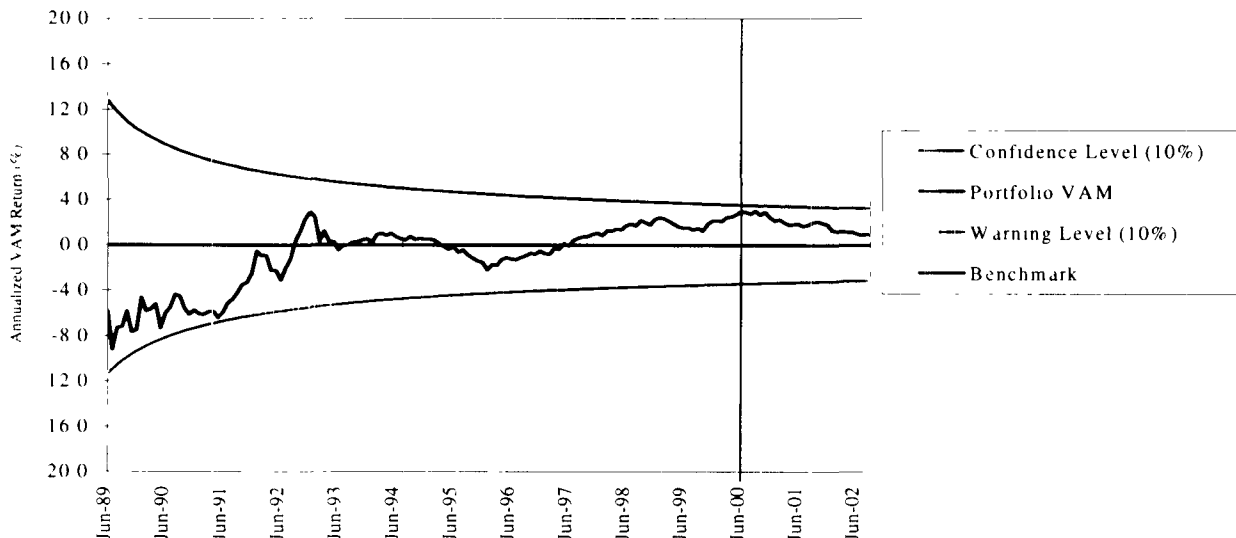
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-20.7%	-19.7%
Last 1 Year	-20.2	-8.8
Last 2 Years	-21.9	-12.1
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)	-19.6	-11.2

**Recommendation**

No action required

**Holt-Smith & Yates  
 Cumulative Tracking**



**NEXT CENTURY GROWTH INVESTORS, LLC**  
**Periods Ending September, 2002**

**Portfolio Manager: Thomas Press and Don Longlet**

**Assets Under Management: \$20,688,947**

**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 beat the index over the past quarter and year. During the quarter, stock selection was strong in industrials and technology. An underweight in technology also helped results.

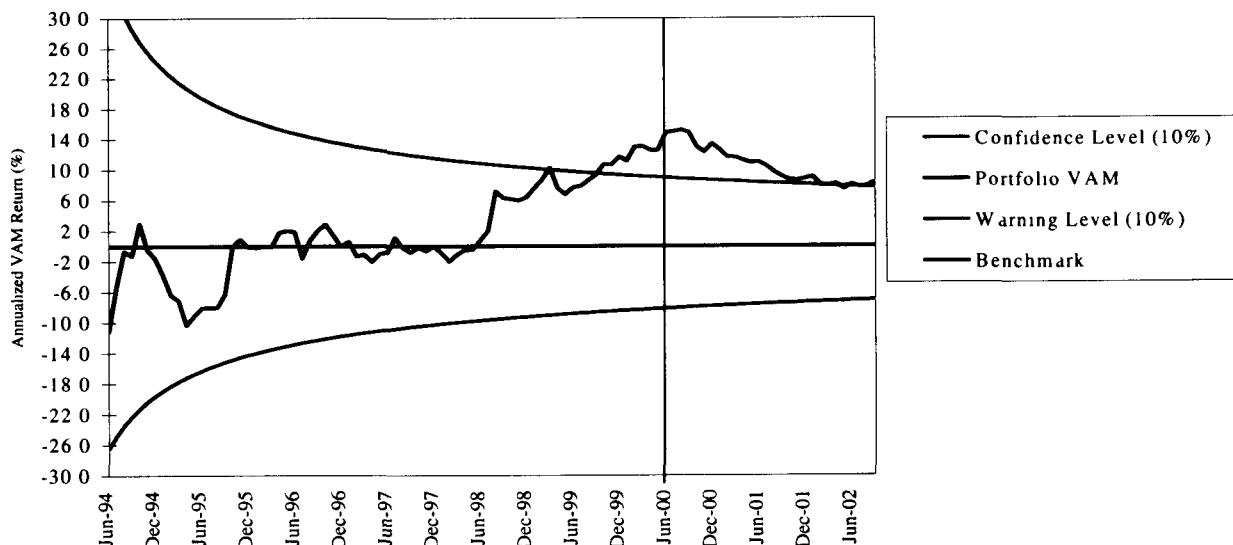
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-15.9%	-19.3%
Last 1 Year	-14.0	-16.2
Last 2 Years	-36.3	-28.3
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)	-32.8	-26.5

**Recommendation**

No action required.

**Next Century Growth Investors  
 Cumulative Tracking**





**PEREGRINE CAPITAL MANAGEMENT**  
**Periods Ending September, 2002**

**Portfolio Manager: Doug Pugh and Tasso Coin**

**Assets Under Management: \$105,904,110**

**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 underperformed for the quarter in a tough market for small cap value. Very weak stock selection in industrials, technology, and consumer discretionary more than offset slightly positive selection in energy and healthcare. Over the past year, poor stock selection across a number of sectors, most notably technology, led to poor results.

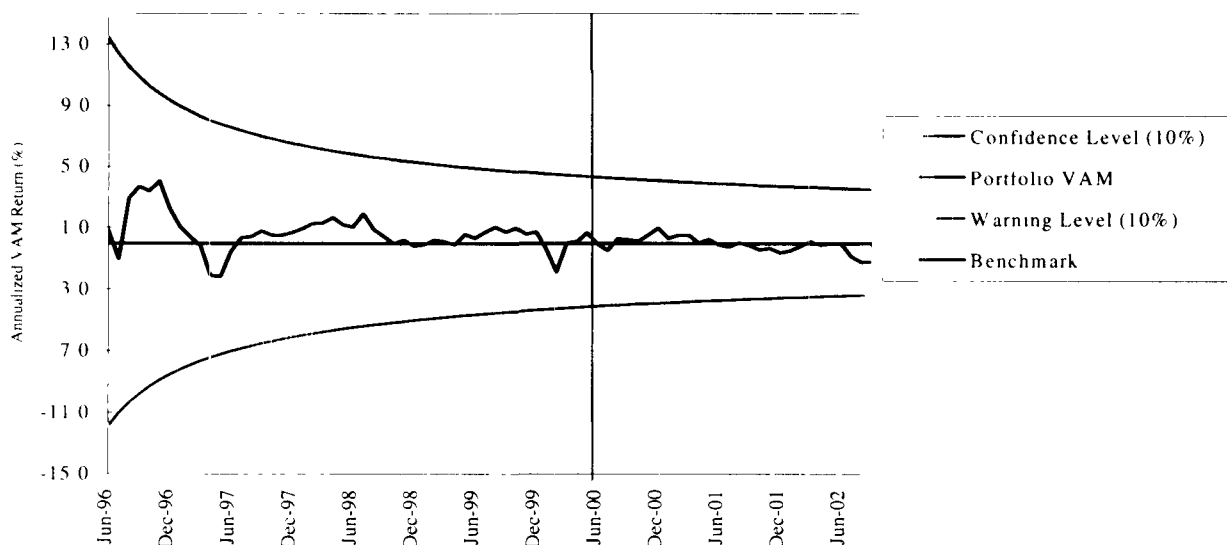
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-25.4%	-19.0%
Last 1 Year	-3.5	4.0
Last 2 Years	3.4	8.4
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	6.9	10.8

**Recommendation**

No action required

**Peregrine Capital Management  
 Cumulative Tracking**



**VALENZUELA CAPITAL MANAGEMENT**  
**Periods Ending September, 2002**

**Portfolio Manager: Tom Valenzuela**

**Assets Under Management: \$60,402,053**

**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 slightly underperformed over the quarter and is trailing significantly for the past year. Poor stock selection in the consumer discretionary, financial, and technology sectors was partially offset by an underweight to technology and a small cash position. Over the past year, stock selection across a number of sectors, most notably financials, led to poor relative performance.

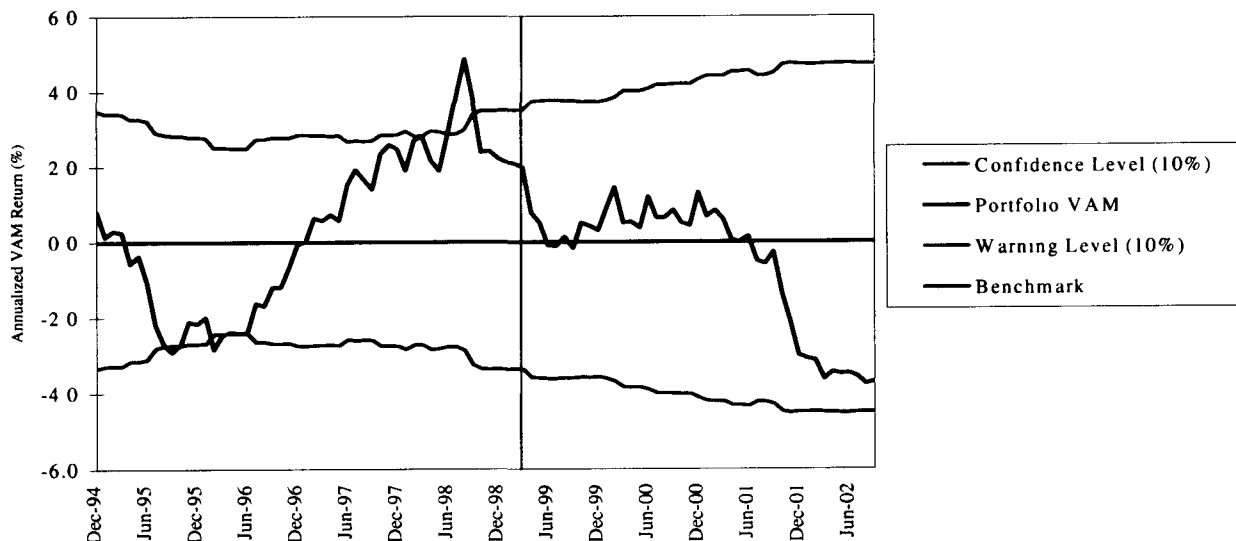
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-19.7%	-19.3%
Last 1 Year	-12.5	-2.9
Last 2 Years	-10.0	-5.5
Last 3 Years	-0.7	2.1
Last 4 Years	-0.2	5.3
Last 5 Years	-3.0	0.7
Since Inception (4/94)	8.6	9.7

**Recommendation**

No action required.

**Valenzuela Capital Partners**  
**Rolling Five Year VAM**



**VOYAGEUR ASSET MANAGEMENT**  
**Periods Ending September, 2002**

**Portfolio Manager: Charles Henderson**

**Assets Under Management: \$33,188,033**

**Investment Philosophy**

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

**Staff Comments**

Staff met with Voyageur in their Chicago office in September to review their investment process and performance and discuss their market outlook. Voyageur believes stock valuations are low and believes the market will recover once some of the uncertainty regarding the economy and Iraq diminishes. Voyageur slightly beat the benchmark over the quarter on strong stock selection, offset in part by negative sector allocations. Stock selection across all sectors was positive with the exception of utilities. Overweights in technology and industrials and a significant underweight in healthcare all detracted from performance.

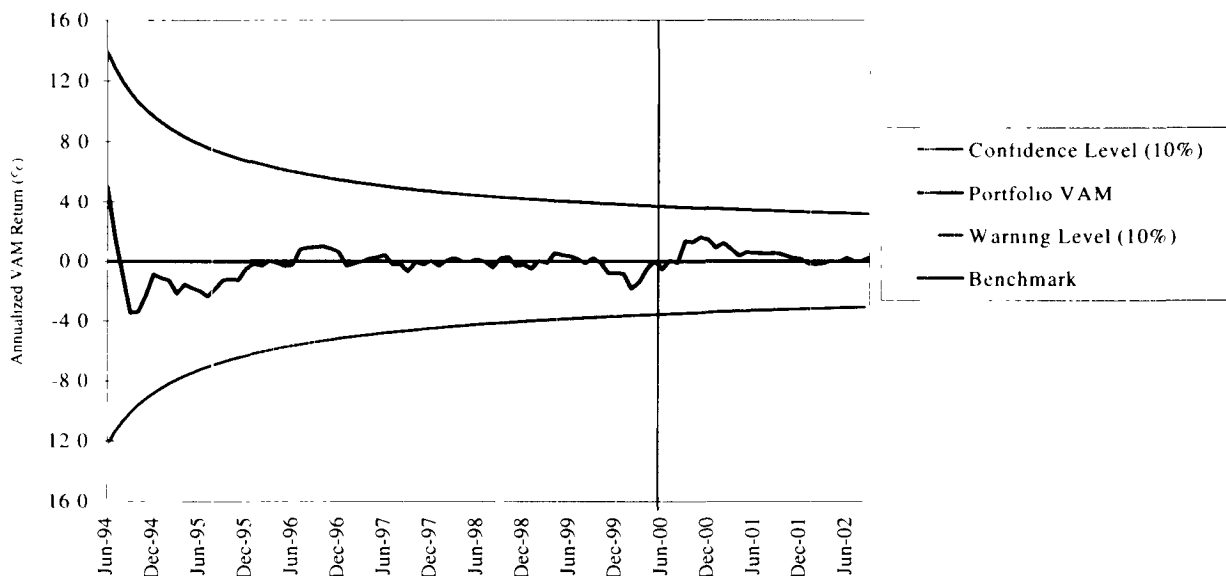
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-14.3%	-14.7%
Last 1 Year	-11.9	-10.2
Last 2 Years	-22.0	-19.3
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)	-17.2	-19.4

**Recommendation**

No action required

**Voyageur Asset Management  
 Cumulative Tracking**



**WINSLOW CAPITAL MANAGEMENT**  
**Periods Ending September, 2002**

**Portfolio Manager: Joseph Docter**

**Assets Under Management: \$99,204,817**

**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 had a good relative quarter but trails the benchmark over the past year. During the quarter, stock selection was strong in industrials, consumer discretionary, and consumer staples, offset somewhat by poor selection in technology and healthcare. A large overweight in healthcare, which performed well, also helped results. Over the past year, positive stock selection was not enough to offset negative sector allocations.

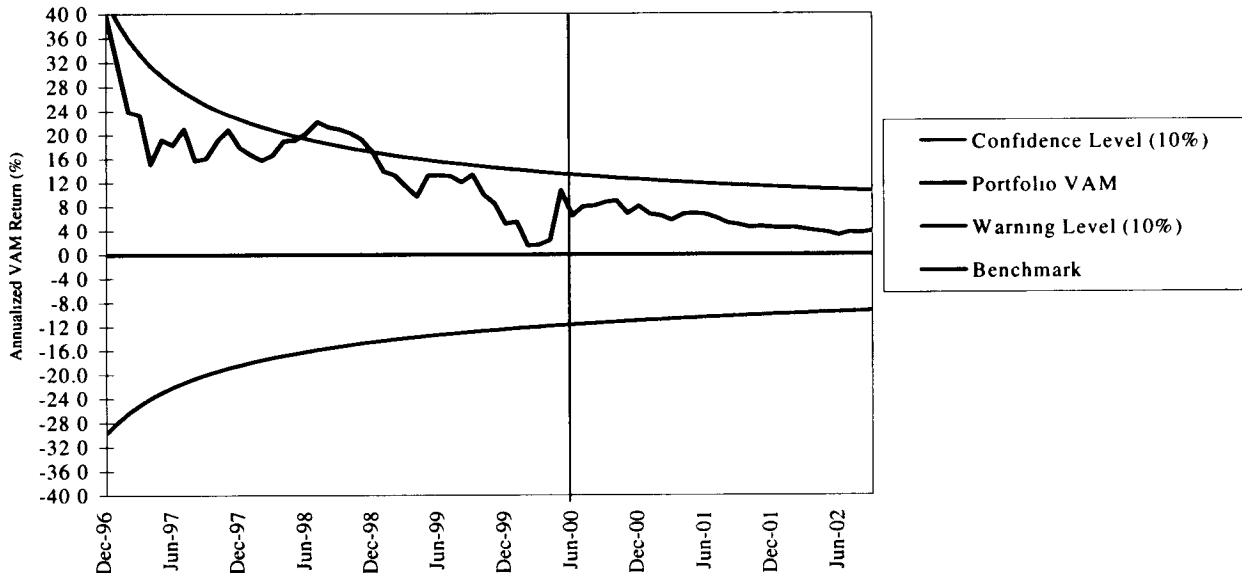
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-19.0%	-22.5%
Last 1 Year	-15.9	-14.1
Last 2 Years	-27.2	-22.6
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)	-22.5	-21.8

**Recommendation**

No action required.

**Winslow Capital Management  
 Cumulative Tracking**



**ZEVENBERGEN CAPITAL INC.**  
**Periods Ending September, 2002**

**Portfolio Manager:** Nancy Zevenbergen

**Assets Under Management:** \$80,333,553

**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 underperformed for the quarter and year. During the quarter, weak stock selection in industrials, financials, healthcare and consumer discretionary more than offset very strong technology stock selection. An underweight to healthcare also hurt quarterly results. Over the past year poor stock selection in technology, telecommunications, and consumer discretionary have significantly hurt relative performance.

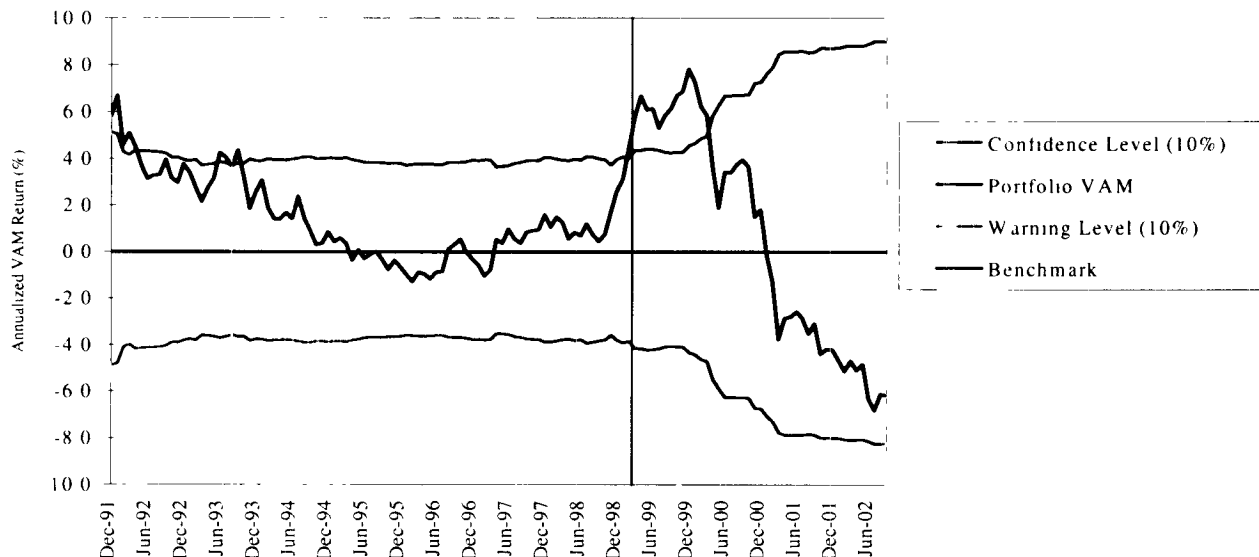
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-17.8%	-16.0%
Last 1 Year	-31.4	-12.2
Last 2 Years	-45.1	-27.6
Last 3 Years	-26.1	-8.1
Last 4 Years	-8.4	3.6
Last 5 Years	-3.7	2.6
Since Inception (4/94)	6.2	11.3

**Recommendation**

No action required

**Zevenbergen Capital Management  
Rolling Five Year VAM**





# STATE BOARD OF INVESTMENT

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## Bond Manager Evaluation Reports

Third Quarter, 2002

**COMBINED RETIREMENT FUNDS  
BOND MANAGERS  
Periods Ending September, 2002**

	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 %		
<b>Active Managers</b>												
American Express (AMG)	3.0	4.6	4.5	8.6	8.0	9.5	7.0	7.8	6.8	7.2	\$716.3	8.8%
Deutsche	5.3	4.6	9.2	8.6					11.4	10.8	\$592.6	7.3%
Dodge & Cox	4.4	4.6	9.7	8.6					11.6	10.8	\$698.7	8.6%
Metropolitan West	-3.9	4.6	-5.1	8.6					4.5	10.8	\$283.0	3.5%
Morgan Stanley	2.6	4.6	7.5	8.6	9.3	9.5	7.3	7.8	10.3	10.1	\$704.1	8.7%
Western	2.9	4.6	6.7	8.6	9.7	9.5	8.1	7.8	11.1	10.1	\$1,117.4	13.8%
<b>Semi-Passive Managers</b>												
BlackRock	4.4	4.6	7.9	8.6	9.5	9.5	8.0	7.8	8.1	7.9	\$1,355.4	16.7%
Goldman	3.7	4.6	7.3	8.6	9.2	9.5	7.6	7.8	7.3	7.2	\$1,301.6	16.1%
Lincoln	4.4	4.6	8.8	8.6	9.7	9.5	8.0	7.8	8.7	8.6	\$1,338.9	16.5%
											<b>\$8,107.9</b>	<b>100.0%</b>
									<b>Since 7/1/84</b>			
Current Aggregate	3.6	4.6	7.2	8.6	9.3	9.5	7.7	7.8	10.5	10.1		
<b>Historical Aggregate (2)</b>	<b>3.6</b>	<b>4.6</b>	<b>7.2</b>	<b>8.6</b>	<b>9.2</b>	<b>9.5</b>	<b>7.6</b>	<b>7.8</b>	<b>10.1</b>	<b>10.0</b>		
Lehman Aggregate (3)		4.6		8.6		9.5		7.8		10.1		

(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, 2002**

**Portfolio Manager: Jim Snyder**

**Assets Under Management: \$716,256,326**

**Investment Philosophy**

American Express manages portfolios using a top-down approach culminating with in-depth fundamental research and credit analysis. Five portfolio components are actively managed: duration, maturity structure, sector selection, industry emphasis, and security selection. Duration and maturity structure are determined by the firm's economic analysis and interest rate outlook. This analysis also identifies sectors and industries expected to produce the best risk adjusted return. In-depth fundamental research and credit analysis combined with proprietary valuation disciplines is used to identify attractive individual securities. American Express was retained by the SBI in July 1993.

**Staff Comments**

American Express underperformed materially over the quarter and year as the result of portfolio decisions based on a thesis of an improving economy, which has failed to materialize. The portfolio's overweight to Corporates and a lower quality bias hurt performance as spreads widened. In addition, a flattening bias hurt performance as intermediate yields fell most. An allocation to high yield also hurt performance

During the quarter, Michelle Keeley joined the firm as head of fixed income. Ms. Keeley replaces Fred Quirsfeld, who had retired earlier in the year. Staff will meet with American Express during the next quarter to discuss recent performance and portfolio strategy.

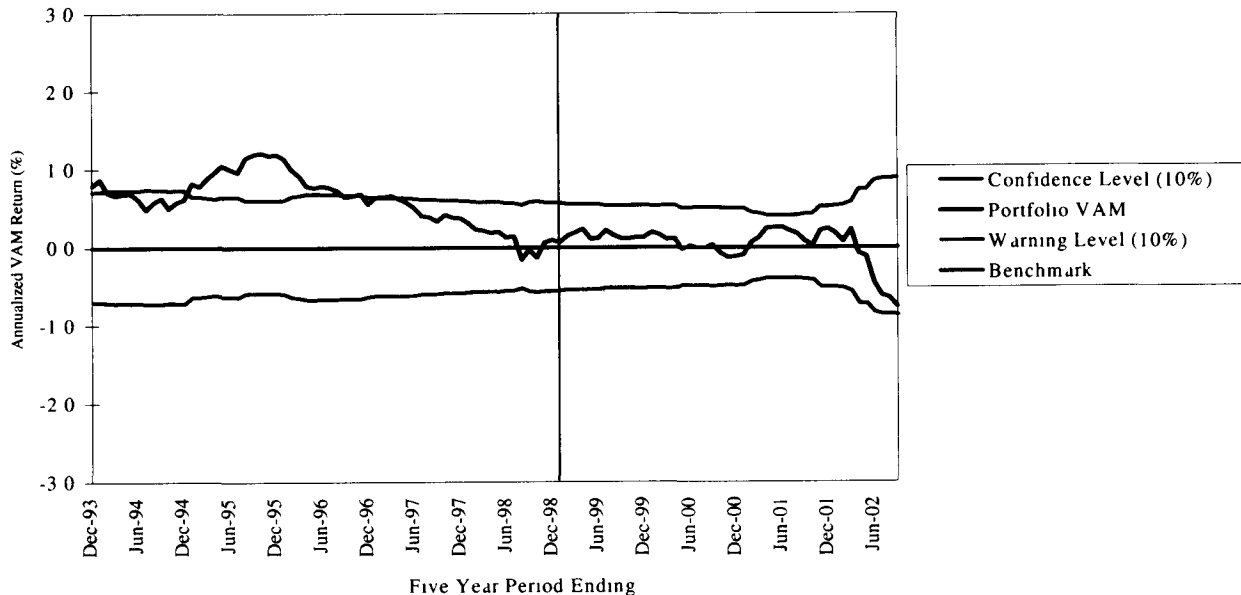
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	3.0%	4.6%
Last 1 year	4.5	8.6
Last 2 years	8.2	10.8
Last 3 years	8.0	9.5
Last 4 years	5.7	6.9
Last 5 years	7.0	7.8
Since Inception (7/93)	6.8	7.2

**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, 2002**

**Portfolio Manager: Warren Davis**

**Assets Under Management: \$592,647,469**

**Investment Philosophy**

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

**Staff Comments**

Deutsche Asset outperformed the benchmark over the quarter and for the year. Security selection and a higher quality bias within Corporates helped performance, as did security selection within Mortgages. A significant overweight to asset-backed securities hurt performance during the quarter, but was a strong contributor to relative performance over the full year.

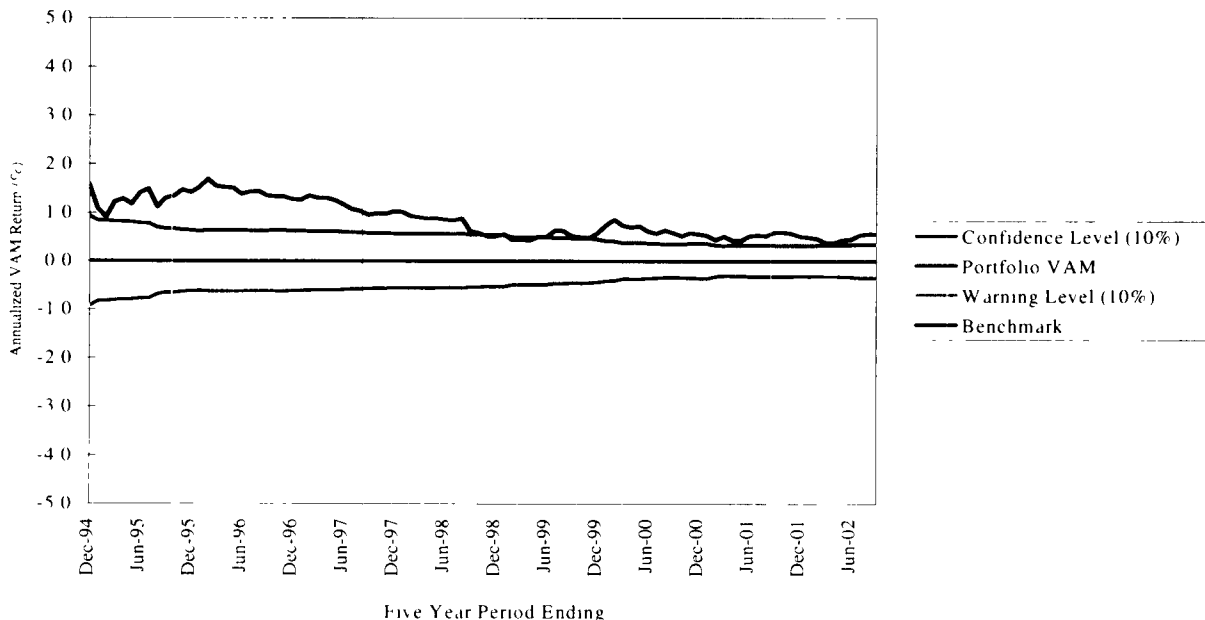
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	5.3%	4.6%
Last 1 year	9.2	8.6
Last 2 years	11.6	10.8
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (2/00)	11.4	10.8

**Recommendations**

No action required.

**DEUTSCHE ASSET MANAGEMENT**  
**Rolling Five Year VAM**



Note: Shaded area includes performance prior to the retention by the SBI

**DODGE & COX INVESTMENT MANAGERS**  
**Periods Ending September, 2002**

**Portfolio Manager: Dana Emery**

**Assets Under Management: \$698,670,580**

**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 slightly underperformed the benchmark during the quarter, but outperformed significantly over the full year. The portfolio's overweight to lower quality Corporates detracted from performance, but was somewhat offset by positive issue selection within the sector. Also detracting slightly from performance was the portfolio's shorter than benchmark duration and an overweight to Mortgages. For the full year, sector selection and issue selection within Corporates and Mortgages benefited performance.

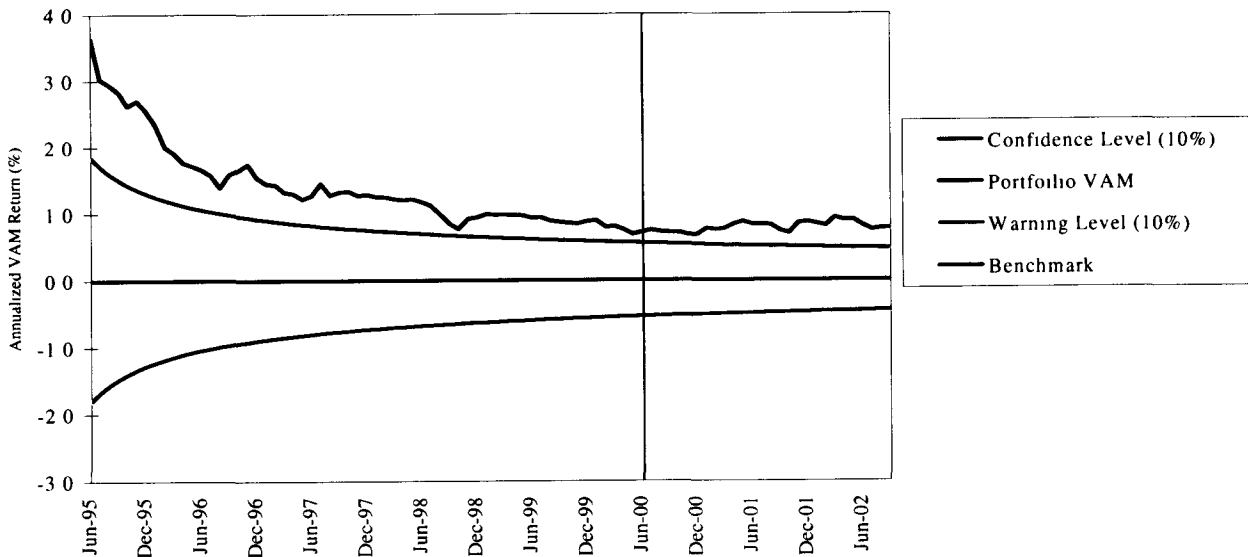
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	4.4%	4.6%
Last 1 year	9.7	8.6
Last 2 years	11.8	10.8
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (2/00)	11.6	10.8

**Recommendations**

No action required.

**DODGE & COX INVESTMENT MANAGERS**  
**Cumulative Tracking**



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

# METROPOLITAN WEST ASSET MANAGEMENT

## Periods Ending September, 2002

**Portfolio Manager: Tad Rivelle**

**Assets Under Management: \$282,999,439**

### 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 significantly underperformed the benchmark during the quarter as the portfolio's concentration in lower quality Corporate bonds underperformed the broader market. Several credit holdings experienced considerable price deterioration during the quarter (Ford, NRG, Lumberman's Mutual). A shorter than benchmark duration also hurt performance during the quarter. For the year, performance lagged the index by nearly 14 percentage points as the result of poor issue selection within the Corporate sector.

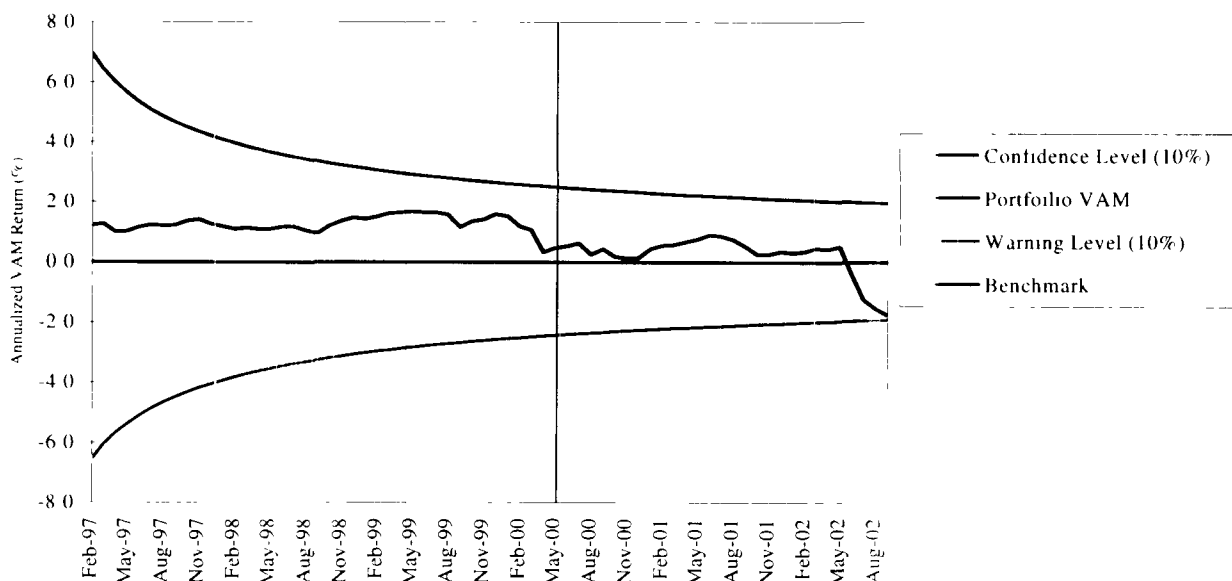
### Quantitative Evaluation

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-3.9%	4.6%
Last 1 year	-5.1	8.6
Last 2 years	4.0	10.8
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (2/00)	4.5	10.8

### Recommendations

Staff met recently with MetWest in our offices to discuss performance. While staff believes many of MetWest's investment decisions have a sound basis, it is unclear whether the portfolio's impaired credits will improve significantly and that performance will be retracted. Staff believes that MetWest's performance volatility is not consistent with our guidelines, and recommends that MetWest be terminated from the program.

### METROPOLITAN WEST ASSET MANAGEMENT Cumulative Tracking



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

**MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT**  
**Periods Ending September, 2002**

**Portfolio Manager: Tom Bennett**

**Assets Under Management: \$704,073,573**

**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 underperformed its benchmark during the quarter as the result of the portfolio's Corporate sector overweight, a significant underweight to Treasuries and a shorter than benchmark duration position with a flattening curve bias. Each of these strategies detracted from performance during the quarter as concerns over the economy propelled rates lower and spreads marginally wider. For the full year, the same themes of spread sector overweight, lower quality bias and shorter than benchmark duration resulted in underperformance.

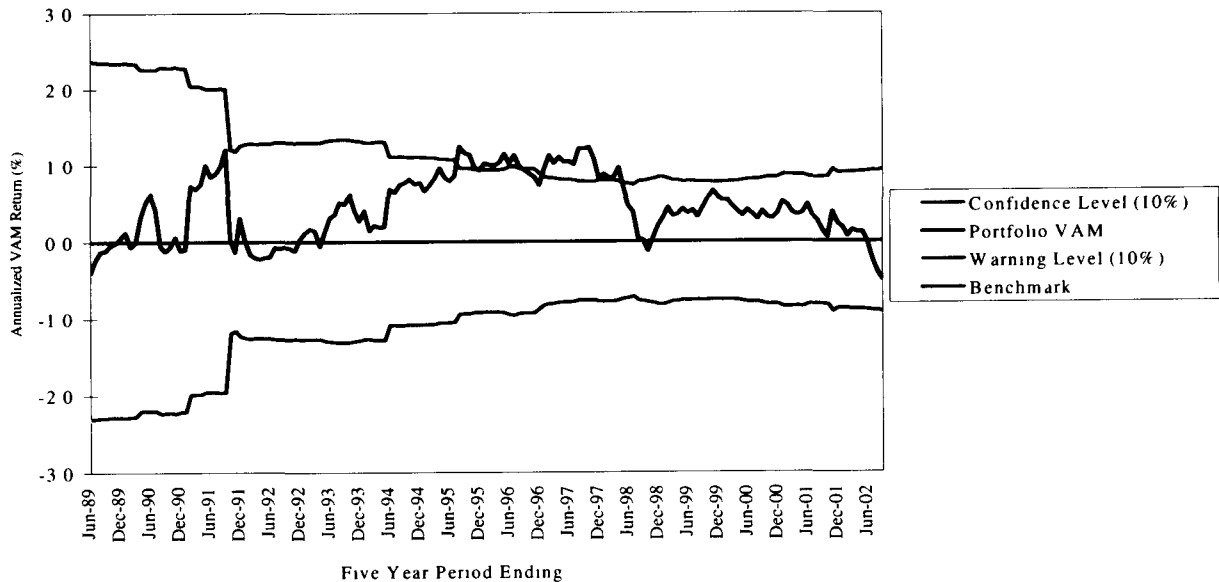
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.6%	4.6%
Last 1 year	7.5	8.6
Last 2 years	10.4	10.8
Last 3 years	9.3	9.5
Last 4 years	7.0	6.9
Last 5 years	7.3	7.8
Since Inception (7/84)	10.3	10.1

**Recommendations**

No action required.

**MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT**  
**Rolling Five Year VAM**



**WESTERN ASSET MANAGEMENT**  
**Periods Ending September, 2002**

**Portfolio Manager: Ken Leech**

**Assets Under Management: \$1,117,368,390**

**Investment Philosophy**

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

**Staff Comments**

Western underperformed the benchmark for the quarter as the result of an overweight to the Corporate and Mortgage sectors, and an emphasis on lower quality issuers within Corporates. Performance was helped by a longer than benchmark duration and an allocation to TIPS.

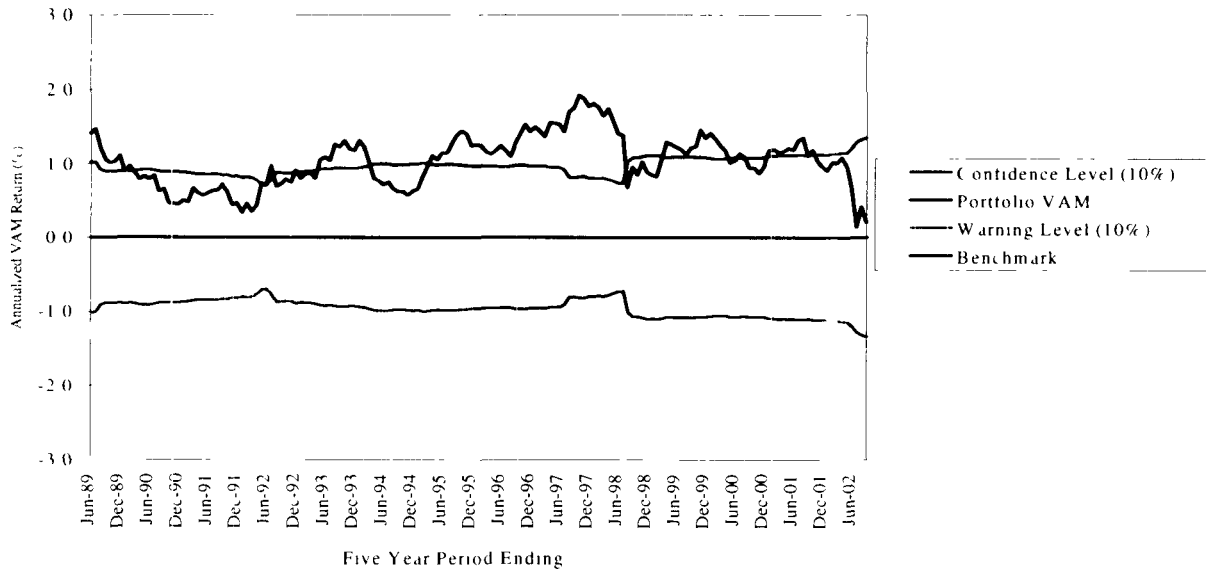
Over the full year, overweights to the Corporate and Mortgage sectors and a lower quality bias detracted from performance, as did an allocation to high yield.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>	
Last Quarter	2.9%	4.6%	No action required
Last 1 year	6.7	8.6	
Last 2 years	10.7	10.8	
Last 3 years	9.7	9.5	
Last 4 years	7.2	6.9	
Last 5 years	8.1	7.8	
Since Inception (7/84)	11.1	10.1	

**Recommendations**

**WESTERN ASSET MANAGEMENT**  
**Rolling Five Year VAM**



**BLACKROCK FINANCIAL MANAGEMENT**  
**Periods Ending September, 2002**

**Portfolio Manager: Keith Anderson**

**Assets Under Management: \$1,355,401,954**

**Investment Philosophy**

BlackRock manages an enhanced index portfolio closely tracking the Lehman Aggregate. The firm's enhanced index strategy is a controlled-duration, sector rotation style, which can be described as active management with tighter duration, sector, and quality constraints. BlackRock seeks to add value through: (i) controlling portfolio duration within a narrow band relative to the benchmark, (ii) relative value sector/sub-sector rotation and security selection, (iii) rigorous quantitative analysis to the valuation of each security and of the portfolio as a whole, (iv) intense credit analysis and review, and (v) the judgment of experienced portfolio managers. Advanced risk analytics measure the potential impact of various sector and security strategies to ensure consistent value added and controlled volatility. BlackRock was retained by the SBI in April 1996.

**Staff Comments**

BlackRock underperformed the index as the result of negative issue selection in Corporates and Mortgages and a flattening yield curve bias, which detracted from performance as the curve steepened during the quarter. On the positive side, a slightly longer than benchmark duration helped performance, as did a higher quality bias within Corporates and an overall underweight to that sector.

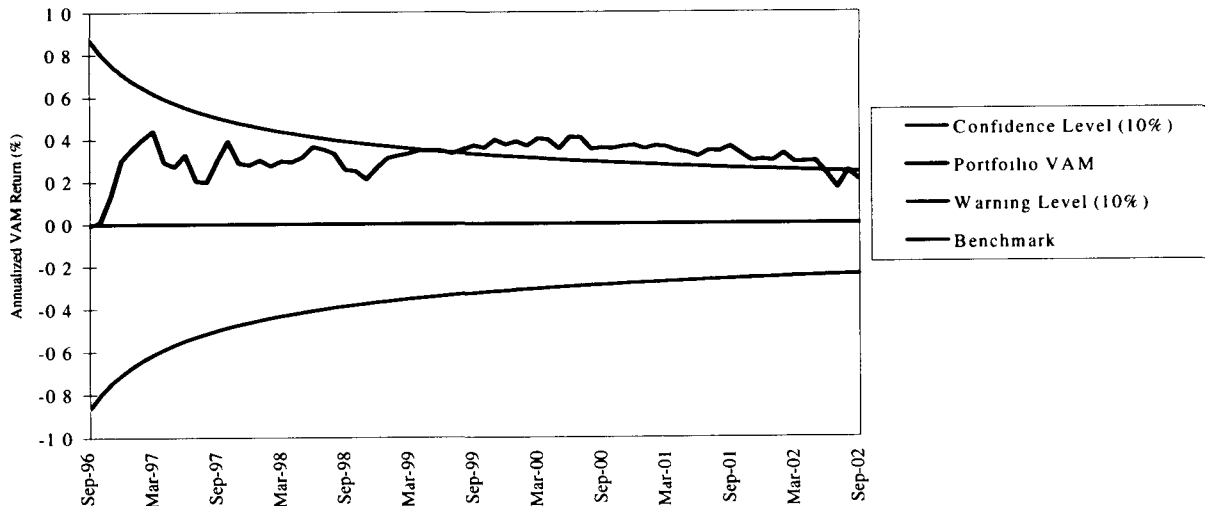
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	4.4%	4.6%
Last 1 year	7.9	8.6
Last 2 years	10.6	10.8
Last 3 years	9.5	9.5
Last 4 years	7.1	6.9
Last 5 years	8.0	7.8
Since Inception (4/96)	8.1	7.9

**Recommendation**

No action required.

**BLACKROCK FINANCIAL MANAGEMENT**  
**Cumulative Tracking**



**GOLDMAN SACHS ASSET MANAGEMENT**  
**Periods Ending September, 2002**

**Portfolio Manager: Jonathon Beinler**

**Assets Under Management: \$1,301,610,456**

**Investment Philosophy**

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

**Staff Comments**

Goldman's performance trailed the benchmark during the quarter as the portfolio's emphasis on lower quality Corporates continued to underperform. An overweight to Mortgages and negative issue selection within that sector also hurt performance. An allocation to TIPS helped performance during the quarter, as did an underweight to ABS and Agency bonds.

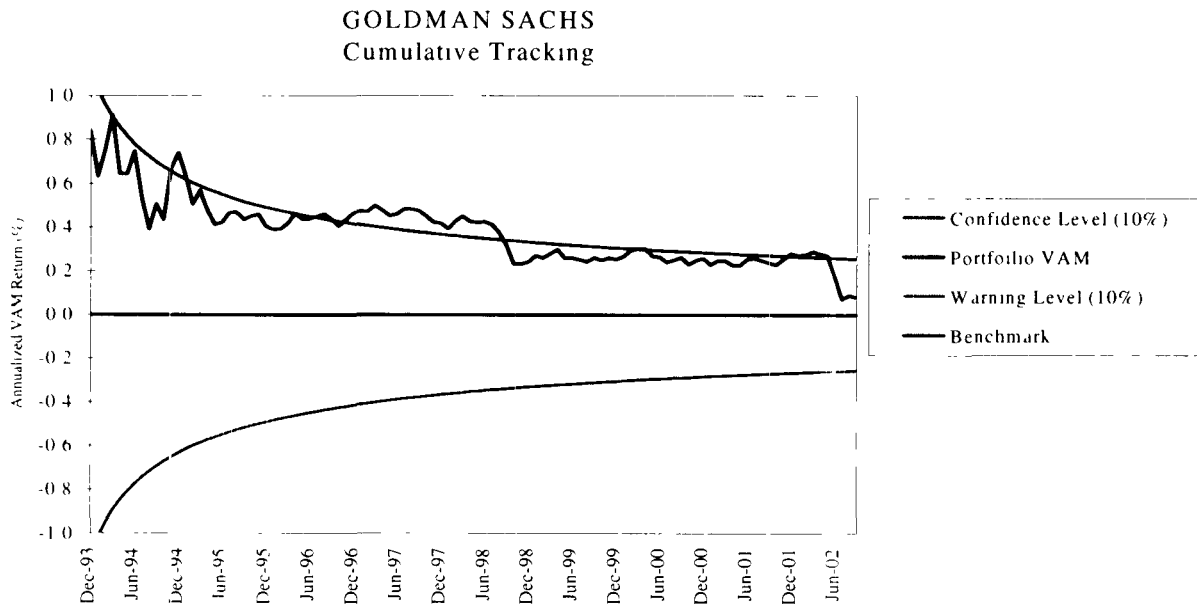
For the full year, Goldman's underperformance was the result of an overweight to Corporates, a lower quality bias and a shorter than benchmark duration position.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	3.7%	4.6%
Last 1 year	7.3	8.6
Last 2 years	10.1	10.8
Last 3 years	9.2	9.5
Last 4 years	6.7	6.9
Last 5 years	7.6	7.8
Since Inception (7/93)	7.3	7.2

**Recommendations**

No action required



**LINCOLN CAPITAL MANAGEMENT**  
**Periods Ending September, 2002**

**Portfolio Manager: Andrew Johnson**

**Assets Under Management: \$1,338,896,603**

**Investment Philosophy**

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

**Staff Comments**

Lincoln moderately underperformed as an overweight to Corporates and negative issue selection within Corporates hurt performance. Mortgage issue selection was a positive contributor.

For the full year, Lincoln's outperformance was the result of good issue selection within Mortgages and selective overweights to the Corporate and asset-backed sectors.

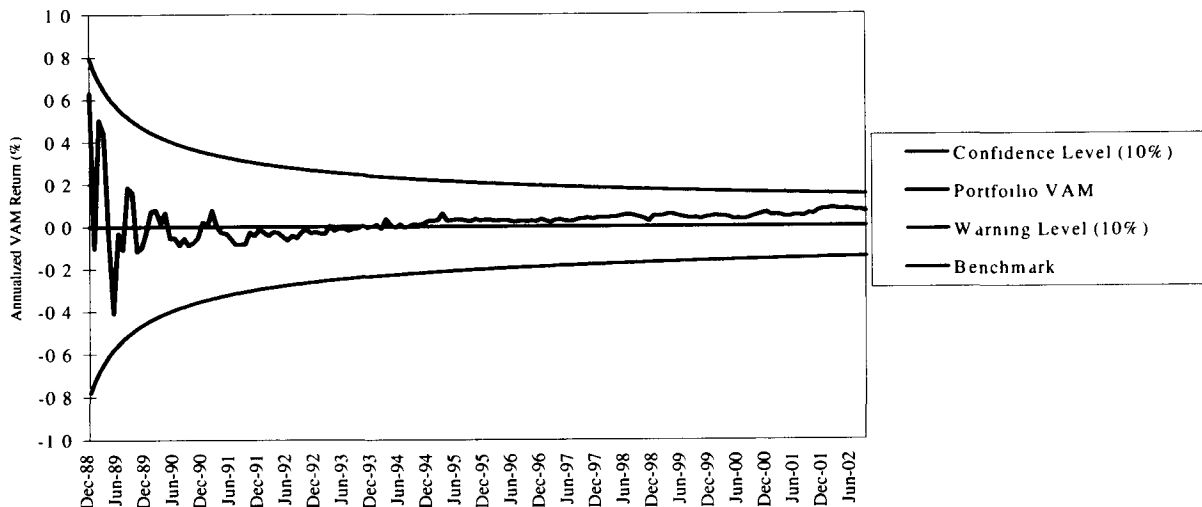
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	4.4%	4.6%
Last 1 year	8.8	8.6
Last 2 years	11.0	10.8
Last 3 years	9.7	9.5
Last 4 years	7.1	6.9
Last 5 years	8.0	7.8
Since Inception (7/88)	8.7	8.6

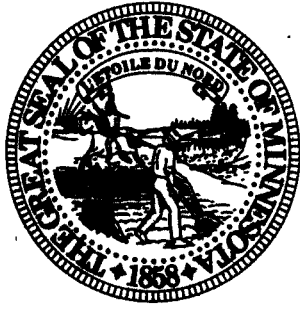
**Recommendations**

No action required.

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







# STATE BOARD OF INVESTMENT

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## International Manager Evaluation Reports

Third Quarter, 2002

**COMBINED RETIREMENT FUNDS  
INTERNATIONAL STOCK MANAGERS  
Periods Ending September, 2002**

	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		
	%	%	%	%	%	%	%	%	%	%		
<b>Active EAFE</b>												
American Express	-19.2	-19.7	-15.2	-15.4					-24.8	-20.4	\$368.1	8.8%
Britannic (Blairlogie)	-19.4	-19.7	-13.5	-15.4					-21.4	-20.4	\$225.7	5.4%
Invesco	-20.6	-19.7	-10.5	-15.4					-13.0	-20.4	\$439.7	10.5%
Marathon	-19.5	-18.4	-6.2	-9.2	-6.6	-11.9	-0.8	-4.3	3.8	0.6	\$452.7	10.9%
T. Rowe Price	-22.1	-19.7	-17.7	-15.4	-13.9	-14.6	-6.0	-5.6	1.5	0.3	\$375.1	9.0%
UBS Global	-21.3	-19.7	-15.6	-15.4	-8.6	-14.6	-1.9	-5.6	4.6	2.3	\$454.3	10.9%
<b>Active Emerging Markets</b>												
Alliance Capital	-13.2	-16.4	18.3	10.3					-16.0	-16.1	\$99.5	2.4%
Capital International	-18.5	-16.4	5.4	10.3					-23.1	-16.1	\$86.2	2.1%
Morgan Stanley	-16.5	-16.4	14.0	10.3					-15.8	-16.1	\$92.6	2.2%
Schroders	-17.0	-16.4	7.8	10.3					-20.1	-16.1	\$92.8	2.2%
<b>Passive EAFE</b>												
State Street	-19.6	-19.7	-15.2	-15.4	-14.4	-14.6	-5.4	-5.6	3.2	2.9	\$1,483.0	35.6%
									<b>Since 10/1/92</b>			
Equity Only (2) (4)	-19.8	-19.4	-12.3	-13.6	-12.9	-14.3	-5.7	-6.2	3.5	2.6	\$4,169.8	100.0%
<b>Total Program (3) (4)</b>	<b>-19.8</b>	<b>-19.4</b>	<b>-12.3</b>	<b>-13.6</b>	<b>-12.8</b>	<b>-14.3</b>	<b>-5.6</b>	<b>-6.2</b>	<b>3.8</b>	<b>2.6</b>	<b>\$4,169.8</b>	

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

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

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

(4) From October 1, 2001 to May 31, 2002 all international benchmarks being reported were the MSCI

Provisional indices. The overall international benchmark is EAFE-Free plus Emerging Markets Free (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, 2002**

**Portfolio Manager: Mark Burgess**

**Assets Under Management: \$368,066,528**

**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**

The portfolio outperformed during the quarter. It benefited from being underweight Europe, the weakest performing region in the benchmark. Stock selection within Europe, along with an underweight to information technology and an overweight to utilities also contributed positively to performance.

Over the year, stock selection within Europe was positive. Staff visited American Express at their London offices in September and reviewed the investment process and organization. Portfolio performance in Europe has improved following recent team changes. Staff spoke via conference call with Ed Gaunt, the lead portfolio manager for Japan, who joined the firm in September. American Express continues to invest the portfolio across a broad number of themes, which they feel will drive improved return on capital.

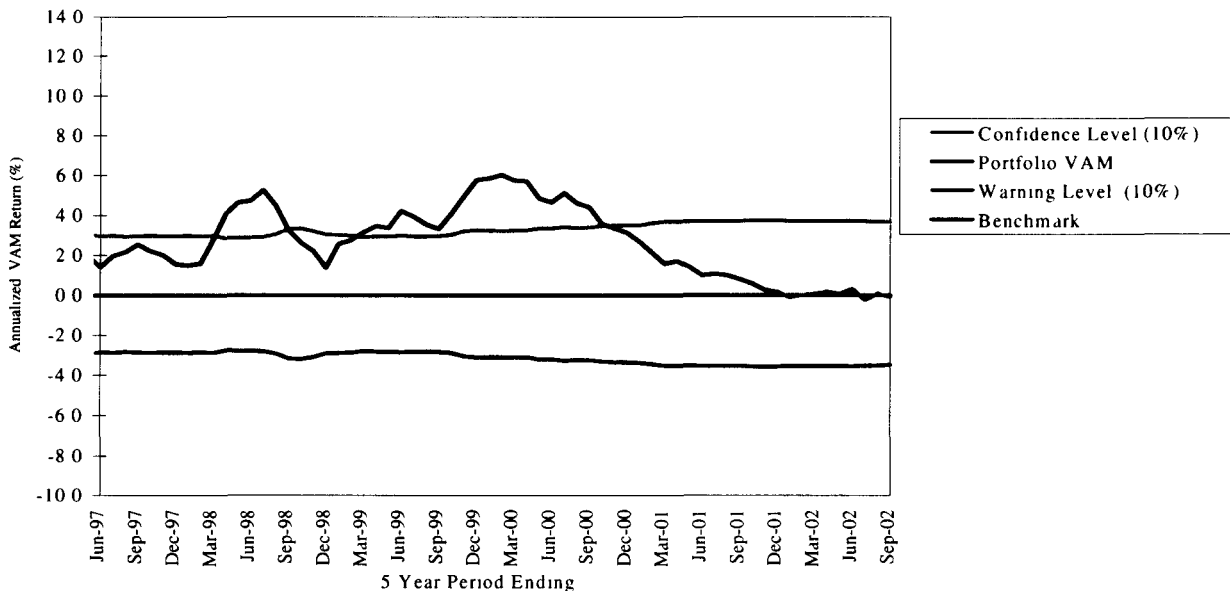
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-19.2%	-19.7%
Last 1 year	-15.2	-15.4
Last 2 years	-27.1	-22.2
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)	-24.8	-20.4

**Recommendations**

No action required.

**AMERICAN EXPRESS ASSET MANAGEMENT INT'L**  
**Rolling Five Year VAM**



Note: Shaded area includes performance prior to managing SBI account

**BRITANNIC ASSET MANAGEMENT (Blairlogie)**  
**Periods Ending September, 2002**

**Portfolio Manager: James Smith**

**Assets Under Management: \$225,701,542**

**Investment Philosophy**

Britannic 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. Britannic has developed country and sector models which analyze a broad-based collection of current and historical data. The models rank countries and sectors according to their overall score on variables which are grouped into five categories including Value, Macro, Earnings, Monetary and Technical. Regional analysts then select the best companies based on fundamental analysis. The objective of the process is to add value over the benchmark consistently in any market environment while controlling risk and volatility. Britannic's portfolio is broadly diversified in developed markets both by country and by sector, and has a large-cap emphasis.

**Staff Comments**

Staff visited the firm at their offices in Glasgow in September. We reviewed the investment process and organization, following the completed merger with Britannic Asset Management. The transition has gone smoothly, and the people and processes appear to have combined successfully. Staff will continue to monitor the integration, which has blended Blairlogie's top-down strength with Britannic's bottom-up capabilities, strong team ethic and administrative resources.

Strong stock selection in Europe contributed to the portfolio's outperformance during the quarter. For the year, the portfolio's overweight to Japan and underweight to the UK added value. The portfolio is positioned in a broad selection of stocks within countries which represent good value relative to both their own history and to other countries.

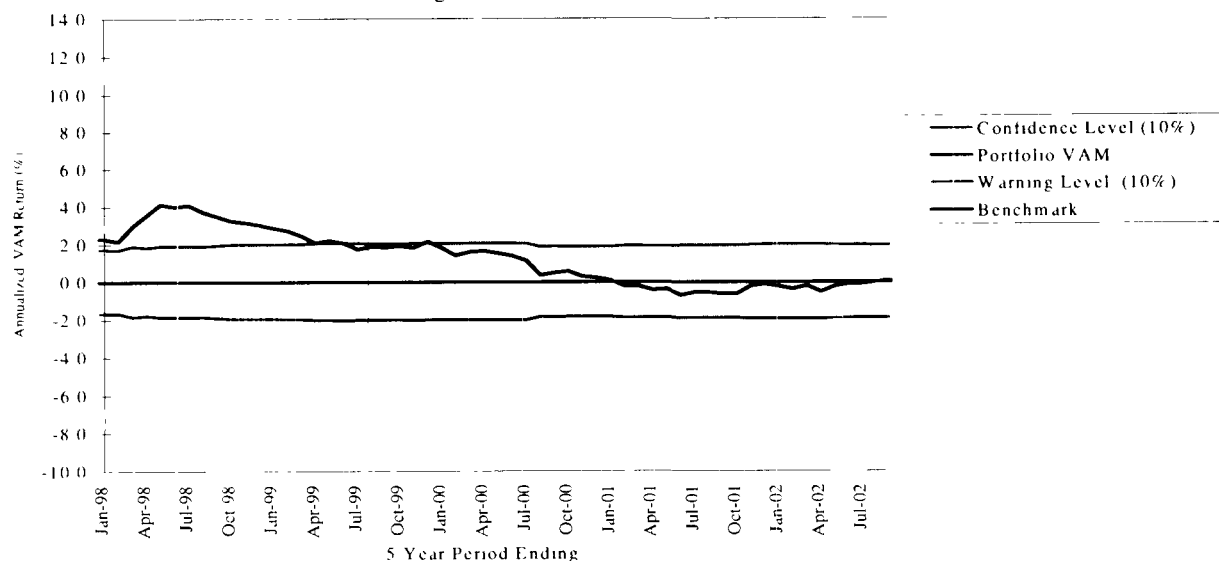
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-19.4%	-19.7%
Last 1 year	-13.5	-15.4
Last 2 years	-23.5	-22.2
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)	-21.4	-20.4

**Recommendations**

No action required

**BRITANNIC ASSET MANAGEMENT**  
**Rolling Five Year VAM**



Note: Shaded area includes performance prior to managing SBI account

**INVESCO GLOBAL ASSET MANAGEMENT**  
**Periods Ending September, 2002**

**Portfolio Manager: Erik Granade**

**Assets Under Management: \$439,679,112**

**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**

The portfolio underperformed during the quarter due to negative stock selection in the Netherlands, France and Japan and an underweight to Australia, which had strong relative performance. Stock selection within the industrials and financial sectors also lagged the benchmark.

During the one-year time period, the portfolio outperformed significantly. Stock selection in almost all markets, particularly Japan, the UK, and Australia added considerable value. Performance also benefited from holdings in the consumer staples, consumer discretionary, materials, and energy sectors.

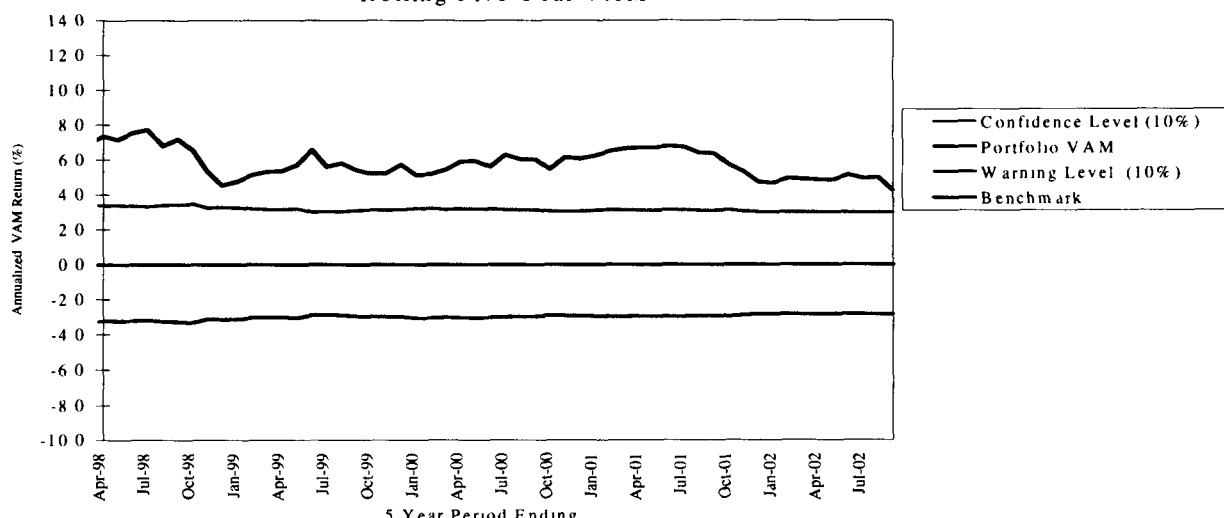
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-20.6%	-19.7%
Last 1 year	-10.5	-15.4
Last 2 years	-15.6	-22.2
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)	-13.0	-20.4

**Recommendations**

No action required.

**INVESCO GLOBAL ASSET MANAGEMENT**  
**Rolling Five Year VAM**



Note: Shaded area includes performance prior to managing SBI account

**MARATHON ASSET MANAGEMENT**  
**Periods Ending September, 2002**

**Portfolio Manager: William Arah**

**Assets Under Management: \$452,673,964**

**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**

Staff visited the firm at their London offices in September and reviewed portfolio strategy and the organization. Marathon remains overweight domestic Japanese companies, which they feel the market has over-discounted based on future expectations which are too pessimistic. Stock selection within France and the UK as well as within the healthcare and consumer discretionary sectors detracted from performance during the quarter.

Over the year, the portfolio's overweight to the Asia-Pacific region and underweight to Europe added value, as did the overweight to the materials and industrial sectors. Stock selection within Japan was positive and contributed to the portfolio's outperformance.

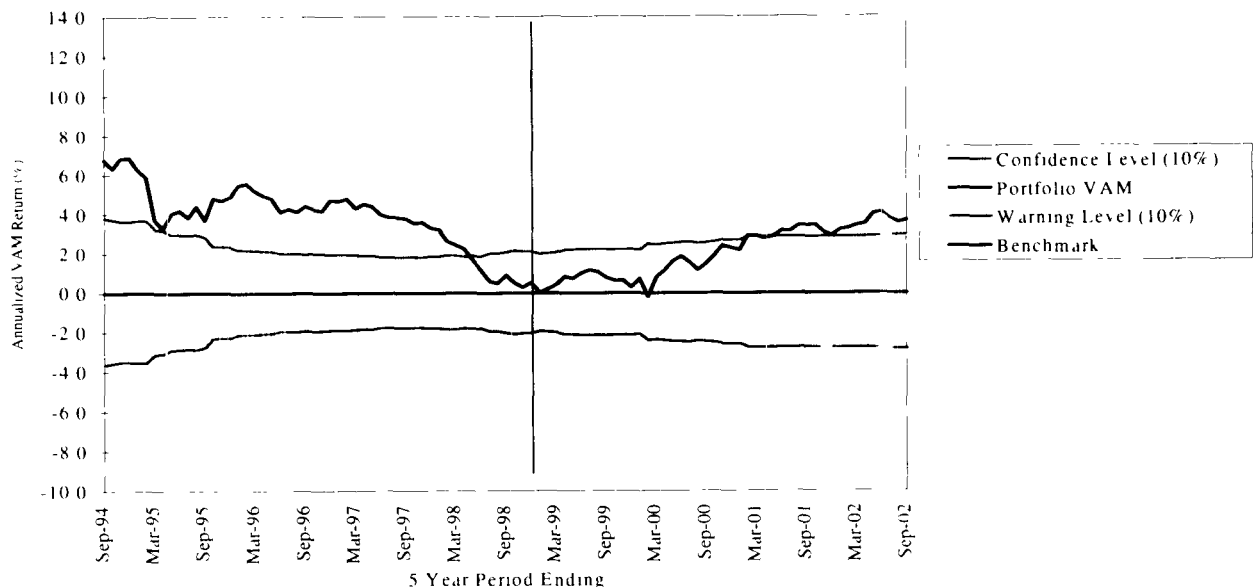
**Quantitative Evaluation**

	<b>Actual</b>	<b>Custom Benchmark</b>
Last Quarter	-19.5%	-18.4%
Last 1 year	-6.2	-9.2
Last 2 years	-13.0	-18.8
Last 3 years	-6.6	-11.9
Last 4 years	3.2	-2.7
Last 5 years	-0.8	-4.3
Since Inception (11/93)	3.8	0.6

**Recommendations**

No action required

**MARATHON ASSET MANAGEMENT**  
**Rolling Five Rolling VAM**



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

**T. ROWE PRICE INTERNATIONAL, INC.**  
**Periods Ending September, 2002**

**Portfolio Manager: David Warren**

**Assets Under Management: \$375,075,915**

**Investment Philosophy**

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

**Staff Comments**

The portfolio underperformed during the quarter. The underweight to Japan, which had strong relative performance, as well as stock selection within that country, contributed the most to this underperformance. Stock selection within the UK and Germany and overweight positions in the Netherlands and France also did not add value.

During the year, underweighting Japan contributed to the portfolio's underperformance, as did overweighting the media, financial, and pharmaceutical sectors. Stock selection within the UK, Germany, Australia and Hong Kong was also negative. Staff visited the firm in London in September. The firm continues to invest in companies which they feel will grow faster than Gross Domestic Product. This growth strategy has not been favored in recent value-oriented environment.

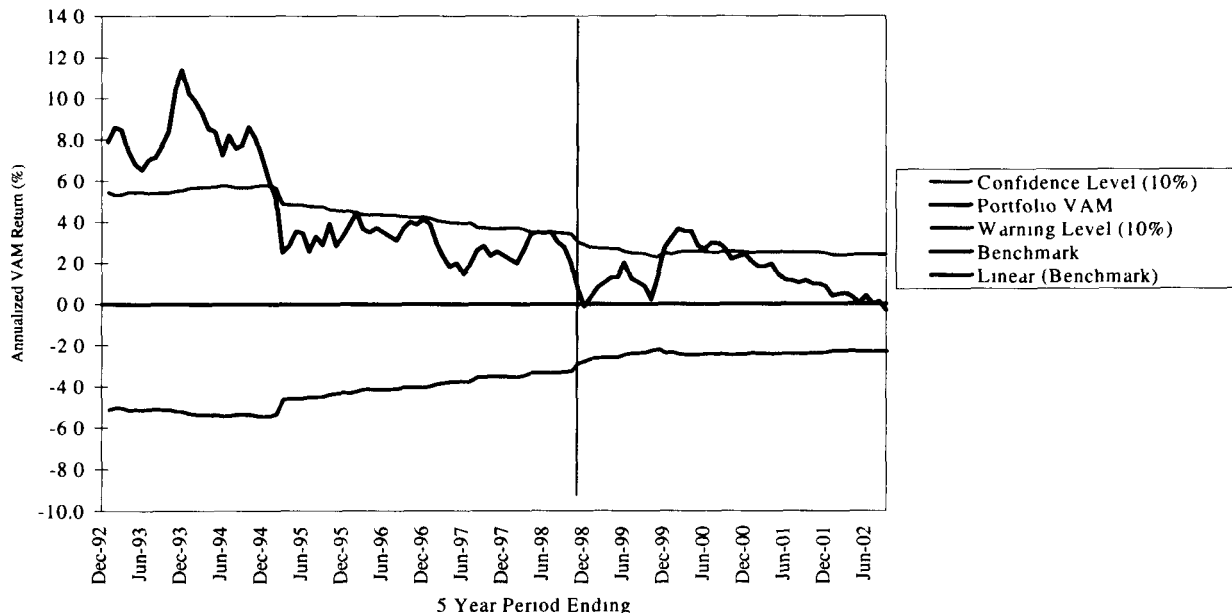
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-22.1%	-19.7%
Last 1 year	-17.7	-15.4
Last 2 years	-24.7	-22.2
Last 3 years	-13.9	-14.6
Last 4 years	-5.1	-5.0
Last 5 years	-6.0	-5.6
Since Inception (11/93)	1.5	0.3

**Recommendations**

No action required.

**T. ROWE PRICE INTERNATIONAL**  
**Rolling Five Year VAM**



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

**UBS GLOBAL ASSET MANAGEMENT, INC.**  
**Periods Ending September, 2002**

**Portfolio Manager: Thomas Madsen**

**Assets Under Management: \$454,258,138**

**Investment Philosophy**

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

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

**Staff Comments**

Staff met with UBS at their London offices to review the investment process and the organization. We discussed in detail the method analysts follow to model and value companies. UBS uses one common valuation system across all regions and industries so that research is done within a globally consistent framework. Recent performance has been hurt by not owning tobacco stocks.

During the quarter, the portfolio's underweight in Japan and overweight in France detracted from performance. Stock selection within the UK, Italy and Germany and within the financial and consumer staples sectors also hurt performance. The portfolio narrowly underperformed during the year, due to an overweight in the insurance and an underweight in the autos, tobacco, and utilities industries.

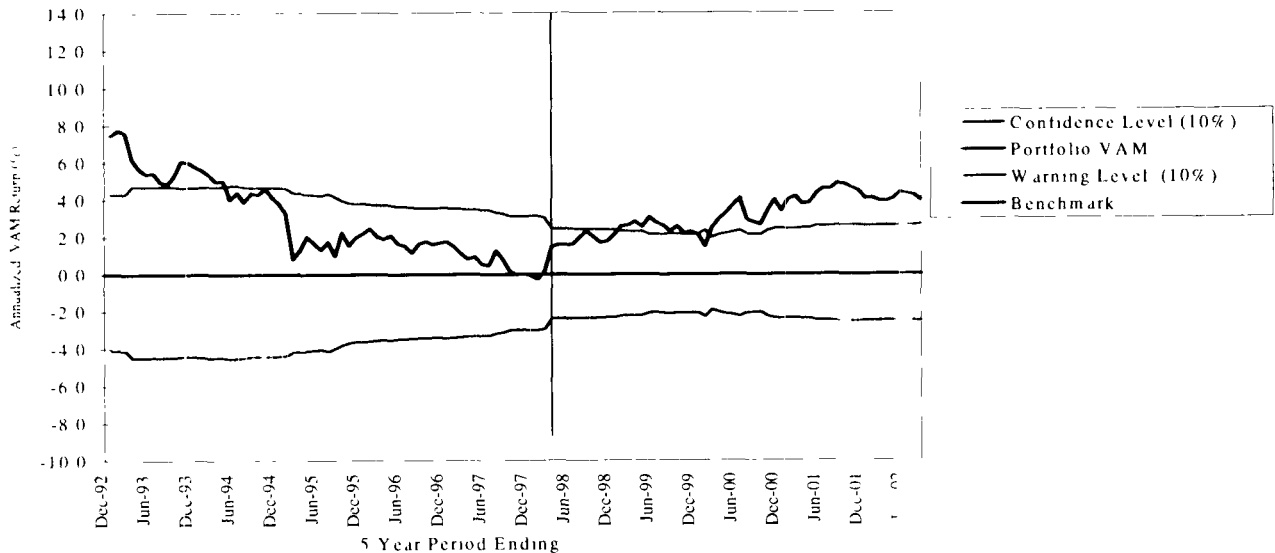
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-21.3%	-19.7%
Last 1 year	-15.6	-15.4
Last 2 years	-16.2	-22.2
Last 3 years	-8.6	-14.6
Last 4 years	-0.5	-5.0
Last 5 years	-1.9	-5.6
Since Inception (4/93)	4.6	2.3

**Recommendations**

No action required

**UBS GLOBAL ASSET MANAGEMENT, INC (INT'L)**  
**Rolling Five Year VAM**



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



**ALLIANCE CAPITAL MANAGEMENT INTERNATIONAL**  
**Periods Ending September, 2002**

**Portfolio Manager: Edward Baker**

**Assets Under Management: \$99,491,583**

**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**

Strong selection within each region of the benchmark contributed to the portfolio's significant outperformance during the quarter. In Asia, the underweight to technology and to Taiwan added value, as did the overweight in India. Russian oil holdings as well as central European banks contributed positively. Within Latin America, the portfolio was helped by its emphasis on defensive names in Brazil and a slight overweight in Mexico.

Over the year, strong stock selection, particularly within the Emerging Europe, Middle East and Africa (EMEA) region had the most significant contribution to performance.

Staff visited the firm's offices in London during the quarter and reviewed the process and organization. The team reviewed their new corporate governance rating system for emerging market companies, which is now a formalized part of their investment process.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-13.2	-16.4
Last 1 year	18.3	10.3
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 (3/01)	-16.0	-16.1

**Recommendations**

No action required.

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

**CAPITAL INTERNATIONAL, INC.**  
**Periods Ending September, 2002**

**Portfolio Manager: Shaw Wagner**

**Assets Under Management: \$86,185,053**

**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**

Performance during the quarter was hurt by the portfolio's overweight in Brazil and underweight in South Africa. Stock selection in Taiwan, and within the information technology, consumer staples, and utility sectors was also negative.

Over the year the overweight positions and stock selection within Mexico, Turkey and Brazil, and the underweight position in South Africa contributed to the portfolio's significant underperformance. The investment team at Capital continues to believe in the fundamental strength of the companies in the portfolio, which they feel offer growth potential at low valuations.

Staff visited the firm in London and discussed recent performance and outlook. The investment team discussed their concerns about recent legislative changes in South Africa which mandate black empowerment in the mining sector. Capital sees risk in the way this and any future related legislation may be implemented and therefore remains underweight the country.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-18.5	-16.4
Last 1 year	5.4	10.3
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 (3/01)	-23.1	-16.1

**Recommendations**

No action required

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

**MORGAN STANLEY INVESTMENT MANAGEMENT**  
**Periods Ending September, 2002**

**Portfolio Manager: Narayan Ramachandran**

**Assets Under Management: \$92,620,740**

**Investment Philosophy**

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

**Staff Comments**

The portfolio very narrowly underperformed during the quarter due to holdings in South Korea, Malaysia and Indonesia.

Over the year, both country allocations and stock selection added significant value. Underweight positions in Israel, Chile, Argentina, and Brazil and stock selection in Taiwan and South Africa contributed positively.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-16.5%	-16.4%
Last 1 year	14.0	10.3
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 (3/01)	-15.8	-16.1

**Recommendations**

No action required.

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

**SCHRODERS INVESTMENT MANAGEMENT NORTH AMERICA INC.**  
**Periods Ending September, 2002**

**Portfolio Manager: Mark Bridgeman**

**Assets Under Management: \$92,761,166**

**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**

During the quarter, stock selection in Taiwan detracted from performance, particularly the portfolio's overweight in semiconductor stocks. Stock selection in Russia and South Africa was also negative. Performance for the year was hurt by an overweight position in Turkey, and negative stock selection in financials and technology.

Staff visited the firm at their London offices in September and reviewed the organization, investment process, and recent management changes. Michael Dobson, CEO, has hired Richard Horlick to be Head of Institutional Business globally and Mark Pignatelli who was head of the European area, has now been appointed CIO. Schroders has gone from a broad based financial services firm to a company focused on asset management. They are centralizing and strengthening the management team in order to sharpen the focus of the firm.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-17.0	-16.4
Last 1 year	7.8	10.3
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 (3/01)	-20.1	-16.1

**Recommendations**

No action required

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

**STATE STREET GLOBAL ADVISORS**  
**Periods Ending September, 2002**

**Portfolio Manager: Lynn Blake**

**Assets Under Management: \$1,482,979,438**

**Investment Philosophy**

State Street Global Advisors passively manages the portfolio against the Morgan Stanley Capital International (MSCI) index of 21 markets located in Europe, Australia and the Far East (EAFE). They buy only securities which are eligible for purchase by foreign investors, therefore they are benchmarked against the MSCI EAFE-Free 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 which was within the range of expectation, both over the quarter and the year. During the quarter, the small cash and receivables position in the portfolio added value as the equity markets represented in the EAFE benchmark declined by close to 20%. Over the year, the majority of the positive tracking error was due to the lower dividend withholding taxes paid versus the net total return of the index.

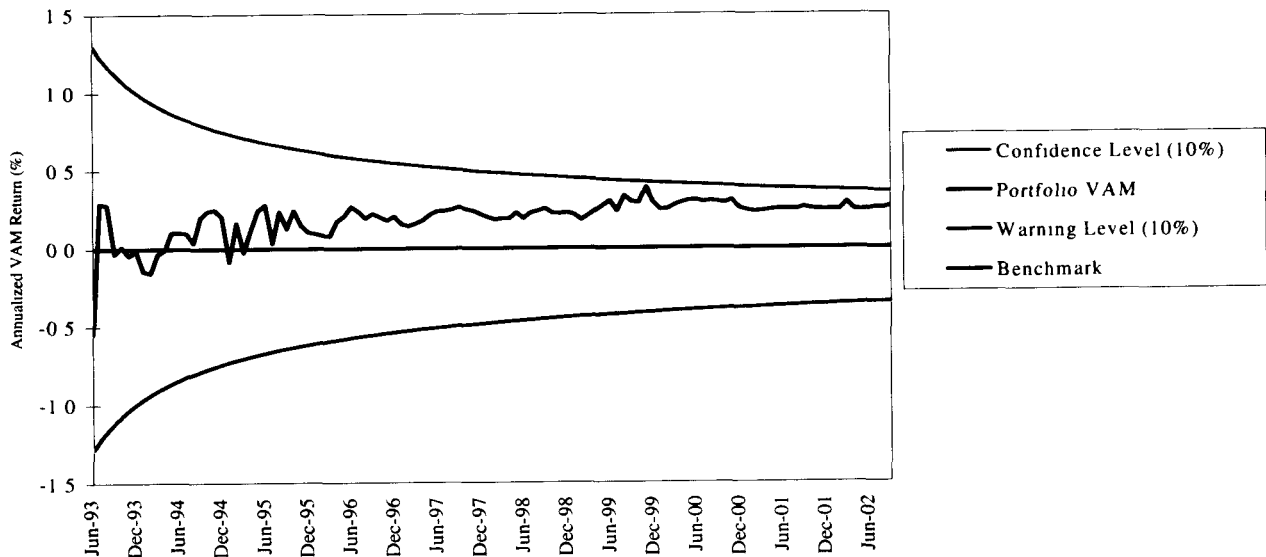
**Quantitative Evaluation**

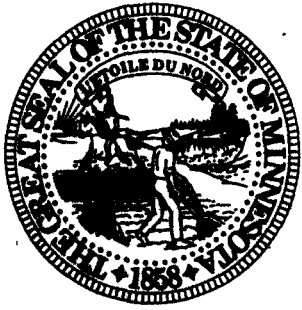
	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-19.6%	-19.7%
Last 1 year	-15.2	-15.4
Last 2 years	-22.1	-22.2
Last 3 years	-14.4	-14.6
Last 4 years	-4.7	-5.0
Last 5 years	-5.4	-5.6
Since Inception (10/92)	3.2	2.9

**Recommendation**

No action required.

**STATE STREET GLOBAL ADVISORS**  
**Cumulative Tracking**





# STATE BOARD OF INVESTMENT

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## Non-Retirement Manager Evaluation Reports

Third Quarter, 2002

**NON - RETIREMENT MANAGERS**  
**Periods Ending September, 2002**

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	
	%	%	%	%	%	%	%	%	%	%	
GE Investment Management (S&P 500 Index)*	-16.2	-17.3	-18.5	-20.5	-8.6	-12.9	1.1	-1.6	11.4	9.5	\$30.2
Voyageur Asset Management (Custom Benchmark)*	3.7	4.2	6.4	8.3	7.6	8.9	6.8	7.6	7.5	7.7	\$191.6
Galliard Capital Management (3 yr Constant Maturity Treasury + 45 bp)*	1.4	0.7	6.0	3.6	6.2	5.0	6.3	5.2	6.4	5.7	\$109.1
Internal Stock Pool (S&P 500 Index)*	-17.0	-17.3	-20.4	-20.5	-12.8	-12.9	-1.5	-1.6	8.7	8.6	\$861.9
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	4.3	4.6	6.1	8.6	8.8	9.5	7.5	7.8	8.7	8.5	\$186.9
Internal Bond Pool - Trust (Lehman Aggregate)*	4.4	4.6	6.8	8.6	9.0	9.5	7.7	7.8	8.4	8.3	\$800.9

\* 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, 2002**

**Portfolio Manager: Gene Bolton**

**Assets Under Management: \$30,214,867**

**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 year. The portfolio outperformed both periods primarily due to an underweight and stock selection in the technology sector.

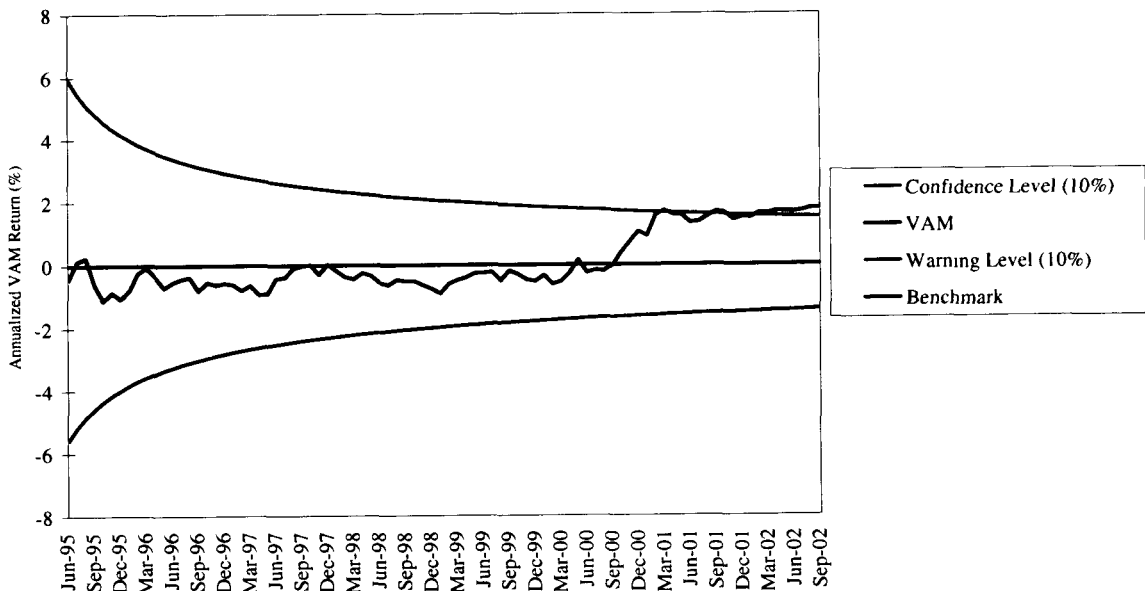
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-16.2%	-17.3%
Last 1 year	-18.5	-20.5
Last 2 years	-18.2	-23.6
Last 3 years	-8.6	-12.9
Last 4 years	-0.3	-4.1
Last 5 years	1.1	-1.6
Since Inception (1/95)	11.4	9.5

**Recommendation**

No recommendation at this time.

**GE INVESTMENT MANAGEMENT**  
**Cumulative Tracking**





**VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan**  
**Periods Ending September, 2002**

**Portfolio Manager: Tom McGlinch**

**Assets Under Management: \$191,593,417**

**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 underperformed the quarterly and one-year benchmark. The portfolio was negatively impacted during the quarter by an underweight in Treasuries, relative to the benchmark. The one-year underperformance was due to several credit downgrades.

**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark*</b>	
Last Quarter	3.7%	4.2%	No action required
Last 1 year	6.4	8.3	
Last 2 years	8.6	10.2	
Last 3 years	7.6	8.9	
Last 4 years	6.2	7.3	
Last 5 years	6.8	7.6	
Since Inception (7/91)	7.5	7.7	

\*Custom benchmark since inception date

**VAM Graph will be drawn for period ending 3/31/04.**

**GALLIARD CAPITAL MANAGEMENT**  
**Periods Ending September, 2002**

**Portfolio Manager: Karl Tourville**

**Assets Under Management: \$109,109,196**

**Investment Philosophy**

**Staff Comments**

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

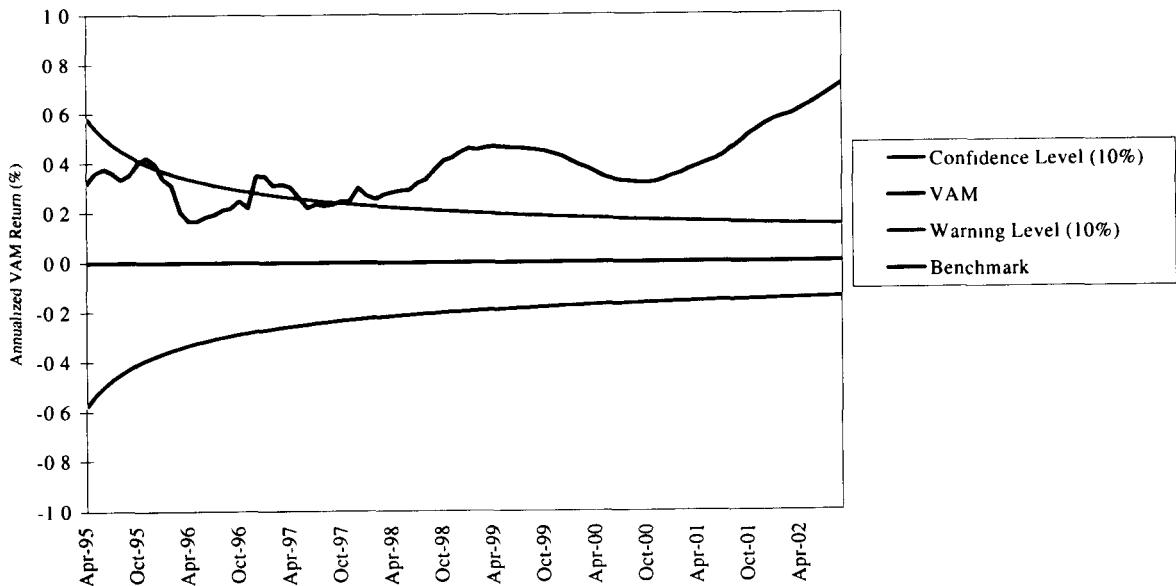
No comments at this time.

**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark</b>	
Last Quarter	1.4%	0.7%	No action required.
Last 1 year	6.0	3.6	
Last 2 years	6.2	4.2	
Last 3 years	6.2	5.0	
Last 4 years	6.2	5.1	
Last 5 years	6.3	5.2	
Since Inception (11/94)	6.4	5.7	

**Galliard Capital Management  
 Cumulative Tracking**



**INTERNAL STOCK POOL - Trust/Non-Retirement Assets**  
**Periods Ending September, 2002**

**Portfolio Manager: Mike Messen**

**Assets Under Management: \$861,899,752**

**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.

The portfolio outperformed the index for the quarter and the year. The positive tracking error during both time periods was due to the timing of the high volume of trading and a cashflow that was received during the quarter.

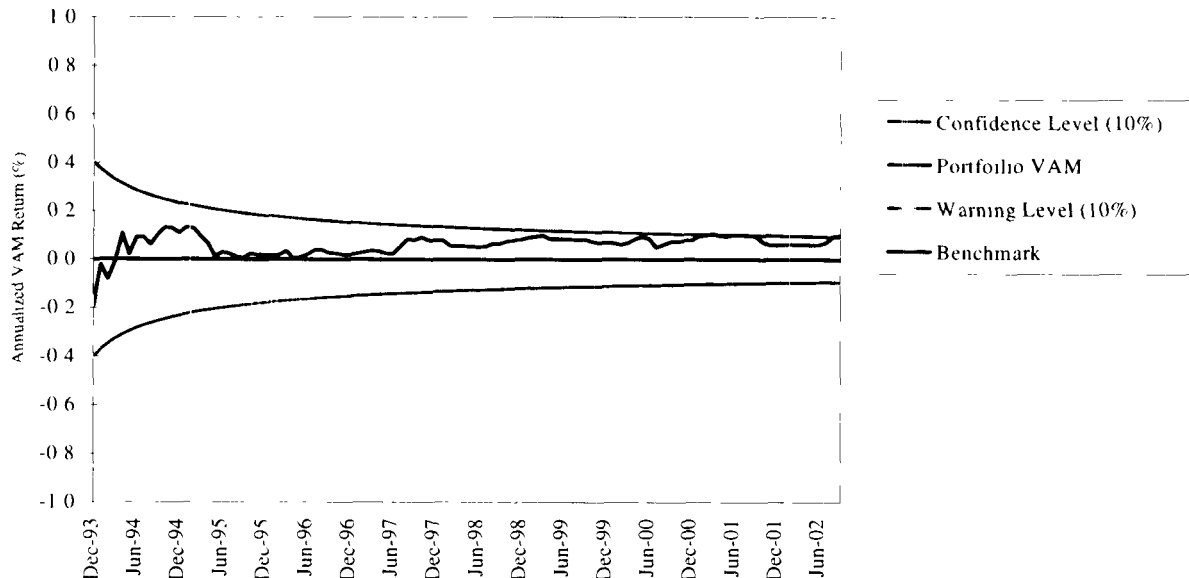
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	-17.0%	-17.3%
Last 1 year	-20.4	-20.5
Last 2 years	-23.5	-23.6
Last 3 years	-12.8	-12.9
Last 4 years	-4.0	-4.1
Last 5 years	-1.5	-1.6
Since Inception (7/93)	8.7	8.6

No action required

**INTERNAL STOCK POOL**  
**Trust/Non-Retirement Assets**  
**Cumulative Tracking**



**INTERNAL BOND POOL - Income Share Account**  
**Periods Ending September, 2002**

**Portfolio Manager: Mike Messen**

**Assets Under Management: \$186,854,327**

**Investment Philosophy**  
**Income Share Account**

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.

**Staff Comments**

The internal bond pool trailed the quarterly and one-year benchmark. The underperformance for both periods was due to the overweight in telecommunications and automotive sectors.

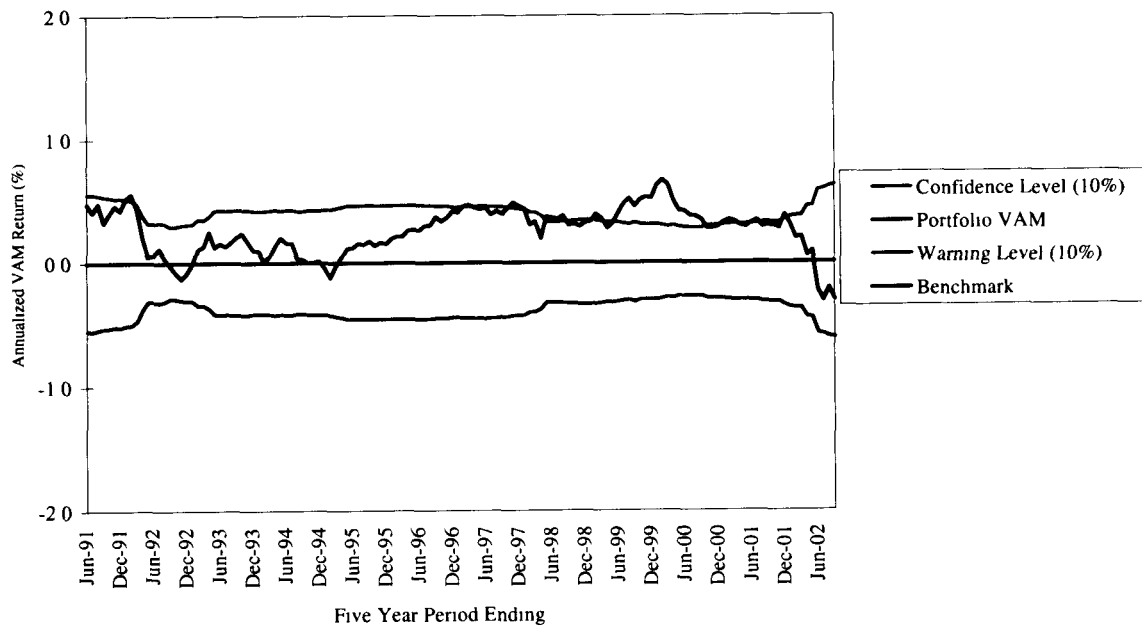
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	4.3%	4.6%
Last 1 year	6.1	8.6
Last 2 years	9.6	10.8
Last 3 years	8.8	9.5
Last 4 years	6.4	6.9
Last 5 years	7.5	7.8
Since Inception (7/86)	8.7	8.5

**Recommendation**

No action required.

**INTERNAL BOND POOL - INCOME SHARE ACCOUNT**  
**Rolling Five Year VAM**



**INTERNAL BOND POOL - Trust/Non-Retirement Assets  
Periods Ending September, 2002**

**Portfolio Manager: Mike Messen**

**Assets Under Management: \$800,888,874**

**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.

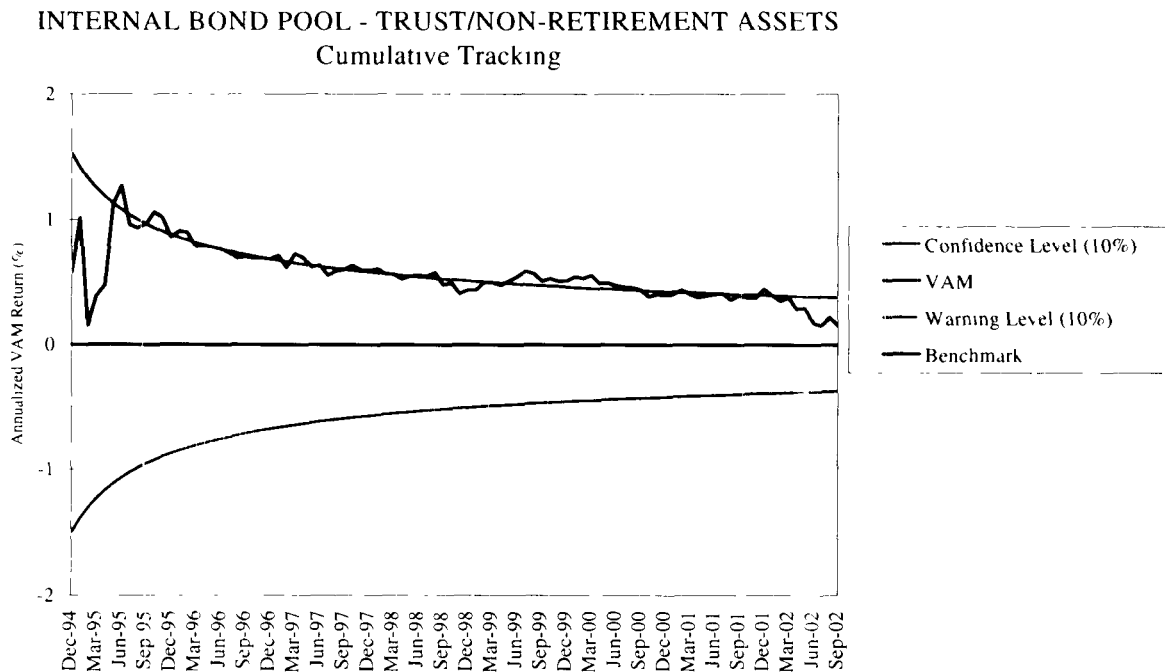
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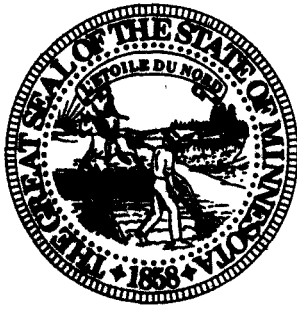
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark</b>	
Last Quarter	4.4%	4.6%	No action required
Last 1 year	6.8	8.6	
Last 2 years	9.9	10.8	
Last 3 years	9.0	9.5	
Last 4 years	6.7	6.9	
Last 5 years	7.7	7.8	
Since Inception (7/94)*	8.4	8.3	

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





# STATE BOARD OF INVESTMENT

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## Deferred Compensation Plan Evaluation Reports

Third Quarter, 2002

**MN STATE 457 DEFERRED COMPENSATION PLAN**  
**MUTUAL FUND MANAGERS**  
**Periods Ending September, 2002**

457 Mutual Funds	Quarter		1 Year		3 Years		5 Years		Since Retention		State's Participation
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	by SBI*		In Fund
	%	%	%	%	%	%	%	%	%	%	(\$ millions)
<b>Large Cap Equity:</b>											
Janus Twenty (S&P 500)**	-11.7	-17.3	-19.4	-20.5	-21.3	-12.9	0.0	-1.6	-19.5	-13.7	\$182.6
<b>Mid Cap Equity:</b>											
Morgan Stanley Mid-Cap Value Instl. (S&P Mid-Cap 400)	-20.4	-16.4	-20.1	-4.3	-6.6	4.2	-0.4	5.9	-33.5	-19.0	\$5.91
<b>Small Cap Equity:</b>											
T. Rowe Price Small-Cap Stock (Russell 2000)**	-17.6	-21.4	-4.5	-9.3	4.1	-4.1	2.4	-3.2	3.0	-5.7	\$212.4
<b>Equity Index:</b>											
Vanguard Institutional Index Plus (S&P 500)**	-17.2	-17.3	-20.4	-20.5	-12.8	-12.9	-1.5	-1.6	-13.6	-13.7	\$135.0
<b>Balanced:</b>											
INVESCO Total Return (60% S&P 500/40% Lehman Gov-Corp)**	-11.3	-8.9	-11.5	-9.4	-7.1	-4.8	-1.8	2.0	-9.0	-5.5	\$76.0
<b>Bond:</b>											
Dodge & Cox Income Fund (Lehman Aggregate)**	3.8	4.6	8.8	8.6	9.7	9.5	7.9	7.8	9.1	9.0	\$56.0
<b>International:</b>											
Fidelity Diversified International (MSCI EAFE-Free)**	-17.2	-19.7	-6.6	-15.4	-4.1	-14.6	2.2	-5.6	-2.2	-12.4	\$67.7

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

<b>Fixed Fund:</b>	%
Blended Yield Rate for current quarter***.	6.1
Bid Rates for current quarter:	
Great West Life	5.0
Minnesota Life	4.9
Principal Life	5.0

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

**MN STATE 457 DEFERRED COMPENSATION PLAN  
LARGE CAP EQUITY – JANUS TWENTY  
Periods Ending September, 2002**

**Portfolio Manager: Scott W. Schoelzel**

**State's Participation in Fund: \$182,623,647  
Total Assets in Fund: \$11,447,100,000**

**Investment Philosophy  
Janus Twenty**

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

**Staff Comments**

Janus outperformed the quarterly and one-year benchmark. Stock selection contributed positively to the Fund's relative outperformance in both periods

**Quantitative Evaluation**

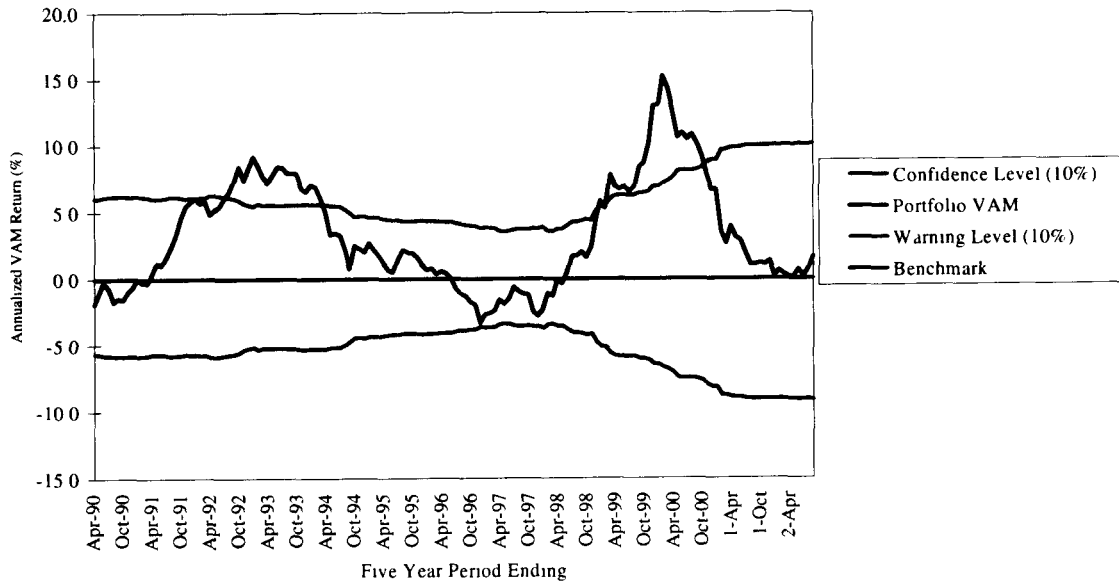
	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	-11.7%	-17.3%
Last 1 year	-19.4	-20.5
Last 2 years	-37.6	-23.6
Last 3 years	-21.3	-12.9
Last 4 years	-6.8	-4.1
Last 5 years	0.0	-1.6
Since Retention by SBI (7/99)	-19.5	-13.7

**Recommendation**

No action required.

\*Benchmark is the S&P 500.  
Numbers in black are returns since retention by SBI.  
Numbers in blue include returns prior to retention by SBI.

**LARGE CAP EQUITY - JANUS TWENTY  
Rolling Five Year VAM**



Note: Shaded area includes performance prior to managing SBI account



**MN STATE 457 DEFERRED COMPENSATION PLAN  
MORGAN STANLEY MID-CAP VALUE INSTITUTIONAL  
Periods Ending September, 2002**

**Portfolio Manager: William Gerlach**

**State's Participation in Fund: \$5,913,835  
Total Assets in Fund: \$1,034,655,570**

**Investment Philosophy  
Morgan Stanley Mid-Cap Value Institutional**

**Staff Comments**

The investment objective of this fund is capital growth. The strategy is to produce a portfolio that focuses on medium-sized companies that are viewed as undervalued. The fund normally invests in all economic sectors of the market and distinguishes itself through a value-driven approach to security selection, which combines quantitative and fundamental elements. Economic sector weights are normally kept within 5 percentage points of those of the S&P MidCap 400 Index. The fund focuses on companies with market capitalizations from \$500 million to \$5 billion.

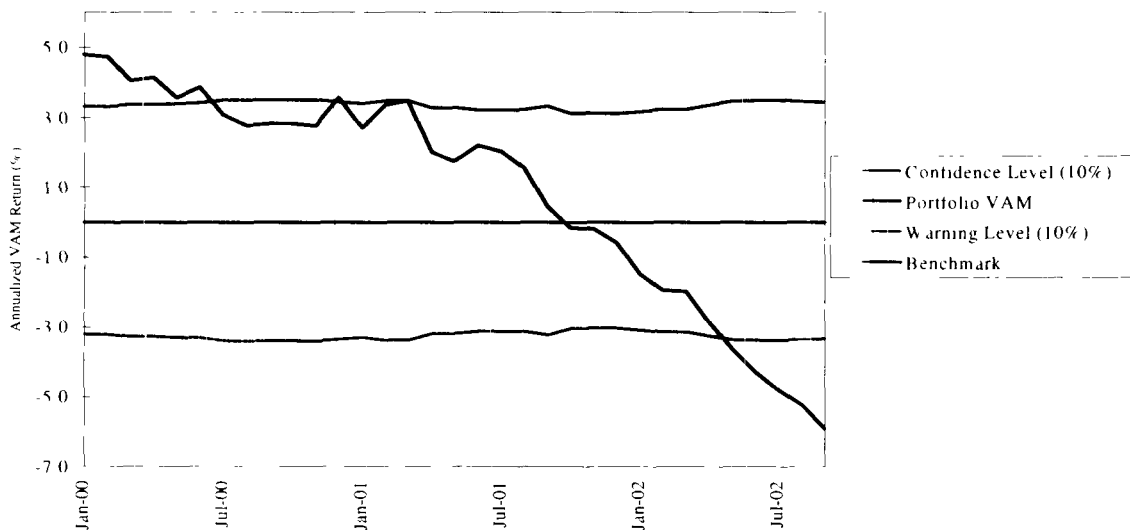
Morgan Stanley underperformed the benchmark for the quarter and year. Despite the fund's diversified portfolio, stock selection was the primary driver of the underperformance.

**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark*</b>	
Last Quarter	-20.4%	-16.4%	No action required
Last 1 year	-20.1	-4.3	
Last 2 years	-20.7	-11.4	
Last 3 years	-6.6	4.2	
Last 4 years	1.3	9.1	
Last 5 years	-0.4	5.9	
Since Retention By SBI (1/02)	-33.5	-19.0	

**MID CAP EQUITY - MORGAN STANLEY  
Rolling Five Year VAM**



Note: Shaded area includes performance prior to managing SBI account

**MN STATE 457 DEFERRED COMPENSATION PLAN  
 SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP STOCK FUND  
 Periods Ending September, 2002**

**Portfolio Manager: Gregory A. McCrickard**

**State's Participation in Fund: \$212,371,595  
 Total Assets in Fund: \$3,793,162,798**

**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 by strong stock selection in a variety of sectors that helped the portfolio's quarterly and one-year results versus the index.

**Quantitative Evaluation**

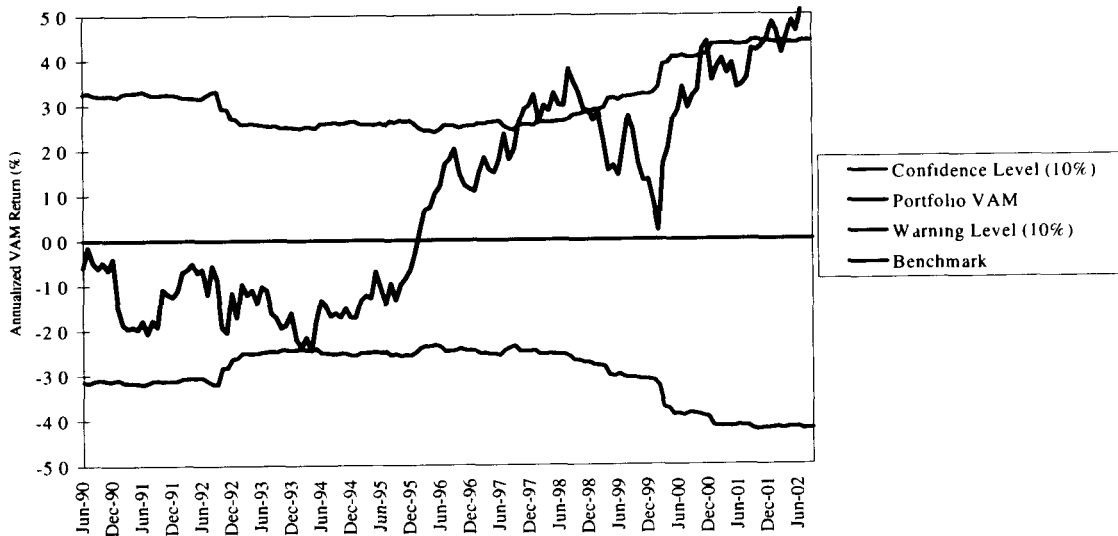
	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	-17.6%	-21.4%
Last 1 year	-4.5	-9.3
Last 2 years	-7.3	-15.4
Last 3 years	4.1	-4.1
Last 4 years	7.2	1.2
Last 5 years	2.4	-3.2
Since Retention by SBI (7/99)	3.0	-5.7

**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, 2002**

**Portfolio Manager: George U. Sauter**

**State's Participation in Fund: \$134,959,604  
Total Assets in Fund: \$11,205,710,902**

**Investment Philosophy  
Vanguard Institutional Index**

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

**Staff Comments**

No comment at this time

**Quantitative Evaluation**

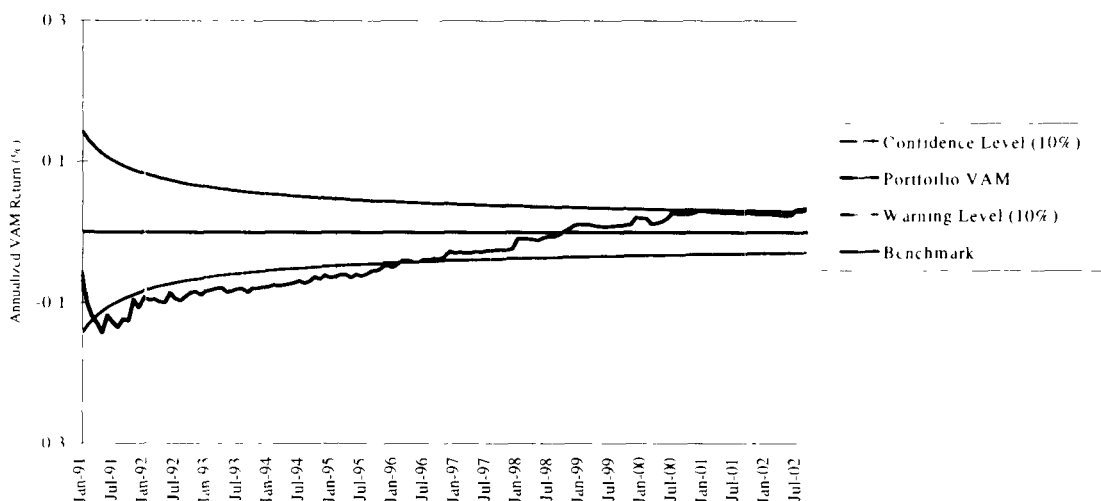
	Actual	Benchmark*
Last Quarter	-17.2%	-17.3%
Last 1 year	-20.4	-20.5
Last 2 years	-23.6	-23.6
Last 3 years	-12.8	-12.9
Last 4 years	-4.0	-4.1
Last 5 years	-1.5	-1.6
Since Retention by SBI (7/99)	-13.6	-13.7

**Recommendation**

No action required

\*Benchmark is the S&P 500  
Numbers in black are returns since retention by SBI.  
Numbers in blue include returns prior to retention by SBI

**EQUITY INDEX - VANGUARD INSTITUTIONAL INDEX  
Cumulative Tracking**



Note: Shaded area includes performance prior to managing SBI account

**MN STATE 457 DEFERRED COMPENSATION PLAN  
BALANCED – INVESCO TOTAL RETURN  
Periods Ending September, 2002**

**Portfolio Manager: Charlie Mayer**

**State's Participation in Fund: \$76,021,841  
Total Assets in Fund: \$1,038,900,000**

**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 underperformed the quarterly and one-year benchmark. The fund was negatively impacted by its exposure to technology and health care.

**Quantitative Evaluation**

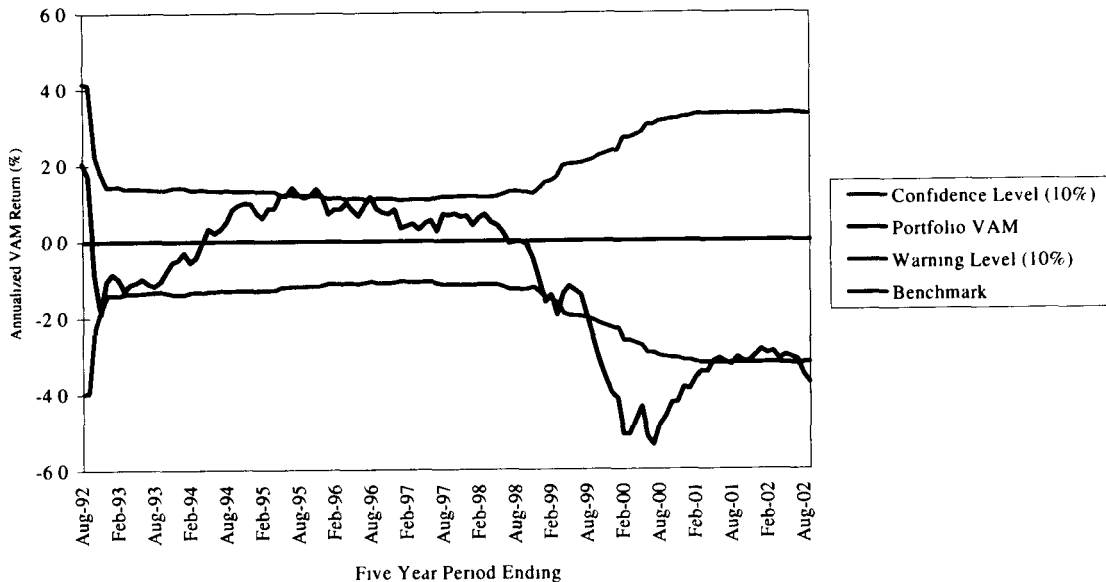
	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	-11.3%	-8.9%
Last 1 year	-11.5	-9.4
Last 2 years	-8.9	-10.8
Last 3 years	-7.1	-4.8
Last 4 years	-3.7	-0.1
Last 5 years	-1.8	2.0
Since Retention by SBI (7/99)	-9.0	-5.5

**Recommendation**

No action required.

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

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



Note: Shaded area includes performance prior to managing SBI account

**MN STATE 457 DEFERRED COMPENSATION PLAN  
BOND – DODGE & COX INCOME FUND  
Periods Ending September, 2002**

**Portfolio Manager: Dana Emery**

**State's Participation in Fund: \$55,989,189  
Total Assets in Fund: \$2,195,706,615**

**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 continues to position the portfolio with a higher allocation to corporate securities. The overweight position and emphasis on lower-rated investment grade issuers negatively impacted the quarterly performance.

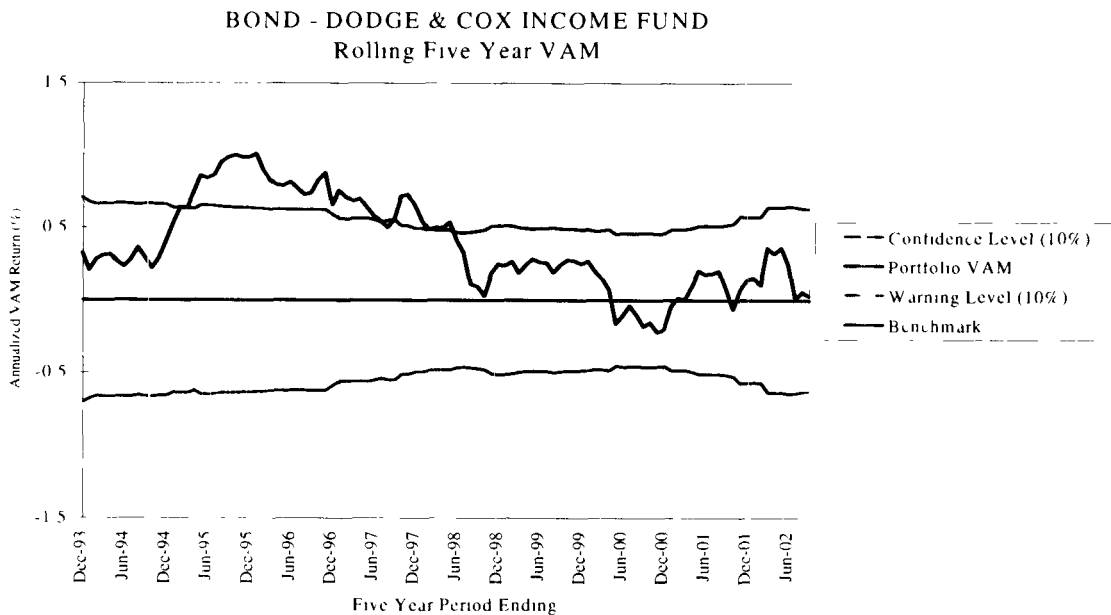
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	3.8%	4.6%
Last 1 year	8.8	8.6
Last 2 years	11.5	10.8
Last 3 years	9.7	9.5
Last 4 years	7.2	6.9
Last 5 years	7.9	7.8
Since Retention By SBI (7/99)	9.1	9.0

**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.



Not: Shaded area includes performance prior to managing SBI account

**MN STATE 457 DEFERRED COMPENSATION PLAN  
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL  
Periods Ending September, 2002**

**Portfolio Manager: William Bower**

**State's Participation in Fund: \$67,662,994  
Total Assets in Fund: \$7,438,616,899**

**Investment Philosophy  
Fidelity Diversified International**

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

**Staff Comments**

Fidelity outperformed the quarterly and one-year benchmark due to favorable stock selection in the financial sector.

**Quantitative Evaluation**

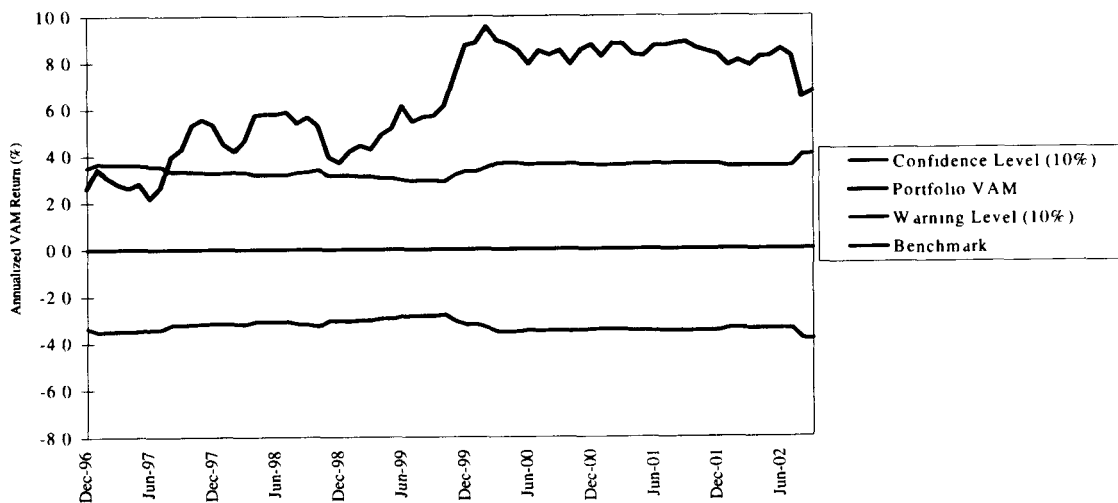
	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	-17.2%	-19.7%
Last 1 year	-6.6	-15.4
Last 2 years	-14.8	-22.2
Last 3 years	-4.1	-14.6
Last 4 years	4.1	-5.0
Last 5 years	2.2	-5.6
Since Retention		
By SBI	-2.2	-12.4
(7/99)		

**Recommendation**

No action required.

\*Benchmark is the MSCI EAFE-Free.  
Numbers in black are returns since retention by SBI.  
Numbers in blue include returns prior to retention by SBI.

**INTERNATIONAL - FIDELITY DIVERSIFIED INTERNATIONAL  
Rolling Five Year VAM**



Note: Shaded area includes performance prior to managing SBI account

**MN STATE 457 DEFERRED COMPENSATION PLAN  
MN FIXED FUND  
Periods Ending September, 2002**

**Total Assets in MN Fixed Fund: \$347,192,579 \***  
\*Includes \$14-18M in Liquidity Buffer Account

**Total Assets in 457 Plan: \$614,231,715 \*\***  
\*\*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: \$100,047,695**

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: \$111,703,352**

**Assets in Prior MN 457 Plan: \$116,298,954**

**Total Assets: \$228,002,306**

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: \$79,661,633**

**Assets in Prior MN 457 Plan: \$150,740,182**

**Total Assets: \$230,401,815**

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, 2002**

**Current Quarter**

**Dollar Amount of Bid: \$39,700,000**

**Blended Rate: 6.12%**

**Bid Rates:**

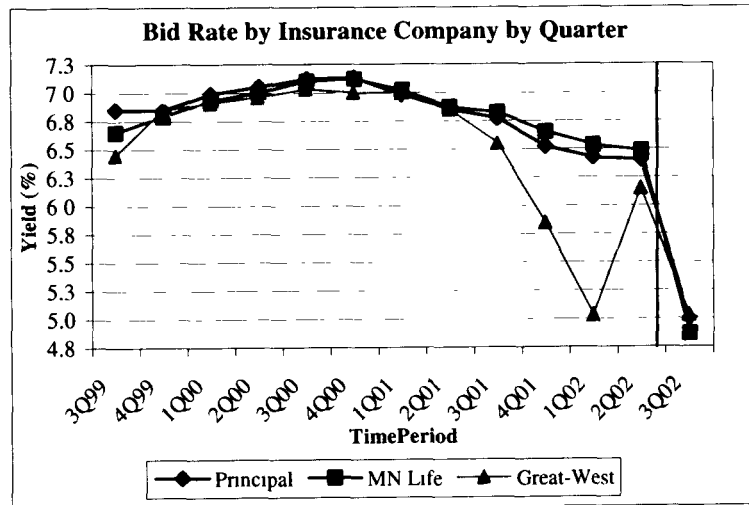
Principal Life	5.00%	Contracts were renewed in June 2002. Bid rates are now effective for five years on <u>new</u> cashflows. The bid rate bands were narrowed to 8 b.p. from 10 b.p. and additional scenarios were added. All changes were effective for the 3Q bids.
Minnesota Life	4.86%	
Great-West Life	5.03%	

**Dollar Amount in existing**

**Minnesota Life portfolio: \$116,298,954**

**Rate on existing**

**Minnesota Life portfolio: 5.96 %**



**Staff Comments on Bid Rates**

The line on the graph indicates when the contracts were renewed and the bid rates for the new cash flows became effective for five year periods. Prior to that, the bids were effective for a quarter for the total portfolio

**Staff Comments**

	<b>4Q01</b>	<b>1Q02</b>	<b>2Q02</b>	<b>3Q02</b>	
Principal Life	30.0%	30.0%	40.0%	40.0%	For the third quarter, Minnesota Life had a lower percentage allocation of bid dollars as their bid rate was more than 16 bp less than the top bid.
Minnesota Life	50.0%	50.0%	40.0%	20.0%	
Great-West Life	20.0%	20.0%	20.0%	40.0%	



# **Tab F**

## **COMMITTEE REPORT**

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DATE: November 25, 2002

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met on November 13, 2002 to review the following information agenda items:

- Review of current strategy.
- Review meeting with two of the SBI's existing alternative investment managers, Prudential Capital Partners and TCW Crescent Mezzanine Partners, to discuss investment performance and current market conditions.
- Reconsideration of certain outstanding SBI alternative investment approvals.

**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 representatives of Prudential Capital Partners and TCW Crescent Mezzanine Partners, two of the SBI's existing private equity managers. The 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.

### **3) Reconsideration of certain outstanding SBI alternative investment approvals.**

The Committee and Staff reviewed prior SBI alternative investment approvals that are still outstanding and have not been consummated. For reasons, which may include changes to the market, the manager or the specific investment offering, the Committee and Staff believe it may be prudent not to execute and close on certain investments that were approved by the SBI at prior meetings. Currently, the Committee and Staff believe that the following outstanding SBI alternative investment approvals need to be dropped from further consideration:

- Crescendo V (originally approved at the December 2000 SBI meeting)
- Levine Leichtman Capital Partners III (originally approved at the June 2001 SBI meeting)
- Heller Real Estate Partners II (originally approved at the June 2001 SBI meeting)

**ATTACHMENT A**

**Minnesota State Board of Investment**

*Alternative Investments*

*Basic Retirement Funds*

*September 30, 2002*

Market Value of Basic Retirement Funds	\$14,889,067,855
Amount Available for Investment	\$0

	<b>Current Level</b>	<b>Target Level</b>	<b>Difference</b>
Market Value	\$2,204,257,967	\$2,233,360,178	\$29,102,212
MV +Unfunded	\$3,440,642,225	\$2,977,813,571	(\$462,828,654)

<b>Asset Class</b>	<b>Market Value</b>	<b>Unfunded Commitment</b>	<b>Total</b>
Real Estate	\$580,886,652	\$53,162,182	\$634,048,834
Private Equity	\$1,349,803,789	\$1,097,183,704	\$2,446,987,493
Resource	\$273,567,526	\$86,038,372	\$359,605,898
<b>Total</b>	<b>\$2,204,257,967</b>	<b>\$1,236,384,258</b>	<b>\$3,440,642,225</b>

## Minnesota State Board of Investment

### *Alternative Investments*

### *Post Retirement Funds*

*September 30, 2002*

Market Value of Post Retirement Funds	\$14,997,717,172
Amount Available for Investment	<b>\$69,554,747</b>

	<b>Current Level</b>	<b>Target Level</b>	<b>Difference</b>
Market Value	\$680,331,112	\$749,885,859	\$69,554,747
MV +Unfunded	\$1,225,742,226	\$1,499,771,717	\$274,029,492

<b>Asset Class</b>	<b>Market Value</b>	<b>Unfunded Commitment</b>	<b>Total</b>
Real Estate	\$172,520,068	\$117,459,196	\$289,979,264
Private Equity	\$381,641,444	\$367,974,669	\$749,616,114
Resource	\$126,169,600	\$59,977,248	\$186,146,848
<b>Total</b>	<b>\$680,331,112</b>	<b>\$545,411,114</b>	<b>\$1,225,742,226</b>

# ATTACHMENT B

Minnesota State Board of Investment  
- Alternative Investments -  
As of September 30, 2002

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<b>Real Estate-Basic</b>							
Colony Capital							
<i>Colony Investors II</i>	40,000,000	39,241,164	9,819,196	35,281,500	758,836	5 10	7 50
<i>Colony Investors III</i>	100,000,000	97,952,253	54,319,135	68,099,466	2,047,747	9 21	4 75
Equity Office Properties Trust	140,388,854	140,388,854	50,940,255	223,359,987	0	18 84	10 84
Heitman Fund V	20,000,000	20,000,000	7,353,982	24,362,422	0	7 99	10 82
Lasalle Income Parking Fund	15,000,000	14,644,401	6,167,620	21,810,436	355,599	11 32	11 03
Lend Lease Real Estate Investments	40,000,000	40,000,000	136,318,063	4,472,538	0	6 36	20 97
T.A. Associates Realty							
<i>Realty Associates Fund III</i>	40,000,000	40,000,000	51,533,851	32,596,412	0	12 87	8 33
<i>Realty Associates Fund IV</i>	50,000,000	50,000,000	54,850,957	27,323,362	0	12 49	5 66
<i>Realty Associates Fund V</i>	50,000,000	50,000,000	52,467,632	9,227,572	0	9 13	3 35
<i>Realty Associates Fund VI</i>	50,000,000	0	0	0	50,000,000	N/A	0 26
UBS Realty	42,376,529	42,376,529	156,337,433	0	0	7 16	20 42
Funds in Liquidation (AEW III & IV, Heitman I, II & III, REEF III)	180,000,000	180,000,000	778,531	245,085,192	0	N/A	N/A
<b>Real Estate-Basic Total</b>	<b>767,765,383</b>	<b>714,603,201</b>	<b>580,886,652</b>	<b>691,618,886</b>	<b>53,162,182</b>		
<b>Real Estate-Post</b>							
Carbon Capital	50,000,000	7,234,067	7,234,067	0	42,765,933	N/A	0 38
Colony Capital	40,000,000	39,241,164	9,819,196	35,281,500	758,836	5 10	7 50
CT Mezzanine Partners	100,000,000	26,393,020	27,131,575	3,515,073	73,606,981	20 13	1 02
Equity Office Properties Trust	117,673,360	117,673,360	50,940,254	69,702,844	0	18 07	1 49
GMAC Institutional Advisors							
<i>Institutional Commercial Mortgage Fund II</i>	13,500,000	13,397,500	6,956,905	13,826,841	102,500	9 99	7 18
<i>Institutional Commercial Mortgage Fund III</i>	21,500,000	21,275,052	19,766,404	10,522,743	224,948	8 69	5 83
<i>Institutional Commercial Mortgage Fund IV</i>	14,300,000	14,300,000	13,722,204	4,970,631	0	8 39	4 75
<i>Institutional Commercial Mortgage Fund V</i>	37,200,000	37,200,000	36,949,461	6,441,115	0	9 05	3 16
<b>Real Estate-Post Total</b>	<b>394,173,360</b>	<b>276,714,164</b>	<b>172,520,068</b>	<b>144,260,747</b>	<b>117,459,196</b>		
<b>Real Estate Total</b>	<b>1,161,938,743</b>	<b>991,317,365</b>	<b>753,406,720</b>	<b>835,879,633</b>	<b>170,621,378</b>		

Minnesota State Board of Investment  
- Alternative Investments -  
As of September 30, 2002

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<b>Private Equity-Basic</b>							
<b>Bank Fund</b>							
<i>Banc Fund IV</i>	25,000,000	25,000,000	31,679,875	12,628,444	0	13.27	6.62
<i>Banc Fund V</i>	48,000,000	48,000,000	57,345,936	4,332,113	0	11.69	4.21
<b>Blackstone Capital Partners</b>							
<i>Blackstone Capital Partners II</i>	50,000,000	47,271,190	29,021,518	68,643,924	2,728,810	36.37	8.85
<i>Blackstone Capital Partners IV</i>	70,000,000	0	0	0	70,000,000	N/A	0.22
<b>BLUM Capital Partners</b>							
<i>BLUM Strategic Partners I</i>	50,000,000	49,385,069	50,869,076	21,086,305	614,931	13.37	3.77
<i>BLUM Strategic Partners II</i>	50,000,000	20,612,926	14,390,114	277,643	29,387,074	-35.12	1.20
<i>Brinson Partners II</i>	20,000,000	20,000,000	1,258,812	36,620,522	0	25.84	11.84
<i>Churchill Capital Partners II</i>	20,000,000	20,000,000	3,695,127	23,099,817	0	10.33	9.92
<i>Citigroup Venture Capital Equity</i>	100,000,000	25,419,302	24,021,291	117,642	74,580,698	N/A	0.80
<i>Contrarian Capital Fund II</i>	37,000,000	33,244,395	28,601,563	1,859,316	3,755,605	-1.84	5.33
<b>Coral Partners</b>							
<i>Coral Partners Fund II</i>	10,000,000	8,069,315	606,503	36,117,047	1,930,685	24.96	12.18
<i>Coral Partners Fund IV</i>	15,000,000	15,000,000	7,025,320	10,744,044	0	4.80	8.19
<i>Coral Partners Fund V</i>	15,000,000	13,875,000	8,119,724	152,411	1,125,000	-18.80	4.29
<b>Crescendo Ventures</b>							
<i>Crescendo II</i>	15,000,000	15,000,000	3,016,361	20,347,049	0	25.43	5.74
<i>Crescendo III</i>	25,000,000	25,000,000	6,596,472	8,084,745	0	-24.09	3.90
<i>Crescendo IV</i>	101,500,000	63,437,500	19,877,189	292,517	38,062,500	-44.40	2.56
<b>DLJ</b>							
<i>DLJ Merchant Banking Partners III</i>	125,000,000	38,261,433	35,076,713	4,078,515	86,738,567	-5.38	2.00
<i>DLJ Strategic Partners</i>	100,000,000	48,918,131	44,139,761	10,655,617	51,081,869	11.77	1.69
<i>DSV Partners IV</i>	10,000,000	10,000,000	1,261,074	27,596,944	0	9.53	17.47
<i>First Century Partners III</i>	10,000,000	10,000,000	1,567,640	14,955,642	0	8.38	17.79
<b>Fox Paine Capital Fund</b>							
<i>Fox Paine Capital Fund</i>	40,000,000	40,000,000	35,764,480	0	0	-3.80	4.44
<i>Fox Paine Capital Fund II</i>	50,000,000	10,125,118	7,873,110	0	39,874,882	-37.64	2.25
<b>Golder, Thoma, Cressey, Rauner</b>							
<i>Golder, Thoma, Cressey Fund III</i>	14,000,000	14,000,000	4,356,892	55,522,386	0	30.23	14.92
<i>Golder, Thoma, Cressey &amp; Rauner Fund IV</i>	20,000,000	20,000,000	3,800,375	36,177,642	0	24.48	8.66
<i>Golder, Thoma, Cressey &amp; Rauner Fund V</i>	30,000,000	30,000,000	23,959,530	19,459,144	0	10.04	6.25
<i>GS Capital Partners 2000</i>	50,000,000	18,243,969	16,113,803	0	31,756,031	-10.99	2.08
<b>GTCR Golder Rauner</b>							
<i>GTCR Fund VI</i>	90,000,000	89,137,778	41,137,253	49,263,249	862,222	0.88	4.25
<i>GTCR Fund VII</i>	175,000,000	105,984,375	85,224,416	33,875,116	69,015,625	10.60	2.64
<i>GHJM Marathon Fund IV</i>	40,000,000	29,881,000	26,880,977	0	10,119,000	-8.81	3.46
<b>Hellman &amp; Friedman</b>							
<i>Hellman &amp; Friedman Capital Partners III</i>	40,000,000	32,113,684	8,031,797	54,957,146	7,886,316	33.94	8.03
<i>Hellman &amp; Friedman Capital Partners IV</i>	150,000,000	72,246,289	44,704,515	36,659,515	77,753,711	17.18	2.75
<b>Kohlberg Kravis Roberts</b>							
<i>KKR 1986 Fund</i>	18,365,339	18,365,339	13,569,906	202,769,719	0	28.16	16.46
<i>KKR 1987 Fund</i>	145,950,000	145,373,652	70,241,551	330,955,517	576,348	9.27	14.85
<i>KKR 1993 Fund</i>	150,000,000	150,000,000	33,362,266	260,983,114	0	16.70	8.78
<i>KKR 1996 Fund</i>	200,000,000	200,000,000	192,233,171	99,089,010	0	13.36	6.08
<i>KKR Millennium Fund</i>	200,000,000	0	0	0	200,000,000	N/A	1.35
<i>Matrix III</i>	10,000,000	10,000,000	506,784	77,327,244	0	75.13	12.40
<b>Piper Jaffrey Healthcare</b>							
<i>Piper Jaffrey Healthcare Fund II</i>	10,000,000	9,700,000	9,699,393	1,450,415	300,000	3.82	5.58
<i>Piper Jaffrey Healthcare Fund III</i>	20,000,000	17,200,002	14,955,667	1,304,349	2,799,998	-3.07	3.69
<i>Summit Ventures V</i>	25,000,000	19,375,000	11,861,848	7,904,383	5,625,000	0.80	4.50
<i>T Rowe Price</i>	523,672,039	523,672,039	17,194,983	500,984,210	0	-2.14	N/A
<b>Thoma Cressey</b>							
<i>Thoma Cressey Fund VI</i>	35,000,000	33,565,000	24,085,034	2,948,483	1,435,000	-9.13	4.11
<i>Thoma Cressey Fund VII</i>	50,000,000	5,000,000	3,914,680	0	45,000,000	-14.35	2.10
<i>Vestar Capital Partners IV</i>	55,000,000	18,976,167	18,038,492	369,115	36,023,833	-7.34	2.79
<b>Warburg Pincus</b>							
<i>Warburg Pincus Equity Partners</i>	100,000,000	100,000,000	75,964,397	26,692,840	0	1.27	4.26
<i>Warburg Pincus Ventures</i>	50,000,000	50,000,000	60,873,366	176,433,917	0	51.23	7.75
<i>Warburg Pincus Private Equity VIII</i>	100,000,000	21,000,000	23,155,902	0	79,000,000	N/A	0.46
<b>Welsh, Carson, Anderson &amp; Stowe</b>							
<i>Welsh, Carson, Anderson &amp; Stowe VIII</i>	100,000,000	97,000,000	69,986,858	0	3,000,000	-10.80	4.19
<i>Welsh, Carson, Anderson &amp; Stowe IX</i>	125,000,000	38,750,000	30,865,383	0	86,250,000	-13.90	2.26
<i>William Blair Capital Partners VII</i>	50,000,000	12,800,000	12,285,581	0	37,200,000	-4.73	1.56
<i>Funds in Liquidation (Brinson I, Matrix II, Summit I &amp; II, and Zell/Chilmark)</i>	85,000,000	82,300,000	991,310	224,562,949	2,700,000	N/A	N/A
<b>Private Equity-Basic Total</b>	<b>3,648,487,378</b>	<b>2,551,303,674</b>	<b>1,349,803,789</b>	<b>2,501,380,810</b>	<b>1,097,183,704</b>		

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Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<b>Private Equity-Post</b>							
<b>Citicorp Mezzanine</b>							
<i>Citicorp Mezzanine II</i>	40,000,000	40,000,000	15,538,498	37,177,196	0	10.32	7.75
<i>Citicorp Mezzanine III</i>	100,000,000	35,368,162	29,427,164	13,010,635	64,631,838	10.88	2.91
<b>DLJ Investment Partners II</b>	50,000,000	17,278,381	18,437,133	1,781,603	32,721,619	6.26	2.75
<b>GS Mezzanine Partners II</b>	100,000,000	61,500,342	55,504,797	1,513,884	38,499,658	-13.31	2.58
<b>GTCR Capital Partners</b>	80,000,000	61,664,772	52,945,373	19,388,169	18,335,228	8.21	2.88
<b>KB Mezzanine Partners Fund II</b>	25,000,000	24,999,999	8,194,497	7,151,873	1	-13.83	7.00
<b>Prudential Capital Partners</b>	100,000,000	35,092,178	33,344,693	2,779,681	64,907,822	1.66	1.45
<b>Summit Partners</b>							
<i>Summit Sub. Debt Fund I</i>	20,000,000	18,000,000	656,068	30,437,528	2,000,000	30.44	8.50
<i>Summit Sub. Debt Fund II</i>	45,000,000	29,250,000	16,393,043	56,110,172	15,750,000	61.84	5.16
<b>T. Rowe Price</b>	52,990,378	52,990,378	82,900	51,840,522	0	-13.06	N/A
<b>TCW/Crescent Mezzanine</b>							
<i>TCW/Crescent Mezzanine Partners</i>	40,000,000	36,756,265	21,429,245	34,545,515	3,243,735	17.77	6.50
<i>TCW/Crescent Mezzanine Partners II</i>	100,000,000	86,135,947	46,993,884	62,399,134	13,864,053	10.99	3.85
<i>TCW/Crescent Mezzanine Partners III</i>	75,000,000	24,495,435	23,307,169	885,247	50,504,565	-10.99	1.50
<b>William Blair Mezz. Fund III</b>	60,000,000	38,961,600	37,662,967	2,930,400	21,038,400	2.37	2.75
<b>Windjammer Mezzanine &amp; Equity Fund II</b>	66,708,861	24,231,110	21,724,014	1,660,000	42,477,751	-3.18	2.50
<b>Private Equity-Post Total</b>	954,699,239	586,724,570	381,641,444	323,611,559	367,974,669		
<b>Private Equity Total</b>	4,603,186,618	3,138,028,244	1,731,445,233	2,824,992,369	1,465,158,374		



Minnesota State Board of Investment  
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Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<b>Resource-Basic</b>							
Apache Corp III	30,000,000	30,000,000	3,545,490	46,993,243	0	11.64	15.7
First Reserve							
<i>First Reserve VII</i>	40,000,000	40,000,000	28,482,378	30,397,949	0	12.48	6.2
<i>First Reserve VIII</i>	100,000,000	100,000,000	111,168,062	27,392,824	0	14.27	4.42
<i>First Reserve IX</i>	100,000,000	34,364,432	35,210,003	0	65,635,568	2.85	1.48
Simmons							
<i>Simmons - SCF Fund II</i>	17,000,000	14,847,529	6,323,958	27,802,246	2,152,471	10.54	11.15
<i>Simmons - SCF Fund III</i>	25,000,000	22,021,139	38,490,523	20,078,248	2,978,862	21.03	7.25
<i>Simmons - SCF Fund IV</i>	50,000,000	34,728,528	43,911,341	10,332,111	15,271,472	14.71	4.50
T Rowe Price	17,396,296	17,396,296	6,063,000	5,504,112	0	-33.55	N/A
Funds in Liquidation (First Reserve I, II, & V)	38,800,000	38,800,000	372,771	79,693,811	0		
<b>Resource-Basic Total</b>	<b>418,196,296</b>	<b>332,157,923</b>	<b>273,567,526</b>	<b>248,194,514</b>	<b>86,038,372</b>		
<b>Resource-Post</b>							
Merit Energy Partners							
<i>Merit Energy Partners B</i>	24,000,000	24,000,000	30,716,175	12,908,419	0	16.62	6.25
<i>Merit Energy Partners C</i>	50,000,000	38,916,748	55,733,204	3,905,941	11,083,252	22.18	3.92
<i>Merit Energy Partners D</i>	88,000,000	39,106,004	39,720,221	147,010	48,893,996	4.83	1.35
<b>Resource-Post Total</b>	<b>162,000,000</b>	<b>102,022,752</b>	<b>126,169,600</b>	<b>16,961,410</b>	<b>59,977,248</b>		
<b>Resource Total</b>	<b>580,196,296</b>	<b>434,180,675</b>	<b>399,737,125</b>	<b>265,155,914</b>	<b>146,015,620</b>		